

TURKEY MONTHLY BANKING MONITOR

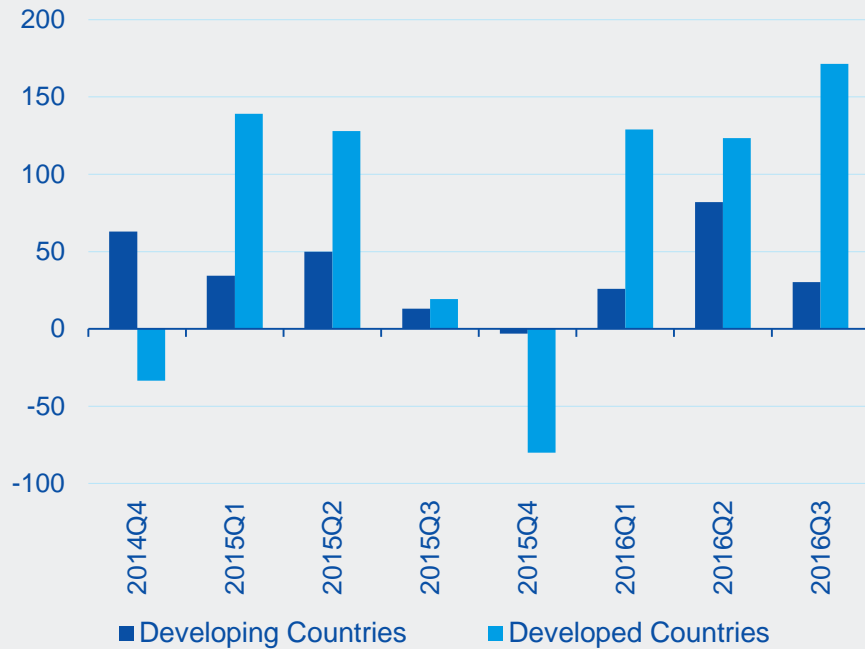
FEBRUARY
MARCH 6th



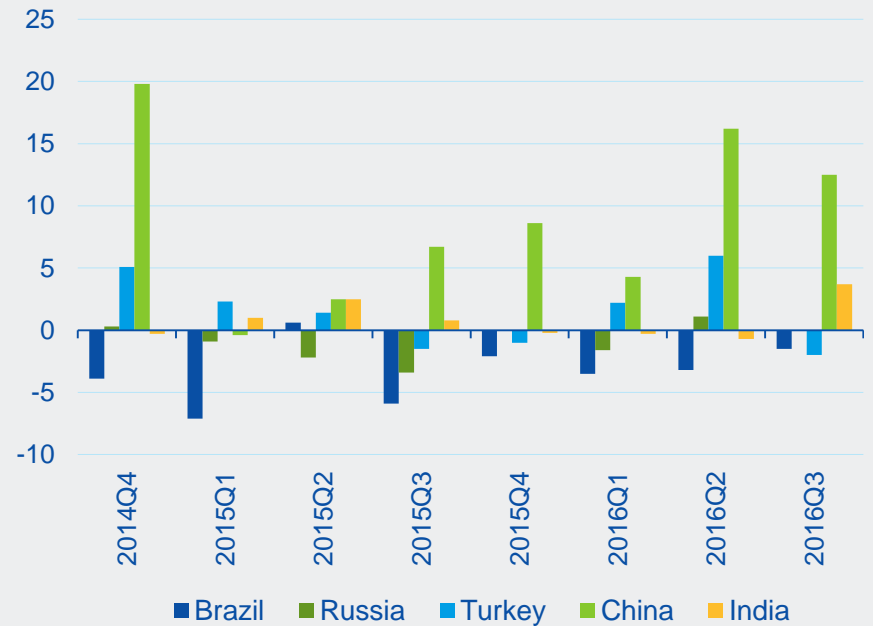
Global Developments

International debt securities issuance by developing countries declined by almost 52% in 3Q'16 compared to the previous quarter.

INTERNATIONAL DEBT SECURITIES ISSUED
Net Issuance, USD bln



INTERNATIONAL DEBT SECURITIES ISSUED BY SELECTED EM BORROWERS
Net Issuance, USD bln

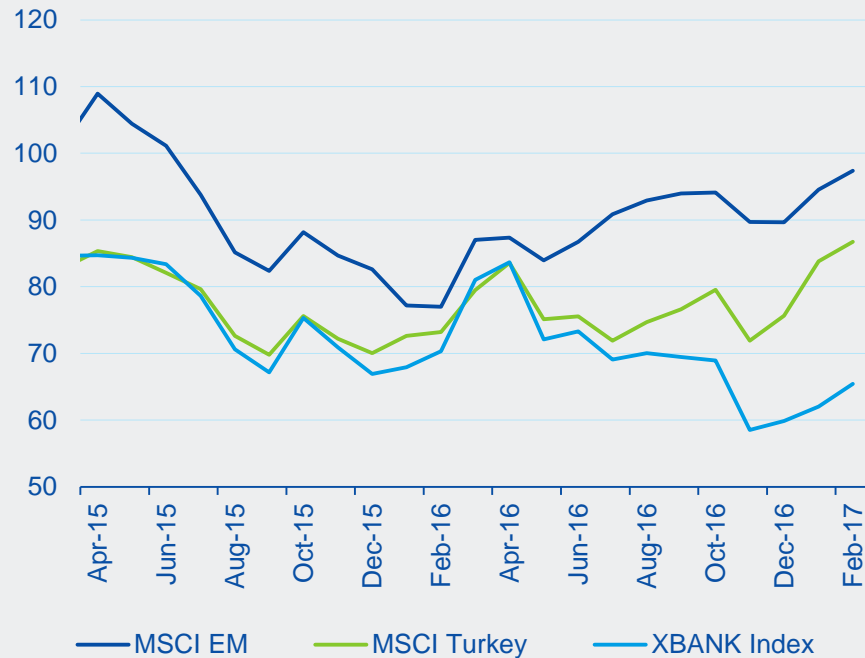


Turkey Financial Markets

Thanks to equity inflows to EM, Turkish equities improved in February. Risk premiums declined by almost 30bps in February.

