

DENİZ ERGUN
JULY 2026

Türkiye Banking Sector Outlook

SECTOR OUTLOOK



Financial conditions did not ease further in May-June period; and macroprudential tightening remained the key sector driver. Credit growth caps have been further tightened with lower ratios. Therefore, the credit growth is losing momentum, reversing the strong 1Q26 trend after geopolitical tensions and additional macroprudential restrictions. On the other hand, the overall trend remains above the previous 2 years average, with private banks growing faster than public banks. The most obvious impact of macroprudential measures is seen in FC lending.

CREDIT SEGMENTS



Among segments, FC credit growth continues to slow down after the additional restrictions as of May, while TL credit growth has remained relatively resilient. This divergence is visible across public and private banks. TL commercial credit growth has decelerated since May, but the trend is still above the average of the previous two years. FX lending weakness is broad-based. The slowdown is seen across SME and non-SME FX loans. It is more pronounced at private banks, while public banks appear to be gaining share in FX lending to large corporates. Retail credit has re-accelerated since mid-May. GPLs, and overdraft loans have regained momentum, but the impact of new additional restrictions is still to be seen.

DEPOSITS & DOLLARIZATION



TL deposit growth stays robust with still attractive TL deposit rates. Inflows into TL deposits have continued at around same levels across the sector with dollarization ratio staying below 40%. Investment fund flows continue to favor TL-denominated funds, reinforcing the broader de-dollarization trend. We expect a gradual normalization of the funding rate at the July 23 MPC meeting since the currency remains the main anchor for disinflation. We also expect the TL deposit rules to continue as an important buffer to support the currency.

PROFITABILITY



Profitability weakened visibly in 2Q26. Average net income of deposit banks fell 36% in the first two months of 2Q26 versus 1Q26, and 17% m-o-m. Deposit-banks ROE declined to 24.5% in May, close to 1H25 levels. The main drag came from weaker trading gains and other net interest income, while the slight NII improvement was broadly similar across the sector. We still expect the 2026 ROE level for deposit banks to realize around 25%, with risks tilted to slightly downside. The key driver is expected to be the NII, with the funding-cost normalization around the July MPC meeting which will allow the NIMs to improve to the 1Q26 levels.

ASSET QUALITY



The overall NPL ratio remains stable. But the gradual deterioration in selected retail and SME portfolios continues. The deterioration is most evident in GPLs where the NPL ratio is approaching its historical highs. NPLs in consumer credit cards continue to move upwards as well, however less sharply than GPLs. After easing earlier in the year, loan-loss provisions picked up again in May. The increase has been more pronounced at private banks.

CAPITAL



Capital adequacy stays above regulatory minimums, but still the ratio is weakening as the removal of regulatory forbearance is also contributing to this trend. CET1 ratios have continued to decline while the CAR ratio remains at 17% in private banks compared to 15.5% in public banks, indicating a faster erosion of capital buffers.

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

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 4.5% for TL SME loans & 2% for non-SME TL commercial loans excluding export, investment & agriculture); 3% auto loans, 3% GPL, 4% for overdraft loans with more than 3 installments; 1% 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 is 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 has been terminated as of July26.
- The RRR of 28-32% for FC deposits & precious metals, as of July26
- 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

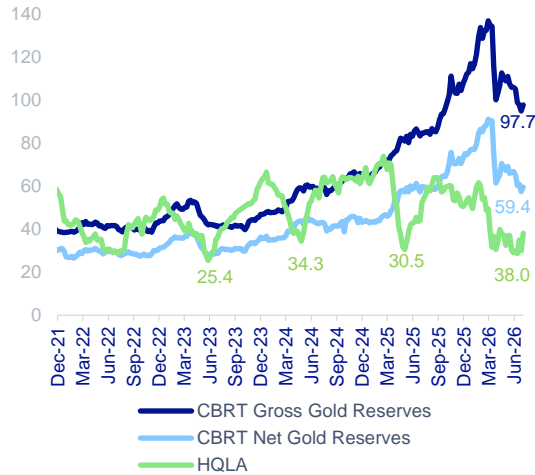
- Overdraft limit is capped at a maximum of twice the customer's monthly average income.
- On credit cards, the BRSA aims to impose restrictions on retail credit card limits if a cardholder's total credit card limits across all banks exceed TRY 400,000, banks will partially reduce unused credit card 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

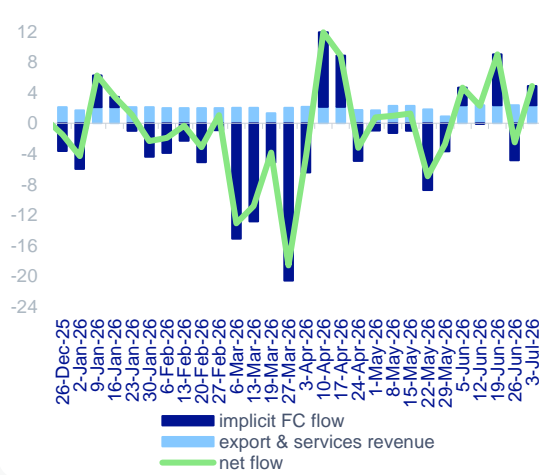
Falling gold prices weighs down on reserves, yet inflows^{BVA} provide support since June

Research

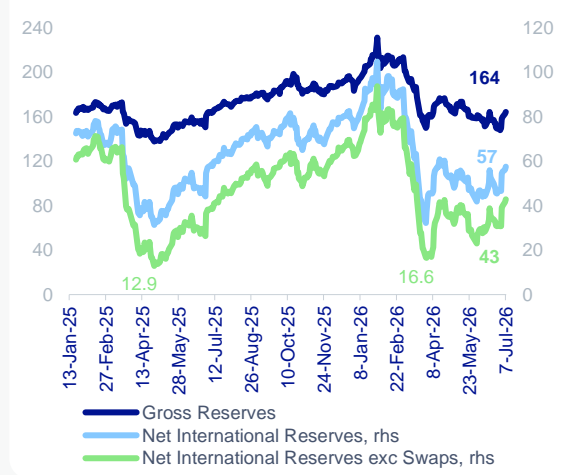
CBRT GOLD RESERVES & HQLA* (\$USBN, as of June 26th)



CBRT WEEKLY RESERVE FLOWS (\$USBN)



CBRT INTERNATIONAL RESERVES (\$USBN, as of July 7th)

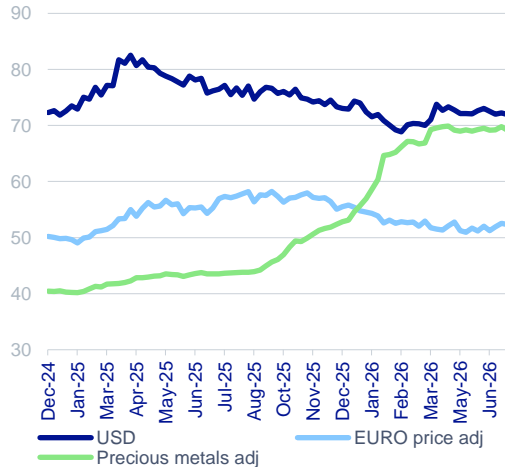


* High quality liquid foreign assets excluding IMF SDR & CB swaps
Source: CBRT and Garanti BBVA Research.

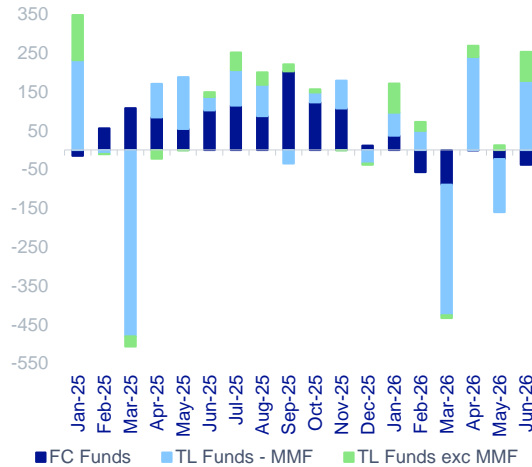
The inflows to the CBRT reserves in June compensate more than the losses in late May. The stress over the balance of risks has calmed down amid the resolution efforts in the Middle East, reducing the external financing needs compared to expectations before June.

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

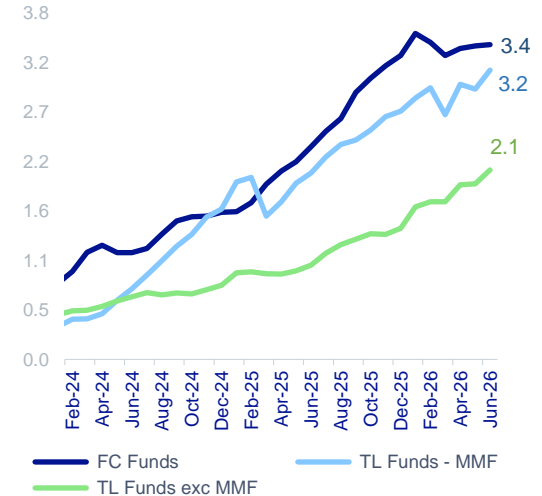
FC DEPOSITS VOLUME OF RESIDENTS (BN USD)



NET FLOWS IN INVESTMENT FUNDS (TL BN)

