CREDIT OPINION

19 July 2024

Update

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RATINGS

GarantiBank International N.V.

Domicile	Amsterdam, Netherlands
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa2
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 upgrade of deposit ratings to Baa2, outlook positive

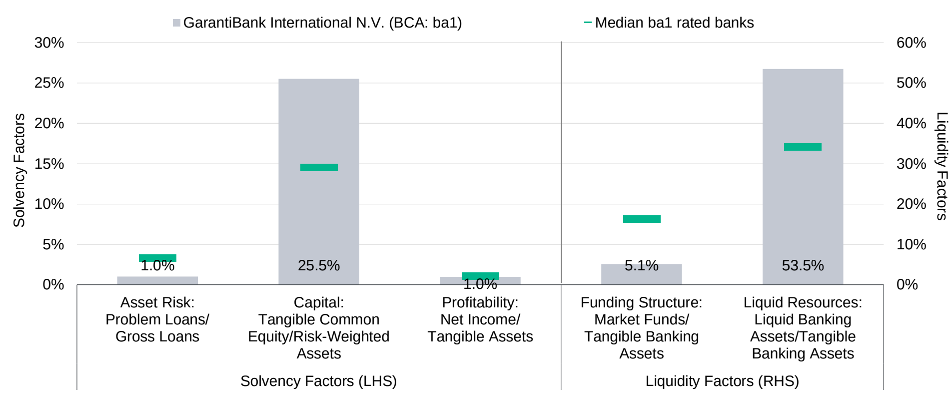
Summary

GarantiBank International N.V.'s (GBI) long-term deposit ratings of Baa2 reflect the bank's Baseline Credit Assessment (BCA) of ba1; a one notch rating uplift of affiliate support from the bank's ultimate parent Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, A2 developing/A3 positive, baa2[1]); and one notch of rating uplift from our advanced Loss Given Failure (LGF) analysis. GBI's ratings do not benefit from any government support uplift due to its limited size relative to the Dutch banking sector.

GBI's BCA of ba1 reflects its strong capitalization, ample liquidity base, and improving profitability. However, these relative strengths are offset by the bank's concentrated exposures in terms of geographies and counterparties. It also incorporates GBI's alignment with the strategic priorities set by BBVA and the contained potential risk transmission from its exposure to emerging economies as well as to its direct parent, Turkiye Garanti Bankasi A.S. (Garanti BBVA, B3 positive, b3).

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

» Strong capitalisation and good internal capital generation support the bank's ability to withstand shocks

» Good profitability, although inherently volatile

» Solid liquidity profile and low dependence on confidence-sensitive market funding

Credit challenges

» High single-name concentrations pose risk on asset quality

» Material although decreased exposure to Turkiye

» Retail deposits exclusively collected through internet and call centers

Outlook

The outlook on GBI's long-term deposit ratings is positive, reflecting Moody's expectation that bank's improving capitalization and recurrent profitability, if sustained and combined with a low asset risk, could lead to an upgrade of the bank's BCA and ratings, despite the bank's high levels of concentration in its loans and deposits base.

The positive outlook on GBI's long-term deposit ratings also reflects the growing volume of GBI's corporate deposits that, if sustained, could lead to a higher uplift from the bank's Adjusted BCA according to Moody's Advanced LGF analysis.

Factors that could lead to an upgrade

An upgrade of GBI's BCA could be triggered by sustained level of earnings generation and capitalisation, combined with low level of asset risk, and stable funding and liquidity profile.

In addition to the upgrade of the 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, a material deterioration in the bank's profitability and capitalization, and a material weakening of the bank's liquidity.

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]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	5,782.5	5,105.7	4,129.9	3,430.2	3,615.0	12.5[4]
Total Assets (USD Million)	6,387.7	5,449.1	4,679.6	4,197.0	4,057.9	12.0[4]
Tangible Common Equity (EUR Million)	743.1	644.1	603.8	585.3	579.1	6.4[4]
Tangible Common Equity (USD Million)	820.9	687.4	684.1	716.2	650.0	6.0[4]
Problem Loans / Gross Loans (%)	1.0	0.6	0.9	1.0	2.8	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	25.5	22.7	22.4	24.1	24.2	23.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.5	2.3	3.8	3.5	10.9	4.8[5]
Net Interest Margin (%)	3.1	1.9	1.4	1.3	1.4	1.8[5]
PPI / Average RWA (%)	4.8	1.9	1.1	0.6	0.7	1.8[6]
Net Income / Tangible Assets (%)	1.7	0.8	0.4	0.2	0.2	0.7[5]
Cost / Income Ratio (%)	27.9	48.0	60.2	73.8	72.6	56.5[5]
Market Funds / Tangible Banking Assets (%)	5.1	6.6	10.6	10.3	5.8	7.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	53.5	49.2	37.5	37.4	31.0	41.7[5]
Gross Loans / Due to Customers (%)	57.0	64.4	84.4	86.6	91.1	76.7[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 Ratings and company filings

