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INVESTORS SERVICE

CREDIT OPINION

4 November 2022

Update

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RATINGS

GarantiBank International N.V.

Domicile	Amsterdam, Netherlands
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Roland Auquier +33.1.5330.3341
VP-Senior Analyst
roland.auquier@moodys.com

Malik Bendib +33.1.5330.3446
Associate Analyst
malik.bendib@moodys.com

Olivier Panis +33.1.5330.5987
Senior Vice President
olivier.panis@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

GarantiBank International N.V.

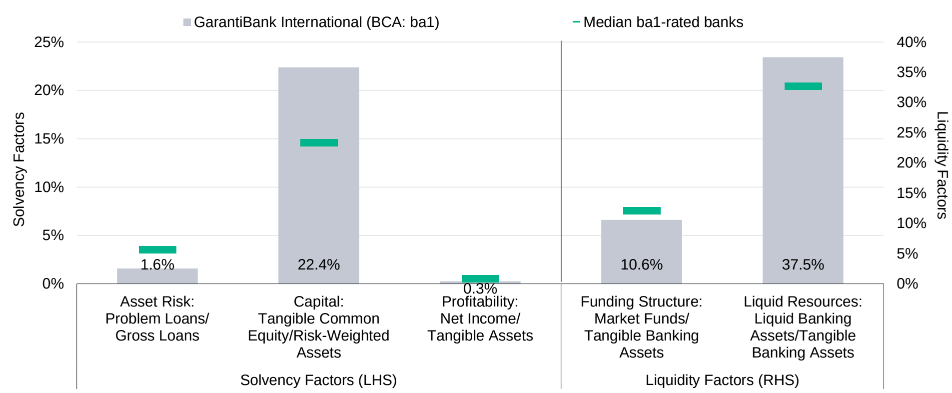
Update to credit analysis

Summary

GarantiBank International N.V.'s (GBI) deposit ratings of Baa3 (with a stable outlook) reflects (1) the bank's Baseline Credit Assessment (BCA) of ba1; (2) our assumption of moderate parental support from Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, A2/A3 stable, baa2[1]), GBI's ultimate parent, leading to one notch of rating uplift; (3) the moderate loss given failure under our Advanced Loss Given Failure (LGF) analysis and our assumption of a low likelihood of support from the Government of the Netherlands (Aaa stable), which both result in no uplift from the Adjusted BCA.

GBI's BCA of ba1 reflects GBI' sound credit fundamentals, including strong capitalization and solid liquidity and deposit base, offset by the structurally concentrated nature of its exposures in terms of geographies and corporate issuers. It also incoporates the close alignment to the strategic priorities as set by its ultimate Spanish parent BBVA, and the contained potential for transmission of risks to GBI from its exposure to counterparties in emerging economies as well as to its direct parent, Turkiye Garanti Bankasi A.S. (Garanti BBVA, B3 stable, b3).

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

» Strong capital base

» Improving, although modest, profitability

» Solid liquidity and funding, supported by the predominance of retail deposits

Credit challenges

» Risk concentrations in terms of counterparties yet on a decreasing trend

» Material, although decreasing, exposure to Turkish economy

» Modest asset quality, although improving and largely collateralised

Outlook

The outlook on GBI's long-term deposit ratings is stable, in line with its ultimate parent BBVA. While further negative developments in Turkiye could weaken the creditworthiness of GBI's customers, this is fully reflected in the assigned macro profile and asset risk scores.

Factors that could lead to an upgrade

An upgrade of GBI's BCA could be triggered by sustained improvement in profitability and further reduction in credit risk concentrations.

An upgrade of the deposit ratings could be triggered by an upgrade of BBVA's BCA; and/or a higher volume of junior deposits or subordinated instruments, resulting in lower loss-given-failure under our Advanced LGF analysis.

Factors that could lead to a downgrade

A downgrade of the bank's BCA could result from:

» increased asset risk and weakening solvency, mainly stemming from a deterioration of the creditworthiness of the bank's counterparties

» a downgrade of Garanti BBVA's BCA, resulting from heightened asset risk or a deteriorating funding profile

A downgrade of GBI's Adjusted BCA could also result from a reduced likelihood of support from BBVA.

