BANKS IN TURKEY 2009

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This book is prepared from the year-end audited and non-consolidated "The Common Data Set" of deposit banks and development and investment banks, that are prepared according to related Communique -Financial Statements and Related Explanation and Footnotes of the banks that is disclosed to the Public-

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Preface

'Banks in Turkey 2009' provides general information about deposit banks and development and investment banks operating in Turkey as well as their audited financial tables which are prepared according to the related Communique-Financial statements and related explanation and footnotes of the banks that is disclosed to the Public-. This book also offers an overall evaluation of the performance of the Turkish economy and the banking system in 2009.

In addition, more details and tables that are prepared according to the related Communique, in terms of banks or groups, can be found in the web site of the Association (www.tbb.org.tr).

It is hoped that this publication will be useful for those who are interested.

The Banks Association of Turkey

The Turkish Economy
Main Economic Indicators

	Unit	2006	2007	2008	2009	2010*
Growth						
GDP	%	6.9	4.5	0.7	-4.7	3.5
Agriculture		1.3	-7.0	4.6	3.3	...
Industry		8.4	5.6	-0.1	-7.2	...
Services		7.2	5.7	0.5	-4.9	...
Sectoral breakdown (at current prices)	%					
Agriculture		9.7	9.0	7.0	8.0	...
Industry		23.8	24.0	20.0	19.0	...
Services		66.5	67.0	73.0	73.0	...
GDP	USD billion	526	659	742	618	...
GDP	TL billion	758	856	951	954	...
Population	Million	73	70.6	71.1	71.9	...
Income per capita	In USD terms	7,212	9,333	10,436	8,590	...
Source-use	As % of GDP					
Fixed-capital outlays		21	22	20	17	18
Public		5	4	4	4	4
Private		16	18	16	13	14
Total savings	%	16	16	17	14	15
Public		6	3	2	-3	-1
Private		10	13	15	17	16
Savings gap		-8	-6	-5	-2	-3
Public		1	-2	-2	-7	-6
Private		-9	-4	-3	5	3
Total consumption		84	83	83	84	85
Public		13	10	9	11	11
Private		71	73	74	73	75
GDP deflator	%	9	8	12	5	...
Unemployment						
Overall	%	11	11	14	14	...
Urban		13	12	15	16	...
Rural		8	8	11	9	...
Inflation	%					
(Twelve month chg)						
Producer		12	6	8	6	...
Consumer		10	8	10	7	7
Public sector balance, as % of GDP	%					
PSBR (excluding privatization)		0	2	3	7	5
PSBR (including privatization)		-1	-1	0	0	0
PSBR (exc. İnterest pay. and privatization)		-7	-5	-3	0	-1
Budget deficit		1	2	2	6	5
Budget deficit (excluding interest payments)		-8	-6	-4	0	-2
SEEs		0	0	0	0	-1
Public administrations		0	0	1	0	0
Funds		-1	-1	0	0	0
Other		0	0	1	2	1
Central Government budget	TL billion					
Revenues		173	190	210	215	237
Expenditures		178	204	227	267	287
Interest expenditures		46	49	51	53	57
Budget deficit		-5	-14	-19	-56	-50
Primary balance		41	35	33	1	7
Financing		6	13	19	56	...
External borrowing		0	-3	4	6	...
G-bonds		13	12	6	54	...
Short-term financing		-8	-3	8	0	...
T-bills		-8	-3	8	0	...
CB advances		0	0	0	0	...
Other		2	7	1	-4	...

** Programme target*

Selected Budget Ratios	%					
Revenue/GDP		22	22	22	23	...
Expenditure/GDP		24	24	24	28	...
Personnel expenditure/GDP		4	5	5	6	...
Interest expenditure/GDP		6	6	5	6	...
Investment/GDP		2	2	2	3	...
Personnel expenditure/total expenditure		21	21	21	21	...
Interest expenditure/total expenditure		26	24	26	20	...
Investment/total expenditure		7	6	6	9	...
Outstanding domestic debt	TL billion					
G-bonds		242	249	261	316	...
T-bills		10	6	14	14	...
Total Government securities		252	255	275	330	...
CB advances		0	0	0	0	...
Devaluation account		0	0	0	0	...
Total		252	255	275	330	...
Outstanding Domestic G. securities/GDP	%	33	30	29	35	...
Outstanding debt/GDP		46	41	38	47	...
Interest rates	%					
(Annual,compound, average)						
O/n		19	17	16	7	...
G-Securities		22	17	19	9	...
G-securities maturity (day)		852	999	806	1100	...
Exchange rates						
USD (Year-end)		1.4056	1.1593	1.5218	1.4873	...
(Twelve month chg)	%	5	-18	31	-2.3	...
Euro (year-end)		1.8515	1.7060	2.1435	2.1427	...
(Twelve month chg)	%	17	-8	25	0.4	...
CB Balance Sheet	TL billion					
Total balance sheet		104	106	113	110	...
As % of GDP	%	12	11	12	12	...
Net fx assets		48	51	70	72	...
Net domestic assets		-6	-6	-15	-8	...
Lending to Government		19	17	14	9	...
Reserve money		41	45	56	65	...
CB money		42	55	54	49	...
Fx position	USD billion	21	33	37	36	...
Fx reserves	USD billion	61	71	70	71	...
Monetary aggregates						
M1**	TL billion	72	78	83	107	...
M2***		297	345	434	494	...
M3****		320	370	458	521	...
Repos (R)		4	4	3	4	...
Investment Funds (F)		19	21	21	23	...
G-securities held by non banks (D)		66	68	74	75	...
Loans		219	286	368	393	...
M3RF		342	395	475	548	...
M3RFD		408	463	549	623	...
M1/GDP	%	8	8	9	11	...
M3/GDP	%	37	39	48	55	...
Loans/GDP	%	26	30	39	39	...

** Programme target*

***Money in circulation+demand deposit (Fx included)*

**** M1+time deposit (Fx included)*

***** M2+repos+investment funds)*

Financial assets	TL billion					
Monetary assets		297	345	439	498	...
TL		190	234	304	350	...
FX		107	111	135	148	...
Securities		484	589	471	697	...
Shares		228	334	181	351	...
Bonds and Bills		255	255	276	331	...
Government		255	249	275	330	...
Private		0	6	1	1	...
Investment Funds		19	21	14	16	...
Total		800	955	896	1	...
Foreign trade	USD billion					
Exports		85	107	132	102	...
Imports		137	170	202	141	...
Trade deficit		52	63	70	39	...
Foreign trade as of GDP	%					
Exports		16	16	18	17	...
Imports		26	26	27	23	...
Trade deficit		10	10	9	6	...
Balance of payments	USD billion					
Trade balance		-41	-47	-53	-25	...
Invisible balance		9	9	11	11	...
Current account balance		-32	-38	-42	-14	...
Current account balance/GDP	%	-6	-6	-6	-2	...
Capital movements	USD billion	46	49	34	6	...
Foreign direct investment		19	20	16	6	...
Portfolio investment		7	1	-5	0	...
Net errors and ommissions		0	2	6	8	...
Change in reserves		-6	-8	1	0	...
International fx reserves	USD billion					
CB reserves		61	71	70	71	...
Commercial banks		38	44	...	...	...
Total		99	115	...	...	...
Outstanding external debt	USD million					
Total		207	249	278	271	...
Long-term capital		165	206	227	219	...
Government		70	71	75	80	...
Central Bank		13	14	12	12	...
Private sector		82	121	140	128	...
Non-financials		53	79	99	92	...
Financials		29	42	41	35	...
Short term		43	43	50	52	...
Government		2	2	3	4	...
Central Bank		3	2	2	2	...
Private sector		38	39	45	46	...
Non-financials		18	23	24	22	...
Financials		20	16	21	24	...
Istanbul Stock Exchange						
Number of companies traded		291	292	318	316	...
ISE index	In USD terms	2	3	1	2	...
Daily trading volume	USD million	886	1	1	1	...
Total trading volume	USD billion	222	291	252	299	...
Market capitilization	USD billion	163	288	119	204	...
Market P/E		22	12	6	17	...

** Programme target*

Turkish Economy and Banking System in 2009

I. Economy and Banking System in Turkey in 2009

1. General Outlook

1.1. Economic Performance In 2009

The global economy underwent a deep, long-lasting and destructive crisis.

The global economy remained under severe stress in 2009 as the crisis broadened in both advanced and emerging market countries. This protracted period of the deep and destructive impacts on all economies of the countries was considered as a global crisis by many economists. Although the crisis had a deep impression on the financial sector, the developments in fact negatively affected almost all sectors. According to the International Monetary Fund (IMF), the world output and trade volume had declined at the highest rate ever seen since the last 40 years, with high rate of decline in wealth, rapidly increasing unemployment, rising ratios of budget deficits and outstanding public debt to national income, falling commodity prices, decline in capital inflow to the emerging markets, loss of confidence and increase of instability in the markets. As a result, the financial sector couldn't perform its intermediary functions soundly and the markets became inefficient in many countries.

National authorities, international institutions and organizations started a joint effort to restore confidence and get financial markets functioning properly again, and minimize the impact on the global economy. For a better coordination, the Group of Twenty (G-20), including also Turkey, proposed a set of measures to be taken in the international platform with effect from the last quarter of 2008. The national authorities intervened the economies through monetary and fiscal policies; the central banks rapidly lowered the interest rates and provided liquidity support to markets and financial institutions while the governments provided capital support to financial institutions.

On the other hand, the financial asset and instrument prices increased rapidly, particularly starting from the second half of 2009 as a result of decline in interest rates and expansion of liquidity sources across the world. While effects of the measures adopted on the real economy remained rather limited, the financial markets recovered more rapidly.

Turkey's economy shrank, both inflation and interest rates decreased.

The international developments also affected Turkish economy negatively. Income dropped, private sector demand contracted, foreign trade volume diminished, budget deficit grew, unemployment rate increased, and capital inflow declined in parallel to the world economy. On the other hand, inflation and interest rates fell to historically low levels.

Gross domestic product (gdp) contracted by 4.7 percent in 2009 in constant prices. Fixed capital investments decreased by 19.2 percent, while total consumption declined by 1 percent. It is estimated that the ratio of total savings gap to gdp is 2.3 percent, and the ratio of public sector savings gap to gdp is around 5.3 percent, while that of private sector savings surplus to gdp is about 3.1 percent.

The central government budget deficit grew under the effects of shrinking economic activity and tax reductions. Due to the enlarging budget deficit, the ratio of public sector deficit to gdp rose from 1.6 percent to 6.4 percent.

The ratio of public sector outstanding debt to gdp was 47 percent, and the ratio of outstanding domestic debt to gdp increased by 6 percentage points to 35 percent, while the ratio of outstanding external debt to gdp increased by 2 percentage points to 12 percent.

The inflation fell to 6.5 percent, which was the lowest level recorded ever since 1968. Easing of inflationist pressures enabled the Central Bank to lower the short-term interest rates, and the policy interest rate was reduced by 8.5 percentage points in 2009. The short-term interest rates were also marked down to single-digits for the first time since they were regulated by the market. The Central Bank, having increased liquidity possibilities, injected liquidity into the market through open market operations. Furthermore, The Bank purchased net USD 3.3 billion foreign exchange through foreign exchange buying auctions.

Though the number of unemployed people rose to a limited extent, the rate of unemployment declined due to the increase in employment and labor force.

Turkey's credit rating was upgraded four times in 2009 by various rating agencies. As of December 2009, Turkey's sovereign credit rating was announced as BB- by S&P, as Ba3 by Moodys and as BB+by FITCH.

The total ratio of deposits to loans fell down from 84 percent in September 2008 to 81 percent at the end of 2008 and to 76 percent at the end of 2009. The annual growth rate in the loan stock, after slowing down to zero percent as of October 2009, started to rose in the last two months of the year and reached 5 percent as of December 2009. The ratio of loan stock to gdp increased by 2 percentage points to 39 percent. Out of total loans 73 percent was in TL terms.

The ratio of foreign trade volume to gdp decreased by 6 percentage points to 39 percent. Due to the decrease in domestic demand, the current account deficit contracted rapidly, and the ratio of current account deficit to gdp was equivalent to 2.3 percent.

On annual basis, capital inflow remained below the current account deficit. Capital inflow declined from USD 34 billion in the previous year to USD 6 billion in 2009, and particularly external borrowing of the industrial sector decreased.

Outstanding foreign debt fell to USD 271 billion, but the ratio of outstanding foreign debt to gdp rose by 7 percentage points to 44 percent.

Measures Adopted in Turkey

With the intention of minimizing the negative effects of international developments on Turkey, the measures adopted by the Government and the relevant authorities starting from the last quarter of 2008 were continued in 2009. Thanks to these measures adopted, the deterioration in expectations stopped, and behaviors started to turn into positive though slowly, starting from the first quarter of 2009.

The measures adopted by the Government:

- In February 2009, the duration of short-time working allowance was increased from 3 months to 6 months. In June 2009, the duration of short-time working allowance was increased by further 6 months. The validity time of government subsidies was extended by one year with respect to 49 provinces. It was decided to interdict confiscation of pensions.

- By the new package of measures announced in March 2009, tax rates enforceable in white goods, automobile and housing sectors were reduced, and additional subsidies and allowances were offered to SMEs, and the Resource Utilization Support Fund rates were lowered, and the capital of Turk Eximbank was increased. In addition, the discounted tariff rates applied on electricity consumed in industries were generalized and extended.

- By a second package of measures introduced again in March 2009, the rate of VAT applied on furniture, heavy-duty machines and equipments, information technologies and office furniture was reduced. In April 2009, the scope of the tax reduction was expanded to cover sectors such as automotive supplies industry and telephone. Later, the validity time of the tax reductions was extended up to October 2009.

- In March 2009, maturity of agricultural loans offered by TC Ziraat Bankası A.Ş. was extended.

- “Revising and Amending the Law on Regulation of Public Finance and Debt Management” intending to provide National Treasury support to the Credit Guarantee Fund (CGF) was enacted in June 2009. According to the Law, public cash resources will be transferred to CGF or a special rank of government domestic debt instruments will be issued for CGF in an amount up to TL 1 billion for provision of loan guarantees to firms. Accordingly, the Minister of Finance was authorized to open a section in the Treasury Undersecretariat’s budget for the said special rank of government domestic debt instruments to be issued and to transfer an allowance up to TL 1 billion.

- The capital of the CGF was increased from TL 60 million to TL 240 million by participation of twenty banks.

- In June 2009, with the Law Revising and Amending the Law on Regulation of Public Finance and Debt Management, it was decided to transfer cash resources up to TL 2.6 billion to the Agricultural Products Office and to instruct the Treasury Undersecretariat to issue a special rank of government domestic debt instruments.

- In June 2009, the Government announced its new government subsidies system to be applicable until the end of 2010, aiming to support major investments in twelve sectors and to divide Turkey into four separate regions for granting sector and region based government subsidies. The means of government subsidies were declared as reductions in corporate/income tax rates, reimbursement of employer’s contribution to social security premiums by the Treasury Undersecretariat, interest subsidies, allocation of lands or sites for investments, VAT exemption, and customs tax and duty exemption. The sectors eligible for major investment supports were chemicals and chemical products manufacturing, refined petroleum products manufacturing, transit pipeline transportation services, motor land vehicles manufacturing, railway and tramway locomotive or wagon manufacturing, port construction and port services, electronics manufacturing industry, medical devices, precious and optical tools and devices manufacturing, pharmaceuticals manufacturing, air crafts and space vehicles manufacturing, machine manufacturing investments and mining investments.

- The regulation on restructuring of outstanding loan card debts was published in July 2009. Accordingly, as for the outstanding loan card debts for which a payment notice was issued, or an execution proceeding was initiated, or a legal proceeding was pending by the bank as of May 31, 2009, the restructuring was allowed providing that an application was filed within 60 days and that the minimum debt payment agreed upon in the restructuring contract was not less than 20 percent of the debt of period. The Banking Regulation and Supervision Agency was authorized to increase the rate up to 40 percent and to reduce the increased rate down to 20 percent.

- By an employment package publicized by the Government, it is decided that the supports to be granted to charitable organizations and projects will be financed from the unemployment insurance fund, and thus, direct employment opportunities and jobs be created for 120 thousand persons unemployed. In addition, through professional trainings, 200 thousand persons unemployed are intended to be trained, and the total number of unemployed to be reached by this program will be 500 thousand persons.

- In July 2009, the validity time of the legislative arrangement known as Law on Repatriation of Capital was first extended to September 2009 and then to the end of 2009.

- The Ministry of Industry and Trade initiated a new three-legged loan support program addressed to tradesmen and craftsmen and to all SMEs. It is stated that these supports and subsidies are formulated in a framework consistent to the budget of Small and Medium Enterprises Development Organization contained in the mid-term program and would “therefore not bring any additional burden on 2009 budget”. For this reason, it was specified that these supports would be valid only until the end of 2009, and the first of these support programs would provide a total loan facility of TL 2.5 billion to 100 thousand of commercial enterprises.

The measures adopted by the Central Bank:

- The short-term interest rates were reduced by 8.5 percentage points in total from 15 percent to 6.5 percent during 2009.

- Starting from March 2009, due to the rapid rise in the foreign exchange demand, foreign exchange selling auctions were initiated, a total of USD 900 million was sold in 18 auctions in March. In parallel to the increasing foreign exchange supply in the national economy starting in August, the Central Bank restarted foreign exchange buying auctions, and purchased a total of USD 4.2 billion in 2009. Thus, net foreign exchange purchases by the Central Bank was USD 3.3 billion in 2009.

