



Garanti BBVA

GARANTI BBVA
INVESTOR RELATIONS

STOCKWATCH
2Q 2019

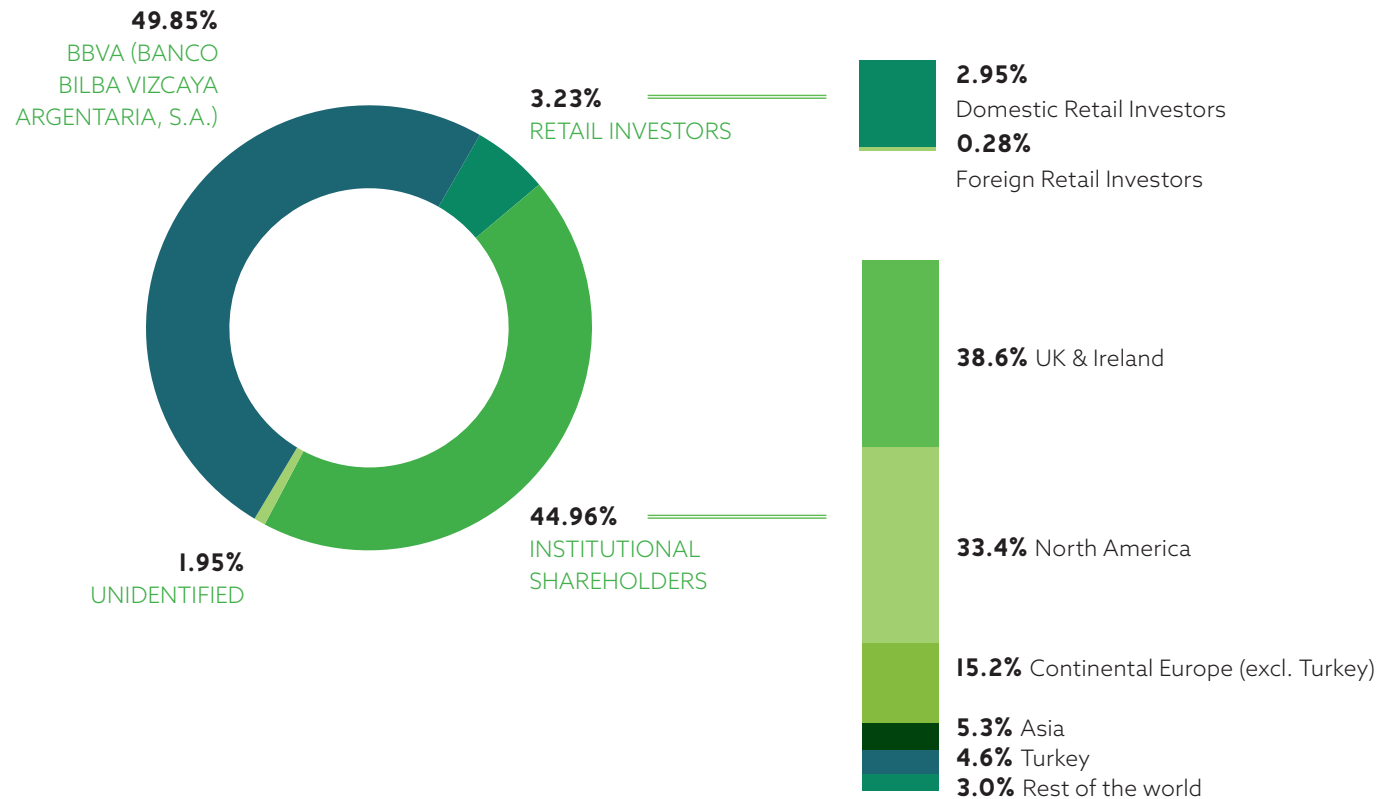
GARANTI BBVA SHARE

Established in 1946, Garanti BBVA is Turkey's second largest private bank with consolidated assets of TL 422.3 billion (USD 73.4 billion).

Garanti BBVA is an integrated financial services group operating in every segment of the banking sector including corporate, commercial, SME, payment systems, retail, private and investment banking together with its subsidiaries in pension and life insurance, leasing, factoring, brokerage and asset management, besides international subsidiaries in the Netherlands and Romania.

Implementing an advanced corporate governance model that promotes the Bank's core values, Garanti BBVA has Banco Bilbao Vizcaya Argentaria S.A. (BBVA) as its majority shareholder with 49.85% share. Its shares publicly traded in Turkey, and its depositary receipts in the UK and the USA, Garanti BBVA has an actual free float of 50.07% in Borsa Istanbul as of June 30, 2019.

