Investing for growth: Acquisition of an additional 14.89% stake in Garanti

Jaime Sáenz de Tejada, Chief Financial Officer

November 19th, 2014
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1 Main transaction terms
2 Strategic rationale
3 Financial impacts and structure
4 Conclusions
Main transaction terms

Transaction

• Acquisition of an additional 14.89% stake in Garanti from our partner Doğuş, increasing BBVA’s stake from 25.01% to 39.9% (Doğuş stake > 10%)

• BBVA’s + Doğuş’ joint stake remains below the 50% trigger for a mandatory tender offer according to Turkish law

Governance

• BBVA gains board majority at Garanti:
  ✓ BBVA to appoint 7 of the 10 Board members
  ✓ Limited number of reserved matters requiring Doğuş approval

• Doğuş remains a key Garanti shareholder (3-year lock-up period)

Transaction price and multiples

• Maximum: TL 8.90 / share, in line with market prices

• Total consideration of TL 5,566 Mn in cash (€1,988 Mn (1))

• Attractive transaction multiples: 9.3x PE 2015e(2); 1.4x PBV 3Q2014

• EPS Accretive(2)

• > €250Mn 2016e(2) incremental net attributable profit

Capital action

• Estimated €2 Bn (3) Accelerated Bookbuilding Offer

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(1) Exchange rate as of November 13, 2014: 2.7995 EURTRY. (2) Based on Bloomberg consensus as of November 17,2014. (3) BBVA’s Board of Directors has approved a maximum issuance of 310,481,867 shares
1  Main transaction terms
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## Strategic Rationale

1. **Very attractive market**
   - **Turkey: the European growth story**
     A market with critical mass, positive demographic dynamics and strong growth potential

2. **Garanti, the best franchise**
   - **Garanti, the best banking franchise in Turkey**
     Market leader, solid fundamentals and focus on technology

3. **Optimal Governance**
   - **BBVA increases its exposure and influence** at Garanti while our local partner Doğuş remains a key shareholder

4. **Deep knowledge of the franchise**
   - **The same business model and 4 years of active cooperation**
     gaining knowledge of Garanti, enables BBVA to increase its value generation proposition
Turkey: a sizeable market

A market with critical mass

Population (Mn people, 2013)
Source: Swiss Re research report (sigma no. 3/2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>123</td>
</tr>
<tr>
<td>Turkey</td>
<td>75</td>
</tr>
<tr>
<td>Spain</td>
<td>47</td>
</tr>
</tbody>
</table>

One of the youngest populations in Europe

Population pyramid (% of total population, 2010)
Source: BBVA Research and UN

- Average age: 29
- 53% <30 years old

Outstanding performance during the crisis

GDP growth (%)
Source: BBVA Research, International Monetary Fund, World Economic Outlook Database for Emerging Europe

- Iraq invasion by the US
- World financial crisis
- Regional conflicts: Syria, Israel-Hamas, ISIS

Chart showing GDP growth from 2002 to 2014, with highlighted periods for key events.
One of the markets with the highest growth potential in the world ...

**The highest GDP growth potential**

GDP growth 2013-23e (Annual %)

- Western Europe: 1.9%
- G7: 2.2%
- Spain: 2.3%
- Mexico(1): 2.9%
- World: 4.0%
- Turkey: 4.6%

**Low leverage**

Debt (As a % of 1H14 GDP (2))

- Turkey: 39
- Mexico: 48
- Spain: 98
- Corporate Sector Debt: 12 37 171
- Households Debt: 15 16 76

... coupled with a well-capitalized and profitable banking system

Source: BBVA Research. (1) Without considering the impact of structural reforms (2) Except for Gross Public Debt, as a % of 2014e GDP.
Garanti enjoys a leadership position in this attractive market

### Garanti in numbers (1)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Sep.2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>77.8</td>
<td>84.8</td>
</tr>
<tr>
<td><strong>Net Loans</strong></td>
<td>46.9</td>
<td>51.8</td>
</tr>
<tr>
<td><strong>Cust. Deposits</strong></td>
<td>40.2</td>
<td>42.1</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>8.4</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>RWAs</strong></td>
<td>65.6</td>
<td>70.7</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Efficiency (%)</strong></td>
<td>45%</td>
<td>45%</td>
</tr>
</tbody>
</table>

