



INVESTOR RELATIONS

INTERVIEW WITH MR.ONUR GENÇ

DEPUTY CEO, EVP – RETAIL BANKING

<Q – Handan Saygin>: Welcome everyone. Today we are hosting our Deputy CEO, in charge of the whole world of Retail Banking at Garanti as well as the Financial Institutions Onur Genç. Welcome Onur. My first question to you will be the significance and positioning of retail banking at Garanti. Could you elaborate on that please?

<A – Onur Genç>: Well when you said the whole world of retail banking I got scared a bit let me start with that one. Retail banking as you know well is one of the core businesses of Garanti. We serve 12.5 Million customers every day, we acquire more than 1 Million customers every year. So it's a relatively large sized business that we have over here. But in terms of business volumes, to quantify the business volumes a bit, we have 70 Billion TL in deposits, which is roughly more than 50% of Garanti Bank's total customer deposit volume. And we have like 45 Billion TL in consumer lending. Which is one third of our overall Garanti loan book. With these numbers we also enjoy a unique competitive position as you know very well in the market. We are the largest consumer lender in the Turkish banking landscape. We are either number one or number two in most of the product categories. A few examples in retail credit card spending we have 21% market share. In mortgages for years we are the market leader with 14% market share. Which is a relatively large sized business. In auto lending a smaller market but we have 27% market share. In bank assurance we are the market leader. So the list keeps going on and on. We enjoy a unique competitive position. This comes all in the context of our infrastructure market share (Branches, ATMs) being around 9%. So again we enjoy a very good competitive position beyond our fair market share in the market.

As a result of this, in many publications they have been quoting us as the best retail bank of the country. Garanti brand, our Bonus credit card brand, they have been tagged as the most renowned brands in their space in the country. So all in all retail bank is one of the cornerstones of what we do at Garanti.

<Q – Handan Saygin>: That's definitely a significant positioning. Could you also share with us the growth potential and the opportunities in retail banking?

<A – Onur Genç>: Let's start with the growth potential. In a nutshell Turkey is an underbanked and has a lot of unbanked potential in the country. Let me again quantify a bit, in Turkey the bankable population is around 55 Million, a bit more than 55 Million. We don't have the exact figure but we estimate the people who are in the banking system is a bit more than 35 Million, so roughly 20 Million unbanked population is already in the country. Which is a significant potential to tap in to.

But more importantly on top of the unbanked there is a clear underbanked nature of the country that we should be aware of. Again a few numbers, mortgages over GDP, the mortgage balance divided by the GDP of the country is 7% in Turkey. In many countries in Europe this number is more than 50%. Household debt over GDP, so the total household debt divided by GDP again, just to put some

relativity to it, is around 21% in Turkey, the EU average is north of 60%. Same goes for saving and deposits and so on. So there is a lot of growth potential by tapping into already existing customers in the banking system. And the growth will be there going forward as well. So the potential is quite high.

Related with this potential maybe also a bit on the opportunity side that you were asking about, the Turkish macro economy growth, if you take the past 10 years is around 5%, we have seen years of 9% growth. So 5% this is much better than Latin America, Emerging Europe, and so on. As a country we have been growing quite nicely in the past decade. When you look in to the core drivers of this it's a domestic demand driven growth. And that's partially driven by the demographic dividend that we enjoy, we are growing because the age curve of this country is quite advantageous. Again, roughly 50% of this country is less than 30 years old. As you know very well, roughly 50% of this country is less than 30 years old. It's an amazing age curve, right?

This opens up another opportunity. This signifies the growth potential but this also leads to an opportunity that we are trying to tap into. Which is, given the age curve given the young population, it implies a digitally savvy population to serve. So Turkey is number 6 globally in Facebook, number 6! So they are very prone to these new technologies to social media and so on. So opportunity wise in a high growth market, we would like to leverage our technology base. We are now a part of BBVA group which put a lot of emphasis on these digital propositions. We want to come up with new methods, enhanced propositions to serve our customers better, in a more cost efficient way, in a more convenient way for them and so on. So growth and opportunities to sum it up, very high growth country to go forward in the banking system; with a lot of opportunity to develop new propositions, cost efficient propositions to serve these customers going forward.

