

2021 Expectations and Guidance

İstanbul, 8 January 2021



Agenda

■ Achievements & 2020 Performance

- Macro Outlook
- 2021 Priorities & Guidance

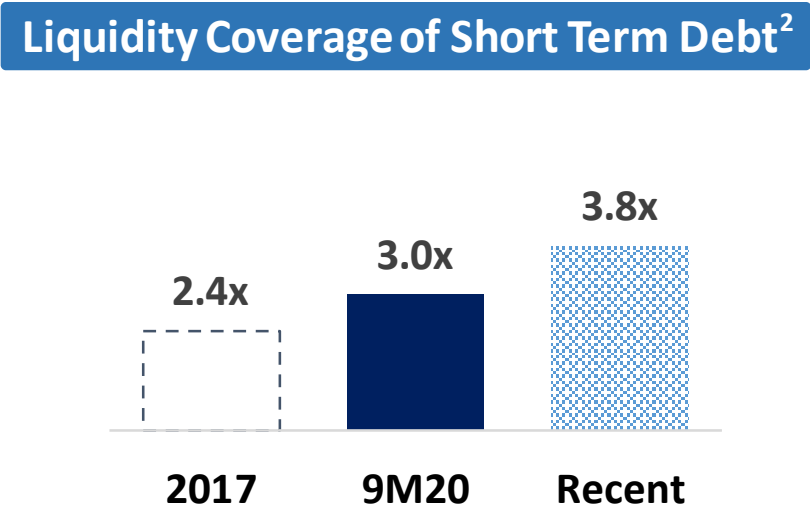
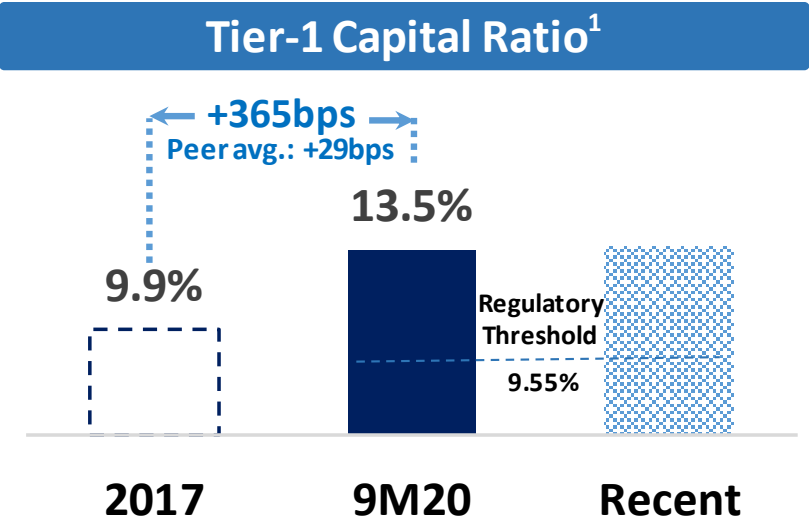
Achievements alongside the strategic pillars announced in May 2018

9M20 RoTE 226 bps above the sector average at 13.7% supporting the share price performance...





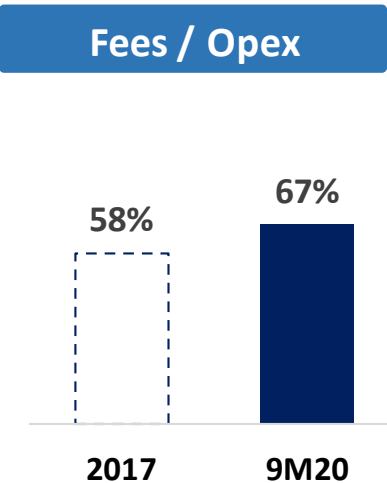
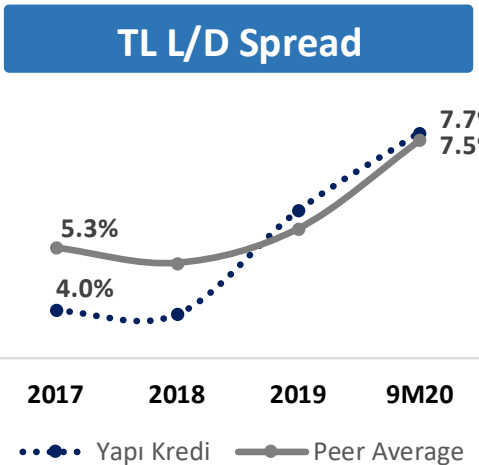
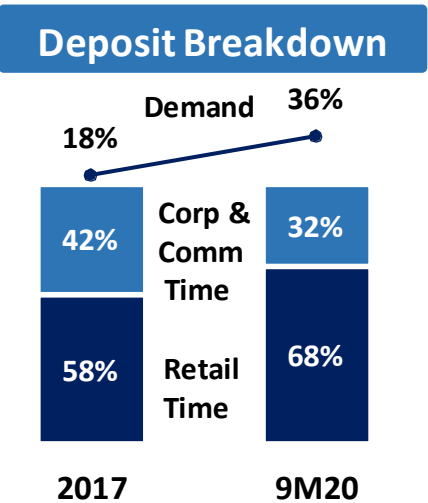
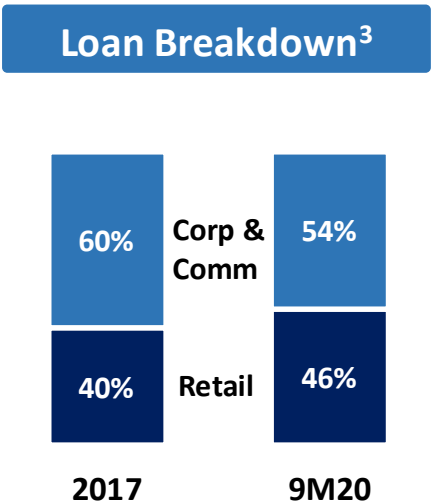
Maintain
Solid
Fundamentals