Profile

GarantiBank International N.V. (GBI) is a medium-sized Dutch bank[2] (€5.8 billion of total assets as of December 2023) 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. Consequently, GBI is under the supervision of the European Central Bank's (ECB) Single Supervisory Mechanism, 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.

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 2023, GBI's exposure to the Dutch economy (Macro Profile score of Strong+) amounted to 16% of its total exposures excluding deposits to DNB (45% including central bank's deposits, which represent 34% of GBI's exposure), whereas its total exposure to European countries was over 60%[3] (75% including deposits to DNB). 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+.

While GBI's exposures to Turkiye decreased to 22% (15% including deposits to DNB) as of year-end 2023 from 39% 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 slightly more 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

We assign an asset risk score of ba3, which reflects the low level of non-performing loans accounting for around 1% of gross loans at end-2023, but also the structurally concentrated nature of its exposures in terms of corporate issuers and geographies.

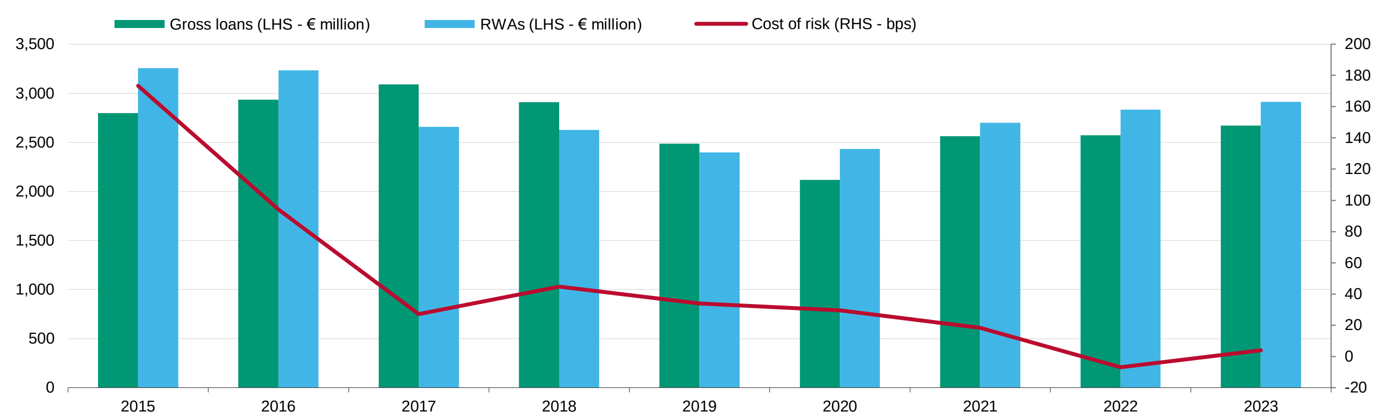
Single-name concentrations are still elevated: the top 20 exposures represented around 238% of the bank's Common Equity Tier 1 (CET1) capital as of year-end 2023, although decreasing from 274% a year before. In addition, GBI's on- and off-balance-sheet exposures to Turkish counterparts amounted to €950 million as of December 2023, representing 22% of its exposures (15% including deposits to DNB). 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.

GBI has successfully completed a material de-risking of its balance sheet in recent years, which mainly consisted in reducing its exposure to Turkish counterparties and loan concentrations, following BBVA's acquisition of a controlling stake in GBI's direct shareholder in 2015. 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.

Following the adoption of BBVA's risk policies, the bank's total related-party exposures decreased significantly to 9% of CET1 capital as of year-end 2023 (from 11% in 2022 and 26% as of year-end 2017).

Exhibit 3

The bank's risk profile has improved since 2015



Sources: Company data and Moody's Ratings

Strong capital base and good track record of internal capital generation

Our assigned Capital score of a2 reflects the bank's strong capitalisation and its ability to absorb potential shocks. It also reflects our view that the bank could access to capital in case of need being it part of a large European banking group such as BBVA.

