Garanti
BBVA Group

2018 EARNINGS PRESENTATION

Based on BRSA Consolidated Financials
January 31st, 2019

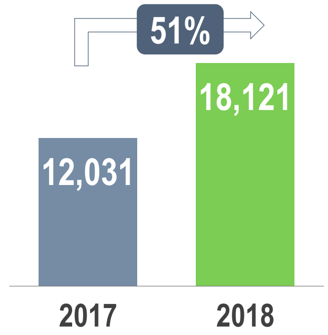
PROVEN STRONG ROAE GENERATION CAPABILITY

In a challenging environment…

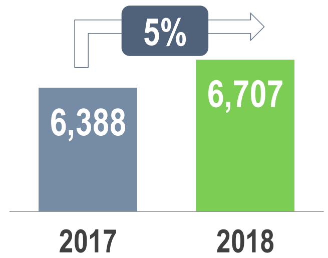
- TL depreciated sharply
- CBRT funding cost increased to 24.0% from 12.75%
- Inflation reached 25% in October and ended the year with 20%
- Economic activity significantly decelerated

…strong capital & profitability maintained

PRE-PROVISION INCOME
(TL million)



NET INCOME
(TL million)



TL 2,250mn — **Free Provisions**
Prudently set aside **additional TL 1,090mn** free provisions **in 2018**

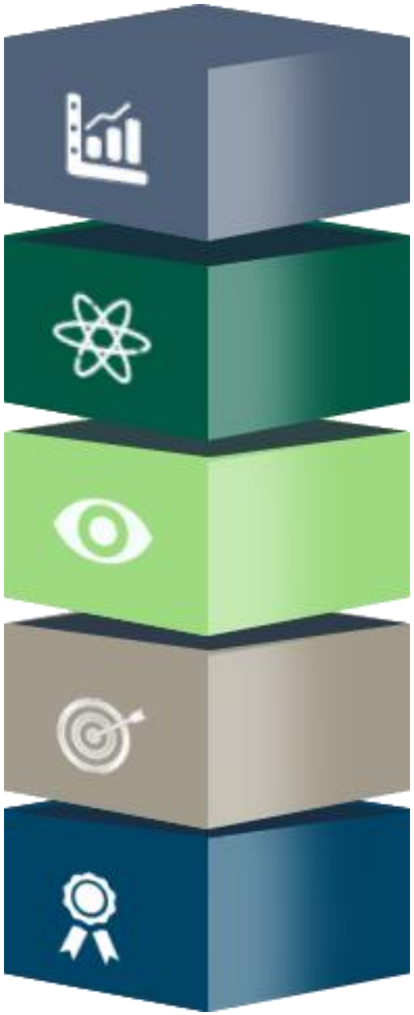
15% — **ROAE**
When adjusted with free provisions set aside in 2018: **17%**

1.7% — **ROAA**
When adjusted with free provisions set aside in 2018: **2.0%**

16.5% — **CAR**
CET-1 share:86%
When adjusted with free provisions: **~16.9%**

Note: In the calculation of average assets and average equity, 01.01.2018 restated balance sheet has been used instead of YE 2017

2018 PERFORMANCE



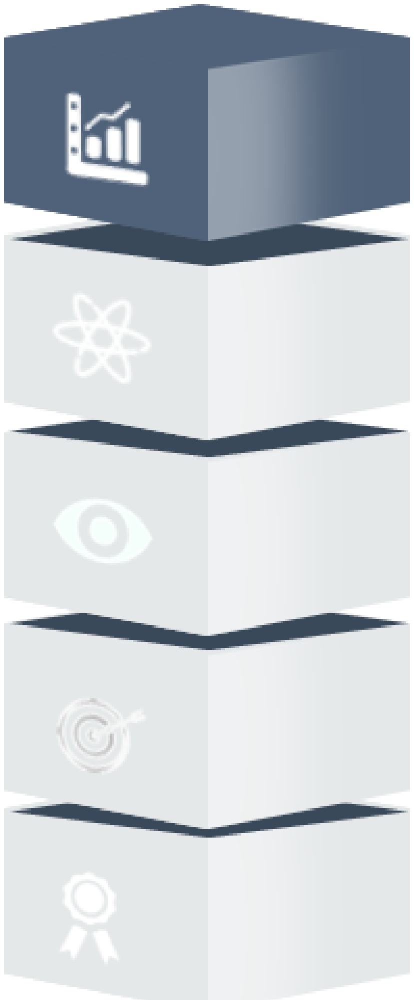
MUTED LOAN GROWTH

COMFORTABLE LIQUIDITY

PROACTIVELY SHAPED & WELL PROVISONED ASSETS

SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION



MUTED LOAN GROWTH

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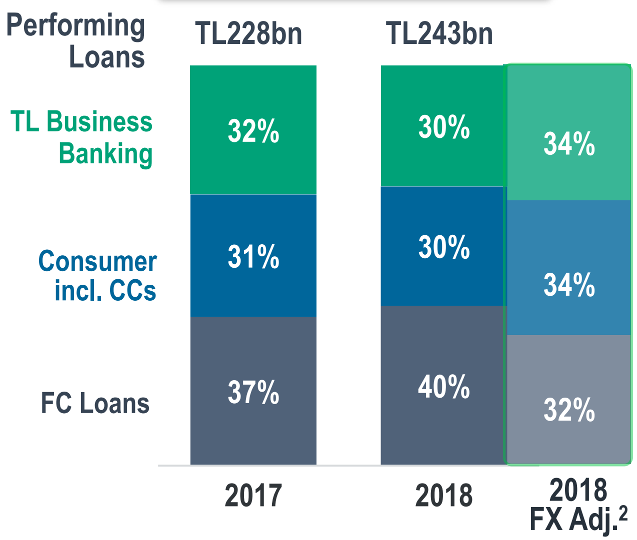
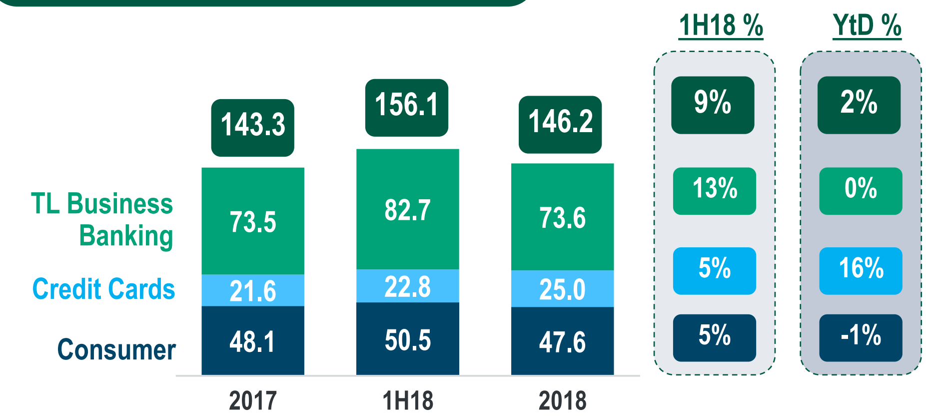
STRONG SOLVENCY VIA CAPITAL GENERATION

MUTED LOAN GROWTH
-- Balanced lending mix

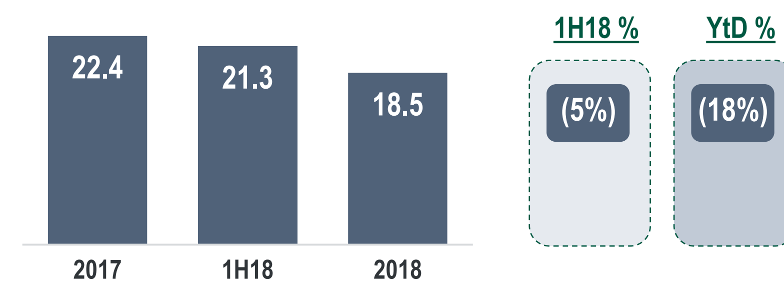
LOAN PORTFOLIO[1]
(61% of Total Assets)



TL PERFORMING LOANS (TL billion)



FC PERFORMING LOANS[1] (US$ billion)



- New originations in **TL Consumer & Business Banking Loans** were not sufficient to compensate the maturing book in the second half of 2018.
- **Shrinkage in FC loans** due to redemptions in the absence of large scale government projects (i.e.PPPs, highways, airports, etc.).

