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DENIZ ERGUN
DECEMBER 2025

Türkiye Banking Sector Outlook

Main messages

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SECTOR OUTLOOK

With the funding costs coming down, banks’ operating environment started to improve a little bit faster after September in terms of extending margins. On the other hand, the disinflation strategy of the monetary policy continues to be supported by macro-prudential measures, which we expect to be maintained to a large extent in 2026. Due to ongoing growth caps in credits, banks tend to keep returns higher in uncapped credits with stronger margins, whereas TL deposit costs come down but more slowly than the decline in the CBRT cost of funding. Spreads in private banks differentiate from public banks with their faster improvement in their NIMs.

CREDIT SEGMENTS

Due to credit growth restrictions, overall credit growth maintains a moderate trend rate of 27-28% (not deviating much compared to inflation trend) since the end of 2Q25, helped by the subdued commercial lending mostly in FC. On segments, TL credit growth continues to be pushed by consumer lending, with a higher growth in non-capped items being fueled by unanchored inflation expectations and generating growth in real terms since 3Q25. FC lending decelerates, affected by growth caps.

DEPOSITS & DOLLARIZATION

KKM scheme has almost come to an end. Maturing KKM deposits have been transferred to mostly FC investment funds whose size has grown to 76bn$ as of end November (vs. 45bn$ by end 2024) and we also observe a loss of momentum in TL money market funds (MMFs) with declining returns since June. However, led by ongoing TL deposit rules on the banking sector and the proactive TL liquidity management of the CBRT, TL rates remain still attractive which helps to keep savings mostly in TL, generating system-wide dollarization ratio - including investment funds- staying closer to 40%.

Main messages

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PROFITABILITY

We expect the NIM expansion seen in 3Q25 to be maintained going forward with the rate cutting cycle and funding costs declining, albeit at a slower pace than previously expected. Revenues are being supported by fees & commissions which we expect to continue so next year as well.
We now forecast ROE levels to be slightly above our previous call of 26% by end 2025, led by a stronger than expected NIM recovery in 3Q25 (pioneered by private banks) and maintain our previous expectation of 28-31% ROE for deposit banks by 2026 end, depending on the gains over the inflation outlook and the room for the CBRT easing.

ASSET QUALITY

The BRSA decision* taken in July on consumer loans continue to ease the upward pressure on NPLs and there might be a new restructuring package in the next months. In fact, NPL ratios on retail segment have been hovering around the same levels, whereas SME NPL ratios keep rising. The potential lagged effects delayed into 2026 and potential restructurings going ahead, will most likely be transferred into higher CoR levels in 2026. We still expect the currency adjusted cost of risk (CoR) in deposit banks to be nearly 150bps in 2025 and deteriorate up to around 200bps in 2026.

CAPITAL

Capital ratios improved further to 19% in October supported by the Tier 1 sub-debt issuances in the sector. Increase in capital levels was stronger in private banks. However, the BRSA forbearances which had supported the sector capital ratios against any significant TL depreciation has been terminated as of the start of 2026 which will likely have a negative impact of around 180-200bps on capital ratios. Therefore, this would result in a continuation of strong subordinated debt issuances in the sector amid a high redemption profile in 2026.

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.

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Credit Developments

Higher gold prices support the CBRT reserves and help to contain volatility on both gross and net levels

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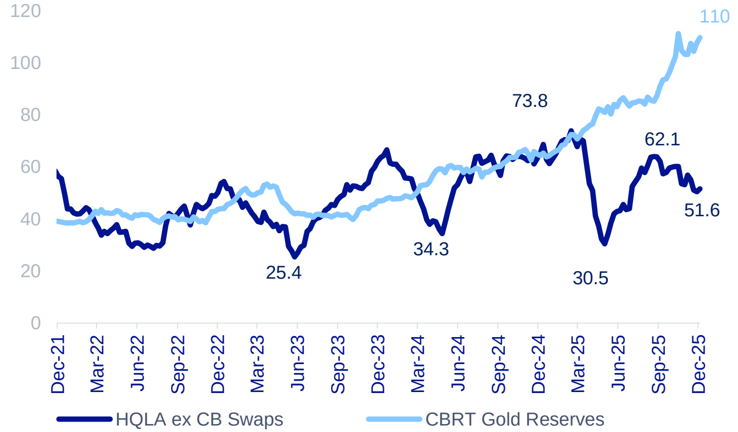
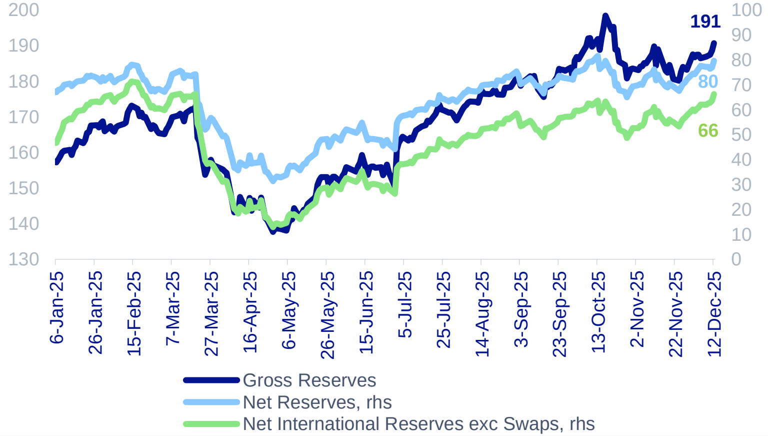
YTD gold price impact:
$41bn for gross
$30bn for net

CBRT GROSS GOLD & HIGH QUALITY LIQUID FOREIGN ASSETS ($Usbn, as of Dec 5th)



CBRT INTERNATIONAL RESERVES ($Usbn, as of Dec 12th)



**Adjusted from gold price effects. CBRT payments due from KKM are assumed to have a similar ratio in Garanti BBVA since March 29th 2024.*

Source: TURKSTAT, CBRT and Garanti BBVA Research.

The CBRT remains proactive in the FX market in order to contain FX volatility and nominal depreciation, aiming to ensure a gradual dollarization.

Liquidity policies and deposit rules are key not to allow a speeding up dollarization and demand recovery

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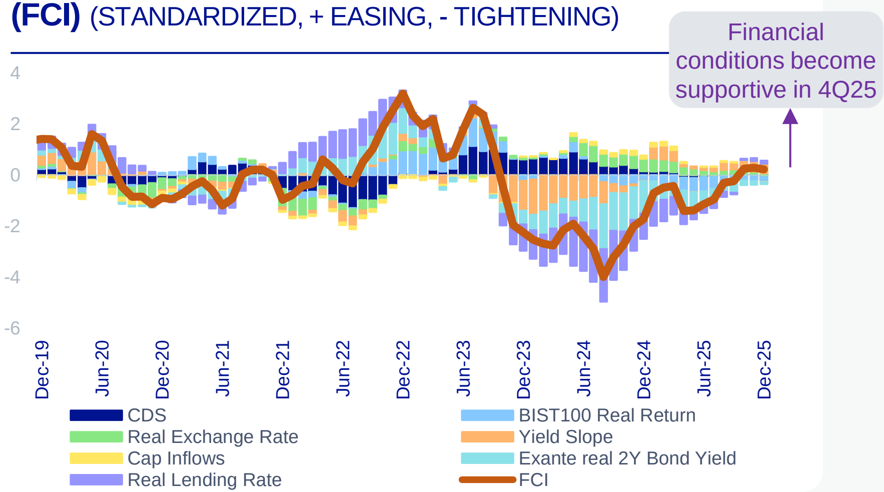
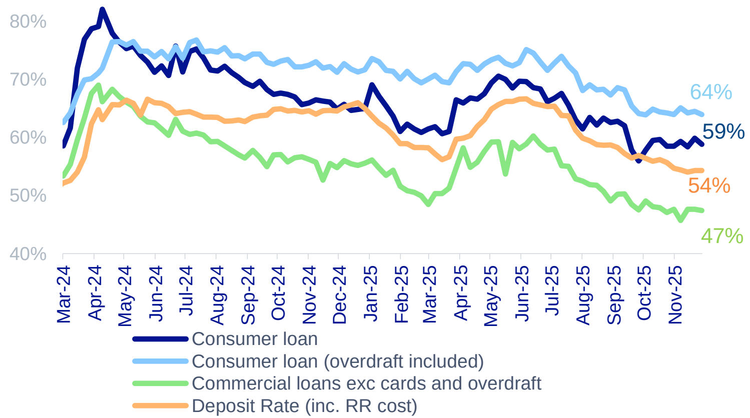
GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI) (STANDARDIZED, + EASING, - TIGHTENING)



Source: CBRT and Garanti BBVA Research.

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



Source: CBRT and Garanti BBVA Research.

Proactive liquidity management results in ON TL reference rates staying closer to the CBRT policy rate, while TL deposit rates hover above 1-2pp above TL reference rates led by the deposit rules.

