DEVELOPMENTS

AT GARANTI

In the tenth anniversary of its Online Banking, Garanti made its services available via "wap.garanti.com.tr" through mobile phones. The application maximizes: usability, connectivity, compatibility as it features customized visual & technical designs compatible with customers' devices without any additional activation requirements or downloads.

In September, Garanti along with Bayerische HypoVereinsbank (HBV) and West LB extended a EUR60 million project finance loan to the Fagrot-loss consortium for the 1-year lease payments of the Antalya International Airport as well as the investments and working capital required by the project. Garanti and HBV were the Structuring Banks in the 13.2 to 10.5-year loan, where Garanti also assumed the role of Account Bank.

In August, Garanti has underwritten the largest portion (USD465 million) of the 2.5+5.5 year project finance loan granted to Oger Telecom by a group of leading local and international banks for the refinancing of purchase of the State-owned telecommunications company- Turk Telekom. The financing package which originally had a total amount USD3.7 billion was later increased by another USD1 billion, where Garanti increased its exposure to the project by USD88 million.

In August, Garanti became the first and only bank in Turkey to install SwiftNet Trade Services Utility (TSU) providing its customers involved in international commerce with a new open application. TSU is a centralized matching and workflow engine developed by Swift that can be used by the banking community to support the timely and accurate matching of trade-related transaction data. As a result, Garanti will extend value-added transaction services to its corporate clients not only helping them to fasten reconciliations, but also improving the quality of information for cash forecasting, liquidity management and account reconciliation. The system enhances Garanti’s customer reach and inter-bank relationship.

In September, Garanti’s Flexi Card was awarded with "2007 Award for Outstanding Achievement in Website Development" by the Web Marketing Association. Celebrating its 11-year, the WebWards is the premier annual website award competition that names the best web sites in 06 industries while setting the standard of excellence for website development.

In September, Marketinet - the association awarding the marketing place that contributes significantly to the practice of innovative marketing - honored Garanti’s Bonus Trink Kart - Paygosh with "2007- Marketing Innovation Award".

In July, Interpromedya & Birlesik Arastirmacilar (research & consultancy companies) released the results of quarterly Omnibus Survey: Garanti was named as the internet bank & consultancy companies) released the results of quarterly Omnibus Survey: Garanti was named as the internet bank of first choice by the majority of the participants (23.3%) – 3.4 points ahead of its closest follower. The survey was conducted in 16 cities with the participation of 1,300 individuals.

In July, Cards International - the leading newsletter of the banks, housing finance and mortgage finance companies. In Holland, to assess & evaluate the opportunities for cross new companies: (i) Garanti Financial Services N.V., based fastening reconciliations.

In September, Garanti announced establishment of two fastening reconciliations.

In September, Garanti continued to provide convenience to banking customers via another first: Garanti ATMs with state of the art technological configuration enabled Debano cardholders to pay their card debts using Garanti ATMs’ cardless menus. Through Garanti ATMs, all non-bank customers’ banking services such as bill & tuition payments, cell phone minute uploads, ticket purchases for British events and credit card applications.

In July, Garanti’s new payment infrastructure “Cepbank alisveris” (online shopping via mobile bank) enhanced convenience & security for online shopping. The new application, an extension of cooperation between online retailer Hepsiburada.com, Garanti requires only customers’ mobile phone number and “Cepbank” pin, hence contributes to the prevention of fraud by eliminating the use of credit card and account details for online shopping.

In September, Garanti continued to expand its broad range of mortgage products. Garanti launched the “Non-Resident Mortgage” to serve the growing demand for housing especially in the Southern and Western coasts of Turkey.

In August, Garanti Bank Cash Management expanded its product range by launching a new supplier finance system “Garanti Iskonto” (Garanti Discount) - the first web based supplier finance system in Turkey - operates on the principle of online record of transactions between buyers and suppliers. The system enables suppliers to factor their receivables invoiced from the buyers while minimizing the workload for comparable transactions as well as fastening reconciliations.

