

## Corporate Governance Rating

This Revised Report has been prepared by JCR-ER in compliance to the regulations of Capital Markets Board of Turkey

**Publication Date:** 11/12/2020

**Sector:** Banking

## T. GARANTİ BANKASI A.Ş.

### Ratings

Overall Score	<b>9.77</b>	AAA(Trk)/aaa (Stable)
Shareholders	<b>9.67</b>	AAA(Trk)/aaa (Stable)
Public Disclosure & Transparency	<b>9.76</b>	AAA(Trk)/aaa (Stable)
Stakeholders	<b>9.86</b>	AAA(Trk)/aaa (Stable)
Board of Directors	<b>9.81</b>	AAA(Trk)/aaa (Stable)

### Company Profile

<b>Trade Name</b>	T. GARANTİ BANKASI A.Ş.
<b>Address</b>	Nispetiye Mah. Aytar Cad. No:2 Beşiktaş/ İSTANBUL
<b>Chairman</b>	Mr. Süleyman SÖZEN
<b>CEO</b>	Mr. Recep BAŞTUĞ
<b>Investor Contact</b>	Phone: +90.212.318.23.52 investorrelations@garantibbva.com.tr
<b>Web</b>	<a href="http://www.garantibbvainvestorrelations.com">www.garantibbvainvestorrelations.com</a>
<b>Investor Relations (SVP)</b>	Ms. Handan SAYGIN

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## TÜRKİYE GARANTİ BANKASI A.Ş.

### Company Overview

Financial Data	3Q2020**	2019*	2018*	2017*	2016*	2015*
Total Assets (USD mn)	68,549	72,253	75,898	93,258	87,765	94,511
Total Assets (TRY mn)	525,909	429,196	399,975	352,122	308,319	274,838
Total Deposit (TRY mn)	345,664	277,139	244,892	200,679	178,644	156,114
Total Net Loans (TRY mn)	345,972	266,293	251,144	233,194	205,989	175,682
Equity (TRY mn)	60,725	54,086	46,895	41,925	36,438	32,006
Net Profit (TRY mn)	5,240	6,263	6,748	6,094	5,052	3,807
Asset Market Share (%) ***	8.00	10.02	10.56	11.13	11.57	11.94
ROAA (%)	n.a	1.98	2.34	2.35	2.17	1.86
ROAE (%)	n.a	16.25	19.83	19.81	18.52	16.06
Equity/Assets (%)	11.55	12.6	11.72	11.91	11.82	11.65
CAR-Capital Adequacy Ratio (%) *	16.88	17.81	16.52	16.79	14.67	13.53
Asset Growth Rate (Annual) (%)	22.53	7.31	13.59	14.21	12.18	15.52

\* Based on end-of-year IFRS consolidated financial statement

\*\* 3Q2020 based on consolidated BRSA financials

\*\*\* On solo basis and/or among the deposit banks

### Bank Overview

Türkiye Garanti Bankası A.Ş. (Garanti BBVA or Bank), {credit ratings by JCR Eurasia Rating on August 26, 2020: [FC: BBB-/BBB Negative, LC: AAA(Trk)/(A-1+) (Trk) Stable]} was established in 1946. A large-scale deposit bank, Garanti BBVA carries out activities in every segment of the banking sector, including corporate, commercial, SME, payment systems, retail, private and investment banking services. In addition to its major fields of activity, through its numerous subsidiaries the Bank provides related non-banking financial services in the field of factoring, leasing, pensions, insurance, brokerage and asset management. Alongside its nationwide coverage network of 894 branches, the Bank has 7 foreign branches in Cyprus and one in Malta as well as 2 international representative offices located in Düsseldorf and Shanghai as of 3Q2020.

Banco Bilbao Vizcaya Argentaria S.A (BBVA), one of the leading banking groups in Europe is the sole major shareholder of the Bank with 49.85% of shares. The remaining 50.15% of shares are held by a variety of investors that includes domestic and foreign retail along with foreign institutional investors across the globe. Bank shares have been traded on the Borsa Istanbul (BIST) since 1990 and the actual free float rate is 50.07% as of September 30, 2020.

The Board of the Bank consists of 11 members, only the CEO pursues an executive position. 4 board members are in the independent status. Audit, Corporate Governance, Risk and Remuneration Committees were established within the scope of the Board of Directors.

### Strengths

- Publishing the integrated report including a thorough account of its annual activities, detailed financial and non-financial performance including value drivers and indicators, and its approach to corporate governance and risk management
- High level of effectiveness in internal audit activities and closely monitoring new approaches in the field of internal auditing
- High quality service provision for customers
- Having the "Garanti IR" (Investors Relations) tablet application for Android and iOS platform
- Having a comprehensive and effective risk management system, compliant with the legislation, Bank strategies and policies
- Inclusion in the Dow Jones Sustainability Index as the only company based in Turkey that is included in the index for six consecutive years.
- Utilization of the Bank IR website as an effective transparency platform in Turkish and English
- Effective and Visionary Board of Directors comprised of highly qualified, educated and experienced members

### Constraints

- Absence of any clauses in the articles of association of the Bank to broaden the exercise of minority rights beyond the current legislation for shareholders holding less than 5% of the share capital.
- Lack of disclosure of the per-person remuneration of the top managers and the board members

## 1. Rating Methodology and Executive Summary

This revised report has been prepared in light of JCR Eurasia Rating’s original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Markets Board (CMB) and states Garanti BBVA’s level of compliance with Corporate Governance Principles as of December 2020.

