



# **QNB Finansbank**

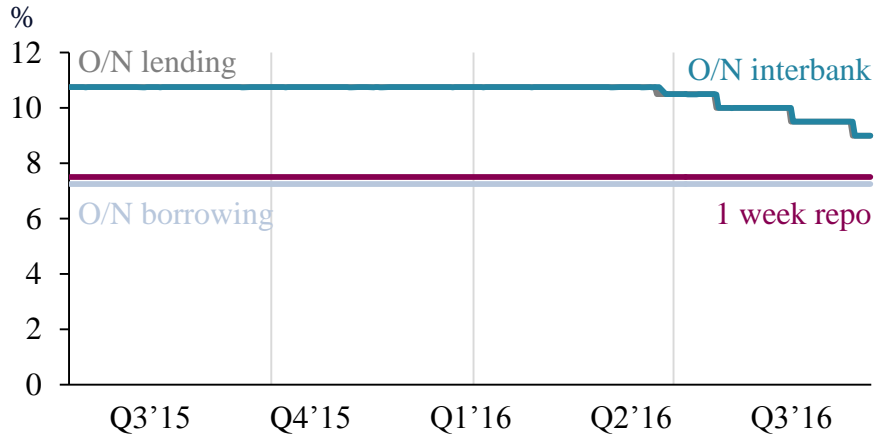
# **Q3'16 Earnings Presentation**

October, 2016

# Banking sector growth continued in Q3'16 despite adverse local developments

## Macro Dynamics

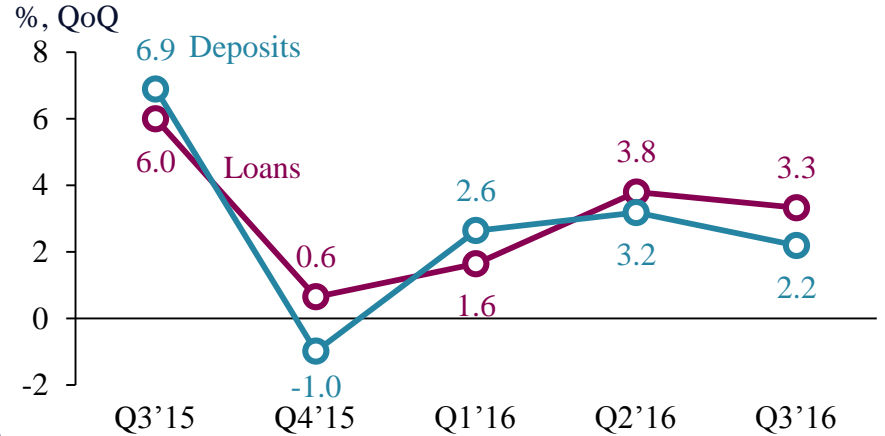
### CBRT Rates



- **FED** remained on hold through the first three quarters of this year; **ECB** continued accommodative policies by keeping negative deposit rates and continuing asset purchases
- **Global volatility indicators remained low** for the most of Q3'16 with the exception of slight elevation in September
- **Global sentiment** remained mostly supportive for EMs. **TRY**, however, diverged negatively due to negative impacts of coup attempt in July and sovereign rating downgrade
- **CBRT** continued to cut the **O/N lending rate** through Q3'16 and let **the effective funding rate ease further**, on the back of the declining inflation slowing growth momentum

## Banking Sector Dynamics

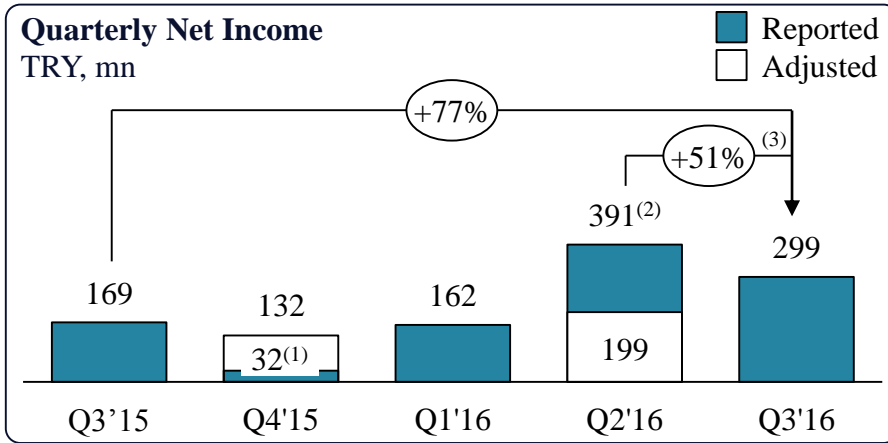
### Banking Sector Growth



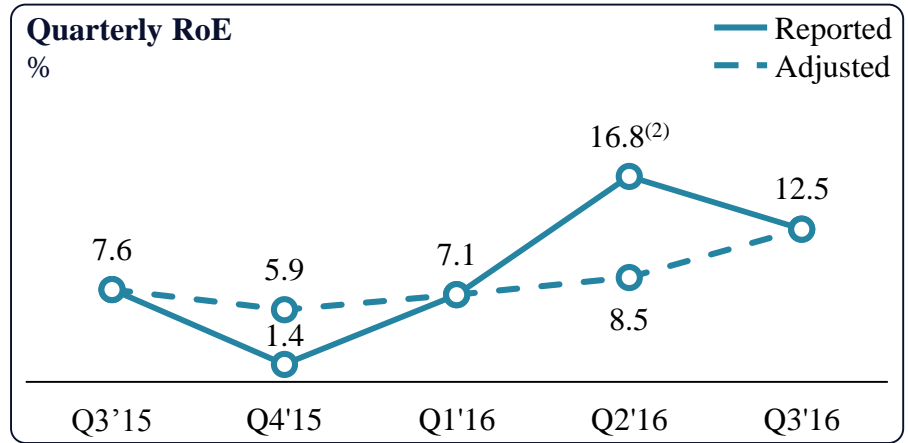
- **Growth continued** in banking sector both on loans and deposits fronts despite a slowdown in their magnitudes
- Pressure on **funding costs continued to ease** in line with CBRT's rate cutting policy and slow down in lending growth
- **Asset quality** of sector remained **intact** through the period

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

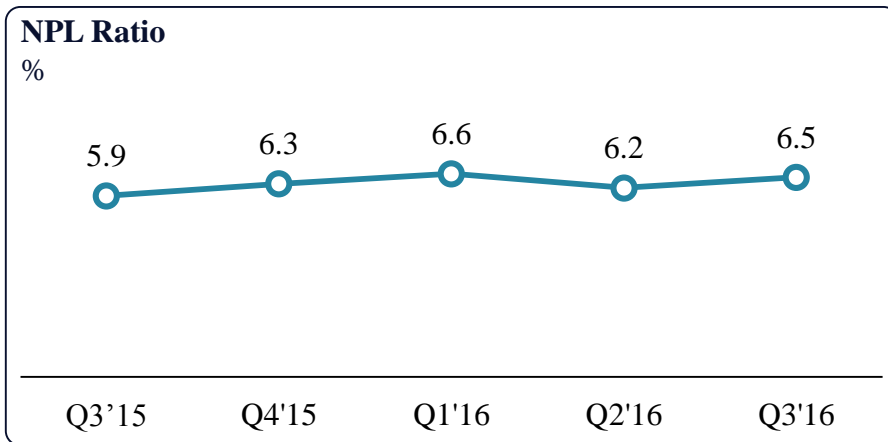
**Strong increase in net income excluding one-offs in previous quarter**



