

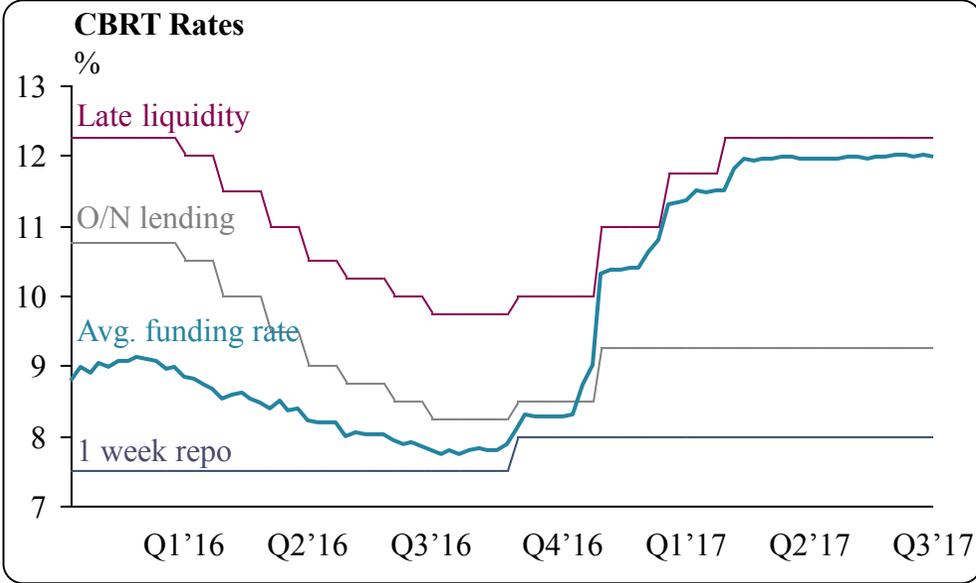


QNB Finansbank Q3'17 Earnings Presentation

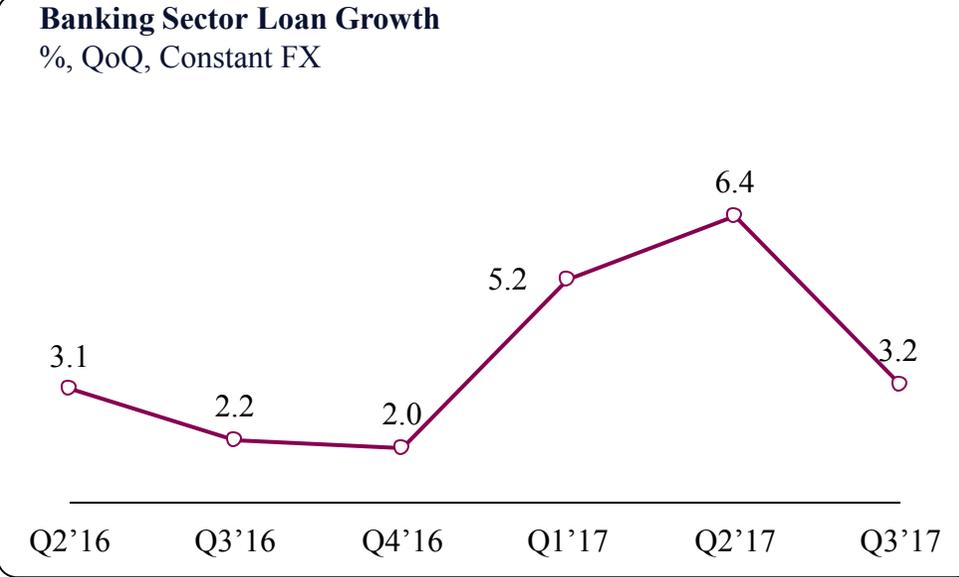
October 2017

Banking sector growth continued in Q3'17 thanks to accommodative policy measures

Macro Dynamics



Banking Sector Dynamics

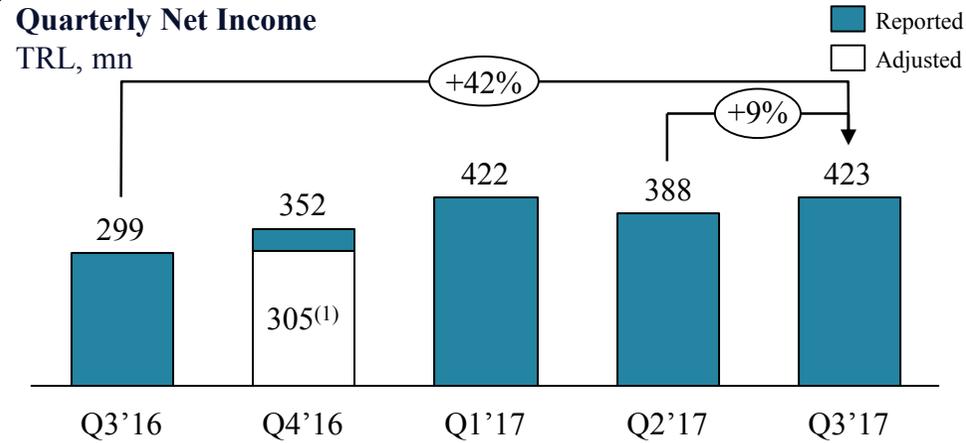


- FED raised interest rate by 50 bps, in total, in March and June as the U.S. labour market indicators continued to improve
- Despite uncertainties about inflation outlook, FOMC anticipates one more rate hike within this year
- While Eurozone economic activity continued to increase, ECB maintains its 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

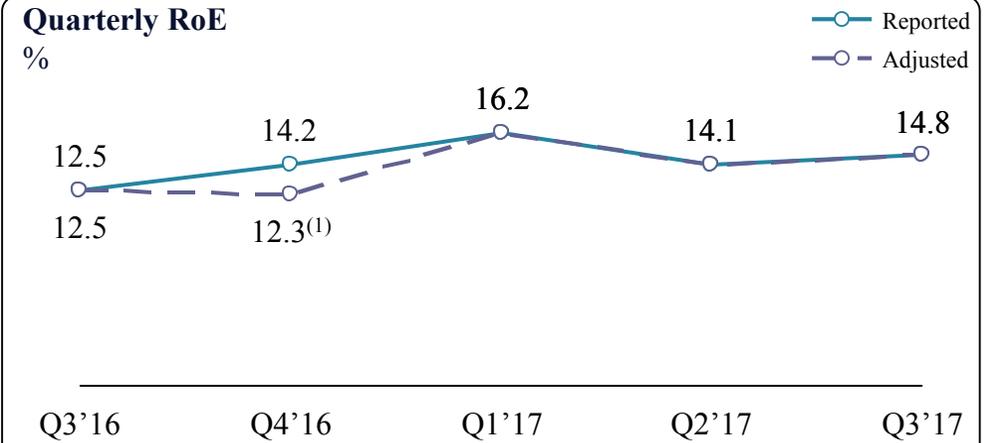
- Even though losing some pace, growth continued in banking sector with support of accommodative policy measures
- Credit Guarantee Fund (CGF) program supported the fast paced loan growth in 2017
- Funding costs stabilized late in Q3 after rising due to acceleration in lending growth and tightening in 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

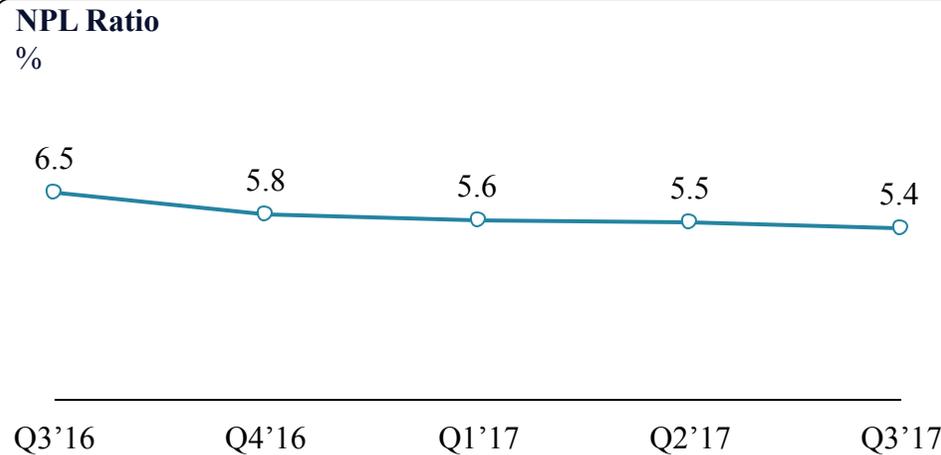
Sustained strong net income performance



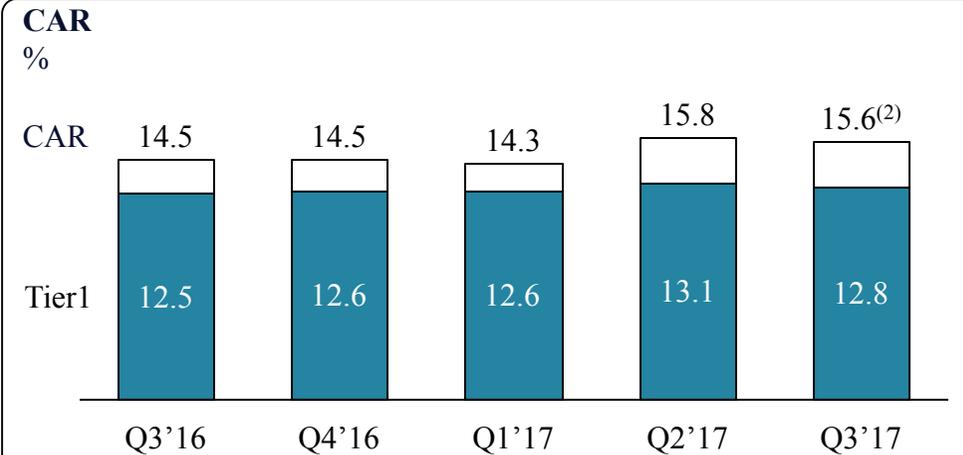
RoE consistently on upwards trend with strong boost over 2016



