

**Rating Action: Moody's upgrades GarantiBank International's deposit rating to Baa3; outlook changed to stable**

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Paris, September 09, 2021 -- Moody's Investors Service ("Moody's") today upgraded the long-term and short-term deposit ratings of GarantiBank International N.V. (GBI) to Baa3/P-3 from Ba1/Not Prime. Moreover, the bank's standalone Baseline Credit Assessment (BCA) was upgraded to ba1 from ba2 and its Adjusted BCA to baa3 from ba1. The rating agency also upgraded GBI's long-term and short-term Counterparty Risk Ratings (CRRs) to Baa2/Prime-2 from Baa3/Prime-3, and the bank's long-term Counterparty Risk (CR) Assessment to Baa1(cr) from Baa2(cr), while affirming the short-term CR Assessment at Prime-2(cr).

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

Today's rating action reflects Moody's opinion of the achieved de-risking of GBI's credit profile and closer alignment to the strategic priorities as set by its ultimate Spanish parent Banco Bilbao Vizcaya Argentaria, S.A.'s (BBVA, A2 stable, baa2). This assessment resulted in the upgrade of GBI's BCA to ba1 and of its long-term deposit ratings to Baa3 with a stable outlook, indicating 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).

A list of all affected ratings is provided towards the end of this press release.

#### RATINGS RATIONALE

The upgrade of the BCA to ba1 is driven by GBI's 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. The de-risking of the bank's portfolio followed the alignment of its risk management framework with the risk policies and procedures of its Spanish ultimate parent.

The ba1 BCA reflects GBI's more balanced loan portfolios, resulting in assigning an improved weighted average macro profile of Moderate + (from Moderate previously), as well as sound credit fundamentals, including strong capitalization and solid liquidity and deposit base.

However, despite the short-term and largely collateralized nature of most of its trade finance activities, GBI remains sensitive to a further worsening of the creditworthiness of its Turkish customers, which could trigger an increase in its currently low non-performing loans and a volatile cost of risk. As a result, Moody's views GBI's asset quality as modest, given the structurally concentrated nature of its exposures in terms of geographies and corporate issuers.

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 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, Moody's believes that the more balanced and sustained risk profile puts GBI in a better position to absorb potential associated impacts on its solvency.

## 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 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.

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

A downgrade of the bank's BCA could result from (i) increased asset risk and weakening solvency, mainly stemming from a deterioration of the creditworthiness of the bank's counterparties, and (ii) 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.

## LIST OF AFFECTED RATINGS

..Issuer: GarantiBank International N.V.

### Upgrades:

...Adjusted Baseline Credit Assessment, Upgraded to baa3 from ba1

...Baseline Credit Assessment, Upgraded to ba1 from ba2

...Long-term Counterparty Risk Assessment, Upgraded to Baa1(cr) from Baa2(cr)

...Short-term Counterparty Risk Ratings, Upgraded to P-2 from P-3

...Long-term Counterparty Risk Ratings, Upgraded to Baa2 from Baa3

...Short-term Bank Deposit Ratings, Upgraded to P-3 from NP

...Long-term Bank Deposit Ratings, Upgraded to Baa3 from Ba1, Outlook Changed To Stable From Negative

### Affirmation:

...Short-term Counterparty Risk Assessment, Affirmed P-2(cr)

### Outlook Action:

...Outlook, Changed To Stable From Negative

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.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 at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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