

# StockWatch

**2Q 2014**  
INVESTOR RELATIONS



## ABOUT GARANTI STOCK 'GARAN'

With an actual free float ratio of ~50%,  
Garanti shares constituted 20% of all  
foreign transactions in BIST 100 and  
45% of all listed banks in 6M 2014.

**US\$ 16.4 Billion**

Market Capitalization constitutes 7% of the BIST 100\*

**US\$ 8.2 Billion**

Highest floating market capitalization in the BIST\*

**US\$ 273 Million**

Average daily turnover in 6M 2014,  
representing 20% of the BIST 100

**US\$ 15.8 Billion**

Total 6M 2014 foreign transactions in GARAN  
The most traded stock by foreigners

**~ 11%**

Highest weight in the BIST 100

Note: Currency conversion is based on US\$/TL CBRT ask rate.

\*As of June 30, 2014

## GARANTI FINANCIAL HIGHLIGHTS

### Garanti Market Shares\*

	Jun-14	YTD Δ
Total Performing Loans	12.2%	▼
TL Loans	10.5%	▼
FC Loans	16.8%	▼
Credit Cards - Issuing (Cumulative)	18.0%	▲
Credit Cards - Acquiring (Cumulative)	19.6%	▲
Retail Loans**	12.0%	▼
Total Deposits	11.3%	▼
TL Deposits	10.0%	▼
FC Deposits	13.4%	▲
Demand Deposits	13.6%	▲
Mutual Funds	13.2%	▼

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

\*\*Including consumer, commercial installment, overdraft accounts, credit cards and other.

### Garanti with Numbers

	Dec-13	Mar-14	Jun-14
Branch Network	1,001	995	995
+ Domestic	990	984	984
+ Abroad	11	11	11
Personnel	18,738	18,930	19,075
ATM	4,003	3,982	4,000
POS*	534,148	541,962	557,518
Total Customers	12,400,077	12,635,777	12,670,879
Internet Banking Customers**	2,655,303	2,665,261	3,011,648
Mobile Banking Customers**	842,191	992,695	1,143,335
Credit Cards	9,302,545	9,384,251	9,407,532
Debit Cards	7,350,311	7,552,086	7,350,311

\* Includes shared POS

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

**In the first half of 2014, Garanti reached consolidated total asset of US\$ 109.3 Billion and consolidated net profit of US\$ 892.2 Million.**

### SELECTED FINANCIALS\*

**Total Assets**  
US\$ 109.3 Billion

**Total Performing Loans**  
US\$ 63.4 Billion

**Total Deposits**  
US\$ 58.7 Billion

**Shareholders' Equity**  
US\$ 11.9 Billion

**Ordinary Banking Income**  
US\$ 2.2 Billion

**Net Income**  
US\$ 892.2 Million

### SELECTED FINANCIAL RATIOS\*

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

**Return on Average Equity (ROAE)**  
17.3%

**Capital Adequacy Ratio (CAR)**  
14.0%

**Non Performing Loans (NPL) Ratio**  
2.7%

\*Figures are based on BRSA consolidated financials as of June 30, 2014. Note: Exchange rate used for currency conversion is based on Garanti Bank's June 30, 2014 dated financials.

## GARANTI AND THE COMMUNITY

Garanti became the first Turkish Bank to adopt **Women's Empowerment Principles**, developed in collaboration by the UN Global Compact and UN Women in 2010.

**Garanti completed its annual Communication on Progress to the UN Global Compact**, in line with its commitment to transparent stakeholder communication. Garanti has been a signatory of the UN Global Compact since 2012 and is an active participant to its national network.

Garanti reported on its climate change impact as part of the Carbon Disclosure Project for the 5<sup>th</sup> time. This

year, **Garanti also received limited assurance on its annual CDP report**, which will be published by CDP in October.

**Garanti Anatolian Meetings** were held in the cities in Anatolia where SMEs get together with the representatives of local administrations from several provinces in Turkey since 2002.

**Women Entrepreneurs Executive School** graduates neared 700 women entrepreneurs. The school was formed by Garanti to provide free training to women entrepreneurs in cooperation with Boğaziçi University.

