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This book is prepared from the year-end audited and non-consolidated "The Common Data Set -Financial Statements and Related Explanation and Footnotes" of banks, which are prepared according to the Accounting Standard No.17 and sent to the Banks Association of Turkey.

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Preface

'Banks in Turkey 2005' provides general information about the Turkish banking system and the banks operating in Turkey as well as their audited financial tables which are prepared according to the Accounting Standard No. 17. This book also offers an overall evaluation of the performance of the Turkish economy and the banking sector in 2005.

In addition, more details and tables that are prepared according to the Accounting Standard No 17, in terms of banks or groups, can be found in the web site of the Association (www.tbb.org.tr).

It is hoped that this publication will be useful for those who are interested.

The Banks Association of Turkey

The Turkish Economy
Main Economic Indicators

	Unit	2003	2004	2005	2006*
Growth					
GNP	%	5.9	9.9	7.6	5.0
Agriculture		-2.5	2.0	5.6	1.5
Industry		7.8	9.4	6.5	5.1
Services		6.7	11.7	8.6	5.7
Sectoral breakdown (at current prices)	%				
Agriculture		13.1	12.0	11.0	11.0
Industry		30.3	30.0	30.0	29.0
Services		56.6	58.0	59.0	60.0
GNP	USD billion	239	300	361	382
GNP	TRY million	356,681	428,932	486,401	541,857
Population	Million	70.4	71.3	72.3	73.0
Income per capita	In USD terms	3,383	4,172	5,008	5,235
Source-use	As % of GNP				
Fixed-capital outlays		16	19	20	21
Public		5	5	5	5
Private		11	15	15	16
Total savings	%	19	20	20	21
Public		-5	-1	2	3
Private		25	22	18	18
Savings gap		-4	-6	-7	-7
Public		-10	-7	-3	-2
Private		6	1	-4	-5
Total consumption		81	80	82	79
Public		12	12	11	12
Private		68	68	71	67
GNP deflator	%	23	9	5	6
Unemployment					
Overall	%	11	10	10	…
Urban		14	14	13	…
Rural		7	7	7	…
Inflation	%				
(Twelve month chg)					
Producer**		16	14	3	…
Consumer		20	9	8	5
Public sector balance, as % of GNP	%				
PSBR (excluding privatization)		9.5	5.1	1.7	1.0
PSBR (including privatization)		9.6	5.5	2.5	2.7
PSBR (excluding. interest. payments)		-7.8	-8.9	-9.0	8.9
Budget deficit		11.3	7.1	3.1	-2.5
Budget deficit (excluding interest payments)		9.6	10.9	10.4	6.4
SEEs		-0.7	-0.6	-0.5	0.5
Public administrations		0.4	0.0	0.0	0.0
Funds		-0.1	-0.4	-0.5	-1.5
Other		-1.4	-1.0	-0.4	-0.5
Consolidated budget	TRY million				
Revenues		100,283	109,887	134,819	144,058
Expenditures		140,054	140,200	144,562	157,271
Interest expenditures		65,450	56,488	45,680	46,260
Budget deficit		-46,128	-30,313	-9,743	-13,213
Primary balance		19,322	26,175	35,936	33,047
Financing		42,290	31,624	10,345	13,213
External borrowing		2,685	3,505	-1,228	-3,025
G-bonds		54,856	25,853	33,773	14,768
Short-term financing		-11,973	4,859	-12,455	17,793
T-bills		-11,973	4,859	-12,455	
CB advances		0	0	0	

** Programme target*
*** Wholesale price index until 2004.*

	Unit	2003	2004	2005	2006*
Selected ratios	%				
Revenue/GNP		28.1	25.6	27.7	26.6
Expenditure/GNP		39.3	32.7	29.7	29.0
Personnel expenditure/GNP		8.5	6.7	6.5	6.5
Interest expenditure/GNP		18.3	13.2	9.4	8.5
Investment/GNP		2.0	1.9	2.0	2.0
Personnel expenditure/total expenditure		21.6	21.9	22.0	22.7
Interest expenditure/total expenditure		41.8	41.1	31.6	29.4
Investment/total expenditure		5.1	4.7	6.7	6.8
Outstanding domestic debt	TRY million				
G-bonds		169,745	194,211	226,964	…
T-bills		24,642	30,272	17,818	…
Total Government securities		194,387	224,483	244,782	…
CB advances		0	0	0	…
Devaluation account		0	0	0	…
Total		194,387	224,483	244,782	…
Outstanding Domestic G. securities/GNP	%	54	52	47	…
Outstanding debt/GNP		79	75	68	…
Interest rates	%				
(Annual simple average)					
G-bonds		43	19	14	…
T-bills (3-month)		44	23	14	…
G-securities (maturity)		323	368	663	…
Exchange rates					
USD (Year-end)		1.3933	1.3363	1.3418	…
(Twelve month chg)	%	-15	-4	0	…
Euro (year-end)		1.7575	1.8233	1.5875	…
(Twelve month chg)	%	2	4	-13	…
CB Balance Sheet	TRY million				
Total balance sheet		76,473	74,658	90,700	…
As % of GNP	%	21	17	19	…
Net fx assets		17,262	23,048	49,480	…
Net domestic assets		28,753	21,071	17,732	…
Lending to Government		28,747	25,272	21,439	…
Reserve money		15,010	20,328	32,696	…
CB money		24,134	24,743	38,547	…
Fx position	USD million	394	2,748	15,513	…
Fx reserves	USD million	33,639	36,006	50,518	…
Monetary aggregates					
M1	TRY million	21,564	29,469	46,963	…
M2		80,923	109,344	163,467	…
M2Y		149,855	185,418	243,277	…
Repos (R)		3,067	1,528	1,486	…
Investment Funds (F)		12,911	16,532	21,584	…
G-securities held by non banks (D)	TRY million	53,327	67,034	65,252	…
Loans		67,210	100,101	153,059	…
M2RF		96,901	127,404	186,537	…
M2RFY		165,833	203,478	266,347	…
M2RFYD*		219,160	270,512	331,599	…
**M2RFYD: monetary assets+repos+investment funds+D*					
M2RF/GNP	%	27	30	38	…
M2RFY/GNP	%	46	47	55	…
Loans/GNP	%	19	23	31	…

** Programme target*

	Unit	2003	2004	2005	2006*
Financial assets	TRY million				
Monetary assets		165,833	201,949	231,072	…
TL		96,901	125,875	154,632	…
FX		68,932	76,074	76,440	…
Securities		287,092	353,769	466,032	…
Shares		96,073	129,287	218,318	…
Bonds and Bills		191,019	224,482	247,714	…
Government		191,019	224,482	247,714	…
Private		0	0	0	…
Investment Funds		12,912	16,531	21,584	…
Total		465,837	572,249	718,688	…
Foreign trade	USD billion				
Exports		45.6	62.8	73.0	79.0
Imports		67.2	97.2	116.0	124.0
Trade deficit		21.6	34.4	43.0	45.0
Foreign trade as of GNP	%				
Exports		19.1	20.9	20.2	20.7
Imports		28.1	32.4	32.1	32.5
Trade deficit		9.0	11.5	11.9	11.8
Balance of payments	USD billion				
Trade balance		-14.0	-23.9	-32.6	-34.3
Invisible balance		7.2	8.3	9.7	12.0
Current account balance		-6.8	-15.6	-22.9	-22.0
Current account balance/GNP	%	-2.8	-4.8	-6.4	-6.0
Capital movements	USD billion	7.1	17.7	44.1	-22.0
Foreign direct investment		1.2	2.0	8.6	4.2
Portfolio investment		2.6	8.0	13.7	7.4
Net errors and ommissions		5.0	2.3	2.0	0.0
Change in reserves		4.0	1.0	17.8	0.0
International fx reserves	USD billion				
CB reserves		33.6	36.0	50.5	…
Commercial banks		14.9	21.1	22.6	…
Total		48.5	57.1	73.1	…
Outstanding external debt	USD million				
Total		145,350	162,240	170,062	…
Long-term capital		122,337	129,671	131,851	…
Government		69,627	73,838	67,735	…
Central Bank		21,504	18,114	12,654	…
Private sector		31,206	37,720	51,461	…
Non-financials		26,283	29,437	36,289	…
Financials		4,923	8,283	15,173	…
Short term		23,013	32,589	38,211	…
Government		0	0	0	…
Central Bank		2,860	3,287	2,763	…
Private sector		20,153	29,282	35,448	…
Non-financials		9,692	14,753	17,666	…
Financials		10,461	14,529	17,782	…
Istanbul Stock Exchange					
Number of companies traded		265	275	282	…
ISE index	In USD terms	778	1,075	1,687	…
Daily trading volume	USD million	407	593	793	…
Total trading volume	USD million	100,165	147,755	197,386	…
Market capitilization	USD billion	69,003	98,073	159,274	…
Market P/E		15	14	17	…

** Programme target*

Developments in the Turkish Economy and the Banking System in 2005

Turkish Economy and Turkish Banking System in 2005

1. Overview

1.1. Economic Performance in 2005

Turkish economy continued to have positive performance in 2005.

Gross National Product (GNP) continued to grow on a fourth successive year in 2005 at the growth rate over the expectations. Further improvement in the public sector balance led to the decline in the ratio of outstanding public debt to GNP as the debt structure improved. Furthermore, privatization gained momentum. Producer price index (PPI) decreased considerably while the downward trend in consumer price index (CPI) slowed down. Wages in both private sector and public sector continued to increase in real terms. The rise in employment was slower than in labor force; however, unemployment rate remained unchanged as labor force participation rate declined. On the other hand, increase in productivity in manufacturing industry also had positive effects on economic performance in 2005.

Growth of aggregate demand accelerated in the second half of the year following a slowdown in the first half, and consequently it grew faster than expected. Both consumption and investment expenditures of the public sector were effective in this growth. Growth rate in private sector machinery investments decelerated while growth rate in the construction sector took the lead.

Nominal and real interest rates kept falling in 2005 due to strong demand by domestic investors as well as foreign investors for TRY-denominated investment instruments. Foreign exchange supply remained above that of demand with the effect of substantial capital inflows. The Central Bank of Turkey absorbed the excess of foreign exchange supply via daily auctions and/or occasional outright interventions to the foreign exchange market. Thus, foreign exchange reserves and foreign exchange position of the Central Bank reached record levels. TRY appreciated in real terms against major currencies.

Banking system had a stable growth in 2005. The share of TRY assets in the balance sheet recorded further increase due to the strong demand for TRY. Demand for loans by both corporates and individuals was robust, and loan portfolio of the banking system exceeded the securities portfolio for the first time since 2000. Substantial growth of loans obtained from abroad by banks also continued in 2005. Market value of the companies traded in İstanbul Stock Exchange increased significantly.

Foreign trade volume continued to grow but it lost momentum; the ratio of foreign trade volume to GNP was realized as 52 percent. Both exports and imports grew as imports exceeded USD 100 billion for the first time. Thus, coverage ratio of exports to imports continued to fall, recording its lowest level in the aftermath of 2000.

Current account balance gave a record deficit depending on the expansion of the foreign trade. The ratio of current account deficit to GNP rose to 6.4 percent. On the other hand, capital inflows amounted to record volume. Loans obtained from abroad by financial institutions and non-bank sectors increased considerably while the public sector and the Central Bank of Turkey made net foreign debt payments in 2005. Foreign direct investments reached record levels due to the rising foreign investors' interest to Turkish market. Another significant development was the higher growth in foreign investors' investments in both stocks and government securities. Depending on these developments, capital inflows increased to USD 22 billion in 2005 from USD 9.5 billion in 2004. International foreign exchange reserves rose by USD 17.8 billion. Turkey paid a net USD 5.4 billion to International Monetary Fund in 2005.

Turkish economy in 2002-2005: Change in behaviors and the impacts of this change on economic performance

Main developments which affected the Turkish economy positively in 2002-2005 period were: adoption of an approach aiming for fiscal, price and financial stability, change in the behaviors of economic units including also the public sector, efforts for well functioning of the market mechanism and for improving the capacity to compete internationally, continued process of harmonization with international standards and regulations, and further improvements in expectations. Important steps for reducing the tax burden on economy were taken. Meanwhile, continued growth in the world economy and increase in international trade volume, excess liquidity in international markets and improvement in external borrowing conditions, and the progress in relations with the European Union after the decision to start membership negotiations with Turkey in 2005 also had a very positive impact on economic performance. On the other hand; upward trend in main energy input prices, particularly oil, and the rise above average in non-merchandisable goods and services prices, high unemployment rate stemming from lower rate of employment compared with the rise in labor supply, the increase in transfers to the social security system, and the performance and competitive edge of the industrial sector are subjects on the agenda that needs to be monitored.

The most remarkable changes in 2002-2005 period were the considerable contraction in the public savings deficit contrary to the fact that private sector savings surplus turned into savings deficit, decrease in inflation rate to single digit level, change in the portfolio preferences in favor of TRY caused by strong demand for TRY, rise in loan demand from individual investors, improvement in the banking system balance sheet and the accompanying rise in loan supply, increase in the shareholders' equity, and accelerated capital inflows.

The ratio of the public sector savings deficit to GNP decreased to 2.8 percent in 2005 from 12.5 percent in 2002. On the contrary, private sector savings balance, which recorded a surplus of 10 percent in 2002 gave a deficit of 4.4 percent in 2005. Total savings deficit rose to 6.4 percent from 2.5 percent in the same period. Total savings ratio to GNP rose to 23.4 percent from 19.2 percent, and the ratio of fixed capital investments to GNP rose to 20.2 percent from 17.3 percent. The ratio of savings to GNP in private sector dropped to 22.7 percent from 25.4 percent, while the ratio of fixed capital investments to GNP rose to 14.9 percent from 11 percent. The rise in private sector investments mainly resulted from the rise in machinery investments. Private sector productivity increased significantly. Therefore, partial productivity index per hourly work increased to 158 points in 2005 from 128 points in 2002.

The ratio of the budget deficit to GNP fell to 3.1 percent and the ratio of the public sector deficit to GNP fell to 0.9 percent in 2005 due to the efforts continued in 2005 for the purpose of reduction of the public sector borrowing requirement and hence easing of the pressure on financial markets. The ratio of the primary surplus to GNP was 6 percent on average in 2002-2005 period.

The ratio of the outstanding public sector debt to GNP dropped to 68 percent from 75 percent due to the implementation of tight fiscal policy. The ratio of outstanding domestic debt to GNP decreased to 50 percent from 52 percent, and both the maturity and risk structure of outstanding domestic debt improved obviously. TRY borrowing costs also decreased by 59 points to 73 percent.

Such improvement in the public sector balance also had a positive contribution to monetary policy of the Central Bank aiming for price stability. The Central Bank pulled down the short-term interest rates in consideration with the improvement in inflationary expectations and the fall in inflation rate. Money markets remained stable during the year. TRY appreciated against major foreign currencies in real terms. The entire growth in the balance sheet of the Central Bank stemmed from the rise in net foreign assets. The Central Bank's reserves rose to USD 50.5 billion in 2005 from USD 26.7 billion in 2002, and its foreign exchange position turned into a surplus of USD 8.9 billion from a deficit of USD 2.2 billion.

Strong demand for TRY led to significant change in the structure of money demand. The share of TRY denominated investment instruments in broad money demand rose to 84 percent at the end of 2005 from 68 percent at the end of 2002 when repos, investment funds and government securities demand of the domestic investors were all taken into consideration. Loan demand also grew rapidly. The ratio of total loan supply to GNP rose by 12 percentage points to 31 percent compared to the end of 2002. This rise in loans resulted from the rise in corporate loans as well as from the change in borrowing attitudes of the individuals. On the other hand, the share of loan portfolio of the banking system in total assets surpassed the share of securities portfolio for the first time since 2002. Despite this rise in loan portfolio, the capital adequacy ratio remained high and substantial rise in free capital followed an upward trend.

Another significant development in the period following 2002 was the rapid rise in foreign trade volume. The ratio of the foreign trade volume to GNP rose by 3 percentage points to 52 percent in 2002 despite TRY's significant appreciation against dollar and rapid rise in GNP. The ratio of foreign trade deficit to GNP rose to 11.8 percent from a previous figure of 9.2 percent. Exports increased to USD 73.3 billion from USD 36.1 billion, while imports rose to USD 116 billion from USD 51.6 billion.

Current account deficit also expanded rapidly as the ratio of current account deficit to GNP rose to 6.4 percent from 0.9 percent. In the meantime capital inflows to Turkey were well above the current account deficit, which recorded as USD 46.5 billion while foreign capital inflows into the country was USD 68.8 billion. There were significant changes in the structure of the capital movements: borrowing from abroad by both financial institutions and non-financial sectors accelerated. Whereas the public sector continued to make net foreign debt payments in this period. On the other hand foreign direct investments into Turkey reached record levels. Demand for TRY-denominated capital instruments by foreign investors continued progressively. Depending on this development, official reserves increased by USD 23.8 billion. Downward trend in the ratio of outstanding external debt to GNP continued. Private sector's external debt increased while that of the public sector decreased. The ratio of outstanding external debt to GNP decreased to 47 percent in 2005 from 78 percent in 2002.

An important reflection of the developments experienced in Turkish economy in 2002-2005 period was the upgrading of Turkey's credit rating, which moved from B-stagnant in 2002 to BB-positive (S&P) at the end of 2005.

Medium-term economic program and forecasts for 2006-2008 period: The Program targets to meet the EU economic criteria at the end of 2008.

