

## Corporate Governance Rating

This Revised Report has been prepared by JCR-ER in compliance to the regulations of Capital Markets Board of Turkey

**Publication Date:** 11/12/2018

**Sector:** Banking

## T. GARANTİ BANKASI A.Ş.

### Ratings

Overall Score	<b>9.60</b>	AAA(Trk)/aaa (Positive)
Shareholders	<b>9.22</b>	AAA(Trk)/aa (Positive)
Public Disclosure & Transparency	<b>9.67</b>	AAA(Trk)/aaa (Stable)
Stakeholders	<b>9.72</b>	AAA(Trk)/aaa (Positive)
Board of Directors	<b>9.76</b>	AAA(Trk)/aaa (Stable)

### Company Profile

Trade Name	T. GARANTİ BANKASI A.Ş.
Address	Nispetiye Mah. Aytar Cad. No:2 Beşiktaş/ İSTANBUL
Chairman	Mr. Süleyman SÖZEN
CEO	Mr. Ali Fuat ERBİL
Investor Contact	Phone: +90.212.318.23.52 investorrelations@garanti.com.tr
Web	<a href="http://www.garantiinvestorrelations.com">www.garantiinvestorrelations.com</a>
Investor Relations (SVP)	Ms. Handan SAYGIN

### Analyst

#### Ceyhun Kır

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Financial Data	9M2018**	2017*	2016*	2015*	2014*	2013*
Total Assets (USD mn)	76,285	93,258	87,765	94,511	103,217	100,733
Total Assets (TRY mn)	456,328	352,122	308,319	274,838	237,914	213,554
Total Deposit (TRY mn)	274,721	200,679	178,644	156,114	133,407	119,194
Total Net Loans (TRY mn)	286,416	233,194	205,989	175,682	148,081	131,315
Equity (TRY mn)	46,654	41,925	36,438	32,006	27,290	23,526
Net Profit (TRY mn)	5,630	6,094	5,052	3,807	3,841	3,581
Asset Market Share (%) ***	10.00	11.13	11.57	11.94	12.17	12.61
ROAA (%)	n.a.	2.35	2.17	1.86	2.16	2.28
ROAE (%)	n.a.	19.81	18.52	16.06	19.16	19.61
Equity/Assets (%)	10.22	11.91	11.82	11.65	11.47	11.02
CAR-Capital Adequacy Ratio (%) ***	16.90	18.68	16.21	15.03	15.23	14.42
Asset Growth Rate (Annual) (%)	29.71	14.21	12.18	15.52	11.41	20.31

\* Based on end-of-year IFRS consolidated financials

\*\* Based on end-of-period BRSA consolidated financials

\*\*\* On solo basis and/or among the deposit banks

#### Bank Overview

Türkiye Garanti Bankası A.Ş. (Garanti or Bank), {credit ratings by JCR Eurasia Rating on June 09, 2018: [FC: BBB/BBB+ Stable, LC: AAA(Trk)/(A-1+) (Trk) Stable]} was established in 1946. A large-scale deposit bank, Garanti carries out activities in every segment of the banking sector, including corporate, commercial, SME, payment systems, retail, private and investment banking services. In addition to its major fields of activity, through its numerous subsidiaries the Bank provides related non-banking financial services in the field of factoring, leasing, pensions, insurance, brokerage and asset management. Alongside its nationwide coverage network of 922 branches, the Bank has 7 foreign branches in Cyprus and one in Malta as well as 3 international representative offices located in London, Düsseldorf and Shanghai.

Banco Bilbao Vizcaya Argentaria S.A (BBVA), one of the leading banking groups in Europe is the sole major shareholder of the Bank with 49.85% of shares. The remaining 50.15% of shares are held by a variety of investors that includes domestic and foreign retail along with foreign institutional investors across the globe. Bank shares have been traded on the Borsa Istanbul (BIST) since 1990 and the actual free float rate is 50.04% as of September 30, 2018.

The Board of the Bank consists of 10 members, only the CEO pursues an executive position. 3 board members are in the independent status. Audit, Corporate Governance, Risk and Remuneration Committees were established within the scope of the Board of Directors.

#### Strengths

- Publishing the first integrated report
- High level of effectiveness in internal audit activities
- High quality service provision for customers
- Having the "Garanti IR" (Investors Relations) tablet application for Android and iOS platform
- Having a comprehensive and effective risk management system
- Inclusion in the Dow Jones Sustainability Index
- Utilization of the Bank IR website as an effective transparency platform in Turkish and English
- Effective Board of Directors comprised of highly qualified, educated and experienced members

#### Constraints

- Absence of any clauses in the articles of association of the Bank to broaden the exercise of minority rights beyond the current legislation for shareholders holding less than 5% of the share capital.
- Lack of disclosure of the per-person remuneration of the top managers and the board members

## 1. Rating Methodology and Executive Summary

This revised report has been prepared in light of JCR Eurasia Rating’s original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Markets Board (CMB) and states Garanti’s level of compliance with Corporate Governance Principles as of December 2018.