- In February, the Central Bank extended the lending maturity from 1 month to 3 months in foreign exchange deposit market and reduced the lending interest rate from 7 percent to 5.5 percent in USD and from 9 percent to 6.5 percent in euro.

- In March and April, new legislative arrangements enabling more firms to raise rediscount loan facilities were enacted, and loan limits were also increased.

- The rate of TL required reserves was reduced from 6 percent to 5 percent as of October 2009.

- For satisfying the liquidity demands of the market, funding was raised, and repo auctions with 3-months maturity started as one of the means of funding as of June.

The measures adopted by the Banking Regulation and Supervision Agency (BRSA):

- "Revising and Amending Regulation on the Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions To Be Set Aside" was published in the Official Gazette numbered 27119 on January 23, 2009. With the new regulation, the banks were allowed to restructure the loans that currently appear performing as well. Thereafter, upon expiry as of March 1, 2010, the validity term of Temporary Article 2 and Temporary Article 3 of the said regulation is extended until March 1, 2011, by Article 4 of the Regulation promulgated in the Official Gazette numbered 27513 on March 6, 2010.

- BRSA required banks to get permission for distribution of their earnings.

The measures adopted by the Capital Markets Board:

- In April 2009, the Capital Markets Board determined the principles relating to capital decreases not requiring any fund outflow. It was declared that as the international economic crisis economically made it impossible for companies to realize a cash capital increase through public offerings, this impossibility forces the companies to make capital increase so as to satisfy their cash capital requirements. It is also added that in addition to the previously issued legislative regulations, with a view to paving the way for cash capital increases of companies the shares of which are traded below the nominal value per share, the Board regulated the principles and procedures relating to the process of capital increases not requiring any fund outflow for the publicly-held joint-stock companies.

On the other hand, the Government publicized its three-years basic economic targets through a Mid-Term Program in order to reduce the market uncertainty and to affect positively the expectations and behaviors in the market.

1.2. Mid-Term Program and Estimates for the Period of 2010-2012

By the Mid-Term Program publicized in December 2009, targets relating to certain economic aggregates were identified. Accordingly, it is expected that the negative effects of the global economic fluctuation will start to diminish and accordingly gdp is expected to grow by 3.5 percent in 2010 and 4 percent in 2011 and 5 percent in 2012, respectively. Within this framework, the ratio of current account deficit to gdp is forecasted to be around 2.8 percent in 2010. Estimations for the same ratio is around 3.3 percent in 2011 and 3.9 percent 2012, respectively. It is further foreseen that PSBR (public sector borrowing requirement)/gdp ratio will start to decline as of 2010 and will be equivalent to 2.7 percent in 2012.

The ratio of primary balance to gdp is foreseen to be around 1.3 percent in 2010 and around 2.1 percent in 2012.

Main Economic Aggregates (percentage)

	2010*	2011*	2012*
Gdp (in real terms)	3.5	4.0	5.0
Current account balance/gdp	-2.8	-3.3	-3.9
Unemployment rate (ILO definition)	14.3	14.1	13.3
Psbr/gdp	4.7	3.5	2.7
Primary balance/gdp	1.3	1.7	2.1
Public debt stock(gross) /gdp	49.0	48.8	47.8

Source: State Planning Organization
* Forecast

As a result of developments in public finance, the ratio of the public sector outstanding debt (gross) to gdp is estimated to decrease after 2010 and will be around 47.8 percent in 2012.

A slow recovery is expected in unemployment rate. Accordingly, the unemployment rate expected to be around 14.3 percent in 2010, is expected fall to the level of 13.3 percent in 2012.

1.3. Banking Sector in 2009

Banking sector recorded a good performance and contributed to financing of economic activities in 2009.

Global crisis also affected the financial sector substantially in Turkey. On the part of deposit banks, and development and investment banks, balance sheet risks increased rapidly, and external funding resources became tighter, and liquidity needs rose particularly in the last quarter of 2008 and in the first quarter of 2009. However, besides sound balance sheets, successful risk diversification and risk management by banks, due to the measures taken by the relevant authorities and the effective public supervision the banking sector in Turkey stayed safe and sound in 2009, without creating any burden on the public. The banking sector continued to support the financing of economic activities.

Many countries implemented full deposit guarantee and granted public resources to financial institutions in order to lessen the impacts of the global crisis, in contrast Turkey did not change the deposit guarantee limit and grant any public resources to the banks. On the other hand, due to the rapid narrowing in economic activities, decline in external demand and increase in unemployment, the loan risks increased and the loan demand was substantially tightened particularly in the first half of the year. However, the growing public sector borrowing requirement due to the budget deficit were financed by banks to a great extent.

The banking was “the best story” of Turkey in 2009.

The banking sector was “the best story of Turkey”, told repeatedly both domestically and abroad in 2009. As for the banks, the main causes underlying this achievement were sound and healthy balance sheet of the sector, and strong shareholders’ equity and high trust in TL. A great part of deposits in banks are deposits held and owned by residents in Turkey. TL deposits account for two-thirds of total deposits in banks.

The share of foreign loans in the balance sheet was around 9 percent. The shareholders’ equity continued to grow. Assets of banks showed a wide spectrum of distribution by products and customers. Loans and securities accounted for respectively 48 percent and 35 percent of total assets. Out of total loans, 67 percent was corporate loans and 33 percent was consumer loans. Banks' loans and securities portfolio included traditional banking products, and "toxic assets" almost did not exist. Almost all of the risks of banks were comprised of risks of Turkey. Growing shareholders' equities, healthy distribution of assets, high liquidity, lowering interest rate and more effective and efficient risk management affected the performance of the banks positively. Due to the longer maturity of assets than that of liabilities, the fall in interest rates positively affected the profit of banking sector as a whole in 2009. Increase in the profit volume in turn supported the growth in shareholders' equity and return on equity.

Total assets grew by 13 percent to TL 799 billion (USD 537 billion) in current prices. The ratio of total assets to gdp was around 84 percent. The share of the assets in foreign exchange in the total balance sheet declined by 4 percentage points to 27 percent, while that of the liabilities in foreign exchange fell down by 3 percentage points to 32 percent.

Due to the downsizing of economy, overall quality of loan stock declined, and non-performing loans increased. Provisions required to be set aside for non-performing loans limited the profitability. The share of non-performing loans in total loans rose to 5.4 percent, and specific provisions were set aside for 85 percent of them. The share of loans in total assets declined by 4 percentage points to 48 percent from its level as of the end of 2008. The share of consumer loans in total loans increased to 33 percent. The share of securities in total assets grew by 6 percentage points to 35 percent. The share of fixed assets in the total assets was about 3 percent.

Total deposits increased by 12 percent to TL 507 billion. The ratio of total deposits to total assets was 64 percent. The average maturity of TL deposits was 2.2 months, while that of foreign exchange deposits was 2.7 months. The funding resources supplied from foreign banks, realized as TL 70 billion (USD 53 billion), accounted for 9 percent of total assets. The major part of these resources were in foreign exchange.

Shareholders' equity and free shareholders' equity continued to increase. Shareholders' equity was TL 106 billion (USD 72 billion), and free shareholders' equity was TL 79 billion (USD 53 billion). The ratio of shareholders' equity to total assets was around 13 percent, while the capital adequacy standard ratio was around 20.9 percent. The return on equity rose by 2.8 percentage points to 18.3 percent.

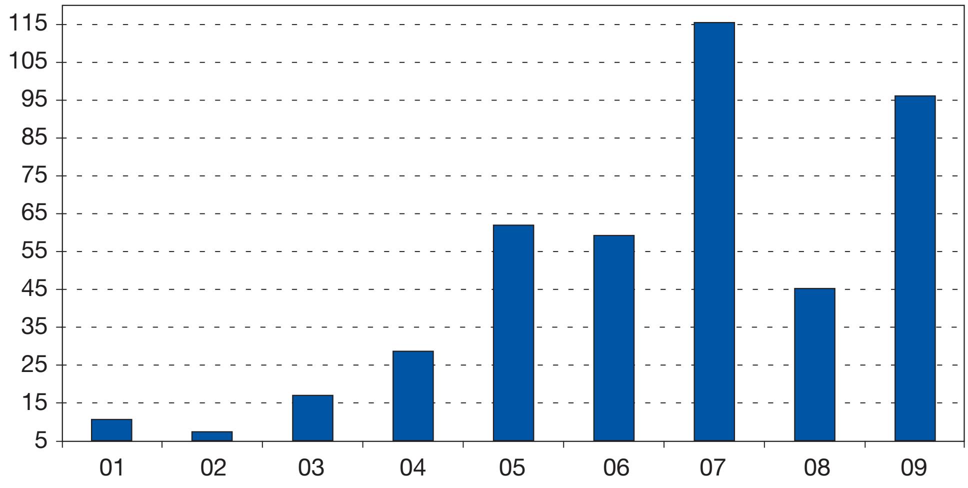
Net profit of the period increased by 52 percent and reached TL 19.5 billion. Interest income and interest expenses declined by 1 percent and 22 percent, respectively.

The rate of increase in total off-balance sheet items was 28 percent.

One of the significant developments in the banking sector in 2009 was the change in sector shares of the bank groups according to capital ownership. The share of the state-owned banks in total loans, total deposits and total assets increased by 3 percentage points, 1 percentage point and 2 percentage points, respectively.

Market value of financial institutions rose by 113 percent to USD 96 billion as of December 2009 as compared to the end of 2008. Besides the strong financial structure and the increasing profitability of the banking sector, the upgraded credit rating of Turkey led to increase in the market value of financial institutions. As a result, total market value of financial institutions traded in Istanbul Stock Exchange accounted for 41 percent of total market value of all companies.

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



Credit cards transaction volume increased by 10 percent to TL 205 billion, while debit cards transaction volume increased by 21 percent to TL 188 billion as of the end of 2009 as compared to the end of the previous year.

The number of internet banking customers rose by 15 percent to 5.9 million in the same period.

In 2009, the number of banks operating in Turkey was 49; Of which 32 were deposit banks, and 13 development and investment banks and 4 participation banks. There were 17 deposit banks and 4 development and investment banks whose shares were owned by non resident investors at a rate of minimum 51 percent. The number of these banks rose to 25 with the addition of 4 banks having strategic partnership with the non-resident financial institutions. Out of 25 banks, 14 banks were European, 5 were Middle-Eastern, 4 were USA, and 1 was Asian, and 1 was African-origin.

The upward trend in the number of branches and the employment which started in 2003 also continued in 2009 despite the global crisis.

Compared to EU member states, according to 2008 data, the Turkish banking system was at the fifteenth rank among EU27 in terms of size of assets. The average assets per capita in EU was 16 times greater than the assets per capita in Turkey.

Selected Banking Indicators in EU and Turkey* (2008)

	EU27	**Turkey**
Asset per person (Euro)	84,711	5,453
Total assets/gdp (percent)	337	77
Population/number of employees	149	389
Population/number of branches	2,092	7,640
Population/number of banks	58,550	1,459,531

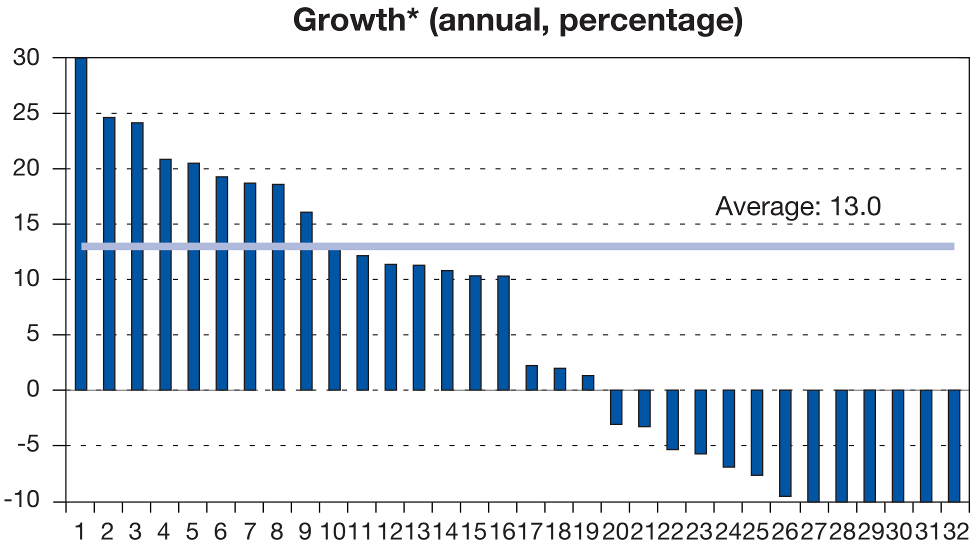
* Deposit banks, development and investment banks, and participation banks are included.

In spite of the steady growth and the increase in loan supply during 2002-2008 period, the banking system in Turkey is still relatively small compared with the EU member states on average.

1.3.1. Outlook of Banking Sector by Selected Indicators

1.3.1.1. Growth

Balance sheet size of deposit banks recorded an average growth of 13 percent in 2009.

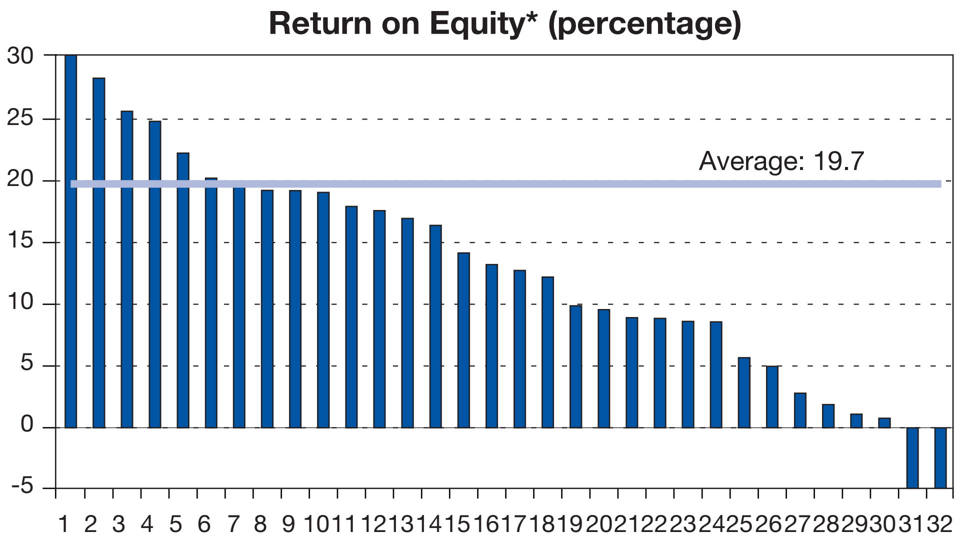


*Graph scale was limited for presentation purposes.

Out of 32 deposit banks in the banking sector 10 banks grew at a rate higher than the average of the sector. The balance sheet size of 9 deposit banks recorded a growth below 13 percent, while the balance sheet size of 13 deposit banks contracted.

1.3.1.2. Profitability

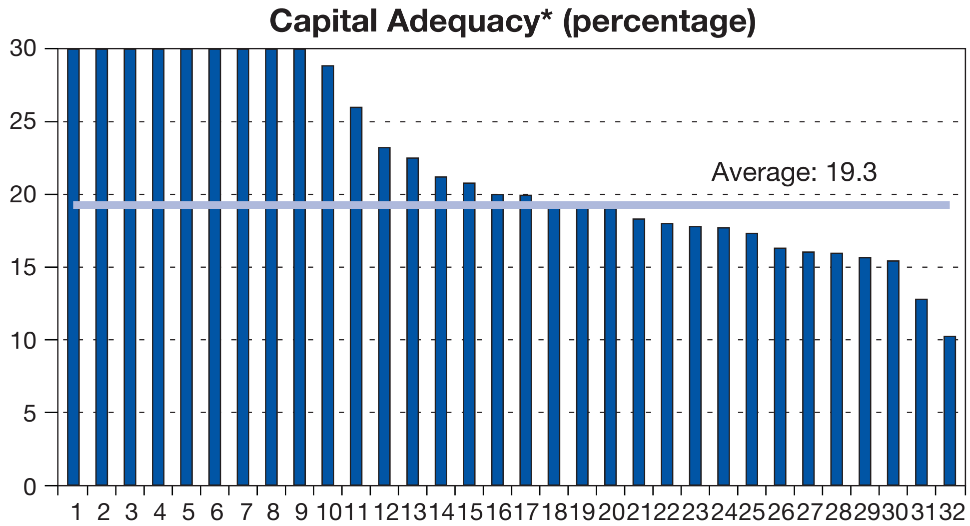
Return on equity in deposit banks was 19.7 percent on average as of December 2009. Return on equity in 6 banks was above the sector average, while 2 banks reported loss.



*Graph scale was limited for presentation purpose.

1.3.1.3. Capital Adequacy

Capital adequacy of deposit banks was recorded as 19.3 percent. 17 banks had a capital adequacy ratio higher than the average.



