

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

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

SOCIETY (3)

- 21st 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

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.

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 79th among 162 countries in the SDG Global Index with a score of 68.5¹.

¹ https://sustainabledevelopment.un.org/content/documents/23862Turkey_VNR_110719.pdf

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.²

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.³ With current policies, GHG emissions are estimated to be 60 GtCO₂e in 2030. The emissions gap is large. In 2030, annual emissions need to be 15 GtCO₂e lower than current unconditional NDCs imply for the 2°C goal, and 32 GtCO₂e lower for the 1.5°C goal.⁴ 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.⁵

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.⁶

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

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.

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.⁷ 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

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

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 20th 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.⁸ Growing inequalities brings despair among young population as well. Only 37% of the people

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

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.¹⁰

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.¹¹ 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

⁸ <https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it>

⁹ <https://www.ipsos.com/sites/default/files/10-Mega-Trends-That-are-Reshaping-The-World.pdf>

¹⁰ <https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=25482&LangID=E>

¹¹ <https://www.oxfam.org/en/5-shocking-facts-about-extreme-global-inequality-and-how-even-it>

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.¹² 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.¹³ 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 13th 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

¹² http://www3.weforum.org/docs/WEF_GRR18_Report.pdf

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

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.¹⁴ 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 3rd 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 Mobile¹⁵, 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 FAQ¹⁶ base and for the rest of the questions

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

¹⁵ Garanti BBVA's mobile app

¹⁶ 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 ILO¹⁷ established the Global Commission on the Future of Work. The Commission is set out to undertake an in-depth examination of the future of work that can provide the analytical basis for the delivery of social justice in the 21st century.

"The world of work is experiencing a major process of change, with important transformations ranging from the development of technologies and the impact of climate change to the changing character of production and employment."¹⁸ 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

¹⁷ International Labour Organization

¹⁸ 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.

21ST 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 21st 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.¹⁹ 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.

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