

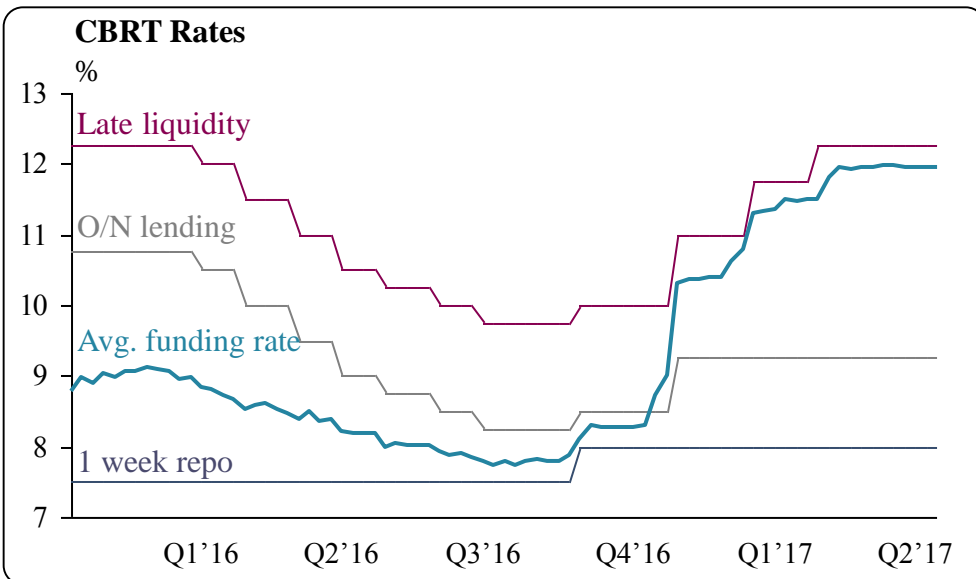


QNB Finansbank Q2'17 Earnings Presentation

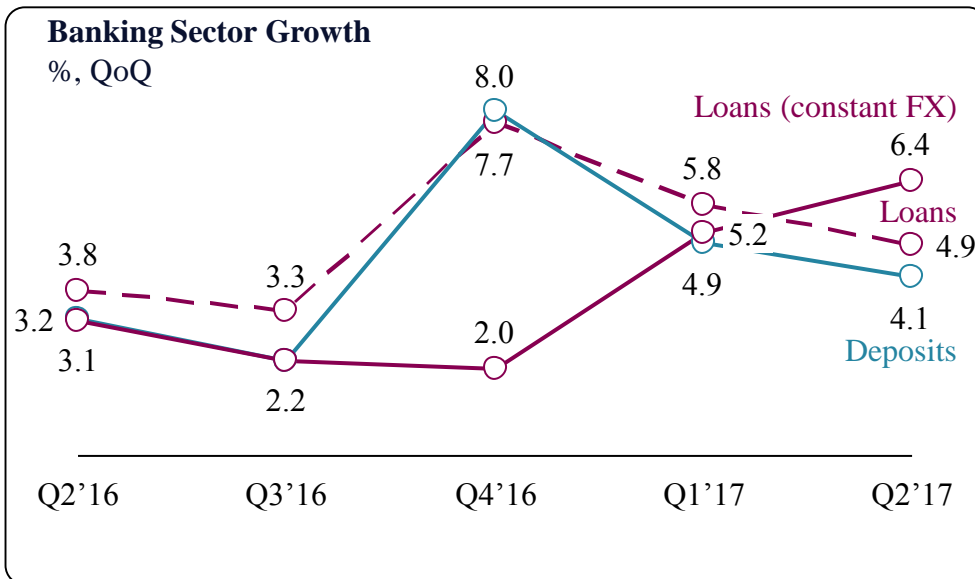
July 2017

Banking sector growth continued in Q2'17 thanks to accommodative policy measures

Macro Dynamics



Banking Sector Dynamics



- FED raised interest rate by 50 bps, in total, in March and June as the U.S. labour market indicators continued to improve
- Despite uncertainties about inflation outlook, FOMC anticipates one more rate hike within this year
- While Eurozone economic activity continued to increase, ECB maintains its commitment to keep interest rates low and continue asset purchases
- CBRT tightened monetary policy as inflation hit double-digits due to currency depreciation
- TRL recovered on account of CBRT's tightening as well as improvement in global risk appetite

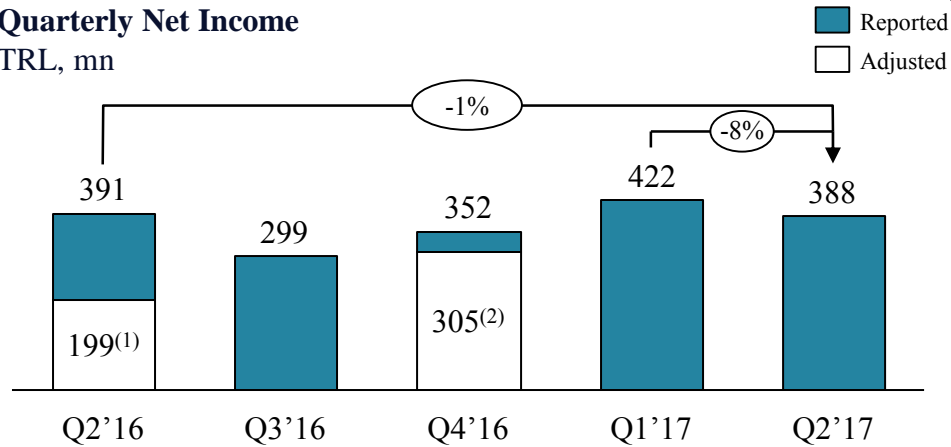
- Growth continued in banking sector loans and deposits with support of accommodative policy measures
- Credit Guarantee Fund (CGF) program supported the fast paced loan growth in first half of 2017
- Pressure on funding costs tended to rise due to acceleration in lending growth and tightening in monetary policy
- Asset quality of sector showed strong improvement through the period thanks to resurgence of SME lending backed by CGF program

Strong profitability continued with controlled asset quality and comfortable capital position

