

StockWatch

4Q 2016
INVESTOR RELATIONS



ABOUT GARANTI STOCK 'GARAN'

**With an actual free float ratio of ~50%,
Garanti shares constituted
18% of all foreign transactions
in BIST and 39% of all listed banks
in 2016.**

US\$ 9 Billion

Market Capitalization constitutes 6% of the BIST 100

~88% Foreign Ownership

Most invested stock by foreigners in Turkey
with US\$ 4.5 billion floating market capitalization

US\$ 256 Million

Average daily turnover in 2016,
representing 21% of BIST 100

US\$ 30.1 Billion

Total 2016 foreign transactions in GARAN
The most traded stock by foreigners

Leading Stock

with ~10% weight in BIST 100
with ~11% weight in BIST 30

Note: Currency conversion is based on US\$/TL CBRT ask rate, data as of December 30, 2016, foreign ownership ratio includes Depository Receipts

GARANTI FINANCIAL HIGHLIGHTS

Garanti Market Shares

	Dec-16	YtD Δ
Total Performing Loans	11.8%	▲
TL Loans	11.3%	▲
FC Loans	12.8%	▼
Credit Cards - Issuing (Cumulative)	20.2%	▲
Credit Cards - Acquiring (Cumulative)	20.9%	▲
Consumer Loans*	14.6%	▲
Total Customer Deposits	11.5%	▼
TL Customer Deposits	9.5%	▼
FC Customer Deposits	14.2%	▼
Customer Demand Deposits	13.2%	▼
Mutual Funds	10.1%	▼

* Including consumer credit cards and other

Garanti with Numbers

	Dec-15	Sep-16	Dec-16
Branch Network	983	979	971
+ Domestic	971	967	959
+ Abroad	12	12	12
Personnel	19,692	19,905	19,689
ATM	4,504	4,686	4,825
POS*	600,989	629,970	635,865
Total Customers	13,863,933	14,361,234	14,615,584
Digital Banking Customers**	3,993,457	4,586,890	4,878,893
Mobile Banking Customers**	2,530,757	3,304,292	3,682,950
Credit Card Customers	6,162,816	6,411,313	6,484,464
Credit Cards	9,706,572	9,751,523	9,792,199
Debit Cards	8,640,478	8,843,410	8,930,780

* Includes shared and virtual POS.

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

Note: Figures are based on bank-only financials for fair comparison with sector. Sector figures are based on BRSA weekly data for commercial banks only.

With an actual free float ratio of ~50%, Garanti shares constituted 18% of all foreign transactions in BIST and 39% of all listed banks in 2016.

SELECTED FINANCIALS

Total Assets
US\$ 88.8 Billion

Total Performing Loans
US\$ 57.0 Billion

Total Deposits
US\$ 50.9 Billion

Shareholders' Equity
US\$ 10.2 Billion

Ordinary Banking Income
US\$ 3.4 Billion

Net Income
US\$ 1,465 Million

SELECTED FINANCIAL RATIOS

Return on Average Assets (ROAA)
1.8%

Return on Average Equity (ROAE)
15.4%

Capital Adequacy Ratio (CAR)
14.7%

Non Performing Loans (NPL) Ratio
3.0%

Figures are based on BRSA consolidated financials as of December 31, 2016. Note: Exchange rate used for currency conversion is based on Garanti Bank's December 31, 2016 dated financials.

DID YOU KNOW?

Garanti Pension and Life became sector leader in number of participants, with **1.13 million participants** and **17.1% market share** in 2016.

Number of active **digital banking customers** increased by **22% in 2016** and reached **4.9 million**. Additionally, active **mobile banking customers** increased by **46%** and reached **3.7 million** by the end of 2016.

Garanti is the leading financial institution in Europe with its **5 million social platform followers**.

In line with its responsible banking approach, Garanti become the **first-ever** Turkish company to perform **Materiality and Social Impact Assessment**, which uses a globally recognized impact assessment methodology and reveals the results with quantitative

(monetized) data to identify social investment areas and measure the impact of its efforts in these areas.

AWARDS & RECOGNITIONS

Awarded with the **Sustainable Business Award** in the "**Energy and Carbon Management**" category with its Climate Change Action Plan from the Sustainability Academy.

Became the only company from Turkey to be part of **CDP Global A List** for two years in a row. In addition, Garanti received the **CDP Climate Leadership Award**.

