

Letter from the CEO

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Dear Stakeholders,

2020 has been an unprecedented year, one that embodied several different periods with various dynamics and challenges. As Garanti BBVA, we have ended the year successfully in regards to both our financial and strategic performance targets.

With respect to the national economy and the banking sector, we started the year with very strong growth and positive expectations. However, the COVID-19 outbreak that originated in China in December, quickly spread across the world and took our country in its grip by mid-March. With this, we have embarked upon a period of social and economic uncertainty, which was totally different from what we had anticipated at the start of the year.

In an effort to mitigate the impact of the pandemic on the economic actors, public authorities pursued monetary easing policies and fiscal incentives that can rarely be seen in history. Announcement of support packages for the real sector and implementation of accommodating monetary policies constituted the initial responses to prevent the spreading of the economic shock. The banking system, on the other hand, dispersed the new CGF loan packages that were made available and further low-cost liquidity into the system playing a key role in the process with support that corresponded to 10% of the GDP. As a result, the sector registered a TL loan growth of above 40% during the reporting period.

In this period, as Garanti BBVA, our primary focus was the health of our employees and customers. With the help of our technological strength, we were the first bank to adapt to

remote working model, manage our operations without any difficulties, and provide uninterrupted, quality service to our customers. Hence, we ended the year with a TL loan growth of above 33%. TL commercial lending growth, in particular, reached 40% proving once again our Bank's ability to book healthy growth together with the real sector under extraordinary circumstances.

In addition, we have accommodated our financially-distressed customers' loan deferral and restructuring demands without a question. We have ended up postponing the installments of a total outstanding of more than TL 40 billion to support over 1.1 million customer accounts during the course of the year.

The policies introduced and incentives provided, coupled with the support of the banking sector, made it possible for the real sector and individuals to overcome this period with the least damage. With the support of the healthcare sector, Turkey attained 6.7% growth in the third quarter, and has become one of the countries that best managed the pandemic and one of the quickest to step into the normalization process. Lead indicators point that Turkey will end 2020 with a growth rate of above 1% and will thus be one of the few countries registering positive growth.

Loose monetary policy, rapid increase in domestic demand and currency depreciation in the 3rd quarter put pressure on inflation. As a result of these developments, the CBRT began tightening its monetary stance as of the end of July. The new economic administration team that took over office in early November switched to "single rate" policy and reaffirmed a strong commitment to tight policy for an extended period of time in the fight against inflation. Thus, the policy rate that stood at 8.25% in the 2nd quarter gradually went up to 17% at the end of the year. Market-friendly steps such as the annulment of asset ratio and withdrawal of the previous regulatory framework such as the CBRT's 'good bank' criteria that led to an increase in lending activity, coupled with the positive developments in monetary policy implementations, brought along higher external fund inflow, and secured growing confidence in our country.

Thanks to our prudent policies, at the time of record credit expansion, we successfully preserved our robust capitalization at 17%, much higher than the required ratio of 12%. Moreover, despite the rough circumstances, we were not faced with any serious risks on the part of non-performing loans. As Garanti BBVA, we have bolstered our provisions to take countermeasures proactively to the extent possible, based on a cautious approach. We have one of the highest coverage ratios in the sector. In addition to that, we have paid utmost attention to currency risk management. Our balance sheet hedge mechanisms helped to minimize risk. We are not anticipating any difference in the picture in the future. Our prudent approach will remain and we will continue to grow while keeping an eye on asset quality and cost of risk, and to create value for all our stakeholders on the back of our healthy capital structure.

Funding management has gained more importance amid the high-interest environment. While the TL deposits expanded parallel to the TL loan growth in the first half of the year, we have witnessed a powerful dollarization trend in the second half. The share of FC deposits in total deposits went up to as high as 55%. The source of funding to our loan expansion continued to be strong TL deposit growth. Our demand deposit base, in particular, got very strong in this period, and its share in total deposits went up by 12 percentage points to 44%. This attests to the trust our customers hold in us.

On the part of external funding, we have linked our renewed syndication loan to sustainability criteria, a first in the world. Thus, we have taken our environmental commitments one step further despite the uncertainties stemming from the pandemic. On the part of customers, on the other hand, we have introduced a number of novelties in lending structures. We are encouraging our customers to switch to more sustainable and greener formats in the ways they do business, and we are actively using numerous financing mechanisms such as the Green Loan, Gender Loan, and Sustainability-Linked Loan structures. Our contribution to sustainable development has exceeded TL 51 billion as of end of 2020. We will continue to lead the transformation of the business world in order to facilitate

Turkey's transition to a low-carbon economy and achievement of the targets within the scope of Sustainable Development Goals.

For many sectors, "digitalization" has been the greatest gain bestowed by the pandemic. We have seen once more how vital the long years of investments in digitalization have been. We are leaving behind a year that we saw rapid growth in digital banking awareness, in the number of digital customers and transactions. Today, we have 9.6 million customers using our digital channels. Being the bank with the highest amount of investments in digitalization for the past 25 years, we could sustain providing service to our customers through all our channels also during this period. Building on the opportunities regulatory changes may present, we will continue to pioneer the sector in digital transformation with the support of right strategies and right tools.

FOR 2021 AND THEREAFTER...

We are going through a period of increased costs and declined loan demand. In the period ahead, in line with our inflation projection, we are anticipating that the CBRT will maintain its current policy rate for most of 2021. Hence, assuming a balanced outlook in exchange rate after April, we are expecting the annual inflation to decline due to positive base effect and recovered projections, and finish 2021 close to 11%. We project 5% growth in 2021, in the absence of no further negative shocks, with the help of positive base, declined risk premium and expected capital inflows.

Amid this economic recovery environment, our Bank will pursue its growth policy in line with its targets of sustainable growth of the national economy and its expansion upon a healthy and solid base. We are maintaining our goal to outperform the average loan expansion of private banks. While we are targeting growth across the board, we are expecting higher demand from business banking. Specifically, we will keep offering financing in line with the needs and demands of the SMEs, and continue to stand by the side of our artisans that make up the backbone of our economy.

In the period ahead, we will be managing the process and collections in relation to both the deferred and non-performing loans in a manner preserving our customers' financial health and our sector's asset quality. We will continue to analyze and closely monitor the portfolio to be able to continue provide the right support to our customers at the right time and focus on maintaining its quality.

Furthermore, our strategic projects and activities will continue at the same speed. We will keep working to fulfill customer needs and demands in the best possible way with the goal of being their trusted financial partner. Carrying on with our investments in our business model and digital infrastructure, we will continue to broaden the service and product range offered on our digital and mobile channels.

As Garanti BBVA, we think that it is critical to act for the future of the environment and the planet we live on, and to integrate them in our business plans. We are striving to reflect this consciousness in our actions. Based on our identity as the pioneering bank in sustainability, we will continue to raise increased awareness of this issue, and to positively influence all our customers, employees and stakeholders also in 2021.

I trust us as an organization that creates differentiation with our sustainable financial success, our leadership in technology and innovation, our highly-skilled employees, and our agile and transparent corporate culture. I can claim that we have ended a very tough year successfully owing to the hard work and hands on monitoring of all my colleagues. I would like to thank my colleagues, and also all our stakeholders for their support and trust in us.



RECEP BAŞTUĞ
PRESIDENT, CEO