



# INVESTOR PRESENTATION

## June 2016



Ziraat Bank

# Macroeconomic Outlook

	2014	2015	2016F
GDP growth (%)	3.0	4.0	4.5 <sup>(1)</sup>
Unemployment (annual) (%)	9.9	10.3	10.2
CPI (annual) (%)	8.2	8.8	7.5
Current Account Balance/GDP (%)	-5.4	-4.5	-3.9
Public Debt/GDP (%)	33.5	32.9	31.7
Budget Deficit/GDP (%)	1.3	1.2	1.3

Source: CBRT, TURKSTAT, Ministry of Finance

(1) 2016 Q1 GDP growth 4.8%

Actual  
 Forecast (Medium Term Programme )

- ✿ Market pricing for FED's rate hike expectations at slower pace
- ✿ 4.8% economic growth in Q1 2016 mainly driven by domestic demand
- ✿ 200 bps cut in CBRT marginal lending rate from the beginning of 2016. Weighted average cost of CBRT funding decreased to %8,21 as of end of Q2 from %8,90 as of end of Q1
- ✿ Relatively contained inflation in H1



Where **Ziraat** is...

# Ziraat's perspective through 2016

## Strategy & Organization

- ✓ Expanding local and international network
- ✓ Channel optimization in Alternative Delivery Channels
- ✓ More focus on digital banking
- ✓ Big data and behaviour analysis for improved customer experience management
- ✓ Pivotal role in intermediating international trade via large country coverage
- ✓ Accessing untapped client segments with participation banking
- ✓ Loan and deposit growth compatible with 2016 budget

## Lending

- ✓ Corporate and SME driven loan growth
- ✓ Contribution from project finance to loan book (outstanding amount > USD 6 bn)
- ✓ Effective loan portfolio management by prudent and proactive credit monitoring
- ✓ Loan/Asset ratio below banking industry average
- ✓ Cash and non-cash lending growing

## Funding

- ✓ Deposit driven funding base
- ✓ Diversifying non-deposit funding base

## Profitability and Capitalization

- ✓ Sustained focus on risk management
- ✓ Robust capital base and sustainable profitability
- ✓ Conservative behaviour in provisioning

# A leading bank with extensive network

## The Bank

Owned by Turkish Undersecretariat of Treasury

152 years of banking legacy

More than 30 mn customers

Commercial bank

Investment grade ratings since 2012

Appetite to grow locally and globally

Sound and improving financial outlook

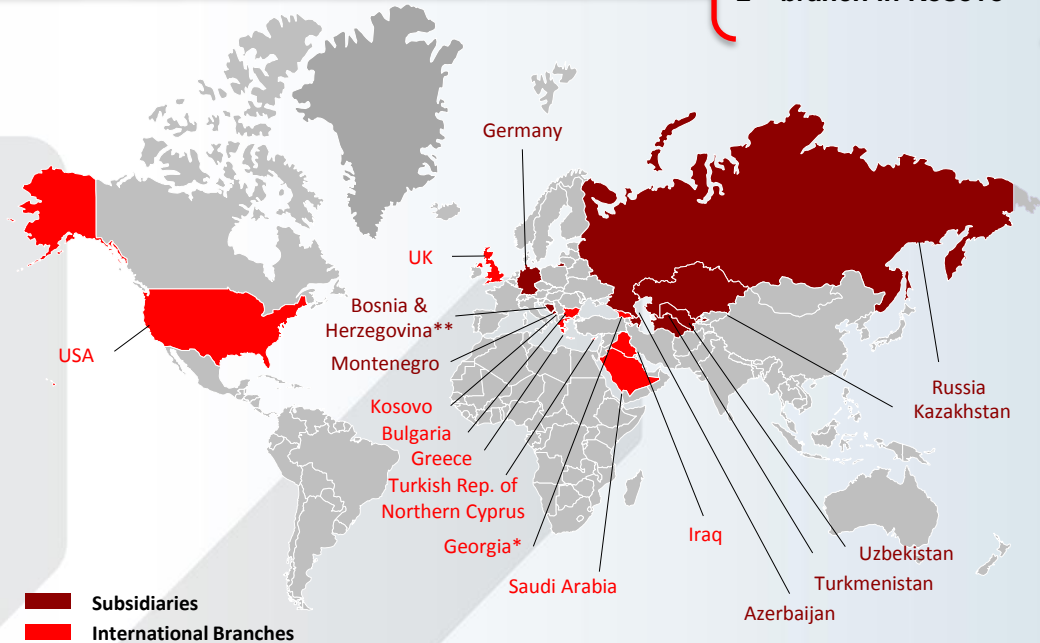
### Local Subsidiaries

- ✓ Ziraat Sigorta (insurance)
- ✓ Ziraat Hayat ve Emeklilik (pension)
- ✓ Ziraat Leasing
- ✓ Ziraat Yatırım (securities brokerage & investment house)
- ✓ Ziraat Portföy (asset management)
- ✓ Ziraat Teknoloji (IT)
- ✓ Ziraat Participation Bank (Islamic Banking)

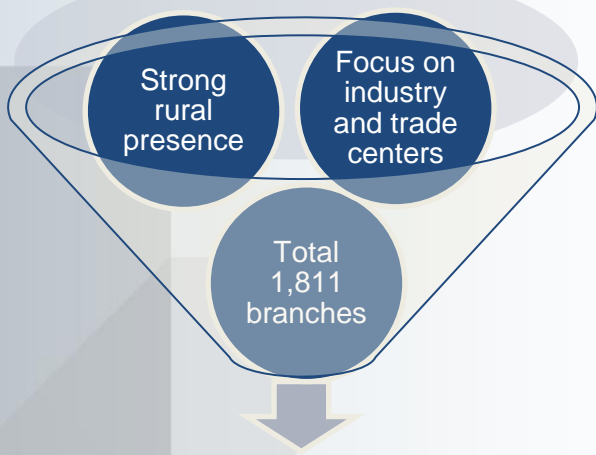
Plans to establish Real Estate Investment Trust

### International Network

Plans to open a new branch in Bahrain and 2<sup>nd</sup> branch in Kosovo



# Largest branch network, highly efficient

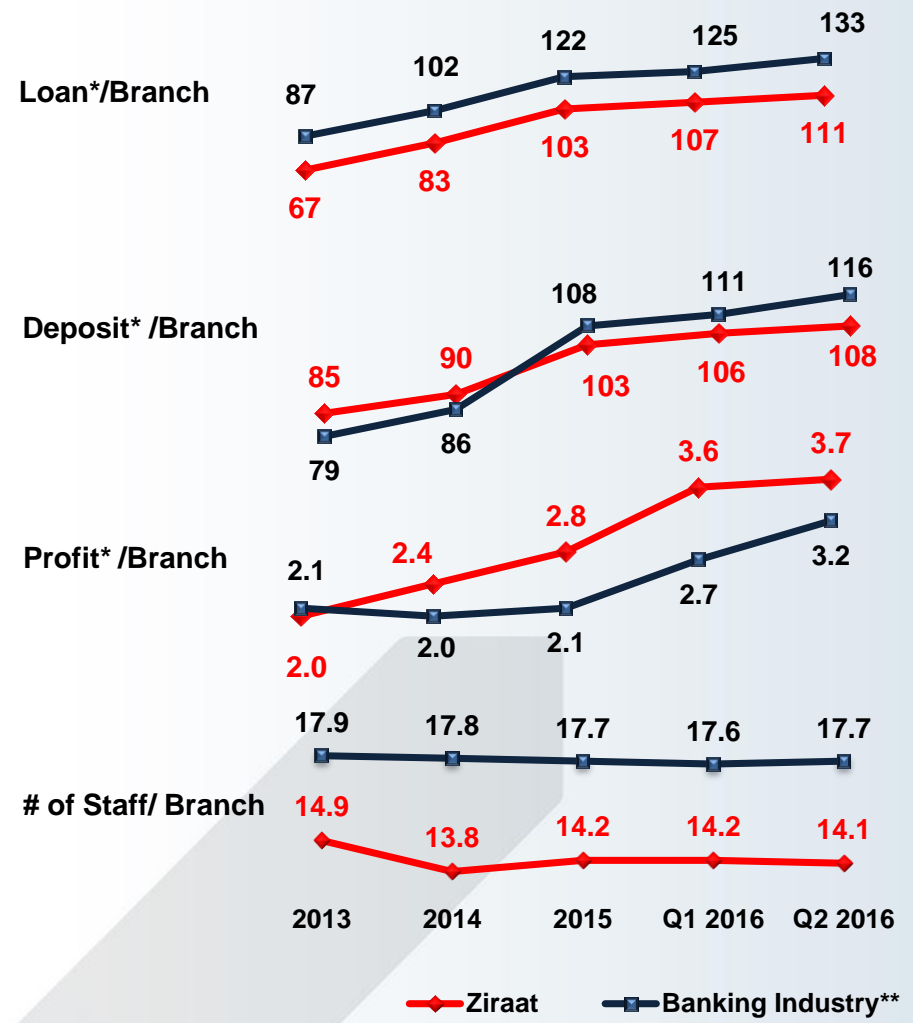


30-40 new branches projected in 2016  
**Efficient, small branches (# of staff ≤ 10)**

