With an actual free float ratio of ~50%, Garanti shares constituted 20% of all foreign transactions in BIST 100 and 40% of all listed banks in 1H 2015.

US$ 13.1 Billion
Market Capitalization constitutes 7% of the BIST 100*

US$ 6.5 Billion
Highest floating market capitalization in the BIST*

US$ 332 Million
Average daily turnover in 2Q 2015, representing 21% of the BIST 100

US$ 19.3 Billion
Total 6M 2015 foreign transactions in GARAN
The most traded stock by foreigners

~ 10%
Highest weight in the BIST 100

Note: Currency conversion is based on US$/TL CBRT ask rate.
* As of June 30, 2015
In the first half of 2015, Garanti reached consolidated total asset of US$ 99.9 billion and consolidated net profit of US$ 777.7 million.

**SELECTED FINANCIALS***

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Amount</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>US$ 99.9 Billion</td>
<td></td>
</tr>
<tr>
<td><strong>Total Performing Loans</strong></td>
<td>US$ 60.0 Billion</td>
<td></td>
</tr>
<tr>
<td><strong>Total Deposits</strong></td>
<td>US$ 54.7 Billion</td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders’ Equity</strong></td>
<td>US$ 10.5 Billion</td>
<td></td>
</tr>
<tr>
<td><strong>Ordinary Banking Income</strong></td>
<td>US$ 1.9 Billion</td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>US$ 777.7 Million</td>
<td></td>
</tr>
</tbody>
</table>

**SELECTED FINANCIAL RATIOS***

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Average Assets (ROAA)</td>
<td>1.7%</td>
</tr>
<tr>
<td>Return on Average Equity (ROAE)</td>
<td>16.1%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio (CAR)</td>
<td>13.0%</td>
</tr>
<tr>
<td>Non Performing Loans (NPL) Ratio</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

* Figures are based on BRSA consolidated financials as of June 30, 2015. Note: Exchange rate used for currency conversion is based on Garanti Bank’s June 30, 2015 dated financials.

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**Garanti Financial Highlights**

**Garanti Market Shares**

<table>
<thead>
<tr>
<th>Category</th>
<th>Jun-15</th>
<th>QoQ △</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Performing Loans</td>
<td>11.8%</td>
<td>▼</td>
</tr>
<tr>
<td>TL Loans</td>
<td>10.8%</td>
<td>▼</td>
</tr>
<tr>
<td>FC Loans</td>
<td>14.1%</td>
<td>▼</td>
</tr>
<tr>
<td>Credit Cards - Issuing (Cumulative)</td>
<td>19.1%</td>
<td>▲</td>
</tr>
<tr>
<td>Credit Cards - Acquiring (Cumulative)</td>
<td>20.4%</td>
<td>▲</td>
</tr>
<tr>
<td>Consumer Loans**</td>
<td>14.0%</td>
<td>▲</td>
</tr>
<tr>
<td>Total Customer Deposits</td>
<td>11.4%</td>
<td>▼</td>
</tr>
<tr>
<td>TL Customer Deposits</td>
<td>9.3%</td>
<td>▼</td>
</tr>
<tr>
<td>FC Customer Deposits</td>
<td>14.1%</td>
<td>▼</td>
</tr>
<tr>
<td>Customer Demand Deposits</td>
<td>13.5%</td>
<td>▼</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>11.0%</td>
<td>▲</td>
</tr>
</tbody>
</table>

