2017 PERFORMANCE & OUTLOOK

FINANCIAL PERFORMANCE

For Garanti, financial performance is at the core of our value creation process and it is the cause and the effect in delivering sustainable growth. By making our products available to our customers, investing in our facilities and by constantly improving our business model and processes with an operational and environmental efficiency point of view, Garanti is committed to have a direct and indirect impact on the economy.

Aiming to use capital effectively to maximize the value created, Garanti focuses on disciplined and sustainable growth on the basis of a true banking principle with strict adherence to solid asset quality. Combining its approach to unconditional customer satisfaction with its solid capital structure and a focus on efficiency, Garanti preserves its sound financial structure through effective balance sheet management and sustains its contribution to the economy. Standing by its customers at all times, Garanti has been constantly increasing the share of loans within total assets, finally bringing them to their highest-ever level.

Following a prudent and risk-return focused lending strategy, Garanti commands leading positions across various segments in the sector, from retail banking to payment systems, mortgages to auto loans, SMEs to project finance, transaction banking to digital banking. Furthermore, Garanti displays a proactive and consistent approach to risk assessment, which ensures preservation of its solid asset quality.

Garanti's diversified and actively managed funding base, its capital adequacy ratio of 16.8%, its growing deposits with 15 million customers' trust, and continuous access to foreign funding sources feed the business model and its long-term sustainable growth.

Garanti's business model, along with its well diversified fee sources and its further digitalized processes, support its ability to generate sustainable income. All of them combined secure the highest net interest margin, and the highest net fees and commissions base among its peers. Furthermore, Garanti maintains its focus on efficiency and effectively manages its operating costs to foster sustainable value creation.

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

VALUE DRIVER	INDICATOR	PERFORMANCE 2017	2017 PROJECTION	ACTUAL VS PROJECTION	2016
Use capital effectively so as to maximize the value to be created	Asset Growth (%)	14%	~10%	Beat	12%
	Total Performing Loan Growth (%)	14%	~11%	Beat	17%
	TL Loan Growth (%)	20%	~15%	Beat	18%
	FC Loan Growth (in USD) (%)	-3%	Flat-to-Slightly Up	Lower	-4%
	NPL Ratio (%)	2.6%	~3.0%	Beat	3.0%
Focus on disciplined and sustainable growth on the basis of true banking principle	Net Cost of Risk (bps)	74	~110bps	Beat	124
	NIM inc. Swap Cost (%)	4.7%	Flattish vs 2016	Beat	4.4%
Constantly improve business models and processes with operational and environmental efficiency point of view	Fee Growth (%)	18%	10%	Beat	10%
	OPEX Growth (%)	8%	6% Below Inflation	In-line	6%
	Cost/Income (%)	46.2%	~1.5pp improvement	Beat	50.3%
Cost and revenue synergies	Leverage	7.6X	Flattish vs. 2016	In-line	7.7X
	ROAE (%)	16.6%	~15.5-16%	Beat	15.4%
	ROAA (%)	2%	~2%	In-line	2%
	Capital Adequacy Ratio (%)	16.8%	-	-	14.7%
	CET-1 (%)	14.7%	-	-	13.6%

WHAT WE DID IN 2017

ASSESSMENT OF FINANCIAL POSITION, PROFITABILITY AND DEBT PAYMENT CAPABILITY

There was a benign environment for the Emerging Markets in the second and third quarters of 2017. Even though the Fed continued with expected rate hikes, longer term yields and inflation expectations were subdued, and reached their lowest level in September. However, long-term inflation expectations started to increase due to higher oil price, tax reform and strong employment data. This caused the market to reprice the Fed's rate hikes in 2018 from 1 hike to 2.5. This increase in the USD interest rates, especially in the shorter tenors of the UST curve, caused an outflow from EM countries. Turkey experienced additional geo-political risk aversion, coupled with high and sticky inflation levels in the last quarter, causing TL to depreciate even further compared to other EM Currencies.

The CBRT was compelled to keep utilizing the Late Liquidity Window as its main source of funding throughout 2017. The CBRT maintained a tight monetary policy by a series of hikes at the beginning of the year, with the rates stabilizing at 12.25% in the second half of the year. However, the implementation of the Credit Guarantee Fund Scheme (CGF) served to prevent the expected negative effect of high interest rates upon growth. Loans utilized under the CGF barely consume capital for the banks, as they were guaranteed almost in full by the Turkish Treasury. This facility was the main propeller of the GDP growth in 2017. However, the closure of the output gap, also with the help of certain tax

incentive programs aiming to increase the aggregate demand, as a side effect, caused a lackluster response to the CBRT's anti-inflationary policies and the CBRT had to hike rates for one last time in the last quarter to 12.75%. During this period, preemptive hedging activity, proactive asset pricing and defensive securities portfolio allocation strategies precluded deterioration of Garanti's Net Interest Margin due to higher interest rates.