Sustained strong net income performance

Quarterly Net Income

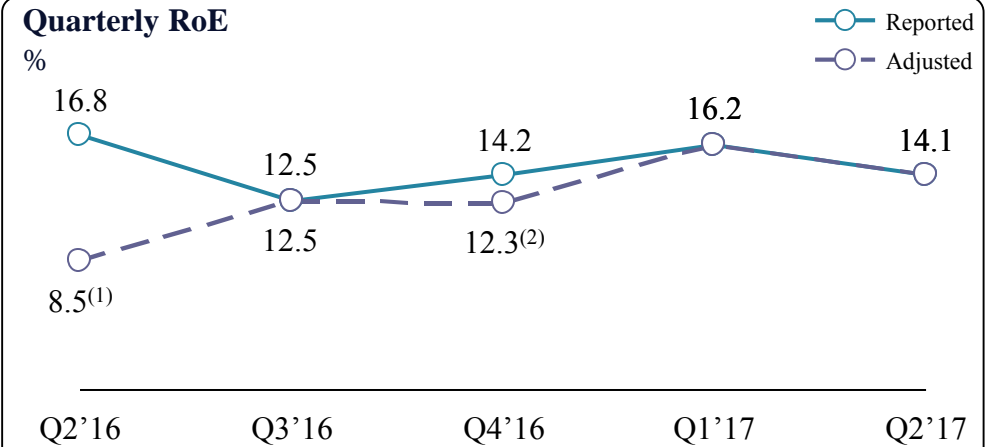
TRL, mn



RoE consistently on upwards trend with strong boost over 2016

Quarterly RoE

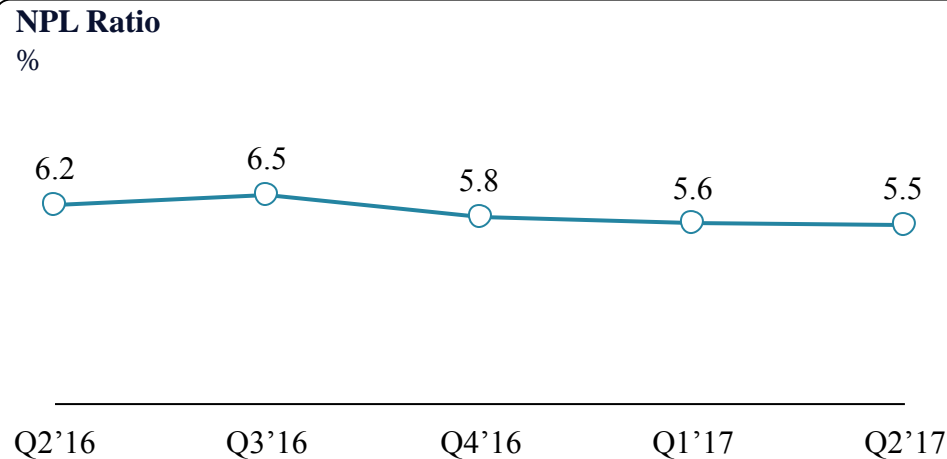
%



Ongoing asset quality improvement

NPL Ratio

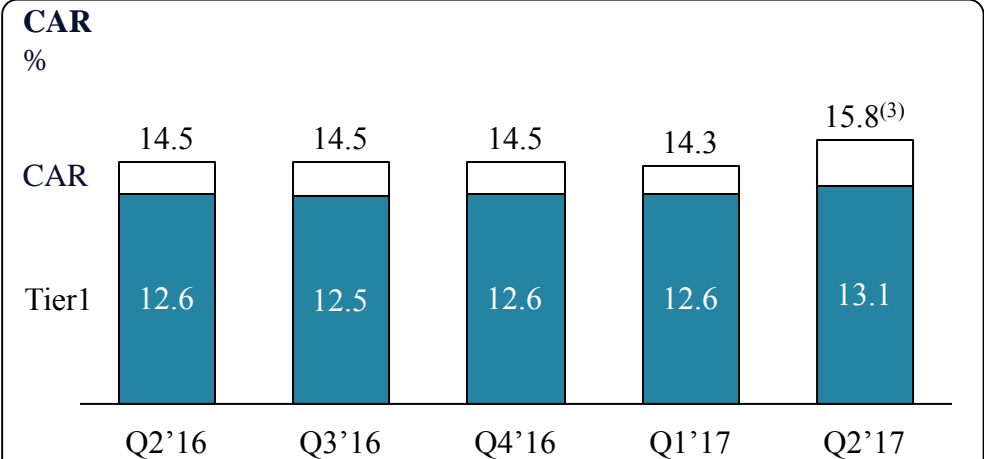
%



Strong capital adequacy; additional buffers remain

CAR

%



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

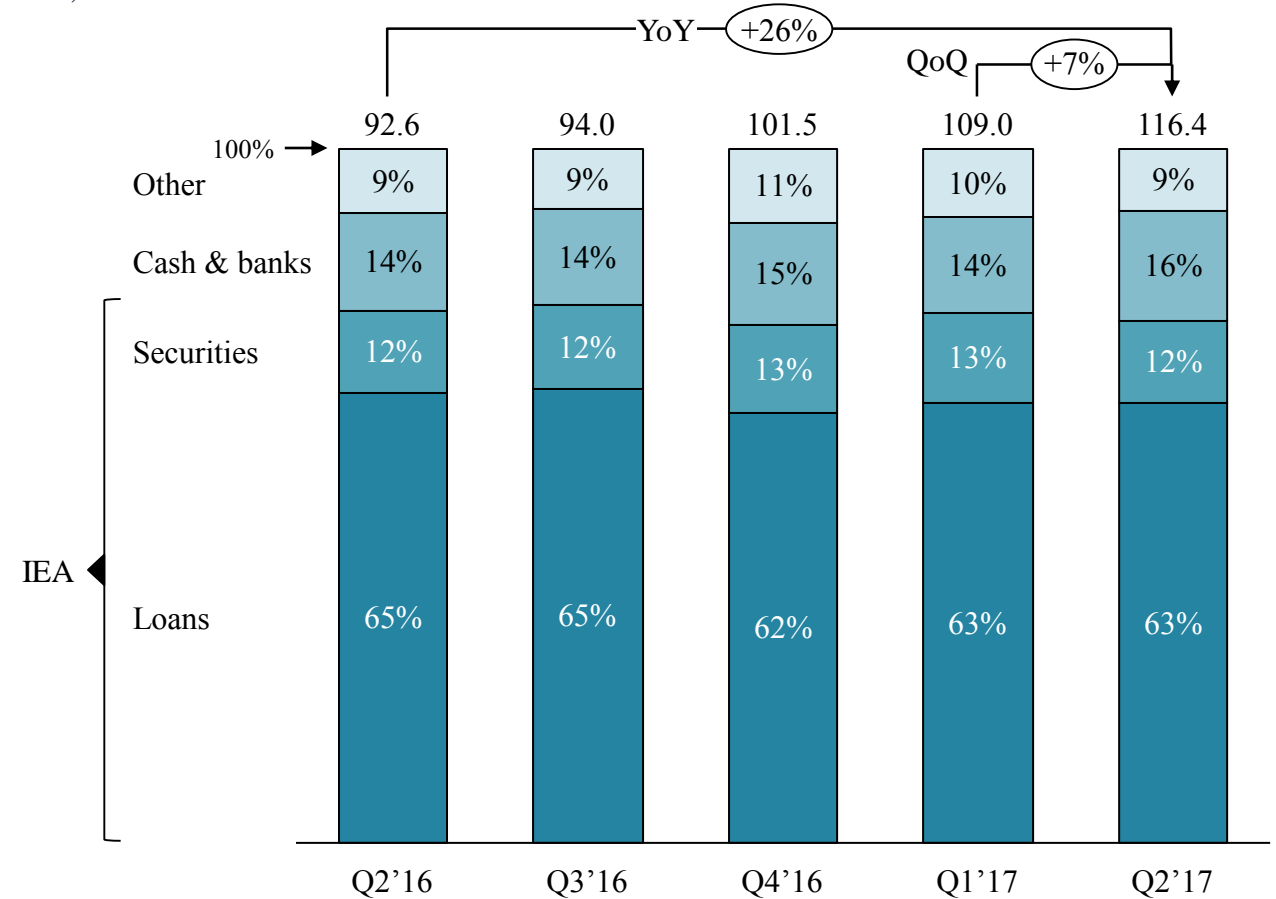
(2) Excluding TRL 94mn NPL sale and including TRL 30.8mn provision for RUSF penalty (after tax impact of TRL 75mn and TRL 28.1mn respectively)

(3) Additional 200bps capital buffers due to potential conversion of USD 650mn of Basel II compliant sub-loans

Asset size exceeded TRL 116bn, with ongoing strong growth in Q2

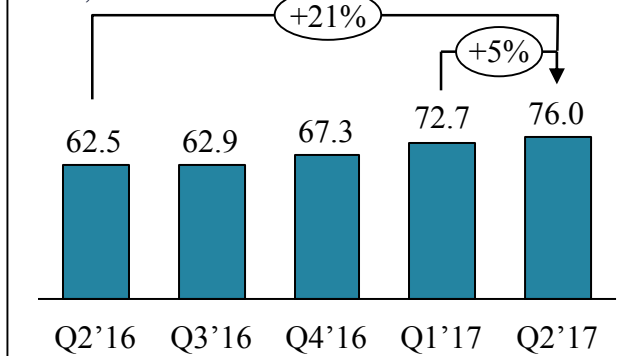
Loan heavy balance sheet

Total Assets
TRL, bn



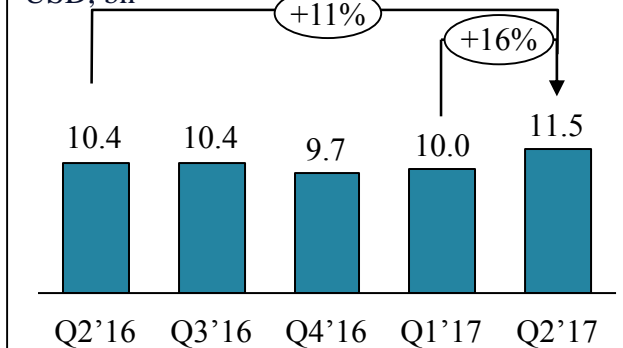
Strong TRL asset growth

TRL Assets
TRL, bn



Strong FX asset growth supported with both business loans and FX securities

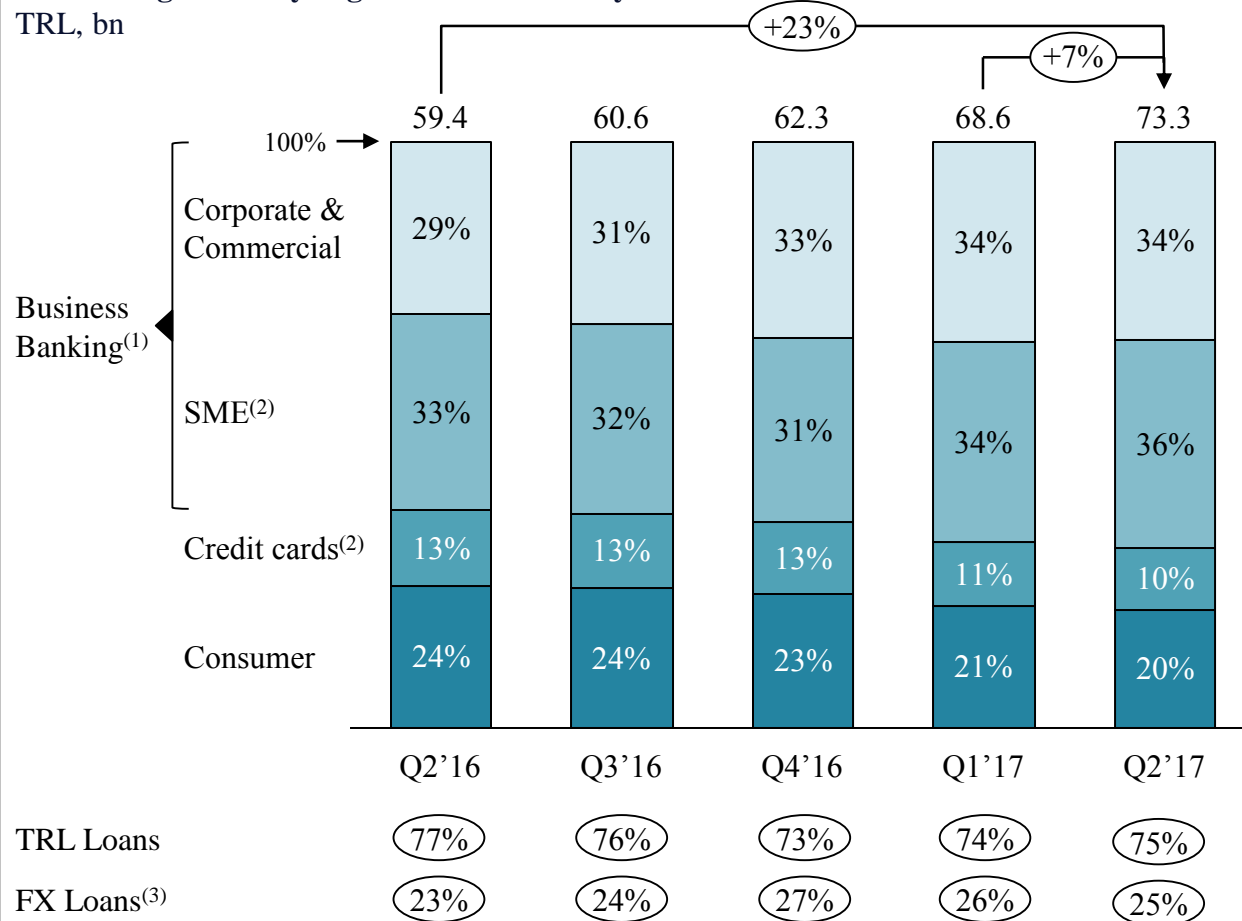
FX Assets⁽¹⁾
USD, bn



Sustained and successful execution of the growth strategy...

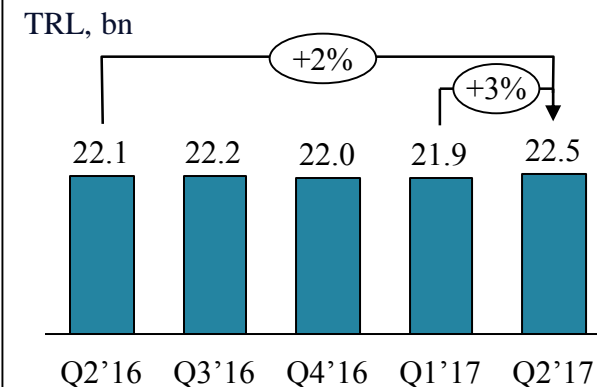
Loan book continued to shift towards business banking with strong growth in 2017

Performing Loans by Segment and Currency



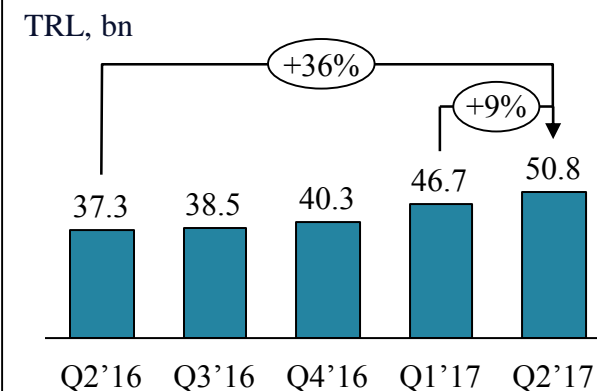
Retail loans are almost flat over the period with growth returning in Q2'17

Retail Loans



Significant growth in business loans

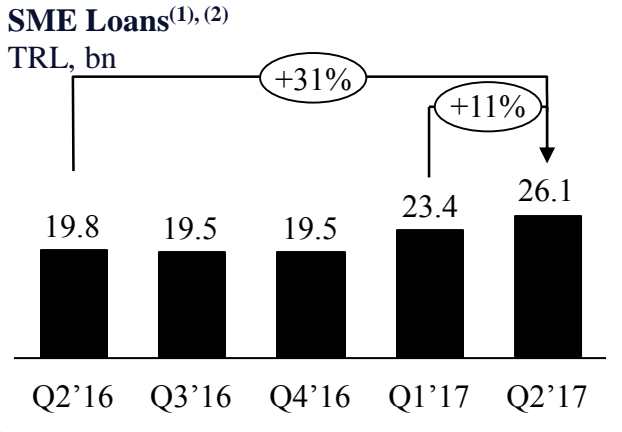
Business Loans



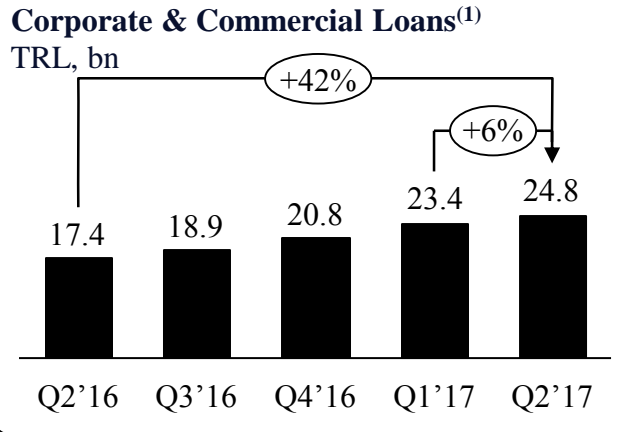
... focused on business banking loans and selective retail banking segments

