GARANTI BBVA 2Q22 FINANCIAL RESULTS RELEASE WEBCAST TRANSCRIPT

Thank you for being with us at our 2nd quarter 2022 financial results call.

We are happy to be able to continue generating outstanding results.

Let me first briefly touch upon the macro backdrop we had operated in the last quarter where...

The main highlights are that;

The economic activity remained strong..

That, along with continued loose domestic policies pressure inflation, presenting upside risks on the inflation front.

In the meantime, exports and tourism revenues have been supportive to the Turkish economy

On next page, notice that the GDP growth continues, surprising on the upside - despite tighter global financial conditions.

After a post pandemic growth of 11% in 2021, 1st quarter 2022 growth was realized at 7.3% and for second quarter of the year, our big data indices suggest even an upward trend in the second quarter vs. the 1st.

So First half performance alone – which had visible contributions from Consumption and exports – show the economic resilience and likely will trigger upward revisions to the annual GDP growth estimates for Turkey.

On the other hand regarding inflation, risks remain on the upside given the continuing supply side problems, loose policies and higher than anticipated growth. Such that the prevailing 70% levels may persist at year end, despite being helped by the base year effect.

Moving on to our First Half Financial results on Slide 5

First half net income was almost quadrupled that of the prior year's. We booked 21.2bn liras of net income in the first 6months of the year. Quarterly income growth was also an outstanding 56% - without much added support of the CPI linked securities.

Pre-provision earnings' 3fold growth year on year to 32.4 billlion liras - in one half the year - indicates the high quality nature of our income.

Our solid revenue streams of Net Interest Income and NF&C growth were 161% and 68%, respectively. On top of these, subsidiaries income growth was a strong 80% with growing contributions largely coming from our international subsidiaries, fleet management, securities business and pension business .

To summarize our solid stance as of 1st half 2022; in terms of growth and profitability as well as capital, provision and liquidity strength – I would like to highlight the figures here on slide 6:

TL Loan growth in the first 6 months to date was a well-above-anticipated 36%, taking us to #1 spot among private peers in TL lending. We were able to get on board more than a million new customers in the first 6months alone - Indicating significant pick up in pace in customer acquisition.

Profitability at this time surged to double the levels of last year. ROE registered was 43% and ROAA was 4.3%.

This High profitability served to further strengthen our capital and CAR improved to above 15% - without the forberance measures of the BRSA and the free provisions we have on B/S.

Free provisions total of 7.5billion TL on B/S were kept the same. If all were accounted as part of capital, along with forebearance, our CAR would have been 17.4% on a consolidated level.

Liquidity buffers, as well, for both FC and TL remained at very strong levels.

Now Diving in details and starting with the asset side on slide 7:

Our consolidated total asset size now exceeds Trillion Liras. To reach our desired outstanding performance, Asset growth and Composition are strategically managed. Accordingly, customer driven assets weigh more - as our priority has always been core banking and generating sustainable revenues.

TL lending growth in first half reached 36%. There was a record 52billion net nominal increase in TL lending in the 2nd qtr. TL loans' weight in total assets is the highest among private peers contributing to our superior core banking earnings performance. FC lending growth on the other hand, shrank in the quarter, as expected.

On the securities front, we added both CPI and Fixed rate securities to the portfolio. CPI purchases done in the qtr was largely to replace the upcoming CPI redemptions. You may notice here the extraordinarily high 54% TL securities growth YTD. This figure is actually inflated by the MTM and IRR differences of the CPI linked portfolio where the difference was even more visible especially in the second quarter.. Including this accounting difference, the CPI book size is currently at TL 63bn, up from TL 53bn in the prior quarter.

Continuing with TL loans…

TL loan book reached 360 million TL as of the end of first half.

in the pie chart, you see the balanced breakdown of our TL loan book with a slightly higher weight of business loans vs the beginning of the year.

Short term and selective Business loan growth - in nominal terms - continued at the same pace when adjusted with the KGF lending in the 1st qtr. There was an 18% growth in the 2nd qtr. on top of the 28% booked in the 1st qtr. This growth translated into a YTD market share gain of 61bps in business banking loans.

In consumer lending, the growth was more visible in 2nd qtr vs the 1st. With the front runner being GPLs at rational price levels.

Consumer demand remained strong in the quarter as the inflation mounted. Inflation pulled forward the demand, and its impact was even more visible in the credit card volumes – with 22% growth in the 2nd qtr.

Moving to how we Fund the assets, notice on slide 9 that it is predominantly with deposits. Deposits, both time and demand deposits and deposit like TL bonds issued and merchant payables fund more than 70% of the assets.

The share of demand deposits remain to be at very attractive levels – funding alone one third of the assets – This funding strength manifests itself very clearly in our much higher level of free funds vs. peers, as well as our margin outperformance.

Borrowing's share in funding assets is further reduced down to around 10%.

Total external debt stood at $6.5bn - the breakdown of which you can see in the pie chart on the bottom right hand side. Against this debt, our FC quick liquidity buffer was $10bn as of the end of 1st half.

