



# GARANTI BBVA INTEGRATED ANNUAL REVIEW 2019

NEXT  
DECADE



# **GARANTI BBVA INTEGRATED ANNUAL REVIEW 2019**

# ABOUT THE 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 BBVA'), as well as conveying its forward looking strategy.

Garanti BBVA 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 proving an overview to the basis of its total value creation, its strategy and long-term sustainable value creation capability in the document titled "2019 Integrated Annual Review", Garanti BBVA 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 "2019 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 BBVA. The information presented in this Report covers the 12-month period ending 31

December 2019, and unless otherwise specified, includes information on Garanti BBVA'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 2019 is clearly established, as suggested in the Integrated Reporting framework published by the International Integrated Reporting Council ('IIRC'). Garanti BBVA 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 six main chapters called "Introduction", "About Garanti BBVA", "Our Value Creation", "2019 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 BBVA's 2019 Integrated Annual Report will be presented at the Ordinary General Shareholders' Meeting of Garanti BBVA.

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 BBVA's value creation story on this year's annual report, keynote messages by Mervyn E. King (Chair Emeritus of IIRC), by our Chairman, and by our CEO.

## ABOUT GARANTI BBVA

The second chapter covers the operating environment, the positioning of Garanti BBVA, its governance structure and risk management perspective.

## OUR VALUE CREATION

The third chapter covers the material issues which specifically impact Garanti BBVA and its stakeholders and stakeholder engagement, mega trends, Garanti BBVA'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.

## 2019 PERFORMANCE AND OUTLOOK

Our "2019 Performance & 2019 Outlook", which is explained in the fourth chapter, comprises of five main sections representing the umbrella themes for 12 different material issues as explained in "Our Material Matters". Each section describes the value creation story and the outlook in connection to Garanti BBVA's Strategic Priorities. Each of the five sections elaborates on both past performance and gives an account of future strategies. Furthermore, Garanti BBVA'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 fifth chapter, 'Corporate Governance & Risk Management', provides a detailed discussion of the management of strategic risks related to Garanti BBVA's operations and the full governance structure.

## FINANCIAL REPORTS

The final chapter sets out the audited annual unconsolidated and consolidated financial statements for Garanti BBVA, including the statement of responsibility by the Audit Committee Member (Independent Member of the Board), the CEO, the CFO and the Financial Reporting and Accounting Director 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 and its consolidated financial subsidiaries have started to apply TFRS 16 Leases standard ("TFRS 16") published by Public Oversight Accounting and Auditing Standards Authority ("POA") in the accompanying consolidated financial statements starting from 1 January 2019.

The accounting policies and the valuation principles applied in the preparation of the accompanying consolidated financial statements are explained in Notes 3.2 to 3.29.



Please share your feedback and comments on the report by e-mailing to [integratedreport@garantibbva.com.tr](mailto:integratedreport@garantibbva.com.tr).



Please scan the QR to access Garanti BBVA Integrated Annual Report 2019 website.

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Number of pages of the section



The most used word in the section

# FOREWORD

## “THE NEXT DECADE”

In the past decade, technology reshaped our lives at a pace unseen and unmatched ever before. Computers, mobile phones, smart home systems, and automobiles transformed enormously. But the transformation was not restricted to devices; digitalization made an imprint in every aspect of life. Nothing is immune to this change; not our everyday life, not our habits or the way we think and do business.

In the next decade, change will continue at a high speed and momentum. Artificial intelligence, augmented reality and virtual reality will all expand very quickly and become inconspicuous routines. Electric vehicles will be more prominent in traffic. As smart phones have already turned into payment instruments, the inspiration payment systems take from technology and imagination might soon turn the days we carry cash or credit cards into a fading memory.

Customer needs and expectations are also rapidly changing and mutating in parallel with the advancements in technology. While customers prefer simpler and more practical channels they can reach from anywhere to access products and services instead of conventional methods, they want to experience time-saving, short and smooth journeys, smart solutions that make their lives easier and personal touches they find entertaining.

Big data applications, on the other hand, take analyses to a whole new level, and lead to recode decision-making processes and strategies with its holistic perspective. Data analysis enables better insight into choices, and allows satisfaction of needs in a more personalized and mass-oriented manner. Operational excellence and efficiency, automation and robotics began infiltrating all parts of life. Having entered our lives as a learning and information platform, the Internet is rapidly turning into an experience platform. Therefore, it becomes critical to understand technology-backed new experiences and turn them into business models.

As this transition phase continues, planet earth is screaming “climate emergency” to all the individuals and to all the entities on it. In 2019 Global Risks Report by the World Economic Forum, environmental risks due to climate change take the first spot within the top ten major risks in terms of both impact and likelihood.

Garanti BBVA contributes 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 increasing awareness among its stakeholders.

Having formulated its business model around the goal of “bringing the age of opportunity to everyone”, Garanti BBVA

has a long-term and solid strategy that combines human touch and technology, the key determinants of our age.

Garanti BBVA aims to make its customers' lives easier, look after their financial well-being, help them make the right financial decisions, and advise them to grow their businesses sustainably, while delivering its financial services to everyone at the same time.

The founding executive editor of the Wired Magazine, Kevin Kelly says that the greatest products of the next 25 years have not been invented yet, and the biggest innovations are yet to arrive, just like we had no idea about the Internet 25 years ago, the most important invention of our age... Kelly says we should know that we are not racing against the machines or technology, but with them; in order to steer them, we need to embrace them and understand how they think.

While Garanti BBVA's 2019 Integrated Annual Report presents a glance at how Garanti BBVA sees and prepares for the next decade, it gives an account of how the Bank molds its business model in the light of mega trends, how it manages risks and captures opportunities, how it executes transformation and how all of these contribute to its stakeholders' journeys.



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# INTRODUCTION

#sustainability #greenloan #genderbond  
#sharedvalue #positiveimpact #risks  
#opportunities #responsible #solutions



Please scan the QR code to listen *Ebru Dildar Edin, EVP of Corporate, Investment Banking & Global Markets* talk about creating shared value through impact investments and sustainable finance.





# MESSAGE FROM MERVYN KING

 292  1 dk  1  financial

Garanti BBVA has made an holistic assessment of financial and the so-called non-financial aspects of its business model and strategy.

Its business model is one of creating value in a sustainable manner and it has communicated its value creation strategy in a clear, concise and understandable manner so that uninformed stakeholders can make informed decisions about the Company.

It has set out details of its activities in this value creation process, its value drivers and the importance of its stakeholders.

The Company has done an excellent job in relying on historical data when reporting on its operations in Turkey as well as its international subsidiaries in the Netherlands and Romania, foreign branches in Cyprus and Malta and two international representative offices in Dusseldorf and Shanghai.

Garanti BBVA is a member of the IIRC's Global <IR> Network and <IR> Banking Network and is a founding member of the Integrated Reporting Turkey Network (ERTA).

The Company has a financial report, according to international financial reporting standards and an integrated annual report, according to GRI Standards. It has also got a summary table of climate related disclosure in accordance with the Task Force on Climate Related Financial Disclosures. Notwithstanding, using the GRI Standards in the integrated annual report, it has used the Sustainability Accounting Standards Board's provisional standard for commercial banks as well.

What is encouraging is that the Company's external auditors have provided reasonable assurance on the financial information and a limited assurance on selective non-financial information which are set out in detail in the auditors' report.

Garanti BBVA is to be congratulated on its report which deals not only with how it is achieving its business model but also outlook as contemplated in the IIRC's Framework.



**PROF. MERVYN KING**  
**CHAIR EMERITUS OF THE IIRC**

27 February 2020

# LETTER FROM THE CHAIRMAN

 645  3.9 min  2  growth



Dear Stakeholders,

2019 has been a year of increased geopolitical risks and relatively muted global economic growth. The trade tension between the US and China, the Brexit process, geopolitical issues in the Middle East and the political uncertainties in Italy have led to decreased risk appetite among the investors. Amid this environment, global central banks maintained their dovish stances in an effort to support economic growth.

With respect to Turkey, 2019 was characterized with improving macro parameters and rebalancing in the economy. While the first half of the year was dominated by a high interest rate environment, by year-end, the interest rates were at half the level seen in the beginning of the year on the back of decreased inflation. We have seen a "V" shaped recovery in our economy particularly in the last quarter of the year. The sequence of contractions in GDP was replaced by a visible growth in the last quarter. Today, 2019 growth will end up to be positive contrary to the market expectations in the beginning of the year, and in 2020, growth is projected to gain significant momentum.

As Garanti BBVA, our capital generative business model, once again, enabled us to outperform the sector in many areas. We continue to be the leading bank in the sector in terms of capital, asset quality and profitability. Regardless of cyclical macro developments, we effectively utilize our capital in line with our sustainable growth strategy, maximize the value we create, and remain adhered to solid asset quality.

In today's world, financial performance though is not the sole indicator of a company's value. The environment we operate in evolves constantly; amid this transformation, a company's capability to measure and improve its impact on Environmental, Social and Governance (ESG) issues reflects on its value. From where we are standing today, social and environmental risks are at a level that cannot be ignored. In this context, as Garanti BBVA, we are contributing to building a more sustainable and inclusive economy to fight against climate change and we are leading the sector in this respect. Since 2015, we have been providing significant financing to renewable energy projects and mainly to wind power plants within the scope of project finance. Considering the growing base of ESG investors, we have been

presenting our Integrated Annual Report prepared according to the IIRC standards for the last three years to all our stakeholders, which we believe will better respond to that community's needs. We are working to integrate our sustainability efforts in every aspect from our corporate culture to our entire infrastructure. As we continue to implement our advanced corporate governance model that consolidates our core values, we are led by the principles of trust, accuracy, accountability and transparency in our interactions with all our stakeholders.

The synergy we created with our main shareholder BBVA continues to grow even stronger. BBVA Group that we belong launched a single global brand in all the countries it operates with its new renewed logo to suit the dynamic and digital world, in line with its digital transformation strategy. Being a part of this transformation project, we reflected the synergy we have created with our main shareholder BBVA for more than nine years to our brand and logo in 2019.

With our solid capitalization, high asset quality and proactive balance sheet management, we are ready to provide uninterrupted support to our economy also in 2020. Sustainable development, our most valuable asset - employee satisfaction, and efficiently meeting our customers' changing needs will continue to be our priorities. We will continue to undertake new achievements and become a pioneer in the industry, while preserving our committed efforts and strong

performance in the years ahead. I would like to take this opportunity to thank once again my colleagues, our valuable customers, shareholders and all other partners.



**SÜLEYMAN SÖZEN**  
CHAIRMAN

## LETTER FROM THE CEO

6,165 5.5 min 3 year



Dear Stakeholders,

We ended 2019 with a more positive picture than initially expected in terms of our economy, our sector and our bank. It was a successful year in terms of both meeting our financial targets and our non-financial performance indicators.

Following a difficult 2018, 2019 was a year of two different macro settings. In the first half of the year, including the election period, investment appetite was low and uncertainty was high with the added effect of global factors. Whereas in the second half, the CBRT cut interest rates by 12 points, bringing it down to 12% at the end of the year with the support of the rapid improvement in inflation and the expansionary policies of the developed countries' central banks. Declined interest rates triggered revival in loan demand. Serving as the engine of our economy's progress, the Turkish banking sector, continued its contribution to the sustainable growth of our country during its rebalancing cycle. The sector proved its resilience once again in terms of liquidity, asset quality and capital.

At Garanti BBVA, we ended the year with 7% growth in TL loans following the recovery in loan demand. Thanks to our broad customer base, we increased our deposits and recorded an across the board, healthy growth in lending with real sector focus. One of the highlights of the year has been our significantly strengthened TL demand deposit base. Thus, our performing loan to deposit ratio improved by another 6 points on top of the 14 points in 2018. This result is highly valuable for us as it mirrors the healthy relationships we establish with our customers.

The share of non-deposit funding source decreased this year. We still have high FC liquidity levels despite bulky redemptions we had during the year. Our need for international funding has been decreasing as compared to the previous years due to ongoing shrinkage in FC loans since 2013. Nonetheless, the external borrowing program presents an inevitable significance for managing the maturity mismatch in our balance sheet and diversifying our funding structure. Being opportunistic and a key player in these markets, we will maintain our relationships and appetite, and continue to be active with new issuances and borrowings.

The lagging effect of the decelerated economic activity in the previous period became pronounced this year. The rise in new NPL inflow was within our projections, and was coming from retail loans in the first half of the year and from large-ticket corporate loans in the second half. Our NPL ratio was registered as 6.8%, parallel to our anticipations we had announced in the beginning of the year. With respect to asset quality, following the challenging years of 2018 and 2019, we are not anticipating new NPL inflows apart from the expected and accounted ones. We are also starting to feel the positive effects of the revival in economic activity on asset quality in an increasing manner.

On the back of our capital generative growth strategy, we maintained our capital adequacy at the highest level in this period. Our consolidated capital adequacy ratio went up from 16.5% in 2018 to 17.8% in 2019, well above the required level of 12%. With the confidence of our solid capitalization, we will continue to support the real economy by meeting the growing demand in the coming period.

On the non-financial side, we continued to achieve progress in our areas of focus, i.e. improving customer experience and digitalization. Last year, we completed our service model transformation. The dynamics of our branches has changed entirely. In this respect, we continuously work to enhance efficiency and service quality. Taking care of our customers' financial health, being their reliable partner, and offering advisory are among our priorities.

In the area of responsible banking, we identify the best practices emerging globally, further upgrading them and implementing financing solutions that serve sustainable development goals in our country. In this context, we issued a 5-year green bond during the year. We will use the fund generated by this issuance, that was the first of its kind in Turkey, to support renewable energy and energy efficiency projects that produce solutions for climate change. As the pioneer bank in financing renewable energy projects and the largest lender for wind projects in Turkey, our efforts in this field will continue. In addition to these issuances supporting sustainability areas, on the lending side, we have also brought a structure that incentivizes our customers in this area throughout loan term. We aim to reinforce our pioneering position in the sector by continuing to provide the Green Bond, Social Bond, Green Loan and loan products seeking to ensure equality of men and women in business life.

### FOR 2020 AND THEREAFTER...

In 2019, economic indicators improved much more rapidly than we expected. While expansionary monetary policies of developed central banks played a part in this improvement, I believe that it was mostly a result of our country's dynamism and resilience.

Annual inflation declined from around 20% in the beginning of the year to 11.8% at year-end 2019 thanks to the strong positive base effect and the stabilization in the exchange rate. We are anticipating further improvement in inflation, realizing

at high single-digit level by the end of 2020. Monitoring the inflation trends and projections, the CBRT will likely carry on with moderate rate cuts.

In a low interest rate environment, we are projecting a more visible revival in the economic activity and anticipating growth to reach 4% in 2020. In parallel, we are expecting the recovery in loan demand observed in the last quarter of 2019 to be more evident in the period ahead.

In this period, we will be standing by our customers as always. We will continue to fulfill our customers' demands and to contribute to the economy. We are targeting a growth above the sector's average that will reinforce our strong position on the TL side. Our priority in the corporate segment will be to generate long-term healthy financing through investment loans. Another area of interest for us is to further specialize in SMEs, where we are already good.

As we maintain our growth focus, we will also keep effectively managing our financial and non-financial risks. Asset quality will be among our priorities. We will be working to efficiently manage and reduce the existing NPL portfolio.

Our investments in our customers and our business model will go on at full speed in 2020. We have provided all necessary support and assistance to protect the financial health of our customers and we will continue to do so. I can comfortably say that we have highly benefitted from the strategy of supporting the right customer with the right product, and that this

strategy will continue as is going forward. The sizeable investments initiated to reinforce our technological infrastructure in 2019 will go on in 2020 as well. We will continue to integrate data analytics into our decision-making processes with a human-oriented and convenient technology focused banking approach.

Integrity, accountability and transparency principles are essential components of Garanti BBVA's culture and sustainable existence. With the awareness that our impact and the value we create are not restricted to banking; we will continue to work with our sustainable development focus in order to continuously create value for our stakeholders.

Sincerely,

**RECEP BAŞTUĞ**  
PRESIDENT & CEO



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# ABOUT GARANTI BBVA

#bigdata #cybersecurity #virtualreality  
#AI #automation #algorithms  
#encryption #infrastructure



Please scan the QR code to listen *İlker Kuruöz*,  
*EVP of Engineering & Data*, talk about leveraging  
advanced data analytics and AI.





# THE ENVIRONMENT WE OPERATE IN

 3,071  14.5  4  *turkish*

## 2019 MACROECONOMIC OVERVIEW AND 2020 OUTLOOK

### A YEAR OF REBALANCING WITH DOWNSIDE RISKS

Global economic activity showed a synchronized slowdown in 2019. The main drivers behind this included higher tariffs, commercial and geopolitical uncertainties, and idiosyncratic factors that resulted in deteriorated macroeconomic outlook in some emerging countries. Additionally, low productivity and aging population in developing countries kept contributing to the deceleration. In 2020, growth will possibly lose some pace in developed countries, but will be supported in emerging countries led, in particular, by some countries that performed poorly and grew below their historic averages in 2019 due to country-specific shocks. We anticipate global growth to decline to 3.2% in 2019, which will rebalance and be realized as 3.2% in 2020.

Increased uncertainties resulting from the ongoing trade war between China and the US and geopolitical factors negatively impacted investor confidence, investments and global trade. The US economy registered moderate growth as the fiscal monetary policy came to an end and investments remained weak due to increased trade tensions. On the other hand, the deceleration in the

Chinese economy gained speed due to the ongoing trade wars with the US and weakened external demand, in addition to the measures implemented against the growing debt burden. The Eurozone also suffered a negative impact because of the low external demand and political uncertainties (Italy and Brexit). While some of the emerging countries, in particular Argentina, Venezuela, Turkey, Iran and Libya performed poorly due to idiosyncratic factors, others (Mexico, India, Brazil, Russia and Saudi Arabia) also displayed weak performances as compared with the previous years with the effect of the decelerated global activity.

The stress in the financial markets exacerbated especially in connection with trade protectionism and geopolitical tensions. Yet, increased downside risks both on economic activity and inflation led to a more dovish stance with respect to monetary policies by the central banks of developed countries, especially the Federal Reserve (the Fed) and the European Central Bank (ECB). The expansionary effect of the quantitative easing in developed countries caused the central banks in emerging countries to modify their monetary policy stances so as to support the economy. The stress in financial markets was rebalanced thanks to accommodative monetary policy stances. In 2020, we are anticipating the central banks of developed countries to

maintain their current stances. Accordingly, we are projecting that the first rate hike from the Fed will come in the first quarter of 2022 and from the ECB in the second half of 2022. Therefore, the financial markets might maintain their accommodative conditions, which might bear a positive effect on the capital flows into emerging markets.

In 2020, we are projecting global economic activity to be supported by the monetary policies that remain accommodative, expansionary fiscal policies in certain countries and the recovery in emerging countries that lived 2019 as a macroeconomic shock. Notwithstanding, we are anticipating moderate economic slowdown to persist in China, USA and Eurozone due to structural problems including the aging population and low productivity, and the normalizing effects of monetary policy.

Global economic outlook continues to have downside risks. More recently the impact of the outbreak spread from China on the global economy is still uncertain. It not only affects the economies through different channels but also limits the risk appetite in the financial markets. On the other hand, increased geopolitical risks, particularly between Iran and the US, the ongoing trade tension between the US and China, the uncertainties regarding the

Chinese economy, the contracted room for maneuvering in monetary policy against potential shocks, long-lived economic stagnation and the climate crisis might continue to put downward pressure on global economic activity.

### GRADUAL RECOVERY IN THE TURKISH ECONOMY

The Turkish economy continued to recover gradually in 2019 following the financial shock of August 2018. Additional measures including new credit packages, restructuring and tax incentives, as well as improved confidence environment thanks to tight monetary stance, helped the economic activity recover. Following the contraction in the three previous quarters, economic growth registered positive growth on a quarterly basis in the first quarter of 2019, signaling an exit from recession. Despite the pressure put on financial assets by increased uncertainty due to global factors (trade wars, Brexit, slowdown in China, etc.) and some local factors (local elections, renewal of the mayoral election in İstanbul, and geopolitical risks), the Turkish economy expanded 1.0% and 0.4% in the second and third quarters of 2019, respectively, and thus continued with its gradual recovery.

The Central Bank of the Republic of Turkey (CBRT) cut its policy rate by 425 bps and initiated “front-loaded” easing cycle in its July meeting, enabled by the better-than-expected inflation outlook and the expansionary policies of developed central banks. The policy rate went down to 12% as a result of the respective rate cuts by 325, 250 and 200 bps in September, October and December. Also the CBRT launched a macroprudential policy tool to support economic activity by linking credit expansion and reserve requirements.

In addition to ameliorated internal and external financial conditions, positive base effect accelerated the economic activity in the second half of 2019. We are estimating the growth rate of the Turkish economy to be 0.8% in 2019. With the support of the lagging effects of financial conditions, we are anticipating growth to pick up to 4% in 2020.

Inflation, on the other hand, declined much more rapidly than estimates, thanks to the tight monetary policy, continued normalization of food prices, low oil prices and weak demand (negative output gap). Therefore, annual inflation went down from ca. 20% at the onset of the year to 11.8% at year-end 2019 owing to the strong positive base effect and other factors mentioned before. In the absence of a major negative shock, inflation might step down to as low as 8.5% by end 2020. We consider that the CBRT will react according to inflation realizations and projections, and will carry on with measured rate cuts. Therefore, as per our anticipation for disinflation to continue and maintained dovish stance by the central banks of developing countries, we are expecting the CBRT to pull the policy rate down to 9% by year-end 2020.

External balance recuperated rapidly owing to shrank domestic demand. The positive exports performance backed by the plunged imports coupled with external demand, low oil prices and strong tourism revenues helped the 12-month cumulative current account balance to produce a surplus of USD 1.7 billion corresponding to 0.2% of GDP at the end of 2019. For 2020, we are projecting the surplus to be reversed to a deficit parallel to the recovered economic activity and its ratio to GDP to be around 1%.

As pointed out by the targets covered in the New Economic Program (NEP), the fiscal policy will seemingly adopt a neutral stance with respect to supporting the activity. The Government targeted the ratio of budget deficit to national income to remain flat at 2.9% in 2020 and 2021 before declining to 2.6% in 2022. The budgetary balance further worsened as expenditures remained high and tax revenues dwindled because of weak economic activity in 2019. Yet, transfer of profit and reserve funds from the CBRT restricted the deterioration in the budget deficit. While the budget deficit amounted to TL 123,7 billion corresponding to 2.9% of the GDP at the end of 2019, primary surplus produced a deficit of TL 23,8 billion that corresponded to 0.6% of the GDP. In spite of the anticipated weak performance of non-tax revenues in 2020, we are projecting that as a result of the support to be extended by recovered economic activity to tax revenues and the discipline to be secured in public spending, deterioration of the budget deficit will remain limited, and that the ratio of budget deficit to national income might be registered as 3%.

