

Turkey  
Credit Update

**Turkiye Is Bankasi A.S.**

**Ratings**

<b>Foreign Currency</b>	
Long-Term IDR	BB
Short-Term IDR	B
<b>Local Currency</b>	
Long-Term IDR	BBB-
Short-Term IDR	F3
<b>National</b>	
Long-Term Rating	AAA(tur)
Individual Rating	C
Support Rating	4
Support Rating Floor	B+
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	BB-
Local-Currency Long-Term IDR	BB
Country Ceiling	BB

**Outlooks**

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

**Financial Data**

<b>Turkiye Is Bankasi A.S.</b>		
	31 Dec 08	31 Dec 07
Total assets (USDm)	72,923.3	59,067.8
Total assets (TRYm)	111,208.0	90,078.3
Total equity (TRYm)	11,991.3	11,876.5
Operating profit (TRYm)	2,429.1	2,930.7
Published net income (TRYm)	1,819.0	2,026.8
Adj. Comprehensive income (TRYm)	1,731.2	2,267.8
Operating ROAA (%)	2.42	3.39
Operating ROAE (%)	20.66	26.49
Internal capital generation (%)	8.81	12.97
Eligible capital/weighted risks (%)	15.18	20.55
Tier 1 ratio (%)	16.45	20.47

**Analysts**

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**Rating Rationale**

- Turkiye Is Bankasi A.S.'s (Isbank) IDRs are driven by its intrinsic financial strength. The Individual Rating reflects Isbank's strong franchise within Turkey, its comfortable liquidity supported by stable core funding, good performance, strong risk management systems and adequate capitalisation. These positive factors are balanced by worsening asset quality and the difficult global and domestic economic environment.
- In 2008 and in Q109, Isbank's performance measures remained in line with peers'. Profitability was supported by the strong deposit franchise providing low-cost funding. This, together with still high loan interest rates reflecting cost of risk, meant a higher net interest margin (NIM) in 2008 and Q109. While loan impairment charges were significantly higher reflecting the deteriorating economy, non-interest operating expenses were kept under control.
- In response to the difficult operating environment, Isbank has been monitoring lending and the negative market conditions closely. The loan portfolio therefore contracted by 1.9% in Q109 after growing 40% in 2008. It is dominated by TRY retail and commercial loans, while the share of foreign currency loans rose to 34.4% in 2008 (2007: 30.3%) due to an increase in FX-denominated corporate loans and outstanding project finance loans. Asset quality continued to deteriorate in Q109, with NPLs at 4.7% of total gross loans, which was slightly higher than the sector average of 4.3%. However, reserve coverage was comfortable at 119.4%.
- A structural maturity mismatch similar to that for other Turkish banks and its potential liquidity risks are partly mitigated by Isbank's stable core deposit base and close monitoring of its cash management projections. Although capital ratios declined in 2008 mainly due to negative revaluations on listed subsidiaries and the growth in risk-weighted assets (RWAs), they remain adequate. At end-Q109, the Fitch eligible capital ratio was 15.31%.

**Support**

- As one of the dominant banks in the financial system, Fitch Ratings believes the authorities would endeavour to provide support to Isbank if needed. However, their ability to do so is limited given the Republic of Turkey's Long-Term Foreign Currency IDR.

**Key Rating Drivers**

- The bank's Long-Term Foreign Currency IDR is constrained by the Country Ceiling and its Long-Term Local Currency is IDR capped two notches above the Sovereign Rating. It would change to mirror any alteration in the Sovereign Rating.
- Upside potential for the Individual Rating is unlikely in the short term given the current global financial turmoil.

**Profile**

Isbank was established as Turkey's first private commercial bank to support economic development. It has the largest network, and was the largest bank by customer deposits and TRY loans among private banks in the country at end-Q109. The bank is part of the Isbank Group, whose core business is financial services.