Since 2012 **378** new branches are opened  
**(7 new branches in H1 2016)**



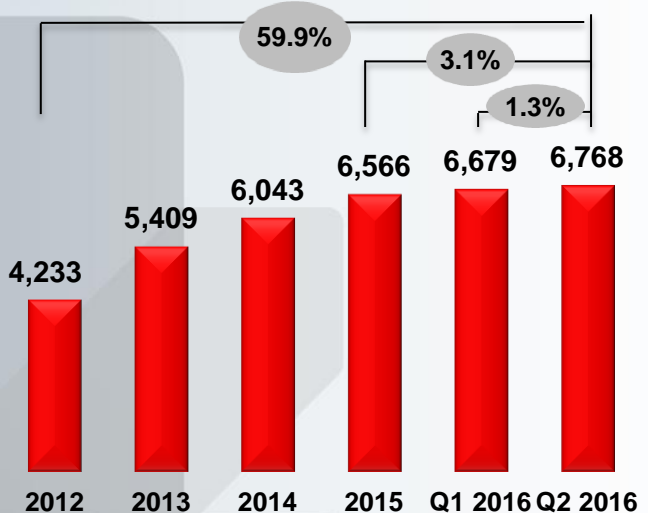
## Evolving branch efficiency



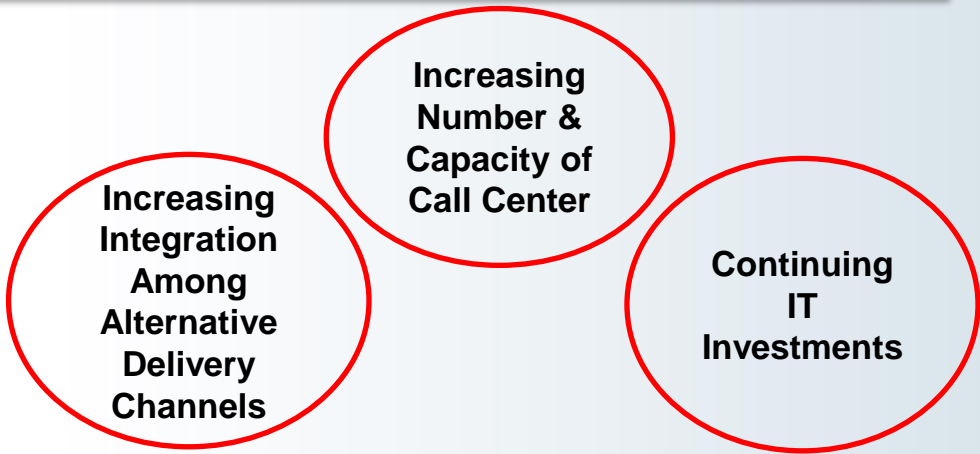
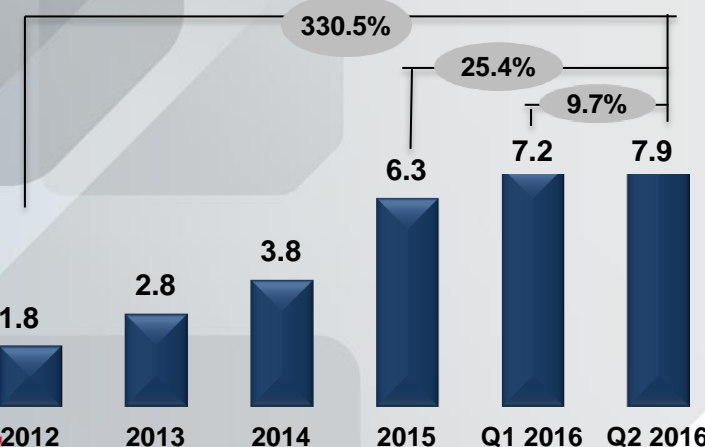
\*All figures are in TL million and profit figures annualised  
 \*\*Source:BRSA

# More focus on digital banking

## Number of ATMs



## # of internet banking customers (mn)



**94.7%** transactions performed through ADCs (\*)

**#1** in total ATM market share & debit card

**13.9%** market share in ATMs

**24 mn** # of debit cards

**25.7%** market share in debit card turnover

(\*) Among collections of social security, taxes and bills; ADS: Alternative Delivery Channels

# Sound KPIs and strong market penetration

## Key Financials Q2 2016 (TL bn / (%))

	Ziraat	Banking Industry *
Total Assets	322	2,477
Cash Loans	201	1,610 <sup>(1)</sup>
Securities	67	350
Total Deposits	196	1,394 <sup>(2)</sup>
Shareholders' equity	36	285
Net Profit	3.4	19.0
ROAE	20.3	14.4 <sup>(3)</sup>
ROAA	2.2	1.6 <sup>(3)</sup>
NIM	4.7	4.6
Loan/Deposit	102.9 <sup>(4)</sup>	115.5
Cost/Income	32.0	40.6
NPL	1.7	3.3
Tier 1 ratio	13.5	14.0
Capital Adequacy Ratio	14.6	15.8

1) Including banks' loans with an amount of 15.5 TL bn

2) Including banks' deposits with an amount of 76.8 TL bn

3) Annualised

4) 100% when intermediated loans for public funds are excluded.

5) Net profit growth for profit generated in H1 2015 and H1 2016

6) Net effect of specific provision increases and free provision reversals



# Ziraat Bank

**Loan Growth**  
**Ziraat** **Banking Industry**  
 QoQ 4.3% QoQ 3.8%  
 YoY 19.7% YoY 12.4%

**Deposit Growth**  
**Ziraat** **Banking Industry**  
 QoQ 2.0% QoQ 2.3%  
 YoY 14.2% YoY 11.7%

**Reported Net Profit Growth**  
**Ziraat** **Banking Industry**  
 QoQ 10.5% QoQ 32.4%  
 YoY<sup>(5)</sup> 39.5% YoY 39.6%

**Adjusted Net Profit Growth<sup>(6)</sup>**  
**Ziraat** **Banking Industry**  
 QoQ 26.2% QoQ 32.4%  
 YoY<sup>(5)</sup> 49.9% YoY 39.6%

## Rankings (among top 7 banks)

	2012	Q2 2016
Total Asset	2	1
Cash Loan	5	1
General Purpose Loan	1	1
Housing Loan	6	1
Equity	4	1
Non-Cash Loan	7	1
Deposit	1	1
Net Profit	4	1
ROAE	2	1
ROAA	5	1
NIM	2	1

## Market Shares (%)

	2012	2013	2014	2015	Q2 2016
Assets	11.9	12.0	12.4	12.8	13.0
Loans (Cash + non-cash)	8.2	10.1	11.2	12.6	12.8
Securities	24.2	21.9	21.4	19.7	20.3
Deposits	14.5	14.2	13.7	14.1	14.1



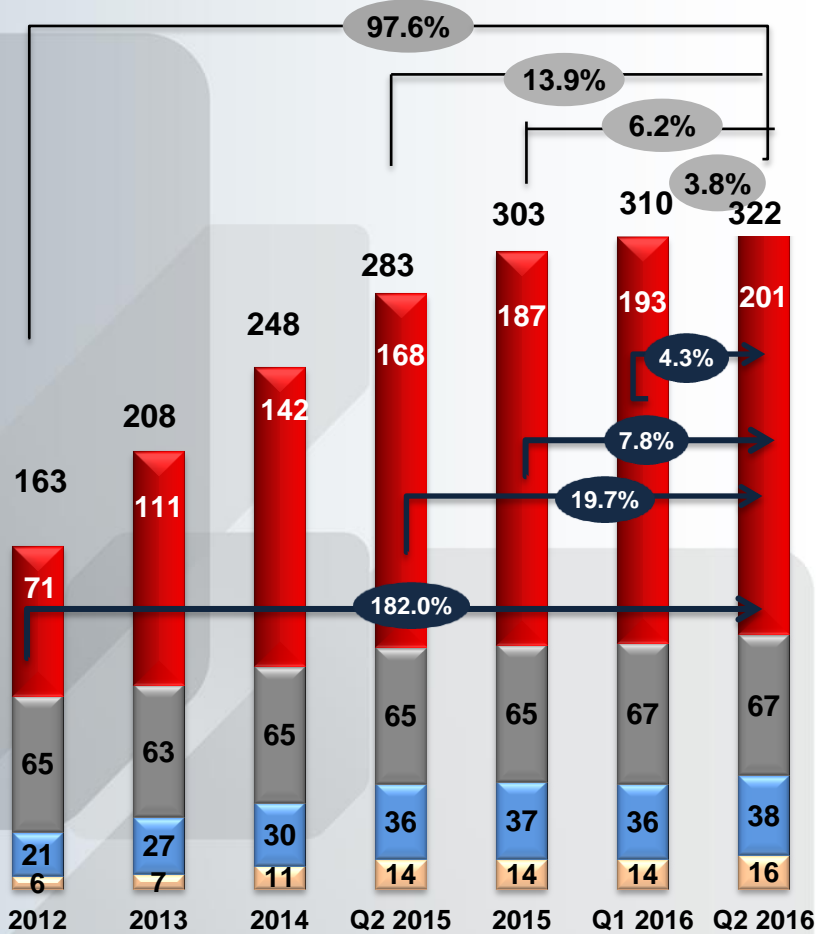


# How we did ...

*Achievements and trends*

# Asset mix compatible with main strategies

## Successfully diversifying asset base



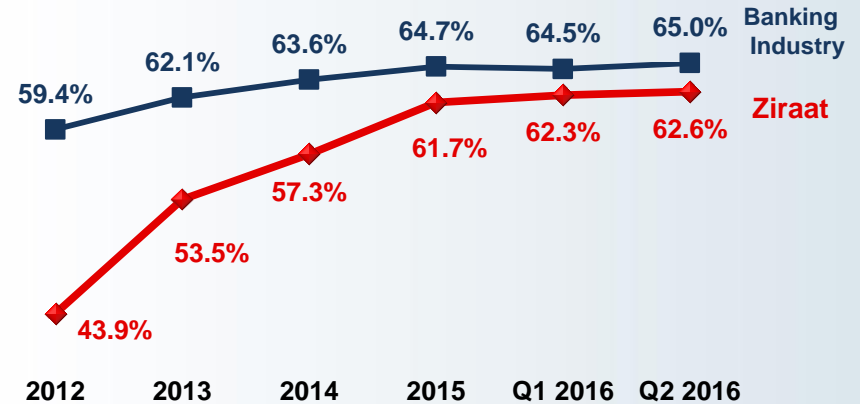
Other Assets Reserve Requirement & Liquid Assets Securities Portfolio Loans