The Capital Markets Board’s Corporate Governance Principles were first made public in 2003. Important revisions and changes were made at the beginning of 2012 and in January 3, 2014, as detailed in the Communiqué II-17.1 (accessible on [www.spk.gov.tr](http://www.spk.gov.tr))

The CMB pursued a significant change regarding the methodology of calculation of compliance rating scores in the beginning of 2014. Based on the recent CMB legislation, the new scoring methodology consists of two stages in which companies are allocated a base and a full score. In the new system, companies are first assigned a base score with a maximum of 85 points determining their compliance with the rules and practices outlined in the Code. In the second stage, an additional 15 points may be awarded depending on the efficient implementation and value creation achieved through practices exceeding those specified in the principles. Practices not stated in the Code but determined by JCR Eurasia Rating as best governance practices are also taken into account in the assignment of additional points. With these changes, CMB put special emphasis on functional compliance along with structural compliance to the Code and scores are put under pressure mathematically as a result of the new calculation in two stages.

The Code consists of four main sections; Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. These main sections’ coefficients, which were determined by the CMB, have been recently changed with the latest weight composition as outlined below;

- Shareholders: 25%
- Public Disclosure and Transparency: 25%
- Stakeholders: 15%
- Board of Directors: 35%

These coefficients were 25%, 35%, 15% and 25%, respectively, prior to 2014.

Subject to the preservation of the integrity of CMB regulations and regulations related to Borsa Istanbul Corporate Governance Index and compliance with the limitations thereof, this report also covers such topics as implementations regarding “**Outlook**” determinations and “**Financial Efficiency**” analyses, all of which exist in JCR Eurasia Rating’s original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Bank to the public through various channels and also submitted to JCR Eurasia Rating in written and verbal communication, as well as reports and statistics Publicly disclosed in Public Disclosure Platform (PDP).

Distinct levels of the 4 main categories regarding compliance with the CMB Corporate Governance Principles are exhibited in the following tables. The overall score has been calculated based on weightings determined for these 4 categories in line with CMB regulations.

The general compliance level of Garanti with the Code as of December 2014, and the corresponding levels within the JCR Eurasia’s notation were as follows;

December 11, 2014				
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	90.70	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Public Disclosure and Transparency	92.50	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Stakeholders	90.48	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Board of Directors	91.54	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
<b>Overall</b>	<b>91.41</b>	<b>AAA(Trk) (Distinctive)</b>	<b>(aa) (Superior)</b>	<b>Stable</b>

Through the analysis of JCR ER’s original methodology, the general compliance level of the Bank with corporate governance principles as of December 2017, can be seen in the table below.

December 11, 2017

Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	92.20	AAA (Trk) (Distinctive)	(aa) (Superior)	Stable
Public Disclosure and Transparency	94.00	AAA (Trk) (Distinctive)	(aa) (Superior)	Positive
Stakeholders	95.73	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Positive
Board of Directors	96.57	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
<b>Overall</b>	<b>95.08</b>	<b>AAA(Trk) (Distinctive)</b>	<b>(aaa) (Exceptional)</b>	<b>Positive</b>

Finally, at the end of previous monitoring period, a comprehensive review was performed in December 2018. The Bank's overall compliance note has been increased to 9.60 from 9.51.

- The Bank published its first integrated annual report systematically containing all financial and non-financial information and documentation. It was concluded that the level of transparency was increased through this user-friendly report and such the grade in the Public Disclosure and Transparency main section.
- The “new technological branch” project which was initiated in the previous year will be completed by FYE2018 to include all branches. The project aims to deliver time and cost savings in higher quality financial services provided in digital platforms. Furthermore, it was concluded that customer satisfaction was increased due to this project.
- The adoption of a “Risk Based Audit Model” which is an innovative approach for Turkey in internal audit has led to an increase in the effectiveness of the internal audit along with a rise in the Bank's total risk management quality.

are factors behind this increase in compliance. The Bank's compliance level and their corresponding notes are outlined below:

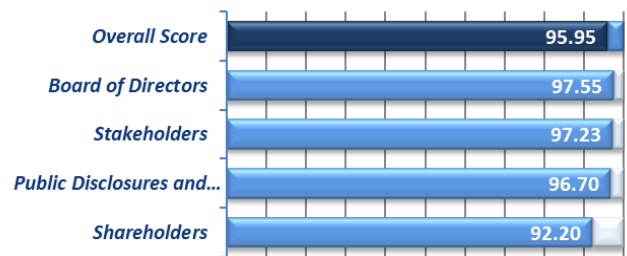
- Numerical value of **9.60**
- Convergence Level **AAA(Trk)** representing the category of “**Distinctive Compliance**”
- Notch degree **(aaa)** representing the category of “**Exceptional**”
- Outlook (**Positive**)

December 11, 2018

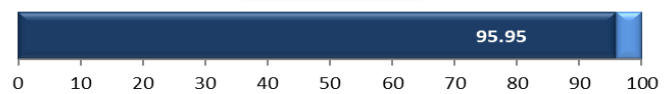
Fields	Numerical Value	Convergence Level	Notch degree	Outlook
Shareholders	92.20	AAA (Trk) (Distinctive)	(aa) (Superior)	Positive
Public Disclosure and Transparency	96.70	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
Stakeholders	97.23	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Positive
Board of Directors	97.55	AAA (Trk) (Distinctive)	(aaa) (Exceptional)	Stable
<b>Overall</b>	<b>95.95</b>	<b>AAA(Trk) (Distinctive)</b>	<b>(aaa) (Exceptional)</b>	<b>Positive</b>

