

StockWatch

4Q 2010



Did you know?

Sponsored by Garanti, the 'REIDIN' Turkey Residential Property Price Indices' Turkey Composite Index points out 0.4% MoM increase and 2.6% YoY increase in residential sales prices, however still well-below pre-crisis levels. Turkey Composite Index is a weighted average of 7 major cities' indices, including Istanbul, Izmir, Ankara, Adana, Antalya, Bursa and Kocaeli.

Garanti continued its **support to SMEs** via KOSGEB (Small and Medium Sized Industry Development Organization), the state subsidy loan programme applications, and ranked **#1** with

a market share of 53.5% among 19 participant banks in 2010.

- As Turkey's largest, Bonus Card Platform, expanded its coverage to 9 banks with the inclusion of Alternatifbank. Other banks in the Bonus network include Eurobank Tefen, Türkiye Finans Katılım Bankası, ING Bank, TEB, Sekerbank, Denizbank, and Garanti Bank SA (Romania)
- Earlier in 2010, Garanti submitted its greenhouse gas emissions and its emerging plans to reduce this "carbon footprint" to the Carbon Disclosure Project. Garanti was one of only a handful of Turkish companies to participate in this effort.

Garanti's key findings are as follows:

- Total emission for 2009 was 47,781 metric tons of CO₂ equivalents
- Electricity consumption accounted for 79% of total emissions
- Bank branches accounted for 67% of the total electricity consumption
- Vehicle fuel was 16% of the total
- Employee airline travel accounted for 3% of the total
- 0.61 gr. carbon per every US\$ of assets
- 2.84 tons carbon per employee ■

Garanti for Society / Community Relations

Under the leadership of a board member, Garanti established its **Environment Committee**. The Committee manages the work conducted regarding the assessment of risks arising from the direct impact of Bank's operations on energy consumption with its Sustainability Sub-committee in one fold. And in the other fold, with its Environmental Impact Assessment Sub-committee, the Committee deploys the necessary steps in order to assess and to develop an environmental impact assessment system.

Garanti is organizing "**Turkey's 5th Annual Woman Entrepreneur Competition**" in collaboration with

Ekonomist magazine and the Women Entrepreneurs Association of Turkey. This year the prize will not only be given in "Turkey's Woman Entrepreneur" category but also in "Turkey's Promising Woman Entrepreneur" and "Turkey's Local Woman Entrepreneur" categories. Women entrepreneurs living in Turkey and managing companies with an annual turnover up to TL 25 million, can apply for the competition and/or be nominated.

Sponsoring **Garanti Jazz Green Concerts** series for the last 14 years, Garanti Bank is one of the

strongest supporters of jazz music in Turkey. In 2010, Garanti sponsored 45 Garanti Jazz Green Concerts.

Sponsored by Garanti Bank and organized by the Turkish Basketball Federation, **the 12 Giant Men Basketball Schools' 7th Stars Fest** was held in Istanbul. The event involved 100 young basketball talents who were selected from 55 schools in Turkey and the Turkish Republic of Northern Cyprus. ■

What analysts say about Garanti

Autonomous: "...superior to peers in terms of balance sheet management and ability to price credit risk..."

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

Cheuvreux: "Loan growth, demonstrating Garanti's ability and strength in gaining market share..."

Citi: "...is the best in class revenue and cost efficiency."

Credit Suisse: "...continues to be an attractive Turkish asset owing to its strong franchise and management..."

Deutsche: "... with its leading position in retail banking and strong fee revenue generation power, we believe Garanti will likely be one of the prime beneficiaries of the upcoming trends in the Turkish banking sector."

Eczacibasi: "Asset quality remained intact..."

EFG: "...growth has exceeded that of the market on all fronts."

Erste: "The efforts to increase the efficiency is expected to diminish the marginal opex."

Finans Invest: "...appears as a bank more able to defend its RoAE in 2011 under our worst case scenario..."

Goldman Sachs: "...most experienced retail lender in Turkey."

İş Invest: "...on the fast lane in lending."

Morgan Stanley: "...stands out as it has the highest proportion of primary relationships, and the best platform for future growth and cross-sell."

UBS: "...management has a proven track record of focusing on the profitability of asset and liability components, which may make the bank better able to deal with the uncertain NIM environment."

Macro Notes

GDP grew by 5.5% in 3Q10 below the 6.0% expectations. There was an 11.8% and 10.2% growth in 1Q10 and 2Q10, respectively. In 3Q, seasonally adjusted GDP growth was 1.1% while it was 3.5% in 2Q10. Private consumption and investment rose by 7.6% and 31.3% respectively with an acceleration while foreign demand lowered the GDP by 4.6% in this quarter.

