Moody's Investors Service

Credit Opinion: Denizbank A.S.

Global Credit Research - 17 Oct 2011

Istanbul, Turkey

Ratings

Category	Moody's Rating
Outlook	Stable(m)
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Baa2/P-2
Bank Financial Strength	C-
Baseline Credit Assessment	Baa2
Adjusted Baseline Credit Assessment	Baa2
Senior Unsecured	(P)Ba1

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Key Indicators

Denizbank A.S. (Consolidated Financials)[1]

	[2]**6-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	[2]**12-07**	**Avg.**
Total Assets (TRY million)	**39,188.5**	**33,853.2**	**25,942.9**	**24,216.0**	**18,647.4**	[3]**20.4**
Total Assets (USD million)	**24,130.8**	**21,996.9**	**17,307.4**	**15,689.0**	**15,907.4**	[3]**11.0**
Tangible Common Equity (TRY million)	**4,099.0**	**3,632.8**	**3,020.7**	**2,426.8**	**1,643.4**	[3]**25.7**
Tangible Common Equity (USD million)	**2,524.0**	**2,360.5**	**2,015.2**	**1,572.2**	**1,401.9**	[3]**15.8**
Net Interest Margin (%)	**5.1**	**6.5**	**8.1**	**6.4**	**6.0**	[4]**6.4**
PPI / Avg RWA (%)	**4.4**	**4.9**	**6.8**	**4.1**	**4.0**	[5]**4.8**
Net Income / Avg RWA (%)	**2.6**	**2.3**	**2.8**	**1.8**	**2.5**	[5]**2.4**
(Market Funds - Liquid Assets) / Total Assets (%)	**12.9**	**10.3**	**14.5**	**21.1**	**14.6**	[4]**14.7**
Core Deposits / Average Gross Loans (%)	**74.1**	**78.2**	**68.9**	**67.5**	**86.7**	[4]**75.1**
Tier 1 Ratio (%)	**11.6**	**12.5**	**13.3**	**12.8**	**9.1**	[5]**11.9**
Tangible Common Equity / RWA (%)	**11.3**	**12.3**	**13.1**	**11.9**	**10.3**	[5]**11.8**
Cost / Income Ratio (%)	**44.9**	**45.5**	**38.8**	**52.0**	**55.1**	[4]**47.3**
Problem Loans / Gross Loans (%)	**3.5**	**4.8**	**6.0**	**3.3**	**2.3**	[4]**4.0**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**19.8**	**24.5**	**29.0**	**19.8**	**15.0**	[4]**21.6**

Source: Moody's

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

Opinion

RECENT CREDIT DEVELOPMENTS

On 3 October 2011, Moody's placed on review for downgrade Dexia's main operating entities, driven by Moody's concerns about a further deterioration in the Dexia group's liquidity position due to the worsening funding conditions in the wider market. Additionally, on 10 October, Dexia announced a far-reaching restructuring of the group that could eventually result in the dismantling of the group. This would involve a change in ownership for some of Dexia's key operating subsidiaries, which could also lead to a possible sale of Dexia's Turkish subsidiary Denizbank A.S. (Denizbank), rated Baa2/C-, with stable outlook). For further detail on Dexia's rating, please refer to Moody's press release "Moody's reviews ratings of Dexia's main operating entities for downgrade", published 3 October 2011, and "Moody's takes actions on Dexia Group further to proposed restructuring plan", published 14 October 2011.

The possible group split-up and potential sale of Denizbank are ratings neutral for Denizbank, as its ratings do not incorporate any rating uplift from its parent Dexia. Furthermore, we note very limited interconnectedness between Denizbank and other Dexia group companies. Therefore, we do not expect any adverse impact for Denizbank over the course of the potential dismantling process of the group which ultimately may result in a change of ownership for the bank.

As of June 2011, 8.2% of Denizbank's funding is from wholesale, in the form of syndications to local currency bond issuance, amongst others. Funding received from Dexia is in the form of multiple subordinated loans totalling to EUR 371 million (a low 2.4% of Denizbank's consolidated balance sheet, with earliest final maturity in 2016, with an early payment option for EUR 90 million in December 2011, EUR 37 million in June 2012, EUR 96 million in September 2012, and EUR 148 million in February 2013). Currently, there is no plan to repay these subordinated loans ahead of their final maturity. Overall, Moody's views Denizbank's funding base as well diversified.

