

StockWatch

3Q 2010



Did you know?

Garanti plays a significant role in financing Turkey's energy sector in both folds; production and distribution:

- Garanti participated in financing of 5 out of 7 electricity distribution regions that reached their financial closing and handed over to the private sector. Garanti's loan portfolio of electricity distribution projects reached almost US\$ 500 million.

- Garanti played an active role in electricity production projects and provided a loan portfolio of US\$ 2.7 billion with total installed capacity of 4,300 MW. Also Garanti solely financed approximately half of the wind farms currently operating in Turkey.

Garanti Masters Private Banking, the official sponsor of the Turkish Equestrian Federation

and the Turkish National Team, continued to support equestrianism in the 69th Presidential Cup and the 45th Atatürk Cup. These events took place in Istanbul in July and August. Also within this context, Garanti Masters launched another pioneering product: "Garanti Masters Horse Insurance", which was highly welcomed by the equestrian society in Turkey. ■

Garanti for Society / Community Relations

Turkey Men's National Basketball Team, sponsored by Garanti Bank for the past 10 years, finished in second place at the **2010 FIBA World Basketball Championships** held in Turkey. We congratulate the 12 Giant Men!

The 10th Garanti Bank **Women Entrepreneurship Meetings** were held in Edirne on September 15. **Garanti Anatolian Meetings** were hosted in 2 Anatolian cities (Samsun and Kahramanmaraş) in September.

"**The Teachers Academy Foundation**" has resumed its trainings conducted as part of its "**No Limits in Teaching**" project that were held in 4 cities in September.



Organized by the Istanbul Culture and Arts Foundation and sponsored by Garanti Bank for the past 13 years, the 17th "**International Istanbul Jazz Festival**" has once again

converted Istanbul into a city of jazz with over 30 concerts and more than 300 local and foreign musicians' participation.

The 6th "**Leyla Gencer Voice Competition**" was organized by Istanbul Culture and Arts Foundation and La Scala Academy, and sponsored by Garanti and Doğu Holding. ■

What analysts say about Garanti

Ata Invest: "...improvement in asset quality and strict cost control."

BGC: "...stayed away from competition in deposits as well, which helped it to limit the increase in deposit costs in TL."

Citi: "Asset Quality Shines: NPL ratio improved... annualized specific cost of risk fell"

Erste: "Good asset quality."

Eczacıbaşı: "...credit quality improvement is one of the best in the sector. ... has the highest quality loan book among the private banks."

EFG: "...continues grabbing market share in the profitable general purpose loans."

Finans Invest: "...manages the RoE when a trade-off emerges between asset growth and spreads."

Goldman Sachs: "As the most widely traded Turkish bank, Garanti is typically asymmetrically affected by sector-wide weakness or rotation out of Turkish banks. The bank has a commanding position both in the corporate and consumer sector."

HSBC: "NPL recoveries exceeded new NPL originations... supporting the bottom line profit."

Is Invest: "Preserving defensive stance. Asset quality further improved."

JP Morgan: "...robust business mix, strong management."

Morgan Stanley: "Well-controlled costs... and internal cost efficiency initiatives coming through. Rapid provisioning improvement, new NPL formation continues coming down with collections covering."

Oyak Securities: "Going for profitability as always, asset growth stalled... Superior collections performance."

TEB: "...lead in cost management ...perfect free funds position, asset diversity and earnings sustainability."

YF Securities: "Profitability is on track. The bank continues to enjoy one of the lowest NPL ratios within the large caps without any NPL sales."

Macro Notes

Second quarter GDP figures showed that Turkey grew at a surprising rate of 10.3%, slightly behind the 1Q10 growth rate of 11.7%. Seasonally-adjusted quarter-on-quarter growth rate accelerated to 3.7% in 2Q10 after slowing down since 2Q09. Accordingly, Turkey was the only country in G-20 with growth rates as high as China. The figures, especially on the domestic demand side, showed that growth is robust. Growth rate of domestic demand excluding stocks accelerated to 10.8% in 2Q10 from 9.7% in the previous quarter. Private consumption growth rate was high at 6.2%; but more importantly investments grew by 29%, surpassing the 1Q10 growth rate of 15%.

Even though part of the growth can be explained by severe contraction of 11% during 1H09, the pick-up in seasonally adjusted series and the acceleration in investment growth rate are important signals that 2010 growth rate will surpass expectations. Preliminary indicators regarding 3Q10 growth rate show that, growth is not likely to slow down significantly beyond the base effect. Latest white goods, automotive sales, consumer goods imports and real growth rate of consumer credits confirmed this particular view. On the other hand, weakening

European economies make foreign demand outlook uncertain. While overall inflation remained at high level during the last few months, core inflation has been falling since April, and consistent with the medium-term targets. Nevertheless, the CBRT stated that fluctuations in unprocessed food and commodity prices continue to pose risks regarding short-term inflation forecasts.