Despite the expectations of a slowdown, in Oct'10-Nov'10 period, industrial production rose by 9.5% compared to 9.9% in 3Q10. Sectoral details also point to a continued rise in domestic demand: automotive sales had a record high level in Dec'10; electricity consumption reached pre-crisis level through the end of the year. Despite the slight fall on a seasonally adjusted basis, white goods domestic sales also increased.

However, the sharp divergence between domestic and foreign demand continued, in the last quarter of the year. In Dec'10 export/import coverage ratio was 57.8%. Exports increased by 18.1% and reached US\$ 11.8 billion while imports increased by 36.8% and reached US\$

20.6 billion in December. For the whole year 2010, exports reached US\$ 113.9 billion with a 11.5% increase and imports reached US\$ 185.5 billion with a 32% increase.

As a result of the acceleration in imports, there was a sharp increase in CAD, which reached US\$ 44.9 billion on a 12-month cumulative basis at the end of 2010. There has been a continuous increase in deficit since Nov'09. Hot money had a 95% share in the financing of the deficit.

At the end of the 2010, consumer price inflation was below the year-end target with the sharp decline in food prices. Consumer prices fell by 0.3% MoM in Dec'10, sharply below the 0.25% rise expectations. Thus, annual inflation fell to 6.4% from 7.3%. Unprocessed and processed food price inflation fell to 8.3% and 5.8% respectively in Dec'10 from 17.9% and 6.9% in Nov'10 on a YoY basis. Total food prices fell to 7.2% from 12.9% during this period.

During December, TL weakened by 5.8% against US\$ and 1.9% against Euro. The depreciation

against the currency basket was 3.8%. Yet, TL appreciated by 4.3% against the basket during the whole-year 2010. In December, depreciation of TL was 4% in real terms, but throughout 2010, it appreciated by 8.2%. Appreciation is sharper against the advanced economies' currencies (10.3 %) compared to that of emerging markets (2.8%).

In Dec'10, CBRT unveiled the details of the monetary and foreign exchange policy document for 2011. The bank says that financial stability is a priority along with price stability and it underlines its readiness to take actions to preserve financial stability. In an effort to defer short-term capital inflows, the CBRT has cut policy interest rates. After a 50 basis points cut in Dec'10, the CBRT again cut the policy interest rates by 25 basis points to 6.25% in Jan'11. In an effort to control domestic demand, the Bank increased the Turkish Lira required reserve ratios at different maturities. ■

Developments at Garanti

Garanti With Numbers	Sep-10	Dec-10	Garanti Market Shares*	YTD Δ	Dec-10
Branch Network	838	863	Total Cash Loans	▼	13.4%
+ Domestic	828	853	FC Loans	▼	20.4%
+ Abroad	10	10	TL Loans	▼	10.7%
Personnel	17,029	16,675	Consumer Loans	▲	10.7%
ATM	2,941	3,003	Credit Cards - Issuing (Cumulative)	▼	20.1%
POS*	386,474	405,154	Credit Cards - Acquiring (Cumulative)	▼	21.4%
Total Customers	9,573,389	9,774,724	Total Deposits	▼	11.9%
Internet Customers**	1,631,198	1,669,703	TL Deposits	▼	10.3%
Telephone Banking Customers**	1,364,770	1,402,058	FC Deposits	▲	15.6%
Credit Cards	8,042,323	8,004,359	Demand Deposits	▼	13.0%
Debit Cards	5,663,433	6,174,141	Mutual Funds	▲	15.5%

* Includes shared POS

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

* BRSA weekly data - Commercial Banks

Obtaining the lowest cost in the Turkish syndicated loan market YTD, Garanti signed a 1-year syndicated loan equivalent of US\$ 1 billion to be used for trade finance purposes with commitments received from 49 banks in 18 countries.

Under its Diversified Payment Rights securitization program, Garanti secured a total of EUR 250 million financing. EIB and EBRD each provided EUR 75 million with 12-year maturity and West LB provided EUR 100 million with 5-year maturity. The issued notes received an 'A-' rating from Fitch, the highest stand-alone rating for a Turkish DPR issuance to date. This financing is; the second issuance from Garanti's DPR program in 2010; the largest issuance of new money from a Turkish DPR program in 2010; first EBRD-supported future flow transaction in the EMEA region; and the second time EIB has provided funding to Garanti Bank through the Garanti DPR Programme. Under the agreement that was previously signed,

Developments at Garanti

Garanti was granted an amount of EUR 50 million by EBRD under two tranches for the financing of SMEs. First tranche of EUR 20 million with 5 years maturity was financed by EBRD, and the second tranche of EUR 30 million with 1-year maturity was financed by Standard Chartered Bank.

