5,806 27.2 min 12 growth

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

ASSESSMENT OF FINANCIAL POSITION, PROFITABILITY AND DEBT PAYMENT CAPABILITY

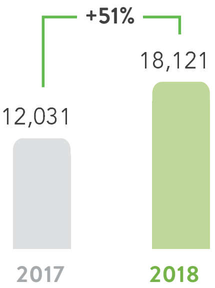
In 2018, protectionist policies gained the forefront globally, whereas accommodative monetary policies in developed economies carried on with normalization. In this context, the pressures on global growth were elevated, and developing countries, in general, experienced fund outflows. The sell wave that hit the Turkish assets in the aftermath of the 24 June elections also dominated the second and third quarters in their entirety, leading to one of the highest-volatility periods in the Turkish economy in recent years. In this timeframe, the Turkish banking system had visibly decreased access to funding. To this background, the weighted average cost of CBRT funding (WACF), which was 12.75% at the start of the year, was gradually increased to 24.00% within the frame of the CBRT's tight monetary policy in connection with the deteriorated inflation outlook. The tight monetary policy and the currency shock resulted in a negative loan growth through the second half of the year.

Amid this environment, 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. Preemptive hedging activity, proactive asset and funding pricing and defensive securities portfolio allocation strategies precluded deterioration of Garanti's Net Interest Margin (NIM) due to higher interest rates. In particular, increased weight of CPI linkers in the TL Securities Portfolio played a key role in protecting the NIM against the rising inflation.

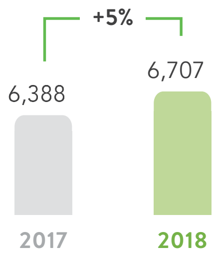
1. SUSTAINABLE AND STRONG PROFIT GENERATION CAPABILITY

In year of 2018 that was characterized by high volatility, Garanti's innovative business model focused on operational efficiency, optimal capital utilization and sustainable growth, and backed by effective risk management, produced a pre-provision income figure of TL 18 billion 121 million, up by 51% year-over-year. While consolidated net profit went up by 5% to reach TL 6 billion 707 million based on a prudent risk policy, the Bank set aside TL 1 billion 90 million in free provisions in the second half of the year, bringing 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%.

PRE-PROVISION INCOME (TL million)



NET INCOME (TL million)

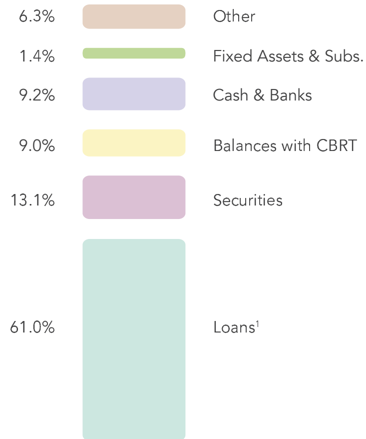


Note: In the calculation of average assets and average equity, 01.01.2018 restated balance sheet has been used instead of YE 2017. Pre-provision income: Net income + expected credit loss + tax provisions – FC loan provision hedges

2. CUSTOMER-DRIVEN AND HIGH-YIELDING ASSET MIX

In a year of limited credit growth, 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 earnings assets. While the securities portfolio was strategically managed as a hedge against volatility, loans represented 61% of assets.

ASSETS (TL 399 billion)



2.1 BALANCED LENDING MIX

In 2018, the rapid depreciation of the Turkish lira, higher than

[1] Loans exclude Loans Valued at Fair Value through P&L (FVTPL), leasing and factoring receivables.

COMMERCIAL BANKING

- *29* Commercial Branches
- With *39,351* customers *TL 150 billion* banking volume, *TL 110 billion* loan book
- *39% YoY* Increase in commissions

CONSUMER FINANCE

- *48.3% market share* in consumer auto loans among private banks
- *31 thousand* customers served via one-stop-shop loan system at auto dealers

RETAIL BANKING

- *324 thousand* retail customers became car owners
- *518 thousand* retail customers became homeowners
- *14.5 million* retail customers

SME BANKING

- TL 10 billion loans to *57,420* customers
- *TL 4.1 billion* loans under CGF (Per Garanti's SME Definition)

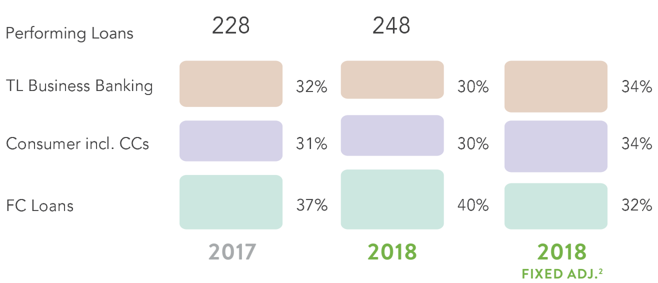
expected inflation and the increased funding costs in connection therewith caused a significant deceleration of economic activity especially in the second half of the year.

