

# StockWatch 2Q 2010



## Did you know?

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Garanti sponsors **the first housing index** in Turkey, announcing the rent and sales price changes in major cities, from its website at [garanti.com.tr/en/personal\\_banking/mortgage.page](http://garanti.com.tr/en/personal_banking/mortgage.page)

Garanti's corporate website [garanti.com.tr](http://garanti.com.tr) is the most visited bank site in Turkey. The site gets more than 15 million hits per month.

Garanti participated in the **Carbon Disclosure Project** (CDP) and calculated the total greenhouse gas emissions from its 2009 business activities. CDP is a global effort to drive corporate action on climate change and works with 3,000 of the world's largest corporations and 475 institutional investors with \$55 trillion under management. Through this effort, Garanti was able to identify risks and capture

opportunities associated with sustainability more clearly. Of Garanti's total emissions, approx. 64% was from branches and the rest was from Garanti's office buildings and fleet of cars. ■

## Garanti for Society / Community Relations

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In its organized effort to help SMEs network and support their activities, Garanti co-organized **Garanti Anatolia Meetings** with the Chambers Of Commerce and Industry of 3 Anatolian cities (Antalya, Tokat and Kastamonu) reaching 1200 attendants year-to-date.

Garanti sponsored the basketball talent competition "**NBA Skills Challenge**" for the third time. Out of 30 young athletes participated in the Istanbul Camp,

4 were granted the privilege of attending the NBA training camp in the USA.

Garanti launched the eKampus portal to ensure the sustainability of the "**No Limits in Teaching**" project that is executed in cooperation with the National Ministry of Education. The portal aims to bring together up to 10,000 school teachers in a virtual online forum.

In order to promote SME activities and encourage women entrepreneurs, Garanti organized the fourth annual "**Turkey's Women Entrepreneurs Competition**". ■

*Our efforts in Corporate Social Responsibility got recognized internationally, please see 'Developments at Garanti' section for details.*

## What analysts say about Garanti

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**Ak Investment:** "Garanti managed to maintain its high income generation skill, thanks to its active management of asset mix and efficient risk control mechanism."

**Ata Invest:** "One of the best positioned banks in 2010."

**BGC:** "The irresistible. ...one of the highest growth potential banks in the sector, thanks to its improved loan/deposit, comfortable CAR (20.6%), innovative product line, and large and efficient distribution network."

**Cheuvreux:** "...will be the clear winner of the upcoming leveraging cycle, which is yet to be priced in by investors."

**Citigroup:** "Strong ordinary banking income generation, resilient topline and improving asset quality should continue to underpin the investment thesis in coming quarters."

**Deutsche:** "...our top pick in our banking coverage universe staged an impressive performance."

**Eczacıbaşı:** "Credit quality performance was superior."

**EFG:** "...sustaining its solid operating performance in 2010 as well. NPL performance is by far the best in the market. Collections/New NPLs is the best in the sector - the highest level ever reported by Garanti."

**Erste Group:** "...offering best-in-class services to its clientele."

**Finans Invest:** "Sound Asset Liability Management complements field performance."

**HSBC:** "Fundamentally poised for strong and profitable growth."

**İş Investment:** "...proved the strength of its franchise in consumer banking... utilizing its ability to cross sell and pricing power."

**JP Morgan:** "Quality franchise, best execution and supportive business mix. Garanti remains one of the most profitable CEE banks, with strong capital levels."

**Morgan Stanley:** "...the most highly geared bank to the strong consumer rebound in Turkey. A strong underwriting culture, particularly in retail portfolios, and intense focus on funding costs should allow Garanti to continue gaining market share and deliver above-sector ROEs."

**Merrill Lynch:** "After continuously gaining market share over the past three years, Garanti has become the number one lender in Turkey. The bank delivered one of the highest ROE in our universe in 2009."

**Nomura:** "...significant improvement in NPL performance in 2010."

**Oyak Securities:** "It is a lending machine..."

**TEB:** "... has been a pioneer in positioning for higher rates with increased exposure to floaters and CPI linkers."

**UBS:** "Volume growth was impressive, in typical Garanti fashion."

## Macro Notes

Global economic growth rates reached high levels in the first quarter of 2010, however early indicators for the second quarter pointed out that growth has begun to lose momentum, especially in advanced economies. The concern that sovereign debt crisis, which began in some small European economies, might be an immanent risk for big economies, such as Italy, France deepened the depreciation of Euro against Dollar in the second quarter. Euro/Dollar parity declined to 1.22 at the end of 2Q10 from 1.35 at the end of 1Q10. While TL depreciated by 3.5% against Dollar, it appreciated by 6.4% against Euro and 2.2% against currency basket in the same period. In real terms, TL appreciated by 2.8% against the currency basket on unit labor cost basis and 1.4% on CPI basis during the second quarter. After rising to 9.92% at the beginning of May, benchmark bond yield fell to 8.8% at the end of June due to easing CPI inflation.