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

**Garanti with Numbers**

<table>
<thead>
<tr>
<th>Category</th>
<th>Dec-14</th>
<th>Mar-15</th>
<th>Jun-15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch Network</td>
<td>1,005</td>
<td>1,006</td>
<td>1,009</td>
<td>▲</td>
</tr>
<tr>
<td>+ Domestic</td>
<td>994</td>
<td>995</td>
<td>997</td>
<td>▲</td>
</tr>
<tr>
<td>+ Abroad</td>
<td>11</td>
<td>11</td>
<td>12</td>
<td>▲</td>
</tr>
<tr>
<td>Personnel</td>
<td>19,036</td>
<td>19,427</td>
<td>19,643</td>
<td>▲</td>
</tr>
<tr>
<td>ATM</td>
<td>4,152</td>
<td>4,163</td>
<td>4,230</td>
<td>▲</td>
</tr>
<tr>
<td>POS**</td>
<td>541,012</td>
<td>556,343</td>
<td>573,072</td>
<td>▲</td>
</tr>
<tr>
<td>Total Customers</td>
<td>13,075,181</td>
<td>13,272,821</td>
<td>13,498,222</td>
<td>▲</td>
</tr>
<tr>
<td>Digital Banking Customers***</td>
<td>3,264,206</td>
<td>3,445,383</td>
<td>3,524,520</td>
<td>▲</td>
</tr>
<tr>
<td>Mobile Banking Customers***</td>
<td>1,547,579</td>
<td>1,748,919</td>
<td>1,899,328</td>
<td>▲</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>9,374,003</td>
<td>9,437,965</td>
<td>9,553,119</td>
<td>▲</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>8,020,023</td>
<td>8,192,474</td>
<td>8,436,605</td>
<td>▲</td>
</tr>
</tbody>
</table>

* Based on bank-only figures.

**Note:** Exchange rate used for currency conversion is based on Garanti Bank’s June 30, 2015 dated financials.

**Return on Average Assets (ROAA):** 1.7%

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

**Capital Adequacy Ratio (CAR):** 13.0%

**Non Performing Loans (NPL) Ratio:** 2.9%
**DID YOU KNOW?**

The total number of Mobile Banking downloads exceeded 5 million as the app maintained its leading position in finance category of the app stores.

The number of iGaranti downloads exceeded 500 thousand and iGaranti active users increased to 110 thousand in 2015.

Garanti maintains its leadership in numbers of plastic credit cards, credit card customers and POS devices.

More than 75 thousand customers linked their Bonus Cards with their social media accounts and benefited from campaigns that are unique to social media users.

AskGaranti, which provides 7/24 customer service on social media, supports an average of 5.5 thousand customers per month within 69 minutes on average.

Garanti Pension and Life has made the first online Periscope live stream in the industry.

**AWARDS & RECOGNITIONS**

- Recognized as the “Best Project Finance House” by EMEA Finance, a leading finance magazine, for its continuous efforts to support energy projects to add value to its customers and playing an essential role for Turkey’s sustainable growth.

- Star Refinery and Borusan Wind Bundle projects which Garanti has participated financing, have been awarded as “Best Chemical Deal” and “Best Sustainability Deal” in Europe, Middle East and Africa, respectively, by EMEA Finance.

- Increased its total score to 72 and qualified to be an “Industry Leader” at Sustainalytics ratings and ranked as #2.

- Received “Agriculture Finance Award” from “Turkish Agriculturalist Association (TAA)” for supporting the farmer and agriculture with its innovative financial products at the 66th Foundation Anniversary of the TAA.

- ISO/IEC 27001:2013 transition process has been completed for current Information Security Management System (ISMS) scope and also, the scope has been expanded. New ISO/IEC 27001:2013 ISMS covers services of “IT Security Management Unit, Information Security Management Department and Call Center Inbound Operations Section” and all information assets, technologies and personnel that are necessary to provide these services.

- Received “Bronze Stevie Award” in the categories of the “Best Use of Technology in Customer Service” and “IVR or Web Service Solution”, in the Stevie Awards for Sales & Customer Service 2015 with Alo Garanti Voice Technologies Project.

- Honored with the “IMA Best in Class Award” for its website in the categories of “Banking” and “Financial Services” at the Interactive Media Awards.

- Garanti Mortgage was honored with the “Excellence Award” in the category of “Online Video-How to/Instructional” for Step by Step Mortgage Video at The Communicator Awards by Academy of Interactive & Visual Arts (AIVA).

- Garanti Mortgage received the “Distinction Award” in the category of “Websites-Banking” for www.garantimortgage.com at the Communicator Awards by Academy of Interactive & Visual Arts (AIVA).

- Garanti Pension and Life was recognized as the “Best Life Insurance Company in Turkey” in 2015 by World Finance, as a company leading the sector with the launch of new products, commitment to business process improvement and its customer centric approach.

- Garanti Faktoring was honored as the “Best of Export Factoring Company in the World in 2015” by Factors Chain International.

**WHAT ANALYSTS SAY ABOUT GARANTI?**

**Ak Invest**
We like Garanti Bank with its more sheltered position against volatility in TRY rates, thanks to a lower TRY weight in its balance sheet, proven managerial skill, high capital adequacy and solid asset quality.

