DEVELOPMENTS IN TURKISH BANKING SECTOR

In September, Central Bank of Turkey decided to keep the interest rate unchanged on credit cardsstable at 4.39% per month during the 4th Quarter of 2008. To increase tax collections and residential property levels, Minister of Finance announced that rental incomes over YTL1000 will be taxed through banks and postal service starting from November 1st.

National Bank of Greece has decided to buy a 4.68% stake in Tinerbank for $570 million. TSB purchased a 46% stake in Finansbank in 2006 for $2.7 billion from Turkish financial services company Fatih Bank.

Israel’s Piel Insurance Investments and Financial Services has bought the controlling stake in the Turkish insurance company Turk Nippon Sigorta AS for $2.56 million.

Julius Baer has been granted a license by the Banking Regulation and Supervision Agency of Turkey to open a representative office in Istanbul. French Bank Credit Agricole’s European equity broker CA Corporate announced the opening of a subsidiary in Istanbul.

After the restructuring programme in 2007, Calikbank changed its name and logo to Akbank in August 2008. YKB increased its issued capital via 26% rights issue to YTL3.47

İsbank sold minority stakes in Türk Pirelli Lastikleri A.S. and in Galisson A.S to Pirelli Tyre Holland N.V., totaling YTL5.2 mn.

İsbank has signed an advisory deal with PricewaterhouseCoopers to go in Russia, Kazakhstan and Ukraine. The initiatives for opening a representative office in Egypt and a branch in Bali (Indonesia) are still in progress.

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İn July 2008, Garanti started to offer Structured Deposits to retail customers as an alternative investment product, with capital protection and yen interest guarantee, providing an added return based on the yield of the underlying financial instrument chosen at account opening. Garanti became the first in the market to offer “interest lock-in option” on Structured Deposits, by which customers could lock the interest rate before the account matures.

DEVELOPMENTS AT GARANTI

Garanti expanded its branch network to over 700 branches with the opening of 118 new branches in the first nine months of 2008. At the end of the 3Q08, the number of ATMs deployed by Garanti Bank reached 2,500 making Garanti the second largest bank in Turkey in ATM network size.

In a volatile environment with rising concerns over the global financial markets, Garanti secured a EUR 200 million foreign funding with a maturity of 10 years from the European Investment Bank through its DPI securitization program in August, 2008. The loan will be placed for growth in SME banking.

As a leading financier of Turkey’s project finance deals, Garanti, extended USD180 mn loan to Zitru Group for the bridge facility related to its operating rights of the privatization of 8 power plants for a 30 year period and ownership of 1 power plant.

Garanti kept on getting international recognitions:

• The winner of a total of 10 awards in 4 separate categories such as “Europe’s Best Consumer Internet Bank”, “European’s Best Corporate/Institutional Internet Bank”, and “Turkey’s Best Corporate/Institutional Internet Bank” by Global Finance as the most reputable online financial service provider in Europe

• The “Bank Standard of Excellence” and the “Financial Services Standard of Excellence” awards for the website www.bonuscard.ro by Web Awards, the world’s first and most prestigious web competition

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Garanti continued to lead the sector in terms of development of innovative products and services.

Launched a first in the world and in Turkey, “Loan via POS” for its SME customers as a channel for loan applications through POS machines.

Introduced “Business Owner Support Package”, offering favorable lending rates to SME’s with products such as POS, check book, and business credit cards.

Initiated Turkey’s first inventory finance system with Mercedes-Benz Turkey enabling Mercedes dealers to finance the cars in their inventory with unique financing conditions where the cars are the main collateral.

Cardless remittance, where both parties are non-bank customers and want to transfer money, was first performed in August 2008. The number of transactions has reached up to 1,000 since its launch.

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In July, Central Bank of Turkey (CBT) raised CDI lending rate by 50 basis points to 16.25% to 16.75% and kept the rates on hold since. In its recent statements CBT pointed out that cautious stance will be taken on the back of rising uncertainty in financial markets and high inflation expectations. In September the developing world’s growth in financial markets and rising volatility had negative impacts on growth. The global markets took a downturn in the second quarter of 2008 (2Q08) Turkish economy growth rate slowed down to 1.9% from 6.7% in the first quarter of 2008 (1Q08). GDP growth rate in 2Q08 was the lowest growth since 1Q02. In addition, the consumption expenditures growth rate decelerated to 2.2% from 7.4% in 1Q08. On the production side, the slowdown was widespread throughout almost all the sectors. The growth rate in construction is not at all, while the agriculture sector and water supply have decreased by 3.1% in 1Q08. During the same period, the manufacturing sector growth rate was moderate by 2.8% lower. Low production and growth along with rising uncertainty during the period for overall 2008 led growth rate expectations for overall 2008 likely to decline to 3-4% range.

In the first two months of 3Q08 exports rose by 33.1% and imports by 32.9% compared to the same period in 2007. The export performance in petroleum products, basic metal and metal products were eye-catching during the period. On the imports side, consumption and investment good imports have decelerated, while the acceleration has continued in intermediate good imports. As of August, 12 month cumulative exports and imports reached US$133.1 billion and US$206.4 billion, respectively. Widening trade deficit led current account deficit to reach US$ 47.1 billion as of July 08. Net foreign direct investment inflow was US$15.0 billion as of July 2008 US$144.4 billion during that period, while portfolio outflows were US$183.9 billion. The benchmark interest rates rose to 19.24% at the end of September from 18.88% as of end of June 2008.

In the third quarter of 2008 (3Q08) CPI inflation was 0.8%, pushing annual inflation to 8.1% as of September 2008 from 10.6% in June 2008. Due to the decrease in energy and food price increase, the monthly inflation was below expectations in August and September.

According to the September export survey, 12 month ahead inflation expectations stayed above 8%, higher than July 08, CBT’s inflation target for the end of 2009.

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