

# StockWatch

**3Q 2016**  
INVESTOR RELATIONS



## ABOUT GARANTI STOCK 'GARAN'

**With an actual free float ratio of ~50%,  
Garanti shares constituted  
17% of all foreign transactions  
in BIST and 39% of all listed banks  
in 9M 2016.**

**US\$ 11 Billion**

Market Capitalization constitutes 7% of the BIST 100

**~92% Foreign Ownership**

Most invested stock by foreigners in Turkey  
with US\$ 5.6 billion floating market capitalization

**US\$ 278 Million**

Average daily turnover in 9M 2016,  
representing 21% of BIST 100

**US\$ 23.6 Billion**

Total 9M 2016 foreign transactions in GARAN  
The most traded stock by foreigners

**Leading Stock**

with ~10% weight in BIST 100  
with ~12% weight in BIST 30

Note: Currency conversion is based on US\$/TL CBRT ask rate, data as of September 30, 2016, foreign ownership ratio includes Depository Receipts.

## GARANTI FINANCIAL HIGHLIGHTS

### Garanti Market Shares

	Sep-16	YtD Δ
Total Performing Loans	11.7%	◀▶
TL Loans	11.1%	▲
FC Loans	13.2%	▼
Credit Cards - Issuing (Cumulative)	20.2%	▲
Credit Cards - Acquiring (Cumulative)	20.9%	▲
Consumer Loans*	14.8%	▲
Total Customer Deposits	11.7%	▲
TL Customer Deposits	9.2%	▼
FC Customer Deposits	15.7%	▲
Customer Demand Deposits	13.3%	▼
Mutual Funds	10.1%	▼

\* Including consumer credit cards and other

### Garanti with Numbers

	Dec-15	Jun-16	Sep-16
Branch Network	983	983	979
+ Domestic	971	971	967
+ Abroad	12	12	12
Personnel	19,692	19,937	19,905
ATM	4,504	4,650	4,686
POS*	600,989	629,700	629,970
Total Customers	13,863,933	14,337,851	14,361,234
Digital Banking Customers**	3,993,457	4,403,599	4,586,890
Mobile Banking Customers**	2,530,757	3,036,965	3,304,292
Credit Card Customers	6,162,816	6,374,539	6,411,313
Credit Cards	9,706,572	9,787,795	9,751,523
Debit Cards	8,640,478	8,748,045	8,843,410

\* Includes shared and virtual POS.

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

Note: Figures are based on bank-only financials for fair comparison with sector. Sector figures are based on BRSA weekly data for commercial banks only.

**In the first 9 months of 2016,  
Garanti reached  
total asset size of  
US\$ 98.6 billion and  
net profit of  
US\$ 1,317 million.**

### SELECTED FINANCIALS

**Total Assets  
US\$ 98.6 Billion**

**Total Performing Loans  
US\$ 61.7 Billion**

**Total Deposits  
US\$ 55.9 Billion**

**Shareholders' Equity  
US\$ 11.6 Billion**

**Ordinary Banking  
Income  
US\$ 2.8 Billion**

**Net Income  
US\$ 1,317 Million**

### SELECTED FINANCIAL RATIOS

**Return on Average  
Assets (ROAA)  
1.8%**

**Return on Average  
Equity (ROAE)  
16.1%**

**Capital Adequacy  
Ratio (CAR)  
15.0%**

**Non Performing Loans  
(NPL) Ratio  
3.3%**

Figures are based on BRSA consolidated financials as of September 30, 2016. Note: Exchange rate used for currency conversion is based on Garanti Bank's September 30, 2016 dated financials.

## DID YOU KNOW?

Garanti once again became the only company from Turkey to qualify for the **Dow Jones Sustainability Index 2016**.

The number of active **digital banking customers** increased 28% YoY and reached **4.6 million**. The number

of active **mobile banking customers** exceeded **3.3 million**.

**Mobile Interactive Assistant (MIA)** responded to **4 million inquires** in 5 months.

As of 3Q16, **Garanti Pension's** net participant addition trend continued with an increase of 15% compared to same period last year, whereas the trend in the sector reversed and shrank by 34%.

## AWARDS & RECOGNITIONS

Garanti became the **“National Champion”** for Environmental and Corporate Sustainability in European Business Awards for the second consecutive year.

