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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 2006' 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 2006.

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	2003	2004	2005	2006	2007*
Growth						
GNP	%	5.9	9.9	7.6	6.0	7.0
Agriculture		-2.5	2.0	5.6	2.9	...
Industry		7.8	9.4	6.5	7.4	...
Services		6.7	11.7	8.6	6.1	...
Sectoral breakdown (at current prices)	%					
Agriculture		13	12	11	11	...
Industry		30	30	29	29	...
Services		57	58	60	60	...
GNP	USD billion	239	300	361	400	423
GNP	TRY million	356,681	428,932	486,401	575,784	622,600
Population	Million	70.4	71.3	72.3	73	73.9
Income per capita	In USD terms	3,383	4,172	5,008	5,482	5,732
Source-use	As % of GNP					
Fixed-capital outlays		16	20	25	25	25
Public		5	5	5	5	5
Private		11	15	20	20	20
Total savings	%	19	21	18	16	18
Public		-5	-1	4	5	4
Private		25	22	14	11	14
Savings gap		-4	-5	-7	-8	-8
Public		-10	-7	-1	0	-1
Private		6	1	-6	-9	-7
Total consumption		81	80	82	84	83
Public		12	12	12	12	13
Private		68	68	70	71	70
GNP deflator	%	23	9	5	12	7
Unemployment						
Overall	%	10	10	10	10	...
Urban		14	14	13	12	...
Rural		7	7	7	7	...
Inflation	%					
(Twelve month chg)						
Producer**		14	14	3	12	...
Consumer		18	9	8	10	4
Public sector balance, as % of GNP	%					
PSBR (excluding privatization)		9.4	5.1	0.4	-0.9	1.0
PSBR (including privatization)		9.3	4.7	-0.4	-3.1	0.2
PSBR (excluding. interest. payments)		-7.6	-8.4	-9.3	-9.4	-7.7
Budget deficit		11.2	7.0	1.7	0.5	2.7
Budget deficit (excluding interest payments)		10.0	5.3	-0.2	-2.7	0.6
SEEs		-0.7	-0.6	-0.2	-0.4	-0.5
Public administrations		0.4	0.0	0.0	0.0	0.0
Funds		-0.2	-0.5	-0.6	-1.8	-0.7
Other		-1.3	-0.8	-0.5	0.8	-0.5
Central Government budget* **	TRY million					
Revenues		100,283	109,887	146,710	171,309	188,159
Expenditures		140,054	140,200	156,316	175,304	204,989
Interest expenditures		65,450	56,488	45,680	45,945	52,946
Budget deficit		-39,771	-30,313	-9,606	-3,995	-16,830
Primary balance		19,322	26,175	36,074	41,950	36,116
Financing		42,290	31,624	13,225	5,541	16,740
External borrowing		2,685	3,505	-2,627	-1,722	...
G-bonds		54,856	25,853	33,773	12,685	...
Short-term financing		-11,973	4,859	-12,455	-8,224	...
T-bills		-11,973	4,859	-12,455	-8,224	...
CB advances		0	0	0	0	...

** Programme target*
*** Wholesale price index until 2004.*
**** Consolidated budget until 2004.*

	Unit	2003	2004	2005	2006	2007*
Selected ratios	%					
Revenue/GNP		28.1	25.6	30.1	29.7	30.2
Expenditure/GNP		39.2	32.7	32.1	30.4	32.9
Personnel expenditure/GNP		8.5	6.7	6.5	6.5	7.0
Interest expenditure/GNP		18.3	13.2	9.4	8.0	8.5
Investment/GNP		2.0	1.9	2.0	2.0	2.5
Personnel expenditure/total expenditure		21.6	21.9	22.0	22.7	21.3
Interest expenditure/total expenditure		41.8	41.1	31.6	29.4	25.8
Investment/total expenditure		5.1	4.7	6.7	6.8	7.6
Outstanding domestic debt	TRY million					
G-bonds		169,745	194,211	226,964	241,877	...
T-bills		24,642	30,272	17,818	9,594	...
Total Government securities		194,387	224,483	244,782	251,471	...
CB advances		0	0	0	0	...
Devaluation account		0	0	0	0	...
Total		194,387	224,483	244,782	251,471	...
Outstanding Domestic G. securities/GNP	%	54	52	50	44	...
Outstanding debt/GNP		79	75	68	60	...
Interest rates	%					
(Annual simple average)						
G-bonds		43	19	14	19	...
T-bills (3-month)		44	23	14	22	...
G-securities (maturity)		323	368	690	850	...
Exchange rates						
USD (Year-end)		1.3933	1.3363	1.3418	1.4056	...
(Twelve month chg)	%	-15	-4	0	5	...
Euro (year-end)		1.7575	1.8233	1.5875	1.8515	...
(Twelve month chg)	%	2	4	-13	17	...
CB Balance Sheet	TRY million					
Total balance sheet		76,473	74,658	90,700	104,352	...
As % of GNP	%	21	17	19	17	...
Net fx assets		17,262	23,048	49,480	67,136	...
Net domestic assets		28,753	21,071	17,732	12,888	...
Lending to Government		28,747	25,272	21,439	18,775	...
Reserve money		15,010	20,328	32,696	41,398	...
CB money		24,134	24,743	38,547	41,916	...
Fx position	USD million	394	2,748	15,513	20,702	...
Fx reserves	USD million	33,639	36,006	50,518	60,814	...
Monetary aggregates						
M1	TRY million	21,564	29,469	46,963	47,491	...
M2		80,923	109,344	163,467	185,145	...
M2Y		149,855	185,418	243,277	286,544	...
Repos (R)		3,067	1,528	1,486	2,202	...
Investment Funds (F)		12,911	16,532	21,584	9,590	...
G-securities held by non banks (D)	TRY million	53,327	67,034	65,252	66,063	...
Loans		67,210	100,101	153,059	210,420	...
M2RF		96,901	127,404	186,537	196,937	...
M2RFY		165,833	203,478	266,347	298,336	...
M2RFYD*		219,160	270,512	331,599	364,399	...
**M2RFYD: monetary assets+repos+investment funds+D*						
M2RF/GNP	%	27	30	38	34	...
M2RFY/GNP	%	46	47	55	52	...
Loans/GNP	%	19	23	31	37	...

** Programme target*

	Unit	2003	2004	2005	2006	2007*
Financial assets	TRY million					
Monetary assets		165,833	201,949	231,072	288745	...
TRY		96,901	125,875	154,632	187346	...
FX		68,932	76,074	76,440	101399	...
Securities		287,092	353,769	466,032	493246	...
Shares		96,073	129,287	218,318	228283	...
Bonds and Bills		191,019	224,482	247,714	255373	...
Government		191,019	224,482	247,714	255240	...
Private		0	0	0	133	...
Investment Funds		12,912	16,531	21,584	9590	...
Total		465,837	572,249	718,688	781991	...
Foreign trade	USD billion					
Exports		45.6	62.8	73.0	85.0	95.0
Imports		67.2	97.2	116.0	137.0	150.3
Trade deficit		21.6	34.4	43.0	52.0	-57.2
Foreign trade as of GNP	%					
Exports		19.1	20.9	20.2	20.7	22.5
Imports		28.1	32.4	32.1	34.0	35.5
Trade deficit		9.0	11.5	11.9	13.0	13.0
Balance of payments	USD billion					
Trade balance		-14.0	-23.9	-33.5	-40.1	-55.0
Invisible balance		6.0	8.3	10.9	8.4	24.6
Current account balance		-8.0	-15.6	-22.6	-31.7	-30.4
Current account balance/GNP	%	-3.3	-4.8	-6.5	-7.9	-7.9
Capital movements	USD billion	7.1	17.7	44.1	45.3	30.4
Foreign direct investment		1.2	2.0	8.7	19.2	13.2
Portfolio investment		2.6	8.0	13.4	7.4	5.6
Net errors and ommissions		5.0	2.2	2.1	3.0	0.0
Change in reserves		4.0	-0.8	17.8	-6.1	-5.3
International fx reserves	USD billion					
CB reserves		33.6	36.0	50.5	60.8	...
Commercial banks		14.9	21.1	22.6	38	...
Total		48.5	57.1	73.1	98.8	...
Outstanding external debt	USD million					
Total		144,260	160,789	168,808	206471	...
Long-term capital		121,247	128,909	131,705	164487	...
Government		69,504	73,831	68,247	69585	...
Central Bank		24,364	21,401	15,418	15669	...
Private sector		30,238	36,964	50,804	81796	...
Non-financials		25,086	28,546	34,914	53035	...
Financials		5,152	8,418	15,890	28761	...
Short term		23,013	31,880	37,130	41984	...
Government		0	0	0	0	...
Central Bank		2,860	3,287	2,764	2563	...
Private sector		20,153	28,593	34,339	39421	...
Non-financials		10,461	14,064	16,599	19591	...
Financials		9,692	14,529	17,740	19830	...
Istanbul Stock Exchange						
Number of companies traded		265	275	282	291	...
ISE index	In USD terms	778	1,075	1,687	1,621	...
Daily trading volume	USD million	407	593	793	886	...
Total trading volume	USD million	100,165	147,755	197,386	222,399	...
Market capitilization	USD billion	69,003	98,073	159,274	162,525	...
Market P/E		15	14	17	22	...

** Programme target*

Turkish Economy and Banking System in 2006

I. Turkish Economy and Banking System in 2006

1. General Outlook

1.1. Economic Performance in 2006

Turkish economy experienced a continuous growth in the last twenty quarters. Gross National Product (GNP) increased by 43 percent in constant prices and by 175 percent in dollar terms in 2002-2006 period, thus amounted to USD 400 billion from USD 145 billion. Per capita income more than doubled to USD 5,482 at the end of 2006.

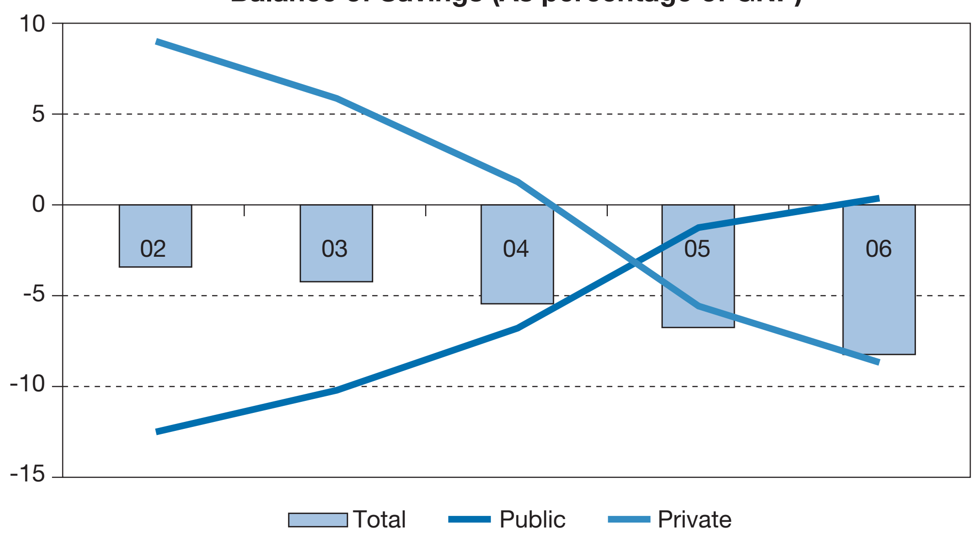
Growth performance was considerably affected by the rapid and sharp fluctuations in domestic money and capital markets in the second quarter of 2006 caused by volatilities in international markets, which deteriorated expectations. However, annual GNP growth in 2006 realized as 6 percent, 1 percentage point above the program target. The annual growth rate was 8.5 percent in GNP at the end of the first half of the year.

High growth rates in construction, industry and trade sectors promoted the growth in economy in general. Service sector's share in GNP was the highest with 65 percent, while industry sector had a share of 26 percent.

Consumption demand rose by 5.6 percent and investment demand rose by 14 percent in 2006. Growth rates in both consumption and investment demand significantly slowed down in the second half of the year. There was an abrupt slowdown particularly in investment expenditures of the public sector and in consumption expenditures of the private sector. High growth rates, though decelerated in the second half of the year, in machinery and construction investments of the private sector were maintained.

Savings continued to drop in private sector while rose in public sector. According to the estimates of the State Planning Organization of Turkey, savings gap in private sector rose to 8.6 percent of GNP in 2006 from 5.5 percent in the previous year. Net savings gap in the same period rose by 1.5 percentage points and reached the record level of about 8 percent of GNP.

Balance of Savings (As percentage of GNP)



Downward trend in inflation which first started in 2002 took on a reverse direction starting from the second half of the last year. Annual inflation rate was realized at 9.7 percent in 2006 when formal inflation targeting was first put into practice with 5 percent target for annual inflation. Rapid expansion of monetary base starting from the second half of 2005, falling trend in interest rates until the first quarter of 2006, vigorous domestic demand as well as rapid effect of TRY depreciation on prices in May-June 2006 period, all caused deterioration in expectations and led to an increase in inflation again in the second half of 2006. Global volatility took place in a period when TRY liquidity was substantially increasing due to foreign exchange purchases of the Central Bank starting from the second half of the previous year.

The Central Bank announced measures for limiting the expansion in monetary base in order to restore deteriorated expectations and direct them back towards the targeted inflation level, curb the liquidity in the markets, and slow down the demand in the domestic market. Short term interest rates were hence hiked to 17.5 percent at the end of July 2006 from 13.25 percent in May 2006. Foreign exchange buying auctions held regularly every day were suspended during this period. TRY borrowing auctions were started in order to reduce TRY liquidity surplus in the markets. The difference between the Central Bank’s market borrowing and lending ranges was extended. Foreign exchange supply was offered to the market through regular foreign exchange sale auctions and/or outright sale operations for the purpose of supplying liquidity to foreign exchange markets. A total of USD 3.1 billion was sold to the markets by the Central Bank in June-July 2006.

