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DENİZ ERGUN
MAY 2026

Türkiye Banking Sector Outlook

Main messages

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SECTOR OUTLOOK

Credit growth maintained its strong momentum in April, pushing the 13-week trend rate close to pre-regulation levels of early 2026 despite persistently high interest rates. However, increasing inflation expectations and deepening real appreciation appear to be effectively easing financial conditions as of April, supporting credit growth via mostly non-capped items. Meanwhile, following the upside CPI surprise in April and the rising likelihood of a prolonged conflict, we expect funding cost to remain high for longer alongside ongoing macro-prudential measures. As a result, the recovery in NIMs is likely to be slower, postponing meaningful ROE improvement expectations most likely to 2027.

CREDIT SEGMENTS

The divergence in credit growth rates between private and public banks became more pronounced in April, mainly driven by differences in TL lending. Public banks recorded stronger growth in consumer loans, while private banks showed a stronger push in commercial lending during the month. Supported by the acceleration in private banks' TL SME loans, together with the tighter March regulations on consumer lending, growth rates in both segments converged each other in April. Credit card growth, meanwhile, remained resilient, although it eased below historical averages. Weak momentum in FC lending was evident across all commercial credit subsegments, led primarily by private banks.

DEPOSITS & DOLLARIZATION

The dollarization tendency is kept under control, as seen in residents' savings continuing mostly in TL, supported by TL deposit rules and the maintenance of the CBRT funding rate at 40%. Following the ceasefire negotiations and improving risk appetite, strong inflows into TL funds started to be seen in April. We have revised our year-end inflation forecast to 30% (from 28.5%). We now expect the CBRT to keep the funding rate at 40% at least through summer. If conditions allow, policy rate cuts might resume in 4Q26, bringing the rate to 36% at most by year-end. As the currency remains to be the main anchor for disinflation, TL deposit rules will most likely stay particularly important.

Main messages

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PROFITABILITY

The rise in net income of deposit banks decelerated in 1Q26 (6% q/q vs. 9% in 4Q25). The cumulative ROE declined to 25.4% in March from 25.7% in February, moving closer to 4Q25 levels, albeit higher than the 1H25 levels. The contribution from fees and commissions remained flat, whereas the negative impact from OPEX was slightly higher compared to 4Q25. Based on different scenarios regarding the conflict, the RoE of the deposit banks might stay flattish in 2026 (vs. 25.6% by end 2025) or might even somewhat ease below this level due to potentially lower ROE improvement in public banks. Based on the latest 1Q26 data, the differentiation will most likely depend on the loan pricing dynamics shaped by loan growth rates.

ASSET QUALITY

Our newly constructed financial stress indicators show a limited deterioration in April, in both commercial and retail segments. The corporate distress most recently becomes more evident with the rise in concordat filings and restructured loans, yet still remains far below the stress level in 2H25. The retail financial stress stems from a higher push from underutilized labor, which we need to track in the coming months, once the support from retail restructurings between Jan-Apr fade away. Accordingly, net CoR levels at private peer deposit banks exceeded 200bps in their 1Q26 financials, which could still be under pressure going ahead, depending on the duration of the conflict.

CAPITAL

Capital ratios continued to decline in March 2026, driven mainly by the decrease in private banks' CET1 capital following sector-wide dividend payments made during the month. Nevertheless, overall capital ratios remain comfortably above regulatory minimum requirements. The expected recovery in profitability will be important to support adequate capital buffers going forward.

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

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Regulations for TL deposit share

- The calculation period for TL deposit rules stays as eight weeks (vs. four weeks before) Real-person TRY deposit share growth target is 0.4pp for the banks btw 60-65% ratio and to 0.8pp for the ones below 60%. For the ones above 65%, the rule is to keep it. The commission rate applied based on the share of TL share is applied as 3%. The tolerance range for the targets is 50bps (for 8 weeks) for the banks with 60-65% ratio, and 100bps for the ones above 65% if they come down below 65%.
- The growth target for commercial TRY deposit shares is 0.6pp (8 weeks) for the banks below 60% ratio. For the ones above 60% ratio, the rule is to keep it. The tolerance range for targets (for 8 weeks) is 20bps. The commission rate applied based on the share of TL is 1.5%.
- For calculations, the exchange rate to be used will be the average of the past 24 weeks rather than the past 12 weeks.

Loan growth caps

- Limits on TL & FC loan growth are reviewed via 8 weeks with a cumulative cap of 5% for TL SME loans & 3% for non-SME TL commercial loans excluding export, investment & agriculture); 4% auto loans, 4% GPL, 4% for overdraft loans with more than 3 installments; 2% for overdraft account limits (introduced as of 30.01.26), 0.5% for FC loans (prev.1.0% revised as of 30.01.26). As of March 28th, loans to firms in the earthquake region are subject to growth caps depending on their classification: 5% for SMEs and 3% for non-SMEs. Tradesmen loans have been also removed from the exemption and classified under SME lending, being subject to 5% growth cap.
- CGF & «breath» credits (a low-interest credit package provided to SMEs through banks) have been excluded from the growth caps.
- The sales/assets threshold for SME classification has been increased from TL500mn to TL1bn (US$25mn).
- In housing loans extended to consumers, the distinction between first-hand and second-hand homes has been removed with respect to the loan-to-value (LTV) ratio.

Regulations on RRs

- The RRR of 17% for TL deposits (demand and 1M & 3M time deposits)
- The RRR of 10% for TL deposits (>3M)
- TL RRR of 2.5% for FC deposits
- The RRR of 26-30% for FC deposits & precious metals, as of Jan26
- The RRR of 20% for funds from repo transactions abroad & loans obtained from abroad of a maturity up to 1 month, and 16% up to 3 month; 14% up to 1 year
- The RRR of 14% for deposits from banks abroad and liabilities to the head office abroad with maturities up to 1Y
- The RRR of 10% for CPI-, PPI-, and TLREF-indexed deposits

Regulations for CAR

- Elimination of additional risk weights on banks' CAR calculations
- Removal of the forbearances for Capital Adequacy Ratio (CAR) calculations as of 2026: i) Fixing the FX rate as 32.83 for USD/TRY & 35.13 for EUR/TRY in credit risk calculation (ii) excluding negative revaluation differences of securities of HTC&S portfolio (purchased no later than 01/01/2024) from capital

Regulations on Credit Cards

- Overdraft limit is capped at a maximum of twice the customer's monthly average income.
- On credit cards, if a cardholder's total credit card limits across all banks exceed TRY 400,000, banks will partially reduce unused credit card limits as of the statement date on which the highest spending occurred within the past year. Banks will be also required to make determinations to ensure that all cardholders' credit card limits are aligned with their monthly/annual average income by 01.01.2027. Both measures are under discussion with banks for application.
- The maximum interest rate on TL credit card receivables has been decreased i) with balances of <30k (previously TL25k) per month to 3.25%, ii) of TL30-180k (prev. TL25-150k) per month to 3.75%, iii) of >TL180k (prev. TL150k), corporate credit cards, and cash withdrawals to 4.25%, as of Jan26.
- Loan allocation fee for commercial loans limit has been kept as 0.20% (vs. previous 0.25%). 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% for revolving credits.

Liquidity

Following the March volatility, TL deposits have started recording positive weekly inflows again

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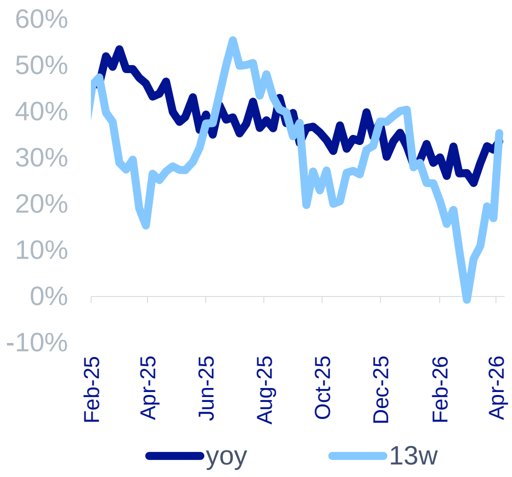
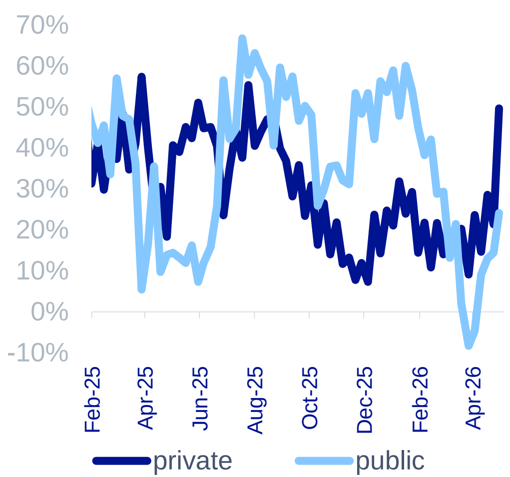
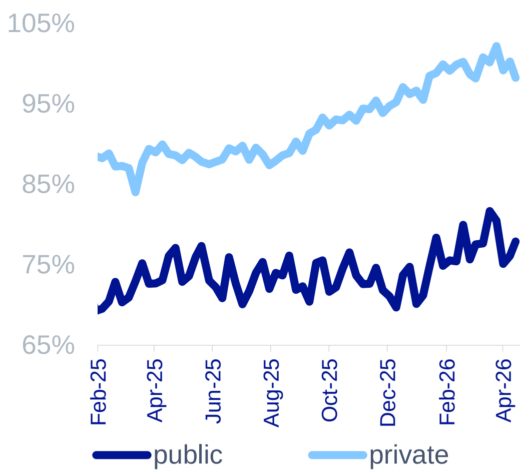
TL DEPOSIT GROWTH
(YOY & 13-WEEK ANNUALIZED)



TL DEPOSIT GROWTH
(PUBLIC VS. PRIVATE)



TL CREDITS / TL DEPOSITS
(RATIO, PUCLIC VS. PRIVATE)



Source: BRSA and Garanti BBVA Research

In the aftermath of the March shock, TL deposit growth realized stronger in private banks throughout April.

