

Garanti BBVA 1Q26 Financial Results Webcast Transcript

Hello everyone, We are pleased to be with you again following another quarter of strong financial performance

Before getting into our financial performance details, let's as usual, go over the macroeconomic environment we are in;

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- Following 3.6% annual growth in 2025, we nowcast a moderate **GDP growth of 2.5-3% in 1Q26**
- Although a ceasefire remains a possibility, the physical destruction in the region suggests that recovery on the supply side will take time
- Therefore, we evaluate **downside risk on our 4% GDP growth forecast for 2026**
- We have revised up our year-end policy rate assumption from 32% to 35%, alongside a higher inflation outlook.
- In-line with our above 30% inflation expectation till September, we expect the CBRT to keep the funding rate at 40% until June and if conditions allow, limited rate cuts might resume in July.

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- Moving into current account balance, increased energy prices and weaker export performance due to subdued external demand put a pressure on the current account deficit. We now expect the current account deficit to GDP to be around 3.2% in 2026 vs. our around 2% estimate in the beginning of the year.
- Despite availability in fiscal room, depending on the increasing external financing needs, the fiscal support on growth would be kept mild.
- Now moving into our financials, I'll start with the headline figures

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- We had a solid start to the year. In the first quarter, we delivered a net income of 34 billion TL, corresponding to 32% annual increase and 25% quarterly increase
- Our return on equity was 30%, and once again supported by core banking revenues.
- As you can see on the right-hand side, Core NII went up by 12% QoQ with the support of expanding spreads.
- Strong increase in trading income was mainly backed by higher FX buy/sell activity
- Net F&C income maintained its growth pace in 1Q, with the increasing contribution from money transfer, insurance and asset management fees
- As always, we remained focused on **capital-generative growth**, which is clearly reflected in our **sector-leading CET-1 ratio of 12%**.
- A big part of this success stems from our asset mix—now moving into slide 7.

Page 7:

- Our total assets reached 4.8 trillion TL and loans make up 56% of the assets - which supports our recurring revenue generation
- In this quarter, I would like to acknowledge you that due to the ongoing sale process of our Romania subsidiary, related balance sheet and P&L items have been reclassified under “Assets held for sale and discontinued operations.”
- Therefore in our earnings presentation, we have shown Romania impact separately in previous quarters’ figures for fair comparison.
- Quarterly and yearly growth figures also exclude Romania for fair comparison.
- In FC Securities, at the quarter-end, 3bn\$ short-term placement to high-quality liquid assets led a temporary increase in FC securities balance.
- In TL securities composition, I would like to highlight that, we increased floating-rate notes.

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- Moving into slide 9 for further insights on the loan portfolio.
- In the first quarter we maintained growth pace in credit cards and business banking loans.
- We preserved our disciplined pricing stance in loans and delivered healthy growth in all loan categories.
- If we move on to the asset quality.

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- In the first quarter, consumer & credit card related flow to Stage-2 & Stage-3 continued.
- Share of Stage-2 in total loans modestly increased to 11% due to flow to SICR and restructurings.
- Increasing SICR portion reflects our prudence, since 84% of the SICR portion is non-delinquent at all.
- Due to the respective regulation, restructuring in consumer loans gained pace notably.
- Our Stage-2 coverage ratio declined to 7.5% from 8.6%, mainly due to mix effect and improved repayment performance in certain individually-assessed loans.
- I should highlight that that there is no change in our prudent provisioning and staging policies.
- Higher-risk segments are supported by strong collateral structures and coverage buffers, particularly in SME and wholesale portfolios.
- If we move on to the net cost of risk, on page 11..

Page 11:

- Net provisions declined slightly in 1Q, from the high base of 4Q.
- On an annual basis, provisions increased due to the retail inflows and normalizing collections from the wholesale book.
- As a result consolidated cost of Risk realized at around 2%, faring in-line with our expectations.
- Now moving to the other side of the balance sheet—how are we funding our balance sheet growth?

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- Not only in assets but also in funding, we rely on customer-driven sources.
- Total customer deposits exceeded 3 trillion TL, constitute 66% of total assets and remain TL heavy.
- Share of free funds is by far the best among private peers, which mirrors our NIM strength.
- In TL demand deposits, due to point-in time data, there seems to be a slight decline – on an average basis, we continued to expand our TL demand deposit base.
- On FC side, deposits increased by 3% - one third of that growth was due to gold price increase related parity impact, compared to December-end

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- Moving on the external funding, we maintained our diversified funding mix
- Our total external debt currently stands at **9.5 billion \$**, of which **3.7 billion \$** is short term. Against this, we maintain a comfortable and strong foreign-currency liquidity buffer of **9.4 billion \$**.
- Now lets move on to the NIM, on page 15.

