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BAHÇEŞEHİR UNIVERSITY

UTILIZATION OF SYNDICATED LOANS AND SYNDICATED LOANS' EFFECTS ON BANKS' BALANCE SHEETS

Master's Thesis

HAZAL OVADYA

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ABSTRACT

UTILIZATION OF SYNDICATED LOANS AND SYNDICATED LOANS' EFFECTS ON BANKS' BALANCE SHEETS

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Syndicated loans are one of the most significant and common source of funding except for deposits, especially for developing countries. One of the main reasons for syndicated loans to be attractive is that the amount of the syndicated loan is too much for one lender for being able to fund. Furthermore, to complete a successful deal is accepted to provide reputation and prestige through the international market, for both borrower and lenders.

The purpose of this study is to analyze the effects of syndicated loans used by banks on passive items of their balance sheets in terms of maturity and cost. The method used in the study is quantitative research by using written sources and combining with data oriented analyses. Within the study, syndicated loan deals for the years 2017 and 2018 of a leading bank in Turkish banking sector is examined and their influence on the Bank's balance sheet is analyzed in terms of weighted average maturity of the liability and cost of the syndicated loans.

As a result of the study, it is understood that when the share of syndicated loans in balance sheet is increased, weighted average maturity of liabilities is also increased. Syndicated loan is proved to be a source to minimalize maturity mismatch problem for Turkish Banks. Furthermore, it is determined that cost increase for the syndicated loan has a negligible impact on the balance sheet since the share of syndicated loans in the liabilities is comparably low.

Keywords: Syndicated Loan, Banking, Balance Sheet, Maturity Mismatch, Cost

ÖZET

BANKALARCA SENDİKASYON KREDİSİ KULLANILMASI VE SENDİKASYON KREDİLERİNİN BANKA BİLANÇOSUNA ETKİLERİ

Hazal Ovadya

Genel İşletmecilik
Tez Danışmanı: Dr. Öğr. Üyesi Sulhi ESKİ

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Sendikasyon kredisi, özellikle gelişmekte olan ülkeler için mevduat dışındaki önemli ve yaygın fonlama kaynaklarından biridir. Sendikasyon kredilerinin cazip olmasının temel sebeplerinden biri, sendikasyon kredisinin miktarının, bir borç verenin finanse edebileceği tutarın üzerinde olmasıdır. Bunun dışında, başarılı bir sendikasyon anlaşmasını tamamlamak, hem borçlu hem de alıcılar açısından uluslararası pazarda prestij ve itibar sebebi olarak kabul edilir.

Bu çalışmanın amacı; bankalarca kullanılan sendikasyon kredilerinin vade ve maliyet açısından bankaların bilanço pasif varlıklarını ne şekilde etkileyip etkilemediğini analiz etmektir. Çalışmada kullanılan yöntem; yazılı kaynaklar kullanılarak ve veri odaklı analizler yapılarak nicel araştırma yöntemidir. Çalışmada, Türk bankacılık sektöründe lider bir bankanın 2017 ve 2018 yıllarına ait sendikasyon kredisi anlaşmaları incelenmiş ve söz konusu işlemlerin, Banka pasiflerinin ağırlıklı ortalama vadesi ve maliyet bakımlarından Banka'nın bilançosu üzerindeki etkisi incelenmiştir.

Çalışma sonucunda; sendikasyon kredilerinin bilanço içindeki payı arttığında, Banka pasiflerinin ağırlıklı ortalama vadesinde de bir artış yaşandığı anlaşılmıştır. Sendikasyon kredisinin, Türk Bankaları için vade uyumsuzluğu sorununu asgariye indirecek bir kaynak olduğu kanıtlanmıştır. Ayrıca, sendikasyon kredilerinin yükümlülüklerdeki payının nispeten düşük olması sebebiyle, sendikasyon kredisi için maliyet artışının bilanço üzerinde ihmal edilebilir bir etkiye sahip olduğu tespit edilmiştir.

Anahtar Kelime: Sendikasyon Kredisi, Bankacılık, Bilanço, Vade Uyumsuzluğu, Maliyet

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LIST OF ABBREVIATIONS

TSKB	: Industrial Development Bank of Turkey
ATM	: Automatic Teller Machine
TRY	: Turkish Lira
USD	: United States Dollar
EUR	: Euro
CBRT	: Central Bank of the Republic of Turkey
REPO	: Repurchase Agreement
BRSA	: Banking Regulation and Supervision Agency
CAR	: Capital Adequacy Ratio
SDIF	: Saving Deposit Insurance Fund
OTC	: Over-The-Counter
US	: Unites States
BOTAŞ	: Boru Hatları İle Petrol Taşıma Anonim Şirketi
LIBOR	: London Interbank Offered Rate
EURIBOR	: Euro Interbank Offered Rate
MLA	: Mandated Lead Arrangers
MN	: Million
BN	: Billion
BP	: Basis Points
FC	: Foreign Currency
CDS	: Credit Default Swap

1. INTRODUCTION

Unification within the world economy and losing the importance of borders between countries in the past few decades forced banking to be more globalized. Globalization basically can be described as opening up to the world and integration with the world economy. Thanks to globalization, sovereign states benefit from their national banks to operate abroad and benefit from other foreign banks to operate in their countries by several means. Such operations provide loan sources, as well as the circulation of money and mobility in the markets.

Globalization set forward to transforming classical banking more into international banking through time. International banking has several effects on state economics such as increasing monetary liquidity, increasing loan availability and contributing to the growth of the economy.

Mediating import and export and providing finance for foreign trade are some of the basic international banking activities. Commercial banks that are operating international activities provide loans to various government agencies as well as financial institutions all over the world. They also keep funds in foreign currencies. Correspondent banking activities are also significant to expand the sphere of influence of international banks.

As for the nature of banking, most of the loans provided are based on outside resources rather than bank's equity. Hence, many items such as profitability, sustainability and performance of the bank are dependent on what are the sources of outside resources. This study lays emphasis on the importance and usage of syndicated loans among any other sources of funds.

Syndicated loans have become an important source of fund for banks among other sources of funding. As the demand for funds increased in the international market, a single bank might be incapable or unwilling to take a significant amount of risk on its own. As such, syndicated loan, that is basically large amount of loan provided to banks for a certain purpose by consortiums composed of more than one creditor bank, have become popular through the world.

Syndicated loan deals provide benefit for both parties in terms of reputation. In terms of the borrower, having access to a large sum of loan and being able to close the deal as anticipated indicates the market confidence on the institution. On the other, it is a prestige matter for the lender to have been participated to a successfully completed arrangement.

As Turkey's place between developing countries has improved over the years and international trade has become one of the main pillars for Turkish economy especially after getting into liberal economy in 1980s, syndicated loan usage has become a significant resource as well as the prestige for Turkish Banks. Syndicated loans are considered as one of the most important fund resource except for deposits.

The purpose of this study is to analyze the effects of syndicated loans used by banks on passive items of their balance sheets in terms of maturity and cost.

Second part of the study elaborates and explains the features and financial structure of banks in general. Definition of banking, history and development of banking are mentioned. Different banking types namely commercial, retail, investment, participation and central banks are explained. Financial structures of banks, liability and asset items are detailed. Lastly, different sources of funds for banks are given in order to create a perception for the funding concept.

Within the third part, syndicated loans are covered in detail as a significant source of funding for banks. Syndicated loan evolvement in the world and in Turkey is elaborated. Parties involved, commissions and fees, tax application for syndicated loans, allocation process, different types of syndicated loans are given. Advantages for both the borrower and lenders and disadvantages are mentioned.

Fourth part of the study includes an application on the usage of syndicated loan. In order to display the syndicated loans share within banks' balance sheets, syndicated loan deals of Isbank are exemplified. Syndicated loans' effects on the balance sheet within the scope of maturity and cost are analyzed. In order to calculate the average maturity of the syndicated loans and Isbank's liability items, 2017 and 2018 data is used. In terms of cost analysis, syndicated loan deals of Isbank between 2014 and 2018 are analyzed. Minimum and maximum LIBOR/EURIBOR rates as well as spreads are taken into consideration, while comparing with commercial credit interest rates of Isbank. Changes in the currency exchange rates are also included within the study in order to observe whether syndicated loans are cost-efficient for Isbank or not.

The fifth and last part of the study includes the conclusions obtained from the information within the scope of the thesis and the suggestions obtained from the results.

2. BANKS AND THEIR FINANCIAL STRUCTURE

2.1 DEFINITION, HISTORY AND DEVELOPMENT OF BANKING

Banks are indispensable to today's business life. Without them, it would be challenging to carry out business transactions both domestically and abroad. In general, banks are financial institutions that aim to collect deposit and utilize loans at most productivity. Their main operations are collecting deposits and providing loans in the broadest sense.

Due to main operations of commercial banks, their raw material is money. Banks collect money and sell it to someone else as quickly as possible. Funding sources of banks are composed of equity and foreign resources. Undoubtedly, it is not usual for the banks to finance themselves from their equities hundred percent. Most of the funds used by banks are foreign sources (Parasız 1997, p.165).

2.1.1 Definition of Banking

The word bank is derived from an Italian word 'Banco' which means table, desk or bench in Turkish. Banks, which have started to find their perfect shape at the present time while experiencing a number of changes and developments in centuries, are defined in different ways. Banks are economic institutions that collect deposits, and aims to use it for a variety of loan transactions or in other words banks are economic institutions of which the main areas of activity is to provide and collect loans in a regular sense (Takan and Acar 2011, p.2).

Banks are not only related with lending and collecting deposit but they also intermediate in international trade, involve in treasury and stock exchange transactions, provide safe deposit box for their customers.

Main services of banks that can be marketable can be summarized as submitted below (Apak 1995, p.15):

a. To provide productivity to the deposits that are collected for saving and invested for a specific period.
b. To meet with the business capital and investment needs of firms by providing loans.
c. To provide fund for individuals when their sources are scarce through customer loans.
d. To do currency transactions.
e. To enable customer to do shopping with credit cards without carrying cash.
f. To provide consultancy services.
g. To intermediate in buying and selling securities.
h. To intermediate in international trade by performing foreign transfers and making collections related to import, export and other invisible items.

2.1.2 Definition of International Banking

"In addition to the usual domestic activities of commercial banks with which we have thus far been concerned, many banks provide international banking services" (Reed and Gill 1989, p. 427). Banks, which are working internationally, provide loans to companies and governments abroad, finance international trade, secure international debts and find foreign funds to carry on their currency transactions. For banks to serve internationally, it is not necessary to establish a facility there, it can also be done through financial institutions department and corresponding banking services. In order for a bank to be considered as international bank the criteria are:[1]

a. Undertaking the ownership of more than one shareholder from different countries
b. Having an international organization structure (branch, representative office etc.)
c. Having active international distribution channels
d. Having multiple service networks
e. Being specialized on international transactions

[1] Sözer, Y., (1997), Uluslararası Bankacılıkta Stratejik Yönetim – Planlama ve Türkiye Örneği. *Thesis for the M.A. Degree*. İstanbul: Bankacılık Sigortacılık Enstitüsü Anabilim Dalı

2.1.3 History and Development of Banking

Development of banking through history is strongly related with the development of money concept. Through the history different kinds of banks have been observed. In Mesopotamia “Red Temple” (3400 -3200 b.c) is the known oldest bank structure. Within Hammurabi rules, there are clauses regarding banking such as commission agreement, collecting deposit, providing loan. In Egypt, banking concept has been developed after the invasion of Alexander the Great (356-323 b.c). There are even some rules forbidding compound interest. During the times of Batlamyus (127-51 b.c), was under the autonomy of the state which meant abolishing private banks. However when Egypt was ruled by the Romans, private banks have been established once again.

