

# **The Banking System in Turkey<sup>1</sup>**

## **“June 2006”**

### **I. Developments in the Economy in the First Half of 2006**

#### **a. Economic Developments**

**Economic growth performed better than expected due to strong domestic demand of private sector.**

Fiscal policy which aims to curb public sector borrowing requirement and to reduce fiscal pressure on financial sources together with monetary policy aiming price stability and increased in external borrowing had positive effects on the economic activity. Domestic demand growth resulting mainly from the private sector continued in the first half of the year. The annual Gross National Product (GNP) growth rate is estimated to be around 6 percent.

**Inflation changed its direction.**

The inflation rate increased compared to the first half the last year and to the year end. The rate of annual change in Producer Price Index (PPI) which was 4.3 percent in June 2005, decreased to 2.7 percent in December 2005 and increased to 12.5 percent in June 2006. Meanwhile, the rate of annual change in Consumer Price Index (CPI) which was 9 percent in June 2005, decreased to 7.7 percent in December 2005 and increased to 10.1 percent in June 2006.

**Domestic debt to GNP ratio declined further.**

Fiscal discipline is continued. The annual ratio of budget deficit to GNP is estimated to be 1 percent in June 2006. Accelerated income revenue with positive contributions of privatization and Savings Deposit Insurance Fund and contraction in interest expenditures due to decline in interest rates had a positive impact on the budget discipline. On the other hand, non-interest expenses continue to increase in real terms.

Domestic debt to GNP is estimated to come down below 50 percent, after accounting for 50 percent in December 2005, and for 59 percent in June 2005. The expected real interest rate of the domestic borrowing reached 9 percentage in June 2006 up 3 percentage points from December 2005. The maturity of the domestic debt stock in the same period increased from 23.5 months to 24.5 months.

**Net Fx position of The Central Bank continued to improve.**

Net Fx position of The Central Bank increased by USD 6.7 billion to USD 22.2 billion compared to the year end. Net foreign assets continued to growth while net domestic assets declined further. Compared to December 2005, international Fx reserves increased by USD 6.2 billion to USD 56.7 billion despite the Fx sales in June.

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

### **The TRY demand remained strong.**

The monetary base expanded 53 percent in annual terms in June 2006, a rather high compared with the rate of inflation due to strong demand for TRY. The ratio of money demand for M2RF (TRY deposits, repo agreements and securities mutual funds) to GNP increased by almost 2 percentage points to 37 percent compared to June 2005. The ratio of TRY equivalent of Fx deposits to GNP increased from 16 percent to 18 percent due to the rapid depreciation of TRY against major foreign currencies in the second quarter of the year. In the first half of the year, non-banking sectors' demand for public sector borrowing instruments increased by 2 percent which was mainly due to Fx parity changes in Fx denominated instruments. The portfolio of TRY denominated public sector borrowing instruments held by both individual and foreign investors decreased notably in the second quarter, because of rapid capital inflows and rising inflationary expectations.

### **Acceleration in lending to private sector**

The ratio of banking sector loans to GNP is estimated to increase by 6 percentage points to 38 percent compared to year end and by 8 percentage points compared to June 2005. The ratio of corporate loans to GNP is estimated to increase by 7 percentage points compared to June 2005 and by 4 percentage points compared to the year-end and reached 26 percent. The share of individual loans in total loans increased to 32 percent in June 2006. In individual loans, consumer loans including housing loans have a share of 68 percent and credit cards have a share of 32 percent.

The ratio of loans under follow-up to total loans is 4 percent before provisions and 0.4 percent after provisions. The ratio of loans under follow up are 3 percent in individual loans. The ratio is less than 1 percent in consumer loans and around 9 percent in credit cards.

### **Foreign trade and current account deficits continued to widen.**

Exports grew by 12 percent and imports by 18 percent, annually. Consequently, the foreign trade deficit increased by 23 percent compared to the same period of 2005 amounting to USD 105 billion in the first half of 2006.

Annual current account deficit widened to USD 28,7 billion in June 2006, up from USD 18.9 billion in the first half of 2005 and USD 23.2 billion by the end-2005. Private sector's external borrowing as well as foreign investors' demand for TRY financial instruments, albeith decline in the second quarter, had an important role in the financing of the deficit. Another remarkable development was the increase of foreign direct investments to USD 17.3 billion, from USD 9.7 billion in December 2005.

Foreign debt stock was USD 185 billion as of March 2006. The ratio of foreign debt stock to GNP decreased around 1 percentage point to 50 percent compared to March 2005 resulting from the decrease in the debt stocks of public sector and The Central Bank. The ratio of foreign debt stock of private sector to GNP increased by 4 percentage points to 26 percent.

