Turkey
Credit Analysis

Denizbank A.S.

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	BB
Short-Term IDR	B
Local Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
National	
Long-Term	AAA(tur)
Individual	C
Support Rating	3
Sovereign Risk	
Foreign Long-Term IDR	BB-
Local Long-Term IDR	BB
Country Ceiling	BB

Outlook

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

Financial Data

Denizbank A.S.

	31 Dec 07	31 Dec 06
Total assets (USDm)	15,604.5	10,436.5
Total assets (TRYm)	18,647.4	14,705.0
Total equity (TRYm)	1,678.1	1,354.5
Operating profit (TRYm)	417.0	317.3
Published net income (TRYm)	341.3	342.3
Comprehensive income (TRYm)	323.6	247.5
Operating ROAA (%)	2.50	2.38
Operating ROAE (%)	27.50	25.74
Internal capital generation (%)	21.34	20.08
Eligible capital/ weighted risks (%)	10.33	12.26
Tier 1 ratio (%)	9.79	11.77

Analysts

Gulcin Orgun
+90 212 279 1065
gulcin.orgun@fitchratings.com

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

Rating Rationale

- Denizbank A.S. (Denizbank)'s Long- and Short-term foreign currency Issuer Default Ratings and Individual rating reflect its intrinsic strength, improving franchise, well-established risk culture, improving profitability, good asset quality and consistent growth strategy in niche areas. These are balanced by the bank's rapid loan growth, which could lead to asset-quality problems and a volatile operating environment.
- Net income excluding non-recurring items increased by 30% in 2007, reflecting strong lending growth. Margins have been maintained despite competition, due to the partial placement of liquid assets in relatively higher-yielding loans.
- Gross loans continued to grow rapidly in 2007, mainly driven by growth in higher-yielding SME and commercial loans. NPLs increased to 2.09% of total loans at end-2007 (2006: 1.88%) and remained fully reserved.
- Denizbank changed its liquidity policy after Dexia (rated 'AA+'/'F1+') took over and started to maintain lower liquidity in order to use funds more efficiently, benefiting from strong shareholder support in case of need. The bank still has a relatively small government securities portfolio, although this increased in 2007. Risk management strategies are well defined, with all positions marked to market daily.
- Denizbank mainly funds its assets with a well-diversified core deposit base. Funding from the shareholder equalled 14% of total non-equity liabilities at end-2007 (2006: 4%), including a EUR212m subordinated loan.
- Although equity increased through retained earnings, the total capital ratio declined despite new subordinated loans, due to rapid growth in risk-weighted assets and also as a result of the inclusion of the operational risk change, and was 12.55% at end-2007 (2006: 13.84%). In Fitch Ratings' opinion, although current capitalisation is just adequate, higher capitalisation would provide a cushion against potential problems arising from a volatile operating environment.

Support

- In Fitch's view, there is a high propensity of support from the bank's highly rated shareholder, Dexia. However, its ability to provide this could be constrained by Turkey's 'BB' Country Ceiling.

Key Rating Drivers

- The bank's Long-Term Foreign Currency IDR is constrained by the Country Ceiling, and its Long-Term Local Currency IDR is capped two notches above the Sovereign Rating. It would change to mirror any change in the Sovereign Rating.
- Upside for the Individual Rating would arise from a sustained improvement in the operating environment, whereas downward pressure might come from a major, persistent deterioration in asset quality and capitalisation.

Profile

Denizbank is fully owned by Belgium-based Dexia. The bank, which was Turkey's ninth largest at end-2007 by assets, provides services in retail, SME and agricultural, commercial, and corporate banking, and has increasingly focused on public and project finance since the Dexia acquisition.

- Wholly owned by Dexia
- Ninth-largest bank in Turkey
- Focused on retail banking, SMEs and project finance

Profile

Denizbank, originally established as a state-owned bank in 1938, primarily to finance the Turkish maritime industry, was acquired by Zorlu Holding in 1997 from privatisation administration. Denizbank benefited from the consolidation of the Turkish banking sector after the economic crises in 2000 and 2001 and purchased branches and licences of a number of Turkish financial institutions in Turkey and abroad from the Savings Deposits and Insurance Fund (SDIF). Together with the existing financial subsidiaries, these acquisitions formed Deniz Financial Services (DFS). It purchased and merged with Tarisbank, a small regional bank, in 2002, enhancing its franchise in the Aegean region, especially in loans to the agricultural sector. Financial subsidiaries abroad, giving the bank better access to international trade finance business, include Denizbank AG (formerly Esbank AG) in Austria, which has supported the bank's activities in the EU since 2002, Euro Deniz Offshore in northern Cyprus and CJSC Dexia Bank (formerly Iktisat Bank Moscow, the name initially changed to Denizbank Moscow and then to the current name in March 2008). Denizbank purchased 99.6% of the shares of Global Hayat Sigorta, a life insurance provider, and renamed it DenizHayat. This company was integrated into DFS in June 2007.