First banks of Ancient Athens and Rome were the ones profiting from changing money. For ancient Greeks, interest was not subject to registration. During the times of free trade in Athens and Rome, only audited banks were subject to keep and present their books. Thanks to Rome’s political position, trade and banks’ area of business were developed.

During the Crusades, due to the exploration of new sea routes causing the development of universal trade, banking has headed for new horizons after 15^{th} century especially in Italian cities as Venice, Geneva, and Florence.

Amsterdamsche Bank, which was established in 1609, is the first bank that was operating in modern sense (Takan and Acar 2011 p.3).

2.1.4 Development of International Banking

Within the first stage of the development process, banks operated their international business from where they were established. This can also be called arm’s length banking, international operations of banks have mostly been operated through correspondent banking services. Main services were regarding financing foreign trade and such transactions have been dealt by international departments of banks (Seyidoglu 2003).

It is known that international banking operations started by Italian banks during medieval era. While in the 16th century, German banks were leading in international financing, during 1600s Amsterdam being in the center of world economics Holland came into the forefront. Since, during 19th century international banking was managed by British colonialism and industrial revolution being started in United Kingdom, UK had the opportunity to spread her financial capital to many places in the world.

There is a strong relationship between international banking to be born and develop and international business to spread which is the period after World War 2. After 1960s, second phase has started with newly emerging needs and new customers. While in the first phase international transactions were realized through correspondent relationships, in the second phase banks have started to open branches abroad.

The latest phase of the international banking has shown itself as providing all banking services by branches or by another affiliate. In this case, domestic currency funds are received, loans are provided for the customers demanding domestic funds and other banking services provided. This literally meant banking being internationalized.[2]

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[2] Gürler, S. (2004). Uluslararası Bankacılık ve Uluslararası Bankaların Türk Bankacılık Sistemine Etkileri. *Thesis for the M.A. Degree*. İstanbul: Marmara University, pp.62-64.

2.2 DIFFERENT TYPES OF BANKS AND THEIR FEATURES

Different types of banks have evolved through history in accordance with the needs of the people. Although there are different kinds, there is no sharp contrast between them, in fact they might be one within the other. On the other hand, they might also be specialized on one specific feature. In each case, it is necessary to elaborate aforesaid types in order to comprehend the banking system and the type of works they perform. As for the Banking Law numbered 5411, banks are classified as Deposit Banks, Participation Banks, and Development and Investment Banks in terms of the duties performed. Some of the banking types which will be mentioned within this study are namely commercial banks, retail banks, investment banks, participation banks and central banks.

a. Commercial Banks: Like all the other commercial institutions, commercial banks' main goal is to profit. Business customers are considered to be their main customers. They collect deposit, provide loans and banking services to their customers within a wide range of area. Their functions are using and providing funds, creating fiduciary money, providing banking services.

b. Retail Banks: Their main focus is on small scale enterprises and a broad range of society by aiming to meet their financial needs. In accordance with the requirements of the people, banks have started to provide a diversified amount of banking services for retail customers such as internet banking, Automatic Teller Machine (ATM) services, credit cards, factoring, leasing, invoice payment etc.

c. Investment Banks: They act as an intermediary and advisory financial institution especially in large transactions, mergers and acquisitions and security transactions. In Turkey, Industrial Development Bank of Turkey (TSKB) is an example of an investment bank.

d. Participation Banks: Participation banks can be described as organizations that perform a variety of banking functions within the framework of Islamic principles

(Takan and Acar 2011, p.13). Participation banks are the result of account owners who want to stay away from interest for religious reasons and want to evaluate their savings in interest-free institutions using modern banking services.[3]

e. Central Banks: Their aim is to manage the monetary system, inflation level, and country's exchange rate by implementing various monetary policies. It is stated by the Central Bank of Republic of Turkey (CBRT) that their main objective is to provide economic stability.

2.3 FINANCIAL STRUCTURES OF BANKS

2.3.1 Balance Sheet

As of December 2017, 65 percent of Banking Sector assets are loans and 15 percent are liquid assets. Share of the securities is at the level of 12 percent. Subsidiaries' and fixed assets' share is 2 percent. On the other hand, 53 percent of the liabilities are deposits and 28 percent are non-deposit funds. Share of the shareholders' equity within liabilities is 11 percent.[4]

The balance sheet is a table that reflects the economic and financial situation of the bank at a specific date, and displays its assets, liabilities and shareholders' equity in a true and accurate manner in the form of assets and liabilities. The asset part of the balance sheet is organized according to the quickness of the transition to cash and the liability portion of the balance sheet is organized according to the payment speed.[5] Some asset and liability items of Banks' balance sheets are seen in table 2.1.

[3] Battal, A. (1989), Özel Finans Kurumları, Thesis for PhD Degree, İstanbul: Istanbul University
[4] Türkiye Bankalar Birliği, Bankalarımız 2017, 2018, file:///C:/Users/User/Downloads/TBB%20Bankalarimiz_2017%20(1).pdf [accessed 7 October 2018], s.19.
[5] Yıldırım, M. 2008. Banka Muhasebesi. *Türkiye Bankalar Birliği Yayınları.p.36*

Table 2.1: Asset liability items of banks' balance sheets

Asset	Liability
Cash reserves and Central Bank	Deposits
Trading securities	Loans received
Banks and other financial institutions	Securities issued
Money markets	Funds
Securities available for sale	Sundry payables
Loans	Other liabilities
Factoring receivables	Taxes, duties, fees and premiums payable
Securities to be hold until maturity date	Factoring payables
Leasing receivables	Leasing payables
Required reserves	Interest and expense accruals
Sundry receivables	Provisions
Accrued interest and income	Subordinated loans
Tangible / intangible fixed assets	Minority Interests
Other assets	Shareholders equity

Source: Yıldırım, M. 2008. Banka Muhasebesi. Türkiye Bankalar Birliği Yayınları

Assets are defined as fixed or current assets. Current assets are the assets which are constantly on the move. Stocks of raw materials that will be turned into products, deposits temporarily held in the bank that will be withdrawn are some examples to the current assets.

2.3.2 Explanation on Some of the Asset Items

a. Cash reserves and central bank: It is an asset item that involves the Turkish Lira banknotes and coins that are in circulation in Turkey and foreign currencies that are subject to trading. Foreign currencies are entered to the safe with fixed rate. At the end of the period, the balance is converted to Turkish currency. The remainder of the account shows the cash register.

b. Banks and other financial institutions: This account consists of the Turkish New Lira (TRY) and foreign currency deposit accounts of the bank in domestic and foreign banks and other financial institutions. Banks hold cash in order to fulfill their cash requirements and legal obligations. For foreign exchange liabilities and payments, banks keep foreign exchange within their accounts in correspondent banks.

c. Loans: Loans are one of the most significant items that generate value in the bank's balance sheet and they have the greatest share in the balance sheet. There are several different types of loans that are provided by the banks in the short, medium or longer terms namely are commercial loans, mortgage etc. Loans that are not paid on the maturity date are monitored closely and after certain period they are considered non-performing loans.

d. Tangible / intangible fixed assets: The account consists of movables, real estate properties and other special costs. Some examples to movables are safe, furniture and office machinery etc. Real estate is the building and land that are purchased for the operational usage.

2.3.3 Explanation on Some of the Liability Items

a. Deposits: Turkish Lira deposits are monitored in "Saving Deposits", "Official Institutions' Deposits", "Commercial Institutions' 'Deposits", "Banks' Deposits" and "Other Institutions' Deposits" accounts. Foreign currency deposits are monitored in "Foreign Currency Banks' Deposits" and "Foreign Exchange Deposits" accounts.

b. Loans received: It is the account that short, medium and long-term loans received from central bank, domestic banks, foreign banks and other institutions are monitored.

c. Securities issued: Bonds, bills and asset based securities issued by the banks in order to obtain resources are monitored through securities issued account.

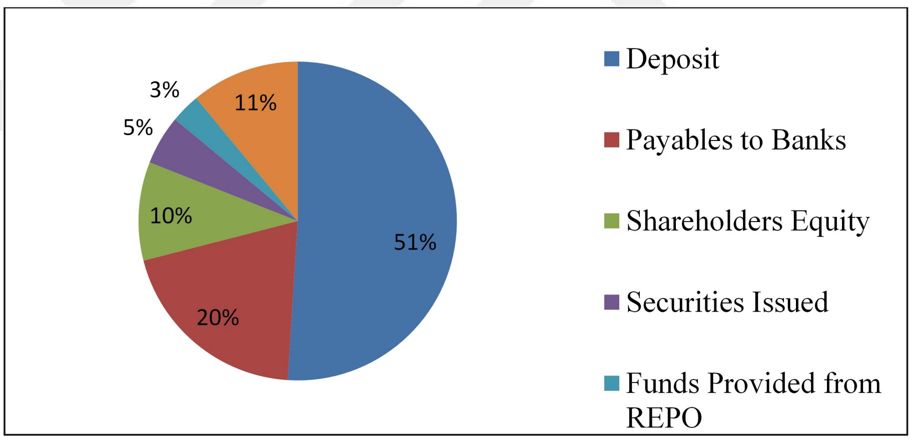
d. Subordinated loans: The subordinated loan is provided for the costs and financial needs of banks, which will result from the transfer and merger of banks or due to the restructuring of banks' dull loans or the improvement of their live loans.

f. Shareholders' equity: Shareholders' equity consists of paid capital, capital reserves, profit reserves and profit and loss accounts (Takan and Acar 2011, pp. 90-96).

2.4 SOURCES OF FUNDS FOR BANKS

In commercial banks, funds are provided from two sources. These sources are equity and foreign sources. Commercial banks provide most of the funding resources from foreign sources (Takan and Acar 2011, p. 50). While Shareholders' Equity is comprised of capital, reserves and retaining profits, foreign resources include deposits, short-term borrowings (central bank loans, repurchase agreement (REPO), Eurodolar borrowings) and long-term borrowings (bond issuance etc.) (Altan 2001, p. 105). As of September 2018, shares of liability items for Turkish Banks' balance sheets are seen in Table 2.2.

Table 2.2: Shares of Liability Items for Turkish Banks as of September 2018



Source: https://www.bddk.org.tr/BultenAylik [accessed 23 November 2018]

2.4.1 Collecting Deposit

Deposits have the largest place within the resources of commercial banks. Deposit is the money put into the bank and to be received either without a maturity or at the end of the maturity. Deposit is considered as borrowing for the banks. The person who is depositing money into the bank is providing loan for the bank (Şakar 2000, p. 123). Two main reasons for account owners to deposit their money into banks are to generate an income and to keep their money safely.

When classifying deposits, the maturity, account holders and types of deposits can be considered. According to the account holders as deposit types, savings deposits, commercial deposits, official deposits and interbank deposits are considered. Turkish Lira deposits and foreign currency deposits were examined under the deposit types according to the currency type.[6] It is possible to classify deposit in a number of way; the most traditional classification is made in terms of maturity as in demand deposits, time deposits and noticeable deposits (Sungur 1988, p. 4).

