BBVA | RESEARCH

TURKEY

MONTHLY BANKING MONITOR

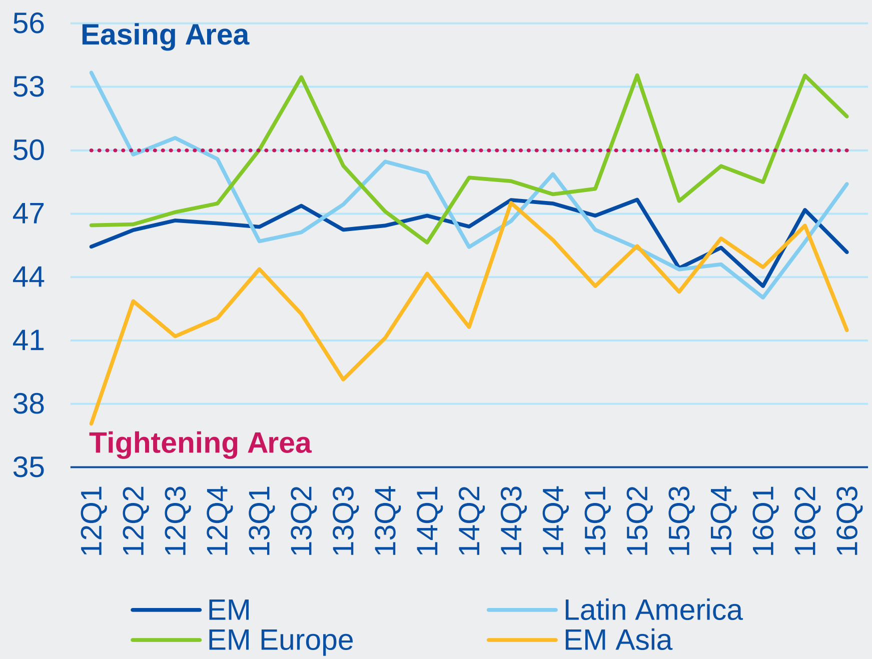
OCTOBER

November 11th

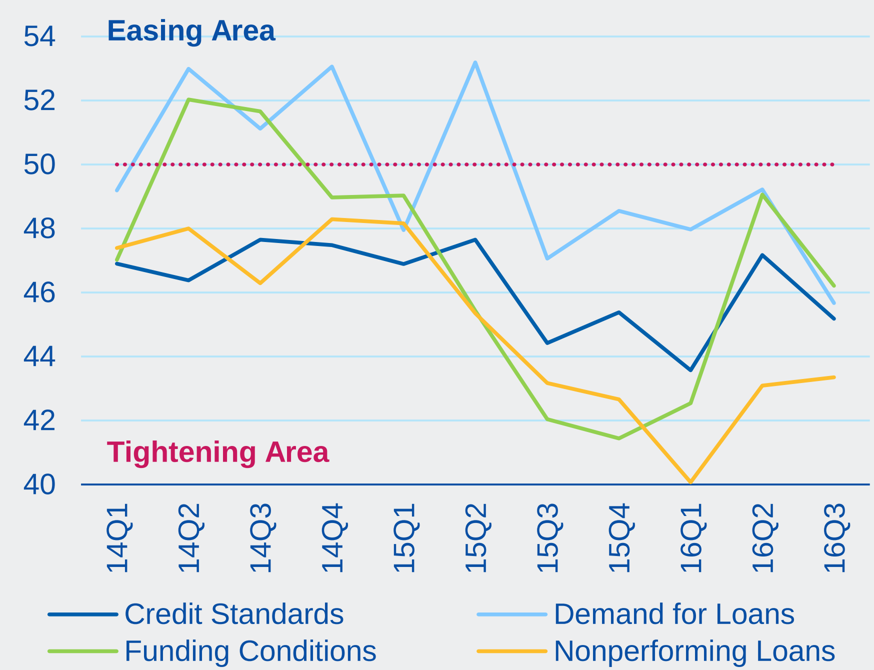
GLOBAL DEVELOPMENTS

EM bank lending conditions deteriorated again in 3Q16. Demand for loans decreased significantly, in line with increased risk and uncertainty

IIF BANK LENDING SURVEY FOR EM- CREDIT STANDARDS
Levels



IIF BANK LENDING SURVEY FOR EM- OVERALL INDICES
Levels

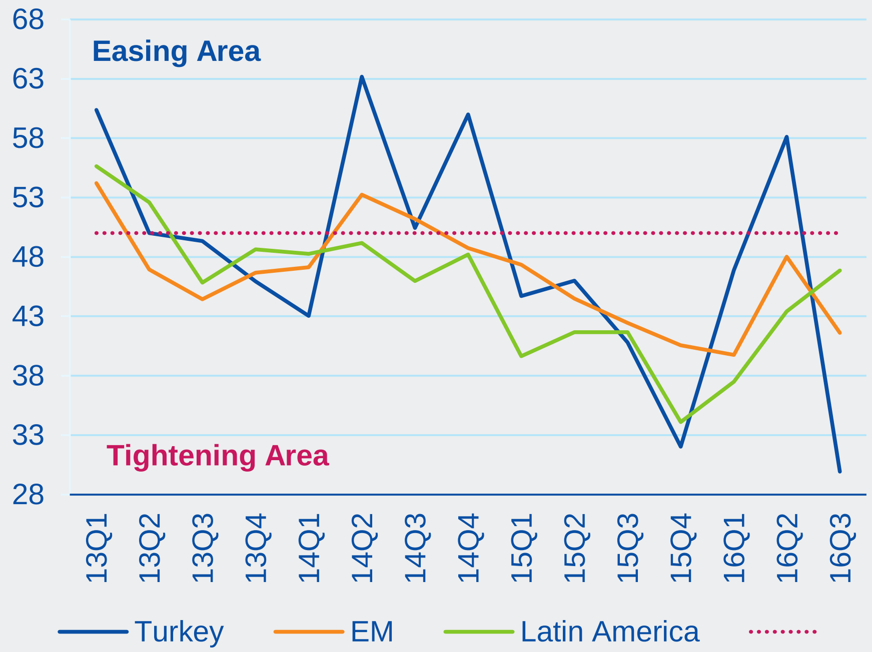


Source: IIF EM Bank Lending Survey 3Q'16; Garanti Research

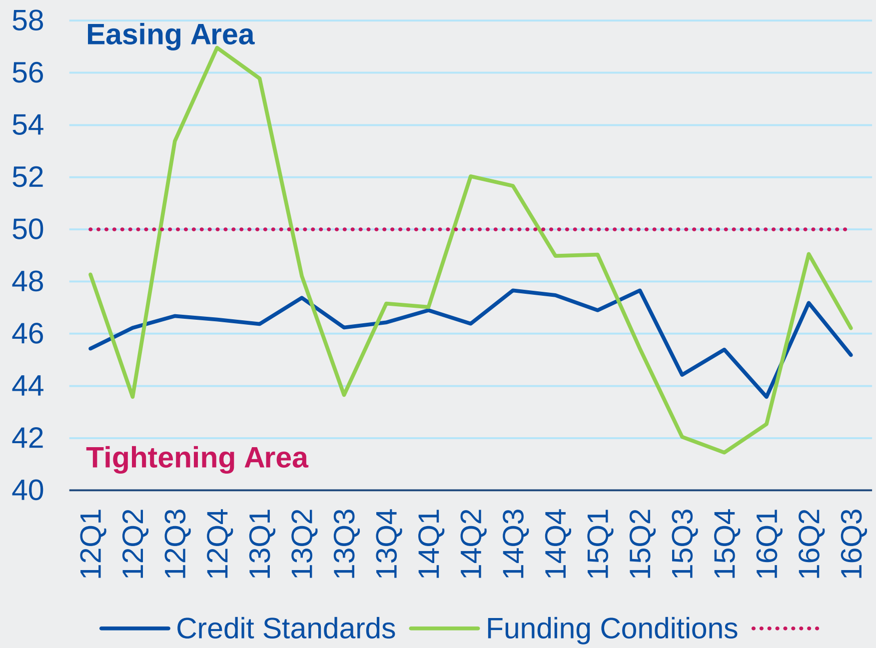
GLOBAL DEVELOPMENTS

International funding conditions tightened again both in EM and Turkey, at a higher rate than 2Q16. Credit standards tightened more aggressively in 3Q16

