# Financial Value

Aiming to generate and utilize capital effectively with the principle of real and responsible banking, Garanti BBVA contributes to the growth of the national economy while producing solid and sustainable financial performance with its disciplined growth, dynamically managed balance sheet and strong relationship banking.

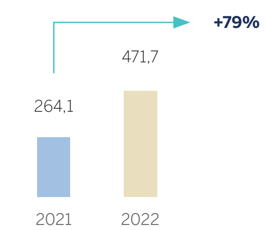
| MATERIAL TOPIC | 2021 | 2022 |
|---|---|---|
| Asset Growth (%) | 57% | **53%** |
| TL Loan Growth (%) | 27% | **79%** |
| FC Loan Growth (%) | -7% | **-10%** |
| NPL Ratio (%) | 3.6% | **2.6%** |
| Net Cost of Risk[1] (bps) | 106 | **130** |
| NIM including Swap costs (%)[2] | 80 bps contraction | **516 bps expansion** |
| Net Fees and Commissions Growth (%) | 40% | **97%** |
| OPEX Growth (%) | 28% | **81%** |
| Cost/Income Ratio[3] (%) | 33.4% | **23.6%** |
| Leverage | 9.6 | **7.5** |
| ROAE (%) | 19.7% | **51.0%** |
| Capital Adequacy Ratio (%)* | 14.1% | **16.8%** |
| CET-1 Ratio (%)* | 11.5% | **14.5%** |

1 Net CoR excludes currency impact, as it is 100% hedged, no bottom line impact.
2 Calculated based on bank only MIS data, using daily averages.
3 Income defined as NII inc. Swaps + Net F&C + Dividend Income + Subsidiary Income + Net Trading Income (excludes swaps & currency hedge) + Other income (net of prov. Reversals)
*Excluding BRSA forbearance.



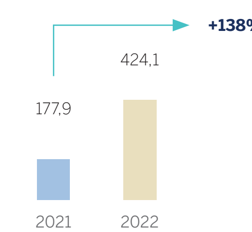
## GROWTH

**TL Performing Loans** (in TL bn)




**#1 in TL Lending[1]**

**TL Customer Deposits** (in TL bn)

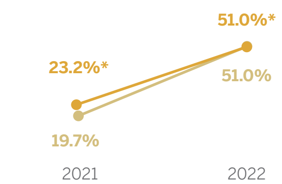



**#1 in TL Customer Deposits[1]**

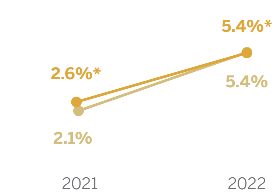
1 Among private banks, per bank-only financials for fair comparison

## PROFITABILITY

**ROAE**



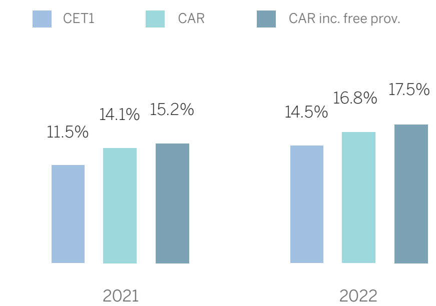

**ROAA**




* adj. w/ free provisions

## STRENGTH

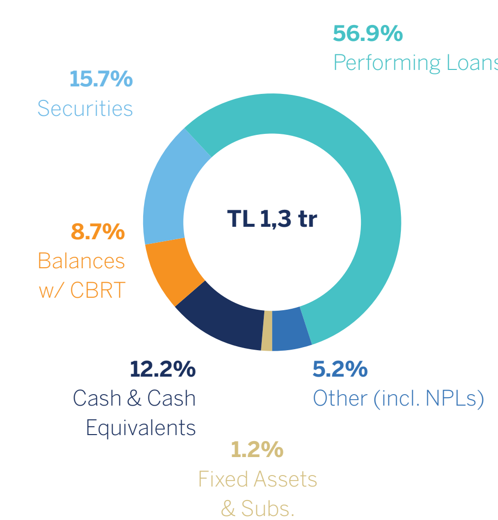
**CAR & CET1**
(excl. forbearances)