Denizbank made an IPO of 25% of its shares in 2004. In October 2006 Dexia Participation Belgique S.A., which is wholly owned, directly and indirectly, by Dexia, became the bank's main shareholder after initially acquiring 75% of the shares from Zorlu Holding. Belgium-based Dexia is among the 15 largest banking groups in Europe by total assets, and the largest provider of public finance in Europe. The group has three core businesses, public finance, personal financial services and investment management and insurance services, and had total assets of EUR605bn and EUR16bn equity at end-2007. In December 2006 Dexia participated in a tender offer of minority shares of Denizbank and owned 99.81% of the shares of the bank at end-2007. According to the shareholders' agreement between Dexia and Zorlu Holding, the acquisition included the bank's financial and non-financial subsidiaries (excluding investment in Zorlu Enerji), which together form DFS. Denizbank's 39.8% investment in Zorlu Energy (approximately 1% of Denizbank's assets at end-2005) was transferred to Zorlu Holding following the acquisition by Dexia.

Denizbank had a 2.4% share of total unconsolidated banking assets in Turkey at end-2007. It had 320 domestic branches and 13 subsidiary branches abroad (2006: 262) at end-2007, and 7,577 staff, including subsidiaries (2006: 6,342), 23% of whom were dedicated marketing personnel. Fourteen of the branches are regional commercial centres which serve as regional hubs for the bank. 45 branches provide full banking services, five serve as dedicated corporate branches and 233 serves as SME and retail branches, 120 and four of which are specialised in agricultural lending and private banking, respectively. There are also mobile branches. Denizbank's financial subsidiaries abroad contributed about 14% of Denizbank's total consolidated assets at end-2007. Denizbank's share in international trade finance reached 5% in 2007. The bank's 10 domestic subsidiaries provide financial and non-financial services including fund and portfolio management services, securities and derivatives brokerage, leasing, factoring, and life insurance.

The acquisition of Denizbank by Dexia gave the bank growth momentum with capital and funding support and brought expertise in relatively new areas for Denizbank, such as public and project finance, mortgages, insurance and private banking. Denizbank continues to provide banking services in its main business lines such as retail, private, SME, agricultural, commercial and corporate banking, but has increasingly focused on public and project finance.

Retail and Private Banking

Denizbank serves more than 2 million customers in retail banking, from the mass market to high-net-worth individuals. The share of transactions realised through alternative distribution channels, including ATMs, points of sale, internet banking, contact centres and kiosks, reached 34% in 2007 compared with 31% in 2006, respectively, and the bank aims to increase this to 50% by 2009, which is expected to contribute to efficiency through cost savings. Denizbank slightly increased its market share in consumer loans to 4% in 2007 from 3.7% in 2006. Average loan size and average maturity in housing loans equalled TRY88,000 and less than seven years, respectively, at end-2007. Denizbank has licensing agreements with T. Garanti Bankasi, Lufthansa and Istanbul Sea Bus Company for the issuance of co-branded cards, which provides cost savings in infrastructure and maintenance. Denizbank had 2.1% market share in credit card volumes in Turkey in 2007 (2006: 2.3%).

SME and Agricultural Banking

Denizbank defines small businesses as companies with an annual turnover of less than TRY1m and medium-sized businesses as companies with an annual turnover of TRY1m-5m. Denizbank provides loans to about 275,000 SMEs for financing their working capital, investment, trade finance, leasing, factoring, insurance and point of sale needs, and also offers treasury products and mutual funds. In agriculture, the bank offers tailor-made products to more than 120,000 farmers producing 150 different types of agricultural products, with flexible payment schedules according to the harvest periods. Denizbank extends agricultural loans mostly against personal guarantees, monitors closely by dedicated staff in 120 specialised agricultural branches and also requires insurance for these loans. The average maturity of agricultural loans was less than a year at end-2007.

Commercial Banking

This group deals with manufacturing and services companies with an annual turnover of USD5m-25m, and trade companies with an annual turnover of USD5-50m. It provides working capital, investment loans, international and domestic trade finance loans, and mutual funds, leasing, factoring, insurance and treasury products to more than 15,000 commercial customers. The commercial banking division focuses on the tourism, shipping, sports, health, education and energy sectors, which Denizbank considers to have large growth potential.

