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CREDIT OPINION
13 November 2023

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	Positive

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.

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GarantiBank International N.V.

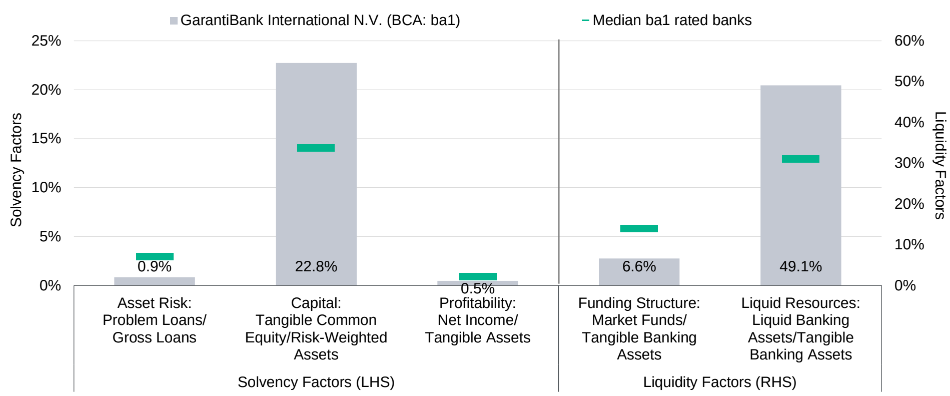
Update following rating action

Summary

GarantiBank International N.V.'s (GBI) deposit rating of Baa3 (with a positive 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' solid credit fundamentals, including strong capitalization and liquidity base, together with the bank's improving profitability. Such relative strengths are offset by the structurally concentrated nature of GBI's exposures in terms of geographies and corporate issuers. It also incorporates the close alignment to the strategic priorities as set by its ultimate Spanish parent Banco Bilbao Vizcaya Argentaria, S.A. 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 inherently volatile, profitability
- Solid liquidity profile and low dependence on confidence-sensitive market funding

Credit challenges

- High risk concentrations in terms of counterparties
- Retail deposits are exclusively collected through the internet and call centers, but have nonetheless proved sticky in the past
- Still material exposure to the Turkish economy, albeit materially reduced since 2015

Outlook

The outlook on GBI's long-term deposit ratings is positive, reflecting the surge in the corporate deposit base in 2022, which increases the volume of loss-absorbing junior deposits and thereby dilutes the expected losses between junior depositors. This in turn could lead to rating uplift from the bank's Adjusted BCA, under our Advanced LGF analysis.

We will monitor the sustainability of such a reallocation of the deposit base, and calculate the evolving proportion of loss absorbing deposits compared to retail deposits, taking into account the estimated proportion of junior deposits which would leave the bank prior to failure.

Factors that could lead to an upgrade

An upgrade of GBI's BCA could be triggered by a combination of sustained improvement in profitability, a further reduction in credit risk concentrations, which together will provide more stable and resilient solvency profile, and the development of diversified and sticky funding sources.

An upgrade of the deposit ratings could be triggered by an upgrade of BBVA's BCA.

An upgrade of the deposit ratings could also be triggered by a sustained high volume of junior deposits, resulting in lower loss-given-failure under Moody's Advanced LGF analysis.

Factors that could lead to a downgrade

A downgrade of the bank's BCA could result from increased asset risk, less stable earnings and weakening solvency, mainly stemming from a deterioration of the creditworthiness of the bank's counterparties and unstable business volumes.

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, all things equal.

Although unlikely at present, as signaled by the positive outlook, 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.

