4 August 2026

Isbank

2Q26 Earnings review

Margin Compression Weighed on Earnings, Recovery Pushed Back to 4Q

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Türkiye İş Bankası posted a bank-only net profit of TRY 9.7bn in 2Q26 (-52.6% QoQ, -44.4% YoY). The reported figure came in 20.3% below our estimate (TRY 12,115mn) and 26.4% below the consensus median (TRY 13,127mn). The deviation stemmed mainly from a sharper-than-expected increase in swap costs and higher TRY deposit costs. Quarterly average ROE fell to 8.8% from 19.2%.

Margin pressure intensified. Net interest income declined 20% QoQ to TRY 33.4bn, while swap costs rose 62% to TRY 13.1bn. Swap-adjusted net interest income fell 40% to TRY 20.3bn. The swap-adjusted net interest margin narrowed to 1.86% from 3.24% (1H26 cumulative: 2.5%).

The contraction was driven by a 205bps increase in TRY time deposit costs, against a broadly flat TRY loan yield (+20bps). The only supportive item was CPI-linker income. The bank raised its inflation assumption to 29.9% from 27.5%, lifting CPI-linker income 21.3% QoQ to TRY 12,190mn. Total TRY securities interest income grew 18.1%.

Fee performance stood out as the strongest aspect of the quarter. Net fees and commissions rose 18.8% QoQ and 38% YoY to TRY 45,226mn, taking the fee-to-opex coverage ratio to 80.7% from 71%.

On costs, the quarter brought some normalization, but the year-to-date base remains high. Operating expenses increased 4.6% QoQ to TRY 56bn. First-half opex growth of 65.8% is running well above the bank's full-year guidance of the mid-40s.

Asset quality deterioration was contained. The NPL ratio rose to 3.76% from 3.46%. During the quarter the bank sold a TRY 3.9bn gross NPL portfolio for TRY 727mn; excluding this sale and write-offs, the bank stated the ratio would have been 4.03%. Stage 3 coverage declined 52bps to 60.4%, while total coverage rose to 4.10% from 3.84% and the Stage 2 share increased to 12.7% from 12.0%. The net cost of risk rose to 228bps from 197bps (1H26 cumulative: 213bps). Gross specific expected credit losses were flat at TRY 19,902mn versus TRY 19,790mn; the increase came on the net line, as collections fell to TRY 4,304mn from TRY 7,152mn.

We view the results as **"Negative"**, given the significant miss versus both our estimate and the consensus, and margin compression running sharper than we had projected. That said, the downward revision to our estimates is in line with the sector-wide trend and therefore broadly as expected. While the pace of earnings recovery depends on the speed of the rate-cutting cycle, we would expect a more meaningful pick-up in 4Q26. **We revise our year-end swap-adjusted NIM expectation to 3.4%. Following our revisions, we lower our 12-month target price to TRY 21.57 from TRY 23.16 while maintaining our OUTPERFORM rating.** Our target price implies 70% upside from current levels. Türkiye İş Bankası trades at 3.0x P/E and 0.60x P/BV, with an average **ROE of 22.5%.**We evaluate Türkiye İş Bankası's 1Q26 financial results as "**Neutral**", despite the stronger-than-expected net profit, mainly supported by the solid performance in other income items.

Rating	**Outperform**
Target price (TRY)	**21.57**
Upside	**70%**
Previous rating	Outperform
Previous target price (TRY)	23.16

	TRY	US$
Close	12.68	0.27
BIST 100	13,411	283
US$/TRY (CBT Bid Rate):	47.45	
52 Week High:	17.46	0.40
52 Week Low:	10.65	0.25
Bloomberg Ticker:	ISCTR.TI	

Number of Shares (Mn):	25,000

	(TRY Mn)	(US$ Mn)
Current Mcap:	317,000	6,695
Free Float Mcap:	98,270	2,076
Avg. Daily Volume:	7,936	183

Expectations (TRY mn)	Actual	Seker	Diff.	Cons.	Diff.
Net income	9,656	12,115	-20.3%	13,127	-26.4%

	1Q26	2Q26	QoQ	2Q25	YoY
Net income (TRY mn)	20,357	9,656	-53%	17,372	-44%

Forecasts (TRY mn)	2023A	2024A	2025A	2026E	2027E
Net income	72,265	45,517	67,441	104,024	149,351
BV	267,797	318,338	427,635	527,183	652,468

Valuation	2023A	2024A	2025A	2026E	2027E
P/E (x)	3.2	7.4	5.2	3.0	2.1
P/BV (x)	0.87	1.06	0.82	0.60	0.49
ROAA	3.8%	1.6%	1.7%	1.9%	2.1%
ROAE	33.3%	15.8%	18.6%	22.5%	26.0%

Returns (%)	1M	3M	6M	12M	YtD
TRY Return:	-10.8	-11.6	-24.3	-11.4	-6.2
US$ Return:	-12.2	-16.0	-30.6	-24.2	-15.0
BIST 100 Relative:	-4.1	-4.8	-21.7	-29.0	-21.2

