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2018 INTEGRATED ANNUAL REVIEW



TRUE STORIES

GARANTI EMPATHY

“Empathy lies at the heart of Garanti.

The most valuable distinction we have lies in our ability to understand our customers’ expectations from life, make them feel good and safe, and establish an emotional bond with them, in addition to the fast and high quality service we offer.”



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ANNUAL REVIEW**

ABOUT THIS REPORT

We are pleased to present our second Integrated Report, which makes a holistic assessment of the financial and non-financial performance of T. Garanti Bankası A.Ş. ('Garanti'), as well as conveying its forward looking strategy.

Garanti aligns its thinking and its approach to long-term value creation to the principles of Integrated Reporting and aims to communicate its total value creation story in a clear and comprehensive way to all its stakeholders.

While providing an overview to the basis of its total value creation, its strategy and long-term sustainable value creation capability in the document titled "2018 Integrated Annual Review", Garanti provides 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 in the document titled "2018 Integrated Annual Report".

The content of the Report is identified in line with the material issues, which are determined as an intersection of issues raised by our stakeholders and topics that are significant to Garanti. The information presented in this Report covers the 12-month period ending 31 December 2018, and unless otherwise specified, includes information on Garanti's operations in Turkey as well as the international subsidiaries in the Netherlands and Romania, foreign branches in Cyprus and in Malta, and two international representative offices in Dusseldorf and Shanghai. Where relevant, the information is supported by historical data.

The connection between the material issues, business strategy and performance in 2018 is clearly established, as suggested in the Integrated Reporting framework published by the International Integrated Reporting Council ('IIRC'). Garanti is a member of IIRC's Global <IR> Network and <IR> Banking Network and is a founding member of Integrated Reporting Turkey Network (Entegre Raporlama Türkiye Ağı "ERTA").

This report has been prepared in accordance with the GRI Standards: Core option. The Report covers five main chapters called "Introduction", "About Garanti", "2018 Performance & Outlook", "Corporate Governance & Risk Management" and "Financial Reports". It also includes the GRI Financial Services Sector disclosures, United Nations Global Compact ('UNGC') and Women's Empowerment Principles ('WEPs') Progress Report, and a summary table of climate related disclosures in accordance with the Task Force on Climate-Related Financial Disclosures ('TCFD') recommendations. Sustainability Accounting Standards Board ('SASB') Provisional Standard for Commercial Banks has also been used. Garanti's 2018 Integrated Annual Report will be presented at the Ordinary General Shareholders' Meeting of Garanti Bank.

KPMG provided reasonable assurance on the financial information, and limited assurance on selective non-financial information defined in detail in the auditor's report.

INTRODUCTION

The first chapter provides a foreword on the reflection of Garanti's value creation story on this year's annual report, keynote messages by Richard Howitt (CEO of IIRC), by our Chairman, and by our CEO.

ABOUT GARANTI

The second chapter covers the operating environment, the positioning of Garanti, its governance structure, risk management perspective, material issues which specifically impact Garanti and its stakeholders and stakeholder engagement, mega trends, Garanti's response to relevant risks and opportunities, the interaction of our business model with the 6 Capitals as defined in the IIRC Framework, and our ability to create shared value in the long term.

2018 PERFORMANCE AND OUTLOOK

Our “2018 Performance & 2019 Outlook”, which is explained in the third chapter, comprises of five main sections representing the umbrella themes for 14 different material issues as explained in “Our Material Matters”. Each section describes the value creation story and the outlook in connection to Garanti’s Strategic Priorities. Each of the five sections elaborates on both past performance and gives an account of future strategies. Furthermore, Garanti’s contribution to the Sustainable Development Goals (‘SDGs’), the 15 year global plan of action to end poverty, reduce inequalities and protect the environment are linked to each section.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The fourth chapter, ‘Corporate Governance & Risk Management’, provides a detailed discussion of the management of strategic risks related to Garanti’s operations and the full governance structure.

FINANCIAL REPORTS

The final chapter sets out the audited annual unconsolidated and consolidated financial statements for Garanti, including the statement of responsibility by the Audit Committee Member (Independent Member of the Board), the CEO and the CFO on the financial statements and the annual report. The Bank prepares its unconsolidated and consolidated financial statements in accordance with accordance with the “Banking Regulation and Supervision Board (“BRSA”) Accounting and Reporting Legislation” which includes the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, and other regulations on accounting records of Banks, circulars and interpretations published by BRSA and requirements of Turkish Financial Reporting Standards for the matters not regulated by the aforementioned legislations.

The accompanying unconsolidated and consolidated financial statements are prepared in accordance with the historical cost basis except for financial instruments at fair value through profit or loss, financial assets available for sale, real estates and investments in associates and affiliates valued at equity basis of accounting or that are quoted on the stock exchanges which are presented on a fair value basis.

The Bank have started to apply TFRS 9 Financial Instruments (“TFRS 9”) published by Public Oversight Accounting and Auditing Standards Authority (“POA”) in the accompanying consolidated financial statements starting from 1 January 2018 for the first time based on the regulation published in the Official Gazette no. 29750 dated 22 June 2016 in connection with procedures and principals regarding classification of loans and allowances allocated for such loans which came into force starting from 1 January 2018. The impact on the statement of financial position regarding adoption of TFRS 9 as of 1 January 2018 is explained in note 3.29. TFRS 15 and other new TFRS/TAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Bank.

The accounting policies and the valuation principles applied in the preparation of the accompanying consolidated financial statements are explained in Notes 3.2 to 3.30.



Please share your feedback and comments on the report by e-mailing to integratedreport@garanti.com.tr.



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CONTENTS

INTRODUCTION

- 5 Foreword
- 6 Message from Richard Howitt,
CEO of IIRC
- 7 Letter from the Chairman
- 9 Letter from the CEO

ABOUT GARANTI

- 14 The Environment We Operate In
- 18 Corporate Profile
- 19 Garanti's Shareholding Structure
- 20 Garanti's Position in the Business
Areas
- 22 Garanti's Position in the Sector
- 26 Garanti in Numbers
- 28 Garanti Bank Share
- 30 Our Governance
- 31 Organizational Structure
- 32 Board of Directors
- 34 Senior Management
- 36 Committees and Policies
- 38 Risk Management Review
- 42 Our Material Matters
- 44 Stakeholder Engagement
- 52 Risks and Opportunities
- 64 Our Values and Competitive
Advantages
- 66 Our Purpose and Strategic Priorities
- 68 Main Pillars of Our Strategy
- 69 Our Business Model
- 70 Our Value Creation
- 74 Summary of the Board of Director's
Annual Report
- 76 2018 Key Performance Indicators

2018 PERFORMANCE AND OUTLOOK

- 80 Financial Performance
- 82 Customer Experience
- 84 Digital Transformation
- 86 Investing in Human Capital
- 88 Responsible and Sustainable
Development

CORPORATE GOVERNANCE AND RISK MANAGEMENT

- 90 Corporate Governance Principles
Compliance Report Review

96 CONTACT INFORMATION



Audio section for you to listen



Texts are linked to related
website when clicked



Texts are linked to related pages
in the report when clicked



Number of words used in the section



Reading time of the section



Number of pages of the section



The most used word in the section

FOREWORD



“EMPATHY LIES AT THE HEART OF GARANTI.”

Customer experience consists of rational and emotional experiences delivered at each touch point involving communication upon understanding the customers’ feelings, needs and expectations. Garanti positions its customers as a building block of its strategy and the customer experience as its strategic priority. One of the most important distinctions of Garanti is its ability to “empathize”.

Empathy, in the simplest terms, for an individual or an organization, is defined as putting oneself in the shoes of another, that one is in interaction with. Garanti, however, takes empathy a step further. For Garanti, empathy means correctly understanding, its customers’ constantly evolving needs and expectations, offering them timesaving solutions to improve their lives, and while doing so, delivering a swift and smooth experience. It means helping them make the right financial decisions, supporting them to grow their businesses sustainably, and providing the best experience at all digital and physical touch points. As a result of all these, the Bank desires its customers to feel good for working with Garanti.

It is an indispensable passion for Garanti to offer an excellent experience to its more than 16 million customers. To this end, the Bank designs and simplifies the experiences at all touch points from its customers’ perspective, in a bid to offer an uninterrupted, seamless and personalized experience throughout all channels. The Bank constantly follows up and

applies all new technologies for an enhanced customer experience.

The opportunities that the technology offers and all digital transformation initiatives are integral parts of the customer experience. But at the heart of it all, lies “human”. And this makes “employees of Garanti” one of the constant and key actors in customer experience. More than 18 thousand Garanti employees are working to drive Garanti forward in customer experience, employing “transparent, clear and responsible banking” principles.

In a year that was challenging for both our country and the global markets, Garanti Bank, in its 2018 Integrated Annual Report, focused on one of the most significant reflections of its customer-centric strategy that is the key of its sustainable success: True Stories.

Each one of these stories that actually happened all over Turkey, in fact, reveals the secret underlying the longstanding success of Garanti: standing by its customers through every moment, whether it is a good, bad, happy, sad, tough or pleasant one.

Just as it has done in the past, Garanti will continue to make its customers feel that they are cared, they are precious, and that Garanti will continue to be by their side at all times...



Please scan the QR code to listen to the True Stories.

* True Stories are actual events, the names have been changed or anonymized for customer information privacy purposes.

Audio recording of True Stories have been voiced by Garanti Bank employees Ebru Kazancı Tuncel (Product Management and Business Development Supervisor, Cash Management and Transaction Banking), Ahmet Balcı (Country and Issuer Risk Supervisor, Bank, Country & Issuer Risk) and Sinem Özönur (Integrated Reporting Manager, Project Finance).

MESSAGE FROM RICHARD HOWITT

Garanti Bank continues to show leadership through their adoption of integrated reporting, and I am delighted to welcome this second integrated report, representing a further step forward in demonstrating how the Bank is genuinely connected both within its operations and with wider society.

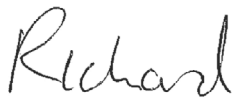
The Bank has shown real leadership as the whole finance sector in Turkey is moving to embrace integrated reporting, but is also having real international impact.

Garanti Bank is an important partner of the International Integrated Reporting Council (IIRC) as it embeds the principles of integrated reporting within its own business and shares its experiences, innovations and approach with others, as a leading member of the IIRC's own international <IR> Business Network. It is through leadership such as this that we can bring the benefits of integrated reporting to organizations across the world, which I believe can help build financial stability and sustainable development internationally.

The process of producing an integrated report is often just as powerful as the end report; it forges a closer understanding of the resources and relationships the organization uses every day, ensures that all teams are working to the same unifying business model, and helps employees articulate to key stakeholders their purpose and value creation model. Congratulations to everyone who has been involved in the process.

To the Bank's wider stakeholders in Turkey and beyond, I hope you can see the benefit of an integrated report which presents the same powerful message to its shareholders as well as to you. I am aware of the Bank's commitment to promoting women in and through its business, supporting sustainability and adapting to the opportunities provided in the digital revolution. I am sure that the 'integrated thinking' inherent in integrated reporting is supporting the Bank in these endeavours.

I wish every success to all involved in producing this report - and to all who read it.



RICHARD HOWITT
CEO, Integrated International Reporting Council

LETTER FROM THE CHAIRMAN



Dear Stakeholders,

2018 was marked by increased uncertainties in global politics and decreased risk appetite in financial markets on the back of political and macroeconomic developments. Continued normalization in developed countries' monetary policies and the expansion of protectionist measures that was led by the US can be mentioned among the factors that reduced the risk appetite. Increased market volatility and perception of uncertainty in the developing countries in an environment of rising vulnerabilities around the globe, resulted in net fund outflows from these countries, causing their currencies to depreciate.

With respect to the Turkish economy and banking sector, 2018 has been a year of high volatility. Following the first half of the year when growth was vibrant, we have observed rebalancing tendencies gain the foreground in economy. Turkish banking sector has been the enabler of the healthiest economic stabilization possible, by maintaining its solid stance despite the vulnerabilities that stemmed from global and regional risks. Turkish banking sector preserved its robust balance sheet structure, comfortable liquidity base and strong capitalization, once again successfully proving that it has a solid foundation. As Garanti, being aware of the targets and priorities of our country and economy, we have also collaborated efficiently with all our stakeholders and as well as all the actors of the economy, as has always been the case.

Regardless of the temporary macro developments, we keep leading the transformation in the sector with investments in our business model and with our customers that make up the pedestal of our strategy. As we carry on with uninterrupted service delivery, we continue to upgrade our products and service model so as to take care of our customers' financial health. Everyday, we are working hard to deliver perfect customer experience to our 16 million clients. We are intending to be transparent, clear and responsible towards our customers.

Placing our customers at the heart of our activities in a bid to exceed their expectations and enhance their satisfaction, we are designing our processes through their perspective. We are targeting to build long-lasting relationships that rely on trust, and to be differentiated and to be stronger through these relationships.

The environment we operate in is evolving rapidly. To make the most of the age of opportunity, undertaking a transformation process becomes more and more important for the entire banking sector. From our standpoint, the transformation of the sector is shaped by three main factors that interact with each other: continuous development in technology, customer expectations that are redefined everyday by these developments and the needs of the changing world, a competitive environment that requires better understanding of customers than ever before and highly skilled Garanti employees capable of offering the right service in a timely manner by closely monitoring their changing expectations. In such a dynamic environment, each part of the banking value chain is being redesigned within a structure that is integrated with the new technologies. Garanti, having correctly envisioning the future of banking, embarked on a transformation journey, which is continuing. The new service model introduced at our branches was a major step in this journey. Our purpose is to "bring the age of opportunity to everyone".

We are putting great emphasis on integrated management of financial and non-financial risks through effective risk management. Rapid changes in the world are introducing new risk factors to be considered in investment decisions. Investors now need to assess the impact of global warming, changing demographics, privacy concerns and regulatory framework on their investments. This awareness gave rise to an increase in Environmental, Social and Governance-focused (ESG) investing. As Garanti, we are aware of the increasing demands of the ESG investors. Being a company listed not only in Turkey but also in the UK and the US, it is a set target for Garanti to operate within globally recognized high standards. In this sense, in a bid to better address the needs of our diversified shareholder base, we have been publishing our Integrated Annual Report prepared in line with IIRC standards for all our stakeholders for two years. To tackle the new risks presented by the new world, we must focus on positive impact and responsible investments. Thanks to our pioneering role in the area of sustainable

banking, as Garanti, we are representing a good role model for other banks, and further increasing our multiplier effect in terms of contributing to sustainable development.

The path to achieving all of our goals passes through investing in the development and satisfaction of our employees. Our efforts for ensuring equal opportunities and professional development contribute to our high employee engagement score and low employee turnover. We believe that digitalization is a great opportunity to allocate our human capital to more creative projects and this will result in further enhanced employee satisfaction and customer experience.

The synergy we have with our majority shareholder BBVA keeps getting stronger. Pioneering projects creating value for the society and the economy are being accomplished with the sound partnership and collaboration of BBVA and Garanti in the international arena.

While determining our roadmap, we are always striving to correctly interpret and thoroughly analyze the trends that shape the banking business in the world and in Turkey, as well as global and regional macroeconomic events. Apparently, 2019 is set to be a year of continued rebalancing that is ongoing in the global economy. We are fully confident in our country's potential in regards to the achievement of our goals. We will continue to stand by our customers under any circumstance by means of our proactive balance sheet management and competent human resources, and we will keep contributing to the society and the economy, thereby creating value for all our stakeholders.

Sincerely,



SÜLEYMAN SÖZEN
Chairman

LETTER FROM THE CEO



Dear Stakeholders,

2018 has been quite an active year for our economy and our sector. We have registered strong growth rates in the first half of the year; however, in the second half, we have witnessed the slowdown in the economy and increasing tendency toward rebalancing due to both internal and external developments. Meanwhile, in this period, risk factors such as liquidity, capital and asset quality were among the key issues under spotlight for the sector.

With respect to the sector's liquidity, we are going through a critical period in loan to deposit ratio. Deposits that outperformed the loan growth in 2018, positively affected the sector's loan to deposit ratio. Since the beginning of the year, loan to deposit ratio improved by 7bps in the sector, whereas improvement in the ratio was 14bps at Garanti. While maintaining our leadership position in consumer loans and credit cards, our deposit-driven and balanced approach continued on the funding side.

This year some concerns have also surfaced regarding the sector's international borrowings, a non-deposit funding source. Nonetheless, the sector has proven its resilience once again, and many players in the sector, including us, were able to renew their external debts with high rollover ratios. Within the framework of the borrowing program, we provided more than USD 1.3 billion in funding from overseas markets in the last quarter. This was the longest and the highest amount of borrowing of the last quarter of 2018. I would also like to underline our decreased dependency on external borrowing compared to the previous years. Turkey has completed a substantial portion of the large-scale public investments. In this context, Turkish banks have less need for long-term foreign currency funding as project finance investments cut pace versus earlier years. In this sense, I am not anticipating a negative scenario for the year ahead in raising external funds.

The effect of decelerated economic activity on asset quality became visible to a certain extent. The sector's NPL ratio went up to 4% from 3%. Increase in new NPLs largely stemmed from big-ticket corporate loans. In 2019, consumer loans will also put some pressure on asset quality due to anticipated rise in unemployment that will be driven by the cooling economy. However, household indebtedness in Turkey is quite low; actually, it is much lower than that in Eurozone and in developing countries. Therefore, we are in a position to manage these risks.

Capital was another topic that was on the agenda during the reporting period. Capital adequacy ratio of the sector sustains its controlled level as the exchange rate stabilized at a certain level. Our 2018 year-end consolidated capital adequacy ratio of 16.5%, is comfortably above the minimum required level of 12%.

Another key driver that differentiates the Turkish banking sector besides its robust financial structure is digitalization. Our digitally savvy young population enables us to offer a much more efficient and productive banking service through the digital platforms. We realize that mobile banking penetration rate in our country has reached 40%, which puts us ahead of many major European countries including France and Germany. With this awareness, as Garanti, we have been investing in digital transformation for many years. Today, our digital penetration ratio among active customers is 67%.

We have pioneered a new era with our innovative service model designed in the light of digitalization, which enables a one-stop delivery of all services to our customers in the most convenient and fastest manner. During 2018, we have completed the transformation of our entire branch network within the frame of our new service model. With this new model, we have increased the efficiency of our sales force, decreased the waiting times in branches, and improved customer experience.

Supporting responsible and sustainable development is among our strategic priorities at Garanti. We develop our products and services in this manner, and manage our customers' environmental and social risks as well. We support the participation of women in the workforce, and we are striving for the formation of an inclusive economy where all individuals have equal access to opportunities. We have taken on a pioneering

role once again in our sector in the area of sustainable finance with a green loan we have extended in July, which is the first of its kind in Turkey and fifth in the world. Taking place among the 28 banks from five continents representing consolidated total assets of USD 17 trillion, we have been invited by the United Nations Environment Programme Finance Initiative (UNEP FI) to define the new shape of banking to better align with the society's goals. The new Principles on Responsible Banking will allow every bank to credibly showcase their desire and concrete actions to contribute to our society and our planet. As Garanti, we are proud to be part of this historic movement. Being the only bank from Turkey included in a total of eight different sustainability indices including the Dow Jones Sustainability™ Emerging Markets Index, we are aspiring to act as a role model for all our stakeholders in this area.

2019 AND BEYOND

In the year, which was characterized by highly volatile exchange rates, we were in closer and stronger coordination with the economy administration than we have ever been before. We have seen the benefits of this both for our sector and our economy. Yet, the impact of the fluctuations on the real economy will be gradual. Although the rebalancing witnessed from the second half of 2018 will continue for a while in the beginning of 2019, we are expecting recovery to start as of the second quarter. As inflation adopts a normalization trend particularly after the second half of 2019, interest rates will come down and loan growth will gain pace.

Downward trend in inflation has started. While there might be limited upside effects in the first quarter of 2019, we are expecting the decline in inflation to become visible in the second half of the year and to end the year at 16% levels with the lagging effects of the decelerated growth coupled with the appreciation of the Turkish lira.

In this period where rebalancing become evident, being in close relationship with our customers, identifying their problems in advance, and developing solutions jointly are critical both for the financial well-being of our customers, and for the management of our Bank's asset quality. Recognizing this fact, we keep standing by our retail and commercial customers by providing resources when necessary and even through restructuring if it is needed. We will continue to do so.

As Garanti Bank, we are shaping our strategy within the frame of our medium-long term investment plans, and not on short-term targets. Regardless of macroeconomic developments, we will keep pioneering the transformation in the sector with our investments targeted at our business model and customers that make up the base of our strategy,. We will continue to simplify and enhance our processes and operations by evaluating them from the viewpoint of our customers.

While 2018 and 2019 are relatively tough years, we are looking at the future with confidence by taking strength from fundamentally strong banking sector, our capital generative growth strategy, advanced risk management systems and our organizational agility in capturing opportunities. Being one of Turkey's leading institutions, we act with the awareness of our responsibilities on the development of our national economy and contribution to the society. We continue to act with this awareness in our operations.

We will keep working with all our strength in order to create value for all our stakeholders who trust and support us.

Sincerely,



ALİ FUAT ERBİL
President & CEO



TRUE STORIES

GARANTI EMPATHY

WHO NEEDS WHO?



Pamukkale University

UMUT DAĞISTANLI
Customer Representative

One does need others, right? We may tend to think, that every customer, walking in through the door, needs us to get something done for him, or her. But as an old saying goes ‘Only God knows who will need who’. I had a first-hand experience.

It was 2017.. My son Alper is well behaved and calm at home but he is an active, feverish kid elsewhere. That’s why his teacher had been calling all the time, to inform us about his goings at school. My phone rang on a working day once again. I picked up and asked *“Hello Ma’am, did something happen again?”* The teacher said, *“I will tell you something now, but you have to keep calm. Alper hit his head on the corner of an open window. I think he needs stitches. Can you come over?”*

My colleagues were on leave, so it was difficult for me to leave the branch. I called my husband, but he didn’t answer, because he was still in class. A customer of mine, who is an ambulance driver, had come in for a transaction five minutes earlier, and overheard all my conversations. *“Now, do not panic. I will go pick him up”* he offered.

So he picked up Alper and took him to the ER. He got the scar stitched and sent me photos, so that I would not panic. In the meantime, I reached my husband who went to the ER , and took over Alper. I look back and wonder if our customer would do what he did if I had been sulky, whined every time he called, or if I did not offer a friendly service, or did not do my job properly?

A doctor for whom we perform a transaction today, can become our mothers’ doctor the other day; a teacher we provide support, can become our children’s teacher, or we can become the client of a lawyer, who we service today. That’s why, we should offer all the help we can to everyone, so that we will receive the same. You know, only God knows who to need who and when!

*Please scan the QR code
to listen to the story.*

* True Stories are actual events, the names have been changed or anonymized for customer information privacy purposes.



On the eve of a religious holiday, we were attending to our last customers inside the branch at 12:00 o'clock. Our colleagues upstairs who were done for the day were exchanging holiday greetings and leaving. There were long queues in front of the ATMs, taps on the door by customers who saw us inside, asking 'Is the bank closed? I was going to withdraw some money'.. Our security officer was weary trying to get his point across.

On this busy and stressful day, someone was trying to push the door open, so I tried to gesture that we were closed. I said, *"We are closed, you can use the ATM to withdraw money"* The person shouted, *"I don't have an ATM card"* I said, *"We cannot open the door, we are closed"* *"Sir, I am going to do holiday shopping for my kids"* he said sadly.

That brought the world to a standstill. No other sentence could melt the coldest heart and flex the strictest rule. Holidays are not ours any more. They belong to the kids. Don't we all yearn for the holidays we had when we were kids? New clothes, new shoes, early morning rituals and prayers performed with sleepy eyes followed by househopping... We have grown up to be adults who get happy to see this joy passé in the eyes of other children. Can a father who cannot buy holiday clothes for his children spend a good holiday? Can those children?

I told our security officer *"Let's let this gentleman in"*. If the customer had told me his salary would not be deposited for another two hours, I would still wait. We did his transaction and paid him his salary... He said, *"God bless you"*, three words that were equivalent to one thousand thank-you's. He said it so heartily that I was happy like I had bought new clothes for my own children. Since then, I have been saying 'God bless you' to people who help me rather than 'Thank you'. And this is the reason I keep an eye on the door on the eves of Bairam holidays.



Please scan the QR code
to listen to the story.

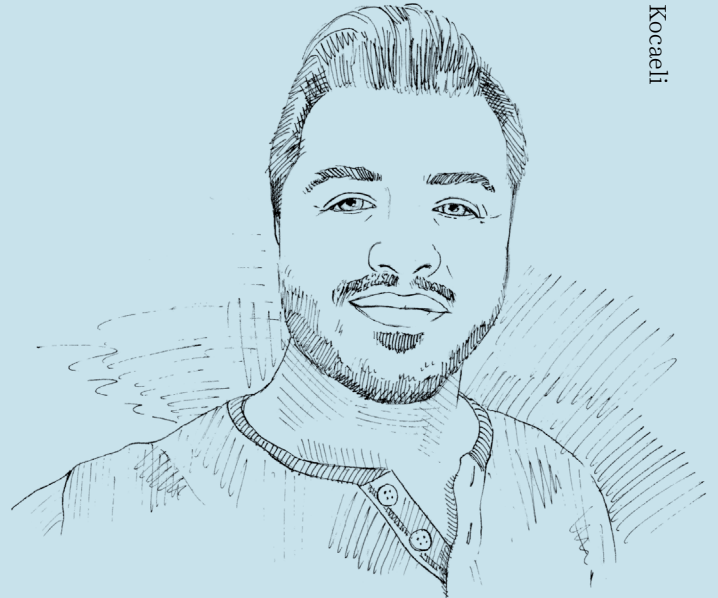
* True Stories are actual events, the names
have been changed or anonymized for
customer information privacy purposes.



TRUE STORIES

GARANTI EMPATHY

EQUIVALENT TO ONE THOUSAND THANK-YOU'S



Bekirpaşa, Kocaeli

EMRAH SEVİM

Customer Representative

THE ENVIRONMENT WE OPERATE IN

2018 MACROECONOMIC OVERVIEW AND 2019 OUTLOOK

A YEAR OF MARKEDLY INCREASED VOLATILITIES

Despite performing better than its trend in recent years, global economic activity lost pace as compared to 2017, and acquired an outlook of decreased synchronization among geographies in 2018. Increased protectionist measures in trade, coupled with the financial stress inflicting some developing economies already began affecting the world growth negatively. Increased volatility in commercial activity and deteriorated confidence indicators confirm that the global outlook is worsening. According to our projections, global growth can come to 3.7% in 2018, similar to its 2017 value, before slowing down to 3.5% in 2019.

Although the anticipated direct impact (trade channel) of the recently introduced protectionist measures is relatively restricted, indirect impact can be higher through confidence and financial channel particularly for China and developing countries. While this situation that pervaded the whole 2018 gave the US a year of positive decoupling owing to her strong performance backed by fiscal policy incentives, the instability that began in the Eurozone, gradual slowdown of China, and the correction in some developing economies such as Brazil, Turkey and Argentina have been the key factors to give a push to the volatility in financial markets.

While China's strategies aimed at alleviating the effects of trade protectionism without further deepening the financial vulnerabilities (by way of successfully managing the level of Yuan and the debt-reduction process in the private sector) are expected to prop growth above 6% in 2019, overall concerns about global growth is likely to be the main agenda topic of 2019. In fact, the postponement of monetary tightening steps by global central banks could prove to be somewhat supportive

for global financing conditions. This could result in relatively more positive portfolio inflows, primarily to developing economies.

With respect to the monetary policy strategies in developed markets, we predict that the normalization process will continue with differentiated steps. We are anticipating the US Federal Reserve (the Fed) to continue rate hikes and to increase the benchmark interest rate to the 2.75-3% interval through two additional rate increases in June and December. We are forecasting that the European Central Bank (ECB) will shift the first repo rate hike timing previously anticipated as December 2019 to June 2020.

As a result, while global outlook has some downside risks, we predict that it could adopt a momentum dominated by trade wars and the Fed's exit strategy (the renewed sell-off pressures in developing economies can act as a potential leverage). The main risks, particularly in the US, could include a faster-than-anticipated tightening by the Fed and a drastic economic slowdown (although low, the likelihood of an economic recession in 2020 is increasing). As the protectionist measures in China bear potential risks that will hinder the debt-reduction process of the private sector. In Europe, uncertainties increase in connection with Brexit, while deceleration in growth reached worrisome levels.

