MOODY'S
INVESTORS SERVICE

CREDIT OPINION
7 October 2021

Update

Rate this Research

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.

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GarantiBank International N.V.

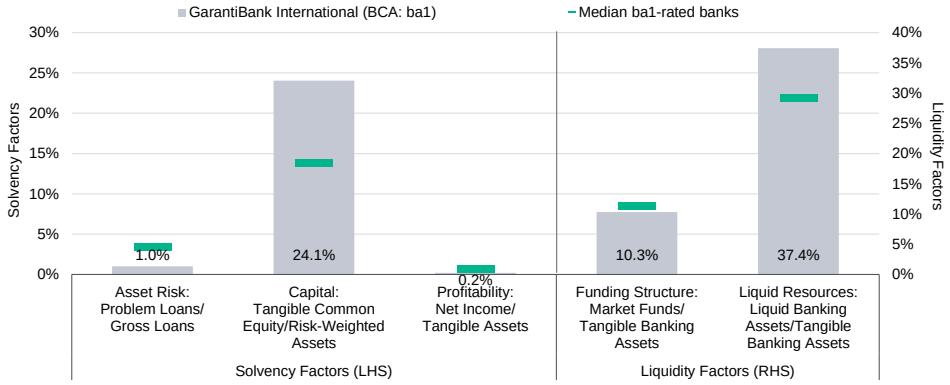
Update to credit analysis following rating upgrade

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.

On 9 September 2021, we upgraded GBI's BCA to ba1 from ba2, reflecting the achieved de-risking of GBI's credit profile and closer alignment to the strategic priorities as set by its ultimate Spanish parent BBVA, and the reduced 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, B2 negative, b3).

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

» Strong capital base

» Stabilizing, albeit modest, profitability

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

Credit challenges

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

» Material, albeit 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 ultimate parent BBVA. As a result, the rating outlook no longer reflects the negative outlook of its Turkish parent's ratings nor the negative outlook assigned to the Government of Turkey's ratings. While further negative developments in Turkey could affect 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 a combination of improved 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 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 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 Moody's Advanced LGF analysis.

Key indicators

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

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	3,430.2	3,615.0	4,288.5	4,274.1	4,835.5	(8.2)[4]
Total Assets (USD Million)	4,197.0	4,057.9	4,902.4	5,132.4	5,100.3	(4.8)[4]
Tangible Common Equity (EUR Million)	585.3	579.1	573.0	582.8	557.8	1.2[4]
Tangible Common Equity (USD Million)	716.2	650.0	655.0	699.8	588.4	5.0[4]
Problem Loans / Gross Loans (%)	1.0	2.8	3.1	1.9	2.1	2.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	24.1	24.2	21.8	21.9	17.3	21.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.5	10.9	14.4	9.5	10.4	9.7[5]
Net Interest Margin (%)	1.3	1.4	1.6	1.5	1.3	1.4[5]
PPI / Average RWA (%)	0.6	0.7	1.1	1.5	1.5	1.1[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.3	0.6	0.3	0.3[5]
Cost / Income Ratio (%)	73.8	72.6	63.8	52.5	47.3	62.0[5]
Market Funds / Tangible Banking Assets (%)	10.3	5.8	19.4	16.1	17.1	13.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.4	31.0	31.6	31.0	26.4	31.5[5]
Gross Loans / Due to Customers (%)	86.6	91.1	103.9	106.5	87.6	95.1[5]

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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 Turkey. Established in 1990 in Amsterdam, the bank is a wholly owned subsidiary of Garanti BBVA (Turkey) 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. As a result, GBI is under the supervision of the European Central Bank's (ECB) Single Supervisory Mechanism (since 30 September 2015), jointly with De Nederlandsche Bank (DNB, 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.

GBI has reduced its exposures to the Commonwealth of Independent States (CIS) to zero, while exposures to Turkey have also decreased (to around 20% of total exposures) in accordance with BBVA's risk appetite framework. Additionally, risk concentrations have been reduced and lending to parent companies (related-party lending) has been aligned with BBVA's policies. The reduction in emerging market exposures represents a positive shift for GBI's asset risk profile. This improvement may be partly counterbalanced by a structural decrease in profitability because the credit spreads on higher quality assets are relatively lower than those of the assets held previously.

