

Global Credit Research - 10 Oct 2011

Amsterdam, Netherlands

### Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa1/P-2
Bank Financial Strength	C-
Baseline Credit Assessment	Baa2
Adjusted Baseline Credit Assessment	Baa1
Subordinate -Dom Curr	Baa2
<b>Parent: Turkiye Garanti Bankasi AS</b>	
Outlook	Stable(m)
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-
Baseline Credit Assessment	Baa1
Adjusted Baseline Credit Assessment	Baa1
Senior Unsecured	Ba1

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### Key Indicators

#### GarantiBank International N.V. (Consolidated Financials)[1]

	[2]12-10	[2]12-09	[2]12-08	[3]12-07	[3]12-06	Avg.
Total Assets (EUR million)	3,532.0	3,657.3	3,626.7	3,394.9	2,856.2	[4]5.5
Total Assets (USD million)	4,738.3	5,247.3	5,041.3	4,963.4	3,766.3	[4]5.9
Tangible Common Equity (EUR million)	322.3	275.3	247.3	212.4	177.5	[4]16.1
Tangible Common Equity (USD million)	432.3	394.9	343.7	310.6	234.1	[4]16.6
Net Interest Margin (%)	2.0	1.3	1.2	1.4	1.3	[5]1.5
PPI / Avg RWA (%)	3.1	2.8	2.5	3.0	2.5	[6]2.8
Net Income / Avg RWA (%)	2.1	1.2	1.6	2.3	1.6	[6]1.6
(Market Funds - Liquid Assets) / Total Assets (%)	-26.5	-16.7	-25.9	-19.2	-14.3	[5]-20.5
Core Deposits / Average Gross Loans (%)	162.6	198.4	209.1	188.7	164.4	[5]184.6
Tier 1 Ratio (%)	14.2	11.8	9.9	11.0	10.7	[6]12.0
Tangible Common Equity / RWA (%)	14.5	11.9	11.6	13.2	12.3	[6]12.6
Cost / Income Ratio (%)	41.0	51.2	56.0	47.4	45.6	[5]48.2
Problem Loans / Gross Loans (%)	3.2	1.5	0.9	--	--	[5]1.9
Problem Loans / (Equity + Loan Loss Reserves) (%)	13.1	8.1	3.5	--	--	[5]8.2

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Basel I; LOCAL GAAP [4] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] LOCAL GAAP reporting periods have been used for average calculation [6] Basel II & LOCAL GAAP reporting periods have been used for average calculation

### Opinion

#### Recent Results and Company Events

On 26 July 2011, we affirmed the C- bank financial strength rating (BFSR), mapping to Baa2 on the long-term scale, the Baa1 long-term deposit and senior debt ratings of GarantiBank International N.V. (GBI), the Prime-2 short-term deposit and debt ratings and Baa2 subordinate debt

ratings. Additionally, we changed the outlook to stable from negative on all these ratings. For further details, please refer to the press release "Moody's affirms GarantiBank International's ratings; outlook changed to stable (Netherlands)" dated July 26th, 2011 .

In 2010, GBI sold its Romanian branch network to its parent, Türkiye Garanti Bankası A.S. (TGB), (C- BFSR, Baa1/P-2 domestic currency ratings, with stable outlooks and Ba3/NP foreign currency ratings, with positive outlooks). Moody's considers the sale as credit positive, because GBI no longer has exposure to this potentially volatile environment. Additionally, risk-weighted assets declined after the sale, and together with the retained earnings of 2010, the Tier 1 ratio increased to a solid 14.2% as at year-end 2010, from 11.9% in 2009.

## **SUMMARY RATING RATIONALE**

GBI's C- BFSR reflects (i) solid capitalisation; (ii) sound profitability, which is supported by its diversified wholesale trade-finance franchise; (iii) good liquidity; and (iii) moderate asset quality. At the same time, the ratings take into account high credit-risk concentrations and cross-border risk due to the geographical imbalance between assets and liabilities. The ratings also consider GBI's emphasis on trade finance and corporate finance revenue that demonstrated a degree of volatility during the economic slowdown, with relatively little revenue diversification and contributions from its other activities (such as private banking). Additional constraining rating factors are (i) the modest market share in the segments where GBI has a presence; and (ii) the evolving nature of its franchise.

