Turkey

Monthly Banking Monitor

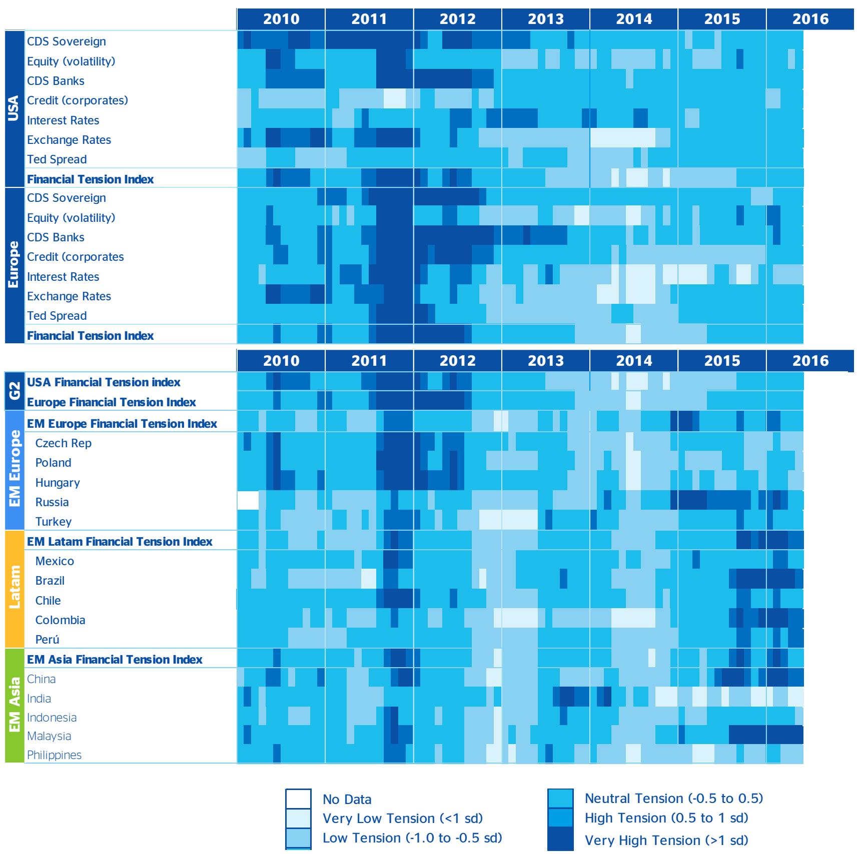
May

June1st 2016

Global Developments

Financial tensions surged somewhat in May especially in EM as the probability of a FED rate hike increased.

BBVA Research Financial Stress Map



Source: BBVA Research

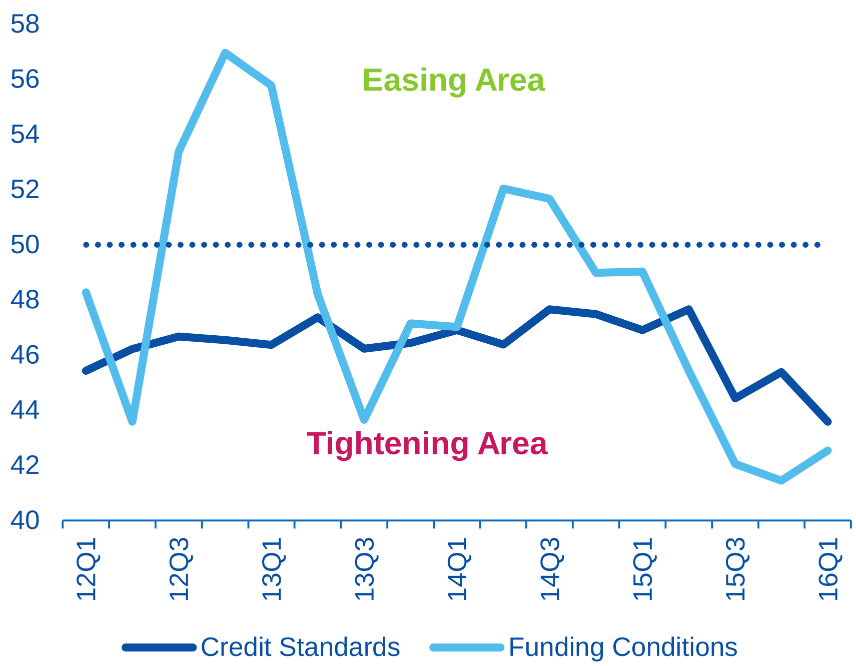
Financial Stress (FT) in Developed Markets remained in neutral with some volatility in equity markets as markets digest the potential hikes of the Fed Funds.

Financial stress were higher across the board in Emerging Markets. Turkey was not an exception but remain in neutral

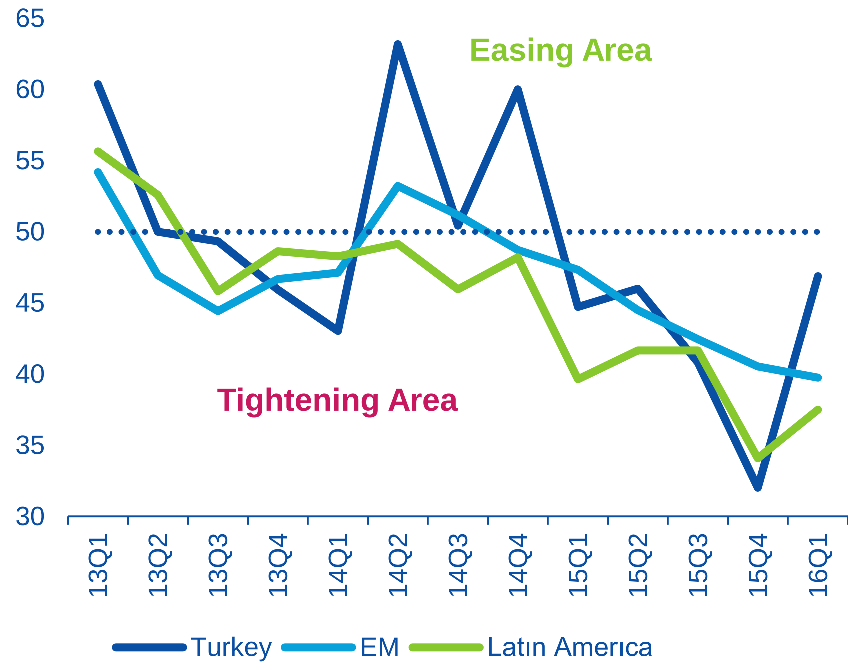
Global Developments

The EM Bank Lending Conditions tightened further with international funding conditions in negative but bottoming out. International funding still in the tightening area but improving faster in Turkey