Asset growth Loan growth



## More customer driven balance sheet

### Loan / Asset



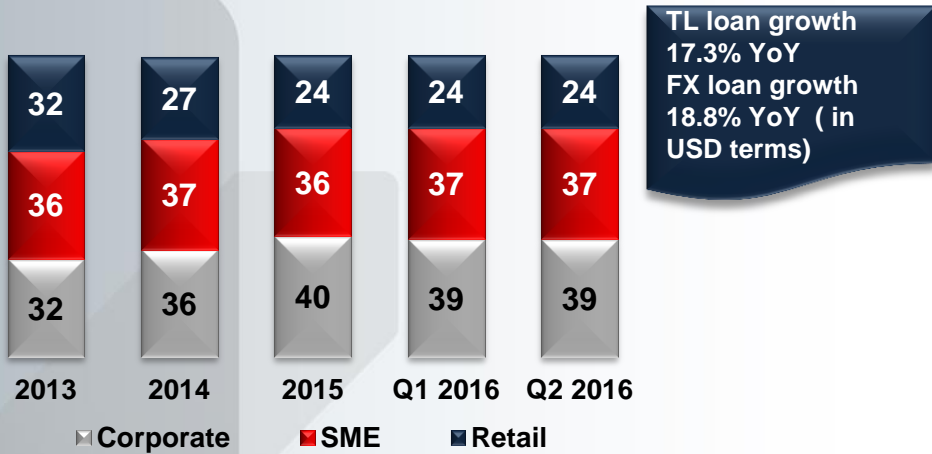
Source: Banking Industry data BRSA

## Moderate but above the banking industry average growth

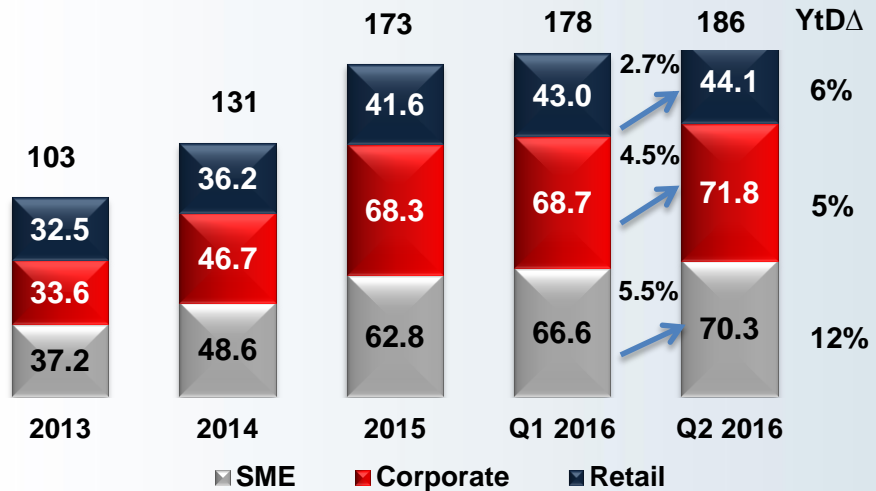
- ✓ Asset growth mainly driven by business loan growth
- ✓ 4.3% loan growth QoQ (Currency adjusted growth: 3.1%)
- ✓ TL Denominated Assets / Total Assets : 66.7%
- ✓ Successfully diversified asset base: migration from securities portfolio to loan book continues

# Selective growth in business banking, no material risk concentration

Loan book by customer segmentation\*(%)

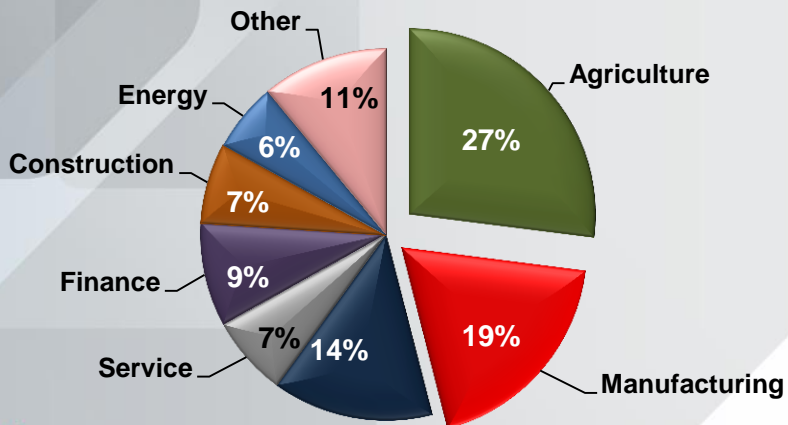


Total loan amounts\* by segments (TL bn)

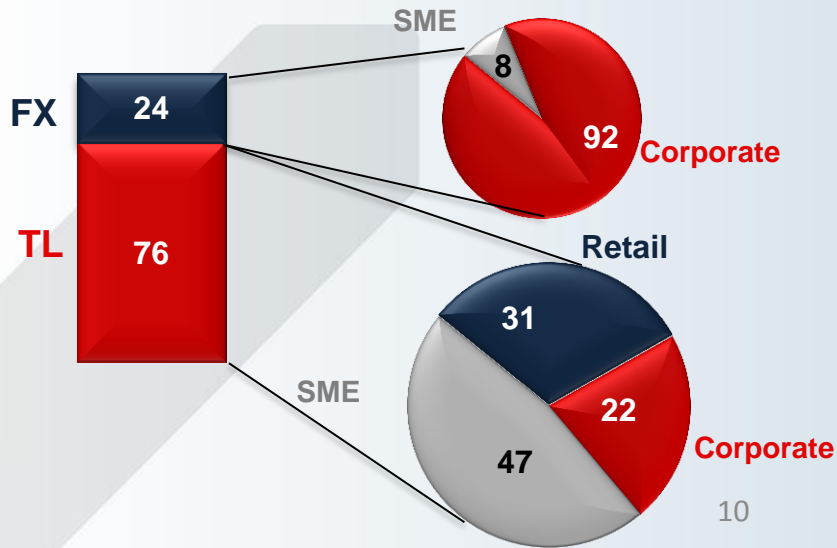


\* Accruals, intermediated loans of public funds and foreign branch lending are excluded

Breakdown of business banking by sector Q2 2016 (%)

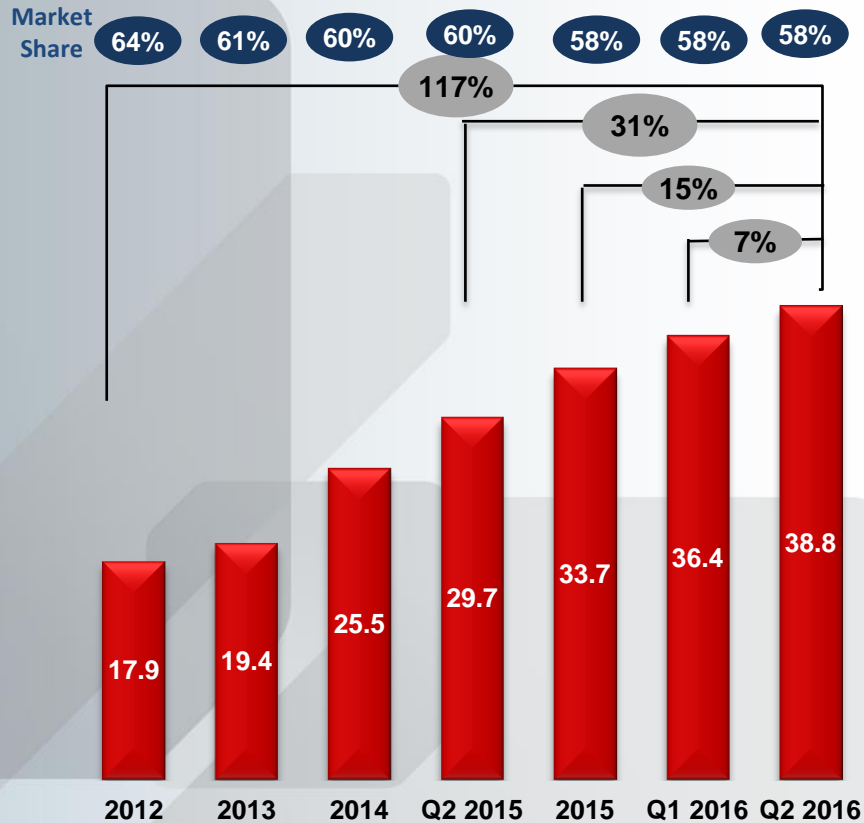


Currency breakdown of loans Q2 2016 (%)



# High expertise in agricultural sector

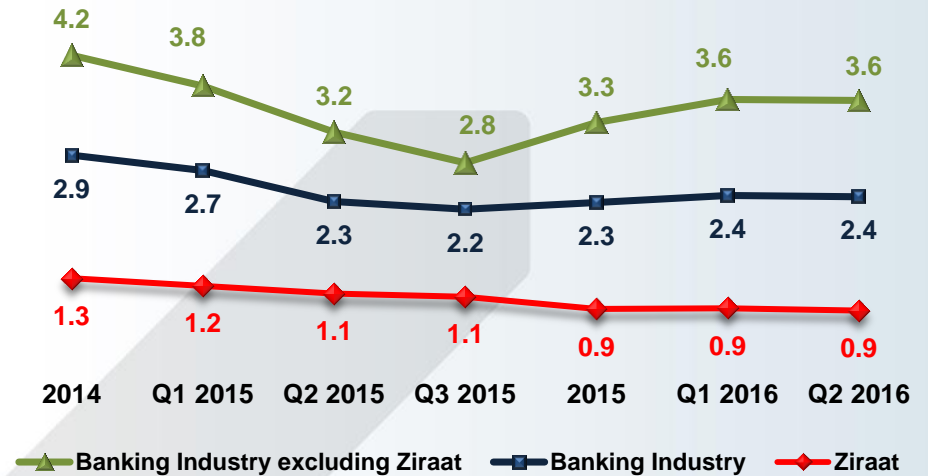
## Loans to agricultural sector (TL bn)