Amid this environment, Garanti aimed to optimize permanence of its liability items and diversity of its funding facilities, while composing the assets items so as to maximize risk-adjusted return on capital. Garanti made use of the EM friendly market environment through the second quarter of the year to issue both a Senior Eurobond and a Sub Debt at favorable levels, increasing Garanti's Capital and FC liquidity buffer significantly. High TL Loan growth due to CGF utilization also incited Garanti to search for alternative sources of long-term TL funding, which resulted in issuance of TL Green Bonds, TL Covered Bonds for the first time. Within the framework of structural FX risk management, the FX sensitivity of profit is managed so as to reduce P&L volatility at a subdued level.

SUBSIDIARIES
- 52% INCREASE IN NET INCOME CONTRIBUTION FROM SUBSIDIARIES

COMMERCIAL BANKING
- TL 143 BN BANKING VOLUME
- 32% GROWTH TL CASH LOANS
- TL 1.6 BN PROFIT
- 12.4 BN CGF TO 5,222 FIRM

ROBUST & HIGH QUALITY EARNINGS PERFORMANCE

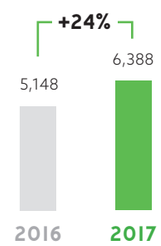
Garanti's innovative business model focused on operational efficiency, optimal capital utilization and sustainable growth, backed by effective risk management and governance, produced a consolidated net profit of TL 6 billion 388 million, while increasing its free provision buffer and bringing free provisions to TL 1 billion 160 million. Garanti's dynamic balance sheet management was further reflected on the robust and high quality earnings delivering a Return on Average Equity (ROAE) of 16.6% and Return on Average Assets (ROAA) of 2%.

CUSTOMER-DRIVEN & INCREASINGLY HIGHER YIELDING ASSET MIX

Garanti's consolidated total assets increased by 14% on an annual basis and reached TL 356 billion. Asset growth remained customer-driven in 2017 in line with the guidance as loans represented 64% of assets while the securities portfolio was strategically managed as a hedge against volatility.

NET INCOME

(TL million)



16.6% ROAE
vs. 15.4% in 2016

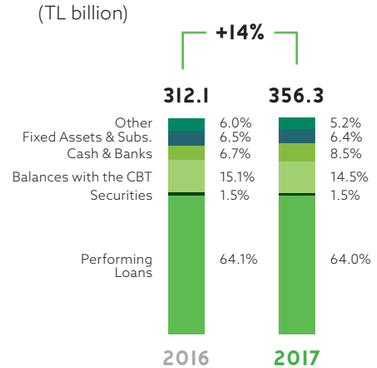
1.9% ROAA
vs. 1.8% in 2016

16.8% CAR
vs. 14.7% in 2016

7.6X LEVERAGE
vs. 7.7x in 2016

COMPOSITION OF ASSETS

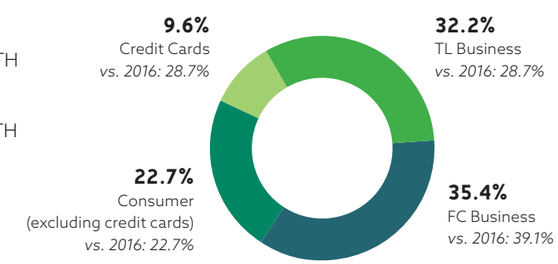
(TL billion)



PERFORMING LOANS BREAKDOWN

+ 20% YoY
TC LOAN GROWTH

- 3% YoY
FC LOAN GROWTH



LENDING STRATEGY: SELECTIVE & PROFITABILITY FOCUSED

Garanti recorded a disciplined growth in loans with a 14% increase, which was driven mainly by TL loans. TL loans expanded 20% exceeding the guidance for 2017. The Credit Guarantee Fund (CGF) scheme was a significant impetus in TL lending growth. Garanti was the first mover on this front with its agile sales team and system integration. As a result, TL business banking loans went up by 28% annually. *Please read more on CGF under the Important Developments Regarding 2017 Operations section.*

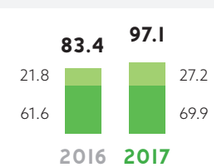
LEADING POSITION IN RETAIL BANKING

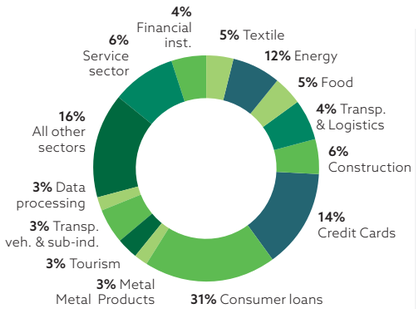
With its effective delivery channels and successful relationship banking, Garanti's market share in retail lending among private banks further increased in 2017. Garanti maintained its focus on consumer products and registered a healthy growth of 16% on an annual basis. In 2017, Garanti welcomed 73 million customers in its 948 branches spread around all the cities in Turkey, and offered them a wide range of products and services to meet their financial needs. Garanti, the Mortgage Expert, sustained its leadership in mortgages among private banks with an annual growth of 10%. While supporting its customers in a growing economy with a young population, Garanti booked a 19% annual growth in consumer GPLs. Noteworthy was the significant increase in digital sales within total GPL sales. The ratio climbed to 78% per December monthly data.