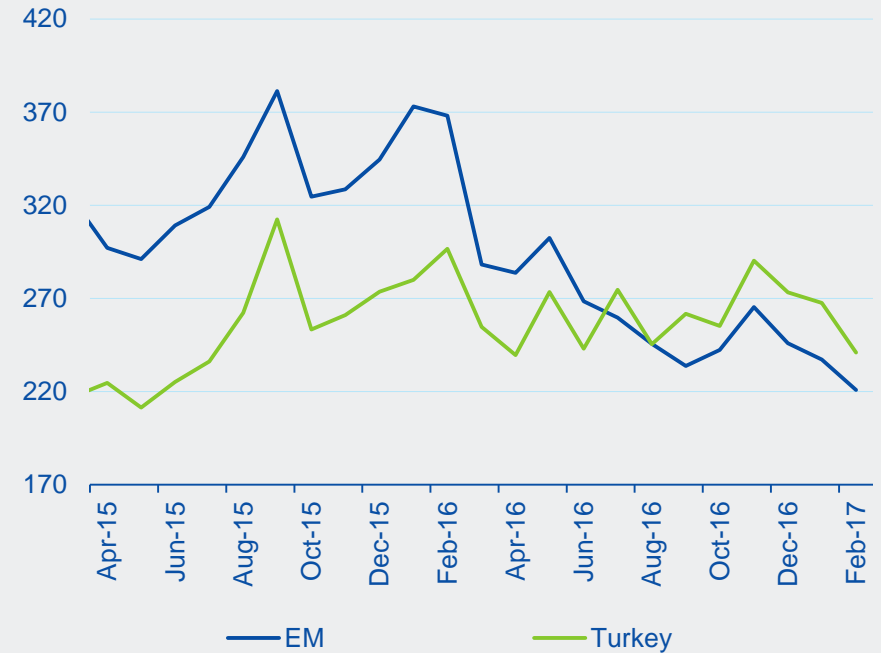
MSCI INDICES

Base 100 = Jan 2015



RISK PREMIUMS, 5 YEAR CDS INDICES

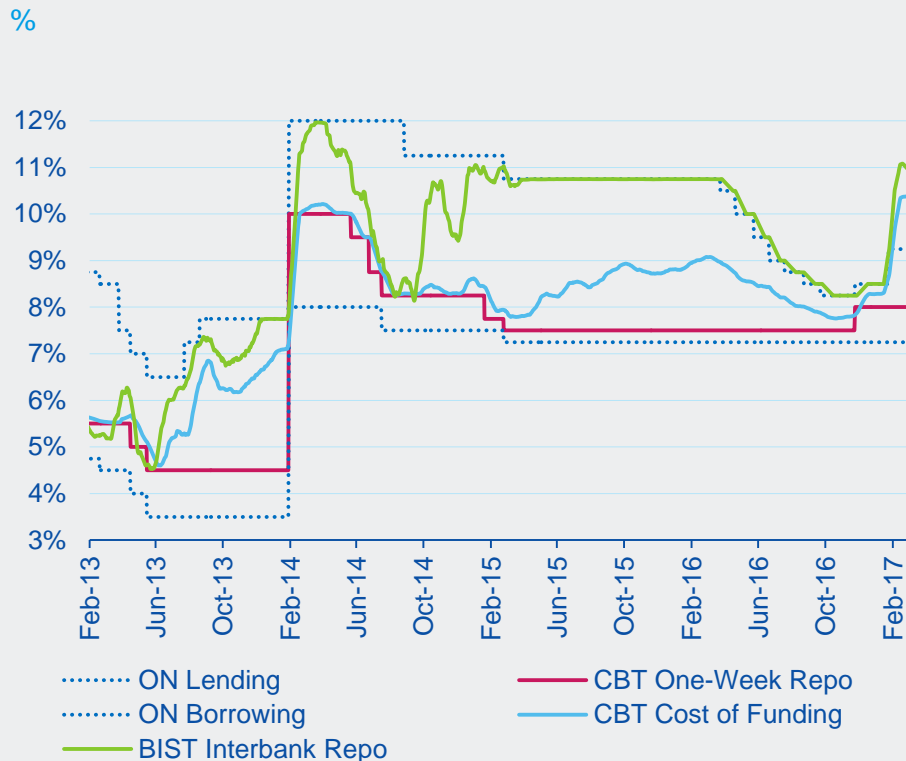
Levels



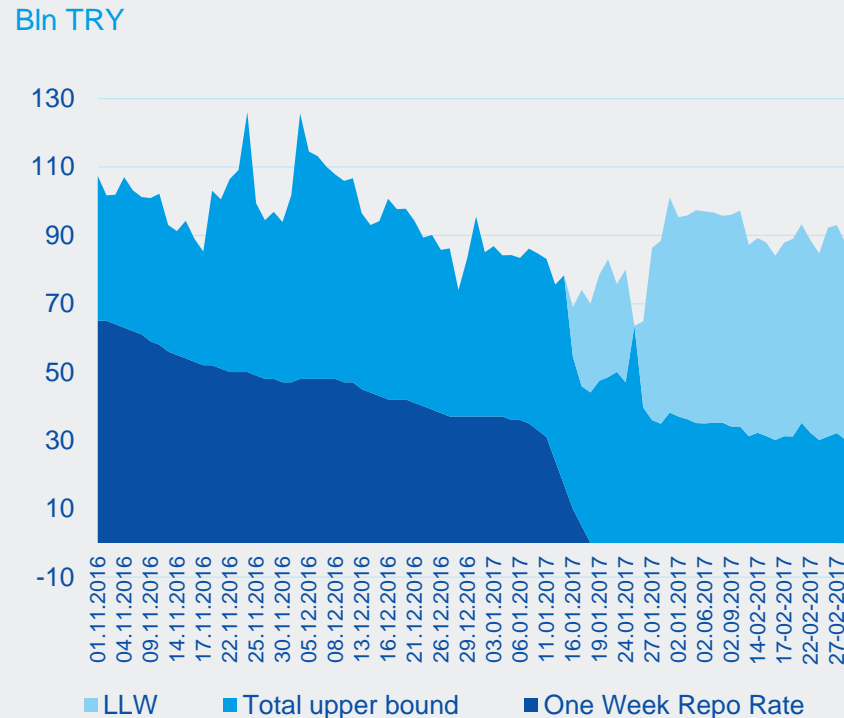
Monetary Policy

The CBRT's average funding rate increased to 10.4% in February. The share of funding through the LLW (Late Liquidity Window) rate of 11% increased to 66%.

TURKEY: INTEREST RATE CORRIDOR



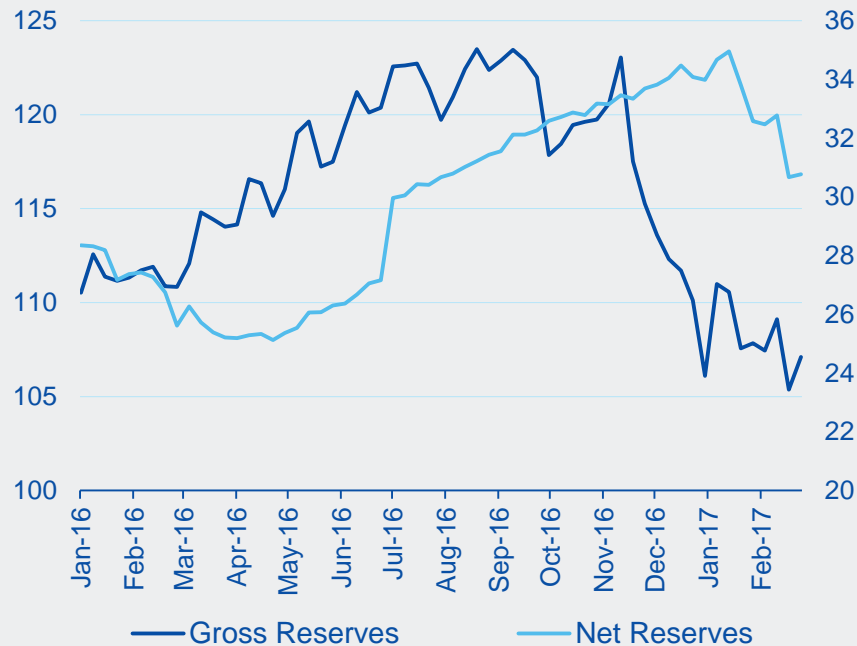
TURKEY: CBT FUNDING COMPOSITION



Central Bank Reserves

Compared to January, net FX reserves of the CBT declined in February by USD 2bn probably due to CBT's FX sell-off to some state owned enterprises. Net reserves are at USD 30.8bn USD.

CBT RESERVES
USD bn



GROSS RESERVES

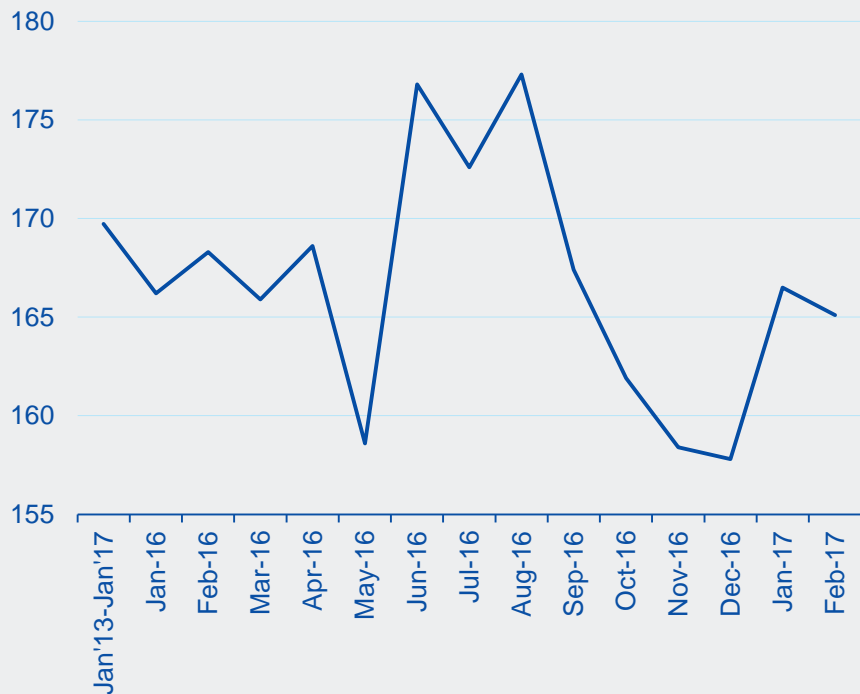
Total Reserves/External Debt to be paid within one year %



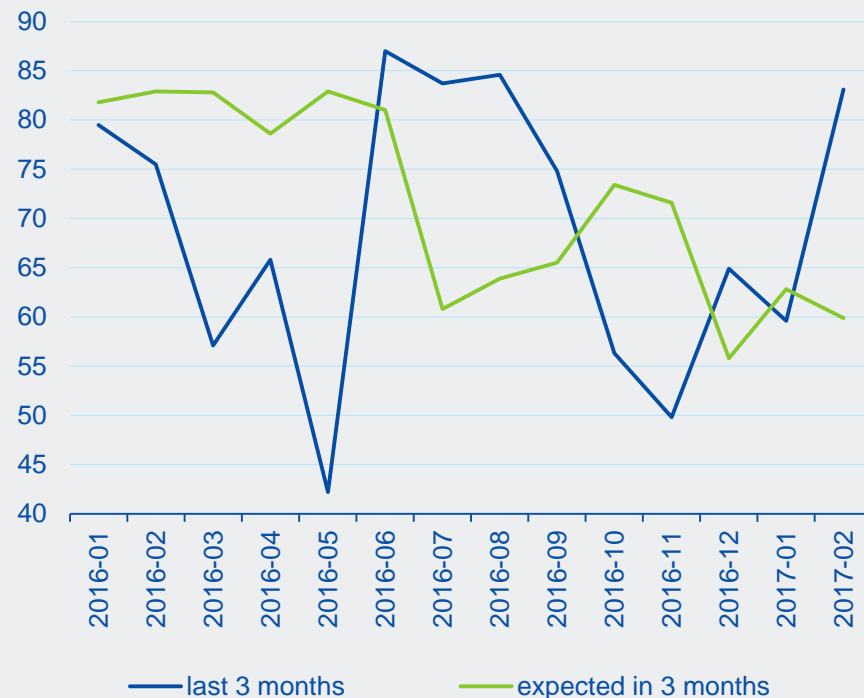
Turkey Financial Sector

Financial Services Confidence Index declined somewhat in February. Demand for financial services is expected to worsen in 2Q'17.