A downgrade of GBI's BCA and Adjusted BCA would likely result in a downgrade of all the bank's long-term ratings and assessments.

Finally, GBI's long-term deposit rating could also be downgraded as a result of a lower volume of junior deposits, resulting in high loss given failure under our Advanced LGF analysis.

Key indicators

Exhibit 2
GarantiBank International N.V. (Unconsolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	4,129.9	3,430.2	3,615.0	4,288.5	4,274.1	(0.9)[4]
Total Assets (USD Million)	4,679.6	4,197.0	4,057.9	4,902.4	5,132.4	(2.3)[4]
Tangible Common Equity (EUR Million)	603.8	585.3	579.1	573.0	582.8	0.9[4]
Tangible Common Equity (USD Million)	684.1	716.2	650.0	655.0	699.8	(0.6)[4]
Problem Loans / Gross Loans (%)	0.9	1.0	2.8	3.1	1.9	2.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	22.4	24.1	24.2	21.8	21.9	22.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.8	3.5	10.9	14.4	9.5	8.4[5]
Net Interest Margin (%)	1.4	1.3	1.4	1.6	1.6	1.5[5]
PPI / Average RWA (%)	1.1	0.6	0.7	1.1	1.6	1.0[6]
Net Income / Tangible Assets (%)	0.4	0.2	0.2	0.3	0.6	0.3[5]
Cost / Income Ratio (%)	60.2	73.8	72.6	63.8	52.5	64.6[5]
Market Funds / Tangible Banking Assets (%)	10.6	10.3	5.8	19.4	16.1	12.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.5	37.4	31.0	31.6	27.2	33.0[5]
Gross Loans / Due to Customers (%)	84.4	86.6	91.1	103.9	106.5	94.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

GarantiBank International N.V. (GBI) is a medium-sized Dutch bank with a branch in Germany and representative offices in Switzerland and Turkiye. Established in 1990 in Amsterdam, the bank is a wholly owned subsidiary of Garanti BBVA (Turkiye) and ultimately controlled by BBVA (Spain). GBI provides financial solutions to retail, corporate and institutional clients in the areas of trade and commodity finance, corporate banking and global markets sales.

Following BBVA's acquisition of a controlling stake in GBI's parent, Garanti BBVA, GBI has become a member of the BBVA group. Consequently, GBI is under the supervision of the European Central Bank's (ECB) Single Supervisory Mechanism (since 30 September 2015), jointly with De Nederlandsche Bank (the Dutch supervisor). GBI has aligned its risk management framework with the risk policies and procedures of its Spanish parent, which has led to a complete overhaul of its governance, and credit and investment policies.

The bank's commercial activities are essentially split into three divisions:

1. Trade and Commodity Finance, which focuses on firms physically trading commodities in regional and global markets

2. Corporate Banking, which combines activities in corporate lending, Islamic finance and receivables finance, as well as payments services for corporate clients

3. Global Markets Sales, which offers advisory and execution services to institutional and high-net-worth individual clients

Detailed credit considerations

GBI's Macro Profile reflects a material, although reduced, exposure to Turkiye

As of year-end 2021, GBI's exposure to the Dutch economy (Macro Profile score of Strong+) amounted to 25% of its total exposures, whereas its total exposure to European countries was around 66% (including the Netherlands, the UK, Germany, Switzerland and France). However, GBI is also exposed to weaker operating environments reflected in lower Macro Profile scores, such as Turkiye (Very Weak+), leading to an assigned weighted Macro Profile of Moderate+.

The “Very Weak +” Macro Profile we assign to Turkiye incorporates the rising pressures on Turkiye's balance of payments position with potential further weakening of the country's foreign-currency reserves and the authorities' increasingly unorthodox measures. Turkiye's macro profile also captures unpredictable policymaking that has resulted in very high inflation, the weak credibility of the central bank, low investor confidence and the banking system's still significant levels of short-term wholesale foreign currency funding and foreign currency deposits, which are equivalent to 45% of total liabilities of the banking sector.

While GBI's exposures to Turkiye decreased to 20% as of year-end 2021 from 34% in 2017, they remain significant, and risks arising from these exposures are material given the weak operating environment and strained funding conditions in Turkiye. Therefore GBI's weighted Macro Profile of Strong- has been adjusted down by one notch to Moderate+ to reflect the unstable macroeconomic conditions in Turkiye, which could weigh on the bank's credit profile.