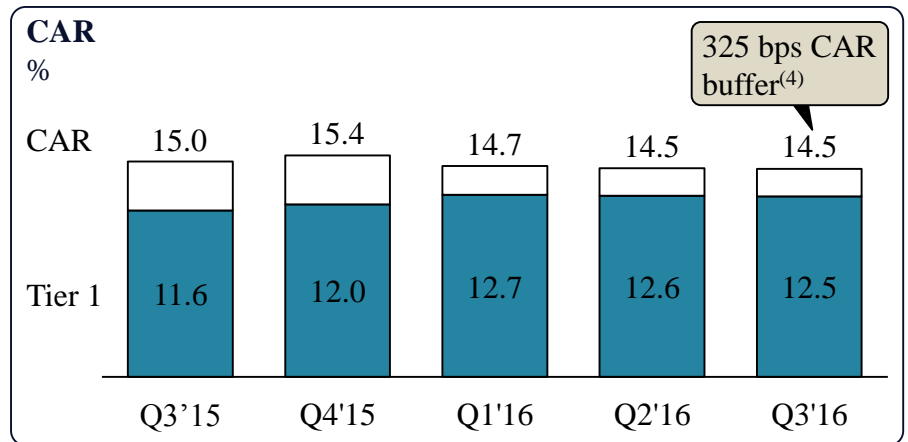
**RoE on upwards trend**



**Asset quality at historical levels**



**Capital adequacy at comfortable level with additional buffer despite exchange rate effects that drive RWA higher**



(1) Including TRY 100 mn free provisions

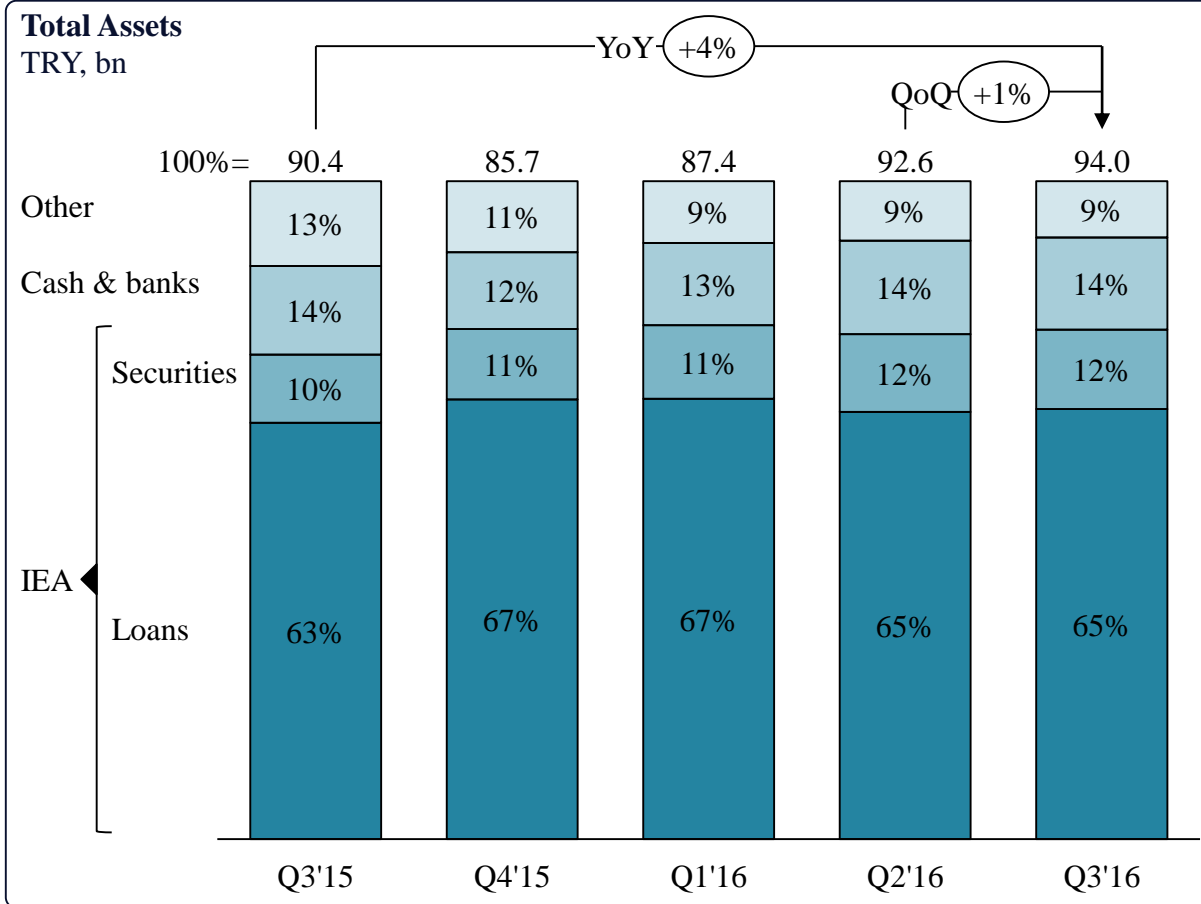
(2) Including TRY 152 mn Visa Inc. share sale and TRY 69 mn NPL sale (after tax impact of TRY 136 mn and TRY 56 mn NPL respectively)

(3) Over adjusted quarterly net income

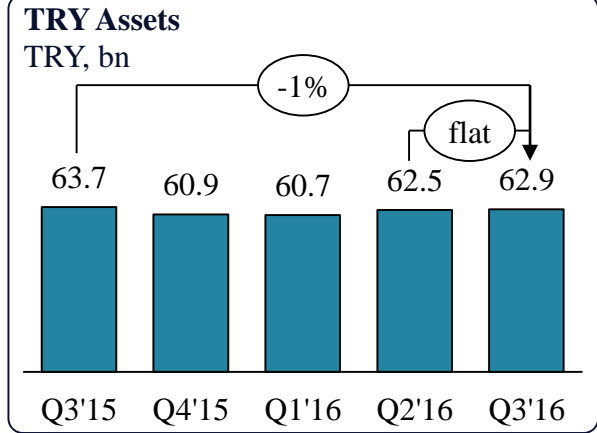
(4) Unrealized capital buffers with 58 bps through reversal of general provisions as per new regulation and 267 bps through potential conversion of sub-loan to Basel III

# Asset size exceeded TRY 94 billion with cautious QoQ growth

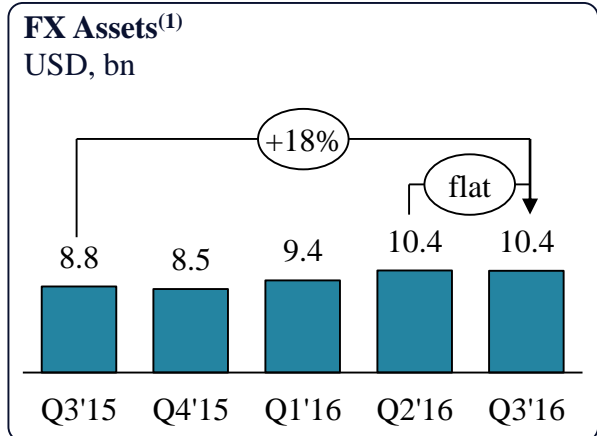
Loan heavy balance sheet; YoY growth slow due to reduction in non-interest earning assets after Q3'15



TRY assets almost flat on QoQ basis



FX assets on USD terms grew 18% YoY

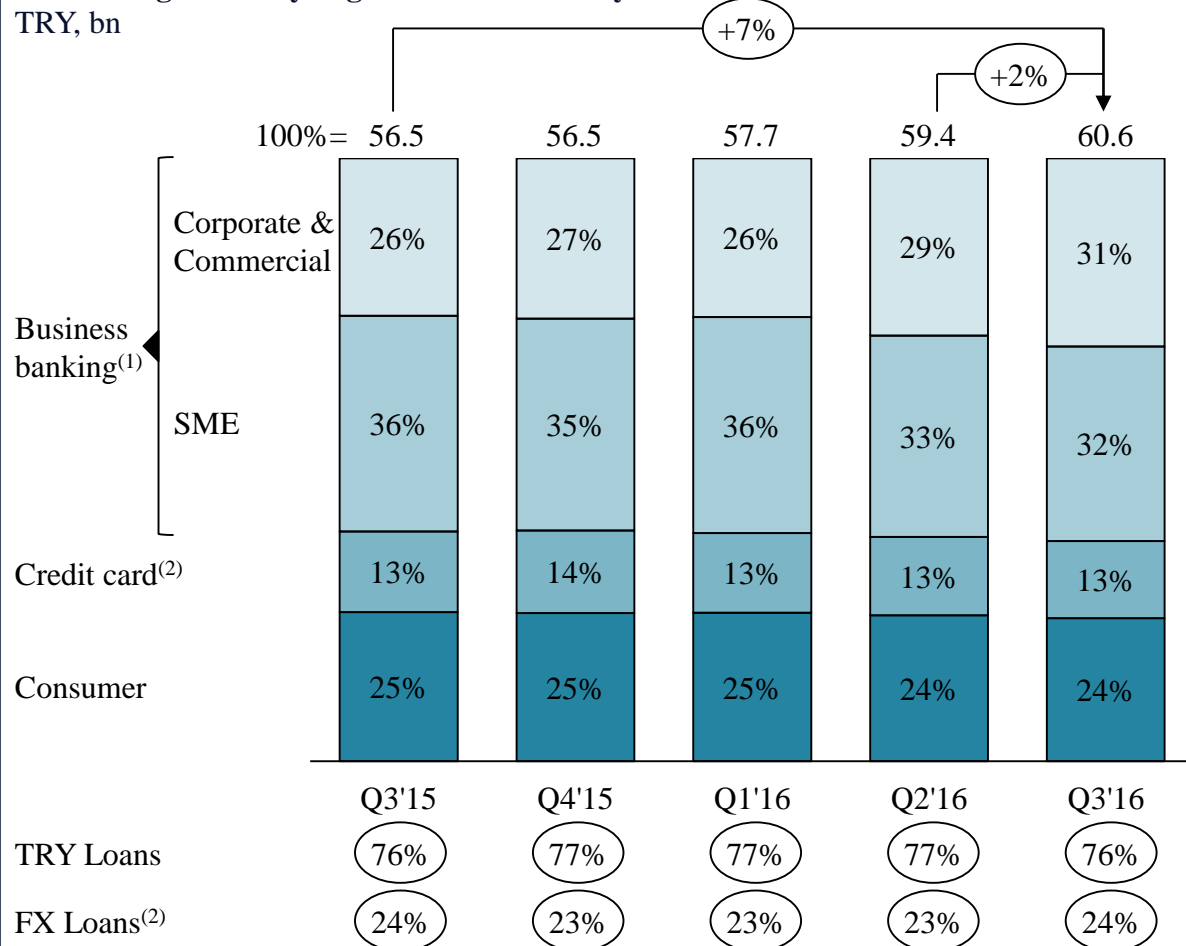


# Sustained and successful execution of the growth strategy...

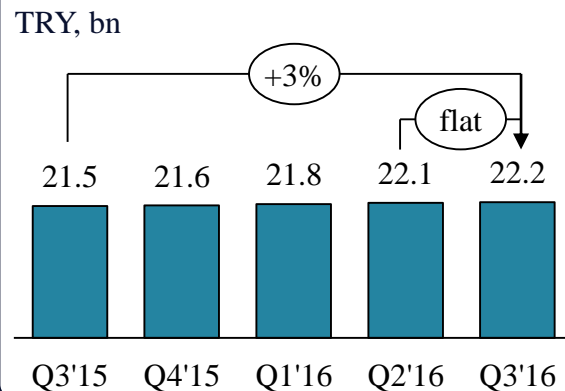
Loan book continued to shift towards business banking

