DEVELOPMENTS AT GARANTI

Garanti Bank has successfully secured €215 million and €282 million dual tranche and dual currency term loan facility with a maturity of 7 years. The total amount represents 82% rollover rate, the highest in the sector. The all-in cost of the facility was LIBOR+200 bps and EURIBOR+200 bps, respectively. The facility was raised with the participation of 20 banks from 10 countries and the proceeds will be used to finance export contracts.

Garanti closed the financing process that was initiated in 2007 for Eren Catalyqa Power Plant investment, the largest coal-fired thermal power plant funded by the private sector. Committed to sustainability, Garanti financed the Boraco 60 MW Wind Farm Power Plant (located in Bandırma. Sponsored by Borusan Group, this project reinforced Garanti’s strong presence in wind energy financing.

Garanti is one of the four partner banks participating in the second phase of Small Enterprise Loan Programme (S E L P II) initiated to extend total loans of 480 million to SMEs by the European Union, and implemented in cooperation with the Turkish Treasury, the Council of Europe Bank (CEB), KTW - Entwicklungsbank.

Garanti added the iPhone specialized mobile banking design to its wide range of mobile phone applications.

GarantiCash Management commenced e-signature application (Geniza) with Philipe Monti Sabancaı A.Ş, enabling it to sign documents and orders electronically, reducing operational risks and workload, and creating a paperless working environment.

Online consulting service by Mortgage Experts is now available at garantimortgage.com. Customers are able to get detailed information from Mortgage Experts by choosing online chat option. Garanti has also launched the first IVR system and the video call center at CEBIT IT Expo.

Bonus Tınk Card, offering the first contactless technology usage in public transportation, extended its scope by adding a new location, Edirnekapi The “Smart Station” system will be established by Garanti where the passengers can use the exact time for the bus arrival time with the GPS system located on the bus.

Garanti signed an agreement with the Revenue Administration of the Ministry of Finance to pay the motor vehicle tax and the administrative fines via the website www.gelir.gov.tr with Garanti’s Rich, ShopMiles, American Express and Bonus credit cards.

Garanti received approval from the Capital Markets Board of Turkey to launch custody services for asset management companies.

Garanti continued to win international recognition from the world’s most respected publications and organizations, including:

- “The Bank of the Year 2008” by the Banker, recognizing its strong management and prudent risk approach.
- “Best Online Consumer Credit Site” and “Best Integrated Consumer Bank Site” by Global Finance in the “World’s Best Internet Banks for 2008 Awards.”
- “Best Customer Loyalty Program Award” with Flexi Card within the scope of the 13th Sesame Awards in France.
- “The Most Innovative Card of the Year” by “No Cash” and “The Best Banking Product of 2008” by “Piata Financiara” in Romania with Romania’s first multi-branded chip-based credit card, Bonus Card.

In Q4 2008, Turkish Banks secured $2.2 billion one-year syndicated loans from international markets at a cost of LIBOR+100 bps and EURIBOR+200 bps representing an average sector rollover ratio of 73%.

The World Bank approved $120 million equivalent additional loan for Turkey’s “Access for SMEs” project. The loan will be government guaranteed, and will provide medium-term working capital and investment finance to SMEs in Turkey through Halkbank.

Upon the agreement between the Belgian government and BNP Paribas SA in early October, BNP Paribas took over 75% of Fortis Bank shares. Accordingly, Turkish Competition Commission approved the indirect transfer of Fortis Turkey’s shares to BNP Paribas SA.

Groupama closed the acquisition deal of the Turkish insurance companies Güven Sigorta and Güven Hayat for €180 million.

S&P downgraded Turkey’s outlook from stable to negative on adverse macroeconomic conditions. S&P revised its outlook for all Turkish banks following that on the sovereign.

Alibank announced that it had laid off 613 employees between the end of 3Q and November 18th period due to its budget planning, performance reviews and retirements.

YKB announced that it decided to end the process for the re-organization of its insurance businesses due to the current adverse market conditions.

Anadolu Bank and YKB reached an agreement for a partnership between their respective credit card businesses Wonderland and Card World. AnadoluBank holds around 80,000 Wondeercards with 0.2% market share.

The Central Bank of Turkey took some precautionary steps to limit the impact of global financial crisis. The major effective step was the lowering of the foreign currency reserve requirement level or foreign currency liabilities of banks from 11% to 9%, providing extra liquidity for banks.

The Banking Regulation and Supervision Agency has ruled that banks will be able to re-classify securities in their Trading and Available for Sale (AFS) portfolios to Held to Maturity (HTM). HTM classified securities are valued through IRR without market price effect. Accordingly, negative effects of the volatile markets and thus the losses accumulated on the equity and the under pressure Capital Adequacy Ratios will be relieved.
The turmoil in global financial markets and its impact on emerging markets became more pronounced in the last quarter of 2008. Due to capital outflows, YTL started to depreciate against USD, reaching 1.7 levels in mid-November. However, falling concerns regarding global economy on the back of government bailouts plans and measures taken by the central banks led the volatility in capital markets to smooth out moderately. Accordingly, YTL appreciated again until declining to 1.52 levels at the year end. 

The initial impact of the world economic slowdown on Turkish economy has been significantly less due to strong trade and foreign inflow. Exports which increased by 38% in January-November 2008 compared to the year before, contracted sharply (October: -1.7%, November: -1.1%, December 2008: -1.7%) in the last quarter of 2008. In addition to the contraction in exports to EU countries, exports to emerging market economies started to slowdown as a result of weak demand. The last quarter of 2008 saw sharp falls in oil prices and weak consumption and investment appetite caused the foreign exchange contract more than imports. Exports declined by 27.4% and 30.1% respectively in November and December compared to the year before.

In the third quarter of 2008 (Q3), Turkish economy grew by 0.5% compared to the year before and decelerated to 0.2% growth rate since the first quarter of 2002. The growth rate in the second quarter was 1.3% and upwards to 2.3% from jan-sep growth rate to 3.0% compared to the same period the year before. The main reason behind the sharp deterioration in the economic activity was the significant (5.4%) contraction in total investment expenditures in Q4. The contraction in private investment expenditures was 10% in Q4. The auctions consumption expenditures which grew by 3.4% in 2008, declerated to 0.3% growth in 3Q08. The Turkish Statistical Institute (TUIK) released its preliminary data in 2009 on the first quarter showing that the overall contraction in GDP at an annualized rate was 11.1%. The contribution of domestic demand to growth has been negative in the last quarter of 2008, the first negative contribution in previous 26 quarters. On the other hand, the contribution of external demand reached 1.5 point in 3Q08. Despite the depreciation of YTL against USD, weak demand conditions and easing inflationary pressures due to falling oil prices and deprecating food prices caused annual CPI (Consumer Price Index) erosion to move downwards to 10.1% in December from 11.1% in September08. The effect of weakening cost prices was more evident on PR (Producer Price Index) inflation, pulling annual inflation down to 8.1% in December from 12.5% in September 08.

Noting the weakening in inflationary pressures and sharp contraction in economic activity, Central Bank of Turkey eased monetary policy implementations by lowering borrowing overnight rates to 15.0% in December 08 from 16.7% in September 08. Towards the year end, the CBRT announced several new measures such as increasing limits of banks in the FX market and reducing FX required reserves to prevent liquidity squeeze in FX market due to rising unwieldy in global financial markets.