

RESPONSIBLE AND SUSTAINABLE DEVELOPMENT



It is one of the strategic goals of Garanti to mobilize human and intellectual capital along with financial capital to support responsible and sustainable development.

The Bank's empathy skills let Garanti understand the conditions surrounding its customers and other stakeholders, allowing the Bank to develop solutions that cater to their needs. Taking into consideration the 2030 Agenda¹ that ranks high among priority topics, the Bank develops innovative financial instruments and solutions such as the green loan and promotes them in the sector through cooperation platforms.

The Bank collaborates with its peers and the business world at a global level to identify new opportunities, to determine emerging best practices and products, and to remain a leader on sustainability in Turkey.

To this end, Garanti provides active support or chairs a total of 24 initiatives including a number of intermediary platforms including the United Nations Environment Program Finance Initiative (UNEP FI), Principles for Responsible Banking, Global Compact Turkey, and the Turkish Business Council for Sustainable Development (BCSD Turkey).

As a constituent of 7 sustainability indices in total including the Dow Jones Sustainability™ Emerging Markets Index, Garanti analyzes the sector's leading practices in environmental and social areas and originates new areas for continuous improvement. Garanti shows the way for sustainable pathways through providing content support to collective policies and position papers of the private sector, which numbered 14 in 2018.

Garanti diversifies financial instruments provided for low-carbon and inclusive growth, and cooperates with international financial institutions for low-cost funding. Drawing on its intellectual capital, the Bank introduces innovative financial

resources that incorporate sustainability criteria, as exemplified in the first social bond issue ever carried out by a private bank in an emerging country.

The green project finance loan and the green corporate loan Garanti launched in the reporting period drive borrowers to improve their sustainability performances throughout the term of the loan. Both representing the first examples of their kind in Turkey, green loan agreements harbor advantages in terms of loan interest or commission rates for borrowers, which are made available depending on the achievement of improved performance in environmental, social and corporate governance areas that satisfy the predefined criteria during the term of the loan.

As climate change continues to be one of the most significant global crises in the 21st century, responsible finance approach is molded to address climate change issues in addition to societal challenges such as fostering employment through supporting SMEs in growing their business.

Having allocated 100% of its project finance support for greenfield energy investments to renewables as in recent years, thus increasing the total lending to this area to date to USD 5.1 billion, Garanti's support to green energy continues with solar energy investments commissioned in its own branches.

Garanti believes that a strong economy and business model are attainable only through strong communities, a sustainable environment and empowered individuals. To this end, the Bank creates shared value through its strategic community programs focusing on material issues such as skills gap, education, cultural development and environment.

Launched in 2017 by the Teachers Academy Foundation (in Turkish: ÖRAV), the 5 Pebbles: Social and Financial Leadership

¹ The 2030 Agenda refers to 17 Sustainable Development Goals ('SDGs') as defined in 2015 by UN-member countries to end poverty, combat inequalities and injustice, and overcome climate change by 2030.

Project aims to instill an awareness of financial literacy in future generations. Within the scope of a collaborative project of Garanti and Bahçeşehir University launched in 2016, it is intended to improve 8-10 aged children's skills and competencies required by our age such as problem solving, analytical thinking and teamwork through entertaining content including coding and robotics in technology workshops so that they are better equipped for the requirements of the digital age. In addition, Garanti remains as the main sponsor of the Turkish Entrepreneurship Foundation, namely Girvak, working to drive the culture of entrepreneurship and to encourage youth to experience entrepreneurship by learning from their inspirational role models, taking part in various entrepreneurship activities and networking since 2014. Founded

with the motive of being instrumental in bringing culture and arts to the society, SALT continues to operate as a not-for-profit autonomous institution out of three locations, namely SALT Beyoğlu, SALT Galata and SALT Ankara.