Demand for FC & precious metals stays limited, keeping appetite for TL savings

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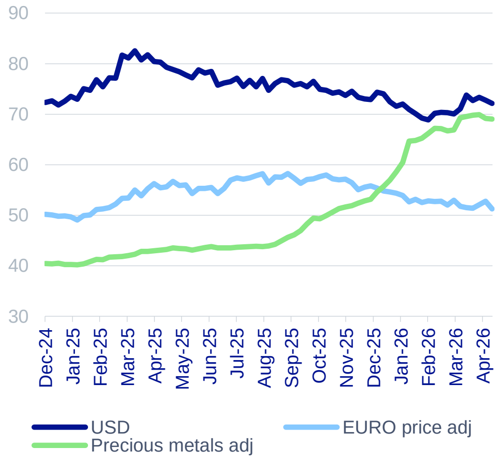
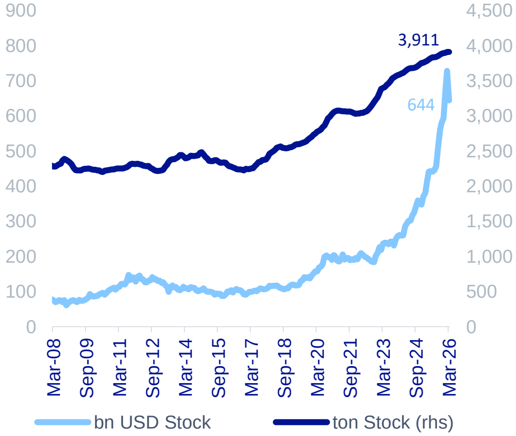
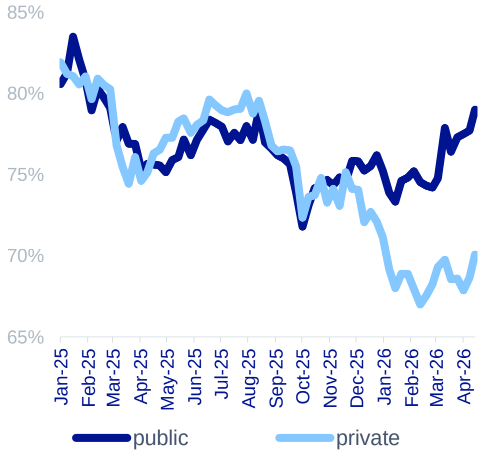
FC DEPOSITS VOLUME OF RESIDENTS (BN USD)



UNDER-THE-MATTRESS GOLD STOCK* ($USbn, ton)



FC CREDITS / FC DEPOSITS (RATIO, PUCLIC VS. PRIVATE)



Source: CBRT, TURKSTAT, TEFAS and Garanti BBVA Research

* Garanti BBVA Research estimates based on methodology in 2012-IV CBRT Inflation Report

FC LTD ratio has been higher in public banks since the start of 2026 due to lower FC deposit amounts. Dollarization ratio is around 36% levels in public banks vs 40% in private banks.

ON TL rates keep the attractiveness of TL MMFs, recovering 70% of the March outflows in April

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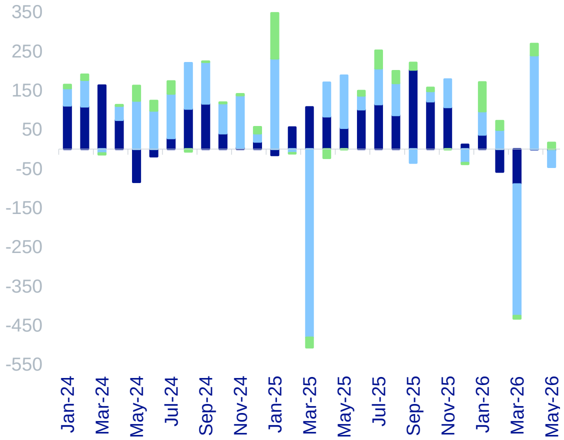
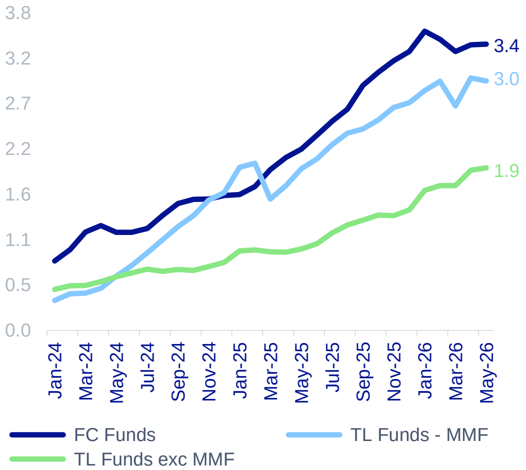
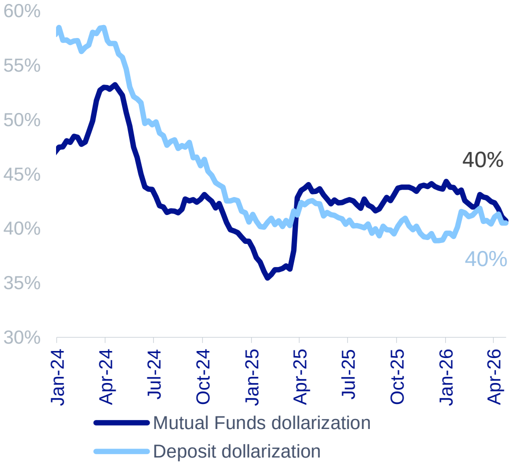
NET FLOWS IN INVESTMENT FUNDS (TL BN, AS OF MAY 8TH)



VOLUME OF INVESTMENT FUNDS* (TL TRN)



RESIDENTS' DOLLARIZATION RATIO* (%)



Source: CBRT, TURKSTAT, TEFAS and Garanti BBVA Research

** FC Funds consist of FC Hedge Funds, Eurobond Funds and Precious Metals Funds*

Net outflows from the money market funds in March has also reversed with strong inflows in April. We saw limited FC deposit demand from corporates, and system-wise precious metal demand from households in March; both have stopped since April.

The depletion from the CBRT has reversed by $15-20bn so far in May after $60bn total outflows in March

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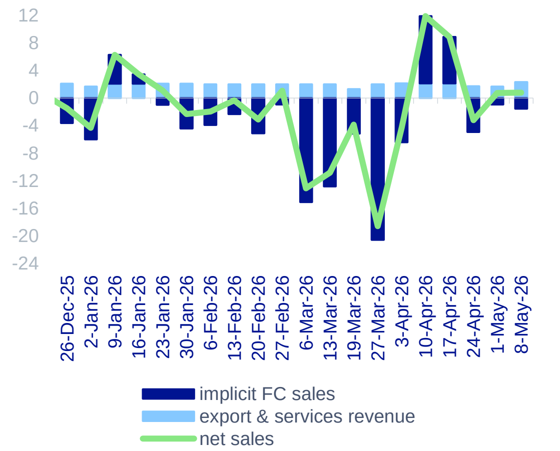
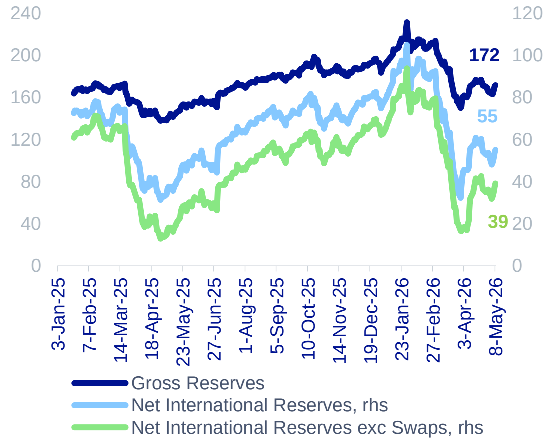
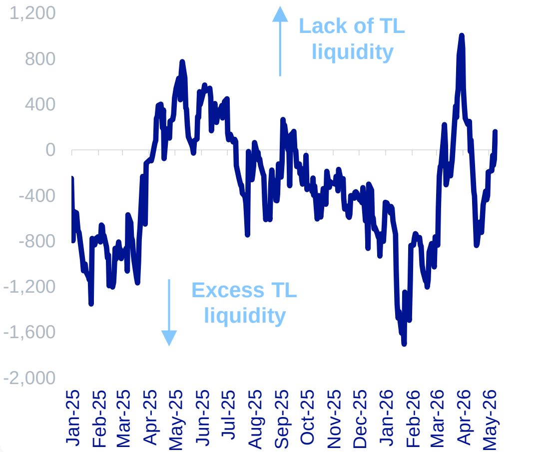
CBRT WEEKLY RESERVE FLOWS* ($USbn)



CBRT INTERNATIONAL RESERVES ($USbn, as of May 8)



NET CBRT FUNDING (bn TL, as of May 8)



Source: CBRT and Garanti BBVA Research.

While outflows appear to have stabilized since early May, balance of risks remains highly fragile. Limited FC purchases of the CBRT again result in lack of TL liquidity in early May.