SUMMARY RATING RATIONALE

Moody's assigns a C- standalone bank financial strength rating (BFSR) to Denizbank, which maps to Baa2 on the long-term scale. The BFSR reflects Denizbank's solid financial fundamentals and growing real-banking franchise. Denizbank has a particularly strong position in the SME and agricultural loan niche markets, with a total market share of around 10.0% (year-end 2010), compared with an overall total assets market share in Turkey of approximately 2.9%.

Similar to all Turkish banks, Denizbank's BFSR is negatively affected by its high exposure to Turkish government securities, although this exposure is approximately half of the peer average. At the same time, the BFSR is constrained by (i) the potentially volatile Turkish operating environment; (ii) the unseasoned nature of the loan book (with rapid credit growth in SME and retail credits); and (iii) an evolving risk culture, particularly in retail loans.

These factors could result in higher loan-loss provisioning (LLP) requirements in an adverse economic scenario, in the context of the lower interest-rate margins observed in the system that affect Denizbank's LLP capabilities. Additionally, the loan-to-deposit ratio has improved to 115% as of year-end 2010 and 113% as of H1 2011 (according to consolidated partially audited Banking Regulatory and Supervision Agency (BRSA) financials) from its peak of 130% in 2009. However, this compares poorly against the 89% system average and 111% average for foreign-owned banks.

Denizbank's ratings do not incorporate any rating uplift from its parent, Dexia Participation Belgique SA, which, in turn, is a subsidiary of Belgian Dexia SA (both unrated), holding a 99.84% stake in Denizbank. Moody's assesses a moderate probability of systemic support for Denizbank reflecting the bank's moderate importance to the domestic banking system, given its domestic deposit market share of about 2.6%. However, this does not result in any uplift to the global local-currency deposit ratings from Denizbank's Baa2 standalone credit strength. The foreign-currency deposit and debt ratings (which have a positive outlook) are constrained by Turkey's foreign-currency deposit and debt ceilings of Ba3 and Ba1, respectively.

Rating Drivers

- Good capitalisation and earnings generation capacity should act as a buffer for potential credit losses

- Developing its retail lending and improving its retail deposit base will be challenging in the competitive environment

- Maintaining reliable and diversified funding sources in the challenging operating environment, with the potential for market volatility

- A moderate asset-liabilities duration mismatch - due to the short-term nature of the deposit funding source - constrains the growth of longer-term loans

- Pressure on the moderate asset quality due to high credit growth in 2010 in the context of slower growth and possible rate hikes expected in 2012

Rating Outlook

The foreign-currency deposit and senior unsecured issuer ratings have positive outlook. All other ratings have a stable outlook.

What Could Change the Rating - Up

Over the longer term, positive pressure could be exerted on the BFSR as a result of (i) evidence that Denizbank can continue to expand, without impairing its liquidity profile; and/or (ii) evidence that current profitability can be sustained in a lower interest-rate environment. Any rise in Turkey's country ceiling for foreign- currency deposits will result in a corresponding rise in the bank's foreign currency deposit ratings.

What Could Change the Rating - Down

Negative pressure could be exerted on the BFSR as a result of any of the following: (i) the bank's problem loan levels increase materially; (ii) the bank's risk appetite increases significantly; (iii) capital growth fails to keep pace with asset growth; (iv) competitive pressures or other factors lead to a material reduction in profitability from current levels; (v) any pressure - in terms of liquidity and capital - faced by Dexia result in adverse implications for the Turkish subsidiary; and/or (vi) disorderly changes in ownership and senior management, or any significant changes in strategy, resulting in adverse developments in the bank's performance. We do not regard the latter two factors as likely, at present.

Recent Results and Developments

In 2010, Denizbank and US insurer MetLife signed an agreement to sell the Turkish insurance subsidiary for EUR 162 million, subject to regulatory approval and projected completion in 2011. This should provide Denizbank with strong capital gains.