Rebalance
of
Business Mix



Notes:
1. Capital Adequacy without regulatory forbearance, 2. Based on MIS data, one-month liquidity, 3. Adjusted for FX impact

Achievements alongside the strategic pillars announced in May 2018

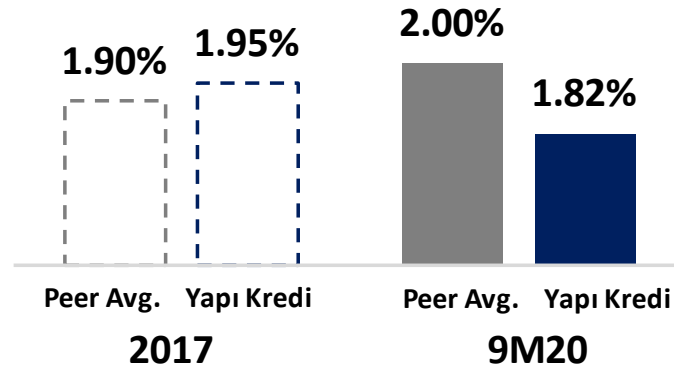
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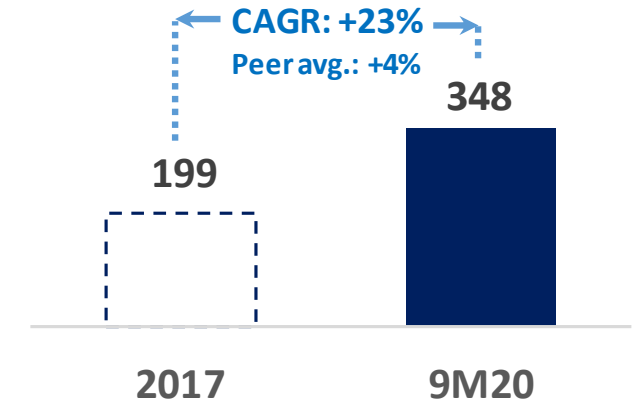
Efficiency Gains



Cost/Average Assets



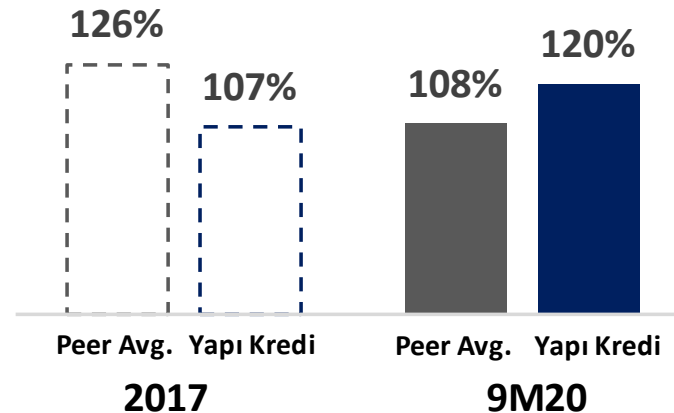
Net Profit per Employee ('000 TL)



Asset Quality Improvement



NPL Coverage



- FC loan volume came down by 5.5 bln \$
- Increase in collateralization levels
- Decline in the loan concentration
- Total coverage close to 8%

Realization inline with guidance in a volatile environment

		Guidance Announced	YE Forecast	Forecast vs Guidance	
Fundamentals	LDR	≤ 105%	~105%	✓	Inline
	CAR (w/o forbearance)	~ 16%	>16%	✓	Inline
Volumes	TL Loan Growth	High-teens	Mid-twenties	↑	Above
Revenues	NIM (comparable)	~+30 bps	~+30 bps	✓	Inline
	Fees	Single-digit contraction	Low single-digit increase	↑	Slightly Above
Costs	Cost increase	Mid-teens	Mid-teens ¹	✓	Inline
Asset Quality	NPL Ratio (comparable)	~7%	~6.5%	✓	Inline
	Total CoR	< 300bps	< 275bps	✓	Inline
Profitability	RoTE	Low-teens	Low-teens	✓	Inline