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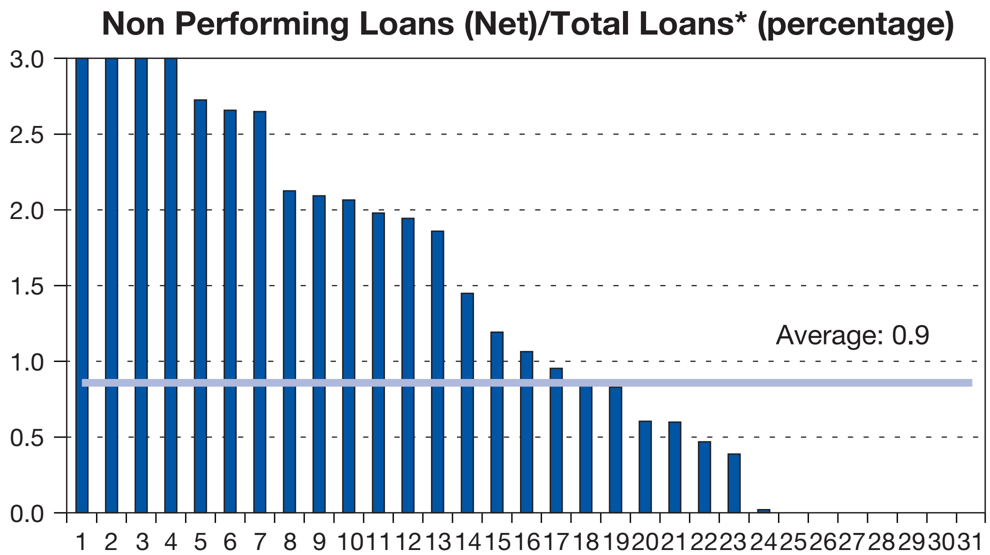
1.3.1.4 Non-Performing Loans

The upward trend in the non-performing loans stopped in the last months of the year. Provisions were set aside for 85 percent of non-performing loans of deposit banks.



*Graph scale was limited for presentation purpose.

The ratio of non-performing loans after provisions to total loans was 0.9 percent on average. This ratio was above average in 17 banks, while it was zero in 7 banks.

1.3.2. Important Regulations Relating With The Banking Sector in 2009

The important regulations affecting the banking sector issued in 2009 were outlined as follows:

(1) **Check Law No. 5941** was published in the Official Gazette dated December 20, 2009 and numbered 27438. In general, this Law tightened the check use principles, and aggravated the obligations of banks in terms of use of checks.

After the Law, the **"Communiqué No. 2010/2 on Notification of Decisions as to Printing Format of Checkbooks, and Minimum Amount Required to be Paid by Banks to Check Holders, and Restrictions on Check Drawing and Check Account Opening"** was published in the Official Gazette dated January 20, 2010 and numbered 27468

(2) With a view to allowing banks for restructuring of outstanding credit card debts, the **"Law No 5915 Amending and Revising the Law on Banks Cards and Credit Cards"** was published in the Official Gazette dated July 7, 2009 and numbered 27281 and put into force.

(3) By a Decree of the Council of Ministers No. 2009/15082 promulgated in the Official Gazette dated June 16, 2009 and numbered 27260, paragraph (b) of Article 17 of the **Governmental Decree No. 32 for Protection of Value of Turkish Currency** was amended to allow the banks to extent foreign exchange loans to persons resident abroad, providing that the average maturity was longer than one year and the loan facility amount was equal to or above USD 5 million. The rules and explanations of implementation were stated in the Circular No. 2009/YB-22 dated June 22, 2009 and the Circular No. 2009/YB-28 dated September 8, 2009.

On the other hand, by an amendment made in sub-paragraph (b) (ii) of Article 17 of the Governmental Decree No. 32, the maturity limit on the foreign exchange loans that may be made available by banks to persons resident in Turkey for financing of exports, and sales and deliveries considered and treated as exports, and foreign exchange earning activities was removed. Accordingly, by the Communiqué No. 2009-32/37 pertaining to the Governmental Decree No. 32 promulgated in the Official Gazette dated July 11, 2009 and numbered 27285, Article 8 "Cash (Spot) Foreign Exchange" of the Communiqué No. 2008-32/34 was repealed. By this revision, the cash (spot) foreign exchange was removed from the scope of loans and became a type of remittance.

Moreover, by the Communiqué No. 2009-32/38 pertaining to the Governmental Decree No. 32 promulgated in the Official Gazette dated July 24, 2009 and numbered 27298, Article 8 of the Communiqué No. 2008/32-35 was amended and revised to allow the banks to pay in Turkish lira to customers resident in Turkey and pay in Turkish lira or in foreign currency to customers resident abroad.

(4) By the **Draft Law Revising and Amending** the Law on Procedures of Collection of Public Receivables and Some Other Laws, adopted by the Plan and Budget Commission of the Grand National Assembly of Turkey, the public fees levied on foundation and operating licenses of banks were risen, and in addition, new public fees payable every year were imposed on branches in association with the population of residential place where the branch is located.

(5) By the Communiqué No. 2009/7 **Revising and Amending the Communiqué on Required Reserves** promulgated in the Official Gazette dated October 16, 2009 and

numbered 27378, Turkish Lira the required reserve ratio was reduced from 6 percent to 5 percent, and by the amended and revised Communiqué No. 2009/8 promulgated in the Official Gazette dated December 15, 2009 and numbered 27433, banks were allowed to set aside and keep in the next period a deficient portion up to maximum 10 percent of the required reserves in Turkish lira of a certain period, and to apply any surplus portion thereof to the reserve requirements of the next period, as the case may be.

In addition, by the amended Communiqué No. 2010/1 promulgated in the Official Gazette dated January 8, 2010 and numbered 27456, out of the loans borrowed by banks, the loans recorded in foreign branches of banks were also made subject to such required reserves.

(6) **The Circular No. 314 dated December 25, 2009**, was published to allow a deduction in the exchange transaction fees and registration fees imposed on different bases with regard to reporting to ISE in trading of ISE bonds and bills market and trading of fixed income securities out of ISE.

(7) The Constitutional Court cancelled the Law provision allowing **the implementation of zero percent withholding tax for the foreign based real persons and corporate taxpayers** on the income of holding and disposal of securities and other capital market instruments.

2. Developments in Turkish Economy in 2009

2.1. Growth

According to the data of Turkish Institute of Statistics (Turkstat), the gross domestic product decreased by 4.7 percent in constant prices in 2009, the gross domestic product increased by 0.4 percent to TL 954 billion in current prices, but reduced by 16.8 percent to USD 618 billion in dollar terms. Gdp deflator declined from 11.9 percent to 5.4 percent. In constant prices, the growth rate was rather below the targeted level of 4 percent set by 2009 program due to the global crisis.

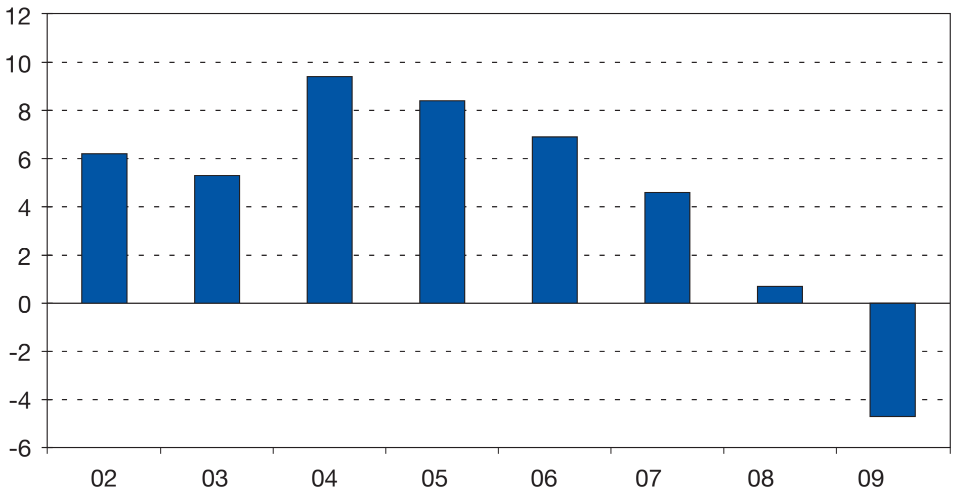
Growth

	2002	2007	2008	2009
Growth rate (percent)				
In current prices	45.9	12.9	12.7	3.6
In constant prices	6.2	4.5	0.7	-4.7
Deflator (percent)	37.4	8.0	11.9	5.4
Gdp (1987 prices, TL million)	73	101	102	97
Gdp (current prices, 1998's series)				
TL billion	351	856	951	954
USD billion	229	659	742	618
Per capita income (USD)	3,296	9,333	10,436	8,590

Source: Turkstat

The growth rate of the Turkish economy started to lose acceleration after 2004, but nevertheless grew above 4 percent, its long-term average, until 2008. The deceleration in the growth rate became more evident after the first quarter of 2008, and the growth rate declined in the last quarter. Thus, uninterrupted growth period of 27 quarters that started in the third quarter of 2002 ceased at the end of the third quarter of 2008. Thereafter, after continuing to slowdown for the initial three quarters of 2009, the economic activity grew again in the last quarter of 2009 following a slowdown lasting for four quarters. The basic reasons underlying this slowdown in economy in 2009 were rapid deceleration in capital inflow, contraction in domestic and foreign demand, and particularly, decrease in private sector capital investments.

Gross Domestic Product (percentage change in constant prices)



Considering sectors, the industries and services sectors contracted, while the agriculture sector grew in real terms. Accordingly, agriculture sector grew by 3.3 percent, while there was a slowdown in industry and services sectors, by 7.2 percent and 4.9 percent, in constant prices, respectively. The share of the agriculture sector in gdp rose by 1 percentage point to 8 percent, while the share of the industries sector decreased by 1 percentage point to 19 percent, and the share of the services sector remained the same at 73 percent, in current prices.

Growth Rates and Breakdown by Sectors

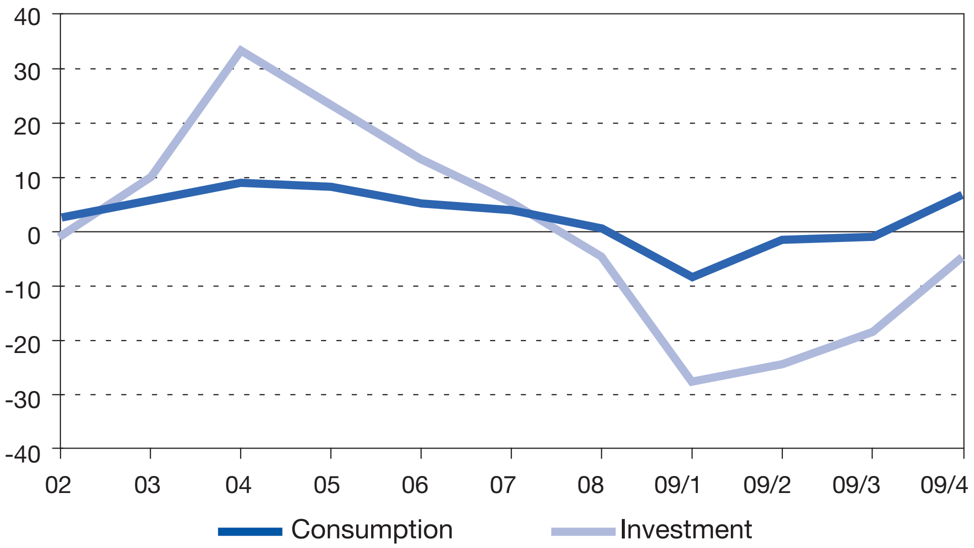
	Percentage change (in constant prices)				Percentage shares in gdp (in current prices)			
	2002	2007	2008	2009	2002	2007	2008	2009
Agriculture	6.9	-7.0	4.6	3.3	14	9	7	8
Industry	9.4	5.6	-0.1	-7.2	29	24	20	19
Services	7.5	5.7	0.5	-4.9	57	67	73	73

Source: Turkstat

The manufacturing industry which was the most important sub-sector of industry sector contracted by 7.2 percent. As of its sub-sectors there was contraction in the wholesale and retail trading, transportation and communication, and construction sectors, and low growth rate increases realized in other sub-sectors. In the energy sector, manufacturing industry fell down by 3.5 percent. In the manufacturing industry, the average rate of capacity utilization increased by 5 percentage points to 69.7 percent as of December 2009 compared with the previous year. This rate was 86.8 percent by an increase of 24.8 percentage points in the public sector, and 69.5 percent by an increase of 4.3 percentage points in the private sector, respectively.

Consumption demand declined by 1 percent, and investment demand reduced by 19.2 percent in constant prices. Private sector consumption decreased by 2.3 percent, while public sector consumption rose by 7.8 percent. Exports and imports also reduced by 5.4 percent and 14.4 percent, respectively.

Consumption and Investment (annual change in constant prices)



The private sector consumption expenditures had a share of 75 percent, and its investment expenditures had a share of 13 percent in gdp in current prices. The private sector investment expenditures declined by 3 percentage points in current prices. The public sector consumption expenditures and investment expenditures had shares of 15 percent and 4 percent, respectively. The share of the public sector consumption expenditures increased substantially as compared to the end of 2008, while that of investment expenditures declined. The shares of both stock variations and net foreign trade were negative.

Domestic Savings and Balance of Savings (as percentage of gdp)

	2002	2007	2008	2009*
Domestic savings	19.0	15.5	16.9	14.2
Public	-6.2	2.4	1.7	-2.6
Private	25.3	13.1	15.1	16.8
Savings balance	-2.6	-5.9	-5.2	-2.3
Public	-12.5	-1.5	-2.5	-5.3
Private	9.9	-4.4	-2.7	3.1
External funds**	2.6	6.0	5.2	-2.3

Source: State Planning Organization
* Estimation, savings balance' estimation is made by the Banks Association of Turkey.
** Factor income and current transfers are included.

According to the estimations of the State Planning Organization, the ratio of domestic savings to gdp decreased by 2.7 percentage points to 14.2 percent. The savings ratio increased in private sector, but decreased to negative level in public sector. The savings deficit contracted by 3.1 percentage points to 2.3 percent of gdp, the ratio of savings gap to gdp in the public sector increased from 2.5 percent to 5.3 percent, while the same ratio in the private sector which was 2.7 percent, gave a savings surplus of 3.1 percent in 2009.

2.2. Employment and Wages

Although the number of unemployed people rose to a limited extent, the actual rate of unemployment declined due to the increases in employment and labor force.

According to the data of Turkstat (Turkish Statistical Institute), total labor supply was 24.8 million, and total employment was only 21.5 million as of December 2009. Total number of workforce increased by 868 thousand persons as compared to the same period of the last year. Besides this increase, the upward trend in the participation to workforce led to a rise of 1,013 thousand persons in the work force. However, in the same period, total employment increased by only 985 thousand persons. Hence, the number of unemployed people increased by approximately 29 thousand persons to 3.4 million compared with the previous year.

Unemployment Rate (percent)

	2002	2007	2008	2009
Unemployment rate				
Overall	10.3	10.6	14.0	13.5
Urban	14.2	12.2	15.6	15.6
Youth	...	20.6	26.0	24.1

Source: Turkstat

As of December 2009, the unemployment rate, declined by 0.5 percentage points to 13.5 percent as compared to the same period of the last year. This rate remained the same at 15.6 percent in the urban population, but reduced by 1.5 percentage points to 9.2 percent in the rural population. Of total employment, 56 percent were employed in services sector and 24 percent in agriculture sector, 20 percent in industry sector.

Real Labor Cost Index (1994=100)

	2005	2006	2007	2008	2009
Public	107	104	112	105	112
Private	115	114	118	119	...
Civil servant	135	140	148	147	165
Minimum wage	182	181	184	177	191

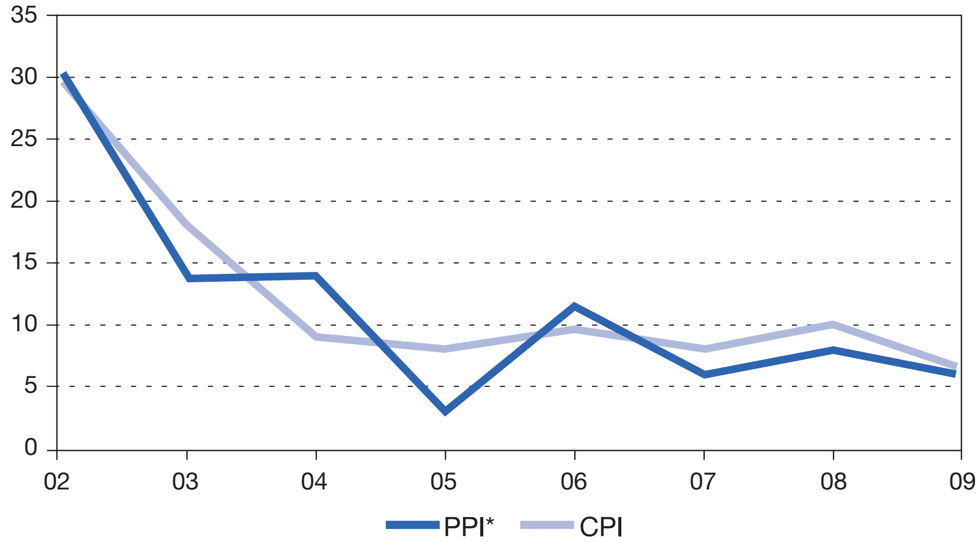
Source: State Planning Organization

According to the estimations of the State Planning Organization, the minimum wage and the real labor cost of public workers and civil servants increased in 2009.

2.3. Inflation

Due to the negative effects of global developments on the economic activities, rapid decline in domestic and foreign demand and rapid fall in energy and commodity prices in the international markets, the inflation rate actually remained below the targeted level in 2009. The year-end inflation target was determined as 7.5 percent in consumer prices for 2009, but the year-end inflation realized as 6.5 percent.

Inflation (12-month, percentage change)



* Values until 2004 belong to previously calculated wholesale price index.

