MOODY'S INVESTORS SERVICE

Credit Opinion: Denizbank A.S.

Global Credit Research - 24 May 2013

Istanbul, Turkey

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa3/P-3
Bank Financial Strength	D+
Baseline Credit Assessment	(ba1)
Adjusted Baseline Credit Assessment	(ba1)
Parent: Sberbank	
Outlook	Rating(s) Under Review
Bank Deposits -Fgn Curr	Baa1/P-2
Bank Deposits -Dom Curr	*A3/P-2
NSR Bank Deposits -Dom Curr	Aaa.ru/--
Bank Financial Strength	D+
Baseline Credit Assessment	(ba1)
Adjusted Baseline Credit Assessment	(ba1)
Senior Unsecured	**A3
Bkd Subordinate	**Baa1
Bkd Other Short Term	(P)P-2

* Rating(s) within this class was/were placed on review on April 2, 2013
** Placed under review for possible downgrade on April 2, 2013

Contacts

Analyst	Phone
Arif Bekiroglu/Frankfurt am Main	49.69.707.30.700
Nondas Nicolaides/Limassol	357.25.586.586
Carola Schuler/Frankfurt am Main	49.69.707.30.700
Na Luo/Frankfurt am Main	

Key Indicators

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

	[2]12-12	[3]12-11	[3]12-10	[3]12-09	[3]12-08	Avg.
Total Assets (TRY million)	56,494.6	44,756.3	33,853.2	25,942.9	24,216.0	[4]23.6
Total Assets (USD million)	31,654.9	23,698.1	21,996.9	17,307.4	15,689.0	[4]19.2
Tangible Common Equity (TRY million)	5,101.5	4,736.8	3,632.8	3,020.7	2,426.8	[4]20.4
Tangible Common Equity (USD million)	2,858.4	2,508.1	2,360.5	2,015.2	1,572.2	[4]16.1
Net Interest Margin (%)	5.1	4.8	6.2	7.5	6.1	[5]5.9
PPI / Average RWA (%)	3.4	3.8	4.9	6.8	4.1	[6]3.4
Net Income / Average RWA (%)	1.5	3.0	2.4	2.8	1.8	[6]1.5
(Market Funds - Liquid Assets) / Total Assets (%)	7.2	9.0	10.3	14.5	21.1	[5]12.4
Core Deposits / Average Gross Loans (%)	77.4	72.3	72.7	62.4	62.4	[5]69.5
Tier 1 Ratio (%)	10.6	11.8	12.5	13.3	12.8	[6]10.6

Tangible Common Equity / RWA (%)	**10.0**	**11.8**	**12.3**	**13.1**	**11.9**	[6]**10.0**
Cost / Income Ratio (%)	**47.1**	**49.4**	**45.5**	**38.8**	**52.0**	[5]**46.5**
Problem Loans / Gross Loans (%)	**3.5**	**2.8**	**4.4**	**5.5**	**2.9**	[5]**3.8**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**21.5**	**17.1**	**24.6**	**29.0**	**19.8**	[5]**22.4**

Source: Moody's

[1] All figures and 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

SUMMARY RATING RATIONALE

The Baa3/Prime-3 global local-currency (GLC) deposit ratings assigned to Denizbank A.S. (Denizbank) are based on the bank's ba1 baseline credit assessment (BCA), and our assumption of high probability of systemic support from Turkey (Baa3, stable), taking into account Denizbank's market share in loans and deposits of around 3%-4%. We also take into account a high probability of parental support from Russia's Sberbank (A3/Prime-2, on review for downgrade; D+/ba1, stable) which, however, does not result in any rating uplift for Denizbank's ratings because Sberbank's unsupported BCA of ba1 is at the same level as Denizbank's BCA.

Denizbank's standalone bank financial strength rating (BFSR) of D+ is equivalent to a BCA of ba1. The BFSR reflects Denizbank's (1) medium-sized market position with an emphasis on corporate and SME lending and some specialisation in agricultural and project finance with a long brand history; (2) adequate financial performance underpinned by adequate recurring earnings capacity and net profits, and capital levels.

The BFSR is constrained by (1) the bank's moderate asset-quality; and (2) comparatively tighter liquidity indicators; and limited diversification of liquidity and funding. Other factors includes in the ratings include the challenging operating environment, strong growth in a relatively unseasoned credit environment and an evolving risk culture - particularly in retail credits which has been a segment of strong 16% year-on-year growth for Denizbank (largely line with the system's 18%).

Rating Drivers

- Established commercial banking franchise with mid-size market share

- The bank's profitability ratios lag behind those of the system and its closest peers

- Banks leaner capitalisation could constrain Denizbank to keep pace with the strong growth in the system

- Potential for greater asset-quality volatility due to the unseasoned loan portfolio - Strong deposit collections have realigned bank's liquidity indicator with that of the system

Rating Outlook

The ratings outlook is stable.

