

Monthly Banking Monitor Turkey

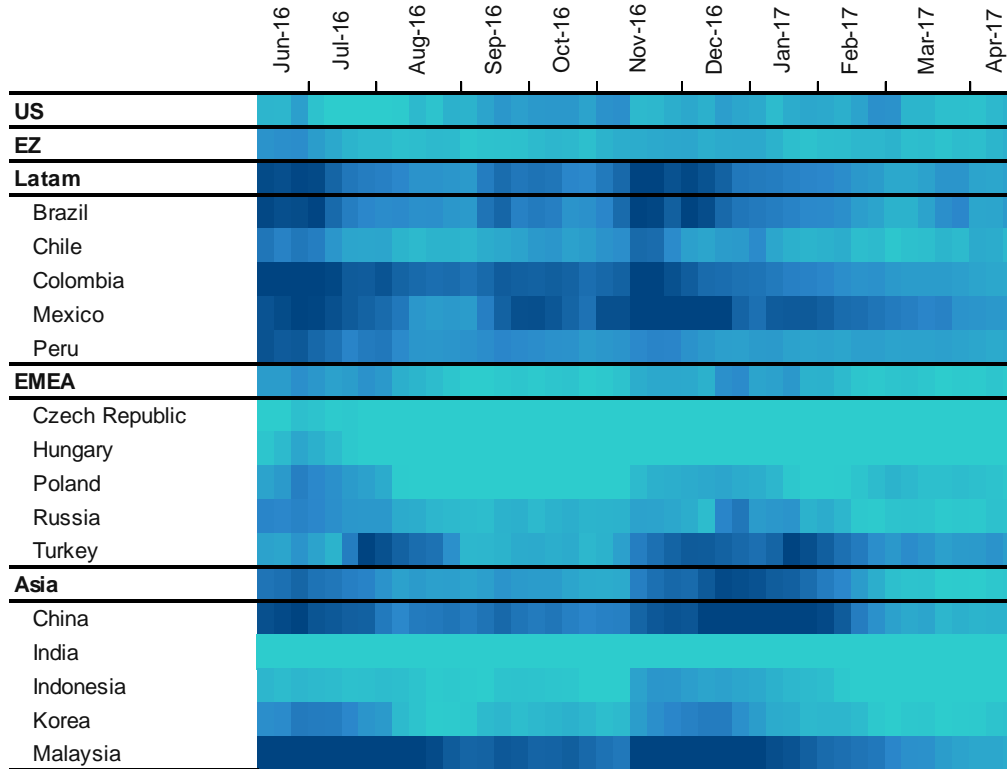
8 MAY 2017



Global Developments

Financial Stress Index Regional Map

Standard deviation $\approx (-1, 1)$



- Financial Stress Index in Developed Countries was impacted by the electoral uncertainties
- On Emerging Markets' side, Financial Stress Index remain contained in general given low volatility in financial markets

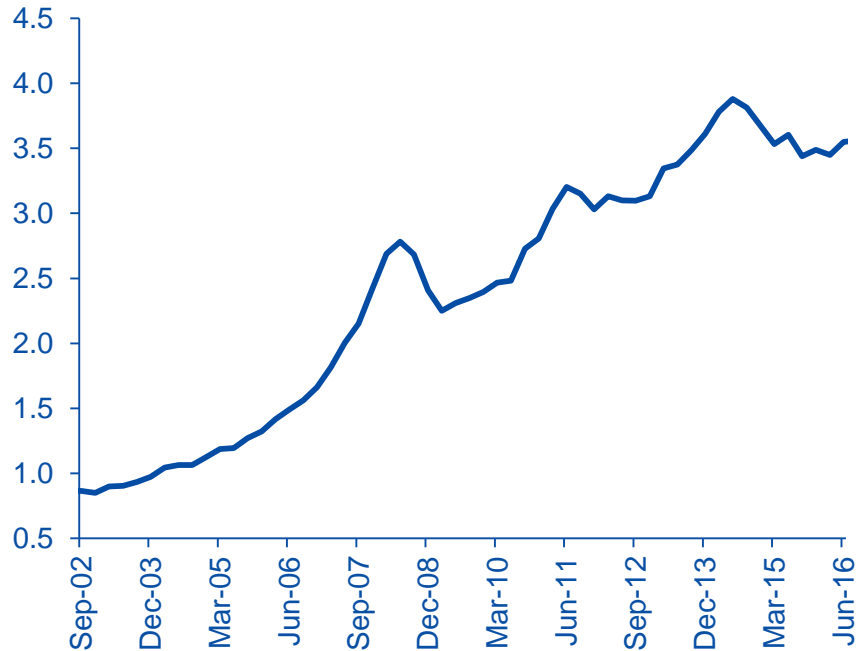
Source:BBVA Research,

Global financial conditions remained supportive in April as Financial Stress Index remained stable

Global Financial Markets

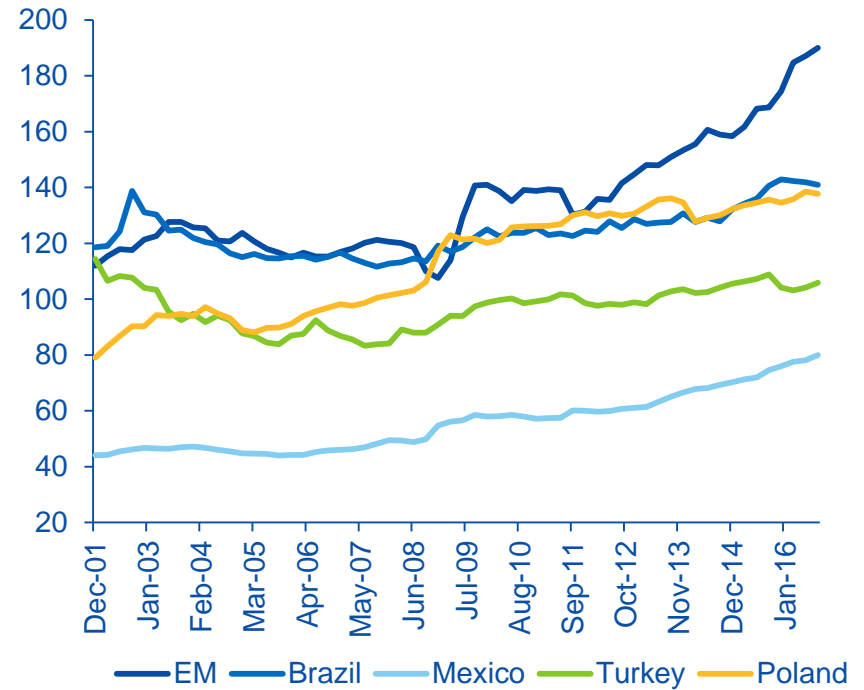
Cross-Border Bank Lending to EM

USD trillions



Total Credit to Non-Financial Sector*

% of GDP



Source: BIS (latest data), Garanti Research

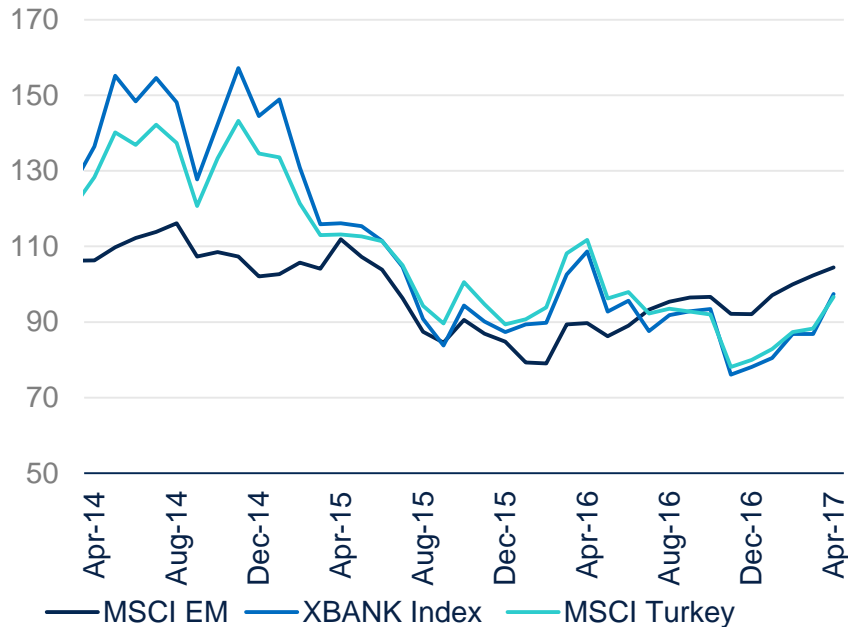
*Non-financial sector terminology of the BIS includes real sector + households + non-profit org.