Notes:
1. Excluding FX rate difference and Covid-19 impact
All figures are based on BRSA consolidated financials, except for NIM

Agenda

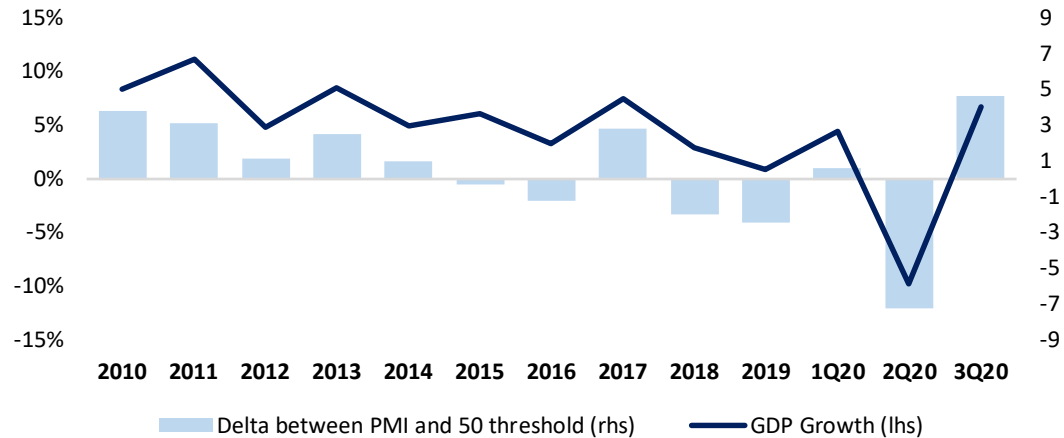
- Achievements & 2020 Performance
- **Macro Outlook**
- 2021 Priorities & Guidance

Recent Macro Developments

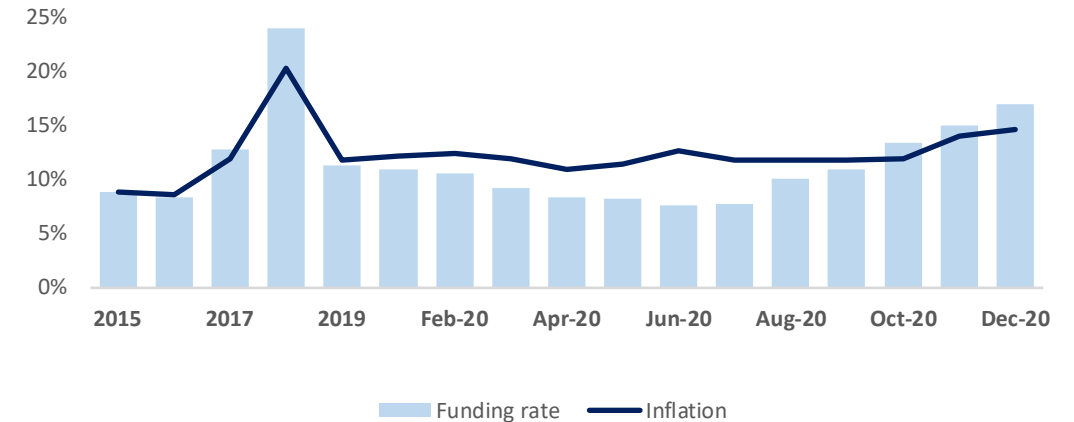
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Macro recovery post Covid-19, better CDS and Lira levels following the rate hike and normalisation steps