SHAREHOLDERS FROM 37 COUNTRIES



GARANTI BBVA SHARE

1990

Listed on
BORSA ISTANBUL (BIST) Turkey
since 1990

1993

Depository Receipts (DR) listed on
LONDON STOCK EXCHANGE
and on OTC since 1993

2012

Trades on
OTCQX INTERNATIONAL PREMIER
since 2012

OTCQX TICKER
TKGBY

RANKING ON OTCQX IN 2Q19
#34 per Market Capitalization
#85 per US\$ Turnover
#76 per Volume



**MOST VALUABLE BANK IN TURKEY
AND MOST LIQUID STOCK IN BIST**

~ \$ 7 BN
MCAP

**LARGEST FLOATING
MCAP AMONG
BANKING STOCKS**

Actual free float:
50.07%

9%
WEIGHT IN BIST

**MOST INVESTED
BANKING STOCK BY
FOREIGNERS**

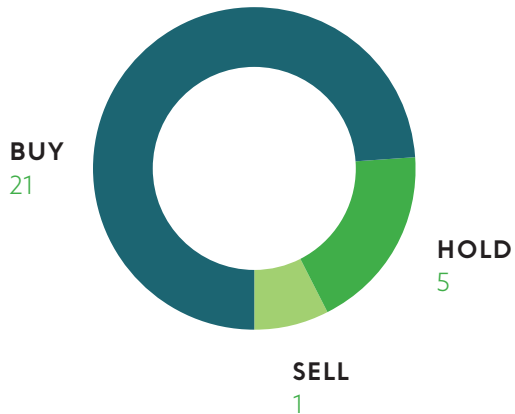
Foreign Ownership
in free float: 90%

\$162 MN
DAILY TURNOVER

GARANTI BBVA SHARE

ANALYST RECOMMENDATIONS

Garanti BBVA shares are widely covered by research analysts of leading domestic and international investment banks and brokerage houses. As of June 2019, 21 analysts had "BUY", 5 analysts had "HOLD" and 1 analysts has "SELL" recommendation on Garanti BBVA stock.



SELECTED ANALYST COMMENTS

HSBC

We think Garanti BBVA's earnings are likely to be more resilient than those of its peers thanks to better CoR dynamics. We reiterate our Buy on Garanti BBVA.

ICBC

Strong solvency, additional free provision buffers, relatively lower exposure to FX lending and higher share of TRL deposits, proactive loan re-pricing and lower leverage are the key rationale behind our Buy rating for Garanti BBVA.

MORGAN STANLEY

We believe Garanti BBVA will show one of the biggest ROE expansions YoY in 2020.

WOOD & CO

We keep Garanti BBVA as a BUY; we believe the superior revenue generation capacity could give the bank 200-300bps higher ROE vs. its peers. In our view, Garanti BBVA can trade at a more significant premium.

YF SECURITIES

GARAN valuation premiums relative to peers reflect its position of strength.