Demand deposit can be withdrawn at any time regardless of the period. Since such deposits should be available to customers, banks have limited usage. Except for the times of war and depression, banks never keep hundred percent of the money deposited in their accounts. Because, especially when the cost of capital is high, demand deposits are given interest and these funds should be used by banks.[7]

Deposits which can be withdrawn only after a certain day from the date of notice are called noticeable deposits. As the bank recognizes more freedom of movement than demand deposits, more interest is given and the length of notice period plays a role in determining this interest rate (Takan and Acar 2011, p.161).

In terms of time deposit, it is agreed between the bank and the customer that the deposit can be withdrawn only after a certain period of time. Since banks have knowledge regarding the withdrawal time of money, they are able to use it and provide customers with higher interest rates compared to demand deposit and noticeable deposit.

Table 2.3 indicates the Turkish Banks' deposit shares according to their maturity. It is observed that the maturity of the deposits is considerably low as 54 percent of the deposits have maturity between 1 and 3 months. 5 percent of the total deposits have maturity more than one year.

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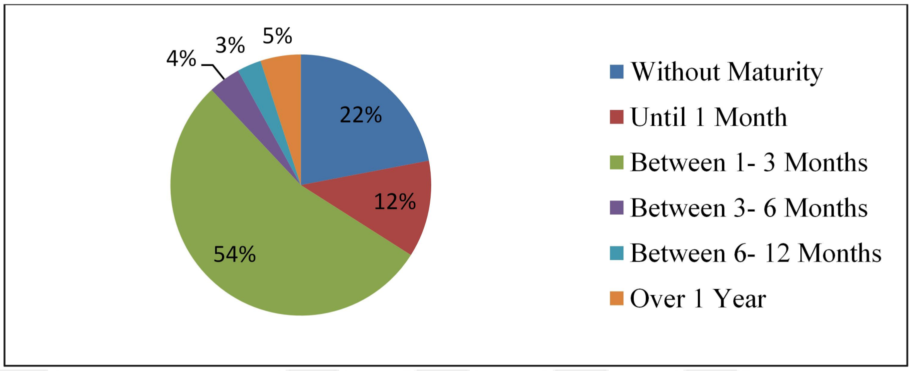
[6] Çelik, M. (2018), Bankaların Yabancı Fon Kaynakları Ve Banka Fon Kaynak Tercihinin Banka Performansına Etkisi: Türkiye'deki Mevduat Bankaları Üzerine Bir Araştırma. Thesis for the M.A. Degree. Mehmet Akif Ersoy University p.5

[7] Güler, R. (2014), Türkiye'de Katılım Bankaları İle Ticari Bankaların Fon Toplama Ve Kullandırma Yöntemlerinin Karşılaştırılması. *Thesis for the M.A. Degree.* Gazi University.p.36

Table 2.3: Shares of Deposits Accordingly with Their Maturity for Turkish Banks as of September 2018



Source: https://www.bddk.org.tr/BultenAylik [accessed 23 November 2018]

2.4.2 Funds Provided From Central Bank

In a country, when there is an increase in financial activities need for loans also increase. Since banks have limited sources, their capacity might not be sufficient to meet such needs. When banks have liquidity issues, they apply to central banks for having access to the necessary source temporarily. Three main central banks loans are;

a. Rediscount of discounted securities,
b. Loan on securities,
c. Advance on precious metals and bond (Altan 2001, p.119).

Central banks use different control tools as they aim to protect and stabilize the economic balance. These tools are namely; Adjustment of discount rates, open market operations, adjustment of interest rates in general, adjustment of public displacement ratio, regulation of bank loans, adjustment of deposit reserve ratios, credit ceilings and other tools (Takan and Acar 2011, p.25).

In Turkey, there are four different sources available for the funds provided by the CBRT markets. These are open market operations, CBRT interbank money market, CBRT discount window and CBRT liquidity support loan (Vurucu and Arı 2014, p. 318).

Within the scope of open market operations, if CBRT wants to increase the amount of money in the market, CBRT can buy securities from the banks with a certain discount price in order to provide funds to banks. Furthermore, CBRT can provide fund for banks as much as the difference between sales and purchases when it sells securities to banks with the promise of repurchase (CBRT 2012 p.2).

CBRT interbank money market, is to ensure the transfer of funds between banks, is only open to banks between 10: 00-12: 00 and 13: 00-16: 00 and the maturity options are 1-night, 1-week, 1-month, 3-months. Thanks to this market, banks have the opportunity to access funds when they lack (Parasız 2007, p. 414).

The CBRT's discount window enables banks' securities to be discounted with a certain rate before the maturity. In this way, banks have the opportunity to provide funds by converting the bonds into cash before the validity.[8]

In the case of a rapid withdrawal of funds and a decrease in confidence in the banking system, the loans allocated to banks by the CBRT to ensure financial stability are called CBRT liquidity support loan (Vurucu and Arı 2014, p. 318).

2.4.3 REPO and Reverse REPO

Repo is an agreement to sell the securities of one of the parties to another, with the guarantee of a repurchase at a price determined on a specified date. When banks need funds for a short period, they apply to repo as a source of fund.

Profitability of the transaction; is the interest income for the reverse repurchase party (customer). For the party doing repo (bank) it is having more interest income than the interest paid to the customer and digesting the security with a higher income than the interest paid during the transaction maturity of the securities (Altan 2001, p. 121).

[8] Central Bank of the Republic of Turkey Law. **Official Gazette,**, 13409; 14 June 1970.
The Constitution of the Republic of Turkey, 1982.

Reverse repo is the purchase of securities with the promise of resell. When banks have access to liquidity or if there is an opportunity to make repo with better conditions, they might prefer to do reverse repo transactions with customers. With the agreement, the bank takes the papers (or the customer leaves the custody) while paying the money on the transaction day, and when entering the papers into the portfolio, the bank takes the money back with the interest while handing over the papers (Şakar 2000, p. 83).

2.4.4 Bill and Bond Issuance

The bond is a short-term debt instrument used by firms and also by the banks. In order to provide liquidity, banks can issue bonds.

The bill, which is another borrowing instrument, is a financial instrument that banks apply for long-term financing. Although it has started to become popular in Turkey after the 1970s; bonds could have been medium-term rather than long-term (Akguc 2015, p.648).

The issuance of bonds and bills by banks in Turkey must be made in accordance with the decision of the Banking Regulation and Supervision Agency (BRSA) No. 3875. According to this decision, in order for a bank to issue bonds or bills:[9]

a. The Bank's capital adequacy ratio (CAR) shall be not less than 12 percent,
b. It shall be publicly announced that the Saving Deposit Insurance Fund (SDIF) has no insurance for the amount owed to the investor,
c. A report regarding the management and monitoring of the risks to be generated by the issuance, shall be submitted to the BRSA before the issuance,
d. There shall be no violation of the Bank's corporate governance principles and protective provisions,
e. In accordance with the limits set forth in the Communiqué, the conditions for the determination of the issuance limit shall meet.

[9] Banking Regulation and Supervision Agency Law (Law No. 3875). **Official Gazette,**, 27717; 02 October 2010.
The Constitution of the Republic of Turkey, 1982.

As the capital markets have started to deepen in Turkey, it is seen that the banks tended to issue bond. So much that bonds and bills issued by banks reached TRY 145 billion and accounted for 4 percent of the balance sheet.[10]

In 2018, the issuance of private sector borrowing instruments increased thanks to the search for diversification of the balance sheet resource structure in the banking sector. Providing long-term resources, diversification of the existing resource structure, eliminating the maturity mismatch between assets and liabilities and issuing borrowing instruments in different types and maturities are for the purpose of preventing the interest rate risk.

2.4.5 Funds Provided From Secondary Markets

Secondary markets are Over-The-Counter (OTC) markets in which banks tend to direct in case of insufficient limits in their transactions in organized markets. Accordingly with the needs and the conditions determined by the banks, they can trade with money, bill and repo tools. Banks can be contacted by phone or by other means of communication as well as they can obtain the assistance from experts. Prices and rates are generally close to the prices in organized markets (Vurucu and Arı 2014, pp. 321-322).

2.4.6 Interbank Markets

The interbank lending market is a market in which banks extend loans to one another for a specified term. Maturities of interbank loans are generally one week or less, the majority being overnight. Such loans are made at the interbank rate (also called the overnight rate if the term of the loan is overnight).

[10] Türkiye Bankalar Birliği, Bankalarımız 2017, 2018, file:///C:/Users/User/Downloads/TBB%20Bankalarimiz_2017%20(1).pdf [accessed 7 October 2018], s.21.

There are assets and liabilities in foreign currencies on both the asset side and the liabilities side of the Bank's balance sheet. For this reason, banks always require foreign currency funds in certain periods. In response, the interbank foreign exchange market has become an important tool to meet the foreign exchange fund needs of banks. In these markets, banks provide communication with tools such as Reuters and Bloomberg. CBRT may intervene in such markets if it sees that volatility is above a certain level. Finally, transactions in these markets may take place as spot, forward, and arbitrage (Vurucu and Arı 2014, pp. 323-324).

Interbank loans are important for a well-functioning and efficient banking system. Since banks are subject to regulations and requirements, they may face liquidity shortages at the end of the day. Interbank Lending Market allows banks to overcome temporary liquidity shortages at a little cost, which may cause due to the reserve requirements that banks are subject to.

2.4.7 Bilateral Loan

Unlike syndicated loan, which will be further discussed within this study, bilateral loan is dealt between one lender and one borrower. Comparing syndicated loans, lender has more control over the agreement on the loan and the amount of bilateral loan is comparably smaller and much less complicated. Bilateral loans are generally preferred for smaller projects since it is less complex. Bilateral loans are the most commonly seen type of loan because larger syndicated loans are usually used by large corporations to finance extremely large projects. Lenders take a much greater risk when combining efforts to provide a loan to an individual borrower, and with higher risk comes a higher fee.

3. DEFINITION OF SYNDICATED LOANS AND HOW SYNDICATED LOANS EVOLVED THROUGH HISTORY

Syndicated loan is provided by a group of financial institutions, which are also called participants, to a borrower with high credibility. Syndicated loans, that are significant instruments for having access to large sums of funds, gather fund suppliers and demanders within different countries and industries. “The loan is arranged and structured by an arranger, and managed by an agent. The arranger and the agent may also be participants” (Fight 2004).

Since the amount of money borrowed is high and it is requested to share the risk of default, institutions jointly provide finance. Syndicated loans are mainly used for financing the balance of payments and debt repayments.

Syndicated loans are different from other types of loans in two main characteristics; the transaction is accommodated by more than one lender and each lender guarantees to pay a portion of the total amount with a different and separable liability. In the event that one of the creditors fails to fulfill its commitment, the other banks do not have any responsibility (Fight 2004).

The interest rate in syndicated loans is determined by adding the interest rate applied to the reference interest rate (Libor, Euribor, etc.) according to the risk level of the institution (spread) to be credited. Some of the most significant factors for determining the cost are country risk and institution risk as they are taken into account while calculating the spread.

3.1 SYNDICATED LOANS THROUGH HISTORY

When the syndication was first introduced, the confidentiality of the transaction was a basic understanding, but in a later period it was transformed into a marketing machine that increased its reputation to both creditors and lenders.

Although in the 19th and in the early 20th century, London banks used syndication techniques for high amount loans provided to customers, modern understanding of syndication arose after the Second World War by United States' (US) Banks. The banks in the US started with medium term commitments against their corporate customers. Syndications have emerged as a natural result of the medium-term large-scale funding needs and desires of American banks. It was not possible for the banks to cover large amounts demanded by the firms alone. The syndicated loan market in Europe has also evolved by solving the medium-term loan financing problems (Parasız and Yıldırım 1994, p.376).