### OPPORTUNITIES AND CHALLENGES OF THE TURKISH ECONOMY

Her dynamic demographic structure, i.e. that it continues to grow and has a young composition when compared to other countries, is one of Turkey's key strengths. According to TurkStat's base scenario projections, the population is expected to grow by 1% on average by 2030. As opposed to the negative growth in Europe and the CEEMEA region, the population in Turkey is anticipated to reach 93 million in 2030. In addition to that, median age is 32,3 according to 2019 data, which manifests a highly younger population versus other countries (40 years in developed countries).

Furthermore, with the weak labor force participation rate in women, overall labor participation rate still remains low. These indicate at a possible significant contribution to the Turkish economy in connection with a possible reform in the education system in alignment with the digital age.

Another key strength of the Turkish economy, which is contributed to also by her dynamic population, is made up of the opportunities in several sectors including transportation, energy and tourism stemming from her geopolitical position. Serving as a bridge between Asia and Europe, Turkey's economy, with a GDP of USD 771 billion, was the 19th largest economy in the world in 2018<sup>1</sup>. Turkey is an important hub in terms of transporting the oil and gas reserves particularly in the Middle East and environs to Europe. The TurkStream Project recently being co-executed with Russia is designed to supply energy to Europe, and mainly to Southern Europe, and shows Turkey's potential in this respect. The Government's plans announced in the areas of energy (Turkey Wealth Fund's intention to take part in the capital asset investments in mining and energy production from national resources), tourism (Tourism Master Plan) and transportation (Logistics Master Plan) will add to the country's capacity to benefit from the advantages conferred by her geopolitical position.

One of the main challenges Turkey faces is the high dependence of 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.

At present, the current account surplus resulting from cyclical factors might adopt a rapid worsening trend in conjunction with the projected recovery in 2020 in the absence of necessary measures. Nonetheless, the monetary policy is anticipated to remain accommodative for a prolonged period of time as inflation still fails to reach the desired levels in developed economies. The current situation and projections might secure continued capital inflow to developing economies by ensuring the cost of financing and liquidity in financial markets to remain accommodative. Hence arises the opportunity to resolve this area emerging in the short term with structural reforms in the medium term. Striving to take place in the high added-value part of the global value chain will be significant in terms of providing structural transformation in the current account balance. Other important considerations with respect to the solution of the problem include branding, apart from production, and brand management steps. For this purpose, the economy management has already begun implementing some structural reforms such as increasing savings tendencies and lowering intermediate goods imports by replacing them with domestic production. Furthermore, it is a known fact that the current deficit substantially stems from energy dependency. Therefore, pursuing new energy resources and alternative energy (nuclear power plant installation plan) resources will also be supportive in this sense.

Fiscal discipline has long been an important anchor for the Turkish economy when compared with other countries. Hence, the recent rapid expansion of the budget deficit raises concerns about this subject. On the other hand, the general government

debt stock to GDP ratio has been meeting the EU Maastricht Criteria of 60% since 2004. For this reason, the implementation of the financial consolidation plan together with the economic recovery we foresee for 2020 might eliminate these concerns. The inflation that increased to double-digit numbers as a result of the recent shocks and increased volatility in inflation pose a challenge with respect to the economy, as they diminish predictability. Still, confidence in the economy will increase to the extent that the latest wins in inflation are maintained with a strong monetary policy and that inflation re-converges on targets.

The real sector's open FX position that remains high as compared with emerging countries results in vulnerability to external shocks. Concentrating also on this issue, 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. Further, the decreased external debt leverage ratio of the private sector in the economic rebalancing period after the exchange rate shock of 2018 also somewhat alleviated the problem. However, the current outlook might increase exchange rate volatility during a turbulence in global financial markets and continue to deepen the vulnerabilities against external shocks. Therefore, 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 implement the essential structural reforms.

#### OPPORTUNITIES AND CHALLENGES OF THE TURKISH BANKING SECTOR

The Turkish banking sector is strictly

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

According to the BRSA sector data as of December 2019, there are 51 banks operating in Turkey (29 private commercial banks, 3 state-owned deposit banks, 13 development and investment banks, 6 participation banks). The top seven banks, three of which are state-controlled, are holding 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 54% of the population is younger than 35 years old and bankable population is only 60%<sup>1</sup>. 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 11% in total assets since 2002. 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 first half of 2019. In 2020, credit demand is expected to pick up with the normalization in inflation and lower lending rates and credit growth is anticipated to reach the order of 15%. According to big data indicators, growth will gain speed first on the consumer side, which will likely be followed by the trade segment from the second half of the year.

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. Capital adequacy ratios strengthened as the volatile exchange rates in 2018 relatively stabilized in 2019. An in-depth analysis of the capital structure of Turkish banks exhibits that the banking sector's capital is mainly made up of Common Equity Tier I capital (as high as 77%), 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 the required levels indicating at Turkish banks' solid liquidity position. Customer deposits constituting 60% 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 a result, faster deposits pricing occurs versus loan pricing. While this leads to the exposure of the Net Interest Margin (NIM) to short-term pressure when funding costs rise, it lends a positive support to the banks' margins when costs decrease, as was the case in 2019. Against this volatility in interest rates, the Turkish banking sector invests in CPI-linkers in order to hedge their balance sheets. Despite the increased funding costs in 2018, the Turkish banking sector managed to increase NIM on the back of the returns on these securities. In 2019, however, returns on CPI-linkers dropped as compared to 2018 because of

the downtrend in inflation. Yet, NIM was successfully kept flat without the support of the returns on CPI-linkers owing to the contribution lent by decreased funding costs. Also in 2020, higher growth and anticipated rate cuts will possibly support NIM.

The sector funds 18% 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. With the contraction of the economy in the first half, stagnated economic activity and ongoing rise in unemployment rate, asset quality continued to be a matter of importance for the sector in 2019. Having started the year with an NPL ratio of 4%, the sector ended the year with 5.3%. However, increased demand and the anticipated revival in economic activity, combined with the downturn in lending rates are expected to lead to improved asset quality in 2020.

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 the 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.

<sup>1</sup> IMF, WEO Database

Source: BRSA monthly data of December 2019 were used for sector data. Population data are based on TurkStat's Address-Based Population Registration System Results on 31 December 2019.

# CORPORATE PROFILE

462 2.1 min 1 banking

Established in 1946, Garanti BBVA is **Turkey's second largest private bank** with consolidated assets of close to **TL 429 billion (USD 72.4 billion)** as of December 31, 2019. Garanti BBVA 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, 2019, Garanti BBVA provides a wide range of financial services to its more than **17.6 million customers with 18,784 employees** through an **extensive distribution network of 904** domestic branches, 7 foreign branches in Cyprus and one in Malta, and 2 international representative offices in Düsseldorf and Shanghai. Garanti offers an omni-channel convenience with seamless experience across all channels with **5,260 ATMs**, an award winning Customer Contact 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 BBVA 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 BBVA to a leading position in the Turkish banking sector.

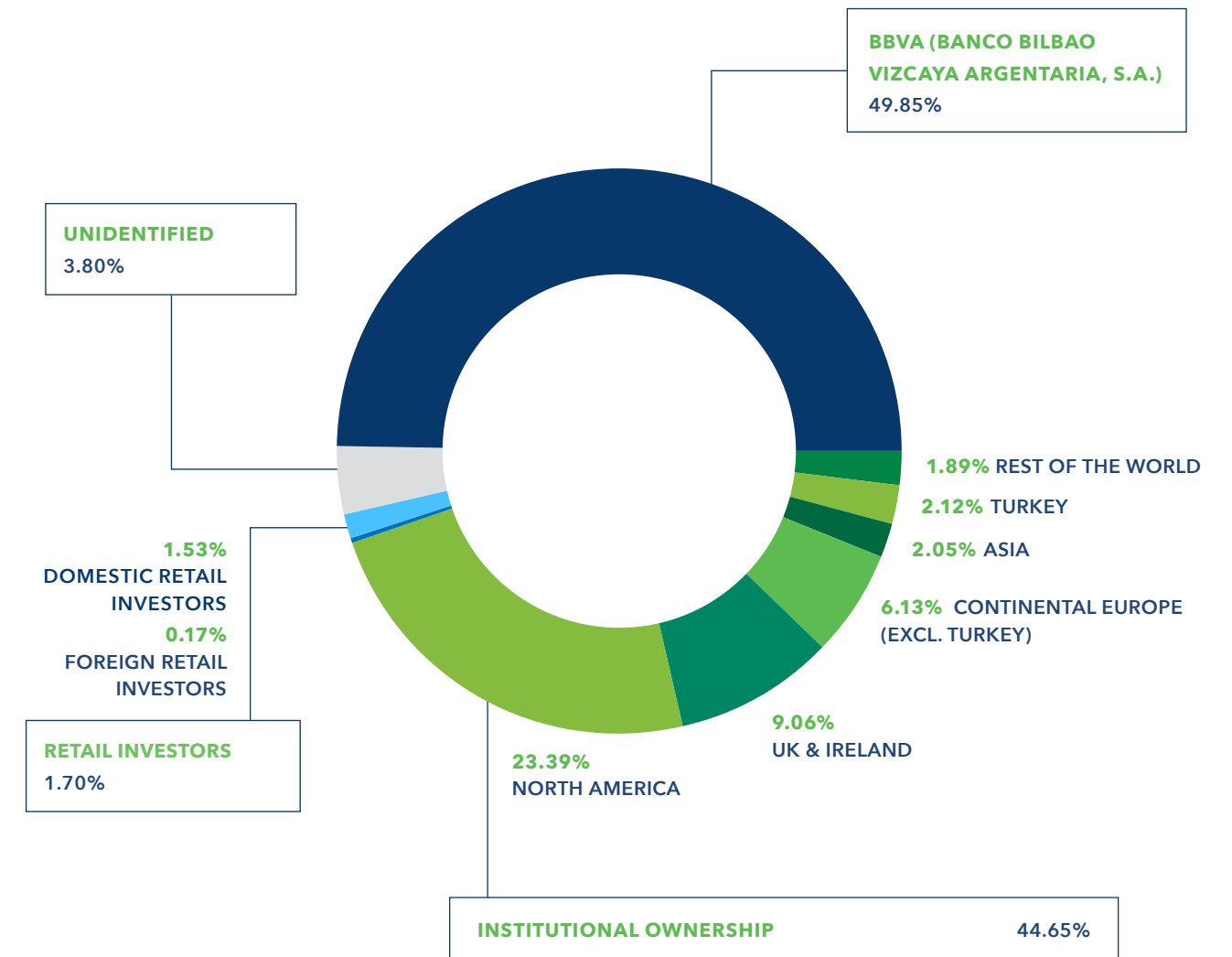
Implementing an advanced corporate governance model that promotes the Bank's core values, Garanti BBVA has Banco Bilbao Vizcaya Argentaria S.A. (BBVA) as its majority shareholder with 49.85% share. Its shares publicly traded in Turkey, and its depositary receipts in the UK and the USA, **Garanti BBVA has an actual free float of 50.07% in Borsa Istanbul as of December 31, 2019.**

Garanti BBVA'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 322 billion** (USD 54.4 billion) performing cash loans and non-cash loans. Garanti BBVA'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 BBVA 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 BBVA and its stakeholders.

# GARANTI BBVA SHAREHOLDING 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 BBVA in accordance with the limitations set out in Capital Markets Board regulations and the internal regulations of the Bank; their transactions in Garanti BBVA 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 2019; the actual free float ratio and the share of local individual shareholders are all based on Central Registry Agency data.*



# GARANTI BBVA'S POSITION IN THE BUSINESS AREAS



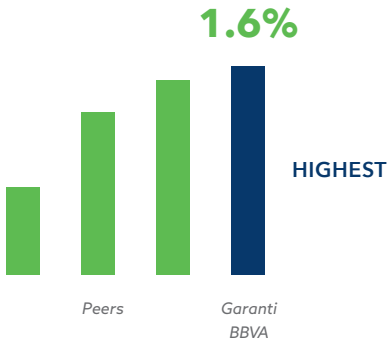
Note: Market shares are calculated based on BRSA Unconsolidated Financials as of December 31, 2019. BRSA weekly data of December 27, 2019 were used for sector data.



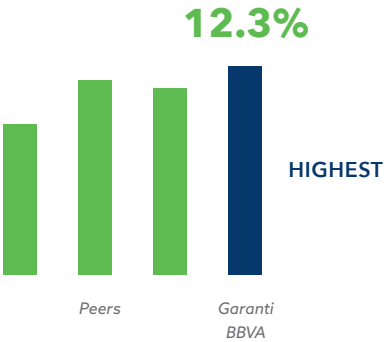
1 Per "The Forrester Banking Wave™":  
European Mobile Apps, Q2 2019", May 2019.

# GARANTI BBVA'S POSITION IN THE SECTOR

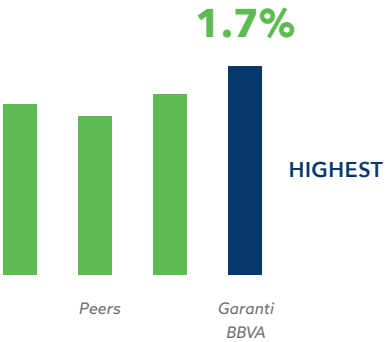
ROAA  
Cumulative, 2019



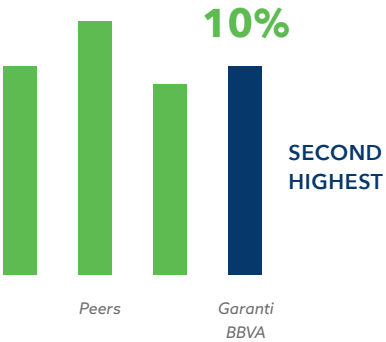
ROAE  
Cumulative, 2019



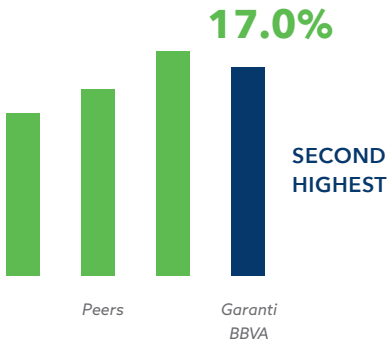
NET FEES & COMMISSIONS /  
IEA & NON-CASH LOANS



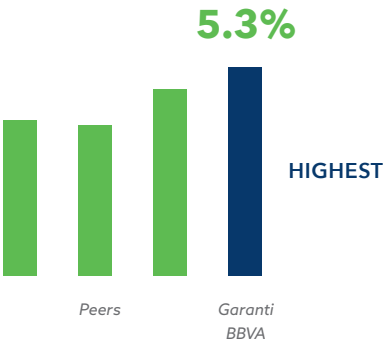
ASSET SIZE



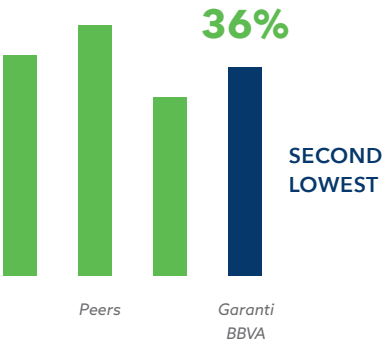
CET-I



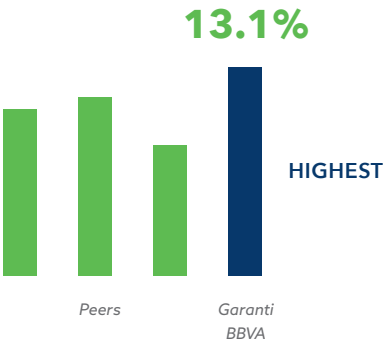
NIM INCLUDING SWAP COST  
Cumulative, 2019



COST/INCOME<sup>1</sup> RATIO



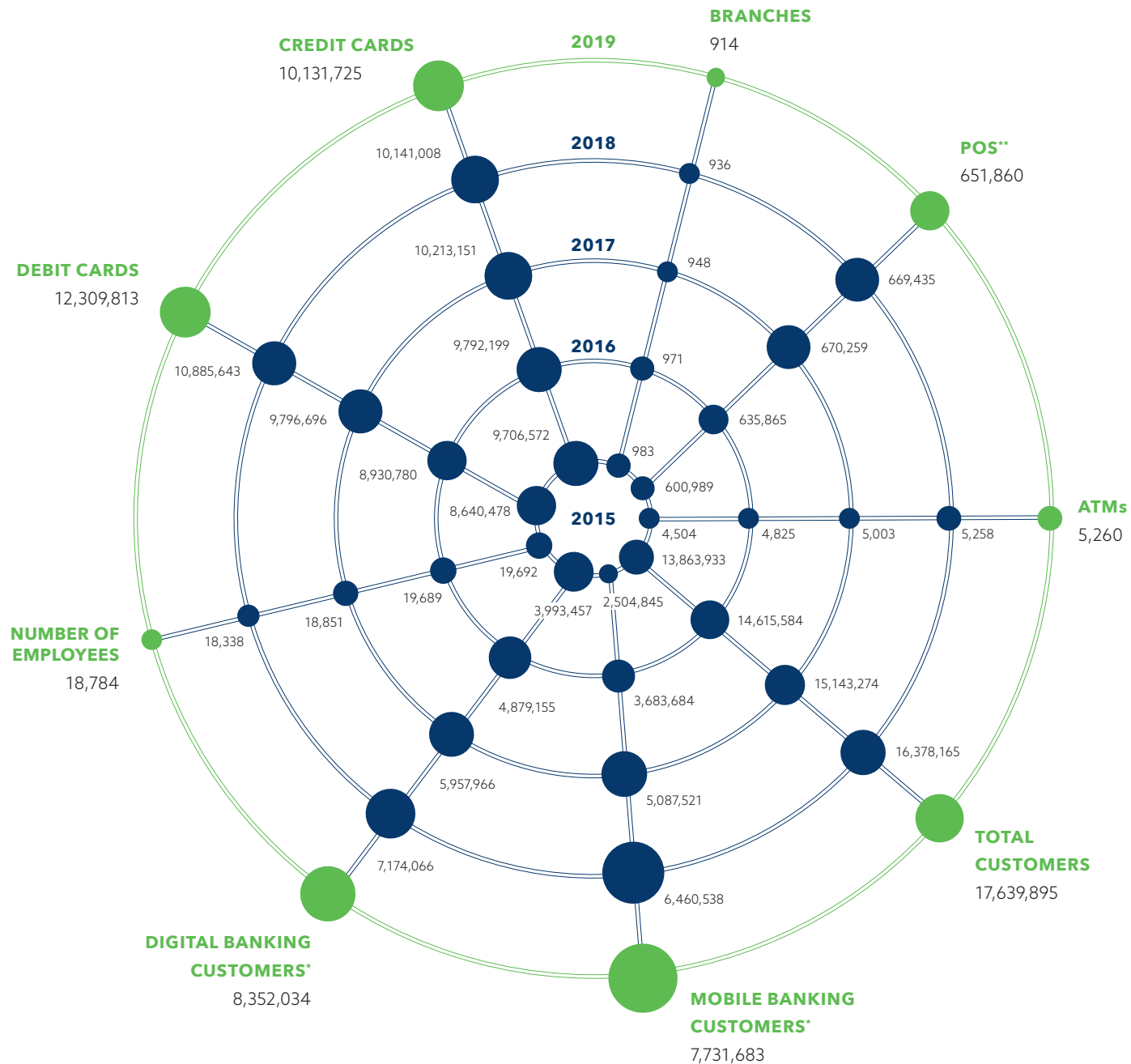
MARKET SHARE IN  
CONSUMER LOANS



Note: Figures are per December 2019 BRSA Bank-only financials for fair comparison.

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

# GARANTI BBVA IN NUMBERS

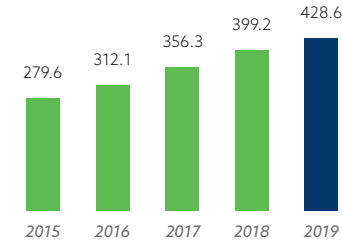


\* Active customers on - min. 1 login per quarter

\*\* Includes shared and virtual POS.

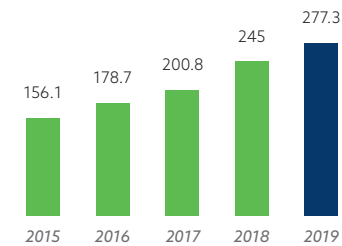
## ASSETS

(TL billion)



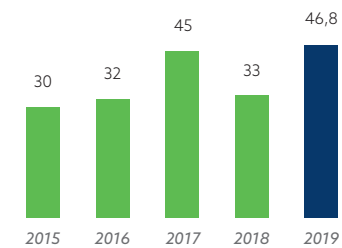
## DEPOSITS

(TL billion)



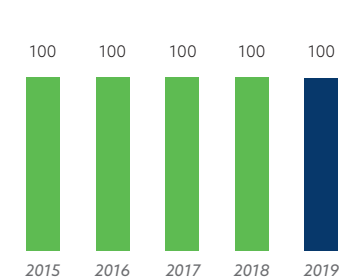
## MARKET CAPITALIZATION

(TL billion)



## % OF RENEWABLES IN ENERGY PRODUCTION PORTFOLIO

(in new PF greenfield commitments)

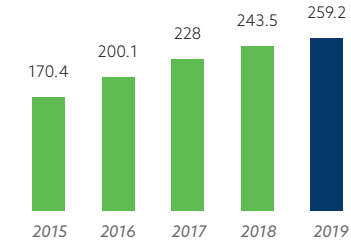


\*\*\* Including consumer credit cards.

\*\*\*\* Numbers also include projects (i) that are not included in the scope of ESIAP but are assessed voluntarily, (ii) are in financial evaluation stage, and (iii) are assessed but not-funded projects.