According to consolidated audited BRSA statements, Denizbank reported a net income of TRY616.3 million (US$396.9 million) for the financial year 2010, up slightly from TRY604.8 million in 2009. This increase was achieved primarily through a 27% reduction in LLP expenses due to the improved domestic economic environment in 2010. The adverse effects of the estimated 170 basis points (bps) net interest margin contraction to 6.38% in 2010 was offset by loan book growth. Non-interest income remained broadly stable and contributed TRY570 million to revenues, primarily through fees and commission income (+7.6%). Moreover, as of H1 2011 Denizbank reported net income of TRY425.6 million, up 30% from TRY326.8 million in H1 2009. This was the result of 28% contraction in LLP expenses and a 52% rise in other operating income, mainly driven by the recoveries from non-performing loans (NPLs), which together with the increase - primarily in fees and commission income - contributed to a 73% increase in the total non-interest income to TRY448 million.

During 2010, the loan portfolio grew by around 30%, while the deposit base expanded by 33%, thereby improving the loan-to-deposit ratio to 115% in 2010. The Tier 1 ratio fell to 12.5% at year-end 2010, from 13.3% at year-end 2009, due to loan-book growth and the corresponding increase in the value of credit-risk and off-balance-sheet items. Due to the banking system's narrowing margins and the resumption of Denizbank's growth strategy, its efficiency ratio (cost-to-income) deteriorated to 46% in 2010 - from 39% reported in 2009 - in line with the system average. In the first half of 2011, Denizbank maintained its cost-to-income ratio at 46%, which is in line with the sector, despite an 8% expansion in the branch network (vs. sector average of branch expansion of 3%).

DETAILED RATING CONSIDERATIONS

Detailed considerations for Denizbank's currently assigned ratings are as follows, and are based on consolidated BRSA audited year-end 2010 and partially audited half-year (H1 2011) financial reports:

Bank Financial Strength Rating

Denizbank's C- BFSR is supported by solid financial fundamentals, a capable management team and a growing real-banking franchise. At the same time, its BFSR is negatively affected by (i) the potentially volatile Turkish operating environment; and (ii) by its exposure to government securities, although this has declined significantly at Denizbank (currently half the system-average government exposure). The government securities holdings introduce the potential for significant market volatility and also pose valuation risks.

The BFSR also factors in Denizbank's moderate risk positioning and high 30% loan growth in 2010. The assigned ratings also take into account the strong competition in the market, which exerts pressure on bank margins over the short to medium term. As a point of reference, the assigned BFSR is in line with the C- outcome of Moody's bank financial strength scorecard for Denizbank.

Qualitative Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

Denizbank ranks among the top ten commercial banks in Turkey, ranking ninth by asset size, with total consolidated assets of TRY33.9 billion (US$22.0 billion) as of December 2010. Denizbank had domestic banking market shares in assets, loans and customer deposits of 2.9%, 3.6% and 2.7%, respectively, at year-end 2010.

Headquartered in Istanbul, Denizbank is a privately owned full-service universal bank that has a network of 499 branches in Turkey and one foreign branch as of December 2010. The overall group (Denizbank Financial Services Group) includes leasing, factoring, IT and credit-card services, brokerage, investment management (all within Turkey), as well as banking subsidiaries in Austria and Russia (Moscow). However, overall, cross-border revenue contribution is approximately 6% and does not provide significant geographical diversification benefit in our analysis.

In October 2006, Dexia acquired a 75% stake in Denizbank, which was subsequently increased to 99.84%. Following the transaction, Dexia appointed several members to Denizbank's Board of Directors. The previous management team remains largely intact. Currently, there is three persons appointed by Dexia responsible for risk management, lending (both at board levels),and a general auditor.

As part of the Dexia Group, Denizbank's strategy and franchise has developed in line with that of its current shareholder. The Dexia Group has two main strategic objectives (i) universal banking (Belgium, Luxembourg and Turkey); and (ii) public and wholesale banking in Europe (mainly France, Germany, Italy and Spain). Prior to its ownership by Dexia, Denizbank's growing franchise encompassed a solid position in corporate, commercial SME and retail banking. On the retail side, Denizbank's aims to increase its market penetration through a comprehensive product range, whilst also increasing the range of private banking products, as well as developing financial planning tools for its high-net-worth clients.

Furthermore, Denizbank remains the leading private-sector bank that has created a designated team and a branch network geared toward the agricultural sector. Amongst private banks, Denizbank is the largest provider of agricultural loans in Turkey.

Moody's considers that despite growing competition in the market, Denizbank has the potential to defend and slowly expand its market presence in targeted businesses. This is due to (i) its track record of strong strategic focus, business selection and execution; and (ii) a large and growing nationwide branch network. The knowhow, new products and analysis tools contributed by Dexia, has benefited Denizbank, particularly in project and public finance, as well as in retail and private banking. Denizbank's strong brand recognition should also facilitate its real-banking franchise development, as it has traditionally had solid and beneficial links with the business community.

