

DENİZ ERGUN
SEPTEMBER 2025

Türkiye Banking Sector Outlook

CREDIT OUTLOOK



Financial conditions started to turn supportive a bit in September with the fall in credit interest rates. However, due to ongoing credit growth caps, loan growth maintains a moderate momentum, hovering around 28% with its 13w trend rate. Amid calibrated gradual rate cuts in the coming months, the CBRT will likely continue to rely on the credit and deposit rules not to allow a fast acceleration in dollarization and domestic demand so that the disinflation process might continue.

CREDIT SEGMENTS



On segments, consumer credit growth remains above the commercial credit growth, driven mainly by non-capped items. Credit card growth keeps its strong momentum as well. FC lending decelerates, affected by growth caps. Compared to the previous months, the overall retail and commercial credit growth rates are around the same levels in both public and private banks (except for the TL non-SME lending which seems rather to be pushed by public banks).

DEPOSITS & DOLLARIZATION



Following the end of the KKM scheme in August (which fell to below \$7bn as of Sep), modest demand for FC funds and FC deposits (led by gold most recently) continues. Although the rate cutting cycle has started, thanks to the CBRT proactive liquidity policies and deposit rules in place, the TL deposit rates remain above the CBRT cost of funding, keeping the overall tendency of the residents mostly in favor of TL assets. The current dollarization ratio of residents - including funds- accelerates to slightly above 40% but stays historically low.

PROFITABILITY



As of early October, consumer loan interest rates fell by 9-10pp, and commercial rates by 9pp since the end of 2Q25. In contrast, TL deposit rates came down by roughly 7.5pp in the same period, keeping the downward pressure on margins. Yet, overall, the sector well manages the cost evolution and expanding loan volumes in higher yield segments help improve the NIMs gradually, also being supported by fees and commissions. We now expect the NIMs to improve further in 4Q25 and the ROE levels to reach around 26% in 2025 (vs. our previous 25% call) and 28-31% in 2026 for deposit banks, depending on the gains over the inflation outlook and the room for the CBRT easing.

ASSET QUALITY



Helped by the continuing moderate growth outlook, the deterioration in the asset quality of the sector happens gradually as well. The BRSA decision* taken in July on credit card and GPL debt restructurings are easing the upward pressure on NPLs. However, the slow but steady rise in NPL levels of credit cards, GPLs and SME loans continues with potential lagged effects delayed into 2026. We now expect the currency adjusted cost of risk (CoR) in deposit banks to be nearly 150bps in 2025 compared to our previous forecast of 200bps, which can still deteriorate up to around 200bps in 2026.

CAPITAL



Capital ratios improved further to 18.3% in August (18% in June), supported by the sub-debt issuances in the sector. The equity increase was again high in both private and public banks, also reinforced by their profit levels. The BRSA forbearance measures continue to support the sector capital ratios against any significant TL depreciation.

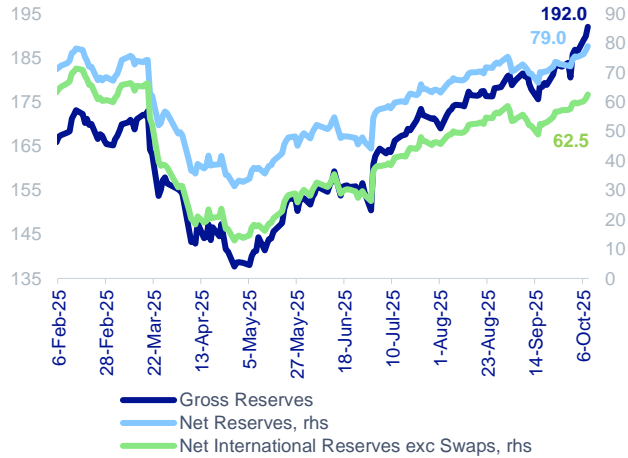
In July25, the BRSA introduced restructuring options for credit cards and general purpose loans if the minimum payment requirement has not been met for the former and principle and/or interest payment has not been done for 30 days for the latter. Within that, debts will be able to be restructured for up to 48 months where the interest rate applied will be capped at 3.11% per month. Also, card limits of customers benefiting from the restructuring will not be increased until 50% of the restructuring debt has been paid back.

Credit Developments

After the volatility in early Sep, the CBRT has again started to buy reserves, being also boosted by gold prices

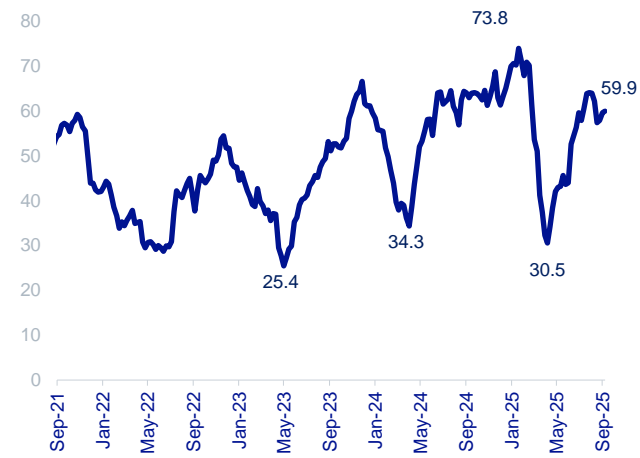
CBRT INTERNATIONAL RESERVES

(\$USbn, as of 8th of Oct)



CBRT HIGH LIQUID FOREIGN ASSETS

(\$USbn, as of 3rd of October)

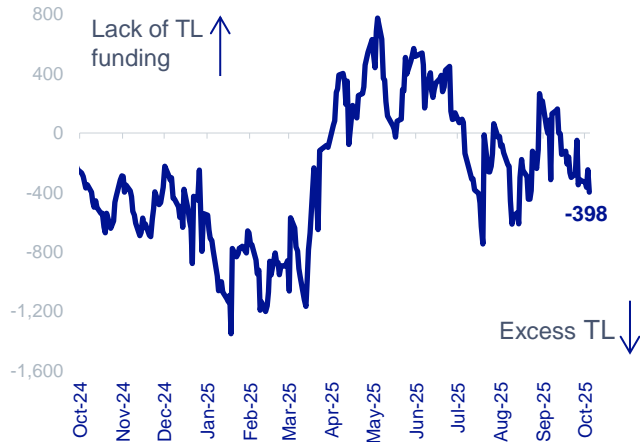


Source: TURKSTAT, CBRT and Garanti BBVA Research

The CBRT stays well prepared to defend the Lira (as seen in early Sep) with high liquid foreign assets as high as nearly 60bn\$ (vs. pre-March shock peak level of 74bn\$).

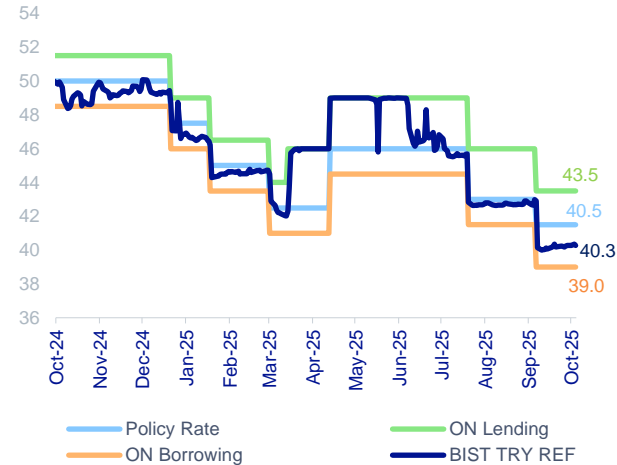
The CBRT proactively sterilizes TL liquidity, leading the cost of funding to stay closer to the policy rate

NET CBRT FUNDING*
(bn TL, as of Oct 9th)



* Negative refers to excess TL liquidity, positive refers to the funding need of the market
Source: CBRT and Garanti BBVA Research

CBRT FUNDING RATE & BIST TRY REF RATE (% , as of Oct 9th)