## **b. Fluctuations in Financial Markets (May-June 2006)**

Parallel to the volatility in international financial markets, there were sudden capital outflows in Turkey, from early May to July. TRY was rapidly depreciated against the major foreign currencies while public sector borrowing rate increased from 15 percent to above 20 percent.

The Central Bank has started a number of measures to ensure stability in the financial markets, aiming at tightening monetary policy to contain inflationary expectations. The Central Bank;

- increased its short term borrowing (policy) rate twice in June and once in July from 13.25 percent (14 percent compound) to 17.5 percent (19 percent compound) in total,
- started of auctions to sterilize the excess TRY in overnight money market through open market operations,
- provided Fx liquidity to the market by the means and mechanisms The Central Bank owns.

Following the measures taken by the Central Bank, Fx markets become rather sustainable, while the interest rate of public sector borrowing declined to 19 percent. Meanwhile commercial banks also raised their interest rates for consumer loans and deposits.

The Act on Taxation of Financial Assets was revised and the Government was authorised to change the withholding tax rate on government securities. Accordingly, the foreign investors were subject to zero percent withholding tax on Government securities while the tax rate for domestic individual investors was decreased to 10 percent from 15 percent. Also the Ministry of Finance confirmed that the fiscal discipline would be kept in line with the stability policies of Government and would further be strengthened, if it is necessary.

In addition to better climate in international markets, all these measures led to stability in financial markets. Demand for TRY recovered quickly, indicating positive reactions of investors to raising interest rates and changes in taxation of financial assets.

## II. Developments in the Banking Sector

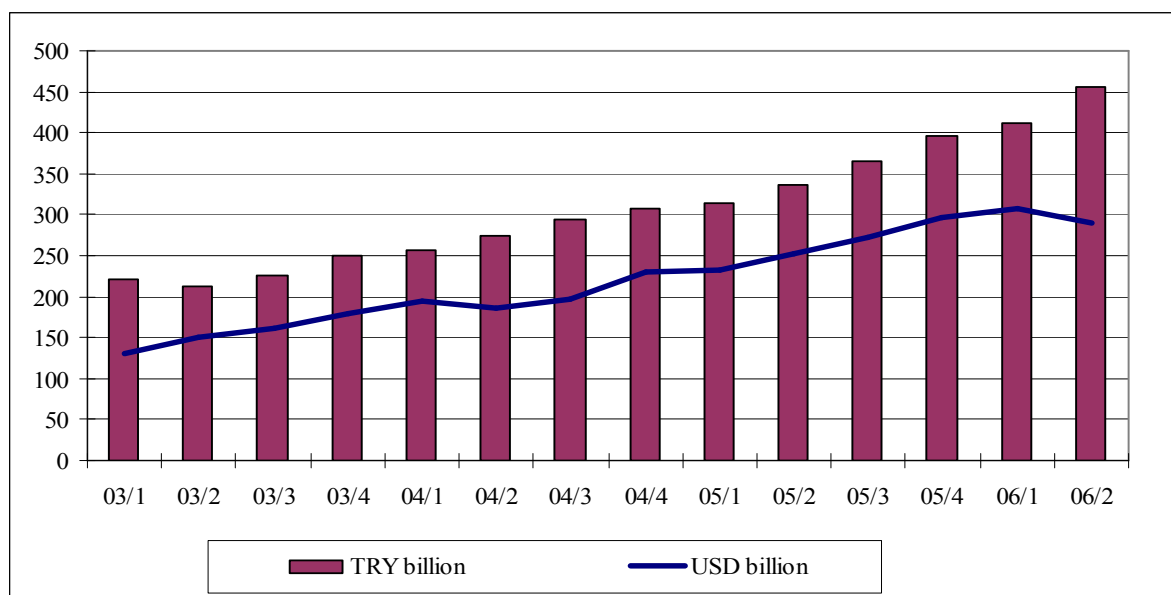
### 1. Executive Summary

Foreign investors' interest to the banking system remained vital in the first half of 2006.

As of June 2006, total assets of the banking sector increased by 35 percent and reached TRY 455 billion (USD 290 billion) compared to the same period of 2005. The ratio of total assets to GNP is estimated to be 87 percent in June 2006, up from 82 percent in December 2005. Continued budget discipline, higher level of economic activity and intensive external borrowing had positive effects on the volume of balance sheet. The growth rate of assets was higher especially in the second quarter of the year due to the depreciation of TRY.

Total assets increased by 35 percent and 25 percent in deposit banks and development and investment banks, respectively. The share of state-owned deposit banks in total assets and in total deposits decreased by 3 and 4 percentage points to 29 percent and 36 percent, respectively, while their share in total loans remained unchanged by 20 percent. The share of privately owned deposit banks increased in total assets and in total deposits each by 1 percentage point to 61 percent and 58 percent, while their share in total loans remained unchanged by 69 percent.

