Garanti
BBVA Group

2018 EARNINGS PRESENTATION

Based on BRSA Unconsolidated Financials
January 31st, 2019

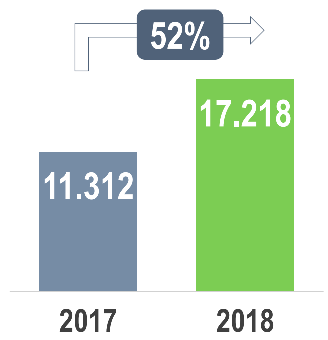
PROVEN STRONG ROAE GENERATION CAPABILITY

In a challenging environment…

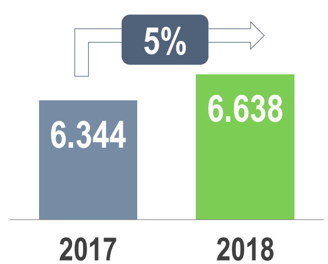
- TL depreciated sharply
- CBRT funding cost increased to 24.0% from 12.75%
- Inflation reached 25% in October and ended the year with 20%
- Economic activity significantly decelerated

…strong capital & profitability maintained

PRE-PROVISION INCOME
(TL million)



NET INCOME
(TL million)



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

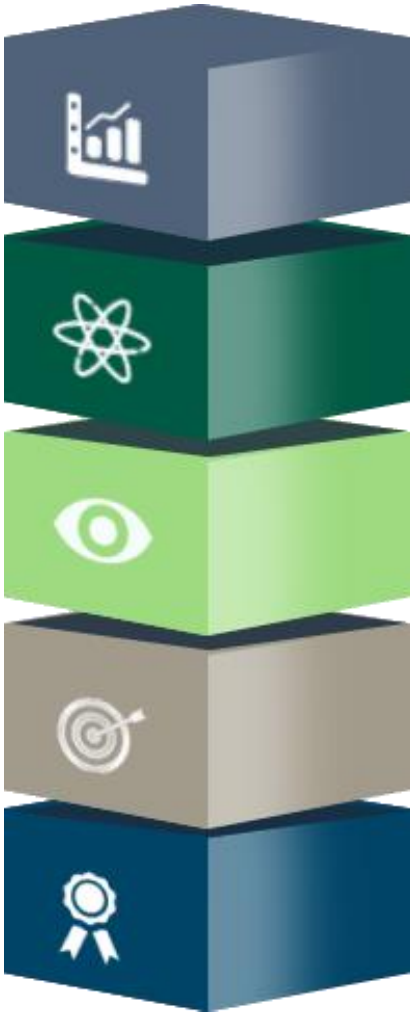
15% — **ROAE**
When adjusted with free provisions set aside in 2018: **17%**

1.9% — **ROAA**
When adjusted with free provisions set aside in 2018: **2.2%**

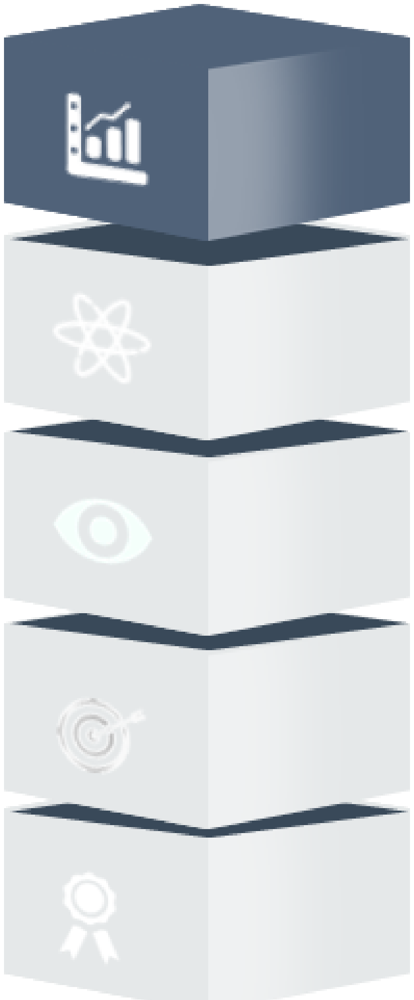
18.3% — **CAR**
CET-1 share:87%
When adjusted with free provisions: **18.7%**

Note: In the calculation of average assets and average equity, 01.01.2018 restated balance sheet has been used instead of YE 2017
Pre-provision income defined as; Net Income+expected losses+provision for taxes-FC loans provisions hedging impact

2018 PERFORMANCE



- MUTED LOAN GROWTH
- COMFORTABLE LIQUIDITY
- PROACTIVELY SHAPED & WELL PROVISONED ASSETS
- SUSTAINED CORE BANKING REVENUES
- STRONG SOLVENCY VIA CAPITAL GENERATION



