Turkish Economy and Banking System in 2007

I. Turkish Economy and Banking System in 2007

1. General Outlook

1.1. Economic performance in 2007

Unfavorable domestic political developments and volatility in global financial markets limited the economic performance in Turkey.

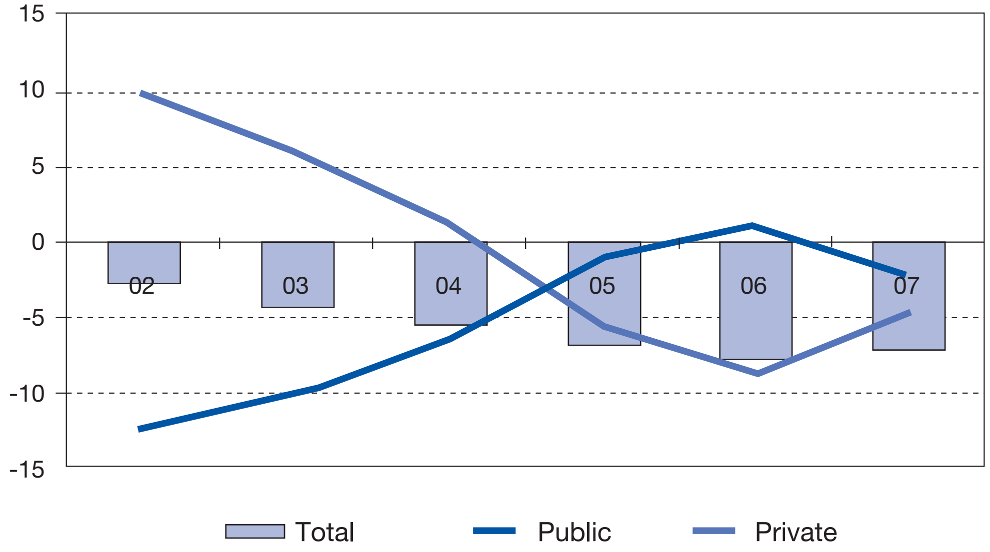
Turkey had an extremely eventful year in 2007 in terms of political and economic activities both domestically and internationally. The cause of high domestic political activity was almost simultaneity of the general elections, Presidential elections, and election of the Speaker of the Grand National Assembly of Turkey. A new cabinet was formed which was followed by a referendum on constitutional changes.

Primary cause of volatility in international markets was negative impacts on global economy and financial sector raising from the problems emerging in housing finance industry in the United States of America.

Terrorist acts in this period targeting the integrity of our country deeply afflicted every people in Turkey. Decrease in agricultural production due to a dry season, and rising prices of oil, energy and essential fundamental materials on a global dimension also had negative impacts on economic performance. Membership negotiations with the European Union stalled without any significant achievement.

All these developments worsened expectations, raised risk perception, created an environment of increased uncertainty and restricted the economic performance.

Savings Balance (As percentage of GNP)



Growth rate slowed down to 4.5 percent due to the deceleration in domestic demand. Both consumption demand and investment demand in private sector decreased considerably. The ratio of savings deficit to Gross National Product (GNP) dropped, albeit slowly. Savings deficit in private sector narrowed while public sector savings which registered a surplus in the previous period turned to deficit. Therefore, savings ratio increased though slightly.

Growth rate in industrial and services sectors slowed down. Agriculture sector, on the other hand, suffered a serious contraction. Capacity utilization rate in industrial sector was nearly unchanged. Real wages increased in public sector and decreased in private sector.

The number of employed people increased. Unemployment rate, however, kept its level at slightly above 10 percent due to the rapid pace of labor supply.

Inflation rate in the second year of explicit inflation targeting implementation was realized as 8.4 percent, well above the target of 4 percent.

Public sector balance gave surplus in the last three years. However, strong performance in the budget balance of 2006 could not be achived again in 2007. Depending on the growth of budget deficit, the ratio of public sector surplus to Gross Domestic Product (GDP) decreased from 2.6 percent to 0.1 percent in the previous period. The ratio of public sector outstanding debt to GDP continued to decline.

Outstanding debt to GDP ratio was 41 percent in 2007. The ratio of outstanding domestic debt to GDP fell by 3 percentage points to 30 percent; outstanding external debt to GDP ratio also fell by 3 percentage points to 11 percent. The share of floating rate securities in total outstanding debt increased, while that of foreign exchange denominated securities declined.

The ratio of public sector's demand for funds to the financial sector assets decreased slowly. Significant developments in terms of demand for financial assets were the increase in demand for foreign exchange denominated deposits in the first half of the year, and decline in the demand of foreign investors for government domestic debt instruments in the second half. These developments limited the growth of financial sector although demand from investors resident in Turkey for TRY instruments picked up again in the second half of the year.

The ratio of outstanding domestic debt to the total of deposits, investment funds, repos and government domestic debt instruments held by the portfolios of non-bank sectors dropped by 7 percentage points to 55 percent.

After fluctuating within a limited range throughout the year, interest rate of government domestic debt instruments was at 16 percent at the end of the year, 5 percentage points lower compared with the end of 2006. Short term interest rates dropped in the last quarter. Central Bank of the Republic of Turkey reduced the short term interest rates by 1.75 percentage points to 15.75 percent in the last quarter of the year referring the improvement at expectations, although the inflation kept at levels higher than the target.

The Central Bank expanded monetary aggregates through foreign exchange purchases but limited the expansion through TRY operations. The Central Bank indebted to markets throughout the year. In order to extend the maturity of its borrowing via open market operations liquidity notes were issued with three-month maturity. The Central Bank created a demand of about USD 9.5 billion via its foreign exchange buying auctions, with its foreign exchange reserves completing the year at a level of USD 71 billion. Net foreign exchange position of the Central Bank reached USD 32.8 billion by an increase of USD 12 billion at the end of the year.

Depending on the surplus in foreign exchange supply in the market, TRY appreciated against major currencies in real terms. Hence, increase in the value of the foreign exchange assets was limited in TRY terms, and demand for TRY assets continued.

The ratio of financial assets consisting of cash, deposits and capital markets instruments to GDP rose by 8 percentage points to 114 percent. Market value of the companies quoted to Istanbul Stock Exchange (ISE) for the first time after a long period exceeded the value of outstanding bonds and bills issued by the Treasury. On the other hand, there was no encouragement for private sector in bonds and bills market due to the strong competition of public sector and the tax burdens on such issues.

The ratio of money demand consisting of TRY deposits, repos and investment funds to GDP rose by 2 percentage points to 30 percent, while money demand including foreign exchange deposits to GDP ratio rose by 1 percentage point to 43 percent. Total deposits to GDP ratio was 37 percent. Foreign currency substitution when measured on deposit basis was at 35 percent. The average maturity of the total deposits remained under 3 months.

Deposits to loan ratio reached 79 percent by an increase of 9 percentage points. Increase in loan stock gained momentum in the second half of the year after falling to its lowest level of the last 5 years as of the end of the first half. The ratio of loan stock to GDP rose by 4 percentage points to 32 percent. A 75 percent of total loans were extended in TRY. Of the loans extended in foreign currencies, 49 percent was extended by bank branches abroad.

Despite the slowdown in economic activity, market capitalization of the companies quoted to Istanbul Stock Exchange (ISE) increased by 77 percent to USD 288 billion in dollar terms. The ratio of the market capitalization to GDP rose by 13 percentage points to 44 percent. Market value of 13 banks which were quoted to ISE constituted 44 percent of the total market value of ISE.

Foreign trade volume grew by 25 percent to USD 277 billion compared to December 2006, the ratio of the foreign trade volume to GDP was realized as 42 percent. Growth in savings deficit, hence expansion in current accounts deficit, ended due to the slowdown in investment propensity, however, the ratio of current accounts deficit to GDP was realized as 5.8 percent. On the other hand, Turkey also continued to attract capital inflows above its current account deficit in 2007. Net capital inflows became USD 50 billion. External borrowing by non-financial sector constituted the largest share in capital inflows. While direct capital inflows were USD 20 billion, portfolio investments by non- residents decreased considerably.

Outstanding external debt reached USD 247 billion by an increase of 20 percent due to private sector borrowing. The share of short-term loans in total loans was 17 percent. Of the total outstanding debt 46 percent were owed to non-financial sector, 30 percent to public sector, and 18 percent to financial organizations. Outstanding debt to GDP ratio decreased by 1 percentage point to 38 percent.

1.2. Medium term program and forecasts for 2008-2010

According to medium term program of the Government covering the period between 2008 and 2010 and the forecasts for basic economic aggregates, GDP is projected to grow by 5.7 percent.

Program foresees that public sector balance will give surplus for the two years succeeding 2008 and the ratio of net outstanding debt of the public sector to GDP will decrease to 31 percent.

Forecasts of Medium Term Program: Main Economic Aggregates

	2006	2007*	2008**	2009**	2010**
GDP (in real terms, %)	6.9	4.5	5.5	5.7	5.7
PSBR/GNP (%)	-2.6	-0.1	-0.5	1.9	2.3
Public debt stock (net)/GDP (%)	34	29	39	35	31
CPI (annual change,%)	10	8	4	-	-

* Provisional, ** Program target
Source: State Planning Organization

Total consumption is projected to decrease by 6 percent on average annually, while fixed capital investments to increase by 6.3 percent.

1.3. Banking sector in 2007

Banking sector followed a cautious policy in 2007. Banks paid attention to hold the liquid position especially in the first half of the year. External borrowing was limited due to demand for foreign exchange deposits. Growth in loans slowed down in the first half due to the preference of banks to increase their liquidity levels and the deceleration of the economic growth, before gaining pace again in the second half. Real growth of the balance sheet also slowed compared with the previous years. This stemmed also from appreciation of TRY, a fact better appreciated with consideration of the large share of foreign exchange denominated items in balance sheet.

Most significant changes in regulation having impacts on the banking sector in 2007 were the inclusion of operational risk to the calculation of capital adequacy starting from June 2007, and the Law on Amending the Laws Related to Housing Finance System which took effect in March 2007. Most of the secondary regulations in regards with the Law were also completed in 2007.

Total assets grew by 16 percent to TRY 561 billion (USD 484 billion) on current prices. Ratio of total assets to GDP was 66 percent. The share of foreign exchange denominated assets and liabilities in the overall balance sheet dropped by 5 percentage points each and decreased to 29 percent and 33 percent, respectively.

The main change in the balance sheet was predominantly experienced in asset side. The share of loans in total assets and the share of consumer loans in total loans continued to increase. Share of loans in total assets increased by 5 percentage points compared to the end of 2006 and reached 50 percent. The share of consumer loans in total loans rose by 1 percentage point to 32 percent, while that of securities portfolio in total assets dropped by 4 percentage points to 31 percent. The share of the fixed assets within total assets remained the same at 4 percent level. The share of non-performing loans in total loans was 3.5 percent, and 88 percent of the loans were provisioned.

Selected Banking Indicators in EU and Turkey *

	EU 25 (2006)	Turkey (2006)
Asset per person (Euro)	78,879	4,367
Total assets/GDP (percent)	321	64
Population/number of employees	152	510
Population/number of branches	2,183	10,615
Population/number of banks	54,989	1,586,391

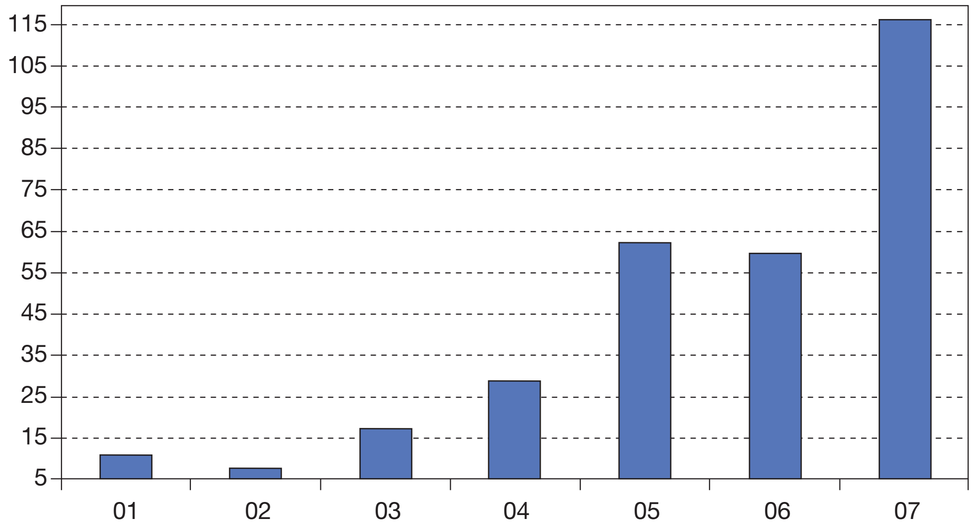
* Deposit banks, development and investment banks, and participation banks are included.

Despite the stable growth and robust increase in loan supply in the last period, the Turkish banking sector is still far smaller than its counterparts in European Union countries.

Growth in shareholders' equity and free capital continued. Shareholders' equity was at TRY 73 billion (USD 63 billion), and free shareholders' equity was TRY 51 billion (USD 44 billion). The ratio of shareholders' equity to total assets was about 13 percent, and standard ratio was 19 percent. Operational risk practice during the calculation of capital adequacy was commenced in the banking sector in 2007. This new practice led to 2 percent fall in capital adequacy ratio. Return on equity rose by 0.6 percentage point to 19.5 percent.

Market value of financial institutions reached USD 117 billion as of the end of 2007. 22 percent of the shares of T. Halk Bankası A.Ş were offered to public in May 2007, raising the number of publicly-held deposit banks to 13. As of the end of 2007, the share of non-residents in total assets of the financial sector was at 13 percent excluding the shares traded in ISE.

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



Competition in the banking sector continued to increase. Largest five banks had a share of 62 percent and the largest ten banks had a share of 85 percent in the total assets of the sector. There were 50 banks operating in Turkey in 2007; of these banks 33 were deposit banks, 13 development and investment banks, and 4 participation banks. Change in the capital ownership also continued in 2007. There were 17 deposit banks and 4 development and investment banks, whose shares were owned by nonresidents at a rate of 51 percent at minimum. The number of these banks in total increased to 25 with the inclusion of 4 banks which had made strategic partnership agreements with non-resident financial institutions. Of these banks; 15 were European, 5 were Middle Eastern, 4 were USA and 1 was African origin.

The upward trend in the number of bank branches and employment starting from 2003, also continued in 2007.

1.4. 2008 expectations

Many strong factors which all moved in the same direction in 2007 prevented a better economic performance. Developments in international markets and their reflections on the financial markets, the level of the savings ratio, the savings-investment balance, and the trend of the inflation must be carefully analyzed. Fight with inflation and fiscal discipline are extremely crucial not only from the viewpoint of raising robust funds to finance the growth, but also for increasing the competitive strength of the country and sustaining the economic performance particularly in view of the developments in international markets. Priority should be given on setting and sustaining macroeconomic balance on a robust and permanent manner. In a period of changing risk perception in the world and in Turkey, private sector as well as public sector should show the utmost sensitivity in taking of risks at a sustainable degree and in good management of these risks. Increasing domestic savings in local currency and enlarging the financial sector should be highlighted in order to promote endurance against unexpected shocks.

Reforms should be accelerated during setting 2008 performance for all sectors in order to improve the growth performance again which has already started to pose priority for all sectors. In this regard, timely implementation of the reforms announced to the public and in accordance with the market expectations as well as global economic developments will be highly efficient.

1.5. Istanbul becoming an international financial center

The most striking development in the world economy in the last 50 years is the rapid growth of international trade and economic relations between the countries. Turkey is a reliable and strong partner both regionally and globally in terms of international economic cooperation. Turkey has a constitutional law, a secular system and a strong democracy. It has been pursuing liberal policies in the last 30 years in development of free market mechanism and in creation of competitive institutions. Foreign trade and capital flows were liberalized in Turkey.

Turkey demonstrates far positive characteristics than other countries in similar economic groups with its economic structure, economic policies, markets, production power, features of its productive units, its approach to global applications, its infrastructure, rules and institutions regulating social and economic life, and most other economic features. Turkey has the experience and growth potential in financial sector. It is near the energy sources located on the most economical route of distribution of these sources to Western countries. It has very strong ties with the developing countries of the region. Turkey is a trade partner of European Union at the same time and it is in the process of full membership to EU. Turkey is the most significant country of Balkan Peninsula which has a considerable potential for regional growth. Istanbul is located at the heart of a geography which owns 40 percent of the world population and 50 percent of its revenues, and this entire geography can be reached by 3-4 hours of flight from Istanbul. Istanbul is the only open financial center in the West available for transactions with Far Eastern financial markets at 1600 with their local times owing to its advantageous time zone in between the work hours of Far East and the West.