RETAIL LOANS

(TL billion)

+16% YoY





LOAN GROWTH BY PRODUCT

+ 28% YoY
TL BUSINESS BANKING
(49% of TL Loans)

+ 10% YoY
CONSUMER MORTGAGE
(18% of TL Loans)

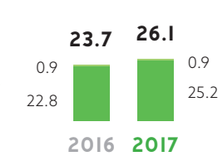
+ 15% YoY
CREDIT CARDS
(15% of TL Loans)

+ 19% YoY
CONSUMER GPL
(17% of TL Loans)

MORTGAGE LOANS

(TL billion)

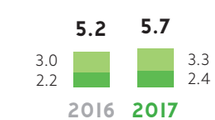
+10% YoY



AUTO LOANS

(TL billion)

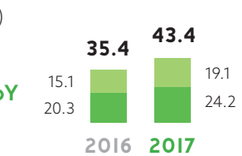
+9% YoY



GENERAL PURPOSE LOANS[1]

(TL billion)

+23% YoY



SME BANKING
- TL 76.2 BN BANKING VOLUME
- 6.1 BN CGF TO 15,735 FIRM (per Garanti SME definition)
- 3.63% NPL RATIO REMAINED BELOW THE SECTOR AVERAGE OF 4.71% (per BRSA SME definition)

CONSUMER FINANCE
- 38% SHARE ON CONSUMER AUTO LOANS AMONG COMMERCIAL BANKS
- 598 IN-NETWORK AUTO DEALERS
- 31K CUSTOMER FINANCED VIA ONE-STOP SHOP SYSTEM

HOUSING FINANCE
- 590K PEOPLE BECAME HOMEOWNERS WITH GARANTI TO DATE

RETAIL BANKING
- 385K RETAIL CUSTOMER BECAME CAR OWNERS TO DATE
- 491K RETAIL CUSTOMER BECAME HOMEOWNERS TO DATE
- SERVING 13.6 MN RETAIL CUSTOMER
- 1.4 MN PEOPLE SAVE WITH GARANTI TO DATE
- GARANTI DISBURSED GENERAL PURPOSE LOANS (GPL) TO APPROXIMATELY 1 MILLION INDIVIDUALS IN 2017.

Consumer Loans
Commercial Instalment Loans

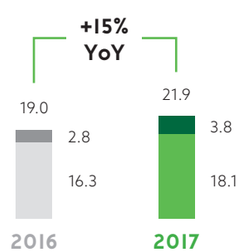
1 Including other loans and overdrafts
Note: Sectoral breakdown based on latest 30.09.2017 IFRS results

PIONEERING PAYMENT SYSTEMS

Garanti commands a leading position in payment systems and credit cards with its Garanti Payment Systems, which was founded 18 years ago. It has the largest POS network with 670,259 POS devices and dominates the market with a market share of 18.6%. Garanti manages the broadest credit card customer base with 10.2 million credit cards and 9.6 million plastic cards. Customers of 10 other banks can use Turkey's lovemark Bonus brand. The Bonus platform is Turkey's largest card platform with a market share of 30.8% in terms of credit card turnover. Besides, Garanti continued to be the leader in e-commerce volume with a 21.75% market share. Backed with these capabilities, Garanti preserved market shares in acquiring and issuing credit card volumes with respective shares of 19.37% and 19.50%. As of 2017 year-end, the credit card receivables amount increased to TL 22 million.

CREDIT CARD BALANCES

(TL billion)



FOREIGN CURRENCY LENDING

Investment appetite remained weak due to ongoing global and domestic uncertainties. The decreasing demand combined with Garanti's risk/reward priorities and rational pricing focus reflected on Garanti's large base of Foreign Currency (FC) loan book. Maintaining a large base of FC loan book and amortizations resulted in a 3% shrinkage in Garanti's FC lending growth that was slightly lower than the flattish growth guidance. In 2017, the Turkish banking sector contracted along with Garanti due to the weak investment appetite. However, Garanti, sustained its pioneering position in project finance, corporate and commercial banking by remaining the primary business partner of its customers.

Garanti continued to support Turkey's sustainable growth with its pioneering and leading role in the project and acquisition finance sector in 2017. Despite challenging market conditions, Garanti committed approximately USD 2.1 billion* in 2017 and maintained its year-end loan balance at USD 12.6 billion in line with the previous year. Infrastructure projects were at the forefront in 2017. Garanti, acting as the facility agent for the deal, has provided around USD 450 million to the Northern Marmara Highway Project (Kurtköy-Akyazı and Kınalı-Odayeri Segments), the largest infrastructure project of the year with a total loan amount of USD 2.7 billion. In the energy sector, new investments were limited in 2017 and there were mainly refinancing

PROJECT FINANCE

- $2.1 BN FINANCING TO PROJECTS IN 2017
- $12.6 BN TOTAL EXPOSURE
- #1 IN WIND ENERGY FINANCING WITH 30.2% MARKET SHARE

activities in line with our expectations. Yet, Garanti continued to support renewable energy projects that are vital for Turkey's sustainable growth. Total funds allocated to renewable energy projects surpassed USD 110 million to finance 750 MW renewable energy projects by the end of 2017. Thus, the share of renewable energy in the electricity generation loan portfolio of Garanti rose to 60%. Also on the M&A side, 2017 was a recovery year. Although the total number of acquisition deals remained similar to the previous year, the volume increased. Garanti partially financed the largest acquisition transaction of the year (i.e. Petrol Ofisi takeover by Vitol for ~USD 1.4 billion)

The change in the landscape led to a decrease in the public-private partnership projects (PPPs) in the pipeline for 2017, even in renewable energy & real estate sectors. Yet, outperformance in TL loans compensated for the shrinkage in FC loans and Garanti recorded a total lending growth of 14%, which is above the guidance.

