

14,6,2002

FACULTY OF ECONOMICS & ADMINISTRATIVE SCIENCES

BUSINESS DEPARTMENT



1988

Man 400

Financial Statement Analysis Of

IS BANK

By

Cüneyt Erdem

Supervisor

Mehmet Ağa



ABSRACT

This project is to determine how the companies in the IMKB 100 index stack up against one another; we ranked two companies using eight key criteria of financial success. We looked at growth in sales, profits, and return to shareholders. To reward consistency, we measured performance over both one year and five years. And to get a better fix on which companies squeeze the most out of operations, we analyzed profit margins and return on equity.

Financial measures are often used to rank corporate performance. Growth in sales, return to stockholders, profit margins, return on equity are measures of financial performance that can be determined by analyzing a company's financial statements. Financial statements include a wealth of important information that is useful to investors, creditors, and other external users. In this project, we take a closer look at how information in the financial statements can be combined, analyzed, and used to support many important financial decisions.

Our discussion of financial statement analysis in this project is divided into three sections. First, we consider general tools of analysis that emphasize comparing information about an enterprise with relevant benchmarks. Second, we consider measures of liquidity and credit risk, followed by measures of profitability. Third, we present a comprehensive illustration in which we analyze a company's financial statements from the perspective of three important users of information common stockholders, long-term creditors, and short-term creditors.

TABLE OF CONTENT

I. INTRODUCTION

II. HISTORY OF ISBANK

III. WHAT IS FINANCIAL STATEMENT ANALYSIS?

3.1. Comparative Analysis

3.2. Tools of Analysis

IV. FINANCIAL STATEMENTS AND REPORTS

4.1. Balance Sheet

4.2. Income Statement

4.3. Statement of Retained Earnings

V. FINANCIAL RATIOS

5.1. Measures of Short-Term Liquidity

5.2. Measures of Long-Term Credit Risk

5.3. Measures of Profitability

5.4. Measures for Evaluating the Current Market Price of Common

Stock

VI. FINANCIAL STATEMENT ANALYSIS OF ISBANK

VII. CONCLUSION AND RECOMMENDATION

VIII. APPENDIX A

IX. APPENDIX B

X. REFERENCES

I. INTRODUCTION

This project focuses on financial statement analysis, which means using financial statement data to assess a company. Sources of information about companies, the objectives of financial statement analysis, and methods for evaluating financial statements are covered. The majority of the project deals with ratios and how to understand the financial statements as prepared under GAAP. Disclosure practices have evolved with the specific purpose of providing information to investors, creditors, managers, suppliers, customers anyone who wants to know about a company's financial position or prospects. The project concentrated on how information is collected, aggregated, and disclosed. We have frequently provided ratios and other tools of analysis and have demonstrated how the information might aid in making decisions. In this project we integrate prior material and discuss additional tools for analyzing and evaluating the company's financial position.¹ We will be concerned primarily with two types of firm financial statements: the balance sheet and the income statement. The balance sheet states the companies' asset: liabilities, and stockholder's equity at a particular date. Assets values are usually shown at cost (what the company paid for the assets), and stated liabilities indicate the amount owed. Stockholder's equity is simply the difference between assets and liabilities. The income statement reveals the performance of the company during a particular period of time. It shows the revenues from sales and various costs, including interest expense and taxes, which the company has incurred during the period. There are two other frequently used financial reports, the statement of retained earnings and the sources and uses of funds statement. The statement of retained earnings indicates the magnitude and causes of changes in the firm's retained earnings due to the year's activities. Retained earnings are the accumulated corporate profits that have been kept by the company over the years, that is, earnings not paid out in dividends, not used to purchase back the firm's shares (treasury stock), etc. The sources and uses of funds statement shows where the company obtained funds during the year and how the funds were used.²

Ą

¹ Charles Horngren, Gary Sundem and John Elliott, Introduction to Financial Accounting, 5 Th ed., New Jersey: Prentice-Hall International Editions, 1993, p. 668.

² Lawrence Schall and Charles Haley, Introduction to Financial Management, 6 Th ed., Singapore: McGraw-Hill International Editions. 1991, p. 507.

In today's economy, investment capital is always on the move. Through organized capital markets such as the Istanbul Stock Exchange, investors each day shift billions of investment Turkish Liras among different companies, industries, and nations. Capital flows to those areas in which investors expect to earn the greatest returns with the least risk. How do investors forecast risk and potential returns? By analyzing accounting information for a specific company in the context of its unique industry setting. The goal of accounting is to provide economic decision makers with useful information. The financial statements generated through the accounting process are designed to assist users in identifying key relationships and trends. The financial statements of most publicly owned companies are classified and are presented in comparative form. Often, the word 'consolidated' appears in the headings of the statement. Users of financial statements should have a clear understanding of these terms.

Most business organizations prepare classified financial statements, meaning that items with certain characteristics are placed together in a group, or classification. The purpose of these classifications is to develop useful subtotals that will assist users of the statements in their analyses. In comparative financial statements, the financial statement amounts for several years appear side by side in vertical columns. This assists investors in identifying and evaluating significant changes and trends.³ In financial statement analysis we have some tools for analyze companies. These tools are dollar and percentage changes, trend percentages, component percentages, ratios, standards of comparison. We also have measures of liquidity and credit risk section which is includes; a classified balance sheet, working capital, current ratio, quick ratio, dept ratio. After that we will faced with measures of profitability which includes earnings per share, price-earnings ratio, return on investment, return on assets, return on equity. When we make these analysis we take an help from financial books, accounting books, Istanbul Stock Exchange Market Companies book, and the books that issued by Gedik Menkul Değerler which they includes companies in Istanbul Stock Exchange Market. And also we will use Istanbul Stock Exchange Market's web side that is www. Imkb. Gov.tr.

Aim of this project is to analyze ISBANK's financial statements and compare with one of its competitors YAPI KREDI BANK and we want to discuss which bank has better financial position.

³ Robert Meigs and others, Accounting, USA: Mc Graw Hill, 1999, p. 610.

II. HISTORY OF ISBANK

'Paramount among measures that will liberate and augment the nation is the establishment of a bank, utterly modern and national in identity, born directly out of the people's respect and confidence....' These words uttered by Mustafa Kemal before the Council of Ministers which summoned in July 1924, express his aspirations for the foundation of a national bank. The inception of the country's first truly national bank following the promulgation of the Republic dates back to 26 August 1924, mandated by Atatürk, consequent to the First Economy Congress in İzmir. Is bank begun to operate with two branches and 37 staff under the leadership of Celal Bayar, the first General Manager to run the bank. The Grand Victory which preceded the proclamation of the Republic order entailed a period during which resolutions to the state's economic and social problems were sought. There was a growing and deeply rooted sentiment signaling the need for a truly national establishment and the birth of a banking system that was capable of the financing means to back up economic activities, managing funds accumulated as a result of policies providing savings incentives and where necessary extending resources which could trigger industrial impetus. The birth of a new country heavily depended on the presence of banking activities nation wide, the drive for industrial development, animating national savings, financing fundamental economic breakthroughs and the means to meet financial borrowings. The aftermath of World War I culminated in a wide array of progress, including financial services which soon took off with an accelerated pace leading to technological advances and the designation of previously unheard methods and criteria governing business. Turkey was to suffer deprivation from such innovations and lacked qualified and skilled human resources. Isbank began operating at a time of such economic strain. Isbank boasts continuous growth committed to its founding principles, restoring its strength and vigour with each passing year. The Bank tops the list of Turkey's most respected and trustful enterprises, while carving itself a place among the world's largest corporations. Isbank, a publicly traded firm since its inception enjoys a peerless stakeholder base. To this day the state Pension Fund has brokered the offering of stock options to employees and retired staff in the company which has reached 45%. As of May 2002 44,6 % of Isbank shares are held by Isbank's own private Pension Fund, 28,1 % are Ataturk's shares that are represented by Republican People's Party and 27,3 % are free float. In May 1998, 12.3% of the Bank's total shares previously held by the Turkish Treasury have been sold to national and international investors in a highly successful public offering. Today the shares are listed in the Istanbul (ISE) and London Stock Exchanges. Valued at TL 6.614.724 billion by the end of 2001, Isbank thrived with the highest market capitalization among private corporations in Turkey. By the end of 2001, Isbank's market value constitutes %9,64 of the ISE market value where 310 corporations were traded and which market value was TL 68.603.041 billion.⁴

ł

⁴ www. Isbankasi. Com.