Largely collateralised credit portfolio, with improving yet modest asset quality

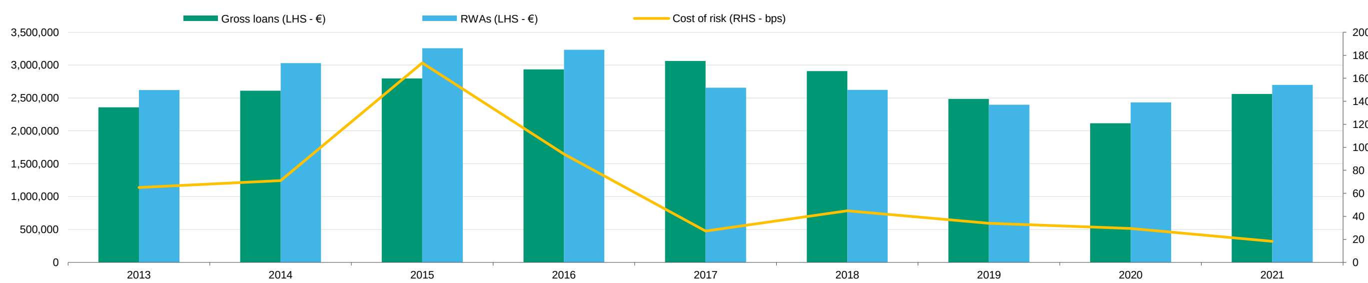
GBI's asset quality is modest given the structurally concentrated nature of its exposures in terms of corporate issuers and geographies.

While asset quality has benefitted from decreasing exposures to riskier countries and reduced single-issuer concentrations, credit risk concentrations still remain high, inherent to the bank's trade and corporate finance activities. Single-name concentrations are still elevated: the top 20 exposures represented 253% of the bank's Common Equity Tier 1 (CET1) capital as of year-end 2021, up from 215% a year before, mainly because of higher commodity prices, but down from 395% as of the end of June 2016. GBI has no exposure to either Russia or Ukraine.

In addition, even though markedly reduced compared to 2017, GBI's on and off-balance-sheet exposures to Turkish counterparts amounted to €881 million as of December 2021, representing 20% of its total exposures. Almost all of these exposures are to corporate banking and trade finance loans, which are short term in nature and can be terminated at relatively short notice. So far this portfolio has performed well and the loan composition is expected to be managed with limited foreign exchange risks commensurate with borrowers' repayment sources.

Exhibit 3

The bank's risk profile has improved since 2015



Sources: Company data

GBI's problem loan ratio decreased to 0.9% as of year-end 2021 from 1% as of year-end 2020, with no new nonperforming formation occurring in 2021. The bank's problem loan formation is inherently low, and predominantly on corporate exposures; the problem loan ratio can, at times, be volatile because of active nonperforming loans management, which somewhat undermines the relevance of the problem loan ratio as a reliable proxy of GBI's asset quality.

Following the adoption of BBVA's risk policies, the bank's total related-party exposures decreased significantly to 7% of CET1 capital as of year-end 2020 (from 26% as of year-end 2017), but soared to 19% in 2021. However such a recent surge is driven by the trade finance volume growth in 2021, in line with the increase in commodity prices. This led to a corresponding increase in customer driven transactions on discounted letters of credits issued by the parent entities. Such transactions do not lead to any form of direct lending to parent entities, in line with the BBVA Group risk policies.

Our assigned Asset Risk score of b1 reflects the bank's modest asset quality and the low granularity of its loan book. We believe that asset quality is a relative weakness for the bank.

Strong capital base and track record of internal capital generation

As of year-end 2021, GBI reported a lower CET1 ratio of 21.7% compared to 23.8% in 2020 because of an 11% risk-weighted assets increase. As per recent years, the bank made no payment of dividend (profit has been historically transferred to other reserves, and subsequently added to own funds after ECB approval). GBI applies the Internal Ratings Based Approach for credit risk calculation. The bank's CET1 ratio appears robust (largely above the bank's 12.01% SREP[2] minimum requirement set for 2022 which decreased 50 bps from previous year underpinned by a lower Pillar 2 Requirement of 3.5% down from 4% in 2021) and is consistent with the risks involved in the bank's activities.