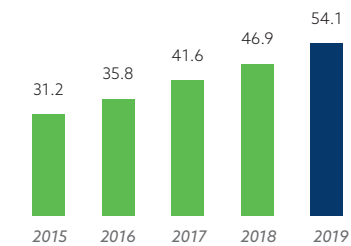
## PERFORMING CASH LOANS

(TL billion)



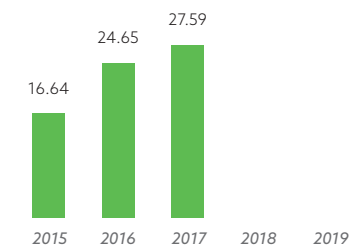
## SHAREHOLDERS EQUITY

(TL billion)



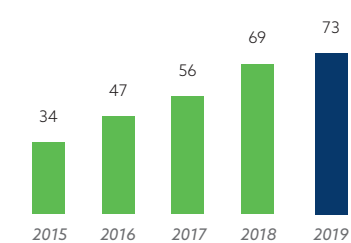
## DIVIDEND PAYOUT RATIO

(%)



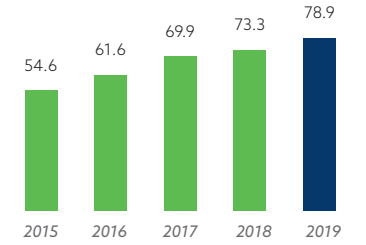
## NUMBER OF PROJECTS SUBJECTED TO ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT SYSTEM

(Cumulative)\*\*\*\*



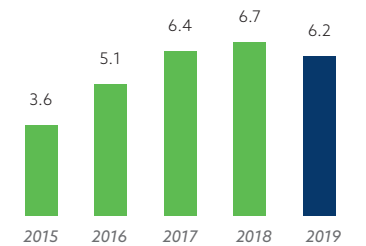
## CONSUMER LOANS\*\*\*

(TL billion)



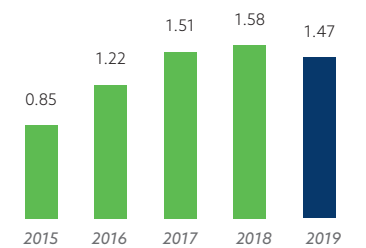
## NET INCOME

(TL billion)



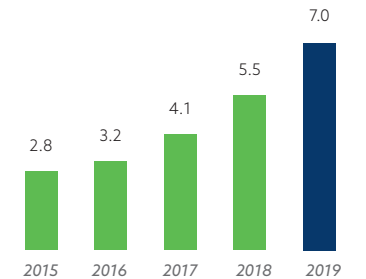
## EARNINGS PER SHARE

(in TL)



## TOTAL LOAN GRANTED TO WOMAN ENTREPRENEURS

(Cumulative, TL)



# GARANTI BBVA SHARE

 4,153  3.5 min  2  2019

## GARAN TICKER AND CODES

ISTANBUL - BORSA ISTANBUL

**SYMBOL:** GARAN  
**SEDOL:** BO3MYP5  
**ISIN:** TRAGARAN91N1  
**CUSIP:** M4752S106

## DEPOSITARY RECEIPTS LEVEL - 1

NEW YORK - OTCQX INTERNATIONAL PREMIER

**SYMBOL:** TKGBY  
**ISIN:** US9001486029  
**CUSIP:** 900148602

## DEPOSITARY CERTIFICATES - 144A

NEW YORK - OTC MARKETS

**SYMBOL:** TKGZY  
**ISIN:** US9001486029  
**CUSIP:** 900148602

Garanti BBVA 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 BBVA's Depository Receipts are listed on the OTC (Over-The-Counter) Markets in the USA. In 2012, Garanti BBVA 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 56 leading companies of the world, Garanti BBVA has established itself among the top Depository Receipts traded on the OTCQX marketplace and ranked 30<sup>th</sup> per Market Capitalization, 20<sup>th</sup> per Dollar Volume and 41<sup>st</sup> per Volume in 2019.

Garanti BBVA has a market capitalization of TL 46.8 billion (USD 7.9 billion) as of the end of 2019, and with a free float ratio of 50.07% and TL 23.4 billion floating market capitalization, Garanti BBVA also has the highest free float in BIST 100. Garanti BBVA share (GARAN) is the most traded banking stock in Borsa Istanbul with an average daily turnover of TL 881 million (USD 156 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 2019. Furthermore, GARAN has the highest weight in BIST 100 and in BIST 30 as of 2019 year-end.

89%\* of Garanti BBVA's shares in the free float is owned by foreign investors that are spread to around 33 countries. The composition of the institutional shareholding structure of Garanti BBVA by geographical regions is 52.4% North America, 20.3% UK and Ireland, 13.7% Europe, 4.6% Asia, 4.8% Turkey and 4.2% the rest of the world. Communicating the value created in a pro-active, transparent and consistent way, during 2019, Garanti BBVA Investor Relations held 667 one-on-one meetings by participating in 35 investor conferences and roadshows held in 16 cities in Asia, USA and Europe. Garanti BBVA continued to organize live webcasts/teleconferences bringing its senior management together with the investment community in 2019, 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 the recordings of these presentations on its website. The full audio recordings of all of these events were posted on Garanti BBVA Investor Relations website, mobile and tablet applications. Furthermore, in 2019, Garanti BBVA IR App was launched for mobile

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

devices in addition to iOS and Android tablets. 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 BBVA's main responsibility to all its stakeholders. The steps Garanti BBVA 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 BBVA still continues to be listed in these indices. In 2019, Garanti BBVA 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 BBVA qualified for this index also in 2019, and thus, preserved its place in the index for the fifth consecutive year.

In addition to these, Garanti BBVA 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 BBVA is the only company from Turkey to be included in the Bloomberg Gender Equality Index that covers 230 companies from 10 industries from 36 countries and regions across the world.

## EQUITY ANALYSTS' RATINGS

Garanti BBVA shares are widely covered by research analysts of leading domestic and international investment banks and brokerage houses. In 2019, 26 institutions have regularly issued equity research reports on Garanti BBVA. As of the end of 2019, 23 analysts had "BUY", 3 analysts had "HOLD" recommendation on Garanti BBVA stock.



**TL 46.8 BILLION**  
MARKET CAPITALIZATION

**TL 23.4 BILLION**  
HIGHEST FLOATING MARKET CAPITALIZATION IN BIST 100

THE MOST TRADED STOCK BY  
**FOREIGNERS**

**TL 881 MILLION**  
AVERAGE DAILY TURNOVER

**USD 29 BILLION**  
TOTAL FOREIGN TRANSACTIONS IN 2019

**BIST 30 & BIST 100**  
HIGHEST WEIGHT

**11%**  
TURNOVER MARKET SHARE  
THE MOST TRADED BANKING STOCK OF BIST100

**TL 1.47**  
EARNINGS PER SHARE



FTSE4Good





# OUR GOVERNANCE

 449

 2.8 min

 1

 board

Garanti BBVA's effective Board of Directors is at the heart of the Bank'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 BBVA 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 BBVA has a one-tier Board of Directors that is formed by 11 members with the composition of 2 female and 9 male board members as of 31 December 2019. In accordance with the principle of separation of powers and authority, the Chairman and the CEO have different roles at Garanti BBVA. 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 4 independent members supports the exercise of independent and objective judgment. Garanti BBVA'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, four non-executive members have board memberships in other companies and two non-executive members have board of trustees memberships in foundations.

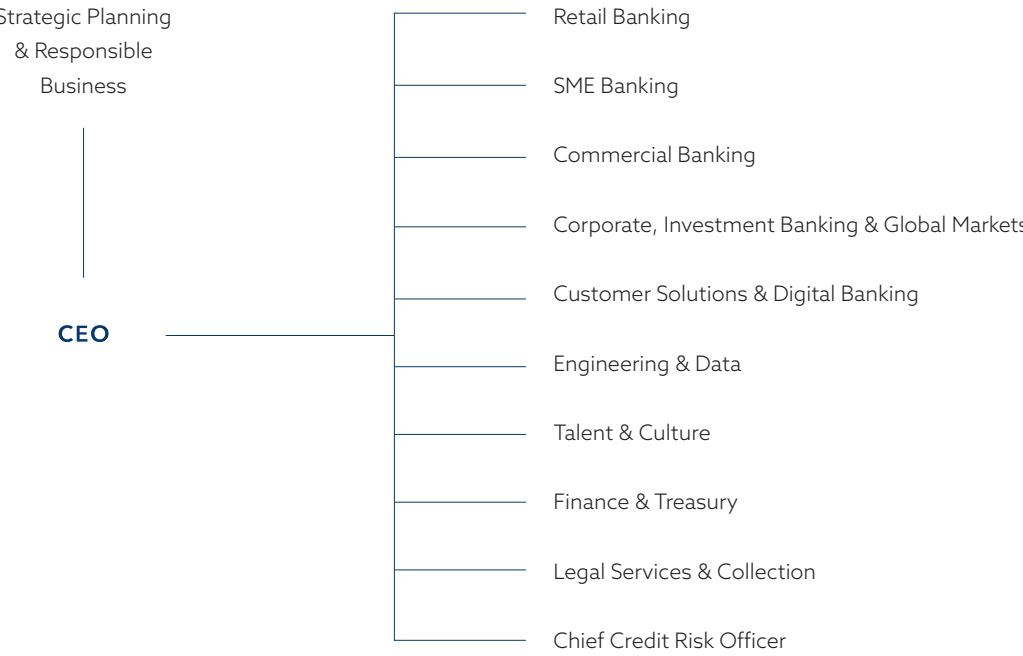
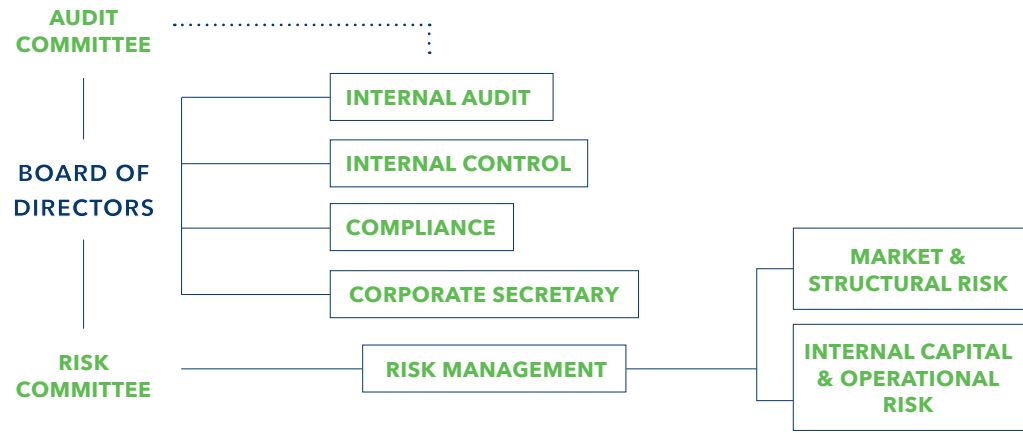
## BOARD MEETINGS

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 2019, the Board of Directors passed 18 decisions by satisfying the required quorums for meeting and decision.

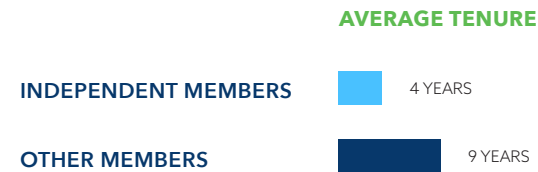
## CORPORATE GOVERNANCE

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 BBVA has been receiving Corporate Governance Rating since 2014. Increasing its score every year ever since, Garanti BBVA continues to be included in Borsa İstanbul Corporate Governance Index with a score of 9.73 assigned to it in 2019.

# ORGANIZATIONAL STRUCTURE

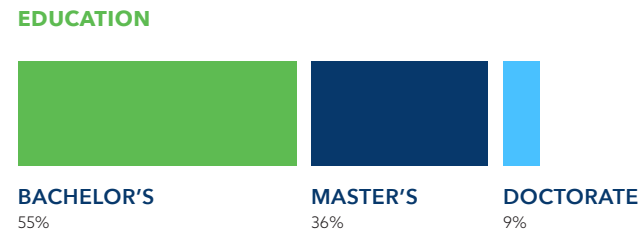
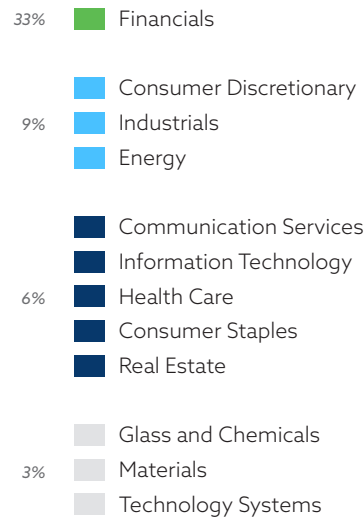
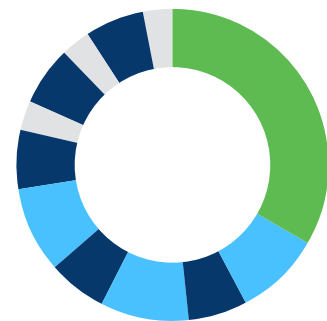


# BOARD OF DIRECTORS



## 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                                              |
| 2  | Audit                                               |
| 3  | Corporate Governance                                |
| 4  | Remuneration                                        |
| 5  | Risk                                                |
| 6  | Employee                                            |
| 7  | Customer                                            |
| 8  | Garanti BBVA Assets and Liabilities                 |
| 9  | Weekly Review                                       |
| 10 | Cost Management and Efficiency                      |
| 11 | Sustainability                                      |
| 12 | Personnel                                           |
| 13 | Consumer                                            |
| 14 | Integrity                                           |
| 15 | Volcker Rule Oversight                              |
| 16 | Operational Risk Admission and Product Governance   |
| 17 | Responsible Business                                |
| 18 | Corporate Assurance                                 |
| 19 | Innovation                                          |
| 20 | Corporate Crisis and Business Continuity Management |



**SÜLEYMAN SÖZEN**  
CHAIRMAN  
5



**RECEP BAŞTUĞ**  
PRESIDENT & CEO  
1-6-7-8-9-10-11-12-14-15-17-18-19-20



**ERGUN ÖZEN**  
BOARD MEMBER  
4



**JORGE SÁENZ-AZCÚNAGA CARRANZA**  
VICE CHAIRMAN,  
INDEPENDENT BOARD MEMBER  
1-2-3-4



**M. CÜNEYT SEZGİN**  
BOARD MEMBER  
6-9-11-13-14-15-16-17-18-20



**JAVIER BERNAL DIONIS**  
BOARD MEMBER  
1-3-5-6-7-9-10



**RAFAEL SALINAS MARTINEZ**  
BOARD MEMBER  
1-5



**JAIME SAENZ DE TEJADA PULIDO**  
BOARD MEMBER  
1



**MEVHİBE CANAN ÖZSOY**  
INDEPENDENT BOARD MEMBER



**SEMA YURDUM**  
INDEPENDENT BOARD MEMBER  
2-3



**RICARDO GOMEZ BARREDO**  
INDEPENDENT BOARD MEMBER  
2



## SENIOR MANAGEMENT



Left to right;

Aydın Düren, Didem Dinçer Başer, İlker Kuruöz, Ali Temel,  
İşıl Akdemir Evlioğlu, Recep Baştuğ, Ebru Dildar Edin, Aydın Güler,  
Cemal Onaran, Mahmut Akten, Selahattin Güldü, Osman Tüzün





COMMITTEES AND POLICIES

285 1.2 min 2 committee

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 BBVA Assets & Liabilities Committee, Weekly Review Committee, Cost Management and Efficiency Committee, Sustainability Committee, Personnel Committee, Consumer Committee, Integrity Committee, Volcker Rule Oversight Committee, Operational Risk Admission and Product Governance Committee,

Responsible Business Committee, Corporate Assurance Committee, Innovation Committee, IT Strategy Committee, Corporate Crisis and Business Continuity Management Committee, Portfolio Strategy 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, Data Security and Protection Steering Committee, Work Out Committee).

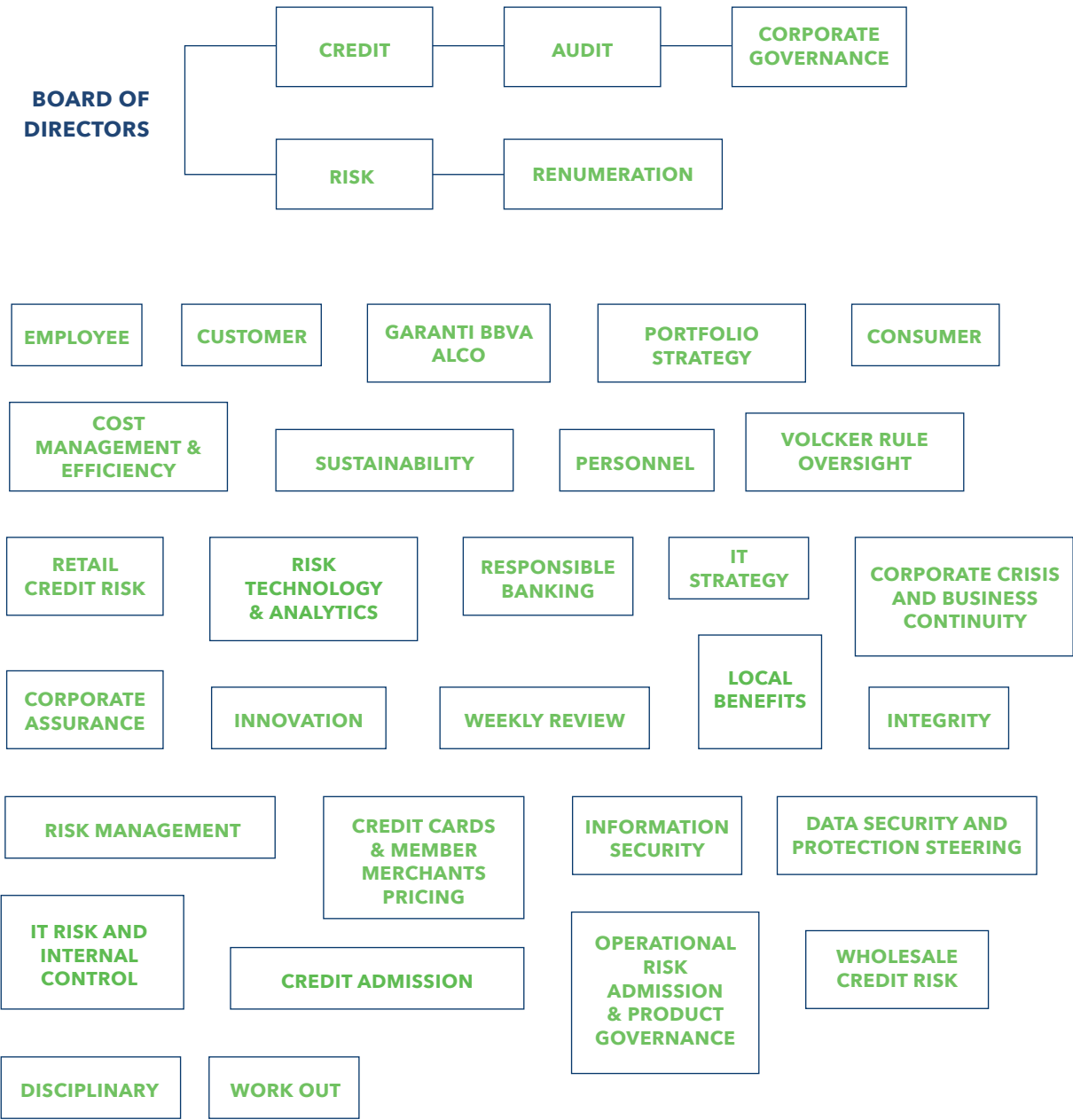
Commitment to its irreplaceable values of the principles of trust, integrity,

accountability and transparency is Garanti BBVA'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 its responsible and sustainable banking concept, and the importance the Bank attaches to Corporate Governance Principles and ethical values, Garanti BBVA 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.

POLICIES	CLIMATE CHANGE POSITION STATEMENT & ACTION PLAN		GARANTI BBVA CODE OF CONDUCT FOR SUPPLIERS		EMPLOYEE COMPENSATION		DIVIDEND DISTRIBUTION
	ENVIRONMENTAL		DISCLOSURE	ENVIRONMENTAL & SOCIAL LOAN		COMPENSATION	
	GARANTI BBVA CODE OF CONDUCT		DECLARATION OF HUMAN RIGHTS		ANTI-CORRUPTION POLICY STATEMENT		DONATION & CONTRIBUTION
	WORKING PRINCIPLES & PROCEDURES OF THE BOD		ANTI-MONEY LAUNDERING		HUMAN RESOURCES	SUSTAINABILITY	

COMMITTEES





# RISK MANAGEMENT REVIEW

 884

 4.1 min

 2

 risk

Garanti BBVA measures and monitors its risk exposure on consolidated and unconsolidated bases 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, structural interest rate risk, exchange rate risk, liquidity 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 organized in such a way that the material issues 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 are monitored regularly using risk appetite metrics pertaining to capital, liquidity and profitability, which have been established as per the risk appetite framework.

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. Reputational Risk is managed according to the relevant policy approved by the Board of Directors.

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 within the framework of the policy approved by the Board of Directors.

Within the scope of the policy approved by the Board of Directors, 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 within the framework of the policy approved by the Board of Directors, 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 the Bank's financial structure.

Credit Risk management, which is a process for consistently evaluating and monitoring credit risk, is carried out within the framework of the policy approved by the Board of Directors, and 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 of the relevant affiliate.

## MATERIAL CLUSTERS

CUSTOMER EXPERIENCE

## VALUE DRIVERS

- ➔ 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

FINANCIAL PERFORMANCE

- ➔ 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

DIGITAL TRANSFORMATION

- ➔ 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

INVESTING IN HUMAN CAPITAL

- ➔ Invest in our employees focusing on their development, satisfaction and well-being
- ➔ 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

RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

- ➔ 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 clusters

## MAIN RISK AREAS

REPUTATIONAL RISK

ENVIRONMENTAL AND SOCIAL RISK

OPERATIONAL RISK

COUNTRY RISK

MARKET RISK

STRUCTURAL INTEREST RATE RISK

STRUCTURAL EXCHANGE RATE RISK

LIQUIDITY RISK CREDIT RISK

COUNTERPARTY CREDIT RISK

CONCENTRATION RISK

RELATED PARTY RISKS



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## OUR VALUE CREATION

#entrepreneur #empowerment  
#mentorship #financing #diversity  
#partnership #incentives #equality



Please scan the QR code to listen  
*Cemal Onaran, EVP of SME Banking*,  
talk about fostering the entrepreneurial  
ecosystem, access to finance, and active  
participation of women in employment  
and economic life.



# OUR MATERIAL MATTERS

788 3.4 min 3 analysis

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 BBVA 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 described 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 that the identified material issues are still the most important, we perform an update of our materiality analysis approximately once in every two years. The revision in the first quarter of 2017 formed the basis for our 2017 and 2018 reports. The last revision was finalized in 2019. As we brought our new analysis to completion, we once again listened to

our internal and external stakeholders, and reviewed the connection between our corporate strategy and global trends which impact the banking sector.

As Garanti BBVA, we carried out a desk study where we gathered the available information shaped by the opinions of all our key internal and external stakeholders, and studied the trends, sectoral reports, reports of global banks, and advice by international professional organizations such as the UN Environment Program Finance Initiative (UNEP FI), Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB). On another front, we identified the topics taking into consideration the outputs from the task force that included the Strategic Planning and Responsible Banking Unit at the BBVA Group. Then, we conducted a comprehensive stakeholder analysis by reaching all key stakeholder groups via questionnaires and phone calls 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 UN Sustainable Development Goals, UN Principles for Responsible Investments, the World Economic Forum’s Global Risks Report, Presidency of the Republic of Turkey Department of Strategy and 11<sup>th</sup> Development Plan, and UNEP FI Principles for Responsible Banking. Our external stakeholder analysis also incorporated reports issued by organizations active in the same sector, printed media and social media feedbacks to gain an insight into the perspective of the society and the sector, as well.

