

Turkey Credit Update

Turkiye Is Bankasi

Ratings

Turkiye Is Bankasi

Foreign Currency	
Long-Term	BB-
Short-Term	B
Outlook	Stable

Local Currency

Long-Term	BB
Short-Term	B
Outlook	Stable

National

Long-Term	A+ (tur)
Outlook	Stable

Individual

Support	C 4
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Sovereign Risk

Foreign Long-Term	BB-
Local Long-Term	BB-
Outlook	Stable

Financial Data

Turkiye Is Bankasi

	31 Dec 2004	31 Dec 2003
Total Assets (USDm)	33,019.6	30,227.1
Total Assets (TRY 000)	44,229,756	40,489,208
Equity (TRY000)	8,632,645	7,382,695
Net Income (TRY000)	859,774	512,137
ROA (%)	2.03	1.34
ROE (%)	10.74	7.24
Equity/Assets (%)	19.52	18.23

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Rating Rationale

- The ratings of Turkiye Is Bankasi A.S. ("Isbank") reflect its significant franchise within Turkey, its improved earnings and capital, and sound reserve coverage. These are balanced by a high level of problem assets and sizeable proportion of government securities on the balance sheet. The Long-term foreign currency rating is constrained at the sovereign ceiling and the Long-term local currency rating is rated above the sovereign ceiling due to the higher Individual rating, strong liability liquidity and dominant presence in the sector.
- Isbank has the largest market share (13%) among private banks in Turkey in terms of both loans and deposits. It is also Turkey's largest private bank as measured by assets and equity. The bank is a leader in corporate and retail banking as well as in capital markets activities. Management anticipates that loans will continue to expand as a proportion of assets over time as the Turkish economy continues to improve and credit demand grows.
- Operating profits more than doubled in 2004 with net income increasing by 68% from the previous year. Earnings benefited from the bank's high net interest margin (aided by a large proportion of demand deposits), better fees and commissions and lower operating costs. This was offset by a reduction in trading income and foreign exchange ("FX") gains and higher taxes. Profits in 1H05 continued to be strong despite increased optional provisions to build balance sheet strength.
- Impaired loans decreased by 14% in absolute terms to 7.95% of the portfolio at end-2004 (2003: 11.25%). Specific reserve coverage remained at 100% although the bank has allocated general loan and other provisions to protect against potential problems and for expected growth. Approximately 65% of cash loans are to the retail and small- to medium-sized enterprise ("SME") sectors. Isbank's low-cost core deposit base remains one of its principal strengths. Because of its solid reputation, the bank has been able to access international short-term and medium-term borrowing markets to diversify funding. During 1Q05, the bank's Tier 1 and total capital ratios declined to 28.0% and 32.3% (consolidated financial companies) but continued to be sound. Free capital has improved due to earnings retention and sale of participations.

Support

- As one of the dominant banks in the financial system, Isbank would look to the government for support in times of stress. While the Republic of Turkey has a high propensity to support, its ability is limited in view of its Long-term foreign currency rating of 'BB- (BB minus)'.

Rating Outlook and Key Rating Drivers

- Isbank's ratings have a Stable Outlook and reflect its improved fundamentals and implicit government support. Both its Long-term and Individual ratings would benefit from an upgrade in the sovereign rating.
- The key driver of upgrades will be improvement in asset quality and profitability while maintaining solid funding and capital. Implementation of Basel II will have a negative impact but capitalisation will remain sound.
- A downgrade in the sovereign's rating would translate into lower Long-term ratings. Should rapid loan portfolio expansion result in deterioration of asset quality and capital, the bank's Individual rating could weaken.

Profile

- Established in 1924 by the founder of the Republic of Turkey, Isbank is the largest private sector bank in Turkey. It is 43%-owned by the bank's pension fund, 28% by the Republican People's Party (Ataturk's shares) with the remainder publicly-traded. The bank provides a broad range of services to clients throughout the country through its network of 848 branches. It provides specialised financial services through subsidiaries. Isbank also has a branch in London, five branches in northern Cyprus and one in Bahrain, as well as a banking subsidiary in Germany. Isbank had participations in 55 companies at end-2004.

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