Retail loans are almost flat on QoQ basis

Performing Loans by Segment and Currency

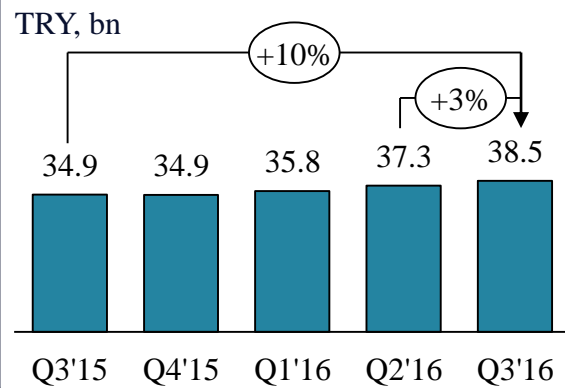


Retail Loans



Continuous growth in business loans

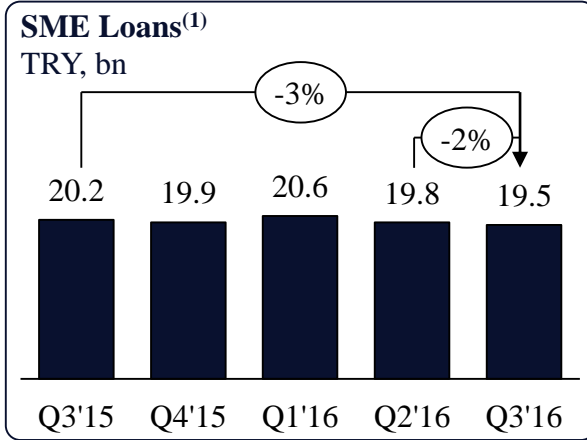
Business Loans



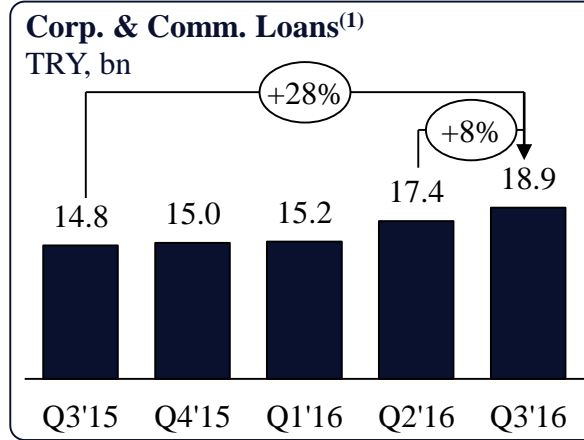
# ...focused on business banking loans while keeping current levels in retail banking segments

■ Business banking  
■ Retail banking

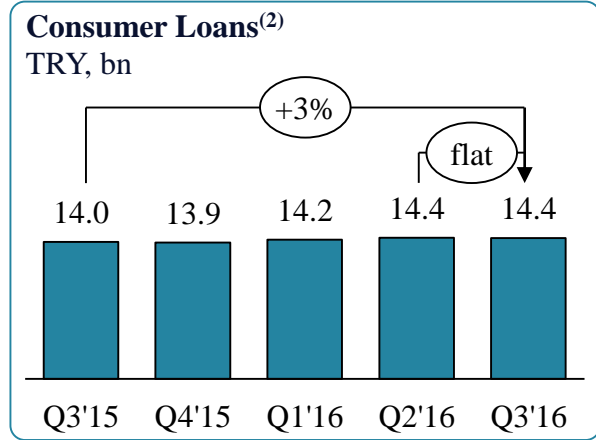
**Caution in SME loans in last quarters; growth to resume with market stability**



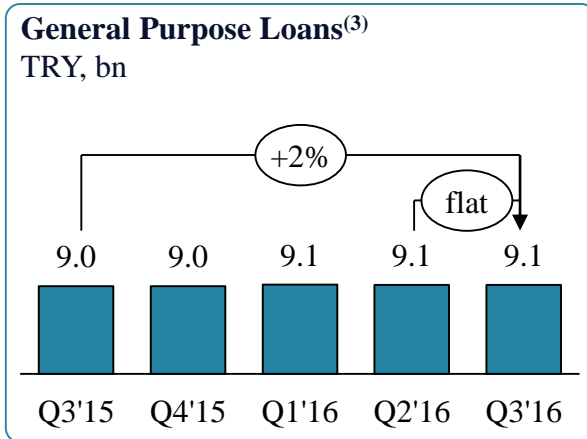
**Strong growth in corp. & comm. loans supported also by FX rates**



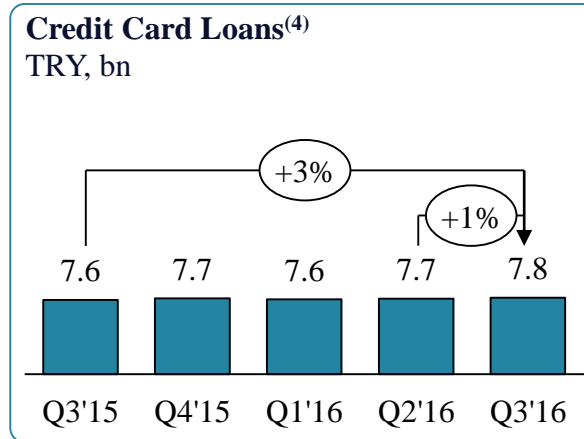
**Muted growth in consumer loans...**



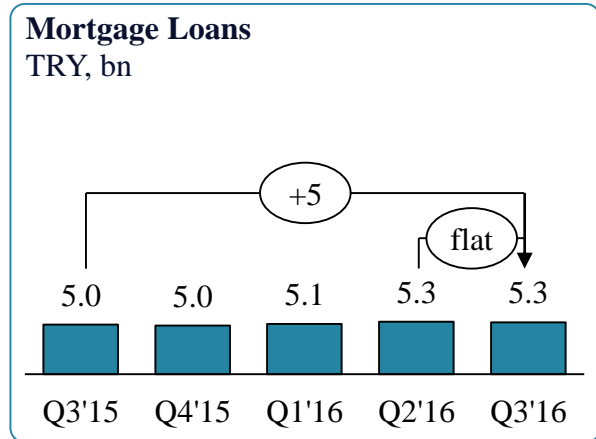
**...across all categories including GPLs...**



**...credit cards...**



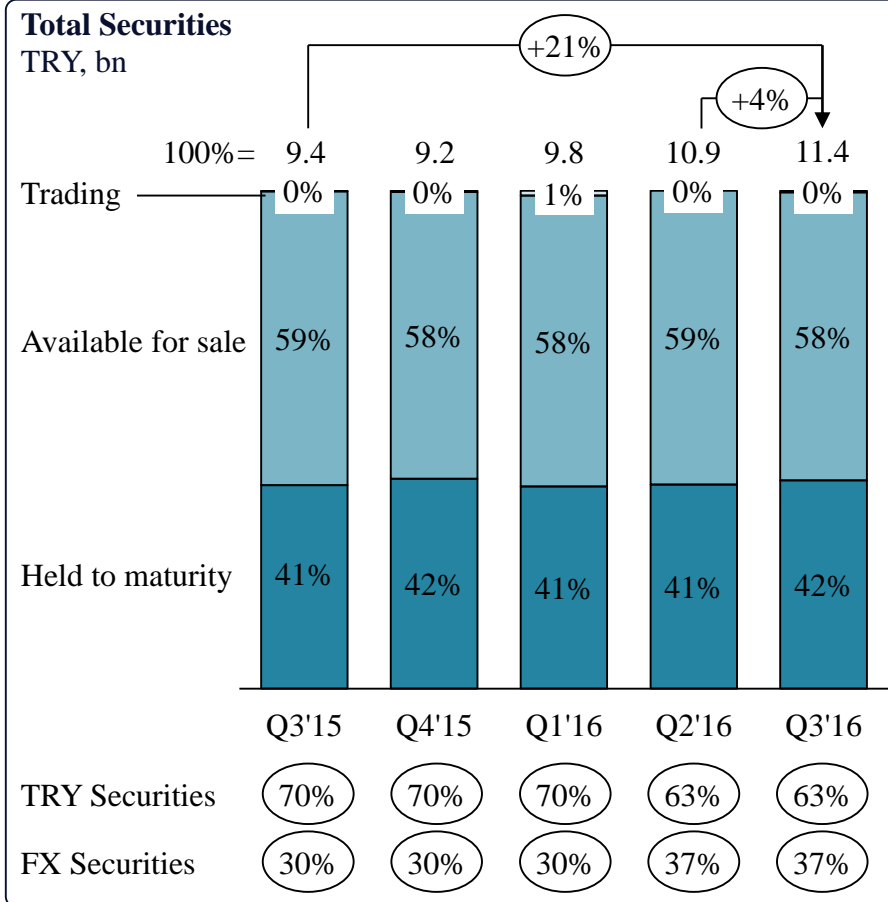
**...and mortgages**



(1) Based on BRSA segment definition  
 (2) Including GPL, overdraft and mortgage loans  
 (3) Including overdraft  
 (4) Credit card outstandings from individual clients

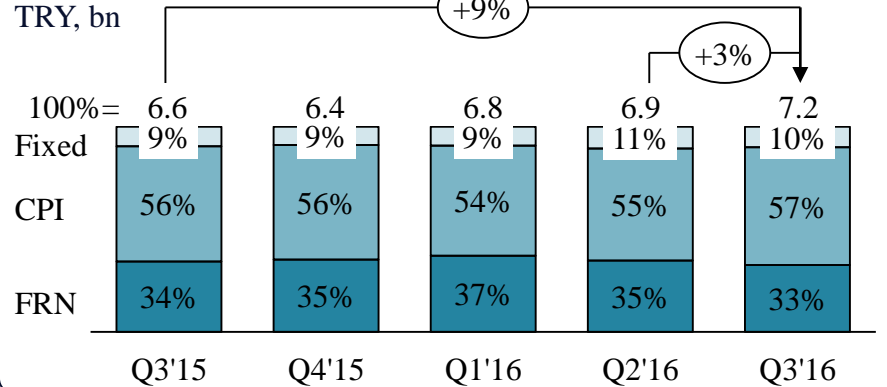
# Securities portfolio increased to 11.4 bn TRY, making up 12% of assets

