

T. GARANTI BANKASI A.Ş.

UNITED NATIONS GLOBAL COMPACT

COMMUNICATION ON PROGRESS



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1. CORPORATE PROFILE

Established in 1946, Garanti Bank is Turkey's second largest private bank with consolidated assets of US\$ 104.5 billion as of December 31, 2013. Garanti is an integrated financial services group operating in every segment of the banking sector including corporate, commercial, SME, payment systems, retail, private and investment banking together with its subsidiaries in pension and life insurance, leasing, factoring, brokerage, and asset management besides international subsidiaries in the Netherlands, Russia and Romania.

As of December 31, 2013, Garanti provides a wide range of financial services to more than 12.4 million customers with close to 19 thousand employees through an extensive distribution network of 990 domestic branches; 6 foreign branches in Cyprus, one in Luxembourg and one in Malta; 3 international representative offices in London, Düsseldorf and Shanghai with more than 4,000 ATMs, an awardwinning Call Center, internet, mobile and social banking platforms, all built on cutting-edge technological infrastructure.

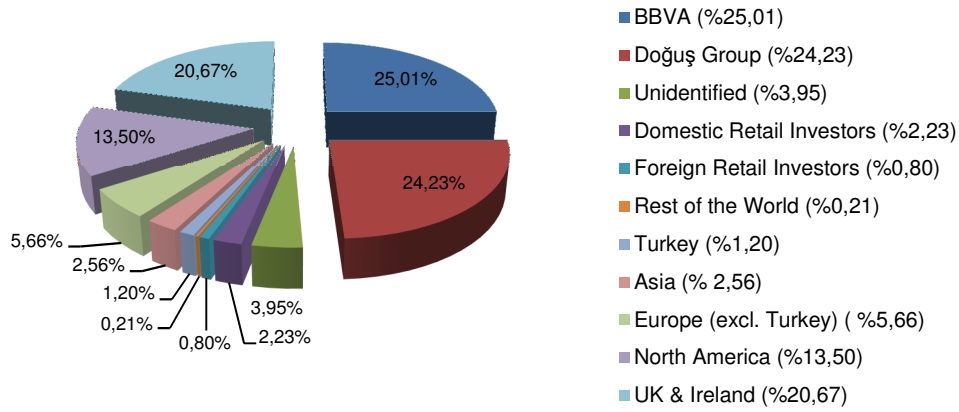
Garanti commands a pioneering position in all lines of business through the profitable and sustainable growth strategy it pursued since the day of its establishment. Its competent and dynamic human resources, unique technological infrastructure, customercentric service approach, innovative products and services offered with strict adherence to quality carry Garanti to a leading position in the Turkish banking sector.

Following the best practices in corporate governance, Garanti is jointly controlled by two powerful entities, Doğuř Holding Co. and Banco Bilbao Vizcaya Argentaria S.A. (BBVA), under the principle of equal partnership.

Having shares publicly traded in Turkey, depositary receipts in the UK and the USA, Garanti has an actual free float of 49.88% in Borsa Istanbul as of December 31, 2013.

With its dynamic business model and superior technology integrated to its innovative products and services, Garanti continues to differentiate itself and facilitate the lives of its customers. Its custom-tailored solutions and the wide product variety play a key role in reaching US\$ 76.9 billion cash and non-cash loans. The high asset quality attained through advanced risk management systems and established risk culture place Garanti apart in the sector.

Shareholding Structure of T.Garanti Bankası A.Ş.



Insider Holdings

The chairman, members of the Board of Directors, the CEO and the Executive Vice Presidents are allowed to own publicly-traded shares of Garanti Bank; their transactions in Garanti Bank shares are publicly disclosed pursuant to Capital Markets Board regulations.

Note: Institutional shareholder composition data based on IPREO Shareholder ID Analysis dated January 2014; number of domestic retail investors, actual free float and foreign ownership ratios based on data from MKK (Central Registry Agency) Currency conversion is based on US\$/TL CBRT ask rate.

2. VISION, MISSION AND VALUES

- ❖ **Our Vision** - is to be the best bank in Europe.
- ❖ **Our Mission** - is to continuously and noticeably increase the value we create for our customers, shareholders, employees, the society and the environment by utilizing our influence, agility and organizational efficiency.
- ❖ **Our Strategy** - is to maintain long-term sustainable growth by continuously creating value.

2.1. Main pillars of our strategy

❖ Focus on customers

- High quality service via innovative products
- Unrivalled competence, experience and implementation capability
- Exceptional business processes throughout the Bank
- Customer Satisfaction Constitution

❖ Focus on the continuity of technological innovation

- The best and the fastest technological equipment that is constantly upgraded and integrated with business segments
- The most up-to-date IT infrastructure

❖ Focus on competent human resources

- Continuous improvement in competency and efficiency of human resources
- Management policy based on performance and internal promotion through internal recruitment

❖ Focus on operational efficiency

- Focus on improving productivity
- Focus on cost/income synergies

❖ Focus on disciplined growth

- Sustainable and profitable balance-sheet growth focused on real banking
- Strong asset quality
- Effective use of capital

❖ Focus on strong delivery channels

- Extensive and efficient branch network
- Excellent customer experience via omnichannel strategy

❖ Focus on sustainable banking

- Commitment to corporate governance, ethics and corporate values
- Minimizing environmental and social impacts of the Bank's activities, products and services
- Playing an active role in establishing high standards for social development and environmental protection with an approach toward creating value for the society and the environment

❖ **Focus on risk management and audit**

- Measurement of risk using globally accepted standards
- Portfolio-wide risk management that associates risk with return and leads to optimal allocation of economic capital
- Proactive audit systems

2.2. Our Core Values

❖ **“Our customers...”**

- Are the cause of all our operations and efforts.
- We always strive to satisfy our customers above and beyond their expectations.
- We are honest, courteous, helpful, solution-oriented and always pleasant.

❖ **“Garanti Bank and its employees have high moral values”**

- We conscientiously follow rules and regulations without exception.
- Having a good conscience is of paramount importance for both the organization and the individuals which form it.

❖ **“The most important element for us is the human factor”**

- We value individuals, attach strong importance to the human mind and invest continuously in human resources.
- Our quality is driven and ensured by our employees.
- Every team member is driven primarily by a quest for quality.
- We understand the importance of delegating responsibilities.
- We encourage our employees to take initiative.
- We believe in the energy for “desire” that makes our employees creative and productive.
- We believe that every employee of our Bank is a “leader in his/her field” and that they are the one who knows best what they are doing.

❖ **Continuous progress**

- We sustain the quality of our services by constantly improving ourselves rather than maintaining the status quo.
- Investing in our people and technology to achieve continuous progress is an inseparable element of our policy.
- Our primary duty is to sustain a high level of quality while constantly improving the quality of our products and services.
- Our approach to improving quality is proactive; we strive to identify the needs and expectations of our customers and address them even before they are voiced by our customers.

❖ **Our environmental and social responsibilities**

- We undertake every effort to be beneficial to the society, the environment and humankind.
- We believe that the environmental and social values set out by Garanti Bank for all of its stakeholders will be taken as a model not only in the banking sector but also in the entire national economy while providing significant contributions to Turkey's development.

❖ **Teamwork**

- We believe in effective teamwork and open lines of communication. We do not compromise these principles.
- We are opposed to strict layers of hierarchy.
- Everybody at Garanti Bank from the CEO to the lowest ranking personnel and all of the organizations which we cooperate with coalesce into a unified power to realize the vision.
- The effective teamwork of the Bank is strengthened by collaboration, mutual trust and respect.

3. CEO STATEMENT

Dear Stakeholders,

With this Communication on Progress to the United Nations Global Compact (UNGC), I am proud to reaffirm Garanti Bank's commitment to the ten principles of UNGC, which we view as a fundamental component of our corporate principles, and to report on our progress to implement said principles in our business activities.

As one of the largest banks in Turkey, we are aware of our influence on other economic actors and therefore, our responsibility to introduce and promote sustainable business practices in our country. We view this responsibility, as well as our aim to achieve sustainable banking, as a part of our core principles.

We further believe that sustainability is a commitment to build a strong and successful business for the future while minimizing the negative environmental and social impacts of our business and sharing long-term values with our stakeholders.

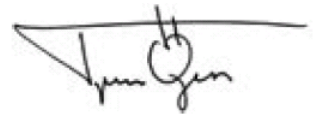
We also recognize the need to collaborate and engage with the national and international community to identify new opportunities and emerging best practices as well as the need to establish a transparent, open and healthy communication with our stakeholders. We view our commitment to the ten principles United Nations Global Compact as an important element of this engagement process.

The following report sets out Garanti's efforts to implement the ten principles of UNGC in our core business activities. We further aim to publish our Sustainability Report under the GRI G4 principles later this year, which will provide a more detailed account of all sustainability initiatives and activities undertaken in our Bank.