Funding contributors clearly display that our actively managed funding sources remain to be the main differentiator for GarantiBBVA.

Detailed look into the deposits on slide 10.

Show that This quarter- continuing liraization efforts through FX-protected TL time deposit scheme lead to further shrinkage in FC deposits and growth in TL deposits.

YTD TL deposit growth reached 55% and YTD shrankage in FC deposits was 9%.

What is sustainably more favorable at GarantiBBVA is its high share of demand deposits in total. It stands at an enviable / eyecatching level of 49% and compares very favorably to that of the peers. For instance within TL deposits, 27% is zero cost demand deposits vs. peer's avg of 21%.

And in FC deposits, this variance is even much higher.

And it tells us clearly that growing number of customers prefer GarantiBBVA as their main bank.

Also a validating figure is that Garanti has the highest TL deposit base both in time & demand among private banks.

This favorably differentiated deposit base along with the strategically managed asset growth contribute noticeably to our margin performance

In terms of the margin performance, there was further expansion of 108bps on top of the high base of the last quarter.

Isolating the contribution of CPI revenues – which in our case added only about 300 million TL qoq. This minimal quarterly increase was due to us using 45% CPI reading for our 2nd qtr CPI linker valuations after using 40% in the first qtr.

The main contribution to the margin expansion came from the further 181 bps increase in TL loan to time deposit spreads. Which was the natural outcome of;

-lending growth that is rationally priced,

- lowest ever duration gap that allowed repricing as cost pressures mounted in the period,

- active management of funding sources along with increasing level of free funds – largely demand deposits.

Accordingly core net interest income in just one quarter went up by 2.5bn TL. And on a cumulative basis Core NII was up by 10bn TL.

Taking cumulative core margin to 4.8% from 3.1% in the prior year. and the total margin including the contribution of the CPIs to 7.2%.

Moving on to the topic of asset quality on slide 12;

We are committed to manage a healthy loan portfolio and do proactive staging.

Out of 654 billion liras of gross loans, 89 billion liras or 14% is in stage 2, and 19.9 bn or 3% is in stage 3 – namely NPLs.

In depth, currency impact isolated look into stage 2 shows that there is a net 5 bnTL reduction in stage 2 owed to the strong recoveries booked in the quarter. Despite this improvement, we continued to further strengthen our stage 2 provision coverage to 18.3% from 17% in March.

As for the NPLs on next page.

We see that there is no out of anticipation move. New NPL inflows as well as the collection performance, more or less, was similar to that of the 1st qtr. The net new NPL inflow, excluding the currency impact, was a limited 142 million TL. Helped also by the lending growth in the quarter, NPL ratio at the end of 1st half was 3% with a further increased NPL coverage of 69%.

Both the NPL trend and the coverage level that you see on the line chart, suggest a very strong picture moving in the right direction.

And just for your information, If we had not written down the 100% provisioned loans since year 2019, our NPL ratio would have been 4.7% and the NPL cash coverage would have been a significant 79%.

Now how this translates into risk costs or provisions, you can see on the next slide (slide number 14)

So far the net COR is faring much better than our guidance. First half net COR was down to 1%.

Regardless of the minimal net new NPLs, we make no compromise on our disciplined and prudent provisioning. In the 2nd quarter we increased our net provisions by another 8%

Moving on to the topic of net fees & commissions,

First half net fee generation exceeded 7billion TL. Yoy growth was 68% -where the base always represented the highest in the sector. The strong fee generation further solidified our unrivalled position.

Main contributors were; cash loan fees, money transfer fees and payment systems fees.

Higher than expected economic activity & solid growth resulted in Lending related fee growth of 68% and Payment systems' fees growth of 84%.

Money transfer fees registered a striking growth of 120% - on the back of digital empowerment and best in class customer experience as 97% of Money transfers go through digital. And in Money transfer fees, Garanti BBVA by far ranks number 1. This is another clear strength and indicator, that customers prefer GarantiBBVA as their main bank.

Moving on to the operating expenses..

YoY OPEX growth was 67%, of which 19% was due to the currency depreciation that is fully hedged. Therefore adjusted net opex growth affecting bottom line was, a below CPI, tightly managed opex growth of 48%.

Overall, because the revenue growth was much higher than the opex growth, we could significantly improve our efficiency ratio. Cost Income decreased to an all time low level of 25% from 38% last year whereas the Fee coverage of OPEX increased to 64%.

Regarding Capital, we sustain our strong capital buffers and our capital generative growth strategy continues to strengthen the capital base. Net income generation alone added 256bps to our solvency in the 1st half. And Our Capital Adequacy Ratio without the BRSA's forbearance, increased to 15.1% from 14.1% in the beginning of the year..

We currently have 25 billion liras of excess capital calculated on a consolidated level and without the BRSA's forbearance,

and as a secondary buffer we have 7.5 billion liras of free provisions.

Notice that free provisions, if were to be included as part of capital, would add nearly 1% to our capital adequacy ratio. On top of this, if we were to include also the BRSA forbearance impact, it would add 140bps. Technically carrying our consolidated CAR to 17.4%.