Business banking
 Retail banking

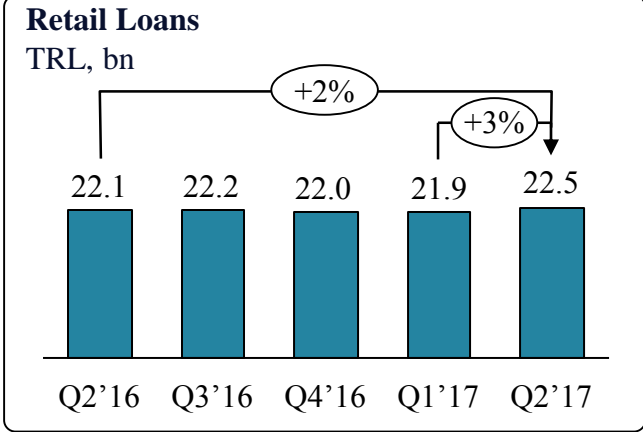
Strong SME loan growth with focused use of CGF program



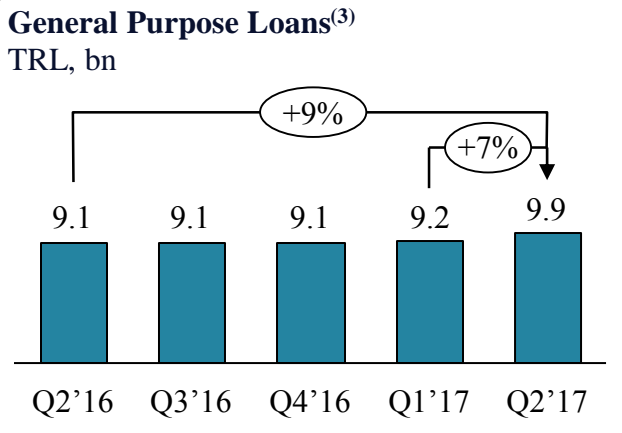
Strong growth in Corporate & Commercial loans



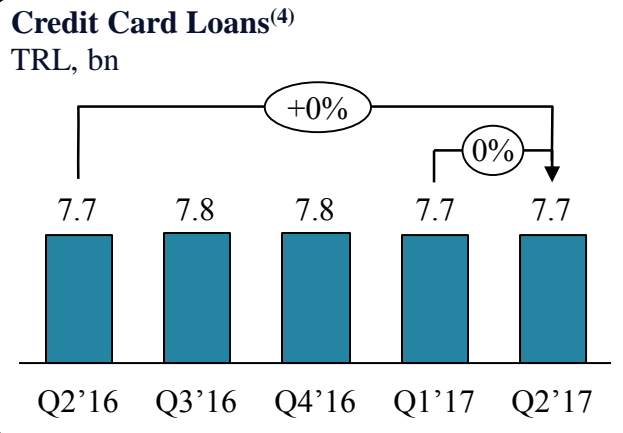
Selective growth in retail loans...



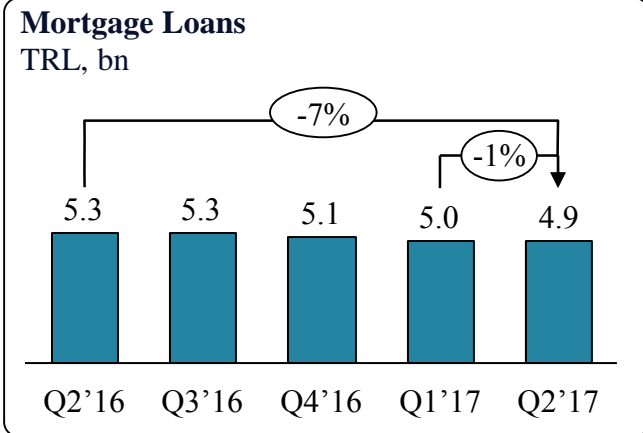
... with above market growth returning to GPLs in Q2'17...



... stabilized volume in credit cards...



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



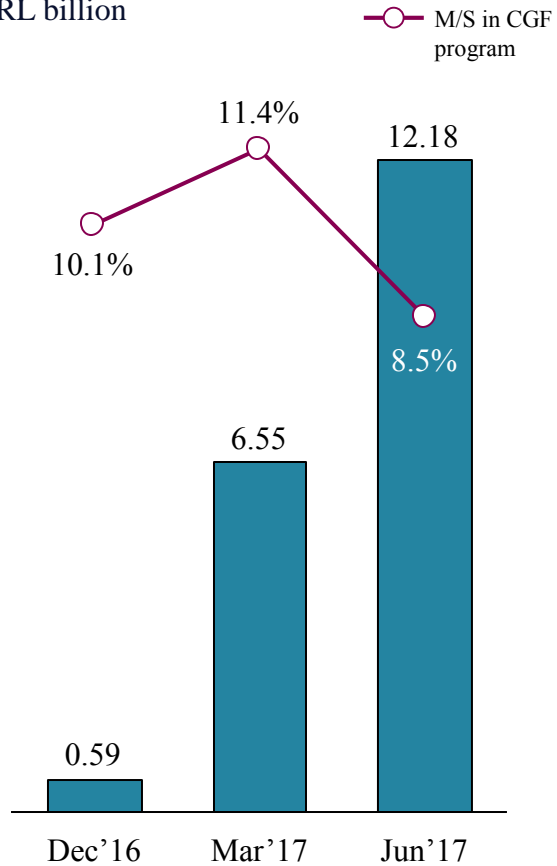
(1) Based on BRSA segment definition
 (2) Excluding commercial credit cards
 (3) Including overdraft
 (4) Credit card outstanding from individual clients

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

Strong and proactive pick-up of CGF program ...

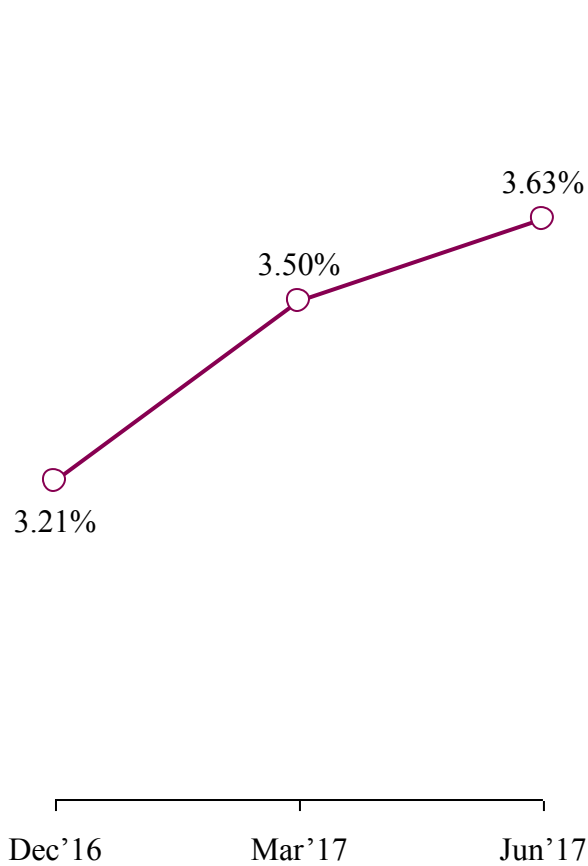
Volume of CGF guaranteed loans

TRL billion



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

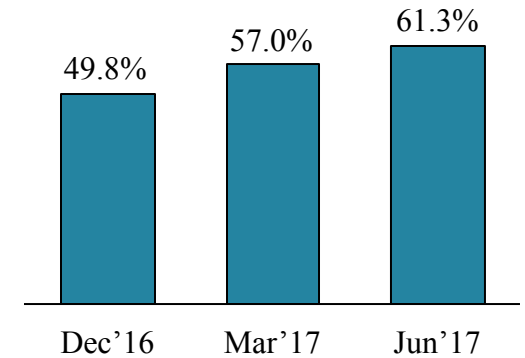
Business loan market share



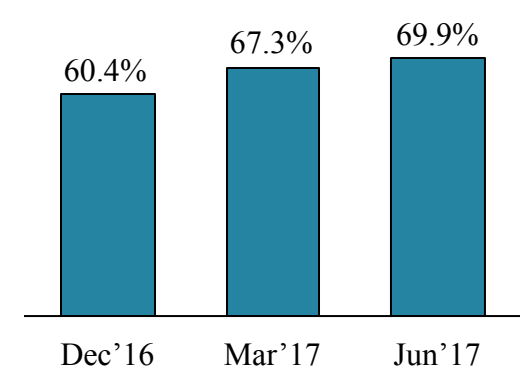
... and portfolio collateralization

Collateralization ratio⁽²⁾

Small enterprises

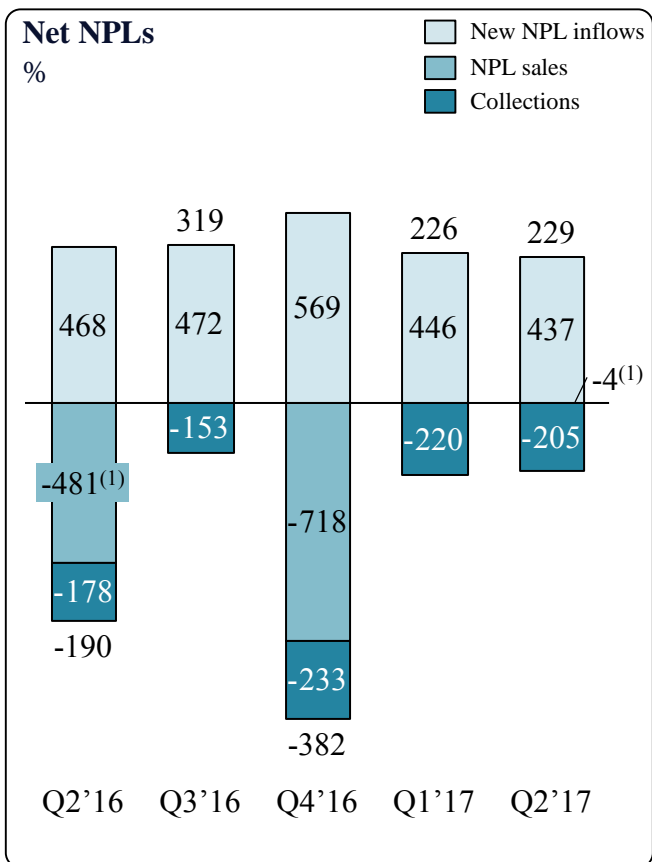


Medium enterprises

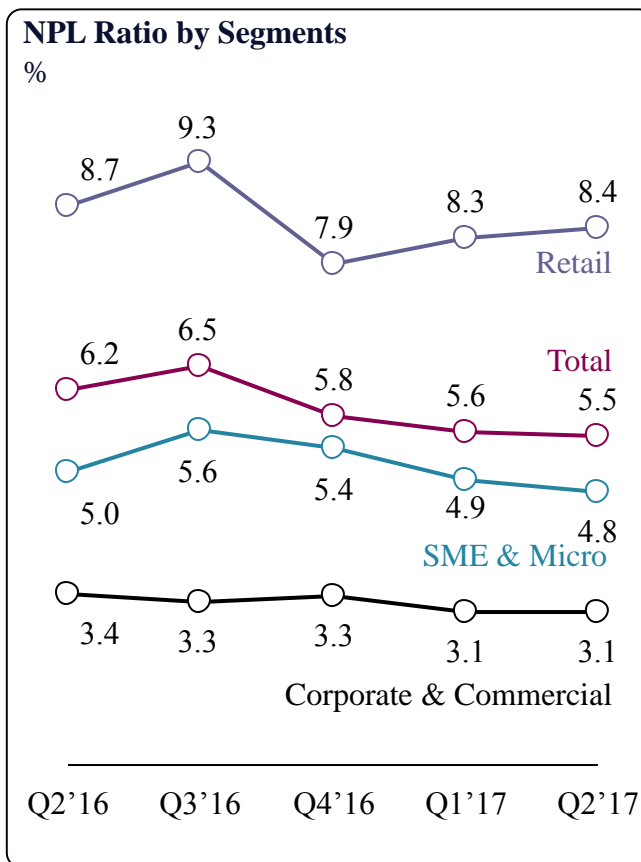


Controlled asset quality with high coverage ratios

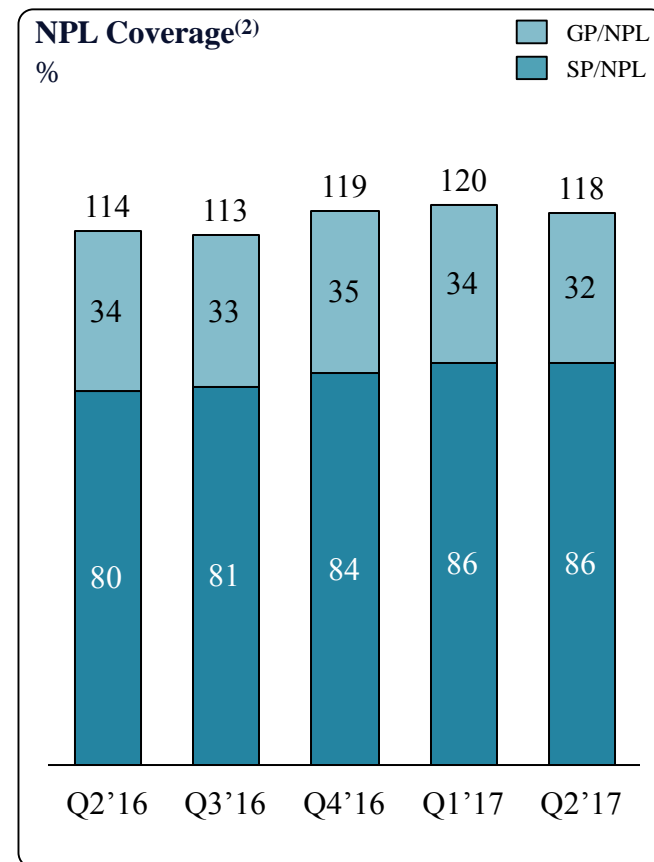
Continuous NPL inflows with strong collection performance