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

VALUE DRIVER	INDICATOR	PERFORMANCE	
		2018	2017
DRIVE POSITIVE CHANGE THROUGH STRATEGIC PARTNERSHIPS	Participation in sustainability related initiatives and memberships	24	27
	Engagement platforms	44	36
	Sustainability indices in which Garanti is included	7	6
	Policies/Position Papers Garanti contributed	14	8
CREATE SHARED VALUE THROUGH LENDING BASED ON IMPACT INVESTMENT PRINCIPLES	Total Sustainability Funds utilized from IFIs (million TL)	396	841.7
	Sustainable products / credit lines	34	32
	Amount of impact investment (billion TL)	35.2	22.8**
	Market share in WPPs	28.1%	30.2%
	SDGs contributed via E&S risk management of loans	10	10
	Avoided GHGs through renewable portfolio* (million tonnes of CO ₂ e)	5.4	5.4
	Scope 3 footprint of greenfield energy production portfolio (in new PF commitments)	0	0
FOCUS ON COMMUNITY INVESTMENT PROGRAMS WHICH DELIVER IMPACTFUL OUTCOMES ON MATERIAL ISSUES	Issues addressed by community programs	3	3
	Amount of investment in community programs (million TL)	20.2	20.3
	Renewables in greenfield energy production portfolio (in new PF commitments)	100%	100%
SROI (SOCIAL RETURN ON INVESTMENT) OF COMMUNITY PROGRAMS	Quality Education Projects	3.63	***
	Entrepreneurship Projects	2.27	-
	Culture and Art Projects	1.45	-



* Based on the total operational installed capacities of HEPP, SPP and WPP projects in the financing of which Garanti has participated.
 ** Restated for 2017 due to the change in scope.
 *** Not calculated in 2017.

INTRODUCE NEW SUSTAINABLE PRACTICES THROUGH PARTNERSHIPS

The Sustainable Development Goals emphasize the importance of cooperation and empathy among all stakeholders from governments to individuals in reaching the 2030 targets.

Garanti combines its understanding of leadership with empathy skills, and is transforming the sector through engaging and building partnerships with key stakeholders to implement sustainability initiatives.

For many years, Garanti has been participating in local and international organizations, which allowed for widespread, high-leverage engagement of the business community, governments and policymakers with numerous national and international organizations.

Garanti chairs, or participates in, the working group meetings of the United Nations Environment Program Finance Initiative (UNEP FI) Principles for Responsible Banking, and the working group meetings of the Global Compact Turkey, the Turkish Business Council for Sustainable Development (BCSD Turkey), the Banks Association of Turkey (in Turkish: TBB) Role of the Financial Sector in Sustainable Growth Workgroup and Carbon Pricing Leadership Coalition (CPLC).



More information on the list of initiatives and organizations supported by Garanti Bank is available in the Supported Initiatives section on Garanti Investor Relations website.



For more information on the management of sustainability matters and Garanti Bank's interaction with stakeholders, please refer to Stakeholder Engagement, Our Material Matters, Corporate Governance and Risk Management sections.

WHAT WE DID IN 2018

In 2018, Ebru Dildar Edin, Garanti Bank's Executive Vice President responsible for Corporate and Investment Banking became the Chair of the Turkish Business Council for Sustainable Development (BCSD Turkey). With a total of 60 members from 18 sectors representing 15% of Turkey's gross domestic product, BCSD Turkey has been working for 15 years

to make sustainability one of the key strategies of the business community.

Garanti has been the only bank from Turkey among the 28 founding members of the UNEP FI Principles for Responsible Banking launched in Paris on November 26 with total assets representing USD 17 trillion. The Principles for Responsible Banking which are expected to significantly contribute to UN Sustainable Development Goals and Paris Climate Agreement objectives, focus on the six main pillars: Alignment, Impact, Clients and Customers, Stakeholders, Governance and Target Setting, Transparency and Accountability.

The steps it has taken to drive the private sector to integrate the 2030 Agenda into their business models have brought Garanti the title of the CEE's Best Bank for Sustainable Finance at the Awards for Excellence 2018 by Euromoney, one of the world's leading finance magazines. Garanti remained as a constituent of the Dow Jones Sustainability™ Emerging Markets Index, FTSE4Good Emerging Markets Index, and Bloomberg Gender-Equality Index, as well as BIST Sustainability and Corporate Governance Indices.

