

MOODY'S

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Credit Opinion: Denizbank A.S.

Global Credit Research - 04 Dec 2014

Istanbul, Turkey

Ratings

| Category | Moody's Rating |
|-------------------------------------|----------------|
| Outlook | Stable |
| Bank Deposits | Ba1/NP |
| Bank Financial Strength | D- |
| Baseline Credit Assessment | ba3 |
| Adjusted Baseline Credit Assessment | ba1 |
| Parent: Sberbank | |
| Outlook | Negative |
| Bank Deposits | Baa2/P-2 |
| NSR Bank Deposits -Dom Curr | Aaa.ru/-- |
| Bank Financial Strength | D+ |
| Baseline Credit Assessment | ba1 |
| Adjusted Baseline Credit Assessment | ba1 |
| Senior Unsecured | Baa2 |
| Bkd Subordinate | Ba1 |
| Bkd Other Short Term | (P)P-2 |

Contacts

| Analyst | Phone |
|------------------------|-----------------|
| Irakli Pipia/London | 44.20.7772.5454 |
| Simone Zampa/London | |
| Yves Lemay/London | |
| Firat Bayraktar/London | |

Key Indicators

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

| | [2]6-14 | [3]12-13 | [3]12-12 | [4]12-11 | [4]12-10 | Avg. |
|---|----------|----------|----------|----------|----------|---------|
| Total Assets (TRY million) | 85,484.5 | 79,667.8 | 56,494.6 | 44,756.3 | 33,853.2 | [5]26.1 |
| Total Assets (USD million) | 40,317.2 | 37,080.7 | 31,654.9 | 23,698.1 | 21,996.9 | [5]16.4 |
| Tangible Common Equity (TRY million) | 6,871.9 | 6,356.6 | 5,101.5 | 4,736.8 | 3,632.8 | [5]17.3 |
| Tangible Common Equity (USD million) | 3,241.0 | 2,958.6 | 2,858.4 | 2,508.1 | 2,360.5 | [5]8.2 |
| Net Interest Margin (%) | 4.0 | 4.5 | 5.1 | 4.8 | 6.1 | [6]4.9 |
| PPI / Average RWA (%) | 2.6 | 3.5 | 3.0 | 3.4 | 4.4 | [7]2.6 |
| Net Income / Average RWA (%) | 1.2 | 1.5 | 1.3 | 2.6 | 2.1 | [7]1.2 |
| (Market Funds - Liquid Assets) / Total Assets (%) | 18.2 | 15.1 | 7.2 | 9.0 | 10.4 | [6]12.0 |
| Core Deposits / Average Gross Loans (%) | 59.7 | 73.1 | 77.4 | 72.3 | 72.7 | [6]71.0 |
| Tier 1 Ratio (%) | 7.8 | 8.7 | 9.2 | 10.5 | 10.9 | [7]7.8 |
| Tangible Common Equity / RWA (%) | 8.3 | 8.4 | 8.7 | 10.4 | 10.7 | [7]8.3 |
| Cost / Income Ratio (%) | 52.2 | 47.5 | 47.1 | 49.4 | 45.5 | [6]48.3 |
| Problem Loans / Gross Loans (%) | 3.2 | 2.8 | 3.5 | 2.8 | 4.4 | [6]3.3 |
| Problem Loans / (Equity + Loan Loss Reserves) (%) | 24.1 | 22.3 | 21.5 | 17.1 | 24.6 | [6]21.9 |

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - transitional phase-in;

LOCAL GAAP [3] Basel II; LOCAL GAAP [4] Basel I; LOCAL GAAP [5] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [6] LOCAL GAAP reporting periods have been used for average calculation [7] Basel III - transitional phase-in & LOCAL GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Denizbank A.S. (Denizbank)'s Ba1/Not-Prime global local-currency (GLC) deposit ratings are based on the bank's ba3 baseline credit assessment (BCA), and our assumption of a high probability of parental support from majority shareholder Sberbank (deposits Baa2, Negative, BFSR D+/BCA ba1, Negative). This provides two notches of rating uplift to the deposit ratings. Moody's assumption of a high probability of systemic support does not provide additional rating uplift.

We assign a standalone bank financial strength rating (BFSR) of D- to Denizbank, equivalent to a BCA of ba3. The standalone rating reflects Denizbank's (1) established market position with an emphasis on corporate and SME lending and some specialisation in agricultural and project finance and; (2) adequate recurring earnings capacity and net profits. However, the standalone rating is constrained by (1) very lean capitalisation in light of historically very rapid, albeit declining, loan growth, (2) the bank's moderate asset-quality; and (3) comparatively tighter liquidity indicators.

Due to the ownership by Russia's Sberbank the bank is covered by the EU sanctions affecting its long-term borrowing capacity in the European markets. However, it remains exempt from US sanctions.

Rating Drivers

- Leaner core capitalisation compared to peers
- Declining profitability reflecting a challenging operating environment
- Adequate liquidity profile
- Moderate asset quality expected to deteriorate further

Rating Outlook

The outlook on all ratings is stable.

What Could Change the Rating - Up

Currently we do not envisage upward pressure on the ratings, as reflected in the stable outlook. However, in the medium term, (1) generating a stronger core capital position, (2) sustainable growth trends funded by stable funding, and (3) improvement in the domestic operating environment could positively influence Denizbank's ratings.

An upgrade of Sberbank's or Turkey's ratings could translate into higher degree of support incorporated in Denizbank's ratings, though, given the negative outlook on these ratings, Moody's views this occurrence as unlikely in the near-term rating horizon.

What Could Change the Rating - Down

Downward pressure on the standalone rating could develop in case of (1) further deterioration in core capital and/or a material increase in funding dependence on the parent (2) a material decline in profitability; (3) greater-than-expected deterioration in asset quality; or (4) significant changes in Denizbank's strategy resulting in an increase in the bank's risk appetite.

The long-term ratings could be downgraded as a result of a lowering of the standalone rating and/or the parental support assumption from Sberbank.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moody's.com> for the most updated credit rating action information and rating history.



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