**Total Assets**



According to asset size, the share of largest five banks in total assets, loans and deposits decreased. The share of largest ten banks in deposits decreased, while their share in total loans increased.

### Total Assets (As percentage of GNP)



Compared to June 2005, the share of TRY assets in total assets decreased by 1 percentage point to 65 percent, and the share of TRY liabilities in total liabilities decreased by 2 percentage points to 61 percent. In the first six months of 2006, the share of TRY assets and liabilities in balance sheet declined each 3 percentage points to 65 and 61 percent.

The remarkable development in asset side was the decline in the share of securities due to decrease in investment securities held to maturity items. On the other hand, the share of permanent assets and other assets in total assets decreased. The share of liquid assets remained unchanged by 13 percent.

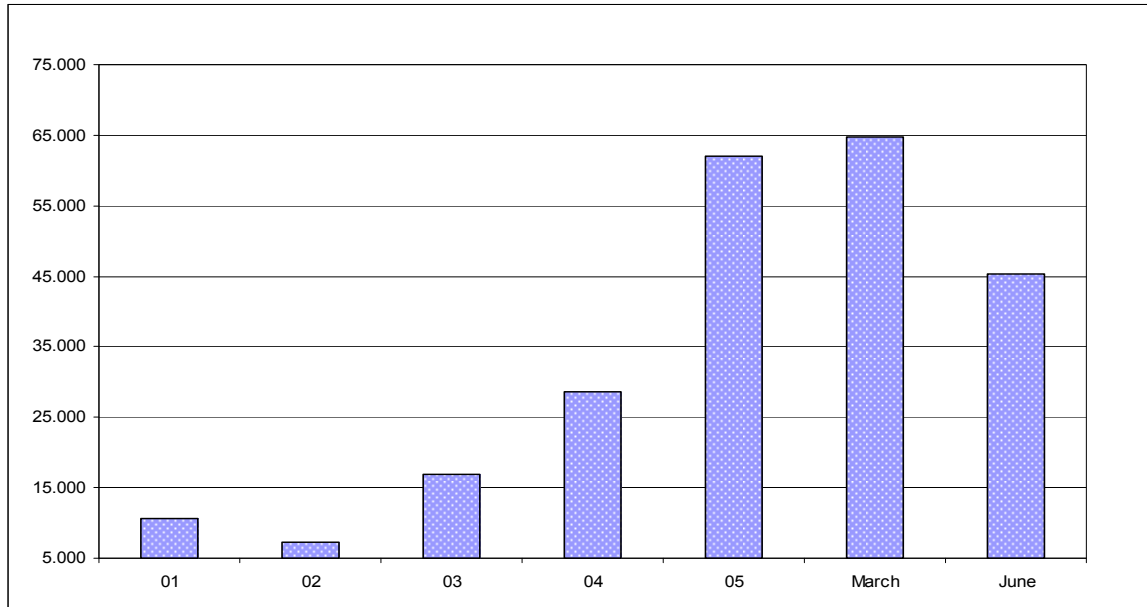
The share of loans in total assets continued to increase, rising by 7 percentage points to 44 percent as compared to June 2005. The ratio of loans to deposits increased by 10 percentage points to 69 percent in the banking sector, compared to June 2005. As of June 2006, this ratio was 37 percent in the state-owned banks, 81 percent in the privately owned banks and 87 percent in foreign banks.

The decreasing trend in the share of Fx accounts in total assets and liabilities stopped due to depreciation of TRY in the second half of 2006. The share of Fx accounts in both total assets and liabilities increased 3 percentage points. The share of loans from abroad in total liabilities followed an upward trend.

Accounts of balance sheet less than one-year maturity have shares of 49 percent in total assets 81 percent in total liabilities, respectively.

Total shareholders' equity increased by 8 percent and amounted to TRY 50.8 billion (USD 32.4 billion) compared to June 2005, but declined by 5.4 percent in TRY terms and 19 percent in USD terms, compared to December 2005. Return on equity remained almost the same.

**Market Value of Financial Institutions  
Traded in Istanbul Stock Exchange  
(USD million)**



The market value of banks traded in the Stock Exchange decreased in the first half of 2006 to USD 45,3 billion from USD 62 billion by the end of 2005.

Net profit increased by 18 percent to TRY 4,989 million. The increase in the net fees and commission income, net foreign exchange loss and increased income earned from the hedge operations effected to the profitability.

The increase in swap trades to foreign currency, interest rates, the guarantees and warranties items effected off-balance items positively, while the decrease in commitments item effected it negatively. As of June 2006, the number of banks operating in Turkey was 47. The number of banks remained unchanged and number of branches increased by 226 to 6,473 in the first half of 2006.