In addition to positive data flow from domestic side, Turkish Lira appreciated during 3Q10 due to rise in Euro/Dollar parity. TL appreciated by 7.8% against Dollar in nominal terms, as it depreciated just by 2.8% against Euro. Additionally, TL appreciated by 1.2% against advanced and emerging markets currency basket in real terms during the last quarter. Despite the high inflation numbers, bond yields continued to fall as low level of policy interest rates will likely to maintain globally for an extended period. In August, in order to accelerate the foreign exchange reserve accumulation, the CBRT decided to increase the maximum daily amount to be purchased in auctions to US\$ 80 million, US\$ 40 million of auction amount and US\$ 40 million of optional selling amount, starting from August 3rd, 2010. The CBRT has changed the procedure of

daily FX purchase auctions in order to strengthen reserves starting from early October. According to the new system, the CBRT will announce a maximum purchase amount weekly and may raise the maximum daily amount to be purchased through auctions.

The government has revealed its medium term program for 2011-2013, which will form the basis of government budget. According to the government estimates, after growing by 6.8% in 2010, Turkish economy growth rate will slow down to 4.5% in 2011. The 2010 growth rate of the government is well behind the 7.8% estimate of the IMF. Compared with the government, the IMF is more conservative on 2011 growth forecasts leaving it at 3.6%. The government also revised fiscal deficit down to 4% for 2010 from the initial target of 4.9% of GDP. In 2011, the government is targeting to improve the fiscal picture even further to yield a deficit of merely 2.8% of GDP. The official deficit projections for 2012 and 2013 are even lower at 2.4% and 1.6% of GDP, respectively. In line with these growth and budget targets, the debt to GDP ratio is projected to be 42.3% in 2010 and decline gradually to 36.8% by 2013 year-end. ■

Developments at Garanti

Garanti With Numbers	Jun-10	Sep-10	Garanti Market Shares*	YTD Δ	Sep-10
Branch Network	812	838	Total Cash Loans	▲	13.9%
+ Domestic	803	828	TL Loans	▲	11.4%
+ Abroad	9	10	FC Loans	▼	21.2%
Personnel	17,262	17,029	Credit Cards - Issuing (Cumulative)	▼	20.3%
ATM	2,862	2,941	Credit Cards - Acquiring (Cumulative)	▼	21.6%
POS*	376,128	386,474	Consumer Loans	▲	11.7%
Total Customers	9,344,535	9,573,389	Total Deposits	▼	12.4%
Internet Customers**	1,582,517	1,631,198	Demand Deposits	▼	14.3%
Telephone Banking Customers**	1,367,303	1,364,770	TL Deposits	▲	11.1%
Credit Cards	8,106,214	8,042,323	FC Deposits	▲	15.7%
Debit Cards	5,448,059	5,663,433	Mutual Funds	▲	15.5%

* Includes shared POS

** Active customers only -- min. 1 login or call per quarter

* BRSA weekly data - Commercial Banks

Garanti launched its first Exchange Traded Fund, GAREN, in July 2010, with the cooperation of MSCI Barra. Thereby, Garanti is enabling investors to have exposure to 20 stocks covered by MSCI Turkey Index, at once. MSCI Turkey Index is followed closely by mainly foreign institutional investors.

Garanti continued supporting the energy sector investments through its participation as MLA in the financing of a 600 MW import coal thermal power plant investment and a 270 MW indigenous coal thermal power plant investment.

Together with 4 other banks, Garanti provided 12-year cash and non-cash financing totaling more than US\$ 1 billion to the sponsors for the privatization of Uludağ and Çamlıbel Electricity Distribution Region.

Garanti, together with 3 other banks, provided a 10-year financing to the sponsor Aksa in the amounts

Developments at Garanti

of US\$ 114 million cash and US\$ 88 million non-cash facilities at the level of SPV (Special Purpose Vehicle) and a further US\$ 30 million working capital facility at the level of target company for privatization of Çoruh Electricity Distribution Region.

Garanti signed US\$ 65 million loan agreement with Turkey Development Bank. The loan, due from World Bank resources, will be on-lent to SME loan financing and has 5 year legal maturity with 2 years grace period.