Garanti supported the **Dr. Trawinski International Wheelchair Basketball Tournament** played in May where the Turkish National Wheelchair Basketball Team became the champion.

Four teams made up of women players from the Wheelchair Basketball League competed in the **Garanti Wheelchair Basketball 1<sup>st</sup> Women's Championship Turkey** which took place in Gaziantep with Garanti's support.

**Garanti Jazz Green** celebrated the International Jazz Day on April 30<sup>th</sup>.

## AWARDS & RECOGNITIONS

Recognized as the **Best Emerging Market MTN Issuer** for its successful borrowings from international debt capital markets by Global Capital.

Received **Straight Through Processing Quality Award (STP)** both from Deutsche Bank (99.91%) for achieving high straight through processing volumes in 2013 for € and \$ payments and JP Morgan (97.66%) for achieving high straight through processing volumes in 2013 for \$ payments.

Honored as the **"Best Project Finance House in Europe, Middle East and Africa"** and the **"Best Project Finance House in Central and Eastern Europe"** by EMEA Finance, a leading finance magazine.

Northern Marmara Motorway & 3<sup>rd</sup> Bosphorus Bridge and Gebze-İzmir Motorway Projects, in which Garanti is acting as Mandated Lead Arranger and Facility Agent, have been awarded as the **"Best PPP Deal in Europe, Middle East and Africa"** and **"Best Transport Infrastructure Deal in Central and Eastern Europe"** respectively, by EMEA Finance.

Ojer Telecommunication's US\$4.4 billion syndication loan in which Garanti acted as the Mandated Lead Arranger and borrower was awarded as **"Best Syndicated Loan in Central and Eastern Europe"** by

EMEA Finance and as **"Turkish Deal of the Year"** in the Syndicated Loan Awards of Euroweek Magazine.

Zetes 3 Coal-Fired Power Plant and Geycek Wind Farm in which Garanti acted as the Mandated Lead Arranger, and borrower were recognized as **"Best Power Deal in Europe, Middle East and Africa"** and **"Best Sustainability Deal in Central and Eastern Europe"** respectively, by EMEA Finance.

Honored with **"Sustainability Award - Environmental and Social Performance"** for its comprehensive environmental social risk assessment system by European Bank for Reconstruction and Development.

**Garanti Call Center** received two **Gold Awards** both in the categories of **"Best Contact Center"** and **"Best Direct Response Campaign"**, and a **Silver Award** in the **"Best Sales Campaign"** category in the EMEA region finals of Contact Center World, the most prestigious contact center organization worldwide

iGaranti was awarded with the **Best Mobile Banking Experience Award** at SmartCard & Payment Awards in Dubai.

iGaranti received the top score on **2014 European Mobile Banking Functionality Benchmark Report** of Forrester Research by scoring 80 out of 100 (average

score was 61) in a comparative functionality survey conducted among the mobile banking services of 11 European banks to become the **Most Functional Mobile Banking Application**.

**Garantimortgage.com** received the **"Internet's highest honor"**, as recognized by the New York Times, in the category of "Best Financial Services/Banking – Websites" in the **18<sup>th</sup> Annual Webby Awards** organized by the International Academy of Digital Arts and Sciences (IADAS). Furthermore it is recognized as this year's **Best of Best** for its excellence in interactive media production and honored with **Gold Winner Award** in "Websites – Bank/Finance" category at the Horizon Interactive Awards, a leading international interactive media awards competition.

**Garantiinvestorrelations.com** was awarded with **Platinum Award** by scoring 99 out of 100 in the **"Investor Relations Web Site"** category at the Global Communication - 2013/14 Spotlight Awards organized by the League of American Communications Professionals.

**2013 Annual Report** with the theme "Garanti is everywhere" received **Silver Award** at the Spotlight Awards by scoring of 97 out of 100 for its success and creativity in communicating clear messages to its target audience.

## WHAT ANALYSTS SAY ABOUT GARANTI?

**Bank of America Merrill Lynch:** Management has built a profitable financial services conglomerate around the main banking business.