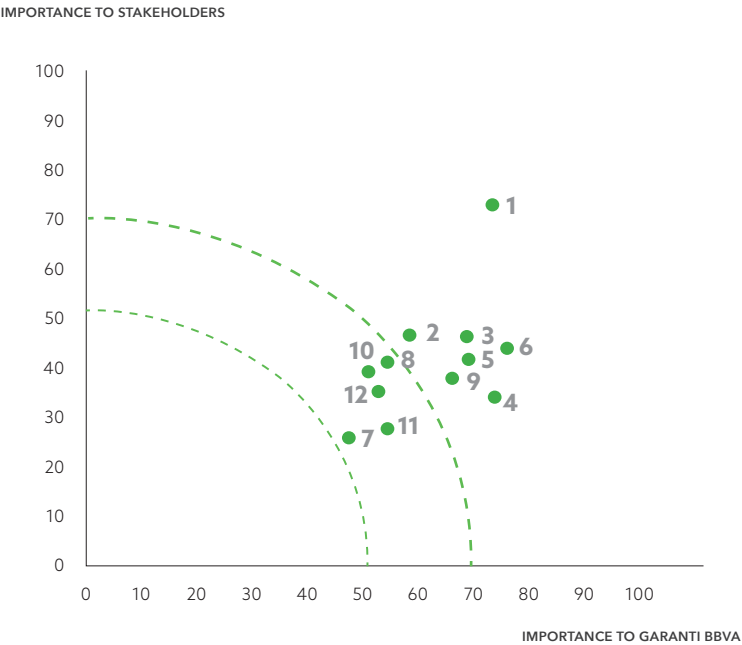
We included the view of a senior executive who is directly reporting to our Board of Directors and the CEO. The senior executive evaluated the topics according to the five-year corporate strategy and topics’ risk and opportunity areas as well as their operational, reputational, strategic, legal and financial impact. In addition, 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;

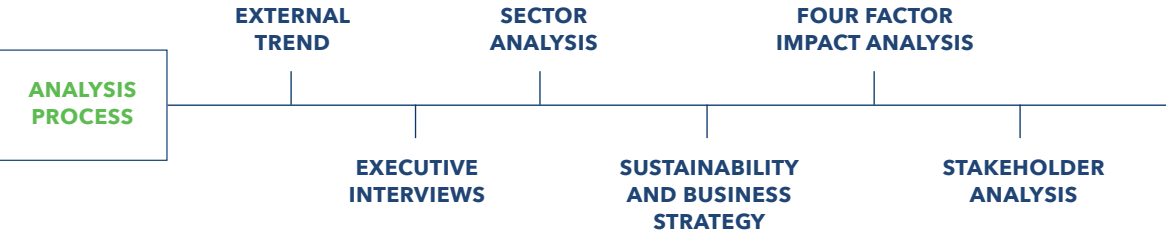
- Direct financial impact and risk,
- Legal, regulatory and policy drivers,
- Opportunities for innovation,
- Industry norms, best practices and competitive advantage.

In an integrated governance approach, we finalized the analysis considering the alignment of topics with our integrated business strategy. According to the analysis, the following were assigned over 70% importance and were highlighted within 12 material topics: Solvency and sustainable results, corporate governance, ethical behavior and consumer protection, easy, fast and DIY, adequate and timely advice to customers, cybersecurity and responsible use of data, and environmental and climate change impact. These were clustered under 6 main topics in our analysis: Customer Experience, Financial Performance, Digital Transformation, Corporate Governance and Risk Management, Investing in Human Capital, Responsible and Sustainable Development.

## MATERIAL ISSUES FOR GARANTI BBVA AND ITS STAKEHOLDERS



1	Solvency and Sustainable Results
2	Corporate Governance
3	Ethical Behavior & Consumer Protection
4	Adequate and Timely Advice to Customers
5	Easy, Fast and DIY
6	Cybersecurity & Responsible Use of Data
7	Talent Attraction, Development and Retention
8	Diversity and Conciliation
9	Environmental and Climate Change Impact
10	Human Rights
11	Financial Education & Inclusion
12	Contribution to Societies' Development





SUSTAINABLE DEVELOPMENT GOALS AND GARANTI BBVA

On 1 January 2016, the 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.

To ensure an inclusive, strong and stable economy for all individuals and to achieve social welfare in the world, the financial services sector should also adopt the SDGs in various ways, including, for example, by reshaping market opportunities in line with society's needs. The actions we undertake to address the material issues contribute to the SDGs and are explained in the Performance Section of this report.

CUSTOMER EXPERIENCE	4	Adequate and Timely Advice to Customers	   
	11	Financial Education & Inclusion	
FINANCIAL PERFORMANCE	1	Solvency and Sustainable Results	
CORPORATE GOVERNANCE & RISK MANAGEMENT	2	Corporate Governance	
	9	Environmental and Climate Change Impact	
	3	Ethical Behavior & Consumer Protection	
DIGITAL TRANSFORMATION	5	Easy, Fast & DIY	 
	6	Cybersecurity & Responsible Use of Data	
INVESTING IN HUMAN CAPITAL	7	Talent Attraction, Development and Retention	   
	8	Diversity and Conciliation	
RESPONSIBLE & SUSTAINABLE DEVELOPMENT	9	Environmental and Climate Change Impact	          
	10	Human Rights	
	11	Financial Education & Inclusion	
	12	Contribution to Societies' Development	

STAKEHOLDER ENGAGEMENT

3,10114.57 min9customers

Because of the great importance we attach to them, regular communication with our stakeholders and hearing their opinions give us the opportunity to be a more inclusive Bank in every aspect. Continuous feedback from our stakeholders allows us not only to understand stakeholder expectations and meet their needs more sensitively, but also presents us with a great opportunity to determine risks and opportunities, and set our priorities and strategy more comprehensively.

In 2019, as Garanti BBVA we maintained the dialogue with all our internal and external key stakeholders through various channels all year round. Based on the feedback from these dialogues and the outputs from the task group at BBVA Group in which our Strategic Planning and Responsible Banking Unit participated, we identified our material issues. In view of these issues, we updated our materiality analysis and revealed how they are prioritized by our internal and external stakeholders and which issues need to be given the forefront depending on the materiality of the determined issues. In this process, we used the AA1000SE Stakeholder Engagement Standard (2015) as a reference to conduct the stakeholder engagement process in a more strategic and comprehensive way.

Firstly, we grouped our stakeholders according to three criteria as directly impacting Garanti BBVA, indirectly impacting Garanti BBVA, and bringing in new opportunities, insights and approaches.

Based on this analysis, Garanti BBVA's key stakeholder groups are determined as customers, employees, shareholders and investors, NGOs, international organizations and associations, government agencies & regulatory bodies, and international financial institutions. In addition to these stakeholder groups, case studies from the banking sector, current international trends, printed broadcast sources and social media feedbacks made a part of our materiality analysis together with the stakeholder groups in order to capture the viewpoint of the society and the sector regarding these issues. Then, we evaluated our stakeholders according to the criteria of dependency, influence, proximity, representation, policy, strategic intent and responsibility, and calculated the weighted score for each stakeholder group.

We reached most of the prioritized stakeholders via surveys. With a 100% response rate, we collected the opinion of approximately 1,500 people through the survey carried out by an independent company and the relevant teams within

the Bank. We conducted an interview with a senior manager responsible for strategy and directly reporting to the Board and the CEO. We asked our stakeholders to prioritize the 12 topics identified in terms of the ones they deem important and wish to highlight, and share their perception of important trends with their opinions and expectations about Garanti BBVA's practices.

Within the topics we have identified as Garanti BBVA, the issues assigned with above 70% importance and highlighted by our internal and/or external stakeholders were Solvency and Sustainable Results, Corporate Governance, Ethical Behavior and Consumer Protection, Easy, Fast and DIY Options, Environmental and Climate Change Impact, Adequate and Timely Advice to Customers, Cyber Security and Responsible Use of Personal Data.

**MOST OF OUR STAKEHOLDERS EXPECT GARANTI BBVA TO MAINTAIN ITS PIONEERING POSITION IN SUSTAINABLE FINANCE, RAISE AWARENESS OF THIS TOPIC AMONG ITS CUSTOMERS AND DELIVER SUSTAINABLE FINANCIAL PRODUCTS.**

78%

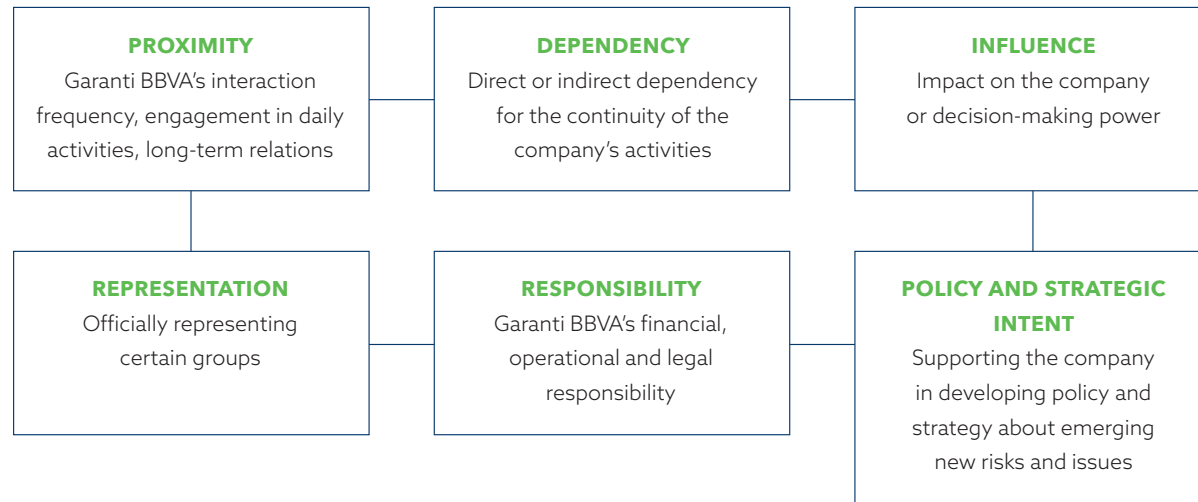


Customers and employees find sustainable financial products are important for managing environmental impact and battling climate change.

83%



Customers and employees find management of digital risks is important.



STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
CUSTOMERS	<ul style="list-style-type: none"> <li>→ Increasing expectations on faster service, less waiting time and better experience especially in branches</li> <li>→ New demands in line with new technologies and digitalization</li> <li>→ Increasing need for being informed about the regulatory changes surrounding FX loans and foreign trade</li> <li>→ SME customers' need to personally get acquainted with all contacts in the Bank, and to see and feel them as their advisor or their company's representative at the Bank</li> </ul>	<ul style="list-style-type: none"> <li>→ Cyber Security and Responsible Use of Data</li> <li>→ Easy, Fast &amp; DIY</li> <li>→ Solvency and Sustainable Results</li> <li>→ Ethical Behavior &amp; Consumer Protection</li> <li>→ Human Rights</li> <li>→ Adequate and Timely Advice to Customers</li> </ul>	<ul style="list-style-type: none"> <li>→ In 2019, Garanti BBVA kept offering new channels as part of complaint handling digitalization. Accordingly, customers began communicating their complaints by leaving "voice messages" via the Customer Communication Center. We will keep enriching the digital channels to offer an even better experience in this regard in 2020.</li> <li>→ Under the Central Customer Services Representative (CSR) Project, operational transactions are being performed by a central team, thus alleviating the operational workload on SME portfolios in branches. Thus, portfolios were supported to allocate more time to customer relationship management.</li> <li>→ In 2019, Garanti BBVA completed the transformation of branches into the new service model. The new model captures the benefits of the emerging digital world to offer an all-around excellent banking experience.</li> <li>→ The usage scope of the chatbot Bilge (the Wise) launched in 2018 in order to improve the customer service quality by the Customer Experience Support team was expanded in 2019. The chatbot was made available for use by new teams, thus bringing the total number of users to more than 1,000. Bilge now answers over 30,000 queries per month.</li> <li>→ The customer experience in digital channels have been further improved with the releases of;                         <ul style="list-style-type: none"> <li>→ QR code based transaction options,</li> <li>→ Video call authentication for transactions that needed to be performed through branches or Customer Contact Center before</li> <li>→ Integrated in-app search engine for Garanti BBVA Mobile App, displaying specific functions, recent transactions and suggestions</li> <li>→ Launched credit card application and limit increase tracking - from initial evaluation to delivery status in BonusFlas</li> <li>→ Added card blockage functions - 24 hours temporary &amp; international blockage and international transactions notifications</li> <li>→ Service provision also via WhatsApp, and</li> <li>→ Istanbulkart top-up and balance viewing capability via Garanti BBVA Mobile.</li> </ul> </li> <li>→ With the "Smart Transactions" recently added to Garanti BBVA Mobile, a service was offered intended to enhance customer experience by reducing the time and effort customers spend for performing their daily financial transactions.</li> <li>→ Onboarding process can be initiated through Garanti BBVA Mobile and completed by just executing a signature at the branch to become a Garanti BBVA customer. It is targeted to turn this into an end-to-end digital experience following the regulatory changes to be made.</li> <li>→ Garanti BBVA also redesigned mobile and online services for SME customers to enable them to easily monitor critical products and accounts as well as their cash flow and account summaries.</li> <li>→ Informative foreign trade seminars were organized for customers whereby they were updated about the regulatory changes.</li> <li>→ Visits were planned for all SME customers, and customer relations were deepened through emphatic visits. The Bank worked on training programs that will help all employees to deliver a better customer experience, as well as sector-related specific content, and authorization packages that will help them find solutions to customer needs more quickly. My Empathy Assistant platform supporting resolution of customers' issues at first contact by our employees is made available to all employees servicing SME customers. The content of the platform was improved and enriched accordingly.</li> </ul>



STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
EMPLOYEES	Increasing the employees focus and satisfaction with the Bank practices; ensuring employee representation in HR processes and decision mechanisms existing within the employee journey.	<div>→ Solvency and Sustainable Results</div> <div>→ Cyber Security and Responsible Use of Personal Data</div> <div>→ Easy, Fast &amp; DIY</div> <div>→ Adequate and Timely Advice to Customers</div> <div>→ Corporate Governance</div> <div>→ Ethical Behavior and Consumer Protection</div>	<div>→ Garanti BBVA makes available structured training for idea conception with its employees, while offering them the necessary infrastructure and technical capabilities for developing feasible ideas and for thinking big and taking innovative steps.</div> <div>→ In 2019, a wide variety of topics were addressed on idea and opinion development platforms, Önersen, GONG, Atölye and Ask/Share. While 230 ideas and opinions were shared via GONG, 922 were conveyed through the Önersen platform (more than 24,000 since 2007).</div> <div>→ During the idea workshop intended to build on corporate values in the last quarter of 2019, 120 employees developed ideas that will more efficiently capture the values in daily life, employing the design thinking technique.</div> <div>→ In 2019, agile project methodologies launched in Head Office units contributed to business development by employees based on shared wisdom in improvement areas and to presentation of their projects to the committees.</div> <div>→ In 2019, existing coaching and mentoring practices began to be reshaped based on employee suggestions and demands.</div> <div>→ With the guidance of women employees contacted to get their ideas within the scope of practices observing equality in employee journeys of women and men employees, the Paternal Experience Project was initiated in 2019, similarly to the Maternal Experience Project launched in the previous year.</div>

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
SHAREHOLDERS AND INVESTORS	<div>→ Following the change in the CEO seat during the reporting period, communication of our new CEO with investors</div> <div>→ Expecting more transparency on the following issues:</div> <div>- Extent of asset quality deterioration due to rapidly changing market conditions and specific sectors</div> <div>- Possible new regulatory framework affecting the banking sector</div> <div>- Currency Volatility</div> <div>- Interest Rates</div> <div>→ More detailed disclosure on the carbon intensity of the loan book</div>	<div>→ Solvency and Sustainable Results</div> <div>→ Corporate Governance</div> <div>→ Environmental and Climate Change Impact</div> <div>→ Cyber Security and Responsible Use of Data</div> <div>→ Easy, Fast &amp; DIY</div> <div>→ Ethical Behavior &amp; Consumer Protection</div> <div>→ Financial Education &amp; Inclusion</div>	<div>→ The management interview video of our new CEO broadcast on Garanti BBVA TV increased his visibility by the investors and the media.</div> <div>→ Our new CEO got together with shareholders and potential investors at the London investor conference.</div> <div>→ Increased transparency in the financial result presentations : detailed sectoral breakdown of the loan book.</div> <div>→ Detailed explanation about the differentiated and prudent staging as well as the coverage details.</div> <div>→ Additional free provisions were set aside in 1Q19 &amp; 4Q19 for any negative circumstances that may arise. Total free provisions in the balance sheet reached TL 2.5 billion.</div> <div>→ In 2019 characterized by rapidly changing market dynamics, Garanti BBVA IR team increased engagement via conferences, roadshows and conference calls. IR team reached 667 investment firms in 2019.</div> <div>→ Provisions due to currency depreciation are 100% hedged.</div> <div>→ High share of CPI-linkers (share in the TL securities: 73%) serves as a hedge against volatility in interest rates &amp; inflation.</div> <div>→ Information was provided about the high margin and profitability that the Bank successfully preserved over the years despite volatile macro indicators.</div> <div>→ Information was shared regarding the Bank's action plans against actual and potential regulatory implications.</div> <div>→ Lunch meetings were organized with stock analysts and stock sales departments for more effectively telling about the story of Garanti BBVA stock.</div> <div>→ Garanti BBVA has been responding to CDP Climate Change since 2009 and CDP Water since 2015. The Bank makes all of its reports public on its website. The Bank is also among the first supporters of TCFD Recommendations, and is part of the core team of the UN Principles for Responsible Banking developed by the UNEP-FI. In this year's Integrated Annual Report, as it does every year, the Bank disclosed the ratio of its loans extended to companies with carbon-related risks and total financing mobilized to low-carbon investments.</div>

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
FINANCIAL INSTITUTIONS	Credit ratings of debt instruments were lowered by some rating agencies during the year	<div><div>→ Solvency and Sustainable Results</div><div>→ Human Rights</div><div>→ Ethical Behavior and Consumer Protection</div><div>→ Environmental and Climate Change Impact</div><div>→ Diversity and Conciliation</div><div>→ Corporate Governance</div></div>	<div><div>→ Negotiations and amendments to relevant clauses in existing and new agreements have been made throughout the year.</div><div>→ The Global Compact Sustainable Finance WG headed by the Bank 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, and provide guidance for the management of environmental and social risks.</div><div>→ A series of stakeholder feedback meetings were organized with other banks and international financial institutions for the final version of the UNEP FI Principles for Responsible Banking. The Principles were launched on 22 September 2019 during the UN General Assembly meeting in New York City. Garanti BBVA was among the banks pledging to implement the UN Principles for Responsible Banking, together with five other banks from Turkey.</div><div>→ UNEP FI Impact Analysis WG organized a series of meetings to work on the portfolio impact analysis methodology in the finance sector.</div></div>

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
NON-GOVERNMENTAL ORGANIZATIONS AND ASSOCIATIONS	<div><div>→ Sharing our know-how and in-depth experience in ESG Management and Sustainable Finance</div><div>→ Aligning our portfolios with low carbon pathways</div></div>	<div><div>→ Diversity and Conciliation</div><div>→ Corporate Governance</div><div>→ Contribution to societies' Development</div><div>→ Solvency and Sustainable Results</div><div>→ Human Rights</div><div>→ Ethical Behavior and Consumer Protection</div></div>	<div><div>→ Garanti BBVA transformed its Sustainability Website launched in May 2018 into a living platform in 2019 within the frame of stakeholders' best practices, global trends and developments.</div><div>→ Garanti BBVA, being the only founding member bank from Turkey in the UNEP FI's Principles for Responsible Banking Core Group, became a signatory of the Principles in 2019. The Principles, aimed at aligning the banking sector with the UN Sustainable Development Goals (SDGs), will provide substantial contribution to these goals along with the Paris Agreement by 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.</div><div>→ 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.</div><div>→ Owing to the importance it attaches to gender equality and diversity and to the steps it has taken in this area, Garanti BBVA qualified to be included once again in 2019 in the Bloomberg Gender Equality Index as the only company from Turkey. The Bank continued to convey its initiatives and experiences in this area to all of its stakeholders via associations it chairs or belongs to.</div></div>

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
GOVERNMENT AGENCIES & REGULATORY AUTHORITIES	<p>→ Personal Data Protection Board announced the 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 also published the dates on which data controllers must register. On 17 February 2020, deadline for registration in the Data Controllers Registration Information System (VERBIS) was extended until 30.06.2020.</p> <p>→ Pursuant to the final action plan updated in the Coordination Council for the Improvement of Investment Environment (in Turkish: YOİKK) meeting held on 8 August 2019 and chaired by Vice President Fuat OKTAY, which is publicly disclosed on YOİKK portal (yoikk.gov.tr), Borsa İstanbul was designated as the entity in charge of the action "Encouraging our companies to get higher share of global sustainable investment flows" covered within the responsibility areas of Tax, Financing and Incentives Working Group.</p> <p>→ The Ministry of Environment &amp; Urbanization asked the banks to provide support on COP Turkey pavilion events and negotiations</p> <p>→ Department of Energy Efficiency and Environment asked for opinions regarding new financing models for funding residential heat insulation projects.</p>	<p>→ Solvency and Sustainable Results</p> <p>→ Environmental and Climate Change Impact</p> <p>→ Talent Attraction, Development and Retention</p> <p>→ Easy, Fast &amp; DIY</p> <p>→ Contribution to societies' development</p> <p>→ Diversity and Conciliation</p>	<p>→ Garanti BBVA initiated an IT project increasing the efficiency of the registration process. As part of this project, the Bank's personal data inventory will be reviewed in light of the regulatory framework. Also, the follow-up structure will be improved to keep the inventory up to date.</p> <p>→ Internal work has been completed for VERBIS registration, however the registry was not entered in the system due to the deadline extension. The IT project mentioned above is ongoing for keeping the personal data inventory up-to-date and to improve the VERBIS registration with the help of the inventory. A personal data exploration tool will be purchased for the project.</p> <p>→ Garanti BBVA has been advising and cooperating with regulatory bodies such as the BRSA, CMB, and Borsa İstanbul regarding non-financial issues to be included in the regulatory framework. Garanti BBVA directly contributed to the memo sent by TUSIAD (Industry and Business Association of Turkey) for contributing to Borsa İstanbul's work associated with YOİKK and participated in meetings via various business associations.</p> <p>→ As part of the side events hosted by the Ministry of Environment &amp; Urbanization at COP25, the panel "10 Years Countdown to 2030: Banks Acting as Influencers to Enhance Common Market Practice" was held in which Garanti BBVA took part. Garanti BBVA is committed to provide support to technical studies and sectoral workshops organized by the Ministry to contribute to climate negotiations.</p> <p>→ In response to the demand from the Department of Energy Efficiency and Environment, Garanti BBVA offered its suggestions regarding new financing models directed at support mechanisms that can be created for residential heat insulation projects. The suggestions include mechanisms that can be easily integrated into systems, for which customers can quickly request and receive service for.</p>