In YoY terms, global credit to EM increased by 1.9% in second half of 2016 (after contracting by 2% in 2016H1) reaching \$3.5 trillion.

Turkey Financial Markets

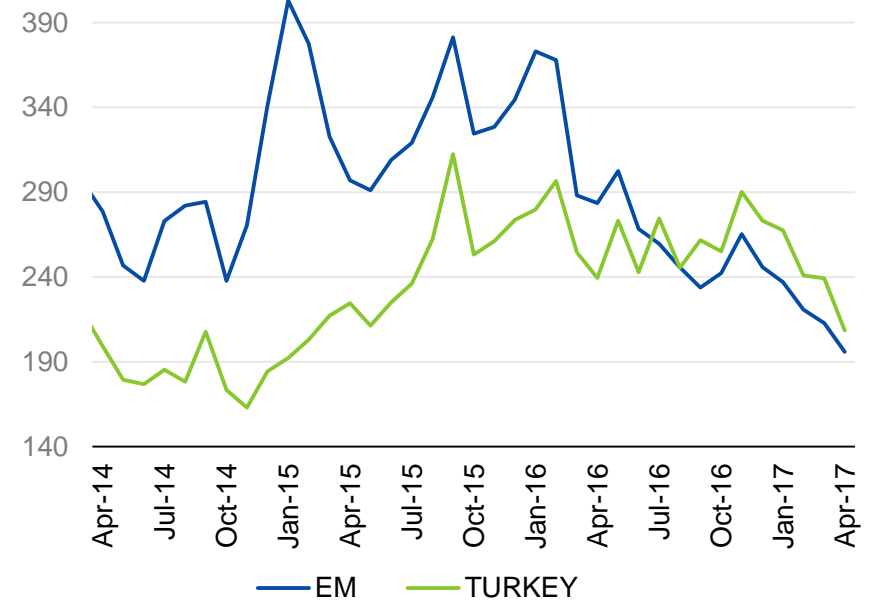
MSCI Indices

Base 100 = Jan 2014



Risk Premiums, 5 Year CDS Indices

Levels

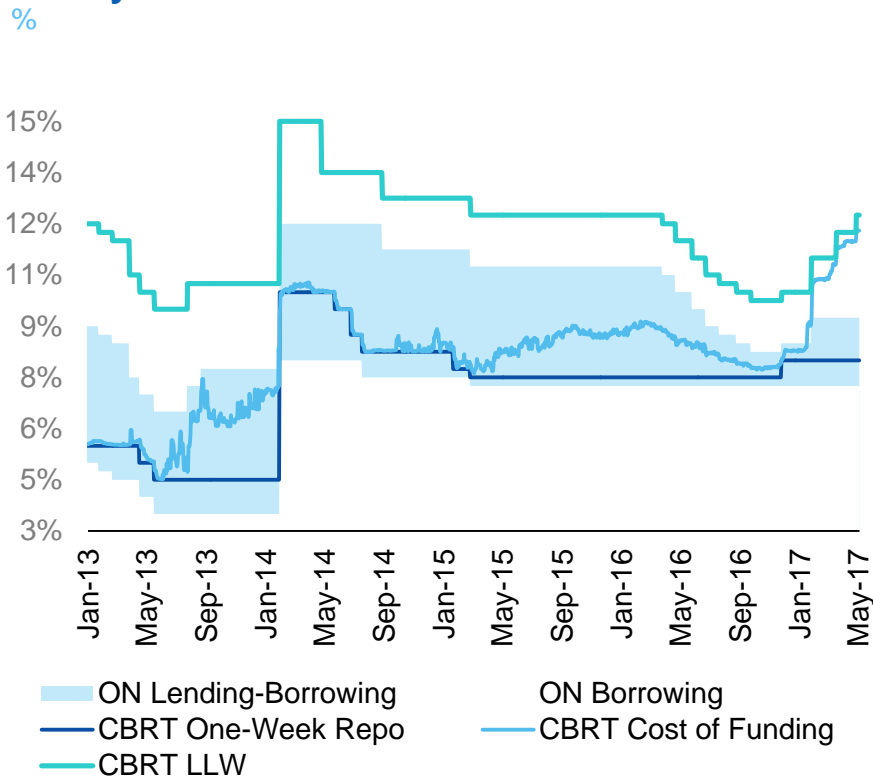


Source: Garanti Research, Bloomberg

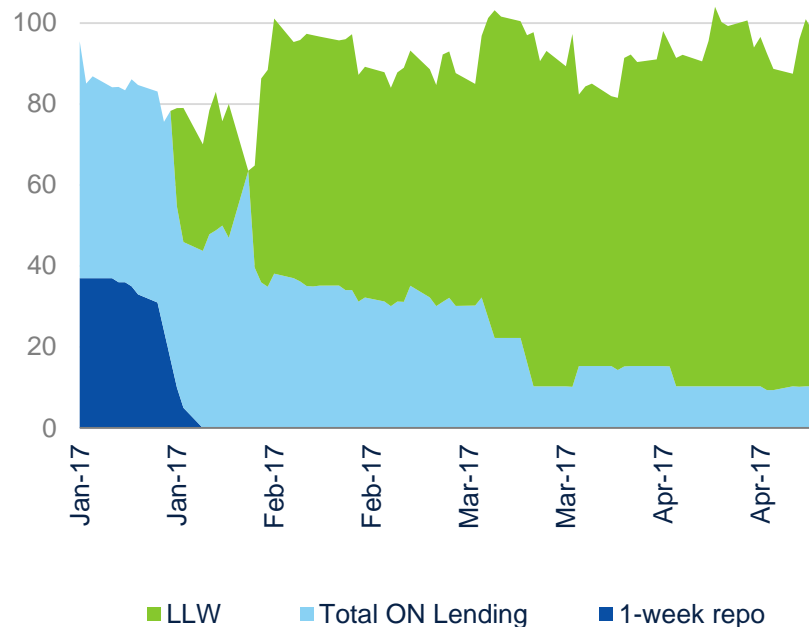
While risk premiums on Turkish assets decreased along with the other emerging markets, there were continuing equity inflows in April supporting Turkish equities.

Monetary Policy

Turkey: Interest Rate Corridor



Turkey: CBRT Funding Composition
(Bn TRY)



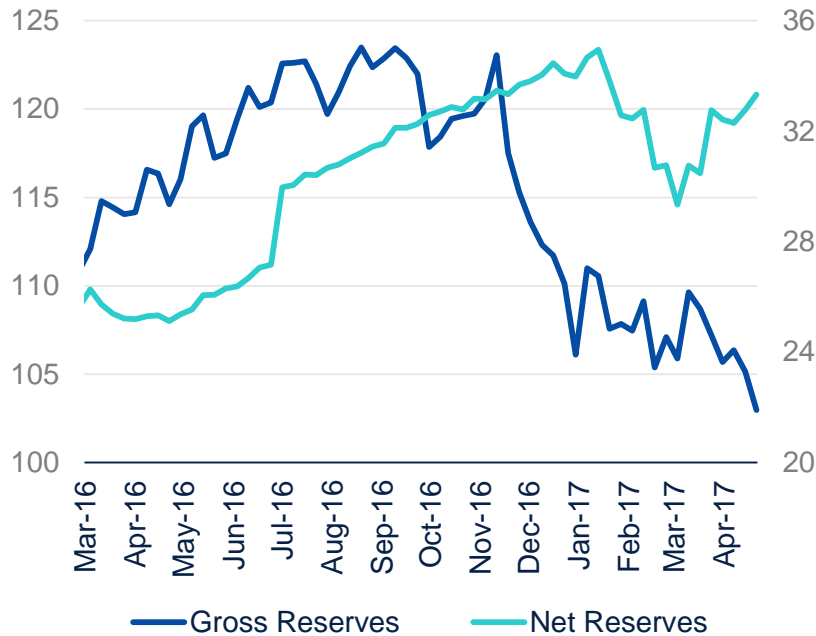
Source: Garanti Research, Bloomberg

The Central Bank (CBRT) increased its Late Liquidity Window (LLW) rate by 50 bps in reaction to rising inflation. The CBRT continues to tighten monetary policy by funding the market mostly through LLW and increasing average cost of funding.

