

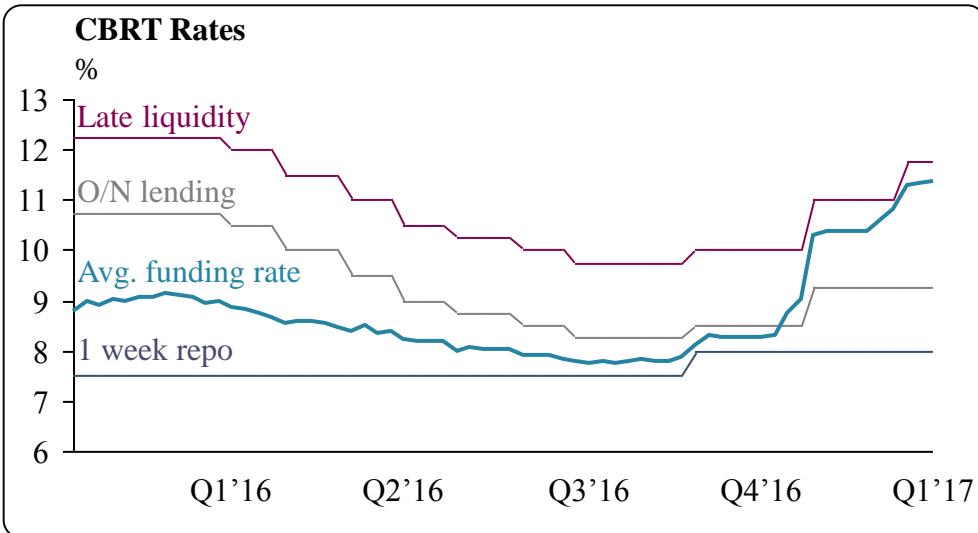


QNB Finansbank Q1'17 Earnings Presentation

April 2017

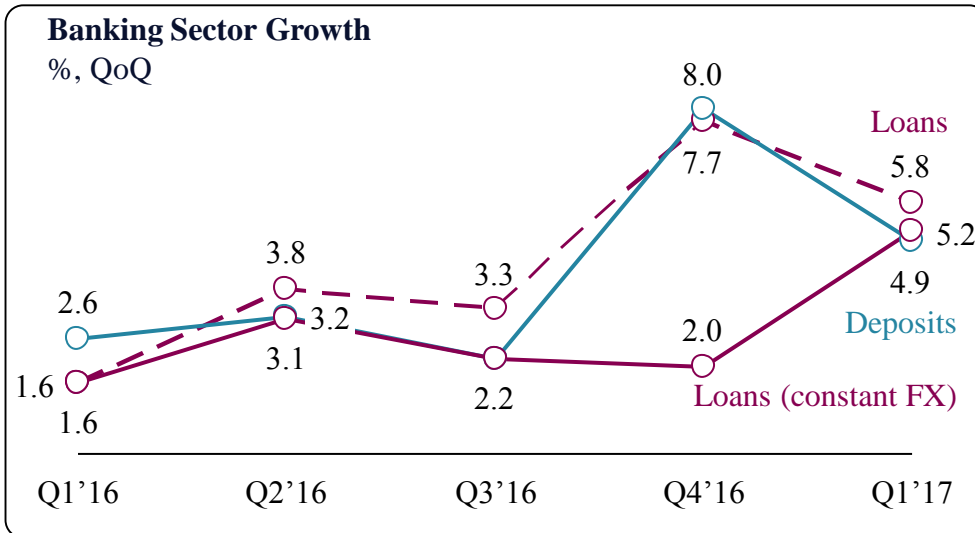
Banking sector growth continued in Q1'17 thanks to accommodative policy measures

Macro Dynamics



- FED raised interest rate by 25 bps in March as the U.S. inflation and labour market indicators continued to improve. FOMC members anticipate two more rate hikes within this year
- ECB continued accommodative policies by keeping negative deposit rates and continuing asset purchases
- Although global volatility eased in Q1'17, TRL continued to underperform its peers because of political uncertainties
- Against deteriorating inflation outlook, CBRT tightened monetary policy substantially by utilizing late liquidity window and raising average funding cost
- TRL recovered partially after the tightening

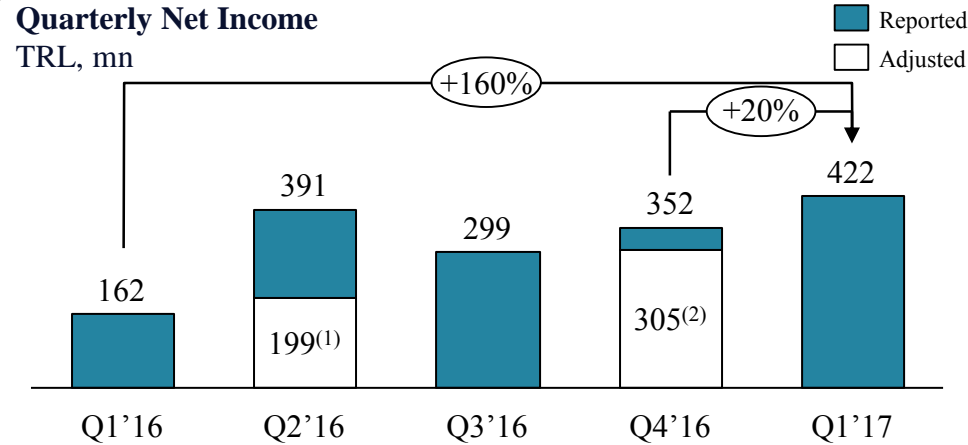
Banking Sector Dynamics



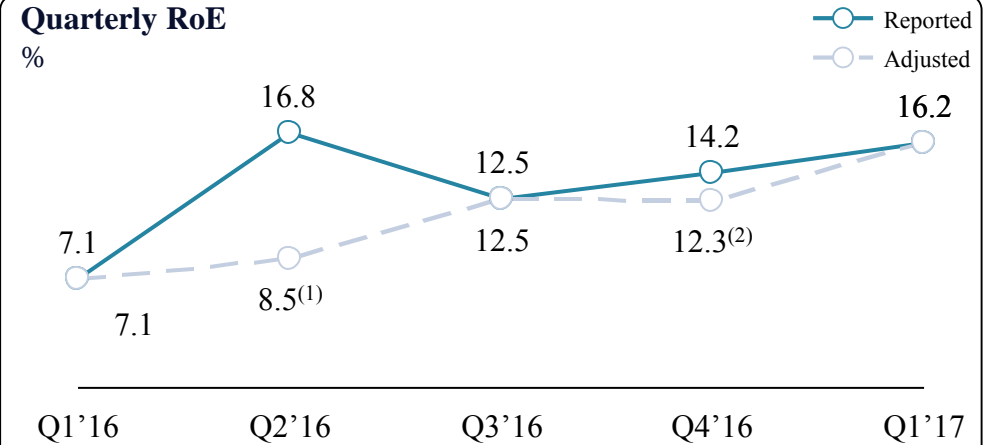
- Growth continued in banking sector loans and deposits with support of the accommodative policy measures
- Credit Guarantee Fund (CGF) program supported the fast paced loan growth in Q1'17
- Pressure on funding costs tended to rise due to acceleration in lending growth and tightening in monetary policy
- Asset quality of sector showed strong improvement through the period thanks to resurgence of SME lending backed by CGF program

Improvement in profitability continued with controlled asset quality and comfortable capital position

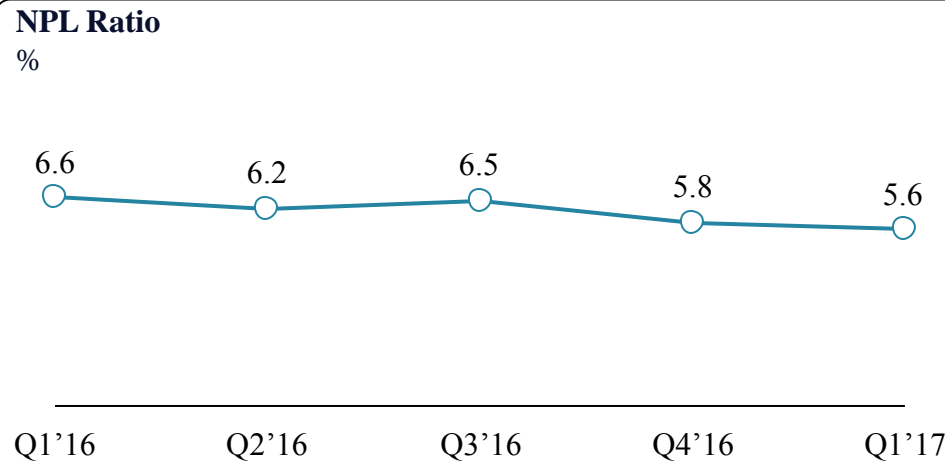
Strong net income growth both on a QoQ and YoY basis



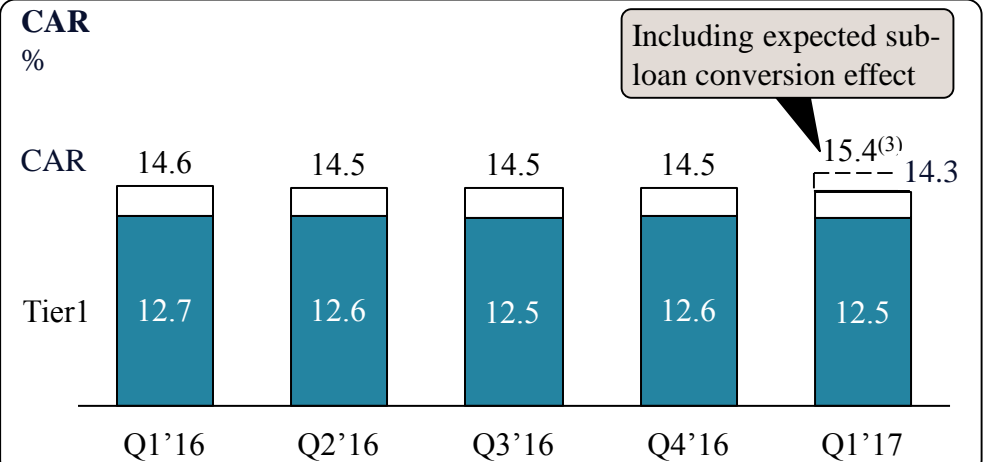
RoE consistently on upwards trend with strong boost in Q1



Ongoing asset quality improvement with additional positive impact from market trends in Q1



Strong capital adequacy boosted by conversion of existing subloan to Basel III; additional buffers remain

