BBVA RESEARCH

TURKEY

MONTHLY BANKING MONITOR

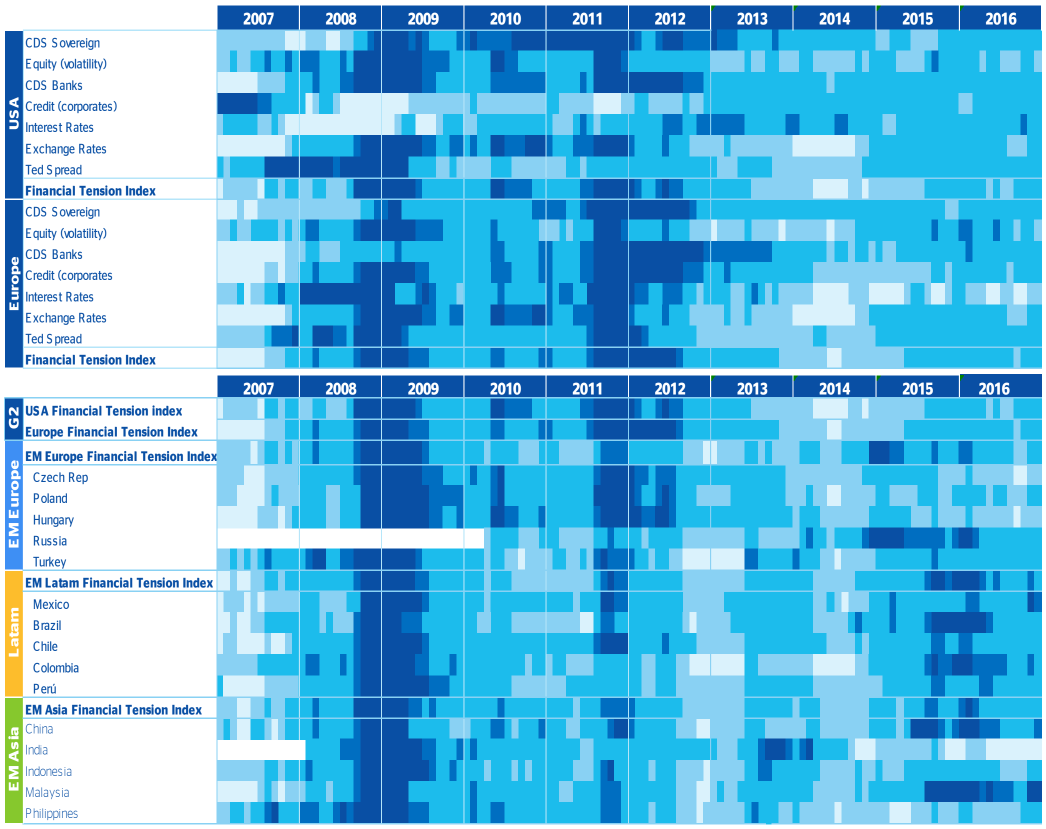
DECEMBER

JANUARY 4th

Global Developments

Financial stress for DM remains contained with positive sentiment of equity investors.

BBVA RESEARCH FINANCIAL STRESS MAP



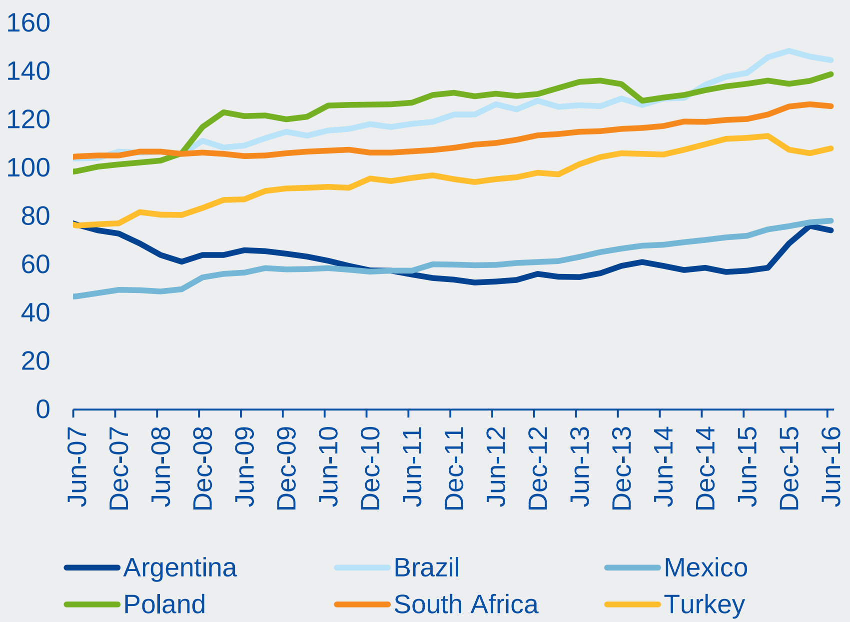
- Developed Markets maintain upbeat mode with equity being most favored.
- Volatility in EM persists especially in China, Turkey and México.

Source: BBVA Research

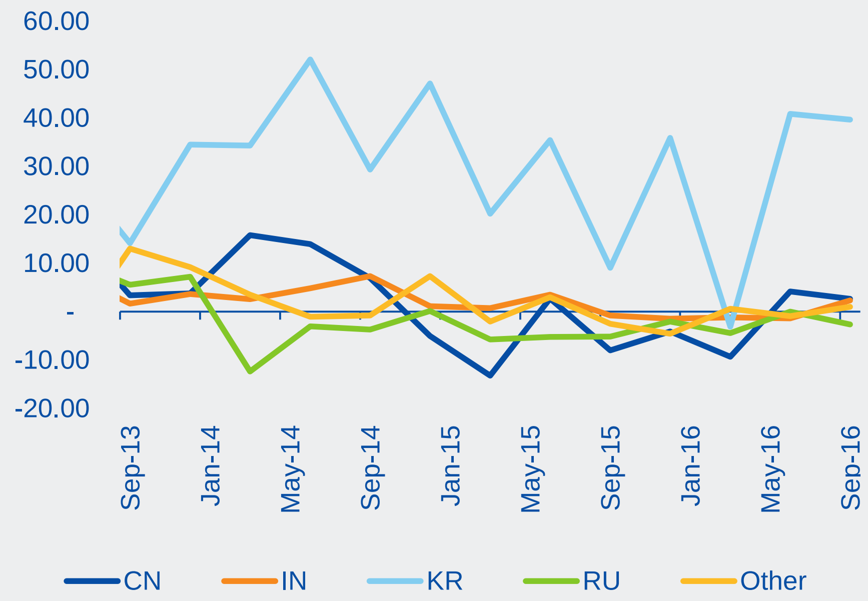
Global Developments

International debt securities issuance during 3Q 2016, at $1.4 trillion, was 10% lower than in the previous quarter. In EMEs, net borrowing on international securities markets in Q3, at $83 billion, was 35% below that of the previous quarter

TOTAL CREDIT TO THE NON-FINANCIAL SECTOR*-
%of GDP



GLOBAL DEBT SECURITIES ISSUED BY BORROWERS FROM EM
Net Issuance, billions of USD trillions- by nationality of issuer