As always, we acknowledge the importance of conducting our business activities responsible and remain committed to being the leader in introducing and implementing sustainable banking in Turkey.

Ergun Özen

CEO



4. ABOUT THIS REPORT

Garanti is not only committed to add value for its customers and shareholders, but also for all its stakeholders and the society. Based on its strategy defined as “achieving long-term sustainable growth by continuously creating value”, Garanti Bank believes that the sustainability concept must be internalized in the decision-making mechanisms and business processes of the financial sector on the basis of powerful corporate governance. As part of this process, Garanti determines its priorities with a keen eye on the feedback from a broad spectrum of stakeholders, at the core of which lie customers, employees, shareholders and investors.

Garanti works to integrate its priorities, which are significant for its stakeholders, into all of its operations, from its core lending activities to human resources practices, from initiatives that create value for communities to its corporate governance approach.

This report presents Garanti Bank’s performance on the issues of Human Rights, Labor Principles, Anti-Corruption and the Environment within the period of July 2012 - December 2013.

Garanti Bank is targeting to release its second comprehensive Sustainability Report, which will cover the period of July 2012 - December 2013 and incorporate all of its activities carried out within the frame of its sustainable banking approach, in 2014. The Report is being prepared based on GRI G4 guidelines and will include progress results on past period objectives and goals for the upcoming period.

Please visit Sustainability page of Garanti Bank’s website, to find information on Garanti Bank’s Sustainability Related indicators, which reflect Garanti Bank’s past performance on sustainability.

5. GARANTI BANK'S SUSTAINABILITY POLICY

In April 2014, in order to acknowledge the importance Garanti Bank places on conducting its business activities in a responsible manner and to strengthen its Vision to be the best bank in Europe and its Mission of increasing the value it creates for its stakeholders, a new sustainability strategy and policy was approved by Garanti Bank's Board of Directors.

5.1. Overall Sustainability Vision

Garanti Bank strongly believes that operating sustainably is a key driver to the long-term success of the Bank and aims to be the leader in introducing and implementing sustainable banking to Turkey.

Building on the Bank's Core Values, Garanti Bank defines *Sustainability* as a commitment to build a strong and successful business for the future, while minimizing negative environmental and social impacts, and sharing long-term values with its customers, staff, shareholders and the communities it operates in.

Garanti Bank aspires to achieve its aim of sustainable banking through technological innovations, managing the environmental footprint of its operations and developing sound environmental & social risk assessment as part of its risk management framework. The Bank also recognizes the importance of an effective organizational structure and strong corporate governance to maintain ongoing development and successfully deliver its sustainability objectives.

Furthermore, Garanti Bank 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 a sustainability leader in Turkey.

5.2. Sustainability Principles

Garanti Bank focuses on improving the basics of banking by integrating sustainability into its operations.

The below principles, highlight the measures that Garanti Bank will be taking to achieve the bank's sustainability vision:

Principle	Areas of Focus
Focusing on Customers Through Sustainable Finance	<ul style="list-style-type: none"> ❖ Introduce new practices to Turkey that go beyond common ones and compliance to relevant national laws and regulations; ❖ Enhance E&S risk processes across the Bank and its subsidiaries to minimize the negative impact of lending and investment activities; ❖ Educate customers on Sustainability and become a trusted advisor in supporting and facilitating customers to minimize their own footprint; ❖ Develop products and services that help catalyze the transition

	towards a more sustainable economy, increase financial inclusion and commit to ethical marketing and selling.
Focusing on Managing Environmental Impact of Operations	<ul style="list-style-type: none"> ❖ Measure and monitor the Bank's environmental footprint, and implement measures to increase resource and energy efficiencies; ❖ Set targets to reduce emissions and resource usage in targeted areas and increase cost effectiveness; ❖ Work closely with suppliers to benefit from the latest environmentally friendly solutions and expand sustainability across the supply chain.
Focusing on Communities	<ul style="list-style-type: none"> ❖ Invest in communities through direct contributions and development of mutually beneficial partnerships; ❖ Build on Garanti Bank's current philanthropy and sponsoring activities to further increase the wellbeing and lifestyle of Turkish communities.
Focusing on Stakeholders	<ul style="list-style-type: none"> ❖ Liaise and engage with different stakeholders at the national and international levels to follow the latest developments and include their views into decision-making processes; ❖ Play an active role in increasing financial education and sustainability awareness within Turkish society; ❖ Report transparently on issues material for the Bank and its major stakeholders.
Focusing on Human Resources	<ul style="list-style-type: none"> ❖ Monitor employee satisfaction and ensure a fair remuneration and benefits scheme at all seniority levels; ❖ Continuously educate employees and proactively engage them to develop and implement sustainable initiatives in their day-to-day activities, both at and outside work.
Focusing on Corporate Sustainability Governance	<ul style="list-style-type: none"> ❖ Adopt an effective governance structure to develop, implement and monitor sustainability actions within the Bank; ❖ Integrate sustainable banking into Garanti Bank's operations in line with the bank identity and culture.

Corporate Sustainability Governance

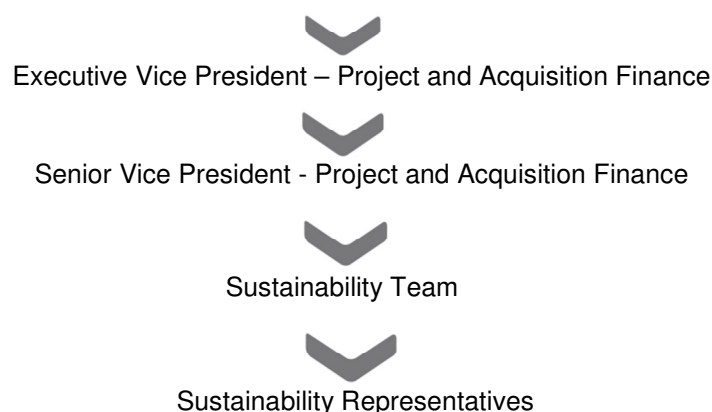
Operating under the Board of Directors and aiming to monitor and steer the Bank's progress in the area of sustainability, the Sustainability Committee is headed by a Board Member. The Sustainability Team submits regular reports to the Sustainability Committee and coordinates efforts undertaken under the main heading of sustainability at Garanti Bank. Coordinated by the Team, Sustainability Representatives, which rose to 325 in number in 2013, are in charge of gathering data and facilitating respective units' implementation of decisions taken by the Sustainability Committee¹.

Sustainability Organization at Garanti Bank

Head of Sustainability Committee (Member of the Board of Directors)

Committee Members:

Executive Vice President – Support Services
 Executive Vice President – Project & Acquisition Finance
 Executive Vice President – Loans
 Coordinator – Corporate and Commercial Loans
 Senior Vice President – Financial Institutions
 Senior Vice President – Corporate Brand Management and Marketing Communication
 Senior Vice President – Project and Acquisition Finance
 Senior Vice President – Internal Control Unit
 Senior Vice President – Investor Relations
 Senior Vice President – Compliance
 Senior Vice President – Construction
 Manager – Strategic Planning



¹ Garanti Bank intends to restructure the Sustainability Committee in 2014. The new structure of the Committee will be included in the Sustainability Report to be issued in 2014.

5.3. Sustainability Milestones

1946

- ✓ Founded in Ankara.

1983

- ✓ Joined Dogus Group, a conglomerate operating in finance, industrial and services sectors.

1990

- ✓ Went public; its shares began trading on the ISE.

1993

- ✓ First Turkish company to issue shares in international markets.

1995

- ✓ First bank to implement "open bank during lunch time" practice.
- ✓ Introduced the first Cash Management Account in Turkey (E.L.M.A.).

1996

- ✓ First private bank to launch "Business Owner Package" dedicated to support SMEs.
- ✓ First bank in Turkey to establish a dedicated Cash Management Department.

1997

- ✓ Became the first multi-branch private bank in Turkey to offer real-time online services.
- ✓ The first Turkish bank to offer internet and telephone banking together.
- ✓ Offered Turkey's first Direct Debit System.

1999

- ✓ The first bank to offer "Virtual P.O.S." system.
- ✓ Launched Turkey's first e-trade website.
- ✓ First bank in the world to issue trade payment rights securitization.

2000

- ✓ Introduced Bonus Card, Turkey's first chip-based and multi-branded credit card.

- ✓ Introduced Shop & Miles, Turkey's first credit card that earns miles while shopping.

2001

- ✓ Merged with Ottoman Bank, another banking subsidiary of Dogus Group.

2002

- ✓ Started Garanti Anatolian Meetings, which aim to bring representatives of SMEs and local administrations together in order to ensure that regional solutions can be devised.

