

Garanti BBVA 3Q25 Financial Results Webcast Transcript

Hello everyone, and thank you for joining us. We are excited to be with you on another earnings call.

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

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- Turkish economy grew by 1.6% q/q in the second quarter and for the third quarter, we nowcast **0.5-1% q/q growth**. This implies a slowdown on a quarterly basis yet, it could still generate **4-4.5% annual growth**.
- Therefore, we view risks to our full-year GDP growth forecasts as balanced and keep our forecasts at 3.7% for 2025 and 4% for 2026.
- In terms of inflation and monetary policy; Following September inflation reading, we revised up our year-end inflation expectation to nearly 33% and policy rate assumption to 38.5%. Pace of rate cuts will depend on disinflation gains and we evaluate ex-post 6-7pp real rate can be required due to sticky services inflation and uncertainty on food inflation. We expect the CBRT to maintain gradual rate cuts with an ongoing reliance on macro-prudential measures for longer.

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- We assume private consumption staying much lower than its long term trend, thus keeping current account deficit moderate in the short term.
- **We forecast current account deficit to be 1.2% of GDP in 25 and 1.5% of GDP in 26, which can be easily financed.**
- Led by moderating non-interest spending below inflation trend and still strong tax revenues, Cash primary deficit to GDP came down to 0.6% of GDP in Sep.
- We observe an increasing effort on fiscal consolidation since April, resulting in a negative fiscal impulse.

- Accordingly, in our current macro baseline, we assume 3.6% budget deficit as a % of GDP in 2025 and 3.7% in 2026.
- Now moving into our financials, I'll start with the headline figures

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- As GarantiBBVA, we could sustain the quarterly growth in earnings also in the third quarter
- With a 9% quarterly growth, 3rd quarter net income reached a new record level of 30.9bn TL. **This brought our nine-months net earnings to 84.5bn TL, which translates into 31% ROE with relatively low leverage.**
- During the quarter, strong NII improvement and stellar fee generation more than offset the increase in net provisions.
- Earnings outperformance once again enabled by core banking revenues, moving on the page 7...

Page 7:

- We delivered consistent growth for 7 consecutive quarters in core banking revenue.
- As we will discuss in the following slides, recovery in core margin was better than expected on the back of opportunistic liquidity management and well-managed spreads
- Trading income increased, supported by securities' trading and the absence of derivative transactions' MtM losses that weighed on 2Q base
- Net fees also held up well, growing 11% on the back of payment systems and strong lending activity.
- As a consequence, our core banking revenues to assets reached 7.8% in 9M, which suggests the highest level among peers
- A big part of this success stems from our asset mix—now moving into slide 8.

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- Our asset growth continued to be fueled by customer driven sources – namely loans.
- Performing loans share in assets remained strong at 57% and lending growth was across the board.
- In securities, we had opportunistic FC securities additions this quarter and realized some gain from TL fixed rate security portfolio.

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- Moving into slide 9 for further insights on the loan portfolio.
- In the third quarter, we recorded 10% growth in TL loans. Credit cards and consumer loans were the front-runners with 15% and 12% growth, respectively.
- Our market share in TL loans increased further to 22% with outperformance in consumer GPL and Mortgage loans.
- Our SME focus remains intact and we preserved our market position in micro & small enterprises with around 24% market share among private banks.
- We continue growing in a profitable way, focused in segments where we see more value. Now let's look at the evolution of our asset quality.

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- In the third quarter, there was retail restructurings related increase in Stage-2 loans. As you may know, in-line with our prudent provisioning strategy, once loan is restructured we classify this loan under Stage-2. Due to the respective regulation, restructuring in consumer loans gained pace notably in 3Q and thus our restructuring loans under Stage-2 increased.
- However please also note that as of October this regulation has been terminated.
- Our Stage-2 coverage ratio declined due to improved repayment performance of some individually-assessed firms. While our stage-2 loans coverage is now 9%, if we look at TL and FC breakdown, our FC Stage-2 loans coverage remains healthy at 18%.
- Now, let's walk through the evolution of our NPLs;

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- Our NPL ratio rose modestly to 2.8%, in line with expectations - we are witnessing the natural consequence of robust consumer and credit card growth that sector registered in the last couple years.
- Retail and credit card portfolio still accounted for ~70% of net NPL flows.
- If we move on to the net cost of risk, on page 12..

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- In the third quarter, net provisions increased QoQ —mainly due to the exceptionally low base in the previous quarter, which had benefited from large-ticket provision reversals.

- Yet, on a cumulative basis, Net provisions continue to perform better than expected. As a result of this trend, we also revised down our Net Cost of Risk expectation for this year-end, which I will explain in more detail on the final slide.

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Now moving 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.
- Total deposits make up 69% of total assets and remain TL heavy.
- This quarter, in TL time deposits, our growth was flattish due to cost optimization to support spreads. On an average basis, TL deposit growth was strong and we continue to meet the required regulation in TL deposits.
- Growing demand deposit base, in-line with our expanding customer base, supported TL deposit growth.
- On FC side, deposits increased by 14%, due to gold price increase and flow from maturing KKM deposits
- Excluding the subsidiaries' impact, FC deposit growth was 10% and 40% of quarterly increase was purely coming from surge in gold prices.
- Our active funding management is also visible in Net Interest Income, on page 14.