PERFORMANCE INDICATORS



CUSTOMER EXPERIENCE

NET PROMOTER SCORE

HIGHEST

among peer group

GROW CUSTOMER BASE
EFFECTIVELY

~ 17.0 MILLION

customers chose
Garanti BBVA

NUMBER OF ATMs

5,197

NUMBER OF BRANCHES

926

100% Geographical
Coverage



HUMAN CAPITAL

EMPLOYEE
ENGAGEMENT SCORE

70

Employee Engagement Score
outperforms sector

AVERAGE HOURS OF
TRAINING PER EMPLOYEE

45 HOURS

NUMBER OF EMPLOYEES

18.4 THOUSAND

WOMEN EMPLOYEES
IN DECISION MAKING
POSITIONS

40%

in senior/middle
level management



DIGITAL TRANSFORMATION

1/5

of all digital transactions
in Turkey go through
Garanti BBVA

SHARE DIGITAL SALES
IN TOTAL SALES

64%

NON-CASH FINANCIAL
TRANSACTIONS THROUGH
DIGITAL CHANNELS

96%

NUMBER OF
DIGITAL CUSTOMERS

~ 7.7 MILLION

Increased by 16% YoY



RESPONSIBLE AND SUSTAINABLE DEVELOPMENT

AMOUNT OF
IMPACT INVESTMENTS

TL 35.2 BILLION

to date

SUSTAINABILITY INDICES
IN WHICH GARANTI BBVA
IS INCLUDED

7

INVESTMENT IN
COMMUNITY PROGRAMS

TL 20.2 MILLION

as of 2018 end

% OF LOANS WITH
ESG PROVISIONS
IN LOAN AGREEMENTS

100%



FINANCIAL PERFORMANCE

ROAA **1.8%**

ROAE **15.3%**

NPL **5.7%**

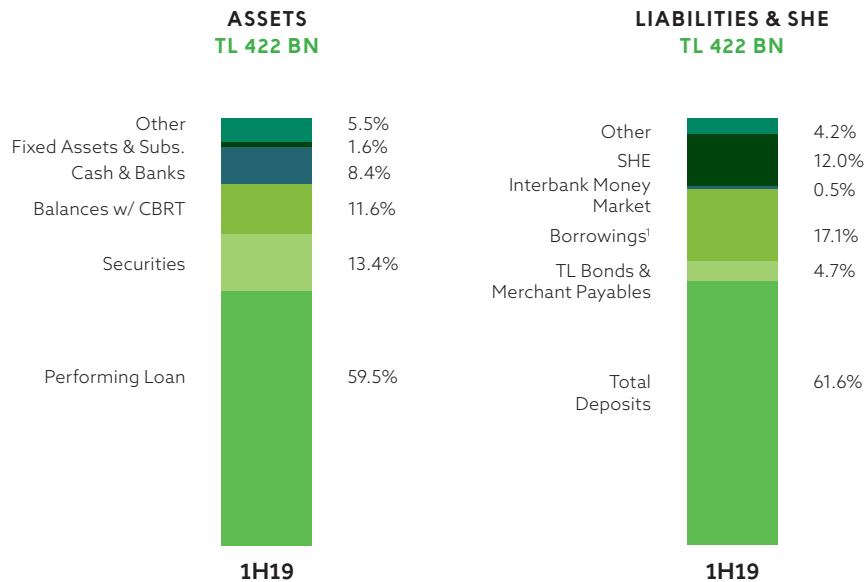
CAR **16.4%**

CET-1 **14.1%**

COST / INCOME
40%

FACTSHEET

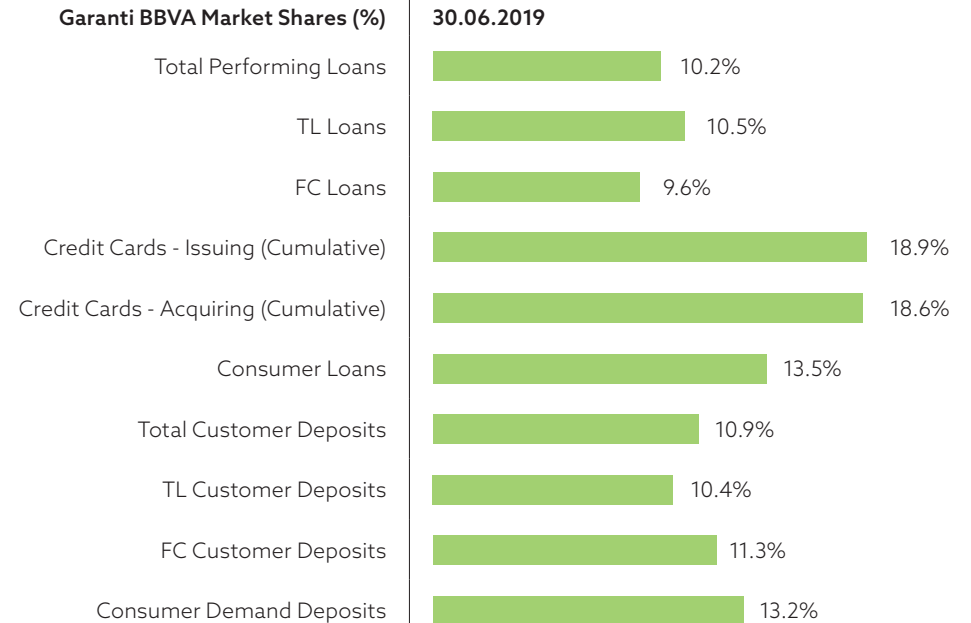
COMPOSITION OF ASSETS AND LIABILITIES



SELECTED P&L ITEMS

	1H2019
Net Interest Income	9,898
Operating Expenses	4,889
- HR Cost	2,095
- Other Operating Expenses	2,795
Net Fees&Commissions	2,975
NET INCOME	3,669

MARKET POSITION



SELECTED FINANCIAL RATIOS

	1H2019
Return on Average Equity	15.3%
Return on Average Assets	1.8%
Net Interest Margin (inc.Swap cost)	5.0%
Non-Performing Loans Ratio	5.7%
Capital Adequacy Ratio	16.4%
Net Cost of Risk	2.1%
Fee/OPEX	60.8%

MACRO NOTES

RECESSION IS ENDED IN THE FIRST QUARTER OF 2019.