MUTED LOAN GROWTH

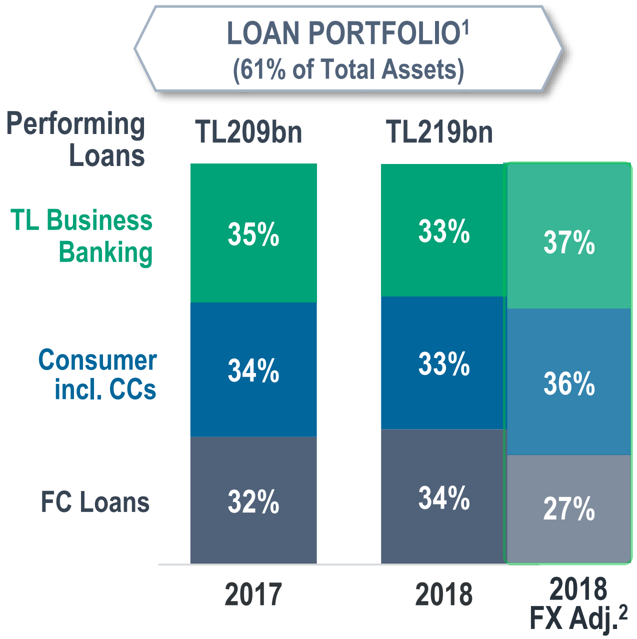
COMFORTABLE LIQUIDITY

PROACTIVELY SHAPED & WELL PROVISIONED ASSETS

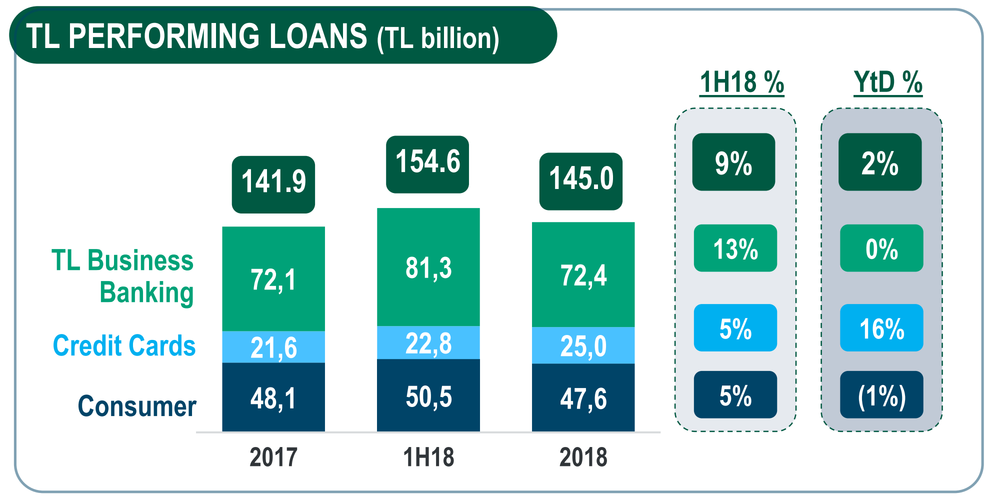
SUSTAINED CORE BANKING REVENUES

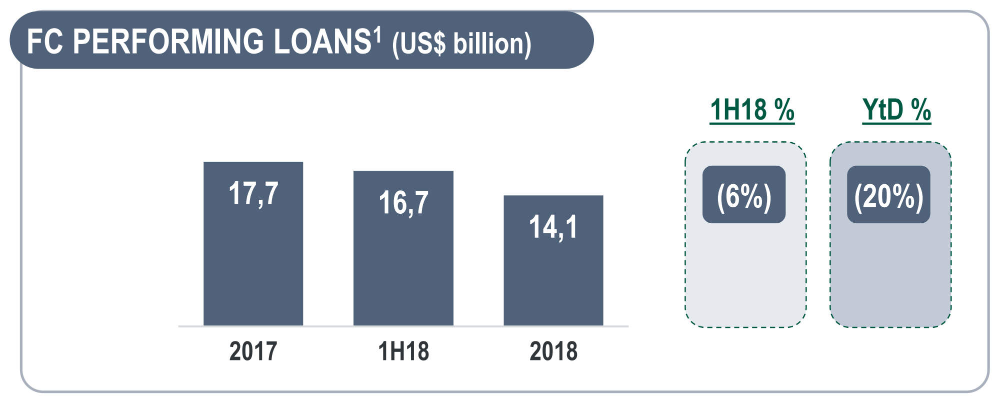
STRONG SOLVENCY VIA CAPITAL GENERATION

MUTED LOAN GROWTH
-- Balanced lending mix

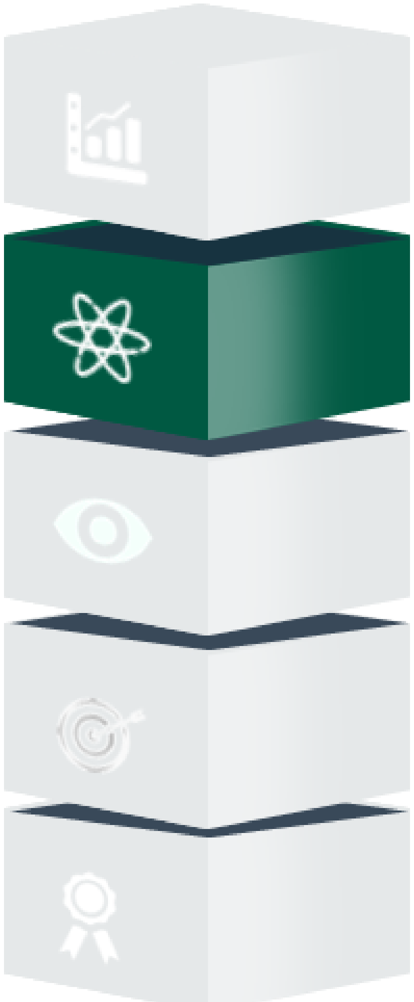


- New originations in **TL Consumer & Business Banking Loans** were not sufficient to compensate the maturing book in the second half of 2018.
- **Shrinkage in FC loans** due to redemptions in the absence of large scale government projects (i.e.PPPs, highways, airports, etc.).





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



MUTED LOAN GROWTH

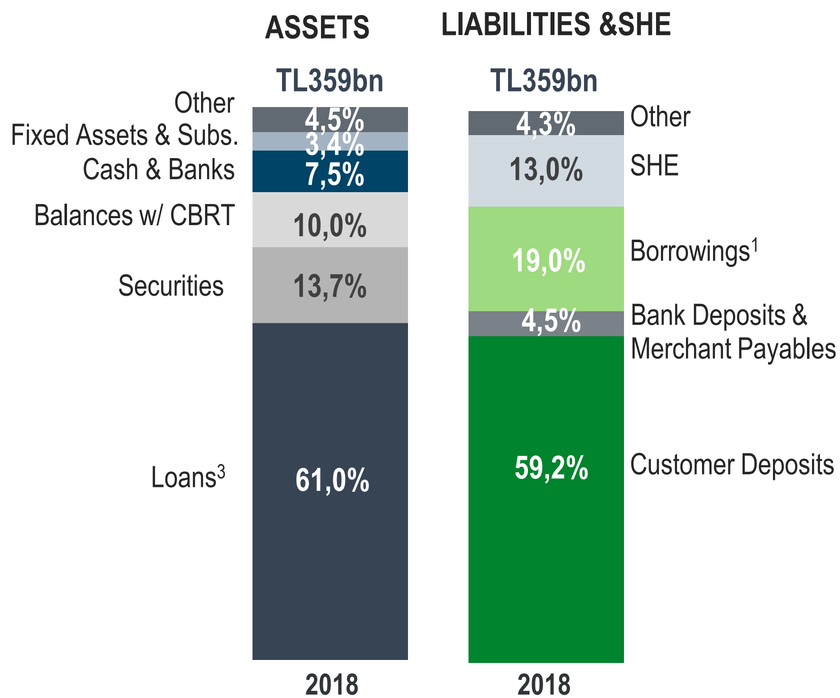
COMFORTABLE LIQUIDITY

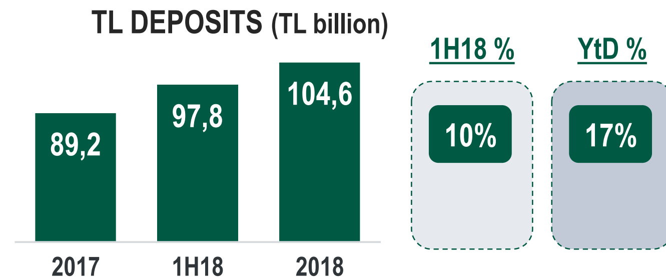
PROACTIVELY SHAPED & WELL PROVISIONED ASSETS

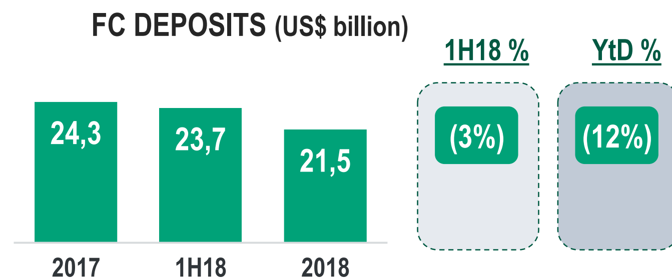
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

ASSETS ARE PREDOMINANTLY FUNDED WITH DEPOSITS

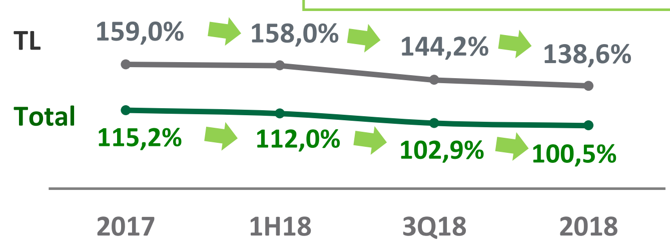






LOAN[3] TO DEPOSIT RATIOS

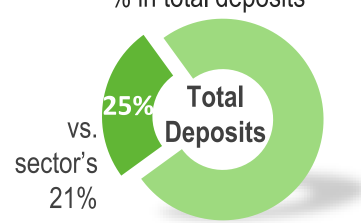
15% improvement in Total LtD atio YoY vs. 7% in sector