**BGC**
Garanti Bank has a very strong client franchise, servicing 13.0 million customers, and maintains leadership positions in all consumer segments, while having the highest demand deposits ratio among peers.

An efficiently-run bank with a profitability focus... The bank has a pro-active management which always 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.

**Deutsche Bank**
Given its fee generation strength as a stable revenue source, effective/successful funding policies, strong asset-quality track record, and cost efficiency, we believe Garanti will stand out among Turkish banks in the upcoming more-challenging banking era.

**HSBC**
The key differentiating factor for Garanti versus its peers is relatively stronger revenue generation ability. The bank’s revenues-to-assets and revenues-to-RWA ratios are both more than 40 bps higher than the average of the peer group in 2014.

**TEB-BNP Paribas**
Highest Tier 1 at 13.4%, resilient asset quality and proactive spread management places Garanti ahead of its peers.

Garanti has long been known for its capable management team that sets the right strategies in tough times. The FRN-heavy securities book serves as a natural hedge. Although the bank is growing in line with the sector, asset quality is consistently below the sector average.

**TERA Brokers**
We add GARAN to our top pick list as a market proxy as well as better and more flexible asset allocation to adapt changing market dynamics.
### GARANTI AND THE COMMUNITY

Committed in creating value for all of its stakeholders, Garanti:

- Became the first Bank in Turkey to ratify Caring for Climate (C4C) statement, an initiative aimed at advancing the role of business in addressing climate change.
- As a UN Global Compact (UNGC) signatory, participated in “UNGC 15+” which was organized to celebrate UNGC’s 15 year anniversary.
- As the main sponsor of CDP Turkey Water Program, extended its support for two workshops which aimed to build capacity among the companies invited to respond to the program.
- Having submitted its response to CDP Climate Change Program for the 5th time, has also become one of the first companies in Turkey to submit its response to CDP Water Program.
- Supported III. Sustainable Finance Forum organized by Turkish Business Council for Sustainable Development, in collaboration with UNEP FI and the local network for UN Global Compact.

- Submitted its Communication on Progress to UNGC.
- Received limited assurance from a third party for the second time on its 2014 Scope 1 and Scope 2 GHG emissions.

Garanti continues to support women’s empowerment:

- Was invited as the only Turkish Bank to join the “Financing Entrepreneurship – Innovative Solutions” meeting organized within the scope of G-20 Global Partnership for Financial Inclusion (GPFI), to share its views and best practices on non-traditional models developed for financing women entrepreneurs.
- Renewed its “Women Entrepreneurs Protocol” with more advantageous conditions which was signed in 2014 with Credit Guarantee Fund (KGF) to facilitate women entrepreneurs’ access to finance, encourage and reveal the entrepreneurial spirit.
- Became the first Turkish bank to be a member of WEConnect International, an organization that helps women-owned businesses succeed in global value chains.

- Organized Women Entrepreneurs Get-togethers for the 31st and 32nd time in two Anatolian cities in cooperation with Women Entrepreneurs Association of Turkey (KAGİDER).
- Women Entrepreneurs Executive School gave new graduates. The school was formed by Garanti to provide free training to women entrepreneurs in cooperation with Boğaziçi University.

Garanti is the solution partner of SMEs:

- KOBLİG Meeting was organized in cooperation with Human Management Association of Turkey (PERYÖN) in Gaziantep, a city in south-east of Turkey, on the theme of Occupational Health and Safety Law.
- Garanti Anatolian Meeting where SMEs get together with the representatives of local administrations from several provinces in Turkey since 2002 was held for the 98th time in an eastern Anatolian city.

Garanti Leasing became member of SOLARBABA the biggest Solar Energy community platform in Turkey founded in 1996.

### DEVELOPMENTS AT GARANTI

Garanti successfully renewed its syndicated loan with a roll-over ratio of 114%, amounting to EUR 1.25 billion equivalent with a maturity of 367-days at Euribor+0.80% & Libor+0.80%. A testament to Garanti’s intrinsic financial strength, continued strong performance and solid banking relationships, the Facility was oversubscribed and reached a demand of EUR 1.53 billion.