As in 2015, Garanti was recognized as **“The Best Retail Bank of Turkey”** in 2016 by World Finance Magazine. Garanti has been chosen for its unflinching dedication to its customers, notable role in Turkish Banking sector's wider development and its commitment to sustainability.

Awarded **“Best Trade Bank in Turkey”** by Trade & Forfeiting Review Magazine.

Rewarded with **“Best Private Bank of Turkey”** in the 2016 International Finance Awards by Acquisition International Company.

Received **Operational Excellence Award** from Wells Fargo for achieving high straight through processing volumes for US\$ and EUR payments.

Honored with six awards at the Stevie International Business Awards. Internet Banking won **Gold Stevie** in the **“Website - Financial Services Industry”** category and **Bronze Stevie** in the **“Website - Best Overall Web Design”** category. Mobile Banking won **Bronze Stevies** in the **“App - Integrated Mobile Experience”** and **“App - Utilities & Services”** categories. MIA within Mobile Banking won **Bronze Stevie** in the **“App - Experimental**

**& Innovation”** category. Unlock Turkey won **Bronze Stevie** in the **“Travel - Utilities & Services”** category.

Recognized in the **“Best Web Site Design”**, **“Best Integrated Consumer Bank Site”**, and **“Best Mobile Banking App”** sub-categories under the Consumer Banks main category at the Best Digital Banks Awards organized by Global Finance magazine.

Won **first prize** in the **“Best ATM Experience”** category at 2016 Bank Customer Experience Summit awards with Paramatik.

Won the **IMA Best in Class Award** in Banking and Financial Services categories at the Interactive Media Awards with Internet Banking.

Became the first and only data center design to achieve **“Tier IV – Fault Tolerant”** level in Turkey and received **“Tier IV Design Documents”** certification from Uptime Institute, with its Data Center currently being built in the new Pendik Technology & Operations Campus.

Honored with a **Silver Stevie** in the **“Company of the Year - Banking”** category and a **Bronze Stevie** in the **“Best Investor Relations Website”** category.

Recognized with **Silver** at Mercomm's Annual Report Competition (ARC), Garanti 2015 Annual Report **“We Grow Together”** was further honored with the **“Best of Turkey” Grand Award**.

**GarantiMortgage.com** was awarded **Best In Class** in the **“Banking”** category at The Interactive Media Awards. Additionally, **GarantiMortgage.com** won **Bronze Stevie** at the Stevie International Business Awards in the **“Websites - Banking”** category.

**Garanti Pension and Life** received the **Gold Stevie Award** in the **“Human Resources Department of the Year”** category and the **Bronze Stevie Award** in the **“Creative Team of the Year”** category at the Stevie Awards.

**Garanti Pension and Life** 2015 Annual Report received **Gold Award** in the **“Insurance”** category at the LACP Vision Awards. Also honored with **Gold Award** in the **“Insurance”** category in the Interactive Annual Report segment at the ARC (Annual Report Competition) Awards.

**Garanti Pension and Life** 2015 Annual Report received Honors Award in the **“Banking & Financial Services: Europe”** category at the ARC Awards.

**Garanti Leasing** received the **Platinum Award** at the BID - World Quality Commitment Convention.

**Garanti Bank Romania** was awarded for being the **“Best Consumer Digital Bank in Romania”** by Global Finance magazine in the 2016 World's Best Consumer Digital Banks Competition.

## WHAT ANALYSTS SAY ABOUT GARANTI?

### BGC Partners

- Garanti has a proactive management which puts profitability before growth, a cutting-edge technological infrastructure, and a strong sales culture, which enable dynamic balance sheet positioning, good risk management, and steady cross-selling. This is evident by the continuation of fairly steady fee growth on top of an already high base.

### BofAML

- We expect Garanti to continue to deliver one of the highest ROEs among our Turkish banks coverage over the medium term. In terms of costs, Garanti spends more than peers but it also generates more revenue per branch or per head than most peers. Garanti stands out in terms of risk-adjusted revenue generation.

### Deutsche Bank

- We expect the bank to post one of the fastest EPS growth rates among its peers in the next three years as a result of a stronger top line, supported by its solid core Tier 1 capital, better cost efficiency, and a slower normalization process in its CoR vs. its peers.