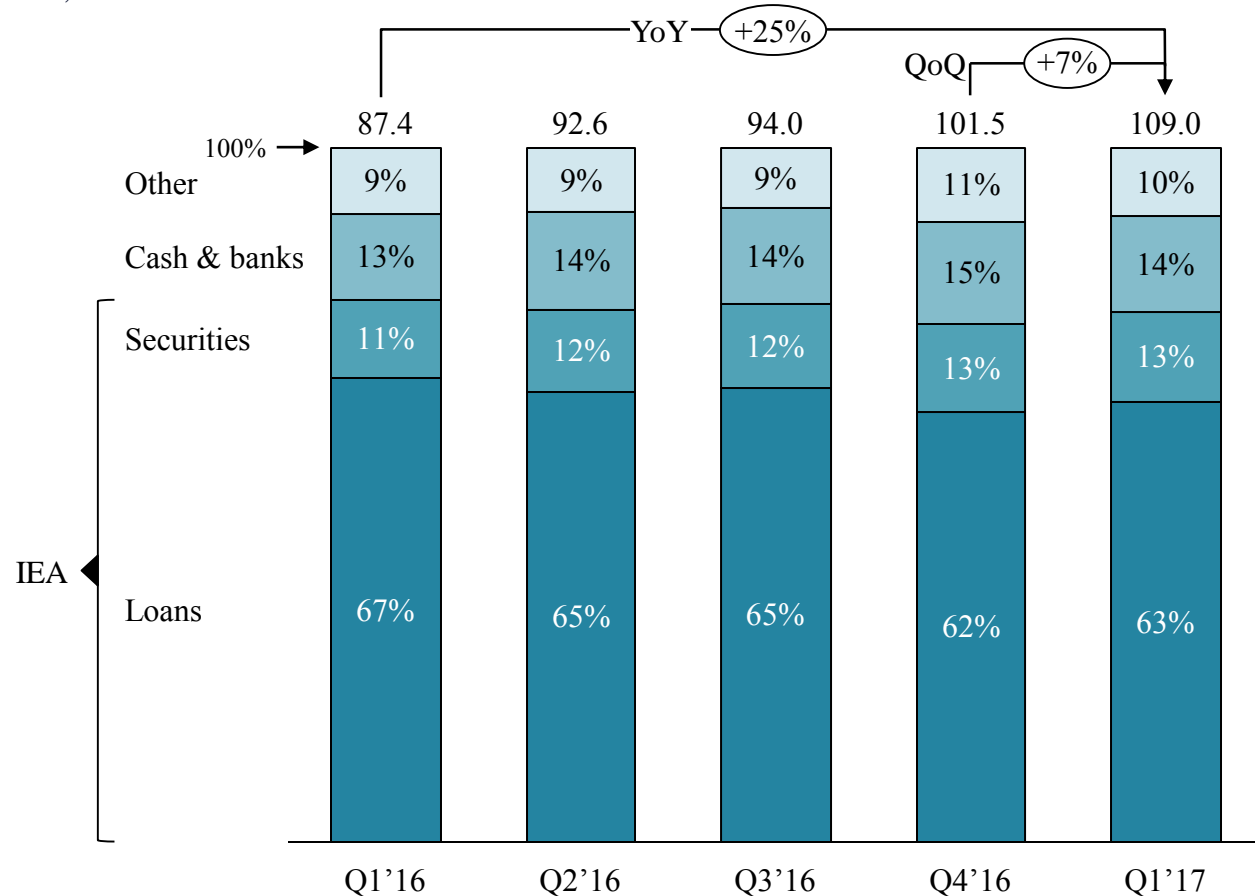


(1) Excluding TRL 152mn Visa Inc. share sale and TRL 69mn NPL sale (after tax impact of TRL 136mn and TRL 56mn NPL respectively)
 (2) Excluding TRL 94mn NPL sale and including TRL 30.8mn provision for RUSF penalty (after tax impact of TRL 75mn and TRL 28.1mn respectively)
 (3) 115bps impact from conversion of USD 260mn sub-loan tranche to Basel III; additional 218bps remain due to potential conversion of remaining USD 650mn of Basel II compliant subloans

Asset size exceeded TRL 109bn, with ongoing strong growth in Q1

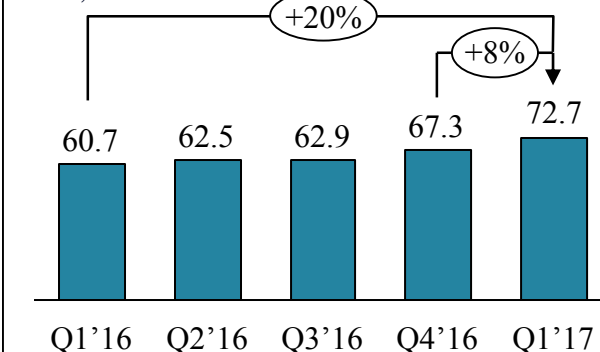
Loan heavy balance sheet

Total Assets
TRL, bn



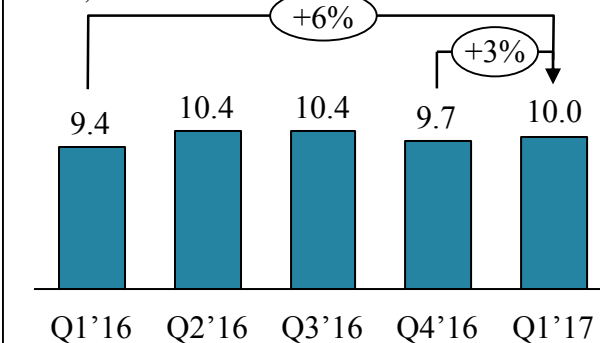
Faster TRL asset growth in the last quarter

TRL Assets
TRL, bn



FX asset growth returned with pick-up in business loans and FX securities

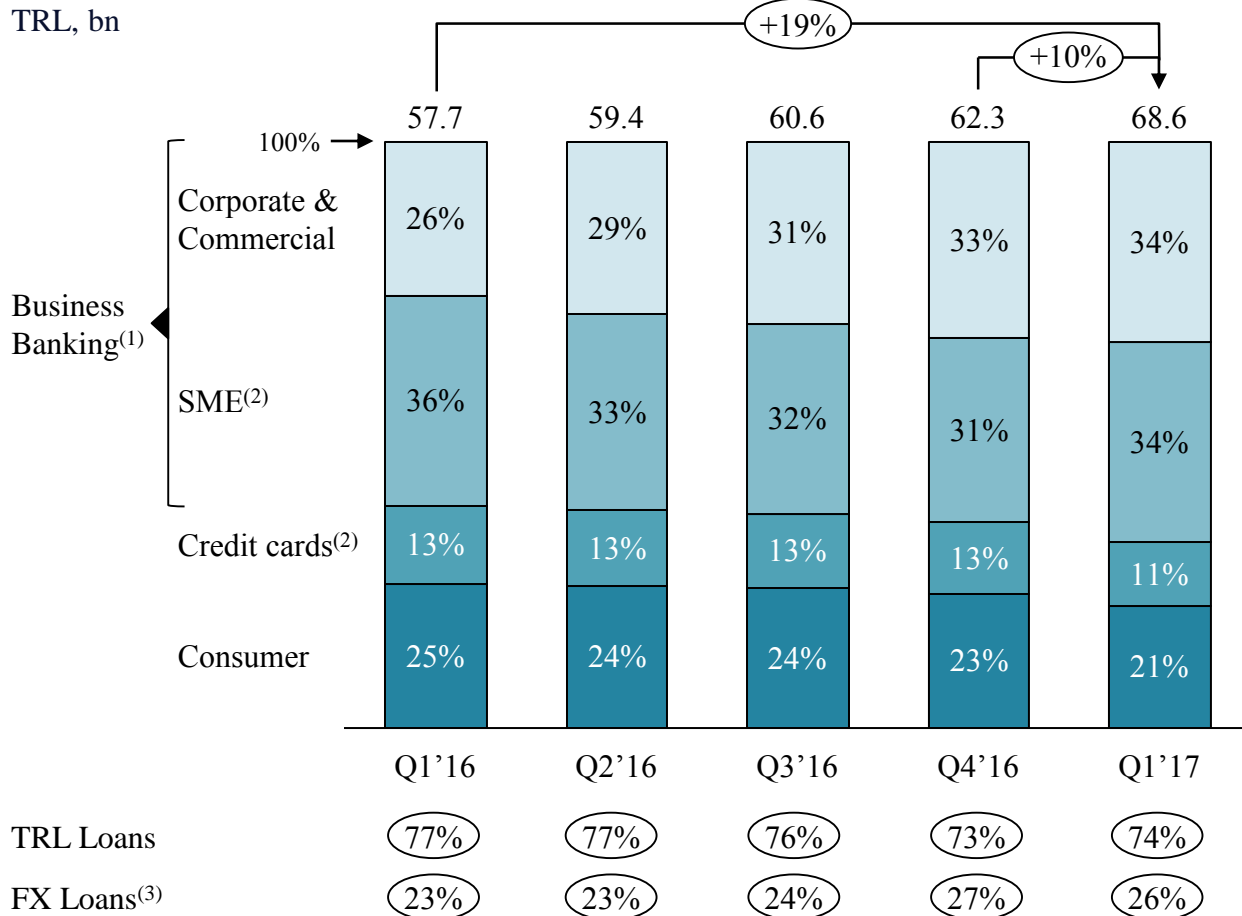
FX Assets⁽¹⁾
USD, bn



Sustained and successful execution of the growth strategy...

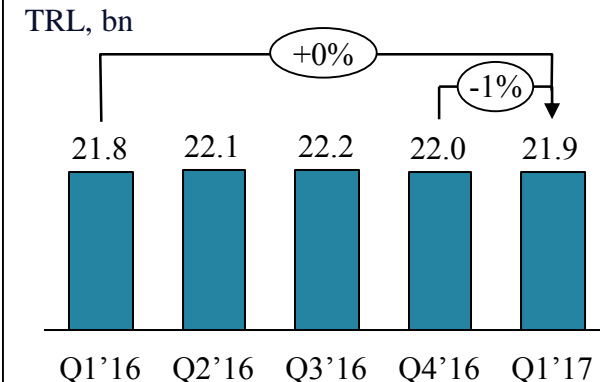
Loan book continued to shift towards business banking with strong growth in Q1'17 supported by CGF program

Performing Loans by Segment and Currency



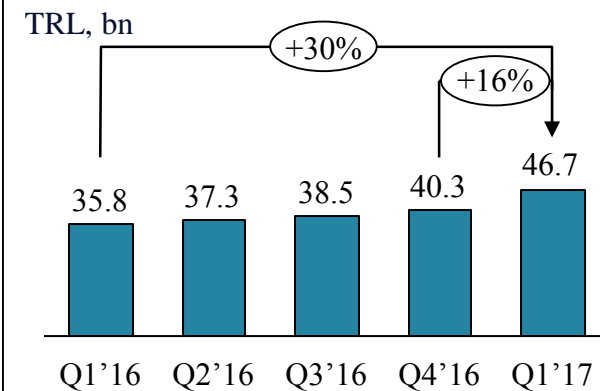
Retail loans are almost flat over the period

Retail Loans



Significant growth in business loans

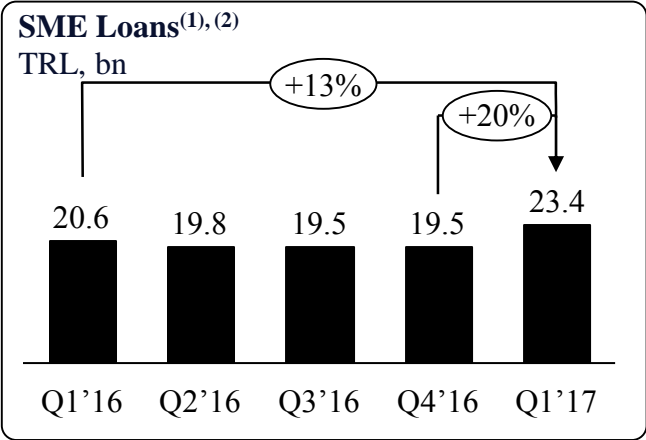
Business Loans



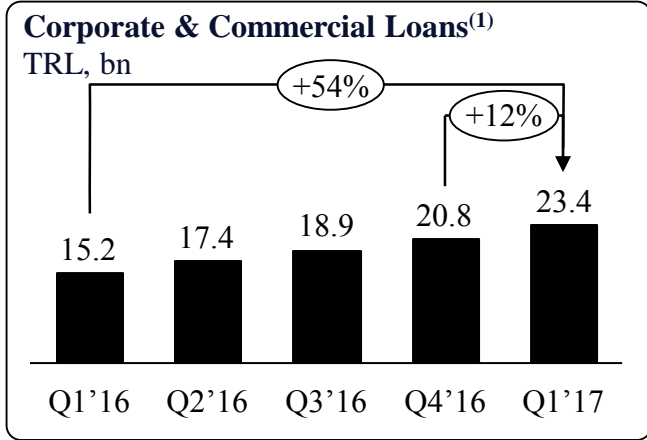
... focused on business banking loans and selective retail banking segments