What Could Change the Rating - Up

There is no upwards pressure on Denizbank's BFSR and local-currency deposit ratings in the short term, captured by the current stable outlook. Over the medium term positive pressure could be exerted on the bank's BFSR on evidence of a strengthening of its overall profitability, which contributes positively to the internal capital generation capacity and capitalisation, without compromising its risk appetite and underwriting standards. An upgrade of Sberbank's BFSR could positively influence Denizbank's adjusted BCA; however, it would be unlikely to lead to an upgrade of Denizbank's local-currency deposit ratings given the already available rating uplift from systemic support.

What Could Change the Rating - Down

Downwards pressure on the BFSR could develop if (1) asset-quality metrics deteriorate further, thus negatively affecting the risk-return profile of bank's business; (2) significant changes in Denizbank's strategy or management results in an increase in its risk appetite; (3) existing competitive pressures lead to a material reduction in profitability from current levels or further constrain franchise development. The long-term ratings could be downgraded as a result of a lowering of the BFSR and/or the revision of systemic support considerations or rating pressures on the sovereign rating, both of which we consider as unlikely at present. However, our parental support assumption from Sberbank should dampen any downward pressure on the (GLC) deposit ratings if the BFSR is lowered.

DETAILED RATING CONSIDERATIONS

ESTABLISHED COMMERCIAL BANKING FRANCHISE WITH MID-SIZED MARKET SHARE

Denizbank ranks eighth amongst the commercial banks in Turkey, with total consolidated assets of TRY56.5billion ($31.9 billion) as of 2012. Denizbank is a full-service universal bank that has a network of 622 branches in Turkey as of Q1 2013; it is 99.85% owned by Sberbank. Denizbank's market shares are around 3%-4% in terms of loans and customer deposits. It is a recognised specialised lender to corporates (54% of the loan book) and SMEs (including agriculture credits)(20%), with an evolving franchise in retail banking (26%). Denizbank continues to be the largest provider of agricultural loans, relying on a designated specialist team and a branch network focused on this sector, with a market share of 9%.

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, cross-border revenue contribution is approximately 17% and does not provide significant geographical diversification benefit in our analysis.

Following the change of ownership in 2012 to Sberbank as long-term strategic investor (formerly owned by Dexia Group), we believe that Denizbank will benefit from a successful collaboration over the medium term. This includes supporting the development of the domestic franchise as well as synergies, in light of trade activities between Turkey and Russia that could reflect positively on Denizbank's franchise in Turkey.

We believe that regulatory pressures for consumer protection are increasing for Turkish banks, including Denizbank, and which can affect all banks' product distribution and pricing power capabilities, which will, in turn, require stricter risk selection and risk discipline. These pressures are demonstrated by recent fines levied on 13 Turkish banks, including Denizbank, for violating competition rules. The banks were accused of colluding over maximum deposit rates, interest-rate increases on credit cards, and commissions and fees for card services. Denizbank was fined TRY23.1 million (or about $13.0 million) in Q1 2013, equivalent to 1% of operating revenues, 3% of net income, and 0.5% of core Tier 1 capital, as per its consolidated 2012 (Banking Regulation and Supervision Agency (BRSA)) financials. Further regulatory initiatives in terms of consumer protection are aimed at limiting the rise in household debt caused by the increased use of new retail products. These initiatives are likely to take the form of caps on interest rates and/or fees charged in order to ensure a healthy and sustainable penetration of retail banking.

THE BANK'S PROFITABILITY RATIOS LAG BEHIND THOSE OF THE SYSTEM AND ITS CLOSEST PEERS

As of yearend 2012, Denizbank reported a 32% decrease in consolidated net profits (BRSA) of TRY720 million (US$340 million) - versus 19% growth reported by banking system - . On the other hand, after the adjustment of TRY343 million one-time capital gain arising from the Sale of DenizEmeklilik (reporting as Net Profit / Loss from Discontinued Operations) from 2011 net profit, Denizbank's consolidated net profit shows a 0.3% increase. Denizbank reported a 23% growth in pre-provisioning income to TRY1.7 billion. The increase in pre-provision income was mainly supported by a 31% increase in net interest income to TRY2.5 billion on the back of high loan book growth of 26% (compared to a system average of 17%). We attribute strong interest income to its higher share of local currency and unsecured consumer loans, as well as a further shift to loans from lower-yielding government securities, leading to an improvement in the net interest margin (NIM) to 5.28% in 2012 from 5.06% in 2011 (over the same period, the system's NIM was 4.07%, up from 3.63%).