Improving NPL ratios thanks to stringent risk measures and improving market trends

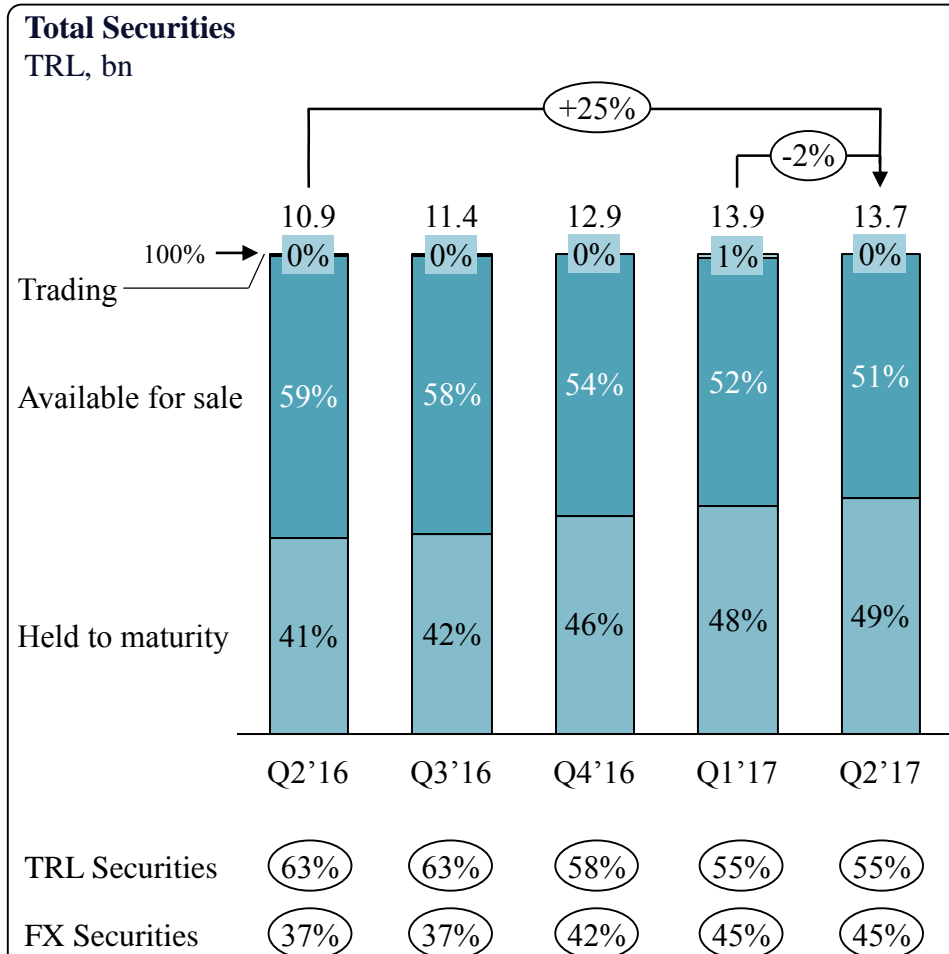


NPLs are well covered through general and specific provisions

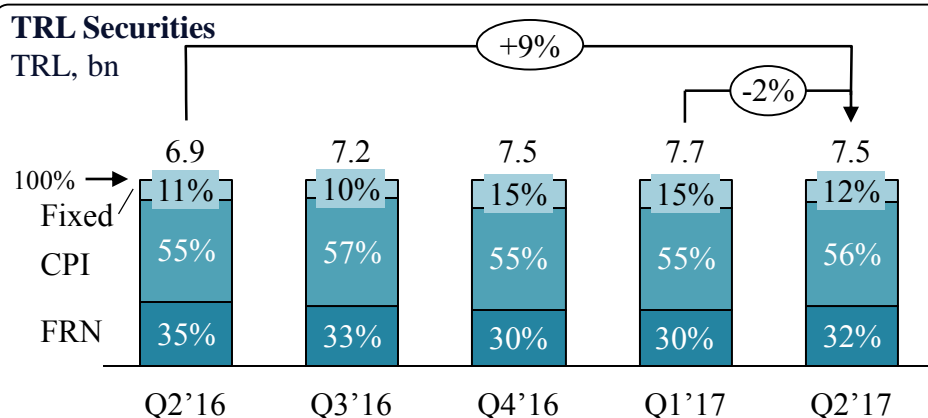


Securities portfolio relatively stable in Q2'17, making up 12% of assets

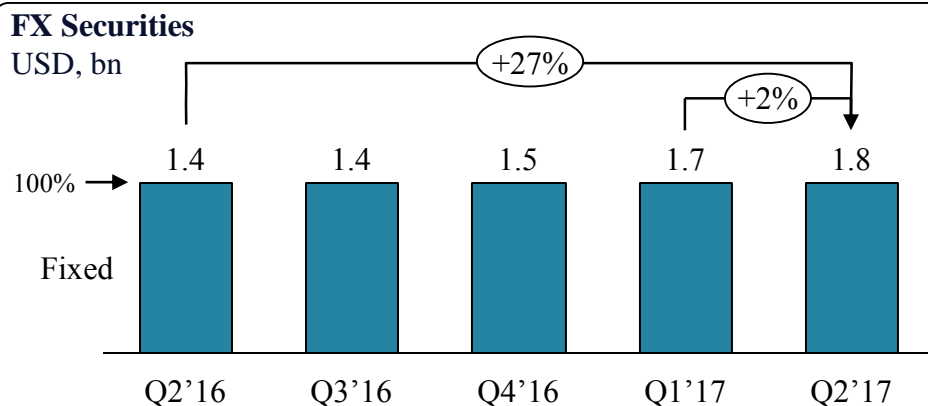
Growth in securities portfolio largely driven by FX securities



88% of TRL securities are indexed / variable rate

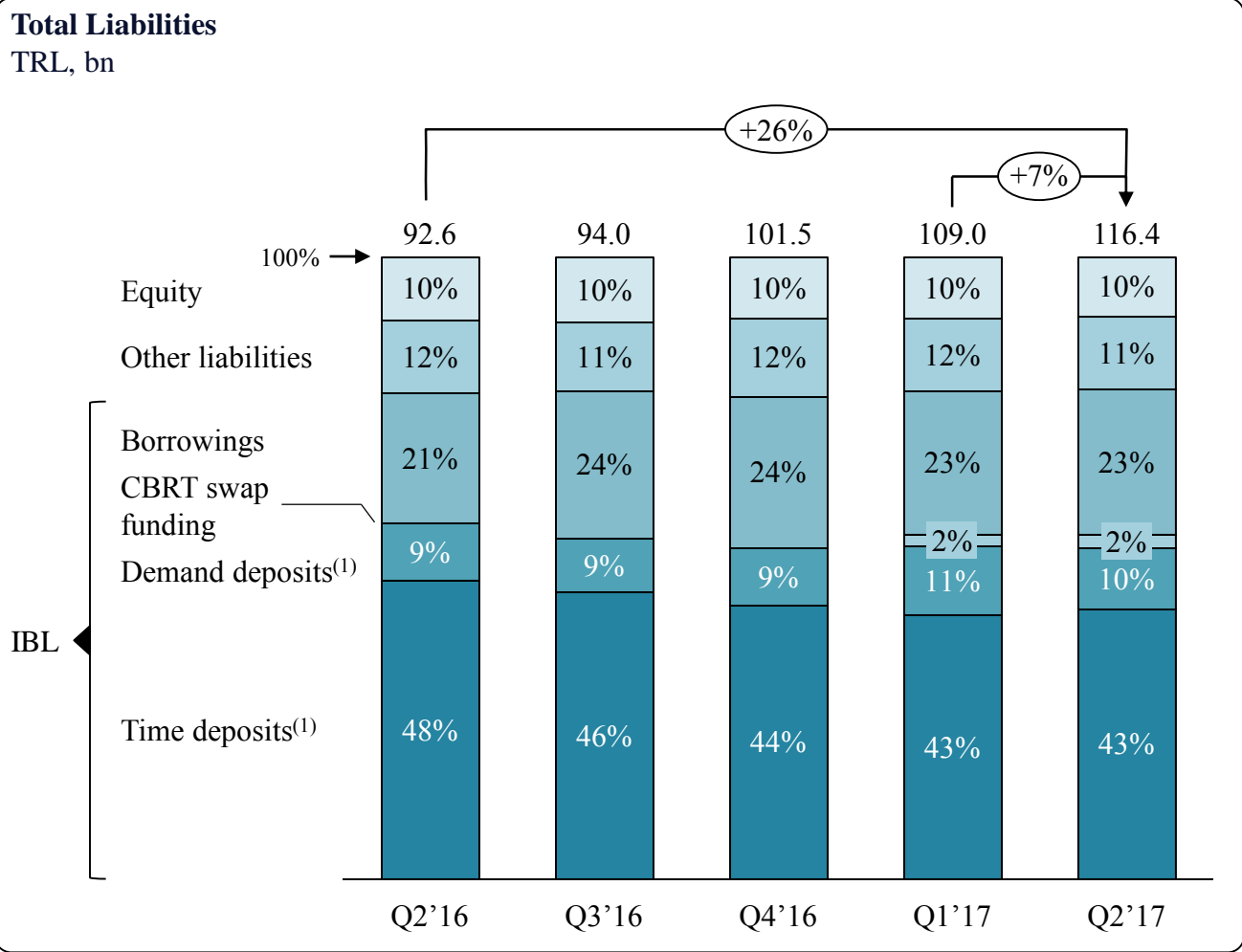


Sustained and strong growth in FX securities

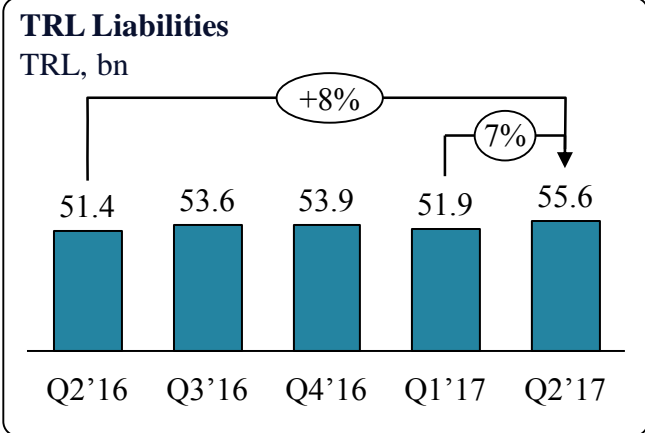


Well-diversified funding structure underpinned by solid deposit base

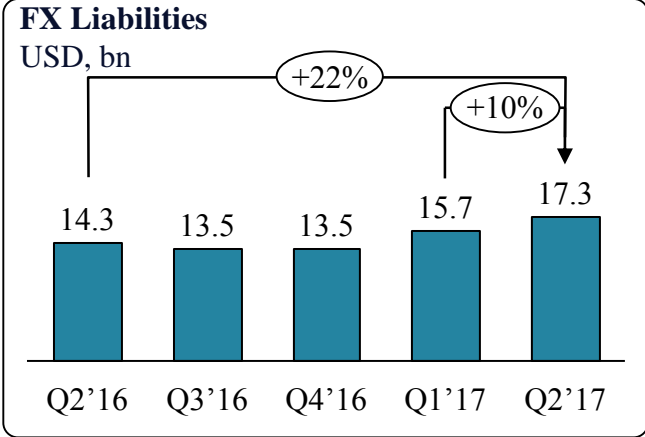
Use of diversified funding sources while leveraging new shareholder structure to refrain from deposit competition