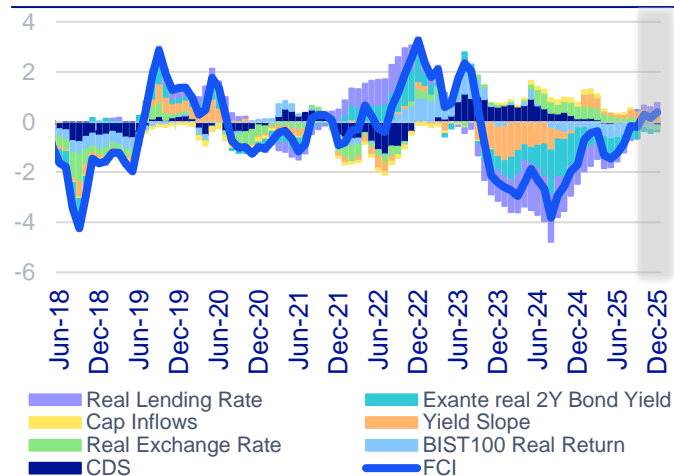


Source: CBRT and Garanti BBVA Research

After the CBRT became a net FC seller to the market due to the volatility in the first two weeks of Sep, we have observed the lack of TL liquidity, which has been reversed with again FC purchases from the market with inflows after Sep 15th.

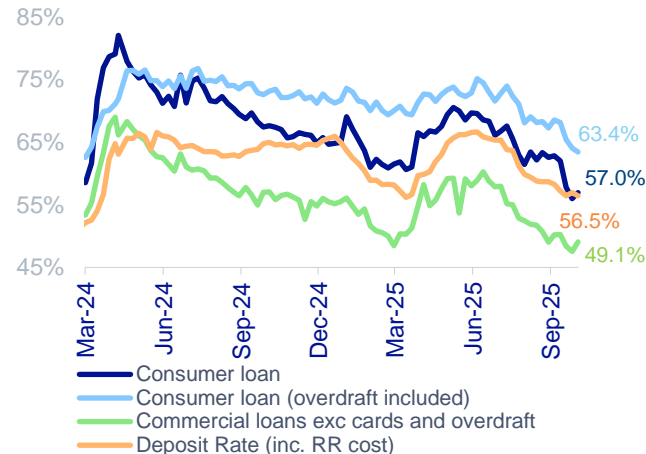
Financial conditions converge to the neutral level in Sep, which we expect to become supportive in 4Q25

GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (STANDARDIZED, + EASING, - TIGHTENING)



Source: TURKSTAT, CBRT, Bloomberg and Garanti BBVA Research

TL LOAN & DEPOSIT RATES (% WEEKLY, FLOW, SECTOR)



Source: CBRT and Garanti BBVA Research

Given the ease in financial conditions, liquidity policies and deposit rules will remain essential in order not to allow a fast decline in ON TL rates and a speeding up dollarization.

Monetary stance continues to be supported with the macro-prudential measures

Regulations for TL deposit share and KKM

- The monthly growth target for real-person TRY deposit share remains to be 0.8pp in banks with a share below 60% and 0.4pp in the ones btw 60-65% ratio. For the ones above 65%, the rule is to keep it. The commission rate applied based on the share of TL is 4% (vs. 3% prev.).
- The monthly growth targets for commercial TRY deposit shares are kept as 0.3pp. For the ones above 60% ratio, the rule is to keep it. The commission rate applied based on the share of TL is 2% (vs. 1.5% prev.).
- The opening and renewal of KKM accounts for real persons is terminated (excluding YUVAM accounts) as of August 23rd.

Loan growth caps

- Limits on TL & FC loan growth will be reviewed via 8 weeks (vs. 4 weeks previously) with prior monthly caps of 2.5% for TL SME loans & 1.5% for non-SME TL commercial loans excluding export & investment loans; 2% auto loans, 2% GPL, 2% for overdraft loans with more than 3 installments; 0.5% for FC loans
- CGF & «breath» credits (a low-interest credit package provided to SMEs through banks) have been excluded from the monthly growth caps.
- The sales/assets threshold for SME classification has been increased from TL500mn to TL1bn (US\$25mn).

Regulations on RR

- The RRR of 40% for KKM up to 6 months
- The RRR of 22% for KKM for up to 1 year & above 1 year
- The RRR of 10-17% for non-KKM TL deposits
- TL RRR of 2.5% for FC deposits
- The RRR of 22-32% for FC deposits
- The RRR of 18% for funds from repo transactions from abroad & loans obtained from abroad of a maturity up to 1 month, and 14% up to 3 month
- The RRR of 12% for deposits from banks abroad
- The RRR of 10% for CPI-, PPI-, and TLREF-indexed deposits

Regulations for Capital Adequacy Ratio

- Elimination of additional risk weights on banks' CAR calculations.
- USDTRY forbearance level used in CAR calculations: 32.82 (28.06 2024 CBRT «Buy» rate) has been fixed.

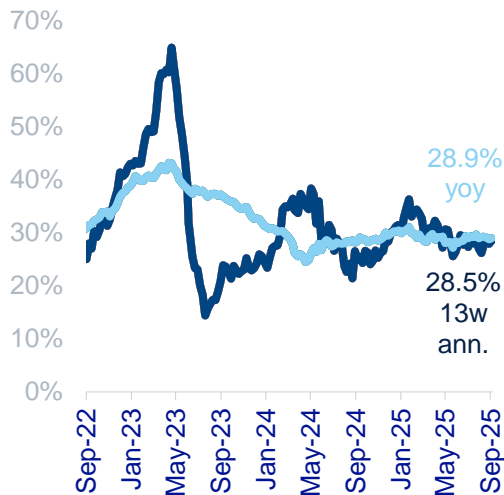
Regulations on Credit Cards

- The CBRT decreased the spread added to the monthly reference rate when determining the maximum interest rate on cash withdrawal and overdraft accounts from 164 bps to 139 bps, indicating a fall in the rate from 4.75% to 4.50% (applicable as of October 1st).
- The interest rate charged on credit card transactions remained the same as 45 bps above the reference rate ($3.11\% + 0.45\% = 3.56\%$) whereas, a new limit of 1.04% has been introduced for debit card and prepaid card transactions, applicable as of November 1st.
- The CBRT decreased the loan allocation fee for commercial loans on the limit assigned from 0.25% to 0.20%. Additional fees can be charged on limit increases (no longer limited by 0.125%) but only if the limit increase is requested by the customer. Loan disbursement fee limit of 1.10% has not been changed while being increased to 1.1% from %1 for revolving credits.

4w trend in credit growth fell below the monthly CPI in Sep, being similar in private and public banks

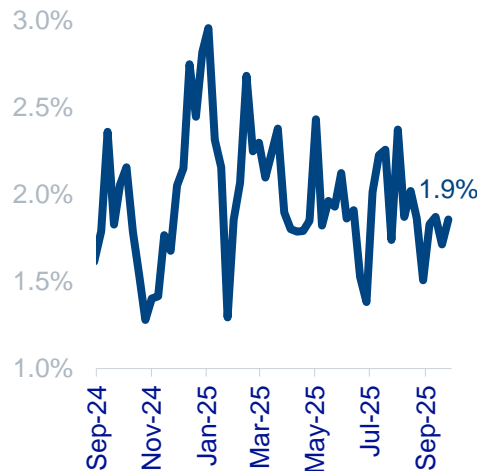
TOTAL CREDIT GROWTH (FX ADJ)

13 WEEK ANNUALIZED & YOY



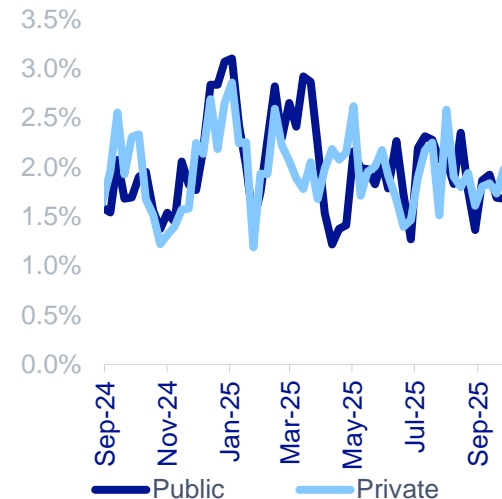
TOTAL CREDIT GROWTH (FX ADJ)