### Morgan Stanley

- Garanti is delivering on injecting cost flexibility into the bank, a trend we are confident we will see over the next 3 years. We featured Garanti, with one of the highest “steady-state” EPS growth. The bank rightly deserves its spot on our EM buy list **“Eight Elites”**

### Société Générale

- Garanti is the best capitalized bank in Turkey. Its consistent strategy of profitable growth won it benchmark status in the past.

### TEB-BNP Paribas

- We think Garanti is one of the best positioned Turkish banks with its CAR and Tier 1 capital ratios. As Basel III buffers weigh on capital ratios for the next three years, its resilient capital base should differentiate it positively from peers.

### UBS

- Garanti has a very strong mobile banking franchise and 25% market share in all retail and mobile banking financial transactions. Our UBS Evidence Lab mobile app analysis shows that Garanti is meaningfully ahead of the curve in terms of mobile adaptation. We think that Garanti qualifies as a preferred play on mobile banking given its strong franchise.

## GARANTI AND THE COMMUNITY

By publishing **Garanti Pension Universal Declaration of Human Rights**, Garanti Pension aims to create a modern and respectful office environment and extend this approach to all of its stakeholders.

Garanti Pension qualified to receive **WWF Green Office Certificate** for its headquarters in 2017.

**Women Entrepreneurs Executive School's** first reunion was held in Ankara.

## DEVELOPMENTS AT GARANTI

**Turkish Land Registry and Cadastre Information System** integration is completed, in order to increase operational efficiency and shorten transaction times in mortgage business.

With the newly developed **Motor Vehicle Tax Payments on BonusFlas**, users enter just their tax period and plate information to pay fast and secure-without sharing any card info. 4% of all motor vehicle tax payments done with Garanti credit cards in July 2016 were done via this feature.

Continued to finance **large scale projects**:

- Participated in the 1.020 million financing provided for Galataport Project with 14 years maturity, with a stake of 255 million.
- Participated as the mandated lead arranger in the 344 million financing provided for Eskişehir City Hospital PPP project with 18 years maturity, with a stake of 172 million.
- Participated as the facility agent in the US\$ 800 million financing package provided both for Aksa Natural Gas Distribution Project and refinancing of Kazancı Syndication Loan, with a stake of \$150 million.

Continued to develop **Mobile Banking**:

- **Interactive Push Notifications** are added to mobile banking, enabling customers to take action simply by tapping or swiping the notification, without even opening the app.
- **Advantageous Casco and Travel Health Insurance** applications are added to mobile banking. In a short time period, car insurance sales via digital channels increased from 1% to 30% of total sales. Travel Health Insurance via mobile currently makes up 30% of all sales as well.
- For a smoother branch experience, introduced **Branch features** to mobile banking, such as appointment set-up, digital ticket for branch transactions, branch density display and estimated waiting time.
- **Additional Installment** feature is made available for transactions suitable for splitting in mobile banking. In 3Q16, mobile banking became the top channel for additional installment product sales and reached 75% of total sales volume in this product category.
- **Credit Deposit Account** is implemented on mobile banking, allowing customers to view the amount allocated to their account and use it instantly.

- **Foreign currency money transfer** has been introduced in mobile banking.

- Launched **General Purpose Loan (GPL) and Overdraft Account processes for SMEs** on personal Internet and Mobile Banking, which enable SME sole trader customers apply and disburse GPL and overdraft account and track their loan status.

**Renewed Internet Banking Site** with a simpler and more interactive interface and several user friendly functions, including a new login method, calendar feature and Garanti Mobile's popular notification feature. In the new internet banking site customers can view main banking products, recent transactions and balances on their personalizable dashboard.

A first in Turkey, Garanti launched **Digital Credit Card Chargeback** application as an alternative to email and written document, making this unpleasant process less cumbersome.

Improved **ATM software** infrastructure and interface in terms of functionality, user experience and cross selling marketing facilities. 169 ATMs have been renewed to include a dynamic ATM dashboard, instant & smart error fields, and change with banknotes in addition to coin dispensing function.