Ongoing asset quality improvement



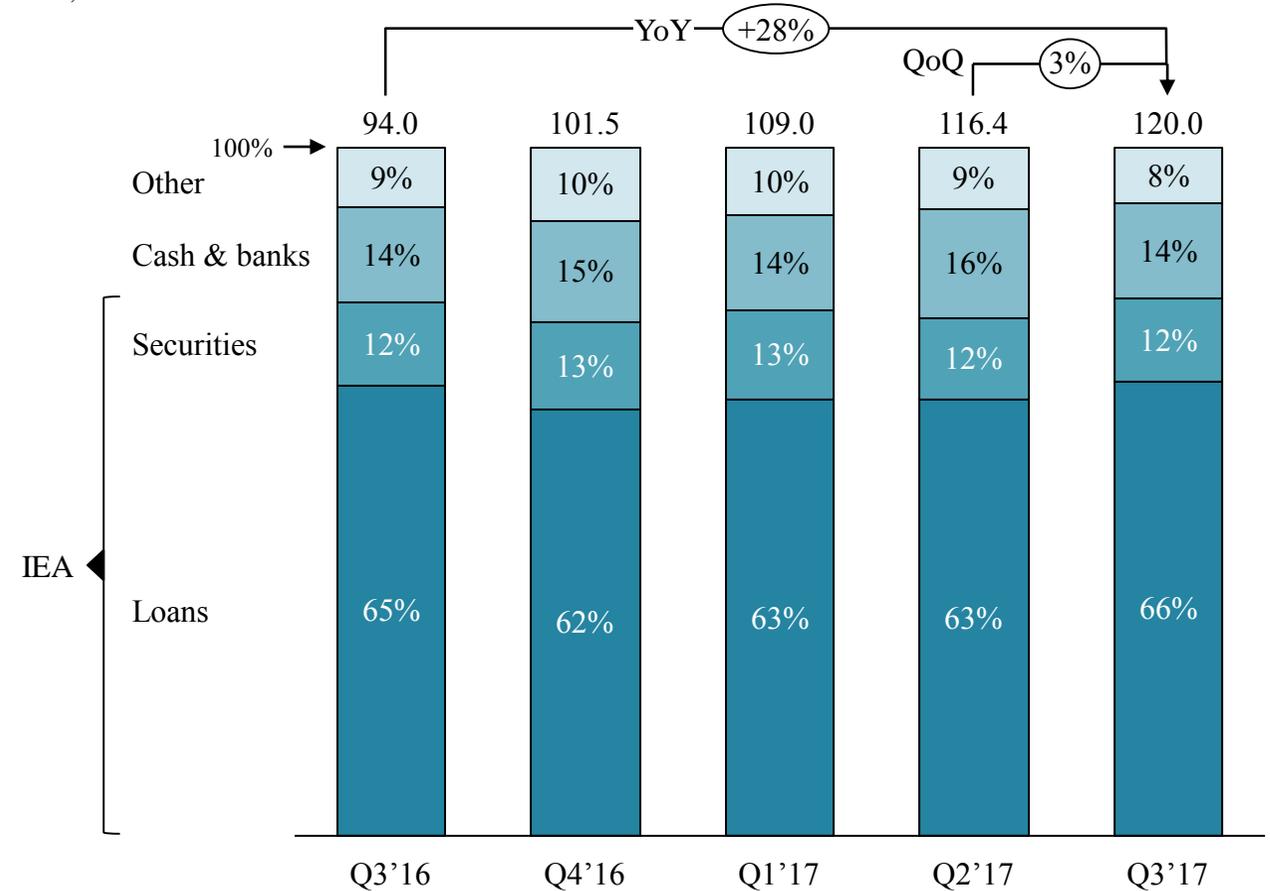
Strong capital adequacy; additional buffers remain



Asset size exceeded TRL 120bn, with ongoing strong growth in Q3

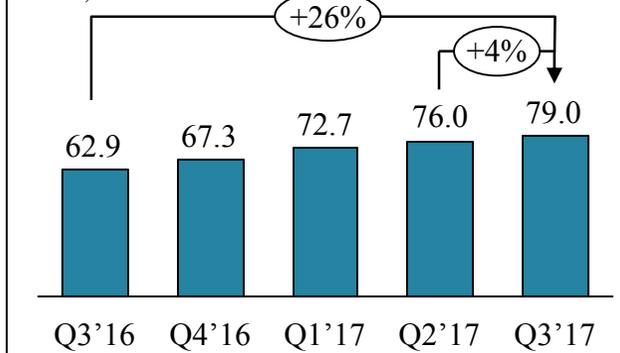
Loan heavy balance sheet

Total Assets
TRL, bn



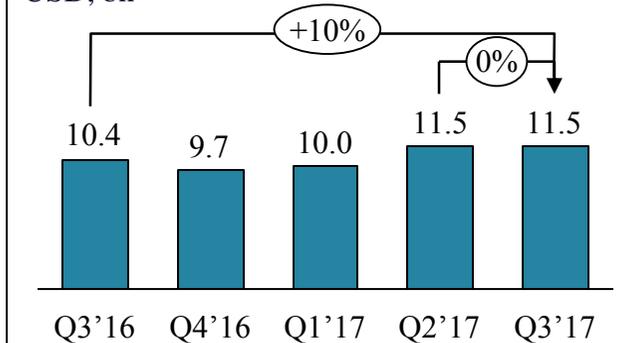
Strong TRL asset growth

TRL Assets
TRL, bn



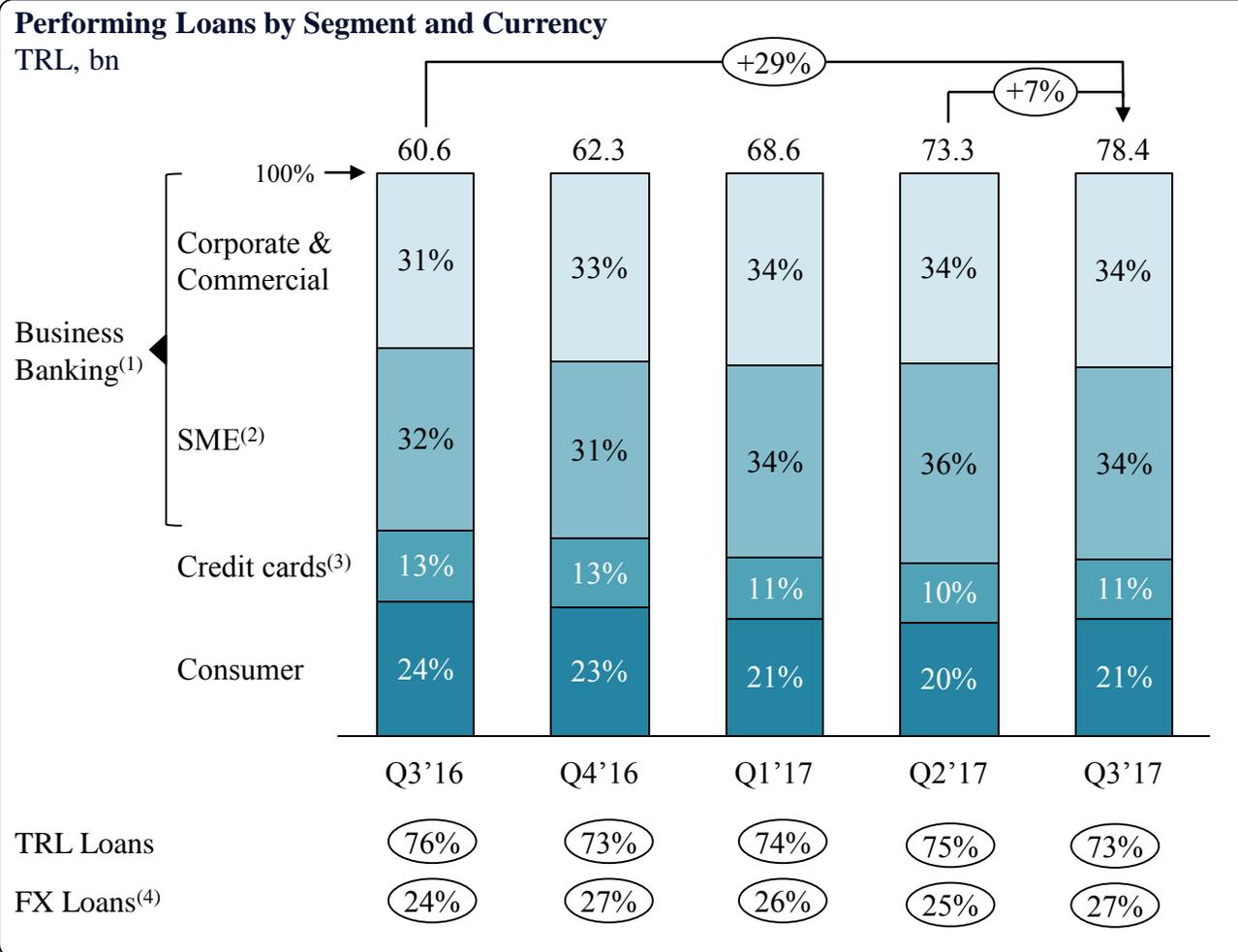
Strong FX asset growth supported with both business loans and FX securities

FX Assets⁽¹⁾
USD, bn

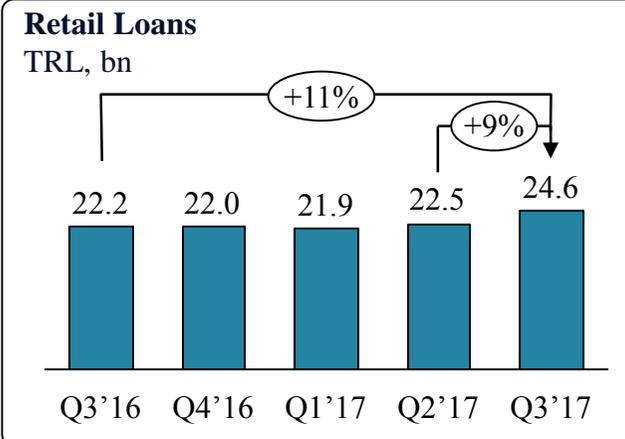


Sustained and successful execution of the growth strategy...

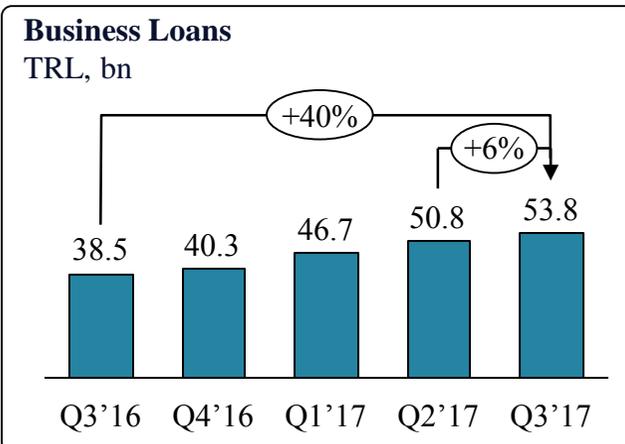
Loan book continued to shift towards business banking with strong growth in 2017; only temporary shift in trend in Q3



Retail loans growth picked-up in Q3'17 bringing YoY growth close to sector



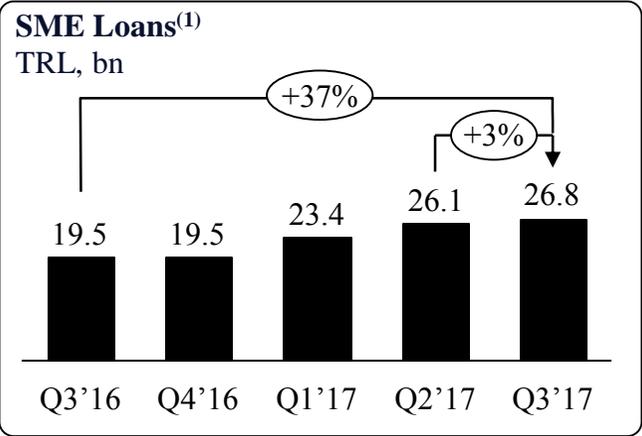
Significant growth in business loans



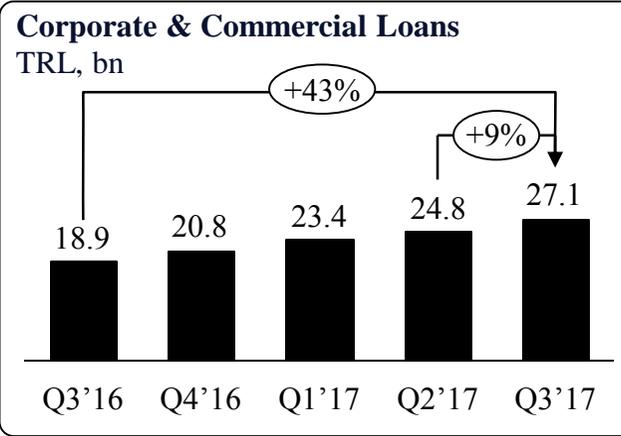
... focused on business banking loans and selective retail banking segments