According to the forecasts under the medium-term economic program and basic economic aggregates for 2006-2008 period; Turkey's Gross Domestic Product (GDP) is estimated to increase by 5 percent and reach USD 422 billion; per capita income to reach USD 5,621; and inflation to fall to 4 percent at the end of 2008.

Forecasts of the Economic Program: Main Economic Indicators

	2002	2005*	2006**	2007**	2008**
GDP (real growth, %)	7.8	7.4	5	5	5
GDP (USD billion)	180	361	365	393	422
Per capita income (USD)	2,586	5,008	4,981	5,289	5,621
PSBR/GNP (%)	-12.6	-0.9	-2.6	-1.4	-0.1
Public debt stock /GNP (%)	91	69	72	68	64
Inflation (CPI, annual, %)	30	8	5	4	4

* Provisional
** Program target

The program anticipates the public sector balance to give a surplus during the three years period and consequently the ratio of the public sector debt stock to GDP to fall down to 64 percent. Total consumption is forecasted to rise by an annual average of 3.6 percent and fixed capital investments to increase by 9 percent. According to Government's program exports will rise to USD 105 billion and imports to USD 150 billion at the end of this period generating a current account deficit at around 3 percent of GNP.

Developments in industrial sectors after 2002: Company Accounts' Assessment by the Central Bank of Turkey[1]

Reflections of the economic developments in 2002-2004 period on the manufacturing industry was analyzed in terms of risks, financing structure and scale:

I- Industry Risks and Financing Structure

1- The share of external funding in total funds used by the companies in the concerned period increased due to their increased borrowing requirements.
2- 76 percent of the cash loans used by the companies in this period were foreign exchange denominated.
3- 59 percent of the cash loans obtained from abroad were used by manufacturing industry, 14 percent by trade industry, and 10 percent by energy industry.
4- These loans were predominantly used by large companies.
5- Among the surveyed companies, only 4 percent hedged their exchange risks in forward market.
6- It was observed that risk perception by the companies was not at sufficient levels.
7- It is possible that foreign exchange risks of the industrial sector may expose the banking system to credit risks in the future.
8- Open foreign exchange position increased by 24 percent in 2003 compared with the previous year, and 51 percent in 2004 .
9- The fact that the foreign exchange cash loans in liability side had a share of 58 percent showed that foreign exchange risks of industrial sectors stem not only from foreign exchange denominated loans but also from other foreign exchange liabilities arising from the activities of the companies.
10- 59 percent of the foreign exchange cash loans were in short term, and the remaining was in long term.
11- High growth and profitability continued.
12- Of the assets 52 percent were financed by shareholders' equity and 19 percent were financed by bank loans.

[1] Source: Company Accounts'2005 Report (2002-2004) , The Central Bank of the Republic of Turkey .

Assessment by Industries: Manufacturing industry and sub-sectors

II- Assessment by scale

1- Despite the downward trend in the share of financing costs in net sales, small scale companies recorded losses in 2004 as a result of mainly the real contraction in net sales. These companies could cover their interest expenditures via their pre-tax profits in 2002 and 2003; however, they were unable to behave in the same way in 2004.
2- Net sales of large and medium-scale companies increased in real terms. And the share of financing costs in their net sales declined.
3- Net profit margins were unchanged.
4- It is noteworthy that small and medium-scale companies could not benefit from the general economic profitability, and they subjected relatively to high costs of foreign funds.
5- Low level of the foreign exchange borrowing costs urged the companies to prefer foreign exchange borrowing.
6- The share of foreign exchange loans in total loans used from the domestic and foreign banks was 60 percent in small-scale companies, 85 percent in medium-scale companies, and 80 percent in large-scale companies.

1.2. Banking Sector

Improvement in economic performance had positive implications on the balance sheet and attitudes of the banking sector.

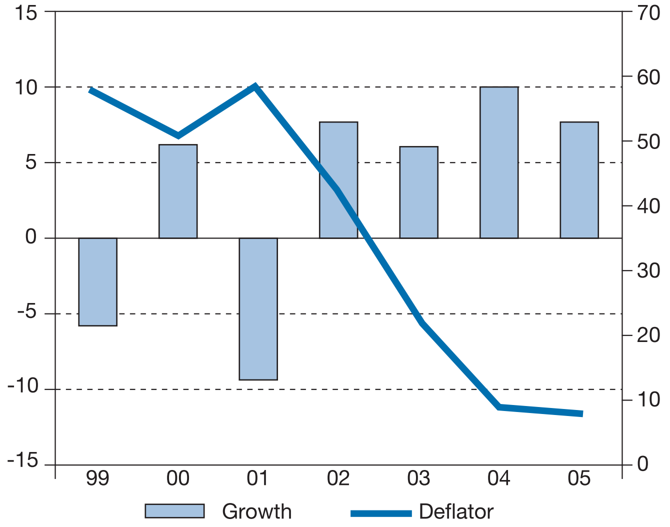
Banking sector maintained its stable growth in 2005. TRY denominated items in the balance sheet of the banking sector recorded growth. Shareholders' equity and free capital continued to increase. Cost of funds in the banking system decreased. Foreign borrowing capacity of the banks at favorable conditions increased. Loan portfolio also grew and diversified; it exceeded the securities portfolio for the first time since 2000. Individual loans and corporate loans grew noticeably. The ratio of non-performing loans to total loans decreased significantly. Liquidity remained high. The share of fixed assets in total assets declined. Both return on assets and return on equity decreased compared to 2004. On the other hand, market value of the financial institutions increased remarkably.

As of December 2005 there were 34 deposit banks, 13 investment and development banks and 4 participation banks operating in Turkey. Total assets of deposit banks, and development and investment banks increased by 30 percent to TRY 397 billion (USD 296 billion). Total number of bank branches increased to 6,247, and the number of employees rose to 132.258. One more bank, namely T. Vakıflar Bankası T.A.O. was offered to public in 2005.

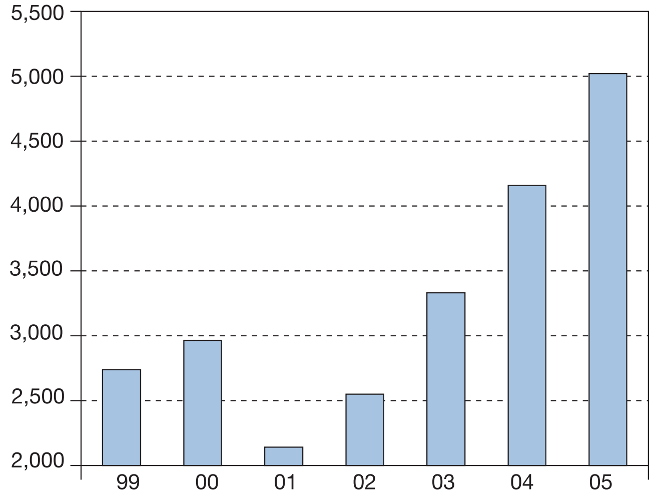
Turkish banking sector in 2002-2005 period: Harmonization with international regulations, increased competition and a significant rise in shareholders' equity

Stability maintained in economy, rapid economic growth, fall in inflation and the declined Government's demand for funds all contributed to the increase of competition in the markets. On the other hand, the banking regulations have been harmonized with international standards to a great extent. The structure of the banking system was reinforced following the restructuring process.

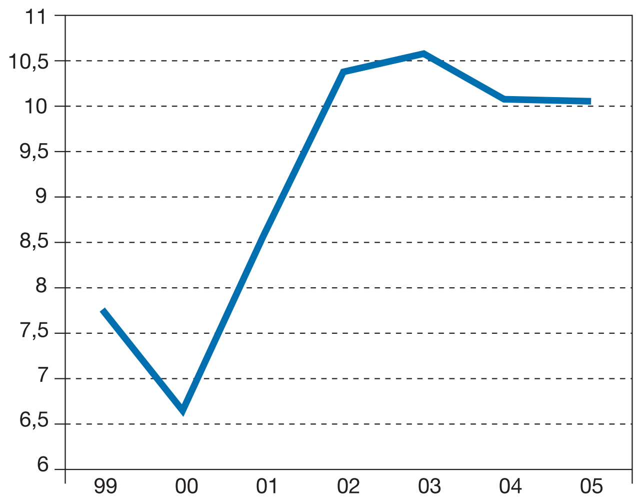
Inflation continued to decrease while growth accelarated.



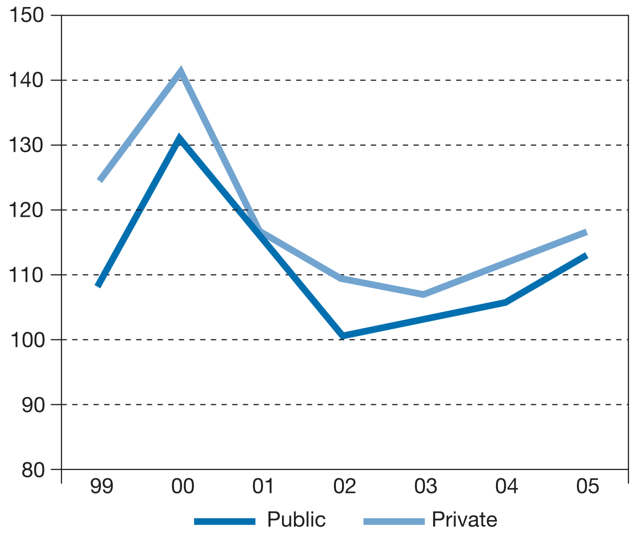
Per capital income reached its peak level of USD 5,000.



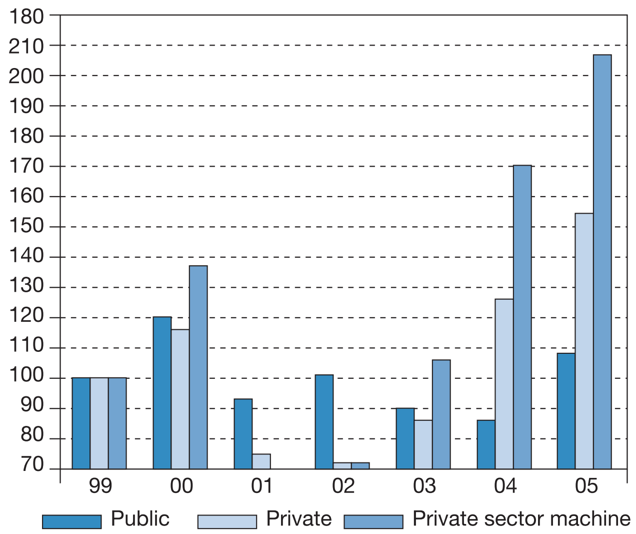
Unemployment rate remained the same in 2005.



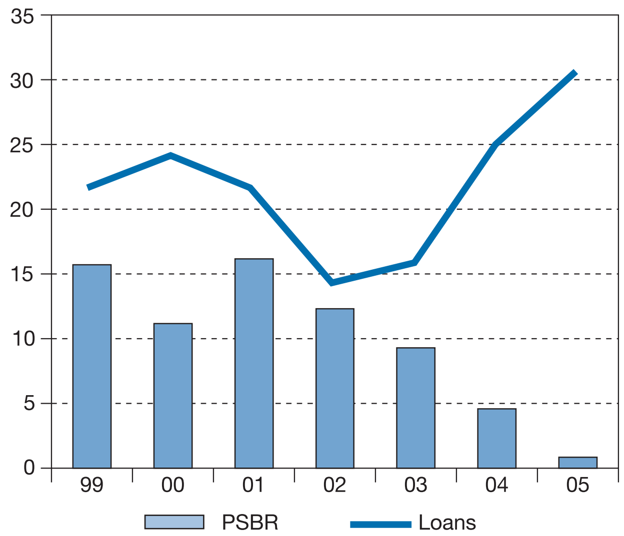
Real wages and salaries continued to increase in 2005.



Machine Investments in private sector continued to increase.



Loans continued to increase while puplic sector borrowing requirement declined (As percentage of GNP)



The most significant effect of the developments in Turkish economy and financial sector in 2002-2005 period on the banking system was the growth and change in the balance sheet structure of the banking system. Total assets amounted to USD 296 billion up from USD 130 billion. The ratio of total assets to GNP rose by 10 percentage points and reached 82 percent. The share of TRY denominated funds in total liabilities rose to 64 percent from 50 percent in the same period. Likewise, the share of TRY denominated assets in total assets rose to 68 percent from 57 percent. This stemmed from the robust demand for TRY as well as the slow rise in TRY equivalence of foreign funds due to the appreciation of TRY against major foreign currencies.

Another significant development was the strengthening of shareholders' equity, which increased to USD 40 billion from USD 15.7 billion. The ratio of free shareholders' equity to total assets rose to 8.2 percent from 1.9 percent also with the effect of the reduction in fixed assets. Consequently, the ratio of shareholders' equity to total assets rose to 13.5 percent from 12.1 percent.

The most remarkable change in the asset structure was the growth and diversification of loans portfolio. The ratio of loans to total assets rose by 12 percentage points to 39 percent, and to total deposits by 20 percentage points to 60 percent. On the contrary, the share of the securities portfolio in total assets fell by 5 percentage points to 41 percent. Consumer and housing loans recorded a rapid growth; its share in total loans increased to 31 percent as of December 2005.

Despite a notable change in the structure of the balance sheet in this period, no significant change was observed particularly in the maturity structure of deposits. Average maturity of interest-sensitive funds was 70 days, and that of assets was around 150 days.

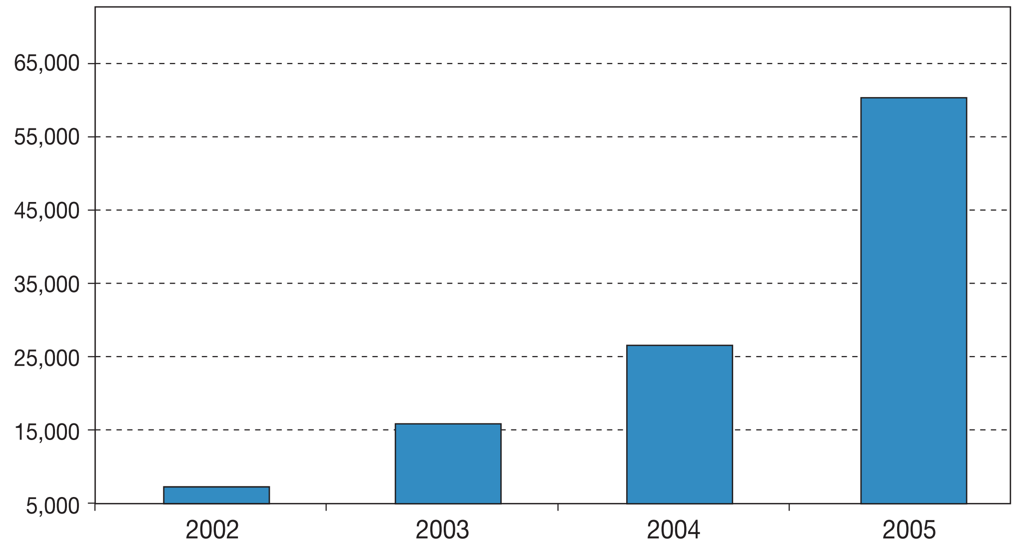
Improved economic performance had a positive impact on the profitability ratios of the banking sector in 2002-2005 period. In fact return on assets rose to 2.1 percent from 1.1 percent. Similarly return on equity rose to 14 percent from 9.2 percent. The contribution of the net interest margin on profitability increased. Another significant contribution resulted from the increase in fees and commissions.

The share of the largest ten banks in total assets increased to 85 percent in 2005 by 1 percentage point from 2004. While the share of state-owned banks in total assets decreased by 4 percentage points to 31 percent in the same period, the share of foreign banks in total assets rose by 2 percentage points to 5 percent. Interests of foreign investors towards Turkish banking system also continued in 2005. Foreign investors invested to the banking system through founding strategic partnerships or directly buying management rights.

50 percent of the shares of Türk Ekonomi Bankası AŞ was bought by BNP Paribas, 89 percent of the shares of Türk Dış Ticaret Bankası A.Ş by Fortisbank NV-SA, and 26 percent of the shares of T.Garanti Bankası A.Ş by the finance company GE Capital Corporation.

As a result of the positive developments in economic performance and the banking sector the market value of banks in Turkey increased considerably. The market value of the financial institutions quoted to Istanbul Stock Exchange (ISE), including predominantly large banks, rose to USD 28.1 billion in 2004 and to USD 53 billion in 2005, from USD 7.2 billion in 2002. Total market value of the financial institutions trading in ISE rose to USD 62 billion with the addition of two banks, which were subsequently quoted to ISE in 2005.

Market Value of Financial Institutions traded in ISE (USD million)



Turkish and EU Banking Systems

In comparison of the banking sector capacity indicators between EU-15 countries and Turkey the figures show 21-fold, 24-fold, and 12-fold difference in terms of assets per capita, loans per capita and deposits per capita, respectively although income per capita in EU-15 is 6-fold higher than Turkey.