## SELECTED CREDIT CARD FIGURES IN TURKEY

### Top 5 Categories in credit card spending

	16-Sep	15-Sep
Supermarket and shopping malls	19.2%	19.3%
Gas stations	9.5%	9.6%
Apparel and accessories	7.8%	7.9%
Various food products	6.6%	6.3%
Household gadgets, PCs, etc.	6.2%	7.0%

**2.1** # of plastic cards per person

### Per card spending



Source: Interbank Card Center, Turkish Statistical Institute, Banking Regulation and Supervision Agency  
 Note: Official population is based on 2015 announced figure of 78.7 million.  
 Plastic cards defined as the sum of plastic credit cards and debit cards

## MACRO NOTES

**Further moderation in growth.** Annual GDP growth rate moderated further to 3.1% in 2Q16. Domestic demand including stocks contributed to growth by 5.2 pp, while the negative contribution of external demand accelerated to 2.1 pp. As expected, private consumption expenditures decelerated to 5.2% YoY growth and private investments continued to suffer by 1.6% YoY decline. Public expenditures grew remarkably by 13%, contributing to 2.0 pp in overall growth. Thus, the economy continued to grow mainly on consumption, deserving a close watch on for medium and longer term growth dynamics. In sectorial detail, services sector (3.4% growth) was again the main driver of GDP however, the worsening in the tourism related sectors pulled down the overall growth. Thus, the economy posted a growth rate of 3.9% in the first half of the year. We expect the economy to decelerate further in 3Q16 on the back of weak domestic demand and tourism sector. A pick-up is likely in 4Q16 stemming from policy stimulus and the lifting off of the Russian sanctions.

**Indicators signaled a dip in economic activity in 3Q16.** Annual growth rate of the industrial production (IP) turned into a contraction of 1.4% (YoY) in July-Aug period from 2.5% growth in 2Q16 (WDA). The production of durable consumer goods contracted sizably in this period, confirming the moderation in domestic consumption. Except for the energy, the production of other sub-items also lowered the overall production.

**Current Account Deficit (CAD) Deteriorates as of August.** Despite the remarkable slow-down in aggregate demand, both the worsening services balance and the recovery in oil prices led 12-month deficit (CAD) to increase from USD 29.5 billion (4.2% of GDP) at the end of 2Q16 to USD 31.0 billion in August. Core CAD (excluding both net energy bill and gold) deteriorated further to USD 8.5 billion. We expect the deterioration to continue throughout the year.

**Budget Targets Revised.** Even though tax revenues performance remained lower than the initial estimate of the Government, non-tax revenues pushed up the overall revenues growth year-to-date. After registering at TL 22.3 billion by the end of 2Q16 (1.1% of GDP) central government budget deficit declined to TL 18.4 billion in August. Primary balance gave a surplus of TL 31.7 billion by end-August increasing from TL 37.4 billion in 2Q16 (1.3% of GDP). According to the new Medium Term Program (MTP), the Government expects budget deficit to GDP ratio to realize at 1.6%, revised from 1.2%. Primary balance to GDP ratio is expected to register 0.8%, revised from 1.5% in the previous plan.

**Turkey's external debt stock/GDP ticked up in 2Q16.** In 2Q16, gross external debt stock/GDP ratio increased further to 59.5%, from 58.1% in 1Q16. The ratio was 55.3% by the end of 2015. EU-

defined public debt stock/GDP remained stable at 32.4% compared to the previous quarter. This ratio was recorded as 32.9 % in 4Q15.

**Inflation at 8% in 3Q16.** Annual CPI inflation increased from 6.9% in 2Q16 to 8.0% on average in 3Q16, while end of period inflation decreased to 7.3%. The fall was, for the most part, thanks to sharp downward adjustment in food prices, while core prices also helped. Core inflation posted an improvement towards 8.3% in 3Q16 (average) from 9.0% in 2Q16.

**Central Bank (CBT) cut the upper bound of the corridor 3 times in 3Q, taking advantage of falling inflation.** On the back of the slowdown in aggregate demand and its reducing impact on the core inflation, CBT cut further 25 bps on the upper bound of the corridor in each month of 3Q16. Total cuts amounted to 250 bps since March, while the policy rate, and O/N borrowing rate were left unchanged at 7.5%, and 7.25%, respectively. Thus, the upper bound, which declined to 9% by the end of 2Q16, was cut further to 8.25% by the end of 3Q16.

TL depreciated by 4.1% (YoY) against currency basket in 3Q16 on average after depreciated by 11% in 2Q16. Benchmark bond yields which was at 9.4% on average in 2Q16, declined to 9.0% in 3Q16. The 3Q-end benchmark bond yield was 8.7%.