JCR Eurasia Rating's notation system may be viewed at: [http://www.jcrer.com.tr/Upload/Files/Reports/538\\_kyder\\_notation\\_oct2010.pdf](http://www.jcrer.com.tr/Upload/Files/Reports/538_kyder_notation_oct2010.pdf)

**Corporate Governance Score %**



**Overall Score %**



**Overall Result**

**9.60**  
 AAA (Trk) / aaa  
 Positive

**Outlook**

Garanti reached a level of high overall compliance as well as a high level of compliance in all 4 distinct categories last year. A comprehensive review performed in December 2018 concluded the following:

- An opinion was reached that the investor relations departments would improve the technology-based applications to ease the use of shareholder rights and increase transparency level, the outlook of the shareholders main section was assigned as **“Positive”**.
- The outlook on the Stakeholders Main Section was assigned as **“Positive”** taking into consideration the opinion that there will be improvements in the performance evaluation and implementation of practices favoring women in company promotions.

For these reasons, the overall outlook for the Bank in this rating period to come has been determined as **“Positive”**.

## 2. Turkish Banking Sector and Garanti Overview

The banking sector is the largest component of the Turkish financial system. Any developments that may occur in the banking sector create real impact in terms of the corporate sector and the financial stability of Turkey's economy.

The Turkish banking sector, regulated by the BRSA-Banking Regulation and Supervision Agency; consists of deposit banks, development and investment banks, and participation banks which operates on the basis of dividends in the framework of Islamic rules. The asset size of the banking sector, which has the largest share in the Turkish financial system, was USD 864 billion (TRY 3,258 billion) by the end of 2017.

Summary of Key Indicators of the Turkish Banking Sector

(000,000)	2017	2016	2015	2014
Asset Size – TL	3,257,819	2,731,016	2,357,387	1,994,263
Asset Size – USD	863,708	799,150	807,850	857,047
Equity – TL	359,091	300,264	262,214	231,941
Profit – TL	48,648	37,530	26,052	24,610
ROAE %	18.62	16.81	13.39	14.81
ROAA %	2.05	1.86	1.52	1.69
NPL %	2.95	3.24	3.09	2.85
Capital Adequacy Ratio %	16.87	15.57	15.56	16.28
Equity / T. Assets %	11.02	10.99	11.12	11.63

Fifty-two banks operated in the Turkish banking sector as of 2017. Internet, ATM and POS investments are continuing to increase in order to enhance the accessibility of the banking services. The concentration of assets, loans and deposits in the sector is quite high. In all of three areas, the share of the top five banks is c. 60%.

Key Numbers Turkish banking sector (*)		Deposit Banks (*)	Development % Investment Banks (*)	Participation Banks (**)	Total
Number Of banks	State Banks	3	3	2	8
	Private Banks	9	6		15
	SDIF Bank		1		1
	Foreign Banks	16	4	3	23
	Foreign Banks Branches		5		5
	<b>Total</b>	<b>28</b>	<b>19</b>	<b>5</b>	<b>52</b>
Number of Branches	State Banks	3.697	30	127	3.854
	Private Banks	4.077	15		4.092
	SDIF Bank		1		1
	Foreign Banks	2.827	4	907	3.738
	Foreign Banks Branches		7		7
	<b>Total</b>	<b>10.061</b>	<b>57</b>	<b>1.034</b>	<b>11.692</b>
Number of Staff	State Banks	58.330	3.636	1.669	63.635
	Private Banks	73.684	1.388		75.072
	SDIF Bank		232		232
	Foreign Banks	57.389	200	13.453	71.042
	Foreign Banks Branches		205		205
	<b>Total</b>	<b>189.403</b>	<b>5.661</b>	<b>15.122</b>	<b>210.186</b>

(\*) As of September 30, 2017.

(\*\*) As of December, 31,2017

The banking sector is affected notably by national and international regulations, constantly changing customer demands, developing technology, and socio-political structural changes. In this aspect, it is expected that banks' agenda will be increasingly engaged in key issues such as capital, liquidity, profitability, cost management and digitalization of internal processes. Particularly in 2018, digitalization for efficiency in cost and competition management will remain essential.

Formed with a flexible infrastructure in response to the continually changing demands of credit and deposit customers and investors, the Turkish banking sector has a highly dynamic structure in the formation of products and services. The deepening of capital markets along with the strong capital structure of the banking sector will continue in 2018 as an advantage in deposit collection and domestic and international borrowing.

The Turkish banking sector, which is not yet at the desired level of scale and cost efficiency, is expected to intensify its structuring and growth strategies in this particular area.

In the Turkish banking sector, while innovative approaches to branching and alternative channels are being developed, the importance of multi-branching is still prevalent in Turkey. The elasticity coefficients of the Turkish banking sector are well above the global optimum levels in terms of lending capacity, interest volatility and regulatory pressures. Legal arrangements increase the resilience of banks to crises and create downward pressure as well on productivity and profitability. However, financial innovations are expected to significantly eliminate the negative effects of the regulatory constraints.