As the first Integrated NFC Roll-Out for Mobile Payments Initiative in the World, Garanti Bank, MasterCard, Gemalto and Turkish mobile phone operator Avea joined forces to launch the world's first NFC (Near Field Communication) enabled SIM card "Bonuslu Avea" that converts existing mobile handsets to NFC via an N-flex SIM card. The SIM card will enable customers to use their mobile phone for MasterCard Tap&Go™ payments at over 35,000 PayPass merchant locations in Turkey and at 265,000 locations around the world. After its launch, "Bonuslu Avea" won the "Most Innovative Use of It" at the Banking Technology Awards 2010. In Turkey, the program is also used for public transportation and for access to sports stadiums.

Garanti, once again, became the first bank in Turkey offering Dynamic Currency Conversion services enabling foreign card holders to withdraw TL banknotes from ATMs in Turkey directly exchanged

by the transaction date. Thus the service allows the transactions to be pursued without being subject to any commission fees. Currently, the service is available for 21 currencies.

Following garanti.com.tr, Garanti ATMs also serve as Western Union agency. Western Union enables withdrawals and transfers to be performed without any time restrictions through ATMs.

Garanti, acting as an MLA and the Facility Agent, participated in the financing of an A-class office project sponsored by Soyak Group by providing 50% of the EUR 130 million facility.

Garanti continued supporting the privatization program by participating as MLA in the financing of Aksa Elektrik's acquisition of Firat Electricity Distribution Co.

As the market leader, Garanti solely financed approximately half of the wind farms currently operating in Turkey. Garanti closed the financing of Seyitali WEPP project providing EUR 30 million long term loan.

An extended version of 'Cep Şifrematik' is introduced to increase the number and frequency of Mobile

Banking usage amongst iPhone users. The brand new iPhone 'Cep Şifrematik' application is a mobile security software that generates single use PIN codes for enabling access to financial services through electronic channels. The application also allows cardless money withdrawal from ATM's and provides a shortcut to the Mobile Banking.

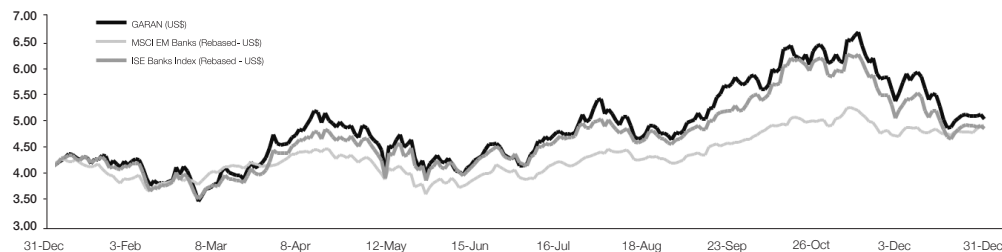
Garanti's achievements further recognized on international platforms during the quarter:

- Garanti is awarded as the "Bank of the Year" by The Banker.
- Garanti is recognized as the "Best Trade Finance Bank in Turkey" by Global Finance Magazine for its successful performance in 2010.
- Garanti received "Quality Award 2009" from Commerzbank AG for achieving high straight through processing for Euro payment volume with a rate of 99.9%.
- Garanti Masters Private Banking is awarded as "Best Private Bank in Turkey" in 2010 Global Private Banking Awards by The Banker & Professional Wealth Management. The award, representing excellence in wealth management, is given to a bank in Turkey for the very first time from among 75 private banks worldwide.
- Garanti 2009 Annual Report is honored with Gold Award at the Galaxy Awards Competition held by Mercomm, the entity that sets the standard of excellence in communications. With this last one, the total number of awards received for Garanti 2009 Annual Report reached 9.
- Euromoney recognized Garanti as the "Best Turkish Bank in Cash Management".
- For its support of women entrepreneurs, Garanti Bank is granted the "Year's Corporate Responsibility Program" award as part of the European Excellence Awards.
- Euromoney granted two Garanti involved projects in Turkey, as "Deal of the Year" in 2010. "Utilities Deal of the Year" in Europe for financing of privatization deal and "Hydro Power Deal of the Year" in Europe for Boyabat WEPP project. ■

Garanti Bank Stock Performance in 2010



Relative Performance to MSCI EM Banks & ISE Banks Index



Developments in Turkish Banking Sector

Turkish banks received a total amount of US\$ 5.1 billion* equivalent international borrowing in 4Q10. From which, the total of US\$ 2.5 billion equivalent amount was secured as syndicated loan while the total of US\$ 2.6 billion equivalent amount was received from multilateral development banks.