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

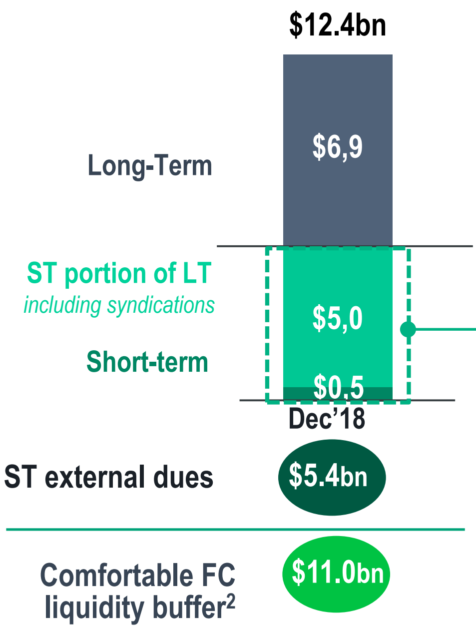
2 Based on bank-only MIS data

3 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»

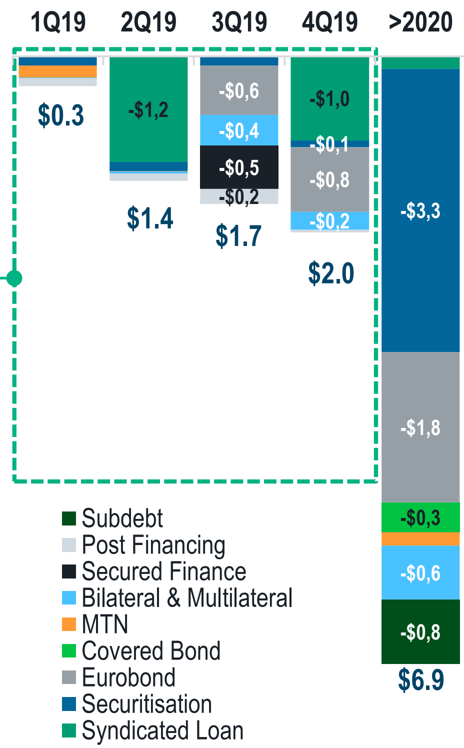
Note: Sector data is based on BRSA weekly data, for commercial banks only

COMFORTABLE LIQUIDITY & MANAGEABLE EXTERNAL DEBT STOCK

GARANTI'S EXTERNAL DEBT[1]



MATURITY PROFILE OF 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 -8% 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
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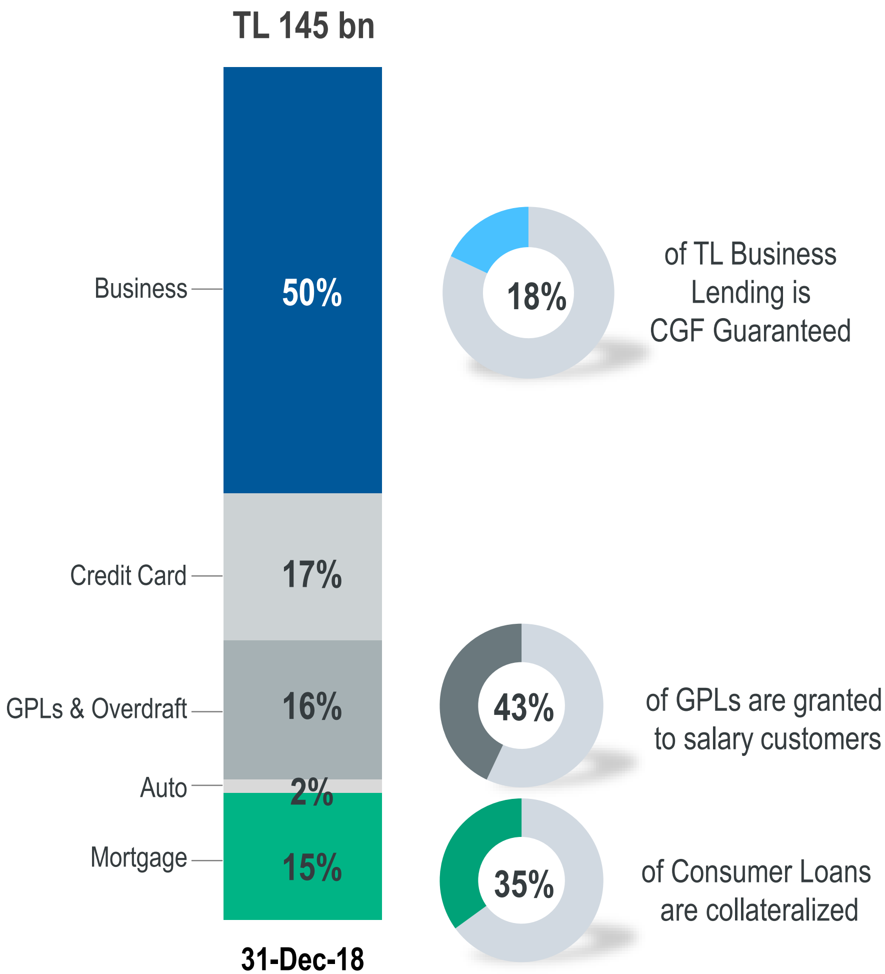
BREAKDOWN OF TL LOAN PORTFOLIO

TL LOANS – 66% OF TOTAL LOANS[1]



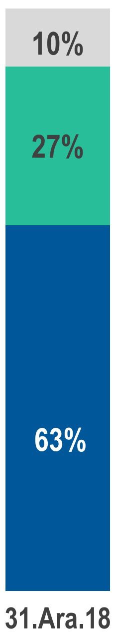
Household debt to GDP[2] 14%
vs. Emerging economies avg. of 40%

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

STRUCTURE OF FC LOAN PORTFOLIO

FC LOANS[1] – 34% OF TOTAL LOANS

US$ 14.1 bn



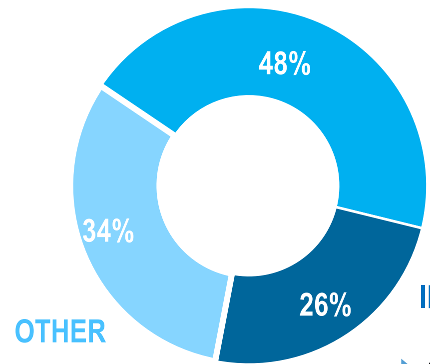
Export Loans
- FX revenue generation

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**

« **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)

