

# Turkish Banking Sector 3Q23 Preview

## CPI linkers to boost earnings

Following elections driven volatility in exchange rates that market 2Q23, benchmark bond yield that doubled to 30%, a massive 25% aggregate inflation growth in 3Q23 and a mere 6% USDTRY expansion were the key variables that impacted the third quarter. Although the post-election orthodox macro policies pushed up the lending rates, the exit plan from FX protected deposits boosted the TRY time deposits costs, which counterbalanced each other. That is the reason why we are not observing a substantial recovery in core TRY spreads. Although the marginal spreads have turned positive for the system, the details for which can be found in our weekly banking sector updates on our web site, slower loan originations deferred the visible recovery to 1Q24 in our view.

We expect YKBNK to post the best q-q net profit and NII evolution among private banks, while state banks coming from a low base are likely to record peer topping quarterly profit expansion. Upward adjustment in the CPI base of linker bonds will be the primary factor behind quarterly earnings growth. **AKBNK**: Negative TRY spread is set to continue despite a slight recovery. High effective tax rate may hurt the bottom-line yet pre-tax profit evolution will be one of the best in our view. **GARAN**: We expect Garanti's loan growth to match the sector but TRY deposit growth to remain way behind peers on base effect. The bank has a relatively smaller CPI bond book with a lower 55% inflation assumption, which is likely to limit q-q earnings growth. **ISCTR**: Trying to catch up with the market, we expect Isbank to have boosted its TRY deposit book in 3Q23. Increasing deposit costs and limited CPI linker support due to unique accounting method may hamper the bank's NII evolution. **YKBNK**: We expect the bank to have released its expensive TRY time deposit base and supported its spreads. Yapi Kredi is likely to lift up its CPI base on linkers from 40% to 60% and load all the missing incremental gains of 1H23 onto the 3Q23 NII that may have TRY13-14bn additional P/L impact q-q. **HALKB**: CPI linker gains and tax reversal to support earnings. **VAKBN**: While still being in the negative zone, we expect a visible revival in core TRY spread thanks to commercial loans that earn floating interest unlike the peers. Low effective tax rate and higher linker gains q-q to help as well.

## Turkish banks 3Q23 earnings estimates

| Net Profit TRYmn | 3Q22          | 2Q23          | 3Q23          | Q-Q Growth | Y-Y Growth |
|------------------|---------------|---------------|---------------|------------|------------|
| AKBNK            | 17,066        | 20,302        | 19,926        | -2%        | 17%        |
| GARAN            | 17,511        | 18,470        | 18,848        | 2%         | 8%         |
| ISCTR            | 15,038        | 18,595        | 19,392        | 4%         | 29%        |
| YKBNK            | 16,135        | 11,476        | 18,538        | 62%        | 15%        |
| HALKB            | 4,304         | 699           | 2,141         | 206%       | -50%       |
| VAKBN            | 5,592         | 1,007         | 8,462         | 741%       | 51%        |
| <b>TOTAL</b>     | <b>75,646</b> | <b>70,548</b> | <b>87,308</b> | <b>24%</b> | <b>15%</b> |

| NII          | 3Q22           | 2Q23          | 3Q23           | Q-Q Growth | Y-Y Growth  |
|--------------|----------------|---------------|----------------|------------|-------------|
| AKBNK        | 21,299         | 10,012        | 21,840         | 118%       | 3%          |
| GARAN        | 25,671         | 15,416        | 18,552         | 20%        | -28%        |
| ISCTR        | 20,449         | 15,238        | 17,277         | 13%        | -16%        |
| YKBNK        | 20,705         | 7,601         | 25,702         | 238%       | 24%         |
| HALKB        | 23,363         | 4,837         | 8,828          | 83%        | -62%        |
| VAKBN        | 15,670         | 1,762         | 15,867         | 801%       | 1%          |
| <b>TOTAL</b> | <b>127,157</b> | <b>54,865</b> | <b>108,066</b> | <b>97%</b> | <b>-15%</b> |

| Fees         | 3Q22          | 2Q23          | 3Q23          | Q-Q Growth | Y-Y Growth  |
|--------------|---------------|---------------|---------------|------------|-------------|
| AKBNK        | 2,716         | 6,019         | 8,306         | 38%        | 206%        |
| GARAN        | 4,536         | 7,284         | 8,741         | 20%        | 93%         |
| ISCTR        | 4,203         | 7,467         | 11,200        | 50%        | 166%        |
| YKBNK        | 3,840         | 6,583         | 8,000         | 22%        | 108%        |
| HALKB        | 2,432         | 4,209         | 5,051         | 20%        | 108%        |
| VAKBN        | 3,079         | 5,134         | 6,928         | 35%        | 125%        |
| <b>TOTAL</b> | <b>20,806</b> | <b>36,696</b> | <b>48,226</b> | <b>31%</b> | <b>132%</b> |

Source: TFG Istanbul Estimates

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