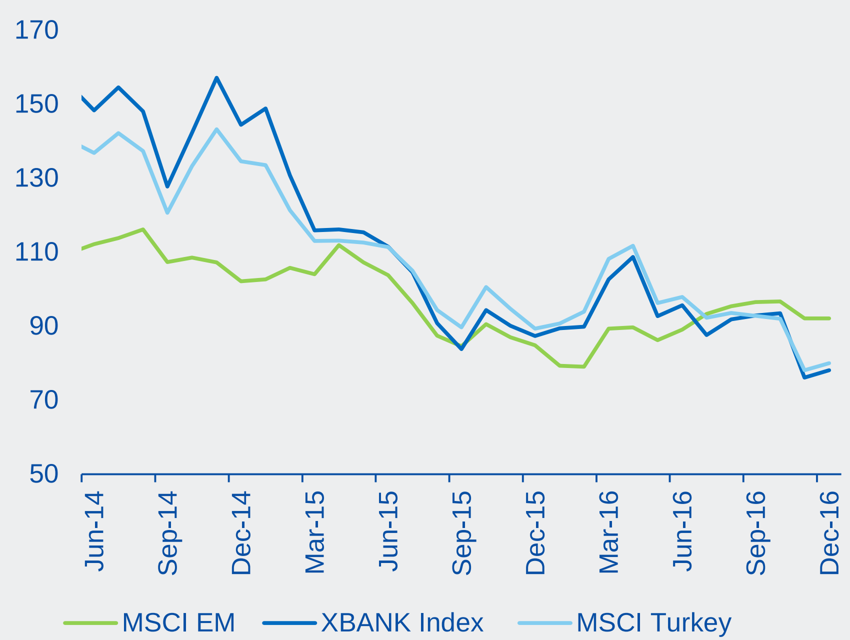
Source: BIS Dec'16 Quarterly Review Garanti Research
*Non-financial sector terminology of the BIS includes real sector + households+non-profit org.

BR = Brazil; CN = China; IN = India; KR = Korea; RU = Russia

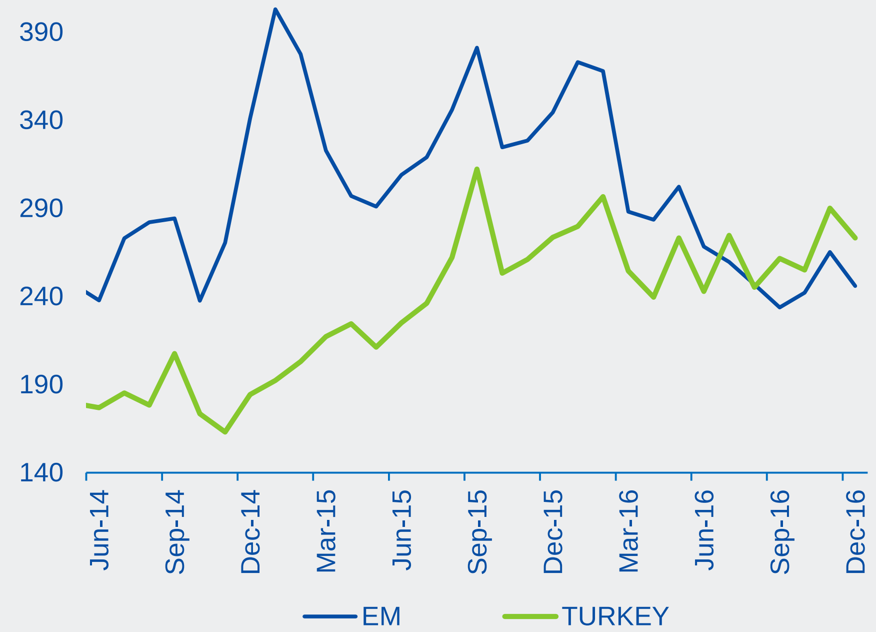
Turkey Financial Markets

Turkish equities continued to lag behind the EM in December

MSCI INDICES
Base 100 = Jan 2014



RISK PREMIUMS, 5 YEAR CDS INDICES
Levels



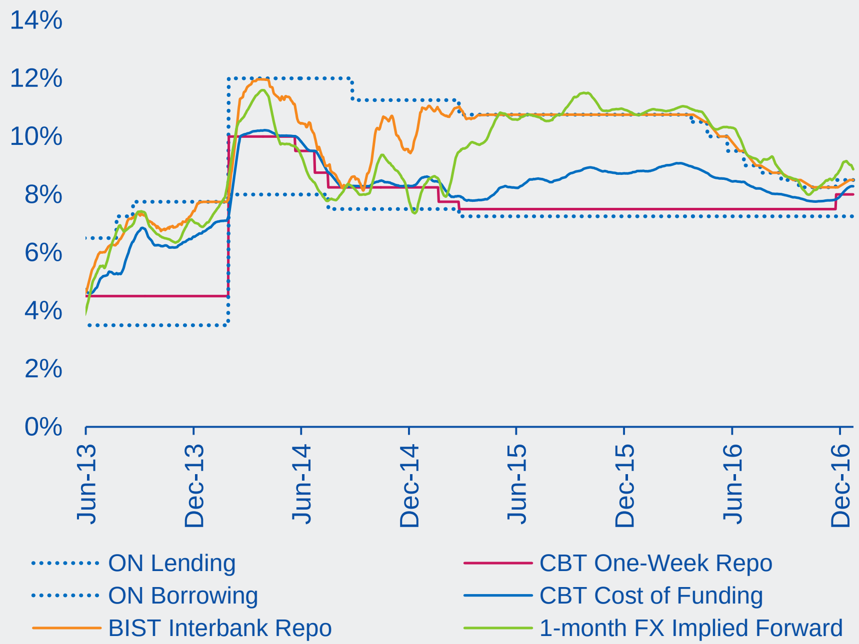
Source: Garanti Research, Bloomberg

Monetary Policy

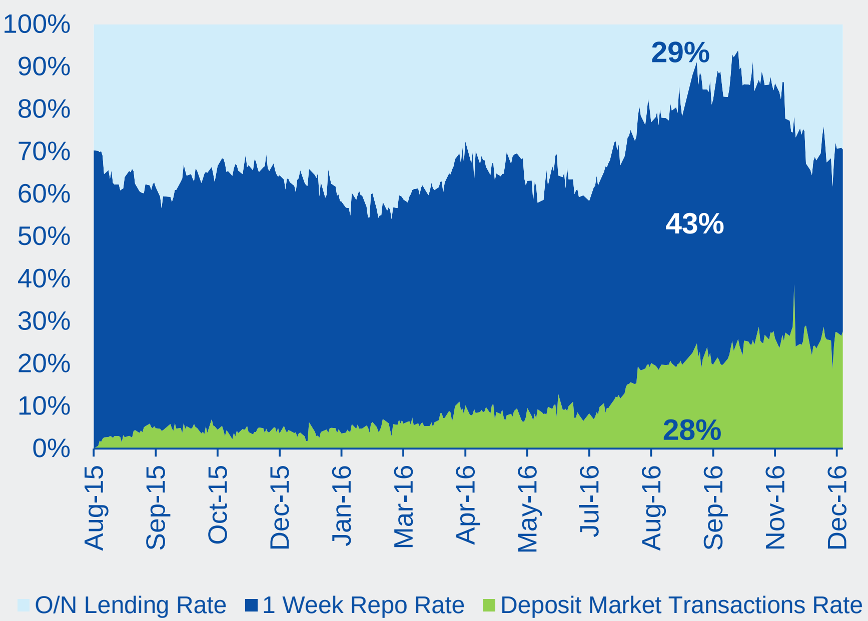
The CBRT kept all its monetary rates intact in December opting for a wait and see mode. As in November, CBRT continued to decrease its funding through one-week repo and increase funding with O/N lending rate in December