TL rates stay attractive to keep savings mostly in TL, with system-wise dollarization ratio closer to 40%

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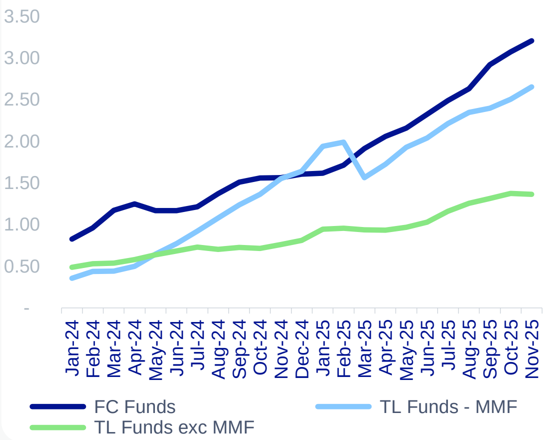
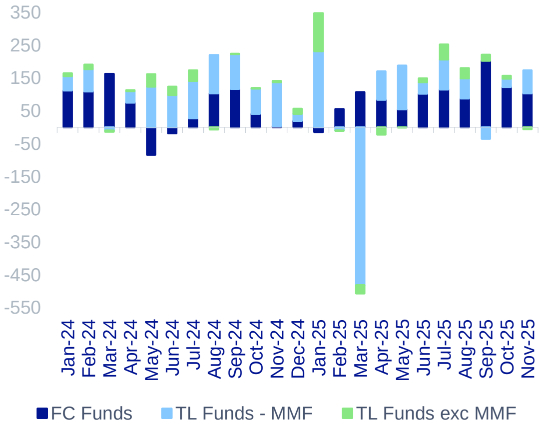
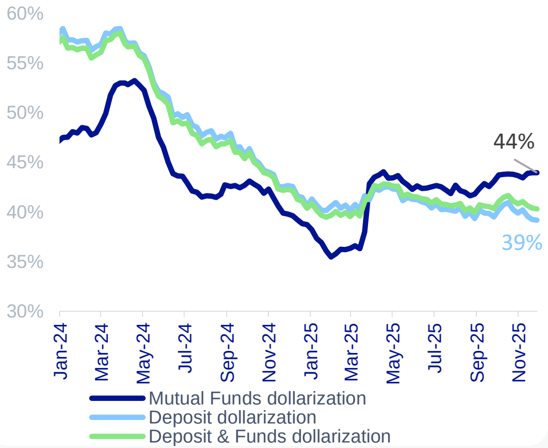
SIZE OF INVESTMENT FUNDS
(BN TL)



INVESTMENT FUNDS NET FLOW
(BN TL, excluding valuation effects)



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.

Deposit rules on the banking sector, still attractive ON TL rates and nearly stable currency preserve the tendency for dollarization muted. Yet, the net inflow to the money market funds (MMF) has slowed down since June, led by the declining net return & uncertainties on domestic politics.

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

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Regulations for TL deposit share and KKM

- The monthly growth target for real-person TRY deposit share has been lowered to 0.2pp from 0.3pp for the banks btw 60-65% ratio and to 0.4pp for the ones below 60%, as of Dec 15th. For the ones above 65%, the rule is to keep it. The commission rate applied based on the share of TL stays as 4%.
- 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 remains to be 2%.
- The opening and renewal of KKM accounts for real persons has been terminated (excluding YUVAM accounts) as of August 23rd.

Loan growth caps

- Limits on TL & FC loan growth are 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 growth caps.
- The sales/assets threshold for SME classification has been increased from TL500mn to TL1bn (US$25mn).

Regulations on RRs

- 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 26-30% for FC deposits& precious metals, as of Jan26
- The RRR of 18% for funds from repo transactions abroad & loans obtained from abroad of a maturity up to 1 month, and 14% up to 3 month
- RRR for other FX liabilities have been reduced for maturities above 1 year to 10% for up to 2 years (from 16%), to 8% for up to 3 years (from 11%), to 3% for up to 5 years (from 7%), and to 0% for longer than 5 years (from 5%);
- The RRR of 12% for deposits from banks abroad
- The RRR of 10% for CPI-, PPI-, and TLREF-indexed deposits

Regulations for CARs

- 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

- The maximum interest rate on TL credit card receivables has been decreased i) with balances of <30k (previously TL25k) from 3.50% per month to 3.25%, ii) of TL30-180k (prev. TL25-150k) from 4% per month to 3.75%, iii) of >TL180k (prev. TL150k), corporate credit cards, and cash withdrawals from 4.50% 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% from %1 for revolving credits.

Total credit growth rate, hovering around 27-28%, keeps a moderate outlook

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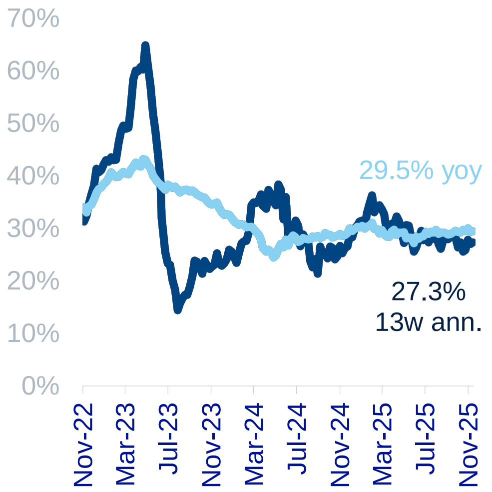
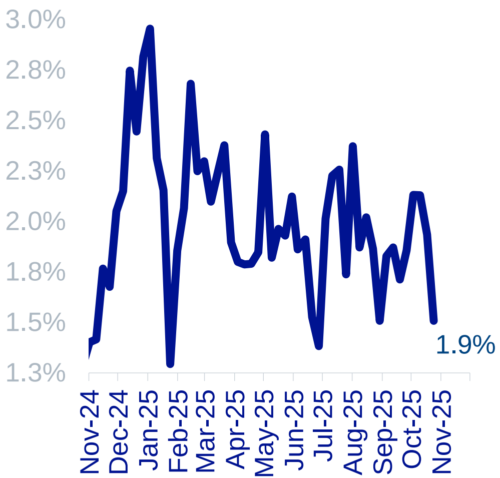
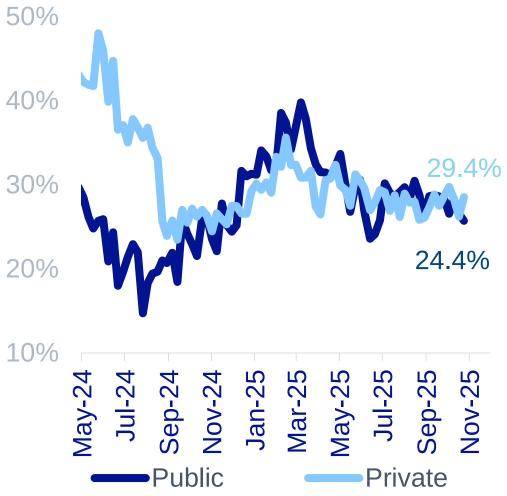
TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED & YOY



TOTAL CREDIT GROWTH (FX ADJ)
4 WEEK CUM.



TOTAL CREDIT GROWTH (FX ADJ)
13 WEEK ANNUALIZED



There is a stronger momentum in credit growth in private banks most recently, leading the overall growth trend staying closer to the monthly inflation trend.

Source: BRSA and Garanti BBVA Research.

Total credit growth is led by TL credit growth which continues to be boosted by non-capped items

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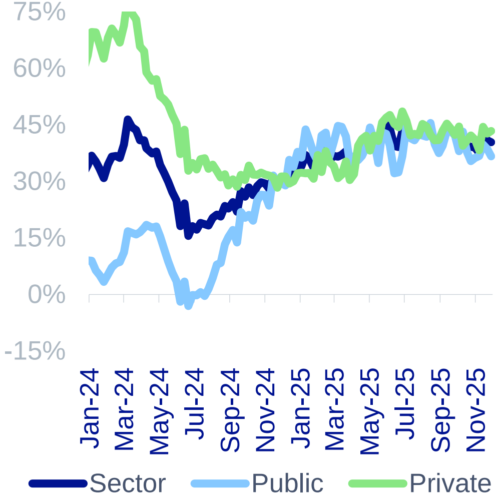
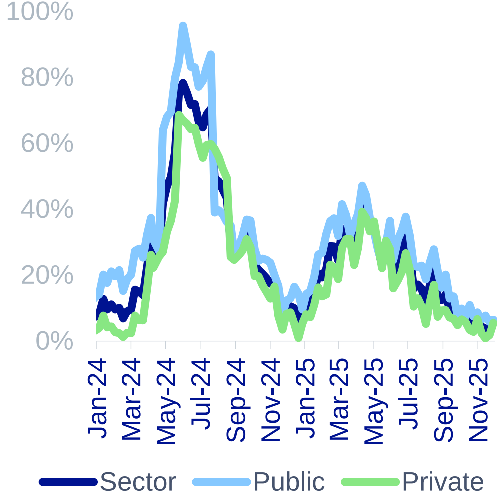
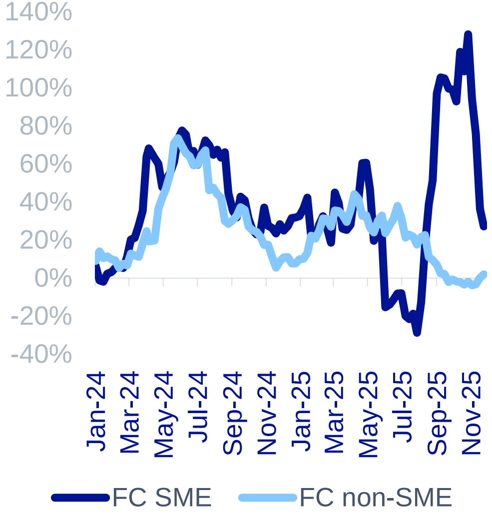
TL CREDIT GROWTH: PUBLIC VS PRIVATE BANKS
13 WEEK ANNUALISED, DEPOSIT BANKS



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



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



FC credit growth has reached its lowest levels in November, seen in a year. FC SME lending trend has been decelerating since end of October.