## REAL-ESTATE SECTOR ANALYSIS IN TURKEY

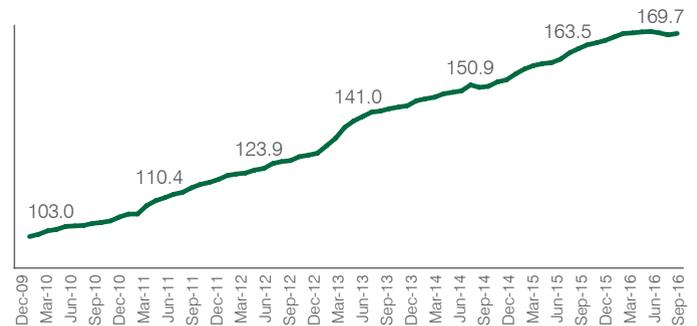
**REIDIN Turkey Composite Residential Property Price Index:** The index reflects an increase of 0.26% MoM and 11.45% YoY in residential sales prices in September'16. Index series are calculated monthly, for sales and rent covering 68 cities.

### Residential Property Price Index



**REIDIN.com-GYODER New Home Price Index:** The index shows an increase of 0.24% MoM and 3.79% YoY in September'16. Taking January 2010 as the base period, REIDIN.com-GYODER New Home Price Index is calculated on 70 housing projects and with a monthly average number of 22,500 properties presented by 27 developers.

### New Home Price Index



## DEVELOPMENTS IN TURKISH BANKING SECTOR

Turkish Banks raised a total amount of **US\$ 9.3 billion\*** equivalent international funding in **3Q16**. **US\$ 6.7 billion** equivalent amount was secured as **syndicated loans**, **US\$ 1.1 billion** in **securitizations**, **US\$ 750 million** equivalent amount from **multilateral development banks**, **US\$ 500 million** from Eurobond issuances and **US\$ 208 million** equivalent issuances\*\* under **Global Medium Term Notes (GMTN) Programs**.

### Regulatory developments during the quarter:

- BRSA eased some regulations on consumer loans and credit cards to support growth in the economy. Accordingly, effective as of September 27;
  - General provision requirement for Group I unsecured consumer loans is lowered to 1% from 4% and for unsecured Group II loans decreased to 2% from 8%. On top of that, additional provision requirement on restructured Group I & Group II loans are also removed, cut to 1% and 2%, respectively.
  - Maturity ceiling on consumer loans is extended from 36 months to 48 months
  - Credit card debts and general purpose loans can be restructured once, up to 72 months without setting aside additional general provisioning
  - Credit card installment limits are revised.
  - The loan to value on Mortgage loans is increased to 80% from 75%.
- BRSA temporarily changed the provisioning requirements for loans extended to the energy sector until the end of the year. Accordingly, Group II energy loans can be restructured twice and reclassified into Group I if a minimum of 10% of total receivables are repaid for the first restructuring; and 15% for the second restructuring.

### CBRT actions during the quarter:

- CBRT reduced its overnight lending rate in July, August and September by 25 bps in each month. Accordingly, as of 3Q-end, overnight lending rate came to 8.25% from 9.0% in the previous quarter.
- CBRT left the "interest rate cap" and "overdue interest rate" on credit card transactions unchanged for 4Q16; TL rates 2.02% and 2.52% per month, respectively; and FX rates 1.62% and 2.12% per month, respectively.
- CBRT announced several measures to provide liquidity to the financial system:
  - As per announcement on July 17, (i) Banks are allowed to place FC deposit as collateral without limits for needed TL liquidity, (ii) Commission rate for the Intraday Liquidity

Facility is zero, iii) Banks' current FC deposit limits of around USD50bn may be increased and utilization conditions (collateral and cost) may be improved iv) all markets and systems are open until final settlement of transactions v) market depth, liquidity and prices are closely monitored and vi) all measures will be taken to ensure financial stability, if deemed necessary.

- Effective as of July 28, in order to support the efficient liquidity management of banks, the haircut rates of TL and FC denominated collaterals pledged against TL open market transactions have been reduced by taking into account of their types and maturities.
- In August and September, CBRT has reduced reserve requirement ratios and reserve option coefficients (ROC) with the aim of more effective functioning of the transmission mechanism.

