

15 May 2009

Not Rated

# Isbank

**Bloomberg: ISCTR TI**

**Reuters: ISCTR IS**

## A firm start to a shaky period

### In a nutshell;

- Isbank beat the estimates in 1Q09.
- Loan book slightly contracted as uncertainty climaxed.
- The bank let the rate-sensitive large deposits to leave.
- Top line profitability improved on lower funding costs.
- Other non-interest income lines also gave a major boost to the revenue growth. Dividends, NPL reversals and trading gains were particularly strong.
- Isbank's asset quality remained relatively resilient in 1Q

■ **Isbank beat the estimates in 1Q09.** Isbank announced TL605mn net earnings in its 1Q09 bank-only financials, posting 9% annual growth. The announced net income figure is 20% above the consensus estimate of TL505mn. Total revenues reached TL1.94bn at the end of 1Q09, surging 26% on QoQ basis. The revenue growth was primarily spurred by the rise in the net interest income line, which recorded 15% quarterly growth on the back of lower funding costs, and by the strong non-operating income items, where dividends, net trading & FX income and NPL recoveries all contributed substantially. Isbank's NPL growth remained well below the sector average growth rates, a solid reading amidst rising NPL cycle in the sector. Lower quarterly operating expense figure, which is down by 12% on QoQ basis, was another main factor feeding the bottom line at the end of 1Q09.

■ **Loan book slightly contracted as uncertainty climaxed in the first quarter of 2009.** Isbank's total loan book inched down by 2.45% on lower loan demand and the risen uncertainty in the economy. The bank practically maintained its overall market share, as the sector loan book contracted by almost same rate over the same period. TL loans are down by 3.9%, exacerbated by shrinking SME loan book. The bank registered some minor volume growth rates in house and general purpose loan segments, yet we observe a more visible downward trend in auto and retail-SME loans during the quarter. Credit cards and overdrafts displayed a relatively stable pattern in 1Q09. The lack of loan demand, the availability of lucrative opportunities in the securities market and risen risks in the economy led the bank to take a more cautious stance in its loan placements.

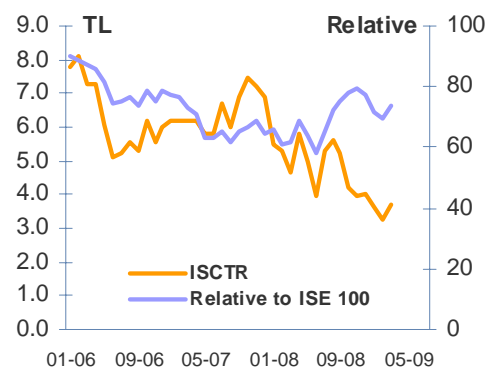
Is Bank (BRSA, bank-only)					
Quarterly ratios	1Q08	2Q08	3Q08	4Q08	1Q09
ROE	22.4%	25.7%	6.5%	8.3%	25.2%
ROA	2.8%	2.8%	0.7%	0.9%	2.5%
NIM	4.9%	4.5%	4.1%	4.3%	4.7%
Adj. NIM (trading&FX gain/loss)	5.4%	5.7%	3.8%	5.2%	5.6%
Adj.NIM (trading, FX&LLP)	3.6%	4.1%	2.6%	2.0%	3.1%
Yield on IEAs	13.0%	12.3%	12.6%	13.8%	12.0%
Cost of funds	9.2%	8.9%	9.7%	10.7%	8.1%
Spread	3.8%	3.4%	3.0%	3.1%	3.9%
Cost/income ratio	38.2%	47.4%	61.9%	50.9%	34.5%
Cost/Average assets	2.9%	3.6%	3.6%	3.0%	2.5%

Source: IS Investment

Stock Data	TL	US\$
Price at 14 May 2009	4.88	3.11
12-Month Target Price	0.00	0.00
Mcap (mn)	13,452	8,518
Float Mcap (mn)	4,439	2,811
No. of Shares Outstanding		2757 mn
Free Float (%)		33.00
Avg.Daily Volume (3M, mn)	134.4	77.6

Market Data	TL		
ISE 100	33,095		
US\$ Spot Rate	1.5792		
US\$ 12-Month Forward	1.9410		
Price Performance (%) 1 Mn	3 Mn	12 Mn	
TL	17	43	-15
US\$	18	51	-32
Relative to ISE-100	-1	6	9