III. WHAT IS FINANCIAL STATEMENT ANALYSIS?

Analyzing financial statements involves evaluating three characteristics of a company: its liquidity, profitability, and solvency. For example, a short-term creditor, such as a bank, is primarily interested in the ability of the borrower to pay obligations when they come due. The liquidity of the borrower in such a case is extremely important in evaluating the safety of a loan. A long-term creditor, such as a bondholder, however, looks to indicators such as profitability and solvency that indicate the firm's ability to survive over a long period of time. Long-term creditors consider such measures as the amount of debt in the company's capital structure and the ability to meet interest payments. Similarly, stockholders are interested in the profitability and solvency of the enterprise when they assess the likelihood of dividends and the growth potential of the stock. Investors purchase capital stock expecting to receive dividends and an increase in the value of the stock. Creditors make loans with the expectation of receiving interest and eventual repayment. However, both investors and creditors bear the risk that they will not receive their expected returns. They use financial statement analysis to (1) predict the amount of expected returns and (2) assess the risks associated with those returns. Because creditors generally have specific fixed amounts to be received and have the first claim on assets, they are most concerned with assessing short-term liquidity and longterm solvency. Short-term liquidity is an organization's ability to meet current payments as they become due. Long-term solvency is the ability to generate enough cash to repay longterm debts as they mature. In contrast, equity investors are more concerned with profitability, dividends, and future security prices. Why? Because dividend payments depend on profitable operations, and stock price appreciation depends on the market's assessments of the company's prospects. However, creditors also assess profitability. Why? Because profitable operations are the prime source of cash to repay loans. How can financial statement analysis help creditors and investors? After all, financial statements report on past results and current position, but creditors and investors want to predict future returns and their risks. Financial statement analysis is useful because past performance is often a good indicator of future performance, and current position is the base on which future performance must be built. For example, trends in past sales, operating expenses and net income may continue. Furthermore, evaluation of management's past performance gives clues to its ability to generate future returns. Finally, the assets a company owns, the liabilities it must pay, its levels of receivables and inventories, its cash balance, and other indicators of current position all provide clues to its future prospects.

3.1. Comparative Analysis

Every item reported in a financial statement has significance. For example, when X corporation reports cash of \$35 million on its balance sheet, we know the company had that amount of cash on the balance sheet date. However, we do not know whether the amount represents an increase over prior years or whether the amount is adequate in relation to the company's need for cash. To obtain this information, it is necessary to compare the amount of cash with other financial statement data. Comparison can be made on three different bases.

1. Intracompany basis compares an item or financial relationship within a company in the current year with the same item or relationship in one or more prior years. Intracompany comparisons are useful in detecting changes in financial relationships and significant trends.

2. Industry averages compare an item or financial relationship of a company with industry averages published by financial ratings. Comparisons with industry averages provide information as to a company's relative performance within the industry.

3. Intercompany basis compares an item or financial relationship of one company with the same item or relationship in one or more competing companies. The comparisons are made on the basis of the published financial statement of the individual companies. Intercompany comparisons are useful in determining a company's competitive position.

3.2. Tools of Analysis

Various tools are used to evaluate the significance of financial statement data. Three commonly used tools are these; Horizontal analysis is a technique for evaluating a series of financial statement data over a period of time. Vertical analysis is a technique for evaluating financial statement data that expresses each item in a financial statement in terms of a percent of a base amount. Ratio analysis expresses the relationship among selected items of financial statement data.

Horizontal analysis is used primarily in intracompany comparisons. Two features in published financial statements facilitate this type of comparison: First, each of the basic financial statements is presented on a comparative basis for a minimum of two years. Second, a summary of selected financial data is presented for a series of 5 to 10 years or more. Vertical analysis is used in both intracompany and intercompany comparisons. Ratio analysis

is used in all three types of comparisons. In the following sections, we will explain and illustrate each of the three types of analysis.⁵

⁵ Charles Horngren and others, Financial Accounting, 5th ed. USA: Prentice-Hall, 1993, p. 669.

IV. FINANCIAL STATEMENTS AND REPORTS

Of the various reports corporations issue to their stockholder's, the annual report probably is the most important. Two types of information are given in this report. First, a verbal section, often presented as a letter from the chairman, describes the firm's operating results during the past year and then discusses new developments that will affect future operations. Second, the annual report presents three basic financial statements; the income statement, the balance sheet, and the statement of retained earnings. Together, these statements give an accounting picture of the firm's operations and financial position. Detailed data are provided for the two most recent years, along with historical summaries of key operating statistics for the past five or ten years.⁶ The quantitative and the verbal information contained in the annual report are equally important. The financial statements report what actually has happened to the firm's financial position and to its earnings and dividends over the past few years, whereas the verbal statements attempt to explain why things turned out the way they did. Heavy financial commitments, whether by investors purchasing many shares of the common stock of a company or by banks making large loans to a new customer, are preceded by through investigations. These investigations use information from many sources. When the amounts being invested are significant, investors and creditors often ask for a set of projected financial statements. Such as pro forma statement is a carefully formulated expression of predicted results. Major creditors expect the projections to include a schedule of the amounts and timings of cash repayments. Most investors and creditors are not able to request specific information from companies. For example, the typical trade creditor cannot afford the time or resources for a thorough investigation of every customer. Instead, such creditors rely on publish information and reports from credit agencies. Because of the wide range of information available, this project on financial statement analysis covers only the most common methods used by financial analysts. Nevertheless, the techniques presented in this project constitute an important step in gaining a thorough understanding of a company's position and prospect.

⁶ Firms also provide quarterly reports, but these are much less comprehensive than the annual reports. In addition, larger firms file even more detailed statements, giving breakdowns for each major division or subsidiary, with the Securities and Exchange Commission. These reports, called 10-K reports, are made available to stockholders upon request to a company's corporate secretary. Finally, many larger firms also publish statistical supplements, which give financial statement data and key ratios going back 10 to 20 years.