Corporate Banking and Public and Project Finance

This group serves about 3,000 industrial and trade companies with annual turnover of more than USD25m and USD50m, respectively, and public entities. Denizbank's corporate banking department mainly focuses on mining, energy, infrastructure, environment, ship building, health, education, telecommunication, food and agriculture, and benefits from synergy and cross-selling between departments in the bank. Denizbank benefits from Dexia's market knowledge and expertise in public and project finance. The project finance department offers business evaluation, market, technical and financial analysis, prepares financial structuring models including funding arrangements and securitisations, and provides project implementation and progress evaluation services. Denizbank's project finance department mainly participated in projects dealing with telecommunications, infrastructure, energy, health and education in 2007. The public finance department deals with public entities, municipalities and their satellites.

Strategy

Denizbank plans to become one of the five largest private banks in Turkey by asset size (it is the sixth largest), and plans to increase its focus on neighbouring regions such as the Middle East, the Balkans, the Caucasus and the CIS through sustainable and profitable growth and opportunistic acquisitions. Denizbank plans to open 200 new branches and employ more than 4,000 staff by the end of 2010. The acquisition by Dexia did not result in major changes in the bank's strategy, although some areas became more focused, benefiting from expertise and know-how from Dexia such as public and project finance. Denizbank continues to improve its domestic franchise and expertise in various segments such as retail and commercial banking, and to build on its position in markets such as agricultural, shipping, tourism, energy, health, education and sports loans. Denizbank also plans to be one of the top three banks in Turkey in private banking services in terms of assets under management (ranked fourth). Although the bank's ambitious growth targets might create asset quality problems in a highly competitive and volatile operating environment, its well-established risk culture and the funding and capital support it can expect to receive from its shareholder provide an opportunity for sustainable and profitable growth. Denizbank's mainly deposit funding and lack of reliance on shareholders for funding provides comfort in times of international stress on liquidity.

Presentation of Accounts

Unless otherwise stated, Fitch's analysis is based on Denizbank's consolidated and audited financial statements prepared in accordance with Banking Regulation and Supervision Agency (BRSA) principles. These are broadly in line with IFRS.

Performance

- Improved profitability
- Margins have been maintained despite competition due to the partial placement of liquid assets in relatively higher yielding assets
- Cost of funds slightly better than peers due to higher share of low-cost demand deposits
- Higher operating expenses due to network expansion

Denizbank's assets grew by 27% in 2007 in line with those of its Turkish peers, mainly driven by loan growth of 51%, while liquid assets were partly replaced by government securities. This resulted in a change in the balance-sheet composition in favour of loans, which accounted for 72% of assets at end-2007 (2006: 61%). Net income excluding non-recurring items (net gains from the sale of Zorlu Enerji shares) increased by 30% in 2007, reflecting strong growth in lending activity, despite continued expenses related to the expansion of the branch network and higher taxes.

Table 1: Performance Indicators

	Denizbank		Peer Group[b]	
(%)	2007[a]	2006[a]	2007[a]	2006[a]
Asset growth	26.81	22.68	26.35	21.60
Net interest income/average earning assets	5.70	5.70	6.62	5.57
Cost/income	55.35	56.50	55.06	60.34
Cost/average assets	3.98	3.93	4.44	4.64
Cost of funds	7.95	6.84	9.17	7.89
Loan yield	13.41	14.11	14.46	12.54
Loan impairment charge/pre-impairment profits	22.19	21.46	25.84	26.34
Loan impairment charge/gross loans	1.05	1.12	1.40	1.26
Operating profit/average assets	2.50	2.38	2.68	2.25
Operating profit/average equity	27.50	25.74	27.42	24.71
Equity/assets	9.00	9.21	9.99	9.50

[a] Based on audited and consolidated data under BRSA guidelines
[b] Finansbank and Turk Ekonomi Bankasi
Source: Bank data adapted by Fitch Ratings

Revenue

Denizbank's net interest margin remained the same in 2007 despite intense competition, benefiting from placement of a part of relatively lower-earning liquid assets in relatively higher yielding loans. When adjusted for net gains and losses for FX and derivatives, the margins remained slightly better than the peer group average. The cost of funds, although up in 2007, in line with the general trend in the sector, remained lower than that of peers, supported by a high proportion of low-cost demand deposits. Net fees and commissions have not increased alongside the growth in lending activity in 2007 due to competition, the smaller number of fee-generating activities such as IPOs and currency translation effect in commissions from non-cash FX loans due to the appreciation of the Turkish lira.

Non-Interest Expenses

Operating expenses continued to increase, mainly related to new staff employed in the new branches, but the overhead expenses/average assets ratio remained almost unchanged and the cost/income ratio slightly improved due to higher operating income. Given Denizbank's branch expansion plans in the coming years, meaningful improvements in efficiency will take time as it approximately takes 18 months for SME and retail branches to become profitable.

