MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades GarantiBank International N.V.'s long-term deposit ratings to Baa2, outlook positive

20 Jun 2024

Baseline Credit Assessment affirmed at ba1

Paris, June 20, 2024 -- Moody's Ratings ("Moody's") today upgraded the long-term deposit ratings of GarantiBank International N.V. (GBI) to Baa2 from Baa3, the long-term Counterparty Risk Ratings (CRRs) to A3 from Baa2 and the long-term Counterparty Risk (CR) Assessment to A3(cr) from Baa1(cr).

Moody's also affirmed the bank's standalone Baseline Credit Assessment (BCA) and Adjusted BCA at ba1 and baa3 respectively, the short-term deposit ratings at Prime-3, the short-term CRRs at Prime-2, and the short-term CR Assessment at Prime-2(cr).

The outlook on the long-term deposit ratings remains positive.

RATINGS RATIONALE

Rationale for the upgrade of the long-term deposit ratings to Baa2 from Baa3

The upgrade of GBI's long-term deposit ratings to Baa2 from Baa3 reflects the material and sustained increase in GBI's corporate deposit base, considered by Moody's as junior to retail deposits, leading to a low loss-given failure for deposits under Moody's Advanced Loss Given Failure (LGF) analysis, from moderate loss-given failure previously. This results in one notch of rating uplift for deposit ratings from the bank's Adjusted BCA, from no rating uplift previously.

Rationale for the affirmation of the ba1 BCA

The affirmation of the ba1 BCA is driven by GBI's strong capitalization and solid liquidity base, together with the bank's improving recurrent profitability and good cost efficiency. GBI reported a very strong common equity tier 1 (CET1) ratio of 23.6% at end-2023, increasing from 21.7% at end-2022, supported by a strong net return on tangible assets of 1.7% in 2023 mainly as the short duration of the loan book allowed a fast repricing in a context of rising interest rates. GBI's funding is largely reliant on customer deposits, including corporate deposits that 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.

GBI's relative strengths are offset by the structurally concentrated nature of its 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 Developing, A3 Positive, 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 Positive, 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. However, despite the short-term and largely collateralized nature of most of its trade finance activities, GBI's asset quality remains exposed to a worsening of the creditworthiness of its customers, which could trigger an increase in its currently low non-performing loans.

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.

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 OR DOWNGRADE OF THE RATINGS

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.

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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852. 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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