IIF Bank Lending Survey for EM
Levels



IIF Bank Lending Survey for International Funding Conditions for EM
Levels



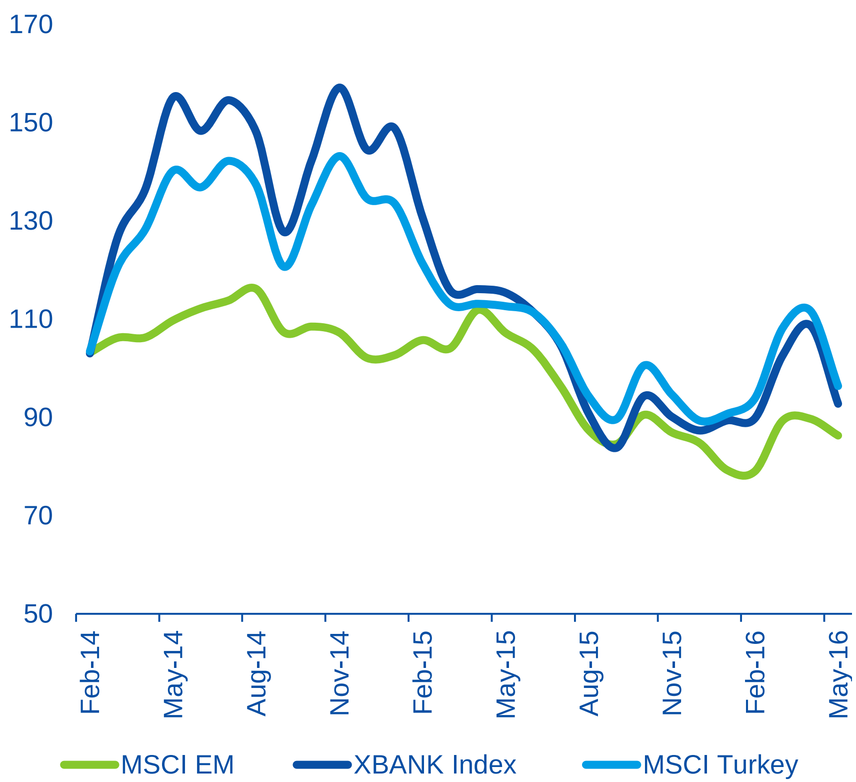
Source: IIF, Garanti Research

Turkey Financial Markets

EM Equities under pressure. Risk premium (CDS) mildly increase on a higher probability of a Fed rate hike in June.

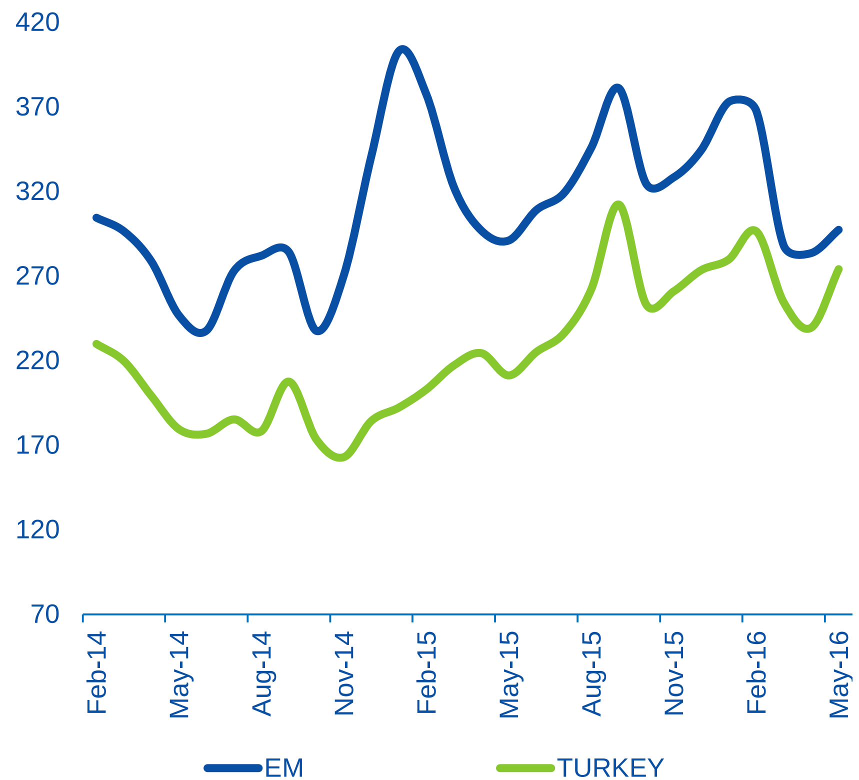
MSCI Indices

Base 100 = Jan 2014



CDS Indices

Levels



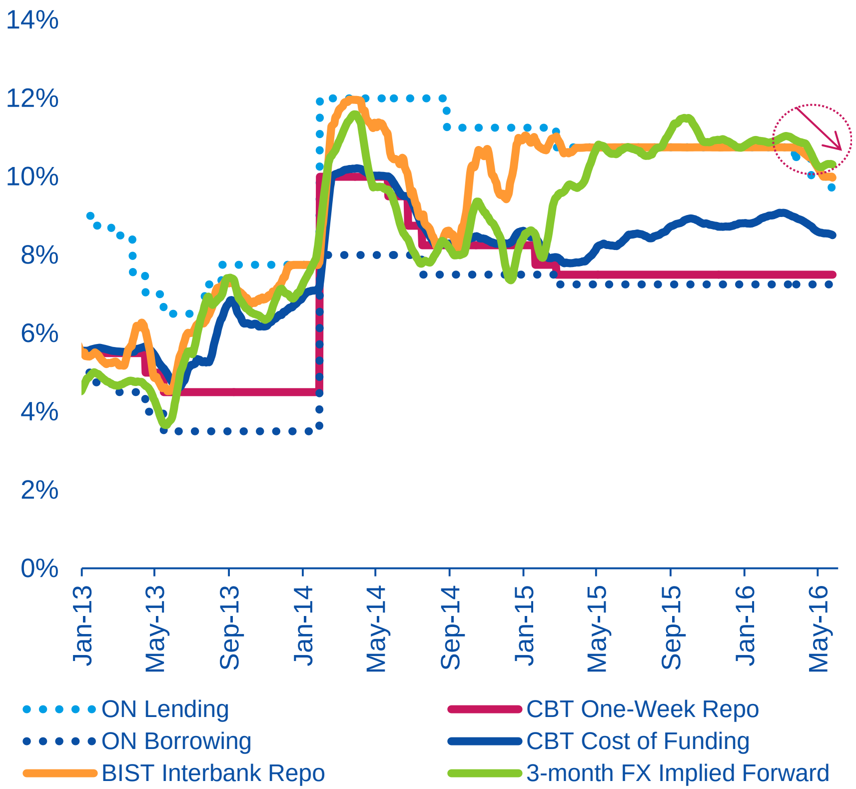
Source: Garanti Research, Bloomberg

Monetary Policy

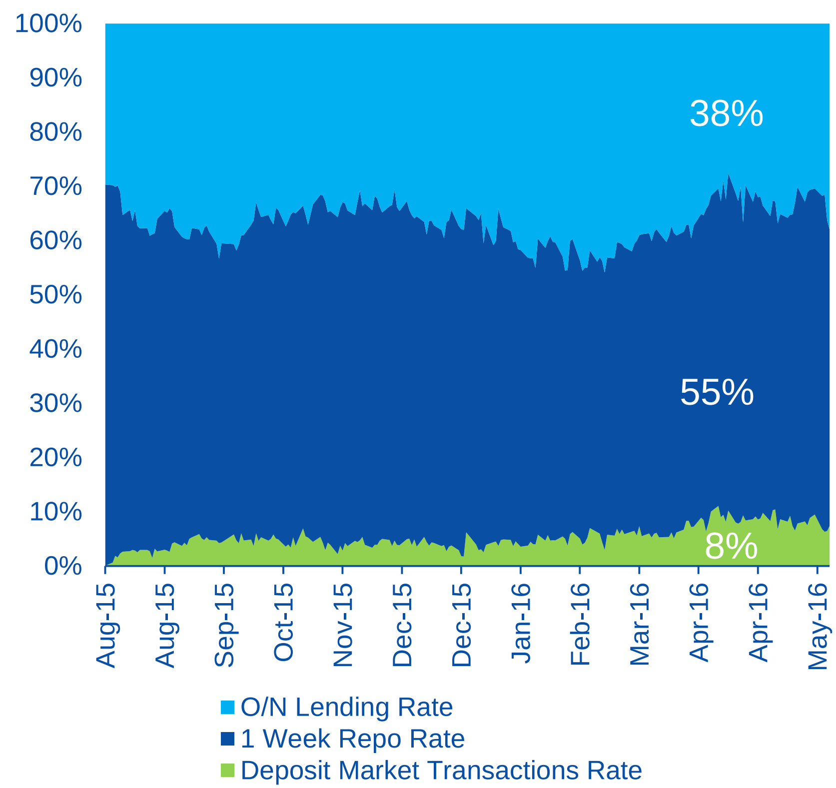
The CBT cut the upper bound of its interest rate corridor from 10% to 9.50% in May for the third consecutive month. Liquidity injections at 1W repo increased.

