

20 February 2008

NOT RATED

Isbank

Bloomberg: ISCTR TI

Reuters: ISCTR IS

Cautious on downside risks to growth

- Isbank announced TRY 1,702 mn net earnings in 2007 according its BRSA bank-only financial statements, recording 53% y-o-y growth. The bank reported TRY 342mn net income in Q4 2007, 13% lower than the consensus estimates.
- The shortfall from the consensus estimates stemmed from a sharp increase in loan loss provision. Isbank allocated TRY 975mn loan loss provisions in the fourth quarter; TRY 640mn of this amount was due to free provisions.
- Increase in free provisions has nothing to do with a deterioration in asset quality, in our view. In fact, operational performance of the bank displayed significant improvement in the fourth quarter over the previous quarters.
- The only meaningful explanation in our view, is the cautious approach of the management to normalize the current year income for non-recurring items such as large capital markets gains (2007 TRY 546mn - 2006 TRY 198mn) and investment income (2007 TRY 503mn, TRY 117mn).

NIM improved despite increasing competitive measures

- Isbank's recorded TRY 914mn net interest income in the fourth quarter, up 25% over the third quarter. Increase in net interest income was thanks to the improvement in net interest margin, rather than volume growth.
- Net interest margins increased from from 4.4% in Q3 to 5.4% in Q4. Shift in product mix in favor of high yield loans and the decline in funding costs were the key drivers behind higher net interest margins.
- Isbank adopted a profit oriented strategy which let go of unprofitable clients to competitors in 2007. This strategy has worked well in terms of profitability, but beware of heavy market share losses.

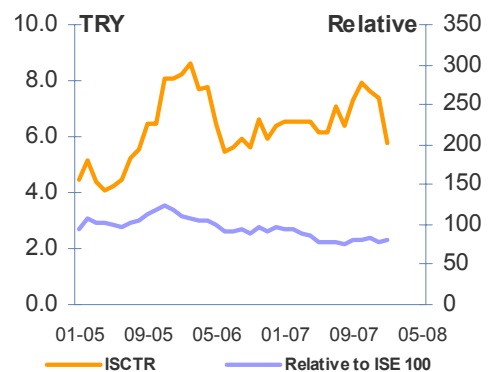
Focused on profitability rather than volume

- İşbank has become a laggard player in terms of asset growth in 2007 due to worries on macro backdrop and irrationally high deposit costs. The bank lost 1.5% market share in deposits, and 1.7% market share in loans.
- Deposits grew at a moderate pace of 5% in 2007, compared to the overall sector's growth of 16%, due to fierce competition by state banks. The bank recaptured part of the lost market share by increasing its deposits by 12% in the last quarter. But that was not enough to save the year.

Stock Data	TRY	US\$
Price at 19 Feb 2008	6.05	5.08
12-Month Target Price		
Mcap (mn)	16,677	13,985
Float Mcap (mn)	5,070	4,251
No. of Shares Outstanding		2757 mn
Free Float (%)		30.40
Avg.Daily Volume (3M, mn)	246.3	210.3

Market Data	TRY
ISE 100	46,249
US\$ Spot Rate	1.1925
US\$ 12-Month Forward	1.3177
Price Performance (%) 1 Mn 3 Mn 12 Mn	
TRY	1 -18 -20
US\$	4 -17 -7
Relative to ISE-100	-3 -7 -24

Price / Relative Price



52 Week Range (TRY) 5.30 8.65

ISCTR	2004	2005	2006	2007	2008E	2009E
Net Income	635	1,162	1,109	1,702	2,100	2,600
Total Assets	38,513	63,754	75,204	80,180	98,493	112,602
Total Deposits	24,320	37,221	46,399	48,533	56,492	66,660
Total Equity	7,640	9,288	9,410	10,604	11,588	12,155
ROA	1.8	2.3	1.6	2.2	2.4	2.5
ROE	9.6	13.7	11.9	17.0	18.9	21.9
P/E (x)	26.2	14.3	15.0	9.8	7.9	6.4
P/Deposits	0.7	0.4	0.4	0.3	0.3	0.3
P/BV (x)	2.2	1.8	1.8	1.6	1.4	1.4

*All figures are in TRY

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Rise in the deposit market share in the last quarter has not been at the expense of a spike in funding costs. Cost of Turkish lira time deposits, declined by 80bps, to 15.9% in Q4 07, on the back of the Central Bank's rate cuts.

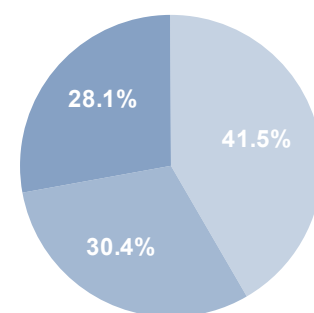
Loan growth came back to life

Loan growth shifted to a higher gear in the fourth quarter thanks to the Central Bank's rate cuts. Quarterly loan growth of the sector increased from 5% in Q3 to 9% in Q4. İsbank's loans volume increased by 6% in the fourth quarter, lagging the overall sector's growth, as the management was not aggressive in pushing on the gas pedal due to increasing downside risks to growth. All in all, İsbank's loans increased 14% in 2007, against 30% growth in the overall sector.