Business banking
 Retail banking

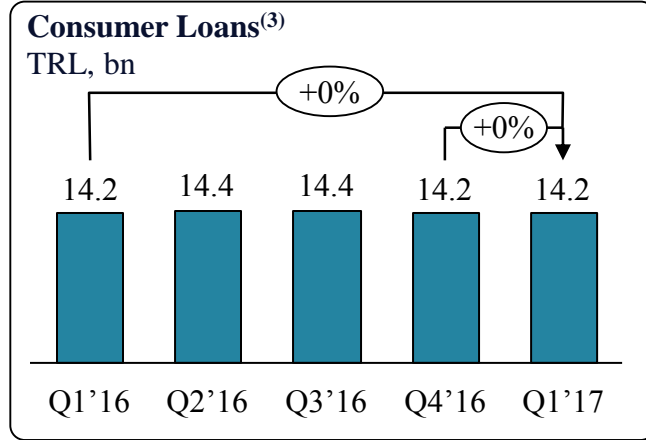
SME loan growth resumed in Q1'17 with focused use of CGF program



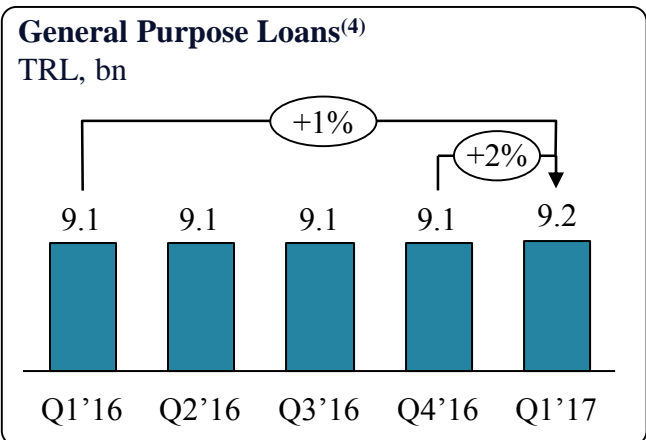
Strong growth in Corporate & Commercial loans supported also by FX rates



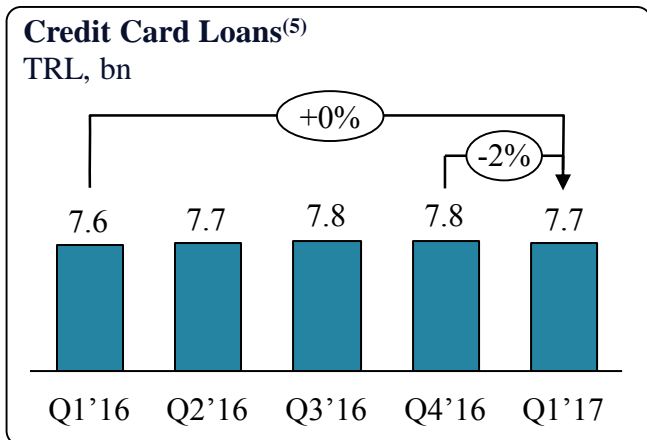
Stable consumer loans...



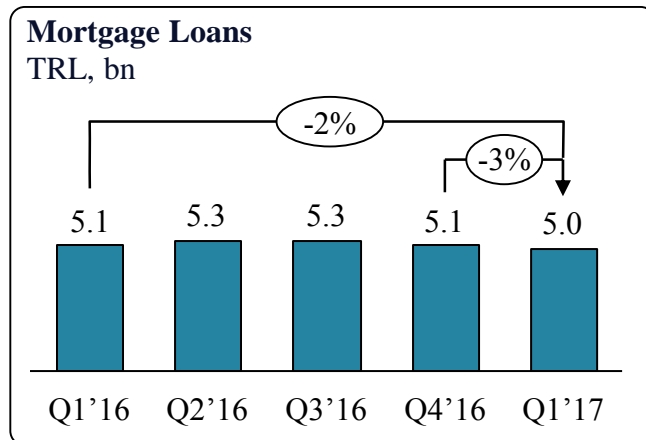
... with growth returning to GPLs...



... stabilized volume in credit cards excluding seasonal declines...



... with recent decline in mortgages due to low profitability



(1) Based on BRSA segment definition
 (2) Excluding commercial credit cards
 (3) Including GPL, overdraft and mortgage loans
 (4) Including overdraft
 (5) Credit card outstanding from individual clients

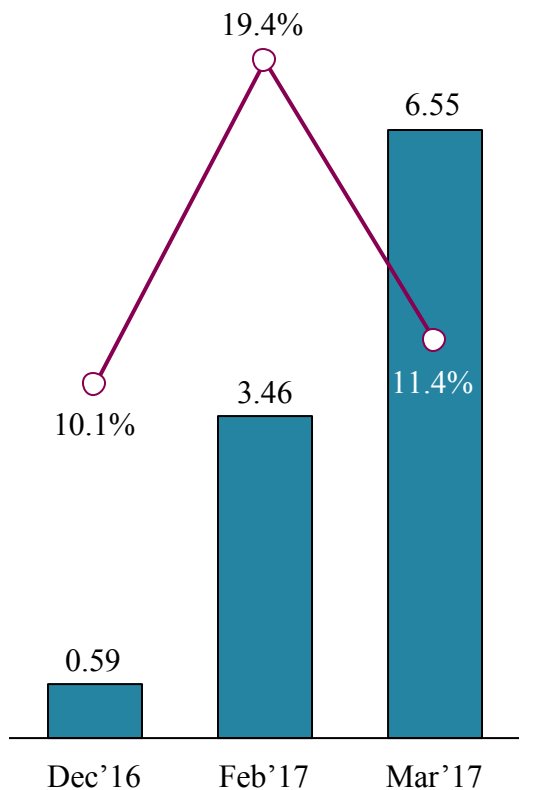
CGF⁽¹⁾ proactively used as a key strategic tool for high quality SME lending growth

Strong pick-up by QNB Finansbank to date ...

Volume of CGF guaranteed loans

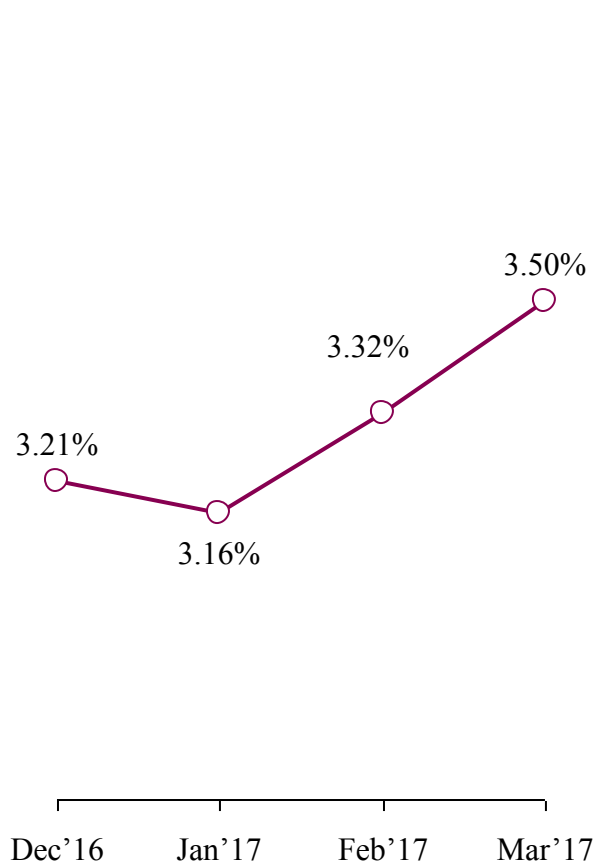
TRL billion

—○— M/S in CGF program



... supporting high loan growth, outpacing the market ...

