Here we are again starting off another year with a strong beat to expected results – a sustained core banking earnings outperformance once again underscores our key differentiation.

Before getting in detail on the financials, let me, as usual, quickly remind you the macro environment we were in, in the first quarter 2023.

The main highlights are that; the economic growth momentum, despite the negative impact from the devastating earthquakes, and approaching elections remains strong.

Throughout the year, what will support this; is the expected fiscal expansion and better global outlook.

We expect GDP growth to be 3% in 2023.

Regarding Budget Deficit, we expect tax revenue growth to weaken in 2023 vs the prior year, due to our expectations of relatively weaker economic activity. Accordingly, we expect the budget performance to be worse than MTP targets, due to further deterioration led by the reconstruction efforts in the earthquake affected areas. Even though we project a budget deficit of 4.6% for the year, March figure was only 2.6%.. so it seems, budget deficit is faring far better, and we may actually be proven wrong in this projection.

Inflation wise: We expect annual CPI to come down further to 40-45% just before the elections and year-end inflation to be 45%. The supply disruptions in the earthquake region is expected to pose an upside risk on inflation outlook.

On Current Account deficit, expected adjustment in activity after the elections and a promising tourism season might help the deficit to end the year at near 35bn$, which is around 3.5% of GDP.

As a further Reminder of the environment we were in: The highly challenging regulatory environment prevailed also throughout the first quarter and we continued our swift adaptation with sustained improvement in core banking revenues and as well proved our resiliency in earnings outperformance.

Even under such challenging regulatory backdrop, and about 10bn TL lower CPI linked revenues qoq, we could book 15,5bn liras of net income in the 1st quarter of
2023 – representing a quarterly earnings drop of 22% - which is most likely the lowest among peers; and an annual improvement of 87%.

Even better representation of the banking performance is the sustained growth in core banking revenues by 7% qoq and 62% yoy

Results suggest sustained outperformance to expectations as well as peer comparisons, especially in the fundamental /core banking areas; The growth in core net interest income – meaning with the incl. of swap costs and exclusion of CPI revenues - was 1.6 fold. Net Fee and commission income was 2.1 fold and subsidiary income was 2.4 fold that of last year’s. And OPEX growth in the quarter, was managed in line with guidance.

What is behind our sustainable growth, profitability and strength is our disciplined capital allocation.

In the quarter, given our strategically managed loan growth and regulatory imposed liraization targets; TL lending growth was a mere 10%, as guided and TL deposit growth was a significant 32%.

In terms of profitability: ROAE of 38% and an ROAA of 4.5% in the 1st Qtr suggest outperformance to our operating plan guidance as well as improvement vs same period last year. The drop in roe and roa vs year end results is purely attributable to the exceptionally high CPI linked revenues of last year.

Looking briefly also to some KPIs showing our strength in liquidity, provisioning and capital is that; in the 1st quarter, for the first time – if not ever, for at min last 15-20 years – our TL loan to TL deposit ratio dropped below 100% to 93% and our FC LtD was at 60%.

Our cash provision coverage of 4.8% is double the level of our NPL ratio. Our total free provisions of 8bn TL remains on B/S.

And our consolidated capital adequacy ratio of 16% suggest a well-capitalized level.

Now let me explain the components leading to these solid results on slide 7:

As of the 1st qtr end, our assets reached 1.5 trillion liras.
In the quarter, even though the regulatory requirements lead to an out of an ordinary increase in TL securities, the highest weight in Assets remained to be customer driven - with loans’ share in assets of 55% - pointing to our core banking priority.

Securities share reached almost 17% due to 40 bn TL fixed rate security additions booked to meet the regulatory requirements. Accordingly, the share of fixed rate in TL securities went up to 39% from 28%, with rest being CPI linked and FRNs. Note that all of the new additions are booked under our HTC portfolio so to eliminate the value fluctuations affecting capital.

Total loan growth in the quarter was 9%: 10% growth was in TL loans. And 3% growth in FC loans - Owed to the current attractive spreads on export loans

Continuing with TL loans on next page.

Our performing loans reached 520billion TL by end of the qtr.

Both the magnitude and the area of lending was shaped in light of the new regulatory framework and closely monitored

Accordingly, TL loan growth cut pace to 10% in the quarter from mid teens in prior quarters. Relatively higher growth remained in Credit cards and consumer loans with 28% and 16%, respectively. While Business loan growth turned negative on a consolidated basis.