Loan Impairment and Other Charges

Loan impairment charges as a percentage of pre-impairment profit only slightly increased to 22% in 2007 as a result of better operating income despite higher NPLs and an increase in the regulatory general reserve rate during the year (2006: 21%). BRSA doubled the rate of general provisioning in cash and non-cash loans in 2007 to 1% and 0.2%, respectively. (see "Loan Loss Experience and Reserves" below).

Prospects

There is a well-established risk culture at the bank, which has and pursued a consistent growth strategy over the years since inception. Acquisition by Dexia provided an easier access to capital, lower-cost and longer-term funding, and expertise in relatively new areas. Denizbank plans 34% growth in assets, mainly driven by loan growth of c.40% in 2008. The bank envisages the customer deposits to remain as the main source of funding with the continued contribution of relatively lower cost funding the parent. The bank estimates the net interest margin to narrow (5.00- 5.50%) and to be balanced by higher non-interest income, operating ROAA and ROAE to equal 1.80% and 21.30%, and total capital ratio to equal 13% at end-2008 following the planned Tier 1 and Tier 2 capital injection (see "Capital" below). Although international stress on liquidity might burden the cost of funds, and slowing of domestic demand for new loans might squeeze business volumes, high margins in Denizbank's focus areas, such as SME, agricultural and commercial loans, may provide a buffer for pressures on profitability.

In Fitch's opinion, although current capitalisation is adequate, higher capital would provide a cushion for potential problems given the bank's plans for continued loan growth, its concentrated loan portfolio due to large-ticket project finance loans and the volatile operating environment.

Risk Management

- Well-established risk management culture
- Continued rapid loan growth, mainly in commercial loans, retail and SME banking
- Concentrated loan portfolio from continued focus on large project-finance loans
- Increased NPLs remained fully reserved

After being reorganised in November 2006 in line with the regulations, the risk management group, and internal audit, internal control and compliance departments, constitute the internal systems group. This group directly reports to the audit committee at Denizbank and is responsible for identifying, determining, measuring, monitoring, controlling and reporting market, credit, operational and liquidity risk.

Credit Risk

Commercial, SME and corporate loan credit approval limits are centralised, with branches having a lending authority of up to TRY50,000-100,000, based on their location and business volume. The 14 regional commercial centres are authorised to grant facilities up to TRY1.5m. In terms of retail loans, the branches are authorised to approve loans of up to TRY75,000 for housing loans and TRY40,000 for auto loans; head office has an authority up to TRY500,000. At end-2007, 22% of the loans were extended under branch authorities. Head office is able to approve up to 1% of equity, the credit committee up to 10% of equity and the board of directors up to 25% of equity. Above that, credit committee approval is required.

Denizbank has an internal, seven-grade rating system for corporate and commercial loans, which is being harmonised with that of Dexia and in line with international practice. There are internally developed scoring cards in place for SMEs and Experian scoring cards for retail banking customers, which are processed through a fully automated internal rota system that also checks online loss data at the Central Bank and Credit Bureau and sends periodical warning messages to customers in case of non-performance.

Corporate and personal guarantees represent the largest proportion of collateral (46%), followed by mortgages (21%), bills of exchange (3%) and cash collateral (9%). SME and agricultural loans are mostly collateralised with real estate mortgages and personal guarantees. The top 20 cash and non-cash exposures equalled 19% of the total loan book and 208% of equity, reflecting a concentrated loan portfolio by borrower, mainly from exposure to large blue-chip companies and big-ticket project loans. There are no NPLs among the largest 20 loans.

Gross loans, including leasing and factoring receivables, continued to grow rapidly by 50% in 2007 and represented 73% of assets at end-2007 (2006: 62%). The loan portfolio continued to be dominated by relatively higher-yielding Turkish lira loans. The growth in loan portfolio was mainly driven by commercial and SME loans. Commercial loans represented the highest proportion of the total portfolio with 31%, followed by corporate loans (27%), retail loans (23%) and SME loans (19%) of which agricultural loans had 22% share. General-purpose consumer loans accounted for 51% of retail loans followed by housing loans (31%), credit cards (15%) and auto loans (3%). Non-cash loans grew by only 13% and equalled 25% of assets at end-2007 (2006: 29%).

The proportion of long-term loans continued to increase, and the loans with remaining maturities of more than one year equalled 48% of gross loans, including factoring and leasing receivables, at end-2007 (2006: 40%). Construction represented 19% of total cash and non-cash commercial and corporate loans, and was mostly comprised of non-cash loans. Metal and machinery had a combined 12% share, while all other sectors remained below 7% at end-2007, reflecting a fairly well-distributed loan portfolio by industrial sector.