REBALANCING IN THE TURKISH ECONOMY

2018 was anticipated to be a year of rebalancing for the Turkish economy after its strong performance in 2017 that experienced a growth rate of higher than 7%. However, this impact has been somewhat faster and harder than expected. Lagging impact on inflation and current account balance put extra pressure on Turkey's risk premium during the sell-off in developing countries' assets that commenced in March. Moreover, the decision to move presidential and general elections forward

to June 2018 from the scheduled November 2019, and the Constitutional change increased the negative impact on Turkish financial assets. Lastly, geopolitical developments and the conflict with the US led to a free fall in the Turkish currency (TL) on August 10th, resulting in a pronounced deterioration of Turkey's risk premium. The new economy administration immediately responded to these developments with several steps in the right direction. The Central Bank of the Republic of Turkey (CBRT) surprised the market on the upside with 625 bps increase in its policy rate in September (cumulative increase in interest rates in 2018: 1125 bps) and the Government introduced the New Economic Program (NEP) including a strict financial consolidation plan. In the aftermath of these events, the atmosphere dominating the markets was reversed to a positive one upon renewal of syndicated loans by major banks with a rollover ratio of above 100% and the easing of the tension with the US. In addition, Turkey was temporarily exempted from the US sanctions against Iran in relation to importing Iranian oil, which relieved the markets greatly.

As a result, although normalization began replacing the recent financial shocks since September, the lagging impact upon the real economy began to become evident as of the last quarter of 2018. Given these conditions, we are anticipating the Turkish economy to attain around 3.0% growth for the full year, after growing 6.2% in the first half of the year and registering a relatively very weak performance in the second half. This year, we are anticipating growth to slow down to 1%. On the inflation part, we have observed a rapid increase due to the sharp currency depreciation, and the significantly deteriorated pricing behavior. After making its peak of recent years at 25% in October, consumer inflation declined quickly thanks to lower oil prices, appreciation in the currency, poor demand, discount campaigns and tax cuts, and closed 2018 at 20.3%. In 2019, we are expecting year-end inflation to go down to 16% with the support of base effects that will become evident in the second half of the year, in the absence of a further negative shock. In this respect, we foresee that the CBRT will maintain its current stance in the first half of the year, and might initiate limited rate reductions as of June. The developments on the part of fiscal policy will also take place among the key topics of 2019. Since realizations close to the targets set down in the New Economic Program (NEP) will satisfy anticipations, they will support the gains on the exchange rate. We think that 2019 will be a year

of rebalancing for the Turkish economy and also a year of corrections in terms of financial variables.

On the external balance front, shrinking domestic demand caused a rapid reduction of current account deficit in 2018. After producing a monthly surplus for the fourth month in November, the 12-month deficit went down to USD 27.6 billion (3.5% of GDP) by year end (year-end 2017: 5.6% of GDP with USD 47.3 billion). The slowing economy, still-ongoing supportive tourism revenues, and the recently low oil prices have been the key drivers behind the decline in the current account deficit. On the financing side, while CBRT reserves and net errors and omissions made up the main items, there were outflows from the portfolio and net other investments. We estimate the 12-month current account deficit to be around USD 16 billion (2.2% of GDP) at year-end 2019.

Budget realizations proved to be in line with the Government's targets by end 2018. While budget expenditures remained strong due to high personnel expenses and goods & services purchases, budget revenues continued to be supportive thanks to one-off revenues such as zoning reform, tax amnesty and military service by payment. Hence, the central government budget produced a deficit of TL 72.6 billion (1.9% of GDP) in 2018, while primary balance generated a surplus of TL 1.3 billion (0% of GDP). In the period ahead, the extension of tax incentives, the weak performance expected in tax revenues as a result of the slowdown in economy and previously unbudgeted employer subsidies may affect the budget performance negatively. On the other hand, the zoning reform extended until July 2019 and a higher-than-expected profit transfer from the CBRT could act as a buffer against the deterioration in the budget. At the bottom line, we are projecting a budget deficit to GDP ratio of 2.2% in 2018, somewhat above the New Economic Program (NEP) forecast of 1.8%.

OPPORTUNITIES AND CHALLENGES OF THE TURKISH ECONOMY

Serving as a bridge between Asia and Europe, Turkey's economy had a year of rebalancing in 2018. With a GDP of USD 713 billion, Turkey is the 17th largest economy in the world¹. After the global financial crisis in 2008-2009, the Turkish economy managed to grow by more than 6%, a rate that is well above the rates of EU and other developing countries excluding China and proves the

¹ IMF's World Economic Outlook Report dated October 2018. Ranking as of YE 2017

dynamic nature of the Turkish economy. In this respect, although we forecast 2018 and 2019 as a period of rebalancing, we are still projecting our potential growth rate close to 5%.

Fiscal discipline, sound monetary policy, a strong and well-supervised financial system and a reform agenda continue to be the main pillars of Turkey's economic program. Turkey's central government is expected to produce a budget deficit to GDP ratio of 1.9% in 2018. The general government debt stock ratio has been meeting the EU Maastricht Criteria of 60% since 2004.

Another important factor that supports the growth profile is the demographics of Turkey. Turkey has a sizable, young and growing population. With around 80 million people, Turkey has one of the highest populations in Europe and the CEEMEA countries. 55% of the Turkish population is under 35 years old and the labor force is constantly evolving towards a more qualified level with increasing participation of women. In 2030, the population is expected to reach 88 million, compared to a negative growth in Europe and the CEEMEA region.

One of the main challenges Turkey faces is the high dependence of the production on intermediate goods imports, which, being in the lower part of the global supply chain, results in both higher trade and current account deficit as the Turkish economy grows. Hence, it is vital for Turkey to attract capital inflows in order to finance the deficit. This fact has been recently posing challenges as central banks of the advanced economies, especially the Fed, continue to withdraw from the accommodative monetary policies. The likelihood that the monetary policy normalization could be gradual in advanced economies may alleviate the pressure on emerging markets by giving more room to implement necessary reforms as capital inflows would remain moderate despite the likely increase in the cost of financing. To this aim, the economy management in Turkey has already begun implementing some structural reforms such as increasing savings tendencies and lowering intermediate goods imports by replacing them with domestic production.

Another main challenge could be the real sector's open FX position of around 25% of GDP. It exacerbates vulnerabilities of the economy to external shocks as exchange rate volatility could get higher during a turbulence in global financial markets.

Meanwhile, to tackle the problem, the economy management has initiated certain measures such as non-deliverable TL forward contracts and some limitations of foreign currency loans under a risk exposure of 15 million dollars. All in all, together with the program initiated to increase savings, both external financing needs and vulnerabilities in the economy could be diminished as the Government continues to pursue indispensable structural reforms.

OPPORTUNITIES AND CHALLENGES OF THE TURKISH BANKING SECTOR

The Turkish banking sector is strictly regulated and highly monitored by two powerful agencies; Banking Regulation and Supervision Agency (BRSA) and Central Bank of the Republic of Turkey (CBRT).

According to the BRSA sector data as of December 2018, there are 50 banks operating in Turkey (29 private commercial banks, 3 state banks, 13 development and investment banks, 5 participation banks). The top seven banks, three of which are state-controlled, are holding more than 70% of the banking sector's total assets, loans and deposits in Turkey. The current fragmented structure presents future opportunities for mergers and acquisitions between the banks.

Turkey's 55% of the population is younger than 35 years old and bankable population is only 60%². These are among the key indicators of the growth dynamic of the Turkish banking sector. The Turkish banking sector had a cumulative average growth rate of 20% since 2002. Despite this outstanding performance, sustainable credit growth is considered around 15%, given the population dynamics and the banking penetration levels. However, below-potential growth rates emerged as a result of the decelerated economic activity particularly in the second half of the year. This could live on in the second half of 2019, as well. In the second half of 2019, credit growth is expected to pick up with the normalization in inflation outlook leading to an easing in interest rates which will eventually support the loan demand.

Another driver behind the growth of the Turkish banking sector is the high liquidity and solid capital structure of the banks. The Turkish banking sector is in compliance with Basel III guidelines. Although capital adequacy ratios suffered a downturn due to

² Per World Bank's "Turkey: Financial Inclusion Conference" notes dated June 3-4, 2014.

the volatile exchange rates in the third quarter of 2018, they are still strong at 17.3% thanks to the actions taken and the recovery in exchange rates. An in-depth analysis of the capital structure of Turkish banks indicates that the banking sector's capital is mainly made up of Common Equity Tier I capital (as high as 80%), namely paid-up capital, legal reserves, profit for the period and retained earnings. It is just the opposite, however, for European and US banks.

BRSA has been monitoring the liquidity position of the banks closely. Liquidity Coverage Ratio requires banks to carry high quality liquid asset reserve sufficient to cover their net cash outflows and the ratio is well-above required levels indicating at Turkish banks' solid liquidity position.

Customer deposits constituting 50% of the total assets, serve as the main source of funding of the Turkish banking sector. However, average maturities of deposits are mostly 1 to 2 months due to the high inflation/high interest period in Turkey's past. Given this short-term nature of deposits, maturity mismatch is unavoidable for the Turkish banking sector. As it leads to faster deposits pricing versus loan pricing, net interest margin is exposed to short-term pressure when funding costs rise. However, Turkish banks also invest in CPI-linkers in order to hedge their balance sheets against increasing interest environment. Despite the pressure on the margin stemming from the rise in funding costs especially in the second half of 2018, the Turkish banking sector managed to increase its margin to 4.6% compared to 2017 on the back of the high returns on CPI-linkers. From the second half of 2019, loan to deposit spread will likely expand as a result of deposit costs in connection with the anticipated downtrend in inflation, and net interest margin will possibly improve significantly in 2020 in connection with the increasing growth rates.

The sector funds 25% of its assets from external financing resources. As Turkish banks do not fund their long-term loans such as project finance loans or mortgages with short-term deposits, they turn to long-term borrowings from international markets. While that indicates at the sector's sensitivity to external developments, the Turkish banking sector's dependence on external borrowing decreased from 2017 given the slumped demand for long-term FC loans and their redemption, and it will continue to do so.

Resulting from the significant volatility in exchange rates from the second half of 2018, high inflation, increased interest rates, and the associated decelerated economic growth created pressure on the sector's asset quality. Having started the year with an NPL ratio of 3%, the sector ended the year with 4%. While this ratio is relatively reasonable, expected rise in the unemployment figure coupled with the decelerated growth make asset quality a critical topic also in 2019. In this sense, there could be some increase in non-performing loans in the year ahead. However, at 14%, low household indebtedness strengthens the sector's hand with respect to managing risks in the retail segment. The balanced structure of the sector's credit portfolio also offers an advantage in the sense of credit risk management. TL loans continue to constitute the majority of total loans with 60% despite the devaluated Turkish Lira, and thus, balances the default trend arising in loans from the exchange rate risk. On the other hand, FC loans are mostly big project finance loans which are granted to companies with FC revenues and relatively more eligible for restructuring. This nature of FC loans reduces the probability of loss for the sector in the long term.

In the period ahead, there are several critical factors with respect to rendering the funding and liquidity structure of the Turkish banking sector more resilient and ready for any potential development. Among these are introduction of initiatives aimed at increasing household savings in the medium term, increasing the depth of capital markets in Turkey, extending the maturities of funding resources, and steps targeted at stabilizing the shift to foreign currency.

Source: BRSA monthly data of December 2018 were used for sector data. Population data are based on TurkStat's Address-Based Population Registration System Results on 31 December 2018.

CORPORATE PROFILE

Established in 1946, Garanti Bank is *Turkey’s second largest private bank* with consolidated assets of approximately *TL 400 billion* (USD 75.7 billion) as of December 31, 2018.

Garanti is an *integrated financial services group* operating in every segment of the banking sector including corporate, commercial, SME, payment systems, retail, private and investment banking together with its subsidiaries in pension and life insurance, leasing, factoring, brokerage and asset management, besides international subsidiaries in the Netherlands and Romania.

As of December 31, 2018, Garanti provides a wide range of financial services to its more than *16 million customers with over 18 thousand employees through an extensive distribution network of 926* domestic branches, 7 foreign branches in Cyprus and one in Malta, and two international representative offices* in Düsseldorf and Shanghai. Garanti offers an omni-channel convenience with seamless experience across all channels with *5,258 ATMs*, an award winning Call Center, internet, mobile and social banking platforms, all built on *cutting-edge technological infrastructure*.

Moving forward to maintain sustainable growth by creating value for all its stakeholders, Garanti builds its strategy on the principles of always approaching its customers in a *“transparent”, “clear”* and *“responsible”* manner, improving customer experience continuously by offering products and services that are tailored to their needs. Its competent and dynamic human resources, uninterrupted investments in technology, innovative products and services offered with strict adherence to quality and customer satisfaction carry Garanti to a leading position in the Turkish banking sector.

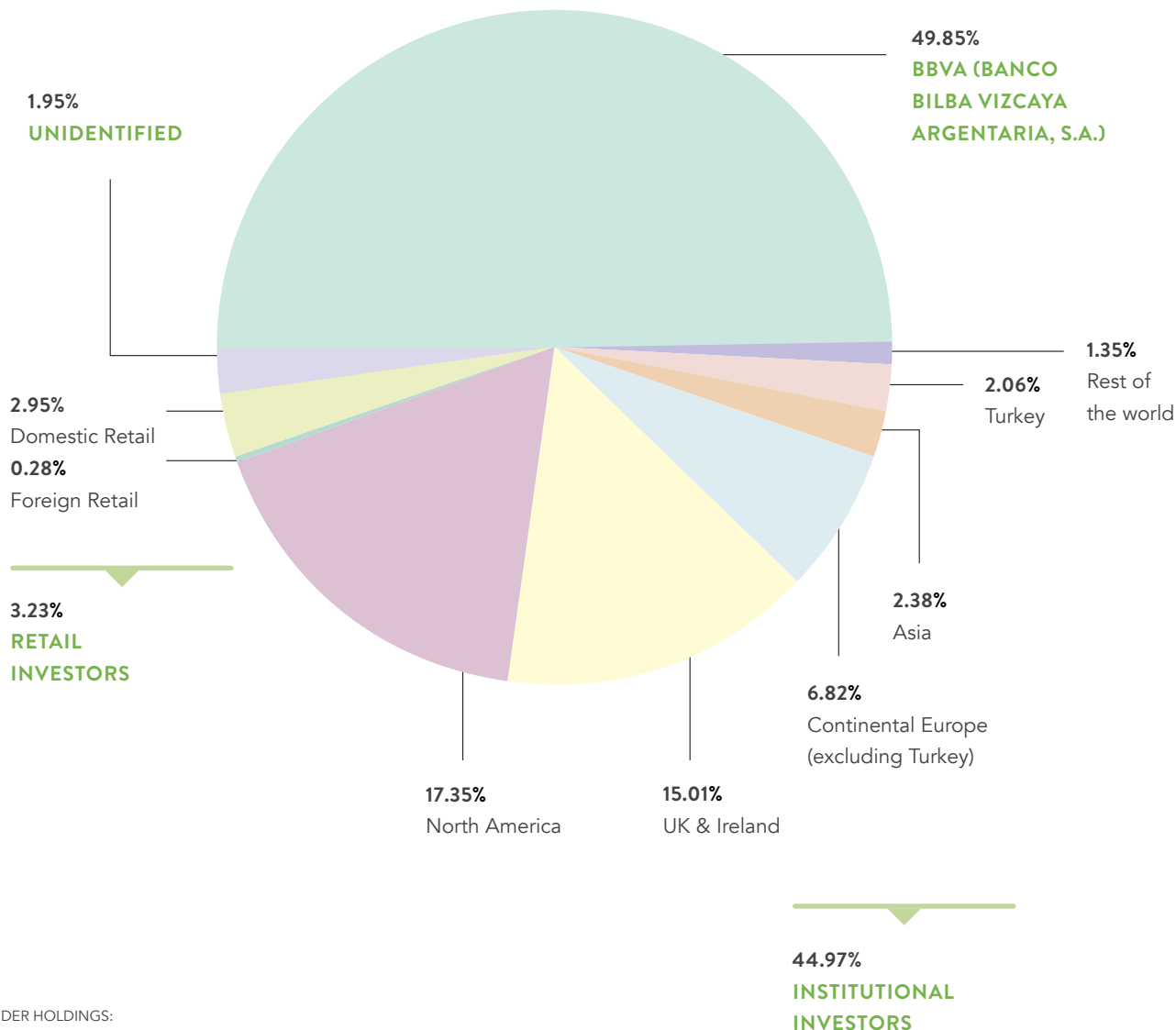
Implementing an advanced corporate governance model that promotes the Bank’s core values, Garanti has Banco Bilbao Vizcaya Argentaria S.A. (BBVA) as its majority shareholder with 49.85% share. Its shares publicly traded in Turkey, and its depositary receipts in the UK and the USA, *Garanti has an actual free float of 50.07% in Borsa Istanbul as of December 31, 2018.*

Garanti’s constantly improving business model is driven by its strategic priorities focused on responsible and sustainable development, customer experience, employee happiness, digitalization, optimal capital utilization and efficiency. Its custom-tailored solutions and wide product variety play a key role in reaching *TL 311.2 billion* (USD 59.0 billion) loans and non-cash loans. Garanti’s capital generative, disciplined and sustainable growth strategy that strictly adheres to solid asset quality enables the Bank to move forward strongly. Its effective risk management through world-class integrated management of financial and non-financial risks and organizational agility in capturing new opportunities result in sustainable value creation for all its stakeholders.

Moreover, Garanti 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 and its stakeholders.

* Representative office in London was closed on 31st December, 2018.

GARANTI'S OWNERSHIP STRUCTURE



INSIDER HOLDINGS:

The chairman, members of the Board of Directors, the CEO and the Executive Vice Presidents are allowed to own publicly-traded shares of Garanti Bank; their transactions in Garanti Bank shares are publicly disclosed pursuant to Capital Markets Board regulations.

Note: There is no ultimate non-corporate controlling shareholder holding more than 5% share in the shareholding structure. Institutional shareholder and foreign individual shareholder composition data based on IPREO Shareholder ID Analysis dated December 2017; the actual free float ratio and the share of local individual shareholders are all based on Central Agency Registry Agency data.

GARANTI'S POSITION IN THE BUSINESS AREAS

RETAIL BANKING

**BUILDING LONG-LIVED
RELATIONSHIPS WITH
OUR CUSTOMERS**

15.9 million

Retail customers
(based on Garanti's definition)

518 thousand

people became
homeowners with Garanti

1.6 million

customers saved with Garanti

14%

Consumer Loan Market Share
(#1 in consumer loans among private peers)

12%

Mortgage Market Share
(Mortgages / GDP: 6%
- Huge growth potential)
(NPL ratio: 0.8%)

11%

Customer Deposit
Market Share
(Demand deposits share in
customer deposits: 25%)
(vs. sector: 21%)

SME BANKING

**WE OFFER INFORMATION
AND ADVISORY SERVICES
TO SUPPORT THEIR
DEVELOPMENT**

9%

TL Business Banking Loans
Market Share

24%

Share of SME loans
in TL loans
(based on BRSA definition)

COMMERCIAL & CORPORATE BANKING

**WE POSITION OURSELVES
AS THE PRIMARY BUSINESS
PARTNER OF OUR
CUSTOMERS**

10%

FC Loans Market Share

29

Commercial Branches

4

Corporate Branches

Note: Market shares are calculated based on BRSA Unconsolidated Financials as of December 31, 2018

PAYMENT SYSTEMS

STRONG PRESENCE IN THE CREDIT CARD BUSINESS. LICENSE TURKEY'S LOVEMARK BONUS CARD TO 10 OTHER BANKS

19%

Acquiring & Issuing
Market Share

7 million

Leader in credit card
customers

690 thousand

16% market share in POS

DIGITAL BANKING

WE HAVE BEEN INVESTING IN DIGITAL FOR MORE THAN 20 YEARS TO OFFER OUR CUSTOMERS SEAMLESS OMNI-CHANNEL EXPERIENCE

MOBILE

Best in class in Europe¹

63% of non-cash financial
transactions

INTERNET

>500 types of transactions

23% of non-cash financial
transactions

ATM

Cash deposits/withdrawals: **102%**

Serving non-bank customers
through cardless transactions

SOCIAL MEDIA

One of the most followed
financial institutions in Turkey
and in Europe, with over
5 million followers

CALL CENTER

73.4 million customer contacts

32 sec. average response time
(sector 81 sec)

INTEGRATED SUBSIDIARIES

 **GarantiBank NV**
BBVA Group

Asset Contribution: **6.11%**

 **Garanti** | Romania
BBVA Group

Asset Contribution: **3.36%**

 **Garanti** | Pension
BBVA Group

Asset Contribution: **0.63%**

 **Garanti** | Leasing
BBVA Group

Asset Contribution: **1.56%**

 **Garanti** | Factoring
BBVA Group

Asset Contribution: **0.72%**

 **Garanti** | Securities
BBVA Group

Asset Contribution: **0.08%**

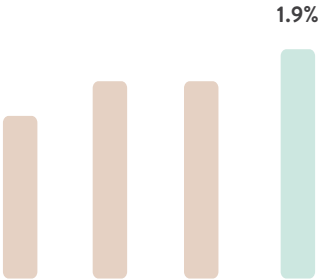
 **Garanti** | Asset
BBVA Group Management

Asset Contribution: **0.02%**

¹ In customer user experience per Forrester's Global Mobile Banking Functionality Benchmark Study, 2018

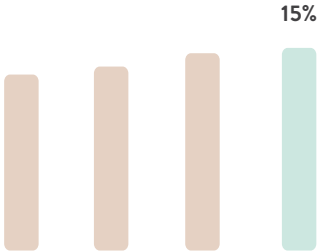
GARANTI'S POSITION IN THE SECTOR

ROAA



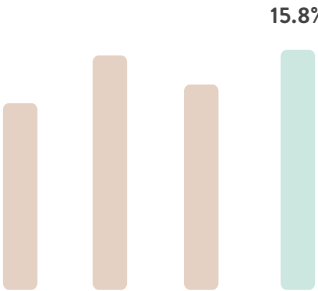
Highest

ROAE



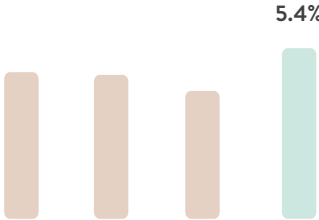
Highest

CET-I



Highest

NIM INCL. SWAP COST

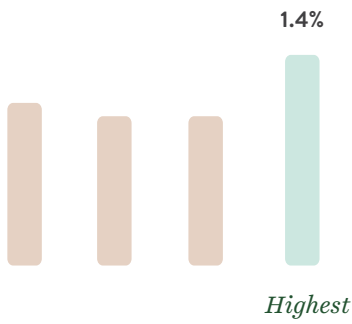


Highest

Peers Garanti

Note: For fair comparison with the peers, latest available bank-only financials (31.12.2018) were used. Rankings are among private peers.

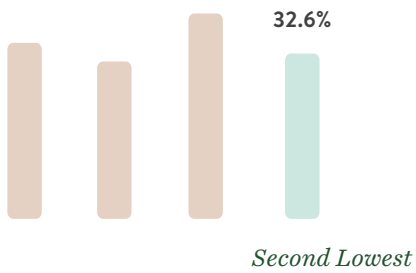
NET FEES & COMMISSIONS /
IEA & NON-CASH LOANS



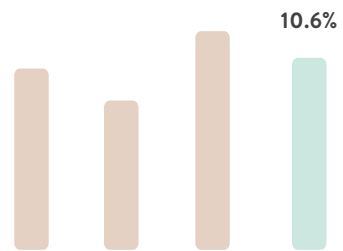
ASSET MARKET SHARE



COST/INCOME¹



LOANS MARKET SHARE



¹ Income defined as NII + Net F&C + Trading gains/losses excluding FX provision hedges + Other income excluding provisions reversals + Income from subsidiaries.



TRUE STORIES

GARANTI EMPATHY

NOT JUST OUR JOB BUT OUR LIFE IS ABOUT RELATIONSHIPS

Nigde



TANER BALABAN

Retail Banking Customer
Relationship Manager

“How many homes can one purchase in a lifetime? Who can one turn to for assistance? To whom one can entrust the hard work of thirty years spent abroad, away from family?”

Our customers coming in to ask about housing loans usually look excited and at the same time slightly worried about repaying. After I listen to them, I put together a repayment plan that suits them. A housing loan is a longterm relationship; the first day, the initial handshake, being instrumental in helping them own their home and hearing this from them is a bliss. When a customer that you have extended a housing loan invites you over for a cup of tea, when you are considered family, when they believe in your sincerity and trust you, then you know you have built a solid relationship with them.

I had met a customer during his home purchasing process who was going to buy a flat in İzmir. He had told me he had gotten quotations from other banks as well. I prepared a repayment plan. While we talked about repayment and charges, his realtor called with the news of a suitable flat.

Together, we looked at the pictures the realtor sent. Our customer called his realtor and said **“Can you send the title deed to Taner Bey?”** When I told him I was happy that he had chosen us and that I would finalize the procedures a.s.a.p., I was totally surprised and utterly delighted with his response: **“You were more excited than me when we were looking at the pictures. You did understand what this house means to me. You even had suggestions about the decoration (which I had not realized). This is why I chose you.”**

It was a happy day for me. Although I have not heard it from customers on other occasions, I noticed I approach everybody in the same way. Leaving aside the decoration tips :)

Please scan the QR code
to listen to the story.

* True Stories are actual events, the names
have been changed or anonymized for
customer information privacy purposes.



In April 2015, a gentleman came in seeking information about mortgage loans. It was a challenge for us to extend housing loans since there is only one real estate agent in Dinar. So we did our best to grab every opportunity in this respect. The gentleman asked several questions including ***“Up to which age do you extend a loan? Can one with just pension income qualify for a mortgage loan?”***

It turned out to be that the loan was for his mother-in-law.

I told him loans were available up to ten-year maturity.

This is how I met Ayşe Teyze and her family. The loan application was filed, and ultimately denied upon evaluation. The description section of the report read ***“Location could not be determined on the basis of apartment block.”*** We could not pursue with a general-purpose loan because the family could not afford to repay in short term. I didn’t know whether to feel sorry for the wasted surveyor fee, or for the non-refundable deposit. Until the final verdict on the loan came, they called every day -so very shyly- to ask, if there were any developments. I thought I had to do something for that family. First, I thoroughly reviewed the report. Then I went to the Title Registry Office and talked in detail with the Assistant Director. We took photos of the files related to that title deed. As a result of my thorough scrutiny and efforts, we managed to reverse the denial for the requested loan.

It was the time to sign the loan documents. Ayşe Teyze had forgotten to bring her reading glasses that day and she was skipping letters. I told her that I had time and she should take it easy; I spelled out everything she was supposed to write down. The signing took one and a half hours to be exact. At the end of each sentence, she would put her prayers out for me: ***“May God reward you my child, may all your wishes come true.”*** Several months later, Ayşe Teyze and I ran into each other at a wedding. We hugged and I kissed her hand the Turkish way, and introduced her to my mother. My mother’s face beamed with happiness when she heard Ayşe Teyze say ***“My dear Emine made us home-owners, I send my prayers out for her every day.”*** That made everything worthwhile.



Please scan the QR code
to listen to the story.

* True Stories are actual events, the names
have been changed or anonymized for
customer information privacy purposes.