Business banking
 Retail banking

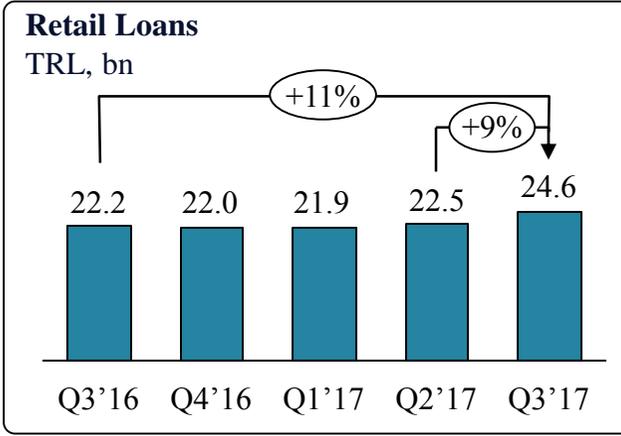
Strong SME loan growth with some slowdown in Q3'17 due to high pace growth in H1'17



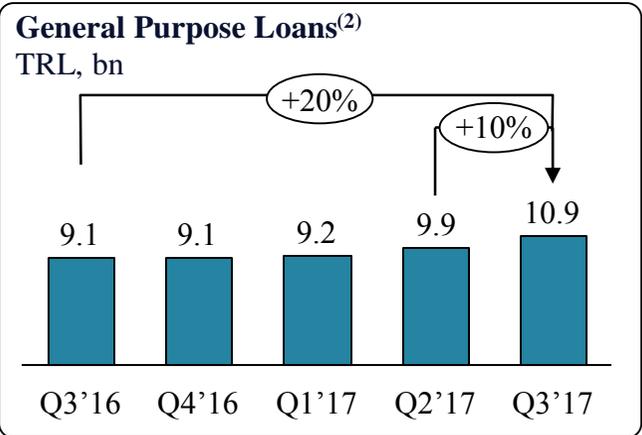
Strong growth in Corporate & Commercial loans



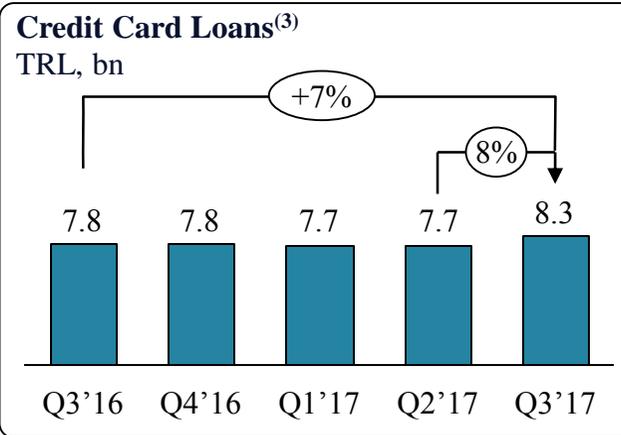
Strong growth in retail loans across all products...



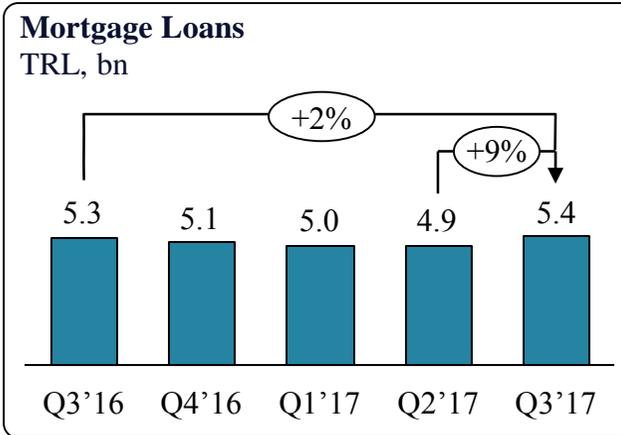
... with above market growth returning to GPLs in Q3'17...



... pick-up credit cards volume in Q3'17, bringing growth in line with sector...



... with growth returning to mortgages in Q3'17 bringing YTD growth to positive territory



(1) Based on BRSA segment definition, excluding SME credit cards
 (2) Including overdraft
 (3) Credit card outstanding from individual clients

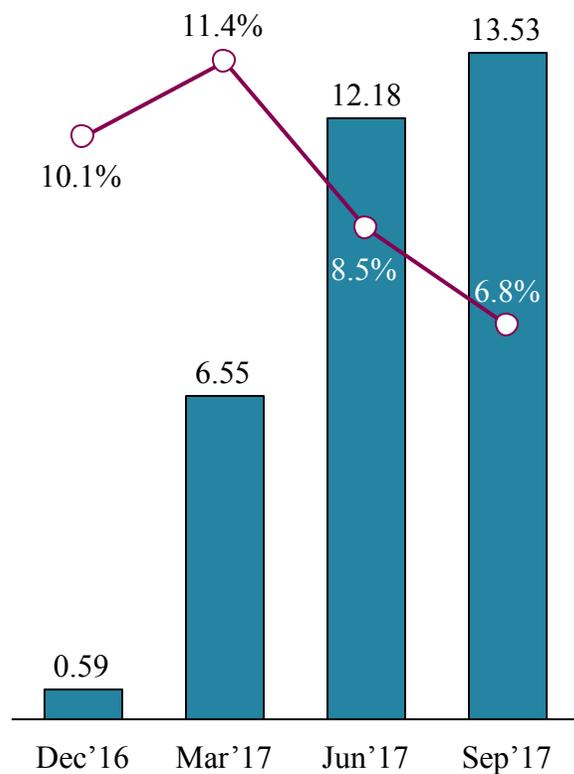
CGF⁽¹⁾ proactively used as a key strategic tool for high quality SME lending growth