As of year-end 2023, GBI reported a strong CET1 ratio of 23.6%, increasing from an already high 21.7% a year earlier. GBI has not distributed dividends in recent years, which has supported internal capital generation, as profits have 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 is largely above the bank's 9.1% SREP [4] minimum requirement set for 2023. The Pillar 2 Requirement decreased by 50 bps from the previous year to 3% down from 3.5% in 2022, also indicative of lower risk profile.

Good profitability albeit still exposed to inherent earnings volatility

We assign a profitability score of ba2, reflecting the bank's improving profitability as increased customer loans together with the increase in commodity prices and trade finance volumes has supported revenues generation. The assigned score is two notches below the macro-adjusted score of baa3 to also reflect our view that the bank's business mix and the concentrated nature of its loan book exposes the bank to inherent earnings volatility. We expect that good operating efficiency and higher loans margins will support GBI's profitability levels going forward.

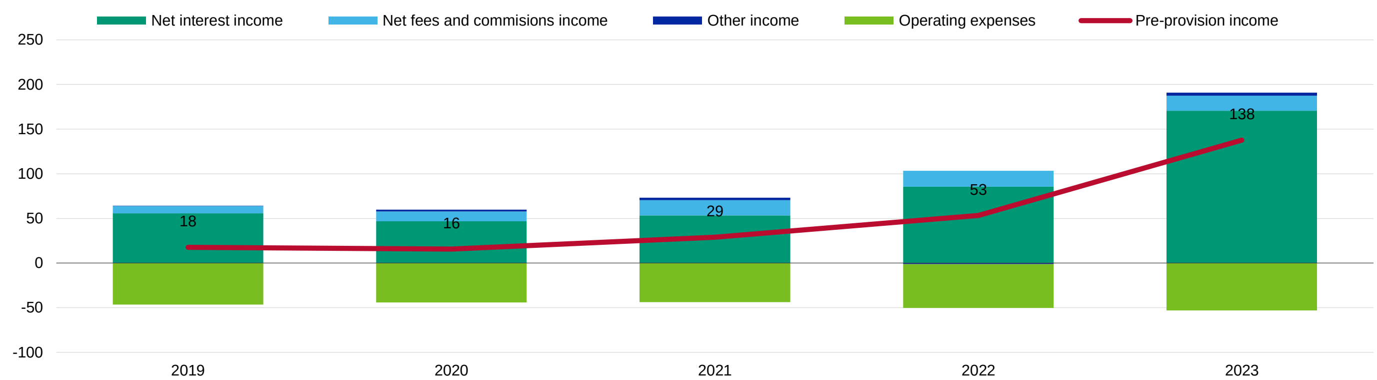
As the bank aligned its risk procedures and policies with those of BBVA in 2017, it sold most of its emerging market securities that had represented a significant contribution to the bank's profitability for years. This lower trading income, coupled with a significant reduction in the size of the loan book, led to lower earnings generation. After progressively restoring its profitability reaching 0.8% of net income over tangible assets in 2022 (it was 0.4% in 2021 and 0.2% in 2020), GBI recorded a record high 1.74% in 2023 supported by 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.

In 2023 the bank's revenues increased by around 90% (Exhibit 4) driven by higher net interest income (+99%) due to an increase in the net interest margin (up to 314 basis point from 186 basis points in 2022). Commissions, which represented 9% of the bank's revenues in 2023 (18% in 2022), decreased by 5%.

