

BBVA

RESEARCH

July 1st

JUNE

Monthly Banking Monitor

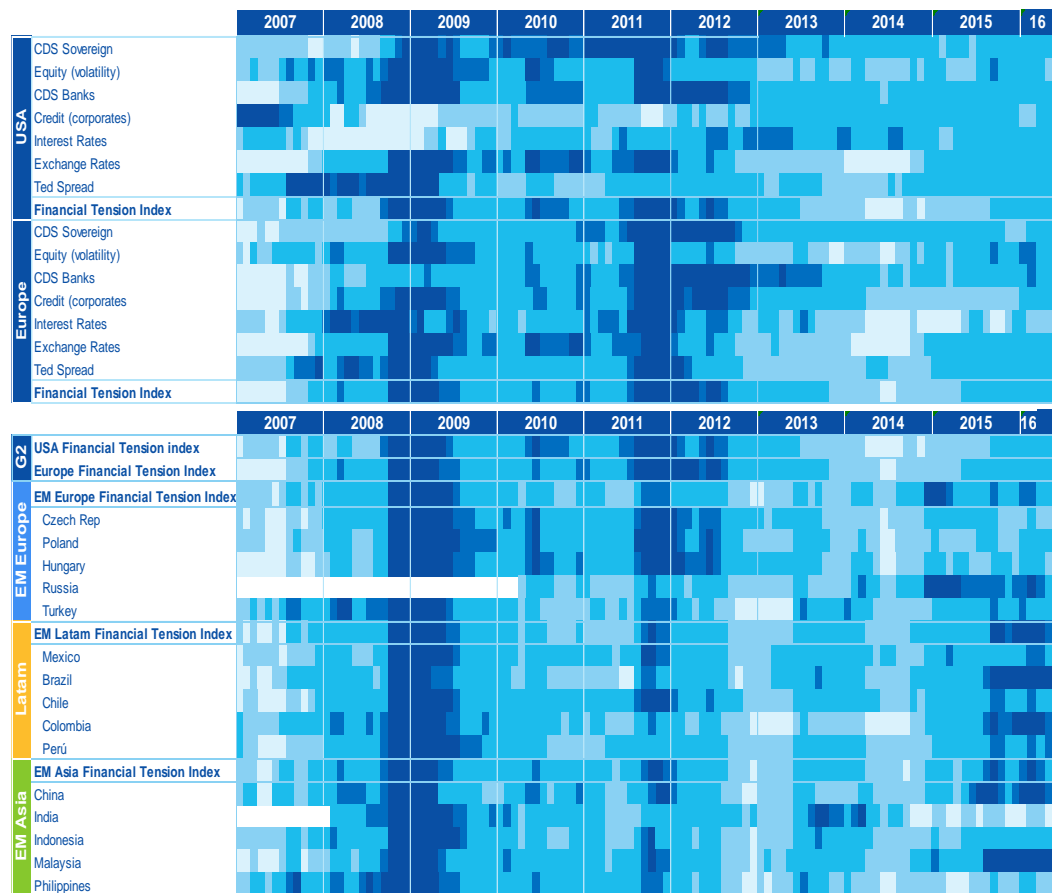
Turkey

Global Developments

Financial tensions rebounded only moderately in June except some major Latam countries

BBVA Research Financial Stress Map

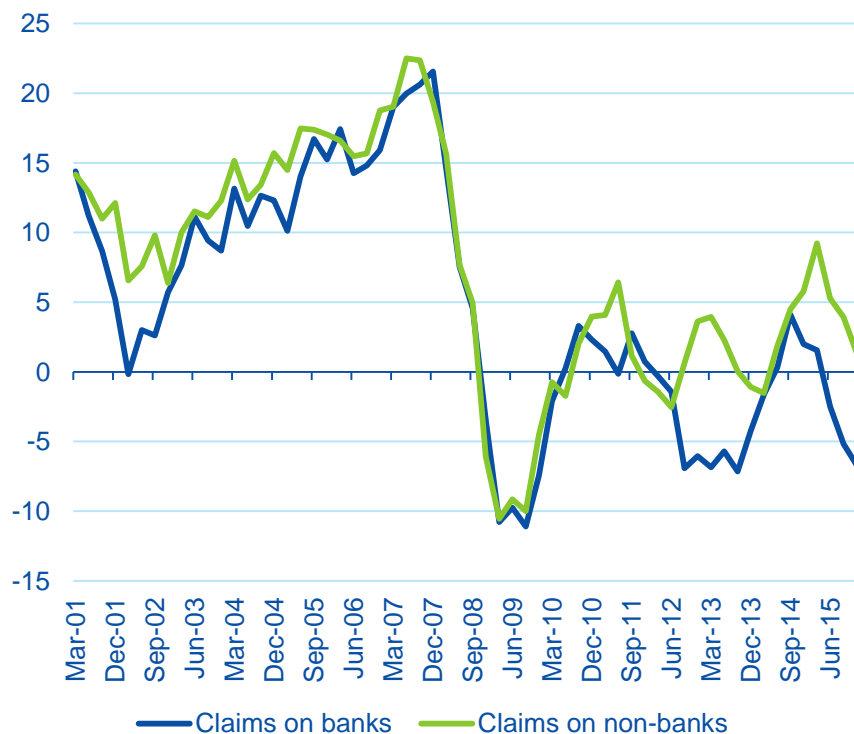
- Financial Stress (FT) in Developed Markets slightly deteriorated due to concerns on impact of Brexit event
- FT in EM was mainly led by Brazil, Mexico and China. Turkey remain in neutral



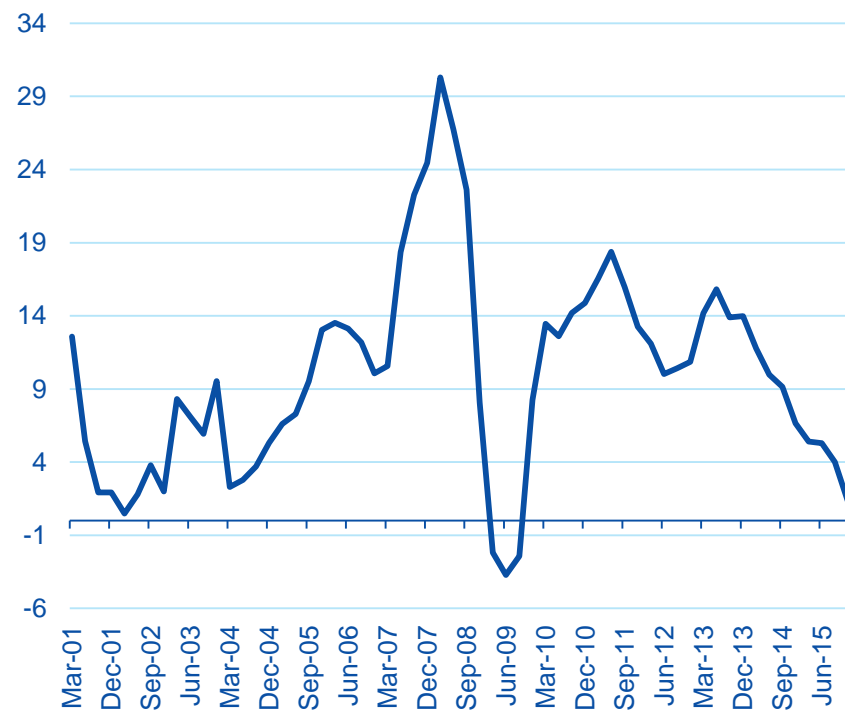
Global Developments

The slowdown in international banking activity that began in early 2015 broadened in 4Q'15. Cross-border bank credit to EME's was down by 8% in the year to end-December 2015 – the sharpest YoY contraction since 2009