In this period where the Central Bank announced policies for tightening its monetary policy, Ministry of Finance confirmed that tight fiscal policy would be maintained, budget performance went better than expected, and additional measures would be taken for further tightening the public expenditures if it was required. In the meantime, through amendments in the laws aimed at creating confidence in the actors of capital markets, investors resident abroad were exempted from paying withholding tax on income from government bonds while that applied to real persons resident in Turkey was dropped to 10 percent from a previous 15 percent.

Improvement in the public sector balance also continued in 2006. According to the data of the State Planning Organization, the public sector balance was estimated to produce a surplus of 3.1 percent of GNP in 2006. Budget deficit to GNP ratio decreased to 0.7 percent, which was the lowest figure in the near past. Primary surplus to GNP ratio (according to the definition given in the agreement signed with the International Monetary Fund) was realized at 6.5 percent.

Rapid improvement in the public sector balance also contributed a lot to the decrease in the public sector outstanding debt to GNP ratio. Total outstanding debt to GNP ratio decreased by 8 points to 60 percent. The outstanding domestic debt to GNP ratio fell to 44 percent, while the outstanding external debt to GNP ratio decreased to 16 percent. Average maturity of the outstanding domestic debt was extended. The share of debts to market and the share of fixed interest and TRY denominated debts within the outstanding domestic debt increased. Hence, the vulnerability of the domestic debt stock against the volatility in foreign exchange rates was further reduced.

Stability in domestic markets was restored in a short time as a result of monetary policy measures aimed at lessening the liquidity in the markets and maintenance of the fiscal discipline by the Government, and also mitigation of the fluctuations in international markets. Starting from the third quarter, upward trend in interest rates halted, capital inflows gained speed, the Central Bank restarted its foreign exchange purchases through daily auctions though at a more limited extent compared with pre-volatility period. TRY began to appreciate against the hard currencies in the third quarter of the year. The Central Bank purchased a total of USD 6.3 billion throughout 2006. Foreign exchange reserves of the Central Bank rose to USD 60.8 billion as of the end of the year.

Demand from investors resident abroad for government domestic debt instruments increased considerably in the second half due to the level of the interest rates and the effect of new tax regulations. On the other hand demand from real persons resident in Turkey for government domestic debt instruments decreased. TRY demand by persons resident in Turkey substantially favored with repurchase agreements (repos) and short term TRY deposits.

Another significant development in this period was the recurrent increase in foreign currency substitution. Foreign exchange deposit accounts reached USD 83.4 billion at the end of the year from USD 66.1 billion in June 2006 due to increase in the demand by both real persons and corporates. This increase also stemmed from the fact that proceeds from the sale of the shares of domestic banks and non-financial enterprises to foreign investors were retained as foreign exchange. The share of foreign exchange deposits within the money demand consisted of cash, TRY deposits, foreign exchange deposits, repos and mutual investment funds, increased by 4 percentage points to 34 percent. This ratio, however, was 51 percent in 2002.

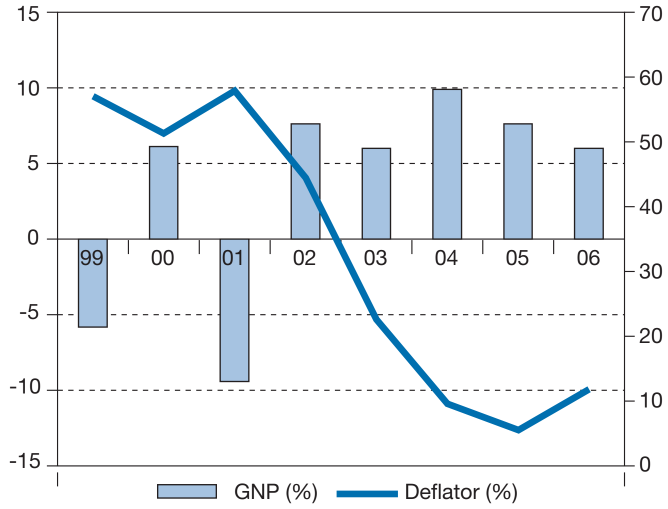
Banks' liquidity preferences increased due to the accelerated increase in foreign exchange deposits. Likewise, the growth rate in loan stock considerably decelerated in the second half as a result of the increase in interest rates and slowdown in domestic demand. Growth rate in loan stock which was 61 percent at the end of the first half slowed down to 40 percent at the end of the year. As of the year-end, the ratio of total loans to GNP was 38 percent and to total deposits was 70 percent.

As the growth in domestic loan stock decelerated, borrowing from abroad by non-financial corporates continued to increase on a robust rate. Consequently, total outstanding external debt stock excepting the loans made available to non-financial sectors by the foreign branches of domestic banks in Turkey increased by 45 percent to USD 53 billion. External borrowing of non-financial sectors continued to increase at the same rate as foreign exchange loans extended to these sectors by banks operating in Turkey.

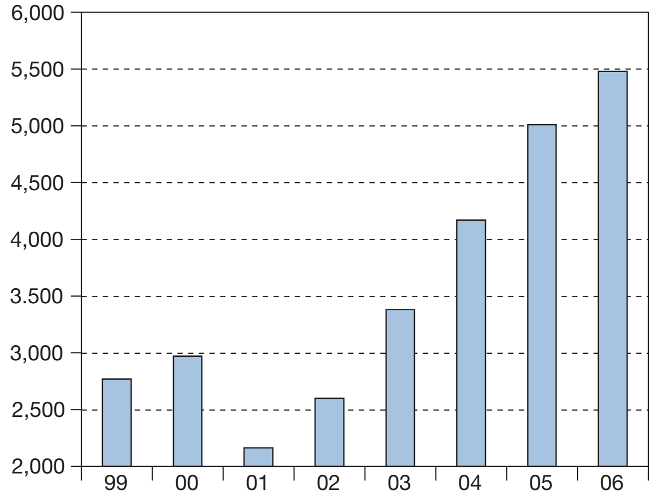
Net external borrowing by non-financial sectors excluding corporate loans was USD 19 billion in 2006. This borrowing also accounted for a considerable part of the net capital inflows into Turkey. Net capital inflows to Turkey in 2006 was USD 45 billion. In addition to the borrowing by private sector; the higher pace of privatization and the increase in direct investments to banks and non-bank institutions and portfolio investments by investors resident abroad were also the factors behind capital inflows. Direct foreign capital investments reached a record level of USD 19 billions in 2006.

Total net capital inflow into Turkey was only USD 27 billion in 1990-2001 period, whereas this figure reached USD 121 billion in 2002-2006 period. This development was contributed heavily by the efforts of establishing macro-economic balance in healthy grounds, as well as positive developments in international markets and increased net capital inflow to developing countries in general. As a matter of fact, net capital inflows to developing countries reached USD 450 billion in 2006 from USD 117 billion in 2002.

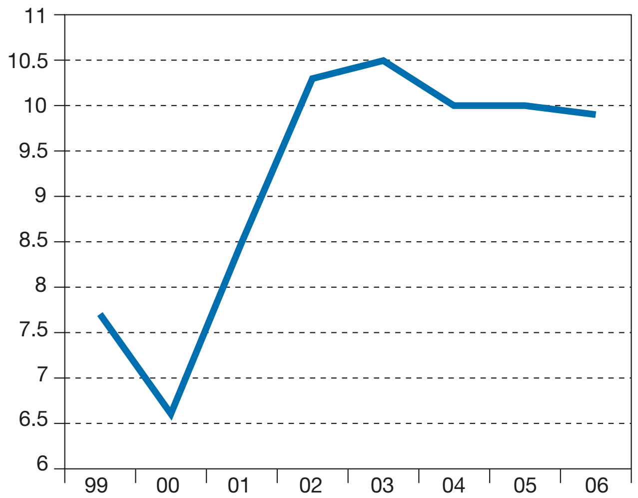
High and stable economic growth in the last five years. (%)



Per capital income continued to increase. (USD)

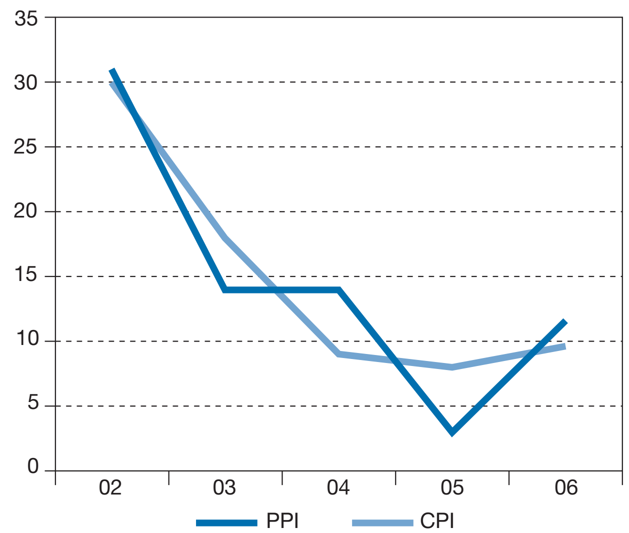


Unemployment rate remained almost the same. (%)

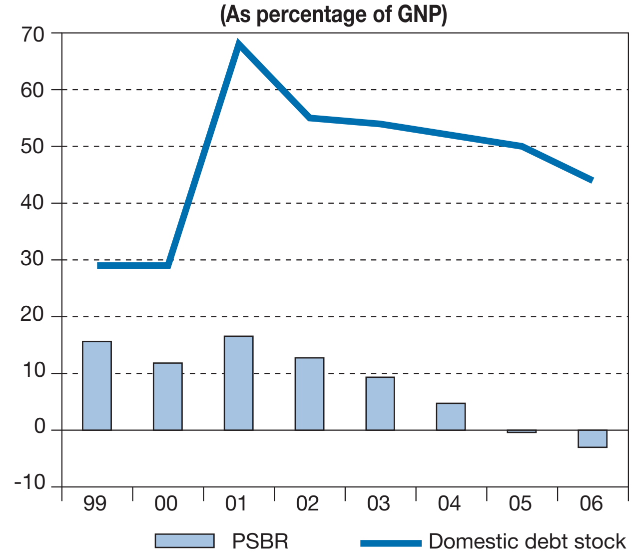


Wages in private sector continued to increase in real terms. (1997=100)

The declining trend in inflation ended in 2006. (%)



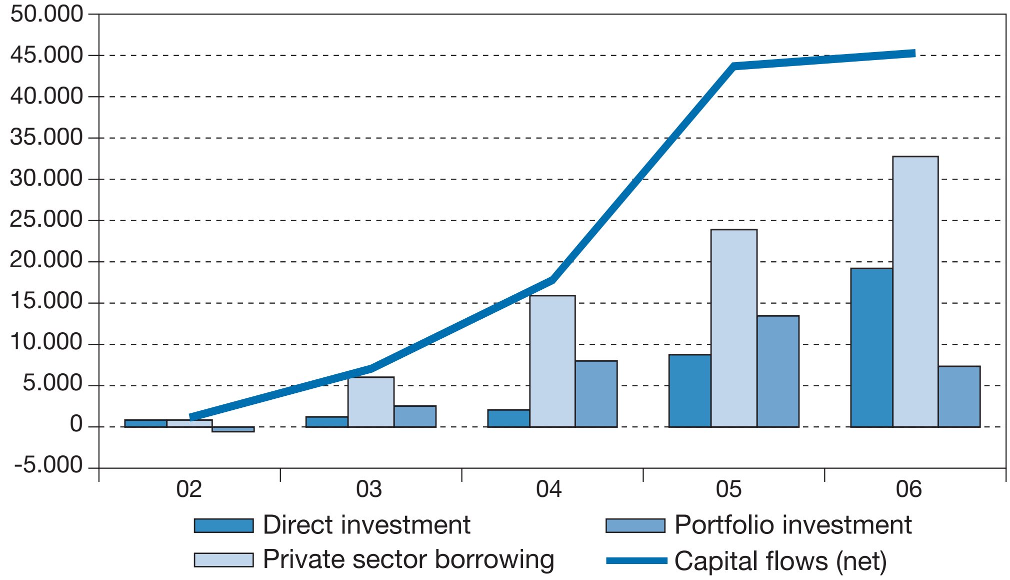
Public sector balance gave surplus,domestic debt stock declined. (As percentage of GNP)



Deposit banks' foreign currency reserves increased in 2006 more rapidly than in previous years also as a result of the rise in money substitution. On the contrary, increase rate in foreign currency reserves of the Central Bank decelerated compared to 2005.

Current account deficit expanded by 40 percent and reached a record level of USD 31.7 billion. Current account deficit to GNP ratio rose to 8 percent which was caused by an expansion of foreign trade deficit as well as contraction of the service sector balance due to the decrease in tourism revenues. Foreign trade volume grew by 18 percent in 2006 and reached USD 222 billion, and foreign trade deficit rose by 21 percent to USD 52 billion. Foreign trade volume to GNP ratio rose by 4 percentage points and reached 56 percent.

Capital Flows, Private Sector Borrowing, Direct Investment and Portfolio Investment (Net, USD million)



Despite the rapid growth in net capital inflows and the increased weight in the items of capital inflows which are not included in foreign exchange liabilities, such as direct foreign capital and portfolio investments; total outstanding external debt grew by 22 percent and reached USD 207 billion. Almost all of the increase in total outstanding debt stemmed from the increase in the outstanding external debt of the private sector. Outstanding external debt to GNP ratio increased for the first time since 2001 and reached 52.5 percent.

Medium Term Program and Forecasts for 2007-2009 Period

According to the Government's medium term program for 2007-2009 period; gross domestic product (GDP) is estimated to reach USD 522 billion at the end of 2009 by an average annual increase of 7 percent; per capita income to reach USD 6,898; and the inflation to decrease to 4 percent in the same period.