4 WEEK CUMULATIVE



TOTAL CREDIT GROWTH (FX ADJ)

4 WEEK ANNUALIZED

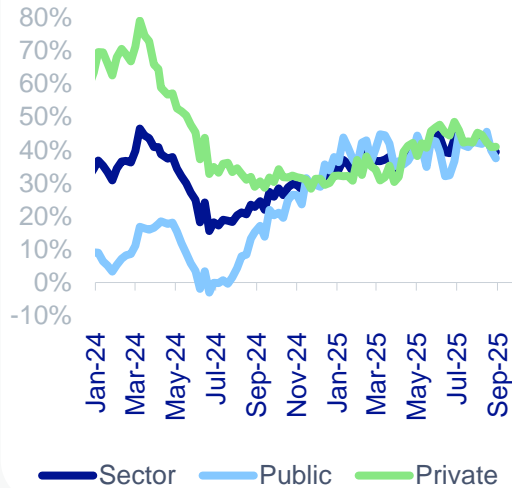


The extension of the time horizon for the credit growth caps to 8 weeks has allowed banks to grow faster earlier in the period, which decelerated later ahead of the October 10th deadline.

TL credits are boosted by non-capped items. FC credit growth, excluding the parity impact, stays weaker

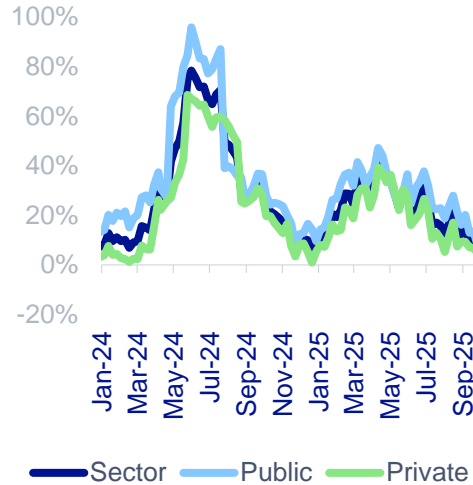
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS

13 WEEK ANNUALISED, DEPOSIT BANKS

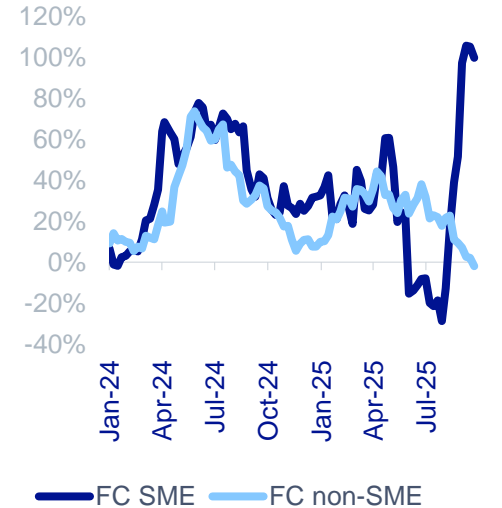


FC CREDIT (USD) GROWTH: PUBLIC AND PRIVATE BANKS

13 WEEK ANNUALIZED, DEPOSIT BANKS



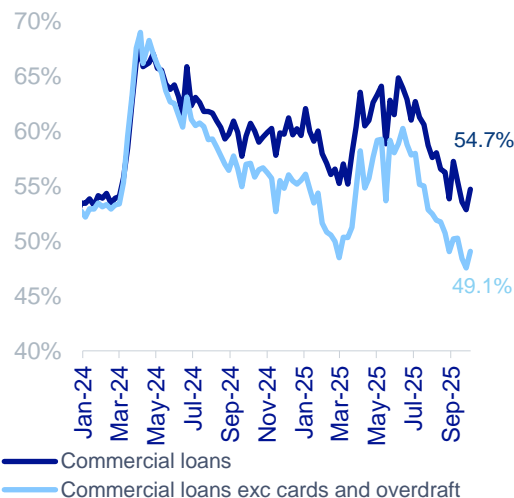
FC CREDIT (USD) GROWTH 13 WEEK ANNUALIZED, DEPOSIT BANKS



TL credit growth is backed by mainly consumer lending, implying the continuation of a higher growth in non-capped items (around 50% of the credit book in the sector).

TL SME growth is pushed by the sector compared to non-SMEs where private and public banks differentiate

TL COMMERCIAL CREDIT RATES
WEEKLY, COMPOUND, FLOW



TL SME COMMERCIAL CREDITS GROWTH
13 WEEK ANNUALIZED



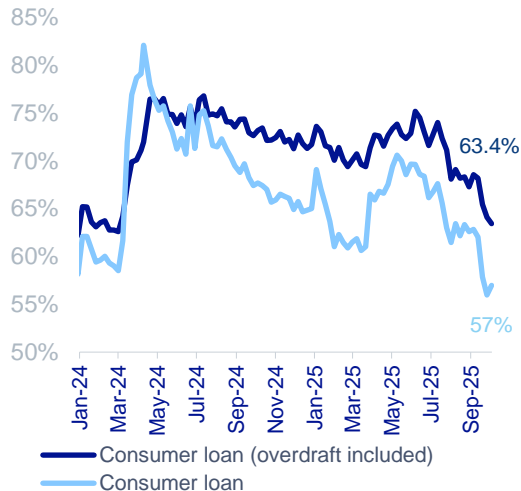
TL NON-SME COMMERCIAL CREDITS GROWTH
13 WEEK ANNUALIZED



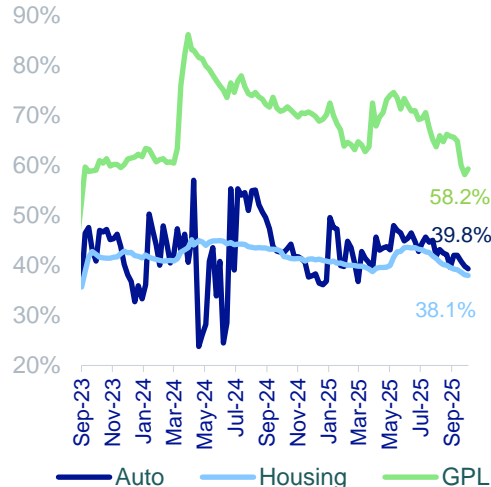
The most recent credit packages, CGF and «Breath», seem to support TL SME lending. The sector tries to be proactive in lending in the early weeks of the 8-week period for capped items, which generates a correction thereafter in the following weeks.

Consumer credit growth is stronger in private banks, led by the non-capped: credit cards and overdraft loans

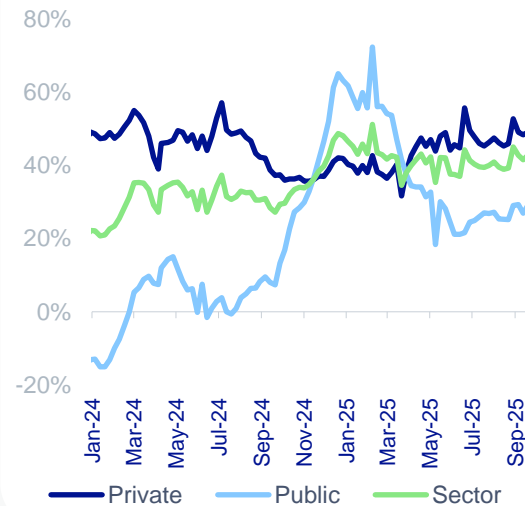
CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