Source: BRSA and Garanti BBVA Research.

Fall in commercial rates was very limited in Nov. Albeit decelerating, TL SME growth is higher in private banks

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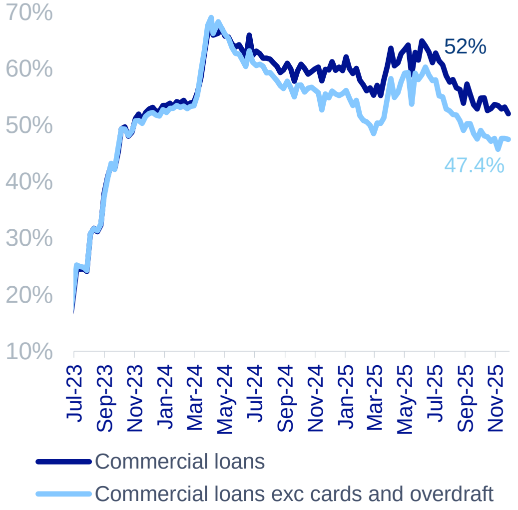
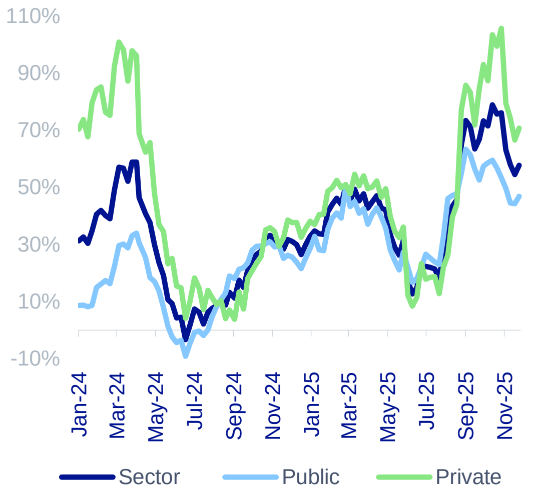
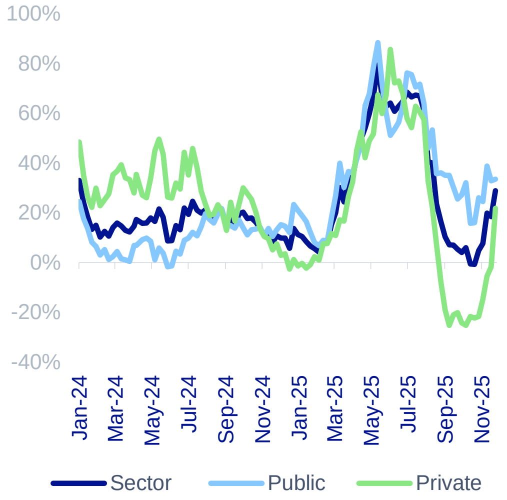
TL COMMERCIAL CREDIT RATES
WEEKLY, COMPOUND, FLOW



TL SME COMMERCIAL CREDITS GROWTH
13 WEEK ANNUALIZED



TL NON-SME COMMERCIAL CREDITS GROWTH
13 WEEK ANNUALIZED



Although segments of commercial lending growth differentiates btw public and private banks, the overall TL commercial credit growth trends have been converging since mid-October in the sector to around 37%.

Source: CBRT, BRSA and Garanti BBVA Research.

Likewise, consumer growth rates showed also a limited change in November

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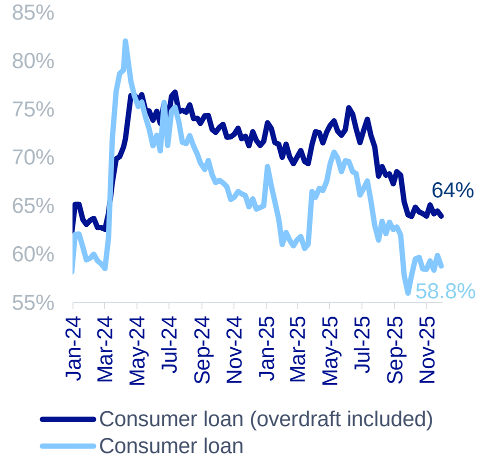
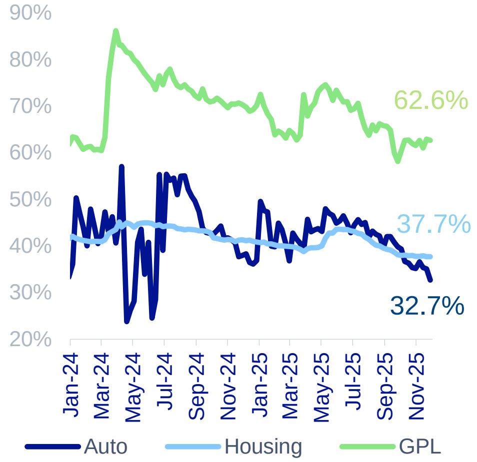
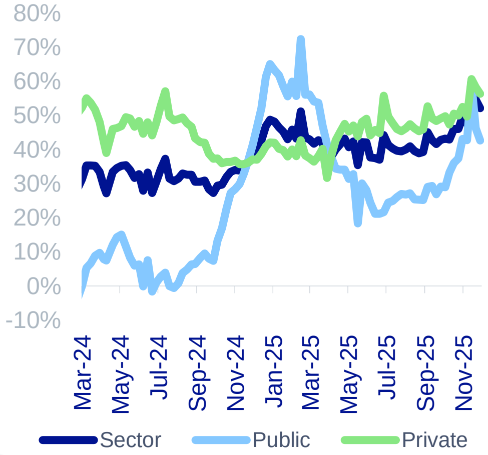
CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



CONSUMER CREDIT RATES
WEEKLY, COMPOUND, FLOW



CONSUMER* CREDIT GROWTH
13 WEEK ANN., DEPOSIT BANKS



In spite of the high levels of interest rates, consumer credit growth remains stronger due to non-capped consumer segments (credit cards and overdraft loans)

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

Public banks’ GPL growth exceeded private banks in November. Credit cards growth decelerates since mid-Oct

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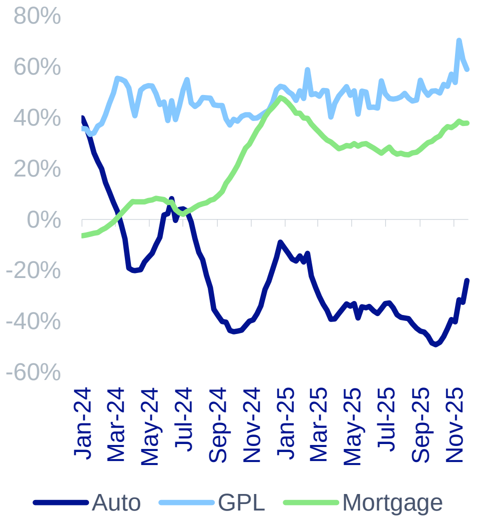
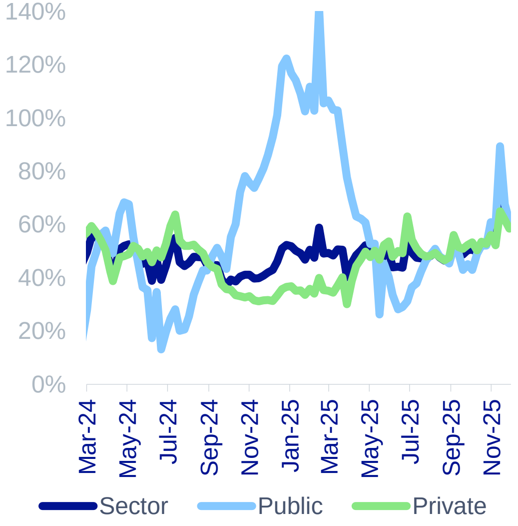
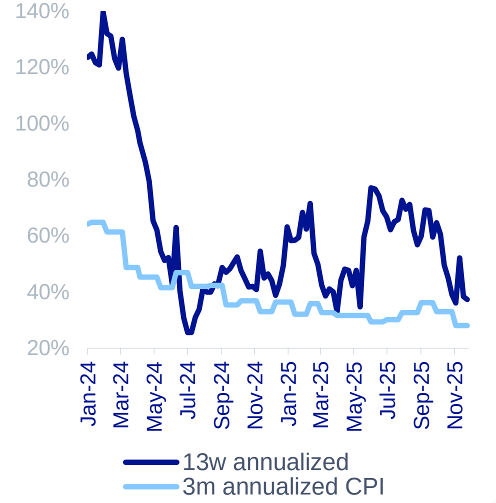
CONSUMER CREDIT GROWTH
13 WEEK ANN., DEPOSIT BANKS



GENERAL PURPOSE LOANS
13 WEEK ANN., DEPOSIT BANKS



RETAIL CREDIT CARDS SPENDING GROWTH
DEPOSIT BANKS



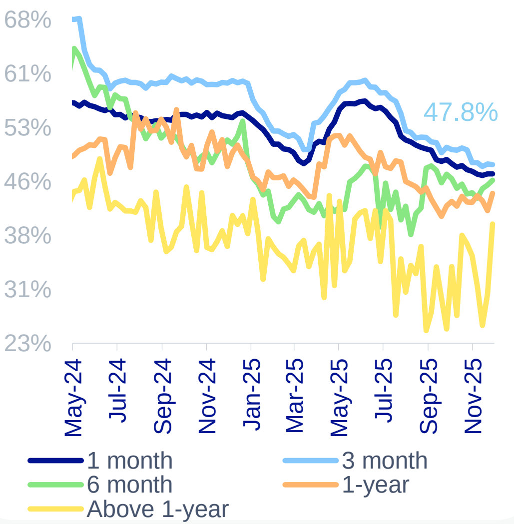
Source: BRSA and Garanti BBVA Research.