FINANCIAL SERVICES CONFIDENCE INDEX-



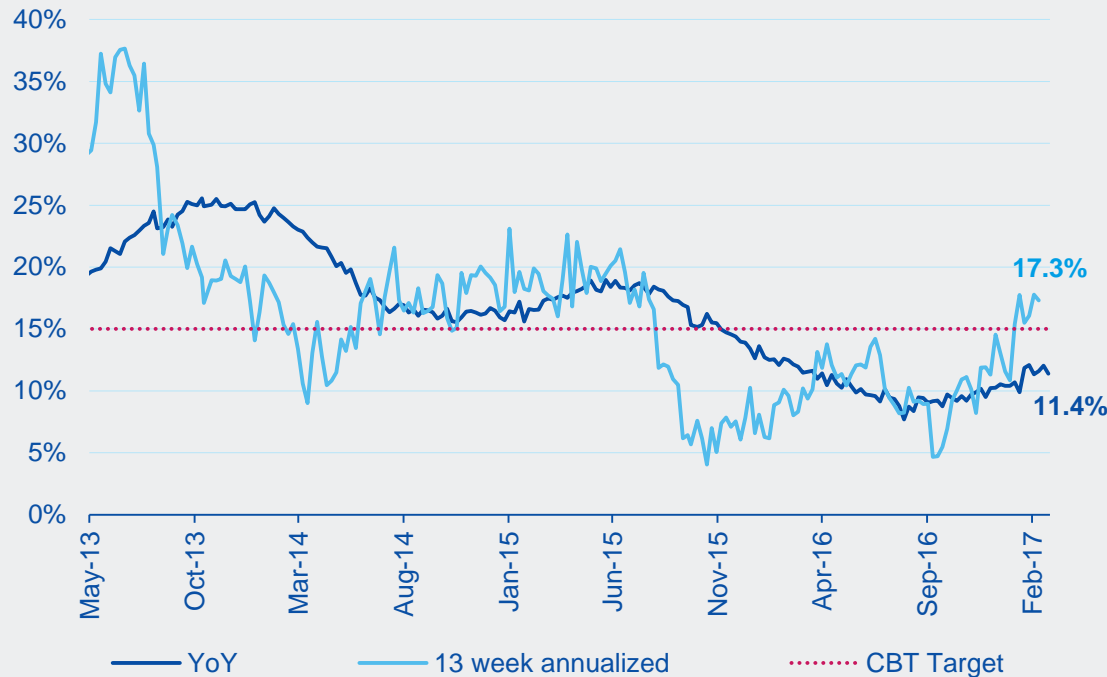
DEMAND INDEX FOR FINANCIAL SERVICES



Loan Growth

YoY Credit growth continues to float between 11%-12%. The 13 week trend rate is around 17%.

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



The trend rate (annualized yearly rate) shows improvement thanks to push in commercial credits

17.3% ann.

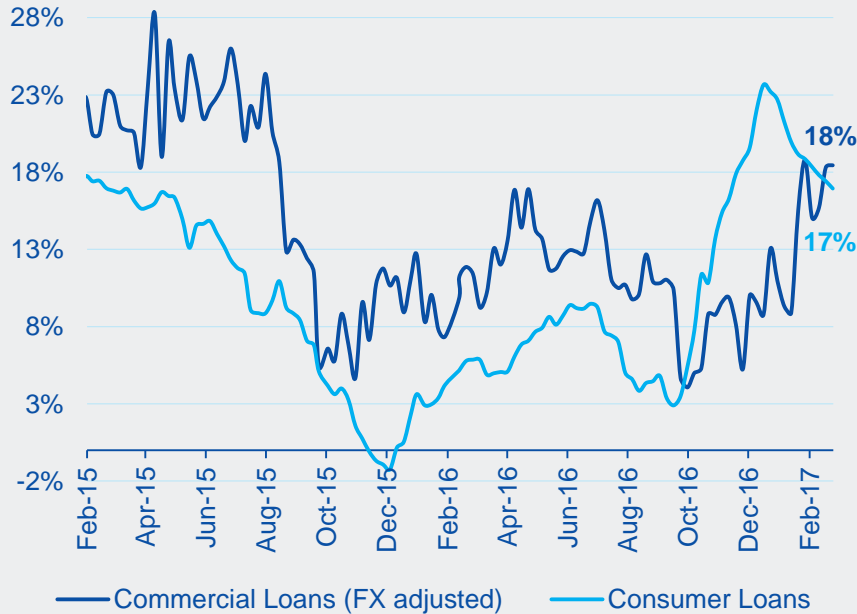
11.4% yoy

The yoy credit growth moves close to the target of the CBRT.

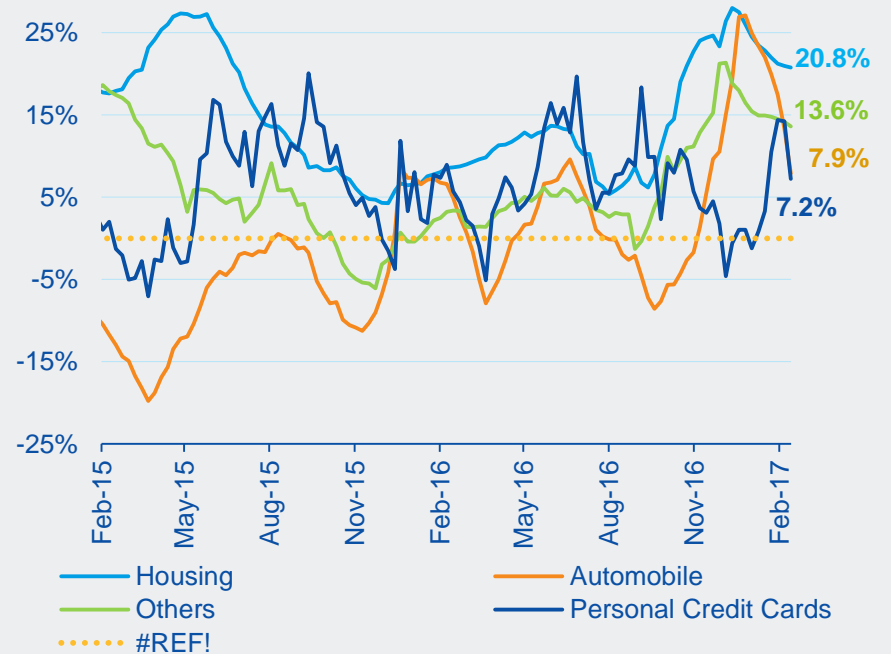
Loan Growth

Better momentum in commercial credits' trend rate continued in February thanks to the government's support. Consumer credits are losing momentum but still robust.

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



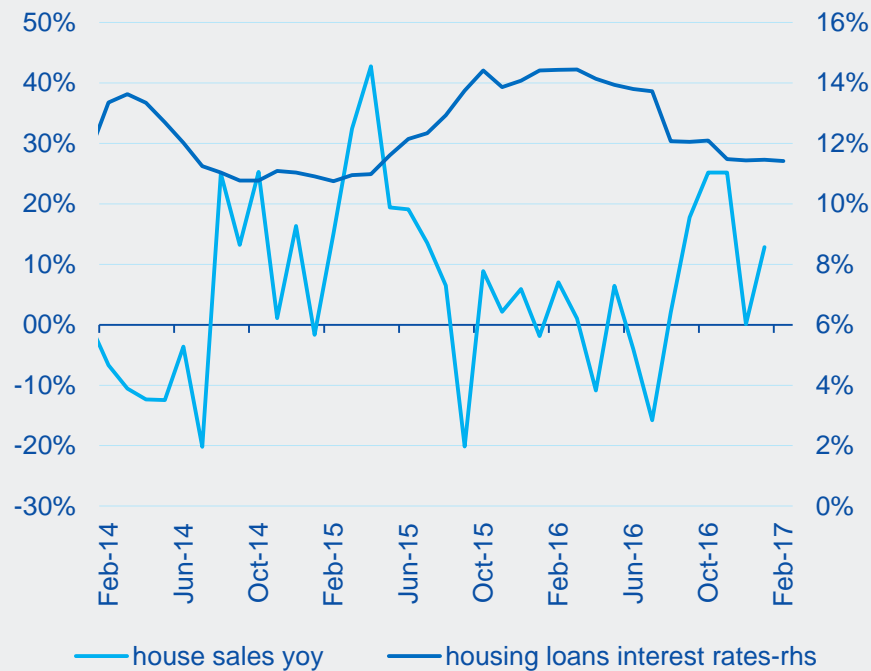
CONSUMER LOANS
% 13 week ann. rates



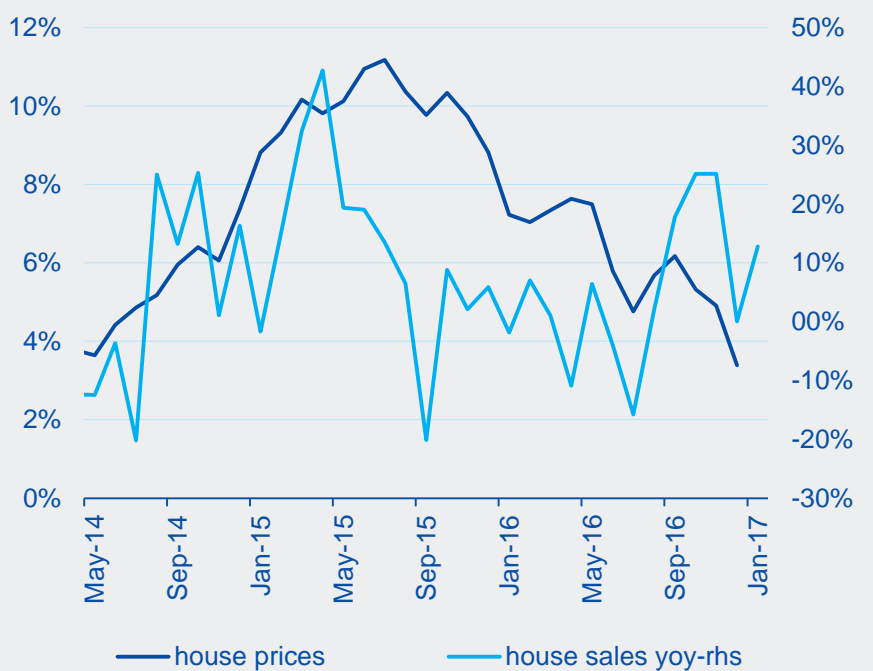
Housing

House sales grew by 13% in Jan'17 on yoy terms. The interest rates on housing credits stayed almost stable in Feb'17 compared to Jan'17.