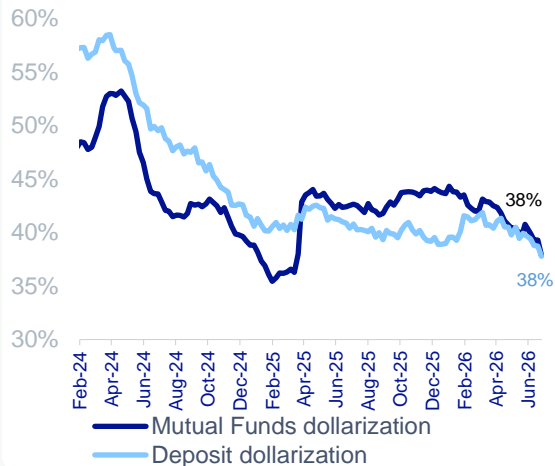


NET FLOWS IN INVESTMENT FUNDS (TL BN)

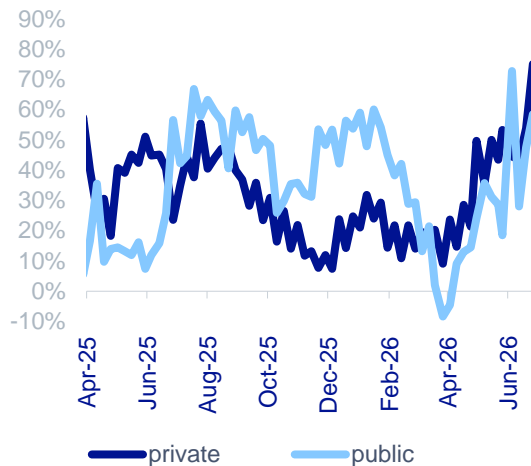


Inflows into TL deposits continue around same rates in the sector

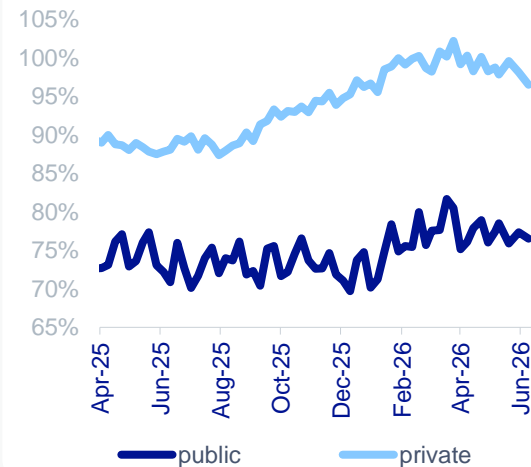
RESIDENTS' DOLLARIZATION RATIO* (%)



TL DEPOSIT GROWTH (PUBLIC VS. PRIVATE)



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



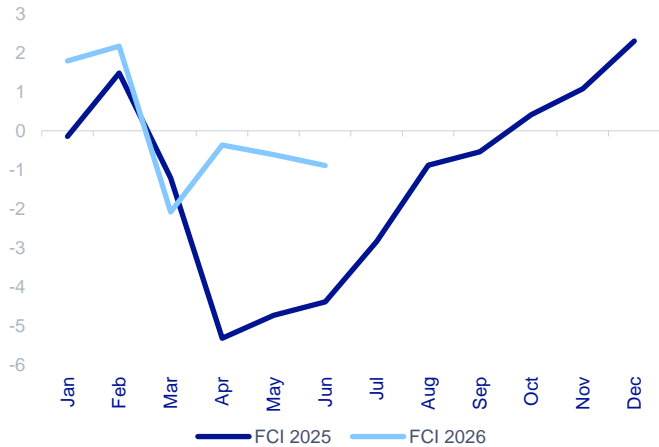
Source: CBRT, TURKSTAT, TEFAS and Garanti BBVA Research

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

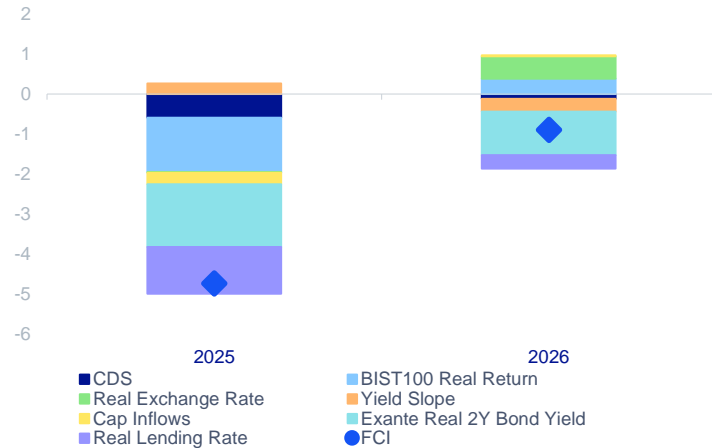
Dollarization ratio fell in the sector btw May and June: from 37.6% to 35.3% in public banks; and from 42% to 40% in private banks.

After easing in Apr from the geopolitical shock in Mar, financial conditions did not ease further in May–Jun

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



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

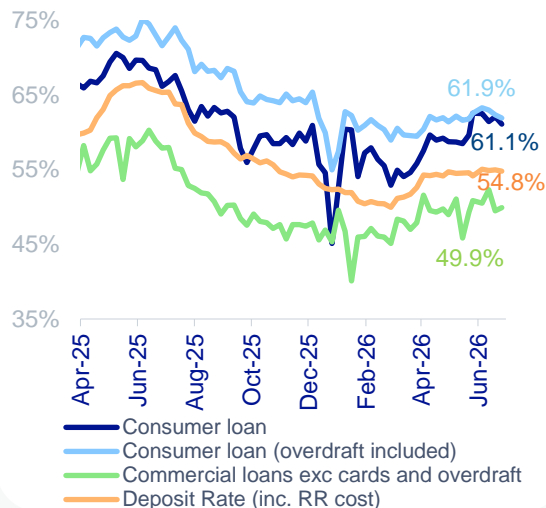


Source: CBRT, Bloomberg and Garanti BBVA Research

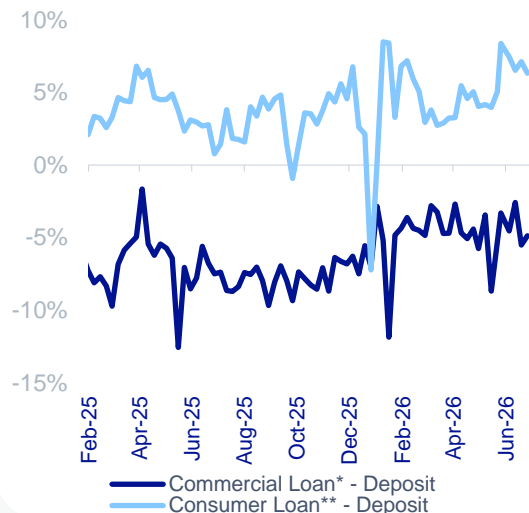
Nevertheless, financial conditions were more accommodative in 2Q26 than in 1Q26. The effects of the US-Iran shock were short-lived, with financial conditions easing faster than a year earlier on a year-to-date basis as of June, although they remain contractionary under the tighter-for-longer monetary policy stance.

Between May and June, TL loan to deposit spreads worsened by nearly 200bps

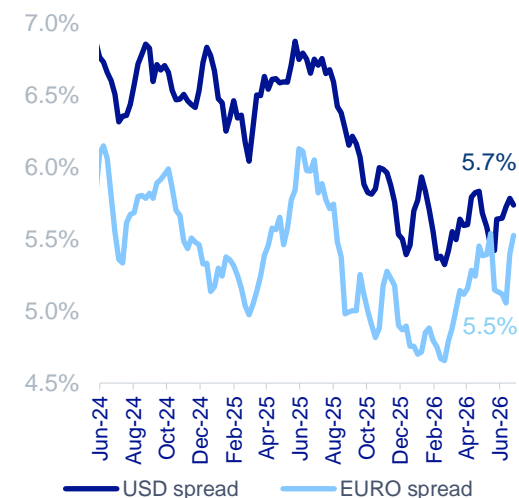
TL DEPOSIT INTEREST RATES (%, FLOW, SECTOR, WITHOUT RR COST)



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



FC INTEREST RATE SPREAD %, FLOW, SECTOR



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

Source: CBRT & Garanti BBVA Research

Comparatively, the improvement in FC spreads was strong in June.

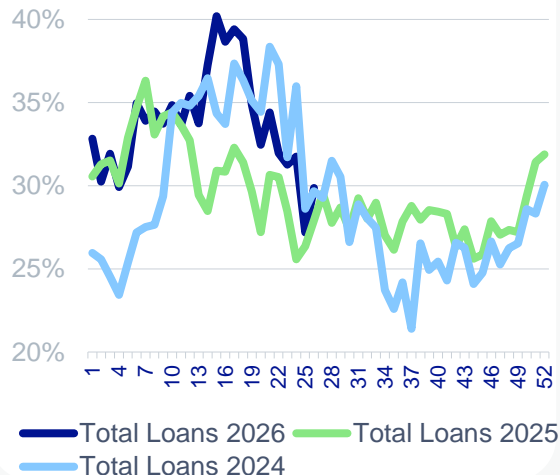
Credit Developments

Credit growth trend has been decelerating since end of April, with private banks remaining above public banks

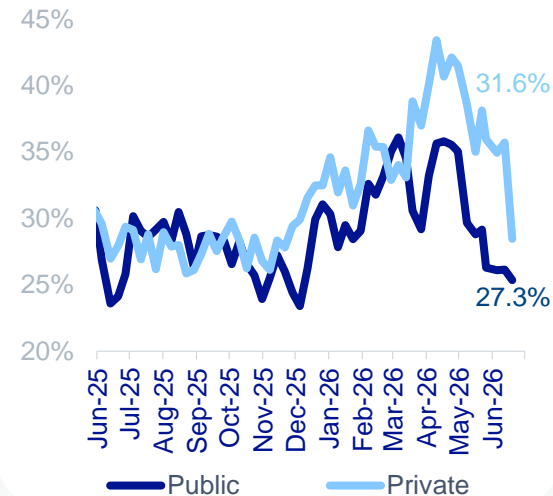
TOTAL CREDIT GROWTH (FX ADJ)
(13 WEEK ANNUALIZED & YOY)



