

Financial Services
Turkey
Credit Analysis

Is Yatirim Menkul Degerler A.S.

Ratings

National
Long-Term Rating AAA(tur)

Sovereign Risk
Foreign-Currency Long-Term IDR BB+
Local-Currency Long-Term IDR BB+

Outlooks

National Long-Term Rating Stable
Sovereign Foreign-Currency Long-Term IDR Stable
Sovereign Local-Currency Long-Term IDR Stable

Financial Data

Is Yatirim Menkul Degerler A.S.	30 Sep 09	31 Dec 08
Total assets (USDm)	1,477.7	974.4
Total assets (TRYm)	2,183.6	1,482.8
Total equity (TRYm)	496.6	409.9
Operating profit (TRYm)	90.9	12.9
Net profit before minorities (TRYm)	94.8	41.9
Net profit after minorities (TRYm)	55.4	44.7
ROAA (%)	6.9	3.1
ROAE (%)	27.9	10.3
Op. profit margin (%)	56.7	12.5
Adjusted leverage (x)	4.40	3.62
Equity/assets (%)	22.8	27.6

Analysts

Levent Topcu, Istanbul
+90 212 279 1065
levent.topcu@fitchratings.com

Banu Cartmell, London
+44 20 7417 4373
banu.cartmell@fitchratings.com

Rating Rationale

- The National Long-Term Rating of Is Yatirim Menkul Degerler A.S. (Is Investment) reflects support it could expect to receive from its parent, Turkiye Is Bankasi A.S. (Isbank; 'BBB-' /Outlook Stable, Individual 'C') if needed.
- Is Investment's revenues are driven by trading operations, customer-driven service revenues and interest income. Service revenues are more stable and include commission revenues from clients, income from investment banking activities and portfolio management fees. This segment was the largest contributor to operating revenues in 9M09. Net trading revenues are generated from equities, bonds, mutual funds and derivative instruments. Efficiency ratios (and profitability ratios) are volatile due to the unstable nature of the business.
- Is Investment utilises the ISE (Istanbul Stock Exchange) money market for short-term funding and deposits these funds into various banks at similar short-term maturities, to benefit from the arbitrage and earn a spread. All the short-term financial debt is composed of such funding. Is Investment had no long-term debt, and short-term debt is covered by short-term liquid assets, with a very short duration gap. A contingency liquidity plan has been prepared and put in place following the market volatility in late 2008. In Fitch's opinion, Isbank would provide liquidity support to Is Investment, if and when needed. Receivables and payables from/to customers are a result of outstanding transactions that are to be realised, which have no impact on operations, as the receivables and payables have the same maturity.
- Is Investment's risk management systems are well advanced and continue to improve. All trading and margin limits are set by the regulator, although Is Investment operates within more prudent internal limits.
- Minimum equity, paid-in capital and capital adequacy basis requirements are determined by Turkey's CMB (Capital Market Board); Is Investment's figures comfortably exceeded the minimum requirements. Leverage was low, although partly warranted by the intrinsic volatility of the markets.

Support

- Its majority ownership by Isbank, its common brand name and its strategic importance to the parent means that Isbank would have a high propensity to provide support to Is Investment if needed.

Key Rating Drivers

- Is Investment is an integral part of Isbank. As a result, Is Investment's National Rating would mirror any changes in Isbank's ratings.

Profile

Is Investment, which is 72.1% owned by Isbank Group, is the investment banking arm of the parent. The remaining 27.9% of the shares is listed on the Istanbul Stock Exchange. Is Investment makes use of Isbank's branch network, liquidity facilities and infrastructure in the course of its activities, whereas Isbank utilises the asset management and custody services provided by Is Investment. It shares its parent's brand name, logo and senior management. Is Investment is the largest securities house in Turkey in terms of asset size and is a market leader in many sub-segments.