Research

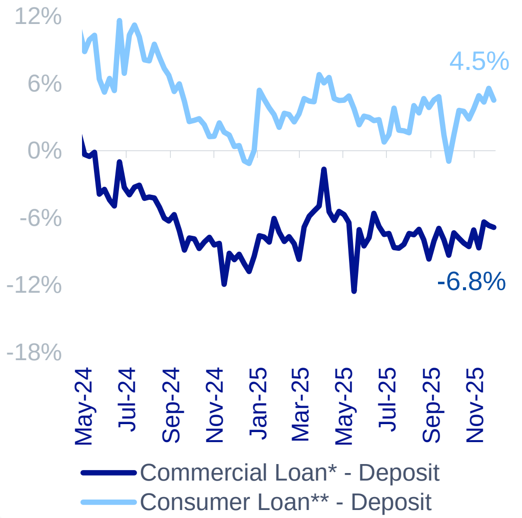
Liquidity

With the fall in TL deposit rates, banks' TL spreads have been improving since end-September

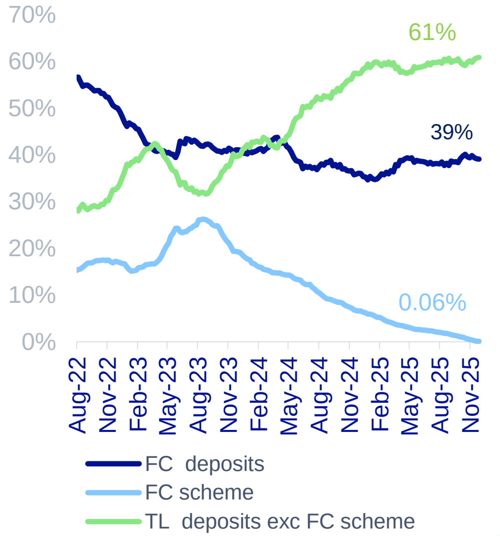
TL DEPOSIT INTEREST RATES
%, FLOW, SECTOR, WITHOUT RR COST



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



COMPOSITION OF DEPOSITS
%



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

Source: CBRT & Garanti BBVA Research

FC spreads have been narrowing down with the fall in FC credit rates

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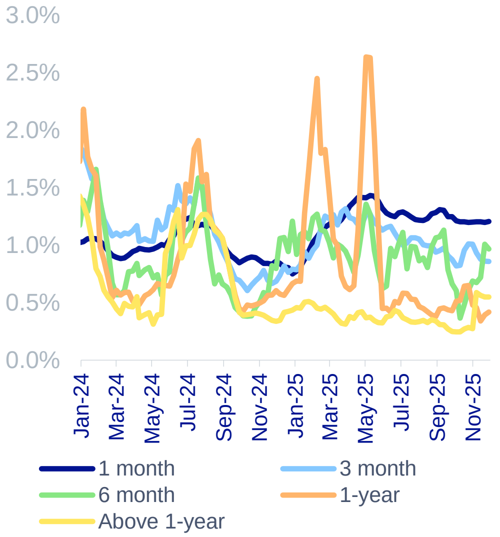
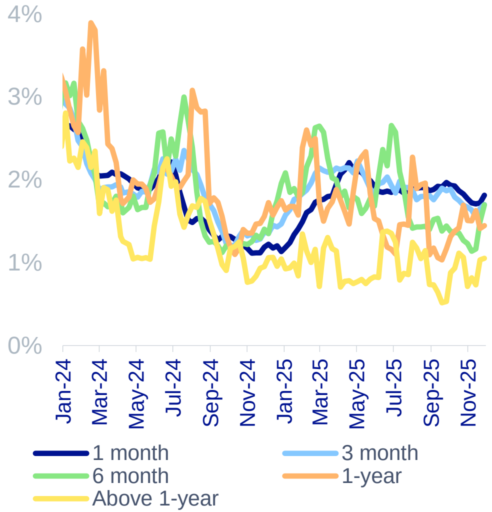
EURO DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



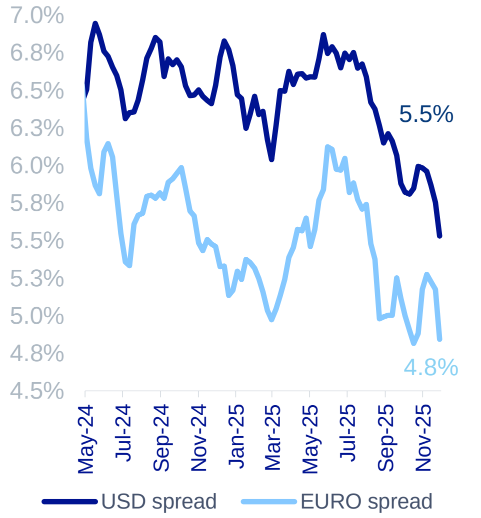
USD DEPOSIT RATES

%, 4W AVG, FLOW, SECTOR



FC INTEREST RATE SPREAD

%, 4W AVG, FLOW, SECTOR



Banks are trying to use their increased FC liquidity amid the recent significant FC sub-debt issuances as much as the credit growth cap and exemptions allow.

Source: CBRT & Garanti BBVA Research.

On FC demand, we continue to see modestly but steadily ongoing demand from residents

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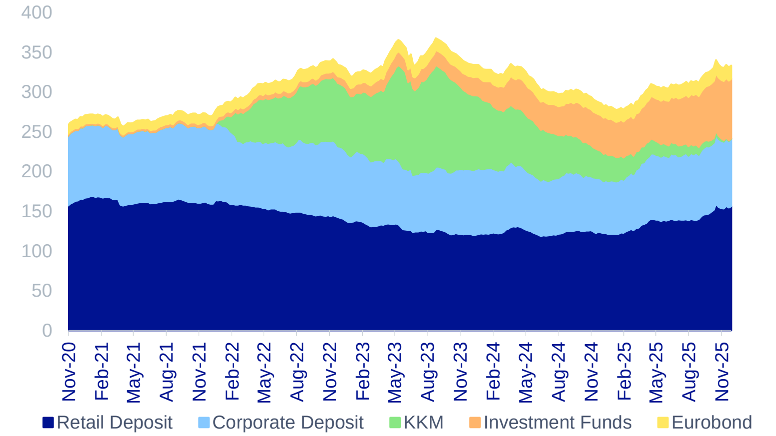
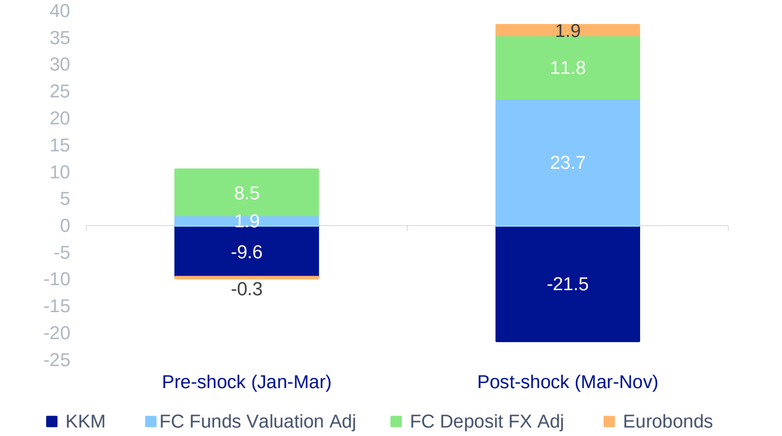
FC PRODUCTS OF RESIDENTS
($USbn, as of Nov 28th)



YTD CHANGES IN FC PRODUCTS OF RESIDENTS ($USbn, as of Nov 28th)



* 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.

Maturing KMM (existing stock now below 0.3bn$) has been most recently transferred into mostly the FC investment funds whose size has grown to above 75bn$ (vs. 45bn$ by end 2024).

