MOODY'S
INVESTORS SERVICE

Credit Opinion: GarantiBank International N.V.

Global Credit Research - 15 Sep 2010

Amsterdam, Netherlands

Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits	Baa1/P-2
Bank Financial Strength	C-
Subordinate -Dom Curr	Baa2
Ult Parent: General Electric Company	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured	Aa2
Subordinate Shelf	(P)Aa3
Commercial Paper	P-1
Parent: Turkiye Garanti Bankasi AS	
Outlook	Stable
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Baa1/P-2
NSR Bank Deposits -Dom Curr	Aa1.tr/TR-1
Bank Financial Strength	C-

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Key Indicators

GarantiBank International N.V.

	[1]2010	2009	2008	2007	2006	Avg.
Total Assets (EUR billion)	3.19	3.66	3.63	3.39	2.86	[2]13.83
Total Capital (EUR billion)	0.34	0.33	0.33	0.30	0.26	[2]9.35
Return on average assets	1.25	0.77	0.99	1.12	0.92	0.96
Recurring earnings power [3]	2.35	1.73	1.50	1.47	1.44	1.55
Net interest margin	2.66	1.63	1.52	1.46	1.53	1.60
Cost/income ratio (%)	44.49	51.16	56.16	39.85	44.29	47.39
Problem loans % gross loans	1.70	1.39	0.95	0.24	0.31	0.62
Tier 1 ratio (%)	12.92	11.86	9.92	11.00	10.70	11.49

[1] As of June 30. [2] Compound annual growth rate. [3] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a Bank Financial Strength Rating (BFSR) of C- to GarantiBank International N.V. (GBI), which translates into a Baseline Credit Assessment (BCA) of Baa2. The rating reflects GBI's role as a niche player in a number of competitive market segments - notably in international trade and commodity finance, in structured finance but also in internet deposits in the Netherlands and Germany. The BFSR also takes into consideration the bank's financial fundamentals, its significant exposure and concentrations to emerging markets, particularly the risks associated with the Turkish market and the CIS countries, as well as the steps taken by the bank to mitigate these risks.

GBI's Baa1 long-term global local currency (GLC) deposit rating is based on its intrinsic creditworthiness as well as Moody's expectation of a very high probability of support in case of need from the parent, Türkiye Garanti Bankasi A.S. (C- BFSR, Baa1/P-2 domestic currency and Ba3/NP foreign currency ratings, with stable outlook), which holds 100% of GBI shares. The debt and deposit ratings thus enjoy a one-notch uplift from the Baa2 BCA.

Credit Strengths

- An established franchise with a good competitive position, albeit in relatively narrow niches

- Resilient funding profile as demonstrated during the financial crisis

- Overall short-term maturity of the assets and agile balance sheet structure providing some flexibility to the bank in a downturn

Credit Challenges

- Significant, albeit reducing, exposure to emerging markets and especially to Turkey and the CIS countries

- Potential volatility of revenues linked to treasury activities as well as commodity finance and exposure to emerging markets, although GBI's treasury revenues have historically shown little volatility

- Risk concentrations, both in terms of geographies and of counterparties

- Limited earnings diversification

- Deteriorating asset quality, albeit from good historical level

Rating Outlook

The outlook on the BFSR and long-term ratings is negative. This outlook reflects the potential impact over the bank's financial fundamentals of the still challenging macro-economic environments where GBI mainly operates. Furthermore, the bank's significant borrower concentrations and high exposure to emerging markets combined with inherent volatility of its trade finance and trading activities in turn induces some volatility of its revenue base and exerts pressure on its asset quality.

What Could Change the Rating - Up

Given the negative outlook, Moody's views any upgrade of the BFSR as unlikely in the foreseeable future.