TURKEY: INTEREST RATE CORRIDOR

%



TURKEY: SHARES OF THE CBT TOTAL FUNDING



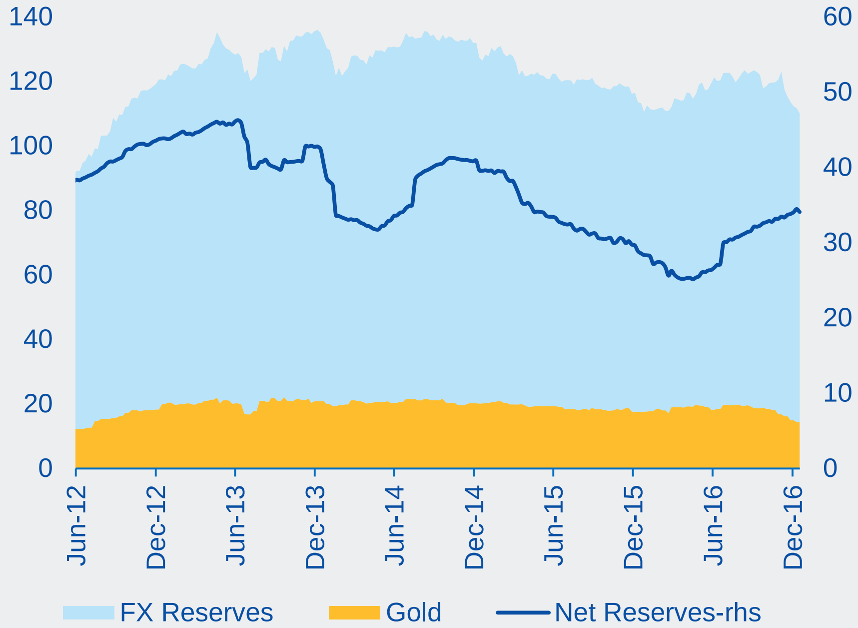
Source: Garanti Research, Turkstat, CBT, BRSA and Bloomberg

Central Bank Reserves

FX reserves declined in December due to banks' withdrawn FX deposits held under Reserve Option Mechanism (ROM) at the CBT and decrease in FX Reserve Requirement Ratios. Net reserves are at USD 34bn USD

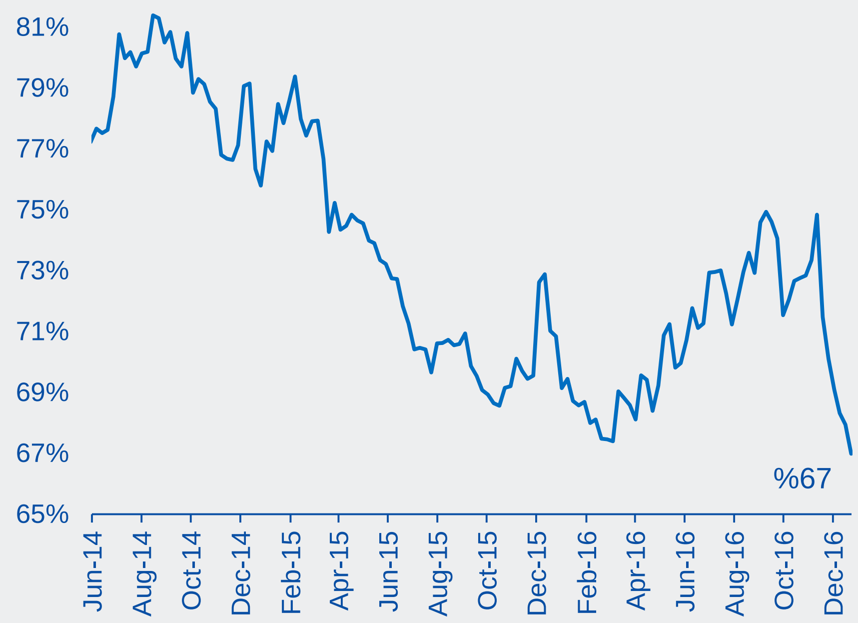
CBT RESERVES

USD bn



GROSS RESERVES

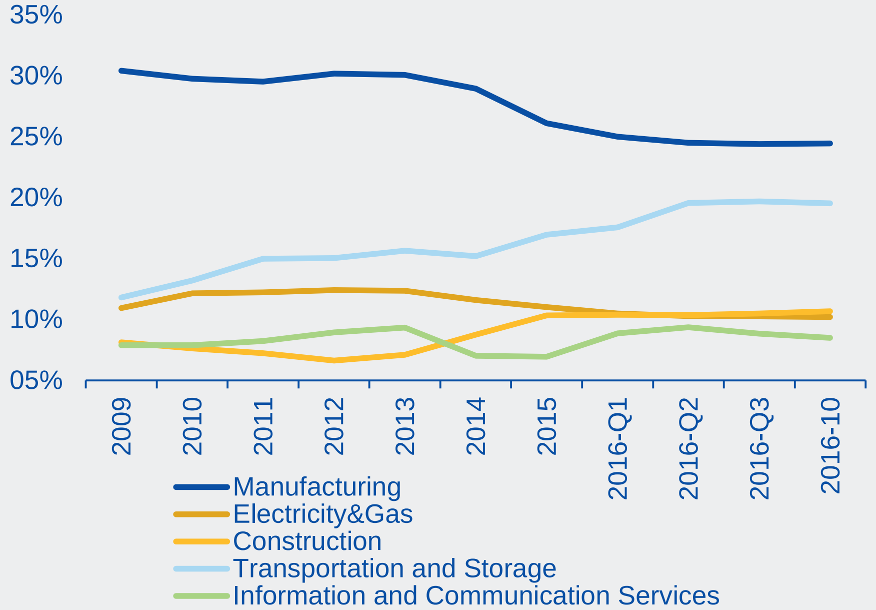
Total Reserves/External Debt to be paid within one year %



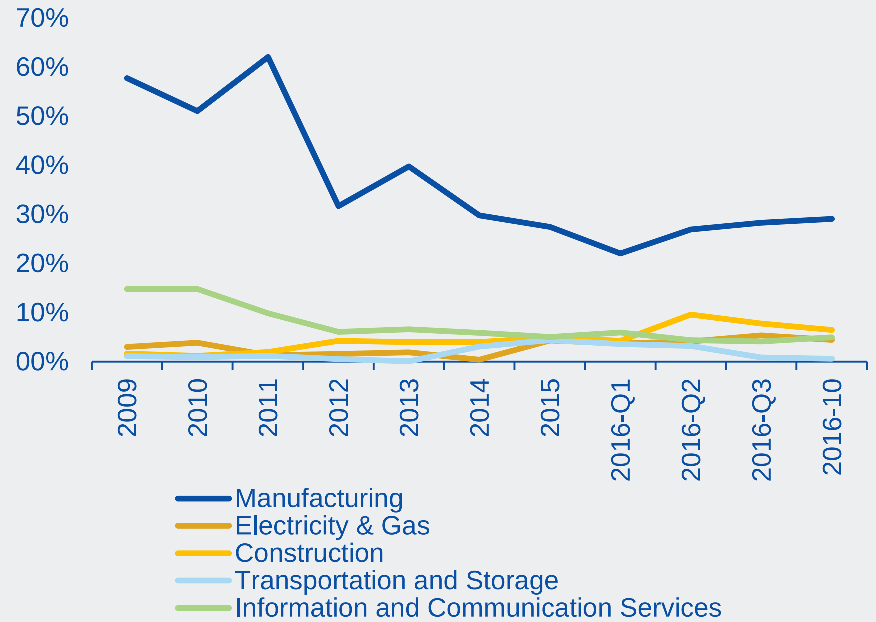
Corporate Sector External Debt

Corporates' total external credit debt is mostly contained in manufacturing with an increasing trend on the ST segment

CORPORATES' LT EXTERNAL CREDIT DEBT-
Share of main sub-sectors in total non-financial sector



CORPORATES' EXTERNAL ST CREDIT DEBT-
Share of main sub-sectors in total non-financial sector