The Capital Markets Board’s Corporate Governance Principles were first made public in 2003. Important revisions and changes were made at the beginning of 2012, in January 3, 2014 and October 2, 2020 as detailed in the Communiqué II-17.1 (accessible on [www.spk.gov.tr](http://www.spk.gov.tr))

The CMB pursued a significant change regarding the methodology of calculation of compliance rating scores in the beginning of 2014. Based on the recent CMB legislation, the new scoring methodology consists of two stages in which companies are allocated a base and a full score. In the new system, companies are first assigned a base score with a maximum of 85 points determining their compliance with the rules and practices outlined in the Code. In the second stage, an additional 15 points may be awarded depending on the efficient implementation and value creation achieved through practices exceeding those specified in the principles. Practices not stated in the Code but determined by JCR Eurasia Rating as best governance practices are also taken into account in the assignment of additional points. With these changes, CMB put special emphasis on functional compliance along with structural compliance to the Code and scores are put under pressure mathematically as a result of the new calculation in two stages.

The Code consists of four main sections; Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. These main sections’ coefficients, which were determined by the CMB, have been recently changed with the latest weight composition as outlined below;

- Shareholders: 25%
- Public Disclosure and Transparency: 25%
- Stakeholders: 15%

- Board of Directors: 35%

These coefficients were 25%, 35%, 15% and 25%, respectively, prior to 2014.

Subject to the preservation of the integrity of CMB regulations and regulations related to Borsa Istanbul Corporate Governance Index and compliance with the limitations thereof, this report also covers such topics as implementations regarding “**Outlook**” determinations and “**Financial Efficiency**” analyses, all of which exist in JCR Eurasia Rating’s original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Bank to the public through various channels and also submitted to JCR Eurasia Rating in written and verbal communication, as well as reports and statistics Publicly disclosed in Public Disclosure Platform (PDP).

Distinct levels of the 4 main categories regarding compliance with the CMB Corporate Governance Principles are exhibited in the following tables. The overall score has been calculated based on weightings determined for these 4 categories in line with CMB regulations.

The general compliance level of Garanti BBVA with the Code as of December 2014, and the corresponding levels within the JCR Eurasia’s notation were as follows;

December 11, 2014				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	90.70	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Public Disclosure and Transparency	92.50	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Stakeholders	90.48	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Board of Directors	91.54	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
<b>Overall</b>	<b>91.41</b>	<b>AAA(Trk) (Distinctive)</b>	<b>(aa) (Superior)</b>	<b>Stable</b>

Through the analysis of JCR ER’s original methodology, the general compliance level of the Bank with corporate

governance principles as of December 2019, can be seen in the table below.

December 11, 2019				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	96.70	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Public Disclosure and Transparency	96.70	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Stakeholders	98.58	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Board of Directors	97.55	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Positive
<b>Overall</b>	<b>97.28</b>	<b>AAA(Trk) (Distinctive)</b>	<b>(aaa) (Exceptional)</b>	<b>Positive</b>

Finally, at the end of previous monitoring period, a comprehensive review was performed in December 2020. The Bank's overall compliance note has been increased to 9.77 from 9.73.

- “Agile Methodology” is aimed that the workforce will be used more productively along with the generation of high value-added results, increase of autonomy within audit teams and improvement of communication with the audited parties and extended to all audits performed during 2020 which began to be used in audits that are conducted within the Audit Board as of FY2019
- The Bank's Investor Relations website serves as a more effective platform with enhanced user experience, easy navigation and informative landing pages and inclusion of new ESG datasheet

are the factors behind this increase in compliance. The Bank's compliance level and their corresponding notes are outlined below:

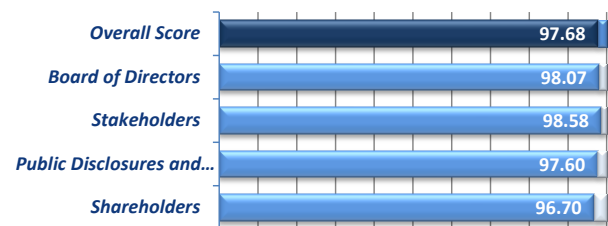
- Numerical value of **9.77**
- Convergence Level **AAA(Trk)** representing the category of “**Distinctive Compliance**”
- Notch degree **(aaa)** representing the category of “**Exceptional**”
- Outlook (**Stable**)

December 11, 2020				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook

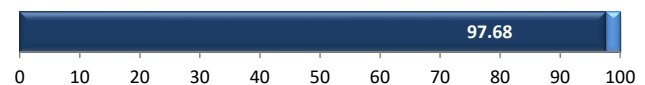
Shareholders	96.70	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Public Disclosure and Transparency	97.60	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Stakeholders	98.58	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Board of Directors	98.07	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
<b>Overall</b>	<b>97.68</b>	<b>AAA(Trk) (Distinctive)</b>	<b>(aaa) (Exceptional)</b>	<b>Stable</b>

JCR Eurasia Rating's notation system may be viewed at: [http://www.jcrer.com.tr/Upload/Files/Reports/538\\_kyder\\_notation\\_oct2010.pdf](http://www.jcrer.com.tr/Upload/Files/Reports/538_kyder_notation_oct2010.pdf)

#### Corporate Governance Score %



#### Overall Score %



#### Overall Result

**9.77**

AAA (Trk) / aaa

Stable

#### Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance on an overall basis. For this reason, the outlook for the Bank has been determined as “**Stable**”.

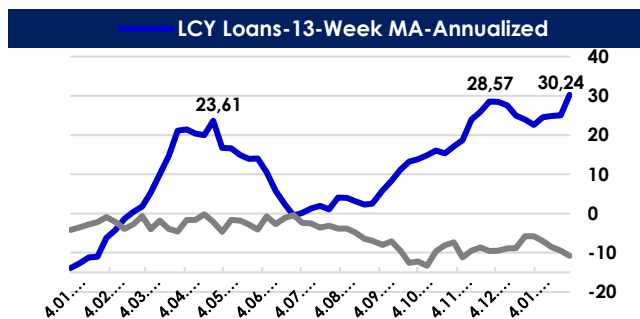
## 2. Turkish Banking Sector and Garanti BBVA Overview

The Banking sector of Turkey is the core foundation of the financial system and the main funding source of the economy as the yet developing capital markets lag considerably behind. As such, the stability, resilience and growth prospects of the banking system is instrumental in any projection concerning the macroeconomic outlook of Turkey. In this review, we focus on the loan growth and portfolio health, capital adequacy, profitability projections and risk exposure & management of the banking sector.