Accordingly in the pie chart, you will notice the growing weight of consumer and credit cards and 45% share in total for business loans.

We have a leading position TL loans, consumer loans and credit cards among private banks with market shares of 19.5%, 20% and 23.3%, respectively.

In line with the regulations, limiting lending, and negatively affecting business loan growth, in Business lending, we lost last year’s market share gains in 1 qtr. And now have 17.5% market share. SME loan market share loss, though, was relatively limited and our market share remained above 20%

Moving to the Funding .... Deposits dominate the funding sources. Both time and demand deposits, as well as deposit like TL bonds issued and merchant payables fund nearly 3 quarters of the assets.

Demand deposits alone continue funding more than 30% of the assets despite the more attractive FC protected time deposit scheme rates. Even though there has
been a regulatory driven increase in the avg IEA due to the securities portfolio additions in the quarter. Free funds (meaning demand deposits and free equity total) still remain very high, but mathematically speaking, now fund 38% of the IEAs vs. 50% last year.. This inorganically lower rate of 38% is still superior and differentiates us.

Borrowing’s share in funding assets has been further reduced down to 6.9% - Total external debt is now $4.4bn – and you can see the foreign debt components in the pie chart on the bottom right hand side -- that is predominantly securitisations and syndications.

Against this total debt of $4.4bn, of which 1.4 bn is due within a year. Our total FC liquidity buffer is $5.3bn. - so still sustaining almost 4 fold the short term need as buffer

The drop in FC liquidity buffer in the quarter vs. year end directly relates to the regulations supporting liraization. Which you will clearly see on next page

There has been accelerated growth in TL deposits in the quarter, supported by the liraization efforts.

The drop you see in FC deposits fueled the TL time deposit growth or in other words FX-protected TL time deposit scheme. So there was an extraordinarily high growth of 40% in TL time deposits in just 1 qtr. Vs. 11% growth TL demand deposits.

Even though, this - regulations imposed - much higher growth in TL time, diluted our TL demand deposits share in total to 22%. With demand deposits exceeding 125bnTL, we still hold the highest TL demand deposit base among private peers.

And this differentiating strength manifests itself in our superior margin performance that is on next page

Even though our Superior core margin generation capability, our legacy, remains; a quarterly drop in margins was well anticipated, especially from its peak level at end of last quarter.

Quarterly Margin drop was a significant 614bps --- largely due to CPI adjustments. We used 35% inflation estimate in our CPI value calculations in the quarter.

The quarterly drop in the core margin was well anticipated and guided given the regulatory price caps on lending and the removal of the deposit price cap on the FC protected deposits.
Core margin drop, on the other hand, was relatively limited to 125bps qoq. From 5.7% in the 4th quarter last year to 4.4% and it was flat yoy.

In here; we admit we will be seeing a lagged effect of deposit costs in the 2nd quarter. 1st qtr core margin reading of 4.4% includes a limited quarterly avg time deposit cost increase of 50bps.

Also, it will be fair to show the effect of increased funding costs - that were in the form of option premium costs offered to FX protected deposit holders – booked under the trading line. Adjusted with those costs, quarterly core margin drop was actually 217bps. Bringing the core margin to 3.1% -- a level that is still superior in the sector.

Now moving to the subject of asset quality…. on slide 12;

The main message here is that we continued to prudently increase provisions. The share of stage 2 hit 14% level and increased from 107bn TL at year end, to 120bn TL, mainly with files that are impacted by the devastating earthquakes. Earthquake related files now make up 10% of stage 2 and has 8% coverage.

Even though, this has caused a slight drop in the stage 2 coverage ratio to 18.4%. The coverages remain very strong. Where avg FC loan coverage is 28% and SICR portion is actually a very low risk. Of the 1st qtr 2022 SICR portfolio, only 1% ended up in NPL by end of 1st quarter 2023.

As for the NPLs ....

NPLs are on an improving trend helped also by the low interest rates customers have been enjoying.

The increase seen in the net new NPL in the quarter relates to the temporary booking of one big file that was under the Credit Guarantee Fund program. – so it is soon to be recovered..

Despite an improving NPL ratio, we continue building provisions.

With total provisions exceeding 41bn liras. We have the highest provision level in the sector.

How this translates into risk costs or provisions, you can see on the next slide
Where net COR ended 80bps in the quarter. Of which 65bps was due to the impact of the earthquakes.

