



# GarantiBank

BRSA Bank-Only Earnings Presentation

June 30, 2009



## 1H 2009: Record Economic Contraction

### **Following the major global slump in 1Q first signs of recovery strengthened the view that worst is over**

- *US and EU economies contracted by 5-6% in 1Q. Economic contraction was even more severe in Japan by 11.5%.*
- *Ample liquidity sustained by major central banks.*
- *Macro economic indicators started to improve in 2Q with rising confidence indices, declining pace of unemployment*
- *Improved economic outlook resulted in oil prices to increase to \$70/barrel from end 2008 \$40/barrel.*

### **CBT's monetary easing continued at full pace, markets calmer**

- *CBT cut policy rate by **625 bps** to **8.75%** from **15%** at the end of 2008*
- *BRSA eased loan loss provisioning burden on banks' balance sheets*

### **Impact of the macroeconomic crisis became more pronounced in Turkey**

- *After the lowest GDP reading in seven years, **1Q09 GDP** growth contracted by **13.8%** -- lowest among 18 emerging market economies despite the most solid financial system*
- *12-month C/A deficit fell to US\$ 30.7 billion as of 1Q09 from US\$ 41.5 billion in 2008-yearend.*
- *CPI continued to decrease, bringing annual inflation **down to 5%** levels **from 10.1%** as of YE '08*
- *Government unveiled an **economic stimulus package** ahead of municipal elections*

### **All eyes are on the IMF deal**

- ***Pace of economic deterioration is slowing***
- *IMF talks continue - Anchor for a faster rebound in economic growth*

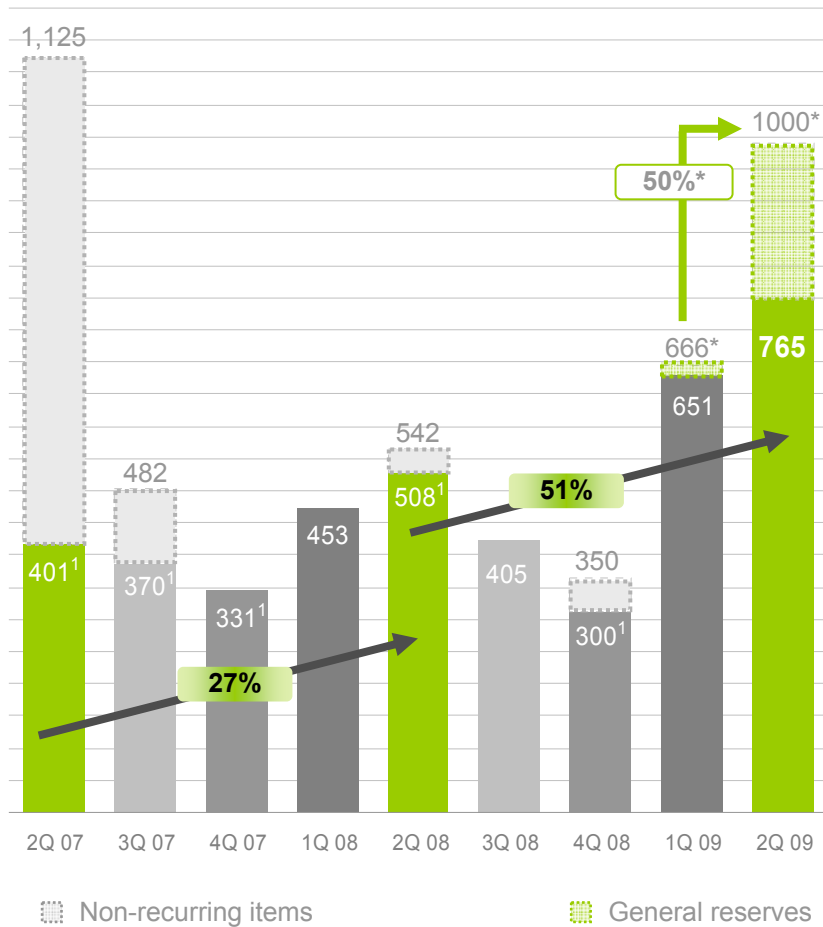
## 1H 2009 Highlights -- Resilient Business Model

### **Proven ability to generate recurrent income via dynamic balance sheet management**

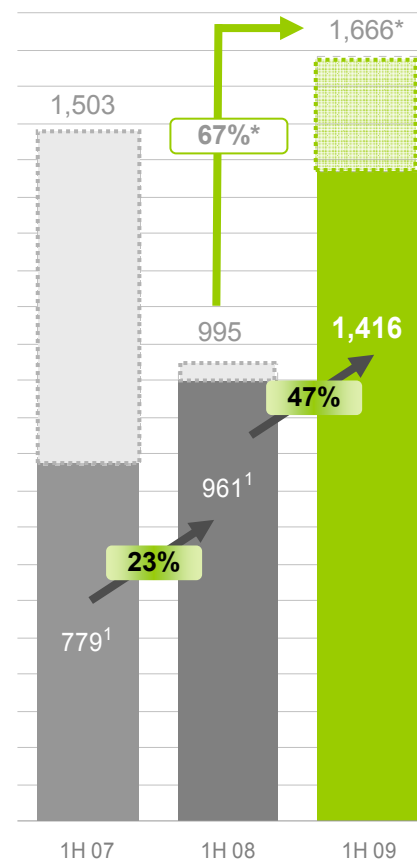
- *Capacity to generate high recurring income:*
  - *Y-o-y net income growth 47% & **ROAE 28%** -- even post conservative provisioning (TL 250 mn recognized as general reserves for the period)*
- *Selective and healthy loan **market share** gains*
- *Continued focus on risk-return balance (Garanti NPL: 3.5% vs. Sector NPL: 4.6%)*
  - *Lower new NPL formation and higher collections*
  - *Limited write-offs and restructurings*
- ***Coverage ratio increased to 82%** excelling sector average of 81% (YE 08: 64%, 1Q 09: 76%, 1H 09: 82%)*
- ***Actively managed securities** portfolio--Increased weight of TL FRNs from 49% at YE 08 to 60%*
- *Utilizing alternative funding sources in managing cost of funds and locking in the high spreads for longer term -- **Loans / Deposits ratio at 84%***
- *High capacity to generate free equity (26% growth ytd) and maintained strong solvency (CAR at 17.7%)*
- *Continued **expansion in margin***
- ***Strong capability to generate Net Fees & Commissions** – coverage of Opex remains highest in sector at 69%*
- *Focus on **cost discipline** while investment in retail network expansion continues*
- ***Net customer increase y-o-y is 1 mn***

# Actively managed balance sheet yielding robust earnings

**Quarterly Normalized Net Income<sup>1</sup>**



**Normalized Net Income<sup>1</sup>**



**Earnings<sup>1</sup>**  
Y-o-Y



**47%**

**ROAE**  
**28%**

*Result of:*

***Liquid, low risk & well-capitalized B/S***

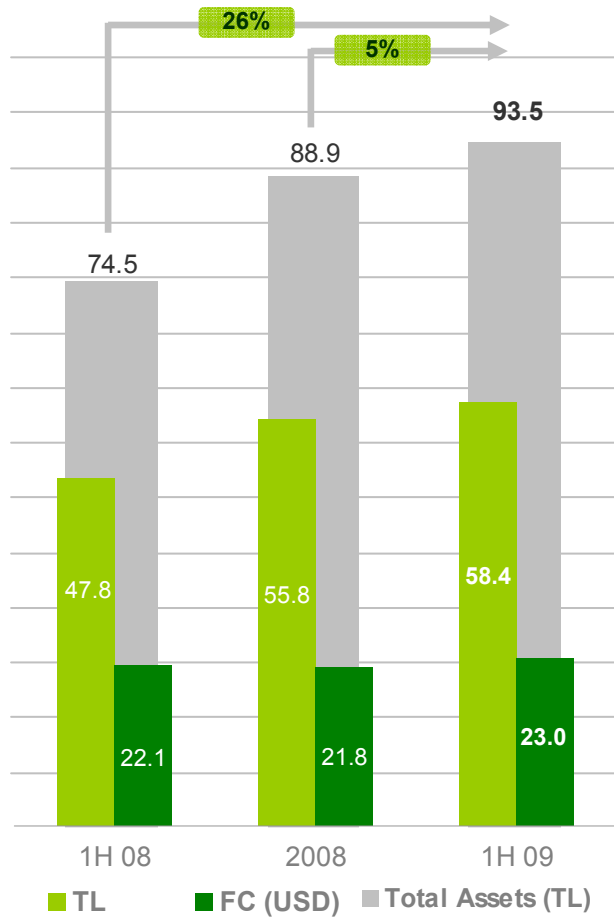
<sup>1</sup> Please refer to Slide 22 for breakdown of non-recurring items