These favorable features of Turkey have been started to be better appreciated in the recent years. Foreign investors have focused on Turkey as a result of applications towards removing macroeconomic imbalances, brisk and stable pace of growth under the leadership of private sector, reduction of the public sector deficits, falling inflation, increasing foreign trade volume, dynamic and qualified labor force structure, and a self-sufficient domestic market. In this period, there has been a special interest for financial sector and at the same time financial sector gained a more special position.

Istanbul is singled out as a very important economic, social and cultural center not only for our country but also for the region. In order to transform this fact into a formal structure, a project for making Istanbul a regional financial center with international standards was started for the purpose of investigating and assessing the potential for making Istanbul a financial center with international standards, preparation of a road map for implementation, definition of possible contributions from related institutions and identification of economic benefits and costs of the project.

Basic strategy of the project is to make the center to be founded in Istanbul have unique and distinctive features. İstanbul as a financial center will set one of the best examples from the viewpoint of financial sector and other sectors acting as support functions for financial sector. The center will be equipped with legal, financial, regulatory and technologic infrastructure and will be fully integrated into Turkish economy in the medium term.

Since we believe that it is of utmost importance to benefit from the experiences of all relevant organizations, and to ensure their contribution and support for the preparation of this report on a sound basis; we have met with all relevant organizations and requested their support for the project. Agencies and organizations interviewed within the framework of these consultations include top officials and executives of Ministry of Finance, Ministry of Tourism, Treasury Undersecretariat, Central Bank of Republic of Turkey, Banking Regulation and Supervision Agency, Capital Markets Board, State Planning Organization, Union of Chambers and Commodity Exchanges of Turkey, Turkish Industrialists' and Businessmen's Association, Istanbul Metropolitan Municipality, International Finance Corporation (IFC), as well as local and international banks. The question asked during these interviews was "Is it possible to establish a financial center in Turkey which creates value in world standards?"

Report concludes that establishing such a financial center in Istanbul is possible, and it provides in detail what can be the sources for creating such a potential value. Financial centers compete with each other on some fundamental areas. An assessment of these factors indicates that Istanbul has significant advantages against its competitors. Among these advantages, a qualified labor market and developing local/regional economic growth potential that Istanbul has top the list of favorable factors. Additionally, lower costs of doing business in Istanbul and its alluring life style makes Istanbul an attractive alternative.

Report also covers the areas on which development is needed with priority in order to achieve the goal of making Istanbul a financial center. These efforts include improvements in legal and financial setting, increasing the number of qualified labor force who are better equipped and trained, creation of better means of transforming the young and diligent population into middle/back office workers, increasing the ease of doing business, and finally improving the infrastructure in order to ease transportation to the financial center of Istanbul and increase the number of real estates with agreeable prices.

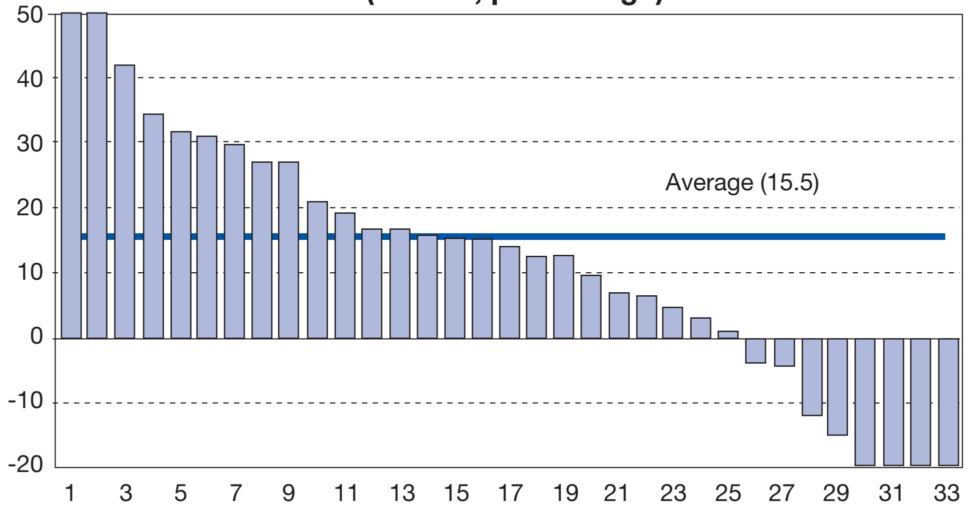
Turkey has rich resources, regional and local potential, and a qualified labor force. However, such a project will require a strong leadership and political determination and in addition to that a significant amount of funds needs to be set aside for this project and wait patiently for the returns of the project. Report states that the program required to be initiated for the establishment of Istanbul Financial Center would require to be spent about Euro 2 billion in about 5 years. Such a project would make Istanbul one of the leading financial centers of the world, and additionally it will create a qualified workforce of 150,000 and will contribute to a growth in GNP by up to 4 percent. Contribution of financial services sector to GNP is projected to rise to 8 percent starting from 2025 with a total value of USD 20 billion.

1.6. Selected indicators of the banking sector [1]

1.6.1. Balance Sheet Growth

Size of balance sheet of deposit banks recorded a growth of 15.5 percent in 2007. Growth in total balance sheet size decelerated because of the slow down in domestic demand in the first half of the year, whereas accelerated due to decrease in interest rates in the second half of the year. Out of 33 deposit banks in the banking sector, 13 deposit banks grew above the sector average. Of which 6 deposit banks grew above 30 percent, while that of 8 deposit banks contracted.

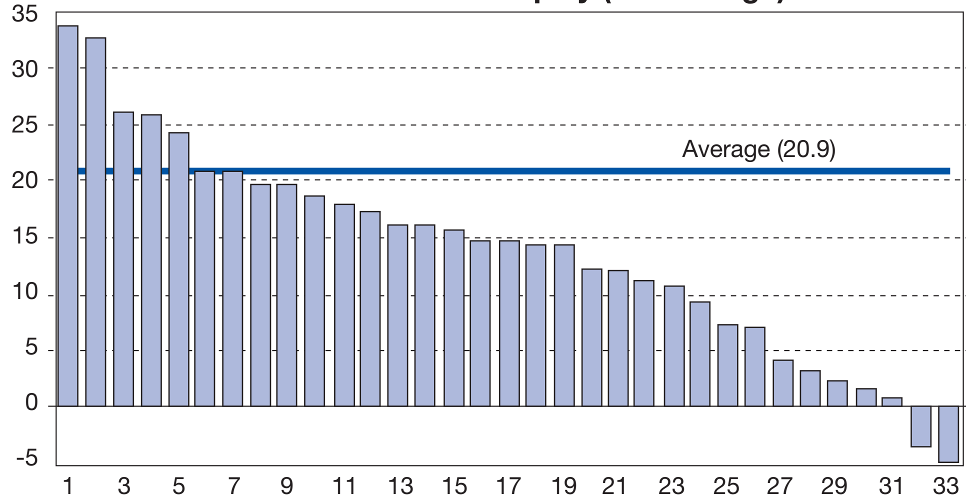
Growth (Annual, percentage)



1.6.2. Profitability

Profit in the banking sector increased as a result of rising net interest margin due to the boost in loan volume, and the increase in asset sales and fees and commissions income.

Return on Shareholders' Equity (Percentage)*

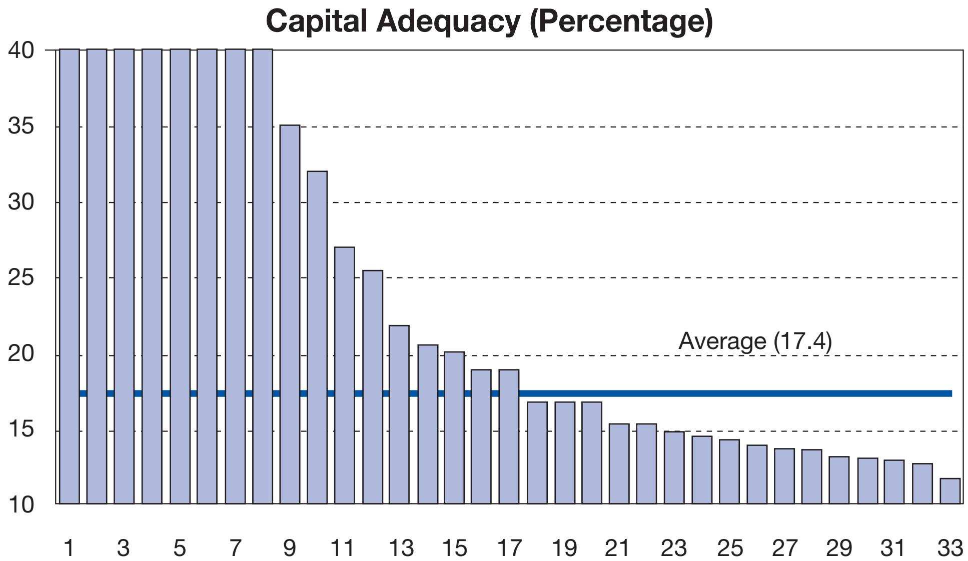


1 Graphic scale used in this section is limited.

As of December 2007 average return on equity for deposit banks was 20.9 percent. While 6 banks' return on equity was above the average, 2 banks recorded losses.

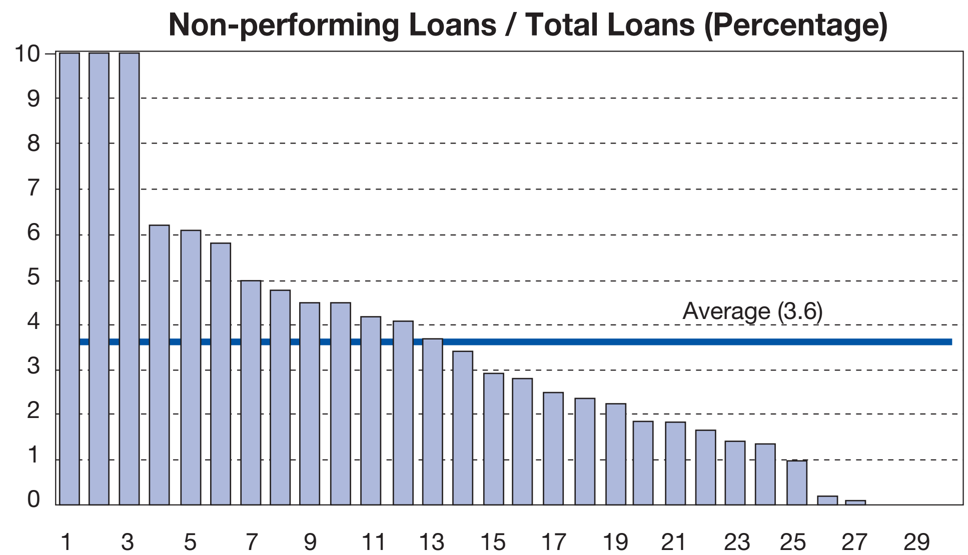
1.6.3. Capital adequacy

Despite the rapid rise in shareholders' equity capital adequacy ratio decreased as a result of the inclusion of operational risk to the calculation of capital adequacy ratio and increase in loan volume. Capital adequacy ratio for deposit banks was 17.4 percent at average. There were 17 deposit banks having higher ratio than the average capital adequacy ratio.



1.6.4. Non-performing loans

In deposit banks group total loans increased by 29 percent while non-performing loans (before provisioning) rose by 21 percent. Hence, the ratio of non-performing loans to total loans dropped. The ratio of non-performing loans before provisioning to total loans was 3.6 percent, which was above the average in 12 banks, and zero in 3 banks.



2. Developments in Turkish Economy in 2007

2.1. Growth

Turkish economy experienced a growth performance in 2007, that continued for the third consecutive quarter since 2002. According to the data of Turkish Statistical Institute (Turkstat), Gross Domestic Product (GDP) grew by 4.5 percent in constant prices. GDP grew by 12.9 percent and reached TRY 856 billion in current prices, and 25 percent in dollar terms and reached USD 659 billion. GDP deflator was 8 percent from 9.4 percent.

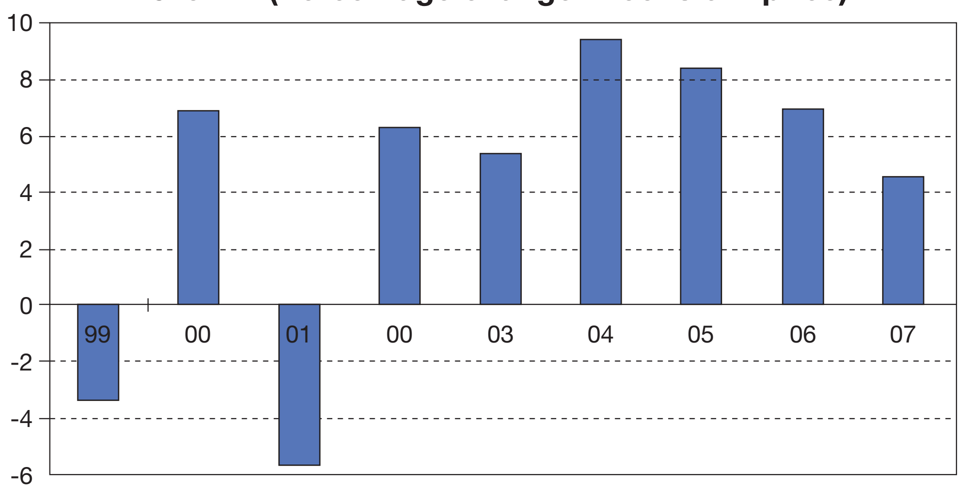
Growth

	2002	2003	2004	2005	2006	2007
Growth rate (percent)						
In current prices	45.9	29.8	22.9	16.1	16.9	12.9
In constant prices	6.2	5.3	9.4	8.4	6.9	4.5
Deflator (percent)	37.4	23.3	12.3	7.1	9.4	8.0
GDP (1987 prices, TRY million)	73	76	84	91	97	101
GDP (current prices, 1998's series)						
TRY billion	351	455	559	649	758	856
USD billion	229	305	391	482	526	659
Per capita income (USD)*	3,296	4,329	5,483	6,659	7,212	9,333

* A new data for 2007's population is used.
Source: Turkstat

Growth rate was slower than 5 percent target in 2007 and also remained under the growth rate of 2006. Main reasons for this slowdown were negative impact on expectations from the halt in the fall of inflation even switching into a rising trend, tightening of the monetary policy starting from the second half of 2006 and its decelerating effect on domestic demand, rapid contraction in agriculture sector due to dry season, slowdown in capital inflows, rise in monetary substitution in the first half of the year due to elections, and negative impact on risk perceptions, of the volatility in international financial markets in the second half.

Growth (Percentage change in constant price)



Considering sectors there was growth in all main sectors excluding the agriculture. While agriculture sector was contracted by 7.3 percent in constant prices, industry sector grew by 5.4 percent and services sector grew by 5.7 percent. Growth was higher than the average particularly in financial brokerage activities and real property rental sectors of the services sector; these two sectors grew by 6.6 percent and 8.9 percent, respectively. In current prices, the share of agriculture sector in GDP decreased by 1.1 percentage points to 8.6 percent, while that of industry sector grew by 0.2 percentage points to 24 percent, and services sector by 0.9 percentage points to 67.4 percent.

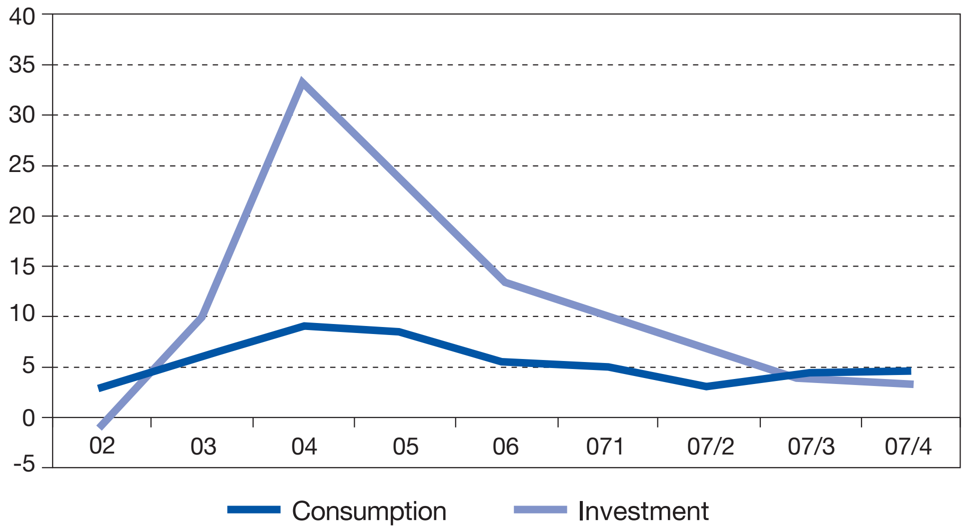
Growth Rates and Breakdown by Sectors

	Percentage change (in constant prices)				Percentage shares in GDP (in current prices)			
	2004	2005	2006	2007	2004	2005	2006	2007
Agriculture	2.7	6.6	1.3	-7.3	10.4	10.2	9.7	8.6
Industry	11.9	8.2	8.4	5.4	23.5	23.5	23.8	24.0
Services	9.6	8.7	7.2	5.7	66.1	66.3	66.5	67.4

Source: Turkstat

Growth rate was realized as 5.4 percent in manufacturing sector, which is the most prominent sub-sector of industry sector. As of sub-sectors of the manufacturing industry; growth was higher than in its sub-sectors of mainly forestry products and main metal industry, and also in chemical products, metallic goods and transportation vehicles compared with the average rate in manufacturing sector. Production in energy sector rose by 8.7 percent. Average capacity utilization rate dropped by 0.5 percentage point to 81.2 percent in manufacturing industry as a whole on annual basis. This ratio was 90.6 percent in public sector, and 79.7 percent in private sector.