Paracard, performing all banking transaction as a debit card, is renewed in order to respond to different consumer behaviors. (1)“Paracard Debit” can earn card bonus, purchase mobile phone credits, minutes and mobile internet packages regardless of the GSM operator. (2) “Paracard Trink” has the contactless chip, one can pay and pass by a trink. (3)“Paracard Web” enables secure online shopping. (4)“Paracard City” provides benefits defined by the particular

municipality such as free rations, discounted shopping and transportation tickets.

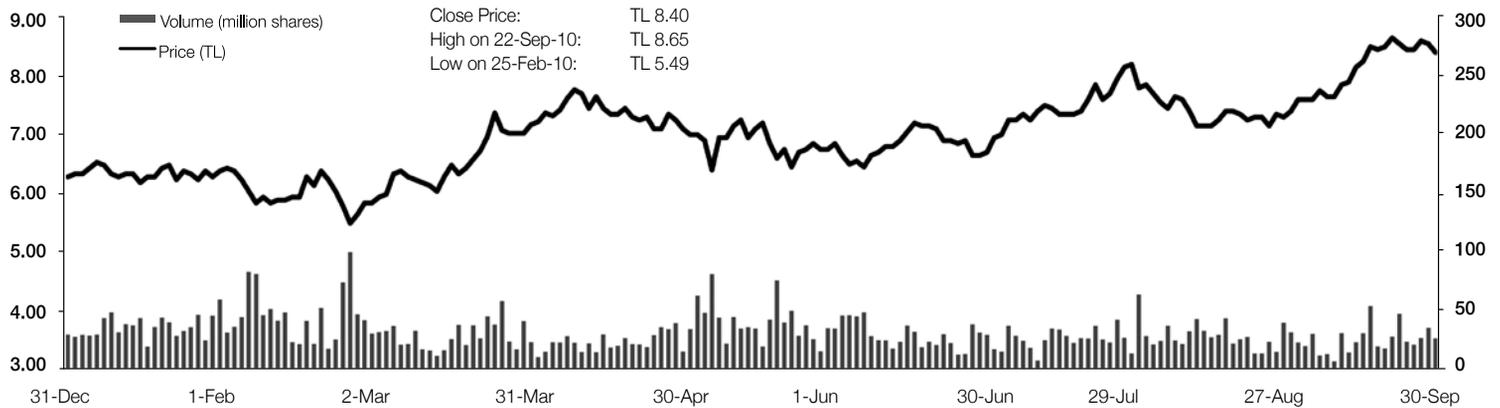
Garanti started implementing the Homeagent Project with the aim to provide job opportunities for disabled people. Via a remote management system, the Homeagents perform telesales activities for insurance products.

Garanti's achievements further recognized on international platforms during the quarter:

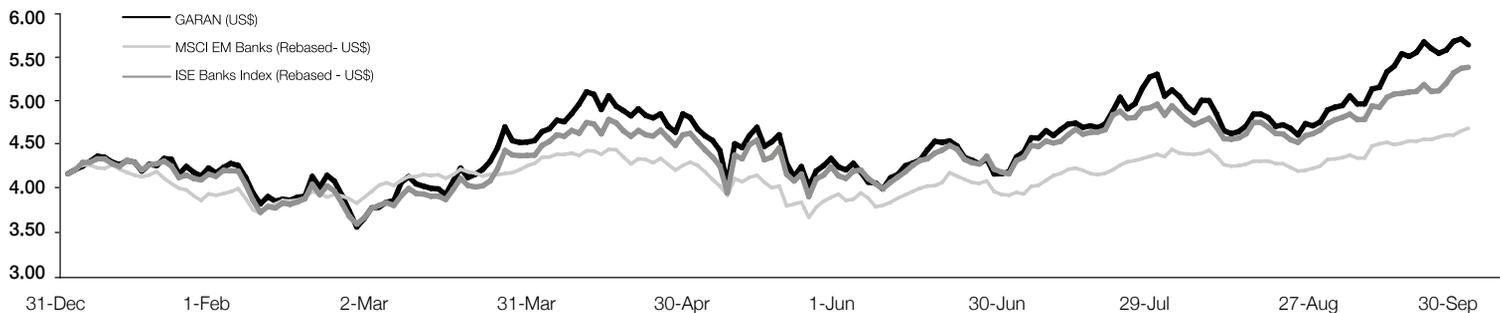
- Garanti is recognized for the 10th time as the “Best Bank in Turkey” at the Euromoney Awards for Excellence.
- Garanti is awarded as “The Best Domestic Cash Management Bank in Turkey” for the second consecutive year by Euromoney, with its superior customer focused approach, innovative solutions and brand new products.
- Garanti is recognized as the “Best Consumer Internet Bank” by Global Finance in Romania.