The Program projects that public sector balance will produce surplus during two years following 2007 and the ratio of public sector net outstanding debt to GNP will fall to 34 percent. It is estimated that total consumption will increase by an average of about 8 percent annually, and fixed capital investments will increase by an average of about 7.8 percent annually. It is forecasted that exports will near to USD 120 billion and imports to USD 180 billion, while current account deficit to GNP ratio will be about 6.6 percent.

Forecasts of Medium Term Program

	2005	2006*	2007**	2008**	2009**
GDP (in real terms, %)	7.4	6.1	7	7	7
GDP (USD billion)	361	400	423	470	522
Per capita (USD)	5,008	5,477	5,732	6,284	6,898
PSBR/GNP (%) ***	-0.4	-3.1	0.1	-0.2	-0.9
Public debt stock (net)/GDP (%)	55	45	44	39	34
CPI (annual change,%)	8	10	4	4	-

* Provisional ** Program target
***PSBR: Public sector borrowing requirement.
Source: State Planning Organization

1.2. Developments in the Banking Sector

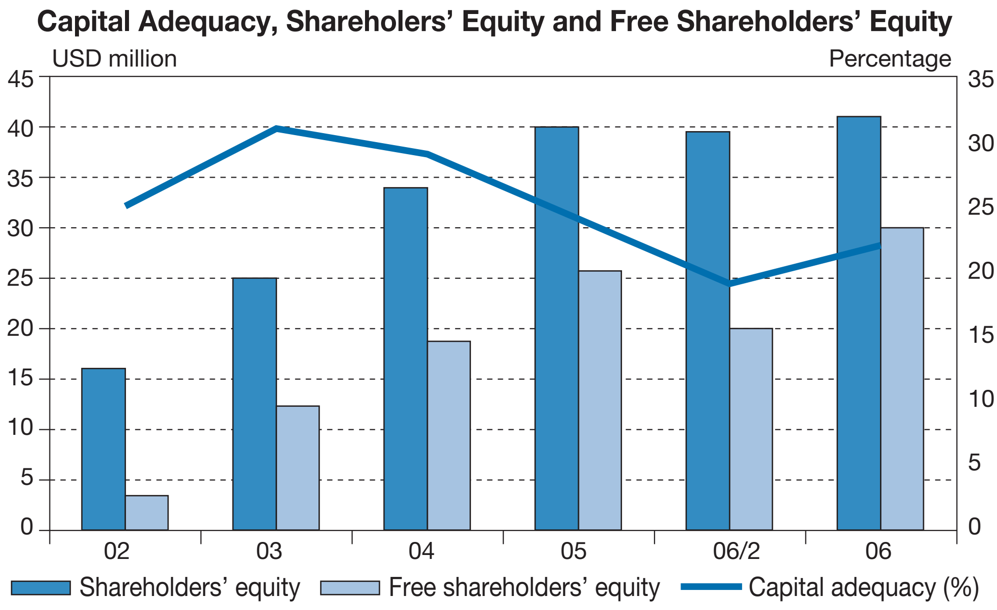
Improvement in the performance of Turkish economy in the last five years had also positive impacts on the banking sector. Growth in the balance sheet of the banking sector surpassed GNP growth rate. Total assets grew by 51 percent in TRY constant prices and 167 percent in dollar terms compared to 2002 year-end and reached USD 347 billion from USD 130 billion. Per capita assets rose to USD 4,738 from USD 1,872.

Banking sector's total assets to GNP ratio rose by 7 percentage points to 85 percent compared to 2002. There was also a positive change in the balance sheet structure of the sector; the share of TRY denominated items in the balance sheet increased significantly due to robust demand for TRY. The most remarkable development was the rapid increase in both total loans to total assets ratio and total loans to GNP ratio. The former nearly doubled to 38 percent, while the ratio of loans to total assets increased by 18 percentage points and reached 43 percent. Meanwhile, the share of consumer loans in total loans increased from 13 percent to 31 percent.

Another important development was the strong growth in shareholders' equity and free shareholders' equity. Shareholders' equity rose to USD 41.3 billion from USD 15.7 billion, and free shareholders' equity to USD 29.2 billion from USD 3.4 billion. Profitability performance also improved significantly. For the first time in 2006, return on equity in the banking sector exceeded the average annual interest rates on government domestic debt instruments.

Growth in the banking sector, change in its balance sheet structure, increase in loan demand, strengthening of its financial structure, and improvement in its profitability performance, as well as growth potential of Turkey and the banking sector, all attracted foreign direct investments to the Turkish banks and other financial institutions. Market value of banks and financial institutions listed in Istanbul Stock Exchange (ISE) increased substantially compared to 2002.

The Banking Law regulating banking activities was harmonized considerably with the European Union directives and international best practices. Almost all of the sub-regulations of the Banking Law were completed in 2006 and put into implementation. New regulations were introduced on subjects such as outsourcing, identification of corporate governance principles, and measurement of the liquidity adequacy in banks. In sub-regulations special importance was attached to improvement of risk management, asset quality and corporate structure, and liquidity and capital adequacy. General provisions for loans were raised to 1 percent from 0.5 percent for cash loans, and to 0.2 percent from 0.1 percent for off-balance sheet items. New regulations also adopted a more conservative approach imposing a capital adequacy ratio at or above 12 percent.



Bank Cards and Credit Cards Law and the related sub-regulations were also completed. Law on housing finance came into effect and the works on sub-regulations regarding the Law have been started. These regulations directly related with banking activities are also expected to have positive contribution to the growth and deepening of the financial sector and further strengthening of the competition in the sector.

The number of banks operating in Turkey decreased to 46 at the end of 2006 from 79 throughout consolidation in the banking sector starting from 2000. The number of banks with foreign capital increased due to the investments of non-residents.

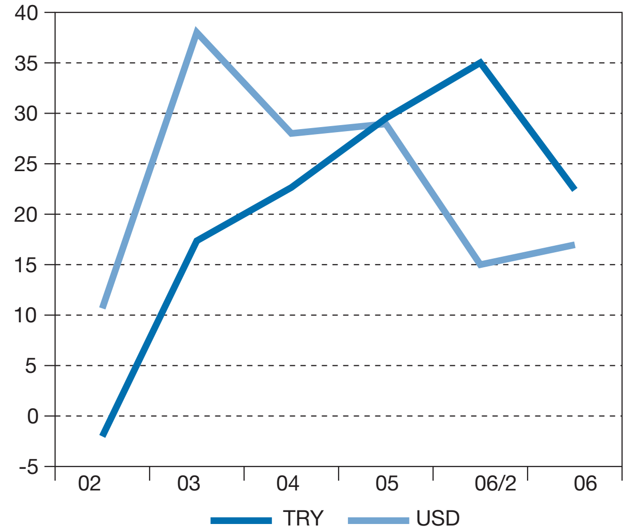
There were 33 deposit banks and 13 development and investment banks at the end of 2006. Development and investment banks do all kinds of banking activities other than accepting deposits. Of the deposit banks; 3 were state-owned while 14 were privately-owned. Foreign investors had 50 percent of the non-public shares in three of the privately-owned banks. There were 15 deposit banks whose majority shares were owned by foreign capital, while the number of development and investment banks with majority shares under the control of foreign investors was 4. There were also 4 participation banks operating in Turkey in 2006.

The share of deposit banks in total assets of the banking sector was 97 percent, and that of the development and investment banks was 3 percent. In deposit banks group the share of state-owned banks in total assets was 30 percent, and that of privately-owned banks was 55 percent. The share of deposit banks whose majority shares were owned by foreign capital increased by 7 percentage points to 12 percent.

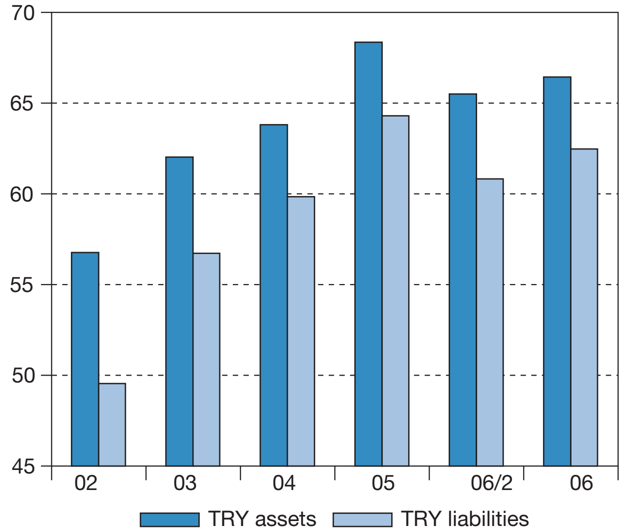
The rising trend in the number of bank branches and employees which started in the first quarter of 2003 also continued in 2006. The number of branches rose by 602 to 6,849. In 2006 the number of bank employees exceeded 143,000 with an additional employment of 11,000 people in the banks.

Considering the banking sector indicators relative to population, the average number of people per bank employee is about 500, that of people per bank branch is around 10,000. Despite the significant improvement in the last period, the numbers of branches and employees relative to population remained below the previous levels in 2000. Similarly, the same figures relative to population are considerably lower in Turkey compared with the European Union member states.

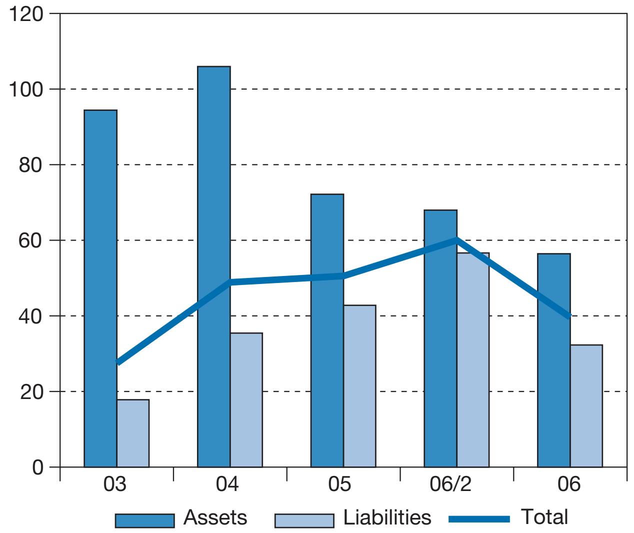
Growth rate of total assets slowed down in 2006.*



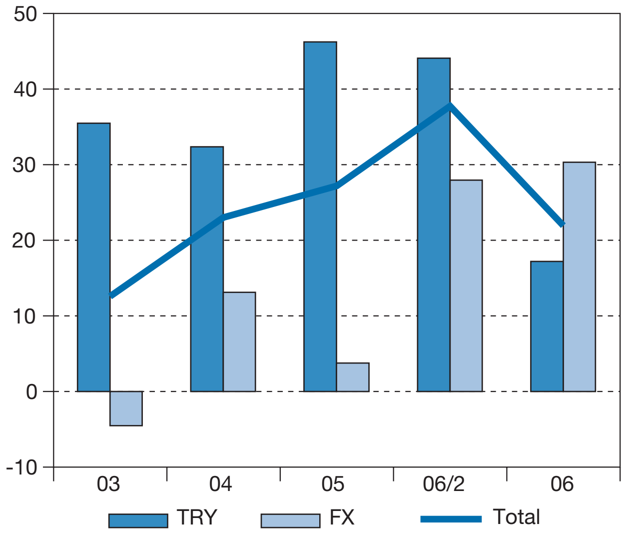
The share of TRY assets in the balance sheet declined in 2006.**



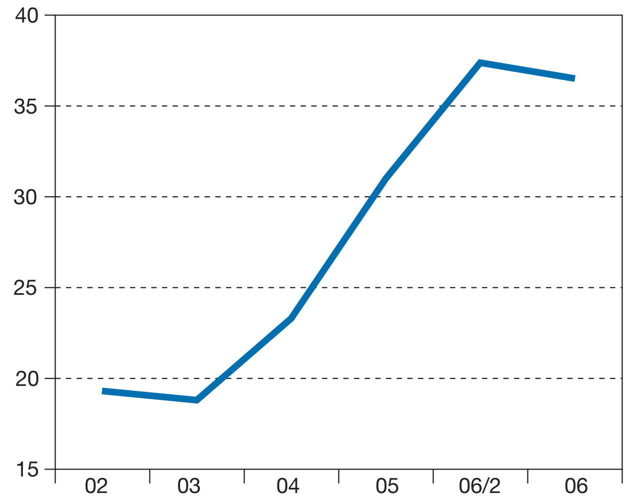
Growth rate of loans slowed down in 2006.*



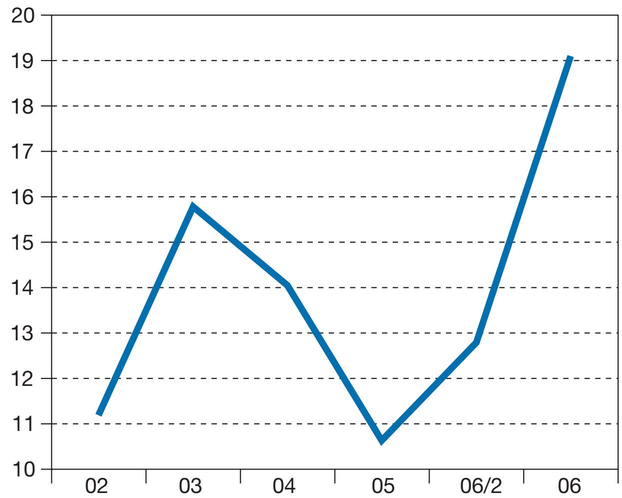
Foreign exchange deposits increased in 2006.*



The ratio of loans to GNP was doubled in the last five years. (%)



Return on equity increased rapidly in 2006. (Annual, %)



* Annual percentage change
** Percentage share

Selected Banking Indicators in EU and Turkey*

	EU25 (2005)	Turkey (2006)
Asset per person (Euro)	71,200	3,698
Total assets/GDP (percent)	304	87
Population/number of employees	173	485
Population/number of branches	2,279	10,060
Population/number of banks	53,241	1,459,000

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

Volatility in the markets in May-June 2006 period led to a slowdown in the growth performance of the banking sector. Consequently, the annual growth rate which was 35 percent at the end of the first half of 2006 fell down to 22 percent at the end of 2005.

