Garanti BBVA 2Q26 Financial Results Webcast Transcript

Hello everyone, We are pleased to be with you again following another solid set of results.

First let met begin with macroeconomic environment we are in;

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- GDP growth was 2.5% in the first quarter and we nowcast a similar level as of June.
- Activity is expected to recover modestly in the second half of the year, thus we maintain our 3% growth forecast for the full year, supported by resilient exports, tourism-related activity and selective policy measures.
- On the right hand side, you can find our inflation and interest rate forecasts:
- Higher food and energy prices slowed down the improvement in headline inflation. Nevertheless, preserved tight financial conditions and fiscal discipline have supported our **30% year-end CPI forecast**.
- Authorities continue to pursue a carefully balanced policy mix combining gradual monetary normalization with tight macroprudential regulation.
- Therefore, We expect the funding rate to gradually **converge toward the policy rate** by September. The timing of the first easing step remains data-dependent and may be affected by oil price volatility.
- If conditions allow, limited rate cuts might resume in the forth quarter

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- Moving into CAD, Weak foreign demand and high commodity prices lead to a worsening in external balance. Yet, resilient tourism revenues and moderation in economic activity could prevent further deterioration.
- We now expect the current account deficit to GDP to be around 3.5% in 2026 vs. our around 2% estimate in the beginning of the year. Evolution of energy prices will determine the external outlook

- Fiscal discipline continues to support macroeconomic stabilization. Expenditure discipline remains broadly intact, while **income taxes continue to support revenue performance.**
- **We expect fiscal deficit to be close to the Medium term plan target of -3.5% of GDP in 2026.**
- Now moving into our financials, I'll start with the headline figures

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- In the first six months of the year, we generated 64 billion TL in net income, up by 20% year-on-year, while recording a 28% return on equity.
- Well-defended NII, robust fee generation and stronger contribution from financial subsidiaries reinforced solid earnings delivery.
- On a quarterly basis, we had a single-digit decline in net income - mainly due to lower trading income and increased provision, that I will elaborate more on the following slides.
- I also would like to highlight that, we used 27% CPI rate in the valuation of CPI linkers' income. If we had used 30% rate, our net income would have been close to 2bn TL higher.
- Our diversified revenue sources once again enabled earnings resilience – now moving into slide 7.

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- Against the challenging macro backdrop, we managed to defend our sector-leading core banking revenues.
- Strong fee generation and the growing contribution from our financial subsidiaries helped cushion cyclical pressure on net interest income and trading.
- I will discuss net interest income and fees in more detail on the following slides. Here, I would like to briefly touch on trading income.
- In the first quarter, the upward shift in swap curves resulted in mark-to-market gains on our swap portfolio. As swap curves normalized in the second quarter and these short-term positions matured, this positive contribution faded. Lower client FX activity also weighed on trading income during the quarter.
- That said, trading income represents less than 5% of our gross income and is inherently more sensitive to market volatility.
- Our earnings profile continues to be driven by sustainable core banking revenues, with net interest income and fee generation remaining our key earnings drivers.
- As a result, we delivered 43% year-on-year growth in core banking revenues.
- A big part of this success is driven by our asset mix—now moving into slide 8.

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- Our total assets reached 5.2 trillion TL and loans make up 55% of the assets - supporting sustainable and recurring revenue generation.
- We maintained our growth pace both in TL & FC loans.
- In FC Securities, you may notice a sharp decline in the second quarter. This mainly reflects the maturity of our US$3 billion short-term placement made in high-quality liquid assets at the end of the first quarter.
- Excluding this temporary impact, our foreign currency securities increased modestly quarter-on-quarter.
- In TL securities, we continued to selectively increase our floating rate notes.

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- Moving into slide 9 for further insights on the TL loan portfolio.
- We maintained our disciplined growth strategy, further strengthening our presence in micro and small enterprises while reinforcing our leading position in general purpose loans and credit cards.
- With that, now let's look to the evolution of our asset quality.

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- As our loan mix continues to evolve towards consumer lending and credit cards, we continue to proactively identify and classify these exposures.
- Accordingly, the Stage-2 share in total loans increased modestly to 12%, mainly reflecting higher SICR classifications.
- Importantly, 84% of the SICR portfolio is non-delinquent at all, highlighting our prudent and forward-looking risk management approach.
- The higher share of early-stage SICR exposures also lowered our Stage-2 coverage ratio.
- Consumer loans and credit cards now account for around 75% of the SICR portfolio, consistent with the evolving loan mix.
- Here it is worth to mention that our underwriting standards remain disciplined. Around 55% of new general purpose loans are originated to salary customers, while credit card revolving rates have remained broadly stable at around 35%.
- In terms of Restructured loans, it declined during the quarter following the migration of previously restructured loans into Stage 3, with the end of the related regulation.
- If we move on to the NPL inflow, on page 11.

Page 11:

- The trend observed in Stage-2 was also evident in NPL inflows, with around 70% of new NPL inflows coming from consumer loans and credit cards.
- In addition, the end of the restructuring regulation resulted in a temporary increase in NPL inflows during the second quarter, an effect that may also continue into the third quarter.

