Turkish Banking System [1,2,3]
"March 2008"

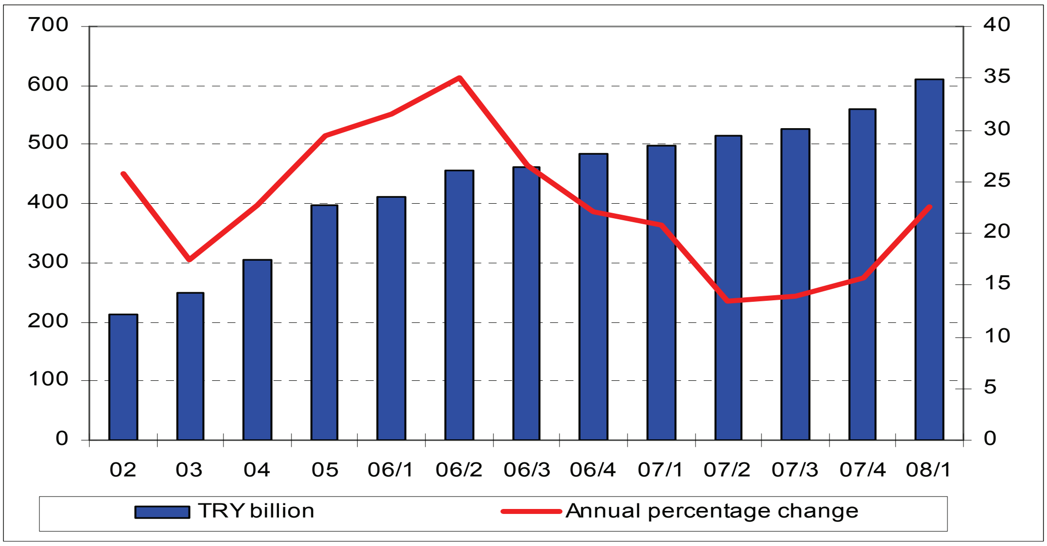
Developments in the Banking Sector

Executive Summary

Fluctuation in the international finance markets and its impacts on investor's behaviors had also reflections on the banking sector in the first quarter of 2008. In this period TRY was devalued by 13 percent against dollar and 21 percent against euro as compared to the end of year, and thus, balance sheet growth accelerated due to the share of foreign exchange (FX) items in the balance sheet. While FX items grew more rapidly, the rate of increase in TRY denominated loans remained below that of total assets. The share of FX items in assets and liabilities increased.

Proceeds of the sales of assets and revenues provided from the tax conciliation were effective factors in the increase of non-interest income. Compared to the same period of the last year, it is clearly observed that the increase in the banking sector profit is almost entirely attributable to these factors,

Total Assets



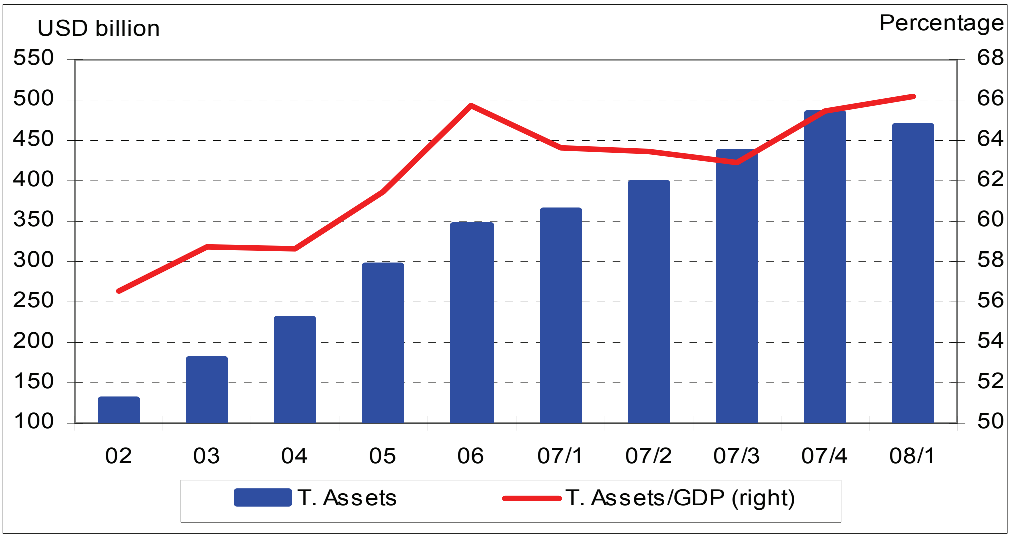
Due to the financial problems occurred in the international markets, banks continued and even increased their risk balancing (hedging) efforts. With the

[1] Deposit banks and development and investment banks are included.
[2] The balance sheet format was changed with the "Communiqué on the Financial Statements, Related Explanations and Footnotes of Banks to be Disclosed to Public". Since March 2007 data has not been prepared according to this new format, comparison with the same period of last year could not be presented here.
[3] This report was published on August 8, 2008 since the final figures of one of our members reached late.

effects of heding transactions, derivative financial instruments increased by TRY 70 billion to TRY 228 billion in the first quarter of the year.