Growth of International Bank Credit



Growth of Global Credit to EME's

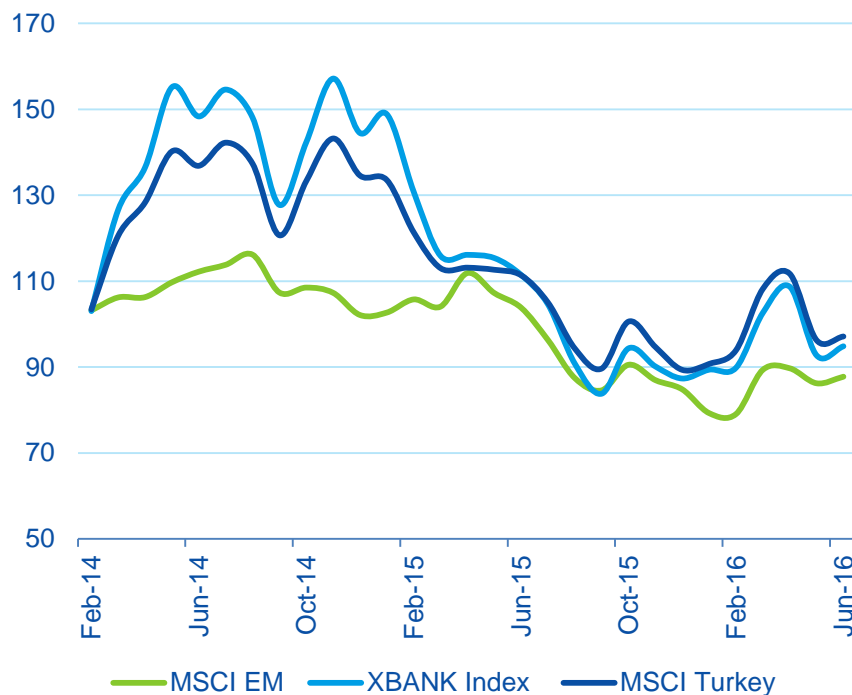


Turkey Financial Markets

Turkish Equities perform better than EM. Risk premium (CDS) decrease on the back of a more dovish stance of Fed

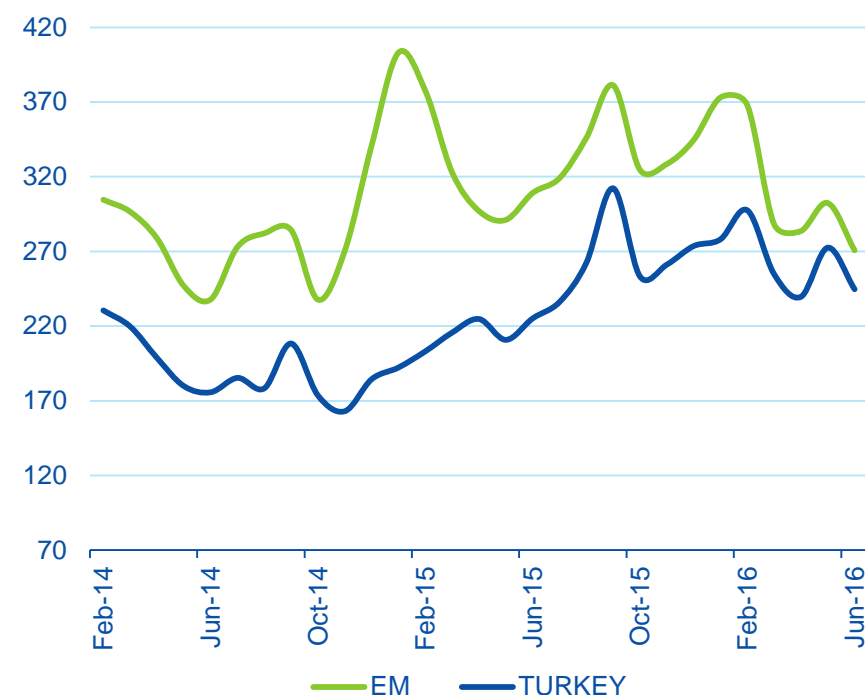
MSCI Indices

Base 100 = Jan 2014



CDS Indices

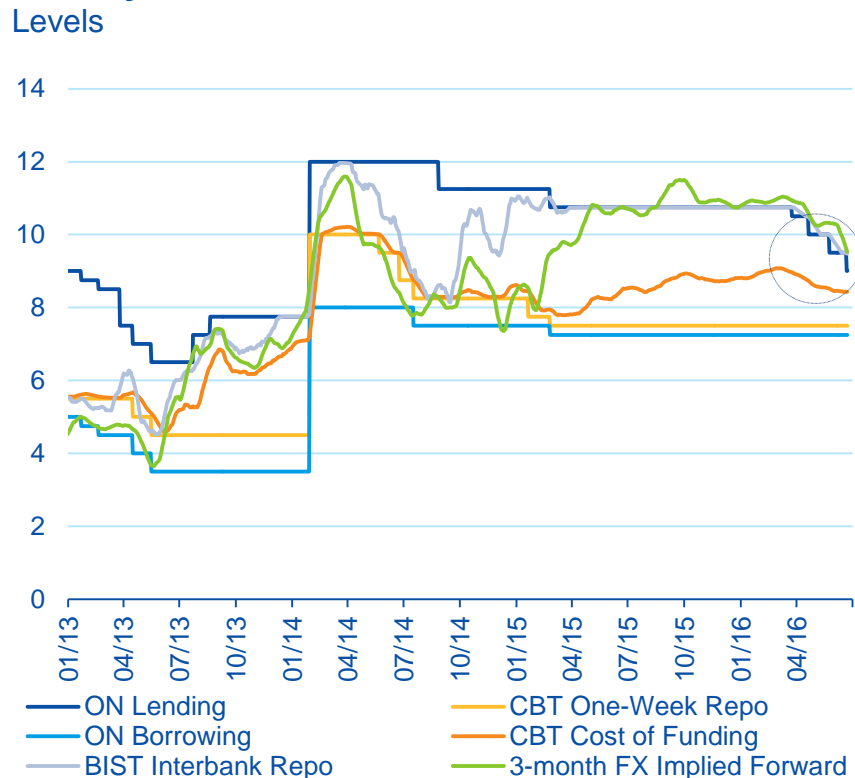
Levels



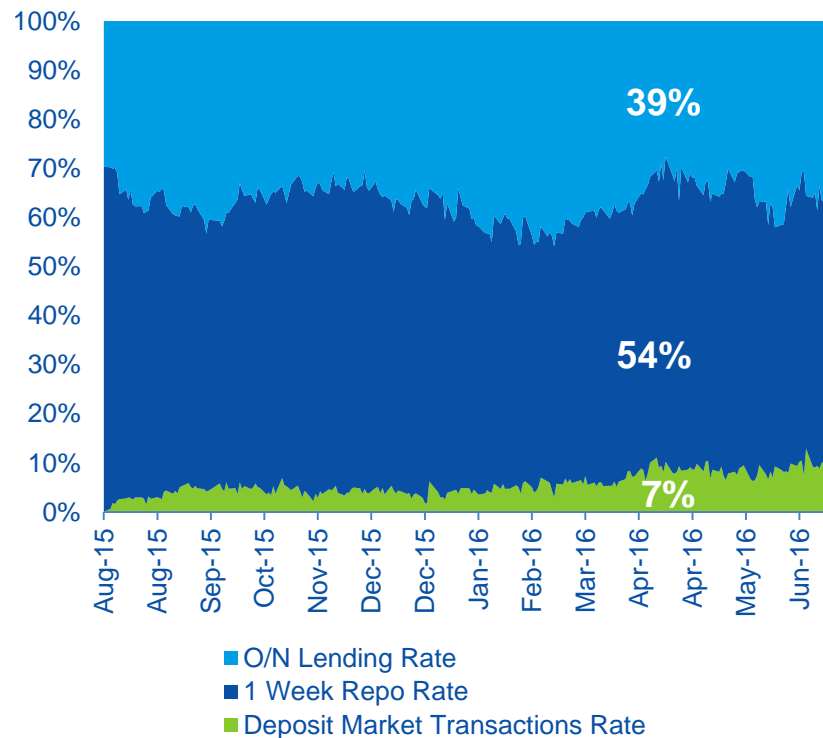
Monetary Policy

The CBT cut the upper bound of its interest rate corridor 50bps further to 9%, in June for the fourth consecutive month. Liquidity injections at 1W repo continue to increase in line with the CBT's normalization process