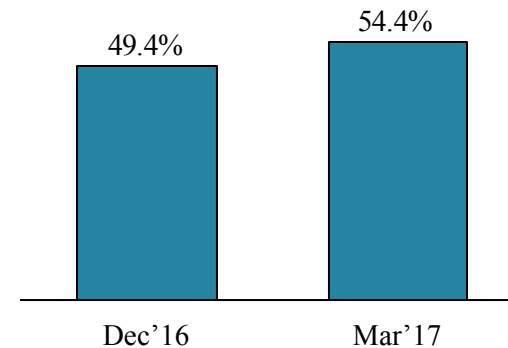
Business loan market share



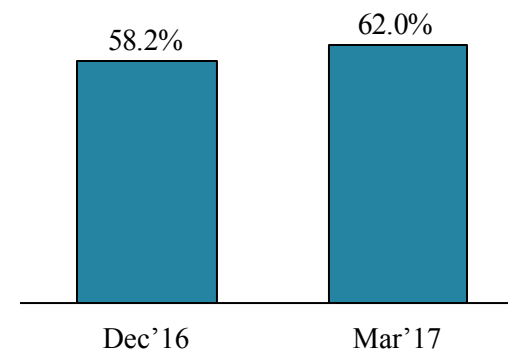
... and portfolio collateralization

Collateralization ratio⁽²⁾

Small enterprises

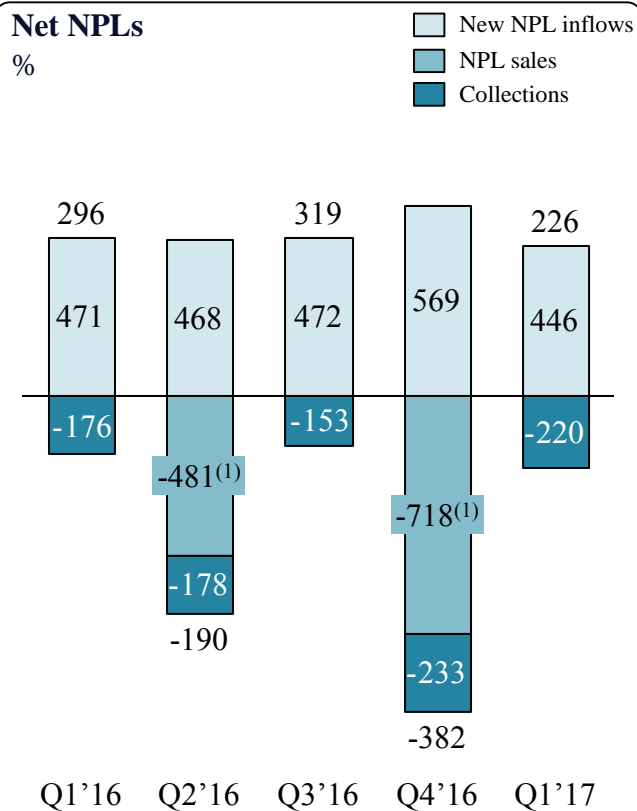


Medium enterprises

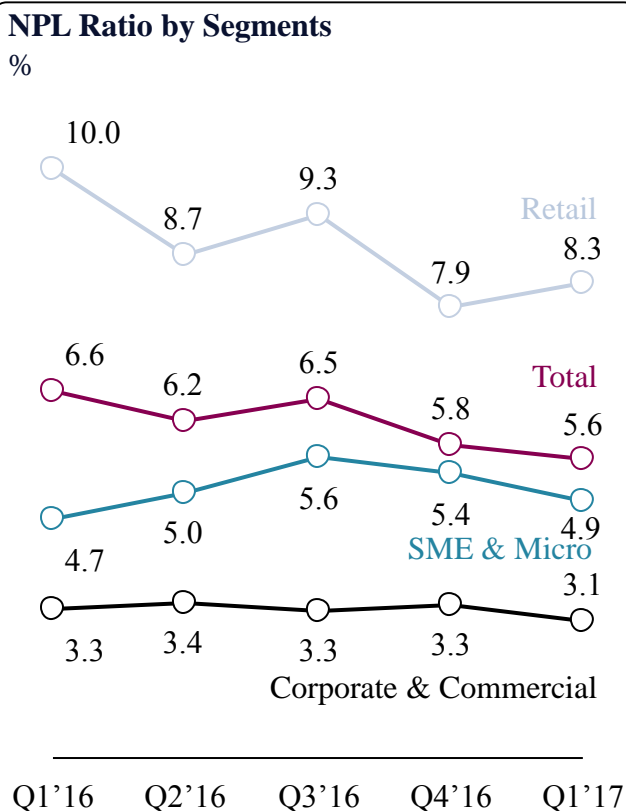


Controlled asset quality with high coverage ratios

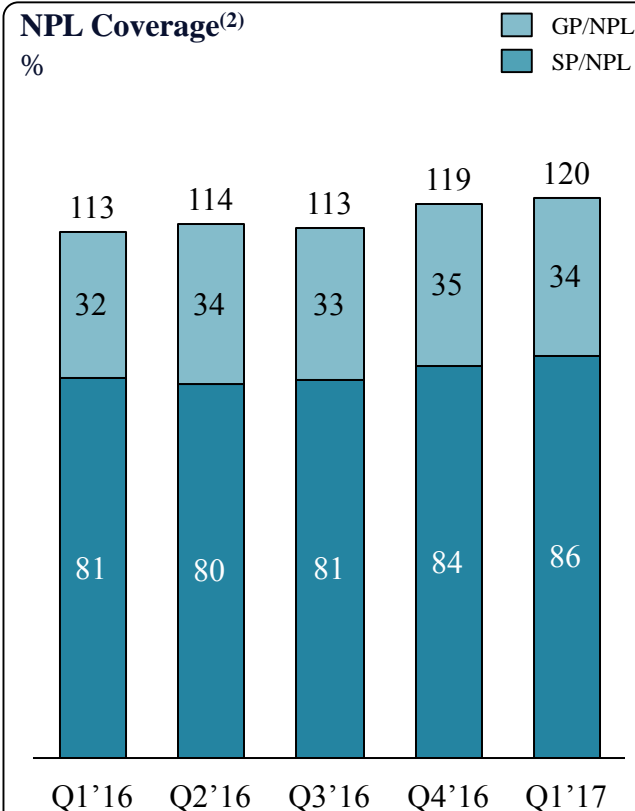
Stable NPL inflows with strong collection performance



Improving NPL ratios thanks to stringent risk measures and NPL sales

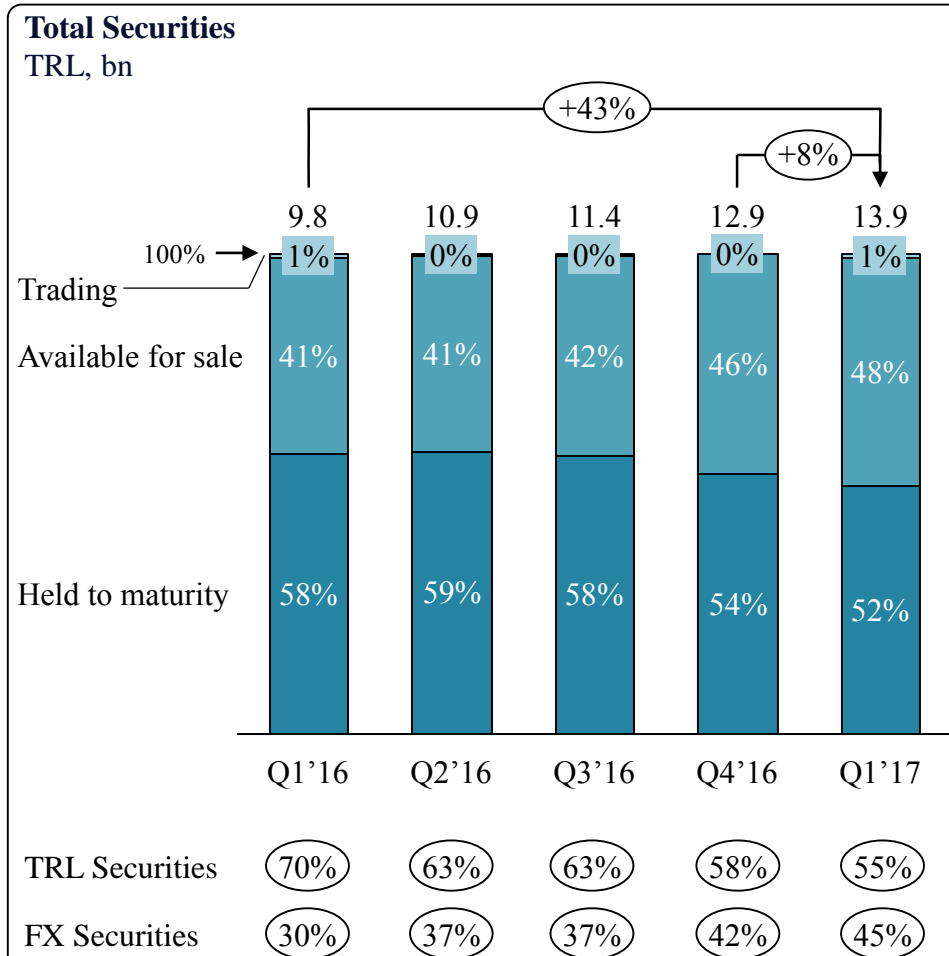


NPLs are well covered through general and specific provisions

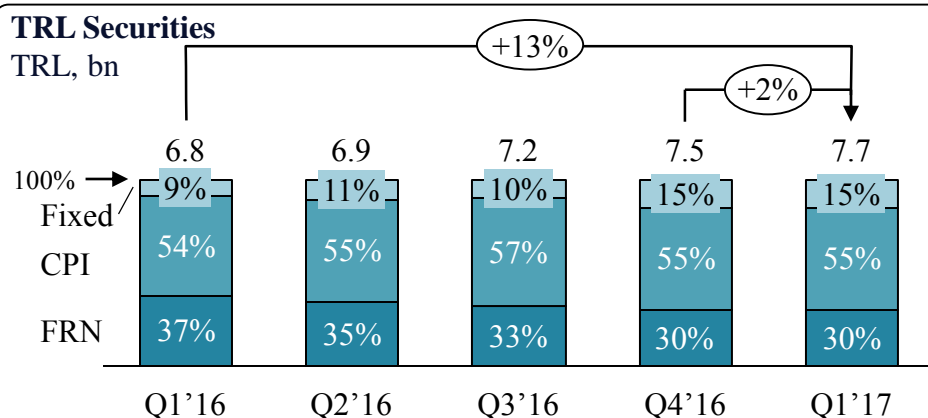


Securities portfolio increased to TRL 13.9bn, making up 13% of assets

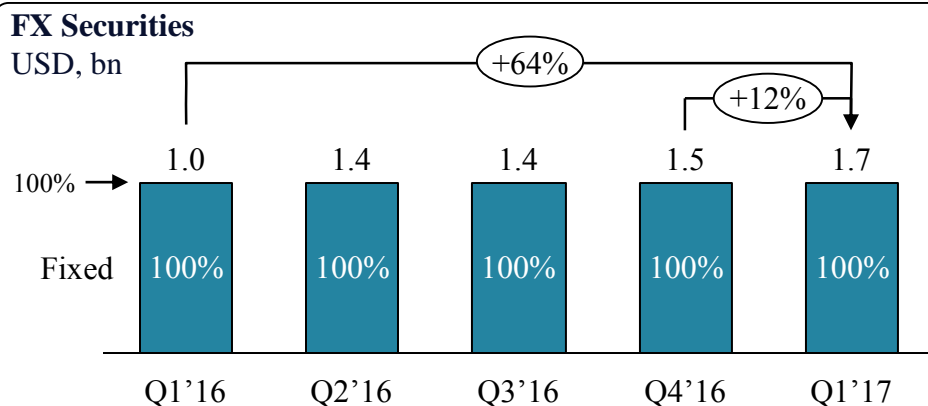
Growth in securities portfolio largely driven by FX securities



85% of TRL securities are indexed / variable rate



Strong and consistent growth in FX securities

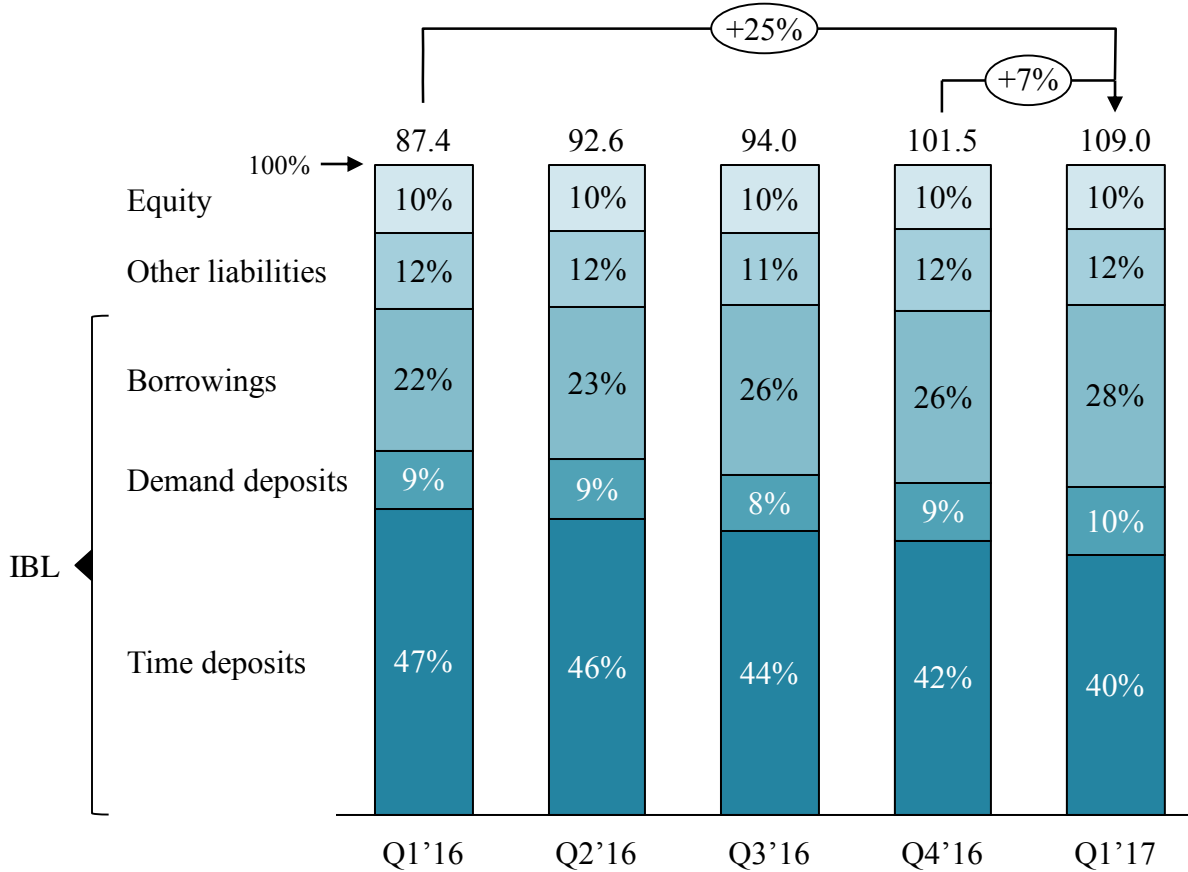


Well-diversified funding structure underpinned by solid deposit base

Use of diversified funding sources while increasingly leveraging new shareholder structure to refrain from deposit competition