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

Volume of CGF guaranteed loans

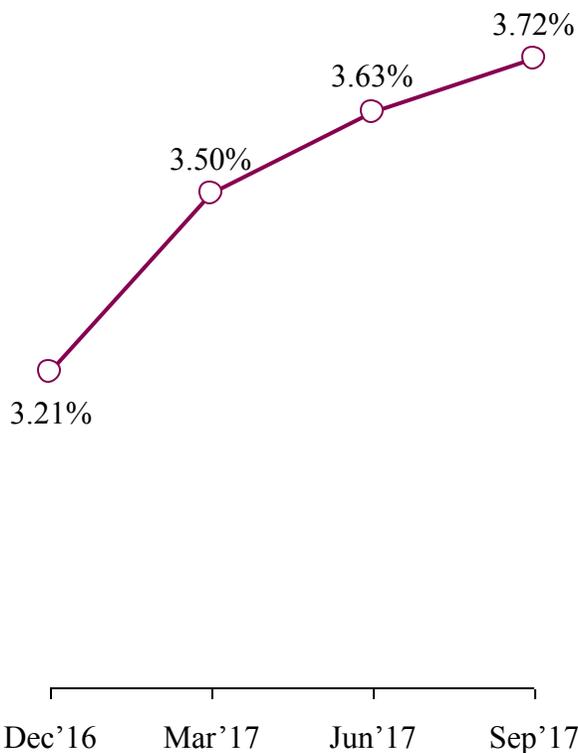
TRL billion

○ M/S in CGF program



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

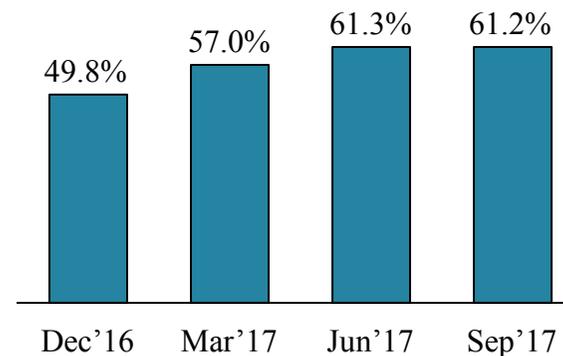
Business loan market share



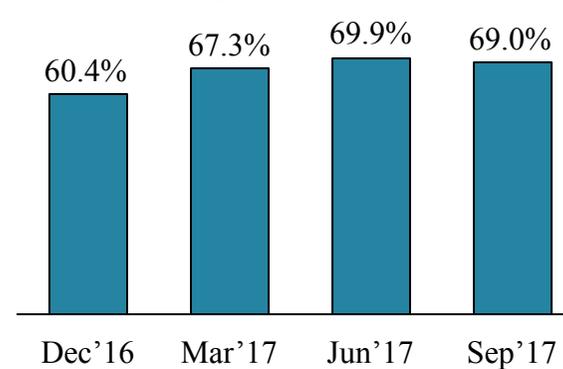
... and portfolio collateralization

Collateralization ratio⁽²⁾

Small enterprises

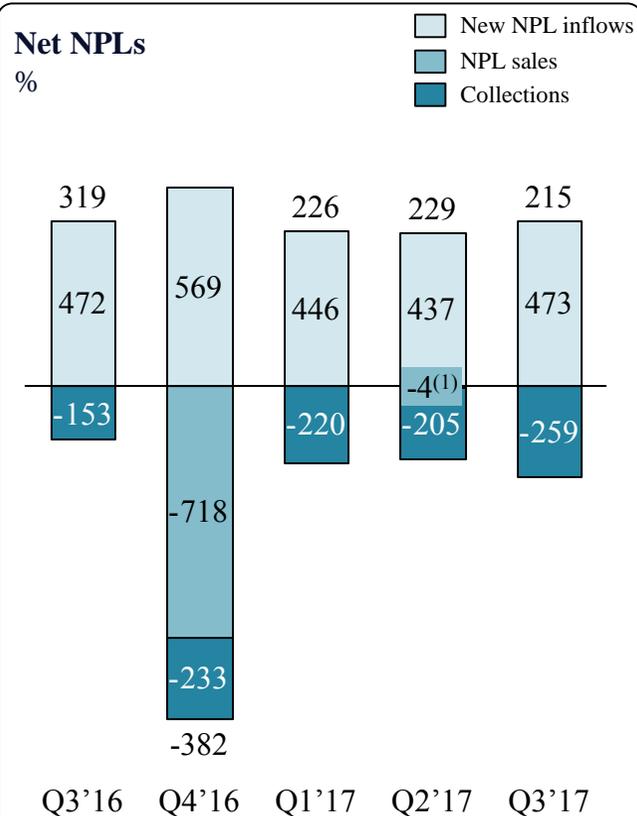


Medium enterprises

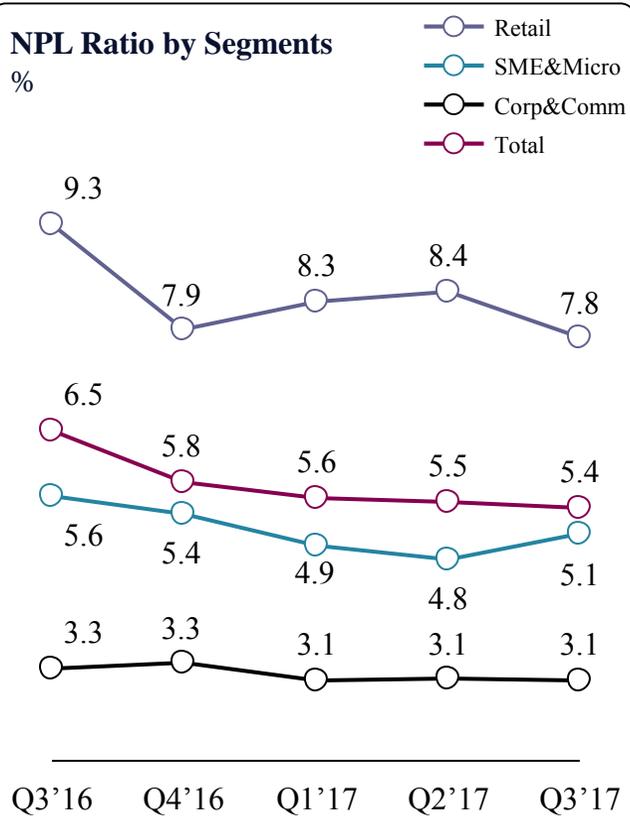


Controlled asset quality with high coverage ratios

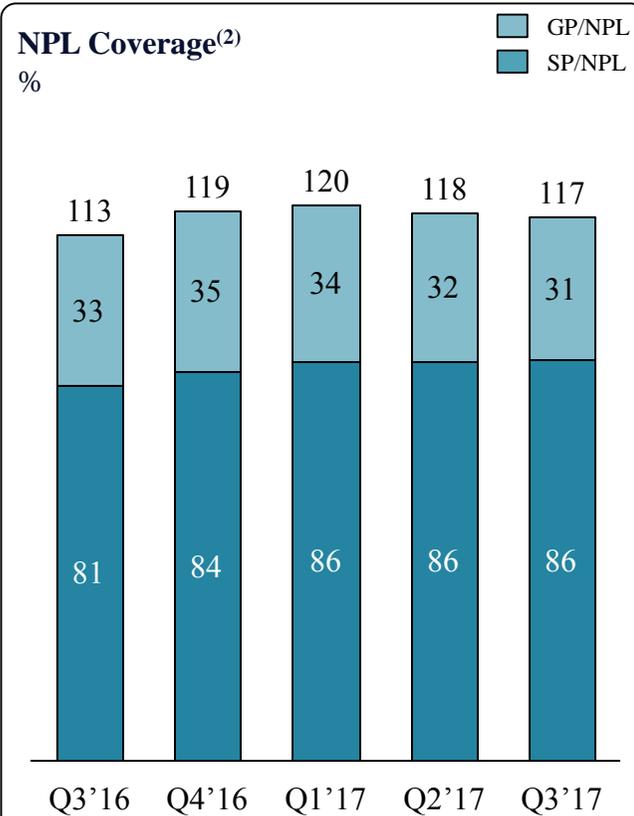
Stable NPL inflows



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



NPLs are well covered through general and specific provisions

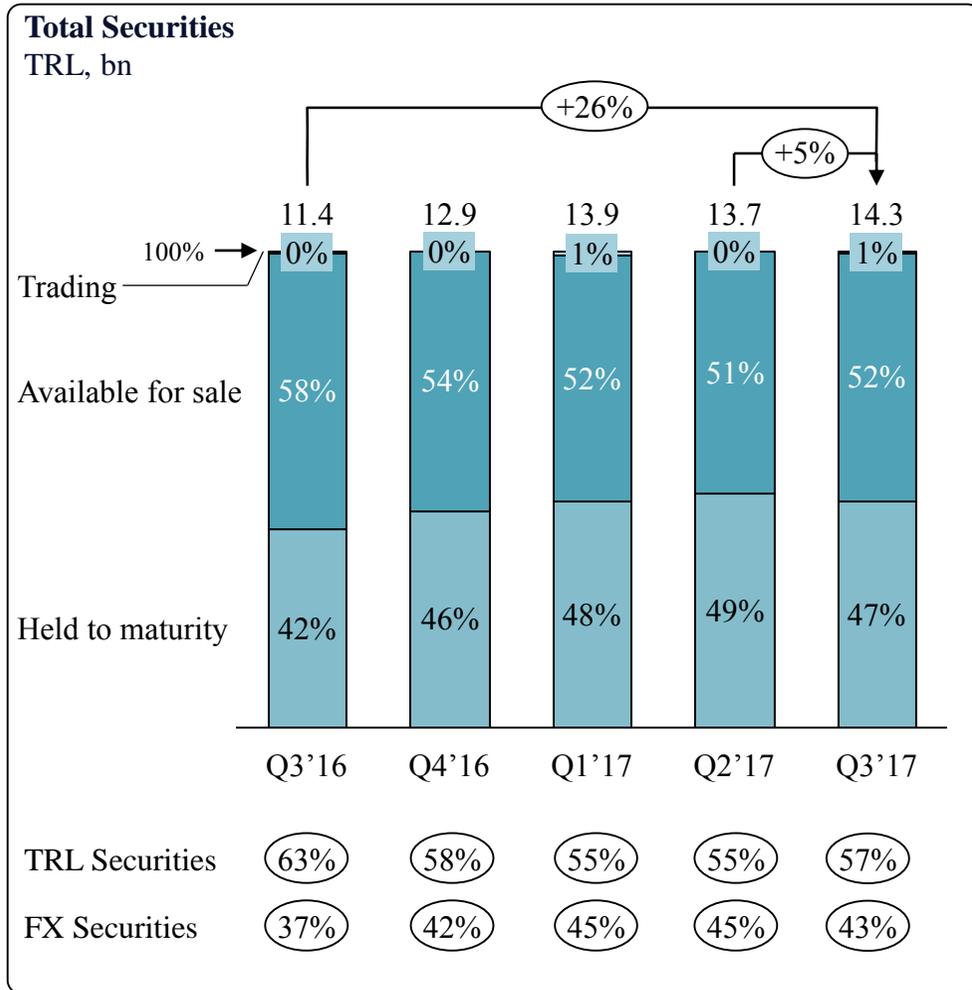


(1) Write-offs are included

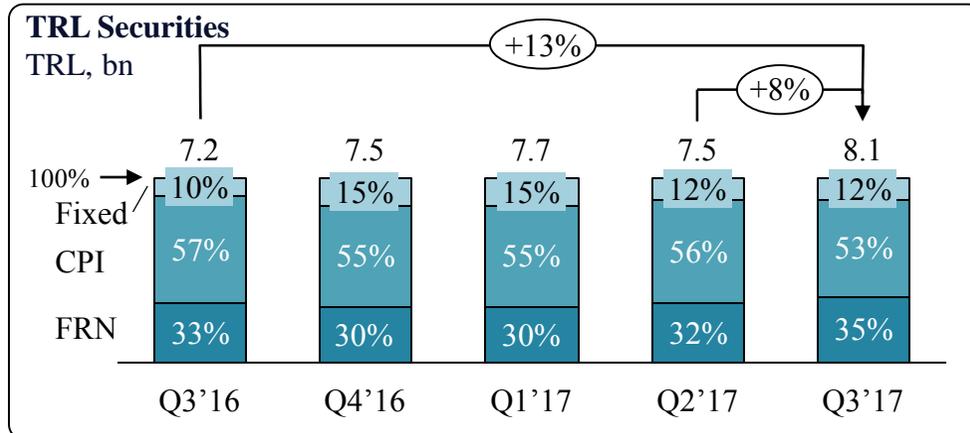
(2) General provisions include watchlist provisions

Securities portfolio growth in Q3'17, essentially supported by TRL FRN purchases

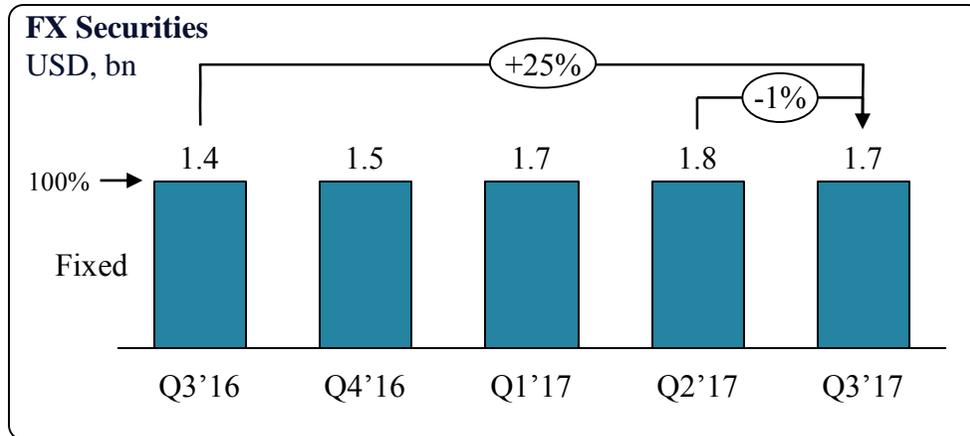
High YTD growth in securities portfolio largely driven by FX securities



88% of TRL securities are indexed / variable rate



Strong YTD growth in FX securities eased in Q3'17

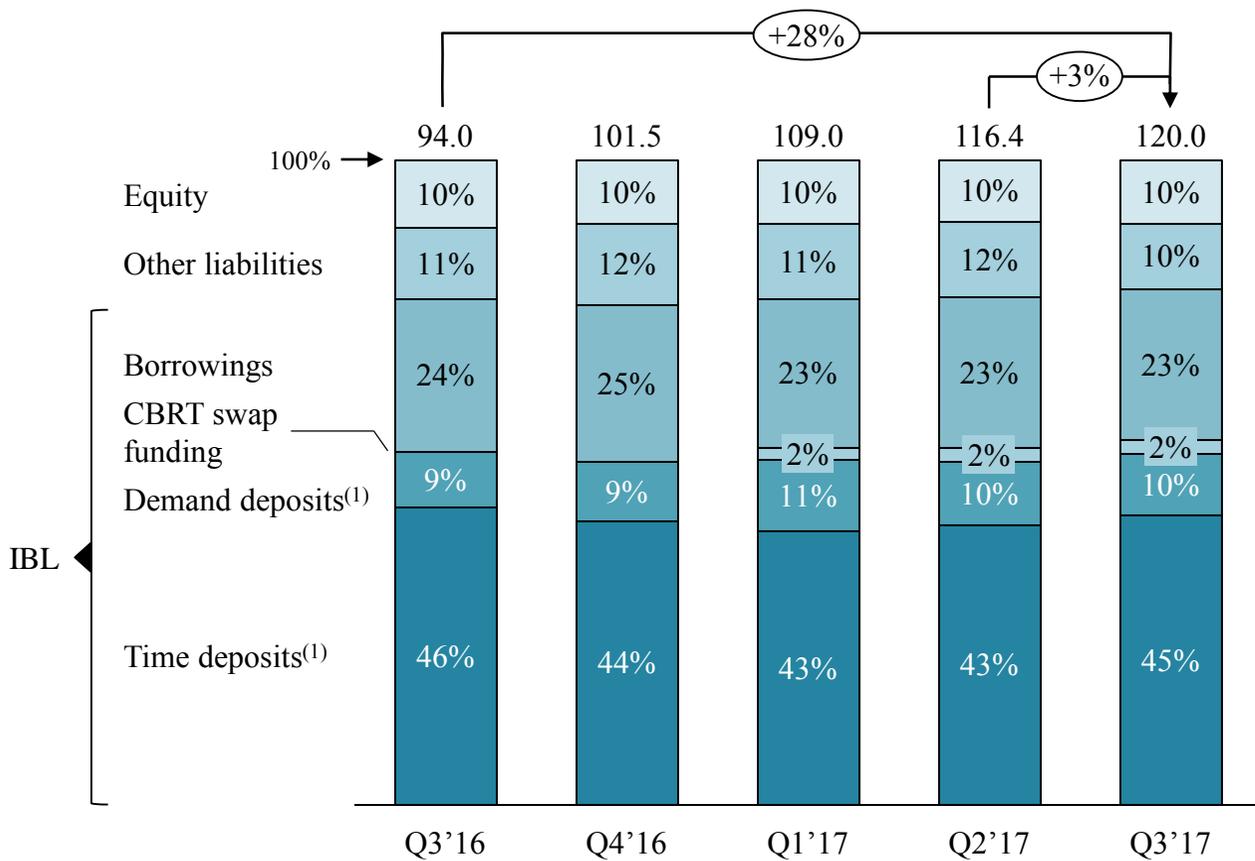


Well-diversified funding structure underpinned by solid deposit funding strength

Use of diversified funding sources while sustaining deposit funding strength

Total Liabilities

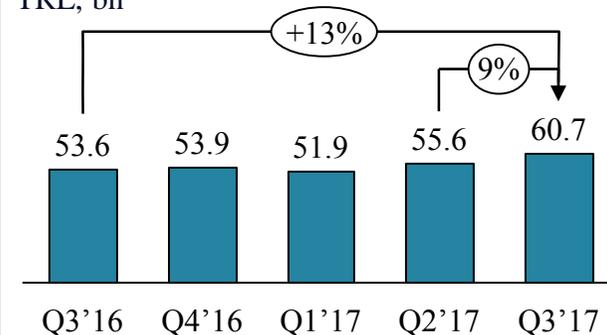
TRL, bn



Strong quarterly growth in TRL liabilities

TRL Liabilities

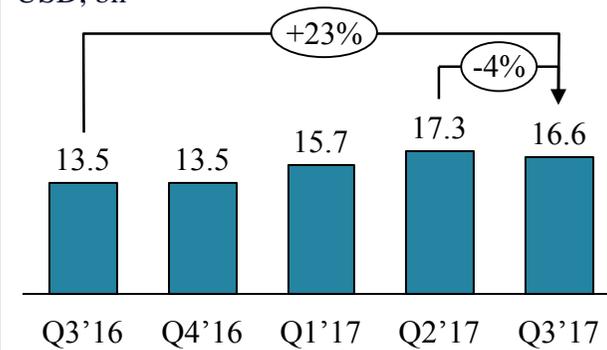
TRL, bn



FX liabilities decline in Q3'17 in line with strategy to shift of funding to TRL deposits

