Turkey Banking System[1]
"September 2006"

Developments in the Banking Sector

1. Executive summary

The balance sheet growth slowed down in the third quarter, compared with the first half of the year.

As a consequence the change in the portfolio preferences of the residents, Fx deposit increased in USD terms.

Banks reduced foreign borrowing.

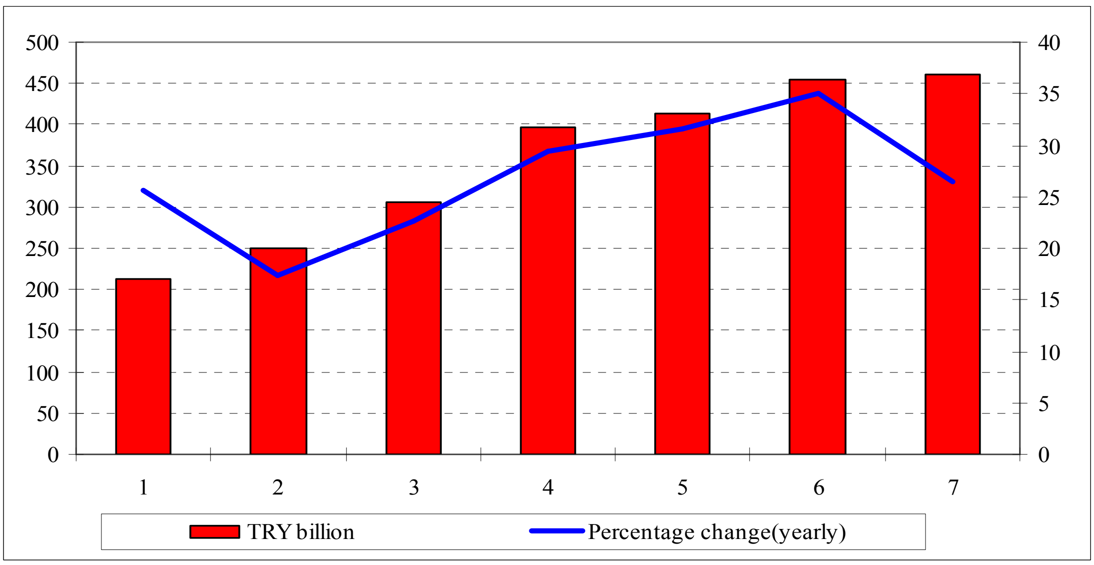
Liquid assets held in the correspondent accounts increased.

The rate of increase in total loans slowed down.

Shareholder's equity increased in the third quarter.

Profitability ratios has improved.

Total Assets



Foreign exchange net general position became positive.

The interest of foreign investors to the banking sector continued also in 2006, the share of foreign banks in the sector continued to increase.

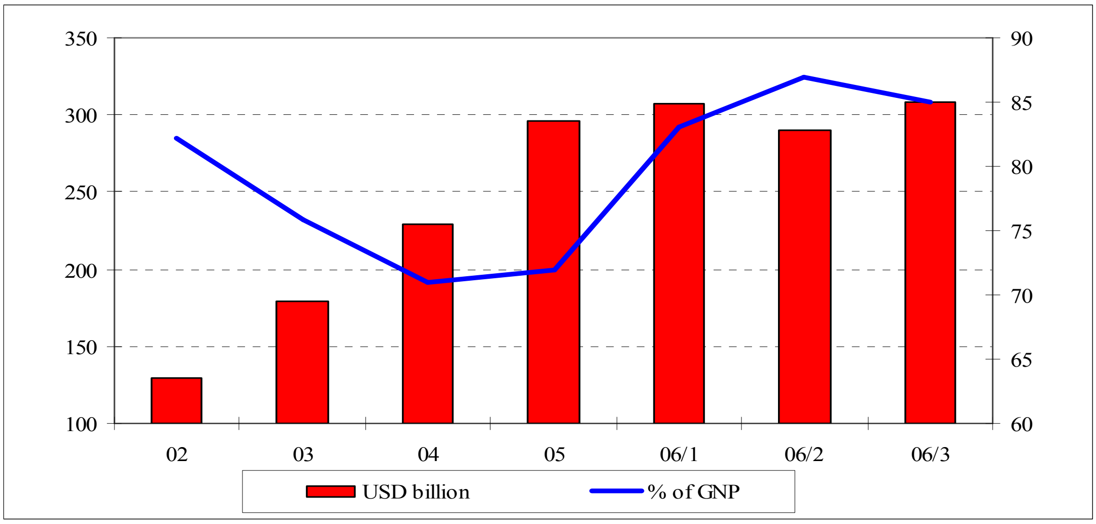
[1] Deposit banks and development and investment banks are included.