Total Liabilities

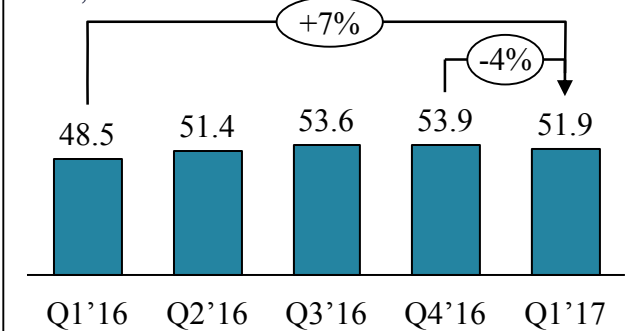
TRL, bn



Slight decline in TRL liabilities

TRL Liabilities

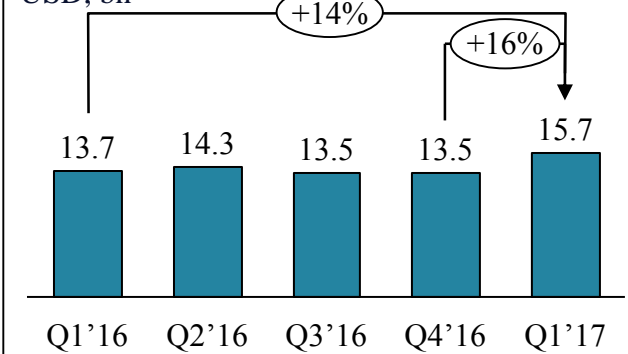
TRL, bn



Strong growth in FX liabilities leveraging CBRT swap facility and soaring FX deposits

FX Liabilities

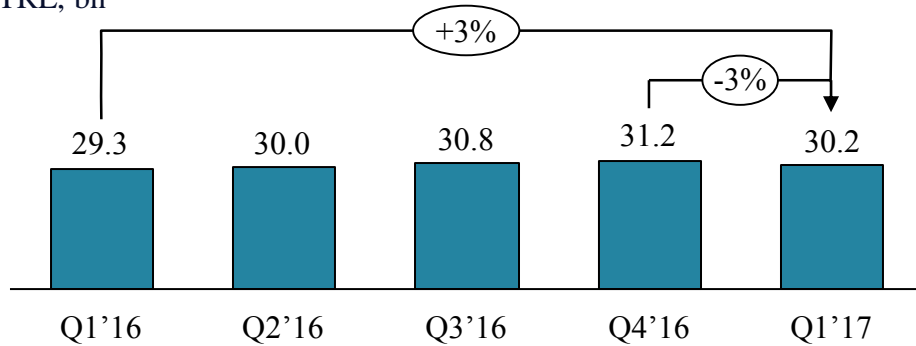
USD, bn



Stable L/D ratio despite strong loan growth, with improving deposit mix thanks to strong demand deposit growth

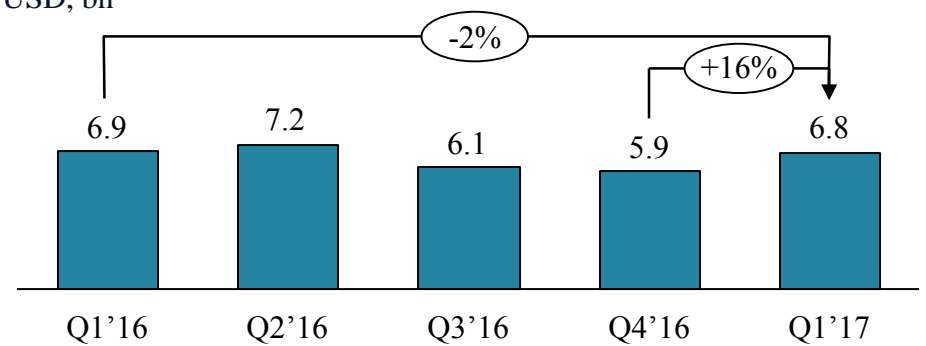
Stable TRL deposits growth with selective exit from price sensitive clients

TRL Deposits
TRL, bn



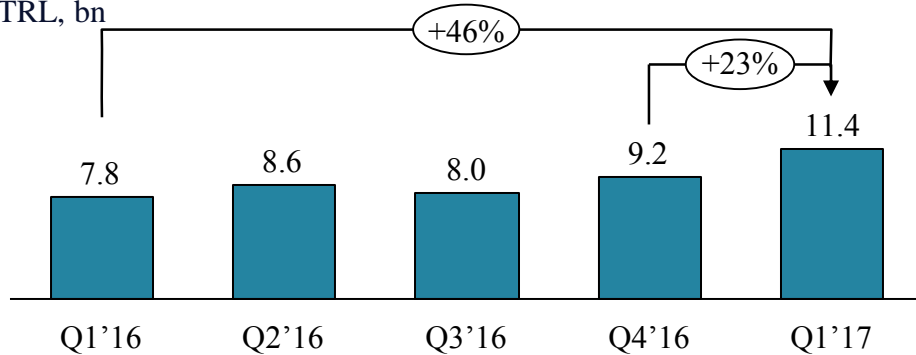
Recent growth in FX deposits in line with sector