\* Net income excluding the effect of general reserve of TL 250mn (1Q 09: TL 15mn & 2Q 09: TL 235mn) provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions, and fully recognized as expense in the current period

# Highly liquid asset mix

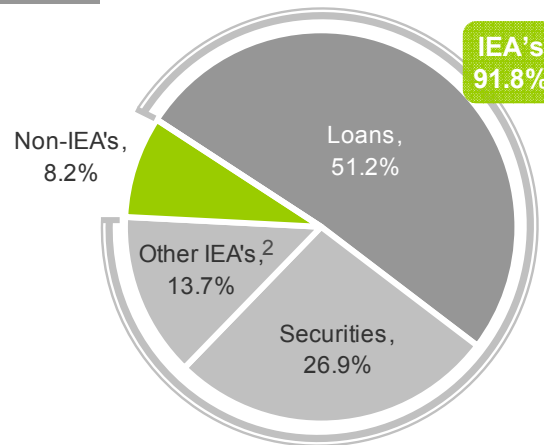
## Total Assets

TL / USD Billion

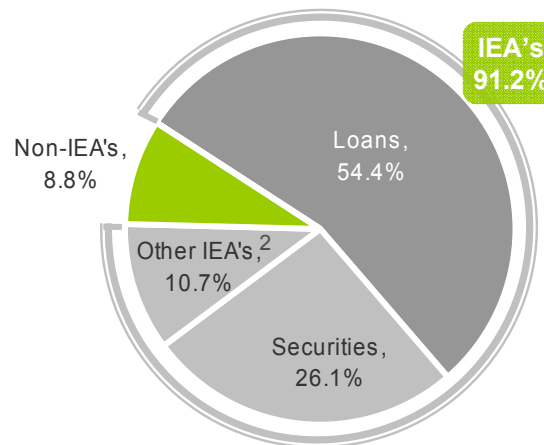


## Composition of Assets<sup>1</sup>

1H 09



2008



Ytd Growth in:

*TL Assets*

**5%**

*FC Assets (\$)*

**6%**

Liquidity Ratio<sup>3</sup>

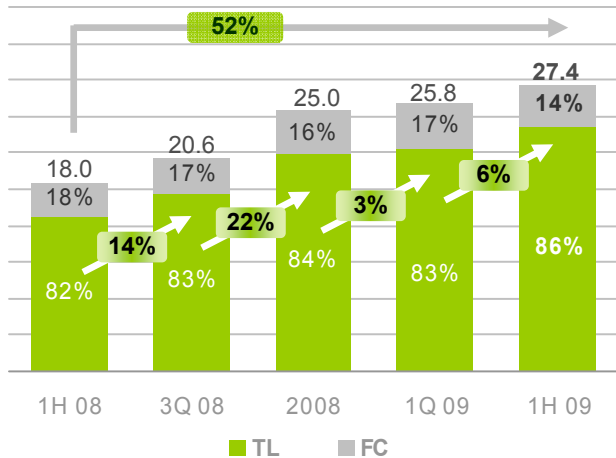
**↑**  
**34%**

<sup>1</sup> Accrued interest on B/S items are shown in non-IEAs  
<sup>2</sup> Other IEA's include factoring and leasing receivables  
<sup>3</sup> (Cash and banks + trading securities + AFS) / Assets

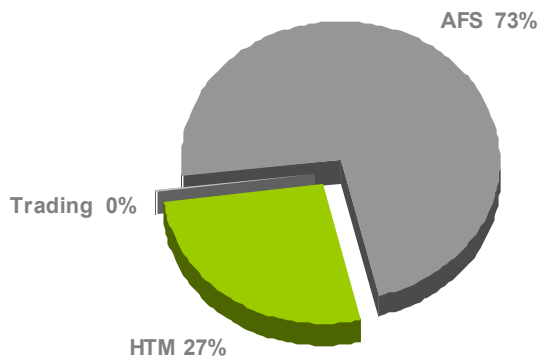
# Actively managed securities portfolio: Increased weight of TL FRNs

## Total Securities

TL Billion



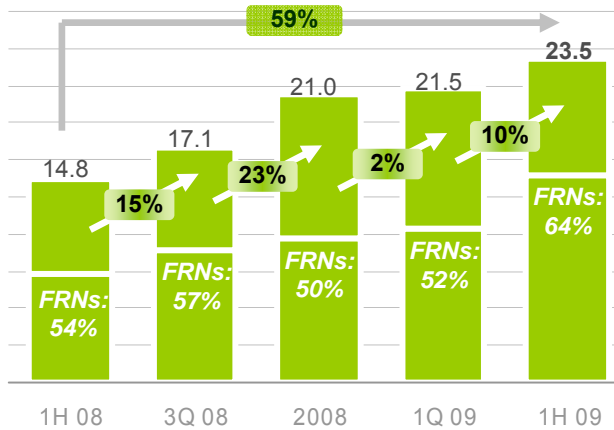
## Total Securities Composition



Unrealized gain ~TL 850 mn\*

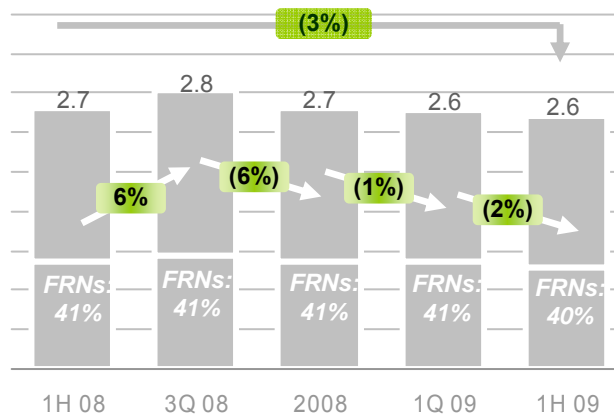
## TL Securities

TL Billion



## FC Securities

US\$ Billion



Securities mix  
in assets

27%

TL Weight in Total

86%

FRN's in Total

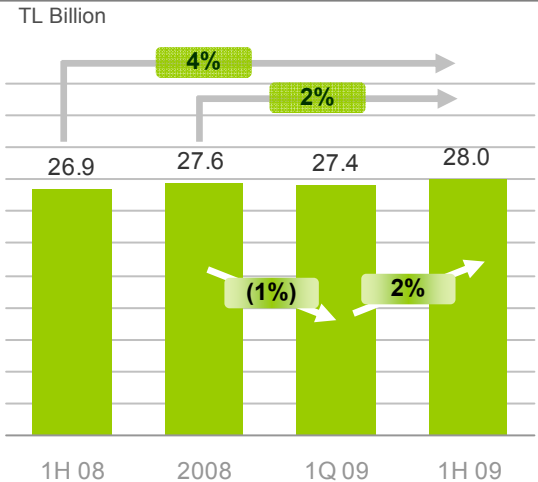
60%

vs. 49% at YE 08

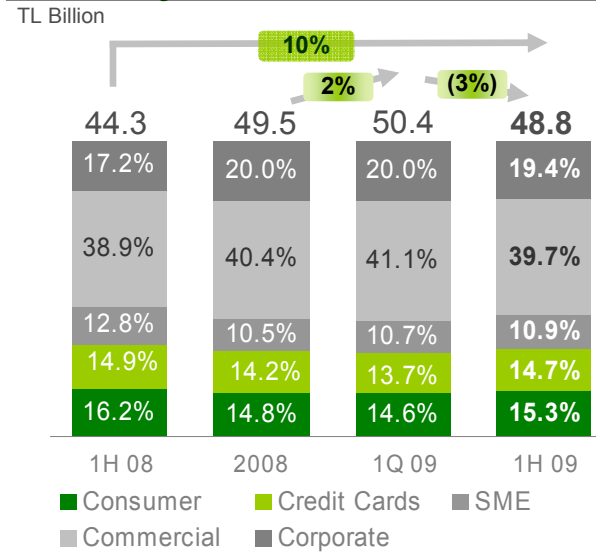
Note: Fixed / Floating breakdown of securities portfolio is based on bank-only MIS data  
\* Gross amount of MiM gains of AFS book, the net amount affecting equity is included in "Securities Value Increase Fund" of TL 786 mn. Pls. refer to Liabilities and Shareholders' Equity section of the Financial Statements