Turkey: Interest rate Corridor Levels



Turkey: Shares of the CBT Total Funding

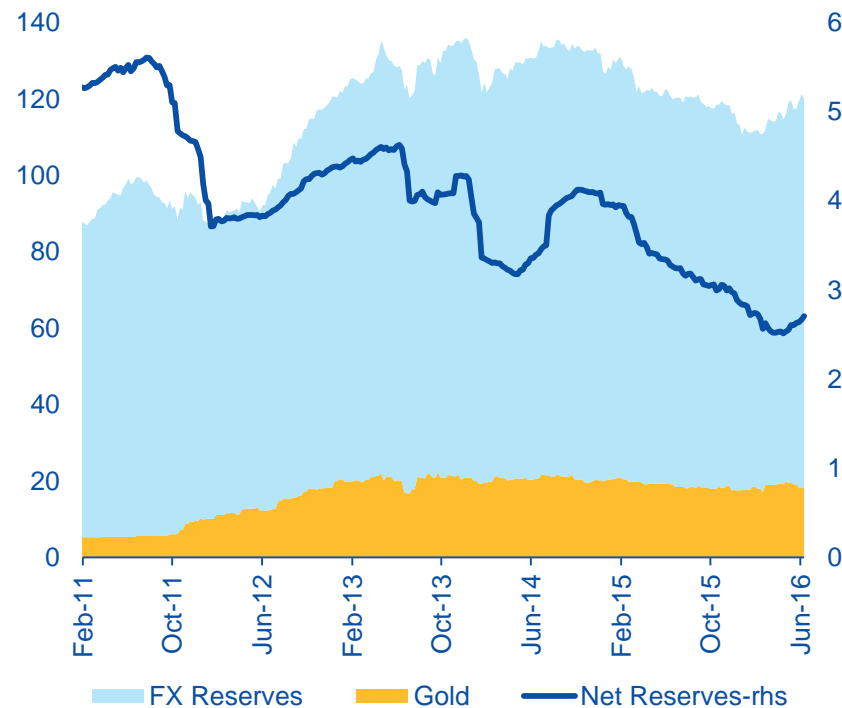


CBT Balance Sheet

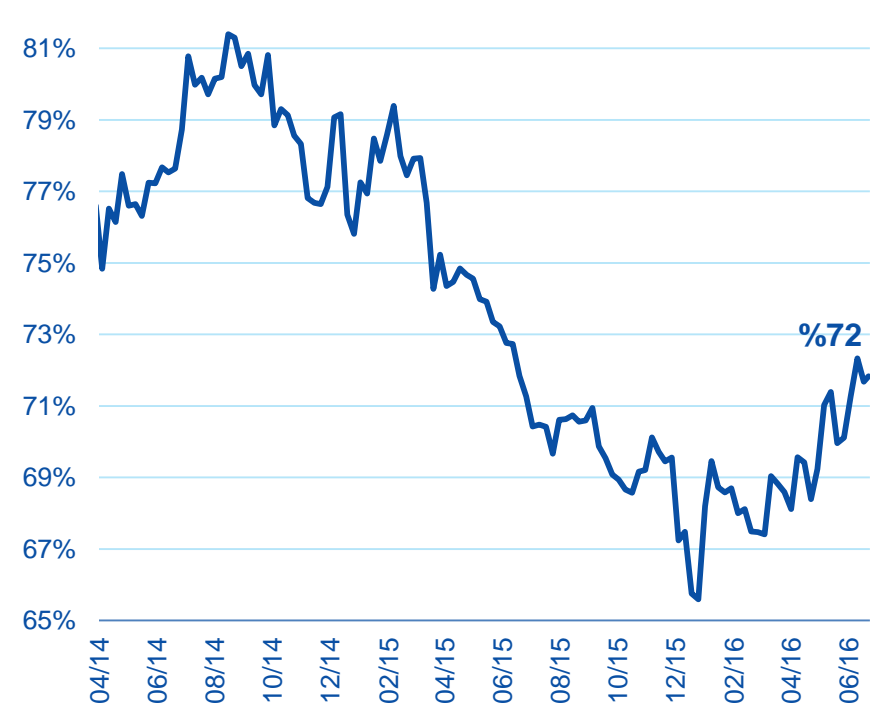
FX reserves increased in June mainly due to sovereign sukuk issuance, CBT's net reserves increased to USD 27bn

CBT Reserves

USD bn



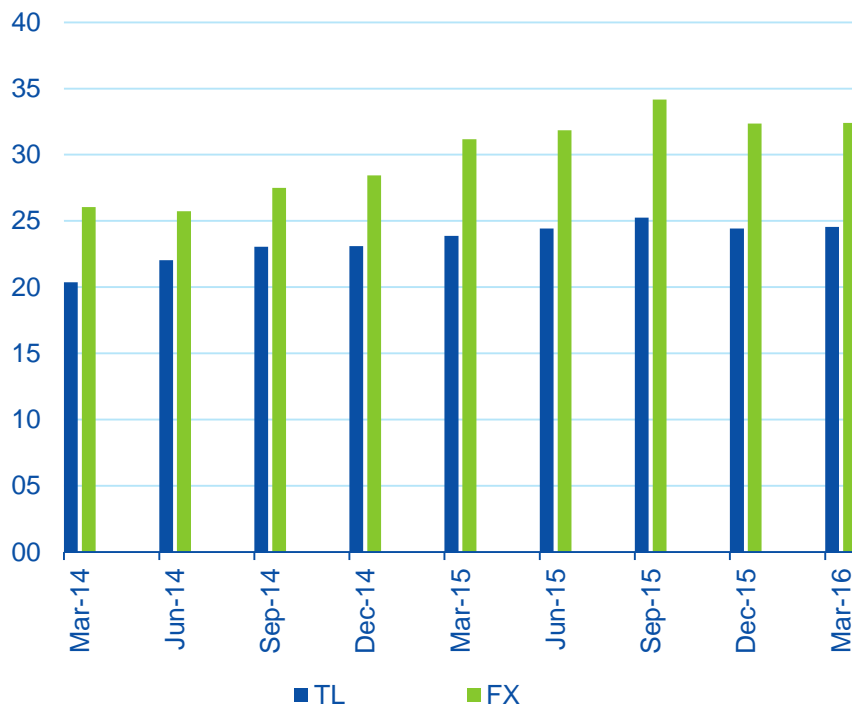
Gross Reserves/ Short term External Debt (%)



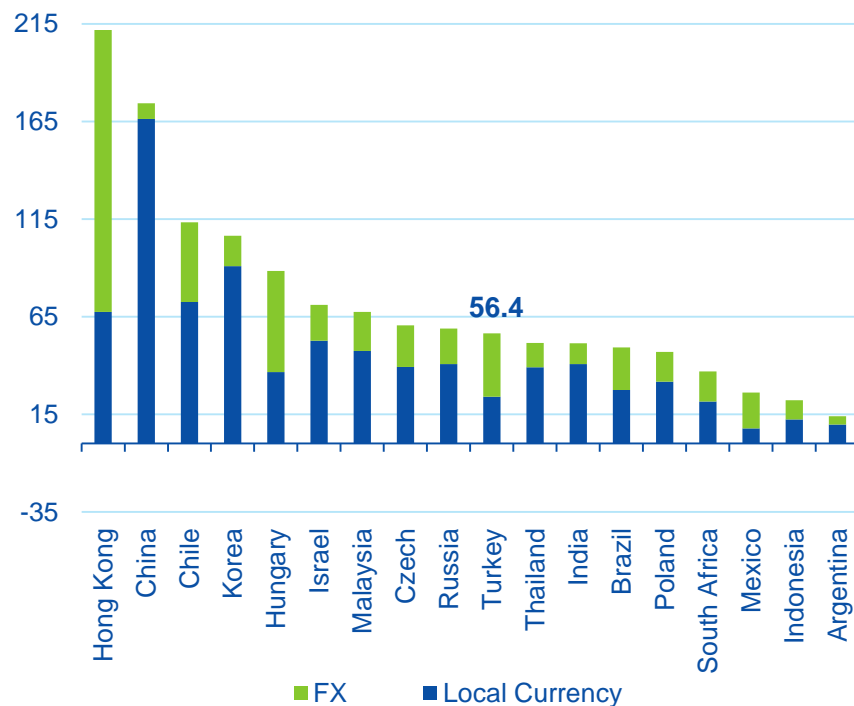
Real Sector

EM-non-financial corporate debt to GDP continues to increase, mainly driven by local currency debt. In Turkey, FX denominated debt dominates the debt composition

Currency Comp. of Non-Financial Corp. Debt to GDP (%)



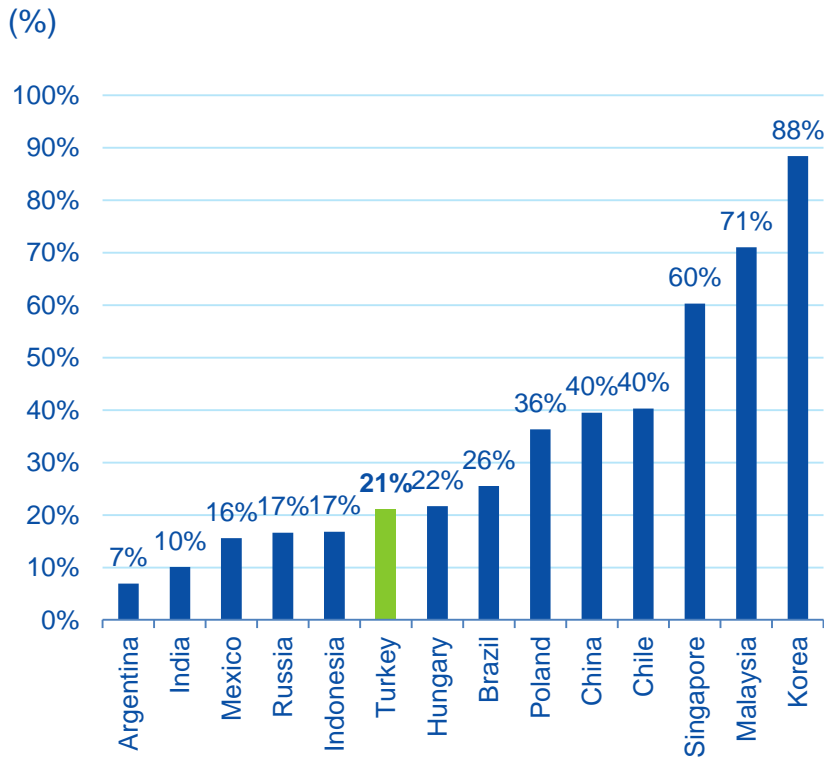
EM Non-Financial Corp. Debt to GDP 1Q'16 (%)