Key indicators

Exhibit 2

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

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	5,105.7	4,129.9	3,430.2	3,615.0	4,288.5	4.5[4]
Total Assets (USD Million)	5,449.1	4,679.6	4,197.0	4,057.9	4,902.4	2.7[4]
Tangible Common Equity (EUR Million)	644.1	603.8	585.3	579.1	573.0	3.0[4]
Tangible Common Equity (USD Million)	687.4	684.1	716.2	650.0	655.0	1.2[4]
Problem Loans / Gross Loans (%)	0.6	0.9	1.0	2.8	3.1	1.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	22.7	22.4	24.1	24.2	21.8	23.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	2.3	3.8	3.5	10.9	14.4	7.0[5]
Net Interest Margin (%)	1.9	1.4	1.3	1.4	1.6	1.5[5]
PPI / Average RWA (%)	1.9	1.1	0.6	0.7	1.1	1.1[6]
Net Income / Tangible Assets (%)	0.8	0.4	0.2	0.2	0.3	0.4[5]
Cost / Income Ratio (%)	48.0	60.2	73.8	72.6	63.8	63.7[5]
Market Funds / Tangible Banking Assets (%)	6.6	10.6	10.3	5.8	19.4	10.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	49.2	37.5	37.4	31.0	31.6	37.4[5]
Gross Loans / Due to Customers (%)	64.4	84.4	86.6	91.1	103.9	86.1[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, 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 four 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

4. Retail Banking, whereby GBI serves as a savings bank both in the Netherlands and Germany

Detailed credit considerations

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

As of year-end 2022, GBI's exposure to the Dutch economy (Macro Profile score of Strong+) amounted to 36% of its total exposures, whereas its total exposure to European countries was around 69% (including the Netherlands, the UK, Germany, Switzerland and France). However, GBI is also exposed to the weaker operating environment of Turkiye (Macro Profile of Very Weak+), leading to an assigned weighted Macro Profile of Moderate+.

The “Very Weak +” Macro Profile we assign to Turkiye has been constrained by unpredictable policymaking that has resulted in very high inflation, as well as a lack of central bank credibility and investor confidence. However, we positively note that the central bank has raised its key policy interest rates and is gradually removing the many distorting macroprudential measures that were implemented over the past year, which harmed banks' core profitability. The market-driven depreciation of the Turkish lira helps to restore exporters' competitiveness while allowing the central bank to restore its depleted foreign-currency reserves. Meanwhile, the government has started to correct the very large fiscal deterioration of the first half of the year, which was due to earthquake reconstruction and substantial pre-election spending, by raising taxes.

While GBI's exposures to Turkiye decreased to 17% as of year-end 2022 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. We also caution that trade finance exposures being short-term in nature and exposed to volatile commodity prices, we expect the macro adjusted scores in the scorecard to be quite volatile. Therefore, GBI's weighted Macro Profile of Strong- has been adjusted down by one notch to Moderate+ to reflect such limitations and the unstable macroeconomic conditions in Turkiye.

Largely collateralised credit portfolio, which has yielded minimal losses in recent years, but exhibits high concentrations

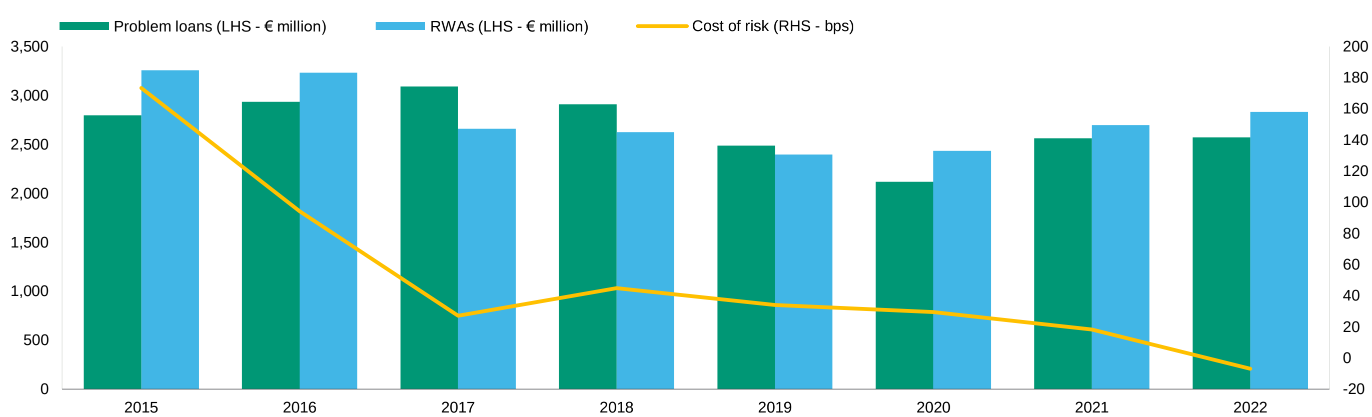
GBI's asset quality is modest given the structurally concentrated nature of its exposures in terms of corporate issuers and geographies.