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, TGB (C- BFSR, with stable outlook, mapping to Baa1 on the long-term scale, reference point and input for our Joint Default Analysis (JDA)). TGB holds 100% of GBI shares. The debt and deposit ratings therefore incorporate one notch of rating uplift from the Baa2 standalone credit strength.

### **Rating Drivers**

- GBI has a modest, evolving franchise, albeit with a good and competitive position in relatively narrow niches
- The deposit funding base was stable during the financial crisis
- Overall short-term maturity of the assets and the agile balance-sheet structure provides GBI with some flexibility in a market downturn
- A significant, albeit reducing, exposure to emerging markets and especially to Turkey and the CIS countries
- Limited earnings diversification with an emphasis on corporate finance and low default exposure classes such as trade finance
- Risk concentrations, both in terms of geographies and counterparties
- Moderate asset quality, although having stabilised

### **Rating Outlook**

The outlook is stable on the BFSR and on the long-term ratings.

### **What Could Change the Rating - Up**

Over the longer term, positive pressure could be exerted on the BFSR from (i) a reduction in cross-border risk due to the geographical mix of earnings and assets; (ii) an improvement in the high level of credit-risk concentrations; (iii) an improvement in the earnings mix, further diversification away from trade and corporate finance; and/or (iv) a further strengthening of its franchise through growth, without compromising the risk profile. An upgrade in the parent's BFSR or standalone risk assessment could result in a corresponding rise in GBI's GLC deposit ratings.

### **What Could Change the Rating - Down**

Factors that would likely exert downward pressure on the BFSR from (i) a significant deterioration in credit-underwriting conditions, or standards in trade and commodity finance, leading to increased credit-risk costs and/or weakening in asset quality; (ii) an increase in borrower, sector risk and geographical concentrations, in related-party lending exposures and in emerging-market exposures; (iii) increased dependence on volatile earnings, especially treasury revenues, and a resulting higher market-risk appetite; (iv) a significant weakening of the capital ratios lowering the loss-absorption capacity; and/or (v) evidence of lower stability in its funding base, notably within retail deposits.

A downgrade of the parent's BFSR or a remapping of the standalone risk assessment to the lower end of the C- BFSR range (from Baa1 currently) would result in the downgrade of GBI's GLC deposit rating, as it currently incorporates one notch of rating lift from TGB.

## **DETAILED RATING CONSIDERATIONS**

Detailed considerations for GBI's currently assigned ratings are as follows:

### **Bank Financial Strength Rating**

GBI's C- BFSR reflects (i) its role as a niche player in a number of competitive market segments; and (ii) its financial fundamentals. The BFSR also takes into consideration the significant exposure and concentrations to emerging markets, particularly the risks associated with the CIS countries and Turkish market, as well as the steps taken by GBI to mitigate these risks.

As a point of reference, GBI's BFSR of C- is one notch lower than the C outcome of Moody's bank financial strength scorecard. We view the C-rating as an appropriate measure of GBI's financial strength, given (i) its geographical mix of earnings and assets, resulting in cross-border risk; and (ii) the sustained high level of credit-risk concentrations.

We also believe that our scorecard fails to capture GBI's risk profile in terms of its size, business mix, risk concentrations and the evolving nature of its franchise, as well as the challenging operating environment in the countries where it is active.

## Qualitative Factors (50%)

### Factor: Franchise Value

Trend: Neutral

GBI is a Netherlands-based niche commercial bank specialising in trade and commodity finance, although it has also developed several other activities, including private banking, shipping, structured and project-finance and trading activities. The activities are currently organised in five divisions:

(i) Trade Finance (30% of total revenues at year-end 2010), which is active in international trade and commodity finance. This division was previously the largest contributor to revenue, at more than 50%. The sharp decline in 2009 down to 27% of total revenues was due to the contraction of the trade-finance market and GBI's decision to conduct trade finance with only a limited number of counterparties. This was done to mitigate risks and enhance its liquidity. With the resumption in global trade, the contribution from trade-finance activities are on a positive trajectory.

(ii) Private Banking (14%), 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, who are unable to do so with local banks. In addition, GBI serves clients in several Middle-Eastern countries and also European clients looking for investment opportunities in Turkey.

