

Financial Services  
Turkey  
Full Rating Report

## Is Yatirim Menkul Degerler A.S.

### Ratings

<b>National</b>	
Long-Term Rating	AAA(tur)
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	BB+
Local-Currency Long-Term IDR	BB+

### Outlooks

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

### Financial Data

	31 Mar 10	31 Dec 09
Total assets (USDm)	1,694.8	1,646.3
Total assets (TRYm)	2,581.1	2,454.5
Total equity (TRYm)	352.8	334.2
Operating profit (TRYm)	25.8	110.6
Net profit before minorities (TRYm)	27.1	113.9
Net profit after minorities (TRYm)	19.0	68.5
ROAA (%)	5.8	5.8
ROAE (%)	21.1	24.6
Operating profit margin (%)	50.49	54.78
Adjusted leverage (x)	4.9	4.8
Equity/assets (%)	20.39	21.01

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### Related Research

#### Applicable Criteria

- *Global Financial Institutions Rating Criteria (December 2009)*
- *Rating Criteria for Securities Firms (December 2009)*
- *National Ratings - Methodology Update (December 2006)*

### Rating Rationale

- The National Long-Term (LT) Rating of Is Yatirim Menkul Degerler A.S. (Is Investment) is equalised with the National LT rating of its parent Turkiye Is Bankasi A.S. (Isbank; 'AAA(tur)'/Outlook Stable; Foreign Currency IDR 'BBB-'/Stable; Individual Rating 'C') and is based on the support it could expect to receive from its parent, if needed.
- Is Investment's earnings are driven by its core revenue consisting of service fees, trading and interest income. Service revenue is more stable and includes commission from clients, income from investment banking activities and portfolio management fees. This line is the largest contributor to operating revenue. Net trading revenue is generated from equities, bonds, mutual funds and derivative instruments. Efficiency and profitability ratios are volatile due to the unstable nature of the business.
- 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.
- The company has a contingency liquidity plan. Nevertheless, in Fitch Ratings' opinion, Is Investment would look to its parent bank to provide liquidity support should this be needed. Receivables and payables from/to customers are a result of outstanding transactions that are to be realised. These have no impact on operations, as the receivables and payables have the same maturity.
- Is Investment does not hold long-term financial debt. Short-term debt arises from Istanbul Stock Exchange (ISE) money-market funding that is deposited in various banks at similar short-term maturities, to benefit from the arbitrage and earn a spread.
- Minimum equity, paid-in capital and capital adequacy basis requirements are determined by Turkey's Capital Market Board (CMB); Is Investment's figures exceed the minimum requirements. Leverage is low, although this is partly explained by the intrinsic volatility of the markets.

### Support

- Is Investment's majority ownership by Isbank as an integral part of the business, common brand name and strategic importance to the parent mean that Isbank would have a high propensity to provide support if needed.

### Key Rating Drivers

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

### Profile

Is Investment, 72.1% owned by Isbank Group, is the investment banking arm of the parent. The remaining 27.9% of the shares are 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 uses the asset management and custody services provided by Is Investment. The company shares its parent's brand name, logo and senior management. Is Investment is the largest securities house in Turkey by asset size and is market leader in many sub-segments.

- Investment banking arm of Isbank
- The largest securities house in Turkey by market share in many segments
- Subject to regulation by Turkey's CMB

**Table 1: Shareholding Structure (End-Q110)**

(%)	
Isbank	65.65
Is Leasing	2.43
Is Faktoring	2.43
Other Isbank Group	1.62
Free float	27.87
<b>Total</b>	<b>100.0</b>

Source: Is Investment

- Improved profitability underpinned by the recovering capital markets activity, but still inherently exposed to volatility
- Revenue diversification key to sustaining earnings stability
- Service revenue, derivative trading and interest income the main contributors to earnings

## Profile

Is Investment was established by Isbank as its investment banking arm in 1996 and is an integral part of the parent, completing the range of financial services offered. The company shares its parent's brand name, logo and senior management. Isbank was established in 1924 as the first private commercial bank in Turkey. It is second-largest by assets and branch network in the sector, with unconsolidated assets of TRY117.8bn at end-Q110. Is Investment is small compared with its parent, equalling 2.6% of Isbank's unconsolidated equity and 2.2% of its assets.

Is Investment's client base is composed of high-net-worth individuals, corporate clients, foreign institutional clients and Isbank's retail brokerage clientele. At end-2009 it was market leader in many segments – 7.9% market share in equity trading volumes; 12.9% share in the bills and bonds market (among the brokerage houses); and 13.2% share in the derivatives market. The company has about TRY10.4bn of assets under management, mainly through its asset management subsidiary.