**Citi:** Garanti has the best track record of containing corporate/commercial cost of risk through the cycle.

**Deniz Invest:** Garanti Bank has a well-diversified loan composition that is expected to work in favor of

asset quality... The bank is ahead of its peers in terms generating revenue from affiliates, which requires additional premium, in our opinion.

**Deutsche Bank:** Strong capitalization and asset quality track record, low leverage ratio, fee generation strength effective funding policies should all help Garanti stand out among peers in the upcoming more challenging banking era, in our view.

**Unlu & Co:** Over a longer-term perspective, Garanti Bank has been the leader in terms of funding management & capital, and we expect the bank to remain its leadership position on that front.

**UBS:** Garanti is known internationally for its innovative products, especially in the credit card segment. It is widely considered to be one of the best-managed banks in Turkey.

## DID YOU KNOW?

Garanti has more than **3.7 million followers** on digital platforms, the largest number of followers among financial institutions.

**Garanti Mobile Banking application** exceeded 2.6 million download and maintained its leading position as the most downloaded application in the finance category; while the number of mobile banking customers increased by 86% YoY and reached over 1.1 million.

Online trend book **"In Flux"** is published in which the global and local trends in the world of consumers and companies from various sectors are highlighted. The objective of this work is to try to create an authentic understanding of the themes "Society in Flux", "Mobility", "Data Intelligence" and "Networks" by synthesizing insight gathered during a comprehensive research period to foresee the adoption of a possible approach that can align the interests of businesses with the implications inherent in these themes. Please visit <http://influx.garanti.com.tr/> to read online.

Garanti's **"Support Model for Women Entrepreneurs"** that was built on the pillars of financing, training and encouragement was recognized as an international case study by the International Finance Corporation (IFC), a member of the World Bank Group.

**Garanti Technology Customer Service** renewed the **ISO10002 Complaint Management System Certification** until May 2015 and is officially recertified as a **Cisco Silver Certified Partner in Eastern Europe** by meeting the all requirements in the areas of personnel, support, specialization, and customer satisfaction.

## DEVELOPMENTS AT GARANTI

Total amount of notes issued in the second quarter of 2014 under the **Global Medium Term Notes (GMTN)** Program, where several issuances in different currencies and maturities were realized, reached to an amount of nearly **US\$ 525 million** equivalent, including the EUR 20 million transaction with 13 years maturity, the longest maturity by a Turkish borrower.

Under its **Diversified Payment Rights (DPR)** Program; Garanti **secured US\$ 500 million** financing with a maturity of 5 years through a future flow transaction, and separately **issued a US\$ 550 million DPR note** with a maturity of 20 years.

Rolled its **EUR 1.1 billion** equivalent 1 year **syndicated loan** with an all-in pricing benchmark of 0.90% per annum which represents a further 0.10% per annum decrease from the pricing reference for Garanti set in May 2013.

Issued **US\$ 750 million Eurobond** with a maturity of 5.5 years, yield of 4.776% and coupon rate of 4.750%. Deal's order books exceeded **US\$ 5.2 billion** across 370 investors including the ones who had invested in Turkish fixed income for the first time.

Continued to finance large-scale **energy and infrastructure** projects:

- Participated with **US\$ 450 million** commercial loan in US\$ 3.3 billion financing of **Star Refinery Project**, the largest project finance deal ever done in Turkey, as the sole Turkish bank along with EX-IM banks and 15 foreign investment and trade banks. The project is the largest Greenfield private sector investment with a total investment amount of US\$ 5.65 billion.
- Provided **US\$ 134 million** long-term loan to **Soma 3 Wind Power Plant**, 3<sup>rd</sup> extension to Soma Wind Power Plant sponsored by Polat Enerji. Once it is completed, the entire project will be the largest wind energy power plant in Turkey with a total installed capacity of 240 MW.
- Financial closing in **Northern Marmara Motorway & 3<sup>rd</sup> Bosphorus Bridge Project** was realized in May with Garanti's participation of **US\$ 384 million** in the total financing of US\$ 2.3 billion.
- Provided **US\$ 38 million** long-term loan to **Dora-4 Geothermal Power Plant**. Dora-1, the first private Greenfield geothermal project was established in 2006 and with the new Dora-4 investment, total capacity of Dora projects will be extended to 71 MW.