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- In the third quarter, our core margin recovered better than expected by 44bps with the support of opportunistic liquidity Management. Let me elaborate on this: In the 3rd quarter, we created excess TL liquidity with utilizing more repo and swap funding and then placed this TL liquidity to depo facility – at better yields.
- As you can see on the right hand side of the slide, **Our TL Loan – Time deposit spread remained flat in 3Q**. We managed to fully reflect 300bps July rate cut to our funding costs. However, in September, pace of decline in TL time deposit was more gradual than expected mainly due to the impact of TL deposit regulations. In 4Q, on average, we expect **spreads to progressively improve**. We are expecting another 100bps cut in December, which may bring down the 4Q average TL time deposit cost to below 3Q average.
- Another component of NIM was swaps:
- You may notice the increase in swap costs as we utilized more swaps in 3Q due to its funding cost advantage relative to TL time deposit costs.

- Lastly, in terms of CPI linkers' income, CPI rate used in the valuation increased to 30% from 28%, following September inflation data, yet CPI linker income contribution to NIM remained flat due to redemptions from the portfolio – here I would like to mention that, October CPI reading will be announced in the coming days and we are expecting October CPI rate to be 33%. If it realizes at this level, we will once again adjust our CPI linker income valuation and reflect the full-year adjustment into the 4Q.
- Putting all this together, with the help of lending growth, we were able to register 20% growth in NII base – As you can see on the left-hand side, with 5.3% NIM and 46.5bn TL NII incl Swap, we have by far the **highest NIM and NII level** among Tier-1 private peers
- And Our balance sheet positioning lie at the heart of our unmatched margin performance, which I'll elaborate more on next page...

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- 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..
- First, TL loans make up 62% 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, while our securities' share in assets is the lowest among peers, when we look at the components, it is because of lower share of CPI linkers. We are not lagging behind peers in terms of fixed rate securities.
- Within TL securities, CPI linkers' share is only 38% and in a disinflationary environment, yield gap may widen further.
- And 58% of TL securities are **fixed rate securities at attractive rates, which will again serve as a hedge in a declining interest rate environment.**
- On liabilities, TL time deposits represent 69% of TL liabilities.
- In the 3rd quarter, we created excess TL liquidity with utilizing more repo and swap funding and then placed this TL liquidity to depo facility – at better yields.
- This once again shows the operational agility and active liquidity management we have to protect our margins.
- Now let's move on the other P&L item – fees...

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- Our fee base remains robust, up 54% YoY.
- On an annual basis Payment systems fees continued to lead the growth. On quarterly basis, strong cash and non-cash loan growth, which supports

lending related and insurance fees, followed by increasing wealth management fees. Digital engagement continues to rise, number of digital active customers reached 17.6billion.

- Moving to our Operating Expenses,

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- Our OPEX base growing in line with the expectation. OPEX base increased by 70% in the nine months, due to the planned investments to fuel sustainable revenue generation streams.
- As we have been communicating, 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,

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- As per our capital strength, In the third quarter, our solvency ratios improved with strong support from profitability and Tier-2 issuance we had in July. Our consolidated CET-1 realized at 12.7%, while CAR reached 16.3% without BRSA forbearance.
- As you may know, in October, to support our capital base for the future growth, we successfully issued a 700mn dollars Tier-2 in October which will provide ~92bps uplift to our CAR and reduce currency sensitivity by 5bps.
- Let's now summarize our performance before closing.

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- 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 84% of operating expenses.
- **Better than expected Net CoR trend sustained with exceptionally high provision reversals**
- As a result, we ended the first nine months with 30.9% ROE, while maintaining sound capital ratios.

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

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- In terms of guidance, our message remains fully aligned with what we communicated in our second quarter call. In this quarter, to enhance transparency, we quantified the underlying impacts and formally revised our guidance for select P&L items. Yet, our ROE guidance remains unchanged. Let's take a closer look at what we revised:
- We **lowered our year-end net cost of risk expectation to below 2%**, given exceptionally high provision reversals recorded during the year.
- Due to the change in policy rate expectation and the **impact of TL deposit regulations**, we have **revised our NIM expansion guidance down to 1.5–2%**. Please note that, in the beginning of the year, our policy rate assumption for this year-end was 31%, which we now **revised upward to 38.5%**.
- On a ytd basis, we were able to increase our margin by 1% On a consolidated basis and 1.3% on a bank-only basis. In the forth quarter, we **expect TL spreads to improve QoQ**, while the **contribution from CPI linkers is also likely to increase**. The extent of improvement will depend on macroeconomic variables, yet, strong YTD performance gives us confidence that we will **achieve NIM expansion within the revised range**.
- Lastly, we revised up our fee growth guidance and now we expect fee coverage of OPEX to be ~90-95% on a bank-only basis, compared to **96% coverage in 9M**.

All in all, better than expected trend in net provisions and fees **would mitigate** headwinds on NIM. As a result, ROE is likely to settle near the lower bound of our guided range.