STAKEHOLDER GROUP	ISSUE	MATERIAL ISSUE RELEVANCY	WHAT DO WE DO ABOUT IT?
TOP MANAGEMENT	<p>→ Efficient management of asset quality and credit risk</p> <p>→ Develop products and services, which will support customers' financial well-being and improve the Bank's "referral" competencies on digital channels using big data analysis and AI in accordance with Transparent, Open, Responsible Banking (TOR) principles</p> <p>→ Developing innovative solutions to support our customers on improving their sustainability performance</p> <p>→ Constantly enhance customer experience and carry on with improvement after the new service model</p> <p>→ Providing a safe, healthy, and happy workplace for employees where their well- being and personal development are fully supported</p> <p>→ Be a data-driven organization and ensuring responsible use of data</p> <p>→ Sustain technology investments at the same speed and effective use of resource</p>	<p>→ Solvency and Sustainable Results</p> <p>→ Adequate and Timely Advice to Customers</p> <p>→ Cyber Security and Responsible Use of Data</p> <p>→ Talent Attraction, Development and Retention</p> <p>→ Environmental and Climate Change Impact</p> <p>→ Corporate Governance</p> <p>→ Ethical Behavior and Consumer Protection</p> <p>→ Easy, Fast &amp; DIY</p> <p>→ Diversity and Conciliation</p> <p>→ Human Rights</p>	<p>→ Market developments were closely watched and asset quality, which was a top agenda item during the year, was managed proactively.</p> <p>→ Customer needs and possible issues were identified asap and action plans were developed, thus observing the health of the balance sheet, and financial well-being of our customers.</p> <p>→ Credit teams and business lines worked in harmony, displayed responsible management, while credit risk was managed with the utmost sensitivity and all stakeholders were kept informed transparently throughout the year. The Bank's provisions were managed prudently and reinforced.</p> <p>→ While aiming to increase financial literacy of its customers and making them aware of their financial status, Garanti BBVA is working on Financial Health function that will be implemented in Garanti BBVA Mobile Banking app, which will show customers their status on savings and expenses. Customers will be able to 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 the whole process will be shown to customers. Digital Banking teams work with the Analytical Team to cluster Garanti BBVA customers according to their spending/earning behavior based on big data analysis.</p> <p>→ In 2018, Garanti BBVA launched two Green Loan structures where the margin of the loan is directly linked to the sustainability performance of the borrower. The customers' performance evaluations with respect to these loans were completed in 2019.In addition, in 2019, the Bank signed a Gender Loan agreement structured based on its initiatives in gender equality, which supports equal treatment of women and men employees by companies.</p> <p>→ Important agenda items included elaborating on improvement areas in other relevant management meetings where customer feedback received from various channels such as Customer Committee meetings, research, complaint handling platforms and so on is regularly evaluated, and steering projects designed to enhance customer experience. As the continuation of the service model transformation that has been completed in all branches last year, work continued to ensure full adaptation of our branches to the new structure. Efforts for minimizing operational workload on branches, digitalization of processes and constantly improving and accelerating the quality of customer service gained speed.</p> <p>→ The Employee Committee, which is headed by the CEO and has Board and Top Management members as its members, continued to work on enhancing customer satisfaction, and increasing the number of programs balancing work and life and improving employee motivation in 2019. Our Employee Engagement score increased in 2019 on the back of initiatives in this vein.</p> <p>→ Following the introduction of the "Data Governance" and "Data Transformation" projects, increased integration of data in our daily lives and decision-making points, expanding data use in areas that will create positive value for our customers and the Bank, and increasing the prevalence of data projects made the important agenda items of the year.</p> <p>→ Project "ARK", which started by mid-2019 , is intended to modernize the entire technology platform. Upon completion of the project, efficiency of software development processes will increase, and in turn, time to market will shorten. Use of state of the art and innovative technology and processes will help overcome the problems experienced in finding the human resource in the technology field. A key output of the project will be increased capability of Garanti BBVA to introduce products depending on new technology (real-time marketing, API market, blockchain etc.).</p> <p>→ In terms of effective use of technology resource and project management, quarterly priority setting meetings (PSM) for the Bank projects and investments continued to be held where strategic priorities, value creation, cost and resource utilization aspects were addressed.</p>




# RISKS AND OPPORTUNITIES

7,791 38 min 12 customers

2019 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 10 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 BBVA and our stakeholders.

Below mentioned risks and opportunities are addressed through a variety of hard and soft controls such as Garanti BBVA’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.*

## 2019 MEGA TRENDS AND RISK DRIVERS

### BUSINESS (1)

- Customer Empowerment
- The Future of Work
- Competition for Talent
- Transparency
- Efficiency
- Transition Risks (Regulatory Landscape)
- Empowered Women
- Next-Gen Workforce
- Social Media
- Connectivity
- Agile Transformation
- Rise of Individual Choice

### SOCIETY (3)

- 21<sup>st</sup> Century Skills Gap
- Sustainable Development
- Growing Inequalities
- Forced Migration
- Food Security
- Entrepreneurship
- Cultural Convergence
- Emergence of Public Opinion as Revolutionary Force
- Rise of the Individual
- Megacities
- Dynamic Population
- Prosumerism

### ECONOMY (2)

- Sustainable Finance
- Inclusive Capitalism
- Financial Health & Inclusion
- Sharing Economy
- Circular Economy
- Globalization

### ENVIRONMENT (4)

- Climate Urgency
- Extreme Weather Events & Natural Disasters
- Resource Scarcity
- Environmental Awareness

### TECHNOLOGY (5)

- Automation
- Big Data, IoT & AI
- Cloud
- Cybersecurity
- Blockchain & Cryptocurrencies
- Data Privacy & Responsible Use of Data
- Digitalization
- Increased Connectedness & Decreasing Privacy

## BUSINESS ENVIRONMENT

(1) (2)

Global growth continued its decelerating trend in 2019 due to trade wars, Brexit, ongoing geopolitical issues in Syria & Middle East. Dovish stance of global Central Banks to support global growth increased the risk appetite towards emerging markets. In an environment of rising uncertainties & volatilities, investors become more selective and funds are allocated more to quality stocks. In such an environment, we always focus on expanding our shareholder base and continue to deliver the value generation through our sustainable business model. Garanti BBVA 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 BBVA’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.

Turkish economy has been rebalancing rapidly after the recession in 2018. There has been a V-shape recovery in economic growth starting from the second half of the 2019, with rapid disinflation and decreasing interest rates. Big data indicators on retail sales and investments also suggest that economic recovery is gaining momentum. However, our track record proves that regardless of macro volatility, we always deliver what we promise in terms of profitability, on the back of our sustainable income sources, hedged balance sheet, unattached high free provision, solid capital and liquidity levels.

1 [https://sustainabledevelopment.un.org/content/documents/23862Turkey\\_VNR\\_110719.pdf](https://sustainabledevelopment.un.org/content/documents/23862Turkey_VNR_110719.pdf)

Today, a company’s financial performance is not the sole indicator of its value. The operating environment is transforming and within this transformation, companies’ ability to capture talent, to develop innovative solutions and measure & cope with the impact on ESG issues are reflected on company’s value. Considering the transformation of the sector, three main factors need attention: (i) financial health of customers, (ii) sustainability and (iii) continuous investment in technology and data analytics.

Social and environmental risks are at a point where we can no longer avoid. Extreme weather conditions, climate action failure and natural disasters are among the Top-3 risks defined by World Economic Forum’s Global Risks Report. As we are entering a new decade, many investors, corporations and financial institutions are committed to achieving the Social Development Goals (SDGs) of UN. Opportunity2030 study reveals that there will be a huge opportunity for financial institutions to meet their financing needs of corporates to achieve their sustainable development goals.

From investors’ point of view, it is becoming highly significant to invest responsibly. New risk factors are considered in investment decisions and investors are keen to assess the impact analysis of corporates on ESG matters. This realization gave rise to ESG investing even more than ever. The rise of ESG investors are also reflected on the increasing share of passive fund, since majority of them link their investment decision to sustainability indices. Being a company listed not only in Turkey but also in 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

(2) (3) (4)

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) delivered noteworthy results in 2019 all around the world. Accordingly, Turkey is developing tools and mechanisms to make progress and contribute to the SDGs. Turkey ranks 79<sup>th</sup> among 162 countries in the SDG Global Index with a score of 68.5<sup>1</sup>.

This means the ongoing efforts need to be accelerated and expanded. As a financial institution, Garanti BBVA is aware of its key role in achieving these goals.

In light of this urgent need for acceleration, the highly anticipated Principles for Responsible Banking was officially launched at the United Nations Headquarters in New York City on 23 September 2019 during the UN General Assembly. The Principles provide the framework for a sustainable banking system, and help the industry to demonstrate how it makes a positive contribution to society in line with the Sustainable Development Goals and the Paris Climate Agreement. To date, 132 banks signed globally, 6 of which being from Turkey. Once the principles are adopted, banks will be in need for a holistic approach in order to be able to track and measure their efforts. Embedding such tools in the banks' overall assessment processes will be quite challenging globally. As a Core Group member that developed the Principles, Garanti BBVA is now contributing to the development of such an impact analysis tool on both portfolio level and transaction level for corporate customers, and come up with widely applicable solutions to overcome the challenges. As set out in our Sustainability Policy adopted in 2014, Garanti BBVA 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. The Bank 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 2019, Garanti BBVA offered 42 different types of loans and products to contribute to sustainable development.

One of the solutions that Garanti BBVA offered in 2019 was the newly designed Gender Loan loan structure that would encourage its customers to improve their gender equality performances. The world's first and only Gender Loan was signed with Polat Energy for a total amount of USD 44 million. An independent consultant will rate Polat Energy's gender equality performance based on a detailed and extensive set of criteria developed by Garanti BBVA. As Polat Energy improves its performance, the margin of the loan will decrease.

Another important milestone was achieved in the inclusive capital area. In December 2019, a loan agreement was executed with IFC, OeEB and GGF in order to obtain a loan with an amount of USD 132.75 million and a maturity of 6 years. This loan will be used to support small enterprises located in 22 Turkish provinces which are lesser developed and most impacted by population under temporary protection, women entrepreneurs and energy efficiency & renewable energy projects. The main goal of this Agreement, apart from the GGF tranche which is USD 22 million, is to support Garanti BBVA's SME financing located in provinces of Turkey which are impacted the most by the influx. The project's main goal is two-fold. The first one is increasing access

to finance in underdeveloped regions in Turkey, and to the most underserved segment of the economy – SMEs in the most underdeveloped 22 provinces which are mostly affected by the influx. The second one is increasing the labor force participation for vulnerable groups in these regions which are impacted most by the influx resulting in increased social and economic challenges.

In December 2019, Garanti BBVA issued a USD 50 million inaugural Green Bond with a 5 year maturity. The net proceeds from the issue of the Notes will be applied by the Issuer for financing or refinancing, in part or in full, new and/or existing Green Projects as defined under the BBVA Sustainable Development Goals (SDGs) Bond Framework including energy efficiency, sustainable transport, water, waste management and renewable energy.

In addition to these, the Bank continues its efforts to increase the number of its Green Loan deals, launched in 2018, in order to attract more and more companies to increase their sustainability performances.

*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 (3) (4)

As stated in the World Economic Forum Global Risk Report 2019, environmental risks due to climate change continue to dominate the top ten major risks list in both impact and likelihood. Natural disasters

that claimed lives and destroyed property globally dominated the news throughout the year. Many people died in devastating floods, typhoons, heatwaves, etc. Climate change amplified 15 extreme weather disasters in 2019 that caused at least a billion dollars in damage in each case, and seven of the events on the list cost over \$10 billion each.<sup>2</sup>

Current measures will not keep global temperature increases within the 1.5-to-2-degree Celsius range (a "safe" level to which temperatures can rise and not cause devastation, though 1.5 degrees is preferable) That means global greenhouse gas emissions must fall at least 7.6% every year to remove 32 gigatons of carbon dioxide from the atmosphere. Incremental change is no longer enough to stall off the potentially devastating effects of a changing climate, the report's authors write.<sup>3</sup> With current policies, GHG emissions are estimated to be 60 GtCO<sub>2</sub>e in 2030. The emissions gap is large. In 2030, annual emissions need to be 15 GtCO<sub>2</sub>e lower than current unconditional NDCs imply for the 2°C goal, and 32 GtCO<sub>2</sub>e lower for the 1.5°C goal.<sup>4</sup> 3,751 natural hazards have been recorded over the last 10 years, more than one every day. 84.2% of these had weather-related triggers.<sup>5</sup>

In light of these estimations, we witnessed that the words "Climate Emergency" replaced the words "climate change" in COP 24 dialogues, where the most anticipated Paris Rulebook was finally released following long, heated discussions. The rulebook is a detailed operating manual for

the Paris Agreement. It covers a multitude of questions, such as how countries should report their greenhouse gas emissions or contributions to climate finance, as well as what rules should apply to voluntary market mechanisms, such as carbon trading. BBVA Group CEO, Onur Genç also underlined the urgency and the need for acceleration on mitigation and adaptation measures at the CEO Panel: The Future of Banking is Banking for the Future, and said, "We are helping our clients become more sustainable, greener, and putting a lot of emphasis on making sure this transition happens. We cannot miss this opportunity," In that regard, BBVA Group's Pledge 2025, which entails mobilizing €100 billion in sustainable finance by 2025, reached €30 billion by the end of 2019.

Carbon emissions hit record high in 2019 with a projected amount of 37 billion tonnes. Worldwide, industrial emissions are on track to rise 0.6% this year, a considerably slower pace than the 1.5% increase seen in 2017 and the 2.1% rise in 2018. The United States and the European Union both managed to cut their carbon dioxide output this year, while India's emissions grew far more slowly than expected. And global emissions from coal, the worst-polluting of all fossil fuels, unexpectedly declined by about 0.9% in 2019, although that drop was more than offset by strong growth in the use of oil and natural gas around the world.<sup>6</sup>

On the other hand, divestment from fossil fuels was again a growing trend in all sectors, especially the financial sector. As we declared in our Climate Change Action

Plan in 2015, we continued to prioritize renewable energy investments in 2019. To date, loans provided to such projects exceeded USD 5.2 billion. As a pioneer in financing renewable energy projects and being the largest lender for wind projects in Turkey, with a 27.5% market share, Garanti BBVA 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 2019. On the portfolio decarbonization side, the Bank no longer provides project financing to greenfield coal power plants since 2014. As a pioneer in sustainable finance, Garanti BBVA is aware that one of the key issues regarding divestment policies is to provide a just transition in order to avoid and eliminate all inconveniences and disruption. Under "leaving no one behind" motto, the green transformation should be fair, reasonable and inclusive. 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. As the rest of the world, Turkey is both physically and economically prone to climate change risks and must take immediate action for adaptation and mitigation. Garanti BBVA contributes to Turkey's battle against climate change by prioritizing renewable investments, applying detailed environmental & social due diligence, promoting energy efficient

2 <https://www.forbes.com/sites/ericmack/2019/12/27/climate-change-drove-the-price-tag-for-15-disasters-over-a-billion-dollars-each/#4edc37d57844>

3 <https://www.unenvironment.org/resources/emissions-gap-report-2019>

4 <https://www.unenvironment.org/resources/emissions-gap-report-2019>

5 <https://media.ifrc.org/ifrc/world-disaster-report-2018/>

6 [https://www.globalcarbonproject.org/carbonbudget/19/files/GCP\\_CarbonBudget\\_2019.pdf](https://www.globalcarbonproject.org/carbonbudget/19/files/GCP_CarbonBudget_2019.pdf)


buildings and electric & hybrid cars, as well as increasing awareness among our stakeholders. Since 2014, our entire greenfield energy generation projects in the project finance portfolio consisted of renewable investments. To date, we have provided USD 5.2 billion to renewable energy, and hold the market leader position for wind power projects with 27,5% market share. Garanti BBVA's environmental and social impact assessment process is fully compliant with international standards and best practices. In 2019, a total of 4 of projects with a loan amount of USD 4.5 billion 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. 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 2019 CDP Water Security Report, the ratio of financing provided to projects prone to water-related risks by Garanti BBVA was 55.2% in our 2019 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 TL 379 million.

<sup>7</sup> <https://www.bddk.org.tr/BultenAylik/en/Home/Gelismis>

Garanti BBVA also took an important step in 2019 to manage its direct impact on climate change and started working on its Scope 1 and Scope 2 emission targets in order to submit to the Science Based Target Initiative. In light of these developments, in the beginning of 2020 the Bank signed a contract with utilities across Turkey to purchase 100% renewable energy for its buildings and branches that have the compatible infrastructure.

Garanti BBVA will continue to support its stakeholders in climate change transition and opportunities along the way. The Bank will focus on encouraging its customers to become aware of their own individual impact and guide them to adaptation mechanisms such as using public transportation, electric & hybrid vehicles, green products, etc. The Bank will keep its key role as an advisor for its customers facilitate and accelerate their efforts in sustainable trends such as circular economy, sustainable investment funds and sustainable innovation.

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

## TRANSITION RISKS (1)

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. To that end, the ambitious "European Green Deal" was unveiled where one of the

mechanisms to curb carbon emissions will be carbon border adjustment tax. The rationale of border carbon adjustments is the differences in the stringency of climate policies between jurisdictions. The aim is to prevent carbon leakage, where climate policies are not strict enough to reach 1.5 degree goal. In addition to preventing such emissions relocation (or 'carbon leakage'), a border carbon adjustment also exerts pressure on trade partners to strengthen their climate policy efforts. However, such a move risks breaching World Trade Organization (WTO) rules, which require equal treatment of similar products and no discrimination between domestic and foreign producers. Considering the strong import & export relationship with the European Union, Turkey is very likely to be affected. The border adjustment tax will have a significant impact on carbon intense sectors such as iron and steel. In 2019, main metal industry had 4.4% shares in total loans among the banks operating in Turkey with a total amount of 153 billion TL.<sup>7</sup> This is a clear indication that such adjustment mechanism would indirectly affect banks as well.

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. Besides the articles regarding protection of customer and banking data/secret in the Banking Code, the said 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 keeping all inventories up-to-date with automated processes are considered as improvement areas. In order to provide this automated processes a project has been initiated. With this project, personal data in bank systems will be identified and a personal data map will be created.

## GROWING INEQUALITY (1) (3)

We are in the midst of a global transformation, the painful construction of a globalized market economy. The income distribution system of the 20<sup>th</sup> century has broken down, and will not come back. During this construction phase the widening gap between the rich and the poor damages the economies and tears the societies apart. The rich gets much richer and the poor gets much poorer. The world's richest 1% have more than twice as much wealth as 6.9 billion people. On the other hand, almost half of humanity is living on less than US\$ 5.50 a day.<sup>8</sup> Growing inequalities brings despair among young population as well. Only 37% of the people

<sup>8</sup> <https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it>  
<sup>9</sup> <https://www.ipsos.com/sites/default/files/10-Mega-Trends-That-are-Reshaping-The-World.pdf>  
<sup>10</sup> <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=25482&LangID=E>  
<sup>11</sup> <https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it>

under 30 expect life to be better, this ratio is 47% in Turkey.<sup>9</sup>

We are quite used to using GDP as an indicator of growth and wealth. However, although the average GDP is increasing, people do not feel like their lives are improving. On the contrary, we witness that the wealth gap gets bigger and bigger each year. This is a clear indication that GDP is no longer a meaningful indicator to measure wellbeing.

On another note, climate change started to have a deep impact on forced displacement. It is 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. Furthermore, in January 2020, UN Human Rights Committee made a historic ruling on a complaint by an individual seeking asylum from the effects of climate change that opens the door to climate change asylum claims.<sup>10</sup>

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. All these developments brought up a new concept called inclusive capitalism. Inclusive capitalism serves equality and diversity also cares for the ecology of our planet while driving returns to shareholders. For the past 5 years, companies have started to embrace more environment and society friendly practices that create long term value. Similarly, Garanti BBVA has been offering various positive impact focused products and services. The Bank is dedicated to tackle this problem by improving financial health of its customers and offering innovative solutions for financial inclusion. With 42 different products and solutions, we helped 85% of our customers to make better informed financial decisions in 2019. To date, the Bank has contributed TL 38.4 billion to impact investment that creates shared value.

Another global effort to reduce inequalities is seen in gender equality. Men own 50% more of the world's wealth than women, and the unpaid care work done by women is estimated USD 10.8 trillion a year, which is three times the size of the tech industry.<sup>11</sup> In the past couple of years, we saw that gender equality initiatives has gained a lot of momentum.

Especially 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 BBVA, the overall ratio of women employees is 56% for the whole Bank and 40% for managers and higher levels. With its pioneering practices in this field, Garanti BBVA is the only company to qualify to be included in the Bloomberg Gender Equality Index for four consecutive years. The Bank creates initiatives on female leadership and talent, equal pay and gender pay parity, inclusive culture, sexual harassment policies.

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 (1) (3)

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.<sup>12</sup> According to the 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.<sup>13</sup> As Garanti BBVA, "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 2015, we have launched Garanti BBVA Partners Entrepreneurship Acceleration Program to help flourish the entrepreneurial ecosystem in Turkey. Garanti BBVA Partners 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 2019, Garanti BBVA Partners organized 20 events for entrepreneurs and the entrepreneurial ecosystem. Today, 15 startups are supported by the program.

Another important segment that we focus on is women entrepreneurs. Women's share in the workforce is only 34% in Turkey, whereas the OECD average is 64%. 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 BBVA 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 7 billion financing to women entrepreneurs. In 2019, 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, reached 39,000 applications in its 13<sup>th</sup> year. 3,000 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 BBVA, we have been organizing the Turkish chapter of this competition 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.



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

## DIGITAL TRANSFORMATION (1) (5)

Digital transformation continued to be one of the top topics on senior management agenda. Most large companies now have budgets that are directly allocated to digital innovation and transformation and vary from \$500K to \$50M.<sup>14</sup> Unfortunately the big chunk of these budgets go to waste since many companies still lack the right mindset to change or lack the fundamental mechanisms in place. Needless to say that these initiatives are mostly owned and sponsored by CIOs or IT Heads. A successful digital transformation is an enterprise-wide effort that is best served by a leader with

broad organizational overview. At Garanti BBVA, these initiatives are embraced by all departments and teams across the entire organization. Instead of being coordinated by one single unit with a top down approach, each team comes up with their own ideas and solutions in light of the bank's strategies and targets.

With the Digital Onboarding project, we aim to onboard customers with an end-to-end and real time digital process through digital channels and 3<sup>rd</sup> parties; and also increase our customer acquisition through sales of products and services. Currently, we require branch visits for digital onboarding, since the regulation has not been completed yet. Expecting the regulation change in 2020, we want to ensure launch readiness of the E2E digital process with a seamless experience. The customer journey and experience on the digital onboarding process will be significant differentiators in competition. Therefore, improving customer journeys in order to increase conversion rates and offering products that meet the customers' needs will be on our agenda to achieve best onboarding experience among competitors.