The CBRT had two moves in the quarter; first one was to increase the reserve requirement ratio (RRR) on TL liabilities to 6% from 5.5%, while keeping FX liabilities constant at 11%. And the second move hit TL liabilities in different maturities as follows;

RRR on;

- TL demand deposits was raised to 8% from 6%,
- TL deposits up to 1M maturity was raised to 8% from 6%,
- TL deposits up to 3-6M maturity was raised to 7% from 6%,
- TL deposits up to 12M maturity was unchanged at 6%,
- TL deposits more than 12M maturity was lowered to 5%.
- TL liabilities that were subject to reserve requirement (apart from TL deposits) were raised to 8% from 6%.

In 4Q10, the CBRT reduced its policy rate by 50bps (1-week repo rate) to 6.5% while cutting its O/N borrowing rates by 475bps to 1.50% from 6.25% and increased lending rates by 25 bps to 9% from 8.75%.

CBRT also reduced late liquidity window borrowing rate by 225 bps to 0%, while lending rate was increased by 25 bps to 12%.

The CBRT announced the first quarter 2011 interest rate cap and overdue interest rate on credit cards and lowered them by 18 bps to 2.26% and 2.76% per month, respectively.

The BRSA enacted the regulation allowing banks to issue TL bonds. The regulation includes a formula linked to book value, customer deposits, asset size compared to sector and capital adequacy (min. 12%) that calculates the maximum amount each bank can raise in a TL bond issue.

In 4Q10, YKB, Isbank and Alternatif Bank sold their NPL portfolios of TL 428 mn, TL 342 mn, and TL 94 mn, respectively. ■

Selected Sector Figures

(TL million)	31-Dec-09	24-Sep-10	31-Dec-10	YTD Chg (%)
Total Deposits	504,776	565,106	610,896	21.0%
Bank Deposits	16,989	23,239	27,279	60.6%
Customer Deposits	487,788	541,868	583,617	19.6%
TL Deposits	324,548	374,516	411,187	26.7%
FC Deposits (US\$m)	109,768	114,636	112,624	2.6%
info: Customer Demand Deposits	74,955	78,990	91,439	22.0%
Total Loans	373,294	446,251	501,003	34.2%
TL Loans	268,319	322,765	357,284	33.2%
FC Loans (US\$m)	70,648	84,759	93,929	33.0%
Consumer Loans	90,813	113,001	125,335	38.0%
Housing	42,643	51,743	57,485	34.8%
Auto	4,215	4,450	5,368	27.4%
General Purpose Loans ¹	43,955	56,808	62,482	42.1%
Credit Cards	36,682	41,267	44,310	20.8%
Loans / Deposits	74.0%	79.0%	82.0%	
Gross NPL	20,404	19,782	18,698	-8.4%
info: NPL ratio	5.2%	4.2%	3.6%	
info: NPL coverage	84.5%	85.4%	85.9%	
Gross NPL in cons. loans	3,945	3,728	3,584	-9.2%
info: NPL ratio	4.2%	3.2%	2.8%	
Gross NPL in credit cards	4,222	4,090	3,743	-11.3%
info: NPL ratio	10.3%	9.0%	7.8%	
F/X Position, net (US\$m)	376	1,564	109	
on B/S	-12,736	-15,171	-14,785	
off B/S	13,111	16,735	14,894	

Source: BRSA weekly sector data, excluding participation banks
¹ Including other loans

* Calculation based on publicly-traded banks

Market Recap

The global economy came out of 2010 in even better shape than expected. It has bounced back to modestly above-trend growth in 2010 and the signs of a slowdown during the summer faded away and were replaced by renewed progress. This was achieved partly as a result of the growth-oriented economic policy in both the US and the Euro area, but also partly because of the underlying strength in the Far East and other Emerging Market economies.