Loan Loss Experience and Reserves

In 2007, NPLs increased mainly as a result of the rise in NPLs in SMEs. At end-2007, although the NPL ratio in corporate and commercial loans slightly improved to 1% (2006: 1.3%), it increased to 4.6% in retail loans (including credit cards) from 4.1% at end-2006 and to 2.2% in SMEs (2006: 0.6%). As a result, the average NPL ratio worsened to 2.09% at end-2007 compared with 1.88% at the end of the previous year, whereas total reserve coverage remained comfortable at 104% at end-2007 (2006: 127%).

Market Risk

Denizbank daily marks-to-market all spot, forward and derivative positions. It uses value-at-risk methodology with one- and 10-day holding periods and a 99% confidence interval for calculation. The value at risk calculated at end-2007 equalled a low 4.7% of capital base. Structural interest rate risk is tracked weekly using sensitivity analyses. Stress tests are run to simulate the effects of a shift in the yield curve, and a 500 and 200 basis points shifts for Turkish Lira and FX is estimated to result a sensitivity effect to the balance sheet equal to 11% of capital base at end-2007. In order to increase the efficiency of asset and liability management and more closely monitor the liquidity risk as result of the increasing proportion of longer-term loans in the portfolio, a new Asset and Liability Working Group was established in 2007 in addition to the Asset and Liability Committee, and a new asset-liability management system was initiated in January 2008. It is expected to be fully operational by end-2008.

Although the on-balance-sheet short FX position was very high at 46% of equity at end-2007, after netting with the off-balance-sheet position, mainly in the form of forwards, options and swaps mainly with highly rated international counterparties

there was a net long position equal to less than 1% of equity.

Like other banks in Turkey, Denizbank has a structural maturity mismatch due to short-term deposits funding relatively longer-term assets. In terms of repricing periods, the mismatch is relatively smaller, with assets repriced within three months equal to 65% of liabilities repriced within the same timeframe. The government securities portfolio, although growing in 2007, still equalled only 13% of assets at end-2007 (2006: 8%) and mainly comprised available-for-sale (AFS) securities (85%), which are recorded at fair value. Valuation differences are recorded under equity and equalled 1.12% of equity at end-2007. Floating-rate securities accounted for 43% of the portfolio at end-2007 (2006: 71%). Fixed-rate government securities and housing loans are mainly funded with a positive fixed margin via long-term Turkish lira funding created by cross-currency swaps with matching maturities. Government securities portfolio was dominated by Turkish Lira securities (89%). The bank also has investment grade trading and AFS securities equal to 2.14% of assets at end-2007 (2006: 2.56%).

Operational Risk

The bank's internal control centre monitors operational risks, while the credit control department monitors limits and utilisation daily. The bank has a banker's blanket bond to cover operational risks. The disaster recovery centre has a replica of the bank's systems and data transfers are carried out daily. Operational risk has been included in the calculation of the regulatory capital adequacy ratio since end-H107 using the basic indicator approach. The effect of inclusion of operational risk has resulted a 111 basis points drop in the capital adequacy ratio at end-2007. The bank plans to adopt the advanced measurement approach under Basel II when the regulator permits.

Corporate Governance

Denizbank voluntarily adopted the Capital Market Board (CMB) of Turkey's corporate governance principles even before its IPO in 2004, and since then the bank has been subject to Istanbul Stock Exchange (ISE) rules and CMB regulations on corporate governance, also taking into consideration international and sector-specific practices. There are 11 members of the board of directors, two of whom are independent and six of whom do not have any executive responsibilities at the bank. The duties of the chairman of the board and the CEO are separated.

Funding and Capital

- Funded mainly by well diversified stable core deposits
- Extended maturity profile of funding due to increased share of long-term borrowings
- Lower liquid assets after Dexia takeover
- 14% of non-equity funding from the parent
- Adequate capitalisation

Funding

Customer deposits continued to grow by 21%, and remained the main source of funding, equalling 64% of non-equity liabilities at end-2007 (2006: 67%). Although the growth of commercial deposits was the highest (64%) in 2007, retail deposits, which grew 17%, still had the highest proportion of total customer deposits at 45%. Low-cost demand deposits were a relatively high 24% of the total, providing a cheap source of funding, compared to c.15% peer group average. The top 20 accounts declined to 14% of total deposits at end-2007 from 16% at end-2006, whereas the savings and foreign currency deposits under the SDIF guarantee threshold of TRY50,000 made up a high 43% of the total, reflecting well-diversified savings deposits, compared to 34% peer group average. The maturity profile of funding has extended in 2007 as the share of long-term borrowings reached to 17% of non-equity liabilities at end-2007 (2006: 6%). The bank has four outstanding securitisations tranches totalling USD500m with final maturities between 2010 and 2015. Denizbank plans to receive one-to-one funding of project finance transactions. The share of funding from Dexia in the form of bank deposits and short-term and long-term loans, including subordinated loans, equalled 14% of total non-equity liabilities at end-2007 (2006: 4%).