In GoGreen Project, the "Green Mode" feature is planned to be integrated in the mobile app to initiate a mutual contract between the customer and the bank to initiate sustainable actions in customers' lives through the bank. Thus, it is aimed to create extreme loyalty among this group to create a viral effect and attract new customers with similar sensibilities.

2019 was another important year for

the Bank's AI and big data practices. Throughout the year, various teams developed groundbreaking applications in light of better data management and AI. 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 BBVA Mobile<sup>15</sup>, 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 41 million interactions with more than 3.4 million customers since 2016. UGI continuously improves its intelligence and responsiveness through these dialogues with customers. Garanti BBVA has expanded the usage of its chatbot "Bilge (The Wise)" during 2019. Bilge, the chatbot for customer service teams, is serving more than 1,000 employees including Customer Communication Center, Internet Help Desk and Customer Care teams. It replies more than 30,000 queries per month, 200% increase in usage comparing to 2018. Besides, the internal usage of Bilge, a Whatsapp bot is developed internally to answer our customers' most common requests in the Customer Contact Center. Bilge bot's knowledge base is used to create the FAQ<sup>16</sup> base and for the rest of the questions

<sup>12</sup> [http://www3.weforum.org/docs/WEF\\_GRR18\\_Report.pdf](http://www3.weforum.org/docs/WEF_GRR18_Report.pdf)

<sup>13</sup> Global Shapers Community. 2017, Shapers Survey, <http://www.shaperssurvey2017.org/>

<sup>14</sup> <https://moduscreate.com/blog/digital-transformation-2019/>

<sup>15</sup> Garanti BBVA's mobile app

<sup>16</sup> Frequently Asked Questions

related to customers' financial information, users are directed to Garanti BBVA Mobile. Our efforts on AI had a wide coverage in the organization and not only related to natural language understanding. For instance, ATM Decision Support Tool for Deployment and Relocation finds profitable locations considering bank's customer base, traffic, attractions and other individual behaviors and makes it easy to choose and simulate expected usage and profit form deployed ATM. This resulted in decreased time & effort for location finding and analytically correct positioning and expected to achieve TL 3 million loss prevention. Last year the Bank started to use location-based control of customers' living area and application point to prevent fraudulent activities. This application created TL 20 million loss prevention. The new AI engine on anti-fraud, we aim to offer more frictionless e-commerce experience to our customers while preventing fraudulent attacks. With this engine, additional authentication may be reduced to 20% while preventing attacks and offer seamless experience to the rest of 80% is possible. One of the Bank's AI projects aims to decrease the idle cash amount on branches thus an opportunity to generate more than TL 10 million overnight interest.

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 top priorities of Garanti BBVA. In 2019, the Bank 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 BBVA invests in technology to ensure that vital security baselines are provided for both the Bank and its subsidiaries. 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 BBVA 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 stealing credentials via fake applications of popular applications (i.e. Whatsapp or Shazam). These imposter applications spread by using malicious advertisements which are published on generic applications. We are continuously monitoring these fake applications by using malware databases, and after detection, we take precautions before the fraudulent action occur. Garanti BBVA develops strategies and several partnerships with social media companies to eliminate these attempts at the source. Shutting down times of fake sites that fake applications spread is also significantly decreased due to immediate action taking and collaboration.

2019 marked another milestone in the blockchain area. Turkey's first financial blockchain network, the BiGA Digital Asset Transform Platform was developed by Istanbul Clearing, Settlement and Custody Bank. One unit of cryptocurrency BiGA is the equivalent of one gram of gold, which

is stored in vaults at the Istanbul Stock Exchange. The platform uses blockchain technology to allow gold - converted into digital assets - to be transferred among individuals with no time restrictions. The system's main capabilities include the export, amortization and transfer of digital assets 7/24 in real-time. The BiGA blockchain platform and gold transfer system also feature integration, reconciliation, monitoring and reporting capabilities. Garanti BBVA is among the 7 banks that are onboarded to network and network will be alive after developments completed.



Further details can be found in the Digital Transformation Section.

## FINANCIAL HEALTH & INCLUSION (1) (3) (5)

A unique customer experience is one of Garanti BBVA's strategic priorities. Through its financial health Project based on "Transparent, Clear and Responsible" principles, the Bank provides accurate, clear and timely information and protects its customers' earnings in short, medium and long term. With this Project, Garanti BBVA aims to be the most responsible bank and help its customers make conscious decisions as well as deepen and strengthen its relationships with customers. In order to protect their financial health, the Bank utilizes the insights gained from behavioral economics analysis. The Bank supports its customers to be aware of their financial wellbeing, control their financial situations, have a balanced budget, make conscious decisions for their expenses based on their needs, make savings and investments for their dreams and future. Through these efforts the Bank maintains strong ties and

long term relationships with customers. In 2018, our Digital Banking teams embarked on a project that will be implemented in Garanti BBVA'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 based on their spending/earning behavior by focusing on big data analysis.

In Garanti BBVA's Financial Health Project, more than 50 financial insights were developed and top insights include average spending on shopping and utility payments. The Project was launched in November 2019 to 290 thousand Android users, and various action plans and follow-up components are implemented. For example, customers can create notifications for themselves, if their total spending under a certain category exceeds the limit that was also set by them. Customers can also keep track of their progress on the summary page. We provide customer segmentation based on previous monthly income & spending of customers and initial actionable insight catalog. This segmentation allowed us to differentiate struggler, conservative, stabile and volatile customers who need diverse attention & actions.

Garanti BBVA is trying to meet all financial needs of its customers with the "beyond banking" point of view. For instance, we've been enabling our users to directly

load money to their public transportation cards through our mobile app. Public Transportation top-ups are being widely used in 16 cities for almost 3 years. In 2019, we included Istanbul Card which had a huge impact both on the transaction volume. Users can also see insights about how using public transportation will help their financial health. Furthermore, this feature also encourages users to use public transportation, which also contributes to our battle against climate change.

With our open-market concept, we aim to make our financial solutions accessible to all customers wherever they may be. Until very recently, Customer Contact Center 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 BBVA customers, can transfer, deposit or withdraw money; they can even pay their bills with this function. Migrating customers to use QR in our ATMs which increase the efficiency by double: Ratio of customers use QR vs. card to withdraw money is around 20% which was only 8% a year ago. In 2019, 44.4 million cardless transactions occurred in TL, and 346 thousand cardless transactions occurred in foreign currency. QR has a huge impact on our migration efforts from branches to ATMs. Thus, in the beginning

of 2020, we expanded the scope of our QR code transactions by adding card and loan debt payment. Branch employees also encourages customers to do more transactions through ATMs. Moving forward, we have already commenced our e-commerce initiatives to reach our customers and non-Garanti BBVA customers via non-Garanti BBVA channels.

## THE FUTURE OF WORK (1) (3) (5)

The business world has been undergoing significant changes 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 the workplace and in the way we do business. It is no surprise that ILO<sup>17</sup> 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 21<sup>st</sup> 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."<sup>18</sup> 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

<sup>17</sup> International Labour Organization

<sup>18</sup> [https://www.ilo.org/global/topics/future-of-work/WCMS\\_578759/lang--en/index.htm](https://www.ilo.org/global/topics/future-of-work/WCMS_578759/lang--en/index.htm)

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 BBVA 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 BBVA through data analytics. Aiming to spread data driven decision making culture within the organization, various trainings and workshops are held and organization structure has reshaped accordingly. In addition, following continuous skill set development strategy Data Scientist Specialization courses

are designed with universities. We also cooperate with universities to create awareness among students about "Data Science" and "Analytics".

On another note, this transformation also bears some other risks for companies. For instance, it is hard to reach and attract top talent in the market. 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. Along with digital transformations, business's needs and the required skills for the roles are rapidly changing. Talent needs are becoming sophisticated and it's more difficult to attract and select the right talent to the right role.

While managing the expectations of the new generation, our aim is to provide different career paths to our employees to increase talent retention. We've changed our talent acquisition strategy by focusing on campus activities, and we segmented talent attraction events for new graduates (data, risk, finance, digital banking, marketing) using various channels (social media, campus events etc.) in order to reach targeted talents for each different area of the Bank. In addition to that, we are integrating digital tools in the candidate selection process. Following the adoption of the internal mobility policy, all employees at the Bank have the opportunity to manage their own careers in a transparent

manner. Furthermore, we launched the global mobility programme to ensure international experience, professional and personal development and global career opportunities to all employees at the Bank.

The transformation and the need for change is not limited to data analysis. The workplace and the organization charts started to look a lot different than they used to. In line with the BBVA Group's vision and strategies, Garanti BBVA has embarked on an agile transformation journey in 2018. Garanti BBVA defines "Agile" as the journey taken up on to provide quality service to our customers along with improving and maintaining the value we created for all our stakeholders. In 2018, the Bank created "Agile Coach" positions. Agile Coaches attended to a 4-week long "Agile Coach Training Program". Currently, there are 25 Agile Coaches in Turkey that help the Agile teams apply this new approach into their routines. Agile thinking brings out the need for managers to become next generation leaders along with the teams' ability to adapt to agility. Although it hasn't been that long, the Bank has already started seeing the advantages of this transformation such as improvement in customer satisfaction and employee commitment as well as significant increase in internal transparency, cooperation and one team vision. Garanti BBVA Agile Team will continue focusing on perfecting the Agile practices for operational excellence and efficiency, automation, robotics, data analysis and AI for continuous improvement in 2020.

### 21<sup>ST</sup> CENTURY SKILLS GAP (3)

All these new technological advancements, global developments, and future challenges

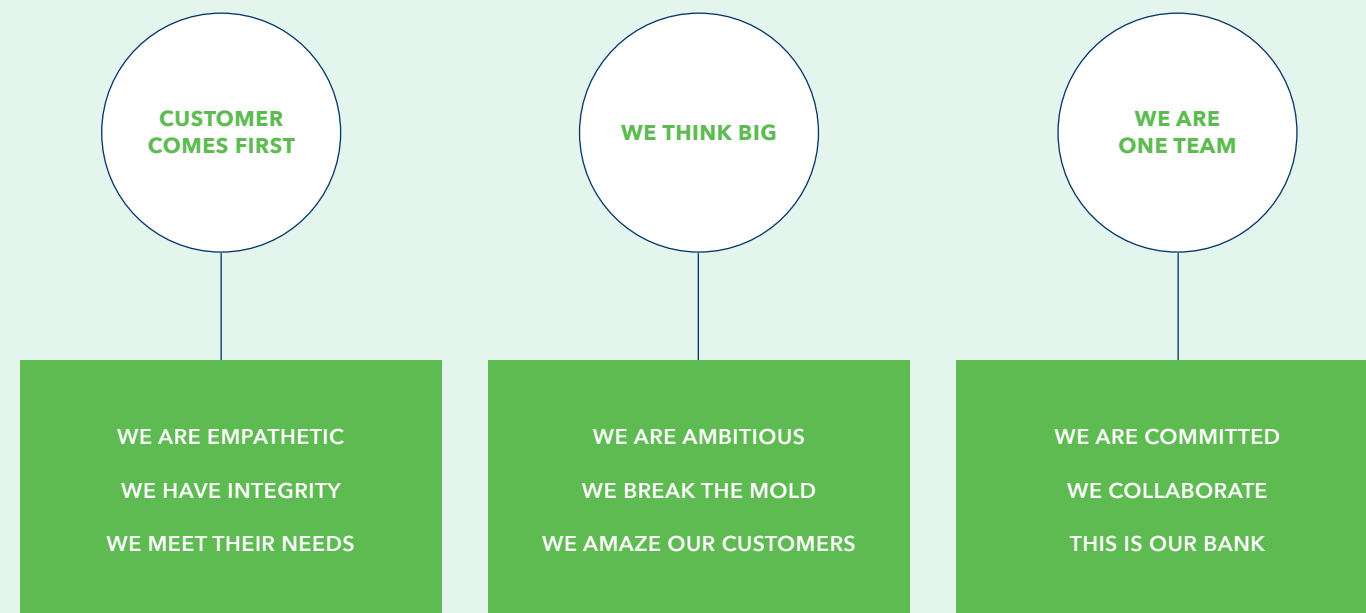
require a brand new and much broader skill set. However, education is still one of the greatest challenges worldwide. According to the World Development Report the quality and quantity of education vary widely within and across countries. Hundreds of millions of children around the world are growing up without even the most basic life skills, let alone the skills required to survive in the 21<sup>st</sup> century. In many countries a decent education or quality healthcare has become a luxury only the rich can afford. Today 258 million children, which is 1 out of every 5, will not be allowed to go to school, and it is even worse for girls because for every 100 boys of primary school age who are out of school, 121 girls are denied the right to education.<sup>19</sup> 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 these issues, Garanti BBVA has many initiatives such as Teachers Academy Foundation, 5 Pebbles Social and Financial Leadership Program, and Code the Future. Through Teachers Academy Foundation, Garanti BBVA reached almost 180,000 teachers across Turkey. In addition, 5 Pebbles program reached total of 6,800 students and 614 teachers. Moreover, 875 children aged 8-10 and 70 teachers benefited from educative contents such as coding, robotics and design-oriented thinking in Code the Future workshops in 22 different Turkish cities.

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

<sup>19</sup> <https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it>



## OUR VALUES



## OUR PURPOSE

To bring the age  
of opportunity to  
everyone

## OUR BUSINESS MODEL

485 2.2 min 1 business

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

Garanti BBVA focuses on making banking services available to its customers at any time through any channel they choose, and on delivering them a seamless and uninterrupted experience on each channel.

Blending technology and humanistic elements, the Bank 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 BBVA 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 BBVA 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, 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 BBVA 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 BBVA 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 BBVA'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 BBVA to focus on offering solutions that optimally fulfill current and future customer needs. In this new business model, employees are inspired and motivated by a 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 BBVA 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.

# COMPETITIVE ADVANTAGES

 406  1.4 min  1  customer

## TALENT AND CULTURE MANAGEMENT

- Practices focusing on employee happiness and work-life balance
- Awarded talent programs
- Platforms for employees to share their suggestions and innovative ideas
- New development model aligned with changing dynamics, where employees take responsibility for their own development in line with their career goals and shape their developments
- Management approach that supports diversity - the only company from Turkey to be included in the Bloomberg Gender Equality Index for four consecutive years
- 40 hours/employee training on average per annum

## STATE-OF-THE-ART TECHNOLOGY AND DATA SCIENCE

- Business-integrated and agile project management
- In-house developed, custom-fit IT solutions and applications
- Uninterrupted transaction capability and infrastructure security
- 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 in people and technology to improve big data engineering and analytics

## SEAMLESS CUSTOMER EXPERIENCE MANAGEMENT

- Lean and clear processes/customer journeys designed through customers' eyes
- Products and services blending customer needs and tendencies with emerging trends
- Smart business processes offering fast and flexible solutions
- Multi-channel customer relationship management tools delivering solutions to customers at the time and place of their choice
- Suggestion systems that help the customers make the best financial decisions

## STRONG BRAND AND REPUTATION

- Holistic reputation management approach and strong reputation index
- Garanti BBVA described by consumers as a bank that is "the leader in technology, reliable, strong, and constantly enhances its service quality"
- Holistic communication and Community Investment Programs focused on

social impact contributing to corporate reputation and brand equity

- The only company from Turkey listed for the fifth consecutive time after qualifying also in the reporting period in the Dow Jones SustainabilityTM Sustainability Index, one of the most prestigious platforms evaluating global sustainability performances of institutional companies

## SEAMLESS EXPERIENCE ACROSS ALL CHANNELS

- 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 mobile & internet banking; 8 million digital active customer base
- BonusFlaş: Enabling completion of all card activities in a single platform and offering analytics-based smart solutions
- Rapid and secure e-commerce payment in more than 1,900 entities via GarantiPay
- >5,200 ATMs, also serving non-bank customers through cardless transactions
- Leading financial Customer Contact Center with more than 70 million customer contacts per year

# STRATEGIC PRIORITIES

 410  1.5 min  1  bank

Throughout 2019, Garanti BBVA continued to work in light of its strategic priorities; Customer Experience, Digitalization, Employee Happiness, Optimal Capital Utilization, Efficiency, and Responsible and Sustainable Development, and to create value for all of its stakeholders. The Bank registered significant improvements in numerous key performance indicators related with these areas with the steps taken in line with these priorities. Garanti BBVA kept reviewing its customer-focused and innovative business model, and to enhance its efficiency and productivity on all of its service delivery channels. Accordingly, the Bank continued to revamp and simplify its work processes, and to increase automation. The Bank significantly expanded its customer portfolio and created a more loyal customer base by focusing on customer experience. On the digitalization front, it continued to offer solutions that make customers' lives easier, and remarkably increased the share of sales made through digital channels. The Bank preserved its healthy financial structure with its solid capitalization, its focus on productivity, and proactive balance sheet management. It kept investing in its people, one of the building stones of its strategy, and has taken numerous steps for enhancing their development and satisfaction. As a result of these comprehensive initiatives, the Bank kept producing value for all of its stakeholders.

## REVISIONS IN OUR STRATEGIC PRIORITIES

With the aim of 'bringing the age of opportunity to everyone', Garanti BBVA reviewed its strategic priorities in line with the BBVA Group and in the light of main trends reshaping the world and the financial services sector.

### EVOLVED CUSTOMER EXPECTATIONS

- Solutions and suggestions that are simpler, faster and cater to needs
- Advisory and support for making the best decisions

### CHANGES IN COMPETITIVE DYNAMICS

- Expansion of the ecosystem the banks are operating in with non-bank players such as fin-techs; opportunities and challenges arose
- Comparison of this experience by customers within this large ecosystem

### INCREASED AWARENESS AND CONCERN IN THE COMMUNITY REGARDING SUSTAINABILITY

- The critical role of the finance sector with respect to the necessary actions for a more sustainable world

## DATA THAT IS BECOMING A CRITICAL ASSET / ITS ROLE IN ENSURING COMPETITIVE SUPERIORITY

- Foresight and guidance in a number of areas from risk management to HR, marketing to process optimization
- Enabling better insight into customers, instant provision of customized products and solutions that respond to their needs and demands, value creation for customers and deepening relations with them

## IN THIS FRAMEWORK, GARANTI BBVA RESHAPED ITS STRATEGIC PRIORITIES UNDER THREE MAIN BLOCKS IN VIEW OF THE MAIN TRENDS:

STRATEGIC  
PRIORITIESWHAT WE  
STAND FOR

## FINANCIAL HEALTH

- Financial advisory to our customers to help them make the right/**healthy financial decisions**
- Build long-lasting relationships with customers and be their **trusted partner**
- Offer our customers **solutions and suggestions that cater to their needs** so as to help them attain their goals
- Deliver a **seamless and excellent customer experience** through all channels by placing the customers at the center of all our activities

DRIVERS OF  
SUPERIOR  
PERFORMANCE

## REACHING MORE CUSTOMERS

- **Expand our customer base** and deepen our customers' relations with our Bank by penetrating high potential in our country
- Be wherever our customers are
- **Grow** in areas of focus while keeping an eye on risk and cost

ACCELERATORS TO  
DELIVER ON OUR  
STRATEGY

## THE BEST AND MOST ENGAGED TEAM

- Invest in our human capital with a focus on their development, happiness and well-being in order to ensure **work-life balance**
- Aligned with **our values**, form teams possessing team spirit, acting with shared wisdom, thinking big, socially responsible and result- oriented
- A fair and transparent management policy based on performance, focused on equal opportunities, diversity, and internal promotion

## SUSTAINABILITY

- Positively influence customers, decision-makers and other players in the sector being the **leading bank** in sustainability; continue to make effective use of our social role to raise increased awareness of this matter
- Observe **climate change**-related risks and opportunities; integrate them into our business processes
- Increase our **sustainable products diversity** offered to customers, which are inspired by 'UN Sustainable Development Goals'
- Act with the principles of trust, integrity, accountability and transparency against all stakeholders while implementing our advanced corporate governance model that promotes our core values
- Focus on **community investment programs** which deliver impactful outcomes on material issues and observe impact investment principles

## OPERATIONAL EXCELLENCE

- Continue to **automatize processes**; deliver transaction convenience and innovative solutions
- Increase **end-to-end digital** solutions; deliver an excellent customer experience with our investments in digital platforms
- **Use capital effectively** and maximize our value creation while focusing on disciplined and sustainable growth
- Constantly improve our business model and processes with operational and environmental **efficiency** point of view while pursuing cost and revenue synergies
- Ensure effective risk management through world-class integrated management of **financial and non-financial risks**

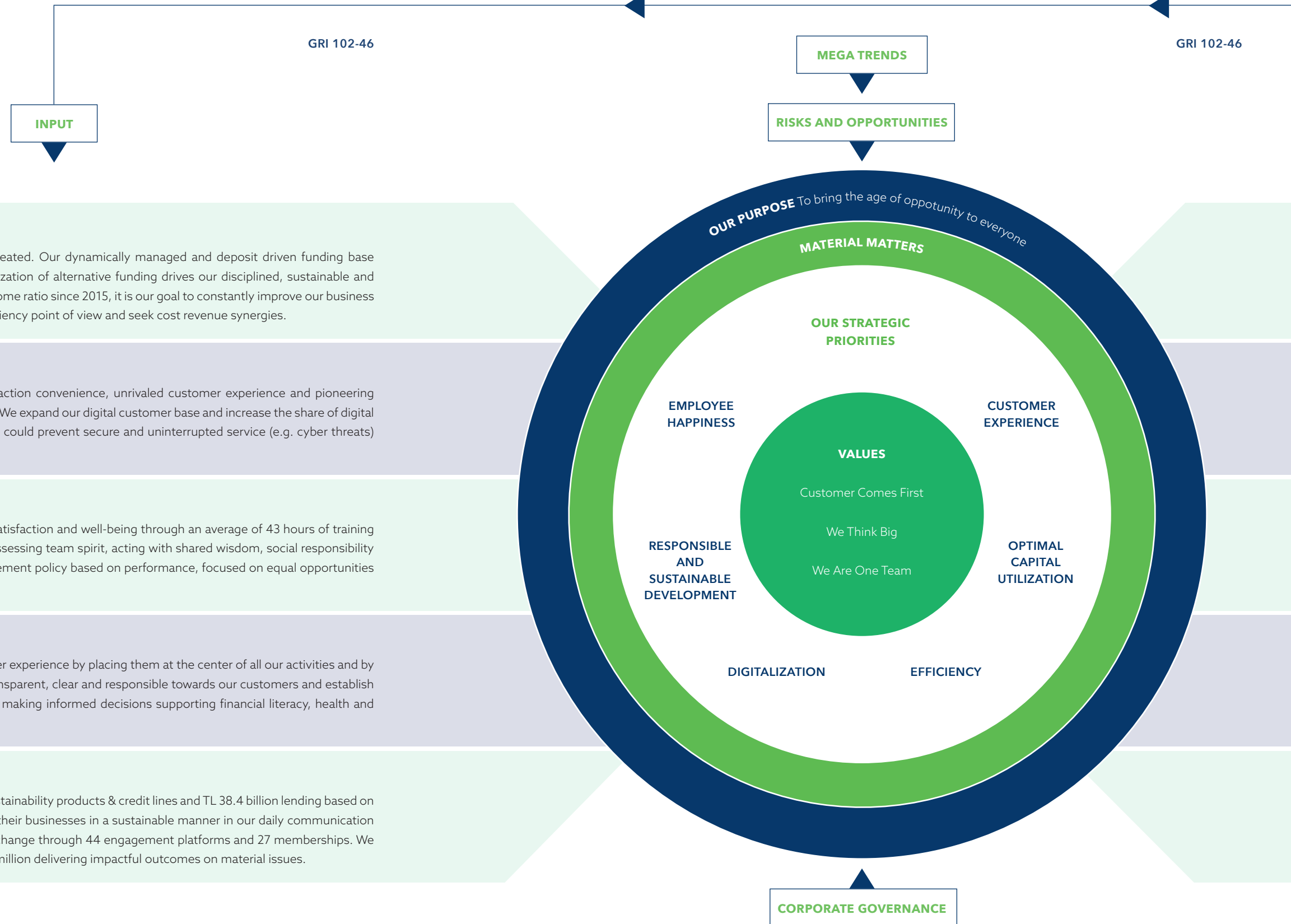
## DATA AND TECHNOLOGY

- Increase the **agility and strength** of our technological infrastructure and platforms
- Speed up our solution processes with minimum errors through artificial intelligence, machine learning and big data interpretation, which is important in the day-to-day operations of the Bank
- Focus on **data analytics** to offer the right product to our customers

<sup>1</sup> <https://www.tr.undp.org/content/turkey/tr/home/sustainable-development-goals.html>



# OUR VALUE CREATION



VALUE CREATED

CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS

FINANCIAL CAPITAL

We contributed TL 322 billion (USD 54 billion) to the economy, through cash and non-cash lending and our operations produced a Return on Average Equity of 12.4% and a Return on Average Assets of 1.5% with a Capital Adequacy Ratio of 17.8% and CET-I of 15.4%. Garanti BBVA's market capitalization reached TL 46.8 billion (USD 7.9 billion) at the end of 2019. 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 BBVA to public finances is disclosed voluntarily on Garanti BBVA Investor Relations website.