Note: Business banking loans represent total loans excluding credit cards and consumer loans
1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
2 Adjusted for ~40% TL depreciation between 31.12.2017 vs. 31.12.2018

MUTED LOAN GROWTH

COMFORTABLE LIQUIDITY

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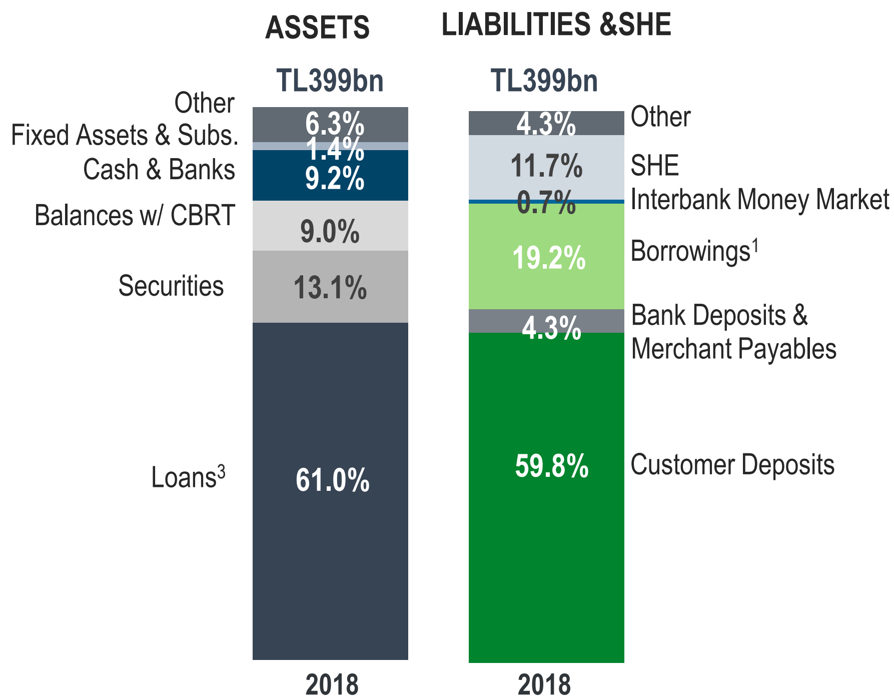
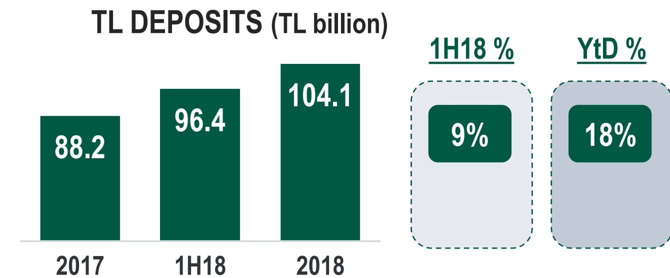
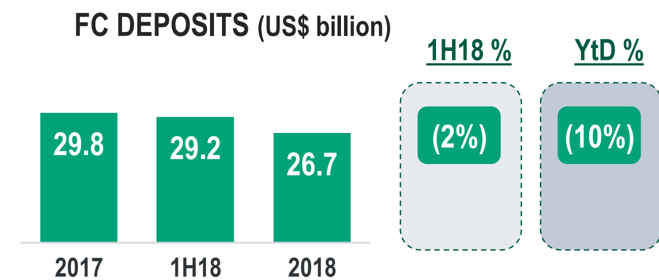
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

DEPOSITS REMAIN THE MAJOR FUNDING SOURCE

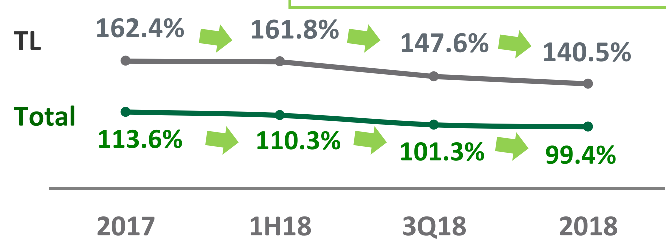






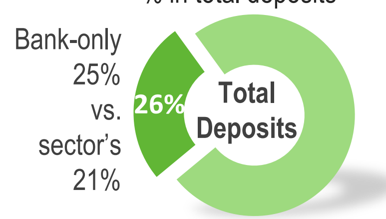
LOAN[3] TO DEPOSIT RATIOS

14% improvement in Total LtD ratio YoY vs 7% in sector



LOW COST & STICKY DEPOSIT BASE

DEMAND DEPOSITS
% in total deposits



SME & RETAIL DEPOSITS[2]

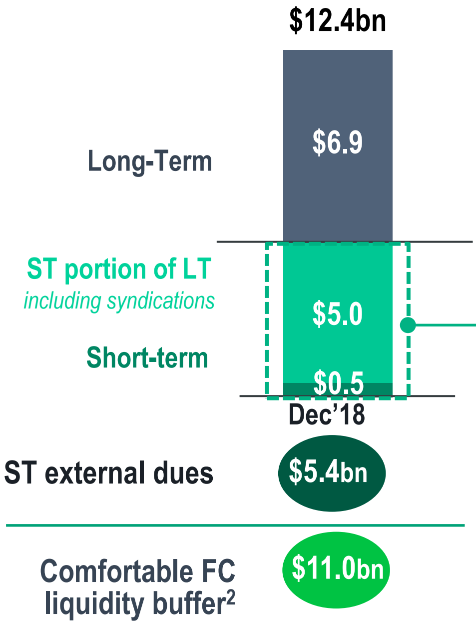
in TL Cust. Deposits
~75%

in FC Cust. Deposits
~65%

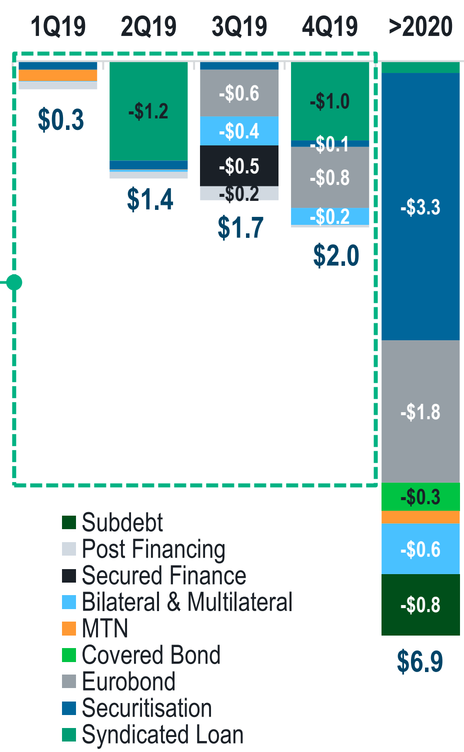
1 Includes funds borrowed, sub-debt & securities issued
2 Based on bank-only MIS data
3 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
Note: Sector data is based on BRSA weekly data, for commercial banks only

COMFORTABLE LIQUIDITY & MANAGEABLE EXTERNAL DEBT STOCK

GARANTI'S EXTERNAL DEBT[1]