TRUE STORIES

GARANTI EMPATHY

I HAD TO DO SOMETHING FOR THAT FAMILY

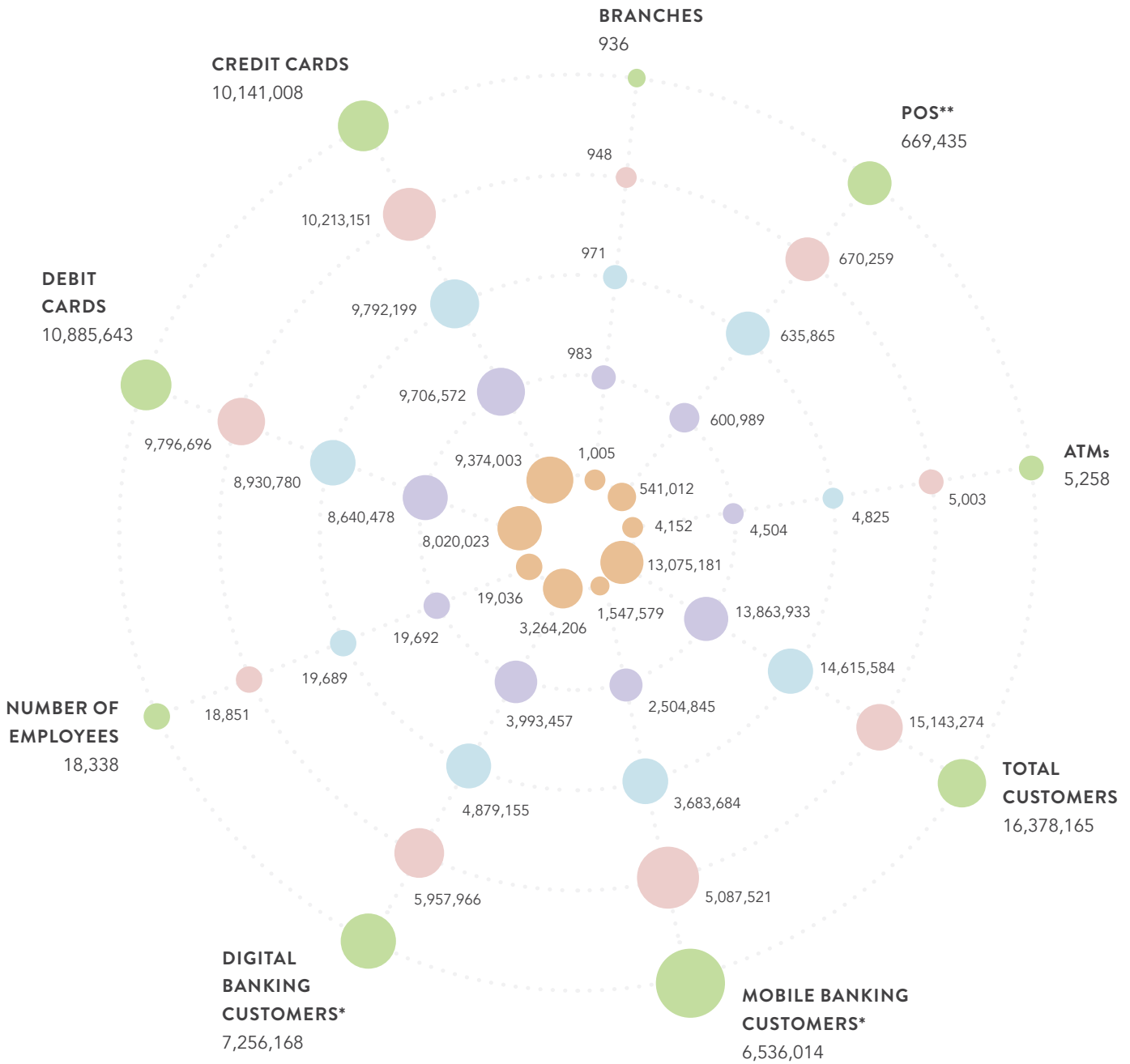


Dinar, Afyonkarahisar

EMİNE KARACA

Customer Representative

GARANTI IN NUMBERS



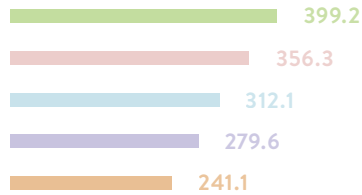
2018 2017 2016 2015 2014

* Restated for 2016 and 2017 due to change in scope. Active customers on - min. 1 login or call per quarter.

** Includes shared and virtual POS.

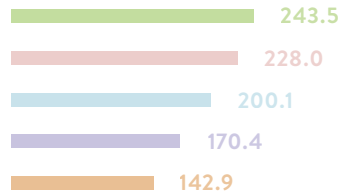
ASSETS

(TL billion)



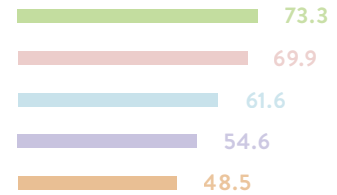
PERFORMING CASH LOANS

(TL billion)



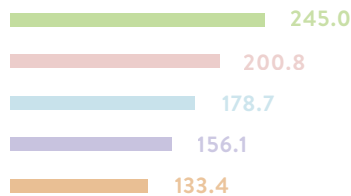
CONSUMER LOANS***

(TL billion)



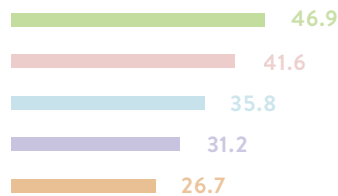
DEPOSITS

(TL billion)



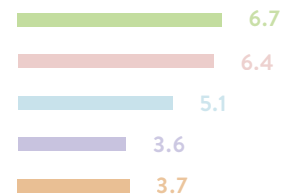
SHAREHOLDERS EQUITY

(TL billion)



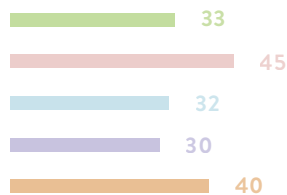
NET INCOME

(TL billion)



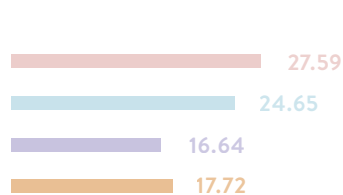
MARKET CAPITALIZATION

(TL billion)



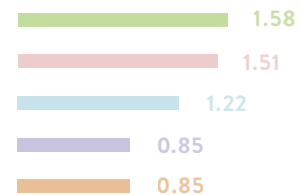
DIVIDEND PAYOUT RATIO

(%)



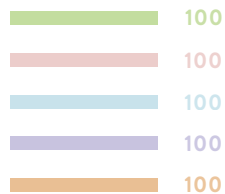
EARNINGS PER SHARE

(in TL)

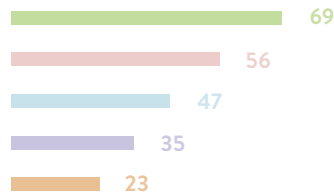


% OF RENEWABLES IN ENERGY PRODUCTION PORTFOLIO

(in new PF greenfield commitments)

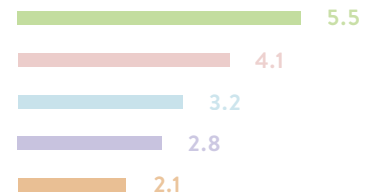


NUMBER OF FINANCED PROJECTS WHICH ARE SUBJECTED TO ESIAP (Cumulative)****



TOTAL LOAN GRANTED TO WOMEN ENTREPRENEURS

(Cumulative, TL)



2018 2017 2016 2015 2014

*** Including consumer credit cards

**** Voluntary assessments are included. Number of projects increased due to the new definition, please refer to Appendix A-1 for details.

GARANTI BANK SHARE

GARAN TICKER AND CODES

ISTANBUL - BORSA ISTANBUL

Symbol: GARAN *Sedol:* BO3MYP5

ISIN: TRAGARAN91N1 *CUSIP:* M4752S106

DEPOSITARY RECEIPTS LEVEL - 1

LONDON - LONDON STOCK EXCHANGE

Symbol: TGBD *Sedol:* 2599818

ISIN: US9001487019 *CUSIP:* 900148701

NEW YORK - OTCQX INTERNATIONAL PREMIER

Symbol: TKGBY *ISIN:* US9001486029 *CUSIP:* 900148602

DEPOSITARY CERTIFICATES - 144A

LONDON - LONDON STOCK EXCHANGE

Symbol: 39IS *Sedol:* 2557571

ISIN: US9001487019 *CUSIP:* 900148701

NEW YORK - OTC MARKETS

Symbol: TKGZY *ISIN:* US9001486029 *CUSIP:* 900148602

Garanti Bank initially *offered its shares to public in 1990 on Borsa Istanbul* and has become the first Turkish company to *offer its shares on international markets in 1993*. Garanti's Depositary Receipts are listed on the London Stock Exchange Main Market and OTC (Over-The-Counter) Markets in the USA. In 2012, Garanti participated in the prestigious tier of the U.S. Over-The-Counter (OTC) market, *OTCQX International Premier*, where companies traded must meet high financial standards and an effective disclosure process.. Trading on this

market with 62 leading companies of the world, Garanti has established itself among the top Depository Receipts traded on the OTCQX marketplace and ranked 30th per Market Capitalization, 61st per Dollar Volume and 42nd per Volume in 2018.

Garanti Bank has a market capitalization of TL *33.4 billion (USD 6.3 billion)* as of the end of 2018 and is the most valuable bank in Turkey. With a free float ratio of 50.07% and *TL 16.7 billion* floating market capitalization, Garanti also has the highest free float in BIST 100. Garanti Bank share (GARAN) is the *most traded banking stock in Borsa Istanbul* with an *average daily turnover of TL 804 million (USD 165 million)* and has *11% market share in BIST 100 turnover*. GARAN was the most traded stock by foreign investors with a total foreign transactions turnover of *USD 29 billion in 2018*. Furthermore, GARAN has the highest weight in BIST 100 and in BIST 30 as of 2018 year-end.

88%* of Garanti's shares in the free float is owned by foreign investors that are spread to around 37 countries. The composition of the institutional shareholding structure of Garanti by geographical regions is 38.6% North America, 33.4% UK and Ireland, 15.2% Europe, 5.3% Asia, 4.6% Turkey and 3% the rest of the world. Communicating the value created in a pro-active, transparent and consistent way, during 2018, Garanti Investor Relations took part in 34 national and international investor conferences held in 13 cities in Asia, USA and Europe with the participation of senior management, in addition to the one-on-one meetings with 967 international investment funds. Garanti continued to organize live webcasts/ teleconferences bringing its senior management together with the investment community in 2018, and made presentations on its financial results four times a year, as well as a video cast on its operating plan for the following year that described its forward looking projections. Investor Relations published

* Central Registry Agency (CRA) foreign clearing custody data have been used.

TL 33.4 BILLION

Market Capitalization - Most Valuable Bank in BIST100

TL 804 MILLION

Average Daily Turnover

11%

Turnover Market Share - The Most Traded Banking Stock of BIST100

TL 16.7 BILLION

Highest Floating Market Capitalization in BIST

USD 29 BILLION

Total Foreign Transactions in 2018 - The Most Traded Stock by Foreigners

TL 1.58

Earnings per Share

The Most Traded Stock by
FOREIGNERS

BIST 30 & BIST 100

Highest Weight

the recordings of these presentations on its website. The full audio recordings of all of these events were posted on Garanti Investor Relations website, Investor Relations applications on iPad and Android tablet. Contents prepared both in Turkish and English for the convenience of the investment community enable investors from all around the world to have easy access to all the information they need.

Commitment to its irreplaceable values of the principles of trust, integrity, accountability and transparency serves as the guarantee of the Bank's strong reputation and is Garanti's main responsibility to all its stakeholders. The steps Garanti takes to create value for the economy, the society and all its stakeholders are recognized by national and international authorities. Having qualified for *BIST Sustainability Index* and *BIST Corporate Governance Index* in 2014, Garanti still continues to be listed in these indices. In 2018, Garanti continued to be *the only bank from Turkey* listed in the *Dow Jones Sustainability™ Emerging Markets Index (DJSI)*, after being qualified in 2015. Companies included in the DJSI index are determined upon evaluation against a number of criteria including ethics, corporate governance, financing activities, environmental and social performance throughout the value chain, risk management, climate change mitigation, transparency, supply chain, human and employee

rights. Garanti qualified for this index also in 2018, and thus, preserved its place in the index for the fourth consecutive year.

In addition to these, Garanti continued to qualify and remain a constituent of the *FTSE4Good Emerging Markets Index*, which is the independent organization jointly owned by the London Stock Exchange and the Financial Times and designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Moreover, through its various practices and initiatives for ensuring gender equality in human resources, among customers and the community, Garanti 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.

EQUITY ANALYSTS' RATINGS

Garanti Bank shares are widely covered by research analysts of leading domestic and international investment banks and brokerage houses. In 2018, 28 institutions have regularly issued equity research reports on Garanti. As of the end of 2018, 21 analysts had "BUY", 5 analysts had "HOLD" and 2 analysts had "SELL" recommendation on Garanti stock.



OUR GOVERNANCE

Garanti Bank's effective Board of Directors is at the heart of Garanti's well-functioning governance structure and goes beyond fiduciary responsibilities. It acts as the ultimate internal monitor and contributes an outside view to corporate strategy, oversees performance against the strategy set out and helps Garanti thrive in the long run. To ensure effective risk management, the Board monitors compliance, internal control and risk management policies and systems that are aligned with the Bank's strategy and risk appetite, as well as subsequently performing its oversight function.

KEY CHARACTERISTICS OF THE BOARD OF DIRECTORS

Garanti has a one-tier Board of Directors that is formed by 10 members with the composition of 1 female and 9 male board members as of 31 December 2018. In accordance with the principle of separation of powers and authority, the Chairman and the CEO have different roles at Garanti Bank. This clear distinction establishes a balance between authorities and powers within the scope of the Bank's corporate structure, drawing the lines of decision-making capacity of each position. The CEO is the only executive member of the Board of Directors.

The composition of the Board with 3 independent members supports the exercise of independent and objective judgment. Garanti's Board of Directors brings together members with the right combination and diversity of skills, background, knowledge, expertise and experience. Three non-executive members of the Board have board memberships in Garanti subsidiaries, two non-executive members have board memberships in other companies and two non-executive members have board of trustees memberships in foundations.

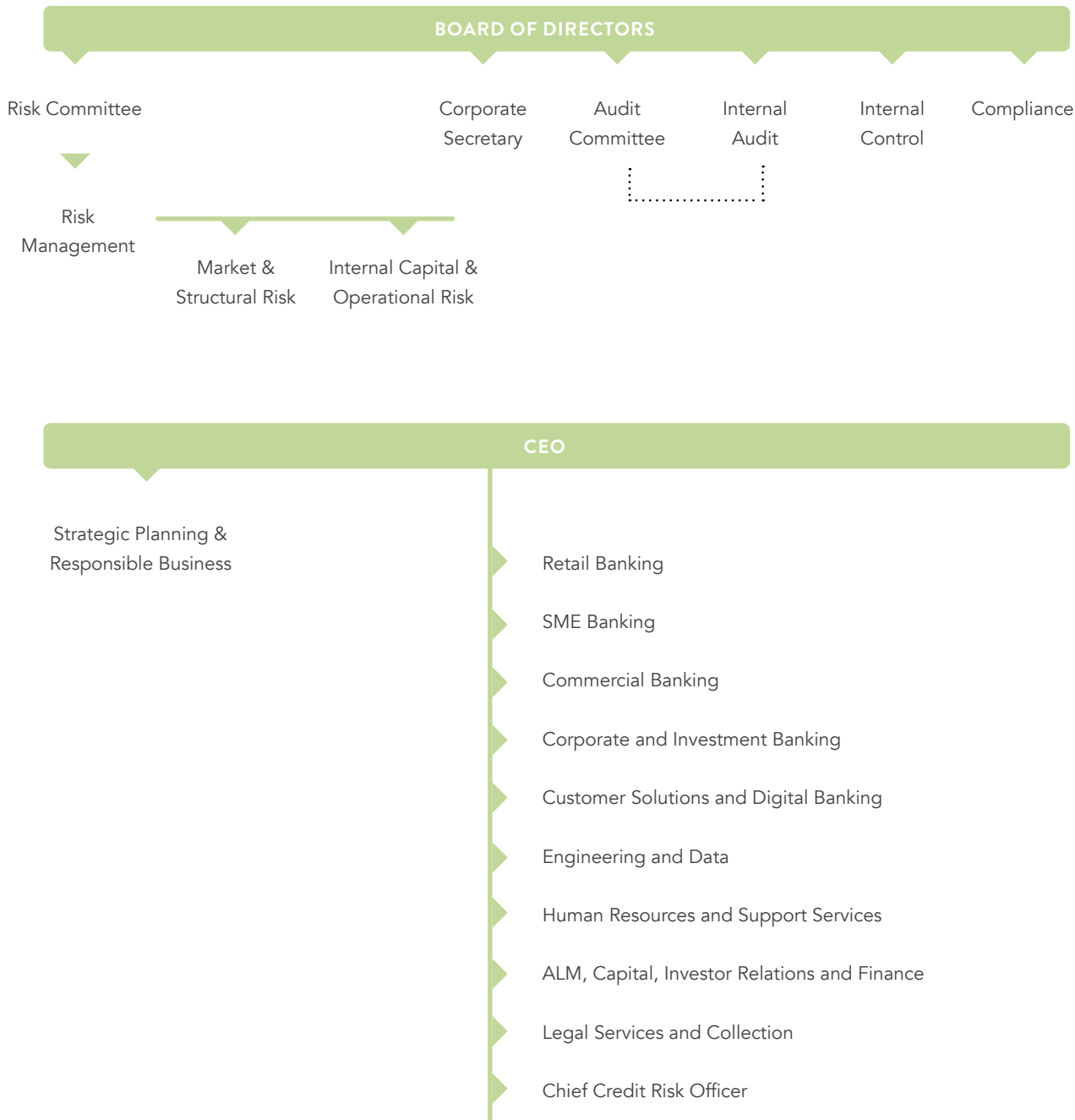
BOARD MEETINGS

The Board of Directors operates on the principle that it must convene as and when necessitated by the Bank's affairs and transactions, but at least once a month. Pursuant to the Articles of Association of the Bank, the Board of Directors meets with the attendance of seven members minimum and resolutions of the Board of Directors are taken by affirmative votes of at least seven members present in the meeting. In 2018, the Board of Directors passed 17 decisions by satisfying the required quorums for meeting and decision.

CORPORATE GOVERNANCE

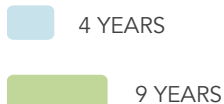
The Corporate Governance Committee is responsible for monitoring the Bank's compliance with corporate governance principles, undertaking improvement efforts, nominating the independent board members, and offering suggestions regarding the nominees to the Board of Directors. As an indication of its commitment to, and the emphasis it places on, corporate governance, Garanti has been receiving Corporate Governance Rating since 2014. Increasing its score every year ever since, Garanti continues to be included in Borsa İstanbul Corporate Governance Index with a score of 9.60 assigned to it in 2018.

ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS

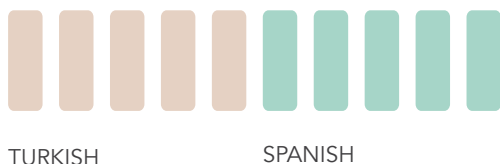
AVERAGE TENURE



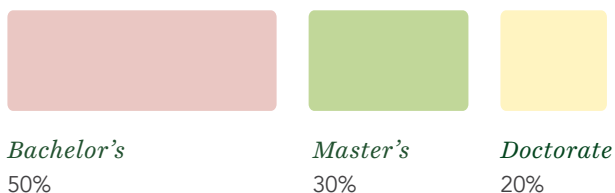
AVERAGE EXPERIENCE



NATIONALITY

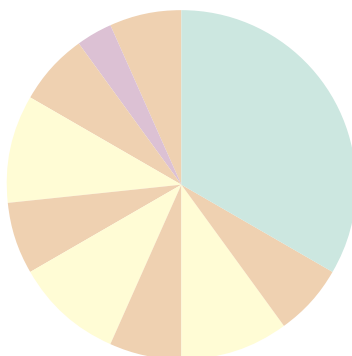
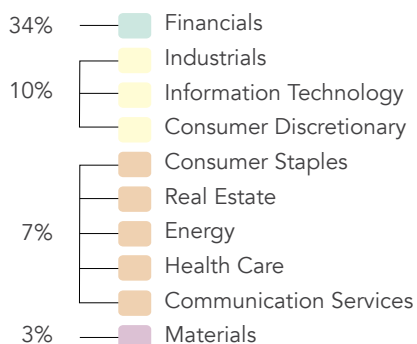


EDUCATION



EXPERIENCE COMPOSITION

Chart is prepared in accordance with the Global Industry Classification Standard (GICS). The Global Industry Classification Standard (GICS) is an industry taxonomy developed by MSCI and Standard & Poor's (S&P) for use by the global financial community.



COMMITTEE MEMBERSHIP

- 1 Credit Committee
- 2 Audit Committee
- 3 Corporate Governance Committee
- 4 Remuneration Committee
- 5 Risk Committee
- 6 Employee Committee
- 7 Customer Committee
- 8 Garanti Assets & Liabilities Committee
- 9 Weekly Review Committee
- 10 Cost Management & Efficiency Committee
- 11 Sustainability Committee
- 12 Personnel Committee
- 13 Consumer Committee
- 14 Integrity Committee
- 15 Volcker Rule Oversight Committee
- 16 New Business and Product Committee
- 17 Responsible Business Committee
- 18 Corporate Assurance Committee
- 19 Innovation Committee



SÜLEYMAN SÖZEN
Chairman

5



ALİ FUAT ERBİL
President & CEO

1 6 7 8 9 10 11 12 14 15 17 18 19



M. CÜNEYT SEZGİN
Board Member

6 9 11 13 14 15 16 17 18



ERGÜN ÖZEN
Board Member

4



JAVIER BERNAL DIONIS
Board Member

1 3 5 6 7 9 10



JAIME SAENZ DE TEJADA PULIDO
Board Member

1



RAFAEL SALINAS MARTINEZ DE LECEA
Board Member

1 5



JORGE SÁENZ-AZCÚNAGA CARRANZA
*Independent Board Member,
Vice Chairman*

1 2 3 4



RICARDO GOMEZ BARREDO
Independent Board Member

2



SEMA YURDUM
Independent Board Member

2 3

SENIOR MANAGEMENT



- 1 Osman Tüzün
- 2 Cemal Onaran
- 3 Ebru Dildar Edin
- 4 Aydın Güler
- 5 Ali Fuat Erbil
- 6 Aydın Düren
- 7 Didem Dinçer Başer
- 8 Ali Temel
- 9 Mahmut Akten
- 10 Selahattin Güldü
- 11 İlker Kuruöz

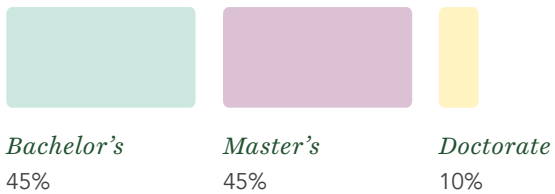
GENDER



FEMALE MALE



EDUCATION



AVERAGE EXPERIENCE



COMMITTEES AND POLICIES

There are a number of committees set up at the Bank to fulfill the supervisory function. The Board of Directors oversees and audits the entire Bank via these committees. The committees organized under the Board of Directors are Credit, Audit, Corporate Governance, Remuneration and Risk Committee.

In addition to these, there are committees whose members are composed of the Board of Directors members (Employee Committee, Customer Committee, Garanti Assets & Liabilities Committee, Weekly Review Committee, Cost Management and Efficiency Committee, Sustainability Committee, Personnel Committee, Consumer Committee, Integrity Committee, Volcker Rule Oversight Committee, New Business and Product Committee, Responsible Business Committee, Corporate Assurance Committee, Innovation Committee) and/or the Bank's executives (Risk Management Committee, Disciplinary Committee, Information Security Committee, Wholesale Credit Risk Committee, Credit Admission Committee, Retail Credit Risk Committee, Risk Technology and Analytics Committee, Local Benefits Committee, IT Risk and Internal Control Committee,

Credit Cards and Member Merchants Pricing Committee).

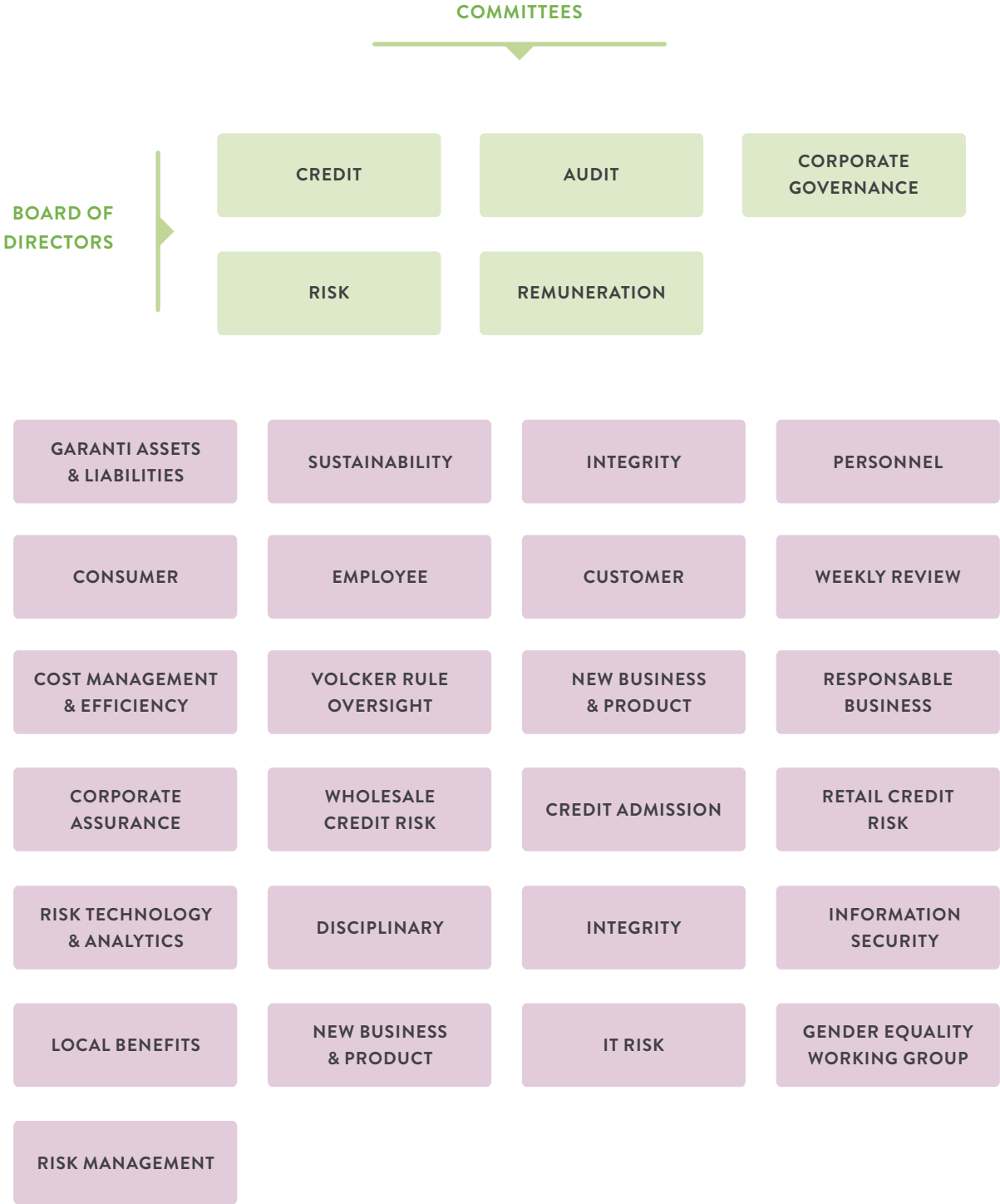
Commitment to its irreplaceable values of the principles of trust, integrity, accountability and transparency is Garanti's main responsibility to all its stakeholders, particularly its customers and employees, and serves as the guarantee of the Bank's strong reputation. In line with the importance the Bank attaches to Corporate Governance Principles and ethical values, Garanti established a number of policies, codes and statements governing conduct and business relationships. Through these documents, an interaction structure has been established between the Board of Directors, senior management and committees and the Bank, corporate culture has been strengthened, and good governance practices have been introduced.

Detailed information on the policies, codes and statements mentioned below can be found under the Corporate Governance tab on Garanti Investor Relations website.



POLICIES





RISK MANAGEMENT REVIEW

Garanti Bank measures and monitors its risk exposure on consolidated and unconsolidated basis by using methods compliant with international standards, and in accordance with the applicable legislation. Advanced risk management tools are utilized in measuring operational risk, market risk, asset and liability risk, counterparty credit risk and credit risk.