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 the group's international business. The distribution network consists of nine branches in major Turkish cities, two liaison offices (one located in Kazakhstan) and more than 1,000 Isbank branches acting as agents spread around the country.

The CMB has oversight of Is Investment's activities and the bank is subject to all its requirements on capital, liquidity, investment limits and margin trading limits. The UK subsidiary (Maxis Securities) is supervised by the UK Financial Services Authority.

## 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 has already made headway in its expansion of sales and distribution network by adding two new own branches and a subsidiary to be opened in Dubai by end-2010.

## 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 revenue is driven by trading operations, customer service revenue and interest income. Service revenue is more stable and includes commission revenue from clients, income from investment banking activities and portfolio management fees. This segment is the main contributor to operating revenue (see Table 2 below). Net trading revenue is generated from equities, bonds, mutual funds and derivative instruments.

In Q110 commissions were stronger yoy, backed by stronger fee generation from brokerage and corporate finance activity. The contribution to profitability from proprietary trading tends to be volatile. The company also focuses on its know-how and systems to enhance earnings diversification. Trading of FX futures and ISE-Index futures, albeit volatile, therefore also contributes to operating revenue. Service revenue is also diversified by additional services such as prime brokerage.

Is Investment uses the ISE money market for short-term funding and deposits these funds in various banks at similar short-term maturities, to benefit from the arbitrage and earn a spread. However, this practice's contribution to bottom-line profitability is exposed to interest rate margin compression. Is Investment's efficiency ratios (and 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 brand name. Net earnings are exposed to the inherent volatility of the business despite the relatively stable core service revenue backed by the established franchise.

**Table 2: Is Securities Profit and Loss Summary and Performance Ratios**

(TRYm)	31 Mar 10	31 Dec 09	31 Dec 08	31 Dec 07
<b>Total revenue (net)</b>	<b>51.1</b>	<b>201.9</b>	<b>103.4</b>	<b>125.9</b>
- Of which sales of equities	3.6	13.2	-57.8	-16.0
- Of which sales of private sector bonds and bills	-0.8	2.3	-73.2	4.8
- Of which sales of sovereign bonds and bills	2.1	15.0	102.4	13.4
- Of which sales of mutual funds	0.5	3.5	16.6	5.3
- Of which interest income and trading of derivatives	15.6	74.9	46.3	35.4
- Of which service revenue	28.1	82.8	56.9	67.8
- Of which other operating revenue	2.0	10.3	12.1	15.2
Operating expenses	25.3	91.3	90.5	64.8
<b>Operating profit</b>	<b>25.8</b>	<b>110.6</b>	<b>12.9</b>	<b>61.1</b>
<b>Performance ratios (%)</b>				
Return on average assets (ROAA)	5.8	5.8	3.1	7.8
Return on average equity (ROAE)	21.1	24.6	10.3	20.1
Operating profit margin	50.5	54.8	12.5	48.6
Property income/net revenue	10.5	16.9	-11.6	6.0
Operating costs/operating revenue	50	45	88	51
Staff costs/net revenue	24.5	20.8	33.9	23.4

Source: Company 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 of 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 counterparties are determined by the board of directors, which approved an overall counterparty limit of USD5.7bn. The total credit limit assigned was TRY374m at end-H110, of which TRY83m was used by clients. The CMB sets rules regarding trading limits and margin maintenance. However, Is Investment operates with far more prudent internal limits than those required by the CMB.

The liquidity and concentration of securities subject to credit risk can be volatile, and these are monitored daily. Monte Carlo simulations, parametric value-at-risk (VaR) and historical simulations are produced regularly. With the integration of the risk management software into the trading portfolio, Is Investment sets VaR-based limits for daily operations, 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 at various banks, usually at a small margin above funding cost. All short-term financial debt consists 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 5.81 days. The company has established a contingency liquidity plan following the market volatility in late 2008. The company can also apply to its parent for daily liquidity needs, and an intraday liquidity window of TRY50m from Isbank is available, although this is not often used.

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

- Leverage driven by short-term ISE money-market borrowings
- Capital adequacy comfortably above minimum regulatory requirements

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-Q110 (see Table 3). The equity/total assets ratio was 20.4% at end-Q110 reflecting low leverage, although this was partly justified by the intrinsic volatility of the markets in which the company operates.