# Positive signs in lending kicked in 2Q 09 -- market share maintained

## TL Loans<sup>1</sup>

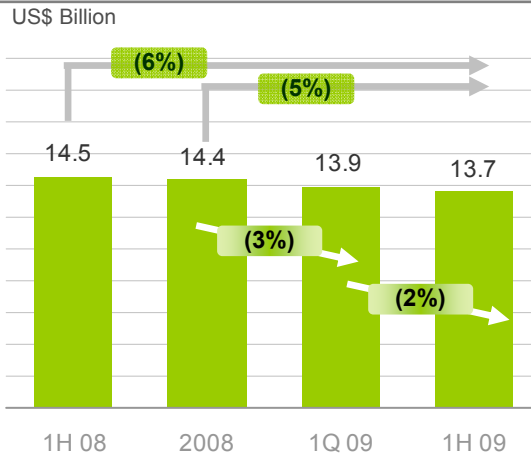


## Loans by LOB<sup>1, 2</sup>

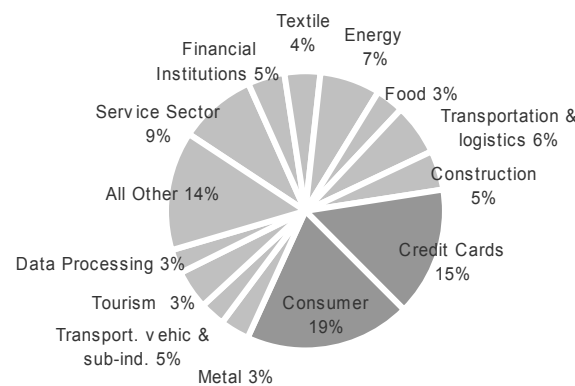


*While delivering one of the strongest originations in key products, growth limited due to currency effect and maturing book*

## FC Loans<sup>1</sup>



## Loans by Sectoral Breakdown<sup>1</sup>



## Market Shares

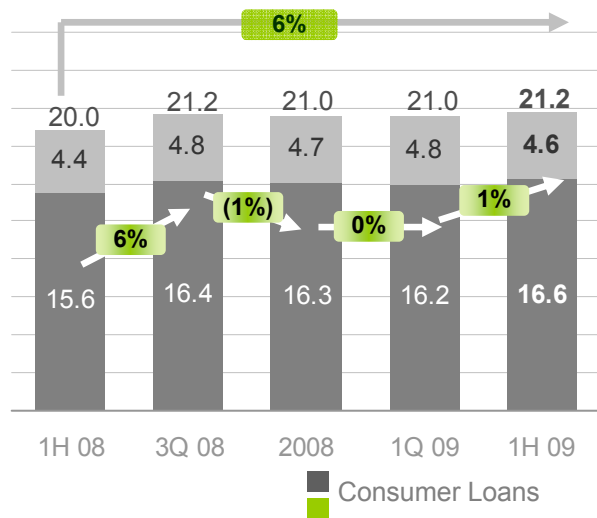
	YTD Δ	1H 09
<b>Total Loans</b>	+0 bps ↔	14.5%
<b>TL Loans</b>	0 bps ↔	11.6%
<b>FC Loans</b>	+60 bps ↑	21.7%

<sup>1</sup> Performing cash loans  
<sup>2</sup> Based on bank-only MIS data  
 Source: Sector figures are based on BRSA weekly data, commercial banks only

# Improving consumer sentiment reflected in retail lending

## Retail Loans<sup>1</sup>

TL Billion



## Mortgage Loan Growth

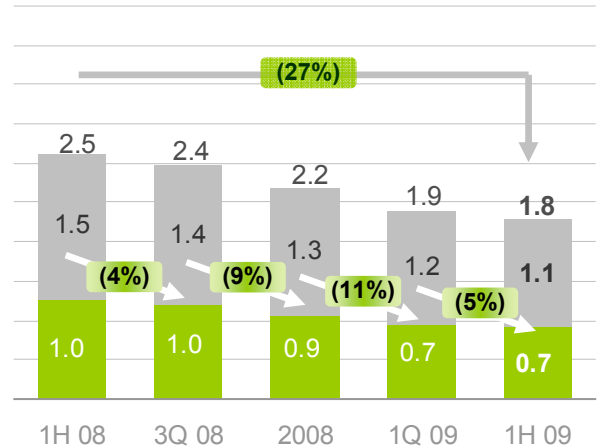
TL Billion



*Captured  
1 out of 4 mortgage  
volume originations  
in the sector despite  
resistance in pricing*

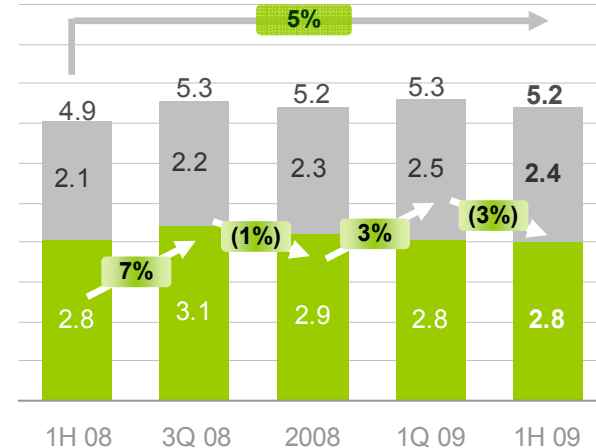
## Auto Loan Growth

TL Billion



## General Purpose Loan Growth

TL Billion



## Market Shares<sup>2,3</sup>

	YTD Δ	1H 09
Mortgage	+70 bps ↑	14.7%
Auto	+30 bps ↑	15.3%
General Purpose	-40 bps ↓	9.5%
Retail <sup>1</sup>	0 bps ↔	13.8%

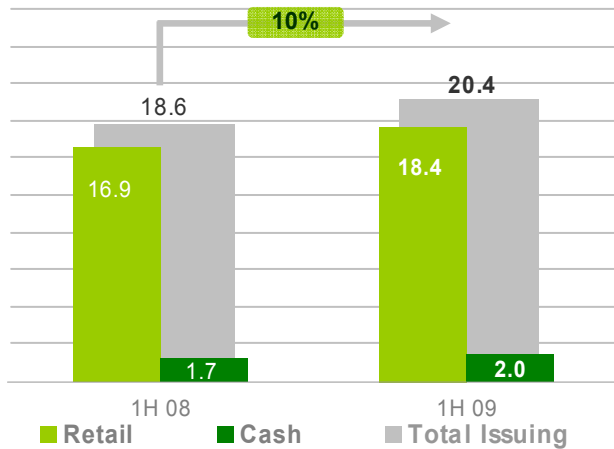
<sup>1</sup> Including consumer, commercial installment, overdraft accounts, credit cards and other  
<sup>2</sup> Including consumer and commercial installment loans  
<sup>3</sup> Sector figures are based on bank-only BRSA weekly data, commercial banks only



The success of the new card programs "Money" and "Shop & Miles Amex", launched in 2Q 09 -- immediately seen in results