<Q – Handan Saygin>: So growth potential seems to be significant but lately, recently we have been operating in a very difficult environment. Operating environment has not been easy, there's been regulatory pressures could you tell us about how you view them?

<A – Onur Genç>: Well if you look in to my past 3 years it's all signified with these regulatory developments, so good question...

As I have mentioned Turkey has gone through a very fast development phase. Again the country has grown 5% in the past decade, as a byproduct of this growth the country has also seen a widening gap in current account deficit, so the current account deficit as a percent of GDP again shot up to 10% in 2011. It's now much under control but this 10% current account deficit as a percent of GDP was a high concern for the government.

In the same period given also the underbanked nature of the country that I have mentioned, we have seen a huge growth in consumer banking, so we found ourselves asking the question of 'are we going faster than justified', 'are we fueling a credit driven growth in the country' and so on. So the government has put in place multiple many regulatory rules around the growth of the sector, around the growth of retail banking. They have also put in place some caps on the fee and commission generation capacity of the banks. So the growth and the profitability curve of retail banking has come down a bit in the past few years. An example in GPL, general purpose loan, which is our unsecured instalment loan business in the country, which is a relatively large market. It grew 27% in 2013 15% in 2014 and only 4% in 2015. So we have seen this curve of capped growth rates in consumer lending. We do feel, we do think that this is a much more healthy, a much more stable environment to build upon going forward. It's a healthier and more stable environment to build upon going forward. Given the fundamentals that I have mentioned we will still see double digit growth going forward but at a much more healthy levels that we are also happy to do live with.

<Q – Handan Saygin>: Well under this new operating environment how would you view the normalized growth rates in Retail Banking in the mid-term?

<A – Onur Genç>: Going forward, as I said the fundamentals are still very robust, for next year for example our budget, and I believe we can clearly satisfy the budget, is 12 to 15% growth in consumer lending and 10 to 12% growth in wealth management overall and deposits. This obviously comes in the context of the regulatory environments that I just mentioned but also the context of relatively high interest rates that we are expecting for next year. If the interest rates are lower than planned then we might see further upside on these numbers.

<Q – Handan Saygin>: How concerned are we with asset quality in Retail Banking?

<A – Onur Genç>: Asset quality, favorite topic. We are actually relatively optimistic on asset quality. One of the core reasons is that there are some clear safeguards in the system that helps us to manage this in a relatively good way. A few examples, in Turkey for example there is no FX lending to consumers. Due to regulatory restrictions you can only lend in Turkish lira, which has been a great benefit to us last year when the currency was depreciating in a major way. In mortgage for example there is a clear and forced rule on LTVs of 75% so if you want to buy a home of 100 you have to put in the 25 of the 100. In credit cards there is clear limit on, there is a clear cap on the limits that the consumer can have on his or her credit card.

And also from a government's perspective all of the banks they again legally and regulatory they should have an independent risk organization to manage all of these risks. So there are some clear safeguards in the system. Our NPL for 2015 is around 3.5% for consumer loans excluding credit cards and credit card is around 5.4%. This 3.5 % we have seen an increase in this number in the past two years. The reason being the regulation in January 2014 a new regulation came up which limited the maximum maturity of GPLs, general purpose loans, to 36 months. Just before that regulation it was five years, the average maturity of our book was 5 years. So in one night the consumers were faced with the maximum maturity going from 60 months to 36 months. And given the age curve that I mentioned in the previous questions most of the consumers they wanted to renew their loans when the time comes. So when the renewing time comes they were faced with double the instalment, the monthly instalment. So this has created not a solvency but a liquidity problem for most of our customers. Unfortunately many of the regulations that came in the past three years were well funded also this one was well intentioned But the decrease from 60 to 36 was too short and the transition was too fast which again creates the liquidity problem. Which has found itself in the NPL figures we have adjusted ourselves we have revised our score cards and so on. But 2014 and 2015 this is the reason why we are seeing a bit over increase in our NPLs. But now that two years have passed...