Turkish Banking Sector operates with 51 banks maintaining 11,300 branches within the country (74 abroad). ATM network is comprehensive, exceeding 49K as of December 2019. The sector employs a workforce of circa. 204,000. According to the Banks Association of Turkey 3Q2019 data, top 5 banks account for 56.28% of total assets, 57.69% of deposits and 61.43% of total loans.

Banking system of Turkey has found its footing again, once more proving its resilience to shocks and headwinds in both domestic and international markets. Following the onset of the sharp currency depreciation in August 2018 and subsequent interest rate hikes by the CBRT, domestic lending had fallen considerably. However, the rates have fallen first incrementally and then sharply by the first and second quarters of 2019, as CBRT initiated a monetary easing accommodated via moderating inflation outlook and stabilized exchange rates. The loan book growth, ceased upon the onset of the aforementioned developments, picked up particularly since 1Q2019 and despite a pause, remains strong throughout the year-end. Recovery of economic activity subject to the timely ending of the global Covid-19 pandemic and falling interest rates and asset quality are expected to underpin the outlook of the Sector throughout 2020.

Banking sector loans exceeded TRY 2.6 trillion as of FY2019, compared to TRY 2.4 trillion FY2018. The loan growth was not steady throughout the year, as depicted in the chart below, with state-owned banks doing the heavy lifting and leading the lending growth with aggressive rates. The private banks and rest of the market followed suit however, boosting their lending books.



Consumer loans increased by 16.80% to TRY 466.56bn, according to BRSA data. Considering the CPI of 11.84%, the actual growth was limited across the year. However, the growth trend has been strong, following the reduction in the weighted average funding rate (WAFR) by CBRT in the 3Q2019. In fact, there is a strong negative correlation between the WAFR and consumer loan growth, approximately .94, in the period spanning from the end of 1Q2019 and January 2020. We note the effect of previously depressed consumption and base effect as a potential caveat for this strong correlation, though the point stands to show the significant influence of lower interest rates for loan demand.

(TRY mn)	% Loans	% NPL	Std. NPL Multiplier
Wholesale and Retail	16.8	22.7	1.4
Construction	11.1	16.6	1.5
Electric, Gas and Water	9.7	10.3	1.1
Transport., Storage and Comm.	7.6	3.8	0.5
Real Estate Ops.	7.2	9.1	1.3
Agriculture	4.9	4.0	0.8
Tourism	4.4	5.1	1.2
Textile	4.4	4.3	1.0
Food, Bev. & Tobacco	4.2	4.4	1.0
Metals	4.2	2.8	0.7
Finance Comm.	3.3	0.2	0.1
Defence and Public Man.	2.6	0.1	0.0
Others	19.5	16.5	0.8

Note: % of commercial loans. Std. NPL multiplier measures the ratio of NPL share to loan share for each sector

Turkish banks have established connections to international financing markets, with syndicated loans and securitizations of assets representing commonplace and important source of funding. According to data by CBRT and MKK, central securities depository, rollover ratio has

fallen to 85% as of September 2019 as the banks deleveraged their balance sheets in the absence of FX loan growth. This is an important observation that the main driver of the lower rollover ratio is the banks' unwillingness rather than their inability. In fact, the FX liquidity coverage ratios of the banks are ample, reaching almost 300% as of November 2019 (Total LCR: 170%). Lower share of syndicated loans and foreign funding in general reduces the sensitivity of the banking system to external financing conditions.

Another key factor for external funding is the cost profile, with the borrowing rate of banks from international markets declining along with easing monetary conditions globally and reduced CDS of Turkey. Subsequently, recent transactions by Turkish banks achieved lower Libor and Euribor spreads around 2%.

	2019	2018	2017	2016	2015
<b>Core CAR</b>	14.20	13.79	14.09	13.22	13.26
<b>CAR</b>	18.40	17.30	16.85	15.57	15.57
<b>NPL</b>	5.36	3.87	2.95	3.24	3.09
<b>ROAA</b>	1.17	1.45	1.62	1.50	1.16
<b>ROAE</b>	11.53	14.83	15.88	14.28	11.28
<b>NII/Avg. Assets</b>	3.85	3.91	3.77	3.65	3.45
<b>Loans/Deposits</b>	109.65	122.58	126.63	123.60	123.37

In 2019, Banking Sector's profits declined to TRY 49.24bn, after-tax (FYE2018: TRY 54.12bn), a level comparable with 2017 (TRY 48.65bn). The relatively poorer performance stems from several factors of varying significance. Primarily, surge in special provisions for non-performing loans, increasing non-interest costs as in trading losses (capital markets and FX operations) and higher personnel costs underpinned the declining net income for the banking sector.

The Sector realized a total interest income of TRY 420.52bn as opposed to TRY 258.17bn interest expenses, marking 14.13% and 16.15% increases over the previous year, respectively. Sharply declining interest rates post 2Q2019 helped banks reprice funding costs rapidly as deposits have less than 3 months of weighted average maturity. Long-dated loan book however, provided banks with a strong loan growth before the falling rates achieve favorable profits.