Increase in foreign exchange deposits in the second half of the year gained speed. However, increase in TRY equivalent of the foreign exchange deposits was limited due to TRY's appreciation. Banks reduced the use of funds from abroad. Due to the effects of the increased demand for foreign exchange deposits banks increased their liquid assets reserved at banks abroad.

In total assets the share of the largest five banks was 63 percent, and the share of the largest ten banks was 86 percent. Total assets of the first three banks in terms of asset size were ranked as USD 54 billion, USD 51 billion and USD 41 billion with the sum reaching USD 146 billion. The share of TRY assets in the balance sheet decreased to 66 percent from 68 percent, and the share of TRY liabilities in the balance sheet fell to 62 percent from 64 percent. Balance sheet of the state-owned banks had a TRY-weighted structure. The share of TRY assets in total assets was 78 percent in state-owned banks, and 60 percent in privately-owned banks. Similar development was observed on liability side; the share of TRY resources in total liabilities was 76 percent in state-owned banks, while this ratio was 57 percent in privately-owned banks.

The difference between foreign exchange assets and foreign exchange liabilities showing in-balance sheet foreign exchange position of the banking sector was USD 13.7 billion in 2006. On the other hand, foreign exchange net general position gave a surplus of USD 184 million.

Total loans grew rapidly in the first half of 2006 as a result of the increase in demand from corporates and consumers due to strong domestic demand. The increase in securities and liquid assets remained limited. Growth in the loan stock decelerated in the second half of the year while liquid assets posted stronger growth. About 74 percent of total loans were consisted of TRY loans. Corporate loans had a share of 69 percent in total loans while the share of consumer loans was 31 percent. Sectors having a significant share in corporate loans market were trade, textile and construction sectors. The share of credit cards in consumer loans was 33 percent, housing loans 33 percent, and automobile loans 10 percent. Fastest growing item in consumer loans was housing loans. Loans to deposits ratio rose to 70 percent by an increase of 9 percentage points compared with 2005, and by 33 percentage points in the last five years as a whole.

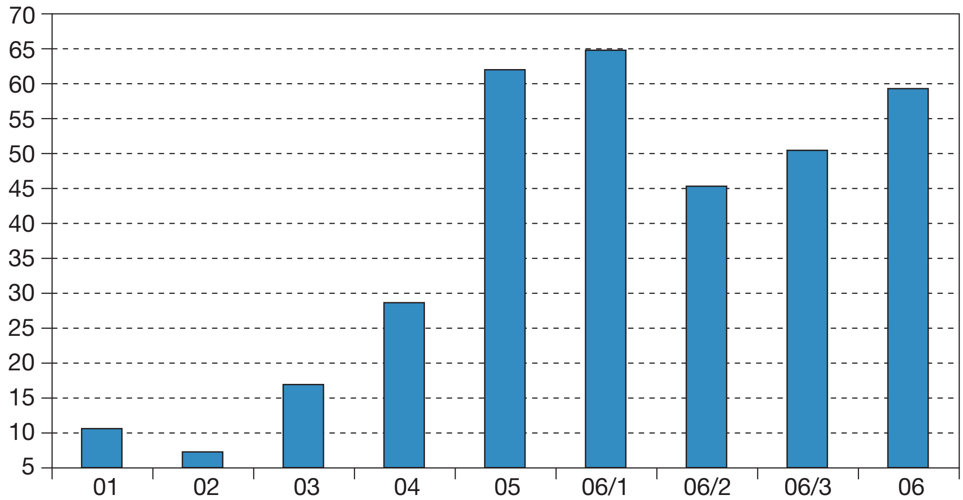
The increase in non-performing loans was limited. Continued growth in economic activity and loans as well as cautious and prudent policy of banks became effective in this development. Special provisions were set aside for 90 percent of the non-performing loans.

Total deposits made up 61 percent of total liabilities. TRY deposits' share in total deposits was 61 percent which was 2 percentage points lower compared to the previous year. Average maturity of total deposits was about the same at 2.4 months. The ratio of TRY deposits to total deposits was 75 percent in state-owned banks, 54 percent in privately-owned banks, and 44 percent in foreign banks.

The increase in shareholders' equity was relatively slow in 2006. Shareholders' equity increased by 8 percent in TRY terms and amounted to TRY 58 billion. The rise in shareholders' equity was 3 percent in dollar terms, reached USD 41.3 billion. Losses stemming from the revaluation of securities caused by the rise in interest rates as well as the distribution of profits restricted the growth in shareholders' equity. However, free shareholders' equity continued to grow due to the fall in permanent assets. Free shareholders' equity (shareholders' equity – permanent assets – non-performing loans after provisioning) rose to TRY 41 billion (USD 29.2 billion) from TRY 34 billion (USD 25.7 billion). Capital adequacy ratio of the banking sector dropped to 22.4 percent at the end of 2006 from 24.2 percent at the end of 2005. Although the market volatility in the second quarter of 2006 eroded the shareholders' equity of the banking sector to a certain extent, it also acted as a test for the resilience of the financial system against market turmoil, and it was seen that losses stemming from the exchange rate exposure in particular could be reduced broadly through hedging transactions.

Net profit of the banking sector rose by 94 percent and reached TRY 11,090 million. Major reasons having an effect on the rise of the profit margin were the reduction in special provisions, increase in revenues from fees and commissions, increase in non-interest revenues, and fall in non-interest expenditures. Rapid increase in net profits of the banking sector had positive impacts on profitability ratios. Accordingly, return on assets increased to 2.3 percent from 1.4 percent, and return on shareholders' equity rose to 19.1 percent from 10.6 percent. Off-balance sheet items grew by 33 percent in 2006. Hedging transactions carried out via derivative financial instruments which was the fastest growing item, considerably restricted possible losses from exchange transactions which stemmed from the volatility in the first half of the year.

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



Market value of the financial institutions increased continuously until the first quarter of 2006 starting from 2002. It decreased by 30 percent after the market turmoil in the second quarter of 2006 and declined to USD 45 billion, but otherwise maintained upward trend in the rest of the year. However, market value of the financial institutions completed the year 2006 at USD 59.3 billion which was below the value at the end of 2005.

2. Developments in the Turkish Economy in 2006

2.1. Growth

Growth trend in the Turkish economy which started in the second quarter of 2002 continued for the last 20 quarters. Average growth rate in the economy in this period was 7.2 percent above 3.5 percent average in the 1990s. However, the growth rate slowed down in May-June period of the last year following the financial market turmoil. Sudden pause in domestic demand, private consumption and government investments played a significant role in the slowdown in the second quarter.

According to the data of the Turkish Statistical Institute (Turkstat) Gross National Product (GNP) increased by 6 percent and Gross Domestic Product (GDP) increased by 6.1 percent, in constant prices in 2006. GNP grew by 18.4 percent in current prices and reached TRY 575.8 billion. GNP deflator rose to 11.7 percent from a previous 5.4 percent.

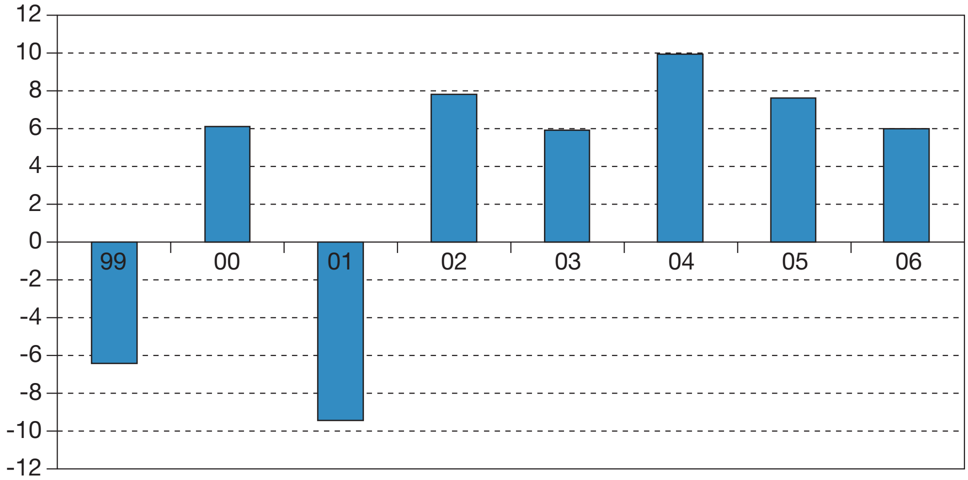
Gross National Product

	2002	2003	2004	2005	2006
Growth rate (percent)					
In current prices	55.8	29.7	20.3	13.4	18.4
In constant prices	7.9	5.9	9.9	7.6	6.0
Deflator (percent)	44.4	22.5	9.4	5.4	11.7
GNP					
(1987 prices, TRY million)	116	123	135	146	154
TRY billion	275	357	429	487	576
USD billion	180	239	300	361	400
Per capita income (USD)	2,598	3,383	4,172	5,008	5,482

Source: Turkstat

GNP grew by 10.8 percent in dollar terms and reached USD 400 billion. Per capita income increased by 17 percent in current prices and by 9 percent in dollar terms, respectively and reached USD 5,482. Annual growth rate of GDP in constant prices slowed down to 6.1 percent at the end of 2006, from 8 percent at the end of the first half of 2006.

Growth (Percentage change in constant prices)



Analysis of economic activities point to growth in all the main sectors of the economy. Agriculture sector grew by 2.9 percent in constant prices; industrial sector by 7.4 percent and service sector by 6.1 percent. In service sector, the growth was particularly high in the sub-sectors of construction and trade, with average growth rates of 19.4 percent and 5.9 percent, respectively. The share of agriculture sector in GNP with current prices dropped by 1 percentage point to 9 percent, and that of industry sector increased by 1 percentage point to 26 percent. The share of service sector remained the same at 65 percent.

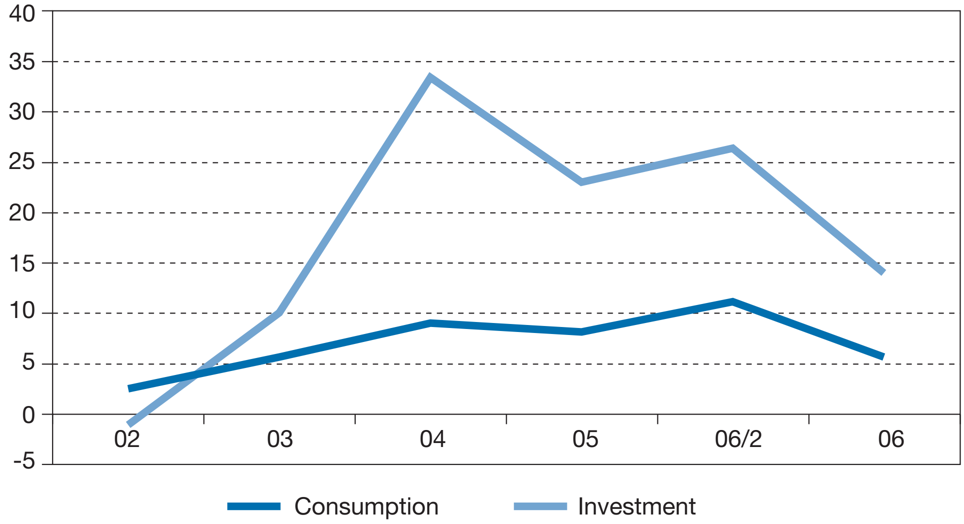
Growth Rates and Breakdown by Sectors

	Percentage change (in constant prices)				Percentage shares in GDP (in current prices)			
	2003	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**
Agriculture	-2.5	2.0	5.6	2.9	13	12	10	9
Industry	7.8	9.4	6.5	7.4	30	30	25	26
Services	6.7	11.7	8.6	6.1	57	58	65	65

Source: Turkstat

Industry and service sectors continued to be the main driving force behind the growth. Growth rate in manufacturing industry, the most prominent sub-sector of the industrial sector was 5.8 percent. The sub-sectoral breakdown in industrial sector showed that the growth rate in food, tobacco, processed leather products, machinery and equipments used in communication and office segments, and main metal industries as well as forestry, chemical products, metallic goods and transportation vehicles, electrical equipments and furniture industries was higher than the growth rate in industrial sector as a whole. Production in energy sector rose by 5.8 percent. Annual average capacity utilization rate in manufacturing industry increased by 1.1 percentage points to 81.8 percent. Annual average capacity utilization rate was 91.0 percent in public sector and 80.2 percent in private sector.

Consumption and Investment
(Annual percentage change in constant prices)



By expenditure approach; consumption demand grew by 5.6 percent while investment demand grew by 14 percent. The increase in aggregate demand was largely fuelled by the increase in public sector consumption and private sector investments. Consequently; consumption expenditures in constant prices grew by 5.2 percent in private sector, and by 9.6 percent in public sector. Investment expenditures in constant prices grew by 17 percent in private sector, while it remained the same in public sector. The sectoral breakdown of the private sector fixed capital investments showed that machinery and equipment investments increased by 14 percent and building constructions increased by 26 percent in 2006.

The shares of private sector consumption expenditures and investment expenditures in GDP were 69.4 percent and 16.7 percent, respectively. The share of public sector consumption expenditures in GDP was 13.7 percent, while that of public sector investment expenditures was 4.3 percent. Annual growth rate of the private sector consumption expenditures in constant prices rose to 11.5 percent as of June 2006 from 8.8 percent at the end of 2005. Growth rate of the private sector consumption demand started to decline in the second half of the year and was at 5.2 percent as of the end of 2006.