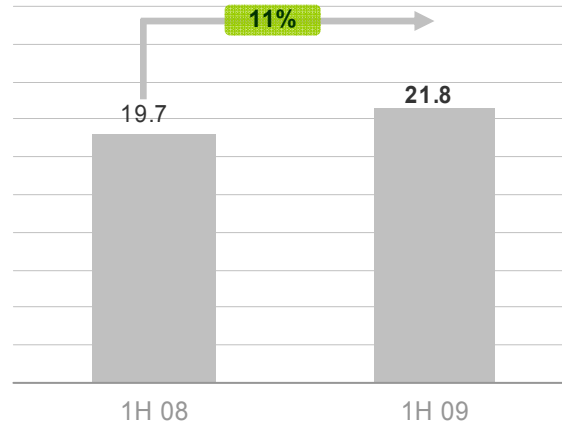
### Issuing Volume

TL Billion



### Acquiring Volume

TL Billion

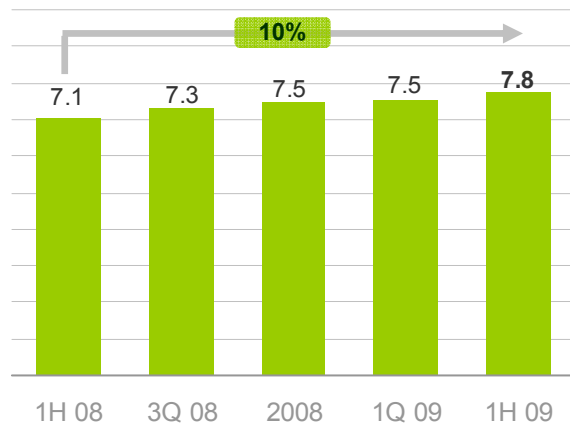


**#1** in  
*Acquiring Volume*  
& *Strong #2* in  
*Issuing Volume*



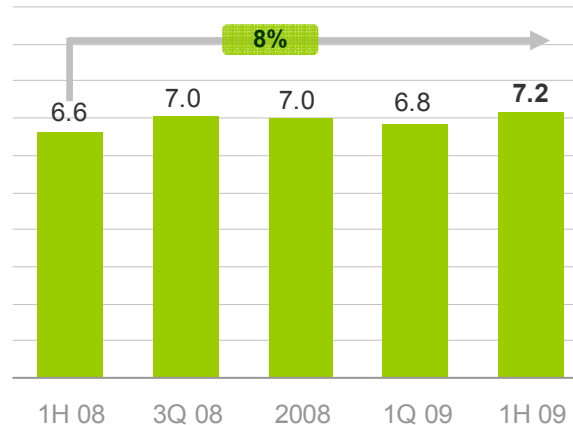
### No. of Credit Cards

In Million



### Credit Card Balances

TL Billion



### Market Shares

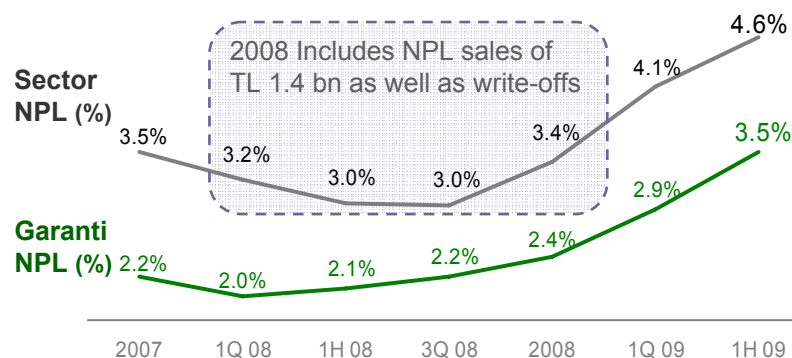
	YTD Δ	1H 09	Rank
Acquiring	-10 bps ↓	22.2%	#1
Issuing	-20 bps ↓	20.9%	#2
# of Credit Cards	+30 bps ↑	17.6%	#1
POS <sup>1</sup>	0 bps ↔	20.0%	#1
ATM	-20 bps ↓	11.6%	#2

<sup>1</sup> Including shared POS  
<sup>2</sup> Annualized

# Sound asset quality -- new NPL formation cut pace and collections improved

## NPL Ratio & Coverage<sup>1</sup>

Coverage Ratio	2007	2008	1Q 09	1H 09
Sector	89%	81%	81%	81%
Garanti	64%	64%	76%	82%



New NPL formation  
QoQ



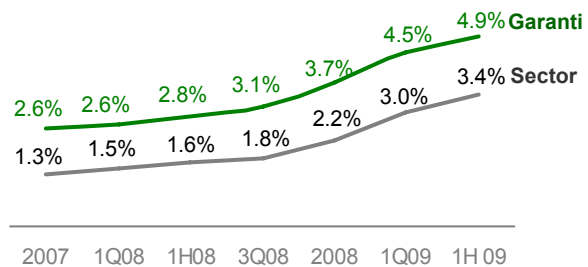
Collections  
QoQ



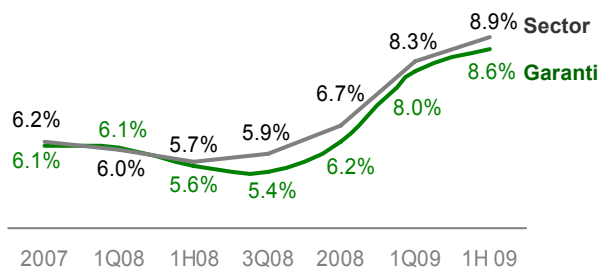
Limited write-offs & restructurings<sup>2</sup>

## NPL Categorisation<sup>1</sup>

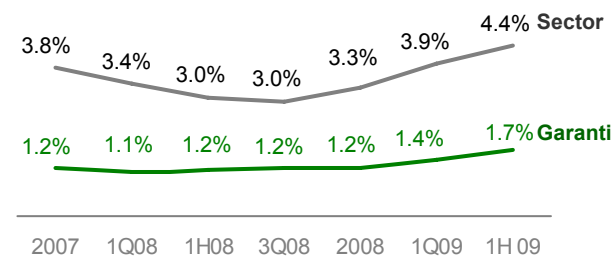
**Retail Banking (Consumer & SME Personal)**  
19% of Garanti's Total Loans



**Credit Cards**  
15% of Garanti's Total Loans



**Business Banking (Including SME)**  
66% of Garanti's Total Loans



<sup>1</sup> Sector figures are per BRSA bank-only data

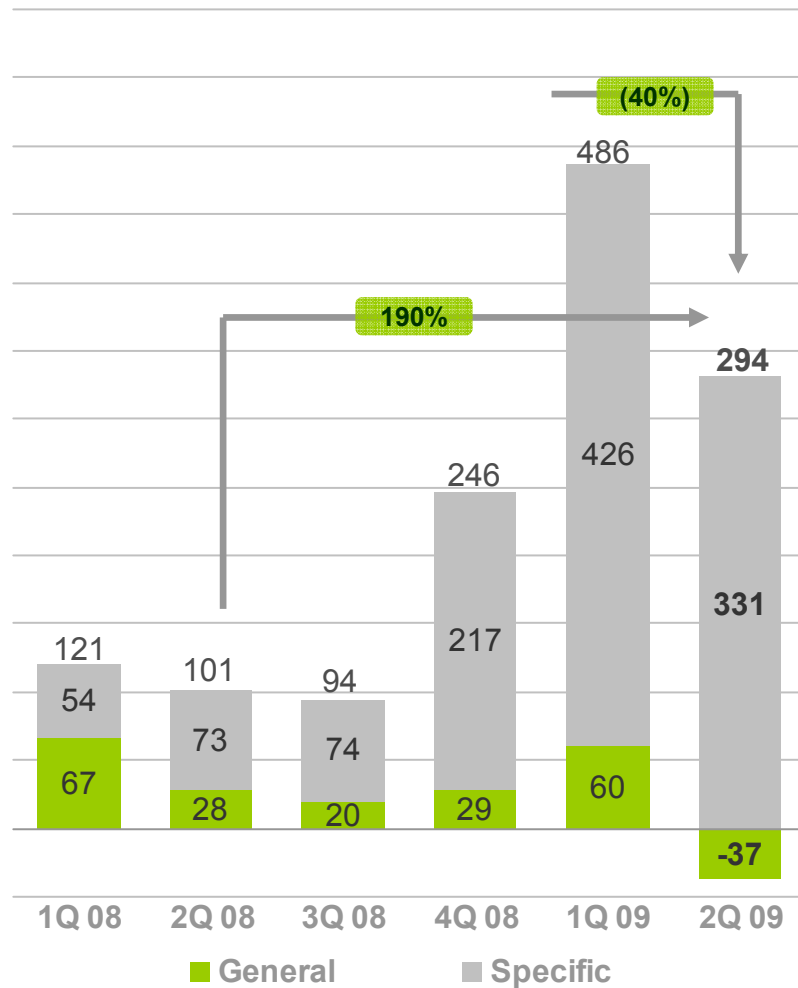
<sup>2</sup> Pre-NPL restructurings totaled TL 213mn and NPL restructurings totaled TL 261mn. NPL restructurings had no effect on NPL ratio as they are not yet classified as performing

Source: BRSA, TBA & CBT

## NPL coverage level up -- excelling sector average

### Quarterly Loan-Loss Provisions

TL Million



### Coverage Ratio



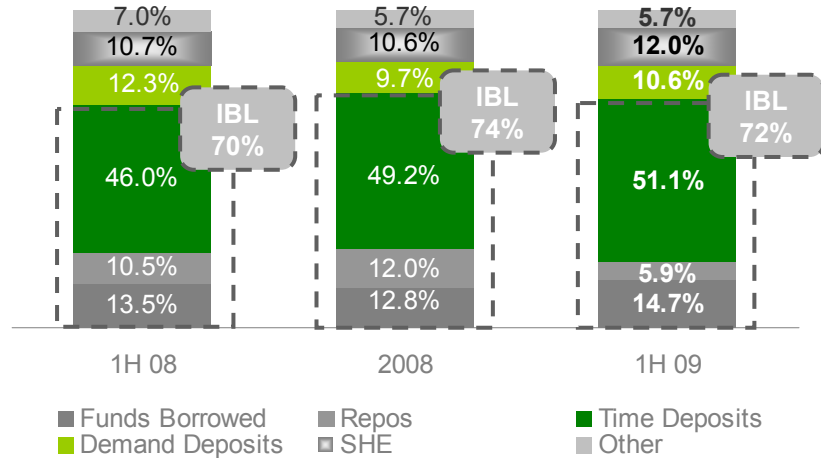
82%

*More conservative approach*  
 → *temporary rise in loan-loss provisions in 2009*