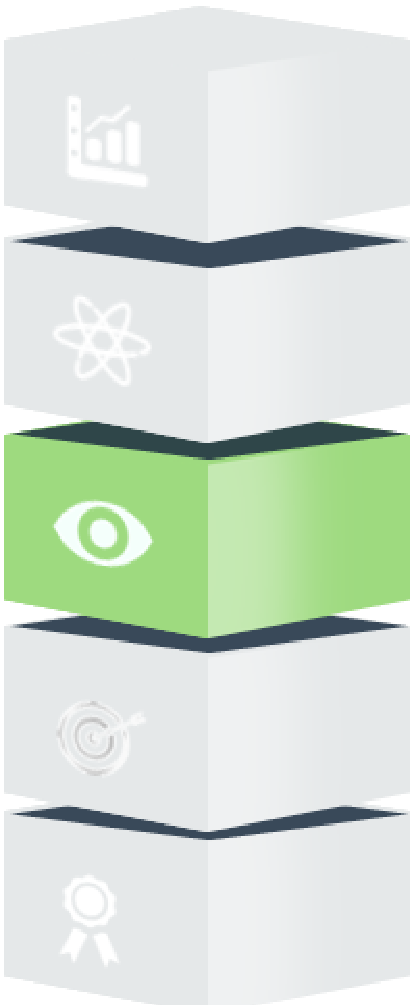


MATURITY PROFILE OF BANK-ONLY EXTERNAL DEBT



- **Proactively increased the maturity of 4Q18 redemptions**
- **Lower dependency on external borrowing** due to shrinking FC loan portfolio since 2013:
  - CAGR: FC loans -6% vs. FC borrowings -5%

1 Includes TL covered bonds and excludes on balance sheet IRS transactions
2 FC Liquidity Buffer includes FC reserves under ROM, swaps, money market placements, CBRT eligible unencumbered securities



MUTED LOAN GROWTH

COMFORTABLE LIQUIDITY

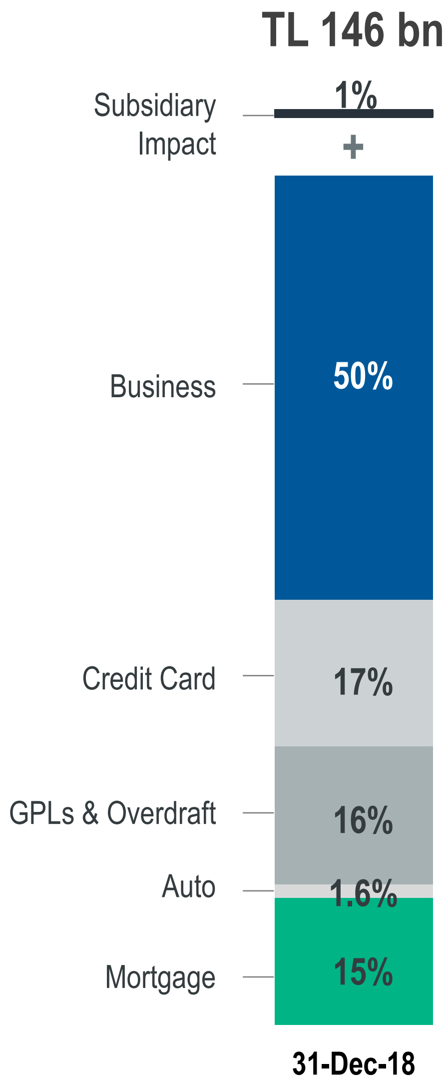
PROACTIVELY SHAPED & WELL PROVISIONED ASSETS

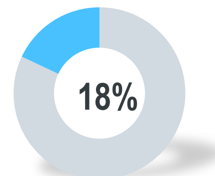
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

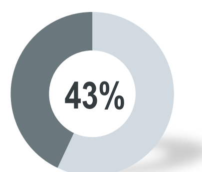
BREAKDOWN OF TL LOAN PORTFOLIO

TL LOANS – 60% OF TOTAL LOANS[1]

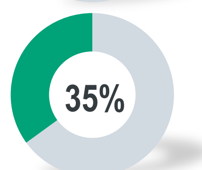




of TL Business Lending is CGF Guaranteed



of GPLs are granted to salary customers



of Consumer Loans are collateralized

Household debt to GDP[2] 14%
vs. Emerging economies avg. of 40%

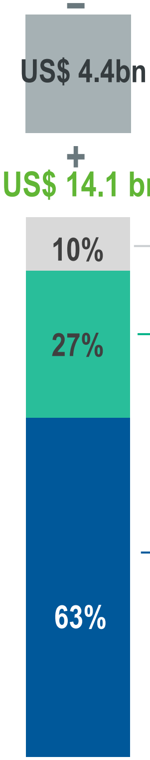
1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
2 Based on 2018 expected GDP. Emerging economies average is based on 2017 GDP.
Source: BIS

STRUCTURE OF FC LOAN PORTFOLIO

FC LOANS[1] – 40% OF TOTAL LOANS

US$ 18.5 bn ▶ **Consolidated FC Loans**

=



Subsidiary impact

+

US$ 14.1 bn ▶ **Unconsolidated FC Loans**

Export Loans
- FX revenue generation

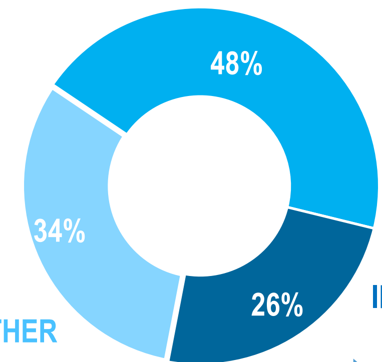
Working Capital & Other Loans
- FX loans predominantly to big corporate, commercial clients & multinationals

Project Finance Loans
- **~75% of PF loans have lower currency risk**
- Most of the projects generate **FX revenues**

31-Dec-18

« **FX sensitivity analysis** are regularly conducted as part of the **proactive staging and provisioning** practices»

BREAKDOWN OF PF LOANS



ENERGY
- Share of electricity generation is 73%
  - Share of **renewables: 56%**
- **Cost based pricing** in natural gas sales **reduced FX risk** in merchant power sector

INFRASTRUCTURE
- **~90%: State-guarantee** (Public-Private Partnership motorway & healthcare, airport projects)

OTHER

Regulation to preserve customers against currency shocks and risks

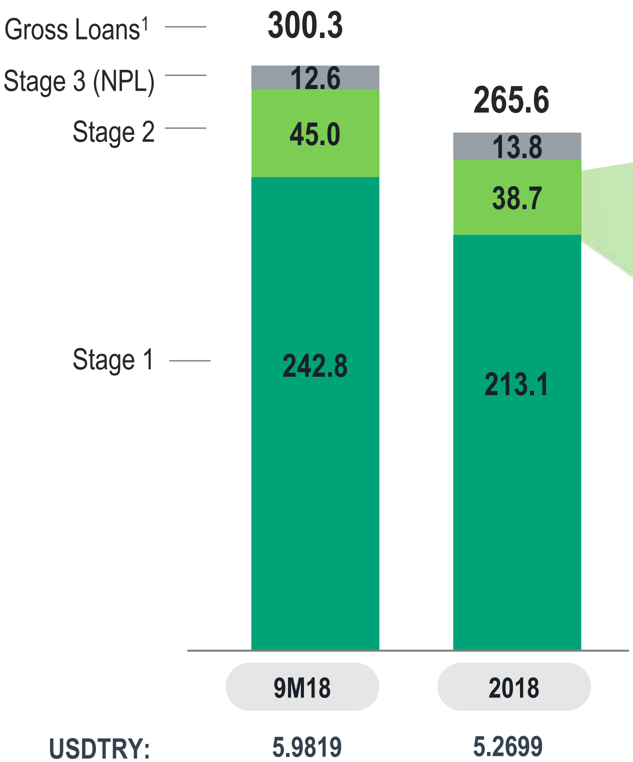
- FX lending to **consumers already prohibited**
- As of May 18; **companies with outstanding FC loan balance < $15 Mn will be restricted**[2]

