Garanti BBVA 2Q25 Financial Results Webcast Transcript

To begin with macro environment that shaped the banking sector's performance;

In terms of GDP, following 1% growth in first Q, we nowcast a quarterly growth rate of around 0.5% in 2Q - which would bring the first-half GDP growth to above 3%

Thus, for the full year, considering potentially supportive fiscal stance and no dramatic impact from weaker external demand, we maintain our GDP growth forecast of 3.5%, yet evaluate the balance of risks tilted to the downside. Rate cut evolution, developments in trade wars and the extent of fiscal discipline will ultimately shape the growth outlook.

Inflation is set to decline, supported by tighter financial conditions, moderating private consumption and lower commodity prices. We slightly revised down our inflation forecast to 30% from 31% for the year end - following positive surprises over the last 3 months on inflation data.

CBRT's commitment to orthodoxy and a tighter monetary stance have contributed to the drop in inflation, the accumulation of reserves and a reduction in market volatility. Hence, we believe conditions are settled to allow a carefully calibrated rate-cutting cycle.

Depending on the improvement in inflation dynamics, we do not rule out a similar 300bps cut in the September MPC meeting. We still expect 36% policy rate by end 2025, with reduced cuts to 200bps in October and December.

We expect current account deficit to GDP to slightly worsen to 1.3% of GDP in 25. Tourism revenues are expected to be supportive, yet due to a deterioration in core trade deficit and increasing net gold imports, CAD can reach 20bn$

Fiscal policy stayed expansionary in the first quarter and the efforts for consolidation later were limited.

Therefore, considering the sensitivity on growth and employment, fiscal stance can remain supportive -to some extent.

That said, we may potentially see a policy mix where monetary stance staying relatively tighter – meaning 5-6pp ex post real rates - and fiscal policy not being able to be tightened as targeted – which suggests cash deficit to GDP of at least 4% in 2025.

Moving into our financials, I'll start with the headline figures;

In the second quarter, we preserved our distinguished earnings strength and delivered 28.2bn TL net income. This marks 11% quarterly EPS growth.

Resilient NII, robust fee income and provision reversals from a few large-ticket items reinforced this solid earnings.

Accordingly, in the first half, we were able to generate 53.6bn TL net earnings, alluding to 30.7% ROE and 3.1% ROA.

In the next slide I would like to elaborate the drivers behind this earnings strength—starting with our core banking performance.

Core banking continues to be our pillar of strength.

We were able to increase our core banking revenue, both on a quarterly and annual basis, on the back of well-defended NII and growing fee base.

We experienced spread contraction, due to longer than anticipated tight policies, yet strong loan growth supported the NII base – which we will touch upon this in detail in the coming slides.

Net fees delivered a robust 15% quarterly growth, with increasing contribution from payment systems.

Clean trading gain's contribution was relatively modest due to MtM losses on derivative transactions.

Our Subsidiaries contribution has been increasingly supportive for our P&L.

As a consequence, this strong performance lifted our core revenues to assets ratio to 7.7%, the highest among peers, underscoring the sustainable nature of our profitability.

A big part of this success stems from our asset mix—now moving into slide 8.

Our lending-driven asset mix remains as a key differentiator.

In the second quarter, Performing loans' share increased further to 57%, well above the 50% sector average.

Lending growth was across the board, I will explain the key drivers of TL loans in the next slide, on FC loans, with the growing support of international subsidiaries, we were able to register 12% quarterly growth. Here I also would like to note that, half of the bank-only growth was coming from the increasing EUR/USD parity impact.

In securities, we had CPI redemptions during the quarter and we have been investing in long-term fixed rate securities since the beginning of the year. In FC securities, we had opportunistic purchases during the year.

Moving into slide 9 for further insights on the loan portfolio.

In the second quarter, TL loan growth accelerated compared to 1Q, grew by 10% and reached 1.4 trillion TL.

Particularly Consumer loans and credit cards gained pace and we had notable market share gains in these products.

Our SME focus remains intact and we further solidified our market position in micro & small enterprises with 24% market share among private banks.

While growing, we always act with prudency, now let's look at the evolution of our asset quality.

Increase in Stage-2 loans was limited in 2Q, as we witnessed some outflows from Stage-2 SICR & Watchlist portfolios, due to their improved repayment performance

This also led a decline in Stage-2 coverage ratios, yet I would like to underline that there is no change in prudent provisioning and staging policies.

While our stage-2 loans coverage is now 10%, if we look at TL and FC breakdown, our FC Stage-2 loans coverage remains healthy at 21%.

Please also note that 86% of the SICR portfolio remains non-delinquent.

Now, let's walk through the evolution of our NPLs;

Our NPL ratio rose modestly to 2.6%, in line with expectations, following elevated growth in unsecured retail segments.
Retail and credit card portfolios accounted for~70% of net NPL flows.

Importantly, provisioning remained robust at 3.2%

Now let's look at the provisioning on page 12.

This year we guided for higher Cost of Risk due to increasing NPL inflows from unsecured loans and normalizing large-ticket collections. As of 1Q, we have started to see this trend.

However, in the second quarter, unbudgeted provision release of a few large-ticket items led a quarterly decline in net provisions.

As a result, our first half CoR came in at 1.26%, way below our guided range of 2 – 2.5%.

In the absence of large-ticket collections, we will see a normalization in net CoR in the second half. Yet, due to better than expected first half, Net CoR may end the year toward the lower end of the projected range.