Annual rate of increase in the consumer prices index (CPI) declined during the initial 10 months of 2009 down to 5.1 percent, but increased to 6.5 percent in the last two months of the year. The inflation rate was 5.9 percent according to the Producer Prices Index (PPI). Annual average increase rates were 6.3 percent and 1.2 percent for CPI and PPI, respectively.

Inflation (percentage)

	2002	2007	2008	2009
Annual average				
Producer*	50	6	13	1.2
Consumer	45	9	10	6.3
12-month				
Producer*	31	6	8	5.9
Consumer	30	8	10	6.5
CPI target	...	4	4	7.5

Source: Turkstat
* Values until 2004 belong to previously calculated wholesale price index.

The inflation reduced during the first two quarters of the year, and generally remained low during the second half of the year on annual basis. Since the economy was not exposed to a substantial inflationist pressure, the Central Bank basically adopted a policy taking the economic growth in consideration as well, and therefore gradually decreased the overnight interest rates.

2.4. Public Sector Balance

The public sector deficit expanded substantially in 2009. The ratio of public sector deficit to gdp increased from 1.6 percent to 5.3 percent. Due to the downsizing in the economy in general, tax revenues decreased, but on the other hand, the measures adopted to limit the negative effects of global developments caused an increase in public expenditures. This led to an expansion in the public sector deficit, and rise in the ratio of public sector deficit to gdp. According to estimations of the State Planning Organization, total public revenues increased by only 1 percent, while total public expenditures increased by 15 percent in 2009. As a result, the ratio of total public revenues to gdp increased by approximately 0.4 percentage points to 33.5 percent, while that of total public expenditures rose by 5.4 percentage points to 40.1 percent.

It is estimated that the ratio of public sector primary balance to gdp, which was 4.1 percent in 2008 decreased to 0.1 percent in 2009. The ratio of public sector primary balance to gdp has been falling since 2006. This stemmed mainly from the deterioration in the central government budget.

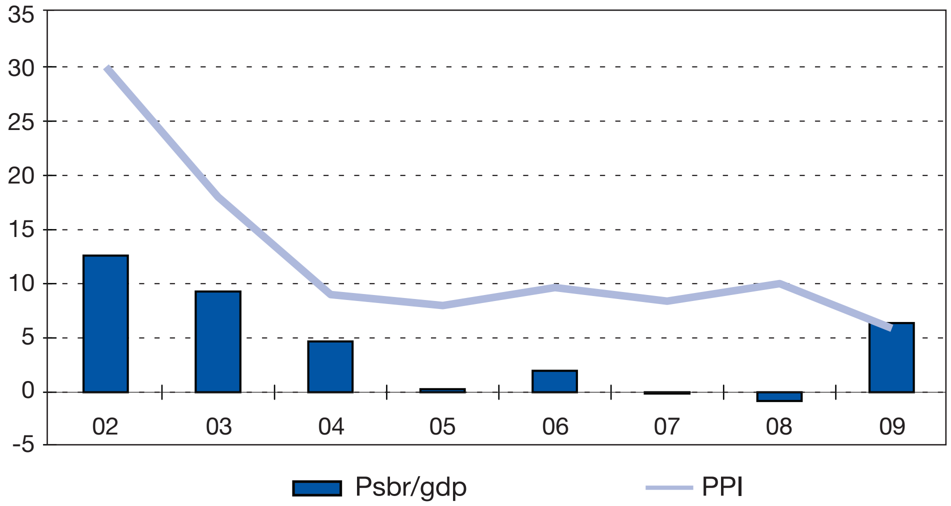
Public Sector Borrowing Requirement (as percentage of gdp)

	2002	2007	2008	2009*
Consolidated budget	-14.8	-1.6	-1.8	-5.5**
State economic enterprises	-1.0	0.1	0.0	0.2
Local administrations	0.1	-0.5	-0.6	-0.3
Funds	0.0	0.9	0.0	0.0
Other	3.0	1.0	0.8	0.3
Public sector deficit***	-12.7	-0.1	-1.6	-5.3
Public sector primary balance	-7.0	5.9	4.1	0.1

Source: State Planning Organization.
* Forecast
** Realization
*** Own estimation

The share of tax revenues in the public revenues was around 55 percent, and indirect taxes accounted for 65 percent of tax revenues. On the other hand, non-interest expenditures accounted for 84 percent of total expenditures. The share of interest expenditures in total expenditures decreased by 16 percentage points compared with 2004, and by 1 percentage point compared with 2008.

Public Sector Borrowing Requirement / Gdp and Inflation (percentage)



The basic factors underlying the negative developments in the public sector balance in 2009 were the recession in economic activities due to the global crisis, and the fall in tax revenues in real terms due to tax reductions made to support the domestic demand, and the substantial increase in public expenditures. The increase in public expenditures was also affected by the current transfers expanded again for the purpose of limiting the negative effects of the global crisis.

Central Government Budget (TL million)

	2008	Per. share	2009*	Per. share	Per. change	As per. of gdp 2009
Revenues	209,598	100	215,060	100	3	22.5
Tax revenues	168,109	80	172,417	80	3	18.1
Non-tax revenues	41,489	20	42,643	20	3	4.5
Expenditures	227,030	100	267,275	100	18	28.0
Interest expend.	50,661	22	53,201	20	5	5.6
Domestic	44,516	20	46,762	17	5	4.9
External	6,145	3	6,439	2	5	0.7
Non-interest	176,369	78	214,074	80	21	22.4
Personnel	48,856	22	55,930	21	14	5.9
Current	105,823	47	133,983	50	27	14.0
Investment	21,690	10	24,161	9	11	2.5
Budget balance	-17,432		-52,215		200	-5.5
Primary balance	33,229		986		-97	0.1

Source: The Ministry of Finance
* Provisional

According to the data of the Ministry of Finance, the ratio of the central government budget deficit to gdp which constituted the most significant part in the public sector increased from 1.8 percent to 5.5 percent. The central government budget revenues increased by 3 percent, while the central government expenditures rose by 18 percent. Interest expenditures and non-interest expenditures grew by 5 percent and 21 percent, respectively. While the budget deficit rose by 200 percent in current prices, the primary balance fell down to an insignificant level. The ratios of budget revenues and expenditures to gdp were around 23 percent and 28 percent, respectively. The ratio of interest expenditures to gdp increased by 0.3 percentage points to 5.6 percent.

The current expenditures had the highest share with 50 percent in budget expenditures. The share of investment expenditures reduced by 1 percentage point to 9 percent compared with 2008, and that of personnel and interest expenditures were 21 percent and 20 percent, respectively.

Financing of the Central Government Budget

	TL million			As percentage of gdp		
	2007	2008	2009	2007	2008	2009
Financing	19,709	16,313	49,369	2.3	1.7	5.2
External borrow. (net)	-5,154	-112	2,998	-0.6	0	0.3
Domestic borrowing	12,364	10,331	50,816	1.4	1.1	5.3
Other	12,499	6,094	-4,445	1.5	0.6	-0.5

Source: Undersecretariat of the Treasury

During 2009, the cash financing requirement of TL 49.4 billion was recorded, while net domestic borrowing of TL 50.8 billion was above the financing requirement. In addition, net external borrowing (TL 3 billion) realized for the first time since 2004. The Treasury cash/bank account had a surplus of TL 4.4 billion after borrowing, and with the positive contributions of other items as well, the Treasury cash/bank account net surplus increased to TL 6.7 billion.

The average maturity of domestic TL borrowing from the markets increased from 806 days to 1,100 days. On the other hand, annual compound interest rate of the domestic TL borrowing fell from 18.6 percent in December 2008 to 9 percent in December 2009. The outstanding domestic debt increased by 20 percent to TL 330 billion, while the ratio of non-cash outstanding domestic debt in total outstanding debt reduced by 5 percentage points to 5 percent.

Structure of Outstanding Domestic Debt (percentage share)

	2002	2007	2008	2009
TL	68	90	92	95
Fixed rate	25	46	46	44
Floating rate	42	44	46	51
Fx denominated	32	10	8	5
Total	100	100	100	100

Source: Undersecretariat of the Treasury

The share of the fixed interest securities within the outstanding domestic debt, declined, while that of the securities with floating interest rate rose from 46 percent to 51 percent, and the share of securities in foreign exchange and/or indexed to foreign exchange fell from 8 percent to 5 percent. Due to the fall in interest rates, the issuance of securities with floating interest rate increased, and this in turn led to an increase in the share of the securities with floating interest rate in the outstanding domestic debt.

The ratio of outstanding domestic debt to gdp increased by 6 percentage points to 35 percent. Total outstanding debt increased by 16 percent to TL 442 billion (USD 293 billion). The ratio of total outstanding debt to gdp rose from 38 percent to 47 percent. In addition to the rise in the ratio of outstanding domestic debt to gdp, the pressure of public sector on the financial resources also increased. The ratio of the outstanding domestic debt to financial instruments (comprised of TL deposits, foreign exchange deposits, repos, investment funds, and government domestic debt securities in the portfolio of non-bank segments) rose from 55 percent to 57 percent.

Outstanding Public Debt

	TL million	As percentage of gdp			
	2009	2006	2007	2008	2009
Government securities	330,005	33	30	29	35
Cash	313,232	27	26	26	33
Non-cash	16,772	6	4	3	2
Bonds	315,969	32	29	27	33
Cash	299,196	26	25	25	31
Non-cash	16,772	6	4	3	2
Treasury bills	14,036	1	1	1	1
Cash	14,036	1	1	1	1
Non-cash	0	0	0	0	0
Central bank advances	0	0	0	0	0
Domestic debt	330,005	33	30	29	35
External debt*	111,503	12	11	10	12
Total	441,507	46	41	38	47

* For Central Government Budget

Of total outstanding domestic debt of central government budget, 18 percent was held by public organizations and 82 percent by the market. These shares were 24 percent and 76 percent, respectively, as of the end of 2008.

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

	2007	2008	2009
Non-financial residents	67,636	73,767	74,890
Real persons	16,523	16,395	10,644
Corporations	51,112	57,372	64,247
Mutual funds	12,657	14,198	15,547
Persons resident abroad	36,981	29,936	31,145
Non-financial residents (Total)	**117,274**	**117,901**	**121,583**
Banks and other	150,128	156,926	208,422
Total	**267,402**	**274,827**	**330,005**

Source: Central Bank of the Republic of Turkey

As of December 2009, 63 percent of the government domestic debt securities was held by banks. Total amount of the government domestic debt securities held by non-bank segments was TL 122 billion. Of which TL 10.6 billion (9 percent) were owned by real persons. Government domestic debt securities held by non-bank sectors constituted 37 percent of the outstanding domestic debt. Demand of non-bank sectors for government domestic debt securities increased in the first half of 2009, but declined in the second half due to the fall in the demand of real persons, while the demand of other segments did not show any significant change. It is observed that the demand of legal entities for government domestic debt securities increases during recessions in economic activities. On the other hand, the demand of banks for government domestic debt securities increased considerably due to the rise in the public sector borrowing requirement.

The annual compound interest rate of government domestic debt securities continued to fall throughout the year due to the reduction of policy interest rates by the Central Bank and the increase in overall demand for government bonds which were considered as a safe investment vehicle because of fluctuations in the international markets. Thus, the interest rate of government securities decreased by approximately 10 percentage points to 9 percent on annual basis in 2009 compared with 2008.

2.5. Monetary Aggregates

2.5.1. Monetary Policy

The negative impacts of the global economic developments on domestic and foreign demand all over the world, the rapid downward trend in economic activities, the overall risk perception in financial system, the tightening of loan standards, the deceleration in capital inflow, the decreasing commodity prices, the fall in inflationist pressure, the increase in the public sector borrowing requirement and the rise in unemployment rate were the basic factors determining the monetary policy applied in 2009.

The Central Bank preferred a policy of closing the liquidity deficit, reducing the interest rates and operating the loan mechanisms. Liquidity opportunities were improved and cost was reduced. Foreign exchange buying and selling auctions were held, and the liquidity requirement ratios were reduced.

Interest Rates, Exchange Rates and Inflation (percentage)

	2008		2009		
	Dec.	March	June	Sept.	Dec.
Interest rate*					
O/n	16.2	11.1	9.1	7.5	6.7
Government securities	18.6	14.1	12.4	10.0	9.0
Exchange rates (annual change)					
TL/USD	31.3	27.7	25.1	19.9	-2.3
TL/Euro	25.0	7.4	11.8	20.2	0.4
Inflation (PPI, annual change)	10.1	7.9	5.7	5.3	6.5

* Annual compounded, average

The Central Bank reduced the policy interest rates by 8.5 percentage points from 15 percent (annual compound interest rate: 16.2 percent) to 6.5 percent during 2009 (annual compound interest rate: 6.7 percent). In February, the maturity of foreign exchange reserves that may be purchased by banks from the Central Bank was risen from 1 month to 3 months, and the Central Bank's lending interest rate was reduced from 7 percent to 5.5 percent for USD and from 9 percent to 6.5 percent for euro. The foreign exchange selling auctions were initiated due to the rapid upward trend in foreign exchange demand, and USD 900 million was sold through 18 auctions as of March 2009. Then, due to the upward trend in foreign exchange supply in the economy since August, the Central Bank restarted foreign exchange buying auctions and purchased a total of USD 4.2 billion in 2009. Hence, net foreign exchange purchase of the Central Bank in 2009 was USD 3.3 billion. In March and April, new legislative arrangements enabling more firms to raise export rediscount loan facilities were enacted, and loan limits were also increased. After June, repo auctions with 3-month maturity also became one of the funding opportunities. Then, the rate of TL required reserves was reduced from 6 percent to 5 percent as of October 2009.

In spite of such expansive practices in the monetary policy, the Central Bank's budget reduced by 4 percent in 2009 due to low loan demand, increasing loan risk, continuing precautionary approaches of banks, and deceleration in capital inflow. The ratio of its balance sheet size to gdp was around 11.5 percent. Foreign assets was 104 percent of the balance sheet size, while domestic assets showed a negative balance. The ratio of domestic liabilities to the balance sheet was 34 percent, while that of foreign exchange liabilities to the balance sheet was 21 percent.

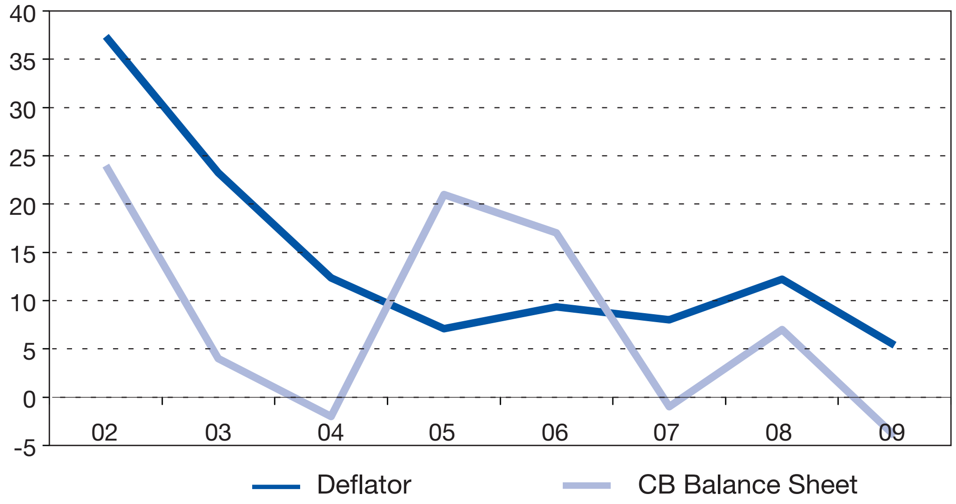
Balance Sheet of the Central Bank, Selected Items* (TL million)

	2008	2009			
	Dec.	March	June	Sept.	Dec.
Net foreign assets	70,405	74,682	67,605	69,654	72,024
Net domestic assets	-14,746	-23,430	-8,929	-6,472	-7,505
Monetary base	55,659	51,252	58,676	63,182	64,519
Open market operations (net)	2,836	-5,666	12,716	20,364	18,917
Central Bank money	54,001	58,692	51,834	49,524	48,560
Fx deposits	-15,686	-11,638	-12,949	-16,806	-15,903
Banks' Fx deposits	-20,807	-21,258	-19,400	-19,199	-20,473

Source: Central Bank of the Republic of Turkey
* All the items except CB money, belongs to CB Balance sheet in the framework of Stand-by agreement.

Net domestic assets increased by TL 7 billion and reached to TL -8 billion. This increase in net domestic assets was a result of (net) increase in open market operations. However, the reduction in cash loans extended to the public sector limited the increase in net domestic assets. Due to these developments, monetary base rose by 16 percent to TL 65 billion.

Central Bank Balance Sheet and Deflator (annual percentage change)



The open market operations which gave a surplus of TL 2.8 billion as of December 2008 increased to a surplus of TL 18.9 billion as of December 2009. Thus, the Central Bank supplied an additional liquidity of TL 16 billion to the market in 2009. The Central Bank's balance of receivables from the open market operations exceeded TL 23 billion as of the beginning of December 2009.

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

	2008	2009			
	Dec.	March	June	Sept.	Dec.
Fx reserves	70.1	66.5	64.9	70.4	70.7
Net Fx position	36.5	42.0	36.0	35.2	35.5

Source: Central Bank of the Republic of Turkey

Foreign exchange reserves of the Central Bank reached USD 70.7 billion by an increase of USD 0.6 billion in 2009. On the other hand, Central Bank's net foreign exchange position declined from USD 36.5 billion to USD 35.5 billion.