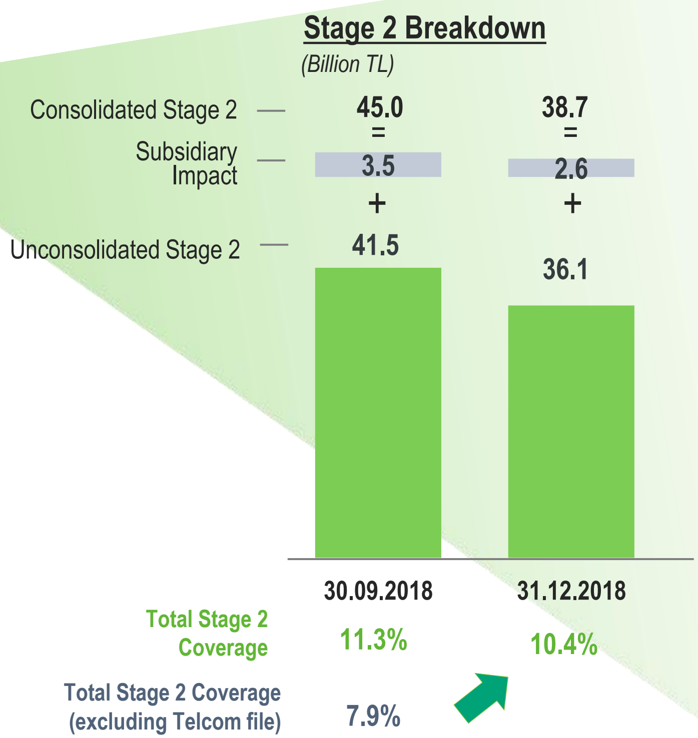
1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
2 According to Decree 32, companies' outstanding FX loan balance will be limited to last 3 years' total FX income (considered in new disbursements). FX indexed lending facility revoked

PRUDENT APPROACH CONTINUED ON STAGING

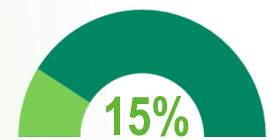
LOAN PORTFOLIO BREAKDOWN

(Billion TL)





Share of Stage 2 in Total Loans



Not comparable among banks mainly due to:

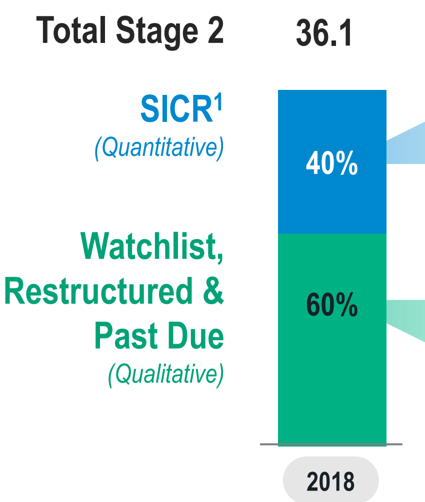
- **Differentiation in quantitative assessment criteria** (SICR[2] definition)
- **Approach difference for qualitative assessment** as was the case in the past for Group 2 classification.

1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
2 SICR: Significant Increase in Credit Risk per our threshold for Probability of Default (PD) changes

PRUDENT APPROACH CONTINUED ON STAGING

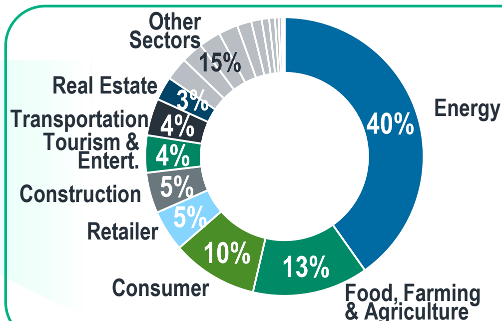
UNCONSOLIDATED STAGE 2 BREAKDOWN

(Billion TL)



▶ **81% of SICR is not delinquent at all**
and the rest are less than 30-days past due

Sector Breakdown of Stage 2 excluding SICR



- Restructured/refinanced loans are followed under Stage 2 **for minimum 2 years or for life-time.**
- Files are moved to **Watchlist proactively** as a result of advanced risk assessments, as was our common practice in the past**.**

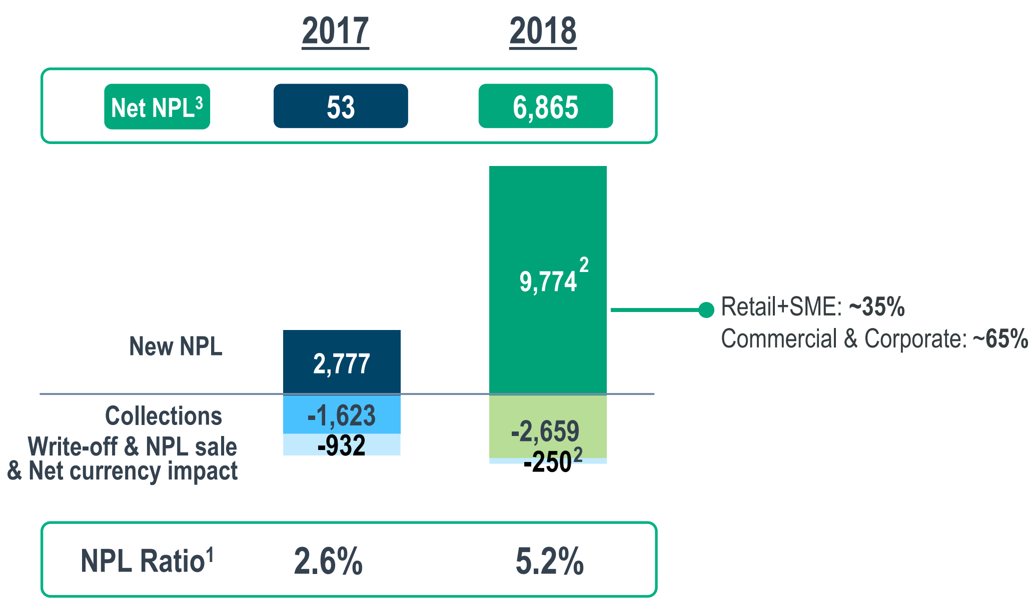
	Coverage	Currency Breakdown TL	Currency Breakdown FC
Total Stage 2	10.7%		
SICR *(Quantitative)*	4%	88%	12%
Watchlist, Restructured & Past Due *(Qualitative)*	15%	43%	57%

(BRSA unconsolidated figures)

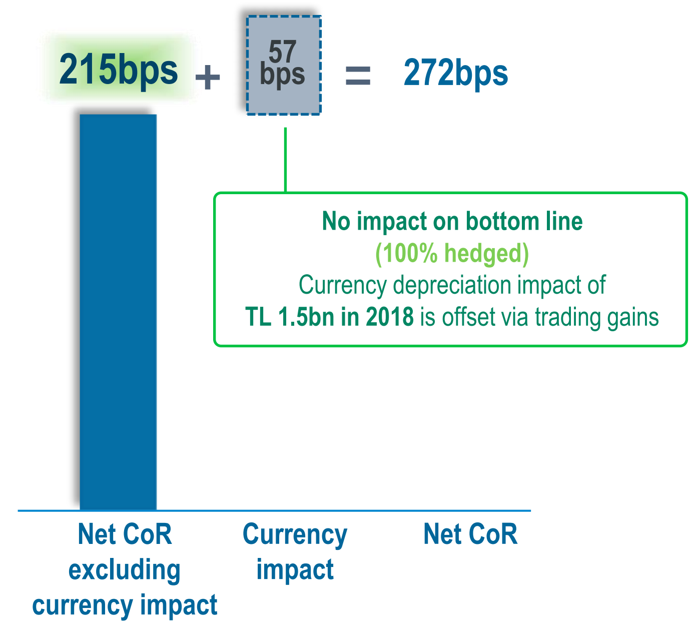
1 SICR: Significant Increase in Credit Risk