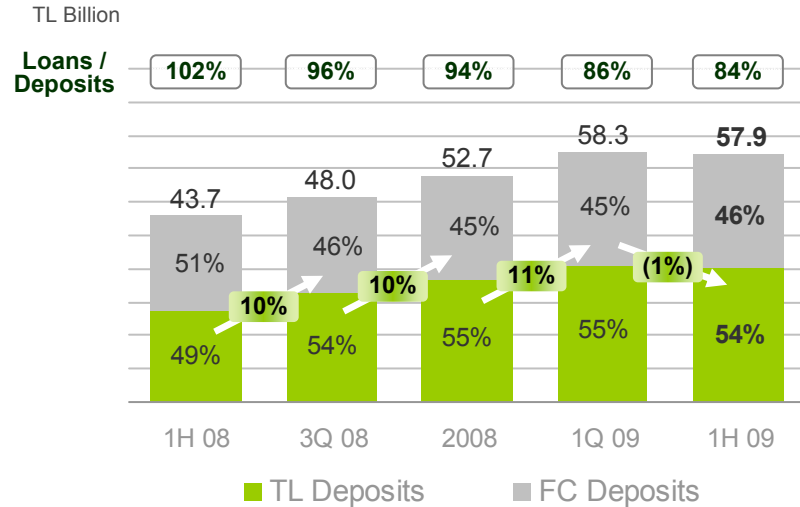
**Cost of risk ~ 300 bps**

# Utilizing alternative funding sources in managing costs and locking in the high spreads for longer term -- Loans / Deposits ratio at 84%

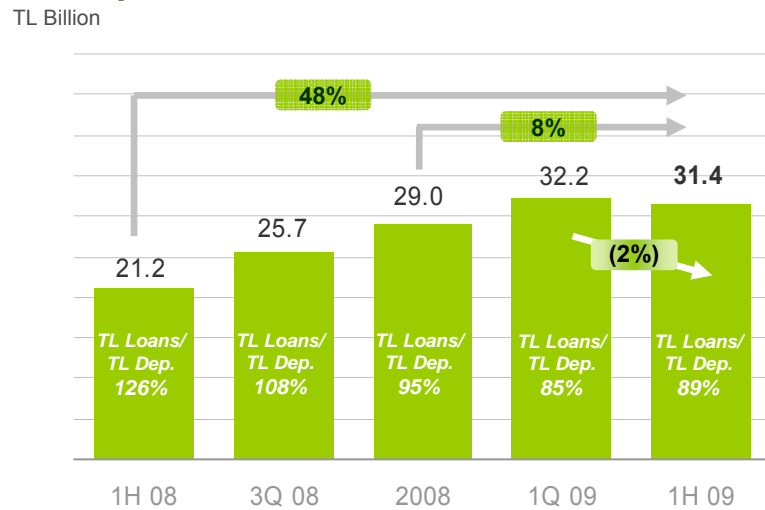
## Composition of Liabilities<sup>1</sup>



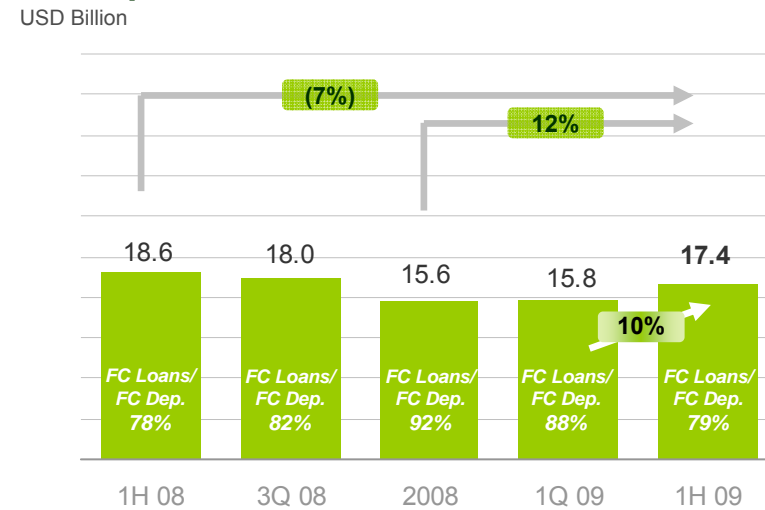
## Total Deposits



## TL Deposits



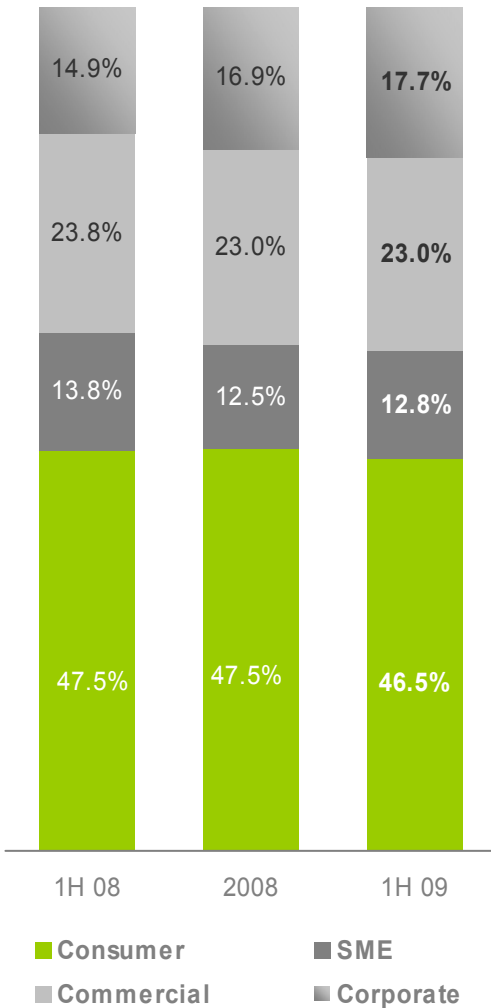
## FC Deposits



Disciplined stance in deposit pricing translated into another 300bps drop in average time deposit cost in 2Q 09

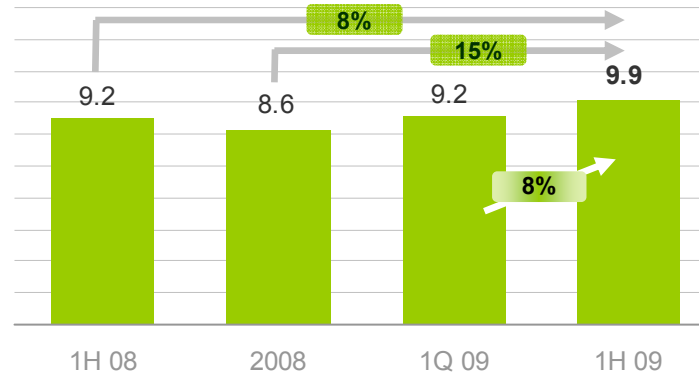
**Deposits by LOB<sup>1</sup>**

(Excluding bank deposits)