The first phase of expansion began in the 1970s. Medium-term syndicated loans between 1971 and 1982, functioned as mainly foreign capital towards developing Asian, African and especially Latin American countries. Syndications have also enabled small-scale financial institutions to provide loans to developing countries without being in the countries concerned.[11]

In the 1990s, there was a movement in the syndication market and it became the largest of the loans provided to companies, and the highest guarantee income was provided for creditors.[12]

In the last decade, it has been observed that syndicated loans have increased their significance as one of the most important source of foreign financing especially in developing countries. Consequently in terms of the borrowers, it has also evolved as a

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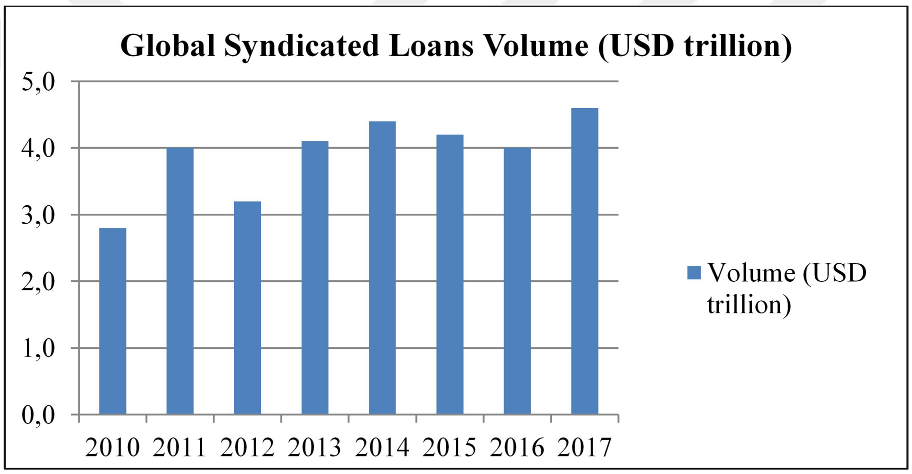
[11] Cetintas, U. (2008). Alternatif Fonlama Kaynağı Olarak Sendikasyon Kredileri ve Türk Bankacılık Sistemine Yönelik Bir Uygulama. *Thesis for PhD Degree.* İstanbul: Marmara University

[12] Sufi A. April 2007. Information Asymmetry and Financing Arrangements: Evidence from Syndicated Loans, *Journal of Finance*. **62**, p.630.

significant way of investment in the underlined country and the bank by taking their risk with the amount participated in the syndicated loan.

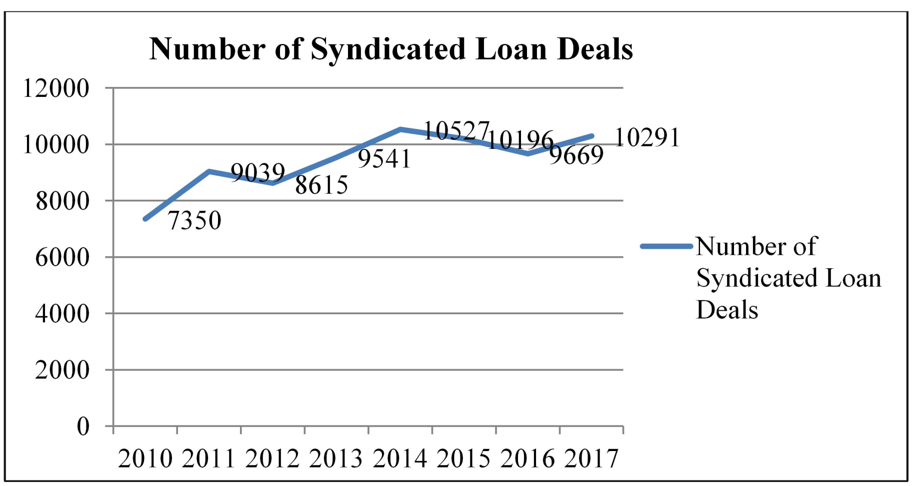
Although there has been some decrease in the syndicated loans volume accordingly with the economic setbacks on yearly basis, the general increasing trend can be observed as submitted on the tables 3.1. and 3.2.

Table 3.1: Global syndicated loans volume between the years of 2010 and 2017



Source: Thomson Reuters, Global Syndicated Loans Review Managing Underwriters First Half 2018

Table 3.2: Number of syndicated loan deals between the years of 2010 and 2017



Source: Thomson Reuters, Global Syndicated Loans Review Managing Underwriters First Half 2018

3.1.2 Syndicated Loans in Turkey

For more than 20 years, syndicated loan has been one of the most financial instrument that is frequently used by Turkish banks. One of the first examples of borrowing in the form of syndicated loans from international financial markets in Turkey is seen in the 1970s. Boru Hatları İle Petrol Taşıma Anonim Şirketi (BOTAŞ)'s borrowing of 150 million United States Dollar (USD) with five years maturity and LIBOR + 1.5 in 1975 can be shown as the first borrowing example (Apak 1995, p.88).

Syndicated loan referenced as a source of finance by the Treasury in Turkey from time to time, lately it has been observed that it is used by the Turkish companies with varying purposes. Syndicated loans are considered to be the most important funding source for Turkish private banks, except for deposits.

The syndicated loan volume, which was only about 181 million euro equivalent in 1981, increased by almost 3 times in 1982 to 527 million euro equivalent, and the trend continued until 1986, reaching about 3 billion 230 million euro equivalent, which was the peak of the year. [13]

The predominant view on syndicated loans in the early 1990s was that the funding alternative in question lost ground against bonds and its importance was diminishing.[14] The Gulf War crisis in 1991 and Russian crisis in 1997, affected Turkish financial markets in a negative way and due to the adverse events, the lenders wanted to decrease their Turkey risk. As a result, the maturity was decreased and the price was increased for Syndicated Loans in Turkey. [15]

[13] Cetintas, U. (2008). Alternatif fonlama kaynağı olarak sendikasyon kredileri ve Türk bankacılık sistemine yönelik bir uygulama. Thesis for PhD Degree. İstanbul: Marmara University
[14] Akder, T. December 1991, Uluslar arası Finans Piyasalarındaki Gelişmeler ve Türkiye, CBRT General Directorate of Research, Notice of Discussion
[15] Tasdemir, U. (2015). International borrowing and syndication loan for Turkish banks: A study of syndication loan. Thesis for M.Sc. Degree. İstanbul: Bilgi University

With the effect of a relatively stable economic environment captured in the early 2000s, increasing syndication loans together with securitization loans has become one of the most important financial sources for commercial banks. Syndicated loans have had positive effects on the banking sector beside from exceptional periods of crisis. As a result of the financial problems faced during the crisis on 2000, 2001 and 2008, banks needed to obtain more funds from international market in order to satisfy their liquidity needs. "The effect of these crises was got through by stand-by agreement which was signed with IMS and reformative regulation of banking system."[16]

The increase on the total amount of syndicated loans received by Turkish bank in 2016, 2017 and 2018 can be seen on the table 3.1.

Table 3.3: Total amount of syndicated loans received by Turkish bank in 2016 2017 and 2018

Total (Million TRY)	2018	2017	2016
Syndicated Loans (Non Foreign Trade Financing)	8.622	5.615	3.216
Syndicated Loans (Foreign Trade Financing)	91.711	73.888	63.660

Source: https://www.bddk.org.tr/BultenAylik [accessed 12 January 2019]

In the upcoming period, it is expected that there may be a tendency to lower the syndicated loan amounts due to foreign banks and there may be a smaller tendency to lend money than it was before. Considering that syndicated loans are mostly received for foreign currency loans used in domestic markets, it is highly probable that domestic credit volume decreases and therefore banks prefer to use less syndicated loans in return.[17]

[16] Tasdemir, U. (2015). International borrowing and syndication loan for Turkish banks: A study of syndication loan. Thesis for M.Sc. Degree. İstanbul: Bilgi University
[17] Satoglu, S. (2010). Bankacılıkta uluslararası kredi yönetimi ve uluslararası sendikasyon kredisi piyasalarında Türkiye'nin yeri. Thesis for M.A. Degree. İstanbul: Marmara University

3.2 MAIN FEATURES OF SYNDICATED LOANS

Syndicated loans have some basic characteristics in terms of the amount, the interest rates, length of the maturities, documentation and clarity.

When determining the content of the syndication, the purpose of the syndicated loan should be clear to what extent the borrower will use the loan to be provided. The purpose of the loan can be specific such as ship financing, or general such as pre-shipment export financing.[18]

Syndicated loans are generally medium and long term loans but can also be used as short term. The reason why there is a restraint for it to be short term is that the process is complicated and it is difficult to arrange syndicated loan.

The distribution of assets / liabilities by the maturities is the main component of the net liquidity shortage and maturity mismatch carried on the bank balance sheet (Şakar 2002, p.113). For Turkish Banks in terms of tenor, loans extended from abroad are longer compared to the other resources. Turkish banks compensate the mismatch tenors for deposits and money markets thanks to syndicated loans.

Common credit documentation is one of the main features of syndicated loans because it includes all the terms and conditions of the credit given by the creditors to the debtor. The documentation is important in explaining how the credit will be managed during the due period and how it should be coped with when a problem arises (Apak 1995, p.71).

Each of the creditors participating in the loan has separate responsibilities from each other, that is, each creditor is responsible for their own contribution, not the commitment of another (Parasız and Yıldırım 1994, p.378).

[18] Armstrong, J. 2003. The syndicated loan market development in the North American contex, Bank of Canada Working Paper. Ottawa: Canada

Syndicated loans are priced at variable interest rates rather than fixed interest rates. Floating interest rate occurs by adding a predetermined margin which is also called spread. London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) are generally used as variable interest rates for syndicated loans. Fixed interest rates can also be applied to such loans, but banks do not want to take the fixed interest rate risk by taking into account that the cost of the funds they have provided in the medium and long term may increase (Parasız and Yıldırım 1994, p.377).

What separates syndicated loans from regular loans is that borrower pays the same amount of interest to the lenders. However, if there are different segments, each segment might have different interest rates. The banks in the same segment would have the same interest rates applied (Akdağ, p.132).

Clarity is a feature that explains the reason why syndicated loans lead banks to increase their reputation in the market. When the size of the loan is huge, the number and diversification of the banks participated are substantial, banks would like their syndicated loans to be known in the market. The fact that a large amount of syndicated loan is arranged by a consortium of particularly well-known banks, increases the reputation of the borrower (Parasız and Yıldırım 1994, p.378). “Tombstone” which is a way of announcing the loan, is published on the preferred newspapers and magazines when the agreement is signed and the process is completed.

3.2.1 Parties Involved in the Process of Syndicated Loans

As in the case of other types of loans, syndicated loans are also comprised of basically two parties that are debtor and lender. However, there are more than one lenders gathered to provide syndicated loan instead of a single lender. Creditors may have different functions in this group depending on their participation shares. The roles commonly seen in syndicated loans are (Apak 1995, pp.75-76):

a. Mandated Lead Arrangers (MLA): They get authorization from the debtor to carry out the syndication for that loan. They prepare "Information Memorandum" which includes information about the borrower. They carry out most of the tasks such as invitation of the banks, preparation of the signature ceremony and announcement of the credit.

b. Underwriters: These usually include the organizer / leading bank and then undertake the entire loan to sell to other participants. Thus, they have either little or no lending.

c. Managers: They have the highest amount of participation. The minimum amount of participation is determined to be included in the category.

d. Co-Managers: Participation amounts are less than managers.

e. Participants: Underwriters sell their commitments to the banks in this group. The participation rates of the participants are quite low.

f. Agent Bank: Usually the leading bank performs this task. The agent's mandate begins after the loan agreement has been signed. The payment for the loan is made through the agent bank.