(iii) Treasury (41%), is responsible for commercial trading activities in addition to managing the balance-sheet risk management of the bank, i.e., liquidity management. The commercial trading activities comprise investments in bonds and flow-driven intra-day trading, either directly for other banks or for its private clients.

The contribution of this division is lower than it was in 2009 (at 44% of total revenues) and is expected to gradually return to pre-crisis levels (27% in 2008) with the cyclical return of stronger trade finance earnings. The increase in 2009 was driven by the decision to enhance liquidity during the crisis by reducing exposure to trade finance and investing the cash surplus in high-investment-grade bonds.

(iv) Structured Finance (11%), which was created in 2008, is the combination of activities in shipping and project finance. In this business unit, GBI also conducts an Islamic finance business (a fast-growing but marginal business) and an account-management business. The revenue contribution is on a positive trend, as GBI has increased leverage in this business segment.

(v) Corporate and Commercial Banking (4%) was set up in May 2009 and targets large Turkish corporations and multinationals based in Turkey. This activity remains small for now, although we expect that it will grow in importance in the coming years.

71% of the activities in the business units described above are supported on the liability side by deposits 52% being retail deposits, 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 the Netherlands and later in Germany, which now account for approximately one third and two thirds of the total retail deposits on the balance sheet, respectively. Most of these retail deposits are covered by the Dutch Savings Insurance Scheme.

The deposit base demonstrated robust stability during 2008/2009 and 2010, when GBI maintained its market shares (approximately 10 and 5 bps in Netherlands and Germany respectively, regions it primarily collects deposits). Moody's consider that internet-based deposits are inherently more sensitive to reputational risk. However, we note that GBI has been able to maintain its deposit base, including the internet based ones, without acting as a price leader.

In Moody's view, the sale of the Romanian activities in 2010 was neutral to GBI's franchise value.

At year-end 2010, the breakdown of GBI's revenues by geographies was as follows:

- The Netherlands (8%);
- Turkey (49%);
- The CIS (11%);
- Europe excluding the Netherlands (25%).
- Rest of the world (7%)

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

We note that the contribution of the CIS has reduced compared with 2008 (17%), mainly driven by the lower trade finance from this region. Given the business mix, we consider GBI's earnings as volatile, relative to traditional banking activities. This is reflected in the D- score for franchise value, which is also based on the narrow niche business profile, resulting in limited diversification and constrained market shares.

### 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, at 68% of GBI's shareholders' equity at year-end 2006. Since then, GBI has gradually reduced these exposures, which reached a minimum at year-end 2007 (11% of GBI's shareholders' equity) but have since then increased (to 26% at year-end 2009 and in turn to 37% in 2010). The recent increase was primarily from Garanti Romania, which used to be a GBI branch. After the sale of these branches to TGB, transactions to this entity are now reflected under related-party exposures. The related-party exposures are subject to CRD II (i.e., a maximum of 25% of own funds or EUR150 million in case of cash exposure to a group including

financial institutions). Currently, the non-bank related-party loans are at the upper end of Moody's threshold of 25% of Tier 1 (limit of Moody's neutral assessment). Any significant increase of these exposures could exert negative pressure on our assessment of GBI's risk positioning.

Furthermore, credit-risk concentrations remain high, as evidenced by the top 20 bank and corporate credit exposures, which amounts to multiple of the Tier 1 capital.

GBI's securities composition has varied due to changing market dynamics. Up to 2008, securities investments were predominantly 66% Turkish securities; in 2009, this reduced to 32%, with a greater emphasis on ECB-eligible high-grade investments. In 2010, Turkish securities represented 22%, with a greater shift to the CIS, which was 34% up from 14% a year earlier due to the improved CIS operating environments and the lower yields offered in Turkey. We expect the securities' geographical composition to remain with these regions, with varying weights depending on the respective market dynamics.

We expect GBI's overall CIS exposure (including loans and securities) to increase as trade-finance activities pick up. The level of impaired loans is not publicly disclosed. More generally, GBI offers limited public disclosure on asset quality, although it is available for our analysis, upon request. However, it is our understanding that more detailed asset quality disclosures is planned to be part of the standard public reporting going forward.