Garanti preserved the balanced composition of its loan portfolio also in 2018. Excluding currency impact, total performing loans was made up of business banking loans by 1/3, consumer loans by 1/3 and FC loans by 1/3.

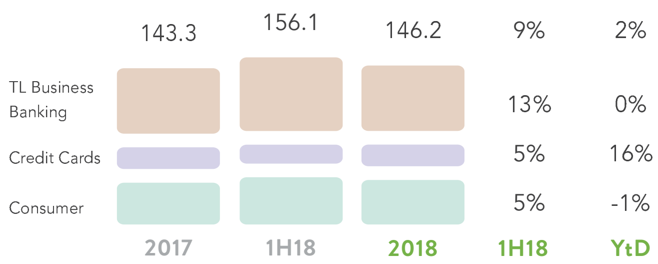
While TL loans grew 9% in the first half of the year, new originations were not sufficient to compensate the redemptions in the second half of the year due to the reduced demand in connection with the altered macroeconomic conjuncture. TL loan growth was 2% annuallydue to shrank in the second half of the year.

Shrinkage in foreign currency loans continued due to redemptions and declined demand for loans in view of the substantially completed large-scale government projects (highways, airports, etc.). While FC loans narrowed by 5% in USD terms in the first half of the year, the shrinkage for the whole year came to 18%.

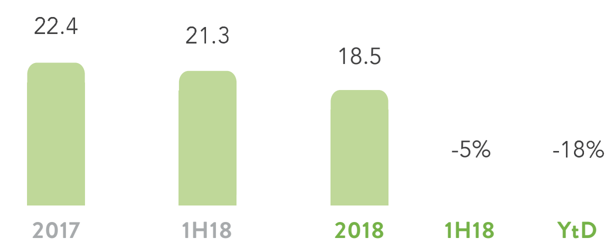
LOAN PORTFOLIO[1] (61% of Total Assets) (TL million)



TL PERFORMING LOANS (TL billion)



FC PERFORMING LOANS[1] (USD billion)



2.1.1 LEADING POSITION IN RETAIL BANKING

With its effective delivery channels and successful relationship banking, Garanti's market share in retail lending among private banks further increased in 2018. Preserving its leading position in retail products, Garanti continues to respond to its customers' needs with its 936 branches spread around all the cities in Turkey. While achieving 4% annual increase in consumer GPLs in 2018, Garanti brought its share in consumer auto loans to 48.3% among private banks despite the contraction in the automotive industry.

[1] Loans exclude Loans Valued at Fair Value through P&L (FVTPL), leasing and factoring receivables.
[2] USD/TRY rate fixed at 2017 year-end level of 3.77.

MARKET SHARES

	Dec'18	QoQ	Rank
Consumer Loans	22.4%	+5bps	#1
Consumer Mortgage	25.3%	-36bps	#1
Consumer Auto	48.3%	+96bps	#1
Consumer GPLs	18.8%	+23bps	#1

PIONEER IN CARDS BUSINESS

of CC customers 14.4%[1]

Issuing Volume 19.0%[1]

Acquiring Volume 19.0%[1]

[1] Cumulative figures as of December 2018, as per Interbank Card Center data.
Note: (i) Sector figures used in market share calculations are based on bank-only BRSA weekly data as of 28.12.2018. Market shares among private commercials banks.

2.1.2 PIONEERING PAYMENT SYSTEMS

Garanti commands a leading position in payment systems and credit cards with Garanti Payment Systems, which was founded 19 years ago. With 669,435 POS devices and a market share of 19.0% in issuing and acquiring volume, it is one of the major players in the market.

2.1.3 FOREIGN CURRENCY LENDING

Investment appetite remained weak due to ongoing global and domestic uncertainties. The decreasing demand combined with Garanti's risk/reward priorities and rational pricing focus reflected on Garanti's large base of Foreign Currency (FC) loan book. The large base of FC loan book and redemptions resulted in 18% shrinkage in USD terms in Garanti's FC loans portfolio. However, Garanti sustained its pioneering position in project finance, corporate and commercial banking by remaining the primary business partner of its customers.

Garanti continued to support Turkey's sustainable growth with its pioneering and leading role in the project and acquisition finance sector. Despite challenging market conditions, Garanti's commitments in 2018 reached approximately USD 800 million.

In 2018, new investments in the energy sector were limited, and refinancing and restructuring activities were at the forefront in this area in line with our expectations. Yet, Garanti continued to extend financing support to energy investments, allocating financing primarily to renewable energy projects that are vital for Turkey's sustainable growth. Total funds made available to renewable energy projects surpassed USD 160 million to finance over 500 MW renewable energy projects.