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 274% of the bank's Common Equity Tier 1 (CET1) capital as of year-end 2022, up from 253% 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 €966 million as of December 2022, representing 17% 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 0.6% as of year-end 2022 from 0.9% as of year-end 2021, with no new nonperforming formation occurring in 2022. The bank's problem loan formation is inherently low, and predominantly on corporate exposures.

Following the adoption of BBVA's risk policies, the bank's total related-party exposures decreased significantly to 11% of CET1 capital as of year-end 2022 (from 19% in 2021 and 26% as of year-end 2017).

Our assigned Asset Risk score of ba3 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 2022, GBI reported a lower CET1 ratio of 21.7%, stable compared with 2021. 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 11.57% SREP [2] minimum requirement set for 2023 which decreased by 50 bps from the previous year, underpinned by a lower Pillar 2 Requirement of 3% down from 3.5% in 2022), 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 macroeconomic environment will weigh on risk-weighted assets in the coming quarters.

Profitability has strengthened in recent years but remains exposed to inherent earnings volatility

GBI has steadily increased its loans and customer base in recent years, which, together with the increase in commodity prices and trade finance volumes, has supported its revenue generation. Given the bank's business mix and the concentrated nature of its loan book, GBI's profitability is nonetheless exposed to inherent earnings volatility.

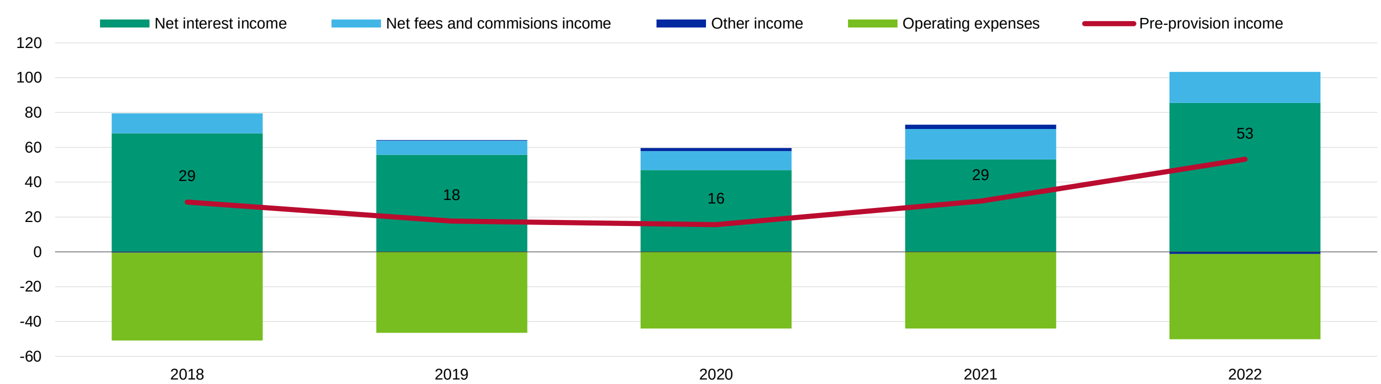
As the bank aligned its risk procedures and policies with those of BBVA in 2016 and 2017, it sold most of its emerging market securities that had represented a significant contribution to the bank's profitability for years. This lower trading income, coupled with a significant reduction in the size of the loan book, led to lower earnings generation. GBI has however progressively restored its profitability, with net income reaching 0.8% of tangible assets (compared to 0.4% in 2021, and 0.2% in 2020), thanks to both a favourable context of high commodity prices and trade volumes, and the short maturity of the loan book which allowed a fast repricing in a context of rising interest rates, while the pass-through of the rate hikes to GBI's depositors was slower.

The bank's revenues were 40% up (Exhibit 4) because of higher net interest income (+61%) due to an increase in the net interest margin (up to 186 basis points in 2022 from 141 basis points in 2021). Commissions, which represented 18% of the bank's revenues in 2022, slightly increased by 3%.