Turkey: Interest rate Corridor

Levels



Turkey: Shares of the CBT Total Funding

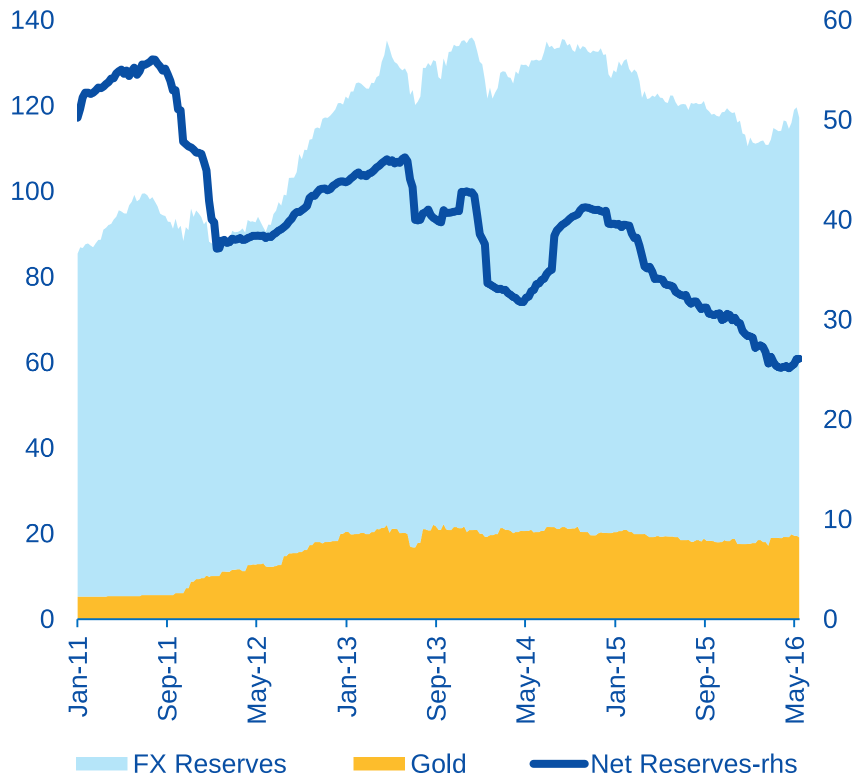


Source: Garanti Research, Turkstat, CBT, BRSA and Bloomberg

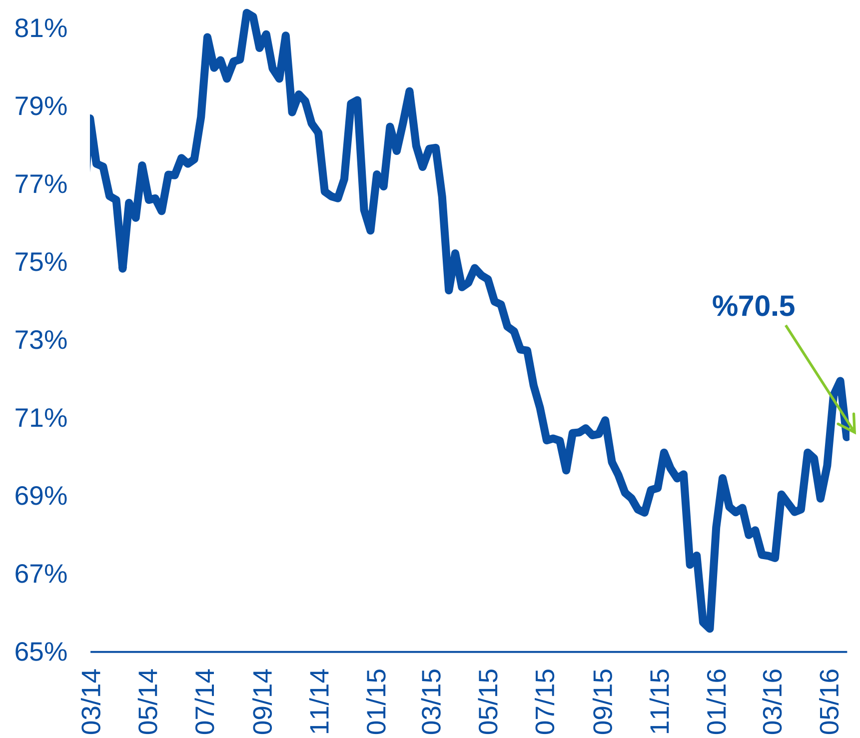
CBT Balance Sheet

FX reserves recovered somehow from low levels, CBT's net reserves stay at USD 26bn.

CBT Reserves
USD bn



Gross Reserves/ Short term External Debt
(%)



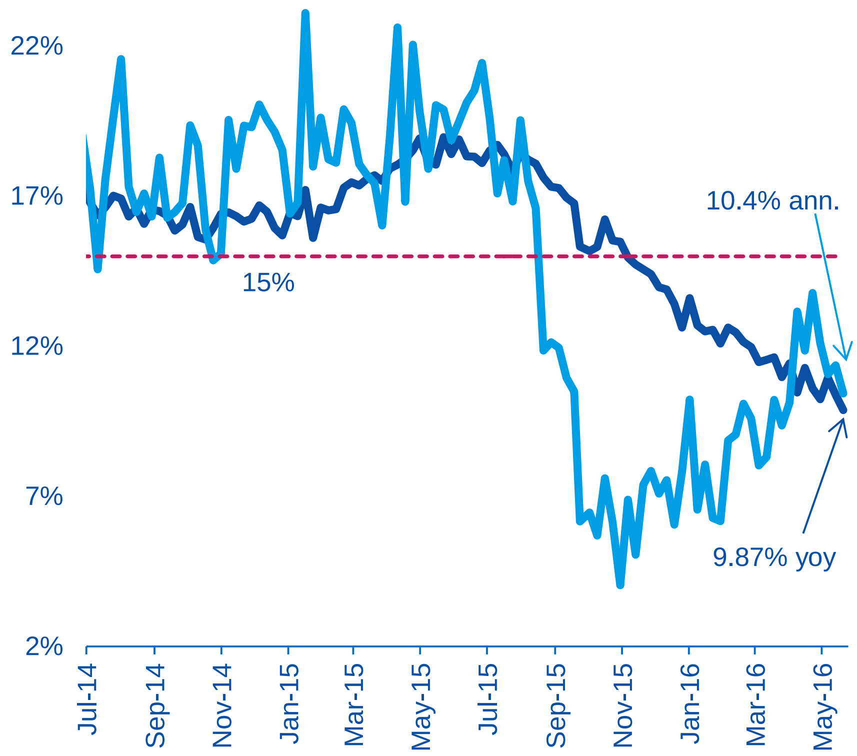
Source: Garanti Research, CBT

Loan Growth

YoY Credit growth fall below the 10% mark, the annual rate anticipate better momentum in the second part of the year