Total Free Provisions on B/S
**TL 8,0 bn**

**USD 5,0 bn** FC external debt
vs.
**USD 10,0 bn** FC liquidity buffer

**Asset Breakdown**




**Loans**

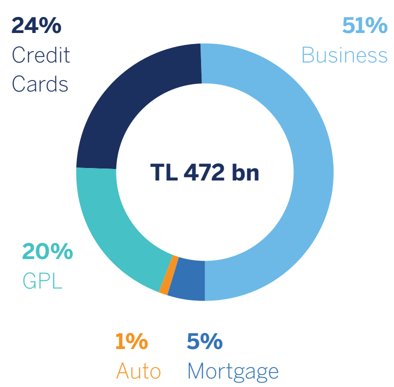
While total assets reached TL 1.3trillion in 2022, up 53% year on year, loans continued to be the main driver of growth. Garanti BBVA has the highest share of loans in total assets among private peers, which renders sustainable growth continuous.

Loan growth was driven by Turkish lira loans. FC loans kept shrinking due to low demand and redemptions.

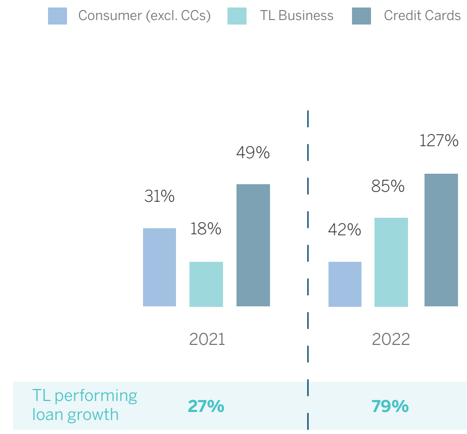
Garanti BBVA is the private bank with the largest TL corporate loan portfolio, including cash and non-cash loans. The Bank's overall loan portfolio of TL 974 billion including cash and non-cash comprises of credit support extended to the real sector by 77% and to individual customers by 23%.

While the growth in TL loans of 79% year over year was driven by TL business loans, we strengthened our leadership position in general purpose loans and credit cards.

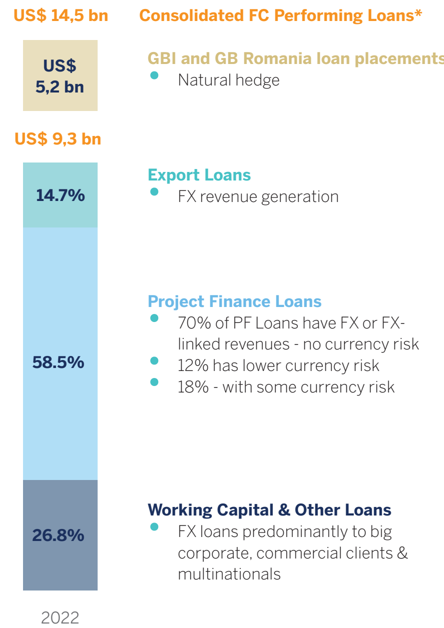
**TL Performing Loan Breakdown**
(64% of total performing loans)




