Garanti BBVA's 1H24 Earnings Webcast Transcript

Despite the market complexities and challenges of the 1st half, we continued to deliver improvement in banking performance.

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

We nowcast annual 4% GDP growth in the 2nd quarter, accordingly we expect almost no change QoQ. This will likely take the annual GDP growth in 1H24 closer to 5%. Taking into account the strong performance of 1st half, there seems to be upside for our 2024 GDP forecast of 3.5%.

In terms of the interest rates; we expect the Central Bank to stay on hold till late 2024, along with the macroprudential tools' support affecting liquidity management and credit policies. Depending on how close they get near the year end inflation target, the CBRT would remain restrictive longer than we expect in our baseline.

Inflation trend, on the other hand, started to ease in June. We now forecast consumer inflation to decline below 50% by September on strong favorable base effects and finish the year at 43%.

On next slide;

The Rebalancing that has already started in the economy will result in much lower external financing pressure. Current account deficit in the 1st half already reached $26bn. We now expect the Current account deficit to diminish to $20bn or 1.6% of GDP by year end 2024, down from last year's $45bn. This will be achieved with improving net trade deficit, strong tourism revenues and lower net gold imports on top of de-dollarization.

On fiscal side, we expect fiscal prudence to continue to help the targeted disinflation path. We expect the year end budget deficit - excluding the earthquake spending - to remain within the Maastricht criteria of 3%

Now time for the financial results;

Contrary to the expectations, Garanti could continue its earnings growth and booked 44.6bnTL in the 1st half of 2024. This represents a 32% yoy growth or even 40%, when adjusted with last year's free provision reversal.

On a quarterly basis, even though the sequentially rising earnings trend was maintained in our bank-only figures, there seems to be slightly lower net income in the consolidated figures. This has nothing to do with the subsidiaries' performance, but with the recognition of the real estate valuation gains under equity at consolidated level vs. net income at Bank only.

So even in the – most likely the weakest quarter of the year - we booked 22.1bn liras of net income. This suggests a YTD ROAA of 3.7% and a ROAE of 34.2%.

Our core banking/ namely customer focused approach, continue to result in sustained sequential banking revenue growth – which was another 7% in the quarter, and 63% YoY.

Accordingly, our core banking revenue generation remains to be 'the highest in sector' and our inherent strength.

Sınıflandırma: Açık

Contributors to core banking revenues are; Core NII where we could grow by another 18% in the qtr., pure trading where we could largely sustain last quarter's outstanding gains with the supporting FX transaction gains in the absence of derivative mark to market gains, and Net F&C where we could grow by further 13% in the last quarter.

Getting to these results require high share of Customer driven asset mix. As you can see in the pie chart on this slide 7, that the performing loans make up the majority of the assets – almost 56%.

We booked 9% TL lending growth in the quarter while sticking to the imposed loan growth caps and continued to register higher growth in the preferred areas such as investment, export, credit cards and earthquake affected area loans. Accordingly our 1st half TL loan growth ended to be a robust 27%.

In FC lending, we booked a growth of 4% YtD – totally in line with our guidance and growth projections.

On the securities front – as many of you know - we are never aggressive, but rather opportunistic. In the quarter, we did replace our redeeming securities and even accumulated a bit more 10 yr fixed rate securities and CPI linked ones that are, 3.5% real rate attached. Nevertheless, securities share in assets remains low, at around 15%.

Looking in depth into the loan portfolio on next page, you can see our TL loan mix on the left hand side and the growth in each area on the right.

You may have already noticed the sector's lower TL loan growth figures in line with the intended slowdown in TL lending imposed by the Central Bank in its efforts to fight against the inflation.

Our selective and profitable loan growth strategy is naturally preserved while abiding fully to the regulatory loan growth caps. Our TL performing loans reached 952bn liras upon the 27% TL loan growth in the first six months of the year. Notice that the qrtly growth was relatively lower vs the 1st qtr in credit cards and business loans, whereas the consumer loan growth of 11% was sustained and we could register market share gains, especially in the high yielding consumer GPLs including overdraft.

Our market share in GPLs, among private banks, neared 19% and in credit cards to 22%. Also in business banking, we have more than 20% market share. Even though there seems to be a slight qrtly drop in the 2nd qtr. We have booked 68bps mrkt share increase ytd and actually have succeeded in growing our market share on average by 75bps per year over the last 5 years.

In total, we maintain our leadership in TL lending

Moving on to the quality of the total loan book of 1.5trillion liras: 88% is in stage 1.

10% or 156bn TL is in stage 2. Isolating the currency impact – which has affected largely the restructured portion of Stage 2 - stage 2 increase of a significant 18.5bn liras was largely due to the increase in the SICR portion, namely those expected, small ticket size retail and credit card loans.

Since the coverage for the SICR is relatively low, this high inflow diluted the st 2 coverage to 19% from 21%. Notice actually that the strong FC loans coverage of 43% in stage 2 and the 8% coverage for TL loans remained.

for the NPLs… You can see on next page….

The Net NPL inflows in the quarter suggest deterioration yet normalization after last year's exceptional low base.

86% of the new NPLs relate to retail and credit cards portfolio – as expected, upon the end of the cheap funding period. Credit card portfolio NPL increase vs. last year was 5.5fold and retail was 2.5fold for 6 months into the year.

The ratio post NPL sale and write downs remained at 1.9% though with the continuing strong collections on the wholesale business side and successful execution of timely NPL sales. We sold a total of 4.2bn liras of NPL for 1.9bn liras, suggesting 45cents on a dollar NPL, in the 1st half. We will continue with our NPL sales in this inflationary environment as long as there is positive spread between NPL sale price and the legal process time cost. With these, we could secure attractive recovery via being first mover in NPL sales in the first half of the year.