Banks mainly provide deposit-based financing, while the use of alternative sources is also increasing. Due to the increasing funding opportunities in line with the expansion of the quantities in the developed countries, the liabilities of the banks from external sources have increased in recent years. The external debt restructuring rate of the banking sector is above 100 percent and the fact that the funds provided from abroad are long-term contributes to the extension of the average maturity of the liabilities. Banks' securities issuances continue to grow with a growing momentum.

Founded in 1946 and its shares began trading in 1990, Garanti Bank operates through its large franchise network of 922 domestic branches, 8 foreign branches and 3 international representative offices serving to more than 16 million customers with a staff force of 18,574 employees as at the end of September, 2018.

The Bank's shares have been traded on the Borsa Istanbul (BIST) since 1990 and the actual free float rate is 50.04% as of September 30, 2018.

The sole major shareholder, BBVA (Banco Bilbao Vizcaya Argentaria S.A), following a share purchase agreement with both Doğuř Holding and GE Group, initially acquired shares representing a total of 25.01% of the Bank's share capital during March and April, 2011. Regarding disclosure on November 19, 2014; Doğuř Group and BBVA had entered into a Share Purchase Agreement with respect to sale of shares of The Bank representing 14.89% of the share capital with an aggregate nominal value of TRY625.38 million. Following the finalized process of the share transfers on July 27, 2015, Doğuř Group's and BBVA's stake had become respectively 10% and 39.9% of the share capital. Afterwards, with an additional share purchase agreement dated February 21, 2017 and finalized

process therein on March 22, 2017 with respect to sale of shares of Garanti representing 9.95% of the share capital by Doğuř Group to BBVA, BBVA's current stake at The Bank has reached 49.85%. Detailed shareholder information of Bank has been provided in the appendix.

With regard to September 30, 2018 financial statements, the Bank had a consolidated asset size of TRY456bn, equity of TRY 46.654bn and a 9-month net profit of TRY5.63 bn. Main balance sheet items and ratios indicating the Bank's performance have been exhibited within the appendix.

The largest shareholder of the Bank is the BBVA Group, a multi-national financial services Bank with origins dating back to 1857. The Group is headquartered in Bilbao, Spain and maintains operations in the fields of banking, insurance and asset management with an asset size of EUR 669bn, 7,999 branches and a workforce of 126,357 as of September 30, 2018. Mr. Francisco González RODRÍGUEZ currently holds responsibility as the Group Executive Chairman.

Resulting from its structure as an integrated financial services bank with a wide network, the Bank has a large number of affiliates and subsidiaries. The major integrated affiliates of the Bank include Garanti Bank International N.V., Garanti Romania, Garanti Pension and Life, Garanti Securities, Garanti Asset Management, Garanti Leasing, Garanti Factoring, Garanti Payment Systems and Garanti Mortgage and Garanti Technology. A full list of the Bank's affiliates and subsidiaries with brief information therein is provided in an appendix to this report.

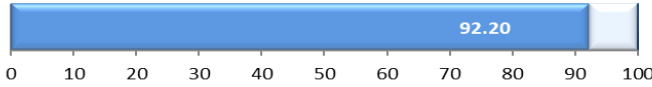
The Board of Directors of the Bank currently consists of 10 members. 3 board members are in the independent status. There are numerous committees established in scope of the Board of Directors including audit, corporate governance and remuneration committees. All committee members are highly educated and pursue managerial positions in their field of expertise of more than 20 years.

### 3. Shareholders

The Bank succeeded in maintaining its previous level of compliance in this main section in the previous monitoring period. The Bank's level in this section and their corresponding notes are outlined below;

- Numerical value of **9.22**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree **(aa)** representing the category of **“Superior”**
- Outlook **(Positive)**

Shareholders Score %



### Shareholders Result

9.22
AAA (Trk) / aa Positive

#### Activities carried out during the monitoring period in the Shareholder field:

- ✓ The 2017 Ordinary Shareholders Meeting was held on March 29, 2018 at 10.00 a.m. at the Headquarters of the Bank. The meeting was observed by two of our analysts and the works undertaken regarding the meeting were closely observed prior, during and following the meeting. Pre-meeting preparations, announcements and invitations were carried out by the Investor Relations Department according to the Code. Within the framework of democratic principles, all shareholders were treated equally in the meeting, the Bank’s 2017 activities were outlined, all shareholders were given the right to address each agenda item and voting was done by an open show of hands. Following the meeting the relevant documents were disclosed to investors on the internet site.
- ✓ No findings of discrimination against any shareholder were made.
- ✓ No lawsuit was opened by shareholders to cancel the resolutions made in the shareholders meeting.
- ✓ The Investors Relations Department’s managers and top managers of the Bank met with 947 international fund managers across Europe, Middle East, Asia, Canada and America face to

face. In 2018, until Mid-December they joined 34 Roadshow and Investor Conferences in 13 cities.