Continued to finance large scale projects:

- Participated as Mandated Lead Arranger and Facility Agent with a share of US$ 551 million in the US$ 5 billion financing provided for Gebze-Izmir Motorway Project, the largest Project Finance deal in Turkey ever, with 15 years maturity.
- Acted as the Mandated Lead Arranger in the US$ 500 million syndication facility of Acıbadem Healthcare with a share of US$ 100 million and EUR 90 million to be used for repayment of existing facilities and general corporate as well as working capital purposes.
- Participated as Mandated Lead Arranger with a share of US$ 27 million in US$ 54 million financing provided to Marport Liman İşletmeleri.
- Participated in the financing package of EUR 930 million, provided to Migros Ticaret A.Ş., the leading food retailer in Turkey, for the refinancing of existing facilities and working capital requirements, with a total ticket size of EUR 277 million.

Introduced SME Cross Sell Infrastructure which aims to ease the operational processes of related products for SME’s and to increase the cross sell opportunities.

New features are introduced in Mobile Banking such as, corporate mobile banking iPad app, log in with TC identification number or with credit card number for certain kind of transaction as well as accessibility for visually impaired customers.

The wellness application “İyilik Sağlık (Wellness & Health)” has been launched to provide healthy life suggestions for Garanti employees. İyilik Sağlık, a first in the sector, can be accessed through mobile devices and web applications.

Garanti Asset Management launched three new multi asset funds called “SMART Funds”. SMART Funds differentiate from other funds by investing in different regions and different assets in all market conditions.

### SELECTED CREDIT CARD FIGURES IN TURKEY

#### Top 5 Categories in credit card spending

<table>
<thead>
<tr>
<th>Sector</th>
<th>Jun-15</th>
<th>Jun-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket and shopping malls</td>
<td>19.6%</td>
<td>19.0%</td>
</tr>
<tr>
<td>Gas stations</td>
<td>9.4%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Apparel and accessories</td>
<td>7.6%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Household gadgets, PCs, etc.</td>
<td>6.9%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Various food products</td>
<td>6.6%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

#### Per card spending

<table>
<thead>
<tr>
<th>Credit card</th>
<th>Garanti</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,445</td>
<td>9,015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debit card</th>
<th>Garanti</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>649</td>
<td>315</td>
</tr>
</tbody>
</table>

Source: Interbank Card Center, Turkish Statistical Institute, Banking Regulation and Supervision Agency

Note: Official population is based on 2014 announced figure of 77.7 million.

Plastic cards defined as the sum of plastic credit cards and debit cards.
**MACRO NOTES**

1Q15 Growth was 2.3%. The remarkable acceleration in private consumption and the positive contribution from stocks in contrast to the expectations were the factors that raised the growth rate in this period. Domestic demand -including stocks- contributed 3.6 points to GDP growth while external demand lowered growth. The negative contribution from external demand increased to 1.2% compared to 0.4% in 4Q14. Private sector expenditures accelerated remarkably mainly on back of the consumption while private investment expenditures recovered only slightly. On the other hand, the rising contraction in public investment led the public contribution to growth to remain negative. Hence, the contribution from total consumption expenditures accelerated to 3.3% in 1Q15 from 1.8% in 4Q14 while investment expenditures did not make any contribution to growth in this period.

**Mixed Outlook on Growth.** Although real imports increased annually in April-May period, real exports declined in the same period, signaling a weak external demand in 2Q15. Industrial production has signaled a slightly better outlook for 2Q15 while capacity utilization rate has recorded a limited increase. The growth performance has continued to be driven mainly by domestic consumption in this period.

Current Account Deficit Decreased Slower than Expectations. 12-month-cumulative current account deficit decreased from US$ 45.8 billion (5.8% as a percentage of GDP) at the end of 1Q15 to US$ 44.7 billion in May. In May, 12-month-cumulative net energy bill was US$ 44.7 billion, the lowest level recorded since Aug’ 11. Hence, when we exclude net energy bill, 12-month-cumulative current account was balanced. When gold is also excluded, current account gave a surplus of US$ 0.2 billion. As exports demonstrate a declining trend due to geopolitical and parity effects, while services balance has also been decreasing, improvement in current account balance remained below expectations.