Solvency and Capital Adequacy

Capital ratios have been moving up since May, supported by mainly subdebt issuances of the sector

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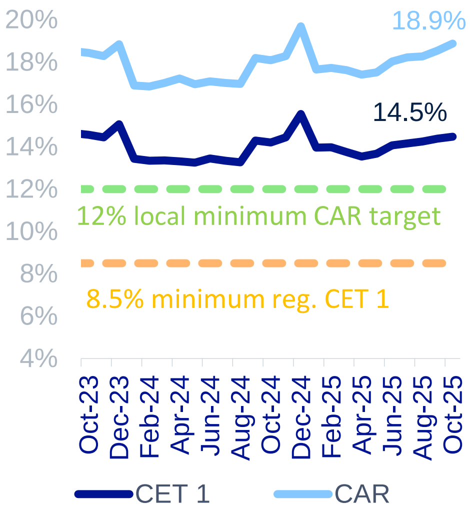
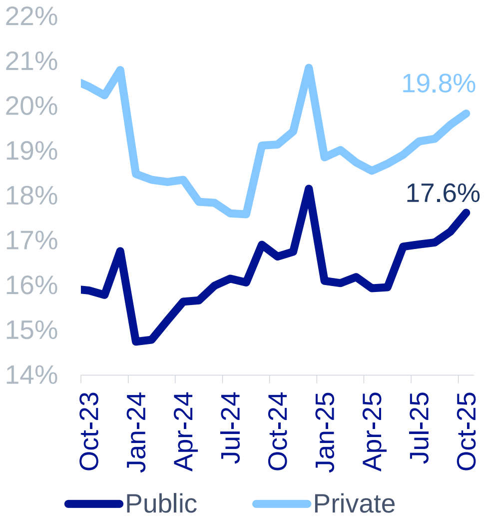
CAPITAL ADEQUACY RATIO (CAR) AND CET 1 RATIO* (%)



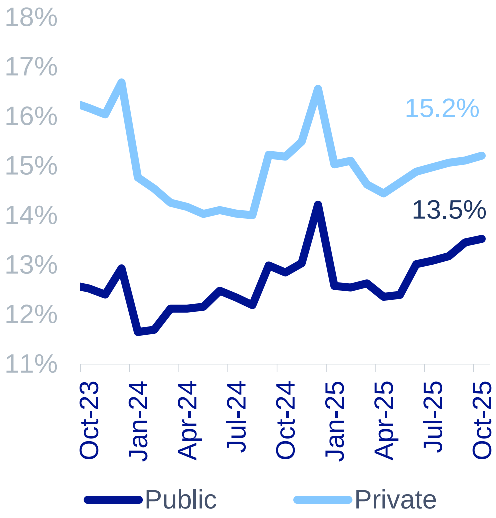
CAPITAL ADEQUACY RATIO

%



CET 1* RATIO

%



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

Asset Quality

NPL ratio continued its slow rise in November, led by public banks

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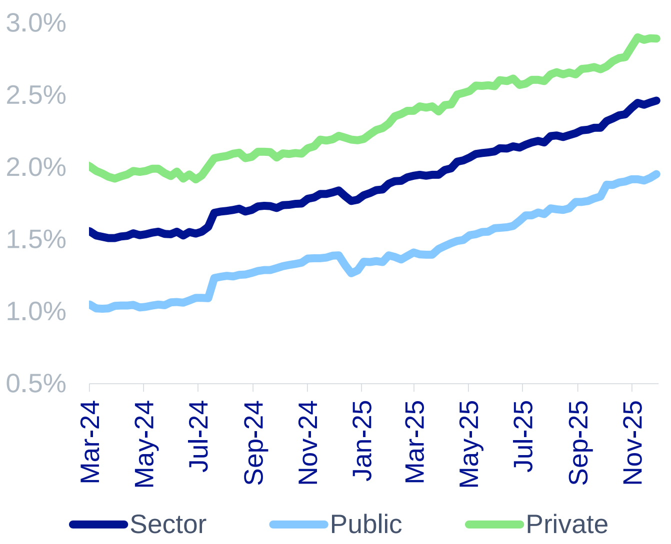
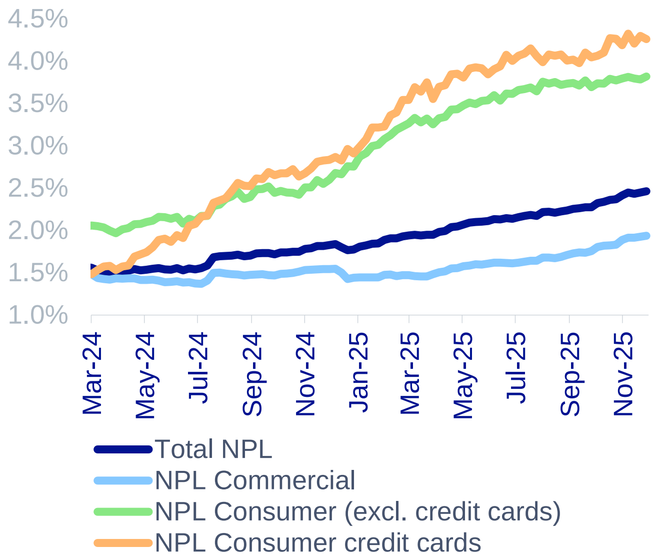
NPL RATIO %



NPL RATIO IN SUBSEGMENTS %



Source: CBRT, BRSA and Garanti BBVA Research.

The share of Stage 2 and NPLs* in total loans rose further to 12% in 3Q25, due to rise in restructured loans

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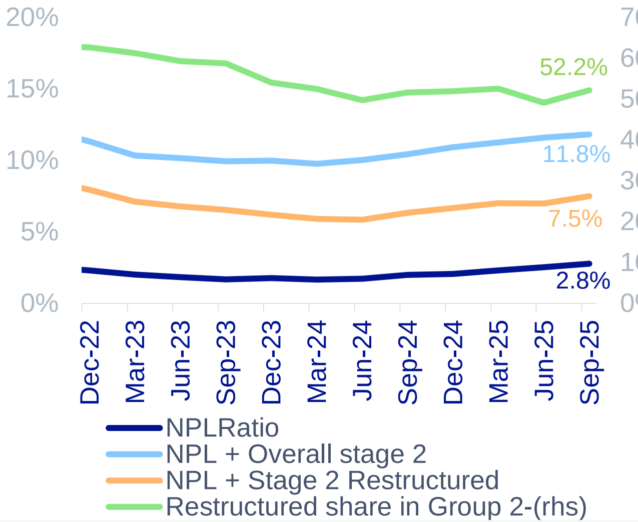
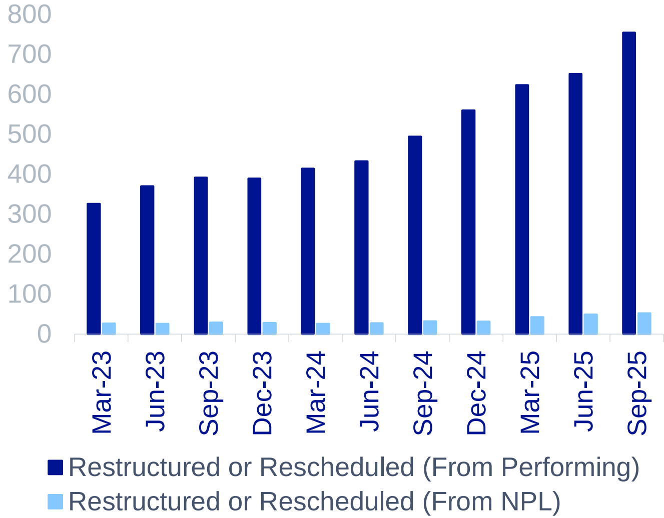
ASSET QUALITY OUTLOOK: PEER DEPOSIT BANKS**



RESTRUCTURED LOANS IN PEER BANKS

Bn TL

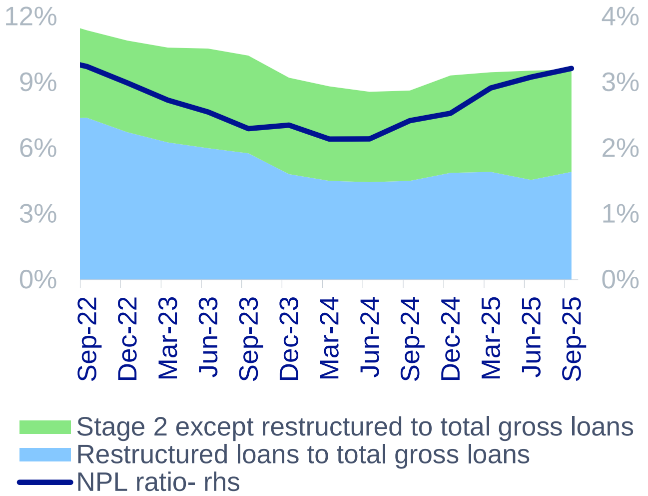


* According to the definition of the CBRT Financial Stability Report, the share of the sum of Stage 2 and NPLs in gross loans is taken into account as total credit risk.
** All indicators are proportioned to gross loans. Data includes 7 top peer deposit banks as 4 private and 3 public banks

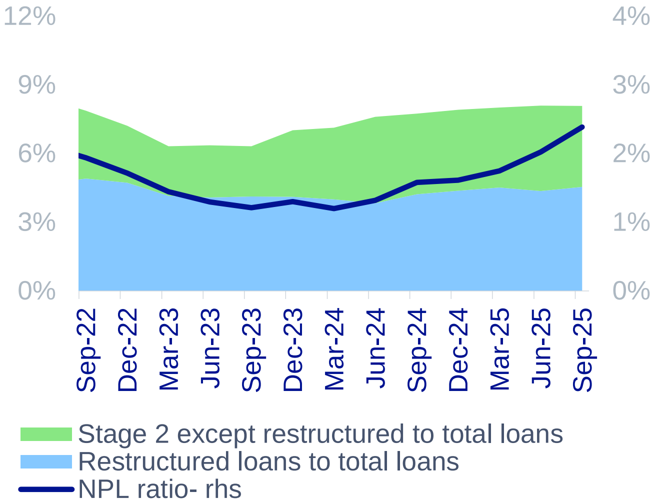
Source: BRSA, KAP (Public Disclosure Platfom), and Garanti BBVA Research.