TOTAL CREDIT GROWTH (FX ADJ)
(13 WEEK ANNUALIZED)



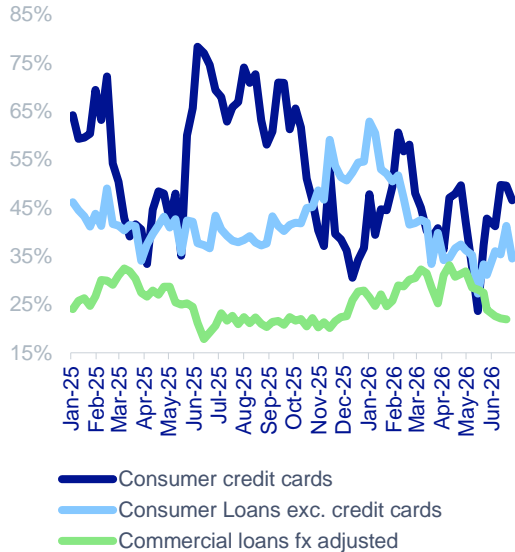
TOTAL CREDIT GROWTH (FX ADJ) PUBLIC & PRIVATE BANKS
(13 WEEK ANNUALIZED)



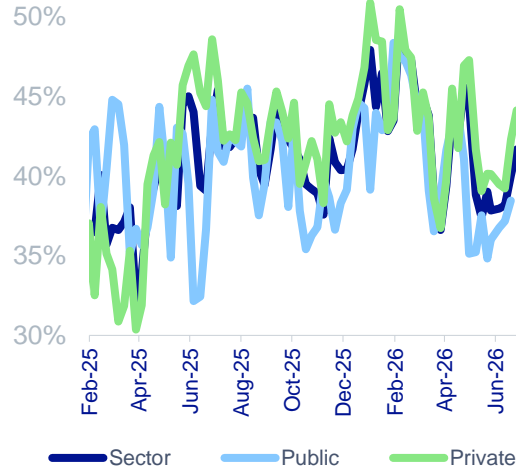
Compared with the average of the past 2 years, the current growth trend falls between 2024-2025 level. The upward trend observed in 1Q26 reversed after geopolitical tensions and the introduction of additional macroprudential restrictions, with a more pronounced impact on public banks.

After additional restrictions, FC credit growth keeps decelerating, while TL credit growth remains resilient

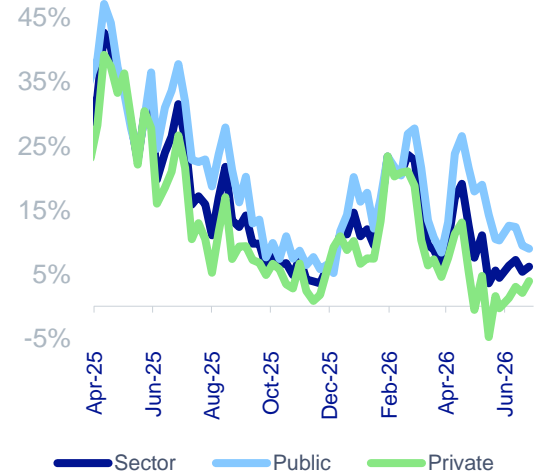
CREDIT GROWTH SEGMENTS (13 WEEK ANNUALIZED)



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



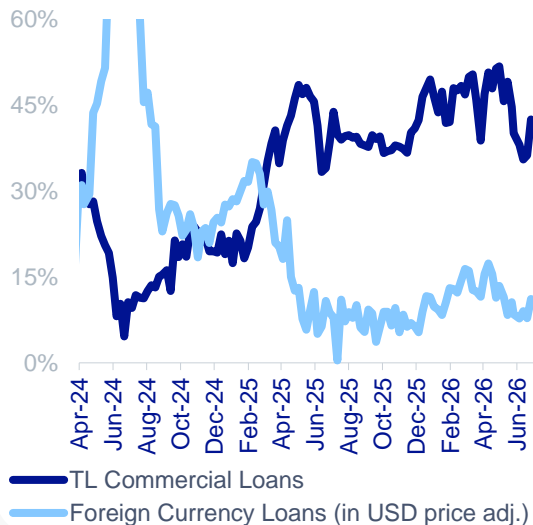
FC CREDIT GROWTH: PUBLIC VS PRIVATE BANKS (13 WEEK ANNUALIZED, DEPOSIT BANKS)



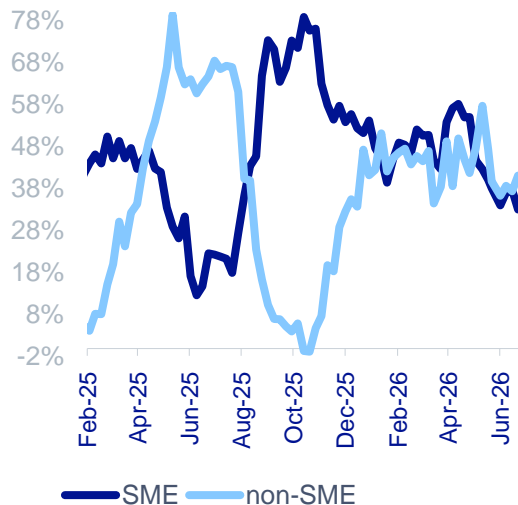
Public and private banks continue to exhibit divergent growth trends across TL and FC credit segments.

TL commercial credits decelerates as well since May. Overall trend remains above the previous 2 years avg.

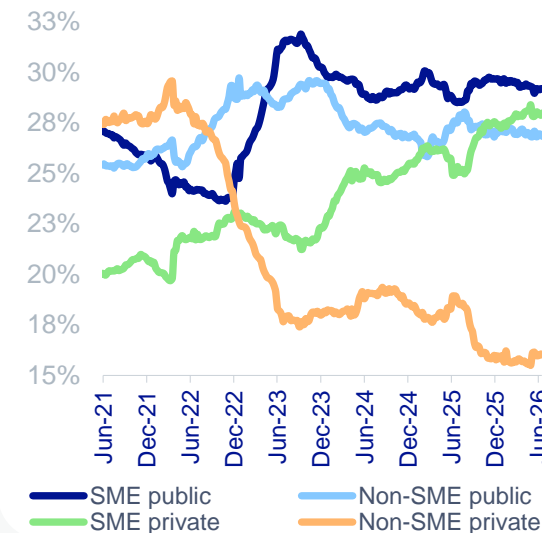
COMMERCIAL CREDITS
(13 WEEK ANNUALISED)



TL COMMERCIAL CREDIT SEGMENTS GROWTH
(13 WEEK ANNUALIZED)



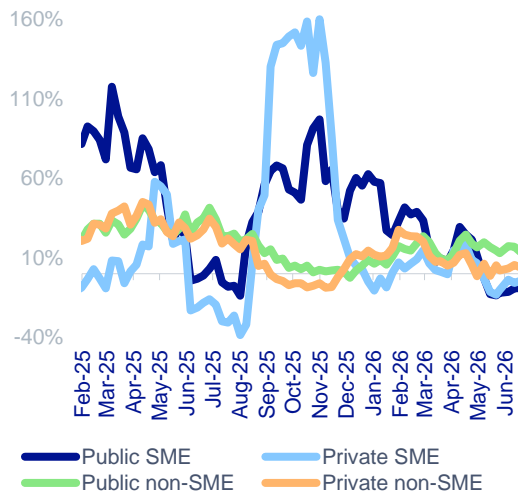
SHARES IN TOTAL TL COMMERCIAL CREDITS
(%)



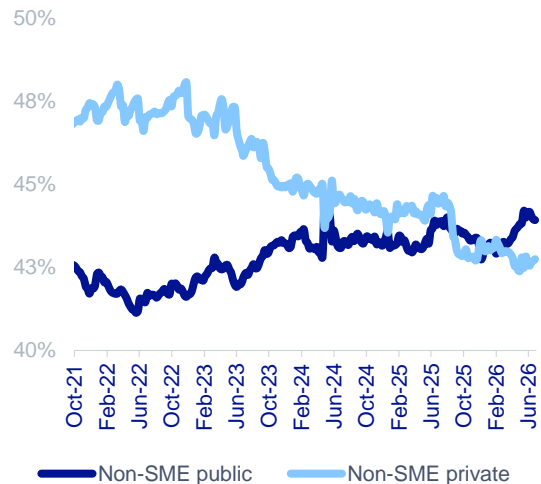
Differentiating the portfolio composition in the sector, the share of TL non-SME lending has declined significantly at private banks and remains lower than public banks.

