

# StockWatch

**4Q 2017**  
INVESTOR RELATIONS



## ABOUT GARANTI STOCK 'GARAN'

**With an actual free float ratio of ~50%,  
Garanti shares constituted  
12% of all foreign transactions  
in BIST and 34% of all listed banks  
in 2017.**

**US\$ 11.9 Billion**

Market Capitalization constitutes 6% of BIST 100

**~95% Foreign Ownership**

Most invested banking stock by foreigners in Turkey  
with US\$ 6.0 billion floating market capitalization

**US\$ 142 Million**

Average daily turnover in 2017,  
representing 11% of BIST 100

**US\$ 23.6 Billion**

Foreign transaction in 2017 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 29, 2017, foreign ownership ratio includes Depository Receipts.

## GARANTI FINANCIAL HIGHLIGHTS

### Garanti Market Shares

	Dec-17	YtD Δ
Total Performing Loans	11.1%	▼
TL Loans	10.9%	▼
FC Loans	11.4%	▼
Credit Cards - Issuing (Cumulative)	19.3%	n.a.
Credit Cards - Acquiring (Cumulative)	19.2%	n.a.
Consumer Loans	14.1%	▼
Total Customer Deposits	11.2%	▼
TL Customer Deposits	9.9%	▲
FC Customer Deposits	12.7%	▼
Customer Demand Deposits	13.4%	▲
Mutual Funds	11.2%	▲

Note: Not available due to methodology change in issuing and acquiring volume calculation as of September Interbank Card Center

### Garanti with Numbers

	Dec-16	Sep-17	Dec-17
Branch Network	971	953	948
+ Domestic	959	942	937
+ Abroad	12	11	11
Personnel	19,689	19,111	18,851
ATM	4,825	4,769	5,003
POS*	635,865	667,272	670,259
Total Customers**	14,615,584	14,823,196	15,143,274
Digital Banking Customers***	4,878,893	5,601,762	5,956,609
Mobile Banking Customers***	3,682,950	4,688,369	5,086,833
Credit Card Customers	6,484,464	6,733,846	6,808,211
Credit Cards	9,792,199	10,099,907	10,213,151
Debit Cards	8,930,780	9,474,225	9,796,696

\* Includes shared and virtual POS.

\*\* Number of customer in 2017 was restated due to the exclusion of customers with inadequate documentation.

\*\*\* 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.

In 2017,  
Garanti reached  
total asset size of  
**US\$ 94.4 billion** and  
net profit of **US\$ 1.7 billion**

### SELECTED FINANCIALS

Total Assets  
**US\$ 94.4 Billion**

Total Performing Loans  
**US\$ 60.4 Billion**

Total Deposits  
**US\$ 53.2 Billion**

Shareholders' Equity  
**US\$ 11.0 Billion**

Ordinary Banking  
Income  
**US\$ 4.1 Billion**

Net Income  
**US\$ 1.7 Billion**

### SELECTED FINANCIAL RATIOS

Return on Average  
Assets (ROAA)  
**1.9%**

Return on Average  
Equity (ROAE)  
**16.6%**

Capital Adequacy  
Ratio (CAR)  
**16.8%**

Non Performing Loans  
(NPL) Ratio  
**2.6%**

Figures are based on BRSA consolidated financials as of December 31, 2017. Note: Exchange rate used for currency conversion is based on Garanti Bank's December 31, 2017 dated financials.

## DID YOU KNOW?

The number of active digital banking customers reached **6 million**. Additionally, active mobile banking customers reached **5.1 million**.

**Garanti Asset Management** total AUM reached **TL 18.3 billion** and increased its volume in pension funds to **TL 11.9 billion** with a market share of **15.3%** and its volume of mutual funds is **TL 5.7 billion** with a market share of **11.3%**.

**Garanti Factoring** asset size reached **TL 3.5 billion** with an increase of **19%** compared to 2016.

## AWARDS & RECOGNITIONS

Named as the **Bank of the Year in Turkey** by The Banker, the finance and economics journal of the Financial Times group. The assessment, based on the objective views of expert bankers and analysts, weighs fiscal performance, risk management, use of new technologies and strategies that differentiate the Bank from its competitors.

Became the only financial institution worldwide to be included in the **2017 CDP Water A List** and received **CDP Global 2017 Water Leadership Award**. Also, retained its score at the climate change program and entered the A-list and sustained its position among **CDP Turkey Leaders**.