Source: BRSA – for agricultural loans of the Banking Industry  
Accruals and intermediated loans of public funds are excluded

- ✓ Exclusive provider of subsidized agricultural loans
- ✓ Long-term loans constitute 36% of total agro-loans (Q2 2016)
- ✓ Strategy to focus on agro-industry loans

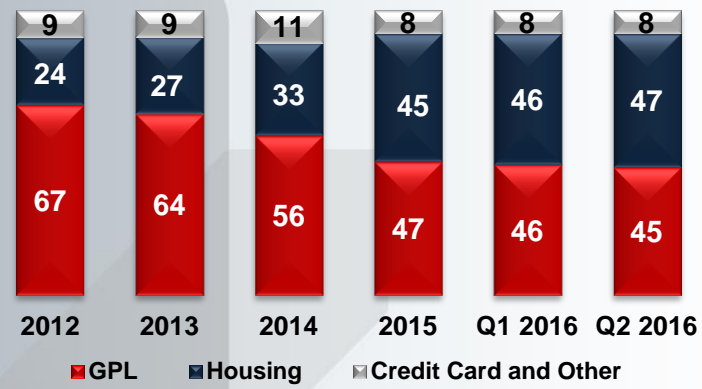
## Sustainably low agricultural NPL ratio (%)



Source: BRSA  
Agricultural NPL calculated using loans to agricultural sector

# Retail loan growth led by housing loans

## Breakdown of retail loans \* (%)

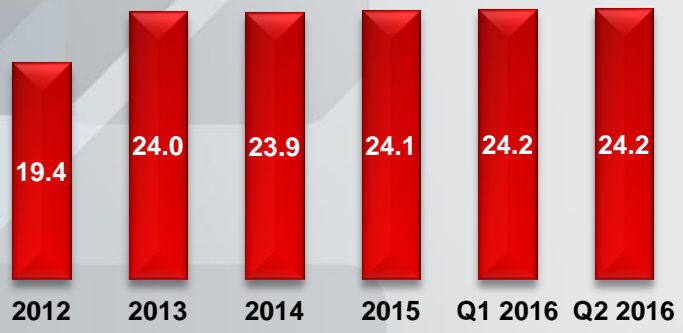


\*Accruals are excluded  
\*Intermediated loans of public funds are included

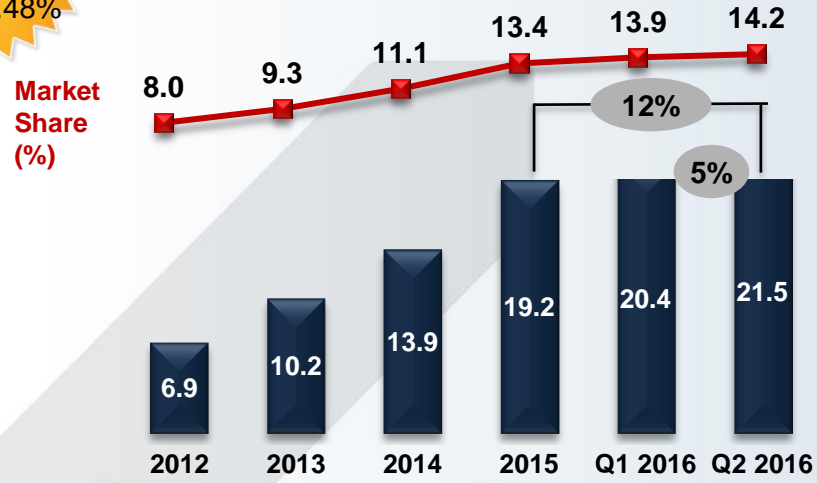
- ✓ Strong presence in retail banking ( app. 6 mn payroll customers)
- ✓ Leader in banking industry in housing loans
- ✓ Retail segment loan yield increased 20 bps QoQ
- ✓ Housing loan yield increased 30 bps QoQ
- ✓ Conservative L/V in mortgage lending (60%)
- ✓ Cautious growth in credit card business with credit card NPL below peers (Ziraat: 3.3% vs Banking Industry: 7.3%)

High asset quality  
Ziraat housing NPL 0.22% vs Banking Industry 0.48%

## General Purpose Loans (TL bn)



## Housing loans\* (TL bn)



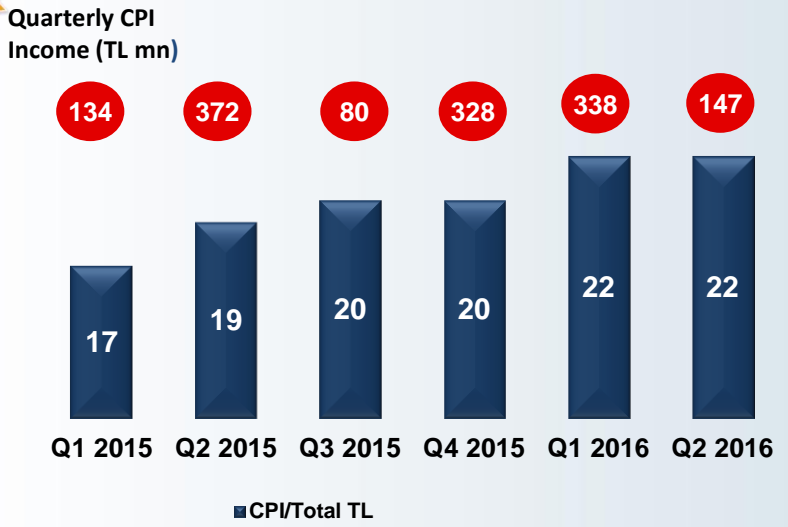
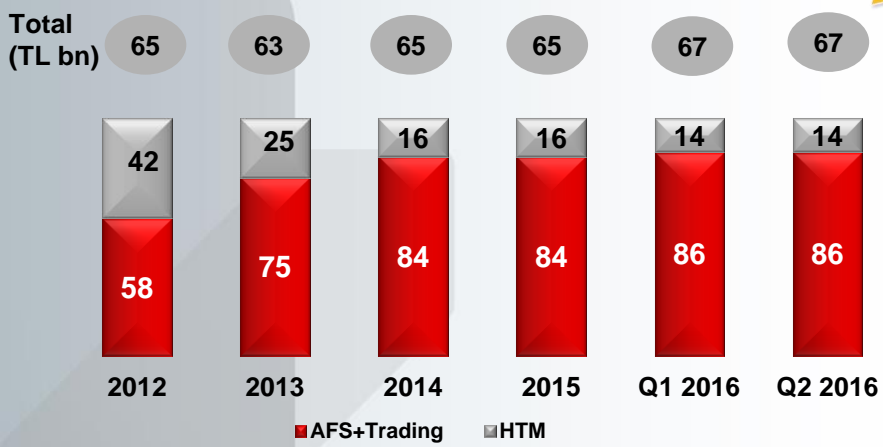
\*Accruals and intermediated loans of public funds are excluded

# No significant change in securities portfolio

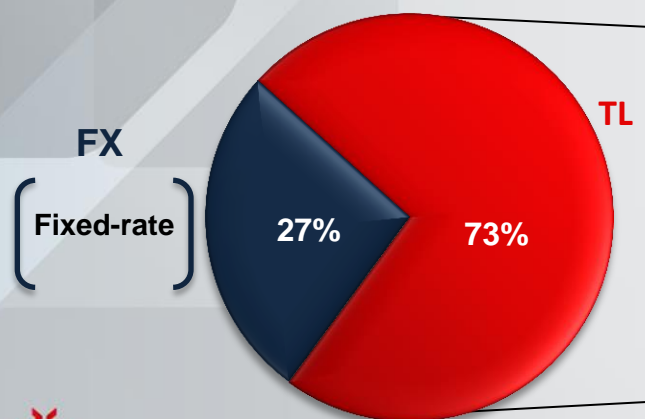
Composition of securities (%)

MtM gains from AFS in H1 TL 1,660 mn

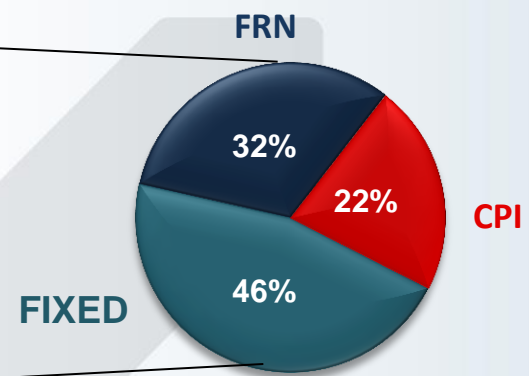
CPI Linker /Total TL Securities (%)



Currency breakdown of securities, Q2 2016



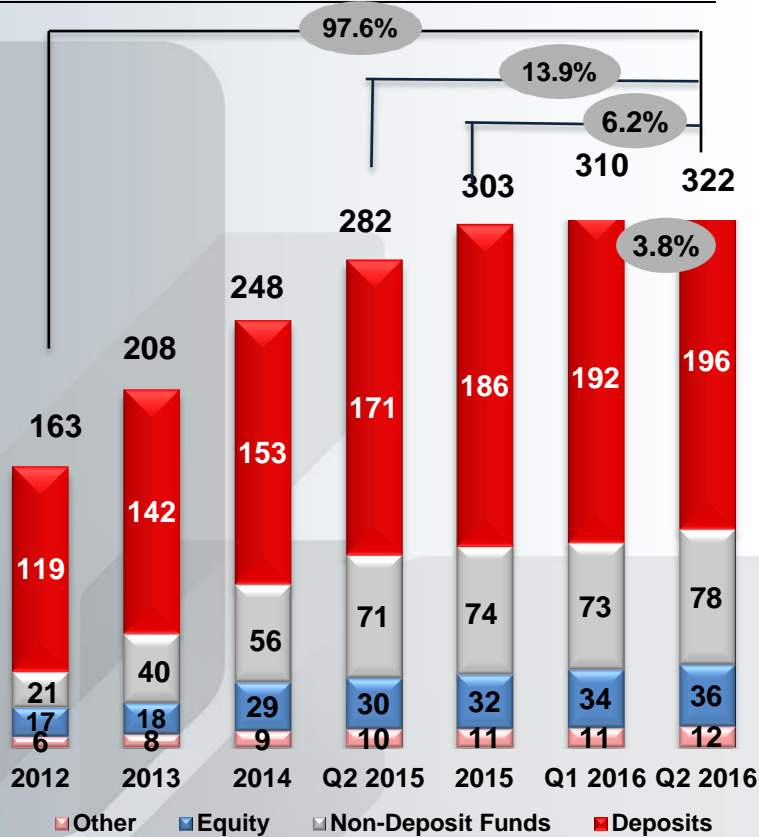
Breakdown of TL securities\*, Q2 2016



\*Interest accruals excluded.