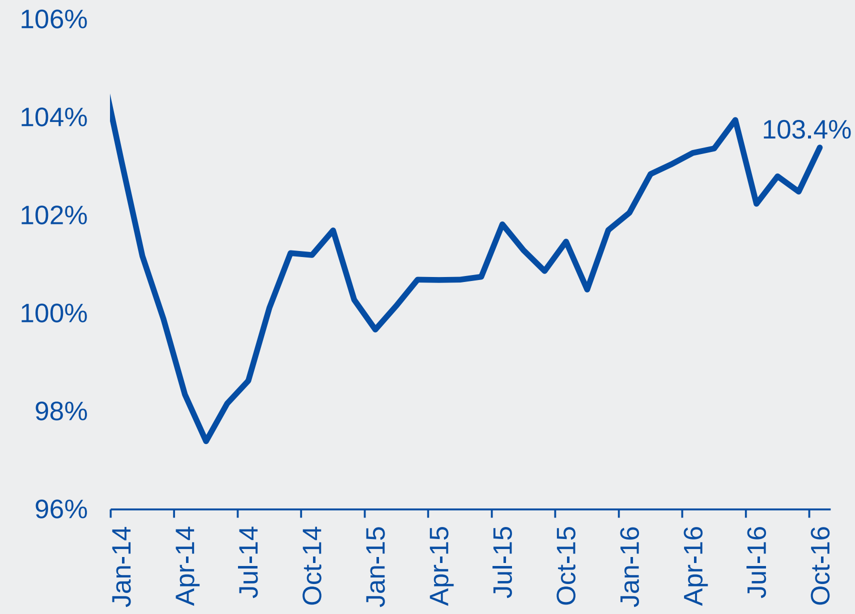
Source: CBT; Garanti Research
*latest data available October

Corporate Sector

Roll-over ratios for banks declined to 119% due to high levels of loan repayments and high base effect.

LT EXTERNAL DEBT ROLL-OVER RATIO OF BANKS & REAL SECTOR (12m.rolling)
%

ST EXTERNAL DEBT ROLL-OVER RATIO OF REAL SECTOR (12m rolling)*
%



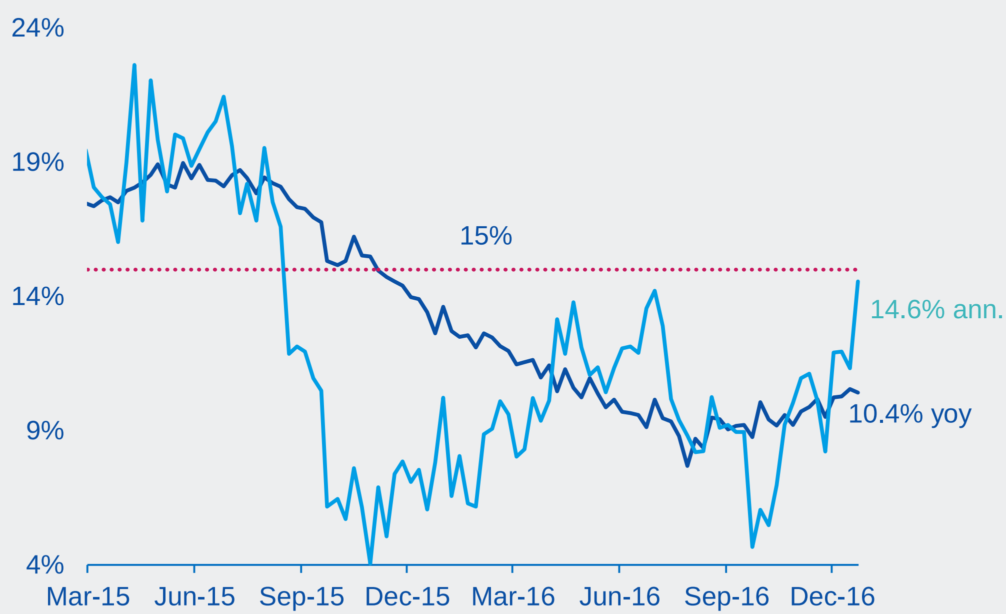
Source: CBT; Garanti Research
*latest data available Oct'16

*ST External Credit Debt of the real sector refers to commercial credits.

Loan Growth

YoY Credit growth continues to hover around 10%. The 13 week trend rate jumped to close 15% mainly due to diminishing effects of falls observed during September.

FX ADJUSTED CREDIT GROWTH RATE
% yoy and 13 week ann. rates



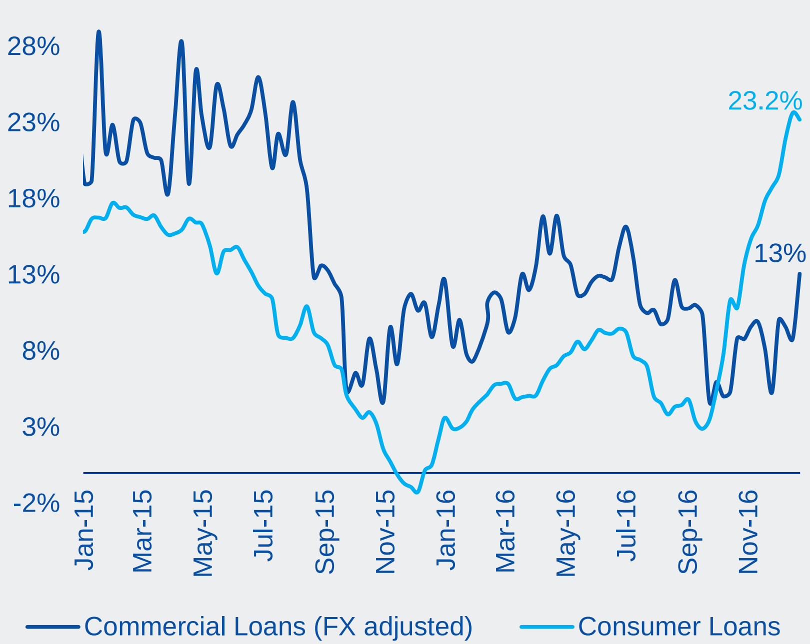
- YoY growth rate of FX adjusted credits is around 10% (and below the Central Bank 15% comfort range)
- The trend rate (annualized yearly rate) jumped to 14.6% from 8.2% last month

Source: Garanti Research , BRSA, CBT

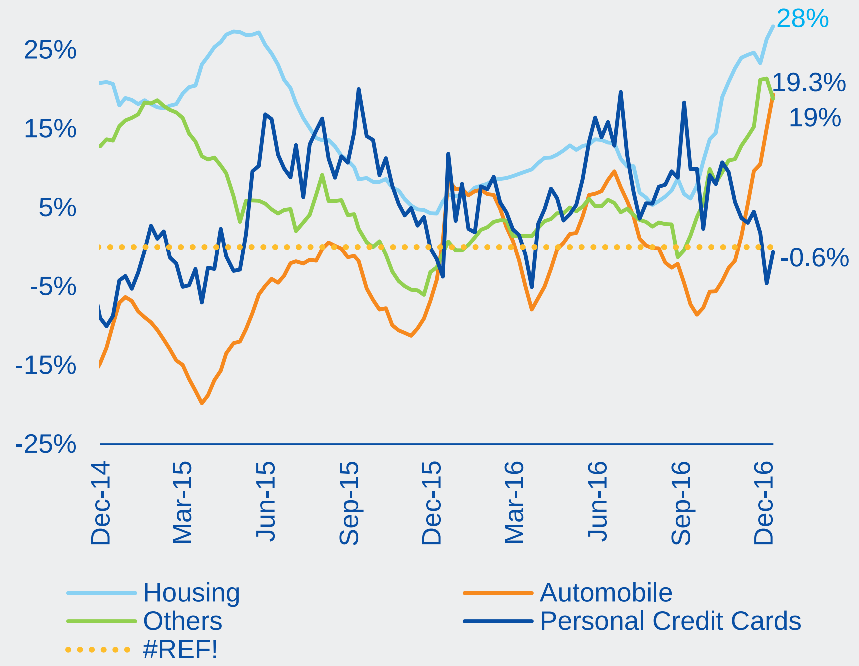
Loan Growth

Commercial credits' trend rate is gaining some momentum. However, it seems to be temporary due to stagnant outlook in its YoY growth rate. Consumer credits maintain their momentum with the uptick of housing and auto loans