Received **Operational Excellence Awards** from Citibank, KBC Belgium, Wells Fargo and Standard Chartered for achieving high quality straight through processing (STP) volumes for US\$ and Euro payments.

Granted **First Place** in the category of "**Best Performance Improvement**" in 2017 Turkey Call Center Awards, the only call center organization in Turkey, for the third time.

Selected **Turkey's Best Digital Bank** and **Turkey's Best Mobile Application** with Garanti Mobile, by World Finance magazine.

Won **Gold** and **Public Favorite** awards in the "**Banking & Finance - Mobile Application**" category of the 15<sup>th</sup> Altın Örümcek (Golden Spider) Web Awards.

Chosen as the **Lovemark** in the "Mobile Banking" category at the Lovemark Survey conducted for the 10<sup>th</sup> time this year with the collaboration of MediaCat and Ipsos to determine the brands loved by the Turkish consumers.

Named **second best** in Europe, right after BBVA, in **2017 Online Banking Functionality Benchmark** report by Forrester Research, one of the most influential research and advisory firms in the world.

Entered the list of **100 Best Annual Reports of 2017**, in addition to receiving **Gold** at Mercomm's Annual Report Competition, with 2016 Annual Report "Sharing Moments".

Won **Crystal Apple Award** in the "**Communication Design**" category with 2016 Sustainability Report. Also, was awarded in the "**Reporting**" category at the Sustainable Business Awards.

**Garanti Mortgage** won three prizes at the 15<sup>th</sup> Altın Örümcek (Golden Spider) Web Awards; in the categories of "**Banking & Finance**" it was granted **Public Favorite** and **Gold** Awards and it was granted Silver in the "**Institutional Web Site**" category.

**Garanti Securities** was recognized for the "**Best Research - Daily Bulletin**" and "**Best Research - Macroeconomy & Strategy**" at the TÜYİD (Turkish Investor Relations Society) Investor Relations Summit.

**Garanti Securities** has been chosen as the "**The Most Liked Brokerage House of 2017**" among "**Turkey's Most Liked Companies**" by Capital Magazine.

## WHAT ANALYSTS SAY ABOUT GARANTI?

### Credit Suisse

Garanti offers one of the highest sustainable ROE generation potentials among peers, on our estimates, despite operating with low leverage.

### Deutsche Bank

Garanti has one of the highest CET1s and has among the most room for cost improvements, despite significant progress last year already.

### Is Investment

The scale that the bank has achieved in retail banking has been improving the earning diversity and resilience.

### J.P. Morgan

In our view, further rerating is possible on the back of i) positive NIM dynamics going into 4Q17E, ii) increased digitalization leading to solid core revenue momentum, iii) improving operational efficiency, and iv) a healthy capital position enabling higher dividend payouts.

### Oyak

Garanti has one of the highest sustainable ROE among large cap banks thanks to its robust ROA.

### TEB-BNPP

Delivering the highest ROE in the system in 2017E. Garanti could easily increase its leverage by 2x and boost its ROE to beyond 20% to deserve much higher target P/Bs.

### UBS

Among commercial banks, Garanti is the only bank we expect to keep their NIMs resilient and deliver positive core earnings growth.

### Wood & Co

Garanti is one of the banks that is able to strike a balance between NIM and volume growth.

### YF Securities

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

## GARANTI AND THE COMMUNITY

Organized Turkey's **Woman Entrepreneur Competition** for the 11<sup>th</sup> time, jointly with the Economist magazine, and with the support of the Women Entrepreneurs Association of Turkey (KAGIDER), to encourage woman entrepreneurs and tell their stories to everyone in Turkey.

Hosted **Woman Entrepreneurs Executive School** offering free training sessions in Şanlıurfa and Marmaris, the school was launched in 2012 to enhance the know-how and vision of women entrepreneurs.

Organized **Remarkable Women Trainings** for its middle and senior women managers in collaboration with McKinsey & Company.

## DEVELOPMENTS AT GARANTI

Successfully refinanced its **US\$ 1.30 billion** equivalent **367-day Dual Currency Syndicated Loan Facility** with a 100% rollover ratio. The new facility is comprised of **US\$ 405 million** and **EUR 648.5 million** 367-day tranches along with a **US\$ 180 million** two-year one day tranche. The loan which will be used for trade finance and general corporate purposes has been executed with commitments received from 38 banks from 18 countries. This has been the first 2-year syndicated loan that Garanti has raised since 2006.