3.2.2 Allocation Process of Syndicated Loans

There are three phases for the allocation of syndicated loan process and they are namely pre-mandate phase, the post-mandate phase, and post signature-phase.

Within the pre-mandate phase, the details of the transaction are discussed and finalized. In order to arrange the syndication, offers are received from the banks. Accordingly with the offers received, MLA is decided in order to arrange the loan and negotiate the agreement. It is the stage in which the infrastructure of the syndicated loan is prepared, the parties are determined and the road map is established. The phase could be completed between 1 year and 1 month and the schedule is determined accordingly with the urgent need of the borrower.

During the post-mandate phase of the syndication, the loan agreement is negotiated, documentation package is prepared and invitation takes place. This stage concludes with the closing the deal or with the signing ceremony. This period takes approximately 6 to 8 weeks. During the invitations it is aimed to avoid over-subscription and under-subscription, while targeting the “largest appetite” for the loan. In case the syndication is under-subscribed, MLA could amend the terms for the loan or close the gap. On the contrary if it is over-subscribed, scale back of allocations might be discussed or larger amount of syndicated loan might be considered.[19] The process is finalized when the parties sign the loan agreement. In general to conclude the process, an organization is planned to attract public attention or signatures of the authorized parties are taken. The post-mandate phase is quite important since both the lenders and the borrower make commitments respectively to provide the loan and to pay back the loan without violating the loan agreement. In case the borrower cannot pay back the loan received accordingly with the schedule, the reputational damage occurs and there might even be some penalties faced. Hence, it is at most significance that the schedule established shall be obeyed by both parties.

During the post-mandate period, the mandate is awarded to the arranger to act on behalf of the borrower, facility agreement and information memorandum is prepared, participation invitations are sent to the banks. Confidentiality agreement is signed between parties. Agreed facility agreement and information memorandum are sent to the participating banks. Banks reviews on the facility agreement are received and final allocations are made. After closing the signing ceremony, the drawdown of the loan from lenders to the borrower is realized.

Post-signature period is the stage in which the issues that are concluded in the syndication process are realized. The first step of the phase is that the borrower fulfills the conditions of the credit agreement. Once the terms have been fulfilled by the debtor,

[19] Godlewski, C. & Weill, L., 2007. Syndicated loans in emerging markets. Laboratoire de Recherche en Gestion & Economie. Strasburg: France.

it becomes possible to use the loan. What is determined by the borrower is that the issuance of drawdown notices, selection of interest periods and changing currencies in multi-currency loans. Facility determines about interest, fees and repayment of the principal and supply and delivery of the loan. [20]

3.2.3 Timetable for Syndicated Loan

Execution process of a syndicated loan along with the days allocated are as seen from the table 3.4.

Table 3.4: Syndicated loan timetable

Days	Tasks
-15 to -10	Negotiation stage
0	Mandate received
1-4	Syndicate team formation
5-12	Preparation of a management group list and determine strategy
	Preparation of a general syndication list
	Commence work on draft document
13-14	Complete management group
	Agree publicity strategy with the borrower
	Prepare for managers meeting by establishing an agenda
	Finalize draft information memorandum
15	Managers meeting:
	Agree syndication strategy
	Agree participation fee schedule
	Agree target signing date
16	Post managers meeting:
	Agreement with the content of Information Memorandum
	Finalize syndicate list
17-19	Approach market for participations
	Confirm the messages received
20-30	Follow up negative and positive responses
	Closely follow and send reminders
31	Close syndication
32-35	Final update message to management group
	Suggest final allocations
	Agree allocations
	Send message to each syndicate member regarding final asset retention

Source: Turguttopbaş, N. (2001). The syndication loans and syndication loan borrowings of Turkish borrowers since 1980s. Thesis for M.A. Degree. Ankara: Middle East Technical University, p.61.

[20] Tasdemir, U. (2015). International borrowing and syndication loan for Turkish banks: A study of syndication loan. Thesis for M.Sc. Degree. İstanbul: Bilgi University

3.3 CONSTRUCTION METHODS OF SYNDICATED LOANS

a. Best Effort Basis: The arrangers assure the debtor to make the best effort and provide the loan, but do not guarantee. It is a form of syndication preferred by debtors who do not have any worries about finding the financing they need and want to create relations with new banks. The Borrower undertakes the market risk entirely and has no definite information as to whether or not it will obtain the desired amount. However, such syndications are less costly than guaranteed syndicates. Of all the types of syndicated loans, the best efforts syndication is the most commonly used in the United States.

b. Underwritten Transactions: The entire amount of the loan is guaranteed to the debtor under the terms of the agreement. Since the transaction is guaranteed by the arrangers, to pay the total amount of the loan and the obligation to carry out the syndication process are on the arrangers Underwritten transactions are more preferable when the borrower is in need to provide the loan in a short time, but is generally more costly.[21] The underwritten deal is one of the most common types of syndicated loans in Europe. There are several reasons why a bank may decide to become the underwriter. First of all, underwritten transactions can make a financial institution look more competitive. Secondly, a syndicated debt could mean higher profits for the bank due to the risks involved is higher hence it may lead to a higher service fees. Third, as underwritten deals have floating interest rates, the risks are not as high as debts with fixed rates.

c. Club Deal: The loan amount obtained is generally between USD 25 and USD 150 million and entails a smaller amount when compared. All participants share equal, or nearly equal, parts of the fees earned from the loan facility. Borrowers intend to arrange the loan themselves by using the banks in which they already have relations. Borrowers undertake both their proxy and regulatory role in the transaction and try to persuade them to enter into syndications thanks to their relations with participating banks. Identical agreements are signed with different banks. The number of participating banks

[21] Armstrong, J. 2003. The syndicated loan market development in the North American contex, Bank of Canada Working Paper. Ottawa: Canada

can reach from 3 to 30, and these banks tend to pay the loan and keep it until the end of the maturity.

3.4 COMMISSIONS AND FEES FOR THE SYNDICATED LOANS

In addition to the variable interest rates, there are also some commissions and fees received for different purposes. The risk premium or spread is determined by the risk of the borrower bank and the risk of the country in which the borrower is located. Although, LIBOR plus spread is considered as the cost of using syndicated loans, the actual cost is generally above these rates. Fees and commissions affect the costs, although not as much as the interest rate.

The arrangers and some other senior participants receive an upfront fee commission for structuring the transaction as well as the aforementioned returns and are generally not included in the announcements.[22] The upfront fee is also called praecipium or an Arrangement fee. Participants who guarantee the transaction will receive an underwriting commission as they guarantee the transaction. The other participants can take the participation commission because they are involved in the syndication. The participation commission varies depending on the participation amount. Banks with the lowest amount of participation usually only earn a margin of profit. After the credit has been constituted and until disbursement, participants usually receive returns on a yearly basis under the name of the commitment fee and the operation fee (facility fee). Furthermore, agent fee is the fee paid to the agent bank for intermediating the payments and providing communication between parties.

[22] Casolaro, L. Focarelli, D. ,and Pozzolo, A.F. 2004. The pricing effect of certification on bank loans:evidence from the syndicated credit market, *Tor Vergata University Departmental Working Papers*

3.5 TAX APPLICATION FOR SYNDICATED LOAN IN TURKEY

a. Corporate Tax Law: Institutions that are not registered in Turkey and do not have business operations here, are considered limited taxpayers in terms of corporate tax law. They are only subject to tax for the income generated in Turkey. As per the decision made by the State Council for the fourth circuit, when banks providing syndicated loan do not operate in Turkey, the interest income are considered as security income and tax deduction of income is realized from the source. Interests earned from the syndicated loan are subject to withholding at a rate of zero. The purpose is to encourage capital inflow to Turkey.

b. Value Added Tax: Income that limited tax payers generated from the investments in Turkey are subject to value added taxes under import of services. The reason why is that the limited tax payer allows others to use their capital invested in Turkey. However, the interest paid for the syndicated loans provided from abroad are not subject to value added tax.

c. Stamp Duty: Accordingly with the decision of Council of Ministers, 01.09.1987 dated and 87/12067 numbered, for the papers issued for loans provided by the international institutions, foreign credit institutions and other external sources of credit and for repayments of these credits to the institutions in question, the stamp duty rate is "0". The credit received as foreign loans subject to zero stamp tax should be cash.[23]

3.6 ADVANTAGES AND DISADVANTAGES OF SYNDICATED LOANS

3.6.1 Advantages for the Borrowers

a. Flexibility of the loan: Syndicated loans can be structured in different ways in accordance with differentiated purposes. Short, medium and long terms may be possible depending on the agreement between the debtor and the participants. The repayments

[23] Yıldırım, U. (2005). Turkiyede sendikasyon kredileri. Thesis for M.A. Degree. İstanbul: Kadirhas University, pp.37-40.

can be made in varied validities such as 3, 6 or 12 months, in the form of a principal and interest or only interest and principal payment at the end of maturity. Such flexibility gives the borrower a chance to borrow under circumstances that would best meet their financial needs.

b. Limited negotiations: Instead of negotiating with each participant, the borrower negotiates the terms of the loan agreement with a single bank or group of banks which is the arranger. The borrower receive loan amount from the agent bank and also repay the loan to the agent bank.

If the fund is used for the same purpose, it will be quite difficult for the borrower to take more than one loan and manage them. For this reason, it is important for the debtor to collect these loans in a single loan and to facilitate his work. This shortens the formalities and provides a significant cost savings (Seyidoglu 2003).

c. Uniform conditions: There is a single agreement signed between the borrower, the participating banks and the leading bank. The terms are binding for all parties. The nature of the rights and benefits do not vary for the parties. When there is no breach of the conditions, the parties shall be reassured that any bank will not demand a repayment of loans at any time and for no reason.[24]

d. Market presence: As successful completion of the syndicated loan will increase the reputation of the borrower in the eyes of other market players, the creditor will be able to reach new credit facilities more easily.[25]

Furthermore, the borrower may be in contact with a small number of banks or has limited credit lines and has the risk of losing all due to low usage of limits. Because of the fact that the bank's previously allocated loan is not fully utilized, it will adversely affect the subsequent credit allocation processes. Banks may choose to lower existing

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[24] Cetintas, U. (2008). Alternatif fonlama kaynağı olarak sendikasyon kredileri ve Türk bankacılık sistemine yönelik bir uygulama. Thesis for PhD Degree. İstanbul: Marmara University

[25] Chemmanur, T.J. and Fulghieri, P., 1994. Reputation, renegotiation and the choice between bank loans and publicly traded debt. *Review of Financial Studies*. **7**, (3), p.498.

limits or cancel completely, rather than allocating a large credit that will not be used. The use of a syndicated loan may help the borrower eliminate these two problems (Fight 2004).