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- As we discussed on the previous two slides, cost of risk increased during the quarter, reflecting three main factors:
- First, we updated our provisioning models to incorporate the latest macroeconomic assumptions.
- Second, we continued to see NPL inflows from consumer loans and credit cards as our loan mix shifted towards these segments, largely due to regulatory growth caps.
- Third, the end of the restructuring regulation led to the migration of previously restructured loans into Stage 3, resulting in higher provisioning requirements.
- While the first two reflect our portfolio strategy and operating environment, the regulatory migration effect is expected to normalize in the forth quarter. As a result, we continue to expect full-year consolidated CoR to finish within our guided range of 2.0%–2.5%, though towards the upper end due to the combined impact of these quarter-specific factors and the higher-for-longer interest rate environment.
- If we look at annual comparison on the right hand side, first-half 2025 cost of risk benefited from an exceptionally large provision reversal. As provision reversals normalized in 2026, the year-on-year comparison naturally resulted in a higher blended cost of risk.

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- Similar to our asset strategy, we continue to rely predominantly on customer-driven funding sources.

- Total customer deposits reached 3.5 trillion TL, constitute 66% of total assets and remain TL heavy.

- Importantly, our share of free funds continues to be the highest among private banks, providing a key structural advantage for margin resilience.

- On FC side, half of the decline was due to gold price related parity impact, while the remaining decrease reflected customers' shift from FC into TL assets.

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- Moving on the external funding, we maintained our diversified funding mix
- Our total external debt currently stands at **9.8 billion $**, of which **4.5 billion $** is short term. Against this, we maintain a comfortable foreign-currency liquidity buffer of **6.1 billion $**.
- We further diversified our funding mix:
  - We successfully completed our first thematic syndicated loan. In addition, we completed three thematic bond issuances in-line with Orange bond principles and climate change adaptation, close to 90 million dollars in total.
  - More recently, in July, we completed a TL 4 billion asset-backed securities issuance, further optimizing our capital structure.
- Moving into Net Interest Income, on page 15.

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- Our first-half margin performance continued to stand out
- The funding cost headwinds that emerged in March became more pronounced in the second quarter, putting pressure on margins and TL loan-deposit spreads. Even so, we limited the quarterly decline in net interest income to just 5%.
- This quarter we also revised up our CPI estimate used in the valuation to 27% from 23%. Yet, current inflation expectations still point to further upside. Assuming a 30% CPI assumption, NII would have been around 3bn TL higher and YtD NIM expansion would have been 20bps higher.
- Now let's move on the other P&L item – fees

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- Our first-half fee performance remained one of the strongest in the sector.
- Our fee base was up by 42% YoY and 12% QoQ
- Strength in payment systems continued to be the main driver of the growth.
- In the first half, contribution from money transfer fees, insurance fees, as well as asset management fees further gained momentum. I would like to highlight that, we are number one in Money transfer fees and in both life & non-life insurance fees.
- Over the past year, we welcomed 2.4 million new customers, bringing our total customer base to 31 million. We also maintained our leadership in

customer satisfaction, ranking first in Net Promoter Score across both the Retail Mass and SME segments as of June. With more than 18 million mobile customers and the highest Mobile Banking Net Promoter Score, we continue to set the benchmark in digital banking.

- And now Moving to our Operating Expenses,

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- We're keeping our costs under control, growing in line with the budget and was up by 45% YoY.
- We continue to have lowest cost / income ratio among our peers

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- As always, we remained focused on **capital-generative growth**, which is clearly reflected in our **sector-leading capital ratios**.
- Supported by strong earnings generation, we maintained our CET1 ratio at around 12%. There was a limited decline in capital adequacy ratio due to sub-debt amortization impact.
- The FC sensitivity on our CAR remains limited.
- We have a strong 149bn TL excess capital, providing ample capacity to absorb market volatility while supporting future growth.

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- With that, let me walk you through our 2026 operating plan guidance and our current outlook:
- I will begin with the macro assumptions on the left, as these form the foundation of our planning framework.
- Our January baseline macro scenario was assuming 32% policy rate with 25% inflation. Since then, ongoing geopolitical developments and heightened uncertainty have led us to revise our macro assumptions twice.
- Our current base case assumes that funding costs will gradually converge towards the policy rate by September.
- Assuming continued fiscal discipline, a cautious CBRT stance and a gradual normalization in energy prices during the second half, we now expect year-end inflation of around 30%.
- Against this backdrop, we maintain our loan growth guidance for both TL and foreign currency loans. As discussed earlier, we also remain on track to deliver our full-year cost of risk guidance, although quarter-specific factors and the higher-for-longer interest rate environment are likely to keep us towards the upper end of the guided range.
- Turning to margins, we have consistently communicated since April that funding costs would normalize only gradually. While we continue to expect

margin expansion this year, the pace of improvement is likely to be modest than initially anticipated. Going forward, the evolution of funding costs and macroprudential measures will remain the key swing factors for margins.

- In terms of fees and Opex, we are also on track with our expectations
- Finally, regarding profitability, the upward revision to our inflation assumption naturally creates downside risk for our real ROE outlook. In nominal terms, however, our guidance looks achievable.
- This concludes my presentation, now we can take your questions.