2.5.2. Financial Assets and Money Demand

Despite the uncertainties in the international markets and the limitations faced in financing the balance of payments, particularly the demand for TL denominated financial assets and instruments maintained its strong position and level, and the ratio of financial assets to gdp rose significantly. The ratio of financial assets comprised of cash, deposits and capital market instruments to gdp increased by 30 percentage points to 125 percent in 2009, by exceeding its pre-global crisis levels.

Financial Assets (as percentage of gdp)

	2002	2007	2008	2009
Money and quasi-money	39	41	46	52
Cash	2	3	3	4
Deposits	36	37	42	48
- TL	15	24	28	33
- Fx	21	13	14	16
Repos	1	1	0	0
Capital market	61	72	49	73
Shares (market value)	16	40	19	37
Bonds and bills	43	30	29	35
-Public	43	30	29	35
-Private	0	0	0	0
Mutual funds	1	2	1	2
Total	99	113	95	125

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

The increase in demand for financial assets resulted from the increase in stock prices. The share of bonds and bills entirely comprised of securities issued by the public sector also increased by 6 percentage points. On the other hand, the share of money and quasi-money assets also rose by 6 percentage points due the demand for TL deposits.

Money demand (M2RF), consisting of TL deposits, repos and short-term investment funds, rose by 15 percent. Growth in the demand for TL demand deposits by 47 percent contributed significantly to this end. In 2009, value of TL against dollar and euro did not show any important change. Currency substitution reduced due to decreasing use of external resources, increasing interest of investors towards short-term TL instruments such as repo, and stability in the value of TL.

Monetary Aggregates* (2009)

	TL million	USD million	Per. change (TL)	Per. change (USD)
M2RF	318,478	245,391	15	17
Money in circulation	30,468	23,055	13	15
TL demand deposit	30,404	30,080	47	51
Repos	4,914	2,546	-13	-11
Investment funds	14,198	10,453	10	12
TL time deposits	238,494	179,258	12	14
M2RYF	453,317	345,160	13	16
Fx deposits	134,839	99,769	10	13

Source: Central Bank of the Republic of Turkey
* Participation banks' funds are included.

TL equivalent of foreign exchange deposits increased by 10 percent and increased by 13 percent in dollar terms. Money demand (M2YRF), also including the foreign exchange deposits, grew by 13 percent in TL terms and 16 percent in dollar terms. The share of the foreign exchange deposits in M2YRF declined by 1 percentage point and fell to 29 percent compared with the end of 2008. The ratio of M2RF to gdp increased by 5 percentage points to 38 percent, and the ratio of M2RF to M2RFY increased by 6 percentage points to 54 percent.

Breakdown of Monetary Aggregates (percentage)

	2002	2007	2008	2009
Money in circulation	5	7	7	7
TL demand deposits	5	8	7	7
Repos	2	1	1	1
Investment funds	3	6	5	3
TL time deposits	33	48	51	53
Fx deposits	51	30	29	30
M2RYF	100	100	100	100

Source: Central Bank of the Republic of Turkey

Due to the reduction of short-term interest rates by the Turkish Central Bank, deposit interest rates showed a downward trend throughout the whole year. The (compound) interest rates which were 18 percent and 20 percent at 1-month and 3-month maturities, respectively, at of the end of 2008, reduced to 8 percent and 9 percent at of the end of 2009. The interest rates for 3-month foreign exchange deposit interest rates reduced from 5.5 percent to 2.6 percent for dollar and from 4.9 percent to 2.2 percent for euro as compared to the same period of previous year.

According to the data of the BRSA, total deposits in the banking sector rose by 12 percent. TL deposits grew by 15 percent, while TL equivalent sum of foreign exchange deposits grew by 7 percent. The foreign exchange deposits which were USD 100 billion as of the end of 2008, increased to USD 110 billion as of the end of 2009. The share of TL equivalent of foreign exchange deposits in total deposits declined by 2 percentage points at the end of 2008 and fell to 33 percent. The ratio of TL deposits to gdp increased by 5 percentage points to 33 percent at the end of 2008, and that of total deposits, including foreign exchange deposits, increased by 6 percentage points to 48 percent. Despite the fall in interest rates, the strengthening demand for TL deposits, and the slowdown in growth of gdp led to a rapid increase in the ratio of deposit to gdp.

Maturity Structure of Total Deposits (percentage)

	2002	2007	2008	2009
Total	100	100	100	100
Demand	19	16	14	15
1-month	30	28	31	27
3-month	38	47	48	50
6-month	8	5	3	3
12- month+	6	5	4	4
Average (month)	2.8	2.5	2.4	2.4

Source: Central Bank of the Republic of Turkey

The average maturity of total deposits was 2.4 months. The average maturity of foreign exchange deposits shortened, while the average maturity of TL deposits remained the same. Accordingly, the average maturity of foreign exchange deposits fell from 2.8 months to 2.7 months, while average maturity of TL deposits remained the same at 2.4 months.

According to the data of BRSA, state-owned banks by including the participation banks had a share of 35 percent in TL deposits, and that of private banks was 48 percent. The share of state-owned banks in total deposits increased by 1 percentage point, and that of private banks decreased by 1 percentage point. as compared to the end of 2008. The share of foreign banks in total deposits fell down by 1 percentage point to 12 percent, and the share of participation banks in total deposits increased by 1 percentage point to 5 percent.

Deposits and Loans (TL million)*

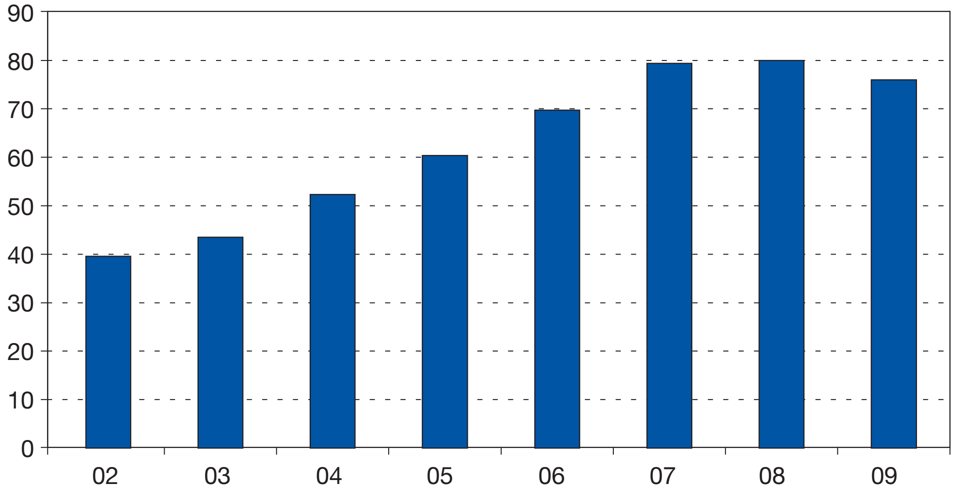
	2002	2007	2008	2009
Total deposits	141,889	356,865	454,599	514,618
TL	60,075	230,461	294,093	341,412
Fx	81,814	126,404	160,506	173,206
Total loans**	51,955	285,654	367,609	392,622
TL	20,662	217,027	262,285	288,209
Fx	31,293	68,627	105,324	104,413
Non-performing loans (Net)	1,695	1,365	2,824	3,598
Non-performing loans (Gross)	3,041	10,322	13,881	21,852
Provisions	1,346	8,957	11,057	18,254
Total loans	51,955	285,654	374,877	397,708
Corporate	44,954	187,853	256,839	266,757
Consumer	7,001	97,801	118,038	130,951
Total loans	51,955	285,654	367,609	392,622
From domestic branches	36,762	244,726	302,424	338,452
From branches abroad	15,193	40,928	65,185	54,170

Source: BRSA, CBTR
* Participation banks are included.
** Non-performing loans are excluded.

The share of state-owned banks in total TL deposits was 40 percent and 26 percent in total foreign exchange deposits, while private banks had a share of 44 percent in TL deposits and 55 percent in foreign exchange deposits, and the share of foreign banks in TL and foreign exchange deposits was 11 percent and 13 percent, respectively.

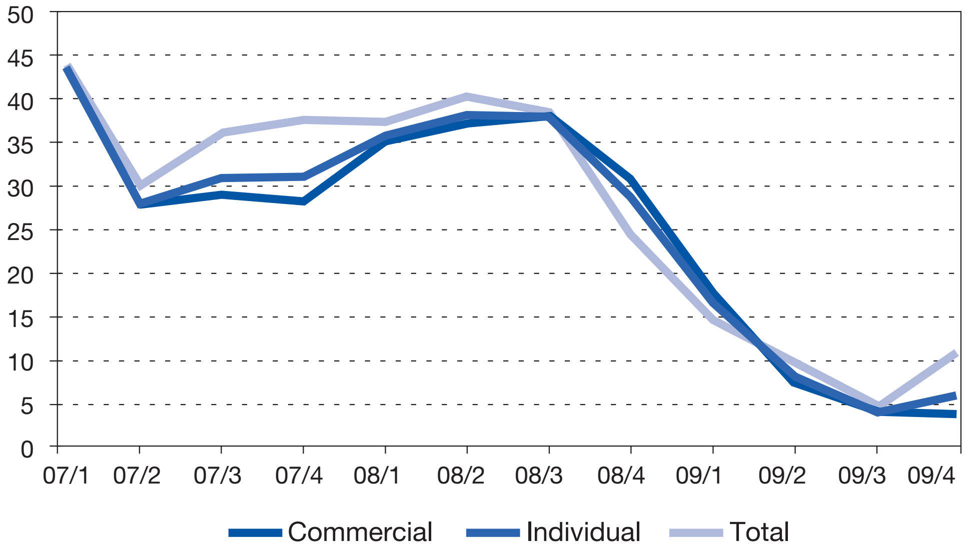
Loans to deposits ratio rose to its highest level of 84 percent as of September 2008, and thereafter, fell down to 81 percent at the end of 2008 and to 76 percent at the end of 2009. This rate was 56 percent in state-owned banks, 78 percent in private banks, and 102 percent in foreign banks.

Loans / Deposits (percentage)



The annual growth rate in the loan stock was recorded as 41 percent as of October 2008 and started to slow down thereafter. Then, the growth rate in the loan stock, after slowing down to 0 percent as of October 2009, again rose in the last two months of the year and reached 5 percent as of December 2009. Corporate loans and consumer loans rose by 4 percent and 11 percent, respectively. The share of consumer loans in total loan stock increased by 1 percentage point and reached 33 percent compared with the end of 2008. This growth was affected mainly by increases in housing loans and other consumer loans, while automobile loans declined.

Commercial, Individual and Total Loans (annual percentage change)



Non-performing loans increased by 57 percent before specific provisions, and 27 percent after specific provisions. The ratio of non-performing loans before specific provisions to total loans rose by 2 percentage points to 6 percent. The ratio of non-performing loans after specific provisions to total loans increased from 0.8 percent to 0.9 percent. The ratio of non-performing loans to consumer loans was 6.4.

The shares of deposit banks, participation banks and development and investment banks in total loans were 91 percent, 6 percent and 3 percent, respectively. The rate of loans extended by private banks in total loans was 49 percent, and the rate of loans extended by state-owned banks in total loans was 26 percent, while the share of foreign banks in total loans was 16 percent.

The ratio of total loans of banking sector to gdp was 39 percent. Out of total loans, a 85 percent was extended by domestic branches, and remaining 15 percent by branches abroad. Most of the loans extended by the branches abroad was foreign exchange denominated and its share in total loan stock decreased. Due to the legislation changes enabling the banks resident in Turkey to supply foreign exchange loans also to sectors which do not have foreign exchange revenues, and as a result of limitation of the external borrowing opportunities under the effects of the global crisis, the borrowing foreign exchange loan of non-financial sectors from abroad showed a downward trend.

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

	2002	2008	2009
Corporate loans (Fx)	19,085	70,436	67,199
-From domestic branches	10,923	24,327	30,836
-From branches abroad	8,162	43,302	36,363
Non-financial sector			
-External debt stock	32,986	122,359	114,096
-Fx borrowing from abroad	24,824	79,057	77,773

* Fx indexed loans are included.

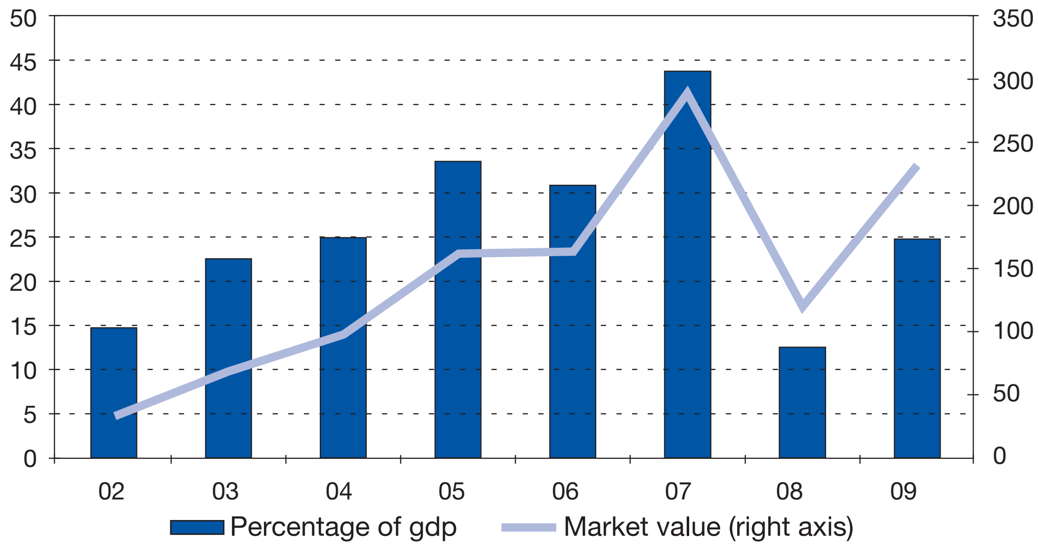
Total foreign exchange corporate loans extended by the banks resident in Turkey realized as USD 67 billion. Foreign exchange loans extended through domestic branches increased by USD 6 billion, while foreign exchange loans extended through foreign branches decreased by USD 7 billion. Total outstanding debt of non-financial sectors declined by approximately USD 8 billion to USD 114 billion, 68 percent of which were provided by financial institutions resident abroad.

2.6. Istanbul Stock Exchange

Istanbul Stock Exchange (ISE) 100 index grew both in dollar and TL terms in 2009. ISE index increased by 101 percent to 2,068 points in dollar terms, and by 97 percent to 52,825 points in TL terms. On the other hand, trading volume grew by 19 percent to USD 299 billion.

Due to the measures adopted for limitation of the impacts of the crisis, the factors such as slowdown of the downsizing in economy as after the first quarter of 2009, and restart of economic growth starting from the last quarter, and fall in both inflation and interest rates, and financial sector's continuing to finance the economic activities, and lower rate of non-performing loans' than the expectations, and increase in profit performance of banks, and stability of value of TL against foreign exchanges accelerated the recovery in the ISE.

ISE Market Value (USD billion) and Market Value/Gdp (percentage)



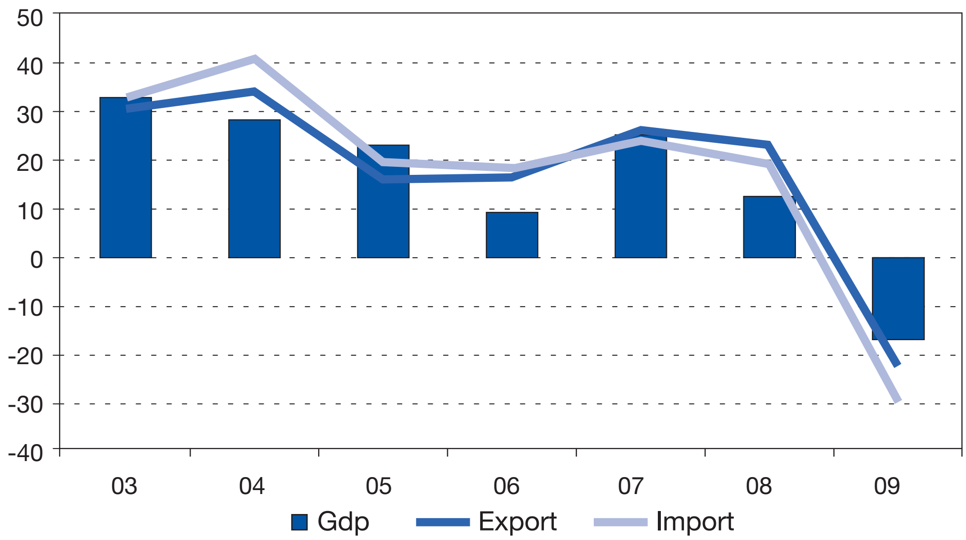
The market value of companies listed to ISE increased from USD 119 billion at of the end of 2008 to USD 232 billion at of the end of 2009. The ratio of total market value of ISE to gdp grew from 13 percent to 25 percent.

The number of listed companies decreased by 1 to 325 from 2008 to 2009. On the other hand, 51 companies consisting of exchange traded funds, real estate investment trusts, venture capital investment trusts and securities investment funds were reclassified in the newly established Corporate Product Market of ISE.

2.7. Foreign Trade Balance

Due to the contraction of developed countries economies, the shrinking in the global trade volume, the decline in domestic and foreign demand in Turkey, and the fall in energy and commodity prices, the foreign trade volume decreased by 27 percent to USD 243 billion in 2009. The ratio of foreign trade volume to gdp was at 39 percent The foreign trade deficit also fell by 44 percent to USD 39 billion, and the ratio of foreign trade deficit to gdp decreased by 3 percentage points to 6 percent.