**Demand Deposits**

TL Billion



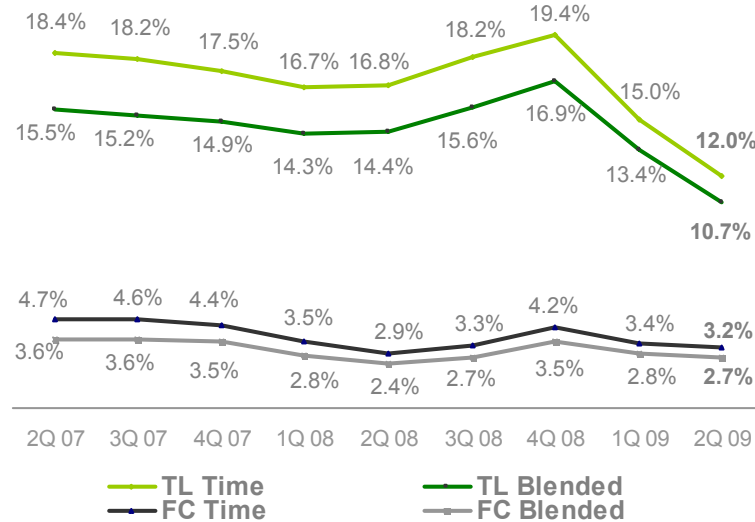
**Demand Deposits**

Ytd Growth

**15%** vs.  
Sector's **9%**

**Cost of Deposits<sup>1</sup>**

Quarterly Averages



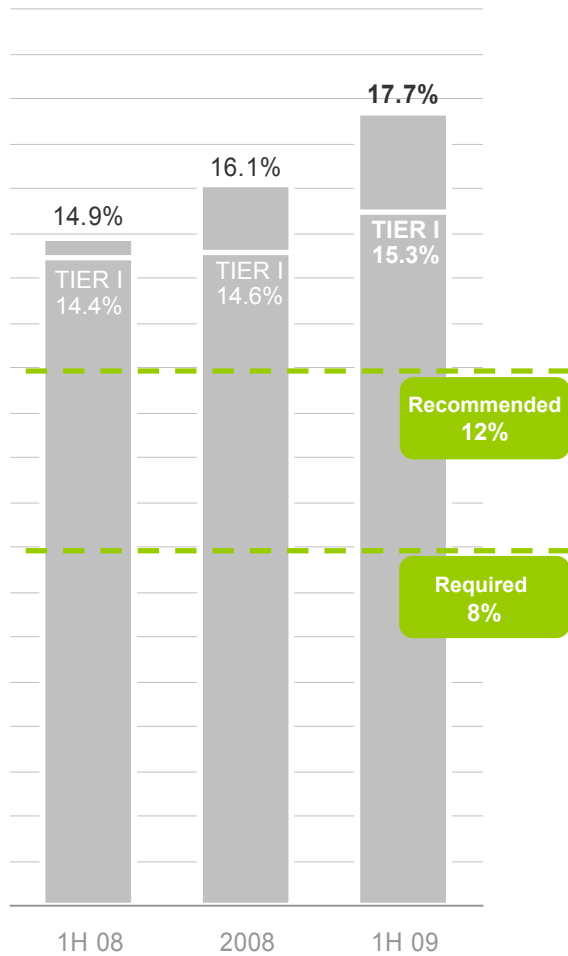
**Demand Deposit Market Share<sup>2</sup>**

**15%**

<sup>1</sup> Based on bank-only MIS data  
<sup>2</sup> Sector figures are per BRSA weekly data, commercial banks only and excluding bank deposits

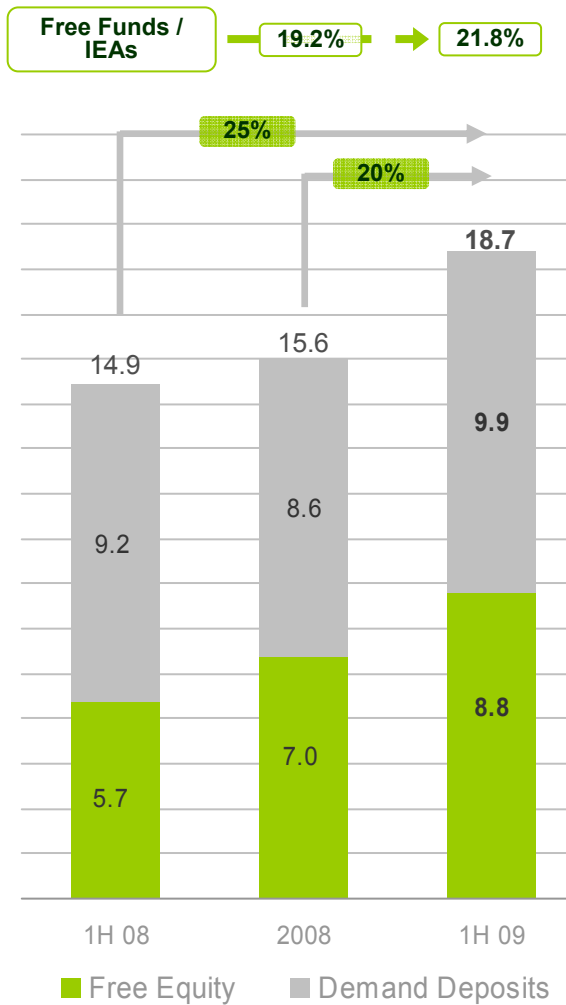
**Robust earnings and healthy asset mix sustains the ability to generate strong free equity -- 25% growth in 1H 09**

**CAR**



**Free Funds**

TL Billion (Free Funds = Free Equity + Demand Deposits)