- ✓ The Investor Relations Department specialists answered all inquiries from shareholders and potential investors via telephone and e-mail.
- ✓ In the general meeting on March 29, 2018, the Bank resolved to distribute TRY1,750,000,000 cash dividend from the after-tax profit of TRY 6,343,919,301 for the year 2017. The dividend distribution table was disclosed to the public via the company’s website and the PDP following the general meeting.

#### Outlook

JCR Eurasia Rating is of the opinion that the Bank will maintain its level of compliance with the Code in the field of Shareholders during the upcoming monitoring period. Additionally; the Investor Relations Department would improve the technology-based applications to ease the use of shareholder rights and increase transparency level in this field. As it is concluded that this plan will be put into practice, the outlook of this main section has been assigned as **“Positive”**.

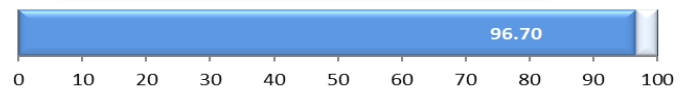
### 4. Public Disclosure and Transparency

The Bank’s score in the Public Disclosure and Transparency main section has been increased to 9.67 from 9.40. The Bank published its first integrated annual report systematically containing all financial and non-financial information and documentation. It was concluded that the level of transparency was increased through this user-friendly report.

The Bank’s level in this field and their corresponding notes are outlined below;

- Numerical value of **9.67**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree **(aaa)** representing the category of **“Exceptional”**
- Outlook **(Stable)**

Public Disclosures and Transparency Score %



## Public Disclosure and Transparency Result

**9.67**

AAA (Trk) / aaa

Stable

### Activities carried out during the monitoring period in this field:

- ✓ The first integrated annual report was published successfully with a high compliance level with the Code in 2018.
- ✓ A total of 430 notifications in the first ten months of 2018 was disclosed to the Public Disclosure Platform (PDP). Following these disclosures, no extra information was requested.
- ✓ The Bank's quarterly financial statements were released to the public within the period specified by CMB legislation and posted on the website.
- ✓ The Bank's website is kept up to date in Turkish and English. A link to the PDP is included.
- ✓ Significant improvements in the Bank's organizational structure and operations are published in a timely manner.
- ✓ The Bank was not suspended from trading on the BIST in the monitoring period.
- ✓ The Bank's 2017 financial tables were audited by the independent audit firm KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A. Ş. Same audit firm will carry out independent auditing activities in 2018.

### Outlook

JCR Eurasia Rating is of the opinion that during the upcoming monitoring period following the publication date of this report the Bank will maintain its level of compliance in the Public Disclosure and Transparency field. For this reason, the outlook for this section has been determined as **"Stable"**.

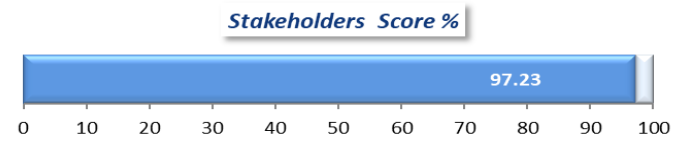
## 5. Stakeholders

This main section's score has been increased to 9.72 from 9.57. The reason behind this increase is that the "new technological branch" project which was initiated in the previous year will be completed by FYE2018 to include all

branches. The project aims to deliver time and cost savings in higher quality financial services provided in digital platforms. Furthermore, it was concluded that customer satisfaction was increased due to this project.

The compliance level of the Bank's practices in the field of stakeholders with corporate governance principles has been determined as below:

- Numerical value of **9.72**
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**
- Notch degree (**aaa**) representing the category of **"Exceptional"**
- Outlook (**Positive**)



## Stakeholders Result

**9.72**

AAA (Trk) /aaa

Positive

### Activities carried out during the monitoring period in the Stakeholders field:

- ✓ Despite the increasing criteria each year, Garanti continues to lead the sector, being included in Dow Jones Sustainability Emerging Markets Index which tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria for the fourth consecutive year.
- ✓ Considering the number of staffs, the number of lawsuits opened against the Bank by employees can be considered tolerable.
- ✓ No lawsuits were filed against the Bank by service providers.
- ✓ Garanti disclosures the important policies for the stakeholders such as Sustainability Policy, Environmental Policy, Environmental and Social Loan Policy, Climate Change Position and Action Plan in the website.

- ✓ The Bank continues to be sponsor to many projects regarding health care, education, culture, art, sports and environment in 2018. The details of these sponsorships are disclosed on the web site and in the annual reports.
- ✓ In 2017 within the scope of social responsibility, the Bank donated TRY12,926,091 to various institutions. The Board of Directors submitted information to the shareholders regarding these donations in the general shareholders meeting.

### Outlook

JCR Eurasia Rating is of the opinion that during the following monitoring period the Bank will maintain its level of compliance with the code in the Stakeholders field. Additionally, it has been concluded that there will be improvements in the performance evaluation and implementation of practices favoring women in company promotions. In this regard, the outlook attached to the Stakeholders main section has been determined as **“Positive”**.