Growth in securities portfolio driven by TRY securities and FX rates



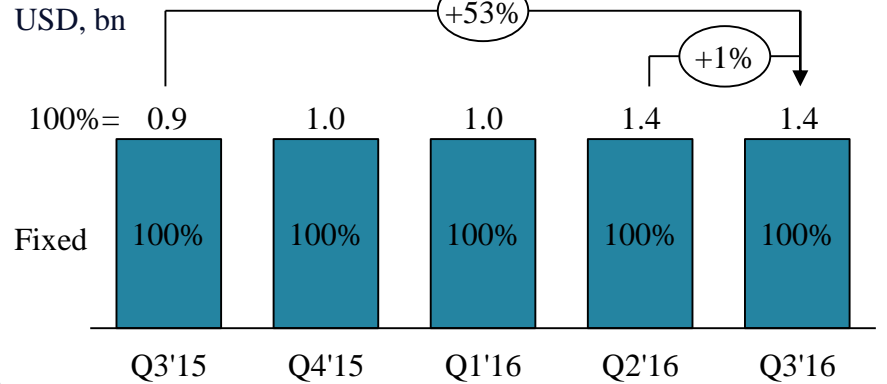
90% of TRY securities are indexed / variable rate

## TRY Securities



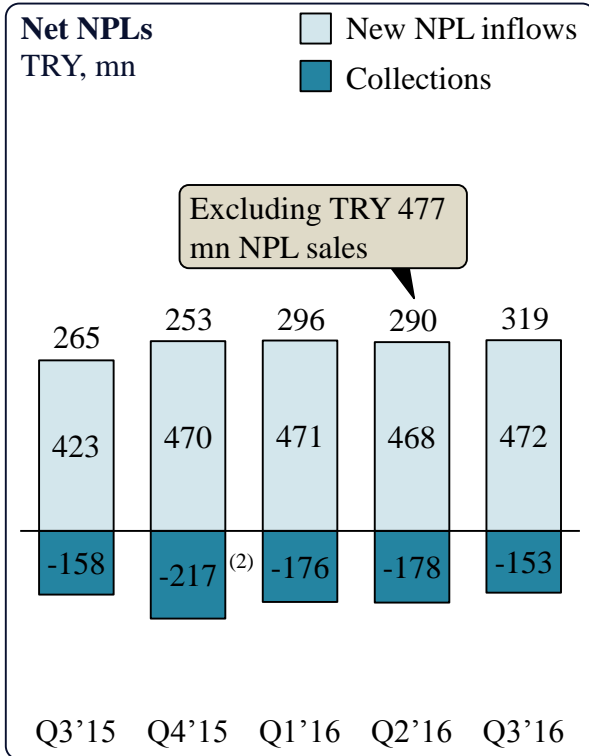
Strong YoY growth in FX securities

## FX Securities

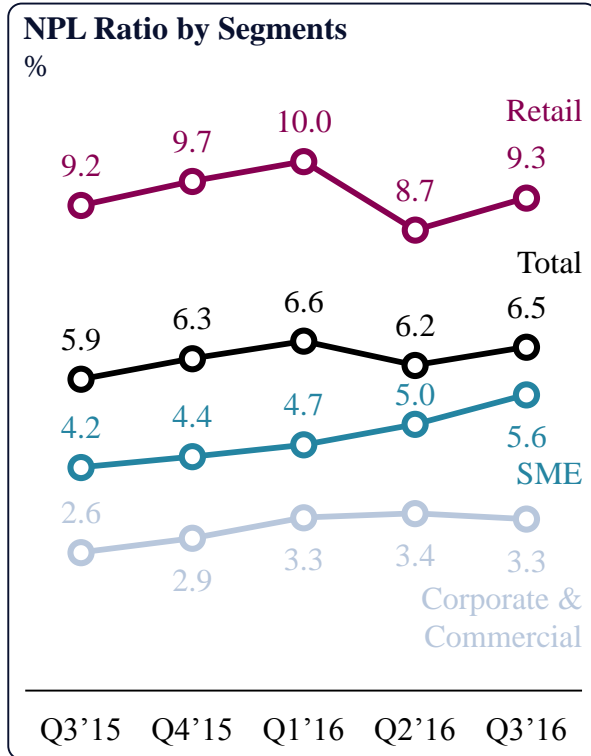


# Controlled asset quality with high coverage ratios

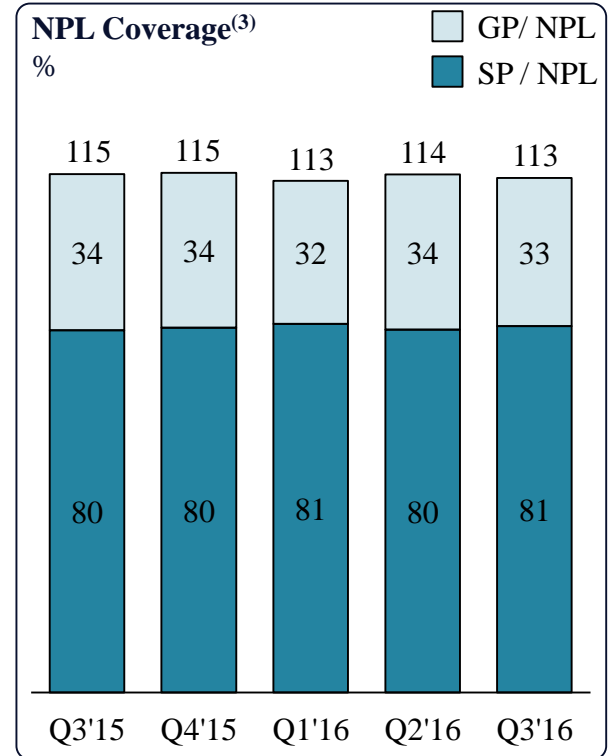
Stable NPL inflows over four consecutive quarters with only seasonal<sup>(1)</sup> slowdown in collections



NPL ratios of segments at their historical levels



NPLs are well covered through general and specific provisions

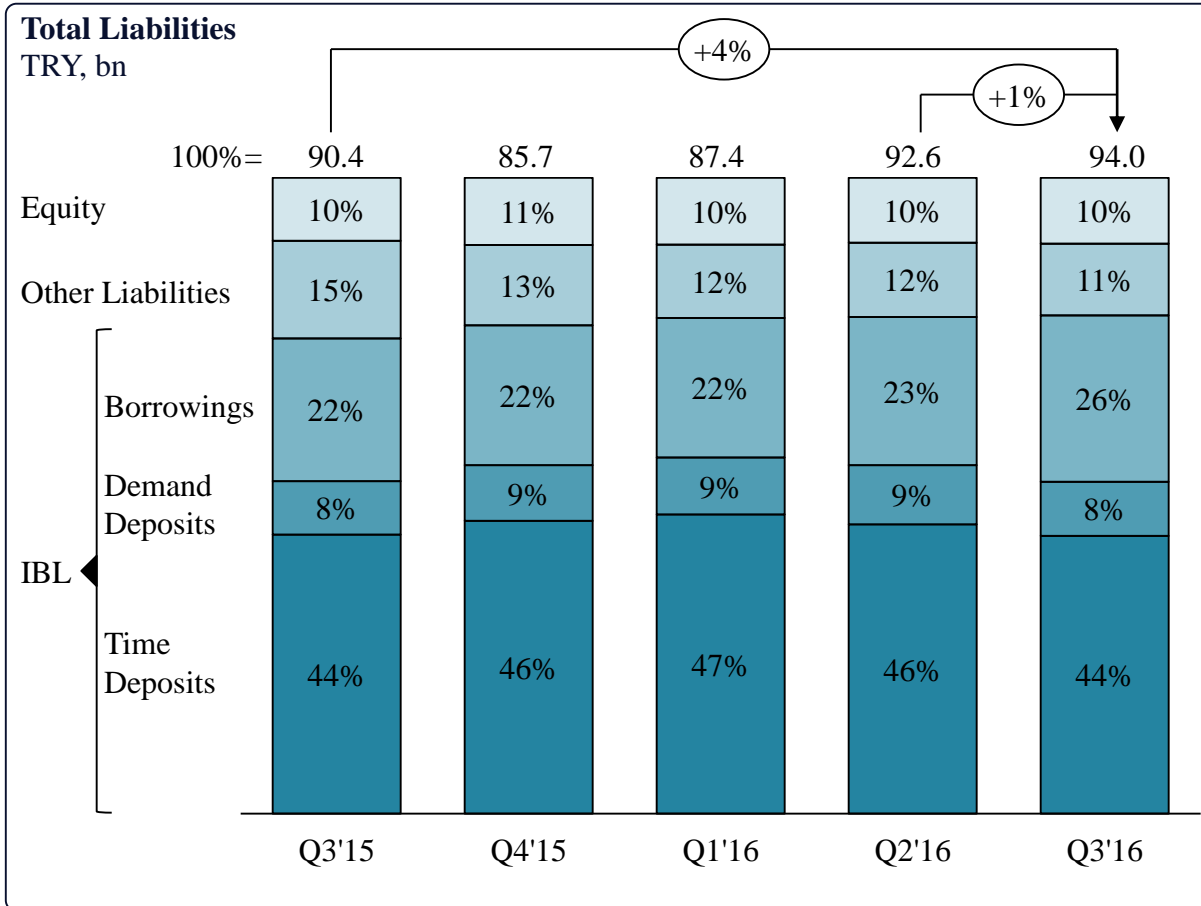


(1) Number of days lost in collection due to public holidays and vacation periods in summers months  
 (2) One-off collection from a large corporate NPL file  
 (3) General provisions include watch-list provisions