## **2. Balance Sheet and Off-Balance Sheet Developments**

### **2.1. Growth**

Total assets of the banking system increased by 35 percent in TRY terms to TRY 455,244 million, and increased by 15 percent in dollar terms to USD 290,019 million from a year earlier. Total assets decreased by 2 percent in USD terms compared to December 2005. The ratio of total assets to GNP, which was 83 percent in March 2006, is estimated to be 87 percent in June 2006.

Total balance sheet of the banking sector increased by TRY 42.8 billion in the second quarter of 2006. A 61 percent (TRY 26.1 billion) and, a 46 percent (TRY 19.4 billion) of this increase stemmed from deposits and non-deposit funds, respectively. The rest was caused by other liabilities. The shareholders' equity decreased. Within the assets,

73 percent (TRY 31.4 billion) and 27 percent (TRY 11.3 billion) of the new liabilities entered into the system allocated to loans and securities, respectively. Liquid assets increased slightly, while the other assets declined.

### Nominal Change in Balance Sheet Items (TRY million)

	<b>Assets</b>	
	December 2005-June 2006	March 2005-June 2006
Liquid assets	-3,699	957
Securities	16,657	11,326
Loans	46,041	31,372
Other assets	-726	-887
Total	58,274	42,768
-TRY	28,027	12,862
-Fx	30,247	29,906
	<b>Liabilities</b>	
	December 2005-June 2006	March 2005-June 2006
Deposits	37,270	26,142
Non-deposit funds	18,823	19,450
Shareholders' equity	-2,900	-4,837
Other liabilities	5,080	2,012
Total	58,274	42,768
-TRY	21,739	11,038
-Fx	36,535	31,730

Total balance sheet of the banking sector increased by TRY 58.3 billion in the first half of 2006. A 64 percent (TRY 37.3 billion), a 32 percent (TRY 18.8 billion) and a 9 percent (TRY 5.1 billion) of this increase stemmed from deposits, non-deposit funds and other liabilities, respectively. The shareholders' equity decreased. Within the assets, 79 percent (TRY 46 billion) and 29 percent (TRY 16.7 billion) of the new liabilities entered into the system allocated to loans and securities, respectively. Liquid assets and other assets decreased.

### Turkey Banking System, June 2006

	<b>TRY million</b>	<b>USD million</b>	<b>Annual percentage change</b>	
			<b>TRY</b>	<b>USD</b>
Deposit banks	440,430	280,583	35	15
State-owned banks	133,957	85,339	22	4
Privately owned banks	277,999	177,103	37	17
Banks in the Fund	1,068	680	-42	-50
Foreign banks	27,406	17,460	137	101
Develop. and invest. banks	14,813	9,437	25	6
Sector	455,244	290,019	35	15

Within deposit banks group; total assets increased by 22 percent in state-owned banks, by 37 percent in privately owned banks, and by 137 percent in foreign banks, in the twelve months period, while total assets decreased by 42 percent in the banks

in the Fund. Total assets of development and investment banks increased by 25 percent.

## 2.2. Market Shares

As of June 2006, the share of deposit banks in total assets increased by 1 percentage point to 97 percent, while the share of development and investment banks decreased to 3 percent, compared to June 2005. In deposit banks group; the shares of privately owned banks and foreign banks increased by 1 percentage point and 3 percentage points to 61 percent and 6 percent, respectively, while the share of state-owned banks decreased by 3 percentage points to 29 percent.

### Market Shares of Groups (Percentage)

	Total assets		Total deposits		Total loans	
	June 2005	June 2006	June 2005	June 2006	June 2005	June 2006
Deposit banks	96	97	100	100	100	94
State-owned banks	32	29	40	40	36	20
Privately owned banks	60	61	57	57	58	69
Banks in the Fund	1	1	0	0	0	0
Foreign banks	3	6	3	3	6	5
Develop. and invest. banks	4	3	-	-	-	6
Sector	100	100	100	100	100	100

The share of state-owned banks decreased by 4 percentage points to 36 percent. In total deposits, the shares of privately owned banks and foreign banks increased by 1 and 3 percentage points to 58 percent and 6 percent, respectively. In total loans, the share of deposit banks increased by 2 percentage point to 96 percent. In deposit banks group, the shares of foreign banks increased by 2 percentage points to 7 percent. While the shares of state-owned banks and privately owned banks remained unchanged at 20 percent and 69 percent, respectively.

## 2.3. Concentration

The share of the largest five banks in the sector was 60 percent in total assets, 64 percent in total deposits and 53 percent in total loans. The same shares for the largest ten banks were 84 percent, 88 percent and 80 percent, respectively.