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



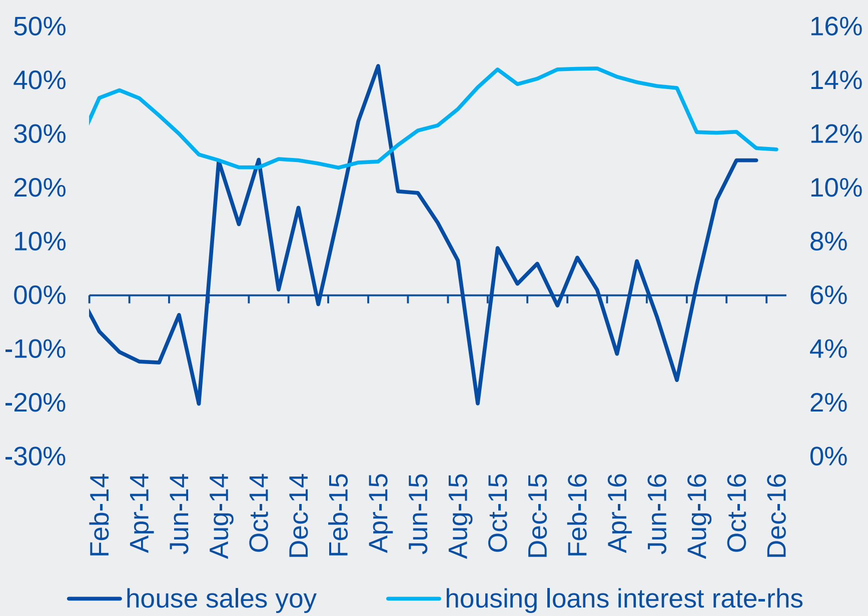
CONSUMER LOANS
% 13 week ann. rates



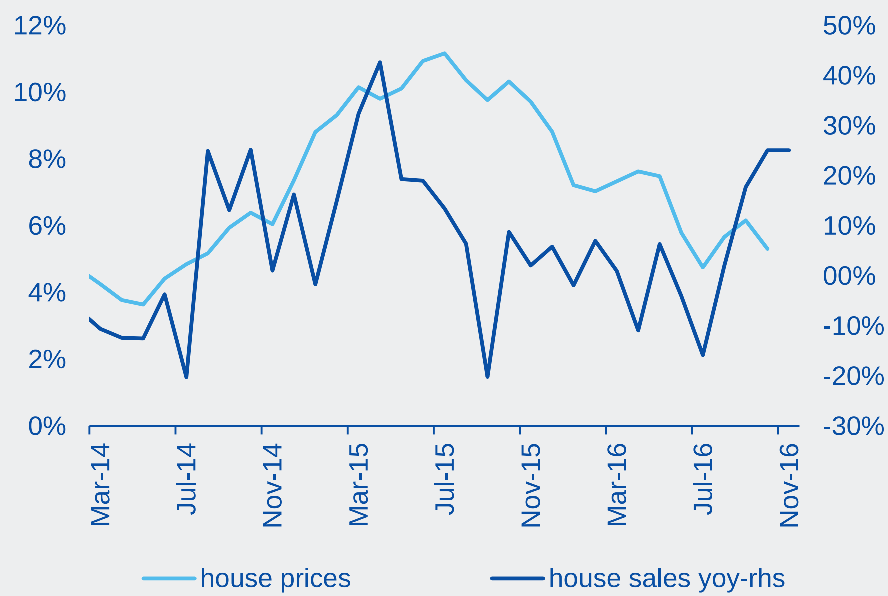
Housing

The fall in housing credits' interest rates supports house sales. House sales increased 25% yoy in November*

HOUSE SALES & INTEREST RATE
YoY rates



HOUSE SALES AND PRICES
YoY rates

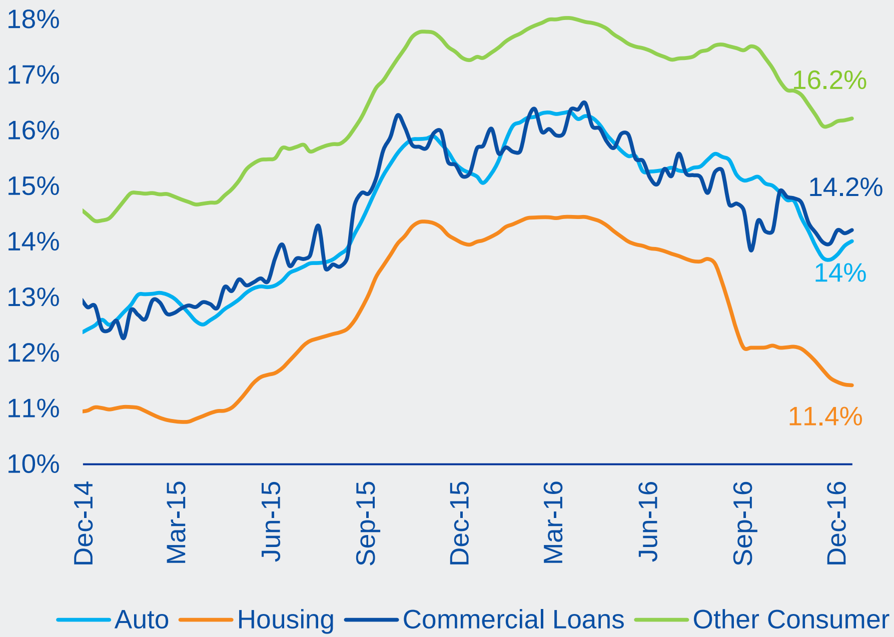


Source: Garanti Research, CBT, *latest data available Oct'16 & Nov'16

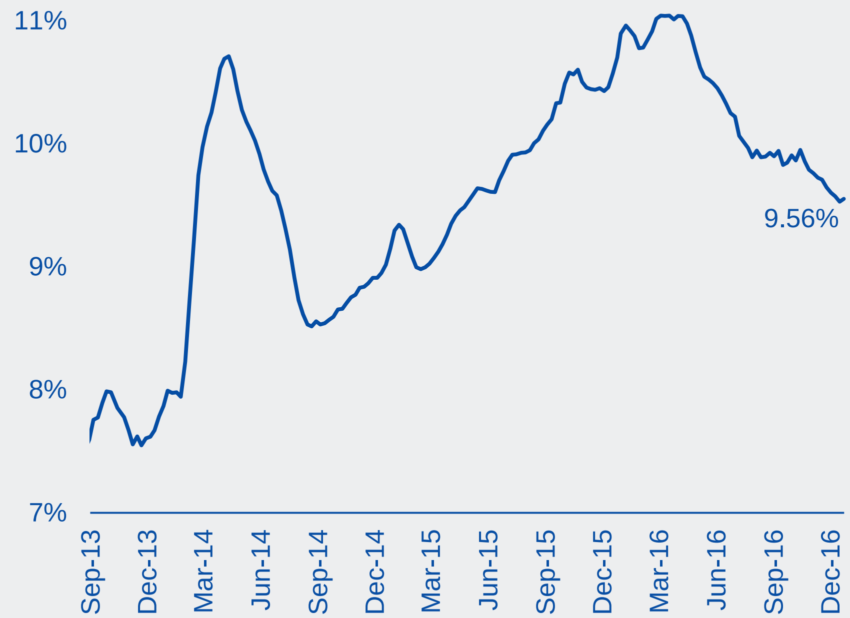
Interest Rates

Interest rates on consumer credits continued to follow a downward trend in December as well. Deposit rates continue to fall, too

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



DEPOSIT INTEREST RATES
4week mov.avg.