Our assigned Capital score of a3 is a reflection of the strong capitalisation of the bank and of our expectation that the deteriorating macroconomic environment will weigh on risk-weighted assets in the coming quarters.

Profitability is modest but has stabilized in recent years

Given the bank's business mix and the concentrated nature of its loan book, GBI's earnings are inherently volatile. As the bank aligned its risk procedures and policies with those of BBVA in 2016 and 2017, it sold most of its emerging market securities that had represented a significant contribution to the bank's profitability for years.

This lower trading income, coupled with a significant reduction in the size of the loan book, caused GBI's net income to tangible asset ratio to remain far below its level of 0.61% in 2017. In 2021, GBI's net profit slightly improved to 0.44% of its tangible assets versus 0.2% in 2020. We however view GBI's earnings generation capacity going forward as more stable than before 2016.

The bank's revenues were 22% up because of higher net interest income (+13%) due to an increase in the net interest margin (up to 141 basis points in 2021 from 134 basis points in 2020) supported by a 21% increase in loans to customers and lower cost of funds, offsetting the negative impact of excess liquidity. Commissions, which represented 24% of the bank's revenues in 2021, surged by 59%, owing to higher volumes of trade finance transactions.

Historically, GBI's efficiency has been relatively strong, thanks to the lack of a physical branch network. The ratio improved in 2021 to 60% from 74% in 2020, due to the efficiency gains generated by digitalization and the increase in revenues. We expect further improvement in full-year 2022 thanks to the positive effect of rising interest rates on GBI revenues in most of its markets, accelerated by the short duration of the loan book, and a mostly retail deposit funding which is less sensitive to interest rate movements. We however expect operating expenses to be pressured by rising inflation in the Netherlands, mainly due to rising energy prices.

The cost of risk decreased to 20bps of average gross loans to customers in 2021 compared to 30bps in 2020, the lowest level in the past decade, despite an increase in Stage 1 and Stage 2 forward-looking provisions on performing loans that are linked to the loan book growth. We however expect the cost of risk to increase in 2023 because of a deteriorating economic environment in most of GBI's operating markets.

All these elements are reflected in our assigned Profitability score of b1.

Solid funding profile, supported by the predominance of retail deposits

GBI has good liquidity, supported by (1) a strong deposit base (loan-to-deposit ratio was 84.4% as of year-end 2021); (2) a predominance of retail deposits (partly covered by the Dutch deposit guarantee scheme), which have proved stable in the past decade; and (3) a high share of liquid assets on its balance sheet. Additionally, the short duration of a large proportion of its assets (loans representing around 35% of the balance sheet maturing within three months) confers flexibility to GBI in monitoring its credit risk and balance-sheet structure.

As of year-end 2021, GBI had the following funding sources:

» 74% of the balance sheet was deposit funded (out of which, 61% are retail deposits), collected primarily through the internet or call centers in the Netherlands and in Germany ;

» Interbank (10%), consisting predominantly of ECB's TLTRO and modest amounts of bilateral wholesale funding and money market borrowings.

Historically, GBI has not issued senior unsecured bonds and other debt capital market instruments.

As of year-end 2021, GBI's liquid assets (the sum of cash and balances with central banks, unencumbered interbank money-market exposures and unencumbered investment-grade securities) represented 31.4% of total assets, compared with 35.6% as of year-end 2020.

The bank's liquidity coverage ratio amounted to 516.9% in 2021, with a liquidity buffer mainly comprised of placements to the ECB and investments in high-quality liquid assets.

The ba1 score assigned to Funding Structure reflects the quality of the bank's deposits, mainly collected through the internet and call centers. Although GBI's deposits have been stable in the past, we consider deposits collected via the internet and call centres less sticky than traditional retail deposits. This, along with a baa2 score for Liquid Resources, leads to a combined Liquidity score of baa3.

Environmental, social and governance considerations

In terms of environmental considerations, GBI has a low exposure to environmental risks, in line with our general view for the banking sector (see our Environmental risks heat map for further information).