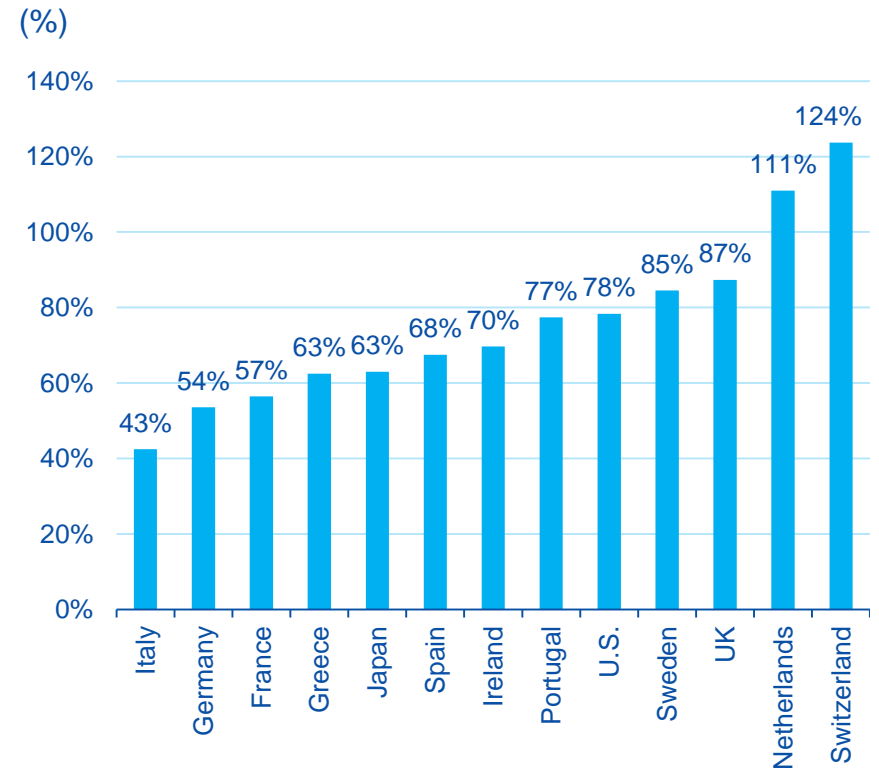
Real Sector

EM Asia has the highest household debt ratio across EM. Turkey stands among the lowest in the sample

Household Debt to GDP in EM (%)



Household Debt to GDP in DM (%)

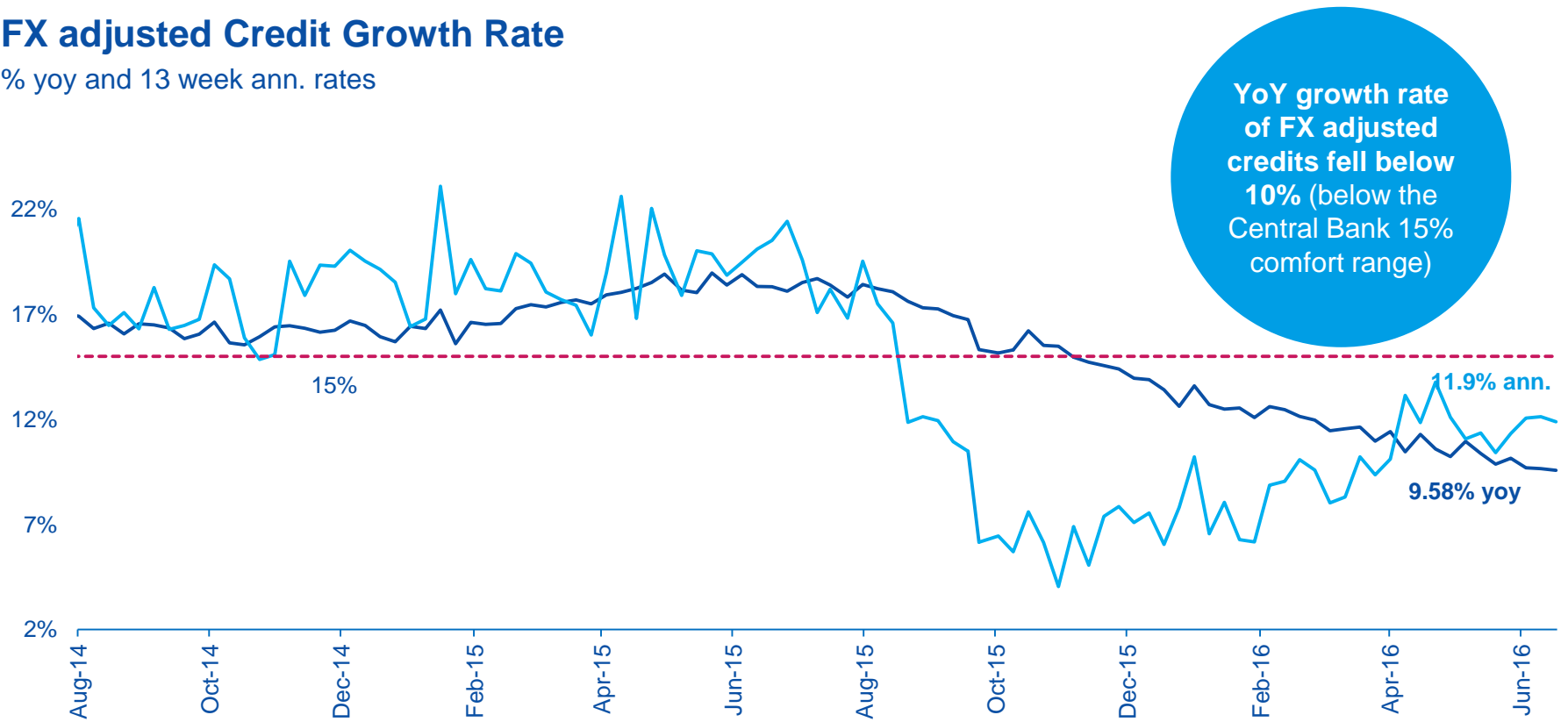


Loan Growth

YoY Credit growth fall below the 10% mark, the annual rate anticipate a momentum between 11% and 12% for the second part of the year

