



INTERVIEW WITH MR.CEMAL ONARAN

EVP – SME BANKING

INVESTOR RELATIONS

<Q – Handan Saygin>: Welcome everyone. Today we are hosting Cemal Onaran, our executive vice president in charge of SME Banking. Cemal has been with us for 26 years with Garanti, so don't get fooled by his look. Welcome Cemal first. I would like to start asking you about the obvious significance of SMEs and also this hot topic of the day, recently introduced Credit Guarantee Fund. How does it work? How is it structured? Could you give us a little knowledge about that?

<A – Cemal Onaran>: Thank you Handan. Like many other developing countries, SMEs play an important role in supporting the Turkish economy. They have a sound contribution to job creation and GDP growth. However, in almost all over the world, they have some difficulties in accessing the financial services they deserve. The credit guarantee mechanism is playing a very crucial role at this point. There are many good examples in EU countries. CGF is among the best ones. The Credit Guarantee Fund is a joint-stock company founded in accordance with the Turkish Commercial Code in 1994. Banks, KOSGEB (Small Business Agency) and TOBB (The Union Chambers and Commodity Exchanges of Turkey) are the shareholders of this Fund. CGF provides access to finance for those SMEs that can't benefit from bank loans due to insufficient collateral, by assisting them as a «joint guarantor». Although CGF's priority is supporting SMEs, non-SMEs can also apply for CGF guarantees for certain programs.

There are two types of evaluation system in CGF:

First one is PLS (Portfolio Limit System)

- CGF evaluates the credit worthiness of SMEs through its own specialists in addition to the bank's process.
- Might ask for more information for the firm from the bank.

The second type of evaluation system is PGS (Portfolio Guarantee System)

- CGF does not take part in the decision-making process. CGF bases its evaluation on the credit worthiness rating done by the bank itself and does not conduct further evaluation within CGF.
- Banks have complete loan extension autonomy with CGF guarantee.

The scope of the guarantee differs according to the source of the guarantee. The guarantee source can either be CGF Equity or Treasury-supported fund. Until 2017, CGF has had a limited impact on the bank's lending as it has only guaranteed 1.6% in SME loans. The impact has started with the Cabinet decree allowing CGF to provide a guarantee under Turkish Treasury up to TL 20 bn. This guarantee covers 85% of each loan granted by the bank. On the other side, this guarantee will be valid as long as the total NPL rate of the portfolio does not exceed 7% cap.

<Q – Handan Saygin>: Could this scheme be viewed as transfer of risk from bank balance sheets to government? Expected level of Exposure or burden to government. What would you comment on that? is this a tool to defer the NPL problem in SME segment?

<A – Cemal Onaran>: SMEs being the leading engine for Turkey play an important role in economic activity. In 2016 as you know the increase in SME lending was weak compared to previous years. Supporting SMEs with certain tools and programs is crucial for economic activity. Therefore with CGF Treasury Guaranteed Portfolio Guarantee System, although it has only been 2 months after the launch of the program, the first tranche is almost completed. Since the guarantee amount has a certain NPL cap that is 7 % the banks continue to evaluate the loans under their own underwriting policies and criteria as before .The CGF guarantee helps to underwrite with longer maturities and support SMEs which cannot provide a collateral to be eligible for a loan .SME customers are effected primarily from economic slowdown whereas they recover rapidly with positive economic outlook . Therefore this scheme should be considered as a preemptive action to reduce NPL inflow and a tool to accelerate economic activity .

<Q – Handan Saygin>: Could you also dwell on like what are the benefits of this CGF on the banks? And What are the impacts on loan growth as well as capital utilization?

<A – Cemal Onaran>: The most significant impact of Treasury Supported Portfolio guarantee system is the effect on Capital Adequacy Ratio

- In mid of February BRSA has decided that the Treasury-backed CGF Guarantees shall be considered same as a direct guarantee from Turkish Treasury. With this decision 85% of the SME loans under the guarantee of CGF will be calculated with the same risk weight as Turkish Treasury (which means for TL 0%); only 15% of the remaining will be calculated regarding the client's segment information.

As the CGF guaranteed loan balance grows, Bank will benefit from this advantage 2017 first quarter banking sector financials will reveal the impact on CAR. We expect to see a significant annual increase on SME lending under CGF portfolio guarantee scheme.

<Q – Handan Saygin>: How are the limits allocated to each bank?

<A – Cemal Onaran>: CGF guarantees which currently amounts up to 20 bn TL is provided to the banks based on mainly ;

- SME and commercial credit amounts
- Sectoral and regional distribution of SME credits
- Aggregate NPL as well as SME standalone NPL
- The number of customers
- Branch and service network

<Q – Handan Saygin>: Which companies are eligible to apply under the CGF? What type of loans are provided?

<A – Cemal Onaran>: It is required that the firm does not have overdue taxes and social security premiums. If it does; these need to be initially restructured. According to the program the type of the loan, maturity, maximum amount may differ. The most of the exposure for the time being is under treasury supported portfolio guarantee system for SMEs. Let me remind you the official definition of being an SME is ; companies that employ less than 250 people annually and whose either annual

sales revenue or financial balance sheet does not exceed TL 40 million. The loan type is usually installment loans up to 60 months maturity. The maximum loan amount for each SME is TL 2.9 mn .

<Q – Handan Saygin>: How does Garanti evaluate these applications? How is the risk assessment process? I mean Are there any differences compared to the regular applications, do you apply the same criteria to these loans?

<A – Cemal Onaran>: The evaluation of credit underwriting process of Garanti Bank does not differentiate whether it is under CGF or not. There is a rating model for SME companies. We have a decentralized , specialized credit specialists at the regional level. They evaluate the feasibility of a certain investment project , cash flow of the company as well as ongoing sectoral developments. The only difference is at the stage of evaluation of the collateral ; with CGF the company is able to offer an eligible collateral for the loan : the treasury guarantee.

<Q – Handan Saygin>: Yes that is wonderful. How has our performance been so far? How do you expect it to evolve? What are your expectations? Any Upside to budget?

<A – Cemal Onaran>: Garanti Bank has been leading bank in CGF Treasury supported portfolio guarantee program as of at the end of February with a market share of 25 % among 20 banks. We have extended TL 3.3 bn as of today. Obviously it has a very positive upside to our budget in terms of volumes of profitability , solvency and asset quality.

As for our expectations ;

There is a planned Change in CGF Protocol which will lead further opportunities for the market;

Prominent changes in Cabinet decree draft are ;

- The amount of guarantee that can be provided by CGF rises from TL 20 bn to TL 250 bn.

<Q – Handan Saygin>: That is very sizeable.

<A – Cemal Onaran>: Yes

- The guarantee ratio for SMEs rises to 90% from 85%
- Any collections received during legal proceedings will be deducted from the 7% NPL cap amount.

<Q – Handan Saygin>: It is not easy to reach.

<A – Cemal Onaran>: In the current procedure, collections does not have impact on NPL cap amount but it will change.

- The commission fee collected on a yearly basis will be upfront and be reduced.
- There is 6 months of grace period added to working capital loans.
- For exporters and businesses that has foreign exchange earnings, the CGF guarantee ratio for a given credit is 100%.

<Handan Saygin>: Sounds very good. It all sounds very good. Thank you for being with us Cemal. Its very helpful. Today we hosted Cemal Onaran. Thank you for watching us and Please keep following us on garantiinvestorrelations.com website and our Garanti IR applications. Have a wonderful day.