Took place among the companies that received the highest scores from **CDP Water Program**. Accordingly, Garanti received the **CDP Turkey 2016 Water Leadership Award**.

Listed in **BIST Sustainability Index** in 2016, for the third consecutive year.

Garanti.com.tr was recognized with the **Best Website Design** award at Global Finance's "**The World's Best Digital Banks 2016**" evaluation.

With its 4.5G Video Loan Commercial, received the **Silver** award in the "**Media Usage/Best TV Application**" category, and the Bronze award in the "**Product and Service/Service**" category at Crystal Apple Awards.

Received two **Felis awards** in the Financial Services group "**Media/Channel/TV Usage**" category with its 4.5G Video Loan Commercial and one **Felis award** in the Branded Content and Entertainment group "**Game-Live Experience Games**" category with our House Escape Adventure event.

Came first in the "**Bank That Uses Technology the Best**" category based on the votes of the public and the jury, at the Boğaziçi Informatics Awards.

Ranked **first** among mobile banking applications that stood out in 2016, evaluated by Mobile Marketing Association Turkey and Digital Age.

Garanti Factoring was honored as the "**Best of Export Factoring Company in the World in 2016**" for the 2nd time by Factors Chain International. In addition, **Garanti Factoring** was recognized as the "**Most Preferred Factoring Company of Turkey**" in 2016 by Capital Magazine.

Garanti Bank Romania was recognized by the public as the top bank that successfully managed its activity during the economic crisis years. The truly honoring award was a result of public voting. The bank was also awarded "**Best Banking Product of 2016**" with the Bonus Card and "**Bank of the Year in Risk Management 2016**" by the Financial Market Magazine.

Garanti Leasing website received the **Award of Distinction** in the "**Financial Services**" category at The Communicator Awards 2016.

Garanti Pension and Life call center was named the "**Best Call Center in the World**" at the Contact Center World Awards finale.

WHAT ANALYSTS SAY ABOUT GARANTI?

BofAML

- In terms of costs, Garanti spends more than peers but it also generates more revenue per branch or per head than most peers. Garanti stands out in terms of risk-adjusted revenue generation.

Citi

- The Bank's quality appeal is further evidenced by its solid capital position, strong net interest income generation, and high coverage of NPL's.

Credit Suisse

- In the long term, the Bank's strong capital and profitability should provide flexibility.

Deutsche Bank

- We expect the Bank to post one of the fastest EPS growth rates among its peers in the next three years as a result of a stronger top line, supported by its solid core Tier 1 capital, better cost efficiency, and a slower normalization process in its CoR vs. its peers.

Is Invest

- Higher level of fees in total revenue structure and the room to optimize costs will be rendering other competitive edges to defend earnings momentum in the periods to come.

UBS

- Garanti's successful digital banking strategy is likely to create significant operating leverage in the next two years and enable the Bank to grow its earning with 15% CAGR.

YK Invest

- Garanti is our top pick; well-managed funding base and maturity mismatch, attached to an efficient distribution network will start paying off.

YF Invest

- The Bank managed asset quality developments well through its free provision buffer and proactive communication with investors.

TEB-BNP Paribas

- Garanti's resilient capital base will differentiate the Bank positively from peers.

GARANTI AND THE COMMUNITY

Garanti's **Teacher's Academy Foundation** has reached out to 140,000 teachers and 8 million students since its foundation in 2008. The commercial providing insight on the foundation's work was aired on major TV and digital channels, reaching over 20 million viewers.

With leadership from the **Ministry of Family and Social Policies** and sponsorship from Garanti "**Join Workforce, Join Life**" project was initiated in 2014. Under **Turkey's first-ever "supported employment"** model, people with disabilities received support in areas such as choosing jobs that match their skills and preferences, and adapting to work and social environments. 447 people with disabilities were provided with jobs under the guidance of job coaches in 5 different cities in Turkey including Istanbul and Ankara.

Creating value for all of its stakeholders, Garanti;

- Enhanced its **Environmental and Social Impact Assessment Process (ESIAP)** to be fully compliant with the **Equator Principles'** requirements.

