

Turkey
Credit Update

Denizbank A.S.

Ratings

Denizbank A.S.

Foreign Currency

Long-Term IDR* BB- ▲
Short-Term B

Local Currency

Long-Term IDR* BB- ▲
Short-Term B

National

Long-Term A(tur) ▲

Individual

Support C/D
4 ▲

Sovereign Risk

Foreign Long-Term IDR* BB-
Local Long-Term IDR* BB-
Outlook Positive

* IDR – Issuer Default Rating

Financial Data

Denizbank A.S.

	31 Dec 05	31 Dec 04
Total Assets (USDm)	8,860.8	6,176.2
Total Assets (TRY 000)	11,918,285	8,273,004
Equity (TRY 000)	994,468	772,394
Net Income (TRY 000)	222,288	141,211
ROA (%)	2.20	1.90
ROE (%)	25.16	22.19
Equity/Assets (%)	8.34	9.34

Analysts

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■ Rating Rationale

- Fitch Ratings has placed Denizbank A.S.' (Denizbank) foreign and local currency IDR, National and Support ratings on Rating Watch Positive reflecting the benefits it is expected to receive from its potential new shareholder, Dexia. Denizbank's ratings reflect its improved franchise and consistent track record. These are balanced by the bank's rapid loan growth, which has resulted in deterioration in capital and could lead to asset quality diminution. The recent deterioration in the Turkish financial markets is unlikely to adversely impact Denizbank's ratings.
- Denizbank recorded strong gains in operating profits during 2005 due to rapid loan growth that resulted in an increase in net interest and commission income. This was offset, however, by margin shrinkage and higher personnel costs. The bank posted gains on the settlement of a lawsuit and unrealised profits on its equity stake in Zorlu Energy.
- Cash loans grew rapidly by 85% in 2005, with consumer credit rising by 110%. Exposure to commercial and corporate borrowers still represents more than two-thirds of the portfolio. Non-performing loans edged up slightly in absolute terms, with credit card delinquencies at 11%. Impaired assets were 2.37% of loans with reserve coverage of 100%.
- Risk management strategies are well defined with all positions marked-to-market on a daily basis. To maintain flexibility, Denizbank holds liquidity equal to a minimum of 15% of assets (22% at end-2005) and government securities are minimal. No significant interest rate or currency positions are taken. Short-term bank deposits and borrowings remained stable at 20% of assets.
- Despite healthy internal capital generation, equity measures deteriorated during 2005 due to balance sheet expansion. Although Denizbank plans to slow its growth this year, its end-2005 capital ratio of 14.7% is expected to worsen by end-2006. Fitch believes that recent deterioration in retail credit quality warrants reversal of the capital decline.

Support

- In Fitch Ratings' opinion, given Denizbank's relatively small size in the Turkish banking system, there is a limited probability of sovereign support. In Fitch's view, after the completion of the acquisition, Dexia will have a very high propensity to support Denizbank but its ability to do so might be constrained by Turkey's 'BB' country ceiling.

■ Rating Outlook and Key Rating Drivers

- The bank's LTFC IDR is on Rating Watch Positive reflecting that it is not constrained by the Country Ceiling pending the acquisition and its LTLC IDR will be capped at two notches above the sovereign rating after the acquisition.
- To attain a higher Individual rating, Denizbank would have to moderate recent growth, rebuild capital and continue to maintain its operating profile. Should the operating environment deteriorate with simultaneous loan and equity deterioration, ratings pressure could occur.

■ Profile

- Denizbank is 75%-owned by the Zorlu Group, a conglomerate active in textiles, electronics and other sectors. The bank focuses on SME and retail clients, ranking as Turkey's seventh-largest private bank at end-2005. It owns banks in Austria and Russia and subsidiaries engaged in investment, brokerage, leasing and factoring. Recently, Zorlu agreed to sell its interest to Belgium-based Dexia Bank for USD2.44 billion. The transaction is subject to approval of local and foreign officials.

19 September 2006