Gdp, Export and Import Growth (annual, percentage, in USD terms)



Exports decreased by 23 percent to USD 102 billion, and imports decreased by 30 percent to USD 141 billion. The ratio of exports to imports increased by 8 percentage points to 73 percent. The ratio of exports to gdp fell by 1 percentage point from its level as of the end of 2008, while the ratio of imports to gdp fell by 4 percentage points to 23 percent level.

Based on 12-month average, export quantity index and import quantity index declined by 7 percent and 14 percent, respectively. On the other hand, export price index and import price index decreased by 17 percent, and 20 percent, respectively.

Foreign Trade (USD billion)

	2002	2007	2008	2009
Exports	36	107	132	102
Imports	52	170	202	141
Foreign trade deficit	16	63	70	39
Foreign trade volume	88	277	334	243
Foreign trade deficit/Gdp (percent)	9	11	9	6
Exports/imports (percent)	70	63	65	73
Price index * (2003=100)				
Exports	91	145	168	140
Imports	95	147	178	142
Quantity index* (2003=100)				
Exports	81	157	167	155
Imports	72	167	164	142

Source: Turkstat
* Average

By commodity groups, imports of capital goods declined by 24 percent, 35 percent in intermediate goods, and 10 percent in consumer goods. Imports of intermediate goods constituted 71 percent of the total imports. By sectors, the share of manufacturing industry in total imports was 79 percent. Machinery, land motor vehicles, iron and steel, electrical machinery and equipments, and plastics sectors were the most important sub-sectors playing an important role in manufacturing industry. Mining sector had a share of 15 percent. In 2009, mineral oils and fuels item, greatly composed of crude petroleum and natural gas sub-items, declined by 38 percent to USD 29.9 billion and constituted 21 percent of total imports.

Foreign Trade by Commodity Groups, 2009

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
Capital goods	11,119	-34	11	21,442	-24	15
Intermediate goods	49,713	-27	49	99,402	-35	71
Consumer goods	40,773	-13	40	19,261	-10	14
Other	560	14	0	670	-5	0
Total	102,165	-23	100	140,775	-30	100

Source: Turkstat

In breakdown of exports by commodity groups; consumer goods had 40 percent, intermediate goods by 49 percent and capital goods by 11 percent. In breakdown of exports by sectors, manufacturing industry had a share of 91 percent, and agriculture sector had 6 percent. The major sub-sectors of the manufacturing industry were land motor vehicles, textile, iron and steel, machinery and electrical machinery and equipments.

EU member states had a share of 43 percent in Turkey's foreign trade, and the share of non-EU European countries was 15 percent. The foreign trade deficit with EU member states decreased from USD 11.4 billion in 2008 to USD 9.5 billion in 2009. EU member states had a share of 40 percent in imports and 46 percent in exports.

Foreign Trade By Country Groups, 2009

	Exports			Imports			Trade balance
	USD million	Per. change	Per. share	USD million	Per. change	Per. share	USD million
EU	47,014	-26	46	56,513	-24	40	-9,499
Free zone	1,956	-35	2	965	-28	1	991
Other	53,195	-19	52	83,297	-34	59	-30,102
Europe	11,359	-28	11	26,142	-41	19	-14,783
Africa	10,182	12	10	5,699	-27	4	4,483
America	4,838	-26	5	12,266	-29	9	-7,428
Middle East	19,190	-25	19	9,590	-46	7	9,600
Other Asia	6,705	-5	7	28,820	-24	20	-22,115
Other	921	-50	1	780	-15	1	141
Total	102,165	-23	100	140,775	-30	100	-38,610

Source: Turkstat

In foreign trade volume, Germany rose to the first position among foreign trade partners of Turkey with a share of 9.8 percent. This development was mainly stemmed from the decrease in energy imports from Russia. It was followed by Russia with a share of 8.6 percent and by Italy with a share of 5.7 percent. Exports to Germany constituted 10 percent of total exports, while imports from Russia constituted 16 percent of total imports. Trade deficit with the group of other Asian countries was mainly produced by the trade with China and South Korea.

2.8. Balance of Payments

Current account deficit fell by 67 percent to USD 14 billion due to the rapid fall in imports. The ratio of current account deficit to gdp also declined from 5.6 percent to 2.3 percent.

Current Account Balance (USD million)

	2002	2007	2008	2009
Current account balance	-1,522	-38,219	-41,947	-13,854
-General merchandise	-8,337	-46,677	-53,022	-24,729
-Exports	40,124	115,364	140,799	109,672
-Imports	-48,461	-162,041	-193,821	-134,401
-Services (net)	7,879	13,323	17,121	16,219
-Tourism (net)	6,599	15,227	18,445	17,103
-Income (net)	-5,637	-7,108	-8,159	-7,646
-Direct investments	-86	-2,100	-2,610	-2,248
-Portfolio investments	-835	383	972	267
-Other investments	-3,633	-5,321	-6,455	-5,560
-Interest expenditures	-4,417	-7,479	-8,477	-7,245
-Current transfers	3,490	2,243	2,113	2,302
-Workers remittances	1,936	1,209	1,431	934

Source: Central Bank of the Republic of Turkey

The foreign trade deficit reduced by 53 percent to USD 24.7 billion. The income balance showed a deficit of USD 7.6 billion and interest expenses, the most important sub-item of the income balance, declined from USD 8.5 billion to USD 7.2 billion. Contribution of net tourism revenues to the current account balance was USD 17 billion.

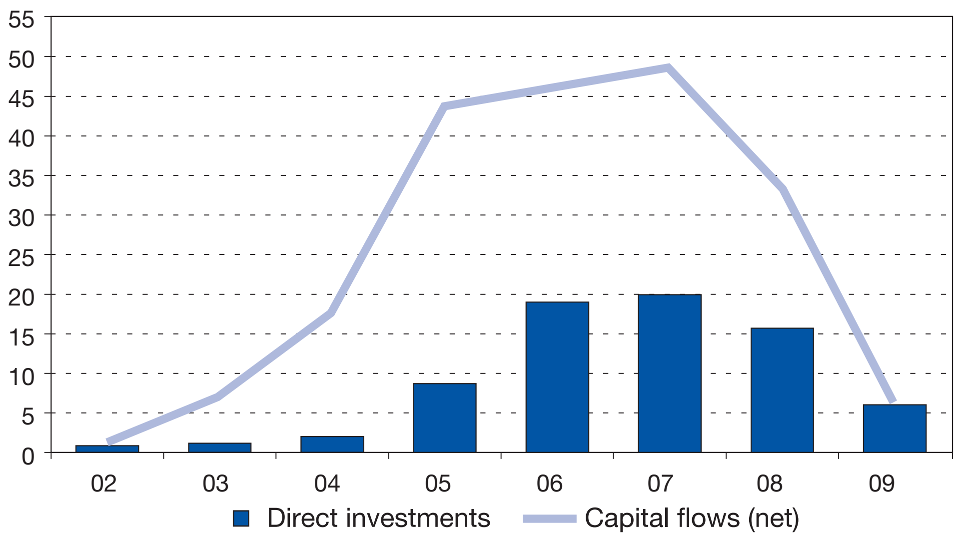
Capital and Financial Account (USD million)

	2002	2007	2008	2009
Capital and financial account	1,161	48,637	33,536	6,208
-Capital account (net)	0	0	0	0
-Financial account (net)	1,161	48,637	33,536	6,208
-Direct invest. abroad (net)	863	19,940	15,720	6,026
-Portfolio investments (net)	-593	717	-5,046	198
-Other investments (net)	891	27,980	24,563	-696
-Net errors and omissions	149	1,597	5,653	8,437
General balance	-212	12,015	-2,758	791
-IMF account	6,365	-3,983	1,701	-680
-Official reserves	-6,153	-8,032	1,057	-111

Source: Central Bank of the Republic of Turkey

Capital inflows remained below the current account deficit as in 2008. Capital inflows decreased from USD 34 billion at the end of 2008 to USD 6 billion at of the end of 2009. This evident slowdown in capital inflows was particularly a result of fall in net direct investments and net other investments. But, contrary to the last year, an upward trend was not recorded in net portfolio investments. The fall in net other investments was caused by the fall in borrowing external debt of the real sector.

Capital Flows (USD billion)

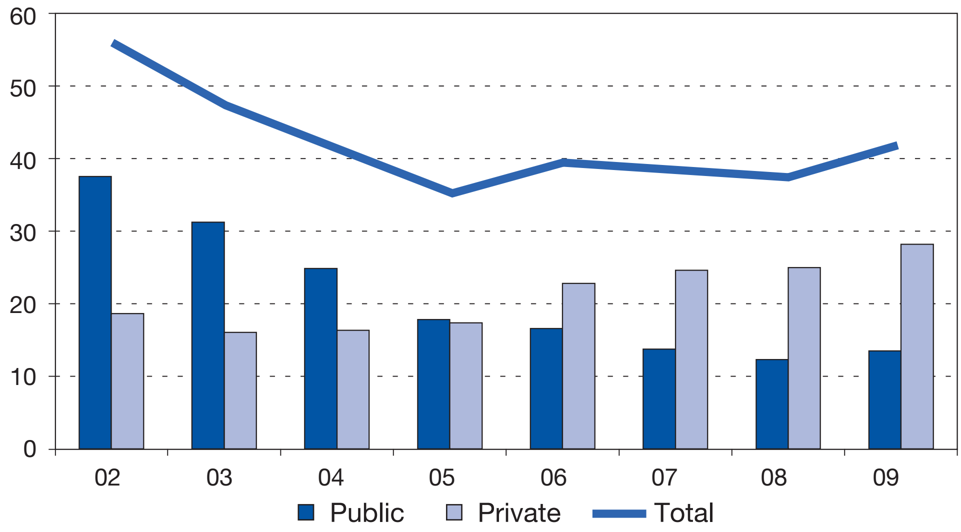


On the other hand, net errors and omissions account gave a surplus of USD 8.4 billion, and accordingly, reserves increased. Reserve assets gave a surplus of USD 0.8 billion. A sum of USD 0.7 billion was paid to the International Monetary Fund, and official reserves increased by USD 0.1 billion.

2.9. Outstanding External Debt

Outstanding external debt decreased by USD 6.6 billion to USD 271.1 billion in 2009. Outstanding external debt increased by USD 5.3 billion to USD 83.5 billion in public sector, while it decreased by USD 11.1 billion to USD 174.3 billion in private sector. External debts of the Central Bank declined by USD 0.8 billion to USD 13.3 billion. Long-term outstanding external debt decreased by USD 8.1 billion, while short-term outstanding external debt rose by USD 1.6 billion. The long term outstanding external debt of the public sector (excluding Central Bank) increased by USD 4.9 billion to USD 79.9 billion, while that of the private sector decreased by USD 12.3 billion.

Outstanding External Debt (as percentage of gdp)



The ratio of outstanding external debt to gdp increased by 6.5 percentage points to 43.9 percent compared with the end of 2008. The ratio of long-term debts to gdp rose by 4.9 percentage points to 35.5 percent, while the ratio of short-term debts to gdp rose by 1.6 percentage points to 8.4 percent. Despite the fall in outstanding external debt, the ratio of outstanding external debt to gdp increased due to the decline in gdp by 17 percent in dollar terms.

Outstanding External Debt (USD billion)

	2002	2007	2008	2009*
Long term	113.3	205.8	227.2	219.1
Public	63.6	71.3	75.0	79.9
Central Bank	20.3	13.5	12.2	11.5
Private	29.1	120.9	140.0	127.7
Financial institutions	4.8	41.7	41.1	35.4
Banks	3.0	30.7	30.0	27.9
Non-financial institutions	24.3	79.2	98.9	92.3
Short term	16.4	43.2	50.4	52.0
Public	0.9	2.2	3.2	3.6
Central Bank	1.7	2.3	1.9	1.8
Banks	5.4	16.2	45.3	46.7
Non-bank	8.4	22.5	23.5	21.8
Total	129.5	249.0	277.7	271.1

Source: Undersecretariat of Treasury
*Provisional

Of the total external debt, 31 percent were owned by the public sector and 5 percent by the Central Bank. The share of the banking system in outstanding external debt was 19 percent, and non-bank sectors had a share of 45 percent. The ratio of public sector (excluding Central Bank) external debt to gdp was 14 percent.

Out of the total long-term external debt, a portion of USD 38 billion owed to official creditors and USD 140 billion to private creditors. The largest share in the official creditors belonged to international institutions item, which also included the International Monetary Fund, with USD 31 billion. Moreover, the bonds stock comprised entirely of long-term bonds was at the level of USD 41 billion as of December 2009.

3. Turkish Banking System in 2009[1]

3.1. Number of Banks and Branches

The number of banks operating in Turkey was 49; of which 4 were participation banks.[2] The number of deposit banks and development and investment banks remained the same at 45 compared with the end of 2008, of which 32 banks were deposit banks, and 13 were development and investment banks.

Out of deposit banks, 3 were state-owned banks and 11 were private banks. There was 1 bank owned by the Saving Deposits Insurance Fund (SDIF). There were 17 deposit banks with foreign capital participation whose shares were owned by non resident investors at a rate of minimum 51 percent. Of the development and investment banks, 3 were state-owned, 6 were private and 4 were foreign banks.

Number of Banks and Branches*

	2002		2008		2009	
	Bank	**Branch**	**Bank**	**Branch**	**Bank**	**Branch**
Deposit banks	40	6,087	32	8,741	32	8,991
State-owned banks	3	2,019	3	2,416	3	2,530
Private banks	20	3,659	11	4,290	11	4,390
SDIF banks	2	203	1	1	1	1
Foreign banks	15	206	17	2,034	17	2,062
Development and investment banks	14	19	13	49	13	44
State-owned banks	3	4	3	23	3	22
Private banks	8	12	6	12	6	15
Foreign banks	3	3	4	14	4	7
Total	54	6,106	45	8,790	45	9,027

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

Despite the negative effects of global fluctuations, the number of branches increased in all bank groups, except the development and investment banks in 2009, due to the banking sector' strong capital base, sound balance sheet structure and rising profitability. Total number of branches increased by 237 to 9,027.

The number of branches increased by 248 in the deposit banks group, and decreased by 5 in the development and investment banks. The number of branches increased by 100 in private banks, 114 in state-owned banks, and 28 in foreign banks.

3.2. Number of Employees

The number of employees also continued to increase in 2009 similar to the number of branches. The number of employees increased by 1,523 in deposit banks and 113 in private banks, but decreased by 891 in foreign banks and 6 in the bank owned by the SDIF. The number of employees in development and investment banks increased by 66.

[1] Includes data about deposit banks and development and investment banks.
[2] Please see www.bddk.org.tr and www.tkbb.org.tr addresses for detailed information about participation banks.

Number of Employees

	2002	2008	2009
Deposit banks	118,329	166,325	167,064
State-owned banks	40,159	43,333	44,856
Private banks	66,869	82,158	82,271
SDIF banks	5,886	267	261
Foreign banks	5,416	40,567	39,676
Development and investment banks	4,942	5,273	5,339
State-owned banks	4,174	4,146	4,165
Private banks	691	794	842
Foreign banks	77	333	332
Total	123,271	171,598	172,403

Source: The Banks Association of Turkey

Of the total bank employees, 97 percent were employed by deposit banks, and remaining 3 percent by development and investment banks.

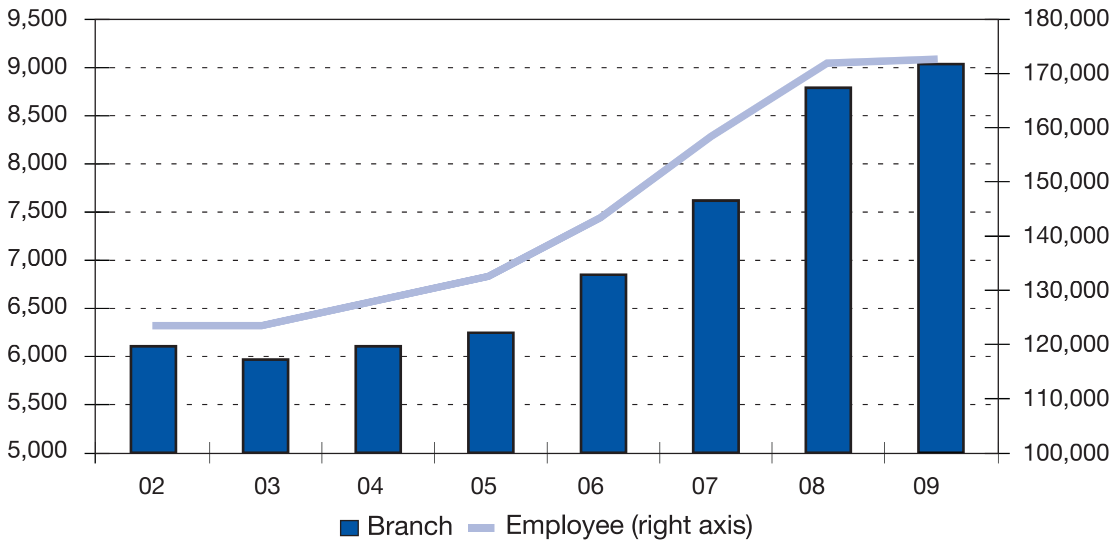
Number of Branches and Employees Per Bank

	Branch			Employee		
	2002	2008	2009	2002	2008	2009
Deposit banks	152	273	281	2,958	5,198	5,221
State-owned banks	673	806	843	13,386	14,444	14,952
Private banks	183	390	399	3,343	7,469	7,479
SDIF banks	102	1	1	2,943	267	261
Foreign banks	14	120	122	361	2,386	2,334
Development and investment banks	1	4	3	353	406	411
State-owned banks	1	8	8	1,391	1,382	1,388
Private banks	2	2	3	86	132	140
Foreign banks	1	4	2	26	83	83
Total	113	195	201	2,283	3,813	3,831

Source: The Banks Association of Turkey

Of total employees in the banking sector, 26 percent were employed in state-owned banks, 48 percent in private banks, and 23 percent in foreign banks.