- Organized the **2nd Sustainability and Risk Management** workshop with the participation of Garanti's commercial and corporate customers and presentations from international experts.
 - Became one of the main supporters of the recently published **Climate Change Mitigation Report** from Economics Policy's Perspective that was published by **Turkish Businessmen Association (TÜSIAD)**.
 - Became one of the main supporters of the **Climate Change Mitigation Report** from Economics Policy's Perspective that was recently published by **Turkish Businessmen Association (TÜSIAD)**.
 - Completed the financial education seminars and workshop in 4 cities with the participation of 2,719 women, in 2016.
- Garanti continues to support women's empowerment:
- Turkey's Woman Entrepreneur Competition** was organized for the 10th time jointly by Garanti and the Ekonomist magazine, with the support of the Women Entrepreneurs Association of

Turkey (KAGIDER), to encourage woman entrepreneurs and tell their stories to everyone in Turkey.

- Launched in 2012 to enhance the know-how and vision of women entrepreneurs, **Woman Entrepreneurs Executive School** hosted free training sessions in two western cities, Bodrum and Manisa.
- Graduates of **Woman Entrepreneurs Executive School** were reunited in Istanbul and Izmir to bolster their initiatives, collaborate with one another, and track their post-training progress.

Garanti is the solution partner of SMEs:

- Garanti Dış Pazar Bul (Find Foreign Markets)** initiative, developed in collaboration with Turkish Exporter, helps SMEs grow their overseas markets and reach more customers in new markets.

DEVELOPMENTS AT GARANTI

Signed a loan agreement with **Proparco** equivalent to **EUR 100 million** with **12 years** maturity to be used for renewable energy financing.

Successfully renewed its **syndicated loan** with a roll-over ratio of 100%, comprising of two separate tranches for **EUR 615.5 million** and **US\$ 626 million**, with a maturity of 367-days. The all-in cost has been realized as Euribor+1.00 % & Libor+1.10%. The loan that will be used for trade finance purposes has been executed with commitments by 34 banks from 15 countries.

Secured a financing in the total amount of **US\$ 310 million** and **EUR 50 million** with a maturity of **5 years** through its **Diversified Payment Rights securitization** program.

Continued to provide financing to **Turkey's energy infrastructure**:

- Led the five-lender consortium of local and foreign banks in providing **US\$ 575 million** financing to Trakya Elektrik Dağıtım A.Ş. for electricity distribution network investments. Acting as the Facility Agent, Garanti provided **TL 500 million** in order to establish a better balance sheet position for the power distribution company, serving 1 million subscribers.
- Participated in the **US\$ 500 million** financing provided for Aşağı Kaleköy Hydro Power Plant (HPP) with **14 years maturity**. Sponsored by Cengiz and Özaltın groups, Aşağı Kaleköy HPP is the largest green field HPP investment in recent years with an installed capacity of **500 MW**. Garanti acted as Facility Agent

and Security Agent and took a stake of **US\$ 250 million** in the financing.

E-Invoice Product Integration project was launched within the Corporate Online Banking. Enabling customers to not only use their electronic invoices in an integrated manner with collection and financial solutions, such as Direct Collection System (DCS), DCS Discount, Supplier Finance System (Garanti Discount); but also execute their e-invoice payments manually or automatically.

GarantiOne has been launched as the first and only mobile banking application in Turkey that is designed and developed specifically for the youth and young professionals; with specially catered banking products, transaction and campaigns. **GarantiOne** promises to make life easier for those in the prime of life with its unique user experience and has reached 300 thousand downloads in 3 months.

WebChat channel was developed on Garanti Internet Banking. Customers that have **overdue payments** are now able to connect to the specialized agents from Retail Collection Department and ask their questions.

ATM software infrastructure and interface were renewed in terms of functionality, user experience and cross-sell facilities. New features include dynamic ATM dashboard, instant & smart error fields, and change with banknotes in addition to coin dispensing function.

Consumer Loan Installment Payments via ATMs became available at renewed ATMs with new software infrastructure which also enable customers to track account activities and payment plans.

Overdraft Account application and disbursement processes via Call Center and Interactive Voice Notification (IVN) are launched for retail and SME sole trader customers. Customers can set Overdraft Account limit, and continue their applications and disbursement processes via Call Center and IVN channels without going to branches.

Garanti's one-stop investment platform, **paragaranti.com** was completely re-designed with a new interface. Visitors can access in-house investment commentaries, reports and videos; as well as set reminders and personal watch lists. Additionally, customers can trade with the deep linked call-to-actions to Garanti's digital channels.

Garanti Securities became integrated with Matriks mobile app to enable potential customers to trade stocks and futures.

Garanti Pension and Life launched its mobile application in November which is available on iOS and Android devices. Main features are; displaying summaries of pension contracts, life and unemployment insurance contracts, tracking account activities, changing contribution amount and updating personal information.