The growth in the number of branches and employees continued.

As of September 2006, total assets of the banking sector increased by 27 percent and reached TRY 461 billion (USD 308 billion) compared with the same period in 2005. The ratio of total assets to GNP was 84 percent as of September 2006. The growth rate of assets slowed down in the second half of the year.

Total assets increased by 27 percent and 19 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, while their share in total loans remained unchanged. The share of private deposit banks decreased, while the share of foreign owned banks increased.

Total assets (% of GNP and in USD terms)



Compared with the same period in 2005, according to asset size, the share of largest five and ten banks in total assets and deposits decreased, while their shares in total loans increased.

The share of TRY assets in total assets remained unchanged at 66 percent, and the share of TRY liabilities in total liabilities decreased by 1 percentage point to 62 percent. Compared with December 2005, the share of TRY assets and liabilities in balance sheet declined each 2 percentage points.

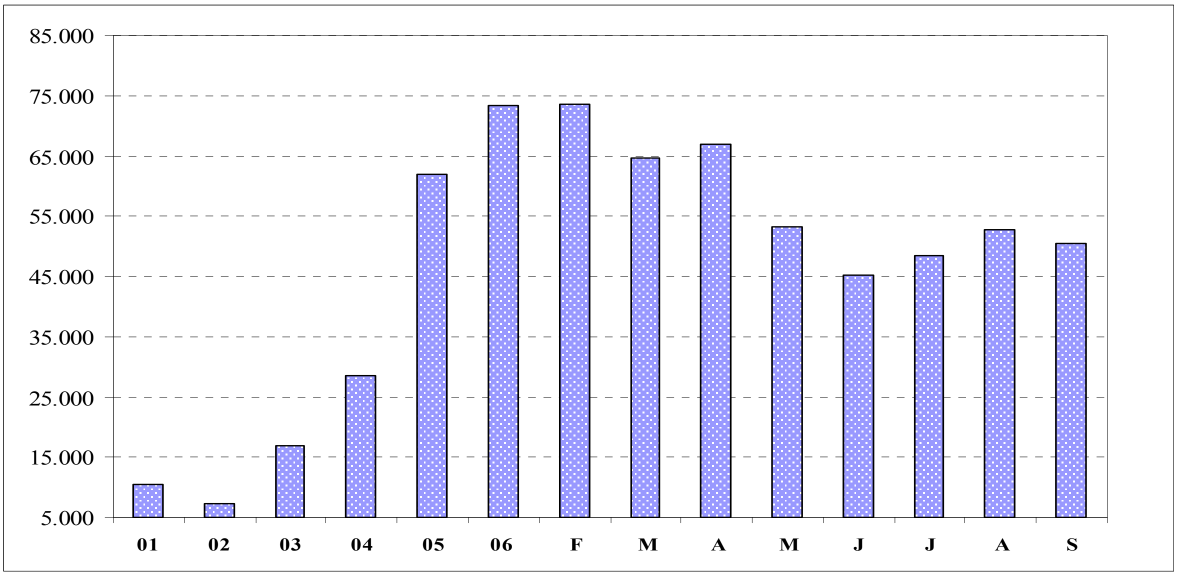
The remarkable development in asset side was the decline in the share of securities due to decrease in investment securities held to maturity items. On the other hand, the share of permanent assets and other assets in total assets decreased. The share of liquid assets remained unchanged by 14 percent.

The share of loans in total assets continued to increase, rising by 7 percentage points to 44 percent as compared to September 2005. The ratio of loans to deposits increased by 10 percentage points to 69 percent in the banking sector. As of September 2006, this ratio was 39 percent in the state-owned banks, 78 percent in the private banks and 109 percent in foreign banks.