Turkish Economy contracted by 2.6% in annual terms in 1Q19. The economy is now technically out of the recession as the quarterly growth in seasonally and calendar adjusted terms turned into positive by 1.3% after the decline of three previous consecutive quarters. The sharp negative contribution of stocks (-6.3pp) prevented a better growth realization as it lowered the domestic demand further (-12.1pp) which could not be compensated by a robust contribution from net exports (+9.4pp).

PROMISING SIGNAL IN IP IN 2019.

Industrial Production (IP) declined by 1.3% yoy in calendar adjusted terms in May. Hence, the annual contraction in IP (c.a.) decelerated further from -4.7% in 1Q19 to -2.6% in the first two months of 2Q19. Besides, May IP increased by 1.3% mom in calendar and seasonal adjusted terms, signaling that the moderation observed in April could be temporary. The improvement in high frequency indicators in June confirms the ongoing gradual recovery. Taking into account the positive base effects and better expectation on external and internal financial conditions in the second half of the year, we think positive growth is highly likely for 2019 under the assumption of no additional shocks.

Thus, we maintain our GDP growth forecast at 0.3% for 2019.

CURRENT ACCOUNT DEFICIT (CAD) CONTINUED TO RETREAT IN 2019.

Current account deficit materialized as 13bn USD (1.7% of GDP) in 1Q19. In the first two months of 2Q19, current account deficit was 1.15bn USD. Hence, 12 month cumulative sum of current account deficit retreated further to 2.4bn USD (0.3% of GDP) in May 2019, on the back of the contraction in import and still promising exports growth. Additionally, core current account balance (excluding energy and gold) gave a surplus of 42.2bn USD (5.9% of GDP), the highest level seen in the historical data. On the financing side, main items remained to be net error and omissions and CBRT reserves. We expect the 12-month deficit to close the year at near 1.4% of GDP.

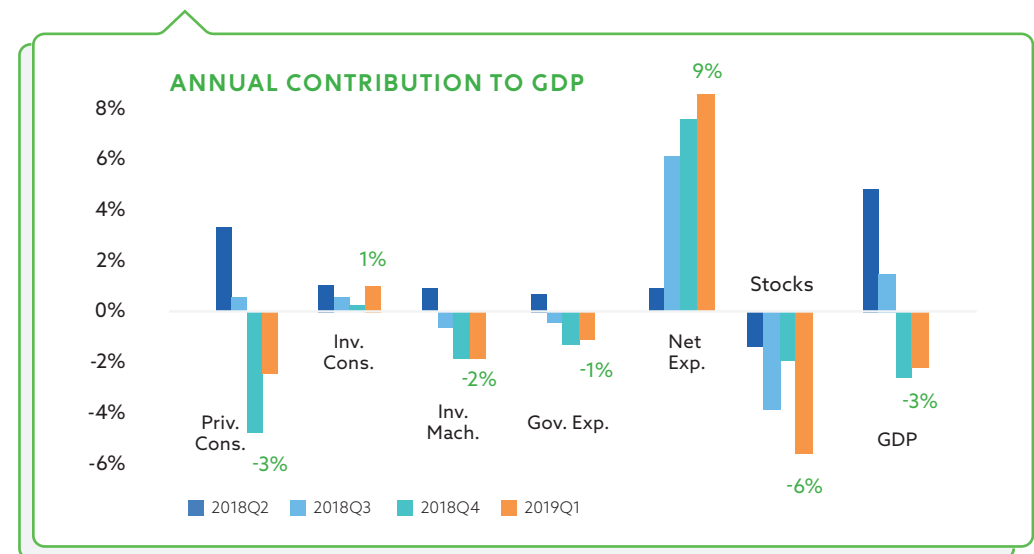
BUDGET DEFICIT DETERIORATED FURTHER IN 2019.

Budget revenues decreased by 0.8% yoy, led by both poor performance of tax revenues(3% yoy) and the contraction in non-tax revenues(16% yoy), while budget expenditures increased by 17.4% due to current transfers, personnel expenses and high interest expenses in 2Q19.

Thus, 12 month budget deficit reached 105.1bn TL (2.6% of GDP) meanwhile primary deficit was 14.2bn TL (0.4% of GDP). Looking ahead, despite the expected contingency reserves of CBRT to Treasury, taking into account the current worsening path, the elimination of one-off revenues observed especially in the second half of 2018 in cumulative terms and weak tax revenues, it would be difficult to attain the fiscal targets of New Economic Program. All in all, we expect budget deficit about 3.1% of GDP by end 2019, higher than government forecast of 1.8%.