FX adjusted Credit Growth Rate

% yoy and 13 week ann. rates



YoY growth rate of FX adjusted credits fell below 10% (below the Central Bank 15% comfort range)

The annual rate and the ongoing CBT's easing process will support the stabilization/ recovery in the second half of the year

Source: Garanti Research and CBT

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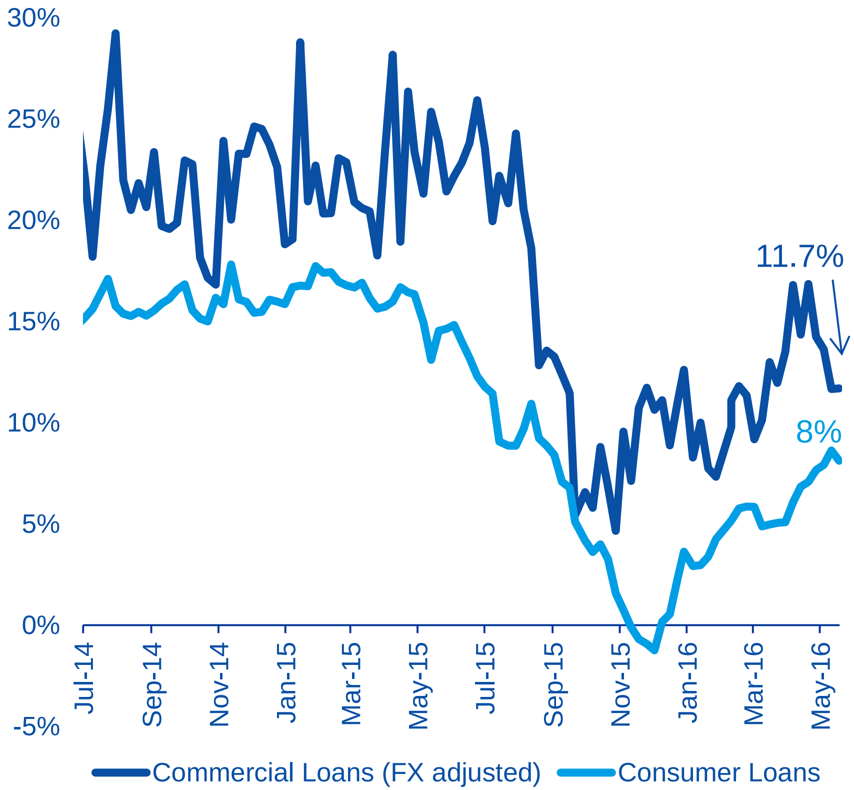
Loan Growth

Commercial loans slowed down while consumer continue to recover.

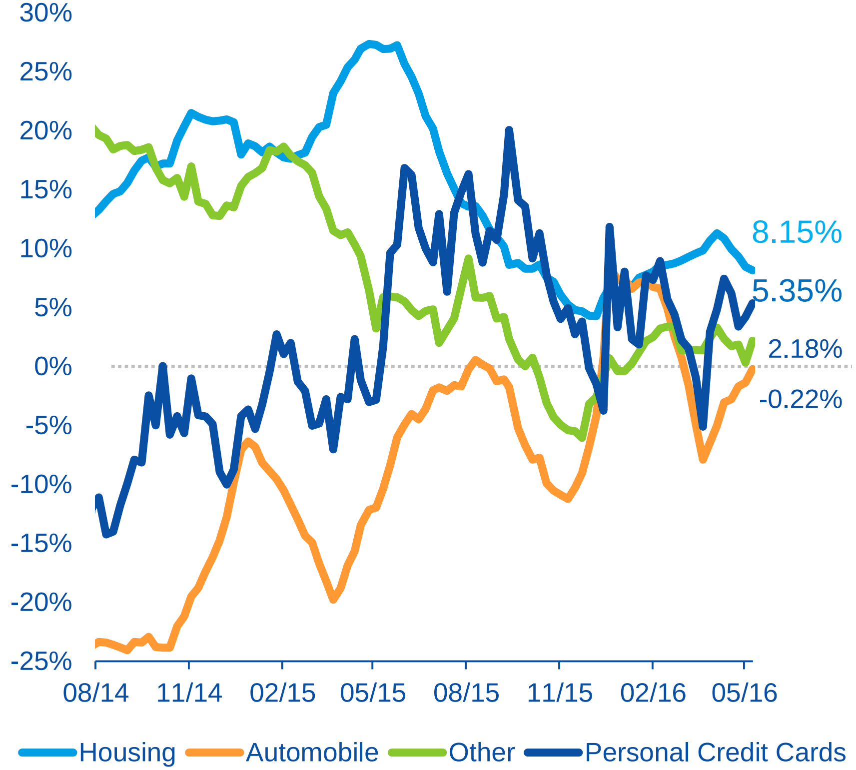
Comm. and Consumer Loans Growth Rate

% yoy and 13 week ann. rates



Consumer Loans

% 13 week ann. rates



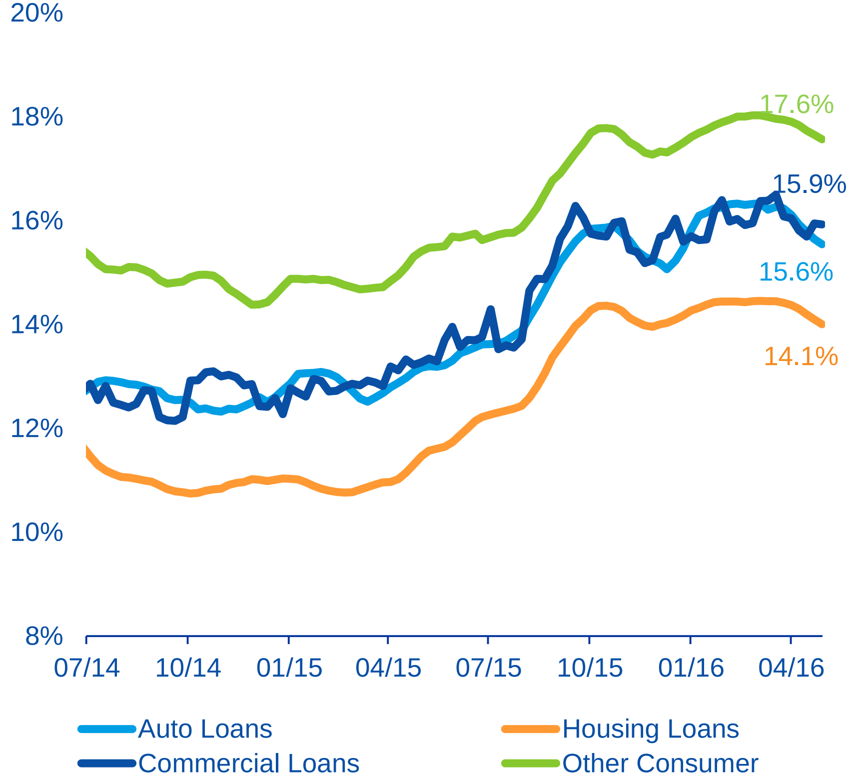
Source: Garanti Research, BRSA, CBT

Interest Rates

The CBT's decision to cut the upper bound of the interest rate corridor started to pass-through to retail and deposit rates