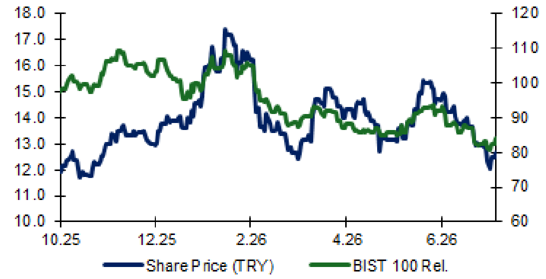


Figure 1: Summary balance sheet

(Bank-only, TRYmn)	6M25	3M26	6M26	QoQ	YoY	YtD
Security portfolio	712,396	820,926	859,113	4.7%	20.6%	10.9%
Loans	1,978,648	2,469,979	2,606,420	5.5%	31.7%	13.1%
Total assets	**3,975,558**	**4,935,547**	**5,091,171**	**3.2%**	**28.1%**	10.1%
Deposits	**2,631,296**	**3,267,809**	**3,397,986**	**4.0%**	**29.1%**	**9.7%**
TRY deposits	1,468,066	1,786,407	1,935,803	8.4%	31.9%	11.4%
FC deposits	1,163,231	1,481,402	1,462,183	-1.3%	25.7%	7.4%
Shareholder's equity	360,538	420,575	453,172	7.8%	25.7%	6.0%
Total liabilities	**3,975,558**	**4,935,547**	**5,091,171**	**3.2%**	**28.1%**	**10.1%**

Source: Bank financials, Seker Invest Research

Figure 2: Summary income statement

(Bank-only, TRYmn)	2Q25	1Q26	2Q26	QoQ	YoY	Jun.25	Jun.26	YoY
Net interest income (Swap adj)	8,641	33,674	20,251	-39.9%	134.3%	19,218	53,924	180.6%
Net fee and commission income	32,772	38,075	45,226	18.8%	38.0%	59,745	83,301	39.4%
Dividends	14,679	12,279	15,405	25.5%	4.9%	24,183	27,684	14.5%
Net trading gain/loss	741	3,277	-4,502	-237.4%	-707.5%	3,912	-1,225	-131.3%
Other operating income	756	2,152	588	-72.7%	-22.3%	3,137	2,740	-12.6%
Provisions (net)	7,053	12,699	15,580	22.7%	120.9%	16,154	28,279	75.1%
OPEX	34,575	53,603	56,054	4.6%	62.1%	66,135	109,657	65.8%
Net operating profit before taxes	16,152	23,164	5,602	-75.8%	-65.3%	28,103	28,766	2.4%
Tax provision	-1,220	2,807	-4,054	-244.4%	232.3%	-1,686	-1,247	-26.1%
Net profit	**17,372**	**20,357**	**9,656**	**-52.6%**	**-44.4%**	**29,790**	**30,013**	**0.7%**

Source: Bank financials, Seker Invest Research

Figure 3: Balance sheet ratios

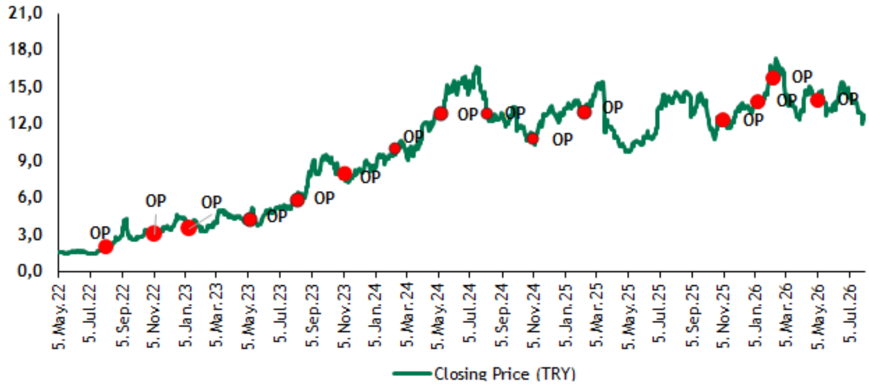
Funding structure	2Q25	1Q26	2Q26	QoQ	YoY	YtD
LDR	75%	76%	77%	1.1%	1.5%	2.3%
TRY LDR	86%	89%	87%	-1.7%	0.7%	2.1%
FX LDR	66%	60%	63%	3.2%	-2.5%	2.1%
Demand deposits/Deposits	41%	42%	41%	-0.9%	0.7%	-1.3%
Time deposits/Deposits	59%	58%	59%	0.9%	-0.7%	1.3%
Asset quality	**2Q25**	**1Q26**	**2Q26**	**QoQ**	**YoY**	**YtD**
NPL Ratio	2.5%	3.5%	3.8%	0.3%	1.2%	0.6%
Total CoR (Quarterly)	1.42%	1.97%	2.28%	0.3%	0.9%	-0.5%
Total CoR (Cumulative)	1.71%	1.97%	2.13%	0.2%	0.4%	-0.1%
Stage 1 loans/Total loans	87.7%	84.5%	83.6%	-0.9%	-4.1%	-2.1%
Stage 2 loans/Total loans	9.8%	12.0%	12.7%	0.6%	2.9%	1.5%
Total provisions/NPL	129.3%	111.4%	109.4%	-2.0%	-19.9%	-7.7%
Capital adequacy and leverage	**2Q25**	**1Q26**	**2Q26**	**QoQ**	**YoY**	**YtD**
CET1	15.1%	11.7%	12.1%	0.3%	-3.0%	-3.4%
Tier I	15.9%	12.4%	12.7%	0.3%	-3.2%	-3.5%
CAR	17.4%	15.2%	15.4%	0.2%	-2.0%	-3.1%
Leverage	11.03	11.74	11.23 -	0.50	0.21	0.42
Currency breakdown	**2Q25**	**1Q26**	**2Q26**	**QoQ**	**YoY**	**YtD**
TRY Loans/Loans	64.0%	64.1%	64.6%	0.5%	0.6%	0.6%
FX Loans /Loans	38.5%	35.9%	35.4%	-0.5%	-3.2%	-0.6%
TRY Deposits/Deposits	55.8%	54.7%	57.0%	2.3%	1.2%	0.9%
FX Deposits/Deposits	44.2%	45.3%	43.0%	-2.3%	-1.2%	-0.9%