Launched its new product to finance **SMEs' small-scale solar power projects** to support the transition to a low carbon economy.

Sponsored two Turkey focused, Luxembourg domiciled, UCITS funds under BBVA Durbana SICAV fund platform to **accommodate international investor's demand to Turkish assets**. Garanti Asset Management will be the sub-advisor of the actively managed Turkish Equity and Turkish Fixed Income Funds. The vehicles are open-ended, offering daily liquidity with a reference currency of TL and available in US Dollar and Euro denominated share classes.

The biggest credit card network in the World, **UnionPay International (UPI)**, preferred Garanti for strategic cooperation in Turkey. With this agreement, more than 3.8 billion cards in the UPI network in Asia (primarily in China), will be valid in Turkish markets. Turkish businesses, willing to open up to the Chinese and Asia-Pacific markets, will be able to take advantage of the privileges offered by UPI in their foreign trade payments and use UPI cards at the firms' POS networks with ease.

## SELECTED CREDIT CARD FIGURES IN TURKEY

**2.0** up from 1.95 in 2013 YE  
# of plastic cards per person

**1.4%** vs. Garanti's 1.7%  
Payment Systems Commissions/Payment Systems Volume\*

**18%** Credit cards' share in retail loans  
slightly down vs. 1Q 2014

### Top 5 Categories in credit card spending

	Jun.13	Jun.14
Supermarket and shopping malls	14.8%	19.0%
Gas stations	11.5%	10.7%
Apparel and accessories	8.0%	8.1%
Household gadgets, PCs, etc.	8.2%	7.0%
Various food products	7.2%	6.9%

### Per card spending



Source: Interbank Card Center, Turkish Statistical Institute, Banking Regulation and Supervision Agency  
Note: Official population is based on 2013 announced figure of 76.7 million.

\*Garanti Payment Systems analysis based on BRSA financials of peers as of 1Q14.  
Plastic cards defined as the sum of plastic credit cards and debit cards.

## MACRO NOTES

**2014 Q1 GDP growth was 4.3%...** Turkish economy grew by 4.3% YoY in the first quarter of 2014, slightly above the average market expectation of 4.0%. Domestic demand contribution including stocks was 1.6 points while external demand contributed to growth positively (2.7 points) for the first time since the last quarter of 2012. Total public expenditures contributed 1.0 points to growth while the contribution from the private sector was 1.8 points. Even if the total contribution from consumption declined to the lowest level of the last 5 quarters, domestic demand contribution that continued to stem from consumption shows that desired growth composition could not be achieved yet.

**Growth indicators signal that the rise in domestic demand may also be limited in the second quarter...** Among the indicators related to the second quarter, consumption indicators have shown that private consumption continues to slow down. The indicators on the investment side showed deterioration in the April-May period compared to the 1Q14. The annual growth rate of industrial production that had accelerated to 5.3% in the first quarter decelerated to 3.9% in the April-May period. The deceleration in industrial production together with the manufacturing PMI and the capacity utilization rate that fell behind the 1Q14 data in the April-May period draw a negative outlook for the second quarter.

**Improvement continues in 12-month current account deficit...** As of May, 12-month cumulative current account deficit decelerated to US\$ 52.6 billion from US\$ 60.1 billion at the end of the first quarter of 2014. The current account deficit to GDP ratio had decelerated from 7.9% in 4Q13 to 7.5% 1Q14. We think that the risks that can distort the improving trend in the current account deficit are limited because deceleration in domestic demand still continues in line with the macro prudential measures. However, the realization of geopolitical risks may increase the impact of external shocks due to upward risks stemming from energy prices.

**Slight decrease both in public debt/GDP and in external debt/GDP in 1Q2014...** The EU defined public debt stock increased from TL 566.3 billion in 2013 to 578.9 in the first quarter of 2014. Public debt to GDP ratio slightly decreased from 36.3% in 2013 to 35.9% in the first quarter of 2014. Turkey's gross foreign debt stock slightly decreased from US\$ 388.2 billion to US\$ 386.8 billion in the first quarter of 2014 as well. Accordingly, gross foreign debt stock to GDP ratio increased from 47.3% to 48.0% compared to the quarter before.

