Banking System in Turkey [1]
"June 2009"

Developments in the Banking Sector

Executive Summary

The negative developments in global markets continued to affect the Turkish economy in the first half of 2009. In the meanwhile, as a result of the government's fiscal policy decisions and applications, TRCB's monetary policy approach, BRSA's regulations and the continued finance of economy by the banks, the contraction in the economy slowed down in the second quarter of the year and a slight improvement was observed in the expectations. Inflation and interest rates continued to decrease. On the other hand there was a considerable increase in the budget deficit.

The growth in the loan stock slowed down due to the increased demand in public sector borrowing, the strengthened lending standards and the decline in demand for loan. The contraction in the economic activity in reel terms, the decrease in raw material prices and the deterioration in investments resulted in decreased demand in corporate and investment loans. When the portfolio of public borrowing securities and loan stock are considered together it's seen that the banks continued to finance economic activity.

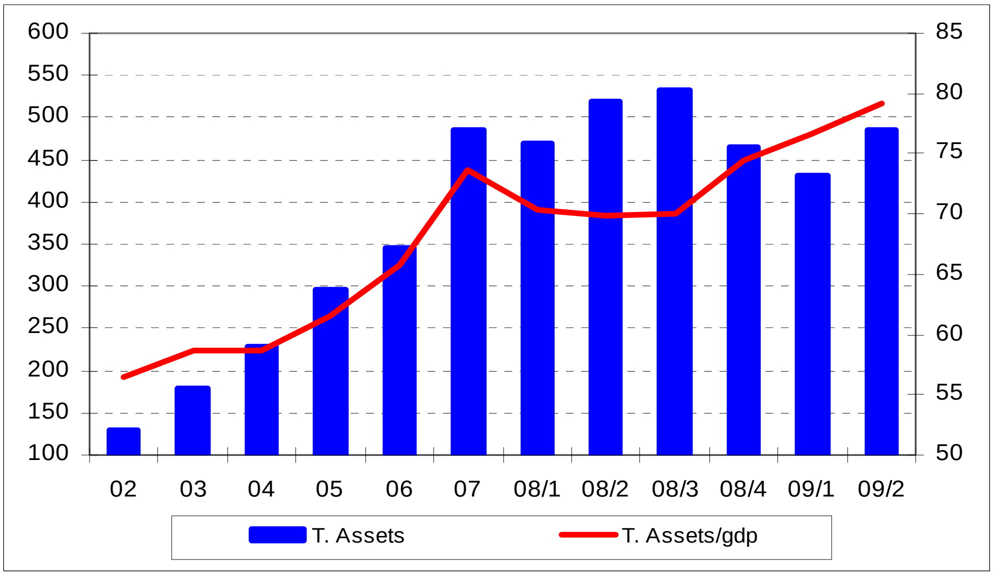
The average maturity of liabilities became shorter. The sensitivity of the income-expense structure of the banking sector to financial asset prices increased. Because of contraction in economic activity, the risk on loan stock and loans under follow-up continued to increase. On the other hand, due to the maturity mismatch, the decline in the interest rates had positive effects on level of profits. Strong shareholders' equity had also positive effect on the volume of profits. Shareholders' equity growth continued in line with the increase in paid-up capital and extraordinary reserves.

Annual return on equity was realized slightly above the return of public borrowing securities. Foreign exchange net general position had a positive balance and liquid assets were at a prudential level.

Total assets increased by 17 percent in the first half of the year compared to the first half of 2008. As of June 2009, total assets were TL 738 billion (USD 484 billion). The ratio of total assets to gross domestic product is realized as 79 percent as of June 2009.

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

Total Assets (USD billion) and Total Assets/gdp (percentage)



Total assets increased by 16 percent in deposit banks and 22 percent in development and investment banks, as compared to the June 2008. In the same period, the share of public banks in total assets increased by 2 percentage points, while the share of private and foreign banks in assets decreased by 1 percentage point.

According to the asset size, assets share of the first five banks increased by 1 percentage point, loans share decreased by 1 percentage point and deposits share remained same compared to December 2008, while the share of first ten banks in assets, loans, and deposits increased by 1 percentage point to 87 percent, 91 percent and 85 percent respectively.