Our total provisions on balance sheet, including the written down portion, now accumulate to 70.4billion liras. This is the highest provision level among the private banks and represents a 4.6% total cash coverage.

On the next slide, we'll see the translation of this into cost of risk

Even though net provisions, excluding currency and the earth quake related provisions of last year, spiked 4.5 fold year on year; the continuing strong commercial business recoveries supported the YtD net COR.

66bps of net COR in the 1st half fares lower than our guidance of 125bps for the year. However, we stick to our guidance for the whole year parallel to the expected rise in NPLs and no ease in our prudent provisioning.

On the Funding side … Deposits dominate our funding with 71%.

Despite the high interest rates, the high weight of demand deposits remains to be the key financial differentiation in terms of our margin outperformance.

Borrowing's share in funding assets, remains low at under 6.5%. Total external debt as of the 1st half was $4.3bn. Of this 44% relates to securitisations, 29% to sub-debt and 20% to syndications. $1.2bn of the external debt is due within a year and against that we have a 5 fold - $5.9bn buffer in FC liquidity.

Overall our leverage remained to be the lowest among peers at 8.3 times the equity.

In the 2nd quarter, post the local elections, we exhibited an accelerated conversion from the foreign currency protected deposit scheme to standard TL deposits. TL deposits increased by 17% whereas FC deposits decreased by 9% in dollar terms in the 2nd quarter. Accordingly, we ended the 1st half with the historic low share of FC deposits in total.

Even though we manage, probably the most sizeable TL deposit portfolio in high interest rate environment, Garanti continues to lead in customer demand deposits' share in total with 39%vs. the average of private peers of 34% per bank only figures. Comparatively, this grants a significant funding advantage and continue to support our superior margin performance.

Our margins were resilient qoq and could even book a 5bps improvement in the core margin. Our core net interest income including the swap costs further increased to 10.6bn TL from 9 bnTL – suggesting a by far the highest level among peers, and

Validating one more time our legacy of 'highest core NII generation capability

Our Improving core NII performance is owed to;

- Timely loan growth, repricing & duration gap management
- Effective Management of funding costs and
- Full utilization of CBRT's remuneration potential

With the ongoing increase in loan yields, stabilized deposit rates and currency, we expect to see a more visible core margin expansion in the second half of the year. Therefore, we keep our flat margin guidance for the whole year that suggests; on a cumulative basis, our total margin of 3.6% in the first half, will end the year around last year's total margin of 5.1%.

As for net fees & commissions, on Slide 15 –

There has been a 3 fold growth YoY driven by the payment systems business. Accordingly, of the near 42 bn liras of net fees and commissions booked, 2 thirds related to our strength in the payments systems. Recall that we rank #1 in issuing volume, acquiring volume and the number of credit card customers.

Even though we are also number 1 rank in TL cash loans and noncash loans as well as money transfer fees, the extraordinarily high growth in the payment systems, diluted their contribution to the Net Fees and commissions.

Key reasons behind our robust fee performance are; the strength in relationship banking and digital empowerment contributing to not only growth in our active customer base, but also penetrate further the existing customers.

Our digital active customers now reached almost 16 million and Digital sales in total is 90%.

As for the operating expenses performance,

Quarterly growth was a mere 7% and the annual growth pointed to 71% - post the currency adjustment.

The lower growth in non-HR related costs suggest increased efficiencies, feasible customer acquisition and tight cost management. On the HR side, cost growth is actually slightly higher than inflation. Higher figure is due to the timing of wage hikes. Yearend growth for opex will remain above inflation, as guided.

Efficiency indicators are that the;

Cost income was 42%.

fees coverage of OPEX was a strong, 93%,

and OPEX in average assets were 3.7% in the 1st half.

As per Capital..

The quarter end consolidated CAR - Without the BRSA's forbearance - was 15.2% and Core Equity Tier 1 was 12.8%. Both remained well above the regulatory and ICAAP requirements.

When we look at the Ytd trend of Capital, it seems that our capital generation – even though we book the largest net income – could not compensate the negative effect of market and credit risk. This actually relates to the regulation that imposes higher risk weightings to loans. Under the condition of normalized risk weightings, our CAR would be around 150 bps higher than recorded and be 16.7%.

The FC sensitivity on our CAR remains low at 18.3bps negative for every 10% depreciation – thanks to our $500mn tier 2 issuance in the 1st quarter.

In summary, we earned the Olympic gold medal in the financial pentathlon

In the 1st half 2024,

We recorded the highest net income via sustained increase in core banking revenues. The yoy growth in the core banking revenues was 63% reaching 81 bn liras in only 6 months.

On the fee side, our diversified fee generating businesses along with the extraordinarily high payment systems fees tripled yoy and brought the fees coverage of opex to 93%.

On the Asset quality front, we started to see more normalized retail and CC NPL inflows as expected and guided. However 1st half net COR remained low due to the continuing strong collections from the wholesale business. Our total provisions on B/S, with above 55 bn liras, is the highest among private banks.

On the Capital front, we remain solid. We had 65bn liras of excess capital as of the half year end when calculating without the BRSA's forbearance.

Our progress in business growth continues. Today every 1 out of 2 bank customers has an account with Garanti BBVA and our digital active customers with almost 16 mn is the highest in the sector

In conclusion, our agility and financial resilience once again validated our unmatched leadership.