GARANTI BBVA 2Q21 FINANCIAL RESULTS WEBCAST TRANSCRIPT

Welcome everyone!

Thank you all for attending our 1st Half 2021 financial results conference call.

We are here once again to proudly present: another set of outstanding results.

Before we start presenting our financials, we'd first like to brief you on the macro outlook - now that 7 months to the year behind us.

As we have all seen - Start to the year was quite strong. 1st qtr GDP growth got realized at 7%. For the second qtr, we estimate an annual GDP growth of more than 20%. In here, base effects boost the second quarter GDP in annual terms, but also on a quarterly basis, there seems no deceleration – especially after the pending reaction of the economy with the reopening since mid-May.

Our big data proxies suggest that consumption has started to lose some steam while investment shows an adjustment in June.

Led by the current high momentum, we revise our 2021 GDP growth forecast to 9%. Risks on 2021 GDP growth still seem to be tilted to the upside.

Also Upside surprises in exports continue while adjustment in imports is yet to be seen. Tourism revenues might surprise on the positively as our big data proxy signals – we now expect $18bn. With that, we forecast the current account deficit by year end to be $22bn – suggesting 2.9% of GDP.

Moving on to the inflation side, on next page: Inflationary pressures remain given; the deepening cost-push factors, continuing exchange rate pass-thru, deteriorating inflation expectations and the reopening of the economy with still high domestic spending. What we expect here is that Inflation will likely stay around the current high levels till November and finally decline to 16% at the end of the year.

Tight monetary stance of the CBRT is expected to remain until inflationary pressures subside and the Central Bank will likely keep rates higher than our initial expectations. We expect the Current policy rate of 19% to remain till October and only gradual easing is assumed afterwards with 17.5% policy rate at the end of the year.

Regarding the budget balance, the deficit to GDP ratio was realized at 1.7% in June, which was still boosted by strong tax revenues, base effects and relatively controlled expenditures. Accordingly, we revised our budget deficit forecast to 225bnTL (3.5% of GDP) by the end of 2021.

Now moving on to our financial results;

Our remarkable start to the year 2021 is demonstrated once again with a new record in profitability. Souring quarterly income is a net result of improving fundamental revenues, mainly NII and net fees & Commissions

In PPI, we already booked 10.6bn TL in one half the year upon a yoy growth of 8%. Net income growth in the same period was 63%. Net income in the first half, after a YTD total free provisions of 950mn TL was 5.4bnTL

In the second qtr, mgt chose to set aside a further 800 mn TL in free provisions on top of the 150 mn set aside in the first quarter. On a quarterly basis, free provision adjusted net income growth was a phenomenal 37%.

These latest additions to free provisions, brought the total on balance sheet to 5.6bn TL

Underlying factor to surging income is purely attributable to our sustainable revenue generation capability.

In a quarter of significant margin pressure due to rising funding costs, we once again could demonstrate a well defence of margins with the support of healthy loan growth and reprising.   Add to this; our active management of funding composition; and of course the strength we get from more than 19mn customers that prefer to bank with us, we are able to generate not only the best in sector margins, but also the best in sector net fees and commission revenues.

So our result in the first Half of 2021, is an ROE of 18.3% and an ROA of 2.1%.

If we hadn't set aside the free provisions, ROE would have neared 20%. And ROA would have been 2.3%

Let's now move on to explaining the contributors to these results and start with the assets

YTD asset growth continued to be customer driven and in high yielding asset classes with increasing weight of TL.

We could grow our TL loan book by another 6% and bring the YTD TL loan growth to 12%.

This growth, especially in a period of significant redemptions, allude to an upside in our expected TL lending growth for the year, that was in the mid teens

Despite a heavy - 35bn TL of loans maturing in the 2nd quarter, not only we could reprice and roll over, but also register a net increase of 13bn TL in our TL loan book by the end of the qtr. ..

As for FC Lending, the YTD performance of 3% shrinkage is fully in line with our anticipation.

On the securities front, we continued to strategically manage the portfolio to help ride out the volatility: In 2Q, We replaced our redeeming CPI linker

Now let's Look in more detail to our TL lending growth on Slide 6–

Notice here that we have a well balanced TL loan book in Business and consumer. The growth booked in the second qtr and YTD has been accross the board and above sector.

In consumer lending, namely GPLs, Mortgages and Auto – our YTD growth of 15% led to a market share increase of 110 bps, to 11.3%

In business banking, where majority of the redemptions were, we could grow by 9% YTD and bring the market share to 8.8%.