PROFECT FINANCE

- *US$ 786 million* total financing to projects
- *US$ 11.1 billion* total exposure

Infrastructure projects embarked on a natural stabilization process. The most noteworthy project in 2018 was Çanakkale Bridge and Motorway project with a total investment cost of EUR 3.1 billion. Acting as the intercreditor agent among the 23 domestic and international financial institutions participating in the project, Garanti provided a funding of EUR 125 million. Çanakkale Bridge and Motorway project also led the mobilization of new financing facilities in our country: it is the first of its kind in that it incorporates Islamic finance facility in a project subject to debt assumption. In tandem, Garanti Bank sustained its support to projects for completion of existing projects, and made available EUR 80 million for financing the additional investment expenditures of İstanbul New Airport.

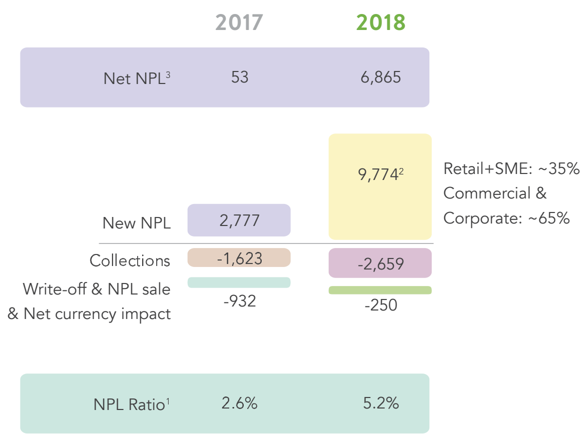
In terms of M&A, 2018 followed a similar trend to the one in 2017. UN Ro-Ro takeover by Denmark-based DFDS for approximately EUR 1 billion was a significant indicator of continued foreign investments in our country. Garanti kept playing an active role in acquisition and privatization deals. Due to the currency depreciation, it has become advantageous to re-enter the markets where Turkish assets were sufficiently worth. In this respect, while we predict a selective attitude from investors in 2019, we are also anticipating the attractive takeover opportunities in Turkey to be considered in this vein.

3. PRUDENT APPROACH AND SOLID ASSET QUALITY

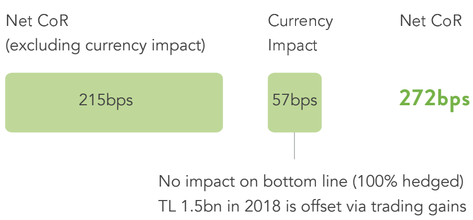
Garanti constantly displays a proactive and prudent approach to risk assessment. In 2018, Garanti switched to TFRS 9 reporting. TFRS 9 standard brings together all three aspects of accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 entered into force on 1 January 2018, as of which date its adoption by banks became compulsory. TFRS 9 replaces the "incurred losses" model in TMS 39 with a model of "expected credit loss". Accordingly, the performing loans book is monitored in two categories: Stage 1 and Stage 2. Stage 2 loans are subjected to quantitative (Significant Increase in Credit Risk) and qualitative (Watchlist, Overdue, Restructured) assessment using TFRS 9 models. Upon introduction of TFRS 9 accounting, comparability of banks got more restricted. This has two main reasons: (i) quantitative assessment criteria vary from one bank to the other, (ii) there are different approaches to quantitative assessment, as was the case for Group 2 loans in the past. In this context, Stage 2 loans of Garanti constituted 15% of its total lending as at year-end 2018.

40% of Stage 2 loans consist of loans classified as quantitative whereas 60% consist of those qualified as qualitative. While total provision ratio of Stage 2 loans is 10.4%, that of the qualitative portion is 4% and of the quantitative portion is 15%.

NP EVOLUTION
(TL million)



NET CUMULATIVE CoR[1]



Worsened economic conditions of 2018, coupled with economic slowdown, affected the asset quality as well. As a result, net new Non-Performing Loan (NPL) inflows fared above than anticipated and Garanti's NPL ratio rose to 5.2%. 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.

As a result of the rise in NPLs and higher provisions set aside for specific portfolios in an effort to make a more prudent start to 2019, cumulative net Cost of Risk (CoR) was 272 bps in 2018. Proactive hedging by Garanti against the currency effect arising from FC loan provisions served to set off the currency depreciation impact of TL 1.5 billion on profitability, and cumulative net CoR had 215 bps impact on the bottom line.