Central Bank Reserves

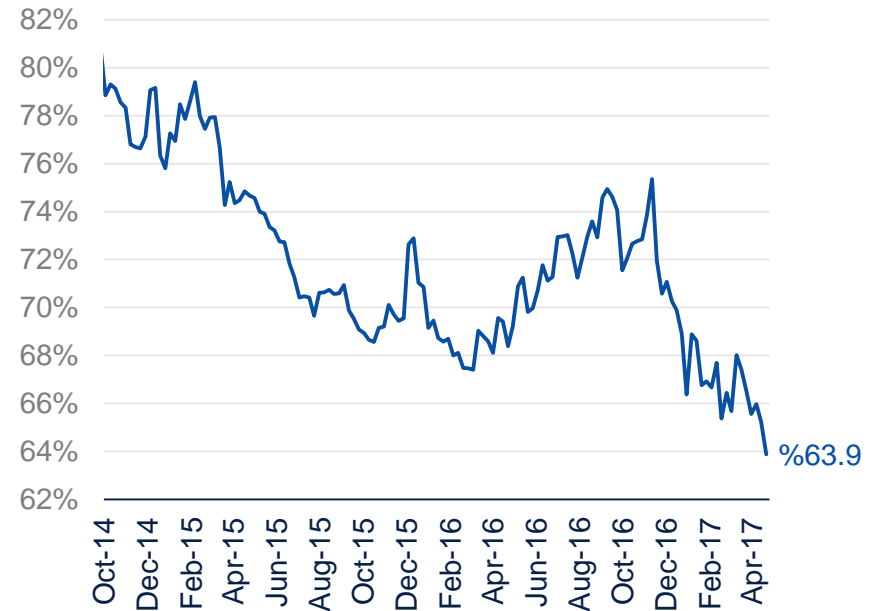
CBRT Reserves

USD bn



Gross Reserves

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

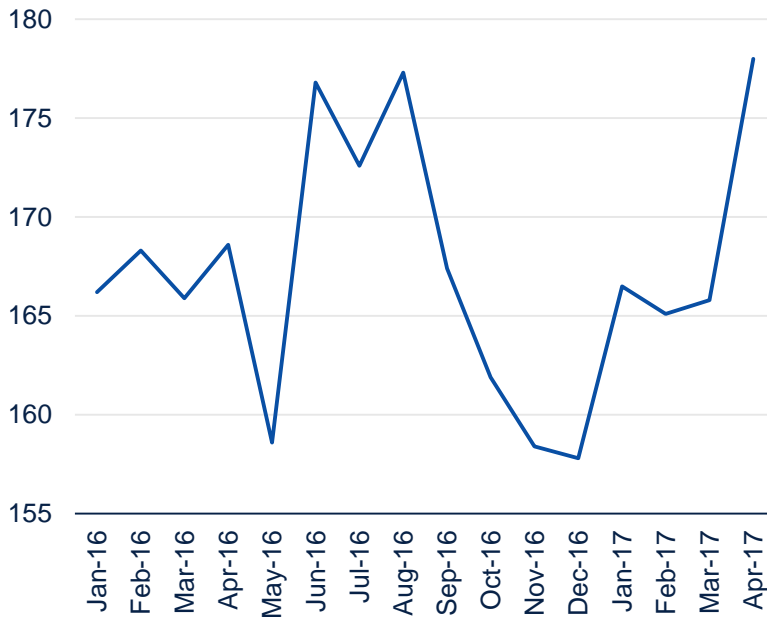


Source: Garanti Research, CBT

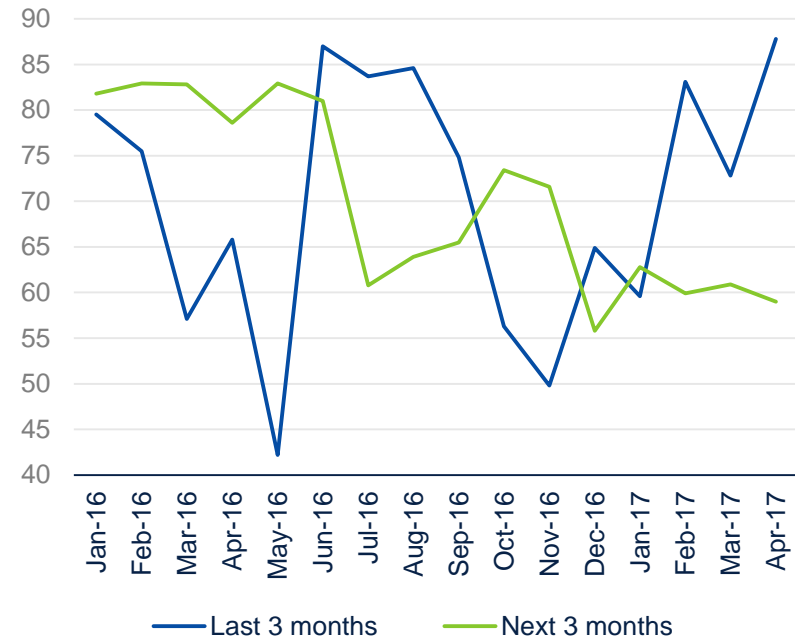
Net FX reserves of the CBRT increased in April by almost USD 1bn with decreasing FX liabilities (decrease in banks' FX deposits held at the CBRT).

Turkey Financial Sector

Financial Services Confidence Index
Level



Demand Index for Financial Services
Level



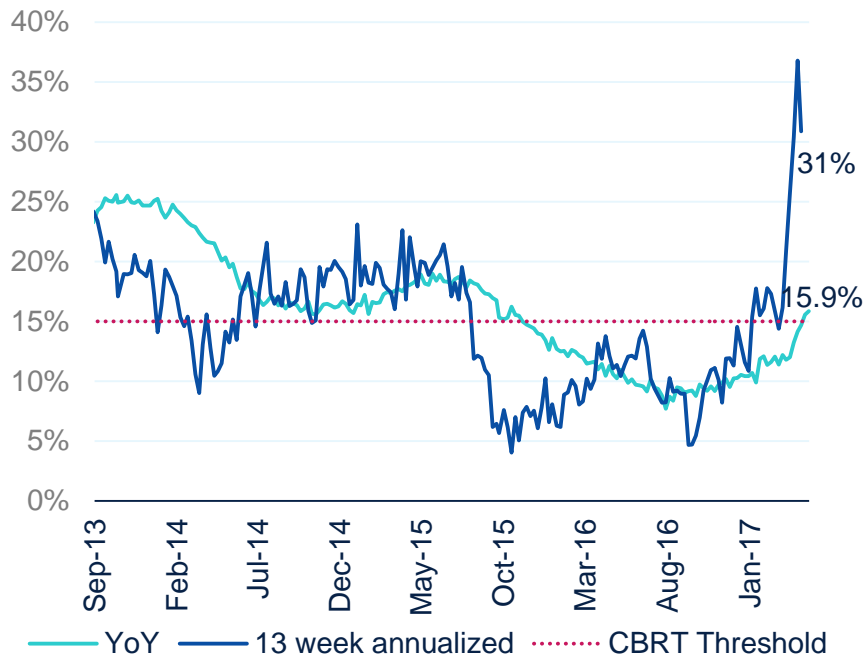
Source: CBT; Garanti Research

Financial Services Confidence Index rose to 178 in April (which is the highest level since 2015). Demand for financial services is expected to increase modestly in upcoming 3 months.