Post a GDP contraction of 4.7% in 2009, Turkish economy grew by 11.7% in 1Q10 (year-on-year basis). Although gross figures indicated a vigorous growth rate among G-20 economies, excluding

China, which grew by 11.9% on year-on-year (y/y) basis, seasonally-adjusted quarter-on-quarter terms, the growth rate was just 0.1% in the first quarter. Similar to the 4Q09 figures, domestic demand was the main driver of strong growth rate in the 1Q10, whereas foreign demand limited the GDP growth rate. While private consumption grew by 9.9% on y/y basis, public expenditures rose just by 1% in the same period. On the positive side, private investments grew by 22%, after having contracted during the previous seven quarters.

Early indicators for the second quarter of this year have been suggesting that recovery in economic activity is going a bit slower in 2Q10 compared to 1Q10. Production and imports data indicated that private consumption continued to recover moderately during the second quarter. Annual growth rate of overall industrial production fell to 17% in April from 21% in March and import growth rate began to slowdown as of May. On the other hand, uncertainty in foreign demand has been increasing. Total exports still grew strongly in April and May compared to 1Q10, whereas exports to European economies decelerated considerably.

After rising to 10.2% in April from 9.6% at the end of 1Q10, the fall in annual CPI inflation began in May and continued in June. As CPI decreased by 0.6% on month-on-month basis in June, annual inflation dropped to 8.4% from 9.1%. In addition to sharp falls in food prices, easing service sector prices were the main factors of underlying the disinflationary trend. In this context, core indicators continued to be consistent with medium-term targets.

While CBT decided to keep overnight rates unchanged at 6.50%, it made a technical rate adjustment by setting the one week repo auction rate at 7% in the middle of 2Q10. In this respect, the one week repo rate became new policy rate. The market liquidity conditions have evolved during the second quarter as envisaged in CBT's exit strategy which released in April. The latest data confirmed that it may be necessary to maintain policy rates at current levels for some time and to keep them at low levels for a long time. ■

## Developments at Garanti

Garanti With Numbers	Mar-10	Jun-10	Garanti Market Shares*	YTD Δ	Jun-10
Branch Network	795	812	Total Cash Loans	▼	13.6%
+ Domestic	786	803	TL Loans	▲	11.1%
+ Abroad	9	9	FC Loans	▼	20.0%
Personnel	17,245	17,262	Credit Cards - Issuing (Cumulative)	▼	20.5%
ATM	2,790	2,862	Credit Cards - Acquiring (Cumulative)	▼	21.7%
POS*	358,586	376,128	Consumer Loans	▲	11.2%
Total Customers	9,140,482	9,344,535	Total Deposits	◀▶	12.4%
Internet Customers**	1,568,015	1,582,517	Demand Deposits	▲	15.4%
Phone Banking Customers**	1,370,891	1,367,303	TL Deposits	▼	10.6%
Credit Cards	7,868,839	8,106,214	FC Deposits	▲	16.1%
Debit Cards	5,407,815	5,448,059	Mutual Funds	▲	15.6%

\* Includes shared POS

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

\* BRSA weekly data - Commercial Banks

In May, Garanti signed a € 700 million 1-year syndicated loan, comprising of two separate tranches in the amount of US\$ 116.9 million and € 617.1 million. The loan which will be used for trade finance purposes has been executed with commitments received from 41 banks out of 17 countries. The all-in cost has been realized as Libor/Euribor + 150bps.

Garanti and the European Bank for Reconstruction and Development (EBRD) signed a credit agreement for a US\$ 60 million loan with two tranches funded by EBRD and the Clean Technology Fund (of IBRD-the World Bank). The loan will be utilized for the financing of energy efficiency needs of small sized enterprises.

In an effort to be more user friendly, Garanti corporate website is renewed to provide online application tools for a wide range of products as well as enhanced service information.



## Developments in Turkish Banking Sector

Turkish banks received a total amount of US\$ 3.9 billion\* equivalent international borrowing in 2Q10. From which, the total of US\$ 3.2 billion equivalent amount was secured as syndicated loan while the total of US\$ 0.7 billion equivalent amount was received from multilateral development banks (36% EBRD, 35% EIB, 11% IFC, 18% other).