SLOWDOWN IN ECONOMIC ACTIVITY REFLECTED IN ASSET QUALITY TRENDS

NPL EVOLUTION
(TL million)



NET CUMULATIVE CoR[1]



- **Retail NPL inflows expected to be more visible** in 2019, due to anticipated increase in unemployment
- **Corporate/Commercial NPL inflows** are projected to continue in 2019, **yet, at a lesser extent**
- **Coverage of certain portfolios increased** to be well-guarded in 2019

1 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»
2 33% of Telcom file, corresponding to USD 385mn, has been written off in 4Q. This amount inflated both new NPL and write off balances in reported financial statements dated 31 Dec 2018 3 2018 NPL figures include leasing and factoring receivables

MUTED LOAN GROWTH

COMFORTABLE LIQUIDITY

PROACTIVELY SHAPED & WELL PROVISIONED ASSETS

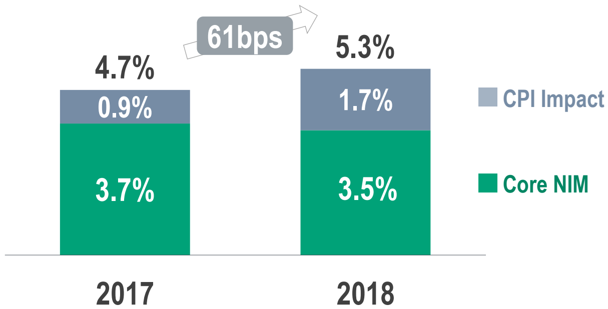
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

SUSTAINED CORE BANKING REVENUES

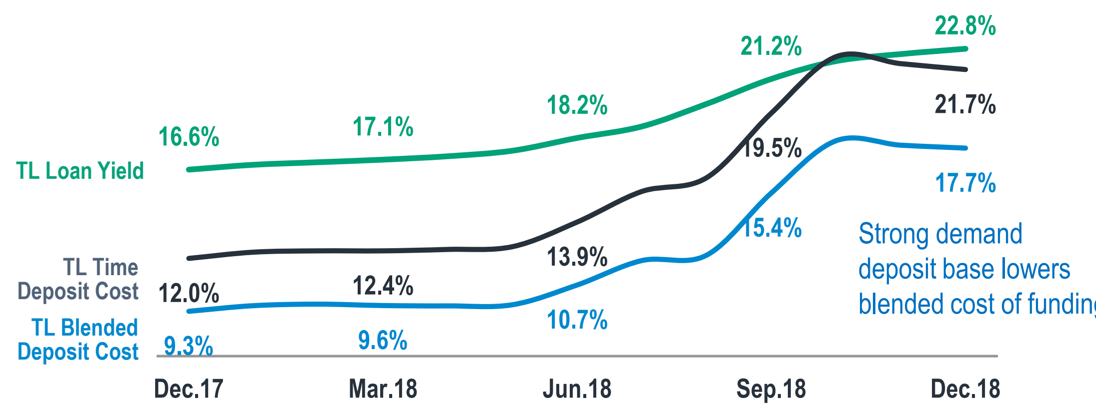
Dynamic B/S management in defense of NIM

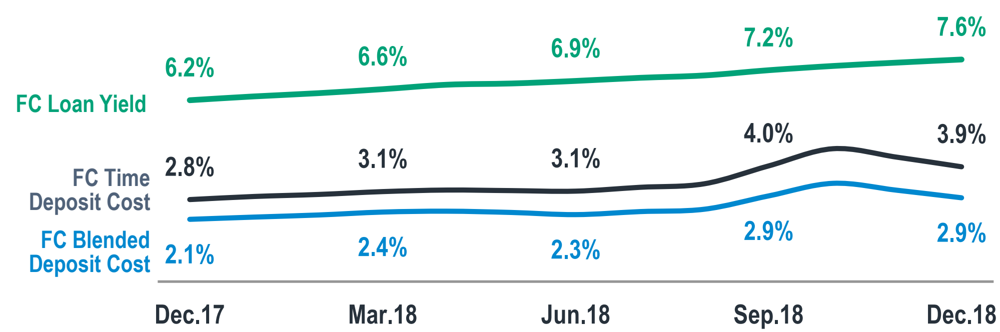
ANNUAL NIM INCL. SWAP COSTS



	2017	2018
CPI (Oct-Oct)	11.9%	25.2%
CPI Income (TL mn)	2,776	5,922

MONTHLY SPREAD[1]





- **Worst in TL spreads seen in October.** CPI linkers served its hedge purpose against spread suppression in 4Q
- **Spreads to widen throughout 2019**, mainly due to ease in cost of funding

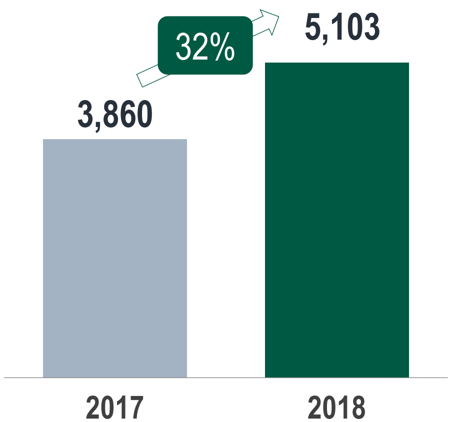
1 Based on MIS data.

SUSTAINED CORE BANKING REVENUES

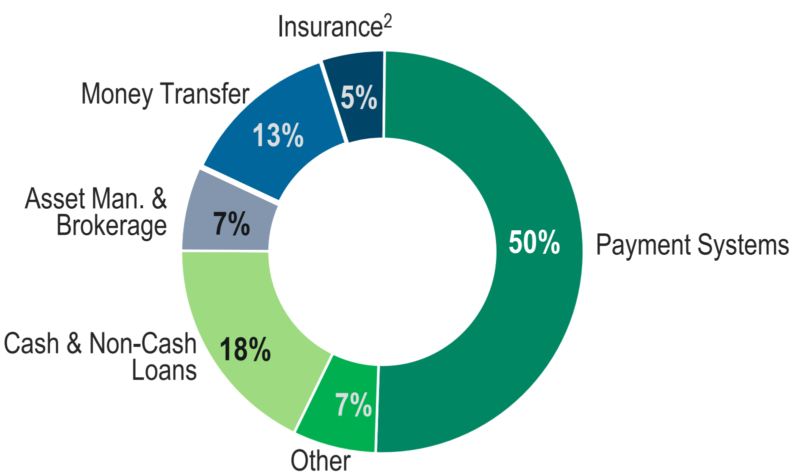
Well-diversified fee base

NET FEES & COMMISSIONS

(TL million)



NET FEES & COMMISSIONS BREAKDOWN[1]



Payment systems

Leading position in **issuing & acquiring** businesses

Strong merchant network & actively managed relations

Increasing contribution from clearing & merchant commissions

Money transfer

Leader in interbank money transfer: **13%** market share

Leader in swift transactions: **17%** market share

Insurance

Leader in **number of pension participants**

Focus on **digital-only products**

Leader in **banking insurance**

Digital Channels

Digital channels' share in non-credit linked fees: **46%**

Share of digital sales in total sales: **43%**

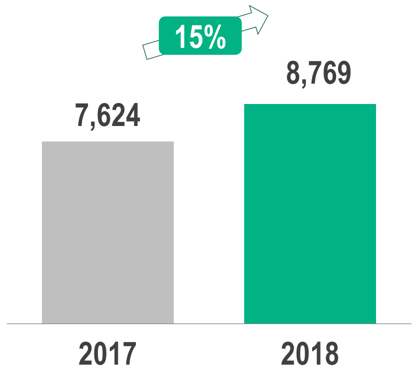
Leading position: **7.3mn digital customer (22% YoY increase)**

1 Net Fees & Commissions. breakdown is based on MIS data.
2 Insurance fee includes Private Pension & Life insurance fee income whereas it is accounted for under «other income» in consolidated financials.