4. DEPOSIT DRIVEN & HEAVY WITH LOW COST & STICKY DEPOSITS FUNDING BASE

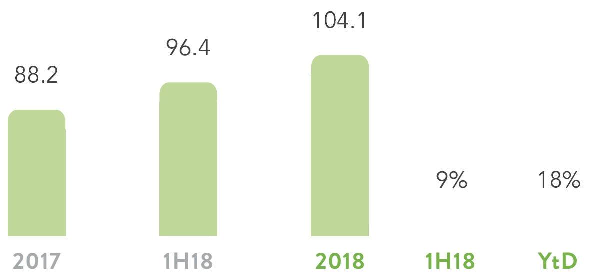
Garanti preserved its liquid balance sheet composition in 2018 with the help of its prosperous dual currency balance sheet management. Dynamically managed funding base of the Bank continued to be largely composed of deposits.

Garanti's leading position in consumer deposits is the outcome of its customer-centric and innovative business model, which places customers' needs and satisfaction at the core of its business. The Bank's improving Net Promoter Score (NPS) mirrors its success in being the customers' preferred bank. In terms of NPS, Garanti preserved its leader position among Tier-1 banks. Garanti kept focusing on sticky and low-cost mass deposits during 2018. 22% growth rate in customer deposits base was well above the loan growth, which helped Garanti to improve its loan to deposit ratio above sector (LDR) by 15 points.

Garanti has a solid demand deposit base that supports funding cost optimization. The Bank also further strengthened its demand deposit base by almost 18% on an annual basis and succeeded in keeping the share of demand deposits in total deposits at 26%.

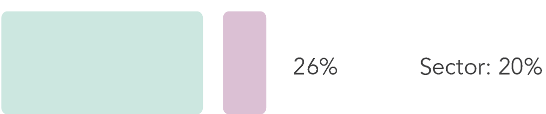
[1] Excludes Loans Measured at Fair Value through P&L (FVTPL). [2] 33% of Telecom file, corresponding to USD 365mn, has been written off in 4Q. This amount inflated both new NPL and write off balances in reported financial statements dated 31 Dec 2018. [3] 2018 NPL figures include leasing and factoring receivables.

TL DEPOSITS (TL billion)

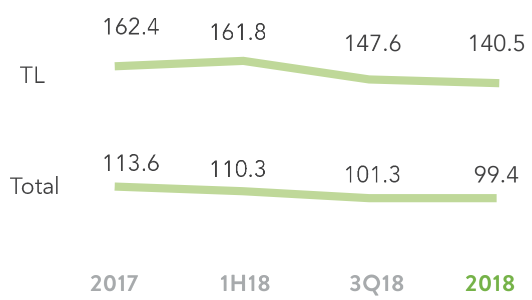


FC DEPOSITS (USD billion)

DEMAND DEPOSITS
% in total deposits



LOAN[1] TO DEPOSIT RATIO (%)



Garanti registered an LDR of 99%, which further decreases to 68% if we add local currency bond issuances, other local currency MM funding, merchant payables, foreign currency bond issuances and other foreign currency MM funding (Securitizations, syndications, bilaterals).

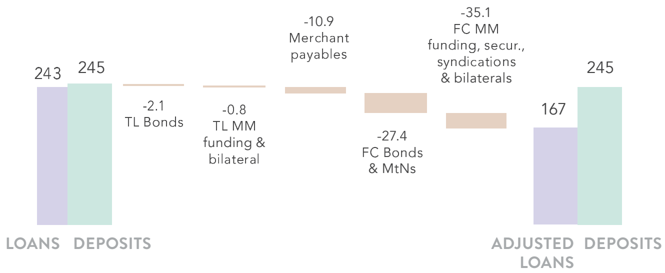
Loans funded via long-term on B/S alternative funding sources

EASE LDR

Total Loans[1] / Deposits: **99%**
TL Loans / TL Deposits: **140%**
FC Loans[1] / FC Deposits: **69%**

Adjusted LDR: **68%**

(TL billion)



4.1 SOLID LIQUIDITY BASE AND MANAGEABLE EXTERNAL DEBT STOCK

Garanti has lower dependency on external borrowing due to shrinking FC loan portfolio since 2013. The Bank's total external debts amount to USD 12.4 billion. On the basis of maturity profile, the long-term portion of this debt is worth USD 6.9 billion, whereas short-term debt and the short-term portion of the long-term debt amounts to USD 5.4 billion. For this short-term debt, Garanti has a highly comfortable liquidity buffer of USD 11.0 billion.

Garanti Bank carries on with opportunistic utilization of alternative funding. Thanks to its solid correspondent relationships, the Bank continued to diversify its funding structure by accessing international funds at the most favorable costs and terms. The

INTERNATIONAL BANKING

- Broad correspondent network with *>2000 banks*

[1] Loans exclude Loans Valued at Fair Value through P&L (FVTPL), leasing and factoring receivables.
Note: Sector data is based on BRSA weekly data, for commercial banks only.