DIGITAL & INTELLECTUAL CAPITAL

Our investment in digital channels resulted in share of digital sales to total sales increase to 46% 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 18,784 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 BBVA 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 943,541 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 5.9 million tonnes of CO<sub>2</sub>e 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 13 policies/position papers that are issued to contribute SDGs and we invested TL 22.3 million in community investment programs addressing 3 different challenges. As a result of these efforts, Garanti BBVA has qualified in nine leading sustainability indices.



# SUMMARY OF THE BOARD OF DIRECTORS' ANNUAL REPORT

 901  4.2 min  2  year

In 2019, while money supply in global markets and especially in developed economies increased, central banks returned to monetary policies that support growth. The ongoing trade wars between China and the US, the withdrawal of UK from the European Union, and uncertainties fueled by geopolitical factors negatively affected investor confidence, investments and global trade. Central banks of developed countries displayed expansionary stances in their monetary policies because of the increased downside risks on global economic growth. This has led the central banks of developing countries to change their monetary policy stances so as to support the economy. In the Turkish economy, considerable decline was observed in interest rates, driven by the improvement in inflation and the supportive effect of global developments. The policy rate was down from 24% at the onset of the year to 12% at year-end as a result of the rate cuts that began from July. Upon the decrease in interest rates, the Turkish economy exhibited a "V" shaped recovery. Three consecutive quarters of contraction was replaced by growth in the third quarter of the year. In 2019, when economic rebalancing continued, the Turkish banking sector once again overcame the hardships and preserved its robust indicators drawing on its solid foundations.

Garanti BBVA successfully ended 2019 with respect to its financial targets and non-financial performance indicators. The Bank was able to keep its pre-provision profit flat thanks to its innovative business model focused on sustainable growth and effective risk management. In 2019, the Bank set aside additional free provisions in the amount of TL 250 million and booked TL 6.2 billion in net profit. Despite increased capital and low leverage, average return on equity was realized as 12.4% annually, in line with the estimations.

Low growth in the first three quarters of the year was replaced by a significant increase in the last quarter with the support of the declining in interest rates. While TL loans remained flat in the first 9 months of the year, they expanded 6% in the last quarter and ended the year with 7% growth for the whole year. TL credit expansion was across the board; annual growth was 8% in consumer loans, 6% in TL business banking loans, and 8% in credit cards.

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.). As at the end of the year, FC loans narrowed by 6%.

In 2019, Garanti BBVA 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. The Bank kept focusing on sticky and low-cost mass deposits during the reporting period. As at year-end 2019, SME and consumer deposits, which can be considered as sticky and low-cost, had 80% share in TL customer deposits and 75% in FC customer deposits. 14% growth rate in customer deposits base was above the loan growth, which helped the Bank to improve its loan to deposit ratio by 6 points.

In 2019 during which economic rebalancing process was ongoing, Garanti BBVA successfully preserved its ability to generate sustainable income on the back of dynamic assets and liabilities management. The Bank maintained the highest Net Interest Margin (NIM) among peers, despite the decreased income on CPI-linkers which took a downturn in connection with declined inflation. Garanti BBVA successfully expanded its spreads owing to disciplined loan pricings and the high share of demand deposits in total deposits. Thus, the Bank was able to enlarge its core NIM by 78 bps year-over-year.

The Bank displays a proactive and consistent approach to risk assessment, which ensures preservation of its solid asset quality. The economic volatility in the first half of 2019 and the contracted GDP resulted in increased Non-Performing Loan (NPL) ratios. Yet, the NPL ratio ended the year at 6.8% in line with the projections at the start of the year.

Garanti BBVA's operating expenses went up by 18% in 2019. On the other hand, net fees and commissions climbed up by 23%, highly exceeding the expectations. Enjoying the highest fee base among its competition, Garanti BBVA carried on with its sustainable income generation on the back of its diversified fee base. In the reporting period, the Bank's cost/income ratio was registered as 39%, which is well below the Bloomberg Emerging Europe Regional Banks 3Q19 average of 49%.

Recognizing that the impact it creates is not restricted to banking, Garanti BBVA works with a focus on responsible and sustainable development to continuously create value for its stakeholders. Total financing extended to areas supporting sustainable development to date topped TL 35 billion. Since 2015, the Bank has been providing financing exclusively to renewable energy projects, mostly to wind power plants within the scope of project finance. Within this framework, Garanti BBVA will keep consolidating its pioneering position in the sector by continued provision of Renewable Energy Finance, Green Bonds, Social Bonds, Green Loans and credit products designed to ensure equality of women and men in business life.

This solid performance achieved in 2019 and the robust capital adequacy of 17.8% will produce better results in a stable environment. Its solid capitalization, asset quality and profitability carry Garanti BBVA to leading position in the sector.



# 2019 KEY PERFORMANCE INDICATORS

 355

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 2

 financial

Focused on creating sustainable value for all its stakeholders, Garanti BVVA places its customers at the core of its operations with the aim of providing unrivalled customer experience. Garanti BBVA's customer-focused innovative business model enables Garanti BBVA to generate sustainable income and command a leading position in Turkish banking sector.

Blending technology and humanistic elements, Garanti BBVA 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.

Garanti BBVA employees are one of its most important assets and one of the main pillars of its strategy. Garanti BBVA 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.

Moreover, Garanti BBVA 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 BBVA and its stakeholders.

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

## DIGITAL TRANSFORMATION

SHARE OF ACTIVE CUSTOMERS USING DIGITAL BANKING

73%

DIGITAL SALES

Increased share of digital sales to total sales: from 44% to 46%

NON-CASH FINANCIAL TRANSACTIONS THROUGH DIGITAL CHANNELS

96.4%

## RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

AMOUNT OF IMPACT INVESTMENTS

TL 38.4 BILLION (to date)

SUSTAINABILITY INDICES IN WHICH GARANTI BBVA IS INCLUDED

9

INVESTMENT IN COMMUNITY PROGRAMS

TL 22.3 MILLION

% OF LOANS WITH ESG PROVISIONS IN LOAN AGREEMENTS

100%

## FINANCIAL PERFORMANCE

RETURN ON AVERAGE ASSETS

1.5%

RETURN ON AVERAGE EQUITY

12.4%

NON-PERFORMING LOANS RATIO

6.8%

CAPITAL ADEQUACY RATIO

17.8%

COMMON EQUITY TIER 1 RATIO

15.4%

COST / INCOME

39%



NEXT  
DECADE

# FINANCIAL PERFORMANCE

#payment #innovation #BonusFlas  
#contactless #cardless #cashless  
#transaction #analytics



Please scan the QR code to listen  
*Çağrı Süzer, CEO of Garanti Payment  
Systems*, talk about the future of  
payment systems and analytics based  
smart solutions.





# FINANCIAL PERFORMANCE

5,53926.1 min12loans

For Garanti BBVA, financial performance is at the core of value creation process and it is the cause and the effect in delivering sustainable growth. As it makes its products available to customers, invests in its facilities and constantly improves its business model and processes with an operational and environmental efficiency point of view, Garanti BBVA has a direct and indirect impact on the economy.

Aiming to use capital effectively to maximize the value created, Garanti BBVA 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 BBVA sustains its contribution to the economy through effective balance sheet management.

During 2019, Garanti BBVA increased its consolidated total assets by 7% on an annual basis, bringing it to TL 429 billion, and succeeded in maintaining the percentage of interest-earning assets to total assets at a high 82%. Standing by its customers at all times, Garanti BBVA continued to keep the share of loans within total assets at 60%. Today, Garanti BBVA pioneers the sector across various segments from retail banking to payment systems, mortgages to auto loans, SMEs to project finance, transaction banking to digital banking.

Garanti BBVA preserved its liquid balance sheet composition with the help of its prosperous dual currency balance sheet management in the reporting period. Dynamically managed funding base of the Bank continued to be largely composed of deposits. 14% growth rate in customer deposits base was above the expansion in lending, which helped Garanti BBVA improve its loan to deposit ratio (LDR) by 6 points on a consolidated basis. Garanti BBVA's strength in consumer deposits is the outcome of its innovative business model, which places customers' needs and satisfaction at the core of its business.

Garanti BBVA successfully expanded its spreads owing to disciplined loan pricings and the high share of demand deposits in total deposits. Despite the declined income on CPI-linkers in connection with the falling inflation, Garanti BBVA was able to improve its Core Net Interest Margin (NIM) by 78 bps with the help of its successful management of spreads. Hence, the Bank was able to maintain its NIM including swap costs almost flat on a year-over-year basis. Garanti BBVA, with 5.2%, continued to have the highest NIM level among its peers.

Garanti BBVA 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 the first half of 2019 and the contracted GDP resulted in increased Non-Performing Loan (NPL) ratio. The NPL ratio rose from 5.2% in 2018 to 6.8% in 2019. Net new NPLs mostly consisted of high-amount corporate and commercial loans, which accounted for 2/3 of all new NPL inflows. On the other hand, consumer and SME loans sourced a smaller portion of net new NPLs, accounting for 1/3 of total new NPL inflows.

Garanti BBVA's diversified and actively managed funding base, its capital adequacy ratio of 17.8%, its growing deposits with approximately 18 million customers' trust, and continuous access to foreign funding sources bolster the Bank's business model and long-term sustainable growth.

Its business model, along with its well-diversified fee sources and its further digitalized processes, support the Bank's 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 BBVA maintains its focus on efficiency and effectively manages its operating costs to foster sustainable value creation.

By focusing on financial performance, Garanti BBVA is actively contributing to Sustainable Development Goal 8: Decent Work and Economic Growth.



VALUE DRIVER	INDICATOR	PERFORMANCE			
		2019	2019 PROJECTION	ACTUAL VS PROJECTION	2018
FOCUS ON SUSTAINABLE GROWTH ON THE BASIS OF TRUE BANKING PRINCIPLE	Asset Growth (%)	7%	~%5	Beat	12%
	TL Loan Growth (%)	7%	~%5	Beat	2%
	FC Loan Growth (%)	(%6)	(~%10)	In-line	(%18)
	NPL Ratio (%)	6.8%	<%7	In-line	5.2%
	Capital Adequacy Ratio (%)	17.8%	-	-	16.5%
	CET-1 Ratio (%)	15.4%	-	-	14.2%
	Leverage	6.9x	-	-	7.5x
USE CAPITAL EFFECTIVELY SO AS TO MAXIMIZE THE VALUE TO BE CREATED	ROAE	12.4%	%10-13	In-line	15%
	NIM incl. Swap Cost (%)	%4.3 (+78bps YoY)	Flattish (excluding CPI impact)	Beat	3.5%
	Net Cost of Risk (bps)	272	<300	In-line	258
	Fee Growth (%)	23%	%10-13	Beat	32%
COST AND REVENUE SYNERGIES DRIVEN OPERATIONAL EFFICIENCY	OPEX Growth (%)	18%	<CPI*	In-line	15%
	Cost / Income <sup>1</sup> (%)	39%	-	-	36%

\* Initial average CPI expectation was 19%  
1 Income defined as NII + Net F&C +Trading gains/losses excluding FX provision hedges + Other income excluding provision reversals + Income from subsidiaries



NEXT  
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# CUSTOMER EXPERIENCE

#responsibility #financialhealth  
#transparency #inclusion #guidance  
#savings #empathy #customerjourney



Please scan the QR code to listen  
*Mahmut Akten, EVP of Retail Banking,*  
talk about responsible banking approach,  
financial health and inclusion.





# CUSTOMER EXPERIENCE

 6,852

 33 min

 10

 customers

Customer experience has always been one of the main pillars of Garanti BBVA's strategy. Garanti BBVA 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 BBVA regards customer experience as the most important element for strengthening its competitiveness and differentiating it in its industry.

Garanti BBVA 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 BBVA's customer experience management efforts. The Bank 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 BBVA's 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 2019, Garanti BBVA continued to regularly receive feedbacks from customers for understanding the status of current customer experience and generating customer insight. Based on these feedbacks, the Bank designed 40 new projects to build on its products and services.

Helping its customers maintain their financial health is a key topic that Garanti BBVA puts emphasis on, and works to constantly improve through new ideas, projects and initiatives. Facilitating access

to financial services through all its channels, Garanti BBVA ensures that its customers are informed about their financial positions, and have full control over their finances. The Bank offers solutions to improve their financial well-being, by providing information about savings to customers with the potential to save up, and about loan products to customers needing loan products to better manage their cash flows, as the case may be.

With its responsible banking approach, Garanti BBVA shares advantages and possible risks of products and services. Hence, Garanti BBVA communicates with its customers transparently in all sales and 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 BBVA has a variety of goals: besides producing solutions for their financial needs, the Bank aims to support the growth and resilience of SMEs, women entrepreneurs and startups, who are key to sustainable development of the economy, and to help them improve their environmental, social and ethical performance.

Through Garanti BBVA Partners 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, encourages them to realize their full potentials through Turkey's Woman Entrepreneur Competition and executes free-of-charge educational collaborations to ensure sustainability such as the Women Entrepreneurs Executive School. 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 BBVA also include provision of innovative solutions and advices to 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, governance models, green financing options, risks stemming from digitalization, new trends in non-financial reporting, transparent reporting, and environmental risk perception in the insurance industry.

By focusing on customer experience, Garanti BBVA 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	
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 <sup>1</sup>	2018	2019
	Target Customers Surveyed <sup>2</sup>	16,378,165	17,639,895
	Feedback Received <sup>3</sup>	7.87%	9%
	Products or services that are changed and developed through customer feedback	942,000	1,068,000
	Net Promoter Score <sup>4</sup> (Ranking)	38	40
ALWAYS BE TRANSPARENT, CLEAR AND RESPONSIBLE TOWARDS THE CUSTOMERS	New and upgraded products, services and channels that aim to support the customers in terms of managing their financials	#1	#2
	Customers informed about their financial positions	3	5
	Disabled-friendly Garanti BBVA ATMs	85%	85%
	Women who attended women entrepreneurship events and Garanti BBVA has helped to enhance financial awareness (cumulative)	5,210	5,214
	Customers that started using saving products	9,720	10,250
HELP THE CUSTOMERS IN MAKING INFORMED DECISIONS THROUGH SUPPORTING FINANCIAL LITERACY, HEALTH AND INCLUSION IN THE SOLUTIONS OFFERED	Site visits on Environmental and Social issues to customers	850,000	943,541
	Environmental and Social workshops and conferences	37	29
	SME initiatives (incl. apps and events)	3	11
	Topics addressed/discussed in workshops and conferences	6	10
	Women Entrepreneurs encouraged to apply WE Awards (cumulative)	29	15
OFFER INNOVATIVE SOLUTIONS AND ADVISE THE CUSTOMERS TO GROW THEIR BUSINESSES IN A SUSTAINABLE MANNER	Customers and financial institutions informed on Environmental and Social issues <sup>5</sup>	36,908	38,450
		33	16

1 Excludes customers with inadequate documentation. 2 Represents percentage of target customers surveyed at least once during the year. 3 Represents customer feedbacks received by the Customer Experience Support Team and after-service surveys conducted for the relevant channel. 4 Net Promoter Score research is conducted by independent research agency Ipsos for Garanti BBVA. According to the research results, Garanti BBVA has the second highest Net Promoter Score among retail customers representing its own profile, compared to its competition, which includes İşbank, Akbank, Yapı Kredi Bank, QNB Finansbank and Denizbank. Research was conducted between January 2019 and December 2019. Main bank customers, who have communicated with the Bank over the last 3 months, were surveyed face to face in the cities of İstanbul, 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.

NEXT  
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# DIGITAL TRANSFORMATION

#innovation  
#doityourself  
#transformation  
#interactivity  
#customization  
#mobilefirst  
#accessibility



Please scan the QR code to listen *Işıl Akdemir Evlioğlu*, EVP of Customer Solutions & Digital Banking, talk about digital transformation and Do-It-Yourself trends.





# DIGITAL TRANSFORMATION

7,81137.5 min12customers

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 simpler, more 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 BBVA. The Digital Transformation strategy is erected on delivering 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 BBVA 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 BBVA 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 BBVA, 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 BBVA 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 BBVA supports the idea of all individuals, SMEs, entrepreneurs and corporations benefiting from the opportunities presented by digitalization, and develops solutions to enable use of banking services by more people.

By focusing on digitalization, the Bank actively contributes to Sustainable Development Goal 9: Industry, Innovation and Infrastructure.



VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2019
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	8.4 million
	Mobile banking customers*	6.5 million	7.7 million
	Digital transactions in non-cash financial transactions	95.5%	96.4%
	Digital sales (share in total sales)	44%	46%
	Number of cardless transactions via Garanti BBVA ATMs	33.7 million	44.8 million
TAKING PRECAUTIONS AGAINST ALL RISKS, WHICH COULD PREVENT SECURE AND UNINTERRUPTED SERVICE (E.G. CYBER THREATS) ENSURING INFORMATION SECURITY	Amount of cardless transactions via Garanti BBVA ATMs (TL billion)	17.9	26.7
	Programs organized to raise awareness on customer privacy and information security	13	5
	Hours of cyber security training per full time employee	1.11	1.19
	Employees who attended cyber security trainings	92%	72%
	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. 2018 figures are for Dec'18 & 2019 figures are for Dec'19.

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DECADE

# INVESTING IN HUMAN CAPITAL

#workspace #diversity #agility  
#humancapital #greenoffice  
#teamwork #engagement #integrity



Please scan the QR code to listen  
*Didem Dinçer Başer, EVP of Talent  
& Culture*, talk about future of work  
and creating an ecosystem to capture  
opportunities.





# INVESTING IN HUMAN CAPITAL

 5,232

 XX min

 25.9

 employees

Garanti BBVA’s Human Resources strategy is based on employee centrality.

Garanti BBVA strongly believes that organizations offering employees development opportunities in diverse areas, highlighting the tools for maximum self-realization, and maintaining practices that nurture the fact that humans are social beings will be the organizations of the future.

Carrying out all of its employee-centered activities under the heading “Talent and Culture”, Garanti BBVA thus focuses on sustainable business processes and projects that live, ensure equality and fairness among employees, and their involvement in decisions. At the same time, the Bank keeps developing practices to create a working environment that encourages full utilization of employees’ skills, offer a wide range of opportunities and guarantee recognition and rewarding of their accomplishments.

Under the Talent and Culture organization, the Bank regards each employee as a talent in his or her position, and builds its main focus on producing and developing the tools that will secure the development needed by the talent. In this context, the Bank pursues alignment of the “Talent Solutions” practices designed by Garanti BBVA with its fair and happiness-oriented culture that is also molded according to employee needs and is nurtured by the organization’s values.

The Bank collects and analyzes employee expectations in environments providing equal opportunities, and constantly updates its policy in keeping with technological advancements. The Bank 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. The Bank aims to increase employee satisfaction and employee engagement by collecting employee opinions systematically using a variety of channels, such as the intranet, various questionnaires and platforms.

Within the frame of processes shaped according to employee needs and expectations, Garanti BBVA maximizes self-monitoring by employees at a number of points from career management to performance evaluation and training planning by taking steps that will encourage more active involvement of employees.

The Employee Committee, headed by the CEO and formed of Board members and Senior Management, is responsible for developing all of Garanti BBVA’s employee-centered policies, carrying out and coordinating activities that will further 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.

Under the “Talent Solutions” heading, Garanti BBVA 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 BBVA 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.

Development is positioned as the most valuable value creation tool in all “Talent Solutions” initiatives that place development in their focus. 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 BBVA employees scattered in all 81 cities across Turkey, and aims to increase the number of training programs per person by the year.

The organization’s values make the basis of culture practices. 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.

The Bank thinks that being “one team”, one of Garanti BBVA’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.

VALUE DRIVER	INDICATOR		PERFORMANCE	
INVEST IN OUR EMPLOYEES FOCUSING ON THEIR DEVELOPMENT, SATISFACTION AND WELL-BEING			2018	2019
	Hours training per FTE		47	43
	Digital training/total learning hours		34%	38%
	High performer turnover		2.74%	1.67%
	Employee engagement score		67%	70%
	Programs related to employee well-being		11	11
FORM TEAMS POSSESSING TEAM SPIRIT, ACTING WITH SHARED WISDOM, SOCIAL RESPONSIBILITY AND DELIVERING RESULTS	Total ideas received from employee		23,305	24,000
	Women employees/Total employees		58%	56%
	Salary ratio of men vs. women		1.15**	1.16*
	Women ratio in senior/middle level management*		40%	40%
EMBRACE A FAIR AND TRANSPARENT MANAGEMENT POLICY BASED ON PERFORMANCE, FOCUSED ON EQUAL OPPORTUNITIES AND DIVERSITY, AND ENCOURAGES PROMOTING FROM WITHIN	Bloomberg Gender Equality Index		Qualified	Qualified

\* Median value given as average metrics is negatively affected by extreme values (i.e. very high/very low).  
\*\* Restated for 2018 due to modified methodology.