FX Liabilities

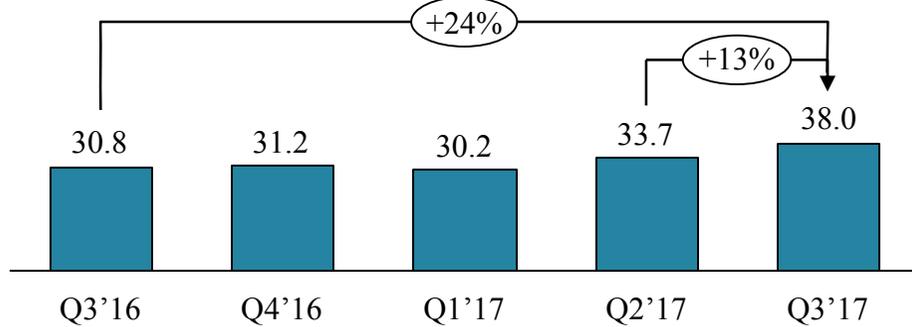
USD, bn



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

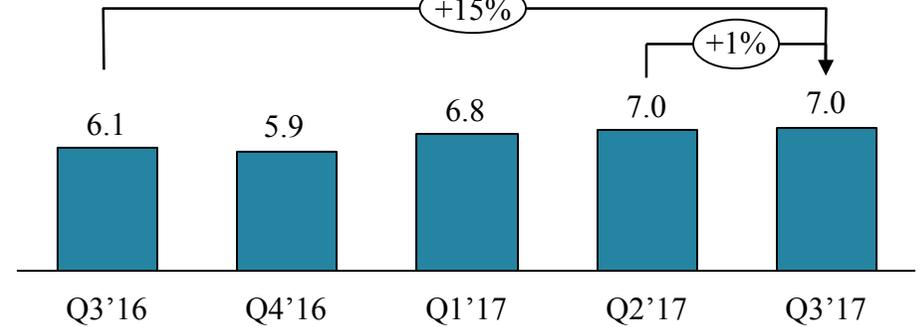
Strong TRL deposit growth in line with strategy of shifting funding from FX to TRL

TRL customer deposits
TRL, bn



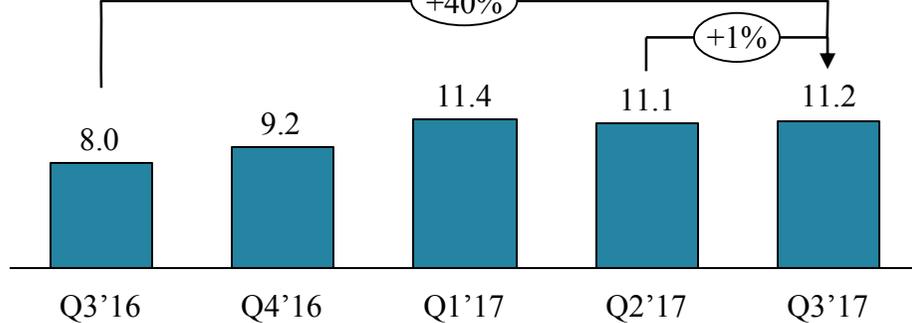
Strong YTD FX customer deposit stabilizing in Q3'17 due to currency trends

FX customer deposits
USD, bn



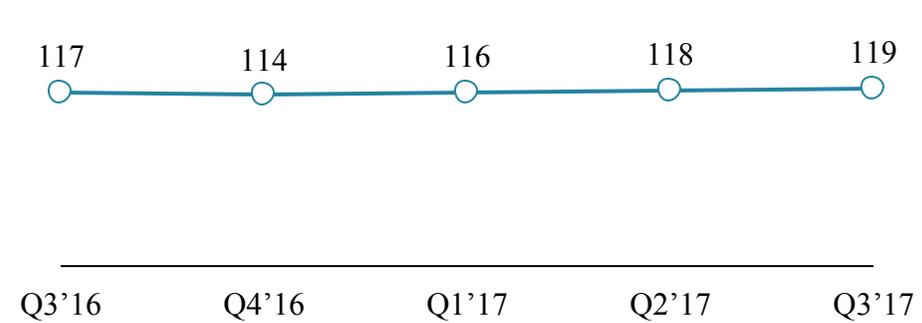
Impressive YTD growth in demand deposits

Customer demand deposits
TRL, bn



Loan-to-deposit ratio in line with the sector

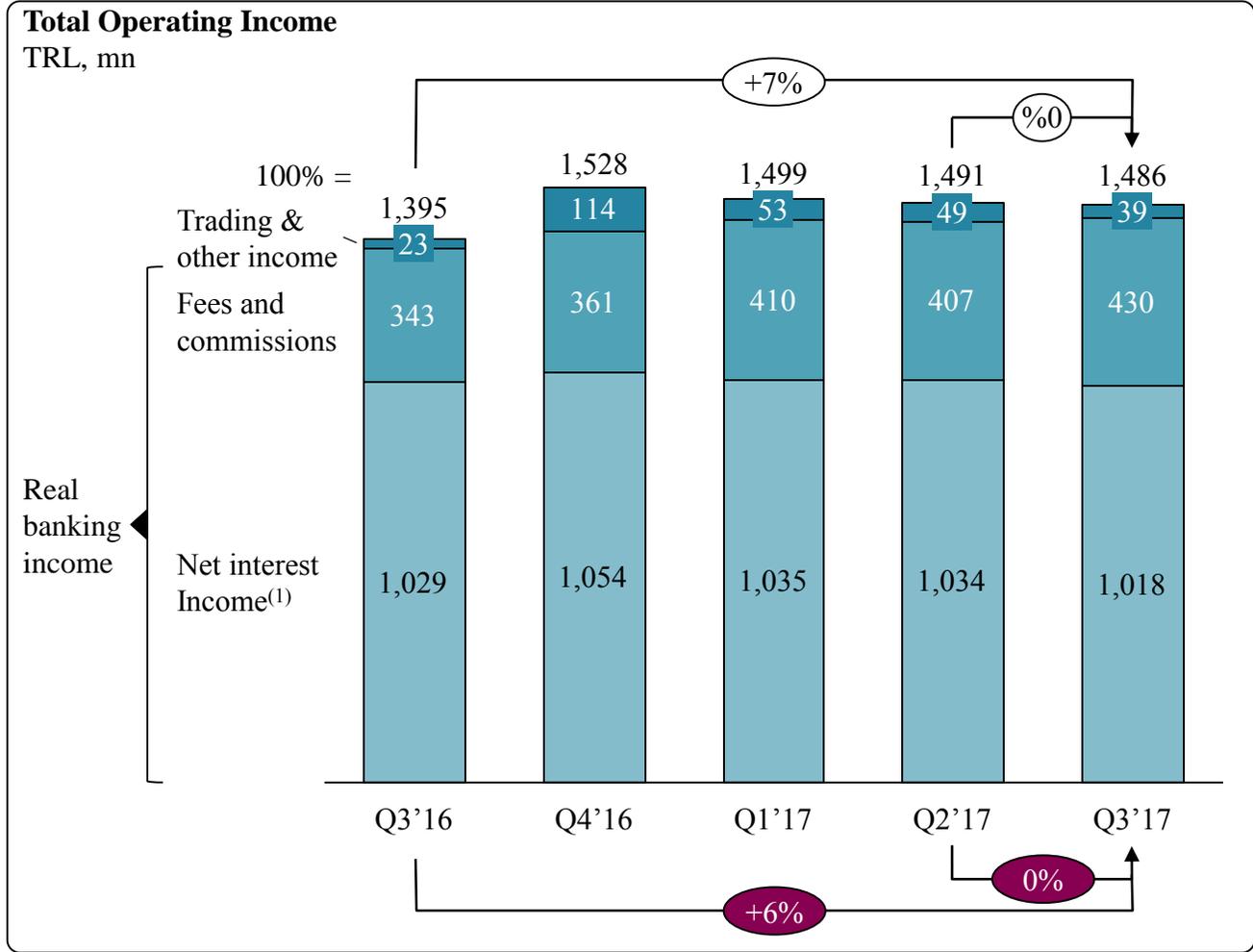
Loan-to-deposit ratio⁽¹⁾
%



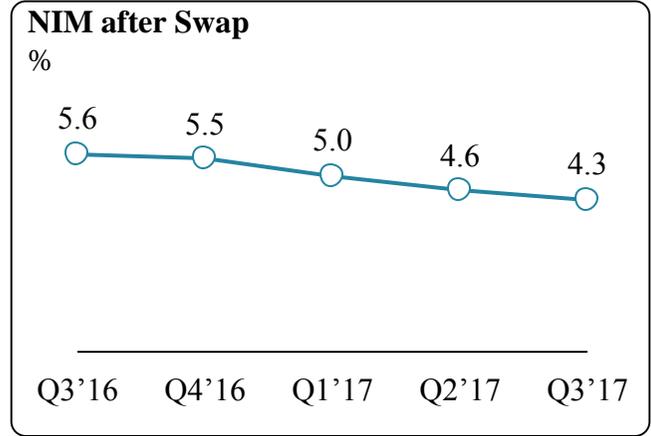
Focus on real banking income generation

 Real banking growth

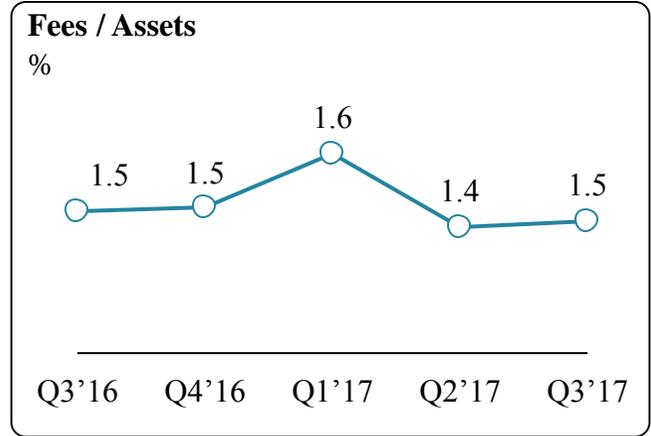
Operating income driven from core banking activities