FX adjusted Credit Growth Rate

% yoy and 13 week ann. rates

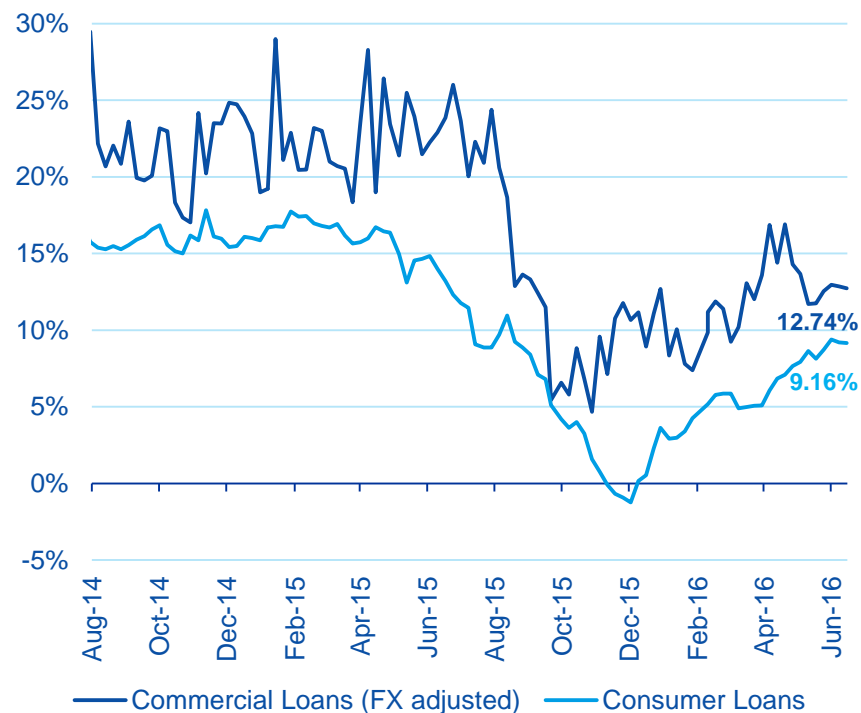


Loan Growth

Commercial loans stay flat while consumer loans continue to recover

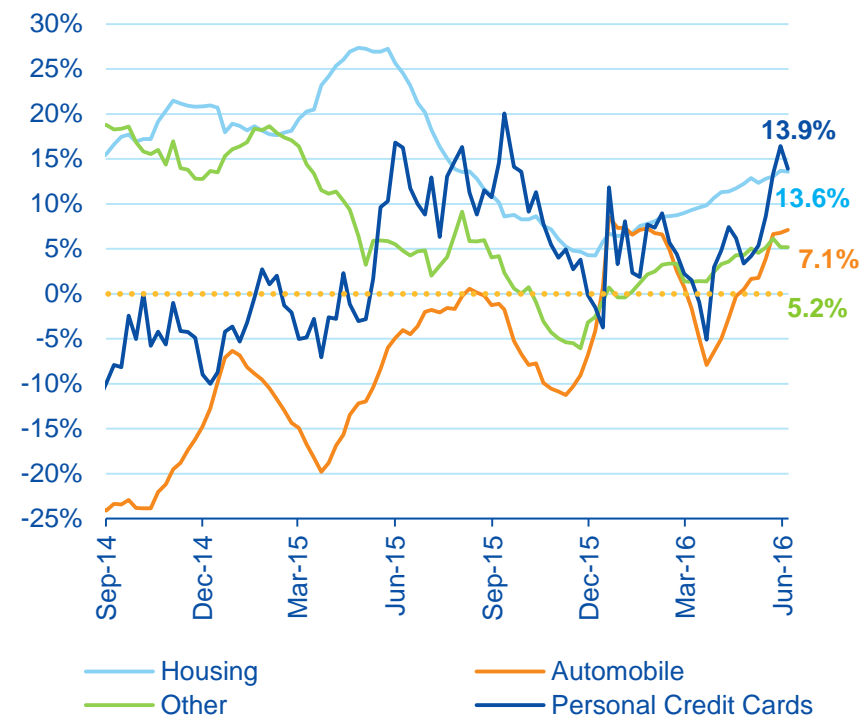
Comm. and Consumer Loans Growth

Rate % yoy and 13 week ann. rates



Consumer Loans

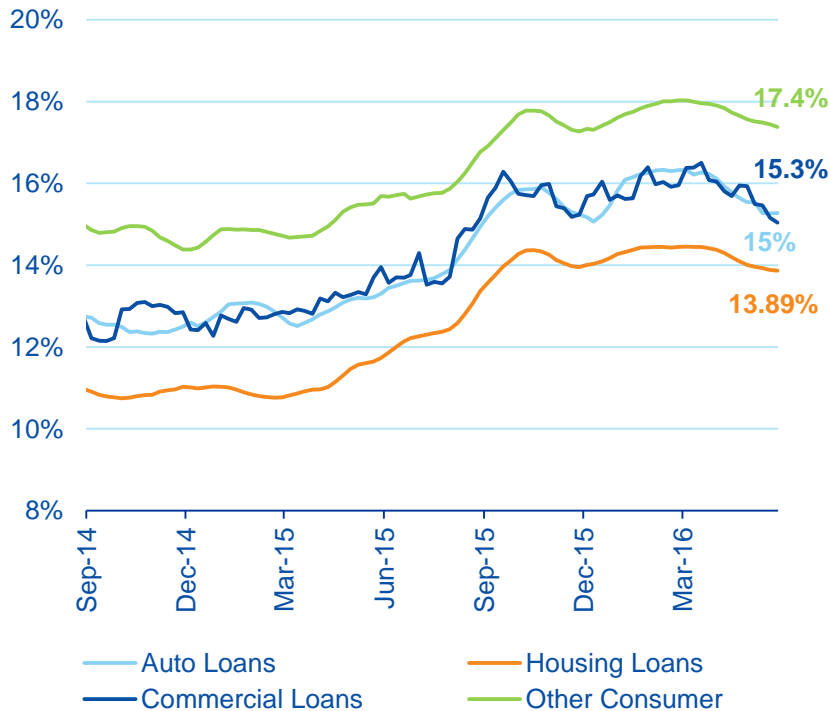
% 13 week ann. rates



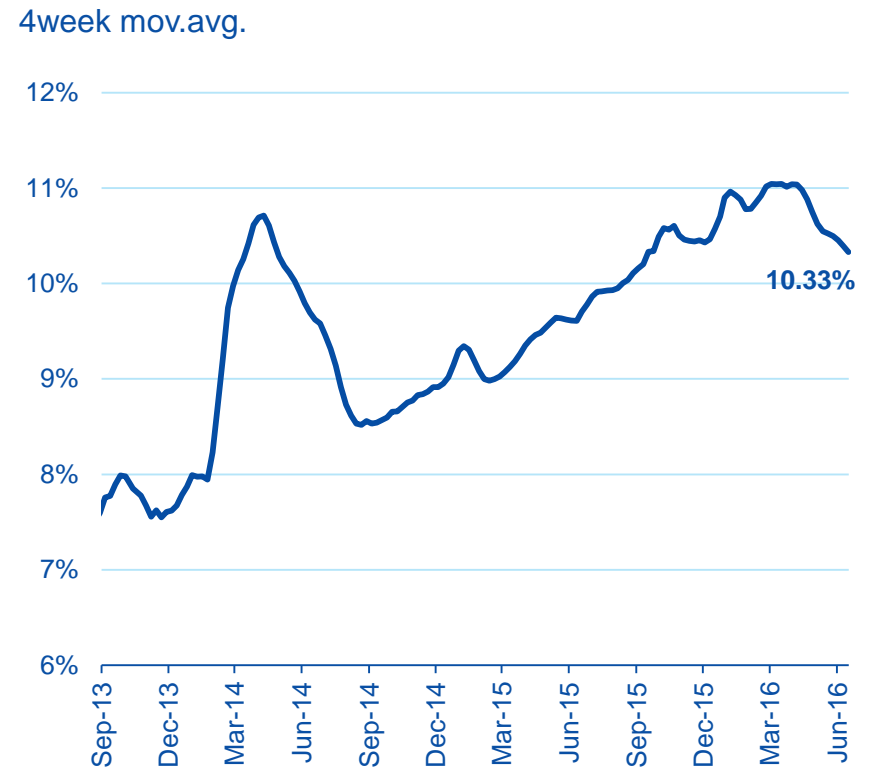
Interest Rates

The CBT's decision to cut the upper bound of the interest rate corridor started to pass-through to retail and deposit rates but as much as had been expected

Comm. and Consumer Loans Interest Rates 4week mov.avg.



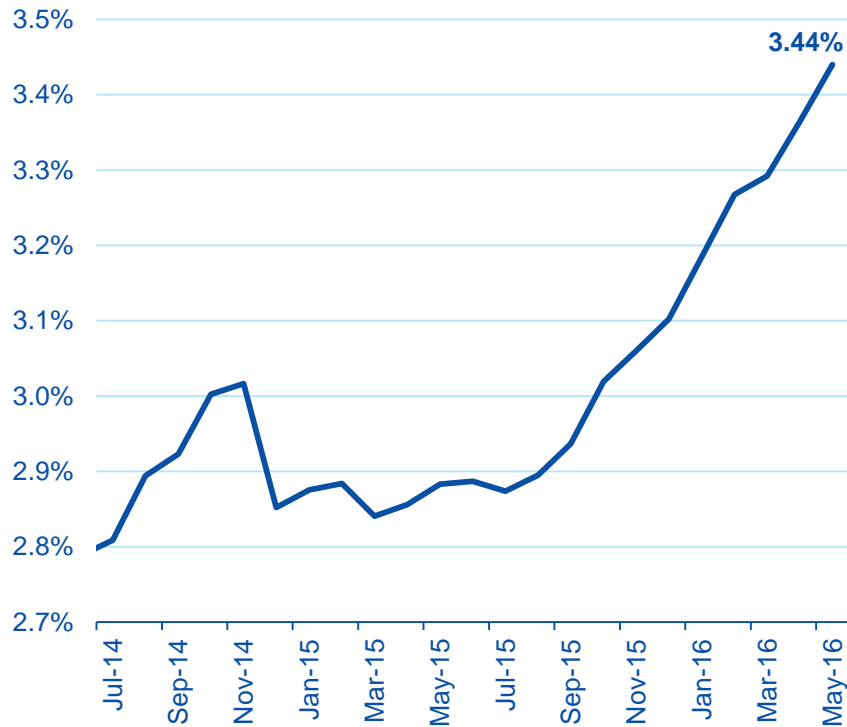
Deposit Interest Rates 4week mov.avg.