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- In the first quarter, we were able to expand our net interest margin by 25bps with the support of increasing loan-deposit spread as you can see on the right-hand side.
- As you may recall, in our previous earnings webcast, we had expected a decline in 1Q margin. However, until March, TL deposit costs fared below our expectations.
- Coupled with timely loan growth and duration gap management, we were able to expand our core spreads notably.
- In this net interest income base, for prudence, we used a 23% assumption in our 1Q valuation, while current expectations point to a potential realization closer to 28% by October.
- As a result, Our net interest margin reached 6.1% - we continue to have by far the highest Net interest margin and Net interest Income level among major peers and our aim to preserve this leading position.
- Now let's move on the other P&L item – fees

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- Our fee base remains robust, up 42% YoY and 4% QoQ
- Payment systems fees continued to be the main driver of the growth.
- In the first quarter, contribution from money transfer fees, insurance fees, as well as asset management fees gained momentum
- We are number one in Money transfer fees and in life & non-life insurance fees – this leading stance is the result of our expanding customer base and increased digital engagement.
- 1 in every 2 banking customers in Türkiye is a Garanti BBVA customer. With over 2.4 million new customer acquisitions, our total number of customers has reached 30.6 million. With 18 million active mobile customers, 1 in every 5 mobile banking transactions in Türkiye is conducted through Garanti BBVA Mobile

- Our consistent and strategic investments in technology since the early 1990s enabling us to remain highly competitive.
- 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 57% YoY.
- Quarterly HR cost growth reflects annual salary adjustment.
- As we have been communicating, our strategic investments to enhance customer experience and increase customer penetration, supports our revenue generation capability
- As a result, a significant portion of our operating expense base is covered by fee income and we have the lowest cost/income ratio.

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- Our capital generative growth strategy continued to support the solvency.
- Consolidated CET-1 realized at 12%, while Capital Adequacy Ratio reached 16.2%
- We maintained sector-leading capital ratios even after 20% dividend payout and annual operational risk adjustment. These two had 1.4% impact on CAR in the 1Q
- The FC sensitivity on our CAR remains limited , with a 12bps negative for every 10% depreciation.
- We have a strong 149bn TL excess capital, which will support us to absorb any volatility.
- With that, let me walk you through our 2026 operating plan guidance and our current outlook:

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- Let me start with the macro assumptions on the left, as they form the foundation of our planning framework.
- Back in January, our baseline scenario assumed a 32% policy rate and 25% inflation. However, given the ongoing conflict in the Middle East, we have revised our year-end policy rate assumption upwards to 35%, alongside a higher inflation outlook.
- As I mentioned earlier, in line with our expectation of inflation remaining above 30% until September, we expect the CBRT to maintain the funding rate at around 40% until June, with the possibility of limited rate cuts resuming in July
- Under this updated macro framework, while we continue to track in line with our balance sheet growth targets, and our P&L performance remains broadly aligned with our expectations on fees, costs, and provisioning, we

do see some downside risk to our NIM guidance due to higher funding costs.

- Let me elaborate on this. In the second quarter, we expect average funding costs to increase compared to 1Q, contrary to our initial projections.
- While we had anticipated a gradual improvement in core spreads, rising funding costs since March have weighed on this trend.
- We have already incorporated this increase into our loan pricing. However, due to duration gap, the positive impact on yields will come with a lag.
- Higher than expected CPI is another buffer to offset this impact - in 1Q for prudence, we used a 23% assumption, while current expectations point to 28% by October.
- Overall, we continue to expect margin expansion for the full year, even under a more conservative funding cost assumption.
- As loan repricing catches up, we expect margins to recover relatively quickly in the second half. A faster-than-expected normalization in funding costs would further support this recovery.
- In terms of return on equity, at the beginning of the year, under a 25% inflation assumption, we guided for a mid-single-digit real return. **With the revised inflation outlook and pressure on margins, there is some downside risk to our real return. However, in nominal terms, we may still be able to deliver our target. Please also note that, expected contribution from the sale of our Romanian subsidiary may provide additional support towards year-end.**
- This concludes my presentation. We are now happy to take your questions.