Select P&L Items (Million TRY)	2015	2016	2017	2018	2019
<b>Net Interest Income</b>	77,316	91,343	113,390	146,199	162,355
<b>Special Prov. for NPL (-)</b>	15,787	21,482	19,788	35,213	56,539
<b>Banking Services Rev.</b>	21,599	23,145	28,063	36,866	49,635
<b>Personnel Exp. (-)</b>	20,599	22,271	24,529	27,960	34,117
<b>Capital Market P&amp;L</b>	1,520	2,584	-12,669	29,277	-17,480
<b>FX P&amp;L</b>	-7,779	-4,086	2,471	-40,892	-5,507

The Sector's operational efficiency, measured using the proxy of OpEx/Avg. assets indicates a slight deterioration, mainly due to increasing staff costs. However, we note the overall improvement across the years and the current level as quite reasonable, particularly considering the cost benefit of increasingly centralized operations and penetration of digital banking channels. On the other hand, staff figure has been declining year on year since the peak in 2015 (216,722). As of FYE2019, the Banking Sector employed a workforce of 203,839.

%	2015	2016	2017	2018	2019
<b>Avg. Interest Earned</b>	7.76	8.27	8.76	10.51	10.75
<b>Avg. Interest Paid</b>	5.21	5.60	6.09	8.00	8.45
<b>-Spread</b>	2.55	2.67	2.67	2.51	2.31
<b>Fees &amp; Comm./Revenues</b>	13.03	12.18	11.81	10.06	12.20
<b>Opex/Avg. Assets</b>	1.98	1.90	1.80	1.67	1.76
<b>Fees &amp; Comm./Opex</b>	63.42	63.67	67.27	77.95	88.20

The Banking Sector is highly resilient and experienced with respect to risk management and maneuvering around volatile macroeconomic currents. Throughout 2020, we expect the Banking Sector to sustain its interest margin at reasonable levels and operational efficiency given the declining inflationary expectations, lowering and stabilizing interest rates and growing loan demand. On the other hand, accelerating imports could weigh in on the current account balance, pressurizing the FX rates and thus disrupting the non-financial sector. In fact, looking forward, the asset quality issues are considered as the primary challenge the Sector will need to solve effectively. Additionally, global macroeconomic conditions, with uncertain effects of the ongoing global Covid-19 on global and domestic economic growth prospects and supply chains, monetary policy trajectory of US Fed and ECB in the Eurozone and the effectiveness of economic stimuli measures taken to combat the epidemic will be instrumental in determining the capital and trade flows to and from emerging



economies. In this sense, we note the Banking system’s strong LCR and CAR figures as comforting indicators.

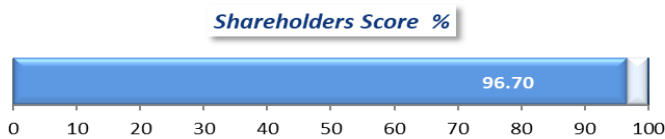
*Sources: Banking Regulation and Supervision Agency, Central Bank of Republic of Turkey, The Banks Association of Turkey, Turkish Statistical Institute, JCR-ER.*

### 3. Shareholders

The Bank succeeded in maintaining its previous level of compliance in this main section in the previous monitoring period.

The Bank’s level in this section and their corresponding notes are outlined below;

- Numerical value of **9.67**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree (**aaa**) representing the category of **“Exceptional”**
- Outlook (**Stable**)



#### Shareholders Result

9.67
AAA (Trk) / aaa
Stable

#### Activities carried out during the monitoring period in the Shareholder field:

- ✓ The 2019 Ordinary Shareholders Meeting was held on July 17, 2020 at 10.00 a.m. at the Headquarters of the Bank. The meeting was observed by two of our analysts and the works undertaken regarding the meeting were closely observed prior, during and following the meeting. Pre-meeting preparations, announcements and invitations were carried out by the Investor Relations Department according to the Code. Within the framework of

democratic principles, all shareholders were treated equally in the meeting, the Bank’s 2019 activities were outlined, all shareholders were given the right to address each agenda item and voting was done by an open show of hands. Following the meeting the relevant documents were disclosed to investors on the internet site.

- ✓ No findings of discrimination against any shareholder were made.
- ✓ No lawsuit was opened by shareholders to cancel the resolutions made in the shareholders meeting.
- ✓ There is a change in the 7<sup>th</sup> article of articles of association of the Bank.
- ✓ During 2019, Garanti BBVA Investor Relations held 667 one on- one meetings by participating in 35 investor conferences and roadshows held in 16 cities in Asia, USA and Europe. General Manager attended approximately 1 out of every 3 investor meetings. Between the period of January 1,2020 and November 13,2020, 471 interviews were held with international investment funds from Europe, Middle East, Asia, America, Canada and Turkey via participating in 26 domestic and foreign investment conferences on the digital platform.
- ✓ The Investor Relations Department specialists answered all inquiries from shareholders and potential investors via telephone and e-mail.
- ✓ The Bank realized TL6,158,840,673 of profit during FY2019. In the general meeting on July 17, 2020, after setting aside TL5,436,405 as special reserves, TL6,153,404,267 was designated as excess reserves. The dividend distribution table was disclosed to the public via the company’s website and the PDP following the general meeting.

#### Outlook

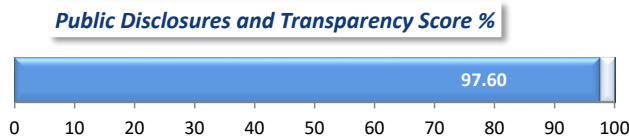
JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Shareholders field. For this reason, the outlook for this section has been determined as **“Stable”**.

## 4. Public Disclosure and Transparency

The Bank succeeded in maintaining its previous level of compliance in this main section in the previous monitoring period. Additionally, considering the Bank's Investor Relations website serves as a more effective platform with enhanced user experience, easy navigation and informative landing pages and inclusion of new ESG datasheet, the Bank's score in the Public Disclosure and Transparency main section has been increased to 9.76 from 9.67.

The Bank's level in this field and their corresponding notes are outlined below;

- Numerical value of **9.76**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree (**aaa**) representing the category of **“Exceptional”**
- Outlook (**Stable**)



### Public Disclosure and Transparency Result

<b>9.76</b>
AAA (Trk) / aaa
Stable

#### Activities carried out during the monitoring period in this field:

- ✓ 2020's integrated annual report was published successfully with a high compliance level with the Code.
- ✓ A total of 381 notifications by the end of October 2020 was disclosed to the Public Disclosure Platform (PDP). Following these disclosures, no extra information was requested.