Regulation to preserve customers against currency shocks and risks

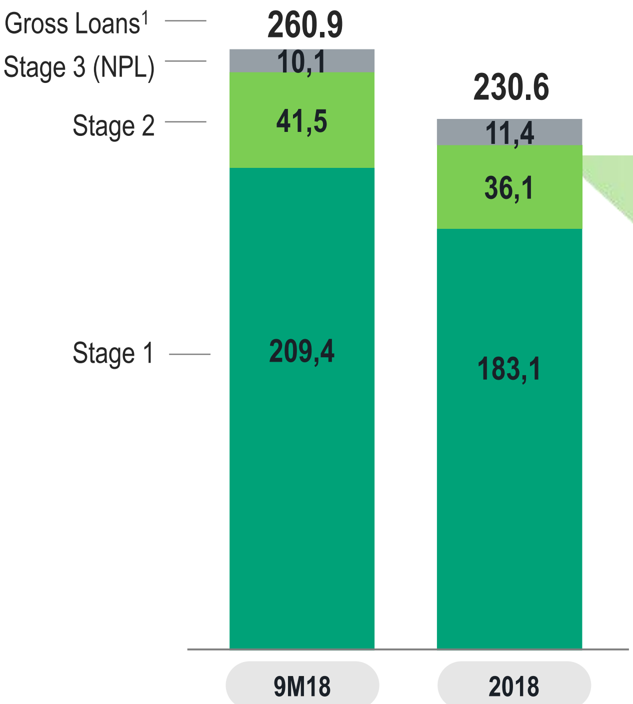
- FX lending to **consumers already prohibited**
- As of May 18; **companies with outstanding FC loan balance < $15 Mn will be restricted**[2]

1 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»
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

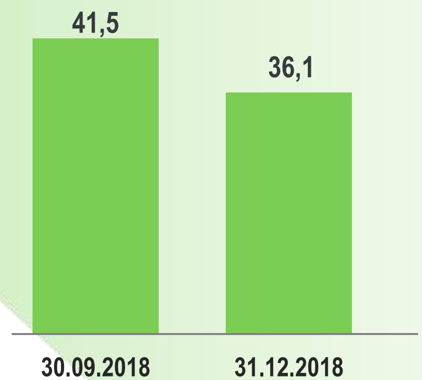
(Billion TL)



USDTRY: 5.9819 5.2699

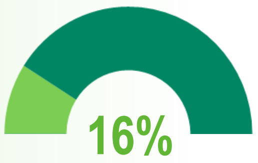
Stage 2 Breakdown

(Billion TL)



	30.09.2018	31.12.2018
Total Stage 2 Coverage	11.8%	10.7%
Total Stage 2 Coverage (excluding Telcom file)	8.1%	

Share of Stage 2 in Total Loans



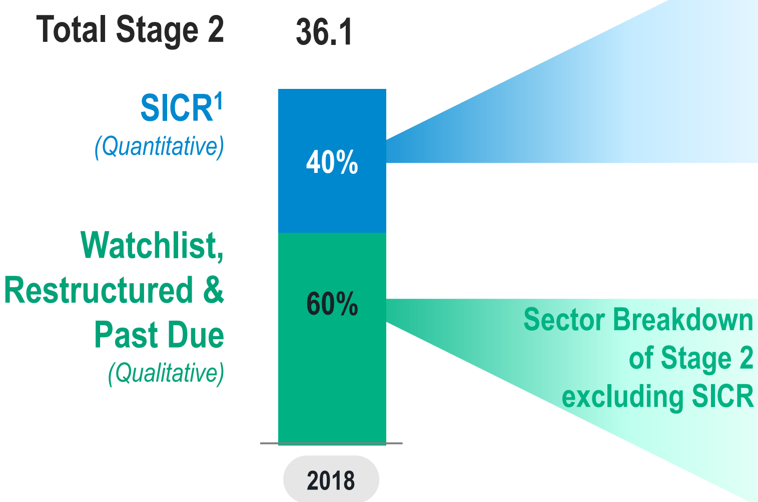
Not comparable among banks mainly due to:

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

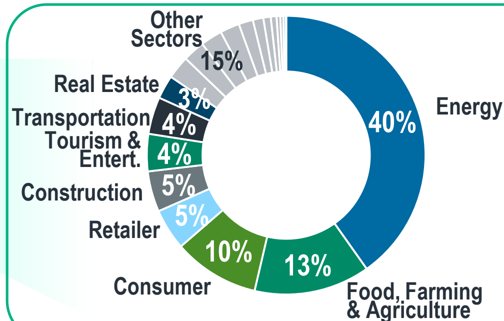
1 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»
2 SICR: Significant Increase in Credit Risk per our threshold for Probability of Default (PD) changes

PRUDENT APPROACH CONTINUED ON STAGING

STAGE 2 BREAKDOWN
(Billion TL)



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



▶ Restructured/refinanced loans are followed under Stage 2 **for minimum 2 years or for life-time.**

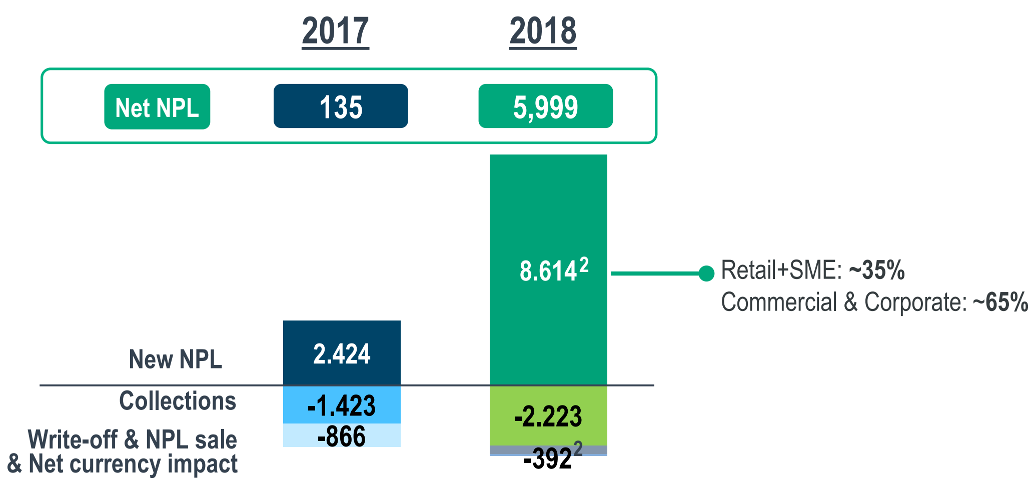
▶ Files are moved to **Watchlist proactively** as a result of advanced risk assessments, as was our common practice in the past.