2005

- ✓ The first Turkish company to receive the Investors in People (IIP) achievement certificate for the quality of its human resources practices.

2006

- ✓ The first Turkish bank to implement a "Paperless Banking" project including the implementation of ID scanning practice in branches, a world first.
- ✓ The first Turkish private bank to offer "Woman Entrepreneurs Support Package".

2007

- ✓ Introduced the Environmentally Friendly Bonus Card, a first in Turkey and Europe as an ecologically sound product featuring environmentally friendly plastic, communication materials and donation characteristics.
- ✓ Put "Önersen" into service for employees to provide opinions and suggestions.
- ✓ Began to virtualize servers in order to increase energy efficiency in the data centers, where electricity consumption is highest per unit area.

2008

- ✓ Founded the Teachers Academy Foundation.
- ✓ Established Voluntary Clovers, a group under the Social Responsibility Club, with a total of 70 members.
- ✓ Launched the "No Limits in Teaching" project in cooperation with the Ministry of Education and allocated TL 15 million in resources to the project.
- ✓ Received WWF's Golden Panda Award for the second time.

2009

- ✓ Began to calculate its greenhouse gas emissions for the first time.

2010

- ✓ First submission of its greenhouse gas emissions and climate change strategy to the Carbon Disclosure Project (CDP).
- ✓ Established the Sustainability Committee.
- ✓ Established “Atolye” (Workshop), a project-based innovation platform.

2011

- ✓ Became a member of United Nations Environment Programme Finance Initiative (UNEP FI).
- ✓ Implemented the “Environmental and Social Loan Policies” following endorsement of the Policies by the Board of Directors.
- ✓ Established the Environmental and Social Impact Assessment System and began to test it.
- ✓ Started the construction of the Pendik Technology Campus, which is designed according to the LEED criteria.
- ✓ Began to organize the KOBİLGİ (SME Information) seminars enriched with examples and practices where developments related to areas such as legislation, marketing and sales are explained by experts.
- ✓ Established “SALT”, in an important milestone in the Bank’s longstanding support for culture and the arts.
- ✓ Received acknowledgment in the Carbon Disclosure Project (CDP) Global 500 Report 2011.
- ✓ Increased its share in active Wind Energy Power Plants in Turkey to 40%.
- ✓ Held the Executives Summit with the “Sustainable Growth” theme.

2012

- ✓ Established a full-time “Sustainability Team” under the Project and Acquisition Finance Department
- ✓ Signed up to the United Nations Global Compact.
- ✓ Became the first bank in Turkey to become a member of the Turkish Business Council for Sustainable Development (TBCSD).
- ✓ Received the “2012 Turkey - Carbon Performance Leadership” award from Carbon Disclosure Project by receiving the highest score in the performance category among 32 participating companies.

- ✓ Joined the WWF Green Office Program
- ✓ Set up its Environmental Management System and Environmental Policy.
- ✓ Assumed, with the ISO14001 certificate, the title as the Turkish bank that implement an Environmental Management System in the highest number of buildings and to the broadest extent.
- ✓ Became the first and only institution in Turkey to be deemed worthy of the Investors in People (IIP) certificate in the “Gold” category. IIP is the only international standard in the world to certify the quality of companies’ HR practices.
- ✓ Launched the Sustainability E-Learning Program that is open to all Bank employees.
- ✓ Joined the “HP Planet Partnership Program” for the disposal of used printer cartridges.
- ✓ Underlined the financial sector’s determination to support sustainable growth by undertaking a commitment into the credit appraisal process at the 2012 UN Sustainable Development Conference (Rio+20), which promotes cooperation between the public and private sectors.
- ✓ Decided to make Executives Summit and Future Meetings carbon-neutral.
- ✓ Launched efforts to facilitate disabled customers’ access to financial services.
- ✓ Started its first initiative for an environment-friendly supply chain by including a binding provision concerning full compliance with Garanti Bank’s Environmental Management System in supplier contracts.
- ✓ Brought the “Rotaban” project into practice which aims to reduce fuel consumption of Garanti Bank’s personnel service buses in Istanbul.

2013

- ✓ Signed “Energy Efficiency in Buildings” manifesto developed by the Business Council for Sustainable Development in Turkey.
- ✓ Increased the number of service points which are included in the Environmental Management System to 260, and the number of Sustainability Representatives to 325.
- ✓ Launched an e-learning programme about its Environmental and Social Risk Management for its employees involved in lending operations.
- ✓ Became the first Turkish Bank to be assigned an A level for its Sustainability Report by GRI (Global Reporting Initiative).
- ✓ Recognized as “Best Bank for Sustainability in Turkey” by World Finance Magazine.

- ✓ Awarded by IAIR², the first magazine that focuses on the global economy and sustainability, with “Best Bank for Sustainability – Europe” award.
- ✓ Joined the pilot programme of the International Integrated Reporting Council (IIRC).

² IAIR: International Alternative Investment Review, the first magazine that focuses on the global economy and sustainability.

6. HUMAN RIGHTS AND LABOR PRINCIPLES

Garanti Bank is committed to complying with and fulfilling the requirements of all legislation that govern working life in Turkey, as well as the UN Universal Declaration of Human Rights.

In keeping with its responsible and sustainable banking approach, Garanti Bank aims to create a working environment that is modern and fully respectful of human rights and to extend this approach to all of its stakeholders.

In addition to the legislation that governs working life in Turkey, Garanti Bank is focused on ensuring compliance with and satisfying the requirements imposed by relevant international covenants to which Turkey is a signatory; chief among them,

- ✓ the principles set forth in the United Nations Universal Declaration of Human Rights; and,
- ✓ the basic tenets of the International Labor Organization, a specialized United Nations agency working to promote human rights, social justice, and labor rights.

In 2012, Garanti Bank voluntarily signed the United Nations Global Compact principles, an international initiative for businesses that are committed to aligning their operations and strategies with ten principles addressing sustainability in all its aspects including human rights, and pledged itself to abide by these principles. As a signatory to the United Nations Environment Program Finance Initiative's (UNEP FI) Statement of Commitment by Financial Institutions on Sustainable Development, Garanti Bank has also committed to integrating environmental and social factors in all its business processes, beyond compliance with existing regulations.

In accordance with Garanti Bank's Ethical Principles, Garanti Bank employees are obliged to conduct their relationships with each other in a way that will not disrupt the work climate and will not be perceived as harassment, discrimination or mistreatment in or out of the work place.

Garanti Bank Managers are obliged to take the necessary measures to prevent mistreatment, discrimination or harassment of any type in the work place and to report suspected cases to the Human Resources Department. In addition, Employees are asked to report their grievances in this area to their line managers or directly to the Human Resources Department.

Such complaints are not used against the complainant and are addressed and resolved with due importance. Administrative sanctions required by the Bank's internal procedures are implemented against perpetrators of all types of mistreatment, discrimination or harassment or actions to cover up such behavior.

In compliance with equal opportunity principles, Garanti Bank does not discriminate against its employees. The fundamental criterion for choosing, promoting, or reassigning a person for a post is their suitability. Garanti Bank has received the Equal Opportunity Model certificate, which is a voluntary initiative.

Garanti Bank respects the constitutional right regarding unionization and collective labor contracts. All employees are free with respect to union membership and act of their own free will.

Garanti Bank takes utmost care to provide a physically and mentally healthy working environment for its employees. It takes the necessary precautions prescribed in applicable regulations on Occupational Health and Safety (OH&S) and provides training to its employees. In addition to the measures taken and trainings provided to the employees, Garanti Bank has implemented the Good Work/Life Relation program in 2012 for the purpose of enhancing employee satisfaction.

In accordance with Garanti Bank's Environmental and Social Loan Policies, operations which are determined to be banned or restricted by national legislation and/or international agreements to which Turkey is a party as well as the operations or projects of individuals and companies found to employ child labor or who violate human rights will not be financed, without carrying out any environmental and social impact evaluation and applying limits.

Garanti Bank subjects new projects with an investment value of more than 20 million US dollars to its Environmental and Social Impact Assessment System and requests stakeholder involvement meetings to be held effectively if it deems necessary. Should Garanti Bank identify any social risks, including those associated with human rights, in the course of its assessment, it requests that necessary measures are taken and monitors the implementation throughout the duration of the loan.

Garanti Bank's product and service contracts with third parties are managed in accordance with relevant regulations and the Bank's policies and procedures. Garanti Bank seeks compliance with Turkish legislation, particularly the Turkish Labor Code where necessary, and reserves the right to cancel contracts in the event of a non-compliance with regulations providing for worker protection.

Garanti Bank adopts as a basic principle that its employees shall not be engaged in discrimination on the grounds of language, ethnicity, gender, political affiliation, philosophical disposition, religion, sect, or any other similar basis in their working relationships and expects them to respect human rights.