HOUSE SALES & INTEREST RATE
YoY rates



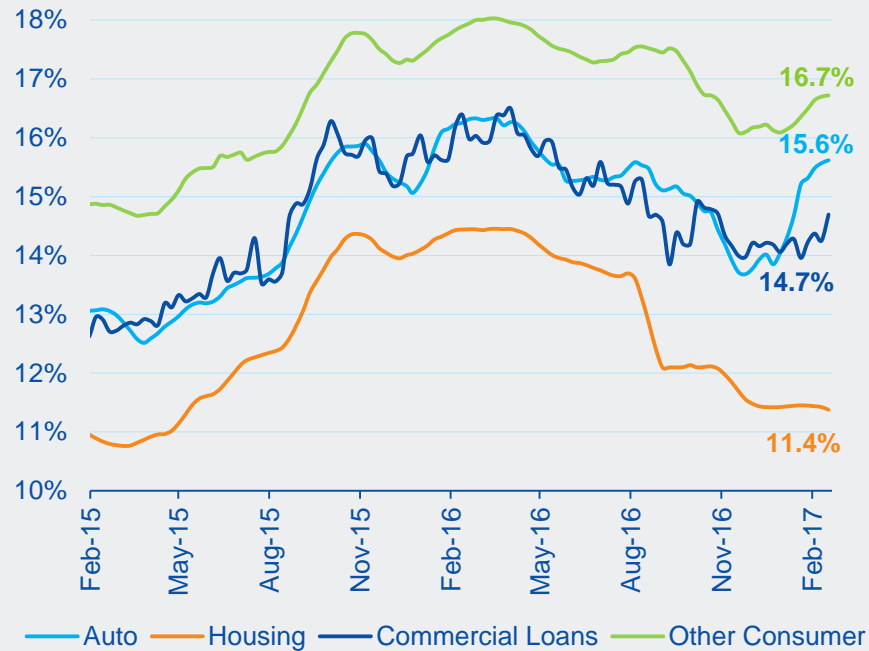
HOUSE SALES AND PRICES
YoY rates



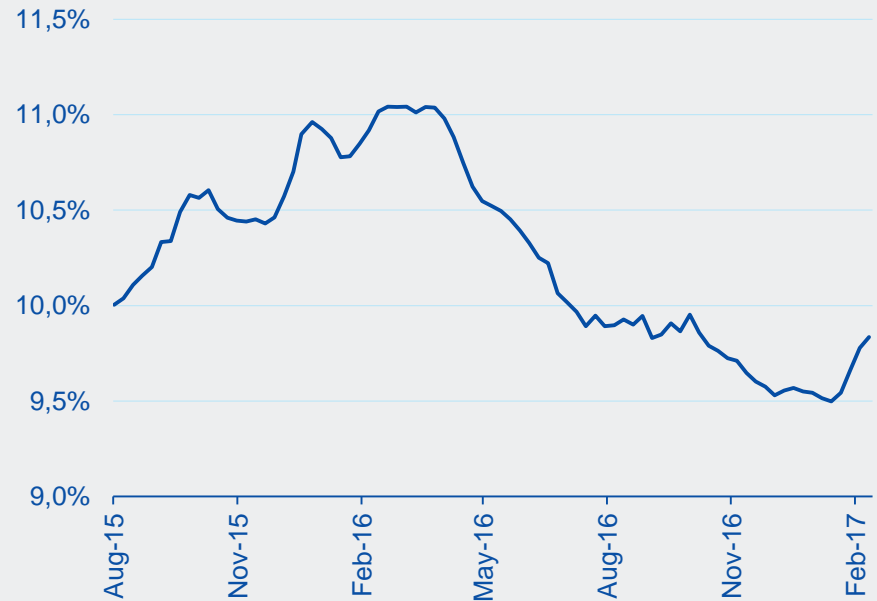
Interest Rates

Interest rates on all consumer credits continued to increase in February, mostly in auto loans. Deposit rates increased by approx. 30 bps in February.

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



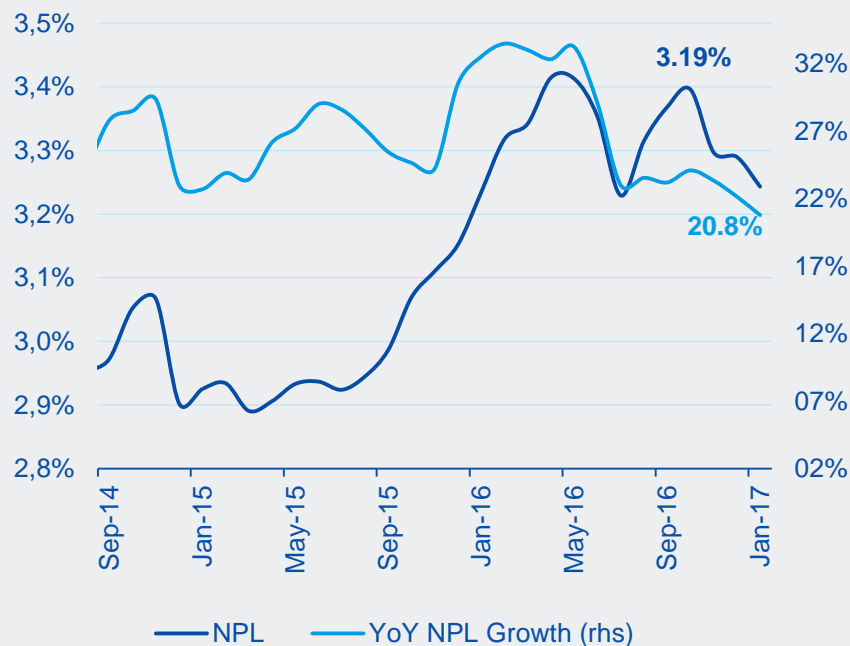
DEPOSIT INTEREST RATES
4week mov.avg.



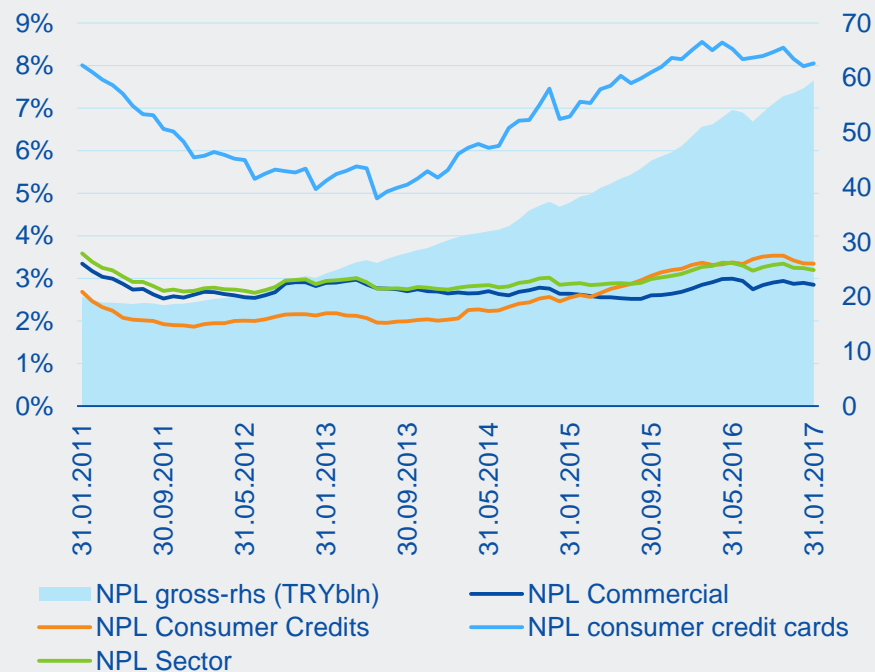
Asset Quality & Credit Risk

NPL ratio of the sector fell to below 3.2% with its declining growth rate.