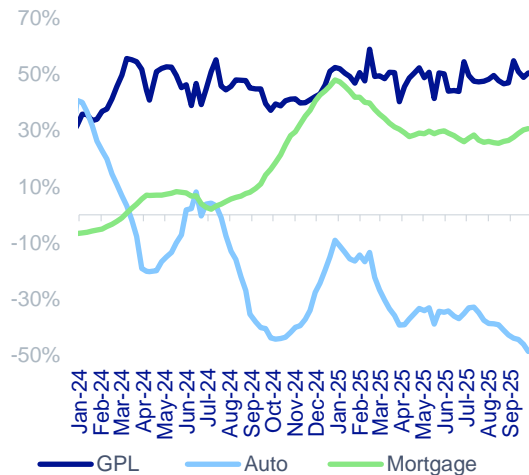
CONSUMER* CREDIT GROWTH
13 WEEK ANN., DEPOSIT BANKS



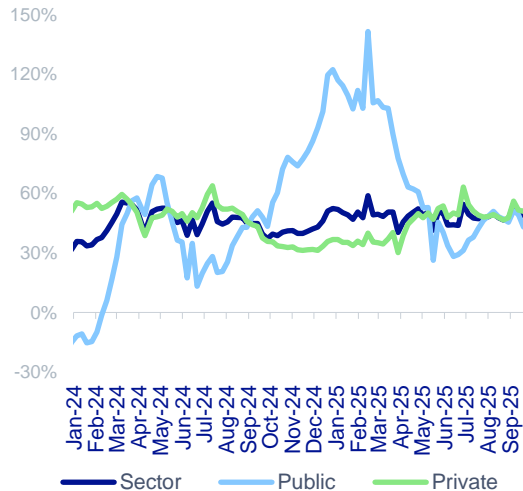
* housing, auto, general purpose loans (GPL).
Source: BRSA and Garanti BBVA Research

GPL growth rate stays above the monthly cap, where private banks are more active

CONSUMER CREDIT GROWTH
13 WEEK ANN., DEPOSIT BANKS



GENERAL PURPOSE LOANS
13 WEEK ANN., DEPOSIT BANKS



RETAIL CREDIT CARDS
SPENDING GROWTH
DEPOSIT BANKS

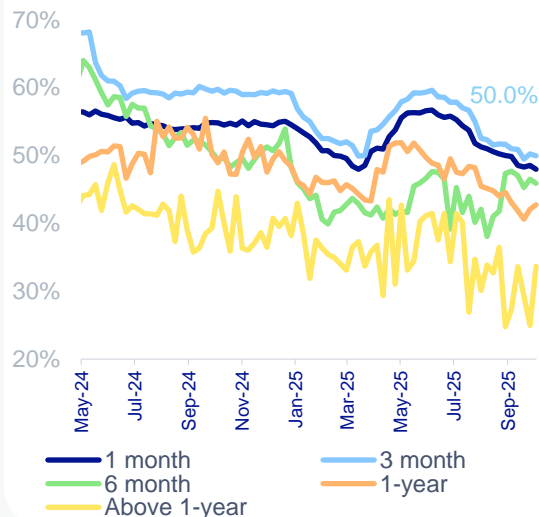


Liquidity

With credit rates coming down, banks' spreads worsened mostly on consumer segment

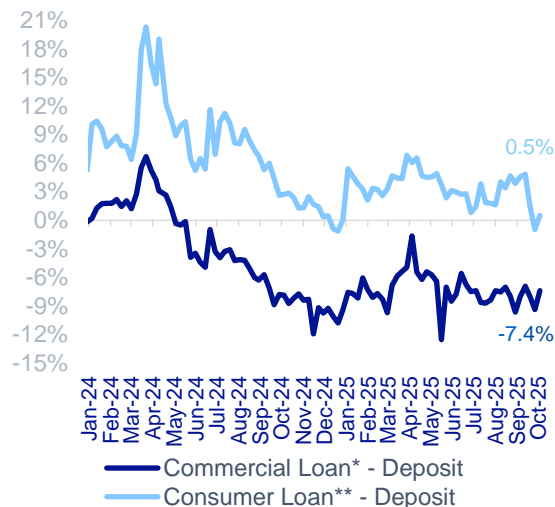
TL DEPOSIT INTEREST RATES

%, FLOW, SECTOR, WITHOUT RR COST

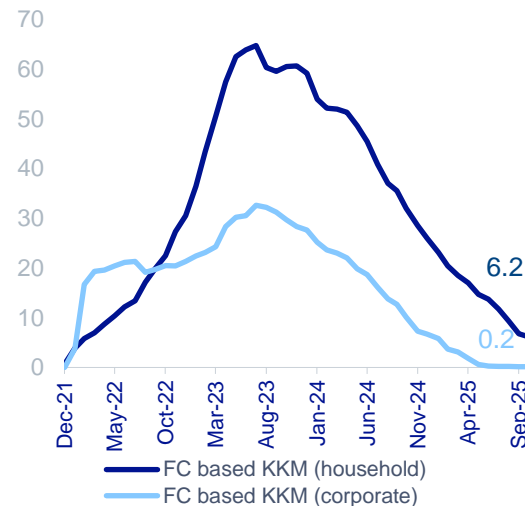


TL INTEREST RATE SPREAD

%, FLOW, SECTOR, INC. RR COST



FC PROTECTED SCHEME (KKM - FC Based) \$USbn



* Excluding overdraft loans

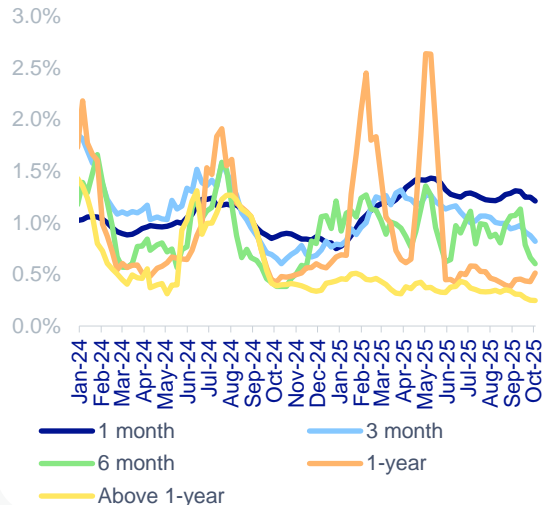
** Excluding overdraft loans and credit cards

Source: CBRT & Garanti BBVA Research

FC deposit rates have declined due to the pressure from TL deposit rules

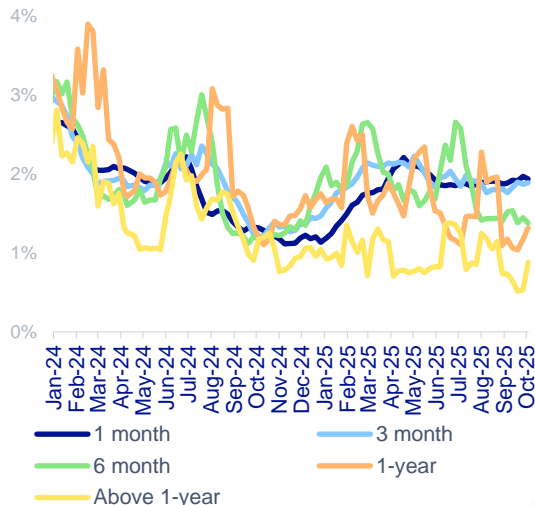
EURO DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



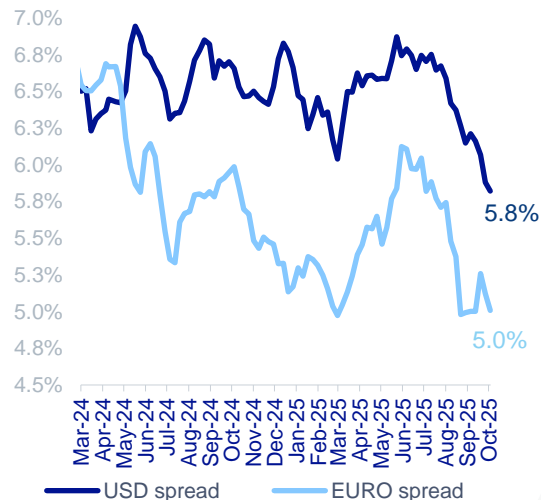
USD DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