FX Deposits
USD, bn



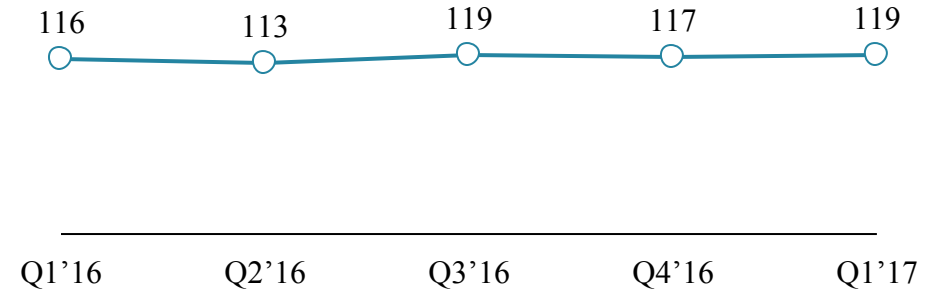
Impressive growth in demand deposits

Demand Deposits
TRL, bn



Loan-to-deposit ratio in line with the sector

Loan-to-deposit ratio⁽¹⁾
%

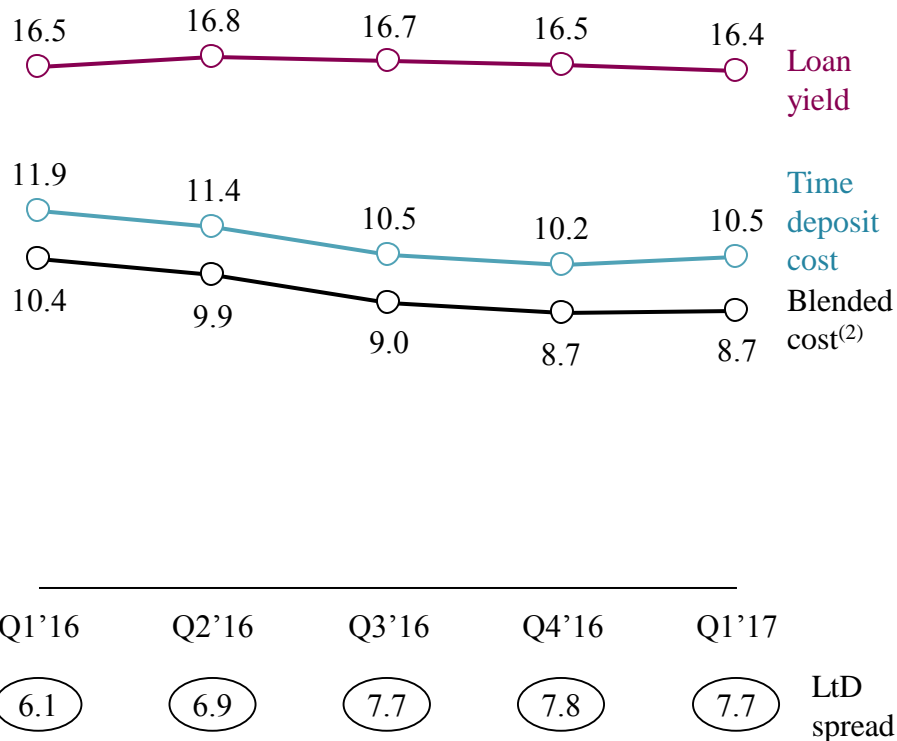


Exceptional spread management in both TRL and FX fronts

Resilient TRL loan yields and loan to deposit spreads

TRL Spread

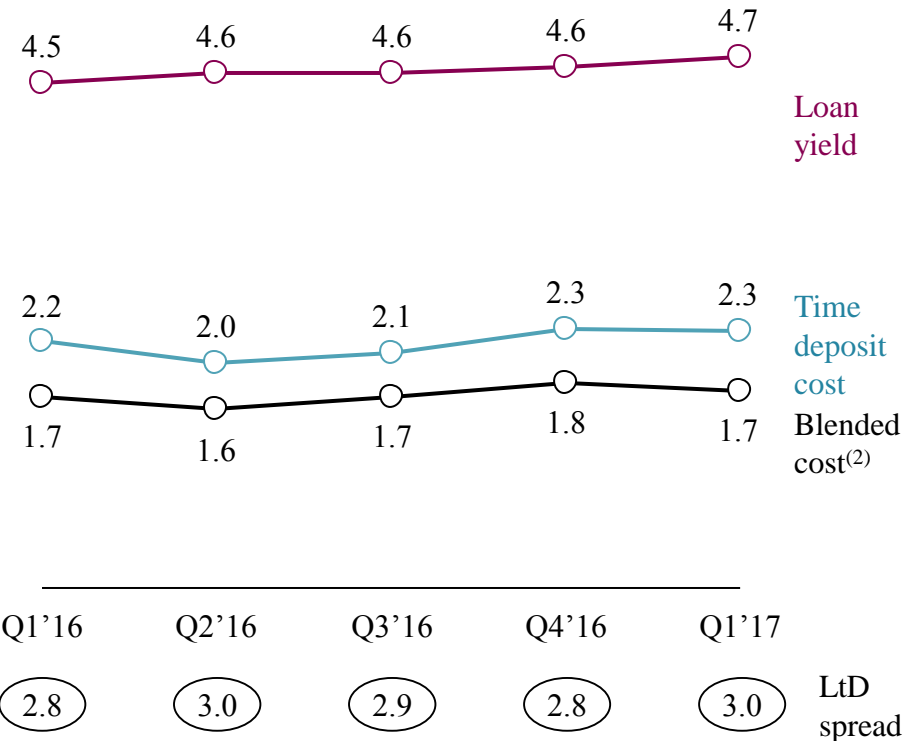
%, period average



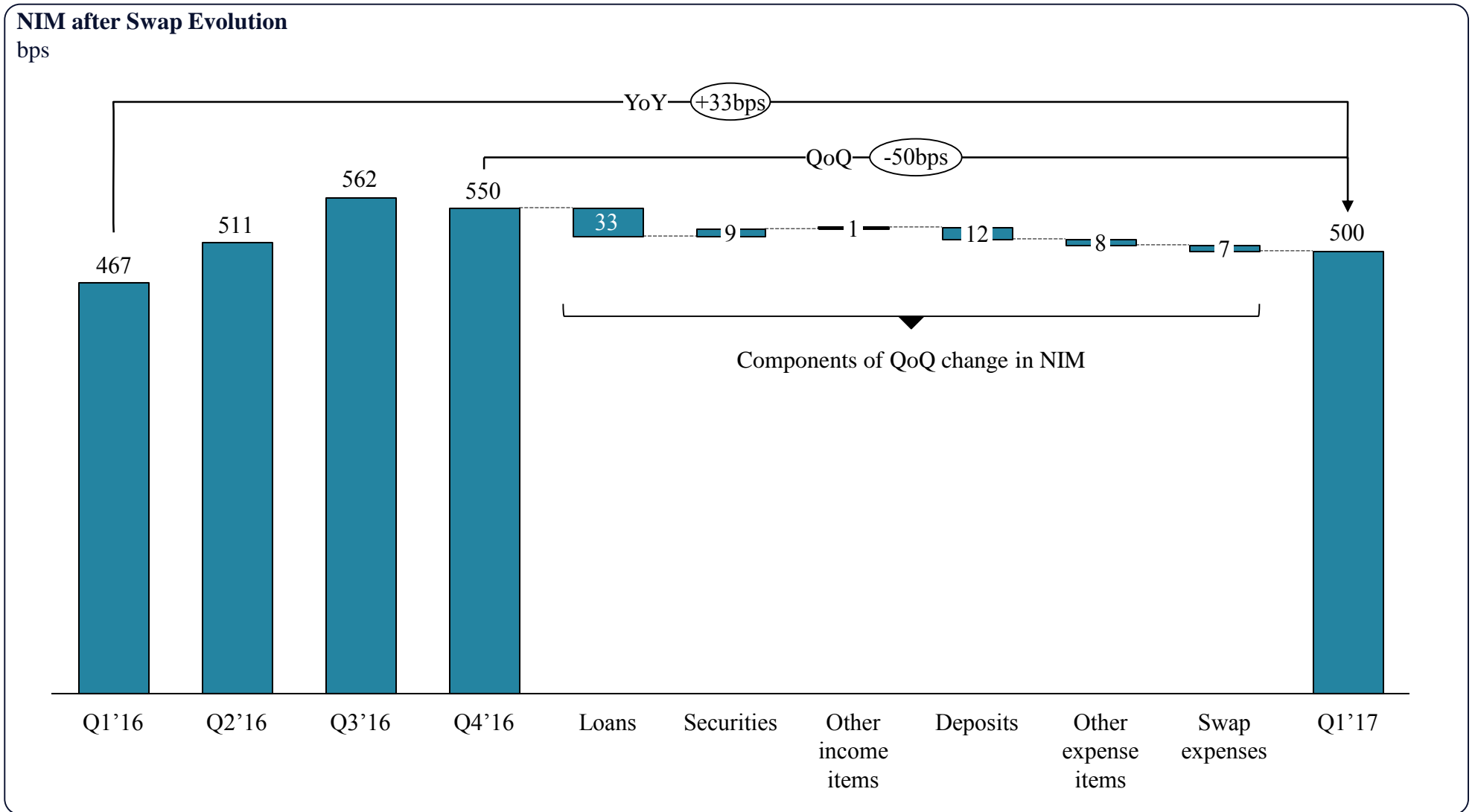
Consistent loan-to-deposit spreads for FX side

FX Spread⁽¹⁾

%, period average

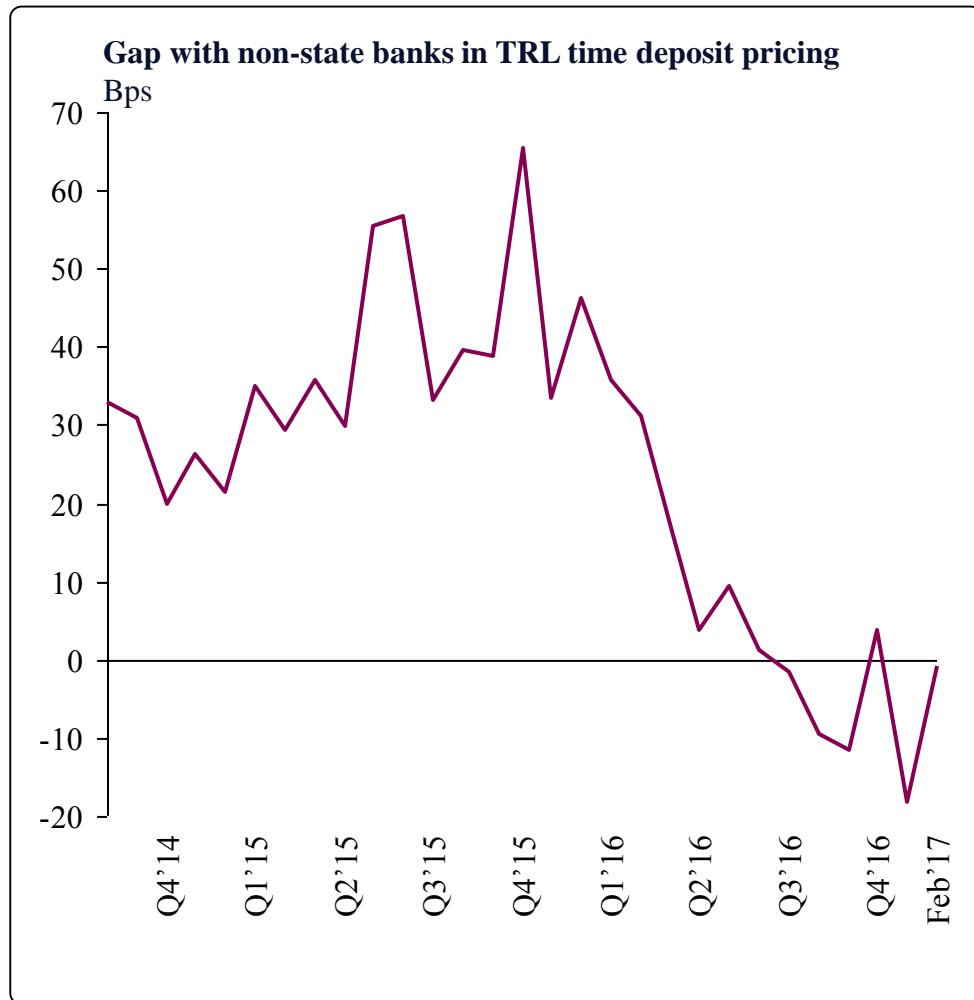


Strong NIM expansion throughout in 2016 showed some decline in the last two quarters due to shift in loan mix and increasing deposit competition

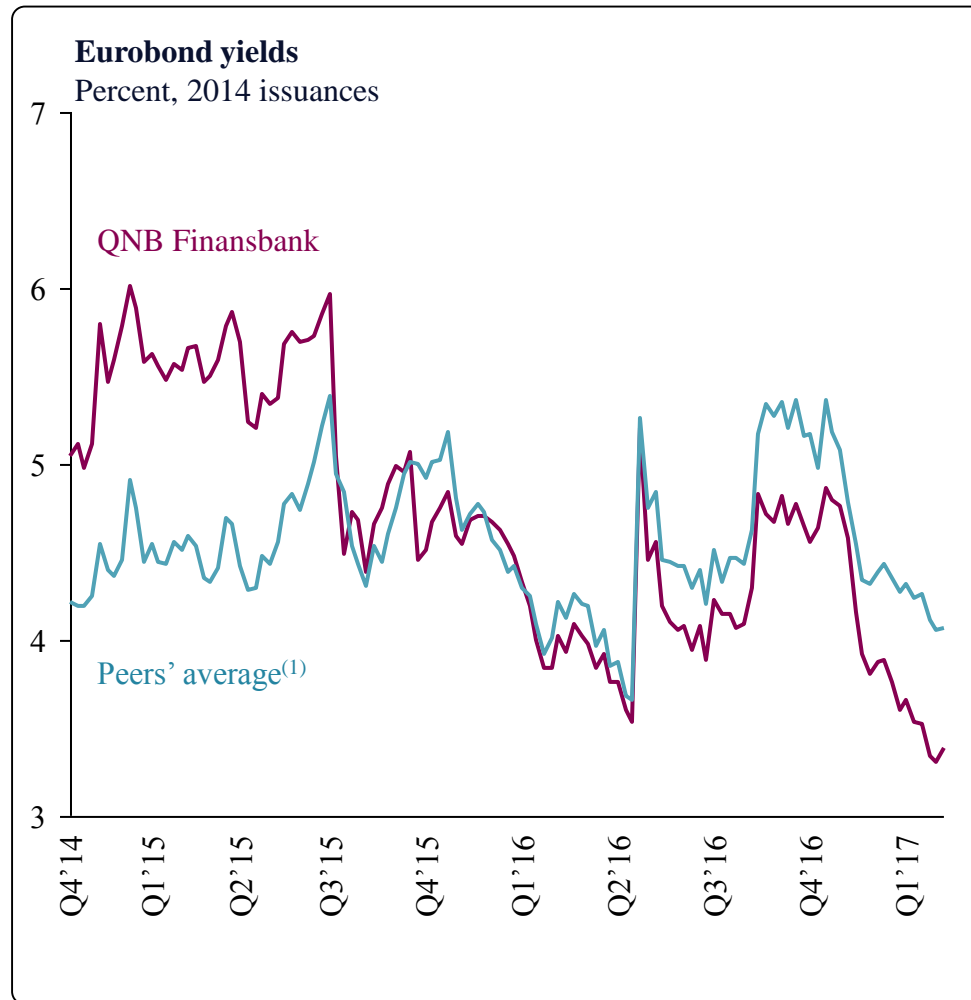


Change in shareholder delivering strong improvement in cost of funding

QNB Finansbank's deposit interest rate costs already converged to the sector...