Increasing inflation expectations and deepening real appreciation appear to be easing financial conditions

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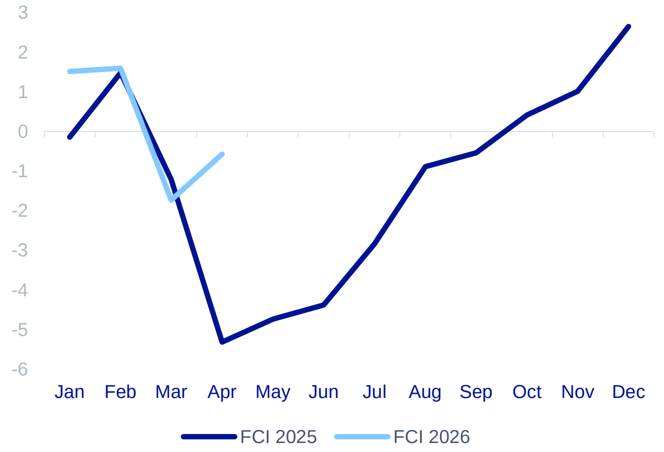
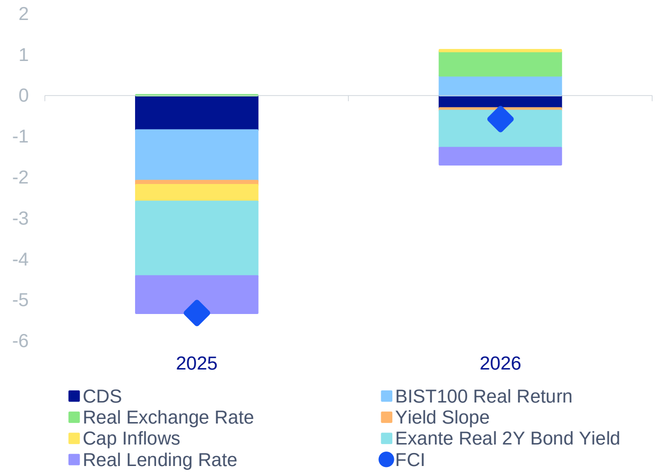
GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (YTD CUMULATIVE, STANDARDIZED, + EASING, - TIGHTENING)



GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (CUMULATIVE FIRST 4 MONTHS, STANDARDIZED, + EASING, - TIGHTENING)



Source: CBRT, Bloomberg and Garanti BBVA Research

The tightening in financial conditions seems to have reversed in April, compared to the significantly tighter environment seen last year, with expectations likely playing a key role.

TL margins are further repressed with higher deposit costs, currency stability remains to be the main anchor

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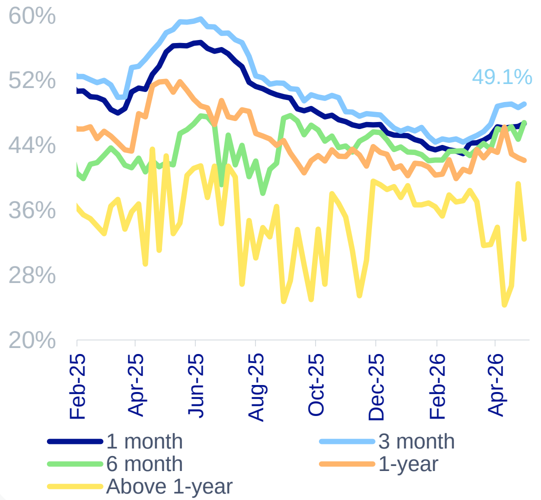
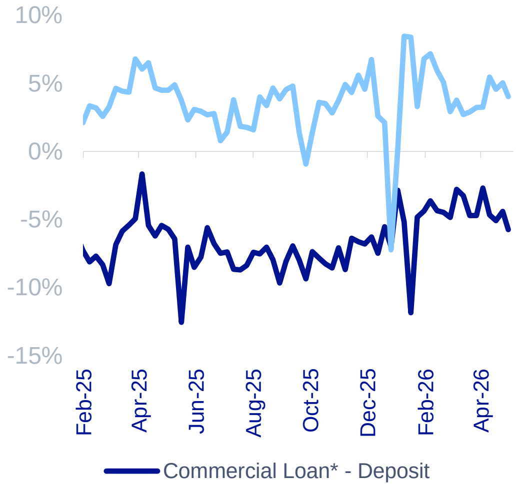
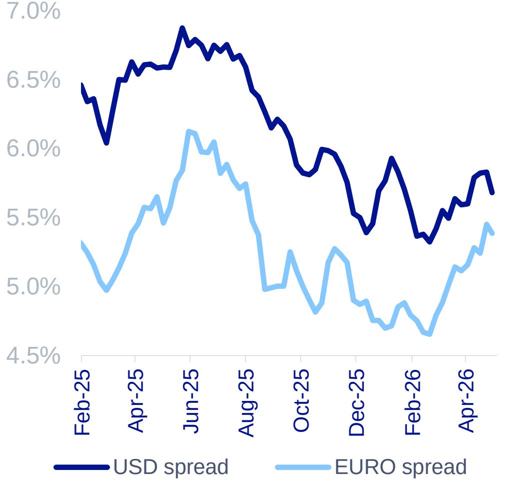
TL DEPOSIT INTEREST RATES
(%, FLOW, SECTOR, WITHOUT RR COST)



TL INTEREST RATE SPREAD
(%, FLOW, SECTOR, INC. RR COST)



FC INTEREST RATE SPREAD
%, FLOW, SECTOR



* Excluding overdraft loans
** Excluding overdfaft loans and credit cards

Source: CBRT & Garanti BBVA Research

Albeit capped by regulation, banks prefer to boost FC lending in non-capped items with more advantageous spreads.

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Credit Developments

Credit growth was strong throughout April, pushing up the 13w trend rate close to Jun23

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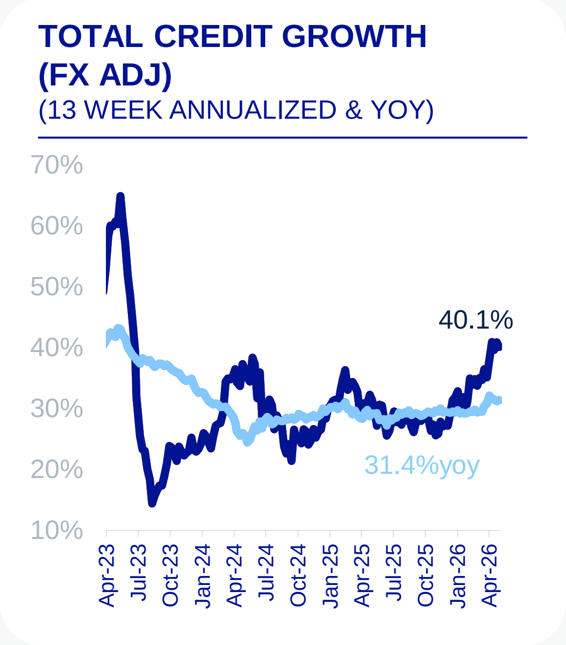

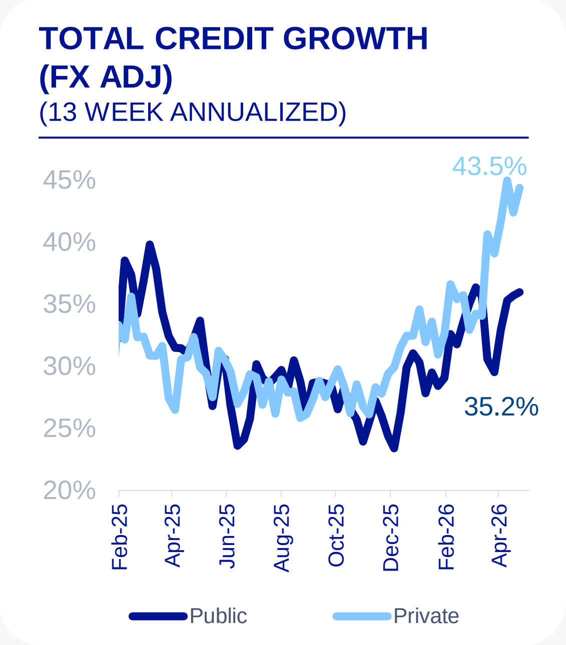

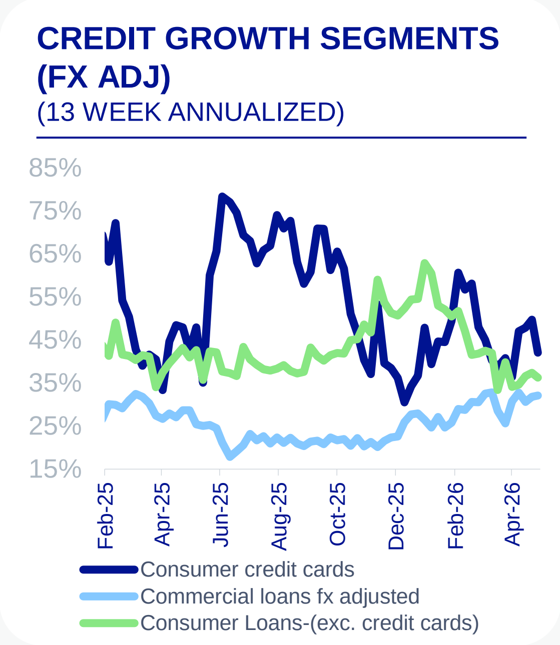

Source: BRSA and Garanti BBVA Research.

The divergence in credit growth rates between private and public banks became more pronounced in April. Across segments, consumer loan growth continued to lose pace, while commercial loans gained momentum, bringing growth rates closer together.