Strong quarterly growth in TRL liabilities



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



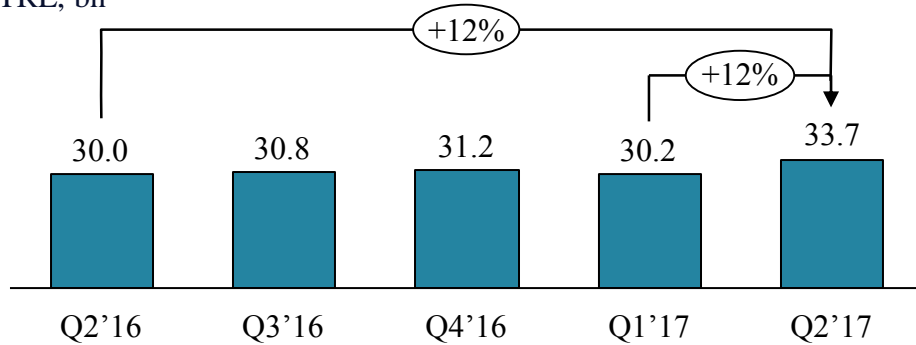
(1) Includes bank deposits

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

Stable TRL customer deposits growth with selective exit from price sensitive clients

TRL customer deposits

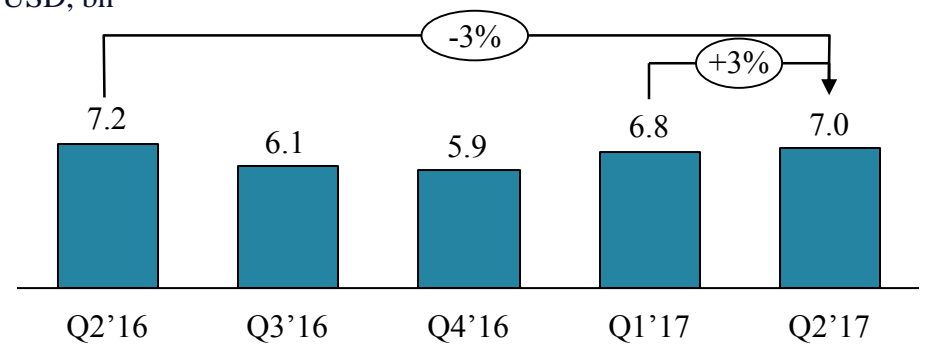
TRL, bn



Recent growth in FX customer deposits in line with sector

FX customer deposits

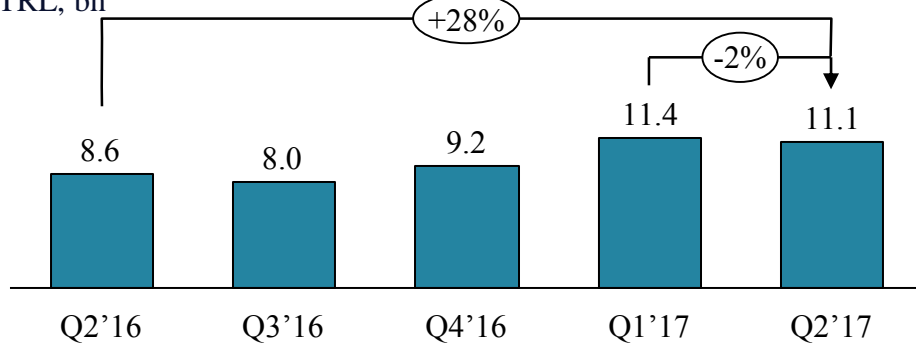
USD, bn



Impressive YTD growth in demand deposits; quarterly decline due to partial conversion of FX demand deposits to TRL time deposits

Customer demand deposits

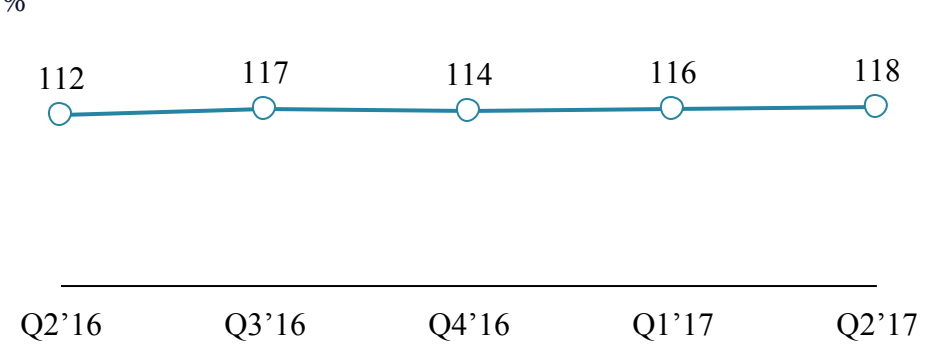
TRL, bn




Loan-to-deposit ratio in line with the sector

Loan-to-deposit ratio⁽¹⁾

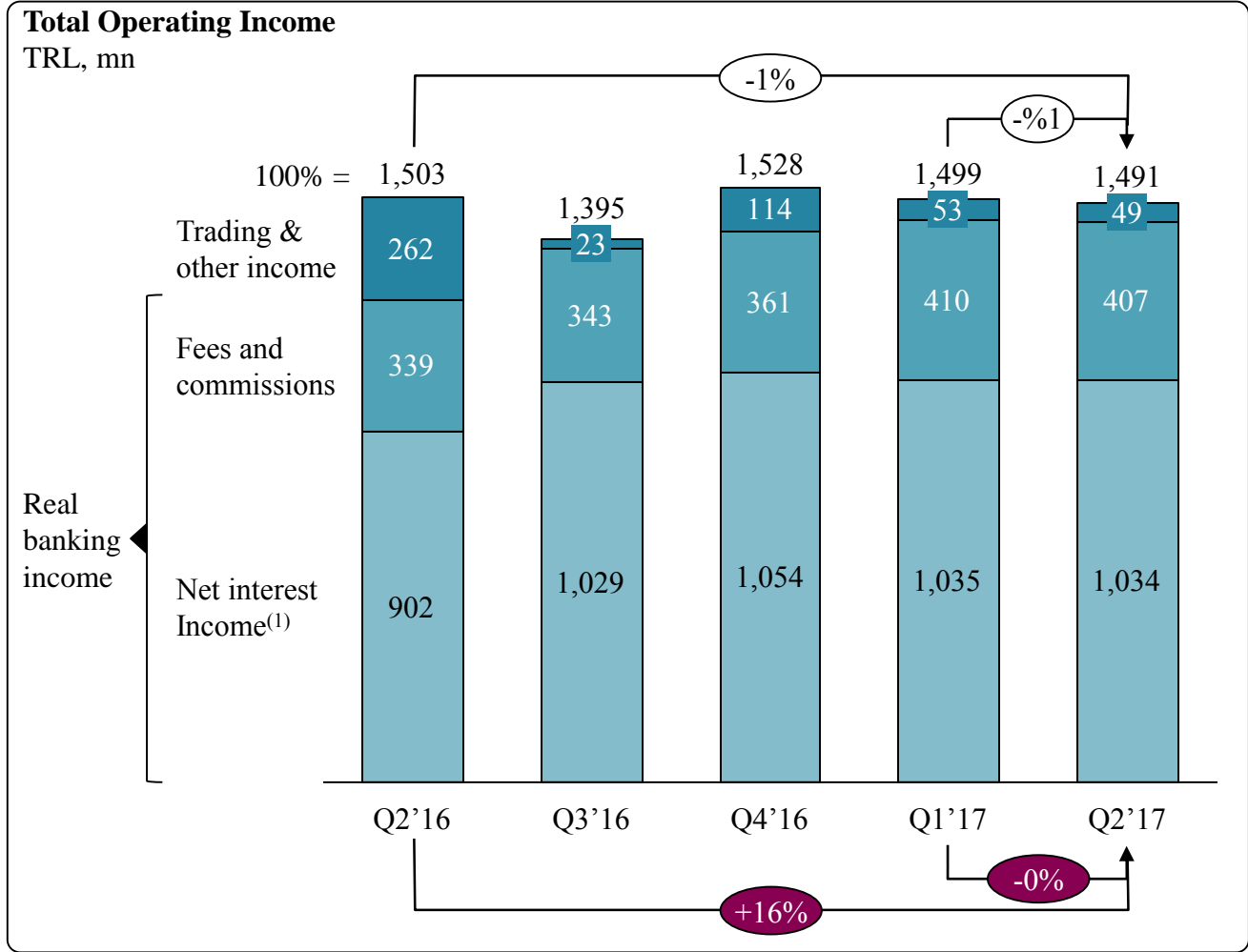
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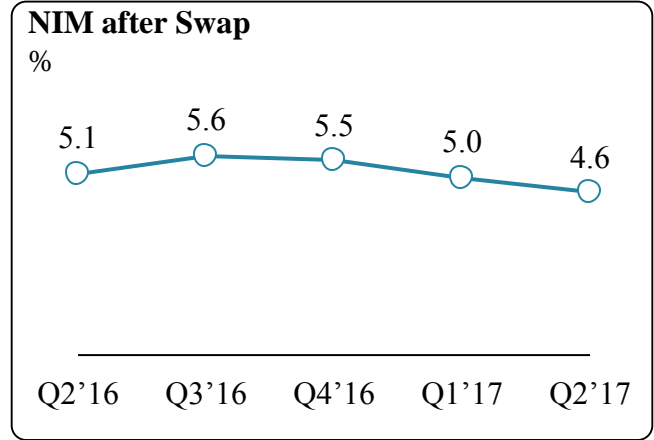
Focus on real banking income generation

 Real banking growth

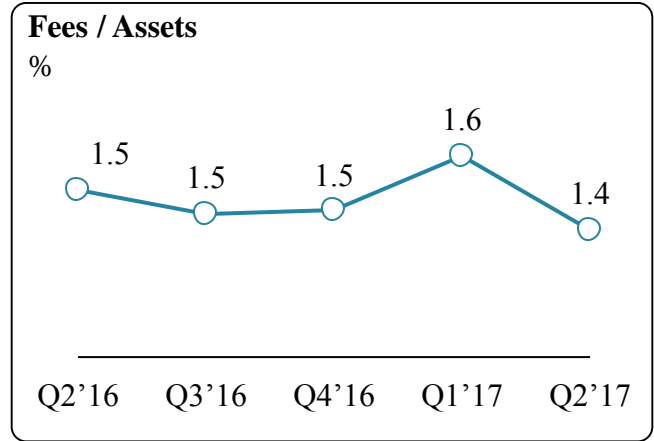
Operating income driven from core banking activities



Slight decline in NIM⁽¹⁾ due to change in business mix, high growth and regulatory impact⁽²⁾



