

Turkey  
Credit Update

Turkiye Is Bankasi

Ratings

**Turkiye Is Bankasi**

**Foreign Currency**

Long-Term IDR*	BB
Short-Term	B
Outlook	Positive

**Local Currency**

Long-Term IDR*	BB+
Short-Term	B
Outlook	Positive

**National**

Long-Term IDR*	AA (tur)
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Outlook	Stable
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Individual Support	C 4
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**Sovereign Risk**

Foreign Long-Term IDR*	BB-
Local Long-Term IDR*	BB-
Outlook	Positive

\* IDR – Issuer Default Rating

Financial Data

**Turkiye Is Bankasi**

	31 Dec 05	31 Dec 04
Total Assets (USDm)	51,844.3	33,019.6
Total Assets (TRY000)	69,733,241	44,229,756
Equity (TRY000)	8,533,482	7,431,243
Net Income (TRY000)	1,229,623	859,774
ROA (%)	2.16	2.03
ROE (%)	15.40	12.20
Tier 1 (%)	23.63	29.38

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■ Rating Rationale

- Turkiye Is Bankasi A.S.'s ("Isbank") ratings reflect its significant franchise within Turkey, good earnings and asset quality trends and stable funding. This is balanced by rapid loan growth, reducing capital measures and high level of government securities. The LTFC IDR is constrained by Turkey's BB Country Ceiling.
- Isbank has the largest market share among private Turkish banks in terms of assets (15%) and loans (14%). It is also the largest as measured by equity. Although the bank has always been dominant in all its businesses, 2005 was a particularly strong growth year.
- Operating profits grew by 40% in 2005, with net income rising by 43% from the previous year. Earnings benefited from strong loan growth and steady expansion in fees and commissions. Credit costs were restrained although Isbank established various other asset impairments. Profit expansion in H106 was impacted by FX losses associated with the market correction and higher operating costs.
- Impaired loans improved to 4.65% of the portfolio at end-2005 (2004: 7.95%) with specific reserve coverage of 100%. The trend has continued into 2006 although Isbank continues to experience a number of new problem credits. The bank has a diversified loan book, with 70% of loans to small- to medium-sized enterprises ("SME") or retail clients.
- Because of Isbank's structural mismatch, it has substantial liquidity risk in the demand, one-month and three-month gaps. Its principal offset and strength is a low-cost, stable core deposit base and sound risk management systems. In order to diversify funding, the bank continues to access short- and medium-term syndication and securitisation markets. Consolidated Tier 1 and total capital ratios declined to 20.78% and 22.11% at end-June 2006 from 23.63% and 29.06%, respectively, at end-2005 due to balance sheet growth and decline in valuation reserves. Fitch Ratings believes that Isbank continues to have adequate capital.

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 IDR of 'BB-'.

■ Rating Outlook and Key Rating Drivers

- Isbank's ratings have a Positive Outlook reflecting that of the sovereign. An upgrade in the sovereign rating would probably result in improved LTFC and LTLC IDRs.
- The key driver to an upgrade in the Individual rating would be a sustained improvement in the operating environment, which has been volatile over many years. Prolonged deterioration of capitalisation and asset quality could result in weakening of the Individual rating.

■ Profile

- Established in 1924 by the founder of the Republic of Turkey, Isbank is the largest private-sector bank in Turkey. The bank provides a broad range of services to clients across the country through its network of 875 branches. It provides specialised financial services through subsidiaries. Isbank also has a branch in London, nine branches in northern Cyprus, one in Bahrain, a representative office in China as well as a banking subsidiary in Germany. Isbank had participations in 44 companies at end-2005.

18 October 2006