Liquidity

Denizbank changed its liquidity policy after the Dexia takeover and started to maintain lower liquidity in order to use funds more efficiently, benefiting from strong shareholder support in case of need. Liquid assets (including investment-grade trading and AFS securities, and excluding government securities) equalled a lower 12% of assets at end-2007 compared with 28% at end-2006, and covered only 21% of customer deposits at end-2007 (2006: 47%). As for other commercial banks in Turkey, there is structural maturity mismatch between assets and liabilities. Although there is a wide liquidity gap up to one month, with assets maturing within one month covering only 36% of liabilities with the same maturity at end-2007, between one and three months the coverage is comfortable at 72%, and there is no gap for the remaining maturities. Although the deposits have short contractual maturities, according to the bank's analysis of the behaviour of depositors, 85% and 80% of the demand deposits and 70% and 97% of the time deposits in Turkish lira and FX, respectively, are renewed at their respective maturities. Denizbank has reportedly been in full compliance with the guidelines introduced by the BRSA at end-H107.

Capital

Equity grew by 24% in 2007 and represented 9% of assets at end-2007 (2006: 9.21%), mainly through retained earnings. In order to support the future growth of assets, Dexia provided Denizbank with subordinated loans totalling EUR212m in three consecutive tranches in December 2006, June 2007 and September 2007, each with 10-year final maturity. In February 2008 an additional USD200m was provided by Dexia and a capital increase of TRY400m is planned to be realised in H108. Tier 1 and total capital ratios both fell due to growth in risk-weighted assets and also as a result of the inclusion of operational risk changes, and equalled 9.79% (2006: 11.77%) and 12.55% (2006: 13.84%), respectively, at end-2007. Free capital equalled a comfortable 84% of equity at end-2007. BRSA increased the risk weighting of most of the non-cash loans to 100% from 50% and 20% from January 2008, with an estimated 88 basis points reduction in comparison to total capital ratio at end-2007. Capitalisation is considered just adequate by Fitch, given the effect of the change in risk weightings, concentrated loan portfolio, rapid loan growth and volatile operating environment. Higher capital would provide a cushion against potential problems.

Balance Sheet Analysis

DENIZBANK A.S.