S&P revised Turkey's Banking Industry Country Risk Assessment (BICRA) to Group 6 from Group 7, on moderate improvement in economic stability. The scale ranges from Group 1 (the strongest) to Group 10 (the weakest). Banking systems in the same BICRA group as Turkey include, among others, China, India, Thailand, and Peru.

Minister of Economy stated that the government does not intend to issue new banking licenses in 2010. New applicants need to have at least US\$ 300 million in equity to acquire a banking license.

CBT raised the FX reserve requirement ratio to 9.5% from 9%, while keeping local currency reserve requirement ratio at 5%, effective as of April 30.

CBT lowered the third quarter 2010 interest rate on credit cards by 36 bps to 3.19% per month and overdue interest rate cap by 11 bps to 2.69%.

YKB sold its NPL portfolios of corporate and commercial loans amounting to a total of TL 299 million for TL 7.5 million, to LBT Varlık Yönetimi.

Akbank received approval from the Capital Markets Board of Turkey to issue a USD denominated bond outside Turkey with a five-year term and a principal amount of up to US\$ 1.0 billion.

The process of paid in capital increase of Akbank from TL 3,000 million to TL 4,000 million has been completed.

### Selected Sector Figures

(TLmn)	31-Dec-09	26-Mar-10	25-Jun-10	YTD Chg (%)
<b>Total Deposits</b>	<b>504,776</b>	<b>520,899</b>	<b>547,257</b>	<b>8.4%</b>
Bank Deposits	16,989	16,098	19,296	13.6%
Customer Deposits	487,788	504,801	527,960	8.2%
TL Deposits	324,548	343,432	366,895	13.0%
FC Deposits (US\$m)	109,768	106,400	103,410	-5.8%
info: Customer Demand Deposits	74,955	73,240	75,128	0.2%
<b>Total Loans</b>	<b>373,294</b>	<b>391,531</b>	<b>424,139</b>	<b>13.6%</b>
Loans / Deposits	74.0%	75.2%	77.5%	
TL Loans	268,319	279,143	302,784	12.8%
FC Loans (US\$m)	70,648	74,228	78,034	10.5%
Consumer Loans	90,813	96,107	105,141	15.8%
Housing	42,643	45,179	48,992	14.9%
Vehicle	4,215	3,990	4,146	-1.6%
Personal Finance	38,379	40,376	44,956	17.1%
Other	5,576	6,564	7,049	26.4%
Credit Cards	36,682	36,443	39,306	7.2%
<b>Gross NPL</b>	<b>20,404</b>	<b>20,338</b>	<b>19,923</b>	<b>-2.4%</b>
info: NPL ratio	5.2%	4.9%	4.5%	
info: NPL coverage	84.5%	85.2%	85.4%	
Gross NPL in cons. loans	3,945	3,799	3,730	-5.4%
info: NPL ratio	4.2%	3.8%	3.4%	
Gross NPL in credit cards	4,222	4,201	3,997	-5.3%
info: NPL ratio	10.3%	10.3%	9.2%	
<b>F/X Position, net (US\$m)</b>	<b>376</b>	<b>-491</b>	<b>623</b>	
on B/S	-12,736	-11,211	-10,999	
off B/S	13,111	10,720	11,622	

Source: BRSA weekly sector data, excluding participation banks

TEB and Fortis announced their merger under TEB after BRSA approval. BNP Paribas and the Colakoglu Group, the indirect majority shareholders in TEB, will equally hold a total of 84.25% of the bank.

BTA Securities and Samruk Kazyna (National Welfare Fund of Kazakhstan) signed shares trust

management agreement for Şekerbank shares. With this agreement, BTA Securities placed 169.9 million Şekerbank shares into trust management of National Welfare Fund. ■

\*Calculation based on publicly-traded banks

## Market Recap

The problems around the globe are; too much debt, too much government spending, and a massively unbalanced economy. Turkey continues to enjoy relatively low debt ratios and budget deficits, as the country already experienced a similar crisis back in the beginning of 2000s and learned a very harsh, but useful lesson. Additionally, Turkey is to enact a fiscal rule to improve its already better-positioned debt dynamics and fiscal balances.

In 2Q10, at the end of April, as fears mounted over the Greek debt panic spreading to other Eurozone countries, global market sentiment turned negative. Then the European Central Bank (ECB) and the IMF announced that the 16 euro nations will offer financial assistance worth as much as € 750 billion. To stop the rumors that are adversely affecting banks' funding conditions, EU leaders announced that they will publish bank-by-bank stress test results, as the U.S. did one year ago. On the other hand, there is an ongoing debate among global policy makers on when and how fast to exit from the strong monetary and fiscal stimulus. If policy makers take away the monetary and fiscal stimulus too soon—when the recovery of private demand is still tentative—there are talks of a risk of falling back into recession and deflation.