INFLATION SLOWED DOWN IN 2019.

Annual consumer inflation was 15.72% in June 2019, down from 19.71% in March 2019 on the back of the ease in core inflation and normalization in food prices. Also, annual core inflation retreated to 14.86% from 17.53% on diminishing exchange rate pass through on lower demand. Looking ahead, the end of tax incentives and electricity price hike in July will temporarily push inflation upward. However, recent faster than expected correction in



MACRO NOTES

inflation and favorable base effects from June onwards till November will help inflation experience around 10% levels in September and October before having a reversal to near 15% by the end of the year. We expect that the consumer inflation could end the year at around 15.0%.

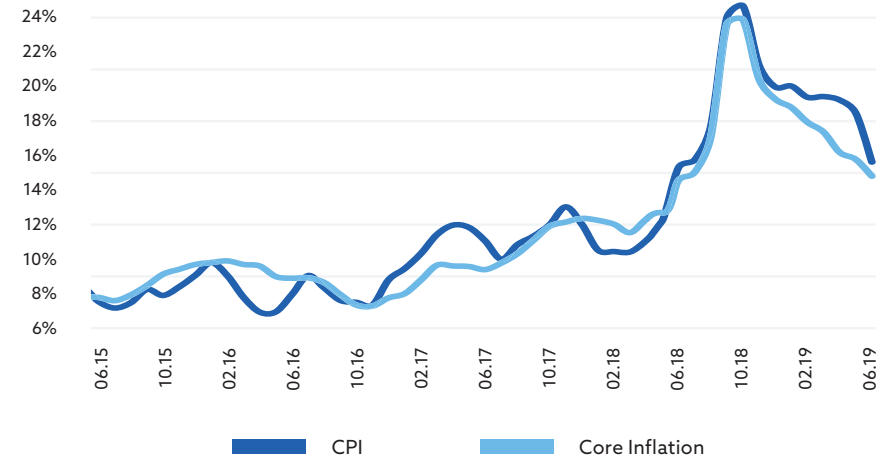
CENTRAL BANK (CBRT) REMAINS PRUDENT AND WILL START EASING CYCLE.

The CBRT maintains its tight stance by keeping its policy rate (24%) unchanged. In absence of new shocks, inflation will start to come down fast (the end of tax incentives and electricity price hike in July will temporarily push inflation upward) given the favorable base effects, the recent improvement in core inflation and some ease in energy and food prices. We expect the CBRT will start the easing cycle in July meeting on faster than expected disinflation path and favorable base effects from now onwards till November.

TURKISH FINANCIAL ASSETS UNDERPERFORMED IN 2Q19.

Turkish financial assets remained under pressure in the second quarter of 2019 due to some uncertainties stemmed from geopolitical, political and global factors. However, as of June, Turkish assets displayed some stabilization on the back of easing in geopolitical tension, decrease in political uncertainty and expectation of supportive external financial market conditions on dovish major central banks. After depreciating near 2.4% in 1Q19, TL depreciated further by 6.3% against the currency basket in 2Q19. 10-year TL benchmark bond yield which was at 17.92% at the end of 1Q19 decreased to 16.73% by end June especially supported by faster than expected disinflation path realization.

CORE INFLATION AND CPI (YOY)



STOCK MARKET DEVELOPMENTS

2019 MARKET RECAP

Global equities rose for the second consecutive quarter amid sluggish global growth and geopolitical tensions. On the other hand, markets were supported by increasingly accommodative central banks and increased hopes on trade negotiations.

U.S. equities recorded solid gains in the quarter, overcoming a sharp slid in May resulted from escalated U.S. – China trade tensions. S&P 500 index reached to its record highs led by mainly financials. The economic data released in the quarter was mixed. While GDP grew by 3.1% QoQ and unemployment rate stood at 49 year-low of 3.6%, on the other hand, consumer and business indices weakened. Accordingly, although FED did not cut rates in June meeting, signaled easing ahead considering the slowing global growth and trade disputes. President Trump and Chinese President Xi Jinping agreeing on holding further tariffs increased hopes for improvement of US & China trade relations. Trade progress will continue to be the key for the markets in the second half of the year.

European equities finished the quarter higher on top of the strong performance in the first quarter. Due to increased trade tensions, similar to U.S. equities, Eurozone also faced

a sharp drop in May, yet the gains recorded in April and June were more than sufficient to offset the setback. Export dependent Eurozone economies continued to suffer from deteriorated global trade. As of June, Purchasing Managers Index (PMI) contracted to its six-year low, falling for the 5th consecutive month. Accordingly, president of ECB, Mario Draghi provided relief to the markets with assurance of further easing depending on the improvement in inflation outlook.

