

Turkey

Credit Update

Denizbank

Ratings

Denizbank

Foreign Currency

Long-Term	BB-
Short-Term	B
Outlook	Stable

Local Currency

Long-Term	BB-
Short-Term	B
Outlook	Stable

National

Long-Term	A- (tur)
Outlook	Stable

Individual

Support	C/D
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Sovereign Risk

Foreign Long-Term	BB-
Local Long-Term	BB-
Outlook	Stable

Financial Data

Denizbank

	31 Dec 2004	31 Dec 2003
Total Assets (USDm)	6,016.1	4,790.3
Total Assets (TRLbn)	8,058,569.0	6,416,614.0
Equity (TRLbn)	891,585.0	631,899.0
Net Income (TRLbn)	137,551.0	85,555.0
ROA (%)	1.90	1.50
ROE (%)	18.06	14.85
Equity/Assets (%)	11.06	9.85

Analysts

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Rating Rationale

Assessment

- The ratings of Denizbank reflect its enhanced profitability, comfortable liquidity, adequate capitalisation and improved asset quality. However, they also take into account the possible risks that might arise from the bank's rapid loan growth.
- Profitability continued to improve in 2004, with net income rising markedly to USD103 million in 2004 (2003: USD64m), mainly due to increased income from loans and lower interest expenses. Net fee and commission income accounted for a high 25% of total operating income, providing a relatively stable source of income. Although operating income increased in 2004, operating expenses were also higher, mainly due to branch network and workforce expansion, resulting in the bank's cost to income ratio deteriorating to 62.95%, excluding one-off IPO commission and expenses (2003: 59.50%). Meanwhile, overhead expenses relative to average assets stood at 4.3%, relatively better than the peer group average of 5.2%.
- Denizbank has well established risk management systems. Although non-performing loans ("NPLs") increased by 10% in absolute terms, the bank's asset quality improved, with the NPL ratio declining to 3.5% (2003: 4.7%), aided by loan growth of 48% in 2004. NPLs were 100% covered by loan loss reserves. Sectoral and size distribution of the loan portfolio improved as loan book concentration diminished during 2004.
- Government securities accounted for a significantly lower 19% of end-2004 assets (2003: 29%). Approximately 55% of the bank's portfolio comprised floating-rate securities, and 60% of loans were repriced or repaid within three months, mitigating the inherent interest rate risk from relatively longer term assets funded by shorter term deposits. The bank's stake in Zorlu Enerji, a Zorlu Holding company in energy sector, declined to 44% and equated to 2% of end-2004 assets, with the fair valuation differences recorded as Tier 2 capital.
- The bank's liquidity further improved in 2004; liquid assets had a high 30% share in end-2004 assets (2003: 26%), covering 48% of customer deposits (2003: 41%). Customer deposits continued to increase in 2004 and constituted 71% of liabilities at end-2004 (2003: 69%). Demand (sight) deposits had a high 21% share in total, providing a cheap source of funding. Denizbank has a well diversified core deposit base.
- Equity further increased with retained earnings and a USD97m capital injection following the bank's IPO in September 2004. Its capital adequacy ratio was adequate and stood at 17.83% at end-2004 (2003: 17.50%), whereas 83% was Tier 1. Free capital after deducting fixed assets equated to a high 9.53% of end-2004 assets (2003: 8.05%), as there were no unconsolidated equity participations and NPLs were fully covered by reserves.

Support

- In Fitch Ratings' opinion, given Denizbank's relatively small size in the Turkish banking system and Turkey's Long-term foreign currency rating of 'BB-(BB minus)', there is a limited probability of support.

Background

- Denizbank is majority-owned by Zorlu Holding, a large Turkish conglomerate active in home textiles, electronics and consumer durables, energy production and distribution, as well as finance, with a turnover of USD4bn in 2004. Denizbank, which focuses on small- to medium-sized enterprises ("SMEs"), exporters and retail banking clients, ranked as Turkey's seventh largest private commercial bank at end-2004 with a 2.18% share of total unconsolidated banking assets and 198 branches.

6 May 2005