Secured financing from an International Financial Institution in the amount of **EUR 200 million** equivalent Turkish Lira, with **6 years** maturity under **Covered Bond Programme**. The proceeds of the loan will be used for SME financing.

Secured two loans from international credit markets equivalent to **US\$ 250 million** and **US\$ 145 million** with a **3 years** maturity and **2 years** maturity, respectively. Proceeds will be used for general corporate purposes.

Secured financing from two different counterparties in the total amount of **US\$ 535,714,286** with a maturity of **5 years** through its **Diversified Payment Rights** securitization program.

Became the first bank using **BPO (Bank Payment Obligation)** within BBVA Group; doing so Garanti diversified its customer portfolio and carried out new BPO transactions.

Further improved **Digital Channels** with the releases of;

- Stock account menu, with transaction such as stock account opening and online document signing,
- Digital Suitability Test, to determine whether or not services to be provided to the customer are within the scope of individual portfolio management or investment consultancy are in compliance with the customers' investment purposes, financial status and with knowledge and experience.

Continued to improve **BonusFlas** for increased efficiency and better customer experience, launched:

- Biometric Eye verification,
- Payment in car at BP gas stations, allowing customers to pay without leaving their car and complete the transaction in few seconds, while also redeeming bonus points,
- Credit card and limit increase application tracking,
- Bill payment & recurring bill payment features, enabling customers to pay more than 400 institutions' bills via their credit cards.

Launched a **Human Resources Virtual Assistant** named Sorbi that was developed using artificial intelligence, to help employees get to standardized and instant responses for their HR & training related queries.

Launched **Early Warning System** for customers that have commercial products. With this development, both Garanti and its customers are warned about customers'

financial situation and activities that will cause problem in the near future. The system leads Loan Assessment Departments to take the right actions at the right time; and will positively affect the collection performance and help keep NPL ratio low.

Developed **Garanti Empathy Assistant** within its efforts to strengthen its leadership as the most recommended Bank in Turkey\*. Empathy Assistant has a unique design with its smart flows which automatically diagnose the root cause of the complaint and provide the list of actions necessary to solve it. The Assistant also supports branch employees in solving the most frequent customer complaints with its user friendly infographics showing a road map for the relevant solutions. This new smart platform for complaint resolution has been rolled-out in June 2017 and reached 80% utilization rate as of 2018 year end.

\* Net Promoter Score researches conducted by an independent research agency Ipsos, main customers of each bank surveyed. According to the research, Net Promoter Score of Garanti Bank was the highest among its peer group in Turkey. Peer group consists of Garanti, İş, Ak, YKB, Finans and Deniz. 2016 NPS research had been conducted between October 10, 2016-January 17, 2017. Main bank customers, who have communicated with the banks over the last 3 months, surveyed by quota sampling and conducted face to face in the representative cities of Turkey.

**Garanti Mortgage** launched **Garanti Evimmatik** application which provides users with very crucial calculation tools linked to Mortgages.

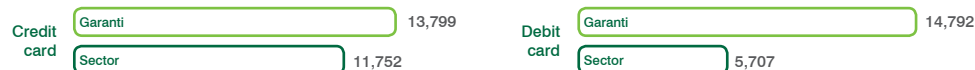
## SELECTED CREDIT CARD FIGURES IN TURKEY

### Top 5 categories in credit card spending

	Dec-17	Dec-16
Supermarket and shopping malls	18.2%	19.2%
Apparel and accessories	8.8%	8.6%
Gas stations	8.0%	8.4%
Various food products	6.8%	7.0%
Service sector	6.5%	5.1%

**2.4** # 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

**Robust growth performance in 2017.** Turkish economy grew by 11.1% YoY in the third quarter of 2017, which supported by the Government's counter-cyclical measures (particularly the Credit Guarantee Fund) and favorable base year impact and working day adjustments. Consumption and residential investment remained strong but this time there was also a recovery in machinery investment. Exports on goods and services had its fastest pace in 5 years although robust growth in imports hindered its support. Thus, Turkish economy grew by 7.4% in the first 3 quarters of the year and we expect the whole year growth rate to be close 7% in 2017. We envisage a normalization towards 4.5% in 2018.