Lending growth in the Second half may not be as high, but we would aim to maintain our increased market shares, at minimum.

Moving on to FC loans - The story there is quite different to that for the TL. We have a continually shrinking book since 2015 - this applies also for the sector and is well explained given the high depreciation in currency since then. At Garanti though the shrinkage has been even more and the market share loss since 2017 alone has exceeded 2%.

We have a consolidated total of $16.8bn of FC loans; $4.6bn are the ones placed by our international subsidiaries to companies abroad with natural hedge.

The bank only total is $11.9bn – Of this, 13.5% is to exporters, 54% relates to project finance loans and the rest is mainly working capital loans to blue chip names and multinationals.

We periodically conduct FX sensitivity analysis to this portfolio – in order to proactively do the necessary staging and provisioning.

Let's now look at how we fund the assets.

Liability side of the balance sheet is also actively managed at Garanti & it is very liquid.

Notice that, deposits;, both time and demand deposits and deposit like TL bonds issued and merchant payables fund 70% of the assets. More so, Notice the level of demand deposits alone funding assets – it has reached 30%! – which is one distinct area that positively differenciates us and contributes significantly to our outperformance. – more detail on demand deposits is on next page.

But before that, to wrap up the other funding sources of assets – quick look at external liabilities show that it has come down in the quarter after the redemption of our $500 mn Eurobond in May. Accordingly, borrowings share in assets dropped further to 11.6%. As of the June end, our total external dues were 7.3 bn dollars of which 1.9bn dollars is due within a year and against that we have 12.5bn dollars of quick liquidity buffer. – in other terms, nowadays 6 fold the need!

Other indicators also confirm our high liquidity, the Liquidity coverage ratios shown on the bottom right hand side; suggest levels well above the required minimums.

Moving on to the deposits

In a quarter of high TL lending growth; We had even a stronger - 15% - customer deposit growth. That enabled us to fund the entire TL lending growth with deposits. Benefiting from our strong franchise, and our ability to penetrate the customers effectively, the Primary source of this growth was from the stickier retail & SME depositors.

Demand deposit growth, as well, was very visible and clearly reflects customer's choice of Garanti as their mainbank. In the second quarter, Customer demand deposit growth alone was 16bnTL. Demand deposits share in total remain at an outstanding, above 40% level, despite the high rate environment.

Clearly, they contribute very positively in reducing our blended funding costs - significant impact of which is seen on margins, especially at a time of loan growth and repricing at high rates.

Speaking of margins, let's move on to the next page…

Unlike what was feared for margins, following the latest 200bps rate hike in March, that 2nd qtr margin could be worst reading of the year., We once again demonstrated a good defense and started seeing sequential core margin expansion. Even though the financial results due to denominator impact suggest flat core NIM at 3%, our NIM calculated based on daily averages suggest improving quarterly margins.

This trend and the results can actually be seen in the NII figures. In the 2nd quarter alone, core NII could increase by 6%, helped by CPI book hedging a portion of the B/S, NII growth in the quarter was 10 and margin increase was 16bps.

Looking at the cumulative margin, it now reads 3.9% and represents a YTD drop of 140bps – suggest we are right on track to meet our margin guidance of a 100bps lower reading by year end. In margins, we have already seen the trough in 1st qtr, and sequential improvement has already started

Moving on to the topic of asset quality on slide 11

You can see on the left hand side the loan portfolio breakdown in terms staging.

Of our gross loans, that are now 406bn TL.. 4% is NPL, 16% is in stage 2 and the rest 80% is in stage 1

Stage 2 total eased just slightly, due to higher than expected economic activity – both domestically and globally that led to some relief in SICR. Some files in watchlist got moved to restructured bucket and accordingly nearly half of our stage 2 is restructured. In the quarter, we further increased the stage 2 coverage to 17% from 15.8% in 1Q

The 90-180 days files' balance classified under Stage 2 is currently TL 1.4bn. Following the lift of forbearance in Sept, this balance may end up in NPL and increase the NPL ratio by 40bps. While, no further provision expense will be necessary as they are already highly provided as if they are NPL.