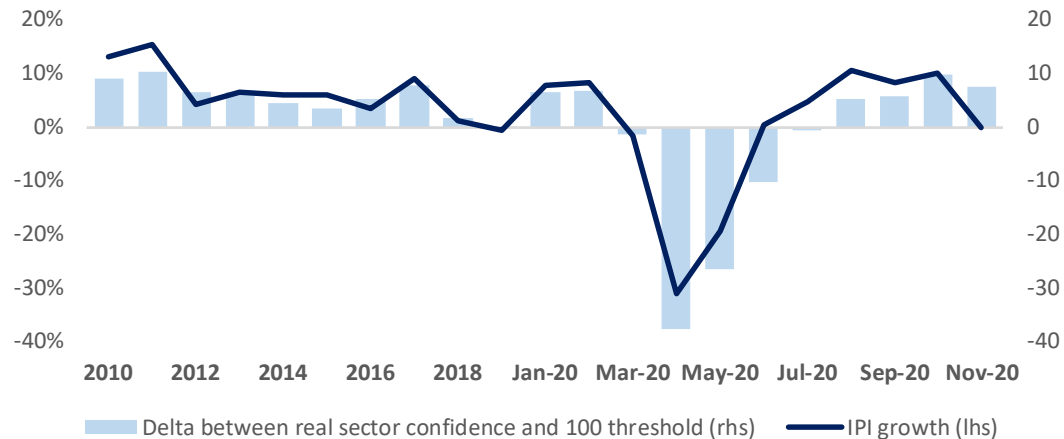
GDP & PMI¹



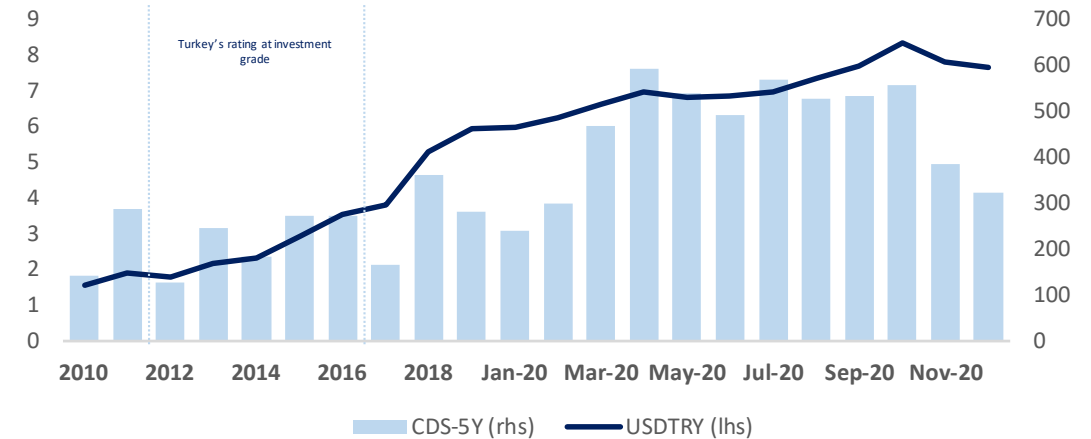
Inflation & CBT funding Rate



Real Sector Confidence² & IP Index growth



CDS vs USD/TRY



Notes:

1. PMI: PMI index - 50 threshold
2. Real sector confidence - 100 threshold

2021 Operating Environment

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Normalisation steps and a gradual macro recovery to lead to an attractive investment environment

	2018	2019	Recent ¹	2020F	2021B
GDP Growth (y/y)	2.9%	0.9%	0.5%	~1.0%	~4.0%
Inflation (year-end)	20.3%	11.8%	14.6%	-	~10.0%
Inflation Oct-Oct	25.2%	8.6%	11.9%	-	10.0%

- World economy is expected to bounce back as vaccines arrive and fiscal stimulus flow into it
- Investment environment will improve thanks to revival of portfolio flows to EMs coupled with normalisation steps in Turkey
- Tighter monetary and fiscal policy alongside with positive contribution of net exports and tourism revenues will help current account deficit (CAD)
- Challenging first half for banking system considering CBT's tight monetary stance until the improvement in inflation outlook
- Higher rate environment and normalisation actions expected to lead de-dollarisation in the system
- Year-end CPI expectation at 10%
- Policy rate with 2 ppt real return through the year

Notes:

1. 9M2020 cumulative GDP Growth, Inflation as of Year-end 2020

-
- Achievements & 2020 Performance
 - Macro Outlook
 - **2021 Priorities & Guidance**

Strategic Priorities and Values

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Responding to the new era: Setting the strategic priorities and values even in a challenging operating environment

Customer Focus

- Our service has no boundaries
- Continuous investment on customer experience
- Win-win relationship with customers

Competition and Agility

- Leadership in all aspects
- Agile and accurate positioning prior to changes in market conditions

Human Capital

- Lean organization
- Faster response to competition

Innovation

- Investment on next generation banking and new technologies
- Partnerships, new ecosystems and transformation of channels
- Investment on advanced analytics and cybersecurity

Efficiency

- Sales and service transformation (digitalization, remote channels, digital on-boarding)
- Excelling in credit underwriting, monitoring and collection processes
- Leaner physical presence