Source: Bank financials, Seker Invest Research

Figure 4: Profitability ratios (Quarterly)	2Q25	1Q26	2Q26	QoQ	YoY	YtD
ROAA	1.8%	1.7%	0.8%	-0.93%	-1.05%	-1.35%
ROAE	20.2%	19.2%	8.8%	-10.36%	-11.39%	-14.36%
NIM (Swap adj.)	1.0%	3.2%	1.9%	-1.37%	0.84%	-1.36%
Figure 4: Profitability ratios (Cumulative)	**2Q25**	**1Q26**	**2Q26**	**QoQ**	**YoY**	**YtD**
ROAA	1.6%	1.7%	1.2%	-0.47%	-0.40%	-0.47%
ROAE	17.8%	19.2%	13.8%	-5.36%	-3.94%	-4.76%
NIM (Swap adj.)	1.2%	3.2%	2.5%	-0.69%	1.35%	0.56%
Efficiency ratios	**2Q25**	**1Q26**	**2Q26**	**QoQ**	**YoY**	**YtD**
Cost/Assets	3.6%	4.5%	4.5%	-0.01%	0.86%	0.35%
Fees (net)/Assets	3.4%	3.2%	3.6%	0.42%	0.18%	0.12%
Fees (net)/OPEX	94.8%	71.0%	80.7%	9.65%	-14.10%	-3.91%

Source: Bank financials, Seker Invest Research

Historical Recommendation and Target Prices (TRY)



Source: Seker Invest Research

Date	Recommendation	Target Price (TRY)
22.Jan.18	Market Perform (MP)	7,43
08.Jun.18	Market Perform (MP)	7,01
02.Aug.18	Market Perform (MP)	6,33
08.Nov.18	Market Perform (MP)	4,62
17.Jan.19	Market Perform (MP)	4,92
11.Feb.19	Market Perform (MP)	5,98
07.Jun.19	Market Perform (MP)	5,50
09.Aug.19	Market Perform (MP)	6,59
14.Jan.20	Outperform (OP)	8,53
13.Apr.20	Outperform (OP)	5,83
18.May.20	Market Perform (MP)	5,56
10.Jun.20	Market Perform (MP)	5,42
13.Jul.20	Market Perform (MP)	6,14
10.Aug.20	Outperform (OP)	6,50
09.Nov.20	Outperform (OP)	7,20
18.Jan.21	Outperform (OP)	8,80
07.May.21	Market Perform (MP)	7,05
08.Nov.21	Outperform (OP)	8,30
20.Jan.22	Outperform (OP)	12,30
08.Feb.22	Outperform (OP)	12,90
08.Aug.22	Outperform (OP)	8,15
07.Nov.22	Outperform (OP)	13,65
12.Jan.23	Outperform (OP)	16,40
10.May.23	Outperform (OP)	17,10
01.Aug.23	Outperform (OP)	19,90
08.Aug.23	Outperform (OP)	21,30
06.Nov.23	Outperform (OP)	32,50
12.Jan.24	Outperform (OP)	38,95
10.May.24	Outperform (OP)	18,52
07.Aug.24	Outperform (OP)	18,52
04.Oct.24	Outperform (OP)	17,65
07.Jan.25	Outperform (OP)	21,47
04.Nov.25	Outperform (OP)	18,80
09.Jan.26	Outperform (OP)	26,25
09.Feb.26	Outperform (OP)	29,61
06.May.26	Outperform (OP)	23,16

Source: Seker Invest Research

Basis for 12M Recommendations

Outperform:	The total return is expected to exceed the return of the BIST-100 by more than 10%.
Underperform:	The total return is expected to fall below the return of the BIST-100 by more than 10%.
Market Perform:	The total return is expected to be in line with the return of the BIST-100.

Source: Seker Invest Research

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