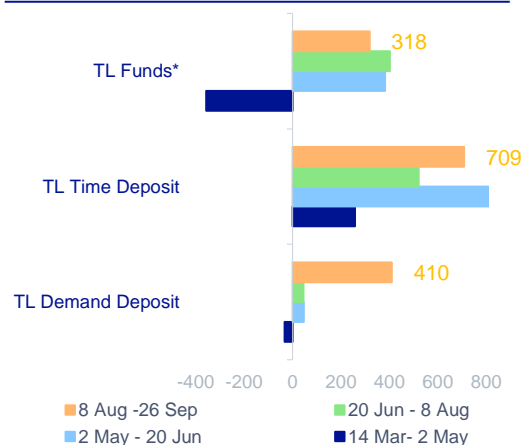
FC INTEREST RATE SPREAD

%, 4W AVG, FLOW, SECTOR

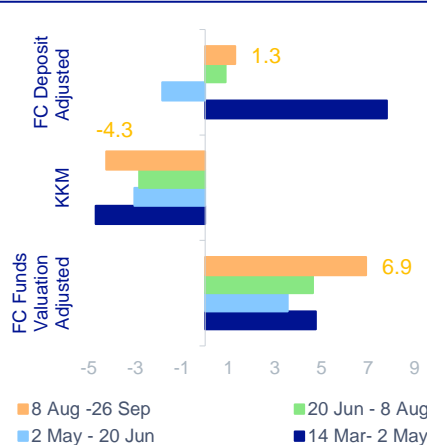


On the residents side, we continue to observe the tendency towards TL assets, especially TL time deposits

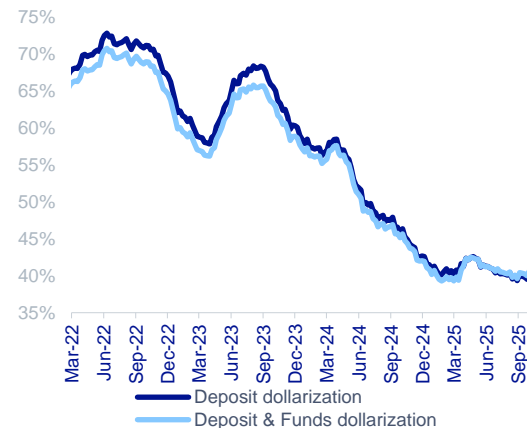
CHANGES IN TL INSTRUMENTS, SECTOR (BN TL)



CHANGES IN FC INSTRUMENTS, SECTOR (\$USbn)



DOLLARIZATION RATIO (%)



* FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds. TL Funds include Money Market Participation & Hedge Funds, Stock Market Funds, Debt Securities Funds, TL Hedge Funds and TL Variable Funds

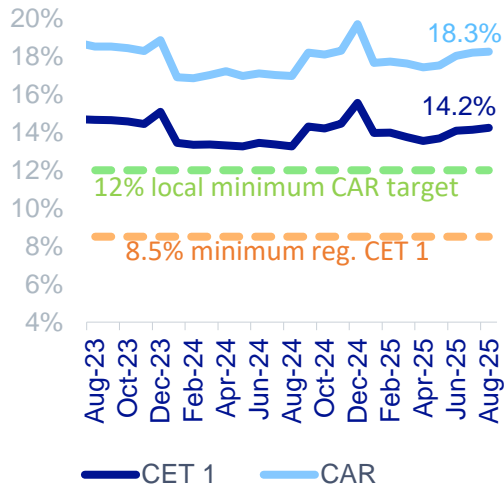
Source: TEFAS, BRSA, CBRT and Garanti BBVA Research

KKM has been finalized except for YUVAM accounts. A higher FC demand in favor of FC funds than the KKM exit has started to be seen after March shock; yet overall dollarization ratio stays closer to 40%.

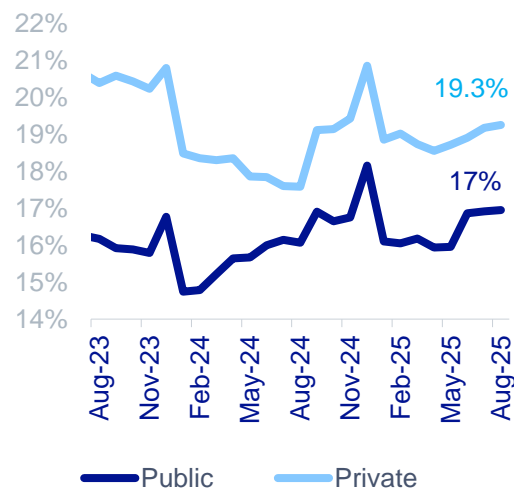
Solvency and Capital Adequacy

Capital ratios continued to move up in August in both public and private banks, supported by the subdebt issuances

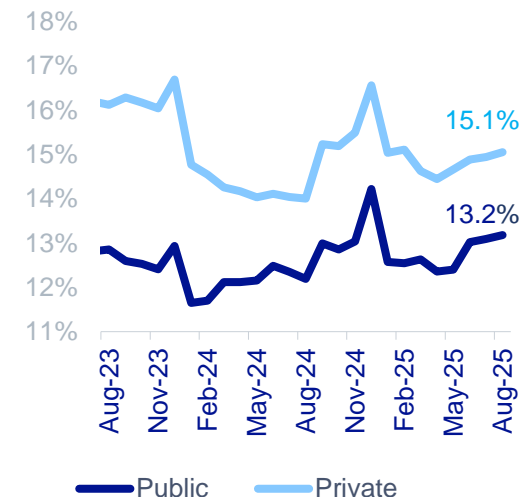
CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO* (%)



CAPITAL ADEQUACY RATIO (%)



CET 1* RATIO (%)

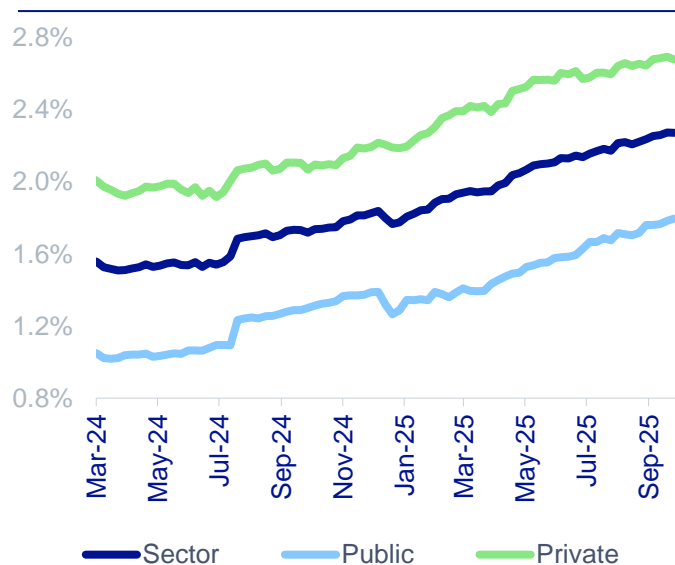


* Common Equity Tier 1.
Source: BRSA and Garanti BBVA Research.