Sustainability

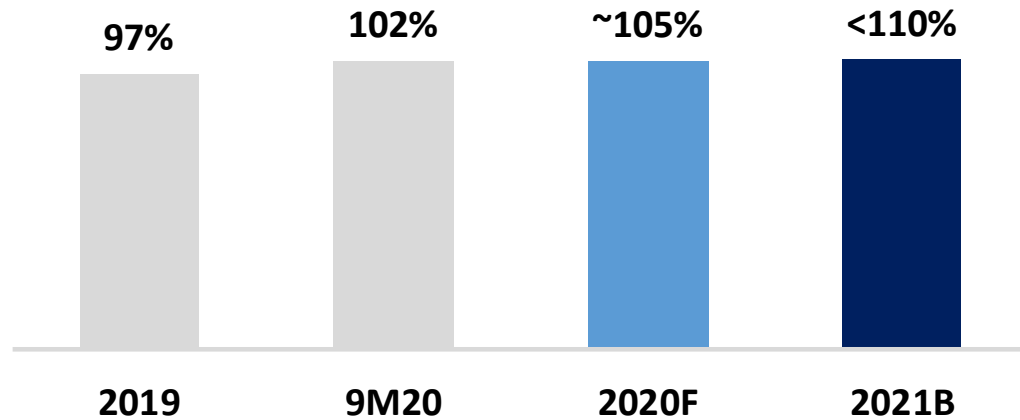
- Increased emphasis on recognitions & ESG initiatives
- Long term value creation for all stakeholders

Fundamentals

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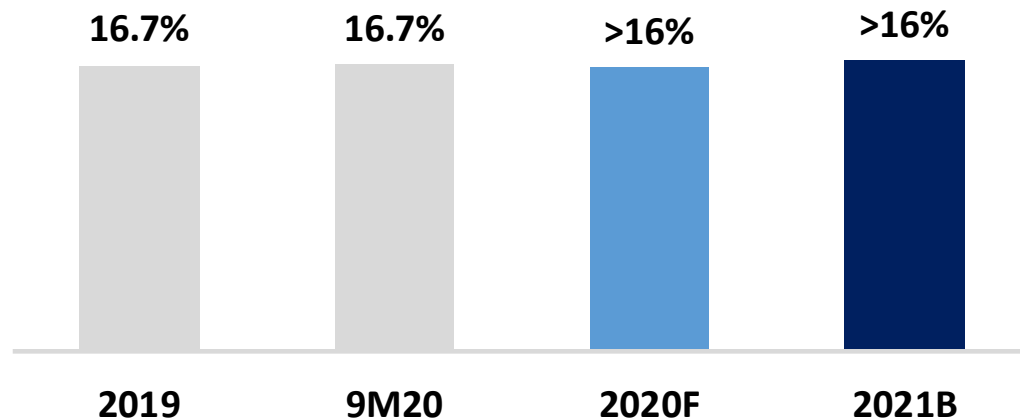
Ample Liquidity 3.8x above redemptions in one-year, Robust capital position with strong internal capital generation

LDR¹



- Maintaining ample liquidity levels, with LDR lower than **110%** at any point through out the year, improving in 2H21 with de-dollarization
- Upcoming redemptions in 2021 at **3.2 bln \$** (o/w 1.8 bln \$ syndications), no maturing Eurobonds vs **12 bln \$ liquidity**
- Ongoing opportunistic utilization of wholesale funding

Capital Adequacy²



- Robust capital position >400 bps above the regulatory requirements thanks to ongoing internal capital generation
- Amortizing Tier-2 instruments have ~-60bps impact on CAR in 2021

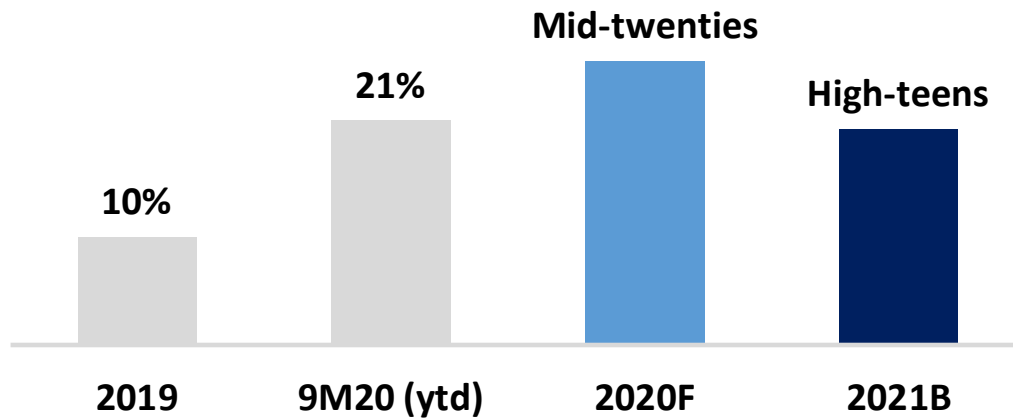
Notes:

1. LDR= Loans / (Deposits + TL Bonds)

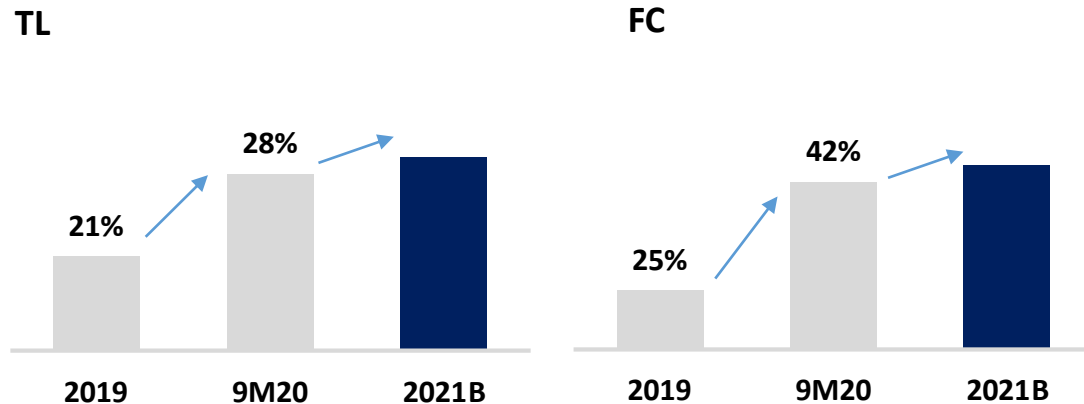
2. Capital Adequacy without regulatory forbearance

TL driven growth focusing on new customer needs with an agile and customer centric approach

TL Loan Growth



Share of Demand Deposit



- **TL loan growth at high-teens**
 - SME and low-end commercial growth ~20%
 - GPL increase ~20% through salary customers with a very low PD level.
- Ongoing decline in FC loans
- **Focusing on customer needs resulting in further increase in the share of demand deposits, and further decline in concentration**

- ★ *New organisation structure and process improvements aiming penetration on **small ticket** customers with ongoing digital transformation*
- ★ *Ongoing technology investments further improving the agility to increase **retail banking** penetration levels*

Notes:

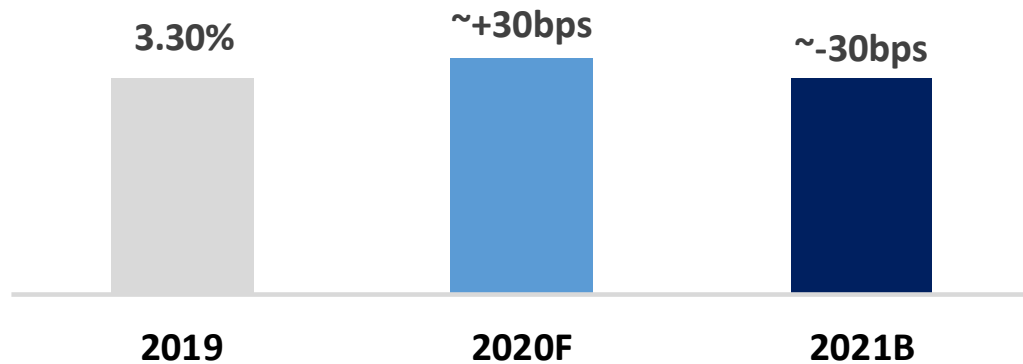
1. Based on MIS data adjusted for FX, Retail includes individual, credit cards and SMEs

Revenues

-13-

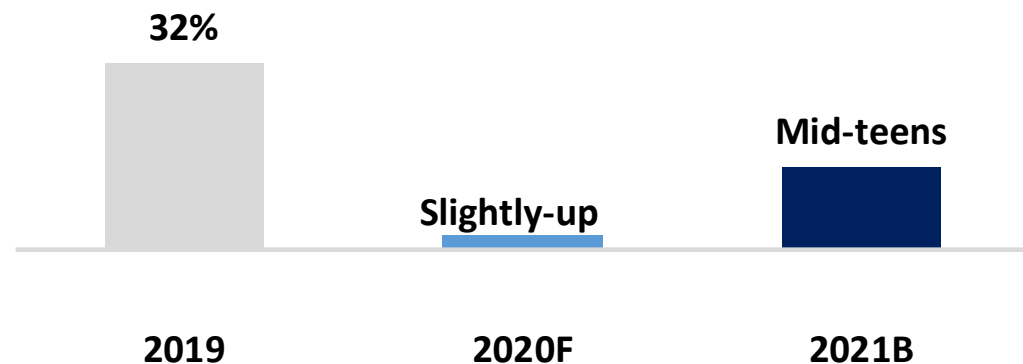
A low start to the year and lower linker contribution to pressure NIM, focus on fees with ongoing strategic projects

NIM¹ (Comparable)



- **Tighter Loan-Deposit spread** due to a low start to the year
- **CPI-linker valuation at 10%**
 - Lower CPI impact: ~-15bps
- **Ongoing Loan Repricing with an ease in the funding costs in 2H** to limit the NIM compression