### Rating actions during the quarter:

- After placing Turkey's credit rating on a negative watch on July 18, Moody's downgraded Turkey's sovereign rating below the investment grade status from Baa3 to Ba1 on September 23<sup>rd</sup>. Accordingly, 17 Turkish Banks' credit ratings are revised on September 26<sup>th</sup>.
- After revising Turkey's outlook on sovereign IDR to Negative from Stable on August 19, Fitch revised down outlook of 18 Turkish banks from Stable to Negative on August 25, while ratings were affirmed.
- On July 20, S&P downgraded Turkey's sovereign rating to BB from BB+ (two notches below investment-grade) with a negative outlook.

### NPL sales during the quarter:

- Garanti Bank sold its TL 81.0 million NPL portfolio receivables for TL10.1 million.
- Sekerbank sold its TL 139.6 million NPL portfolio receivables for TL 7.2 million.
- ICBC Turkey sold its TL 28.5 million NPL portfolio receivables for TL 210.5 thousand.
- Denizbank sold its TL 214.7 million NPL portfolio receivables for TL 23.3 million.

### Other developments:

- On September 27, 2016, Akbank and Yapı Kredi received a TL116 mn fine each, as a result of the audit report issued by the inspectors of the Ministry of Customs and Trade with regards to the consumer protection law.

\* Public Disclosure Platform. Calculation based on publicly-traded banks.

\*\* Bloomberg

### Selected Sector Figures (TL Million)

	31.12.15	01.07.16	30.09.16	QoQ Δ
<b>Total Deposits</b>	<b>1,245,289</b>	<b>1,316,216</b>	<b>1,344,793</b>	<b>2.2%</b>
Bank Deposits	73,920	79,286	77,110	-2.7%
Customer Deposits	1,171,369	1,236,930	1,267,683	2.5%
TL Deposits	675,001	725,489	774,918	6.8%
FC Deposits (US\$ mn)	171,343	178,032	164,884	-7.4%
Customer Demand Deposits	218,182	235,953	240,733	2.0%
<b>Total Loans</b>	<b>1,346,865</b>	<b>1,414,726</b>	<b>1,456,246</b>	<b>2.9%</b>
TL Loans	927,992	980,582	1,000,407	2.0%
FC Loans (US\$ mn)	144,597	151,210	152,552	0.9%
Retail Loans*	571,934	589,355	596,942	1.3%
Housing	137,893	145,705	149,677	2.7%
Auto	20,329	20,192	19,448	-3.7%
General Purpose Loans**	320,123	327,126	328,535	0.4%
Credit Cards	93,589	96,332	99,282	3.1%
Loans / Deposits	108.2%	107.5%	108.3%	
<b>Gross NPL</b>	<b>42,705</b>	<b>47,304</b>	<b>51,609</b>	<b>9.1%</b>
NPL ratio	3.1%	3.2%	3.4%	
NPL coverage	75.4%	75.8%	77.2%	
Gross NPL in retail loans	17,056	19,469	21,590	10.9%
NPL ratio in retail loans	2.9%	3.2%	3.5%	
Gross NPL in credit cards	7,416	7,461	8,214	10.1%
NPL ratio in credit cards	7.3%	7.2%	7.6%	
<b>F/X Position, net (US\$ mn)</b>	<b>300</b>	<b>55</b>	<b>-6</b>	
on B/S	-31,435	-20,901	-8,633	
off B/S	31,735	20,957	8,629	

Source: BRSA weekly sector data, commercial banks only

\* Including consumer and commercial installment loans

\*\* Including other and overdraft loans

## MARKET RECAP

Markets recovered from the initial shock of the late-June U.K. referendum vote to leave the European Union, as lower bond yields, expectations of additional monetary accommodation by the major central banks, and stable global economic data helped investor sentiment. Global liquidity remained ample and monetary policy rates were relatively unchanged. Low and even negative policy rates anchored global long term bond yields, but ECB and BoJ made no further cut in their policy rates during 3Q amid signs of the adverse impacts of negative rates. FED also kept interest rates unchanged while signaling that the tightening is likely to be gradual and economic data-dependent. Pickup in China's growth boosted Emerging Markets. Emerging Markets' favorable long-term growth prospects and historically attractive valuations combined with the investors' search for high yield resulted in a rebound in EM equities. Yet, security selection continued to be the main factor to explain differences in the international equity performances.

Stabilization in commodity prices was supportive for the commodity exporter EMs. Oil price increase

gained momentum towards the end of the quarter as a result of OPEC's latest decision to cut the level of oil production.