Loan Growth

Fx Adjusted Credit Growth Rate

%, yoy and 13 week annualized rates



31% ann.
13 week trend rate jumped to 31% in April thanks to push in commercial credits via CGF

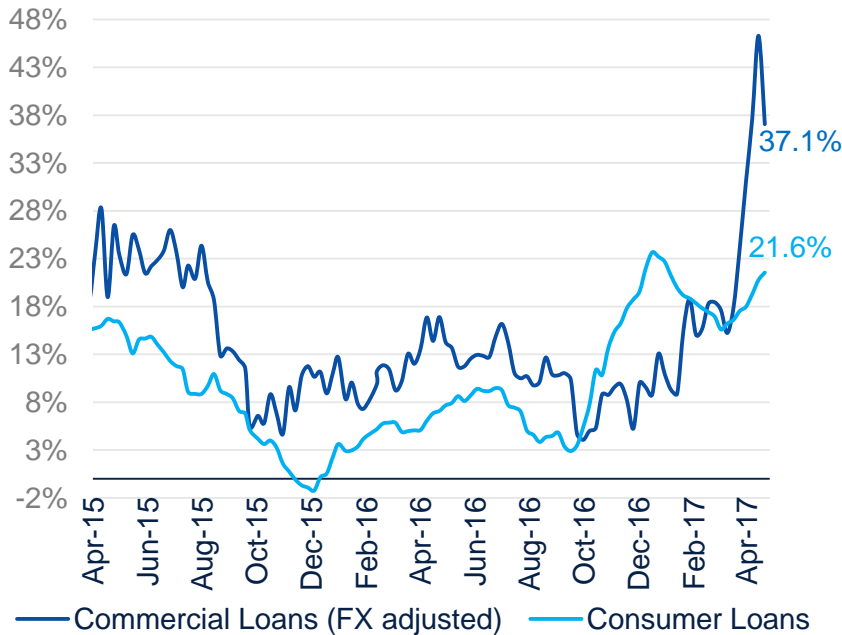
16% yoy
YoY credit growth surpassed the target of the CBRT of 15%.

Source: Garanti Research , BRSA, CBT

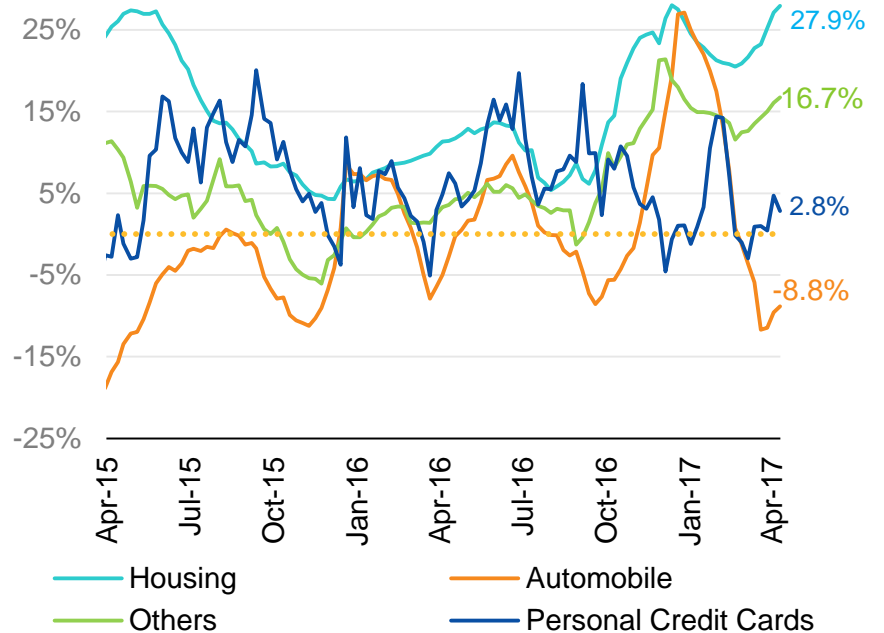
Thanks to the guarantees by the Credit Guarantee Fund (CGF), credit growth (YoY) increased further in April and reached 15.9%. The 13 week trend rate jumped to 31%.

Loan Growth

Comm. and Consumer Loans Growth Rate
13 week ann. rates



Consumer Loans
% 13 week ann. rates

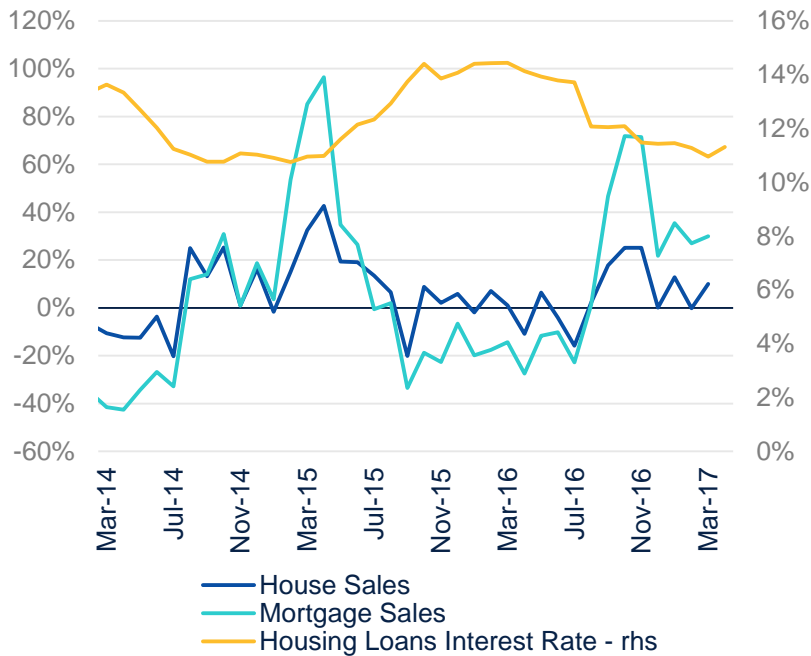


Source: Garanti Research, BRSA, CBT

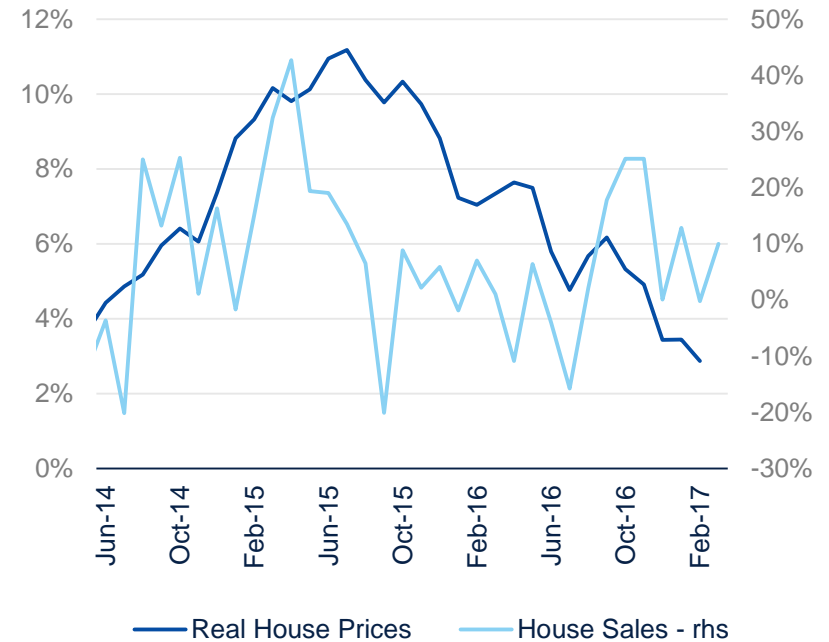
Credit Guarantee Fund was especially effective in the commercial credits in April. There is also an increasing momentum in consumer credits led by housing and general purpose loans (GPL).