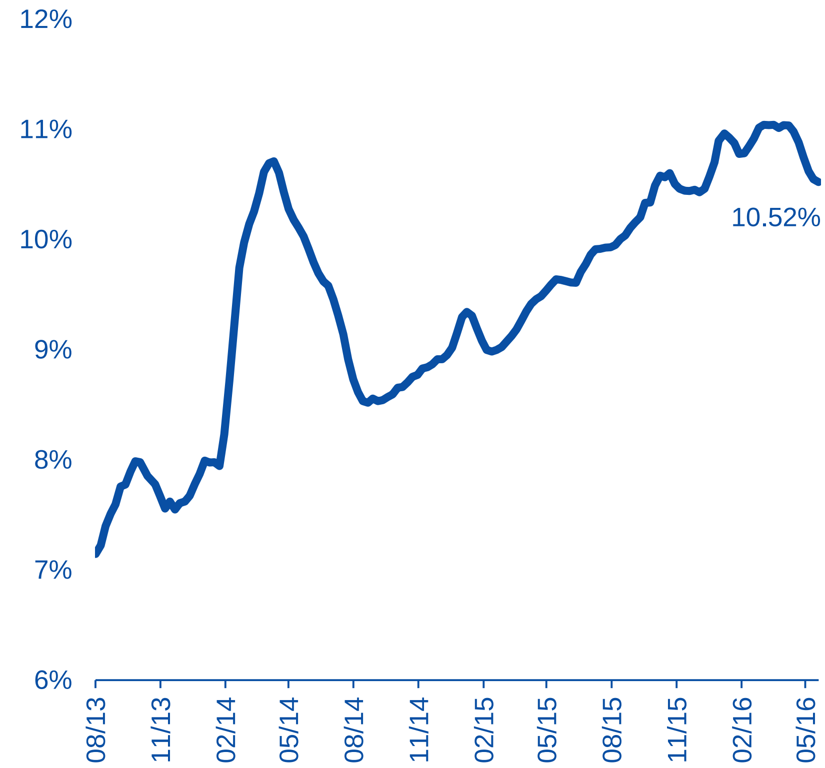
Comm. and Consumer Loans Interest Rates

4week mov.avg.



Deposit Interest Rates

4week mov.avg.

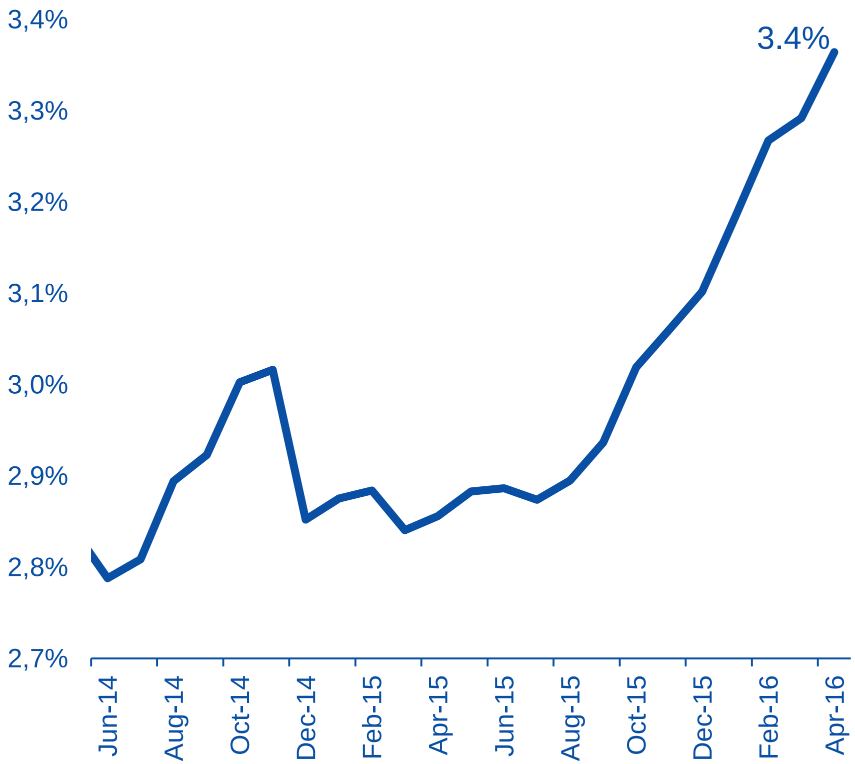


Source: Garanti Research, BRSA, CBT

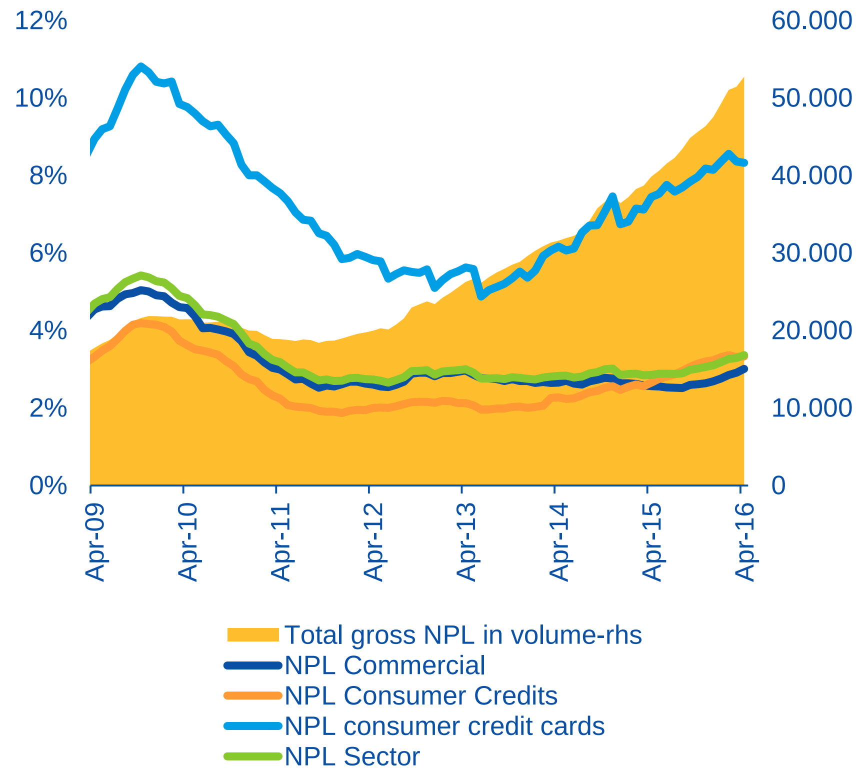
Asset Quality & Credit Risk

Non Performing Loans ratio continued its increase. NPL ratio of commercial credits reached 3% in April'16 compared to 2.5% in April'15. NPL of consumer credits inc. credit cards is 4.4% compared to 3.6% in the same period.