FC lending slowdown happens in all subsegments. Public banks share in FC big firm lending is increasing

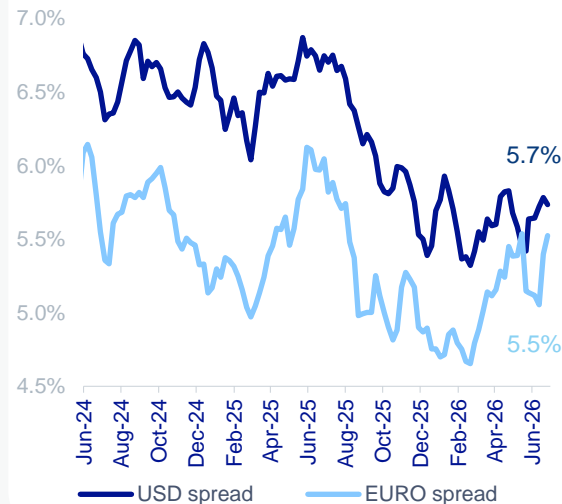
FC CREDIT GROWTH
(13 WEEK ANNUALIZED)



SHARE IN TOTAL FC NON-SME LENDING
(%)



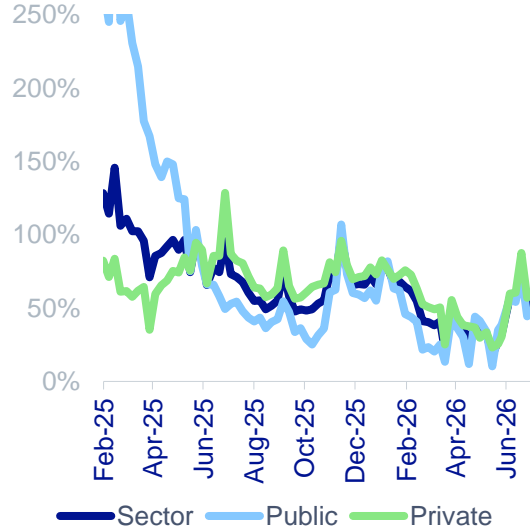
FC CREDIT SPREADS
(4W.AVG)



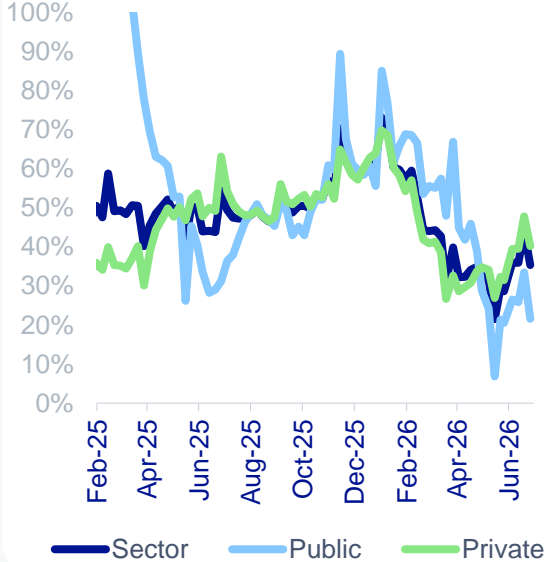
Weak FC lending is more pronounced among private banks, while public banks appear to be gaining market share in FC lending to large corporates.

Consumer credit segments seem to have regained their momentum since mid-May

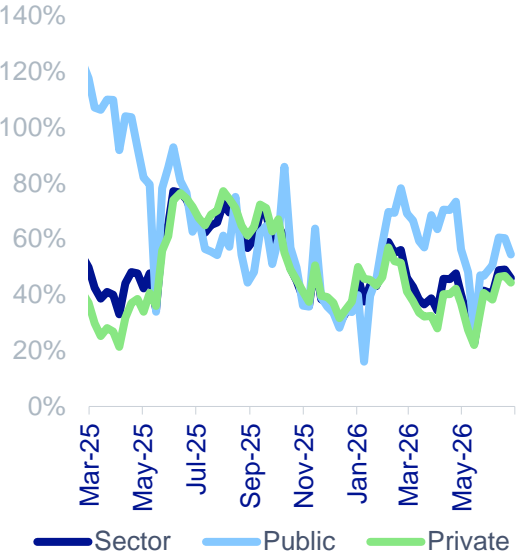
OVERDRAFT CONSUMER LOANS 13 WEEK ANNUALISED, DEPOSIT BANKS



GENERAL PURPOSE LOANS 13 WEEK ANN., DEPOSIT BANKS



CREDIT CARD GROWTH 13 WEEK ANNUALIZED, DEPOSIT BANKS

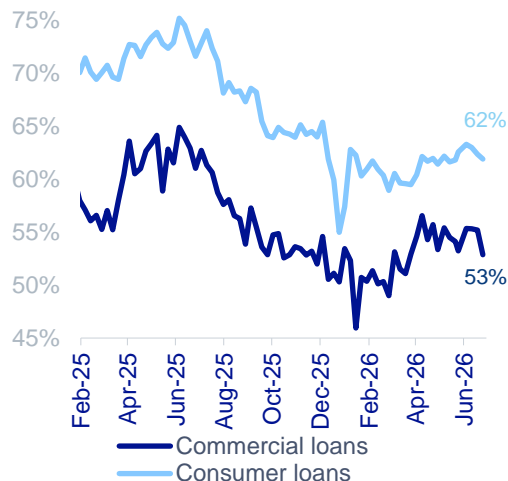


* In March, the BRSA introduced new regulations on consumers: Overdraft limit is capped at a maximum of twice the customer's monthly average income

Credit interest rates remain high. Mortgage rates reached almost 42%, highest in a year

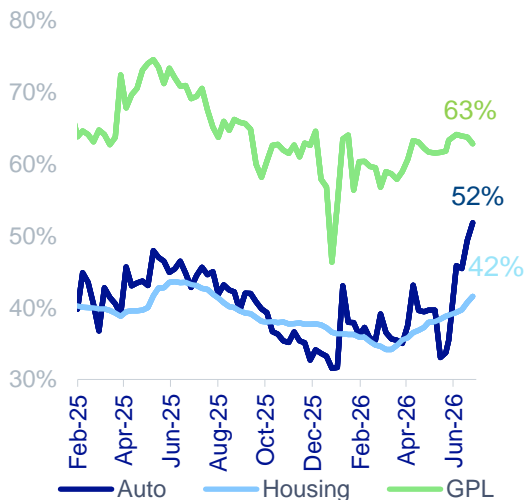
CREDIT INTEREST RATES

WEEKLY, COMPOUND, FLOW; including overdraft loans' rates %



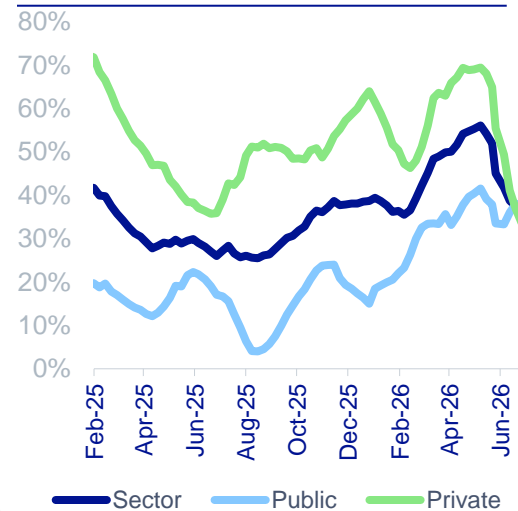
CONSUMER CREDIT RATES

WEEKLY, COMPOUND, FLOW



MORTGAGE CREDIT GROWTH

13 WEEK ANNUALIZED



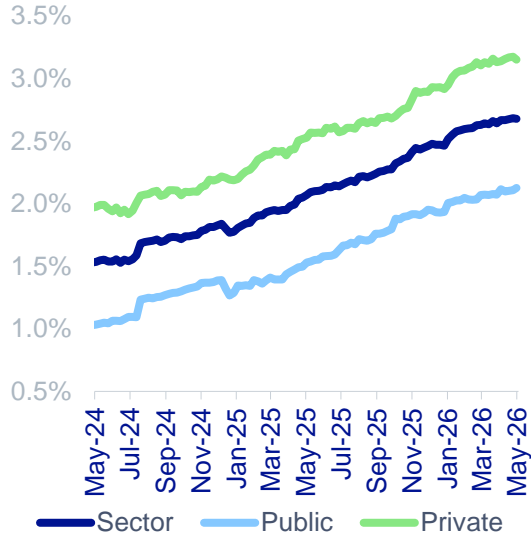
*** There are no growth caps on mortgage lending. Public banks continue to grow in this segment whereas deceleration in private banks is becoming more pronounced since mid-May.**

Asset Quality

Total NPL ratio hovers around 2.7%, also partly supported by the recent sell-offs

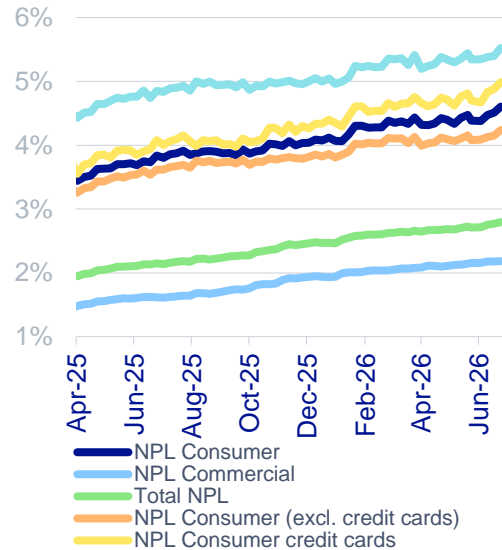
NPL RATIO

%



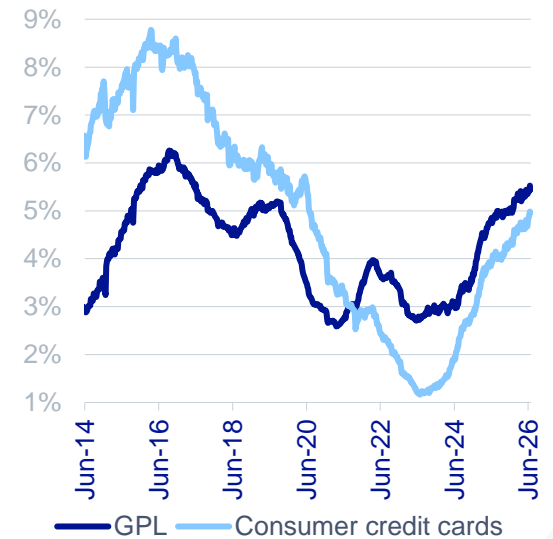
NPL RATIO IN SUBSEGMENTS

%



NPL RATIO, CONSUMER LOANS

%

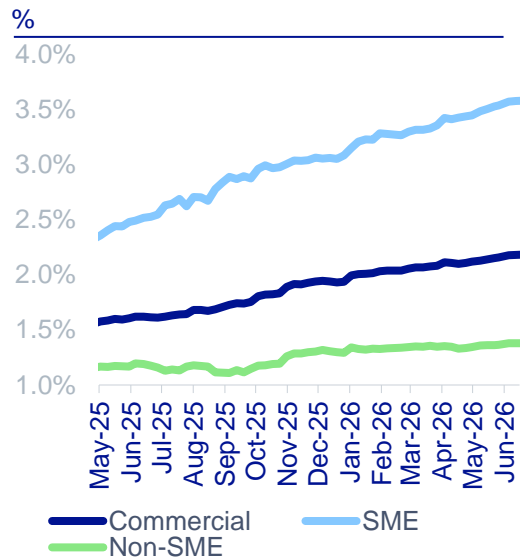


Source: CBRT, BRSA and Garanti BBVA Research.