Turkey and EU-15: Selected Capacity Indicators

	EU-15 (2004)	Turkey (2005)
Per capita (Euro)		
-Income	26,832	4,259
-Asset	74,033	3,572
-Loan	31,344	1,325
-Deposit	25,234	2,188
Population per (Person)		
-Credit institution (CI)	53,402	1,489,000
-CI employee	140	529
-CI branch	1,934	11,205

Source: ECB,The Banks Association of Turkey

A credit institution gives service to an average of 1.5 million people in Turkey, while this number is 53,000 persons in EU-15 . The average number of persons that falls per bank branch in EU-15 is 1,934, and the average number of inhabitants that falls per bank staff is 140, whereas the same figures are 11,205 and 529, respectively in Turkey.

The ratio of total assets to GDP is 276 percent in EU-15 countries, while 82 percent in Turkey. There is a similar tendency in both loans and deposit figures. The ratios of loans and deposits to GDP are 117 percent and 94 percent, respectively in EU-15 countries, while these figures are 31 percent and 50 percent, respectively in Turkey.

Turkey and EU15: Selected Financial Indicators

	EU15 (2004)	Turkey (2005)
As percentage of GDP		
-Total assets	276	82
-Total deposits	94	50
-Total loans	117	31
-Housing loans	39	3
-Consumer loans	8	6

Source: ECB,The Banks Association of Turkey

The ratios of housing and consumer loans to GDP are 39 percent and 8 percent respectively in EU-15 countries, while these ratios are 3 percent and 6 percent, respectively in Turkey.

Hence, the figures of Turkish banking system are far below than those of EU-15 countries in general sense despite the rapid growth experienced in the last three years.

Regulations and Practices

The most significant legislation in relation with Turkish banking sector in 2005 was the introduction of a new Banking Law no.5411. Important changes adopted under this law are as follows:

Main Modifications Introduced Under Banking Law No. 5411

Banking Law No. 5411	Banking Law no. 5411 was published in the repeated version of Official Gazette, numbered 25983 and dated November 1, 2005. Although new banking law adopted most of the provisions and articles of the Banking Law no. 4389, it also introduced many new provisions regarding definitions and institutions which were not mentioned in the preceding law.
Justification	This Law was intended to be easily understood and clear in accordance with the transparency principle, and which targeted to resolve the existing problems in harmony with European Union (EU) Directives and other international standards and principles and to set starting points regarding the future-oriented policies.
Purpose	The objective of this law is to regulate the principles and procedures of ensuring confidence and stability in financial markets, the efficient functioning of the credit system and the protection of the rights and interests of depositors.
Scope	- Deposit banks - Participation banks - Development and investment banks - Financial holding companies The title of "private finance institutions" is changed as “participation banks”, and the scope of the Law is expanded to include the financial holding companies, Banking Supervision and Regulation Agency (Agency) and Savings Deposit Insurance Fund (Fund) as well.

Main Modifications Introduced Under Banking Law No. 5411

Field of Activity and Licenses

Fields of activity that can be performed by banks are expressly listed by the Law.

Permissions and authorizations to be granted to banks regarding their foundation and activities are designed more comprehensively as a part of prudential supervision. The principles for announcing decisions related to rejection of permission applications, and to revocation of the previously granted licenses are adopted under the Law.

Minimum shareholders' equity requirement for opening new branches has been cancelled. Thus banks are allowed to open new branches on condition of notification to the Agency, compliance with the principles to be determined by the Agency, and compliance to the corporate governance provisions and protective provisions.

Minimum Capital

Minimum paid-in capital is TRY 30 million for deposit banks, and TRY 20 million for development and investment banks.

Amendments in Articles of Association

The Law introduced provisions for shortening the procedures that apply in amendments of articles of association, informing the public, and increasing the transparency of the financial institutions.

Corporate Governance

The Law introduced "Corporate Governance Principles". It has been provisioned that the corporate governance principles and structures and procedures regarding these principles shall be established by the Agency after taking the opinions of Capital Markets Board and associations of institutions.

Following provisions introduced by the Law are as follows:
Audit Committee shall be established;
Professional liability insurance shall be made for independent audit, rating, and validation organizations;
Publicly held banks shall receive authorization from the Agency prior to publishing of their financial statements;
At least two third of the deputy general managers of banks shall meet the qualifications required from general managers.

Protective Provisions

All limitations and standard ratios shall be applied on consolidated basis;
Shareholders' equity shall not be less than the initial capital;
There shall be a provision regulating the liquidity adequacy;
Loan definition has been broadened;
Banks are obliged to promptly inform the Agency when they reach the thresholds regarding all limitations and standard ratios.

Loans to Risk Groups

In cases where loans will be extended to real and legal persons in the same risk group the necessary decision shall be taken by two thirds majority of the board of directors' members and that the loan conditions shall not vary from the loans made available to other persons and groups and from market conditions in favor of the borrower. Total amount of loans to be extended by a bank to a real or a legal person or a risk group shall not be more than twenty-five percent of its own funds. Special provisions will be accepted as expenditure in calculation of the corporate tax base of the year they are made.

Restrictions

Following restrictions provided by the Law are as follows:
Banks shall have adequate financial strength in their new partnership acquisitions and such acquisitions shall be in compliance with corporate governance provisions;

Main Modifications Introduced Under Banking Law No. 5411

Real properties shall not be in excess of 25 percent of the own funds equity;
Persons engaged in real property trade shall be enabled to have access to credit disbursement;
Resource transfers to credit unions shall not be made and transactions to cause losses shall not be carried out;
Donations shall be limited; and
Covered revenues shall be prevented.

Audit

The Law orders that onsite internal audit and supervision activities shall be incorporated into general audit activities, and such activities shall be carried out by an audit team which includes banking specialists and their assistants, information specialists and their assistants, law specialists and their assistants, in addition to the sworn auditors and their assistants which make up the bank's professional auditing personnel,
Onsite audit and supervision activities shall be performed in accordance with the principles to be identified by the Agency;
Risk-oriented audit understanding will be adopted;
All activities including data processing systems shall be audited;
The audit activity shall be carried out on consolidated-basis and other competent authorities shall also be cooperated.

Liquidity adequecy

Minimum liquidity adequacy requirements have been introduced for banks under efficient audit principle of banks for the purpose of close monitor of their financial strength.

Measures to be taken against system risks

The Law authorizes Council of Ministers for identifying extraordinary measures in cases where a negative development with a potential to have contagion effect on the entire financial system and where such development is identified and confirmed jointly by the Fund, Treasury Undersecretariat and Central Bank of Turkey under the coordination of the Agency, and obliges and authorizes all related organizations and institutions to implement such extraordinary measures instantly and immediately.

Deposits

Branches and participations of the credit institutions which located abroad, are not entitled to collect deposits from the domestic savers.
A definition has been provided for the deposit and participation funds which is not under the cover of the insurance.
It has been provisioned that deposit banks shall insure only those funds deposited to them which are subject to the insurance and shall pay their savings deposit insurance premiums based on such sums.

Arbitration Committee

A Committee of Arbitrators shall be established for the settlement of the disagreements that may arise between its members and the individual customers in accordance with the procedures and principles to be approved by the Agency.

Banking Regulation and Supervision Agency (BRSA)

The Law introduced provisions in relation with the Agency that:
Its independence shall be fortified;
Transparency and accountability principles shall be implemented;
Regulation, and audit and supervision of the financial leasing, factoring, finance companies have been transferred to the Agency;
A financial industry commission shall be established; and
A coordination committee shall be established in order to maintain coordination between the Agency and the Savings Insurance Deposit Fund.

	Main Modifications Introduced Under Banking Law No. 5411
Legal Obligations	Confidentiality obligation has been made more strict; It is aimed to make ethical principles prevail. A regulation for the protection of the prestige of the banking sector as a whole shall be prepared.
Other Provisions	It has been provided that income acquired out of mergers, divisions and stock changes shall be exempted from corporate tax, and that the term "bank" as referred in other laws shall also embrace private finance institutions.

Financial Restructuring Program, which was initiated in June 2002 terminated in June 2005. A total of 322 companies was covered by the program, and a total of USD 6,021 million of debt was restructured under this program.

Differences in taxation of the investment instruments have been eliminated to a great extent by the Law No. 5281 about "Harmonization of the Tax Laws with the New Turkish Lira and Amendment in Some Laws". Thus, a withholding tax of 15 percent has been applied to the government securities and deposits, private sector bonds and bills.

"Road Map in Transition to Basel-II" was announced to the public by Banking Regulation and Supervision Agency (BRSA) on May 30, 2005 after taking the opinions of the banking sector for an efficient planning of the transition process to Basel-II. Instruction meetings were held in many cities for the purpose of informing the industrial sector firms about Basel II under the coordination of Union of Turkish Chambers and Exchanges and also with the participation of the representatives from BRSA and the Banks Association of Turkey.

2. Developments in Turkish Economy in 2005

2.1. Growth

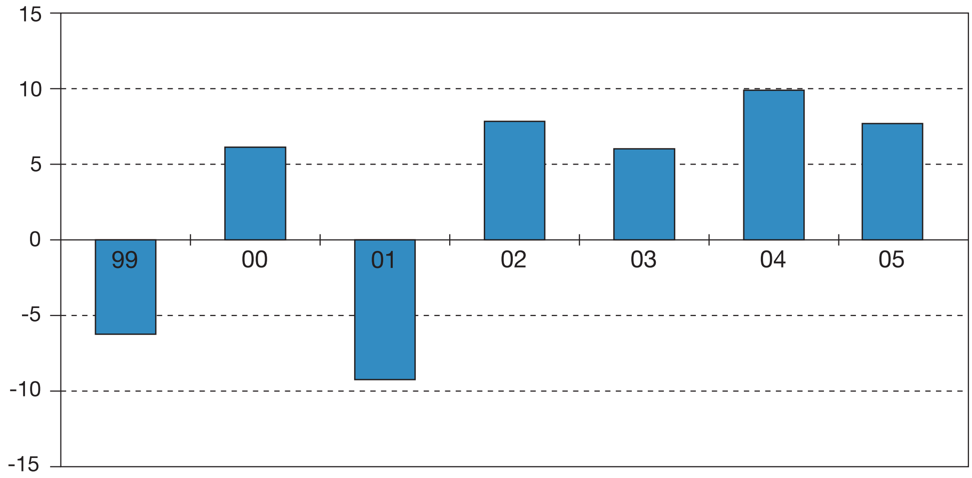
Growth trend in economic activities started in 2002 also continued in 2005. According to Turkish Statistical Institute (Turkstat), Gross National Product (GNP) increased by 7.6 percent and Gross Domestic Product by 7.4 percent in constant prices. GNP grew by 13.4 percent in current prices and reached TRY 486.4 billion. GNP deflator decreased to 5.3 percent in 2005 from 9.4 percent in 2004.

Gross National Product

	2002	2003	2004	2005
Growth rate (percent)				
In current prices	55.8	29.7	20.3	13.4
In constant prices	7.9	5.9	9.9	7.6
Deflator (percent)	43.8	22.5	9.4	5.3
GNP				
(1987 prices, TRY million)	116	123	135	146
TRY billion	275	357	429	486
USD billion	180	239	300	361
Per capita income (USD)	2,598	3,383	4,172	5,008

Due to the appreciation of TRY against dollar, GNP increased by 20.5 percent in dollar terms and reached USD 361 billion compared with the previous year. Per capita income grew by 13 percent in current prices and by 20 percent in dollar terms, respectively and reached USD 5,008. This was the first time per capita income exceeded USD 5,000 in Turkey.

Growth (Percentage change in constant prices)



A high growth rate was achieved in all main sectors. Agricultural sector grew by 5.6 percent in constant prices; industrial sector by 6.5 percent, and service sector by 8.6 percent. In service sector, growth rate was relatively high, particularly in sub-sectors of construction, communication and transportation. The share of agricultural sector in GDP in current prices decreased by 2 percentage points to 10 percent, that of the industrial sector by 5 percentage points to 25 percent; while the share of service sector in GDP rose by 7 percentage points and reached 65 percent.

Sectoral Growth Rates and Breakdown

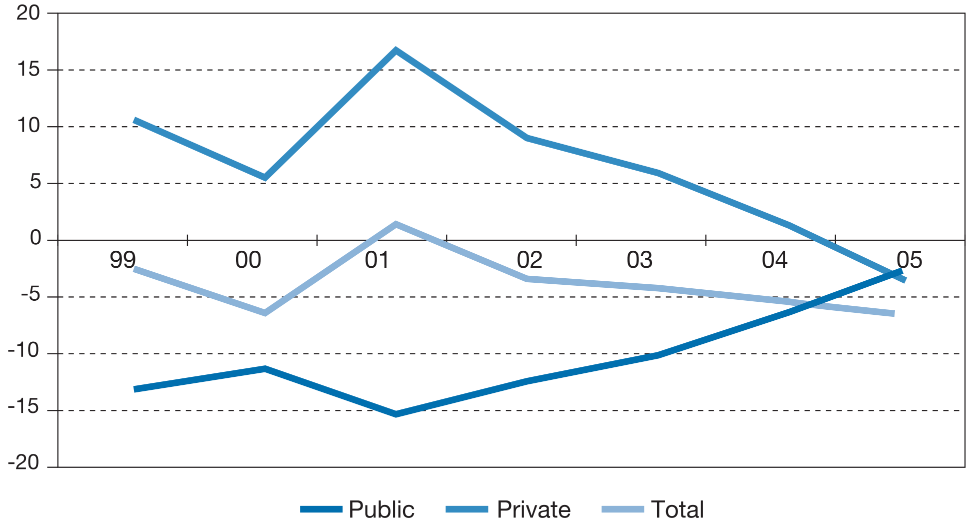
	Percentage change (in constant prices)				Percentage share in GNP (in current prices)			
	2002	2003	2004	2005	2002	2003	2004	2005
Agriculture	6.9	-2.5	2.0	5.6	14	13	12	10
Industry	9.4	7.8	9.4	6.5	29	30	30	25
Services	7.5	6.7	11.7	8.6	57	57	58	65

Source: Turkstat

Industrial sector and service sector continued to be leading sectors behind the growth in Turkish economy in 2005. The growth rate in manufacturing industry, principal sub-sector of industrial sector, was 8.7 percent. Growth rate in the sub-sectors of industrial sector such as mainly food, tobacco, paper products, machinery and equipment used in communication and office works, main metal industry, forestry, chemicals, plastics and rubbery, metal goods, mineral products, electrical and medical tools and furniture was even higher than the growth in manufacturing industry as a whole. Production in energy sector increased by 5.8 percent. Annual average capacity utility rate in manufacturing industry decreased by 3.4 percentage points to 80.6 percent. This rate was 86.6 percent in public sector and 78.9 percent in private sector.

On the expenditures side; consumption grew by 8 percent while investments increased by 23 percent. The growth in aggregate demand mainly stemmed from private sector. Accordingly, consumption expenditures in constant prices rose by 9 percent in private sector, while this growth was only 2 percent in public sector. The rise in investment expenditures was 22 percent in private sector and 26 percent in public sector. Public sector investment expenditures increased; growth in public sector fixed capital investments resulted from machinery and equipment investments which grew by 36 percent. Building constructions increased by 30 percent while machinery and equipment investments rose by 21 percent in private sector.

Balance of Savings (As percentage of GNP)



The shares of private consumption expenditures and investment expenditures in GDP were 67.4 percent and 15.3 percent, respectively. The share of public consumption expenditures in GDP was 13.1 percent while that of public investment expenditures in GDP was 4.2 percent.

Net contribution of the foreign trade account was negative in 2005 as imports increased faster than exports. Stock changes which had a significant contribution to the economic growth in previous years continued in 2005.

Value added created by financial institutions in current prices decreased by 0.2 percent. Accordingly, the contribution of the financial institutions in GDP was 1.6 percent.

According to the estimations of the State Planning Organization on general savings balance, domestic savings ratio rose by 0.1 percentage point to 20.4 percent in 2005. Savings ratio declined in private sector, and turned into positive in public sector.

Savings-investments gap continued to grow although there was no significant change in total domestic savings ratio. Gross savings-investments balance reached 7.2 percent of GNP in 2005 from 5.4 percent in 2004. Net savings gap in public sector declined to 2.8 percent from 6.7 percent in previous year, while net savings surplus of 1.3 percent in private sector in 2004 turned into gap in 2005 and realized as 4.4 percent.

Domestic Savings and Balance of Savings (As percentage of GNP, percentage)

	2002	2003	2004	2005
Domestic savings	19.0	19.3	20.3	20.4
Public	-6.2	-5.3	-1.3	2.6
Private	25.3	24.6	21.6	17.8
Savings balance	-2.6	-4.2	-5.4	-7.2
Public	-12.5	-10.1	-6.7	-2.8
Private	9.9	5.9	1.3	-4.4
External funds	2.6	4.2	5.4	7.2

Source: State Planning Organisation

2. Employment, Productivity and Wages

Real wages increased at a faster rate than the partial productivity per worker in 2005; however, rise in employment was limited despite the fast growth in economy. Upward trend in partial productivity in manufacturing sector was moderate; however, productivity in public sector increased due to the rapid rise in capacity utilization rate particularly in textile sector, despite the employment losses in public sector.