Decline in NIM⁽¹⁾ due to higher TRL deposits as well as swap costs



Stable fee generation despite regulations⁽²⁾



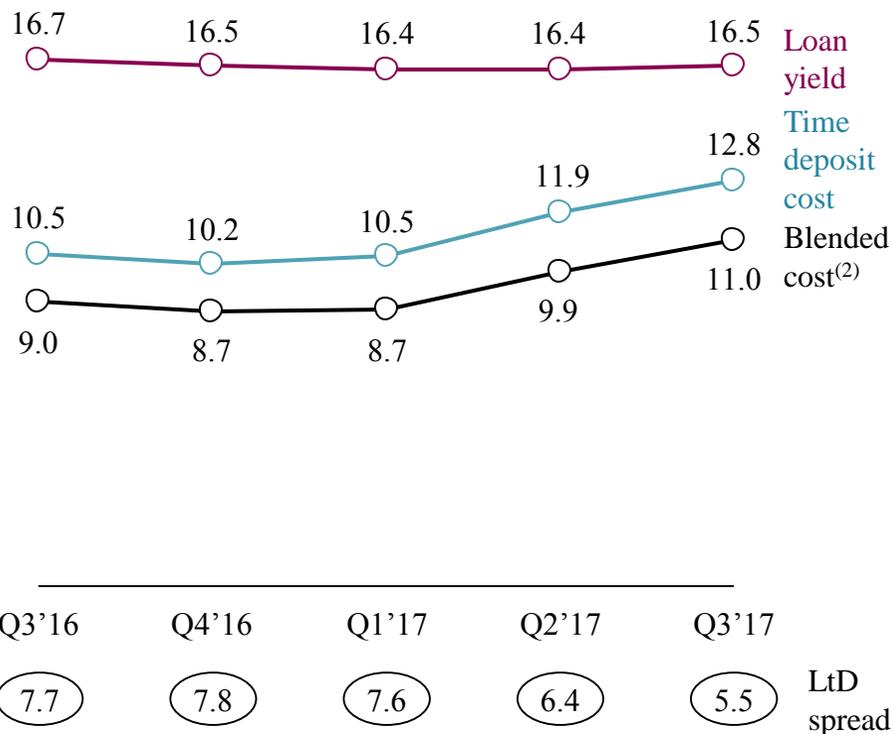
(1) Including swap expenses
(2) Loan commissions are not allowed on CGF collateralized loans

Still decent TRL and FX spread, however pressured by strong deposit cost increase

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

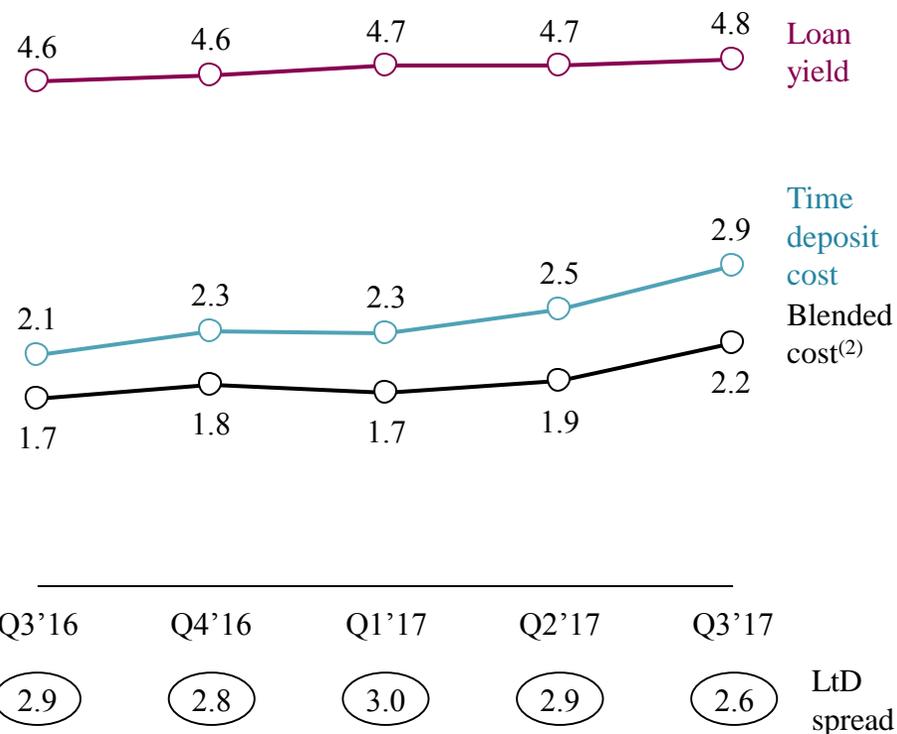
%, period average



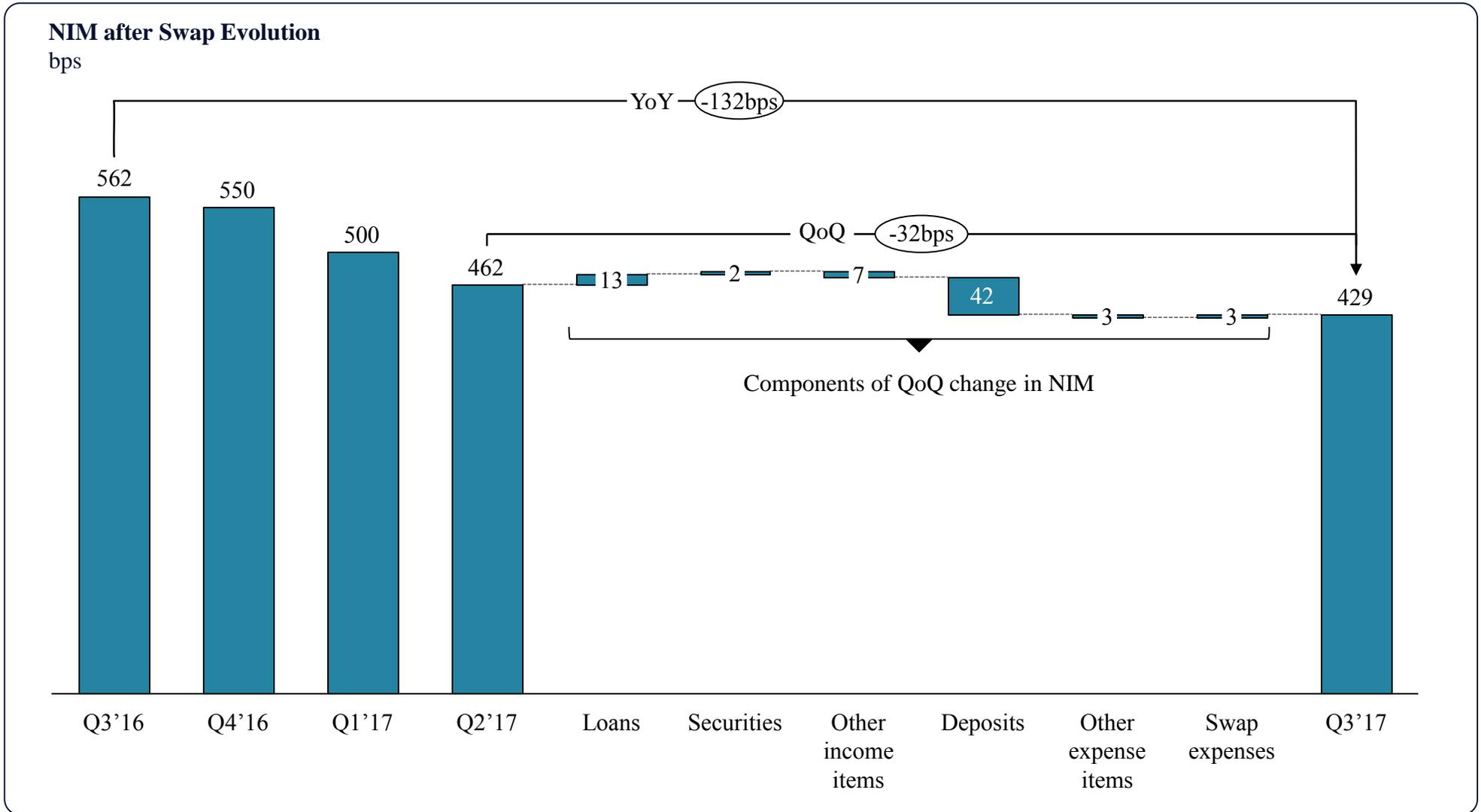
Stable loan-to-deposit spreads for FX side

FX Spread⁽¹⁾

%, period average

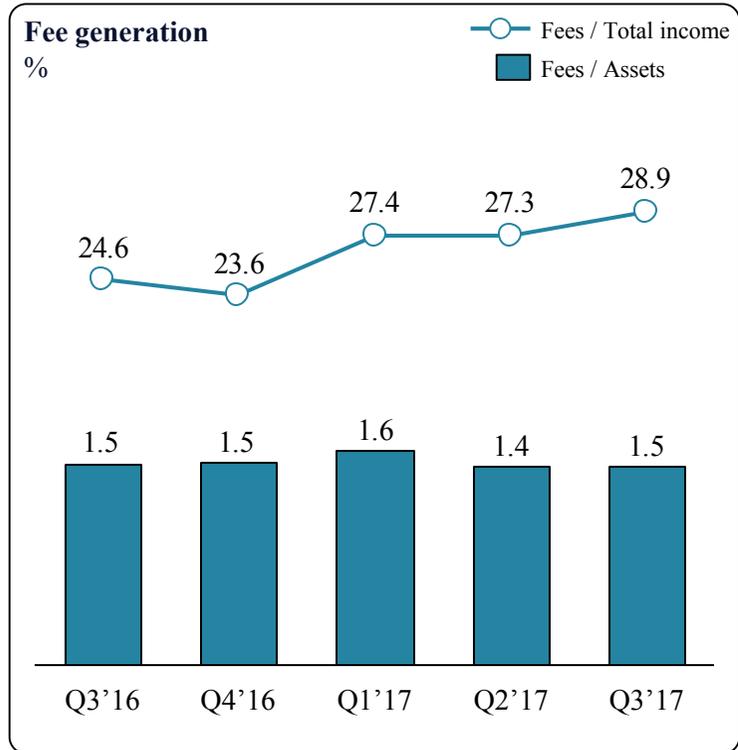


Deposit cost increase and shift in loan mix lead to NIM contraction, however still above sector levels