Net contribution of the foreign trade account on growth was negative in 2006 as imports grew faster than the exports. Stock changes which had a significant contribution to the economic growth in previous years continued to impact positively on growth in 2006, though on a lesser extent. Value added of the financial institutions in constant prices increased by 2.2 percent. The share of the financial institutions in GDP was 1.5 percent.

According to the estimates of the State Planning Organization on general savings balance, domestic savings ratio dropped by 1.6 percent to 16.6 percent. Savings ratio decreased in private sector and increased in public sector. Savings-investments gap continued to expand depending on the rapid increase in fixed capital investments and the decline in private sector savings. Savings-investment gap which was 6.7 percent of GNP in 2005 increased to about 8 percent in 2006. The ratio of savings gap to GNP in public sector which was 1.2 percent previously turned into surplus and realized as 0.4 percent. On the other hand, the ratio of savings gap to GNP in private sector rose to 8.6 percent from 5.5 percent.

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

	2002	2003	2004	2005	2006
Domestic savings	19.0	19.3	20.3	18.2	16.6
Public	-6.2	-5.3	-1.3	4.0	5.3
Private	25.3	24.6	21.6	14.2	11.3
Savings balance	-2.6	-4.2	-5.4	-6.7	-8.2
Public	-12.5	-10.1	-6.7	-1.2	0.4
Private	9.9	5.9	1.3	-5.5	-8.6
External funds	2.6	4.2	5.4	6.7	8.2

Source: State Planning Organization

2.2. Employment, Productivity and Wages

Real wages increased less than the partial productivity per worker in 2006, while employment increased in parallel with the rapid economic growth.

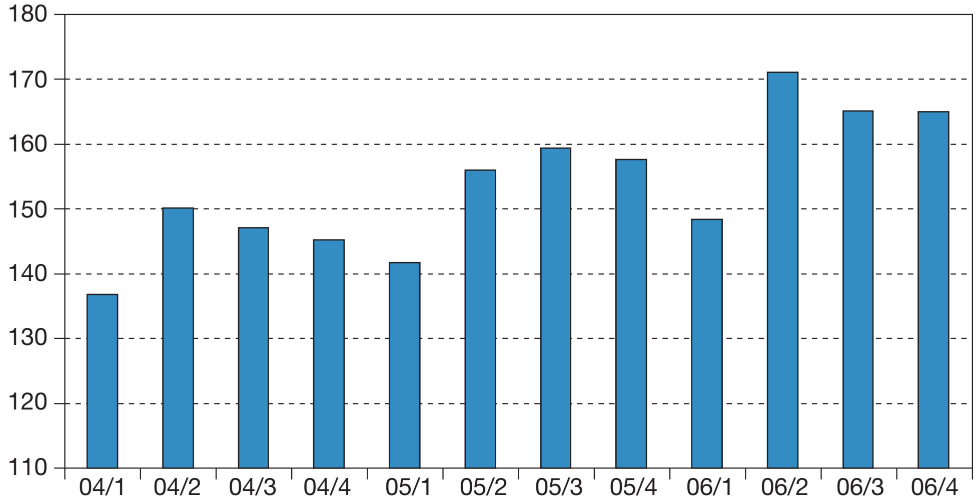
According to the estimates of the State Planning Organization, real labor costs and minimum wages of the public sector workers decreased in real terms in 2006, while real wage and labor costs of the private sector workers and officers increased.

Real Labor Cost Index (1994=100)

	2003	2004	2005	2006
Employee				
Public	102	105	112	108
Private	106	111	115	119
Civil servant	123	128	135	139
Minimum wage	154	171	182	180

Source: State Planning Organization

Partial Productivity Index Per Worker in Manufactoring Industry (1997=100)



Partial productivity per worker in manufacturing industry increased by 6.2 percent in 2006. Increase in partial productivity per hour in the same period was above the increase in partial productivity per worker due to additional employment, and realized at 6.7 percent.

Productivity Index (Annual percentage change)

	2005/IV	2006/I	2006/II	2006/III	2006/IV
Per worker	8.5	4.7	9.7	5.8	4.7
Per hour	8.4	5.0	9.9	6.5	5.3

Source: Turkstat

Unemployment rate fell down as a result of reduction in the participation to workforce. According to the data of Turkstat, total labor supply was 24.8 million people and total employment was 22.3 million people. The number of unemployed people decreased by about 74 thousand people compared to 2005 and fell to 2.4 million people.

Unemployment (Percentage)

	2002	2003	2004	2005	2006
Unemployment rate					
Overall	10.3	10.5	10.3	10.3	9.9
Urban	14.2	13.8	13.6	12.7	12.1
Educated youth	...	...	19.7	19.3	18.7
Underemployment rate					
Overall	5.4	4.8	4.1	3.3	3.6
Urban	3.4	5.2	3.8	2.9	3.2
Educated youth	...	...	5.1	4.3	4.0

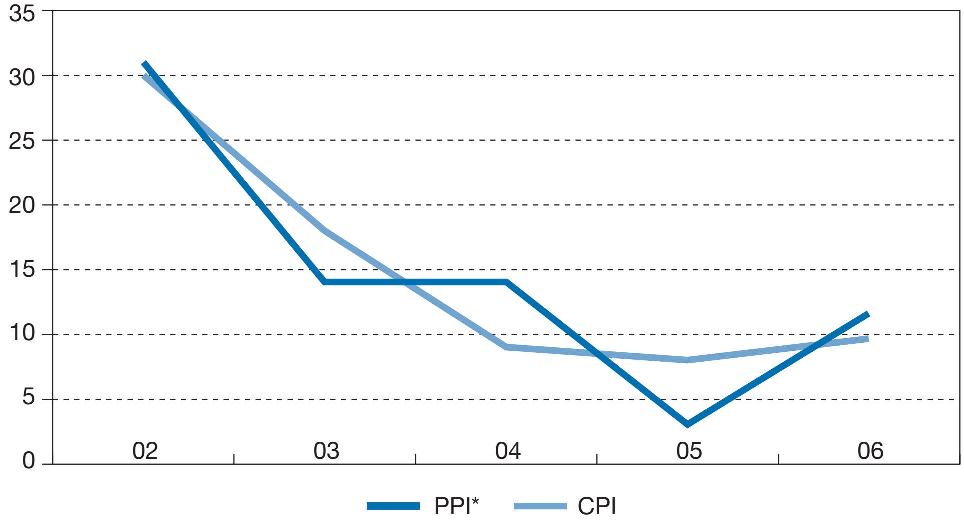
Source: Turkstat

Number of employable people in Turkey increased by 842,000 in 2006. However, only 211,000 and people joined to the workforce. Employment was created for an additional of 284,000 people in the same period. Accordingly, unemployment rate was 9.9 percent in 2006. Urban unemployment rate decreased by 0.6 percentage point to 12.1 percent in the same year. Unemployment rate was 13.5 percent when underemployment was also included. About 48 percent of the employment was provided by service sector, 27 percent by agriculture sector, and 25 percent by industrial sector.

2.3. Inflation

Downward trend in inflation from 2002 halted in 2006. Inflation rate started to rise starting from July 2006, realized above the 5 percent year-end target in 2006 when inflation targeting was first implemented. In 12 months of the year Producer Prices Index (PPI) was 11.6 percent and Consumer Prices Index (CPI) was 9.7 percent. Annual average price increase was 9.3 percent for PPI and 9.6 percent for CPI.

Inflation (12-month, percentage change)



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

Main reasons for the increase in inflation can be listed as the monetary expansion which gained speed in the second half of 2005 due to the increase in net external assets of the Central Bank, expansionary effect on domestic demand from the fall in short term interest rates in the first quarter 2006, deterioration of expectations due to market volatility in May-June 2006 period, immediate pass-through effect of TYR depreciation on prices, and rigidity in some sub-sectors against the fall of inflation. Price increases particularly in energy and unprocessed food industries had negative effect on inflation.

Inflation (Percentage)

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

Source: Turkstat,

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

2.4. Public Sector

According to the estimates of the State Planning Organization, the increase in total public revenues in 2006 was 22 percent, which was above GNP deflator. Total public expenditures rose by 16 percent. Depending on this development, public sector surplus to GNP ratio rose to 3.1 percent in 2006 from 0.4 percent in 2005. Total public revenues to GNP ratio also rose by 2.4 percentage points to 46.3 percent, whereas total public expenditures to GNP ratio remained unchanged at 43.6 percent.

Primary balance which was monitored closely as the most important indicator under the economic program regarding the maintenance of the financial stability and the sustainability of the domestic debt dynamics was attained in line with the projections. Primary surplus to GNP ratio, which was 10.1 percent in 2005 was estimated to be 11.6 percent in 2006. On the other hand, according to the data of the Treasury Undersecreteriat, the ratio of consolidated budget primary surplus to GNP, according to the definition in the agreement signed with the International Monetary Fund, was realized as 6.4 percent, which was above the program target.

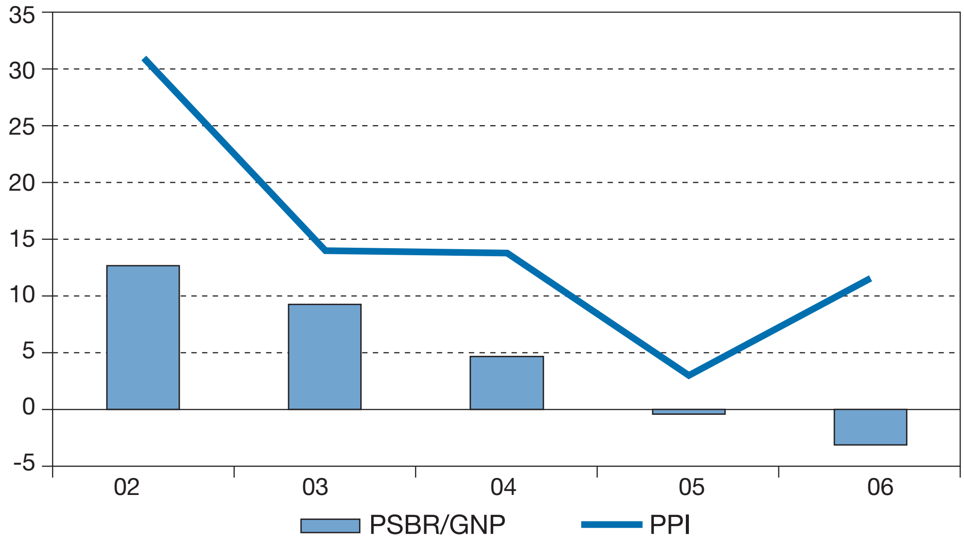
Public Sector Borrowing Requirement (As percentage of GNP)

	2003	2004	2005*	2006**
Consolidated budget	11.2	7.0	1.7	0.5
State economic enterprises***	-0.7	-0.6	-0.2	-0.4
Local administrations	0.4	0.0	0.0	0.0
Funds	-0.2	-0.5	-0.6	-1.8
Other	-1.4	-1.4	-1.4	-1.4
Public sector deficit	9.3	4.7	-0.4	-3.1
Public sector primary balance	-7.7	-8.8	-10.1	-11.6

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

The share of tax revenues within total public revenues was 54 percent. Indirect taxes accounted for 69 percent of the tax revenues. Interest expenditures formed 19 percent of the expenditures. The share of interest expenditures in total expenditures fell by 13 percentage points compared to 2004.

Public Sector Borrowing Requirement/GNP and Inflation (Percentage)



Main developments which had positive impact on public sector balance in 2006 were increase in tax proceeds and privatization revenues, continued fall in interest rates in the first quarter which had a positive effect on interest expenditures, extension of the maturity of borrowings, transfers to the Ministry of Finance accounts from Savings Deposit Insurance Fund (SDIF) in payment of the tax debts of banks whose ownership was transferred to SDIF, an increase in premium collections of the social insurance organizations due to a premium amnesty, and increase in value added tax receipts from imports as the imports increased. Rising interest rates starting from the middle of the year and an upward trend in current expenditures limited the improvement in public sector deficit.

Budget deficit to GNP ratio decreased below 1 percent due to the central government's strong budget performance which formed the most significant part of the public sector revenues and expenditures.

Central Government Budget (TRY million)

	2005*	Per share	2006**	Per. share	Per. change	As per. of GNP 2006
Revenues	146,710	100	171,309	100	17	30
Tax revenues	119,621	82	137,474	80	15	24
Non-tax revenues	27,089	18	33,835	20	25	6
Expenditures	156,316	100	175,304	100	12	30
Interest expenditures	45,680	29	45,945	26	1	8
Domestic borrowing	39,456	25	39,145	22	-1	7
External borrowing	6,224	4	6,800	4	9	1
Non-interest	110,636	71	129,359	74	17	22
Personnel	29,009	19	37,733	22	30	7
Current	73,081	47	79,692	45	9	14
Investment	8,546	5	11,934	7	40	2
Budget balance	-9,606		-3,995		-58	-1
Primary balance	36,074		41,950		16	7

Source: The Ministry of Finance
* The data belongs to the Consolidated Budget.
** Provisional

According to the data of the Ministry of Finance; budget revenues increased by 17 percent and budget expenditures increased by 12 percent. Interest expenditures rose by 1 percent while non-interest expenses grew by 17 percent. Budget deficit narrowed by 58 percent in current prices while budget surplus before interest grew by 16 percent. The ratio of budget revenues to GNP remained the same at 30 percent, and on the contrary the ratio of the expenditures to GNP fell by 2 percentage points to 30 percent. The ratio of interest expenditures to GNP receded to 8 percent from 9.4 percent. The ratio of budget surplus before interest to GNP in the central government's budget was 7.3 percent. According to the definition provided by the agreement with the International Monetary Fund, the ratio of budget surplus before interest to GNP was realized at about 6.3 percent.