### Concentration in the Banking System (Percentage)

	June 2005	December 2005	June 2006
Largest five*			
T. assets	61	63	60
T. deposits	65	66	64
T. loans	54	56	53
Largest ten*			
T. assets	84	85	84
T. deposits	89	89	88
T. loans	78	80	80

\* According to total assets.

As of June 2006, there were 2 state-owned banks and 3 privately owned banks among the largest five. There were 3 state-owned banks and 7 privately owned banks among the largest ten banks in the concerning period.

### The Number of Banks by Asset Size

USD billion →	+0-1		1-2		2-5		5-10		10-20		20-40		40+
	99	06/6	99	06/6	99	06/6	99	06/6	99	06/6	99	05/6	06/6
<b>Number</b>													
Deposit b.	37	15	10	3	7	3	6	4	4	3	1	4	2
State-owned					1		1		1	0	1	2	1
Private	15	4	6	3	5	2	5	2	3	3		2	1
Foreign	17	10	1		1	1		2					
Fund	5	1	3		1								
Dev. and Inv. banks	17	10	1		1	3							
Total	54	25	11	3	8	6	6	4	4	3	1	4	2

## 2.4. TRY and Fx Structure of Balance Sheet

In the asset side of the balance sheet, TRY assets grew by 34 percent and TRY equivalent of Fx assets increased by 38 percent as compared to June 2005. In the liability side, TRY liabilities and TRY equivalent of Fx liabilities increased by 31 percent and by 41 percent, respectively. Accordingly, the share of Fx assets in balance sheet increased by 1 percentage point to 35 percent, while the share of Fx liabilities increased by 2 percentage point to 39 percent. The difference between Fx assets and Fx liabilities in the balance sheet of the banking system increased from USD 8.4 billion in June 2005 to USD 12.7 billion in June 2006.

### Foreign Currency Structure and “Fx Assets – Fx Liabilities\*”

	Fx assets Per. share		Fx liabilities Per. share		“Fx assets – Fx liabilities” USD billion	
	June 2005	June 2006	June 2005	June 2006	June 2005	June 2006
Deposit banks	34	35	38	39	-8.4	-12.2
State-owned banks	21	22	23	24	-1.6	-1.3
Privately owned banks	41	41	45	46	-6.3	-8.1
Banks in the Fund	7	7	12	17	-0.1	-0.1
Foreign banks	34	30	40	46	-0.5	-2.8
Dev. and invest. Banks	37	35	37	39	0.1	-0.4
Sector	34	35	37	39	-8.4	-12.7

(\*)The definition of “Fx assets - Fx liabilities” used in the quarterly statistics of the Turkey banking system by groups, contains only Fx assets and Fx liabilities in the balance-sheet. This definition differs from that of “Net General Position” in the regulation on standard ratio for “Fx Net General Position /Capital Base”. Fx denominated loans in the balance-sheet, Fx assets and Fx liabilities in the off-balance sheet are not included in the former definition. This issue needs to be considered in making an analysis of the banking system

According to BRSA, including Fx indexed assets and liabilities, short Fx position in the balance sheet of the banking system increased to USD 5.8 billion in June 2006, from USD 1.9 billion in December 2005. In the asset side, including assets and liabilities indexed to foreign exchange, the share of euro and dollar denominated assets in total Fx assets were 35 percent and 63 percent, respectively. In the liability side, the share of euro and dollar denominated liabilities in total Fx liabilities were 31 percent and 66 percent, respectively.

#### Net General Foreign Exchange Position (USD million)

USD million	June 2005	June 2006
State-owned banks	141	-8
Privately owned banks	-572	-471
Banks in the Fund	...	...
Foreign banks	6	67
Development and investment banks	-1	-49
Sector	-427	-362

Source: BRSA

According to the BRSA's figure, net general Fx position indicated a deficit of USD 362 million as of June 2006.

## 2.5. Asset Structure

The shares of securities, permanent assets and other assets in total assets decreased by 4, by 1 and by 5 percentage points to 35 percent, 5 percent and 3 percent, respectively. The decrease in trading securities and investment securities held to maturity, items played an important role in this development. The shares of liquid assets in total assets remained unchanged by 13 percent.