Garanti Bank is against forced labor and expects the same approach from its customers as set forth in various declarations policies.

Garanti Bank provides remote trainings for its employees on its Ethical Principles, Environmental and Social Loan Policies, and other policies and procedures of a similar nature concerning human rights. The responsibility for the implementation of these policies rests with all employees of the Bank, and the control and supervision of their implementation are conducted by the related departments. Garanti Bank supports the activities of national and international initiatives on sustainability to which it is a member in order to spread these principles.

The Sustainability Committee is responsible for approving and putting into effect Human Rights declaration, its amendment and improvement.

7. ANTI-CORRUPTION

Tackling all types of corruption, including bribery and extortion, is a matter of the utmost priority for Garanti Bank. The Bank has in place the necessary mechanisms to carefully and closely monitor this issue in all actions undertaken by its customers, suppliers and employees.

7.1. Anti-Fraud Policy

The primary purpose of the Anti-Fraud Policy, in which such mechanisms are set out, is to improve the conditions for an honest and reliable working environment by raising awareness of all kinds of misconduct within the Bank.

By defining all types of misconduct, this policy aims to create a common point of view and raise awareness with the aim of preventing potential incidences of misconduct, to identify them in the shortest period of time, and to determine the measures which need be taken against misconduct. The policy also sets out the responsibilities of the senior management, Disciplinary Committee, Audit Committee, Anti-Fraud Committee, Internal Audit Department, Anti-Fraud Monitoring Department, Human Resources, Training Department, Bank management and all other employees under a systematic and comprehensive approach in order to establish, develop and improve control systems with the purpose of preventing any potential incidences of fraud against the Bank.

The policy includes all possible internal and external fraudulent activities within the Bank and is applied uniformly and consistently without consideration of the duty, position or seniority of the persons found to be responsible for incidences of misconduct to the employees of the Bank, but also with respect to all stakeholders in touch with the Bank.

7.2. Code of Ethics and Ethical Sales Principles

Code of Ethics define some of Garanti Bank's general principles such as integrity, equality, transparency, protection of social benefits, respect for the environment, and emphasize the responsibilities of employees in situations where conflicts of interest may arise as well as the importance of the concept of confidentiality first and foremost relating to customer information.

The Ethical Sales Principles emphasize that "reputation" is the Bank's most important value and set out the expected code of conduct, in detail, for employees who engage in sales activities.

In order to further support the culture of compliance throughout the Bank, a web-based training program entitled "Ethical Principles and Rules of Integrity" was undertaken in 2012.

7.3. Prevention of conflicts of interest

The Handbook of Code of Ethics and the Handbook of Ethical Sales Principles, which were issued by Human Resources and Internal Audit Department with the purpose of regulating employee behavior and the professional relations of employees in parallel with the Bank's commitment to corporate governance principles and ethical values, are published on the intranet which can be accessed by all Bank personnel. Principles that all Bank personnel, including senior managers, are responsible for following in the situations set out below are defined under the section entitled "conflict of interest", in our handbook of "Ethical Principles", which was prepared on the basis of the provisions of the Banking Law and other

related regulations, occupational ethics, Garanti Bank's Personnel Communiqué and the Bank's procedures:

- ✓ Use of insider information
- ✓ Employees' use of their personal accounts
- ✓ Accounts of employees' relatives
- ✓ Business relations with relatives and getting gifts from them
- ✓ Accepting gifts and assistance

Issues that fall under the scope of conflicts of interest are evaluated within the scope of the audits performed by the Internal Audit Department. In the event of any compliance failures are identified, the necessary disciplinary sanctions will be applied to the respective personnel in line with the Bank's personnel communiqué and ethical principles.

7.4. Prevention of Laundering Proceeds of Crime and Financing of Terrorism

T. Garanti Bankası A.Ş., its branches, affiliates, subsidiaries are committed to cooperating with law enforcement and regulatory agencies to fight against money laundering, terrorist financing, and other financial offences.

Money laundering can be referred to as activities to disguise or conceal the origin of funds generated through criminal activities.

Generally money laundering process includes three stages:

- ✓ Placement (introduction of proceeds of crime into financial system),
- ✓ Layering (use of layers to distance these proceeds from their sources),
- ✓ Integration (re-entry into financial system of laundered proceeds).

Apparently financial institutions may be used at any point in money laundering process. Even unintentional involvement in any criminal activity may weaken the institution's public reputation.

Garanti's primary concern in banking is:

- ✓ To comply all requirements of applicable laws and regulations,
- ✓ To cooperate with law enforcement and regulatory agencies,
- ✓ To do business as per ethical conduct.

Garanti headquarters in İstanbul, Turkey and is supervised by Banking Regulation and Supervision Agency³. The financial Intelligence Unit of the Republic of Turkey is Financial Crimes Investigation Board⁴.

³ Bankacılık Duzenleme ve Denetleme Kurumu - BDDK, www.bddk.org.tr.

⁴ Mali Suclari Arastirma Kurulu Baskanligi - MASAK, www.masak.gov.tr.

The Republic of Turkey is a member country of the Financial Action Task Force (FATF) and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes.

Since it is accepted that an institution may not always detect whether a transaction is money laundering related, to ensure Garanti is not unwittingly used as an intermediary in money laundering process and other related criminal activities, and to comply with all applicable laws, regulations and rulings in the countries in which it does business, an anti-money laundering program is implemented.

This program includes;

- ✓ Written policies and procedures,
- ✓ Assigning a compliance officer responsible for implementing anti-money laundering (A-ML) policies and procedures,
- ✓ An audit and review function to test the robustness of policies and procedures,
- ✓ Monitoring and auditing customer activities and transactions as per A-ML legislations and regulations,
- ✓ Training of employees on A-ML.

A-ML program is the responsibility of all of the employees.

A summary of policies and procedures follows:

- ✓ **Know Your Customer (KYC):** True and adequate identification of customers and beneficial owners, monitoring transactions, monitoring banking behaviors to determine the correspondence with their income, welfare, social life, type of business, etc.
- ✓ **Account Opening:** Account opening demands should be met only if required evidence of identity and customer data is obtained. An account must bear the real name of the account holder. No numbered or coded or anonymous accounts are permitted. Black list controls are also performed for applicants.
- ✓ **Record Keeping:** Records and evidence of identification and transactions must be kept for at least 8 years.
- ✓ **Suspicious Activity Reporting:** All suspicious transactions and activities must be reported to related authorities.
- ✓ **Correspondence Banking:** When establishing accounts for correspondents, sufficient care must be taken for identifying the institution, nature of business, for obtaining other relevant data such as institutions' A-ML and KYC policies and procedures, and for corresponding with financial institutions in FATF's Non-Cooperative Countries and Territories: Garanti does not maintain any relationship with shell banks.
- ✓ **Cooperation with Authorities:** Where applicable, cooperation with law enforcement and regulatory authorities is essential. This may include, consistent with laws, freezing of accounts, providing information, and so on.

8. RISK MANAGEMENT, INTERNAL AUDIT AND CONTROL FUNCTIONS

At Garanti Bank, risk management, internal audit and control functions are performed by teams that report directly to the Board of Directors and carry out their responsibilities in compliance with applicable legislation and independent of executive functions.

As part of its risk management strategies, which are vitally important for sustainable performance, Garanti Bank systematically monitors and measures its risk exposure through methods compliant with international standards and in line with its framework of written risk policies.

8.1. Risk Management and Internal Audit Organization

At Garanti Bank, risk management, internal audit and control activities are carried out in compliance with applicable legislation and independent of executive functions through an organization that reports directly to the Board of Directors. The Board of Directors is ultimately responsible for establishing and ensuring the effective functioning of risk management, internal audit and control systems and for devising, implementing and maintaining risk management and internal audit strategies and policies that are compatible with Garanti Bank's capital and risk level.

In keeping with the importance given to corporate governance principles, the Audit Committee carries on with its activities in order to ensure performance of the audit and supervision functions of the Board of Directors. The Audit Committee receives information from the units set up under internal control, internal audit, risk management, antifraud and compliance systems, as well as from the independent auditor, with regard to performance of their activities.

The Committee confirms that adequate methods are in place to identify, control and monitor Garanti Bank's risk exposure and regularly informs the Board of Directors of its activities and their results. The Audit Committee also gives its opinion to the Board of Directors regarding activity results of the responsible departments, necessary actions and other issues it deems important for safe conduct of Garanti Bank's activities.

8.2. Activities of the Internal Audit Department

The Internal Audit Department audits Garanti Bank's head office units, branches and consolidated subsidiaries by analyzing the effectiveness of the internal control systems mentioned below.

- Compliance of activities with applicable legislation and internal regulations;
- Accuracy and reliability of financial and operational data;
- Effectiveness of asset protection practices;
- Effectiveness and efficiency of the activities performed in order to reach the defined goals.