- Investment banking arm of Isbank and very close integration with the parent
- The largest securities house in Turkey in terms of market share in many segments
- Subject to regulation by the Capital Markets Board

Profile

Is Investment was established by Isbank in 1996, as the investment banking arm of the bank and is an integral part of the parent as it completes the range of financial services offered. The company shares its parent's brand name, logo and senior management. The main shareholder is Isbank with 65.7%. Together with other group companies, Isbank Group holds 72.1% of the total shares and the remaining 27.9% is listed on the Istanbul Stock Exchange, making it the only listed securities house in Turkey.

Isbank was established in 1924 as the first private commercial bank in Turkey. It is second-largest in terms of assets size and branch network in the sector, with an unconsolidated assets size of TRY106.6bn at end-Q309. Is Investment is small compared to its parent, equalling only 2.6% of Isbank's unconsolidated equity and 2.1% of its assets.

The client base of Is Investment is composed of high-net-worth individuals, corporate clients, foreign institutional clients and the retail brokerage clientele of Isbank. It is market leader in many of the segments in which it operates, including an 8.2% market share in equity trading volumes, a 11.6% share in the bills and bonds market (among the brokerage houses) and an 13.5% share in the derivatives market at end-9M09. The company has about TRY9.9bn of assets under management, mainly through its asset management subsidiary. It generates around 30% of its equity trading volume from Isbank's retail brokerage clients although their contribution to profitability is very low.

Is Investment's major subsidiaries include Is Asset Management, Is Private Equity and Is Investment Trust and a fully owned company, Maxis Securities, established in London with the aim of expanding its international business. The distribution network consists of seven branches in major Turkish cities, two representative offices (one located in Kazakhstan) and more than 1,000 Isbank branches acting as agents spread around the country.

Regulation

The Capital Markets Board has oversight of Is Investment's activities and the bank is subject to all CMB's requirements on capital, liquidity, investment limits and margin trading limits. The UK subsidiary (Maxis Securities) is supervised by the FSA in the UK.

Strategy

Is Investment aims to maintain its leading position in its operating segments, while further diversifying its business model to include new product ranges. The company is still aiming to add new branches and grow its human resources as stated in its IPO prospectus under its long-term plans, despite the challenging operating environment. In line with this aim, two new branches are planned for Istanbul and Bursa; and a new subsidiary for Dubai.

Presentation of Accounts

Unless otherwise stated, all references in this report are to the bank's consolidated financial statements in accordance with CMB regulations, which are largely in line with IFRS regulations. Consolidated interim figures are also in accordance with CMB regulations.

Performance

Is Investment's revenues are driven by trading operations, customer-driven service revenues and interest income. Service revenues are more stable and include commission revenues from clients, income from investment banking activities and portfolio management fees. This segment was the second-largest contributor to operating revenues in 9M09 (see Table 1 below). Net trading revenues are

- Profitability significantly improved in 9M09 but this may not be sustainable due to volatile nature of business
- Revenues relatively diversified, but volatile by nature
- Service revenues, derivative trading and interest income are the main contributors to earnings

generated from equities, bonds, mutual funds and derivative instruments. The contribution to profitability from proprietary trading tends to be low and volatile. Starting in 2006, the company started to make use of alternative revenue sources to enhance earnings diversification. For this purpose, it focused more on trading of FX futures and ISE-Index futures. Although it is not deemed to be a very stable source of income, this segment contributed TRY33.3m to operating revenues in 9M09 (2008: TRY38.8m).

Is Investment utilises the ISE money market for short-term funding and deposits these funds into various banks at similar short-term maturities, to benefit from the arbitrage and earn a spread. This practice helped to generate about TRY36.8m of net pre-tax income in 9M09 (2008: TRY9m). Receivables and payables from/to customers are a result of outstanding transactions that are to be realised, which have no impact on operations, as the receivables and payables have the same maturity. Is Investment's efficiency ratios (as well as its profitability ratios) are volatile due to the unstable nature of its earnings.