In light of this outstanding and much stronger than anticipated performance, we felt the need to revisit the guidance we shared in the beginning of the year.

Higher than expected growth in economy in the first half, along with newly introduced macro prudential measures had major impact in our performance line items and therefore the bottomline ended with a significant beat to guidance – already in half the year.

GDP growth impact was evident in TL lending growth. We have already booked 36%TL lending growth in the first 6 months. Even after we take into account tightening biased regulatory changes that should slow second half TL lending growth, we still expect to grow our TL loan book by more than 50% this year. In FC lending, we still expect shrinkage due to continuing redemptions and the cautious stance of corporates against currency risk.

In terms of Net COR, even though the 1st half Net COR was only 100bps, we would like to maintain our below 150bps guidance due to our typical model recalibration in the last quarter and prudency.

The magnitude of All inclusive Margin expansion – meaning CPI and swap costs included - will be dependent on the October inflation reading. We may see margin expansion of higher than 400bps.

So far in core margin, we had booked 172bps yoy expansion. We think we can keep a similar expansion by year end, despite the macro prudential measures pressuring funding costs and relatively lower lending growth in the second half.

Fee growth - which is again a function of high economic activity likely will end the year above 60%

Given our tight opex control measures and efficiency gains, we target to manage the opex growth to below avg. inflation by year end.

All in, ROE for the year, will likely end above 45%. Vs. the above 20% guidance we had in the beginning of the year.

Now let me share with you some of our non-financial strengths as well

As Garanti BBVA, we continue to be the sector leader in digitalization. Our investments in digital transformation since the late 90s, carried us to the forefront with being the top choice of the customers and we positioned Mobile as the main gateway. Our mobile active number of customers exceeded 11.7 million as of June end – and this represents the highest digital and mobile customer base among peers.

Our main focus is customer empowerment through digital & mobile; and the numbers show that we are clearly in the right path.

Our net active customer growth in mobile has exceeded the growth in digital customers since end of 2019 - with a net increase of 4 million in a period of only 2 and a half years

Now with more than 86% of total sales going through digital channels, the share of branch in customer transactions has come down to 2.5% levels – from what it used to 5.8% pre-pandemic

Customers' monthly mobile logins, have increased a remarkable 132% vs pre-pandemic levels.

On digital, our market share speaks for itself with Mobile financial transactions market share of 19%.

And lastly it is worth mentioning that as Garanti BBVA our efforts are always to create value beyond banking in our customers' lives. With "My Ecological Status" app we help our customers track their carbon footprint and support them with our suggestions in reducing it. And we are the first in the Turkish banking sector to implement "Digital Slip", reducing paper consumption and carbon footprint of our customers. We translate our technological strength into a benefit to touch the lives of people and society and contribute to a sustainable future.

Moving on to the update on sustainability on slide 21

As Garanti BBVA, our sustainability commitment is to build a strong and successful future.

Our parent group BBVA, committed to provide EUR 200 billion in financing to combat climate change and support sustainable development by 2025 and likewise, at Garanti BBVA we also pledge to contribute increasing amounts of financing towards the same goal.

This year marked the 7th consecutive year earned to remain listed in the DOW JONES SUSTAINABILITY INDEX. We are the first and the only Turkish bank that could get qualified to be included in this index.

Garanti BBVA has been a carbon neutral bank since 2020, we have actually reached our greenhouse gas reduction target 15 years earlier.

Highlighting our ESG efforts; and starting with Climate Change action plan:

Last year we announced our COAL PHASE-OUT PLAN, with the target of reducing our risk portfolio for coal-related activities to zero and completely abandon this sector by 2040. And we became a signatory to the 'UN – Convened' NET ZERO BANKING ALLIANCE, committing to align our lending and investment portfolio with net-zero emissions by 2050 or sooner. We are the first and only Turkish bank to do both.

We have also adapted PACTA methodology to manage our Scope 3 emissions and to reach net zero target. In order to manage our portfolio's carbon intensive sector's risk, we will set sector specific thresholds for power, auto, steel and cement sectors by using benchmark scenarios, the metrics of the current situation and the target for decarbonisation through 2040.
On sustainable Finance

- We are using the power of finance towards a more sustainable future.
    - Our sustainable finance mobilization in 1H22 was 14 bn TL vs 8.8 bn TL in 2021 and climate finance mobilization was 7.1 bn TL in 1H22 vs 6 bn TL in 2021.
- We have committed to contribute ~7 to 10 billion Euros to sustainable finance until 2025
- And also in terms of funding, 25% of our whole funding base consists of ESG-linked funding.

On the governance side, we were recognized with having the "Highest Corporate Governance Rating Score" by Corporate Governance Association of Turkey. And we will keep making progress on this. Important highlights /developments on this front is that;

- We have a 25% Board of Directors female representation target by the end of 2025.
- Secondly, the "ESG target embedded in Group KPIs" effect Garanti BBVA's premium eligibility criteria for employees at all levels.

And finally, Sustainability is at the core of each and every decision taken in day-to-day operations.

Now this ends our presentation and we leave the floor to you for questions.

Thank you for listening.