OUTLOOK

Garanti is aware of the need to collaborate and engage with its peers and suppliers on a global level to identify new opportunities, capture emerging best practices and products, and remain as a sustainability leader in Turkey. To this end, the Bank will continue to engage with different stakeholders at the national and international levels to follow the latest developments and include their views in decision-making processes. Garanti will mainly focus on enhancing non-financial risk management approaches within the Turkish banking sector. Additionally, it will support activities to boost public-private sector partnerships.

CREATING SHARED VALUE FOR ALL THROUGH IMPACT INVESTMENT

Garanti Bank diversifies financial instruments it offers for low-carbon and inclusive growth, and establishes cooperation with international finance institutions focusing on sustainable development. By developing products and services for diverse needs, the Bank pays attention to providing financial solutions facilitating transition to a sustainable economy.

WHAT WE DID IN 2018

Financing the Transition To a Low-Carbon Economy

It is a primary objective for Garanti to provide the necessary financing for the renewable energy industry, which is making exponential progress through global technological developments, and to contribute to utilization of renewable energy potential of our country.

Garanti published its Climate Change Action Plan in October 2015, which focuses on carbon pricing, reducing deforestation, managing climate-related water risks and implementing green office standards. Garanti has been the first bank in Turkey to commit to UN Global Compact’s Business Leadership Criteria on Carbon Pricing. The Emission Trade System is still not being actively used in our country. In order to reflect global developments in this respect in its business model, Garanti keeps applying shadow carbon pricing to 100% of greenfield electricity generation projects in its project finance deals.

With the Action Plan referred to above, Garanti also pledged that a minimum of 60% of the total funds allocated to greenfield energy production facilities will be directed to renewable investments. In 2016, Garanti Bank took its pledge one step further and committed to a renewable energy share at a minimum of 70% of the greenfield power sector financing to be provided by 2020 in new project finance transactions. In 2018, this ratio was far exceeded as it reached 100% similar to previous years.

To date, Garanti maintained a 28.1% share in Turkey’s operating installed wind power capacity. The amount of cumulative financing provided to renewable energy investments exceeded USD 5,1 billion.

Also, in 2018, the total avoided emissions of operational solar power plants, wind power plants and hydro power plants projects that Garanti has participated in financing was 5.4 million tCO₂e based on the current average grid emission factor for Turkey. As of 31 December 2018, Garanti Bank has allocated:



■ USD 2.48 billion to Wind Power Projects (WPP), for 2,146 MW current installed capacity, which will reach a total installed capacity of 2,421 MW once fully operational,

■ USD 2.42 billion to Hydropower Projects (HEPP), for 1,811 MW current installed capacity, which will reach a total installed capacity of 3,607 MW once fully operational,

■ USD 263 million to Geothermal Power Plant Projects (GTTP), which will have a total installed capacity of 337 MW once fully operational,

■ USD 210 million to Solar Energy Projects (SPP), which will have a total installed capacity of 260 MW once fully operational,

■ USD 15 million to Biomass to Energy Projects, which will have a total installed capacity of 24 MW once fully operational.

In 2018, all of the project finance loans Garanti provided for greenfield power plants have been allocated to renewable energy projects.

The Bank consolidated its support to renewable energy with solar energy investments launched at three different service locations to supply its own electricity need.

Garanti also launched its Environment-Friendly Auto Loan in May 2017 for the financing of hybrid and electric automobiles that provide fuel efficiency and stand out with their environmental features. Total lending reached TL 4.8 million at the end of 2018. Garanti believes there is strong potential moving forward given the international pledges and developments in this area.

Through the green project finance loan and green corporate loan introduced in the reporting period, Garanti encourages borrowing companies to improve their sustainability performance throughout the term of the loan. Following the USD 10 million-loan extended to Zorlu Energy, the project finance deal in the amount of USD 260 million signed between Akfen Renewable Energy and four domestic and two international banks, in which Garanti participated as the green loan agent, was converted to a green loan. Under the green loan agreements, each one a first in Turkey in their respective avenues, borrower companies may access advantages in terms of loan interest or commission rates provided that they achieve improved performance in environmental, social and corporate

governance areas as benchmarked against preset criteria throughout the term of the loan.