**TL Performing Loan Growth**

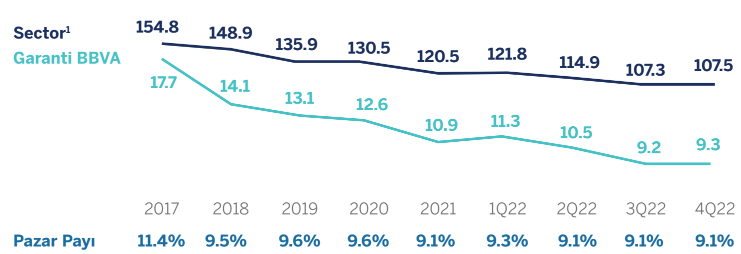



**FC Performing Loans**
(36% of total performing loans)




* Excludes leasing and factoring receivables

**Mitigation of FX Risk - Timely deleveraging**
(in $ bn)




1 Based on BRSA weekly data , commercial banks

**Market Share**
(among private comm'l banks)

| | 2021 | 2022 |
|---|---|---|
| TL loans | 19,2% | 19,7% |
| TL Business | 17,5% | 18,4% |
| *SME loans* | *17,7%* | *20,5%* [1] |
| Consumer (excl. CCs) | 21,0% | 19,9% |
| *Consumer GPL* | *18,5%* | *18,7%* |
| Credit Cards | 21,6% | 22.9% |

1 Per BRSA defined SME loans

| **2022 Operating Plan Guidance *** | **Actualization** |
|---|---|
| TL Loan growth: >50% | 79%<br>• Growth in corporate and consumer loans outperformed the expectations due to strong economic activity. |
| FC Loan growth: Shrinkage | -10%<br>• In line with the expectations, shrinkage resulted from low demand and redeemed loans. |

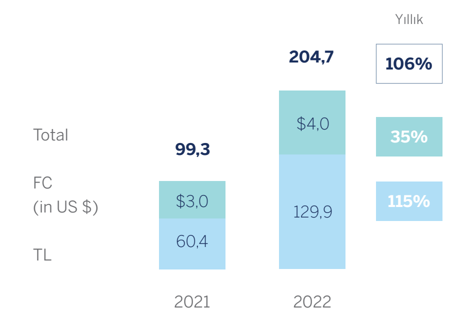
* Based on the revised plan disclosed on 28 July 2022. With better than expected performance and economic activity in the first half of the year, revisions were made in 2022 Operating Plan Guidance as disclosed on 28 July 2022. The said disclosure is available on the Public Disclosure Platform, KAP.

## Securities

Securities share in total assets is 15.7%. TL securities make up 63% of the total securities portfolio. Securities linked to CPI (CPI-linkers) have the highest share within the TL securities portfolio. CPI-linkers help us hedge our balance sheet against high inflation.

Regulations caused a rise in fixed-rate securities portfolio in the second quarter of 2022.

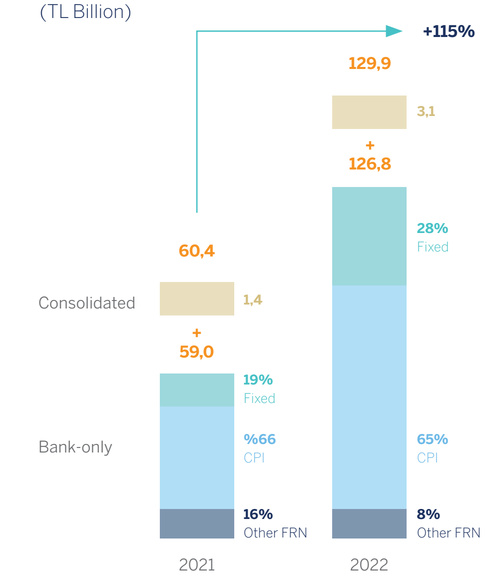
**Securities**
(TL, US $ billion)




Information on the regulations can be found on page 51.