Stable fee generation despite regulations⁽³⁾



(1) Including swap expenses

(2) Interest rate cap in cards and O/D reduced from 2.02% per month to 1.84% per month as of January 1, 2017

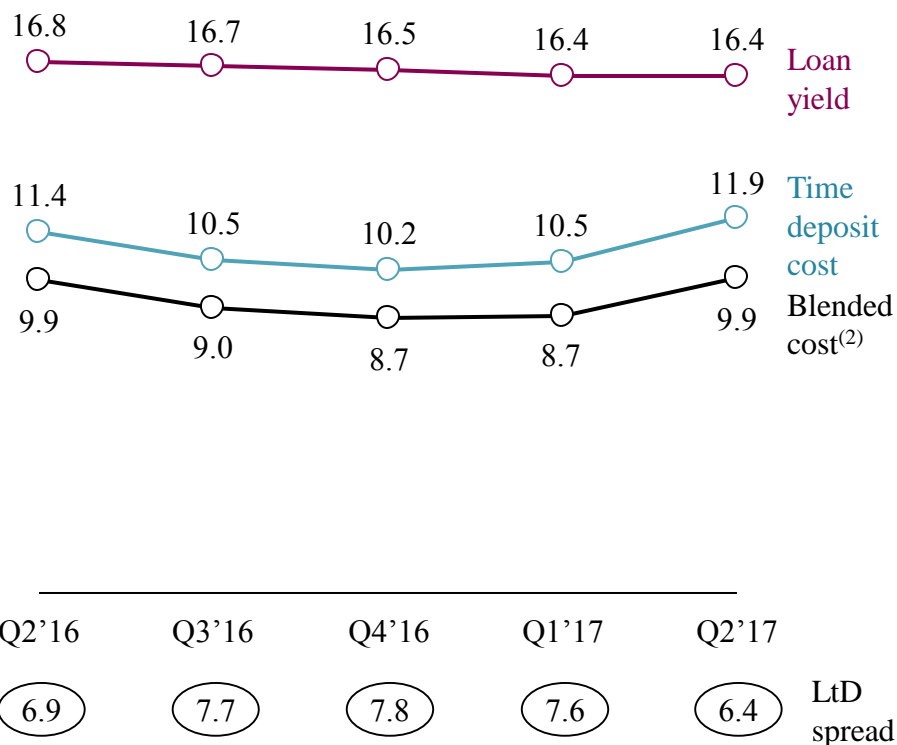
(3) Loan commissions are not allowed on CGF collateralized loans

Exceptional spread management in both TRL and FX fronts

Resilient TRL loan yields in high growth environment; some LtD spread decline due to high deposit competition in market and loan growth outpacing market

TRL Spread

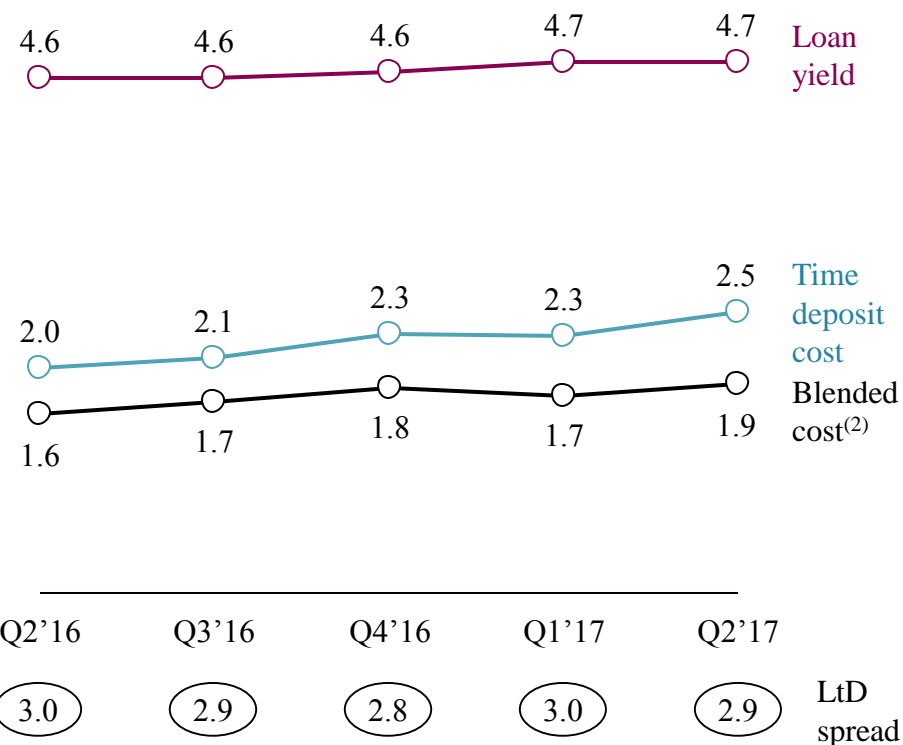
%, period average



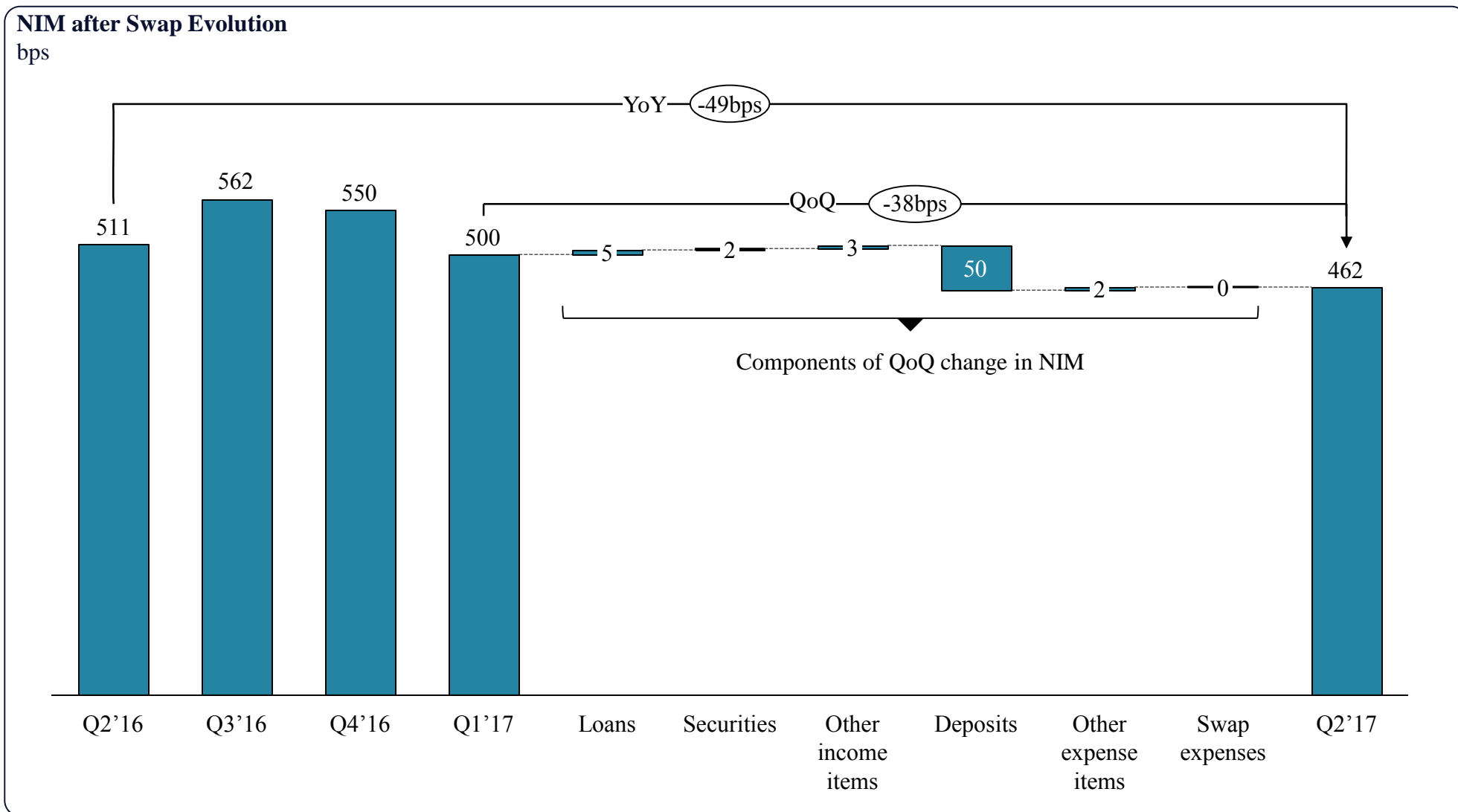
Stable loan-to-deposit spreads for FX side

FX Spread⁽¹⁾

%, period average



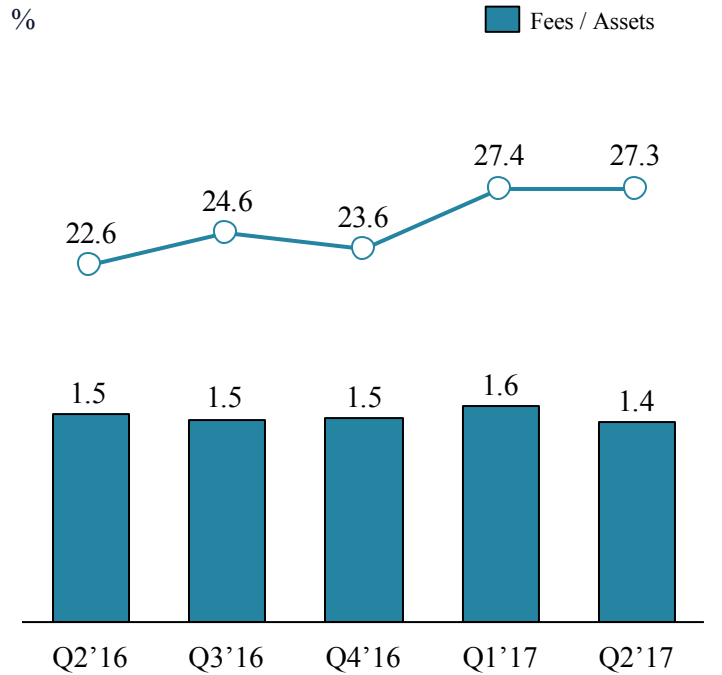
Strong NIM expansion throughout 2016 showed some decline in 2017 due to shift in loan mix, increasing deposit competition and loan growth outpacing market



Sustained fee generation with strong performance across diversified business segments