Housing

House Sales & Interest Rate YoY



House Sales and Prices YoY



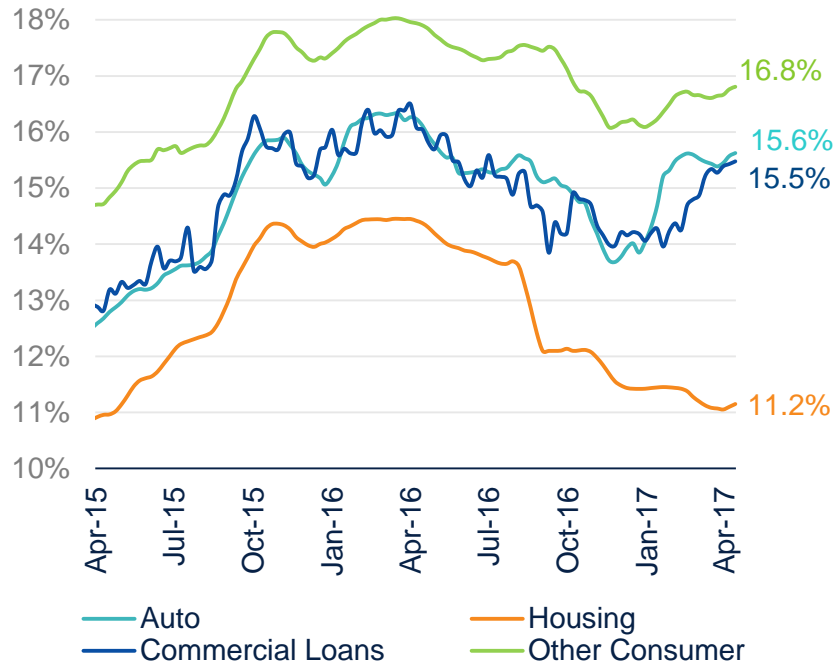
Source: Garanti Research, BRSA, CBT

Real change in house prices normalized, supporting the house sales. Annual growth of house sales and mortgage sales increased to 10% and 30%, respectively in March.

Interest Rates

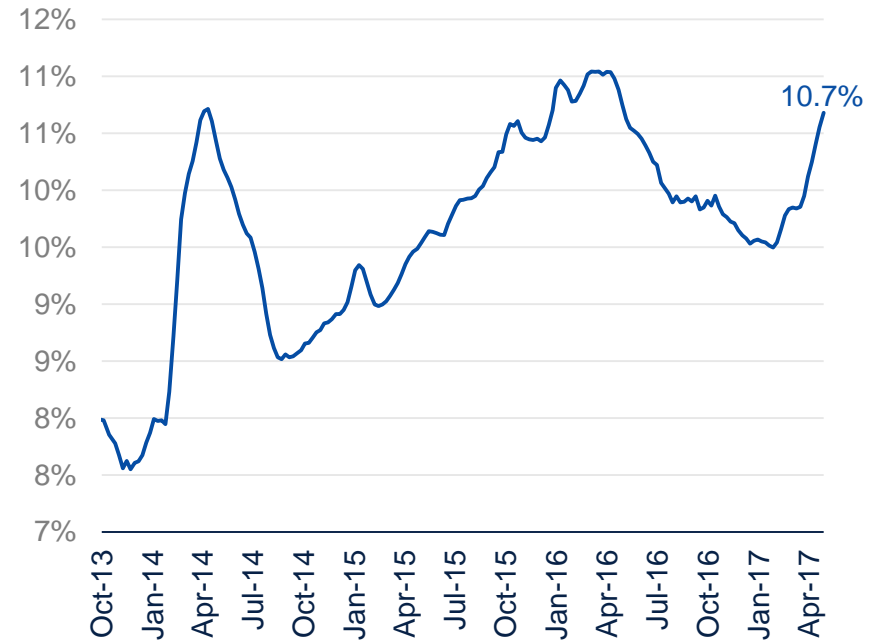
Loan Interest Rates

4 week moving averages



Deposit Interest Rates

4 week moving averages



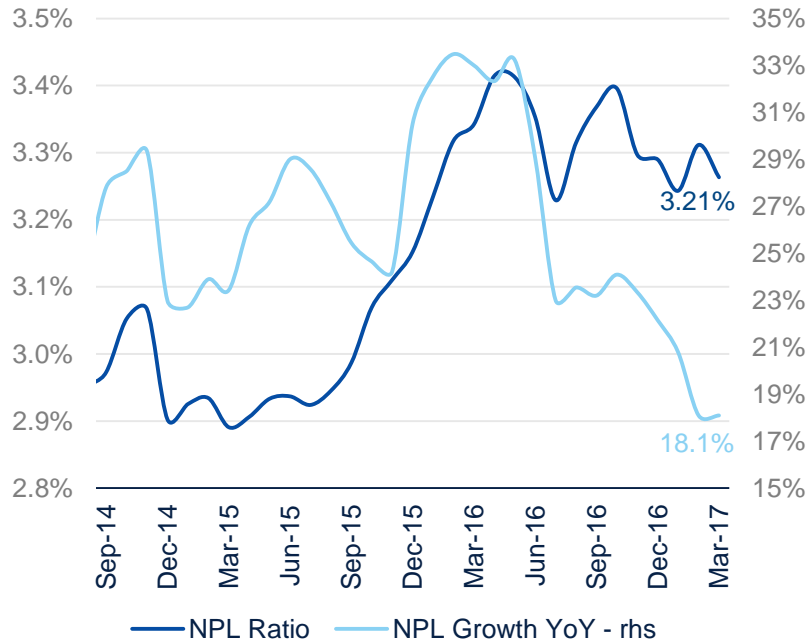
Source: Garanti Research, BRSA, CBT

Deposit interest rates increased further by 50 bps in April as a by-product of increased momentum in commercial credit growth. Interest rates on consumer credits increased slightly.

Asset Quality & Credit Risk

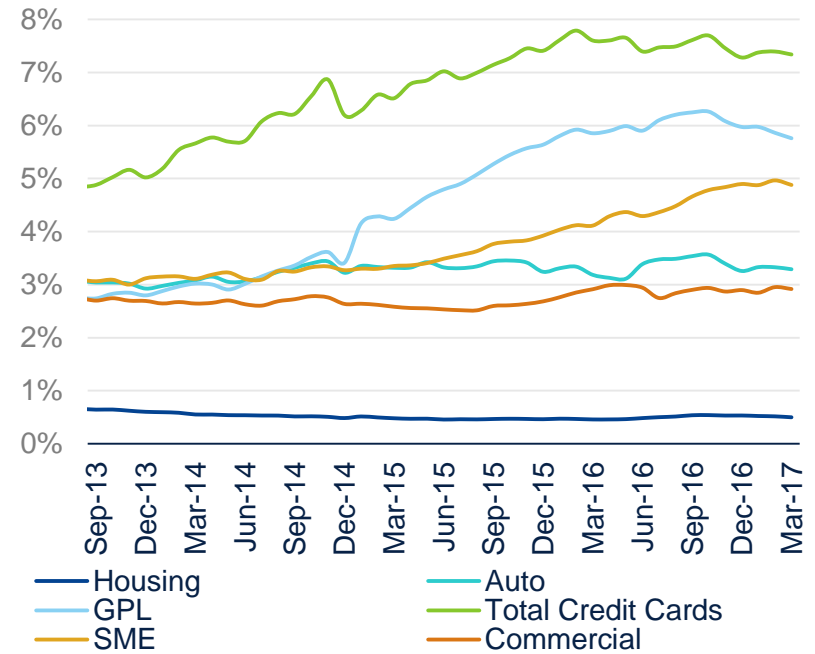
NPL Ratio of the Banking Sector

%



NPL Ratio by Selected Sub-Segments

% and TRY bn

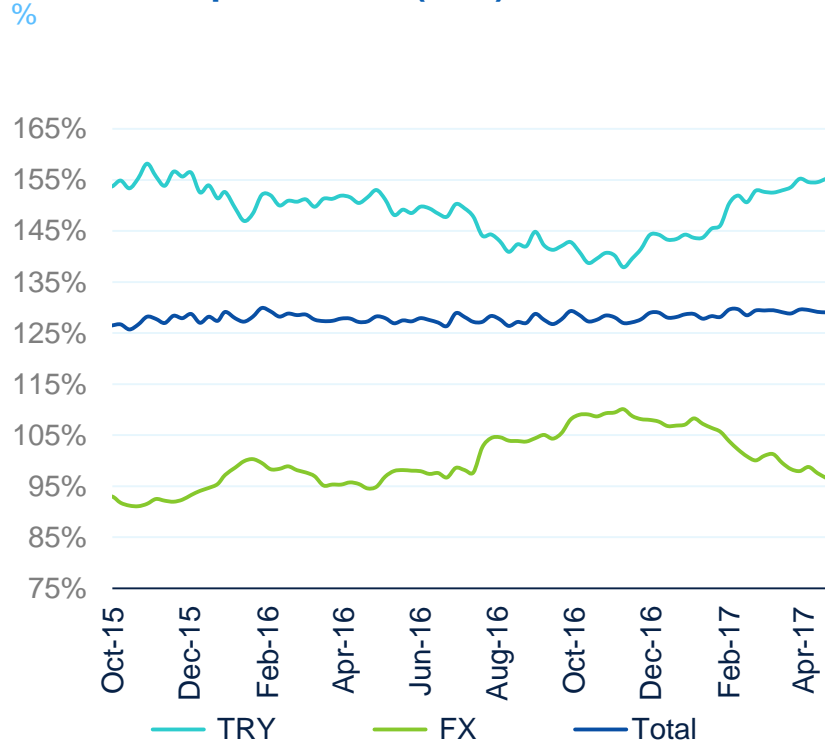


Source: Garanti Research, BRSA (latest monthly data Mar'17)