The Bank's risk management strategy, policies and implementation procedures are reviewed within the framework of regulatory changes and the Bank's needs.

The risk management process is set up in such a way that the material themes and strategic goals are linked and are the basis for the risks and opportunities identified.

Through the risk appetite framework, the Bank determines the risks that it is prepared to take based on the predicted capability of safe handling of risks so as to achieve the goals and strategic objectives as defined by the Board of Directors. Risk-based limits and metrics pertaining to capital, liquidity and profitability, which have been established as per the risk appetite framework, are monitored regularly.

Risk Management handles the preparation of the ICAAP report by coordinating the related parties, which will be submitted to the BRSA. In addition, the stress test report is submitted to the BRSA, which addresses how the potential negative effects on macroeconomic data might alter the Bank's three-year budget plan and results within the framework of certain scenarios, as well as their impact upon key ratios including the capital adequacy ratio.

Within the risks managed, the Bank defines the risks and risk factors in dimensions such as customer-centeredness, workplace, ethics and citizenship, finances and leadership, as well as a map in which it prioritizes the Reputational Risks it faces, together with a set of action plans to mitigate these risks. The risks are then governed through the relevant committees within the Bank's extensive committee structure.

Environmental and Social Risks associated with financing activities that could result in adverse impacts on the environment and society are governed through methods and procedures that transcend international practices and in a way that covers the entire credit portfolio.

Operational Risk covers processes, internal and external fraud, technology, human resources, business practices, disasters and suppliers, and is managed on the basis of the three lines of defense approach within the framework of risk management policies approved by the Board of Directors.

Market Risk is managed by measuring and limiting risk in accordance with international standards, allocating sufficient capital and minimizing risk through hedging transactions.

To determine and manage the Bank's exposure to Structural Interest Rate Risk arising from potential maturity mismatches in its balance sheet, duration gap, economic value of equity (EVE), economic capital (ECAP), credit spread risk sensitivity, net interest income (NII), earnings at risk (EaR) are monitored by measuring market price sensitivity of securities portfolios followed up in the banking book.

The potential impact of negative exchange rate fluctuations upon the capital adequacy ratio and FC risk-weighted assets are regularly followed up, monitored according to internal limits, and reported within the scope of Structural Exchange Rate Risk, in the case that the Bank performs material operations in currencies other than the local currency in its balance sheet or maintains positions for shareholders' equity hedging purposes.

Liquidity Risk is managed within the framework of liquidity and funding risk policies approved by the Board of Directors under the supervision of ALCO and the Weekly Review Committee in order to take appropriate and timely measures in case of liquidity squeeze arising from market conditions or Garanti Bank's financial structure.

Credit Risk management, which is a process for consistently evaluating and monitoring credit risk, covers all credit portfolios. In order to rate customers using objective criteria, outputs from scorecard models and internal risk rating models, which were developed using statistical methods on historical data, are incorporated into relevant lending policies and procedures.

Measurement, monitoring and limit creation activities for Counterparty Credit Risk are managed in accordance with the policy, which is approved by the Board of Directors and encompasses strategy, policy and procedures.

Under the Country Risk policy approved by the Bank's Board of Directors, methods compliant with international norms and local regulations are employed to evaluate and monitor

developments in country risk on the basis of individual countries and related reporting, control and audit systems are established as necessary.

The Bank defines and monitors Concentration Risks on the basis of different types of risks or individual risks, which might result in material losses that would endanger the ability to sustain fundamental activities or the financial structure or lead to a significant change in the risk profile, within the framework of the policy approved by the Board of Directors. Risks for Affiliates subject to consolidation are managed in coordination with risk management units/functions in affiliates in accordance with the scale appropriate for the structure, complexity level, size and risks.

MATERIAL CLUSTERS	VALUE DRIVERS	MAIN RISK AREAS
CUSTOMER EXPERIENCE	<ul style="list-style-type: none"> • Offer our customers an excellent experience by placing them at the center of all our activities and efforts • Always be transparent, clear and responsible towards our customers • Design our processes from our customers' perspective, vesting them in a swift, easy and plain format • Help our customers in making informed decisions through supporting financial literacy, health and inclusion in solutions that we offer • Have long-lived relationships with our customers that are built on trust by exceeding their expectations and enhancing their satisfaction • Offer innovative solutions and advise our customers to grow their businesses in a sustainable manner 	Reputational Risk Environmental and Social Risk
FINANCIAL PERFORMANCE	<ul style="list-style-type: none"> • Use capital effectively so as to maximize the value to be created • Focus on disciplined and sustainable growth on the basis of true banking principle • Strict adherence to solid asset quality • Constantly improve business model and processes with operational and environmental efficiency point of view • Cost and revenue synergies 	Operational Risk Country Risk Market Risk
DIGITAL TRANSFORMATION	<ul style="list-style-type: none"> • Constantly invest in digital platforms so as to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions • Expand our digital customer base and increase the share of digital channels in our sales • Take precautions against all risks which could prevent secure and uninterrupted service (e.g. cyber threats) ensuring information security 	Structural Interest Rate Risk Structural Exchange Rate Risk
INVESTING IN HUMAN CAPITAL	<ul style="list-style-type: none"> • Invest in our employees focusing on their development, satisfaction and wellbeing • Form teams possessing team spirit, acting with shared wisdom, social responsibility and delivering results • Embrace a fair and transparent management policy based on performance, focused on equal opportunities, diversity and promoting from within 	Liquidity Risk Credit Risk Counterparty Credit Risk
RESPONSIBLE AND SUSTAINABLE DEVELOPMENT	<ul style="list-style-type: none"> • Implement an advanced corporate governance model that promotes our core values • Act with the principles of trust, integrity, accountability and transparency to all stakeholders • Effective risk management through world-class integrated management of financial and non-financial risks • Create shared value through lending based on impact investment principles • Drive positive change through strategic partnerships • Focus on community investment programs which deliver impactful outcomes on material issues 	Concentration Risk Related Party Risks



TRUE STORIES

GARANTI EMPATHY

I HAD TRULY BECOME A MEMBER OF THAT FAMILY



There is my Ahmet Amca. To everyone else, he is a customer. To me, he is a retired young man who always dresses nicely with a matching tie, his now-thin hair neatly combed and always smelling clean at his 70 years of age. Ahmet Amca is a customer I cherish; I love to chat with him and he has priceless advices to offer me. He has five children, four of whom live in other cities. Whenever he goes to visit one of them, he makes sure to stop by and let me know. We have built a wonderful father-daughter relationship. He would visit me regularly every week. I would check his card and bill payments whenever it occurs to me, and call to tell him. During such a check, I saw that his bills were unpaid. He would always keep extra money, but not this time. And he had not stopped by in two weeks. Convinced that something was wrong, I immediately called him. It was such a relief when I heard “Yes” on the other end of the line after the third ring. Not realizing that somebody else answered the phone, in a rush I said how worried I was, and asked why he didn’t stop by in two weeks. I realized I had been talking on and on, when the other person interrupted at the first opportunity he had to say, “*I am his son*”

I panicked once again. “*What happened to Ahmet Amca?*” I asked. His son told me he had a small accident but he was all right and could talk on the phone on speaker. Right then, I heard his voice saying “*I am all right, my girl.*” I felt a sudden relief and began hearing several voices in the room all saying hello to me. My Ahmet Amca said, “*Your big brothers and sisters are here. You are the only one missing. They are all saying hello to you.*”

At that moment I realized I had truly become a member of that family. Not just me, but also my bank was a member of that family. I was so happy when I was told that, each and every one of his children had become customers of our various branches. Live long and well Ahmet Amca.

Please scan the QR code
to listen to the story.



* True Stories are actual events, the names have been changed or anonymized for customer information privacy purposes.

NUR ÜMİT

Customer Representative

Ömer Bey, a regular credit customer of mine, and his wife Seher Hanım would show up personally every month to pay their installments. One day, Seher Teyze arrived alone and with tears in her eyes. Unfortunately, her husband Ömer Amca had passed away. With her grief still fresh, Seher Teyze was worried about how to repay the loan. She was unaware of the insurance linked to the loan. Since I was the one who had extended the loan, and knew that he died through natural causes, I told her about the life insurance and asked for the doctor's reports. After handling the procedures, the insurance payment arrived and the loan was repaid in full.

In the eyes of Seher Teyze, I was her guardian angel as I had overcome a huge problem for her, in the aftermath of her husband's passing. So she began coming to me for everything she needed.

I lost my mother in early 2015, when I was pregnant with my youngest son. We have a tradition here. Mothers with daughters put together a wedding gift for the grandchildren they will have. One day Seher Teyze walked in carrying a bag. Inside, there was a blanket, a vest and handkerchiefs she knitted for my son. ***"Your mother is irreplaceable but I count myself as your mother and I knitted these for my grandson,"*** she said. There are no words to describe my emotions at that moment. I still get tears in my eyes when I think of it. And Seher Teyze still comes to me although I have changed my branch and my post.

When you help your customers through hard times and make your way into their hearts, that leaves you with a solid friendship that lasts a lifetime...



Please scan the QR code
to listen to the story.

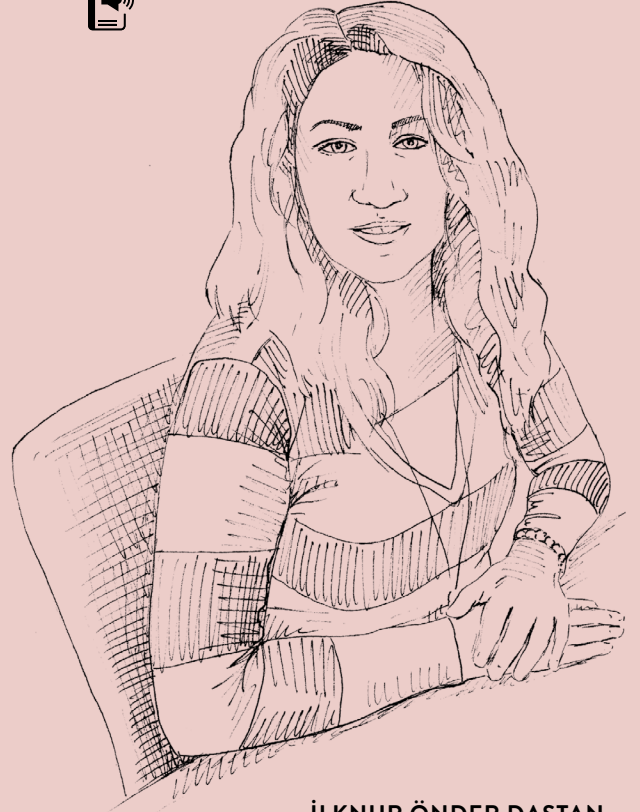
* True Stories are actual events, the names
have been changed or anonymized for
customer information privacy purposes.



TRUE STORIES

GARANTI EMPATHY

IT'S ALL ABOUT MAKING YOUR WAY INTO THE HEARTS



Erzurum - Lalapaşa

İLKNUr ÖNDER DAŞTAN
Customer Service Staff

OUR MATERIAL MATTERS

GRI 102-46, GRI 102-47

With this integrated report we aim to provide a coherent story of our activities. The basis of this story is the materiality analysis which enables us to identify the most relevant and important topics for Garanti and its stakeholders, the material issues. Material issues are mainly determined based on stakeholder dialogue and are plotted in the materiality matrix. The topics defined within the materiality matrix form the basis of this report, as set out in the 'About this report' section.

We performed our first materiality analysis in 2013. As we want to make sure that we are always in line with the needs of our stakeholders and to make sure that the identified material issues are still the most important, we perform an update of our materiality analysis at least once every two years. The last revision was finalized in the first quarter of 2017 and formed the basis for last year's report. We listened to our internal and external stakeholders and reviewed the connection between our corporate strategy and global trends which impact the banking sector.

We carried out a desk study and reviewed the trends, sectoral reports, reports of global banks, and advice by international professional organizations such as GRI and SASB. After identifying the long list of topics, we conducted a comprehensive stakeholder analysis and outreach by reaching all stakeholder groups via online questionnaires, focus group meetings and phone to gather their opinion. In the external trend analysis, we reviewed the priorities of initiatives which guide the business world and financial sector, such as the Sustainable Development Goals, UN Principles for Responsible Investments, and Global Alliance - for Banking on Values.

In executive interviews, we included the view of top management who are closely involved in determining the Bank's future strategy. The executives evaluated the topics according to the five-year corporate strategy and topics' risk and opportunity areas as well as their operational, reputational, strategic, legal and financial impact. In addition to executive interviews we

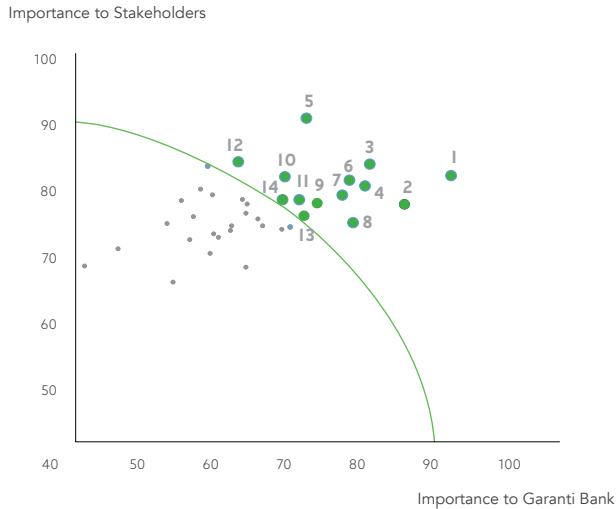
evaluated the topics through a four-step assessment called "Four Factor Impact Analysis". In the assessment, we ranked each topic according to the magnitude of impact, likelihood of impact and time frame (short, middle, long) in terms of;

- Direct financial impact and risk,
- Legal, regulatory and policy drivers,
- Opportunities for innovation,
- Industry norms, best practices and competitive advantage.

In an integrated governance approach, we finalized the Bank's material issues considering the alignment of topics with our integrated business strategy. Common topics which are highly important for both external stakeholders as well as our executives constituted the material issues and were clustered under 6 main topics: Customer Experience, Financial Performance, Digital Transformation, Corporate Governance and Risk Management, Investing in Human Capital, Responsible and Sustainable Development.



MATERIAL ISSUES FOR GARANTI BANK AND IT'S STAKEHOLDERS



The full list of issues can be found in Appendix I of 2016 Sustainability Report on page 40, 188 and 189. The Report is available on Garanti Investor Relations website.

SUSTAINABLE DEVELOPMENT GOALS AND GARANTI BANK

On 1 January 2016, the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development officially came into force. SDGs, adopted by the United Nations, guide the business world in terms of contributing to social development. The financial services sector should also adopt the SDGs for example by reshaping market opportunities in line with society's needs, to ensure a comprehensive, strong and stable economy for all individuals and to achieve social welfare in the world. The actions that we undertake to address the material issues contribute to the following SDGs and are explained in the Performance Section.

CLUSTER	# OF ISSUE	MATERIAL ISSUE	RELEVANCE TO SDG'S
CUSTOMER EXPERIENCE	1	Customer centricity and increasing customer satisfaction	   
	8	Financial health and supporting customers in making conscious financial decisions	
FINANCIAL PERFORMANCE	4	Financial performance (including solvency) & direct and indirect impact on economy	
CORPORATE GOVERNANCE AND RISK MANAGEMENT	5	Transparent disclosure of information for stakeholders	
	12	Good corporate governance	
	3	Risk and crisis management (including integrated management of financial and non-financial risks)	
DIGITAL TRANSFORMATION	14	Compliance	
	6	Customer privacy and information security	
INVESTING IN HUMAN CAPITAL	2	Digital transformation and technological advancement	   
	10	Investing in human capital	
RESPONSIBLE AND SUSTAINABLE DEVELOPMENT	7	Management of customer ESG (Environmental, social and governance) risk	    
	11	Climate change and energy	
	9	Pioneering the development of sustainable banking	
	13	Stakeholder dialogue	

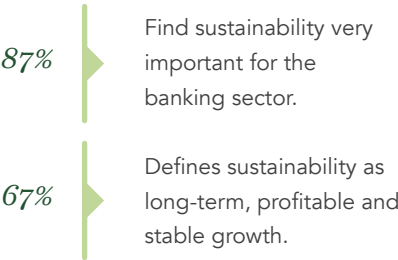
STAKEHOLDER ENGAGEMENT

GRI 102-40, GRI 102-42, GRI 102-43, GRI 102-46

Since our stakeholders, both internally and externally, are of great importance to us, regular communication with our stakeholders gives us the opportunity to be an inclusive Bank. The feedback from our stakeholders allows us to determine risk and opportunity areas more comprehensively as well as understand stakeholder expectations and meet their needs more sensitively. In addition to maintaining the dialogue with our stakeholders through various channels all year round we used the AA1000SE Stakeholder Engagement Standard as a reference to conduct the stakeholder engagement process in a more strategic and comprehensive way. With a 22% response rate we collected the opinion of 152 people through an analysis carried out by an independent company. Firstly, we grouped our stakeholders according to three criteria as directly impacting Garanti, indirectly impacting Garanti and bringing in new opportunities, insights and approaches. We prioritized our stakeholders, which were grouped as customers, employees, shareholders, investors, analysts, suppliers, NGOs and associations, media, universities, financial institutions, governmental institutions and international organizations according the criteria of dependency, influence, proximity, representation, policy, strategic intent and responsibility. Based on this analysis Garanti's key stakeholder groups are Customers, Shareholders, Employees, Investors, Government Agencies & Regulatory Bodies, and Financial Institutions. We reached

most of the prioritized stakeholders via online surveys. We also interviewed our shareholders face-to-face or by telephone, held a focus group meeting with the Sustainability Representatives in the Head Office and conducted interviews with 10 senior managers directly reporting to the Board and the CEO. The stakeholders were requested to prioritize the relevant topics and share their opinions and expectations about the perception of important trends and Garanti Bank's practices. While 14 issues have been identified as material by our stakeholders the top five issues are customer centricity, risk and crisis management, digital transformation, transparent disclosure of information for stakeholders and financial performance.

MOST OF OUR STAKEHOLDERS EXPECT GARANTI TO KEEP PIONEERING SUSTAINABILITY AND RAISING AWARENESS AMONG ITS EMPLOYEES AND CUSTOMERS.



Some of the important issues which are a result of our continued stakeholder dialogues during the reporting period are as follows.

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
CUSTOMERS	<ul style="list-style-type: none"> Increasing expectations on faster service, less waiting time and better service experience especially in branches New demands due to new technologies and digital world Increasing need for being informed about the regulatory changes surrounding FX loans and foreign trade. 	<ul style="list-style-type: none"> Customer centricity and increasing customer satisfaction Financial health and supporting customers in making conscious financial decisions Customer privacy and information security Digital transformation and technological advancement 	<ul style="list-style-type: none"> Garanti continued to turn its branches into new service model in 2018. New model captures the benefits of the emerging digital world with the aim of offering an all-around excellent banking experience. Garanti launched a chatbot called "Bilge" (The Wise) in its customer careline in order to improve customer service quality by its agents. Knowing all the information needed to resolve customer issues in a practical way, Bilge answers more than 10,000 queries per month. Thanks to Bilge Garanti shortened the average duration of service to customers via customer careline over half a minute. Further improved the customer experience in digital channels with the releases of; <ul style="list-style-type: none"> QR code based transaction options¹, Video call authentication for transactions that needed to be performed through branches or Call Center before Integrated in-app search engine for Garanti Mobile App, displaying specific functions, recent transactions and suggestions Launched credit card application and limit increase tracking - from initial evaluation to delivery status in BonusFlaş Added card blockage functions - 24 hours temporary & international blockage and international transactions notifications Garanti also redesigned mobile and online services for SME customers to enable them monitor critical products and accounts as well as their cash flow and general summary easily. Organized informative foreign trade seminars to customers whereby the customers were updated about the legislative changes.

¹ QR Money Transfer, enabling faster and easier account details sharing, QR Bill Payment, scanning the QR code on physical bill to pay

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> • Expecting more transparency on the following issues: <ul style="list-style-type: none"> - Following the sharp currency depreciation in August, investors' were questioning the International Funding availability and sector's FC Liquidity - Due to adverse macro conditions, investors were questioning the extent of asset quality deterioration - Market Volatility - Currency Volatility - Interest Rate • More detailed disclosure on the carbon intensity of loans 	<ul style="list-style-type: none"> • Financial performance (including solvency) & direct and indirect impact on economy • Good corporate governance • Transparent disclosure of information for stakeholders • Risk and crisis management (including integrated management of financial and non-financial risks) • Stakeholder dialogue • Climate change & energy 	<ul style="list-style-type: none"> • Garanti and Sector's FC Liquidity buffer vs. short term external debt analysis was shared with investors to ease their liquidity concerns • Providing USD & EUR funding from foreign banks in syndicated loan format, supporting the FX funding base at longer maturities (up to 2 years), • Healthy communication of the funding received to the market and to the investment community. • Attended investor conferences and roadshows to inform the investors about the liquidity states • Organized Financial Institutions Day in London & Dubai with the participation of CEO to share the macro view along with the strong solvency, high provisioning and comfortable liquidity • Increased transparency in the earnings presentations: detailed sectoral breakdown • Detailed explanation about the differentiated and prudent staging as well as the coverage details • Additional free provisions were set aside in 3Q18 & 4Q18 for any negative circumstances that may arise. Total free provisions in the balance sheet reached to TL 2.25 billion. • Increased engagement of the CEO visibility with the investors and the media • In order to address the investor concerns following the sharp depreciation, Garanti IR team increased engagement via conferences, roadshows and conference calls. IR team reached 642 investment firms in 1H18, corresponding to 68% of the meetings held in 2018 • Provisions due to currency depreciation are 100% hedged. • High share of CPI-linkers (share in the TL securities: 60%) serves as a hedge against volatility in interest rates & inflation. • Interest rate sensitivity analysis was shared with the investment community • Garanti has been responding to CDP Climate Change since 2009 and CDP Water since 2015 and publicly share all our reports on our websites. We are also among the first supporters of TCFD Recommendations. In this year's report we have also shared the carbon-related loans ratio of our Project Finance/CIB² Portfolio and total amount of financing mobilized to low carbon investments.

² Corporate and Investment Banking

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
EMPLOYEES	Increasing the employee focus and satisfaction within the Bank practices and ensuring employee representation in HR processes and decision mechanisms.	<ul style="list-style-type: none">• Investing in human capital• Good corporate governance• Stakeholder dialogue	<p>Garanti employees share their ideas and suggestions on various platforms called Önersen, Gong (Developing Opinion and Suggestion platform), Atölye and "Sor/Paylaş" (Ask & Share) section on intranet portal. In 2018, 674 opinions and suggestions regarding Human Resources practices (such as Online Training Platform, corporate discount programs, treats for employees' motivation, etc.), and the working environment were shared on GONG and 1,313 ideas on "Önersen" (more than 23,000 ideas since 2007). Besides these idea generating platforms, all employees shared their opinions about their managers' and colleagues' strengths and improvement areas with 360-degree feedback survey. Our HR teams are actively working on other raised issues to increase employee satisfaction.</p> <p>In 2018, the highlighted HR practices whose executions were developed upon employee suggestions and requests, are free of charge wi-fi service and casual dress code for HQ locations, the launch of HR chatbot, named Sorbi, the shift in the meal card company for the branch employees, improvements to increase the annual leave ratio and decrease the overtime hours.</p>

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
GOVERNMENT AGENCIES AND REGULATORY BODIES	<ul style="list-style-type: none"> • Personal Data Protection Board has announced procedures and principles of the Data Controllers Registry. It has also outlined the details about applications and information which must be filled with the registry. The Board has also published the dates which data controllers must register. • A regulatory body conducted an extensive sustainability study for banks in Turkey. In that regard they shared a detailed survey requesting quantitative and qualitative targets and practices on ESG issues with each bank. This indicates that ESG issues could be integrated into regulation in the near future. • The Ministry of Environment & Urbanization asked the Banks to provide support on COP Turkey pavilion events and negotiations. • Advisor of Minister of Energy and Natural Resources and Board Member of Temsan A.Ş. asked several Banks to provide feedback on their needs to finance small scale energy efficiency projects. 	<ul style="list-style-type: none"> • Transparent disclosure of information for stakeholders • Compliance • Management of customer ESG (environmental, social and governance) risks • Climate change & energy • Risk and crisis management (including integrated management of financial and non-financial risks) 	<ul style="list-style-type: none"> • Garanti started an IT project which makes this registry process more effective. In scope of this project Bank's personal data inventory will be reviewed in light of the regulatory framework. Besides in order to keep the inventory up to date, follow-up structure will be improved. • Garanti has been advising on regulatory bodies such as BRSA CMB³, and Istanbul Stock Exchange regarding non-financial issues to be included in the regulatory framework, and working closely with these institutions. provided detailed information to the BRSA through this survey. • Garanti organized several panels at the side events hosted by the Ministry of Environment & Urbanization at COP24 focusing on sustainable finance practices of Garanti Bank and joint efforts of Banking sector in Turkey to support transition to a low carbon economy. Garanti Bank is also committed to provide support to technical studies and sectoral workshops organized by the Ministry to contribute climate negotiations. • Garanti Bank proposed a financing model for small scale energy projects. The proposal included the establishment of new schemes to license and approve vendors by the relevant regulatory bodies.

³ Capital Markets Board

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
FINANCIAL INSTITUTIONS	<ul style="list-style-type: none">• Credit ratings of debt instruments were lowered by some credit rating firms during the year• As the Chair of the UNGC Network Turkey's Sustainable Banking & Finance working Group, Garanti is expected to lead the efforts to contribute the financial sector's contribution to SDGs.	<ul style="list-style-type: none">• Pioneering the development of sustainable banking• Management of customer ESG (environmental, social and governance) risks	<ul style="list-style-type: none">• Negotiations and amendments to relevant clauses in existing and new agreements have been made throughout the year.• The WG expanded the scope of Sustainable Finance Declaration to include a decrease in investment amount limit and some provisions to ensure better control of Banks on the impact of projects financed by them.• Organized a workshop to include all players in the financial sectors other than banks under UNGC Network Turkey's Sustainable Banking & Finance Working Group. In the workshop we invited insurance, pension funds, leasing, factoring, securities, and asset management companies, and shared the best ESG management practices in order to raise awareness and build capacity.• Organized a series of stakeholder feedback meetings with other banks and international financial institutions for the draft version of UNEP FI Principles for Responsible Banking.

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
TOP MANAGEMENT	<ul style="list-style-type: none"> • Developing innovative solutions to support our customers on improving their sustainability performance • Developing products and solutions to support customers' financial health and enhancing the Bank's "advice" capabilities through digital channels by utilizing big data analysis and AI in line with the Bank's TCR principles • Ensuring the delivery of sustainable financial results by closely monitoring market developments and addressing key challenges such as liquidity, capital management, credit risk management, etc. with a special emphasis given the turbulent period • Continuously enhancing customer experience aligned with the goal of being most recommended bank by our customers • Providing a safe, healthy, and happy workplace for employees where their well-being and personal development are fully supported • Becoming a data-driven organization and assuring the responsible use of data 	<ul style="list-style-type: none"> • Management of customer ESG (Environmental, social and governance) risks • Financial health and supporting customers in making conscious financial decisions • Digital transformation and technological advancement • Financial performance (including solvency) & direct and indirect impact on economy • Customer centricity and increasing customer satisfaction • Investing in human capital • Customer privacy and information security 	<ul style="list-style-type: none"> • Garanti launched its Green Loan structure where the margin of the loan is directly linked to the sustainability performance of the borrower. We signed the first Green Corporate Loan with Zorlu Energy in June 2018 for a US\$10 million corporate Loan. This loan agreement is the first of its kind in Turkey. In August 2018 Garanti initiated the efforts for Turkey's first ever Green Project Finance Loan which was signed with 4 local and 2 international banks. • Digital Banking teams started to work on a project to increase financial health. Financial Health is a global project in which 5 countries set a common path for this project's definition. While aiming increasing financial literacy of Garanti customers and making them aware of their financial status, we are working on Financial Health function that will be implemented in Garanti Mobile Banking app by showing customers their status on savings and expenses. Customers will get information about their financial status around savings-expenses, they will be offered insights and special action plans to improve their Financial Health. Finally, a percentage about whole progress will be shown to customers. Digital Banking teams work with Business Intelligence teams in order to cluster Garanti Bank customers by considering their spending – earning behavior with focusing on big data analysis. • Garanti took many actions to deliver sustainable financial results even in the toughest environment such as increasing transparency and engagement, hedging, setting aside additional free provisions, etc. Please refer to the detailed explanation provided in the Shareholders & Investors row. • In Customer Committees and other relevant management meetings, assessing the customer feedback received from several channels such as surveys, complaint handling platforms etc. management assigned significant time to elaborate on areas for improvement and give guidance for customer experience improvement projects. In that regard, Garanti improved its critical customer journeys head to toe, strengthen its emotional connection with its customers, and redesigned its complaint handling process. • 2018 was another year that marked important milestones in terms of employee satisfaction. Taking employee requests into consideration, many initiatives were approved for workplace improvements such as enhancements in performance measurement system for the branches. Garanti also debuted its state-of-the-art Pendik Technology Campus and transferred its all relevant units. • In 2018, Garanti launched its "Data Governance" and "Data Transformation" projects in order to take its big data analysis and value creation abilities to the next level. Data Governance project aims to establish a governance model where data is seen as an asset. The new data governance structure will enable Garanti to effectively manage data security, privacy, and accessibility in compliance with all relevant regulations.