NPL Ratio of the Banking Sector



NPL Ratio and Volume by Segments

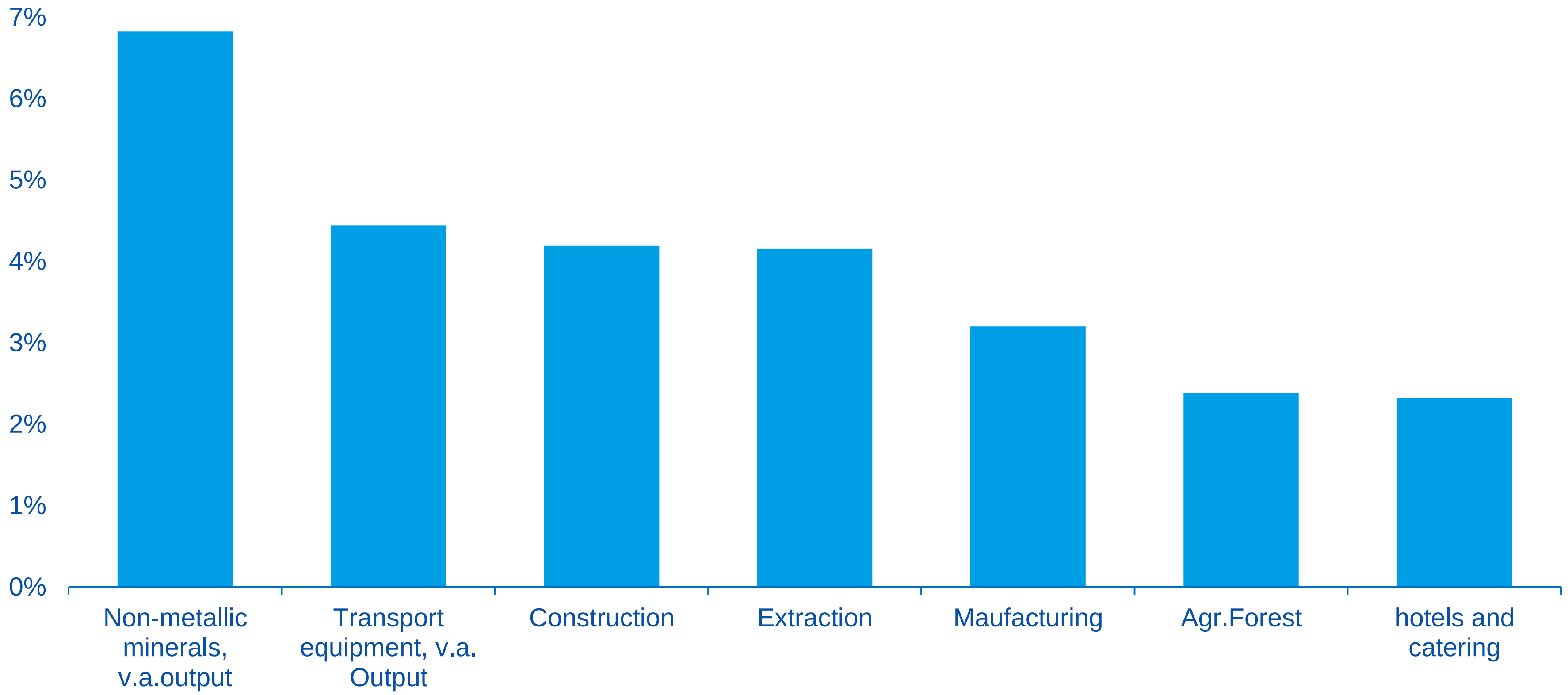


Source: Garanti Research, CBT and BAT

NPL in Sectorial Detail

Construction sector continues to take the lead at 6.8% in the NPL

NPL Ratio by Industry Sub-Segments



Source: Garanti Research and BRSA

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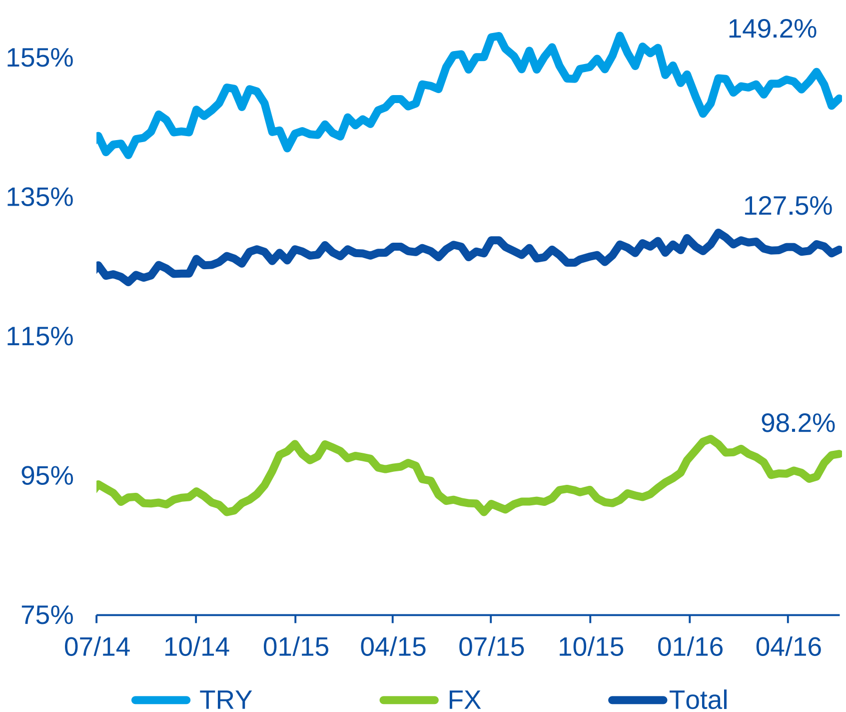
Liquidity

CBT supports financial stability by inducing banks to borrow with core liabilities since Oct'14. The Loans to deposit CBT ratio L/(D+OSF) indicator stands at near 80%.

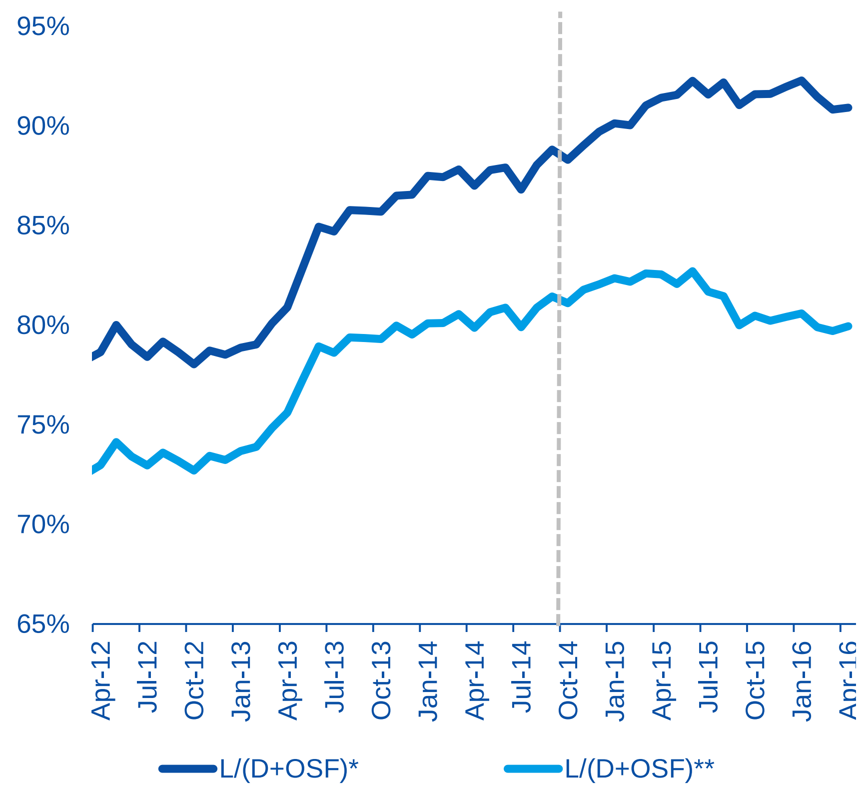
Loan/Deposit Ratio

YoY



Loan/Deposit+(Other Stable Funding Indicators)