Real Labor Cost Index (94=100)

	2002	2003	2004	2005
Total				
Public	100	102	105	112
Private	109	106	111	116
Employee	120	123	128	134
Minimum wage	135	154	171	182

Source: State Planning Organisation

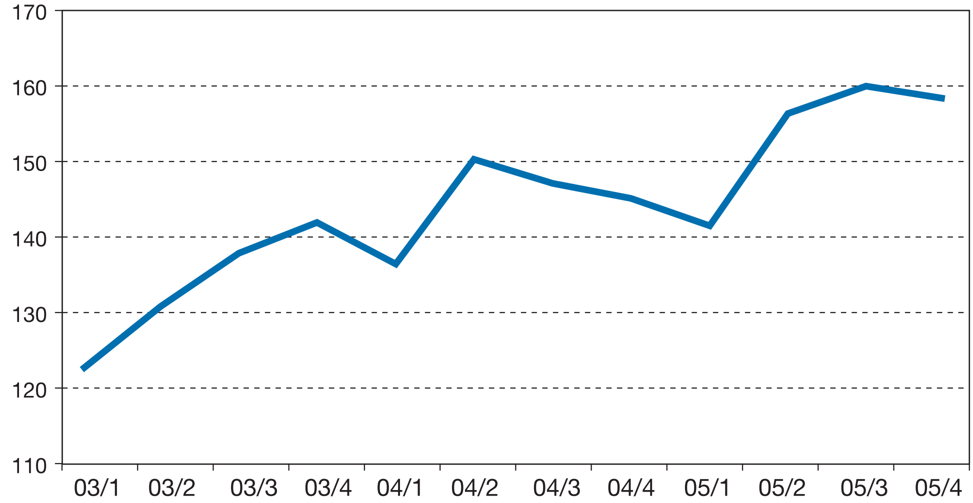
According to the estimations of the State Planning Organization, real labor costs of public workers and employees, and minimum wages increased in real terms. Partial productivity per worker increased by 5.6 percent in 2005. Increase in productivity accelerated in the second half of 2005. Increase in partial productivity per hour in the same period was above, albeit slowly, the increase in partial productivity per worker due to the creation of additional employment.

Productivity Index (Annual percentage change)

	2004/IV	2005/I	2005/II	2005/III	2005/IV
Per worker	2.2	3.6	3.9	6.1	8.5
Per hour	1.6	5.1	4.3	6.1	8.4

Source: Turkstat

Partial Productivity Index Per Worker in Manufacturing Industry (1997=100)



Collective contracts covering a total of 259,295 workers from 6,818 work places were concluded in the first half of 2005. While a total of 70,311 workday losses was suffered in 28 strikes in the same period; there was no lockout application.

The contribution of the economic growth to the rise in employment was limited. Unemployment rate remained unchanged as participation to the workforce receded. According to the data of Turkish Statistical Institute, total labor supply was 24.6 million people, while total employment was 22 million people. The number of unemployment reached 2.5 million people by an increase of about 22,000 people compared with the previous year.

Unemployment (Percentage)

	2002	2003	2004	2005
Unemployment rate				
Overall	10.3	10.5	10.3	10.3
Urban	14.2	13.8	13.6	12.7
Youth	...	...	19.7	19.3
Underemployment rate				
Overall	5.4	4.8	4.1	3.4
Urban	3.4	5.2	3.8	3.0
Youth	...	...	5.1	4.5

Source: Turkstat

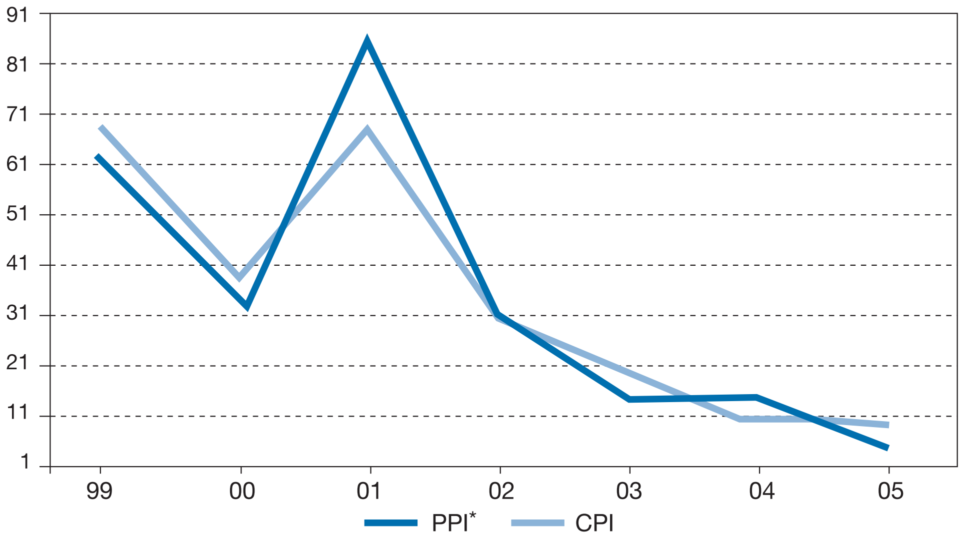
The number of population capable to work increased by 920,000 persons in 2005 in Turkey. However, the number of persons joined to the workforce was only 276,000 as a result of the decline in participation to the workforce. Employment for a total of 255,000 persons was created in the same period.

Accordingly, unemployment rate in 2005 was 10.3 percent. Urban unemployment decreased by 0.9 percentage point to 12.7 percent. Unemployment rate was 13.7 percent when underemployment was also included. Of the total employment, 46 percent was employed in services sector, 30 percent in agriculture, and 19 percent in industrial sector.

2.3. Inflation

After falling to single digit-figure in 2004, inflation in Turkey continued to decrease at a slower rate in 2005. In 12 months of 2005, producer price index (PPI) decreased to 2.7 percent, while consumer price index (CPI) decreased to 7.7 percent. Inflation rate was below the 8 percent target of CPI. The average annual price increase was 5.9 percent in producer prices and 8.2 percent in consumer prices.

Inflation (12 month, percentage change)



* The data until 2004 belongs to WPI

The period of transition to inflation targeting regime ended in 2005. Central Bank of Turkey announced that inflation targeting application started in Turkey as of 2006. Tight fiscal policy, capital inflows due to positive atmosphere in international markets, and Central Bank's adherence to a monetary policy targeting price stability had positive effects on the expectations and attitudes. Rising oil prices and expectations for US interest rates to enter into a rising trend failed to have negative effects in the short term. These developments led to a favorable environment for the implementation of inflation targeting regime.

Inflation (Percentage)

	2002	2003	2004	2005
Annual average				
Producer	50	26	11	6
Consumer	45	25	11	8
12-month				
Producer	31	14	14	3
Consumer	30	18	9	8

Source: Turkstat, The data until 2004 belongs to WPI.

2.4. Public Balance

According to the estimations of the State Planning Organization total public revenues grew by 18 percent, which was well above the GNP deflator. Total public expenditures rose by 9 percent. As a result of these developments, public sector deficit narrowed by 71 percent. The ratio of total public revenues to GNP increased by 1.7 percentage point to 43.5 percent, while that of total public expenditures to GNP contracted by about 2.3 percentage points to 44.8 percent. Based on tight fiscal policy implementation of the government the ratio of public sector borrowing requirement to GNP continued to decrease, and fell to 1.3 percent from 5.3 percent.

Primary balance which was monitored closely as the most important indicator under the economic program regarding maintenance of the fiscal discipline and sustainability of the domestic debt dynamics was realized in line with the estimations. The ratio of primary surplus to GNP which was 8.9 percent in 2004, is estimated to be 9 percent in 2005. On the other hand, the ratio of the consolidated budget primary surplus to GNP, according to the definition under agreement signed by International Monetary Fund, was realized as 5 percent, which was 1 percentage point lower than the program target.

Public Sector Borrowing Requirement (As percentage of GNP)

	2002	2003	2004	2005*
Consolidated budget	14.8	11.3	7.1	3.1
SEE's**	-1.0	-0.7	-0.6	-0.5
Local administrations	0.1	0.4	0.0	0.0
Funds	0.0	-0.1	-0.4	-0.5
Other	-3.0	-1.4	-1.4	-1.4
Public sector deficit	12.7	9.4	4.7	0.9
Public sector primary balance	-7.0	-7.8	-8.9	-9.0

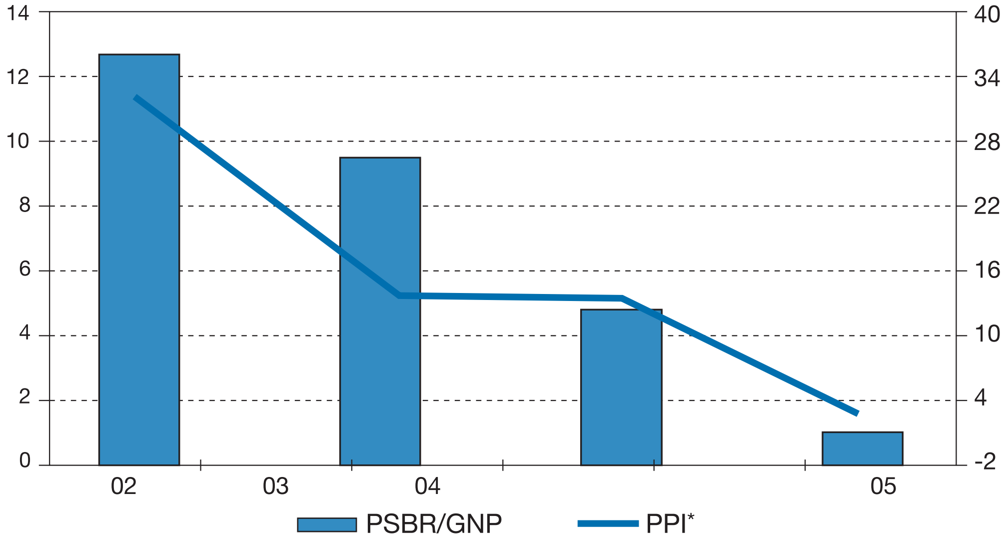
Source: State Planning Organisation
* Estimation
** State-owned banks are excluded.

The share of tax revenues in total public revenues was 57 percent. 68 percent of the tax revenues were consisted of indirect taxes. Of the public expenditures 32 percent were interest expenditures. The share of interest expenditures in total expenditures declined by 8 percentage points in 2005 compared to 2004.

Major developments affecting the public sector balance positively in 2005 were; the increase in tax revenues prompted by the growth in economic activity, implementations on the tight fiscal policy, rise in privatization revenues, falling interest rates in public sector borrowing, extension of the borrowing terms, subsisting positive effect of state economic enterprises to the public balance, and rising value added tax collection from imports in line with the growth in imports. On the contrary, rising deficits of the social insurance institutions as well as increasing trend in current expenditures were the main factors that restricted the recovery in the public sector deficit.

Favorable performance of the consolidated budget which constituted the most significant part of the public sector revenues and expenditures, reinforced the implementation of the monetary policy aiming to maintain price stability. Consequently, public expenditures decreased in real terms due to decline in interest expenditures prompted by the fall in interest rates, and on the other hand, budget revenues grew in real terms.

Public Sector Borrowing Requirement / GNP and Inflation (Percentage)



* The data until 2004 belongs to WPI

According to the data of the Ministry of Finance, budget revenues increased by 22 percent and expenditures rose by 3 percent in 2005. Interest expenditures decreased by 19 percent while non-interest expenditures grew by 17 percent. Budget deficit contracted by 68 percent in current prices as primary surplus increased by 37 percent. The ratio of the budget revenues to GNP increased to 28 percent from 26 percent, while budget revenues decreased by 3 percentage points to 30 percent. The ratio of the interest expenditures to GNP fell to 9 percent from 13 percent. The ratio of the budget deficit to GNP decreased by 5 percentage points to 2 percent. The ratio of consolidated budget primary surplus was realized as 7.4 percent. According to the definition under the agreement with the International Monetary Fund the ratio of primary surplus to GNP was realized at about 5 percent.

Consolidated Budget (TRY million)

	2004	Per. share	2005*	Per. share	Per. change	As per. of GNP 2005
Revenues	109,887	100	134,819	100	22	28
Tax revenues	90,093	82	106,932	79	19	22
Non-tax revenues	19,794	18	27,887	21	35	6
Expenditures	140,200	100	144,562	100	3	30
Interest expenditures	56,488	40	45,680	32	-19	9
Domestic borrowing	50,053	36	39,456	27	-21	8
External borrowing	6,435	5	6,224	4	-3	1
Non-interest	83,712	60	98,882	68	17	20
Personnel	28,948	21	31,856	22	10	7
Current	46,792	33	57,342	40	22	12
Investment	7,972	6	9,684	7	14	2
Budget balance	-30,313		-9,743		-68	-2
Primary balance	26,175		35,936		37	7

Source: The Ministry of Finance, * Provisional

Current expenditures item had the greatest share in overall budget expenditures with a share of 40 percent. The second highest share belonged to interest expenditures with 32 percent. Personnel expenditures had 22 percent share in total budget expenditures while the investments had 7 percent share. Domestic borrowing was preferred in financing of the budget deficit due to positive developments such as fall in interest rates, growth of domestic borrowing portfolio held by non-bank sectors, and extension of the maturities.

Financing need of budget was met completely through domestic borrowing. Net external borrowing was reduced by TRY 2.5 billion The Treasury contributed to the efforts of the Central Bank to manage the liquidity through borrowing above its requirement. There was an increase of TRY 10.7 billion at cash/bank account item.

Financing of the Consolidated Budget

	TRY million			As percentage of GNP		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
Financing	33,795	29,791	13,258	9	7	2.7
External borrowing (net)	793	2,200	-2,541	1	1	-0.5
Domestic borrowing	34,606	28,535	21,402	10	7	4.4
Other	-1,604	-944	10,685	0	0	2.2

A total of TRY 143 billion of debt repayment was made in 2005. With the addition of budget deficit of TRY 13.3 billion to this figure the total financing need in 2005 amounted to TRY 156.3 billion. TRY 12.3 billion of this financing need was met through foreign borrowing, and the remaining TRY 149.6 billion was met through domestic borrowing. Other revenues which were consisted of mainly privatization revenues and the resources transferred by Savings Deposit Insurance Fund were TRY 4 billion. There was also an increase of TRY 10.7 billion in the Treasury's cash/bank accounts item.

The average maturity of domestic borrowing in TRY increased to 663 days from 406 days. On the other hand, annual compound interest rate of the average borrowing in TRY decreased to 17 percent from 23 percent.

Outstanding domestic debt increased by 9 percent and reached TRY 245 billion. The share of non-cash domestic debt in total debt stock decreased by 5 percentage points to 21 percent. The largest part of the non-cash domestic debt stock was consisted of securities given to the banks whose management were transferred to the Savings Deposit Insurance Fund, and the state-owned banks Banking Regulation and Supervision Agency for their due from the Treasury.

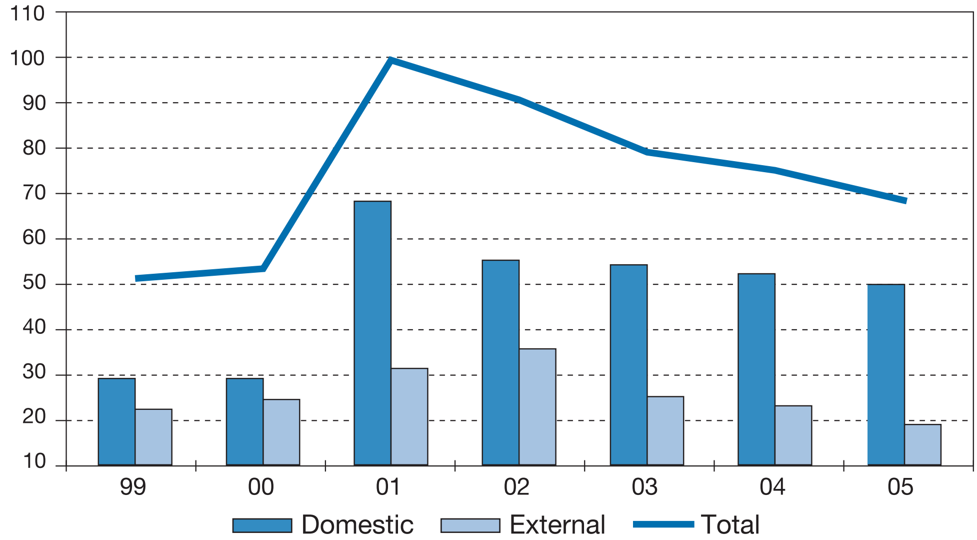
31 percent of the domestic debt stock in the consolidated budget was owed to the state-owned institutions, while the remaining 69 percent was owed to the market. These ratios were 37 percent and 63 percent, respectively at the end of 2004.

Non-cash Outstanding Government Securities

	TRY million	**USD million**	**Euro million**
State-owned banks	22,210	771	350
Private banks	152	0	0
Savings Deposit Insurance Fund	6,712	253	745
Central Bank	18,427	-	-
Total	47,501	1.024	1.095

The share of the fixed-interest securities in outstanding domestic debt stock decreased to 41 percent from 42 percent, and that of the foreign exchange sensitive securities decreased to 16 percent from 18 percent. The share of the interest sensitive securities in outstanding domestic debt stock rose to 43 percent from 40 percent.

Outstanding Public Debt (As percentage of GNP)



Outstanding domestic debt increased at a higher rate compared with outstanding external debt. This was mainly due to that the budget financing was almost met through by domestic borrowing depending on favorable borrowing conditions in the domestic market. On the other hand, public sector's pressure on the resources created in the financial system continued to decline though at a slow rate. The ratio of the outstanding domestic debt to GNP fell to 50 percent from 52 percent, and its ratio to financial resources consisted of TRY deposits, foreign exchange deposits, repos and investment funds also decreased to 92 percent from 110 percent. Overall debt stock in the consolidated budget rose by 3 percentage points to TRY 331.1 billion (USD 246.9 billion) as of December 2005. Consequently, the ratio of overall debt stock in consolidated budget to GNP decreased to 68 percent from 75 percent.

