

Garanti BBVA 4Q25 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;

Page 3:

- Turkish economy grew by 1% q/q in the third quarter and for the fourth quarter, we nowcast **a slightly positive q/q growth**.
- Therefore, parallel to our previous expectations, we maintain our GDP forecasts as 3.7% in 2025 and 4% in 2026, consistent with the still-resilient activity outlook.
- In terms of inflation and monetary policy; Seasonally adjusted inflation improved into year-end, however, January CPI figure reinforces our view that the pace of monetary easing will become increasingly data-dependent and points to a slower pace of rate cuts compared to consensus, given the need to maintain sufficiently tight real interest rates.
- In this regard, we maintain our call of 25% for 2026-end inflation and 32% policy rate for 2026-year-end.

Page 4:

- The current account remains broadly manageable, although the trend has deteriorated, reflecting domestic demand dynamics and the gold channel. We expect the current account deficit to GDP to be around 1.5–2% range in 25 and 26
- The outlook remains sensitive to Eurozone growth and Brent oil dynamics.
- Led tighter expenditure controls and strong revenue generation, we expect budget deficit to GDP to remain around 3.5%.
- Now moving into our financials, I'll start with the headline figures

Page 6:

- Once again, we delivered a strong track record of executing in line with our commitments. Our key P&L metrics came in fully consistent with our guidance, and cumulative net income reached **TL 111 billion**, corresponding to **21% year-on-year growth** and a **29% return on equity**.
- In the fourth quarter, our bottom line was impacted by tax-regulation-related effects. Excluding this one-off impact, our ROE would have been around **30%**, which was fully in line with our guidance.
- Despite operating with the **lowest leverage ratio in the sector**, we continued to deliver an ROE above the sector average.
- As always, we remained focused on **capital-generative growth**, which is clearly reflected in our **industry-leading CET-1 ratio**.
- This earnings outperformance was once again driven by **core banking revenues**—and with that, let me move on to page 7.

Page 7:

- We have now delivered growth in core banking revenues for eight consecutive quarters.
- In the 4Q quarter, core banking revenues grew by **11% quarter-on-quarter**, driven mainly by higher net interest income, which was supported by a declining funding cost environment.
- Trading income declined QoQ – during the quarter, in the we repositioned our securities portfolio and **we reduced our exposure to securities with relatively lower yields**.
- Net fees also remained resilient, registered 5% quarterly growth with the increasing contribution from money transfer and lending-related fees.
- As a result, our core banking revenues reached 300bn TL, which suggests the highest level among peers
- A big part of this success stems from our asset mix—now moving into slide 8.

Page 8:

- Our asset growth continued to be fueled by higher-yielding customer driven sources – namely loans.
- Performing loans share in assets further increased to 58% and lending growth was across the board.
- In securities, I would like to highlight that, although we have the lowest securities base among tier-1 peers, we had the *Favorable TL securities mix with low CPI and high fixed-rate share*. During the quarter we had additions to TL fixed rate securities and realized some gain from FC security portfolio.

Page 9:

- Moving into slide 9 for further insights on the loan portfolio.
- Our TL loan portfolio reached **TL 1.7 trillion**, while we continued to maintain a well-balanced mix between consumer and business banking loans.
- In the fourth quarter, we sustained our quarterly growth pace of **10% in TL loans**, bringing full-year growth to **45%**, which is above our operating plan guidance.
- Throughout 2025, we further strengthened our long-standing leadership in TL lending, with market share gains across all retail products and SME loans.
- As we grow, we remain highly disciplined and continue to keep a close focus on asset quality.
- With that, now let's look to the evolution of our asset quality.

Page 10:

- In the third quarter, consumer & credit card related flow to Stage-2 Restructured and SICR portfolio continued, yet the share of Stage-2 within gross loan remained flat at 10%.
- 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 16%.
- Now, let's walk through the evolution of our NPLs;

Page 11:

- Our NPL ratio rose modestly to 3.1%, 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..

Page 12:

- Net provisions increased in 4Q, reflecting the absence of the exceptional provision reversals recorded in previous quarters.
- On a cumulative basis, **cost of risk** closed the year better than the **guidance** with the impact of large-ticket provision reversals, which which are not expected to repeat this year, as I will explain in more detail on the guidance slide.

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

Page 13:

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 customer deposits exceeded TRY 3 trillion and now make up 69% of total assets and remain TL heavy.
- This quarter, in TL deposits, we gained a notable market share and our TL deposit market share increased to 21% among private peers.
- On FC side, deposits increased by 4% - half of that growth was due to gold price increase related parity impact. The rest can be explained by the flow from maturing KKM deposits
- Growing demand deposit base, which is one of the key pillar of our margin performance, continued to support deposit growth.
- Demand deposits make up 41% of total deposits.