SUSTAINED CORE BANKING REVENUES

Disciplined cost management

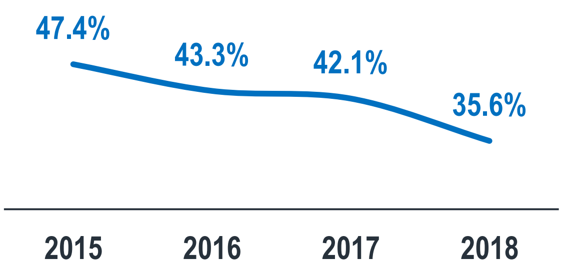
OPERATING EXPENSES (TL Million)



- **Cost growth**
  Below 2018 avg. inflation of 16%

- **Amortization costs** of Pendik IT Campus & New Branch Service Model has **~1% impact on 2018 OPEX**[1]

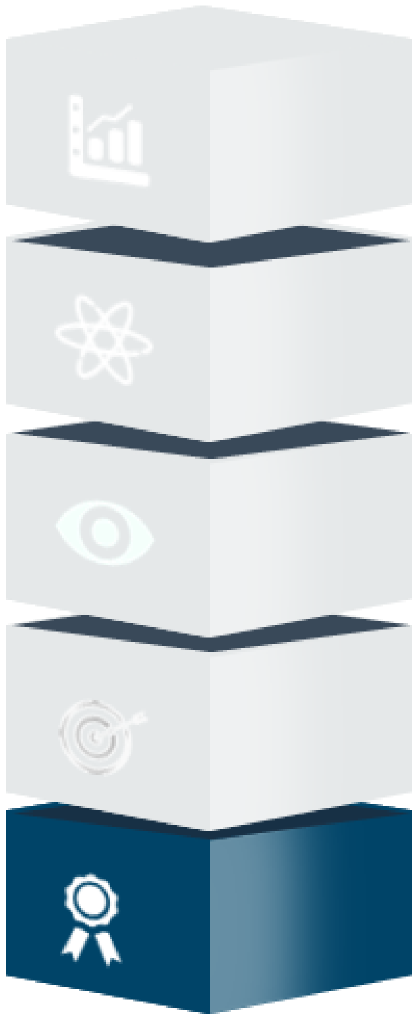
COST/INCOME[2]



12% improvement in C/I since 2015

1 Impact is calculated per bank-only figures

2 Income defined as NII + Net F&C +Trading gains/losses excluding FX provision hedges + Other income excluding provisions reversals + Income from subsidiaries. When net provisions are accounted in, Cost/Income stands at 45.9% in 2018 vs. 57.6% in 2015



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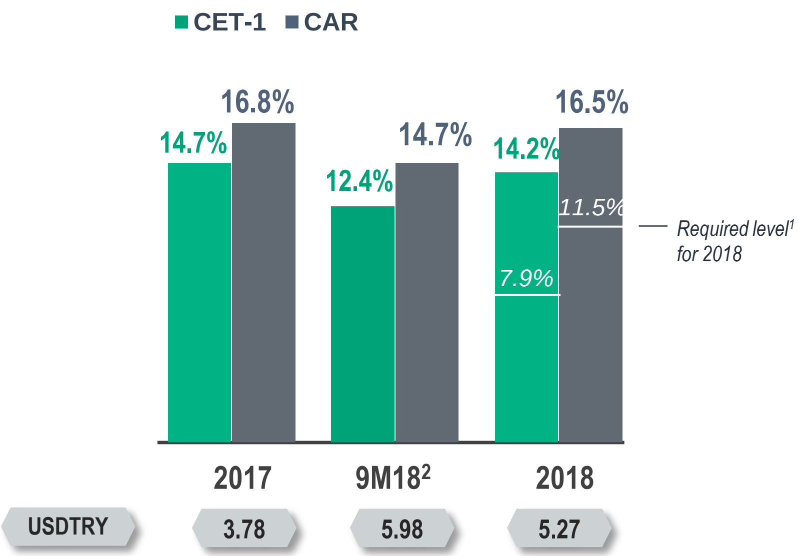
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

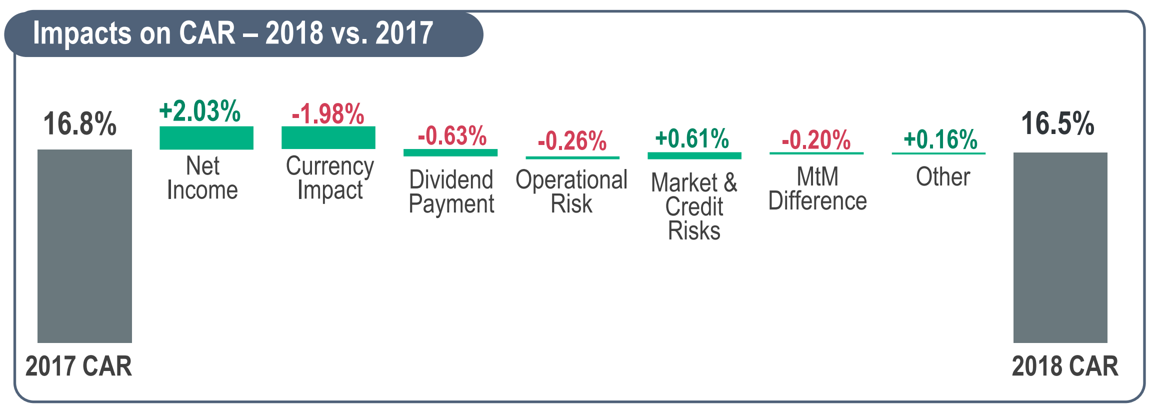
STRONG SOLVENCY VIA CAPITAL GENERATION

SOLVENCY RATIOS



TL 2.25bn Free Provisions

TL13bn Excess Capital
taking into account minimum required level of 12.5% for 2019



1 Required CAR = 8.0% + SIFI Buffer for Group 3 (1.5%)
+ Capital Conservation Buffer (1.875%) + Counter Cyclical Buffer (0.09%)
2 Without BRSA forbearances. Note that BRSA forbearances on the calculation of FX credit risk exposure and suspension of MtM losses in CET1 capital was abolished on 27 December 2018

2018 STATUS WRAP-UP

ROAE target met when adjusted for the free provisions set aside during the year

	2018 Guidance	2018 Realization	vs. Guidance
TL Loans	**<14%**	**2%**	Lower
FC Loans[1] **(in US$)**	**Shrinkage**	**-18%**	In-line
NPL Ratio[1]	**4-4.5%**	**5.2%**	Higher
Net Cost of Risk[1] (excl. currency impact)[2]	**~150 bps**	**215 bps**	Higher
NIM including swap cost	**Flat** (including CPI impact)	**+61 bps** (including CPI impact)	Beat
Fee Growth (yoy)	**> 20%**	**32%**	Beat
Opex Growth (yoy)	**~10%** (~ avg. CPI)	**15%** (< avg. CPI)	Beat
ROAE	**> 17%** (no free provision assumed)	**15%** (When adjusted w/ free provision set aside during the year: **17%**)	In-line

Better than expected **Net F&C, NIM and OPEX** offset significantly higher provisions

1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
2 Neutral impact at bottom line, as provisions due to currency depreciation are 100% hedged (FX gain included in Net trading income line).