# Deposit driven liabilities structure

## Composition of liabilities (TL bn)

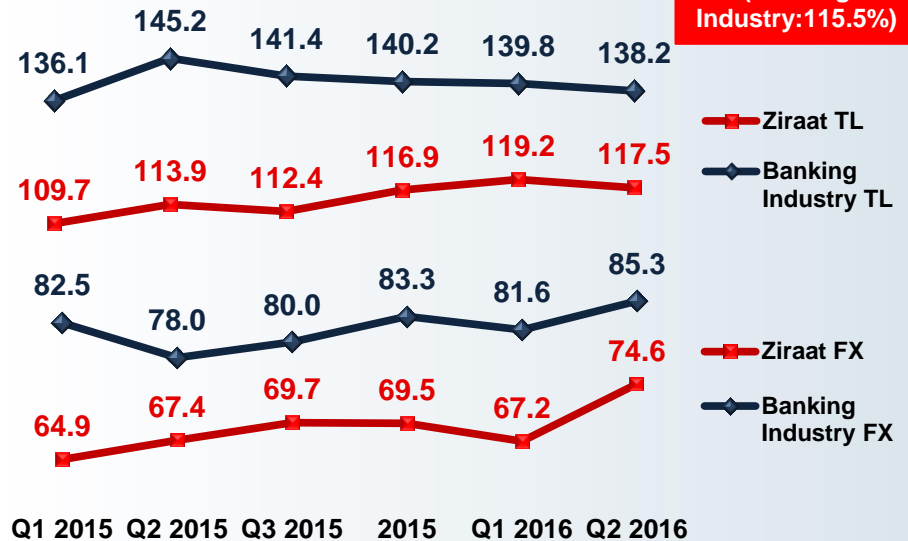


Growth (%)	QoQ	YtD	YoY
Deposits	2	5	14
Non-Deposit Funds	6	5	9
Equity	6	14	21

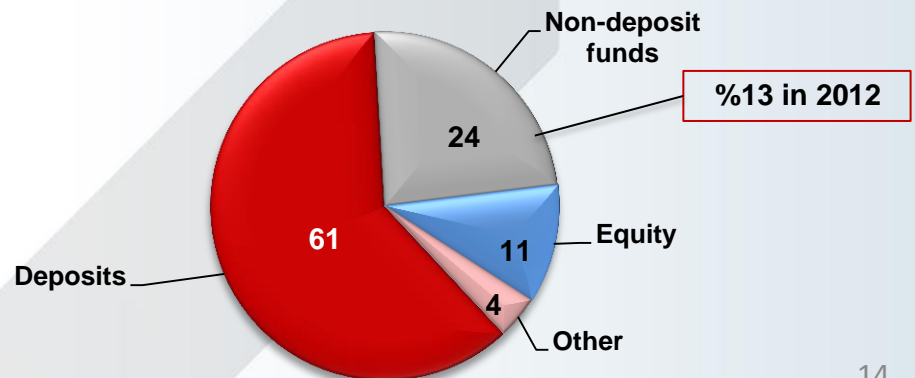


## L/D lower than Banking Industry average

### Loans/Deposits(\*) (%)

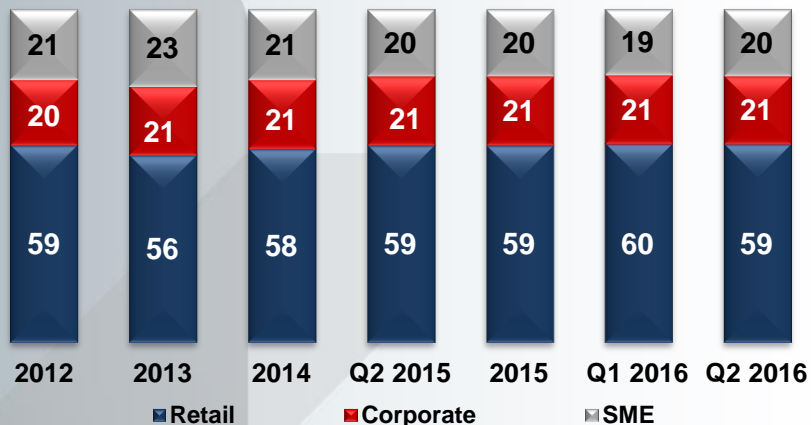


## Composition of liabilities Q2 2016 (%)



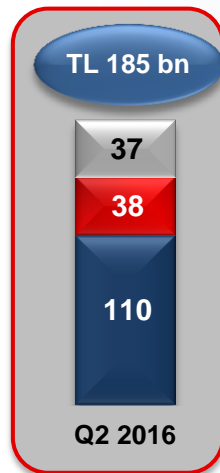
# Widespread deposit base

Deposits by customer segmentation\* (%)

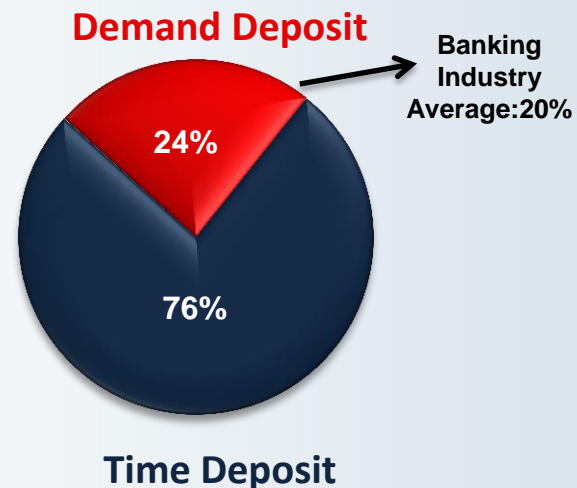


\* Bank deposits and foreign branch deposits are excluded.

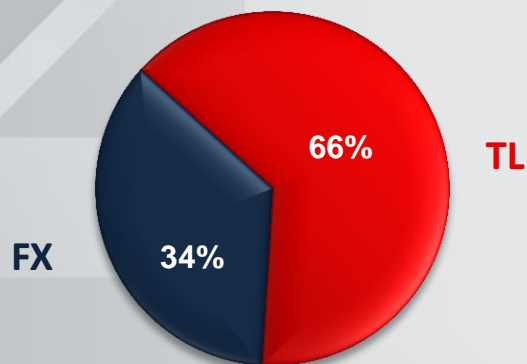
Total amount\*



Term structure of deposits Q2 2016



Currency breakdown of deposits Q2 2016

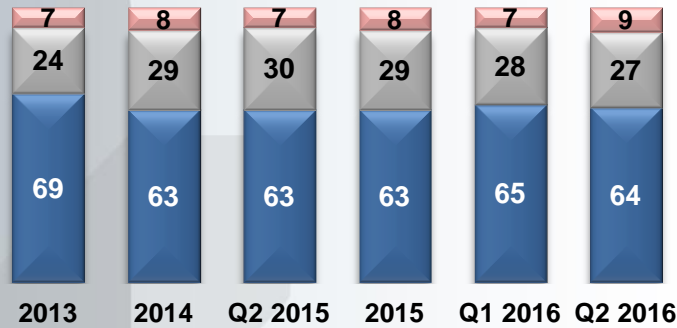


- ✓ Granular and diversified deposit portfolio
- ✓ Demand deposit share steadily increasing since 2012
- ✓ Core deposit ratio around 96%
- ✓ Accounts greater than TL 1 million / total deposits 39.3% (Banking Industry: 51.6%)



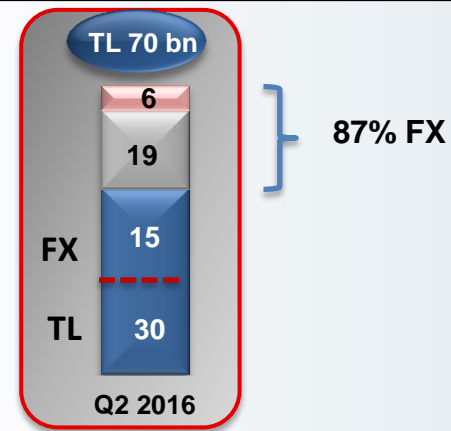
# Diversified non-deposit funding

Composition of non-deposit funds\* (%)



■ Repo ■ Funds borrowed ■ Bonds issued

Breakdown of non deposit funds\* (TL bn)