(2022 Operating Plan Guidance does not include a target regarding the securities portfolio performance)

**TL Securities**
(TL Billion)



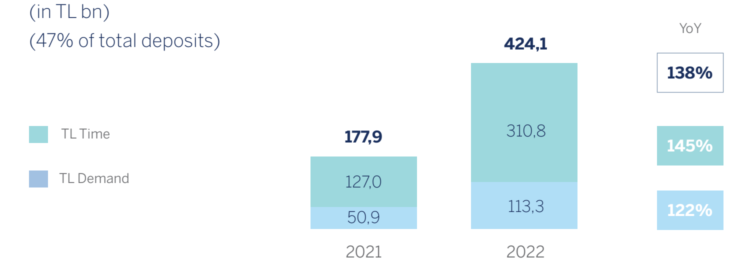

## Deposits

Deposits are the main source of funding and have a share of 70% in total assets. The key factor that differentiates the Bank from its peers in funding is the high demand deposit base at its disposal. Demand deposits account for 48% of total deposits and this high ratio reflects the fact that customers prefer Garanti BBVA as their primary bank in their transactions.

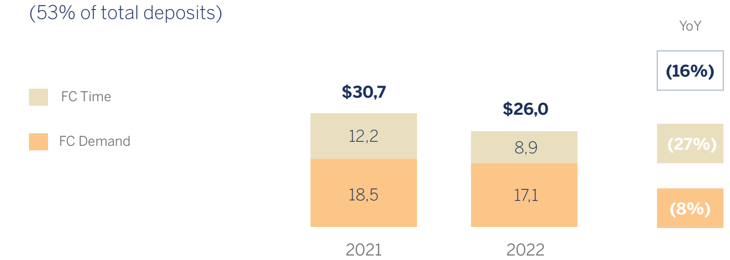
While Garanti BBVA's TL deposit growth in 2022 was registered as 138% due to the regulatory framework announced and liraization strategy during the year, FC deposits decreased by 16%. The share of FC-protected deposits volume in TL time deposits stood at 55% at the end of the year.

(2022 Operating Plan Guidance does not include a target regarding the deposits base performance)

**TL Customer Deposits**
(in TL bn)
(47% of total deposits)




**FC Customer Deposits**
(in US$ bn)
(53% of total deposits)

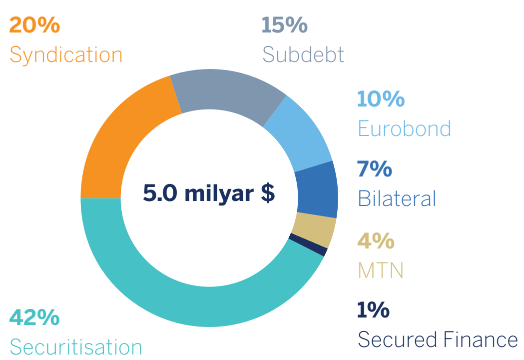



**STRONG ZERO-COST DEMAND DEPOSIT BASE**
48%
Cust. demand deposits share in total

### External Borrowing

In line with the shrinkage in FC loan portfolio since 2013, Garanti BBVA's, need for external borrowing has also decreased significantly. External debt stock decreased from USD 6.9 billion to USD 5.0 billion in 2022. Whereas, FX liquidity buffer level stood at USD 10.0 billion. In terms of the maturity profile of foreign borrowing, borrowings with a maturity of 1 year and shorter amount merely to USD 2 billion.

**Wholesale Funding Breakdown**




- **100%** of the new issuances* in 2021 & 2022 are ESG- linked
- ESG-linked funding makes up **~26%** of total wholesale funding

* Excludes secured finance transactions and MTN issuance.

(2022 Operating Plan Guidance does not include a target regarding the evolution of external borrowing)

### Net Interest Margin

Garanti BBVA reached record high levels in Net Interest Margin (NIM), the Bank's main differentiating item. This strong performance was enabled by CPI-linkers' yields as well as loan to deposit spread.

Strong growth pushed up TL loans in the first half of 2022. However, the restrictive rules imposed on TL corporate loan rates in August (regulatory framework page 51) triggered a downward move in TL loan yields from the start of the third quarter.