NPL growth accelerated more in public peers in 3Q25 compared to restructured loans growth in private peers

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



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



Source: BRSA, KAP (Public Disclosure Platfom), and Garanti BBVA Research.

Commercial NPL ratio rose to 1.9% in Nov from 1.7% in Sep, with SME NPL exceeding 3%

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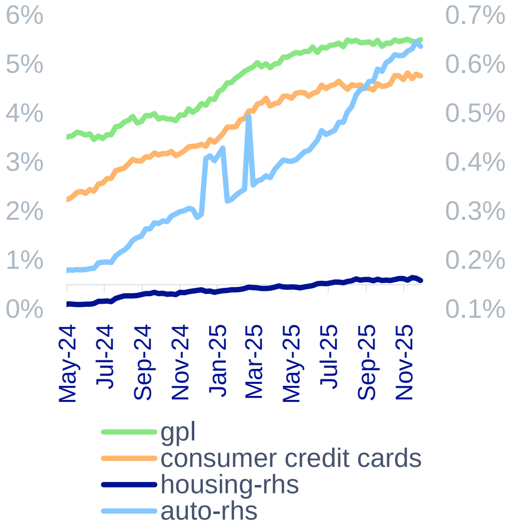
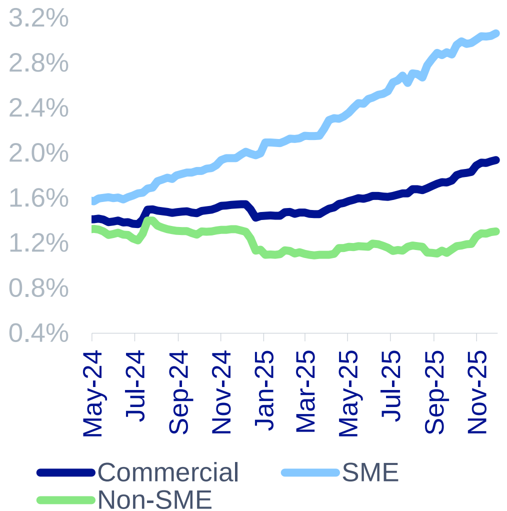
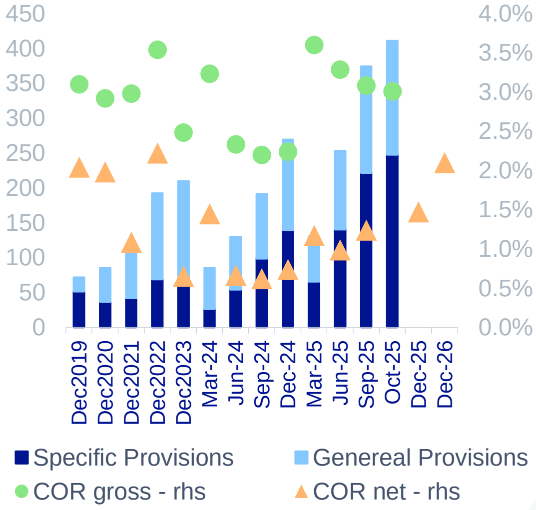
NPL RATIO IN CONSUMER LOANS
%



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 NPL growth in private peers compared to public peers was also supported by NPL sales in 3Q25

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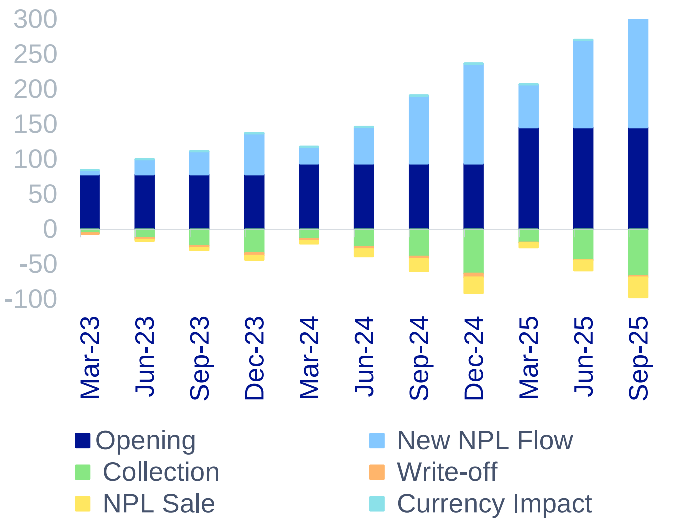
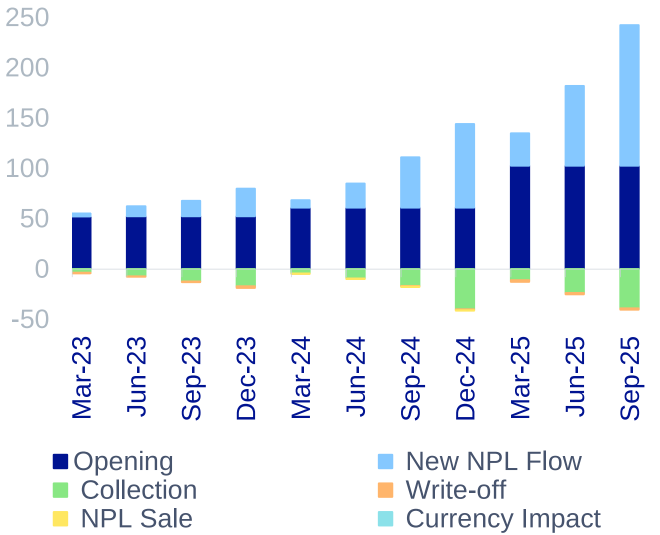
NPL MOVEMENTS PEER PRIVATE BANKS*

BN TL



NPL MOVEMENTS PEER PUBLIC BANKS*

BN TL



* Data includes 7 top peer deposit banks as 4 private and 3 public banks.

Source: KAP (Public Disclosure Platfom), Garanti BBVA Research.

The ratio of returned checks to presented ones follows a steady rise

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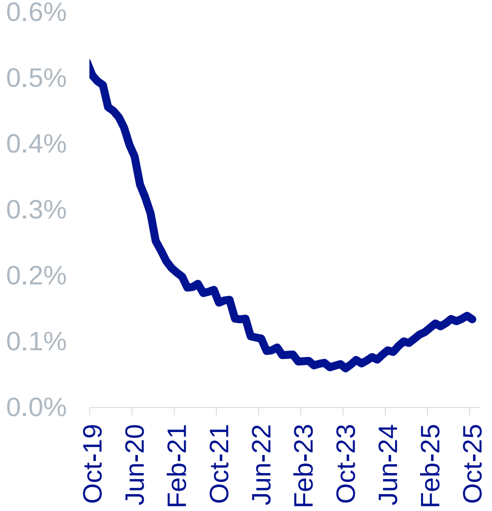
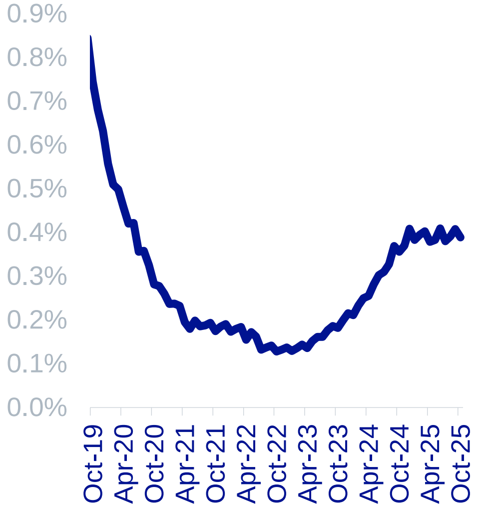
AMOUNT OF PROTESTED BILLS / GDP
(% 12M ROLLING)



AMOUNT OF RETURNED CHECKS/ GDP
(% 12M ROLLING)



RETURNED CHECKS/PRESENTED CHECKS
%

The upward trend in returned checks to presented ones goes in line with the deterioration in SME NPLs.

Source: The Banks Association of Turkey- Risk Center and Garanti BBVA Research.