**4Q activity data signals a slight moderation.** After growing 10% in 3Q, yearly IP growth rate in October-November period moderated to 7.2%. Despite the moderation, still higher contributions from intermediate and capital goods production remain supportive for favorable growth outlook for further production. Considering the sectors in detail, higher moderation seems to stem from domestic demand oriented sectors instead of exporting ones, implying positive implications from the recovering global demand, particularly Europe. The strongest manufacturing PMI in December since August and still strong electricity production in December continue to be supporting factors. Our monthly GDP indicator nowcasts a growth rate of around 6% in the last quarter of 2017.

**Deterioration in current account deficit (CAD) continued in 4Q.** Current account balance (CAB) posted a 12-month cumulative deficit of US\$ 43.8 billion (5.1%

of GDP) in November, the highest figure in the 3 years (up from 3.8% of GDP in 2016). Also, core CAB (CAB exc. Energy and Gold) gave a deficit of US\$ 1.1 billion. Considering the intense economic activity, we think that deterioration in CAD will continue in December closing the year at US\$ 47 billion levels (c.5.5% of GDP).

**Budget figures surprised in 4Q.** Budget revenues increased by 13.7% (down from 22% of 3Q), while expenditures slightly scaled up to 16.1% (up from 15% of 3Q) in 4Q, compared to the same period of last year. After the intensified countercyclical measures in the first half of the year, the Government seems to scale up its expenditures as of September together with a relatively worse picture on revenues side. However, the Government closed the year TL15 billion less than its 2017's MTP projection (TL 62 billion deficit) in 2017 and we expect budget deficit to GDP ratio to increase to 2.2% at the end of 2018 from 1.5% in 2017 and primary balance to fall down to -0.2% of GDP from 0.3% of 2017 year-end.

**Turkey's gross external debt stock continued to be high in 3Q.** Turkey's external debt stock to GDP ratio stayed the same in 3Q compared to 51.9% of 2Q and up from 47% of 4Q16 mostly due to the increase in the long term external debt of the private sector. On the other hand, EU-defined general government debt stock to GDP ratio slightly fell to 28.2% in 3Q, down from 28.7 of 2Q.

**Core prices kept upward movement though non-core prices start recovering in 4Q.** After realizing the highest level (13%) in 2003 series as of November, annual consumer inflation fell to 11.9% in December. Base

impact on food inflation and exclusion of the tax hike on tobacco in this period helped annual headline inflation fall by near 1 pp at the end of 2017, while the pick-up in core inflation limited the expected decline in the headline. Core inflation kept its upward trend by reaching 12.3% from 12.1% in annual terms. Solid domestic demand and exchange rate pass-thru (especially on the items sensitive to euro) continued to be the key factors behind. Lagged effects of lira depreciation and cost-push factors remained to be the impulsive force as domestic producer prices annual inflation continued to be high at 15.5%. All in all, we expect headline inflation to fall below %10 in the first quarter through favorable base effects and stay close to these levels until 4Q before falling to around 9% at the end of the year.

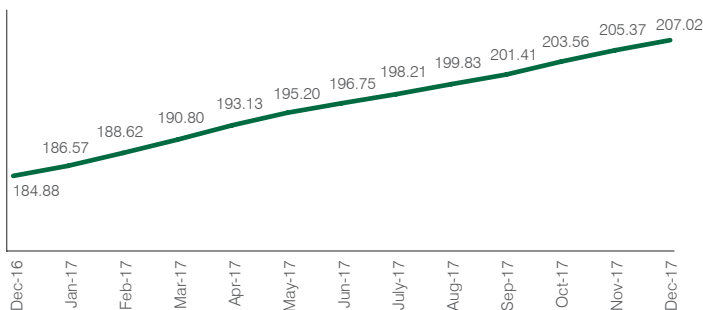
**Central Bank (CBRT) remained tight in 4Q.** The CBRT keeps its hawkish tones since it finds sizably worsening in inflation expectations and excess demand. Bearing in mind deteriorating inflation outlook, and the ongoing high momentum of the economic activity, The Bank reinforced the tight sentiment in the last meeting in January 2018. Thus, we expect monetary policy will likely remain tight at least throughout 2018.

**Turkish financial assets performed worse in 4Q.** Due to the appreciation of both Euro and Dollar, TL depreciated to 4.14 against US dollar-Euro currency basket by the end of December from 3.88 by end 3Q. Thus, the average annual depreciation against currency basket in 4Q realized at 14.6%. Benchmark bond yield which was at 12.1% at the end of 2Q climbed up to 12.98% in 4Q.