What Could Change the Rating - Down

Factors that would likely exert downward pressure on the BFSR include:

- Significant deterioration in credit underwriting conditions or standards in trade and commodity finance leading to an increased credit risk cost and/or a weakening in asset quality

- Increase in borrower, sector risk and geographic concentrations, in related-party lending exposures as well as in emerging market exposures

- An increased dependence on volatile earnings, especially treasury revenues, and a resulting higher market risk appetite

- A weakening of the capital ratios lowering the bank's loss absorption capacity

- Evidence of lower stability of its funding base, notably of its retail deposit base

Recent Results and Company Events

At year-end 2009, the bank reported total income of EUR129 million, up 8% from EUR120 million at year-end 2008. Net Interest Income (NII) improved slightly during the period due to lower cost of funding and results on financial transactions increased to EUR30 million (vs. YE 2008: EUR20 million) mainly as a result of higher trading income on debt securities. Fees and commissions remained roughly stable at EUR29 million while other income were slightly down to EUR24 million (vs. YE 2008: EUR28 million).

The bank's operating expenses were down 3% to EUR60 million (vs. YE 2008: EUR62 million).

At year-end 2009, GBI reported a net profit of EUR28 million down 20% from year-end 2008. The decrease in net profit was mainly attributable to higher value adjustments on receivables amounting to EUR25 million for FY 2009 vs. EUR 8 million for FY 2008.

At end-June 2010, the bank reported a net profit of EUR 21 million, up 68% from EUR 13 million at end-June 2009.

The main driver for the improvement in net profit is the Net Interest Income, which stood at EUR 41 million in H1 2010, up from EUR 16 million in H1 2009. Fees and Commissions also improved to EUR 18 million from EUR 14 million while results on financial transactions and other income were lower. In the first half of 2010, operating expenses increased slightly to EUR 32 million while the cost of risk increased to EUR 8 million from EUR 7 million for H1 2009, but was down from its peak in H2 2009 (ca. EUR 18 million).

In late May 2010, GBI finalized the transfer of its Romanian branch's activities to GE Garanti Bank, a new credit institution held 70% by Türkiye Garanti Bankasi A.S., GBI's parent, and 30% by General Electric Capital Corporation. Following the transfer of its activities, the Romanian branch has ceased its activities.

DETAILED RATING CONSIDERATIONS

Detailed considerations for GBI's currently assigned ratings are based only on the latest financial report available under Basel II, which has year-end 2009 figures. The trends also reflect the latest financial fundamentals, as displayed in the bank's half-year 2010 public financial statements.

Bank Financial Strength Rating

Moody's assigns a Bank Financial Strength Rating (BFSR) of C- to GarantiBank International N.V. (GBI), which translates into a Baseline Credit Assessment (BCA) of Baa2. The rating reflects GBI's role as a niche player in a number of competitive market segments but also its financial fundamentals. The BFSR also takes into consideration the bank's significant exposure and concentrations to emerging markets, particularly the risks associated with the CIS countries and Turkish market - though the latter performed relatively well during last year's global financial crisis-, as well as the steps taken by the bank to mitigate these risks.

As a point of reference, GBI's BFSR of C- is two notches lower than the C+ outcome of Moody's bank financial strength scorecard. We view the C- rating as an appropriate measure of the bank's financial strength given its geographic mix of earnings and assets, and the still high level of credit risk concentration. We also believe the scorecard fails to capture the bank's risk profile resulting from its size, business mix and risk concentrations as well as the challenging operating environment in the countries in which the bank is active, notably the Netherlands, the CIS and Turkey - although the latter has shown more stability last year.

Qualitative Factors (50%)

Factor: Franchise Value

Trend: Neutral

GBI is a Netherlands-based niche commercial bank specializing in trade and commodity finance, but which has also developed several other activities, including private banking, shipping and project finance and trading activities.

The activities are currently organized in five main divisions:

(i) Trade Finance (27% of total revenues at year-end 2009), which is active in international trade and commodity finance. This division was previously the largest contributor with more than 50% of the bank's revenues in the recent years. The sharp decline in 2009 was due to the contraction of the trade finance market and the decision by the bank in September 2008 to do trade finance activities with only a limited number of counterparties to mitigate risks and enhance the bank's liquidity.