Public and private banks mainly differentiate in their TL credit growth rates

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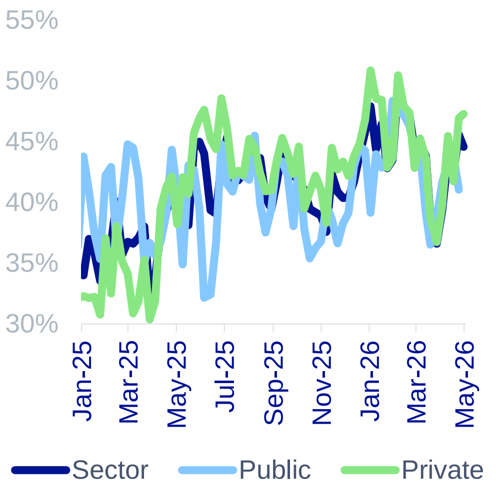
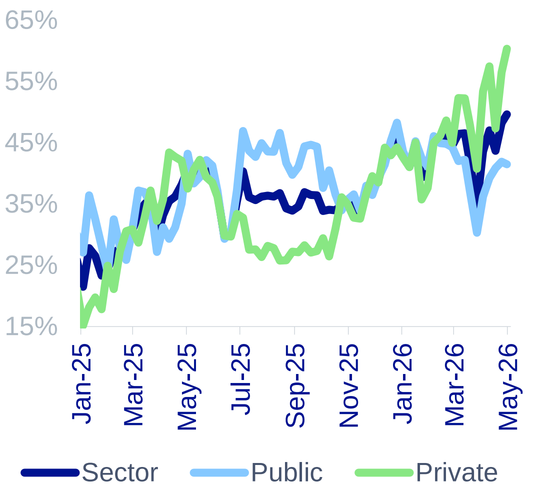
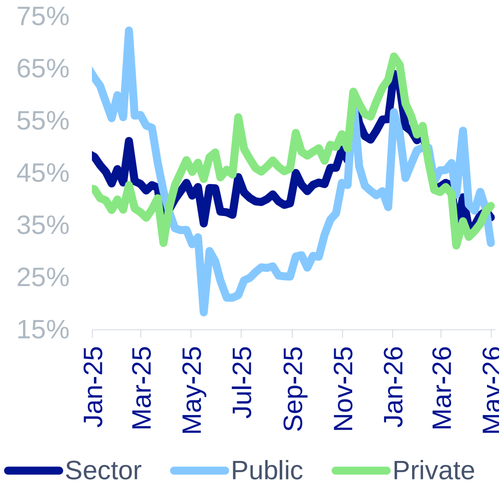
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS
(13 WEEK ANNUALISED, DEPOSIT BANKS)



TL COMMERCIAL LOANS
(13 WEEK ANNUALIZED, DEPOSIT BANKS)



CONSUMER CREDITS EXC. CARDS GROWTH
(13 WEEK ANNUALIZED, DEPOSIT BANKS)



Following the implementation of further restrictions on retail loans, private banks in particular appear to have increased their focus on TL commercial loans.

Source: BRSA and Garanti BBVA Research.

Increase in interest rates continues, commercial rates rose back to 49-50% levels, seen in Aug25

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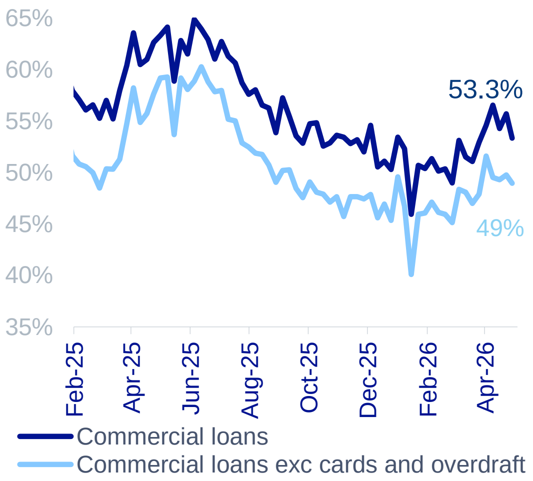
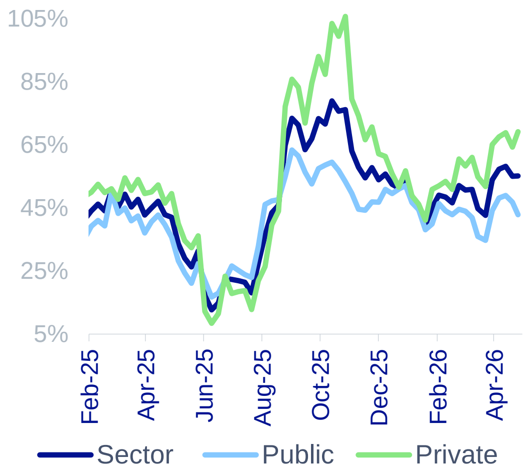
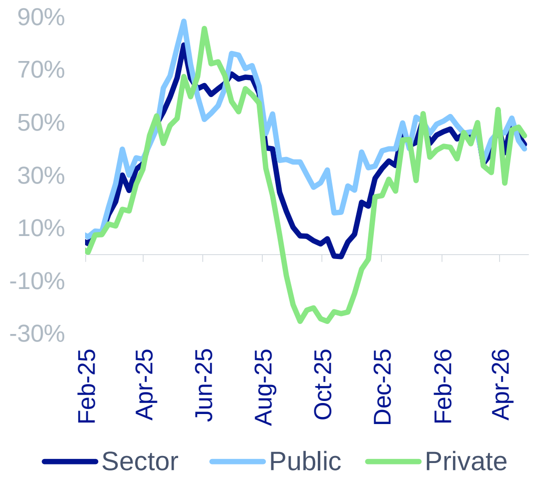
TL COMMERCIAL CREDIT INTEREST RATES
(WEEKLY, COMPOUND, FLOW)



TL SME COMMERCIAL CREDITS GROWTH
(13 WEEK ANNUALIZED)



TL NON-SME COMMERCIAL CREDITS GROWTH
(13 WEEK ANNUALIZED)



Source: CBRT, BRSA and Garanti BBVA Research.

Compared to 1Q26, the growth pattern in TL commercial lending appears to have shifted in April. Non-SME loans lost momentum across the sector amid high interest rates, while SME lending at private banks accelerated, supported in part by CGF packages.

Weak momentum in FC lending is evident across all commercial subsegments, led primarily by private banks

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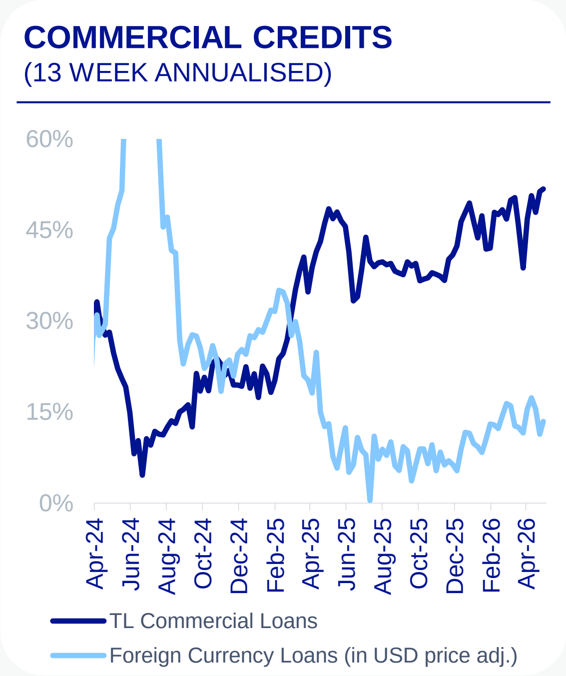
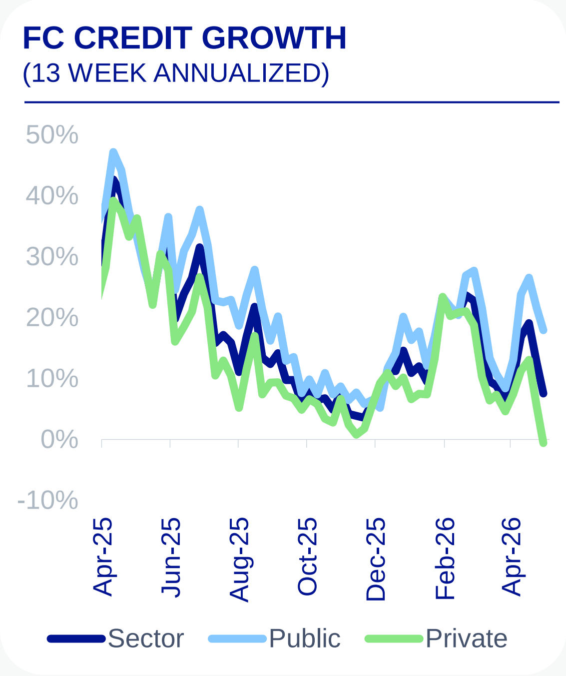
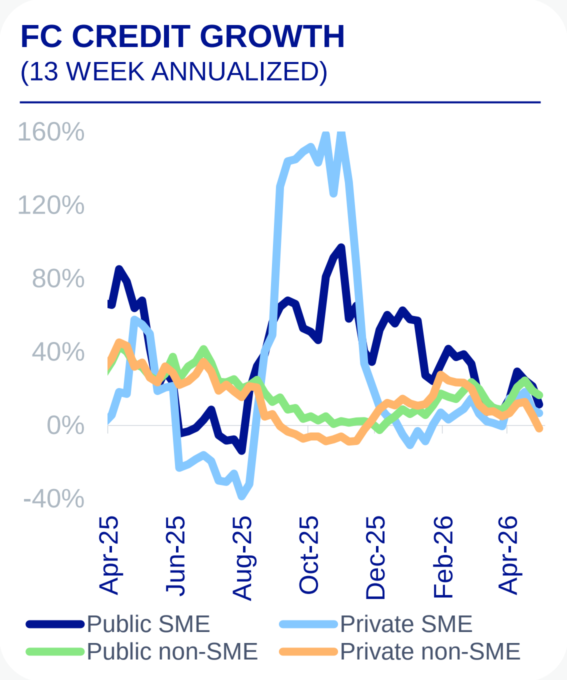
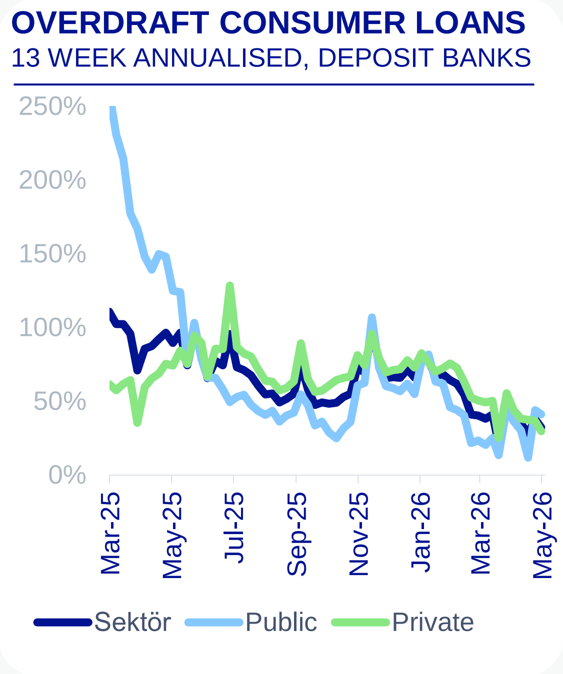