Improvement in the Budget Deficit. 12-month-cumulative budget deficit decreased from TL 26.6 billion in 1Q15 to TL 18.5 billion in 2Q15. 12-month-cumulative primary surplus, on the other hand, increased by TL 7.2 billion to TL 34.7 billion in the same period. In the first half of the year, annual growth rates of both revenues and expenditures (13% and 11%, respectively) were higher than the targeted figures (6% and 5%, respectively).

**EU Defined Public Debt Increased.** In 1Q15, gross external debt stock/GDP ratio was 49.4%, down from 50.3% in 4Q14. EU-defined public debt stock/GDP ratio increased from 33.5% to 33.8% in the same period.

**Inflation at 7.7% in 2Q15.** Annual CPI inflation (average) increased from 7.5% in 1Q15 to 7.7% in 2Q15. In June, inflation was 7.20%, down from 8.09% in May. Annual food inflation decelerated to 12.3% in 2015 from 13.2% in 1Q15. Annual core inflation decreased from 7.8% in 1Q15 to 7.3% in 2Q15. The acceleration in the headline on average stemmed from the rise in energy inflation in this period.

**No Change in Interest Rates in 2Q15.** The Central Bank of Turkey CBRT has not changed its key interest rates since the meeting held in February. Hence the policy rate (1-week repo rate), O/N lending rate and O/N borrowing rate stand at 7.5%, 10.75% and 7.25%, respectively. In the mid-term, Turkish interest rate outlook will be determined by the oil prices, Fed’s monetary policy and their impact on currency and inflation.

TRY depreciated by 12% YoY against currency basket in 2Q on average. Benchmark bond yields which was at 8.0% on average in 1Q15, increased to 9.7% in 2Q. The 2Q-end benchmark bond yield was 9.8%.

**REAL-ESTATE SECTOR ANALYSIS IN TURKEY**

**REIDIN Turkey Composite Residential Property Price Index:** Sponsored by Garanti, the index reflects an increase of 1.33% MoM and 16.64% YoY in residential sales prices in June’ 15. Index series are calculated monthly, for sales and rent covering 7 major cities, including Istanbul, Izmir, Ankara, Adana, Antalya, Bursa and Kocaeli.

**REIDIN.com-GYODER New Home Price Index:** Sponsored by Garanti, the index shows an increase of 0.44% MoM and 7.46% YoY in June’ 15. 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.

**Residential Property Price Index-Change in residential sales prices**

![Graph of Residential Property Price Index]

**New Home Price Index**

![Graph of New Home Price Index]
DEVELOPMENTS IN TURKISH BANKING SECTOR

Turkish Banks raised a total amount of US$ 10.5 billion* equivalent international funding in 2Q15. US$ 7.7 billion equivalent amount was secured as syndicated loans; US$ 774 million equivalent amount was received from multilateral development banks and US$ 2.1 billion equivalent issuances** under Global Medium Term Notes (GMTN) Programs.

Regulatory developments during the quarter:
- CBRT kept its key policy rate at 7.50%, ranging between 1.1-3.9%, depending on banks’ Core Liabilities Ratio.
- Effective as of May 30th, 2015, liabilities of foreign branches of banks are subject to reserve requirements in a manner to encourage longer term borrowings.
- For the 3Q15 period, CBRT left the interest rate cap and overdue interest rate on credit card transactions in TRY unchanged at 2.02% and 2.52%, per month, respectively, and FX rates at 1.62% and 2.12%, per month, respectively.

Other developments:
- Halkbank purchased its affiliate Halk Insurance’s 16.67% share in Türk P&I Sigorta A.Ş., for TL 1 million and Türk P&I Sigorta A.Ş. became an affiliate of Halkbank.
- İşbank sold its 7.44% AVEA shareholding in a total consideration of TL 669 million was completed.
- Alternatifbank sold its TL 116 million NPL portfolio receivables for TL 4.7 million.
- Işbank purchased its affiliate Halk A.Ş. for TL 1 million and Türk P&I Sigorta A.Ş. became an affiliate of Halkbank.
- JCR Eurasia Rating has affirmed the ratings of Garanti as "AAA (Trk)" on the Long Term National Scale, "BBB+" on the Long Term International Foreign Currency Scale and "BBB+" on the Long Term International Local Currency Scale along with "Stable" outlooks.
- Fitch upgraded Yapı Kredi Bank’s rating outlook from “Negative” to “Stable” based on an action taken on UniCredit’s ratings, and affirmed YKB’s BBB FC and LC Long-term ratings.
- Fitch affirmed Akbank, İşbank, Garanti and Yapı Kredi’s ratings and outlooks.