In September, Garanti announced establishment of two new companies: (i) Garanti Financial Services N.V., based in Holland, to assess & evaluate the opportunities for cross-border expansions (ii) Garanti Konut Finansman Hizmeti A.S. to provide consultation and outsourcing services to banks, housing finance and mortgage finance companies.

DEVELOPMENTS IN TURKISH BANKING SECTOR

In July, the RBAS announced its decision to postpone the implementation of Basel II in Turkish banking system to the beginning of 2009 from previously planned January 2008.

In the end of July, National Bank of Kuwait (NBK) signed an agreement to acquire 40% stake in Turkish Bank for USD160 million. The acquisition replaced 5.2x EV/EBIT (Q1/07).

In August, the BRSA blocked the sale of Alternatbank to Greek Alpha Bank and the sale of Adabank to Kuwaiti International Investor Company.

In September, Halkbank, a state-owned bank, signed a credit card licensing agreement with HBBC Bank for the Advantage credit card program.
In August concerns regarding global financial markets, especially for emerging markets, impacted volatility in financial markets to jump to the highest levels since the beginning of the year. The loss in the financial market turmoil USD/TRY rose above 1.38 and interest rates increased to 18.6% in mid-August. The liquidity interventions of major central banks (Fed and ECB), dismissal of financial sector FED's decision and a strong expectation for a FED fund rate cut in September's FOMC meeting lowered the pressure on financial market. As FOMC opted to cut FED fund rates by 0.25 basis points to 4.75% on September 18th, stock markets were jumping against USD TRY coming down below 1 USD/TRY.

Central Bank of Turkey cut O/N interest rate by 0.25 basis points on 13th of September, bringing down the borrowing rate to 17.25% from 17.50%. CBIRT was keeping O/N rates at 18% mid July. CBIRT moved slightly the rate cut decision benchmark interest rates moved downward by 1.64% in the first week of October.

GDP growth rate came in with the marksmanship of 2.9% in the second quarter of 2007. Compared to the first half of 2006, Turkish economy grew by 3.5% in the first half of 2007. In private sector consumption expenditures accelerated while investment expenditures decelerated. However, household savings increased moderately and current account deficit improved. On the other hand, private sector consumption expenditures increased by 5.3% in the first half of 2007. In 2Q07 compared to the previous quarter, Turkish economy grew by 1.2% (2Q06) and benchmark interest rates eased to below 17% c.a., lowest since June 2001 and benchmark interest rates eased to below 17% c.a., lowest since June 2001.

In July and August, exports came in at USD17.6 billion, in line with expectations, while imports struck 21.2 billion average market forecasts. The growth rate of export increased to 11.1% on year-over-year basis, while the growth rate of imports was 25.6% (YoY). Accordingly, foreign trade deficit jumped by 23.8% (YoY) to USD12.5 billion. 12-month cumulative exports and imports reached USD98.9 billion and USD106.5 billion, respectively. August July and foreign trade statistics indicated a considerable acceleration in imports, especially in consumption goods.

In 2Q07, performance index stood at 129,217, 230,328 index. The appreciation of YTL against USD, of 5.4% (YoY) and 5.8% (YoM). As of July, exchange rate was 1.23 against USD since July 2001. The contribution of domestic demand to growth rate decreased. Foreign demand contributed to GDP growth by 0.9 point, with the contribution of domestic demand to growth rate was 8.0 point. Foreign demand contributed to growth rate was 0.9 point, with the contribution of domestic demand to growth rate was 8.0 point.

In 2Q07, benchmark interest rates eased to 17.25% from 17.50%. CBRT was keeping O/N rates on hold since mid July August. The liquidity interventions of CBIRT lowered the pressure on financial markets, especially for mortgage markets. In August concerns regarding global financial markets, especially for emerging markets.