## REAL-ESTATE SECTOR ANALYSIS IN TURKEY

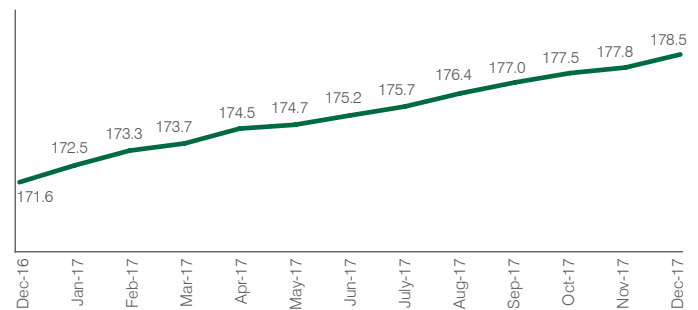
**REIDIN Turkey Composite Residential Property Price Index:** The index reflects an increase 0.80% m-o-m and 12.01% y-o-y in residential sales prices in December'17. Index series are calculated monthly for sales and rent covering 68 cities, taking January 2012 as the base period.

### Residential Property Price Index



**REIDIN.com-GYODER New Home Price Index:** The index shows an increase of 0.39% m-o-m and 4.02% y-o-y in December'17. 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\$ 8.2 billion\* equivalent international funding in 4Q17. US\$ 3.5 billion equivalent amount was secured as syndicated loans, US\$ 2.0 billion equivalent amount from securitizations, US\$ 1.2 billion from covered bond issuance, US\$ 682 million equivalent amount from multilateral development banks, US\$ 500 million from Eurobond issuances and US\$ 377 million equivalent issuances\*\* under Global Medium Term Notes (GMTN) Programs.

### CBRT actions during the quarter:

- In December, CBRT increased its late liquidity window (LLW) interest rate by 50 bps to 12.75%. Accordingly, as of 4Q-end, LLW, overnight lending, one-week repo and borrowing rates were at 12.75%, 9.25%, 8.0% and 7.25%, respectively.
- CBRT left the "interest rate cap" and "overdue interest rate" on credit card transactions unchanged for 1Q18; TL rates at 1.84% and 2.34%, respectively; and FX rates at 1.47% and 1.97% per month, respectively.
- In November, CBRT reduced the banks' overnight borrowing limits to zero while banks' limit for the intraday liquidity facility was increased to twice the size of Interbank Money Market borrowing limits. Accordingly, all funding for the banks' was provided through the late liquidity window.
- In November, CBRT started to launch TL-settled forward foreign exchange sale auctions and offer non-deliverable forward (NDF) contracts in order to provide an hedging instrument to the real sector to manage its FX risk.
- In November, CBRT reduced the upper limit of reserve option mechanism (ROM) for all tranches by 5 points, providing approximately US\$ 1.4 billion liquidity in the system.
- CBRT allowed that repayments of rediscount credits for export and foreign exchange earning services, which are due by February 1st, to be made in TL at a fixed rate. These transactions will be fulfilled at US\$/TL rate of 3.70, EUR/TL rate of 4.30 and GBP/TL rate of 4.80.

### Regulatory developments during the quarter:

- The corporate tax rate for all corporate tax payers increased to 22% from 20% for 2018-2020 period. Accordingly, banks will also pay a 2% higher corporate income tax rate starting from 2018.

### NPL sales during the quarter:

- Garanti sold its TL 523.4 million NPL portfolio receivables for TL 30.8 million.
- QNB Finansbank sold its TL 759.2 million NPL portfolio receivables for TL 69.3 million
- Isbank sold its TL 362.8 million NPL portfolio receivables for TL 25.7 million.
- ING Bank sold its TL 162.7 million NPL portfolio receivables.
- Albaraka sold its TL 144.8 million NPL portfolio receivables.
- Denizbank sold its TL 142.8 million NPL portfolio receivables for TL 11.6 million.
- Sekerbank sold its TL 138.4 million NPL portfolio receivables for TL 7.3 million.

### Other developments:

- Akbank liquidated its 100% subsidiary Akbank (Dubai) Limited.
- YKB signed an agreement to sell its Russian unit Yapi Kredi Bank Moscow.
- Executive Vice President of Garanti Bank in charge of Corporate Banking and Treasury was named the new CEO of YKB as of January 15, 2018.
- Moody's downgraded Halkbank's long-term foreign-currency senior unsecured debt and long-term local-currency deposit ratings to Ba2 from Ba1 while long-term foreign currency deposit rating was affirmed at Ba2. Moody's maintained its negative outlook for the ratings.