- ~ 1,000 Branches
- > 4,000 ATMs
- > 22,000 Employees
- 13 Mn customers

### Market Cap (2)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Sep.2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garanti</td>
<td>13.1</td>
<td>11.5</td>
</tr>
<tr>
<td>AKBANK</td>
<td>8.9</td>
<td>7.6</td>
</tr>
<tr>
<td>HalkBank</td>
<td>6.6</td>
<td>4.3</td>
</tr>
<tr>
<td>VakifBank</td>
<td>3.1</td>
<td>2.0</td>
</tr>
<tr>
<td>DenizBank</td>
<td>2.0</td>
<td>1.8</td>
</tr>
</tbody>
</table>

### Market Share (3) and Ranking (4) (%,

<table>
<thead>
<tr>
<th></th>
<th>Auto loans</th>
<th># credit card customers</th>
<th>Consumer loans (5)</th>
<th>Mortgages</th>
<th>Total performing loans</th>
<th>Total deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garanti</td>
<td>20.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AKBANK</td>
<td>14.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HalkBank</td>
<td>13.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VakifBank</td>
<td>13.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DenizBank</td>
<td>12.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEB</td>
<td>11.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Garanti stands out among its peers

**More profitable**

- **ROE (%)**
  - Garanti: 13.7
  - Peers' average: 12.8

- **NIM (%)**
  - Garanti: 4.1
  - Peers' average: 4.0

**Better asset quality**

- **NPL ratio (%)**
  - Garanti: 2.3
  - Peers' average: 2.9

**Stronger capital position**

- **Capital Adequacy Ratio (%)**
  - Garanti: 15.0
  - Peers' average: 14.5

BBVA increases its influence on Garanti while Doğuş remains a key shareholder

BBVA increases its influence, anticipating “Phase II” of the 2010 agreement

- The transaction anticipates (and eliminates) the 1% call option BBVA had starting March, 2016
- BBVA will appoint the majority of the Board:
  - 7 members appointed by BBVA
  - 2 members appointed by Doğuş
  - 1 independent director
- Limited number of “Reserved Matters” requiring Doğuş approval

Doğuş remains a relevant shareholder

- Doğuş to remain as a relevant shareholder of Garanti (> 10.0%)
  - 3 year lock-up period
  - “Qualified investor” under Turkish law

BBVA increases its economic exposure to Garanti, without launching a mandatory tender offer and increases its influence on the Board
Privileged starting point to increase value generation after 4 years of active cooperation

The same business model approach

Universal banking

Leading franchises

Customer centric

Technology as a competitive advantage

Shared know-how and common initiatives: a source of synergies

<table>
<thead>
<tr>
<th>SPAIN</th>
<th>MEXICO</th>
<th>TURKEY</th>
<th>S.AMER.</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate Governance</strong></td>
<td>Risk Management, ALM, Compliance, ...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Retail banking</strong></td>
<td>BBVA’s experience in high growth emerging markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CIB</strong></td>
<td>Increasing Global Clients’ franchise</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBVA’s <strong>Consumer Finance</strong></td>
<td>successful model</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garanti as a reference in <strong>Means of Payment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IT and digital transformation</strong></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

Adding value to shareholders
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Garanti improves BBVA’s long-term growth profile

**CAGR 2013 - 2016e**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2016e</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>€80 Bn</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Income</strong></td>
<td>€4 Bn</td>
<td></td>
</tr>
<tr>
<td><strong>Net Attributable Profit</strong></td>
<td>&gt;€250 Mn</td>
<td></td>
</tr>
</tbody>
</table>

**2016e incremental contribution to BBVA**

- **€80 Bn**
- **€4 Bn**
- **>€250 Mn**

Transaction EPS accretive

Exchange rate as of November 13, 2014: 2.7995 EURTRY. (1) Based on analysts’ estimates; (2) Estimated incremental contribution due to the additional 14.89% stake acquired: 75% due to full consolidation of Total Assets and Gross Income; 14.89% in Net attributable profit as it excludes minorities.
Transaction with moderate impacts

**Capital impact** (1)

- **-48 bps (€1.9 Bn)** impact of the 14.89% stake acquisition
- **+58 bps**(2) impact of the estimated €2 Bn ABO

**P&L impact**

- **-1.5 Bn P&L non cash one-off** due to changes in the accounting method of the existing 25.01% stake (from equity method to full consolidation)