Supporting Women Entrepreneurs

Garanti supports active participation of women in employment and economic life, with the understanding that an inclusive economy where all individuals make use of opportunities equally will be more efficient and can grow faster. Commitment to gender equality means developing our country in a way that it is beneficial for everyone beyond our Bank.

The loan amount provided to women customers, whom the Bank categorizes as a special customer group in SME Banking, reached TL 5.5 billion by the end of 2018.

Besides financing, Garanti provides entrepreneurship training for women through the Women Entrepreneurs Executive School and supports women entrepreneurs in developing their businesses by creating ecosystems that enable knowledge and experience sharing.



You may find all programs and other practices developed specifically to meet the needs of women entrepreneurs under the Customer Experience Section.

Fostering Employment through Supporting SMEs and Entrepreneurship

Making up 74% of the total employment in Turkey, SMEs are important contributors to the economy, domestic development, and inclusive and value-added growth. Garanti supports SMEs in increasing their financial resilience and making value-added production that will benefit the economy.



Please refer to the Customer Experience Section for more information on Garanti's support to SMEs and entrepreneurship.

In 2018, the amount of installment commercial loans extended by Garanti SME Banking² to small and medium sized enterprises was TL 56.4 billion.

Partnering with Financial Institutions

Leading the sector to transform the real sector's way of doing business, Garanti signed a 5-year agreement for USD 150

million equivalent TL 540 million with the IFC (International Finance Corporation), a member of the World Bank Group, within the scope of the Mortgage Backed Securities Issuance program. The issuance is the first green bond issued by Garanti and is also the first Mortgage Backed Securities issuance that the IFC invested in in Turkey.

Garanti makes available this fund, which is also its first deal in local currency with the IFC, mainly to finance "Green Mortgage" extended to environment-friendly projects covering high energy-efficient buildings.

In addition, a Green Mortgage agreement for EUR 75 million equivalent TL 313 million was executed with the EBRD in July 2017, under which total on-lending to date amounted to TL 100 million. These funds falling under the scope of Green Mortgage constitute 46% of the funding Garanti has secured from the Mortgage Backed Securities market.

At the same time, Garanti issued Turkey's first social bond to be disbursed exclusively to women entrepreneurs in cooperation with the IFC under the women entrepreneurs support program launched in 2006, presenting our country with a unique financing instrument for the exclusive use of women entrepreneurs. Within the frame of the international borrowing program, Garanti, in cooperation with the World Bank member IFC, issued a social bond for the amount of USD 75 million with a maturity of 6 years to be used for financing women entrepreneurs. Under the agreement, funding up to TL 400,000 and up to maturities of 36 months will be disbursed exclusively to women entrepreneurs for their working capital needs. Issued also with the contribution of the Goldman Sachs 10,000 Women initiative under the agreement with the IFC, the bond is the first social bond issued by a private bank in an emerging country.

Pursuant to the 6-year loan agreement for USD 87 million signed with the EIB (European Investment Bank), Garanti offers low-interest or long-term loans for the projects of small and medium sized businesses that satisfy the requirements of the agreement, and thus continues to contribute to the country's growth.

OUTLOOK

Garanti will carry on with financing activities that create positive

² Calculated according to the official Small and Medium Sized Enterprises (SME) definition (enterprises employing less than 250 people annually and not exceeding TL 125 million either in annual net sales proceeds or financial balance sheet). Unless otherwise specified, the numbers cited are based on the SME definition of Garanti Bank.

BORROWINGS AND SECURITY PRODUCTS ENTAILING ESG CRITERIA

	RATIO TO PRODUCTS/FACILITIES OF A SIMILAR NATURE	DESCRIPTION
BOND ISSUANCES AND LOANS	5.81%	During 2018, Garanti Bank secured funds worth USD 162 million in this scope from international finance institutions. This amount accounts for 5.81% of the total financing the Bank secured in 2018.
SECURITY PRODUCTS	22.72%	Garanti Pension's sustainability stock pension investment fund was worth TL 111.3 million as at end-2018 and makes up 22.72% of Garanti Pension Investment Funds.

impact. The Bank will expand its green products and services to support Turkey's transition to a low-carbon economy and to contribute to the global 2-Degree target. In that respect, Garanti will continue to prioritize renewable investments and take more ambitious actions regarding carbon-intense sectors in its portfolio.