**Rapid annual rise in expenditures increases the risks on central government budget performance...** Compared to the first quarter of 2014, the 12-month cumulative budget deficit increased from TL 19.1 billion to TL 25.5 billion at the end of May. The primary surplus

decreased from TL 29.7 billion to TL 27.6 billion in the same time period. The medium-term plan for the budget deficit is TL 33.2 billion and TL 18.8 billion for the primary surplus for year-end.

**Improvement in inflation outlook is not as expected...** Annual CPI increased from 8.4% at the end of the first quarter to 9.2% at the end of the second quarter of 2014. Annual core inflation increased from 9.3% to 9.65% in the same period. Despite our expectation that the inflation will maintain its decelerating trend in the remaining of the year, we think that the year-end CPI may be around 8%, due to the upward risks in food prices and decelerating but continuing pass-through effect.

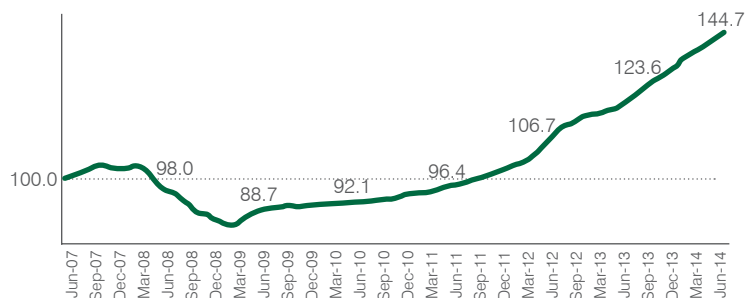
**Additional monetary easing by the CBT...** The Central Bank (CBRT) cut its one-week repo rate which is utilized as the policy rate two times in the second quarter. Hence, it decreased by 1.25 bps from 10% at the end of the first quarter to 8.75% in the second quarter of 2014. All other interest rates and reserve requirement rates remained unchanged. The CBRT underlined the recent improvement in global liquidity conditions as the main supporting argument behind the rate cut.

Compared to the first quarter of 2014, TL appreciated by 4.6% on average against the currency basket in the second quarter of 2014. Benchmark bond yields which was at 10.8% at the end of 1Q14, decreased to 8.3% at the end of 2Q14.

## REAL-ESTATE SECTOR ANALYSIS IN TURKEY

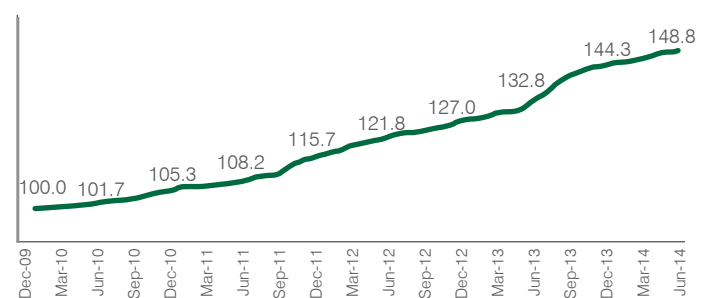
**REIDIN Turkey Composite Residential Property Price Index:** Sponsored by Garanti, the index reflects an increase of 1.24% MoM and 17.07% YoY in residential sales prices in June 2014. Index series are calculated monthly, for sales and rent covering 7 major cities, including Istanbul, Izmir, Ankara, Adana, Antalya, Bursa and Kocaeli.

Residential Property Price Index-Change in residential sales prices



**REIDIN.com-GYODER New Home Price Index:** Sponsored by Garanti, REIDIN.com-GYODER New Home Price Index shows an increase of 0.34% MoM and 12.05% YoY in June 2014. 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\$ 12.5 billion\*** equivalent international funding in 2Q14. US\$ 5.1 billion equivalent amount was secured as syndicated loans; US\$ 508 million equivalent amount was received from multilateral development banks; US\$ 1.4 billion in securitizations and US\$ 5.5 billion\*\* under GMTN (Global Medium Term Notes) program including Eurobond issuances of Garanti, Isbank, Finansbank, Halkbank, Vakıfbank and Ziraat that add up to US\$ 3.9 billion and have an average maturity of longer than 5 years.