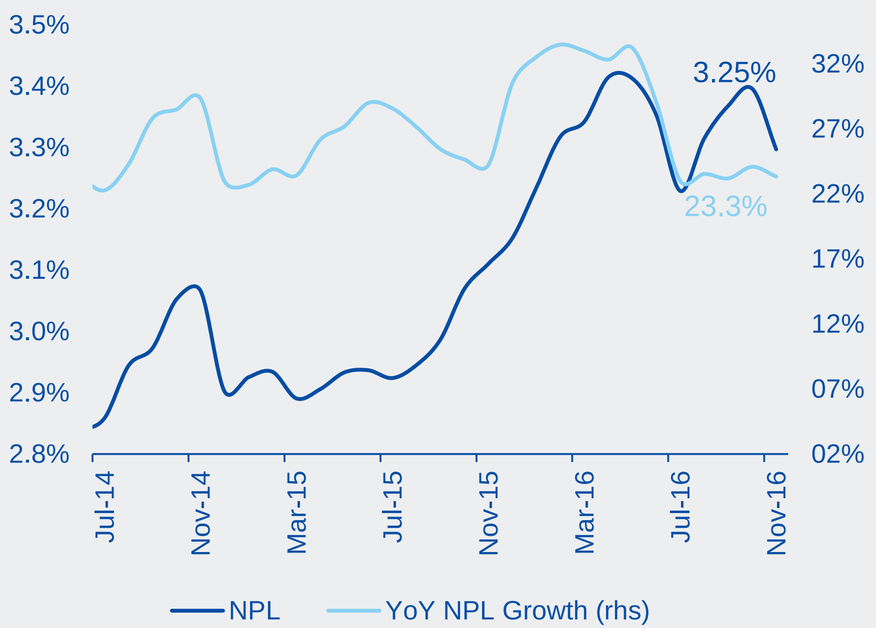
Source: Garanti Research, BRSA, CBT

Asset Quality & Credit Risk

In contrast to preceding month, NPL ratio decreased in most of the segments. Total NPL ratio of the whole sector decreased to 3.25% in November.

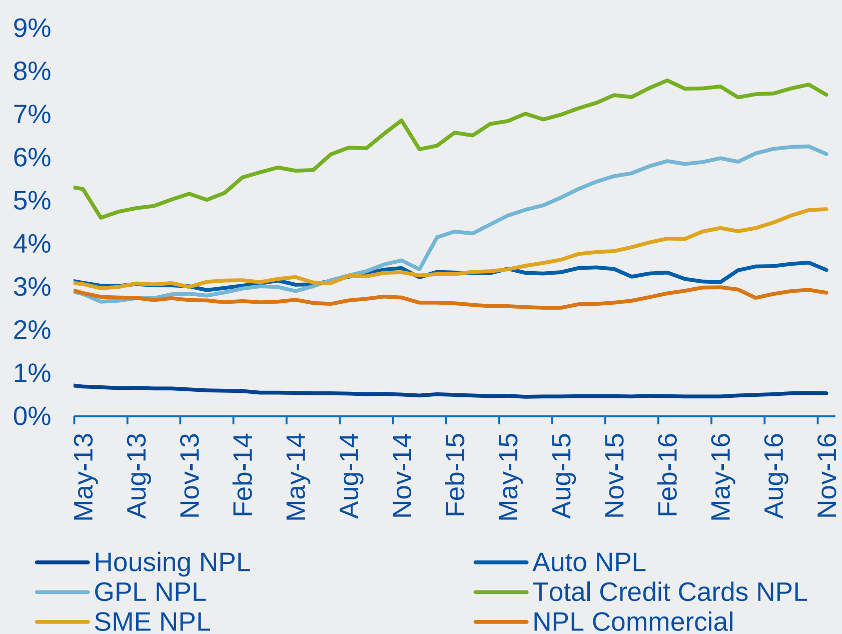
NPL RATIO OF THE BANKING SECTOR

%



NPL RATIO BY SELECTED SUB-SEGMENTS

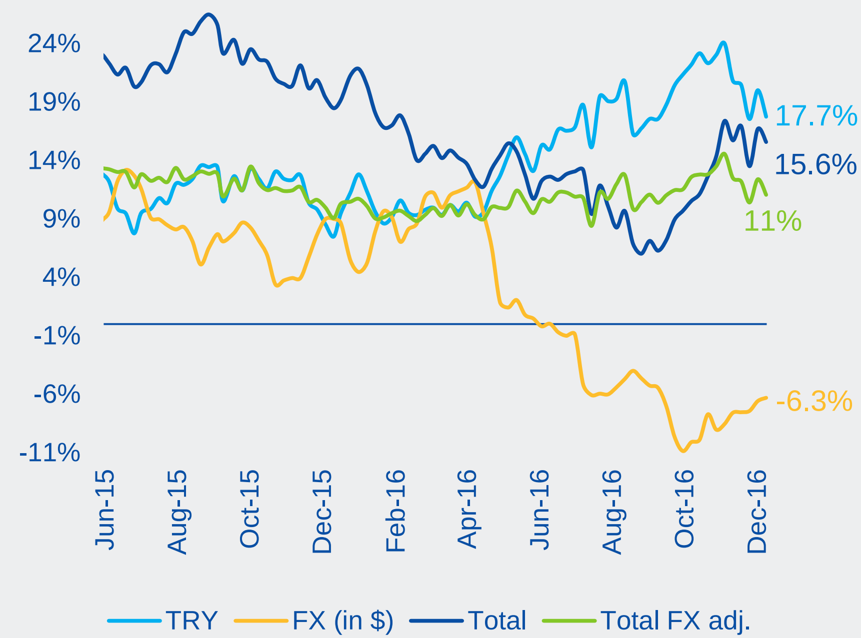
%



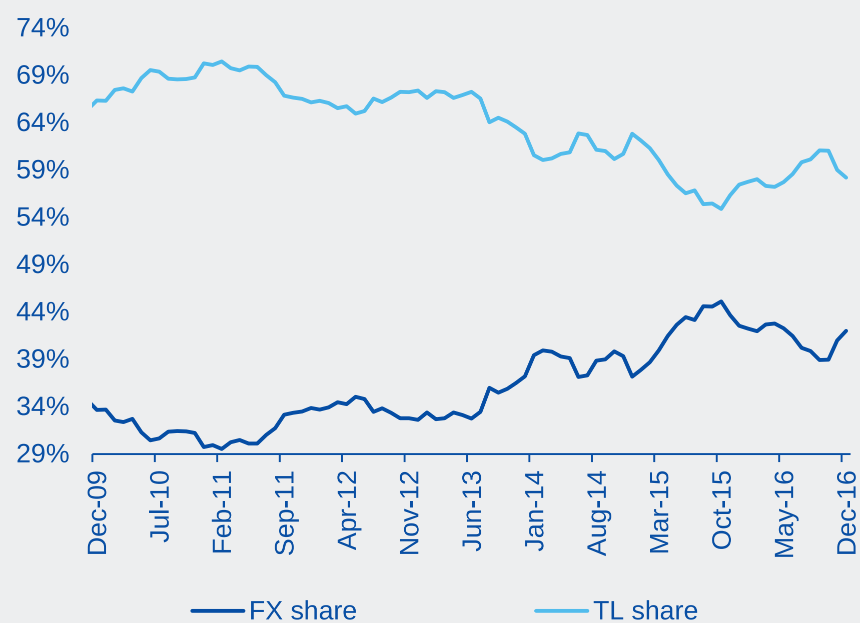
Deposits

Compared to preceding month, total (FX adj.) deposit yoy growth slowed down in December. As was in Nov., shift from TL deposits to FX deposits continued in Dec. where TL depreciated by 3% on a monthly basis.