Continuing with asset quality on next page – it strikes that the asset quality metrics are faring better than anticipated.
NPL ratio eased down to 4%, even though helped by the denominator growth and write downs – New NPL inflows continue to stream slow and collection performance remains strong. YTD collections already neared1.5 bnTL

Our Net Cost of Risk dropped below 1% level as of the first half of the year. We expect risk costs to normalize and converge to the average levels of recent years going forward. However, as we started the year better than what we initially anticipated and have strong buffers, upside risks prevail.

Although we haven't seen a material NPL inflow due to the forbearance measures regarding recognition days, we have maintained our firm stance and kept NPL coverage stable. Notice that including write downs that are mainly fully-provisioned, the NPL cash coverage ratio is at a very high level of 75%.

Moving on to the next page, you see our net fees & commissions,

We have displayed a tremendous performance in the first half of the year with a 33% growth on top of sector's highest base in fees.

Note that this robust fee generation is broadly coming from our Bank's organic capacity owing to our increasing penetration supported by digital empowerment. More visibly, payment systems and lending related fees play a fundamental role in this performance. The higher rate environment was supportive of our payment system fees where the performance is well above our anticipated level with a 39% annual growth. Cash loan fee growth performance was in line with our lending growth and expanding customer base, we could grow our cash loan fees by 34% on top of the high base of last year that included early payment fees. Money transfer fee growth registered was also a striking 43% - with compliments of our best in class digital capabilities.

Now, let me share with you a brief update on our Our digital capabilities. Our digital customers exceeded 10 mn and mobile portion alone registered an impresive 39% growth since 1h2019 nearing 10 mn customers. In the same period, digital channel transactions soared by 45%.

The highly anticipated digital on-boarding was launched on May 1st and since then 10% of the customer acquisition has been through digital on-boarding.

Our internally developed 'Contactless Customer Becoming Technology' enables a fast, time and place-independent experience for customers compared to traditional methods.

We have full confidence that this technology will facilitate the spread of digital banking services to the masses.

Moving on to the opex

Opex growth was 18% on an annual basis. The currency depreciation impact constitutes 3% of the annual growth, which actually has no bottom-line impact since it is 100% hedged. So in a currency adjusted way, OPex growth was 15% in the 1st half.

Even though High inflation environment together with currency depreciation caused an upward pressure on our expenditures. we maintain our cost growth in line with the full year guidance of around average CPI.

We continuously realize efficiency gains in Non-HR related costs under the new work environment

Taking into account the currency adjusted costs: Cost Income ratio was 37.4%. Opex in assets was at 2.3% and fees coverage of operating expenses was 65.5%.

Now moving on to the capital

We sustained our robust capital even after currency hit and dividend payment. our CAR excluding BRSAs provisional forbearance is at 16% and CET1 at 13.4%. This level points to TL 19bn excess capital on a consolidated basis. So our capital buffers continue to remain strong as we sustain our capital generative growth strategy.

Another matter we highly prioritize and would like to update you on, in this opportunity, is our approach to Sustainability.

As Garanti BBVA, we have carried on with our environmental, social and governance investments. We are not just managing our Bank's environmental impact; we are contributing to a sustainable world by offering green products to our customers and by designing our services to enable our customers to adopt more sustainable approaches.

As Garanti BBVA, we commit to provide 1.5 billion TL of sustainable financing and procure at least 80% of the bank's energy needs from renewable resources in 2021. We aim to end 2021 well above the committed 1.5bn TL with a placement of 5bnTL to sustainable finance.

We have been financing only renewable energy projects since 2014, now we have zero coal financing committment as of 2021 and we are carbon neutral bank as of 2020.

As Garanti BBVA, we have been responding to CDP Climate Change since 2009 and CDP Water since 2015 and publicly share all our reports. We became the only financial institution to qualify for the CDP Climate Leader in Turkey. and the only company from Turkey to qualify to be included in the Bloomberg Gender Equality Index for five consecutive years. And also we are proud to be included in the Dow Jones Sustaşinability index for six consecutive years.

Before wrapping up with the 1st half results – we'd also like to sum up our current expectations and trends vs our initial, beginning of the year guidance.

1st Half performance point to a Clear upside to our Full year operating plan guidance

In TL loans, the strong growth already registered in 1H suggests an upside to our mid teens guidance for the whole year….It seems High teens even around 20% may be achievable

In FC Lending shrinkage guidance remains

NPL ratio and COR metrics are faring better than our guidance. As well as the fees growth.

NIM and opex growth likely will remain, but to sum up figures suggest upside to ROE guidance

With this, we would like to leave the floor to you for questions you may have.

Thank you for listening.