

# StockWatch <sup>1Q 2010</sup>



## Did you know?

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### Changing Turkey's shopping habits - Bonus Card is 10 years old!

Introduced by Garanti Bank, Turkey's first chip-based and multi-branded credit card Bonus Card celebrates its 10<sup>th</sup> birthday. Bonus Card Platform, with its customers reaching 10 million, is Turkey's market leader with a share of 26.3% in terms of turnover and is among the most valuable brands of Turkey. Based on the strategy of horizontal growth, Garanti introduced a first in Turkey and opened up Bonus to

the use of other banks for the first time in 2002. With the participation of Denizbank, TEB, ING, Şekerbank, TFKB, Garanti Bank International (Romania) and Eurobank Tekfen, Bonus turned out to be the largest credit card platform of Turkey with nearly 10 million cards. Since its introduction, Bonus was granted numerous international awards and was taught as a case study at many prestigious universities

globally. In honor of its 10<sup>th</sup> year, Bonus prepared a series of campaigns for the card holders. On its 10<sup>th</sup> year celebrations, Bonus sponsored several organizations including arts, entertainment and sports such as Bonus Cup football tournament and carnivals in 20 different cities. Also prepared many surprises allocating extra reward points under different campaigns.



### Garanti for Society / Community Relations

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Garanti creates and/or sponsors long term, sustainable projects, which are aligned with its corporate culture and contribute to enhancing the life qualities of people and society. In this context as of first quarter of 2010: Garanti's major contribution in the field of education, **"No Limits in Teaching"**



project is designed to give in-service training contributing to teachers' personal and professional development. Launched in mid-2009, the project

has already reached more than 8,000 teachers in 18 cities. The time scope of the project is 5 years, targeting to reach 100,000 teachers in the country's primary school system. To give support to the society, Garanti has recently launched a **series of conferences** targeting its commercial and SME customers informing them **on risk management**. In the aftermath of the recent global economic crises, risk management has since been drawing further interest amongst

the financial sector professionals. Garanti has been supporting women entrepreneurs in Turkey for the past four years. Since 2008, in order to extend training and networking opportunities to this special segment **"Women Entrepreneurs Gatherings"** have been held in 5 cities, in cooperation with the Women Entrepreneurs Association of Turkey (KAGIDER). This year the meetings have so far been organized in the cities of Bursa, Manisa and Konya reaching nearly 1,700 women entrepreneurs.

### What analysts say about Garanti

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**Ak Investment:** "...actively managed balance sheet to generate high earnings"

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**Autonomous Research:** "...a solid track record of positioning its balance sheet to benefit from changes in the rate environment."

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**BGC Partners:** "Strong fee income generation is one of Garanti's strongest competitive advantages as it helps stabilize the bottomline."

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**Cheuvreux:** "...stands out as the best banking operation in Turkey and provides good exposure to the lucrative Turkish banking market, which has sound fundamentals and offers better growth potential than the other banking segments in Emerging Europe."

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**Credit Suisse:** "...offers one of the best risk/reward profiles for 2010, with its favourable valuations and strong positioning for earnings growth."

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**Citigroup:** "Against an improving macro backdrop, good revenue momentum, an improving provisioning outlook and strong reserves underpin profitability."

**Deutsche:** "...With its leading position in retail banking and strong fee revenue generation power, Garanti should be a prime beneficiary of upcoming trends in the Turkish banking sector."

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**Eczacıbaşı:** "Based on its strong earnings momentum, positive outlook and more visible trends, Garanti is still our most preferred bank."

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**EFG:** "...outstanding profitability by the Bank is of sound quality on the overall, incorporating insignificant contributions from the trading line and provision reversals."

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**Goldman Sachs:** "Garanti has one of the most attractive balance sheet structures among Turkish banks."

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**ING:** "Garanti is a key stock in any portfolio of Turkish assets."

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**Merrill Lynch:** "...has a leading position in lending in Turkey while maintaining the best asset quality of the large banks."

**Nomura:** "Key to the success was the ability of the bank to generate better core revenues. ...has most to gain from the trend in asset quality improvement."

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**Oyak Securities:** Good results are becoming boring...

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**Standard Ünlü:** "the bank's share price return has been stellar. Based on its sustained strong earnings momentum and high ROAE outlook, we believe the bank still represents one of the best value stocks among the Big-6 on a 12-month horizon."