**Table 3: Capital Adequacy Requirements**

(TRYm)	Minimum	Q110 actual
Capital adequacy basis requirement	147.6	260.6
Equity requirement	2	336.5
Paid-in capital requirement	0.5	119.4

Source: Is Investment

**Table 4: Leverage/Debt Service**

Absolute values (TRYm)	31 Mar 10	31 Dec 09	31 Dec 08	31 Dec 07
Assets	2,581	2,455	1,483	1,241
Equity and tangible equity	526	516	410	406
Gross long-term debt	0	0	0	0
Cash	1,461	1,372	933	681
<b>Financial condition (%)</b>				
Equity/assets	20.4	21.0	27.6	32.7
Liquid assets/total assets	56.6	55.9	62.9	54.9
Liquid assets/short-term borrowings	104.1	103.7	104.9	107.1
Leverage (x)	4.91	4.76	3.62	3.05
Long-term debt/equity	0.0	0.0	0.0	0.0
Long-term debt/liquid assets	0.0	0.0	0.0	0.0
Gross debt/equity	267.5	257.0	217.6	157.0

Source: Financial statements

## Appendix A

### Is Investment – Balance Sheet Summary

(TRYm)	31 Mar 10	31 Dec 09	31 Dec 08	31 Dec 07
<b>Assets</b>				
Cash and cash equivalents	1,461	1,372	933	681
Securities owned, at market or fair value	416	394	244	303
Receivables from brokers and customers	626	592	238	224
Receivables from related parties	0	0	0	0
Long-term financial assets	19	18	10	22
Land, furniture, equipment, building and intangible assets	9	10	7	5
Goodwill	0	0	0	0
Other assets	50	69	51	6
<b>Total assets</b>	<b>2,581</b>	<b>2,455</b>	<b>1,483</b>	<b>1,241</b>
<b>Liabilities</b>				
Financial borrowings	1,403	1,323	889	636
Money market borrowings	4	3	3	2
Payables to brokers and customers	615	598	167	183
Other liabilities	33	16	14	14
<b>Total liabilities</b>	<b>2,055</b>	<b>1,940</b>	<b>1,073</b>	<b>834</b>
Share capital	119	119	119	119
Reserves and past profits	215	146	109	86
Profit and loss account	19	69	45	38
<b>Total equity (excluding minorities)</b>	<b>353</b>	<b>334</b>	<b>273</b>	<b>244</b>
Minorities	173	181	137	163
<b>Total liabilities and net worth</b>	<b>2,581</b>	<b>2,455</b>	<b>1,483</b>	<b>1,241</b>

Source: Is securities financial statements

### Is Investment - Profit and Loss Summary

(TRYm)	31 Mar 10	31 Dec 09	31 Dec 08	31 Dec 07
<b>Revenues</b>				
- Of which sales of equities	3.6	13.2	-57.8	-16.0
- Of which sales of private sector bonds and bills	-0.8	2.3	-73.2	4.8
- Of which sales of sovereign bonds and bills	2.1	15.1	102.4	13.4
- Of which sales of mutual funds	0.5	3.5	16.6	5.3
- Of which interest income and trading of derivatives	15.6	74.9	46.3	35.4
- Of which service revenue	28.1	82.8	56.9	67.8
- Of which other operating revenues	2.0	10.3	12.1	15.2
<b>Total revenue (net)</b>	<b>51.1</b>	<b>201.9</b>	<b>103.4</b>	<b>125.9</b>
Staff expenses	12.5	41.9	35.0	29.5
General and administrative expenses	8.8	32.6	30.7	25.0
Marketing and other	4.1	16.9	24.8	10.3
<b>Total expenses</b>	<b>25.3</b>	<b>91.3</b>	<b>90.5</b>	<b>64.8</b>
<b>Operating profit</b>	<b>25.8</b>	<b>110.6</b>	<b>12.9</b>	<b>61.1</b>
Financial income/(expense) (net)	4.9	16.6	27.7	20.4
Other income/(expense) (net)	1.6	0.0	12.3	-4.2
Income taxes	-5.2	-13.2	-11.0	-8.3
<b>Net profit (before minorities)</b>	<b>27.1</b>	<b>113.9</b>	<b>41.9</b>	<b>69.1</b>
Minority share	8.5	45.4	-2.8	30.8
<b>Net profit (after minorities)</b>	<b>18.6</b>	<b>68.5</b>	<b>44.7</b>	<b>38.3</b>

Source: Financial statements, adapted by Fitch

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