Net Fee and Commissions Income²



- **Fees to increase at mid-teens** following a slight increase in 2020, due to regulatory impacts and Covid-19
- The share of money transfers, bancassurance and investment products to go up further
 - ★ Ongoing **transactional banking** projects to increase the usage of products & further improve customer satisfaction
 - ★ Customer friendly and agile digital solutions on **investment products**

Notes:

1. NIM based on Bank-only BRSA financials and swap adjusted

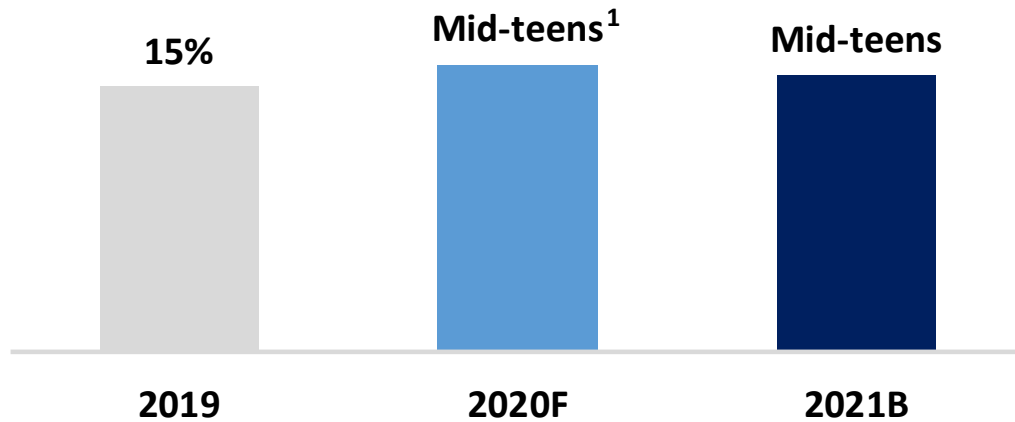
2. Net Fees based on consolidated BRSA financials

Cost Growth

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Reconfiguration of the operations, further digital focus supports cost elimination

Costs



- **Cost increase at mid-teens**
 - Increase in **running costs** limited at single-digit
 - Ongoing increase in **regulatory costs** way above inflation
 - **Business growth related** cost increase at mid-twenties
 - Increase in the **share of technology investments for strategic priorities** (~70% of total investment)

Reconfiguring operations post Covid-19 cost elimination on track via ongoing projects and digital investments

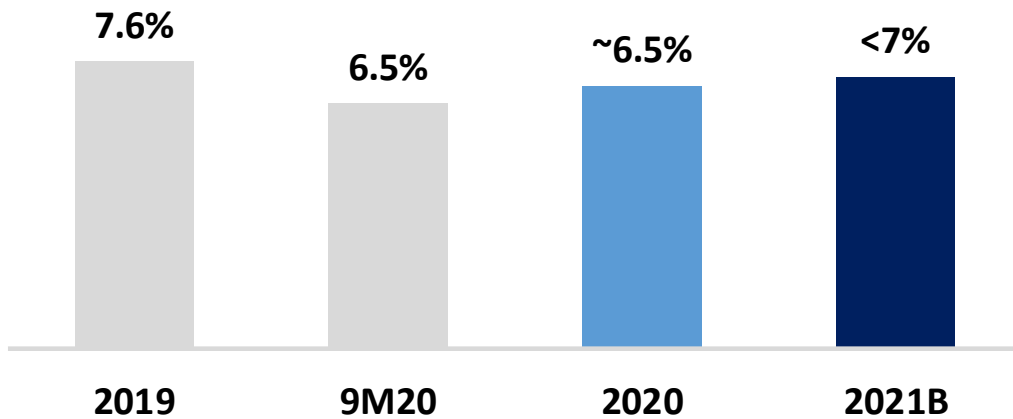
- ★ *Lean physical presence with significant elimination of work space in square meters*
- ★ *Digital customer targeting via end to end solutions*

Notes:

1. Excluding FX rate difference and Covid-19 impact

Excessively cautious provisioning in 2020, AI driven collection investments to support CoR in 2021

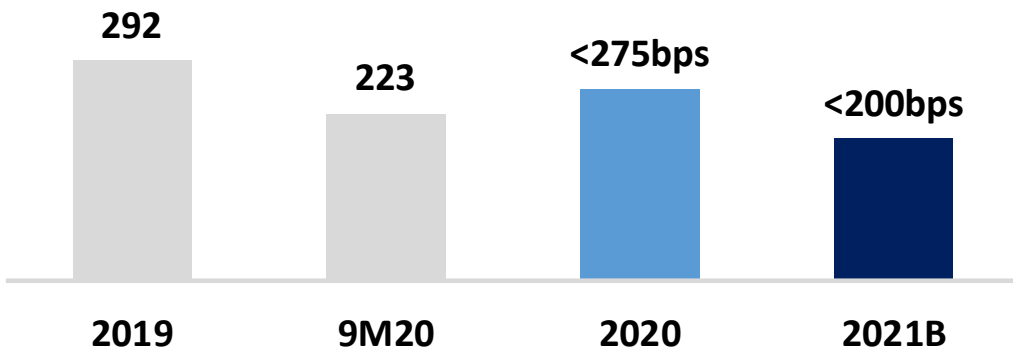
NPL Ratio¹



➤ **Recoveries performance will be higher than inflows in terms of growth;** thanks to the improvement in the macro environment and focus on collection systems