Number of Branches and Employees (2002-2009)

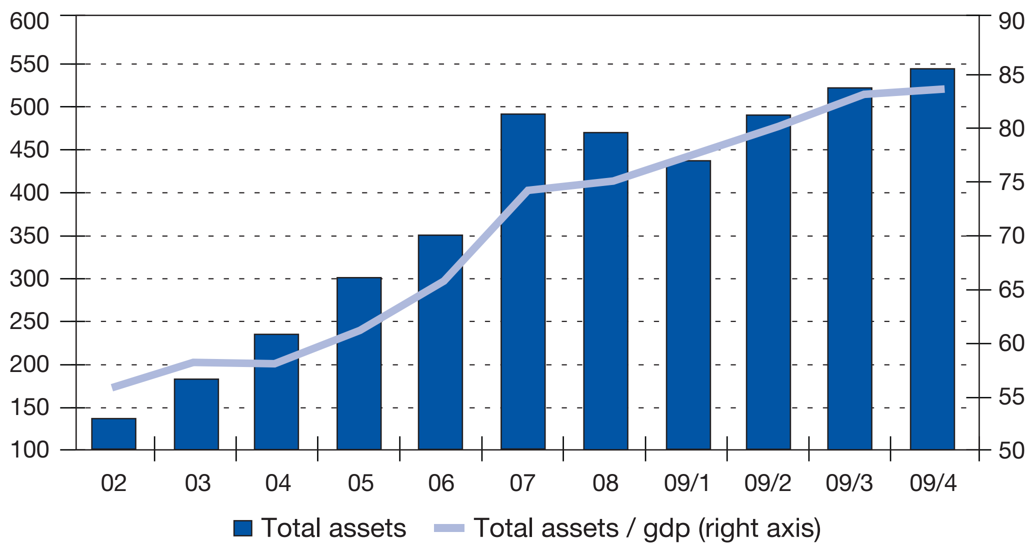


In 2009, the number of branches reached its highest level since 1961, and the number of employees reached its peak level after 1999.

3.3. Size of the Balance Sheet

Total assets increased by 13 percent and reached TL 799 billion (USD 537 billion) in 2009 as compared to 2008. The growth rate in total assets was 16 percent in dollar terms. The ratio of total assets to gdp rose by 10 percentage points to 84 percent.

Total Assets (USD billion, as percentage of gdp)



Considering the deposit bank group the growth rate in total assets were 20 percent in state-owned banks, 12 percent in private banks and 3 percent in foreign banks. The growth rate in total assets of the development and investment banks was 18 percent.

Total Assets, December 2009

	TL million	USD million	Per. change (TL)	Per. change (USD)
Deposit banks	771,512	518,733	13	16
State-owned banks	249,976	168,074	20	23
Private banks	413,241	277,846	12	14
SDIF banks	807	542	-3	-1
Foreign banks	107,488	72,270	3	5
Development and investment banks	27,021	18,168	18	21
Total	798,533	536,901	13	16

Source: The Banks Association of Turkey

Annual growth rate of total assets in TL terms slowed down during the entire year; declined from 26 percent to 13 percent. The main factors underlying this decline were the narrowing demand for loans for working capital and investments due to slowdown in economic activities, and the increasing public sector borrowing requirement, and the banks attitudes to act more prudently towards rising loan risks, and the decrease in borrowing from resources from abroad. On the other hand, due to measures taken by the BRSA and the Central Bank, the liquidity concerns of banks reduced, and banks entered into a serious competition for increasing the supply of long-term loans and offering single-digit interest rates to customers in the high loan quality category.

Deposits remained as the most important resource of funds. As the foreign borrowing resources became more limited, the cost of which was relatively higher, banks reduced their foreign funding operations.

Nominal Change in Balance Sheet Items, 2008-2009 (TL million)

	Assets
Liquid assets	1,681
Financial assets	73,123
Loans	14,112
Other assets	3,746
Total	92,662
-TL	94,036
-Fx	-1,374
	Liabilities
Deposits	53,774
Non-deposit funds	12,454
Shareholders' equity	23,772
Other liabilities	2,662
Total	92,662
-TL	85,448
-Fx	7,213

Source: The Banks Association of Turkey

Total balance sheet size of the banking sector increased by TL 93 billion in 2009. Of this increase 58 percent (TL 53.8 billion) stemmed from deposits, 13 percent (TL 12.5 billion), from non-deposit resources 26 percent (TL 23.8 billion) from shareholders' equity and 3 percent (TL 2.7 billion). from other liabilities. Of the resources 79 percent (TL 73.1 billion), were allocated to securities portfolio, 15 percent (TL 14.1 billion) to loan facilities and 2 percent (TL 1.7 billion) to liquid assets.

3.4. Market Shares

The share of deposit banks in the total assets was 97 percent, and that of development and investment banks was 3 percent. In the deposit banks group, the share of state-owned banks in total assets rose by 2 percentage points, and the share of foreign banks in total assets fell by 2 percentage points.

Market Shares of Groups (percentage)

	T. assets			T. deposits			T. loans		
	02	08	09	02	08	09	02	08	09
Deposit banks	96	97	97	100	100	100	89	96	96
State-owned banks	36	29	31	39	36	37	20	24	27
Private banks	56	52	52	58	51	50	65	54	52
SDIF banks		0	0		0	0		0	0
Foreign banks	3	15	13	2	13	13	4	18	17
Development and investment banks	4	3	3	-	-	-	11	4	4
Total	100	100	100	100	100	100	100	100	100

Source: The Banks Association of Turkey

The share of private banks in total assets decreased by 1 percentage point to 50 percent, while the share of state-owned banks increased by 1 percentage point to 37 percent. The share of state-owned in total loans rose from 24 percent to 27 percent, and that of private banks reduced by 2 percentage points to 52 percent, and the share of foreign banks also decreased by 1 percentage point to 17 percent.

3.5. Concentration

The share of the largest five banks in total assets and total deposits increased by 1 percentage point each, while their share in total loans decreased by 3 percentage points. The share of the largest ten banks in total assets and total deposits increased by 1 percentage point each, and their share in total loans decreased by 1 percentage point, as of the end of 2009.

Concentration in Banking Sector* (percentage)

	2002	2007	2008	2009
Largest five*				
T. assets	58	62	62	63
T. deposits	61	64	65	66
T. loans	55	57	58	55
Largest ten*				
T. assets	81	85	86	87
T. deposits	86	89	90	91
T. loans	74	83	84	85

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

As of the end of 2009, the largest five banks included 2 state-owned and 3 private banks, and the largest ten banks included 3 state-owned, 4 private and 3 foreign banks.

The Number of Banks by Asset Size (2009)

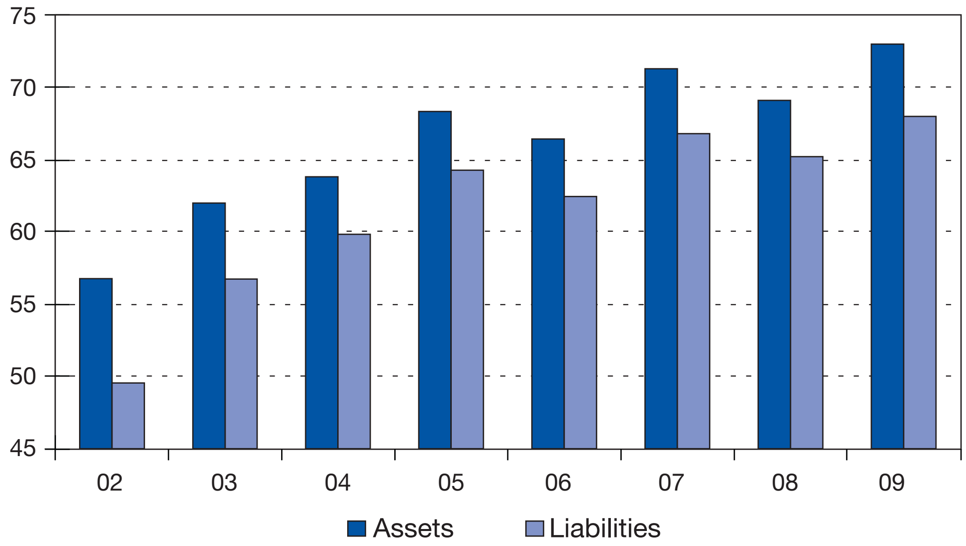
USD billion →	+0-2		2-5		5-10		10-20		20-40		40+
	02	09	02	09	02	09	02	09	02	09	09
Number											
Deposit b.	26	14	7	4	1	3	5	4	1	0	7
State					1		1		1	0	3
Private	11	3	5	2		1	4	1			4
Foreign	10	10		2		2		3			
Fund	5	1	2								
Dev. inv. b.	13	10	1	2		1					
Total	39	24	8	6	1	4	5	4	1	0	7

There were 7 banks with an asset size above USD 40 billion, and 4 banks with an asset size between USD 10 billion and USD 20 billion. On the other hand, more than half of the banks in the banking sector had an asset size below USD 2 billion.

3.6. Balance Sheet TL-FX Structure and “FX Assets - FX liabilities”

TL assets increased by 19 percent, while foreign exchange assets decreased by 1 percent on an annual basis as of December 2009. At the liabilities side, TL liabilities rose by 19 percent, and foreign exchange liabilities rose by 3 percent.

Share of TL Items in Balance Sheet (percentage)



Strong demand for TL, declining use of external resources, maintaining of TL's value against foreign exchanges, and growth in shareholders' equity and securities portfolio provided the preservation of weight of TL in the balance sheet. As a result, the share of TL assets in balance sheet rose from 69 percent to 73 percent, and the share of TL liabilities in balance sheet rose from 65 percent to 68 percent.

Fx Position by Groups* (percentage)

	Per. share Fx assets		Per. share Fx liabilities		USD billion Fx assets-Fx liabilities	
	2008	2009	2008	2009	2008	2009
Deposit banks	31	27	35	32	-17.0	-23.5
State-owned banks	23	21	24	22	-1.4	-1.5
Private banks	37	32	39	36	-2.9	-9.3
SDIF banks	13	13	13	13	0.0	0.0
Foreign banks	24	20	43	38	-12.8	-12.7
Dev. and investment banks	27	30	34	34	-1.0	-0.8
Total	31	27	35	32	-18.0	-24.2

*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.

By bank groups, the weight of TL items in balance sheet showed significant differences. The state-owned banks had a TL dominated balance sheet structure. The share of TL assets in total assets was 79 percent in the state-owned banks, and 68 percent in private banks. There were similar differences in distribution of liabilities. As a matter of fact, the share of TL liabilities in total liabilities was 78 percent in state-owned banks and 65 percent in private banks, respectively.

The difference between foreign exchange assets and foreign exchange liabilities, which shows the balance sheet foreign exchange position of the banking sector, was USD 24.2 billion in 2009. Out of USD 12.7 billion foreign exchange position belongs to foreign banks. On the other hand, foreign exchange net general position gave a surplus of USD 46 million. The ratio of net foreign exchange position to shareholders' equity was around 0.06 percent.

Net General Fx Position (USD million)

	2007	2008	2009
Deposit banks*	-298	-129	107
State-owned banks	156	-191	93
Private banks	-219	44	98
Foreign banks	-235	18	-84
Development and investment banks	2	38	-111
Total*	-296	16	46

Source: BRSA Weekly Bulletin
*SDIF banks are excluded.

3.7. Structure of Assets

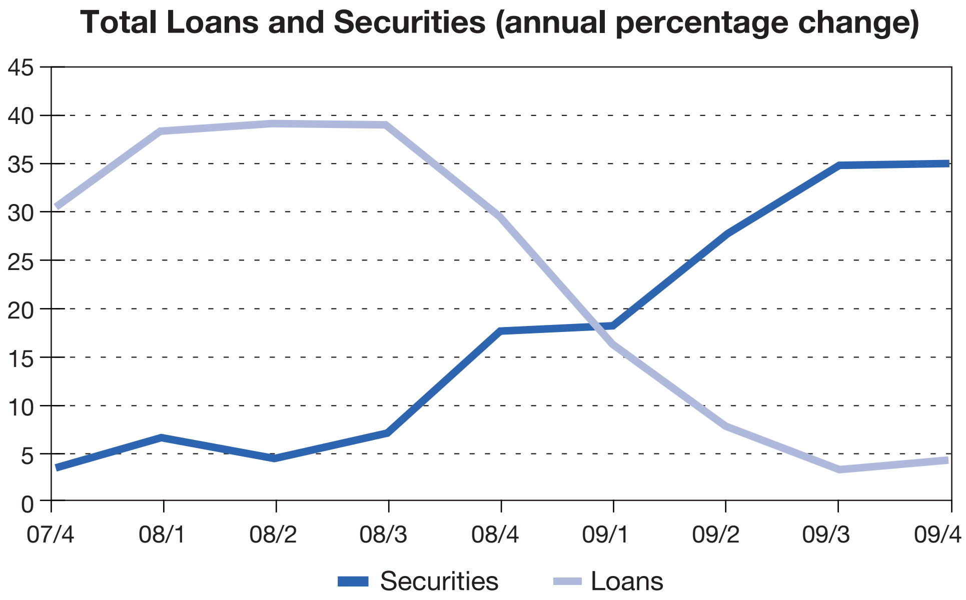
There were significant changes in the structure of assets especially in the first three quarters of 2009. Securities portfolio grew due to the increase in the public sector borrowing requirement. At the same time, the rate of increase in loans slowed down depending on decline in loan demand due to downsizing in economic activities and the tightening of lending standards of banks in parallel with increasing loan risk. The liquid assets were tried to be kept at a high level because of the risk perception increasing in the first half of the year, but started to fall in the second quarter of the year.

The Structure and Development of Assets

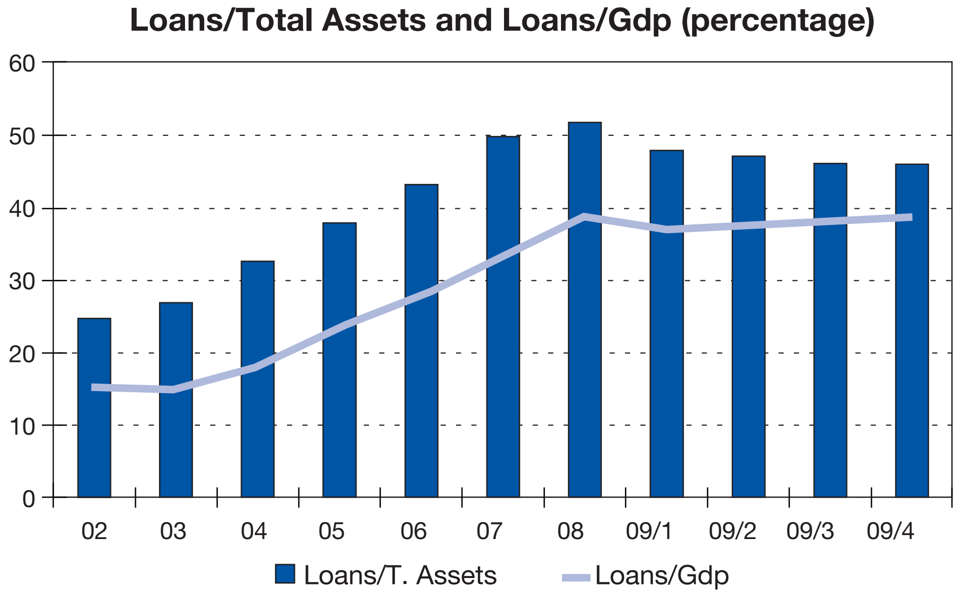
	TL million	USD million	Per. change (TL)	Per. share 2008	Per. share 2009
Liquid assets	102,567	68,962	2	14	13
Financial assets (FA)	280,930	188,886	35	29	35
FA value change is reflected to income statement (net)	10,355	6,962	40	1	1
Investments for sale (net)	150,759	101,364	89	11	19
Investments held to maturity (net)	119,468	80,325	0	17	15
Derivative FA held for hedging	348	234	-60	0	0
Loans	381,013	256,177	4	52	48
Non-performing loans	20,671	13,898	56	2	3
Specific provisions (-)	17,464	11,742	62	2	2
Permanent assets (PA)	24,612	16,548	12	3	3
Investments and associates	1,469	987	10	0	0
Subsidiaries	10,943	7,358	25	1	1
Joint ventures	28	19	10	0	0
Property and equipment (net)	10,025	6,741	4	1	1
Intangible assets (net)	1,792	1,205	-3	0	0
PA held for sale purpose	355	239	-12	0	0
Other assets	9,411	6,328	13	1	1
Total assets	798,533	536,901	13	100	100

Source: The Banks Association of Turkey

The growth rate in loans was 7 percent in the first half, and 4 percent as of the end of year on annual basis. The securities portfolio grew by 35 percent on annual basis. The share of loans in total assets reduced by 4 percentage points to 48 percent, while that of securities portfolio rose by 6 percentage points to 35 percent.



