

Banking System in Turkey ¹

“March 2011”

Developments in the Banking Sector

1. General Outlook

1.1. Economic Review

Economic recovery continued.

Economic recovery continued in the Turkish economy in the first quarter of 2011. The continuing capital inflows supported the growth in the demand, current account deficit, and loan stock.

Risk perception increased.

The on-going debt problems with fiscal and banking origin in some European countries and on the Turkey's side the growing capital inflows from abroad and growing current account deficit were the factors augmenting the risk perception.

Profits decreased and profitability declined.

Due to the increase in interest expenses and decrease in interest income, interest margin narrowed. Despite the positive effect of the decrease in the loan loss provisions, net current profit contracted by 13 percent.

1.2. Developments in Balance Sheet Items

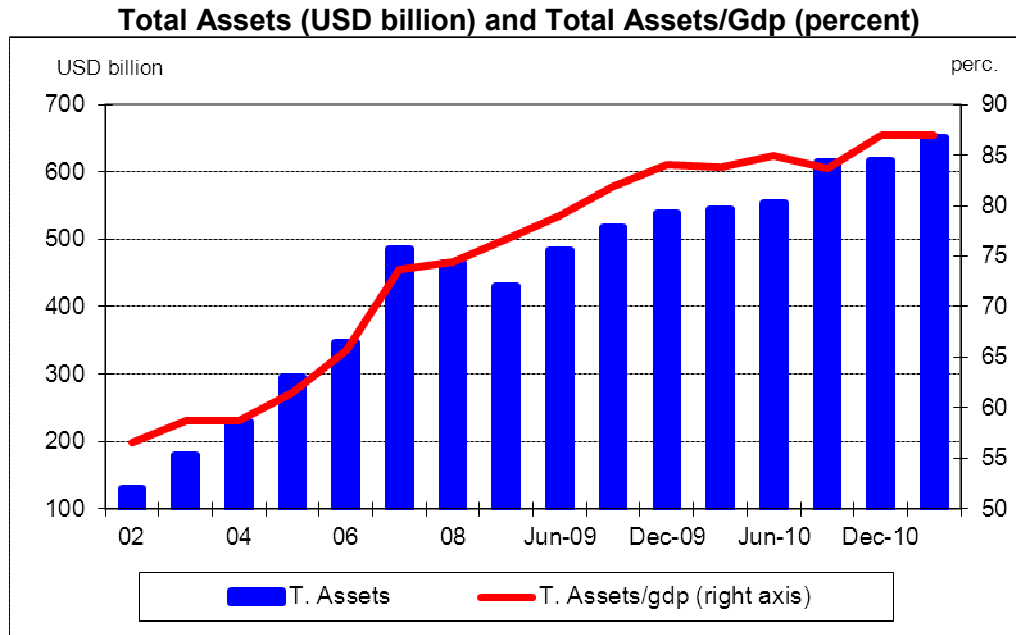
In the first three months of the year, total assets increased in line with the increase in loans.

Total assets increased by 21 percent in the first three months of the year compared to the same period of 2010. As of March 2011, total assets were TL 999 billion (USD 651 billion). The ratio of total assets to gross domestic product is estimated 88 percent as of March 2011.

Total assets increased by 21 percent in deposit banks and 18 percent in development and investment banks, as compared to the March 2010.

In the same period, the shares of state owned banks and private banks in total loans increased both by 1 percentage point, while the share of foreign banks decreased by 2 percentage points.

¹ Deposit banks and development and investment banks are included.



The ratio of loans to total assets realized at 55 percent by increasing 6 percentage points as compared to March 2010. Loans to deposits ratio was 87 percent by increasing 11 percentage points in the same period. The same ratio was 66 percent in state-owned banks, 92 percent in private banks and 103 percent in foreign banks as of March 2010.

As of March 2011, retail loans grew by 33 percent annually. The rapid growth in consumer loans was mainly due to the growth in mortgage and other (general purpose) retail loans. The share of mortgage and other retail loans in total loans is 11 and 12 percent, respectively.

The share of loans under follow-up in total loans is 3.3 percent. The loans under follow-up decreased nominally in line with the increasing economic activity. The coverage ratio of loan loss provisions to non performing loans increased to 85 percent.

The share of non-deposit funds in liabilities increased.

As of March 2011 the share of non-deposits funds in total liabilities increased compared to the same period of previous year. This increase resulted from the growth in funds provided from bonds issued, repo agreements and funds from abroad.

Shareholders' equity was TL 129 billion (USD 84 billion) as of March 2011 with an increase of 15 percent compared to March 2010. This growth was supported mainly by the increase in paid-in capital and extraordinary reserves.

Compared to March 2010, the capital adequacy ratio declined by 2.1 percentage points to 18.1 percent in the first quarter of 2011. The growth in the loan stock has been effective in the deterioration in the capital adequacy ratio.

The ratio of free shareholders' equity to total assets increased from 9.6 percent to 11.1 percent with the decrease in non-performing loans.

1.3. Profitability

Profitability decreased on yearly basis.

In the first three months of the year, interest income was TL 18.9 billion and the interest expenses were TL 9.7 billion. Net interest income decreased by 14 percent to TL 9.2 billion compared to the same period of 2010.

Compared to the same period of previous year, profits decreased by 13 percent to TL 5.3 billion. Net profit margin continued to decrease annually. On the other hand, profitability was affected negatively by the increase in the other operational expenses and positively by the decrease in the loan loss provisions.

Return on equity was decreased from 18.3 percent in March 2010 to 15.9 percent on annual basis and return on assets decreased from 2.5 percent to 2.1 percent in the same period. Thus, annual profitability continued to deteriorate.

1.4. Balance Sheet Risks

There was no considerable change in the FX position or maturity risks.

Net foreign exchange position of the banking sector showed a surplus of USD 943 million. Compared to March 2010, the ratio of TL equivalent of FX assets to total assets decreased by 1 percentage points to 26 percent, while the ratio of TL equivalent of FX liabilities to total liabilities remained unchanged by 31 percent.

Considering maturity, 45 percent of total assets and 80 percent of total liabilities had a maturity of less than 1 year. There was not a considerable change in the average maturity structure of total assets and liabilities compared to December 2010.

A 1.5 percent (TL 8.4 billion) of loans and a 4.2 percent (TL 26.1 billion) of total deposits belong to the risk group of banks. Banks' net risks arising from their risk groups amount was negative. (TL -17.7 billion).

1.5. Selected Issues

The number of branches and employees increased.

As of March 2011, the number of banks operating in Turkey decreased 1 to 44 compared to December 2010. On the other hand, the number of branches and employees increased by 243 and 2,669 to 9,581 and 180,038 in the same period, respectively.

The share of first five banks in total assets decreased by 1 percentage point to 62 percent while the shares in deposits and loans remained unchanged at 66 and 57 percent respectively compared to December 2010. Also the share of first

ten banks in loans increased by 2 percentage points to 87 percent, while the shares in assets, and deposits remained the same at 87 percent, and 91 percent; respectively.

Off-balance sheet items continued to grow especially due to the increase in derivatives for trading transactions item and revocable commitments item.

The growth rate in the number of debit cards and credit cards slowed down. On the other hand, the volume of transactions of both continued to increase. As for the transactions carried out through internet banking, both the number of customers and the volume of transactions continued to increase.