- ‘garanti.com.tr’, won the Golden Spider Award for the 8th time.
- ‘garantimortgage.com’ received the “Outstanding Web Site Award” from Web Marketing Association in ‘Financial Services’ category in Web Award 2010 and ranked as the third best web site in ‘Financial Services’ category in Golden Spider Awards 2009.
- Garanti iPhone e-Trader application is granted the ‘First Prize’ in the Financial Services category at Stevie Business Awards.
- Garanti’s 2009 Annual Report received another set of awards in MerComm ARC that are globally recognized as the ‘Oscars’ of the Annual Report Competition; Gold Award for Green/Environmentally Sound Annual Reports; Gold Award for Non-Traditional among banks; Honors Award for Financial Data among international public banks.
- Garanti was granted the ‘Grand Prize’ at the MediaCat Felis Awards where the best media ideas and strategies are evaluated in corporate and marketing communications. ■

Garanti Bank Stock Performance in 9M 2010



Relative Performance to MSCI EM Banks & ISE Banks Index



Developments in Turkish Banking Sector

Turkish banks received a total amount of US\$ 7.4 billion* equivalent international borrowing in 3Q10. From which, the total of US\$ 6.7 billion equivalent amount was secured as syndicated loan while the total of US\$ 0.7 billion equivalent amount was received from multilateral development banks.

As part of the exit strategy, the CBRT had two moves in 3Q10 (1) reserve requirement ratio on both FX and TL liabilities increased to 11% from 9.5% and 5.5% from 5%, respectively; (2) the CBRT also eliminated the interest on reserve requirement on TL deposits.

In 3Q10, the CBRT kept its policy rate unchanged (1-week repo rate) at 7.00% while cutting its O/N borrowing and lending rates by 25bps each, to 6.25% and 8.75%, respectively.

The CBRT announced the fourth quarter 2010 interest rate cap and overdue interest rate on credit cards and lowered them by 25 bps to 2.94% and 2.44% per month, respectively.

Akbank raised US\$ 1 billion through the bond issuance at a yield of 5.256% with a 5-year maturity.

Kuveyt Türk issued Turkey's first Sukuk (Islamic interest-free bond), with a three-year maturity totaling US\$ 100 million.

Denizbank transferred its TL 82 million NPL portfolios to LBT and Standard Varlık Yönetimi for TL 7.4 million.

Turkey's first warrants are issued by Deutsche Bank under the ISE Collective Products Market. These were call and put warrants on the ISE-30 Index and Garanti Bank shares.

Turkish Treasury approved Isbank's decision to sell its 35.53% stake in Anadolu Sigorta to its 77% subsidiary, Milli Reasurans.

90% of TEB Leasing's sale to Fortis Leasing was completed for TL 113 million. ■

* Calculation based on publicly-traded banks

Selected Sector Figures

(TL million)	31-Dec-09	25-Jun-10	24-Sep-10	YTD Chg (%)
Total Deposits	504,776	547,257	565,106	12.0%
Bank Deposits	16,989	19,296	23,239	36.8%
Customer Deposits	487,788	527,960	541,868	11.1%
TL Deposits	324,548	366,895	374,516	15.4%
FC Deposits (US\$m)	109,768	103,410	114,636	4.4%
info: Customer Demand Deposits	74,955	75,128	78,990	5.4%
Total Loans	373,294	424,139	446,251	19.5%
TL Loans	268,319	302,784	322,765	20.3%
FC Loans (US\$m)	70,648	78,034	84,759	20.0%
Consumer Loans	90,813	105,141	113,001	24.4%
Housing	42,643	48,992	51,743	21.3%
Auto	4,215	4,146	4,450	5.6%
General Purpose Loans	38,379	44,956	47,068	22.6%
Other	5,576	7,049	9,740	74.7%
Credit Cards	36,682	39,306	41,267	12.5%
<i>Loans / Deposits</i>	<i>74.0%</i>	<i>77.5%</i>	<i>79.0%</i>	
Gross NPL	20,404	19,923	19,782	-3.0%
info: NPL ratio	5.2%	4.5%	4.2%	
info: NPL coverage	84.5%	85.4%	85.9%	
Gross NPL in cons. loans	3,945	3,730	3,728	-5.5%
info: NPL ratio	4.2%	3.4%	3.2%	
Gross NPL in credit cards	4,222	3,997	4,090	-3.1%
info: NPL ratio	10.3%	9.2%	9.0%	
F/X Position, net (US\$m)	376	623	1,564	
on B/S	-12,736	-10,999	-15,171	
off B/S	13,111	11,622	16,735	