One of the key goals of Garanti BBVA 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 BBVA will continue to pioneer and further expand activities maintaining equality principle in the ratio of employees at different levels, the ratio of women vs. men employees, and in all fringe benefits and practices provided. 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 BBVA, through its OHS team organized under Talent and Culture, coordinates and monitors all processes including risk assessment, occupational health practices, training programs, OHS Committees, near

misses, workplace accidents and corrective and preventive actions.

The customer-centric approach of Garanti BBVA that places the utmost emphasis on common value creation by its employees brings along egalitarian and agile working cultures that value team success. Organized under the Talent and Culture roof within the scope of agile working methodology, project teams are structured so as to be responsible for developing employee-centric practices, and they manage the efforts to improve, develop and simplify existing work processes, as well as running projects that will contribute to the development of talent solutions and culture-related implementations.

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



NEXT  
DECADE



#renewables  
#cleanenergy  
#lowcarbon  
#environment  
#climateaction  
#financing  
#sustainable  
#future



Please scan the  
QR code to listen  
*Emre Hatem,*  
*Director of*  
*Investment Banking*  
*and Finance,* talk  
about transition to  
a low-carbon  
economy and the  
rise of renewables.



# RESPONSIBLE AND SUSTAINABLE DEVELOPMENT



# RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

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 bank

The world is undergoing a signification social, environmental and economic transformation. Many practices that we know and are familiar with are no longer applicable and capable of fulfilling our needs under the current conditions. In the past decade, we have witnessed a radical change in the expectations of communities from businesses. In the next decade, we will be seeing much more demanding societies that are more aware of their power given these revamped expectations. In the light of these, Garanti BBVA puts responsible and sustainable development in its focus and develops innovative practices to respond to its stakeholders’ expectations.

In a bid to support responsible and sustainable development,one of its strategic goals, the Bank mobilizes its human and intellectual capitals along with financial capital. The Bank understands the conditions surrounding its customers and other stakeholders, and develops solutions that cater to their needs. Taking into consideration the 2030 Agenda<sup>1</sup> that ranks high among material issues, the Bank develops innovative financial instruments and solutions such as the green loan and gender 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 in sustainable finance and development in Turkey. To this end, Garanti BBVA actively supports or chairs 27 initiatives in total 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).

In 2019, Garanti BBVA, along with 6 other banks from Turkey, committed to adhere to the Principles for Responsible Banking as a global guide in projects they finance. The Bank will be evaluating the products in its loan book against non-financial criteria that make an environmental and social risk or impact, as well as financial parameters in the light of these Principles. Guided by the Principles, the Bank will target to set new targets and further improve its performance every time, rather than keeping the decisions fixed.

As a constituent of 9 sustainability indices in total including the Dow Jones Sustainability Emerging Markets Index, Garanti BBVA 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 being involved in the development of collective

policies and position papers of the private sector, which numbered 13 in 2019.

Garanti BBVA 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, and the gender loan, which is a loan structure implemented for the first time in Turkey and in the world.

The green project finance loan and the green corporate loan Garanti BBVA launched in 2018 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.

The Gender Loan, which made its debut in Turkey and in the world, was introduced in 2019 under an agreement signed with Polat



Energy. Under the Gender Loan, Garanti BBVA will grant discount both on cash loan interest and non-cash loan commission for improvements Polat Energy will secure in gender equality.

As climate change continues to be one of the most significant global crises in the 21<sup>st</sup> 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 in recent years, thus increasing the total lending to this area to date to USD 5.2 billion, Garanti BBVA's support to green and environmentally-sensitive energy continues with the use of 100% renewable energy for electricity in all of its locations.

GarantiBBVAbelievesthatastrongeconomy and business model are attainable only through strong communities, a sustainable environment and empowered individuals. To this end, the Bank creates shared value through itsstrategiccommunityinvestment programs focusing on material issues such as quality education, culture and arts, entrepreneurship, and environment.

Launched in 2017 with the collaboration of the Teachers Academy Foundation (ÖRAV), the 5 Pebbles: Social and Financial Leadership Program aims to instill an awareness of financial literacy in future generations. In addition, Code the Future Project was launched in 2016 by Garanti BBVA and Bahçeşehir University. It intends to improve 8-10 aged children's skills, and competencies in problem solving, analytical thinking and teamwork through entertaining content including coding and robotics workshops so that they get

better equipped for the requirements of the digital age. The project's scope expanded in 2018, with the inclusion of school teachers. With the aim of adding to society's active participation in culture and arts, SALT continues to operate as a not-for-profit autonomous institution out of three locations, namely SALT Beyoğlu, SALT Galata and SALT Ankara.

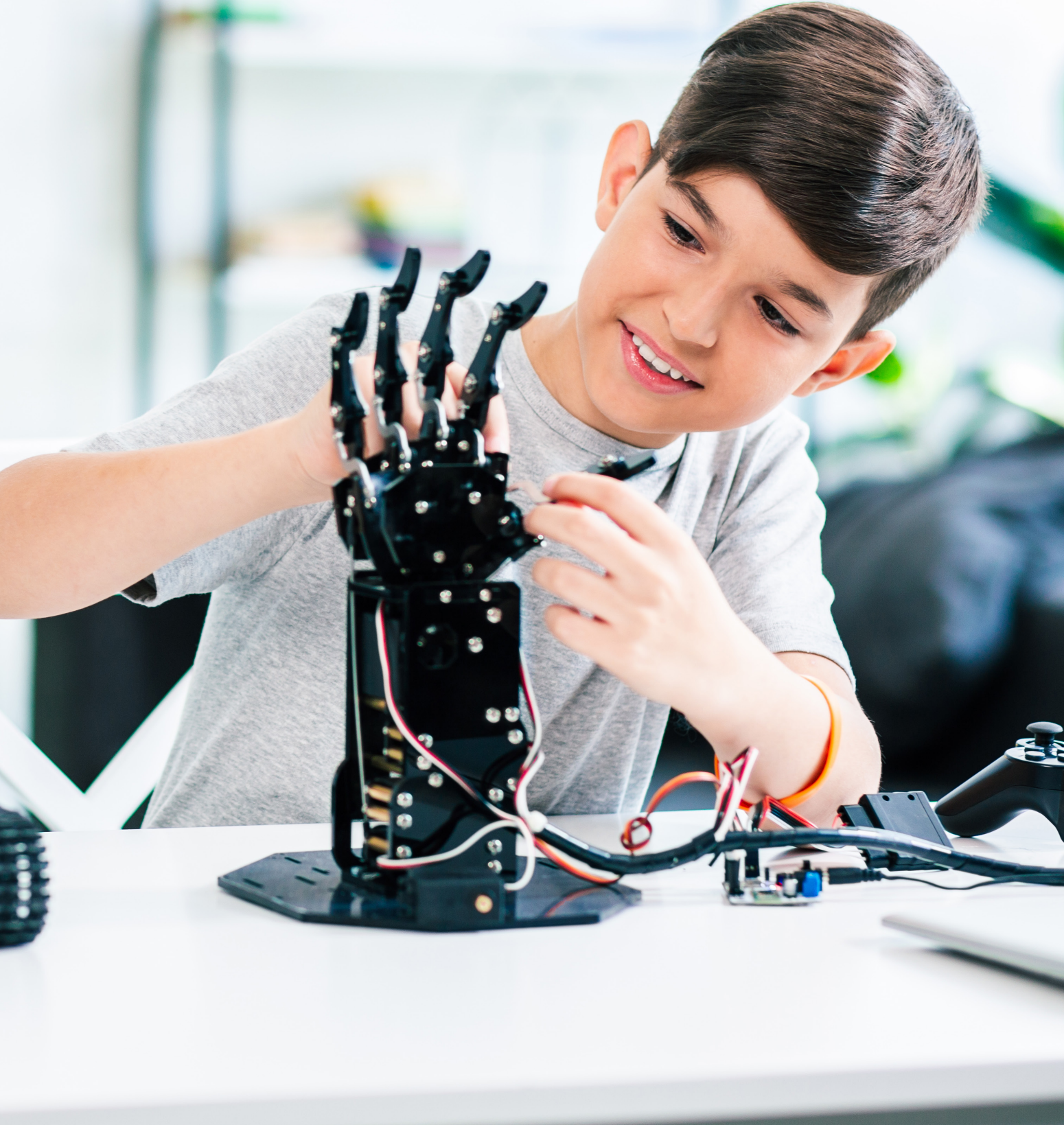
By focusing on responsible and sustainable development, the Bank actively contributes to Sustainable Development Goal 4: Quality Education, Goal 5: Gender Equality, Goal 6: Clean Water and Sanitation, Goal 7: Affordable and Clean Energy, Goal 8: Decent Work and Economic Growth, Goal 11: Sustainable Cities and Communities, Goal 12: Responsible Consumption and Production, Goal 13: Climate Action, Goal 14: Life Below Water, Goal 15: Life on Land, Goal 17: Partnerships to Achieve the Goal.

VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2019
DRIVE POSITIVE CHANGE THROUGH STRATEGIC PARTNERSHIPS	Participation in sustainability related initiatives and memberships	24	27
	Engagement Platforms	44	44
	Sustainability indices in which Garanti BBVA is included	7	9
	Policies/position papers Garanti BBVA contributed	14	13
CREATE SHARED VALUE THROUGH LENDING BASED ON IMPACT INVESTMENT PRINCIPLES	Total Sustainability Funds utilized from IFIs (TL million)	396	1,087
	Sustainable products/credit lines	34	42
	Amount of Impact Investment (TL billion)	35.2	38.4
	Market share in WPPs	28%	27.5%
	SDGs contributed via E&S risk management of loans	10	11
	Avoided GHGs through renewable portfolio* (million tons of CO <sub>2</sub> e)	5,4	5,9
	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 invesment programs (TL million)	20.2	22.3
	% of renewables in greenfield energy production portfolio (in new PF commitments)	100%	100%
SROI (SOCIAL RETURN ON INVESTMENT) OF COMMUNITY INVESTMENT PROGRAMS	Community Investment Programs (SROI Value)	Quality Education Projects: 3.63	-**
		Entrepreneurship Projects: 2.27	-
		Culture and Arts Projects: 1.45	-

\* Based on the total operational installed capacities of HEPP, SPP and WPP projects in the financing of which Garanti has participated.  
\*\* Not calculated for 2019.

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.

NEXT  
DECADE



**102** Corporate Governance Principles  
Compliance Report

# CORPORATE GOVERNANCE AND RISK MANAGEMENT

#robotics #e2esolutions #automation  
#efficiency #machinelearning #productivity



Please scan the QR code to listen *İlker Yavaş*,  
*Director of Operation Center - Abacus*, talk  
about implementation of RPA and E2E solutions  
for operational excellence.





# CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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## STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Türkiye Garanti Bankası A.Ş. (“Garanti BBVA” 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 BBVA 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 BBVA Investor Relations website, and can address their questions to the Investor Relations Department and to the Subsidiaries and Shareholders Service.

In keeping with Garanti BBVA’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 2019, 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 2019 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 BBVA, during 2019, 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 178 in the annual report for related information.

## SHAREHOLDER RELATIONS

### SHAREHOLDING STRUCTURE

 Please refer to page 21 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 BBVA Investor Relations website, at the Head Office and at all branches. 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 BBVA 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. In addition, holders of depositary receipts have the right to vote and can do so at the General Shareholders’ Meeting. The minutes and the list of attendants of the General Shareholders’ Meeting are available to shareholders on Garanti BBVA Investor Relations websites. These documents can also be obtained from the Subsidiaries and Shareholders Service.

Garanti BBVA held its Ordinary General Shareholders’ Meeting for the period 01 January 2018-31 December 2018 on 04 April 2019 and meeting quorum realized at 85.90%. Media representatives did not attend the General Shareholders’ Meeting. At the meeting, one shareholder lodged a statement of opposition, and expressed

demands; in response, necessary information has been given within the frame of the CMB regulations and the principles and procedures set out in the Turkish Commercial Code.

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 2019

The total amount of donations and grants made by the Bank in the reporting period is TL 6,818,454. 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.

Amounts and beneficiaries of the donations made in 2019 are as follows:

BENEFICIARIES	AMOUNT
ÖĞRETMEN AKADEMİSİ VAKFI (TEACHERS ACADEMY FOUNDATION)	3,205,090
VARIOUS FOUNDATIONS, SOCIETIES, INDIVIDUALS AND INSTITUTIONS	1,589,370
UNIVERSITIES AND EDUCATIONAL INSTITUTIONS	1,542,144
AYHAN ŞAHENK VAKFI	425,000
TÜRKİYE EĞİTİM GÖNÜLLÜLERİ VAKFI (EDUCATIONAL VOLUNTEERS FOUNDATION OF TURKEY)	41,600
DOĞAL HAYATI KORUMA VAKFI (WORLD WILDLIFE FUND – TURKEY)	15,250
TOTAL	6,818,454

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.

## VOTING RIGHTS

Shareholders’ voting rights and exercise of these rights are set out in Article 38 of Garanti BBVA Articles of Association. There are no privileged voting rights at the General Shareholders’ Meetings of Garanti BBVA. 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

The Bank’s Dividend Distribution Policy is as follows: “The details of our Bank’s dividend distribution policy 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 distribute dividend in cash or capitalize the dividends and distribute the bonus shares which are to be issued by the Bank, or implement both methods together, and execute the dividend distribution within the time period specified in the relevant legislation.

Following the affirmative opinion of the Banking Regulation and Supervision Agency, the Bank’s dividend distribution policy is in the manner to distribute up to 30% of the distributable profit in cash or bonus shares, provided that there is no unfavorable situation in the local and/or global economic conditions and the standard rates, which are specified by the protective measures in the Banking Law No. 5411 and its sub-regulations, are at the targeted level. Following the set aside of the legal reserves

and the funds which have to be saved by the Bank, the remaining net profit amount which has not been distributed to the shareholders should be transferred to the Extraordinary Reserve Account.

Dividend distribution shall start within 3 months after the date of distribution decision at the latest, that it is started at the end of the accounting period in which decision of the distribution is given by general assembly meeting. There is no dividend advance payment in the Bank.

In accordance with Article 46 of the Articles of the Association, the dividend distribution proposals shall be submitted for 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 target and the legal regulations applicable to the Bank.

The dividend distribution resolution becomes effective when adopted in the General Assembly Meeting and resolutions shall be published via Public Disclosure Platform on the same day the resolution becomes effective".

At the General Shareholders' Meeting held on 04 April 2019, it was resolved to retain and not to distribute the Bank's after-tax net distributable profit for the period for 2018 and to transfer the same to the Extraordinary Reserve Account in view of the Bank's growth targets, long-term strategy, national and international economic developments, within the frame of the Banking Law, Capital Market Law and related legislation, as well as Article 45 of the Bank's Articles of Association and the Dividend Distribution Policy. It was further resolved that; (i) the amounts that were exempted from the Corporate Tax and (ii)

allocated to the special fund account as the requirements in the applicable legislation were satisfied pursuant to Article 5-1(e) of the Corporate Tax Law and the profit that accrues because of the Company's initial transition to the TFRS 9 Financial Instruments Standard as of 01 January 2018 and that is categorized under the "Prior Year Profit/Loss" item, be transferred to the Extraordinary Reserve Account.

### 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, tablet PC and mobile 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 BBVA provides its customers with the means to communicate their complaints, and comments about management any time through the contact form on its website, by leaving a voice message on the phone line at 444 0 333, its social media platforms, i.e. Garanti BBVA Facebook page and Twitter Garanti BBVA'ya Sor (Ask Garanti BBVA) 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 Customer Contact 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.

GarantiBBVA 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 decision-making mechanisms and to benefit from innovative opinions, Garanti BBVA keeps dialogue channels bi-directional. While there are no written internal regulations on employee participation in management, 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, internal customer satisfaction survey, and the voice of employee platform GONG, the Bank aims to increase employee satisfaction and employee engagement.

Garanti BBVA carries out an Employee Engagement Survey each year to gather employees' opinions on work-life balance, performance management, remuneration and training & development opportunities. In 2019, Employee Engagement score was 70%.

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. This process also allows employees to recognize their strengths and improvement opportunities, and devise their personal development plans accordingly.

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 992 suggestions in 2019, two of which were rewarded. More than 24,000 ideas in the aggregate have been communicated via this channel since 2007. Through GONG, the voice of employee platform about Talent and Culture practices and the working environment, 230 opinions were gathered in 2019.

Each year, the CEO and the executive team bring the total employee base together at the Future Meeting and share & assess Garanti BBVA'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 Recep Baştuğ, 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. Pursuant to such requirements, since the Board members assigned as members of the Audit Committee are deemed as independent Board members, Jorge Saenz-Azcunaga Carranza, who currently serves as the Head of the Audit Committee, and Sema Yurdum and Ricardo Gomez Barredo, who currently serve as the Audit Committee members, are deemed as independent Board members.

On the other hand, at the Ordinary General Shareholders' Meeting held in 2019, it was resolved that the number of the board members be increased from nine to ten excluding the CEO pursuant to Article 18 of the Articles of Association and that Sema Yurdum, who was elected as an independent board member to serve for the remaining term of office specified under the independence criteria within the scope of the clause 4.3.6. of the Corporate Governance Principles stipulating "Not to have conducted membership of board of directors more than a term of six years in the last ten years, and whose term of office as an independent board member expired be elected to the newly established membership to fill the remaining term of office of other Board Members, and it was further resolved that Mevhibe Canan Özsoy, be elected as an independent board member to fill the remaining term of office of other Board Members for whom the Capital Markets Board of Turkish Republic did not express an adverse opinion regarding her independent board membership candidature in accordance

with the Corporate Governance Principles of the CMB. On the other hand, Sema Yurdum is deemed an independent member since her duty as a member of the Bank's Audit Committee continues.

The Corporate Governance Committee report dated 22 January 2019 stating that Mevhibe Canan Özsoy satisfies the independence criteria has been submitted to the Board of Directors and the Board of Directors resolved to notify her independent board membership candidature to CMB.

Quoted below is the declaration of independence by Mevhibe Canan Özsoy, who was elected as an independent Board member at the Ordinary General Shareholders' Meeting held in 2019:

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

I hereby declare that I stand for serving 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. 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 2019 fiscal year, which prejudiced the independence of independent Board members.

The Board of Directors of Garanti BBVA is formed of 11 members, and the number of women members increased from 1 to 2 during 2019.

*Résumés, terms of office and positions of the Board members are presented on pages 142, 143 and 144 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 BBVA 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 BOARD OF DIRECTORS

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 it

by the Articles of Association and related legislation. In 2019, the Board of Directors resolved 18 decisions by satisfying the required quorums for meeting and decision.

*Garanti BBVA's Internal Directive on the Working Principles and Procedures of the Board of Directors is available at [www.garantibbvainvestorrelations.com](http://www.garantibbvainvestorrelations.com), under Corporate Governance > Policies section.*

#### RELATED PARTY TRANSACTIONS

As of 31 December 2019, the total amount of operating income generated by the parent bank and its consolidated financial affiliates ("the Group") on related party transactions is 0.15% 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 2% of the Group's consolidated regulatory capital used for the calculation of legal limits, and the total of cash portions of such risks accounts for 0.03% of total consolidated assets in the financial statements drawn up 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 Talent and Culture 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 2019, 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 98 million 589 thousand. 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 2019 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 30,000,000 net for the total compensation so determined and will be paid until the first ordinary general shareholders' meeting to be convened in 2020.

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 2019, 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 10.88% of the total personnel expenses figure for the benefits provided in 2019 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 BBVA 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 150.*



# CONTACT INFORMATION

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## WEBSITE

[www.garantibbva.com.tr](http://www.garantibbva.com.tr)

## TRADE REGISTRY NO

159422

## DOMESTIC BRANCHES

Garanti BBVA has 904 domestic branches in 81 cities as of 2019 year end. Information on domestic branches is available on the Bank's website.

## INFORMATION ON SOCIAL MEDIA

You may follow Garanti BBVA on Facebook, Twitter, Instagram, YouTube and LinkedIn.

[www.facebook.com/GarantiBBVA](http://www.facebook.com/GarantiBBVA)  
[www.twitter.com/garantibbva](http://www.twitter.com/garantibbva)  
[www.instagram.com/garantibbva](http://www.instagram.com/garantibbva)  
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[www.youtube.com/garantibbva](http://www.youtube.com/garantibbva)  
[www.twitter.com/garantiyesor](http://www.twitter.com/garantiyesor)

## OVERSEAS BRANCHES

### TURKISH REPUBLIC OF NORTHERN CYPRUS - LEFKOSA BRANCH

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Tel: +90 392 600 53 00  
Fax: +90 392 600 53 20

### TURKISH REPUBLIC OF NORTHERN CYPRUS - GIRNE BRANCH

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

### TURKISH REPUBLIC OF NORTHERN CYPRUS - GAZIMAGUSA BRANCH

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Fax: +90 392 630 03 20

### TURKISH REPUBLIC OF NORTHERN CYPRUS - GIRNE CARSİ BRANCH

Mustafa Çağatay Caddesi No: 17  
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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 / KKTC  
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Fax: +90 392 680 30 20

### TURKISH REPUBLIC OF NORTHERN CYPRUS - GUZELYURT BRANCH

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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  
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Please scan image with your "QR Code Reader" equipped smartphone to access Garanti BBVA Investor Relations website at [www.garantibbvainvestorrelations.com](http://www.garantibbvainvestorrelations.com) for additional information on Garanti BBVA.

## GARANTI BBVA INVESTOR RELATIONS WEBSITE IN TURKISH:

[www.garantibbvayatirimciiliskileri.com](http://www.garantibbvayatirimciiliskileri.com)

## GARANTI BBVA INVESTOR RELATIONS WEBSITE IN ENGLISH:

[www.garantibbvainvestorrelations.com](http://www.garantibbvainvestorrelations.com)

## THE INVESTOR RELATIONS IPAD AND ANDROID TABLET APPLICATIONS:



This annual report is printed on Repap recycled paper made of waste paper instead of cutting trees down.

Garanti BBVA provided an overview to the basis of its total value creation, its strategy and long-term sustainable value creation capability in the document titled "Integrated Annual Review 2019". The 108 pages long Integrated Annual Review 2019 that is a summary of the 541 pages long Integrated Annual Report 2019 has limited number of printed edition available for our stakeholders to be accessed physically at our Headquarters, domestic and international branches, representative offices and subsidiaries.

## CONTENT MANAGEMENT

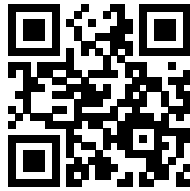


[www.data-iletisim.com](http://www.data-iletisim.com)

## DESIGN & PRODUCTION

**roundabout**

[www.roundabout.com.tr](http://www.roundabout.com.tr)



[www.garantibbvaannualreport.com](http://www.garantibbvaannualreport.com)