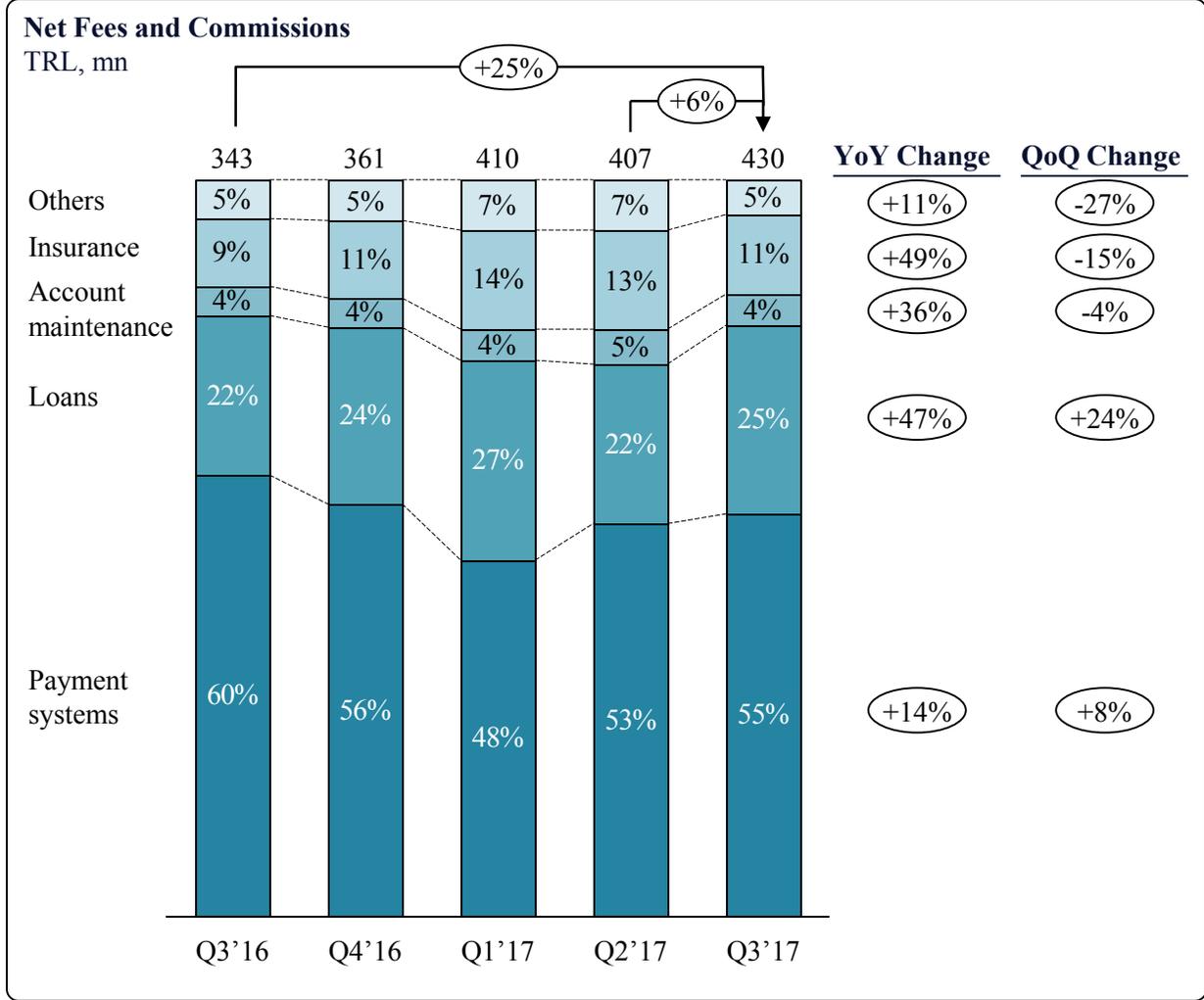


Sustained fee generation with strong performance across diversified business segments

Recovery in fees thanks to loan growth related fee generation



25% YoY growth in fee generation driven by strong performance across diversified business segments

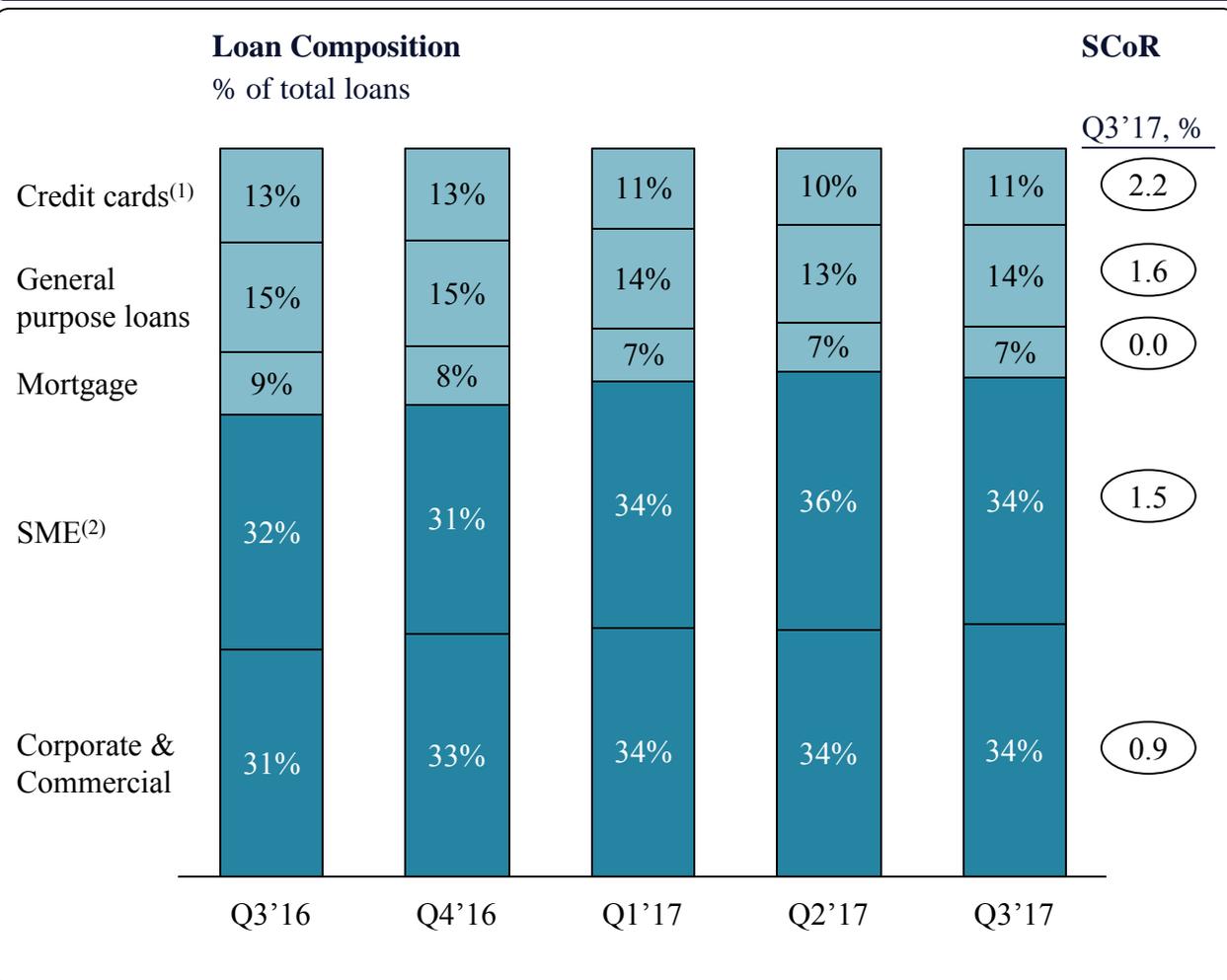


Cost of risk at comfortable level with strong improvement in 2017

Strong improvement in CoR even with high coverage ratios

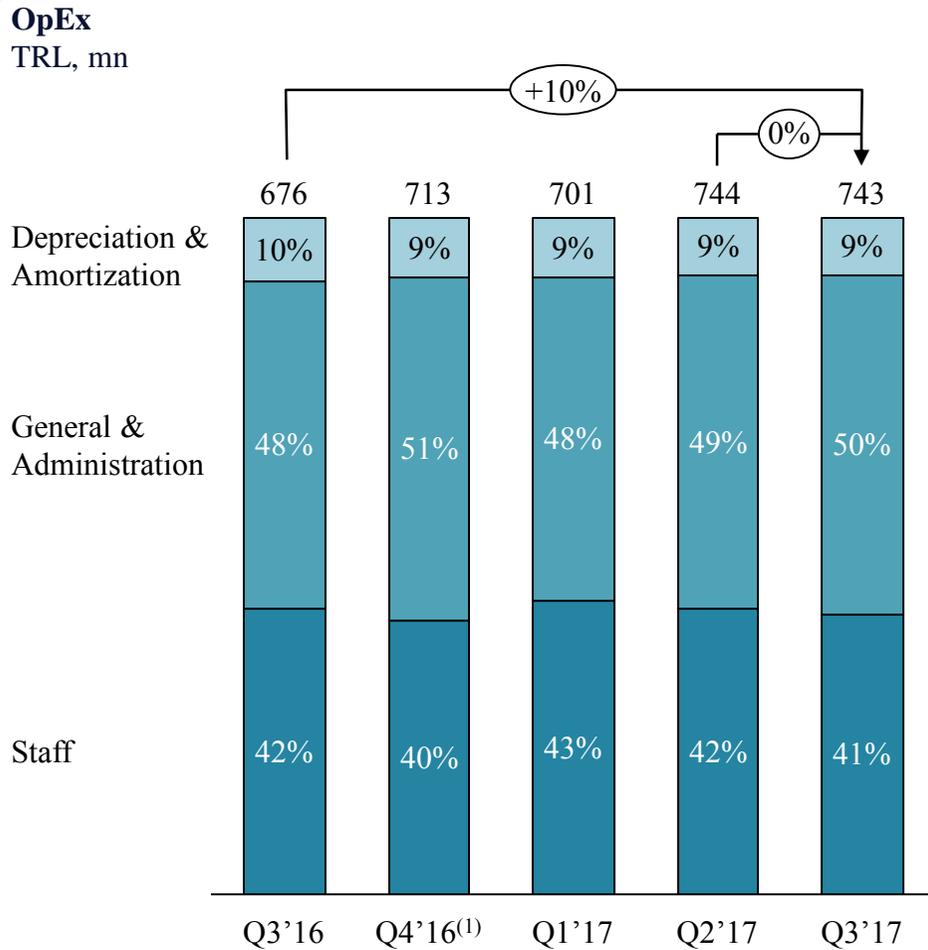


Shift towards business banking helps improve cost of risk

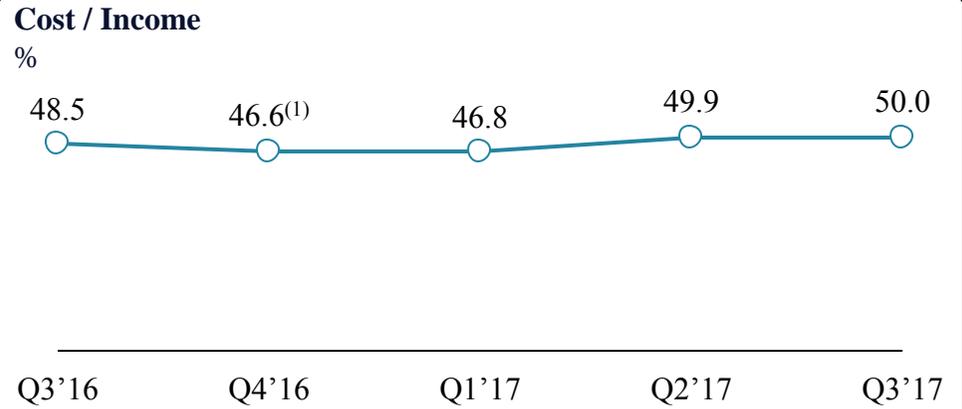


Diligent focus on efficiency even facing high business growth leading to improving efficiency metrics

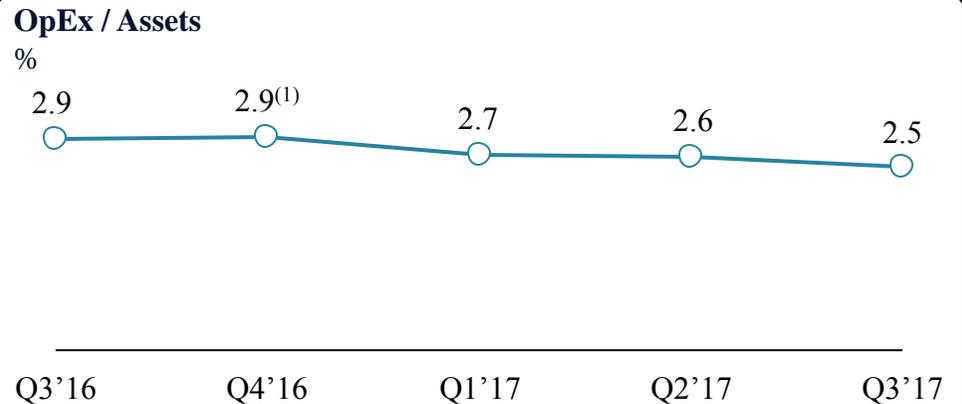
Stable operating expenses



... leading to 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	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	ΔQoQ	ΔYoY
Net Interest Income after Derivatives Expenses	1,029	1,054	1,035	1,034	1,018	-2%	-1%
Net Interest Income	1,188	1,212	1,342	1,415	1,401	-1%	18%
Derivatives expenses	-159	-158	-307	-381	-383	1%	141%
Net Fees & Commissions	343	361	410	407	430	5%	25%
Trading & Other Income ⁽¹⁾	23	114 ⁽²⁾	53	49	39	-21%	70%
Total Operating Income	1,395	1,528	1,499	1,491	1,486	0%	7%
Provisions	-334	-395	-263	-252	-214	-15%	-36%
OpEx	-676	-713	-701	-744	-743	0%	10%
Net Operating Income	385	421	534	495	529	7%	38%
Taxation	-86	-69	-112	-107	-106	0%	24%
Net Income	299	352	422	388	423	9%	42%

- **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⁽³⁾
- **Improving provisioning expenses** thanks to stringent risk measures and improving market dynamics
- **Efficiency improvement** leading to Opex growth below inflation

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 in a way that creates a layered, ribbon-like effect, extending from the top right towards the bottom left.