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
NON-GOVERNMENTAL ORGANIZATIONS AND ASSOCIATIONS	<ul style="list-style-type: none">• Sharing our know-how and in-depth experience in ESG Management and Sustainable Finance• Aligning our portfolios with low carbon pathways	<ul style="list-style-type: none">• Transparent disclosure of information for stakeholders• Pioneering the development of sustainable banking• Stakeholder dialogue	<ul style="list-style-type: none">• In May 2018 Garanti launched its Sustainability Website in order to share the recent developments in sustainability and Garanti's practices along with case studies and best practice examples from our stakeholders.• Garanti is the only founding member bank from Turkey in UNEP FI's Principles for Responsible Banking Core Group. The Principles, aimed at aligning the banking sector with UN Sustainable Development Goals (SDGs), will provide substantial contribution to these goals along with the Paris Agreement through setting the roadmap for the banking sector. Defining the new role of the banking in the 21st century society and economy, they aim to maximize the impact of the banking sector on achieving a sustainable, equal and prosperous future.• Beginning from 2014, 100% of the total amount of financing to greenfield electricity production investments in project finance activities has been provided to renewable investments

RISKS AND OPPORTUNITIES

GRI 102-46

2018 was another year of great challenges and opportunities. The major risks businesses are and will be facing today and tomorrow are not the same as yesterday. Within this chapter we will share 11 types of risks and opportunities that we believe are relevant for the banking sector, shaped by this year's mega trends and how they impact Garanti and our stakeholders.

Below mentioned risks and opportunities are addressed through a variety of hard and soft controls such as Garanti's risk management approach and through initiatives carried out under the framework of material issues as explained in performance chapters and in the "Corporate Governance & Risk Management" section.



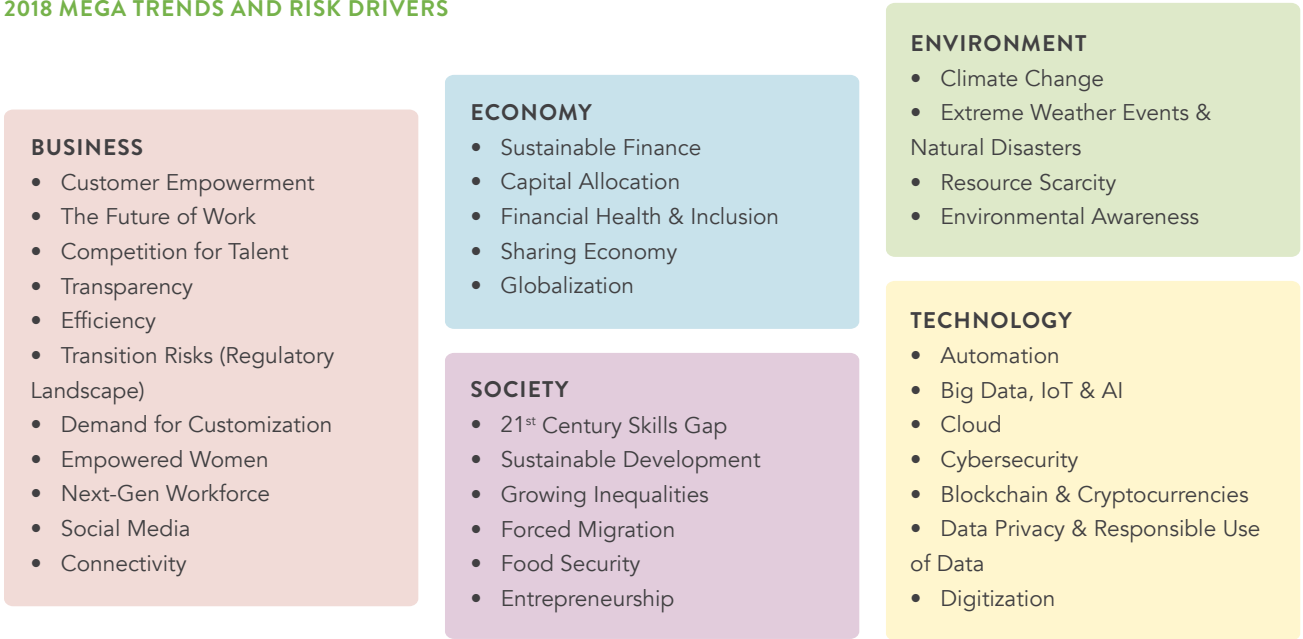
Challenges and opportunities with regards to the Turkish Economy and Turkish Banking Sector are further addressed in "The Environment We Operate In" section.

BUSINESS ENVIRONMENT



Global growth rates have been on a decelerating trend. There are a few major risks posing a threat on global growth in the mid-term: stabilization in the US growth with a possibility of a recession, trade frictions stemming from the US-China dispute, political risks in Europe and geopolitical risks in the Middle East. In an environment of rising uncertainties, investors become more selective and funds are allocated more to quality stocks. In such an environment, we will focus on expanding our shareholder base and continue to deliver the value generation through our sustainable business model. Garanti is the proxy and the most liquid stock of Turkey; therefore, changes in the global sentiment towards the region may have a direct impact on Garanti's market valuation. In order to cope with the impacts of the sudden shifts in markets, we target to increase the share of our long-only funds in our shareholder base and diversify their geography.

2018 MEGA TRENDS AND RISK DRIVERS



In the light of macro developments, we aim for optimum capital allocation and work to sustain the risk-return balance. For sustainable value creation, we adopt a capital generative growth strategy. As a consequence of the rebalancing in Turkish economy, we foresee a decrease in foreign currency lending, accompanied by a slowdown in Turkish lira lending.

The operating environment is transforming and within this transformation, efficiency is among the top priorities of many banks. The transformation of the sector is shaped by three main factors that interact with each other: (i) continuous development in technology, (ii) customer expectations that are redefined every day by the developments in technology and the needs of the changing world, (iii) a competitive environment that requires better understanding of customers than ever before and the ability to offer the right service in a timely manner by closely monitoring their changing expectations. In such a dynamic operating environment, every point of the banking value chain is being redesigned in a structure that is integrated with new technologies. Accordingly, we started a transformation journey and redesigned our branches bringing to life a new lobby service model and a new branch layout, digitized processes, empowered employees and enhanced customer journey. With the branch transformation, we successfully increased efficiencies while highly compatibly satisfying the changing needs of the customers.

Rapid changes in the world are introducing new risk factors to be considered in investment decisions. Changing trends compel investors to assess the impact of global warming, changing demographics, privacy concerns and regulatory framework on their investments. This realization gave rise to ESG investing. We are aware of the transition risks and the increasing demands of the ESG investors. Being a company listed not only in Turkey but also in the UK and the US, we always strive to operate within globally recognized high standards. In order to better address the needs of our diversified shareholder base, we published our first Integrated Annual Report in 2017 in line with IIRC standards. Paying the utmost attention to transparency, we simultaneously make the public information available on our Investor Relations Website as well as our Sustainability Website both in Turkish and English, and publish all relevant disclosures on the international disclosure platforms of the US and the UK. We also comply with the corporate governance principles set by the banking legislation, capital market legislation as well as the Turkish Commercial Code and other applicable legislation.

We pay maximum attention to implement these principles. We periodically update our reports and website, making them available to all our stakeholders.

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT



Environmental, social and economic trends such as increasing population, diminishing resources and the broadening wealth gap are among the grand challenges facing our society today. To tackle these issues, governments and the business world must focus on positive impact and responsible investments. The momentum gained by the UN Sustainable Development Goals (SDGs) triggered concrete actions all around the world. Achieving the SDGs globally will require USD 5 to 7 trillion a year until 2030. For the developing countries, this means a USD 2.5 trillion gap per year. This only further emphasizes the critical role of financial institutions. Being fully aware of its important role, in 2018, the banking sector embarked on a journey to redefine and reformulate its responsibilities for achieving sustainable development. Under UNEP FI, 28 banks jointly representing over USD 17 trillion in assets from five continents around the world, where Garanti was the only bank from Turkey, came together to develop the Principles for Responsible Banking. These principles, announced during the UNEP FI Regional Roundtable in Paris on November 26th, will align the banking sector with the SDGs and the Paris Climate Agreement.

As set out in our Sustainability Policy adopted in 2014, Garanti aspires to achieve its aim of sustainable banking through technological innovations, managing the environmental footprint of its operations and developing sound environmental & social risk assessment as part of its risk management framework. Garanti also recognizes the importance of an effective organizational structure and strong corporate governance to maintain ongoing development and successfully deliver its sustainability objectives. Furthermore, we are aware of the need to collaborate and engage with our peers and suppliers on a global level to identify new opportunities, capture emerging best practices & products, and remain a sustainability leader in Turkey. We position ourselves as an advisor for all our stakeholders for sustainable business. In 2018, Garanti offered 34 different types of loans and products to contribute to sustainable development.

One of the solutions that Garanti offered in 2018 had been the newly designed green loan structure to encourage our customers to embrace sustainable business models. Garanti signed Turkey's first and the world's fifth Green Loan Agreement with Zorlu Energy for their USD 10 million corporate loan. In the green loan structure, the margin of the loan is directly linked to the sustainability performance of the borrower. A couple of months later, it was also followed by Turkey's first ever Green Project Finance Loan signed between Akfen Renewable Energy and 4 local & 2 international banks, where Garanti is the 'facility agent' and 'green loan coordinator'. The total investment cost of the project is USD 350 million, with USD ~210 million thereof converted into a 'green project finance' agreement. Based on this deal, the pricing will change according to the annual sustainability performance of Akfen.



In Our Material Matters Section, we explain how Garanti addresses the SDGs through the actions we undertake under each material issue and refer to the relevant sections of this Report.

CLIMATE CHANGE ADAPTATION



As predicted in the World Economic Forum Global Risk Report 2018, major global risks arose from climate-related events. Natural disasters that claimed lives and destroyed property globally dominated the news throughout the year. The World Bank has calculated that the real cost to the global economy is a staggering USD 520 billion per annum, with disasters pushing 26 million people into poverty every year.¹

According to a recently published UN Report, there is a very sharp increase in the number of climate-related events, which are actually creating 77% of the total direct economic losses caused by disasters. The reported loss of resources and assets like homes, factories and farms due to more frequent and widespread climate-related disasters rose 151% compared to the previous 20-year period. In the last two decades, 1.3 million people have been killed and 4.4 billion were impacted by natural disasters worldwide; reported economic losses from earthquakes, volcanic eruptions, floods, hurricanes and other climate-related disasters surged to total nearly USD 2.9 trillion over the past 20 years.²

We observe a similar trend in Turkey as well. According to the most recent report released by the Turkish State Meteorological Service, 598 extraordinary weather events occurred in Turkey in 2017. The concerning trend since 2000 shows that there is a 4-event increase per year. The breakdown of the extremely damaging events that occurred in 2017 is 36% storm & twister, 31% extreme precipitation & floods, 16% hail, 7% strong snow, 1.5% snowball & frost, and 1% other.³ This is another clear indication that Turkey is both physically and economically prone to these risks and must take immediate action for adaptation and mitigation. As Garanti, we contribute to Turkey's battle against climate change by prioritizing renewable investments, applying detailed environmental & social due diligence, promoting energy efficient buildings and electric & hybrid cars, as well as supporting efficient systems in agriculture. Since 2014, our entire greenfield energy generation projects in the project finance portfolio consisted of renewable investments. To date, we have provided USD 5.1 billion to renewable energy, and hold the market leader position for wind power projects with 28.1% market share. Garanti's environmental and social impact assessment process is fully compliant with international standards. In 2018, a total of 8 of projects with a loan amount of USD 281 million were subjected to our ESIAM. Through detailed action plans based on these due diligences, E&S impacts were minimized.

As a country in the drought zone, Turkey will experience severe droughts and heatwaves in addition to extreme precipitation and floods. Turkey is among the countries that will be extremely water-stressed by 2040.⁴ If projections come true, with the expected population growth to 100 million people, Turkey will be among the water poor countries by 2030. As we explained in our 2018 CDP Water Security Report, the ratio of financing provided to projects prone to water-related risks by Garanti was 55.2% in our 2017 project finance portfolio. We applied ESIAM to these projects in order to manage E&S risks including those that are water-related. We adopt a holistic approach in order to raise awareness and encourage each segment of the society to take action. For retail banking, we rolled out our Green Mortgage product to promote efficient and environmentally-friendly buildings, under which total financing provided to date amounted to USD 368 million.

¹ <https://www.worldbank.org/en/results/2017/12/01/climate-insurance>

² https://www.unisdr.org/files/61119_credeconomiclosses.pdf

³ <https://www.mgm.gov.tr/FILES/iklim/yillikiklim/2017-iklim-raporu.pdf>

⁴ <https://www.wri.org/blog/2015/08/ranking-world-s-most-water-stressed-countries-2040>

In 2018 we witnessed the continued enhanced collaboration and dedication to combat climate change around the globe. UNEP FI launched a pilot project for TCFD⁵ implementation in the financial institutions. Our majority shareholder BBVA was also among the 16 banks that participated in the pilot. The main goal of the pilot was to help banks assess the transition-related exposures in their corporate loan portfolios. This represents a first step in the development of methodologies, but further work is needed to improve the ability to assess physical risks and opportunities of climate change. Three combinations of timeframes and temperature scenarios are considered: 2020s -2°C and 4°C; 2040s -2°C; and 2040s -4°C. A range of extreme weather and climate events are assessed. Estimates of changes in revenue, costs and property value are used to evaluate changes in credit risk for individual borrowers and sector portfolios. Garanti will initiate the process to align its operations and disclosures accordingly in the coming years. This new challenge of improving our environmental disclosure will further enhance our existing track record under the global environmental reporting framework.



Specific examples of activities undertaken to address this issue are explained in the Responsible and Sustainable Development section.

SWITCHING FROM FOSSIL FUELS TO RENEWABLES



Divestment from fossil fuels was again a growing trend in all sectors, especially the financial sector. A joint declaration was adopted during the One Planet Summit between the 23 national and regional development banks from the International Development Finance Club (IDFC) and multilateral development banks to increase funding dedicated to the implementation of the Paris Agreement. The World Bank announced its plan to discontinue its financing of upstream oil and gas projects in 2019. Countries also started to announce their pledges to decarbonizing their economy by initiatives like Powering Past Coal Alliance as well as commitments to apply a more significant carbon price. As we declared in our Climate Change Action Plan in 2015, we continued to prioritize renewable energy investments in 2018. To date, loans provided to such projects exceeded USD 5.1 billion. As a pioneer in financing renewable energy projects and being

the largest lender for wind projects in Turkey, Garanti Bank exceeded its goal of prioritizing renewables in project finance as 100% of the total resources allocated to greenfield energy investments was allocated to renewable investments in 2018. Moving forward, Turkey's estimated climate-smart investment potential is estimated to be USD 270 billion between 2016 and 2030. This also clearly shows the future investment need and the critical role of financial institutions. Specific examples of activities undertaken to address this issue are explained in the Responsible and Sustainable Development section.

TRANSITION RISKS



As governments and the business world started to take concrete actions for climate change, these steps also brought along some regulatory updates. We saw various incentives as well as new limitations and restrictions from governments. One of the widely discussed regulatory changes is in regard to carbon pricing. There is a collective global project called Partnership for Market Readiness (PMR) led by the World Bank. PMR is a multi-stakeholder project where numerous players in the carbon pricing field is brought together to support the preparation and implementation of climate change mitigation policies in order to scale up GHG mitigation such as carbon pricing instruments. Turkey is an active member of the project and among the 19 implementing countries. The Ministry of Environment and Urbanization is currently working on a structure to implement a national ETS. As Garanti, we have a holistic approach to manage these risks and to reduce the carbon intensity of our portfolio. Firstly, we apply a shadow carbon price and positive pricing on renewable investments in our lending activities within the project finance scope. Secondly, we apply a combined Sensitivity Analysis to decrease the dark/spark spread. Finally, we minimize and eliminate E&S risks through our detailed due diligence process in line with international standards. We also pledged to have a minimum of 70% renewable share by 2020 in our project finance transactions. Since 2014, 100% of all greenfield energy generation projects financed by Garanti was allocated to renewable investments.

Another busy area in terms of regulatory changes was data protection. With the new Law on the Protection of Personal Data that came into force in 2016, we had to update all our procedures, contractual agreements, and processes. The said

⁵ Task Force on Climate-related Financial Disclosures

law is the first regulatory legislation in this field and it provides comprehensive protection for the personal data of individuals. The law also aims to protect individuals' interests, while regulating the processing of personal data and eliminating insecure personal data processing environment. In this context, we first made a risk prioritization and developed an action plan within the frame of a compliance program. Governance of this program is managed by a data protection team. Main actions under the compliance program are as follows: preparation of personal data inventory, integration of explicit consent and information form to core banking transactions, and destruction of expired personal data. However, identification and follow-up of KPIs, review of archive processes, and keeping all inventories up-to-date with automated processes are considered as improvement areas.

The Compliance Department also made further investments in anti-money laundering and counter terrorism financing programs, and incorporated these programs into Garanti's systems. The Department also started on projects where big data analysis is utilized to tackle these risks.

GROWING INEQUALITY



In the Global Wage Report, the International Labour Organization highlighted that worldwide earnings growth has been decelerating since 2012. According to the IMF, over the past three decades 53% of countries have seen an increase in income inequality, with this trend becoming particularly pronounced in advanced economies.⁶ Rising income and wealth disparity ranks third as a driver of global risks over the next 10 years.

Political and economic landscape is not the only driver for growing inequality. Without the right policies to keep the poor safe from extreme weather and rising seas, climate change could drive over 100 million more people into poverty by 2030. This number will just be an addition on top of the 900 million people expected to be living in extreme poverty if development progresses slowly. UN Office for the Coordination of Humanitarian Affairs' Global Humanitarian Overview (OCHA, 2018) estimates that 134 million people would require humanitarian assistance worldwide in 2018. It further estimates that around 97.4 million people would be selected for

international assistance under the joint humanitarian response plans, leaving a 27% gap.⁷ 2018 World Disasters Report also states that there are 12.8 million people in Turkey in need of assistance.⁸

It is also estimated that 200 million people will be displaced due to climate change by 2050, where Turkey is considered to be among the countries that will attract immigrants and consequently will be significantly affected due to limited resources. Climate change was not the only factor in the increasing inequality trend. Turkey already hosts more refugees than any other country. Considering the predicted migrations due to climate change in addition to the current situation, the issue becomes even more urgent and challenging.

Tackling these challenges requires extreme determination and dedication globally. Growing inequality is resulting in devastating economic and social impacts. The fight against inequalities related to wealth gap, gender, race, ethnicity and social class will be of paramount importance in the coming years.

Garanti is dedicated to tackle this problem by improving financial health of its customers and offering innovative solutions for financial inclusion. With 33 different products and solutions, we helped 85% of our customers to make better-informed financial decisions in 2018.

Another global effort to reduce inequalities is seen in gender equality. Especially the business world is taking strong initiatives and driving significant impact to tackle this issue. Several studies show that not having a diverse group of people causes less profitability. On the other hand, increasingly more directives require concrete and effective measures to promote diversity and inclusion in companies.

Creating and fostering a more diverse workplace for our employees is part of our diversity and inclusion strategy. We follow up data analysis concerning different aspects like gender, age, education, etc. and take measures for these groups. At Garanti, the overall ratio of women employees is 58% for the whole Bank and 40% for managers and higher levels. With its pioneering practices in this field, Garanti has qualified to be included in the Bloomberg Gender Equality Index for three consecutive years as the first and only company from Turkey.

⁶ http://www3.weforum.org/docs/WEF_GRR18_Report.pdf ⁷ <https://media.ifrc.org/ifrc/wp-content/uploads/sites/5/2018/10/B-WDR-2018-EN-LR.pdf>

⁸ <file:///C:/Users/cerenso/Downloads/B-WDR-2018-EN-LR.pdf>

In order to attract, maintain and cultivate talent in a company, it is essential to have modern diversity and inclusion policies capable of integrating people from different professional and personal backgrounds and allowing them to grow professionally.



Examples of such activities can be found in Investing in Human Capital and Customer Experience sections.

SUPPORTING ENTREPRENEURSHIP



Youth unemployment is set to remain an important global challenge - particularly as demographic shifts in developing countries gather pace - and will continue to amplify numerous domestic and global risks, including social exclusion, mass migration and generational clashes over fiscal and labour-market policies.⁹ According to the latest results of an annual World Economic Forum survey of more than 30,000 young people globally in 2017, respondents from MENA cited the "lack of economic opportunity and employment" as the most serious issue facing their country.¹⁰ As Garanti, "Bringing the age of opportunity to everyone" is our purpose and we are strongly urging our customers and society to tackle this challenge.

In order to realize our purpose, we carry out many initiatives that support entrepreneurship. In June 2016, we have launched GarantiPartners Entrepreneurship Base in collaboration with Boğaziçi University Business Angels (BUBA) Angel Investors Platform to help flourish the entrepreneurial ecosystem in Turkey. GarantiPartners helps startups grow with specific support, develops strategies together with the entrepreneurs, helping them prepare a comprehensive business plan to put their projects into action, and contributes to their sustainable growth. During this process, we provide working space, mentorship, cooperation and references, marketing activities, consultancy services, training and seminars, technical and infrastructure support and access to finance for these initiatives. In 2018, GarantiPartners organized 24 events for entrepreneurs and the entrepreneurial ecosystem. Today, 13 startups are supported by the program.

We are also the main sponsor of the Entrepreneurship Foundation (Girvak) working to drive the culture of entrepreneurship and encourage the youth to consider entrepreneurship as a career alternative since 2014.

Another important segment that we focus on is women entrepreneurs. Women's share in the workforce is only 33% in Turkey, whereas the OECD average is 63%. If Turkey can reach the OECD average by 2025, the GDP will increase by USD 250 billion. Realizing the support that women need in this area, Garanti launched its Women Entrepreneurship Program in 2006. Our efforts in empowering women entrepreneurs are categorized under 4 topics: "providing finance", "encouraging", "training" and "accessing new markets". To date, we have provided TL 5.5 billion financing to women entrepreneurs. In 2018, we launched our Gender Bond for USD 75 million in collaboration with the IFC to support women entrepreneurs. This also marks the first social bond in Emerging Markets. Our competition aimed at encouraging women entrepreneurs, Turkey's Women Entrepreneur Competition, received 37,000 applications in its 12th year. 2,000 women completed our Women Entrepreneurs Executive School, which we offer in partnership with Boğaziçi University Lifelong Learning Center.

On the other hand, digital transformation enables customer empowerment in a variety of ways. As customers now expect to be better understood by companies, they also proactively offer their insights and creative ideas to companies for better product development. They expect companies to support their ideas or ventures, sometimes even develop partnerships to grow their businesses. This interaction allows companies to build stronger bonds and greater connection with their customers.

As a financial institution we also closely monitor the developments in the FinTech sector. FinTech companies with disruptive technologies can offer great potential for the banking sector to improve their systems and offer better solutions. As a pioneer bank in digital banking, we have been interacting and building partnerships with such companies for a while. Furthermore, as part of the BBVA Group, we are a member of BBVA's Open Innovation Team, a dedicated team that looks into various opportunities through FinTech companies. This team also organizes the biggest FinTech Competition in the world. As Garanti, we have been organizing the Turkish chapter of this competition for the past 3 years, which provides FinTech startups offering direct or indirect solutions to the finance world with the opportunity to compete at the international level. This competition provides a great opportunity for these startups to advertise themselves globally.

⁹ http://www3.weforum.org/docs/WEF_GRR18_Report.pdf ¹⁰ Global Shapers Community. 2017, Shapers Survey, <http://www.shaperssurvey2017.org/>



Detailed information can be found in Customer Experience and Responsible and Sustainable Development sections.

DIGITAL TRANSFORMATION

Automation has already been a disruptive labor-market force, and its effects are likely to be long lasting as new technologies diffuse throughout the global economy. For the foreseeable future, automation and digitalization can be expected to push down on levels of employment and wages, and contribute to increases in income and wealth at the top of the distribution.”¹¹

The disruptive new technologies and advancements are changing the world as we know it and the way we do business. 75-375 million people may need to switch occupational categories by 2030, under McKinsey&Co’s midpoint to rapid automation adoption scenarios.¹²

As Garanti, we believe that this is a great opportunity to allocate that workforce to more creative projects such as improving customer experience and enhancing customer behavior analysis. In 2017, we initiated an unprecedented transformation project in branches, where we developed a new service model that captures the benefits of the emerging digital world. All Garanti branches are evolving into an innovative structure built on digitalization where the customers are able to benefit from all kinds of services in a one-stop banking system in the fastest and easiest manner. The new model focuses on 3 main objectives:

- enhance customer experience,
- increase digital migration/reduce branch dependency,
- upgrade employees’ capabilities and improve sales/operational efficiency.

By the end of 2018, we have completed the transformation across Turkey. Our new service model turned out to be outstandingly successful.

- Increase in Sales & Efficiency: 20% increase in time deposit sales and 10% increase in GPL & Overdraft sales
- Digital, Fast and Lean Processes: Digital loan approval in 7 minutes

- Happier Customers: Average waiting time reduced to ~10 min. and maximum waiting time decreased by 20%
- More competent employees: 35% increase in sales capacity

As AI¹³ and machine learning practices enhance and expand each day, they bring brand new experiences and concepts into our lives, one being virtual assistants. Virtual assistants are now widely used by corporations to improve customer experience. It goes without saying that these dialogue-based virtual assistants will play a crucial role in the future of banking as well. At Garanti, artificial intelligence is already a part of our daily lives. Today, artificial intelligence technology is being utilized as bots, voice assistants and internal support applications in mobile banking, call center, and support services.

However, the most important reflection of our AI practices is definitely UGI, which is the first voice process assistant in Turkey, launched in 2016. It understands natural language and can establish meaningful dialogues imitating human interaction very closely. In Garanti Cep¹⁴, customers can give voice commands, which provides a hands-free transaction option. UGI can immediately respond to requests like “I would like to pay the minimum for my Bonus card”, or “I would like to send 100 liras to my brother from my Etiler account.” Beyond simple transactions, our customers can also use UGI to make deeper inquiries such as “Show me all the restaurant expenses in the last 3 months”. UGI has created more than 25 million interactions with more than 2 million customers since 2016. UGI continuously improves its intelligence and responsiveness through these dialogues with customers.