Restructurings after July and provision releases in the sector led CoRs to slightly come down since end of 2Q25

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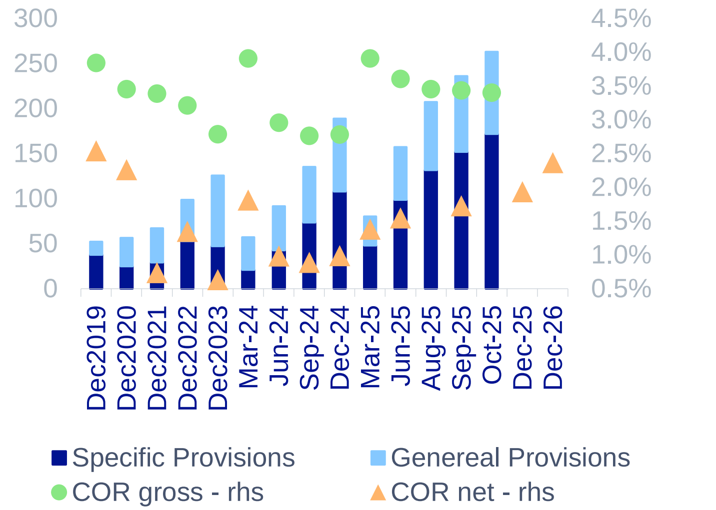
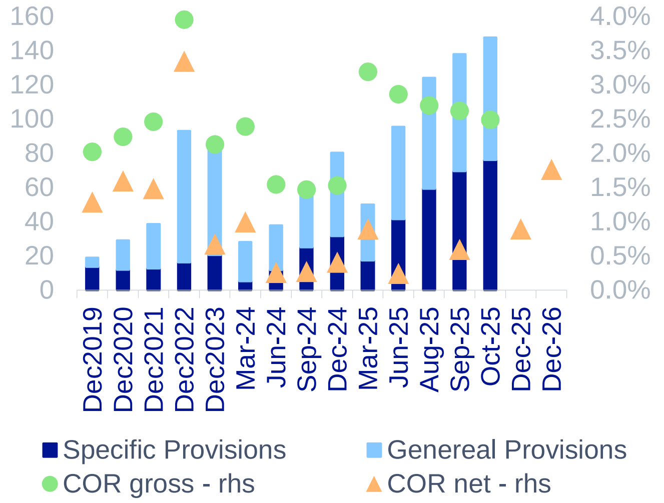
PRIVATE BANKS: PROVISIONS & CoR
BN TL & LOAN LOSS PROVISIONS /AVG. NET LOANS %



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



We maintain our currency adjusted CoR forecasts as nearly 150 bps for 2025 and around 200 bps for 2026 in deposit banks, led by the deceleration so far from restructurings and provision releases.

Source: CBRT, BRSA and Garanti BBVA Research. * Due to public data restriction, we use peer banks' data as a proxy for the net CoR estimation for 2025 and 2026.

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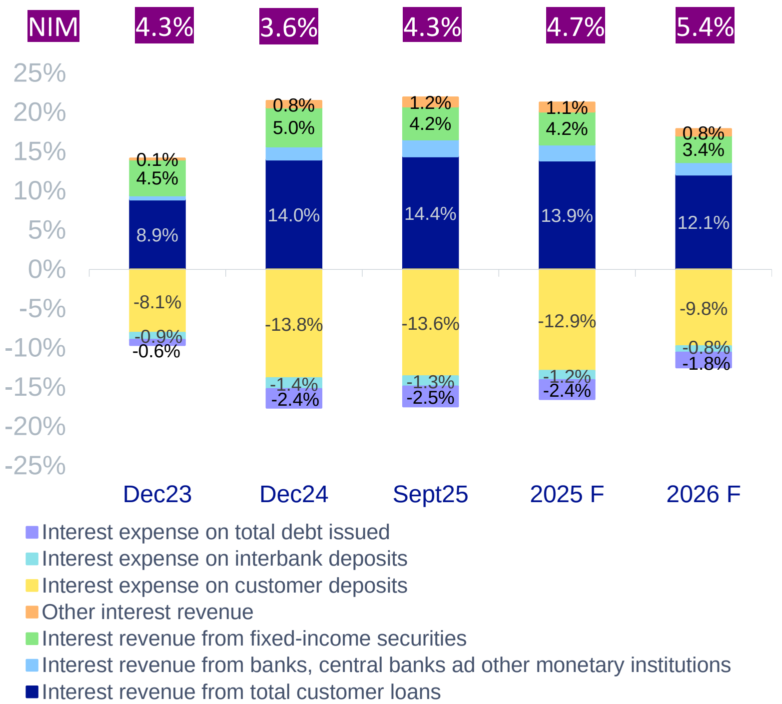
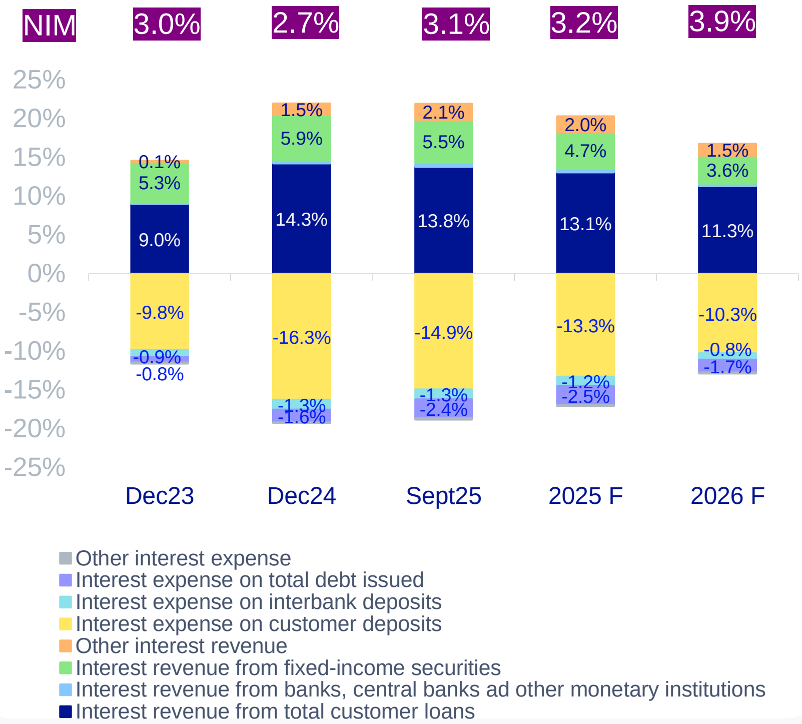
Profitability

Private banks' NIMs differentiate from public banks via interest revenue from customer loans in 2025

NIM* COMPONENTS OF PRIVATE BANKS



NIM* COMPONENTS OF PUBLIC BANKS



Source: CBRT, BRSA and Garanti BBVA Research. * end-2025 and 2026 are our estimations.

Cumulative RoE of deposit banks stayed closer to 26% in October, with some deceleration in public banks

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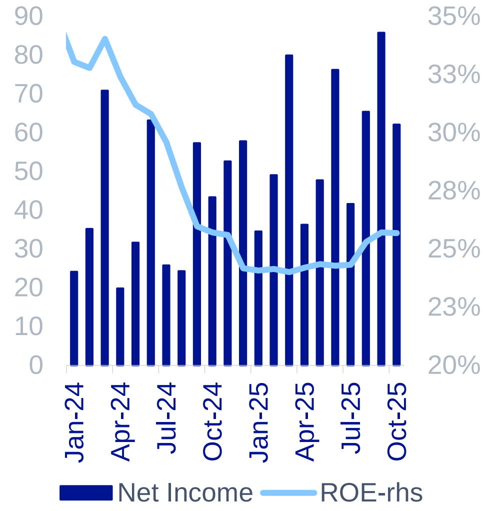
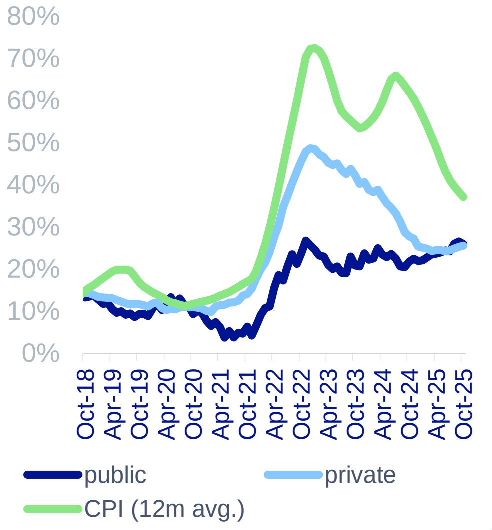
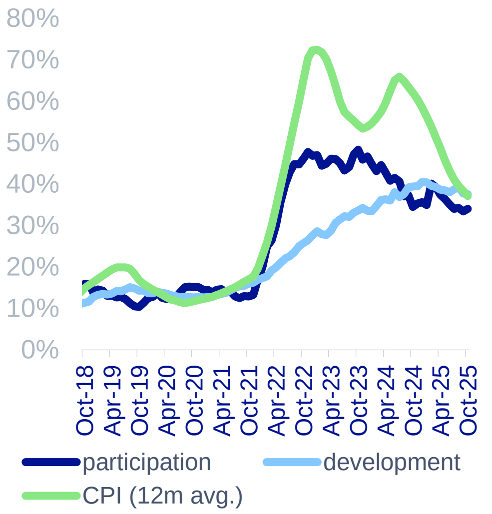
NET INCOME & RETURN ON EQUITY (ROE)
BN TL MONTHLY, % 12M CUMULATIVE



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



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



It seems private banks are able to increase their net credit returns much faster than public banks and also benefit more from the decline in CBRT cost of funding in 4Q25.

Source: CBRT, BRSA and Garanti BBVA Research.