%



OSF* : LT Issuances+Subordinated Debt+Equity

OSF**: LT Issuances+Subordinated Debt+Equity+ LT debt >1yr

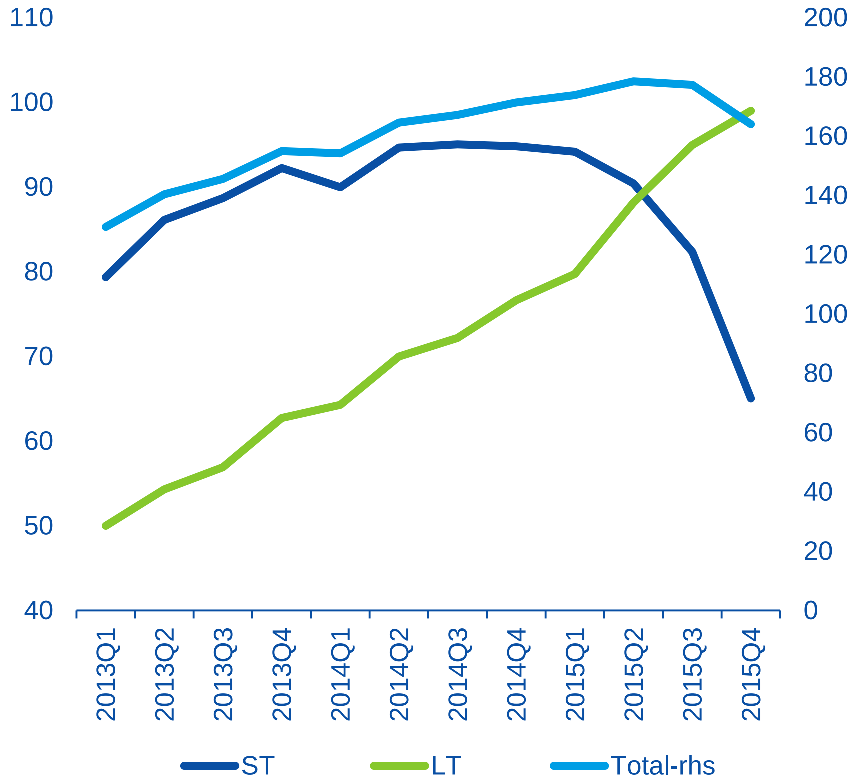
Source: Garanti Research, BRSA , CBT, CBT FS Report 1Q'16

Liquidity

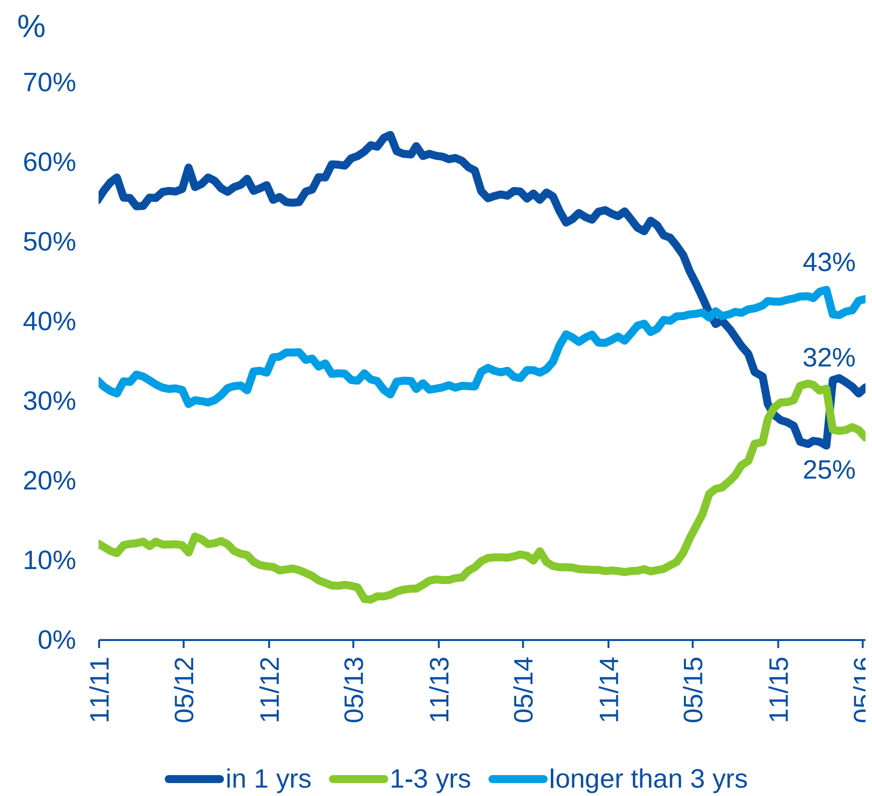
FX debts higher in the Long term than in the short term as banks continue to borrow at longer maturities.

External Debt of Banks-maturity structure

Bln USD



Maturity Breakdown of Non-Core FX Liabilities s.t. RR



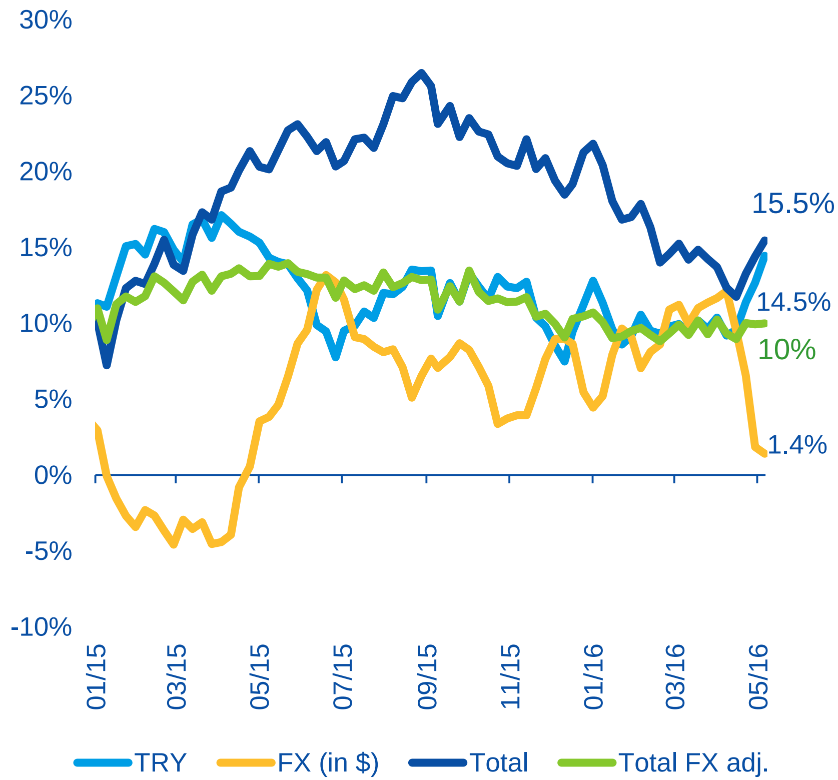
Source: Garanti Research, BRSA , CBT, Treasury

Deposits

A sharp swift in favor of TL deposits in May.