Moreover, by way of inquiries and investigations covered among the activities of the Internal Audit Department, fraud, swindling and counterfeiting activities are prevented or noticed, upon which necessary managerial actions are taken immediately.

The Internal Audit Department performs its activities under the categories of on-site audits, centralized audits, inquiries/investigations, and IT audits, financial statement audits and risk management audits conducted by specialized teams. The Department has been organized so as to realize these activities in the most efficient manner.

- On-site audits include head office departments, consolidated subsidiaries and other associated companies, regional offices and branches of Garanti Bank. During these audits, prioritization is carried out in line with the risk-orientation principle, and focus is placed on processes rather than isolated errors.
- Within the scope of centralized audits, deficiencies and errors in products, applications and processes are determined through remote monitoring techniques. Customer complaints are analyzed, whereby hitches in processes and applications are identified and coordination is ensured with related parties for necessary action. Scenario supported analysis and reviews are conducted for establishing and preventing internal misconduct.
- IT audits fulfill the IT auditing functions of the Bank. Within this scope, IT processes, banking processes/ applications, subsidiaries and overseas branches are included in the audit scope, and are audited within the frame of the annual audit plan produced based on annual periodic risk assessment activities.
- Financial statement audits increase audit efficiency in the subsidiaries subject to consolidation, as well as in Garanti Bank.
- Within the scope of risk management audits, process-based audits are conducted which take into consideration internal and legal regulations concerning the Bank's basic risk types.
- Within the scope of investigation works, all acts of fraud and swindling are examined. Work is carried out in coordination with the Anti-Fraud Monitoring Department and the expert team, organized under the centralized audit, which works to establish internal misconduct through early warning signals.

The Internal Audit Department prepares annual audit plans based on a risk-focused approach and in accordance with the resources and priorities of the Department and with the goals and strategies of

Garanti Bank. The scope and frequency of audits are determined according to the assessments based on risk weights and results of previous audits. The plans are prepared to ensure efficient use of existing resources and to maximize the benefit the Bank derives from its activities. Pursuant to the Regulation on the Internal Systems of Banks issued by the Banking Regulation and Supervision Agency (BRSA), internal capital adequacy assessment process (ICAAP), which covers risk-based capital assessments, is audited within the framework of applicable legislation and internal guidelines.

In accordance with the Regulation on the Internal Systems of Banks issued by the BRSA, it is expected that the parent Banking company performs the internal audit functions of consolidated entities in a consolidated and coordinated manner. Accordingly, the Bank's consolidated subsidiaries are audited by the Internal Audit Department in line with the annual

audit plan that considers risk priorities. The audit encompasses the important processes of the above-mentioned subsidiaries and financial information delivered by the concerned to the parent company. Moreover, the Internal Audit Department coordinates the activities for putting into life the group standards adopted within the frame of internal audit implementations at consolidated subsidiaries.

8.3. Activities of the Internal Control Unit

The Internal Control Unit ensures that a sound internal control environment is in place at the Bank. Accordingly, this unit performs the necessary coordination work in this regard, assuring that the Bank's activities are performed regularly, efficiently, effectively and in accordance with the management strategy and policies of the Bank and the applicable legislation and regulations. In this context, infrastructures are set up to ensure functional separation of tasks, sharing of authorities and responsibilities, establishment of a sound reconciliation system, integration of self-control mechanisms and systemic controls into processes, and the identification and monitoring of risks the Bank is exposed to.

The Internal Control Unit bases its control activities and improvement efforts related to the internal control environment on the operational risk matrix. This allows monitoring operational risks across Garanti Bank within an integrated riskbased system that combines impact, probability and current processes.

Internal controllers reporting to the Internal Control Unit perform monitoring tasks using centralized and on-site control methods:

- ✓ Within the scope of Centralized Control, retail loans and investment banking transactions of all branches are examined in a sampling methodology in addition to monitoring the compliance of all of the Bank's accounting and MIS records. Furthermore, in commercial loans of all branches that have been excluded from on-site control as a result of the risk assessment conducted, agreements, collaterals and the documentation are examined in a sampling methodology by the Central Control team in terms of their compliance with the Bank's procedures and the legislation.
- ✓ In on-site controls, Head Office units and branches that have been selected on a risk-based assessment undergo controls for the compliance of their transactions and documentation with internal regulations and applicable legislation. Furthermore, additional tools are used such as risk reporting and self-assessment to enable all branches and units to manage their operational risk

- ✓ The Internal Control Unit is also assigned with the coordination of disaster recovery and business continuity management at Garanti Bank. Within this scope; in addition to efforts on maintaining the existing Disaster Recovery and Business Continuity Plan, periodical tests are executed with relevant units in order that critical processes in the plan, required back-up systems and alternative working sites are kept ready for resuming activities in a projected period and quality.

8.4. Activities of the Anti-Fraud Monitoring Department

The Anti-Fraud Monitoring Department adopts an “enterprise fraud prevention” approach and centrally monitors card, merchant, internet and application fraud. Within the scope of monitoring and controlling operational risks that Garanti Bank is exposed to, the Anti- Fraud Monitoring Department develops strategies to proactively monitor, detect, control and prevent acts of external fraud.

The Department takes action rapidly and efficiently against constantly changing fraud trends thanks to its evergrowing experience and expertise and its quick adaptation to new technologies. Through analyses of acts of fraud, the Department works to minimize the potential losses of the Bank and the customers that may arise due to acts of external fraud.

The Department develops views and suggestions on the Bank's new product and service developments upon assessing the same with respect to external fraud risks. The Department also carries out all necessary investigation about acts of external fraud, sharing information about the same within the Bank and with other banks within the scope of Intelligence Management. In addition to that, the Department carries out training and awareness programs in order to help Garanti Bank personnel understand the importance of the prevention of fraud risks and to establish this culture throughout the Bank.

Within the scope of monitoring and prevention of fraud attempts and incidents, the Department follows up technological developments to increase the security of products and services provided via alternative delivery channels and cardbased payment systems, and to detect and prevent credit card and consumer loan application frauds and attempts of account takeover. For this purpose, the Department develops strategies that are compliant with the Bank's policies and takes the most efficient and effective actions quickly.

8.5. Activities of the Compliance Department

Working with the purposes of managing the potential compliance risks of the Bank and of identifying and preventing these risks before implementation, the Compliance Department aims to help improve the compliance culture constantly, and establish a world-class compliance culture across the Bank.

Organized to address two main fields of activity so as to achieve these goals under the names Compliance Controls Team and Compliance Officer Team, the Compliance Department is assigned with the following tasks: In accordance with Article 18 of the Regulation on the Internal Systems of Banks issued by the BRSA, a Compliance Controls Team is set up under the Compliance Department to perform the compliance function with respect to applicable laws and corporate standards, against situations that might lead Garanti Bank to suffer financial losses, cancellation of authorization or loss of reputation.

The Compliance Controls Team coordinates and supervises existing control mechanisms regarding the compliance of Garanti Bank's activities with laws, internal policies and rules, and Banking practices. The Compliance Controls Team also monitors that processes are revised in accordance with changes in legislation and notification of such changes to employees.

In addition, the Team forms its opinion on new products and transactions before they are implemented. Other key responsibilities of the compliance function include the monitoring compliance risks arising from foreign legislation via assigned employees who are responsible for controlling compliance with local regulations at consolidated subsidiaries and branches abroad and carrying out necessary studies aimed at continuous improvement of the compliance culture and awareness within Garanti Bank.

In accordance with Law No. 5549 on Compliance Program with Obligations Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism, the duties and responsibilities of the Compliance Officer are summarized below:

- ✓ Carry out all necessary efforts to achieve Garanti Bank's compliance with the regulations issued pursuant to Law 5549 and provide necessary coordination and communication with the Financial Crimes Investigation Board (in Turkish: MASAK),
- ✓ Ensure that the compliance program is carried out; develop policies and procedures within this scope; execute risk management, monitoring and control activities; follow up the results of internal audit and training activities,
- ✓ Lay down the efforts related to the training program about Prevention of Laundering Proceeds of Crime and Financing of Terrorism for the approval of the Board of Directors, and ensure that the approved training program is carried out effectively,
- ✓ Look into and evaluate information on potentially suspicious transactions that he/she receives or becomes aware of sua sponte; report any transaction that he/she deems to be suspicious to the Financial Crimes Investigation Board,
- ✓ Manage relations with relevant governmental or private agencies. In performing the duties and responsibilities summarized above, the Compliance Officer Team set up under the Compliance Department cooperates with the Internal Audit Department, Internal Control Unit, Training Department and Legal Department, and meets at certain intervals with the relevant executives to review ongoing activities.