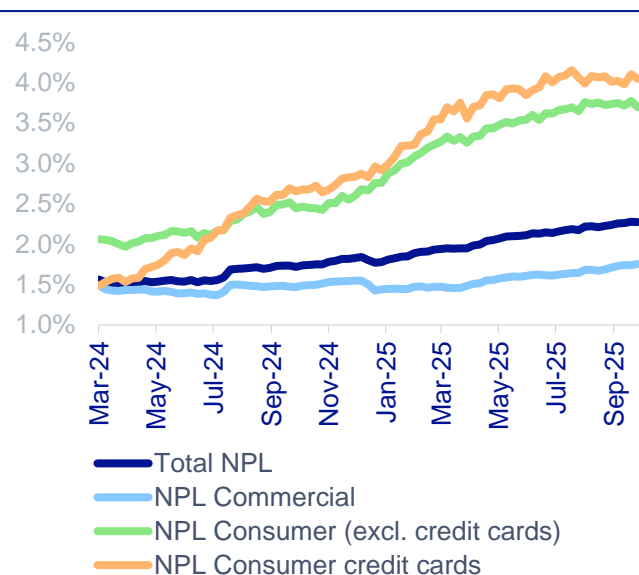
Asset Quality

Steady rise in NPL continues, albeit slowly due to the restructurings in retail customers as of July

NPL RATIO %



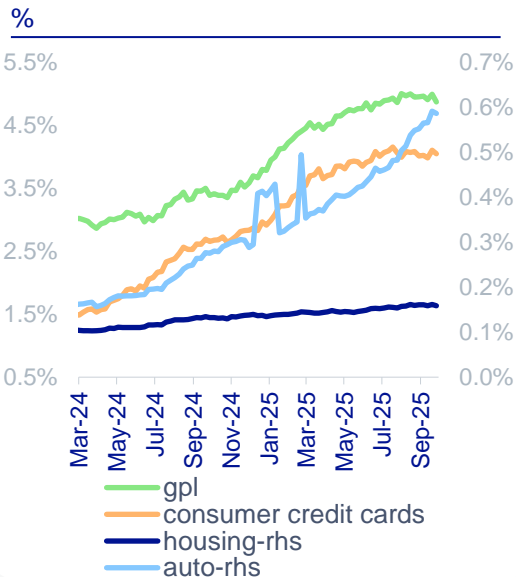
NPL RATIO IN SUBSEGMENTS %



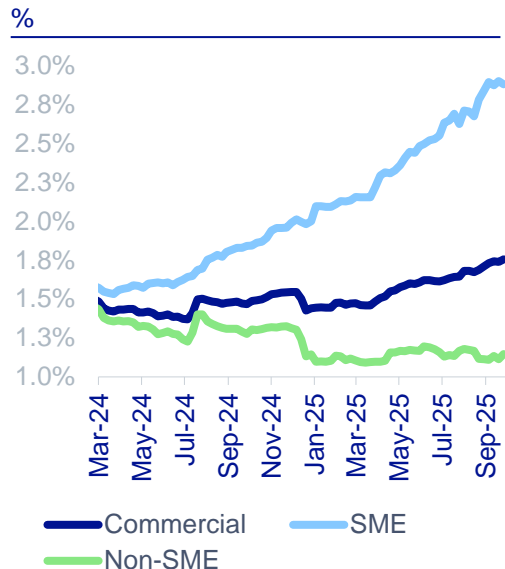
In Sep24, restructuring options for credit cards and general purpose loans were introduced if the minimum payment requirement has not been met for the former and principle and/or interest payment has not been made for 30 days for the latter: debts will be able to be restructured for up to 60 months where the interest rate applied will be capped at 3.11% per month, and card limits of customers benefiting from the restructuring will not be increased until 50% of the restructuring debt has been paid back. This decision has been updated in Jul25 so that the delinquent credit card and general purpose cash loans of any size and time can be restructured up to 48 months where the interest rate applied will be capped at 3.11% per month.

Commercial NPL ratio remains at 1.7% with SME NPL being stable at 2.9%

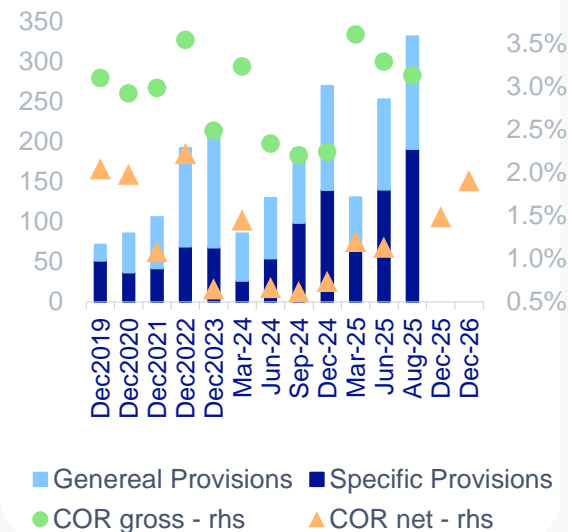
NPL RATIO IN CONSUMER LOANS



NPL RATIO IN COMMERCIAL LOANS



COST OF RISK (COR) IN DEPOSIT BANKS* BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %



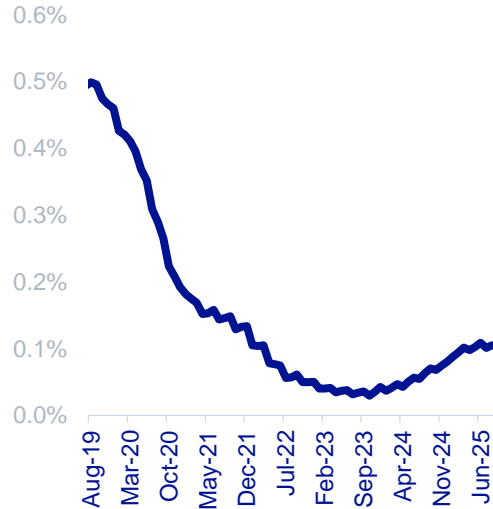
* Due to public data restriction, we use peer banks' data as a proxy for the net CoR estimation for 2025 and 2026

Source: CBRT, BRSA and Garanti BBVA Research.

Slower increase in NPL ratios is also confirmed by other stress variables, except for returned checks

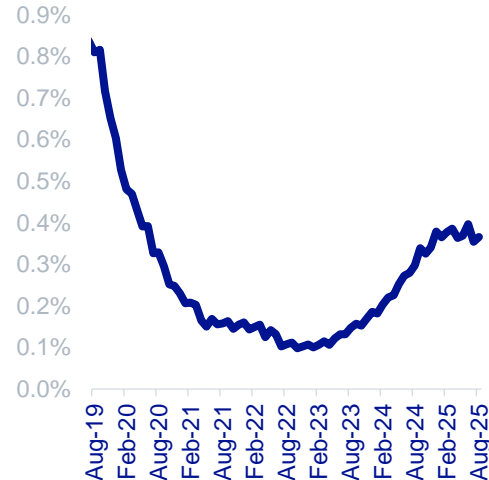
AMOUNT OF PROTESTED BILLS / GDP

(% 12M ROLLING)



AMOUNT OF RETURNED CHECKS/ GDP

(% 12M ROLLING)



RETURNED CHECKS/PRESENTED CHECKS

%

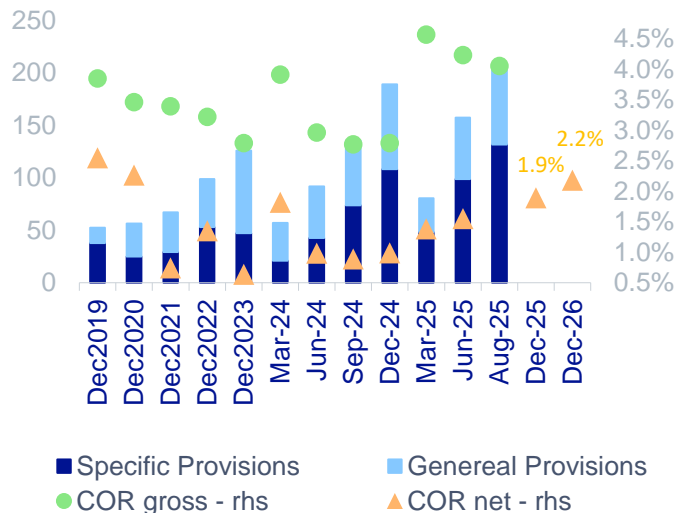


The historically higher ratio of returned checks to presented ones can be an early signal for a potentially faster deterioration in SME NPLs in the near future.