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**TEB:** "Leading mortgage lender by far ...bank's high cross-sell ratio and high mortgage market share is the best combination to generate handsome returns from this business."

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**Tera Brokers:** Consistent overperformer!

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**YF Securities:** "The Profit Generator. ...one of the highest ROAE levels in the banking universe..."

## Macro Notes

While global economic recovery has strengthened a bit since the fourth quarter of 2009, sovereign debt risks, which limited the recovery in advanced and especially in European economies, raised significantly in the same period. Accordingly, Euro/Dollar parity dropped to 1.35 at the end of first quarter from 1.43 at the end of 2009, whereas TL depreciated by 1% against US Dollar during the period. In real terms, TL appreciated by 6.1% against the currency basket on CPI basis in the first quarter compared to the end of last year due to sharp rise in inflation. Yet, benchmark bond yields fluctuated between 8.40% and 9.26% during the first quarter.

After having contracted by an average of 8.4% in the first three quarters, Turkish economy grew by %6 in 4q09 (year-on-year basis). Hence, GDP contracted by 4.7% during 2009 compared to 2008, the deepest contraction since 2001. Seasonally-adjusted quarter-on-quarter terms, the growth rate slowed down to 2.3% in 4q09 from 2.9% in 3q09. Public and private consumption expenditures were the main driver of strong growth in 4q09, while the contraction in investments limited the expansion in economic activity. Foreign demand,

which contributed positively during the previous six quarters, brought overall GDP down by 1 point in the fourth quarter of last year.

Early indicators for the first quarter of this year have been pointing out that domestic economic activity has been growing faster than foreign trade partners. While exports increased by 7.0% on y/y basis in January-March period, imports increased significantly by 32.2% on y/y basis in the same period.

Therefore, foreign trade deficit rose approximately to \$ 12 billion in 2010 from \$ 4.4 billion in 2009 in the January-March period. According to Turkish Exporters Assembly (TEA), exports were \$ 10.0 billion, rising by 22.4% on y/y basis in April.

Annual CPI inflation increased from 6.5% at the end of 4q09 to 9.6% at the end of 1q10. The sharp rise in headline inflation has stemmed from the weak base and high food prices. The core inflation rose to 5.4% on y/y basis as of end March 2010 from 3.8% at the end of 2009. Annual PPI inflation increased from 5.9% at the end of 2009 to 8.6% at the end of 1q10.

The Central Bank of Turkey (CBT) has kept policy rates unchanged at 6.50% since December. Besides, the CBT stated that it would be necessary to keep policy rates at low levels for a long time as lingering problems across the global economy are not resolved completely and there are still uncertainties regarding the strength of the recovery. According to the CBT, the recovery in the economic activity is ongoing. Domestic demand is following a gradual growth trend despite lingering uncertainty regarding external demand, suggesting that it would take a while before industrial capacity utilization rates return to pre-crisis levels. On the 14th of April, CBT released the details of its exit strategy from the crisis related measures taken during 2008 and 2009. According to the strategy, some of the measures taken in the foreign exchange and Turkish lira markets during the crisis were planned to be withdrawn gradually. The exit strategy of CBT began with lowering the amount of liquidity injections through Open Market Operations. Secondly, the FX required reserve ratio was increased by 0.5 point to 9.5%. The increase in the FX required reserve ratio will lead a withdrawal of approximately USD 700 million of foreign currency liquidity from the market.

## Developments at Garanti

Garanti With Numbers	Dec-09	Mar-10	Garanti Market Shares*	YTD Δ	Mar-10
Branch Network	792	795	Total Cash Loans	▲	14.3%
+ Domestic	783	786	TL Loans	▲	11.3%
+ Abroad	9	9	FC Loans	▲	22.0%
Personnel	16,827	17,245	Credit Cards - Issuing (Cumulative)	▼	20.5%
ATM	2,756	2,790	Credit Cards - Acquiring (Cumulative)	▼	21.5%
POS*	355,345	358,586	Consumer Loans	▲	11.3%
Total Customers	8,966,625	9,140,482	Total Deposits	▲	12.6%
Internet Customers**	1,532,329	1,568,015	Demand Deposits	▲	14.4%
Phone Banking Customers**	162,695	1,370,891 <sup>(1)</sup>	TL Deposits	▲	10.9%
Credit Cards	7,857,047	7,868,839	FC Deposits	▲	16.4%
Debit Cards	5,396,618	5,407,815	Mutual Funds	▲	15.1%