# Well-diversified funding structure underpinned by solid deposit base

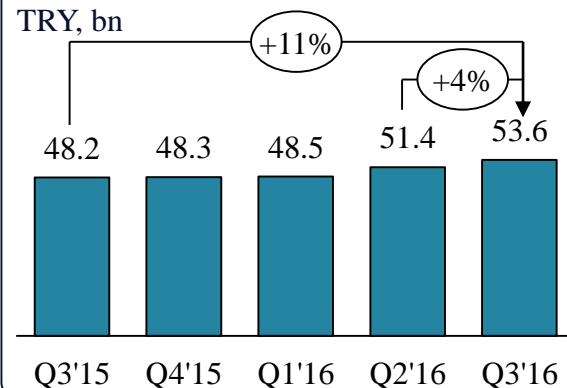
Use of diversified funding sources while increasingly leveraging new shareholder structure and ratings to refrain from deposit competition



Modest growth in TRY liabilities

**TRY Liabilities**

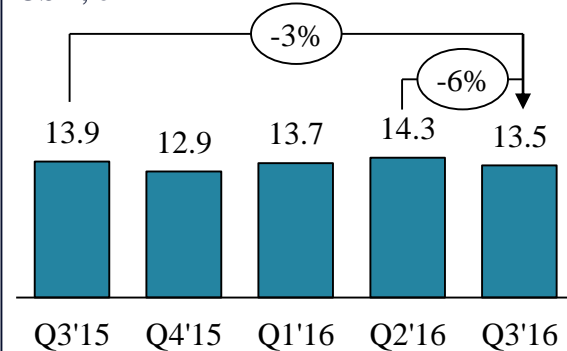
TRY, bn



Contraction in FX liabilities driven by FX deposits

**FX Liabilities**

USD, bn

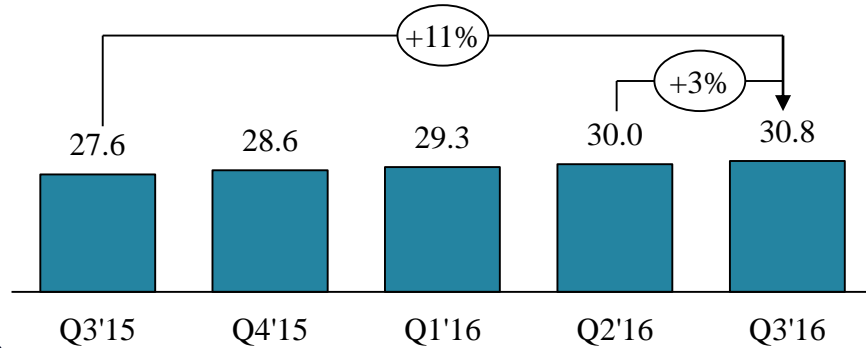


# Slight increase in L/D ratio driven mostly due to opportunistic use of non-deposit funding sources

11% YoY growth in TRY deposits

## TRY Deposits

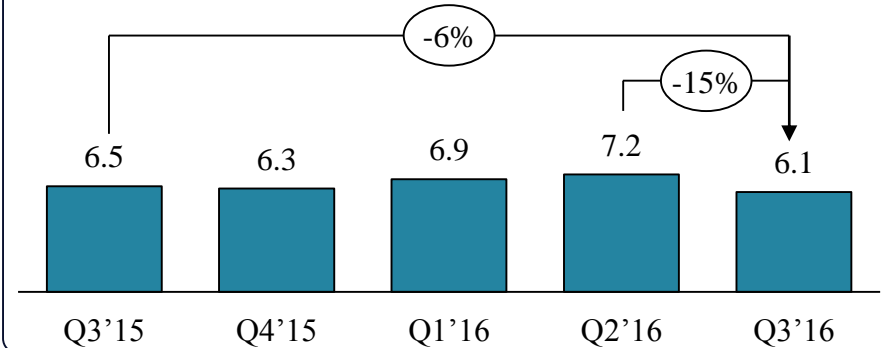
TRY, bn



Contraction in FX deposits in line with the sector due to customer movement to TRY deposits