RoE of public and private banks differentiated via their mainly NII and fees & commissions in October

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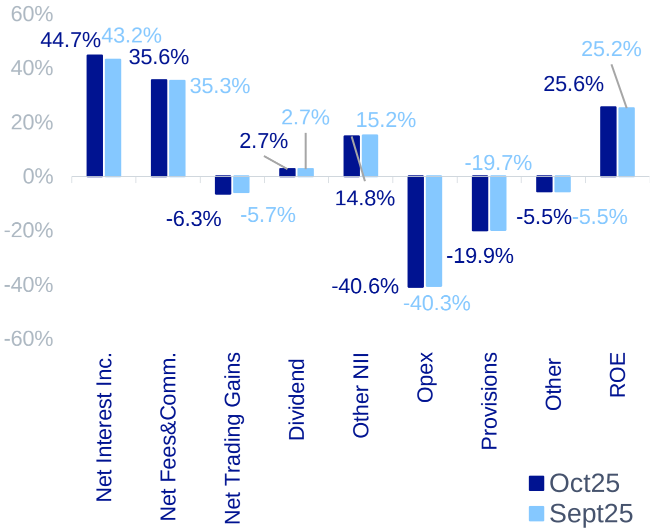
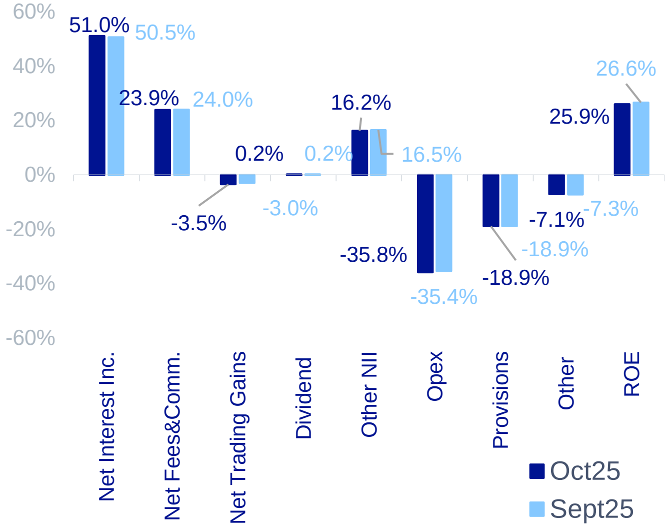
ROE COMPONENTS OF PRIVATE BANKS
12M CUMULATIVE



ROE COMPONENTS OF PUBLIC BANKS
12M CUMULATIVE



Source: CBRT, BRSA and Garanti BBVA Research.

We expect RoE levels to be slightly above 26% in 2025 & 28-31% in 2026 for deposit banks, wrt our baseline

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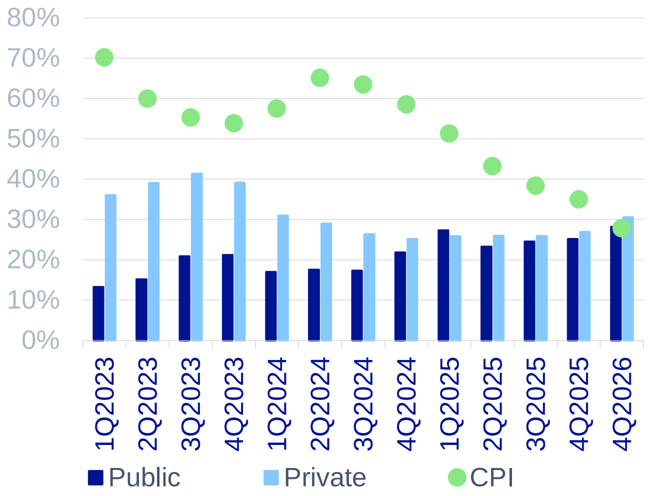
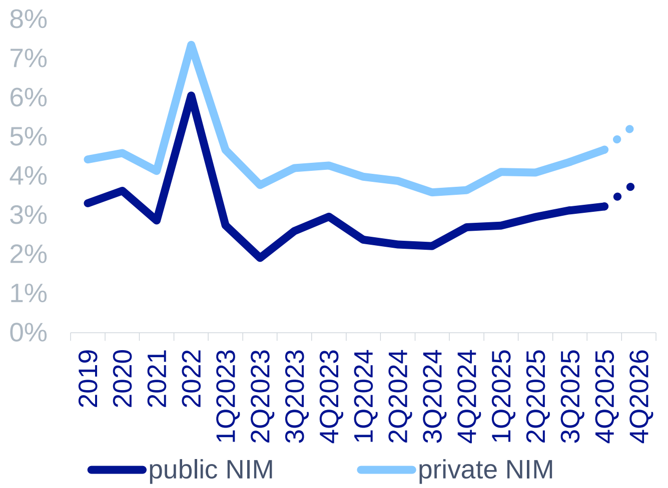
ROE EVOLUTION & FORECASTS*

Annualized % with average annual CPI



NIM EVOLUTION & FORECASTS

Annualized %



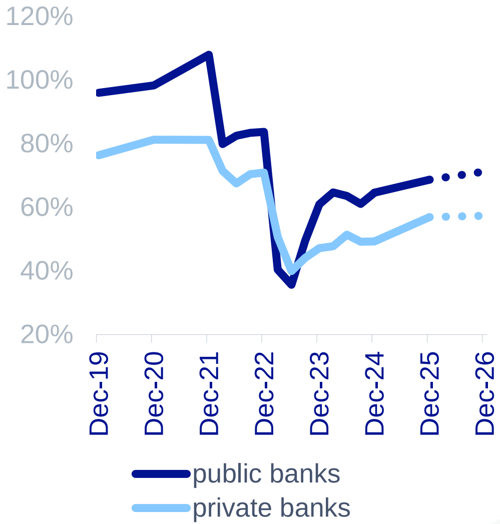
Our baseline assumes an ongoing disinflation from 31-31.5% by end 2025 to 25% by end 2026, providing room for the CBRT to cut the cost of funding from 38% to 32% in the same period, which would provide positively real RoE levels in 2026 for the first time after 2019.

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

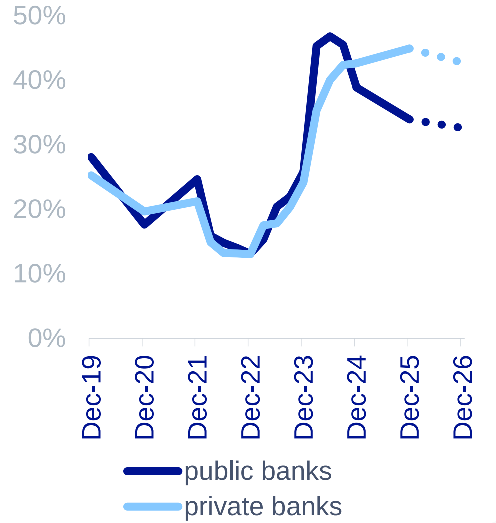
Source: CBRT, BRSA and Garanti BBVA Research.

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

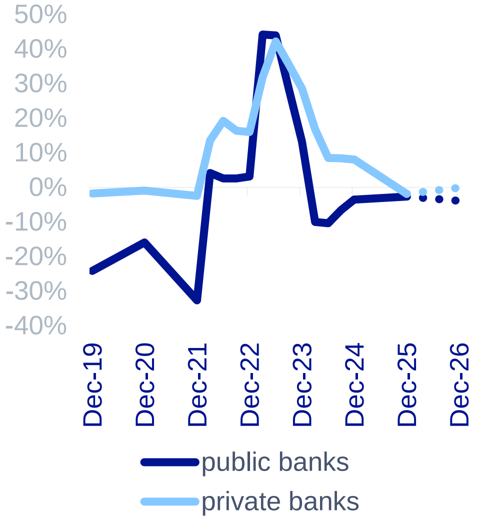
NET INTEREST REVENUE / TOTAL REVENUE
%



FEES & COMMISSION REVENUE / TOTAL REVENUE,
%



TRADING & FX GAINS / TOTAL REVENUE
%



Source: CBRT & Garanti BBVA Research

Garanti BBVA Baseline Scenario*

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	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%	**34.9%**	**27.8%**
Inflation (eop)	64.8%	44.4%	**31.5%**	**25.0%**
CBRT Cost of Funding (avg)	20.5%	49.6%	**43.6%**	**34.3%**
CBRT Cost of Funding (eop)	42.5%	47.5%	**38.0%**	**32.0%**
USDTRY (avg)	23.7	32.8	**39.5**	**47.9**
USDTRY (eop)	29.4	35.3	**43.0**	**52.0**
EURTRY (avg)	25.7	35.5	**44.7**	**56.7**
EURTRY (eop)	32.6	36.7	**50.0**	**62.3**
TRY CREDIT GROWTH (%)	53.3%	30.1%	**36.8%**	**31.2%**
FC CREDIT GROWTH (%)	-3.4%	30.6%	**16.3%**	**4.9%**
NIM (net interest income / avg assets, ann.)	3.7%	3.2%	**4.0%**	**4.7%**
RETURN ON EQUITY (RoE, % ann.)	33.7%	24.2%	**26.8%**	**29.8%**
NET ADJ COST OF RISK (CoR, bps)**	0.6%	0.7%	**1.5%**	**2.1%**

* Banking variables wrt deposit banks
** Net CoR is calculated with peer banks' data

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