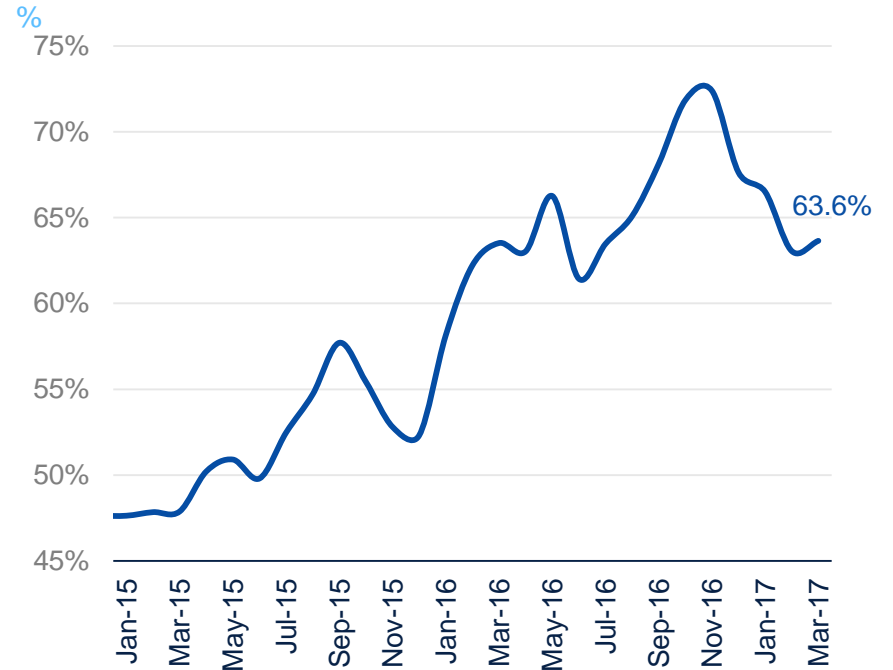
NPL ratio of all sub-segments decreased in March which reduced the banking sector NPL ratio to 3.2%.

Liquidity

Loan To Deposit Ratio (LTD)



Fx Liquid Assets to Banks' ST Ext. Debt to be Paid in 1 YR

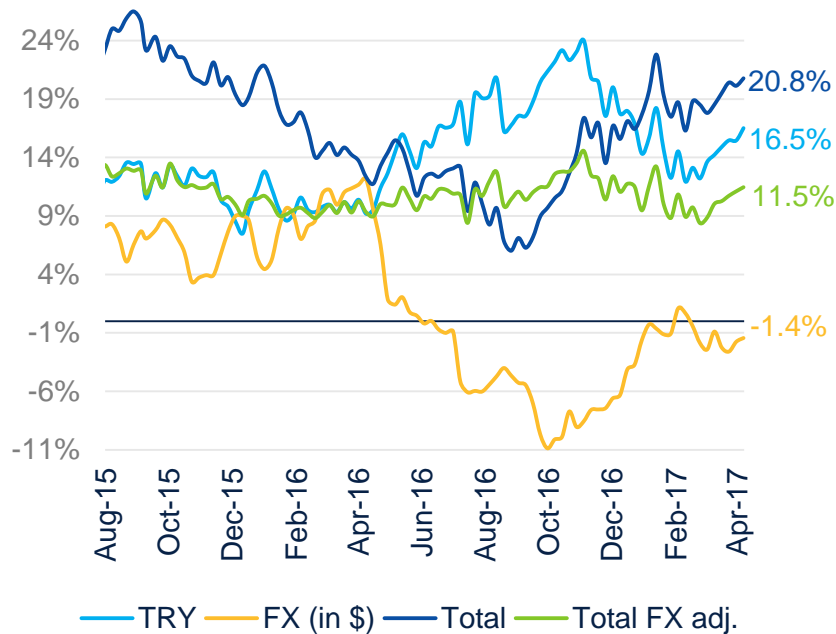


Source: Garanti Research, BRSA, CBRT

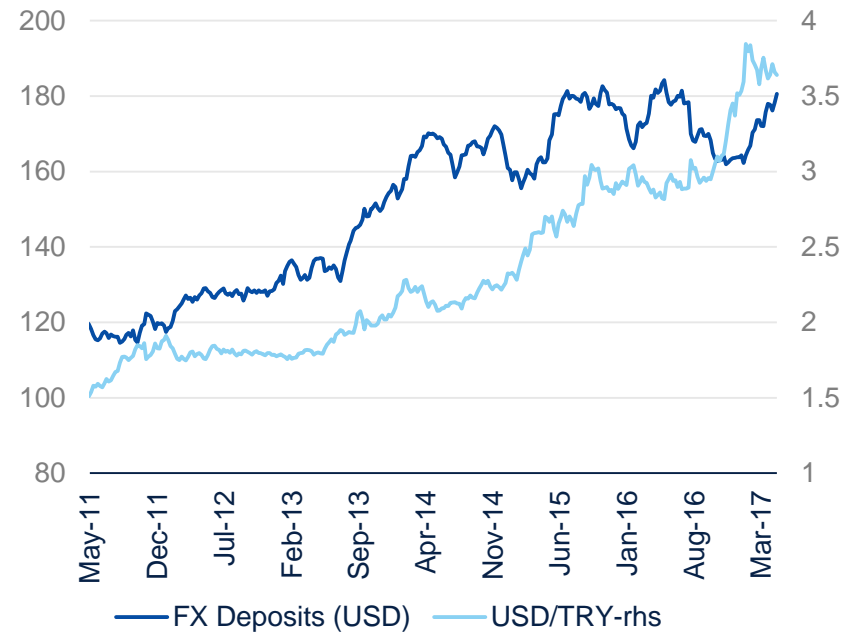
TRY LTD (Loan to Deposit Ratio) is in increasing and FX LTD is in decreasing trend which makes total LTD more or less stable.

Deposits of Residents

Deposit Growth Rate
% YoY



Fx Deposits & USDTRY
% YoY



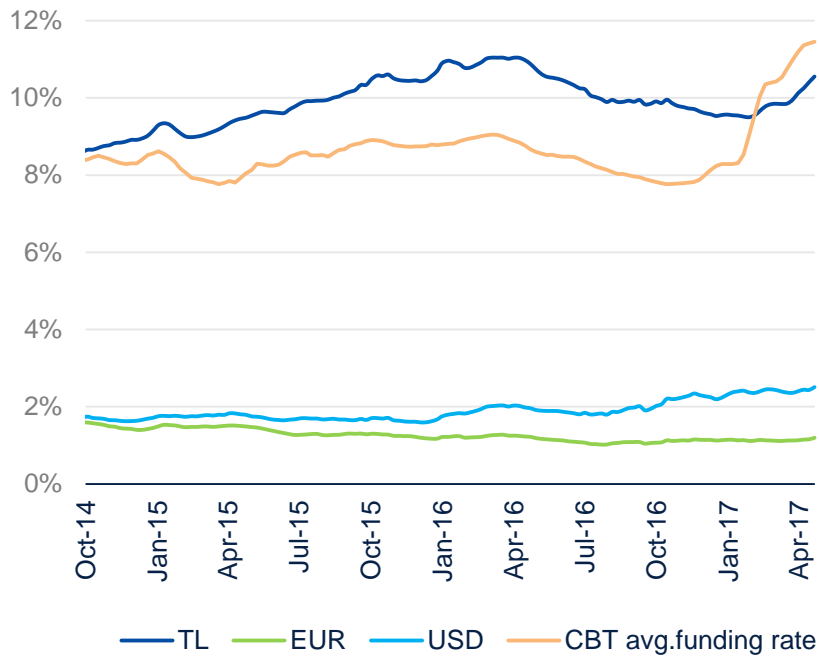
Source: Garanti Research , BRSA, CBT

Annual growth rate of FX adjusted deposits increased its momentum thanks to pick-up in TL deposits.