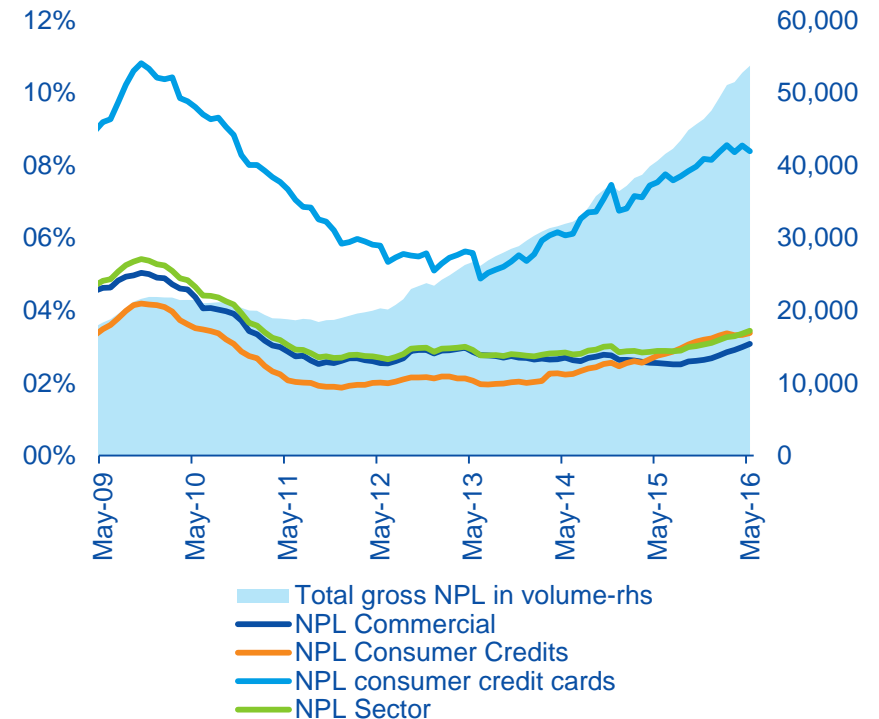
Asset Quality & Credit Risk

Non Performing Loans ratio continue its slow but steady increase. NPL ratio of commercial credits exceeded 3% in May 16 compared to 2.6% in April 15

NPL Ratio of the Banking Sector



NPL Ratio and Volume by Segments

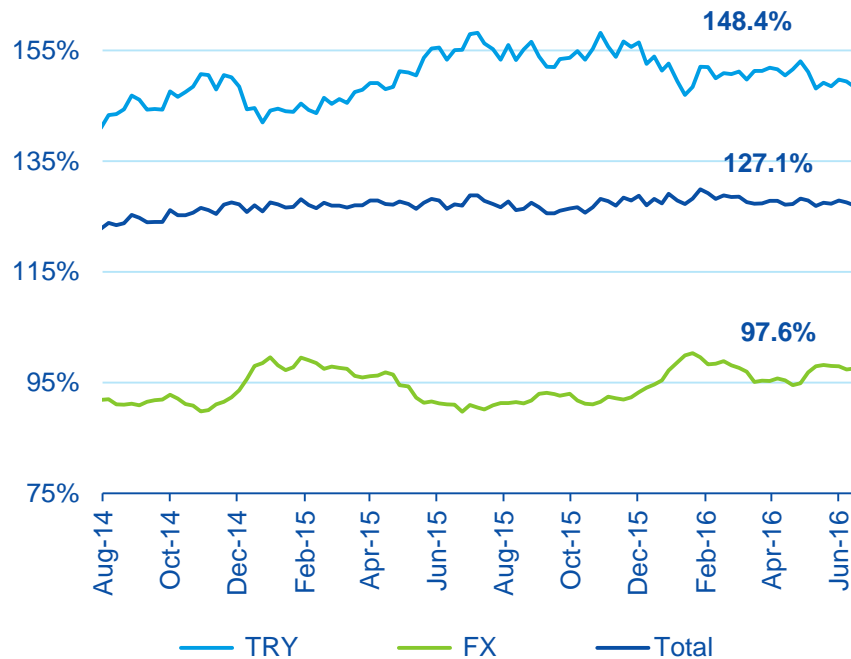


Liquidity

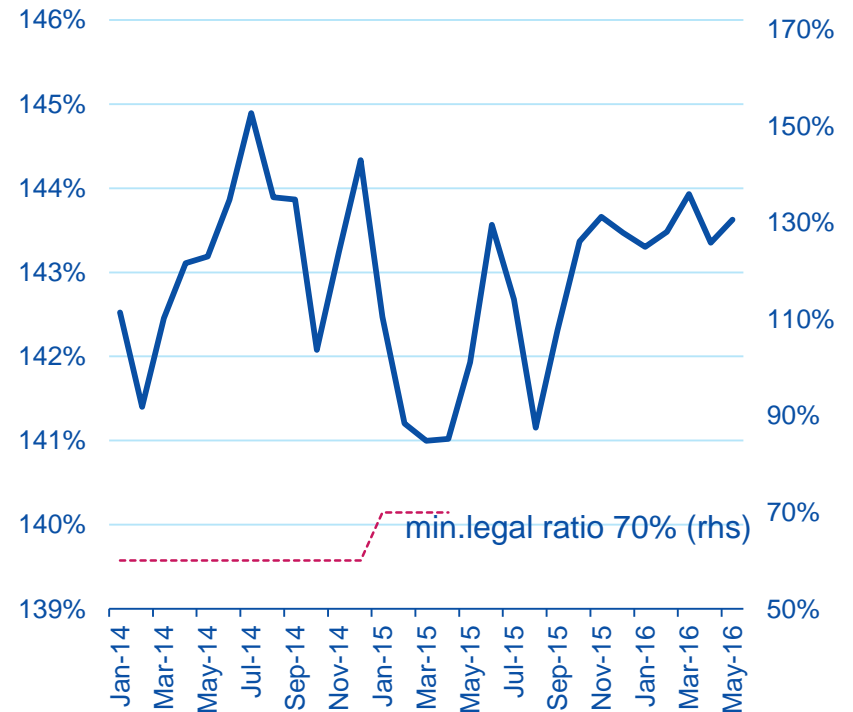
No remarkable change in LTD Ratios. LRR of the sector is well above the min.legal ratio

Loan/Deposit Ratio (LTD)

YoY



Liquidity Requirement Ratio (LRR)