#### Selected Asset Items of the Banking Sector, June 2006

	TRY million	USD million	Annual per. change		Percentage share	
			TRY	USD	June 2005	June 2006
Liquid assets	59,506	37,909	32	12	13	13
Securities	159,673	101,722	22	3	39	35
Trading securities (net)	18,106	11,535	2	-13	5	4
Inv. sec. for sale (net)	89,108	56,767	40	19	19	20
Inv. held to maturity (net)	52,460	33,420	5	-11	15	12
Loans	199,100	126,840	59	35	37	44
Non-performing loans	7,585	4,832	9	-8	2	2
Specific provisions (-)	6,888	4,388	12	-5	2	2
Permanent assets	20,668	13,167	-3	-17	6	5
Investments and associates	1,161	740	-66	-71	1	0
Subsidiaries	10,568	6,732	38	17	2	2
Property and equip. (net)	8,521	5,429	-14	-27	3	2
Intangible assets (net)	418	266	23	4	0	0
Other assets	15,647	9,968	19	1	4	3
Total assets	455,244	290,019	35	15	100	100

The share of loans increased from 37 percent to 44 percent. The rapid increase especially in TRY loans continued; their share increased by 5 percentage points to 30 percent, while the share of Fx loans increased by 2 percentage points to 14 percent. The effective factor behind the increase in total loans was the rapid growth in consumer loans, notably housing and automobile loans.

The ratio of loans to total assets were 29 percent in state-owned banks, 49 percent in privately owned banks and 53 percent in foreign banks. As of June 2006, the ratio of loans to deposits increased by 10 percentage points to 69 percent in the banking sector, compared to the same period of 2005. As of June 2006, this ratio was 37 percent in the state-owned banks, 81 percent in the privately owned banks and 87 percent in foreign banks.

### **Non-performing Loans\* and Provisions (Percentage)**

	Non-performing loans / Total loans		Provisions/ Non-performing loans	
	June 2005	June 2006	June 2005	June 2006
Deposit banks	5.8	3.9	88.3	90.7
State- owned banks	9.8	6.2	96.7	96.9
Privately owned banks	4.7	3.3	84.0	88.3
Banks in the Fund	413.7	415.0	88.8	87.6
Foreign banks	3.1	3.1	72.4	81.8
Dev. and invest. banks	2.3	1.8	89.8	94.0
Sector	5.6	3.8	88.4	90.8

\* Before provisions.

The share of non-performing loans (before provisions) in the total assets remained the same at 2 percent. The ratio of non-performing loans (before provisions) to total loans decreased from 6 percent to 4 percent. The ratio of non-performing loans after provisions to total loans realized as 0.4 percent. Specific provisions were set aside for 91 percent of non-performing loans.

## **2.6. Liabilities Structure**

As of June 2006, total deposits and TRY deposits increased by 36 percent and 42 percent, respectively, in annual terms. On the other hand, TRY equivalent of Fx deposits increased by 27 percent. Depending on this development, the share of TRY deposits in total liabilities increased by 2 percentage points to 40 percent, while the share of Fx deposits in total liabilities decreased by 1 percentage point to 24 percent. USD denominated Fx deposits increased by 8 percent. The share of total deposits in total liabilities increased by 1 percentage point to 64 percent. As of June 2006, Fx and TRY deposits reached TRY 108.6 billion (USD 65.9 billion) and TRY 182.3 billion (USD 119.4 billion), respectively.

The shares of saving deposits and commercial deposits in total deposits increased by 2 percentage points to 36 percent, and by 1 percentage point to 13 percent, respectively. While the shares of official deposit and other institutions' deposit remained unchanged, the shares of interbank deposits and TRY equivalent of Fx deposits

decreased by 1 percentage point and 2 percentage points to 3 percent and 36 percent, respectively.

### Selected Liabilities of the Banking Sector, June 2006

	TRY million	USD million	Annual percentage change		Per. share	
			TRY	USD	June 2005	June 2006
Deposits	290,849	185,290	36	16	63	64
TRY	182,278	116,123	42	21	38	40
Fx	108,572	69,167	27	8	25	24
Non-deposit funds	85,743	54,624	54	31	16	19
Shareholder's equity	50,836	32,386	8	-8	14	11
Paid-in capital	22,720	14,474	34	14	5	5
Supplementary capital	13,981	8,907	-29	-40	6	3
Profit reserves	27,572	17,565	11	-6	7	6
Profit or loss	-13,437	-8,560	-8	-22	-4	-3
Prior year inc./loss	-18,427	-11,739	-2	-17	-6	-4
Current year inc./loss	4,989	3,178	18	1	1	1
Other liabilities	27,683	17,636	32	12	6	6
Total	455,244	290,019	35	15	100	100

The average maturity of total deposits remained unchanged with 2.6-month. As of June 2006, non-deposit funds, having the share of 19 percent in total liabilities, increased by 54 percent compared to the same period of 2005, mainly due to rapid increase in the funds borrowed from abroad and repo agreements.