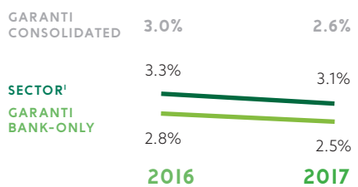
** Refinancing and restructuring transactions are also included in the figures*

SOLID ASSET QUALITY WITH FURTHER STRENGTHENED COVERAGE RATIO

Garanti displays a proactive and prudent approach to risk assessment, which ensures preservation of its solid asset quality that consistently outperforms the sector. Supportive fiscal policies of the government revitalized the economy in 2017 and shored up asset quality. As a result, net new Non-Performing Loan (NPL) inflows fared lower than anticipated throughout the year. Garanti's NPL ratio was registered as 2.6%, while the cumulative net Cost of Risk (CoR) improved to 74 bps. Both indicators performed better than the guidance. Leveraging on this opportunity, Garanti further strengthened its cash coverage. Total cash coverage ratio increased from 131% in 2016 to 137% in 2017.

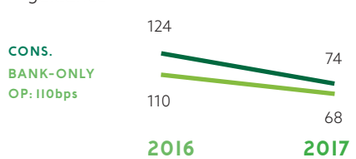
NPL %

NPL ratio - Consistently below-sector



NET CoR[2] (bps)

Cumulative Net CoR remains below guidance

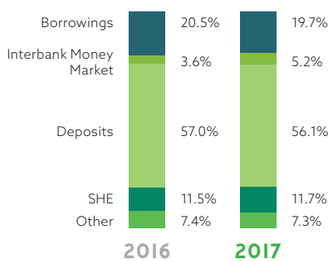


DEPOSIT DRIVEN & HEAVY WITH LOW COST & STICKY DEPOSITS FUNDING BASE

Garanti preserved its liquid balance sheet composition in 2017 with the help of its prosperous dual currency balance sheet management. Dynamically managed funding base of the Bank continued to be largely composed of deposits.

Garanti's leading position in consumer deposits is the outcome of its customer-centric and innovative business model, which places customers' needs and satisfaction at the core of its business. The Bank's improving Net Promoter Score (NPS) mirrors its success in being the customers' preferred bank. Garanti increased its NPS and preserved its leader position among Tier-1 banks. Garanti preserved its focus on sticky and low-cost mass deposits during 2017. 14% growth rate in customer deposits base was in line with the loan expansion. Garanti continued to deliberately avoid irrational pricing competition and to rely on its strength in relationship banking and its customer-focused business model.

Both diversification of funding sources and the management of the cost of funding play an important role. Garanti has a solid demand deposit base that helps the Bank in its funding cost optimization.



PRIVATE BANKING

- TL 15.1 MN OF ASSETS UNDER MANAGEMENT
- TL 4.1 MN STRUCTURED DEPOSITS AND CORPORATE BOND SALES

Garanti further strengthened its demand deposit base by almost 16% on an annual basis and the share of demand in total deposits went up to its highest historical ratio of 27%. In 2017, Loan to Deposit Ratio (LDR) in the Turkish Banking Sector was 117%. At 114%, this indicator was slightly better for Garanti than the overall sector's 117%. The figure is even much lower if we add local currency bond issuances, other local currency MM funding, merchant payables, foreign currency bond issuances and other foreign currency MM funding (Securitizations, syndications, bilaterals). Hence, the adjusted LDR decreases to 80% from 114%.

DEPOSIT GROWTH

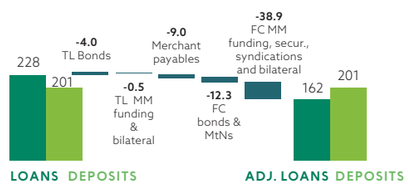
TL **+ 16% YoY** DEPOSITS

FC **+ 2% YoY** DEPOSITS (in USD)

77% SME & RETAIL DEPOSITS[1] [3]
share in TL Deposits

27% DEMAND DEPOSITS
Bank-only: >25%
vs. sector's 20% [4]

Total Loans / Deposits **114%**
Adjusted LDR **80%**



1 Sector figures are per BRSA bank-only weekly data, commercial banks only
2 Specific + General Provisions net of Collections
3 Based on bank-only MIS data
4 Based on BRSA weekly data as of 29 December 2017, commercial banks only