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 Ratings

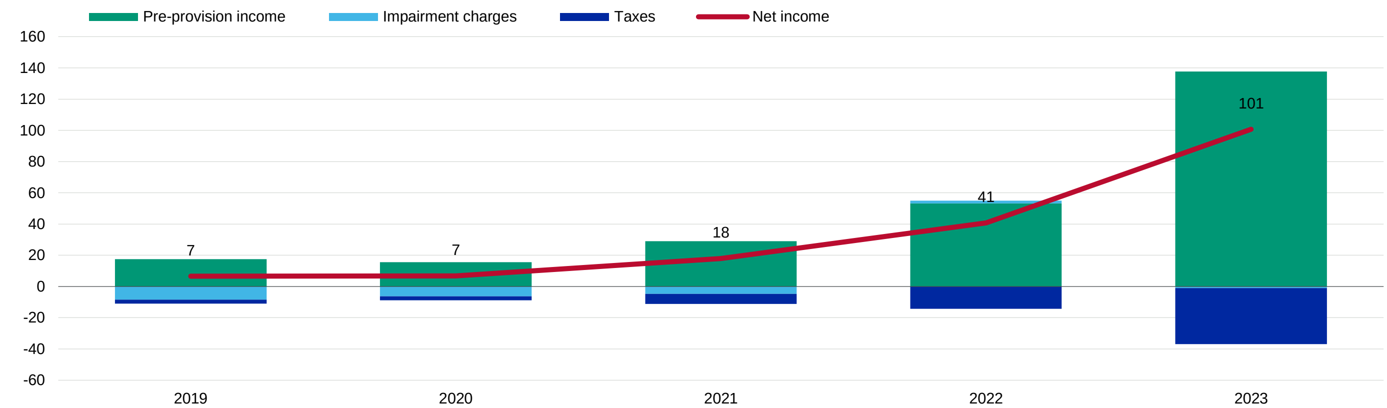
Historically, GBI's efficiency has been relatively strong, thanks to the absence of a physical branch network. The Moody's-calculated cost-to-income ratio improved in 2023 to 28% from 48% in 2022, although mostly due to stronger revenues. Operating expenses increased by 8% to €53 million, slowing down from the 12% increase registered in 2022. We expect further improvement of this ratio in full-year 2024 thanks to the continuing positive effect of still-high 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 increased to 4 bps of average gross loans to customers in 2023 (Exhibit 5) compared to -7 bps in 2022, due to a slight increase in Stage 3 loans and ECL allowance which offset the decrease in Stage 1 and Stage 2 loans and allowances. We expect the cost of risk to increase in the next 12 to 18 months due to the ongoing slowdown in the global economy, but to remain overall contained.

Exhibit 5

Soaring net profit in 2023 due to strong top line growth

Breakdown of net income in € million



Source: Company data and Moody's Ratings

Strong liquidity but some reliance on concentrated corporate deposits

We assign a ba1 score to funding structure, reflecting the bank's low reliance on wholesale funding, its good retail deposit base but also the large component of large corporate deposits. This, along with a baa2 score for Liquid Resources, leads to a combined Liquidity score of baa3.

GBI has strong liquidity, supported by a large deposit base, with the loan-to-deposit ratio standing at 57% as of year-end 2023. As of year-end 2023, over 80% of the balance sheet was deposit funded, out of which over 50% are retail deposits collected primarily through the internet or call centers in the Netherlands and in Germany which we consider less sticky than retail deposits collected though banks' branch networks. Interbank funding accounts for around 6%, consisting predominantly of bilateral wholesale funding and money market borrowings.

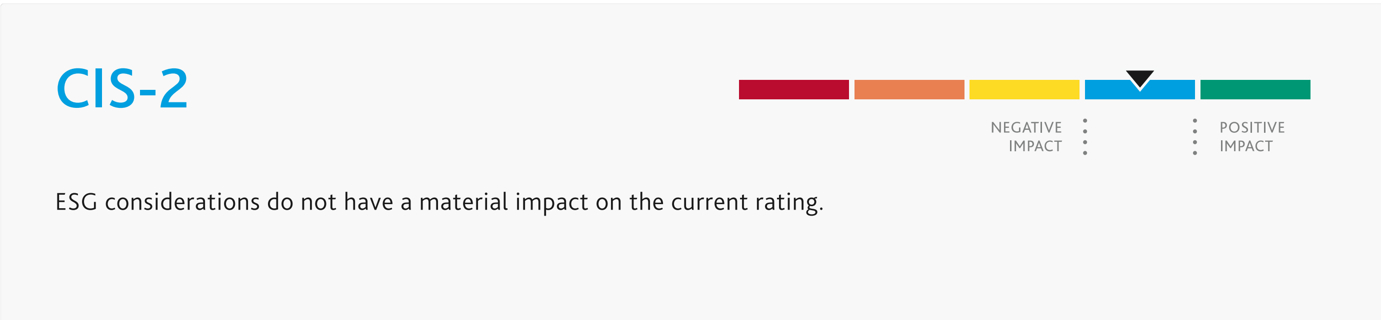
GBI has been increasingly collecting corporate deposits which accounted for 48% of the customer deposit base at year-end 2023, in line with 2022. These are mostly denominated in USD, which are in larger part attracted through the provision of trade finance or cash management services. GBI exhibits substantial 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.