Current expenditures had the highest share in the budget expenditures, with a share of 45 percent. It was followed by interest expenditures which had 26 percent share. Personnel expenditures had 22 percent and investments had 7 percent share in total budget expenditures. Borrowing items were not heavily tapped in financing of the budget deficit as privatization proceeds were high.

A large part of budget financing needs was met by the item "other" which was consisted of privatization proceeds to a great extent. Net external borrowing was reduced by TRY 3.6 million. There was an increase of TRY 3.7 billion in the Treasury's cash/bank account in 2006.

Financing of the Central Government Budget

	TRY million			As percentage of GNP		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
Financing	29,791	13,225	7,685	7	2.7	1.3
External borrow. (net)	2,200	-2,627	-3,622	1	-0.5	-0.6
Domestic borrowing	28,535	21,403	3,788	7	4.4	0.7
Other	-944	-5,551	7,519	0	-1.1	1.3

Source: Undersecretariat of the Treasury

A total of TRY 130.3 billion of debt service (repayment) was made in 2006, and on the other hand, total financing need was TRY 135.8 billion in 2006 which also included the central government's budget deficit of TRY 5.5 billion. Of this financing need; USD 16.8 billion was met by foreign borrowing, and the remaining USD 116.2 billion was met by domestic borrowing. Other revenues item, which was heavily consisted of privatization proceeds and the resources transferred from SDIF, was realized as USD 7.8 billion. Treasury's cash/bank account also increased by TRY 5 billion.

Average maturity of the domestic TRY borrowing rose to 852 days from 690 days. On the other hand, average annual compound interest rate of TRY borrowing rose from 14.1 percent in last year to 21.1 percent at the end of June 2006, and to 21.8 percent at the end of the year.

Outstanding domestic debt stock increased by 3 percent and reached TRY 251 billion. The share of non-cash domestic debt stock in overall debt stock dropped by 4 percentage points to 14 percent. The biggest component of the non-cash domestic debt stock was consisted of government domestic debt instruments given to state-owned banks and to the banks transferred to the SDIF.

Structure of Outstanding Domestic Debt (Percentage share)

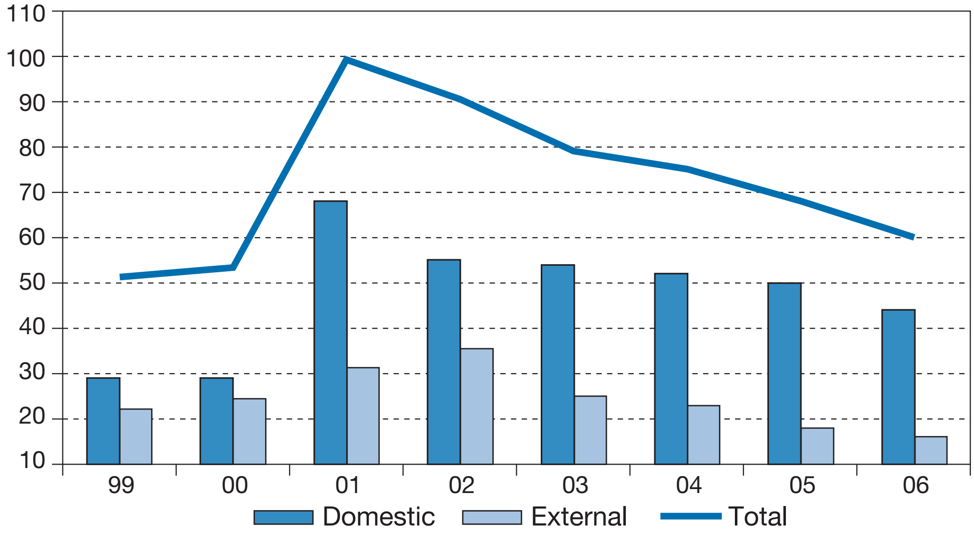
	2002	**2003**	**2004**	**2005**	**2006**
TRY	68	78	82	85	86
Fixed rate	25	35	42	41	44
Floating rate	43	43	40	43	42
Fx denominated	32	22	18	15	14
Total	100	100	100	100	100

Source: Undersecretariat of the Treasury

State-owned institutions had a share of 28 percent of outstanding domestic debt in the consolidated budget, while the remaining 72 percent was owed to the market. These ratios were 31 percent and 69 percent respectively at the end of 2005. Non-cash domestic debt stock to the state-owned institutions was TRY 43,094 million in total. Of which; TRY 41,350 million was in TRY denomination, and the remaining was in foreign currencies.

The share of the fixed-interest securities in outstanding domestic debt rose to 44 percent from 41 percent. The share of the interest-sensitive securities in the outstanding domestic debt fell to 42 percent from 43 percent, and that of the foreign exchange rate-sensitive securities (securities indexed to foreign exchange rates) fell to 14 percent from 15 percent.

Outstanding Public Debt (As percentage of GNP)



Net foreign debt payments continued in 2006 despite the budget financing needs. The reason for this was the increase in the privatization proceeds at a higher pace than the budget financing needs in 2006. On the other hand, public sector's pressure on the resources created in the financial system continued to decline though at a slow pace. Outstanding domestic debt to GNP ratio fell to 44 percent from 50 percent, and its ratio to financial assets consisting of TRY deposits, foreign exchange deposits, repos and mutual investment funds also dropped to 84 percent from 97 percent.

On the other hand, the central government's overall debt stock in the consolidated budget rose by 2 percentage points to TRY 345 billion (USD 245 billion) as of December 2006. Consequently, the ratio of overall debt stock to GNP receded to 60 percent from 68 percent.

Outstanding Public Debt

	TRY million	(As percentage of GNP)			
	2006	2003	2004	2005	2006
Government securities	251,471	54	52	50	44
Cash	208,377	37	39	40	36
Non-cash	43,094	18	14	10	7
Bonds	241,877	48	45	47	42
Cash	198,783	30	32	37	35
Non-cash	43,094	18	14	10	7
Treasury bills	9,594	7	7	4	2
Cash	9,594	7	7	4	2
Non-cash	0	0	0	0	0
Central bank advances	0	0	0	0	0
Domestic debt	251,471	54	52	50	44
External debt*	93,579	25	23	18	16
Total	345,050	79	75	68	60

* For Central Government Budget.

As of December 2006, 54 percent of overall government domestic debt instruments were held by banks. Total government domestic debt instruments held by non-financial sectors dropped by 2 percentage points to TRY 112,421 million. Of this amount, 21 percent (TRY 24 billion) were held by real persons. Government domestic debt instruments held by non-financial sectors formed 45 percent of the outstanding domestic debt. Demand by real persons for government domestic debt instruments decreased in 2006, whereas demand of investors resident abroad for government domestic debt instruments posted a strong increase of 66 percent, particularly in the second half of the year. This development in the demand of investors resident abroad stemmed mostly from the favorable amendment in tax regulations. Real persons' investment preferences changed in favor of TRY deposits, repos, and in the second half of the year, foreign exchange deposit accounts.

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

	2005	June 2006	December 2006
Non-financial residents	65,252	66,546	66,063
Real persons	28,274	27,132	24,091
Corporates	36,978	39,414	41,972
Mutual funds	21,584	15,488	9,591
Persons resident abroad	27,332	22,117	36,767
Non-financial residents (Total)	**114,168**	**104,151**	**112,421**
Banks and other	130,614	144,934	139,049
Total	**244,782**	**249,085**	**251,470**

Source: Banking Regulation and Supervision Agency, Central Bank of the Republic of Turkey, Treasury

2.5. Monetary Aggregates

2.5.1. Monetary Policy

Central Bank of the Republic of Turkey adopted an inflation targeting regime starting in January 2006, and inflation target for year-end was set as 5 percent. Global volatility took place in international money and capital markets in a period when Turkish markets enjoyed a swift rise in liquidity and when short term interest rates were falling steadily. Sudden and dramatic effect of the volatility on Turkish money market was deterioration of expectations and caused the inflation target to be exceeded.

Liquidity in the money market increased swiftly in the first quarter of the year also due to short term capital inflows. TRY demand focused on very short term TRY instruments. The Central Bank tried to control the liquidity via open market operations. As a result of the change in foreign investors' demand and preferences, foreign currency demand started to increase in the second quarter. Foreign currency supply of the banks and real persons increased with the increase in foreign exchange rates. However, the balance in the markets failed to be restored in the aftermath of the abrupt capital outflow in May and June.

Balance Sheet of The Central Bank (TRY million)

	2002	2003	2004	2005	2006
Net foreign assets	12,871	17,262	23,048	49,480	67,136
Net domestic assets	23,523	23,585	21,071	17,732	12,888
Monetary base	10,662	15,010	20,328	32,696	41,398
Open market operations	8,452	8,260	3,622	4,983	-1,098
Central Bank money	19,866	24,134	24,743	38,548	41,916
Fx deposits	5,996	6,517	6,099	13,874	18,691
TRY liabilities	25,962	30,651	30,842	52,422	60,606
Banks' Fx deposits	10,432	10,196	13,276	14,790	19,418
Total domestic liabilities	36,394	40,847	44,118	67,212	80,024

Source: Central Bank of the Republic of Turkey

The Central Bank tried to impose a series of measures aimed at ensuring stability in the markets in this period. These measures generally pursued the target of a strong monetary tightening in order to reinstate inflation expectations. The Central Bank hiked its short term borrowing interest rates to 17.5 percent (compound 19 percent) from 13.25 percent (compound 14 percent), started buying auctions in order to limit TRY liquidity, halted foreign exchange buying auctions and even sold foreign exchange in the interbank market.

Investors resident abroad were exempted from withholding tax on their income from government debt instruments while that applied to real persons resident in Turkey was lowered to 10 percent through amendments in tax laws introduced at this time.

Depreciation of TRY against foreign currencies in May and June by about 20 percent had a considerable effect on inflation expectations due to still high foreign exchange pass-through. Expectations deteriorated; anticipated inflation rate rose. The Central Bank did not change its inflation target but raised short term interest rates in order to reorient expectations to the inflation target and to contain the rise in domestic demand.

The foremost factor creating the liquidity in the second half of the year, as in the first quarter, was TRY demand by investors resident abroad. However, the Central Bank created lesser foreign currency demand through its foreign exchange buying auctions in 2006 compared with the previous year. On the other hand, deposit banks' foreign exchange reserve demand increased due to foreign currency deposit demand of the resident investors starting from the second half of the year.

Interest Rates, Exchange Rates and Inflation (Percent)

	2005	2006			
	Dec.	March	June	Sept.	Dec.
Interest rate (annual, compounded)*					
O/n	14.7	14.5	18.8	19.1	19.1
Government securities	14.1	14.1	21.1	21.8	21.8
Exchange rates					
TRY/(USD)	0.4	-0.3	17.7	11.5	4.8
TRY/Euro	-12.9	-6.8	24.0	17.4	16.6
Inflation (PPI, 12-month)	7.7	8.2	10.1	10.6	9.7

* Average

The Central Bank created a net foreign currency demand of USD 6.3 billion through outright purchases and/or foreign exchange buying auctions aimed at balancing the excess in foreign currency supply throughout the year. Total foreign currency demand created by the Central Bank in 2002-2006 period amounted to USD 44.4 billion.

Subsequent boost in foreign currency supply was mainly driven by the increase in TRY demand from investors resident abroad, increase in interest rates, and changes in tax laws. Short term interest rates rose to 19.1 percent by an increase of 4.6 percentage points in the second half of the year. Inflation continued to stay above the target rate in the second half of the year prevented a possible reduction in the interest rates. Borrowing rates of government domestic debt instruments rose to 21.1 percent at the end of June which reflected a rise of 7 percentage points compared to the beginning of March. Together with the relative improvement in expectations, the limited effect of the market turmoil on production, continued capital inflow interest rates remained at the same level in the second half of the year.

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

	2005	2006			
	Dec.	**March**	**June**	**Sept.**	**Dec.**
Net foreign assets	49,480	60,351	69,481	67,474	67,136
Net domestic assets	17,732	18,028	10,109	11,702	12,888
Monetary base	32,696	32,705	36,780	34,962	41,398
Open market operations	4,983	14,549	5,066	3,683	-1,098
Central Bank money	38,548	49,796	44,917	40,742	41,916
Fx deposits	13,874	14,500	16,541	19,413	18,691
TRY liabilities	52,422	64,296	61,458	60,155	60,606
Banks' Fx deposits	14,790	14,083	18,133	19,022	19,418
Total domestic liabilities	67,212	78,379	79,590	79,176	80,024

Source: Central Bank of the Republic of Turkey

Real value of TRY against major currencies was much more affected by cross currency changes. TRY depreciated by 4.8 percent against dollar and 16.6 percent against euro by the end of 2006. With inflation taken into consideration, TRY appreciated against dollar while it was depreciated against euro in real terms in 2006.

The annual growth rate of the Central Bank's balance sheet was 23 percent, which was above the inflation rate. As of the end of 2006, the ratio of the Central Bank's balance sheet to GNP dropped to 18 percent from 20 percent. Net foreign assets grew by 36 percent depending on the continued net foreign exchange purchases of the Central Bank. On the other hand, monetary base expanded by 27 percent particularly depending on the rise in emission. Debt balance from open market operations which neared TRY 15 billion with a rapid increase in the first quarter of the year turned into a credit balance at the end of 2006 as a result of a drop in the second half of the year.

Foreign currency reserves of the Central Bank rose to USD 60.8 billion by an increase of USD 10.3 billion in 2006. Most of this increase stemmed from the Central Bank's foreign exchange buying auctions. Net foreign exchange position rose from USD 15.5 billion to USD 20.7 billion. Thus, improvement in net foreign exchange position of the Central Bank in the last five years realized above USD 31 billion.