	Coverage	Currency Breakdown TL	Currency Breakdown FC
Total Stage 2	10.7%	TL	FC
SICR *(Quantitative)*	4%	88%	12%
Watchlist, Restructured & Past Due *(Qualitative)*	14%	43%	57%

1 SICR: Significant Increase in Credit Risk

SLOWDOWN IN ECONOMIC ACTIVITY REFLECTED IN ASSET QUALITY TRENDS

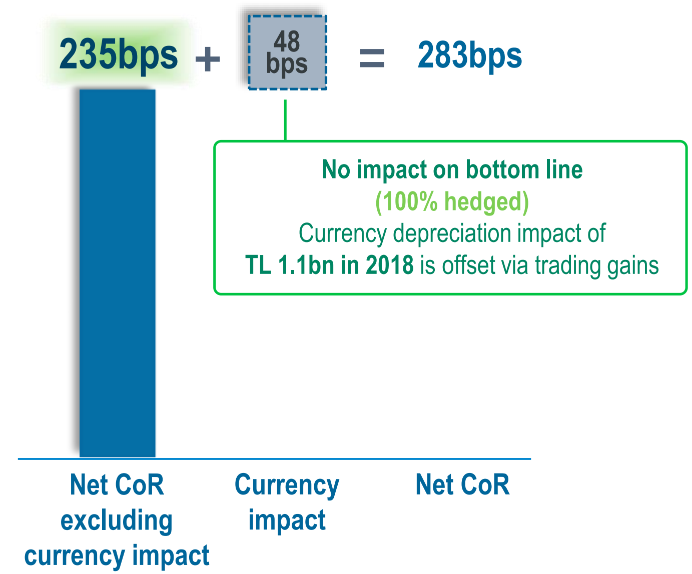
NPL EVOLUTION
(TL million)



NPL Ratio[1]	2017	2018
NPL Ratio[1]	2.5%	4.9%

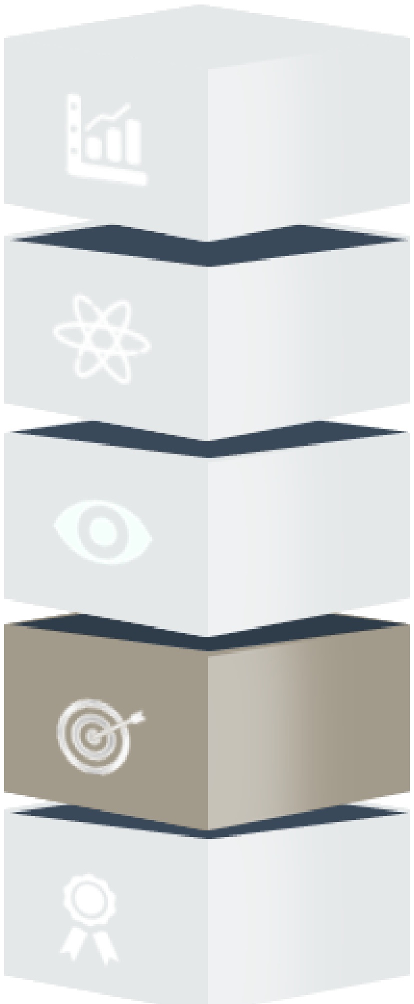
- **Retail NPL inflows expected to be more visible** in 2019, due to anticipated increase in unemployment
- **Corporate/Commercial NPL inflows** are projected to continue in 2019, **yet, at a lesser extent**

NET CUMULATIVE CoR [1]



- **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



MUTED LOAN GROWTH

COMFORTABLE LIQUIDITY

PROACTIVELY SHAPED & WELL PROVISIONED ASSETS

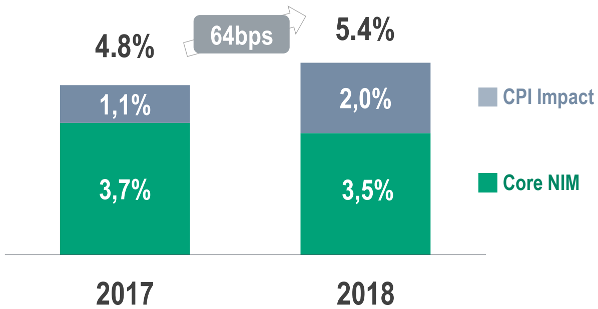
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

SUSTAINED CORE BANKING REVENUES

Dynamic B/S management in defense of NIM

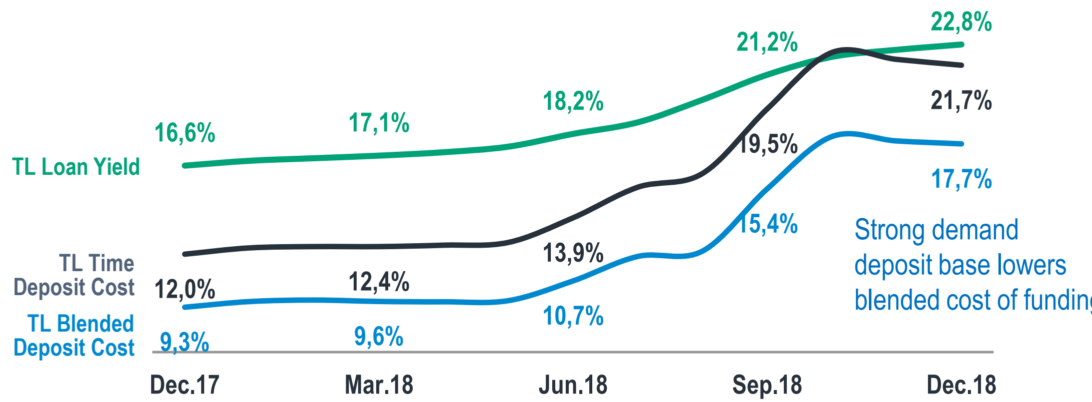
ANNUAL NIM INCL. SWAP COSTS

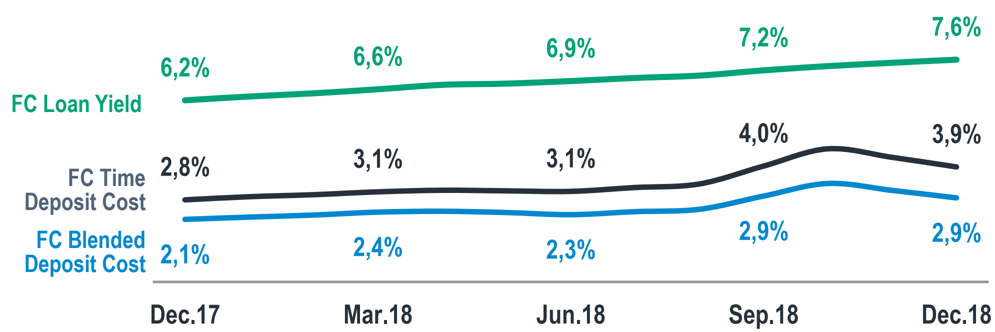


	2017	2018
CPI (Oct-Oct)	11.9%	25.2%
CPI Income (TL mn)	2,776	5,922

- **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

MONTHLY SPREAD[1]





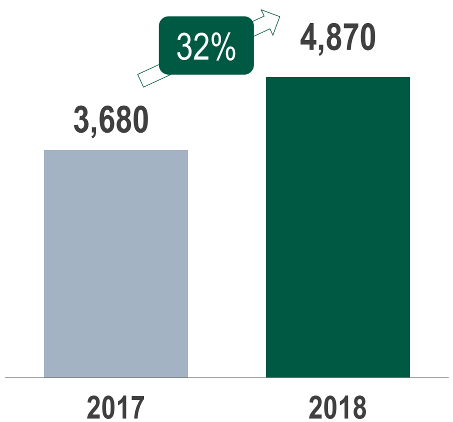
1 Based on MIS data.