### Garanti's achievements further recognized on international platforms during the quarter:

- Euromoney named Garanti Masters Private Banking the "Best Local Private Bank" operating in the private banking segment in Turkey for the second consecutive year. (2009-2010)
- In recognition of its exceptional finesse in facilitating loans amounting to US\$ 1 billion regarding Eren Energy - 1,360 MW coal fired power plant and MMK Atakaş 2.3 million tons flat steel facility projects, Garanti was awarded with the "Europe Power Deal of the Year - 2009" and the "Europe Metals Deal of The Year-2009" titles by the Euromoney Project Finance Magazine.
- Swedish communication consultancy Hallvarsson & Halvarsson announced the results of its annual survey of corporate websites where Garanti's corporate website was ranked 2<sup>nd</sup> among 17 firms in Turkey. Rankings are based on survey conducted among more than 350 European investors, analysts and journalists answering questions about the information and function they expect to find on a corporate website.

(1) Unique log-in calculated including Card pin

\* Includes shared POS

\*\* Active customers only -- min.1 login or call per quarter

\* BRSA weekly data - Commercial Banks

## Developments at Garanti

Following the sovereign rating upgrade, S&P, Moody's and JCR upgraded Garanti's credit ratings by one notch. Moody's and S&P upgraded Garanti's long-term FC rating to "Ba3" and "BB", respectively. JCR moved Garanti to investment grade level with long- and short-term FC ratings of "BBB-" and "A-3". Garanti's ratings continue to represent the highest ratings assessed for Turkish Banks.

Garanti participated as a Mandated Lead Arranger with US\$ 206 million ticket to a US\$ 750 million long term project finance facility for 513 MW Boyabat Hydroelectric Power Plant project. Sponsored by Doğan, Doğuş and UNIT Group, the project will be realized with an estimated total cost of US\$ 1,214 million by the end of 2012. The project is considered as the largest privately financed hydroelectric power plant in Turkey.

Being a strong promoter of sustainable development, Garanti continued its support to renewable energy projects by providing a long term project finance facility of € 45 million to the Demirer Group sponsored Çataltepe and Kuyucak wind farms with a total installed capacity of 41.6 MW.

With this 17th wind farm project financed by Garanti, the bank continues its leading role in wind farm financing in Turkey.

In February, acting as an MLA and the Facility Agent, Garanti participated in the Antalya Terracity Shopping Mall development project sponsored by Eriapartners Gayrimenkul Yatırım A.Ş. by providing 50% of the € 75 million facility.

Garanti acted as an MLA in the 3-year US\$ 360 million club-loan arranged for Coca-Cola İçecek A.Ş. by a group of local and international banks.

In March, Garanti provided US\$ 185 million, 7 year financing to Marport Liman İşletmeleri A.Ş.. Marport, jointly owned by Arkas Holding and MSC, is the biggest container port in Turkey with 1.8 million TEU capacity and is operated by Arkas holding. The state of the art technology and traditional focus in cash management at Garanti once again pays off. With a proved ability to offer tailored solutions rather than standard products to its customers, Garanti became the sole partner of Renault Trucks Turkey in dealer financing. The enabled and fully integrated treasury solution not only gives RTT dealers the opportunity

to reach better funding conditions and an all electronic end-to-end business platform, but also helps RTT better manage and control its valuable dealer network.

Garanti Masters continued its pioneering product offerings with a USD deposit product linked to emerging countries' currency basket. This new product attracted a record number of customers and reached a total participation of more than US\$ 20mn.

