TRANSCRIPT OF THE 1H19 EARNINGS PRESENTATION

Welcome everyone!

Now here we go again with another set of stellar results.

Significantly beating the market expectations, consolidated quarterly earnings ended up with a 9% growth, bringing the first half 2019 net income to 3.7bilion TL, implying to an ROE of 15% and an ROA of 1.8%.

Owing to the strength and capability of generating high quality revenues, first half yoy earnings drop ended up to be a mere single digit in a period of almost double the rates, 40% devaluated currency and significantly lower economic growth.

Notice that 80% of revenues at Garanti are from Customer driven, namely sustainable sources of income. Composing of Net fees & commissions and NII incl. swap costs but excluding CPI revenues.

On next slide, let's see the highlights for the first half of the year which ended up to be better than anticipated specifically in three areas; asset quality, spreads and fees and thankfully this gives us the total comfort to meet our annual operating plan guidance.

To understand the contributing factors to the first half performance, let's start with the Balance sheet and lending growth on Slide 4. The ytd TL lending growth ended up to be pretty muted with only 1% vs. 9% in the same period last year.

Even though the year started off well with the positive surprise of the re-introduced credit guarantee fund lending; the redemptions of the Short term Corporate loans, market volatility and the absence of KGF in 2nd quarter, reversed most of the growth booked in the 1st quarter.
Shrinkage in FC lending maintained as expected. By year end this shrinkage likely will be in the teens.

Looking in more detail to TL loans by Line of Business and product, On next page, you can see that we have quite a balanced TL loan book with almost half and half business and consumer breakdown. In the last year, we had seen sharper activity moves in business lending mainly due to the presence or absence of the Credit guarantee fund. Whereas on the consumer front (excl. credit cards) we had seen 4 consecutive quarters of shrinkage due to low demand, you know given the high interest and volatile environment.

Moving on to the funding side on Slide 6.
We continued to actively manage liquidity and funding sources to help defend the margin pressure in the quarter where funding costs were on an increasing trend

As you can see in the bar charts on the left hand side, Our assets continue to be predominantly funded with deposits. More than 66% of the assets are funded with deposits and deposit like short-term TL Bonds offered to locals and, another deposit like, merchant payables.

During the last quarter, to fight the high funding costs we intentionally refrained from costly deposits and accordingly we recorded shrinkage in both TL and FC deposits. Yet, the loan to Deposit ratio improved further to 96.7%. Including the deposit like funds the LTD ratio dropped to 90% - the lowest level of, at minimum, the last 5 years.

The other eye catching part in funding is the level of demand deposits in total. Demand deposits' share reached 30% in the quarter at Garanti vs sector's much lower average.

High level of demand deposits not only reflects the fact that Garanti is the customers' preferred main bank, but also help carry our free funds funding interest earning assets to 19% - again a level that is significantly higher than the sector's – This clearly contributes highly positively to Garanti's well differentiated and outstanding margin performance.

Quickly looking at the other liquidity indicators on next page, Slide 7.

We have a total external debt stock of $11.7billion – only about 16% of assets are funded with these foreign borrowings. Of this amount, $5 bn is due within the next 12 months…and against these dues we have a quick liquidity buffer of $11.4 bn.

Note that the dependency to external borrowings has lessened over the years, since there has been continuing shrinkage in FC lending in the last 5 years, FC loan book that used to be $26bn five years ago, is now down to $18billion. We expect further drop in FC lending so accordingly there will be further drop in external borrowings. For instance in early July, our Eurobond of €500mn got redeemed. With this redemption, our ST external dues now as of July end is at $4.4billion against the sustained quick liquidity buffer of $11.4. Keep in mind that our when we talk about quick liquidity buffer, we do not include the FX deposits. It is composed of ST swaps, CBRT eligible unencumbered securities, Money market placements and reserves under the reserve option mechanism.

Now lets move on to the P&L
Starting with the Margin on Slide 8.

In a quarter where the new time deposit costs went up by more than 200bps from the beginning to the end. We could defend our Quarterly Core NIM and end flattish after a significant expansion in the first quarter. Cumulative core NIM expansion ytd ended up tp be 36bps.vs our flat guidance for the year. We owe this good performance to our timely pricing and dynamically managed and diversified funding mix. As you can see in the monthly spread evolution at the bottom of the slide, the pressure on the TL time deposits could be relatively eased with demand deposits.FC spread expansion supported the overall NIM performance

On the other hand, reported NIM including CPI and swap costs came down by 25 bps due to the CPI estimate used in CPI linker valuation. The CPI figure of last year was 25.2% vs. the CPI estimate we used in the first half was 13.2%. Currently, since mid- June, we have been using 11% est. in our linker calculations. However, the outlook suggests a lower reading in the second half.