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

	2005	2006			
	Dec.	**March**	**June**	**Sept.**	**Dec.**
Fx reserves	50.5	58.3	56.7	58.5	60.8
Net Fx position	15.5	23.7	22.2	19.4	20.7

Source: Central Bank of the Republic of Turkey

Interest rates given to reserve requirements by the Central Bank increased in parallel with the increase in interest rates. Base interest rate which was 10.25 percent at the end of 2005 was raised to 13.12 percent at the end of 2006.

2.5.2. Money Demand

Financial assets comprised of assets such as money and quasi-money funds at the deposit banks and capital market instruments, to GNP ratio dropped by 10 percentage points to 136 percent in 2006. TRY equivalent of foreign currency demand increased, while demand for TRY denominated financial instruments to GNP ratio decreased. As of the end of 2006, money and quasi-money funds at the deposit banks to GNP ratio was 52 percent while capital markets instruments to GNP ratio was 84 percent.

Financial Assets (As percentage of GNP)

	2002	2003	2004	2005	2006
Money and quasi-money	**50**	**44**	**44**	**48**	**52**
Cash	3	3	3	4	4
Deposits	47	40	41	46	48
- TL	20	21	23	27	30
- Fx	26	19	18	16	18
Repos	1	1	0	0	0
Capital market	**76**	**82**	**86**	**100**	**84**
Shares (market value)	21	27	30	45	40
Bonds and bills	55	54	52	51	43
-Public	54	54	52	51	43
-Private	0	0	0	0	0
Mutual funds	2	5	4	4	1
Total	**127**	**126**	**130**	**148**	**136**

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

Bonds and bills issuance from the private sector was negligible due to the crowding out effect by the public sector. Market value of mutual investment funds, public borrowing instruments and the companies listed to the stock market fell down. Decrease in outstanding public debt, increase in foreign exchange deposit accounts and decline in demand for investment funds became effective on financial asset size.

Money demand for TRY denominated instruments increased at a faster rate than the inflation in 2006. Money demand consisting of TRY deposits, repos and short term investment funds (M2RF) rose by 12 percent in current prices, and by 2 percent in constant prices. TRY time deposits which grew by 24 percent had a significant role on the rise in demand for TRY instruments.

Monetary Aggregates (2006)

			Per. change	
	TRY million	**USD million**	**TRY**	**USD**
M2RF	196,936	140,108	12	7
Money in circulation	24,676	17,555	35	29
TRY demand deposits	22,814	16,231	-3	-7
Repos	2,202	1,567	48	41
Investment funds	9,590	6,823	-56	-58
TRY time deposits	137,654	97,933	24	18
M2YRF	298,335	212,248	18	13
Fx deposits	101,399	72,139	33	27
M2YRFK*	309,169	219,955	18	13
Participation banks	10,834	7,708	31	25

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

Foreign exchange deposits grew by 33 percent in TRY terms, by 27 percent in dollar terms. Money demand including also foreign exchange deposits (M2RYF) grew by 18 percent in current prices, and by 8 percent in constant prices. The share of foreign exchange deposits in M2RYF increased by 5 percentage points to 34 percent in 2006.

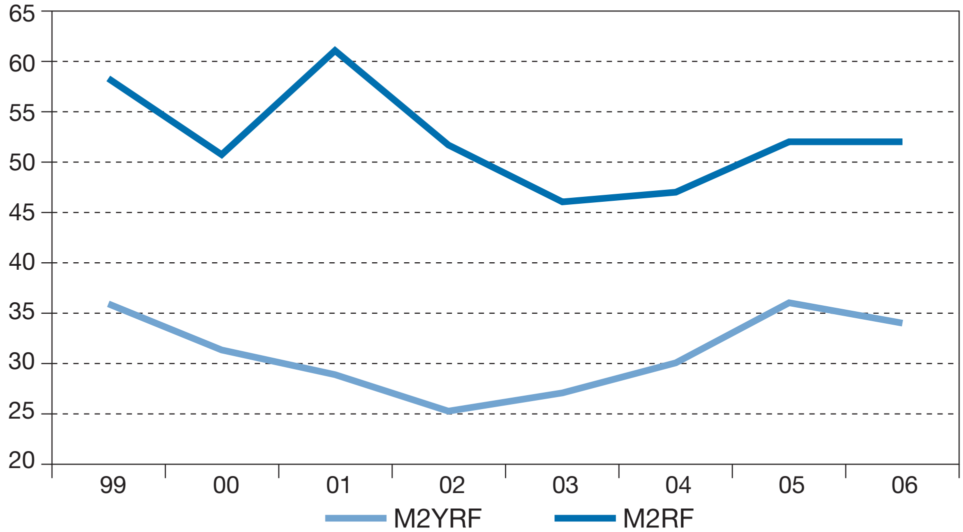
Breakdown of Monetary Aggregates (Percentage)

	2002	2003	2004	2005	2006
Money in circulation	5	6	6	7	8
TRY demand deposits	5	7	8	9	8
Repos	2	2	1	1	1
Investment funds	3	7	8	9	3
TRY time deposits	33	36	40	44	46
Fx deposits	51	42	37	30	34
M2RYF	100	100	100	100	100

Source: Central Bank of the Republic of Turkey

The ratio of M2RF to GNP dropped by 1 percentage point to 35 percent, while the ratio of M2RFY to GNP increased by 1 percentage point to 53 percent. Increase in TRY demand decelerated due to deterioration of the inflation expectations in the second half of the year. Foreign exchange deposit demand by the domestic real persons boosted starting from the second half of the year.

Money Demand (As percentage of GNP)



Demand for government debt instruments by domestic non-financial sectors, especially real persons decreased, while the demand by investors resident abroad increased noticeably. There was no significant change in the securities stock held to maturity in the banking sector; however, securities stock held for trading purposes increased in parallel with the liquidity preferences of the banks.

Maturity Structure of Total Deposits (Percentage)

	2002	2003	2004	2005	2006
Total	100	100	100	100	100
Demand	19	20	21	18	15
1-month	30	26	25	21	25
3-month	38	38	38	46	52
6-month	8	10	8	11	6
12- month+	6	6	9	5	2
Average (month)	2.8	2.7	2.8	2.8	2.4

Source: Central Bank of the Republic of Turkey

According to the data of the Banking Regulation and Supervisory Agency, total deposits grew by 22 percent with an increase of TRY deposits by 19 percent, while the growth rate in TRY equivalent of the foreign exchange deposits was 29 percent. Total foreign exchange deposits which was USD 69.1 billion as of December 2005 reached USD 83.4 billion in December 2006. The share of TRY equivalent of the foreign exchange deposits in total deposits grew by 2 percentage points to 39 percent. TRY deposits to GNP ratio rose by 1 percentage point and reached 34 percent, while the ratio of total deposits including also foreign exchange deposits to GNP rose by 3 percentage points to 55 percent.

Deposit interest rates which followed a downward trend in the first half of the year had an upward bias following the market volatility in June 2006. Interest rates (compound) for 1 and 3 months term deposits rose to 26 percent at the end of 2006, from 22 percent in December 2005. According to the calculations made after maturity distribution, average maturity of total deposits rose to 23 percent from 19 percent. Average maturity of TRY and foreign exchange deposits was shortened as well. Average maturity of TRY deposits (after rounding up the irregular maturities) dropped to 2.4 months from 2.8 months, while that of foreign exchange deposits decreased to 2.7 months from 2.8 months. Accordingly, average maturity of total deposits was 2.4 months.

According to the data of the Banking Regulation and Supervision Agency, the share of state-owned banks in total deposits decreased by 2 percentage points to 37 percent compared with the end of 2005, while the share of privately-owned banks decreased by 4 percentage points to 53 percent. On the contrary, the share of foreign banks in total deposits rose by 6 percentage points to 10 percent.

State-owned banks had 45 percent share in TRY deposits, and 23 percent share in foreign exchange deposits. In contrast privately-owned banks had a higher share in foreign exchange deposits; the share of private banks' was 47 percent in TRY deposits and 62 percent in foreign exchange deposits. The shares of foreign banks in TRY and foreign exchange deposits were 7 percent and 15 percent, respectively.

Deposits and Loans (TRY million)

	2002	2003	2004	2005	2006
Total deposits	141,889	160,380	197,953	251,870	308,396
TRY	60,075	81,514	109,456	159,329	189,094
Fx	81,814	78,866	88,497	92,541	119,302
Total loans	51,955	68,434	101,579	153,102	214,998
TRY	20,662	36,200	63,968	108,101	156,467
Fx	31,293	32,234	37,611	45,001	58,531
Non-performing loans (Net)	1,695	1,222	809	836	748
Non-performing loans (Gross)	3,041	8,818	6,191	7,486	8,127
Provisions	1,346	7,596	5,382	6,650	7,379
Total loans	51,955	68,434	101,579	153,101	214,998
Commercial	44,954	53,222	74,940	107,593	147,663
Consumer	7,001	15,212	26,639	45,508	67,335
Total loans	51,955	68,434	101,579	153,101	214,998
From domestic branches	36,762	54,599	84,785	128,001	178,996
From abroad branches	15,193	13,835	16,794	25,100	36,002

Source: Banking Regulation and Supervision Agency

Loans to deposits ratio in the banking sector rose further to 70 percent in 2006 up from 38 percent in 2002 and 62 percent in 2005. The same ratio was 42 percent in state-owned banks and 79 percent in privately-owned banks.

Total loan stock grew by 40 percent in 2006, while non-performing loans after provisioning declined by 11 percent. This substantial growth in total loans was mainly driven by strong economic activity. Accordingly, the ratio of non-performing loans before provisioning to total loans fell to 4 percent from 5 percent, while the ratio of non-performing loans after provisioning to total loans remained below 1 percent.

Deposit banks had a share of 97 percent of total loans. Privately-owned banks had 58 percent share in total loans while the share of state-owned banks was 24 percent. Foreign banks' share in total loans was 15 percent.

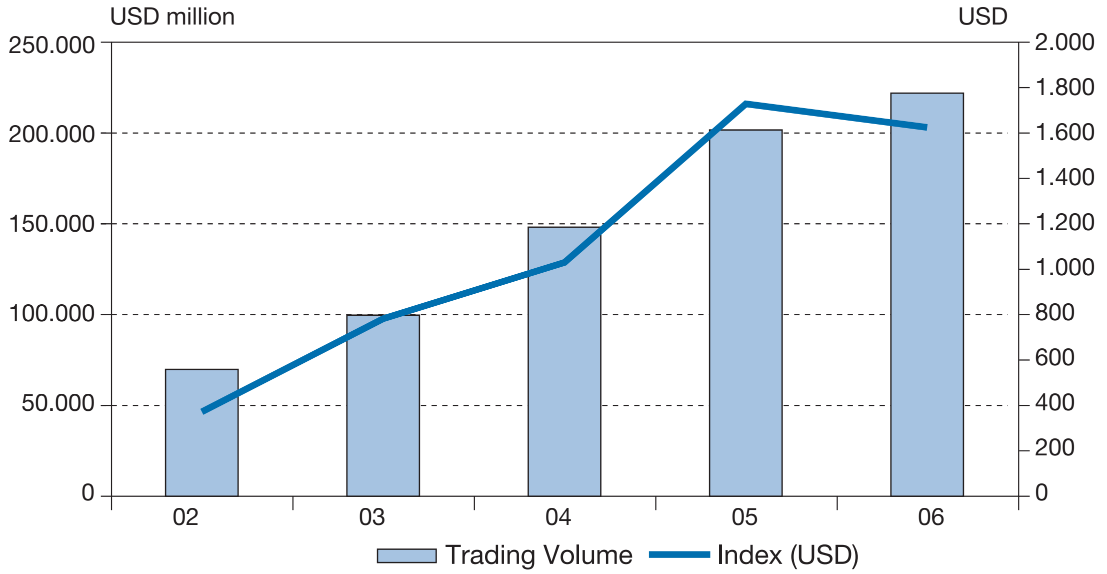
The share of consumer loans in total loans increased by 2 percentage points to 31 percent compared with the end of 2005. The rise in consumer loans was particularly stemmed from the increase in housing loans and other consumer loans.

Total loans extended by the banking sector to GNP ratio was 38 percent up from 21 percent in 2002. A 83 percent of total loans were extended by banks via their domestic branches while the remaining 17 percent were extended via their branches abroad. A large part of the loans made available by branches abroad was in foreign currencies. High domestic intermediary costs due to tax burdens boosted the loans extended by branches abroad.

2.6. Developments in Istanbul Stock Exchange

Istanbul Stock Exchange (ISE) index eased slightly throughout 2006 in both dollar and TRY terms. ISE Index decreased by 6 percent in dollar terms to 1,621 points and by 2 percent to 39,117 in TRY terms. On the other hand, total trading volume expanded by 13 percent and reached USD 222 billion.

ISE Index (in dollar terms) and Trading Volume (USD million)



ISE's performance of was supported by the continuing economic growth in the first half of the year with an increasing industrial production, generally positive expectations and ongoing liquidity surplus in global markets. In the second half of the year, on the other hand, a relative deterioration in expectations, a shift in household portfolio preferences, and slowdown in economic growth hampered the performance of the ISE.