IIF BANK LENDING SURVEY FOR EM- INTERNATIONAL FUNDING CONDITIONS
Levels



IIF BANK LENDING SURVEY FOR EM: CREDIT &FUNDING CONDITIONS
Levels

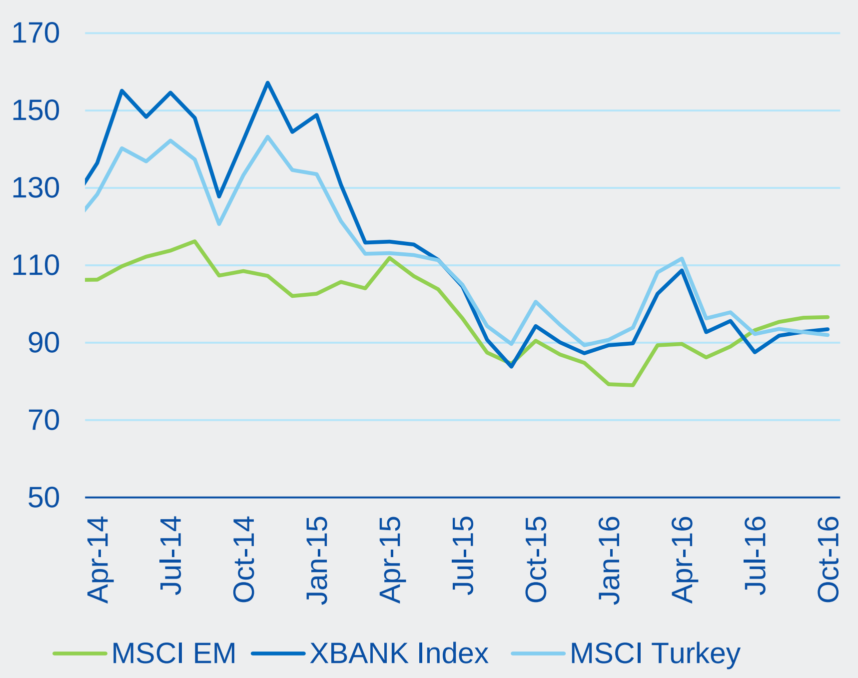


Source: IIF EM Bank Lending Survey 3Q'16; CBT Bank Lending Survey 3Q'16; Garanti Research

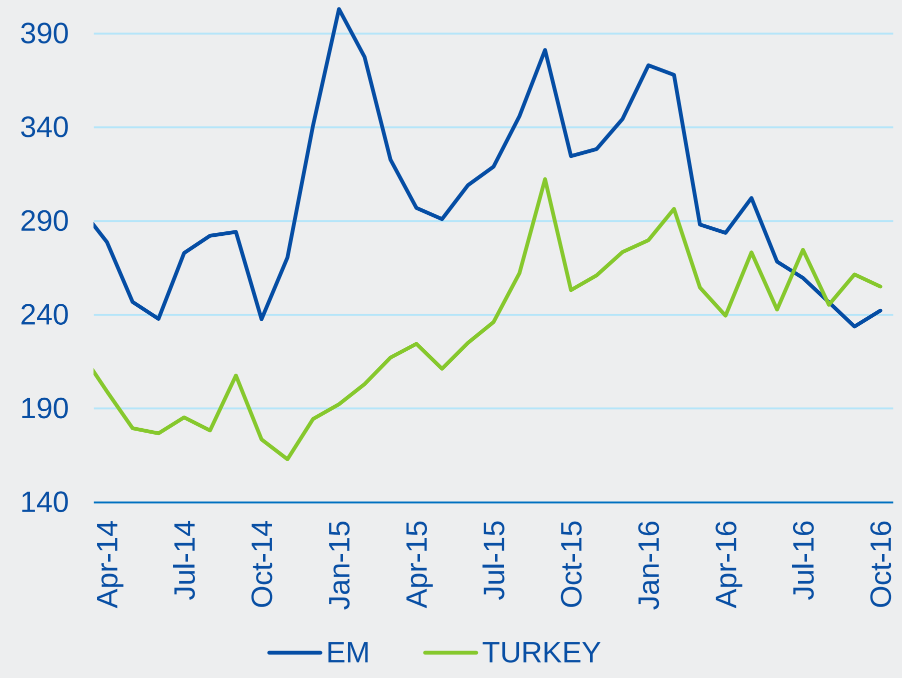
TURKEY FINANCIAL MARKETS

Turkish equities lagged behind the EM. Risk premium (CDS) of Turkey decreased slightly to 255 bps in October

MSCI Indices
Base 100 = Jan 2014



RISK PREMIUMS, 5 YEAR CDS INDICES
Levels

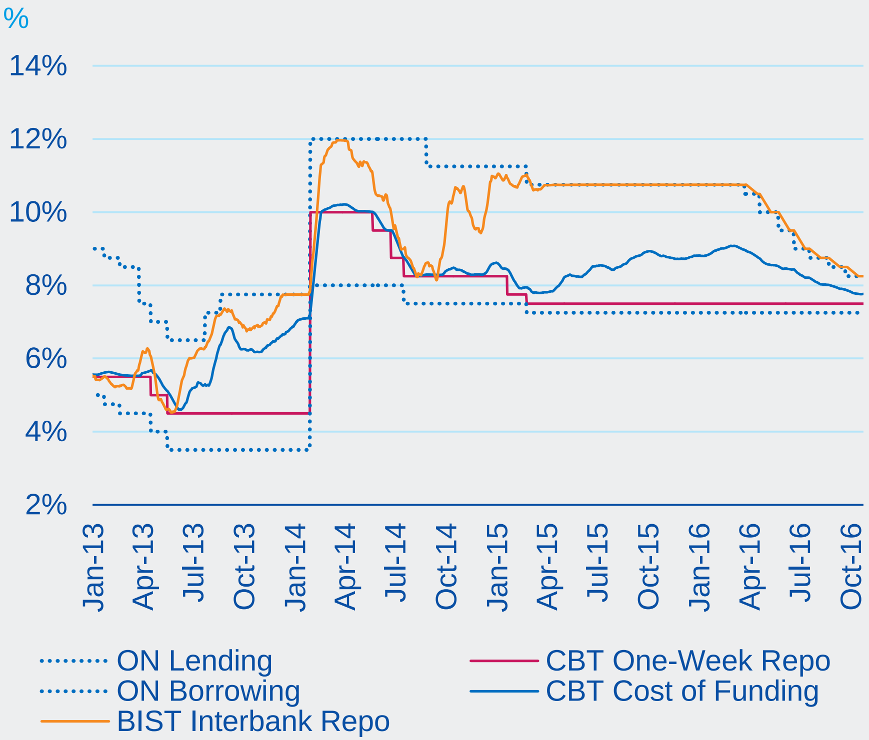


Source: Garanti Research, Bloomberg

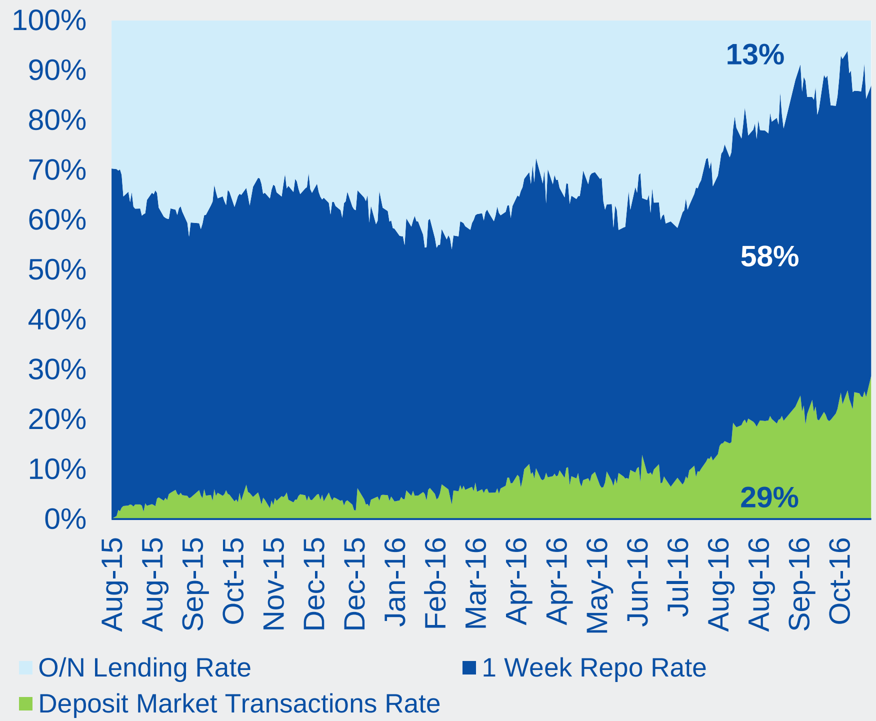
MONETARY POLICY

The CBT held its key interest rate constant in October, following the 7-month rate cuts with 250bps in total. In TL funding, CBT decreased its repo funding to 58% in October from 68% in September