The fiscal rescue package that US Congress passed in December should lift US GDP growth, but global growth will be challenged by the announced budget consolidation measures in most European countries and the surge in commodity prices. Global inflation has already rebounded from recession-induced lows. Global imbalances remain a major problem and incentives remain weak to reach a cooperative solution involving greater emphasis on domestic demand and considerably more global balance in current-accounts. The risks remain for a widened sovereign debt crisis in Europe and a widening inflation problem in EMs especially Asia. In 4Q10, the gains in most of the developed equity markets accounted for the majority of the full year returns. Emerging markets lagged somewhat during the quarter, but outperformed by a comfortable margin for the year. The MSCI Emerging Markets Index finished 2010 up 16.4% and MSCI EMEA rose 20.9%. Russia's economic growth accelerated in the final quarter of 2010 and its equity market went up by 16.5% in 4Q10. MSCI Turkey underperformed both MSCI EM and MSCI EMEA by 14% and 16%, respectively in the last quarter of 2010 even though it has gained 18% YoY, a performance that was in line with the emerging

markets indices. Turkish economy has recovered more rapidly than expected in 2010, mainly due to an expansion in domestic demand. Turkey appears well positioned to receive strong inflows in a world of ample liquidity mainly due to the trust in its banking sector, public finances and strong growth and has become much more resilient over the past several years. As a result, the national equity index ISE100 closed the year at 66,004, up 25% YoY from 52,825. Bond yields continued to fall in 4Q10 and benchmark bond finished the year close to 7% levels versus 9% levels at the beginning of the year and TL depreciated against USD.

December was full of surprises for the Turkish financial markets. After giving the first hint of further rate cuts in the Financial Stability Report at the beginning of the month, the Central Bank of the Republic of Turkey (CBRT) cut the policy interest rates by 50 basis points to 6.5% while increasing the TL reserve requirement ratio between 100-200 basis points depending on maturity. Financial stability moved to the top of the agenda with structurally widening current account deficit. On the other hand, annual inflation fell to 6.4% from 7.29% stemming from the sharp decline in food prices. With the fall in the past two months, the CBRT stayed slightly below its inflation target of 6.5% for the end of 2010. Looking ahead, there are questions waiting to be addressed: if the economic growth in the US will be enough to bring down unemployment, if there will be more countries in the Eurozone that eventually will have to restructure their debt and what will happen to the tension between Asia and the US over currency policy and how emerging economies will fight against inflation that will arise as a combination of their own internal growth and the liquidity unleashed

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

	YoY	YTD	QoQ
Brazil	4%	4%	3%
China	2%	2%	1%
Hungary	-11%	-11%	-9%
India	19%	19%	2%
Mexico	26%	26%	16%
Poland	13%	13%	4%
Russia	17%	17%	16%
Turkey	18%	18%	-8%
EM	16%	16%	7%
EMEA	21%	21%	10%
EM Banks	17%	17%	4%
Eastern Europe	14%	14%	12%
Latin America	12%	12%	5%

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

by the Federal Reserve's quantitative easing driving up prices. The sentiment in equity markets might remain fragile. As for Turkey, the questions will mount around the widening CAD, the upcoming nomination of the new CBRT governor and the general election in mid-year. Turkish equities, with the healthy fundamentals of Turkish economy - the strong fiscal balance of the public sector, improving debt dynamics and sound banking sector - should continue to benefit from the positive global backdrop in 2011. In the short term, the major challenge for the market players will be the lack of policy visibility by the Central Bank. ■

Stock Market Indicators (December 31, 2010)

	Market Capitalizations (US\$m)*	Daily Turnover (US\$m)	Stock Performance (in US\$)			Stock Performance (Relative to ISE-100)		
	Close	Average	YoY	YTD	QoQ	YoY	YTD	QoQ
Akbank	22,214	38.3	19.2%	19.2%	-9.0%	-1.4%	-1.4%	-3.4%
Halkbank	10,599	34.0	9.0%	9.0%	-8.2%	-9.8%	-9.8%	-2.6%
İş Bankası	16,019	99.4	26.1%	26.1%	-16.0%	4.3%	4.3%	-10.9%
Vakıfbank	6,327	55.1	-9.9%	-9.9%	-16.6%	-25.5%	-25.5%	-11.4%
YKB	13,674	47.7	43.3%	43.3%	-8.8%	18.6%	18.6%	-3.1%
GARANTI	21,258	166.5	20.5%	20.5%	-12.6%	-0.3%	-0.3%	-7.2%
Banking Sector	112,855	498.1	16.3%	16.3%	-11.4%	-3.8%	-3.8%	-5.9%
ISE -100	246,607	1,307.7	20.9%	20.9%	-5.8%			

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

*US\$/TL:1.545 CBRT ask as of December 31, 2010

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