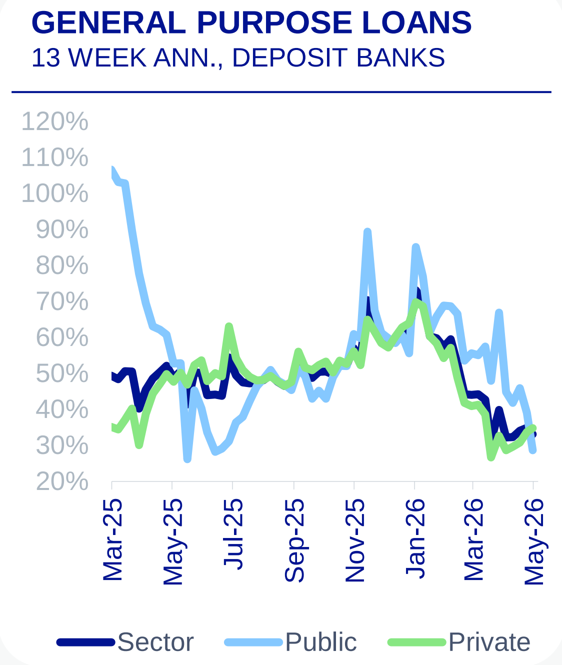


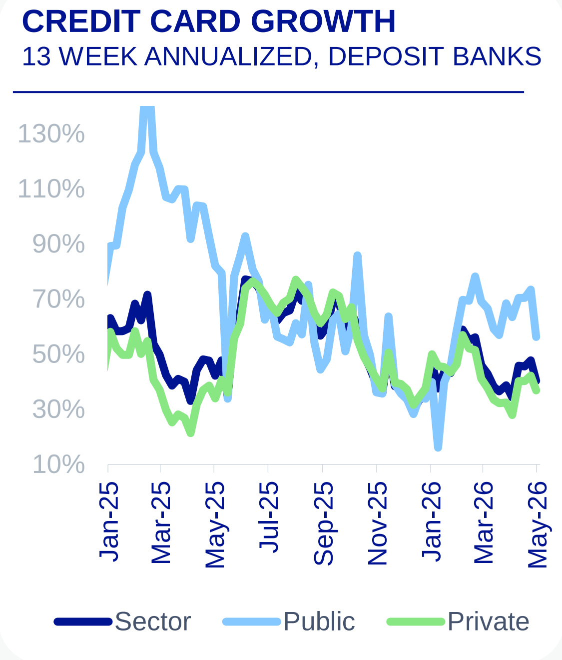


Source: BRSA and Garanti BBVA Research.

Credit card growth remains higher in public banks. Yet, the impact of March regulations* is seen in GPLs







* In March, the BRSA introduced new regulations on consumers: Overdraft limit is capped at a maximum of twice the customer's monthly average income

Source: BRSA and Garanti BBVA Research.

Consumer rates stay elevated. Mortgage rates keep a slow but steady rise, with a differentiation across sector

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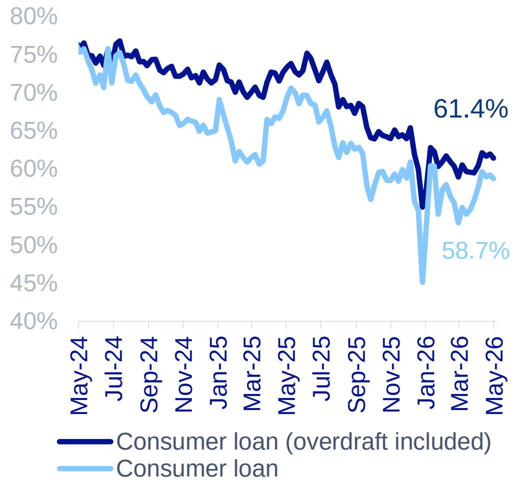
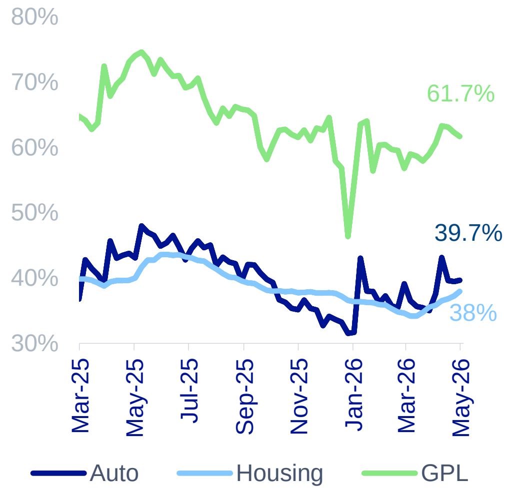
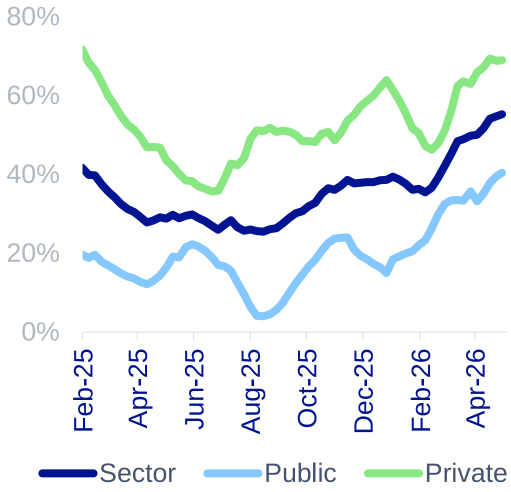
CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



MORTGAGE CREDIT GROWTH
13 WEEK ANNUALIZED



Source: BRSA and Garanti BBVA Research

* **There are no growth caps on mortgage lending. Public banks, in particular, appear to have been actively growing in this segment, likely supported by relatively lower interest rates.**

Asset Quality

NPL ratios in consumer loans stabilize, helped by latest restructurings, in commercial a limited rise continues

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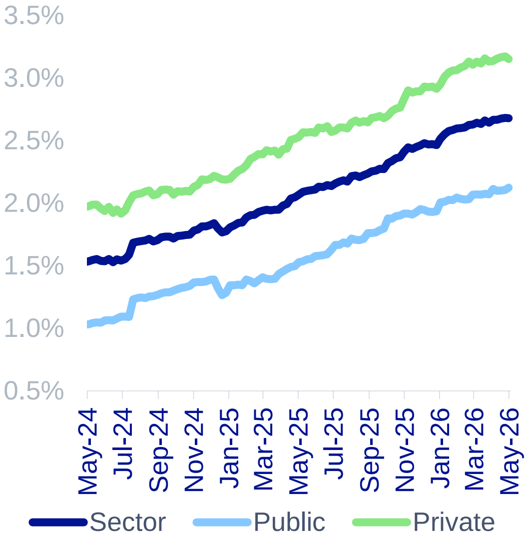
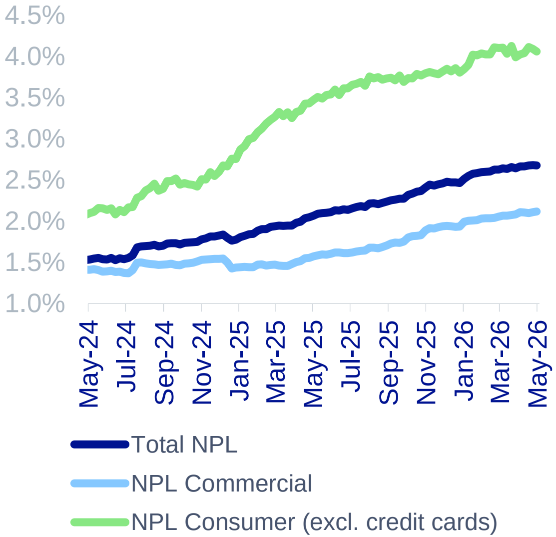
NPL RATIO

%



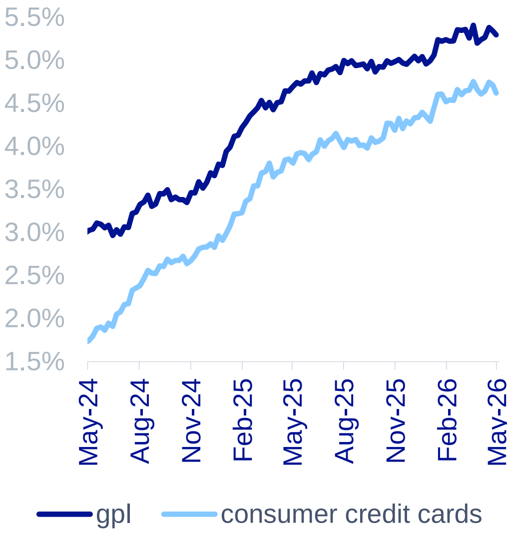
NPL RATIO IN SUBSEGMENTS

%



NPL RATIO, CONSUMER LOANS

%



Source: CBRT, BRSA and Garanti BBVA Research.

