

12 August 2008

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Isbank

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Reuters: ISCTR IS

Strong bottom line higher than market consensus

Is Bank posted TRY 1,153mn bank only profit for 1H08, higher than the market consensus of TRY 1,022mn. The bottom line implies a 51% y-o-y and 8% q-o-q growth on the back of large capital market gains, strong dividend revenues and the decline in NPL provisions. The bank improved its ROAE to 23.1% in 2Q up from 22.4% in 1Q08.

Loan growth outpacing the sector average

Loan book grew by 8.4% q-o-q, slightly above the average sector growth of 7.7%. Market share of the bank remained float at 12.9% in 2Q, while the bank gained 30bps market share in TRY loans and lost 50 bps market share in FC loans. The share of retail loans in total loan portfolio rose from 31% in 1Q to 33% in 2Q. General purpose loans and credit card were the key growth drivers with 14% and 14.2% growth rates respectively. The bank continues its policy of shifting from SME segment to commercials in 2Q. The share of corporate and investment loans increased to 37% up from 32% in 2007 YE in total loan portfolio.

Did not participate in the fierce deposit competition

Deposits grew at a moderate pace of 5% in 2Q, compared to the overall sector's growth of 6% as the bank let unprofitable clients go to competition. Is bank lost 10bps market share in deposits. The bank improved its market share in TRY deposits (up 0.6%), while in FC deposits market share declined by 1.3%.

Market share gain in demand deposits

Demand deposit as a proportion of total deposits improved from 15.7% in 1Q to 17% in 2Q on the back of the growth in corporate and commercial deposits. Demand deposits constituted 12.6% of total funding as of 2008 June.

Net interest margin slightly declines

Net interest income decreased 3% q-o-q despite rapid loan growth due to 30bps decline in net interest margins. Duration gap between assets and liabilities in an environment, where interest rates were on a rising trend, was the main reason behind the decline in net interest margins. The bank managed to improve its adjusted net interest margin by 10 bps on the back of large capital market gains and decline in NPL provisions. Isbank recorded TRY 234mn net trading gains in 2Q up from TRY 95mn in 1Q.

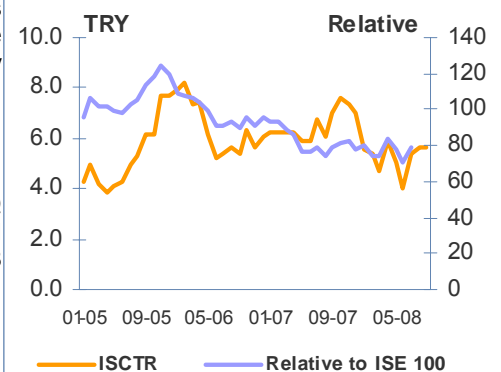
Capital market gains and dividends boosted the bottom line

Operating profit of the bank is 21% down q-o-q due to lower NPL recoveries. But the bottom line improved by 8% on the back of strong dividend income. The bank recorded TRY 148mn dividend income in 2Q vs TRY 41mn in 1Q.

Stock Data	TRY	US\$
Price at 11 Aug 2008	5.65	4.79
12-Month Target Price		
Mcap (mn)	15,575	13,162
Float Mcap (mn)	5,140	4,343
No. of Shares Outstanding		2757 mn
Free Float (%)		33.00
Avg.Daily Volume (3M, mn)	140.9	116.3

Market Data	TRY		
ISE 100	41,733		
US\$ Spot Rate	1.1833		
US\$ 12-Month Forward	1.4659		
Price Performance (%) 1 Mn	3 Mn	12 Mn	
TRY	41	-3	-8
US\$	45	3	2
Relative to ISE-100	18	-1	9

Price / Relative Price



52 Week Range (TRY)	3.72	8.28
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The decline in NPL provision is another factor feeding the bottom line

The bank maintained its asset quality by switching from high risk SMEs to commercial and corporate loans. NPL ratio remained flat at 3.9% on q-o-q basis despite full coverage. NPL provisions decreased thanks to the decline in general provisions and losses in marketable securities. We do not expect any deterioration in NPLs unless Turkish economy faces a pronounced slowdown in the following quarters.

Rise in op-ex caused cost/income ratio to rise

Operating expenses of Is Bank is 27% up q-o-q mainly on the back of increased personnel expenses and TRY 62mn pension fund provisions. The reason for the 41% rise in personnel expenses is due to bonus payments made in 2Q08. As a result, cost/income ratio increased to 38.8% in 2Q up from 36% in 1Q.

CAR declined due to mark-to-market losses in its participation portfolio

Notwithstanding the strong profitability capital adequacy ratio declined from 17.2% in 1Q to 16.9% in 2Q due to TRY 325mn mark-to-marked losses in its available for sale security portfolio and in its ISE listed participation portfolio.

Earning performance exceed market expectations

Despite high operating expenses and slightly lower NII, the bottom lime is fuelled via trading gains, low NPL provision and investment income, better than expectations. We do not have a recommendation for Is Bank.

(BRSA Solo)	2007/06	2008/03	2008/06
Loans/Total assets	39%	46%	48%
Loans/Deposits	62%	76%	78%
TL Loans/TL Deposits	78%	125%	85%
Securities/Total assets	35%	31%	28%
Non-core assets/Total assets	6%	4%	4%
Fixed assets/Total assets	2%	1%	2%
Equity/Total assets	13%	11%	0%
Borrowed funds/Total assets	12.9%	12.8%	11.6%
Loans/Deposits	61.6%	75.9%	78.4%
Gross NPL ratio	4.1%	3.9%	3.9%
Loan-loss provisions	100%	100%	100%

(BRSA Solo)						
TRY Million	2007/03	2007/06	2008/03	2008/06	Q-o-Q	Y-o-Y
Net Interest Income	701	1,361	923	1,819	-3%	-32%
Commission Income	244	513	286	603	11%	-44%
Operating Expense	482	1,001	590	1,342	27%	-41%
NPL Provisions	249	555	348	672	-7%	-37%
Net Income	367	766	555	1,153	8%	-28%
Source: Is Investment						

(BRSA Solo)						
TRY Million	2007/03	2007/06	2008/03	2008/06	Q-o-Q	Y-o-Y
Banks	6,406	6,288	6,064	5,853	-3%	-7%
Loans	30,542	31,138	38,885	42,152	8%	35%
NPLs	1,265	1,438	1,517	1,637	8%	14%
Provisions	1,265	1,438	1,517	1,637	8%	14%
Securities	27,494	24,722	26,035	13,888	-47%	-44%
Deposits	49,542	46,912	51,242	53,795	5%	15%
Foreign Funding	10,167	11,005	10,739	10,232	-5%	-7%
Shareholders' Equity	10,083	10,604	9,214	9,401	2%	-11%
Total Assets	78,570	76,889	83,959	88,259	5%	15%
Source: İŞ Investment						

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