Outstanding Public Debt

	TRY million	(As percentage of GNP)			
	2005	2002	2003	2004	2005
Gov. securities	244,782	55	54	52	50
Cash	194,153	33	37	39	40
Non-cash	50,629	22	18	14	10
Bonds	226,964	41	48	45	47
Cash	176,335	19	30	32	37
Non-cash	50,629	22	18	14	10
Treasury bills	17,818	14	7	7	4
Cash	17,818	14	7	7	4
Non-cash	0	-	-	0	0
Central bank adv.	0	-	-	0	0
Domestic debt	244,782	55	54	52	50
External debt*	86,472	34	25	23	18
Total	331,254	89	79	75	68

* For consolidated budget.

According to the data of Central Bank of Turkey, 54 percent of government securities were held by banks. Total securities held by banks declined to 53 percent of total deposits. Total government securities held by non-bank sectors rose by 17 percent to TRY 114,168 million; 25 percent of this amount (TRY 28 billion) was held by real persons. Government securities held by non-bank sectors constituted 27 percent of the outstanding domestic debt stock in 2005. Total amount of the government securities held by individual investors decreased while those held by foreign investors increased by 102 percent. Preferences of individual investors for savings instruments changed in favor of deposits due to the higher level of interest rates on deposits.

2.5. Monetary Aggregates

2.5.1. Monetary Policy

The year 2005 was the last year of the implementation of implicit inflation targeting in Turkey. In 2002-2005 period a favorable environment for inflation targeting regime was created. Monetary policy which primarily aimed at maintaining price stability was applied decisively. The fall in inflation slowed down in terms of consumer prices in 2005. However, year-end inflation was realized below the target of 8 percent.

Interest Rates (end of period), Exchange rates and Inflation (12-month, percent)

	2004	2005			
	Dec.	**March**	**June**	**Sept.**	**Dec.**
Interest rate (annual, compound)*					
O/n	19	16.5	14.5	14.3	13.8
Public securities	23	17	16	15	14
Exchange rates					
TRY/(USD)	-4.1	-2.7	-9.9	-10.4	0.4
TRY/Euro	3.7	8.8	-10.4	-12.6	-12.9
Inflation (PPI)	9.3	7.9	9.0	8.0	7.7

* Average

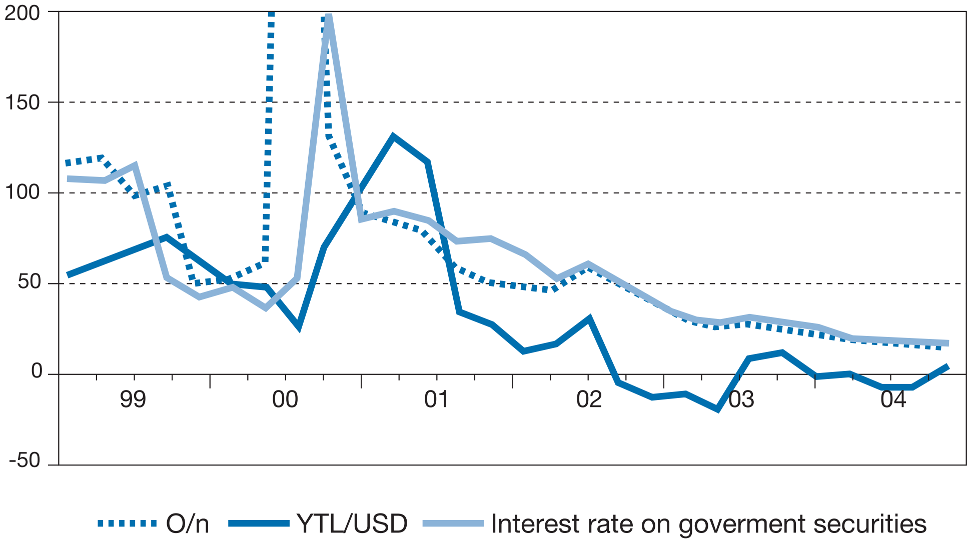
On the other hand, the Central Bank of Turkey continued to create additional demand for foreign exchange through directly buying and/or holding auctions for buying the increased foreign exchange surplus in the market. Having purchased USD 21.8 billion from the foreign exchange market in 2005, the Central Bank's total foreign exchange purchases reached approximately USD 38 billion in 2002-2005 period. On the other hand, the Central Bank absorbed the additional TL liquidity created by these foreign exchange purchases through open market operations or holding TL deposit purchase auctions.

Short term interest rates decreased steadily throughout year 2005 and fell to 14 percent at the end of the year. The fall in short-term interest rates in the first half of the year was above 4 percentage points. But in the second half, the Central Bank of Turkey preferred to be more cautious in cutting interest rates due to deceleration in the falling rate of the inflation. However, continued downward trend in inflation although at a slower rate had positive effect on the fall in interest rates.

Similarly, other developments which affected the downward trend in interest rates were positive developments in international markets, the reduction in the public sector borrowing requirements, while portfolio preferences continued to change in favor of TRY investment instruments, and the continuing increase in foreign exchange supply in excess of demand due to capital inflows.

TRY continued to appreciate against major currencies in real terms despite the foreign exchange demand created by the Central Bank. In nominal terms the value of TRY against USD remained nearly unchanged in 2005, while it appreciated about 13 percent against euro. Therefore, TRY appreciated against both currencies in real terms when the inflation rate in Turkey was taken into consideration.

Foreign Exchange, Interest Rates on Government Securities and O/n Interest Rate (Percentage)



Strong foreign exchange supply considerably affected the position of the balance sheet of the Central Bank. In 12 month period of 2005, the Central Bank's balance sheet grew at a rate of 21 percent, which was above the inflation rate. According to the monthly average figures, growth rate in the Central Bank's balance sheet was only 3 percent. As of the end of 2005, the ratio of the Central Bank's balance sheet to GNP increased to 20 percent from 18 percent. This growth mainly resulted from the rise in net foreign assets item in total assets and the rise in TRY liabilities item in total liabilities.

Net foreign assets item grew by 115 percent as a result of the foreign exchange demand created by the Bank in order to increase its foreign exchange reserves. On the other hand, net domestic assets contracted by 16 percent due to the fall in cash loans extended to the public institutions. Monetary base expanded by 61 percent in 2005, which was mainly due to the increase in net foreign assets.

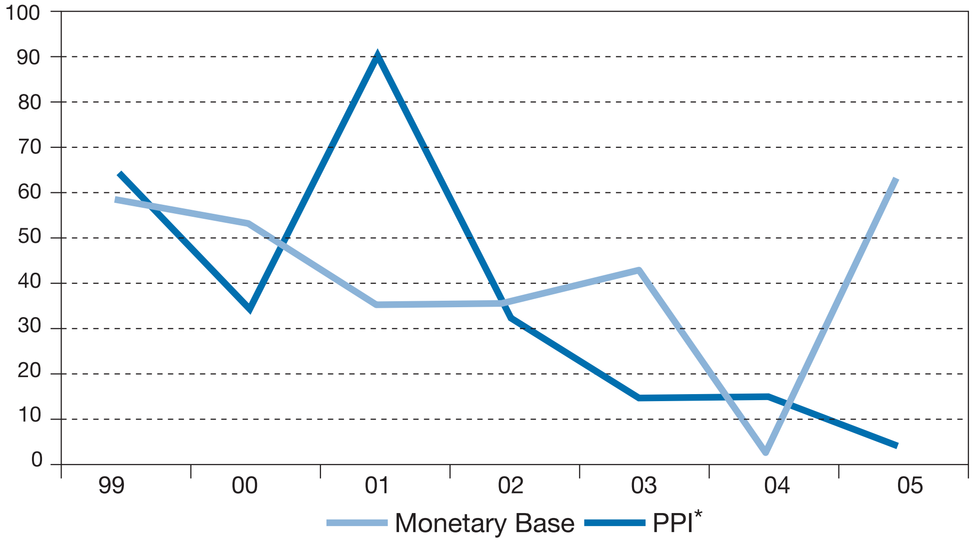
Balance Sheet of the Central Bank, Selected Items (TRY million)

	2004	2005			
	Dec.	March	June	Sept.	Dec.
Net foreign assets	23,048	28,433	33,398	37,842	49,480
Net domestic assets	21,071	20,689	18,621	17,826	17,732
Monetary base	20,328	21,594	23,934	27,815	32,696
Open market operations	3,622	5,346	3,545	-1,527	4,983
Central Bank money	24,743	28,294	30,289	29,747	38,548
Fx deposits	6,099	9,231	9,899	11,714	13,874
TL liabilities	30,842	37,524	40,188	41,461	52,422
Banks' Fx deposits	13,276	11,598	11,831	14,207	14,790
Total domestic liabilities	44,119	49,122	52,019	55,668	67,212

Source: Central Bank of the Republic of Turkey

The markets preferred remaining in liquid position during the year. Some part of excess liquidity was absorbed by the Central Bank through open market operations while some part of it returned to the Central Bank as public deposits.

Monetary Base and Inflation (Annual change, percentage)



* The data until 2004 belongs to WPI annual change

Foreign exchange reserves of the Central Bank of Turkey reached USD 50.5 billion in 2005 by an increase of USD 13.9 billion compared with the previous year. Principal part of this increase stemmed from foreign exchange purchase auctions of the Central Bank. The Bank's net foreign exchange position rose to USD 8.9 billion from USD 2.7 billion. Consequently, total increase in net foreign exchange position of the Central Bank exceeded USD 18 billion in the last four years.

Central Bank's Fx Reserves and Net International Reserves (USD billion)

	2004	2005			
	Dec.	March	June	Sept.	Dec.
Fx reserves	36.6	38.0	39.2	41.8	50.5
Net international reserves	2.7	2.7	5.7	8.7	8.9

Interest rates paid for reserve requirements by the Central Bank were also pulled down gradually. The base interest rate, which was 12.5 percent at the end of 2004 was reduced to 10.25 percent at the end of 2005.

2.5.2. Money Demand

The ratio of the financial assets including money, quasi-money instruments at deposit banks, and capital market instruments to GNP rose by 21 percentage points to 151 percent in 2005. Demand for TRY investment instruments increased while TRY equivalent of foreign exchange demand decreased. The ratio of money and quasi-money instruments at deposit banks to GNP was 51 percentage points while that of the capital market instruments was 100 percent.

Because of tax burdens, and notably high return on government securities there was no encouragement for prospective issuers of corporate debt. Upward trend in the market value of publicly held companies continued. On the other hand, the ratio of government securities to GNP continued to fall.

Financial Assets (As percentage of GNP)

	2002	2003	2004	2005
Money and quasi-money	**51**	**44**	**44**	**51**
Cash	3	3	3	4
Deposits	47	40	41	46
- TL	21	21	23	30
- FX	26	19	18	16
Repurchase agreements	1	1	0	0
Capital Market	**76**	**82**	**86**	**100**
Shares (market value)	21	27	30	45
Bonds and bills	55	54	52	51
-Public	54	54	52	51
-Private	0	0	0	0
Investment funds	3	5	4	4
Total	**127**	**126**	**130**	**151**

Source: Central Bank of the Republic of Turkey, Capital Market Board

Money demand for TRY denominated investment instruments also increased above the inflation rate in 2005. Money demand consisting of TRY deposits, repos and short term investment funds (M2RF) grew by 46 percent in current prices, and 35 percent in constant prices. TRY deposits which grew by 51 percent had a significant role on the rise in demand for TRY instruments.

Monetary Aggregates (2005)

	TRY million	**USD million**	**Percentage change TRY**	**USD**
M2RF	186,537	139,020	46	46
Money in circulation	18,276	13,621	47	46
TL demand deposits	28,687	21,379	69	68
Repo	1,486	1,107	-3	-3
Investment funds	21,584	16,086	31	30
TL time deposits	116,504	86,827	46	45
M2YRF	266,347	198,500	31	30
Fx deposits	79,810	59,480	5	1

Source: Central Bank of the Republic of Turkey

TRY equivalent of foreign exchange deposits increased by 5 percentage points while dollar equivalent of foreign exchange deposits increased by 1 percentage point in 2005. The share of USD denominated deposits in total foreign exchange deposits was 59 percent. Money demand including also foreign exchange deposits (M2YRF) grew by 31 percent in current prices, and by 21 percent in constant prices. The share of foreign exchange deposits in money demand (M2RYF) decreased by 7 percentage points to 30 percent.

The ratio of M2RF to GNP increased by 8 percentage points to 38 percent, and the ratio of M2RFY to GNP rose by 8 percentage points to 55 percent. Downward trend in inflation and interest rates, robust capital inflows, appreciation of TRY against major foreign currencies, and the continued growth of the economic activity had positive effects on TRY demand. On the other hand, individual investors' preferences among TRY instruments changed from government securities to deposits starting from the second half of 2005 due to higher deposit interests paid by banks compared with the government securities, and more favorable maturities of the deposits. However, securities portfolio of non-financial institutions continued to increase due to increase in the demand by foreign investors. The market value of outstanding domestic debt in the portfolio of non-bank investors including the investment funds grew by 17 percent. As a result of this, the ratio of government securities held by non-bank investors to GNP rose by 1 percentage point to 24 percent.

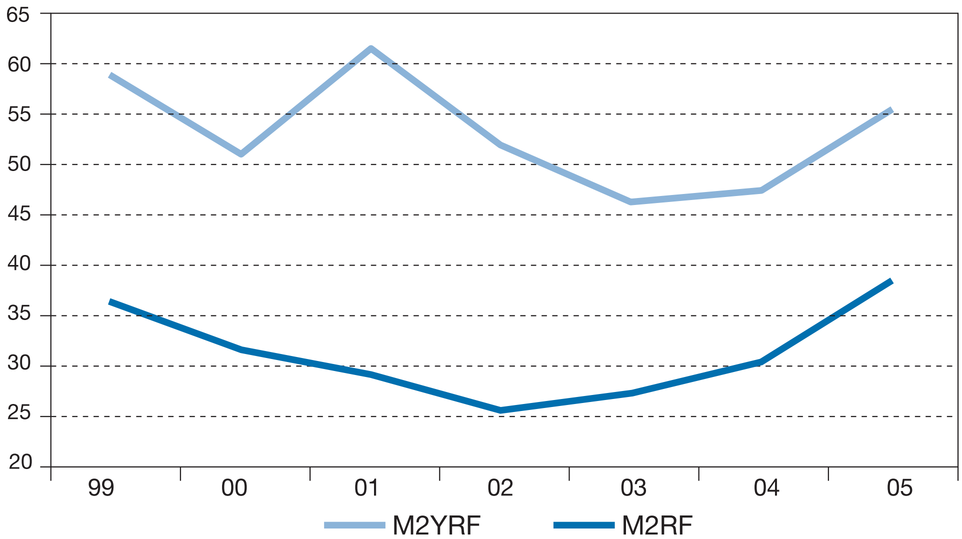
Breakdown of Monetary Aggregates (Percentage)

	2002	2003	2004	2005
Money in circulation	5	6	6	7
TL demand deposits	5	7	8	9
Repo	2	2	1	1
Investment funds	3	7	8	9
TL time deposits	33	36	40	44
Fx deposits	51	42	37	30
M2RYF	100	100	100	100

Source: Central Bank of the Republic of Turkey

Government securities held by deposit banks increased by 14 percent. The ratios of these government securities and total deposits to GNP were 27 percent, and 59 percent, respectively.

Money Demand (As percentage of GNP)



According to the data of the Central Bank of Turkey, total deposits in deposit banks grew by 31 percent in current prices and by 21 percent in constant prices. TRY deposits grew by 51 percent in current prices and by 40 percent in constant prices. On the other hand, while TRY equivalent of foreign exchange deposits grew by 5 percent in current prices, it dropped by 3 percent in constant prices. The amount of total foreign exchange deposits, which was USD 56.7 billion in December 2004, reached USD 56.9 billion in December 2005. The share of TRY equivalent of the foreign exchange deposits in total deposits decreased by 7 percentage points to 30 percent. The ratio of TRY deposits to GNP rose to 30 percent from 23 percent while the ratio of the total deposits including foreign exchange deposits rose by 6 percentage points to 46 percent.

Maturity Structure of Total Deposits (Percentage)

	2002	2003	2004	2005
Total	100	100	100	100
Demand	19	20	21	18
1-month	30	26	25	21
3-month	38	38	38	46
6-month	8	10	8	11
12- month+	6	6	9	5
Average (month)	2.8	2.7	2.8	2.8

Source: Central Bank of the Republic of Turkey

Deposit interest rates followed a trend in parallel to the fall in inflation. Interest (compound) rate for 1 month deposits decreased to 22 percent in December 2005 from 24 percent in December 2004, and to 22 percent from 25 percent for 3 months deposits. According to the calculations made after maturity distribution, the average interest rate on deposits decreased to 22 percent from 24 percent. Average maturity of TRY deposits shortened while average maturity of foreign exchange deposits extended. Average maturity of TRY deposits (after rounding up the irregular maturities) decreased to 2.8 months from 3 months, while that of the foreign exchange deposits increased to 2.8 months from 2.6 months. Accordingly, average maturity of the total deposits was 2.8 months.