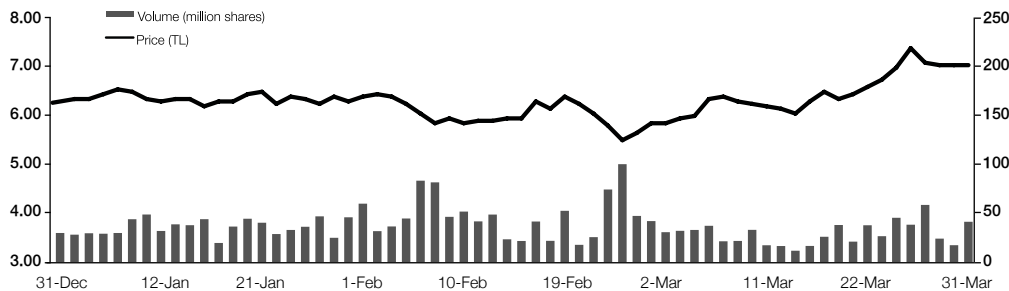
In its efforts to enhance product variety in mutual funds, Garanti launched four different 100% Capital Protected Funds.

Garanti added a new service to its Mobile Bank along with its Video IVR technology allowing customers to talk to a licensed investment agent "Video Agent" via Garanti Mobile Branch and execute their transactions at the Turkish Derivative and Istanbul Stock Exchanges easily.

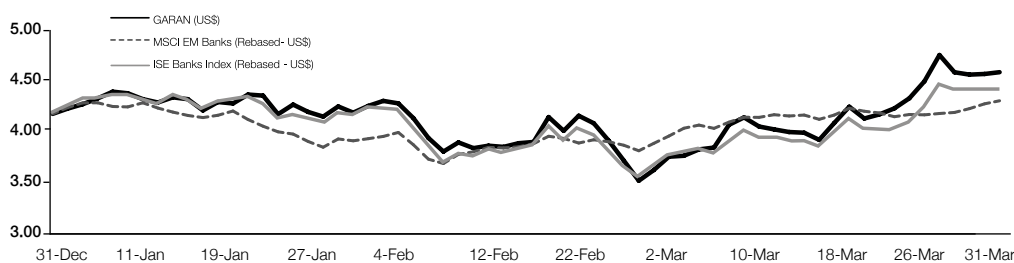
Garanti launched e-Trader and i-Phone Trader applications for brokerage customers. E-Trader is designed as a brokerage platform embedded in Garanti Internet Branch offering customers easy and rapid trade execution. After its launch, in only one month, 25% of Garanti's online transactions in the ISE and TURKDEX were executed through e-Trader application. I-Phone trader application is the first mobile trading application provided by a bank in Turkey and won the 1st place in Apple Store Turkey in Finance category. More than 10,000 people downloaded this application within a month.

In February, Garanti launched a new Youth Banking Program, "Extragenc", targeting consumers between the ages of 15 and 23. Extragenc offers the most convenient and applicable financial solutions to this segment via customized banking products and services. Extragenc debit and credit cards, enriched with a pay-pass chip and a selection of card designs, are two most featured products of the program. Program also continuously extends unique offers to its target customers in partnership with top brands from various sectors. Extragenc website, [www.extragenc.com.tr](http://www.extragenc.com.tr), is the main interaction channel for the program and keeps its members updated on any recent developments and offers.

### Garanti Bank Stock Performance in 1Q 2010



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



## Developments in Turkish Banking Sector

Turkish banks received a total amount of US\$ 2.1 billion syndicated loans in 1Q10. Akbank and Vakıfbank secured US\$ 1.2 billion and US\$ 925 mn equivalent syndication loans, respectively at a cost of LIBOR/EURIBOR + 150 bps.

In 1Q10, several Turkish banks sold non-performing loan portfolios amounting to over TL 1 billion. Girişim Varlık Yönetimi has purchased TL 326 million of Akbank's non-performing loans' (NPL) portfolio for TL 38.5 million and TL 30.4 million of Fortis Bank's NPL portfolio for TL 1.7 million.

Denizbank sold TL 50.2 million non-performing loans of its credit card and retail loans portfolio to Standard Varlık Yönetimi for TL 4.9 million. YKB sold NPL portfolios of credit cards, SME loans and retail loans amounting to a total of TL 681 million for TL 70.05 million.

Moody's, JCR and S&P upgraded several Turkish Financial Institutions' credit ratings following the sovereign rating upgrades.

CBT announced the second quarter 2010 interest rate cap and overdue interest rate on credit cards and lowered them by 11bps to 2.80% and 3.55% per month, respectively.

BRSA announced an optional temporary relief for banks, with CAR above 16%, not to set aside general provisions on new loans other than credit cards, until March 2011.