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

1. Trade & 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, albeit declining, exposure to Turkey

As of year-end 2020, GBI's exposure to the Dutch economy was around 20% of its total exposures, whereas its total exposure to European countries was around 60% (including the Netherlands, the UK, Germany and Switzerland). However, GBI is also exposed to low Macro Profile countries, including to Turkey (Very Weak+), leading to an assigned Macro Profile of Moderate+.

The Macro Profile of Turkey is Very Weak+, driven by Turkish banks' high reliance on short-term wholesale funding in foreign currency, while retail depositors convert a material portion of their local-currency deposits into foreign currency (mainly US dollars) to protect their savings from depreciation. However, the coronavirus pandemic has constrained market access for domestic banks. Policy uncertainty also increases the risk of a sudden shift in depositor behaviour, raising the risk of more extreme policy measures that could include restricted access to foreign currency for depositors in a stressed scenario.

While GBI's exposures to Turkey decreased to around 20% as of year-end 2020 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 Turkey. Therefore GBI's Macro Profile of Strong- has been adjusted down by one notch to Moderate+ to reflect the unstable macroeconomic conditions in Turkey, which strain the bank's credit profile.

Largely collateralised credit portfolio, with improving yet modest asset quality

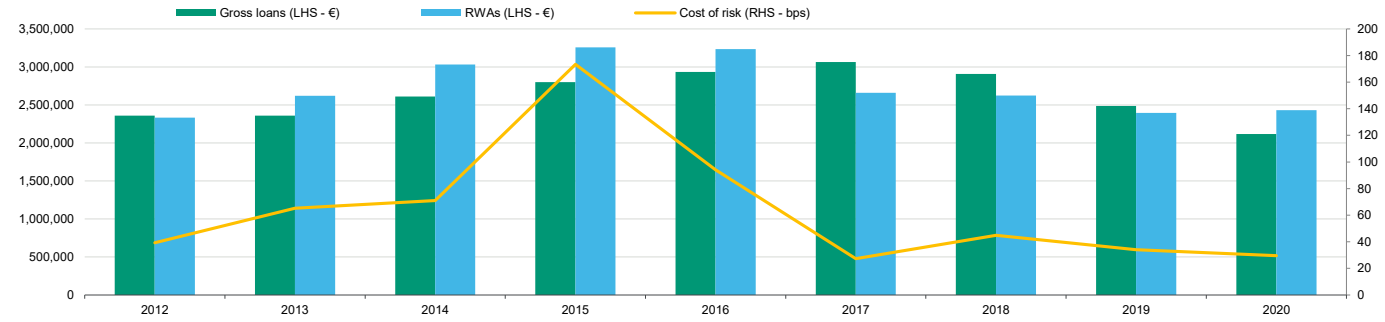
GBI's asset quality is modest given the structurally concentrated nature of its exposures in terms of corporate issuers and geographies.

On the one hand, asset quality has benefitted from decreasing exposures to riskier countries and reduced single-issuer concentrations. Nonetheless, credit risk concentrations still remain high, inherent to the bank's trade and corporate finance business. GBI has exposures, which account for around 13% of its loan book, to economic sectors that are vulnerable to the coronavirus-induced downturn, such as transport, construction and commercial real estate. So far, asset quality has been resilient - all loans classified as Stage 3 in 2020 have been fully collected within the year without yielding any credit losses - but default rates could still increase as support measures are alleviated in the coming months. Single-name concentrations are still elevated, albeit declining; the top 20 exposures represented 215% of the bank's Common Equity Tier 1 (CET1) capital as of year-end 2020, down from 395% as of the end of June 2016.

In addition, even though declining, GBI's on and off-balance-sheet exposures to Turkish counterparts amounted to €861 million as of December 2020, representing 22% of its total exposures. Most of these exposures are to corporate banking and trade finance loans (85% of its CET1 capital), which are short term in nature and can be terminated at relatively short notice. So far this portfolio has performed well.

Exhibit 3

Reduced exposures to riskier countries have caused risk-weighted assets to decrease



Sources: Company data

GBI's problem loan ratio improved to 1.0% as of year-end 2020 from 2.8% as of year-end 2019, as a result of workouts, asset disposals and write-offs. 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 NPL 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 to 7% of CET1 capital as of year-end 2020 from a 12% as of year-end 2019.