Page 14:

- Our diversified and liquid funding mix is also backbone of our success.
- With two new transactions successfully completed in 2025, the total volume of subordinated bond issuances over the past two years reached 2.45 billion \$, making us the bank with the largest subordinated bond issuance in recent years.
- We achieved another major milestone by issuing Türkiye's first Biodiversity and Blue-Themed Bond. We also secured a syndicated loan from international markets in compliance with our Sustainable Debt Financing Framework, with diversified maturities.
- This year, we introduced a **3-year tranche for the first time**, and a **2-year tranche for the first time since 2017**.
- Putting all of this together, our total external debt currently stands at **9.8 billion \$**, of which **3.5 billion \$** is short term. Against this, we maintain a comfortable and strong foreign-currency liquidity buffer of **7.1 billion \$**.
- Our active funding management is also visible in Net Interest Income, on page 15.

Page 15:

- In the fourth quarter, our net interest margin recovered by 60bps with the support of declining deposit costs.
- As shown on the bottom-right side of the slide, TL core spread has started to recover as of 4Q, and we expect this recover to continue throughout 2026.
- Another component of margin, as you know, is swaps:
- You may notice the increase in swap costs as we utilized more swaps in 4Q 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 32.9%, based on actual October inflation data. Therefore, on a quarterly basis, we had positive contribution from CPI linkers' income.
- As a result, net interest income including swap costs doubled on an annual basis – which points to 1.2% annual margin expansion.
- Our net interest margin reached 5.4% - 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

Page 16:

- Our fee base remains robust, up 50% YoY.
- On an annual basis, Payment systems fees were the main driver of the growth.
- In the fourth quarter, contribution from lending related fees, namely Cash, non-cash loan and insurance fees, as well as money transfer fees gained momentum. I would like to highlight that, we are number one in Money transfer fees and in both life & non-life insurance fees – this leading stance is the result of our expanding customer base and increased digital engagement.
- Moving to our Operating Expenses,

Page 17:

- Our OPEX base grew in line with our operating plan and was up by 67% in 2025.
- 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
- These investments, in turn, support our revenue generation capabilities.

- As a result, a significant portion of our operating expense base is covered by fee income and we have the lowest cost/income ratio.

Page 18:

- As per our capital strength, In the forth quarter, our solvency ratios improved with support from strong profitability and Tier-2 issuance we had in October.
- Our consolidated CET-1 realized at 13.1%, while CAR reached 17.5% without BRSA forbearance.
- The FC sensitivity on our CAR remains limited , with a 13bps negative for every 10% depreciation.
- With **TL 179 billion** of excess capital, we maintain a solid buffer to support our long-term growth strategy.
- With that, let me now summarize our performance before our operating plan guidance.

Page 19:

- We sustained our unmatched leadership in earnings generation capability and once again demonstrated a strong track record of achieving results in line with our commitments
- Net interest margin performance and cost growth were broadly in line with our operating plan, while fee growth clearly stood out, driven by strong momentum in payment systems and lending-related fees. In fact, in TL loans, our growth outpaced inflation, supported by consumer lending, credit cards, and SME loans. Net cost of risk performed well better than expectations, benefiting from provision reversals recorded during the year.
- Now, let me walk you through our 2026 operating plan guidance

Page 20:

- I will begin with the macro assumptions on the left, as these form the foundation of our planning framework.
- Our baseline assumes a gradual easing cycle in the policy rate. **that the pace of monetary easing will become increasingly** data-dependent and points to a slower pace of rate cuts in the second half of the year
- Inflation will continue to decelerate, closing the year at around 25%. However, given the stickiness in services inflation, we believe the CBRT will maintain a sufficiently tight stance, implying an ex-post real policy rate of around 6–7 percentage points.
- Turning to balance sheet growth, we expect **TL loan growth to be in the range of 30-35%. Given existing loan growth caps, the composition of growth will continue to be tilted towards credit cards and non-capped business banking loans.**
- Foreign currency loans are expected to grow at mid-single digit levels

- Net cost of risk is expected to normalize, settling in the 2 to 2.5 percent range, reflecting the absence of large-ticket provision reversals and the natural impact of strong growth in consumer loans and credit cards.
- Regarding margins, we project net interest margin expansion of around 75 basis points, on top of its highest level. I would like to highlight that the extent of this improvement will largely depend on the pace of rate cuts and the evolution of macro-prudential measures.
- As mentioned earlier, our assumption of a 32% year-end policy rate represents the upper end of market expectations. We deliberately adopted a conservative approach during the budgeting process in order to prepare the balance sheet for funding costs remaining above the policy rate, particularly on the deposit side.
- On fees, we expect growth of 30–35%, as a result of these strategic investments, we expect OPEX growth to exceed average inflation. That said, on a bank-only basis, we expect approximately 80–85% of the OPEX base to be covered by fee income.
- Finally, bringing all these elements together, we are targeting mid-single digit positive real ROE. Since 2018, real ROE has remained negative; however, in 2026, we expect this to turn positive, supported by declining policy rates.
- At the same time, we should acknowledge that we remain in a rebalancing phase, with regulations continuing to shape the balance sheet. The recovery has already begun and is expected to gain momentum in the coming years.