Garanti also utilizes big data and AI to improve its customer experience. Our Innovation Committee identified 6 main areas and developed a short- and medium-term plan. It is predicted that 25% of customer service operations will be using virtual customer assistants by 2020.¹⁵ Currently, chatbots are the most popular virtual assistants. As a pioneer in Digital Banking, Garanti launched its chatbot “Bilge (The Wise)” in the beginning of 2018 in order to improve customer service quality by its employees. Knowing all the information needed to resolve customer issues in a practical way, Bilge answers more than 10,000 queries per month. Thanks to Bilge, Garanti shortened the average duration of service to customers via the customer careline over half a minute. In 2019, Garanti will

¹¹ http://www3.weforum.org/docs/WEF_GRR18_Report.pdf ¹² <https://www.mckinsey.com/~media/mckinsey/featured%20insights/future%20of%20organizations/what%20the%20future%20of%20work%20will%20mean%20for%20jobs%20skills%20and%20wages/mgi-jobs-lost-jobs-gained-report-december-6-2017.ashx> ¹³ Artificial Intelligence ¹⁴ Garanti Bank’s Mobile App ¹⁵ <https://www.gartner.com/en/newsroom/press-releases/2018-02-19-gartner-says-25-percent-of-customer-service-operations-will-use-virtual-customer-assistants-by-2020>

continue its efforts to provide this service for its customers as well.

With our location based transaction control systems we aim to prevent fraud cases in transactions that customers make from various channels, by adding location-based control filters. Through our branch intensity estimation, customers can see the current status of the branch they plan to visit beforehand in terms of expected waiting time in the line. They also have an option to make a reservation for desired time or day. In order to provide this information to customers, we use analytical models that estimate expected waiting time of a customer in a branch at a given time. Estimation models utilize customer information in branches, service metrics, branch status and other parameters. We also develop analytical models to reveal the critical moments of our customers that will enable Garanti to engage them emotionally and increase loyalty. Information from numerous sources such as credit card transactions, location info, call center recordings etc. is used to pinpoint the exact need of our customers at a certain time. Customized offers and communication will eventually increase the quality of the relationship between Garanti and the customer. Within the scope of our risk-based audit model, we also aim to produce high quality outputs that contribute to the Bank's processes by creating a data specialist position.

All these solutions are also developed in line with our Do It Yourself (DIY) approach, which is one of the building blocks of our transformation. We aim to empower and enable our customers to be able to handle as many transactions as possible on their own. This will not only help them save time, but also will allow us to do our business in a much better and more efficient way. Today, on the retail banking side, 97% of our products offered at our branches is also available on digital channels for our retail customers. Our goal is to increase DIY availability for our corporate and commercial customers as well. We strive to provide a better experience at all touch points in both digital and face-to-face interactions, finding the best combination of the power of technology and human touch.

On the other hand, in an increasingly connected and digitalized world, it is of great importance to address cybercrime threats. Clearly, cybersecurity is one of the main concerns of Garanti. In 2018, Garanti continued to improve its outstanding information

and cyber security systems as explained in detail in the Digital Transformation section. Security responsibility is shared among employees by continuous trainings and awareness campaigns. Technology is the driver of security as much as human is, and Garanti invests in technology to ensure that vital security baselines are provided. Cybersecurity is not only the tools but also the process to support security requirements within the organization through dedicated teams via monitoring and response, compliance, risk assessment, security testing, business continuity and operation services. In order to improve the cybersecurity efforts of Turkey, Garanti collaborates in several initiatives such as Sectoral Cyber Incident Response Team managed by the Banking Regulation and Supervision Agency (BRSA), Turkey Informatics Industry Association (TUBISAD), and Cyber Emergency Response Team for the Turkish Financial Sector.

Another rising issue is the significant increase in phishing scams through fake advertisements in social media. Garanti develops strategies and several partnerships with social media companies to eliminate these attempts at the source. Being aware of the fact that our customers are key to tackling this issue, we share informative messages via various channels with them to raise their awareness and build capacity. In 2018, fake websites generating these scams increased by 281% compared to the previous year. Shutting down times also significantly decreased due to immediate action taking and collaboration.



Further details can be found in the Digital Transformation Section.

FINANCIAL HEALTH & INCLUSION



As unique customer experience is our strategic priority, we attach great importance to our customers' financial health. Using the insights obtained from the behavioral economics analysis, we support our customers in being aware of their financial positions, being on top of their financials, having a balanced budget, spending consciously for their needs, saving and investing for their dreams and for the future. Investing in customers' financial health brings out amazing opportunities in terms of building long-term relationships and creating strong emotional bonds. Based on our "Transparent, Clear

¹⁶ Garanti Bankası'nın Mobil Uygulaması ¹⁷ <https://www.gartner.com/en/newsroom/press-releases/2018-02-19-gartner-says-25-percent-of-customer-service-operations-will-use-virtual-customer-assistants-by-2020>

and Responsible” banking approach, we inform and train our customers on how to protect their financial health. Today we offer 18 products and solutions to our customers, and in 2019, we will be developing many more through a better-structured approach. In 2018, our Digital Banking teams embarked on a project that will be implemented in Garanti’s Mobile Banking App and show customers their status on savings and expenses through big data analysis. Customers will get information about their financial status around savings-expenses, they will be offered insights and special action plans to improve their financial health. Finally, a percentage for the whole progress will be shown to customers. The Digital Banking teams work with Business Intelligence teams in order to cluster our customers by considering their spending/earning behavior by focusing on big data analysis.

With our open-market concept, we aim to make our financial solutions accessible to all customers wherever they may be. Until very recently, call centers and ATMs used to be the only alternatives to the branches. Then we rapidly expanded our services on digital channels and adopted a multi-channel strategy. Soon after, our strategy was transformed into an omni-channel one where we began offering seamless experience across all channels. We have made improvements to enable even non-Garanti customers to reach our products and services from all channels. For example, we offer cardless transaction option through our ATMs where everyone, even non-Garanti customers, can transfer, deposit or withdraw money; they can even pay their bills with this function. In 2018, 33.6 million cardless transactions occurred in TL, and 141 thousand cardless transactions occurred in foreign currency. Moving forward, we have already commenced our e-commerce initiatives to reach our customers and non-Garanti customers via non-Garanti channels.

THE FUTURE OF WORK



We have been witnessing significant changes in the business world for the last couple of years. Be it the millennials or the disruptive technological advancements, this is only a telling sign of a much more serious paradigm shift in the way we do business and the workplace. It is no surprise that ILO¹⁸ established the Global Commission on the Future of Work. The

Commission is set out to undertake an in-depth examination of the future of work that can provide the analytical basis for the delivery of social justice in the 21st century.

“The world of work is experiencing a major process of change, with important transformations ranging from the development of technologies and the impact of climate change to the changing character of production and employment.”¹⁹ We all need to adapt to it by revising our vision, procedures, core values and sometimes even by redefining our core strategies.

Technological development increases both customers’ expectations & needs, and the companies’ capacity to meet them. The advancements enable us to offer more customized solutions and advice to our customers. If companies miss the window to quickly adapt to this dynamic environment, they will inevitably be outgrown by smaller and more agile players in the field. Garanti keeps a close eye on all technological mega trends and takes its place among the pioneers of innovative solution providers. As a necessity of our sector, we have been investing in automation for a long time. Thus we minimize the error factor and provide faster service. We believe our dynamic, adaptive and efficient business model is the enabler of our transformation journey.

In 2018, we initiated a data governance and data transformation project in order to take our big data analysis and value creation abilities to the next level. The Data Governance project aims to establish a governance model where data is seen as an asset. Within this project, we assigned responsible personnel for data, developed an extensive data inventory, and established quality assurance and management systems to enhance data quality. The new data governance structure will enable us to effectively manage data security, privacy, and accessibility in compliance with all relevant regulations. We have also identified and implemented necessary trainings, tools, and infrastructure needs to increase each team’s capacity for data processing. This allowed us to better support all decision-making processes at Garanti through data analytics.

On another note, this transformation also bears some other risks for companies. For instance, it is hard to reach and attract talent constituting a small group in specific universities and

¹⁸ International Labour Organization ¹⁹ https://www.ilo.org/global/topics/future-of-work/WCMS_578759/lang-en/index.htm

disciplines. The most significant reason is competition, which is not only among the banks within the banking sector, but also among other various sectors. Competition among new trending areas related to data, artificial intelligence, digital marketing, robotics, etc. diminished the attractiveness of the banking sector. New generation talents tend to have short tenure, which leads to low engagement scores. Every company must find new ways to strengthen employee engagement. While managing the expectations of the new generation, our aim is to provide different career paths to our employees to increase talent retention. Following new trends, we are integrating AI & Machine learning algorithms to prevent unconscious bias, decreasing the time spent to fill vacancies, measure flight risk of candidates and predict performance level before hiring. We've changed our talent acquisition strategy by focusing on campus activities, and we segmented talent attraction events for new graduates (data, finance, risk, digital banking, marketing) using various channels (social media, campus events etc.) in order to reach targeted talents for each different department of the Bank. Following the adoption of the new internal mobility policy, all employees at the Bank have the opportunity to manage their own careers in a transparent manner. We integrated digital tools in the candidate selection process, and also we're using analytical methods for performance & turnover prediction in talent groups.

21ST CENTURY SKILLS GAP

All these new technological advancements, global developments, and future challenges require a brand new and much broader skill set. However, education is still one of the greatest challenges worldwide. The 2018 World Development Report finds that "The quality and quantity of education vary widely within and across countries. In the poorest countries, fewer than 1 in 5 primary school kids are proficient in math and reading." Hundreds of millions of children around the world are growing up without even the most basic life skills, let alone the skills required to survive in the 21st century. This also creates a challenge for the business world as it means the talent pool will be unable to serve the changing needs of companies. To tackle this issue, Garanti has many initiatives such as the Teachers Academy Foundation, Code the Future with Garanti, and Math & Science - Learning with Fun. Through the Teachers

Academy Foundation, Garanti reached and broadened the minds of more than 165 thousand teachers across Turkey. Code the Future with Garanti, introduced 700 children aged 8-13 to coding, robotics and design-oriented thinking in 15 cities.

Garanti also supports its employees in this regard through various training and mentoring programs in order for them to be fully equipped for today's and tomorrow's challenges. With the revamped service model introduced in branches, we had the opportunity to refresh the existing knowledge of our employees and train them in their cross skills. Branch transformations had to be done in a very short period of time, and time constraints would not allow implementation of in-class format for training and refreshment programs for such a huge number of people – approximately 4,000. In order to adapt and train so many branch employees to the new service model in a very short time, it was essential to design a new training program. Therefore, a new program was designed for cross-skill development using a blended approach, which predominantly covered digital learning solutions. Digital reinforcement quiz applications were used actively and 2.5 million questions were solved in 9 months.



More examples can be found in Responsible and Sustainable Development and Investing in Human Capital sections.



TRUE STORIES

GARANTI EMPATHY

THANKFUL FOR THE WELL-MEANING PEOPLE



One of our customers contacted us saying that she had found some money on the street wrapped with a Garanti bank slip. She said she wanted the customer named in the receipt to be found so that the money could be delivered. I thanked her for her sensitivity and offered to help her. I asked for an image of the slip and accessed the contact information for our customer named on it. Then I called and told that customer about what happened.

Our customer who had dropped the money said, *“Yes, I recently lost some money. My son is a student; I transferred him some money through the ATM and then on the way, I dropped the money in my pocket. I had been looking for it everywhere”* I said to him *“The person who found your money contacted us and she will hand your money on Friday to Etiler Branch. You can get it from our branch”* Our customer was very happy and asked for the phone number of the customer who recovered the money to thank her. I explained that I could not share the phone number because of banking rules but assured him I would convey his thanks.

We wanted to send a small gift to our customer in this heartwarming story who recovered the money and contacted us. I added a handwritten note, thanking for her considerate behavior.

Our customer thanked us back posting our gift and note on social media, adding a lovely comment: *“Yes, today I was very surprised, and very very happy. The money I found had been returned to its owner. Just now, I was greeted by a nice gesture that took away all of the week’s weariness. My sincere thanks for the gift that made me feel the importance given to humans and underlines the value of humanity. I am thankful for the well-meaning people who have their hearts in the right place.”*

Please scan the QR code
to listen to the story.



* True Stories are actual events, the names have been changed or anonymized for customer information privacy purposes.

ESRA ÖZHAN

Digital Customer Care
Team Associate

It was about four years ago. An old man was leaning against the wall outside the branch. He must have been cold because he was rubbing his hands. I went over to him and said *"Sir, come in and wait inside. Do not stand out here in the cold"*, *"Son, what if you get into trouble for letting me in?"* he said. *"Don't worry, I will not. Come in. Who are you waiting for here?"* I asked him. *"I am waiting for my son. He told me to wait outside the bank. This is why I am here,"* he said. *"Let us offer you a cup of tea to warm you up"* While he was sipping the tea, his son passed outside the bank. When he spotted his father inside the branch, he came in, surprised. *"What is up dad? Why are you waiting here? I told you to wait outside the other bank,"* he said. The father replied, *"It was cold outside that bank, I got cold so I waited here because it was sunny here."* Pointing at me, the son asked his father *"How come you are sitting here drinking tea. Do you know this gentleman here?"* The father said, *"No I don't. But he saw me waiting outside and invited me in and offered me tea."*

The son went on, *"Very well then, do you have a cup of tea for me as well?"* and turned to me as he sipped his tea *"Do you always greet the people you don't know so warmly and offer them tea?"* he asked. *"I do. I treat them just like I treat the people who come to my house. This is my home and you are my guests and you are important to me"* I said.

The man said, *"I have come from France. I intended to deposit the money I brought with me to another bank but I loved that you treated my father who is a total stranger to you this way and it made me proud"* He left after telling his father to wait and that he would come back soon. When he came back ten minutes later, he was carrying a big bag. The gentleman has become our customer that day, and opened Euro and TL accounts for a respectable amounts before leaving the branch.



Please scan the QR code
to listen to the story.

* True Stories are actual events, the names
have been changed or anonymized for
customer information privacy purposes.



TRUE STORIES

GARANTI EMPATHY

THIS IS MY HOME AND YOU ARE MY GUESTS



Trabzon

MUSTAFA MERAL
Security Guard

OUR VALUES



OUR COMPETITIVE ADVANTAGES

DYNAMIC HUMAN CAPITAL MAKING A DIFFERENCE

- Employee happiness oriented HR practices
- Awarded talent programs
- Platforms to encourage employees to share their suggestions and innovative ideas
- The first and only company from Turkey to be included in Bloomberg Gender Equality Index
- 47 hours/employee training per annum

STATE-OF-THE-ART TECHNOLOGY AND DATA SCIENCE

- Business-integrated IT
- In-house developed, custom-fit IT solutions and applications
- Uninterrupted transaction capability and infrastructure security
- Continuous investment in technology since 90s
- Data-driven and agile decision-making processes
- Managing data as a corporate asset with governance models
- Creating intelligence for smart decision making at every level of business by advanced data analytics
- Continuous investment to people and technology to improve big data engineering and analytics

SEAMLESS CUSTOMER EXPERIENCE MANAGEMENT

- Smart business processes enabling differentiation in customer experience
- Simple and clear processes/customer journeys designed from customers' eyes
- Sophisticated segmentation systems prioritizing customer needs
- Multi-channel customer relationship management tools offering effective & timely solutions

CUSTOMER-ORIENTED INNOVATIVE PRODUCTS AND SERVICES

- Innovative, flexible and custom-tailored solutions
- Services and products, blending customer needs and tendencies with evolving trends

STRONG BRAND AND REPUTATION

- Holistic reputation management approach and strong reputation index
- Consumers define Garanti as "Leader in technology, innovative and makes the life easier"
- Consistent communication and Community Investment Programs contributing to brand perception

SEAMLESS EXPERIENCE ACROSS ALL CHANNELS

- New service model at branches capturing the benefits of digital world for better customer experience
- Presence in 81 cities with widespread branch network
- Leading position in internet & mobile banking
- Enabling completion of all card activities in single platform and offering analytics based smart solutions, Bonus Flas: more than 6.3 million downloads within three years
- Rapid and secure e-commerce payment in more than 1,800 entities via GarantiPay
- >5,000 ATMs, also serving non-bank customers through cardless transactions
- Leading financial call center with more than 73 million customer contacts per year
- More than 1 out of every 5 transactions handled via digital channels in Turkey go through "Garanti"

SINGLE POINT OF CONTACT FOR ALL FINANCIAL NEEDS

- International banking operations in the Netherlands and Romania since 90s
- Leading position in bancassurance
- Leadership in number of total customers in voluntary and auto private pension system
- Fastest mortgage process in the world by granting within the same day of application as long as the appraisal report is ready
- Digital focused securities company that meets customer demands and expectations
- Innovative and easily accessible factoring solutions
- Turkey's first asset management company
- Leasing solutions driven by customer needs and requests

OUR STRATEGIC PRIORITIES



CUSTOMER EXPERIENCE

- We aim to enable a seamless and excellent customer experience among all channels by placing the customers at the center of all our activities.
- With this sense, we continuously review our processes and business flows from our customers' point of view and design rapid, easy and simple processes.
- In accordance with our target to exceed our customers' expectations, enhance their satisfaction and build trust-based, long-lasting relationships, we adopt the principle of always acting in a transparent, clear and responsible manner.
- We are committed to help our customers to grow their businesses in a sustainable manner and create value for them by providing innovative solutions and proposals based on their needs. With our solutions and services, supporting financial literacy and inclusion, we strive to take care of financial health of our customers and help them make informed decisions.



DIGITALIZATION

- We constantly invest in our digital platforms in order to provide unique experience, transaction convenience and innovative solutions to our customers, pioneering the digital transformation. While expanding our digital customer base, we aim to increase the share of digital channels in our sales.



EMPLOYEE HAPPINESS

- One of our strategic priorities is investing in our employees focusing on their development, happiness and wellbeing.
- Aligned with our values, we intend to form teams possessing team spirit, acting with shared wisdom, thinking big, socially responsible and result-oriented.
- With this sense, we are embracing a fair and transparent management policy based on performance, focused on equal opportunities, diversity, and internal promotion

OUR PURPOSE

TO BRING THE AGE OF OPPORTUNITY TO EVERYONE



OPTIMAL CAPITAL UTILIZATION

- While focusing on disciplined and sustainable growth, we aim to maximize our value creation and to maintain our strict adherence to solid asset quality by using our capital effectively.



EFFICIENCY

- Pursuing cost and revenue synergies, we constantly improve our business model and processes with operational and environmental efficiency point of view.



RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

- While implementing our advanced corporate governance model that promotes our core values, we act with the principles of trust, integrity, accountability and transparency against all stakeholders.
- We prioritize, conducting effective risk management through world-class integrated management of financial and non-financial risks.
- By focusing on community investment programs which deliver impactful outcomes on material issues and creating shared value through lending based on impact investment principles, we target social value creation. We will continue to be the pioneer bank for the positive change through our strategic partnerships.

MAIN PILLARS OF OUR STRATEGY

OUR CUSTOMERS

Listening to our customers, understanding their needs, meeting and exceeding their expectations by offering the highest service quality and innovative solutions
Helping our customers achieve their targets, making an impact on their lives and creating value

GARANTI EMPLOYEES

Competent, well-educated, value continuous progress and think big
Respectful of the society and the environment, pleasant, solution-oriented, enthusiastic
Responsible and ethical banking professionals

OUR BUSINESS MODEL

Leading transformation in parallel with technological and digital developments
Backed by state-of-the-art IT infrastructure
Effectiveness and productivity focused efficient business model across all channels

OUR BUSINESS MODEL

We are molding our business model around our purpose “to bring the age of opportunity to everyone”.

With its omni channel strategy, Garanti aims to make banking services available to its customers at any time through any channel they choose, and focuses on delivering them a seamless and uninterrupted experience on each channel.

Having defined delivering an excellent customer experience as its priority, Garanti blends technology and humanistic elements, and 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.

Always imagining and designing the future and striving to be unprecedented in what it offers, Garanti considers, raising competent, well educated, responsible, and ethical banking professionals who think big and are respectful of the society and the environment, as an indispensable part of the sustainability of its business model.

Putting digitalization at the heart of its business model, Garanti targets to lead the transformation of the sector, to command state-of-the-art IT infrastructure, and to be efficient and productive in all of its service channels. To this end, with its principle of continuous improvement the Bank continues to revamp and simplify its business processes enhance customer experience and automatize its processes, while securing operational efficiency in keeping with its principle of continuous improvement.

Integrating the opportunities presented by advancing technology and data resources in its business model, Garanti interprets big data groups and adopts a more analytical approach to customer management. The Bank also uses these outputs in its organizational model, and thus achieves more analytical business results.

Adopting lean method approaches to execute its projects in order to quickly cater to evolving customer expectations and to accommodate advancing technology in its business model, combining the means technological infrastructure has to offer with its vast experience, and aiming to address everybody, Garanti now defines productivity as the main pillar of its business model. For this purpose, Garanti integrates all the means offered by technological advancements and by the digital world into the ecosystem it has created, and addresses innovative solutions using agile methods, ultimately pioneering the industry in transformation projects.

The employee teams working to achieve the objectives accompanying Garanti’s transition to agile business take full responsibility for their efforts, and they are constructing the products and services according to customer feedback. This allows Garanti to focus on offering solutions that optimally fulfill current and future customer needs. In this new business model, employees are inspired and motivated by single target

Having espoused the principle of gaining insight into customers and taking each and every step with the perspective of “our priority is our customers”, Garanti promotes collaboration with the “one team” point of view. The Bank supports fulfillment of customer demands in the fastest manner possible through consolidated teams that can take action, drawing on its business model driven by an inspiring and innovative mindset that also exceeds expectations.

OUR VALUE CREATION

GRI 102-46

INPUT

FINANCIAL CAPITAL

We use capital effectively so as to maximize the value to be created. Our dynamically managed and deposit driven funding base together with well diversified funding mix and opportunistic utilization of alternative funding drives our disciplined, sustainable and capital generative growth. With a 12 points reduction of cost to income ratio since 2015, it is our goal to constantly improve our business model and processes with an operational and environmental efficiency point of view and seek cost revenue synergies.

DIGITAL & INTELLECTUAL CAPITAL

We constantly invest in digital platforms so as to provide transaction convenience, unrivaled customer experience and pioneering solution suggestions to our 7.3 million digital banking customers. We expand our digital customer base and increase the share of digital channels in our sales. We take precautions against all risks which could prevent secure and uninterrupted service (e.g. cyber threats) ensuring information security.

HUMAN CAPITAL

We invest in our employees by focusing on their development, satisfaction and well-being through an average of 47 hours of training per FTE and 11 well-being programs. We strive to form teams possessing team spirit, acting with shared wisdom, social responsibility and delivering results. We embrace a fair and transparent management policy based on performance, focused on equal opportunities and diversity.

RELATIONSHIP CAPITAL

We strive to offer our 16 million customers an excellent customer experience by placing them at the center of all our activities and by designing our processes from their perspective. We aim to be transparent, clear and responsible towards our customers and establish long-lived relationships built on trust. We help our customers in making informed decisions supporting financial literacy, health and inclusion through solutions we offer.

NATURAL & SOCIAL CAPITAL

We transform savings into sustainable investments by offering sustainability products & credit lines and TL 35.2 billion lending based on impact investment principles . We advise our customers to grow their businesses in a sustainable manner in our daily communication and initiatives tailored to their needs. We strive to drive positive change through 44 engagement platforms and 24 memberships. We focus on community investment programs and invested TL 20.2 million delivering impactful outcomes on material issues.

MEGA TRENDS

RISKS AND OPPORTUNITIES



CORPORATE GOVERNANCE

FINANCIAL CAPITAL

We contributed TL 311.2 billion (USD 59 billion) to the economy, through cash and non-cash lending and our operations produced a Return on Average Equity of 15% and a Return on Average Assets of 1.7% with a Capital Adequacy Ratio of 16.5% and CET-I of 14.2%. Garanti's market capitalization reached TL 33.4 billion (USD 6.3 billion) at the end of 2018. We contribute to the economy and the society by paying dividends to our shareholders, salaries to our employees, invoices to our suppliers and tax revenues to governments. We make a significant contribution to public finances not only through our own tax payments, but also, through third party tax collection due to our economic activity. The total tax contribution of Garanti to public finances is disclosed voluntarily on Garanti Investor Relations website.

DIGITAL & INTELLECTUAL CAPITAL

Our investment in digital channels resulted in share of digital sales to total sales increase to 44% with no data breach regarding customer privacy. As a pioneer in digitalization, we empower our customers with state-of-the-art digital solutions and set an example for our peers in keeping up with the latest technological advancements.

HUMAN CAPITAL

We created employment for 18,338 people and our efforts in promoting equal opportunities and enabling professional development contribute to our high employee engagement score and low turnover. With a women ratio of 40% in management levels and a variety of initiatives promoting women's advancement in their career, Garanti is the only company in Turkey qualified for the Bloomberg Gender Equality Index.

RELATIONSHIP CAPITAL

Our relationship with our customers is built on trust by exceeding their expectations and enhancing their satisfaction. Our leadership position among our private peers in Net Promoter Score is a result of our customer experience focus that is at the core of our business model. Our efforts in supporting financial literacy, health and inclusion resulted in touching lives of 850,000 customers that started using savings products.

NATURAL & SOCIAL CAPITAL

Our impact investment principles and participation in financing renewable energy projects led to avoided GHG emissions of 5.4 million tonnes of CO₂e based on total operational installed capacity, while the Scope 3 footprint of our energy production portfolio is 0 in new PF commitments. Our engagement activities led to 14 policies/position papers that are issued to contribute SDGs and our community investment programs addressed 3 different challenges with a Social Return on Investment value of more than 3. As a result of these efforts, Garanti has qualified in seven leading sustainability indices.

GRI 102-46

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS



SUMMARY OF THE BOARD OF DIRECTORS' REPORT

In 2018, protectionist policies gained the forefront globally, whereas accommodative monetary policies in developed economies carried on with normalization. The tightened financial conditions around the world, combined with reduced liquidity, trade war concerns and uncertainties led to higher financing costs for developing economies and restricted fund flows into these countries. In this period, although the Turkish economy displayed strong growth rates in the first half of the year, economic activity exhibited slowdown and stabilization in the second half due to the developments in the domestic and international markets. As being the engine of the economy through its support to real sector and also investments, banking industry was directly impacted by macroeconomic developments. In this time frame, risk factors such as liquidity, capital and asset quality gained the foreground in the sector owing to increased vulnerabilities in the markets. However, the Turkish banking sector maintained its solid stance and paved the way for the healthiest economic stabilization possible.

In the highly volatile year of 2018, Garanti preserved its strong profitability ratios, robust capitalization and liquidity. In this context, Garanti aimed to optimize permanence of its liability items and diversify its funding facilities, while composing the assets items so as to maximize risk-adjusted return on capital.

While consolidated net profit of Garanti went up by 5% to reach TL 6 billion 707 million year-over-year, TL 1 billion 90 million set aside in free provisions in the second half of the year brought total free provisions to TL 2 billion 250 million. Garanti's dynamic balance sheet management was further reflected on the robust and high quality earnings, delivering a Return on Average Equity (ROAE) of 15% and Return on Average Assets (ROAA) of 1.7%. Including the total free provisions set aside throughout the year, ROAE was 17%.

In a year of limited credit growth that resulted from the deceleration in the second half of the year, Garanti increased its consolidated total assets by 13% on an annual basis,

bringing it to TL 399 billion, and succeeded in maintaining a high percentage of interest-bearing assets. Today, Garanti commands leading positions across various segments in the sector, from retail banking to payment systems, mortgages to auto loans, SMEs to project finance, transaction banking to digital banking.

In 2018, Garanti 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. Customer deposits base expanded by 22%, a rate that is well above the loan expansion, which helped Garanti to highly outperform the sector and improve its loan to deposit ratio (LDR) by 14 points on a consolidated basis. Garanti's leading position in consumer deposits is the outcome of its innovative business model that places customers' needs and satisfaction at the core of its business.

Garanti successfully defended its spreads owing to disciplined loan pricings and the high share of demand deposits in total deposits. Despite the rapidly rising market interest rates, Garanti was able to improve its net interest margin including swap cost by 61 bps with the help of CPI-linkers that are kept for hedging purposes against possible volatility in interest rates. Hence, with 5.3%, Garanti remained the bank with the highest net interest margin among its peers.

Non-performing loans ratio showed a rise this year due to the volatile economic conditions. The NPL ratio went up from 2.6% in 2017 to 5.2% in 2018. Net new NPLs mostly consisted of high-amount commercial loans, which accounted for 65% of all new NPLs. On the other hand, consumer and SME loans sourced a smaller portion of net new NPLs, accounting for 35% of total new NPLs.