4.1. Balance Sheet

The balance sheet shows the financial position of a firm at a specific point in time. This financial statement indicates the investments made by the firm in the form of assets and the means by which the assets were financed whether the funds were raised by borrowing (liabilities) or by selling ownership shares (equity). In balance sheet the top portion (normally referred to as the left-hand side) shows assets, while the bottom portion (normally referred to as the right-hand side) shows the liabilities and equity, or the claims against these assets. The assets are listed in order of their 'liquidity,' or the length of time it typically takes to convert them to cash. The claims are listed in the order in which they must be paid: Accounts payable generally must be paid within 30-60 days, accruals are payable within 60-90 days, and so on, down to the stockholders' equity accounts, which represent ownership and need never be paid off.⁷

The balance sheet is a photograph of financial status at an instant of time. It has two counterbalancing sections assets and equities. Assets are economic resources that are expected to benefit future activities. Equity is claims against, or interests in, the assets. The liabilities are the entity's economic obligations to nonowners. The owners' equity is the excess of the assets over the liabilities. For a corporation, the owners' equity is called stockholders' equity. In turn, the stockholders' equity is composed of the ownership claim against, or interest in, the total assets arising from any paid in investment (paid-in capital), plus the ownership claim arising as a result of profitable operations (retained income or retained earnings).⁸ Balance sheet also has some divisions these are;

Assets are any possessions having a monetary value. They may be tangible (physical objects such as land, plant, machinery) or intangible (possessing right to monetary value trade marks, goodwill etc.). They are divided into fixed assets, current assets, and other assets. Fixed assets are those held for the purpose of producing goods or providing services. Such assets are not resold in the course of trading. Examples are freehold land and buildings, plant, machinery and furniture. They are usually relatively expensive and in use over a number of accounting periods. This characteristic requires that their initial cost be spread over an appropriate number of accounting periods rather than being charged in full against the period in which they were purchased. This process of writing off gradually is termed depreciation. Current

⁷ Fred Weston and Scott Besley, Essentials of Managerial Finance, 11th ed., USA: The Dryden Press, 1996, p. 81.

⁸ Charles Horngren and Gary Sundem, Introduction to Management Accounting, 8th ed., USA: Prentice-Hall, 1990, p. 612.

assets if they are held for a relatively short period (say less than a year) and kept for conversion into cash at relatively short notice. Cash refers to sums of notes and coins held by the company plus bank balances. If the amount of cash on hand is considerable it may be put into an interest-yielding short-term investment. To qualify for inclusion as a current asset such an investment must be convertible into cash on demand and not held on a long-term basis or for trading purposes as described separately. The other most likely asset to be turned into cash during the next period is the debtors' persons or entities owing the company money. The total debtors preferably be separated into trade debtors representing amounts due for trading transactions and others representing special items. The reason for this that a large sum may be outstanding from the sale of a fixed asset such as land. To include this when making a comparison over past periods would render such a comparison meaningless. The debtor may be in the form of a bill of exchange receivable and as these have varying degrees of negotiability may have a separate classification. An alternative term for debtors is account receivables. Another major group of current assets are inventories (stocks). In the case of a trading concern this is shown as one figure as it represents finished goods purchased for resale. In a manufacturing company the inventory may be shown under separate headings of raw materials, work in process and finished goods. Finally we have prepaid expenses which are items such as rent and rates which have been paid for during the current period but part of the benefit extends into following periods. Other assets, in addition to the items described above there are an intermediate group which is usually classified separately. These might be regarded as medium-term assets and are usually in the form of investments in other corporate bodies or entities. Quoted investments are those quoted on a recognized stock exchange. Unquoted investments are those not so quoted and whose value is therefore much more difficult to assess. Another form is shares in, and amounts owed by, subsidiary companies. Subsidiary companies are those in which the company has a controlling interest. In the UK a company with one or more subsidiaries is normally also required to prepare a consolidate balance sheet. Liabilities are the financial obligations of a business and imply legal responsibilities to other parties. They comprise external liabilities e.g. to suppliers for good supplied, or to a bank for providing a loan and internal liabilities which are liabilities to owners of the business whether proprietor, partner or shareholder. As with assets they are also classified by time. Long-term liabilities are liabilities not due for repayment within one year. Businesses are frequently financed by long-term credit obtained from sources other than the owners. Such credit is usually in the form of loans debentures from banks or subscribers. They are frequently secured by mortgages on the company's assets. Each item or classes of debentures are shown separately with repayment dates and relevant rate of interest. Current liabilities are liabilities which are due for repayment within a short period usually one year of the balance sheet date. Examples are trade and other creditors, dividends, taxation payable and bills payable. Also included are items known to have accrued such as rent due but unpaid, salaries and wages earned, but not yet paid.⁹

4.2. Income Statement

The measurement of income is one of the most important and controversial topics in finance. Income is a measure of accomplishment a means for evaluating an entity's performance over a period of time. Although income could be could be measured many ways, accountants have agreed to use the accrual basis in reporting an entity's net income. Investors eagerly await reports about a company's annual income. Stock prices generally reflect investors' expectations about income, but often actual reported income differs from what was expected. When this happens, stock prices can have large swings. Almost all of us have a reason for learning about how accountants measure income. For example, we want to know how we are doing as individuals, as corporations, as hospitals, or as universities. Even nonprofit institutions use a concept of income as a way of determining how much they can afford to spend to accomplish their objectives. Investors use a concept of income to measure their successes and failures and to compare the performance of their existing and potential holdings. Indeed, income is the primary way of evaluating the economic performance of people, corporations, other entities, and economies as a whole. The accountant's measurements of income are the major means for evaluating a business entity's performance. But measuring income is not straightforward. Most people agree that income should be a measure of the increase in the 'wealth' of an entity over a period of time.

One of the basic financial statements is the income statement, which focuses on the revenue and expense transactions' recorded in the retained income account. An income statement is a report of all revenues and expenses pertaining to a specific time period. Net income is the famous bottom line on an income statement the remainder after all expenses (including income taxes) have been deducted from revenue. Revenues and expenses are key components in the measurement of income. These terms apply to the inflow and outflow of assets that occur during a business entity's operating cycle. More specifically, revenues are

⁹ Wilfred Hingley, Accounting, 3rd ed., UK: Made Simple Books, 1989, p. 6.

gross increases in owners' equity arising from increases in assets received in exchange for the delivery of goods and services to customers. Expenses are decreases in owner's equity that arise because goods or services are delivered to customers. Together these items define the fundamental meaning of income (profit or earnings), which can simply be defined as the excess of revenues over expenses. The additional owners' equity generated by income or profits is retained income. Notice that the income statement measures performance for a span of time, whether it is a month, a quarter, or longer. Therefore the income statement must always indicate the exact period covered. Public companies in the U.S. generally publish income statements quarterly. In some other countries, only semi-annual or annual statements are published. Nevertheless, most companies prepare such statements monthly or weekly for internal management purposes. Some top managers even insist on a daily income statement to keep up to date on the performance of their operations. Decision makers use the income statement to assess the performance of an entity or its management over a span of time. The income statement shows how the entity's operations for the period have increased net assets through revenues and decreased net assets by consuming resources. Net income measures the amount by which the increase in assets exceeds the decrease. (A net loss means that the value of the assets used exceeded the revenues). In essence, net income is one measure of the wealth created by an entity during the accounting period. By tracking net income from period to period, comparing changes in net income to economy wide and industry averages, and examining changes in the revenue and expense components of net income, investors and other decision makers can evaluate the success of the period's operations.¹⁰ 'Many people consider it the most important financial report because it shows whether or not a business achieved its profitability goal of earning an acceptable income.¹¹

ħ

4. 3. Statement of Retained Earnings

Changes in the common equity accounts between balance sheet dates are reported in the statement of retain earnings. Firms retain earnings primarily to expand the business, and this means investing in plant and equipment, in inventories, and so on, not necessarily in a bank account. Changes in retained earnings represent the recognition that income generated by the firm during the accounting period has been reinvested in assets rather than paid out as

¹⁰ Charles Horngren, Gary Sundem, and John Elliot, Introduction to Financial Accounting, 5th ed., USA:

Prentice-Hall, 1993, p. 50.

¹¹ Henry Anderson and others, Principles of Accounting, 6th ed., New Jersey: Houghton Mifflin Company, 1996, p. 22.

dividends to stockholders. In other words, changes in retain earnings result because common stockholders allow the firm to reinvest in itself funds that otherwise could be distributed as dividends. Thus, retained earnings as reported on the balance sheet do not represent cash and are not available for the payment of dividends or anything else.