On the next slide, Slide 9, we would like to demonstrate the proven resilience of our margin even in highly volatile market conditions.

Since 2015, weighted average cost of funding of CBRT tripled from 8% to 24%, while currency depreciated more 100%. At the upper half of the page, you'll see the evolution of our core margin in black line, and it fares in only a narrow range of 3.5% to 3.9%. If we were to add the gains from the CPI linkers on top of the core margin, which is the green line, the intended performance of this hedging instrument also gets validated.

At the bottom half of the slide, evolution of the spreads shows our successful dual currency balance sheet management. The improvement recorded in FC spreads could more than offset the adverse shocks on TL

Moving on to asset quality on Slide 10
We preserved our prudent approach in staging and coverage levels. You can see the breakdown of stages. In Q2, the share of Stage 2 loans in gross loans and their coverages increased slightly. Please let me remind you that the provisioning of the files are determined by IFRS 9 models, taking into account the collateral values.

Here on the right hand side, we would like to give more color on what constitutes Stage 2 loans.
As we have always been communicating, our Stage 2 loans consist of 4 main categories;

- 1/3rd of Stage 2 relates to SICR, namely the quantitatively assessed IFRS9 model outcome based on internally defined tight thresholds --- where 81% of the files are not delinquent at all and the rest being less than 30 days past due. Given the low risk nature of these files, SICR coverage is only at 4%.
- Watchlist files make up 32% of Stage 2. We proactively move the files to Watchlist although they are not delinquent, yet, their coverage remains on average at 14%, which we believe is a good cushion to have.
- Restructured files make up 26% of the Stage 2. It is our common practice and preference to follow all Restructured loans under Stage 2 for a minimum of 2 years or for life time. Average coverage of Restructured portfolio stands high at about 20%.

- Finally, 9% of the Stage 2 loans are classified here for being 30 – 90 days past-due. Their coverage is also 14%. This is the part that is most likely to end up in NPL over time.

Moving on to Slide 11, NPL inflows in the quarter were slightly lower than the first quarter. As expected, retail NPL inflows dominated the new npls of the first half and 2/3rd of the flow were from the retail portfolio.
NPL ratio deteriorated by 30bps to 5.7% on a consolidated basis, In this deterioration there is also a denominator impact as it did not grow much. Leasing and factoring NPLs have 30bps impact on the 5.7% NPL ratio.

As a result of the lower NPL inflows, quarterly Net CoR was also lower in the 2nd Qtr. The cumulative Net CoR ended to be 181bps in the first half, excluding the 32 bps currency impact which is 100% hedged and has no impact to the bottom line.

On the bottom right corner, you can see our anticipated evolution of net CoR for the rest of the year on a quarterly basis. Year-to-date inflows from commercial files has so far been quite muted. In the second half, we expect CoR to be slightly higher due to some expected flows from all segments. Yet there is no change in our NPL ratio guidance of below 7% by year end. And regarding the COR, the recently announced rate cut may present an upside in our guidance of below 300bps for the full year.

Now let's take a look at the performance on net fees & commissions and OPEX on Slide 12.
As I mentioned earlier on slide 2, Net fees & commissions income is an important contributor to Garanti's revenues, making up quarter of our core revenues in the first half. We have grown our already highest in sector fee base by another 23% YoY into a new record level of 3bn TL in just half the year.

More than half of the fee income is coming from payment systems. We have recorded a growth of 41% in payment system fees, mainly due to interchange fees being a function of interest rates. We would expect the income growth here to normalize in the second half due to lower interest rates.

Also Money transfer fees are important contributor to the growth of fee base, Our strength in Money transfer fees is a mirror of our; success in relationship banking, and that we are the preferred main bank, and also a mirror of our success in digitalization.

We have 7.7mn digital customers and around 70% are mobile only. Digital channel share in noncredit linked fees reached 52% and digital sales share in total is 64%.

Our high fee base now cover 61% of our operating expenses. When the operating expense growth In the first half, remained limited at 18% despite an above CPI wage increase.

Now wrapping up our results with solvency on next slide 13.

Our solvency improved further in the first half with a consolidated capital adequacy ratio of 16.4% and a core Tier 1 ratio of 14.1%.Both are well above the regulatory requirements of 12% and 10%, respectively.

Taking into account the min requirement, As of the first half, on a consolidated basis, we have around 16bn TL excess capital. This excess capital amount does not even include the 2.35 bn TL free provisions we had set aside over time. If we had not set aside any such provisions, our capital adequacy ratio would have been 17.1%.

The contributors to capital movements can be seen in the cat chart below. As always net income is a big positive contributor. Currency impact this time was limited due to lower depreciation compared to the first quarter. And also credit & market risk contributed positively to capital this time in the absence of lending growth in the quarter.

Now this concludes our presentation. Thank you for listening. We can now take your questions.