During the first quarter of the year, the balance sheet growth rate was 9 percent as compared to the end of the last year. Total assets of the banking system amounted to TRY 611 billion (USD 468 billion) as of March 2008. The ratio of total assets to gross domestic product (GDP) is estimated to be around 67-68 percent in the same period.

Total Assets and Total Assets/GDP (USD billion, percentage)



Net foreign exchange position of the banking sector showed a surplus of USD 708 million, while balance sheet deficit position slightly fell down to USD 21.1 billion. The ratio of TRY equivalent of FX assets to total assets increased by 2 percentage points to 31 percent, while the ratio of TRY equivalent of FX liabilities to total liabilities rose by 3 percentage points to 36 percent.

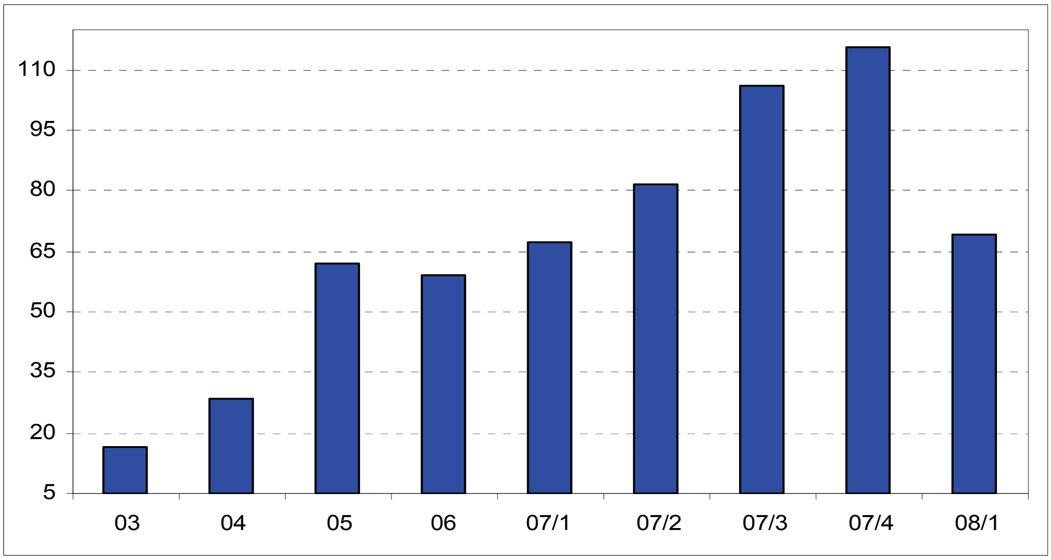
Total assets increased by 9 percent in deposit banks and 8 percent in development and investment banks, as compared to the end of the last year. In the same period, total share of private banks in total assets and deposits decreased by 1 percentage point each, while total share of foreign banks rose by 1 percentage point each.

According to size of assets the share of the largest five banks in assets and loans decreased compared to the end of the last year while their share in deposits remained the same. The share of the largest ten banks in assets, loans and deposits remained unchanged.

The ratio of loans to total assets reached 52 percent by increasing 2 percentage points as compared to the end of the last year. Loans to deposits ratio was 81 percent by increasing 2 percentage points in the same period. The same ratio was 49 percent in state-owned banks, 90 percent in private banks and 105 percent in foreign banks as of March 2008.

Considering maturity 51 percent of total assets and 79 percent of total liabilities had a maturity of less than 1 year.

Market Value of Financial Institutions Traded in ISE (USD billion)



The banking sector shareholders' equity did not show any significant change in comparison to December 2007, and amounted to TRY 73.5 billion (USD 56.3 billion) as of March 2008. Both the ratio of free shareholders' equity to total assets and the capital adequacy standard ratio declined as compared to December 2008.

Profit volume increased by 14 percent as compared to the same period of the last year and reached TRY 3,798 million. On yearly basis, return on equity increased by 0.6 percentage points to 20.1 percent as compared to the end of last year, and return on assets decreased from 2.6 percent to 2.4 percent.

Total market value of financial institutions declined from USD 115 billion as of the end of 2007 to USD 69 billion as of March 2008.

Off balance sheet items rose especially due to the growth in derivative financial instruments.

The number of banks operating in Turkey remained the same at 46 compared to the end of the last year, whereas the number of branches increased by 253 to 7,852 as of March 2008. Thus, the number of branches reached its highest level and registered a record in the history of the banking sector.