- ✓ The Bank's quarterly financial statements were released to the public within the period specified by CMB legislation and posted on the website.
- ✓ The Bank's website is kept up to date in Turkish and English. A link to the PDP is included.
- ✓ Significant improvements in the Bank's organizational structure and operations are published in a timely manner.
- ✓ The Bank was not suspended from trading on the BIST in the monitoring period.
- ✓ The Bank's 2019 financial tables were audited by the independent audit firm KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A. Ş. Same audit firm will carry out independent auditing activities in 2020.

#### Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Public Disclosure and Transparency field. For this reason, the outlook for this section has been determined as **“Stable”**.

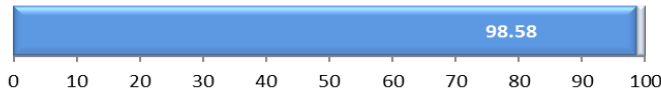
## 5. Stakeholders

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Stakeholders field.

The compliance level of the Bank's practices in the field of stakeholders with corporate governance principles has been determined as below:

- Numerical value of **9.86**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree (**aaa**) representing the category of **“Exceptional”**
- Outlook (**Stable**)

**Stakeholders Score %**



**Stakeholders Result**

<b>9.86</b>
AAA (Trk) /aaa
Stable

**Activities carried out during the monitoring period in the Stakeholders field:**

- ✓ The Bank has once again included in the Dow Jones Sustainability Emerging Markets Index (DJSI), one of the most prestigious platforms, which is evaluating the sustainability performance of corporate firms around the world. Garanti BBVA is the only company based in Turkey that is included in the index for six consecutive years.
- ✓ The Bank launched pioneering practices in the field of sustainable finance such as Syndication Loan Based on Sustainability Criteria, Sustainability-Related Loans, Green Loans, Green Bonds, Gender Equality Loans and 100% Renewable Energy in Branches and Buildings with Suitable Infrastructure and disclosures the important policies in the website.
- ✓ In 2020, all transformable branches and buildings (813 branches, 45 buildings) switched to 100% renewable energy consumption.
- ✓ In 2020, the Bank maintained its place in the FTSE4 Good Emerging Markets Index and BIST Sustainability Index.
- ✓ Garanti BBVA is the only company from Turkey to be included in the Bloomberg Gender Equality Index that covers 230 companies from 10 industries from 36 countries and regions across the world.
- ✓ Considering the number of staffs, the number of lawsuits opened against the Bank by employees can be considered tolerable.

- ✓ No lawsuits were filed against the Bank by service providers.
- ✓ Although there are no written internal regulations in the participation of employees in Management, senior and middle-level managers participate in decision-making mechanisms via 34 committees and submit their suggestions and ideas through suggestion and idea platforms Önersen, GONG, and Atölye and the “Ask/Share” section of the intranet portal.
- ✓ The Bank continues to be sponsor to many projects regarding health care, education, culture, art, sports and environment in 2020. The details of these sponsorships are disclosed on the web site and in the annual reports.
- ✓ In 2019 within the scope of social responsibility, the Bank donated TRY6,818,454 to various institutions. The Board of Directors submitted information to the shareholders regarding these donations in the general shareholders meeting.

**Outlook**

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Stakeholders field. For this reason, the outlook for this section has been determined as **“Stable”**.

**6. Board of Directors**

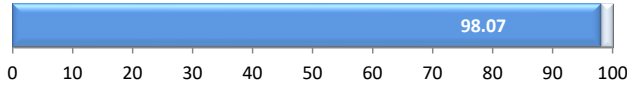
In order to use the workforce more efficiently along with the generation of high value-added results, increase of autonomy within audit teams and improvement of communication with the audited parties, Agile Methodology extended to all audits performed during 2020 which began to be used in audits that are conducted within the Audit Board as of FY2019 and improved significantly compared to the year. Thanks to this new value-oriented approach applied, the number of findings brought to the agenda of the Bank's Audit Committee increased and the unit workforce was used more efficiently. Considering all these factors, this main section’s score has been raised from 9.76 to 9.81.

The Bank’s level in this section and their corresponding notes are outlined below:



- Numerical value of **9.81**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree (**aaa**) representing the category of **“Exceptional”**
- Outlook (**Stable**)

**Board of Directors Score %**



### Board of Directors Result

**9.81**

AAA (Trk) / aaa

Stabil

#### Activities carried out during the monitoring period in this field:

- ✓ At the general meeting held on July 17, 2020 the shareholders approved the 2019 activities of the Board of Directors.
- ✓ Avni Aydın Düren was appointed as Independent Board Member instead of Ricardo Gomez Barredo on 17.06.2020.
- ✓ The Bank has subscribed liability insurance to Directors and Officers covering with a limit of EUR 100 million for the individual liabilities of executives and Board Members arising from their improper conduct, but remains below 25% of the share capital.
- ✓ The Board of Directors continued the internal control system activities in accordance with the scale and complexity of the Company's activities, is also disclosed in the annual report.
- ✓ The benefits provided to the Board of Directors and senior executives are totally shown in the Financial Statements. As of 31 December 2019, the net payment amounted to TL 98 million 589 thousand provided or to be provided to the key managers of the Bank, including the members of

the Board of Directors and compensations paid to key management personnel who left their position during the year.