Regulatory developments during the quarter:

- Amendment to the Regulation on Bank Cards and Credit Cards entered into force as of 13 May 2014. Accordingly, Turkish consumers will no longer be permitted to pay for gift cards or gift tokens with installments. Banking Regulation and Supervision Agency also removed corporate credit cards from the scope of installment payment limitations.
- On 17 June 2014, The Banks Association of Turkey announced that no fees would be charged for inactive accounts and credit cards until a shared information system became operational that allows customers to check whether their accounts are active or not. Moreover, fee charges previously accrued for such accounts would be cancelled after 12 months, if not collected.

Rating actions during the quarter:

- On April 11, 2014, Moody's changed the outlook on Turkey's government bond ratings to negative from stable, while concurrently affirming its Baa3 rating.
- On April 28, 2014, JCR affirmed all ratings on Garanti along with a "Stable" outlook on the Long Term National Scale.
- On May 23, 2014, S&P affirmed ratings on Turkey; while Outlook remained negative.
- On June 3, 2014, Moody's took rating actions on 11 Turkish banks. BCA (Baseline Credit Assessment) and BFSR (Bank Financial Strength Rating) of Bank Asya, Denizbank, Sekerbank and TEB were lowered, while both were maintained for Vakıfbank, YKB and Ziraat. Moody's lowered the BCA, while affirming the BFSR for Akbank, Garanti, Halkbank and Isbank.
- On June 4, 2014, S&P published its latest "Banking Industry Country Risk Assessment: Turkey". It had already revised the Banking

Industry Country Risk Assessment on Turkey down to group "6" from group "5".

- On June 24, 2014, Fitch downgraded the Long-term FC and LC Issuer Default Ratings (IDR) of Isbank, Garanti and Akbank to "BBB-" from "BBB". The outlooks on the Long-term IDRs are Stable. Fitch also revised YKB's Outlook to Negative from Stable, while affirming the Long-term IDR at "BBB".
- On June 27, 2014, S&P confirmed all ratings on Garanti.

For the 3Q14 period, CBRT left the interest rate cap and overdue interest rate on credit card transaction in TL unchanged at 2.02% and 2.52%, per month, respectively.

On May 22, 2014, CBRT cut the 1 week repo rate by 50 bps and on June 24, 2014 by another 75 bps, rolling back the interest rate to 8.75% (from 10.0% as of January 28, 2014); while maintaining the O/N lending rate at 12%; the O/N borrowing rate at 8%.

NPL sales during the quarter:

- Garanti sold its NPL portfolio receivables originating from credit cards, general purpose loans and overdraft loans in the total principal amount of TL 139.9 million for TL 24.3 million to RCT Varlık Yönetim A.Ş.
- Isbank sold its TL 272.5 million NPL portfolio for TL 44 million to Girişim Varlık Yönetimi.
- YKB sold its TL 103.8 million NPL portfolio for TL 15.54 million to Destek Varlık Yönetim and Girişim Varlık Yönetimi.
- Akbank sold its TL 252.2 million NPL portfolio for TL 44 million to Girişim Varlık Yönetimi.

Other developments:

- ICBC took 75.5% stake in Tekstilbank for TL 668.8 million.
- Ziraat established the GMTN (Global Medium Term Notes) program in the amount of US\$ 2.0 billion, where several issuances in different currencies and maturities are allowed to be realized.
- Isbank started branch operations in Kosovo/ Prizren, Georgia/Tbilisi and Edmonton/London.
- Ziraat got permission from the Central Bank of Kosovo to open a branch in Pristina.
- Halkbank got preliminary authorization of Serbian officials to evaluate branch openings in Serbia. Also, their representative office in London started operations.