8.6. Risk Management Activities

Garanti Bank measures and monitors its risk exposure by using methods that comply with international standards, and in accordance with the applicable legislation. Advanced risk management software is utilized in measuring and reporting of operational risk, trading risk, credit risk and regulatory capital. Internal processes have been reviewed in order to measure the risks in line with the new capital adequacy regulation that entered into force in July 2012, and efforts continued to ensure regular and accurate flow of data used in computations. In addition, the Bank's risk management strategies, policies and procedures were also updated in accordance with the Bank's needs and best practices. During the

process, the Basel Steering Committee, which is set up to ensure the Bank's alignment with Basel guidelines and to monitor efforts undertaken to achieve compliance, actively continues to ensure internal coordination.

The risk management team of the Bank has been expanded to maintain a functional risk management system, due to the fact that risk management activities entered a process of rapid change and development.

8.6.1. Market Risk

Market risk is measured in accordance with applicable regulations, Garanti Bank's policies and procedures, employing internationally accepted methodologies that are aligned with the Bank's structure, and they are evaluated within a continuously improving structure. Market risk is managed by measuring and limiting risk in accordance with international standards, allocating sufficient capital and minimizing risk through hedging transactions.

Market risk is defined as the risk Garanti Bank faces due to fluctuations in market prices in relation to the positions it maintains on or off its balance sheet for trading purposes, and is calculated daily using the VaR model. Value-at-Risk is a measure of the maximum expected loss in market value of a portfolio of certain maturity as a result of market price fluctuations, at a certain confidence interval and with a certain probability. VaR is calculated using historical simulation method and one-year historical data at 99% confidence interval. Regular backtesting is conducted to measure the reliability of the VaR model. VaR limits are determined in accordance with the capital allocation approved by the Board of Directors and dynamically updated depending on changes in the Bank's shareholders' equity. These limits are monitored and reported daily by the Risk Management Department. VaR stood at TL 47 million by the end of 2013 and its average value for 2013 was TL 77.1 million. Compared to 2012 contraction in the trading portfolio subject to VaR in conjunction with the changed classification of the bonds portfolio within banking and trading book led the impact of the volatility in market prices, observed particularly in May and June, to be limited. VaR does not constitute an important risk for the Bank in view of the amount of Garanti Bank's shareholders' equity. In order to identify risks that might arise from major market volatilities, regular stress tests and scenario analyses are conducted using the VaR model.

Interest Rate Risk Resulting from the Banking Book Duration/gap and sensitivity analyses reports are prepared to determine Garanti Bank's exposure to interest rate risk arising from maturity mismatches in its balance sheet. The Assets and Liabilities Committee (ALCO) and the Asset-Liability Management Department use the duration/gap report for managing balance sheet interest rate risk and for liquidity management.

To manage basis interest rate, funding and country credit spread risks, long-term funding sources such as bond issuance, syndication and securitization has been provided, in addition to using instruments such as interest rate swaps and credit default swaps (CDS).

Approval of the Assets and Liabilities Committee is required for hedging transactions that are related to Garanti Bank's balance sheet. The interest rate risk arising from the banking book is contained via the limit approved by the Board of Directors. The interest rate risk resulting from the banking book is

measured on an unconsolidated basis, using the standard shock method, and is reported to the Banking Regulation and Supervision Agency (BRSA) on a monthly basis.

8.6.2. Liquidity Risk

Within the frame of the risk management policies approved by the Board of Directors, the Asset-Liability Management Department (ALMD), Liquidity Risk Management Committee, and Assets and Liabilities Committee (ALCO) manage liquidity risk in order to take appropriate and timely measures in case of a liquidity squeeze arising from market conditions or Garanti Bank's balance sheet structure.

As part of the contingency funding plan, Garanti Bank monitors liquidity risk within the context of early warning signals, stress levels defined according to possible liquidity risk scenario and severity of the risk, and possible action to be taken at each stress level in a corporate framework.

Core-deposit analyses are performed for deposits, which are an important balance sheet item in terms of liquidity management, and care is paid to ensuring compliance with the regulatory liquidity ratio requirements. Highly liquid assets and alternative funding sources are evaluated by cash flow projections in order to meet possible liquidity requirements at stress conditions. Day-to-day liquidity management is performed by the Asset-Liability Management Department.

8.6.3. Credit Risk

Credit risk management is a process for consistently evaluating and monitoring credit risk and covers all credit portfolios. The internal risk rating model, which was developed for corporate and commercial loans portfolio, has been used in loan granting process since 2003 and was incorporated into the relevant lending policies and procedures. This model was developed using statistical methods on historical data, in order to rate customers using objective criteria.

The internal risk rating model calculates the default probability for each client. Collection performances of non-performing loans in any portfolio are analysed, and loss given default ratios are calculated in view of the time value of the money and costs incurred for making the collections, on the basis of segments and products in the case of commercial and retail loans, respectively.

These ratios are used to calculate expected loss-based provisions and internal capital requirement. Concentrations are monitored across the portfolio with respect to internal risk ratings, sectors, regions, groups and clients.

Models have been established for the evaluation of specialized lending loans according to supervisory slotting criteria. In the granting processes of general-purpose, auto, home, office, home equity, overdraft loans and commercial credit cards and credit card portfolio, which are evaluated under retail and SME lending processes, a union score is utilized, which is a combination of application, behavior and bureau scores.

Within the context of treasury operations, necessary netting agreements are made and counterparty credit risks are monitored accordingly.

8.6.4. Operational Risk

All operational risks in Garanti Bank are managed under the supervision of the Board of Directors and the Audit Committee, within the scope of the identification, evaluation, monitoring and controlling/mitigation of risks. The Audit Committee monitors and evaluates the results of the operational risk monitoring activities of the Internal Audit Department and the Internal Control Unit.

Garanti Bank carries out the necessary work in line with local and international regulations (Basel II) to measure operational risk in accordance with its scale, the internal control systems in place, and databases.

In Garanti Bank, measuring and managing operational risks are monitored primarily in the frame of risk matrix which is comprised by grouping existing and potential operational risks in Garanti Bank in line with business lines, cause effect types and Basel II event types that those risks belong to.

The audit status, impact and probability of each risk are evaluated within this matrix with a view to controlling the risks. The risk matrix is monitored, updated and used in their reviews by the Internal Control Unit and the Internal Audit Department. Garanti Bank's operational risk loss data are collected and evaluated in an internal loss database centrally and systematically and in compliance with Basel II standards.

8.6.5. Reputational Risk

The Bank avoids all kinds of transactions and activities that would cause reputational risk in the eyes of legal authorities, customers and other market actors. The Bank pays utmost attention to be beneficial to society, natural environment and humanity. Trainings are held with the aim of raising awareness about reputational risk throughout the Bank and encouraging all employees to fulfill their duties and responsibilities.

In order to ensure efficient management of reputational risk across the Bank, it is aimed to preserve and improve the Bank's reputation before the customers, and to minimize the Bank's impact upon the environment. Efforts carried out to this end include monitoring the media and the press and social media platforms with respect to the Bank's reputation and managing potential implications; ensuring sustainable awareness of compliance with laws and corporate standards, and development of processes that guarantee management of IT/information security and IT-related risks.

8.6.6. Other Risks

The Bank manages country and transfer risk, strategic risk, concentration and residual risks in alignment with the strategies, policies and implementation procedures devised.

9. ENVIRONMENT

Garanti Bank is committed to continuously and significantly increase the value that it creates for its customers, its shareholders, its employees, the community and the environment. In this context, Garanti Bank's Environment Policy is based on the following principles:

- ✓ Monitor and comply strictly with all environmental legislation. Monitor and analyze carefully both the national and international sustainability programs; go beyond the mere fulfillment of the obligations under the programs joined and raise to the highest level in terms of the value added regarding sustainability;
- ✓ Respect the environment, embrace and spread environmental responsiveness;
- ✓ Enable and promote the efficient usage of all resources;
- ✓ Keep under control the direct environmental impact caused by in-house operations;
- ✓ Evaluate the loans extended within the context of the "Environmental and Social Loan Policies," keep under control the indirect environmental impacts caused by loans;
- ✓ Develop eco-friendly products and services;
- ✓ Bequeath a sustainable world to future generations by constantly improving the environmental performance;
- ✓ Contribute to the awareness and development of all stakeholders by encouraging multi-channel communication.

9.1. Management of the Environmental Impact of In-House Operations

In 2012, Garanti Bank established the Environmental Management System (EMS) in order to manage its direct and indirect environmental impacts in an effective and systematic way. Accepting compliance with the EMS requirements in all stages of its banking activities as a core principle, Garanti Bank also began to provide training to its employees on this issue.

Garanti Bank prepared a handbook to demonstrate how it fulfills the standards set out in ISO 14001, concerning the EMS, and to set out its related strategies and policies. Moreover, the Bank prepared 19 different procedures in order to bring under control and minimize any environmental impacts that may arise at any stage of its activities.