TURKEY: INTEREST RATE CORRIDOR



TURKEY: SHARES OF THE CBT TOTAL FUNDING

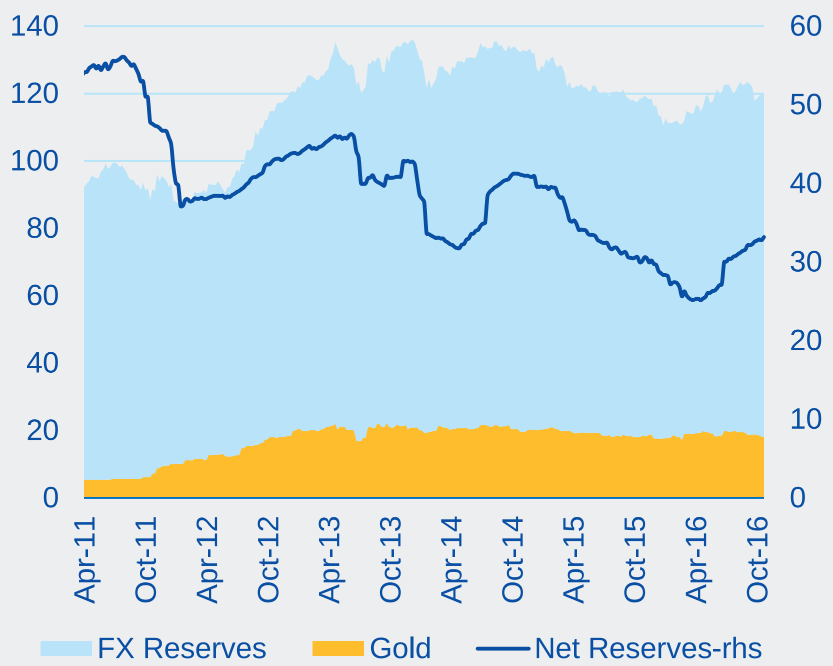


CBT BALANCE SHEET

FX reserves increased in October compared to September due to increase in banks' FX deposits held at the CBT. Net reserves also increased to USD 33.2bn

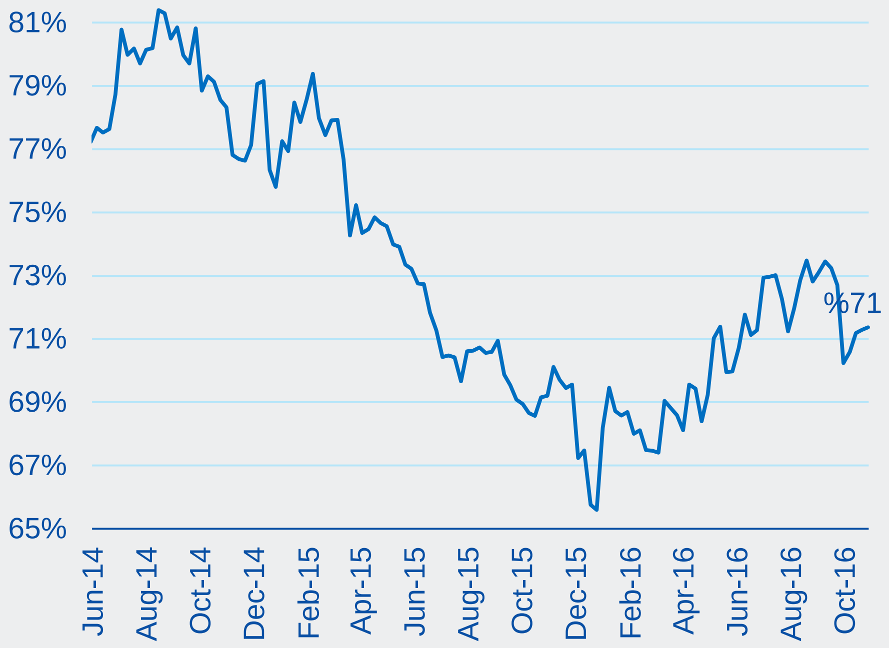
CBT RESERVES

USD bn



GROSS RESERVES/ SHORT TERM EXTERNAL DEBT

%

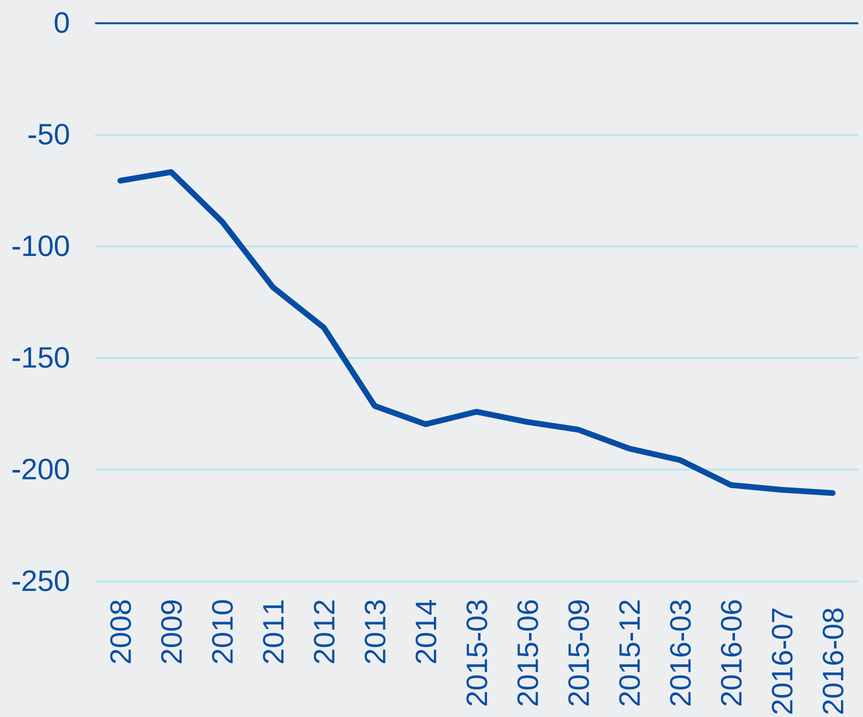


Source: Garanti Research, CBT

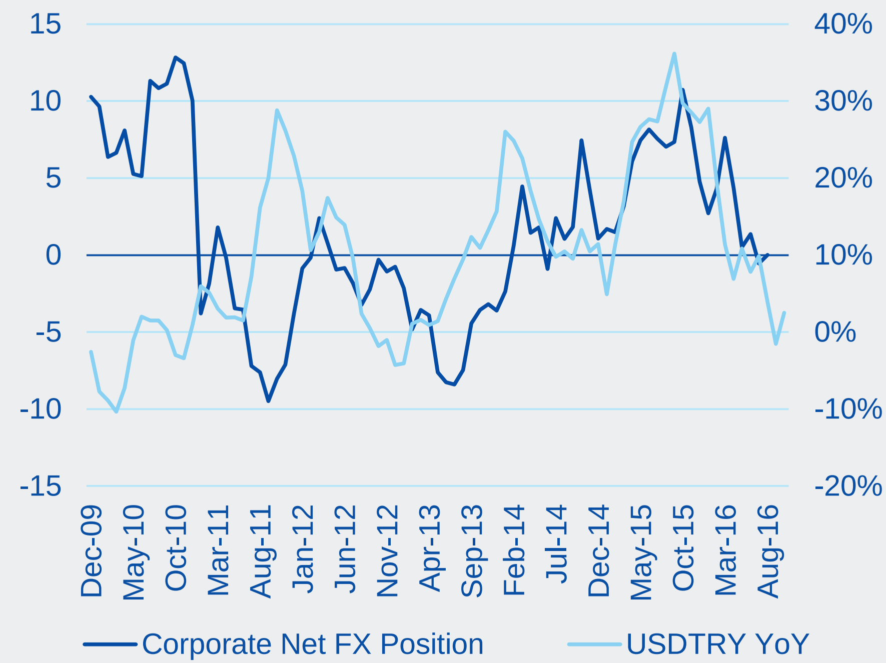
REAL SECTOR

Corporates FX short position* turned negative in July for the first time since June'14 with 10% yoy depreciation in TL. In August, it stabilized somewhat at USD 5mn surplus

