

Fitch Affirms Isbank at LTFC IDR 'BB', Outlook Stable [Ratings](#)

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Fitch Ratings-London-10 July 2009: Fitch Ratings has today affirmed Turkiye Is Bankasi A.S.'s (Isbank) ratings at Long-term (LT) foreign currency Issuer Default (IDR) 'BB' and LT local currency IDR 'BBB-'. A full rating breakdown is provided at the end of this commentary.

Isbank's LT foreign currency IDR is constrained by Turkey's 'BB' Country Ceiling and its LT local currency IDR is rated two notches above the sovereign's based on the bank's stand-alone financial strength. The Individual rating reflects Isbank's strong franchise within Turkey, as the largest private bank in terms of assets, customer deposits, TRY-denominated loans and its branch network at end-Q109. In addition, the rating considers its comfortable liquidity supported by stable core funding, good performance, a sound risk management system and adequate capitalisation, but also its exposure to a difficult global and domestic economic environment.

Profitability remained strong in 2008 and Q109, supported by a low-cost strong deposit base and still high interest rates on loans reflecting the cost of risk. While loan impairment charges were significantly higher due to the slowing economy, non-interest operating expenses were under control, providing a large buffer for absorbing the rise in loan impairment changes. Due to the bank's good efficiency and favourable cost of funding benefiting from the strong retail customer deposit franchise, Fitch believes that Isbank is well placed to weather difficult times.

The loan portfolio is dominated by Turkish lira retail and SME loans, while the share of FX loans was 35.6% in Q109, which were mostly corporate and project finance loans. Its asset quality has been deteriorating with the slowing economy, with NPLs at end-Q109 equating to 4.7% of total gross loans. While this proportion was worse than the sector average of 4.3%, unlike some peers Isbank did not sell any NPLs and recoveries are substantially higher than write-offs, suggesting that the underlying quality may not be worse.

Isbank's structural maturity mismatch and potential liquidity risks are partly mitigated by its stable core deposit base and by closely monitoring its cash management projections. At end-Q109, Isbank's consolidated regulatory tier 1 ratio remained sound at 16.09%.

Isbank was established in 1924 as Turkey's first private commercial bank to support the country's economic development. Isbank Group's core business is retail, corporate, commercial and private banking services. The group is also active through its subsidiaries in a wide range of financial services and it has a portfolio of non-core strategic participations in large Turkish companies - mainly in the glass and telecommunications sectors.

The Individual Rating reflects the standalone strength of a bank while the Support Rating reflects the probability of support from a majority shareholder and/or the State.

The rating actions with respect to Isbank are as follows:

LT foreign currency IDR affirmed at 'BB'; Outlook Stable
 Short-term (ST) foreign currency IDR affirmed at 'B'
 LT local currency IDR affirmed at 'BBB-'; Outlook Stable
 ST local currency IDR affirmed at 'F3'
 Individual rating affirmed at 'C'
 Support rating affirmed at '4'
 National LT rating affirmed at 'AAA(tur)'; Outlook Stable
 Support Rating Floor affirmed at 'B+'

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(tur)' for National ratings in Turkey. Specific letter grades are not therefore internationally comparable.

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