SUSTAINED CORE BANKING REVENUES

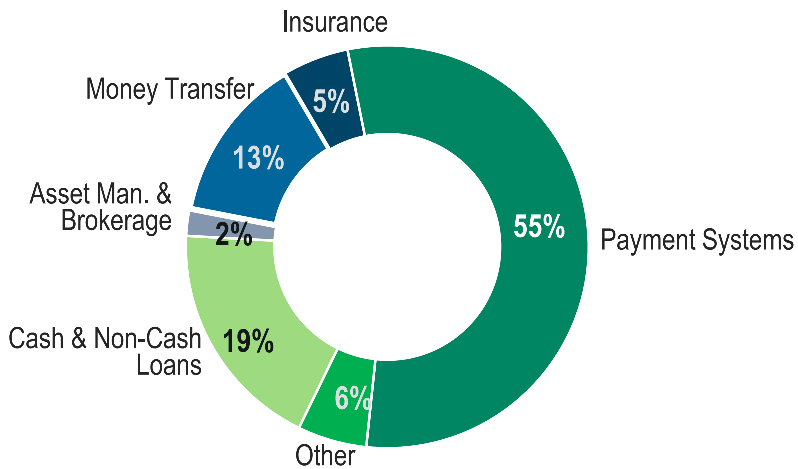
Well-diversified fee base

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%**

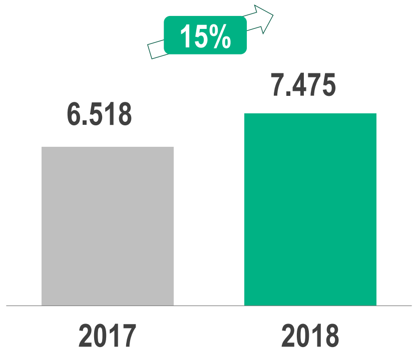
Share of digital sales in total sales: **43%**

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

1 Net Fees&Comm. breakdown is based on MIS data.

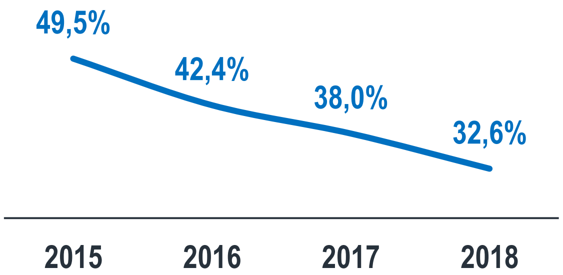
SUSTAINED CORE BANKING REVENUES
Disciplined cost management

OPERATING EXPENSES (TL Million)



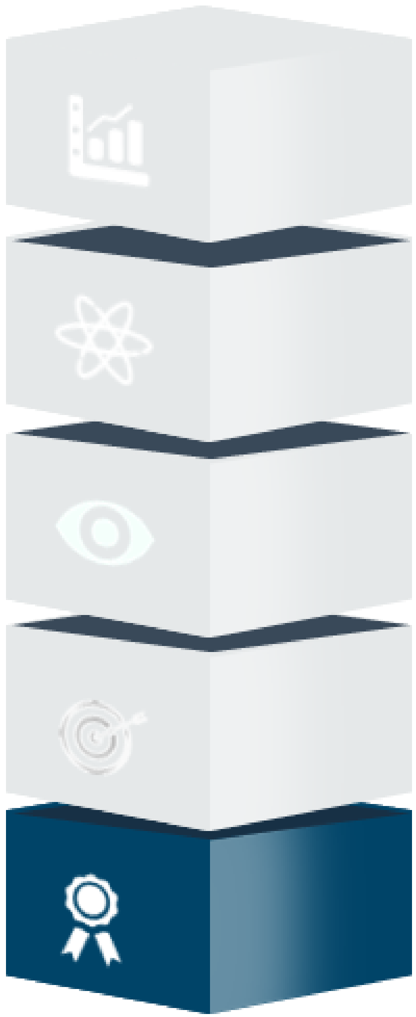
- **Cost growth**
  Below 2018 avg. inflation of 16%
- **Amortization costs** of Pendik IT Campus & New Branch Service model has **~1% impact on 2018 OPEX**

COST/INCOME[1]



17% improvement in C/I since 2015

1 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 42.9% in 2018 vs. 57.0% in 2015



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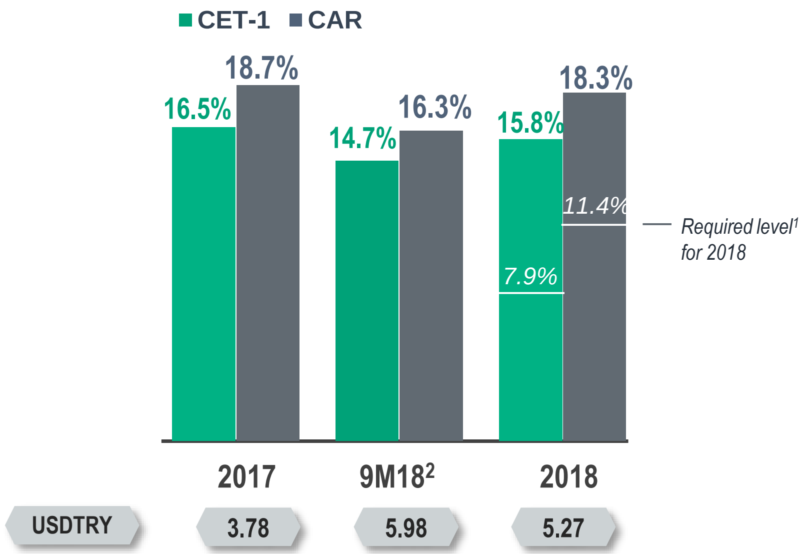
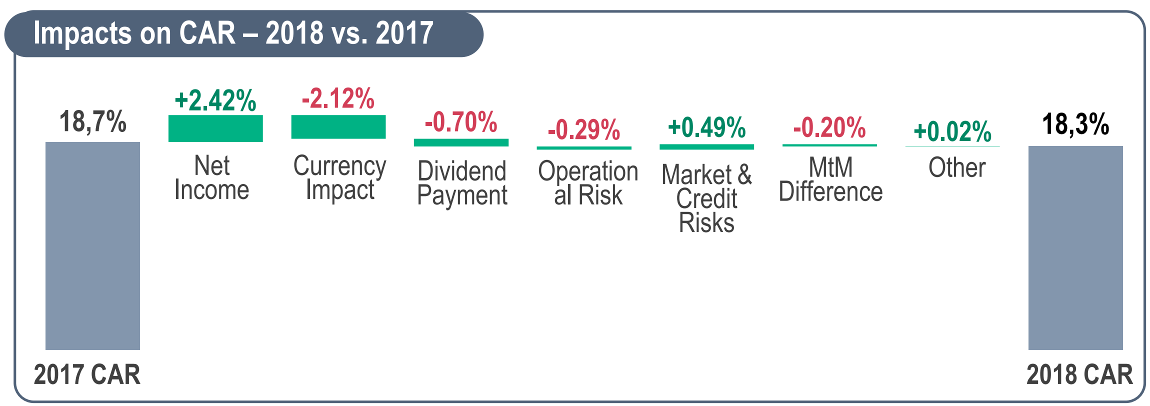
SUSTAINED CORE BANKING REVENUES

STRONG SOLVENCY VIA CAPITAL GENERATION

STRONG SOLVENCY VIA CAPITAL GENERATION

SOLVENCY RATIOS





1 Required CAR = 8.0% + SIFI Buffer for Group 3 (1.5%) + Capital Conservation Buffer (1.875%) + Counter Cyclical Buffer (0.02%)

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**	**-20%**	In-line
NPL Ratio[1]	**4-4.5%**	**4.9%**	Higher
Net Cost of Risk[1] (excl. currency impact)[2]	**~150 bps**	**235 bps**	Higher
NIM including swap cost	**Flat** (including CPI impact)	**+64 bps** (including CPI impact)	Beat
Fee Growth (yoy)	**> 20%**	**32%**	Beat
Opex Growth (yoy)	**~10%** (~ avg. CPI)	**14.7%** (< 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 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»
2 Neutral impact at bottom line, as provisions due to currency depreciation are 100% hedged (FX gain included in Net trading income line).