ò

V. FINANCIAL RATIOS

A financial ratio is a relationship that indicates something about a firm's activities, such as the ratio between the firm's assets and liabilities, or between its account receivable and its annual sales. Financial ratios enable an analyst to make a comparison of a firm's financial condition over time or in relation to that of other firms. Ratios essentially standardize various elements of financial data for differences in the size of a series of financial data when making comparisons over time or between firms. Successful financial ratio analysis requires that the analyst keep in mind the following key points:

• Any discussion of financial ratios is likely to include only a representative sample of possible ratios. Many other ratios can be developed to provide additional insights. In some industries, such as banking, the analyst will use special ratios unique to the activities of the firms in those industries.

• Financial ratios are only 'flags' indicating potential areas of strength or weakness. A thorough analysis requires the examination of other data as well.

• Frequently a financial ratio must be dissected to discover its true meaning. For example, a low ratio may be caused by either a low numerator or a high dominator before drawing any conclusions.

• A financial ratio is meaningful only when it is compared with some standard, such as an industry ratio trend, a ratio trend for the specific firm being analyzed, or a stated management objective.

• When financial ratios are used to compare one firm with another, it is important to remember that differences in accounting techniques may result in substantial differences in financial ratios. Failure to keep this in mind can lead to incorrect conclusions.

Basic classifications of financial ratios; because different groups in and outside the firm have varying objectives and expectations, they approach financial analysis from different perspectives. For example, suppliers and short-term creditors are likely to be most concerned with a firm's current liquidity and near term cash generating capacity. Bondholders and holders of preferred stock, who have long-term claims on a firm's earnings and assets, focus on the firm's cash generating ability over the long run and on the claims other investors have on the firm's cash flows. Owners (common stockholders) and potential investors are especially interested in measures of profitability and risk, since common stock prices are dependent on the amount and stability of a firm's future earnings and dividends. Management

is concerned with all aspects of financial analysis on both a short and a long-term basis, since it is responsible for conducting the firm's day to day operations and earning a competitive rate of return for risks taken. No single financial ratio could begin to answer all these analytical needs. Thus, four different groups of ratios have been developed:

Liquidity ratios indicate a firm's ability to meet short-term financial obligations. Activity ratios indicate how efficiently a firm is using its assets to generate sales. Financial leverage ratios indicate a firm's capacity to meet short and long-term debt obligations. Profitability ratios measures how effectively a firm's management generates profits on sales, assets, and owners' investments. Each type is discussed in detail in this project.

5.1. Measures of Short-Term Liquidity

Liquidity ratios measure the short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash. Short-term creditors such as bankers and suppliers are particularly interested in assessing liquidity. The ratios can be used to determine the enterprise's short-term debt paying ability are the current ratio, the acid-test ratio, current debt coverage ratio, receivables turnover, and inventory turn over.

Current Ratio

Current ratio is a widely used measure for evaluating a company's liquidity and short term debt paying ability. The ratio is computed by dividing current assets by current liabilities. It is sometimes referred to as the working capital ratio because working capital is the excess of current assets over current liabilities. The current ratio is a more dependable indicator of liquidity than working capital. Two companies with the same amount of working capital may have significantly different current ratios. The current ratio is only one measure of liquidity. It does not take into account the composition of the current assets. For example, a satisfactory current ratio does not disclose the fact that a portion of the current assets may be tied up in slow moving inventory. A dollar of cash is more readily available to pay the bills than is a dollar of slow moving inventory.

Acid-Test Ratio

Acid-test ratio (quick ratio) is a measure of a company's immediate short-term liquidity, computing by dividing the sum of cash, marketable securities, and net receivables by current liabilities. Thus, it is an important complement to the current ratio. Cash, marketable securities (short-term), and receivables are highly liquid compared to inventory

and prepaid expenses. The inventory may not be readily saleable and the prepaid expenses may not be transferable to others. Thus, the acid test ratio measures immediate liquidity.

Working Capital

Working capital is a measurement often used to express the relationship between current assets and current liabilities. Working capital is the excess of current assets over current liabilities. Recall that current assets are expected to convert into cash within a relatively short period of time, and that current liabilities usually require a prompt cash payment. Thus working capital measures a company's potential excess sources of cash over its upcoming uses of cash. The amount of working capital that a company needs to remain solvent varies with the size of the organization and the nature of its business activities. An analyst familiar with the nature of a company's operations usually can determine from the amount of working capital whether the company is in a sound financial position or is heading for financial difficulties.

Current Cash Dept Coverage Ratio

A disadvantage of the current and acid-test ratios is that they employ year-end balances of current asset and current liability accounts. These year-end balances may not be representative of what the company's current position was during most of the year. A ratio which partially corrects for this problem is the ratio of net cash provided by operating activities to average current liabilities, referred to as the current cash debt coverage ratio. Because it uses net cash provided by operating activities rather than a balance at a point in time, it may provide a better representation of liquidity.

Receivables Turnover

Liquidity may be measured by how quickly certain assets can be converted to cash. How liquid, for example, are the receivables? The ratio used to assess the liquidity of the receivables is the receivables turnover ratio. This ratio measures the number of times, on average; receivables are collected during the period. The receivables turnover ratio is computed by dividing net credit sales (net sales less cash sales) by the average net receivables during the year. Unless seasonal factors are significant, average net receivables outstanding can be computed from the beginning and ending balance of the net receivables.¹² A popular variant of the receivables turnover ratio is to covert it into an average collection period in terms of days. This is done by dividing the turnover ratio into 365 days. The average collection period is frequently used to assess the effectiveness of a company's credit and

¹² If seasonal factors are significant, the average receivables balance might be determined by using monthly amount.

collection policies. The general rule is that the collection period should not greatly exceed the credit term period (i.e. the time allowed for payment).

Inventory Turnover

The inventory turnover ratio measures the number of times on average the inventory is sold during the period. Its purpose is to measure the liquidity of the inventory. The inventory turnover is computed by dividing cost of goods sold by the average inventory during the period. Unless seasonal factors are significant, average inventory can be computed from the beginning and ending inventory balances. Generally, the faster the inventory turnover, the less cash that is tied up in inventory and the less the chance of inventory obsolescence. A variant of the inventory turnover ratio is to compute the average days to sell the inventory.

5.2. Measures of Long-Term Credit Risk

Long-term solvency ratios measure the ability of the enterprise to survive over a long period of time. Long-term creditors and stockholders are interested in a company's long-run solvency, particularly its ability to pay interest as it comes due and to repay the face value of the debt at maturity. Debt to total assets, times interest earned, and cash debt coverage ratio are three ratios that provide information about debt paying ability.

Debt to Total Assets Ratio⁴

The debt to total assets ratio measures the percentage of the total assets provided by creditors (this ratio indicates the degree of leveraging). It is computed by dividing total debt (both current and long-term liabilities) by total assets. This ratio provides some indication of the company's ability to withstand losses without impairing the interests of creditors. The higher the percentage of debt to total assets, the greater the risk that the company may be unable to meets its maturing obligations. The adequacy of this ratio is often judged in the light of the company's earnings. Generally, companies with relatively stable earnings, such as public utilities, have higher debt to total assets ratios than cyclical companies with widely fluctuating earnings, such as many high-tech companies.

Times Interest Earned Ratio

The times interest earned ratio provides an indication of the company's ability to meet interest payments as they come due. It is computed by dividing income before interest expense and income taxes by interest expense.