The rise in commercial NPLs stem from SMEs, which is also tried to be put under control via new credit packages

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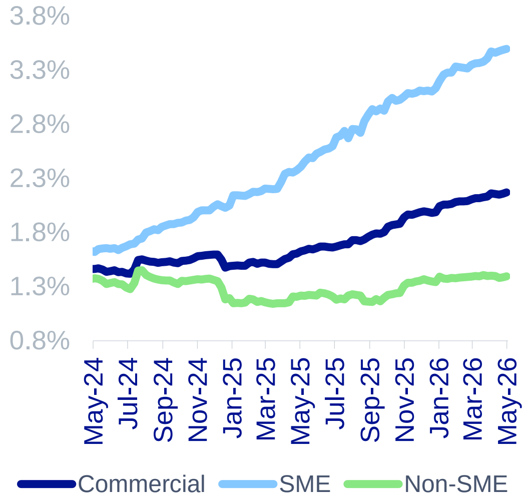
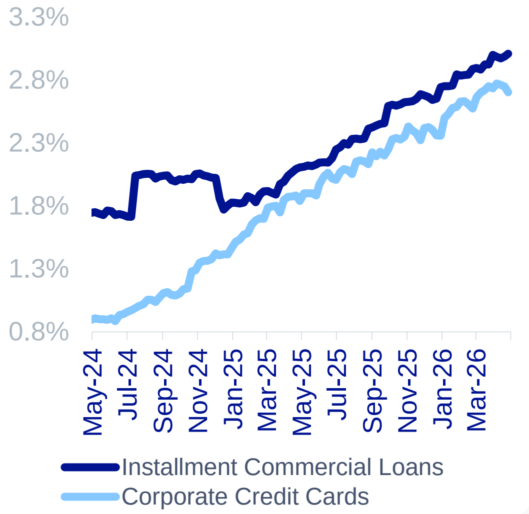
NPL RATIO IN COMMERCIAL LOANS

%

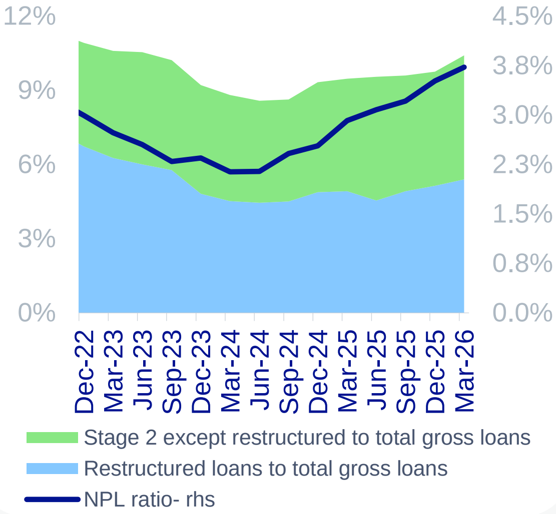


NPL RATIO IN COMMERCIAL LOANS

%



RATIO OF STAGE 2 LOANS &RESTRUCTURED LOANS: PEER DEPOSIT BANKS



Source: CBRT, BRSA and Garanti BBVA Research.

The share of restructured loans and also Group 2 loans increased in private banks in 1Q26. The sum of NPL and Group 2 loans rose to 15% compared to 13% in 1Q25.

Our newly constructed financial stress indicators show a limited deterioration in April

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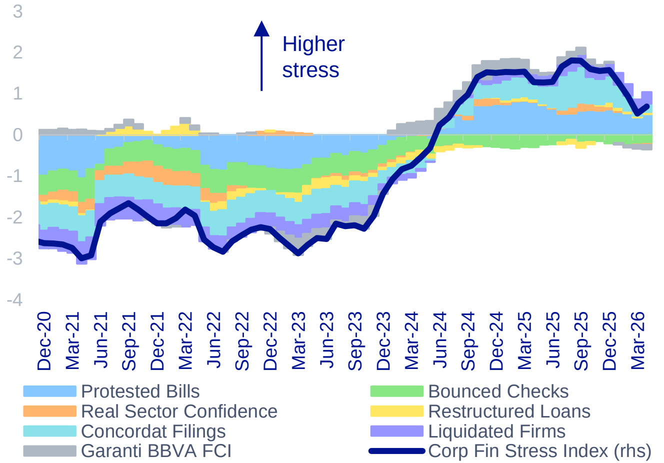
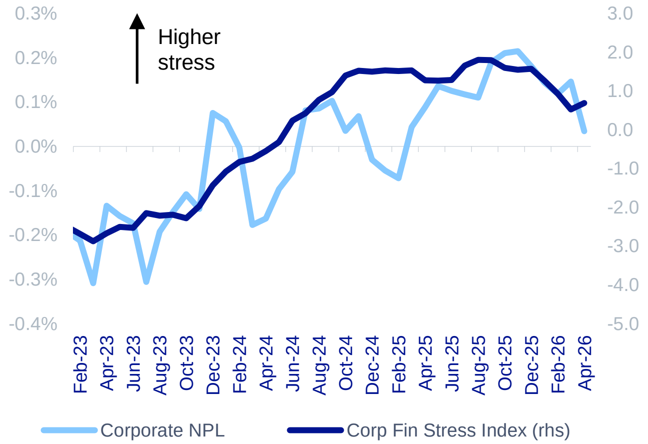
CORPORATE FINANCIAL STRESS*
(factor & contributions)



FINANCIAL STRESS & NPL
(factor vs 3M change)



Source: CBRT and Garanti BBVA Research.
* See here for the methodology and more detailed information.

Increased corporate distress most recently becomes more evident with the rise in concordat filings and restructured loans, yet still remains far below the stress level in 2H25.

There is also a slight uptick in retail financial stress in April, fueled by underutilized labor

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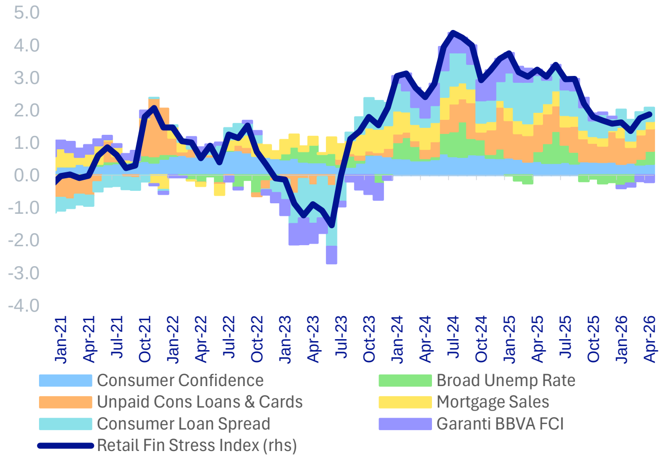
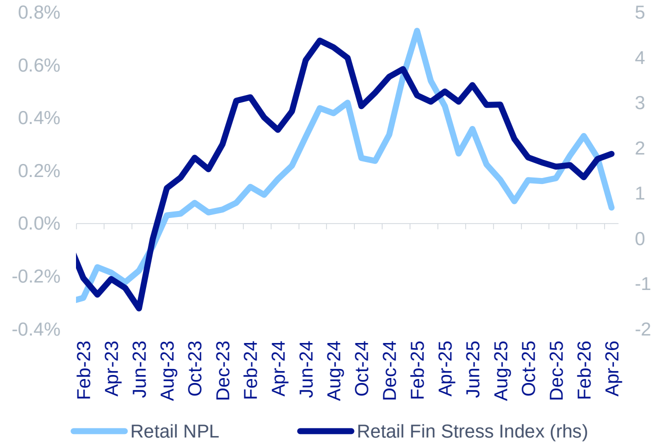
RETAIL FINANCIAL STRESS*
(factor & contributions)



FINANCIAL STRESS & NPL
(factor vs 3M change)



Source: CBRT and Garanti BBVA Research.
* See here for the methodology and more detailed information.

The most recent increase in retail financial stress stems from a higher push from underutilized labor, which we need to track in the coming months, once the support from retail restructurings between Jan-Apr fade away.

The increase in loan loss provisions was higher in public banks in March m-o-m.