Garanti Bank's EMS was certified with ISO 14001 following audits performed in October 2012 by TUV-SUD, a German independent audit agency. In 2012, Garanti brought a total of 23 centers into its EMS. With this result, Garanti Bank has been recognized as the first bank that operates an EMS in such a large area and context in Turkey. In 2013, Garanti Bank's Environmental Management System has continued to grow and has reached a total of 260 centers, which covers nearly %50 of the Bank's employees.

Accepting that the first step to be taken in tackling climate change is to determine the greenhouse gas emission profile, Garanti has been measuring its carbon footprint and implementing an array of initiatives since 2009 in order to manage it. Assessing the risks and opportunities imposed by climate change on its

activities, Garanti Bank reports all of its efforts to tackle climate change to the Carbon Disclosure Project (CDP). In 2014, Garanti Bank will submit its 5th response to CDP.

Garanti Bank takes effective measures and carries out projects in order to minimize the environmental impacts caused by its activities. Highlights from the activities conducted by the Bank for this purpose are summarized below:

- ✓ **Technological solutions that reduce travelling:** Garanti Bank strives to reduce the negative impacts of business travel on the environment. The Bank focused particularly on travelling needs for training purposes, and achieved significant savings. In this context, the Bank focused on the use of various technologies, such as webinar, interactive remote training and teleconferencing. Another positive result of these techniques is that they have significantly increased and accelerated information sharing processes.
- ✓ **Server virtualization in data centers:** The highest carbon emissions per m² in Garanti Bank's physical service buildings are derived from the use of servers. By means of the virtualization project launched in 2007, the Bank began to virtualize 300 servers in its data centers, which are distributed to different locations throughout Turkey. This technology allows the efficient use of server's capacity, and has enabled the Bank to reduce both electricity consumption and cooling requirement of the servers.
- ✓ **Fuel savings in personnel service buses-Rotaban:** Rotaban is a practice that aims to reduce fuel consumption in Garanti Bank's personnel service buses in Istanbul. Route optimization is performed through an online service in personnel services buses, which are used in many locations in Istanbul.
- ✓ **Restoration of energy and lighting systems:** Garanti Bank has launched a number of practices at different points of its organization, aiming to save energy in its lighting systems:
 - The Bank launched a number of initiatives at its head office, like motion sensors and LED systems that increase lighting efficiency. The Bank also began to use LED systems for the lighting of the outer front of its head office.
 - LED lighting systems are used for band lighting at ATMs. Within the same program, the Bank switched advertising boards in its branches to the LED system, achieving significant energy savings.
 - Astronomical time clocks, adjusted according to sunrise and sunset times, are used in the outer fronts of all ATMs and branches.
 - The Bank has begun using LED lighting in 2013 in branches that are newly opened or in branches that will be renovated, in line with feasibility studies performed with the purpose of replacing old light bulbs with energy-saving LED lighting.
 - The Bank focuses on ensuring the maximum use of daylight (natural lighting) in new branches that will be opened soon or in branches that will be renewed. As well as

enabling the Bank to benefit from lower energy expenses, greater use of natural lighting will provide a healthier environment by supporting its employees' motivation.

- The Bank aims to prevent energy losses by installing heat insulation at its branch fronts.
 - Garanti Bank has examined possible saving opportunities by reducing energy costs in the maintenance and use of its head office building. As a result of these efforts, the Bank aims to render the building energy efficient and to obtain its energy performance certificate.
- ✓ **Use of R410 gas and switching to energy-efficient air-conditioning:** In its recently opened or renovated branches, Garanti Bank began using air-conditioning units which work with R410 gas, which is not contributing to ozone depletion like R22.
 - ✓ **Efforts to save water:** Measures aimed at saving water have been implemented at the Bank's existing service points, as well as its new branches. In this context, Garanti Bank aims to keep daily water consumption under control through the use of new faucets with a lower flow rate. The Bank also treats and collects the rainwater from the roof of the head office building, using it in landscape irrigation. Furthermore, mains water is treated at the head office building and used as drinking water. This practice eliminates use of plastic bottles and the greenhouse gas emission caused by their transport.
 - ✓ **Pendik Technology Campus is designed according to the LEED Criteria:** With construction work having begun in August 2011, the Pendik Technology Campus is a sustainable project with its architectural and engineering solutions. During project design and construction work, LEED criteria such as the building's compatibility with the land, the reduction of energy and water consumption, selection of environmentally friendly materials and the waste management in construction work are taken into account.
 - ✓ **Spreading environmentally friendly practices throughout supply chain management:** Garanti Bank took its first step for an environmentally friendly supply chain by adding a binding article in supplier contracts in 2012 concerning full compliance with the EMS. Articles that aim to protect the environment were included in the purchase processes in EMS procedures, ensuring that the Bank's sensitivity regarding its supply chain was comprehensively adopted.
 - ✓ **Efforts to raise awareness:** Garanti Bank is aware that the effectiveness of the EMS cannot be taken for granted without the support of its employees. Acting on this fact, the Bank designed a Sustainability E-Learning program for all bank personnel, with the aim of raising awareness on the issue. The Bank is committed to raising the awareness of its employees, who form its most precious stakeholder mass. The Bank also added its view of the concept of sustainability to its orientation training, spelling out its expectations of employees on this issue. The brochure entitled "101 Measures" is an initiative that was launched with the aim of informing employees about climate change and the measures that can be taken to prevent negative environmental impacts.

- ✓ **Garanti Bank's recycling program:** The Garanti Bank EMS envisages the re-use of waste where possible and, wherever not, recycling or, where this is not appropriate, its disposal by an authorized disposal company.
 - **Re-use:** Computers that are broken or redundant are delivered to Garanti Technology which examines their potential scope for re-use. Repaired computers are then donated to schools in need if deemed to be usable.
 - **Recycling:** Beginning with buildings subject to the EMS, the Bank began to deliver recyclable wastes to authorized recycling and disposal facilities. Within the framework of the Garanti Bank's recycling program, separation at source is implemented. Recyclable paper, plastic, metal and glass are delivered to whichever municipality the service point is located in or to a licensed recycling firm, where they are recycled. The Bank presses ahead in its efforts to widen separation at source.
 - **Management of Hazardous Waste:** Within the scope of hazardous waste management, hazardous wastes that are produced by the Bank are collected in accordance with determined rules and delivered to authorized recycling and disposal facilities.
 - **Excavation Waste:** Excavation waste and debris left over during branch opening or renewal is removed to disposal areas as designated by the municipality.

9.2. Management of the Environmental Impact of Lending Operations

9.2.1. Environmental and Social Loan Policies

Garanti Bank's Environmental and Social Loan Policies Garanti Bank deals with the environmental and social impacts of activities for which it has provided financing, under a separate topic called "indirect impact". The Bank initially set up the Environmental and Social Loan Policies (ESLP) in order to minimize the indirect impacts of loans granted by the Bank and put them into practice in 2011, following approval by the Bank's Board of Directors.

Environmental and Social Loan Policies constitute the environmental and social principles governing the extension of loans at Garanti Bank. Within the framework of these policies, the Bank runs the "Environmental and Social Impact Assessment Process" (ESIAP) that was designed within two years with the support of an independent consulting firm, as well as the "Environmental and Social Impact Assessment Model" (ESIAM) which is a part of the ESIAP.

Loan requests received by Garanti Bank are first subjected to the ESLP; projects which do not comply with the policies are rejected. The ESLP, which was launched in 2011 and is applied on all loans without a threshold, is based on the following principles:

- ✓ Garanti Bank pays regard to maximizing the environmental and social benefits in financing projects considering their environmental and social impacts.
- ✓ Garanti Bank supports the protection and management of natural biodiversity. It takes into consideration the measures which will protect biodiversity and the natural habitat in the financing of projects.