★ *Collection optimisation programme to improve collection performance via Artificial Intelligence and process improvements*

CoR²



➤ **Improvement in CoR thanks to precautionary provisions in 2020**

- 9M20 pre-cautionary provisions at 3 bln TL with further increase in 4Q20

➤ **Ongoing prudent provisioning for big tickets**

➤ **Further increase at coverage level** which is already elevated at 7.6% as of 9M20

Notes:

1. NPL ratio adjusted for 90 – 180 days dpd, excluding potential NPL sales and write-offs in 2021

2. Cost of Risk = (Total Expected Credit Loss- Collections-FC ECL hedge)/Total Gross Loans

Sustainability Approach

Environmental



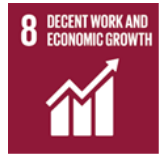
- Environmental and social risk assessment system for commercial and corporate lending
- Turkey's first green project finance loan
- Zero waste management system implemented in head offices
- Renewable energy loans at 2.3 bln \$
- CDP Climate Change score at «B» & Water Security at «A-»



Social



- Highest sectoral female employment rate in Turkey, **62.5%** in 2020
- Employee engagement and satisfaction scores at **76%** and **77%**
- First Enabled Banking Program in Turkey, ensuring financial access to people with disabilities
- Increased financial inclusion via diverse digital banking solutions
- Community investments worth **~50 mln TL**



Governance



- Yapı Kredi culture built upon freedom, respect, fairness, transparency and trust
- Board composition in line with CMB regulation
- Sound policy and procedures on **data privacy and cyber security**
- Whistleblower Programme ensuring transparency, integrity and Responsiveness
- Data privacy and cybersecurity investments worth **~30 mln TL**



Sustainability Goals

Climate Change & Sustainable Finance

- Diversifying sustainable product portfolio and expanding climate finance
- Reducing Scope 1 and Scope 2 emissions in head and service offices
- Supporting and engaging with clients to facilitate their energy transition and alignment with the «European Green Deal»
- Decreasing Bank's risk in carbon intensive sectors

Responsible Banking

- Environmental and social risk assessment system for even smaller ticket company lending
- Full compliance with Equator Principles (EP4, 2020)
- Effective non-financial risk management in line with the TCFD recommendations
- Further increasing financial inclusion for small and medium sized enterprises (SMEs)
- Developing sector specific policies to implement a sector based approach

Employee Engagement & Diversity

- Attracting new talents for future skills
- Diverse, engaged and trained workforce
- Flexible and adaptive work environment

Recognitions & ESG Initiatives



Founding Signatory of:



PRINCIPLES FOR RESPONSIBLE BANKING

In support of

WOMEN'S EMPOWERMENT PRINCIPLES

Established by UN Women and the UN Global Compact Office



BIST
SUSTAINABILITY INDEX
CONSTITUENT COMPANY

Guidance Summary

RoTE at Mid-Teens

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		2021 Guidance	Guidance Drivers
Fundamentals	LDR ¹	< 110%	<ul style="list-style-type: none"> Ongoing Strong Liquidity Levels, LDR improving in 2H with de-dollarisation
	CAR (w/o forbearance)	> 16%	<ul style="list-style-type: none"> Capital ratios to be supported by internal capital generation
Volumes	TL Loan Growth	High-teens	<ul style="list-style-type: none"> TL denominated volume growth with ongoing small ticket focus
Revenues	NIM (excl. linker impact)	~-30bps	<ul style="list-style-type: none"> Higher TL funding costs to pressure NIM
	Fees	Mid-teens	<ul style="list-style-type: none"> Ongoing diversification efforts and support from higher number of transactions
Costs	Cost increase	Mid-teens	<ul style="list-style-type: none"> Increase in cost mainly due to regulatory costs and business growth Limited increase on running costs thanks to digitalisation and cost controls
Asset Quality	NPL Ratio ²	< 7%	<ul style="list-style-type: none"> Increase in NPL inflows following regulatory change
	Total CoR	< 200bps	<ul style="list-style-type: none"> Improvement in CoR thanks to conservative provisioning in 2020

2021 RoTE: Mid-Teens

Notes:

- Does not represent end-of-period. Representing any point through the year
- Excluding potential NPL sales and write-offs in 2021

Q&A

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