

# LETTER FROM THE CEO

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Dear Stakeholders,

We ended 2019 with a more positive picture than initially expected in terms of our economy, our sector and our bank. It was a successful year in terms of both meeting our financial targets and our non-financial performance indicators.

Following a difficult 2018, 2019 was a year of two different macro settings. In the first half of the year, including the election period, investment appetite was low and uncertainty was high with the added effect of global factors. Whereas in the second half, the CBRT cut interest rates by 12 points, bringing it down to 12% at the end of the year with the support of the rapid improvement in inflation and the expansionary policies of the developed countries' central banks. Declined interest rates triggered revival in loan demand. Serving as the engine of our economy's progress, the Turkish banking sector, continued its contribution to the sustainable growth of our country during its rebalancing cycle. The sector proved its resilience once again in terms of liquidity, asset quality and capital.

At Garanti BBVA, we ended the year with 7% growth in TL loans following the recovery in loan demand. Thanks to our broad customer base, we increased our deposits and recorded an across the board, healthy growth in lending with real sector focus. One of the highlights of the year has been our significantly strengthened TL demand deposit base. Thus, our performing loan to deposit ratio improved by another 6 points on top of the 14 points in 2018. This result is highly valuable for us as it mirrors the healthy relationships we establish with our customers.

The share of non-deposit funding source decreased this year. We still have high FC liquidity levels despite bulky redemptions we had during the year. Our need for international funding has been decreasing as compared to the previous years due to ongoing shrinkage in FC loans since 2013. Nonetheless, the external borrowing program presents an inevitable significance for managing the maturity mismatch in our balance sheet and diversifying our funding structure. Being opportunistic and a key player in these markets, we will maintain our relationships and appetite, and continue to be active with new issuances and borrowings.

The lagging effect of the decelerated economic activity in the previous period became pronounced this year. The rise in new NPL inflow was within our projections, and was coming from retail loans in the first half of the year and from large-ticket corporate loans in the second half. Our NPL ratio was registered as 6.8%, parallel to our anticipations we had announced in the beginning of the year. With respect to asset quality, following the challenging years of 2018 and 2019, we are not anticipating new NPL inflows apart from the expected and accounted ones. We are also starting to feel the positive effects of the revival in economic activity on asset quality in an increasing manner.

On the back of our capital generative growth strategy, we maintained our capital adequacy at the highest level in this period. Our consolidated capital adequacy ratio went up from 16.5% in 2018 to 17.8% in 2019, well above the required level of 12%. With the confidence of our solid capitalization, we will continue to support the real economy by meeting the growing demand in the coming period.

On the non-financial side, we continued to achieve progress in our areas of focus, i.e. improving customer experience and digitalization. Last year, we completed our service model transformation. The dynamics of our branches has changed entirely. In this respect, we continuously work to enhance efficiency and service quality. Taking care of our customers' financial health, being their reliable partner, and offering advisory are among our priorities.

In the area of responsible banking, we identify the best practices emerging globally, further upgrading them and implementing financing solutions that serve sustainable development goals in our country. In this context, we issued a 5-year green bond during the year. We will use the fund generated by this issuance, that was the first of its kind in Turkey, to support renewable energy and energy efficiency projects that produce solutions for climate change. As the pioneer bank in financing renewable energy projects and the largest lender for wind projects in Turkey, our efforts in this field will continue. In addition to these issuances supporting sustainability areas, on the lending side, we have also brought a structure that incentivizes our customers in this area throughout loan term. We aim to reinforce our pioneering position in the sector by continuing to provide the Green Bond, Social Bond, Green Loan and loan products seeking to ensure equality of men and women in business life.

### FOR 2020 AND THEREAFTER...

In 2019, economic indicators improved much more rapidly than we expected. While expansionary monetary policies of developed central banks played a part in this improvement, I believe that it was mostly a result of our country's dynamism and resilience.

Annual inflation declined from around 20% in the beginning of the year to 11.8% at year-end 2019 thanks to the strong positive base effect and the stabilization in the exchange rate. We are anticipating further improvement in inflation, realizing

at high single-digit level by the end of 2020. Monitoring the inflation trends and projections, the CBRT will likely carry on with moderate rate cuts.

In a low interest rate environment, we are projecting a more visible revival in the economic activity and anticipating growth to reach 4% in 2020. In parallel, we are expecting the recovery in loan demand observed in the last quarter of 2019 to be more evident in the period ahead.

In this period, we will be standing by our customers as always. We will continue to fulfill our customers' demands and to contribute to the economy. We are targeting a growth above the sector's average that will reinforce our strong position on the TL side. Our priority in the corporate segment will be to generate long-term healthy financing through investment loans. Another area of interest for us is to further specialize in SMEs, where we are already good.

As we maintain our growth focus, we will also keep effectively managing our financial and non-financial risks. Asset quality will be among our priorities. We will be working to efficiently manage and reduce the existing NPL portfolio.

Our investments in our customers and our business model will go on at full speed in 2020. We have provided all necessary support and assistance to protect the financial health of our customers and we will continue to do so. I can comfortably say that we have highly benefitted from the strategy of supporting the right customer with the right product, and that this

strategy will continue as is going forward. The sizeable investments initiated to reinforce our technological infrastructure in 2019 will go on in 2020 as well. We will continue to integrate data analytics into our decision-making processes with a human-oriented and convenient technology focused banking approach.

Integrity, accountability and transparency principles are essential components of Garanti BBVA's culture and sustainable existence. With the awareness that our impact and the value we create are not restricted to banking; we will continue to work with our sustainable development focus in order to continuously create value for our stakeholders.

Sincerely,



**RECEP BAŞTUĞ**  
PRESIDENT & CEO