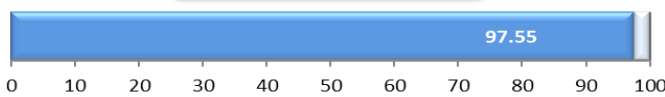
## 6. Board of Directors

This main section’s score has been increased to 9.76 from 9.66. The reason behind this increase is that the adoption of a “Risk Based Audit Model” which is an innovative approach for Turkey in internal audit has led to an increase in the effectiveness of the internal audit along with a rise in the Bank’s total risk management quality.

The Bank’s level in this section and their corresponding notes are outlined below:

- Numerical value of **9.76**
- Convergence Level **AAA(Trk)** representing the category of **“Distinctive Compliance”**
- Notch degree (**aaa**) representing the category of **“Exceptional”**
- Outlook (**Stable**)

**Board of Directors Score %**



## Board of Directors Result

<b>9.76</b>
AAA (Trk) / aaa
Stable

### Activities carried out during the monitoring period in this field:

- ✓ At the general meeting held on March 29, 2018 the shareholders approved the 2017 activities of the Board of Directors.
- ✓ Liability insurance for board members and top managers was renewed by the Bank.
- ✓ There is no change in the Board of Directors.
- ✓ Executive Vice Presidents Mr. Gökhan ERÜN, Mr. Hüsnü EREL and Mr. Recep BAŞTUĞ left their positions. Mr. İlker KURUÖZ and Mr. Selahattin GÜLDÜ were appointed as a new Executive Vice Presidents in the first half of 2018.
- ✓ All of these changes were disclosed in a timely manner to the PDP and the website.
- ✓ The corporate secretary carried out sufficient activities in term of the board of director meeting’s preparations, applications and follow-ups. During the meetings, the necessary services were provided to the members by the Secretary and minutes were kept in accordance to the Code.
- ✓ The Bank disclosed the total remuneration amount provided to the board members and the top managers in the 2017 annual report.
- ✓ During 2018 until the end of November, 13 Board of Directors’ meetings were held.
- ✓ Audit, Corporate Governance, Risk and Remuneration Committees held their periodic meetings and conducted effective activities in this period.

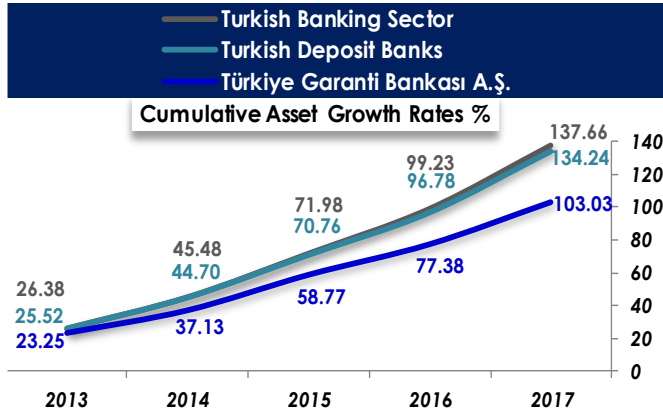
### Outlook

JCR Eurasia Rating is of the opinion that during the following monitoring period the Bank will maintain its level of compliance with the code in the Board of Directors main section. For this reason, the Outlook for this main section has been determined as **“Stable”**.

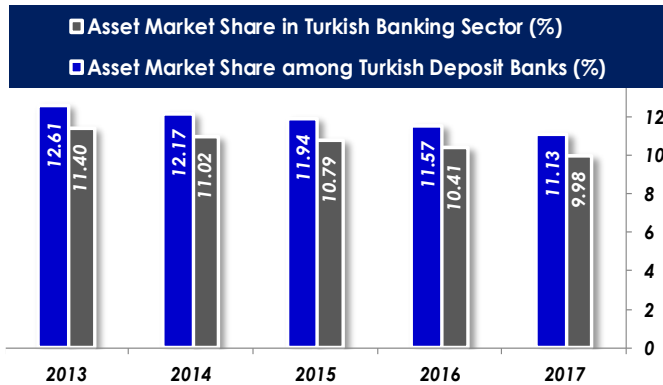


## 7. Financial Efficiency

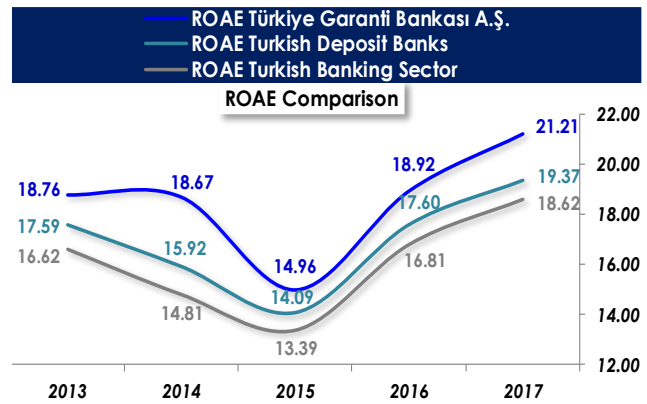
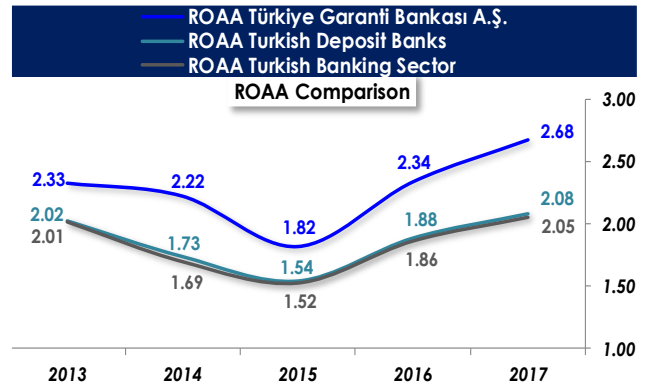
The Bank's asset growth performance compared to the sector in cumulative terms within the period between FY2013 and FY2017 are shown in the chart below:



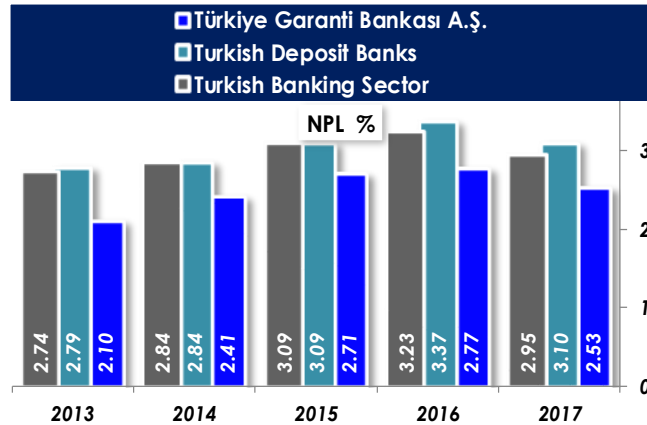
Garanti's asset market shares within the Turkish banking sector and among the Turkish deposit banks have continued its gradually contracting pattern during FY2017 particularly due to maintenance of the selective lending strategy as evidenced by its NPL figures below the sector averages.



The indicators of both ROAAs and ROAEs have outperformed the sector during the previous eight years while the difference has become more visible during the previous two years. Compared to deposit banks, Garanti's ROAA performed 60 bps (FY2016: 46 bps) better and its ROAE 184 bps (FY2016: 132 bps) better.

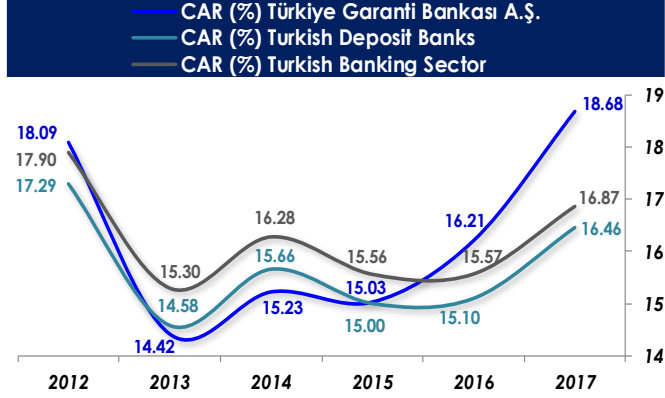


The Bank management expects normalized NPL inflows and to maintain strong collection performance accompanied by NPL sales to continue depending on market conditions during FY2018 – thus capping the NPL ratio around 3%.



Garanti's non-consolidated CAR increased to 18.68% at the end of FY2017 from FYE2016 figure of 16.21% with largest contribution from internal capital generation capability and Tier II issuances. Following a below-the-sector-average level for three consecutive years, the Bank

outperformed both the Turkish banking sector and the deposit banks averages during the previous two years (FY2017: 16.87% and 16.46%, FY2016: 15.57% and 15.10%, respectively).



As a result, the Bank's equity level, generated profit, deposit base, assets quality and management practices provide adequate support for the retention of the current level of compliance with corporate governance best practices.

**TABLE:1**

**SHAREHOLDING STRUCTURE**

<b>Years</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Paid Capital (TRY bn)</b>	<b>4,200</b>	<b>4,200</b>	<b>4,200</b>	<b>4,200</b>	<b>4,200</b>
<b>Shareholders</b>					<b>Share %</b>
DOGUS GROUP	24.2256	10.0002	10.0002	-	-
BANCO BILBAO VIZCAYA ARGENTARIA S. A.	25.0100	39.9000	39.9000	49.85	49.85
OTHER SHAREHOLDERS	50.7644	50.0998	50.0998	50.15	50.15
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**TABLE: 2**  
**AFFILIATES & SUBSIDIARIES as of September 2018**