Rising expectations on rate cut by FED and increased hopes on trade negotiations post

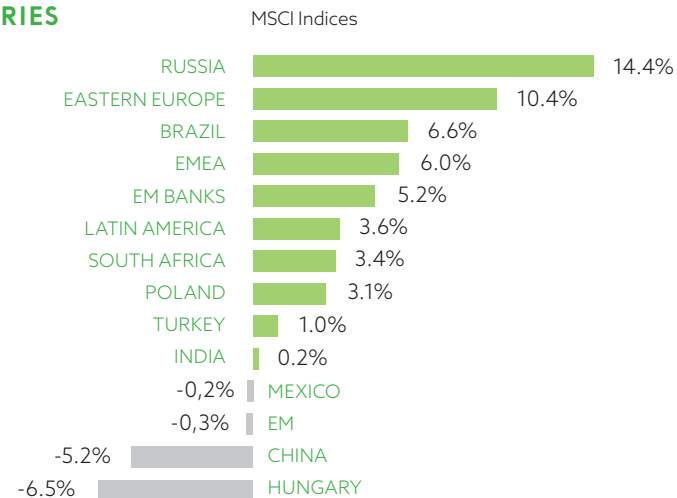
G-20 summit, boosted the investor appetite for riskier assets. Accordingly, EM equities finished the quarter on the positive territory. Argentina was by far the best performer in EM on the back of lower inflation, currency stability and higher consumer confidence. South Africa, Indonesia and Turkey were also among the best performers. On the contrary, China and South Korea dragged down the overall EM performance, impacted by global trade uncertainty and slowing growth.

On domestic front, in the first quarter of the year, technical recession ended as Turkey

recorded 1.3% QoQ GDP growth in 1Q. However, persistent currency weakness and possible U.S. sanctions caused the country risk to remain high. Central Bank maintained its tight monetary policy stance and left one-week repo rate unchanged at 24.0% throughout the quarter, yet wording changes in policy statement signaled looser policy later in the year. On political front, the repeated Istanbul mayoral election was the main item on second quarter's agenda, resulted in opposition party candidate's victory ending the 25-year dominance of ruling party's dominance in the city.

STOCK MARKET PERFORMANCE IN SELECTED COUNTRIES (IN US\$)

As of June-end,
quarterly changes



LOCAL & GLOBAL INDICATORS

(As of June-end)

	Close	QoQ
US 10Y	2.01	-40.0
USD Index	96.1	-1.2%
EUR/USD	1.14	1.4%
USD/TRY	5.79	4.0%
EUR/TRY	6.59	5.3%
NYMEX	58.5	-2.8%
Brent	66.6	-2.7%
Gold	1409.6	9.1%
Benchmark	19.68	-151
TR 5Y CDS	399	-6.3%

DEVELOPMENTS IN TURKISH BANKING SECTOR

Turkish Banks continued to successfully roll-over their syndications in 2Q19. Total foreign funding equivalent to US\$ 5.9 billion was secured in the quarter.

ISBANK announced that the bank has **issued a TL800mn 10-year Basel-III compliant floating-rate subordinated debt**, which according to Bloomberg has a cost of 100bps above 3-month TR Libor.

Regarding the state bank recapitalizations during the quarter, it was announced that **ZIRAATBANK**, **VAKIFBANK** and **HALKBANK** issued Perpetual Non-Call 5 AT1 notes with fix rate coupon payment on annual basis with nominal amounts of EUR1,400mn, EUR700mn and EUR900mn, respectively.

The Systemically Important Financial Institutions (SIFI) buffer applied to the capital requirements have been **reassigned for Garanti BBVA and Yapı Kredi** within the scope of SIFI buffer group requirements, resulting in the minimum required Capital Adequacy Ratio levels for the banks to be 12.0% and 11.5%, respectively.

HALKBANK bought back 7mn of its shares via the official buy-back programme on May 20th, at an average price of TL5.18/share for a total of TL36.3mn.