Cash Debt Coverage Ratio

The ratio of net cash provided by operating activities to average total liabilities, referred to as the cash debt coverage ratio, is a cash basis measure of solvency. This ratio demonstrates a company's ability to repay its liabilities from cash generated from operating activities, without having to liquidate the assets employed in its operations.

5.3. Measures of Profitability

Profitability ratios measure the income or operating success of an enterprise for a given period of time. Income, or the lack of it, affects the company's ability to obtain debt and equity financing, the company's liquidity position, and the company's ability to grow. As a consequence, creditors and investors alike are interested in evaluating earning power (profitability). Profitability is frequently used as the ultimate test of management's operating effectiveness.

Profit Margin

The profit margin ratio is a measure of the percentage of each dollar of sales that results in net income. It is computed by dividing net income by net sales for the period. Highvolume (high inventory turnover) enterprises such as grocery stores and discount stores generally experience low profit margins, whereas low-volume enterprises such as jewelry stores or airplane manufacturers have high profit margins.

Cash Return on Sales Ratio

The profit margin ratio discussed above is an accrual based ratio using net income as the numerator. The cash basis counter part to that ratio is the cash return on sales ratio which uses net cash provided by operating activities as the numerator and net sales as the denominator. The difference between these two ratios should be explainable as differences between accrual accounting and cash basis accounting, i.e. differences in the timing of revenue and expense recognition.

Asset Turnover

The asset turnover ratio measures how efficiently a company uses its assets to generate sales. It is determined by dividing net sales by average assets for the period. The resulting number shows the dollars of sales produced by each dollar invested in assets. Unless seasonal factors are significant, average total assets can be computed from the beginning and ending balance of total assets. Asset turnover ratios vary considerably among industries.

Return on Assets Ratio

An overall measure of profitability is the return on assets ratio. This ratio is computed by dividing net income by average assets.

Return on Common Stockholder's Equity

Another widely used ratio that measures profitability from the common stockholder's viewpoint is return on common stockholders' equity. This ratio shows how many dollars of net income were earned for each dollar invested by the owners. It is computed by dividing net income by average common stockholders' equity. When preferred stock is present, preferred dividend requirements are deducted from net income to compute income available to common stockholders. Similarly, the par value of preferred stock (or call price, if applicable) must be deducted from total stockholders' equity to arrive at the amount of common stock equity used in this ratio.

Earnings Per Share (EPS)

Earnings per share of stock is a measure of the net income earned on each share of common stock. It is computed by dividing net income by the number of weighted average common shares outstanding during the year. Stockholders usually think in terms of the number of shares they own or plan to buy or sell. Reducing net income earned to a per share basis provides a useful perspective for determining profitability. When the term 'net income per share' or 'earnings per share' is used, it refers to the amount of net income applicable to each share of common stock. Therefore, in computing net income per share, if there are preferred dividends declared for the period, they must be deducted from net income to arrive at income available to the common stockholders.

Price-Earnings Ratio

The price-earnings ratio is an oft-quoted statistic that measures the ratio of the market price of each share of common stock to the earnings per share. The price-earnings (PE) ratio reflects investors' assessments of a company's future earnings. It is computed by dividing the market price per share of the stock by earnings per share.

Payout Ratio

The payout ratio measures the percentages of earnings distributed in the form of cash dividends. It is computed by dividing cash dividends by net income. Companies that have high growth rates are characterized by low payout ratios because they reinvest most of their net income into the business.

5.4. Measures for Evaluating the Current Market Price of Common Stock

Price-Earnings Ratio

The relationship between the market price of common stock and earnings per share is so widely recognized that it is expressed as a ratio, called the price-earnings ratio. The priceearnings ratio is determined by dividing the market price per share by the annual earnings per share. The outlook for future earnings is the major factor influencing a company's priceearnings ratio. Companies with track records of rapid growth may sell at price-earnings ratio of perhaps 20 to 1, or even higher. Companies with flat earnings or earnings expected to decline in future years often sell at price-earnings ratios below, say, 10 to 1.

Dividend Yield

Dividends are of prime importance to some stockholders, but a secondary factor to others. Some stockholders invest primarily to receive regular cash income, while others invest in stocks principally with the expectation of rising market prices. If a corporation is profitable and retains its earnings for expansion of the business, the expanded operations should produce an increase in the net income of the company and thus tend to make each share of stock more valuable. In comparing the merits of alternative investment opportunities, we should relate earnings and dividends per share to the market value of the stock. Dividends per share divided by markets per share determine the yield rate of a company's stock. Divided yield is especially important to those investors whose objective is to maximize the divided revenue from their investments.

The Du Pont Identity

As we mentioned in discussing return on assets (ROA) and return on equity (ROE), the differences between these two profitability measures is a reflection of the use of debt financing, or financial leverage. We illustrate the relationship between these measures in this section by investigating a famous way of decomposing ROE into its component parts. To begin, let's recall the definition of P_*OE :

Return on equity = Net income / Total equity

If we were so inclined, we could multiply this ratio by Assets / Assets without changing anything:

Return on equity = (Net income / Total equity) = (Net income / Total Equity) X (Assets / Assets) = (Net income / Assets) X (Assets / Total equity).

Notice that we have expressed the ROE as the product of two other ratios ROA and the equity multiplier:

ROE = ROA X Equity multiplier = ROA X (1 + Debt-equity ratio)

The difference between ROE and ROA can be substantial, particularly for certain business. For example, NationsBank has an ROA of only 1 percent, which is actually fairly typical for a bank. However, banks tend to borrow a lot of money, and, as a result, have relatively large equity multipliers. For NationsBank, ROE is about 15 percent, implying an equity multiplier of 15. We can further decompose ROE by multiplying the top and the bottom by total sales:

ROE = (Sales / Sales) X (Net income / Assets) X (Assets / Total equity)

If we rearrange things a bit, ROE is:

ROE = (Net income / Sales) X Sales / Assets) X (Assets / Total equity)

= Profit margin X Total asset turnover X Equity multiplier

What we have now done is to partition ROA into its two component parts, profit margin and total asset turnover. The last expression of the preceding equation is called the Du Pont identity, after the Du Pont Corporation, which popularized its use. The Du Pont identity tells us that ROE is affected by three things.

- 1. Operating efficiency (as measured by profit margin)
- 2. Asset use efficiency (as measured by total asset turnover)
- 3. Financial leverage (as measured by the equity multiplier)

Weakness in either operating or asset use efficiency (or both) will show up in a diminished return on assets, which will translate into a lower ROE. Considering the Du Pont identity, it appears that the ROE could be leveraged up by increasing the amount of debt in the firm. It turns out this will only happen if the firm's ROA exceeds the interest rate on the debt. More important, the use of debt financing has a number of other effects, and, the amount of leverage a firm uses is governed by its capital structure policy. The decomposition of ROE we've discussed in this section is a convenient way of systematically approaching financial statement analysis. If ROE is unsatisfactory by some measure, than the Du Pont identity tells you where to start looking for the reasons.

ż

Standards of Comparison

In using financial ratios, financial analysts constantly search for some standard of comparison against which to judge whether the relationships they have found are favorable or unfavorable. Two such standards are (1) the past performance of the company and (2) the performance of other companies in the same industry.

Past Performance of the Company

Comparing financial information for a current period with similar information for prior years affords some basis for judging whether the condition of the business is improving or worsening. This comparison of data over time is sometimes called horizontal analysis, to express the idea of reviewing data for a number of consecutive periods. It is distinguished from vertical, or static, analysis, which refers to the review of the financial information within a single accounting period. In addition to determining whether the situation is improving or becoming worse, horizontal analysis may aid in making estimates of future prospects. Because changes may reverse their direction at any time, however, projecting past trends into the future always involves risk.