CORPORATES' OVERALL FX POSITION
USD bn



CORPORATES NET SHORT TERM FX POSITION
USD bn



Source: CBT; Garanti Research

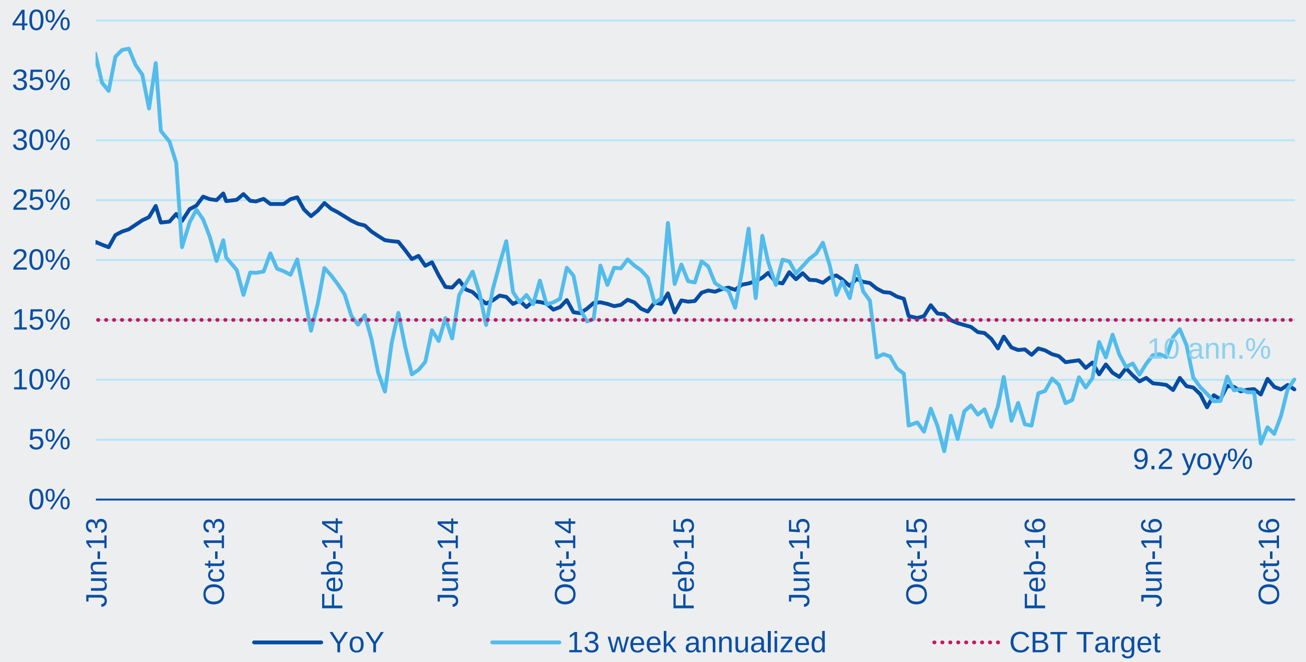
*latest data available August

LOAN GROWTH

YoY Credit growth continue to float just around 9%.With the end of October data, the 13 week trend rate jumped to 10% thanks to gained momentum in in consumer credits

FX ADJUSTED CREDIT GROWTH RATE

% yoy and 13 week ann. rates



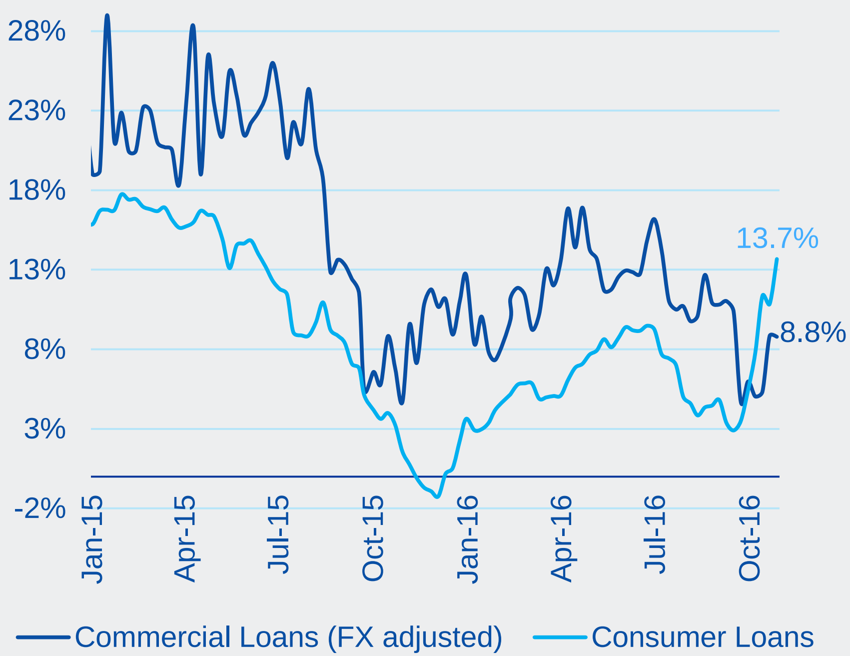
- YoY growth rate of FX adjusted credits still below 10% (below the Central Bank 15% comfort range)
- The trend rate (annualized yearly rate) moved up to 10% from 6% last month

Source: Garanti Research and CBT

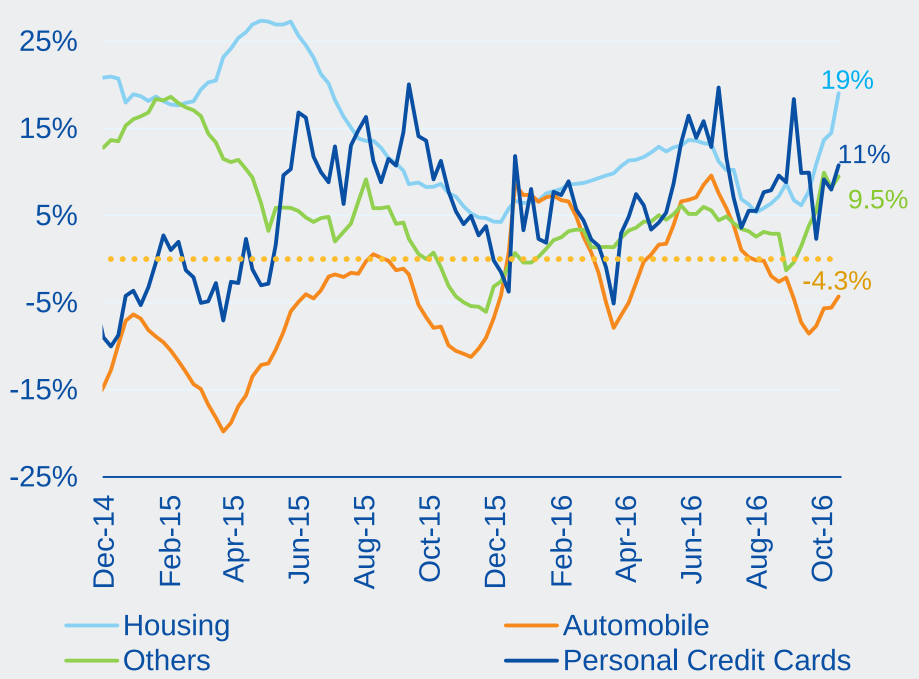
LOAN GROWTH

Deceleration in consumer credits seen especially since 2Q16 reversed its trend in October and shows a marked pick-up in all sub-segments