3.6.2 Advantages for the Participants

a. Market presence: MLAs record all transactions they participate in. Thanks to these records, MLA banks know the participants' appetite for credit risks (Fight 2004). The participant banks will be the first to be contacted by leading regulators in similar transactions. Thus, reputation of the participants' in the market increase thanks to their active roles in syndications.

b. Simple process and speed: The MLA bank contacts the potential participants. An information memorandum containing all the information needed to make a credit decision is sent to the participants after they indicate that they are interested in the transaction. The deadline for granting a credit decision is normally 2 or 3 weeks. If the credit decision is positive, the bank commits itself if appropriate documentation is provided for a certain amount. The potential participant bank then reviews the documentation in about 1 week. Following the signing of the credit agreement, the regulatory bank informs the participants that the conditions are fulfilled and the money can be allocated. The whole process is completed in a short time as described.

c. Ability to meet with high loan amounts: Both the capital adequacy limitation and the necessity to diversify the credit book make it difficult for the banks to give a large amount of credit.. As the bank's balance sheet size decreases, difficulty to allocate loan increases or even reaches a level that make it impossible. Syndicated loan, stands out as the only financial instrument that facilitates and even makes it possible to allocate large loan amounts.[26]

[26] Simons, K., 1993. Why do banks syndicate loans?. *New England Economic Review*. p.45.

Smaller banks benefit from the high interest rates of syndicated loans by joining a syndication composed of banks with high market efficiency. Although small participants do not have considerable amount of commission income, they may think that they would be rewarded with profitable deals in the future due to their participation.[27]

d. Additional commissions to be earned: In addition to the variable interest, there may be commission returns under different names that increase accordingly with proportion of the participation amounts. It is of utmost importance for banks to increase their commission returns, especially when interest rates are constricted (McDonald, R.P. 1982, p.68).

3.6.3 Disadvantages

Along with aforementioned advantages, there are also number of disadvantages of allocating and obtaining syndicated loans.

First of all, since secondary markets for syndicated loans are not considerably liquid, it can be considered as a disadvantage for the lending banks. When the secondary market is more efficient, lending banks can easily manage their loan portfolio. Secondary market's liquidity let banks to allocate new credit lines easier.[28]

Secondly, for syndicated loan market maturity used is generally one or two years. Limited maturity option can be a restriction for the borrowers. On the other hand, there are other kind of transactions such as private placement and bond market which may provide much longer maturity options.

Low roll-over ratio comparing with the previous syndicated loans obtained might create a perception that the borrower bank or the country borrowed is riskier than before.

[27] Allen, T.J., 1990. Developments in the international syndicated loan market in the 1980's. *Bank of England Quarterly Bulletin*. **30**, p.77.
[28] Tasdemir, U. (2015). International borrowing and syndication loan for Turkish banks: A study of syndication loan. Thesis for M.Sc. Degree. İstanbul: Bilgi University

Crisis in the market might cause not being able to pay back the loan to the lenders. Furthermore, due to the signed letters between the borrower and the lenders, there might be additional obligation for the borrower in terms of the banking activities along with the commissions and interest to be paid.

Cost efficiency might be another concern for emerging market borrowers as they cannot obtain funds at or below LIBOR unlike developed countries with high investment grade.

Lastly, it can also be considered as a disadvantage in terms of various credit lines such as trading lines since a significant amount of loan might decrease the country limits of the lenders.

3.7 SYNDICATED LOANS' IMPORTANCE IN TERMS OF BANKS

Fama claims that banks have a special place in the financial system because they have a comparative competitive advantage in monitoring and auditing loans according to other financial intermediary institutions.[29] The majority of the syndicated loan provided by Turkey's international credit markets belong to the bank.

There are some limits on interstate banking especially for small and mid-sized banks that might only get into interactions within their local and regional economy. To be a part of syndicated loan might give access to other regions and industries for such banks to be involved. Furthermore, due to capital constraints, banks have limited opportunity to provide a loan. As banks have to consider their capital in a way that not to excess 15 percent of its capital while borrowing, syndicated loan provides opportunity for a small bank to make a loan to a borrower it could not otherwise make.[30]

In terms of the borrowing banks, large amounts of funds, which are usually not available in a short term from a single bank, can be provided easier thanks to syndicated loans. Another important factor that has already been mentioned is that a successfully completed or renewed syndicated loan increases the reputation of the borrower in the

[29] Fama, E., 1985. What's different about banks. *Journal of Monetary Economics* , **15**, pp. 29-39
[30] Simons, K., 1993. Why do banks syndicate loans?. *New England Economic Review.* p.1

market. The borrower's credit-related performance can be monitored and checked retrospectively, and the creditor may be able to increase its reputation, which is defined as being respectful, valuable and reliable, is seen as the most important strategic factor that gives competitive advantage to the banks.

For banks in Turkey, maturity mismatch in terms of foreign deposits and foreign loans provided is a considerable concern. Syndicated loans, which are one of the longest term foreign currency funding source, can offset such mismatch for a considerable amount. Below table 3.5 indicates the maturity structure of foreign currency deposit for Turkish Banks. It is observed that short term deposits are preferably higher.

Table 3.5: Maturity structure of foreign currency deposit for Turkish Banks

Mn. TRY	2015	2016	2017
Foreign currency deposit			
Current Account	86,984	103,422	137,027
Up to 1 month	71,329	68,702	85,546
Between 1-3 months	238,880	286,026	348,231
Between 3-6 months	26,138	31,070	30,735
Between 6-12 months	21,353	23,835	32,545
Over 1 year	43,650	49,147	56,507

Source: TBB, Yıllık Rapor, 2017, https://www.tbb.org.tr/Content/Upload/Dokuman/7519/Bankalarimiz2017.pdf [accessed 10 January 2019].

On the other hand, table 3.6. allow us to see that medium and long term foreign currency loan is more commonly used.

Table 3.6: Maturity structure of foreign currency loans for Turkish Banks

Mn. TRY	2015	2016	2017
Foreign currency loans			
Short Term	61.091,95	78.611,27	84,601.69
Medium and long term	409.875,26	523.632,50	598,497.36

Source: https://www.bddk.org.tr/BultenAylik [accessed 17 February 2019]

4. EVALUATION OF SYNDICATED LOANS' EFFECTS ON BANKS' BALANCE SHEETS OVER A TURKISH BANK

Generally for the Banks in Turkey the aim is to be able to at least roll-over the syndicated loan ratio 100 percent and payback the amount received when next loan is allocated in order not to have liquidity problems. An important factor for Turkish Banks being able to close a successful syndicated loan deals is that Turkey's economic stance in international market has to be strong. Good financial performance of an individual bank is not enough for international lenders to lend especially for big amounts.

Isbank, as a systemically important bank in Turkey and number one rank between the private banks in terms of asset size, has TRY 416 Mn total asset as of 2018 year-end. Isbank prefers to obtain syndicated loans twice a year generally on May and September. Syndicated loan's share of Isbank's balance sheet is considerably high. Table 4.1 indicates main liability items in 2017 and 2018. Syndicated loan is observed under the item funds borrowed. There was a 16.6 percent increase on the funds borrowed item from 2017 to 2018. Funds borrowed item composes of 10 percent of the total liabilities both in 2017 and 2018.

Table 4.1: Isbank's main liability items in 2017 and in 2018

TRY Mn.	2017	2018	Change
Deposits	203,752	245,269	20.4%
REPOs and Money Markets	19,834	9,072	-54.3%
Funds Borrowed	38,424	44,793	16.6%
Securities Issued	255,911	29,445	13.6%
Other (includes subordinated debt)	31,338	38,089	21.5%
Equity	42,984	49,721	15.7%
Total Liabilities and Equity	362,244	416,388	14.9%

Source: Is Bank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 3 March 2019]

Beside from the Turkish economic stance in international market, profitability and capital adequacy of the borrower bank are two important indicators that the lenders take into account. According to a statement made by Isbank via Public Disclosure Platform, the Bank's net profit was TRY 6.8 bn as of 2018 year-end while the expectation was TRY 5.95 bn. As of 2017 year-end net profit of the Bank was TRY 6.2 bn. On the other hand, capital adequacy ratio of Isbank was respectively 16.49 and 16.66 in 2018 and in 2017.

Although credit ratings have lost their reputation and their reliability is discussed after the 2008 crisis, they continue to be one of the important indicators used for risk assessment and pricing for international financial institutions and banks. For this reason, having an investment-grade credit rating provides a cost advantage especially for financial parties in the role of borrower. [31]

As much borrowing banks would like to obtain syndicated loans and desire more participations, rating notes given by well-known agencies such as Moody's, Standard and Poor's and Fitch Ratings are taken into account by the lenders. A negative change on the banks' or countries' outlook especially for long term credit rating, would make foreign investors to think twice and even not to participate in the deal. It is an important indicator for developing countries such as Turkey.

The table 4.2 displays the rating note and outlook of Isbank in 2018 as an important indicator for international investor banks.

[31] Soyler, Y. (2018). Sendikasyon Kredilerinin İncelenmesi ve İLBANK'ta Kullanılabilirliği Üzerine Bir Çalışma. *Thesis.* Ankara: Iller Bankası Anonim Sirketi

Table 4.2: Isbank's credit rating notes in 2018

	Rating	Outlook
MOODY'S		
Long-Term Foreign Currency Deposit Rating	B2	Negative
Long-Term TRY Deposits Rating	B2	Negative
Long-Term Foreign Currency Issuer Rating	B2	Negative
Short-Term Foreign Currency Deposit Rating	NP	-
Short-Term TRY Deposits Rating	NP	-
FITCH RATINGS		
Long-Term Foreign Currency Credit Rating	B+	Negative
Long-term Turkish Lira Credit Rating	BB-	Negative
Short-Term Foreign Currency Credit Rating	B	-
Short-term TRY Credit Rating	B	-
STANDARD & POOR'S		
Long-Term Credit Rating	B+	Negative
Short-Term Credit Rating	B	-

Source: Isbank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 3 March 2019]

Credit Default Swap (CDS) is another important indicator to be able to observe the risks for the relevant country. CDS is the price at which an entity agrees to accept the risk of non-payment of the receivable that the lender may face. In this context, it works like a credit insurance. While calculating the spread of the syndicated loan, CDS is an indicator to be taken into account. An increase in the CDS would reflect on the pricing and increase the cost of funding.

4.1 ISBANK'S SYNDICATION DEALS IN 2017 AND 2018

Isbank closed two successful syndication deals each in 2017 and in 2018. In May 2017 the Bank acquired EUR 989 Mn with the pricing of EURIBOR plus 135 basis points (bp) and USD 296 Mn with LIBOR + 145 bp. When we come to the second deal of 2017 in September, a slight decrease in the amount and participant number can be seen. Cost of the deal was 10 bp lower comparing with May 2017 deal. Pricing was

EURIBOR plus 125 bp and LIBOR plus 135 bp respectively for EUR 656 Mn and USD 352 Mn. Coordinator of the facilities was Standard Chartered Bank while the Agent was Mizuho Bank.

May 2018 Syndication deal of Isbank was another successfully completed facility with a cost of EURIBOR plus 120 bp and LIBOR plus 130 bp. Total loan amount received was EUR 867 Mn and USD 447 Mn with 42 participants from 18 countries. In the second half of 2018 the Bank obtained another one year-term syndicated loan at an amount of EUR 605 Mn and USD 276, at the cost of EURIBOR 265 bp and LIBOR 275 bp with 26 participants from 13 countries.