CBRT ACTIONS DURING THE QUARTER

- CBRT maintained its tight stance on monetary policy in the two meetings held during the second quarter of 2019 and decided to hold the policy rate at 24.00%. **Rate cut signals came after CBRT lowered the O/N repo transactions for primary bond dealer banks by 100 bps.**
- The CBRT has introduced a gold-TL swap instrument with local banks. The bank has set a 100-ton ceiling (worth about USD 4.5bn) for the total amount of gold it will swap.
- On May 9th, **CBRT lowered the upper limit for the FX maintenance** within the reserve option mechanism to 30% from 40%, withdrawing TL 7,2bn and providing USD 2,8bn liquidity to the market. Afterwards, the **reserve requirement ratios for FX liabilities were increased by 100 basis points** for all maturity brackets, withdrawing USD 3bn liquidity from the market.
- On May 27th, **CBRT further increased the reserve requirement ratios for FX deposits/participation funds** by 200 bps for all maturity brackets. As a result of this, USD 4,2bn of FX liquidity were withdrawn from the market.

SELECTED SECTOR FIGURES (TL MILLION)

	29/06/2018	28/06/2019	YoY Δ
Total Deposits	1,896,587	2,210,326	16.5%
Bank Deposits	108,366	110,850	2.3%
Customer Deposits	1,788,221	2,099,476	17.4%
TL Deposits	942,243	976,914	3.7%
FC Deposits (US\$ mn)	185,541	195,697	5.5%
Total Loans	2,121,731	2,227,124	5.0%
TL Loans	1,409,480	1,392,953	-1.2%
FC Loans (US\$ mn)	153,188	145,421	-5.1%
Consumer Loans (excl. Credit Cards)	401,944	385,985	-4.0%
Housing	186,768	168,806	-9.6%
Auto	6,061	4,738	-21.8%
General Purpose Loans	209,115	212,441	1.6%
Credit Cards	120,981	139,900	15.6%
TL Business Banking Loans	886,555	867,068	-2.2%
Loans / Deposits	111.9%	100.8%	
Gross NPL	67,607	108,054	59.8%
NPL ratio	3.1%	4.6%	
NPL coverage	72.1%	67.5%	
Gross NPL in consumer loans (excl. Credit Cards)	10,760	12,643	17.5%
NPL ratio in consumer loans	2.6%	3.2%	
Gross NPL in credit cards	7,110	8,354	17.5%
NPL ratio in credit cards	5.6%	5.6%	
F/X Position, net (US\$ mn)	253	2,902	
on B/S	-50,160	-44,885	
off B/S	50,413	47,787	

Source: BRSA weekly sector data, commercial banks only

DEVELOPMENTS IN TURKISH BANKING SECTOR

REGULATORY DEVELOPMENTS DURING THE QUARTER

- The BRSA has imposed a **settlement delay for FX purchases by individuals of more than USD 100,000** on May 20, meaning that FX purchases of more than USD 100,000 by individuals were to be transferred to their account the following day.
- The Capital Markets Board (CMB) introduced new regulation for pension funds, asking the “standard” funds to hold a minimum of 10% in equities and money market funds to hold a minimum of 25% in government bonds. Given that these funds reportedly hold about 3% in equities and 2% in government bonds, the new rule would require them to invest an estimated additional TL650mn (USD 108mn) in Turkish equities and a potential TL2.4bn (USD 404mn) flow into government bonds over the coming weeks.
- The BRSA has announced a new TL25bn financing package for SMEs under the CGF umbrella. The costs are expected to be CPI + 4% for loans up to 36 months maturity and CPI + 4.5% for up to 48 months. The CPI rate will be adjusted every six months while there will be a 6-month grace period.

- The BRSA has also eased credit card instalment limits on purchases of various items such as furniture, electronics, accommodation, etc. to boost domestic demand.
- According to another regulation announced by the BRSA, the credit card minimum payment requirement is set as 30% for all cards while remaining at 40% for the first year of a newly issued credit card.

NPL SALES DURING THE QUARTER

- **GARANTI** sold an NPL portfolio of TL365mn for TL19mn.
- **ISBANK** sold an NPL portfolio of TL418mn for TL30mn.
- **YAPI KREDİ** sold an NPL portfolio of TL298.3mn for TL22.7mn.

DEVELOPMENTS AT GARANTI BBVA

As of June 10, the **BBVA GROUP** has turned itself into a **single global brand named "BBVA" in all countries it has presence**. In line with its digital transformation strategy, BBVA Group completed this transformation with **a new logo suited to the dynamic and digital world**. BBVA Group used to operate with the brands called BBVA Bancomer in Mexico, BBVA Frances in Argentina, BBVA Compass in the USA and BBVA Continental in Peru. As a result of this latest development, the brands following the global brand BBVA got removed in all these countries, and only "BBVA" has remained. As for Garanti BBVA, via the new commercial film highlighting the issue, the collaboration between Turkey's and the world's leading banks in technology has been underlined and the name Garanti BBVA has been announced.