### Breakdown of Deposits, June 2006

	TRY million	USD million	Annual per. change		Percentage share	
			TRY	USD	June 2005	June 2006
Savings deposits	105,436	67,169	45	23	34	36
Official deposits	11,245	7,164	38	17	4	4
Commercial deposits	38,067	24,251	48	26	12	13
Interbank deposits	8,954	5,704	-2	-17	4	3
Other institutions deposits	23,215	14,789	39	18	8	8
Fx deposits	103,508	65,941	28	8	38	36
Gold deposits	424	270	172	131	0	0
Total deposits	290,849	185,290	36	16	100	100

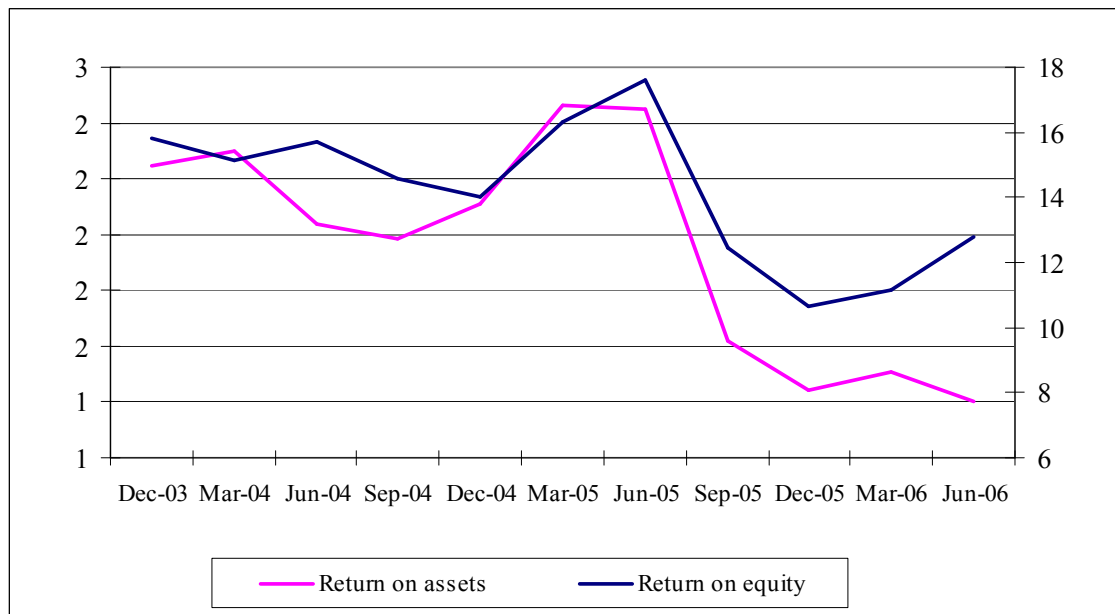
Total shareholders' equity increased by 8 percent and amounted to TRY 50.8 billion (USD 32.4 billion) compared to June 2005, but decreased by 5.4 percent in TRY terms and 19 percent in USD terms compared to December 2005. The shareholders' equity increased in all sub-groups of deposit banks, except the bank in the Fund. The shareholders' equity of development and investment banks increased by 19 percent to TRY 6.6 billion (USD 4.2 billion). Depending on these developments, the ratio of shareholders' equity to total assets decreased by 3 percentage points to 11 percent.

### Shareholders' Equity, June 2006

	TRY million	USD million	Annual per. change TRY	USD
Deposit banks	44,260	28,197	7	-9
State-owned banks	11,330	7,218	15	-3
Privately owned banks	28,801	18,348	3	-13
Banks in the Fund	723	461	-49	-57
Foreign banks	3,406	2,170	66	41
Dev. and invest. banks	6,576	4,189	19	1
Sector	50,836	32,386	8	-8

The ratio of working capital (shareholders' equity-permanent assets-non-performing loans after provisions/total assets) decreased due to decline in the shareholders' equity, from 7.4 percent in June 2005 to 6.5 percent in June 2006. On the other hand, the standart capital ratio decreased from 25.6 percent in June 2005 to 18.6 percent in June 2006.

### Profitability Ratios (Annual, percentage)



As of June 2006, net current year profit amounted to TRY 4,989 million (USD 3,178 million). In the first half of 2006, the profitability ratios of return on assets and return on equity realized as 1.1 percent and 9.8 percent, respectively. In spite of the decrease in equities, return on equity did not change considerably.

According to the outstanding maturities, 30 percent of the total assets of the banking sector had a maturity of less than 3-month, while 49 percent of them had a maturity of less than 1 year. 51 percent of the total assets had a maturity of 1 year or more. On the liability side, 72 percent of total liabilities of the banking sector had a maturity of less than 3-month, while 81 percent of them had a maturity of less than 1 year. 19 percent of the total liabilities had a maturity of 1 year or more.