Just to remind and explain you the reason for the quarterly seeming drop in provisions – has to do with the big bulk set aside in the last quarter post our annual IFRS9 model recalibration.

Moving on to the topic of net fees & commissions,

We could more than double our NF&C on an annual basis and grow by 8% on top of last quarter’s high base. 6.6bn liras of Net F&C generation capability in just one qtr is owed to the strength in relationship banking and digital empowerment.

Main contributors remain; Money Transfer fees – our #1 rank in here is a clear representation that customers choose Garanti BBVA as their main bank.

Besides the money transfer fees, payments systems as well as cash and noncash fees’ contribution to NF&C growth remained high.

Moving on to the operating expenses..

YoY OPEX growth was 127%, of which 9% was due to the currency depreciation that is fully hedged. High annual growth can be explained with low base affect as the multiple salary adjustments we had last year occurred post 1st qtr. So expect the growth in opex to converge to guided level of 100% by year end.

QoQ growth of 31%, includes earthquake related donations and costs related to relief efforts as well as SDIF premium increase that typically hits 1st qtr.

Given the operating circumstances in the quarter, cost income ratio at quarter end was 38% and fees coverage of opex was 55%

Regarding Capital..

Capital remained strong.

Income generated in the 1st Quarter alone could compensate the operational and market and credit risk increase starting a New Year.. the drop in the CAR to 15.9% at quarter end relates largely to the dividend payment and regulatory changes that lead to increase in risk weights on commercial loans and GPLs.
We sustain our strong capital buffers. We have 44bn TL of excess capital on a consolidated basis and without any forbearance impact. And as a secondary buffer, we still hold on to our 8 billion liras of free provisions.

If we were to include free provisions as part of capital, that would take our capital adequacy ratio to 16.5%. On top of this, if we were to include also the BRSA forbearance impact, it would add another 31bps. Technically carrying our consolidated CAR to 16.8%.

The FC sensitivity on our CAR is that for every 10% depreciation, it is 35bps negative.

This wraps up our financials’ presentation.

Now allow me also to inform you on our value creation on the non-financial side as well.

One of the highlights that marked this quarter is our announcement of interim decarbonisation targets for 2030 to achieve 2050 Net Zero. We are the first bank from Turkey to do so.

Open banking was one of the most important agenda items and like always we were one of the pioneers. And now we are happy to say we are a hub for other banks’ accounts.

We are our customers’ first choice and the numbers clearly support that. With 13.4 million mobile customers we have the highest digital and mobile customer base.

Diving deeper on our value creation;

And starting with Employee satisfaction which is crucial in our value creation. Our hybrid working model allows for a healthy work life balance. We are proud to be included in Bloomberg Gender Equality Index for 7 consecutive years. And these contribute to employee satisfaction, resulting in a poll result 4.3 out of 5 – that is far above the sector average reflecting on our employee loyalty.

Creating sustainable value beyond serving the largest customer base is our goal. Recently launched “Ecological Steps” helping our customers track their carbon footprint with easy and fun tasks. Gamification is an important tool in taking care of our earth, and taking care of our future.
In-line with responsible banking model, for us sustainability has moved beyond financing. We have so far mobilized 57bn TL in sustainable business. We also focus on managing the direct impact we have through our community investment programs. As of 2022, our contribution reached 72 million TL. Along with these, we care about what we shouldn’t finance. We have been carbon neutral since 2020 and as you will notice on the next slide...

We have been the first Turkish Bank to set and announce interim decarbonization targets for 2030 in four carbon-intensive sectors (power, automotive, iron& steel and cement) in line with the PACTA methodology. With the targets we set as part of the PACTA methodology, we track our customers’ progress in their decarbonization processes and offer them financial support for their investments in new technologies and production methods along the way.

We are proud to say that our efforts on these issues are recognized by various credible international agencies. We are included in 11 sustainability indices. To name a few: for instance in Dow Jones Sustainability Index, we raised our score from 75 to 83 which the 5th highest in global banking sector. We are qualified for the Global A List in 2022 in the Climate Change Program of CDP as the only Turkish bank, CDP is a well-recognized environmental reporting initiative.

And with all these great results in our financial and non-financial strategic performance indicators, it is no surprise that we rank first in brand power among private peers and rank number one in Net Promoter Score for SME, Commercial and Mobile banking.

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

Thank you for listening.