BRSA announced that deposit and participation banks are not allowed to issue corporate bonds in its response to Finansbank's application mentioning potential risks have not been analyzed yet.

BRSA increased the minimum paid-in-capital requirement to open a bank or a branch in Turkey to TL500 million from TL30 million.

According to BRSA's new regulation, liabilities of foreign branches (including syndication loans raised by foreign branches) are to be included in the reserve requirement calculations as of early January 2010 .

### Selected Sector Figures

(TLmn)	26-Dec-08	31-Dec-09	26-Mar-10	YTD Chg (%)
<b>Total Deposits</b>	<b>445,438</b>	<b>504,776</b>	<b>520,899</b>	<b>3.2%</b>
Bank Deposits	12,045	16,989	16,098	-5.2%
Customer Deposits	433,393	487,788	504,801	3.5%
TL Deposits	282,872	324,548	343,432	5.8%
FC Deposits (US\$m)	101,630	109,768	106,400	-3.1%
info: Customer Demand Deposits	58,870	74,955	73,240	-2.3%
<b>Total Loans</b>	<b>353,118</b>	<b>373,294</b>	<b>391,531</b>	<b>4.9%</b>
Loans / Deposits	79.3%	74.0%	75.2%	
TL Loans	247,669	268,319	279,143	4.0%
FC Loans (US\$m)	71,349	70,648	74,228	5.1%
Consumer Loans	81,413	90,813	96,107	5.8%
Housing	37,658	42,643	45,179	5.9%
Vehicle	5,397	4,215	3,990	-5.3%
Personal Finance	33,195	38,379	40,376	5.2%
Other	5,163	5,576	6,564	17.7%
Credit Cards	33,461	36,682	36,443	-0.7%
<b>Gross NPL</b>	<b>12,338</b>	<b>20,404</b>	<b>20,338</b>	<b>-0.3%</b>
info: NPL ratio	3.4%	5.2%	4.9%	
info: NPL coverage	80.8%	84.5%	85.2%	
Gross NPL in cons. loans	1,838	3,945	3,799	-3.7%
info: NPL ratio	2.2%	4.2%	3.8%	
Gross NPL in credit cards	2,386	4,222	4,201	-0.5%
info: NPL ratio	6.7%	10.3%	10.3%	
<b>F/X Position, net (US\$m)</b>	<b>-91</b>	<b>376</b>	<b>-491</b>	
on B/S	-4,129	-12,736	-11,211	
off B/S	4,038	13,111	10,720	

Source: BRSA weekly sector data, excluding participation banks

The government introduced annual fees per branch. The fee per branch in areas with less than 5,000 population will be TL 12,000. For the branches in other areas, the fee will be TL 24,000.

The government initiated the initial public offering process of state-owned Ziraat Bank yet the timing of the initial public offering will depend on the market conditions.

Millennium BCP announced the sale of its 95% stake in Millennium Bank Turkey to Credit Europe

Bank for EUR 62 mn. Credit Europe Bank is owned by Husnu Ozyegin, the ex-owner of Finansbank. Finansbank was sold to National Bank of Greece four years ago for US\$ 2.8 billion.

The process of paid in capital increase of Isbank from TL 3,079 million to TL 4,500 million has been completed.

## Market Recap

2010 started with Turkey's sovereign rating upgrades. The resilience of the Turkish economy and the strength of its banking system were confirmed by the credit rating agencies and Turkey is finally approaching the investment grade. The rating upgrades reduced the government's need for external policy anchors in the form of an IMF program, especially as the 2011 elections draw closer and fiscal performance improves. In 1Q10, as global growth indicators signaled optimism, Turkey's 4Q09 GDP growth numbers surpassed expectations while the rise in core inflation triggered concerns.

