

Letter from the CEO



DEAR STAKEHOLDERS,

2022 has been a challenging year as we continued to face new global shocks.

The demand that way outweighed the supply throughout the pandemic, the ongoing supply chain issues and commodity prices that soared in conjunction with the Russia-Ukraine War resulted in worldwide high inflation levels that were unseen in many years. As a result, we experienced a period in which economic policies changed rapidly and financial volatility increased all over

the world. Central banks across the world tightened their monetary policies and hiked rates as part of their efforts to combat the record-high inflation levels. This outlook deeply affected the global economy; especially in developed economies, the risks of recession and slowdown became more evident. Although inflation outlook presented a better portrait toward the end of the year, **2023 will seemingly be overshadowed by global recession concerns.**

Looking at Türkiye, global dynamics coupled with domestic developments introduced challenging conditions especially for price stability. As inflation shot up to record-high levels, policy rate was decreased to single digit numbers with the priority of continuation of the strong growth. Intensive macroprudential measures were implemented as risks became marked around the widening current deficit as well as high inflation.

The fundamental dynamics of the banking sector were determined by the measures taken within this framework. Although the sector recorded a record

high TL loan growth in an high inflation environment, the slowdown on the corporate side became more evident, especially in the second half of the year, in line with the regulations that limited and directed loan growth. **With the liraization strategy, bank balance sheets became more Turkish lira dominated.** With the measures taken, the share of Turkish Lira deposits increased significantly while the maturities were extended. While regulatory requirements mandated banks to allocate securities, securities share in the balance sheets increased. In terms of asset quality, there were no major non-performing loan inflows and NPL ratios continued to decline. On the profitability side, although significant increases were registered nominally with the support of CPI linker revenues, below-inflation return on equity **intensified the sector's focus on sustainable profit and capital. Despite all the challenging conditions, the banking sector had a positive year 2022 in terms of balance sheet and proved its resilience once again by successfully managing risks with its strong financial structure.**

AT GARANTI BBVA, WE CONTINUED THE CUSTOMER-DRIVEN GROWTH OF OUR BALANCE SHEET IN LINE WITH OUR FOCUS ON CORE BANKING.

At Garanti BBVA, we ended yet another successful year in 2022 with our solid and healthy balance sheet management. Our total assets increased by an annual 53% to reach TL 1,304 billion in 2022. Our TL loan portfolio grew by 79% to TL 472 billion, keeping us in leadership position with additional market share gain.

As we set our course within the borders defined by the economy administration, our key focus was to protect our balance sheet and our customers. We continued to grow our balance sheet with our customer base; in line with this, the major component of our revenue composition has been core banking revenues.

With having **the largest general purpose loan portfolio** and **the largest consumer credit card portfolio** in Türkiye, we sustained our leadership in retail banking. Although the growth in corporate side was flattish in the second half of the year, similar to the trend in the sector; we stood by our customers and maintained our position as the private bank with the largest TL corporate loan portfolio.

With the effect of the regulations, TL deposits were our main focus area that we meticulously managed. In parallel with our lending performance, we sustained our leadership in TL deposits among private banks. As a result of the long-term and trust-based relationship we have established with our customers, we have also demonstrated a distinctive performance in TL demand deposits. **We achieved the sector's by-far highest core NIM in 2022 owing to our customer-driven growth approach.**

Our prudent risk approach and strong capital structure enabled us to register a sustainable growth performance.

We achieved healthy growth without compromising our asset quality. We strengthened our balance sheet with both our high coverages and the free provisions we have set aside. In 2023, healthy balance sheet management, robust capital structure and sustainable profitability will remain to be our key priorities.

THE NUMBER OF OUR CUSTOMERS EXCEEDED 23 MILLION

In 2022, while it became difficult to make a difference in the sector due to the limitations imposed by the regulations, competition intensified in certain areas. Customer growth has become one of the key focus areas in the sector. Competition here reached a level that

we have never experienced before. **As Garanti BBVA, we reached a record level in new customer acquisition in this competitive environment and increased the number of customers to over 23 million.**

In 2023, customer growth will continue to be our top priority.

In addition to acquiring new customers, **penetrating existing customers and creating value for customers** has gained more importance during this period. **In 2023, we will keep exercising the same degree of care and attention in our activities to be our customers' main bank, to enhance their satisfaction with our Bank and to be the most recommended bank.** To this end, we will integrate data-driven analytical models and artificial intelligence support into more areas and we will continue to create value through **personalized recommendations** we offer to our customers.

In this context, one of our most important topics in the upcoming period will be **Financial Health**. We aim to take our consultancy service to a higher level while continuing to offer smart suggestions to protect the financial health of our customers.

