

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

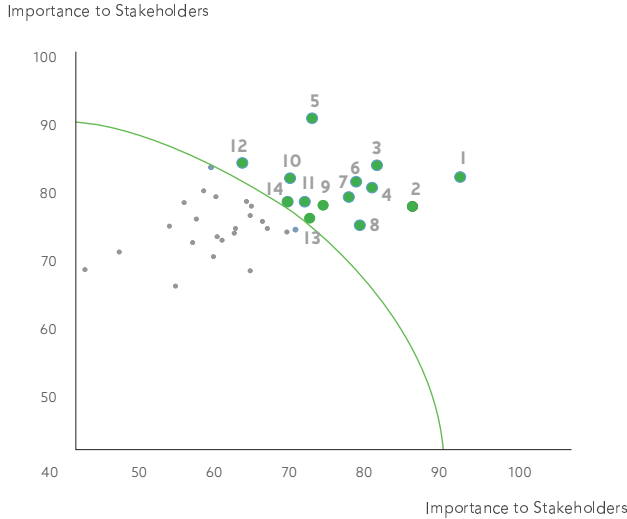
evaluated the topics through a four-step assessment called “Four Factor Impact Analysis”. In the assessment, we ranked each topic according to the magnitude of impact, likelihood of impact and time frame (short, middle, long) in terms of;

- 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	
	5	Transparent disclosure of information for stakeholders	
CORPORATE GOVERNANCE AND RISK MANAGEMENT	12	Good corporate governance	
	3	Risk and crisis management (including integrated management of financial and non-financial risks)	
	14	Compliance	
DIGITAL TRANSFORMATION	6	Customer privacy and information security	
	2	Digital transformation and technological advancement	
INVESTING IN HUMAN CAPITAL	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 to 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.

87%

Find sustainability very important for the banking sector.

67%

Defines sustainability as long-term, profitable and stable growth.



GRI 102-43, GRI 102-44

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?
<p>CUSTOMERS</p>	<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

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<p>SHAREHOLDERS AND INVESTORS</p>	<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 <ul style="list-style-type: none"> - 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

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<p>EMPLOYEES</p>	<p>Increasing the employee focus and satisfaction within the Bank practices and ensuring employee representation in HR processes and decision mechanisms.</p>	<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>

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<p>GOVERNMENT AGENCIES AND REGULATORY BODIES</p>	<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

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<p>FINANCIAL INSTITUTIONS</p>	<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

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<p>TOP MANAGEMENT</p>	<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.

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<p>NON-GOVERNMENTAL ORGANIZATIONS AND ASSOCIATIONS</p>	<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