Bank preserved its target of managing assets-liability duration gap and optimizing funding costs. Garanti tapped new funds worth nearly USD 200 million through unsecured borrowing products. In cooperation with the IFC (International Finance Corporation), the Bank issued a USD 75-million social bond with a maturity of 6 years to be allocated as financing to women entrepreneurs. Issued also with the support of the Goldman Sachs's 10,000 Women program under the agreement with the IFC, the bond has been the first social bond in Turkey for use exclusively by women. The funding resources were further diversified through secured debt products. With the covered bond issued to the Development and Investment Bank of Turkey Asset Financing Fund (Türkiye Kalkınma Bankası Varlık Finansmanı Fonu), the Bank was involved for the first in an asset-backed security backed by secured bonds of multiple banks. Garanti obtained a fund in the amount of USD 87 million from the European Investment Bank (EIB) to be on-lent to SMEs and commercial companies. In 2018, Garanti carefully managed the external funds on its balance sheet through high rollover ratios secured in two syndicated loans. This serves as a testament to Garanti's power to be selective in tapping external funds thanks to its high liquidity, its intrinsic financial strength and solid banking relationships. Total issuance in 2018 was USD 3 billion, of which USD 700 million was fresh.

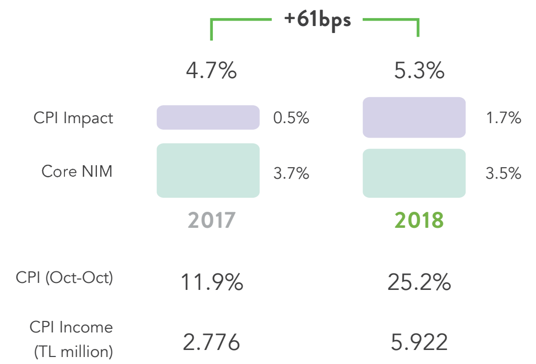
Covered Bonds	TL 150 mn 5-yrs maturity (4Q18)
Syndicated Loans	€ 1.2 bn equivalent (2Q18)
	$ 950 mn equivalent (4Q18)
DPR Securitization	$ 135 mn 7-yrs maturity (4Q18)
	$ 240 mn 7-yrs maturity (4Q18)
MTNs	$ 125 mn 1-yr maturity (1Q18)
	$ 75 mn 6-yrs maturity (2Q18)
	£ 4 mn 6-mos maturity (3Q18)
EIB Funding & Bilaterals	€ 75 mn equivalent $87 mn 6-yrs maturity (3Q18)

5. DYNAMIC BALANCE SHEET MANAGEMENT IN DEFENSE OF NET INTEREST MARGIN

In a challenging year dominated by economic uncertainties and volatilities, Garanti successfully preserved its ability to generate sustainable income on the back of dynamic assets and liabilities management. The Bank maintained its highest Net Interest Margin (NIM) among peers, even in an increased rate environment.

In 2018, the weighted average cost of CBRT funding went up by 1125 bps. Despite the rapidly rising market interest rates, Garanti was able to maintain its core Net Interest Margin (NIM) at 3.5%. With the help of CPI-linkers that make up the majority of the securities portfolio as hedge against possible volatility in interest rates, Garanti was able to improve its NIM including swap cost by 61 bps. Garanti successfully defended its spreads owing to disciplined loan pricings and the high share of demand deposits in total deposits.

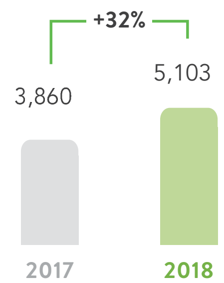
ANNUAL NIM INCLUDING SWAP COSTS



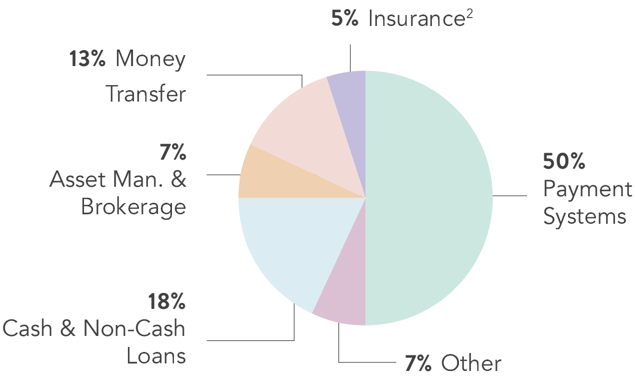
6. DIVERSIFIED FEES & COMMISIONS

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 expectations. Being the bank with the highest fee base in the Turkish banking sector, Garanti carried on with its sustainable income generation on the back of its diversified fee base. Payment Systems make up 50% of Net Fees and Commissions. The Bank's leading position in issuing and acquiring businesses, strong merchant network, and increasing contribution from clearing and merchant commissions supported the fee base. In addition, with increased digital penetration, digital sales increased its share in total sales to 43%, while the share of commissions from digital channels in non-credit linked fees reached 46%.