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

\*\* Bloomberg

### Selected Sector Figures (TL Million)

	30.12.16	29.09.17	29.12.17	YTD Δ
<b>Total Deposits</b>	<b>1,456,722</b>	<b>1,620,823</b>	<b>1,694,584</b>	<b>16.3%</b>
Bank Deposits	84,931	78,133	83,692	-1.5%
Customer Deposits	1,371,791	1,542,690	1,610,892	17.4%
TL Deposits	796,373	865,394	896,621	12.6%
FC Deposits (US\$ mn)	164,278	191,513	189,399	15.3%
Customer Demand Deposits	272,217	318,050	330,678	21.5%
<b>Total Loans</b>	<b>1,565,364</b>	<b>1,789,383</b>	<b>1,880,026</b>	<b>20.1%</b>
TL Loans	1,040,940	1,244,603	1,296,286	24.5%
FC Loans (US\$ mn)	149,700	154,052	154,766	3.4%
Retail Loans*	628,222	810,144	835,572	33.0%
Housing	159,069	181,277	186,029	16.9%
Auto	20,149	19,731	20,923	3.8%
General Purpose Loans**	348,771	499,621	515,962	47.9%
Credit Cards	100,233	109,515	112,658	12.4%
Loans / Deposits	107.5%	110.4%	110.9%	
<b>Gross NPL</b>	<b>54,103</b>	<b>57,897</b>	<b>59,438</b>	<b>9.9%</b>
NPL ratio	3.3%	3.1%	3.1%	
NPL coverage	78.0%	80.5%	79.8%	
Gross NPL in retail loans	22,479	24,543	25,292	12.5%
NPL ratio in retail loans	4.1%	3.4%	3.4%	
Gross NPL in credit cards	7,904	7,502	7,299	-7.7%
NPL ratio in credit cards	7.3%	6.4%	6.1%	
<b>F/X Position, net (US\$ mn)</b>	<b>-1,191</b>	<b>-338</b>	<b>575</b>	
on B/S	-21,144	-50,839	-46,618	
off B/S	19,953	50,501	47,193	

Source: BRSA weekly sector data, commercial banks only

\* Including consumer and commercial installment loans

\*\* Including other and overdraft loans

# MARKET RECAP

Synchronous economic growth across the globe continued with supportive fiscal prospects and easy financial conditions. In the last quarter of the year, MSCI World rose 5% capping off a solid yearly growth with 20% YoY. Global equities ended 2017 on a high note. Upwards earnings revisions in 2017 were a contrast to the flattish or modest downward revisions seen in the last five years.

Economic fundamentals have improved broadly across Europe and other parts of the developed world. As it did throughout most of 2017, Euro continued to strengthen against the Dollar during the quarter. This was attributed to the ECB policy and better-than-expected European growth. Profit-taking and a strong Euro were factors in MSCI EM index receding 0.5% in 4Q. Political events in Spain and Germany also weighed-in on the markets. In the US, S&P 500 rose 6.6% in the last quarter. Robust corporate earnings from the consumer discretionary sector, technology sector and financials also helped overall sentiment. Equity markets were buoyed by the US Tax law, which reduced the highest corporate tax rate from 35% to 20%. Generally positive macroeconomic data also supported the markets, such as the better-than-expected third-quarter annualized GDP growth of 3.0% in the US. Another important indicator is the all-time low volatility in

developed equity markets. Daily S&P 500 Index volatility hovered near its first historic lows for most of 2017, which reflected the strong macro backdrop. As expected, Fed lifted interest rates by 25 bps in December, and raised its growth forecasts for 2018 to 2.5% from 2.1%.

On the commodities front, Brent crude rallied another 18% on top of its 20% QoQ increase in the previous quarter. On top of increasing global demand; an agreement among OPEC, and a number of non-member countries such as Russia, to extend production cuts to the end of 2018 helped oil prices. As Chinese demand remained firm industrial metals rose.