Recovery in fees thanks to loan growth related fee generation

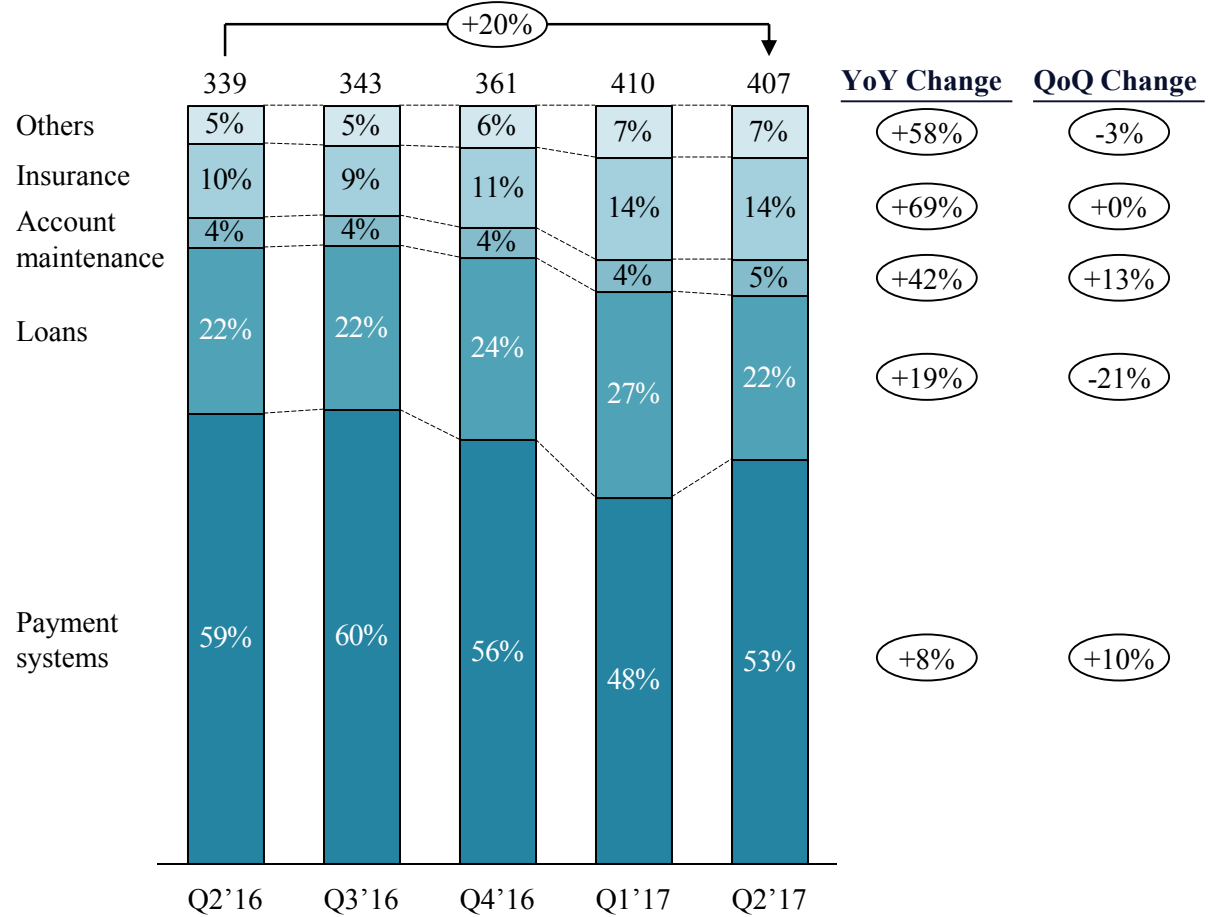
Fee generation



20% YoY growth in fee generation driven by strong performance across diversified business segments

Net Fees and Commissions

TRL, mn

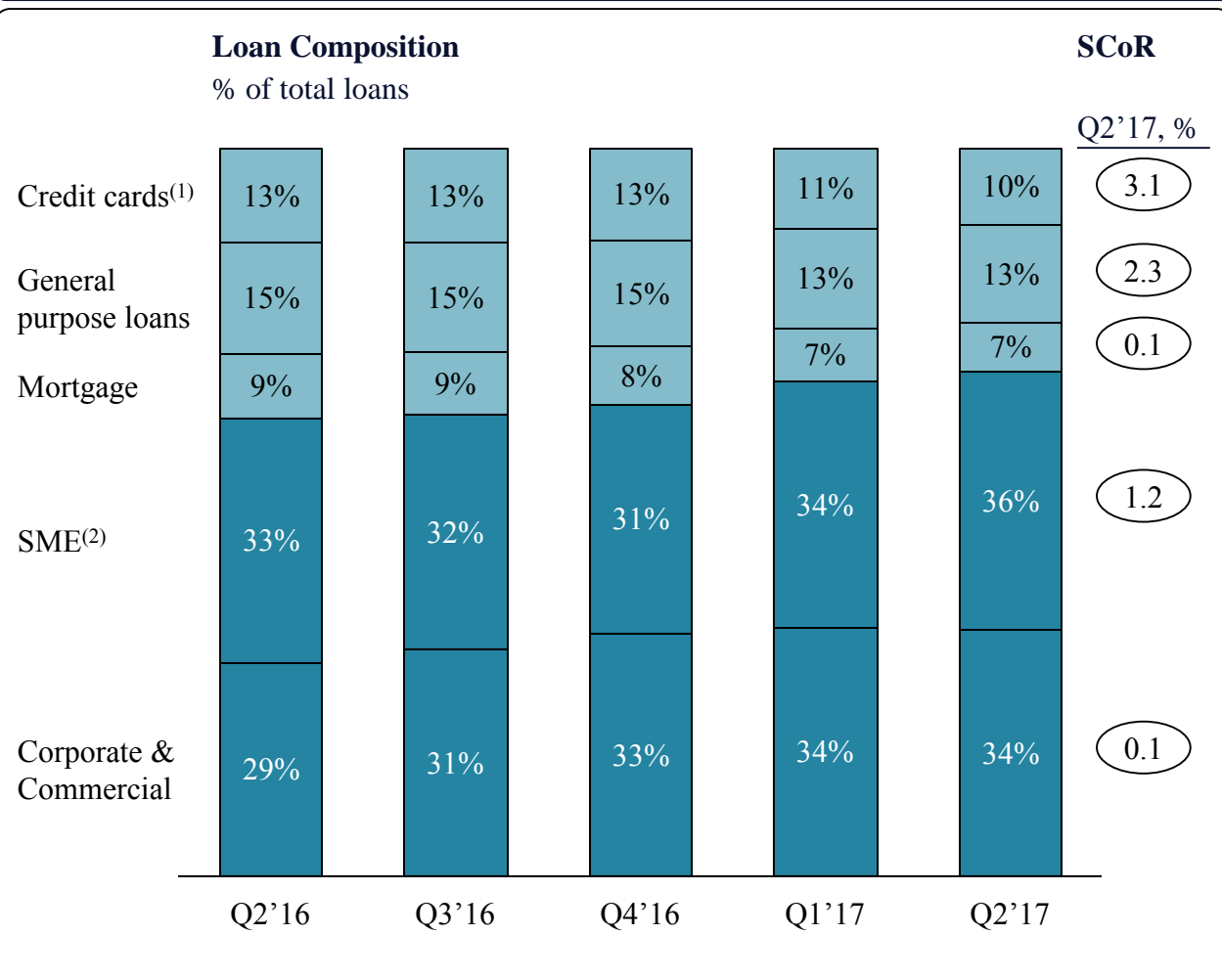


Cost of risk at comfortable level with strong improvement in 2017

Strong improvement in CoR even with increasing coverage ratios

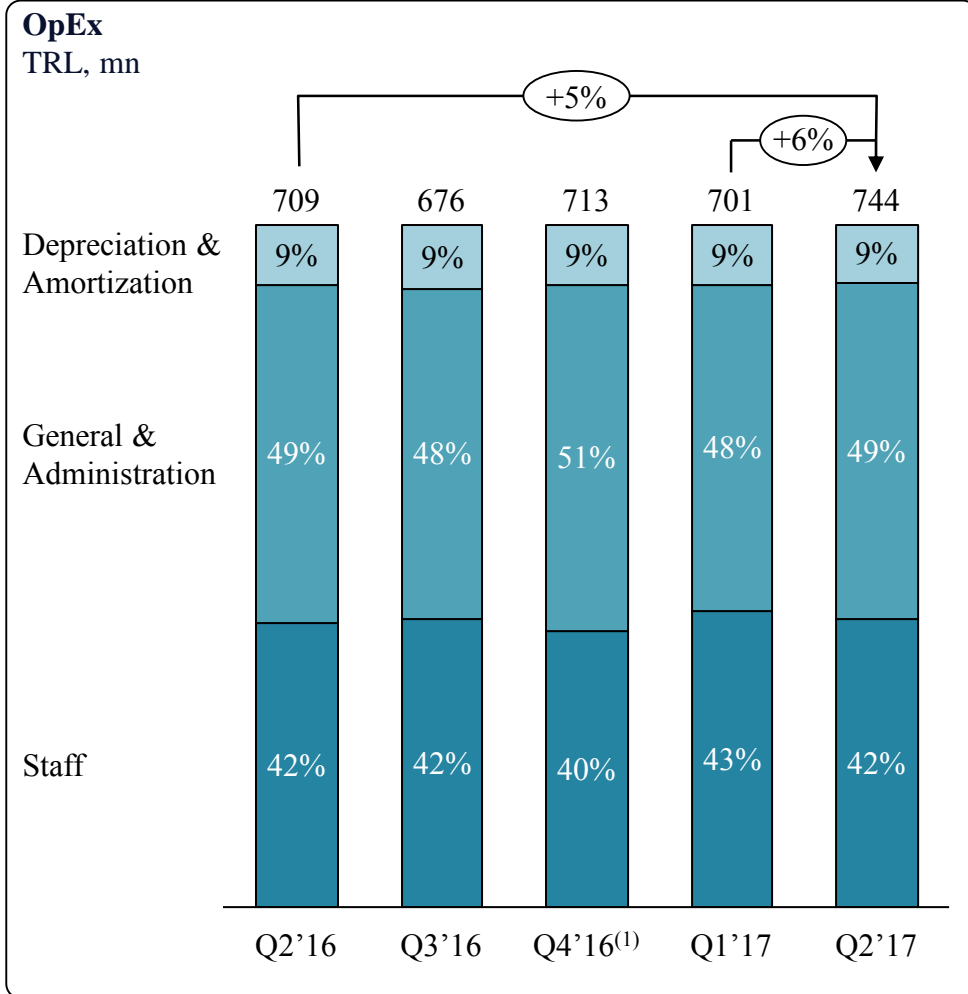


Shift towards business banking helps improve cost of risk

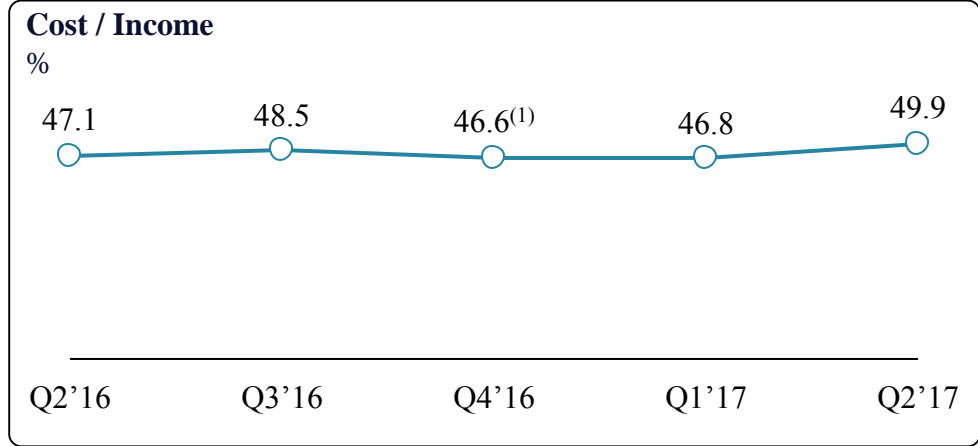


Diligent focus on efficiency even facing high business growth leading to improving efficiency metrics

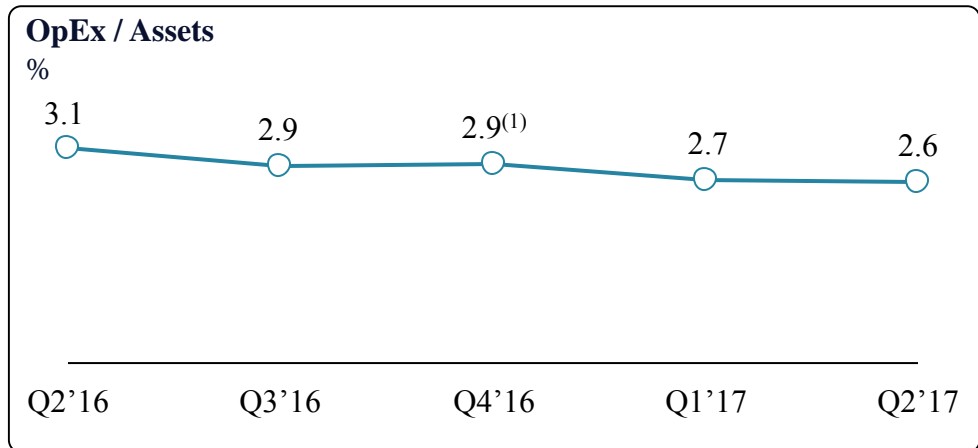
Stable operating expenses with slight pick-up in Q2'17 due to growth investments...