Given its business mix, Denizbank generates moderate shares of fees and commission income at 15% of total revenues (the bank reported a 13% increase year-on-year due to regulatory-driven changes to accrual accounting for fee income - despite high loan book growth). However, against the background of subdued economic growth and the seasoning of the loan portfolio, Denizbank recorded a 54% increase in loan loss provisions to TRY649 million which was at the mid-range of its peers. The lower net income in 2012 compared 2011 (despite the revenue growth) was due to 2011 net-income benefiting from one-time capital gains arising from the sale of Deniz Emeklilik ve Hayat A.S.

On a risk-adjusted basis, the bank's profitability ratios lag behind those of the system and its peers. The pre-provision income-to-average risk-weighted assets ratio, and the pre-provision income-to-net income to average risk-weighted assets stood at 3.7% and 1.6% in 2012, down from 3.8% and 3.0%, respectively, in the preceding year (2012: system reported 3.7% and 2.3%, up from 3.1% and 2.1%, respectively). Denizbank's weaker ratios also reflect (1) higher general reserve requirements, and regulatory risk weights for unsecured consumer lending that were introduced during 2012 to dampen strong lending growth in this area; (2) higher operational cost where the cost-to-income ratio was reported at 47% versus system average of 38%; (3) strong growth of TRY deposit funds; and (4) increase in specific loan loss provisioning.

Despite the projected resumption of moderate economic growth in 2013, Denizbank's profitability - and therefore internal capital generation capacity - could continue to be challenged in an environment of historically low benchmark interest rates, shrinking NIMs and rising pressure to introduce consumer-protection measures. The group's profitability and earnings prospects therefore remain a major pressure for the D+ standalone BFSR and ba1 BCA. The main challenges for Denizbank will to (1) maintain its risk discipline despite intense competition and profitability pressures; (2) control operating expenses; and (3) leverage the network - all of which will be crucial to maintaining profitability ratios and supporting longer-term internal capital and franchise growth.

LEANER CAPITALISATION COULD CONSTRAIN BANK TO KEEP PACE WITH THE STRONG GROWTH IN THE SYSTEM

Denizbank's consolidated Basel II total capital adequacy ratio (CAR) improved to 13.1% in 2012 from 14.7% (Basel I) in 2011. Even though the minimum target regulatory CAR of 12% (i.e., for those banks targeting expansion via new branch openings) is met, the bank has leaner capitalisation compared with the system average CAR of 17.9% and Tier 1 of 15.1%, as of year-end 2012. Furthermore, we note that Denizbank's capital is of comparatively lower quality, which is reflected by a Tier 1 capital ratio of 10.6% that is lower than that of the rated banks, and which fell from 11.9% in 2011. This decline was primarily due to (1) growth in loan book outpacing internal capital generation; and (2) increased regulatory risk weights in unsecured consumer loans; despite profit retention and lower risk weights attributed to SME loans.

Denizbank's capital growth - which was required in order to keep pace with strong growth in the Turkish banking system - benefitted, to a large extent, from the provision of subordinated capital instruments and supplemented earnings retention that excluded any dividend payouts over the past few years. Denizbank still has subordinated debt from Belfius Bank SA/NV (Baa1/Prime-2, stable; D-/ba3, positive (formerly named Dexia Bank Belgium SA and Dexia Credit Local (Baa2/Prime-2, negative; E/ca, stable) - that amounts to around TRY888 million (US$493 million) and accounts for 1.6% of its consolidated balance sheet - with maturities in 2017 and 2018. Exercising the early redemption option in 2013 and 2014 (subject to agreement of the parties involved and BRSA approval) is not currently anticipated.

However, the bank's lower capital quality will likely affect its capacity to retain earnings for future capital growth due to the comparatively higher cost of capital for its mixed capital which consists of equity and subordinated debt components. The aforementioned conditions place the bank at a disadvantage to most of its peers that have more leeway for future growth and market share expansion. We believe that the bank's future internal capital generation will be key to keeping pace with the continued strong growth in the system.

As of 2012, Denizbank has a comfortable net FX position of long 4% of its capital base, versus regulatory limit of short 20% of CAR.

POTENTIAL FOR GREATER ASSET-QUALITY VOLATILITY DUE TO THE UNSEASONED LOAN PORTFOLIO

Denizbank's credit risk profile (although improving) remains constrained by its asset mix which comprises: (1) high single-party exposures to local corporations, including - albeit to a lesser extent - its above system-average exposure to the construction sector (accounting for 9% of the loan book); and (2) Turkish government securities (albeit at lower levels than the sector and the peer average).