NET FEES & COMMISSIONS
(TL million)



NET FEES & COMMISSIONS BREAKDOWN[1]



GARANTI SECURITIES

- *US$ 14.1 billion* volume in leveraged FX trading
- *31.26% market share* in BIST30 options contracts
- *Local coordinator in us$ 539 million worth IPO* of ŞOK markets, *the largest IPO* since 2010
- *Co-lead global coordinator in us$ 651 million worth SPO* of ASELSAN, the largest SPO since 2010

INSURANCE & PRIVATE PENSION

- Garanti ranks *1st* in non-life and *3rd* in life insurance among private banks

GARANTI PENSION & LIFE

- Leader in pension technical profit with *TL 327 million** net profit
- Leader in voluntary and auto-enrollment pension with a total of *1.7 Million*** participants
- *First in the sector* with robotic consultancy application

* IAT (Insurance Association of Turkey) data, September 2018

** PMC (Pension Monitoring Center) data, 28.12.2018

GARANTI ASSET MANAGEMENT

- *TL 18 billion* total assets under management
- *TL 13.5 billion* pension funds under management
- *TL 4 billion* mutual funds under management

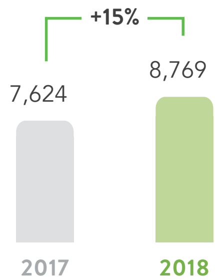
7. DISCIPLINED COST MANAGEMENT AND FOCUS ON OPERATIONAL EXCELLENCE

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.

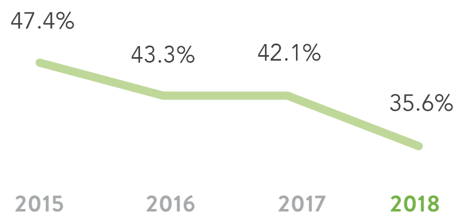
Garanti continued to focus on cost/revenue synergies and improved its Cost/Income ratio by 12% since 2015. In 2018 during which the amortization costs of the new technology base and the new branch model began affecting the operating expenses, Garanti, as a result of commitment to efficiency, recorded an OPEX growth of 15%, which is below inflation and in line with the guidance. Last but not least, Garanti, acting with the vision of bringing the age of opportunity to its customers, launched its new technology service in 2018.

OPERATING EXPENSES

(TL million)



COST/INCOME



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

TURKEY'S FIRST BANK TO CENTRALIZE ITS OPERATIONS: GARANTI'S OPERATIONS CENTER ABACUS

Turkey's first bank to centralize its operations, Garanti alleviates operational load on its branches and enhances employee

[1] Net Fees & Commissions breakdown is based on MIS data. [2] Insurance fee includes Private Pension & Life insurance fee income whereas it is accounted for under «other income» in consolidated financials.

productivity through active use of technology. The Bank ensures superior quality, timely and error-free execution of operational transactions of its millions of customers through ABACUS. The Bank's loss resulting from operational errors was a mere USD 26,350 within a total turnover of USD 542 billion. Garanti channels 99% of all operational transactions of branches to ABACUS made up of a dynamic team of 1,221 experts.

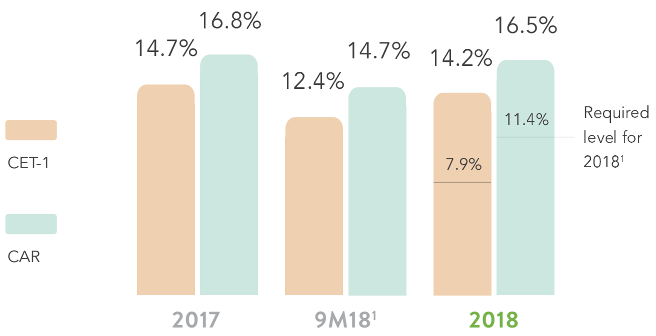
ABACUS

- *US$ 542 billion* transaction volume
- 365 days uninterrupted cash service with *8,455* points
- *%99* centralization ratio in operational transactions

8. ROBUST CAPITAL BASE

The loss resulting from the 40% depreciation of the Turkish lira and the mark to market differences arising from the rise in interest rates in 2018 led to a decline by 198 bps and 20 bps respectively in the Capital Adequacy Ratio (CAR). At the same time, dividend distribution pertaining to 2017 profit also bore a 63 bps negative impact on CAR. Despite all these repressive factors, Garanti was able to maintain its CAR at 16.5% with 203 bps contribution from net profit. This is well above the Basel III required ratio of 11.4% set for 2018.