... leading to stable cost/income ratio...



... and efficiency improvement with high business growth



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

TRL, mn	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	ΔQoQ	ΔYoY
Net Interest Income after Derivatives Expenses	902	1,029	1,054	1,035	1,034	0%	15%
Net Interest Income	1,110	1,188	1,212	1,342	1,415	5%	27%
Derivatives expenses	-208	-159	-158	-307	-381	24%	83%
Net Fees & Commissions	339	343	361	410	407	-1%	20%
Trading & Other Income ⁽¹⁾	262 ⁽²⁾	23	114 ⁽³⁾	53	49	-8%	-81%
Total Operating Income	1,503	1,395	1,528	1,499	1,491	-1%	-1%
Provisions	-321	-334	-395	-263	-252	-4%	-22%
OpEx	-709	-676	-713 ⁽⁴⁾	-701	-744	6%	5%
Net Operating Income	474	385	421	534	495	-7%	4%
Taxation	-84	-86	-69	-112	-107	-5%	27%
Net Income	391	299	352	422	388	-8%	-1%

- **Substantial increase in total core operating income** on YoY basis; while QoQ figures are pressured by narrowing NIM due to high deposit competition and higher swap expense
- **YoY NII increase** as the main source of total operating income growth inline with volume growth mitigated partially by narrowing NIM
- **Sustained fees and commissions generation** with strong performance across diversified business segments; recovered negative regulatory impact⁽⁵⁾
- **Improving provisioning expenses** thanks to stringent risk measures and improving market dynamics
- **Efficiency improvement** leading to Opex growth below inflation while slight pick-up in the last quarter stemming from marketing spending to fuel growth

(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%

(5) Loan commissions are not allowed on CGF collateralized loans which contribute to significant share of underwriting in Q2'17

Appendix

A decorative graphic on the right side of the page consists of overlapping, rounded, triangular shapes. The top shape is a vibrant purple, and the bottom shape is a light, off-white color. They overlap to create a layered, ribbon-like effect against the dark purple background.

Key financial ratios

All figures quarterly		Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	ΔQoQ	ΔYoY
Profitability	RoAE	16.8%	12.5%	14.2%	16.2%	14.1%	-2.0pps	-2.6pps
	RoAA	1.7%	1.3%	1.4%	1.6%	1.4%	-0.2pps	-0.4pps
	Cost / Income	47.1%	48.5%	46.6%	46.8%	49.9%	+3.1pps	+2.8pps
	NIM after swap expenses	5.1%	5.6%	5.5%	5.0%	4.6%	-0.4pps	-0.5pps
Liquidity	Loans / Deposits ⁽¹⁾	111.8%	116.6%	114.3%	116.5%	117.6%	+1.1pps	+5.7pps
Asset Quality	NPL Ratio	6.2%	6.5%	5.8%	5.6%	5.5%	-0.1pps	-0.6pps
	Coverage	80.0%	80.8%	84.0%	85.9%	85.9%	-0.0pps	+5.9pps
	Cost of Risk	2.2%	2.2%	2.5%	1.6%	1.4%	-0.2pps	-0.8pps
Solvency	CAR	14.5%	14.5%	14.5%	14.3%	15.8%	+1.6pps	+1.4pps
	Tier I Ratio	12.6%	12.5%	12.6%	12.6%	13.1%	+0.5pps	+0.5pps
	Leverage	9.8	9.7	10.0	10.1	10.4	+0.3	+0.6

Balance sheet summary

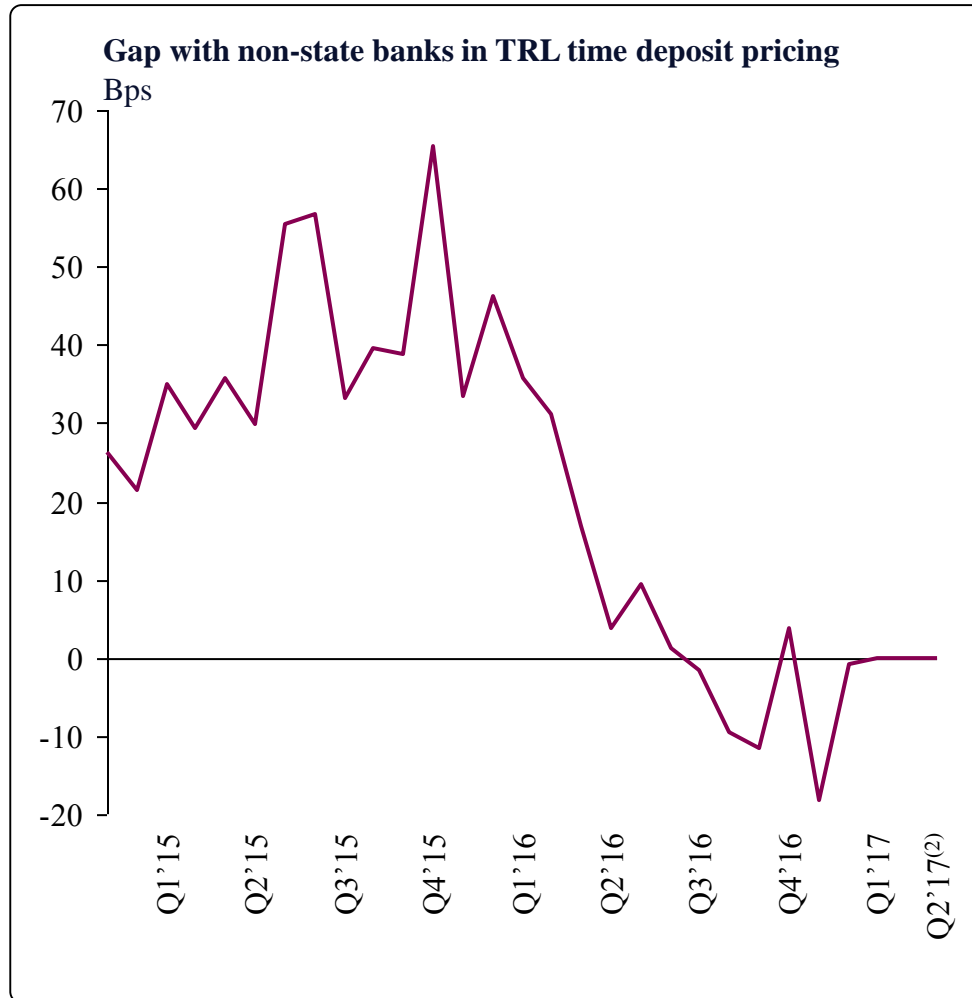
	TRL, mn	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	ΔQoQ	ΔYoY
Assets	Cash & Banks ⁽¹⁾	13,159	13,139	14,925	15,143	18,520	22%	41%
	Securities	10,938	11,357	12,950	13,931	13,675	-2%	25%
	Net Loans	60,161	61,424	62,923	69,191	73,928	7%	23%
	Fixed Assets & Subsidiaries	2,467	2,517	2,912	2,945	3,002	2%	22%
	Other	5,922	5,551	7,792	7,801	7,312	-6%	23%
	Total Assets	92,647	93,988	101,503	109,010	116,437	7%	26%
Liabilities & Equity	Deposits	53,034	51,471	53,939	58,282	62,013	6%	17%
	Customer deposits	50,800	49,062	51,966	54,889	58,125	6%	14%
	Bank deposits	2,234	2,409	1,973	3,393	3,888	15%	74%
	Borrowings	19,355	22,193	24,821	25,197	27,267	8%	41%
	Bonds Issued	3,379	3,906	4,312	4,527	6,563	45%	94%
	Funds Borrowed	7,164	8,755	10,758	12,706	13,160	4%	84%
	Sub-debt	2,650	2,780	3,236	3,380	3,217	-5%	21%
	Repo	6,162	6,752	6,515	4,584	4,326	-6%	-30%
	CBRT swap funding	0	0	0	2,146	2,597	21%	
	Other	10,813	10,620	12,617	12,644	13,349	6%	23%
Equity	9,445	9,704	10,126	10,742	11,212	4%	19%	
Total Liabilities & Equity	92,647	93,988	101,503	109,010	116,437	7%	26%	

Year to date income statement

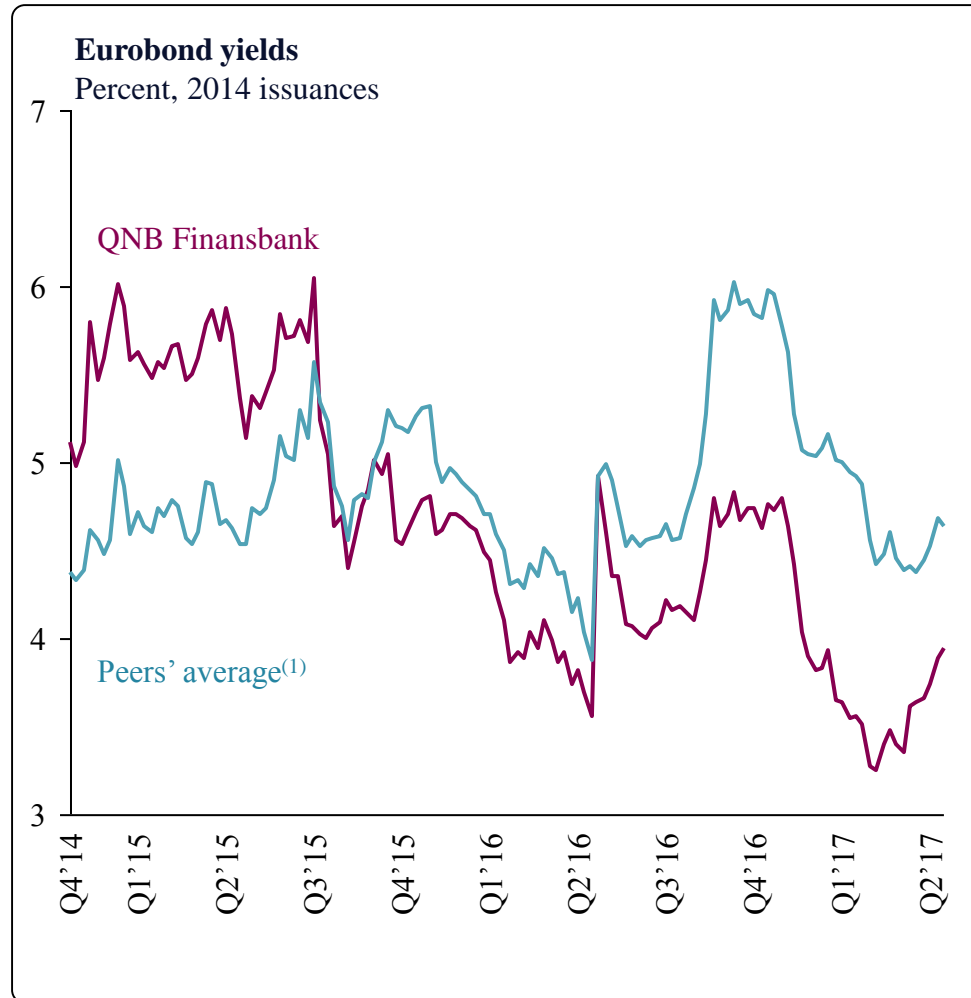
TRL, mn	2015	2016	6M'16	6M'17	ΔYoY
Net Interest Income after Derivatives Expenses	3,145	3,786	1,703	2,069	21.5%
Net Interest Income	3,947	4,504	2,104	2,757	31.0%
Derivatives expenses	-802	-718	-401	-688	71.3%
Net Fees & Commissions	1,314	1,363	659	818	24.1%
Trading & Other Income ⁽¹⁾	351	452	315	103	-67.5%
Total Operating Income	4,810	5,600	2,677	2,990	11.7%
Provisions	-1,170	-1,316	-587	-515	-12.3%
OpEx	-2,737	-2,800	-1,411	-1,446	2.4%
Net Operating Income	903	1,484	678	1,029	51.7%
Taxation	-197	-280	-126	-219	74.1%
Net Income	706	1,203	553	810	46.6%

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



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