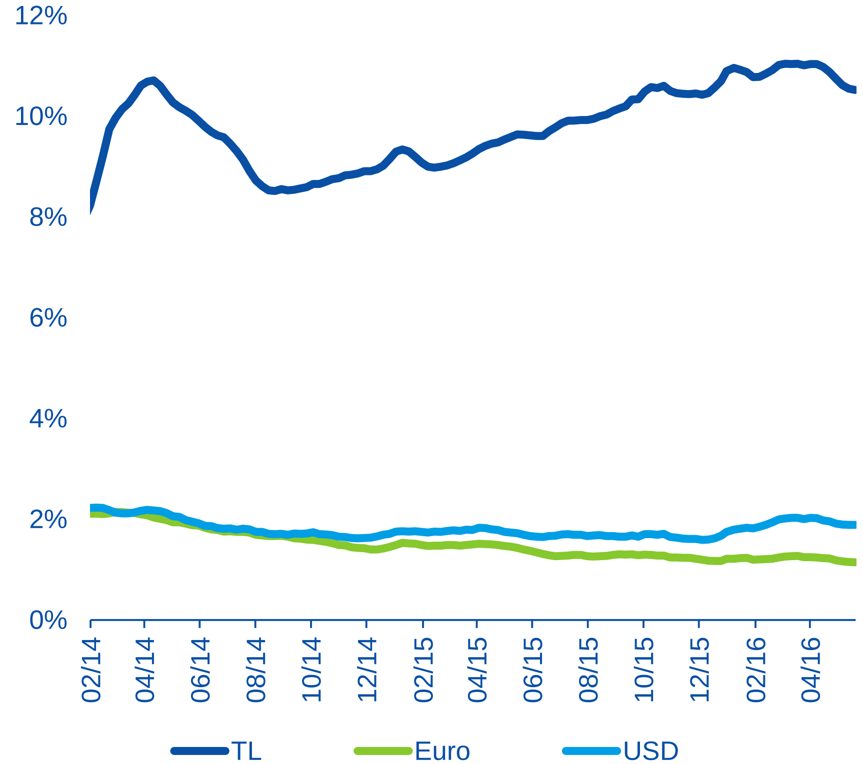
Deposit Growth Rate

YoY



Deposit Interest Rates in TL& € & $

4week mov.avg

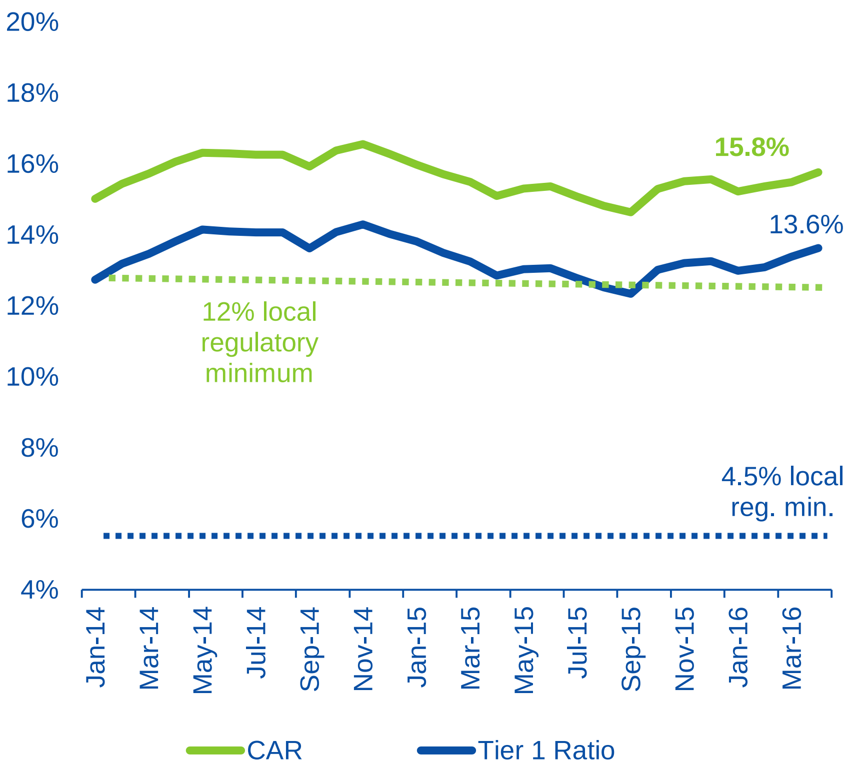


Source: Garanti Research and CBT

Solid Buffers

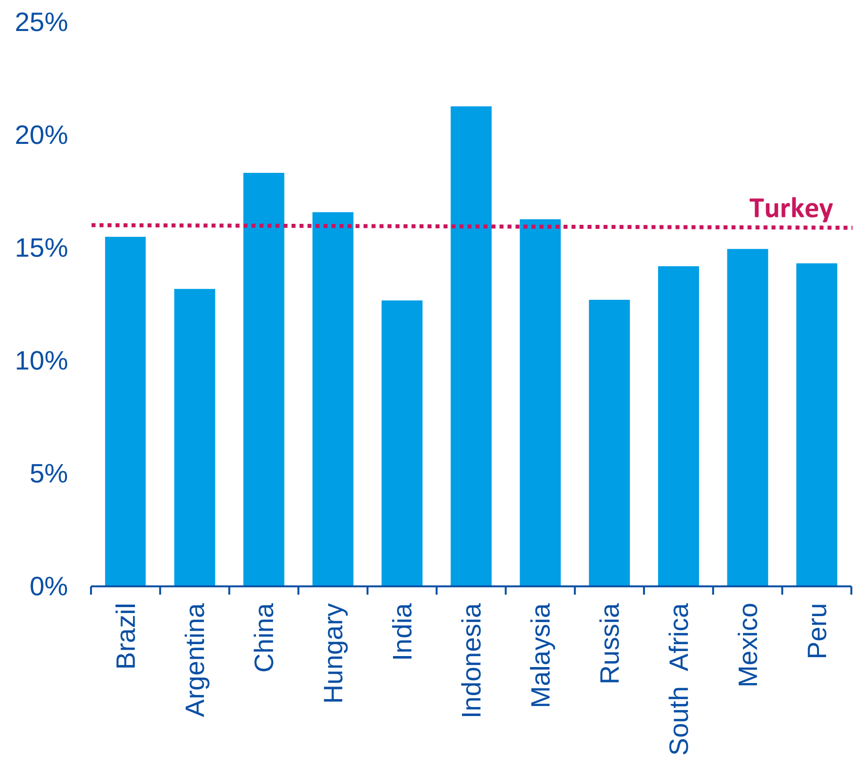
Both CAR and Common Equity Tier 1 capital ratios increased by almost 30bps in May (MoM).

Capital Adequacy Ratio & CET 1



Source: Garanti Research, BRSA

EM Capital Adequacy Ratios (Q4'15)



Source: Garanti Research and IMF FSI

Regulatory Developments

- **Risk weights on consumer loans:** BRSA changed the risk weightings of consumer loans in line with Basel-III alignment. Effective as of March 31th, risk weightings of the non-mortgage consumer loans decreased to 75% from the range of 100-250%, risk weighting of the residential mortgages that are fully collateralized came down to 35% from 50%.

- **Capital Adequacy (CAR):** Regulation on CAR for systemically important financial institutions (SIFI), in line with the Basel-III process, has been published. Based on a score defined by the regulator, banks are classified in three categories and required to keep additional buffers depending on their categories. SIFI buffers will increase gradually and the buffers will be fully implemented by 2019. SIFI buffers for each year and each group is provided below:

	2016	2017	2018	2019
Group 1	0.25	0.50	0.75	1.00
Group 2	0.37	0.75	1.12	1.50
Group 3	0.50	1.00	1.50	2.00

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