## Net Current Year Profit and Losses

	Net profit -losses (TRY million)		Return on assets*	Return on equity*
	June 2005	June 2006	June 2006	June 2006
Deposit banks	3,905	4,575	1.0	10.3
State-owned banks	1,368	1,427	1.1	12.6
Privately-owned banks	2,148	2,770	1.0	9.6
Banks in the Fund	154	191	17.9	26.5
Foreign banks	235	186	0.7	5.5
Dev. and invest. banks	307	415	2.8	6.3
Sector	4,212	4,989	1.1	9.8

\* Percentage, annual

## 2.7. Income-Expenditure Structure

As of June 2006, interest income and interest expenses reached TRY 24,262 million and TRY 14,606 million, respectively. Net interest income amounted to TRY 9,656 million. Interest income on loans increased due to the growth in loans. Net fees and commissions income increased by 31 percent and amounted to TRY 3,114 million.

Due to fluctuation in the financial markets in May and June 2006, net foreign exchange loss realized TRY 3,522 million (USD 2,244 million) However, the income from hedge transactions limited the Fx loss considerably.

### Income-Expenditure Structure, June 2006

	TRY million	USD million	Annual per. change	
			TRY	USD
Interest income	24,262	15,456	18	0
Interest expense	14,606	9,305	30	10
<b>Net interest income</b>	9,656	6,151	4	-11
Net fees and commission income	3,114	1,984	31	11
Dividend income	18	12	-54	-61
<b>Net trading Income</b>	-1,677	-1,069	-235	-214
Profit/loss on trad. account sec.	1,845	1,175	182	139
Foreign exchange income/losses	-3,522	-2,244	-696	-606
Other operating income	4,271	2,721	224	175
<b>Total operating income</b>	15,382	9,800	8	-8
<b>Net operating income</b>	6,220	3,962	9	-8
Income before taxes	6,556	4,177	9	-7
Provisions for taxes on income(-)	-545	-347	-72	-76
<b>Net profit/loss</b>	4,989	3,178	18	1

As a result of the fluctuations in May and June net Fx losses was realised as TRY 3,522 million (USD 2,224 million). But the loss was limited by the profit earned from the hedge transactions.

Net operating income of the banking sector increased by 9 percent. Net profit increased by 18 percent to TRY 4,989 million (USD 3,178 billion) compared to June 2005.

## 2.8. Off-Balance Sheet Items

Off-balance sheet items, custody and pledged securities increased by 4 percent and 24 percent to TRY 249 billion and TRY 4,231 billion, respectively. Thus, total off-balance sheet liabilities increased by 23 percent to TRY 4,480 billion.

### Off Balance Sheet Liabilities, June 2006

	TRY million	USD million	Annual per. change	
			TRY	USD
Off-balance items	248,788	158,494	4	-12
Guarantees and warranties	78,309	49,888	37	16
Commitments	73,623	46,902	-41	-50
Derivative financial instruments	96,857	61,704	67	42
Custody and pledged securities	4,231,423	2,695,689	24	6
Total	4,480,211	2,854,183	23	5

The increase in in swap trades to foreign currency, interest rates, the guarantees and warranties items effected off-balance items positively, while the decrease in commitments item effected it negatively.

## 2.9. Number of Banks and Branches

As of June 2006 the number of banks operating in Turkey was 47. In the first half of 2006 the number of branches increased by 226 to 6,473. The number of branches increased by 3 in development and investment banks and increased by 223 in the deposit banks.

The number of employees increased by 6,408 to 138,666 compared to the end of 2005. The number of employees increased in all sub-groups of banks, while it decreased in the bank in the Fund.

### Number of Banks and Branches \*

	December 2005		June 2006	
	banks	branches	banks	branches
Deposit banks	34	6,228	34	6,451
State-owned banks	3	2,035	3	2,047
Privately owned banks	17	3,799	17	3,954
Banks in the Fund	1	1	1	1
Foreign banks	13	393	13	449
Dev. and invest. banks	13	19	13	22
Total	47	6,247	47	6,473

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

### 3. The Number of ATM's and Credit Cards

As of June 2006, according to the figures of Bankalararası Kart Merkezi (Interbank Card Center), the number of total credit cards increased by 4.4 percent to 31.3 million, compared to December 2005. In the concerning period, the number of debit cards increased by 6.6 percent to 51.4 million.

#### Number of ATM, POS and Cards

	June 2006	December 2005	Change Number	Percentage
Total credit card	31,289,405	26,681,128	1,311,162	4.4
Total debit card	51,420,366	43,084,994	3,176,997	6.6
POS	1,239,518	912,118	98,561	8.6
ATM	15,531	13,544	708	4.8

In the first half of 2006, the number of POS's and ATM's increased by 8.6 and 4.8 percent to 1,239,518 and 15,531, respectively.