An overall franchise score of D+ reflects Denizbank's good position in the Turkish market and its evolving franchise under its ownership structure. It also reflects Denizbank's relatively high reliance on income from corporate/commercial banking and government securities and the lack of material geographical diversification outside of Turkey.

Factor 2: Risk Positioning

Trend: Neutral

Moody's assessment of Denizbank's risk positioning is supported by its competent risk management, moderate liquidity profile and market-risk appetite. However, risk positioning is constrained by Denizbank's exposure to the Turkish government, a common feature of all rated Turkish commercial banks, although this is significantly lower for Denizbank compared with its peers. Moreover, its top 20 group exposures, including Turkish government securities, amount to more than 200% of its Tier 1 capital, which worsens its credit-risk concentration.

Denizbank's overall risk positioning is satisfactory, with robust risk-management practices that are supported by good-quality information systems and risk-measurement tools commensurate with its risk profile. All positions are marked-to-market on a daily basis; as are value at risk (VaR) calculations for all interest-rate sensitive on- and off-balance-sheet items, foreign-exchange and equity positions. The risk-management function is independent and is supervised at board level. Prudent credit-risk monitoring and risk-adjusted performance measures ensure strong risk control and oversight.

We are cautious about the rapid rate of credit growth (30% in 2010vs. system average of 34%) as the relatively unseasoned nature of the loan book can disguise asset-quality problems. If this growth rate is maintained year on year, it could pose challenges to risk management, from a processes and controls perspective. On a positive note, H1 2011 financial statements indicates a more contained 20% year on year loan book growth and a 3.5% NPL ratio from 4.8% as at year-end 2010.

Liquidity management is adequate, with the year-end 2010 loan-to-deposits ratio at 115% (H1 2011: 113%). This ratio shows an improving trend, with slower loan-book growth and less reliance on wholesale funding. Denizbank's overall risk profile is relatively conservative with a low market-risk appetite. The planned adoption of the Basel II standardised approach by June 2012 is expected to have a 60 bps downward impact on its capital adequacy ratio, primarily due to the 100% risk weight assigned to the foreign-currency Turkish government exposure (including Central Bank of the Republic of Turkey (CBRT) FX reserves).

The scorecard outcome of D+ for risk positioning is broadly in line with our view of the current risk profile.

Factor 3: Regulatory Environment

This factor evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. The regulatory environment is discussed in the latest Banking System Profile on Turkey.

Factor 4: Operating Environment

Trend: Neutral

The overall D operating environment assessment for Turkey is a blended score that takes into account economic stability (GDP growth volatility), integrity and corruption scores (as calculated by the World Bank) and also an assessment of the effectiveness of the legal system (based on the ease with which property can be foreclosed).

For more detail, please refer to Moody's Banking System Outlook on Turkey.

Quantitative Factors (30%)

Factor 5: Profitability

Trend: Weakening

In 2010, Denizbank's pre-provision income (PPI) was reported at TRY1.3 billion and net income at TRY616 million vs. TRY1.5 billion and TRY605 million in 2009, respectively. The margin contraction was compensated by loan-book growth and lower LLP. Overall, Denizbank's profitability remains relatively satisfactory compared with its Turkish peers. However, recurring profitability decreased in 2010, with the ratio of PPI and net income to average risk weighted assets (RWA) was at 4.9% and 2.4 %, respectively, at year-end 2010, down from 6.8% and 2.8%, respectively, at year-end 2009. This was mainly caused by decreasing net interest income, due to margin contraction from strong market competition, as well as the normalisation of the complementary effects of the deep rate cuts of 2009 that reduced the cost of funds of the short-term deposits.

The future profitability of the bank, in today's low interest rate environment, will depend upon its ability to control operating expenses and its capacity to generate fee-based income. Fee and commissions income comprise only 1.05% of the bank's average assets in 2010, compared to 1.16% realised in 2009. It should be noted that fee income in recent years included significant income from IPOs and brokerage activities, which are not as robust in the current market conditions.