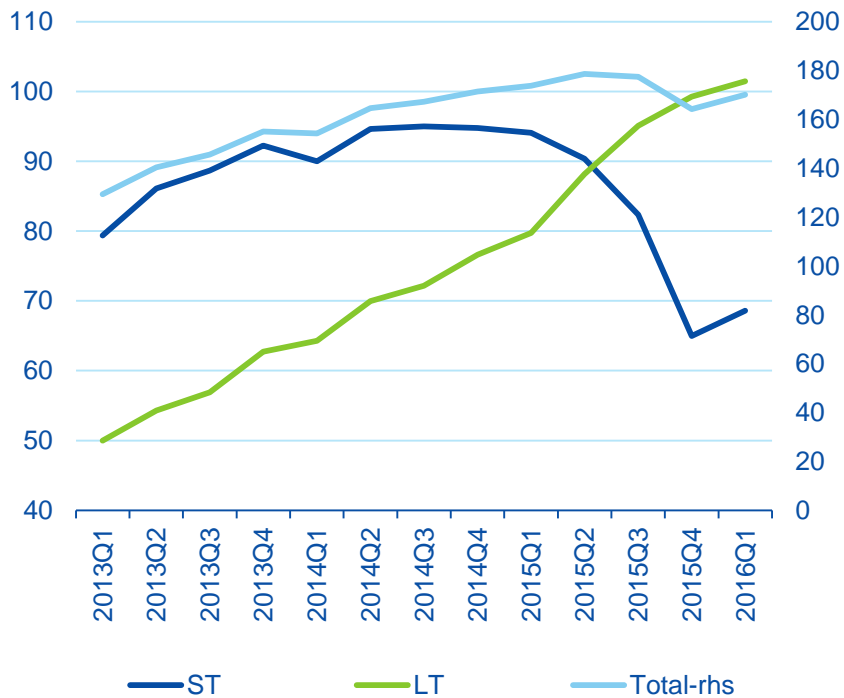


Liquidity

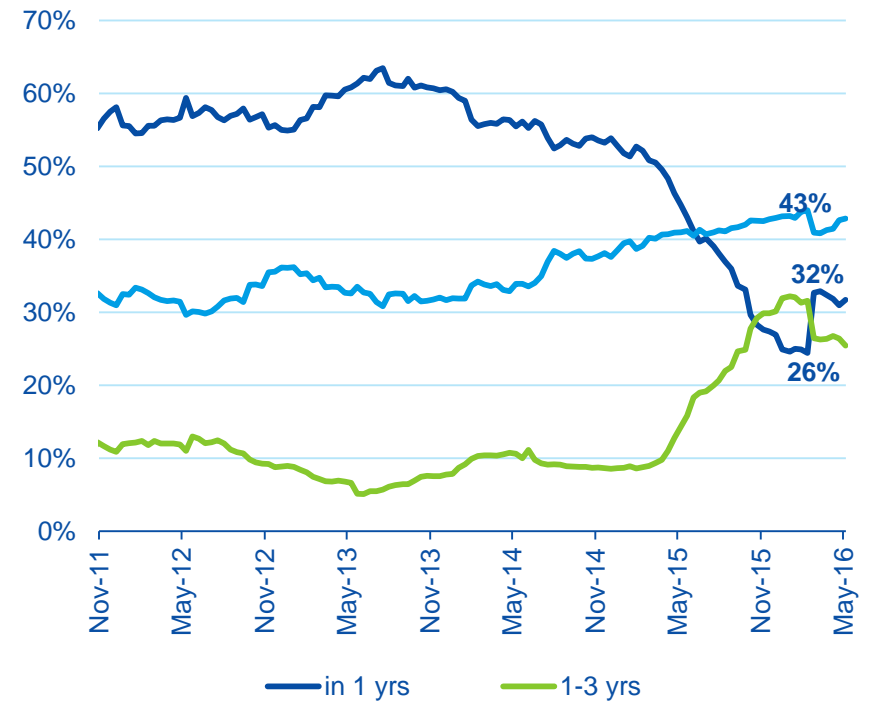
Banks continue to borrow at longer maturities. 1Q'16 data points to some increase in ST debt

External Debt of Banks-maturity structure

Bln USD



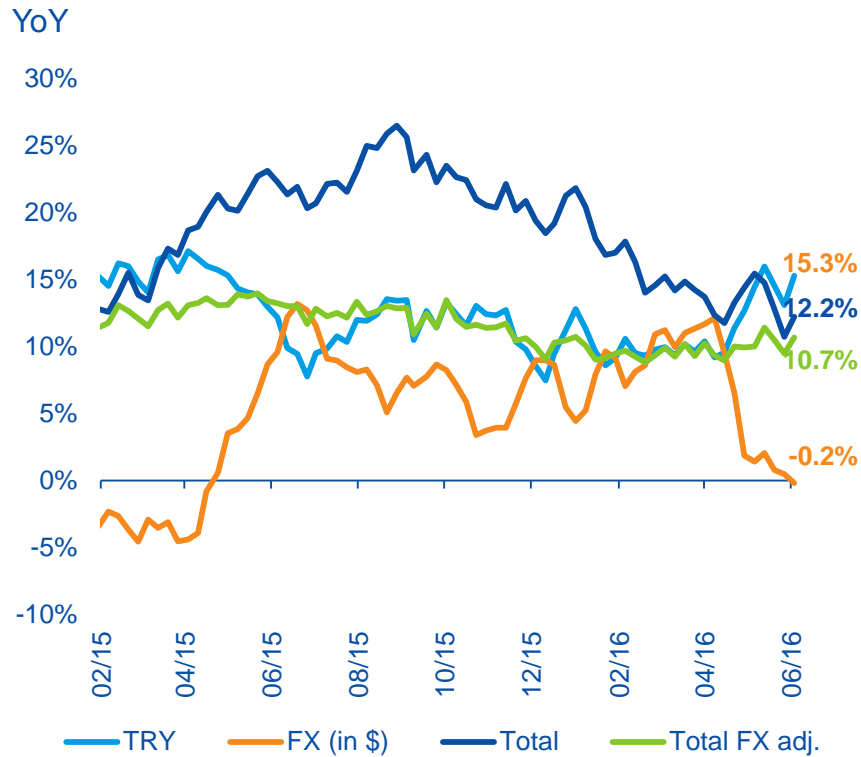
Maturity Breakdown of Non-Core FX Liabilities s.t. RR



Deposits

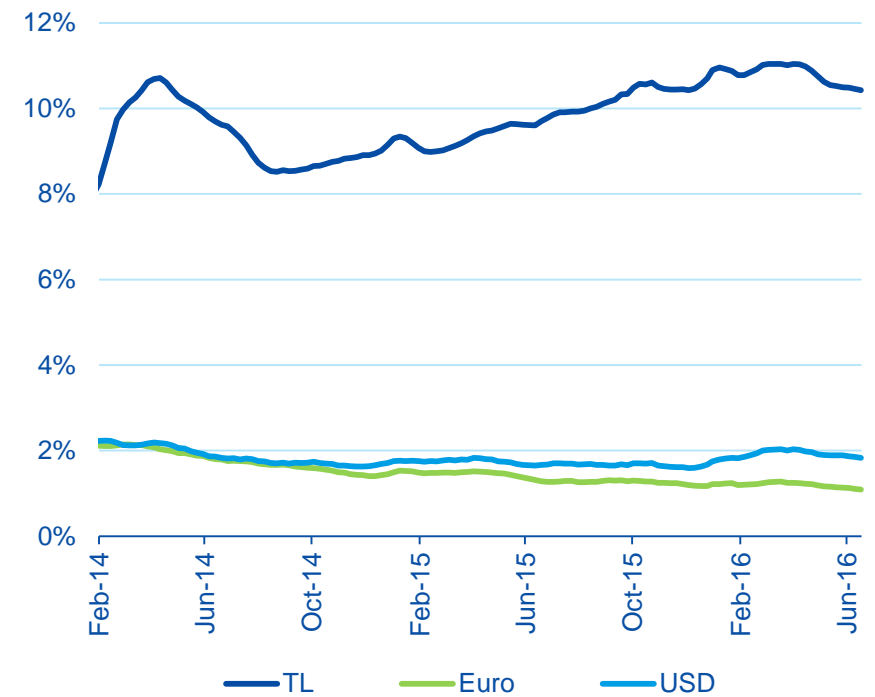
A sharp swift in favor of TL continues in June

Deposit Growth Rate



Deposit Interest Rates in TL& € & \$

4week mov.avg



Profitability

NII growth rate (YoY) decelerates given the slowdown in credit growth

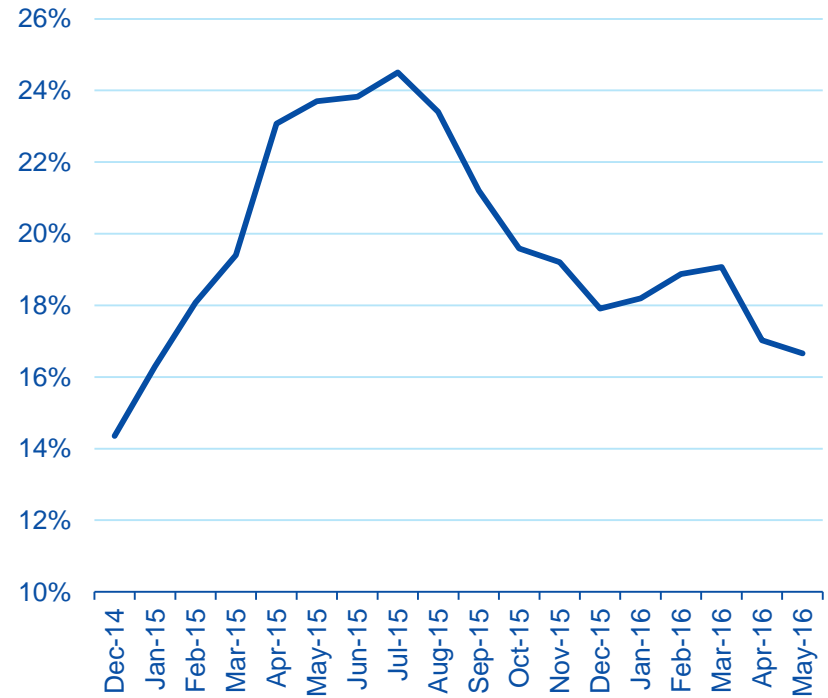
Net Profit

12 month cum., billion TL



Net Interest Income (NII)