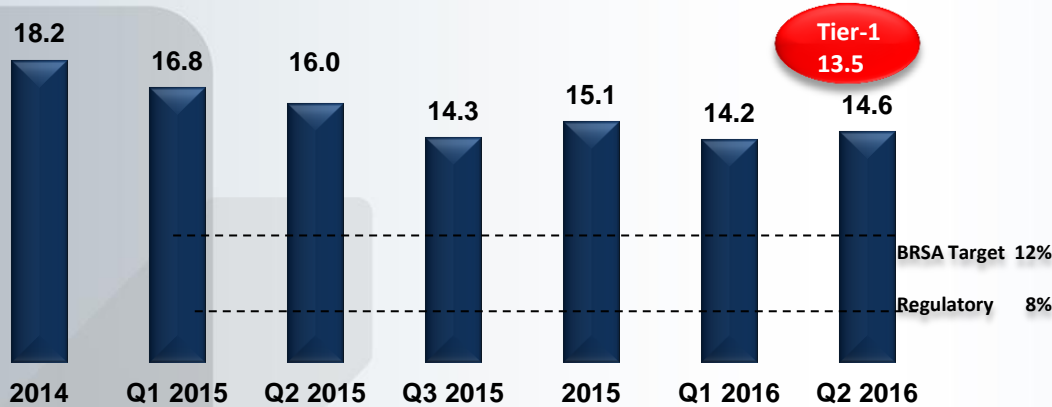
\* Intermediated loans of public funds are excluded

## Non-Deposit Funding in Q2 2016

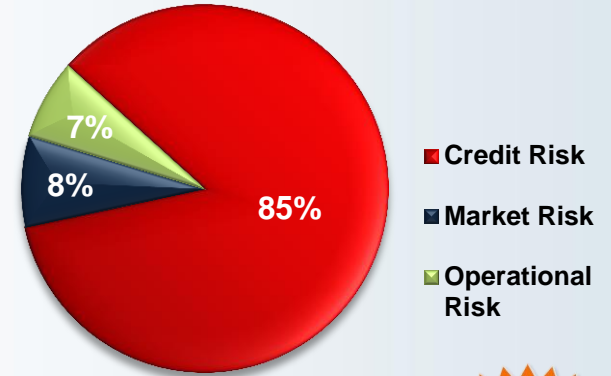
- **IFI's** (e.g World Bank, EIB, AFD): More than 6.5 bn TL equivalent
- In May 2016, EUR 100 mn loan agreement with EIB, 11 year tenor, for SME and corporate financing
- **Syndicated Loan Facility** : On March 2016, syndicated loan facility of USD 1.1 bn rolled 100%
- **Benchmark Eurobond Issuance**: 5yr, USD 500 mn eurobond offering in April 2016 (outstanding total USD1.25 bn )
- **FX repo funding** outstanding total USD 5.3 bn

# Sound capital structure and internal capital generation

Capital adequacy ratio (%)



Risk Weighted Assets (%) June 2016



## Strong capitalisation assuring sustainable growth

- ✓ Negative impact of BRSR regulations (due to Basel III) on CAR offset by increasing profit
- ✓ Moderate market risk (8% of total RWAs)
- ✓ Low credit risk due to prudent credit policies, procedures and pro-active monitoring
- ✓ Leverage\* is close to Banking Industry average: Ziraat 7.9 (Banking Industry: 7.7)
- ✓ High profitability supporting further loan growth
- ✓ CAR is highly above the regulatory limit under various scenario analyses (including SIFI buffers)

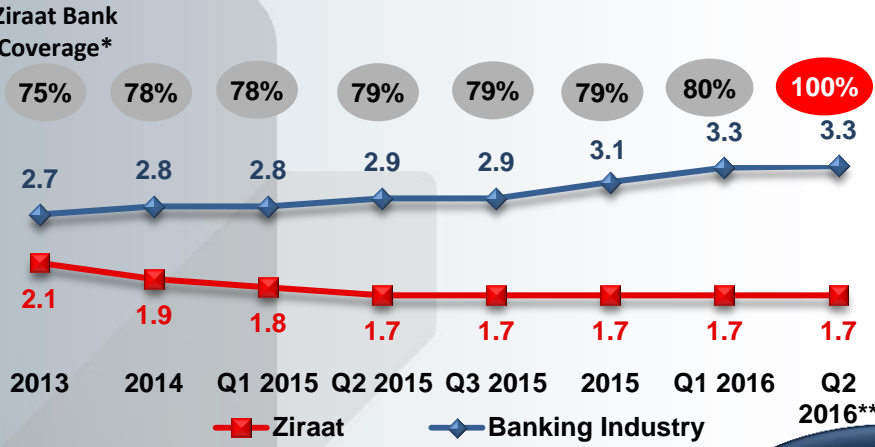
**High**  
Tier 1 / Total  
Capital ratio  
(93%)

**QoQ Credit  
RwA growth  
(3%) < Loan  
growth  
(4.3%)**

\*Leverage (x) = (Assets / Shareholders' Equity) - 1

# Robust asset quality, conservative provisioning policies

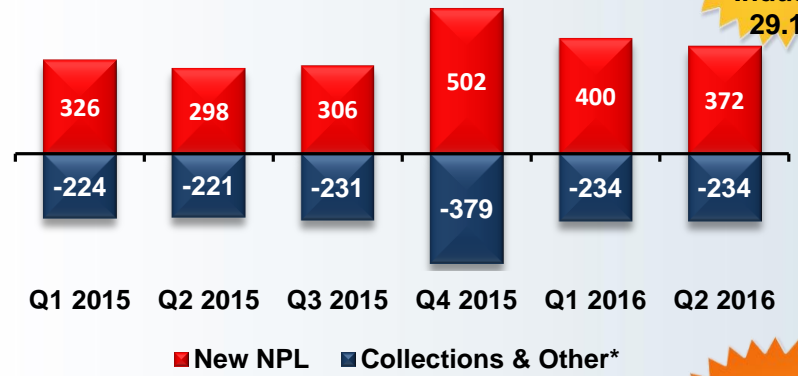
## NPL and coverage ratios\* (%)



Source: BRSA for Banking Industry data  
 \* Intermediated loans of public funds are excluded  
 \*\* Without single highest item: NPL ratio of 1.3%

Policy change :  
 Specific loan provisions  
 increased to 100%

## New NPL & Collections (TL mn)

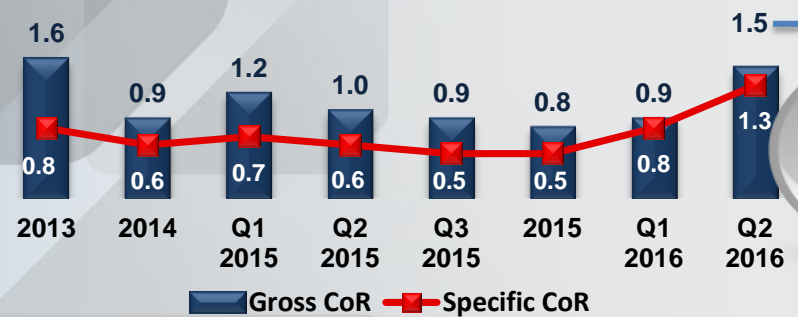


Gross NPL formation YoY  
 Ziraat 18%  
 Banking Industry 29.1%

\*Restructured NPL's

Highest specific and cash coverage among peers

## CoR\* (%)



\* Gross CoR: (specific provisions expenses+general provisions expenses)/(average loans)  
 Specific CoR:(specific provisions expenses)/(average loans)  
 (1) Adjusted: Net effect of specific provision increases and free provision reversals 215.4 mn TL free provision reversal in Q2 2016

	TL
Specific	TL3.2 bn
General	TL3.1 bn

Adjusted<sup>(1)</sup> Gross CoR 0.9% and Specific CoR 0.7%

## NPL ratio by segments(%)

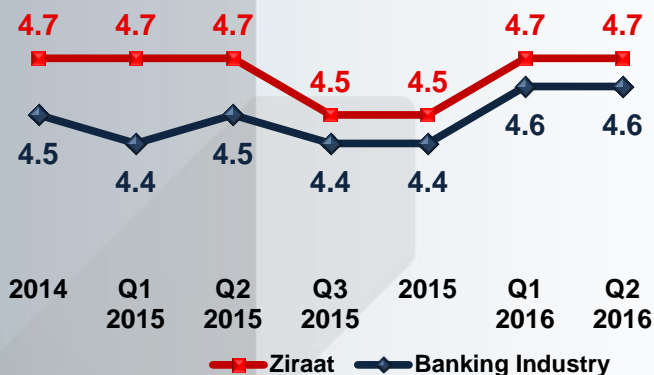
	Retail		Corporate		SME	
	Q1 2016	Q2 2016	Q1 2016	Q2 2016	Q1 2016	Q2 2016
Ziraat	1.4	1.4	1.3	1.2	2.2	2.2
Banking Industry*	4.4	4.3	2.2	2.3	4.1	4.1

\*Source: BRSA



# Core spread improvement contributed to NIM

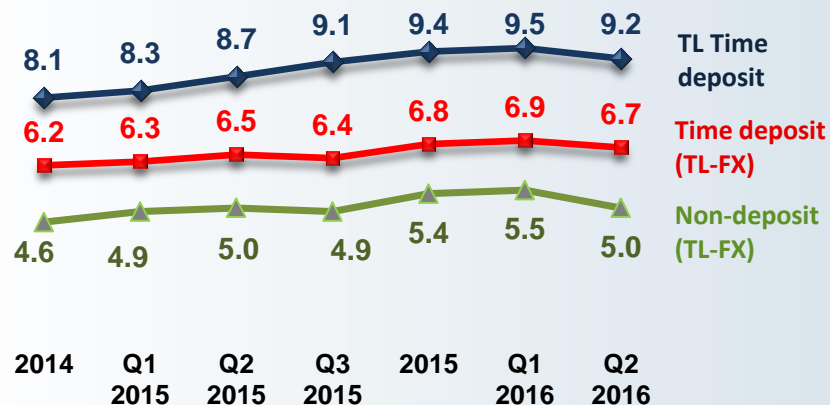
## Net interest margin (NIM cum. %)