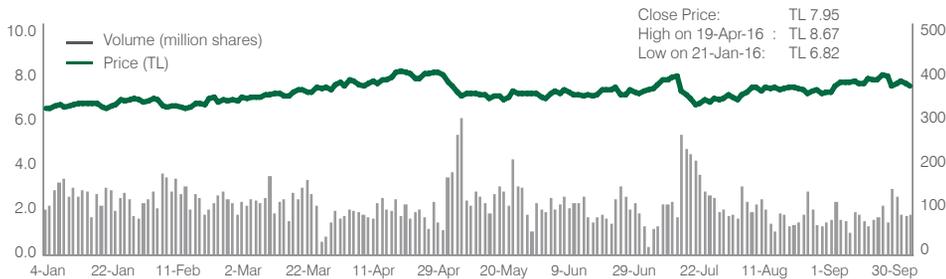
MSCI EM Index increased by 8% QoQ in 3Q vs. its flat performance in 2Q. Quarterly returns were positive in China on the back of stabilization in the economic conditions. Promising fundamental environment and running fiscal reform agenda supported Brazil. Russia benefited from high real rates and the gradual recovery in oil prices. Accordingly, MSCI China, MSCI Brazil and MSCI Russia indices increased by 13%, 11% and 6%, respectively, in 3Q.

Turkey, on the other hand, underperformed its EM peers as a result of a series of shocks. Significant decline in tourism revenues due to geopolitical uncertainties, failed coup attempt in mid-July and Moody's downgrade to non-investment grade in September deteriorated sentiment. Yet, the immediate market impact of the rating downgrade became quite modest. Preliminary indicators suggest a slowdown in the economy which grew by 3.9% in 1H, mainly due

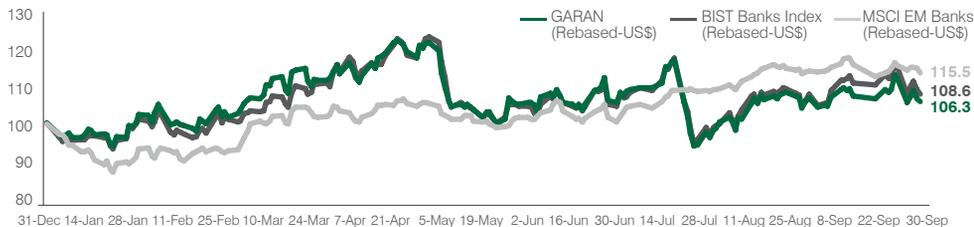
to low tourism revenues. Yet, consumer confidence remained strong and prevented a sharper slowdown. In 3Q, MSCI Turkey Index decreased by 5% QoQ and underperformed MSCI EM Index by 13%. CBRT continued its easing cycle and cut the upper band of the interest rate corridor by 75bps in 3Q to 8.25%, leaving the policy rate and the lower band unchanged at 7.50% and 7.25%, respectively. As a result, weighted average cost of funding eased by 43bps to 7.78% by the end of the quarter. The Benchmark interest rate touched 9.60% in mid-July and eased by 90bps to 8.71% on the last day of the quarter.

Looking ahead, central banks seem to be nearing the limits of their monetary easing as each rate-cut into negative territory was followed by a decline in banking stocks in the developed markets. The news-flow in early October claiming that the ECB could taper its bond purchases before the end of its quantitative easing programme next March might be a major development to follow in the last quarter of the year. Yet, China's stimulus-induced steadiness is likely to continue being supportive for EMs and commodities. On the other hand, futures markets are now placing above 65% chance on 25bps FED rate hike in December. On the political front, United States presidential election and post-Brexit developments will be on close watch.

### Garanti Bank Stock Performance in 9M 2016



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



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

	QoQ	Ytd
Brazil	11%	60%
China	13%	6%
Hungary	11%	21%
India	6%	6%
Mexico	-3%	-3%
Poland	2%	-5%
Russia	6%	27%
<b>Turkey</b>	<b>-5%</b>	<b>4%</b>
EM	8%	14%
EMEA	5%	15%
EM Banks	10%	15%
Eastern Europe	5%	17%
Latin America	5%	30%

\* Based on MSCI's Emerging Markets Indices, as of September 30, 2016.

For further information please contact Garanti Investor Relations.

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