According to the data of the Central Bank, the share of state-owned banks in total deposits increased by 2 percentage points to 42 percent, while the share of private banks remained the same at 54 percent. Accordingly, the share of foreign banks in total deposits rose by 2 percentage points to 4 percent.

State-owned banks had 50 percent share in TRY deposits and 25 percent share in foreign exchange deposits. The share of private banks in total foreign exchange deposits was 69 percent, while they had 47 percent share in TRY deposits.

The ratio of loans to deposits increased in 2005. The ratio of loans extended by deposit banks' branches in Turkey (performing loans+non-performing loans after provisioning) to total deposits + repos rose to 57 percent from 47 percent.

Total loans* (TRY million)

	2002	2003	2004	2005
Total loans[1]	39,413	56,144	85,601	128,753
Performing loans[2]	36,762	54,600	84,785	128,001
Non-performing loans (net)[3]	2,651	1,544	816	752
Non-performing loans [4]	10,122	8,750	6,081	7,300
Total loans /GNP (percentage)	14	16	20	26

* Loans are extended by domestic branches of the banking system.
[1] Performing loans + non-performing loans (net)
[2] Total loans of the banking system (loans to financial system are excluded)
[3] Loans under follow-up after provisioning (net, banking system)
[4] Loans under follow-up before provisioning (gross, banking system)
Source: Central Bank of the Republic of Turkey

Total loans, excluding those loans extended by deposit banks' branches abroad, increased by 50 percent in current prices and by 39 percent in constant prices. Performing loans grew by 51 percent while non-performing loans after provisioning decreased by 8 percent. Growth in economic activity significantly contributed to this development. Accordingly, the ratio of non-performing loans before provisioning to total deposits decreased to 6 percent from 7 percent, while the ratio of non-performing loans after provisioning to total deposits decreased to 0.6 percent from 1 percent.

A 94 percent of total loans was extended by deposit banks. Privately owned banks had a share of 67 percent in total loans while the share of state-owned banks in total loans decreased to 25 percent. Loans extended by deposit banks increased by 54 percent in current prices and by 43 percent in constant prices. The increase in performing loans was 51 percent in current prices and 40 percent in constant prices.

Consequently, consumer loans grew by 120 percent in current prices and 104 percent in constant prices, loans extended via credit cards increased by 24 percent in current prices and 15 percent in constant prices. The ratio of the consumer loans plus the loans extended via credit cards to performing loans increased by 4 percentage points to 37 percent.

Deposits and Loans (TRY million)

	2002	2003	2004	2005
Total deposits	131,018	147,351	170,424	226,091
- TRY deposits	56,481	75,979	96,898	146,281
- Fx deposits	74,537	71,372	76,074	79,810
Total deposits+repo	133,973	150,418	171,952	227,577
Deposit banks' loans	34,860	51,398	80,289	122,866
- Performig loans	32,277	49,878	79,649	122,271
- Non-performing loans (net)	2,583	1,521	640	595
- Non-performing loans (gross)	9,972	8,567	5,905	7,143
For Information:				
Consumer loans and credit cards loans	7,001	15,212	26,678	45,508
- Consumer loans	2,902	8,634	12,925	28,474
- Credit cards loans	4,099	6,578	13,753	17,034
Ratios				
Total deposits+repo/GNP	48.7	41.8	41	47
Total loans/Deposits+repo	29.4	37.3	50	54
Deposit banks' loans/GNP	12.7	14.3	19	26
Consumer loans/GNP	1.1	2.4	6	9

Source: Central Bank of the Republic of Turkey

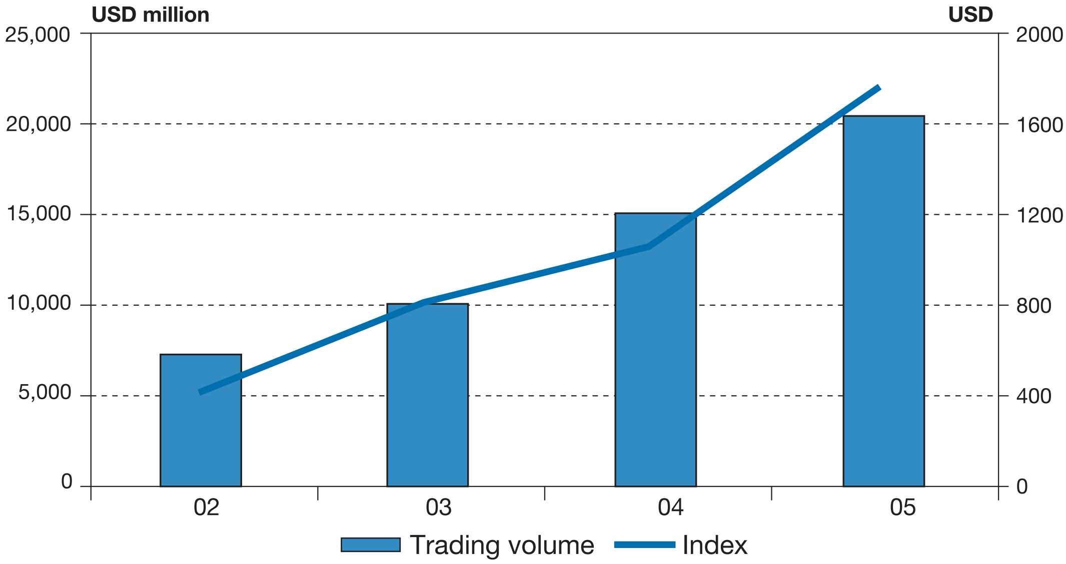
The ratio of total loans extended by deposit banks to GNP was 26 percent. The ratio of non-performing loans in deposit banks to total loans decreased to 6 percent from 7 percent.

Total loans extended by deposit banks via their branches abroad reached TRY 20,744 million. Total loans (performing and non-performing after provisioning) extended by the Turkish banking system amounted to TRY 143,015 million when such kind of loans were included.

2.6. Developments in Istanbul Stock Exchange

Istanbul Stock Exchange (ISE) Index continued to increase both in dollar and TRY terms. ISE Index increased by 61 percent in dollar terms, and reached 1,726 points, and increased by 30 percent in TRY terms to 39,778 points. Total trade volume expanded by 37 percent and reached USD 202 billion.

ISE Index (in dollar terms) and Trading Volume (USD million)



The positive factors behind the performance of the stock exchange were; continued economic growth, the increase in industrial production and exports, downward trend in interest rates and inflation, and positive expectations as well as substantial increase in demand from foreign investors due to persisting global liquidity.

Market value of the companies traded in ISE increased to USD 217 billion in 2005 from USD 132 billion in previous year. The ratio of total market value of the companies to GNP rose to 44 percent from 31 percent. The number of the companies traded in ISE increased to 304 from 297.

Market value of 13 banks traded in ISE rose by 122 percent to TRY 83.1 billion by the end of 2005. The market value of the banks traded in ISE constituted 38 percent of the total market value of the stock exchange.

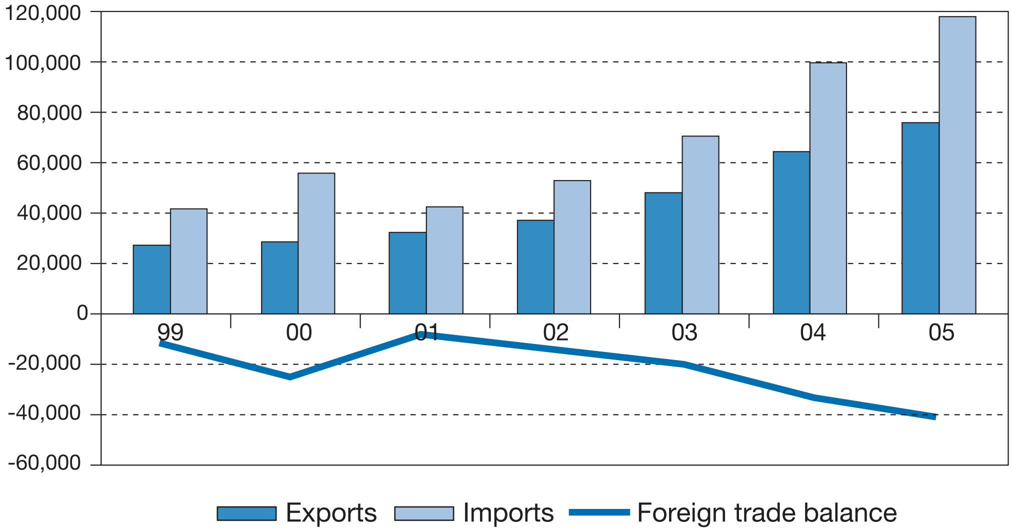
2.7. Foreign Trade Balance

Upward trend in both exports and imports decelerated in 2005. Foreign trade volume expanded by 18 percent and reached USD 189 billion. Foreign trade deficit increased due to TRY's appreciation against major foreign currencies as well as rapid economic growth and the increase in savings gap.

On the other hand, imports also continued to grow at a high rate depending on the strong economic growth, the increases in domestic demand and particularly in private sector fixed capital investments, and the rise in exports.

Exports grew by 16 percent and reached USD 73.1 billion, while imports expanded by 19 percent and amounted to USD 116 billion. The coverage ratio of exports to imports dropped by 2 percentage points to 63 percent. The ratio of exports to GNP fell by 1 percentage point to 20 percent, while the ratio of the imports to GNP was unchanged at 32 percent. The ratio of the foreign trade volume to GNP was 52 percent. Foreign trade deficit increased by 25 percent to USD 42.9 billion. The ratio of the foreign trade deficit to GNP was 12 percent.

Foreign Trade Balance (USD million)



Foreign Trade (USD billion)

	2002	2003	2004	2005
Exports	36.1	47.3	62.8	73.1
Imports	51.6	69.3	97.2	116.0
Foreign trade deficit	15.5	22.1	34.4	42.9
Foreign trade volume	87.6	116.6	160.0	189.1
Foreign trade deficit/GNP	8.7	9.2	11.5	11.8
Export/Import	70	68	65	63
Price Index * (94=100)				
Exports	91.3	100	116.3	121.7
Imports	94.9	100	102	123.2
Quantity index* (94=100)				
Exports	81.3	100	114.3	123.5
Imports	72.1	100	121.7	135

Source: Turkstat
* Average

Based on 12 months average, export quantity index and imports quantity index increased by 8 percent and 11 percent, respectively; while export price index rose by 5 percent and import price index by 7 percent.

Foreign Trade by Commodity Groups, 2005

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
Capital goods	7,974	22	11	20,236	16	17
Intermediate goods	30,129	16	41	81,320	20	70
Consumer goods	34,666	14	47	13,926	15	12
Other	353	87	1	566	15	1
Total	73,122	16	100	116,048	19	100

Source: Turkstat

Imports of capital goods increased by 16 percent, imports of intermediate goods by 20 percent, and consumption goods by 15 percent. The imports of intermediate goods constituted 70 percent of the total imports. By sectors, the share of manufacturing industry in total imports was 81 percent. Machinery, vehicles, iron and steel, and plastic were the most important sub-sectors of the manufacturing industry. Mining sector had a share of 14 percent. Oil imports rose by 42 percent to USD 8.6 billion.

In exports; the shares of consumption goods, intermediate goods and capital goods were 47 percent, 41 percent, and 11 percent, respectively. By sectors, manufacturing industry had 94 percent in total exports, while agriculture had 5 percent share. Textile, vehicles, iron and steel, machinery were the most significant sub-sectors of the manufacturing industry.

European Union (EU) countries had a share of 47 percent in Turkey's foreign trade volume while non-EU countries' in Europe had 16 percent share. Foreign trade balance with EU countries, which gave a deficit of USD 11.1 billion in 2004 was realized at USD 10.6 billion in 2005. The share of EU countries was 42 percent in total imports, and 52 percent in total exports.

Foreign Trade by Country Groups, 2005

	Exports			Imports			Exports-Imports
	USD million	Per. change	Per. share	USD million	Per. change	Per. share	USD million
EU	38,312	11	52	48,958	8	42	-10,646
Free zone	2,955	15	4	754	-7	1	2,201
Other	31,855	22	44	66,337	29	57	-34,482
Europe	8,740	32	12	23,708	29	20	-14,968
Africa	3,621	22	5	6,011	25	5	-2,390
America	5,926	3	8	7,752	18	7	-1,826
Middle East	10,064	27	14	7,945	42	7	2,119
Other Asia	3,026	19	4	20,457	32	18	-17,431
Other	478	65	1	367	21	0	111
Total	73,122	16	100	116,048	19	100	-42,926

Germany ranked first with 13 percent share in Turkey's foreign trade. Germany was followed by Italy and Russia with 7 percent, United Kingdom and Unites States with 6 percent. Exports to Germany constituted 13 percent of Turkey's total exports, and imports from this country also constituted 13 percent of the total imports.

2.8. Balance of Payments

Current account deficit of Turkey expanded by 46 percent as compared to the previous year and reached USD 22.9 billion. Thus total current account deficit in the last four years reached USD 48 billion. The ratio of current account deficit to GNP increased by 1.4 percentage points to 6.4 percent in 2005. The main contributor to the growth in current account deficit was the growth in merchandise trade deficit. Merchandise trade deficit including the shutle trade rose by 36 percent to USD 32.6 billion. Gold imports also registered a 10 percent increase in 2005 and reached USD 3.8 billion.

On the other hand, the growth in the surplus of the service sector balance limited the current account deficit. Surplus of the service sector balance grew by 10 percent to USD 14 billion. The main contributor to this growth was net tourism revenues, which grew by 14 percent and reached USD 15.3 billion. Current transfers rose by 30 percent compared to 2004 and had a contribution of USD 1.5 billion to the current account balance. The deficit in investment revenues was unchanged at USD 5.7 billion. Interest expenditures which was the most significant item in the investment revenues balance rose to USD 5 billion from USD 4.3 billion.

Current Account Balance (USD million)

	2002	2003	2004	2005
Current account balance	-1,522	-8,037	-15,604	-22,852
-General merchandise	-8,337	-14,010	-23,878	-32,576
-Exports	40,124	51,206	67,047	76,595
-Imports	-48,461	-65,216	-90,925	-109,171
-Services (net)	7,879	10,505	12,784	14,004
-Tourism (net)	6,599	11,090	13,364	15,280
-Income(net)	-4,554	-5,559	-5,637	-5,748
-Direct investments	-86	-400	-796	-817
-Portfolio investments	-835	-1,207	-1,195	-924
-Other investments	-3,633	-3,952	-3,646	-4,007
-Interest expenditures	-4,417	-4,586	-4,343	-5,012
-Current transfers	3,490	1,027	1,127	1,468
-Workers remittances	1,936	729	804	851

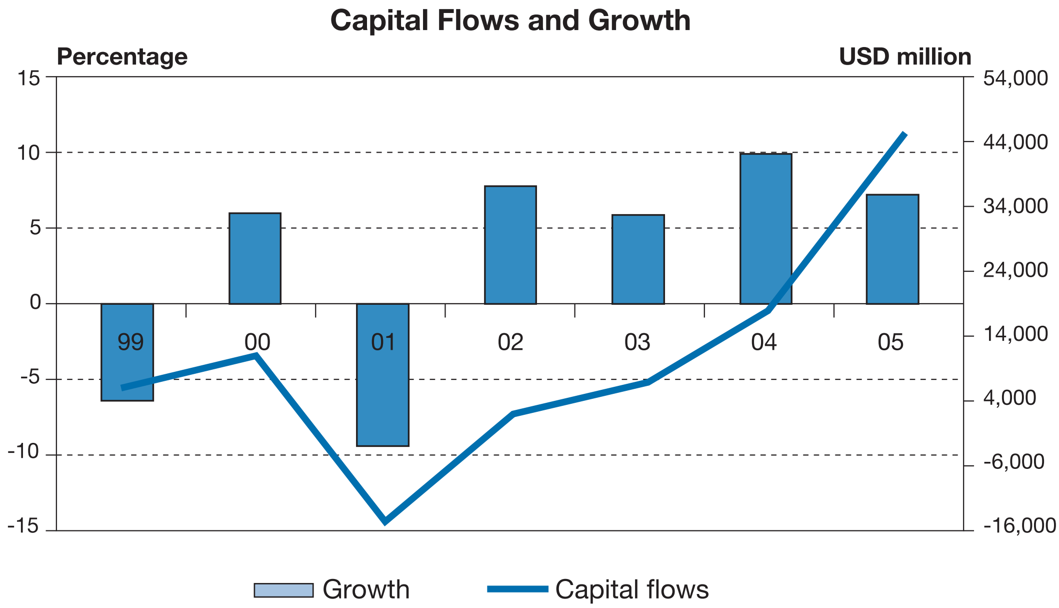
Capital inflows gained momentum as a reflection of the improved borrowing conditions in international and capital markets, as well as the general improvement in economic performance, and consequently capital inflows into Turkey, was higher than the current account deficit in 2005. Capital inflows, which accounted to USD 17.7 billion as of the end of 2004 rose to USD 44.1 billion at the end of 2005.