	31 Dec 2007				31 Dec 2006		31 Dec 2005	
	Year End USDm Original	Year End TRYth Original	As % of Assets Original	Average TRYth Original	Year End TRYth Original	As % of Assets Original	Year End TRYth Original	As % of Assets Original
A. LOANS								
1. Loans and Advances < 3 months	3,243.6	3,876,092.0	20.79	3,438,982.5	3,001,873.0	20.41	n.a.	-
2. Loans and Advances 3 - 12 months	2,624.4	3,136,119.0	16.82	2,722,744.5	2,309,370.0	15.70	n.a.	-
3. Loans and Advances > 1 year	5,355.7	6,400,017.0	34.32	4,993,927.0	3,587,837.0	24.40	n.a.	-
4. Loan Impairment (to deduct from above)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
5. Loan Impairment (memo)	182.1	217,599.0	1.17	190,572.5	163,546.0	1.11	122,412.0	1.02
6. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL A	**11,223.6**	**13,412,228.0**	**71.93**	**11,155,654.0**	**8,899,080.0**	**60.52**	**6,252,275.0**	**52.16**
B. OTHER EARNING ASSETS								
1. Loans and Advances to Banks	966.1	1,154,447.0	6.19	2,111,901.0	3,069,355.0	20.87	2,669,685.0	22.27
2. Government Securities	1,989.8	2,377,819.0	12.75	1,755,975.0	1,134,131.0	7.71	1,406,878.0	11.74
3. Trading Assets	137.4	164,227.0	0.88	146,231.0	128,235.0	0.87	193,891.0	1.62
4. Derivatives	127.6	152,465.0	0.82	100,080.0	47,695.0	0.32	7,059.0	0.06
5. Other Securities and Investments	147.0	175,653.0	0.94	196,048.5	216,444.0	1.47	229,003.0	1.91
6. Equity Investments	7.8	9,334.0	0.05	9,082.5	8,831.0	0.06	129,529.0	1.08
7. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL B	**3,375.7**	**4,033,945.0**	**21.63**	**4,319,318.0**	**4,604,691.0**	**31.31**	**4,636,045.0**	**38.68**
C. TOTAL EARNING ASSETS (A+B)	**14,599.3**	**17,446,173.0**	**93.56**	**15,474,972.0**	**13,503,771.0**	**91.83**	**10,888,320.0**	**90.84**
D. TANGIBLE FIXED ASSETS	**140.1**	**167,421.0**	**0.90**	**149,438.5**	**131,456.0**	**0.89**	**131,381.0**	**1.10**
E. NON-EARNING ASSETS								
1. Cash and Due from Banks	587.3	701,766.0	3.76	788,491.0	875,216.0	5.95	769,854.0	6.42
2. Other	277.9	332,040.0	1.78	263,312.0	194,584.0	1.32	196,483.0	1.64
F. TOTAL ASSETS	**15,604.5**	**18,647,400.0**	**100.00**	**16,676,213.5**	**14,705,027.0**	**100.00**	**11,986,038.0**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING								
1. Due to Customers < 1 year	8,489.4	10,144,888.0	54.40	9,388,358.0	8,631,828.0	58.70	n.a.	-
2. Due to Customers > 1 year	566.7	677,229.0	3.63	494,541.0	311,853.0	2.12	n.a.	-
3. Due to Customers, no breakdown	n.a.	n.a.	-	n.a.	n.a.	-	7,019,147.0	58.56
4. Deposits from Banks	1,204.4	1,439,226.0	7.72	1,207,100.0	974,974.0	6.63	792,989.0	6.62
5. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL G	**10,260.5**	**12,261,343.0**	**65.75**	**11,089,999.0**	**9,918,655.0**	**67.45**	**7,812,136.0**	**65.18**
H. OTHER LIABILITIES								
1. Derivatives	182.4	218,012.0	1.17	132,146.0	46,280.0	0.31	12,759.0	0.11
2. Trading Liabilities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
4. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL H	**182.4**	**218,012.0**	**1.17**	**132,146.0**	**46,280.0**	**0.31**	**12,759.0**	**0.11**
I. OTHER FUNDING								
1. Long-term Borrowing	2,814.4	3,363,223.0	18.04	3,031,979.5	2,700,736.0	18.37	2,624,520.0	21.90
2. Subordinated Debt	303.4	362,506.0	1.94	264,626.0	166,746.0	1.13	0.0	0.00
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
TOTAL I	**3,117.8**	**3,725,729.0**	**19.98**	**3,296,605.5**	**2,867,482.0**	**19.50**	**2,624,520.0**	**21.90**
J. NON-INTEREST BEARING	**639.5**	**764,250.0**	**4.10**	**641,189.0**	**518,128.0**	**3.52**	**424,952.0**	**3.55**
K. HYBRID CAPITAL								
1. Hybrid capital accounted for as equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
2. Hybrid Capital accounted for as debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
L. TOTAL LIABILITIES	**14,200.3**	**16,969,334.0**	**91.00**	**15,159,939.5**	**13,350,545.0**	**90.79**	**10,874,367.0**	**90.73**
M. EQUITY								
1. Common Equity	1,388.5	1,659,314.0	8.90	1,500,627.5	1,341,941.0	9.13	994,556.0	8.30
2. Minority Interest	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-
3. Revaluation Reserves	15.7	18,752.0	0.10	15,646.5	12,541.0	0.09	117,115.0	0.98
TOTAL M	**1,404.2**	**1,678,066.0**	**9.00**	**1,516,274.0**	**1,354,482.0**	**9.21**	**1,111,671.0**	**9.27**
MEMO: CORE CAPITAL	**1,371.1**	**1,638,505.0**	**8.79**	**1,490,223.0**	**1,341,941.0**	**9.13**	**994,131.0**	**8.29**
MEMO: ELIGIBLE CAPITAL	**1,371.1**	**1,638,505.0**	**8.79**	**1,490,223.0**	**1,341,941.0**	**9.13**	**994,131.0**	**8.29**
N. TOTAL LIABILITIES & EQUITY	**15,604.5**	**18,647,400.0**	**100.00**	**16,676,213.5**	**14,705,027.0**	**100.00**	**11,986,038.0**	**100.00**
Exchange Rate		USD1 = TRY 1.1950			USD1 = TRY 1.4090		USD1 = TRY 1.3451	

Income Statement Analysis
DENIZBANK A.S.