Consumption and Investment (Annual change in constant price)



Consumption demand and investment demand grew by 4.4 percent and 3.3 percent respectively in constant prices. Led by the contribution of external trade deficit, total demand grew by 5.7 percent, a rate which was higher than the consumption and investment demand.

Consumption expenditures had a share of 73.9 percent, and investment expenditures had a share of 18.1 percent in GDP in current prices. The share of public sector's consumption expenditures was 12.2 percent and that of investment expenditures was 3.4 percent. Annual growth rate of private sector's investment expenditures decreased to 6.4 percent as of the end of June 2007 from 15 percent at the end of

2006. Slowdown in private sector's investment expenditures persisted in the second half of the year and was realized as 2.7 percent at the end of 2007.

Net contribution of the foreign trade account on growth was negative in 2007 as imports grew faster than the exports.

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

	2002	2003	2004	2005	2006	2007
Domestic savings	19	19.3	20.3	18.2	16.6	17.3
Public	-6.2	-5.3	-1.3	4	6.2	3.1
Private	25.3	24.6	21.6	14.2	9.8	14.2
Savings balance	-2.6	-4.2	-5.4	-6.7	-8.2	-7.1
Public	-12.5	-10.1	-6.7	-1.2	1.1	-2.2
Private	9.9	5.9	1.3	-5.5	-8.8	-4.9
External funds	2.6	4.2	5.4	6.7	7.8	7.1

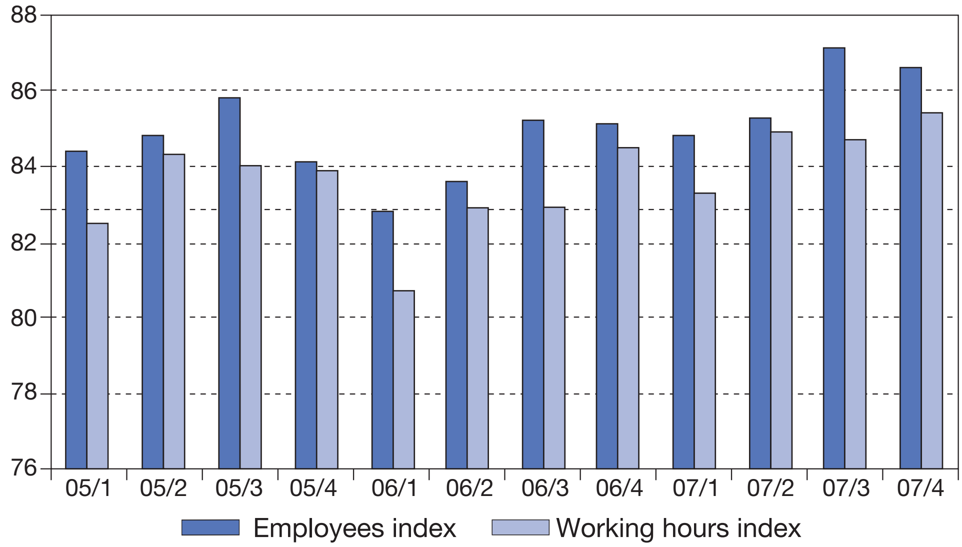
Source: State Planning Organization

According to the forecasts of State Planning Organization, domestic savings account to GNP ratio rose by 0.7 percentage point to 17.3 percent. Savings ratio increased in private sector, and decreased in public sector. Depending on the decline in constant capital investments and the increase in private sector savings, private sector's savings-investment deficit narrowed. Foreign funding requirements were limited due to the net savings deficit of public sector. Total savings-investment deficit which was at 7.8 percent of GNP as of the end of 2006, decreased to 7.1 percent in 2007. The ratio of savings surplus to GNP which was 1.1 percent in the previous year produced a deficit of 2.2 percent; on the other hand, the ratio of savings deficit to GNP dropped to 4.9 percent from 8.8 percent in private sector in the same period.

2.2. Employment, Productivity and Wages

Real wages increased in 2007. In manufacturing industry, employment in production index decreased while working hour per employee index increased. Unemployment rate rose slightly.

Indices in Manufacturing Industry (1997=100)



Real Labor Cost Index (1994=100)

	2003	2004	2005	2006	2007
Public	102	105	107	104	112
Private	106	111	115	117	113
Civil servant	123	128	135	140	148
Minimum wage	154	171	182	181	184

Source: State Planning Organization, Turkstat

According to the estimates of State Planning Organization, minimum wage and real labor costs of public sector workers and civil servants increased in 2007.

Working hour per employee index[2], which was at 99.3 at the end of 2006 decreased in the first and third quarters of 2007, and stood at 98.6 percent as of the last quarter of the year.

Employees and Productivity Index (1997=100)

	2006/IV	2007/I	2007/II	2007/III	2007/IV
Employee	85.1	84.8	85.3	87.1	86.6
Working hour	84.5	83.3	84.9	84.7	85.4
Working hour per employee	99.3	98.2	99.5	97.2	98.6

Source: Turkstat

Despite the decline in the participation to workforce and in additional employment, unemployment rate rose. According to the data of Turkstat, total labor supply was 22.9 million, and total employment was 20.4 million as of the end of December 2007. The number of unemployed people decreased by about 10 thousand people compared to the previous year and became 2.4 million.

Unemployment (Percentage)

	2002	2003	2004	2005	2006	2007
Unemployment rate						
Overall	10.3	10.5	10.3	10.3	10.5	10.6
Urban	14.2	13.8	13.6	12.7	12.5	12.2
Educated youth	…	…	19.7	19.3	20.3	20.6
Underemployment rate						
Overall	5.4	4.8	4.1	3.3	3.0	2.8
Urban	3.4	5.2	3.8	2.9	2.7	2.3
Educated youth	…	…	5.1	4.3	3.3	2.7

Source: Turkstat

Number of total employable persons in Turkey increased by 763,000 in 2007. However, total workforce dropped by 324,000 due to the fall in the participation to workforce. Total employment rose by 315,000 in the same period.

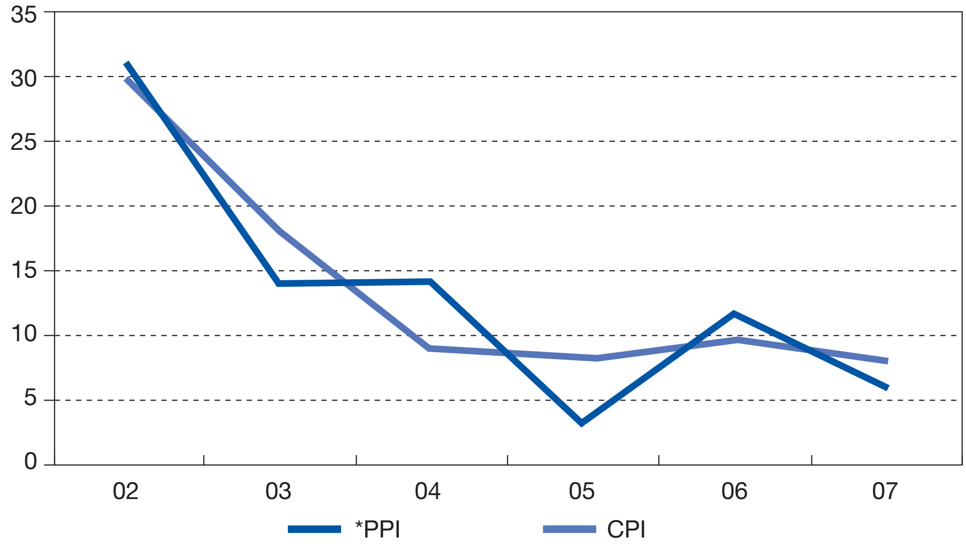
Accordingly, unemployment rate rose by 0.1 percentage point to 10.6 percent in the same period. Urban unemployment rate dropped by 0.3 percentage points to 12.2 percent. Unemployment rate rose to 13.4 percent when underemployment was also included. 42 percent of total employment was employed by services sector, 42 percent by agriculture sector, and 16 percent by industry sector.

[2]This is calculated by comparison of employee index and working hours index.

2.3. Inflation

The rate of inflation exceeded once again the target level in the second year of explicit inflation targeting. Year-end inflation target for 2007 was announced as 4 percent in consumer prices with the upper limit of uncertainty 6 percent. However, inflation rate at the end of 2007 became 8.4 percent. Annual increase rate in Consumer Prices Index (CPI) rose above 10 percent in the first quarter of 2007, and then fell back to 7 percent level in the second and third quarters. Inflation rate in Producers Prices Index (PPI). Annual average price increases were 8.8 percent and 6.3 percent in CPI and PPI, respectively.

Inflation (12-month, percentage change)



* Values until 2004 belong to previously calculated Wholesale Price Index.

Although annual inflation rate began to rise in the last quarter of the year, the Central Bank continued its rate cuts by considering the developments in core inflation. Besides, limited rise in monetary aggregates, deceleration in the rise of loan stock, and expectations of contraction in total demand in the world and Turkey were cited as supporting factors for the interest rate cuts of the Central Bank.

Inflation (Percentage)

	2002	2003	2004	2005	2006	2007
Annual average						
Producer*	50	26	11	6	9	6
Consumer	45	25	11	8	10	9
12-month						
Producer*	31	14	14	3	12	6
Consumer	30	18	9	8	10	8

Source: Turkstat,
* Values until 2004 belong to previously calculated Wholesale Price Index.

Monetary tightening measures were taken in the first half of 2006 due to the deteriorations in expectations. Also as a result of these measures, domestic demand decelerated and the rise in inflation continued. But, deviation of the inflation rate from the targeted levels was mainly due to rapid rise in agricultural products and processed food products due to the effects of the dry season in agriculture industry, and also swift rise in the price of water, services, oil and energy. General election decision, acceleration in public sector spending due to the election decision, uncertainties on economic activity caused by the domestic political developments, as well as deterioration of expectations due to negative fallouts from unfavorable developments in the economies of developed countries on the markets were all factors causing the negative developments in inflation.

2.4. Public sector balance

Public sector balance continued to produce surplus for the third consecutive year. According to the forecasts of State Planning Organization, public sector's total revenues rose by 6 percent and total expenditures by 11 percent in 2007. Rise in public sector's revenues remained behind the GDP deflator of 8 percent. Therefore, ratio of the surplus in public sector balance to GNP decreased to 0.1 percent from 2.6 percent. The ratio of total public sector revenues to GNP fell by about 2.6 percentage points to 43.7 percent, while that of public sector expenditures dropped by 0.7 percentage point to 43.6 percent.

Public sector primary balance which was at 10.8 percent in 2006 was forecasted to drop to 7.9 percent in 2007. On the other hand, according to the data of the Undersecreteriat of the Treasury, the ratio of consolidated budget surplus before interest to GNP, according to the definition in the agreement signed with the International Monetary Fund, was realized as 3.3 percent, which was below the target of the program.

Public Sector Borrowing Requirement (As percentage of GNP)

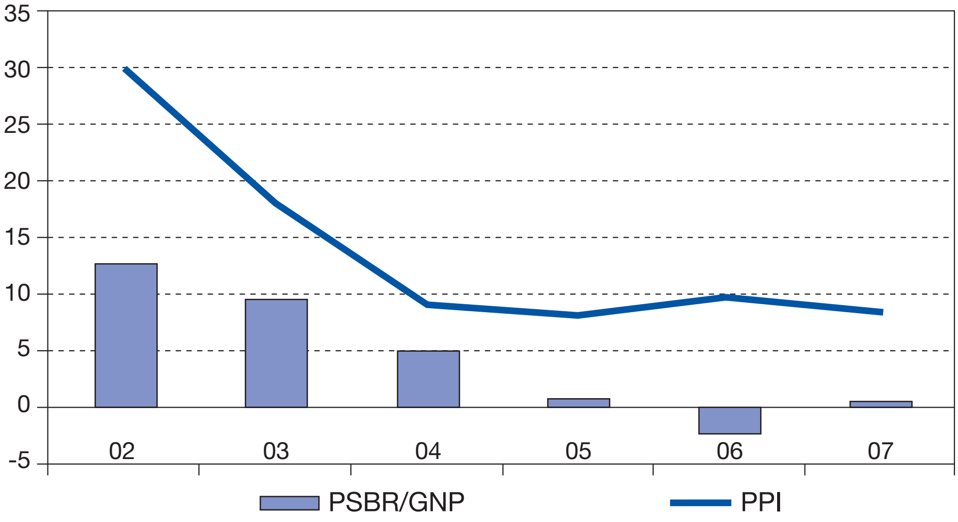
	2004	2005	2006*	2007**
Consolidated budget	7.0	1.7	0.8	2.3
State economic enterprises***	-0.6	-0.2	-0.7	0.0
Local administrations	0.0	-0.1	0.2	0.0
Funds	-0.5	-0.6	-1.6	-1.1
Other	-1.2	-1.2	-1.3	1.2
Public sector deficit	4.7	-0.4	-2.6	-0.1
Public sector primary balance	-8.8	-10.1	-10.8	-7.9

Source: State Planning Organization
* Estimation
** Program
*** State-owned banks are excluded

The share of tax income in public sector revenues was at 55 percent. A 66 percent of total tax proceeds was from indirect taxes. 82 percent of public sector expenditures was from non-interest expenditures. The share of interest expenditures in total expenditures dropped by 14 percentage points compared with 2004, and by 1 percentage point compared with 2006.

Main developments contributing to the public sector balance in 2007 were continued growth in economic activity though at a lower rate, rise in privatization proceeds, extension of debt maturity, and an increase in value added tax receipts from imports as the imports grew at a robust pace. On the other hand, public sector spending increased due to the rise in interest rate expenditures as a result of the rise in interest rates in the second half of 2006, as well as the rise in non-interest expenditures stemming from general elections. Increase in current transfers item stemming from 60 percent increase in Treasury aids item led budget expenditures to rise at a faster rate than budget revenues and inflation.

Public Sector Borrowing Requirement / GNP and Inflation (Percentage)



The ratio of the central government's budget deficit, which was the foremost portion of public sector revenues and expenditures, to GDP, rose to 1.6 percent from a previous 0.6 percent. According to the data of Ministry of Finance, budget revenues increased and expenditures increased by 9 percent and 14 percent, respectively. While interest expenditures rose by 6 percent, non-interest expenditures rose by 17 percent. While budget deficit rose by two times in current prices, primary surplus was narrowed by 16 percent. The ratio of budget revenues to GDP decreased by 1 percentage point to 22 percent, while the ratio of budget expenditures to GDP and that of interest expenditures to GDP remained the same at 24 percent and 8 percent, respectively.

Central Government Budget (TRY million)

	2006	Per. share	2007*	Per. share	Per. change	As per. of GDP 2007
Revenues	173,483	100	189,617	100	9	22
Tax revenues	137,480	79	152,832	81	11	18
Non-tax revenues	36,003	21	36,785	19	2	4
Expenditures	178,126	100	203,501	100	14	24
Interest expenditures	45,963	26	48,732	24	6	6
Domestic borrowing	39,163	22	43,626	21	11	5
External borrowing	6,800	4	5,106	3	-25	1
Non-interest	132,163	74	154,769	76	17	18
Personnel	37,812	21	43,555	21	15	5
Current	82,253	46	98,299	48	20	11
Investment	12,098	7	12,915	6	7	2
Budget balance	-4,643		-13,883		199	-2
Primary balance	41,320		34,848		-16	4

Source: The Ministry of Finance
* Provisional

The ratio of primary surplus to GDP in the budget of the central government was realized as 4.1 percent. Primary surplus to GNP ratio was 2.5 percent according to the definition provided by the agreement with International Monetary Fund. Current expenditures had the largest share in the budget expenditures with 48 percent. That was followed by interest expenditures with a share of 24 percent. The share of personnel expenditures and investments were 21 percent and 6 percent respectively.