Liquidity-risk management appears prudent. 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 remained stable and have been well-monitored in order to determine the size of the liquidity reserve and the extent of bilateral facilities. Customer deposits are GBI's main source of funding at 71% (retail deposits form 52%, as per the year-end 2010 consolidated audited annual report). For more details, please refer to the Liquidity section.

Positively, a large proportion of the portfolio has a maturity of less than a year. At year-end 2010, 39% of all credit exposures were due within one month, 60% within three months and 82% within a year. In Moody's view, the short duration of these assets is a key strength, as it gives GBI more flexibility to adapt its balance-sheet structure in times of liquidity stress. This is evidenced by the reduction of trade-finance exposures in 2009.

GBI's overall score of D for risk positioning is in line with our assessment, given GBI's focus on niche activities which we view as inherently risky, and given its exposure 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: Neutral

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 neutral trend is in line with the trends for the majority of the banking systems mentioned above.

Quantitative Factors (50%)

Factor: Profitability

Trend: Improving

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

The reduced contribution from its trade-finance division in 2009 was offset by the higher contribution from the Treasury division, notably as a result of higher trading revenues and securities interest income resulting from the investment of GBI's excess liquidity in investment-grade sovereign debt, and bank and corporate bonds. In 2010, with the resumption of higher 2010 trade-finance activities, its revenue contribution is gradually increasing and in 2011 we understand that the revenue composition will be more in line with that of 2008. Furthermore, with the structured finance and corporate and commercial banking divisions becoming more established, we expect the revenue composition to continue to diversify.

At year-end 2010, pre-provision income (PPI) was EUR69 million (2009: EUR 63 million), GBI's net income (NI) improved to EUR47 million (2009: EUR 28 million) and operating expenses reduced to EUR48 million (2009: EUR 66 million). The stronger PPI followed a 26% reduction in interest expenses, due to the lower interest-rate environment and a 27% reduction in operating expenses due to the sale of Romania branches. The significant reduction in loan-loss provisions by 83% to EUR4 million, due improved operating environment, positively contributed to net income.

We assign an improving trend for profitability, despite the increasing level of competition in the Dutch deposit market, which may exert pressure on GBI's NIM due to its primarily internet-based deposits base. In our view, these deposits tend to be less "sticky" (stable) and more price-sensitive than traditional branch deposits. However, overall this should be offset by the resumption in global trade-finance activities and growth in GBI's revenue stream.

Our assessment of GBI's profitability is in line with the C score generated by the scorecard.

Factor: Liquidity

Trend: Neutral

GBI has a solid liquidity profile, supported by (i) a low loan-to-deposit ratio of 60%; (ii) a predominance of retail deposits that were stable during the crisis; and (iii) a satisfactory share of liquid assets on its balance sheet. Additionally, the short duration of a large proportion of its assets, gives the bank more flexibility to adapt its balance-sheet structure.

At year-end 2010, GBI had the following funding sources:

- 71% deposit funded (52% represented by retail deposits), offered primarily through internet or call centres;
- Interbank (17%); and
- Subordinated debt (1%).

Historically, GBI has had little recourse to market funding, with the exception of interbank funds, which represented up to a third of its total funding at year-end 2006.

As of year-end 2010, GBI's ratio of liquid assets (estimated as the sum of cash and assets due from central banks, interbank exposures and securities) to total assets was high, at 44%. Moody's cautions, however, that the ratio includes interest-bearing securities from emerging countries (chiefly Turkey and Russia), which may prove difficult to liquidate in a stress situation.

The overall liquidity score is B+, which we believe is a fair representation of GBI's current liquidity profile.

Factor: Capital Adequacy

Trend: Neutral

At year-end 2010, GBI reported a Tier 1 ratio of 14.2% (2009: 11.9%). The Tier 1 capital is of high quality and only constituted of core Tier 1 components, as GBI did not issue any hybrids. The increase in the Tier 1 ratio is underpinned by the decline in risk-weighted assets as a consequence of the sale of the Romanian subsidiary, together with the retained earnings of 2010. GBI applies the Internal Rating Based Approach for credit risk calculation and has opted for the standardised approach to market risk and for the basic indicator approach to operational risk.