(ii) Private Banking (18%), which offers tailor-made financial services to high net worth clients. Around a third of the clients are Turkish individuals and institutional clients willing to invest in international global markets and who are unable to do so with local banks. In addition, GBI serves clients in several countries of the Middle-East and also European clients looking for investment opportunities in Turkey. Although the bank could benefit from referrals from its parent, it recruits most of its customers directly.

(iii) Treasury (44%), which is responsible for commercial trading activities in addition to taking care of the balance sheet risk management of the bank, i.e. liquidity management.

The bank's commercial trading activities are essentially constituted of investments in bonds and flow driven intraday trading, either directly for other banks or for the bank's private clients (see private banking above). The bank essentially acts as a market maker on Turkish financial products.

The contribution of this division increased significantly in 2009 (to 44% of total revenues vs. 27% in 2008). This shift was driven by the decision to enhance liquidity at the bank during the crisis by reducing exposure to trade finance and temporarily investing the cash surplus in high investment grade bonds.

(iv) Structured Finance (8%), which was created in 2008, is the combination of activities in shipping and project finance (previously carried out by the international trade finance business unit). In this business unit, the bank also conducts an Islamic finance business (a fast growing but still marginal business) and an account management business.

(v) Corporate & Commercial Banking (3%) was set up in May 2009 and targets large Turkish corporations and multinationals based in Turkey. This activity remains small for now but is expected to grow in importance in the coming years.

The activities in the business units described above are supported on the liability side by a direct retail deposit taking activity, which is carried out in the Netherlands and in Germany, through call centres and over the Internet. Since it launched its retail deposit activity in 1995 (the Internet channel was launched in 2001), GBI has developed an established foothold in Netherlands and later in Germany, which now account for approximately one third and two thirds of the total retail deposits in the balance sheet, respectively.

We positively note that the bank has been able to maintain its market shares in retail deposits despite the strong competition in the Netherlands, which was intensified by the disruption of access to market funding. Moody's cautions however that we consider Internet based deposits as inherently more and highly sensitive to the reputational risk.

In Moody's view, the sale of the Romanian activities was neutral to the franchise value of the bank.

At year-end 2009, the breakdown of GBI's revenues by geographies was a follows:

- The Netherlands (8%);

- Turkey (46%);

- The CIS (12%); and

- Europe excluding the Netherlands (30%).

(The above percentages are based on the country where the service/product was originated.)

We note that the contribution of the CIS has been reduced compared to 2008 (17%), and it is our understanding that this reduction was mostly linked to the temporary reduction of trade finance activities in 2009 (see above in (i). We expect the contribution of the Trade Finance division to pick up in 2010 and that of the Treasury division to be comparable to 2008 levels.

In light of the bank's business mix, Moody's considers the bank's earnings to be volatile relative to traditional banking activities. This is reflected in the scorecard D score for franchise value, which is also based on the bank's narrow niche business profile resulting in limited diversification as well as constrained market share.

Factor: Risk Positioning

Trend: Neutral

GBI has well-established credit monitoring processes and practices and selective credit selection. In general, the control culture appears to be tight.

In the past, GBI used to have very large related-party exposures, either to its direct parent or to other members of the Dogus group which holds 30.52% of Türkiye Garanti Bankasi. The level of related-party exposures stood at 68% of GBI's shareholders' equity at year-end 2006. The bank has since then gradually reduced these exposures, which reached a minimum at year-end 2007 (11% of GBI's shareholders' equity) but have since then increased (to 15% at year-end 2008 and in turn to 26% at year-end 2009).

We view positively the overall reduction of the related-party exposures compared to their historical levels. Any significant increase of such exposures could potentially adversely exert pressure on the rating.

Furthermore, credit risk concentrations remain high, as results from large exposures to a limited number of counterparties, as evidenced by the top 20 bank and corporate credit exposures with a rating lower than A3 which amounts to multiples of the Tier 1 capital.