Now moving to to the other side of the balance sheet—how are we funding our balance sheet growth?

Not only in assets but also in funding, we rely on customer-driven sources, which is the backbone of our success.

Total deposits make up 70% of total assets and remain TL heavy.

In the first half, TL deposits grew 22%, mainly supported by sticky and lower cost deposits. As such, Retail & SME deposits share in TL stands at 68%

On a quarterly basis, TL deposit growth was limited mainly due to flow to money market funds and our spread-focus pricing strategy.

In FC time deposits, we witnessed a significant decline due to reduced market volatility and attractive TL deposits rate.

We also maintained a $4.9bn FX liquidity buffer, providing ample cushion over short-term obligations.

While growing, we always keep a close eye on spread management, as it is visible in Net Interest Income on next page.

In the second quarter, our core margin contracted by 31bps due declining core spread and higher net swap costs:

As you can see on the right hand side of the slide, TL deposit costs increased by 100bps on average due to longer than anticipated CBRT's tight stance and increased market competition - coupled with recent regulatory changes.

However, since July, TL Loan – Time deposit spread has been widening and is projected to accelerate further in 4Q25 with the assumption of gradual easing cycle to continue.

Net swap funding costs increased QoQ due to lower utilization of swap depo transaction compared to 1Q.

> In 1Q, given our excess liquidity supported by significant deposit growth, we utilized swap depo, which reduced net swap funding cost in 2Q, swap depo utilization declined and swap funding cost increased slightly, therefore there was increase in swap cost, yet remained below previous quarters' average

We continued to use 28% in the valuation of CPI linkers.

Putting all this together, with the help of lending growth, we were able to register growth in NII base.

Our balance sheet positioning and active Management lie at the heart of our unmatched margin performance, which we'll build on in the next slide

We would like to present this slide every quarter in order to underline that our margin resilience is rooted in high share of TL loans & TL deposits..

In our TL assets, TL loans make up 60.5% of TL assets, while securities account for only 13%. In a current environment where loan yields are about 2X higher than securities', this presents a sustainable revenue advantage. Please also note that, within TL securities, CPI linkers' share is only 38% and in a disinflationary environment, yield gap may widen further.

On liabilities, TL time deposits represent 69% of TL liabilities, and here we continued to preserve our funding cost benefit vs repo in an increased interest rate environment. That said, we acknowledge that in a declining rate environment, this advantage may narrow—but we are well positioned to respond. With an average deposit duration of just one month, we have the agility to actively manage our portfolio and protect our margins.

Our fee growth remained remarkable, reflecting continued strength in payment systems, lending activities, and money transfers.

In the first half net fees rose by 57% YoY, reaching TL 65.5bn TL.

Payment systems fees continued to lead the growth with the support of accelerated credit cards volume.

On top of that, growing cash and non-cash loans also contributing to lending related fees, including insurance.

Digital engagement continues to deepen. We have more than 17 million digitally active customers. Today 99% of all transactions are carried out through non-branch channels and 86% of product sales originate digitally.

Moving to our Operating Expenses,

Our OPEX base growing in line with the budget. OPEX base increased by 69% year over year in the first half, due to the planned investments to fuel sustainable revenue generation streams.

We have been investing in customer acquisition through salary promotions. And to enhance customer experience and increase customer penetration, we have been leveraging the power of artificial intelligence and digitalization.

Which in return supports our revenue generation capability

Hence our opex base is largely covered by fees

And we continue to have the lowest level of cost income ratio among peers, as you can see the comparative charts on the right hand side.

As per our capital strength,

Our capital ratios remained strong. CET-1 stood at 12.6%, while CAR reached 15.6% without BRSA forbearance.

Please also note that, 20% dividend payout and sector-wide annual operational risk adjustment had 1.7% negative impact on CAR.

To support our capital base for the future growth, we successfully issued a 500mn dollars Tier-2 in July which will provide ~70bps uplift to our CAR and reduce currency sensitivity by 4bps.

Let's now summarize our performance before closing.

We sustained our unmatched leadership in earnings generation capability:

Backed by our customer-driven balance sheet growth, we defended our NII well.

Remarkable fee performance enabled us to cover 86% of operating expenses.

Large-ticket provision reversals tied to recovery performance led a quarterly decline in net provisions and

As a result, we ended the first half with 30.7% ROE, while maintaining sound capital ratios.

Now, let's look briefly at what's ahead.

In terms of TL loans, we are on track with our guidance, expecting slightly positive real growth compared to average inflation expectations.

FC loan growth is exceeding guidance, driven by the EUR/USD parity impact and increasing contribution from subsidiaries.

As we discussed earlier, the unbudgeted provision reversals in the first half brought our net cost of risk down to 1.26%. In the absence of similar large-ticket recoveries in the second half, we expect a normalization in net CoR. That said, given the better-than-expected first-half realization, year-end CoR may land at the lower end of our projected 2–2.5% range.

On the other hand, this potential upside in CoR could be offset by margin headwinds. Longer than anticipated tight conditions may result in two quarters of postponement in margin expansion. Having said that, I want to highlight that NIM evolution remains highly sensitive to macro developments—particularly interest rates and funding behavior.

Fee growth, on the other hand, continues to outperform expectations, led by payment systems. This creates upside potential in our fee-to-OPEX guidance as well.

All in all, NIM Headwinds is likely to be mitigated by large-ticket provision releases and robust fee growth. As a result, ROE is likely to settle near the lower bound of our guided range.