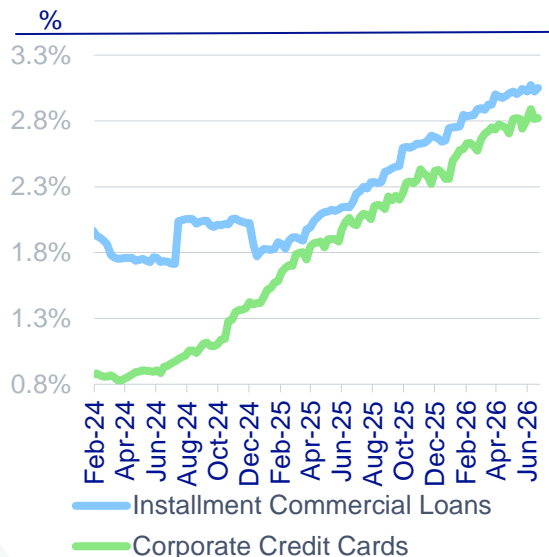
The GPL NPL ratio however is converging to levels close to its historical highs.

Commercial NPL ratio is low but the the rise in SMEs continues

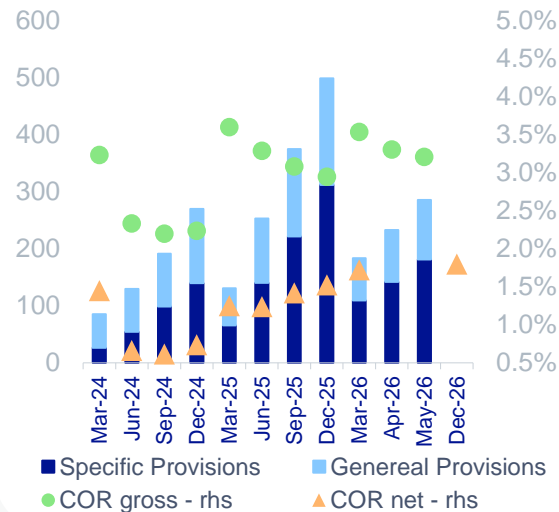
NPL RATIO IN COMMERCIAL LOANS



NPL RATIO IN COMMERCIAL LOANS



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



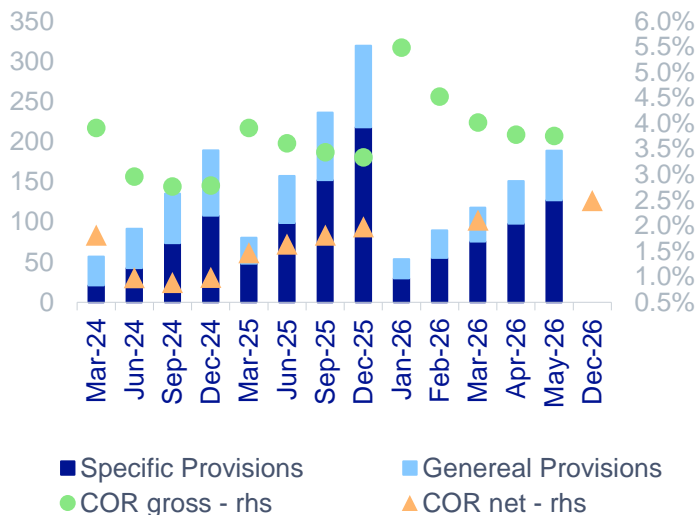
Source: CBRT, BRSA and Garanti BBVA Research.

After falling since Feb26, gross provisions increased in May.

Loan loss provision increase has been higher in private banks in the first 2 months of 2Q26

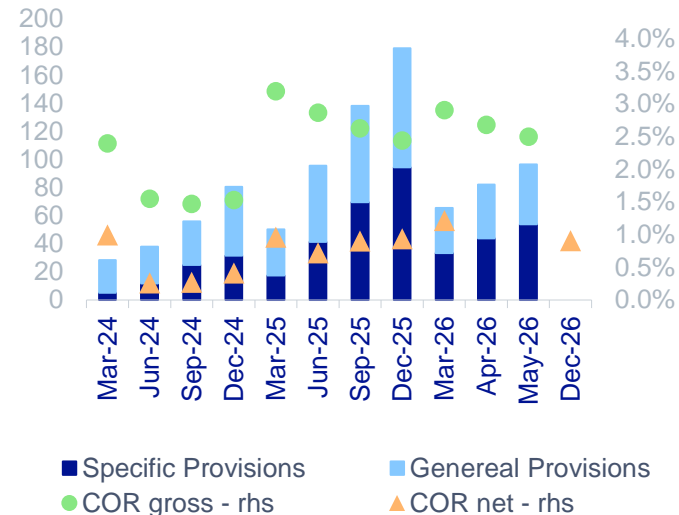
PRIVATE BANKS: PROVISIONS & CoR*

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



PUBLIC BANKS: PROVISIONS & CoR*

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



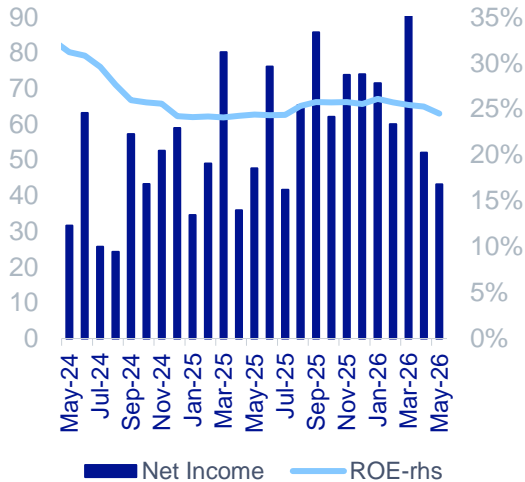
*Due to public data restriction, we use peer banks' data as a proxy for the net CoR estimation for 2026.

Profitability

Avg. net income of deposit banks fell by 36% in the first 2 months of 2Q26 compared to 1Q26; and 17% m-o-m BBVA Research

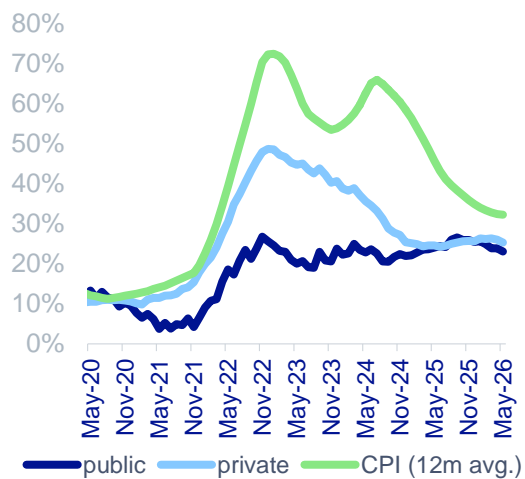
NET INCOME & RETURN ON EQUITY (ROE)

BN TL MONTHLY, % 12M CUMULATIVE



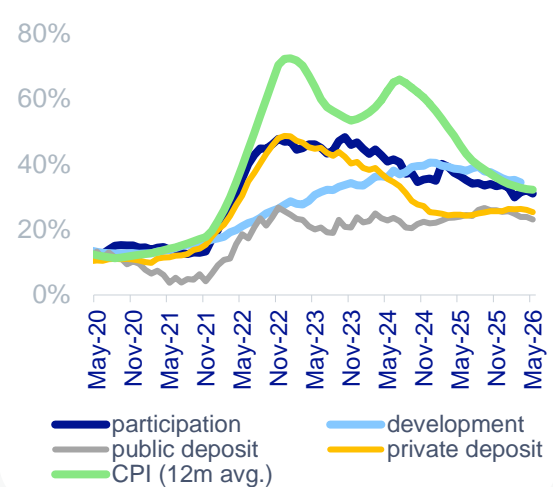
RETURN ON EQUITY (ROE)

%12M CUMULATIVE, DEPOSIT BANKS



RETURN ON EQUITY (ROE)

%12M CUMULATIVE, PARTICIPATION & DEVELOPMENT BANKS



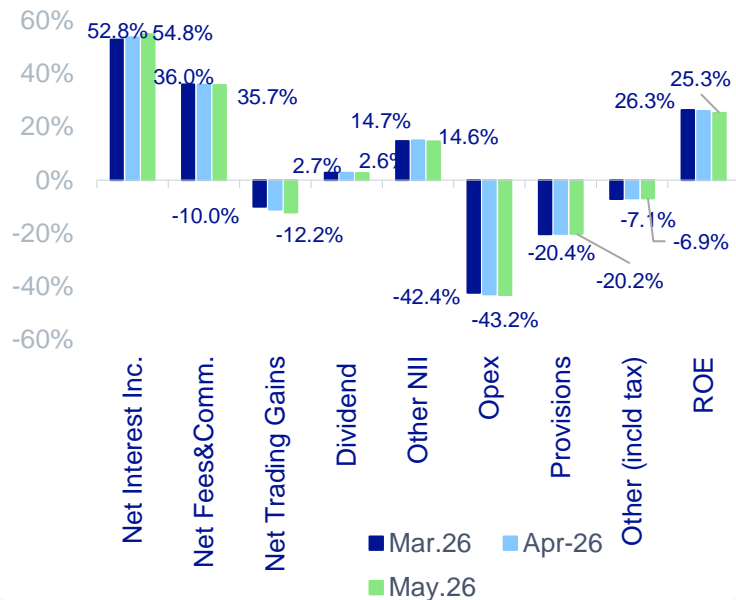
Source: CBRT, BRSA and Garanti BBVA Research.