Financing of the Central Government Budget

	TRY million			As percentage of GDP		
	2005	2006	2007	2005	2006	2007
Financing	13,225	7,685	19,709	2.0	1.0	2.3
External borrow. (net)	-2,627	-3,622	-5,154	-0.4	-0.5	-0.6
Domestic borrowing	21,403	3,788	12,364	3.3	0.5	1.4
Other	-5,551	7,519	12,499	-0.9	1.0	1.5

Source: Undersecretariat of the Treasury

TRY 19.7 billion of the cash financing needs emerged in 2007. Government continued to be net foreign debt payer with a total of TRY 5.2 billion net debt payments in the year. TRY 12.4 billion of the financing needs was financed through domestic borrowing. Other revenues item which was predominantly consisted of privatization proceeds was realized as TRY 12.5 billion. Treasury's cash/bank account gave a deficit of TRY 4.9 billion which was consisted of TRY 2.6 billion of non-financeable account and TRY 2.2 billion of exchange rate differences.

Average maturity of outstanding domestic debt in TRY was extended to 999 days from 852 days. On the other hand, average annual composite interest rate in TRY borrowing from the domestic market fell to 18.7 percent at the end of the first half and to 16.6 percent at the end of 2007, from 21.7 percent at the end of the previous year. Outstanding domestic debt rose by 2 percent to TRY 255 billion. The share of non-cash outstanding domestic debt in total outstanding debt fell by 3 percentage points to 14 percent.

Structure of Outstanding Domestic Debt (Percentage share)

	2003	2004	2005	2006	2007
TRY	78	82	85	86	90
Fixed rate	35	42	41	44	46
Floating rate	43	40	43	42	44
Fx denominated	22	18	15	14	10
Total	100	100	100	100	100

Source: Undersecretariat of the Treasury

The share of fixed-rate-securities in outstanding domestic debt rose to 46 percent from 44 percent, and that of interest-rate-sensitive securities rose to 44 percent from 42 percent. The share of exchange-rate-sensitive securities, on the other hand, fell to 10 percent from 14 percent.

The ratio of outstanding domestic debt to GDP continued to decline, ending the year at 30 percent which was 3 percentage points lower compared to the end of last year. Total outstanding debt decreased by 4 percent to TRY 332.5 billion (USD 286.8 billion). The ratio of total outstanding debt to GDP fell to 41 percent from 46 percent.

In addition to the fall in the ratio of outstanding domestic debt to GDP, pressure of the public sector on financial funds also continued to fall. The ratio of outstanding domestic debt to financial assets consisting of TRY deposits, foreign exchange deposits, repos, investment funds, government domestic debt instruments held by the portfolio of non-bank sectors, decreased to 55 percent from 62 percent.

A 26 percent of the central government's overall outstanding domestic debt issued for financing of the budget was held by public organizations, and 74 percent by the market. These ratios were 28 percent and 72 percent, respectively at the end of

2006. Non-cash outstanding domestic debt owed to public organizations was TRY 34,721 million in total. Of which, TRY 33,517 million was in domestic currency.

Central Government Budget and Outstanding Public Debt

	TRY million	(As percentage of GDP)			
	2007	2004	2005	2006	2007
Government securities	255,310	40	38	33	30
Cash	220,582	30	30	27	26
Non-cash	34,728	11	8	6	4
Bonds	249,176	35	35	32	29
Cash	214,448	24	27	26	25
Non-cash	34,728	11	8	6	4
Treasury bills	6,134	5	3	1	1
Cash	6,134	5	3	1	1
Non-cash	0	0	0	0	0
Central bank advances	0	0	0	0	0
Domestic debt	255,310	40	38	33	30
External debt*	77,181	17	13	12	11
Total	332,491	58	51	46	41

* For Central Government Budget.

As of December 2007, 56 percent of overall government domestic debt instruments was held by banks. Total government domestic debt instruments held by non-bank sector increased by 4 percent to TRY 117.3 billion. 14 percent of this sum (TRY 16.5 billion) was demanded by real persons. Government domestic debt instruments held by non-bank sectors constituted 44 percent of total outstanding debt. Real persons' demand for government domestic debt instruments fell in 2007, while non-residents' demand remained unchanged. Real sector companies' demand rose by 22 percent, and banks and other sectors' demans rose by 5 percent.

Distribution of Government Domestic Debt Instruments by Investors (TRY million)

	2005	2006	2007
Non-financial residents	65,252	66,063	67,636
Real persons	28,274	24,091	16,523
Corporates	36,978	41,972	51,112
Mutual funds	21,584	9,590	12,657
Persons resident abroad	27,332	36,767	36,981
Non-financial residents (Total)	**114,168**	**112,420**	**117,274**
Banks and other	132,429	143,331	150,128
Total	**246,597**	**255,751**	**267,402**

Source: Central Bank of the Republic of Turkey

2.5. Monetary Aggregates

2.5.1. Monetary Policy

Explicit inflation targeting and floating exchange rate continued to be the main determents for the monetary policy implementations. The Central Bank announced its inflation target for 2007 as 4 percent on consumer prices index basis. The Bank repeatedly underlined that exchange rate levels were not taken as a policy target nor were they regarded as a policy instrument; it was stated that level of the exchange rate would be determined according to demand and supply conditions. Nonetheless, the Bank also stated that foreign exchange demand would be created in cases where foreign exchange surplus existed in the market for the purpose of building up its reserves also in harmony with the more strategic purposes of meeting external debt service of Undersecretariat of the Treasury and gradual reduction of foreign exchange deposit accounts of workers abroad. That this demand would be created through methods and at sums previously determined and announced to the public, was also among the remarks of the Central Bank regarding the implementation of its foreign exchange policy.

The Central Bank started to implement tight monetary policy in the second half of 2006 due to considerable diversion of the actual inflation rate from the targeted level and deterioration in expectations. Short term interest rates were hence increased to 17.5 percent by a rise of 4.25 percentage points. There were no changes in short term interest rates in the first eight months of 2007. Inflation rate decreased in the second and third quarters of 2007 thanks to the restrictive effect of monetary contraction on domestic demand. As a result, citing the improvement in expectations, the Central Bank started to lower its short term interest rates in the last four months although realized inflation rate remained above the inflation target. Interest rates continued to be lowered although inflation showed an upward trend. Interest rates were pulled down by 1.75 percentage points in overall between August-December 2007.

Interest Rates, Exchange Rates and Inflation (Percentage)

	2006	2007			
	Dec.	March	June	Sept.	Dec.
Interest rate (annual compounded) *					
O/n	19.1	19.1	19.1	18.8	17.1
Government securities	21.7	19.8	18.7	19.4	16.6
Exchange rates (annual change)					
TRY/(USD)	4.8	2.9	-16.9	-19.5	-17.5
TRY/Euro	16.6	13.1	-11.9	-9.9	-7.9
Inflation (PPI, annual change)	9.7	10.9	8.6	7.1	8.4

* Average

Annual compounded interest rates of government domestic debt instruments declined in the first half of the year. After a limited rise in the third quarter due to fluctuations in international markets, long term interest rates started to fall again and dipped to its lowest level of the year in the last quarter. Consequently, long term interest rates dropped by 5 points compared with the end of 2006.

The size of the balance sheet of the Central Bank was about unchanged. Foreign assets contracted by 3 percent, while domestic assets grew by 16 percent. Loans to public sector continued to fall, however YTL assets increased due to the increase in valuation account. On the other hand, overall foreign exchange liabilities dropped by 20 percent, foreign liabilities by 18 percent, and domestic liabilities by 21 percent. The reduction of the domestic foreign exchange liabilities was mainly led by the fall in Treasury's foreign exchange deposits held at the Central Bank particularly in the aftermath of the elections. In a period when the setting of the general elections led to a change in expectations, i.e. in the first seven months of the year, Treasury kept a high level of deposits both in foreign exchange and in TRY. Right after the elections, foreign exchange deposits were also lowered. Similarly, residents' foreign exchange demand also rose in the first seven months of the year, but after the elections they changed preferences for TRY denominated portfolios. Following the elections, the non-residents demand for foreign exchange increased again due to the strong effect of the fluctuations in international markets.

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

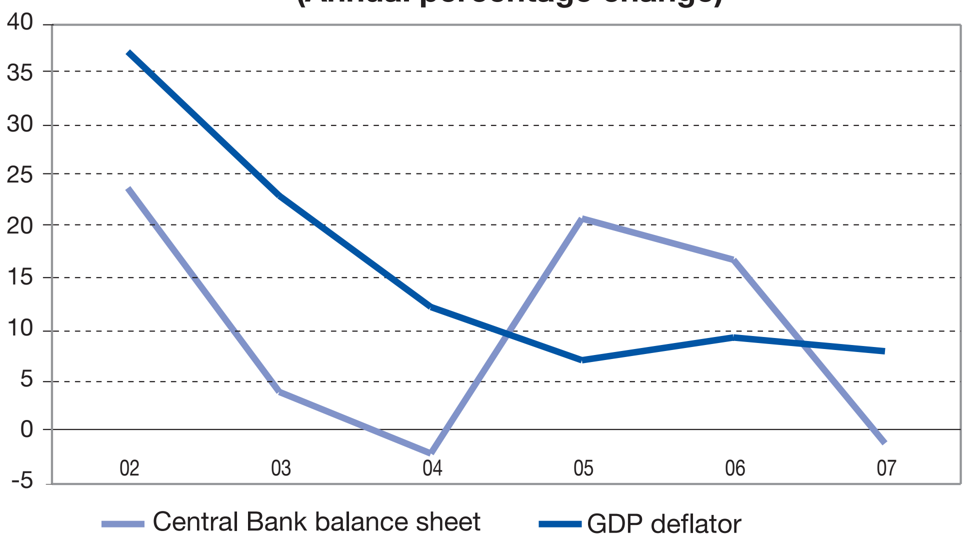
	2006 Dec.	2007 March	June	Sept.	Dec.
Net foreign assets	67,136	75,371	72,820	71,530	68,611
Net domestic assets	12,888	13,518	14,221	15,447	16,166
Monetary base	41,398	35,865	40,992	39,578	44,850
Open market operations	-1,098	3,523	4,900	7,954	4,369
Central Bank money	41,916	40,460	49,159	51,040	54,691
Fx deposits	18,691	29,855	18,965	16,865	12,211
TRY liabilities	60,606	70,315	68,124	67,905	66,903
Banks' Fx deposits	19,418	18,574	18,917	19,073	17,875
Total domestic liabilities	80,024	88,890	87,041	86,978	84,777

Source: Central Bank of the Republic of Turkey

The share of foreign assets in the overall balance sheet reduced by 2 percentage points to 85 percent. The share of foreign exchange liabilities dropped by 11 percentage points to 48 percent. The share of external foreign exchange liabilities dropped by 4 percentage points to 19 percent, and share of domestic foreign exchange liabilities dropped by 7 percentage points to 29 percent. Of the TRY liabilities 43 percent was consisted of reserve currency. The shares of open market operations and public sector deposits in TRY liabilities were 4 percent and 5 percent, respectively.

Annual rate of increase in the Central Bank money rose to 16 percent from 12 percent. The reason behind the acceleration in the rise of Central Bank money was the increase in public sector deposits due to borrowing through open market operations. Money created through foreign exchange transactions grew by 47 percent, while money created through TRY transactions narrowed by 17 percent. Growth rate of the reserve currency decelerated to 8 percent from 27 percent. Growth in monetary base, on the other hand, rose to 19 percent from 10 percent. Growth of the monetary base was contributed by overnight borrowing through open market operations for the purpose of sterilization of the liquidity created through foreign exchange purchases of the Central Bank. The Bank indebted to markets throughout the year. Liquidity notes were issued at three months maturities in order to roll-over its borrowing through open market operations. On the other hand, the Central Bank money grew by 31 percent also due to the increase in TRY deposits of the public sector.

Central Bank Balance Sheet and GDP Deflator (Annual percentage change)



The Central Bank's demand for foreign exchange was about USD 9.5 billion in the whole of 2007 via its foreign exchange buying auctions. Increase in net external assets was 2 percent. Despite the fact that the Central Bank created foreign exchange demand, TRY continued to appreciate against all major currencies. In a year which was also dominated by the developments in cross-exchange-rates, TRY eventually appreciated by 17.5 percent against dollar, and by 7.9 against euro as of the end of 2007. With inflation rates in Turkey, USA and euro region also taken into account, real appreciation of TRY against both dollar and euro continued in 2007 as well.

Foreign exchange reserves of the Central Bank rose by USD 10.5 billion to USD 71.3 billion in 2007. Net foreign exchange position increased to USD 32.8 billion from USD 20.7 billion. Improvement in net foreign exchange position of the Central Bank in the last five years thus exceeded USD 43 billion.

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

	2006	2007			
	Dec.	March	June	Sept.	Dec.
Fx reserves	60.8	67.5	68.3	71.7	71.3
Net Fx position	20.7	19.5	26.8	29.5	32.8

Source: Central Bank of the Republic of Turkey

Interest rate paid for reserve requirements held at the Central Bank was reduced in line with the fall in official interest rates. Base interest rate which stood at 13.12 percent at the end of 2006 dropped to 11.8 percent as of the end of 2007.

2.5.2. Financial Assets and Money Demand

Demand for TRY also continued in 2007 despite the increase in uncertainties resulted from domestic political developments in the first half and fluctuations in international financial markets starting from the third quarter. Depending on the appreciation of TRY against major currencies on real terms due to the surplus in foreign exchange supply, TRY value of the foreign exchange assets increased at a limited rate, and the share of these assets in total financial assets decreased.

Financial Assets (As percentage of GDP)

	2004	2005	2006	2007
Money and quasi-money	33	35	39	40
Cash	2	3	3	3
Deposits	31	33	36	37
- TL	17	21	22	24
- Fx	14	12	14	13
Repos	0	0	0	1
Capital market	64	72	64	71
Shares (market value)	24	33	30	39
Bonds and bills	40	38	34	30
-Public	40	38	34	29
-Private	0	0	0	1
Mutual funds	3	3	2	2
Total	100	111	106	114

Source: Central Bank of the Republic of Turkey, Capital Markets Board
Undersecretariat of Treasury

Ratio of financial assets consisting of cash, deposits and capital markets instruments to GDP rose by 8 percentage points to 114 percent in 2007. While the ratio of TRY equivalent of foreign exchange deposits to GDP dropped by 1 percentage point, ratio of TRY denominated financial assets to GDP increased by 2 percentage points. The ratio of money and quasi-money instruments at banks, to GDP was 40 percent, and that of capital markets instruments was 71 percent as of the end of 2007. Market value of stocks among capital markets instruments exceeded the market value of outstanding bonds and bills for the first time.

While demand for government domestic debt instruments by real persons among non-bank sectors decreased, the same demand by legal entities increased. Amount of government domestic debt instruments in the portfolios of persons resident abroad declined in the last quarter.

Bonds and bills issuance from the private sector remained limited due to crowding out effect of the public sector and existing tax burden. Market value of investment funds and companies which were traded in ISE increased again in 2007 following the fall experienced in the previous year.

Monetary Aggregates (2007)

			Per. change	
	TRY million	**USD million**	**TRY**	**USD**
M2RF	259,413	223,767	22	48
Money in circulation	26,073	22,490	6	29
TRY demand deposit	29,428	25,384	23	49
Repos	4,293	3,703	21	47
Investment funds	20,756	17,904	10	34
TRY time deposits	178,863	154,285	26	53
M2RYF	370,078	319,225	12	36
Fx deposits	110,665	95,458	3	25

Source: Central Bank of the Republic of Turkey

Money demand consisting of TRY deposits, repos and short term investment funds (M2RF) rose by 22 percent in current prices, and by 13 percent in constant prices. Growth of the demand for TRY time deposits by 26 percent significantly contributed to this increase. Demand for foreign exchange rose in the first half due to general elections, before falling again considerably in the second half. On the other hand, increase in TRY value of foreign exchange deposits was limited depending on the appreciation of TRY against major currencies. As a result money substitution decreased again.

Breakdown of Monetary Aggregates (Percentage)

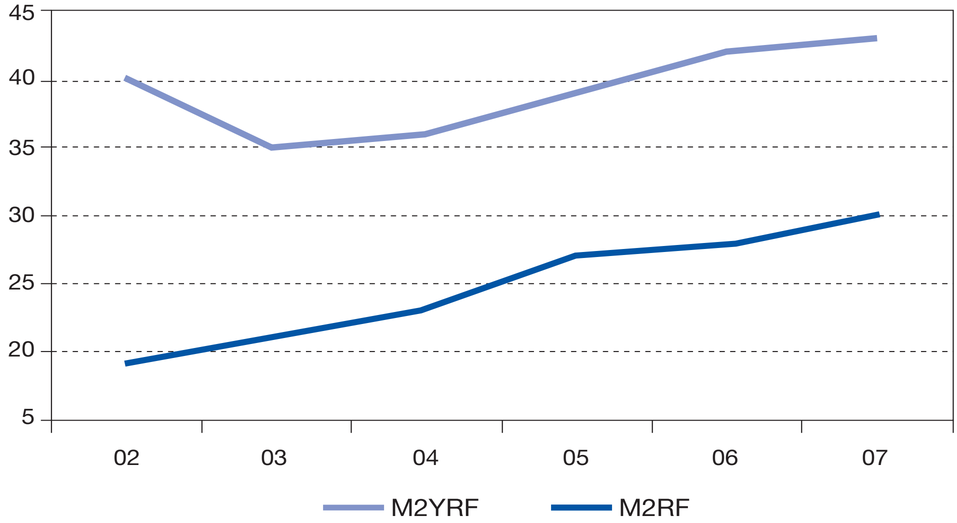
	2003	**2004**	**2005**	**2006**	**2007**
Money in circulation	6	6	7	8	7
TRY demand deposits	7	8	9	8	8
Repos	2	1	1	1	1
Investment funds	7	8	9	6	6
TRY time deposits	36	40	44	44	48
Fx deposits	42	37	30	34	30
M2RYF	100	100	100	100	100

Source: Central Bank of the Republic of Turkey

TRY and USD equivalents of foreign exchange deposits increased by 3 percent and 25 percent, respectively. Money demand including also foreign exchange deposits (M2RYF) grew by 12 percent in current prices, and by 4 percent in constant prices. The share of foreign exchange deposits in M2RYF dropped by 4 percentage points to 30 percent.