COMM. AND CONSUMER LOANS GROWTH RATE
13 week ann. rates



CONSUMER LOANS
% 13 week ann. rates

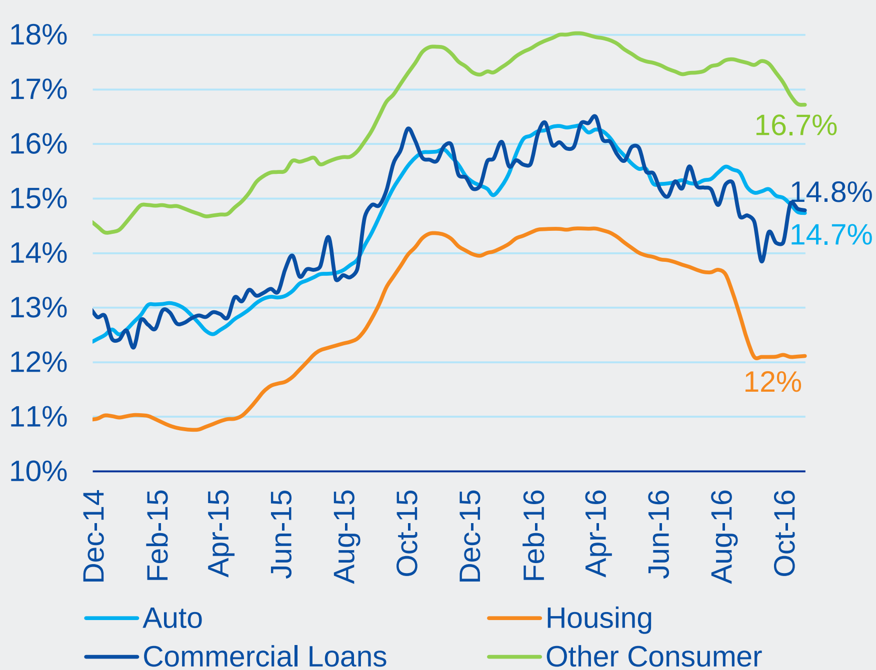


Source: Garanti Research, BRSA, CBT

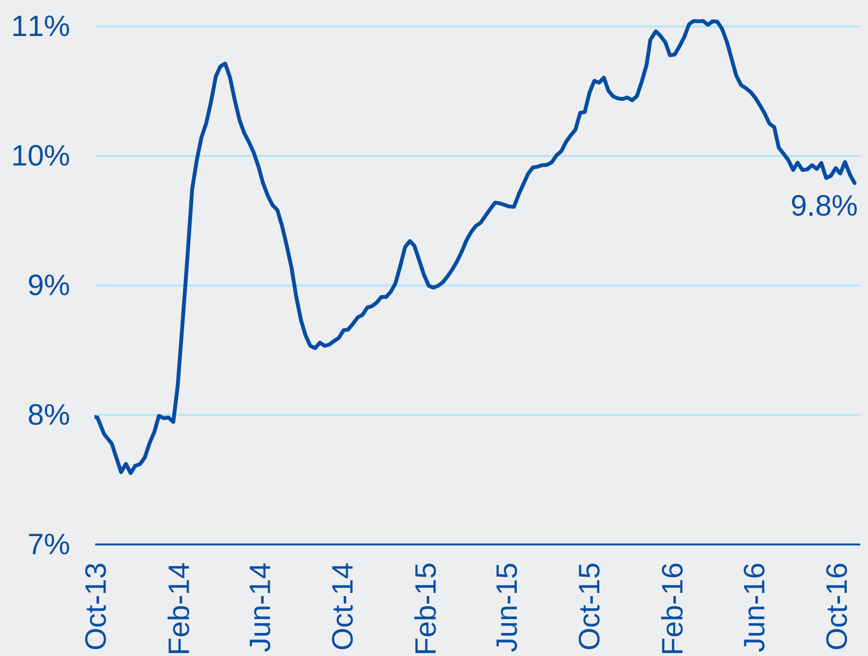
INTEREST RATES

Compared to September, interest rates on consumer credits followed a downward trend in October. Deposit rates continue to fall at very low levels

COMM. AND CONSUMER LOANS INTEREST RATES
4week mov.avg.



DEPOSIT INTEREST RATES
4week mov.avg.



Source: Garanti Research, BRSA, CBT

ASSET QUALITY & CREDIT RISK

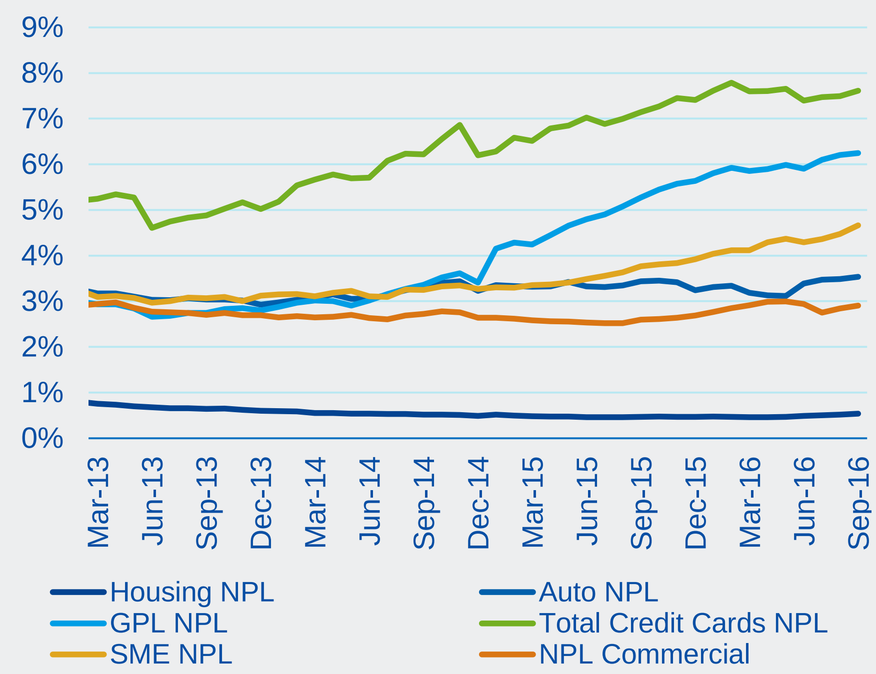
Albeit slightly, compared to 2Q16, NPL ratio in almost all sub-segments of the sector increased as of end of 3Q16. Increase has been the highest at GPL (35bps). YoY growth of gross NPL decelerated in 3Q following the restructuring process