Accounts of balance sheet less than one-year maturity have shares of 50 percent in total assets and 81 percent in total liabilities, respectively.

Total shareholders' equity increased by 19 percent and amounted to TRY 56.2 billion (USD 37.6 billion) compared to September 2005. The ratio of free shareholders' equity to total assets increased. Return on equity realized as 17.9 percent in the yearly base.

Market Capitalization of Financial Institutions Traded in the Istanbul Stock Exchange (Million USD)



As of September 2006, the market value of banks traded in the Stock Exchange decreased to USD 50.4 billion, from USD 62 billion by the end of 2005.

Net profit increased by 108 percent to TRY 8,448 million. Net fees and commission income increased. Net foreign exchange loss, increased income earned from the hedge operations, provisions and income from the sales of assets effected to the profitability.

The increase in swap trades to foreign currency and interest rates items effected off-balance items positively.

As of September 2006, the number of banks operating in Turkey was 47. The number of banks remained unchanged and number of branches increased by 328 to 6,575 compared to December 2005.

2. Fluctuations In the Financial Markets (May-June 2006)

The balance sheet of the banking sector was affected from the May-June fluctuations in the financial markets. These changes started in the second half of 2006 and became more obvious in the third quarter.

Balance sheet growth slowed down: Total assets increased only by 1 percent in the third quarter compared to June 2005 and reached billion 461 YTL. This was mainly due to net repayment of foreign loans and the increase in Fx deposits on the liabilities side, and the slow down in loans on the assets side.

Liquidity preference has strengtened: The liquidity preference of banks increased in the third quarter.

Reverse currency substitution has stopped: The rate of growth in TRY deposits slowed down, TRY equivalent of Fx deposits increased by 4 percent and the USD equivalent by 8 percent. Banks decrease their risks with the foreign banks and increase their assets.

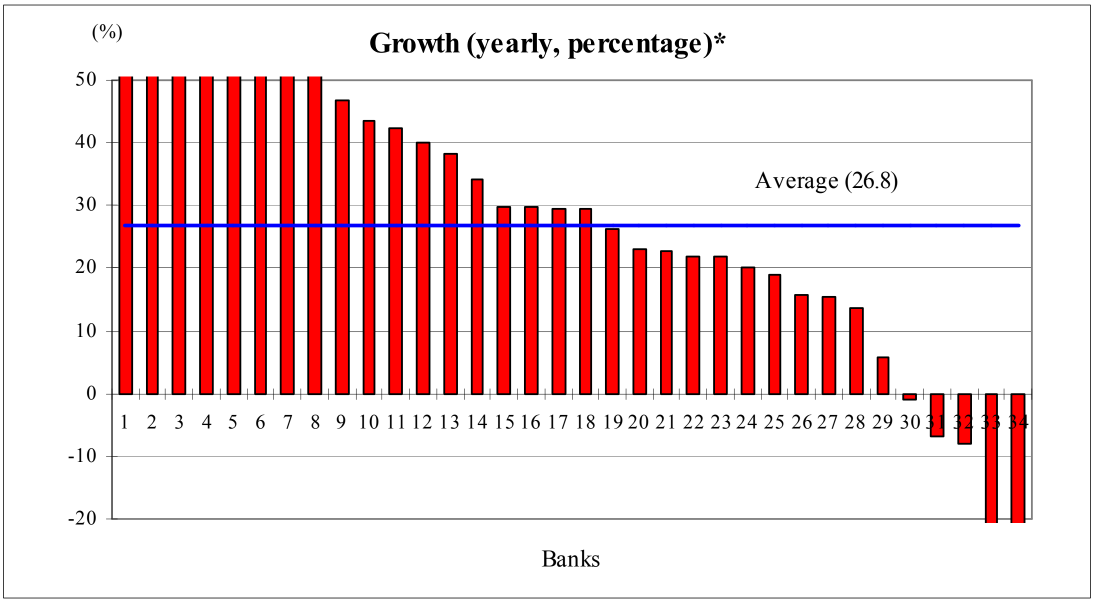
Household behaviour changes: While the preference of the households change in favour of Fx dposits, the funds raised from repo transactions increased. These funds increased by 72 percent totally in the second and third quarters and reached TRY 21.3 billion.