**Free Equity**

Ytd

**↑**  
**26%**

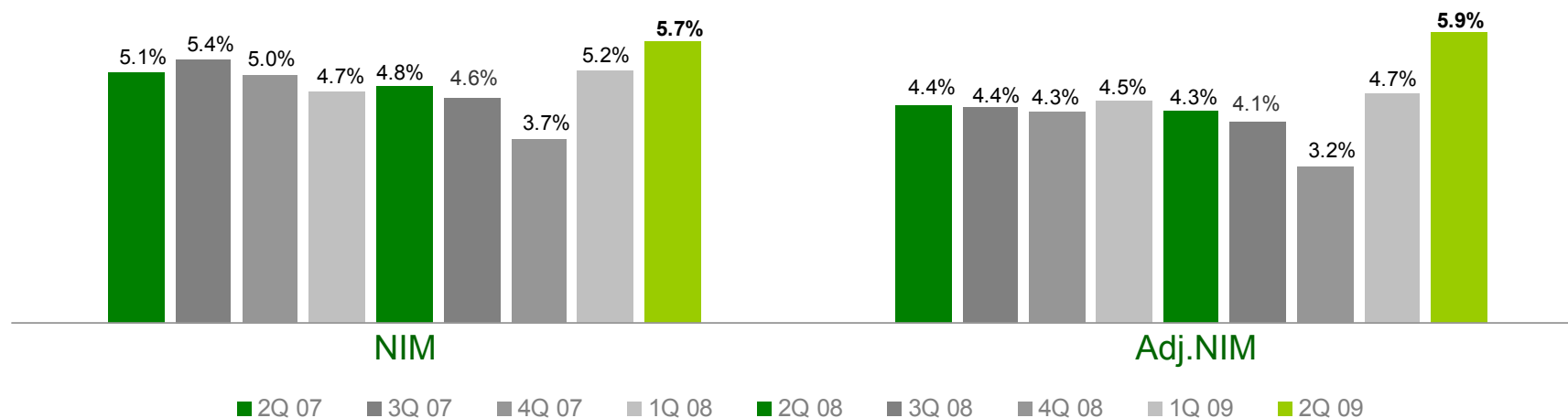
**Leverage Ratio**

**↓ 7x**

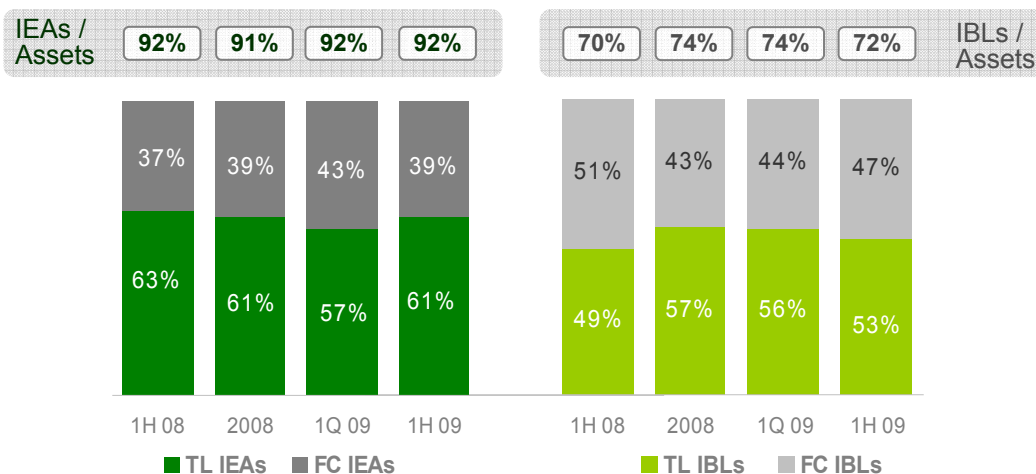
Well positioned  
for future growth

# Continued expansion in margin amplified with active management of B/S

## NIM (Net Interest Income / Average IEAs)



## Composition of IEAs & IBLs



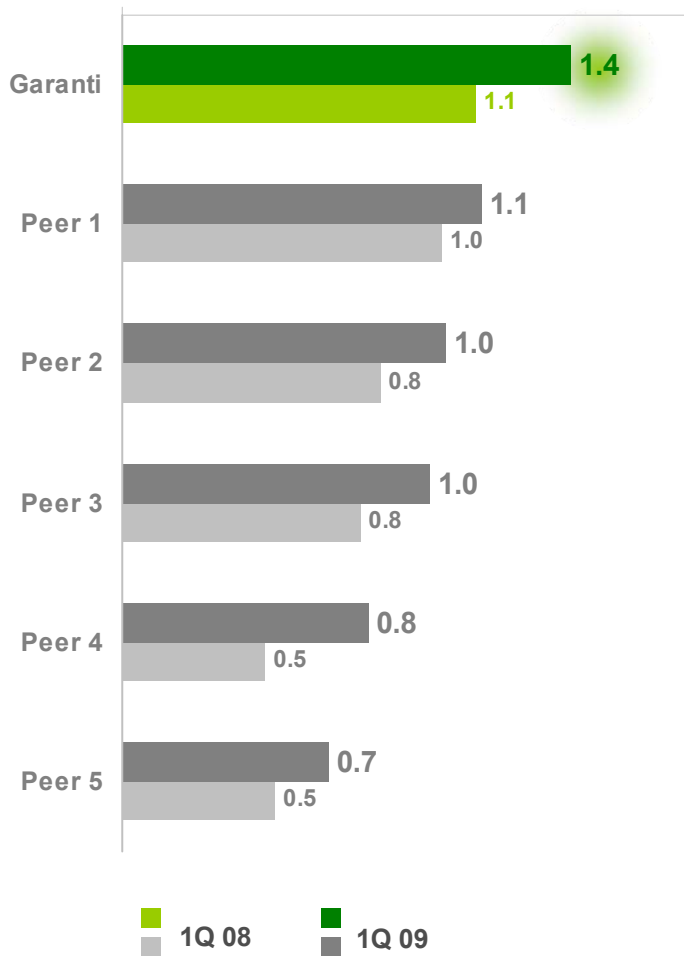
### ***2Q 09 over 1Q 09:***

- *Declining funding costs' impact on margin +165 bps*
- *Impact of limited drop in asset yields on margin -110 bps*
- *Trading and FX gains fully covering provisions*

# Sustained highest capacity to generate ordinary banking income

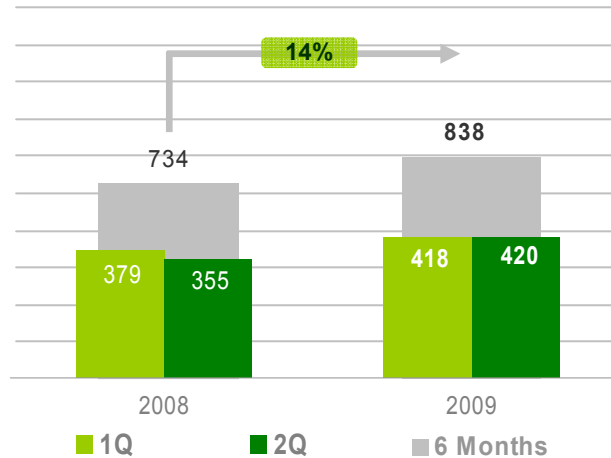
## Ordinary Banking Income<sup>1</sup> Generation

TL Billion



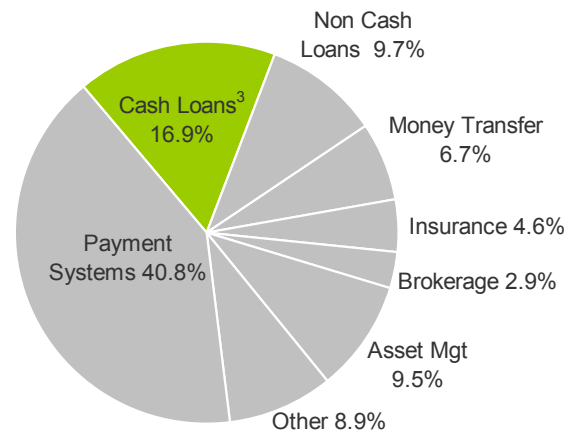
## Net Fees & Commissions<sup>2</sup>

TL Million



*Garanti recorded the highest ordinary banking income among peers in 1Q 09*

## Net Fees & Commissions Breakdown<sup>4</sup>



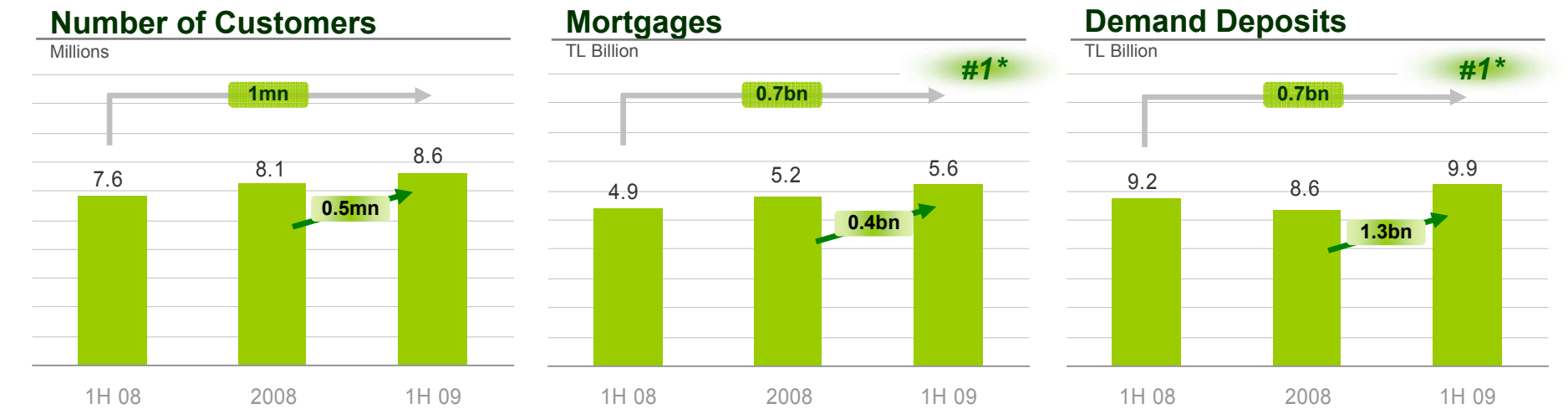
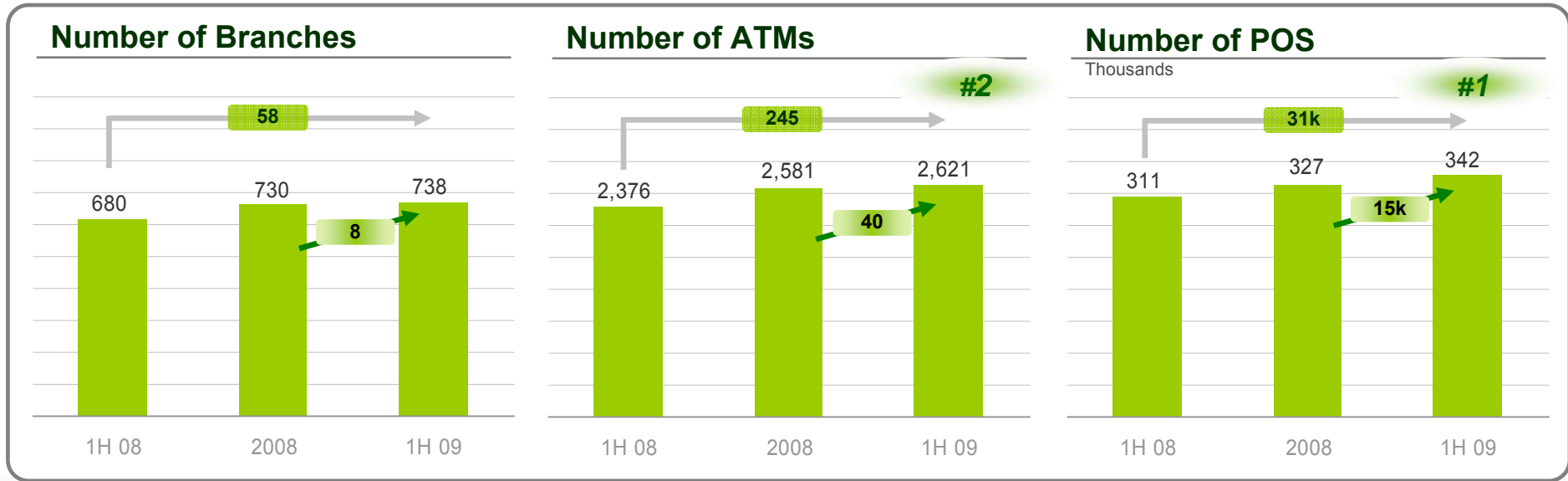
**Ordinary Banking Income**  
6 Mo '09 over 6 Mo '08

**43%**

<sup>1</sup> Defined as; net interest income adjusted with provisions for loans and securities, net FX and trading gains + net fees and commissions  
<sup>2</sup> As per new BRSA classification in P/L, excludes net fees and commissions received from cash loans amounting TL 62 mn for 1H 09 and TL 57 mn for 1H 08  
<sup>3</sup> Include consumer loans fees as well as other cash loan fees now classified as interest on loans in income statement amounting TL 62 mn for 1H 09 and TL 57 mn for 1H 08  
<sup>4</sup> Bank-only MIS data



