

## Turkish Banking System <sup>1</sup> “June 2008”

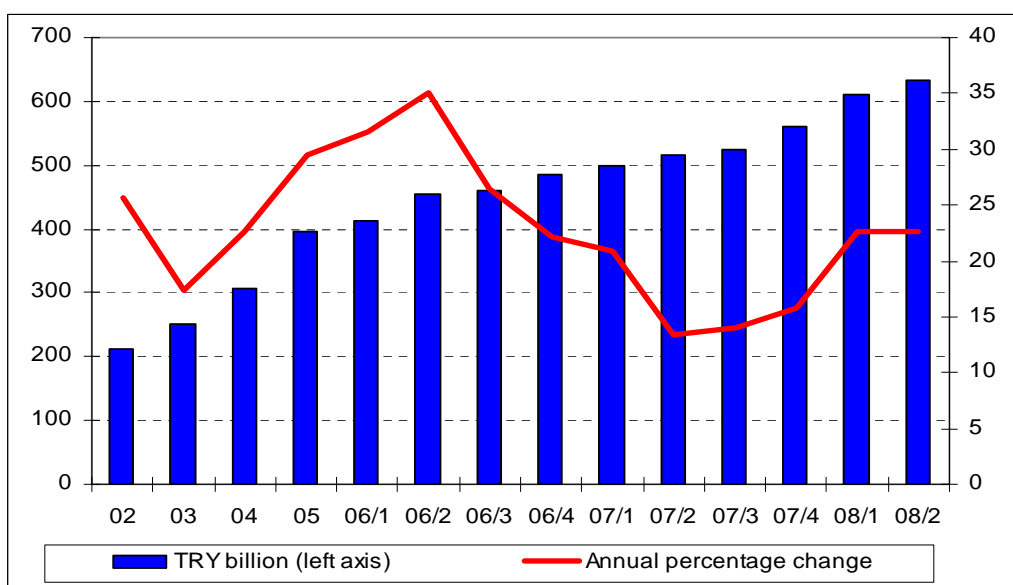
### Executive Summary

The slowdown in the growth rate of economic activity in the second quarter, the turbulence observed in global financial markets and its negative impact on the investors' behavior combined with the political uncertainty limited the performance of the banking sector.

The growth rate of the balance sheet of the sector slowed down in the second quarter. Loans continued to grow albeit at a slower rate. The volume of loans under follow-up continued to increase though a portion of them were sold to asset management companies. The ratio of provisions to loans declined.

The maturity of TRY deposits shortened and the share of funds from repo transactions increased as due to the change in investors' expectations. The increase in the interest rates affected the volume of profits negatively. The FX financial assets decreased in the second quarter.

**Total Assets**



The decrease in the “valuation changes in the marketable securities” item, affected the shareholders' equity negatively and the impact was compensated by the increase in paid-in capital and extraordinary reserves. The growth of shareholders' equity slowed down, the capital adequacy ratio deteriorated.

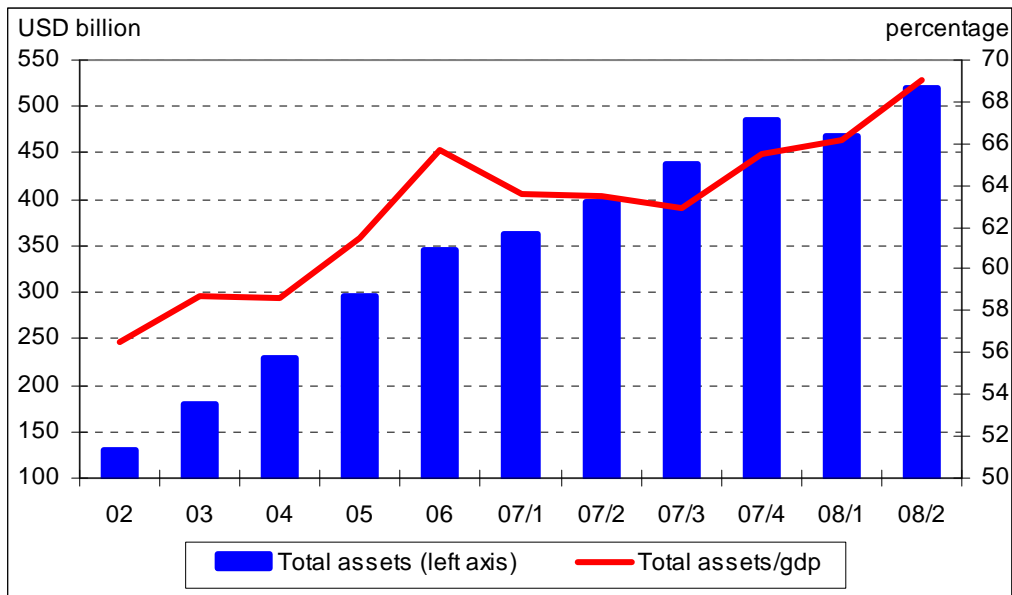
Due to the problems occurred in global financial markets, banks increased their risk balancing (hedging) efforts. With the effects of hedging transactions,

<sup>1</sup> Deposit banks and development and investment banks are included.

derivative financial instruments increased by 44 percent to TRY 228 billion in the first half of the year.