Paying the utmost attention to stakeholder satisfaction, Garanti completed the rollout of its new service model in branches

in 2018. The new branch model already began contributing flexibility to the sales force, while increasing revenue generation capacity and cost efficiency. Garanti continued to focus on cost/revenue synergies and improved its cost/income ratio by 12% since 2015.

In 2018 that saw reduced contribution of commission income originating from loans, Garanti succeeded in recording an annual growth rate of 32% in net fees and commissions, well above the projections. Boasting the highest fee base among its peers, Garanti carried on with its sustainable income generation on the back of its diversified fee base.

Despite the loss resulting from the 40% depreciation of the Turkish lira and the negative effect arising from the rise in interest rates in 2018, Garanti was able to maintain its Capital Adequacy Ratio at 16.5% with the contribution from net profit. This is well above the Basel III required ratio of 11.4% set for 2018.

Supporting responsible and sustainable development is among the strategic priorities of Garanti. Turkey's first social bond that Garanti issued exclusively for women entrepreneurs in June in cooperation with the IFC has constituted an innovative example for funds secured from abroad. In July, Garanti assumed a pioneering role once again in the sector in terms of sustainable finance with Turkey's first green loan. Garanti takes place as the only bank from Turkey among the world's 28 leading banks that will spell out global banking principles for sustainable development. Garanti continues to work towards creating an inclusive economy where all individuals have equal access to opportunities, to support active participation of women in economic life, and to help flourish the entrepreneurial ecosystem in Turkey.

Garanti's recurring strong performance comes not as a result of ad-hoc steps, but of a long-lived and well-planned journey. Also in the period ahead, Garanti will be making decisions with an eye on the needs of future generations, and will keep fulfilling its share of the responsibility for a sustainable future.

We would like to thank all our stakeholders and particularly our employees for their confidence in us and for their valuable contributions.

2018 KEY PERFORMANCE INDICATORS

Focused on creating sustainable value for all its stakeholders, Garanti places its customers at the core of its operations with aim of providing unrivaled customer experience. Garanti's customer-focused innovative business model enables Garanti to generate sustainable income and command a leading position in Turkish banking sector. Garanti employees are one of its most important assets and one of the main pillars of its strategy. Garanti 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. By constantly investing in digital platforms to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions, Garanti increases the share of digital channels in total sales.

Moreover, Garanti 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 and its stakeholders.

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



CUSTOMER EXPERIENCE

NET PROMOTER SCORE

Highest
among peer group

GROW CUSTOMER BASE EFFECTIVELY

> 16 million
customers chose Garanti

DISABLED FRIENDLY ATMS

5,210
(99% of all ATMs)



HUMAN CAPITAL

EMPLOYEE ENGAGEMENT SCORE

67
Maintained its highest employee engagement level in banking sector

AVERAGE HOURS OF TRAINING PER EMPLOYEE

47 hours

HIGH PERFORMER TURNOVER

2.74%

WOMEN EMPLOYEES IN DECISION MAKING POSITIONS

40%



DIGITAL TRANSFORMATION

1/5
of all digital transactions
in Turkey go through Garanti

DIGITAL SALES

Increased share of digital sales
to total sales: from 33% to
44%

NON-CASH FINANCIAL TRANSACTIONS THROUGH DIGITAL CHANNELS

95.5%



RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

**AMOUNT OF IMPACT
INVESTMENTS**
TL 35.2 billion
(to date)

**SUSTAINABILITY INDICES
IN WHICH GARANTI
IS INCLUDED**
7

**INVESTMENT IN COMMUNITY
PROGRAMS**
TL 20.2 million

**% OF LOANS WITH
ESG PROVISIONS IN
LOAN AGREEMENTS**
100%



FINANCIAL PERFORMANCE

RETURN ON AVERAGE ASSETS
1.7%

RETURN ON AVERAGE EQUITY
15%

NON-PERFORMING LOANS RATIO
5.2%

CAPITAL ADEQUACY RATIO
16.5%

COMMON EQUITY TIER 1 RATIO
14.2%

COST / INCOME
35.6%



TRUE STORIES

GARANTI EMPATHY

WE SAVED A SIGNIFICANT LOSS ON THE PART OF OUR CUSTOMER



ARZU YILDIZ

Payments Senior Supervisor

Our customer's overseas money transfer instruction was sent to me by our branch. When I entered the transfer into the system, I received an alert that the account number entered was being used for the first time and the system did not complete the operation. But it was noted that the branch had obtained customer's confirmation. My colleague who was to authorize the transaction got suspicious, because the transaction was in British Pounds and the transfer was to Czechoslovakia.

Our business banking customer responded in writing that they got the account number from a different e-mail account from the recipient's head office, requesting for the transfer to take place as such.

Even this written response was not satisfactory neither for me nor my colleagues. So I took initiative and wrote a detailed e-mail explaining that, use of various different e-mail accounts had caught our attention and that it could be a fraud attempt. I stated that there could be fraud perpetrators who had hacked the emails and act as if they were the real account owners in their correspondence. Fraud was a high possibility particularly, if different account numbers were in question and if such information was provided via email. I contacted our customer once again, advising them to contact the counterparty via phone, asking for confirmation of account information and requesting them to approve the payment after that confirmation.

Still, we were unable to convince our customer. So I reached the responsible officer at that company and talked to him personally. I convinced him that they should make sure to contact the recipient by phone and get confirmation. Finally, the phone call revealed the fact that the recipient's emails were intercepted by fraud perpetrators. We cancelled the requested transfer and we saved our customer from a significant loss.

*Please scan the QR code
to listen to the story.*

* True Stories are actual events, the names
have been changed or anonymized for
customer information privacy purposes.



Since January 2017, we, as Retail Collections unit, have been offering assistance to our delinquent customers through instant messaging via the Internet branch.

When I first started working in this project, I thought my priority was to get our customers to pay their overdue debts; but I soon realized my top priority on this platform was to offer assistance to our customers.

While I was exchanging messages with a customer in July, I was reviewing the comments of previous contacts and I noted that no prior one-to-one phone contact could be established. The comments read, *“The phone is answered but no sound comes from the other end, the customer does not speak”* Since this customer could not be reached on the phone, I felt the need to thank him via instant messaging through Internet Banking for using this channel to share his details. When I wrote to him, he wrote back, *“I cannot talk on the phone because I am hearing impaired. I am glad you contacted me through this channel”* explaining the situation.

That was a totally unexpected answer for me. If I had not received that response I was going to think that the customer answered the phone but did not talk intentionally. Through a simple thank-you and acting without prejudice, I have paved the way for our customer to share his special condition with me. This made both me and our customer happy.



TRUE STORIES

GARANTI EMPATHY

OUR TOP PRIORITY IS TO OFFER ASSISTANCE



Retail Collections Department – Istanbul



Please scan the QR code
to listen to the story.

* True Stories are actual events, the names have been changed or anonymized for customer information privacy purposes.

KISMET UYGUN

Outsource Operations Specialist

FINANCIAL PERFORMANCE



For Garanti, financial performance is at the core of value creation process and it is the cause and the effect in delivering sustainable growth. By making its products available to customers, investing in its facilities and by constantly improving its business model and processes with an operational and environmental efficiency point of view, Garanti is committed to have a direct and indirect impact on the economy.

Aiming to use capital effectively to maximize the value created, Garanti focuses on disciplined and sustainable growth on the basis of a true banking principle with strict adherence to solid asset quality. Combining its approach to unconditional customer satisfaction with its robust capitalization and a focus on efficiency, Garanti sustains its contribution to the economy through effective balance sheet management.

During 2018, Garanti increased its consolidated total assets by 13% on an annual basis, bringing it to TL 399 billion, and succeeded in maintaining a high percentage of interest-earning assets. Standing by its customers at all times, Garanti continued to keep a high share of loans within total assets. Today, Garanti commands leading positions across various segments in the sector, from retail banking to payment systems, mortgages to auto loans, SMEs to project finance, transaction banking to digital banking.

Garanti 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. 22% growth rate in customer deposits base was well above the loan expansion, which helped Garanti to outperform the sector and improve its loan to deposit ratio (LDR) by 14 points on a consolidated basis. Garanti's leading position in consumer deposits is the outcome of its innovative business model, which places customers' needs and satisfaction at the core of its business.

Garanti successfully defended its spreads owing to disciplined loan pricings and the high share of demand deposits in total

deposits. With the help of CPI-linkers kept as hedge against possible volatility in interest rates, Garanti was able to improve its Net Interest Margin (NIM) including swap cost by 61 bps despite the soaring market interests. Hence, Garanti, with 5.3%, continued to have the highest NIM level among its peers.

Garanti follows a prudent and risk-return focused lending strategy. The Bank displays a proactive and consistent approach to risk assessment, which ensures preservation of its solid asset quality. The economic volatility in 2018 resulted in increased Non-Performing Loan (NPL) ratios. The NPL ratio rose from 2.6% in 2017 to 5.2% in 2018. Net new NPLs mostly consisted of high-amount commercial loans, which accounted for 65% of all new NPLs. On the other hand, consumer and SME loans sourced a smaller portion of net new NPLs, accounting for 35% of total new NPLs.

Garanti's diversified and actively managed funding base, its capital adequacy ratio of 16.5%, its growing deposits with more than 16 million customers' trust, and continuous access to foreign funding sources feed Garanti's business model and long-term sustainable growth.

Paying the utmost attention to stakeholder satisfaction, Garanti completed the rollout of its new service model in branches in 2018. The new branch model already began contributing flexibility to the sales force, while increasing revenue generation capacity and cost efficiency. Garanti continued to focus on cost/revenue synergies and improved its Cost/Income ratio by 12pp since 2015.

Garanti's business model, along with its well-diversified fee sources and its further digitalized processes, support its ability to generate sustainable income. All of them combined secure the highest net interest margin, and the highest net fees and commissions base among its peers. Furthermore, Garanti maintains its focus on efficiency and effectively manages its operating costs to foster sustainable value creation.

VALUE DRIVER	INDICATOR	PERFORMANCE			
		2018	2018 Projection*	Actual vs. Projection	2017
USE CAPITAL EFFECTIVELY SO AS TO MAXIMIZE THE VALUE TO BE CREATED	Asset Growth (%)	12%	~10%	Beat	14%
	TL Loan Growth (%)	2%	<14%	Lower	20%
	FC Loan Growth (%)	-18%	Shrinkage	In-line	-3%
	NPL Ratio (%)	5.2%	4-4.5%	Higher	3%
FOCUS ON DISCIPLINED AND SUSTAINABLE GROWTH ON THE BASIS OF TRUE BANKING PRINCIPLE	Net Cost of Risk (bps)	215	~150bps	Higher	74
	NIM incl. Swap Cost (%)	5.3% (+61bps YoY)	Flattish (including CPI impact)	Beat	4.7%
CONSTANTLY IMPROVE BUSINESS MODELS AND PROCESSES WITH OPERATIONAL AND ENVIRONMENTAL EFFICIENCY POINT OF VIEW	Fee Growth (%)	32%	>20%	Beat	18%
	OPEX Growth (%)	15%	<=CPI	Beat	8%
	Cost / Income ¹ (%)	36%	-	-	42%
	Leverage	7.5X	-	-	7.6X
	ROAE (%)	15% (When adjusted with free provision set aside during the year: 17%)	>17% (no free provision assumed)	In-line	17%
COST AND REVENUE SYNERGIES	Capital Adequacy Ratio (%)	16.5%	-	-	16.8%
	CET-1 Ratio (%)	14.2%	-	-	14.7%

* 2018 projections were updated on 26 July 2018 based on macroeconomic estimations that were reshaped during the year.

¹ Income defined as NII + Net F&C + Trading gains/losses excluding FX provision hedges + Other income excluding provisions reversals + Income from subsidiaries



CUSTOMER EXPERIENCE



Customer experience has always been one of the main pillars of Garanti's strategy. Garanti strongly believes that companies delivering compelling experience are and will become the most successful ones in their industries. Customer experience is even more important in today's hyper changing environment accelerated by technology. Boundaries between industries have already blurred, and digital business models create the new norms for all business areas. Solutions that delight customers easily become the standard not for a specific category but for all. Therefore Garanti regards customer experience as the most important element for strengthening its competitiveness and differentiating it in its industry.

Garanti has a solid and long-run strategy built on a combination of technology and human factors, which are the key determinants of our age. The Bank executes its customer experience strategy with the aim of making customers' lives easier, looking after their financial well-being, helping them make informed financial decisions, advising them to grow their businesses in a sustainable manner, and finally, bringing financial services to everyone.

Customers' needs and expectations are continuously evolving and reshaping in line with technological advancements. But common ground stays the same: they want to experience shortened and frictionless journeys saving their time, smarter solutions supporting their well-being and personal connection which they enjoy. This understanding shapes all of Garanti's customer experience management efforts. Garanti wants its customers to be happy for having chosen to work with it. Building a good customer experience is one of the top strategic priorities and indispensable passions for Garanti senior management as well. The Customer Committee established for this purpose convenes under the chairmanship of the CEO to discuss customer experience topics. The Committee defines the Bank's customer experience strategies and it is also responsible for realizing and ensuring continuous effort aimed at enhancing experience at every touch point and improving performance.

In 2018, Garanti continued to receive feedbacks from customers for understanding the status of current customer experience and generating customer insight. Based on these feedbacks, the Bank designed 38 new projects to build on its products and services.

Helping its customers maintain their financial health is a key topic that Garanti puts emphasis on, and works to constantly improve through new ideas, projects and initiatives. Facilitating access to financial services through all its channels, Garanti ensures that its customers are informed about their financial positions, and have full control over their finances. With its segmented approach, Garanti provides consultancy and guidance on financial planning and offers solutions to its customers according to their needs varying from savings to pension.

With its responsible banking approach, Garanti shares advantages and possible risks of products and services. Hence, Garanti communicates with its customers transparently in all sales & marketing activities, and provides all the information they need in a clear and easy to understand way. The Bank offers feasible solutions and seeks to build long-term and sustainable relations that are built on trust.

Garanti's goals include supporting the growth and resilience of SMEs, women, entrepreneurs and farmers, who are key to sustainable development of the economy, and also helping them improve their environmental, social and ethical performance, besides producing solutions for their financial needs.

Through GarantiPartners Acceleration Program, the Bank helps flourish the entrepreneurial ecosystem in Turkey, and aims to support and accelerate early startups and initiatives with the potential to attract investment and grow.

The Bank facilitates women entrepreneurs' access to financing, executes free-of-charge educational collaborations to ensure sustainability such as the Women Entrepreneurs Executive

School, and encourages them to realize their full potentials through Turkey's Woman Entrepreneur Competition. Through Women Entrepreneurs Meetings, the Bank targets to help women entrepreneurs build new collaborations and penetrate new markets through experience and information sharing that they need.

The objectives of Garanti also include provision of innovative solutions and advise the customers to grow their businesses sustainably. The Bank provides its stakeholders such as its customers and non-governmental organizations with

information about the most current topics related to sustainable business models such as innovative environmental, social and governance practices in Turkey, green financing options, risks stemming from digitalization, new trends in relation to transparency and non-financial reporting, and environmental risk perception in the insurance industry.

By focusing on customer experience, Garanti is actively contributing to Sustainable Development Goal 5: Gender Equality, Goal 8: Decent Work and Economic Growth, Goal 9: Industry, Innovation and Infrastructure, Goal 10: Reduced Inequalities.

VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2017
- OFFER CUSTOMERS AN EXCELLENT CUSTOMER EXPERIENCE BY PLACING THEM AT THE CENTER OF ALL ACTIVITIES AND EFFORTS - DESIGN PROCESSES FROM THE CUSTOMERS' PERSPECTIVE, VESTING THEM IN A SWIFT, EASY AND PLAIN FORMAT - HAVE LONG-LIVED RELATIONSHIPS WITH CUSTOMERS THAT ARE BUILT ON TRUST BY EXCEEDING THEIR EXPECTATIONS AND ENHANCING THEIR SATISFACTION	Customers ¹	16,378,165	15,143,270
	Target Customers Surveyed ²	7.87%	7.35%
	Feedback Received ³	942,000	864,000
	Products or services that are changed & developed through customer feedback	38	24
	Net Promoter Score ⁴ (Ranking)	#1	#1
ALWAYS BE TRANSPARENT, CLEAR AND RESPONSIBLE TOWARDS THE CUSTOMERS HELP THE CUSTOMERS IN MAKING INFORMED DECISIONS THROUGH SUPPORTING FINANCIAL LITERACY, HEALTH AND INCLUSION IN THE SOLUTIONS OFFERED	New & upgraded products, services and channels that aim to support the customers in terms of managing their financials	3	3
	Customers informed about their financial positions	85%	83%
	Disabled-friendly ATMs	5,210	3,824
	Women who attended Women Entrepreneurship events and Garanti has helped to enhance financial awareness (cumulative)	9,720	9,100
	Customers that started using saving products	850,000	809,397
OFFER INNOVATIVE SOLUTIONS AND ADVISE THE CUSTOMERS TO GROW THEIR BUSINESSES IN A SUSTAINABLE MANNER	Site visits on Environmental & Social issues to customers	37	28
	Environmental and Social workshops and conferences	3	4
	SME initiatives (incl. apps and events)	6	7
	Environmental & Social issues addressed in workshops and conferences	29	11
	Woman Entrepreneurs encouraged to apply WE Awards (Cumulative)	36,908	34,384
	Customers and financial institutions informed on Environmental & Social issues ⁵	33	29

¹ Excludes customers with inadequate documentation. ² Represents percentage of target customers surveyed at least once during the year. ³ Represents customer feedbacks received through customer hotline and after-service surveys conducted for the journeys in branches, call center and customer hotline and other surveys. ⁴ Net Promoter Score research is conducted by independent research agency Ipsos for Garanti Bank. According to the research results, Garanti has the highest Net Promoter Score, among retail customers representing its own profile, compared to the peer group, which consists of Garanti Bank, İşbank, Akbank, Yapı Kredi Bank, QNB Finansbank and Denizbank. Research was conducted between May 2018 and December 2018. Main bank customers, who have communicated with the banks over the last 3 months, were surveyed face to face in the cities of Istanbul, Ankara, İzmir, Kocaeli, Bursa, Antalya and Adana by quota sampling. Score is calculated as a weighted average of retail segments' scores. ⁵ Customers and financial institutions informed through E&S workshops or through meetings/calls.



DIGITAL TRANSFORMATION



Digitalization is one of the global trends deeply influencing every part of life. Digital transformation is driven by developments in many different areas from the internet of things to cloud technology, from big data to artificial intelligence. As internet access and smart phone usage become far more widespread, customers change their preferences to reach products and services in favor of more simple, useful and time-saving channels which they can access from anywhere, turning away from traditional methods. It is now more important to deliver a customer experience where customized solutions are offered, going a few steps beyond just meeting customer expectations.

Constantly investing in digital platforms to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions, and to increase the share of digital channels in sales is one of the strategic objectives of Garanti. The Digital Transformation strategy is to deliver a full-fledged banking platform covering various banking transactions and services that are convenient, accessible and customized through all channels. Therefore focus is placed on omni-channel banking which enables customers to perform seamless transactions. Accordingly, the Bank's main concern is to listen to customers' needs and answer them in a prompt manner. The goal is to bring the age of opportunity to everyone, and Garanti is aware of the fact that this process will commence at the branches.

Digital transformation led the banking sector to develop effective risk management tools in many areas including ensuring customer information security and privacy, and managing the increasing cyber threats. While continuously investing in IT systems guaranteeing information security, Garanti takes precautions against all risks that could prevent secure and uninterrupted service, and measures the results within the context of customer satisfaction on digital platforms.

For Garanti, digitalization is a key material topic, as identified by both our internal and external stakeholders. Therefore, technology is an integral part in the decision-making mechanism, which supports process efficiencies and continuously drives the Bank forward. With a single source of data and common understanding, technology is used within Garanti as an enabler for top-down fast decision-making and strong communication. It is reflected in the way we do business, from advanced CRM applications and segmentation, to innovative products and services, and to a paperless banking environment. We want to offer an unrivaled customer experience by constantly investing in digital platforms.

Garanti supports the idea of all individuals benefiting from the opportunities created by digitalization, and develops solutions to enable use of banking services by more people.

By focusing on digitalization, we are actively contributing to Sustainable Development Goal 9: Industry, Innovation and Infrastructure.

VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2017
CONSTANTLY INVEST IN DIGITAL PLATFORMS SO AS TO PROVIDE UNRIVALED CUSTOMER EXPERIENCE, TRANSACTION CONVENIENCE, AND PIONEERING SOLUTION SUGGESTIONS EXPAND OUR DIGITAL CUSTOMER BASE AND INCREASE THE SHARE OF DIGITAL CHANNELS IN OUR SALES	Digital banking customers*	7.3 million	5.9 million
	Mobile banking customers*	6.5 million	5.0 million
	Digital transactions in non-cash financial transactions	95.5%	95%
	Digital sales (share in total sales)	44%	39%
	Number of cardless transactions via Garanti ATMs	33.7 million	27.6 million
	Amount of Cardless Transactions via Garanti ATMs (TL)	17.9	13.9
TAKING PRECAUTIONS AGAINST ALL RISKS, WHICH COULD PREVENT SECURE AND UNINTERRUPTED SERVICE (E.G. CYBER THREATS) ENSURING INFORMATION SECURITY	Programs organized to raise awareness on customer privacy and information security	13	19
	Hours of cyber security training per Full Time Employee	1.11	0.64
	Employees who attended cyber security trainings	92%	99%
	Data breaches regarding customer privacy	0	0

* Digital and mobile customer figures are provided for "active customer" definition, which refers to at least one login in the last 3 months. 2017 figures are for Dec'17 active & 2018 figures are for Dec'18.

INVESTING IN HUMAN CAPITAL



Employee-centricity is the foundation of Garanti's Human Resources strategy. The Bank strongly believes that organizations offering employees development opportunities entailing quality training programs, putting the principle of equality in the focal point of all their practices, designing a productive working environment that nurtures the fact that humans are social beings, and consolidating the sense of fairness will be the organizations of the future.

In keeping with this, Garanti carries out its activities, recognizing that its employees make up its most valuable asset and that they constitute one of the pillars of its strategy. In this structure, the Bank builds systems to recruit, train and develop a first-class workforce, and provides a working environment that encourages full utilization of employees' skills, offering a wide range of opportunities and ensuring recognition and rewarding of their accomplishments. At the same time, it develops practices designed to increase their welfare level and focus on their well-being in order to ensure work-life balance.

Garanti develops its human resources policy by putting employees first and continuously investing in them. The Bank collects and analyzes employee expectations in environments providing equal opportunities, and constantly improves its policy in keeping with technological advancements. Garanti believes that it creates an environment that complies with international standards by maximizing participation in every aspect. It places great emphasis on keeping bi-directional dialogue channels to ensure that employees are actively engaged in the decision-making mechanism and to benefit from innovative opinions. Garanti aims to increase employee satisfaction and employee engagement by collecting employee opinions systematically via various channels, such as the intranet, various questionnaires and platforms. Within the frame of policies devised according to employee needs and expectations, Garanti will keep increasing the control and monitoring by employees through a number of points from career management and performance evaluation to training

planning by taking steps that will encourage more active involvement of employees.

The Employee Committee, headed by the CEO and formed of members from the Board of Directors and Senior Management, is responsible for developing Garanti's HR policies, carrying out and coordinating activities in order to improve employee engagement and satisfaction, monitoring results and developing action plans when needed. With the support of the management, the Committee also aims to promote learning in order to enhance the Bank's development and tracks how training reflects on business.

Garanti has in place a Compensation Policy for employees, which is prepared in accordance with banking and capital market legislation and approved by the Board of Directors. The Policy is erected on job-based remuneration, encourages fair, transparent, measurable and sustainable achievement among employees, and is aligned with the Bank's risk principles.

The performance evaluation system at Garanti measures employee performance depending on objectives and the extent of their attainment. Systematic bonus and performance models are supported by concrete and measurable criteria during the assessment, and they serve as major and effective management tools for achieving cost management and efficiency, while ensuring fairness among the employees.

Garanti signs its name under a number of innovative projects focusing on its employees' development, satisfaction and happiness. The Bank devises schemes that increase the share of digital training programs within the entire training portfolio to give equal access to development opportunities for Garanti employees scattered in all 81 cities across Turkey, and aims to increase the number of training programs per person by the year. Through the Work Life Integration (İYİ) platform set up to enhance employee satisfaction and ensure a richer working experience, the Bank seeks to increase the number of programs

establishing a work-life balance and boosting employee motivation, and to expand their coverage across Turkey.

Garanti thinks that being “one team”, one of Garanti’s values determined by employee opinions in 2017, bears major effects upon customer satisfaction. The Bank champions the idea that shared wisdom practices that will build up team spirit directly contribute to joint work and development, as well as to the equality principle. In this context, the Bank develops projects that encourage employees to be respectful of diversities.

One of the key goals of Garanti is to establish a fair and transparent working environment that is dominated by equal opportunities and diversity. In a bid to provide support with real-life practices, the Bank contributes to gender equality and women’s empowerment through studies that measure employees’ prejudices regarding equality of women and men. Garanti will continue to pioneer and further expand activities

maintaining equality principle in all fringe benefits and practices provided by Human Resources. Diversity initiatives will be themed around equality once again, and the projects will focus on reducing unconscious bias and boosting awareness.

In line with local regulations on Occupational Health and Safety (OHS), Garanti, through its OHS team organized under Human Resources, coordinates and monitors all processes including risk assessment, occupational health practices, training programs, OHS Committees, near misses, workplace accidents and corrective and preventive actions.

By focusing on their professional development and giving all employees equal opportunities, Garanti is actively contributing Sustainable Development Goal 4: Quality Education, Goal 5: Gender Equality, Goal 8: Decent Work and Economic Growth, Goal 16: Peace, Justice and Strong Institutions.

VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2017
INVEST IN OUR EMPLOYEES FOCUSING ON THEIR DEVELOPMENT, SATISFACTION AND WELLBEING	Hours training per FTE	47	36
	Digital training/Total learning hours	34%	27%
	High performer turnover	2.74%	2.30%
	Employee engagement score	67%	65%
	Programs related to employee well-being	11	10
	Total ideas received from employees	23,305	22,172
FORM TEAMS POSSESSING TEAM SPIRIT, ACTING WITH SHARED WISDOM, SOCIAL RESPONSIBILITY AND DELIVERING RESULTS	Women employees*	58%	56%
	Salary ratio of men vs. women	0.97	0.98
EMBRACE A FAIR AND TRANSPARENT MANAGEMENT POLICY BASED ON PERFORMANCE, FOCUSED ON EQUAL OPPORTUNITIES, DIVERSITY AND PROMOTING FROM WITHIN	Women ratio in the Bank’s senior/middle level management*	40%	41%
	Bloomberg Gender Equality Index	Qualified	Qualified



* Share of women employees were calculated using monthly averages. For details, please refer to the Guidelines on Non-Financial Reporting in the Appendices section.

RESPONSIBLE AND SUSTAINABLE DEVELOPMENT



It is one of the strategic goals of Garanti to mobilize human and intellectual capital along with financial capital to support responsible and sustainable development.

The Bank's empathy skills let Garanti understand the conditions surrounding its customers and other stakeholders, allowing the Bank to develop solutions that cater to their needs. Taking into consideration the 2030 Agenda¹ that ranks high among priority topics, the Bank develops innovative financial instruments and solutions such as the green loan and promotes them in the sector through cooperation platforms.

The Bank collaborates with its peers and the business world at a global level to identify new opportunities, to determine emerging best practices and products, and to remain a leader on sustainability in Turkey.

To this end, Garanti provides active support or chairs a total of 24 initiatives including a number of intermediary platforms including the United Nations Environment Program Finance Initiative (UNEP FI), Principles for Responsible Banking, Global Compact Turkey, and the Turkish Business Council for Sustainable Development (BCSD Turkey).

As a constituent of 7 sustainability indices in total including the Dow Jones Sustainability™ Emerging Markets Index, Garanti analyzes the sector's leading practices in environmental and social areas and originates new areas for continuous improvement. Garanti shows the way for sustainable pathways through providing content support to collective policies and position papers of the private sector, which numbered 14 in 2018.