Exhibit 4

Fast repricing of assets boosted the net interest income of GBI

Breakdown of pre-provision income in € million



Sources: Company data and Moody's Investors Service

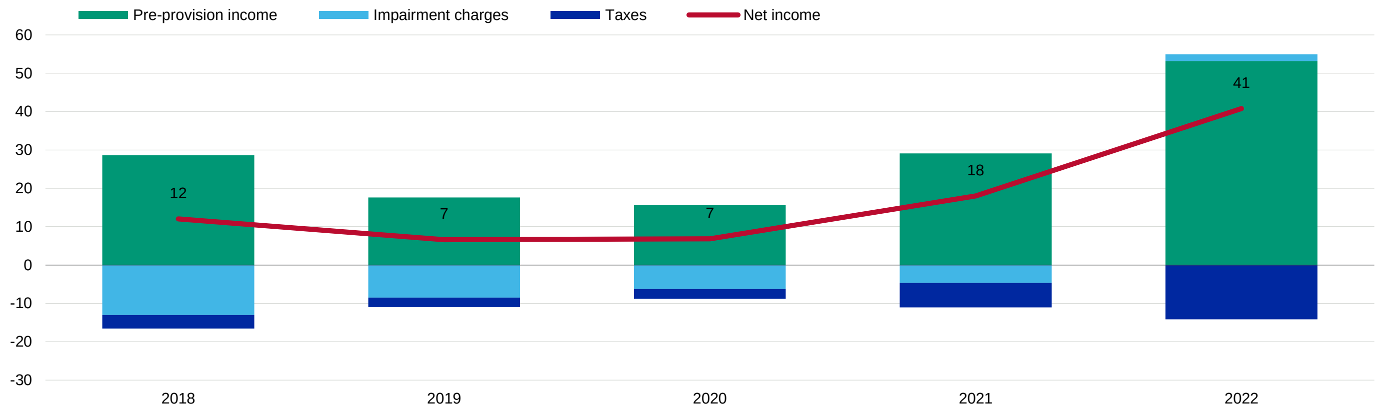
Historically, GBI's efficiency has been relatively strong, thanks to the absence of a physical branch network. The cost-to-income ratio (as per Moody's calculation) improved in 2022 to 48% from 60% in 2021, mostly due to soaring revenues. Operating expenses increased by 12%, in line with the Dutch inflation rate, driven by wage increases. We expect further improvement in full-year 2023 thanks to the continuing positive effect of rising interest rates on GBI revenues in most of its markets, accelerated by the short duration of the loan book. The declining inflation in the Netherlands will also ease the pressure on operating expenses for GBI.

The cost of risk decreased to -7 bps of average gross loans to customers in 2022 (Exhibit 5) compared to 20 bps in 2021, the lowest level in the past decade, resulting from recoveries in Stage 2 and Stage 3 loans, slightly offset by higher allowances for Stage 1 loans that are linked to the deteriorating economic environment in most of GBI's operating markets. Nonetheless, we expect a of cost of risk increase due to the ongoing slowdown in the global economy.

Exhibit 5

Soaring net profit in 2022 due to strong top line growth

Breakdown of net income in € million



Source: Company data and Moody's Investors Service

Our assigned Profitability score of ba3 reflects our view that while volumes of trade finance activities will remain volatile, and funding costs and cost of risk will increase, we still expect that good operating efficiency and higher asset margins will stabilize GBI's profitability levels.

Strong liquidity but some reliance on concentrated corporate deposits

GBI has good liquidity, supported by (1) a track record of stable deposit base (loan-to-deposit ratio was 64% as of year-end 2022); (2) a predominance of retail deposits (largely 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.

As of year-end 2022, GBI had the following funding sources:

» 78% of the balance sheet was deposit funded (out of which, 52% are retail deposits), collected primarily through the internet or call centers in the Netherlands and in Germany ;

» Interbank (7%), consisting predominantly of ECB's TLTRO and modest amounts of bilateral wholesale funding and money market borrowings.

GBI has been increasingly collecting corporate deposits (which accounted for 48% of the customer deposit base at year-end 2022, compared to 39% at year-end 2021), mostly denominated in USD, which are mostly attracted through the provision of trade finance or cash management services. GBI exhibits substantial concentration in such a deposit client base, as is the case of most small-sized institutions. Large corporate deposits are more sensitive to confidence and pricing, as they are typically larger and uninsured. However, so far, GBI has not relied on such a corporate deposit base to originate loans, and has rather increased its placements with the ECB.