APPENDIX

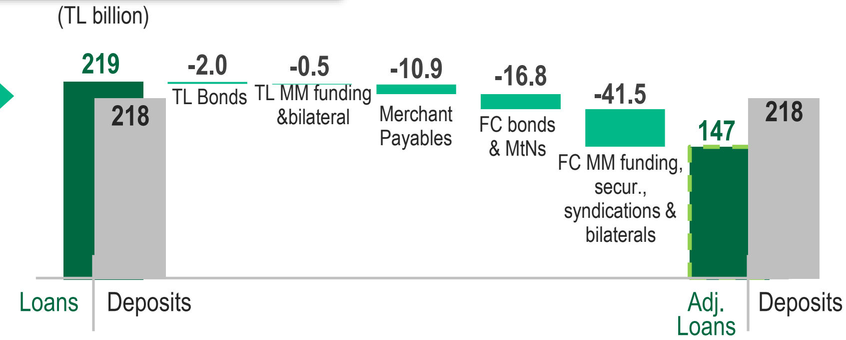
APPENDIX: ADJUSTED LDR AND LIQUIDITY COVERAGE RATIOS

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

Total Loans[1] / Deposits: **101%** → **Adjusted LDR** **68%** →

TL Loans / TL Deposits: **139%**

FC Loans[1] / FC Deposits: **65%**



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

Total LCR	**176.9%**
Minimum Req. for 2018	*90%*
Minimum Req. for 2019	*100%*

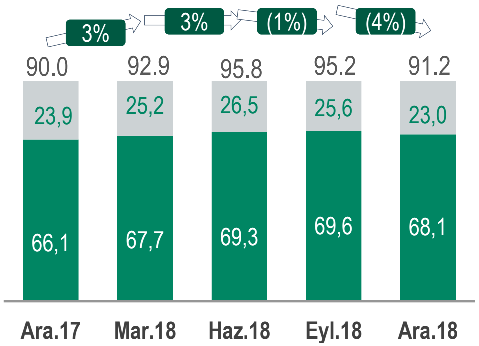
FC LCR	**167.5%**
Minimum Req. for 2018	*70%*
Minimum Req. for 2019	*80%*

1 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»
2 Represents the average of December's last week

APPENDIX: RETAIL LOANS

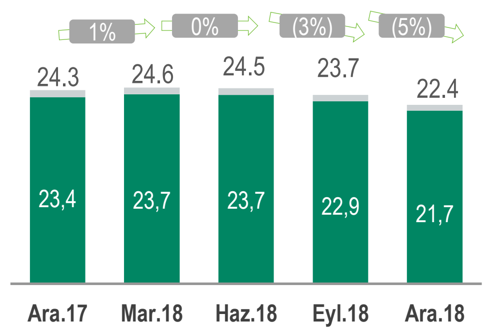
RETAIL LOANS
(TL billion)

+1% YoY



MORTGAGE LOANS
(TL billion)

(8%) 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

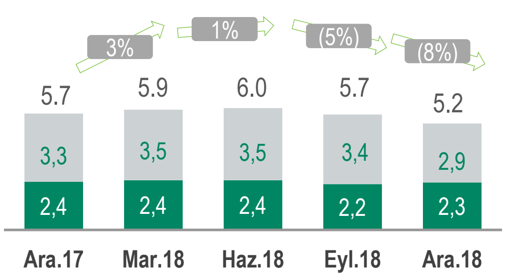
** Among private banks, rankings as of Sep 18*

Pioneer in cards business

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

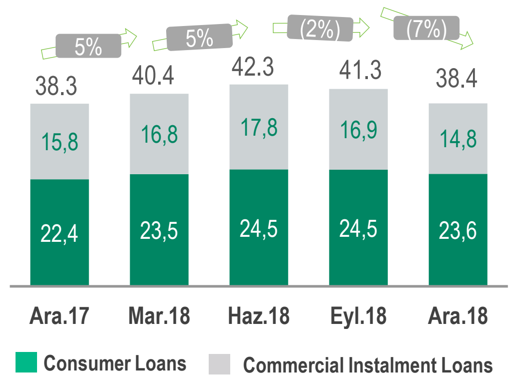
AUTO LOANS
(TL billion)

(9%) YoY



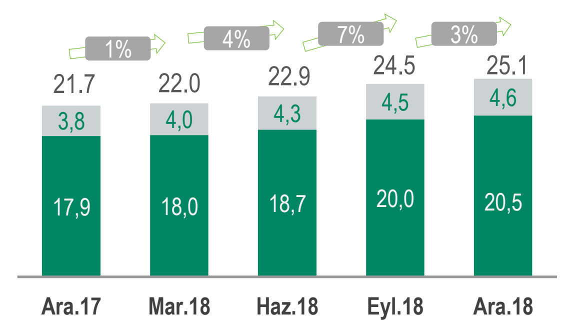
GENERAL PURPOSE LOANS[1]
(TL billion)

0% YoY



CREDIT CARD BALANCES
(TL billion)

+16% YoY

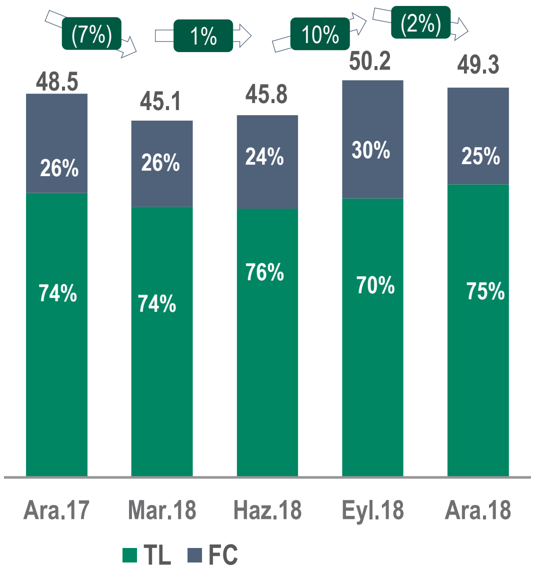


1 Including other loans and overdrafts
2 Cumulative figures as of December 2018, as per Interbank Card Center data.
3 Sector figures used in market share calculations are based on bank-only BRSA weekly data as of 28.12.2018, for commercial banks

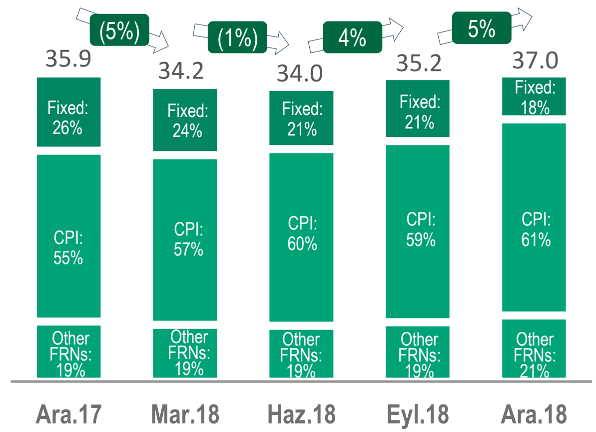
APPENDIX: SECURITIES PORTFOLIO

Total Securities (TL billion)

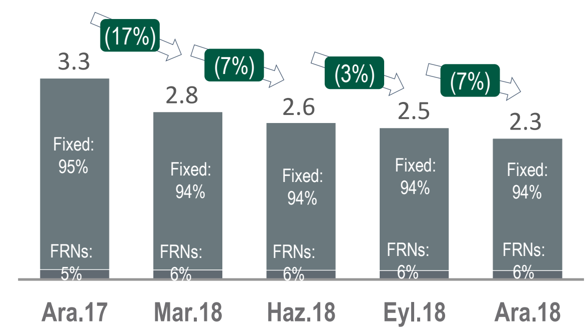
14% of Total Assets



TL Securities (TL billion)



FC Securities (US$ billion)

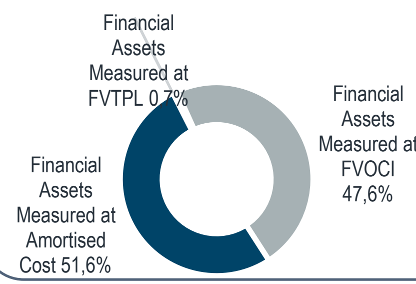


Maintained
FRN heavy portfolio

FRN weight in total: 63%

TL FRN: 82%

Securities Composition



Unrealized MtM loss (pre-tax)
~TL 1,308mn loss as of December'18

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

APPENDIX: SUMMARY BALANCE SHEET

TL Million

ASSETS	30.06.2018	30.09.2018	31.12.2018
Cash&Banks	22,753	46,496	26,998
Balances at CBRT	27,389	32,436	35,803
Securities	45,759	50,192	49,264
Performing Loans[1]	230,762	250,889	219,204
Fixed Assets & Subsidiaries	11,021	12,655	12,157
Other	11,461	18,109	16,051
TOTAL ASSETS	**349,144**	**410,777**	**359,477**

LIABILITIES & SHE	30.06.2018	30.09.2018	31.12.2018
Total Deposits	206,059	243,865	218,058
+Demand Deposits	55,623	62,087	54,228
+Time Deposits	150,436	181,777	163,829
Interbank Money Market	4,982	2,113	45
Bonds Issued	20,791	23,271	20,049
Funds Borrowed	49,926	64,078	48,162
Other liabilities	23,140	30,977	26,475
Shareholders' Equity	44,246	46,473	46,688
TOTAL LIABILITIES & SHE.BSchart.solo.BRSA	**349,144**	**410,777**	**359,477**

1 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»

APPENDIX: SUMMARY P&L

	TL Million	2018	4Q18	3Q18	2Q18	1Q18
(+)	Net Interest Income including Swap costs	16,167	5,252	4,184	3,512	3,220
	(+) NII excluding CPI linkers' income	*13,188*	*2,921*	*3,495*	*3,533*	*3,239*
	(+) Income on CPI linkers	*5,922*	*3,436*	*1,352*	*585*	*548*
	(-) Swap Cost	*-2,943*	*-1,105*	*-663*	*-607*	*-568*
(+)	Net Fees & Comm.	*4,870*	*1,311*	*1,256*	*1,134*	*1,169*
(-)	Net Expected Loss	*-6,604*	*-1,858*	*-2,680*	*-1,309*	*-757*
	(-) Expected Loss	*-8,362*	*-2,106*	*-2,981*	*-1,658*	*-1,617*
	info: Currency Impact	*-1,110*	*+724*	*-1,255*	*-440*	*-139*
	(+) Provision Reversal under other Income	*1,758*	*248*	*301*	*350*	*860*
(-)	OPEX	*-7,475*	*-2,194*	*-1,767*	*-1,778*	*-1,736*
	(-) HR	*-3,016*	*-859*	*-708*	*-771*	*-678*
	(-) Non-HR	*-4,459*	*-1,335*	*-1,059*	*-1,007*	*-1,058*
=	**CORE OPERATING INCOME**	**6,959**	**2,511**	**993**	**1,559**	**1,896**
(+)	Net Trading & FX gains/losses	1,790	-665	1,696	533	226
	info: Gain on Currency Hedge	*1,110*	*-724*	*1,255*	*440*	*139*
(+)	Income on subsidiaries	757	46	250	236	224
(+)	Other income	461	170	70	57	164
	(+) Gains from asset sale	126	0	0	0	126
	(+) Other	335	170	70	57	38
(-)	Taxation and other provisions	-3,327	-1,000	-1,336	-477	-514
	(-) Free Provision	*-1,090*	*-390*	*-700*	*0*	*0*
	(-) Taxation & Other Provision	*-2,237*	*-610*	*-636*	*-477*	*-514*
=	**NET INCOME**	**6,638**	**1,062**	**1,673**	**1,907**	**1,996**

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]	2.4%	2.3%	2.2%	1.9%
Cost/Income	35.7%	35.5%	32.8%	32.6%
Quarterly NIM incl. Swap costs	4.7%	4.9%	5.2%	6.6%
Quarterly NIM incl. Swap costs excl. CPI linkers	3.9%	4.1%	3.5%	2.3%
Cumulative NIM incl. Swap costs	4.7%	4.8%	4.9%	5.4%
Cumulative NIM incl. Swap costs excl. CPI linkers	3.9%	4.0%	3.8%	3.5%
Liquidity ratios				
Loans[2] / Deposits	114%	112%	103%	101%
TL Loans / TL Deposits	159%	158%	144%	139%
Adj. Loans[2]/Deposits (Loans adj. with on-balance sheet alternative funding sources)	79%	77%	66%	68%
TL Loans / (TL Deposits + TL Bonds + Merchant Payables)	135%	136%	126%	122%
FC Loans[2] / FC Deposits	71%	70%	71%	65%
Asset quality ratios				
NPL Ratio[2]	2.5%	3.1%	3.9%	4.9%
Coverage Ratio				
+ Stage1	0.5%	0.5%	0.6%	0.4%
+ Stage2	9.7%	9.9%	11.8%	10.7%
+ Stage3	70.0%	64.3%	60.0%	59.4%
Cumulative Net Cost of Risk[2]excluding currency impact, bps)	115	133	166	235
Solvency ratios				
CAR	18.0%	18.0%	18.6%	18.3%
Common Equity Tier I Ratio	15.8%	15.7%	16.0%	15.8%
Leverage	6.7x	6.9x	7.8x	6.7x

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) for Mar-18, Jun-18 and Sep-18.
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 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»

APPENDIX: CUMULATIVE NET CoR

Cumulative Net Expected Credit Loss

(Million TL, 2018)

Cumulative Net Expected Credit Loss	2018
(-) Expected Credit Losses	**8,362**
Stage 1	831
Stage 2	3,095
Stage 3	4,436
(+) Provision Reversals under other income	**1,758**
Stage 1 & 2	1,217
Stage 3	542
(=) (a) Net Expected Credit Losses	**6,604**
(b) Average Gross Loans[1]	**233,342**
(a/b) Cumulative Total Net CoR (bps)	**283**
info: Currency Impact[2]	**1,110**
Total Net CoR excl. currency impact (bps)	**235**

1 Loans exclude «Loans Measured at Fair Value through P&L (FVTPL)»
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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