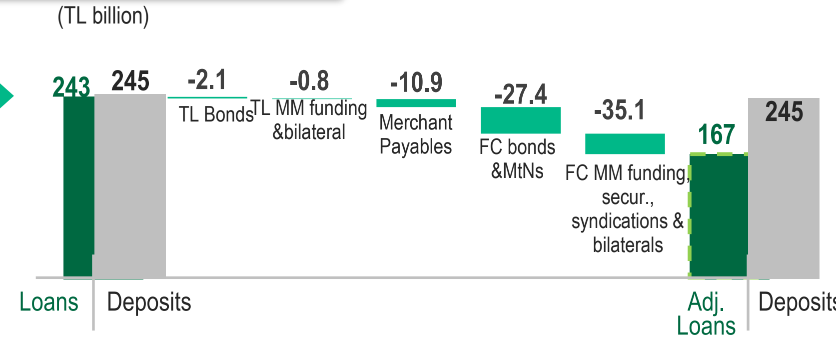
APPENDIX

APPENDIX: ADJUSTED LDR AND LIQUIDITY COVERAGE RATIOS

Loans funded via long-term on B/S alternative funding sources **ease LDR**

Total Loans[1] / Deposits:	**99%**
TL Loans / TL Deposits:	**140%**
FC Loans[1] / FC Deposits:	**69%**

Adjusted LDR **68%**



Liquidity Coverage Ratios[2] (LCR) are **well above minimum required levels**

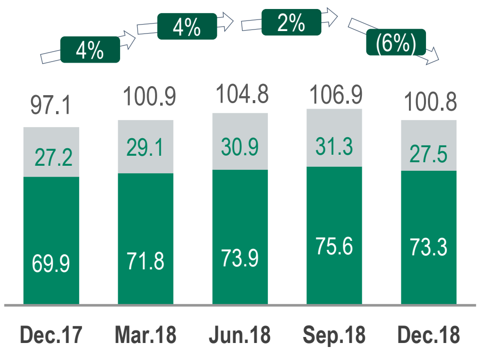
Total LCR	**159.5%**
Minimum Requirement for 2018	*90%*
Minimum Requirement for 2019	*100%*
FC LCR	**157.4%**
Minimum Requirement for 2018	*70%*
Minimum Requirement for 2019	*80%*

1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables
2 Represents the average of December's last week

APPENDIX: RETAIL LOANS

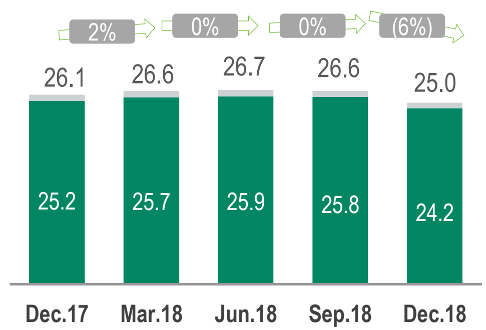
RETAIL LOANS
(TL billion)

+4% YoY



MORTGAGE LOANS
(TL billion)

(4%) YoY



Market Shares[3]

	Dec'18	QoQ	Rank
Consumer Loans	22.4%	+5bps	#1
Cons. Mortgage	25.3%	-36bps	#1
Cons. Auto	48.3%	+96bps	#1
Consumer GPLs	18.8%	+23bps	#1

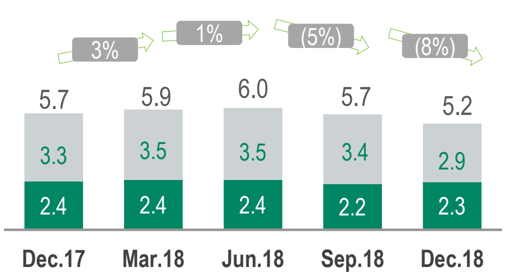
** Among private banks, rankings as of Sep 18*

Pioneer in cards business

# of CC customers	Issuing Volume	Acquiring Volume
14.4%[2]	19.0%[2]	19.0%[2]

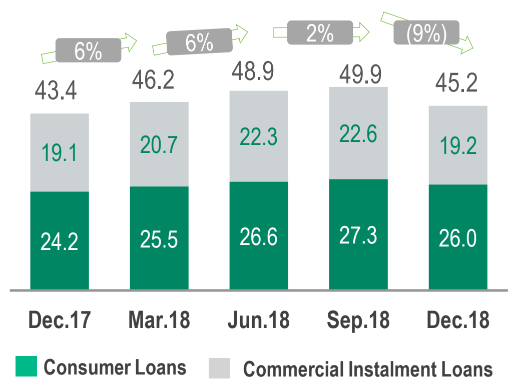
AUTO LOANS
(TL billion)

(9%) YoY



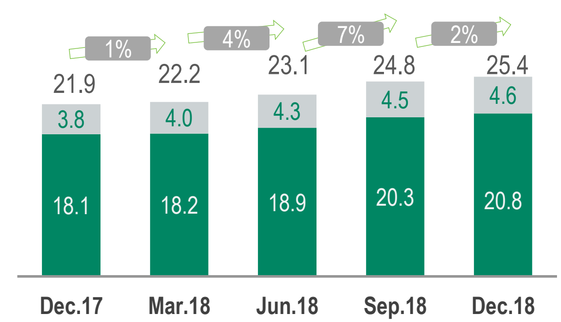
GENERAL PURPOSE LOANS[1]
(TL billion)

4% YoY



CREDIT CARD BALANCES
(TL billion)

+16% YoY

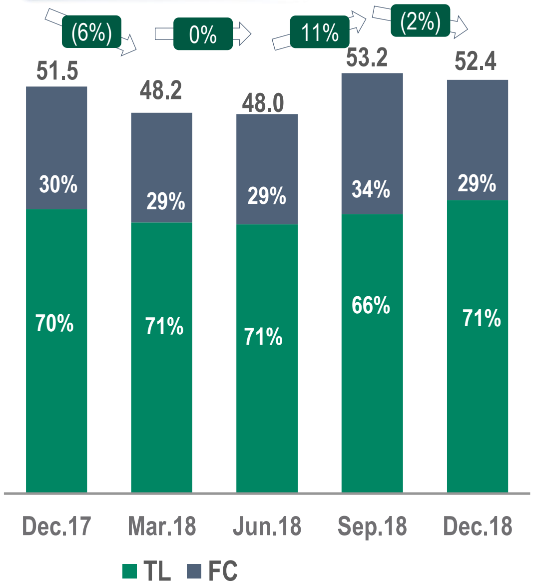


1 Including other loans and overdrafts
2 Cumulative figures as of December 2018, as per Interbank Card Center data.
3 Sector figures used in market share calculations are based on bank-only BRSA weekly data as of 28.12.2018, for commercial banks

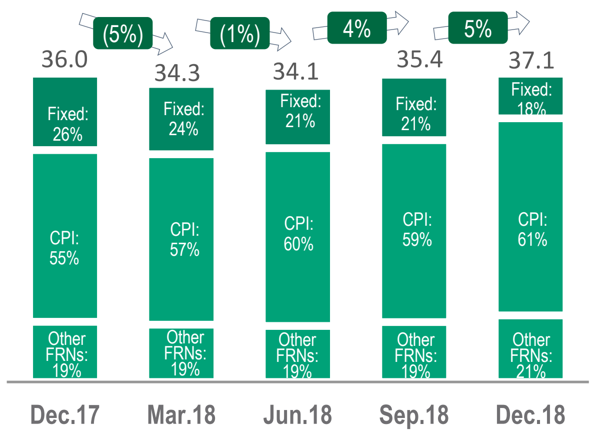
APPENDIX: SECURITIES PORTFOLIO

Total Securities (TL billion)