WELL-DIVERSIFIED FUNDING MIX & OPPORTUNISTIC UTILIZATION OF ALTERNATIVE FUNDING

INTERNATIONAL BANKING

- BROAD CORRESPONDENT NETWORK WITH OVER 2,000 BANKS

Turkish banks have continuous access to international funds. The banking sector managed to roll over 76% of its external debt even in the dire moments of the global crisis at the beginning of 2009. As of 2017, sector rollover ratio stood around 97%. With the aim of managing the asset-liability duration gap and optimizing funding costs, Garanti continued to diversify its funding structure by actively tapping alternative funding sources. During 2017, the Bank issued its first Basel III compliant subordinated debt at the lowest cost ever attained by a bank in Turkey. This issuance helped reduce the sensitivity of capital to currency volatility and supported Garanti's best in class solvency ratios. Furthermore, Garanti reinforced its asset liability management through two syndications with 100% rollover ratios in 2017, which serve as a testament to Garanti's intrinsic financial strength and solid banking relationships. Garanti issued the first ever residential mortgage covered bond in Turkey in local currency to support green mortgages in collaboration with International Finance Corporation (IFC). Following that the Bank signed similar covered bond agreement with European Bank for Reconstruction and Development (EBRD). Total issuance in 2017 was $5.6 billion, of which $1.9 billion was fresh.

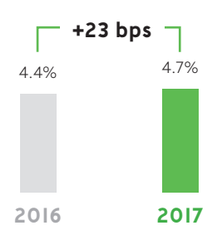
Basel III compliant Tier II	• $ 750 mn, 10NC5 Record subscription >$4bn 6.125%, largest deal size and lowest coupon for Turkish Tier 2 Basel III compliant bond (2Q17)	
Eurobond	• $ 500 mn 6-yrs maturity @5.875% (1Q17)	
Covered Bond	"Green Mortgage" • $ 150 mn equivalent TL 529mn (2Q17) • € 75 mn equivalent TL 313mn (3Q17) • € 200 mn equivalent TL 840mn (4Q17)	
100% syndication roll-over	• € 1.25 bn equivalent: 100% rollover (2Q17) • $ 1.3 bn equivalent: 100% rollover (4Q17) (including 2 year tranche)	
DPR Securitization	• € 153 mn 5-yrs maturity (1Q17) • $ 250 mn 5-yrs maturity (4Q17) • $ 285 mn 5-yrs maturity (4Q17)	
EIB Funding & Bilateral	• $ 79 mn 6-yrs maturity (1Q17) • $ 145 mn 2-yrs maturity (4Q17) • $ 250 mn 3-yrs maturity (4Q17)	
Swap for margin optimization	Average net swap funding volume:	
	• TL 17 bn in 4Q17 @ 10.7%	• TL 24 bn in 2Q17 @ 10.4%
	• TL 26 bn in 3Q17 @ 10.5%	• TL 13 bn in 1Q17 @ 9.5%

ROBUST NIM PERFORMANCE UNDERPINNED BY DYNAMIC ASSET-LIABILITY MANAGEMENT

In a challenging year dominated by economic uncertainties and volatilities, Garanti successfully preserved its ability to generate sustainable income on the back of dynamic assets and liabilities management. The Bank maintained its highest Net Interest Margin (NIM) among peers, even in an increased rate environment. Effectively,as the liquidity provided to the market by the CBRT was mainly via the late liquidity window throughout 2017, the weighted average cost of CBRT funding was ~450 bps higher vs. the beginning of the year. The Bank continued to maximize its risk-adjusted return on capital and improve profitability while minimizing any fluctuations in NIM. Garanti focused on defending its spreads by disciplined loan pricings and the high share of demand deposits in total. CPI linkers served as hedge against inflationary pressure and the higher than anticipated CPI readings led the upside on NIM, which ended 2017 at 4.7% remaining above the flattish guidance.

NIM INCL. SWAP COSTS

CUMULATIVE



HIGHEST FEE GENERATION CAPABILITY BACKED BY DIVERSIFIED FEE SOURCES & FURTHER DIGITALIZED PROCESSES

Garanti maintained its leadership in net fees and commissions income by sustaining its double-digit growth momentum on top of its highest fee base in the Turkish banking sector. With a diversified fee base, Garanti recorded an annual growth rate of 18% in fees and commissions.

Digitalized processes fostered Garanti's fee income generation capacity while focusing on further penetration of the existing customers increased cross-sell opportunities. Garanti's number of digital customers increased by 22% in 2017 and reached 6 million, marking the largest digital customer base in Turkey. Consequently, the share of digital in non-credit linked fees increased up to 40%.

As cash-non-cash loans constitutes 17% of net fees and commissions base, Garanti registered 15% year-on-year growth in this area.

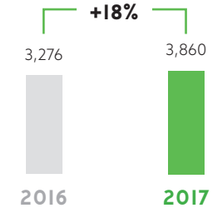
Being the frontrunner in the credit cards business has been another key to Garanti's success on this front. Garanti is in leadership position in the number of credit card customers, plastic cards, POS terminals, member merchants as well as in issuing, acquiring and e-commerce volumes. Contribution of payment systems to total fees was 49% in 2017 with 13% growth year-on-year.

Garanti offers an omni-channel convenience with seamless experience across all channels. With 100% geographical coverage, 5,003 ATMs facilitating 300 million transactions/year, leading call center, and Internet & mobile banking platforms, Garanti occupies the top position in interbank money transfers and swift transactions with respective shares of 14% and 17%. Contribution of money transfers to total fees was 13% in 2017 with 31% growth year-on-year.