As of 2012, the NPL ratio was a moderate 3.5% (2011: 2.8%), which is weaker than the system average of 2.86%. The bank's NPL ratio reflects TRY1.1 billion in new NPL inflows (approximately 3% of gross loans, and 43% of 2012 net interest income) which is offset by collections of TRY742 million (2% of the loan book), loan book growth of 26% and NPL sales of TRY192 million (50bps of loan book); additionally, 5.01% of the gross loan book is less than 90 days delinquent and/or with revised payment terms, and could lead to further asset-quality deterioration.

Against the background of a considerable slowdown in the operating environment compared to 2010 and 2011, we note the risk that loan loss provisioning requirements will increase as the high growth loan book seasons further; however, the projected resumption of moderate economic growth at 3.8% in 2013 should curtail any asset-quality deterioration.

STRONG DEPOSIT COLLECTIONS HAVE REALIGNED THE BANK'S LIQUIDITY INDICATOR WITH THAT OF THE SYSTEM

We regard Denizbank's liquidity profile as adequate, although the system's typically short-term deposit profile represents an inherent systemic risk. Retail deposits fund 62% of bank's balance sheet whereby 82% mature within up to three months. The demand deposits account for 20% of the total deposits which is in line with the system average of 18%. The bank mitigates these risks by holding an adequate portfolio of liquid assets that account for around 28% of its total balance sheet, half of which comprises Turkish government securities.

More recently, Denizbank successfully strengthened its deposit base with deposit collections, leading to a drop in the loan-to-deposit ratio to 105% - now in line with system average of 106% - and a significant improvement from the 125% reported in 2009 (whilst under Dexia ownership). The bank has reduced its reliance on wholesale funding after (1) recording a loan-to-deposit ratio closer to the system average with year-on-year deposit growth at 34%, which outpaced average loan growth of 28% year-on-year since 2009; and (2) successfully exploiting the potential of its branch network and brand. The bank's market funding base is diversified, with no reliance on intragroup funding.

We also note that Denizbank balance sheet has a large foreign-currency component (45% of liabilities), mainly reflecting customer-deposit preferences (versus 39% of assets). Denizbank actively hedges its open-foreign-currency positions in order to limit exposure to foreign-currency liquidity and interest-rate risk. As of year-end 2012, bank's net foreign-currency position including on- and off-balance sheet was 14% of Tier 1 capital (regulatory threshold is a net short position of 20% of Tier 1).

Global Local Currency Deposit Rating (Joint Default Analysis)

The Baa3/Prime-3 local-currency deposit ratings are supported by Denizbank's ba1 BCA and our assessment of a high probability of systemic (government) support from Turkey.

We also believe that there is a high probability of parental support from Sberbank. However, this does not result in any rating uplift for Denizbank's ratings because Sberbank's ba1 BCA is at the same level as Denizbank's BCA. When incorporating parental support for foreign subsidiaries, we typically use the parent's BCA as the anchor rating of the support provider.

Our assessment of a high probability of parental support is based on Denizbank's importance to Sberbank, underpinned, amongst other things, by (1) Sberbank's 99.85% ownership of Denizbank; (2) Sberbank's dedicated focus to increase its cross-border expansion, whereby Denizbank provides some diversification benefits; (3) both banks having commercial consumer-oriented banking franchises; and (4) Sberbank's supportive track record towards its subsidiaries.

Our assessment of a high probability of systemic support is based on Denizbank's importance to the domestic financial system, given its domestic loan and deposit market shares of approximately 3%-4%. Our assessment is also based on the government's strong track record of support, and the fact that we consider Turkey to be a high support country. Based on these assumptions, Denizbank's Baa3 long-term local-currency deposit rating receives one notch of systemic support uplift.

Foreign Currency Deposit Rating

Denizbank's foreign-currency deposit ratings are Baa3/Prime-3 with a stable 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 recognise 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%)						C+	
Factor: Profitability						B	Weakening
PPI % Average RWA (Basel II)		3.65%					
Net Income % Average RWA (Basel II)		2.04%					
Factor: Liquidity						D+	Neutral
(Market Funds - Liquid Assets) % Total Assets			8.87%				
Liquidity Management				x			
Factor: Capital Adequacy						B+	Neutral
Tier 1 Ratio (%) (Basel II)		10.18%					
Tangible Common Equity % RWA (Basel II)	10.85%						
Factor: Efficiency						B	Neutral
Cost / Income Ratio		47.40%					
Factor: Asset Quality						C	Weakening
Problem Loans % Gross Loans			3.59%				

Problem Loans % (Equity + LLR)			21.06%				
Lowest Combined Financial Factor Score (9%)						D+	
Economic Insolvency Override						Neutral	
Aggregate BFSR Score						D+	
Aggregate BCA Score						baa3/ba1	
Assigned BFSR						D+	
Assigned BCA						baa3	

[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.