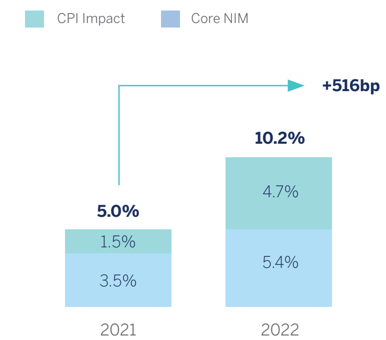
On the other hand, while FC-protected deposits helped the Bank manage deposit costs, the regulatory rules imposed in relation to the share of TL deposits within total deposits put pressure on deposit costs. The increase in deposit costs became more visible particularly toward the end of the year. Therefore, TL loan to deposit spread that expanded in the first half of the year narrowed down in the last quarter. However, the strong first half enabled an above-target rise for the full year.

| 2022 Operating Plan Guidance* | Actualization |
|---|---|
| Core NIM: + 175bps<br>(including swap costs and excluding CPI-linkers) | + 195bps<br>Main reasons of outperformance despite regulatory effects:<br>• High quality and healthy TL loan growth<br>• Disciplined pricing and diversified funding structure<br>• Expanding customer base<br>• Solid capital base allowing profitable growth |
| NIM: + >400bps<br>(including swap costs and CPI-linkers) | + 516bps<br>• Due to the high core net interest margin and the appreciation of the CPI portfolio with the annual October inflation rate of 85%, a gross profit of TL 33 billion was recorded from the CPI linkers portfolio, which significantly supported the increase in the net interest margin. |

* Based on the revised plan disclosed on 28 July 2022. With better than expected performance and economic activity in the first half of the year, revisions were made in 2022 Operating Plan Guidance as disclosed on 28 July 2022. The said disclosure is available on the Public Disclosure Platform, KAP.

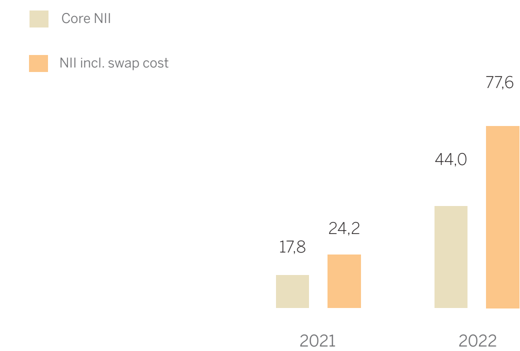


**NIM Incl. Swap Cost***




* Calculated based on bank only MIS data, using daily averages.

**NET Interest ıncome** (incl. Swap cost) **and Core NII** (TL billion)

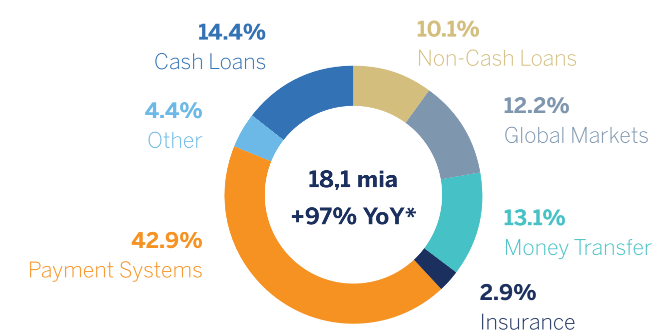



Core NII= NII + Swap Cost – CPI linkers income.

### Net Fees and Commissions

In 2022, the Bank once again proved its leadership in Net Fees and Commissions registering an annual growth of 97%. The solid performance in payment systems, loan and transaction volumes act as the main driver of the Bank's performance in Net Fees and Commissions. The top ranks Garanti BBVA controls in money transfers, issuing and acquiring volume demonstrate that it is preferred as the primary bank by customers.