NPL RATIO OF THE BANKING SECTOR
%



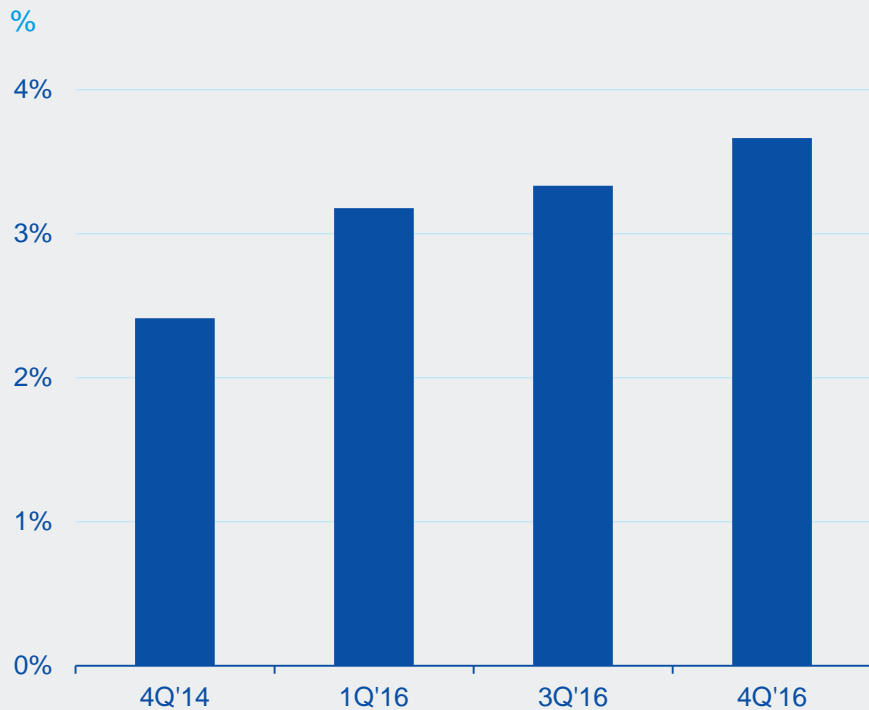
NPL RATIO BY SELECTED SUB-SEGMENTS
% & TRY bln



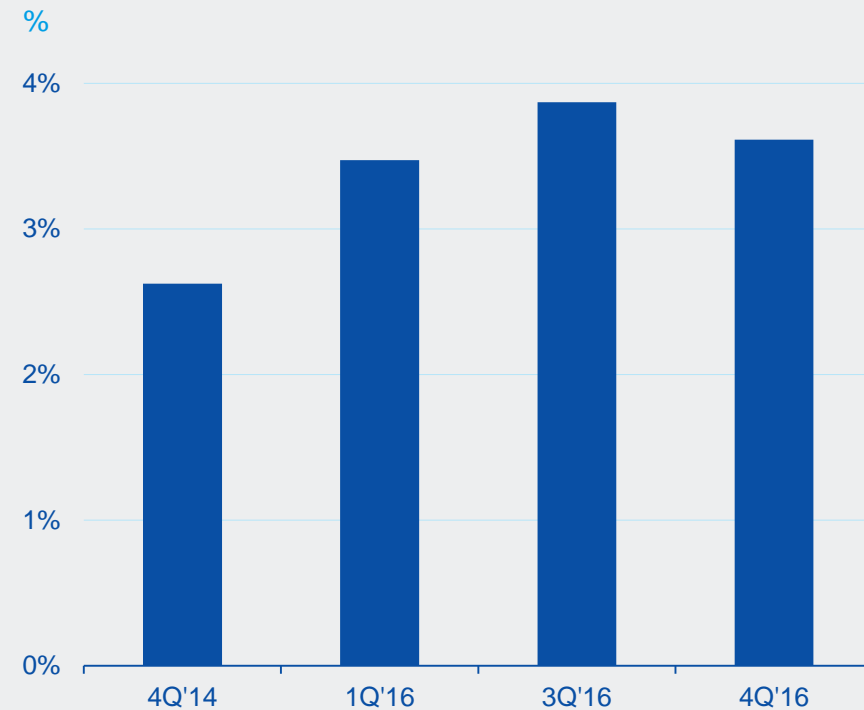
Asset Quality & Credit Risk

With government's restructuring incentives, restructured loans to total loans continue to increase.

RESTRUCTURED LOANS TO GROSS LOANS



GROUP 2 LOANS* TO GROSS LOANS



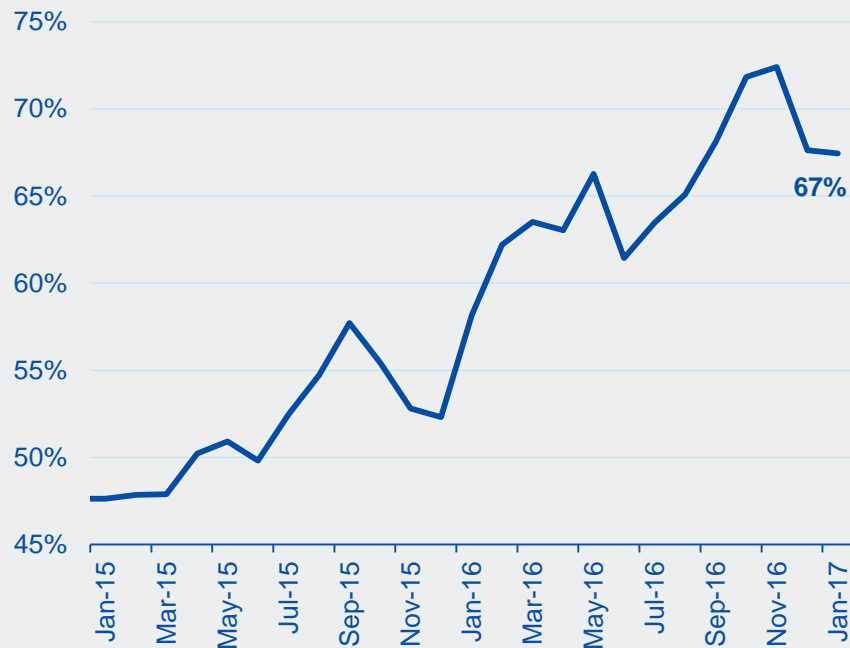
Source: Garanti Research, Public Disclosure Platform (PDP) (latest quarterly data Dec'16)

*Group 2 Loans: Loans under Close Watch

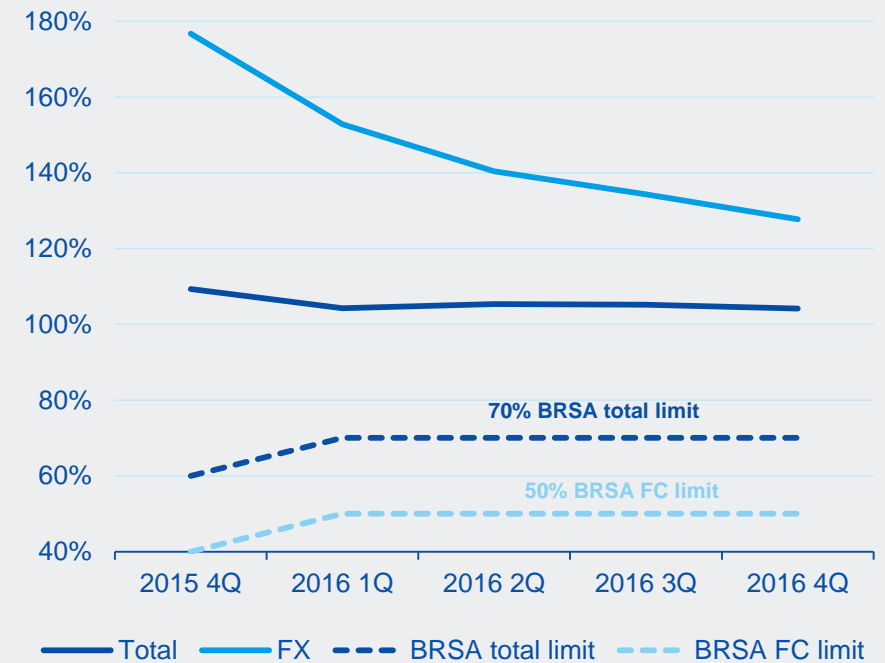
Liquidity

The FX liquid assets of the banking sector are at an adequate level to cover almost 70 % of the FX debts due within one year. Liquidity Coverage Ratio is well above the minimum legal ratio.