- ✓ The roles of the Chairman and Chief Executive Officer are separated and duties and authorities of the members of the board of directors are disclosed in the annual report.
- ✓ Women members in the Board representing below 25% of the full number of members (18%). However, the Bank intends to increase the participation of women directors in the Board and gradually increase their percentage in the coming years.
- ✓ With the participation of the Data Scientist team for the detection of internal fraud, a more proactive and efficient application started to be used in 2020 and the rate of internal fraud detection has increased significantly compared to previous years.
- ✓ The President of the Information Security Committee has been Mr. Recep Baştuğ as of December 2020.
- ✓ These changes were disclosed in a timely manner to the PDP and the website.
- ✓ Osman Tüzün left his post as the Executive Vice President in charge of Talent and Culture as of February 29, 2020. Didem Dinçer Başer was appointed as the Executive Vice President in charge of Talent and Culture. Işıl Akdemir Evlioglu, who worked as the CEO of Garanti Payment Systems, was appointed as the Executive Vice President in charge of Customer Solutions and Digital Banking.
- ✓ Mr. Murat Atay holding the position of General Manager of Garanti Konut Finansmanı Danışmanlık Hizmetleri A.Ş. (GarantiBBVA Mortgage), was appointed as the Head of Credit Risk Management replacing Mr. Ali Temel in 20.11.2020.
- ✓ The corporate secretary carried out sufficient activities in term of the board of director meeting's preparations, applications and follow-ups. During the meetings, the necessary services were provided to the members by the Secretary and minutes were kept in accordance to the Code.

- ✓ The Bank disclosed the total remuneration amount provided to the board members and the top managers in the 2019 annual report.
- ✓ During 2019 until the end of November 2020, 24 Board of Directors’ meetings were held.
- ✓ Audit, Corporate Governance, Risk and Remuneration Committees held their periodic meetings and conducted effective activities in this period.

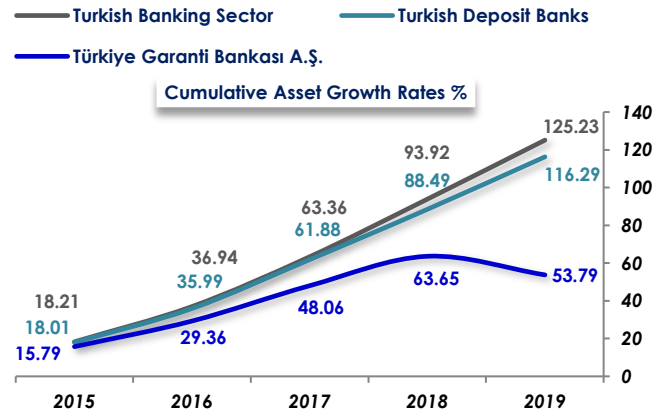
## Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Board of Directors field. For this reason, the outlook for this section has been determined as “Stable”.

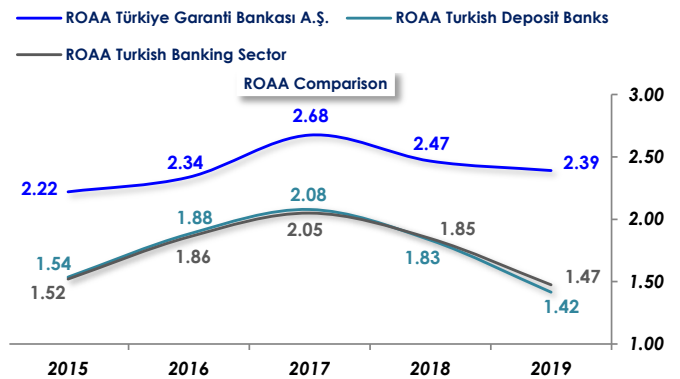
## 7. Financial Efficiency

This section includes a general overview of Garanti’s financial performance, on a number of selected metrics including profitability indicators, growth rates, asset quality and capital adequacy levels in comparison to the averages observed in the wider Turkish Banking Sector. It must be noted that financial performance doesn’t impact the Bank’s scores in the Corporate Governance Rating Methodology.

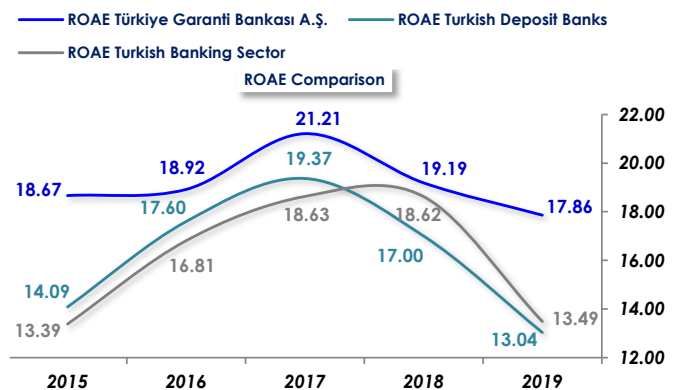
Garanti’s asset market shares within the Turkish banking sector and among the Turkish deposit banks have continued its contracting pattern since FY2015 particularly due to maintenance of the selective lending strategy. The Bank ranked 5<sup>th</sup> largest bank in terms of asset size among the 48 total banking institutions regarding the solo based asset size of TRY391.15 bn as of FYE2019 (1H2020: TRY447.89bn; FYE2018: TRY359.48). The Bank’s asset growth performance compared to the sector in cumulative terms within the period between FY2015 and FY2019 are shown in the chart below.



The indicators of both ROAAs and ROAEs have outperformed the sector averages during the previous five years while the differences have become more visible during the previous two years.



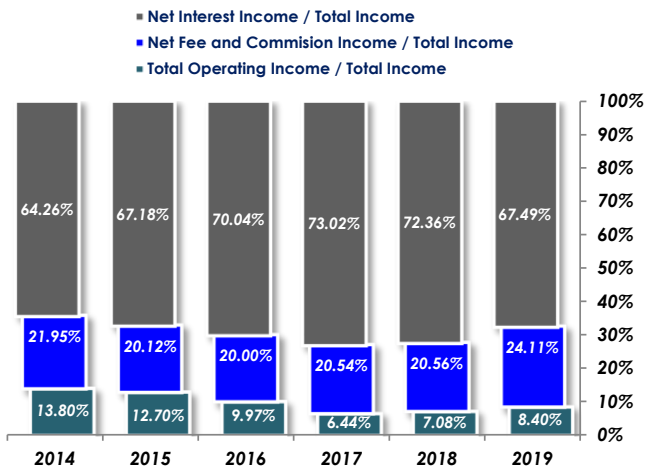
Compared to deposit banks on solo basis, Garanti’s ROAA performed 98 bps (FY2018: 63 bps) better and its ROAE 483 bps (FY2018: 219 bps) better.