SELECTED CREDIT CARD FIGURES IN TURKEY

Top 5 Categories in credit card spending

	Dec-16	Dec-15
Supermarket and shopping malls	19.2%	19.6%
Gas stations	8.6%	8.4%
Apparel and accessories	8.4%	8.4%
Various food products	7.0%	6.6%
Household gadgets, PCs, etc.	6.5%	7.3%

2.1 # of plastic cards per person

Per card spending



Source: Interbank Card Center, Turkish Statistical Institute, Banking Regulation and Supervision Agency

Note: Official population is based on 2016 announced figure of 79.8 million.

Plastic cards defined as the sum of plastic credit cards and debit cards

MACRO NOTES

3Q16 GDP falls remarkably. Turkish 3Q16 GDP contracted by -1.8%, below the market median call of a 0.5% contraction and our own expectations of -0.6%. However, GDP data contains major revisions after revision to ESA-2010 with 2009 as the new base-year. The new GDP portrays healthier growth dynamics. The data shows that the 1998-2015 average growth was 5.1% rather than 3.9%. Investments now constitute 10% higher share in GDP (30%), while total consumption's share declined to 74% from 85%. The first half growth rate of 2016 was revised up to 4.5% from the previous 3.9%. Our high frequency model points out a modest recovery in 4Q. We expect the recovery to continue but the risks to our below consensus growth forecast of 2.3% in 2016 are slightly on the downside.

Positive IP growth signaled a modest recovery in the final quarter. In unadjusted terms, annual contraction by 3.3% in 3Q16 IP turned to a moderate recovery by 2.4% in October-November 2016 period. The recovery in energy and capital goods took the lead with a total 2.0 pp contribution, while consumer goods contributed slightly by 0.4 pp on top of non-durables and intermediate goods continued to be weak. Confirming our view on growth outlook, the recovery in domestic demand continued to be only modest, mostly reflecting the brought-forward demand on the back of policy stimulus.

Core current account deficit widened modestly. Current account deficit in 12m cumulative basis registered as US\$ 33.7 billion by end-November. CAB excluding net energy trade was US\$ 8.6 billion in the same period. When both net energy and gold trade are excluded, the deficit reaches US\$ 11.4 billion, the highest level of around last 4.5 years. The CAD to GDP ratio, however, could be read as 3.8% in 3Q instead of 4.5% with the new GDP series. We expect the CAD to GDP ratio to realize at 4% in 2016.

Government finances continued to remain robust with figures more positive than the target. In 2016 overall, the Central Government budget revenues rose by 14.7% and expenditures by 15.4%, which were both over the revised Medium Term Plan (MTP) targets. The budget deficit was TL 29.3 billion and primary surplus was TL 21.0 billion. According to the new GDP series, as well as our forecast, the budget/GDP ratio for 2016 may have realized at 1.1%, increased from 1.0% in 2015; while primary surplus/GDP declined from 1.3% 2015 to 0.8% in 2016.

Turkey's external debt stock/GDP was 49% in 3Q16. In 3Q, gross external debt stock/GDP level was 49.0%, declined from 49.4% in 2Q and increased from 46.2% in 2015. EU-defined general government debt stock/GDP rate increased from 27.0% in 2Q to 27.4% in 3Q. It was 27.5% in 2015.

Inflation rose by the year-end to 8.5%. Annual CPI inflation by the end of 2016 was 8.5%, compared to 8.8% in end-2015. However, core inflation improved from 9.5% to 7.5% in the same period, the decline in food inflation was also supportive. However, the rise in energy inflation on top of increased oil prices pushed the headline upwards. Unfavorable base effect on food and energy prices and sizable currency depreciation will pose upward pressures on 2017 inflation outlook.