Deposit Rates

Deposit Interest Rates in TL & EUR & USD

4week mov.avg



Spread btw TL and USD Deposit Rates

annual %



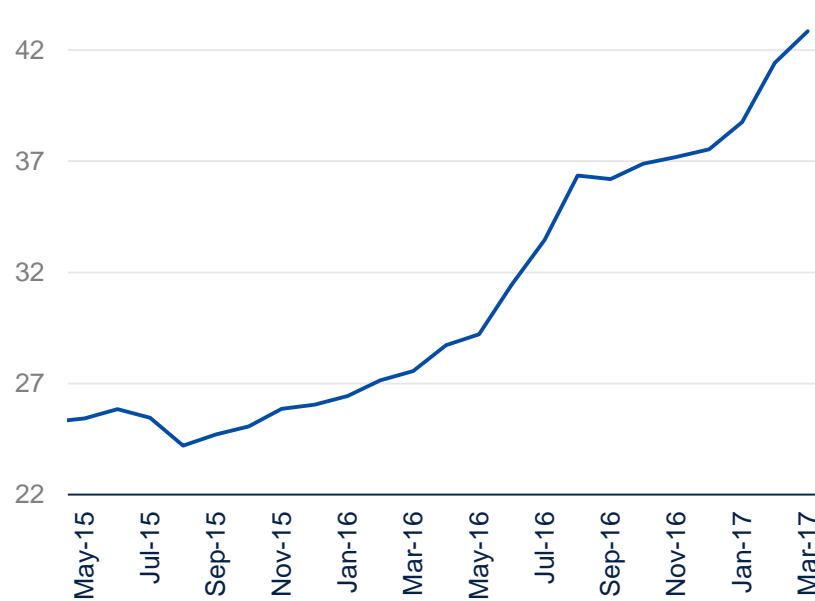
Source: Garanti Research , BRSA, CBT

There were increases in all deposit interest rates (especially TL) with rising CBRT average funding rate in April.

Profitability

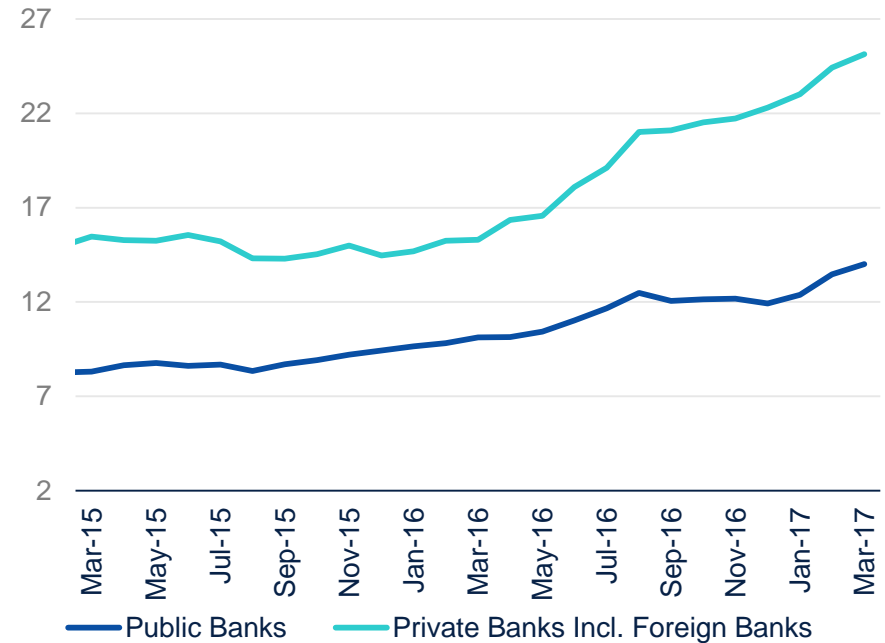
Net Profit - Whole Sector

12 month cum., Bln TL



Net Profit- Public & Private Banks

Bln TL

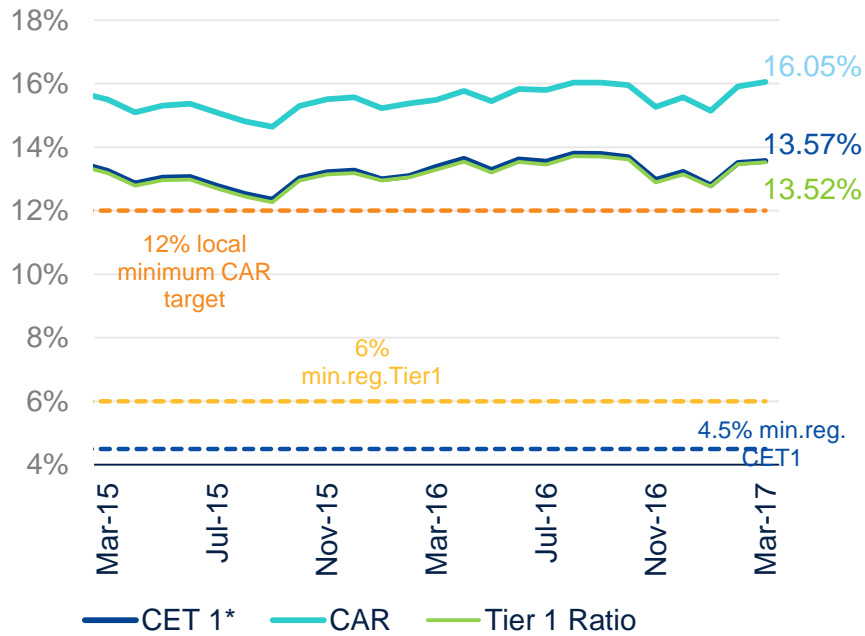


Source: Garanti Research, BRSA latest monthly data-Mar'17

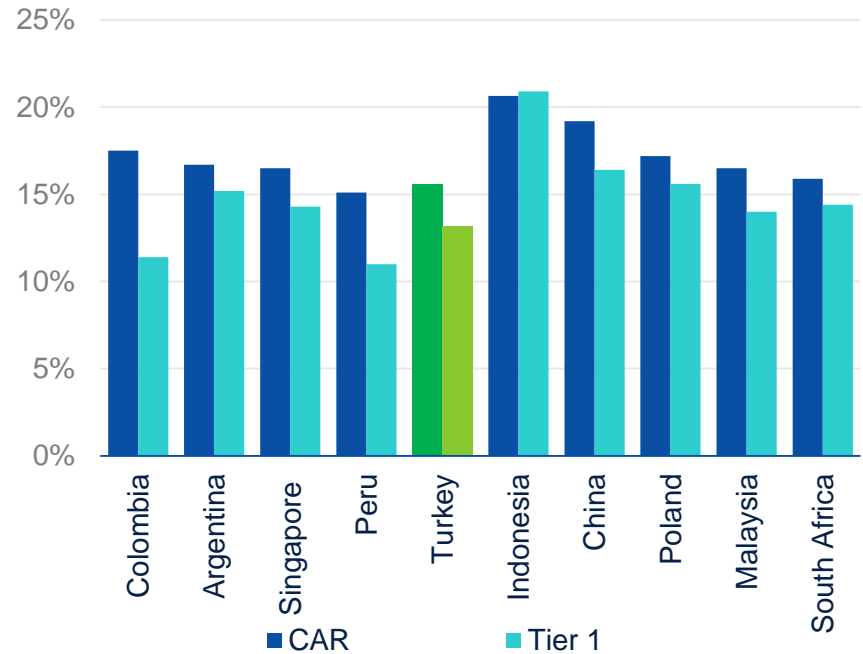
Net profit of banking sector increased by 65% YoY in 2017Q1 thanks to CGF incentives and increased commission revenues.