Syndicated loan amount and numbers of banks participated might be an indicator that turmoil in Turkish Economy after July 2018 due to sudden currency depreciation resulted in a more challenging environment for banks to have access to foreign funds. Although Isbank as an individual bank had a successful year in terms of profitability by increasing its net profit from TRY 6.2 bn to TRY 6.8 bn, syndicated loan amount decreased comparing with 2017. Furthermore, in the second half of 2018 there was a cost increase around 145 bp. This may lead a conclusion that not only banks' individual success, but also investors' perception and expectation on Turkish economy have an important role to close successful deals. Details of the loans received by Isbank in 2017 and 2018 are as submitted within the table 4.3.

Table 4.3: Isbank's syndicated loans received in 2017 and in 2018

Date	Borrowed Amount Mn.	Pricing	Maturity	Number of banks participated
May 2017	EUR 989,5	EURIBOR + 135 BP	1 year	51
	USD 296	LIBOR + 145 BP		
September 2017	EUR 656	EURIBOR + 125 BP	1 year	33
	USD 352	LIBOR + 135 BP		
May 2018	EUR 867,61	EURIBOR + 120 BP	1 year	42
	USD 447	LIBOR + 130 BP		
October 2018	EUR 605	EURIBOR + 265 BP	1 year	26
	USD 276	LIBOR + 275 BP		

Source: https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/ozel-durum-aciklamalari/Sayfalar/ozel-durum-aciklamalari.aspx?28FF4676-2ECB-4641-982A-01EE5A05CD16YearMonth=201105&4DDCBC12-B456-4049-8BDA-FB3415CAE7E1idCol=250 [accessed 10 March 2019]

4.2 SYNDICATED LOANS IN TERMS OF MATURITY

Within the scope of treasury transactions and investment activities such as securities trading, money market transactions, spot and deferred TRY and foreign currency trading, forward, swap, futures and options such as derivative transactions, etc., medium-to-long term resources are provided by syndication, securitization. Therefore, syndications are not only crucial for financing foreign trade but also providing medium and long term fund for treasury business.

Banks have to manage the maturity differences between the assets and liabilities in their balance sheets in order to maintain their profitability. If the maturity and amount of the resources they provide and the assets that they place in their products overlap, there wouldn't be any maturity risk. However, it is not easy to come across this example especially for Turkish Banks. Any differentiation compared to a balance sheet where the maturity match is perfected will necessitate management by banks of such maturity mismatch.

The most important non-deposit resources in the Turkish banking system are loans received from foreign banks. In addition to securitization loans, syndicated loans are one of the most important of loans received item. In terms of maturity, syndications are generally longer than both deposits and money market transactions. Table 4.4 displays Isbank's maturity structure of received loans as of 2018 year-end.

Table 4.4: Maturity structure of the loans received

	Current Period	
	TRY	FC
Short Term	635,217	4,160,849
Medium and Long Term	1,563,686	38,432,815
	Previous Period	
	TRY	FC
Short Term	348,188	2,795,871
Medium and Long Term	1,618,657	33,661,720

Source: Isbank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 20 March 2019]

59 percent of the Isbank's liabilities are deposits, 11 percent are loans received, 10 percent are securities issued and secondary subordinated loans, and 2 percent are money market liabilities. The loans received are composed of syndication loans, securitization, post-financing and money markets funds from various financial institutions.

Maturity structure of liability items of Isbank's balance sheet are indicated within the table 4.5. As it is observed from the table 36 percent of the total liabilities' maturity is up to 1 month and only 2 percent of the total liabilities have maturity 5 years or more.

Table 4.5: Presentation of liabilities according to their remaining maturities, 2018

Thousand TRY	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Unallocated	Total
Liabilities							
Bank Deposits	2,861,700	941,738	518,884			597,042	4,919,364
Other Deposits	131,321,799	35,729,366	12,801,267	1,132,515		59,364,535	240,349,482
Money Market Debts	6,877,502	671,599	1,522,792				9,071,893
Miscellaneous Payables	747,027					10,295,714	11,042,741
Securities Issued	1,256,366	3,719,454	3,915,295	22,472,074	9,240,693		40,603,882
Funds Provided from Other Financial Institutions (includes syndicated loans)	7,375,500	21,325,384	13,017,543	1,989,388	1,084,753		44,792,568
Other Liabilities	1,236,049	888,618	1,122,914	475,340		61,884,753	65,607,674
Total Liabilities	151,675,943	63,276,159	32,898,695	26,069,317	10,325,446	132,142,044	416,387,604

Source: Isbank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 4 April 2019]

Table 4.6: Presentation of liabilities according to their remaining maturities, 2017

Thousand TRY	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Unallocated	Total
Liabilities							
Bank Deposits	3,169,403	724,876	373,059			964,270	5,231,608
Other Deposits	114,599,065	17,698,393	11,614,331	2,071,528		52,537,107	198,520,424
Money Market Debts	18,889,819	112,669	54,694	776,379			19,833,561
Miscellaneous Payables	9,919,920	83,909	11,208	61,689			10,076,726
Securities Issued	605,222	1,752,715	5,777,158	16,792,918	9,271,247		34,199,260
Funds Provided from Other Financial Institutions (includes syndicated loans)	965,342	2,280,037	19,976,456	10,899,703	4,302,898		38,424,436
Other Liabilities	2,180,261	695,972	411,432	73,406		52,705,439	56,066,510
Total Liabilities	131,439,213	23,348,571	38,218,338	30,675,623	13,574,145	106,206,816	362,352,525

Source: Isbank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 4 April 2019]

Assumed maturity structure for the study is as submitted within the table 4.7.

Table 4.7: Assumed maturity months

Assumed Maturity Months	
Unallocated	0
Until 1 month	1
1 - 3 months	2
3-12 months	7,5
12-60 months	36
over 60 months	60

According to Isbank's published liability items in 2018 along with their maturities, weighted average maturity of the liabilities is 150 days. Deposits, money market debts, miscellaneous payables, securities issued, funds provided from other financial institutions and all other liability items are included in the calculation. When only deposits are examined, weighted average maturity for the deposit is 38 days which is considerably low.

The currency against 1 USD is accepted 5 TRY while calculating received syndicated loan amount in 2018. Isbank received USD 2.5 bn syndicated loan which is equal to TRY 13,017,543. With an aim to analyze syndicated loans' effect on maturity term of Isbank's balance sheet, weighted average maturity is calculated once again without taking into account syndicated loans. The result is 147 days which is 3 days less than the initial weighted average maturity. In 2018, 3.13 percent of Isbank's total liabilities is composed of syndicated loans and its absence decreases total maturity of the liabilities.

When we look into 2017 balance sheet items in terms weighted average maturity, weighted average maturity of the liabilities is observed 208 days which is considerably high compared to 2018. On the other hand, weighted average maturity of the deposit items is calculated 36 days which indicates almost no change on the deposit maturity. Although Isbank's syndicated loan amount was higher in 2017, it composed of 2.80 percent of its liabilities in 2017. The currency against 1 USD is accepted 3.78 TRY while calculating received syndicated loan amount in 2017. Isbank received USD 2.6 bn syndicated loan which is equal to TRY 9,828,000. Without taking into account received syndicated loan amount, weighted average maturity is calculated 207 days which is only 1 day less than the initial calculation.

The results from 2017 and 2018 calculations lead us the conclusion that when syndicated loans' share increases within the liability of the balance sheet, the effect of syndicated loans on the weighted average maturity increases. Although 3 percent of the liabilities might seem not much of an influence on the liabilities, in fact it increases the maturity for 3 days and helps to ease the maturity mismatch. More share of syndicated loans on the liabilities would result with a significant amount of maturity increase.

4.3 SYNDICATED LOANS IN TERMS OF COST

Factors such as the credibility of the borrower bank, the economic situation of the country where the borrower is located, and the business relations of the borrower with the lending banks are included in the pricing of syndicated loans.

In addition to the interest paid for syndicated loan, the borrower must also bear the costs of various commissions. The commission amount is calculated for the amount that has been guaranteed at a rate specified on the side letter. Since such fees are confidential and calculated for each participant at a different rate depending on their participation amount, it is not a transparent cost to display within the income statement.

Banks finance their loans with their own resources as well as their foreign debts. The most important sources in this sense are deposits and syndicated loans obtained from foreign investors. Due to 40 percent depreciation in TRY currency, decrease in country ratings, and increase on the CDS, the cost of funding has doubled since the first quarter of 2018. 12-month Libor rate in Turkey, which in March 2018 was around 1.30 percent has reached up to 2.9 percent levels. An increase in syndication costs is a factor that stimulates the resource costs of banks, in other words a downward pressure on profitability.

When 2017 and 2018 syndication deals of Isbank is compared, there is approximately 140 bp increase in terms of pricing both in EURIBOR and LIBOR side which in other words means 103.70 percent increase in the cost. Although the cost was non-negligible for the Bank, the demand for the loan was still on the table as syndicated loan is still considered to be a significant funding source.

Income statement involves the “Interest Expense” items in which interest paid for syndicated loans is observed. Specifically, “Interest on Funds Borrowed” item includes the interest amount paid for syndicated loans. Accordingly with the table 4.8, there is 83.53 percent increase on the interest expenses comparing 2017 and 2018, in terms of interest on the funds borrowed. 103.70 percent increase in the syndicated loan pricing, reflected the income statement as a significant amount of expense increase. Although the interest expenses increased for all the other items, interest on funds borrowed is the most outstanding ratio.

Table 4.8: Income statement in terms of interest expenses

INCOME STATEMENT thousand TRY	01/01 - 31/12/2018	01/01 - 31/12/2017	Change
Interest Expense	21,788,130	14,447,809	50.81%
Interest on Deposits	13,498,140	9,215,209	46.48%
Interest on Funds Borrowed	1,715,612	934,766	83.53%
Interest on Money Market Funds	3,580,712	2,338,056	53.15%
Interest on Securities Issues	2,955,352	1,930,977	53.05%
Other Interest Expense	38,314	28,801	33.03%

Source: Isbank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 4 April 2019]

Furthermore, Table 4.9 provides with a more specific information on the interest for the received loans. Interest paid for foreign currency loans received from foreign banks was respectively 534.361 and 1.080.935 in 2017 and 2018. There was a 102.29 percent increase on the expenses which precisely fits with the upward cost for syndicated loan. Such an increment in the cost may cause paid interest amounts to increase and eventually it would negatively affect the profitability of the bank which may cause a reduction in the bank’s equity. However when the syndicated loans’ share on Isbank’s liability is taken into consideration, that was 3.13 percent in 2018, the effect on the profitability is quite low when there is a cost increase.

Table 4.9: Information regarding the interest for loans received

	01/01 - 31/12/2018		01/01 - 31/12/2017	
	TRY	FC	TRY	FC
Banks	226.637	1.120.130	190.591	553.611
TCMB		2.481		8.353
Domestic Banks	27.289	36.714	22.971	10.897
Foreign Banks	199.348	1.080.935	167.620	534.361
Foreign Head Office and Branches				
Other Institutions		368.845		190.564

Source: Isbank, Annual Report, 2018, https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/finansal-bilgiler/Documents/FaaliyetRaporlari/FaaliyetRaporu2018.pdf [accessed 4 April 2019]

Although the cost of syndicated loans noticeably increased for Turkey, the result that Isbank did not scale back and came onto the market with the demand of 100 percent rollover is an indicator that how syndicated loans are significant for banks' liquidity concerns. The increase in the cost of the syndicated loan is not expected to have a significant impact on the bank balance sheets as the amount is considerably low when compared to deposits. At this point, determinant factor is the cost of the deposit, which is more than twice the share of the total liabilities in the banking sector.