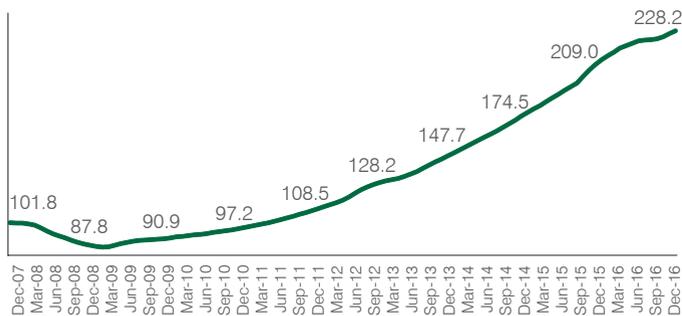
Central Bank (CBT) increased its rates in November. Following the TL depreciation and increasing inflation expectations, the CBT hiked its upper bound of the corridor from 8.25% to 8.50% in November, and its 1-week repo rate from 7.5% to 8.0%, leaving the lower bound of the corridor at 7.25%. The CBT did not change its rates in its December meeting, adopting a wait-and-see mode, though it has been implementing its other tools including squeezing liquidity and making use of the late liquidity window funding rate to counter the exchange rate depreciation.

TL depreciated by 12% (YoY) against currency basket in 4Q16 on average after depreciated by 4% in 3Q16. Benchmark bond yields which was at 9% on average in 3Q16, increased to 10% in 4Q16. The 4Q-end benchmark bond yield was 10.7%.

REAL-ESTATE SECTOR ANALYSIS IN TURKEY

REIDIN Turkey Composite Residential Property Price Index: The index reflects an increase of 0.83% MoM and 9.09% YoY in residential sales prices in December'16. Index series are calculated monthly, for sales and rent covering 68 cities.

Residential Property Price Index



REIDIN.com-GYODER New Home Price Index: The index shows an increase of 0.47% MoM and 2.94% YoY in December'16. Taking January 2010 as the base period, REIDIN.com-GYODER New Home Price Index is calculated on 70 housing projects and with a monthly average number of 22,500 properties presented by 27 developers

New Home Price Index



DEVELOPMENTS IN TURKISH BANKING SECTOR

Turkish Banks raised a total amount of US\$ 6.6 billion^{*} equivalent international funding in 4Q16. US\$ 2.9 billion equivalent amount was secured as syndicated loans, US\$ 1.4 billion in securitizations, US\$ 160 million equivalent amount from multilateral development banks, US\$ 2.1 billion from Eurobond issuances and US\$ 82 million equivalent issuances^{**} under Global Medium Term Notes (GMTN) Programs.

Regulatory developments during the quarter:

- BRSA lowered the general provisioning ratio for Group I commercial loans to 0.5% from 1% and removed provisioning for loans to SMEs that are for exports and foreign-currency-earning businesses. For Group II commercial and SME loans, general provisioning ratio was cut to 1% from 2%.
- On December 16th, BRSA changed the SME definition to include companies having TL 125 million annual revenue rather than TL 40 million and retail credit limit was increased to TL 3.725 million from TL 2.750 million.

CBRT actions during the quarter:

- In October, CBRT reduced the overnight lending rate by 25 bps and in November, the Bank increased one-week repo rate by 50 bps and overnight lending by 25bps. Accordingly, as of 4Q-end, overnight lending, one-week repo and borrowing rate became 8.5%, 8.0% and 7.25%, respectively.
- CBRT decreased the "interest rate cap" and "overdue interest rate" on credit card transactions for 1Q17; TL rates came to 1.84% and 2.34% from 2.02% and 2.52% per month, respectively; and FX rates came to 1.47% and 1.97% from 1.62% and 2.12% per month, respectively.
- CBRT changed the remuneration method of TL required reserves on November 12th. Accordingly, effective as of January 1st, remuneration rate for each quarter will be taken 400 bps less than the one-week repo rate.
- CBRT re-introduced the limits for FX collateral deposits, starting from November 11th. Accordingly, Banks' FX collateral deposit limits are set as four times of the pre-determined limit before July 17th. Recall that, on July 17th, in order to provide TL liquidity to the financial system, CBRT had removed the limits for FC collateral deposits.

- In October and November, CBRT has reduced reserve requirement ratios and reserve option coefficients (ROC) with the aim of more effective functioning of the transmission mechanism.
- Number of monthly meetings held by the CBRT's Monetary Policy Committee (MPC) is set to be 8 from 12.

Rating actions during the quarter:

- After upgrading Turkey's outlook to Stable from Negative on November 4th, S&P revised up outlook of Garanti, İşbank, Yapı Kredi and Vakıfbank's credit rating outlook to Stable on November 8th. Ratings were affirmed.

NPL sales during the quarter:

- Garanti Bank sold its TL 410.6 million NPL portfolio receivables for TL17.1 million.
- İşbank sold its TL 403.3 million NPL portfolio receivables for TL 34.5 million.
- Şekerbank sold its TL 102.6 million NPL portfolio receivables for TL 3.9 million.
- QNB Finansbank sold its TL 789.6 million NPL portfolio receivables for TL 97.0 million.
- ING Bank sold its TL 164.5 million NPL portfolio receivables.