Key financial ratios

All figures quarterly		Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	ΔQoQ	ΔYoY
Profitability	RoAE	12.5%	14.2%	16.2%	14.1%	14.8%	+0.7pps	+2.3pps
	RoAA	1.3%	1.4%	1.6%	1.4%	1.4%	+0.0pps	+0.1pps
	Cost / Income	48.5%	46.6%	46.8%	49.9%	50.0%	+0.1pps	+1.5pps
	NIM after swap expenses	5.6%	5.5%	5.0%	4.6%	4.3%	-0.3pps	-1.3pps
Liquidity	Loans / Deposits ⁽¹⁾	116.6%	114.3%	116.5%	117.6%	118.9%	+1.3pps	+2.3pps
Asset Quality	NPL Ratio	6.5%	5.8%	5.6%	5.5%	5.4%	-0.1pps	-1.1pps
	Coverage	80.8%	84.0%	85.9%	85.9%	86.3%	+0.4pps	+5.6pps
	Cost of Risk	2.2%	2.5%	1.6%	1.4%	1.1%	-0.3pps	-1.1pps
Solvency	CAR	14.5%	14.5%	14.3%	15.8%	15.6%	-0.2pps	+1.1pps
	Tier I Ratio	12.5%	12.6%	12.6%	13.1%	12.8%	-0.3pps	+0.3pps
	Leverage	9.7	10.0	10.1	10.4	10.3	-0.1	+0.6

Balance sheet summary

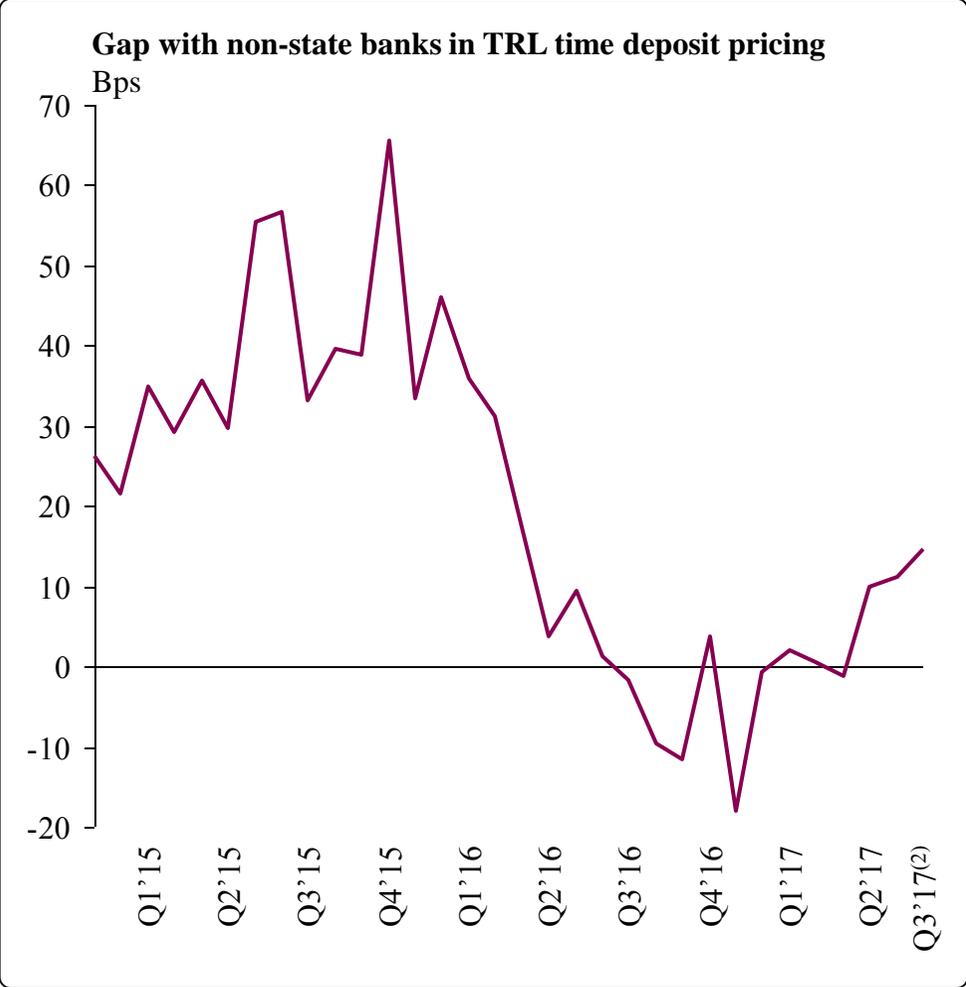
	TRL, mn	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	ΔQoQ	ΔYoY
Assets	Cash & Banks ⁽¹⁾	13,139	14,925	15,143	18,520	16,755	-10%	28%
	Securities	11,357	12,950	13,931	13,675	14,339	5%	26%
	Net Loans	61,424	62,923	69,191	73,928	79,004	7%	29%
	Fixed Assets & Subsidiaries	2,517	2,912	2,945	3,002	3,019	1%	20%
	Other	5,551	7,792	7,801	7,312	6,870	-6%	24%
	Total Assets	93,988	101,503	109,010	116,437	119,987	3%	28%
Liabilities & Equity	Deposits	51,471	53,939	58,282	62,013	65,212	5%	27%
	Customer deposits	49,062	51,966	54,889	58,125	63,090	9%	29%
	Bank deposits	2,409	1,973	3,393	3,888	2,122	-45%	-12%
	Borrowings	22,193	24,821	25,197	27,267	28,168	3%	27%
	Bonds Issued	3,906	4,312	4,527	6,563	7,071	8%	81%
	Funds Borrowed	8,755	10,758	12,706	13,160	12,344	-6%	41%
	Sub-debt	2,780	3,236	3,380	3,217	3,323	3%	20%
	Repo	6,752	6,515	4,584	4,326	5,429	25%	-20%
	CBRT swap funding	0	0	2,146	2,597	2,710	4%	
	Other	10,620	12,617	12,644	13,349	12,230	-8%	15%
	Equity	9,704	10,126	10,742	11,212	11,667	4%	20%
Total Liabilities & Equity	93,988	101,503	109,010	116,437	119,987	3%	28%	

Year to date income statement

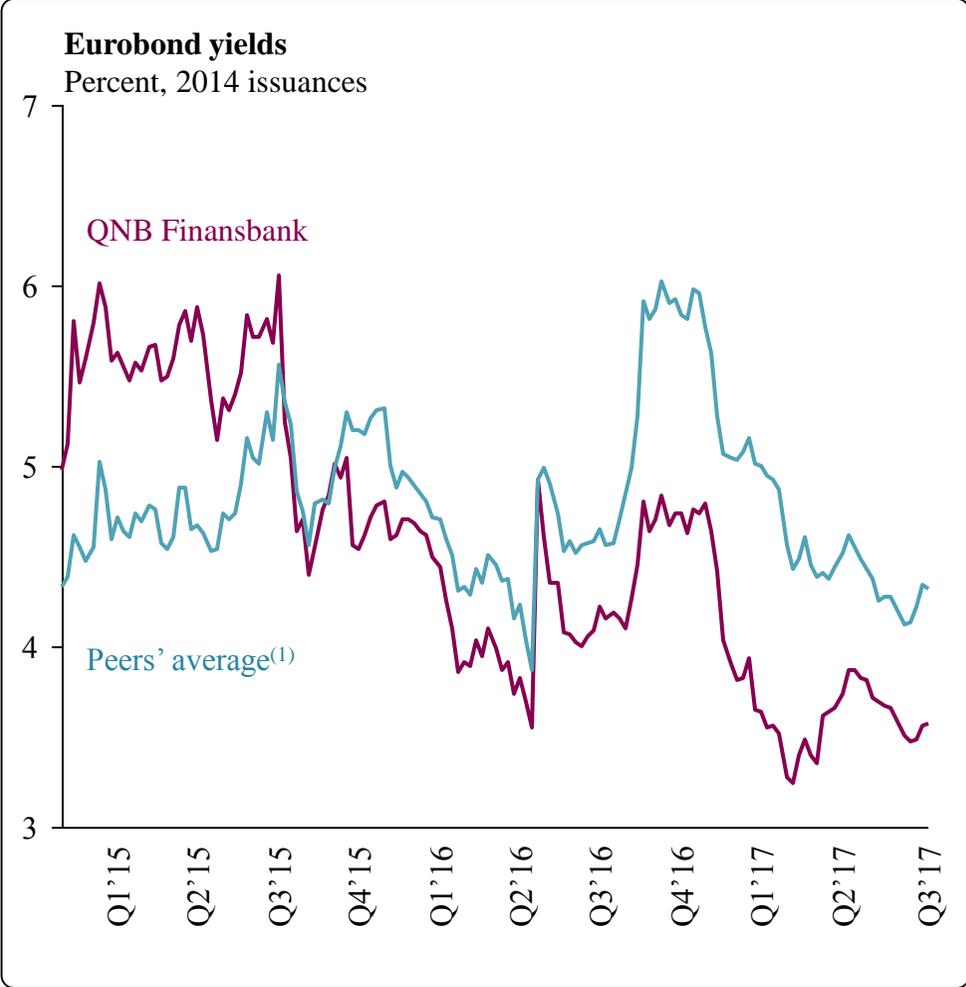
TRL, mn	2015	2016	9M'16	9M'17	ΔYoY
Net Interest Income after Derivatives Expenses	3,145	3,786	2,732	3,087	13.0%
Net Interest Income	3,947	4,504	3,292	4,158	26.3%
Derivatives expenses	-802	-718	-560	-1,070	91.2%
Net Fees & Commissions	1,314	1,363	1,002	1,247	24.5%
Trading & Other Income ⁽¹⁾	351	452	338	141	-58.2%
Total Operating Income	4,810	5,600	4,072	4,476	9.9%
Provisions	-1,170	-1,316	-921	-729	-20.9%
OpEx	-2,737	-2,800	-2,088	-2,189	4.8%
Net Operating Income	903	1,484	1,063	1,558	46.6%
Taxation	-197	-280	-212	-325	53.6%
Net Income	706	1,203	851	1,233	44.8%

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



(1) Eurobonds of Garanti, Akbank, Isbank and Yapi Kredi issued around the same time as QNB Finansbank
 (2) As of Aug'17
 Source: BRSA; Bloomberg

Disclaimer

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