**NET F&C Breakdown[1]**




1 Net Fees&Comm. breakdown is based on Consolidated Financials. Garanti Pension premiums are shown under Other Income
* 2021 base excludes LYY related dividend income

| 2022 Operating Plan Guidance* | Actualization |
|---|---|
| Net Fees and Commissions Growth (YoY): >60% | 97%<br>Above-projected growth was driven by:<br>• Cash and non-cash loan commissions backed by strong loan growth and insurance commissions<br>• Payment systems commissions backed by the leadership in credit cards<br>• Higher brokerage fees that resulted from the increased number of domestic investors and trading volume on the stock exchange<br>• Leadership in money transfers supported by digital channels designed with an approach focused on customer experience and offer a seamless service |

### Subsidiary Income

Garanti BBVA is an integrated financial services group with its financial subsidiaries offering services in life insurance and pension, leasing, factoring, fleet management, brokerage and asset management, along with its international subsidiaries operating in the Netherlands and Romania. Income from subsidiaries in 2022 was up by 78% year on year. Increases were observed in the profitability of all subsidiaries.

- Garanti BBVA Securities ended the year 2022 with a 130% YoY increase in profitability on the back of increasing number of domestic investor in the equity market, public offerings, transaction volume and high trading growth.
- Garanti BBVA Factoring's profitability increased by 166% YoY with the support of increased volume and strong margin expansion.
- At Garanti BBVA International, higher lending volume and interest rate hike driven increase in banking revenues resulted in 120% annual growth in profit in EUR terms.
- Garanti BBVA Fleet increased its profit for the period by 95% with the support of rental income and high profitability in the second-hand vehicle

Detailed information on subsidiaries can be found on page 46.

(2022 Operating Plan Guidance did not provide a target regarding the performance of income from subsidiaries.)

### Operating Expenses

Operating expenses rose by 81%, above annual average inflation. Above-inflation adjustments in employee salaries, premiums to salary customers and pensioners, and the rise in exchange rates resulted in an above-inflation OPEX increase. TL equivalents of FC expenses soared due to the rising exchange rates and currency impact on OPEX growth was registered as 18%. However, the Bank hedges the entirety of the portion affected by the exchange rate, and thus, there is no impact to the bottom-line.

**24%**
Cost/Income
33% in Dec'21

**66%**
Fee/OPEX
60% in Dec'21

Personnel costs make up 37% of OPEX. The Bank made an inflation adjustment in employee salaries in view of the soaring inflation. Three salary increases made in 2022 brought the annual average increase to 91%, above the average inflation.

63% of OPEX, on the other hand, comprises of other expenses, with the highest items being promotional payments to salary and pension customers and technology investments. The cost-to-income ratio declined from 33.4% in 2021 to 23.6% at year-end 2022, an all-time lowest, due to the solid expansion in revenues.

| 2022 Operating Plan Guidance* | Actualization |
|---|---|
| OPEX Growth (YoY):<br>< avg. CPI | 81%<br>8.6% higher than average inflation increase was driven by:<br>• Above-inflation adjustments made to employee salaries during the year<br>• Promotional payments to salary and pension customers<br>• Soaring exchange rate 18% effect on growth, but no impact to the bottom line |

* Based on the revised plan disclosed on 28 July 2022. With better than expected performance and economic activity in the first half of the year, revisions were made in 2022 Operating Plan Guidance as disclosed on 28 July 2022. The said disclosure is available on the Public Disclosure Platform, KAP.



### Asset Quality and Loan Provisions

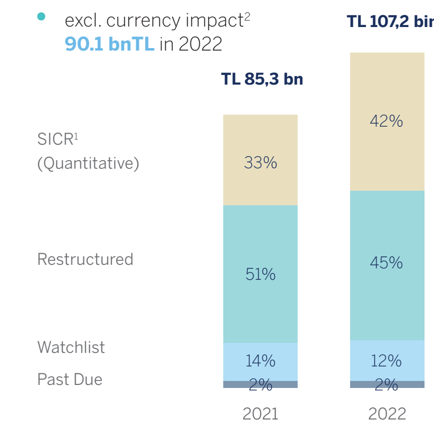
Garanti BBVA also supervises the health of its loan portfolio as it grows and constantly takes a proactive and prudent approach to risk management. The performing loan book is followed up under Stage 1 and Stage 2. Stage 2 loans are subjected to quantitative (Significant Increase in Credit Risk) or qualitative (Watchlist, Past Due and Restructured) evaluation with TFRS 9 models. In 2022, especially with the currency impact, Stage 2 loans increased to TL 107 billion, from TL 85 billion in 2021; however, if the 2021 exchange rate level was to be kept constant, Stage 2 loans would have increased by only TL 5 billion. The increase in Stage 2 is all from the Significant Increase in Credit Risk bucket, following an annual IFRS-9 calibration made proactively and prudently. 94% of the Significant Increase in Credit Risk (Quantitative) bucket is not delinquent at all.