Ratio of M2RF to GDP rose by 2 percentage points to 30 percent, and ratio of M2RFY to GDP rose by 1 percentage point to 43 percent.

Money Demand / GDP (Percentage)



Slowly though, deposit interest rates dropped after the elections. The Central Bank's lowering its short term interest rates in the last quarter was a signal for the falls in deposit interest rates. Interest rates (compounded) which remained at 18 percent and 19 percent in 1-month and 3-month maturities, respectively at the end of 2006 receded to 17 and 18 percent, respectively at the end of 2007. As of the same period, interest rates for 3-month maturity foreign exchange deposits were 4.2 percent for dollar and 3.6 percent for euro.

According to the data of Banking Regulation and Supervision Agency (BRSA), total deposits in the banking sector rose by 15 percent. TRY deposits grew by 23 percent, while TRY equivalent of foreign exchange deposits grew by 4 percent. Foreign exchange deposits which stood at USD 82.1 billion at the end of 2006 reached USD 103 billion at the end of 2007. The share of TRY equivalent of foreign exchange deposits in total deposits decreased by 4 percentage points to 35 percent. Ratio of TRY deposits to GDP increased by 2 percentage points to 24 percent, and the ratio of total deposits including also foreign exchange deposits to GDP rose by 1 percentage point to 36 percent.

Maturity Structure of Total Deposits (Percentage)

	2003	2004	2005	2006	2007
Total	100	100	100	100	100
Demand	20	21	18	15	16
1-month	26	25	21	25	28
3-month	38	38	46	52	47
6-month	10	8	11	6	5
12- month+	6	9	5	2	5
Average (month)	2.7	2.8	2.8	2.4	2.5

Source: Central Bank of the Republic of Turkey

The maturity structure of total deposits remained rather short term. Average maturity of the total deposits was 2.5 months. While average maturity of TRY deposits shortened, average maturity of foreign exchange deposits was slightly extended. Accordingly, average maturity of total deposits fell to 2.3 months from 2.4 months, while that of foreign exchange deposits rose to 2.8 months from 2.7 months.

According to the data of BRSA, the share of state-owned banks in total deposits was 36 percent while that of private banks was 53 percent. While the share of state-owned banks in total deposits dropped by 1 percentage point, the private banks' share was remained unchanged. The share of foreign banks in total deposits rose by 1 percentage point to 11 percent.

State-owned banks had a share of 42 percent in TRY deposits and 21 percent in foreign exchange deposits. On the contrary, private banks had a higher share both in TRY and foreign exchange deposits, which was 46 percent in TRY deposits and 59 percent in foreign exchange deposits. The share of foreign banks in TRY and foreign exchange deposits were 8 percent and 15 percent, respectively.

Deposits and Loans (TRY million)

	2003	2004	2005	2006	2007
Total deposits	160,380	197,953	251,490	307,647	356,865
TRY	81,514	109,456	159,012	186,286	230,461
Fx	78,866	88,497	92,478	121,361	126,404
Total loans	68,434	101,579	156,410	218,989	285,653
TRY	36,200	63,968	113,515	163,095	217,027
Fx	32,234	37,611	42,895	55,895	68,627
Non-performing loans (Net)	1,222	809	884	883	1,365
Non-performing loans (Gross)	8,818	6,191	7,808	8,548	10,322
Provisions	7,596	5,382	6,924	7,665	8,957
Total loans	68,434	101,579	153,577	222,204	291,363
Commercial	53,222	74,940	108,042	153,103	196,384
Consumer	15,212	26,639	45,535	69,101	94,980
Total loans	68,434	101,579	156,410	218,989	285,653
From domestic branches	54,599	84,785	134,309	187,695	243,348
From abroad branches	13,835	16,794	22,101	31,294	42,305

Source: BRSA, Central Bank of the Republic of Turkey

Loans to total deposits ratio, which was 38 percent in 2002 increased to 71 percent in 2006 and 80 percent in 2007. The same ratio was 54 percent in state-owned banks and 89 percent in private banks.

Growth in total loan stock continued to decelerate in the first half and dropped to 20 percent at the end of June. Growth in loan stock accelerated due to the increase in TRY demand that followed the elections and banks' preference to reduce liquid assets and to increase their loan portfolio, and it realized as 26 percent at the end of the year. TRY loans grew by 30 percent while foreign exchange loans rose by 18 percent. Corporate loans increased by 22 percent against 36 percent increase in individual loans. The share of individual loans in total loan stock rose by 3 percentage points compared with the end of 2006 and reached 34 percent. Rise in loans mainly stemmed from the increase in housing loans and consumer loans.

Non-performing loans grew by 20 percent before provisioning and 48 percent after provisioning. The ratio of non-performing loans before provisioning, to total loans, was 4 percent. The ratio of non-performing loans after provisioning to total loans was 0.5 percent. Non-performing loans had a share of 3 percent in consumer loans.

A 92 percent of total loans was extended by deposit banks. Private banks had a share of 55 percent share in total loans, and state-owned banks had a share of 22 percent. Foreign banks' share in total loans was 15 percent. The ratio of total loans extended by banking sector as a whole to GDP was 32 percent. A 88 percent of total loans was extended by domestic branches, and 12 percent from branches abroad. Most of the loans extended by branches abroad was in foreign exchange. Foreign exchange loans was inclined to be extended by the branches abroad due to the prohibition on banks' extending foreign exchange loans to industries having no foreign exchange revenues and high intermediation costs stemming from tax burdens.

Corporate Loans and Non-financial Sector External Debt (USD million)

	2002	2006	2007
Corporate loans (Fx)	19,085	38,822	50,995
-From domestic branches	10,923	18,949	22,115
-From branches in abroad	8,162	19,873	28,880
Non-financial sector			
-External debt stock	32,986	73,308	100,479
-Fx borrowing from abroad	24,824	53,435	71,559

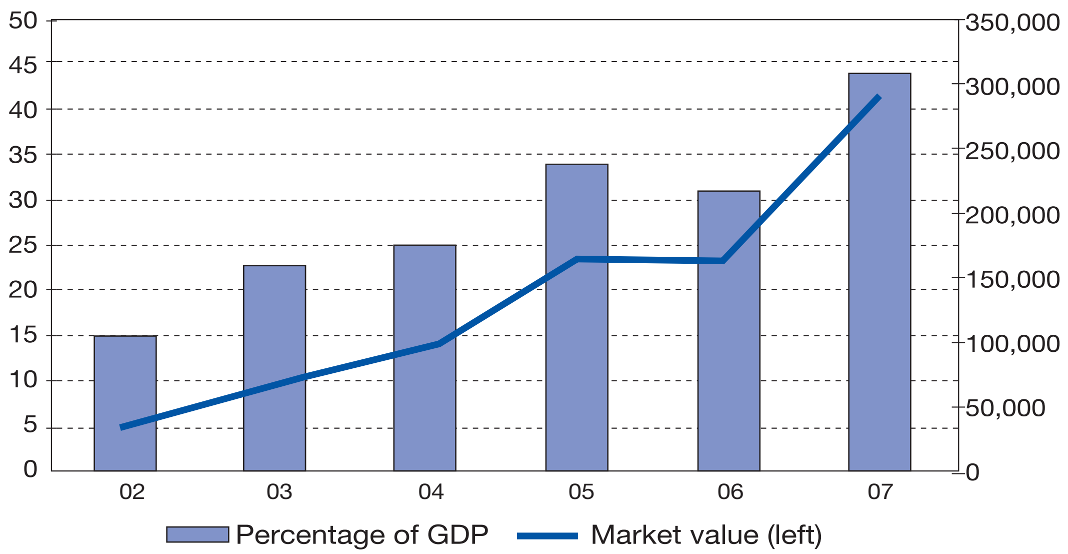
* Fx indexed loans are included.

Total foreign exchange corporate loans extended by banks resident in Turkey was USD 51 billion. Of which 57 percent was extended by braches abroad. On the other hand, total outstanding debt of non-financial sector exceeded USD 100 billion, 70 percent of which was extended by financial institutions resident abroad.

2.6. Istanbul Stock Exchange

Istanbul Stock Exchange (ISE) Index showed a rapid increase both in dollar and TRY terms in 2007. ISE index rose by 72 percent on dollar basis to 2,790 points, and by 42 percent to 55,538 points on TRY basis. On the other hand, total trading volume expanded by 36 percent and reached USD 301 billion.

ISE Market Value (USD million, as percentage of GDP)



Contributors to this performance of the ISE included factors such as continued growth of the economic activity though at a slower rate, election results showing domestic political stability, rise in exports, strengthening position of financial sector, continued net direct and portfolio capital inflows aimed at acquisition of local companies, rise in the foreign borrowing of non-financial enterprises.

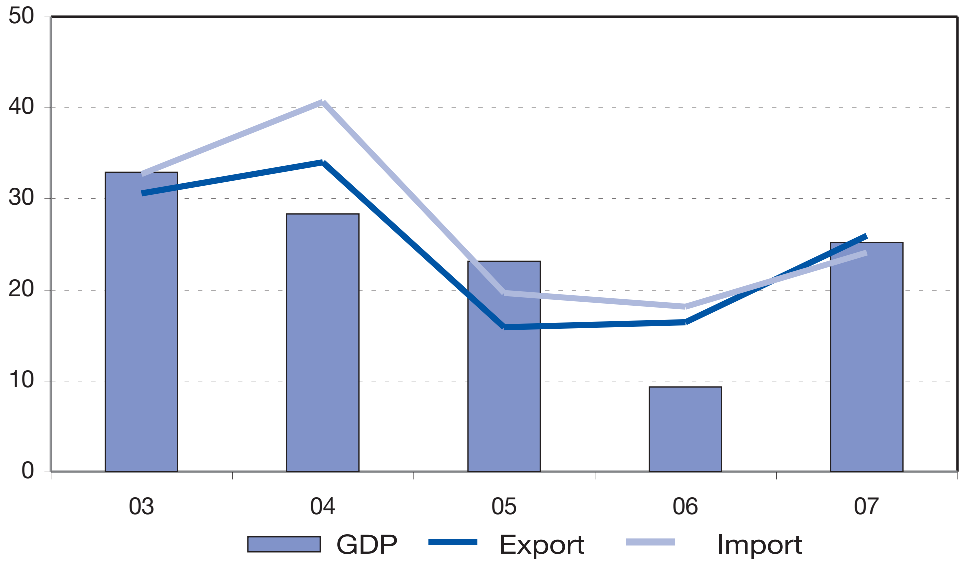
Market value of companies traded in ISE rose to USD 288 billion at the end of 2007 from USD 163 billion at the end of 2006. The ratio of the total market value to GDP rose to 44 percent from 31 percent.

Number of companies whose shares were traded in ISE rose by one and reached 292. Market value of 13 banks traded in ISE increased by 56 percent to TRY 127.4 billion (USD 110 billion) as of the end of 2007. The market value of banks constituted 44 percent of the total market value.

2.7. Foreign trade

Upward trend in both exports and imports continued as foreign trade volume expanded by 25 percent and reached USD 277 billion. The rate of increase in imports was slower than in exports depending on deceleration of growth in domestic demand particularly starting from the second quarter of the year.

GDP, Export and Import Growth (Annual, percentage, in USD terms)



Depreciation of dollar against euro depending on the developments in international markets affected foreign trade performance of Turkey due to the relatively high share of EU countries in foreign exchange revenues. Other significant factors having an effect on foreign trade performance were the increases in crude oil prices, improvement in foreign trade rates, and TRY's appreciation against major currencies due to continued inflows from abroad.

On the other hand, growth of foreign trade deficit was limited with the ratio of foreign trade deficit to GDP contracting to 11 percent as a result of TRY's appreciation against major foreign currencies and deceleration in domestic demand.

Exports grew by 25 percent to USD 107 billion and imports by 22 percent to USD 170 billion. Coverage ratio of exports to imports rose by 1 percentage point to 63 percent. The ratio of exports and imports to GDP were unchanged as of the end of 2007 and were realized as 16 percent and 26 percent, respectively. The ratio of external trade volume to GDP was 42 percent. The ratio of foreign trade volume to GDP became 42 percent. Foreign trade deficit grew by 21 percent to USD 63 billion. The ratio of foreign trade volume to GDP was 10 percent.

Foreign Trade (USD billion)

	2002	2003	2004	2005	2006	2007
Exports	36	47	63	73	85	107
Imports	52	69	97	116	137	170
Foreign trade deficit	16	22	34	43	52	63
Foreign trade volume	88	117	160	189	222	277
Foreign trade deficit/GDP	9	9	12	12	13	11
Exports/imports	70	68	65	63	62	63
Price index * (94=100)						
Exports	91	100	116	123	128	144
Imports	95	100	115	123	134	147
Quantity index* (94=100)						
Exports	81	100	114	126	141	156
Imports	72	100	122	136	148	165

Source: Turkstat
* Average

Export quantity index by annual average rose by 11 percent while import quantity index rose by 12 percent; export price index rose by 13 percent and import price index rose by 10 percent.

Imports of capital goods increased by 16 percent, intermediate goods by 24 percent, and consumer goods by 16 percent. Imports of intermediary goods made up for 73 percent of total imports. A breakdown of imports by sectors showed that imports for manufacturing industry constituted 79 percent of total imports. Subsectors having a prominent place in manufacturing industry are machinery and equipment, land vehicles, iron and steel, and plastic. Mining sector had a share of 15 percent in manufacturing industry. Crude oil and natural gas imports rose by 13 percent to USD 21.8 billion in 2007 with a share of 13 percent of total imports.

In exports consumer goods, intermediary goods and capital goods had a share of 41 percent, 46 percent, 13 percent, respectively. According to the distribution of exports among sectors; the share of manufacturing industry's was 94 percent, and that of agriculture was 4 percent. Land vehicles, textile, iron and steel, machinery and electrical equipments were sub-sectors which had prominent place in manufacturing industry's exports.

Foreign Trade by Commodity Groups, 2007

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
Capital goods	13,695	45	13	27,040	16	16
Intermediate goods	49,334	31	46	123,574	24	73
Consumer goods	43,707	16	41	18,697	16	11
Other	418	-21	0	676	33	0
Total	107,154	25	100	169,987	22	100

Source: Turkstat

EU countries had a share of 48 percent in foreign trade of Turkey. The share of non-member European countries was 15 percent. Turkey had USD 9.9 billion of foreign trade deficit with EU countries in 2006, which figure dropped to USD 8.2 billion at the end of 2007. EU countries' share was 40 percent in Turkey's overall imports and 56 percent in overall exports.

Foreign Trade By Country Groups, 2007

	Exports			Imports			Trade balance
	USD million	Per. change	Per. share	USD million	Per. change	Per. share	USD million
EU	60,405	26	56	68,590	16	40	-8,185
Free zone	2,940	-1	3	1,221	29	1	1,719
Other	43,809	27	41	100,176	26	59	-56,367
Europe	10,842	36	10	34,248	33	20	-23,406
Africa	5,977	31	6	6,782	-8	4	-805
America	5,577	-12	5	12,124	29	7	-6,547
Middle East	14,990	33	14	12,639	20	8	2,351
Other Asia	5,223	33	5	33,645	31	20	-28,422
Other	1,200	131	1	738	46	0	462
Total	107,154	25	100	169,987	22	100	-62,833

Source: Turkstat

Germany ranked first among foreign trade partners of Turkey with 11 percent share in Turkey's overall foreign trade volume. It was followed by Russia by 9 percent and Italy by 6 percent. Exports to Germany constituted 11 percent of Turkey's overall exports and imports from this country constituted 10 percent of overall imports. Foreign trade deficit with the group of other Asian countries prominently stemmed from the trade with China and South Korea.