On the other hand, Garanti’s (IFRS cons.) net profit figure underperformed growth of the balance sheet items and decreased by 7.19% to TRY6.26 bn in FY2020 from its

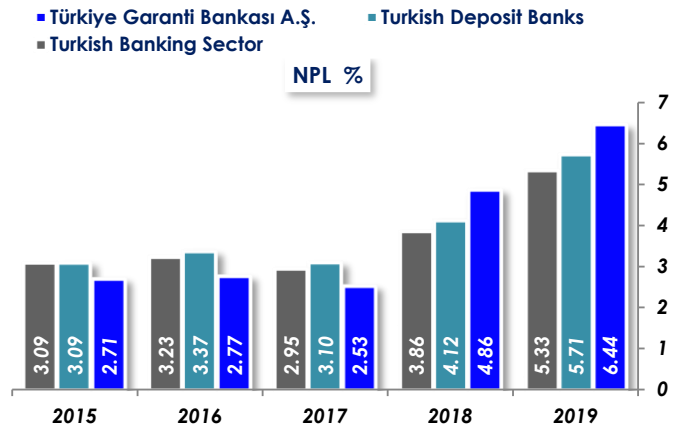
previous year's level at TRY6.75 bn (1H2020: TRY3,484 bn).

The shares of NII within the total income composition of Garanti decreased by 2.27% to TRY 17.49bn whilst net fee and commission income increased by 22.85% to TRY6.25bn during FY2019. The general increase in the level of interest rates throughout FY2019 has also been decisive in the decrease of NII share in total income to 67.49% from 72.36% in FY2018.

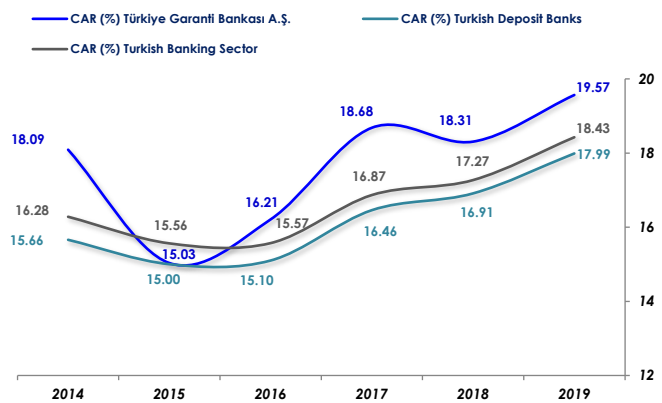


The Bank's gross non-performing loans portfolio at the end of FY2019 deteriorated to 6.89% from 4.95% in FY2018 on solo basis following the same path with the Turkish banking sector and deposit banks due to the volatility in economic conditions and the contraction in gross domestic product (GDP) (1Q2020: 6.12%; 1H2020: 5.64%). These loans mainly consisted of high-amount corporate and commercial loans. Corporate & commercial loans, consumer loans and credit cards had the shares of 79.27%, 13.46% and 7.27% in total non-performing loans in FYE2019. On the other hand, new non-performing loans from retail and SME loans was more limited during 2019.

Additionally, the impaired loans to equity portfolio of at the end of FY2019 increased to 32.17% (FY2018: 24.43%) – staying slightly below the Turkish deposit banks average and above that of the Turkish banking sector.



Corporate/commercial NPL inflows to continue in a decelerating pace in light of big-ticket NPL files already recorded during FY2018 but higher retail NPL inflows due to deteriorating employment level in FY2019.



Garanti's non-consolidated CAR improved to 19.57% at the end of FY2019 from FYE2018 figure of 18.31% (1H2020: 19.15%). Following a below-the-sector-average level for four consecutive years, the Bank outperformed both the Turkish banking sector and the deposit banks averages during the previous three years.

As a result, the Bank's equity level, generated profit, deposit base, assets quality and management practices provide adequate support for the retention of the current level of compliance with corporate governance best practices.

**TABLE:1**

**SHAREHOLDING STRUCTURE**

<b>Years</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>3Q2020</b>
<b>Paid Capital (TRY bn)</b>	<b>4,200</b>	<b>4,200</b>	<b>4,200</b>	<b>4,200</b>	<b>4,200</b>
<b>Shareholders</b>					<b>Share %</b>
DOGUS GROUP	10.0002	-	-	-	-
BANCO BILBAO VIZCAYA ARGENTARIA S. A.	39.9000	49.85	49.85	49.85	49.85
OTHER SHAREHOLDERS	50.0998	50.15	50.15	50.15	50.15
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**TABLE: 2**