Company Name	Head Quarters	Fields of Activities	Interest Share %	Acquisition Date
GARANTIBANK INTERNATIONAL N.V.	Netherlands	Banking	100	1990
GARANTI HOLDING BV	Netherlands	Financial Services	100	2010
GARANTI EMEKLİLİK VE HAYAT A.Ş.	Turkey	Insurance, Pension	84.91	1999
GARANTI FİNANSAL KİRALAMA A. Ş.	Turkey	Leasing	100	1990
GARANTI FAKTÖRİNG HİZMETLERİ A. Ş.	Turkey	Factoring	81.84	1990
GARANTI YATIRIM MENKUL KIYMETLER A. Ş.	Turkey	Securities Brokerage	100	1991
GARANTI PORTFÖY YÖNETİM A. Ş.	Turkey	Portfolio Management	100	1997
GARANTI BİLİŞİM TEKNOLOJİSİ VE TİC. T. A. Ş.	Turkey	Technology Services	100	1958
GARANTI ÖDEME SİSTEMLERİ A. Ş.	Turkey	Credit Card Services	100	1999
GARANTI HİZMET YÖNETİM A. Ş.	Turkey	Fund Administration	100	2000
GARANTI KONUT FİNANSMANI DANIŞMANLIK HİZMET. A. Ş.	Turkey	Mortgage	100	2007
GARANTI KÜLTÜR A. Ş.	Turkey	Culture and Art Services	100	2001
GARANTI FİLO YÖNETİM HİZMETLERİ A. Ş.	Turkey	Operational Leasing	100	2007
GARANTI FİLO SİGORTA ARACILIK HİZMETLERİ AŞ	Turkey	Rental Insurance	100	2014
GARANTI YATIRIM ORTAKLIĞI A.Ş.	Turkey	Portfolio Management	3.61	1996
G NETHERLANDS BV	Netherlands	Financial Services	100	2010
TRIFOI REAL ESTATE COMPANY	Romania	Real Estate	100	2010
GARANTI BANK SA	Romania	Banking	100	2010
MOTORACTIVE IFN SA	Romania	Leasing	100	2010
RALFİ IFN SA	Romania	Consumer Finance	100	2010

**TABLE: 3**

<b>Financial Data</b>	<b>9M2018**</b>	<b>2017*</b>	<b>2016*</b>	<b>2015*</b>	<b>2014*</b>	<b>2013*</b>
Total Assets (USD mn)	76,285	93,258	87,765	94,511	103,217	100,733
Total Assets (TRY mn)	456,328	352,122	308,319	274,838	237,914	213,554
Total Deposit (TRY mn)	274,721	200,679	178,644	156,114	133,407	119,194
Total Net Loans (TRY mn)	286,416	233,194	205,989	175,682	148,081	131,315
Equity (TRY mn)	46,654	41,925	36,438	32,006	27,290	23,526
Net Profit (TRY mn)	5,630	6,094	5,052	3,807	3,841	3,581
Asset Market Share (%) ***	10.00	11.13	11.57	11.94	12.17	12.61
ROAA (%)	n.a.	2.35	2.17	1.86	2.16	2.28
ROAE (%)	n.a.	19.81	18.52	16.06	19.16	19.61
Equity/Assets (%)	10.22	11.91	11.82	11.65	11.47	11.02
CAR-Capital Adequacy Ratio (%) ***	16.90	18.68	16.21	15.03	15.23	14.42
Asset Growth Rate (Annual) (%)	29.71	14.21	12.18	15.52	11.41	20.31

\* Based on end-of-year IFRS consolidated financials

\*\* Based on end-of-period BRSA consolidated financials

\*\*\* On solo basis and/or among the deposit banks

**TABLE: 4**  
**BOARD OF DIRECTORS**

Name	Task	Experience	Date Elected	Experience (Year)	Education	Executive/Non-Executive	Independent/Not Independent	Committee Membership
Süleyman SÖZEN	Chairman	Financials, Information Technology, Consumer Discretionary, Consumer Staples, Health Care, Real Estate, Energy	29.05.1997	36	BSc/BA	Non-Executive	Not Independent	Risk Committee
Jorge Saenz-Azcunaga CARRANZA	Vice Chairman	Financials	24.03.2016	24	BSc/BA	Non-Executive	Independent	Audit Committee, Corp.Gov. Committee, Remuneration Committee
Sait Ergun ÖZEN	Member	Financials, Information Technology, Consumer Discretionary, Consumer Staples, Real Estate, Energy	14.05.2003	31	BSc/BA	Non-Executive	Not Independent	Remuneration Committee
M. Cüneyt SEZGİN	Member	Financials	30.06.2004	30	PhD	Non-Executive	Not Independent	
Javier Bernal Dionis	Member	Financials, Industrials, Health Care, Information Technology	27.07.2015	28	Master	Non-Executive	Not Independent	Corp.Gov. Committee, Risk Committee
Jaime Saenz de Tejada PULIDO	Member	Financials	02.10.2014	25	BSc/BA	Non-Executive	Not Independent	
Rafael Salinas Martinez de LECEA	Member	Financials	08.05.2017	28	Masters	Non-Executive	Not Independent	Risk Committee
Ricardo Gomez BARREDO	Member	Financials, Industrials, Materials, Consumer Discretionary	08.05.2017	26	Master	Non-Executive	Independent	Audit Committee,
Sema YURDUM	Member	Financials, Industrials	30.04.2013	38	BSc/BA	Non-Executive	Independent	Audit Committee, Corp. Gov. Committee
Ali Fuat ERBİL	Member CEO	Financials	02.09.2015	26	PhD	Executive	Not Independent	