ISE 100 started 2010 at 52,825 and traded in a narrow band during January. Starting from February on, global sentiment deteriorated as concerns on the sustainability of Greek debt have mounted with the lack a framework for medium-term fiscal adjustment. Investors risk aversion increased with rising sovereign risk, currently in the Eurozone but likely to extend over time in other advanced economies. Excessively higher oil and commodity prices were also a threat for liquidity chasing assets. Turkey remained relatively immune to Greece-related market sell-off, but could not escape from domestic political scene heating up, as rumors of a new AKP court case intensified. ISE 100 hit 48,080, low of 1Q10 on February 25th. With the help of global recovery starting to spread and the improvement in fiscal performance suggesting that domestic debt rollover ratio could fall from around 100% to around 90% levels in the coming months, ISE 100 started to bounce back. On March 10, the Turkish government

announced that it has decided not to have a standby arrangement with the IMF. The IMF stated that "the recovery underway in the global economy and in global financial markets - together with the economic policies being implemented by the Turkish authorities in the context of their Medium Term Program - have strengthened Turkey's economic outlook. 4Q09GDP, that came in on the strong side, at 6.0%, supported the uptrend in the Istanbul Stock Exchange and ISE 100 closed 1Q10 at 56,538, up 7% year-to-date.

Turkish equity market, after its strong outperformance in 2009, started 2010 with subdued relative performance. MSCI Turkey outperformed MSCI EM by 2% and underperformed MSCI EMEA by 2% in 1Q10. Central Bank of Turkey kept interest rates unchanged at 6.50%. The benchmark bond rates remained flattish q-o-q, but fluctuated between 8.4% and 9.3%. TL appreciated by 6% due to sharp rise in inflation.

On April 14th, the CBRT announced its exit strategy which showed that the Bank was planning a very gradual approach in reversing the liquidity measures introduced during the global crisis. In the announcement by the end of 1Q10, G-20 warned that the global economic recovery remained fragile, and called for redoubled cooperation. G-20 remained firm in its commitment to develop stronger international rules on capital and liquidity by the end of this year. As soon as financial conditions improve and economies recover, the implementation is aimed

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

	Y-o-Y	YTD	Q-o-Q
Brazil	97%	-1%	-1%
China	54%	-2%	-2%
Hungary	175%	13%	13%
India	114%	5%	5%
Mexico	92%	8%	8%
Poland	109%	4%	4%
Russia	103%	7%	7%
<b>Turkey</b>	<b>129%</b>	<b>4%</b>	<b>4%</b>
EM	77%	2%	2%
EMEA	82%	6%	6%
Eastern Europe	103%	6%	6%
Latin America	92%	1%	1%

\* Based on MSCI's Emerging Markets Indices, as of March 31, 2010

by each country for the end of 2012. All major financial centers must also have adopted the Basel II framework by 2011.

The agenda of 2Q10 is expected to be heavily dominated with global developments. The Euro that lost value dropping to 1.35 at the end of first quarter from 1.43 at the end of 2009 will continue to be under pressure. While the amount of financial assistance that Greece requires to escape its debt crisis and avoid default will move upwards on global agenda, the concerns that it is unlikely to be the last euro nation to need a bailout will increase, with rising tension on Ireland, Spain and Portugal.

### Stock Market Indicators (March 31, 2010)

	Market Capitalizations (US\$m)	Daily Turnover (US\$m)	Stock Performance (in US\$)			Relative Performance to ISE-100		
	Close	Average	Y-o-Y	YTD	Q-o-Q	Y-o-Y	YTD	Q-o-Q
Akbank	19,304	34.4	125%	3.6%	3.6%	-6.8%	-1.4%	-1.4%
Halkbank	9,028	32.7	243%	-9.3%	-9.3%	42.4%	-13.6%	-13.6%
İş Bankası	14,080	88.3	137%	10.8%	10.8%	-1.6%	5.5%	5.5%
Vakıfbank	6,664	44.5	254%	-6.5%	-6.5%	46.8%	-11.0%	-11.0%
YKB	11,017	46.4	148%	15.5%	15.5%	2.9%	10.0%	10.0%
<b>GARANTI</b>	<b>19,580</b>	<b>154.8</b>	<b>235%</b>	<b>9.7%</b>	<b>9.7%</b>	<b>38.8%</b>	<b>4.5%</b>	<b>4.5%</b>
<b>ISE Banks Index</b>	<b>102,821</b>	<b>467.8</b>	<b>170%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>11.8%</b>	<b>0.4%</b>	<b>0.4%</b>
<b>ISE -100</b>	<b>212,383</b>	<b>1,444.3</b>	<b>141%</b>	<b>5.0%</b>	<b>5.0%</b>			

Average figures are valid for 2010 -- US\$/TL: 1.523 CBRT ask