FX LIQUID ASSETS TO BANKS' ST EXT.DEBT TO BE PAID IN 1 YR
%



LIQUIDITY COVERAGE RATIO (LCR)
%

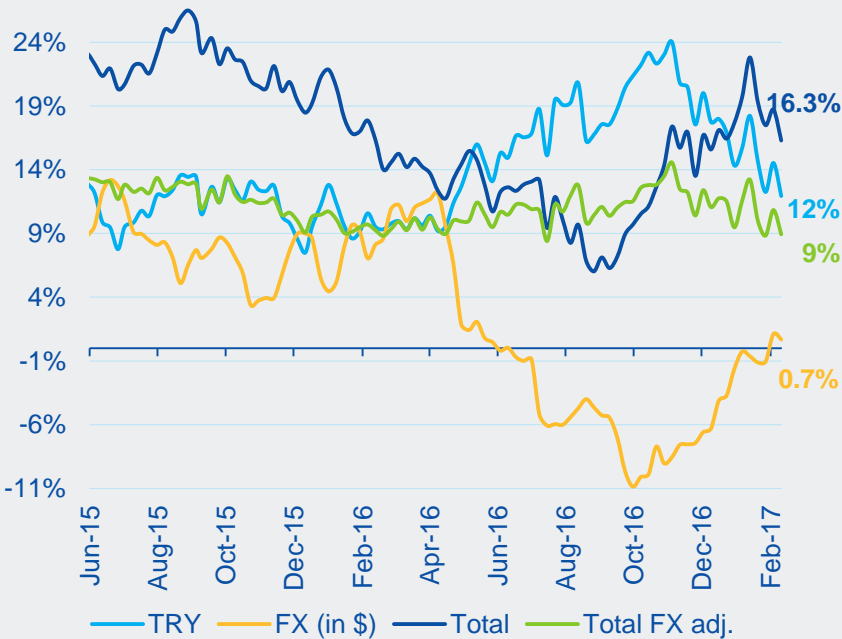


Source: Garanti Research, BRSA, Public Disclosure Platform PDP (latest quarterly data Dec'16)

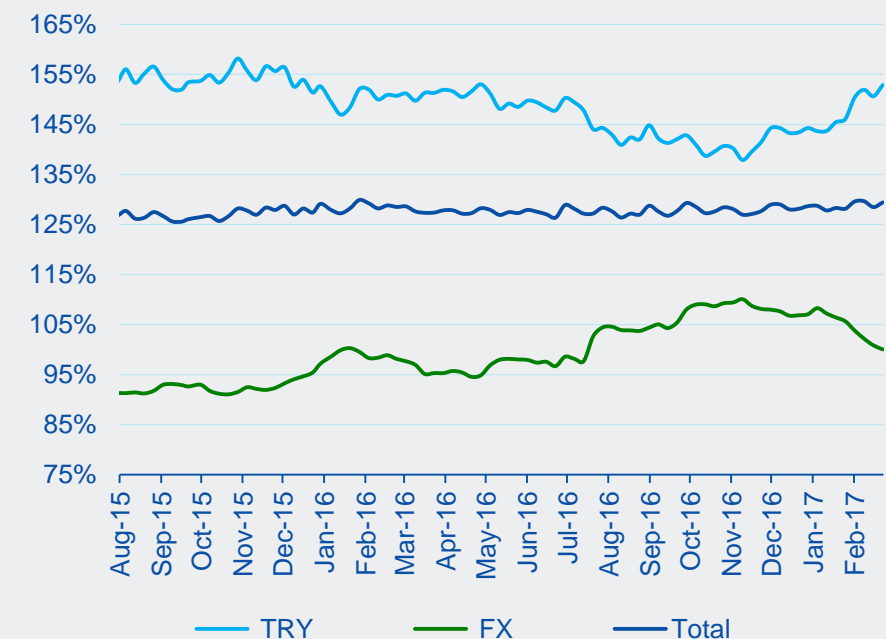
Deposits of Residents

Total deposits (FX adj.) of residents declined in February mostly on the back of decline in TL deposits. FX deposits (USD) increased by USD7bln.

DEPOSIT GROWTH RATE
% YoY



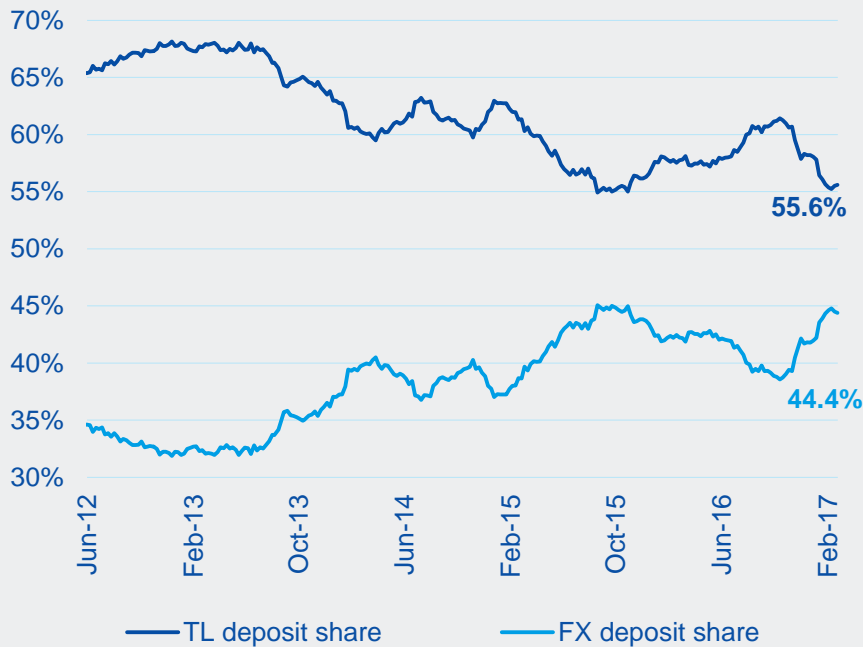
LTD (LOAN TO DEPOSIT RATIO)
% YoY



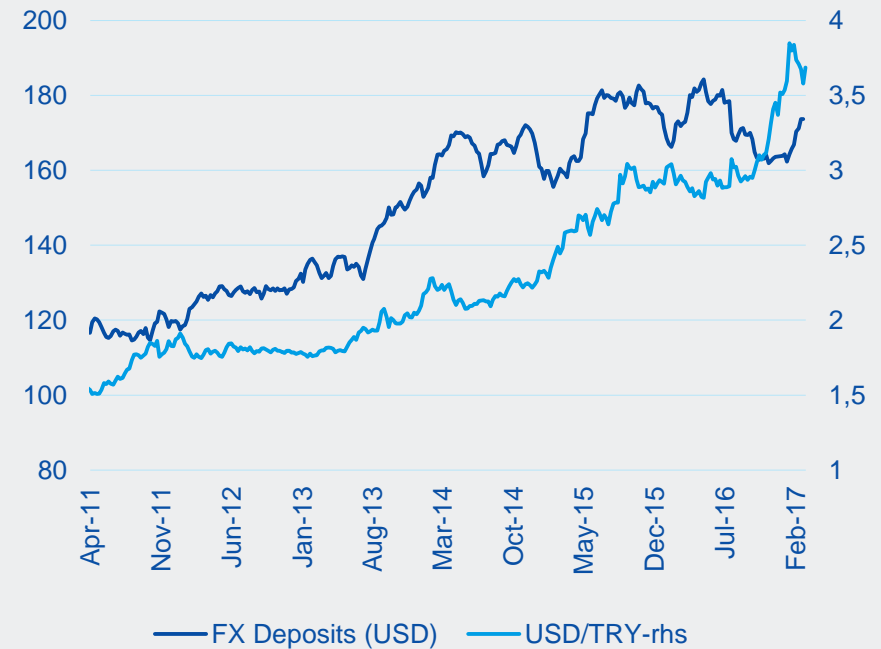
Deposits

FX deposits share continued to increase in February with TRY appreciation by almost 7%.

FX DEPOSIT SHARE IN TOTAL DEPOSITS
%



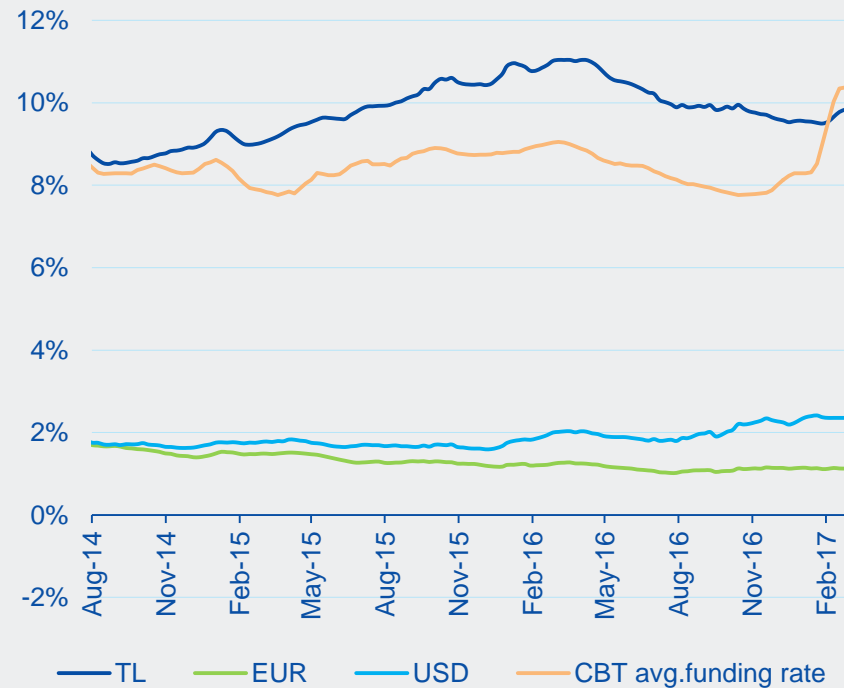
DEPOSIT GROWTH RATE
Levels- USDbln



Interest Rates

With increasing TL deposit rates, spreads between TL and USD deposit rates widened in February.