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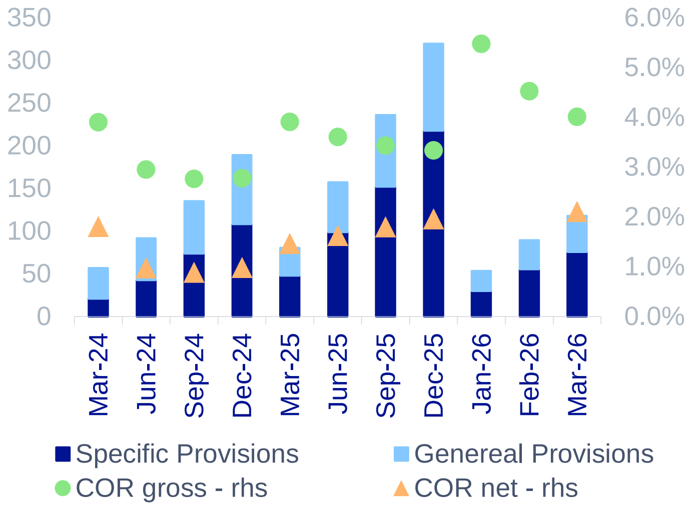
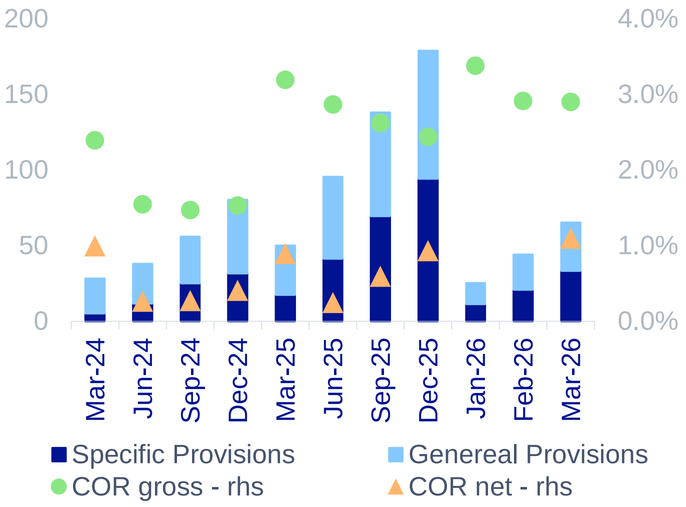
PRIVATE BANKS: PROVISIONS & CoR*
BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %



PUBLIC BANKS: PROVISIONS & CoR*
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 2026.

Source: CBRT, BRSA and Garanti BBVA Research.

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Profitability

The rise in net income of deposit banks decelerated in 1Q26 (6% q/q vs. 9% in 4Q25)

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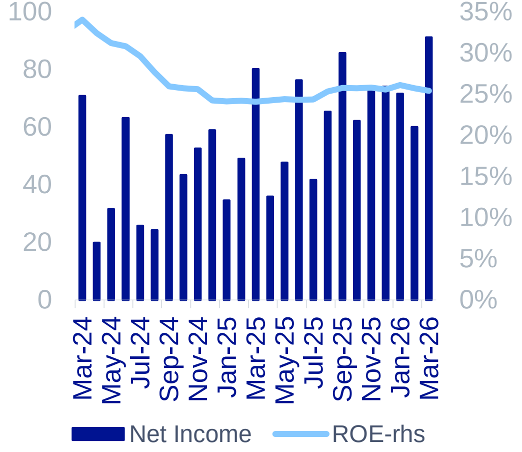
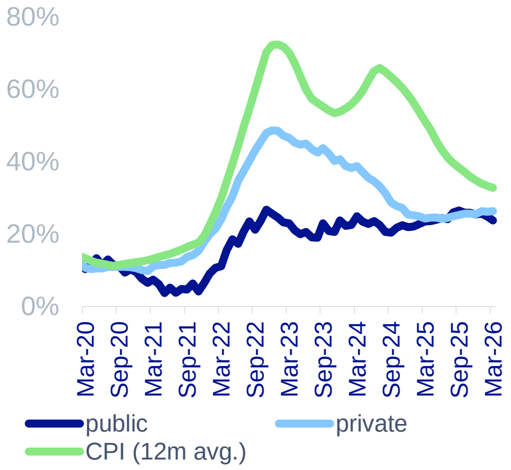
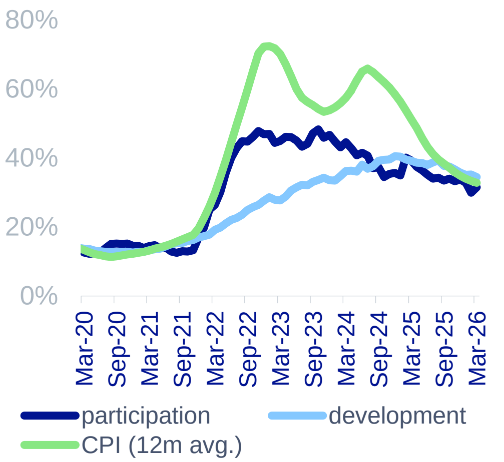
NET INCOME & RETURN ON EQUITY (ROE)
BN TL MONTHLY, % 12M CUMULATIVE



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



RETURN ON EQUITY (ROE)
%12M CUMULATIVE, PARTICIPATION & DEVELOPMENT BANKS



Source: CBRT, BRSA and Garanti BBVA Research.

The cumulative ROE fell to 25.4% in March, moving closer to 4Q25 levels, albeit higher than the 1H25 levels. On a monthly basis, the ROE of private banks improved in March compared to public banks causing also a divergence in the QoQ avg. increases btw 4Q25 and 1Q26.

On a monthly basis, public and private banks mainly differentiated in their trading gains and other NII

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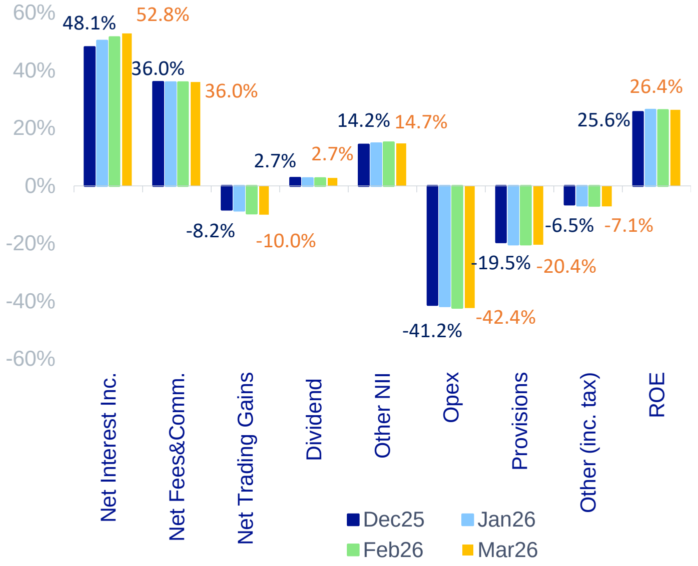
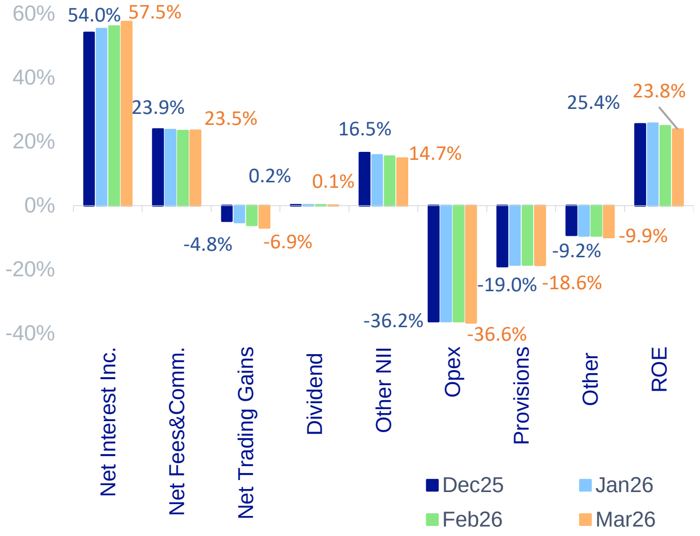
ROE COMPONENTS OF PRIVATE BANKS
%, 12M CUMULATIVE



ROE COMPONENTS OF PUBLIC BANKS
%, 12M CUMULATIVE



Source: CBRT, BRSA and Garanti BBVA Research.

Comp. to end-2025, net interest income contribution to ROE realized stronger in private banks in 1Q25. Fees and commissions contribution remained almost stable in the sector.

NIM improvement continued in March with the support from loan generation, despite higher costs