## FX Deposits

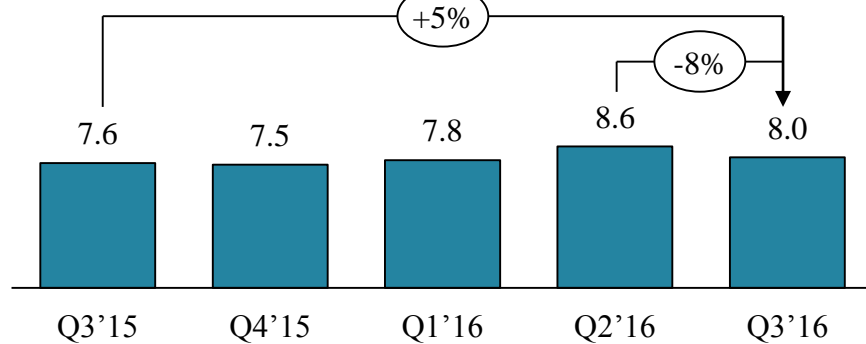
USD, bn



Demand deposits at 14% of total deposit base

## Demand Deposits

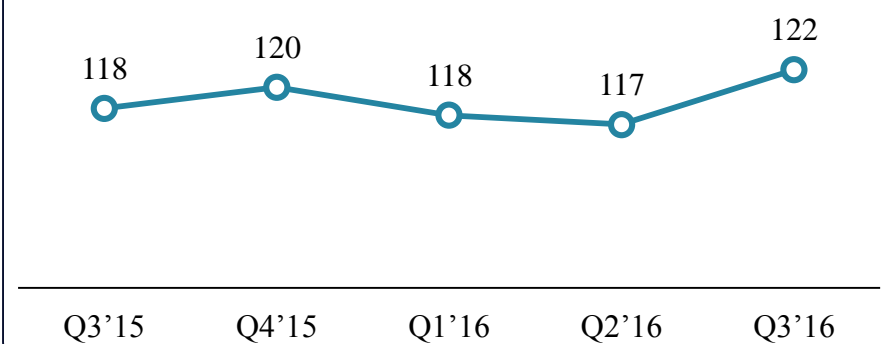
TRY, bn



Loan-to-deposit ratio in line with the sector

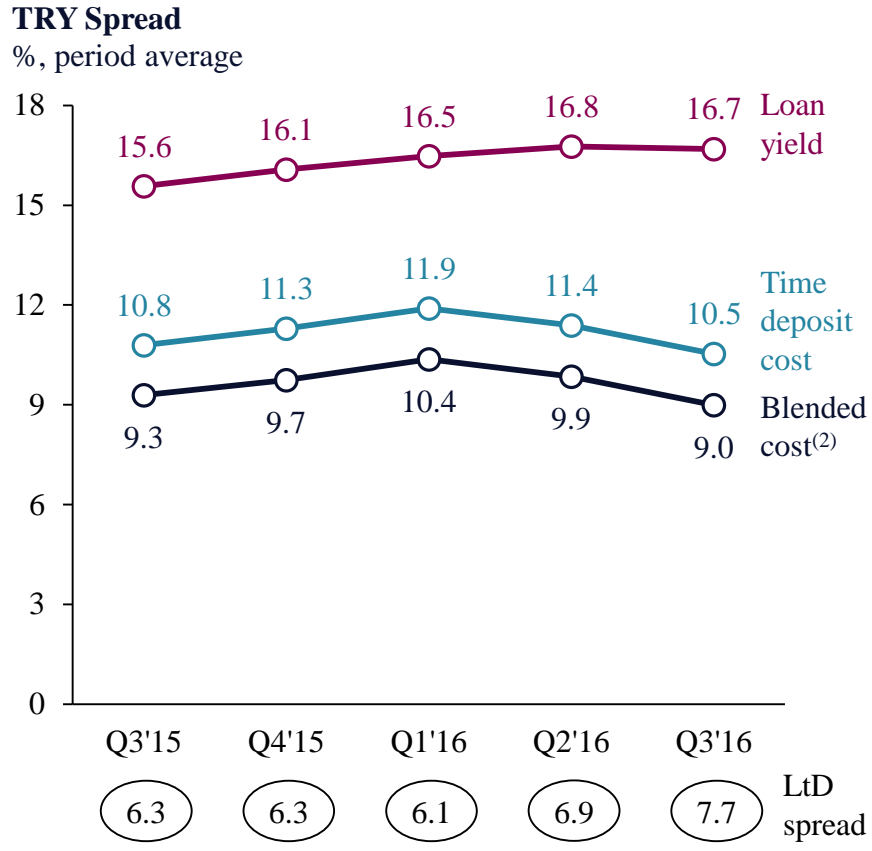
## Loan-to-deposit ratio<sup>(1)</sup>

%

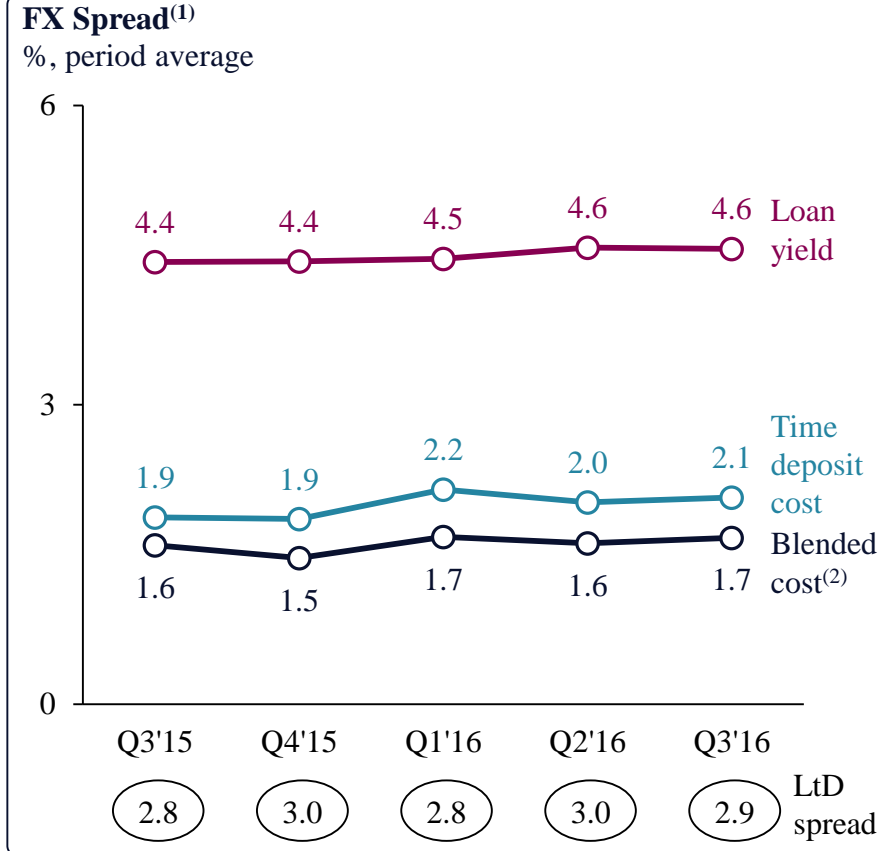


# Exceptional spread management in both TRY and FX fronts

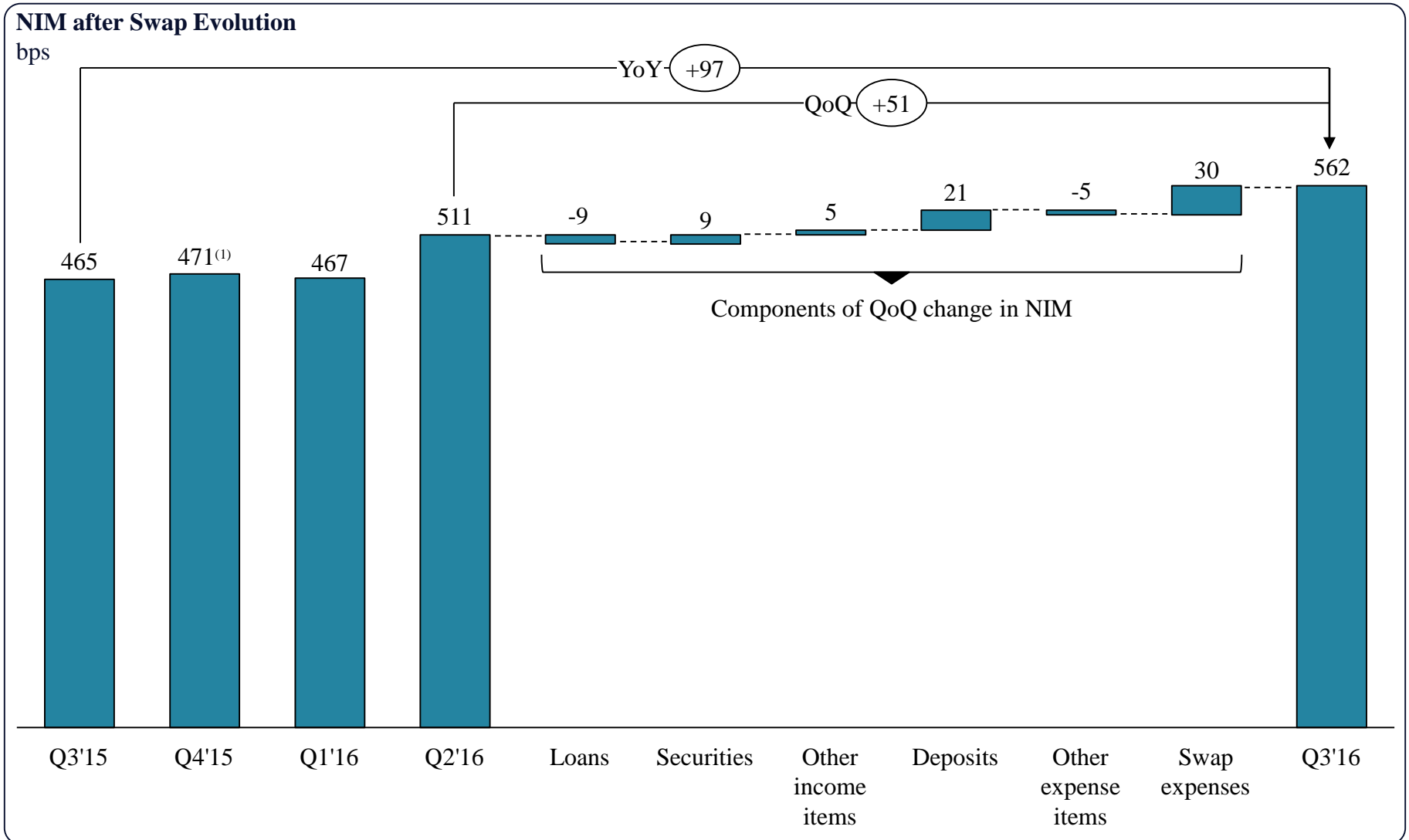
Loan-to-deposit spread expansion continued for TRY side with convergence of TRY deposit costs to market levels and resilient lending yields



Consistent loan-to-deposit spreads for FX side



# Further NIM expansion in Q3'16 driven mainly by improvements in TRY deposit costs and favorable funding mix...



# ...supported by improved funding costs post shareholder change

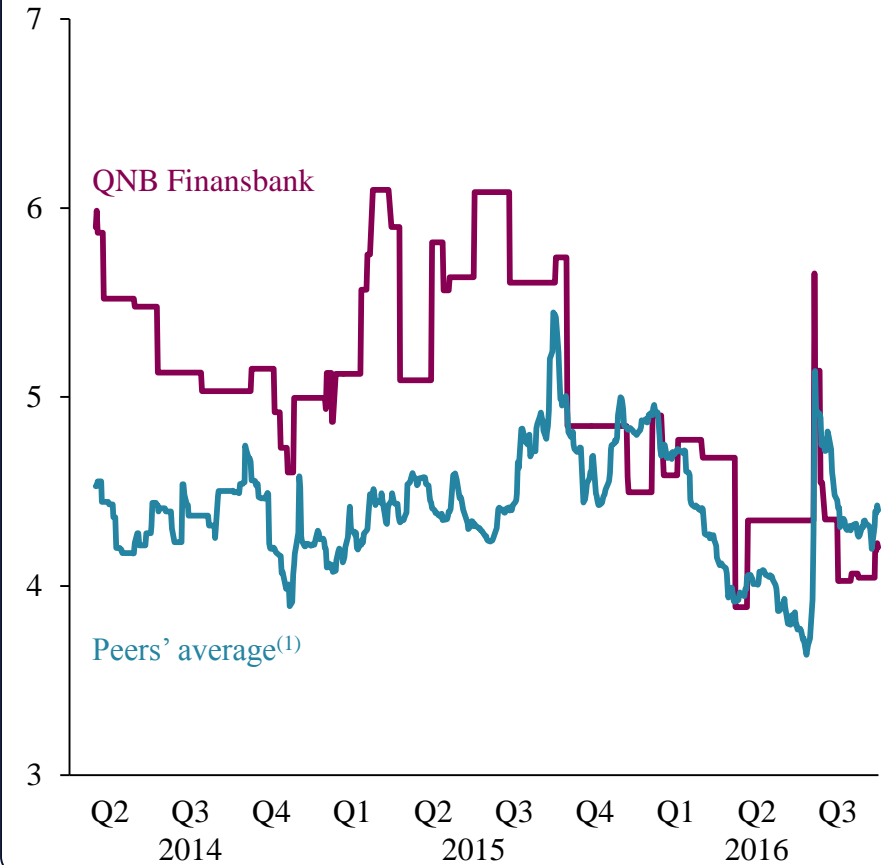
**QNB Finansbank's deposit interest rate costs are converging to the sector...**