# Strengthened retail network -- ~500K of net customer increase in 1H 09



\* Mortgage and demand deposit ranks are as of 1Q 09

...resulted in record profitability again

(TL Million)	6 Mo '08	6 Mo '09	Growth
<b>Ordinary Banking Income</b>	2,217	3,169	43%
<b>Other Income*</b>	137	157	15%
<b>Total Revenue*</b>	<b>2,354</b>	<b>3,326</b>	<b>41%</b>
<b>Operating Expense*</b>	<b>(1,138)</b>	<b>(1,213)</b>	<b>7%</b>
<i>Personnel Expense</i>	(418)	(425)	2%
<i>Bonus Provision</i>	(86)	(80)	(7%)
<i>Rent Expense</i>	(50)	(63)	26%
<i>Communication Expense</i>	(62)	(63)	2%
<i>Other</i>	(522)	(582)	11%
<b>Operating Income*</b>	<b>1,216</b>	<b>2,113</b>	<b>74%</b>
<b>Other Provisions</b>	(3)	(291)	n.m.
<i>General Reserves<sup>1</sup></i>	-	(250)	n.m.
<i>Other</i>	(3)	(41)	n.m.
<b>Taxes*</b>	(252)	(406)	61%
<b>Normalized Net Income</b>	<b>961</b>	<b>1,416<sup>1</sup></b>	<b>47%</b>
Non-recurring Items	34	-	n.m.
<b>Net Income</b>	<b>995</b>	<b>1,416</b>	<b>42%</b>

47%



**Net Income<sup>1</sup> Growth\***  
Y-o-Y

*Cost / Income*

36.5%

# Appendix

## Balance Sheet - Summary

<i>(TL Million)</i>		<b>2008</b>	<b>1H 09</b>	<b>YTD Change</b>
<b>Assets</b>	<b>Cash &amp; Banks<sup>1</sup></b>	<b>8,560</b>	<b>11,499</b>	<b>34%</b>
	<b>Reserve Requirements</b>	<b>1,773</b>	<b>1,947</b>	<b>10%</b>
	<b>Securities</b>	<b>24,993</b>	<b>27,423</b>	<b>10%</b>
	<b>Performing Loans</b>	<b>49,457</b>	<b>48,824</b>	<b>(1%)</b>
	<b>Fixed Assets &amp; Subsidiaries</b>	<b>1,940</b>	<b>1,982</b>	<b>2%</b>
	<b>Other</b>	<b>2,218</b>	<b>1,819</b>	<b>(18%)</b>
	<b>Total Assets</b>	<b>88,941</b>	<b>93,494</b>	<b>5%</b>
	<b>Liabilities &amp; SHE</b>	<b>Deposits</b>	<b>52,715</b>	<b>57,930</b>
<b>Repos</b>		<b>10,703</b>	<b>5,600</b>	<b>(48%)</b>
<b>Borrowings</b>		<b>11,625</b>	<b>13,945</b>	<b>20%</b>
<b>Other</b>		<b>4,429</b>	<b>4,808</b>	<b>9%</b>
<b>SHE</b>		<b>9,469</b>	<b>11,211</b>	<b>18%</b>
<b>Total Liabilities &amp; SHE</b>		<b>88,941</b>	<b>93,494</b>	<b>5%</b>

<sup>1</sup> Includes banks and other financial institutions

## Quarterly Analysis of Ordinary Banking Income

<i>(TL Thousand)</i>	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	Δ Q-o-Q 1Q 09 - 2Q 09	Δ Y-o-Y 2Q 08 - 2Q 09	Δ Y-o-Y 6M'08 - 6M'09
<b>Interest Income</b>	<b>2,153,542</b>	<b>2,371,720</b>	<b>2,802,565</b>	<b>2,766,710</b>	<b>2,638,534</b>	<b>(4.6%)</b>	<b>22.5%</b>	<b>28.6%</b>
-Loans	1,354,196	1,439,576	1,690,636	1,667,557	1,530,435	(8.2%)	13.0%	21.7%
-Securities	641,511	763,748	940,732	959,374	980,674	2.2%	52.9%	55.1%
-Other	157,835	168,396	171,197	139,779	127,425	(8.8%)	(19.3%)	(18.0%)
<b>Interest Expense</b>	<b>(1,328,623)</b>	<b>(1,535,513)</b>	<b>(2,055,802)</b>	<b>(1,660,457)</b>	<b>(1,355,325)</b>	<b>(18.4%)</b>	<b>2.0%</b>	<b>15.6%</b>
-Deposits	(944,270)	(1,076,891)	(1,408,748)	(1,236,950)	(1,006,396)	(18.6%)	6.6%	22.4%
-Funds Borrowed	(162,184)	(167,737)	(208,840)	(165,803)	(168,565)	1.7%	3.9%	(0.8%)
-Interbank & Other	(222,169)	(290,885)	(438,214)	(257,704)	(180,364)	(30.0%)	(18.8%)	(0.3%)
<b>Net Interest Income</b>	<b>824,919</b>	<b>836,207</b>	<b>746,763</b>	<b>1,106,253</b>	<b>1,283,209</b>	<b>16.0%</b>	<b>55.6%</b>	<b>49.8%</b>
<b>Prov. for loans &amp; securities</b>	<b>(101,404)</b>	<b>(93,888)</b>	<b>(246,472)</b>	<b>(486,486)</b>	<b>(293,627)</b>	<b>(39.6%)</b>	<b>189.6%</b>	<b>250.4%</b>
<b>Net FX Gain/(Loss) + Net trading Income/(Loss)</b>	<b>20,182</b>	<b>4,987</b>	<b>136,336</b>	<b>384,665</b>	<b>337,728</b>	<b>(12.2%)</b>	<b>1,573.4%</b>	<b>556.9%</b>
<b>Adj. Net Interest Income</b>	<b>743,697</b>	<b>747,306</b>	<b>636,627</b>	<b>1,004,432</b>	<b>1,327,310</b>	<b>32.1%</b>	<b>78.5%</b>	<b>57.3%</b>
<b>Net Fees and Comm.</b>	<b>354,797</b>	<b>360,913</b>	<b>345,910</b>	<b>417,919</b>	<b>419,826</b>	<b>0.5%</b>	<b>18.3%</b>	<b>14.1%</b>
<b>Ordinary Banking Income</b>	<b>1,098,494</b>	<b>1,108,219</b>	<b>982,537</b>	<b>1,422,351</b>	<b>1,747,136</b>	<b>22.8%</b>	<b>59.0%</b>	<b>43.0%</b>

## Non-recurring items

### 4Q 08:

The net income resulting from the non-recurring items amounts to **TL +50 mn.**, breakdown of which is;

- i) Other income: **TL +62 mn** of reversal from Defined Benefit Obligation
- ii) Taxation expense: Deferred tax expense of **TL -12 mn** related to TL +62 mn of reversal from Defined Benefit Obligation

### 2Q 08:

The net income resulting from the non-recurring items amounts to **TL +34 mn**, breakdown of which is;

- i) Other income: Tax refund that the Bank collected through conciliation from the tax office, due to the prepaid taxes in 2005, **TL +131 mn**
  - Tax refund on an existing unused investment incentive certificate **TL+6 mn**
  - Proceeds from NPL sales **TL+29 mn**
  - Reversal of free provisions set in 1Q 08 of **TL -131 mn** –reducing other income
- ii) Other expense: Defined Benefit Obligation: **TL -165 mn**
- iii) Other provisions: Reversal of free provisions set in 1Q 08 of **TL +131 mn** –reducing other provisions
- ii) Taxation expense: Tax credit resulting from the deferred tax asset calculated on defined benefit obligation liability **TL +33 mn**

### 1Q 08:

The effect of the net income resulting from the non-recurring items to bottom line is **0**, breakdown of which is;

- i) Other income: Tax refund that the Bank collected through conciliation from the tax office, due to the prepaid taxes in 2005, **TL +131 mn**
- ii) Other provisions: Free provisioning of **TL +131 mn**

### 3Q 07:

The net income resulting from the non-recurring items amounts to **TL +112 mn**, breakdown of which is;

- i) Other income: Gains from custody sale **TL +148 mn**
- ii) Other expense: Banking Insurance and transaction tax related to custody sale **TL -7 mn**
- iii) Taxation expense: Tax expense of custody sale **TL -28 mn**

### 2Q 07:

The net income resulting from the non-recurring items amounts to **TL +724 mn**, breakdown of which is;

- i) Other income: Gains from insurance and pension & life business subsidiaries stake sale **TL +762 mn**
- iii) Taxation expense: Tax expense of insurance and pension & life business subsidiaries stake sale **TL -38 mn**



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