Garanti will also advance in supporting entrepreneurs and SMEs through various programs and initiatives, which eventually will contribute to creating employment opportunities and providing the sustainable growth of the Turkish economy, and in working towards rendering the entrepreneurs and SMEs sustainable businesses.

Garanti pursues a prudent external funding strategy, which is an important pillar underpinning a sustainable and well-diversified funding base. The Bank targets to expand its correspondent network in different geographies and meet the client needs for international transactions. Garanti aims to provide customized trade finance solutions for its clients and enter into new cooperation in this area with correspondent banks and export credit agencies.

COMMUNITY INVESTMENT PROGRAMS

Quality Education

Addressing the global challenge of expanding educational opportunities and decreasing the skills gap are fundamental to achieving the Sustainable Development Goals (SDGs) set by the United Nations.

The Teachers Academy Foundation (ÖRAV), established by Garanti Bank in 2008, continues its activities as the first and the most active non-governmental organization focusing on the personal and professional development of teachers in Turkey. Launched in 2017 as a collaborative initiative by Garanti and the Teachers Academy Foundation, the 5 Pebbles: Social and Financial Leadership Project aims to instill an awareness of financial literacy in future generations. Comprised of five modules, the project that also entails various activities provides training in the areas of "Self-Exploration and Understanding", "Rights and Responsibilities", "Saving and Conscious Spending", "Planning and Budgeting" and "Social and Financial Entrepreneurship" to children with their active participation.

"Code the Future with Garanti" project, which aims to better prepare children aged 8-10 for the requirements of the digital age, was launched under the cooperation of Garanti Bank and Bahçeşehir University in 2016. The aim is to equip children with skills and competencies required by the present day such as problem solving, analytical thinking and teamwork through entertaining content including coding and robotics in technology workshops.

The educational program "The Enjoy Learning Math & Science" developed by the Educational Volunteers Foundation of Turkey (in Turkish: TEGV) to improve primary school students' math and science skills and problem solving capabilities was launched in 2015 with the sponsorship of Garanti.

Carrying out its activities with the support of Garanti, Tohum Autism Foundation's Continuous Education Unit has been providing theoretical and practical education about autism to special education teachers, parents with autistic children, related experts and university students.

Sports and physical education can motivate children and youth to attend and engage in formal and informal education, as well as improve academic performance and learning outcomes. Sports can teach transferable life skills and key values such as tolerance, inclusion and can lead towards learning opportunities beyond school. Sports can advocate for gender equality, address constricting gender norms, and provide inclusive safe spaces.

With this perspective, Garanti has been the main sponsor of 12 Giant Men (National Men's Basketball Team) since 2001, Pixies of the Court (National Women's Basketball Team) since 2005, 12 Brave Hearts (National Men's Wheelchair Basketball Team) and 12 Magical Wrists (National Women's Wheelchair Basketball Team) since 2013. With this inspiration drawn from the 12 Giant Men, the 12 Giant Men Basketball Academies project was initiated aiming for the basketball culture to be adopted by larger audiences and popularized.

Entrepreneurship

Garanti is the main sponsor of the Turkish Entrepreneurship Foundation, namely Girvak, working to drive the culture of entrepreneurship and to encourage youth to experience entrepreneurship by learning from their inspirational role models, taking part in various entrepreneurship activities and networking since 2014. Each year, the Foundation admits a set number of university students aged 17-25 to the Fellow Program. In addition, case studies are carried out with Garanti mentors and fellows.

As explained in the Customer Experience Section, Garanti also conducts educational and skills development programs such as Women Entrepreneurs Executive School and Women Entrepreneur Meetings in order to support its customers in the SME segment. These programs create positive impact on social dilemmas such as gender equality.

Furthermore, Garanti started its GarantiPartners program in 2015 in order to support entrepreneurs in all aspects of their new ventures.



Please refer to the Customer Experience Section and GarantiPartners website for details of the program.

In addition to those, Garanti Bank-BBVA Momentum Social Entrepreneurship Support Program, which is intended to support entrepreneurship seeking to create a high social impact through a sustainable business model, has been ongoing since 2017.

