SUMMARY OF THE BOARD OF DIRECTORS' ANNUAL REPORT

901 4.2 min 2 year

In 2019, while money supply in global markets and especially in developed economies increased, central banks returned to monetary policies that support growth. The ongoing trade wars between China and the US, the withdrawal of UK from the European Union, and uncertainties fueled by geopolitical factors negatively affected investor confidence, investments and global trade. Central banks of developed countries displayed expansionary stances in their monetary policies because of the increased downside risks on global economic growth. This has led the central banks of developing countries to change their monetary policy stances so as to support the economy. In the Turkish economy, considerable decline was observed in interest rates, driven by the improvement in inflation and the supportive effect of global developments. The policy rate was down from 24% at the onset of the year to 12% at year-end as a result of the rate cuts that began from July. Upon the decrease in interest rates, the Turkish economy exhibited a "V" shaped recovery. Three consecutive quarters of contraction was replaced by growth in the third quarter of the year. In 2019, when economic rebalancing continued, the Turkish banking sector once again overcame the hardships and preserved its robust indicators drawing on its solid foundations.

Garanti BBVA successfully ended 2019 with respect to its financial targets and non-financial performance indicators. The Bank was able to keep its pre-provision profit flat thanks to its innovative business model focused on sustainable growth and effective risk management. In 2019, the Bank set aside additional free provisions in the amount of TL 250 million and booked TL 6.2 billion in net profit. Despite increased capital and low leverage, average return on equity was realized as 12.4% annually, in line with the estimations.

Low growth in the first three quarters of the year was replaced by a significant increase in the last quarter with the support of the declining in interest rates. While TL loans remained flat in the first 9 months of the year, they expanded 6% in the last quarter and ended the year with 7% growth for the whole year. TL credit expansion was across the board; annual growth was 8% in consumer loans, 6% in TL business banking loans, and 8% in credit cards.

Shrinkage in foreign currency loans continued due to redemptions and declined demand for loans in view of the substantially completed large-scale government projects (highways, airports, etc.). As at the end of the year, FC loans narrowed by 6%.

In 2019, Garanti BBVA preserved its liquid balance sheet composition with the help of its prosperous dual currency balance sheet management. Dynamically managed funding base of the Bank continued to be largely composed of deposits. The Bank kept focusing on sticky and low-cost mass deposits during the reporting period. As at year-end 2019, SME and consumer deposits, which can be considered as sticky and low-cost, had 80% share in TL customer deposits and 75% in FC customer deposits. 14% growth rate in customer deposits base was above the loan growth, which helped the Bank to improve its loan to deposit ratio by 6 points.

In 2019 during which economic rebalancing process was ongoing, Garanti BBVA successfully preserved its ability to generate sustainable income on the back of dynamic assets and liabilities management. The Bank maintained the highest Net Interest Margin (NIM) among peers, despite the decreased income on CPI-linkers which took a downturn in connection with declined inflation. Garanti BBVA successfully expanded its spreads owing to disciplined loan pricings and the high share of demand deposits in total deposits. Thus, the Bank was able to enlarge its core NIM by 78 bps year-over-year.

The Bank displays a proactive and consistent approach to risk assessment, which ensures preservation of its solid asset quality. The economic volatility in the first half of 2019 and the contracted GDP resulted in increased Non-Performing Loan (NPL) ratios. Yet, the NPL ratio ended the year at 6.8% in line with the projections at the start of the year.

Garanti BBVA's operating expenses went up by 18% in 2019. On the other hand, net fees and commissions climbed up by 23%, highly exceeding the expectations. Enjoying the highest fee base among its competition, Garanti BBVA carried on with its sustainable income generation on the back of its diversified fee base. In the reporting period, the Bank's cost/income ratio was registered as 39%, which is well below the Bloomberg Emerging Europe Regional Banks 3Q19 average of 49%.

Recognizing that the impact it creates is not restricted to banking, Garanti BBVA works with a focus on responsible and sustainable development to continuously create value for its stakeholders. Total financing extended to areas supporting sustainable development to date topped TL 35 billion. Since 2015, the Bank has been providing financing exclusively to renewable energy projects, mostly to wind power plants within the scope of project finance. Within this framework, Garanti BBVA will keep consolidating its pioneering position in the sector by continued provision of Renewable Energy Finance, Green Bonds, Social Bonds, Green Loans and credit products designed to ensure equality of women and men in business life.

This solid performance achieved in 2019 and the robust capital adequacy of 17.8% will produce better results in a stable environment. Its solid capitalization, asset quality and profitability carry Garanti BBVA to leading position in the sector.

2019 KEY PERFORMANCE INDICATORS

355 1.2 min 2 financial

Focused on creating sustainable value for all its stakeholders, Garanti BVVA places its customers at the core of its operations with the aim of providing unrivaled customer experience. Garanti BBVA's customer-focused innovative business model enables Garanti BBVA to generate sustainable income and command a leading position in Turkish banking sector.

Blending technology and humanistic elements, Garanti BBVA aims to make life easier for its customers, pursue their financial health, help them make the right financial decisions, support them grow their businesses sustainably, and bring its financial services to everyone.

Garanti BBVA employees are one of its most important assets and one of the main pillars of its strategy. Garanti BBVA aims to provide a fair working environment that encourages full utilization of employees' skills, offering a wide range of opportunities and ensuring recognition and awarding of their accomplishments.

Moreover, Garanti BBVA creates shared value and drives positive change through lending based on impact investment, as well as strategic partnerships and community programs focusing on material issues for both Garanti BBVA and its stakeholders.

With its solid capital structure and focus on efficiency, Garanti BBVA preserves its sound financial structure through effective balance sheet management and sustains its contribution to the economy.

CUSTOMER EXPERIENCE

NET PROMOTER SCORE
2ND HIGHEST
Among peer group

GROW CUSTOMER BASE EFFECTIVELY
>17 million
Customers chose Garanti BBVA

DISABLED FRIENDLY ATMS
5,214
99% of all ATMs

HUMAN CAPITAL

EMPLOYEE ENGAGEMENT SCORE
70

AVERAGE HOURS OF TRAINING PER EMPLOYEE
43 HOURS

HIGH PERFORMER TURNOVER
1.67%

WOMEN EMPLOYEES IN DECISION MAKING POSITIONS
40%

DIGITAL TRANSFORMATION

SHARE OF ACTIVE CUSTOMERS USING DIGITAL BANKING
73%

DIGITAL SALES
Increased share of digital sales to total sales: from 44% to **46%**

NON-CASH FINANCIAL TRANSACTIONS THROUGH DIGITAL CHANNELS
96.4%

RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

AMOUNT OF IMPACT INVESTMENTS
TL 38.4 BILLION
(to date)

SUSTAINABILITY INDICES IN WHICH GARANTI BBVA IS INCLUDED
9

INVESTMENT IN COMMUNITY PROGRAMS
TL 22.3 MILLION

% OF LOANS WITH ESG PROVISIONS IN LOAN AGREEMENTS
100%

FINANCIAL PERFORMANCE

RETURN ON AVERAGE ASSETS
1.5%

RETURN ON AVERAGE EQUITY
12.4%

NON-PERFORMING LOANS RATIO
6.8%

CAPITAL ADEQUACY RATIO
17.8%

COMMON EQUITY TIER 1 RATIO
15.4%

COST / INCOME
39%