Management is still cautious on downside risks to growth

İşbank management has adopted a more retail oriented and diversified loan structure in 2007. The bank put the brake on loan expansion, particularly in low yield corporate segment. The share of retail credits in the loan book increased from 29% in 2006 to 35% in 2007, thanks to strong growth in general purpose loans. The share of SME credits in the loan book has been reduced from 34% in 2006 to 32% in 2007 due to increasing downside risks to economic growth.

Shareholder Structure (%)



- T. Is Bank. A.S. Munzam Vakfi
- Float
- CHP (Republican People's Party)

(BRSA - bank only)						
TRY Million	2006/12	2007/12	YoY Chg	2007/03	2007/06	2007/09
Net Interest Income	2,587	2,960	14%	680	1,316	2,046
Commission Income	978	1,074	10%	265	559	855
Operating Expense	-1,858	-2,154	16%	-482	-1,001	-1,536
NPL Provisions	-909	-1,618	78%	-249	-555	-643
Net Income	1,109	1,702	53%	367	766	1,360

Source: Is Investment

(BRSA - bank only)						
TRY Million	2006/12	2007/12	YoY Change	2007/03	2007/06	2007/09
Banks	6,454	6,954	8%	6,406	6,288	5,465
Loans	29,818	33,979	14%	30,542	31,138	32,125
NPLs	1,164	1,494	28%	1,265	1,438	1,359
Provisions	1,164	1,494	28%	1,265	1,438	1,359
Securities	26,319	24,326	-8%	27,494	25,899	24,464
Deposits	46,399	48,533	5%	49,542	46,912	43,499
Foreign Funding	10,530	9,963	-5%	10,167	11,005	10,480
Shareholders' Equity	9,410	10,604	13%	9,666	10,083	11,004
Total Assets	75,204	80,180	7%	78,570	76,889	76,460

Source: Is Investment

Increase in margins continue

Isbank managed to increase its net interest income by 25% q-o-q in Q4, despite sluggish loan growth, thanks to the improvement in net interest margins to 5.4% in Q4, up from 4.4% in Q3. Shift in product mix in favor of high yield loans, and the decline in deposits were the key drivers behind higher net interest margins.

NPLs remain under control

The bank's NPL stock increased by TRY 138 mn in QIII due to a change in the recognition of NPLs in the credit card business. The NPL ratio increased from 4.2% in Q3 to 4.4% in Q4 with 100% provisioning coverage.

Isbank recorded TRY 975mn provision loss in Q4, TRY 640mn of this amount was due to free provisions. The management normalized 2007 earnings for the windfall gains in capital market operations (2007 TRY 546mn - 2006 TRY 198mn) and sharp increases in investment income (2007 TRY 503mn, TRY 117mn) due to large bonus dividend from Sisecam (TRY 333mn)

(BRSA - bank only)	2006/12	2007/12	2007/03	2007/06	2007/09
Loans/Total assets	39.6%	42.4%	38.9%	40.5%	42.0%
Loans/Deposits	64.3%	70.0%	61.6%	66.4%	73.9%
TL Loans/TL Deposits	79.0%	80.2%	75.4%	77.6%	86.3%
Securities/Total assets	35.0%	30.3%	35.0%	33.7%	32.0%
Fixed assets/Total assets	2.3%	2.4%	2.2%	2.3%	2.3%
Equity/Total assets	12.5%	13.2%	12.3%	13.1%	14.4%
Borrowed funds/Total assets	14.0%	12.4%	12.9%	14.3%	13.7%
Gross NPL ratio	3.9%	4.4%	4.1%	4.6%	4.2%
Loan-loss provisions	100.0%	100.0%	100.0%	100.0%	100.0%

(BRSA - bank only)	2006/12	2007/12	Δ Chg
ROE (Adj)	10.0%	13.9%	4.0%
NIM	4.3%	4.4%	0.0%
Yield on earning assets	12.9%	13.5%	0.6%
Cost of funds	9.0%	9.8%	0.8%
Spread	3.9%	3.7%	-0.2%
Cost/income ratio	53.3%	50.6%	-2.7%
Cost/Average assets	2.7%	2.8%	0.1%

Source: Is Investment

Backdated recoveries boosted the bottom line

Isbank recorded TRY 108 mn net trading gains in Q4, down from TRY 115 mn in Q3. Other income, on the other hand, soared to TRY 405 mn in Q4, up from TRY 225 mn in Q3 thanks to continuing NPL recoveries.

Operating expenses inched up due to annual rise in personnel salaries

Operating expenses increased by 16% in Q4 due to the ongoing restructuring process. As a result cost income ratio deteriorated from 47.7% to 50.6%

Scale factor is still a potential to kick in

Isbank's operating recovery is closely linked with the macro environment. The bank is expected to be one of the main beneficiaries of a low interest rate - low risk environment. The scale factor will likely kick in once the rates gets lower especially in commercial and SME segments. We will be revising our estimates for the bank soon. Currently our net income estimates for 2008 stands at TRY 2.1 bn.

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