DEPOSIT GROWTH RATE
YoY



TL DEPOSIT and FX DEPOSIT SHARE in TOTAL DEPOSITS
%

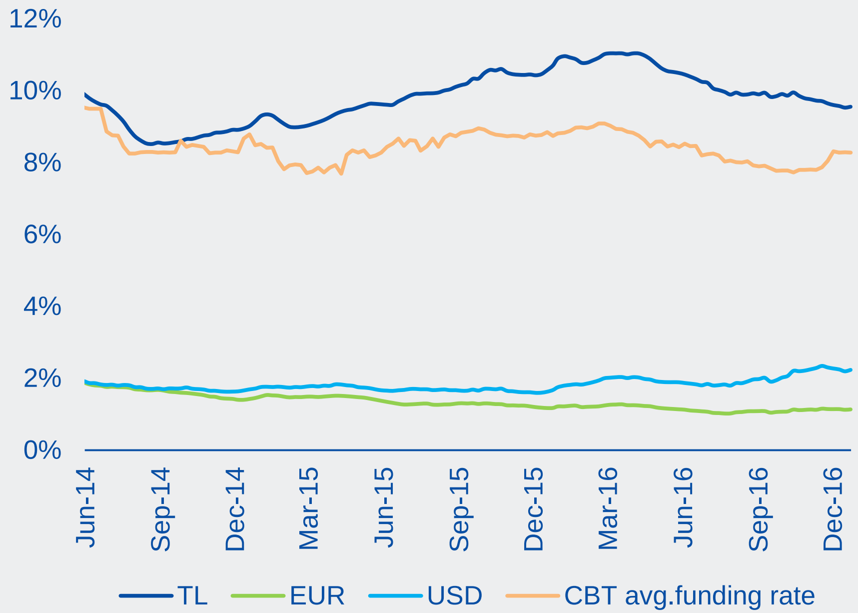


Source: Garanti Research , BRSA, CBT

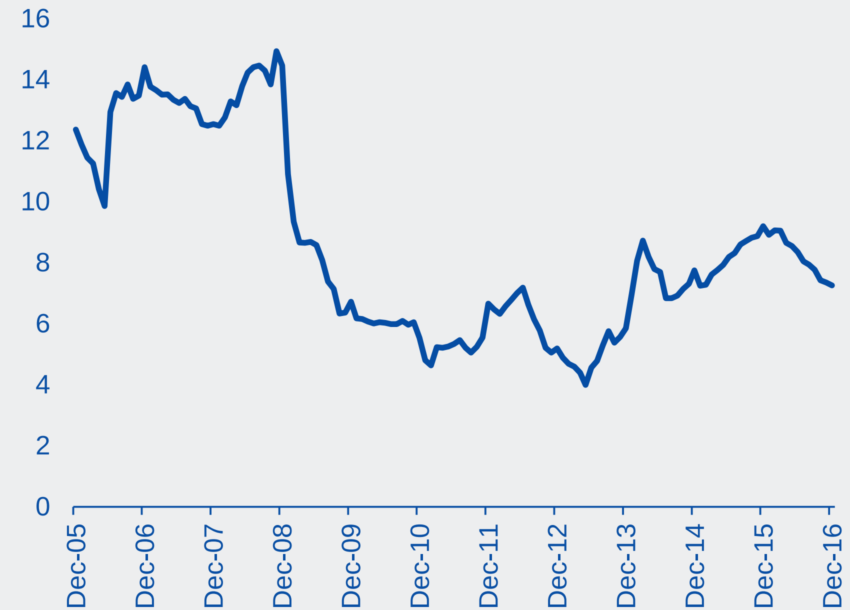
Deposits

Compared to November, TL deposit rates continued to decline in December , albeit by only 10bps. With increasing USD deposit rates, spread btw TL and USD deposit rates narrowed in Dec.

DEPOSIT INTEREST RATES IN TL& € & $
4week mov.avg



SPREAD btw TL and USD DEPOSIT RATES
annual %

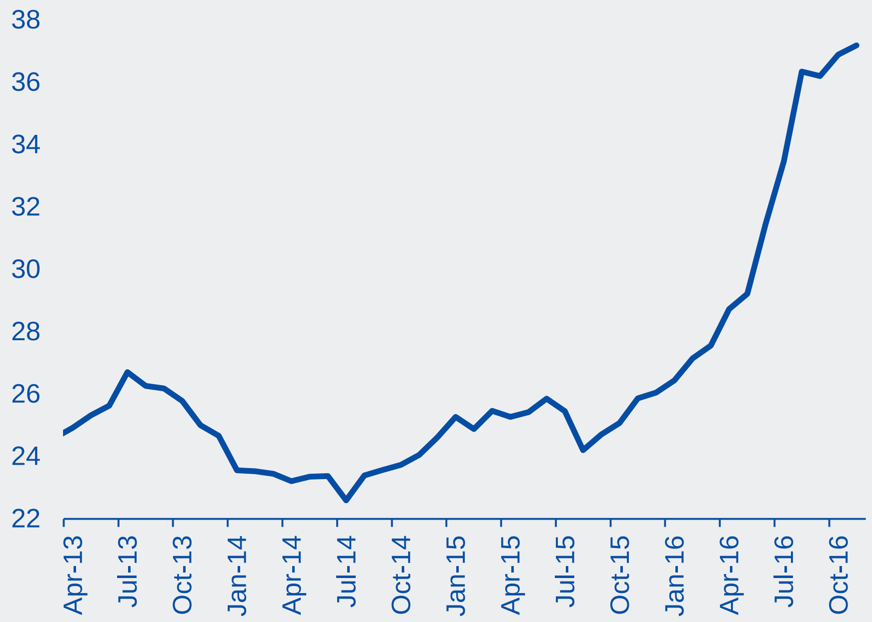


Source: Garanti Research , BRSA, CBT

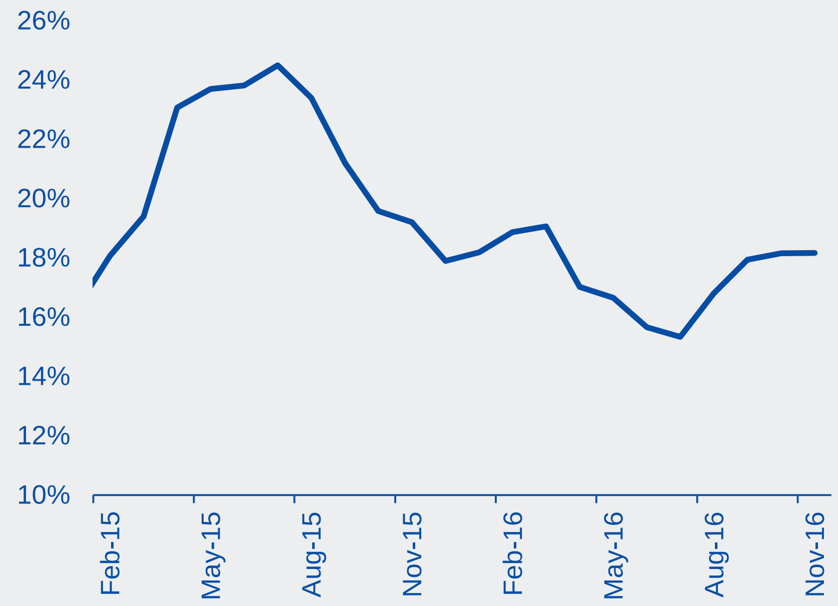
Profitability

Net profit of the sector increased (yoy) by 11% in November compared to 35% rise in October led by public banks