Capital and Financial Account (USD million)

	2002	2003	2004	2005
Capital and financial account	1,161	7,091	17,679	44,069
-Capital account (net)	0	0	0	0
-Financial account (net)	1,161	7,091	17,679	44,069
-Direct investments abroad (net)	863	1,195	1,988	8,603
-Portfolio investments (net)	-593	2,569	8,023	13,709
-Other investments (net)	891	3,327	7,668	21,757
-Net errors and omissions	149	5,043	2,267	1,983
General balance	-212	4,097	4,342	23,200
-IMF accounts	6,365	-50	-3,518	-5,353
-Official reserves	-6,153	-4,047	-824	-17,847

There was also a significant change in the structure of the capital flows into Turkey. Foreign borrowing of private sector increased, while public sector continued to make net foreign debt payment. Direct foreign capital inflows reached the record levels due to the acceleration in privatization process and investments in the banking system. Net foreign direct capital inflows rose to USD 8.6 billion from USD 2 billion. Additionally, foreign investors' demand for capital markets instruments continued and reached nearly USD 14 billion.

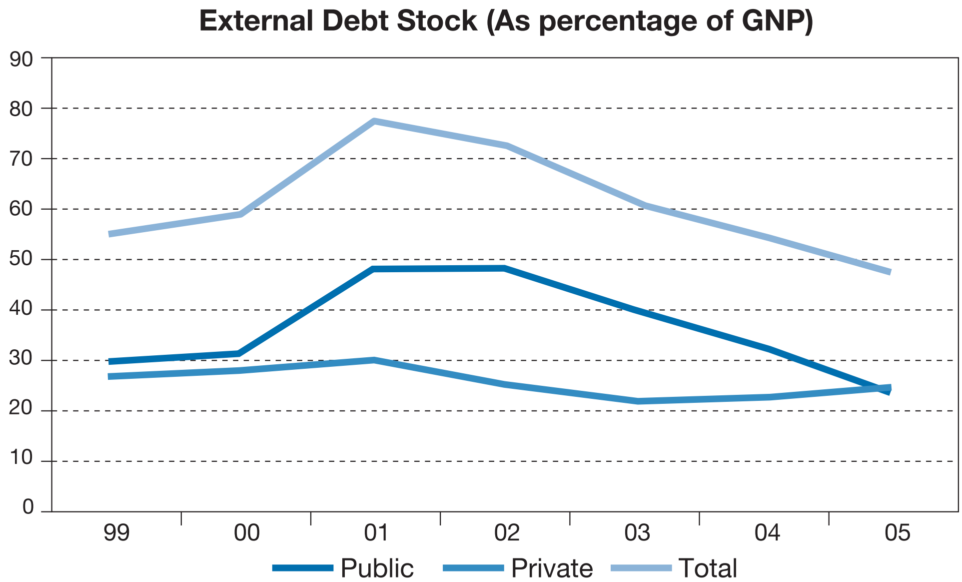
Net errors and omissions account continued to decrease in 2005 as like it did in 2004. Net errors and omissions item which was USD 5 billion in 2003 decreased to USD 23 billion as of the end of 2005. A net payment of USD 5.4 billion was made to the International Monetary Fund in 2005.



A resource inflow of USD 46.1 billion, including those from the net errors and omissions account was realized in 2005; official reserves increased by USD 17.8 billion after the financing of the current account deficit and repayments made to the International Monetary Fund. Consequently, overall balance gave a surplus of USD 23.2 billion

2.9. Outstanding External Debt

Outstanding external debt increased by USD 7.9 billion as compared to 2004 and reached USD 170.1 billion. Long-term outstanding external debt rose by USD 1.3 billion and short term outstanding external debt rose by USD 5.6 billion. The share of public sector debt (excluding the debt of the Central Bank) in long-term external debt stock decreased by USD 6.1 billion to USD 67.7 billion and private sector debt increased approximately by USD 13.8 billion.



Outstanding external debt increased by 5 percent in 2005; however, its ratio to GNP dropped by 4 percentage points to 47 percent compared with 2004 as a higher growth was recorded in GNP. The ratio of long-term outstanding external debt to GNP decreased by 3 percentage points to 37 percent, while that of short term outstanding external debt to GNP decreased by 1 percentage point to 10 percent.

The share of the public sector in total outstanding debt was 40 percent while the Central Bank had a share of 9 percent. The banking system had 18 percent share in total outstanding debt, and non-bank sectors had 33 percent share. The ratio of the public sector debt (excluding the debt of the Central Bank) to GNP decreased to 19 percent from 23 percent.

Outstanding External Debt (USD billion)

	2002	2003	2004	2005*
Medium and long term	113.8	122.3	129.6	131.9
Public	63.7	69.6	73.8	67.7
Central bank	20.3	21.5	18.1	12.7
Private	29.7	31.2	37.7	51.5
Banks	3	3.1	5.8	12.1
Non-banks	26.7	28.1	31.9	39.4
Short term	16.4	23.0	32.6	38.2
Central bank	1.7	2.9	3.3	2.8
Banks	6.3	9.7	14.5	17.8
Non-banks	8.4	10.5	14.8	17.7
Total	130.2	145.4	162.2	170.1

Source: Undersecretariat of the Treasury
*Provisional

Of the long-term outstanding external debt, USD 32 billion were owed to official creditors, and USD 99.9 billion were owed to private creditors. The highest share among the official creditors was held by international institutions, which also included the International Monetary Fund, with USD 24.9 billion. As for the outstanding external debt to private creditors, USD 43 billion were owed to deposit banks and USD 30.8 billion were obtained through bond issues.

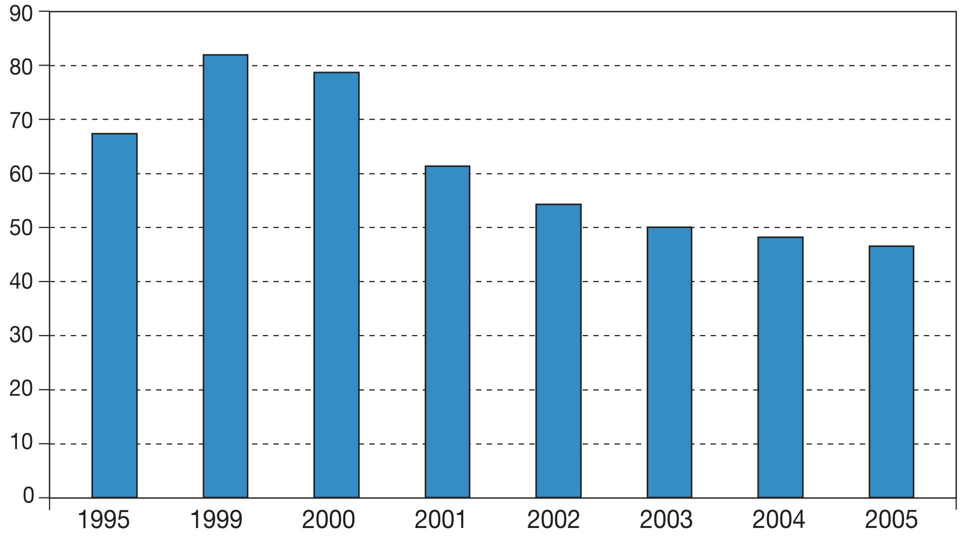
3. Turkish Banking System in 2005

3.1. Number of Banks and Branches

The declining trend in the number of banks started in the aftermath of 2000 also continued in 2005. The number of banks operating in Turkey decreased by 1 to 47. This reduction resulted from the transfer of Ak Uluslararası Bankası AŞ to Akbank TAŞ The most important development in the banking sector in 2005 were the increase in the direct or indirect investments by foreign investors in the sector. Within this framework, 50 percent of the shares of Türk Ekonomi Bankası AŞ were acquired by BNP Paribas, 89 percent of the shares of Türk Dış Ticaret Bankası AŞ were acquired by Fortisbank NV-SA, and 26 percent of the shares of T. Garanti Bankası A.Ş were acquired by GE Capital Corporation.

Of the banks operating in Turkey; 34 were deposit banks, 13 were development and investment banks. Of the deposit banks; 3 were state owned banks, and 17 were privately-owned banks. There was one bank under the management of Savings Deposit Insurance Fund. The number of foreign banks was 13. As for the development and investment banks; 3 were state owned banks, 8 were privately owned banks and 2 were foreign banks.

Number of Banks (1995-2005)



The increase in the number of bank branches also continued in 2005. Total number of branches rose by 141 to 6,247. This increase was 140 in deposit banks and 1 in development and investment banks. T. Dış Ticaret Bankası AŞ, was transferred to the foreign banks group by taking the name of Fortisbank AŞ. Due to this change, the number of branches in foreign banks increased by 184. The increase in the number of branches in privately owned banks was 70. The number of branches in state owned banks decreased by 114.

Number of Banks and Branches*

	2003		2004		2005	
	Bank	Branch	Bank	Branch	Bank	Branch
Deposit banks	36	5,949	35	6,088	34	6,228
State-owned banks	3	1,971	3	2,149	3	2,035
Privately owned banks	18	3,594	18	3,729	17	3,799
Banks in the Fund	2	175	1	1	1	1
Foreign banks	13	209	13	209	13	393
Development and investment banks	14	17	13	18	13	19
State-owned banks	3	4	3	4	3	4
Privately owned banks	8	10	8	12	8	13
Banks in the Fund	3	3	2	2	2	2
Total	50	5,966	48	6,106	47	6,247

* Including branches in the Turkish Republic of Northern Cyprus and branches abroad.

3.2. Number of Employees

The number of bank employees also increased in 2005. This increase mainly resulted from the privately owned and foreign banks. The number of employees decreased by 1,421 in state owned banks, 8 in the banks in the Fund, while the number of employees increased by 1,926 in privately owned banks and 4,730 in foreign banks. On the other hand, the number of employees decreased by 132 in development and investment banks.

Number of Employees

	2003	2004	2005
Deposit banks	118,607	122,630	127,857
State-owned banks	37,994	39,467	38,046
Privately owned banks	70,614	76,880	78,806
Banks in the Fund	4,518	403	395
Foreign banks	5,481	5,880	10,610
Development and investment banks	4,642	4,533	4,401
State-owned banks	3,882	3,800	3,657
Privately owned banks	683	681	697
Banks in the Fund	77	52	47
Total	123,249	127,163	132,258

97 percent of bank employees were employed by deposit banks and 3 percent by development and investment banks. Of deposit banks' employees; 29 percent were employed by state owned banks, 60 percent by privately owned banks, and 8 percent by foreign banks.

Number of Branches and Employees Per Bank

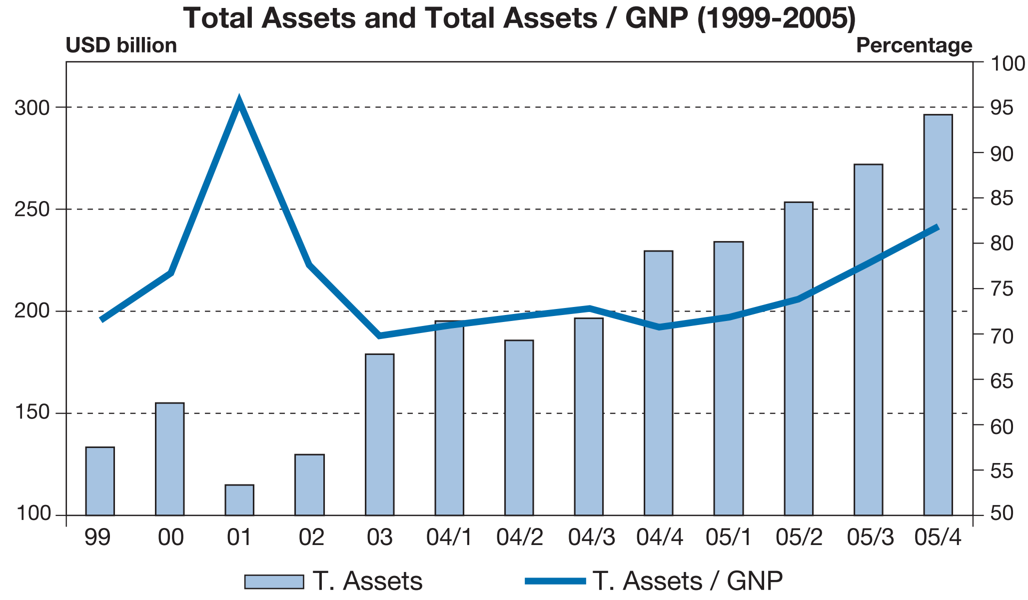
	Branch			Employee		
	2003	2004	2005	2003	2004	2005
Deposit banks	165	174	183	3,295	3,504	3,761
State-owned banks	657	716	678	12,665	13,156	12,682
Privately owned banks	200	207	223	3,923	4,271	4,636
Banks in the Fund	88	1	1	2,259	403	395
Foreign banks	16	16	30	422	452	816
Dev. and invest. banks	1	1	1	332	349	339
State-owned banks	1	1	1	1,294	1,267	1,219
Privately owned banks	1	2	2	85	85	87
Banks in the Fund	1	1	1	26	26	24
Total	119	127	133	2,465	2,649	2,814

The number of bank branches and employees decreased in 2000-2003 period as a result of the transferring of the financially weakened banks to Savings Deposit Insurance Fund and/or closure of such banks within the framework of the restructuring program, implementation of restructuring program in state owned banks, bank mergers, as well as banks' efforts to limit their operation costs; but it started to increase since the second quarter of 2003. However, the reduction in the number of banks and concentration trend in the sector continued.

3.3. The Size of Balance Sheet

As of December 2005, total assets of the Turkish banking sector rose by 30 percent and reached TRY 397 billion (USD 296 billion) as compared to 2004. The ratio of total assets to GNP increased to 82 percent in 2005 from 71 percent in 2004.

Main reasons for the growth in the banking sector were rapid economic growth and continued positive expectations, the rise in the borrowing facilities from international markets, strong demand for TRY, strengthening of the shareholders' equity and increased competition. This increase in funds caused a rapid growth in loans.



Total balance sheet of the banking sector recorded a growth of TRY 90.5 billion in 2005. 62 percent of this growth (TRY 56.2 billion) resulted from deposits; and 23.9 percent (TRY 21.7 billion) resulted from non-deposit funds; and the remaining part caused by other liabilities and shareholders' equity. Of the funds provided, 55 percent (TRY 49.8 billion) were set aside for loans, 21.4 percent (TRY 19.3 billion) for securities portfolio, and 22.3 percent (TRY 20.2 billion) for liquid assets.

Nominal Change in Balance Sheet Items Compared to December 2004 (TRY million)

	Assets	
	June 2005	**December 2005**
Liquid assets	2,219	20,185
Securities	7,714	19,336
Loans	22,054	49,818
Other assets	-1,195	1,179
Total	30,792	90,518
-TRY	28,341	75,091
- Fx	2,451	15,427

	Liabilities	
	June 2005	**December 2005**
Deposits	16,441	56,185
Non-deposit funds	10,270	21,659
Shareholders' equity	938	7,773
Other liabilities	3,143	4,901
Total	30,792	90,518
-TRY	27,416	71,726
-Fx	3,377	18,792

In deposit banks group; state owned banks, privately owned banks and foreign banks increased by 16 percent, 35 percent, and 100 percent, respectively. On the other hand growth rate of the development and investment banks was 14 percent.

Total Assets by Groups, December 2005

	TRY million	USD million	Per. change (TRY)	Per. change (USD)
Deposit banks	384,103	286,260	30	30
State-owned and Fund banks	124,486	92,775	16	16
Privately owned banks	237,043	176,661	35	34
Banks in the Fund	1,858	1,385	-4	-5
Foreign banks	20,716	15,439	100	99
Dev. and invest. banks	12,867	9,589	14	13
Total	396,970	295,849	30	29

3.4. Market Shares

As for the distribution of total assets the share of deposit banks in total assets rose by 1 percentage point to 97 percent, while the share of development and investment banks decreased from 4 percent to 3 percent. In deposit banks group, the share of the state owned banks in total assets decreased from 35 percent to 31 percent. The shares of privately owned banks and foreign banks rose by 3 and 2 percentage points and reached 60 percent and 5 percent, respectively.

The share of privately owned banks and foreign banks in total deposits increased each by 2 percentage points to 57 percent and 5 percent, respectively. Accordingly, the share of state owned banks decreased by 4 percentage points to 38 percent.

Market Shares of Groups (Percentage)

	T. assets		T. deposits		T. loans	
	2004	2005	2004	2005	2004	2005
Deposit banks	96	97	100	100	93	95
State-owned banks	35	31	42	38	21	21
Privately owned banks	57	60	55	57	67	67
Banks in the Fund	0	0	0	0	0	0
Foreign banks	3	5	3	5	5	7
Develop. and invest. banks	4	3	-	-	7	5
Total	100	100	100	100	100	100

The share of foreign banks in total loans increased by 2 percentage points to 7 percent. The share of privately owned banks and state owned banks remained the same at 67 and 21 percent, respectively. On the other hand the share of development and investment banks decreased by 2 percentage points to 5 percent.

3.5. Concentration

As of December 2005; the shares of the largest five banks in total assets, total deposits and total loans were 63 percent, 66 percent and 56 percent, respectively. The same shares were 85 percent, 89 percent and 80 percent, respectively for the largest ten banks.

Concentration in Banking Sector* (Percentage)

	2002	2003	2004	2005
Largest five				
T. assets	58	60	60	63
T. deposits	61	62	64	66
T. loans	55	54	48	56
Largest five				
T. assets	81	82	84	85
T. deposits	86	86	88	89
T. loans	74	75	77	80

* In terms of total assets

In terms of total asset size, there were 1 state owned and 4 privately owned banks in the largest five banks as of December 2004, while there were 2 state owned banks and 3 privately owned banks as of December 2005. There were 3 state owned and 7 privately owned banks in the largest ten banks in Turkey in the same periods.