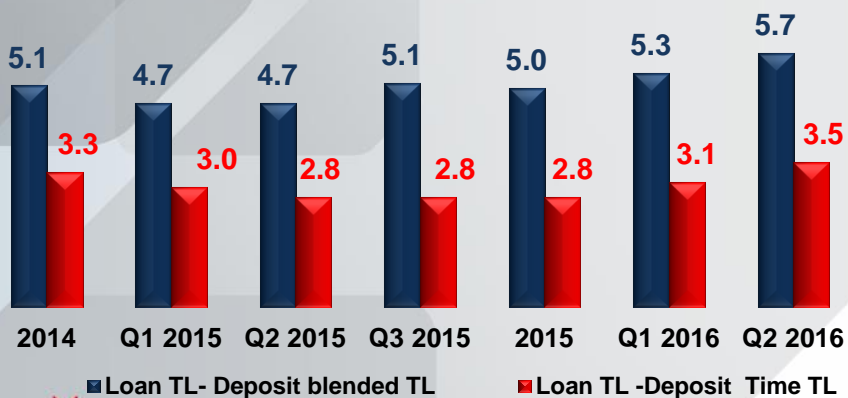
**IMPACT on NIM**  
 Loan +10 bps  
 MM Funding +10 bps  
 Securities -20 bps

\*NIM = Net Interest Earnings / Av. IEA

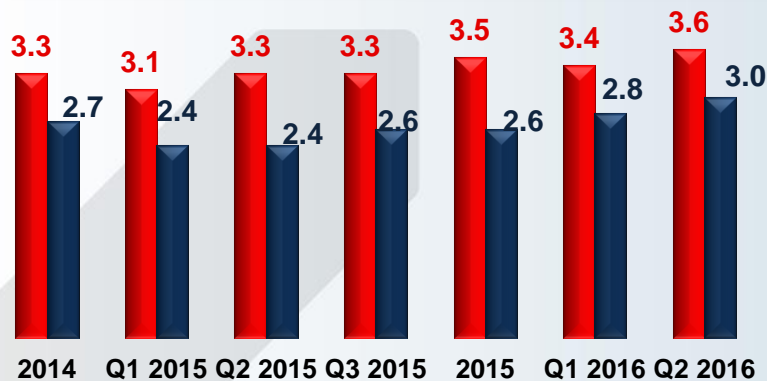
## Cost of time deposit vs non-deposit funds (%)



## TL spreads (%)



## FX spreads\* (%)



\*Loan FX-Deposit Time FX ■ USD ■ EUR

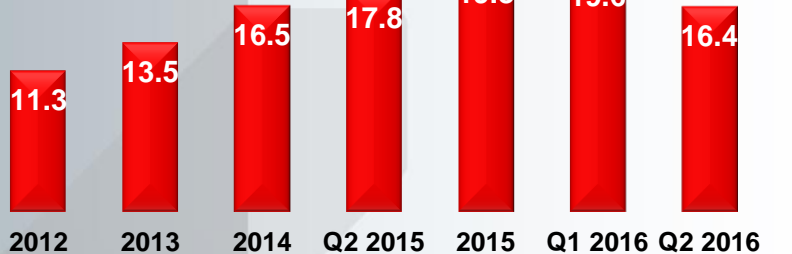
# Solid core banking income generation

## Net profit<sup>(1)</sup> and market share (%)

Net Profit (TL bn)

2.7    3.3    4.1    1.3    5.2    1.6    1.8

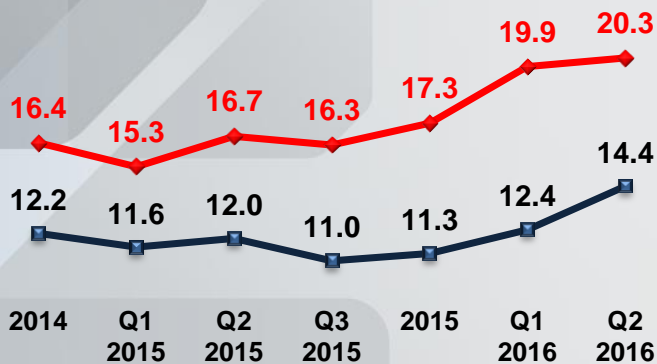
Market Share (%)



1) Profit generated in the period

2) Adjusted: Net effect of specific provision increases and free provision reversals  
215.4 mn TL free provision reversal in Q2 2016

## Return on equity (%)



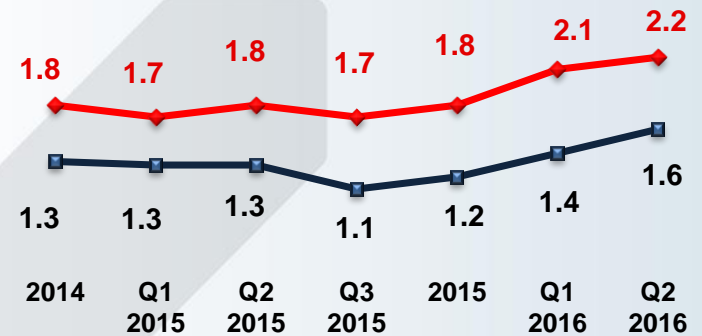
**Leading ROAE & ROAA among peers**

◆ Ziraat  
■ Banking Industry\*

\*Source: BRSA

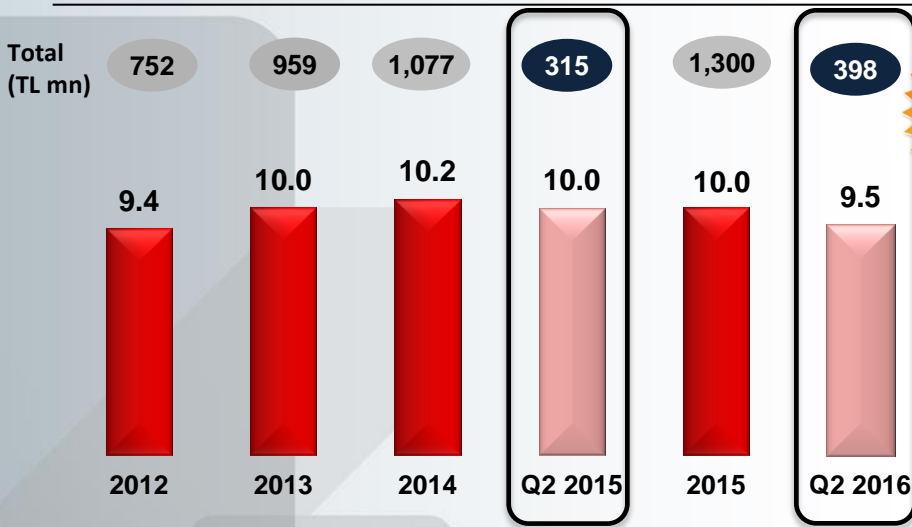
- ✓ Banking Industry leader in total profits since 2013
- ✓ TL 3.4 bn profit generated in H116; 39.5% YoY growth
- ✓ Change in NPL coverage policy
- ✓ Loan growth and increasing fee income contributing to bottom line
- ✓ Effective cost management policies

## Return on assets (%)



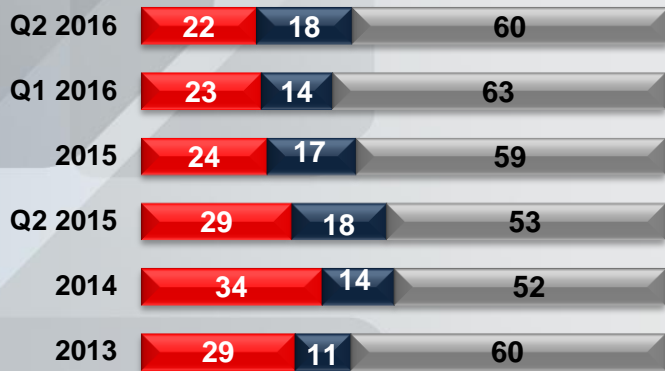
# Accelerating fee generation supported by business lending and non-cash loan growth

## Net fees income/ Net income\* (%)



\*Dividend income is not included in net income

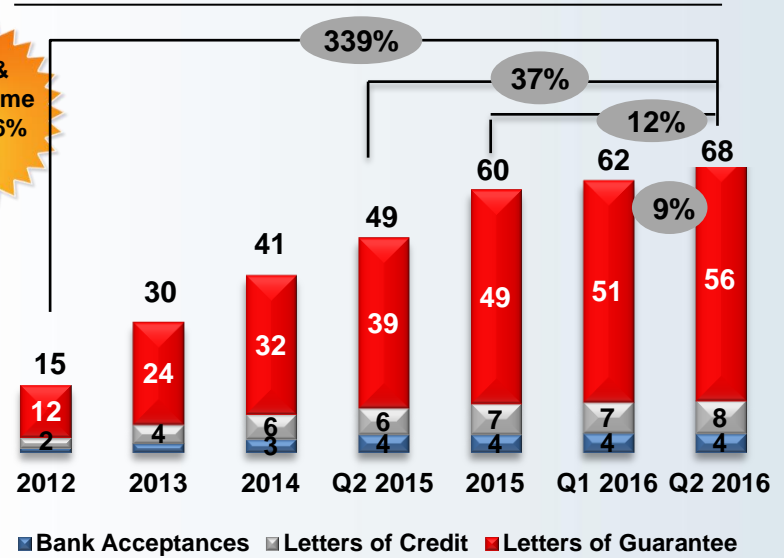
## Breakdown of commissions from cash loans (%)