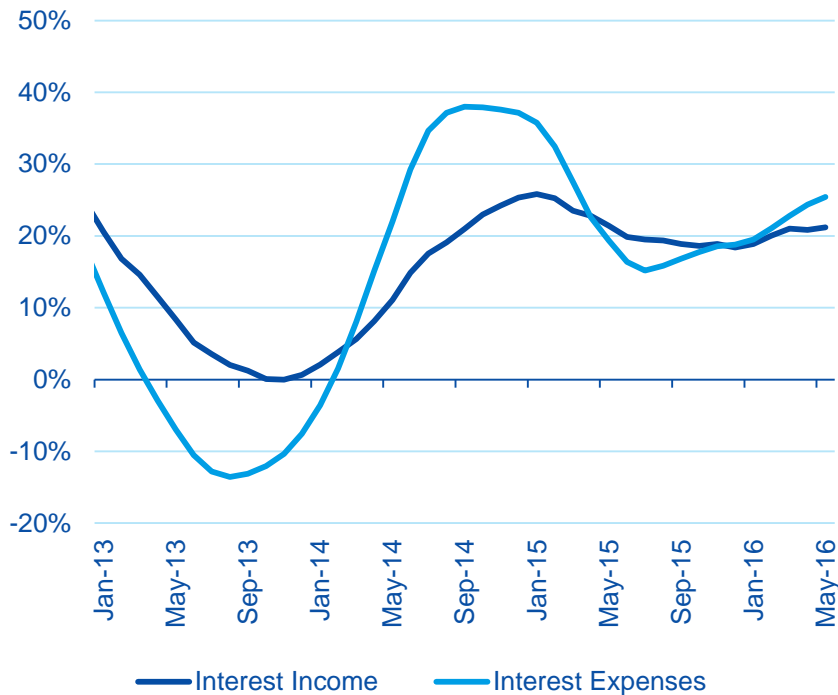
12 month cum., %



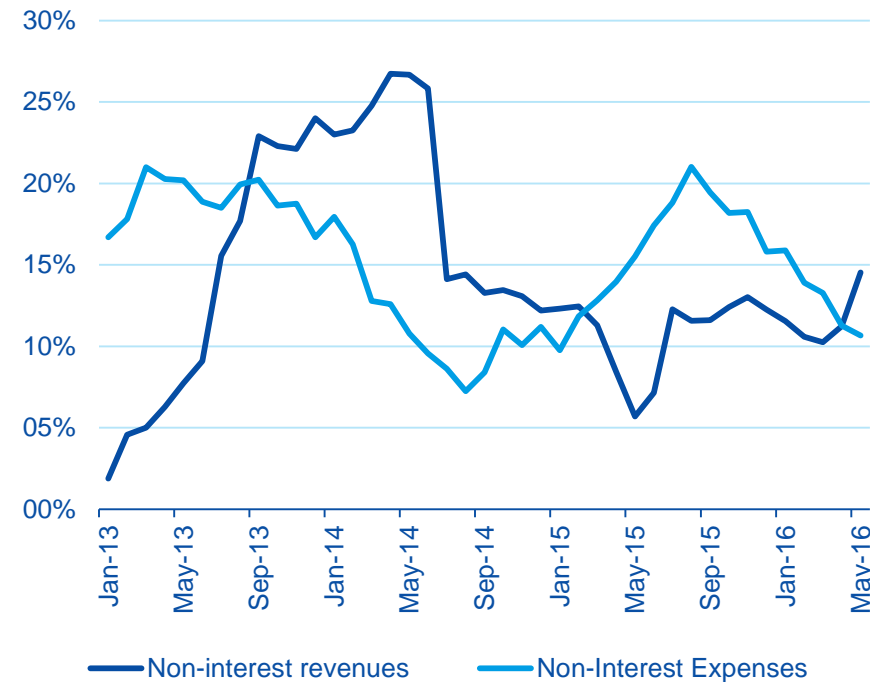
Profitability

Increase in non-interest revenues growth supports profitability

Interest Income & Interest Expenses Growth 12 month cum., %



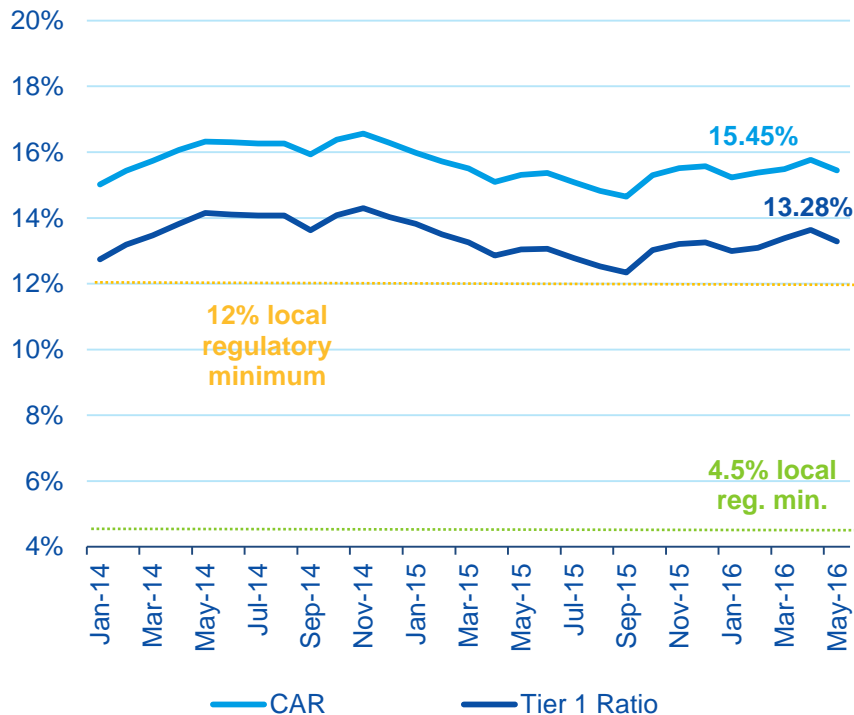
Non-interest Income & Non-Interest Exp. Growth 12 month cum., %



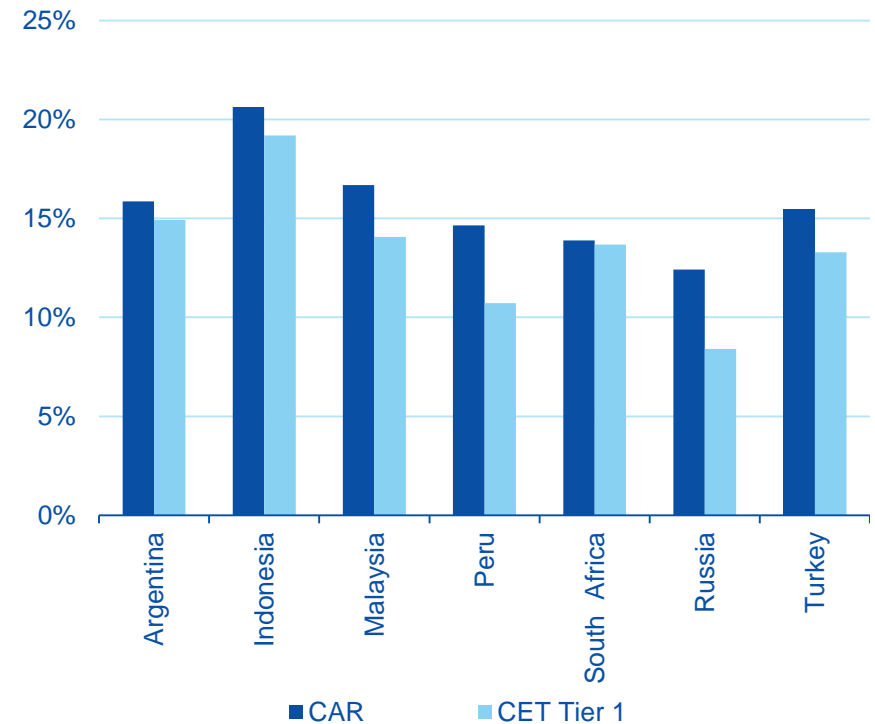
Solid Buffers

Both CAR and Common Equity Tier 1 capital ratios decreased by almost 35bps in May (MoM), mainly driven by the increase in risk-weighted assets

Capital Adequacy Ratio & CET 1



EM CAR & CET 1(Q1'16)



Regulatory Developments

- **New provisioning policy:** The new provisioning policy amendment adapting the provisioning policy of Turkish banks according to the IFRS9 and Basel III standards has been published

The new regulation sets the general provisioning requirement at 1% for all standard loans and 2% for Group II loans, which means that the retail loan general provisioning requirement has declined from 4% to 1%. The rules will go into effect on January 2017. However, there will be a one-year transition period and banks are required to fulfill their obligations by January 1, 2018. Banks which fail to implement the Advance Methodology until January 2018 are required to book a 1.5% general provision for their standard loans and 3% for Group II loans instead of 1% and 2%, respectively