### Price / Relative Price



52 Week Range (Close TRY) 0.54 1.55

**Bulent Sengonul**

bsengonul@isyatirim.com.tr

+90 212 350 25 66

- **The bank let the rate-sensitive large deposits to leave.** Isbank's total deposit base grew by merely 1% in 1Q09, remaining below the sector average growth rate of 2.4%. High liquidity of the balance sheet and weak loan demand in the economy caused the bank not to be aggressive on the deposit side. As the loan redemptions outpaced the new originations, *being a self-feeding liquidity source in the balance sheet*, coupled with the existence of the large retail deposit base eliminated the need to chase aggressively for new deposits in 1Q09. That said, the bank strengthened its TL retail deposit base by increasing the sum by c. TL800mn, while it let some rate-sensitive corporate type of deposits to leave.
- **Top line profitability improved on lower funding costs.** The bank benefited from the easing cycle in the first quarter of 2009 as the CBRT's rate cuts resulted in 15% QoQ drop on deposit costs, while interest on loans retreated by merely 6% over the same period. As a result, unadjusted NIM improved by 40bps to 5.6% in 1Q09 despite the sluggish loan volumes. Large duration gap between interest earning assets and interest bearing liabilities helped the net interest margin to improve markedly. Net fees and commission revenue line is merely down by 6% to TL291mn, continuing to fuel the bottom line in 1Q09. Fees on credit cards, traditional banking transactions and mutual fund remained strong in terms of generating commission revenues. Operating expenses are also down by 12% on QoQ basis in 1Q09, further relieving the pressure on the bottom line.
- **Other non-interest income lines also gave a major boost to the revenue growth.** There are three items that largely supported to the revenue base and the bottom line in Isbank's 1Q09 performance. The dividend revenue, which came up as TL 149mn, was one of the major factors buoying the bottom line. Total dividend revenue surged by more than 2.5x on annual basis in 1Q09. NPL reversals were also strong despite very unfavorable conditions prevailing in 1Q09. The bank recovered TL178mn NPLs during the quarter and reversed the underlying provisions. Also, trading gains, which amounted to TL196mn in 1Q09, boosted the revenue base, where FX gains on derivative positions and some proceeds from securities transactions were the main items.
- **Isbank's asset quality remained relatively resilient in 1Q09.** Total NPL stock in gross terms increased merely 13%, remaining well below the sector growth rate of 22% in this metric. Isbank's NPL ratio climbed to 5.1% with 70bps increase over its level at the end of 2008. Note, however, that the bank's loan portfolio shrank over the same period, thus the denominator effect played a significant role here. Credit cards and SMEs have been the usual NPL generator for the bank like many banks in the system, yet the collection rate has also been quite strong, partially limiting the further NPL accumulation. The bank continued to provide 100% provisioning for its NPLs in 1Q09, therefore cost of risk continued to head north to 3.7% (on annualized terms). Still, the lower NPL growth is an encouraging reading for the bank as we might expect a relative stabilization in the NPL cycle in 2H09. We do not rate Isbank.

Is Bank (BRSA, bank-only) TL mn	Incremental Change				
	1Q08	2Q08	3Q08	4Q08	1Q09
Operating Income	700	746	187	165	760
Net Interest Income	923	896	851	948	1,090
Commission Income	286	316	292	310	291
Operating Expense	590	752	791	686	604
Net Income	555	598	156	200	606

Source: IS Investment

Is Bank (BRSA, bank-only)	2008/3M	2008/6M	2008/9M	2008/12M	2009/3M
Loans/Total assets	46.3%	47.8%	49.7%	48.8%	47.1%
Loans/Deposits	75.9%	78.4%	81.6%	74.9%	72.4%
TL Loans/TL Deposits	83.1%	85.3%	88.6%	81.2%	79.6%
Securities/Total assets	30.7%	27.6%	26.3%	25.8%	28.0%
Non-core assets/Total assets	4.4%	4.0%	4.0%	3.2%	3.2%
Fixed assets/Total assets	2.3%	2.1%	2.0%	1.9%	1.9%
Equity/Total assets	11.0%	10.7%	10.7%	9.7%	9.9%
Borrowed funds/Total assets	12.8%	11.6%	11.1%	11.3%	11.6%
Loans/Deposits	75.9%	78.4%	81.6%	74.9%	72.4%
Gross NPL ratio	3.8%	3.7%	3.6%	4.4%	5.1%
Loan-loss reserve	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IS Investment

Is Bank (BRSA, bank-only)	2008/3M	2008/6M	2008/9M	2008/12M	2009/3M
ROE	22.4%	24.8%	18.2%	15.7%	25.2%
ROA	2.8%	2.7%	2.0%	1.6%	2.5%
Leverage	8.1	9.0	9.2	9.6	9.9
NIM	5.1%	4.8%	4.5%	4.3%	5.0%
Yield on earning assets	13.5%	13.0%	12.7%	12.6%	12.5%
Cost of funds	9.2%	8.8%	8.7%	8.9%	8.1%
Spread	4.4%	4.2%	3.9%	3.8%	4.4%
Cost/income ratio	36.0%	38.8%	45.5%	45.2%	31.0%
Cost/Average assets	2.9%	3.2%	3.2%	3.0%	2.5%
Banking revenues/AIEA	9.1%	9.2%	7.9%	7.4%	8.9%
Fees and commissions/Opex	48.5%	44.9%	41.9%	42.7%	48.2%

Source: IS Investment

Is Bank (BRSA, bank-only)	Incremental Change				
TL mn	1Q08	2Q08	3Q08	4Q08	1Q09
Banks	-890	-211	866	69	-233
Loans	4,905	3,267	3,597	1,861	-1,165
NPLs	23	119	60	499	293
Securities	1,413	-1,418	-88	931	2,407
Deposits	2,710	2,553	2,272	7,472	649
Foreign Funding	776	-507	1	800	385
Shareholders' Equity	-1,390	187	424	-377	362
Total Assets	3,779	4,300	3,782	5,510	1,056

Source: IS Investment

Ticker	2008A			2009E			2010E		
	P/E	P/BV	ROE	P/E	P/BV	ROE	P/E	P/BV	ROE
AKBNK	10.10	1.59	15.3%	9.9	1.38	14.1%	9.28	1.24	14.1%
GARAN	7.51	1.46	20.7%	7.7	1.28	16.4%	6.64	1.10	17.8%
HALKB	6.95	1.69	22.0%	5.9	1.29	23.2%	5.06	1.08	23.3%
SKBNK	4.05	0.60	15.3%	4.7	0.51	11.4%	4.56	0.46	10.5%
TEBNK	6.35	0.77	21.0%	10.4	0.75	9.3%	4.85	0.66	14.5%
VAKBN	6.30	0.86	14.3%	6.2	0.81	13.2%	5.26	0.71	14.5%
YKBNK	7.90	1.46	21.6%	9.1	1.26	14.9%	7.40	1.10	15.9%

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