Buffers

Capital Adequacy Ratio & Cet 1 & Tier 1 Ratio



EM CAR & Tier 1 Ratio Q4'16

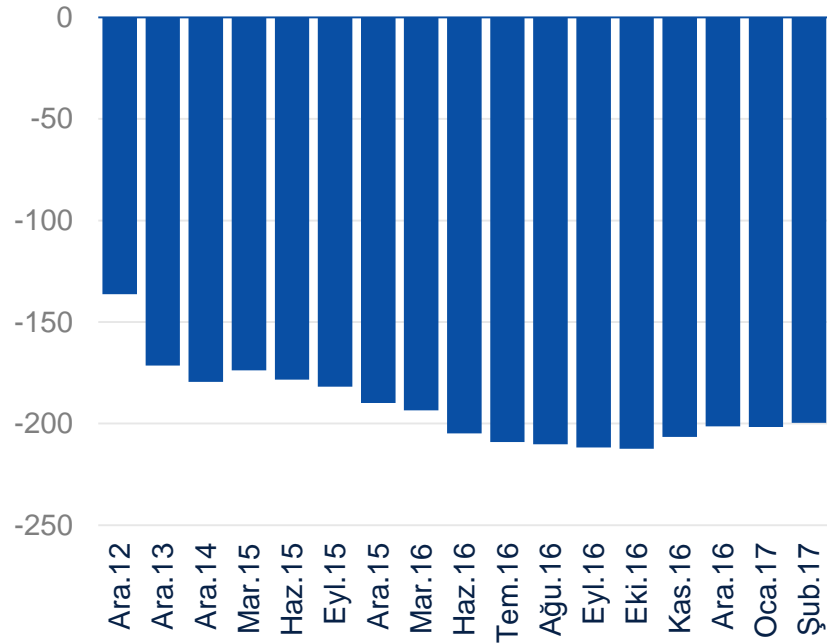


*Banks have to maintain additional capital conservation buffer of +0.625% CET1 for 2016; phased-in to reach +2.5% CET1 until 2019. Besides, banks that are determined as domestically systemic important (D-Sib) are required to add a certain additional amount of capital. This is max.+0.5% CET1 for 2016;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

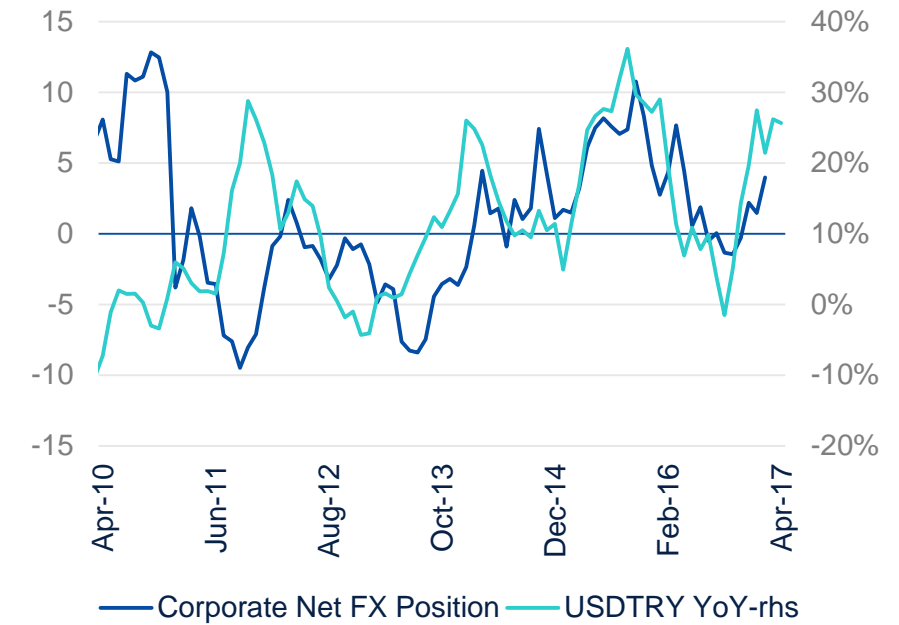
In March, despite the surge in credit growth, Capital Adequacy Ratio (CAR) and Common Equity Tier 1 Ratio increased slightly by 6 bps.

Corporate Sector FX indebtedness

Corporates' Overall Fx Position
USD bn



Corporates Net Short Term Fx Position
%, USD bn



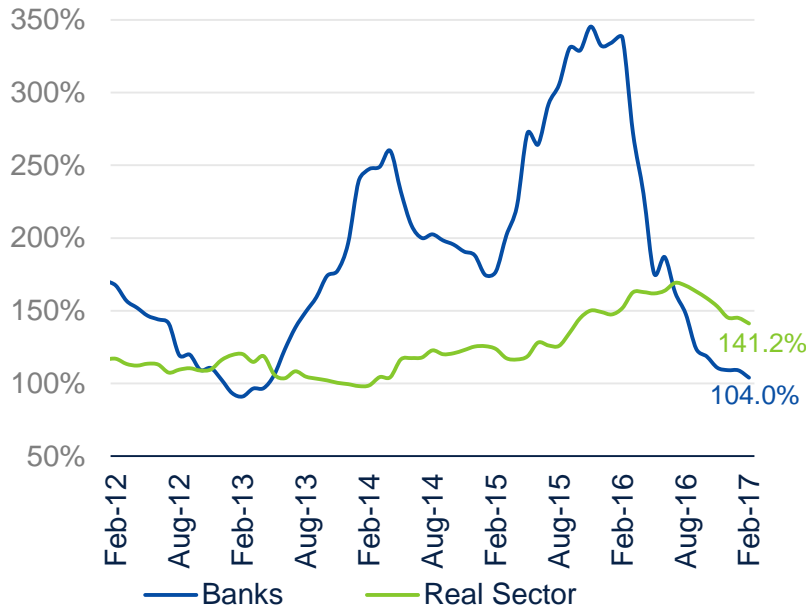
Source: CBT, Garanti Research

Corporates' overall FX position improved further in Feb'17 thanks to decreased short term import debt and increased FX deposits held at domestic banks.

Corporate Sector

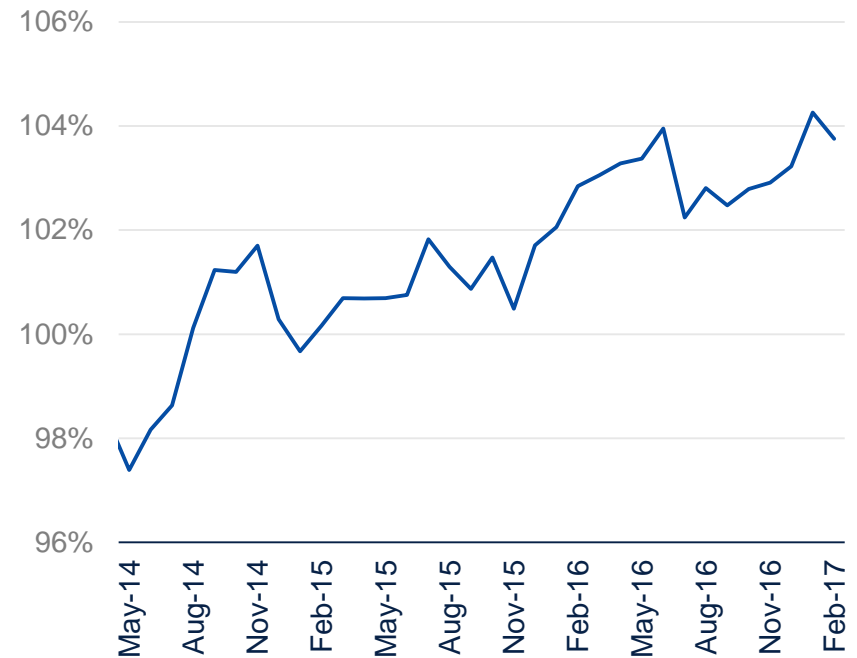
LT External Debt Roll-over Ratio of Banks & Real Sector

12 rolling, %



ST External Debt * Roll-over Ratio of Real Sector

12m rolling, %, USD bn



Source: CBT; Garanti Research

*latest BoP data Feb`17

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

LT external debt roll-over ratios of both banks and real sector are normalizing with banks at 104% and real sector at 141%.

Monthly Banking Monitor Turkey

8 MAY 2017