### Selected Sector Figures (TL Million)

	27.12.13	28.03.14	27.06.14	YTDΔ
<b>Total Deposits</b>	<b>951,407</b>	<b>965,054</b>	<b>976,096</b>	<b>2.6%</b>
Bank Deposits	56,070	56,231	58,310	4.0%
Customer Deposits	895,337	908,823	917,786	2.5%
TL Deposits	563,792	540,727	576,738	2.3%
FC Deposits (US\$ mn)	155,931	169,306	161,616	3.6%
Customer Demand Deposits	164,189	159,364	169,945	3.5%
<b>Total Loans</b>	<b>944,088</b>	<b>974,873</b>	<b>1,007,343</b>	<b>6.7%</b>
TL Loans	677,883	701,318	733,747	8.2%
FC Loans (US\$ mn)	125,290	125,923	129,758	3.6%
Retail Loans*	448,299	456,966	467,405	4.3%
Housing	105,200	107,544	109,803	4.4%
Auto	20,076	19,369	19,025	-5.2%
General Purpose Loans**	232,268	242,929	254,083	9.4%
Credit Cards	90,755	87,124	84,494	-6.9%
Loans / Deposits	99.2%	101.0%	103.2%	
<b>Gross NPL</b>	<b>26,333</b>	<b>28,020</b>	<b>22,099</b>	<b>-16.1%</b>
NPL ratio	2.7%	2.8%	2.1%	
NPL coverage	78.2%	78.0%	76.8%	
Gross NPL in retail loans	8,745	9,360	10,060	15.0%
NPL ratio in retail loans	1.9%	2.0%	2.1%	
Gross NPL in credit cards	4,761	5,286	5,286	11.0%
NPL ratio in credit cards	5.0%	5.7%	5.9%	
<b>F/X Position, net (US\$ mn)</b>	<b>-386</b>	<b>1,671</b>	<b>2,070</b>	
on B/S	-31,356	-40,912	-36,293	
off B/S	30,970	42,583	38,364	

Source: BRSA weekly sector data, commercial banks only

\*Including consumer and commercial installment loans

\*\*Including other and overdraft loans

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

\*\* GMTN issuances of AK, FINANS, YKB, VAKIF and ISBANK are excluded.

## MARKET RECAP

2Q14 was a quarter of stabilization and relief contrary to a volatile and difficult 1Q14. Major central banks, especially the FED and ECB, continued their dovish stance to support investor sentiment and risk taking. As Yellen guided for prolonged low interest rates until sustained economic recovery is achieved, markets rallied with extraordinary risk appetite amid historically low volatility. Following ECB's cutting its refinancing rate to a new record low (0.15%), EURUSD slumped from 2.5 year high (1.39) to 1.35. Global markets set new record highs, interest rate of 10 year US Treasury notes ended the quarter at 2.53% (down by 19 bps QoQ) after touching 11-month low 2.44%. European bonds were also sent to all-time lows. In line with the increasing risk appetite, gold price declined by 3% in April and May; however, the trend was spoiled upon the eruption of Iraqi crisis in June when gold gained 6%. Accordingly, Brent oil price hit its nine month high (US\$ 115) towards the end of 1H14.

Despite the intimidating news flow, political risks in EMs, especially in Ukraine, were perceived as contained and EM contagion fears were eased. Thus, six months after fears of an EM meltdown rattled global markets, stocks

and bonds in the so-called Fragile Five, including Turkey, have become the primary targets for yield-hungry global investors. EMs enjoyed sizeable net inflows (US\$ 13.4 billion) as opposed to significant net outflows (US\$ 38.2 billion) in 1Q14. MSCI EM gained 5.6% in 2Q14, outperforming DM by 1.5%. As capital flowed back to EMs, once dipped currencies stabilized and attracted investors for good returns from carry trade.

