Turkey
Credit Update

Turkiye Is Bankasi A.S.

Ratings

Turkiye Is Bankasi A.S.

Foreign Currency	
Long-Term IDR*	BB
Short-Term IDR*	B
Outlook	Stable
Local Currency	
Long-Term IDR*	BB+
Short-Term IDR*	B
Outlook	Stable
National	
Long-Term	AA+(tur)
Outlook	Stable
Individual	C
Support	4
Support Rating Floor	B+
Sovereign Risk	
Foreign Long-Term IDR*	BB-
Local Long-Term IDR*	BB-
Outlook	Stable

* IDR – Issuer Default Rating

Financial Data

Turkiye Is Bankasi A.S.

	31 Dec 06	31 Dec 05
Total Assets (USDm)	58,926.0	51,839.5
Total Assets (TRYm)	83,026.7	69,729.3
Equity (TRYm)	10,253.5	9,811.8
Operating Profit (TRYm)	2,240.9	2,776.2
Published Net Income (TRYm)	1,415.3	1,379.9
Operating ROAA (%)	2.93	4.87
Operating ROAE (%)	22.34	30.10
Tier 1 Ratio (%)	24.02	24.45

Analysts

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Rating Rationale

- Turkiye Is Bankasi A.S.'s (Isbank) IDRs are driven by its intrinsic financial strength. Its Individual Rating reflects its strong franchise within Turkey, improving asset quality trends, good efficiency, stable core funding and adequate capitalisation. This is balanced by weaker profitability, rapid loan growth and a volatile operating environment.
- Like its peers', Isbank's profitability declined in 2006 as a result of narrower margins due to higher funding costs. This can be traced to the hike in interest rates in financial markets in H106 and the repricing mismatch between the bank's assets and liabilities. Isbank's operating profitability remained weaker than its peers' as a result of a higher proportion of non-earning assets, despite better efficiency
- Gross loans grew by a further 36% in 2006 before slowing to a 3% increase in Q107, in line with the sector in Turkey. Asset quality continued to improve, as non-performing loans (NPLs), totalled 3.72% of gross loans at end-Q107 (2006: 3.53%; 2005: 4.44%) with a credit card NPL ratio of 4.1% – lower than the peer and sector average of 7.5%. The total reserve coverage of NPLs remained sound at 118% at end-Q107. The bank has a diversified loan book, with about 67% of loans to small- to medium-sized enterprises (SME) or retail clients.
- Like other banks in Turkey, Isbank has a structural maturity mismatch. Interest rate risk is only partially mitigated by the short-term or floating-rate portion of assets, whereas liquidity risk is mitigated to some extent by a stable core deposit base and sound risk management systems. In order to diversify and extend the maturity profile of its funding base, the bank continues to access syndication and securitisation markets.
- Although Isbank's Tier 1 ratio continued to decline to 21.5% at end-Q107 from 24.02% at end-2006, due to growth in risk-weighted assets, it remained adequate and amongst the highest in Turkey's private banks.

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 provide support, its ability to do so is limited, in view of its Long-Term Foreign Currency IDR of 'BB-'.

Rating Outlook and Key Rating Drivers

- Isbank's Stable Outlook reflects that of the sovereign. An upgrade in the Sovereign Rating is likely to trigger an upgrade in Isbank's LT Local and Foreign Currency IDRs.
- There is limited upside potential for the Individual Rating, given the volatile operating environment. Prolonged deterioration of capitalisation and asset quality could result in a weakening of the Individual Rating, although this is considered unlikely at present.

Profile

- Isbank was established as Turkey's first private commercial bank to support economic development. It was Turkey's largest bank by assets (with a 15.51% share) at end-2006. Isbank Group's core business is financial services; the bank provides retail, corporate, commercial and private banking services through its 907 domestic and 11 foreign branches. Whereas its financial participations provide a wide range of financial services, the group also has non-core strategic participations, mainly in glass and telecommunications

30 July 2007