FX sensitivity analyzes are carried out regularly for proactive loan classification and loan provisions. In the most recent sensitivity analysis, corporate and commercial loan portfolios were examined and it was established that nearly 81% of the companies that were determined to be highly currency sensitive and with poor financials were followed with high coverage levels under Stage 2 or 3. On the other hand, no payment problems were experienced in the 19% Stage 1 loans.

In 2022, non-performing loans ratio decreased to 2.6% from 3.6% in 2021 thanks to limited net inflows in connection with strong collection performance and write-downs.

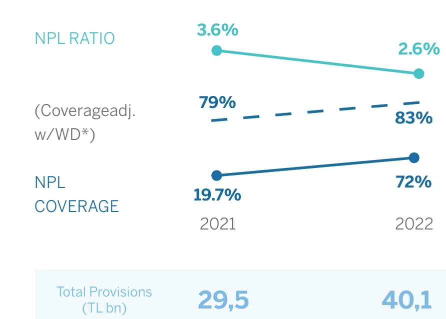
Cumulative net cost of risk (CoR) on the other hand increased in 2022 as compared to 2021 due to provisions set aside with a prudent approach given macroeconomic volatilities. However, cumulative net cost of risk (excluding currency impact) was realized as 130 basis points, in line with the operating plan guidance.

**Stage-2 Breakdown**




1 SICR: Significant Increase in Credit Risk per our threshold for Probability of Default (PD) changes
2 2021 balance sheet FX rates are taken into account when calculating Stage 2 base for 2022

**NPL Ratio & Coverages** (%)




* Adjusted with write-downs since 2019.
NPL Ratio includes leasing and Factoring Receivables

| 2022 Operating Plan Guidance* | Actualization |
|---|---|
| Net Cost of Risk (excluding currency impact): <150bps | 130bps<br>Inline with the expectations.<br>In the last quarter of the year, similar to previous years, as a result of the macro model calibration within the scope of IFRS9, the provisions for the Stage 2 loans were increased due to the Bank's prudent stance. In addition, limited net NPL inflow resulting from strong collection performance kept the rise in the net cost of risk within projections. |

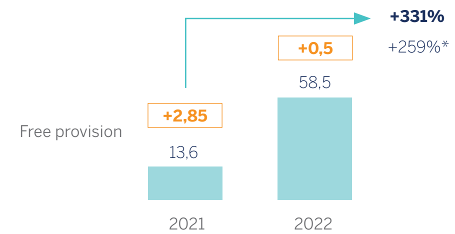
**Return on Equity and Capital Adequacy**

As a result of all this, Garanti BBVA was able to increase its profit before tax by 94% year on year. Including TL 500 million in free provisions set aside during the year in keeping with its cautious risk policy, the Bank increased total free provisions in the balance sheet to TL 8 billion and booked TL 58 billion 510 million in consolidated profit.

The Bank's return on average equity was realized at 51.0% and return on assets at 5.4%.