LOSSES WITH IMPACT ON CAPITAL: - €0.4 Bn

LOSSES WITH NO IMPACT ON CAPITAL (mainly FX driven): - €1.1 Bn

**Closing expected for 1H 2015, subject to regulatory approvals**

(1) Impact on ratios as of September 2014; (2) Include the positive impact of increased thresholds according to Basel III methodology
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BBVA gains board majority at Turkey’s largest bank by market cap, after increasing its stake in Garanti to 39.9%

Garanti boosts BBVA’s long-term growth profile

EPS accretive deal, closed at current market prices

Maintaining strong capital levels after the transaction

Privileged starting point to increase value generation after 4 years of active cooperation
Investing for growth: Acquisition of an additional 14.89% stake in Garanti

Jaime Sáenz de Tejada, Chief Financial Officer
After this transaction, **BBVA’s stake in Garanti will be accounted for using the full consolidation method** (vs. the equity method currently used for the 25.01%)

Accounting standards require to mark to market (at fair value (1)) a stake, when **a change in the accounting method occurs**

The **-€1.5 Bn P&L one-off** responds to the mark to market (at fair value) of BBVA’s current 25.01% stake

- **No cash outflow**, just an accounting impact
- **-€0.4 Bn impact on capital** (as the rest of the P&L one-off, mainly FX driven, has already been charged against capital)

**Note:** Data as of Sep. 2014. Exchange rate as of November 13, 2014: 2.7995 EURTRY; (1) Fair value has been calculated with the transaction price (Max 8.90 TL).
**Garanti’s Balance Sheet**

<table>
<thead>
<tr>
<th>Balance Sheet (€ Mn)</th>
<th>2013</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with central banks</td>
<td>2,447</td>
<td>1,712</td>
</tr>
<tr>
<td>Reserve deposits at central banks</td>
<td>6,561</td>
<td>7,282</td>
</tr>
<tr>
<td>Securities</td>
<td>13,984</td>
<td>15,915</td>
</tr>
<tr>
<td>Loans to banks</td>
<td>4,158</td>
<td>3,949</td>
</tr>
<tr>
<td>Loans to customers (net)</td>
<td>46,907</td>
<td>51,815</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>721</td>
<td>748</td>
</tr>
<tr>
<td>Goodwill</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Other Assets</td>
<td>2,988</td>
<td>3,327</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>77,777</strong></td>
<td><strong>84,760</strong></td>
</tr>
<tr>
<td>Deposits from banks and credit institutions</td>
<td>2,405</td>
<td>3,111</td>
</tr>
<tr>
<td>Deposits from clients</td>
<td>40,172</td>
<td>42,086</td>
</tr>
<tr>
<td>Wholesale funding</td>
<td>21,854</td>
<td>24,008</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>4,960</td>
<td>6,153</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>8,385</strong></td>
<td><strong>9,403</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>77,777</strong></td>
<td><strong>84,760</strong></td>
</tr>
</tbody>
</table>

Source: Garanti. IFRS consolidated 2013 annual report and 3Q14 quarterly report (presented summarized). Exchange rate as of November 13, 2014: 2.7995 EURTRY.
# Garanti’s Profit and Loss Account

<table>
<thead>
<tr>
<th>Profit and Loss Account (€ Mn)</th>
<th>2013</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>2,543</td>
<td>2,134</td>
</tr>
<tr>
<td>Net fee and commission income</td>
<td>953</td>
<td>789</td>
</tr>
<tr>
<td>Other operating income&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>414</td>
<td>220</td>
</tr>
<tr>
<td><strong>Gross Income</strong></td>
<td>3,909</td>
<td>3,143</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(1,756)</td>
<td>(1,415)</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>2,153</td>
<td>1,728</td>
</tr>
<tr>
<td>Provisions</td>
<td>(543)</td>
<td>(380)</td>
</tr>
<tr>
<td>Income Tax</td>
<td>(326)</td>
<td>(282)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>1,284</td>
<td>1,066</td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Other operating income: premium income from insurance business; net FX gains/(losses); net trading gains/(losses); gains/(losses) on the sale of assets; other operating income

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Source: Garanti. IFRS consolidated 2013 annual report and 3Q14 quarterly report (Summary of Garanti's P&L account following BBVA's public reports models); Exchange rate as of November 13, 2014: 2.7995 EURTRY