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



SPREAD btw TL and USD DEPOSIT RATES
annual %



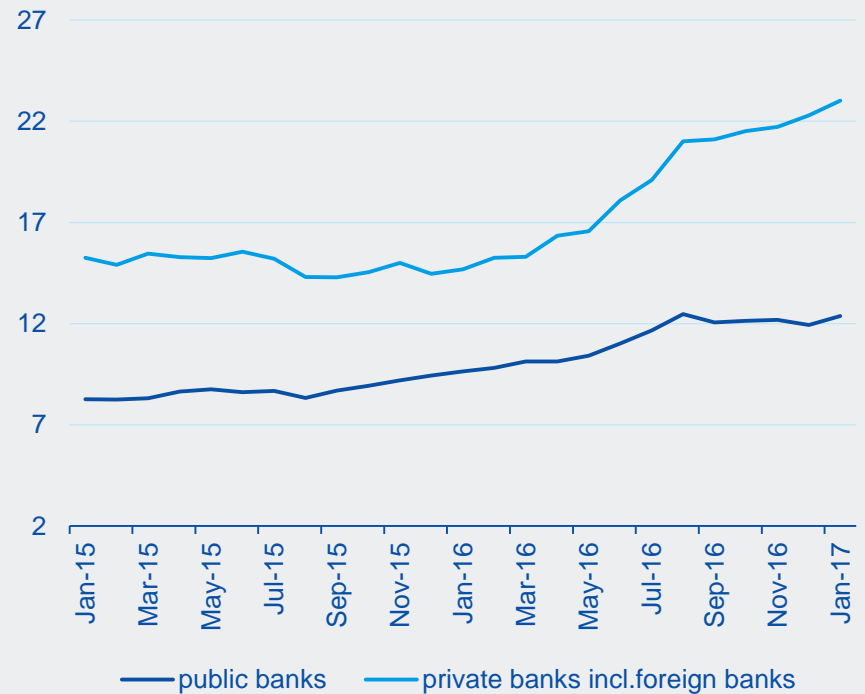
Profitability

Net profit of the sector increased (yoy) by 50% in January both in yoy and mom terms mainly thanks to declining provisioning expenses. Net profit of public banks increased more than private banks on mom terms.

NET PROFIT- whole sector
12 month cum., billion TL



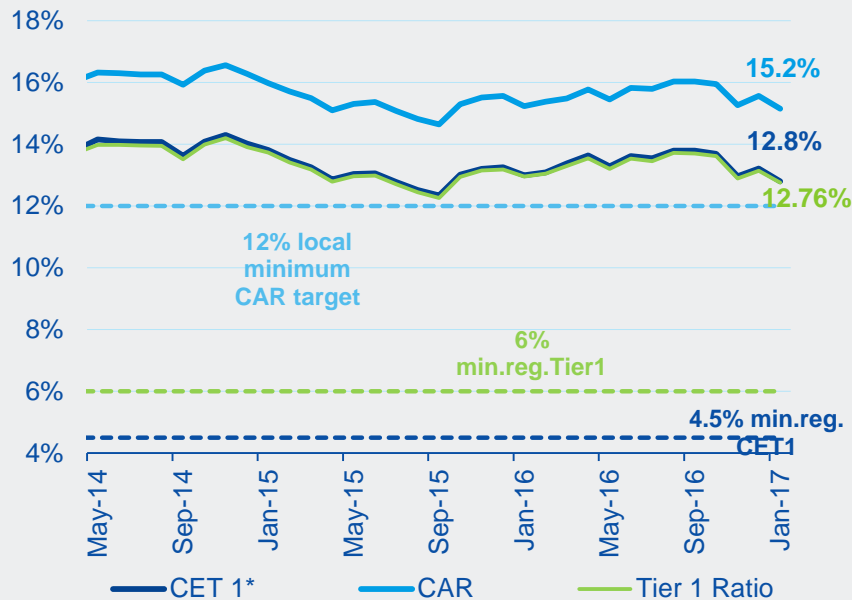
NET PROFIT- public&private banks
12 month cum., billion TL



Buffers

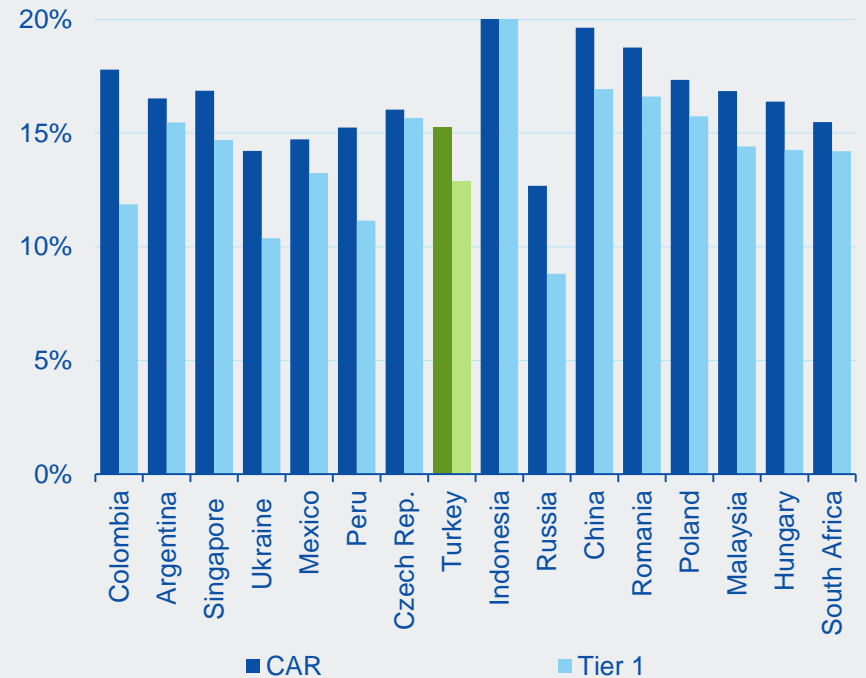
Both Capital Adequacy Ratio (CAR) and Common Equity Tier 1 decreased by 40 bps (MoM) with an increase in risk weighted assets.

CAPITAL ADEQUACY RATIO & CET 1 & TIER 1 RATIO



*Banks have to maintain additional capital conservation buffer of +0.625% CET1 for 2016; phased-in to reach +2.5% CET1 until 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.

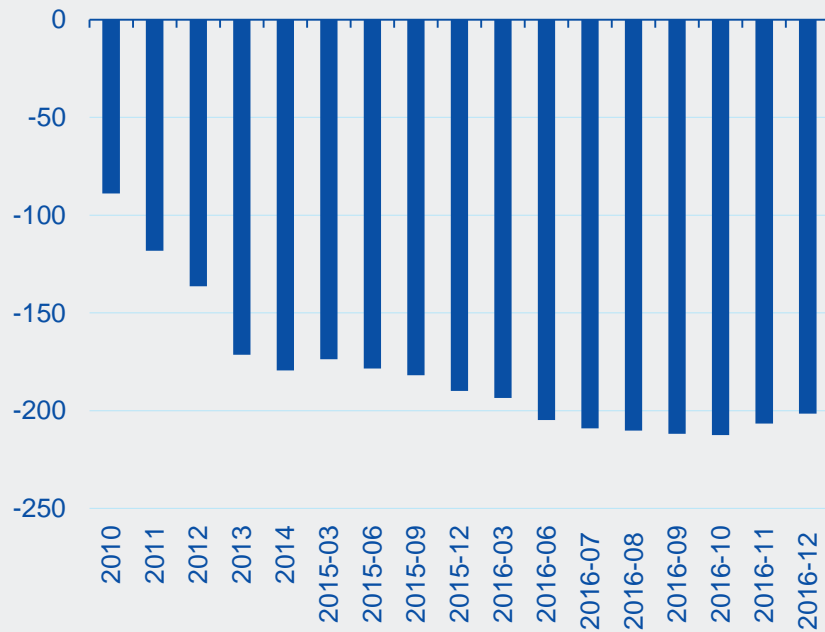
EM CAR & TIER 1 Ratio Q3'16



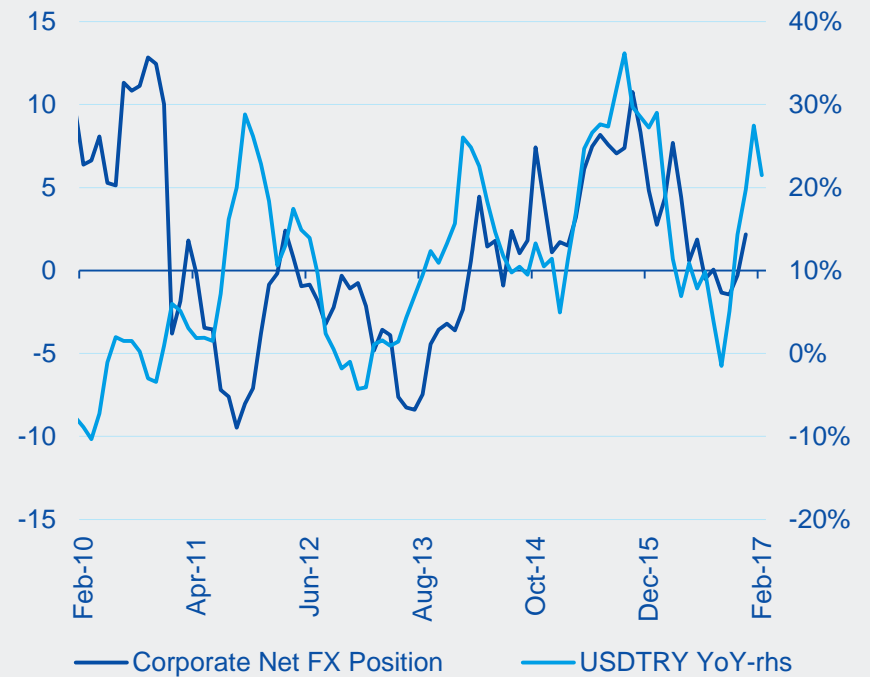
Corporate Sector FX indebttness

Corporates' overall FX position improved in Dec'16 due to increased FX assets and declined FX liabilities to domestic banks. Their net FX short position improved by USD 2.5bln with increasing ST FX assets of corporates.