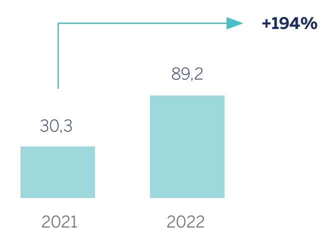
In 2022, the capital adequacy ratio reached 16.8%, up by 2.7% annually, despite the negative impact of the depreciation in the currency, as a result of the capital generative growth strategy. This ratio excludes the forbearance measures adopted by the BRSA during the year. This level is well above the Basel III minimum required level of 12.15% for 2022. According to the legal limits, the Bank has an excess capital of TL 48 billion, excluding the BRSA forbearance measures.

**Net Income** (TL bn)




*adj. w/free provision

**Pre-Provision Income** (TL bn)




| 2022 Operating Plan Guidance* | Actualization |
|---|---|
| Return on Average Equity: >45% | 51.0% Despite the negative effects of regulations, return on equity was higher than projected owing to the solid rise in commissions, revenues on CPI-linkers portfolio and growing contribution from subsidiaries. |

**Tax Contribution**

In 2022, the Bank set aside total tax provisions of 17 billion 425 million TL, which corresponds to a tax ratio of 24%. Having embraced transparency, prudency and honesty principles in tax matters, Garanti BBVA reports on the total tax contribution, both on its own and on behalf of third parties. Please read more on tax strategy and reporting on Garanti BBVA Investor Relations website, Tax Strategy and Reporting heading under the Environmental, Social and Governance tab.

**2023 Outlook and Operating Plan Guidance**

As per Article 10 of the CMB Communiqué no. II-15.1 on Material Events Disclosure, the Bank disclosed its forward looking estimations covering 2023 outlook on 01 February 2023. The said disclosure can be found hereinbelow, on the Public Disclosure Platform (KAP) and under the Operating Plan Guidance tab on the Garanti BBVA Investor Relations website.

| | |
|---|---|
| TL Loan Growth (YoY) | ~avg. CPI |
| FC Loan Growth (in USD, YoY) | Flattish |
| Net Cost of Risk (excl. currency impact) | ~100bps |
| Core NIM (Incl. swap excl. CPI) | ~185bps |
| Net Fees & Commissions Growth (YoY) | >avg. CPI |
| Operational Expenses Growth (YoY) | ~100% |
| ROAE | >%28 |

In line with the expected deceleration in the economy TL loan growth for 2023 is projected to be around average inflation. The growth is expected to be across the board, while TL business loan growth may slightly lag behind the consumer loan growth as per the regulations. On the retail banking front, Garanti BBVA will keep focusing on customer satisfaction and loyalty by deepening customer relationships while expanding the customer base. The Bank will continue to develop new instruments, channels and processes in keeping with this goal, carry on with big data oriented marketing activities based on an analytical approach while maintaining its profitability targets, and deliver tailored and fitting solutions for its customers' needs on site.

FC loans deleveraging has been ongoing since 2013, due to limited demand and redemptions. For 2023 the FC loan base is expected to remain flattish.

Garanti BBVA intends to sustain its deposit-driven funding strategy in 2023. With the Bank's low-cost and sticky deposit base focus, the share of deposits in total assets is expected to maintain its high level.

Given the Bank's already high provision coverages, it is expected net CoR excluding currency to improve to around 100 basis points.

In 2023, cumulative core NIM is expected to contract around 185 basis points, given the increase trend of TL deposit costs and price cap TL commercial loans. The Bank will keep dynamically managing its spreads through its effective assets and liabilities management with diligent pricing and diversified funding.

Given the Bank's strength in diversified fee sources and leadership in transaction activity, net fees and commissions are expected to register a growth above average inflation. Increasing digitalization will keep contributing to the growth of money transfer transaction volume.

Operating expenses are expected increase by around 100%, given the low base of 2022 and rollover effect due to the salary increases done in 2022.

In 2023, active assets and liabilities management that will result in high return on capital will be sustained along with the risk/return focus. In the light of its 2023 projections, Garanti BBVA aims to achieve an ROAE above 28% in 2023.

2023 outlook for Garanti BBVA affiliates can be found on page 46 of the Report.