- ✓ Garanti Bank supports efforts to increase energy efficiency and the transition to a low carbon economy.
- ✓ Garanti Bank subjects new projects with an investment value of more than US\$ 20 million to the ESIAM which was developed by the Bank. With this model, projects are categorized and graded according to their characteristics, size, sensitivity, location and the possible social and environmental impacts. The Bank's decisions are based on the risk rating calculated in accordance with the model.
- ✓ The following financings are not subject to the ESIAM:
 - Acquisition and privatization loans,
 - Construction loans (excluding mass housing projects),
 - Projects for which the Bank provides consultancy services,
 - Short- or long-term loans, that do not include the realization of any project,
 - Loans provided to a project that is already operational (provided that those projects do not create an additional impact), and
 - Refinancing loans for ongoing projects (provided that those projects do not create an additional impact).
- ✓ Following the application of the ESIAM, Garanti Bank may request from the project owners that an Environmental and Social Monitoring Plan (ESMP) is prepared, applied and regular reports are submitted for projects, which have higher risk ratings. The Bank expects the ESMP to be prepared in detail and with content that fits the project's scale and risk level, as well as the Bank's evaluation system.
- ✓ It is imperative that the results of the assessment of environmental and social impacts are shared with the Credit Committee. The limit for total investment amount, policies and the assessment process may be revised or updated, if deemed necessary by the Sustainability Committee.
- ✓ Garanti Bank does not finance activities that are banned or restricted by national legislation and/or international agreements to which Turkey is a party. The Bank also does not finance the activities, projects or companies listed below, without carrying out any environmental and social impact assessment and applying any limits.
 - Companies involved in the production of weapons of mass destruction and landmines,
 - Individuals or companies found to employ child labor, or who violate human rights,
 - Individuals or companies that deal with the production and trade of asbestos fibers or radioactive substances (excluding healthcare equipment, quality control devices and situations in which use of radioactive substances is extremely limited or insignificant, or in situations where there is sufficient protection),
 - Fishing activities which are deemed to constitute overfishing,

- Forestry activities which cannot be sustainably managed,
 - Individuals or companies involved in the production, warehousing, transport and trade of hazardous chemicals (petroleum and petrochemical products) in large quantities according to their industrial scale,
 - Activities carried out in wetlands defined as RAMSAR (Convention on Wetlands of International Importance) areas,
 - Individuals or companies involved with products and/or activities that fall under the scope of CITES¹⁸,
 - Activities that threaten the cultural heritage qualifications of sites classified as UNESCO World Cultural Heritage.
- ✓ Garanti Bank pays regard to ensuring that the projects it finances satisfy the social and environmental standards required by legislation and the Bank's policies, that impact assessment is undertaken by the project owner(s), if necessary, that prescribed measures are taken by the project owner(s) and that project owners have effective internal audit systems. When necessary, the Bank suggests extra measures to mitigate negative effects and requests the project owner(s) to take the necessary measures.

Garanti Bank aims to contribute to the awareness of society, by providing information on ESLP to its stakeholders, especially its shareholders, employees and customers.

9.2.2. Environmental and Social Impact Assessment Process

During the Environmental and Social Impact Assessment Process (ESIAP), projects that comply with ESLP principles are first evaluated for their compliance with "Sectoral Principles," which are individually defined for each sector. Projects with a total investment value of more than US\$ 20 million which comply with these principles are classified into various categories (A, B, C) depending on the extent of their environmental impact and then held subject to the ESIAM.

Through the ESIAP, Garanti Bank aims to:

- ✓ Determine and evaluate all environmental and social impacts of projects in a systematic way;
- ✓ Ensure that projects supported by the Bank are sustainable from an environmental and social perspective;
- ✓ Ensure that each stage of financed projects, as well as all processes and policies pursued by the Bank, fully comply with national legislation and regulations;
- ✓ Ensure that all projects subject to the environmental and social impact assessment are evaluated and financed through the methods defined in the ESIAP;
- ✓ Ensure that project owners take the necessary measures to reduce the identified impacts to an acceptable level;

- ✓ Effectively monitor the ESMP prepared by customers (project owners) in order to help project owners monitor and improve their compliance with the Bank's environmental and social policies during the Bank's loan supply process;
- ✓ Ensure that the project owners have sufficient capacity and an adequate workforce to fulfill the Bank's environmental and social requirements during construction and operation; and
- ✓ Evaluate the public reaction related to any negative impacts that may arise during construction and operation of projects.

9.2.4. Environmental and Social Impact Assessment Model

Under the Environmental and Social Impact Assessment Model (ESIAM), there are question sets that are prepared specific to each sector. Depending on the sector applicable to each project, these questions are answered by the Project and Acquisition Finance Department or the Corporate and Commercial Loans Department.

The ESIAM comprises of three stages:

9.2.4.1. Category Selection

The project is assigned to the most appropriate of the three categories mentioned below:

Category A

- ✓ Projects defined in the ANNEX-I of the Environmental Impact Assessment (EIA) Regulation (projects that are subject to the EIA),
- ✓ Projects that are carried out in or around sensitive areas defined in the ANNEX-V of the EIA Regulation,
- ✓ Projects where there is strong public or NGO opposition

Category B

- ✓ Projects defined in ANNEX-II of the EIA Regulation (projects that are subject to the selection-elimination criteria and that require project introduction files)
- ✓ Projects attracting either strong interest or opposition from the general public or NGOs
- ✓ Projects which are exempt from the EIA

Category C

- ✓ Projects included in the ANNEX-I or ANNEX-II of the EIA Regulation
- ✓ Projects where there is no adverse interest in, or opposition from, the general public or NGOs

9.2.4.2. Determination of a Project's Risk Rating

Different questionnaires that are separately designed for each sector listed below are used in order to determine the risk rating of any project:

- ✓ Cement, Glass, Ceramics Sector
- ✓ Foodstuff, Beverage, Feed and Agricultural Products Sector
- ✓ Geothermal Power Plants
- ✓ Hydroelectric Power Plant Projects
- ✓ Metallurgy/Machine/Petrochemicals/Chemicals Industry
- ✓ Mining Industry
- ✓ Nuclear Power Plants
- ✓ Paper-Cellulose Sector
- ✓ Petroleum and Natural Gas Industry

- ✓ Solar Power Plants
- ✓ Textiles and Leather Sector
- ✓ Thermal Power Plant Projects
- ✓ Tourism/Healthcare/Mass Housing/Mall Sector
- ✓ Transport/Infrastructure Sector
- ✓ Waste Utilization and Disposal Sector
- ✓ Wind Farms

The ultimate risk rating of the Project is determined following an evaluation of question-based risk ratings through an algorithm which was prepared with the support of the consulting firm based on scientific facts.

Principle	Areas of Focus
R1	High Risk
R2	Medium Risk
R3	Low Risk
R4	Very Low Risk

9.2.4.3. Determination of the Risk Group

Based on the Category and Risk Rating Projects are classified according to their risk rating and category, by using a risk matrix created by the Bank itself, and finally their risk classes are identified based on this evaluation. Garanti Bank demands specific actions to be taken according to the risk class determined by the application of the ESIAM.

If the final risk group is 1, the Bank asks an independent consultant firm to prepare a comprehensive report regarding the project's environmental and social impacts and also to prepare, apply and regularly report an ESMP.

If the risk group is 2, the Bank requests that the project owner(s) prepare, apply and regularly report an ESMP. The Bank expects the ESMP to be prepared in detail and with content appropriate to the project's scale and risk level, as well as the Bank's evaluation system.

If the risk group is 3, actions are dependent on decision of the credit committee. If a project fails to meet the environmental and social criteria within the scope of ESIAM, the Bank may reject the project or ask the debtor to take additional measures, monitor identified impacts and report these impacts in detail on a regular basis.

For instance, in 2012 when the system was tested, Garanti Bank asked, during the loan assessment of various thermal power plant projects, for a revision of the air quality modeling and requested that cooling water should be obtained from seawater through desalinization.

Likewise, the Bank requested the construction of fish passages and archaeological evaluation reports from some hydroelectric power plant projects and ornithological impact and monitoring reports from a number of wind farm projects. In many of the projects, the ESMP was prepared and applied.

Risk Matrix

	R1	R2	R3	R4
CATEGORY A	1	1	2	3
CATEGORY B	1	2	3	3
CATEGORY C	2	3	3	3

10. 2014 GOALS & FORECASTS

Garanti constantly updates and keeps current the systems, policies and procedures it has built in order embed the environmental and social factors and corporate governance principles into its operations. Having made it a principle to act in synergy with its stakeholders so as to enhance the welfare of future generations, Garanti Bank organizes training programs for all of its employees within the framework of this vision. Garanti aims to maximize the value it contributes to the environment and society, while rendering the financial lives and businesses of its customers strong with the use of the know-how and experience it possesses.

As per its Sustainability Policy, Garanti is committed to regularly review and expand the scope of its Environmental and Social Policies, in addition to its Environmental and Social Impact Assessment System, which includes principles related to prohibition of lending to people and institutions which employ child labor or violate human rights.

Additionally, Garanti Bank targets to ratify Women's Empowerment Principles, which offer guidance to companies on how to empower women in the workplace, marketplace and community.

In 2013, Garanti Bank increased the number of points of service covered under the ISO14001 certified Environmental Management System to 260. Garanti Bank's Environmental Management System encompasses the indirect environmental and social impact resulting from the Bank's suppliers and loans, in addition to environmental impact arising from facility operations. Garanti aims to extend this system, which is audited by an independent accredited agency every year, to all service points and is continuing to work to increase the number of ISO14001 certified points of service to above 600 in 2014.