



INVESTOR RELATIONS

INTERVIEW WITH MS. ESRA KIVRAK COORDINATOR, SME BANKING AND MARKETING

<Handan Saygin>: Welcome everyone. Today we are with Esra Kivrak, our SME Banking and Marketing Coordinator. She's been with us for well...

<A – Esra Kivrak>: More than 15 years.

<Handan Saygin>: More than 15 years, let's say and thank you Esra for being with us.

<A – Esra Kivrak>: Thank You. It is my pleasure to be here.

<Q – Handan Saygin>: I want to ask you first, I want to start asking you "What is the significance of SMEs in the Turkish economy?"

<A – Esra Kivrak>: SME's are the engines of the Turkish economy, there are 3.5 million SMEs in Turkey. Their contribution to employment is 70%, their contribution to value addition is 55% and their contribution in capital investments is 50%. But their share in the banking loans is 27%, relatively low compared to their high contribution to the Turkish economy.

<Q – Handan Saygin>: True, true. Now we are seeing a number of banks targeting SME's, how do you see the competition these days, is it increasing?

<A – Esra Kivrak>: SME segment is very attractive for the banks; due to their high potential for growth, due to their high synergies for payment systems, high synergies for salary payments. So, in the last few years the government regulations and subsidies, which favor SME financing for the banks encouraged banks to further finance SMEs. So, in the last 3 three years SME loans in the Turkish banking industry had increased 19% on average each year.

Turkish Lira loans and installment loans dominates SME lending, so there are higher yields compared to other segments in SME funding.

But the challenge in SME finance is mitigating the risk and margin. So the banks who manage to mitigate this challenge successfully, like Garanti, has also maintained to have, managed to have higher profitability.

<Q – Handan Saygin>: Actually, just on the topic can you discuss risks associated with your SME book? What the current trends are in the SME NPL ratios?

<A – Esra Kivrak>: In our loan book there is no significant concentration on any of these sectors. We have some groups like retailers. As you know we have a very solid acquiring business, we are the market leader in acquiring business. So, retailers is an important group in our loan book. But retailers from all over the sectors, many of the various sectors. And also manufacturers is another group. But we don't have any concentration on any of the industries or sectors in Turkey.

<Q – Handan Saygin>: Well diversified.

<A – Esra Kivrak>: We are very well diversified.

And also, you know, in the current macroeconomic backdrop the companies sometimes have gaps in their cash flow. So that let them to have difficulties in sustainable growth or these let them to have delinquencies in their loans.

<Q – Handan Saygin>: True

<A – Esra Kivrak>: If a company have receivables on the longer terms and payments on the shorter terms and if it is difficult for them to liquidate their stocks and if it is difficult for them to maintain profitability due to increasing costs, it is inevitable to face delinquencies. So, we know SME business owners do know their business very well but we also know that they have limited skills in finance management.

So in the cases of NPLs we often observe this lack of finance management.

<Q – Handan Saygin>: How do you see the effects of this sometimes problematic finance management on NPL, how does NPL trend at Garanti?

<A – Esra Kivrak>: Our NPL ratios are lower than the sector in small and micro segments. But for this year economic activity driven by political risks will determine the rest of the year. We expect a certain increase in NPL ratios for this year but not an alarming hike.

<Q – Handan Saygin>: Now in here how do you address the lack of transparency in SME's? Could you describe the risk profile there?

<A – Esra Kivrak>: Turkey is ranking the first among the OECD countries in terms of unregistered economy. That is almost 29%, so unregistered economy is a reality in SME's segment. For the most of the SME's the path for formalization is risky but also gateway to access to finance.

As they grow the need for digitization and formalization increase. So we guide them to be ready to access to finance through safe and efficient pathways. And also especially for the micro segment where the lack of transparency is prevalent, we build SME credit profiles based on informal and personal activity as well as formal activity.

<Q – Handan Saygin>: That's great.

Now at this point. The big question. What makes Garanti different in the eyes of the SMEs?

<A – Esra Kivrak>: Yes, Garanti's motto has always been " the bank of SMEs " . So, with our branch and ATM network all over Turkey we provide proximity which SMEs value most, and also we have a dedicated sales force for SMEs who are mobilized with the internally developed STEP application. STEP stands for seamless technology enterprise platform.

<Q – Handan Saygin>: That all of your sales force has right?

<A – Esra Kivrak>: Yes, all of our sales force has these tablets, so they are mobilized. They are where the customers are. We provide seamless and fast transactions at all channels. The successful merge of technology and relationship is the key success for Garanti.

<Q – Handan Saygin>: True, true.

<A – Esra Kivrak>: Serving small and micro segments requires a deep understanding of their behaviors, mindsets and their goals. So our value proposition is based on the core needs of small and micro segments. SMEs need fast, predictable loan approval and flexible repayment terms.

We have to anticipate their borrowing needs, we have to know their cash cycle, we have to know the sectors very well.

<Q – Handan Saygin>: Do you have sectoral experts right? or regional?

<A – Esra Kivrak>: Yes, Regional. And our main strength lies on the strong organizational depth we have at the regional levels. We have very experienced credit underwriting teams who has in-depth

knowledge of the sectors. So we have developed very deep relationship with the SMEs in all regions. We have developed long lasting and consistent relationship with SMEs. SMEs value consistent relationship and trust. SMEs don't forget the ones who support them. So, during times of low economic activity they divert their transactions to the bank who supports them. This leads long lasting relationships. So, that's why we have strong collateral base because they trust us and they divert their transactions and their sources to our bank. So I think that is one of the reasons why we have the strong collateral base in our loan book.

<Q – Handan Saygin>: And also SMEs contribution to the deposit base? Demand deposits right?

<A – Esra Kivrak>: Yes, that is very important we have more than 30% share in the total demand deposits only from small and micro businesses.

<Q – Handan Saygin>: And they are very sticky.

<A – Esra Kivrak>: Yes, very sticky yeah.

Furthermore on what makes us different in the eyes of SME, let me add some other factors. We collaborate with various institutions at the regional levels or at the central levels. Let me give you an example about our collaborations with the trade associations, our collaboration with organizational site administrations, our collaboration with the Credit Guarantee Fund and Small Business Development agencies. So we develop projects together to help SMEs to better do their business, to better access information, sometimes training facilities. Also we make events like Anatolian Meetings, Kobilgi Meetings. These are where we meet these SMEs vis-à-vis and try to provide solutions to the problem of the city or this district with state authorized people and key note speakers.

<Q – Handan Saygin>: Good citizenship.

<A – Esra Kivrak>: These events are very important for the development of the cities and also as you know it is impossible to face all the SMEs vis-à-vis, so we use digital channels, online channels for advice. Let me give you an example about our Entrepreneurship Handbook. Entrepreneurship Handbook is on the web; in which we enable them to better plan their business, to make business plans and to make better budgeting for SMEs.

And another online tool for the use of SMEs is the Subsidy-Finder. There are many institutions in Turkey who extend subsidies to SMEs but we aggregate them and we extend online service to inform them on which subsidy is convenient for them.

Also we have Techno-consult. Techno-consult is on our public web. Techno-consult enables SMEs to find solutions to their software and hardware problems.

Another one of our online tools is the Brand-guide. Brand-guide makes SMEs to have advice for better corporate branding. So these kinds of online tools we use to support SMEs to grow.

<Q – Handan Saygin>: These are all great. Could you share with us your strategic priorities and the outlook beyond 2016?

<A – Esra Kivrak>: Our strategic priority has always been a strong commitment to support SMEs. So helping them to update their inefficient processes by giving them simple tools, supportive in advance. Many SMEs are unaware of the accessibility and value of digitalization. So we offer them digital solutions. Helping them on the path for digitalization and formalization. Also we aggregate data to have much more predictive models, to better serve them. And also we support and develop platforms where they build networks. Networks are very important for SMEs. So for their growth and resilience we are working to provide them platforms which they develop their e-commerce and help them to find new markets.

And for the next years we will continue to focus on women entrepreneurs and start-ups. Two important initiatives of our business line.

<Handan Saygin>: There is huge value creation in SME banking world and I would definitely would want to catch you next time on this topic of women entrepreneurs and the backing of the start-ups. Thank you Esra so much for being with us.

<Esra Kivrak>: It's my pleasure, thank you.

<Handan Saygin>: Thank you everyone for watching. We hosted today Esra Kivrak our SME Banking and Marketing Coordinator. Please keep watching us at Garanti Investor Relations website and IR application. Have a lovely day.