2.8. Balance of payments

Current account deficit expanded by 18 percent to USD 38 billion in 2007. Current account deficit was about unchanged at the end of the first half of the year compared with the end of 2006, and grew in the second half. On the other hand, the ratio of current account deficit to GDP fell by 0.3 percentage point to 5.8 percent. Fall of current account deficit to GDP ratio stemmed from the slowdown in the growth rate of Turkey's foreign trade balance as well as high growth rate of GDP in dollar terms depending on TRY's appreciation against major currencies.

Current Account Balance (USD million)

	2003	2004	2005	2006	2007
Current account balance	-8,037	-15,601	-22,603	-32,193	-37,996
-General merchandise	-14,010	-23,878	-33,530	-41,324	-47,498
-Exports	51,206	67,047	76,949	91,944	113,155
-Imports	-65,216	-90,925	-110,479	-133,268	-160,653
-Services (net)	10,505	12,797	15,272	13,830	14,070
-Tourism (net)	11,090	13,364	15,280	14,110	15,227
-Income (net)	-5,559	-5,637	-5,799	-6,607	-6,794
-Direct investments	-400	-796	-734	-968	-1,798
-Portfolio investments	-1,207	-1,195	-924	-662	383
-Other investments	-3,952	-3,646	-4,045	-4,870	-5,273
-Interest expenditures	-4,586	-4,343	-5,050	-6,323	-7,431
-Current transfers	1,027	1,117	1,454	1,908	2,226
-Workers remittances	729	804	851	1,111	1,209

Source: Central Bank of the Republic of Turkey

Commodity balance deficit rose by 15 percent to USD 47.5 billion. Higher rate of growth in exports compared with imports stemming from the slowdown in domestic demand starting from the second quarter of the year curbed the rise in foreign trade deficit. Interest rate expenditures which had the foremost place under revenues balance rose to USD 7.4 billion from USD 6.3 billion.

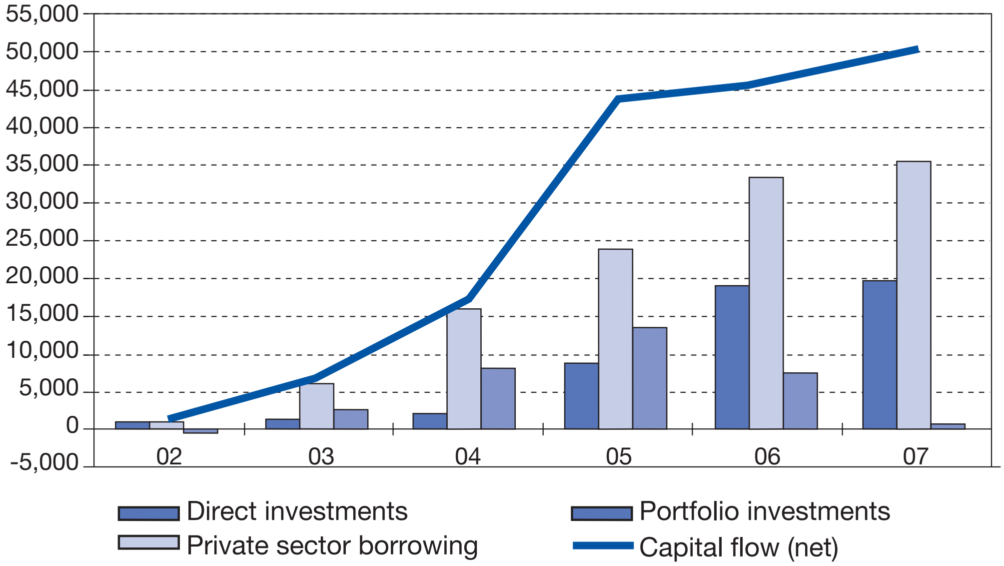
Capital and Financial Account (USD million)

	2003	2004	2005	2006	2007
Capital and financial account	7,091	17,752	43,687	45,967	50,426
-Capital account (net)	0	0	0	0	0
-Financial account (net)	7,091	17,752	43,687	45,967	50,426
-Direct investments abroad (net)	1,195	2,024	8,723	18,984	19,766
-Portfolio investments (net)	2,569	8,023	13,437	7,373	717
-Other investments (net)	3,327	7,705	21,527	16,610	29,943
-Net errors and omissions	5,043	2,191	2,116	-149	-415
General balance	4,097	4,342	23,200	10,625	12,015
-IMF accounts	-50	-3,518	-5,353	-4,511	-3,983
-Official reserves	-4,047	-824	-17,847	-6,114	-8,032

Source: Central Bank of the Republic of Turkey

Capital and finance account volume was realized at above current account deficit. Capital inflows which stood at USD 46 billion in 2006 rose to USD 50.4 billion in 2007 2006. However, current account deficit and net capital inflows started to converge each other. Foremost contribution to the capital inflows stemmed from net foreign borrowing by non-financial sector and direct investments. Net foreign borrowing by non-financial sectors rose by 41 percent to above USD 27 billion.

Capital Flows (USD million)



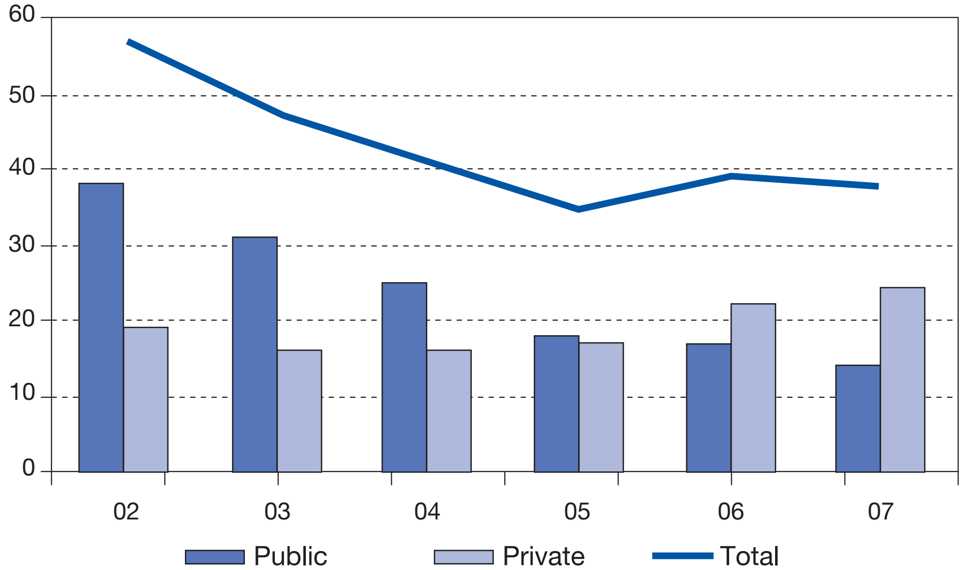
On the other hand, direct foreign capital investments continued to increase in 2007 and reached a record level of USD 20 billion. Of this figure, a portion of USD 3 billion stemmed from real estate purchases of persons resident abroad. On the other hand, banks' net foreign borrowing dropped. Government and the Central Bank continued to reduce their external liabilities. Persons resident abroad increased their stock portfolios at the expense of their government domestic debt instruments, hence, portfolio investments decreased.

2.9. Outstanding External Debt

Outstanding external debt rose by USD 41.7 billion to USD 247.2 billion in 2007. The public sector outstanding external debt increased by USD 1.7 billion to USD 73.4 billion, and that of private sector rose by USD 39.9 billion to USD 158 billion. On the other hand external debt of the Central Bank remained almost the same at USD 15.8 billion. Long term outstanding external debt increased by USD 40.2 billion, and short term outstanding external debt rose by USD 1.5 billion. In the long term outstanding external debt, the share of public sector (excluding the Central Bank) rose by USD 1.3 billion to USD 71.2 billion. The long term outstanding external debt of private sector, on the other hand, rose by USD 38.5 billion.

The ratio of outstanding external debt to GDP dropped by 1 percentage point compared to the end of 2006 and receded to 38 percent. The ratio of short term debt to GDP dropped by 1 percentage point to 7 percent, while the ratio of long term debt to GDP remained the same at 31 percent.

Outstarding External Debt (As percentage of GDP)



Of the total outstanding external debt, 30 percent was owed by public sector and 6 percent by the Central Bank. The share of the banking sector in outstanding external debt was 18 percent, and non-bank sector had a share of 46 percent. Public sector foreign debt (excluding Central Bank) to GDP ratio dropped to 11 percent in 2007 from 14 percent in previous year.

Outstanding External Debt (USD billion)*

	2002	2003	2004	2005	2006	2007
Long term	113.3	121.2	128.9	131.7	165.2	205.4
Public	63.6	69.5	73.8	68.2	69.9	71.2
Central Bank	20.3	21.5	18.1	12.7	13.1	13.5
Private	29.3	30.2	37	50.8	82.2	120.7
Financial institutions	4.8	5.9	9.1	16.2	29.1	42.9
Banks	3	3.1	5.8	12.2	22.1	30.7
Non-financial institutions	24.6	25.1	28.5	34.9	53.1	77.8
Short term	16.4	23.0	31.9	37.1	40.3	41.8
Public	0.9	1.3	1.8	2.1	1.8	2.2
Central Bank	1.7	2.9	3.3	2.8	2.6	2.3
Banks	5.4	8.4	12.7	16.0	18.3	14.6
Non-bank	8.4	10.5	14.1	16.2	17.6	22.7
Total	129.7	144.3	160.8	168.8	205.5	247.2

Source: Undersecretariat of Treasury, *Provisional

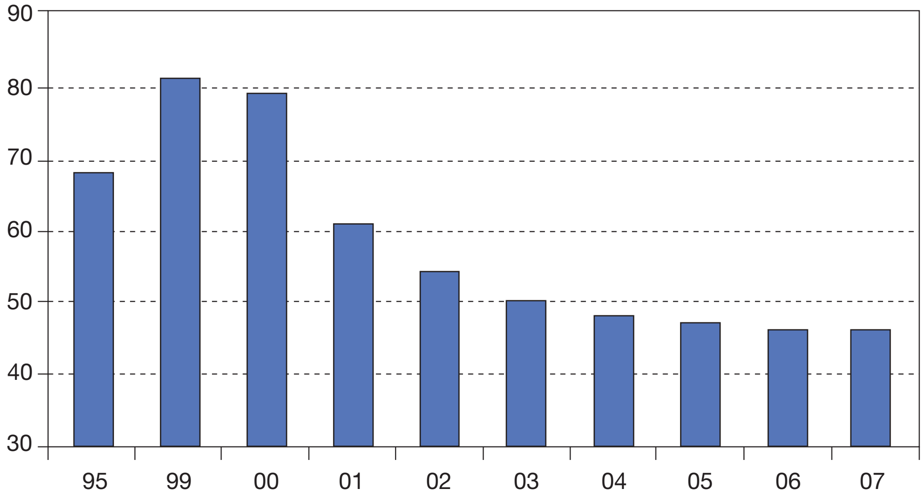
A portion of USD 28 billion of long term outstanding external debt was borrowed from official creditors, and USD 138.7 billion from private creditors. The largest share among official creditors belonged to international organizations item which also included International Monetary Fund, with USD 21.8 billion. Besides, bonds stock which was totally consisted of long term debt instruments was USD 38.7 billion as of December 2007.

3. Banking Sector in 2007[3]

3.1. Number of banks and branches

The number of deposit banks and development and investment banks in Turkey was 46 as of the end of 2007. Interest from foreign investors for the banking sector also continued in 2007.

Number of Banks



70 percent of Tekfen Bank AŞ' shares were sold to Eurobank EFG Holding, 91 percent of MNG Bank A.Ş.' shares were sold to Arab Bank PLC and BankMed, and complete shares of Oyak Bank AŞ were sold to ING Bank NV. Hence, category of these three banks changed from the private banks to foreign banks established in Turkey.

Number of Banks and Branches*

	2002		2006		2007	
	Bank	Branch	Bank	Branch	Bank	Branch
Deposit banks	40	6,087	33	6,804	33	7,570
State-owned banks	3	2,019	3	2,149	3	2,203
Private banks	20	3,659	14	3,582	11	3,625
SDIF banks	2	203	1	1	1	1
Foreign banks	15	206	15	1,072	18	1,741
Development and investment banks	14	19	13	45	13	48
State-owned banks	3	4	3	22	3	23
Private banks	8	12	6	11	6	12
Foreign banks	3	3	4	12	4	13
Total	54	6,106	46	6,849	46	7,618

Source: The Banks Association of Turkey
* Including branches in the Turkish Republic of Northern Cyprus and branches abroad.

[3] Deposit banks and development and investment banks' data are included.

Out of the total number of 46 banks; 33 were deposit banks and 13 were development and investment banks; 3 of the deposit banks were state-owned, and 11 were private banks. There was one bank in the group of banks whose ownership was transferred to the Savings Deposits Insurance Fund (SDIF). The number of banks owned 51 percent by persons resident abroad was 18. Of the development and investment banks; 3 were state-owned banks, 6 were private banks and 4 were foreign banks.

Upward trend in the number of bank branches also continued in 2007, increasing by 769 and reached 7,618 as of the end of year. This increase was 766 in deposit banks and 3 in development and investment banks. In deposit banks, branches of foreign banks increased by 669, mainly due to the change in ownership structure. The number of branches in private banks rose by 43, and in state-owned banks by 54.

3.2. Number of employees

The number of banks' employees continued to rise in parallel to development in the number of branches. Banks' employees in total rose by 1,833 in state-owned banks, 10,913 in foreign banks and 1,904 in private banks, while employees of the SDIF bank decreased by 8. Increase in the number of employees in development and investment banks was 749.

Number of Employees

	2002	2006	2007
Deposit banks	118,329	138,570	153,212
State-owned banks	40,159	39,223	41,056
Private banks	66,869	73,220	75,124
SDIF banks	5,886	333	325
Foreign banks	5,416	25,794	36,707
Development and investment banks	4,942	4,573	5,322
State-owned banks	4,174	3,728	4,273
Private banks	691	596	687
Foreign banks	77	249	362
Total	123,271	143,143	158,534

Source: The Banks Association of Turkey

Deposit banks employed 97 percent of banks' employees and the rest was employed by development and investment banks.

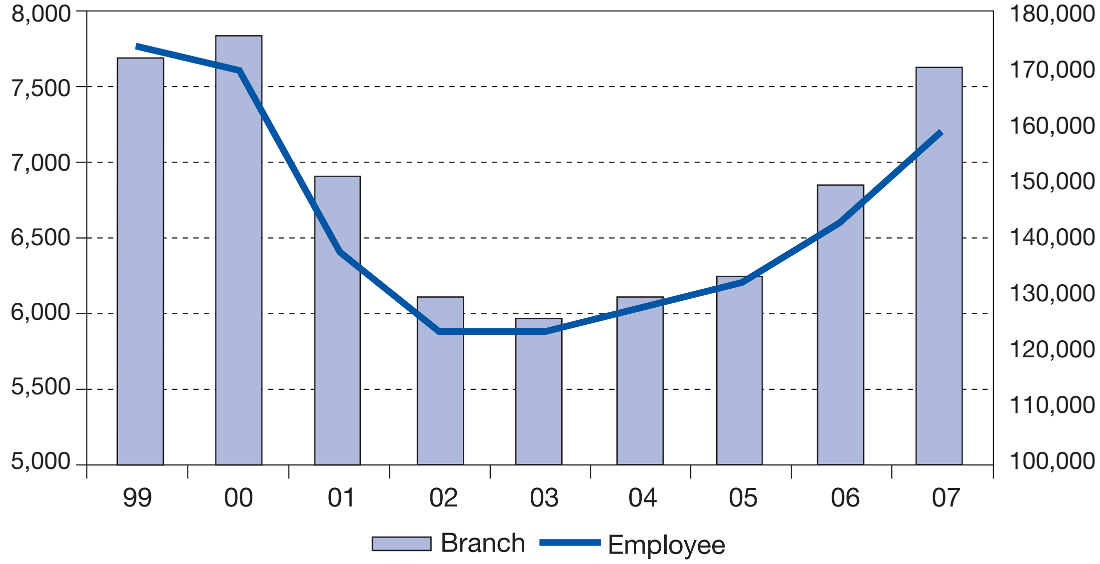
Number of Branches and Employees Per Bank

	Branch			Employee		
	2002	2006	2007	2002	2006	2007
Deposit banks	152	203	229	2,958	4,199	4,644
State-owned banks	673	683	734	13,386	13,074	13,685
Private banks	183	256	330	3,343	5,230	6,832
SDIF banks	102	1	1	2,943	333	325
Foreign banks	14	71	97	361	1,720	2,039
Development and investment banks	1	2	4	353	352	409
State-owned banks	1	1	8	1,391	1,243	1,424
Private banks	2	2	2	86	99	115
Foreign banks	1	3	3	26	62	91
Total	113	146	166	2,283	3,112	3,447

Source: The Banks Association of Turkey

Of all bank employees in deposit banks; 26 percent were employed in state-owned banks, 47 percent in private banks, and 23 percent in foreign banks.