NET PROFIT
12 month cum., billion TL



NET INTEREST INCOME (NII)
12 month cum.,%

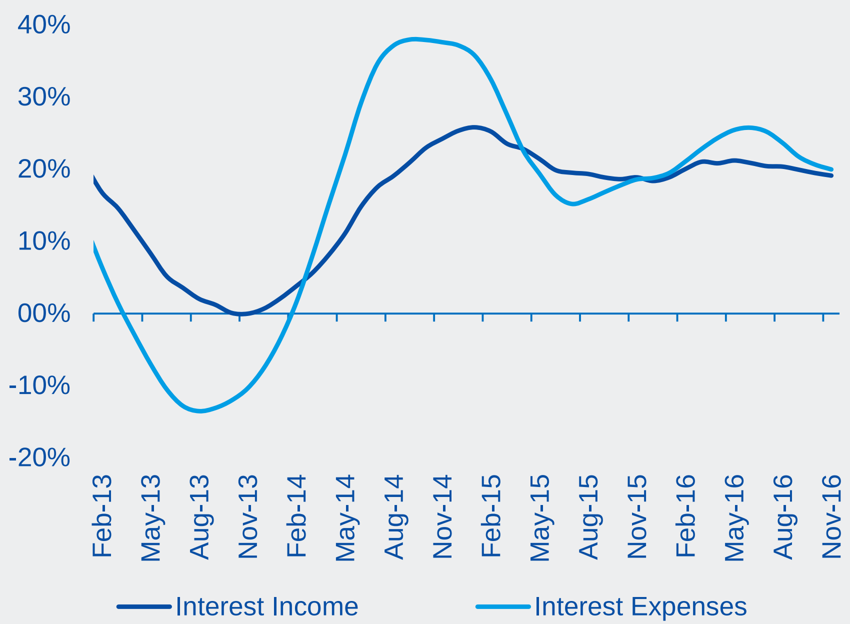


Source: Garanti Research, BRSA latest monthly data

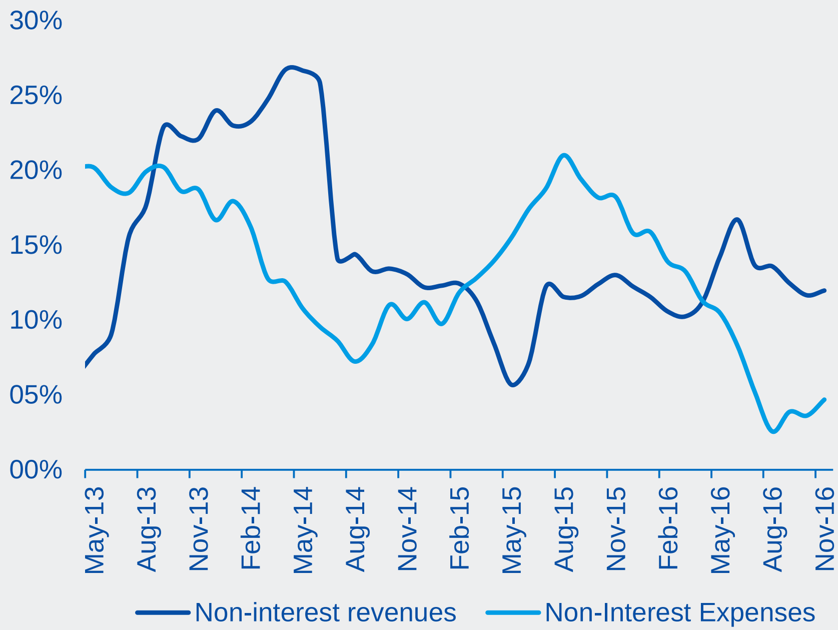
Profitability

Interest income growth decelerated in November whereas non-interest income growth accelerated slightly

INTEREST INCOME & INTEREST EXPENSES GROWTH
12 month cum., %



NON-INTEREST INCOME & NON-INTEREST EXP.GROWTH
12 month cum.,%

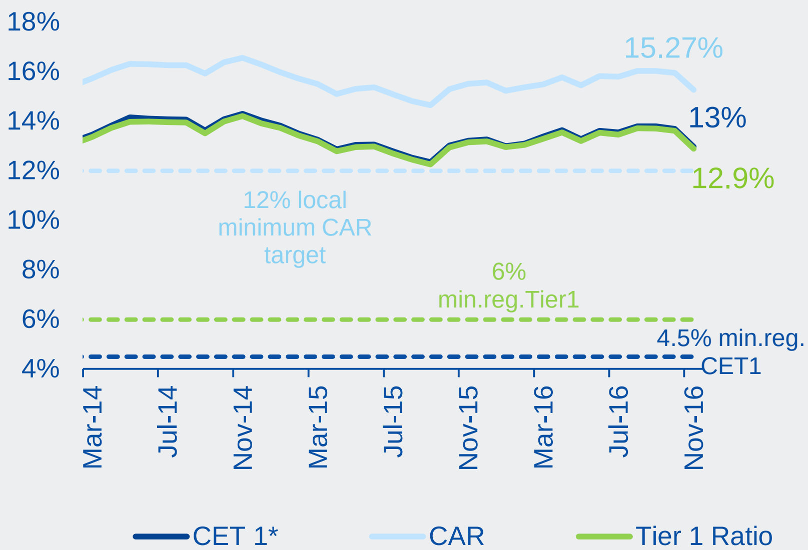


Source: Garanti Research, BRSA latest monthly data

Buffers

Both Capital Adequacy Ratio (CAR) and Common Equity Tier 1 declined by almost 70bps (MoM) with mainly 5% increase in risk weighted assets compared to previous month

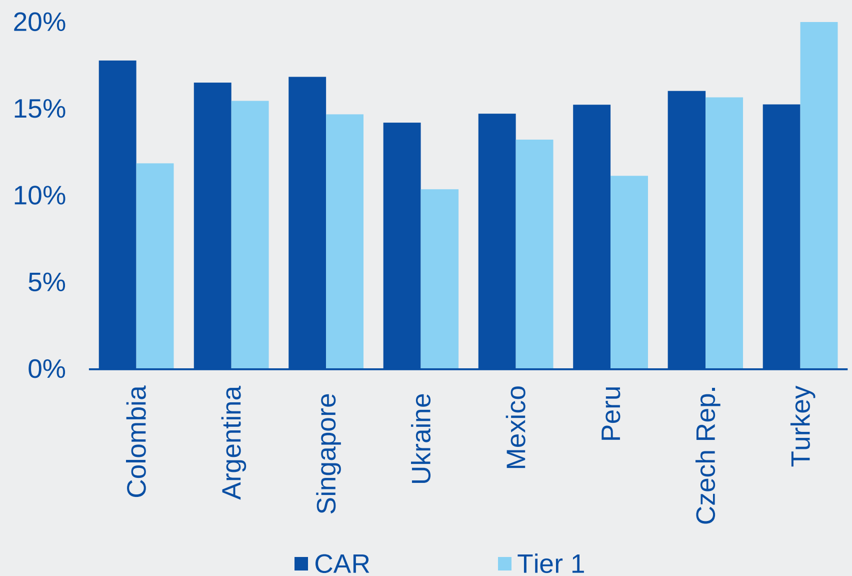
CAPITAL ADEQUACY RATIO & CET 1 & TIER 1 RATIO



*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.

EM CAR & TIER 1 Ratio

Q3'16



Source: Garanti Research, BRSA

Source: Garanti Research and IMF FSI

Regulations

- The Economic Coordination Board decided to provide a guarantee on new commercial loans taken out by exporters as well as small and medium-sized enterprises. The guarantee will be provided by the Credit Guarantee Fund. Prime. Moreover, it was announced that there will be a 7.5% interest rate cap on public deposits in state banks
- The BRSA lowered general provisions for SME loans from 0.5% to 0% and general provisions for commercial loans from 1% to 0.5%
- The BRSA has allowed banks to restructure some NPLs twice until December 31, 2017. Restructured loans will be classified under Group II loans. NPLs will be able to be reclassified as restructured loans if there are no delayed payments and the last three payments as of the first restructuring date are made. For a second restructuring, loans can be restructured if there are no delayed payments and the last six payments as of the first restructuring date are made. Additionally, the regulator ruled that the extension for some loans could begin by January 21, 2017. These loans are: the loans of borrowers that were seized or transferred to the Treasury, loans belonging to dismissed public officials under the State of Emergency and the loans of individual and institutions whose properties have been confiscated
- The start date of the IFRS 9 and Basel III process has been postponed to January 1, 2018. Previously, the transition process for the IFRS 9 and Basel III had been determined to start on January 1, 2017. Additionally, if banks failing to fulfill their obligations under the IFRS 9 and Basel III process by January 1, 2018 make brief explanations and provide reasons, the BRSA may provide an extension

Source: Garanti Research, BRSA, CBT

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