CORPORATES' OVERALL FX POSITION
USD bn



CORPORATES NET SHORT TERM FX POSITION
%, USD bn



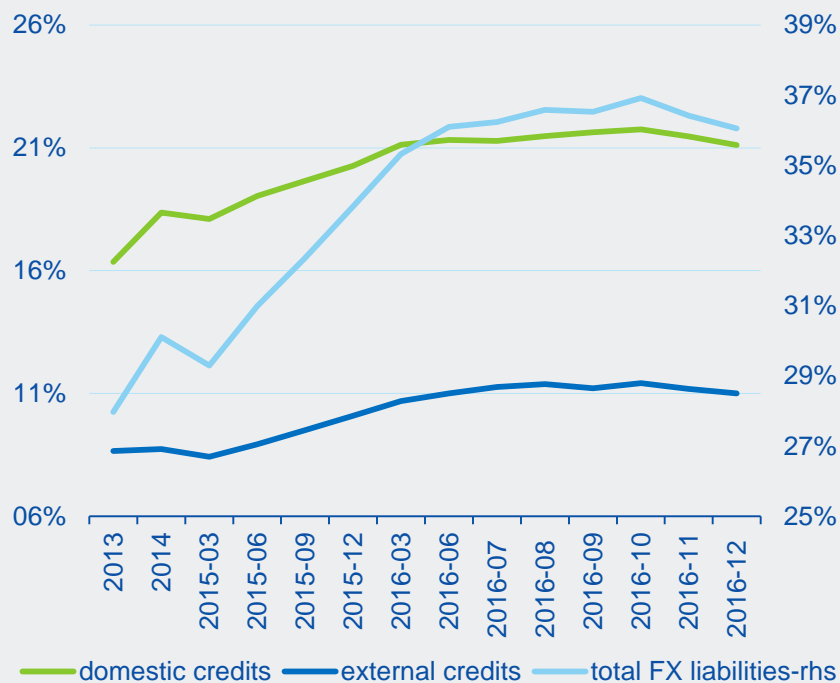
Source: CBT; Garanti Research

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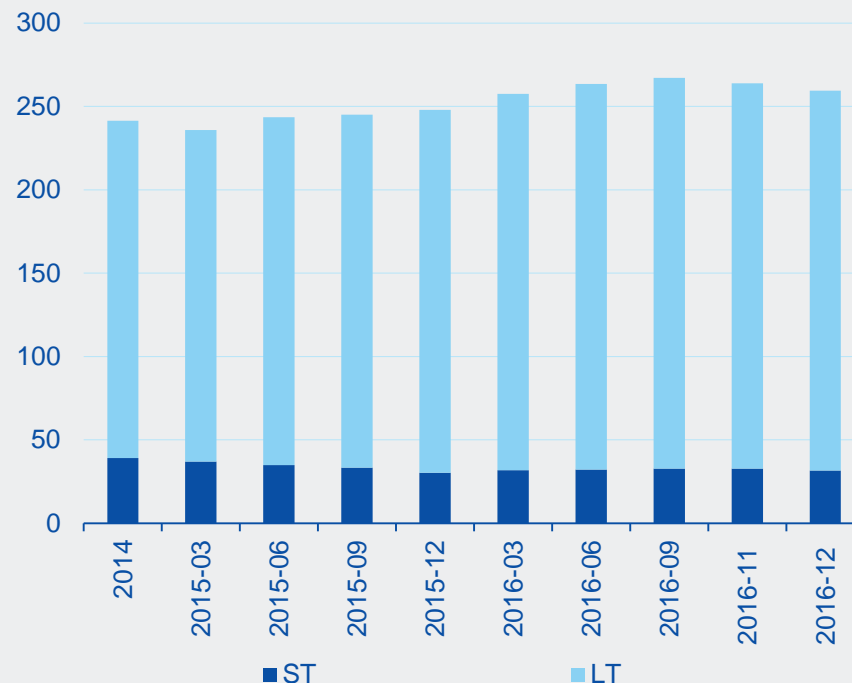
Corporate Sector

Real sector's FX liabilities to domestic banks declined more than their external liabilities due to sharp decline in FX credits provided by the banking sector. Main financing of corporates is provided by LT credits.

CORPORATES' FX LIABILITIES
% to GDP



CORPORATES' FX LIABILITIES- Share of LT&ST credits
USD bln

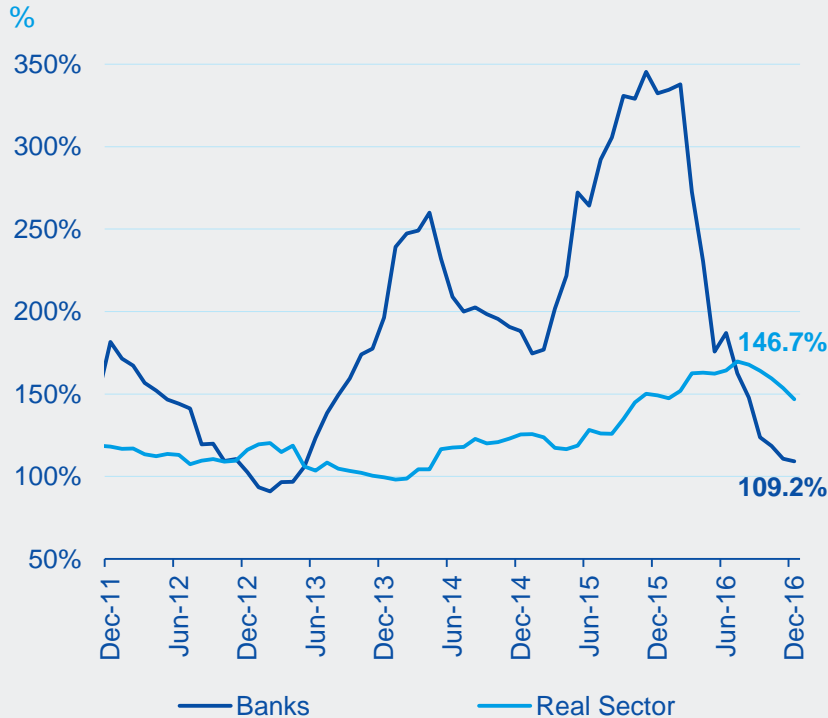


Source: CBT; Garanti Research
*latest data available 4Q'16

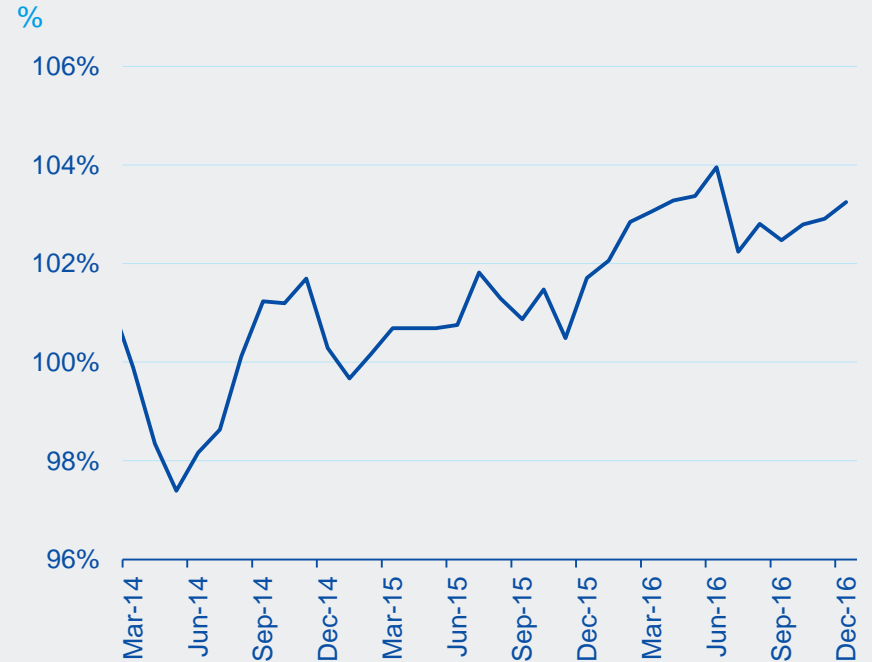
Corporate Sector

LT external debt roll-over ratios for banks remain resilient despite high levels of loan repayments and continuing high base effect. Roll-over ratios for the real sector is sound at close 150%

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 BoP data Dec'16

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

Regulatory Changes

Repayments of rediscount credits for export and FX earning services, which were lent before 01/01/2017 and will be due by 05/31/2017 can be made in TRY provided that they are paid at maturity. The CBRT buying exchange rates announced on 01/02/ 2017 will be applicable for these transactions.

The BRSA is working on a draft regulation to allow banks to apply zero risk weights for their FX reserve requirements

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Garanti – BBVA Research

Deniz Ergun

denizerg@garanti.com.tr