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

- (i) The capital ratio requirements of the Dutch regulator based on the balance-sheet composition of the banks, mean that GBI's "headroom" over the regulatory requirement is lower than might appear, although it remains adequate;
- (ii) GBI's exposure to challenging macro-economic environments;

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 than it appears to be, given its business mix and exposures.

Factor: Efficiency

Trend: Improving

At year-end, GBI's cost-to-income (CTI) ratio was 41%, down from 51% at year-end 2009. The ratio has been on an improving trend, boosted by the increase in bank revenue - due to improved operating environments where GBI has a presence - and a reduction in operating expenses, following strict cost control in recent years and GBI's adoption of a more centralised approach. We view GBI's efficiency as solid, given the absence of any branch network.

The scorecard generates a score of C based on the three year-average data for efficiency. The improving trend reflects the improvement in the reported CTI ratio, since 2008.

Factor: Asset Quality

Trend: Neutral

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

That said, we note that GBI's asset quality weakened during the global recession and under Moody's own calculations, impairments accounted approximately for a moderate 3.22% of total gross loans in 2010 (2009: 1.6%). These are predominantly corporate exposures. Loan-loss provisions were reported at 56% and reflect the robust recoveries expected due to the collateralised nature of the credit portfolio.

The three-year average score for asset quality is B+, with the most recent year resulting in a lower C score due to an elevated but still acceptable NPL ratio reported for 2010. We assign a neutral trend to asset quality, as we expect 2011 to yield a lower NPL ratio, which will likely offset the weaker 2010 results. Overall, GBI's solvency is not at any significant threat from its moderate loan book quality, given the current strong capital ratios and revenue generation.

#### **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 Bankası A.S. (C- BFSR, Baa1/P-2 domestic currency ratings, with stable outlooks and Ba3/NP foreign currency ratings, with positive outlooks). 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 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. AAaa 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
<b>Qualitative Factors (50%)</b>						<b>D+</b>	
<b>Factor: Franchise Value</b>						<b>D-</b>	<b>Neutral</b>
Market Share and Sustainability					x		
Geographical Diversification			x				
Earnings Stability					x		
<b>Earnings Diversification [2]</b>							
<b>Factor: Risk Positioning</b>						<b>D</b>	<b>Neutral</b>
<b>Corporate Governance [2]</b>							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
<b>Controls and Risk Management</b>		x					
- Risk Management			x				
- Controls	x						
<b>Financial Reporting Transparency</b>				x			
- Global Comparability			x				
- Frequency and Timeliness					x		
- Quality of Financial Information				x			
<b>Credit Risk Concentration</b>					x		
- Borrower Concentration					x		
- Industry Concentration		x					
<b>Liquidity Management</b>		x					
<b>Market Risk Appetite</b>			x				
<b>Factor: Operating Environment</b>						<b>D+</b>	<b>Neutral</b>
<b>Economic Stability</b>					x		
<b>Integrity and Corruption</b>				x			
<b>Legal System</b>		x					
<b>Financial Factors (50%)</b>						<b>B</b>	
<b>Factor: Profitability</b>						<b>C+</b>	<b>Improving</b>
PPI / Average RWA- Basel II		2.78%					
Net Income / Average RWA- Basel II			1.65%				
<b>Factor: Liquidity</b>						<b>B+</b>	<b>Neutral</b>
(Mkt funds-Liquid Assets) / Total Assets	-23.06%						
<b>Liquidity Management</b>		x					
<b>Factor: Capital Adequacy</b>						<b>A</b>	<b>Neutral</b>
Tier 1 Ratio - Basel II	12.00%						
Tangible Common Equity / RWA- Basel II	12.63%						
<b>Factor: Efficiency</b>						<b>B</b>	<b>Improving</b>
Cost / Income Ratio		49.05%					
<b>Factor: Asset Quality</b>						<b>B+</b>	<b>Neutral</b>
Problem Loans / Gross Loans		1.90%					
Problem Loans / (Equity + LLR)	8.23%						
<b>Lowest Combined Score (15%)</b>						<b>B-</b>	
<b>Economic Insolvency Override</b>						<b>Neutral</b>	
<b>Aggregate Score</b>						<b>C</b>	
<b>Assigned BFSR</b>						<b>C-</b>	

[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



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