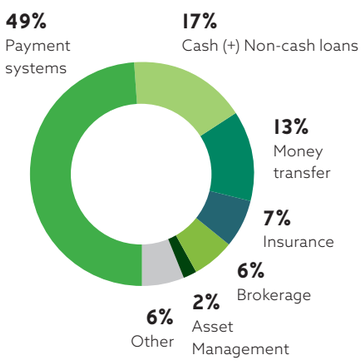
As the single point of contact for all financial needs of customers, Garanti offers a wide range of products and services in insurance, brokerage and asset management, each contributing to the net fees and commissions by 7%, 6% and 2%, respectively.

NET FEES & COMMISSIONS

(TL million)



SHARE IN FEE BASE



GARANTI SECURITIES

- 8.1% MARKET SHARE MARKET LEADER IN THE EQUITY MARKET
- 12.37% MARKET SHARE IN MARKET MAKING ACTIVITIES IN BIST30 OPTIONS CONTRACTS
- $18.8 BN VOLUME IN LEVERAGED FX TRADING

INSURANCE AND PRIVATE PENSION

- IN 2017, GARANTI RANKS 1ST IN NON-LIFE AND 3RD IN LIFE INSURANCE AMONG PRIVATE BANKS
- GARANTI RANKS 3RD IN TOTAL FUND OF PRIVATE PENSION SYSTEM

GARANTI PENSION&LIFE

- #1 IN PENSION TECHNICAL PROFIT[1]
- #1 WITH 1.2[2] MILLION PARTICIPANTS
- #1 IN AUTO-ENROLLMENT 346[2] THOUSAND PARTICIPANTS AMONG PRIVATE COMPANIES

GARANTI ASSET MANAGEMENT

- TL 18.3 BN TOTAL ASSETS UNDER MANAGEMENT
- TL 5.8 BN MUTUAL FUNDS UNDER MANAGEMENT
- TL 12 BN PENSION FUNDS UNDER MANAGEMENT

TREASURY

- 51% SHARE IN LOCAL INTERBANK FX MARKET
- USD 1.8 BN SPOT FX TRADING

1 IAT (Insurance Association of Turkey) data, as of September 2017
2 PMC (Pension Monitoring Center) data, as of December 29,2017
Note: Fee breakdown is based MIS data

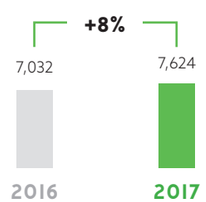
COMMITTED TO IMPROVE EFFICIENCY & OPERATIONAL EXCELLENCE

Paying the utmost attention to stakeholder satisfaction, Garanti launched its new service model. The Bank aims to further improve operational efficiencies while empowering its employees to be more skilled and agile. New service model is a transformation project, which brings flexibility to the sales force to increase revenue generation capacity and cost efficiencies.

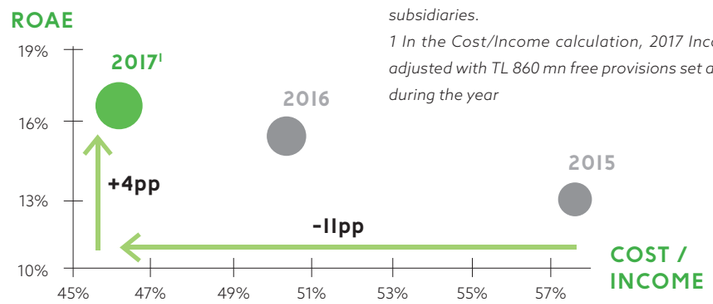
Garanti continued to focus on cost/revenue synergies and improved its Cost/Income and ROAE ratios by more than 11 and 4 percentage points since 2015. Furthermore Garanti's efficient business model in its branches and continued focus on efficiency secured sustained leadership in branch efficiency ratios of Cash Loans/Average Branch, Assets/Average Branch and Customer Deposits/Average Branch. As a result of commitment to efficiency, Garanti recorded an OPEX growth of 8%, which is below inflation and in line with the guidance.

OPERATING EXPENSES

(TL million)



INCREASING EFFICIENCY



Note: In the Cost/Income calculation, Income defined as NII + Net F&C +Trading gains/losses – Provision for loans + Other income + Income from subsidiaries.

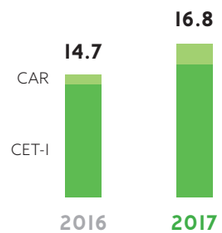
1 In the Cost/Income calculation, 2017 Income adjusted with TL 860 mn free provisions set aside during the year

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

Turkey's first bank to centralize its operations, Garanti alleviates operational load on its branches and enhances employee productivity through active use of technology. The Bank ensures superior quality, timely and error-free execution of operational transactions of its millions of customers through ABACUS. The Bank's loss resulting from operational errors was a mere USD 17,500 within a total turnover of USD 552 billion. Garanti channels 99% of all operational transactions of branches to ABACUS made up of a dynamic team of 1,148 experts.

