

Announcement: Moody's affirms GarantiBank International's ratings; outlook changed to stable (Netherlands)

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Frankfurt am Main, July 26, 2011 -- Moody's Investors Service has today affirmed the C- bank financial strength rating (BFSR) -- mapping to Baa2 on the long-term scale -- and the Baa1 long-term deposit and senior debt ratings of GarantiBank International N.V. (Garanti-NV). Moody's has also affirmed the Prime-2 short-term deposit and debt ratings and Baa2 subordinate debt ratings and changed the outlook to stable from negative on all these ratings.

Any subsequent short-term debt, long-term senior debt, or subordinated debt issued by Garanti-NV will be rated P-2, Baa1 and Baa2, respectively.

RATINGS RATIONALE

Moody's says that the affirmations of Garanti-NV's ratings reflect (i) the bank's solid capitalisation; (ii) its 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 geographic imbalance between assets and liabilities. The ratings also consider the bank'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 the bank's other activities, such as its private banking franchise. Additional constraining rating factors are (i) the modest market share in the segments where the bank has a presence; and (ii) the evolving nature of its franchise.

Garanti-NV is 71% deposit funded. 52% being retail deposits (as per the year-end 2010 consolidated audited annual report) largely from the Netherlands and Germany, with collections primarily via alternative distribution channels, such as internet and call centres. Majority of these retail deposits are covered by the Dutch Savings Insurance Scheme. During 2009, earnings from international trade finance -- its main business line -- experienced volatility due to the global slowdown. This was partly compensated by the increased fee generation from private banking and to a larger extent by gains from securities trading. In 2010, with the resumption of international trade finance, Garanti-NV's revenues are now benefiting from trade-finance-related services.

The outlook change to stable reflects the overall improved operating environment that limits Garanti-NV's earnings volatility. This has been reflected by (i) the increase in international trade-finance bookings on its balance sheet; and (ii) the good level of stability of its deposit base. Furthermore, in 2010, Garanti-NV sold its Romanian branch network to its parent, Turkiye Garanti Bankasi A.S. (Baa1/P-2/C-, stable). Moody's considers the sale as credit positive, because Garanti-NV is no longer exposed to this potentially volatile environment. Additionally, risk-weighted assets declined as a consequence of the sale of the subsidiary, and together with the retained earnings of 2010, the Tier 1 ratio increased to a solid 14.24% as at year-end 2010, from 11.85% a year earlier.

Moody's continues to assess a very high parental support probability from Turkiye Garanti Bankasi A.S. to Garanti-NV, its Netherlands-based subsidiary. Garanti-NV's long-term debt and deposit ratings therefore include one notch of rating uplift from the Baa2 standalone credit strength (the mapping of the BFSR on the long-term scale).

PRINCIPAL METHODOLOGIES

The principal methodologies used in rating GarantiBank International N.V. were Moody's "Bank Financial Strength Ratings: Global Methodology", published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", published in March 2007, which are available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab.

Please see ratings tab on the issuer/entity page on www.moody's.com for the last rating action and the rating history.

Frankfurt am Main
Arif Bekiroglu
Asst Vice President - Analyst
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Frankfurt am Main
Carola Schuler
MD - Banking
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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