On the positive side, we note that over the last years, the bank has reduced its exposures to Turkish and CIS bonds, which accounted for 35% and 18% of bond exposures at year-end 2009, respectively (2008: 66% and 33%, respectively). It is our understanding that the exposures to Western European securities represented around 22% of the bond portfolio at year-end 2009, while Romania accounted for 16% and the USA for 9%.

We expect the bank's overall exposure to the CIS (including loans and securities) to increase as trade finance activities pick up. Moody's will continue to closely monitor the evolution of the credit risk concentration, especially to operating environments for which Moody's outlook mostly remains negative.

We note that the level of impaired loans is not publicly disclosed. More generally, the bank offers limited public disclosure on asset quality and capital adequacy. However, this information is available for our analysis upon request, on a confidential basis.

Liquidity risk management appears prudent, with the bank able to use its experience of the banking crisis that affected Turkey in 2000 and 2001. Although Moody's cautions that deposits at foreign-owned banks may be subject to higher volatility during times of crisis, during 2008/2009 GBI's retail deposits from Germany and the Netherlands have in fact proved sticky and have been well-monitored in order to determine the size of the liquidity reserve and the extent of bilateral facilities. Customer deposits remain the bank's main source of funding (84% at end-June 2010). For more details, please refer to the Liquidity section.

On the positive side, we also note a large proportion of the bank's portfolio has a maturity of less than a year (at year-end 2009, 20% of all credit exposures were due within one month and 71% within a year). In Moody's view, the short duration of the assets are a key strength, as it gives the bank more flexibility to adapt its balance sheet structure in case of liquidity stress. This is evidenced by the reduction of trade finance exposures in 2009. For more details, please refer to the Franchise Value section under (i).

GBI's overall score of D- for risk positioning is in line with our assessment, given the bank's focus on niche activities which we view as inherently risky, and given the bank's exposures to still challenging operating environments.

Factor: Regulatory Environment

Please refer to Moody's Banking System Outlook for the Netherlands, published in July 2010, to obtain a detailed discussion of the regulatory environment

Factor: Operating Environment

Trend: Weakening

This factor is also common to banks active in the Dutch banking system. However in the case of GBI, our assessment of this factor is adjusted to reflect the distribution of revenues and assets in different countries, notably the Netherlands, Turkey, the CIS, etc.

Consequently, the scores are based on the estimated weighted average of our scores for the countries that significantly contribute to its assets and revenues.

The weakening trend is in line with the negative trend for the majority of the banking systems mentioned above.

Quantitative Factors (50%)

Factor: Profitability

Trend: Neutral

Until 2008, the bank traditionally derived half of its earnings from its trade finance business, but in 2009 the bank intentionally reduced the exposure to this business in order to enhance the liquidity positioning and also to limit the exposures to a number of selected counterparties.

For more details on contributions by divisions, please refer to the Franchise Value section under (i).

The reduced contribution from its Trade Finance division in 2009 was offset by higher contribution from the Treasury division, notably as a result of higher trading revenues. These resulted from the investment of the bank's excess liquidity in investment grade sovereign, banking and corporate bond.

It is our understanding that the bank expects its trade finance activities to pick up in 2010 and going forward, we anticipate the earnings mix to be somewhat similar to that of 2008.

At year-end 2009, the bank's Pre-Provision Profit (PPP) improved to EUR 63 million (2008: EUR 53 million), as the bank's Net Banking Income (NBI) improved to EUR 129 million and operating expenses remained stable at EUR 66 million (2008: EUR 120 million and EUR 67 million, respectively). For the first half of 2010, the PPP further improved to EUR 40 million (H1 2009: EUR 23 million) while the net profit stood at EUR 21 million (H1 2009: EUR 13 million).

At year-end 2009, the bank's cost of risk increased to EUR 25 million (2008: EUR 8 million), corresponding to 154 bps over gross loans (2008: 77 bps). On a proforma basis after the sale of the Romanian branch, the cost of risk would have stood at EUR 16 million.