NPL sales during the quarter:
- Alternatifbank sold its TL 116 million NPL portfolio receivables for TL 4.7 million.

Other developments:
- Savings and Deposit Insurance Fund (SDIF) took over the full ownership rights of Bank Asya except for dividend rights under article 71.
- HSBC Turkey has announced its decision to sell its businesses in Turkey.

** Source: Bloomberg.
MARKET RECAP

In 2Q15, Fed’s interest rate lift-off expectations, concerns over a possible Greece default, market volatility in China, illiquidity in fixed income markets and geopolitical risks marked the global markets. S&P 500 reached fresh highs while Eurozone and UK equities came under pressure as the Greek debt crisis escalated. Posting strong gains in April, emerging markets outperformed their developed peers. Yet, reduced risk appetite related to concerns about Fed exit and “Grexit” weighed on EM flows towards the end of the quarter. EM currencies continued to be under pressure against US$. Bond yields rose across most major markets amid expectations that interest rates could rise in the US and UK this year. Historically low European bond yields raised up to pre-quantitative easing levels in line with steep sell-off in bond markets with thin liquidity and upgraded European inflation expectations due to rebounding oil prices and signs of an improving economy.

Attractive for foreign investors, emerging markets recorded positive quarterly returns where Russia, China and Brazil outperformed their peers significantly in April. On top of an 18.6% increase in 1Q15, MSCI Russia rose by 6.8%, supported by a 15.4% rally in the price of oil in 2Q15. Returns were magnified by Ruble’s 5.1% appreciation over the period despite the dull economic outlook. Chinese equities also rallied amid further stimulus measures, including rate cut and lowering of the reserve requirement ratio for banks at the end of June. In Brazil, political news flow favoring economic outlook supported investor sentiment. However, since April gains replaced with loss for the rest of the quarter amid diminishing risk appetite for EM assets, MSCI EM closed the quarter in line with MSCI World.

Within EMs, Turkish equities did not take part in April rally and continued to be the worst EM performer where MSCI Turkey’s underperformance relative to MSCI EM reached 18.6% in 1H15. TRY’s being among worst performing EM currencies against US$, perception that the CBRT is not free to use all of its tools to address currency weakness, worse than expected inflation outlook (due to elevated level of food prices, rebound in oil prices and FX-pass through), sluggish economic activity and increased political risks (pre and post general elections) heavily weighed on investor sentiment. Foreign investors have already lowered the weight of their Turkish asset holdings to minimum levels for some time (62.09% for equities and 22.3% for bonds). Accompanied with global risks, domestic risks took a toll on TRY, which depreciated by 2.7% in 2Q15 (13.3% in 1H15). While the CBRT chose to keep interest rate corridor as is and tightened monetary policy via liquidity management, increasing its average funding rate by around 60 bps to 8.6% levels. Accordingly, short-end of the yield curve rose, benchmark interest rate hit double digit levels up to 10.5% for the first time since April 2014.

Into the second half of the year, investors preserve their cautious stance towards Turkish assets amid persistent volatility. There are several factors pushing investors to “wait and see” mode: 1) Global uncertainties, mainly sourced from Fed’s normalization, Greek debt crisis and geopolitical tensions; 2) domestic political ambivalence, mainly concerns regarding the formation of a coalition government and its sustainability; 3) downside risks on macroeconomic outlook, higher than expected inflation and sluggish economic activity; 4) lack of structural reforms for a new macro strategy that could be executed in the foreseeable future; 5) tight domestic liquidity conditions due to TRY weakness.

As Fed’s first interest rate increase expected in 2015 has already been priced-in to some extent, the pace of the normalization is considered to be more important. Although the pace is expected to be a slow one, Turkey still remains to be one of the most vulnerable EM countries with its large external financing need and low reserve coverage ratio. Thus, formation of a sustainable government enacting high quality political and economic policies will play crucial role on alleviating the challenges and convincing foreign investors that Turkish assets offer attractive return per risk at cheap valuations.

For further information please contact Garanti Investor Relations.
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