Prospects

Is Investment is the leading securities and brokerage house in Turkey. It has the strongest domestic franchise, backed by Isbank's widespread branch network. Due to the volatile nature of the business and the challenging market conditions, bottom-line profitability is likely to remain volatile, despite the relative stability of service revenues.

Table 1: Is Securities P&L Summary and Performance Ratios

(TRYm)	30 Sep 09	31 Dec 08	31 Dec 07	31 Dec 06
Total revenues (net)	160.2	103.4	125.9	69.7
- Of which sales of equities	9.6	-57.8	-16.0	-6.9
- Of which sales of private sector bonds and bills	1.7	-73.2	4.8	0.0
- Of which sales of sovereign bonds and bills	12.9	102.4	13.4	8.9
- Of which sales of mutual funds	3.4	16.6	5.3	-0.1
- Of which interest income and trading of derivatives	66.8	46.3	35.4	19.3
- Of which service revenues	57.3	56.9	67.8	42.0
- Of which other operating revenues	8.5	12.1	15.2	6.6
Operating expenses	69.3	90.5	64.8	42.3
Operating profit	90.9	12.9	61.1	27.4
Performance ratios (%)				
Return on average assets (ROAA)	6.9	3.1	7.8	5.3
Return on average equity (ROAE)	27.9	10.3	20.1	8.8
Operating profit margin	56.7	12.5	48.6	39.3
Prop. income/net revenues	17.2	-11.6	6.0	2.7
Operating costs/operating revenues	43	88	51	61
Staff costs/net revenues	19.7	33.9	23.4	29.3

Source: Is securities financial statements, ratios calculated by Fitch

Risk Management

Is Investment has an independent risk management department that reports to the board of directors through an audit committee; it simultaneously provides information to senior management. The company is the first among all Turkey's brokerage houses to have a dedicated risk management department.

Exposure to credit, operational and compliance risk arises through brokerage activities, counterparty risk or client default risk on settlements, while market risk arises through the bank's proprietary positions. Transaction and position limits for each counterparty are determined by the board of directors and a total limit of USD5.6bn was approved for counterparties at 9M09. The total credit limit assigned was TRY305m at end-9M09, of which TRY37m was utilised by clients. Rules regarding trading limits and margin maintenance are set by the CMB. However, Is Investment operates with far more prudent internal limits than those set by the CMB.

- Advanced risk management systems
- Prudent internal credit and counterparty limits

The liquidity and concentration of securities subject to credit risk can be volatile, and these are monitored on a daily basis. Monte Carlo simulations, parametric value-at-risk (VaR) and historical simulations are being produced regularly. With the integration of the risk management software into the trading portfolio, Is Investment sets VaR-based limits for daily operations, thereby minimising possible trader risks.

Funding and Capital

Is Investment acquires letters of guarantee from various parties (including its parent) and borrows from the ISE money market using these letters of guarantee as collateral. The company then places these funds to various banks, usually at a small margin above the funding cost. All the short-term financial debt is composed of such funding. Is Investment has no long-term debt, and short-term debt is covered by short-term liquid assets, with a very short duration gap of nine days. A contingency liquidity plan has been prepared and put in place following the market volatilities in late 2008. The company also has the opportunity to apply to its parent for daily liquidity needs, and an intraday liquidity window of TRY50m from Isbank is available, although this is not widely used. In Fitch's opinion, Isbank would provide liquidity support to Is Investment, if and when needed.

Is Investment's balance sheet is linked to its trading activity levels and this brings an element of volatility to capital and leverage ratios. The company's minimum equity, paid-in capital and capital adequacy basis requirements are determined by the CMB; Is Investment's figures comfortably exceeded the minimum requirements at end-9M09 (see Table 2). The equity/total assets ratio stood at 22.8% at end-9M09. This indicates a low leverage, although partly warranted by the intrinsic volatility of the markets.