Other developments:

- Akbank decided to liquidate its 100% subsidiary Akbank (Dubai) Limited located in United Arab Emirates and open a representative office in the same location.
- Garanti finalized its share transfers for transaction with Sovcombank relating to sale of 100% stake in Garanti Bank Moscow.

* Public Disclosure Platform. Calculation based on publicly-traded banks.

** Bloomberg

Selected Sector Figures (TL Million)

	31.12.15	30.09.16	30.12.16	QoQ Δ
Total Deposits	1,245,289	1,344,793	1,456,683	8.3%
Bank Deposits	73,920	77,110	84,891	10.1%
Customer Deposits	1,171,369	1,267,683	1,371,792	8.2%
TL Deposits	675,001	774,918	796,373	2.8%
FC Deposits (US\$ mn)	171,343	164,884	164,278	-0.4%
Customer Demand Deposits	218,182	240,733	272,218	13.1%
Total Loans	1,346,865	1,456,246	1,565,364	7.5%
TL Loans	927,992	1,000,407	1,040,940	4.1%
FC Loans (US\$ mn)	144,597	152,552	149,700	-1.9%
Retail Loans*	571,934	596,942	628,233	5.2%
Housing	137,893	149,677	159,069	6.3%
Auto	20,329	19,448	20,146	3.6%
General Purpose Loans**	320,123	328,535	348,784	6.2%
Credit Cards	93,589	99,282	100,234	1.0%
Loans / Deposits	108.2%	108.3%	107.5%	
Gross NPL	42,705	51,609	54,103	4.8%
NPL ratio	3.1%	3.4%	3.3%	
NPL coverage	75.4%	77.2%	78.0%	
Gross NPL in retail loans	17,056	21,590	22,751	5.4%
NPL ratio in retail loans	2.9%	3.5%	3.5%	
Gross NPL in credit cards	7,416	8,214	7,921	-3.6%
NPL ratio in credit cards	7.3%	7.6%	7.3%	
F/X Position, net (US\$ mn)	300	-6	-1,324	
on B/S	-31,435	-8,633	-21,276	
off B/S	31,735	8,629	19,951	

Source: BRSA weekly sector data, commercial banks only

*Including consumer and commercial installment loans

**Including other and overdraft loans

MARKET RECAP

The last quarter of the year was marked by the United States Presidential Elections. Following Donald Trump's victory over Hilary Clinton, US treasury yields sharply rose by 11%, marking its steepest move in three years. US\$ strengthened globally as Trump's campaign rhetoric indicated a large infrastructure spending program, alongside tax cuts and protectionist policies which has revived inflation expectations and the prospect of tighter monetary policy. Beginning immediately after the US election, more than US\$ 25 billion was pulled from emerging markets in November, a scale not seen since the taper tantrum of 2013, according to Institute of International Finance (IIF) data. The "Trump trade", which favored a strong dollar, higher bond yields and US domestic-oriented stocks, left EM assets notably exposed. While Wall Street indices reached record high levels, European stocks also flirted near 11-month highs. Underscoring the sharp turn in investor sentiment, S&P 500 increased by 11% in 2016, despite being down by 10.5% in February. On the other hand, the European Central Bank left interest rates unchanged but extended the deadline for its stimulus programme, albeit at a slower pace of asset purchases next year. In December, a year after the first hike, Fed raised short-term interest

rates for the second time, and forecasted a faster pace of tightening in 2017 by signaling three potential hikes. Following this, US\$ climbed to a 14-year high, prompting caution in EM stocks and currencies worldwide.

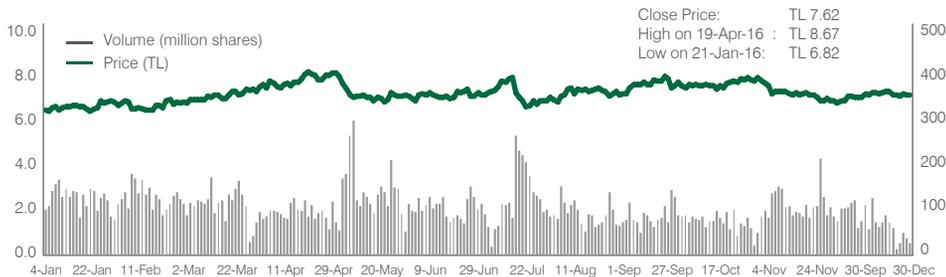
On the commodities front, oil prices rose nearly 20% and Brent traded above US\$ 55, after OPEC members agreed to cut supply by 1.2 million barrels a day for 1H17.