Industry Standard

The limitations of horizontal analysis may be overcome to some extent by finding appropriate benchmarks against which to measure a particular company's performance. The benchmarks used by most analysts are the performance of comparable companies and the average performance of several companies in the same industry.

VI. FINANCIAL STATEMENT ANALYSIS OF ISBANK

Å

Capital Ratios %					
Years	2000	1999	1998	1997	1996
Standard Capital Ratio	23,2	23,2	20,5	17,0	16,4
(Shareholders' Equity + T. Income) / Total Assets	21,0	17,5	17,7	14,3	12,7
(Shareholders' Equity+ Total mcome) / (Deposits + Non profit deposits)	29,3	24,2	24,2	18,6	16,3
Net Working Capital / Total Assets	0,9	5,3	5,7	5,5	5,1
(Shareholders' Equity+T. Income) / (T. Assets+contin. And con.	12,5	11,2	11,2	8,5	7,0
Fx position / Shareholders' Equity	43,1	34,3	27,8	43,9	- 8,3

Isbank

Source: www. Tbb. Org. tr

Assets Quality %				1	
Years	2000	1999	1998	1997	1996
Total Loans / Total Assets	37,4	34,2	48,3	47,6	46,1
Non Performing Loans/ Total Loans	5,6	7,4	3,2	2,5	2,2
Permanent Assets / Total Assets	28,7	14,0	13,0	9,2	7,6
Fx Assets / Fx Liabilities	85,8	92,1	94,2	94,2	101,0

Source: www. Tbb. Org. tr

Years	2000	1999	1998	1997	1996
Liquid Asset / Total Assets	28,5	41,9	30.3	34.2	37.4
Liquid Assets / (Deposit+Non Deposit Funds	39,8	57,9	41,3	44,7	48,0
Fx Liquid Assets / Fx Liabilities	40,5	43,5	32,4	39.2	41.1

е,

.

Profitability %					
Years	2000	1999	1998	1997	1006
Net Income (loss) / Av. T.					1990
Assets	3,7	5,7	6.1	6.1	5.6
Net Income (loss) / Av.					
Share in Capital	56,4	101,0	132.1	232.7	272 4
Income Before Tax / Av. T.					272,7
Assets	5,0 *	9,5	9.8	90	8 5
Provision for Loan Losses /			- ,0	>,0	0,5
T. Assets	2,5	6,1	1,7	1,4	2,0

Source: www. Tbb. Org. tr

24

Income-Expenditure Structure %					
Years	2000	1999	1998	1997	1996
Net interest income after provision / Av. T. Assets	7,3	10,9	12,2	11,2	9,7
Interest income / Interest Expenses	200,6	229,8	223,7	232,2	243,5
Non-Interest income / Non-Interest Expenses	70,1	78,9	66,0	61,8	83,2
Total Income / Total Expenditure	138,5	169,2	160,2	165,1	163,8
Interest Income /Av. Profitable Assets	26,3	33,5	33,0	28,1	25,2
Interest Expenses / Av. Non-profitable Assets	11,5	14,0	14,2	11,6	9,9
Interest Expenses / Av. Profitable Assets	13,1	14,6	14,7	12,1	10,4
Interest Income / Total Income	75,9	81,3	83,4	85,3	74,7
Non-Interest Income / Total Income	24,1	18,7	16,6	14,7	25,3
Interest Expenses / Total Expenses	52,4	59,9	59,8	60,6	50,3
Non-Interest Expenses / Total Expenses	47,6	40,1	40,2	39,4	49,7

-

Ŀ

4

Source: www. Tbb. Org. tr

VII. CONCLUSION AND RECOMMENDATION

Isbank is Turkey's largest and most profitable private bank with US\$ 6.6 billion in total assets and US\$ 687 million in gross profit. Its shares have been publicly traded since its establishment and over time, Isbank has developed a unique shareholder base with 45 % of the capital owned by the employees through the pension fund of the Bank. With the planned public offering of 12.3 % shares held by the Turkish Treasury, it will be a 100 % private bank.

By any standards, Isbank is characterized by massive figures. At the end of 1997, it had a market capitalization of TL 1,937 trillion (US\$ 9.5 billion), well above any other company in the country. The value of its shares traded on the Istanbul Stock Exchange (ISE) constitutes 22 % of the ISE-100 index. With a nearly 10 % share in the country's international trade transactions, it is now expanding further into international markets through the new overseas branch offices of its wholly-owned subsidiary bank Isbank GmbH in Germany.

We confirmed the "D+" rating with a stable outlook for Isbank. This rating continues to reflect the strength of its franchise and the liquidity position of the bank when it entered the crisis. Similar to its peers, Isbank has been a net lender during the crisis. We added that Isbank's repo portfolio is of a similar size to its peers and may continue to make losses in the current interest rate environment. However, such losses are slightly compensated by the bank's profitable reverse repo activities and interbank lending. The bank's fixed TL loan portfolio to be around 6% of total assets, similar to its peers and at comfortable levels. We believe that Isbank will benefit from a consolidation in the banking sector and will likely be able to gain market share.

In financial statement analysis of isbank we divide it into five parts which are capital ratios structure, asset quality, liquidity position, profitability, and income expenditure structure. When we analyze these parts we look past performance activities isbank and yapi kredi form ratios tables and makes a comparison these two banks which are at the top of banking sector in Turkey.

We start our comparison capital ratios of Isbank and Yapı Kredi. In this part Isbank is faced in increasing in their capital from 1996 to 2000. Also in Yapı Kredi capital ratios we can saw easily there was an also increase their capital too but Yapı Kredi's capital is little bit better than Isbank. If Isbank is the first bank of Turkey they would need to catch Yapı Kredi in capital structure. Another thing we can say Isbank must improve their working capital because there is big decrease from 1996 to 2000. When we look at the Yapı Kredi's net

working capital they have good position and there is a big difference between Isbank. After capital ratios structure we analyzed asset quality of these two banks with looking at their past performances. In asset quality of Isbank there is a decrease from 1996 to 2000 with Yapı Kredi and there are not considerable difference between these two banks but we can say Isbank better than Yapı Kredi. Thirdly we analyzed the liquidity position of these two banks with looking their past performances. Isbank didn't faced too much decrease in liquidity they protect their position of liquidity in 5 years. In Fx liquid assets / Fx liquid liabilities part from 1996 to 2000 Isbank' s ratio is 41,1 in 1996 increase to 40,5 in 2000. When we compare Isbank with Yapı Kredi about liquidity position, Yapı Kredi have an increase in their liquidity position from 1996 to 2000 they catch Isbank and become a good position than their first competitor. In Fx liquid assets / Fx liquid liabilities we can see the differences easy. In 1996 their calculation is 27,7, this is near half of Isbank, but in 2000 they increase this solution to 46,0. In fourth division we have an important part which is profitability. In profitability again we look Isbank's data first. In profitability of Isbank there is declining but this declining is not mean that Isbank is not profitable. Isbank was the profitable but from 1996 to 1999 Isbank profitability is best but on the other hand from 1999 to 2000 they faced big recession because of economic crisis happened in Turkey and devaluation also same situation effect Yapı Kredi. But this economic problem affected Yapı Kredi more than Isbank. When we compare whole data in profitability we can say that Isbank is the profitable than Yapı Kredi.