**Gap with non-state banks in new time deposit pricing**  
bps



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

**Eurobond yields**  
Percent, 2014 issuances



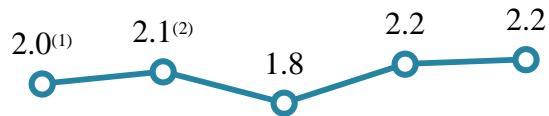
# Cost of risk at comfortable level

**7% YoY growth in fee generation excluding regulatory impact on account maintenance fees**

**CoR at stable level despite slowdown in loan growth and seasonal difficulties in collections**

## Cost of Risk

%



Q3'15    Q4'15    Q1'16    Q2'16    Q3'16

## Loan Composition

% of total loans

## SCoR

Q3'16, %

Credit cards<sup>(3)</sup>

13    14    13    13    13

3.7

General purpose loans

16    16    16    15    15

3.5

Mortgage

9    9    9    9    9

0.0

SME<sup>(4)</sup>

36    35    36    33    32

2.4

Corporate & Commercial

26    27    26    29    31

0.5

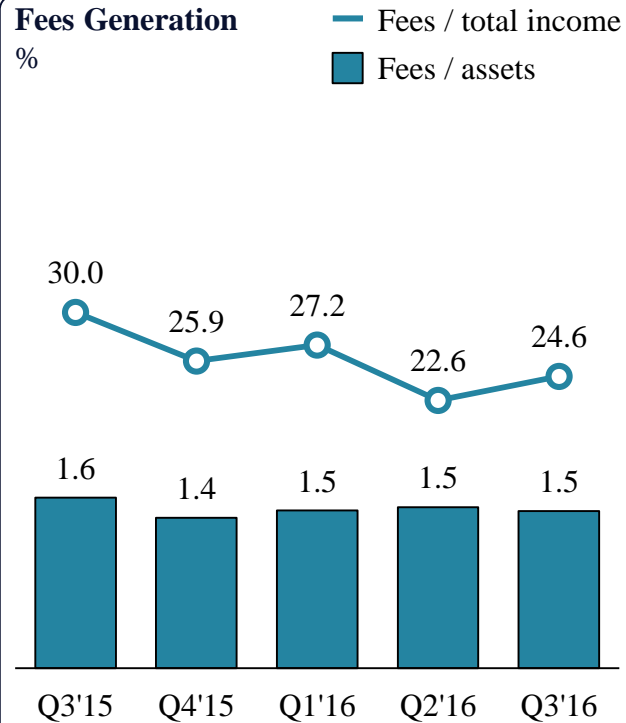
Q3'15    Q4'15    Q1'16    Q2'16    Q3'16

(1) Excluding reversal of TRY 46 mn free provisions. If included, Q3'15 CoR would be 1.7%.  
 (2) Excluding TRY 100 mn free provision. If included, Q4'15 CoR would be 2.8%  
 (3) Excluding commercial credit cards  
 (4) Based on BRSA segment definition

# Sustained fee generation despite regulatory interventions with strong performance across diversified business segments

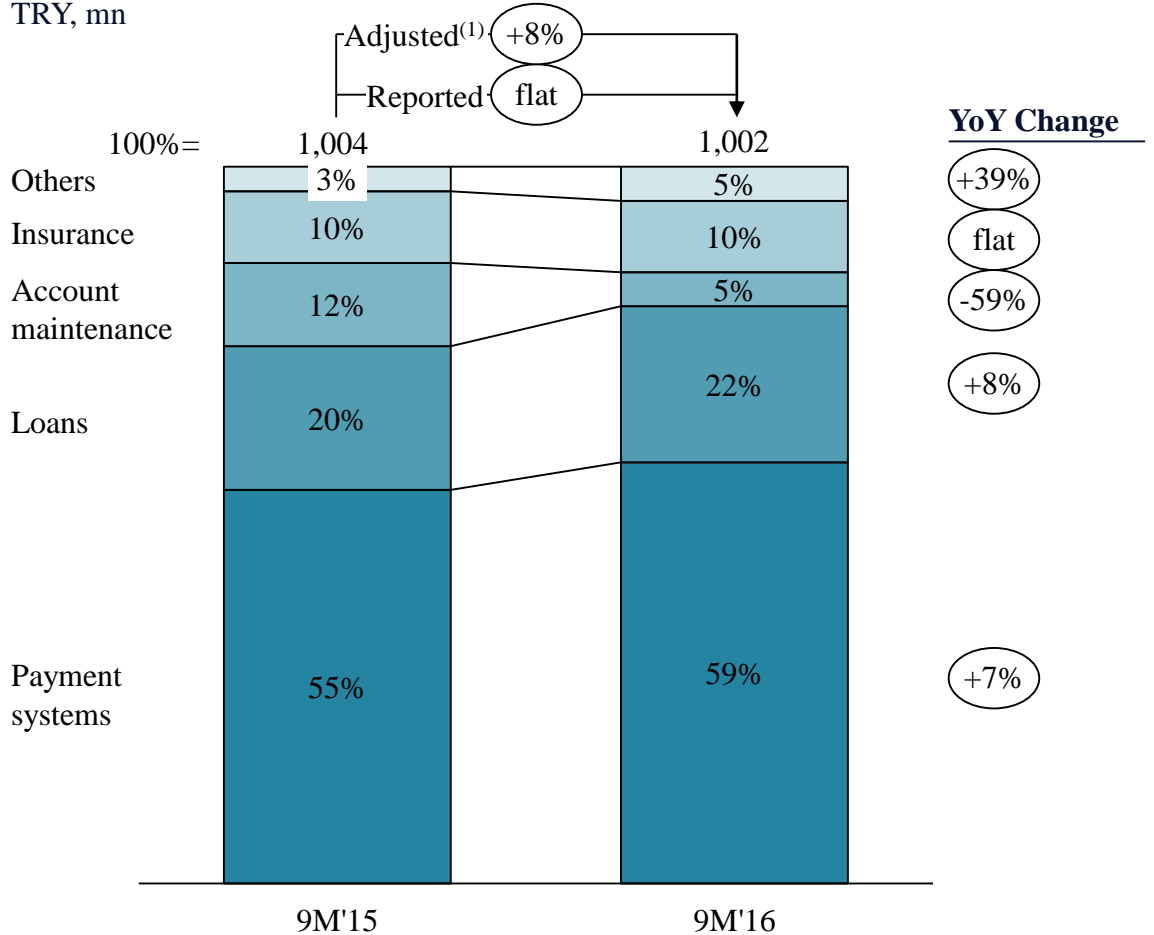
**8% YoY growth in fee generation excluding regulations impact on account maintenance fees**