3. Selected Indicators

3.1. Growth

The balance sheet of deposit banks grew by 26.8 percent on the average, compared to September 2005. The tendency of growth in the balance sheet which came out as a result of the high rate of growth in deposits and foreign funds in the first half of the year, slowed down in the third quarter following the slow down in the demand for TRY deposits and loans accompanied by an increase in the liquidity preference after the May-June fluctuations.

18 of the 34 deposit banks operating in the sector grew at a rate higher than the sector average by September 2006. While the balance sheet of 8 deposit banks grew by higher than 50 percent, the balance sheet of 5 deposit banks shrank.



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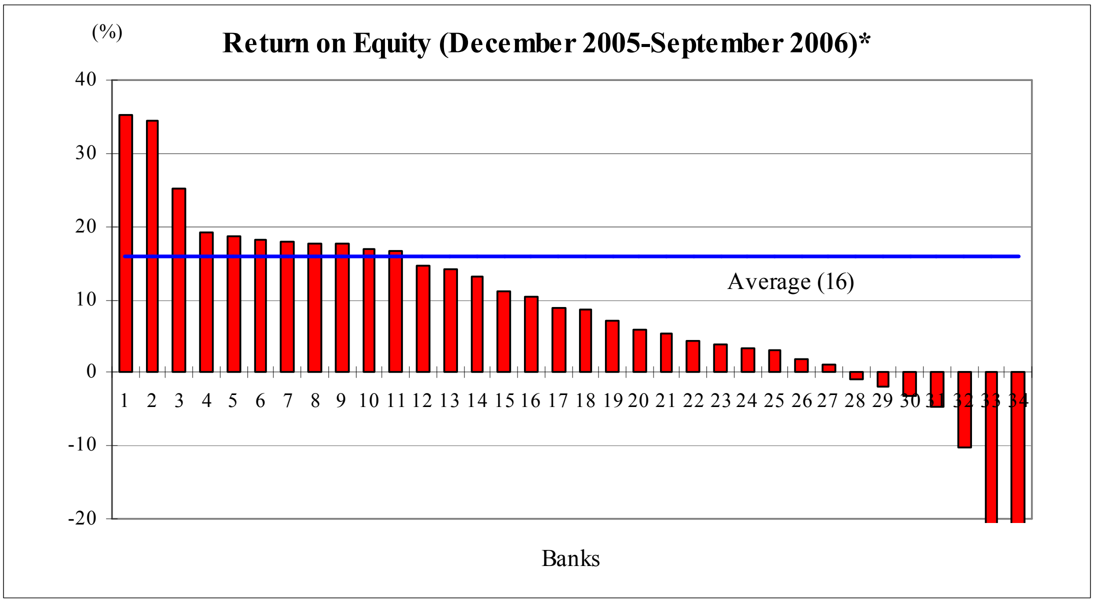
3.2. Profitability

Although there was a decrease in the net interest magrin, the volume of profits increased as a consequence of the increase in the net fees and commissions income, asset sales and the other operations income.

Return on equity of the deposit banks in the first 9 months was 16 percent. 11 banks had their ratios above this average.