Number of Branches and Employees

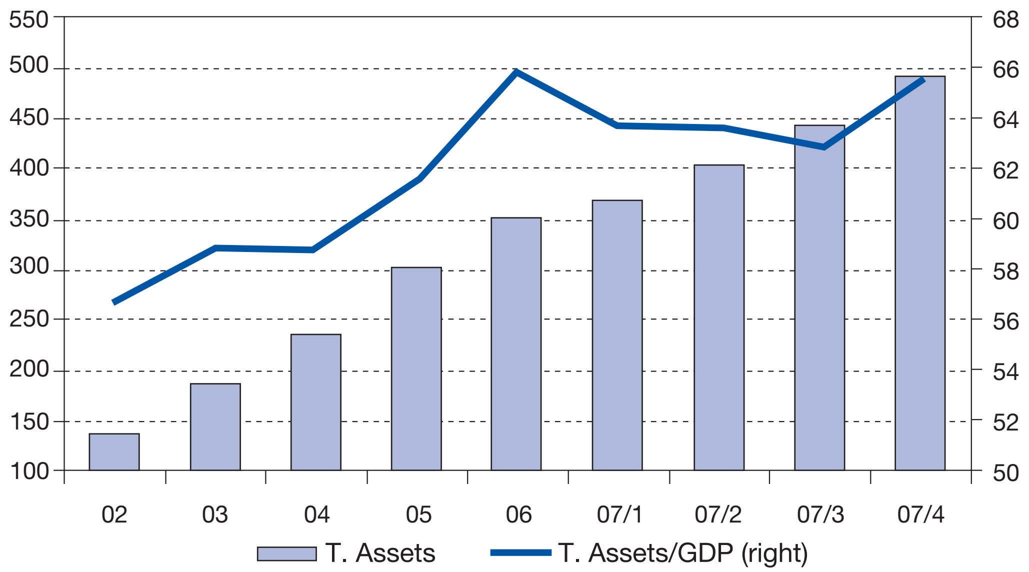


The number of bank branches and employees dropped in 2000-2003 period as a result of the transfer to the Saving Deposits Insurance Fund and/or closure of banks with weak financial strength within the framework of the restructuring program, implementation of restructuring program in state-owned banks, bank mergers, as well as banks' efforts to limit the operational costs; however it started to increase from the second quarter of 2003. But, the 2000 year levels haven't been achieved yet in terms of the number of both bank branches and employees.

3.3. Size of balance sheet

Total assets of the banking sector rose by 16 percent to TRY 561 billion (USD 484 billion) at the end of 2007 as compared to the end of 2006. Total assets to GDP ratio increased from 64 percent to 66 percent in the same period.

Total Assets (USD billion) and Total Assets / GDP (Percentage)



Annual growth rate in the banking sector decreased to 14 percent at the end of the first half of 2007 from 22 percent at the end of 2006 depending on tightening of the monetary policy starting from June 2006, appreciation of TRY against major foreign currencies and deceleration of economic activity. Annual growth rate was realized as 16 percent at the end of 2007.

Total balance sheet size of the banking sector recorded a growth of TRY 76 billion 2007. Of this increase 58 percent (TRY 44.2 billion) stemmed from deposits; 6 percent (TRY 4.3 billion) from non-deposit funds; 20 percent (TRY 15.5 billion) from shareholders' equity and 16 percent (TRY 12.5 billion) from other liabilities. Secured resources were allocated to loans by 82 percent (TRY 62.6 billion), to financial assets by 10 percent (TRY 7.5 billion), and to other assets by 7 percent (TRY 6 billion).

Nominal Change in Balance Sheet Items Compared to December 2006 (TRY million)

	June 2007	December 2007
Assets		
Liquid assets	-2,292	408
Financial assets	6,305	7,501
Loans	25,684	62,554
Other assets	1,577	5,951
Total	31,273	76,414
-TRY	32,134	77,473
-Fx	-861	-1,059
Liabilities		
Deposits	18,961	44,152
Non-deposit funds	1,224	4,328
Shareholders' equity	6,366	15,460
Other liabilities	4,722	12,474
Total	31,273	76,414
-TRY	29,169	71,773
-Fx	2,104	4,641

Source: The Banks Association of Turkey

Liquid assets of the banking sector decreased in the first half of the year depending on the reduction of receivables from correspondent accounts held at foreign banks. Although reduction of receivables from correspondent banks also persisted in the second half, liquid assets registered a rise in parallel with the increase in receivables from reverse repo transactions, and in liquid assets and the items held at the Central Bank. On the other hand, the growth rate of loans accelerated in the second half mainly resulted from an increase in foreign exchange loans, after the sharp deceleration in the first half. The growth rate in total loans, which was 40 percent at the end of 2006 fell to 20 percent in the first half of 2007 and completed the year at 30 percent.

Total deposits grew by 14 percent in 2007. The rate of increase was 21 percent in TRY deposits, and 4 percent in foreign exchange deposits. The rate of increase in foreign exchange deposits in the first half was considerably high, however, this was not fully reflected to total deposits because of TRY's appreciation. This development in foreign exchange deposits in the first half was followed by a return to TRY deposits in the second half. Since the banking sector reduced its borrowing from abroad increase in non-deposit funds remained limited. Use of non-deposit funds increased in the second half. Shareholders' equity grew by 27 percent in TRY terms, and by 54 percent in dollar terms.

Total Assets by Groups, December 2007

	TRY million	USD million	Perc. change (TRY)	Perc. change (USD)
Deposit banks	542,293	467,776	16	40
State-owned banks	163,585	141,107	14	38
Private banks	293,530	253,196	16	41
SDIF banks	843	727	-31	-16
Foreign banks	84,335	72,747	16	41
Development and investment banks	18,879	16,285	23	49
Total	561,172	484,061	16	40

Source: The Banks Association of Turkey

In deposit banks group, state-owned banks grew by 14 percent while private banks and foreign banks grew each by 16 percent. The growth rate in development and investment banks was 23 percent.

3.4. Market shares

The share of the total assets in deposit banks was 97 percent, while that of development and investment banks was 3 percent. In the deposit banks group; total share of state-owned banks and SDIF banks decreased by 1 percentage point to 29 percent, while the share of foreign banks rose by 1 percentage point to 16 percent.

Market Shares of Groups (Percentage)

	T. assets			T. deposits			T. loans		
	02	06	07	02	06	07	02	06	07
Deposit banks	96	97	97	100	100	100	89	95	96
State-owned and SDIF banks	36	30	29	39	36	36	20	22	23
Private banks	56	52	52	58	49	50	65	55	55
Foreign banks	3	15	16	2	15	14	4	19	19
Development and investment b.	4	3	3	-	-	-	11	5	4
Total	100	100	100	100	100	100	100	100	100

Source: The Banks Association of Turkey

The share of private banks in total deposits increased by 1 percentage point to 50 percent, and the share of foreign banks dropped by 1 percentage point to 14 percent. The share of state-owned banks and SDIF banks in total loans rose by 1 percentage point to 23 percent, while that of development and investment banks dropped by 1 percentage point to 4 percent.

3.5. Concentration

The share of largest five and ten banks in the total assets of the banking sector each dropped by 1 percentage point to 62 percent and 85 percent, respectively. The share of largest five banks in total loans and the share of largest ten banks in total deposits also dropped by 1 percentage point each; other figures regarding concentration in the banking sector remained unchanged.

Concentration in Banking Sector* (Percentage)

	2002	2003	2004	2005	2006	2007
Largest five						
T. assets	58	60	60	63	63	62
T. deposits	61	62	64	66	64	64
T. loans	55	54	48	56	58	57
Largest ten						
T. assets	81	82	84	85	86	85
T. deposits	86	86	88	89	90	89
T. loans	74	75	77	80	83	83

* In terms of total assets
Source: The Banks Association of Turkey

Considering asset size there was 1 state-owned bank and 4 private banks among the largest five banks of the banking sector, while the largest ten banks included 3 state-owned banks and 7 private banks as of the end of 2007.

The Number of Banks by Asset Size

USD billion →	+0-1		1-2		2-5		5-10		10-20		20-40		40+
	02	07	02	07	02	07	02	07	02	07	02	07	07
Number													
Deposit b.	23	13	3	1	7	5	1	2	5	5	1	2	5
State							1		1		1	2	1
Private	9	2	2		5	3		1	4	1			4
Foreign	14	10	1	1		2		1		4			
Fund	5	1			2								
Dev. inv. b.	12	9	1	1	1	3							
Total	35	22	4	2	8	8	1	2	5	5	1	2	5

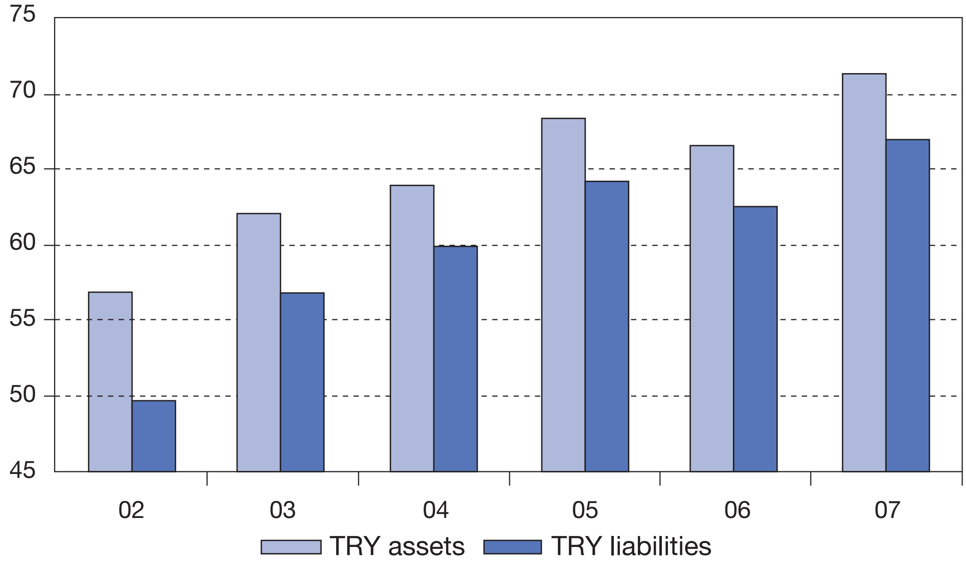
There are 5 banks with asset size above USD 40 billion , and 7 banks above USD 20 billion. On the other hand, asset size of almost half of the banks was below USD 1 billion.

3.6. Currency structure of balance sheet and “Fx Assets – Fx Liabilities”

As of December 2007, TRY assets rose by 24 percent and foreign exchange assets dropped by 1 percent in the banking system. Similarly, TRY liabilities grew by 24 percent while the growth rate in foreign exchange liabilities was 3 percent. The share of TRY items in the balance sheet increased due to TRY’s appreciation against dollar and robust TRY demand throughout 2007. Consequently, the shares of TRY assets and TRY liabilities in balance sheet rose to 71 percent and 67 percent from 66 percent 62 percent, respectively.

State-owned banks had a TRY-weighted balance sheet structure. The share of TRY assets in total assets was 80 percent in state-owned banks, and 65 percent in private banks. There existed a similar difference in distribution of funds; the share of TRY liabilities in total liabilities was 79 percent in state-owned banks and 62 percent in private banks.

Share of TRY Items in Balance Sheet (Percentage)



Fx Position by Groups* (Percentage)

	Per. share Fx assets		Per. share Fx liabilities		USD billion Fx assets-Fx liabilities	
	2006	2007	2006	2007	2006	2007
Deposit banks	34	29	38	33	-13.6	-20.8
State-owned banks	22	20	24	21	-2.1	-2.3
Private banks	40	35	44	38	-6.6	-7.7
SDIF banks	7	10	10	11	0.0	0.0
Foreign banks	34	25	44	39	-5.0	-10.8
Development and investment banks	32	24	33	30	-0.2	-0.9
Total	34	29	38	33	-13.8	-21.7

*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.

The difference between foreign exchange assets and foreign exchange liabilities which showed the balance sheet foreign exchange position of the banking sector in general was USD 21.7 billion in 2007. Private banks and foreign banks had a portion of USD 18.5 billion in balance sheet foreign exchange position of the sector On the other hand; foreign exchange net general position gave a deficit of USD 127 million. The ratio of net foreign exchange position to shareholders' equity was at 0.2 percent.

Net General Fx Position (USD million)

	2005	2006	2007
Deposit banks*	-154*	96*	-132*
State-owned banks	55	144	267
Private banks	-243	-189	-223
Foreign banks	34	142	-176
Development and investment banks	57	88	5
Total*	-97	184	-127

Source: BRSA Weekly Bulletin

3.7. Asset Structure

Despite the contracting effect of a tightening monetary policy starting from the second half of 2006 on domestic demand, election atmosphere and increased risk perception due to fluctuations in international markets; rising corporate and individual loan demand particularly in the second half of the year supported the growth in total assets. While the increase in securities and liquid assets remained limited, the share of fixed assets remained the same.

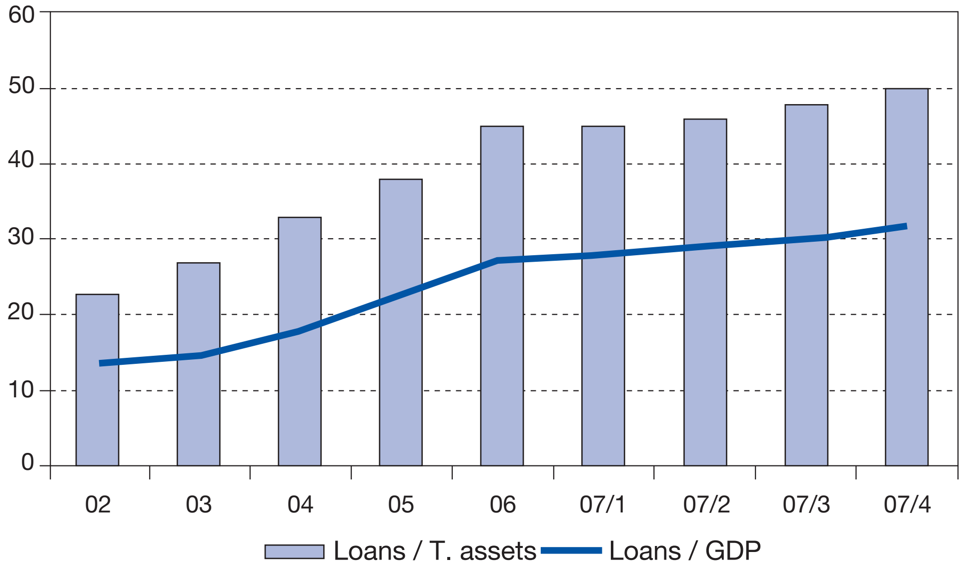
Total loans reached TRY 280 billion by an increase of 29 percent. Total loans were consisted of TRY loans by 75 percent and foreign exchange loans by 25 percent. As of the end of 2007, corporate loans constituted 68 percent of total loans, and 32 percent of consumer loans. Manufacturing industry had a share of 37 percent in corporate loans. Trade and services sectors' shares were 13 percent and 12 percent, respectively. These sectors were followed by construction sector which had a share of 7 percent in corporate loans.

The Structure and Development of Assets

	TRY million	USD million	Per. change (TRY)	Per. share 2006	Per. share 2007
Liquid assets	74,832	64,549	1	15	13
Financial assets (FA)	175,857	151,692	4	35	31
FA value change is reflected to income statement (net)	12,863	11,095	-19	3	2
Investments for sale (net)	120,476	103,921	18	21	21
Investments held to maturity (net)	42,479	36,642	-16	10	8
Derivative FA held for hedging	39	34	133	0	0
Loans	280,453	241,916	29	45	50
Non-performing loans	9,827	8,476	20	2	2
Specific provisions (-)	8,689	7,495	17	2	2
Permanent assets (PA)	21,599	18,631	11	4	4
Investments and associates	1,304	1,125	15	0	0
Subsidiaries	9,347	8,063	16	2	2
Joint ventures	13	11	1	0	0
Property and equipment (net)	8,550	7,375	4	2	2
Intangible assets (net)	1,988	1,715	20	0	0
PA held for sale purpose	397	342	-9	0	0
Other assets	8,431	7,272	82	1	2
Total assets	561,172	484,061	16	100	100

Source: BRSA

Loans / Total Assets and Loans / GDP (Percentage)



As for non-cash loans; manufacturing sector had the largest share with 36 percent, which followed by construction sector with 20 percent share. Trade and services sectors' shares were 12 percent and 8 percent, respectively.

The share of loans in total assets increased by 5 percentage points to 50 percent, while that of securities portfolio and liquid assets dropped by 4 and 2 percentage points to 31 percent and 13 percent, respectively.

