MOODY'S

Rating Action: Moody's affirms GarantiBank International's deposit rating at Baa3; outlook is positive

24 Oct 2023

Paris, October 24, 2023 -- Moody's Investors Service ("Moody's") today affirmed the long-term and short-term deposit ratings of GarantiBank International N.V. (Garanti BBVA International or GBI) at Baa3/P-3. Moreover, the bank's standalone Baseline Credit Assessment (BCA) and Adjusted BCA were affirmed at ba1 and baa3, respectively. The rating agency also affirmed GBI's long-term and short-term Counterparty Risk Ratings (CRRs) at Baa2/Prime-2 and the bank's long-term and short-term Counterparty Risk (CR) Assessment at Baa1(cr)/Prime-2(cr).

The outlook on the long-term deposit ratings has been changed to positive from stable.

RATINGS RATIONALE

The affirmation of the ba1 BCA is driven by GBI's stable credit fundamentals, including strong capitalization and solid 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, corporate issuers and depositors. It also incorporates the close alignment to the strategic priorities as set by its ultimate Spanish parent Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, A2 Stable, baa2), 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).

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. It followed the alignment of its risk management framework with the risk policies and procedures of its Spanish ultimate parent.

However, despite the short-term and largely collateralized nature of most of its trade finance activities, GBI remains sensitive to a worsening of the creditworthiness of its customers in a challenging operating environment, which could trigger an increase in its currently low non-performing loans.

Asset risks are mitigated by GBI's strong capitalization (Common Equity Tier 1 ratio stood at 21.7% at end 2022), supported by its enduring policy of retaining 100% of the profits. While profitability had been reduced after GBI's alignment with BBVA's risk appetite, and the sale of its emerging market securities, it improved more recently. In 2022, net income reached 0.8% of tangible assets (compared to 0.4% in 2021), thanks to 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. Although volumes of trade finance activities will remain volatile, funding costs will keep on increasing while cost of risk will rise from currently historically low levels, but Moody's expects that good operating efficiency and higher asset margins will stabilize GBI's profitability levels.

GBI's funding profile is entirely reliant on customer deposits, with a predominance of retail deposits (mostly covered by the Dutch deposit guarantee scheme), which have proved stable in the past decade. However, GBI is increasingly relying on corporate deposits (which accounted for 38% of the customer deposit base at year-end 2022, compared to 32% 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. GBI mitigates such funding risks by maintaining ample liquidity on its balance sheet.

Cash and balances with central banks of €1.5 billion represented 30% of tangible assets and 38% of customer deposits at year-end 2022, offering good security against deposit outflows.

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 small 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.

GBI's long-term deposit ratings reflect the bank's Adjusted BCA of baa3 and the application of Moody's Advanced Loss Given Failure (LGF) analysis to its own liabilities, which indicates a moderate loss-given-failure for deposits, resulting in no rating uplift from the bank's Adjusted BCA. Moody's does not include GBI in BBVA's resolution perimeter, given the multiple point of entry approach followed by the Spanish banking group.

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 Moody's Advanced LGF analysis.

Moody's 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 OR DOWNGRADE OF THE RATINGS

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.

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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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