In 4Q EMs experienced foreign funds outflow from the equity and the bond markets in the amounts of US\$ 2.2 billion and US\$ 36.2 billion, respectively, according to IIF data. As a result, MSCI EM Index was down by 5% QoQ vs. being up by 8% in 3Q. China was the worst performer after Turkey with 7% decline QoQ. Brazil was only up by 1% in 4Q, yet it recorded 61% increase in 2016 on the back of its promising fundamental environment and successfully run fiscal reform agenda. Russia recorded its highest quarterly gain since 1Q15 with 18%. Russia's 49% increase in 2016 on top of its flat performance in 2015 was also strong as it benefited from its high real rates and the recovery in oil prices. The continued recoveries from deep contractions in Russia and Brazil are likely to provide the largest uplift to EM growth in 2017.

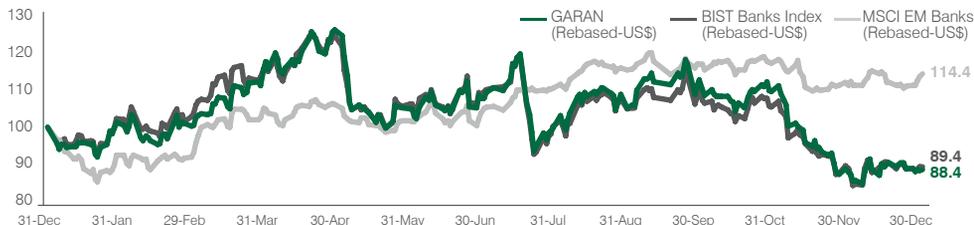
Turkey underperformed its EM peers in 4Q for the third consecutive quarters due to continuing domestic and international uncertainties. According to the monthly BIST foreign transactions data, Turkish equities could attract foreign investors in October and December, yet, Turkey experienced a US\$ 683 million outflow in November's Trump rally. Uncertainties stemming from "Constitutional Presidency" talks weighed on investor sentiment, while markets also priced a possible Fitch downgrade in January. In 4Q, MSCI Turkey Index decreased by 14% QoQ and underperformed MSCI EM Index by 10%. Accordingly, TRY depreciated by 18% QoQ against US\$, bringing yearly depreciation to 21%. CBRT ended its easing cycle and increased the upper band of the interest rate corridor and its policy rate by 25 bps to 8.5% and by 50 bps to 8.0%, respectively. As a result, weighted average cost of funding increased by 53 bps to 8.31% by the end of the quarter. The Benchmark interest rate touched 11.22% in mid-December, highest level since October 2015, and ended the quarter at 10.63% registering 192 bps increase QoQ.

Looking ahead, external imbalances have largely adjusted; inflation is moving back towards target in most places and there are clear signs of better EM growth. Improvement in European countries is likely to support EM exports. All of these are important and positive differences compared to the taper tantrum of 2013, and should support EMs in 2017. Higher US rates that come along with stronger US growth are not necessarily problematic for EM assets. Past data suggest that, EM equities and credit spreads tend to outperform in such "higher growth, higher rates" environments.

Garanti Bank Stock Performance in 2016



Relative Performance to MSCI EM Banks & BIST Banks Index



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

	QoQ	YTD
Brazil	1%	61%
China	-7%	-1%
Hungary	9%	32%
India	-8%	-3%
Mexico	-8%	-11%
Poland	3%	-2%
Russia	18%	49%
Turkey	-14%	-11%
EM	-5%	9%
EMEA	1%	16%
EM Banks	-1%	14%
Eastern Europe	14%	33%
Latin America	5%	30%

* Based on MSCI's Emerging Markets Indices, as of December 30, 2016

For further information please contact Garanti Investor Relations.

Address: Levent, Nispetiye Mah. Aytaç Cad. No: 2, 34340, Beşiktaş, İstanbul-Türkiye Tel: +90 (212) 318 23 50 Fax: +90 (212) 216 59 02

Web: www.garantiinvestorrelations.com e-mail: investorrelations@garanti.com.tr

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