	31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Income Expenses TRYth Original	As % of Total AV Earning Assts Original	Income Expenses TRYth Original	As % of Total AV Earning Assts Original	Income Expenses TRYth Original	As % of Total AV Earning Assts Original
1. Interest Income	2,057,492.0	13.30	1,525,328.0	12.51	1,030,039.0	11.52
2. Interest Expense	1,143,699.0	7.39	794,524.0	6.51	500,952.0	5.60
3. NET INTEREST REVENUE	**913,793.0**	**5.90**	**730,804.0**	**5.99**	**529,087.0**	**5.92**
4. Net Fees & Commissions	189,401.0	1.22	168,706.0	1.38	156,593.0	1.75
5. Net Insurance Revenue	n.a.	-	n.a.	-	n.a.	-
6. Other Operating Income	96,907.0	0.63	29,297.0	0.24	96,426.0	1.08
7. Personnel Expenses	364,325.0	2.35	266,565.0	2.19	203,526.0	2.28
8. Other Operating Expenses	299,888.0	1.94	258,181.0	2.12	222,225.0	2.49
9. PRE-IMPAIRMENT OPERATING PROFIT	**535,888.0**	**3.46**	**404,061.0**	**3.31**	**356,355.0**	**3.99**
10. Loan Impairment Charge	118,915.0	0.77	86,726.0	0.71	66,716.0	0.75
11. Other Credit Impairment and Provisions	n.a.	-	n.a.	-	n.a.	-
12. OPERATING PROFIT	**416,973.0**	**2.69**	**317,335.0**	**2.60**	**289,639.0**	**3.24**
13. Other Income and Expenses	-6,136.0	-0.04	74,269.0	0.61	16,066.0	0.18
14. PUBLISHED PRE-TAX PROFIT	**410,837.0**	**2.65**	**391,604.0**	**3.21**	**305,705.0**	**3.42**
15. Taxes	69,582.0	0.45	49,315.0	0.40	74,492.0	0.83
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-
17. Change in Value of AFS investments	6,211.0	0.04	-104,574.0	-0.86	2,037.0	0.02
18. CurrencyTranslation Differences	n.a.	-	n.a.	-	n.a.	-
19. Other Gains/(Losses) not in Published Net Income	n.a.	-	n.a.	-	n.a.	-
20. FITCH COMPREHENSIVE INCOME	**347,466.0**	**2.25**	**237,715.0**	**1.95**	**233,250.0**	**2.61**
21. Total Gains/(Losses) not in Published Net Income	6,211.0	0.04	-104,574.0	-0.86	2,037.0	0.02
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	n.a.	-
23. PUBLISHED NET INCOME	**341,255.0**	**2.21**	**342,289.0**	**2.81**	**231,213.0**	**2.59**

Ratio Analysis
DENIZBANK A.S.

		31 Dec 2007	31 Dec 2006	31 Dec 2005
		Year End TRYth Original	Year End TRYth Original	Year End TRYth Original
I. PERFORMANCE				
1. Net Interest Margin	%	5.90	5.99	5.93
2. Loan Yield	%	13.41	14.11	12.10
3. Cost of Funds	%	7.95	6.84	5.82
4. Costs/Average Assets	%	3.98	3.93	4.25
5. Costs/Income	%	55.35	56.50	54.44
6. Pre-Impairment Operating ROAA	%	3.21	3.03	3.55
7. Operating ROAA	%	2.50	2.38	2.89
8. Pre-impairment Operating ROAE	%	35.34	32.77	35.91
9. Operating ROAE	%	27.50	25.74	29.19
II. CAPITAL ADEQUACY				
1. Internal Capital Generation	%	22.92	19.28	23.51
2. Core Capital/Total Assets	%	8.80	9.13	8.29
3. Eligible Capital/Regulatory Weighted Risks	%	10.25	12.36	13.54
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	10.36	12.47	15.14
5. Tier 1 Regulatory Capital Ratio	%	9.79	11.77	13.22
6. Total Regulatory Capital Ratio	%	12.55	13.84	14.69
7. Free Capital/Equity	%	83.58	87.02	72.71
III. LIQUIDITY (year end)				
1. Liquid Assets/Deposits & Money Mkt Funding	%	25.12	20.26	27.86
2. Loans/Deposits	%	123.93	99.50	89.07
IV. ASSET QUALITY				
1. Loan Impairment Charge/Gross Loans (av.)	%	1.05	1.12	1.38
2. Total Credit Impairment/Pre-impairment Operating Profit	%	22.19	21.46	18.72
3. Loan Impairment/Gross Impaired Loans	%	76.31	96.24	90.62
4. Individual Loan Impairment/Gross Impaired Loans	%	n.a.	n.a.	n.a.
5. Impaired Loans Gross / Loans Gross	%	2.09	1.88	2.12
6. Impaired Loans Net/Eligible Capital	%	4.12	0.48	1.28
7. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.

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