As of H1 2011 Denizbank reported a PPI of TRY726 million and net income of TRY426 million (a year-on-year improvement of 4% and 30%, respectively) whereby the 6% contraction in net interest income was offset by 29% growth in net-fees income and a 28% reduction in LLP. We estimate the ratio of annualised PPI and net income to average RWA to be 4.4% and 2.6%, respectively.

In 2012, we expect profitability to face additional pressure due to (i) expected rate increases during 2012; (ii) continuing competition amongst market participants; (iii) the associated effects on margins; and (iv) the LLP requirement of a seasoning loan book. These challenges could be somewhat greater for medium-sized banks such as Denizbank which the lack the scale of the very large Turkish banks.

As is the case with all banks in Turkey, we have adjusted Denizbank's profitability metrics by assigning a 100% risk weighting to government securities, rather than the regulator's 0%; our adjustments still show a profitability score of A.

Factor 6: Liquidity

Trend: Neutral

Denizbank maintains an adequate overall liquidity profile, as liquidity indicators improved in 2010. Prior to 2010, Denizbank expanded its loan origination at a faster rate than the expansion of its deposit base, resulting in an elevated loans-to-deposits ratio that peaked at 130% in 2009 and only gradually improved to 115% in 2010 and 113% in H1 2011. During this time, its liquid assets as a percentage of assets was lower at 22%, compared with the 24% at year-end 2010 (H1 2011: 21%).

Liquidity ratios demonstrated an improving trend in 2010, which was underpinned by the 33% growth in Denizbank's customer deposit base, versus a 29% growth rate in gross loans (excluding factoring and leasing loans). At the same time, however, we recognise that attracting relatively low-cost deposits to support business growth is an growing challenge for most of the small to medium-sized Turkish banks, which are increasingly using the capital markets for funding, typically at higher costs.

Overall, Denizbank scores a satisfactory C for liquidity, lower than the system average that is less reliant on wholesale funds. The improvement in the funding base includes a higher reliance on deposit funds and a reduction in the intergroup funding of TRY1.5 billion, down from TRY 4.3 billion (4% of the balance sheet as of H1 2011, down from 12%, at 2010 and 34% reported in 2008), almost 100% of the intergroup funding as of H1 2011 is from Dexia in the form of sub-debt and short-term loans. The diversification of Denizbank's funding base is a positive trend which Denizbank intends to continue, with Turkish lira bank bonds and euro bond issuances and further growth of its deposit base.

Factor 7: Capital Adequacy

Trend: Neutral

Denizbank maintains satisfactory capital levels. However, its capitalisation declined during 2010, with the total reported risk-adjusted capital ratio down to 15.7% at year-end 2010 (H1 2011: 14.4%), compared with 16.7% at year-end 2009. This was a result of the increased lending activities and the corresponding increase in value of credit-risk and off-balance-sheet items. The Moody's-adjusted Tier 1 ratio for Denizbank was a comfortable 12.5% at year-end 2010 (H1 2011: 11.6%), compared with 13.3% at year-end 2009.

The planned adoption of the Basel II standardised approach (by June 2012) is expected to have a 60 bps downward effect on its capital adequacy ratio, mainly due to the regulatory requirement of a 100% risk weight for foreign-currency Turkish government securities (the current weighting is 0%). The impact of the Basel II adoption is already captured in the assigned ratings, as we assign a 100% risk weight in local as well as foreign-currency Turkish government exposure (including CBRT FX reserves).

Denizbank's three-year average capital ratios yield an A score for capital adequacy. Its capital ratios are sufficiently high that Moody's RWA adjustment (applying a 100% risk weight for Turkish government securities, rather than the regulator's 0%) does not lead to a lower score for this factor.

Factor 8: Efficiency

Trend: Neutral

In 2010, Denizbank's efficiency ratio (cost-to-income ratio) of 45% (in line with the cost-to-income ratio at H1 2011) is weaker than the 39% reported in 2009, although it generally represents an improvement from the 55% reported in 2007. Nonetheless, the trend is in line with the 2009 system average, when the banking system reported record profitability on the back of deep rate cuts and postponed network expansion. The corresponding 2010 average cost-to-income ratio for the large rated Turkish banks is 47%. However, in H1 2011 Denizbank kept its cost-to-income ratio in line with year-end 2010 levels, despite the 8% expansion in the branch network.