<Q – Handan Saygin>: It's like front loaded NPLs?

<A – Onur Genç>: Yes, it's a front loaded NPL, so the customers who were a bit on the edge, took 60 to 36 were too sharp fell of the cliff, unfortunately. So but I mean, we have seen the two years and now we have seen in the past few months a clear stabilization of this regulation impact is now disappearing a bit and given the safeguards that I mentioned at the beginning I am relatively optimistic on asset quality.

<Handan Saygin>: There is also a minimum dues increase.

<A – Onur Genç>: We have done a benchmark on this the minimum payment ratio for credit card is minimum 30% it ranges from 30% to 40%. so your statement is 100 you have to pay minimum of 30%. This is the highest globally, the average is like 6% in the world. So there a clear safeguards to protect the consumers a bit but to also to manage the consumer lending growth that was put in place in the past few years.

<Q – Handan Saygin>: This all sounds very good, so within this whole context can you share with us Garanti s strategies in retail banking going forward . How are we going to sustain our leadership?

<A – Onur Genç>: How are we going to differentiate? As I talk to Garanti people as well, we have a very simple and straight forward core strategy which is be the best customer service bank in this country, you know it very well our grand promise has a slogan attached to it. Which is “Başka bir arzunuz” in Turkish which can be translated to English as what else can we for you. This entails a philosophy which is we have already done what you have asked for but what else can we do for you so exceeding the expectations of the customer beyond what he expects delivering a better service. So this is our core umbrella theme of we are going to be the best customer service s bank in this county exceeding the expectations of the customer. This is the umbrella theme. But underlying this there are three business strategies that we have been investing in and will continue to invest in going forward that will differentiate us going forward.

The first one is channel excellence and digital. So be where the customer is. The customer is at digital. I did mention to you about the age curve of this country. So wherever the customer is we have to be close to him, we have to be next to him. And that means channel excellence in all channels in branches and in call center and so on but also digital. I did mention about the importance of digital to you. We have 26% market share in the transactions that goes thru digital channels in this country. We have been investing in and rightfully and over investing in this channel in this past decade. And we will continue to do that. That is number one strategy channel excellence and digital.

The second one is what we call be in the daily payment flow of customers, so if you are in the payment flow of the customer you are his primary bank that’s what we strive for. So salary accounts, we have 2.4 million customers who are taking their salaries from us. We put again, over emphasis on certain payment products like credit cards; like automatic bill payments and so on. All to achieve being in the daily payment flow of our customers, that’s number two.

And number three is efficiency and cross sell. I did mention about the regulatory challenges that we have been living thru in the past three years. So we have to be more efficient, focusing more on cross sell, optimize the customer interface with the customer. And basically become supremely good at cross selling going forward. That’s the number three.

And to enable all of this we have two very important enabling strategies, again straight forward stuff but we have to be very good at executing these two. The first one is technology, we have superb technological assets that’s how we differentiate from competitors. We invest a lot in technology and our digital capabilities.

That’s number one and number two is talent, we are a service business. We have nineteen thousand people working in Garanti, we hire the best, we train them the most and we put our capabilities for our customers in place. So we will continues to invest in our talent base and if we do these enabling strategies well, if we do the business strategies well, we will be the best customer service bank in the country.

<Handan Saygin>: This is all great, thank you being with us today Onur.

<A – Onur Genç>: Thanks for hosting me actually this was fun. Thanks for hosting me today.

< Handan Saygin>: Today we hosted Onur Genç Deputy CEO, EVP in charge of whole world of Retail Banking at Garanti as well as Financial Institutions.

Please keep following us at Garanti Investor Relations website and application. Have a wonderful day.