NPL RATIO OF THE BANKING SECTOR

%

NPL RATIO BY SELECTED SUB-SEGMENTS

%

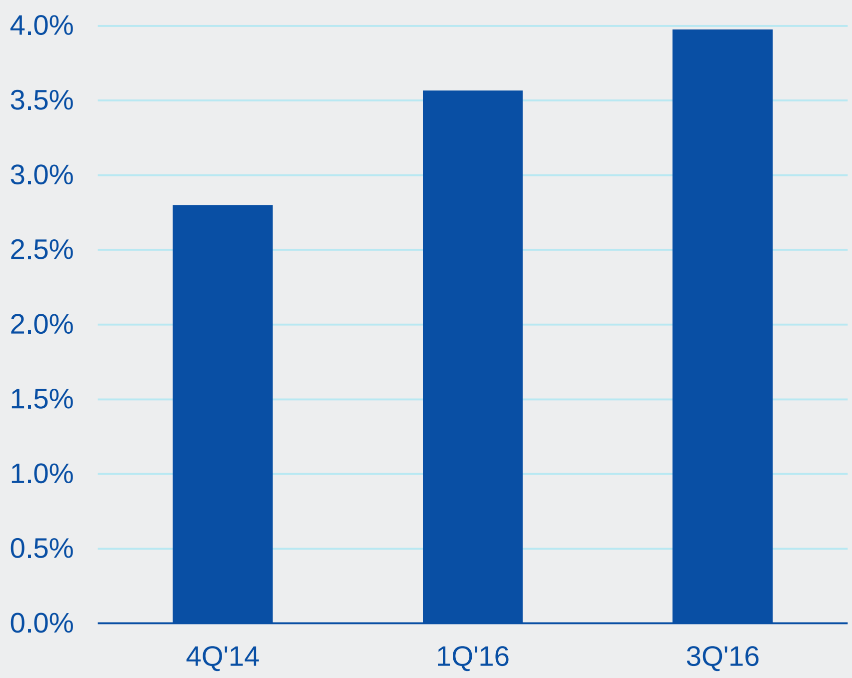


Source: Garanti Research, BRSA

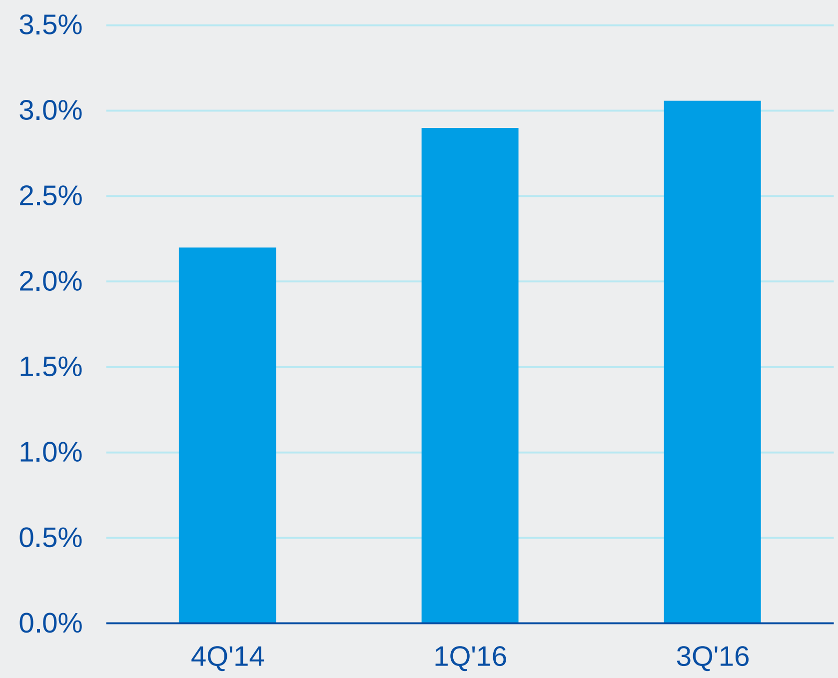
ASSET QUALITY & CREDIT RISK

Group 2 Loans (Loans under Close Watch) have increased in the last 2 years. The ratio increased by 117 bps from 2.8% in 4Q14 to almost 4% in 3Q16, highlighting some risks to asset quality

GROUP 2 LOANS TO GROSS LOANS
Tier 1 Banks* Sector avg. %



RESTRUCTURED PERFORMING LOANS TO GROSS LOANS
Tier 1 Banks' Sector avg. %



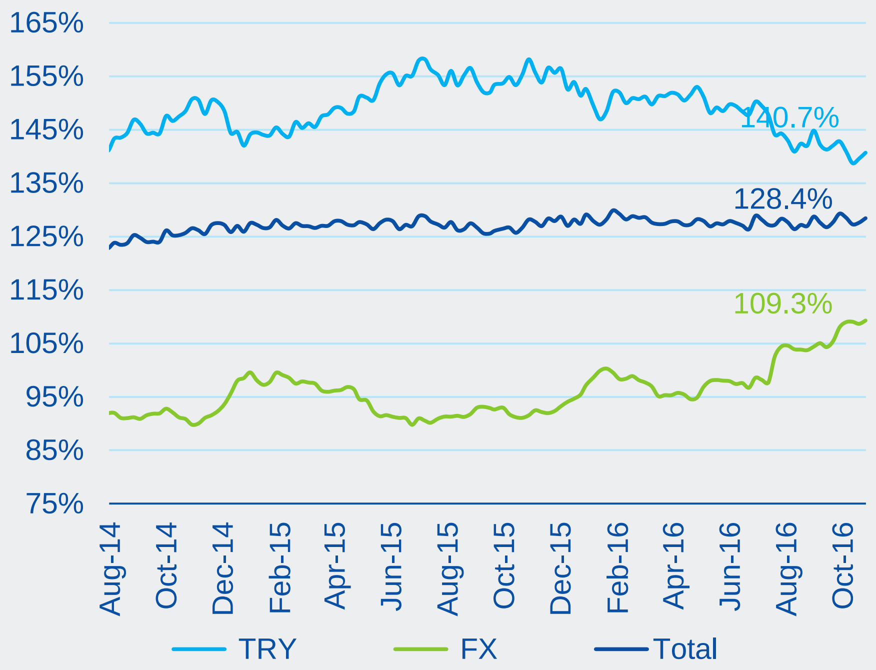
Source: Garanti Research, Public Disclosure Platform KAP

LIQUIDITY

Loan to Deposits ratio decelerated by almost 90bps compared to September, mainly due to holds tendency of being TL supporter. Liquidity Coverage Ratio of Tier 1 group is well above the minimum legal ratio

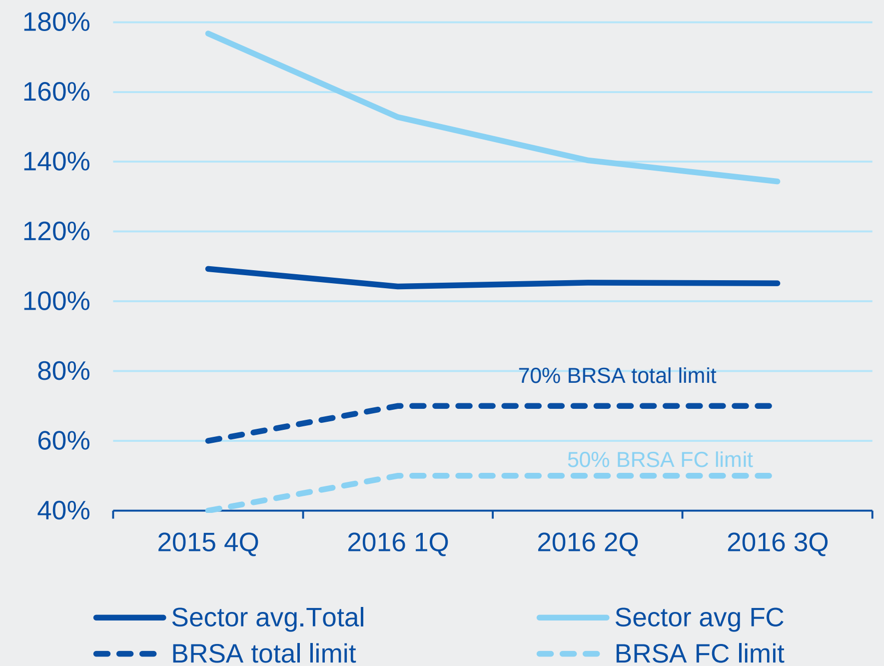
LOAN/DEPOSIT RATIO (LTD)