The cumulative ROE of deposit banks fell to 24.5% in May, close to 1H25 levels. On a monthly basis, the weak income performance was also seen in participation banks and development banks as well

Public and private banks mainly differentiated in their neg. contribution of trading gains and other NII btw Mar-May26

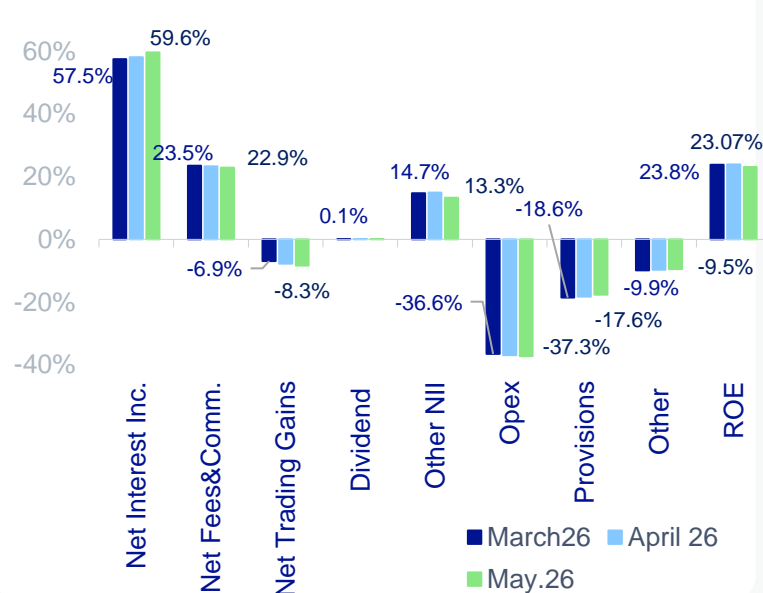
ROE COMPONENTS OF PRIVATE BANKS

%, 12M CUMULATIVE



ROE COMPONENTS OF PUBLIC BANKS

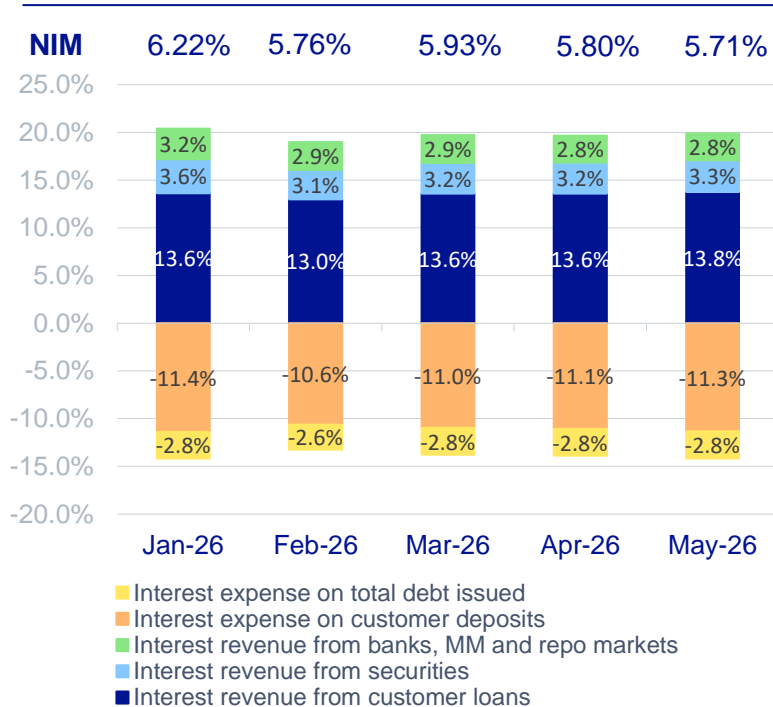
%, 12M CUMULATIVE



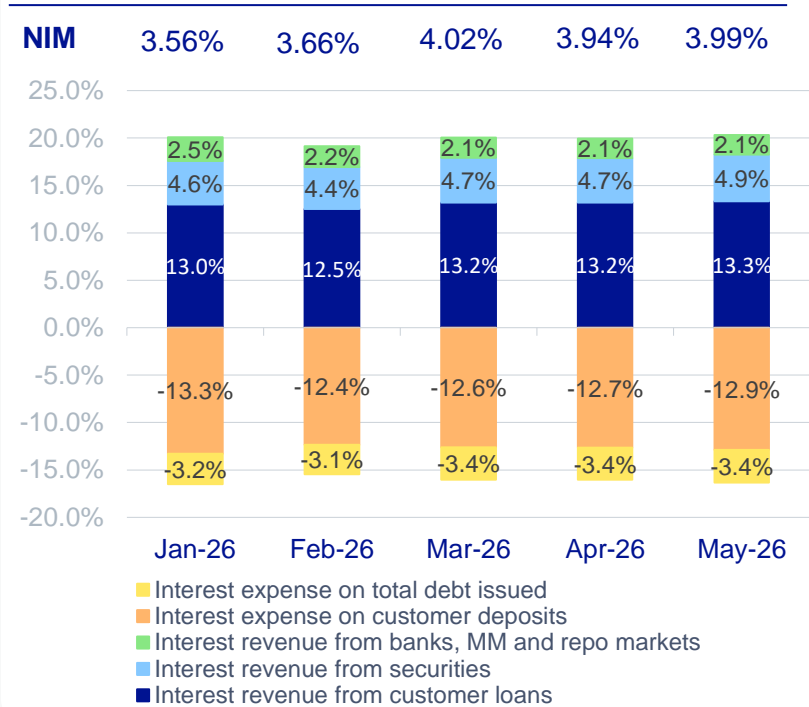
Net interest income improvement was around the same levels in the sector. Provision expenses' negative contribution realized lower in public banks.

NIM performance differentiates in the sector via the income generation of securities and customer loans

NIM* COMPONENTS OF PRIVATE BANKS

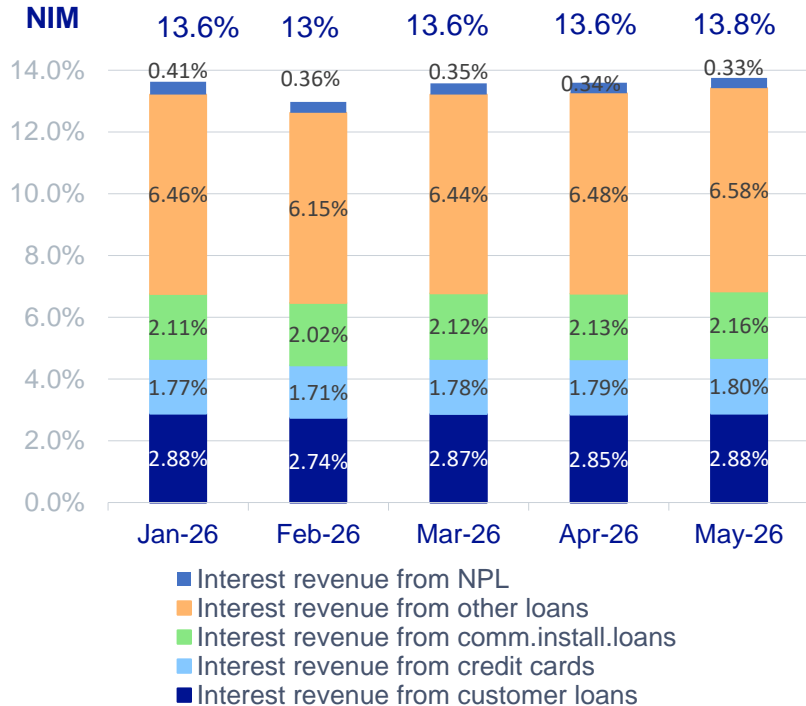


NIM* COMPONENTS OF PUBLIC BANKS

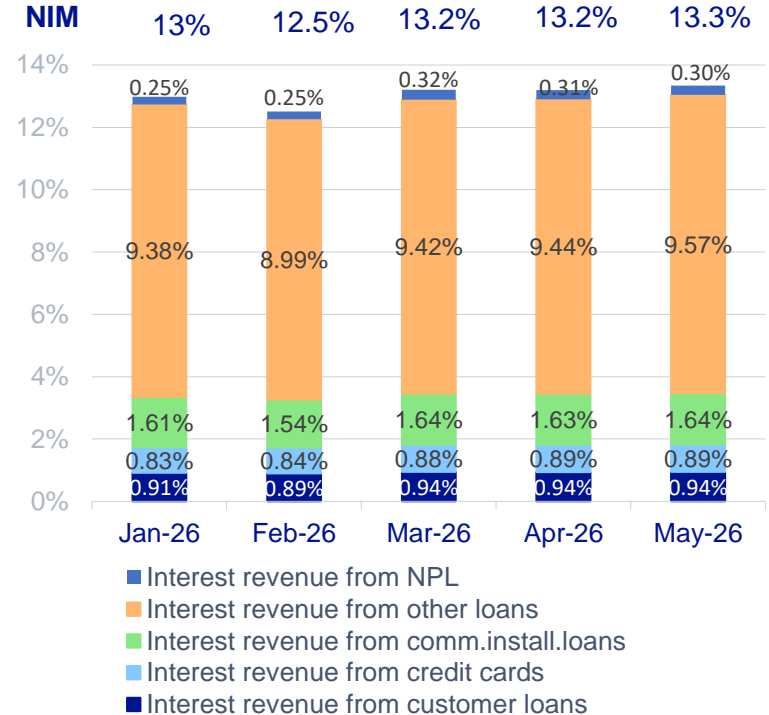


On loan components of NIM, private banks' retail loan margins performed higher than in public banks