Source: BRSA weekly sector data, excluding participation banks

Market Recap

Central bank activity during the third quarter has highlighted the increasingly divergent ways policymakers are addressing for the still fragile economic revival. As global growth mostly stagnates, governments are increasingly focusing on monetary policy as a last resort to support their poor in health economies. The Fed recently signaled a refocusing away from eventual exit strategies toward the possibility of more intervention. A second round of quantitative easing is in line with Japan's recent attempt to weaken the yen. In the beginning of October, the Bank of Japan cut interest rates to zero. The Bank of England also remains committed to providing liquidity whereas the European Central Bank is sticking to a more hawkish policy stance for now and has said that it would continue to gradually remove its extraordinary stimulus measures. Over the next few quarters, the structural problems in the global economy will continue to cast a shadow.

3Q10 was one of the extremes for global equities, with a poor August being squeezed by two very strong months. The performance was strong in most developed markets but emerging markets had even better performance than developed markets, and were the top-performing asset class for the period. The MSCI Emerging Markets Index continued to outpace the developed market indices, finishing up 17.2% for the quarter. Even though all markets in the index delivered positive results, Turkey's number

was staggering. MSCI Turkey had its best quarter of the year and appreciated by 32%. In 3Q10, MSCI Turkey outperformed both MSCI EM and MSCI EMEA by 12.6% and 8.9%, respectively.

Turkey's sustained economic recovery and growth prospects, strong fiscal dynamics, resilient and well-capitalized financial system coupled with improved global liquidity conditions resulted in 20% increase in national equity index ISE100 from 54,839 to 65,774. Bond yields continued to fall and TL appreciated against USD. The improved political outlook was also a major contributor in the successful performance. After the constitutional amendments were backed by 58% in the referendum held in September, the likelihood of AKP-led single party government had increased. The ruling AKP also started reaping the benefits of the declining unemployment rate. The Central Bank of Turkey on the other hand, has a quite confident stance on the disinflation front. Annual inflation rose sharply but core inflation remained benign, consistent with the medium-term targets and suggesting a weak pressure.

Looking ahead, a prolonged period of sub-trend growth and low interest rates await the developed economies. The path out of global recession remains unclear in between the Fed's second quantitative easing, the European Central Bank's stubbornness

Stock Market Performance* (in US\$) in Selected Countries

	Y-o-Y	YTD	Q-o-Q
Brazil	13%	1%	21%
China	11%	2%	10%
Hungary	2%	-1%	27%
India	26%	17%	15%
Mexico	22%	8%	11%
Poland	23%	9%	35%
Russia	11%	1%	13%
Turkey	40%	28%	32%
EM	18%	9%	17%
EMEA	20%	10%	21%
EM Banks	22%	13%	21%
Eastern Europe	11%	2%	17%
Latin America	19%	6%	20%

*Based on MSCI's Emerging Markets Indices, as of September 30, 2010

and a new round of currency wars as countries fight each other over export growth. Over the next few quarters, sentiment in equity markets might remain fragile. Turkey with its low underpenetration levels and solid growth prospects could continue to attract attention from foreign portfolio investors. Even after Moody's raised the outlook from "stable" to "positive" in 3Q10, the current rating of Turkey is still two notches below investment grade and might still be stationary until after 2011 General Elections. ■

Stock Market Indicators (September 30, 2010)

	Market Capitalizations (US\$m)*	Daily Turnover (US\$m)	Stock Performance (in US\$)			Stock Performance (Relative to ISE-100)		
	Close	Average	Y-o-Y	YTD	Q-o-Q	Y-o-Y	YTD	Q-o-Q
Akbank	24,407	33.8	42.9%	31.0%	26.1%	1.8%	2.1%	-3.5%
Halkbank	11,549	30.4	59.5%	18.7%	23.8%	13.5%	-7.4%	-5.3%
İş Bankası	19,081	83.9	62.0%	50.2%	35.5%	15.3%	17.1%	3.6%
Vakıfbank	7,584	46.9	34.3%	8.0%	31.8%	-4.4%	-15.9%	0.8%
YKB	14,986	46.0	57.9%	57.1%	26.2%	12.4%	22.4%	-3.5%
GARANTI	24,324	143.7	55.1%	37.8%	37.7%	10.4%	7.4%	5.3%
Banking Sector	125,500	440.5	45.5%	31.2%	30.5%	3.5%	2.3%	-0.2%
ISE -100	262,376	1,216.0	40.5%	28.3%	30.8%			

Average figures are valid for 2010 -- US\$/TL: CBRT ask

*US\$/TL:1.4504 CBRT ask as of September 30, 2010

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