In conclusion, syndicated loans would continue to be an important source for Turkish banks as long as their need for foreign source continues even if the cost increases proportionally with the country risks. Furthermore, the reputation that a successful deal would provide for a bank may put them in a situation to tolerate a reasonable cost increase.

4.3.1 A Calculation on Syndicated Loan's Cost for Isbank

Borrowed amount and pricing for the syndicated loan deals of Isbank between the years of 2014 and 2018 are submitted within the table 4.10. Accordingly, minimum spread in terms of EURIBOR and LIBOR are 0.50 percent for both in May 2015. Maximum cost realized was October 2018, and the pricing was respectively 2.65 percent and 2.75 percent for EUR and USD financing. Average pricing for USD amount was 1.16, while the average pricing for EUR was 1.10.

Table 4.10: Isbank's syndicated loan deals 2014 - 2018

Date	Borrowed Amount Mn.	Pricing
May 2014	EUR 631	EURIBOR + 090 BP
	USD 441	LIBOR + 090 BP
September 2014	EUR 756	EURIBOR + 090 BP
	USD 326	LIBOR + 090 BP
May 2015	EUR 919	EURIBOR + 050 BP
	USD 334	LIBOR + 050 BP
September 2015	EUR 796,5	EURIBOR + 075 BP
	USD 281	LIBOR + 075 BP
May 2016	EUR 836	EURIBOR + 075 BP
	USD 462	LIBOR + 085 BP
September 2016	EUR 661	EURIBOR + 075 BP
	USD 302	LIBOR + 085 BP
May 2017	EUR 989,5	EURIBOR + 135 BP
	USD 296	LIBOR + 145 BP
September 2017	EUR 656	EURIBOR + 125 BP
	USD 352	LIBOR + 135 BP
May 2018	EUR 867,61	EURIBOR + 120 BP
	USD 447	LIBOR + 130 BP
October 2018	EUR 605	EURIBOR + 265 BP
	USD 276	LIBOR + 275 BP

Source: https://www.isbank.com.tr/TR/hakkimizda/yatirimci-iliskileri/ozel-durum-aciklamalari/Sayfalar/ozel-durum-aciklamalari.aspx?28FF4676-2ECB-4641-982A-01EE5A05CD16YearMonth=201105&4DDCBC12-B456-4049-8BDA-FB3415CAE7E1idCol=250 [accessed 4 April 2019]

Table 4.11 indicates average LIBOR and EURIBOR rates between 2014 and 2018. When LIBOR and EURIBOR rates are looked into for the same period, average for LIBOR is 1.45 percent, EURIBOR average is 0.058 percent.

Table 4.11: Average LIBOR and EURIBOR rates for 12 months between 2014 and 2018

Year	LIBOR RATE	EURIBOR RATE
2014	0.561%	0.475 %
2015	0.794%	0.168 %
2016	1.376 %	-0.035%
2017	1.788 %	-0.145 %
2018	2.759 %	-0.173 %
Average	1.4556 %	0.058 %

Source: https://www.global-rates.com/interest-rates/libor/american-dollar/american-dollar.aspx [accessed 2 March 2019]

Ceteris paribus, if it is assumed that Isbank borrowed from the average LIBOR rate and from the average spread realized between 2014 and 2018, the cost of syndicated loan would be 2.61. In terms of EUR all the conditions are the same, average cost would be 1.158.

Ceteris paribus, if it is assumed that Isbank borrowed from the highest LIBOR rate and from the highest spread realized between 2014 and 2018, the cost of syndicated loan would be 5.50. In terms of EUR, the highest cost would be 3.12.

In order to be able to compare the syndicated loan's cost with Isbank's credit pricing policy and to understand whether it is cost-effective, commercial credit interest rates of Isbank as of 01.04.2019 are submitted within the table 4.12.

Table 4.12: Isbank's commercial credit interest rates as of 01.04.2019

Loan Type (per annum)	1-12 Months	13-24 Months
TRY Commercial Loan	29.40%	
Foreign Currency Loan	LIBOR/EURIBOR + 8.50	LIBOR/EURIBOR + 9.50

Source: https://www.isbank.com.tr/TR/ticari/krediler/nakdi-krediler/ticari-krediler-faiz-oranlari/Sayfalar/ticari-krediler-faiz-oranlari.aspx [accessed 15 April 2019]

According to table 4.12, assuming there is no change on the USD and EUR exchange rate, when the above four scenarios are taken into consideration all four pricings 2.61, 1.158, 5.50, and 3.12 are lower in terms of 12 months LIBOR/EURIBOR foreign currency loan with 8.50 spread. With these assumptions considered, it is seen that the use of syndicated loans is cost-effective for Isbank when commercial credit interest rates' pricing is compared.

4.3.2 Currency Effect

Although syndicated loan received is in EUR and USD, when a loan is allocated using syndicated loan, the funds are converted to TRY. Hence when the loan provided is due, the amount received is TRY. This might create a currency risk for Isbank. On the other hand, if Isbank would only provide EUR or USD loans, this would create a credit risk.

Since syndication loans are high volume loans, hedging transactions cannot be made in order to eliminate the currency risk. Therefore, the developments in the exchange rate are of vital importance and become a risk factor that needs to be closely monitored. If the difference between the exchange rates is negative when the loan is obtained and at the date of maturity of the loan, that is, if the exchange rate is appreciated against Turkish Lira, the currency cost would be added to the cost of interest and commission costs. Moreover, the cost of the exchange rate creates pressure on both principal and interest rate side.[32]

Table 4.13: USD and EUR average currency rates between 2013 and 2018

	USD		EUR	
Year	Yearly Average Currency (TRY)	Change	Yearly Average Currency (TRY)	Change
2013	1.90		2.53	
2014	2.19	15.1 %	2.91	15.1 %
2015	2.72	24.3 %	3.02	3.9 %
2016	3.02	11.0 %	3.34	10.7 %
2017	3.65	20 %	4.11	23 %
2018	4.81	31.7 %	5.66	37 %
Average	3.04	20.42 %	3.59	17.94 %

Source: https://www.bumko.gov.tr/TR,150/doviz-kurlari.html [accessed 2 March 2019]

[32] Soyler, Y. (2018). Sendikasyon Kredilerinin İncelenmesi ve İLBANK'ta Kullanılabilirliği Üzerine Bir Çalışma. *Thesis.* Ankara: Iller Bankası Anonim Sirketi

Table 4.13 displays average USD and EUR currency rates and their yearly change. According to the table, average change for USD rate between 2013 and 2018 is 20.42 percent and the average EUR rate change is 17.94 percent.

It was assumed that there was no change in the currency while calculating the minimum and maximum cost of syndicated loans which were respectively 2.61 and 5.50 for LIBOR and 1.158 and 3.12 for EURIBOR. As the average change in USD currency is 20.42 percent, average and maximum cost of syndicated loans would be respectively 23.03 percent and 25.92 percent. When it is analyzed in terms of EUR financing, the average cost would be 19.09 percent and the maximum 21.06 percent.

The table 4.12 indicates that TRY commercial loan rate is 29.40 percent for 1 year which is higher than both maximum costs for EUR and USD syndicated loan financing which are respectively 21.06 percent and 25.92 percent. Therefore it might be concluded that even there was an increase in the currency exchange rates, LIBOR/EURIBOR rates and spread rates syndicated loans still proves to be a cost-efficient source of funding when compared with commercial loan rates of Isbank.

5. CONCLUSION

The importance of the financial sector and in particular the importance of banks in the world economy increase more and more. The basic function of banks is to bring together the fund suppliers and the ones who demand them. Lending is the most basic service offered by banks. Large portion of loans provided are based from the deposits collected. Banks are willing to use collected deposits in the form of loan and aim to maximize their profits while collecting deposits and providing loans.

As economies develop, monetary aggregates increase as a sign of financial depth. Such an increase is not necessarily perceived positively. If the growth of bank liabilities is very fast in terms of the size of the economy and international reserves; if bank assets are significantly different from bank liabilities in terms of liquidity, maturity and currency; if the economy is exposed to trust problems, then the vulnerability of the banking sector increases.

As already mentioned, syndicated loan is defined as the funding of a group of financial institutions with a common maturity to a credible debtor. Syndicated loan, which is one of the most significant funding instruments in international capital markets, is highly flexible and innovative in terms of bringing together the fund supplying and demanding parties in different countries. Syndicated loans are a means of solving such vulnerability in the sector by helping to overcome maturity and liquidity problems.

The instability in the country would create an additional cost to institutions and organizations that want to borrow from international markets. Financing deficit problem of Turkey in recent years, have been tried to be overcame by syndicated loans. The maturity of syndicated loans used by Turkish banks is generally 1 year and is to be renewed every year. The fact that the syndicated loans cannot be renewed would be the result of mainly two factors other than the crises in international markets. The first one is regarding banks' reputation problems in the international market, while the second is a decline in credit worthiness as a result of an increase in the county risk.

The purpose of this study is to analyze the effects of syndicated loans used by banks on passive items of their balance sheets in terms of maturity and cost. Quantitative methods, by exemplifying 2017 and 2018 syndicated loan deals of Isbank, have been used. From the weighted average maturity calculation of the Bank's liability items, it is observed that when the share of syndicated loan is increased weighted average maturity is also increased. As such, it is concluded that syndicated loan is an efficient way for Turkish banks to increase the average maturity of their balance sheets in order to overcome the maturity mismatch problem.

Within the scope of the cost, it is observed that although 2018 was a successful year for Isbank in terms of financial performance, there has been a cost increase for the syndicated loan. The reason for such an increase was mostly due to financial instability in Turkey caused by sudden currency depreciation and by an increase on Turkey's risk premium. Although there was such an increase in the cost, syndicated loan was still preferred as can be seen from the loan amount. Syndicated loan proves to be beneficial for the banks in terms of reputation even if there is a cost increase. Since the main problem was country risk premiums in 2018, cost of other sources of funding also increased. Since the ratio of syndicated loan is comparably lower within the balance sheet, the effect on the income statement was also not significant enough to affect the profitability comparing with the interest expenses paid for deposits. Furthermore, when comparing with the commercial credit rates of Isbank, syndicated loans proved to be a cost-efficient source for the Bank even when the change in the currency rate is taken into consideration.

An increase on the ratio of syndicated loans in terms of source of funding, affects validity of the balance sheet in a positive way. On the other hand, in case there is a cost increase it would affect the interest expenses therefore profitability in a negative way as the share of syndicated loan increase within the income statement. Currently, especially for Turkish banks, increasing the share of syndicated loan does not seem to be a subject as interested parties' trust on the Turkish economy has not developed yet. Increase on the syndicated loan would be the case when the suppliers are willing to provide loan. Increased spread in 2018 might be considered as an indicator that willingness is less now, comparing with the previous years. In order for syndicated loans to be more profitable and desirable for Turkish Banks, willingness of the investors should scale up. Increased willingness of the suppliers would directly lead the costs to decrease. Nevertheless, the demand of Turkish Banks for syndicated loans tends to continue even at the expense of a cost increase as it gives a solution to maturity mismatch problem and it is an important indicator in terms of reputation.

To conclude, as a result of the Isbank syndicated loan deal examples, syndicated loans proved to be a significant and cost-efficient source for Turkish banks in terms of maturity and the cost. Although an increase in the spreads, currency exchange, and LIBOR/EURIBOR rates affects the cost in a negative way, Turkish Banks still have appetite as their need for outside source is continuous. In order for syndicated loans to be even more desirable and profitable for Turkish Banks, stabilization and trust on Turkish economy has a non-negligible importance.

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