Total loans were consisted of TL loans by 72 percent and foreign exchange loans by 28 percent. The share of corporate loans in total loans was 67 percent, and the share of loans borrowed by households was 33 percent, as of the end of 2009.



The share of consumer loans in total loans increased by 2 percentage points to 33 percent. The share of housing loans in consumer loans was 33 percent, credit cards 28 percent, automobile loans 6 percent and other consumer loans 34 percent.

According to the data published by BRSA, cash loans extended to SMEs decreased by 1 percent, while non-cash loans increased by 4 percent in 2009. The non-performing loans of SMEs increased by 62 percent to TL 6.9 billion and accounted for 32 percent of total non-performing loans. The share of the loans extended to SMEs in total loan stock was 21 percent. The number of customers categorized as SMEs grew by 5 percent to 1.7 million in 2009.

Loans By Sectors* (TL million)

	2009	Per. change (09/08)	Per. share 2002	2008	2009
Corporate loans	266,757	9	86	69	67
Consumer loans	130,951	7	14	31	33
Credit cards	37,612	1	9	9	9
Housing	44,888	14	1	10	11
Automobile	4,423	-24	1	2	1
Other	44,028	10	3	10	11
Total	397,708	8	100	100	100

Source: BRSA
* Participation banks are included.

In deposit banks and development and investment banks, the non-performing loans before specific provisions increased by 56 percent to TL 20.7 billion in 2009. Specific provisions were set aside for 85 percent of the non-performing loans. This rate was 87 percent in state-owned banks, 88 percent in private banks and 75 percent in foreign banks. The ratio of non-performing loans after specific provisions to total loans increased from 0.7 percent to 0.8 percent.

Non-Performing Loans* and Specific Provisions (percentage)

	NPLs/Total Loans 2002	2008	2009	Provisions/NPLs 2008	2009
Deposit banks	20	3.7	5.6	81.2	84.6
State-owned banks	24	3.8	4.5	87.5	86.7
Private banks	9	3.5	5.4	80.3	88.2
SDIF banks	119	478	520	85.1	82.1
Foreign banks	5	4.1	7.8	75.5	75.3
Development and investment banks	3	1.4	2.0	91.7	75.1
Total	19	3.6	5.4	81.4	84.5

Source: The Banks Association of Turkey
* Before provisions

The non-performing loans, by including participation banks, increased by 57 percent in total, 87 percent in consumer loans and 43 percent in corporate loans. The rate of increase was 79 percent in credit cards and 97 percent in consumer loans.

Non-Performing Loans By Sectors* (2009, TL million)

	Total loans	NPLs (gross)	NPLs/Total loans (percentage)
Corporate	266,757	13,475	4.8
Consumer	130,951	8,375	6.0
Credit cards	37,612	4,335	10.3
Housing	44,888	962	2.1
Automobile	4,423	508	10.3
Other	44,028	2,570	5.5
Total	397,708	21,853	5.2

Source: BRSA
* Participation banks are included.

In corporate loans, the increase rate in non-performing loans even exceeded 100 percent in agriculture and livestock industry, transportation, and metal main industries.

3.8. Structure of Liabilities

Total deposits grew by 12 percent, but its share in total liabilities remained the same at 64 percent. TL equivalent sum of foreign exchange deposits increased by 7 percent, and its USD equivalent sum increased by 10 percent. The share of foreign exchange deposits in total liabilities declined by 1 percentage point to 22 percent. On the other hand, TL deposits increased by 14 percent and its share in total liabilities rose by 1 percentage point to 42 percent.

Thus, total deposits of TL 507 billion, was consisted of TL deposits by 66 percent and foreign exchange deposits by 34 percent. The share of TL deposits in total deposits was 75 percent in state-owned banks, 60 percent in private banks and 61 percent in foreign banks.

The Structure and Development of Liabilities

	TL million	USD million	Per. change (TL)	Per. share 2008	Per. share 2009
Deposits	507,258	341,060	12	64	64
TL	333,090	223,956	14	41	42
Fx	174,168	117,104	7	23	22
Non-deposit funds	137,680	92,570	10	18	17
Shareholder's equity	106,467	71,584	29	12	13
Paid-in capital	39,803	26,762	8	5	5
Supplementary capital	18,411	12,379	39	2	2
Profit reserves	46,275	31,114	24	5	6
Profit or loss	1,977	1,330	-141	-1	0
Previous year income/loss	-17,500	-11,766	-1	-2	-2
Current year income/loss	19,477	13,096	52	2	2
Other liabilities	47,127	31,686	6	6	6
Total liabilities	798,533	536,901	13	100	100

Source: The Banks Association of Turkey

Non-deposit funds which constituted 17 percent of total funds, increased by 10 percent and reached TL 138 billion in 2009. As a result of decline in external loans, the share of the loans borrowed from abroad in total liabilities declined from 11 percent to 9 percent. On the other hand, the funds from repo transactions grew by 49 percent and constituted 8 percent of total liabilities.

Total Deposits by Bank Groups (TL million, 2009)

	TL	FX	Total	Percentage share TL	Percentage share FX	Percentage share Total
Deposit banks	333,090	174,168	507,258	66	34	100
State-owned banks	140,676	46,455	187,131	75	25	100
Private banks	152,459	102,271	254,730	60	40	100
SDIF banks	11	17	28	41	59	100
Foreign banks	39,944	25,425	65,369	61	39	100
Development and investment banks	-	-	-	-	-	-
Total	333,090	174,168	507,258	66	34	100

Source: The Banks Association of Turkey

Average maturity of total deposits was 2.4 months. Average maturity of foreign exchange deposits which was 2.8 months in December 2008 reduced to 2.7 months in December 2009, while average maturity of TL deposits remained the same at 2.2 months.

3.9. Shareholders' Equity

Shareholders' equity increased by 29 percent in TL terms to TL 106 billion, and by 32 percent in dollar terms to USD 72 billion. Free shareholders' equity (shareholders' equity – fixed assets – non-performing loans after provisions) grew from TL 58 billion (USD 38 billion) to TL 79 billion (USD 53 billion). The reasons underlying the increase in shareholders' equity were the increase in profit volume and the BRSA's decision about the profit distribution of banks which was made subject to a prior permission of the Board.

Shareholders' Equity

	TL million	USD million	Per. change (TL)	Per. change (USD)	Share in total liabilities (per.)
Deposit banks	93,833	63,089	30	33	12.2
State-owned banks	23,495	15,797	36	39	9.4
Private banks	53,895	36,237	32	35	13.0
SDIF banks	633	426	-4	-2	78.4
Foreign banks	15,810	10,630	20	23	14.7
Develop. and investment banks	12,635	8,495	19	22	46.8
Total	106,467	71,584	29	32	13.3

Source: The Banks Association of Turkey

The ratio of shareholders' equity to total assets increased from 10.4 percent to 13.3 percent as of December 2009. The ratio of free shareholders' equity to total assets rose by 1.5 percentage points to 9.8 percent.

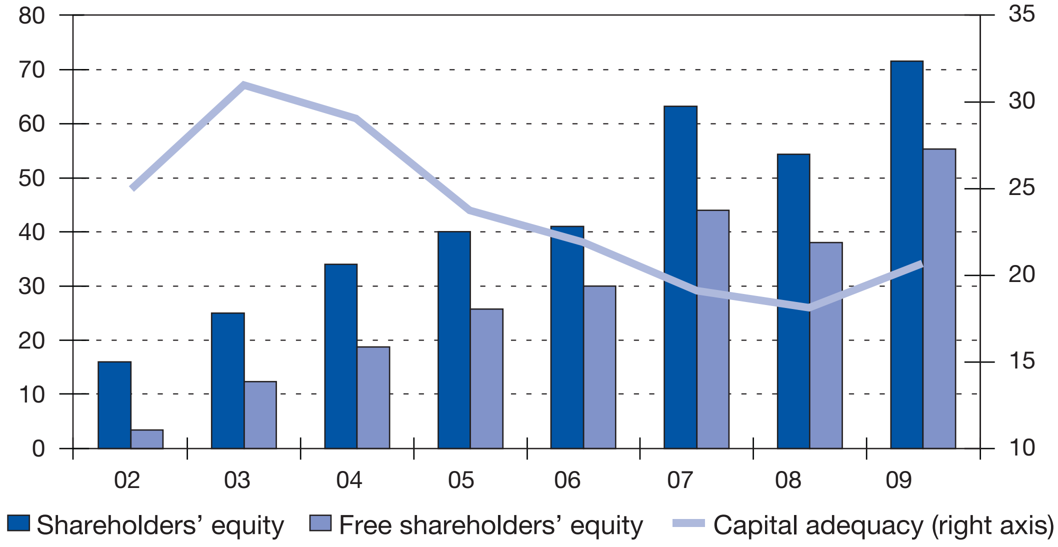
Free Shareholders' Equity*

	TL million			Shareholders' equity/ Total Assets (per.)		
	2002	2008	2009	2002	2008	2009
Deposit banks	3,053	48,252	66,772	1.5	7.1	8.7
State-owned banks	700	12,477	17,952	0.9	6.0	7.2
Private banks	1,262	25,524	36,495	1.1	6.9	8.8
SDIF banks	-2,537	588	567	-27.2	70.5	70.3
Foreign banks	1,091	9,664	11,757	16.5	9.2	10.9
Develop. and investment banks	2,550	10,034	11,877	27.0	43.8	44.0
Total	5,602	58,286	78,649	2.6	8.3	9.8

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

Capital adequacy ratio increased by 2.8 percentage points and reached 20.9 percent at the end of 2009 compared with the end of 2008. The rise in capital adequacy was positively affected from not only the slowdown in increase of loan volume, but also the growth in profit volume enabling the banks to set aside a high rate of provisions for non-performing loans.

Shareholders' Equity (USD billion) and Capital Adequacy (percentage)



Net profit of the banking sector increased by 52 percent to TL 19,477 million. Net profit grew up by 64 percent in state-owned banks, 49 percent in foreign banks, and by 54 percent in private banks and 7 percent in development and investment banks.

Net Profit-Loss, 2009

	Net Profit-Loss (TL million)	Net Profit-Loss (USD million)	Per. change (TL)	Per. change (USD)
Deposit banks	18,490	12,432	56	60
State-owned banks	6,393	4,299	64	67
Private banks	9,975	6,707	54	57
SDIF banks	55	37	-32	-31
Foreign banks	2,067	1,390	49	53
Development and investment banks	988	664	7	10
Total	19,477	13,096	52	56

Source: The Banks Association of Turkey

The basic reasons underlying the increase in profit volume were rapid fall in interest rates, and increase in fee and commission revenues, and limitation of operating expenses, the longer maturity of the banking assets than that of the banking liabilities.

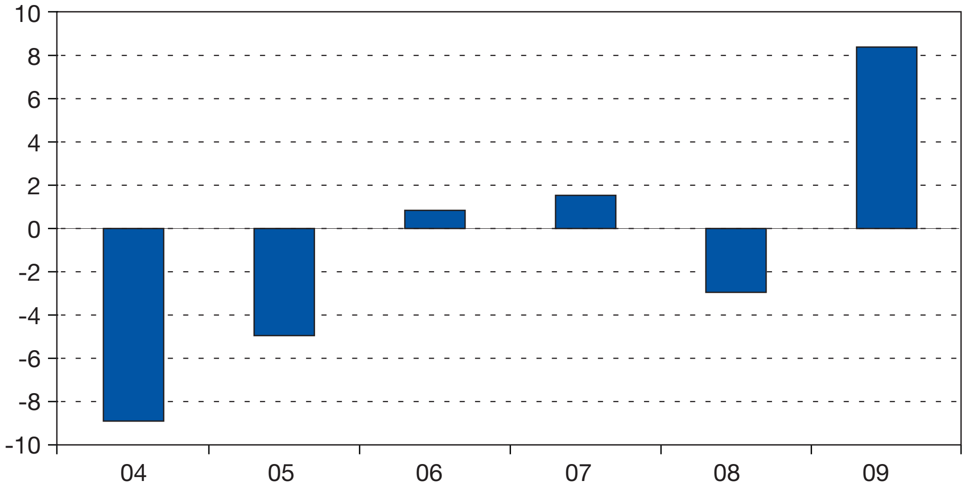
Return on Assets and Return on Equity, 2009

	Return on assets (percentage)	Return on equity (percentage)
Deposit banks	2.4	19.7
State-owned banks	2.6	27.2
Private banks	2.4	18.5
SDIF banks	6.8	8.6
Foreign banks	1.9	13.1
Development and investment banks	3.7	7.8
Total	2.4	18.3

Source: The Banks Association of Turkey

Net return on assets of the banking sector increased from 1.8 percent to 2.4 percent, and net return on equity rose from 15.4 percent to 18.3 percent. Return on assets and return on equity grew in all bank groups, except for the development and investment banks.

Return on Equity and Goverment Bonds (difference, percentage)



3.10. Income – Expenditure Structure

Interest income of the banking sector declined by 1 percent, while its interest expenses fell by 22 percent. Accordingly, net interest income grew up by 36 percent.

Net fees and commissions income increased by 10 percent, and net trading income/loss showed a positive balance. The increase in other operating expenses remained limited. Net operating income grew up by 52 percent, and provisions for tax grew by 56 percent. Due to these developments, net income of the period increased by 52 percent to TL 19.5 billion.

Income-Expenditure Structure, December 2009

	TL million	USD million	Per. change (TL)	Per. change (USD)
Interest income	83,610	56,216	-1	2
Interest expense	41,792	28,099	-22	-20
Net interest income	41,818	28,117	36	39
Net fees and commission income	9,283	6,241	10	12
Dividend income	771	518	-13	-11
Net trading income/expense	1,663	1,118	-909	-928
-Income on trading account securities	2,647	1,780	79	83
-Foreign exchange income	677	455	-140	-141
Other operating income	4,049	2,723	-3	-1
Total operating income/loss	57,585	38,718	30	33
Provision for loan or other receivables loss (-)	12,086	8,126	59	63
Other operating expense (-)	21,432	14,410	3	6
Net operating income/loss	24,067	16,181	52	56
Provisions (continuing operation)	-4,730	-3,181	56	59
Net income (terminated operation)	141	95	-2,080	-2,126
Net income	19,477	13,096	52	56

Source: The Banks Association of Turkey

Due to the fall in interest rates, both interest income and interest expenses declined. Because of the maturity mismatch between assets and liabilities items, decline in the total interest income was limited by 1 percent, while total interest expenses fell by 22 percent. Net interest income rose by 36 percent. This increase was the basic factor underlying the increase in profit. Moreover, the shrinking of net non-interest expenses through limitation of increase in operational expenses positively affected the profitability, but the increase in provisions set aside for non-performing loans negatively affected.

3.11. Off-Balance Sheet Items

Off-balance sheet items increased by 28 percent, and custody and pledged securities item by 29 percent in 2009. The rate of increase in off-balance sheet items, except for the custody and pledged securities item, was 22 percent.

Off-Balance Sheet Items, December 2009

	TL million	USD million	Per. change (TL)	(USD)
Guaranties and warranties	114,382	76,906	8	10
Commitments	187,300	125,933	25	28
Derivative financial instr.	246,195	165,531	28	31
Sub total	547,877	370,187	22	25
Custody and pledged sec.	8,229,271	5,533,027	29	32
Total	8,777,147	5,901,397	28	31

Source: The Banks Association of Turkey

By sub-items of off-balance sheet, the derivative financial instruments which particularly included the foreign exchange risk hedging transactions, showed an increase of 28 percent, and the commitments item by 25 percent on annual basis. The rate of increase in guarantees and warranties was 8 percent.

3.12. Number of ATM, POS and Cards

According to the data published by the Interbank Card Center, total number of credit cards increased by 2 percent and reached 44.4 million as of December 2009 compared with the end of 2008. In the same period, total debit card number also increased by 7 percent and reached 64.7 million. The numbers of POS devices and ATMs also increased by 6 percent and 8 percent to 1,738,728 and 23,800 respectively, in 2009.

Number of ATM, POS and Cards

	Dec. 2008	Dec. 2009	Per. change
Total credit card (‘000)	43,394	44,393	2
Total debit card (‘000)	60,551	64,662	7
POS (‘000)	1,633	1,739	6
ATM	21,970	23,800	8
Credit card trans. vol. (TL billion)*	187	205	10
Debit card trans. vol. (TL billion)*	156	188	21

Source: Interbank Card Center
* Usage in Turkey.

Credit card transaction volume increased by 10 percent and reached TL 205 billion, while debit card transaction volume increased by 21 percent and reached TL 188 billion, in 2009. The ratios of debit card and credit card transaction volumes to gdp were 16 percent and 20 percent, respectively.

3.13. Internet Banking Statistics

The number of internet banking customers increased by 15 percent and reached 5.9 million in 2009 compared with the previous year. 90 percent of customers were individual customers and the remaining 10 percent were corporate customers.

Selected Indicators for Internet Banking (TL billion)

	Dec. 2008	Dec. 2009	Per. change
Number of active customers (‘000)	5,169	5,949	15
Financial transactions	492.8	550.7	12
Investment transactions	213.5	263.3	23
Credit card transactions	16.3	18.3	12
Other financial transactions	60.8	51.6	-15
Total	783.4	883.9	13

Source: The Banks Association of Turkey

Internet banking transactions increased by 13 percent and reached TL 884 billion in December 2009 compared with December 2008. The financial transactions, consisted mainly of transfers, increased by 12 percent, credit card transactions by 12 percent, and investment transactions by 23 percent, while other financial transactions decreased by 15 percent.