Change in CoR in August was limited due to the slight increase in provisions compared to previous months

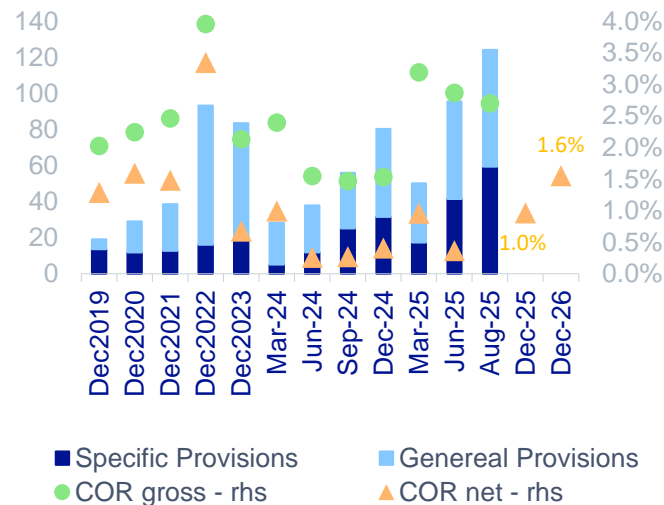
PRIVATE BANKS: PROVISIONS & CoR

BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %



PUBLIC BANKS: PROVISIONS & CoR

BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %

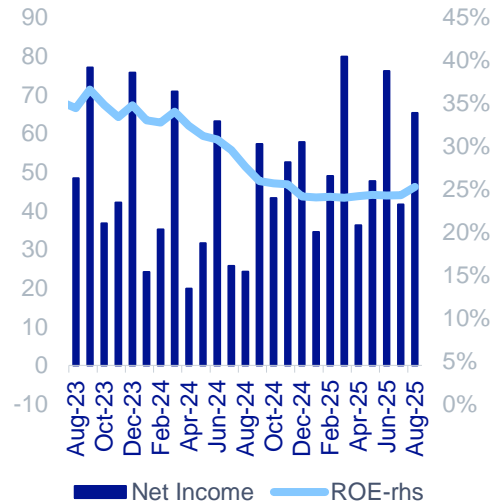


The most recent slower than expected CoR increase seems to reflect some delays and effects of the restructurings in the sector, which led us to revise our 2025 currency adjusted CoR forecast to nearly 150 bps in 2025 and move the impact to 2026 with around 200 bps CoR in 2026 for deposit banks.

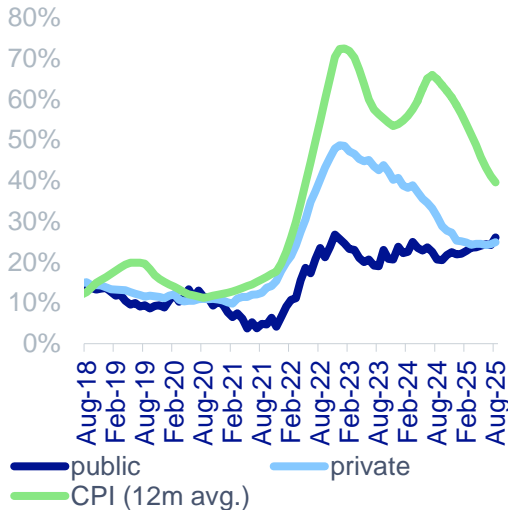
Profitability

Cumulative RoE of public deposit banks exceeded the private banks in Aug, which we expect to reverse in 2026

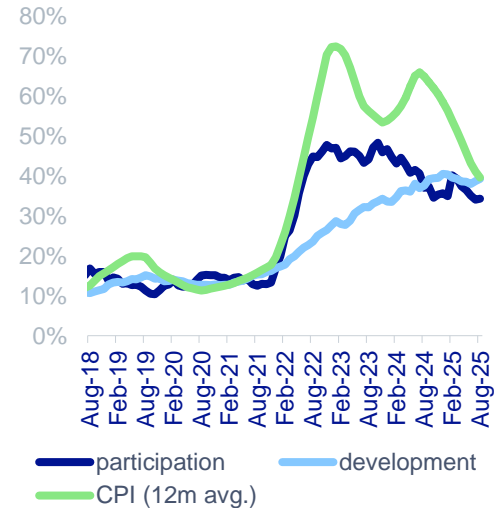
NET INCOME & RETURN ON EQUITY (ROE)
BN TL MONTHLY, % 12M CUMULATIVE



RETURN ON EQUITY (ROE)
%12M CUMULATIVE, DEPOSIT BANKS



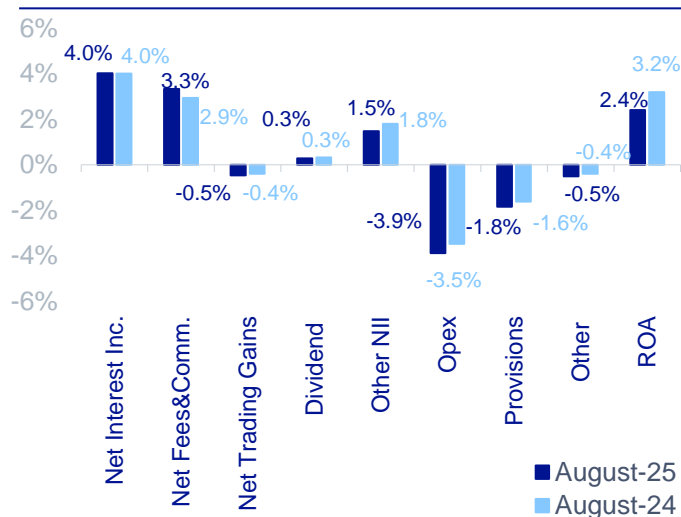
RETURN ON EQUITY (ROE)
%12M CUMULATIVE



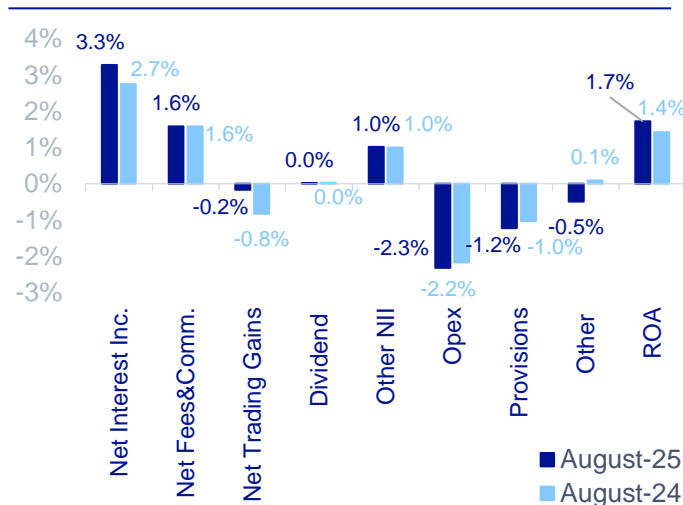
We calculate a much faster increase in public deposit banks' RoE after 2Q25 than the private banks, stemming from mostly the differentiation in net interest income via the expansion in TL installment commercial loans via CGF and Breath credits, which would continue in 4Q25 with a slower pace.