- Leverage is driven by short-term ISE money-market borrowings
- Capital adequacy figures comfortably exceed minimum requirements

Table 2: Capital Adequacy Requirements

(TRYm)	Minimum	9M09 actual
Capital adequacy basis requirement	135.9	232.8
Equity requirement	2	297.6
Paid-in capital requirement	0.5	119.4

Source: Is investment

Table 3: Leverage/Debt Service

Absolute values (TRYm)	30 Sep 09	31 Dec 08	31 Dec 07	31 Dec 06
Assets	2,183	1,483	1,241	542
Equity & tangible equity	497	410	406	280
Gross LT debt (A)	0	0	0	0
Cash (B)	1,139	933	681	172
Financial condition (%)				
Equity/assets	22.8	27.6	32.7	51.7
Liquid assets/total assets	52.2	62.9	54.9	31.6
Liquid assets/short-term borrowings	102.0	104.9	107.1	1,162.1
Leverage (x)	4.40	3.62	3.05	1.94
LT debt/equity	0.0	0.0	0.0	0.0
LT debt/liquid assets	0.0	0.0	0.0	0.0
Gross debt/equity	226.7	217.6	157.0	72.6

Source: Financial statements

Appendix A

Is Investment - Balance Sheet Summary

(TRYm)	30 Sep 09	31 Dec 08	31 Dec 07	31 Dec 06
Assets				
Cash and cash equivalents	1,139	933	681	172
Securities owned, at market or fair value	408	244	303	206
Receivables from brokers & customers	529	238	224	128
Receivables from related parties	0	0	0	1
Long-term financial assets	17	10	22	22
Land, furniture, equipment, building and intangible assets	7	7	5	3
Goodwill	0	0	0	-6
Other assets	46	16	6	17
Total assets	2,183	1,483	1,241	542
Liabilities				
Financial borrowings	1,117	889	636	15
Money market borrowings	9	3	2	189
Payables to brokers and customers	535	167	183	49
Other liabilities	24	14	14	9
Total liabilities	1,685	1,073	834	262
Share capital	119	119	119	97
Reserves and past profits	136	109	86	40
Profit & loss account	55	45	38	16
Total equity (excluding minorities)	321	273	244	153
Minorities	176	137	163	128
Total liabilities and net worth	2,183	1,483	1,241	542

Source: Is securities financial statements

Is Investment - P&L Summary

(TRYm)	30 Sep 09	31 Dec 08	31 Dec 07	31 Dec 06
Revenues				
- Of which sales of equities	9.6	-57.8	-16.0	-6.9
- Of which sales of private sector bonds & bills	1.7	-73.2	4.8	0.0
- Of which sales of sovereign bonds and bills	12.9	102.4	13.4	8.9
- Of which sales of mutual funds	3.4	16.6	5.3	-0.1
- Of which interest income and trading of derivatives	66.8	46.3	35.4	19.3
- Of which service revenues	57.3	56.9	67.8	42.0
- Of which other operating revenues	8.5	12.1	15.2	6.6
Total revenues (net)^a	160.2	103.4	125.9	69.7
Staff expenses	31.5	35.0	29.5	20.4
General and administrative expenses	23.1	30.7	25.0	17.8
Marketing and other	14.7	24.8	10.3	4.1
Total expenses	69.3	90.5	64.8	42.3
Operating profit	90.9	12.9	61.1	27.4
Financial income/(expense) (net)	15.2	27.7	20.4	-0.3
Other income/(expense) (net)	-0.1	12.3	-4.2	-0.8
Income taxes	-11.2	-11.0	-8.3	-2.2
Net Profit (before minorities)	94.8	41.9	69.1	24.0
Minority share	39.4	-2.8	30.8	8.4
Net Profit (after minorities)	55.4	44.7	38.3	15.7

Source: Financial statements, adapted by Fitch

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2009 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.