LOANS' NIM* COMPONENTS OF PRIVATE BANKS

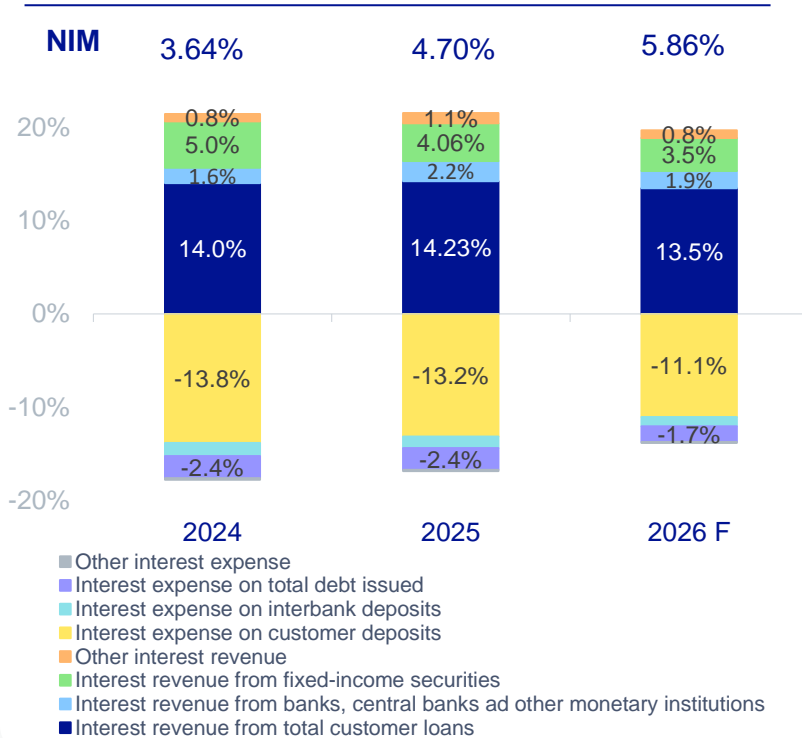


LOANS' NIM* COMPONENTS OF PUBLIC BANKS

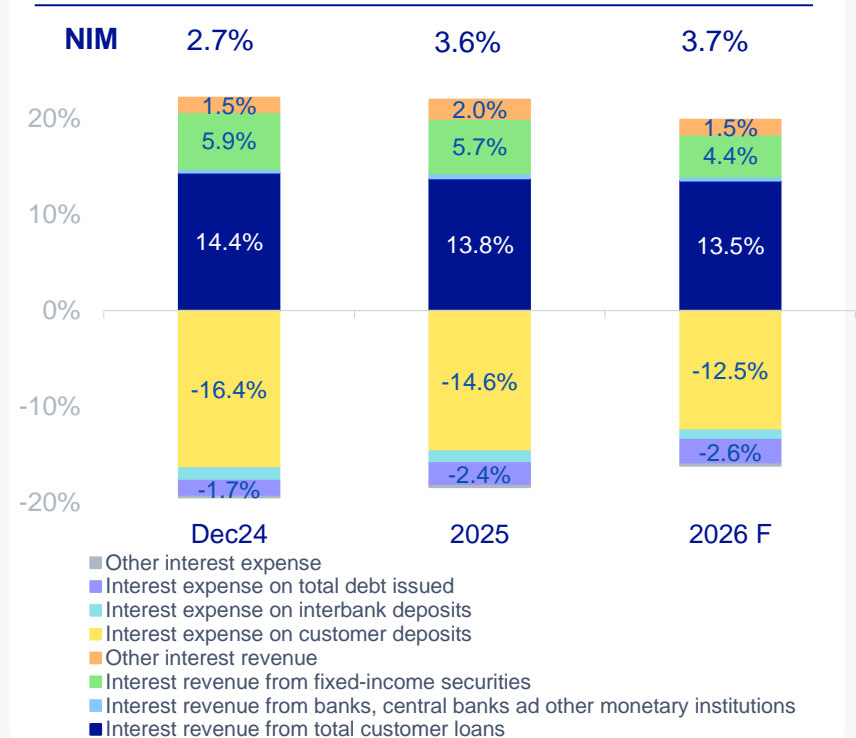


Deposit costs and cost of debt issued will mainly differentiate NIM segments for end-2026

LOANS' NIM* COMPONENTS OF PRIVATE BANKS

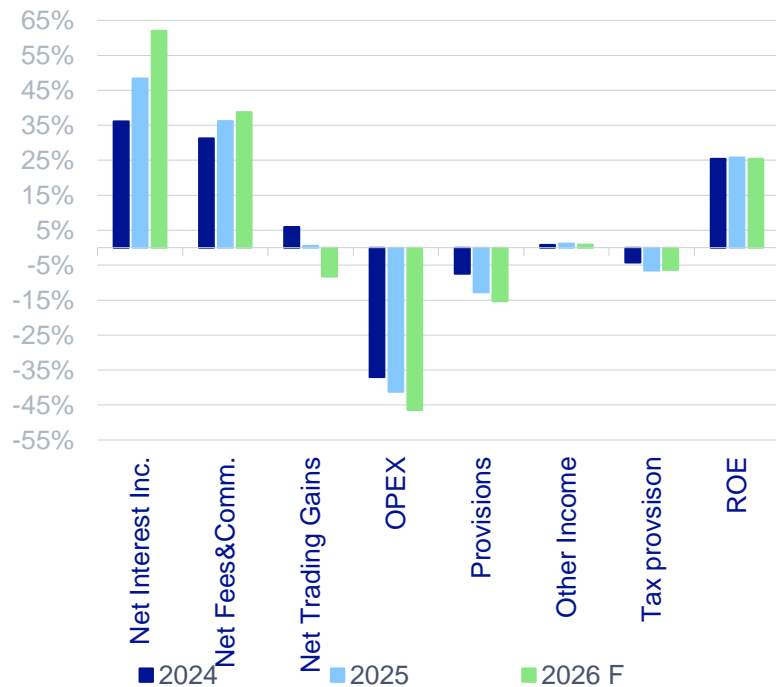


LOANS' NIM* COMPONENTS OF PUBLIC BANKS

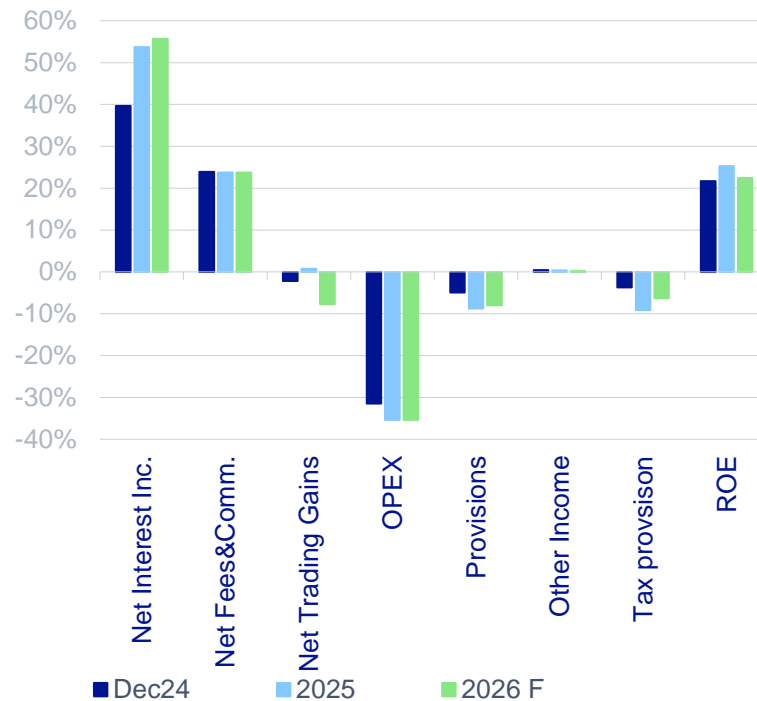


2026 RoE levels will differentiate via mainly NII and fees & commission & also OPEX

ROE COMPONENTS OF PRIVATE BANKS annualized



ROE COMPONENTS OF PUBLIC BANKS annualized



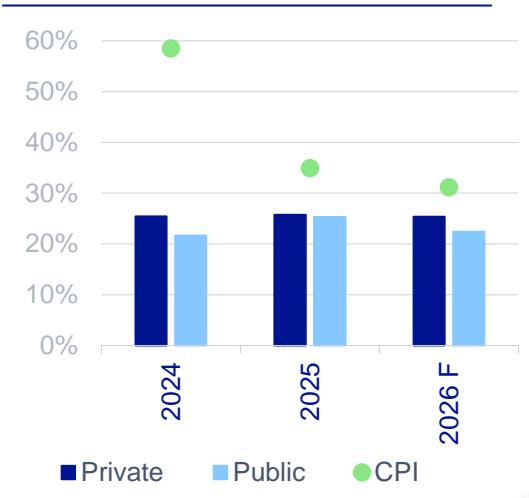
*annualized; F= forecasted

Source: CBRT, BRSA and Garanti BBVA Research.