Culture

Cultural aspects, including active participation in cultural life, the development of individual and collective cultural liberties, the safeguarding of tangible and intangible cultural heritages, and the protection and promotion of diverse cultural expression are core components of human and sustainable development. In 2011, Garanti unified Platform Garanti Current Art Center, Ottoman Bank Museum and Garanti Gallery that had been operating under its organization to make culture and arts accessible to all parts of the society under one roof, namely SALT. A not-for-profit and autonomous entity, SALT contributes to the society through SALT Beyoğlu, SALT Galata and SALT Ankara.

Garanti has also been striving to make cultural activities that take place in limited communities become widespread. As the main sponsor of İstanbul Jazz Festival for 22 years, Garanti has been supporting the leading music venues in İstanbul under the brand named "Garanti Jazz Green" and has also been screening music oriented movies with the series of "İçinden Caz Geçen Filmler".

Environment

Garanti has been the main sponsor of WWF-Turkey for 26 years with the slogan Garanti for Nature. WWF is one of the largest wildlife protection associations in the world, with 13,000 projects conducted annually around the world and 6,200 employees in more than 100 countries.

Garanti also supports the Earth Hour movement organized by the WWF every year in order to point out the world's environmental problems.

Garanti is also the main sponsor of CDP Turkey, the Turkey office of the world's most powerful green non-governmental organization.

Social Impact Analysis

Garanti conducted a Social Impact Analysis using the Social Return on Investment (SROI)³ method in order to assess the value and the social impact of six ongoing projects in 2018. According to the results of the analysis, the SROI values are 3,63 for the Bank's quality education projects, 2,27 for entrepreneurship projects, and 1,45 for culture and arts projects.

WHAT WE DID IN 2018

ÖRAV reached 13,031 teachers in 81 cities, and the number of active users of the website (eKampüs) reached 133,534 in 2018.

The 5 Pebbles: Social and Financial Leadership Training reached more than 5,000 students from 112 schools in 12 cities in 2018.

35 teachers and 175 3rd and 4th graders attended the workshops "Code the Future with Garanti" workshops organized in state schools in 7 cities scattered across the seven geographical regions of Turkey in 2018.

"The Enjoy Learning Mat & Science" educational program offered training to 94,367 children with the support of 2,854 volunteers in 2018. Out of 2,854 volunteers, 605 voluntarily worked in both math and science modules of the program.

2,125 people were reached through the work carried out by Tohum Autism Foundation with the support of Garanti in 2018. The "12 Giant Men Basketball Academies" (12 DABO) Project reached 750 students in 24 cities in 2018.

After receiving 6,400 applications for the program in its debut year that rocketed up to 30,000 in its second year, Girvak attracted 112,000 applications from 81 provinces in Turkey in 2018. At Girvak that currently has 68 Fellows from 36 universities from 14 cities and 146 Alumni, 52 startups pursue their operations presently, 13 of which have received support.

SALT Beyoğlu, SALT Galata and SALT Ankara hosted seven exhibitions and a number of public programs. The events attracted 162,210 participants. In the same timeframe, the three SALT locations welcomed a total of 334,400 visitors free of charge in 2018.

* Garanti jazz and basketball sponsorships are not included.

³ Social Return on Investment (SROI): SROI is an approach created to measure social impact of projects. According to technical literature, projects with an SROI value higher than 1:1 are considered as successful projects in terms of social return, whereas projects within financial sector with an SROI value higher than 2:1 are accepted as very successful.

2018 was a proud year for the Turkish basketball. All national teams, which have Garanti as their main sponsor, competed in championships and qualification rounds. While Pixies of the Court represented our country in the Fiba Women's Basketball World Cup, 12 Giant Men qualified for the Fiba Basketball World Cup 2019 that will be held in China. 12 Brave Hearts, on the other hand, flew our flag at the World Wheelchair Basketball Championships held in Hamburg.

All in all, Garanti invested TL 20.2 million* for community investment programs in 2018.

OUTLOOK

Garanti aims to align its community investments and their outcomes with material issues that create shared value. In 2019, the Bank will continue to invest in the fields of quality education, entrepreneurship, and culture & arts, which are in line with the Bank's material issues and have high social impact.