SOLVENCY RATIOS



USD / TRY	3.78	5.98	5.27

9. GARANTİ'S TAX CONTRIBUTION

Adopting transparency, prudency and honesty principles in tax matters, Garanti reports on the total tax contribution, both on its own and on behalf of third parties.

Please read more on tax strategy & reporting on Garanti Investor Relations website.

GROUP PERFORMANCE IN 2018

In 2018, the Group achieved improvement in every performance area despite the negative economic developments. The strong asset quality preserved thanks to prudent risk management approach across the Group led to a 5% rise in consolidated net income.

Subsidiaries played a key role, as they did in previous years, in delivering the strong financial results at the end of 2018. The contribution of subsidiaries to the Group was not only limited to the net income figure but also to other financial performance metrics, enabled by the synergy captured with the parent Bank in all fields of activity as well as in management.

In 2018, major contributors to consolidated performance were insurance & pension business, and brokerage & securities activities, which are also supported by the Group's banking investments abroad. On the side of insurance and pension business, 2018 was a successful year as:

- Garanti Pension was the market leader* with 1.7 million participants in total covering both Voluntary PPS and PPS Auto-Enrolment.
- Undersigning a first in the sector, the company offers fund advisory service to participants employing robotic consultancy technology.
- Through "Online Private Pension", the company began handling all of its sales processes online, a first in the sector, and reached more than 15 thousand customers.
- Captured the highest share in total profit among Garanti Bank's subsidiaries with 6.8%, and was the leader** within privately-owned private pension companies with a net profit figure of TL 454 million.
- The company paid TL 1.2 billion in dividends at the end of 2018.

[1] Required CAR = 8.0% + SIFI Buffer for Group 3 (1.5%) + Capital Conservation Buffer (1.875%) + Counter Cyclical Buffer (0.09%) [2] Without BRSA forbearances. Note that BRSA forbearances on the calculation of FX credit risk exposure and suspension of MtM losses in CET1 capital was abolished on 27 December 2018. (*) According to the data published by Pension Monitoring Center as of 28/12/2018 (**) According to the data published by the Insurance Association of Turkey as of 30/09/2018.

In terms of brokerage & securities activities, year-end 2018 results were positive mainly thanks to:

- In line with the increased transactions volume in equity and derivatives markets, Garanti Securities increased the share of its income derived on these products to 18%.
- The decline in commission income, which resulted from higher interest rates on deposits, was compensated by revenues generated on treasury activities.
- Major public offering deals were carried out in Corporate Finance.

Regarding the Group's banking activities abroad;

- Despite extra provisions set aside upon introduction of the TFRS 9 model, the Group's subsidiary ensured minimal impact on net profit through effective measures on cost management. Prudent balance sheet and risk management strategies served to decrease in NPL ratio by 36 bps. Gains from trading activities and high collections from NPLs resulted in increased profit.

The company engaged in the leasing business increased its return on equity by 8% annually despite declining demand, and achieved 37.7% improvement in Income/Expense ratio with a special focus on efficiency.

All in all, the subsidiaries' performance continued to support the Group's strong financial results in 2018.

Please refer to the Glossary Section on Garanti Investor Relations website for more information on financial ratios & abbreviations used in this chapter.

2019 OUTLOOK	2019 OPERATING PLAN GUIDANCE
Asset Growth	~5%
TL Loans (YoY)	~5%
FC Loans (in USD) (YoY)	-~10%
Total Loans to Deposits	~100%
Net Cost of Risk	<300 bps
NPL Ratio	<7%
NIM Inc. Swap Cost Exc. CPI	Flat
Fee Growth (YoY)	Low teens
OPEX Growth (YoY)	< Avg. CPI
ROAE	Low teens

In 2019, economic stabilization is expected to continue, with a projected GDP growth of 1%. The inflation outlook is anticipated to start improving in the second half of 2019 and reach around 16% by the year end. In parallel, the CBRT is expected to adhere to its tight monetary stance in the first months of the year, and the funding cost is anticipated to decline gradually by 400 bps upon pronounced enhancement of inflation outlook.

In 2019, asset growth is anticipated to be 5% and to remain loan-driven. TL loan growth is expected to be more restricted parallel to the economic indicators and to stand at nearly 5%. TL loan growth is expected to be driven mainly by products other than consumer loans. The projected growth rate is 10% in business banking loans and 15% in credit cards. Increasing the share of digital sales in total sales via digital product offerings will remain as a primary focus area. On the retail banking front, Garanti will keep focusing on customer satisfaction and loyalty by deepening customer relationships while expanding the customer base. The Bank will continue to develop new instruments, channels and processes in keeping with this goal, carry on with big data oriented marketing activities based on an analytical approach, and deliver tailored and fitting solutions for its customers' needs on site.