YoY



LIQUIDITY COVERAGE RATIO (LCR)*

%



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

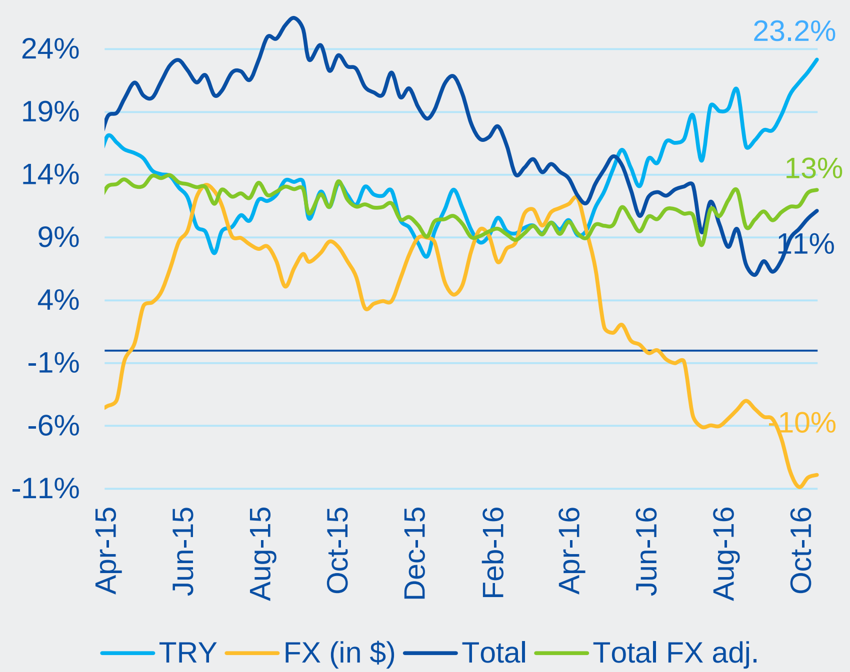
* The average of last three months' liquidity coverage ratio

DEPOSITS

Compared to September, deposit growth rates accelerated in October. Contraction in FX deposits continues. Interest rates in USD deposits increased by 50bps in October compared to September, caused by holds TL tendency

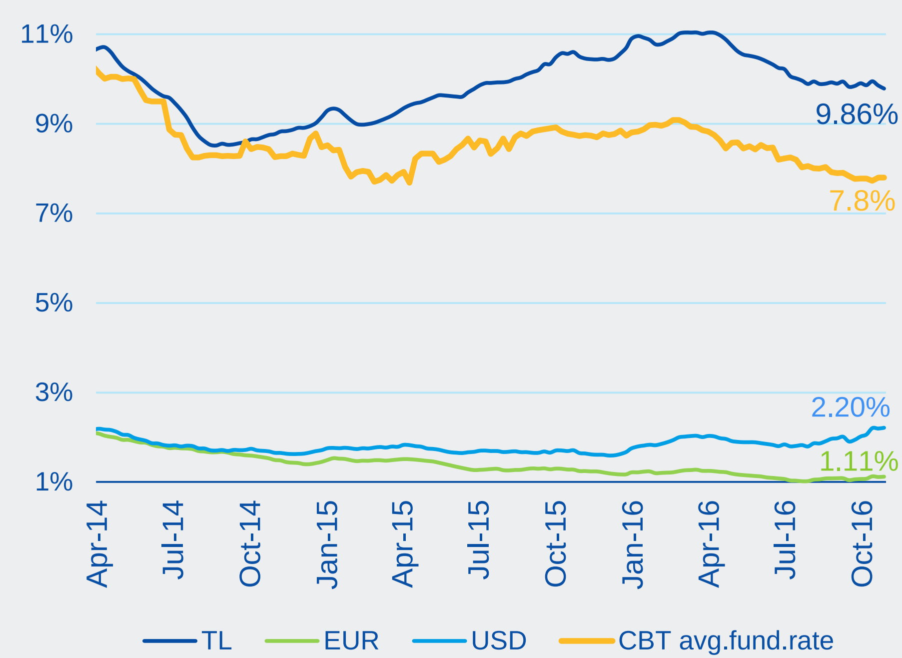
DEPOSIT GROWTH RATE

YoY



DEPOSIT INTEREST RATES IN TL& € & $

4week mov.avg



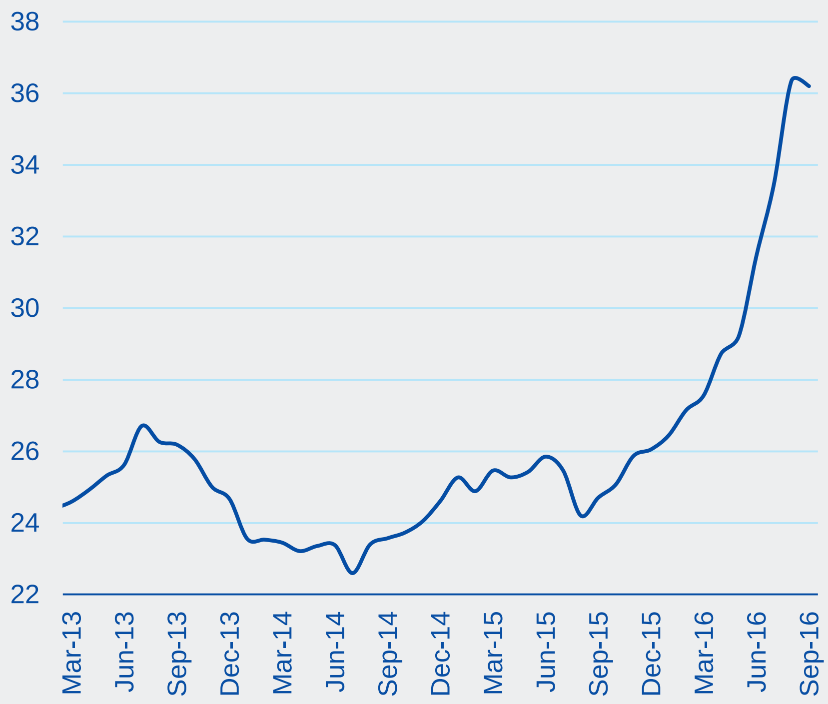
Source: Garanti Research and CBT

PROFITABILITY

Compared to previous month, net profit* declined by almost 40% (MoM) and 6% (YoY) in September due to increase in general provisions. NII increased by 4% (MoM)

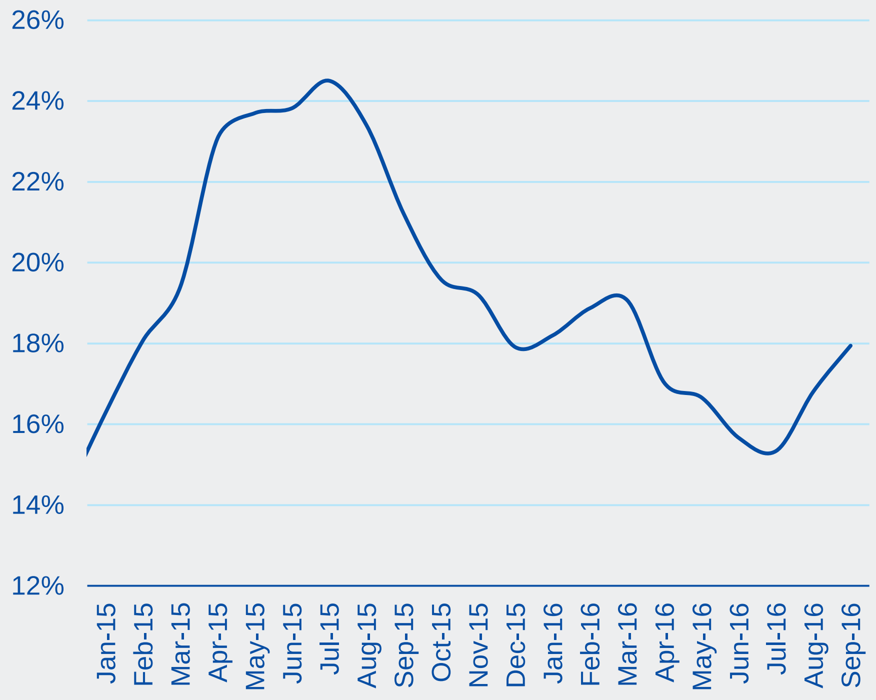
NET PROFIT

12 month cum., billion TL



NET INTEREST INCOME (NII)