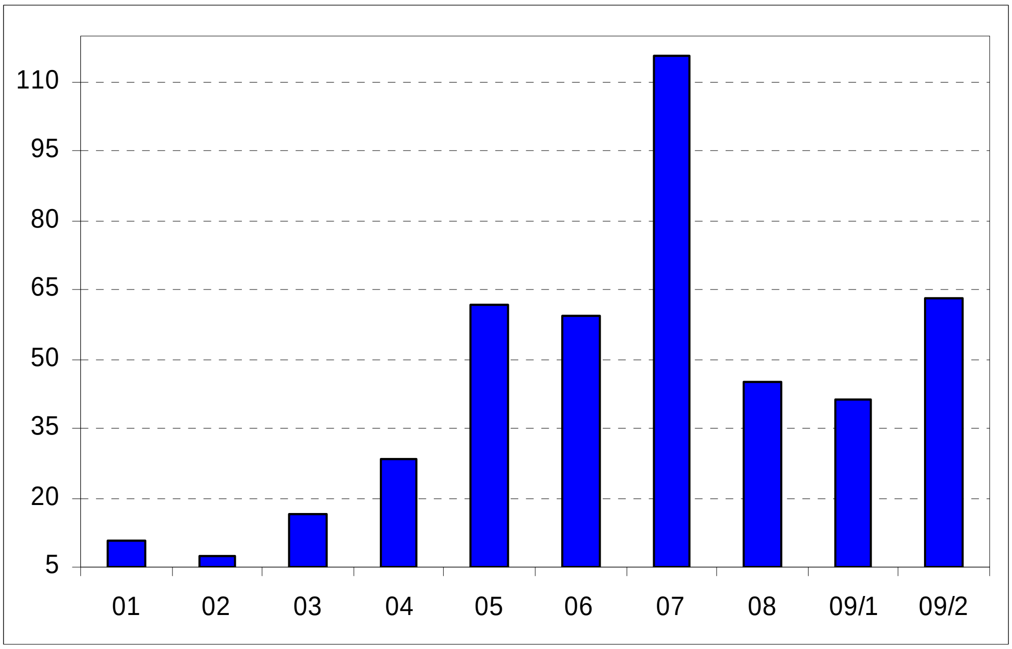
Net foreign exchange position of the banking sector showed a surplus of USD 357 million. Compared to June 2008, the ratio of TL equivalent of FX assets to total assets increased by 1 percentage point to 30 percent, while the ratio of TL equivalent of FX liabilities to total liabilities decreased by 1 percentage point to 34 percent.

The ratio of loans to total assets realized 49 percent by decreasing 4 percentage points as compared to June 2008. Loans to deposits ratio was 78 percent by decreasing 5 percentage points in the same period. The same ratio was 54 percent in state-owned banks, 82 percent in private banks and 103 percent in foreign banks as of June 2009.

Considering maturity 52 percent of total assets and 79 percent of total liabilities had a maturity of less than 1 year.

Total shareholders' equity increased by 27 percent in comparison to June 2008, and amounted to TL 93.8 billion (USD 61.5 billion) as of June 2009. Shareholders' equity growth continued in line with the increase in paid-up capital and extraordinary reserves. Thus, both the ratio of free shareholders' equity to total assets and the capital adequacy ratio increased, as compared to June 2008.

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



Total market value of financial institutions declined from USD 45 billion as of the end of 2008 to USD 41 billion as of March 2009, but increased again in the second quarter of year to USD 62 billion as of June 2009.

Profit volume increased by 33 percent to TL 10.7 billion, as compared to the same period of the last year. The profitability improved as a result of the decrease in the interest rates since the average maturity of total assets was longer than average maturity of lliabilities. Another factor in the improvement of profitability was the decrease in average cost of funding resulting from the fast increase in equity. On yearly basis, return on equity and return on assets realized as 16.5 percent and 2.1 percent, respectively.

The growth in off-balance sheet items was restricted especially by the deceleration of the growth of in derivatives and commitments items.

The number of banks operating in Turkey remained the same at 45 compared to December 2008. On the other hand, the number of branches increased by 61 to 8,851 in the same period.

The number of debit and credit cards continued to increase but there was a decrease in the rate of growth of transactions volume. As regards the transactions carried on internet, both the numbers and the volume continued to increase.