Public and private banks continue to differentiate mainly in their net interest income and OPEX costs

ROA COMPONENTS PRIVATE BANKS
12M CUMULATIVE

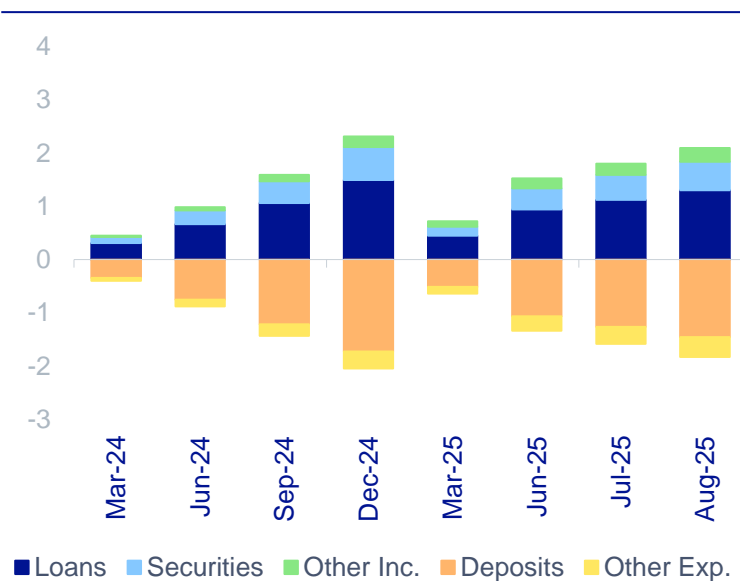


ROA COMPONENTS PUBLIC BANKS
12M CUMULATIVE

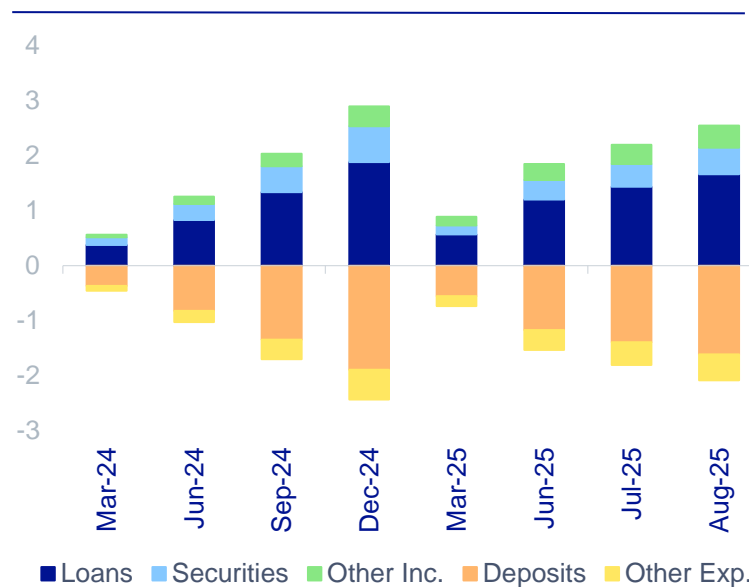


Both a faster rise in loan yields and a slower deposit cost increase support net income in public banks

NET INTEREST MARGIN (NIM) PUBLIC DEPOSIT BANKS (trillion TL)



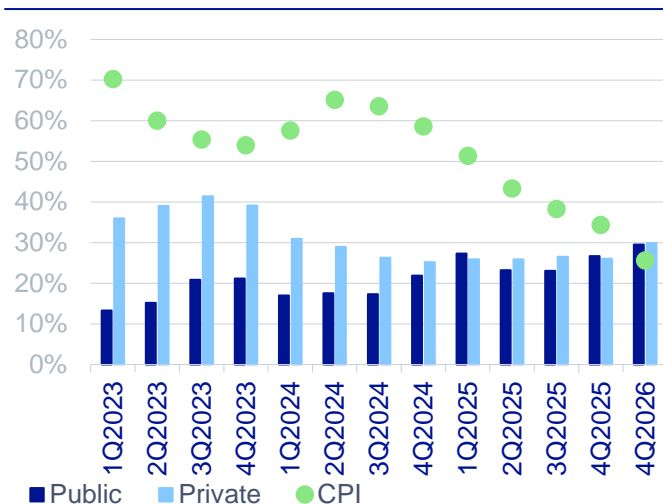
NET INTEREST MARGIN (NIM) PRIVATE DEPOSIT BANKS (trillion TL)



We expect ROE levels to reach around 26% in 2025 & 28-31% in 2026 for deposit banks, wrt our baseline

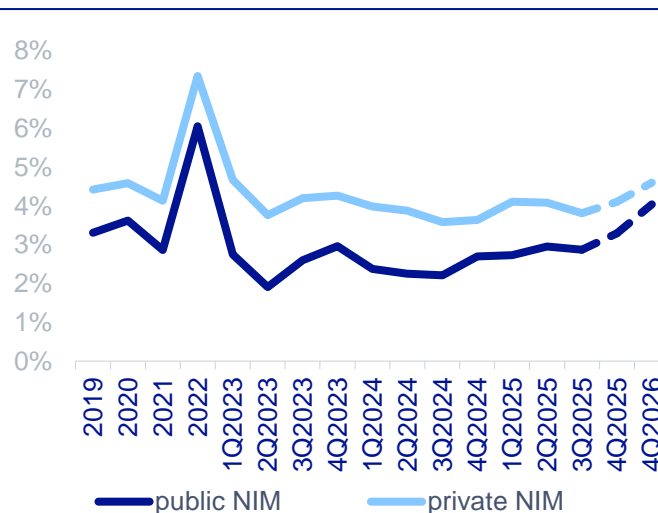
ROE EVOLUTION & FORECASTS*

Annualized % with average annual CPI



NIM EVOLUTION & FORECASTS

Annualized %

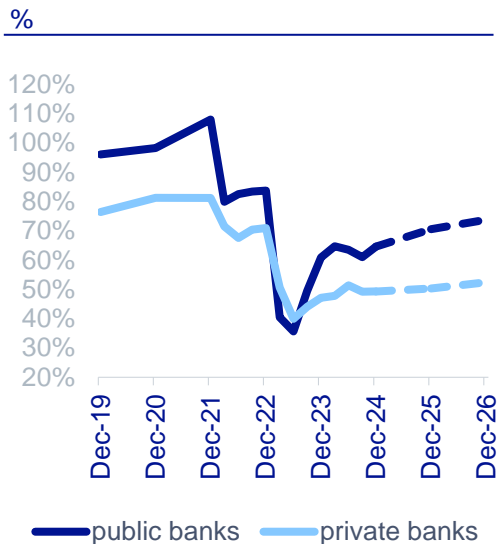


According to our baseline assuming an ongoing disinflation from 31% by end 2025 to 23% by end 2026 letting the CBRT cut the cost of funding from 37.5% to 30% in the same period, we expect a positive real RoE in 2026.

* ROE estimation for the deposit banks is based on our forecasts for banking sector variables which are also based on our macroeconomic forecasts.

The contribution from net interest will increase, while fees and commissions are expected to normalize

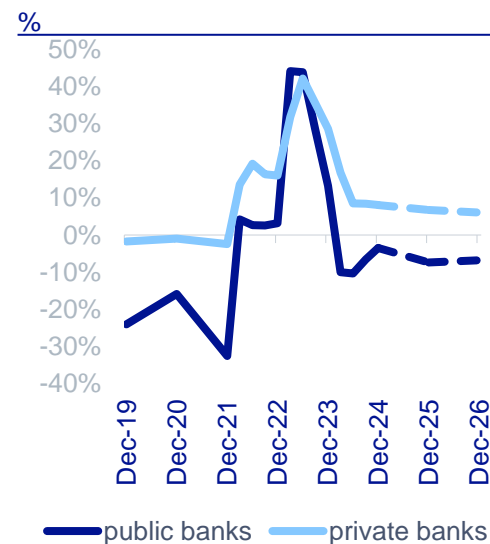
NET INTEREST REVENUE / TOTAL REVENUE



FEES & COMMISSION REVENUE / TOTAL REVENUE,



TRADING & FX GAINS / TOTAL REVENUE



Garanti BBVA Baseline Scenario

	2023	2024	2025	2026
GDP growth (avg)	5.0%	3.3%	3.7%	4.0%
Unemployment Rate (avg)	9.4%	8.7%	8.4%	9.2%
Inflation (avg)	53.9%	58.5%	34.8%	25.6%
Inflation (eop)	64.8%	44.4%	31.0%	23.0%
CBRT Cost of Funding (avg)	20.5%	49.6%	43.5%	33.2%
CBRT Cost of Funding (eop)	42.5%	47.5%	37.5%	30.0%
USDTRY (avg)	23.7	32.8	39.7	48.3
USDTRY (eop)	29.4	35.3	44.0	52.0
EURTRY (avg)	25.7	35.5	45.1	57.8
EURTRY (eop)	32.6	36.7	51.8	63.3

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