Garanti diversifies financial instruments provided for low-carbon and inclusive growth, and cooperates with international financial institutions for low-cost funding. Drawing on its intellectual capital, the Bank introduces innovative financial

resources that incorporate sustainability criteria, as exemplified in the first social bond issue ever carried out by a private bank in an emerging country.

The green project finance loan and the green corporate loan Garanti launched in the reporting period drive borrowers to improve their sustainability performances throughout the term of the loan. Both representing the first examples of their kind in Turkey, green loan agreements harbor advantages in terms of loan interest or commission rates for borrowers, which are made available depending on the achievement of improved performance in environmental, social and corporate governance areas that satisfy the predefined criteria during the term of the loan.

As climate change continues to be one of the most significant global crises in the 21st century, responsible finance approach is molded to address climate change issues in addition to societal challenges such as fostering employment through supporting SMEs in growing their business.

Having allocated 100% of its project finance support for greenfield energy investments to renewables as in recent years, thus increasing the total lending to this area to date to USD 5.1 billion, Garanti's support to green energy continues with solar energy investments commissioned in its own branches.

Garanti believes that a strong economy and business model are attainable only through strong communities, a sustainable environment and empowered individuals. To this end, the Bank creates shared value through its strategic community programs focusing on material issues such as skills gap, education, cultural development and environment.

Launched in 2017 by the Teachers Academy Foundation (in Turkish: ÖRAV), the 5 Pebbles: Social and Financial Leadership

¹ The 2030 Agenda refers to 17 Sustainable Development Goals ('SDGs') as defined in 2015 by UN-member countries to end poverty, combat inequalities and injustice, and overcome climate change by 2030.

Project aims to instill an awareness of financial literacy in future generations. Within the scope of a collaborative project of Garanti and Bahçeşehir University launched in 2016, it is intended to improve 8-10 aged children's skills and competencies required by our age such as problem solving, analytical thinking and teamwork through entertaining content including coding and robotics in technology workshops so that they are better equipped for the requirements of the digital age. In addition, Garanti remains as the main sponsor of the Turkish Entrepreneurship Foundation, namely Girvak, working to drive the culture of entrepreneurship and to encourage youth to experience entrepreneurship by learning from their inspirational role models, taking part in various entrepreneurship activities and networking since 2014. Founded

with the motive of being instrumental in bringing culture and arts to the society, SALT continues to operate as a not-for-profit autonomous institution out of three locations, namely SALT Beyoğlu, SALT Galata and SALT Ankara.

By focusing on responsible and sustainable development, the Bank actively contributes to the following Sustainable Development Goal 4: Quality Education, Goal 6: Clean Water and Sanitation, Goal 7: Affordable and Clean Energy, Goal 8: Decent Work and Economic Growth, Goal 11: Sustainable Cities and Communities, Goal 12: Responsible Consumption and Production, Goal 13: Climate Change, Goal 14: Life Below Water, Goal 15: Life on Land, Goal 17: Partnerships for the Goals.

VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2017
DRIVE POSITIVE CHANGE THROUGH STRATEGIC PARTNERSHIPS	Participation in sustainability related initiatives and memberships	24	27
	Engagement platforms	44	36
	Sustainability indices in which Garanti is included	7	6
	Policies/Position Papers Garanti contributed	14	8
CREATE SHARED VALUE THROUGH LENDING BASED ON IMPACT INVESTMENT PRINCIPLES	Total Sustainability Funds utilized from IFIs (million TL)	396	841.7
	Sustainable products / credit lines	34	32
	Amount of impact investment (billion TL)	35.2	22.8**
	Market share in WPPs	28.1%	30.2%
	SDGs contributed via E&S risk management of loans	10	10
	Avoided GHGs through renewable portfolio* (million tonnes of CO ₂ e)	5.4	5.4
	Scope 3 footprint of greenfield energy production portfolio (in new PF commitments)	0	0
FOCUS ON COMMUNITY INVESTMENT PROGRAMS WHICH DELIVER IMPACTFUL OUTCOMES ON MATERIAL ISSUES	Issues addressed by community programs	3	3
	Amount of investment in community programs (million TL)	20.2	20.3
	Renewables in greenfield energy production portfolio (in new PF commitments)	100%	100%
SROI (SOCIAL RETURN ON INVESTMENT) OF COMMUNITY PROGRAMS	Quality Education Projects	3.63	-***
	Entrepreneurship Projects	2.27	-
	Culture and Art Projects	1.45	-

* Based on the total operational installed capacities of HEPP, SPP and WPP projects in the financing of which Garanti has participated.

** Restated for 2017 due to the change in scope.

*** Not calculated in 2017.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT REVIEW

STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Türkiye Garanti Bankası A.Ş. ("Garanti Bank" or "Garanti" or "the Bank") complies with the corporate governance principles set out by the banking legislation, capital market legislation as well as the Turkish Commercial Code and other applicable legislation. Garanti Bank pays the utmost attention to implement these principles. The Bank accordingly updates its annual reports and website, making them available to its stakeholders. The shareholders can access comprehensive information, get information about the latest developments and activities from the regularly updated Garanti Bank Investor Relations website, and can address their questions to the Investor Relations Department and to the Subsidiaries and Shareholders Service.

In keeping with Garanti's commitment to corporate governance principles, information about the Bank's compliance with non-mandatory principles under the Corporate Governance Communiqué numbered II-17.1 is provided under the related headings of this report.

The Corporate Governance Committee was established in February 2013 pursuant to the Regulation on the Banks' Corporate Governance Principles published by the Banking Regulation and Supervision Agency ("BRSA") and the Communiqué Serial: IV-56 on the Determination and Implementation of Corporate Governance Principles issued by the CMB, which was effective at the time. The Committee is responsible for overseeing compliance with corporate governance principles and for ensuring that relevant improvement efforts are carried out in the Bank. In 2018, the Committee held 3 meetings with full participation of its members. The Board of Directors deemed that the activities performed by the Corporate Governance Committee in 2018 were efficient, appropriate, adequate and compliant with the relevant legislation. The activities of the Corporate Governance Committee are presented in detail in the Committees section.

On the other hand, Garanti, during 2018, achieved compliance with all of the mandatory principles of the Corporate Governance Communiqué No. II-17.1.

AUDIT COMMITTEE'S REPORT



Please refer to page 169 in the annual report for related information.

SHAREHOLDER RELATIONS

SHAREHOLDING STRUCTURE



Please refer to page 19 in the annual report for the Company's shareholding structure.

GENERAL SHAREHOLDERS' MEETINGS

General Shareholders' Meeting is held in accordance with the resolution adopted by the Board of Directors. For reaching the highest number of shareholders possible, the General Meeting announcement including the meeting date, venue, agenda and similar information is duly announced at least three weeks prior to the meeting date as per the provisions stipulated in the Communiqué via the Turkish Trade Registry Gazette, Public Disclosure Platform (www.kap.gov.tr), e-Governance Corporate Governance and Investor Relations (www.mkk.com.tr), e-Company Companies Information Portal (www.mkk.com.tr), e-General Meeting Electronic General Meeting System (www.mkk.com.tr), the Bank's websites and two national newspapers. The Bank invites all stakeholders to the General Shareholders' Meeting, who will be voiceless during such meetings. Before the meeting, balance sheets, income statements and annual reports are made available for review by shareholders within the timeframe determined in the applicable legislation on the Garanti Bank Investor Relations website, at all branches and at the Head Office of Garanti Bank. In General Shareholders' Meeting, agenda items are discussed and submitted for the shareholders' approval. Shareholders are entitled to ask questions, express their opinions and submit

proposals regarding the agenda items. Questions are handled and answered in accordance with the regulations of the Capital Markets Board as well as the principles and procedures specified in the Turkish Commercial Code. Proposals are submitted for approval at the General Shareholders' Meeting and become effective if approved by the specified majority. The meeting minutes and the list of attendants of the General Shareholders' Meeting are posted on the Public Disclosure Platform (KAP), e-Company Companies Information Portal, e-General Meeting Electronic General Meeting System, and Garanti Bank Investor Relations website on the same day, and is published in the Trade Registry Gazette following its registration.

Resolutions adopted in the General Shareholders' Meeting are carried out in accordance with the legal procedures within due time. Pursuant to the provisions of the Regulation on Electronic General Meeting at Joint Stock Companies and the Communiqué on Electronic General Meeting System Applicable at General Assemblies of Joint Stock Companies, attendance to, and voting at, the General Shareholders' Meeting by electronic means is permissible. The minutes and the list of attendants of the General Shareholders' Meeting are available to shareholders on Garanti Bank Investor Relations websites. These documents can also be obtained from the Subsidiaries and Shareholders Service.

Garanti Bank held its Ordinary General Shareholders' Meeting for the period 01 January 2017-31 December 2017 on 29 March 2018 and meeting quorum realized at 84.06%. Media representatives did not attend the General Shareholders' Meeting. At the meeting, one shareholder lodged a statement of opposition, demanding that the article concerning Profit Distribution in the Bank's Articles of Association should be modified, high cash dividends and/or bonus shares should be given out, and so on. In response, it has been explained that profit is being distributed in the ratio stipulated by the legal authorities and that the retained portion is being set aside as Extraordinary Reserves as per the applicable legislation.

There were no transactions in the reporting period for which the decision was left to the General Assembly of Shareholders by reason of dissenting votes cast by independent board members.

INFORMATION ON DONATIONS AND GRANTS IN 2018

The total amount of donations and grants made by the Bank in the reporting period is TL 11,605,437. Based on its

commitment to add value to the society, the Bank makes donations and contributions mostly to persons, non-governmental organizations, societies or foundations, public entities and organizations that work in the fields of education, culture, art, environment and sports. Donations can also be made to promote the Bank's corporate identity and to expand the coverage of banking activities.

Information regarding the amounts and beneficiaries of donations and contributions made by the Bank during the reporting period is provided to the shareholders under a dedicated agenda item during the General Shareholders' Meeting.

Amounts and beneficiaries of the donations made in 2018 are as follows:

BENEFICIARIES	AMOUNT
Öğretmen Akademisi Vakfı (Teachers Academy Foundation)	4,609,750
İstanbul Kültür ve Sanat Vakfı (İstanbul Foundation For Culture And Arts)	2,000,000
Ministry Of National Education	1,500,000
Ayhan Şahenk Vakfı	935,000
Other Foundations, Societies And Institutions	739,637
Universities And Educational Institutions	565,030
Doğal Hayati Koruma Vakfı (World Wildlife Fund - Turkey)	500,920
Various Public Institutions	500,000
Türkiye Eğitim Gönüllüleri Vakfı (Educational Volunteers Foundation of Turkey)	255,100
TOPLAM	11,605,437

VOTING RIGHTS

Shareholders' voting rights and exercise of these rights are determined in Article 38 of Garanti Bank's Articles of Association. There are no privileged voting rights at the General Shareholders' Meetings of Garanti Bank. The Bank is not in a cross-shareholding relationship with any company, therefore no such votes were cast at the latest General Shareholders' Meeting.

DIVIDEND RIGHT

There are no privileges in dividend distribution at Garanti Bank. At the Bank's Board of Directors meeting on 31 January 2018, the Dividend Distribution Policy, which was amended to achieve greater alignment with the provisions of the CMB's Communiqué on Dividends no. II-19.1 and to increase the ratio of distributable profit from 25% to 30% for its distribution subject to the approval of authorities, was approved at the Ordinary General Shareholders' Meeting convened on 29 March 2018, and publicly disclosed on the Public Disclosure Platform (KAP) and the Company's website.

The Bank's Dividend Distribution Policy is as follows:

"Details of dividend distribution are specified in Articles 45, 46, and 47 of the Articles of Association. In this context, by taking into account our Bank's growth in accordance with its goals within the sector and its financial needs, the General Assembly is authorized to decide to distribute dividends in cash or to capitalize the profit and distribute the bonus shares to be issued by the Bank, or implement a combination of both methods, and execute the dividend distribution within the time period specified in the relevant legislation.

The Bank's dividend distribution policy stipulates distribution of up to 30% of the distributable profit in cash or as bonus shares upon the approval of the BRSA, provided that there is no unfavorable situation in the local and/or global economic conditions and provided further that the standard rates, which are specified by the protective measures in the Banking Law No. 5411, are at the targeted level. Amounts retained from the profit for the period, which remain after legal reserves and funds that are obligatory to be saved by the Bank are set aside, are transferred to the Extraordinary Reserve Account.

In accordance with Article 46 of the Articles of Association, the dividend distribution proposals shall be submitted for the approval of the General Assembly following a decision by the Board of Directors in this regard, by taking into account the Bank's operational performance, financial needs, growth targets and the legal regulations governing the Bank.

The dividend distribution resolution becomes effective if and when adopted in the General Shareholders' Meeting, and resolutions are publicly disclosed via the Public Disclosure Platform on the same day."

At the General Shareholders' Meeting held on 29 March 2018, it was resolved to distribute the profit for the year 2017, and dividend payout began on 24 April 2018. The following information has been provided to our Shareholders regarding the retained portion out of 2017 profit:

"After legal reserves and the funds that are obligatory to be saved by the Bank are set aside, the profit for the period retained after the profit is distributed upon the BRSA approval is allocated to Extraordinary Reserve Account in order to secure the Bank's continuous development and preserve its solid capitalization, to maintain the Bank's capability to make dividend distributions uninterruptedly, to ensure higher and

consistent dividend distribution in the long term, and to be used for the Bank's operations and general operating expenses."

STAKEHOLDERS

INFORMING STAKEHOLDERS

The stakeholders can participate in management through specially designed systems and meetings. In order to ensure accurate and reliable information flow, the Investor Relations Department prepares presentations on quarterly financial statements; the Department shares these presentations with the stakeholders through its website and tablet PC applications, and responds to questions during live webcasts/teleconferences, the audio recordings of which are subsequently posted on these public channels.

In addition to handling customer complaints through a variety of alternative channels, the Customer Experience Support Team also carefully considers customers' suggestions. Garanti Bank provides its customers with the means to communicate their complaints, and comments about management any time through the contact form on Garanti website, by leaving a voice message on the phone line at 444 0 333, its social media platforms, i.e. Garanti Facebook page and Twitter GarantiyeSor (Ask Garanti) account.

Additionally, in case of violation of the customers' rights protected by regulations and contracts, the Bank provides efficient and fast remedy, and facilitates the use of loss indemnification mechanisms by customers who have incurred any loss.

At the completion of the service customers receive from branches, the call center, Customer Experience Support Team and digital channels, they are asked to respond to a survey via phone, email or digital channels. Survey outcomes are carefully studied and the feedbacks received are converted into improvement actions. Customer feedbacks received especially at times of new product launches and process modifications are sensitively followed through, followed by arrangements to processes as necessary.

Garanti objectively assesses investors' expectations, their opinions regarding the Bank and the management by way of a "Perception Study". The study is conducted by third party companies, thus supporting impartial and transparent communication. Within this frame, improvement areas are analyzed and action plans are created.

In order to ensure that employees take active role in the decision-making mechanism and to benefit from innovative opinions, Garanti keeps dialogue channels bi-directional. While there are no written internal regulations, employees are provided with the opportunity to make assessments in all projects and activities carried out in line with the Bank's strategic priorities, ensuring their involvement in decisions.

Making systematic use of various channels, including employee opinions, the intranet, employee engagement survey, and the voice of employee platform GONG, Garanti aims to increase employee satisfaction and employee engagement.

Garanti carries out an Employee Engagement Survey each year to gather employees' opinions on work-life balance, performance management, remuneration and training & development opportunities. In 2018, Employee Engagement score was 67%.

360 Degree Assessment and Feedback collects employee opinions regarding themselves, their colleagues, line managers and team members, and aims to establish the culture of giving and receiving feedback.

Suggestion and idea platforms Önersen, GONG, and Atölye and the "Ask/Share" section of the intranet portal serve as a means for employees to submit their suggestions and ideas. "Önersen" (You Suggest) has been instrumental in collecting 1,313 suggestions in 2018, two of which were rewarded. More than 23,000 ideas in the aggregate have been communicated via this channel since 2007. Through GONG, the voice of employee platform about HR practices and the working environment, 674 opinions were gathered in 2018.

Each year, through the Managers' Summit and the Future Meeting, the CEO and the executive team involve the total employee base and share & assess Garanti's current outlook and its strategy, goals & objectives for the year ahead.

BOARD OF DIRECTORS

STRUCTURE AND COMPOSITION OF THE BOARD OF DIRECTORS

Süleyman Sözen is the Chairman of the Board of Directors. The Chairman has no executive functions and the executive member of the Board is Chief Executive Officer Ali Fuat Erbil, who is a natural member of the Board.

CMB requirements regarding Corporate Governance Principles stipulate that minimum three independent members must serve on the boards of directors of banks. Since the Board members assigned as members of the Audit Committee are deemed as independent Board members according to these requirements, Jorge Saenz-Azcunaga Carranza, who currently serves as the Head of the Audit Committee, and Ricardo Gomez Barredo, Audit Committee member, are independent Board members.

On the other hand, at the Ordinary General Shareholders' Meeting held in 2018, Garanti re-elected Belkıs Sema Yurdum, who satisfies all the independence criteria announced by the Capital Markets Board, to serve a term of office of 1 year remaining from the term of office set out in the independence criteria of the CMB's Corporate Governance Principles. The Corporate Governance Committee report dated 29 February 2018 establishing that Sema Yurdum satisfies the independence criteria has been submitted to the Board of Directors, which has resolved to file a notification with the CMB regarding the nomination of Sema Yurdum as an independent Board member. Quoted below is the declaration of independence by Sema Yurdum, who was elected as an independent Board member at the Ordinary General Shareholders' Meeting held in 2018.

TO TÜRKİYE GARANTİ BANKASI A.Ş. CORPORATE GOVERNANCE COMMITTEE,

I hereby declare that I currently serve as an "independent member" on the Bank's Board of Directors pursuant to the provisions of the Communiqué Serial: II-17.1 on Corporate Governance Principles issued by the Capital Markets Board of Turkey, and that I stand for the same position once again, in accordance with the same Communiqué, as my term of office ends on the date of the first General Shareholders' Meeting to be held in 2018. In this context, I hereby declare as follows:

- I have not held a seat on the Bank's Board of Directors for more than six years in the past ten years,
- Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Bank, any company in which the Bank has management control or significant influence, or

any shareholder having management control or significant influence over the Bank or any corporate entity in which these shareholders have management control,

c) I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for or served as a member on the boards of directors of any company from/to which, under a contract, the Bank purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Bank, in the past five years,

d) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member,

e) I am not a full-time employee of public institutions and establishments as at the date of nomination,

f) I am considered to be a resident of Turkey as for the purposes of the Income Tax Law,

g) I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Bank's operations, maintaining my independence in possible conflicts of interest between the Bank's shareholders, and making decisions freely taking into consideration the rights of stakeholders,

h) I am capable of dedicating sufficient amount of time to be able to follow up the execution of the Bank's affairs and to fully meet the requirements of the duties I undertake,

i) I am not serving as an independent board member in any company, which is controlled by the Bank or by shareholders having management control over the Bank,

j) I will be serving on the Bank's Board of Directors as a real person and in this context, I have not been registered and promulgated in the name of any corporate entity elected as a board member."

On the other hand, no circumstances arose in 2018 fiscal year, which prejudiced the independence of independent Board members. The Board of Directors of Garanti Bank is formed of 10 members, and the number of women members was 1 during 2018.

Résumés, terms of office and positions of the Board members are presented on pages 105, 106 and 107 of the Annual Report. The positions held by the Bank's Board members in and out of the Group are stated in their résumés.

Pursuant to Article 396 of the Turkish Commercial Code, the General Assembly authorized the members of the Board of Directors of Garanti Bank to execute a transaction of a commercial business nature that falls under the Bank's field of operation on their own or other's behalf or to become a partner with unlimited liability in a company engaged in the same kind of commercial affairs, during the reporting period.

WORKING PRINCIPLES AND PROCEDURES OF THE BOD

The Board of Directors of the Bank as the highest body of representation, direction, management and oversight of the Bank operates in order to fulfill the roles and responsibilities appointed to itself by the Articles of Association and the related legislations. In 2018, the Board of Directors passed 17 decisions by satisfying the required quorums for meeting and decision.



Garanti Bank's Internal Directive on the Working Principles and Procedures of the Board of Directors is available at www.garantiinvestorrelations.com, under Corporate Governance > Policies section.

RELATED PARTY TRANSACTIONS

As of 31 December 2018, the total amount of operating income generated by the parent bank and its consolidated financial affiliates ("the Group") on related party transactions is approximately 1.10% of the Group's total operating income. In addition, the total of the shares representing the share capital in its related parties owned by the Group and cash and non-cash loans and other receivables provided to related parties by the Group are around 10% of the Group's consolidated regulatory capital used for the calculation of legal limits, and the total of cash portions of such risks accounts is 1.1% of total consolidated assets in the financial statements prepared in accordance with the Turkish Financial Reporting Standards and the explanations provided by the BRSA as of the same date.

REMUNERATION

As published on the Bank's website, a Compensation Policy has been formulated for the Bank's employees in accordance with the banking and capital market legislation, and it has been approved by the Board of Directors. Pursuant to the Bank's Compensation Policy, the policy encourages fair, transparent, measurable and sustainable success among employees and is in alignment with the Bank's risk principles. The compensation structure consists of fixed income and variable income items. The Remuneration Committee and the HR Unit authorized

by this Committee are responsible for reviewing and duly executing the compensation policies.

The benefits provided to the Board of Directors members and senior executives are shown in the Financial Statements, and the upper limit of total remuneration to be paid during any given year to Board members undertaking a specific role at the Bank and to independent Board members are submitted for approval and determined at the General Shareholders' Meeting. As of 31 December 2018, the net payment provided or to be provided to the key managers of the Bank, including the members of the Board of Directors, including compensations paid to key management personnel who left their position during the year, amounted to TL 95,317,000. As the public disclosures regarding the remunerations and benefits provided to key managers including Board members are subject the BRSA's regulations on the banks' qualitative and quantitative disclosures with regard to the remuneration policies, such remunerations and benefits are disclosed cumulatively.

Members of the Bank's Board of Directors are paid attendance fees. The amount of the attendance fee is determined and approved at the General Shareholders' Meeting. In addition to the attendance fee paid to the Board members, it has been decided at the Ordinary General Shareholders' Meeting held in 2018 that payments to be made to those Board members who assume a specific position in the Bank, and to independent Board members be determined by the Remuneration Committee that has been authorized by the Board of Directors pursuant to Corporate Governance Principles. It has also been resolved to set a maximum limit of TL 23,000,000 net for the total compensation so determined and will be paid until the first ordinary general shareholders' meeting to be convened in 2019.

Furthermore, other financial rights to be provided to the Senior Management consisting of the members of the Board of Directors, the CEO and Executive Vice Presidents are determined by the Remuneration Committee that is established in accordance with the Regulation on the Banks' Corporate Governance Principles published by the Banking Regulation and Supervision Agency. Under the provisions of the said Regulation, the Remuneration Committee has determined the manner of payments to Senior Management and the criteria for performance-based payments, by taking into account the European Union regulations and practices. Accordingly, Senior Executives receive performance-based payments in addition to their monthly salaries, which

payments are determined by the Remuneration Committee based on objective criteria including the economic profitability and key performance indicators of the Bank, as well as subjective criteria based on the respective personal performance. The Remuneration Committee ensures that such payments do not negatively affect the Bank's capital adequacy ratio and continuity of the Bank's operations. Part of the performance-based payments are made in installments and spread over future periods.

At the Ordinary General Shareholders' Meeting held in 2018, the following information has been provided to the shareholders regarding the compensation principles applicable to senior management.

"Our Bank has established and announced a compensation policy for all employees pursuant to applicable legislation. A fair, performance and success-based remuneration policy has been created. Our Bank's Compensation Policy has been implemented as approved and it is reviewed periodically. In addition to the compensation policy covering the Bank's entire personnel, the Remuneration Committee continued to implement the policies it has set in relation to remuneration and bonuses to be paid to the members of the Board of Directors who assume administrative roles and to senior executives, which do not rely solely on profit. The Committee reviewed the same at certain intervals. The policy, which has been developed in line with the local legislation and international practices, continued to be implemented.

The portion of 10.61% of the total personnel expenses figure for the benefits provided in 2018 to the Bank's employees including the Board members and senior management in the financial statements results from the performance-based bonuses of all employees and variable salary payments.

Subject to the restrictions imposed by the banking legislation, the Bank may extend loans to Board members and executives. On the other hand, the loans to be disbursed by Garanti Bank to the members of the Board of Directors and managers are restricted to specific framework by Article 50 of the Banking Law. The Bank does not disburse loans to the members of the Board of Directors and managers outside of the above mentioned framework.



Detailed information on the Remuneration Committee can be found in the Annual Report, page 139.

CONTACT INFORMATION

HEAD OFFICE

Levent Nispetiye Mah. Aydar Cad.
No:2 34340 Beşiktaş/İstanbul
Tel:+90 212 318 18 18
Fax: +90 212 318 18 88
Telex: 27635 gatı tr
Swift: TGBATRIS

WEBSITE

www.garanti.com.tr

TRADE REGISTRY NO

159422

DOMESTIC BRANCHES

Garanti Bank has 926 domestic branches in 81 cities as of 2017 year end. Information on domestic branches is available on the Bank's website.

INFORMATION ON SOCIAL MEDIA

Garanti Bank actively utilizes all interaction channels and furthermore offers services via social media platforms. You may follow Garanti on Facebook, Twitter, Instagram, Google Plus, YouTube and LinkedIn.

www.facebook.com/Garanti
www.twitter.com/garanti
<http://instagram.com/garantibankasi>
<https://plus.google.com/+garanti>
www.linkedin.com/company/garanti-bank/
www.youtube.com/garanti
www.twitter.com/garantiyesor
<https://tr.foursquare.com/garanti>

OVERSEAS BRANCHES

TURKISH REPUBLIC OF NORTHERN CYPRUS - LEFKOSA BRANCH

Bedrettin Demirel Caddesi No:114
Lefkoşa/TRNC
Tel: +90 392 600 53 00
Fax: +90 392 600 53 20

TURKISH REPUBLIC OF NORTHERN CYPRUS - GIRNE BRANCH

Mete Adanır Caddesi No:18/A Girne/
TRNC Tel: +90 392 650 53 00
Fax: +90 392 650 53 20

TURKISH REPUBLIC OF NORTHERN CYPRUS - GAZIMAGUSA BRANCH

Sakarya Mahallesi Eşref Bitlis Caddesi
No:28 Mağusa/TRNC
Tel: +90 392 630 03 00
Fax: +90 392 630 03 20

TURKISH REPUBLIC OF NORTHERN CYPRUS - GIRNE CARSİ BRANCH

Mustafa Çağatay Cad. No:17 Girne/
TRNC
Tel: +90 392 650 53 30
Fax: +90 392 650 53 50

TURKISH REPUBLIC OF NORTHERN CYPRUS - GONYELİ BRANCH

Düzyol Sokak No:12/B Gönyeli
Lefkoşa/TRNC Tel: +90 392 680 30 00
Fax: +90 392 680 30 20

TURKISH REPUBLIC OF NORTHERN CYPRUS - GUZELYURT BRANCH

Ecevit Caddesi No:29/A Güzelyurt/
TRNC Tel: +90 392 660 30 00
Fax: +90 392 660 30 20

TURKISH REPUBLIC OF NORTHERN CYPRUS - KUCUK KAYMAKLI BRANCH

Şehit Mustafa Ruso Caddesi No:86/A
Küçük Kaymaklı/KKTC
Tel: +90 392 600 54 00
Faks: +90 392 600 54 20

MALTA BRANCH

Özgür Özdemir
Strand Towers, 36 The Strand Sliema
SLM 1022 Malta
Tel: +356 232 88 000
Fax: +356 232 88 160
Swift: TGBAMTMTXXX

REPRESENTATIVE OFFICES

SHANGHAI

Noyan Rona
Room 1304 Marine Tower No:1 Pudong
Avenue 200120 Shanghai, P.R.C.
Tel: +86 21 5879 7900 - 5879 4155
Fax: +86 21 5879 3896

DUSSELDORF

Fahri Birincioğlu
Tersteegenstrasse 28, 40474,
Düsseldorf, Germany
Tel: +49 211 86 222 301
Fax: +49 211 86 222 350



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