GBI mitigates its funding risks by maintaining ample liquidity on its balance sheet. As of year-end 2023, GBI's liquid assets (the sum of cash and balances with central banks, unencumbered interbank money-market exposures and unencumbered investment-grade securities) represented 49% of total assets, compared with 45% as of December 2022 and 31% as of year-end 2021. The bank's liquidity coverage ratio amounted to 939% in 2023 from 754% in 2022. Additionally, the short duration of a large proportion of its assets (71% 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.

ESG considerations

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

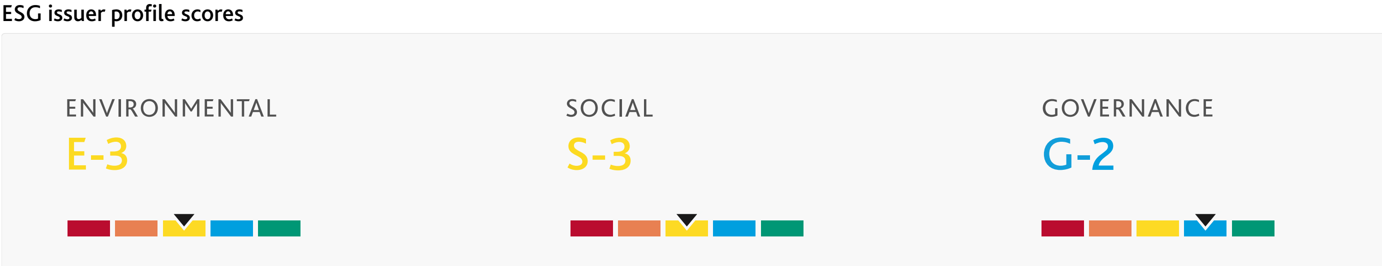
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

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 Ratings

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 moderate 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, benefiting from Moody's unchanged assumption of a moderate probability of affiliate support from its ultimate parent BBVA. The underpinnings of this assumption include the size of the bank, its inclusion within the scope of the ECB's supervision of BBVA and the reputational risks given GBI's use of BBVA's name.

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 26% of deposits which can be considered to be junior deposits, given GBI's share of junior deposits had been increasing in recent years.

Our LGF analysis indicates a low loss given failure for junior deposits, leading us to assign one notch uplift above the bank's Adjusted BCA of baa3.

Government support considerations

We expect a low probability of government support for GBI, resulting in no uplift to the banks' ratings.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by unadjusted accounting 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
Rating Factors

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		1.0%	a3	↔	ba3	Single name concentration	Geographical concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		25.5%	a1	↔	a2	Access to capital	
Profitability							
Net Income / Tangible Assets		1.0%	baa3	↓	ba2	Expected trend	Earnings quality
Combined Solvency Score			a3		baa3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		5.1%	a3	↔	ba1	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		53.5%	a2	↓	baa2	Stock of liquid assets	
Combined Liquidity Score			a3		baa3		
Financial Profile					baa3		
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					baa2 - ba1		
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	916	15.9%	1,394	24.1%
Deposits	4,686	81.1%	4,208	72.9%
Preferred deposits	3,468	60.0%	3,294	57.0%
Junior deposits	1,218	21.1%	914	15.8%
Equity	173	3.0%	173	3.0%
Total Tangible Banking Assets	5,775	100.0%	5,775	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	18.8%	18.8%	18.8%	18.8%	3	3	3	3	0	a3
Counterparty Risk Assessment	18.8%	18.8%	18.8%	18.8%	3	3	3	3	0	a3 (cr)
Deposits	18.8%	3.0%	18.8%	3.0%	2	2	2	1	0	baa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	1	0	baa2	0	Baa2	Baa2

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

Ratings

Exhibit 9

Category	Moody's Rating
GARANTIBANK INTERNATIONAL N.V.	
Outlook	Positive
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa2/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
PARENT: TURKIYE GARANTI BANKASI A.S.	
Outlook	Positive
Counterparty Risk Rating	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 MTN	(P)B3
Subordinate	Caa2 (hyb)
Other Short Term	(P)NP

Source: Moody's Ratings

Endnotes

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

2 Netherlands Banking System Profile

3 including the Netherlands, the UK, Germany, Switzerland and France

4 Supervisory Review and Evaluation Process

REPORT NUMBER 1407959

CLIENT SERVICES

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