

Turkey
Credit Update

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 Support Rating | |
| | C 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 |

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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.