**Fee generation at similar level as previous periods**



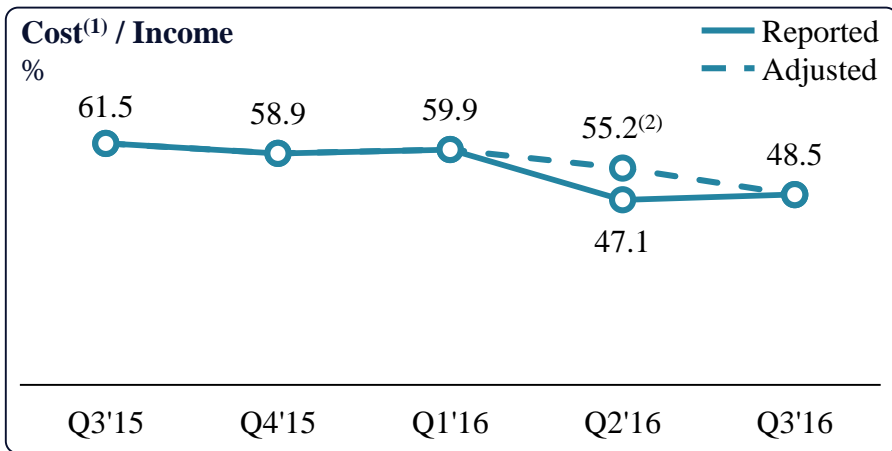
**Cumulative Net Fees and Commissions**

TRY, mn

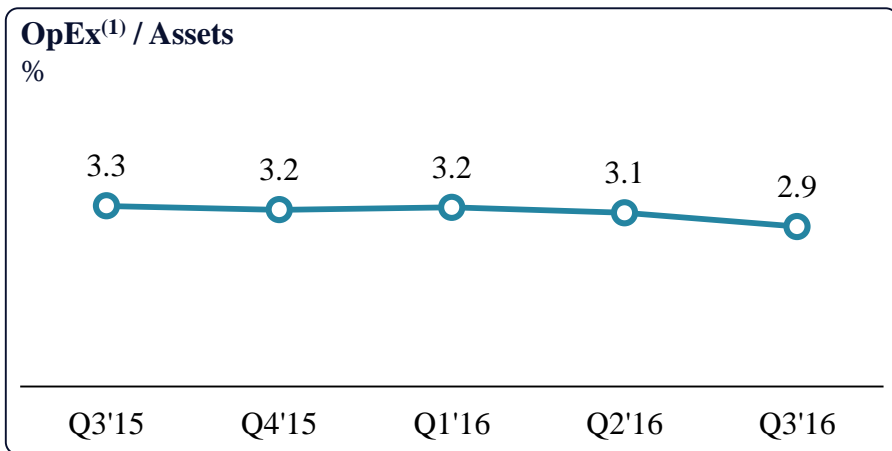


# Exceptional expense management yielding efficiency gains across all metrics

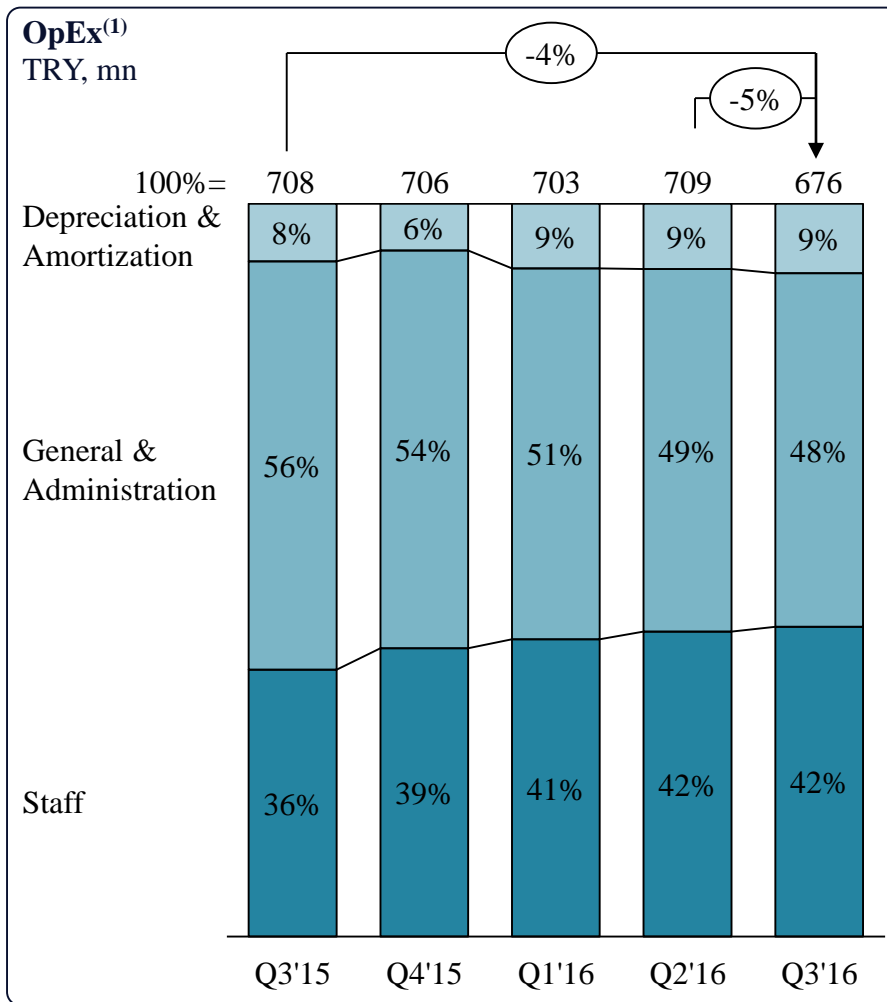
Continued improvement in efficiency without impact of one-off income items



Efficiency improvements generating growth with limited OpEx increase



OpEx contraction both on YoY and QoQ terms





## Strong bottom-line increase excluding one-off other income items in previous quarter

| TRY, mn  | Q3'15        | Q2'16              | Q3'16        | ΔQoQ        | ΔYoY       |
|--|--------------|--------------------|--------------|-------------|------------|
| Net Interest Income after Derivatives Expenses | 784          | 902                | 1,029        | 14%         | 31%        |
| Net Interest Income                            | 1,023        | 1,110              | 1,188        | 7%          | 16%        |
| Derivatives expenses                           | -239         | -208               | -159         | -24%        | -34%       |
| Net Fees & Commissions                         | 345          | 339                | 343          | 1%          | -1%        |
| Trading & Other Income <sup>(1)</sup>          | 22           | 262 <sup>(2)</sup> | 23           | -91%        | 5%         |
| <b>Total Operating Income</b>                  | <b>1,151</b> | <b>1,503</b>       | <b>1,395</b> | <b>-7%</b>  | <b>21%</b> |
| Provisions                                     | -240         | -321               | -334         | 4%          | 39%        |
| OpEx   | -708         | -709               | -676         | -5%         | -4%        |
| <b>Net Operating Income</b>                    | <b>204</b>   | <b>474</b>         | <b>385</b>   | <b>-19%</b> | <b>89%</b> |
| Taxation                                       | -35          | -84                | -86          | 3%          | 149%       |
| <b>Net Income</b>                              | <b>169</b>   | <b>391</b>         | <b>299</b>   | <b>-23%</b> | <b>77%</b> |

- **Substantial increase in total operating income** on YoY and QoQ basis, excluding one-off incomes of Visa Inc. share sale and NPL sale in Q2'16
- **NII increase** as the main source of total operating income growth due to improvement in deposit costs, favorable funding mix and resilient lending yields
- **Sustained fees and commissions generation** despite recent regulation on account maintenance fees
- **Stable provisioning expenses** excluding reversal in Q3'15
- **Substantial efficiency improvement** leading contraction in OpEX both for YoY and QoQ terms

# Appendix

A decorative graphic on the right side of the page, consisting of a dark purple background with a white and light purple folded corner effect, resembling the top-right corner of a page being turned over.

## Key financial ratios

|                      | All figures quarterly      | Q3'15               | Q4'15               | Q1'16  | Q2'16  | Q3'16  | ΔQoQ    | ΔYoY     |
|----------------------|----------------------------|---------------------|---------------------|--------|--------|--------|---------|----------|
| <b>Profitability</b> | RoAE                       | 7.6%                | 1.4%                | 7.1%   | 16.8%  | 12.5%  | -4.3pps | +4.9pps  |
|                      | RoAA                       | 0.8%                | 0.1%                | 0.7%   | 1.7%   | 1.3%   | -0.5pps | +0.5pps  |
|                      | Cost / Income              | 61.5%               | 58.9%               | 59.9%  | 47.1%  | 48.5%  | +1.3pps | -13.0pps |
|                      | NIM after swap expenses    | 4.7%                | 4.7%                | 4.7%   | 5.1%   | 5.6%   | +0.5pps | +1.0pps  |
| <b>Liquidity</b>     | Loans / Deposits           | 120.9%              | 121.8%              | 119.5% | 118.4% | 125.2% | +6.8pps | +4.3pps  |
|                      | Loans / (Dep. + TRY Bonds) | 118.3%              | 120.5%              | 117.6% | 116.7% | 122.2% | +5.6pps | +3.9pps  |
| <b>Asset Quality</b> | NPL Ratio                  | 5.9%                | 6.3%                | 6.6%   | 6.2%   | 6.5%   | +0.3pps | +0.6pps  |
|                      | Coverage                   | 79.9%               | 80.4%               | 81.2%  | 80.0%  | 80.8%  | +0.7pps | +0.9pps  |
|                      | Cost of Risk               | 2.0% <sup>(2)</sup> | 2.1% <sup>(3)</sup> | 1.8%   | 2.2%   | 2.2%   | +0.0pps | +0.2pps  |
| <b>Solvency</b>      | CAR                        | 15.0%               | 15.4%               | 14.7%  | 14.5%  | 14.5%  | flat    | -0.5pps  |
|                      | Tier I Ratio               | 11.6%               | 12.0%               | 12.7%  | 12.6%  | 12.5%  | flat    | +1.0pps  |
|                      | Leverage                   | 10.1                | 9.5                 | 9.5    | 9.8    | 9.7    | -0.1    | -0.4     |

## Balance sheet summary

|                                       | TRY, mn                     | Q3'15         | Q4'15         | Q1'16         | Q2'16         | Q3'16         | ΔQoQ      | ΔYoY      |
|---------------------------------------|-----------------------------|---------------|---------------|---------------|---------------|---------------|-----------|-----------|
| <b>Assets</b>                         | Cash & Banks <sup>(1)</sup> | 12,209        | 10,313        | 10,941        | 13,159        | 13,139        | 0%        | 8%        |
|                                       | Securities                  | 9,356         | 9,197         | 9,765         | 10,938        | 11,357        | 4%        | 21%       |
|                                       | Net Loans                   | 57,194        | 57,273        | 58,447        | 60,161        | 61,424        | 2%        | 7%        |
|                                       | Fixed Assets & Subsidiaries | 2,244         | 2,283         | 2,398         | 2,467         | 2,517         | 2%        | 12%       |
|                                       | Other                       | 9,406         | 6,661         | 5,802         | 5,922         | 5,551         | -6%       | -41%      |
|                                       | <b>Total Assets</b>         | <b>90,410</b> | <b>85,727</b> | <b>87,354</b> | <b>92,647</b> | <b>93,988</b> | <b>1%</b> | <b>4%</b> |
| <b>Liabilities &amp; Equity</b>       | Customer Deposits           | 47,306        | 47,009        | 48,920        | 50,800        | 49,062        | -3%       | 4%        |
|                                       | Borrowings                  | 20,296        | 18,835        | 19,176        | 21,589        | 24,602        | 14%       | 21%       |
|                                       | Bonds Issued                | 5,004         | 4,336         | 4,725         | 3,379         | 3,906         | 16%       | -22%      |
|                                       | Funds Borrowed              | 6,962         | 5,640         | 5,922         | 7,164         | 8,755         | 22%       | 26%       |
|                                       | Sub-debt                    | 2,820         | 2,662         | 2,627         | 2,650         | 2,780         | 5%        | -1%       |
|                                       | Bank Deposit                | 1,466         | 1,557         | 1,652         | 2,234         | 2,409         | 8%        | 64%       |
|                                       | Repo                        | 4,044         | 4,639         | 4,250         | 6,162         | 6,752         | 10%       | 67%       |
|                                       | Other                       | 13,870        | 10,860        | 10,090        | 10,813        | 10,620        | -2%       | -23%      |
|                                       | Equity                      | 8,937         | 9,024         | 9,166         | 9,445         | 9,704         | 3%        | 9%        |
| <b>Total Liabilities &amp; Equity</b> | <b>90,410</b>               | <b>85,727</b> | <b>87,354</b> | <b>92,647</b> | <b>93,988</b> | <b>1%</b>     | <b>4%</b> |           |

## Year to date income statement

| TRY, mn  | 9M'15        | 9M'16        | ΔYoY       |
|--|--------------|--------------|------------|
| Net Interest Income after Derivatives Expenses | 2,298        | 2,732        | 19%        |
| Net Interest Income                            | 2,837        | 3,292        | 16%        |
| Derivatives expenses                           | -538         | -560         | 4%         |
| Net Fees & Commissions                         | 1,004        | 1,002        | 0%         |
| Trading & Other Income <sup>(1)</sup>          | 310          | 338          | 9%         |
| <b>Total Operating Income</b>                  | <b>3,613</b> | <b>4,072</b> | <b>13%</b> |
| Provisions                                     | -769         | -921         | 20%        |
| OpEx   | -2,032       | -2,088       | 3%         |
| <b>Net Operating Income</b>                    | <b>812</b>   | <b>1,063</b> | <b>31%</b> |
| Taxation                                       | -138         | -212         | 53%        |
| <b>Net Income</b>                              | <b>673</b>   | <b>851</b>   | <b>26%</b> |

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