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 2020, GBI reported a CET1 ratio of 23.8%, broadly stable compared to 2019, because of a mere 1.5% risk-weighted assets increase, and 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 12.51% SREP[2] minimum requirement) 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.

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 decrease to 0.18% of its tangible assets in 2019 from 0.34% in 2018 and 0.61% in 2017. In 2020, GBI's profitability slightly improved to 0.20% of its tangible assets, owing partly to the fact that the bank's net profit went up 3% thanks to lower operating expenses (-5%). The bank's revenues were 7% down due to lower net interest income (-16%) as a result of a decrease in the net interest margin (down from 141 basis points in 2019 to 133 basis points in 2020) but also a 14% reduction in loans to customers. On the other hand, commissions, which represented around 20% of the bank's revenues in 2020, went up by 35% thanks to higher commissions on brokerage, advisory and custody services but also from trade finance due to increased transactions.

The cost of risk has decreased to 28bps in 2020 compared to 32bps of 2019. This reflects the material decrease in loans and advances in Stage 2 to €68 million (2019: €210 million) due in particular to the full repayment of the credit exposures to banks. Stage 1 and Stage 2 ECL allowance increased on the other hand to €15.9 million (2019: €10.6 million), reflecting the economic uncertainties and a more cautious provisioning approach in the Bank's ECL process. Given the economic recovery in 2021 in most of GBI's operating markets, we expect cost of risk to remain in line with the low historical levels.

Historically, GBI's efficiency has been relatively strong, thanks to the lack of a physical branch network. However, the bank's cost-to-income ratio deteriorated over the last three years reaching 74% in 2020 from a 54% in 2017. We expect the ratio to improve in 2021 to low 60% because of (i) higher net interest and fee and commission income, and (ii) contained expenses because material investments driven by regulatory requirements and digitalisation have already been made.

Over the medium term, we expect GBI's earnings generation to remain modest, but to be more stable than a few years ago, due to the de-risking strategy put in place.

All these elements are reflected in our assigned Profitability score of b2.

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 86.6% as of year-end 2020); (2) a predominance of retail deposits (partly covered by the Dutch deposit guarantee scheme), which were stable during the global financial crisis; 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 40% 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 2020, GBI had the following funding sources:

» Around 70% of the balance sheet was deposit funded (out of which, 78% retail deposits), collected primarily through the internet or call centres 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 2020, GBI's liquid assets (the sum of cash and balances with central banks, unencumbered interbank money-market exposures and unencumbered investment-grade securities) represented 35.6% of total assets, compared with 30.4% as of year-end 2019.

The bank's LCR amounted to 509.3% in 2020, 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 centres. 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 with 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 believe that only 10% of deposits can be considered to be junior deposits, that is, corporate deposits that are not defined as preferred deposits under the BRRD.

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 2020 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	2.3%	baa1	↔	b1	Single name concentration	Geographical concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	24.1%	a1	↔	a3	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.2%	b2	↔	b2	Earnings quality	
Combined Solvency Score		baa1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	10.3%	baa1	↔	ba1	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.4%	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	877	25.6%	1,048	30.6%
Deposits	2,444	71.4%	2,273	66.4%

Preferred deposits	2,200	64.2%	2,090	61.0%
Junior deposits	244	7.1%	183	5.4%
Equity	103	3.0%	103	3.0%
Total Tangible Banking Assets	3,424	100.0%	3,424	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	8.4%	8.4%	8.4%	8.4%	1	1	1	1	0	baa2
Counterparty Risk Assessment	8.4%	8.4%	8.4%	8.4%	2	2	2	2	0	baa1 (cr)
Deposits	8.4%	3.0%	8.4%	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	Negative
Counterparty Risk Rating	B2/NP
Bank Deposits	B2/NP
NSR Bank Deposits	A1.tr/TR-1
Baseline Credit Assessment	b3
Adjusted Baseline Credit Assessment	b3
Counterparty Risk Assessment	B2(cr)/NP(cr)
Senior Unsecured	B2
Subordinate	Caa2 (hyb)
Other Short Term	(P)NP

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

2 Supervisory Review and Evaluation Process

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