ISE100 started 2Q10 at 56,538. It was only at the beginning of 2Q10 on April 15<sup>th</sup>, that ISE100 hit quarter high 59,772 with the supporting signs of

recovery. Regarding the downside, the deterioration of fiscal crisis in the Euro Area, and the failure of AKP and CHP not being able to reach consensus on the constitutional amendment package led the equity market to drop to quarter low of 51,757 on May 25<sup>th</sup>. Towards the end of the quarter, the slower recovery in global economic activity started to be factored into the expectations and the downtrend in global equities stabilized. China commented that it intends to return to a gradual appreciation policy in renminbi. In the G20 summit, officials agreed that fiscal consolidation should be tailored to national circumstances in order not to derail the recovery under way. In the local markets, Turkish Central Bank signaled that rates may remain on hold until 2010 year end as inflation dynamics improve and global growth momentum fades. The political tension created by the constitutional amendment package and early election risk were eliminated as the Constitutional Court approved the key elements of the package. ISE100 bounced back from the low 51,000 levels and closed 2Q10 at 54,839, down 3% q-o-q. In 2Q10, MSCI Turkey outperformed MSCI EM and MSCI EMEA by 3% and 10%, respectively. Looking at the performance ytd, Turkey again outperformed EM and EMEA by 5% and 7%, respectively.

In 3Q10, markets will question the pace of recovery in the global economy; there are clear dangers and policy challenges ahead. How Europe deals with fiscal and financial problems, how advanced

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

	Y-o-Y	YTD	Q-o-Q
Brazil	19%	-16%	-16%
China	9%	-8%	-6%
Hungary	14%	-22%	-31%
India	30%	2%	-3%
Mexico	29%	-3%	-9%
Poland	19%	-19%	-23%
Russia	24%	-11%	-17%
<b>Turkey</b>	<b>40%</b>	<b>-3%</b>	<b>-6%</b>
EM	21%	-7%	-9%
EMEA	18%	-9%	-14%
EM Banks	27%	-6%	-9%
Eastern Europe	21%	-13%	-19%
Latin America	22%	-12%	-13%

\*Based on MSCI's Emerging Markets Indices, as of June 30, 2010

countries proceed with fiscal consolidation, and how emerging countries rebalance their economies, will determine the outcome. Overall, the liquidity created by the ongoing accommodative monetary policies around the world – lower rates for longer – has to go somewhere. Given sound fundamentals and, in particular, strong economic growth, one obvious candidate to attract such liquidity over time is the emerging markets. Once the fear of current 'double-dip' is over, emerging markets should be the clear beneficiary of these flows. ■

### Stock Market Indicators (June 30, 2010)

	Market Capitalizations (US\$m)*	Daily Turnover (US\$m)	Stock Performance (in US\$)			Stock Performance (Relative to ISE-100)		
	Close	Average	Y-o-Y	YTD	Q-o-Q	Y-o-Y	YTD	Q-o-Q
Akbank	19,351	33.4	45.8%	3.9%	0.2%	1.4%	5.9%	7.3%
Halkbank	9,328	30.9	91.8%	-4.1%	5.7%	33.4%	-2.2%	13.2%
İş Bankası	14,087	86.3	57.7%	10.9%	0.0%	9.7%	13.0%	7.1%
Vakıfbank	5,755	49.9	53.5%	-18.1%	-12.4%	6.8%	-16.5%	-6.2%
YKB	11,876	48.2	83.6%	24.5%	7.8%	27.7%	26.9%	15.4%
<b>GARANTI</b>	<b>17,663</b>	<b>147.1</b>	<b>57.7%</b>	<b>0.0%</b>	<b>-8.8%</b>	<b>9.7%</b>	<b>2.0%</b>	<b>-2.4%</b>
<b>Banking Sector</b>	<b>97,517</b>	<b>453.7</b>	<b>54.0%</b>	<b>0.5%</b>	<b>-4.7%</b>	<b>7.1%</b>	<b>2.4%</b>	<b>2.0%</b>
<b>ISE -100</b>	<b>200,370</b>	<b>1,328.3</b>	<b>43.8%</b>	<b>-1.9%</b>	<b>-6.6%</b>			

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

\*US\$/TL: 1.5813 CBRT ask as of June 30, 2010

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