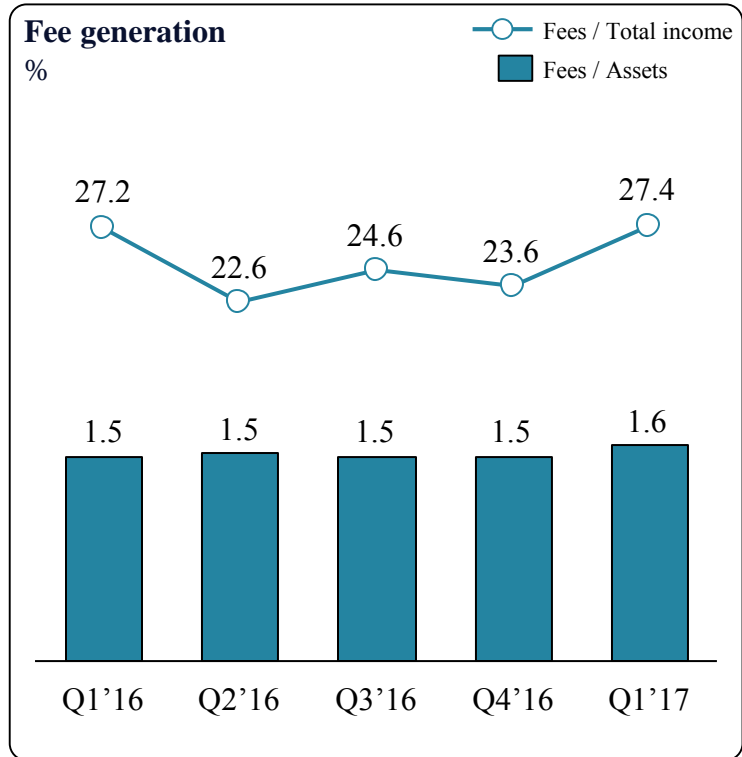


...while wholesale funding costs declined immediately following announcement of acquisition

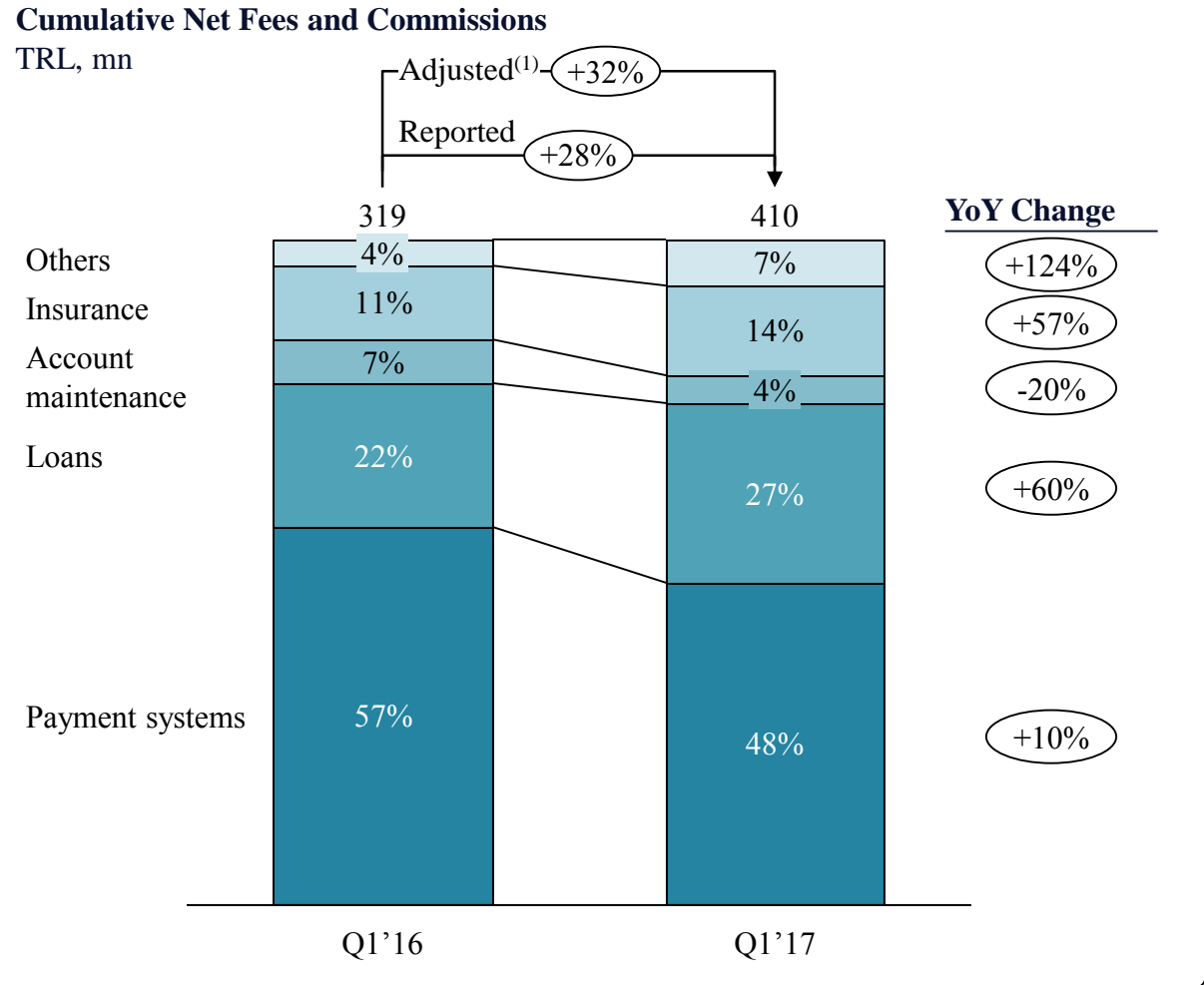


Sustained fee generation with strong performance across diversified business segments

Recovery in fees thanks to loan growth related fee generation

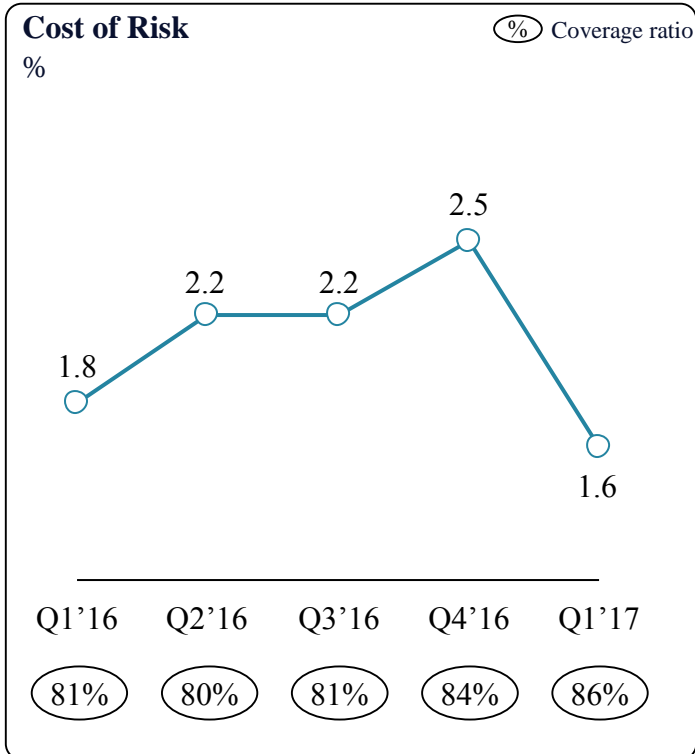


32% YoY adjusted growth in fee generation driven by strong loan growth and value added service revenues

