

## SUMMARY OF THE BOARD OF DIRECTORS' REPORT

In 2018, protectionist policies gained the forefront globally, whereas accommodative monetary policies in developed economies carried on with normalization. The tightened financial conditions around the world, combined with reduced liquidity, trade war concerns and uncertainties led to higher financing costs for developing economies and restricted fund flows into these countries. In this period, although the Turkish economy displayed strong growth rates in the first half of the year, economic activity exhibited slowdown and stabilization in the second half due to the developments in the domestic and international markets. As being the engine of the economy through its support to real sector and also investments, banking industry was directly impacted by macroeconomic developments. In this time frame, risk factors such as liquidity, capital and asset quality gained the foreground in the sector owing to increased vulnerabilities in the markets. However, the Turkish banking sector maintained its solid stance and paved the way for the healthiest economic stabilization possible.

In the highly volatile year of 2018, Garanti preserved its strong profitability ratios, robust capitalization and liquidity. In this context, Garanti aimed to optimize permanence of its liability items and diversify its funding facilities, while composing the assets items so as to maximize risk-adjusted return on capital.

While consolidated net profit of Garanti went up by 5% to reach TL 6 billion 707 million year-over-year, TL 1 billion 90 million set aside in free provisions in the second half of the year brought total free provisions to TL 2 billion 250 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 15% and Return on Average Assets (ROAA) of 1.7%. Including the total free provisions set aside throughout the year, ROAE was 17%.

In a year of limited credit growth that resulted from the deceleration in the second half of the year, Garanti increased its consolidated total assets by 13% on an annual basis,

bringing it to TL 399 billion, and succeeded in maintaining a high percentage of interest-bearing assets. Today, 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.

In 2018, Garanti preserved its liquid balance sheet composition with the help of its prosperous dual currency balance sheet management. Dynamically managed funding base of the Bank continued to be largely composed of deposits. Customer deposits base expanded by 22%, a rate that is well above the loan expansion, which helped Garanti to highly outperform the sector and improve its loan to deposit ratio (LDR) by 14 points on a consolidated basis. Garanti's leading position in consumer deposits is the outcome of its innovative business model that places customers' needs and satisfaction at the core of its business.

Garanti successfully defended its spreads owing to disciplined loan pricings and the high share of demand deposits in total deposits. Despite the rapidly rising market interest rates, Garanti was able to improve its net interest margin including swap cost by 61 bps with the help of CPI-linkers that are kept for hedging purposes against possible volatility in interest rates. Hence, with 5.3%, Garanti remained the bank with the highest net interest margin among its peers.

Non-performing loans ratio showed a rise this year due to the volatile economic conditions. The NPL ratio went up from 2.6% in 2017 to 5.2% in 2018. Net new NPLs mostly consisted of high-amount commercial loans, which accounted for 65% of all new NPLs. On the other hand, consumer and SME loans sourced a smaller portion of net new NPLs, accounting for 35% of total new NPLs.

Paying the utmost attention to stakeholder satisfaction, Garanti completed the rollout of its new service model in branches

in 2018. The new branch model already began contributing flexibility to the sales force, while increasing revenue generation capacity and cost efficiency. Garanti continued to focus on cost/revenue synergies and improved its cost/income ratio by 12% since 2015.

In 2018 that saw reduced contribution of commission income originating from loans, Garanti succeeded in recording an annual growth rate of 32% in net fees and commissions, well above the projections. Boasting the highest fee base among its peers, Garanti carried on with its sustainable income generation on the back of its diversified fee base.

Despite the loss resulting from the 40% depreciation of the Turkish lira and the negative effect arising from the rise in interest rates in 2018, Garanti was able to maintain its Capital Adequacy Ratio at 16.5% with the contribution from net profit. This is well above the Basel III required ratio of 11.4% set for 2018.

Supporting responsible and sustainable development is among the strategic priorities of Garanti. Turkey's first social bond that Garanti issued exclusively for women entrepreneurs in June in cooperation with the IFC has constituted an innovative example for funds secured from abroad. In July, Garanti assumed a pioneering role once again in the sector in terms of sustainable finance with Turkey's first green loan. Garanti takes place as the only bank from Turkey among the world's 28 leading banks that will spell out global banking principles for sustainable development. Garanti continues to work towards creating an inclusive economy where all individuals have equal access to opportunities, to support active participation of women in economic life, and to help flourish the entrepreneurial ecosystem in Turkey.

Garanti's recurring strong performance comes not as a result of ad-hoc steps, but of a long-lived and well-planned journey. Also in the period ahead, Garanti will be making decisions with an eye on the needs of future generations, and will keep fulfilling its share of the responsibility for a sustainable future.

We would like to thank all our stakeholders and particularly our employees for their confidence in us and for their valuable contributions.

# 2018 KEY PERFORMANCE INDICATORS

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

Garanti employees are one of its most important assets and one of the main pillars of its strategy. Garanti aims to provide a fair working environment that encourages full utilization of employees' skills, offering a wide range of opportunities and ensuring recognition and awarding of their accomplishments.

By constantly investing in digital platforms to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions, Garanti increases the share of digital channels in total sales.

Moreover, Garanti creates shared value and drives positive change through lending based on impact investment, as well as strategic partnerships and community programs focusing on material issues for both Garanti and its stakeholders.

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



## CUSTOMER EXPERIENCE

### NET PROMOTER SCORE

*Highest*  
among peer group

### GROW CUSTOMER BASE EFFECTIVELY

*> 16 million*  
customers chose Garanti

### DISABLED FRIENDLY ATMS

*5,210*  
(99% of all ATMs)



## HUMAN CAPITAL

### EMPLOYEE ENGAGEMENT SCORE

*67*  
Maintained its highest employee engagement level in banking sector

### AVERAGE HOURS OF TRAINING PER EMPLOYEE

*47 hours*

### HIGH PERFORMER TURNOVER

*2.74%*

### WOMEN EMPLOYEES IN DECISION MAKING POSITIONS

*40%*



**DIGITAL TRANSFORMATION**

*1/5*  
of all digital transactions  
in Turkey go through Garanti

**DIGITAL SALES**

Increased share of digital sales  
to total sales: from 33% to  
*44%*

**NON-CASH FINANCIAL  
TRANSACTIONS THROUGH  
DIGITAL CHANNELS**

*95.5%*



**RESPONSIBLE  
AND SUSTAINABLE  
DEVELOPMENT**

**AMOUNT OF IMPACT  
INVESTMENTS**  
*TL 35.2 billion*  
(to date)

**SUSTAINABILITY INDICES  
IN WHICH GARANTI  
IS INCLUDED**

*7*

**INVESTMENT IN COMMUNITY  
PROGRAMS**

*TL 20.2 million*

**% OF LOANS WITH  
ESG PROVISIONS IN  
LOAN AGREEMENTS**

*100%*



**FINANCIAL  
PERFORMANCE**

**RETURN ON AVERAGE ASSETS**  
*1.7%*

**RETURN ON AVERAGE EQUITY**  
*15%*

**NON-PERFORMING LOANS RATIO**  
*5.2%*

**CAPITAL ADEQUACY RATIO**  
*16.5%*

**COMMON EQUITY TIER 1 RATIO**  
*14.2%*

**COST / INCOME**  
*35.6%*