During the first half of the year, the balance sheet growth rate was 13 percent as compared to the end of the last year. Total assets of the banking system amounted to TRY 633 billion (USD 519 billion) as of June 2008. The ratio of total assets to gross domestic product (GDP) is 69 percent in the same date.

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



Net foreign exchange position of the banking sector showed a surplus of USD 126 million, while balance sheet deficit position increased by USD 3.7 billion to USD 14.2 billion. The ratio of TRY equivalent of FX assets to total assets remained unchanged by 29 percent, while the ratio of TRY equivalent of FX liabilities to total liabilities rose by 2 percentage points to 35 percent.

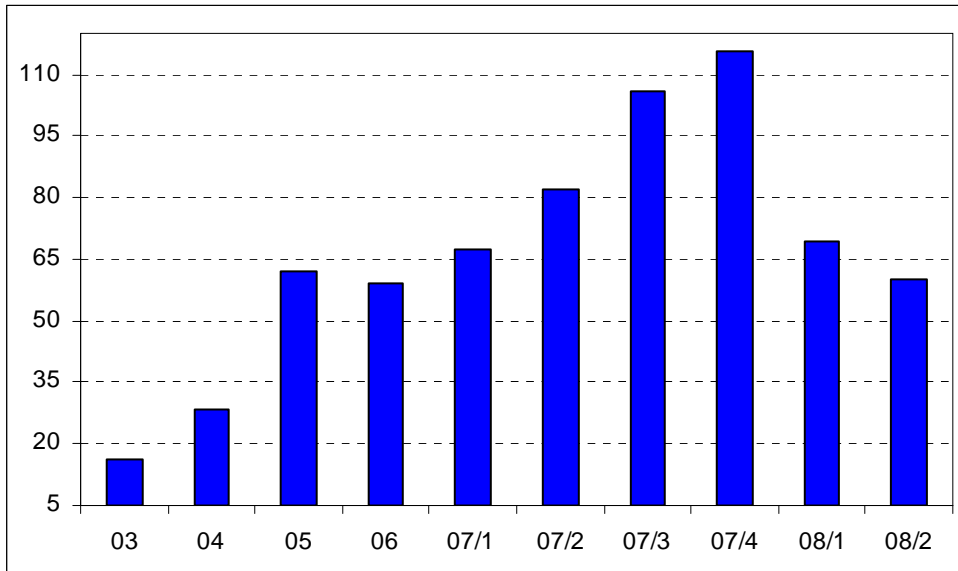
Total assets increased by 13 percent in deposit banks and 9 percent in development and investment banks, as compared to the end of the last year. In the same period, the share of banking groups in total assets, deposits and loans remained unchanged.

According to size of assets the share of the largest five banks in assets, loans and deposits remained unchanged. The share of the largest ten banks in loans increased by 1 percentage point to 84 percent. Their shares in assets and deposits remained unchanged.

The ratio of loans to total assets reached 53 percent by increasing 3 percentage points as compared to the end of the last year. Loans to deposits ratio was 83 percent by increasing 4 percentage points in the same period. The same ratio was 52 percent in state-owned banks, 92 percent in private banks and 111 percent in foreign banks as of June 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 74.1 billion (USD 60.8 billion ) as of June 2008. Both the ratio of free shareholders' equity to total assets and the capital adequacy ratio declined as compared to December 2007.

Profit volume increased by 2 percent as compared to the same period of the last year and reached TRY 8,004 million. Interest margin increased, but its positive impact was restricted by the increase in the other operational costs and provisions for loan losses or other receivables item. On yearly basis, return on equity remained unchanged by 19.5 percent as compared to the end of last year, and return on assets decreased from 2.6 percent to 2.3 percent.

Total market value of financial institutions declined from USD 115 billion as of the end of 2007 to USD 59 billion as of June 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 March 2008, whereas the number of branches increased by 322 to 8,174 in the same period. Thus, the number of branches reached its highest level and registered a record in the history of the banking sector.