CAPITAL ADEQUACY RATIOS

(%)



ABACUS

- USD 552 BILLION TRANSACTION VOLUME
- 8,077 POINTS YEAR-ROUND NONSTOP CASH SERVICE
- 99% CENTRALIZATION RATIO IN OPERATIONAL TRANSACTIONS

CAPITAL GENERATIVE GROWTH STRATEGY REFLECTED ON SOLVENCY RATIOS

In 2017, Garanti further strengthened solvency on the back of its capital generative growth strategy. The Bank reported a Basel-III compliant Capital Adequacy ratio of 16.8% and a Common Equity Tier I ratio of 14.7%. At Garanti, common equity Tier-1 corresponds to 88% of total shareholders' equity. With strengthened solvency ratios, the Bank proposed a dividend payout ratio of 27.59%, which is higher than previous years.

GARANTI'S TAX CONTRIBUTION

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

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

GROUP PERFORMANCE IN 2017

In 2017, the Group outperformed compared to the prior year in almost every performance area.

The increase in net income was in the order of 24.1%, which drove return on equity up by more than 1 percentage points, followed by a considerable improvement in capital adequacy ratio by 212 basis points as of year-end.

The Group's special emphasis on efficiency is also reflected on the financial statements as a sharp decrease in Cost/Income ratio from around 50% to 46%.

Meanwhile, the strong asset quality preserved thanks to prudent risk management approach across the Group led to a decrease in consolidated non-performing loan ratio by 33 basis points.

Subsidiaries played a key role, as they did in previous years, in delivering the strong financial results at the end of 2017. The contribution of subsidiaries to the Group is not only limited to the net income figure but also to other financial performance metrics, enabled by the synergy captured with the parent Bank in all fields of activity as well as in management.

In 2017, major contribution to the consolidated performance was in the areas of insurance & pension business, and brokerage & securities activities, which are also supported by the Group's banking investments abroad.

On the side of insurance and pension business, 2017 was a year of success as:

- Garanti Pension increased its market share[1] by more than 20 basis points in terms of the number of participants.
- Garanti Pension achieved a net increase of more than 65,000 participants and continued to be the market leader with 1.2 million participants in total.
- Life business performed well thanks to the boost in the overall sector's performance driven by the Credit Guarantee Fund and KOSGEB credits, which stimulated credit life insurance, the flagship product of the Turkish life insurance market.
- Financial income also outperformed the last year by the increase observed in market interest rates.

In terms of brokerage & securities activities, year-end 2017 results were positive mainly thanks to:

- Equity and derivative transactions volumes that remained high during the year thanks to the rally in the markets.
- Despite regulatory changes that adversely affected the sector in FX products, the Group managed to compensate the negative effect caused by such business line by other activities such as treasury, intermediary services and corporate finance.

Regarding the Group's banking activities abroad;

- Despite one-off regulatory costs which hit the sector as a whole, the Group's subsidiary successfully managed this situation and offset such negative impact through effective measures on cost management, and by supporting gains from trading activities, combined with prudent balance sheet and risk management strategies.

Having maintained its operating income level with a slight increase in the leasing business, the Group implemented a more prudent approach to cost of risk, which led to a reduction in the net income figure by the end of 2017.

All in all, the subsidiaries' performance continued to support the Group's strong financial results in 2017.

1 According to the data published by Pension Monitoring Center as of 29/12/2017

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

2018 OUTLOOK

In 2018, asset growth will continue to be credit-driven. Around 10% growth projection in total assets will be led by a normalized 14-15% growth in Turkish Lira loans.

TL loan growth is expected to be across the board; consumer loans and credit cards are expected to grow in a range from low teens to mid-teen whereas TL business banking loans are expected to grow at high teens.

The Bank will achieve its growth target by expanding and further diversifying its customer base while increasing customer penetration by offering customized solutions across all lines of business. Increasing the share of digital sales in total sales via digital product offerings will remain as a primary focus area. On the retail banking front, the Bank will concentrate more on analytical approaches and big data oriented marketing actions to increase the strong market existence and to improve customer experience.

FC loans are expected to fare at similar levels vs. year-end 2017 after a few years of shrinkage due to lack of demand. In 2018, redemptions are expected to be compensated with new loan originations. New Public Private Partnership (PPP) projects will gain momentum in 2018, especially with the new bridges, major highways and healthcare projects. Additionally, important IPOs are expected to kick off in 2018, the proceeds from which are expected to be used in the existing loan repayments. The remaining amount would be a source for new acquisitions especially for venture capital and mutual funds. In the energy sector, renewable energy projects will be prominent as they were in 2017 and "Renewable Energy Resources Area" (YEKA) projects will be at the forefront in our pipeline in 2018.

2018 PROJECTIONS

Asset Growth	~ 10%
TL Loans (YoY)	~ 14-15%
FC Loans (in USD) (YoY)	Flat
TL Customer Deposits	~ 15%
FC Customer Deposits (in USD)	~ 5%
Net Cost of Risk	~ 100bps
NPL Ratio	~ 3%
NIM inc. Swap Cost exc. CPI	Flat
Free Growth (YoY)	Low-teens
OPEX Growth (YoY)	< = CPI
ROAE	> 16.5%
ROAA	> 2.2%

Garanti will continue to shape its funding mix actively to manage duration mismatch while optimizing funding costs. With successful dual currency balance sheet management, the Bank will tap both Foreign Currency and Turkish Lira customer deposits as well as foreign funding opportunities depending on the market outlook throughout the year. Swap utilization is expected to continue opportunistically, while syndication rollovers and securitizations are anticipated to provide further support to the funding base.