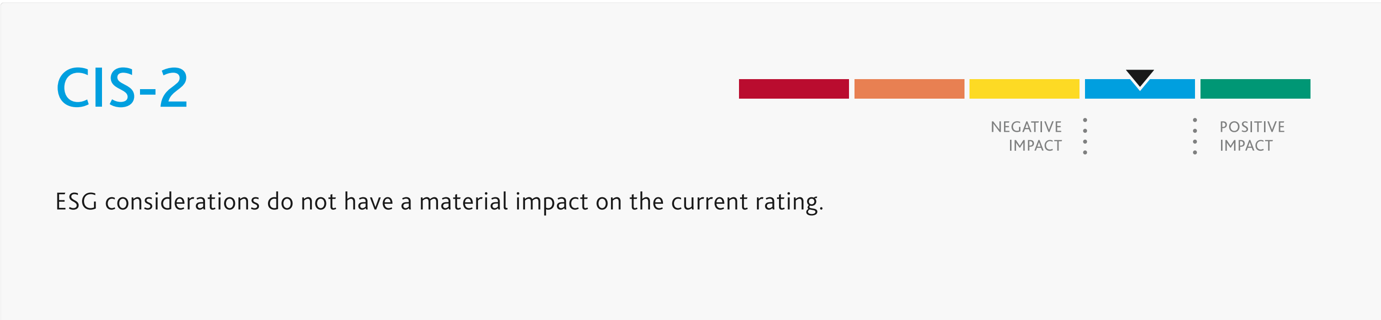
GBI mitigates its funding risks by maintaining ample liquidity on its balance sheet. As of year-end 2022, GBI's liquid assets (the sum of cash and balances with central banks, unencumbered interbank money-market exposures and unencumbered investment-grade securities) represented 45% of total assets, compared with 31% as of year-end 2021. The bank's liquidity coverage ratio amounted to 754% in 2022. Additionally, the short duration of a large proportion of its assets (78% of loans mature within one year) confers flexibility to GBI in monitoring its credit risk and balance-sheet structure, and limits the bank's maturity mismatch.

The ba1 score assigned to Funding Structure reflects the predominance of retail deposits, which are however 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. The score also reflects the concentrated nature of the corporate deposit base. This, along with a baa2 score for Liquid Resources, leads to a combined Liquidity score of baa3.

ESG considerations

GarantiBank International N.V.'s ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score



Source: Moody's Investors Service

GBI's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 7
ESG issuer profile scores

Source: Moody's Investors Service

Environmental

GBI faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, GBI is exposed to mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, GBI is actively developing its comprehensive risk management and climate risk reporting frameworks, and transitioning its lending portfolios to achieve carbon neutrality targets.

Social

GBI is exposed to high industrywide social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by GBI's developed policies and procedures. GBI's high cyber and personal data risks are mitigated by the group's sound IT framework.

Governance

GBI faces low governance risks, reflecting satisfactory governance practices. 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.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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.

Rating methodology and scorecard factors

Exhibit 8

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	0.8%	a2	↔	ba3	Single name concentration	Geographical concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	22.7%	a1	↔	a3	Access to capital	Expected trend
Profitability						
Net Income / Tangible Assets	0.5%	ba3	↔	ba3	Earnings quality	
Combined Solvency Score		a3		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	6.6%	a3	↔	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	49.2%	a3	↔	baa2	Stock of liquid assets	
Combined Liquidity Score		a3		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	952	18.7%	1,231	24.1%
Deposits	3,995	78.3%	3,716	72.9%
Preferred deposits	3,596	70.5%	3,416	67.0%
Junior deposits	400	7.8%	300	5.9%
Equity	153	3.0%	153	3.0%
Total Tangible Banking Assets	5,100	100.0%	5,100	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	8.9%	8.9%	8.9%	8.9%	1	1	1	1	0	baa2
Counterparty Risk Assessment	8.9%	8.9%	8.9%	8.9%	2	2	2	2	0	baa1 (cr)
Deposits	8.9%	3.0%	8.9%	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 9

Category	Moody's Rating
GARANTIBANK INTERNATIONAL N.V.	
Outlook	Positive
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 1386580

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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