In this project analyzing financial statement of Isbank and comparison with Yapı Kredi, we can say Isbank position is the better than Yapı Kredi and these two banks are fighting for first two places in Turkey's banking sector.¹³

¹³ Table of Yapı Kredi's ratios in Appendix B

VIII. APPENDIX A

Formulas used in the Calculation of Ratios

- 1. Liquid Assets = Cash + Due From Banks + Central Bank + Other Finan.Ins. + Interbank + Securities + Reserve Requirements
- 2. Average Total Assets = (Total Assets(1st Year) + Total Assets(2nd Year)) / 2
- Average Shareholders' Equity = (Shareholders' Equity_{(1st Year}) + Shareholders' Equity_{(2nd Year}) / 2
- 4. Average Share-in Capital = $(\text{Share-in Capital}_{(1st Year)} + \text{Share-in Capital}_{(2nd Year)}) / 2$
- 5. Non-deposits Funds = Interbank + Central Bank + Other Funds Borrowed + Funds + Securities Issued
- 6. Contingencies and Commitments = Total Contingencies and Commitments- Other Contingencies and Commitments
- 7. Net Working Capital = Shareholders' Equity + Total Income(Current + Previous) -Permanent Assets except Affiliated Securities
- 8. Total Income = Current Vear's Income + Previous Years' Income
- 9. Fx Position = Fx Liabilities Fx Assets
- 10. Permanent Assets = Non-performing Assets(net) + Equity Participations + Affiliated Securities and Companies + Fixed Assets
- 11. Profitable Assets = Loans + Securities Portfolio + Banks + Interbank + Gov't Bonds Account for Legal Reserves
- 12. Non-Profitable Assets = Deposits + Non-deposit Funds
- 13. Total Income = Interest Income + Non-Interest Income
- 14. Total Expenditures = Interest Expenses + Non-Interest Expenses
- 15. Interest Income = Interest on (Loans + Securities Portfolio + Deposits in other Banks + Interbank Funds Sold) + Other Interest Income
- 16. Other Interest Income = Income from Reserve Requirements + Other

- 17. Interest Expenses = Interest on (Deposits + Non-Deposits Funds Borrowed) + Other Interest Expenses
- 18. Other Interest Expenses = Interest on Interbank Funds Borrowed + Interest on Securities Issued + Other
- 19. Net Interest Income After Provision for Loan Losses = Interest Income Interest Expenses - Provisions for Loan Losses
- 20. Non-Interest Income = Income from Commisions (net) + Inc.from Fx Transac.(net) + Inc.from Capital Market Transac.(net) + Other
- 21. Income from Commissions (net) = Fees and Commissions Received Fees and Commissions Paid
- 22. Income from Fx Transactions (net) = Income from Fx Transactions Loss from Fx Transactions
- 23. Income from Capital Market Transactions (net) = Income from Capital Market Transactions - Loss from Capital Market Transactions
- 24. Other Non-Interest Income = Dividends From Equity Participations and Affiliated Companies + Extraordinary Income + Other
- 25. Non-Interest Exp. = Salary&Empl'ee Bene.+ Res.for Retire.Pay + Oth.Provi. + Taxes and Duties + Rent. Exp. + Depr.& Amort. + Other
- 26. Other Non-Interest Expenses = Extraordinary Expenses + Other
- 27. Operational Expenses = Salaries and Benefits + Reserve for Retirement + Rental Expenses + Depreciation and Amortization
- 28. Provisions = Reserves for Retirement Pay + Provision for Loan Losses + Provisions for Taxes + Other Provisions
- 29. Income Before Tax = Net Interest Income after Provision for Loan Losses + Non-Interest Income - Non-Interest Expenses
- 30. Net Income(Loss) = Income Before Tax Provisions for Income Tax

IX. APPENDIX B

Associated companies (net)

We have audited the accompanying balance sheet of Türkiye Is Bankası A.Ş. (the Bank) as of 31 December 1998 and the related statement of income for the year then ended. In our opinion the accompanying financial statements have been prepared in accordance with the Uniform Code of Accounts, model balance sheet, income statement and notes to these financial statements and the accounting and valuation principles same the Bank's records.

Türkiye Is Bankası A.Ş. Balance Sheets as of 31 December 1998 and 1997

ASSETS (TURKISH LIRA)	1998	1997
Cash reserve	53,574,177,357,520	39,539,901,320,754
Cash in hand	50,060.277,744,534	35,677,223,486.229
Balances with Central Bank	2,727,478,835,422	3.016,633,163.078
Prepaid checks in course of collection from foreign be	anks 786,420,777,564	846.044,671,447
Due from banks	246,661,062,239,816	190,446,852,806,427
Debt securities (net)	288,481,671,526,116	148,117,801,358,244
Treasury bills	251,866,541.554,415	133,984.524,766.896
Government securities	0	0
Equities	1.746,938,205.407	386,396,908,798
Debt securities for reserve requirements (T-bills)	21,670.762,856.158	6,126.979,117.431
Other debt securities	13,197,428,910,136	7,619,900.565,119
Loans	1,140,633,370,106,16	641,889,338,010,153
Short-term	924,667,393,656,956	521,890.256,990.949
Medium- and long-term	215.965,976.449,207	119,999,081.019,204
Loans in arrears (net)	0	0
Loans in arrears	36,291,107,643,983	15,931,187,779,393
Provision for loans in arrears (-)	36,291,107.643,983	15,931.187,779,393
Prepayments and accrued income	129,362,514,335,442	82,792,442,097,933
Loans	63,790.283,350,013	41,767.574,597.089
Debt securities	63.925,186,729,338	39,374,288.046,990
Other	1,647,044.256,091	1,650.579,453,854
Reserve deposits at Central Bank	147,708,775,160,804	89,581,848,790,378
Government bond account funding legal reserves	19,021,454,861,086	7,916,482,786,131
Other receivables	17,921,373,148,983	13,943,319,281,526
Participating interests	190,254,915,243,319	65,862,561,637,044
Subsidiary companies (net)	177,939,435,437,997 60),440,863,172,055

177,939,435,437,997 12,152,284,260,765

60,440,863,172,055 5,340,794,279,049

Other participating interests (net) **Tangible fixed assets (net)** Book value Accumulated depreciation(-) **Other assets TOTAL ASSETS**

LIABILITIES (TURKISH LIRA)

Customer accounts Turkish Lira deposits Other currency deposits Deposits by banks Turkish Lira deposits Other currency deposits Debt to credit institutions Debt to Central Bank Debt to other banks and credit institutions Debt securities in issue Accruals and deferred income Taxes, duties and fees payable Import transfer orders Other payables Provisions Provisions for end-of-service benefits General provisions Provisions for taxes Other provisions Other liabilities Shareholders' equity Paid-in share capital (x) Legal reserves Revaluation reserve Profit Profit for the financial year Cumulative retained profit TOTAL LIABILITIES

163,195,544,557 93,672,379,906,709 115,156,332,204,903 21,483,952,298,194 31,899,199,856,061 2,359,190,893,742,020

1998

1,476,091,227,219,040 396,156,501,052.007 1.079,934,726.167,030 77,945,014,802,183 17.161,927.773,302 60.783,087,028.881 174,717,381,027,887 () 174,717.381,027,887 0 46,896,960,461,706 8,294,559,663,111 1,841,914,585,131 25,331,232,140,886 82,635,758,310,551 3.900,000,000,000 14,200.000,000.000 52,275,894,557,070 12,259.863,753.481 47,094,706,385,540 283,231,099,104,502 126,909.000,000,000 55.548,856,348.051 100,773.242,756,451 135,111.040,041.487

0 2,359,190,893,742,020 80,904,185,940 52,665,152,622,789 67,476,484,425,338 14,811,331,802,549 16,375,570,319,009 1,349,131,271,030,390

