



INTERVIEW WITH MR. RECEP BAŞTUĞ

INVESTOR RELATIONS

EVP, COMMERCIAL BANKING

<Q – Handan Saygin>: Welcome everyone. Today we are hosting our EVP in charge Commercial Banking Recep Baştuğ. Welcome Recep. I know that you have built an incredible network of Turkish business over your 26 years at Garanti. And now in this short interview, we are gonna get the most we can out of this.

I would like to start first with how you would evaluate 2015, how did the year went by in commercial banking?

<A – Recep Baştuğ>: Commercial banking is a large sized business. We have 85bn TL in loans which makes up around 42% of Garanti's total loan volume. When it comes to deposits, we have 25 billion TL which is roughly 18% of Garanti's total volume. With customers exceeding 50 thousand, Commercial banking generates nearly half of Garanti's LOB profit.

Yet, in 2015 a difficult environment ruled the markets. It affected investment decisions negatively and risk appetite was low. Exchange rate uncertainties continued almost all year.

This created a flight to TL investments. TL investments were preferred due to high exchange rate volatility and CAR concerns. As a result, market grew more in TL whereas the growth on the FC side was rather limited.

On the TL cash loans side, Garanti Commercial Banking grew by more than 28%, outperforming the sector growth of 22%. This remarkable growth was actually healthy and sustainable, due to its diversified nature. We work with 15 different sectors. We stay away from concentrating on limited number of customers and sectors.

In 2015, not a single sector experienced an outstanding year. Moreover on the negative side, certain sectors such as shipping, further lost ground .

Energy sector was among the ones carrying a partially negative outlook. Negative effects of the currency devaluation hit the sector. Returns fell below expectations and sector's efficiency declined significantly. Investment appetite was rather low and markets were quite selective. Only the right and rational projects got funded.

<Q – Handan Saygin>: That's true. In this context, how would you describe Garanti's commercial banking business model? What makes us stand out in the sector?

<A – Recep Baştuğ>: As Garanti, we have the long standing leadership in the FC loans market. Our TL market share is always lower than our FC market share. In 2015, our aim was to increase our share in TL loans. We managed this well without a doubt. It was a result of deep analysis of the market and detailed studies of the customer needs. We did customer based targeting as well as special targeting in the areas with a relatively lower market share.

As always, rational pricing was the main feature of our business approach. We never grant loans for the sake of higher market share. Our sustainable and above sector profit generation capability has proved the success of this strategy.

In 2015, we redesigned our service model. Organizational structure was simplified in line with the changing market conditions. Commercial branches now directly report to the headquarters and this further improved our fast and result-oriented process management. We have by far the fastest turnaround in the sector with our ever more agile processes and customer centric approach.

<Q – Handan Saygin>: Could you elaborate on this? Could you give more insight on how commercial banking operates?

<A – Recep Bařtuđ>: Let me tell you about the internally developed mobile platform, our STEP application. STEP which means Seamless Technology for Enterprise Platform, contributes to the efficiency of our processes and customer satisfaction. It is an integrated banking and communication application and it is the first and only of its kind in the sector. It keeps the sales force always up to date with all the customer and banking information and thus increases the quality and quantity of customer visits. It empowers us fulfill all product and service needs of our customers on site within boundaries of customer information privacy. Besides, it enables video communication providing expert level information to our customers from first hand . Apart from its contribution to sales and customer satisfaction, it is an internal tool that provides employees to monitor their performance, get insight to improve it and manage their daily tasks easily.

<Q – Handan Saygin>: That’s excellent, I believe this business model assures Garanti’s long-lasting leadership. I would also like to ask you about your expectations in 2016 and the upcoming challenges and opportunities?

<A – Recep Bařtuđ>: The economic outlook in 2015 will probably dominate 2016 as well. We expect the market to grow by 3% on the FC side this year. TL lending will lead the growth this year. TL growth will be around 20%. As Garanti, we forecast FC growth parallel to the market, while TL growth will be above the market.

In addition, now that we have BBVA as our majority shareholder, we also are trying to realize higher synergies. With their support, we now are able to further penetrate the multinational companies. Since 2015, we are increasing our share in this segment. Our aim is to realize this relationship with BBVA at its full potential. Above all, our greatest strength is our robust capital structure. Which is the base of our consistent growth.

2016 will be a tough year, though. I can easily say that “Asset Quality” will be on top of our agenda this year.

Total depreciation in TL since the end of 2012 reached 65%, this includes the accelerated depreciation since FED’s signal to increasing interest rates during April 2013. Fortunately, we didn’t experience a sharp one-shot devaluation. Impacts of such an event would have been worse.

In 2016, growth in Turkish economy is expected to be 3.5-4%. This is not a level real sector is used to. Growth should be at or above 5%, so that the companies can operate and grow sustainably.

<Q – Handan Saygin>: Definitely, and on top of all these macro constraints, we have the surrounding geopolitical developments as well... How does this impact your business?

<A – Recep Bařtuđ>: Exactly Handan. With the geopolitical developments added to the adverse situation, some sectors and companies have been suffering problems. Sectors most affected are tourism, food and logistics. Obviously tourism industry got hit the hardest out of this three.

And Antalya is surely one of the main drivers of the industry in Turkey, as approximately 80% of Russian tourists choose Antalya as their vacation spot.

The latest political tension with Russia and the subsequent sanctions will evidently hit some sectors. If we take a look at least 5 years to tourism sector in Antalya –regardless of the latest political tension- our market share has come down from 14% to 9%.The main reason for this was aggressive pricing competition aiming the sector. With higher priority given at Garanti to risk return balance, from time to time we choose to lose market share. And clearly right now we are pleased with our choice and portfolio. We always prefer to run a sound and sustainable portfolio.

Nevertheless Garanti still has the control of the tourism industry cash flow. We are the main bank of the largest tour operators. Despite the narrowing in the market, we are the main bank of the companies in the sector and remain to be so.

One of the most important markets for Turkey is Iraq. In 2015, we experienced 22% narrowing in the market. However, a similar shrinkage is not expected in this year. Problems will be limited to logistic delays.

Furthermore, Iran may become an opportunity for Turkey in 2016. Sanctions to Iran are gradually decreasing. Positive developments can alleviate the adverse effects coming from other markets, such as Russia. We are following the developments for possible opportunities.

<Q – Handan Saygin>: Ok, that's good. How about the competitive environment? How is our positioning in this regard in 2016?

<A – Recep Baştuğ>: In a nutshell, in 2016 we do not expect a decrease in rates. We have reached a plateau. We anticipate bankruptcies to be postponed and gradual increase in NPLs. Effects of geopolitical risks will become more apparent in the balance sheets of some companies. Banks working with these companies should closely monitor risk and are more likely to restructure loans. Even so, I do not expect any serious problems in the Turkish banking industry. It is clear that the fundamentals are strong, the capital levels are adequate, and coverage ratios are high.

As for Garanti, we will continue to grow healthily in 2016, keep our focus on establishing sustainable and profitable relationships. In 2016, we expect a sound and rational competition. Market share is meaningful only if it contributes to profit.

<Handan Saygin>: That's all very good Recep, thank you for being with us.

<Recep Baştuğ>: It was my pleasure.

<Handan Saygin>: Today we hosted Recep Baştuğ, EVP in charge Commercial Banking.

Please keep following us at Garanti Investor Relations website and application.

Have a wonderful day.