The Number of Banks by Asset Size

USD billion	+0-1		1-2		2-5		5-10		10-20		20-40		40+
⟶	99	05	99	05	99	05	99	05	99	05	99	05	05
Number													
Deposit	37	14	10	5	7	5	6	5	4	2	1	4	2
State-owned					1		1		1		1	2	1
Privat.-owned	15	4	6	3	5	2	5	3	3	2		2	1
In the Fund	17	10	1	1	1			2					
Foreign	5		3	1	1								
Dev. and Inv. banks	17	10	1		1	3							
Total	54	24	11	5	8	5	6	4	4	4	1	4	2

3.6. Currency Structure of Balance Sheet and "Fx Assets-Fx Liabilities"

By the end of 2005, TRY assets and Fx assets increased by 39 percent and 14 percent respectively. On the other hand, TRY liabilities and Fx liabilities increased by 39 percent and 15 percent, respectively. The share of TRY assets in the balance sheet increased to 68 percent from 64 percent, while the share of TRY liabilities increased by 4 percentage points to 64 percent.

Foreign Exchange Position by Groups(*) (Percentage)

	Per. share Fx assets		Per. share Fx liabilities		USD billion Fx assets-Fx liabilities	
	2005	2004	2005	2004	2005	2004
Deposit banks	32	37	36	40	-10.0	-7.6
State-owned banks	19	24	21	26	-1.7	-1.5
Privately owned banks	39	45	43	49	-7.5	-5.5
Banks in the Fund	4	9	8	14	-0.1	-0.1
Foreign banks	37	36	42	43	-0.8	-0.5
Dev. and invest. banks	32	41	33	38	-0.1	0.3
Total	32	37	36	40	-10.1	-7.3

(*)The definition of Fx position used in the table means the difference between Fx assets and Fx liabilities in balance-sheet. This definition differs from that of 'Net General Position' in the regulation on standard ratio for Fx Net General Position/Capital Base issued by the Central Bank and BRSA. Hence, Fx denominated loans in the balance-sheet, Fx assets and Fx liabilities in the off-balance sheet are not included in the former definition.

Banking Sector's Foreign Exchange Position in Balance Sheet (USD million)

	2003	2004	2005
Deposit banks	-88	-1,969*	-1,805*
State-owned banks	319	506	56
Privately owned banks	-519	-2,340	-2,040
Banks in the Fund	-3	...	...
Foreign banks	115	-135	179
Development and investment banks	54	113	-64
Total	-34	-1,856	-1,869

Source: BRSA, * Banks in the Fund excluded.

Assets and liabilities indexed to foreign exchange were not included in the definition of "FX assets -FX liabilities". The difference between foreign exchange assets and foreign exchange liabilities in the balance sheet rose from USD 7.3 billion in 2004 to USD 10.1 billion in 2005. According to the calculations made by BRSA including also Fx indexed assets and liabilities foreign exchange position in the balance sheet of the banking sector indicated a deficit of USD 1.9 billion by the end of 2005.

3.7. Asset Structure

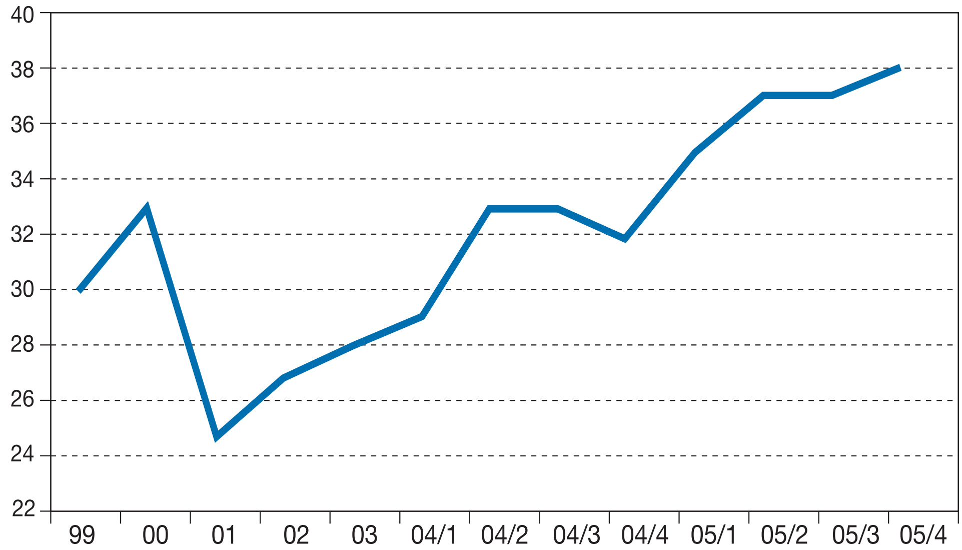
The increase in TRY demand also continued in 2005. The share of TRY in total assets continued to rise. The share of loans in total assets rose by 5 percentage points to 39 percent due to strong growth in economic activity and the rise in demand for corporate loans and consumer loans. The ratio of loans to deposits including the loans extended by deposit banks' branches abroad rose by 10 percentage points to 62 percent. The share of liquid assets in total assets increased by 2 percentage points to 16 percent, while the share of securities portfolio in total assets decreased by 4 percentage points to 36 percent. There was a significant change in the structure of securities portfolio. The shares of securities held for trading purposes and the securities held to maturity decreased by 2 percentage points and 5 percentage points, respectively, while the share of securities available for sale increased by 3 percentage points.

The Structure and Development of Assets

	TRY million	USD billion	Per. change (TRY)	Per. share 2004	Per. share 2005
Liquid assets	63,205	47,104	47	16	14
Securities	143,016	106,585	16	36	40
Trading securities	17,338	12,922	-9	4	6
Invest. sec. available for sale	77,937	58,084	48	20	17
Invest. sec. held to maturity	47,741	35,580	-8	12	17
Loans	153,059	114,070	48	39	34
Non-performing loans	7,496	5,587	18	2	2
(-)Specific provisions	6,732	5,017	20	2	2
Permanent assets	20,383	15,191	-7	5	7
Investments and associates	1,328	990	-64	0	1
Subsidiaries	9,617	7,167	29	2	2
Property and equipment	9,119	6,796	-12	2	3
Intangible assets	319	238	-19	0	0
Other assets	16,368	12,198	12	4	5
Total assets	396,970	295,849	30	100	100

According to BRSA data, total loans extended by domestic branches and branches abroad grew by 51 percent and reached TRY 149.9 billion. Of loans, 71 percent were TRY denominated and 29 percent were Fx denominated. By the end of 2005, individual loans, wholesale traders textile and financial intermediary institutions had 29 percent, 6 percent and 5 percent share in total loans, respectively.

Loans / Total Assets (Percentage)



According to BRSA data, the share of individual loans in total loans also continued to grow in 2005; hence it increased by 5 percentage points to 31 percent. The share of credit cards in individual loans, real estate loans and automotive loans was 37 percent, 27 percent, and 14 percent, respectively. Real estate loans with a share of 10 percent was the fastest growing item.

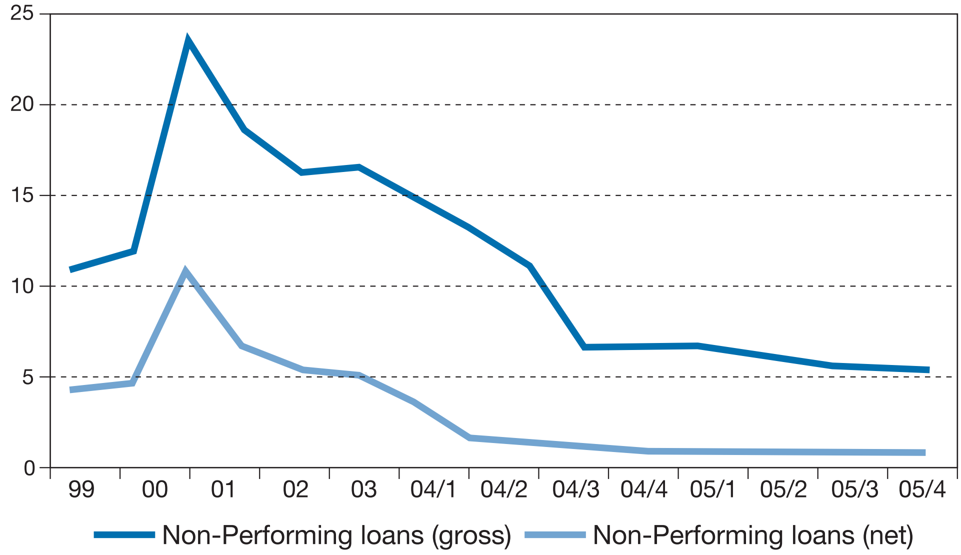
Non-performing loans (before provisioning) increased by 18 percent while provisions for non-performing loans grew by 20 percent. There was no major change in non-performing loans (after provisioning). Consequently, the share of non-performing loans (after provisioning) in total assets decreased from 0.3 percent to 0.2 percent.

Non-performing Loans* and Specific Provisions (Percentage)

	Non-performing loans/ Total loans		Specific provisions/ Non-performing loans	
	2005	2004	2005	2004
Deposit banks	5	6	90	88
State-owned banks	8	11	97	96
Privately owned banks	4	5	86	84
Banks in the Fund	535	458	87	87
Foreign banks	4	3	83	75
Dev. and invest. banks	2	3	93	87
Total	5	6	90	88

* Before provisions.

Non-performing Loans to Total Loans (Percentage)



The increase in non-performing loans was limited due to the growth in economic activity, decline in inflation and interest rates as well as revaluation in financial assets and the rapid growth in credit volume. Thus, the ratio of non-performing loans before provisioning to total loans decreased from 6 percent to 5 percent. Provisions were set aside for 90 percent of these loans. Permanent assets declined by 7 percent to TRY 20 billion and the share of permanent assets in total assets decreased by 2 percentage points to 5 percent.

3.8. Structure of Liabilities

Total deposits increased by 28 percent, but its share in total liabilities remained the same. This was mainly due to 6 percent increase in TRY equivalent of Fx deposits. The share of Fx deposits in total liabilities decreased by 4 percentage points to 28 percent. On the other hand, TRY deposits increased by 47 percent and its share in total liabilities rose by 4 percentage points to 40 percent. Consequently, TRY deposits formed 63 percent of total deposits, which amounted to TRY 254 billion.

The Structure and Development of Liabilities

	TRY million	USD billion	Per. change (TRY)	Per. share 2005	Per. share 2004
Deposits	253,579	188,984	28	64	64
TRY	160,169	119,369	47	40	36
Fx	93,409	69,615	6	24	28
Non-deposit funds	66,920	49,873	48	17	15
Shareholders' equity	53,736	40,048	17	14	15
Paid-in capital	20,041	14,936	35	5	5
Supplementary capital	22,428	16,715	-2	6	7
Reserves	24,525	18,278	5	6	8
Profit/loss	-13,258	-9,880	-13	-3	-5
Previous year	-18,972	-14,139	-12	-5	-7
Current year	5,715	4,259	-11	1	2
Other liabilities	22,678	16,901	27	6	6
Total	396,970	295,849	30	100	100

Source: The Banks Association of Turkey

Non-deposit funds having a share of 17 percent in total liabilities rose by 48 percent and reached TRY 66.9 billion. The share of debts to foreign banks in total non-deposit liabilities was 61 percent. There was no major change in the maturity structure in 2005. Average maturity of the interest rate sensitive liabilities was 70 days, while that of the interest rate sensitive assets was 150 days.

3.9. Shareholders' Equity

Total shareholders' equity increased by 17 percent to TRY 53.7 billion (USD 40 billion). The ratio of the total shareholders' equity to total assets decreased from 15 percent to 13.5 percent. The major contributors to the improvement in the shareholders' equity were the increases in reserves and paid-in capital.

Depending on the rapid growth of total assets compared to shareholders' equity in 2005, the ratio of the shareholders' equity to the risk-weighted assets decreased from 28.8 percent in December 2004 to 24.2 percent in December 2005.

Shareholders' equity

	TRY million	USD million	Per. change (TRY)	S. equity/ Total assets
Deposit banks	47,482	35,387	16	12.4
State-owned banks	13,254	9,878	32	10.6
Privately owned banks	29,396	21,908	7	12.4
Banks in the Fund	1,532	1,142	20	82.5
Foreign banks	3,300	2,460	58	15.9
Dev. and invest. banks	6,254	4,661	22	48.6
Total	53,736	40,048	17	13.5

The decrease in permanent assets helped to maintain the growth in free shareholders' equity. Free shareholders' equity (shareholders' equity-permanent assets-nonperforming loans after provisioning) increased from TRY 23 billion to TRY 33 billion. The ratio of the free shareholders' equity to total assets rose from 7.6 percent to 8.2 percent.

Working Capital

	TRY million		Work. capital /T. assets	
	2005	2004	2005	2004
Deposit banks	26,834	18,542	7.0	6.3
State-owned banks	9,749	6,535	7.8	6.1
Privately owned banks	13,122	9,273	5.5	5.3
Banks in the Fund	1,453	1,149	78.2	59.3
Foreign banks	2,510	1,585	12.1	15.3
Dev. and invest. banks	5,755	4,707	44.7	41.6
Total	32,589	23,249	8.2	7.6

*Shareholders' equity-permanent assets-loans under follow-up after specific provisions

Net profits of the banking sector contracted by 11 percent to TRY 5,715 million, based on the profit figures in the balance sheet. The increase rate of net profits was 7 percent in state-owned banks, 108 percent in foreign banks, and 117 percent in development and investment banks. Net profit-loss of privately owned banks decreased by 51 percent.

Net Profit-Loss, 2005

	Net Profit-Loss		Per. change	Return on assets	Return on equity
	TRY million	USD million	(TRY)	(percentage)	(percentage)
Deposit banks	5,032	3,750	-18	1.3	10.6
State-owned banks	2,869	2,138	7	2.3	21.6
Privately owned banks	1,391	1,036	-51	0.6	4.7
Banks in the Fund	259	193	-33	14.0	16.9
Foreign banks	513	382	108	2.5	15.5
Dev. and invest. banks	683	509	117	5.3	10.9
Total	5,715	4,259	-11	1.4	10.6

Despite the increase in total assets and shareholders' equity, net profit-loss of the banking sector adversely affected the profit ratios. Net return on assets decreased from 2.1 percent to 1.4 percent, and return on equity decreased from 14 percent to 10.6 percent.

3.10. Income-Expenditure

Net interest income of the banking sector increased by 3 percent in 2005. While interests received from securities decreased due to the general decline in interest rates; increased loan volume led to the increase in the contribution of the overall interest income received from the loans to the profit. The increase in interest income and expenditures remained limited in general.

Income-Expenditure, December 2005*

	TRY million	USD million	Per. change
Interest income	42,288	31,516	5
Interest expense	23,993	17,881	6
Net interest income	18,295	13,634	3
Net fees and commission income	4,963	3,699	25
Dividend income	40	30	85
Net trading profit/loss	2,104	1,568	-9
-Profit/loss on trad. account sec.	1,386	1,033	-24
-Foreign exchange income/losses	718	535	47
Other operating income	3,111	2,318	33
Total operating income	28,513	21,249	8
Net operating income	8,706	6,488	-25
Income before taxes	9,048	6,744	0
Provisions for taxes on income	-3,664	-2,730	38
Net profit/loss	5,715	4,259	-11

* The inflation accounting was not implemented in 2005.

While net interest income increased slightly in 2005; net non-interest expenditures increased due to the rise in the number of banks' branches and employees and investments. Although banks' net corporate profits-losses were positively affected due to the lack of inflation accounting application in 2005; net profits decreased by 11 percent to TRY 5.7 billion as a result of 20 percent rise in provisions. The rise in provisions mainly resulted from the revision of the balance sheet of Yapı Kredi Bankası AŞ as of September 2005. Net interest income failed to cover non-interest expenditures in 2005.

3.11. Off-Balance Sheet Items

Guarantees and warranties grew by 16 percent and derivative financial instruments grew by 69 percent in 2005, while commitments decreased by 20 percent. Custody and pledged securities item and total off-balance sheet items increased by 1,075 percent and 702 percent, respectively. The reason of enormous increase in custody and pledged securities items resulted from the change in methodology relating to the investment fund shares by İMKB Takasbank AŞ

Off-Balance Sheet Items, December 2005

	TRY million	USD million	Per. change
Guaranties and warranties	64,856	48,335	16
Commitments	68,230	50,850	-20
Derivative financial instruments	65,894	49,108	69
Custody and pledged securities	3,919,2003	2,920,855	1,075
Total	4,118,183	3,069,148	702

3.12. Number of ATM and Credit Cards

According to the data of Interbank Card Center, total number of credit cards increased by 12 percent to 30 million compared to the end of 2004. Total number of ATM cards also increased by 12 percent and reached 48.2 million by the end of 2005.

Number of ATM, POS and Cards

	Dec. 2005	Sept. 2005	Dec. 2004	Annual change
Credit cards	29,978,243	29,050,403	26,681,128	3,297,115
Debit cards	48,243,369	45,798,550	43,084,994	5,158,375
POS	1,140,957	1,102,608	912,118	228,839
ATM	14,823	14,517	13,544	1,279

Source: Interbank Card Centre

The numbers of POS (Point of Sale) and ATM (Automatic Teller Machine) also increased by 25 percent and 9 percent in 2005 and reached 1,140,957 and 14,823 respectively.