

Turkey's Isbank maintaining momentum

The largest private bank in Turkey has grown its profits more slowly than peers but has avoided the asset-quality deterioration we have begun to see at some of its competitors



Source: Shutterstock

Results highlights

- ISCTR reported strong growth in net income to TRY5.3bn (+12.9% YoY) in FY17, driven by loan growth and an annual rise in NIM (though NII weakened QoQ on weaker activity levels), while its loans/deposits ratio remained stable HoH at 117%. The P&L dynamics match what we have seen from the sector so far, but the loans/deposits stabilisation is impressive.
- Moreover, ISCTR's asset-quality and capital positions are much stronger than average. The NPL ratio came in at 2.2%, benefiting by 13bp from NPL sales in 4Q and well below the sector average (3.0%), and the bank demonstrated outperformance across every major loan category.
- Capital was strong too. ISCTR ended FY17 with a Tier 1 ratio of 13.99% and CAR of 16.66%, up significantly YoY following successful Tier 2 issuance in June but down slightly QoQ due to growth in RWAs exacerbated by the weakening TRY.
- Regarding the outlook for this year, ISCTR expects loans to grow 13-14% (as we have seen elsewhere). However, importantly, it expects deposit growth to outpace loans at 17-18% (TRY). The NPL target of <3.0% lacks ambition and suggests we may see some modest

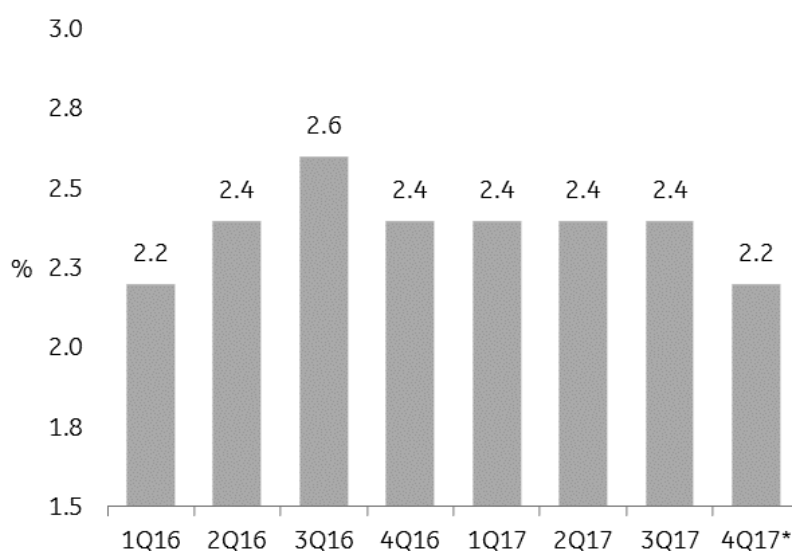
weakening this year.

- Overall, this is a very strong set of results. The bank has grown its profits more slowly than peers but has avoided the asset-quality deterioration we have begun to see at some of its competitors.

Earnings in detail

- ISCTR reported a 12.9% YoY increase in net profits to TRY5.3 bn. Net interest income rose 21.9% YoY to TRY13.2bn as loan volumes improved 17.9%, having stabilised in 2H17 after the early boost from the Credit Guarantee Fund (CGF), although NIM decreased 7bp (after swaps) to 3.86%. Despite a stronger 4Q performance driven by loan and deposit repricing and a favourable securities mix, the latter was hit by higher funding costs during 2017. We expect a stronger dynamic in 2018 as loan repricing gains traction. ISCTR's TRY loan/deposit spread fell from 6.21% to 5.47% over the period, while in FX it was more stable, declining from 4.67% to 4.38. Moving on from NII, Fees & Commissions enjoyed another solid year, rising 18.8% to TRY3.4bn, while the adjusted cost/income ratio weakened modestly from 42.3% to 42.7%.
- A stronger-than-expected performance in asset quality further increased our confidence in the bank. The cost of risk came in within budget at 109bp, while the headline NPL ratio fell 20bp to 2.2%, including a 13bp impact from NPL sales in 4Q. This ratio is one of the strongest in the sector and compares favourably to the sector average of 3.1%. Looking across business lines, NPL ratios in each segment were significantly stronger than the sector average (see Figure 2). The specific coverage ratio was also ahead of the sector average at 86%.