WE ARE MAKING A DIFFERENCE IN CUSTOMER EXPERIENCE WITH OUR SERVICE MODEL

One of the most important components of our strategy and value creation is our customer-centered service model..

Thanks to our long-lasting investments in digital banking and our technological infrastructure, we maintain our leading position in this area. **As we rapidly grew our large customer base, we kept delivering uninterrupted digital experience on the back of our strong infrastructure.** In the last 3 years, the number of our mobile active customers has increased by more than 5 million and reached 13 million. 80% of our customers actively use mobile banking. The share of digital channels, including ATMs, in the number of fundamental transactions increased to approximately 98%. More than 85% of our product sales, in terms of units, go through our digital channels.

All these figures make a tremendous contribution to both maximizing the customer experience and our efficient business model. In our service model, our branches and digital channels complement each other. While our branch network plays a critical role in customer contact, it still serves as our most important channel in customer acquisition. **Thanks to the contribution we receive from digitalization, we increase the efficiency of our branches and create more space for more value-added businesses.**

WE TAKE GOOD CARE OF THE WORLD, WE TAKE GOOD CARE OF THE FUTURE

At Garanti BBVA, we recognize our responsibilities towards the environment and the world. Accordingly, sustainability is unquestionably one of the most part of our value creation process.

We know that the finance sector is undoubtedly the greatest actor in the transformation in the combat against the climate crisis. In this context, we have a major responsibility in supporting and accelerating our customers' transformation.

We started the transformation with ourselves. We made our Bank's business model compatible with sustainability. We reviewed our energy consumption, waste management, and most importantly, our lending processes.

We broke new ground in Türkiye and **declared that we would not be financing coal and coal-related activities.**

We will **minimize** our coal exposure in our existing portfolio **by 2030 and we will zero it by 2040 the latest, and totally exit this industry.**

Through our affiliation with the United Nations Net Zero Banking Alliance (NZBA), we committed to align our portfolio with the net zero target by 2050 or sooner. We became the first bank in our country to make this commitment.

We have been the only company from Türkiye to be **included in the Dow Jones Sustainability Index for the 8th consecutive year**, which we have been included since 2015.

As Garanti BBVA, we are pioneers in the sector also with the financing we provide to **renewable energy** investments. We have financed one out of every four wind energy power plants; we are the market leader in this area with 25.3% share. In the period ahead, we will continue to work to make green transformation broad-based. We have not only provided financing, but also made innovations to raise awareness about green transformation. Besides showing our customers their carbon footprint on the mobile app, we started the "Sustainable Future in Exports" awareness and consultancy program. Following the Blue Breath Project we launched in 2021 jointly with TURMEPA, the Turkish Marine Environment Protection Association, we initiated the "Türkiye's Life: Fire Management Grant Program" in collaboration with the World Wide Fund for Nature (WWF) Türkiye in 2022, aiming to help flourish local civil society and cooperatives.

On another front, inclusion will remain on our agenda as a topic we attach importance to in the context of sustainability. **As one of Türkiye's leading institutions in this field, we have been supporting Women Entrepreneurs for 16 years.**

THE MOST VALUABLE ASSET OF OUR VALUE CREATION, OUR EMPLOYEES...

As we step into a year packed with uncertainties, we are going through a period in which a correct and prudent approach to management is becoming more and more important. One of our defining factors in this regard, and in fact, the main enabler of our achievement, is **our team** that devotes every effort to deliver the best customer experience and to **create value for all our stakeholders.** As Garanti BBVA, we always act with an approach centered around the happiness of our employees. In addition to the global transformation, we develop our business models by following the expectations of our employees and the dynamics of the sector.

OUR RESPONSIBILITY TRANSCENDS BANKING...

As Garanti BBVA, we always consider our responsibility to be beyond banking. In this sense, in addition to the impact we create in the economy, we care about the value we add to the environment, social life and each individual, and we act with this awareness.

Note: As we continue our preparations for this report, we are in deep sorrow as whole country due to the earthquakes that affected our 11 provinces. As Garanti BBVA, we acted quickly with the awareness of our responsibility in this matter. While trying to provide all kinds of support for our citizens and employees living in the region, we also took action rapidly to maintain the uninterrupted service. To heal together the wounds of the disaster, which we wish never to happen again; with the awareness that we have a long process ahead of us, we will continue to work and support with all our strength.

2023 has a different importance and value for all of us as it marks the centennial of our Republic. At Garanti BBVA, we will continue to work and create value in line with our sustainable development and growth targets as we have always done.

I would like to thank all my colleagues for their commitment and hard work, and all our stakeholders, particularly our customers, for their support and trust in us through this process.

Sincerely,

RECEP BAŞTUĞ
CEO