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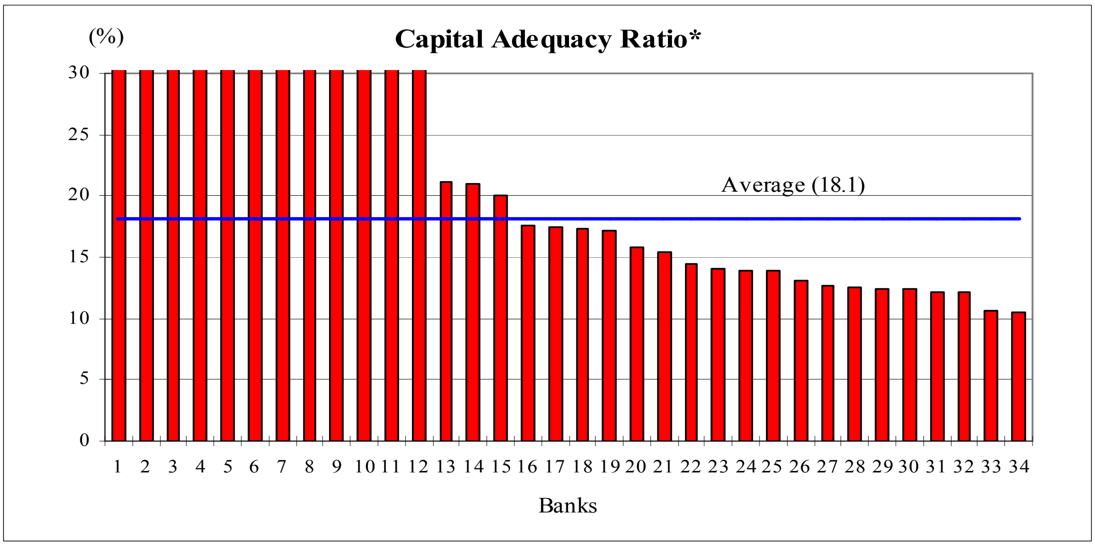
3.3. Capital Adequacy

Capital adequacy which declined in June 2006, improved quickly in the third quarter. The increased profitability in the third quarter affected the capital adequacy, positively.



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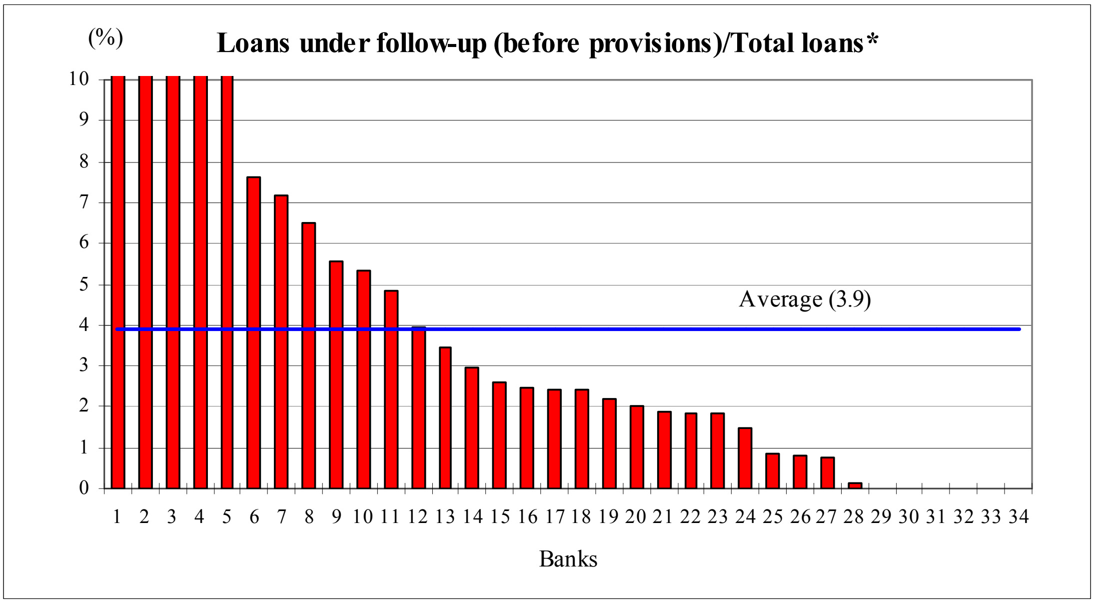
The capital adequacy ratio of deposit banks was realized as 18.1 percent on the average by September 2006. The ratio of 15 banks was above this average.

3.4. Loans under follow-up

In spite of the fast growth in the loan demand, the increase in loans under follow-up (before provisions) was 6 percent. Provisions were set aside for 91 percent of the loans under follow-up.



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The ratio of loans under follw-up before provisions to total loans was 3.9 percent by September 2006. While the ratio was higher than the average in 12 banks, it was equal to zero for six banks.