As of June, we serve our customers with the **GARANTI BBVA BRAND**. With our new brand; we made arrangements for our main channels, logo, text, e-mail, sms, sso redirection and announcements. Now, for our main channels we use Garanti BBVA Mobile, Garanti BBVA Internet Banking, 4440333Customer Communication Center and Garanti BBVA ATMs.

Our new **AUTOMATED TAX PAYMENTS** product enables giving automated payment orders for up to 10 tax types (including Income Tax, Value-

Added Tax & Motor Vehicles Tax) which will be used particularly by SME and Commercial clients.

Garanti BBVA has introduced **THREE NEW INFLATION-INDEXED TIME DEPOSIT PRODUCTS** that will peg the Turkish lira to inflation thereby helping its customers achieve their savings goals while also making a positive contribution to the national savings rate.



AWARDS & RECOGNITIONS

Forrester, world's leading research company, has selected Garanti BBVA and BBVA as **THE TOP TWO BANKING PRACTICES IN EUROPE**. We have been ranked the second for two consecutive years with Garanti BBVA Mobile, following BBVA.



EMEA Finance, one of the leading financial publications for Europe, the Middle East and Africa, named Garanti BBVA central and eastern Europe's **BEST PROJECT FINANCE HOUSE** for the fourth year in a row. The bank also received awards for the **BEST STRUCTURED FINANCE**

HOUSE, the **BEST SYNDICATED LOAN HOUSE** and the **BEST SOCIAL BOND**. Eight projects financed by Garanti BBVA with a total project amount of US\$ 5bn received a total of 17 awards in 13 different categories.



Garanti BBVA has received the **STP QUALITY AWARD** from Deutsche Bank for achieving **high quality straight through processing (STP) volumes** for US\$ and Euro payments in 2018.

The Big Data and Advance Analytics Unit of Garanti BBVA Technology, have been chosen as **FINALISTS** for the **BRAVE Awards** presented by AI Everything and Forbes AI. We have received the platinum award for **our innovative approaches in one of our projects**

which aims to produce a near real time fraud score for each e-commerce transaction passing through our merchants' Point of Sales so that we can prevent fraudulent actions to protect our customers and merchants, by using cutting edge machine learning algorithms and streaming technologies.

In the fifth year of the **TEGEP Learning and Development Awards**, we have been honored with awards in 3 different categories in the field of Learning and Development. These categories and awards have been;

- Best Training and Development Program Category, **BEST AWARD**,
- Best Sales Development Program Category, **SILVER AWARD**,
- Best Development Program Contribution to Change Management Category, **BEST AWARD**.

DEVELOPMENTS AT GARANTI BBVA



GARANTI AND THE COMMUNITY

On April 30, which was declared as the International Jazz Day by UNESCO in 2011, Garanti BBVA brought forward **a night full of jazz through exclusive concerts**. Similar to the previous year, Garanti BBVA celebrated the International Jazz Day with concerts organized under the motto "5 Concerts, One Night" and held in 5 different venues across Istanbul, on Tuesday, April 30.

Garanti BBVA has adopted **advanced video technologies; Automatically analyses video streams** in order to extract meaningful features such as face recognition, object detection and people movement for security and banking applications.



DID YOU KNOW?

CUSTOMER ONBOARDING PROCESS in branches has been redesigned focusing on speed, user experience and customer satisfaction. In addition to a reduction in onboarding time by half, our customers' preference for digital approval in this process has reached 88%.

Garanti BBVA, have created a **KOREA EXIM SOURCED FUNDING FACILITY** for clients who are importing from Korea or having a Korean shareholder by signing an agreement with Korea Exim on 5 April 2019.

LEADING POSITION IN DIGITAL BANKING

7.7 million digital customers

7.0 million mobile customers

5.2 million mobile-only customers

ACTIVE DIGITAL CUSTOMERS

↑ **16% YoY**

70% digital penetration among active customers

ACTIVE MOBILE CUSTOMERS

↑ **21% YoY**

CONTACT

GARANTI BBVA INVESTOR RELATIONS

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Note: Net Promoter Score research is conducted by independent research agency Ipsos for Garanti BBVA. According to the research results, Garanti BBVA has the highest Net Promoter Score, among retail customers representing its own profile, compared to the peer group, which consists of Garanti BBVA, İşbank, Akbank, Yapı Kredi Bank, QNB Finansbank and Denizbank. Research was conducted between May 2018 and December 2018. Main bank customers, who have communicated with the banks over the last 3 months, were surveyed face to face in the cities of Istanbul, Ankara, İzmir, Kocaeli, Bursa, Antalya and Adana by quota sampling. Score is calculated as a weighted average of retail segments' scores.