For social risks, we also place GBI in line with our general view for the banking sector, which indicates a moderate exposure to Social risks (see our Social risks heat map). We also regard the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

While governance is highly relevant for GBI, as it is to all participants in the banking industry, we do not have any particular governance concern, neither do we apply any corporate behaviour adjustment to the bank. GBI has aligned its risk management framework with the risk policies and procedures of its Spanish parent, which has led to a complete overhaul of its governance, and credit and investment policies. Nonetheless, corporate governance remains a key credit consideration and requires close ongoing monitoring.

Support and structural considerations

Affiliate support

GBI's Adjusted BCA of baa3 is positioned one notch above the bank's BCA of ba1, benefitting from our assumption of a moderate probability of affiliate support from BBVA. The small size of the bank compared to BBVA, its inclusion within the scope of the ECB's supervision of BBVA and the reputational risks given GBI's use of BBVA's name are all factors that could lead BBVA to support GBI in case of need.

Loss Given Failure analysis

GBI is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits and assign a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in keeping with our standard assumptions. We also use an assumption of 10% of deposits which can be considered to be junior deposits, given GBI's historically retail deposit base, although the share of junior deposits has been increasing in recent years.

Our LGF analysis indicates a moderate loss given failure for deposit ratings, leading us to assign no uplift above the bank's Adjusted BCA of baa3.

Government support considerations

We expect a low probability of government support for GBI's deposits, resulting in no uplift for the long-term deposit ratings.

Counterparty Risk Ratings (CRRs)

GBI's CRRs are Baa2/Prime-2

The CRR of Baa2 is positioned one notch above the Adjusted BCA of baa3, reflecting the low loss given failure resulting from the modest volume of instruments that are subordinated to CRR liabilities.

Counterparty Risk (CR) Assessment

GBI's CR assessment is Baa1(cr)/Prime-2(cr)

The CR assessment is positioned two notches above the Adjusted BCA of baa3, based on the buffer against default provided to the senior obligations by subordinated instruments and no uplift from our assumption for a low probability of government support.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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.

The most recent figures incorporated into the below scorecard are derived from GBI's 2021 audited annual report.

Rating methodology and scorecard factors

Exhibit 4

GarantiBank International N.V.

Macro Factors							
Weighted Macro Profile	**Moderate +**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.6%	a3	↔	b1	Single name concentration	Geographical concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	22.4%	a1	↔	a3	Risk-weighted capitalisation	Expected trend	
Profitability							
Net Income / Tangible Assets	0.3%	b1	↔	b1	Earnings quality		
Combined Solvency Score		baa1		ba1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	10.6%	baa1	↔	ba1	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	37.5%	a3	↔	baa2	Stock of liquid assets		
Combined Liquidity Score		baa1		baa3			
Financial Profile				ba1			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				baa3 - ba2			
Assigned BCA				ba1			
Affiliate Support notching				1			
Adjusted BCA				baa3			

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	963	23.3%	1,176	28.5%
Deposits	3,038	73.7%	2,825	68.5%
Preferred deposits	2,734	66.3%	2,597	63.0%
Junior deposits	304	7.4%	228	5.5%
Equity	124	3.0%	124	3.0%
Total Tangible Banking Assets	4,124	100.0%	4,124	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	8.5%	8.5%	8.5%	8.5%	1	1	1	1	0	baa2
Counterparty Risk Assessment	8.5%	8.5%	8.5%	8.5%	2	2	2	2	0	baa1 (cr)
Deposits	8.5%	3.0%	8.5%	3.0%	0	0	0	0	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	baa2	0	Baa2	Baa2
Counterparty Risk Assessment	2	0	baa1 (cr)	0	Baa1(cr)	
Deposits	0	0	baa3	0	Baa3	Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
GARANTIBANK INTERNATIONAL N.V.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
PARENT: TURKIYE GARANTI BANKASI A.S.	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	B3/NP
Counterparty Risk Rating -Dom Curr	B2/NP
Bank Deposits	B3/NP
NSR Bank Deposits	Baa1.tr/TR-2
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3
Counterparty Risk Assessment	B2(cr)/NP(cr)
Senior Unsecured	B3
Subordinate	Caa2 (hyb)
Other Short Term	(P)NP

Source: Moody's Investors Service

Endnotes

1 The ratings shown are BBVA's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

2 Supervisory Review and Evaluation Process

REPORT NUMBER 1338078

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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