INTERVIEW WITH MS. EBRU EDIN, EVP, PROJECT FINANCE

Garanti

INVESTOR RELATIONS

<Handan Saygin>: Hello everyone. Today we are hosting Ebru Edin, Executive Vice President of Project Finance.

<Q – Handan Saygin>: Ebru welcome. As the largest lender in project finance with a loan book of 13 billion dollars, could you please share with us the development of project finance throughout the years and how the portfolio has evolved in terms of sectoral breakdown?

<A – Ebru Edin>: It actually started with treasury guaranteed loans and was followed by large privatization financings such as Tüpraş, Türk Telekom, and Erdemir. Then, liberalization efforts paved the way for private energy investments. Since then, more than 40 billion dollar financing has been provided in the last decade to Turkish energy market and the installed capacity has doubled. Starting from 2012, infrastructure financing has become a very important area for us as well. This was mainly triggered by the government's intention to use Public-Private Partnership structures more often than before. In the past, ports and airports were the main infrastructure assets that were being realized through PPP models. But today, different PPP models are being applied in new areas such as motorways and healthcare, where Turkey needs huge investments... These are generally very sizable projects. 2015 has been a very important year for infrastructure financings.. It will be remembered with the financial close of the two largest projects in Turkish project finance market history, each with a size of 5 billion Dollars: Gebze-Izmir Motorway and Istanbul New Airport.

<Q – Handan Saygin>: Ebru, at this point, I would like to come to a very hot topic that is being discussed among the investment community. How does the depreciation in TL affect asset quality in project finance markets where we predominantly see the fx loans?

<A – Ebru Edin>: That's an important question indeed Handan, we also frequently receive this. As you know Turkish Lira has depreciated more than 30% against Dollar in the last 12 months. This is obviously creating a significant stress on the companies that have foreign currency risk in their balance sheets. Let me start with energy and infrastructure projects as they constitute the vast part of our project finance portfolio.

On the energy side, the renewable projects generate their revenues in foreign currency terms; thanks to the feed-in-tariff mechanism, which is available for the first 10 years of operation. This tariff, set by the renewable energy law, mitigates currency and merchant risk for renewables. On the thermal energy front, the picture is a bit more complicated since the electricity market is in a transformation phase. Currently there is a currency risk in the spot electricity prices mainly due to mismatch between the buying and selling price of natural gas. With the implementation of automatic pricing mechanism in the natural gas market, the currency risk in the electricity prices will be eliminated. Until then, we will continue to carefully manage the currency risk of our portfolio as we did in the past. Thanks to our internally developed electricity market forecast model, we have been very selective and we only focused on very competitive thermal projects that have a sufficient profit margin to absorb the impact of currency risk.

On the infrastructure side, nearly all of the projects are developed under different types of PPP structures. For majority of the PPP projects, the currency risks are largely mitigated by protections under the concession agreements. For others, there is generally a natural hedge. Let me explain with some examples: In the greenfield motorway projects, the tariffs are set in Dollar terms. Turkish Lira equivalent that will be paid by the users at the tolls is revised at the beginning of each year taking into account the Dollar based-tariff. So the currency risk is negligible and only limited to an interim period . Such limited risk can easily be hedged with certain derivative products.

For port and airport projects, on the other hand, the concession agreements do not provide a protection mechanism but there is a natural hedge since the revenues are mostly in Dollars. To sum up, we are confident with our project finance exposure in terms of currency risk.

<Q – Handan Saygin>: Thank you very much for this detailed snapshot Ebru. Could you also share with us how Garanti is positioned in these sectors?

<A – Ebru Edin>: 8 years ago, we anticipated the future potential of energy projects and established a specialized energy team. From the very first day, our aim was to develop a balanced portfolio of renewable and competitive conventional energy projects. As of first half of 2015, our exposure in energy generation projects reached over 5 billion dollars. Renewable projects, which has no market and currency risk, correspond to half of it and they are mostly composed of wind power projects. We are very keen in wind and as of today we have reached a market share of 35% in the Turkish market. The remaining part of our portfolio is mostly composed of thermal power plants with low operating costs. We have only financed a couple of high efficiency natural gas fired power plants, which are less competitive in the merit order since their operating costs are relatively higher compared to other types of plants. These projects are backed by financially strong sponsors and sound security structures and constitute less than 5% of our portfolio. On the other hand, in the infrastructure market, we always had strong appetite and so far we have participated in most of the important transactions. At the moment, we have an exposure of slightly above 1 billion Dollars. This figure will increase with the existing commitments related to projects under development. The infra projects are generally large in size, so the number of banks participating the transactions are typically higher than in other sectors. Therefore the structuring and coordination of these deals are important. We have acted as a structuring bank in many of these transactions and in terms of total exposure we have an estimated market share of 10-15% in the infrastructure market.

<Q – Handan Saygin>: And how do you see the pipeline in these markets?

<A – Ebru Edin>: On the energy side, since the market evolved to a mature stage, we expect only renewable projects and hydro power plant privatizations in the near to medium term. Whereas on the infrastructure, in a very short time Istanbul's New Airport will reach financial close. In the mid-term, the healthcare PPPs and the new motorway projects will constitute most of the pipeline. All of these projects are very strategic for Turkey, and therefore have significant government support making them highly bankable for both local and international banks. We will continue to play a leading role in these projects.

<Q – Handan Saygin>: Thank you very much for being with us and giving insight to the Investment Community on project finance, an area of particular interest especially these days.

<A – Ebru Edin>: You are very welcome, it has been my pleasure.

<Handan Saygin>: Today we have hosted Ebru Edin, Garanti Bank's EVP responsible of Project Finance. We have also uploaded a highly demanded report prepared by our Project Finance team on Turkish power market to our website for your review. Please keep following us on Garanti Investor Relations website and application. Have a wonderful day.