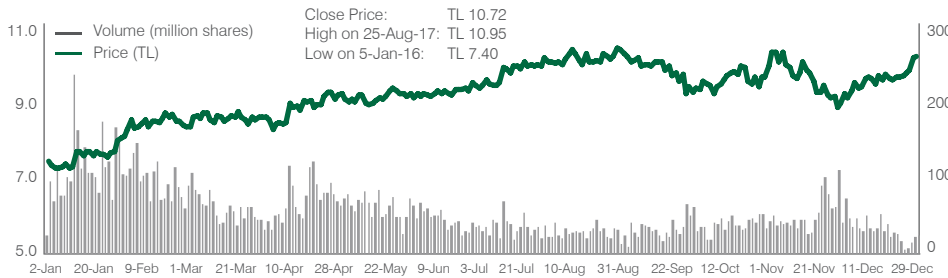
In 4Q EMs experienced strong foreign funds inflow from the equity and the bond markets in the amounts of US\$ 18.8 billion and US\$ 11.3 billion, respectively, according to IIF data. As a result, MSCI EM rose 7%, and recorded a 34% YoY growth. Political developments supported gains in EMs. In South Africa, Ramaphosa was elected leader of the African National Congress, which increased the prospect for a return to more orthodox policy after elections in 2019. Greek equities rallied as the country reached agreement with international creditors over reforms, paving the way for the dispersal of further bailout

funds. India outperformed as the government announced plans for a major recapitalization for state-controlled banks. In contrast, Mexico posted a negative return, attributable to peso weakness, amid concerns on NAFTA modernization negotiations.

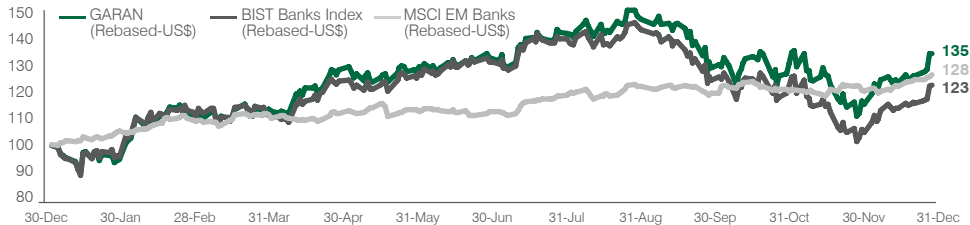
In 4Q17, MSCI Turkey rose 4% and underperformed MSCI EM by 3%. Nevertheless, on a yearly basis MSCI Turkey performed in line with MSCI EM. According to the monthly BIST foreign transactions data, Turkish equities attracted US\$ 1.8 billion of foreign investments in 2017. In December Turkey attracted US\$ 180 million worth of foreign investments, despite outflows worth US\$ 192 million in the prior two months. Global risk appetite, combined with domestic inflation outlook and local politics resulted in strong lira depreciation in the second half of November, the exchange rate rose to an all-time high at 3.96 TRYUSD. Lira depreciated by 9.8% QoQ against Dollar, however, yearly depreciation was limited to 7.5%. The Benchmark interest rate touched 14.34% in the second half of November, highest level since March 2009, and ended the quarter at 13.40% registering 151 bps increase QoQ.

Looking ahead, markets expect the positive momentum to continue. Growth should endure as more developed and emerging market countries participate. Yet, the pace of the recovery most likely peaked in 2017. Equities made considerable gains in 2017 and reached their full valuations. Earnings growth will be the primary driver going forward. Central banks entered an era of policy transition, with rate and balance sheet normalizations, however they will remain accommodative.

## Garanti Bank Stock Performance in 2017



## Relative Performance to MSCI EM Banks & BIST Banks Index



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

	QoQ	YtD
Brazil	-3%	21%
China	8%	51%
Hungary	7%	37%
India	12%	37%
Mexico	-9%	14%
Poland	6%	52%
Russia	3%	0%
<b>Turkey</b>	<b>4%</b>	<b>34%</b>
EM	7%	34%
EMEA	11%	3%
EM Banks	6%	28%
Eastern Europe	4%	13%
Latin America	-3%	21%

\* Based on MSCI's Emerging Markets Indices, as of December 30, 2017.

For further information please contact Garanti Investor Relations.

Address: Levent, Nispetiye Mah. Aytar Cad. No: 2, 34340, Besiktas, Istanbul-Turkey Tel: +90 (212) 318 23 50 Fax: +90 (212) 216 59 02

Web: [www.garantiinvestorrelations.com](http://www.garantiinvestorrelations.com) e-mail: [investorrelations@garanti.com.tr](mailto:investorrelations@garanti.com.tr)

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