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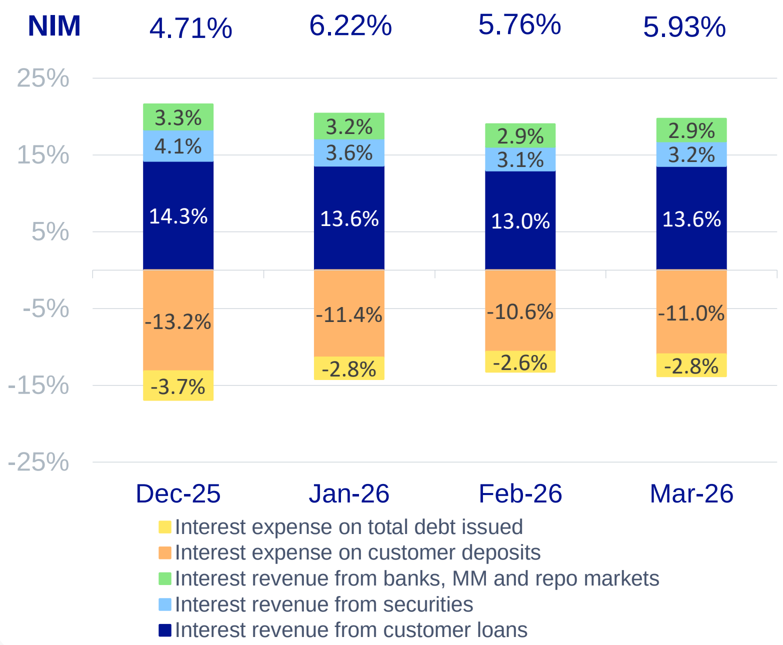
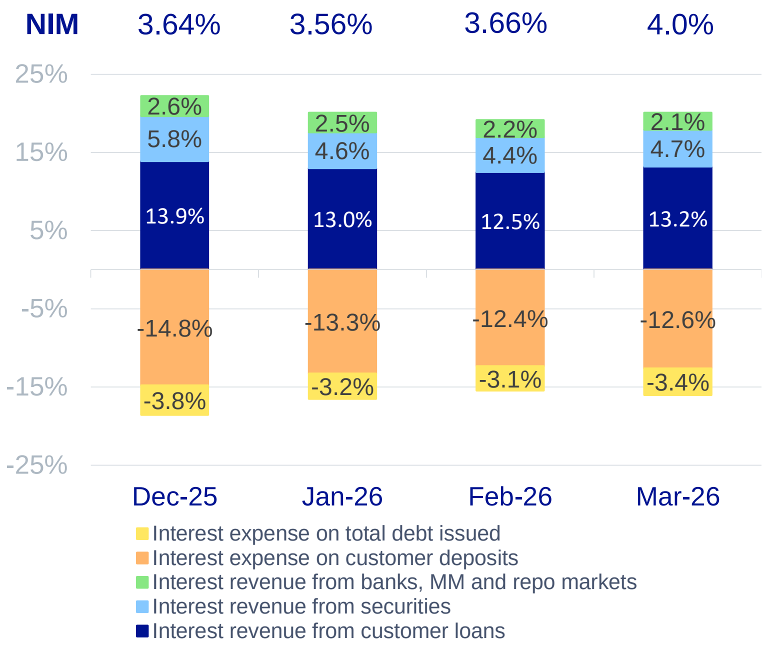
NIM* COMPONENTS OF PRIVATE BANKS



NIM* COMPONENTS OF PUBLIC BANKS



The higher improvement in public banks' NIM in March is mainly based on a stronger increase in revenue from issued debt and loan issuance.

*annualized
Source: CBRT, BRSA and Garanti BBVA Research.

On loan components of NIM, public banks differentiate mostly from their commercial loans' margins

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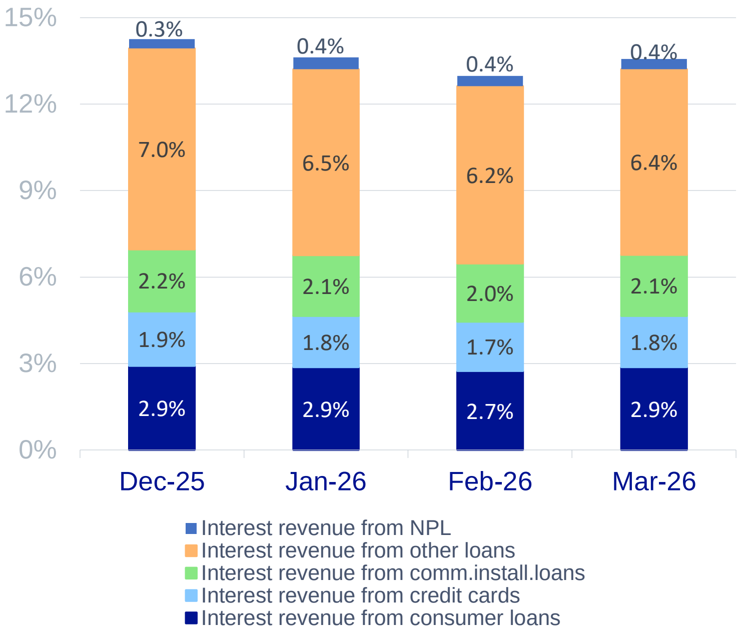
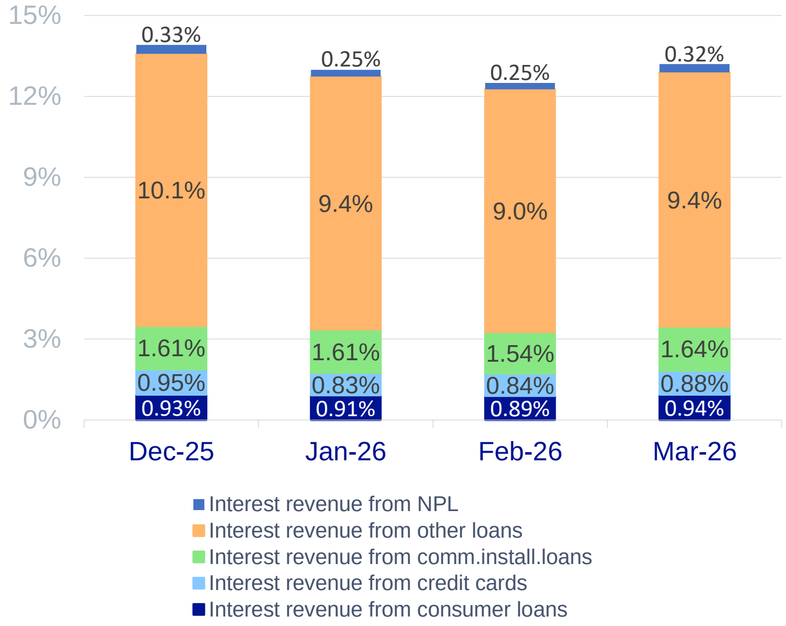
LOANS' NIM* COMPONENTS OF PRIVATE BANKS

NIM	14.3%	13.6%	13%	13.6%



LOANS' NIM* COMPONENTS OF PUBLIC BANKS

NIM	13.9%	13%	12.5%	13.2%



*annualized
Source: CBRT, BRSA and Garanti BBVA Research.

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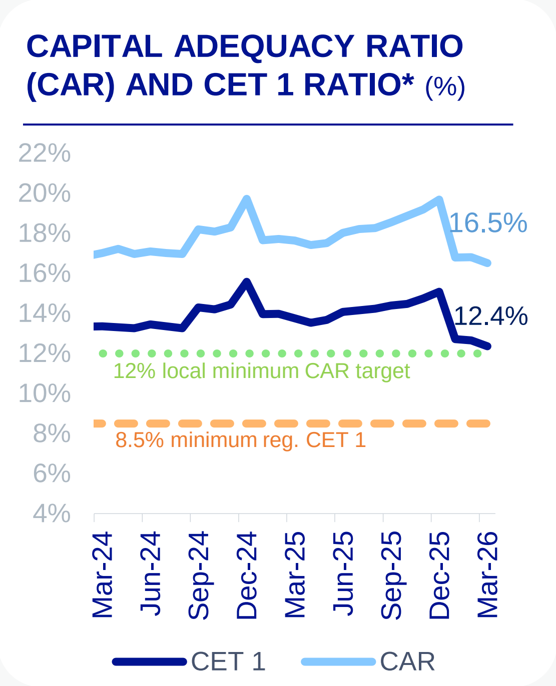
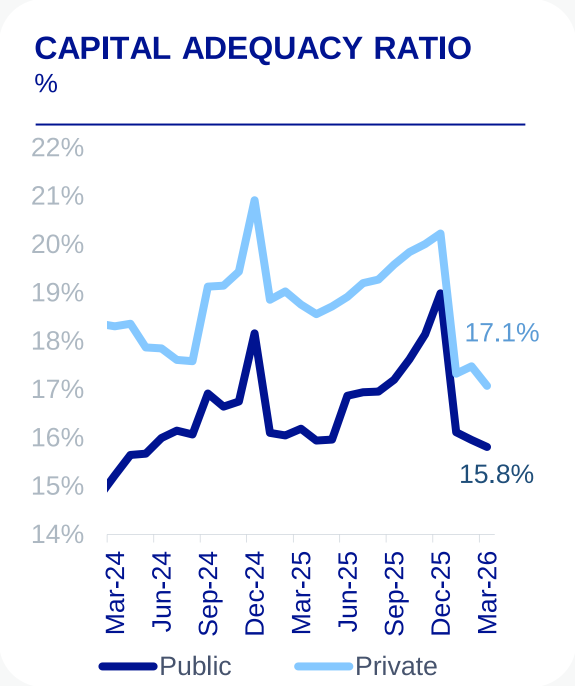
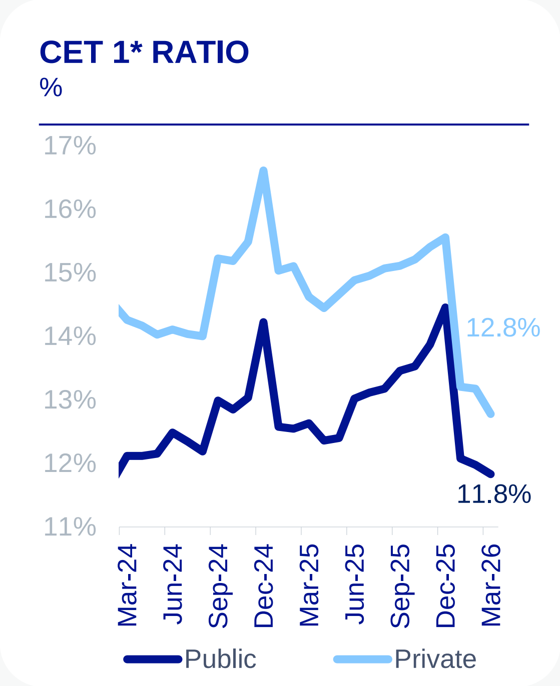
Solvency and Capital Adequacy

Capital ratios continued to fall in March, led by the decrase in CET 1 capital of private banks







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

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