■ Retail ■ Corporate ■ SME

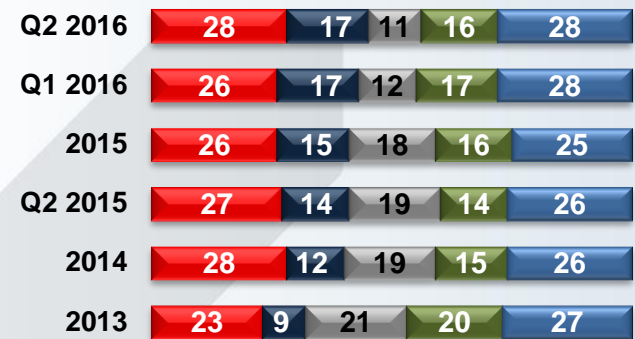


## Composition of non-cash loans (TL bn)



■ Bank Acceptances ■ Letters of Credit ■ Letters of Guarantee

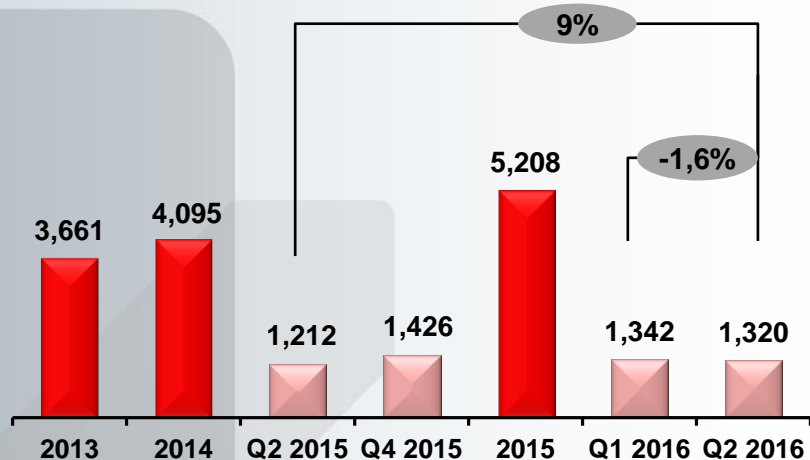
## Breakdown of fees and commissions (%)



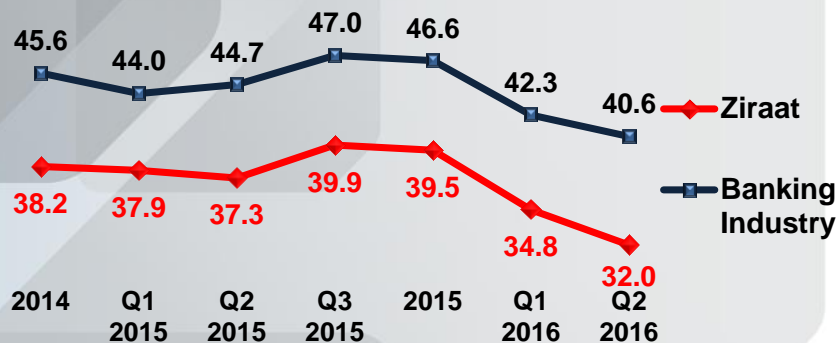
■ Credit Card ■ Non Cash Loans ■ Money Transfer and Account Maintenance Fee ■ Insurance ■ Other

# Cost Conscious OPEX Management

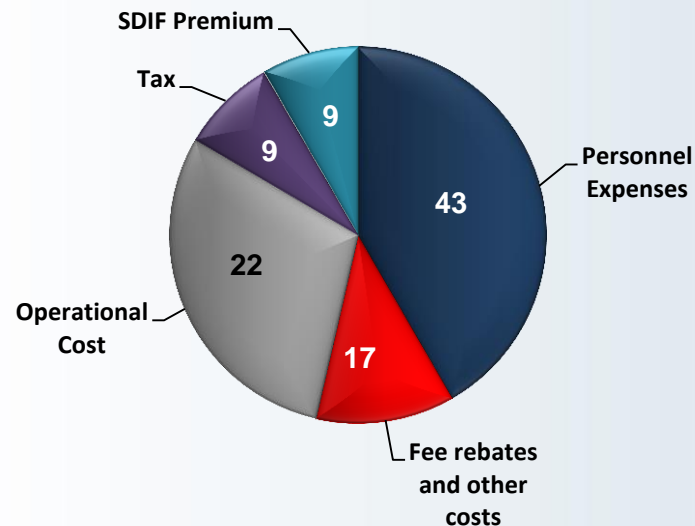
Other operating expenses (TL mn)



Cost/Income ratio (%)



Breakdown of OPEX, H1 2016 (%)



## C/I improvement due to:

- ✓ Decrease in fee rebates and other non-recurring costs
- ✓ Less branch openings expected in 2016
- ✓ Improvements in cost efficiency
- ✓ Moderate growth in personnel expenses (10.8% YoY)

# APPENDIX



# Balance Sheet Summary

TL mn	2013	2014	Q2 2015	2015	Q1 2016	Q2 2016	% Change QoQ	% Change YoY
<b>CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY</b>	26,602	30,149	35,752	36,535	36,029	38,488	6.8	7.7
<b>BANKS</b>	2,465	2,191	3,867	4,447	4,555	3,539	-22.3	-8.5
<b>SECURITIES</b>	62,798	64,563	64,500	64,871	66,523	67,314	1.2	4.4
<b>LOANS</b>	111,048	141,915	168,315	186,813	193,159	201,443	4.3	19.7
<b>-Gross NPL</b>	2,417	2,717	2,929	3,141	3,302	3,454	4.6	17.9
<b>-Specific Provisions (-)</b>	1,623	1,932	2,107	2,271	2,445	3,190	30.5	51.4
<b>OTHERS</b>	4,617	8,782	10,075	10,182	9,756	10,975	12.5	8.9
<b>TOTAL ASSETS</b>	207,530	247,600	282,509	302,848	310,022	321,759	3.8	13.9
<b>DEPOSITS</b>	141,735	153,255	171,231	186,469	191,846	195,608	2.0	14.2
<b>FUNDS BORROWED</b>	8,559	14,608	19,182	19,543	18,693	19,262	3.0	0.4
<b>INTERBANK MONEY MARKET</b>	24,571	31,781	41,013	43,086	43,208	45,170	4.5	10.1
<b>PROVISIONS</b>	3,958	4,758	5,113	5,161	5,305	5,285	-0.4	3.4
<b>SHAREHOLDERS' EQUITY*</b>	18,367	28,540	29,690	31,546	33,956	36,049	6.2	21.4
<b>OTHERS</b>	10,340	14,658	16,280	17,043	17,014	20,385	19.8	25.2

\* As of 09.05.2016, the paid-in capital increased to TL 5.1 bn and increased amount of TL100 mn consists of TL 28mn of previous periods' net profit and TL 72 mn of cash transfer from the Turkish Treasury

# Income Statement Summary

TL MN	2014	Q2 2015	2015	Q1 2016	Q2 2016	% Change QoQ	% Change YoY
<b>INTEREST INCOME</b>	18,165	5,442	22,050	6,448	6,511	1.0	19.6
-From Loans	12,755	3,984	16,677	4,926	5,178	5.1	30.0
-From Securities	5,333	1,429	5,197	1,450	1,265	-12.8	-11.5
<b>INTEREST EXPENSE</b>	9,558	2,824	11,542	3,298	3,270	-0.8	15.8
-On Deposits	7,512	2,117	8,668	2,399	2,434	1.5	15.0
<b>NET INTEREST INCOME</b>	8,607	2,618	10,509	3,151	3,241	2.9	23.8
<b>NET FEES &amp; COMMISSIONS</b>	1,077	315	1,300	368	398	8.2	26.3
-Fees and Commissions Received	1,357	405	1,637	455	491	7.9	21.2
-Fees and Commissions Paid	279	91	337	87	93	6.9	2.2
<b>OTHER OPERATING INCOME</b>	911	289	1,340	336	647	92.6	123.9
<b>OPEX</b>	4,095	1,212	5,208	1,342	1,320	-1.6	8.9
<b>NET OPERATING PROFIT</b>	5,179	1,673	6,568	2,069	2,125	2.7	27.0
<b>NET PROFIT</b>	4,051	1,328	5,162	1,609	1,779	10.6	34.0

# Key Financial Ratios

(%)	2014	Q1 2015	Q2 2015	Q3 2015	2015	Q1 2016	Q2 2016
ROAA	1.8	1.7	1.8	1.7	1.8	2.1	2.2
ROAE	16.4	15.3	16.7	16.3	17.3	19.9	20.3
Cost to Income	38.2	37.9	37.3	39.9	39.5	34.8	32.0
NIM (cum.)	4.7	4.7	4.7	4.5	4.5	4.7	4.7
Loans/Deposits	92.6	97.4	98.3	96.5	100.2	100.7	102.9
Loans/Assets	57.3	58.4	59.6	60.6	61.7	62.3	62.6
Securities/Assets	26.1	24.3	22.8	21.3	21.4	21.5	20.9
NPL	1.9	1.8	1.7	1.7	1.7	1.7	1.7
Coverage*	77.5	78.1	78.8	78.8	78.8	80.2	100.0
CoR (Gross)	0.9	1.2	1.0	0.9	0.8	0.9	1.5
CAR	18.2	16.8	16	14.3	15.1	14.2	14.6
Leverage	7.7	8.1	8.5	9.2	8.6	8.1	7.9
# of							
Branches	1,707	1,726	1,760	1,802	1,812	1,813	1,811
Employees	23,617	24,496	24,609	24,892	25,697	25,660	25,457
ATMs	6,043	6,199	6,304	6,443	6,566	6,679	6,768

**For further information please contact**

**Investor Relations Department  
Eski Büyükdere St. No: 41 Block C, 4th Floor  
Maslak-İstanbul/Turkey  
Phone: (+90) 212 285 22 50  
Fax:(+90) 212 276 52 85  
E-mail: [investorrelations@ziraatbank.com.tr](mailto:investorrelations@ziraatbank.com.tr)  
[www.ziraatbank.com.tr](http://www.ziraatbank.com.tr)**

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