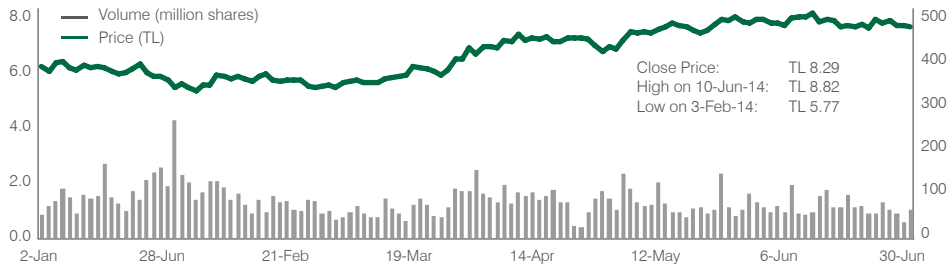
MSCI EM performance was also supported by Russia in 2Q14. Despite G7 sanctions and downgrades by rating agencies, having around US\$ 500 million FX reserves, Russia managed to take part within the reversal of the capital flows to EM world. After witnessing US\$ 64 billion capital outflows and 15% decline in the equity market in 1Q14, Russia succeeded to lure capital flows back within the EM portfolio of investors. Yet, Russian central bank had to increase interest rates contrary to its peers. In June, increasing oil price also benefited Russian Ruble and markets. As a result, MSCI Russia advanced by 10% (by 17% in May and June) in 2Q14.

Upon diminishing local political risks after the elections, Turkey was the best performer within EMs in 2Q14

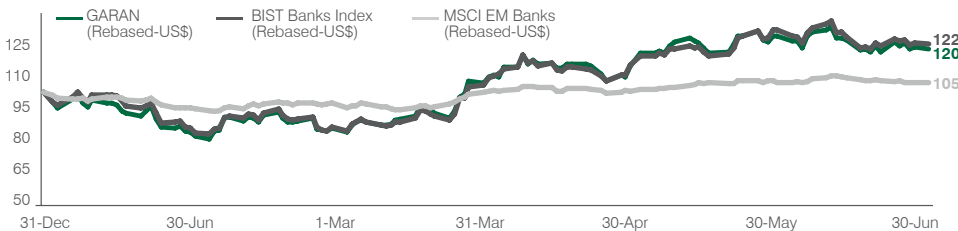
(+13.4%) driven by improvement in CAD, better than expected economic growth, lower inflation outlook, monetary easing and stabilization of TL. Starting around mid- March, Turkish equities continued to advance in April and May. In 2Q14, Turkey underperformed its EM peers only in June (first time since Jan'14) due to its closer economic ties with Iraq. Rating agencies' (Fitch and Moody's) downgrade actions on Turkey and Turkish banks were not considered as a threat. Overall, MSCI Turkey outperformed MSCI EM by 7.4% in 2Q14. Turkish bonds also gained a strong momentum where spreads kept narrowing. Bond market witnessed around US\$ 4 billion foreign inflows from May-end to June-end, bringing the YTD net inflows to positive for the first time since Jan'14. Benchmark interest rates slumped by around 250 bps to 8.15%, which priced-in Central Bank of Turkey (CBRT)'s policy interest rate cut by a total of 125 bps.

Looking ahead, low interest rate environment and favorable global liquidity conditions seem to prevail in 2H14. Now that risk appetite is back to pre-crisis level and VIX (Volatility Index) is at historically low levels, yield-hungry investors are likely to overlook escalating political risks in Ukraine and Middle East. Turkey, one of the countries offering highest real rates, will probably benefit from global liquidity while it has an improving economic and earnings outlook for the rest of the year. Yet, as Turkey is one of the most vulnerable countries to external and internal shocks, outperformance would be threatened due to two major issues: 1) Potential rise of political risks (either local ahead of the presidential elections or regional) 2) FED's earlier than expected interest rate increase.

### Garanti Bank Stock Performance in 1H 2014



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



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

	YoY	QoQ
Brazil	8%	6%
China	-3%	4%
Hungary	-7%	2%
India	21%	12%
Mexico	1%	6%
Poland	1%	-2%
Russia	-6%	10%
<b>Turkey</b>	<b>19%</b>	<b>13%</b>
EM	5%	6%
EMEA	1%	4%
EM Banks	5%	4%
Eastern Europe	-4%	6%
Latin America	5%	6%

\* Based on MSCI's Emerging Markets Indices, as of June 30, 2014.

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