The contraction trend in FC loans that has been ongoing since 2013 is anticipated to continue also in 2019. FC loan volume is expected to shrink by 10% in USD terms. The primary causes underlying the shrinkage are limited demand and high flow of redemptions. In the energy sector, renewable energy projects will be prominent as they were in 2018 and "Renewable Energy Resources Area" (YEKA) projects will be at the forefront in our pipeline in 2019. While we anticipate a selective attitude from investors in 2019, we are also expecting them to take advantage of attractive takeover opportunities in Turkey.

Improvement in loans to deposits ratio will continue and it is targeted to be preserved at around 100% in 2019. In parallel with the shrinkage in FC loans, the need for FC funding is anticipated to decline as well. Syndicated loan rollover ratios are expected to be below 100% due to high cost and comfortable liquidity level. In addition to the Eurobond redemptions worth USD 1.25 billion in total that will take place throughout 2019, FC liquidity needs and market conditions will be taken into account when tapping new external funding opportunities.

By the end of 2019, NPL ratio and Net Total Cost of Risk are anticipated to be realized below 7% and 300bps, respectively. Since most of the new additions stemming from commercial loans have been realized in 2018, new NPL inflows are anticipated to remain below their 2018 level. On the other hand, new NPLs inflows from consumer loans are expected to increase to some extent in 2019 as compared with the previous year.

In the coming year, cumulative net interest margin including swap costs excluding CPI linkers' income is expected to be preserved flat vs. 2018 on the back of dynamic assets and liabilities management. The spreads are anticipated to enlarge throughout the year given decreased funding costs, and in parallel, the core interest margin is also expected to expand. Due to the inflation outlook that is anticipated to improve, CPI-linkers' income will possibly be lower than they were in 2018. While maintaining its focus on sticky and low-cost mass deposits with respect to deposit growth, the Bank will also preserve its solid base of demand deposits. Cross currency swaps will continue to be opportunistically utilized for margin optimization. In 2019, Garanti will take the necessary actions based on a cautious optimism with respect to the management of liquidity risk, interest rate risk, the Bank's securities portfolio, structural exchange rate risk, and capital.

Double-digit growth momentum will be maintained in net fees and commissions income. Net fees and commissions' growth is anticipated to be at low teens in 2019. Garanti is expected to preserve the highest level of net fees and commissions among its peers.

The increase in operating expenses of Garanti is estimated to be less than 19%, which is the average expected CPI in 2019. Amortization costs of Pendik IT Campus and New Branch Transformation projects are expected to reflect on operating expenses, and HR expenses are anticipated to increase above the CPI.

In 2019, active assets and liabilities management that will result in high return on capital will be sustained along with the risk/return focus. In the light of its 2019 projections, Garanti aims to achieve a low-teens ROAE.

EXPECTATIONS REGARDING THE GROUP IN 2019

Garanti operates as an integrated financial services group through its leading financial subsidiaries offering services in life insurance and pension, leasing, factoring, brokerage and asset management in Turkey, along with its international subsidiaries operating in the Netherlands and Romania. Garanti aims to make sure that the synergy captured with its subsidiaries will be powerfully sustained in 2019, and the subsidiaries are expected to increase their shares within the Group's net income. In 2019, the Group plans to keep working towards preserving and improving its asset quality in geographies where its subsidiaries in Romania and the Netherlands pursue their banking operations. Targets include sustaining productivity increase while preserving its asset quality, further improving the strong balance sheet structure, and boosting the profit generation capability and sustaining it.

With respect to its operations in Turkey; the Group targets to receive significant contribution from the insurance business to consolidated profit. Life insurance segment is anticipated to sustain solid premium production, and increased market share is projected in Auto Enrolment System. In the securities business, positive contribution is expected to be lent to revenues through opportunistic moves as diverse products apart from equity and TurkDex market products and derivatives via the overseas trading platform will be offered.

In 2019, the Group aims to sustain its sustainability-focused growth strategy that maintains asset quality, increases productivity and generates capital. The strong share of loans within the assets structure will be maintained, and proactive risk management concept will back the preservation of solid asset quality as it did in previous years. The Group intends to preserve its cumulative net interest margin through an active assets and liabilities management. The Group will carry on with active productivity management and will focus on molding its business model with an eye on potential growth areas. As before, the Group will persist with its initiatives to create long-term value in 2019; yet, it will continue to keep operating expenses under control. Standing out with its robust capitalization, the Group will retain this quality and move forward. In the light of all of these, the Group will continue to generate sustainable profit on the back of its differentiated business model.