We still expect the 2026 ROE level for deposit banks to realize around 25%, with risks tilted to slightly downside

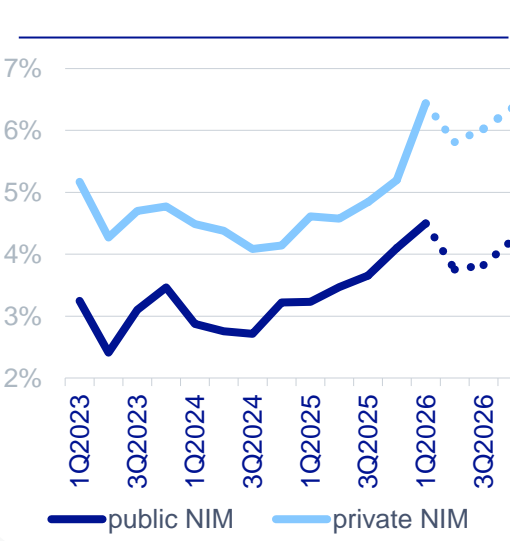
ROE EVOLUTION & FORECASTS*

Annualized % with average annual CPI



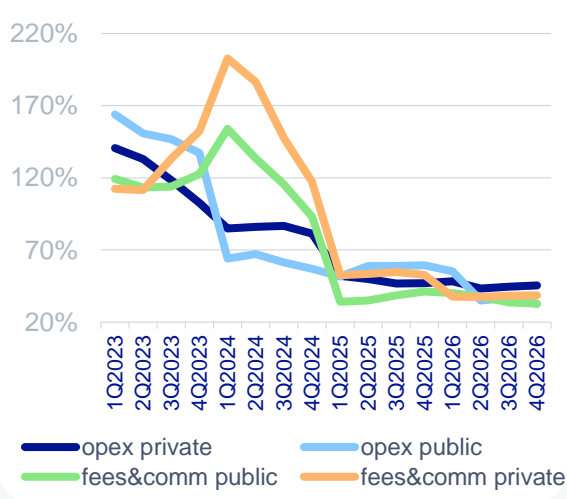
NIM EVOLUTION & FORECASTS

Annualized %



OPEX AND FEES&COMM. EVOLUTION & FORECASTS

YoY growth %



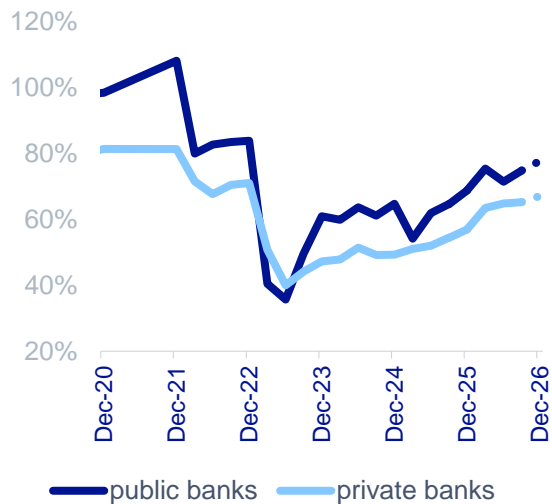
Source: CBRT, BRSA and Garanti BBVA Research.

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

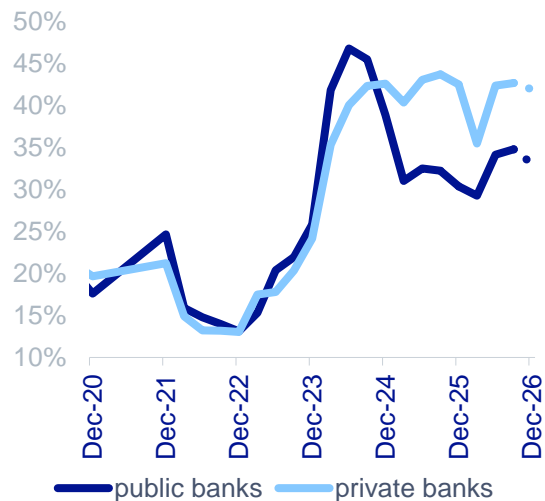
We expect gradual normalization of the funding rate around the July 23 MPC meeting. We now expect year-end policy rate at 36%, although recent developments in inflation imply a limited downside risk to this forecast.

Share of fees and commission revenue in total revenue will differentiate btw public and private banks BBVA Research

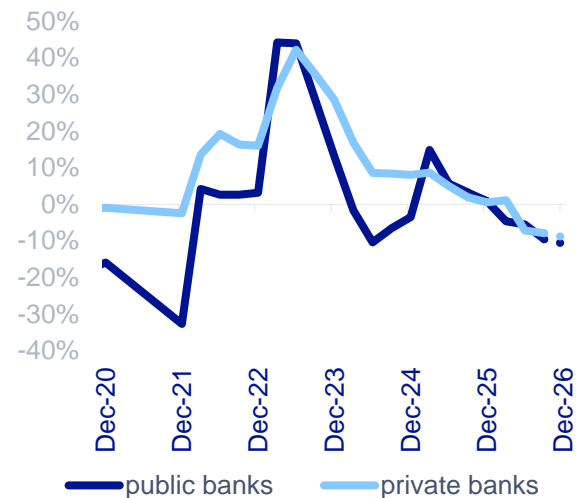
NET INTEREST REVENUE / TOTAL REVENUE %



NET FEES & COMMISSION REVENUE / TOTAL REVENUE, %



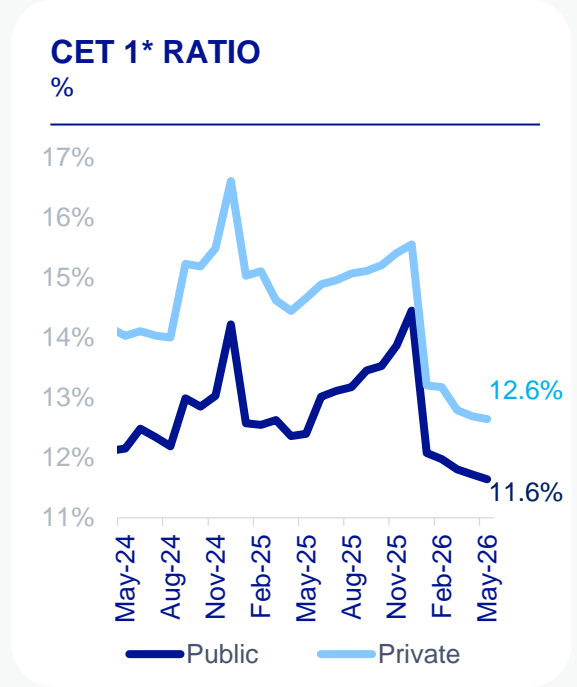
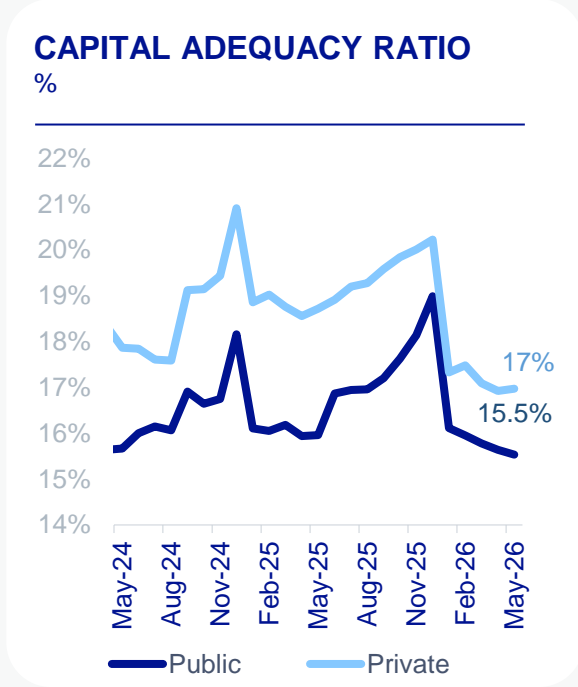
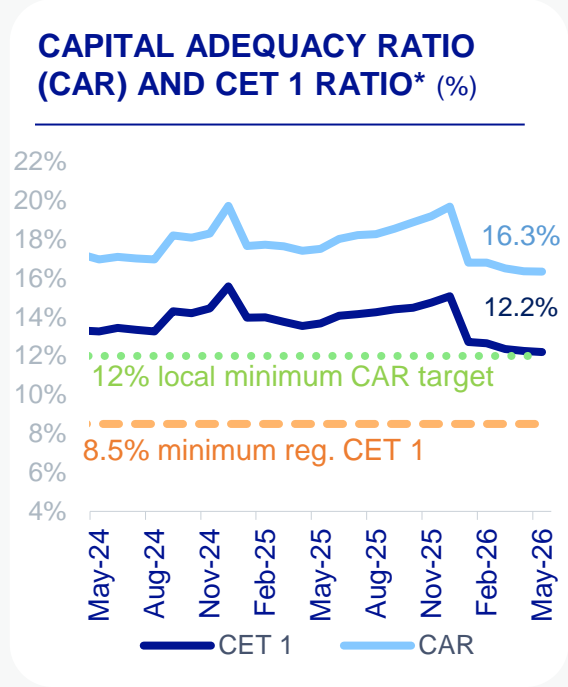
TRADING & FX GAINS / TOTAL REVENUE



Source: CBRT, BRSA and Garanti BBVA Research.

Solvency and Capital Adequacy

CET 1 ratios continue to fall in both public and private banks. The CAR ratio of public banks worsened too



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

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