Affiliates & Subsidiaries	Bank Risk Group's Share or Voting Right %	Country
<b>Unconsolidated Affiliates</b>		
Emeklilik Gözetim Merkezi AŞ	5.26	İstanbul/Turkey
Bankalararası Kart Merkezi AŞ	4.98	İstanbul/Turkey
Yatırım Finansman Menkul Değerler AŞ	0.77	İstanbul/Turkey
İstanbul Takas ve Saklama Bankası AŞ	4.97	İstanbul/Turkey
Borsa İstanbul A.Ş.	0.34	İstanbul/Turkey
KKB Kredi Kayıt Bürosu AŞ	9.09	İstanbul/Turkey
Türkiye Cumhuriyet Merkez Bankası AŞ	2.48	Ankara/Turkey
Kredi Garanti Fonu AŞ	1.49	Ankara/Turkey
JCR Avrasya Derecelendirme A.Ş.	2.86	İstanbul/Turkey
Birleşik İpotek Finansmanı A.Ş.	8.33	İstanbul/Turkey
<b>Unconsolidated Subsidiaries</b>		
Garanti Bilişim Teknolojisi ve Tic. T. AŞ	100	İstanbul/Turkey
Garanti Ödeme Sistemleri AŞ	100	İstanbul/Turkey
Garanti Kültür AŞ	100	İstanbul/Turkey
Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	100	İstanbul/Turkey
Trifoi Real Estate Company	100	Bucharest/Romania
Garanti Filo Yönetim Hizmetleri AŞ	100	İstanbul/Turkey
Garanti Filo Sigorta Aracılık Hizmetleri AŞ	100	İstanbul/Turkey
<b>Consolidated Subsidiaries</b>		
Garanti Finansal Kiralama AŞ	100	İstanbul/Turkey
Garanti Faktoring AŞ	81.84	İstanbul/Turkey
Garanti Yatırım Menkul Kıymetler AŞ	100	İstanbul/Turkey
Garanti Portföy Yönetimi AŞ	100	İstanbul/Turkey
Garanti Emeklilik ve Hayat AŞ	84.91	İstanbul/Turkey
Garanti Bank International NV	100	Amsterdam/Netherlands
Garanti Holding BV	100	Amsterdam/Netherlands
G Netherlands BV	100	Amsterdam/Netherlands
Garanti Bank SA	100	Bucharest/Romania
Motoractive IFN SA	100	Bucharest/Romania
Ralfi IFN SA	100	Bucharest/Romania
Garanti Yatırım Ortaklığı AŞ	3.61	İstanbul/Turkey
<b>SPV</b>		
Garanti Diversified Payment Rights Finance Company		
RPV Company		



**TABLE: 3**

<b>Financial Data</b>	<b>3Q2020**</b>	<b>2019*</b>	<b>2018*</b>	<b>2017*</b>	<b>2016*</b>	<b>2015*</b>
Total Assets (USD mn)	68,549	72,253	75,898	93,258	87,765	94,511
Total Assets (TRY mn)	525,909	429,196	399,975	352,122	308,319	274,838
Total Deposit (TRY mn)	345,664	277,139	244,892	200,679	178,644	156,114
Total Net Loans (TRY mn)	345,972	266,293	251,144	233,194	205,989	175,682
Equity (TRY mn)	60,725	54,086	46,895	41,925	36,438	32,006
Net Profit (TRY mn)	5,240	6,263	6,748	6,094	5,052	3,807
Asset Market Share (%) ***	8.00	10.02	10.56	11.13	11.57	11.94
ROAA (%)	n.a	1.98	2.34	2.35	2.17	1.86
ROAE (%)	n.a	16.25	19.83	19.81	18.52	16.06
Equity/Assets (%)	11.55	12.6	11.72	11.91	11.82	11.65
CAR-Capital Adequacy Ratio (%) *	16.88	17.81	16.52	16.79	14.67	13.53
Asset Growth Rate (Annual) (%)	22.53	7.31	13.59	14.21	12.18	15.52

\* Based on end-of-year IFRS consolidated financial statement,

\*\* 3Q2020 based on consolidated BRSA financials

\*\*\* On solo basis and/or among the deposit banks

**TABLE: 4**

**BOARD OF DIRECTORS**

Name	Task	Experience	Date Elected	Experience (Year)	Education	Executive/Non-Executive	Independent/Not Independent	Committee Membership
Süleyman SÖZEN	Chairman	Finance, Information Technology, Consumer Discretionary, Consumer Staples, Health Care, Real Estate, Energy	29.05.1997	40	BSc/BA	Non-Executive	Not Independent	Risk Committee
Jorge Saenz-Azcunaga CARRANZA	Vice Chairman	Finance	24.03.2016	28	BSc/BA	Non-Executive	Independent	Audit Committee, Corp.Gov. Committee Chairperson, Remuneration Committee
Sait Ergün ÖZEN	Member	Financials, Information Technology, Consumer Discretionary, Consumer Staples, Real Estate, Energy	14.05.2003	34	BSc/BA	Non-Executive	Not Independent	Remuneration Committee
M. Cüneyt SEZGİN	Member	Finance	30.06.2004	36	PhD	Non-Executive	Not Independent	
Javier Bernal DIONIS	Member	Financials, Industrials, Health Care, Information Technology	27.07.2015	31	Master	Non-Executive	Not Independent	Corp.Gov. Committee, Risk Committee
Jaime Saenz de Tejada PULIDO	Member	Finance	02.10.2014	29	BSc/BA	Non-Executive	Not Independent	
Rafael Salinas Martinez de LECEA	Member	Finance	08.05.2017	30	Master	Non-Executive	Not Independent	Risk Committee Chairperson
Avni Aydın DÜREN	Member	Law	17.06.2020	29	Master	Non-Executive	Independent	Audit Committee,
Sema YURDUM	Member	Finance, Industrials	30.04.2013	40	BSc/BA	Non-Executive	Independent	Audit Committee Chairperson, Corp. Gov. Committee
Mevhibe Canan ÖZSOY	Member	Financials, Healthcare, Energy, Technology System	04.04.2019	32	Master	Non-Executive	Independent	
Recep BAŞTUĞ	Member CEO	Financials, Industrials, Chemistry	06.09.2019	31	BSc/BA	Executive	Not Independent	

## Rating Info

Rated Company:	Türkiye Garanti Bankası A.Ş. Levent Nispetiye Mah. Aytar Cad. No:2 Beşiktaş 34340 İstanbul Telephone number 0212 318 18 18
Rating Report Preparation Period:	16.11.2020-4.12.2020
Rating Publishing Date:	11.12.2020
Rating Expiration Date:	1 full year after publishing date, unless otherwise stated