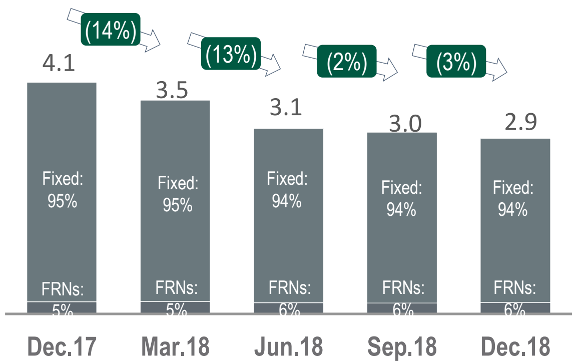
13% of Total Assets



TL Securities (TL billion)



FC Securities (US$ billion)



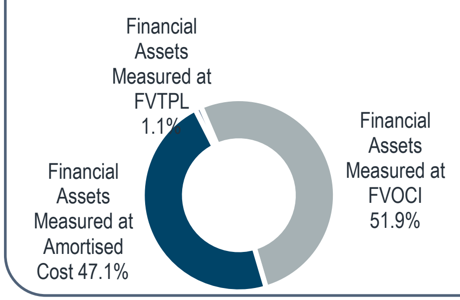
Maintained

FRN heavy portfolio[1]

FRN weight in total: 63%

TL FRN: 82%

Securities Composition



Unrealized MtM loss (pre-tax)

~TL 1,323mn loss as of December'18

1 Fixed - Floating breakdown of securities are based on bank-only MIS data

APPENDIX: SUMMARY BALANCE SHEET

TL Million

ASSETS	31.03.2018	30.06.2018	30.09.2018	31.12.2018
Cash&Banks	20,891	30,878	59,191	36,613
Balances at CBRT	30,972	27,389	32,436	35,803
Securities	48,193	48,031	53,239	52,377
Performing Loans[1]	238,368	253,497	278,189	243,461
Fixed Assets & Subsidiaries	5,197	5,272	5,431	5,602
Other	16,260	19,812	27,842	25,298
TOTAL ASSETS	**359,882**	**384,878**	**456,328**	**399,154**

LIABILITIES & SHE	31.03.2018	30.06.2018	30.09.2018	31.12.2018
Total Deposits	211,895	229,764	274,721	245,016
+Demand Deposits	56,190	65,698	75,091	64,177
+Time Deposits	155,705	164,066	199,630	180,839
Interbank Money Market	7,515	7,181	4,375	2,635
Bonds Issued	36,434	37,149	43,479	39,224
Funds Borrowed	37,767	41,479	53,721	37,317
Other liabilities	23,559	24,900	33,378	28,075
Shareholders' Equity	42,711	44,405	46,654	46,887
TOTAL LIABILITIES & SHE	**359,882**	**384,878**	**456,328**	**399,154**

1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables

APPENDIX: SUMMARY P&L

	TL Million	2018	4Q18	3Q18	2Q18	1Q18
(+)	Net Interest Income including Swap costs	17,934	5,798	4,711	3,882	3,543
	(+) NII excluding CPI linkers' income	*14,955*	*3,467*	*4,022*	*3,904*	*3,563*
	(+) Income on CPI linkers	*5,922*	*3,436*	*1,352*	*585*	*548*
	(-) Swap Cost	*-2,943*	*-1,105*	*-663*	*-607*	*-568*
(+)	Net Fees & Comm.	*5,103*	*1,350*	*1,327*	*1,187*	*1,238*
(-)	Net Expected Credit Loss	*-7,031*	*-2,093*	*-2,803*	*-1,324*	*-811*
	(-) Expected Credit Loss	*-9,258*	*-2,491*	*-3,206*	*-1,777*	*-1,783*
	info: Currency Impact	*-1,189*	*948*	*-1,642*	*-588*	*-188*
	(+) Provision Reversal under other Income	*2,227*	*399*	*403*	*454*	*972*
(-)	OPEX	*-8,769*	*-2,532*	*-2,106*	*-2,088*	*-2,043*
	(-) HR	*-3,645*	*-1,052*	*-875*	*-904*	*-814*
	(-) Non-HR	*-5,124*	*-1,480*	*-1,231*	*-1,184*	*-1,228*
=	**CORE OPERATING INCOME**	**7,237**	**2,524**	**1,128**	**1,657**	**1,928**
(+)	Net Trading & FX gains/losses	1,797	-802	1,756	557	285
	info: Gain on Currency Hedge	1,189	-948	1,642	588	188
(+)	Dividend Income	8	2	1	4	1
(+)	Other income	1,290	372	278	260	380
	(+) Gains from asset sale	126	0	0	0	126
	(+) Garanti Pension - Insurance Premiums	719	163	163	196	197
	(+) Other	445	209	115	64	57
(-)	Taxation and other provisions	-3,626	-1,019	-1,469	-554	-583
	(-) Free Provision	-1,090	-390	-700	0	0
	(-) Taxation & Other Provision	-2,536	-629	-769	-554	-583
=	**NET INCOME**	**6,707**	**1,077**	**1,694**	**1,925**	**2,011**

APPENDIX: KEY FINANCIAL RATIOS

	Mar-18	Jun-18	Sep-18	Dec-18
Profitability ratios				
ROAE (Cumulative)[1]	18.3%	18.1%	17.5%	15.0%
ROAA (Cumulative)[1]	2.2%	2.1%	2.0%	1.7%
Cost/Income	38.8%	39.1%	36.7%	35.6%
Quarterly NIM incl. Swap costs	4.6%	4.7%	5.1%	6.3%
Quarterly NIM incl. Swap costs excl. CPI linkers	3.8%	4.0%	3.6%	2.6%
Cumulative NIM incl. Swap costs	4.6%	4.6%	4.8%	5.3%
Cumulative NIM incl. Swap costs excl. CPI linkers	3.8%	3.9%	3.8%	3.5%
Liquidity ratios				
Loans[2] / Deposits	112%	110%	101%	99%
TL Loans / TL Deposits	163%	162%	148%	140%
Adj. Loans[2]/Deposits (Loans adj. with on-balance sheet alternative funding sources)	81%	78%	68%	68%
TL Loans / (TL Deposits + TL Bonds + Merchant Payables)	136%	138%	128%	123%
FC Loans[2] / FC Deposits	74%	73%	72%	69%
Asset quality ratios				
NPL Ratio	2.8%	3.4%	4.2%	5.2%
Coverage Ratio				
+Stage1	0.5%	0.5%	0.6%	0.4%
+Stage2	9.5%	9.6%	11.3%	10.4%
+Stage3	67.9%	63.1%	59.1%	59.1%
Cumulative Net Cost of Risk (excluding currency impact, bps)	105	111	130	215
Solvency ratios				
CAR	16.2%	16.2%	16.9%	16.5%
Common Equity Tier I Ratio	14.1%	14.0%	14.5%	14.2%
Leverage	7.4x	7.7x	8.8x	7.5x

1 Excludes non-recurring items when annualizing Net Income for the remaining quarters of the year in calculating Return On Average Equity (ROAE) and Return On Average Assets (ROAA).
Note: In the calculation of average assets, average IEAs and average equity, 01.01.2018 restated balance sheet has been used instead of 2017YE .
2 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», factoring and leasing receivables

APPENDIX: CUMULATIVE NET CoR

Cumulative Net CoR

(Million TL, 2018)

Cumulative Net Expected Credit Loss	2018
(-) Expected Credit Losses	**9,258**
Stage 1	1,063
Stage 2	3,182
Stage 3	5,013
(+) Provision Reversals under other income	**2,227**
Stage 1 & 2	1,585
Stage 3	642
(=) (a) Net Expected Credit Losses	**7,031**
(b) Average Gross Loans[1]	**258,209**
(a/b) Cumulative Total Net CoR (bps)	**272**
info: Currency Impact[2]	**1,469**
Total Net CoR excl. currency impact (bps)	**215**

1 Excludes «Loans Measured at Fair Value through P&L (FVTPL)», leasing and factoring receivables
2 Neutral impact at bottom line, as provisions due to currency depreciation are 100% hedged (FX gain included in Net trading income line).

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