On an annualized basis, the cost of risk for the first half of 2010 has slightly improved compared to H2 2009 which was the peak (ca. EUR 18 million). That said, Moody's cautions that the bank is exposed to still challenging macro-economic environments which could potentially result in further impairment charges, thus reducing the bottom-line profit.

Furthermore, we will also continue to monitor the potential impact on net interest margins of the fierce competition over deposits in the Netherlands, as many institutions have recently started to collect deposits to compensate for higher cost of market funding. For more details, please refer to Moody's Banking System Outlook for the Netherlands published in July 2010.

Our assessment of the bank's profitability going forward is in line with the C+ score generated by the scorecard.

Factor: Liquidity

Trend: Neutral

The bank's current liquidity profile is, in our view, a credit strength. The strong liquidity of the bank results from the predominance of retail deposits which has proved sticky, even during the crisis. We caution that Internet based deposits are inherently more volatile and highly sensitive reputational risk. However, we note that the bank has been able to maintain its deposit base without acting as a price leader.

Another driver for GBI's strong liquidity is the short duration of a large proportion of its assets, which gives the bank more flexibility to adapt its balance sheet structure in case of liquidity stress. For more details, please refer to the Risk Positioning section and Franchise Value under (i).

At end-June 2010, the bank had the following funding sources:

- deposits (84% of total funding), offered through internet or call centres;

- interbank (15%); and

- subordinated debt (1%).

The bank has historically had little recourse to market funding, with the exception of interbank funds, which represented up to a third of the funding at year-end 2006.

GBI's ratio of liquid assets (estimated as the sum of cash & due from central banks, interbank exposures and securities) to total assets was high at 52% at end-June 2009, in line with year-end 2009. Moody's cautions, however, that the ratio includes interest-bearing securities from emerging countries (chiefly Turkey and Russia), which may prove less liquid than expected in a stress situation.

The overall liquidity score is B-, which we believe is a fair representation of the bank's current liquidity profile.

Factor: Capital Adequacy

Trend: Neutral

At year-end 2009, GBI reported a Tier 1 ratio of 11.85% and stood at 12.92% at end-June 2010. The Tier 1 capital is constituted of core Tier 1 components, as the bank did not issue any hybrid.

While the ratio appears to be high, we note that the following elements should also be taken into consideration:

(i) The higher minimum capital ratios requirements of the Dutch regulator applicable to GBI and similar banks, meaning that the "headroom" over the regulatory requirement is lower than might appear, although it is still adequate;

(ii) The bank's exposure to challenging macro-economic environments;

(iii) Rapid growth in RWAs under the current basis of calculation, which weighs on the capital adequacy score;

(iv) In accordance with the regulator, absent any dividend payment for three consecutive years, the net profit for the year 2009 was added to the Tier 1 capital at year-end 2009, before being affected to the reserves.

Nonetheless, Moody's views positively the fact that GBI has made significant efforts in terms of Basel II implementation as well as its adoption of the internal ratings based approach to the credit risk calculation. GBI also opted for the standardised approach to market risk and for the basic indicator approach to operational risk.

Moody's will continue to monitor the development of capital adequacy ratios closely, especially in view of the current market conditions to make sure that the bank benefits from a sufficient capital buffer to potentially absorb increasing losses resulting from the likely worsening of its asset quality.

In that respect, we note that the sale of the Romanian branch should be beneficial to the bank's capital adequacy.

The scorecard generates a score of A for capital adequacy. In our view, this score fails to adequately reflect the capital adequacy at GBI, which we would see as slightly weaker, given the bank's business mix and exposures.

Factor: Efficiency

Trend: Neutral

At end-June 2010, GBI's cost-to-income ratio stood at 44.5%, down from 51.1% at year-end 2009. The ratio, which was back to the pre-crisis levels, was boosted by the increase in NBI and stability of operating expenses, thanks to strict control over expenses in recent years.

We view GBI's efficiency as satisfactory, given the absence of any branch network.