ISCTR – NPL ratio development



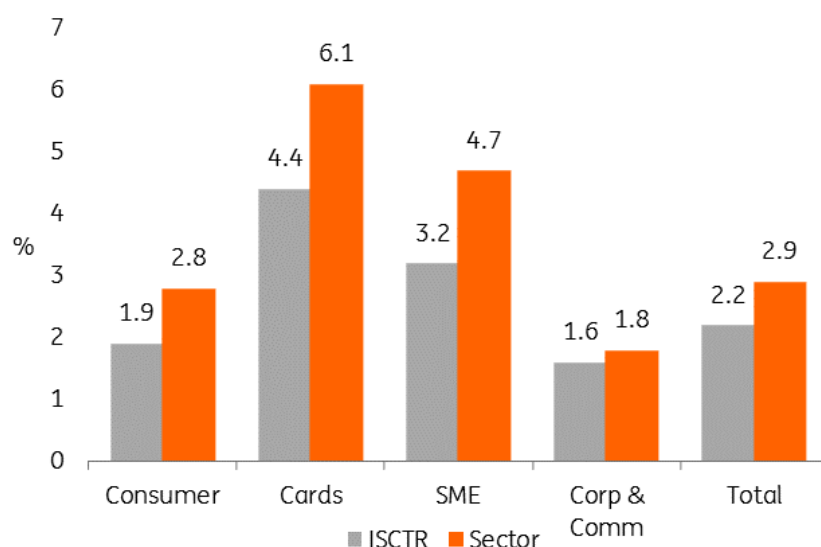
Source: Company data, ING

- Turning to liquidity and capitalisation, the loans/deposits ratio was maintained at a decent level of 117% (sector average: 120%), while the bank unsurprisingly showed more stretched liquidity metrics in TRY (152%) than in FX (86%), which is a feature common to the sector. Meanwhile, the Tier 1 ratio improved 85bp YoY to 14.0%, one of the strongest numbers in

the sector, although the number declined modestly QoQ due to RWA inflation following TRY depreciation. Total CAR was robust at 16.7%, boosted by the Tier 2 security issued by the bank in June 2017 and well more than the legal minimum requirement of 8%.

- As for the loan book, we find it interesting to look at the main growth areas, which help us to identify the segments in which the bank sees the greatest opportunities. The headline 17.9% overall growth of the book to TRY239bn masks the divergence between loan classes. While TRY-denominated loans grew by 20.5% YoY, their FX counterparts rose just 6.1% in USD terms due to lack of demand (though the TRY devaluation meant that, in TRY terms, the FX book increased by 13.8%). Within the TRY book, Corporate & Commercial loans increased 27.9%, while SME loans rose by 24.8% and Retail by 12.5%. This reflects the deployment of CGF funds, which were aimed mostly at SMEs and smaller commercial businesses. By contrast, within the FX bucket, Corporate loans rose by just 6.0%. All this suggests that our thesis that Turkey's large corporates represent the healthiest part of the economy continues to hold good. Corporate & Commercial loans accounted for 53.2% of ISCTR's total loan book, unchanged from the prior-year period.

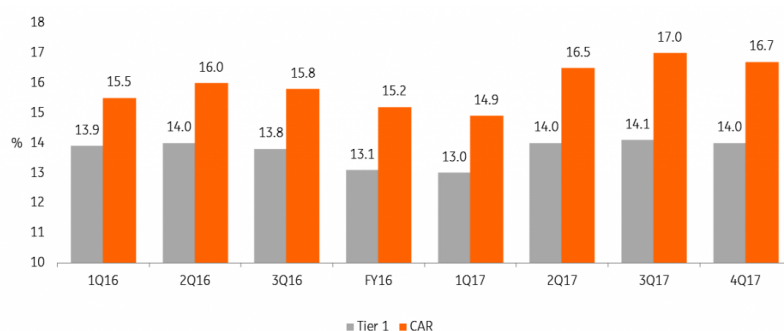
ISCTR – NPL ratio by loan class (FY17)



Source: Company data, ING

We note that ISCTR's assets and liabilities remain reasonably well matched by currency, although the lack of TRY funding remains a concern. On the asset side, FX securities comprised 19.6% of the total, while FX loans accounted for 38.4% of total loans. Meanwhile, FX deposits made up 52.3% of total deposits, up from 49.9% at end-FY16, as de-dollarisation continued.

ISCTR - Capital Ratios development



Source: Company data, ING

Finally, ISCTR expects 2018 loan growth to be around 13-14% (split TRY 14-15% and FX 5-6%), with deposits rising faster in TRY at 17-18% (FX: 3-4%). The NPL ratio is expected to remain below 3%, while the cost of risk could rise slightly to 115-120bp. CAR should remain above 14%. Once again, this points towards our central scenario that loan growth should diminish slightly in 2018, but asset quality is likely to remain under control, and large banks' TRY loan/deposit ratio should gradually rebalance.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com