IFRS-9 standard brings together all three aspects of accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In this context, it became compulsory for banks to adopt IFRS 9 effective from 1 January 2018. Since the publication of the initial drafts of the standard, Garanti has been analyzing its potential impact in both departments: i.e. classification of portfolios and valuation models of financial instruments. Garanti considers that implementation of IFRS 9 will not have a significant impact on the balance sheet of the Bank.

IFRS 9 replaces the "incurred losses" model in IAS 39 with a model of "expected credit loss". Garanti does not anticipate a significant impact on total equity as a result of the impairment calculation based expected credit loss model in accordance with IFRS 9. Current level of general and specific provisions is estimated to be sufficient for the IFRS9 transition. By the end of 2018, NPL ratio and Net Total Cost of Risk are expected to be realized at 3% and 100 basis points, respectively, normalizing from their low bases of 2017. The Bank expects no deterioration in the collection performance, and might consider sales from its NPL portfolio given favorable market conditions.

In the coming year, cumulative net interest margin including swap costs excluding CPI linkers' income is expected to be preserved flat vs. 2017 on the back of dynamic assets and liabilities management. Timely loan pricing is expected to support core spread in a tight monetary policy environment. Disciplined pricing stance will continue throughout the year. While deposit growth focus will remain on sticky and low-cost mass deposits, solid base of demand deposits will be sustained. Cross currency swaps will be opportunistically utilized for margin optimization. CPI-linkers will continue to provide hedging against inflationary pressures. In 2018, Garanti will take the necessary actions based on a cautious optimism with respect to the management of balance sheet liquidity risk, interest rate risk, the Bank's securities portfolio, structural exchange rate risk, and capital.

Double-digit growth momentum will be maintained in net fees and commissions income. Growth in this department is anticipated to be at low-teens in 2018. Garanti is expected to preserve the highest level of net fees and commissions among its peers. Diversified businesses, e.g. payment systems commissions, cash and non-cash loans, insurance commissions and money transfers will be the main contributors to growth.

The increase in operating expenses of Garanti is estimated to be less than or equal to CPI in 2018. Cost/Income Ratio is targeted to improve further within the same period.

In 2018, Garanti will continue to focus on improving customer experience, internal and external digitalization and branch transformation. Risk/return focus in loan growth will remain along with the active assets and liabilities management that will result in high return on capital. In the light of its 2018 projections, Garanti aims to achieve an ROAE of above 16.5% and an ROAA of above 2.2%.

2018 promises to be a robust year for global and emerging markets alike. Important factors to watch for will be the speed of the Fed's continuing rate hikes, US inflation expectations, commodity prices and ECB Tapering. New CGF utilizations, inflation and preparation for 2019 elections will be hot topics to watch out in Turkey. In emerging markets (EM), country-specific fragilities will gain the foreground; macro parameters such as external balance, internal balance, growth potential and inflation will be monitored closely by investors. These macro parameters together with politics will also determine the share each country will attract from the EM flows.

EXPECTATIONS REGARDING THE GROUP IN 2018

Garanti operates as an integrated financial services group through its leading financial subsidiaries offering services in life insurance and pension, leasing, factoring, brokerage and asset management in Turkey, along with its international subsidiaries operating in Romania and the Netherlands.

Garanti aims to make sure that the synergy captured with its subsidiaries is powerfully sustained in 2018, and the subsidiaries are expected to increase their shares within the Group's net income. In 2018, the Group will keep working towards preserving and improving its asset quality in geographies where its subsidiaries in Romania and the Netherlands pursue their banking operations.

Targets include sustaining productivity increase while preserving its asset quality, upgrading the strong balance sheet structure, and boosting and maintaining the profit generation capability. With respect to its operations in Turkey; in the insurance business, the Group lost some market share in terms of total funds, but increased its market share in the number of participants. At the bottom line, it was the most profitable private company in the sector parallel to its targets. The rise in the number of participants and profitability on the private pension front is anticipated to persist in 2018, and to affect the operating results positively, while solid premium production is projected to continue and keep supporting profitability in the life insurance department. The Group also envisages higher contribution from the leasing business, which should reflect on 2018 results. In the securities business, the positive contribution expected from stock and derivatives volumes to commissions is anticipated to support profitability together with opportunistic trading activities. In 2018, the Group aims to adhere to its sustainability-focused growth strategy

that maintains asset quality, increases productivity and generates capital. The strong share of loans within the assets structure will be maintained, and proactive risk management concept will back the preservation of solid asset quality as it did in previous years. The Group aims to sustain its cumulative net interest margin through an active assets and liabilities management. With their double-digit growth rates, fees and commissions income is intended to remain as one of the Group's significant income generators. The Group will carry on with active productivity management and will focus on molding its business model with an eye on potential growth areas. As before, the Group will persist with its initiatives to create long-term value in 2018; yet, it will continue to keep operating expenses under control. Standing out with its robust capitalization, the Group will retain this quality and move forward. In the light of all of these, the Group will preserve its ability to generate sustainable profit on the back of its differentiated business model.