Furthermore, we note that the ratio was inflated by the expansion costs of the Romanian activities. At year-end 2009, the ratio would have stood at 37.7% excluding Romania (source: issuer).

The scorecard generates a score of B for efficiency. This score does not take into account the recent improvements in the first half of 2010 and we would view the bank's efficiency as slightly better.

Factor: Asset Quality

Trend: Weakening

GBI's tight credit selection, based in particular on a dual counterparty risk and transaction risk scoring system historically contributed to very low credit losses.

That said, we note that the bank's asset quality has weakened since year-end 2007, and under Moody's own calculation, impaired retail and corporate loans accounted for approximately 1.4% of total gross loans at year-end 2009 (YE 2008: 0.95%; YE 2007: 0.24%).

Retail loans and corporate loans accounted for one third and two thirds of the impairments on loans, respectively.

That being said, it is to be noted that at year-end 2009, the bulk of the impairments on the retail loans were linked to retail loans in Romania, which have since then been disposed off (for more details, please refer to the Recent Results and Developments section).

On the positive side, we note the high level of specific provisions on the loan portfolio.

In addition, we note that in 2009, the bank booked impairments on its exposures to financial institutions and to securities, for approximately EUR 2.4 million and EUR 8 million, respectively, and which were also provisioned satisfactorily, in our view.

The score for asset quality is B+, which in our view reflects the overall satisfactory current asset quality. That being said, we caution that the bank's exposure to still challenging macro-economic environments and to more risky businesses such as trade finance may result in further impairments, thus unfavorably impacting the bank's asset quality.

The bank's ability to restore asset quality while continuing to grow its franchise will be closely monitored by Moody's.

Global Local Currency Deposit Rating (Joint Default Analysis)

GBI's Baa1 long-term global local currency (GLC) deposit rating is based on its intrinsic creditworthiness as well as Moody's expectation of a very high probability of support in case of need from the parent, Türkiye Garanti Bankasi A.S. (C- BFSR, Baa1/P-2 domestic currency and Ba3/NP foreign currency ratings, with stable outlook). Under Moody's assessment, GBI would not benefit from systemic support in the event of stress, in light of its niche franchise and modest market shares in the Netherlands.

Notching Considerations

In line with Moody's new methodology entitled "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", published on 16 November 2009, GBI's dated subordinated debt is rated Baa2 with negative outlook, i.e. one notch below the bank's senior debt rating.

Foreign Currency Deposit Rating

GBI's foreign currency deposit ratings of Baa1/Prime-2 are not constrained by the Dutch country ceiling for foreign currency deposits and are thus at the same level as the local currency ratings.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

GarantiBank International N.V.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**D+**	
Factor: Franchise Value						**D**	**Neutral**
Market Share and Sustainability				**x**			
Geographical Diversification			**x**				
Earnings Stability					**x**		
Earnings Diversification [2]							
Factor: Risk Positioning						**D-**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		**x**					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency					x		
- Global Comparability			x				
- Frequency and Timeliness					x		
- Quality of Financial Information					x		
Credit Risk Concentration					**x**		
- Borrower Concentration					x		

- Industry Concentration		x					
Liquidity Management			**x**				
Market Risk Appetite			**x**				
Factor: Operating Environment						**A**	**Weakening**
Economic Stability	**x**						
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**B**	
Factor: Profitability						**C+**	**Neutral**
PPP % Avg RWA - Basel II		2.71%					
Net Income % Avg RWA - Basel II			1.21%				
Factor: Liquidity						**B-**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets	-32.40%						
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%) - Basel II	11.86%						
Tangible Common Equity / RWA - Basel II	11.85%						
Factor: Efficiency						**B**	**Neutral**
Cost/income ratio		51.16%					
Factor: Asset Quality						**B+**	**Weakening**
Problem Loans % Gross Loans		1.39%					
Problem Loans % (Equity + LLR)	7.26%						
Lowest Combined Score (15%)						**B-**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C+**	
Assigned BFSR						**C-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral