



INTERVIEW WITH MR. MURAT ATAY

INVESTOR RELATIONS

CEO, GARANTI MORTGAGE

<Handan Saygin>: Hello everyone. Today we are hosting Garanti Mortgage CEO Murat Atay. Murat, thank you for being with us.

<A – Murat Atay>: It's my pleasure to be here.

<Q - Handan Saygin>: Now Murat, I would like first start with asking you the residential price increases. Now there is REIDIN Composite Index suggesting that there has been continuous increase since 2009 in housing prices. Now, how should we interpret this index? Does it suggest that there is an increase in consumer appetite or is this a sign of a housing bubble?

<A – Murat Atay>: It looks like incredible. Because if we take 2009 Housing Price Index as 100 it has jumped to 233, between the years 2009 and 2016. That means there is around 15% price increase every year in the last 7 years.

On the other hand, as a country since we have one of the highest inflation rates in the world, when we exclude inflation from the prices, then annually real price increase is less than 6% , which is very normal in such a fast developing country, in an emerging market like Turkey.

After the earthquakes, all the construction requirements has been changed with very tough, very strict rules by the regulators. In addition to this, because of an earthquake risk people started to demand more quality for their houses. According to Turkish Central Bank reports, around 50% of price increase is coming from this quality improvement in the construction.

In this context, because of our fast growing population, housing sales are rising every year that affects Mortgage Market. Turkish Mortgage Market has been growing with the cumulative growth rate of more than 20% between the years 2009 & 2016. But this is a very healthy and sustainable growth. That is why non-performing loan level is still lower than 0.5% which is one of the lowest rate in the world.

As I mentioned before the main driver behind this fast growth is our growing population. We have a very young population and every year 1 m is added to our population, that brings housing needs.

But, there is one more thing to mention, our lower base. Turkish mortgage law was just enacted in 2007 and before 2007 Turkish mortgage market was almost non-existent..

Since we have a lower base, although we have a huge growth over the years, still our total mortgage loans to GDP rate is around 7% which is more than 50% in European countries as an average. Even in some of them it is more than 80%, or 85%.That means there is still a very long way to go in Turkish mortgage market.

As a result of all these things, rather than a bubble in the prices we can talk about a real demand and supply equilibrium in the Turkish mortgage market.

<Q - HS>: That's good. As you put it mortgage penetration is very low in Turkey compared to other countries. Now probably the main reasons are the short maturities and the caps on loan to values, so it's not a mass market product yet. So what do you think is necessary to trigger a higher penetration level?

<A - MA>: Actually mortgage is becoming a mass product in Turkey. On the demand side we see a huge demand coming from especially middle and lower income groups. Whereas on the supply side, supply side is mainly focused on the higher income groups.

As Garanti Mortgage we believe that, we think that as a country we need to develop affordable land places in order to construct affordable housing on them. We think that, that will trigger a higher penetration.

Actually mortgage penetration rate is higher than what you see in the numbers. Because there is a state company TOKİ, and TOKİ has constructed around 700k houses for especially lower income groups. These people here are financed directly by TOKİ. That's why you don't see these numbers in the mortgage penetration.

Moreover, at the end of August a new Government incentive program has started. It is called as Housing Account. According to this program if you start saving, and continue for a certain period of time, then the government will provide a contribution to your savings if you buy a house. As Garanti, we are not just supporting this program, but also we are taking a part in this program with our specially designed products. We think that, that will also help trigger higher penetration.

<Q - HS>: That's great. Now, how do you see current mortgage pricing in the sector? What are the determinants of the pricing and how is Garanti positioned?

<A - MA>: Since the non-performing loan level is close to zero in the mortgage loans, that is why mortgage loans prices in the market are the lowest one. And in addition to interest payment in all other credit types you are supposed to pay a tax that increase your cost. On the other hand there is no such kind of a tax burden in mortgage loan.

So we believe that the people shouldn't delay their purchases waiting for the interest rates to go down. Of course interest rates are important for sure, rather than this whenever they find a suitable house it is better to buy it.

<HS>: To buy it, yes.

<A - MA>: As Garanti Mortgage we have positioned ourselves as Mortgage Experts, this is very important. And we are not competing with our prices in the market, but we are competing with our service quality, with our fast and easy process. For instance time to cash period in our bank is just 4 days.

<HS>: Yes.

<A - MA>: Including credit application, credit approval, land registry, appraisal reports for the houses, opening accounts and all other necessary documents to be signed; in just 4 days. Even in some cases we do the whole process in the same day. As far as we know, this is the shortest mortgage process in the world. It's great.

<HS>: Probably it is, yes.

<MA>: That's great.

<Q - HS>: It's great. All right now, Garanti is the leading bank in the sector in housing loans, we have a significant market share. What is the story behind this success?

<A – MA>: First of all, as I said before we are mortgage experts and we serve our customers with more than 4 thousand mortgage experts in our Garanti Bank branches. In addition to this we have the widest product range in the mortgage loans with having more than 20 different products; considering the different needs, different cash flows or different risk perceptions of the customers.

And secondly, we have the best distribution channel management model. We are collaborating with more than 10 thousand construction companies & developers and we are working together with more than 16 thousand real estate agencies. Just a brief information here, in our country real estate agencies are not acting as brokers, they just lead the customers to us and then we do our own credit evaluation.

Call center is another channel, actually it is a business model for us. Of course there are some other banks in Turkey having call centers for the mortgage loans, but Garanti is the first and still the only one having a dedicated Mortgage team in our call center.

As a result, all these things differentiate Garanti Mortgage in the market. Then that brings the market share, that brings the leadership, and that brings more than 20 billion TL Mortgage loan book.

<Q - HS>: Murat, where do you see the Turkish mortgage sector in five years, what are the expectations?

<A – MA>: As Garanti Mortgage, we expect the double digit growth, annual growth to continue in the coming years.

Because, let me remind you around 50% of our housing stock is over than 20 years old with very poor conditions. And as a matter of fact 7.5 million houses are subject to renewal as soon as possible because of an earthquake risk. And 7.5 million houses meaning approximately 30 million people will be affected. That's why Urban Transformation has already started in our country and the government strongly supports this program by giving some incentives like tax advantages to the developers or construction companies, and even subsidizing the rental expenses or subsidizing mortgage interest payments for the individuals.

And also over the years we observe a cultural change cultural transformation in our country. 25-30 years ago average household number was 6, it means that 6 people were living in the same house then that decreased to 3.8. So we need more houses. And every year 600 thousand people are getting married, they need more houses.

<HS>: And they are getting divorced.

<A – MA>: Yes its true, 125 thousand people are getting divorced. Since they are separated they also need more houses. Therefore, we have to construct at least 600 thousand new houses in Turkey. And that means double digit growth.

<HS>: There is a demand.

<A – MA>: Yes, there is a demand. On the other hand, we strongly believe that, that is a healthy and sustainable growth.

Because first of all, this growth is coming mainly from population increase. And our mortgage market is very well regulated. There is no currency risk, because the individuals in our country cannot get mortgage loans in foreign currency, its forbidden.

<HS>: Right

<A – MA>: There is no interest rate risk, since almost all the loan book are fixed rate. Last but not the least one, maximum LTV level is kept at 75% that keeps the banks on the safe side. Because we

expect the people first to start saving and after that buy a house. That is why the NPL level is still less than 0.5%.

So, all in all, we have a very promising mortgage market with strong growth potentials and opportunities. Now, as of today, more than 2.5 million people are living in their homes financed by Garanti Bank. And as company Garanti Mortgage, we have been performing much better than the market, I must thank to Mortgage Experts in our branches. And we have been performing much better than the market since the foundation of our company in 2007 and we will definitely we will continue to do so.

<HS>: Great, this is all great Murat, thank you very much for being with us Murat.

<MA>: Thank you.

<Handan Saygin>: Today we hosted Murat Atay, CEO of Garanti Mortgage.

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Have a wonderful day.