In the medium term, planned branch network expansion - in the context of lower profitability - could mean that efficiency levels will be challenged going forward. Additionally, as a medium-sized bank, Denizbank lacks the economies of scale of larger banks that have a wider nationwide presence that enables them to quickly and fully offset the effect of anticipated margin contraction. However, at the same time, Denizbank's cost-to-income ratio should remain sound, due to its strong IT infrastructure and the targeted expansion strategy.

Denizbank's three-year average cost-to-income ratio of 45% translates into a B score for efficiency.

Factor 9: Asset Quality

Trend: Neutral

In 2010, Denizbank reported NPLs as a percentage of gross loans at a moderate 4.8%. This represents an improvement compared with the 6.0% reported in 2009 (which has deteriorated from 3.3% in 2008, largely due to the 4.7% GDP contraction in 2009). The NPL coverage ratio was reported at a solid 70% in 2010, which is lower than the system average. However, Denizbank's NPL ratio compares poorly with the 2010 NPL ratio system average (3.7%). This is especially relevant given that 56% of Denizbank's loan book represents corporate loans, which is the best-performing segment in Turkey.

This lower NPL coverage ratio reflects the fact that some of the leading banks provisioning at 100%, and excluding any future recoveries, which can be accounted for while provisioning in accordance with the BRSA regulations.

The improving trend in the asset-quality indicators was supported by (i) the much improved economic environment compared with 2009; and (ii) the significant growth of the loan book by 30% in 2010 (vs. 34% for the system). We remain cautious of the high level of loan-book growth at Denizbank and within the banking system, especially if the trends are maintained year on year, as narrowing margin pressures in the Turkish banking system could constrain the banks from provisioning for loan losses in 2012. This is considered in the context of possible interest-rate hikes due to inflationary pressures, declining loan growth rates and a consequent rise in delinquencies. Furthermore, Denizbank has one of the higher' Group 2' loan ratios (i.e. loans that are less than 90 days delinquent) at 4.1% of the gross loan book (consolidated) as of year-end 2010 (H1 2011: 3.5%), which could lead to asset-quality deterioration as the loan book seasons.

As of H1 2011, Denizbank reported further improvements in its NPL ratio, which decreased to 3.5% and in its NPL coverage ratio, which rose to 72% from 70%; however, we maintain a neutral trend for asset-quality, reflecting our expectations for Denizbank's NPL ratio in 2012. As the loan book seasons, the ratio should revert to year-end 2010 levels. Overall, Denizbank's solvency is not at any significant threat from its moderate loan book quality, given the current comfortable capital ratios and revenue generation.

Denizbank scores a C for the asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local-currency (GLC) deposit rating of Baa2 to Denizbank. Under Moody's joint default analysis (JDA) methodology, the rating is supported solely by Denizbank's Baa2 standalone credit strength; as the moderate likelihood of systemic support and the systemic support input for Turkey results in no rating uplift. Moody's incorporates no parental support from Dexia into Denizbank's ratings.

Our assessment of a moderate probability of systemic support is based on Denizbank's moderate importance to the domestic financial system, given its domestic deposit market share of approximately 2.6%. Our assessment is also based on the government's strong track record of support, and the fact that Moody's considers Turkey to be a high support country.

Notching Considerations

The ratings for any future junior obligations of Denizbank should be notched-off Denizbank's GLC deposit rating - because Moody's believes that there is no legal authority mechanism in place for Turkish bank regulators to impose losses on subordinated creditors outside of a liquidation scenario.

Foreign Currency Deposit Rating

The foreign-currency deposit rating for Denizbank is constrained by the Turkish foreign-currency deposit ceiling at Ba3/Not Prime, with a positive outlook.

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

Denizbank A.S.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**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						**D**	**Neutral**
Economic Stability					**x**		
Integrity and Corruption				**x**			
Legal System			**x**				
Financial Factors (30%)						**B-**	
Factor: Profitability						**A**	**Weakening**
PPI / Average RWA - Basel I	5.26%						
Net Income / Average RWA - Basel I	2.33%						
Factor: Liquidity						**C**	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets				17.94%			
Liquidity Management		x					
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel I	14.80%						
Tangible Common Equity / RWA - Basel I	12.45%						
Factor: Efficiency						**B**	**Neutral**
Cost / Income Ratio		45.42%					
Factor: Asset Quality						**C**	**Neutral**
Problem Loans / Gross Loans			4.68%				
Problem Loans / (Equity + LLR)			24.45%				
Lowest Combined Score (9%)						**C**	
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