1997

909,904,584,685,119 225,289.251,445.878 684.615,333.239.241 17,190,521,101,465 699.874,652,564 16,490,646.448,901 106,272,082,704,550 11,900,000 106,272,070,804,550 0 29,188,276,867,775 4,084,370,810,190 6,817,913,028,834 16,133,299,109,974 30,444,217,004,068 1,700,000.000.000 8.300,000,000,000 16,934,353,250.587 3.509,863,753,481 36,678,615,239,046 111,293,100,264,521 50.664,000,000.000 28,449,115,215,931 32.179,985,048.590 135,111,040,041,487 81.124,290,214,846 0 1,349,131,271,030,390

Türkiye Is Bankası A.Ş. Profit and Loss Accounts

Interest on short-term279.226,122.104,658Interest on medium-12.672.786,727.269	138.120,179,797.061 19,963.729,309,751 550,479.918,838
Interest on medium-	19,963.729,309,751 550,479.918,838
and long-term loans 55,075,780,727,268	550,479.918,838
Interest on loans in 1,602,462,844,261	
Interest on reserve deposits at Central Bank 139.160,547,668 Interest received from banks 37,471.517,446,493 Central Bank 2.537,612,794 Domestic banks 28.206,118,189.634 Foreign banks 9,262,861.644,065 Interest on debt securities 151,083.060,196.401 Other interest received 22,185,621,670.626 INTEREST PAID 234,896,554,039,515 Interest on deposits 221,265,025,188,701 Interest to banks and credit institutions 13,270,485.329,510 Interest to debt securities in issue 0 Other interest paid 361,043.521,304 NET INTEREST INCOME 290,485,177,497,860 OPERATING INCOME 218,615,696,849,200	85,826,784,379 14,149,780,300,952 10,213,362,920 7,200,390,952,678 6,939,175,985,354 93,451,010,199,744 10,082,649,872,288 119,049,819,267,275 110,374,413,217,442 8,004,948,257,573 0 670,457,792,260 157,353,836,915,738 136,694,470,769,963
Fees and commissions received51.716,927.740.635Dealing profits on capital market operations28,944,029,629.577	21.452.692,049.963 12,251.064,227,130
Dealing profits on foreign exchange 77.804,910,945.877	59,965.011,672.766
Dividends from participations17,380,253.434,620Other operating income42.769,575.098.491OPERATING EXPENSES291,956,460,735,445Fees and commissions paid6.675,979.209.476Loss on capital market operations2,477.088,313,857Loss on foreign exchange operations105.038,572,072,149Administrative expenses91,295,038.415,702	8,910,811,384.550 34,114,891,435,554 175,339,086,744,532 2,706,655,499,926 5,318,845,109,209 80,893,771,931,654 44,810,319,342,616
Staff costs 84,984.000,420,842 4 Provisions for end- of-service benefits 3,900.000,000,000 1 Property rentals 2.411,037,994.860 1 Tangible fixed assets depreciation 2,118,002,406,885 1	41,979,691,288,557 1,700,000,000,000 1,130,628,054,059 1,204,688,128,413

Taxes and duties paid	6.249.124,637.341	3,193,141,050,973
Provisions for loans in arrears	19,541,116,711.735	9,130,987.955,749
Other provisions	26,634,334.899,989	11.203,048.762,080
Other operating expenses	31.927,204.068.311	16,877,628,963,912
NET OPERATING INCOME	(73,340,763,886,244)	(38,644,615,974,569)
PROFIT BEFORE TAX	217,144,413,611,616	118,709,220,941,169
PROVISIONS FOR TAX	82,033,373,570,129	37,584,930,726,323
PROFIT AFTER TAX	135,111,040,041,487	81,124,290,214,846

2

-

Yapı Kredi

Capital Ratios %					
Years	2000	1999	1998	1997	1996
Standard Capital Ratio	27,0	14,0	13,0	13,2	12,1
(Shareholders' Equity + T. Income) / Total Assets	22,2	12,5	13,3	13,0	11,8
(Shareholders' Equity+ Total income) / (Deposits + Non profit deposits)	30,5	15,3	16,6	16,0	14,6
Net Working Capital / Total Assets	4,5	3,3	3,6	4,9	2,5
(Shareholders' Equity+T. Income) / (T. Assets+contin. And con.	11,0	6,2	6,9	7,1	5,7
Fx position / Shareholders' Equity	48,7	76,6	78,3	86,3	64,1

Assets Quality %

.

Years	2000	1999	1998	1997	1996
Total Loans / Total					
Assets	39,2	39,7	50,0	51,7	53,1
Non Performing Loans/					
Total Loans	4,3	4,6	3,1	1,5	0,8
Permanent Assets /					
Total Assets	22,3	11,6	9,8	8,2	9,4
Fx Assets /					
Fx Liabilities	83,5	90,3	87,6	89,3	91,9

2000	1999	1998	1997	1996
				-
33,1	38,2	26,2	28,2	26,6
45,6	46,7	32,6	34,8	33,1
and the second sec	Lokusets			
46,0	46,0	27,2	30,8	27,7
	2000 33,1 45,6 46,0	2000 1999 33,1 38,2 45,6 46,7 46,0 46,0	2000 1999 1998 33,1 38,2 26,2 45,6 46,7 32,6 46,0 46,0 27,2	2000 1999 1998 1997 33,1 38,2 26,2 28,2 45,6 46,7 32,6 34,8 46,0 46,0 27,2 30,8

\$

Profitability %					
Years	2000	1999	1998	1997	1996
Net Income (loss) / Av. T.					
Assets	3,8	4,7	3,9	5,4	4,2
Net Income (loss) / Av.					
Share in Capital	64,0	90,0	75,5	113,1	111,7
Income Before Tax / Av. T.					
Assets	5,2	6,4	4,9	6,2	4,9
Provision for Loan Losses /					
T. Assets	1,9	1,2	0,6	0,3	0,3

Income-Expenditure Structure %]				
Years	2000	1999	1998	1997	1996
Net interest income after provision / Av. T. Assets	6,1	5,9	8,4	7,7	6,4
Interest income / Interest Expenses	178,1	144,9	161,5	168,3	157,0
Non-Interest income / Non-Interest Expenses	82,3	112,8	38,6	69,5	68,5
Total Income / Total Expenditure	141,9	137,1	125,9	139,8	131,0
Interest Income /Av. Profitable Assets	22,9	28,7	31,7	26,2	25,9
Interest Expenses / Av. Non-profitable Assets	11,6	17,5	17,7	14,2	14,7
Interest Expenses / Av. Profitable Assets	12,8	19,8	19,6	15,6	16,5
Interest Income / Total Income	78,1	80,1	91,1	85,6	84,6
Non-Interest Income / Total Income	21,9	19,9	8,9	14,4	15,4
Interest Expenses / Total Expenses	62,2	75,9	71,0	71,1	70,6
Non-Interest Expenses / Total Expenses	37,8	24,1	29,0	28,9	29,4

ĸ

REFERENCES

- Horngren, Charles and Gary Sundem. Introduction to Financial Accounting. New Jersey: Prentice Hall, 1993.
- Shall, Lawrence and Charles Halley. Introduction to Financial Management. Singapore: Mc Graw-Hill, 1991.

Meigs, Robert and Jan williams. Accounting. USA: Mc Graw-Hill, 1999.

Weygandt, Jerry and Donald Kieso. Financial Accounting. USA: John Wiley & Sons, 1998. Istanbul Stock Exchange Companies. Monthly Price And Return Data.

Web Sides

www. İmkb. Gov www. Tbb. Org www. Bddk. Org www. Google. Com www. Isbank. Com www. Yapıkredi. com