The share of consumer loans in total loans also continued to rise in 2007. In consumer loans housing loans had a share of 34 percent, credit cards 29 percent and automobile loans 6 percent. Other loans item which had a share of 25 percent at the end of 2006 was the fastest growing item; its share increased to 31 percent at the end of 2007.

Loans By Sectors (TRY million)

	2007	Per. change (07/06)	2002	Per. share 2006	2007
Commercial loans	203,883	28	86	69	68
Consumer loans	97,802	37	14	31	32
Credit cards	28,937	25	9	10	10
Other consumer loans	68,865	44	5	21	23
Housing	32,666	39	1	10	11
Automobile	6,402	-6	1	3	2
Other	29,797	68	3	8	10
Total	301,685	31	100	100	100

Source: BRSA

Non-performing loans (NPLs) increased by 20 percent, a lesser rate than the increase in total loan stock. Non-performing loans grew by 33 percent in consumer loans and 17 percent in commercial loans. Although the rate of increase in housing loans and other consumer loans was high, the volume at stake was limited.

Non-performing Loans By Sectors (2007, TRY million)

	Total loans	NPLs (gross)	NPLs/Total loans (percentage)
Commercial	203,883	7,500	3.7
Consumer	97,802	2,822	2.9
Credit cards	28,937	1,833	6.3
Other consumer loans	68,865	989	1.4
Housing	32,666	218	0.7
Automobile	6,402	248	3.9
Other	29,797	523	1.8
Total	301,685	10,322	3.4

Source: BRSA

Non-performing loans constituted 4.8 percent of the total corporate loans in manufacturing industry, 4.2 percent in trade sector, 3 percent in construction industry, and 2.9 percent in services sector.

Specific provisions were allocated for 88 percent of non-performing loans. There was no significant change in nonperforming loans after provisioning. Along with these developments, the ratio of non-performing loans after provisioning to total loans rose slightly to 0.4 percent from 0.3 percent.

Non-performing Loans* and Specific Provisions (Percentage)

	NPLs/ Total loans		Provisions/ NPLs	
	2006	2007	2006	2007
Deposit banks	3.8	3.6	91	88
State-owned banks	5.1	4.1	97	96
Private banks	3.8	3.6	88	87
SDIF banks	472	434	87	84
Foreign banks	2.4	2.9	87	81
Development and investment banks	1.9	1.4	95	93
Total	3.8	3.5	91	88

* Before provisions
Source: The Banks Association of Turkey

3.8. Structure of liabilities

Total deposits rose by 14 percent, though its share in the total liabilities decreased by 1 percentage point to 64 percent. The TRY equivalent of foreign exchange deposits increased by 4 percent while its USD equivalent increased by 26 percent. The share of foreign exchange deposits in the total liabilities dropped by 3 percentage points to 22 percent. On the contrary, TRY deposits grew by 21 percent and its share in the total liabilities rose by 1 percentage point to 41 percent.

Hence, total deposits of USD 357 billion was consisted of TRY deposits by 65 percent, and 35 percent by foreign exchange deposits. These ratios were 62 percent and 38 percent, respectively at the end of 2006. The ratio of TRY deposits to total deposits was 79 percent in state-owned banks and SDIF banks, 59 percent in private banks, and 53 percent in foreign banks.

The Structure and Development of Liabilities

	TRY million	USD million	Per. change (TRY)	Per. share 2006	Per. share 2007
Deposits	356,984	307,930	14	65	64
TRY	232,488	200,541	21	40	41
Fx	124,496	107,389	4	25	22
Non-deposit funds	91,614	79,025	5	18	16
Shareholder’s equity	73,486	63,388	27	12	13
Paid-in capital	30,501	26,310	21	5	5
Supplementary capital	15,778	13,610	17	3	3
Profit reserves	30,905	26,658	17	5	6
Profit or loss	-3,699	-3,191	-48	-1	-1
Prior year income/loss	-18,030	-15,553	0	-4	-3
Current year income/loss	14,331	12,362	31	2	3
Other liabilities	39,088	33,717	47	5	7
Total liabilities	561,172	484,061	16	100	100

Source: The Banks Association of Turkey

Non-deposit funds which constituted 16 percent of total funds rose by 5 percent to TRY 92 billion in 2007. A 65 percent of non-deposit funds was consisted of borrowed loans.

Total Deposit by Bank Groups (TRY million, 2007)

	TRY	Fx	Total	Percentage share TRY	Percentage share Fx	Percentage share Total
Deposit banks	232,488	124,496	356,984	65	35	100
State-owned banks	100,597	27,356	127,953	79	21	100
Private banks	104,351	73,177	177,528	59	41	100
SDIF banks	15	21	36	42	58	100
Foreign banks	27,525	23,942	51,467	53	47	100
Development and investment banks	-	-	-	-	-	-
Total	232,488	124,496	356,984	65	35	100

Source: The Banks Association of Turkey

There was no significant change in the maturity structure of deposits. The average maturity of total deposits was 2.5 months. The average maturity of TRY deposits was 2.3 months against 2.8 months in foreign exchange deposits.

3.9. Shareholders' equity

Total shareholders' equity reached TRY 73 billion (USD 63 billion) by an increase of 27 percent, a rate higher than the inflation and the growth of total assets. Shareholders' equity in dollar terms grew by 54 percent. Leading contributors to the growth in shareholders' equity were the increases in paid-in capital, profit of the period and the reserves. Decrease in the loss of the previous period was another factor contributing to the high growth in shareholders' equity.

Shareholders' Equity

	TRY million	USD million	Per. change (TRY)	Per. change (USD)	Share in total liabilities (per.)
Deposit banks	64,533	55,666	28	55	11.9
State-owned banks	16,827	14,515	14	38	10.5
Private banks	35,896	30,964	36	64	12.1
SDIF banks	665	574	-23	-6	78.9
Foreign banks	11,145	9,613	34	63	13.7
Dev. and invest. banks	8,952	7,722	18	43	47.4
Total	73,486	63,388	27	54	13.0

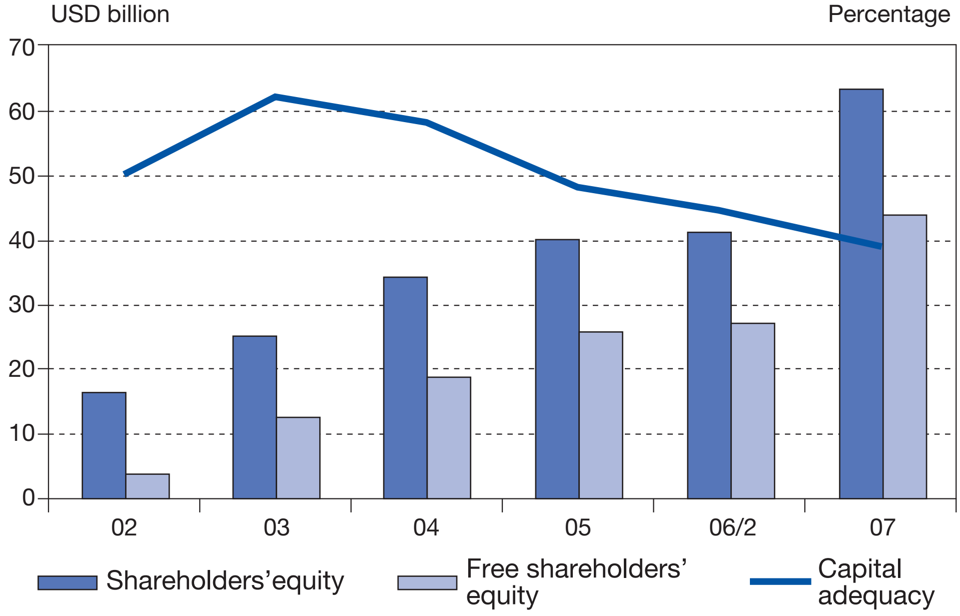
Source: The Banks Association of Turkey

The ratio of shareholders' equity to total assets rose to 13 percent at the end of 2007 from 11.9 percent at the end of 2006. Free shareholders' equity continued to rise as a result of the rapid growth in shareholders' equity and the decline in fixed assets and non-performing loans.

Capital adequacy standard ratio dropped by 2 percentage points to 19.1 percent at the end of 2007 compared to the end of 2006. Higher rate of increase in loan stock compared to shareholders' equity hence rapid increase particularly in items subject to high risk weight and inclusion of operational risk to the calculations starting from June 2007 were the main factors contributing to the fall in capital adequacy.

Free shareholders' equity (shareholders' equity–permanent assets–nonperforming loans after provisioning) rose to TRY 51 billion (USD 44 billion) from TRY 38 billion (USD 27 billion). The ratio of free shareholders' equity to total assets rose to 9 percent by increasing 1.2 percentage.

Shareholders' Equity and Free Shareholders' Equitiy (USD billion)
Capital Adequacy (Percentage)



Free Shareholders' Equity*

	TRY million		Shareholders' equity/ Total Assets(per.)	
	2006	**2007**	**2006**	**2007**
Deposit banks	30,711	42,382	6.5	7.8
State-owned banks	11,509	13,161	8.0	8.0
Private banks	12,200	20,427	4.8	7.0
SDIF banks	785	592	64.6	70.2
Foreign banks	6,216	8,202	8.5	9.7
Development and investment banks	7,101	8,366	46.3	44.3
Total	37,812	50,748	7.8	9.0

* Shareholders' equity-permanent assets-loans under follow-up after specific provisions
Source: The Banks Association of Turkey

Net profit of the banking sector increased by 31 percent and reached TRY 14,331 million. Increase in net profit was 21 percent in state-owned banks, 58 percent in private deposit banks, 8 percent in foreign deposit banks, and 17 percent in development and investment banks.

Net Profit-Loss, 2007

	Net Profit-Loss		Per. change	
	(TRY million)	**(USD million)**	**TRY**	**USD**
Deposit banks	13,468	11,617	32	60
State-owned banks	4,513	3,893	21	47
Private banks	7,155	6,172	58	91
SDIF banks	104	90	-73	-68
Foreign banks	1,696	1,463	8	31
Development and investment banks	864	745	17	42
Total	14,331	12,362	31	58

Source: The Banks Association of Turkey

The main reasons behind the rise in profit volume were subsidiary sales, continued rise in income from fees and commissions and service charges, net commercial income, and increase in net interest revenues in parallel with the continued rise in loan volume.

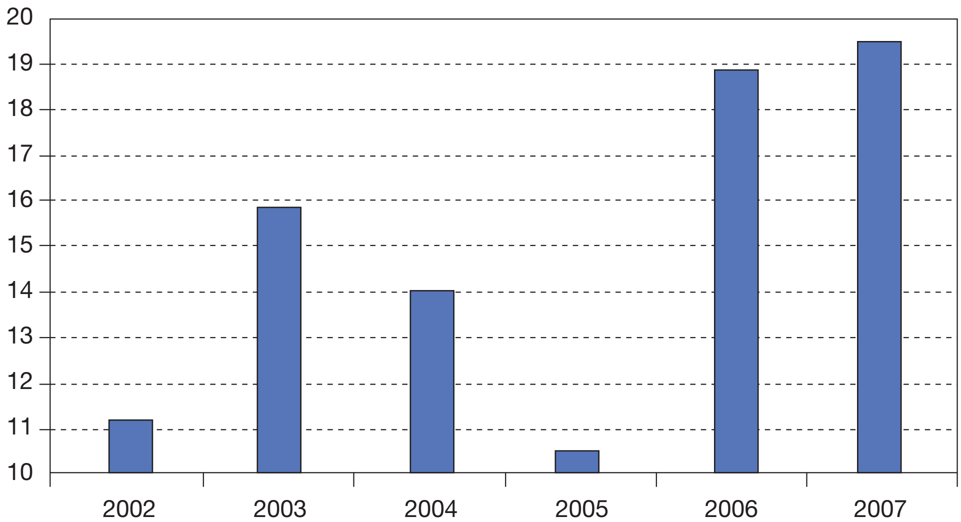
Return on Assets and Return on Shareholders' Equity, 2007

	Return on assets (percentage)	Return on equity (percentage)
Deposit banks	2.5	20.9
State-owned banks	2.8	26.8
Private banks	2.4	19.9
SDIF banks	12.4	15.7
Foreign banks	2.0	15.2
Development and investment banks	4.6	9.6
Total	2.6	19.5

Source: The Banks Association of Turkey

The banking sector's net return on assets rose to 2.6 percent from 2.3 percent, while return on equity increased to 19.5 percent from 18.9 percent. Return on assets dropped in foreign banks and development and investment banks while increased in state-owned banks and private banks.

Return on Shareholders' Equity (Annual, percentage)



3.10. Income-expenditure

Net interest income of the banking system grew by 22 percent. Interest income grew by 26 percent while interest expenditures grew by 28 percent. Also because of high levels of deposit interest rates, net interest margin narrowed with a limited extend. On the other hand, non-interest income increased albeit slightly depending on revenues from subsidiary sales and continued rise in fees and commissions income.

Depending on the increase in the number of branches and employees, non-interest expenditures increased. Consequently, net deficit between non-interest income and expenditures expanded. Contrary to 2006, other non-interest income-expenditure balance had positive contribution on the profit in 2007 as a result of TRY's appreciation against major currencies and net foreign exchange income due to the short foreign exchange positions held by banks

Income-Expenditure Structure, December 2007

	TRY million	USD million	Per. change (TRY)	Per. change (USD)
Interest income	69,225	59,713	26	53
Interest expense	43,477	37,503	28	55
Net interest income	25,748	22,210	22	48
Net fees and commission income	7,182	6,195	24	51
Dividend income	801	691	62	97
Net trading income/expense	774	668	66	101
-Income on trading account securities	-828	-714	-171	-186
-Foreign exchange income	1,602	1,382	-327	-375
Other operating income	5,312	4,582	17	41
Total operating income/loss	39,815	34,344	23	49
Provision for loan or other receivables loss (-)	4,996	4,309	33	62
Other operating expense (-)	17,248	14,878	19	44
Net operating income/loss	17,571	15,157	25	52
Income before tax (continuing operation)	17,571	15,157	25	52
Provisions (continuing operation)	-3,226	-2,782	5	27
Net income (continuing operation).	14,346	12,375	31	59
Net income (terminated operation).	-14	-12	...	...
Net income	14,331	12,362	31	58

Source: The Banks Association of Turkey

Pre-tax profit rose by 25 percent while the provisions allocated for taxes rose by 5 percent. Depending on these developments, net profit of the period reached TRY 14.3 billion by an increase of 31 percent.

3.11. Off-balance Sheet Items

Derivative financial instruments increased by 51 percent, and commitments increased by 48 percent in 2007. The increase in derivative financial instruments resulted mainly from private banks, while the increase in other commitments caused by foreign banks.

Off-Balance Sheet Items, December 2007

	TRY million	USD million	Per. change TRY	million
Guaranties and warranties	83,958	72,422	10	33
Commitments	125,663	108,396	48	80
Derivative financial instruments	157,917	136,217	51	83
Custody and pledged securities	4,691,488	4,046,828	8	31
Total	5,059,026	4,363,863	10	33

Source: The Banks Association of Turkey

Guarantees and warranties increased by 10 percent, while custody and pledged securities increased by 8 percent. Hence, the increase in total off-balance sheet items was realized as 10 percent.

3.12. Number of ATM and credit cards

According to the data of Interbank Card Center, total number of credit cards increased by 15 percent to 37.3 million as of December 2007 compared with the end of 2006. Total number of ATM cards also increased by 4 percent and reached 55.5 million in the same period. Numbers of POS (Point of Sale) and ATM (Automatic Teller Machine) also recorded rises by 13 percent and 14 percent, respectively in 2007, and reached 1,453,877 and 18,800 respectively.

Number of ATM, POS and Cards

	December 2006	December 2007	Per. change
Total credit card ('000)	32,433	37,335	4,902
Total debit card ('000)	53,464	55,510	2,046
POS ('000)	1,283	1,454	171
ATM	16,511	18,800	2,289

Source: Interbank Card Center

Volume of transaction with credit cards rose by 3 percent from the previous year and reached TRY 111.6 billion, while the volume of transaction with ATM cards dropped by 8 percent to TRY 100 billion.

3.13. Internet banking statistics

Number of internet banking customers rose by 27 percent to 4.3 million in 2007. Of which 89 percent were individual customers, and 11 percent were corporate customers.

Selected Indicators for Internet Banking

	2006	2007	Per. change
Number of active customers ('000)	3,368	4,274	27
(TRY million)			
Financial transactions	92,856	116,093	25
Investment transactions	36,004	40,344	12
Credit card transactions	4,819	3,486	-28
Other financial transactions	7,559	7,851	4
Total	141,238	167,774	19

Source: The Banks Association of Turkey

Transactions entered through internet banking increased by 19 percent and reached TRY 168 billion. Financial transactions, predominantly consisted of cash transfers, rose by 25 percent. Credit card transactions decreased by 28 percent due to the decline in credit card debt payments in 2007. Investment transactions rose by 12 percent and other financial transactions rose by 4 percent.