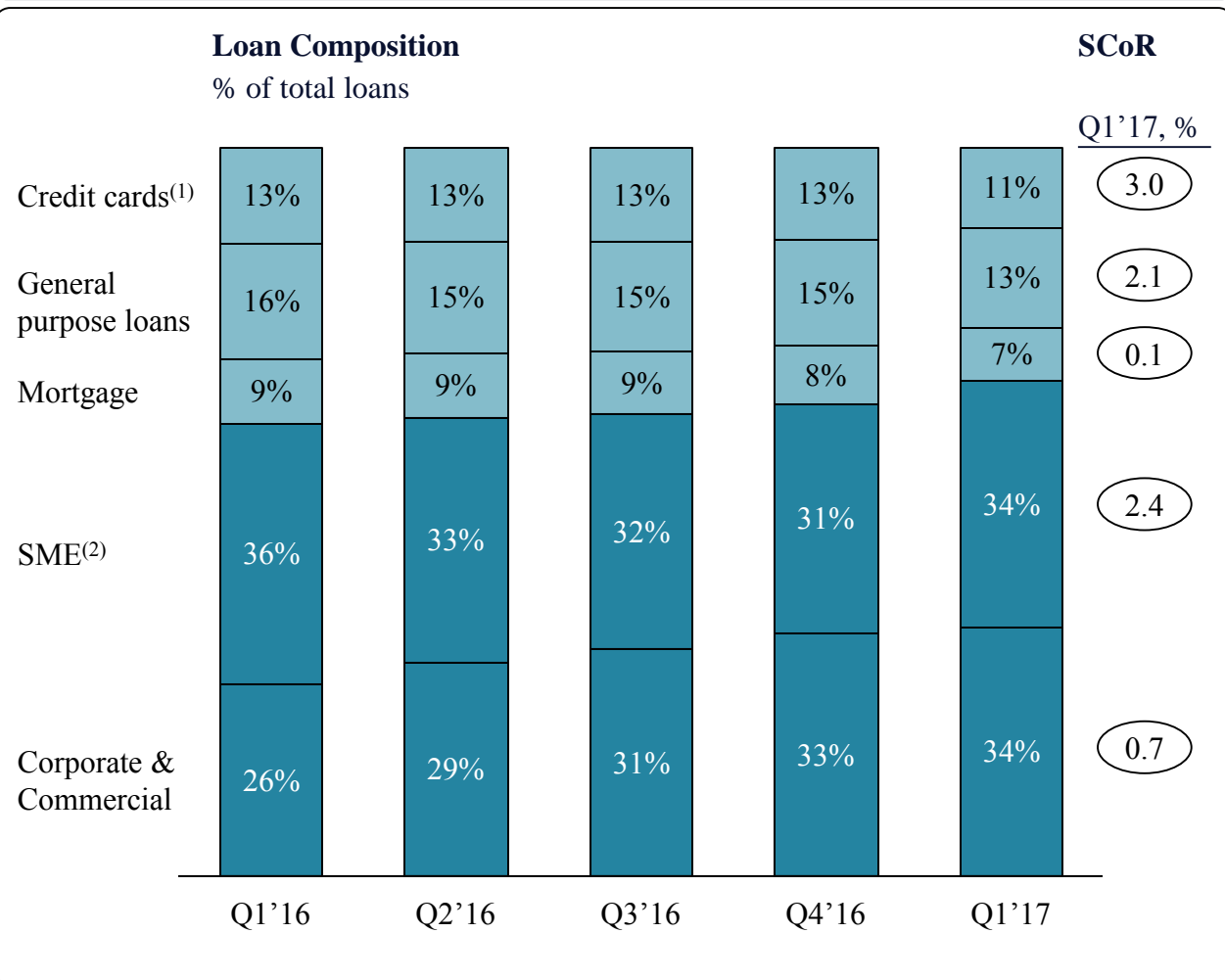


Cost of risk at comfortable level with strong improvement in Q1

Strong improvement in CoR even with increasing coverage ratios

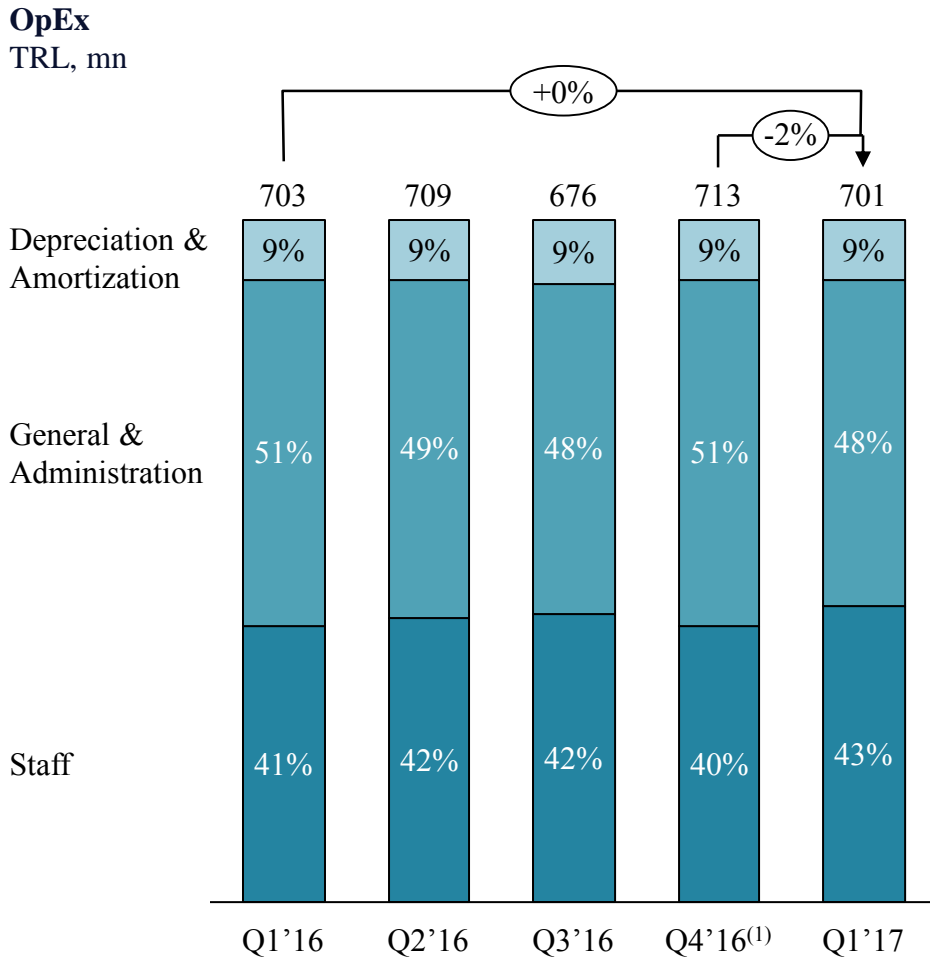


Shift towards business banking helps improve cost of risk

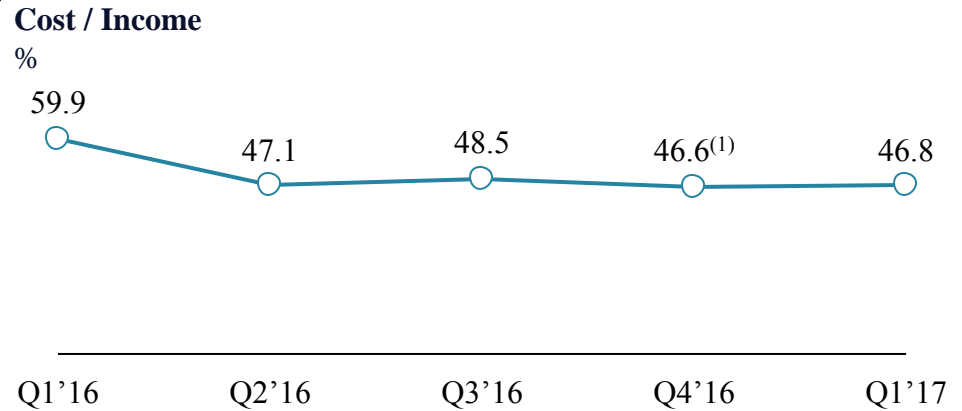


Diligent focus on efficiency even facing high business growth leading to improving efficiency metrics

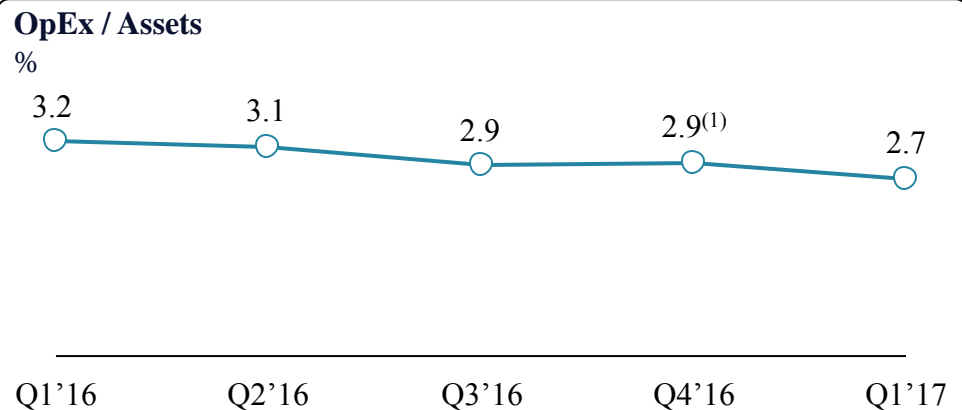
Stable operating expenses...



... leading to improvement in cost/income ratio...



... and efficiency improvement with high business growth



Consistent and strong bottom-line increase; testament to successful execution of growth strategy and impact of shareholder change

TRL, mn	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	ΔQoQ	ΔYoY
Net Interest Income after Derivatives Expenses	800	902	1,029	1,054	1,035	-2%	29%
Net Interest Income	994	1,110	1,188	1,212	1,342	11%	35%
Derivatives expenses	-194	-208	-159	-158	-307	94%	58%
Net Fees & Commissions	319	339	343	361	410	14%	28%
Trading & Other Income ⁽¹⁾	53	262 ⁽²⁾	23	114 ⁽³⁾	53	-53%	0%
Total Operating Income	1,173	1,503	1,395	1,528	1,499	-2%	28%
Provisions	-266	-321	-334	-395	-263	-33%	-1%
OpEx	-703	-709	-676	-713 ⁽⁴⁾	-701	-2%	0%
Net Operating Income	204	474	385	421	534	27%	162%
Taxation	-42	-84	-86	-69	-112	64%	167%
Net Income	162	391	299	352	422	20%	160%

- **Substantial increase in total operating income** on YoY and QoQ basis
- **NII increase** as the main source of total operating income growth due to improvement in deposit costs, favourable funding mix and resilient lending yields; although some negative drag from derivatives expenses in Q1
- **Sustained fees and commissions generation** with strong performance across diversified business segments
- **Improving provisioning expenses** despite challenging macro
- **Substantial efficiency improvement** leading stable OpEX both for YoY and QoQ terms

(1) Including dividend income from subsidiaries

(2) Including TRL 152mn Visa Inc. share sale and TRL 69mn NPL sale gain (after tax impact of TRL 136mn and TRL 56mn NPL respectively)

(3) Including TRL 94mn NPL sale gain

(4) TRL 30.8mn provision for RUSF penalty is included; if it is excluded QoQ growth would be 3%

Appendix



Key financial ratios

All figures quarterly		Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	ΔQoQ	ΔYoY
Profitability	RoAE	7.1%	16.8%	12.5%	14.2%	16.2%	+2.0pps	+9.0pps
	RoAA	0.7%	1.7%	1.3%	1.4%	1.6%	+0.2pps	+0.9pps
	Cost / Income	59.9%	47.1%	48.5%	46.6%	46.8%	+0.1pps	-13.1pps
	NIM after swap expenses	4.7%	5.1%	5.6%	5.5%	5.0%	-0.5pps	+0.3pps
Liquidity	Loans / Customer Deposits	119.5%	118.4%	125.2%	121.1%	126.1%	+5.0pps	+6.6pps
	Loans / Deposits (incl. bank deposits)	115.6%	113.4%	119.3%	116.7%	118.6%	+1.9pps	+3.0pps
Asset Quality	NPL Ratio	6.6%	6.2%	6.5%	5.8%	5.6%	-0.2pps	-1.0pps
	Coverage	81.2%	80.0%	80.8%	84.0%	85.9%	+1.9pps	+4.7pps
	Cost of Risk	1.8%	2.2%	2.2%	2.5%	1.6%	-0.9pps	-0.2pps
Solvency	CAR	14.7%	14.5%	14.5%	14.5%	14.3%	-0.2pps	-0.4pps
	Tier I Ratio	12.7%	12.6%	12.5%	12.6%	12.5%	-0.1pps	-0.1pps
	Leverage	9.5	9.8	9.7	10.0	10.1	+12.5	+61.9

Balance sheet summary

	TRL, mn	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	ΔQoQ	ΔYoY
Assets	Cash & Banks ⁽¹⁾	10,941	13,159	13,139	14,925	15,143	1%	38%
	Securities	9,765	10,938	11,357	12,950	13,931	8%	43%
	Net Loans	58,447	60,161	61,424	62,923	69,191	10%	18%
	Fixed Assets & Subsidiaries	2,398	2,467	2,517	2,912	2,945	1%	23%
	Other	5,802	5,922	5,551	7,792	7,801	0%	34%
	Total Assets	87,354	92,647	93,988	101,503	109,010	7%	25%
Liabilities & Equity	Customer Deposits	48,920	50,800	49,062	51,966	54,889	6%	12%
	Borrowings	19,176	21,589	24,602	26,794	30,736	15%	60%
	Bonds Issued	4,725	3,379	3,906	4,312	4,527	5%	-4%
	Funds Borrowed	5,922	7,164	8,755	10,758	12,706	18%	115%
	Sub-debt	2,627	2,650	2,780	3,236	3,380	4%	29%
	Bank Deposit	1,652	2,234	2,409	1,973	5,539	181%	235%
	Repo	4,250	6,162	6,752	6,515	4,584	-30%	8%
	Other	10,090	10,813	10,620	12,617	12,644	0%	25%
	Equity	9,166	9,445	9,704	10,126	10,742	6%	17%
Total Liabilities & Equity	87,354	92,647	93,988	101,503	109,010	7%	25%	

Year to date income statement

TRL, mn	2015	2016	Q1'16	Q1'17	ΔYoY
Net Interest Income after Derivatives Expenses	3,145	3,786	800	1,035	29.3%
Net Interest Income	3,947	4,504	994	1,342	35.0%
Derivatives expenses	-802	-718	-194	-307	58.4%
Net Fees & Commissions	1,314	1,363	319	410	28.4%
Trading & Other Income ⁽¹⁾	351	452	53	53	0.3%
Total Operating Income	4,810	5,600	1,173	1,499	27.8%
Provisions	-1,170	-1,316	-266	-263	-1.2%
OpEx	-2,737	-2,800	-703	-701	-0.2%
Net Operating Income	903	1,484	204	534	161.9%
Taxation	-197	-280	-42	-112	167.3%
Net Income	706	1,203	162	422	160.4%

Disclaimer

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