12 month cum.,%



Source: Garanti Research, BRSA

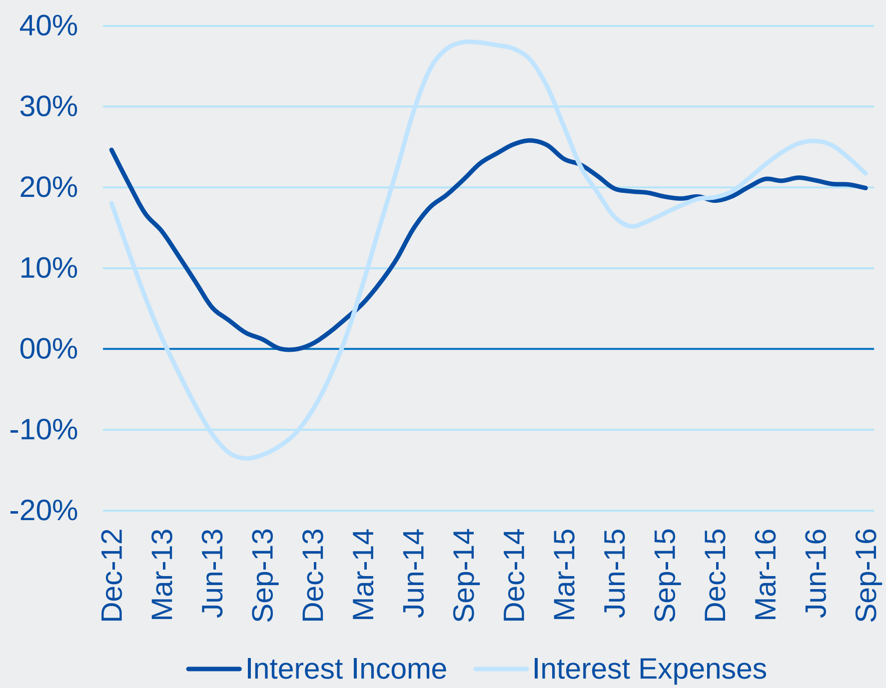
*latest monthly data available September

PROFITABILITY

Interest expenses and non-interest income declined in September. Low growth rate in non-interest expenses is supportive for profitability

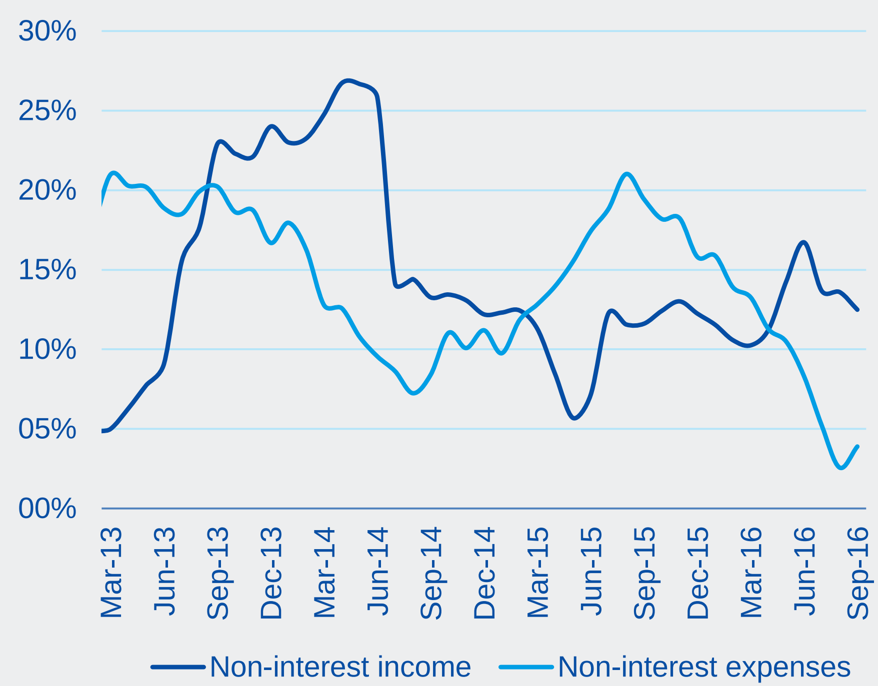
INTEREST INCOME & INTEREST EXPENSES GROWTH

12 month cum., %



NON-INTEREST INCOME & NON-INTEREST EXP.GROWTH

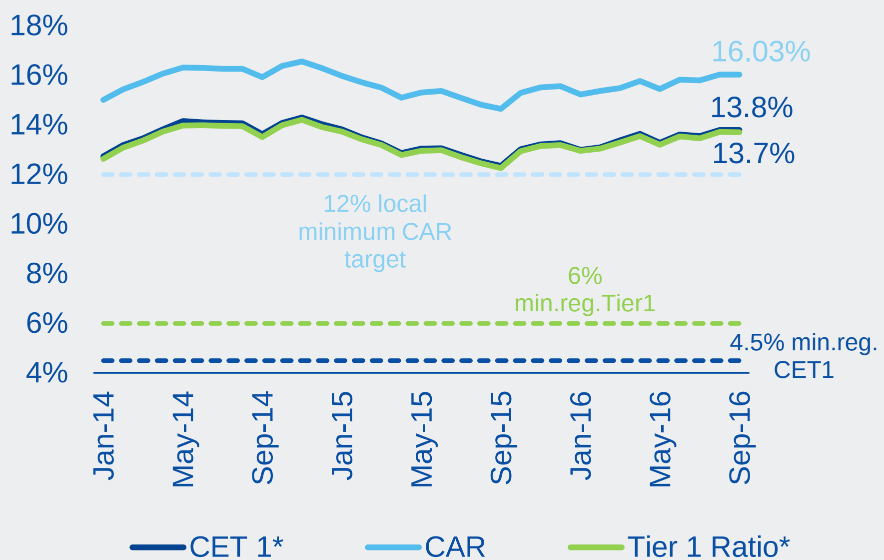
12 month cum.,%



SOLID BUFFERS

Both Capital Adequacy Ratio (CAR) and Common Equity Tier 1 stayed stable due to no change in risk weighted assets

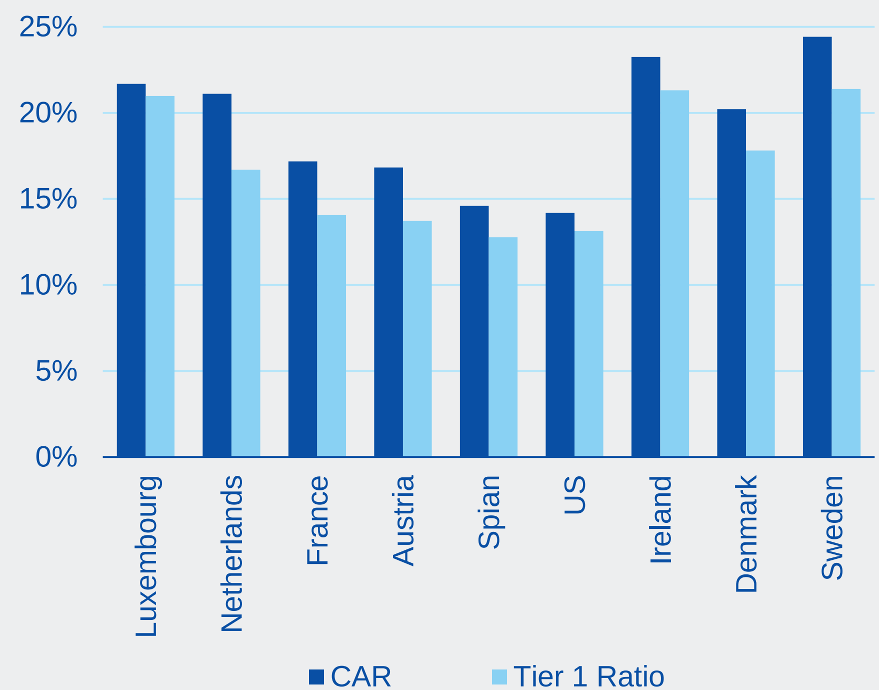
CAPITAL ADEQUACY RATIO & CET 1 & TIER 1 RATIO



*Banks have to maintain additonal capital conservation buffer of +0.625% CET1 for 2016; phased-in to reach +2.5% CET1until 2019.
Besides, banks that are determined as domestically systemic important (D-Sib) are required to add a certain additional amount of capital.
This is max.+0.5%CET1 for 2016; phased-in to reach max.+2%CET1 until 2019.

Source: Garanti Research, BRSA

DM CAR & TIER 1(Q2'16)



Source: Garanti Research and IMF FSI