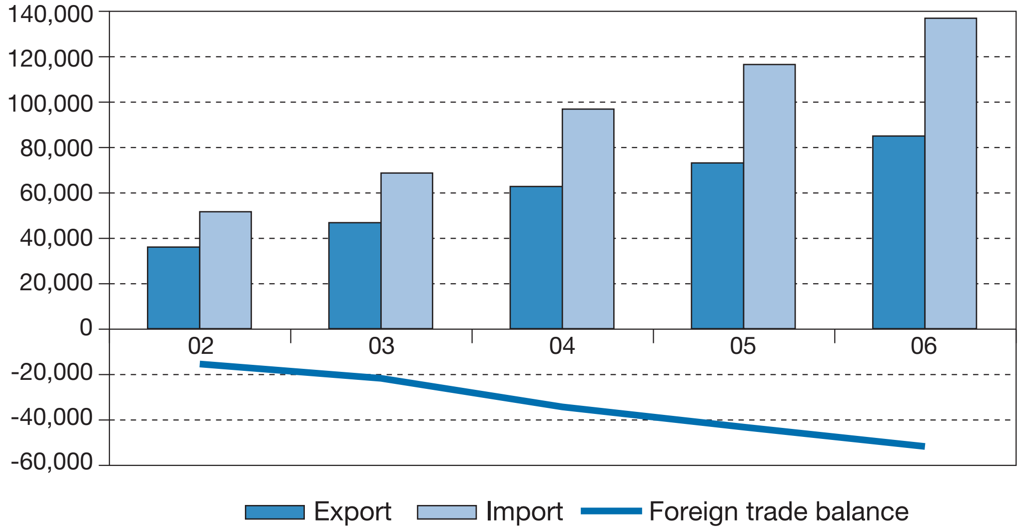
Overall market value of the companies quoted to ISE rose to USD 163 billion in 2006, from USD 162 billion in 2005. Overall market value to GNP ratio was down to 41 percent in 2006 from 47 percent in 2005.

The number of companies traded in the ISE rose to 291 from 282. Market value of 13 banks which were quoted to ISE dropped by 1 percent to TRY 81.5 billion (USD 59 billion) as of the end of 2006. Market value of these 13 banks constituted 36 percent of the total market value of the ISE.

2.7. Balance of Foreign Trade

Upward trend in both exports and imports continued in 2006 which led to foreign trade volume to expand by 17 percent to USD 222 billion. Rapid growth in domestic demand, continued capital inflows and a wider savings gap were the main factors behind rapidly expanding foreign trade deficit in the first half of the year.

Foreign Trade Balance (USD million)



Imports continued to grow at a high pace due to fast economic growth, the increase in domestic demand and particularly in private sector fixed capital investments. Depending on the deceleration in domestic demand in the second half of the year, growth rate in imports also slowed down while exports gained momentum.

Exports increased by 16 percent to USD 85.1 billion in 2006, while imports amounted to USD 137 billion by an increase of 17 percent. The coverage ratio of exports to imports decreased by 1 percentage point to 62 percent. The ratios of exports and imports to GNP rose by 1 and 2 percentage points to 21 and 34 percent, respectively. Foreign trade volume to GNP ratio was 56 percent. Foreign trade deficit grew by 21 percent to USD 51.9 billion. The ratio of foreign trade deficit to GNP was 13 percent.

Based on the average of 12 months, export quantity index rose by 8 percent and imports quantity index rose by 6 percent; while each of the export price index and import price index rose by 4 percent.

Foreign Trade (USD billion)

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

Source: Turkstat
* Average

Imports of capital goods increased by 9 percent, imports of intermediate goods rose by 20 percent, and imports of consumer goods rose by 14 percent. Imports of intermediate goods constituted 72 percent of overall imports. By sectors, imports of manufacturing industry made up 79 percent of overall imports. Machinery, automobiles, iron and steel, and plastic were the most important sub-sectors of the manufacturing industry. Mining sector had a share of 16 percent. Oil imports in 2006 rose by 27 percent to USD 10.9 billion.

Foreign Trade by Commodity Groups, 2006

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
Capital goods	9,265	16	11	22,135	9	16
Intermediate goods	37,700	25	44	98,276	20	72
Consumer goods	37,644	8	44	15,956	14	12
Other	533	51	1	665	17	1
Total	85,142	16	100	137,032	17	100

Source: Turkstat

In exports, consumption goods had a share of 44 percent, intermediate goods also had 44 percent share, while the share of investment goods exports in overall exports was 12 percent. By sectors, manufacturing industry' had 94 percent share in total exports, while agriculture industry had 4 percent share. Textile, automobiles, iron and steel, machinery and electrical devices were the most important sub-sectors of the manufacturing industry.

European Union (EU) member states had 46 percent share in foreign trade of Turkey. The share of non-EU countries was 18 percent. Foreign trade balance with EU countries which gave a deficit of USD 10.8 billion in 2005 was realized at USD 9.9 billion in 2006. The share of EU countries was 39 percent in Turkey's imports, and 52 percent in total exports.

Germany was the top foreign trade partner of Turkey with a share of 11 percent. Germany was followed by Russia and Italy with 8 percent and 7 percent shares respectively. Exports to Germany constituted 11 percent of Turkey's total exports, and imports from Germany also made up 11 percent of Turkey's total imports.

Foreign trade deficit recorded in the item of other Asian Countries stemmed from foreign trade with mainly China and South Korea.

Foreign Trade by Country Groups, 2006

	Exports			Imports			Trade balance
	USD million	Per. change	Per. share	USD million	Per. change	Per. share	USD million
EU	43,936	14	52	53,851	9	39	-9,915
Free zone	2,964	0	4	934	23	1	2,029
Other	38,242	19	45	82,247	23	60	-44,005
Europe	11,752	33	14	29,541	24	22	-17,789
Africa	4,557	26	5	7,332	21	5	-2,775
America	6,228	5	7	8,997	15	7	-2,769
Middle East	11,251	11	13	10,497	32	8	754
Other Asia	3,953	30	5	25,300	23	18	-21,347
Other	501	5	1	580	21	0	-79
Total	85,142	16	100	137,032	17	100	-51,891

Source: Turkstat

2.8. Balance of Payments

Current account deficit of Turkey expanded by 40 percent to USD 31.7 billion in 2006. The ratio of current account deficit to GNP rose by 1.4 percent and reached around 8 percent. The main contributors to the growth in the current account deficit was the growth in merchandise trade deficit as well as decrease in the surplus of the service sector balance. Merchandise trade deficit including also shuttle trade grew by 20 percent to USD 40.1 billion. Meanwhile, gold imports decreased by 11 percent to USD 3.3 billion.

Current Account Balance (USD million)

	2003	2004	2005	2006
Current account balance	-8,037	-15,601	-22,603	-31,679
-General merchandise	-14,010	-23,878	-33,530	-40,128
-Exports	51,206	67,047	76,949	91,719
-Imports	-65,216	-90,925	-110,479	-131,847
-Services (net)	10,505	12,797	15,272	13,384
-Tourism (net)	11,090	13,364	15,280	14,110
-Income(net)	-5,559	-5,637	-5,799	-6,622
-Direct investments	-400	-796	-734	-952
-Portfolio investments	-1,207	-1,195	-924	-662
-Other investments	-3,952	-3,646	-4,045	-4,901
-Interest expenditures	-4,586	-4,343	-5,050	-6,354
-Current transfers	1,027	1,117	1,454	1,687
-Workers remittances	729	804	851	1,111

Source: Central Bank of the Republic of Turkey

The surplus in the service sector balance decreased by 12 percent to USD 13.4 billion. The foremost factor leading to this end was the narrowing of tourism revenues by 8 percent to USD 14.1 billion. Current transfers increased by 16 percent, providing a contribution of USD 1.7 billion to the current balance. The deficit in investment revenues was USD 6.6 billion in 2006. Interest expenditures which was the most significant item in the investment revenues balance rose to USD 6.4 billion from USD 5.1 billion.

Capital and financial account was realized over current account deficit in 2006 due to the continued favorable borrowing conditions in international money and capital markets, and additionally, the rising direct foreign capital investments as a result of privatization gaining pace and higher interest of foreign investors concentrating on banks, and also the growth in demand of persons resident abroad for capital market instruments. Capital inflows into Turkey rose to USD 45.3 billion as of the end of 2006 from USD 43.7 billion at the end of 2005.

Capital and Financial Account (USD million)

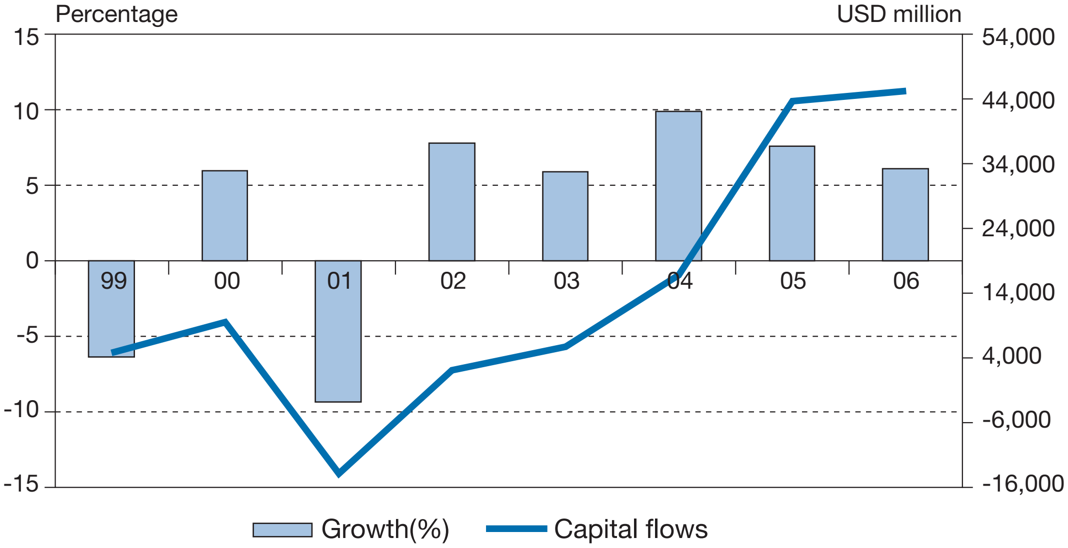
	2003	2004	2005	2006
Capital and financial account	7,091	17,752	43,687	45,296
-Capital account (net)	0	0	0	0
-Financial account (net)	7,091	17,752	43,687	45,296
-Direct investments abroad (net)	1,195	2,024	8,723	19,231
-Portfolio investments (net)	2,569	8,023	13,437	7,360
-Other investments (net)	3,327	7,705	21,527	18,705
-Net errors and omissions	5,043	2,191	2,116	-2,992
General balance	4,097	4,342	23,200	10,625
-IMF accounts	-50	-3,518	-5,353	-4,511
-Official reserves	-4,047	-824	-17,847	-6,114

Source: Central Bank of the Republic of Turkey

Direct foreign capital inflows registered the record level in 2006. Net foreign direct capital inflow reached USD 19.2 billion in 2006 up from USD 8.7 billion in 2005. Portfolio investments continued to increase at a certain pace; however this increase was lower than the increase in the last two years.

Net errors and omissions account gave a deficit of USD 3 billion in 2006, contrary to the surplus in 2005. A net payment of USD 4.5 billion was made to International Monetary Fund.

Growth and Capital Flows

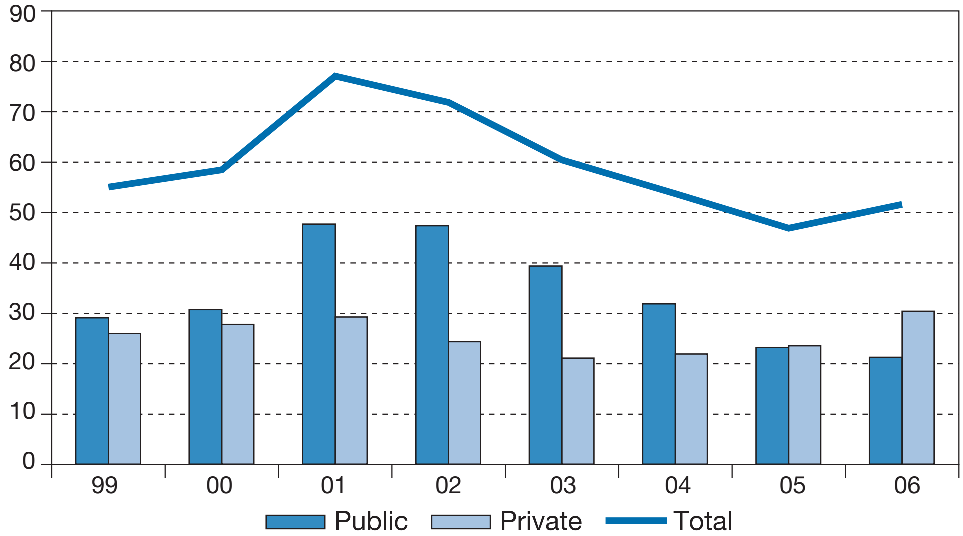


A total of USD 42.3 billion of capital inflows, including also those from the net errors and omissions account was realized in 2006; and official reserves increased by USD 6.1 billion after the financing of the current accounts deficit and repayments to the International Monetary Fund. Consequently, overall balance gave a surplus of USD 10.6 billion, and official reserves and banking sector reserves continued to increase.

2.9. Outstanding External Debt

Outstanding external debt increased by USD 37.9 billion to USD 206.5 billion in 2006. Long term external debt stock rose by USD 32.8 billion while short term external debt stock rose by USD 4.9 billion. The share of public sector debt stock (excluding the Central Bank) in the long term debt stock rose by USD 1.4 billion to USD 69.6 billion and the private sector debt stock increased by USD 31 billion.

External Debt Stock (As percentage of GNP)



The ratio of external debt stock to GNP rose to 52 percent by an increase of 5 percentage points compared with the end of 2005. The ratio of long term debts to GNP rose by 5 percentage points to 41 percent, while the ratio of short term debts to GNP remained unchanged at 11 percent.

Outstanding External Debt (USD billion)

	2002	2003	2004	2005	2006*
Medium and long term	113.3	121.2	128.9	131.7	164.5
Public	63.6	69.5	73.8	68.2	69.6
Central bank	20.3	21.5	18.1	12.7	13.1
Private	29.3	30.2	37.0	50.8	81.8
Banks	4.8	5.9	9.1	16.2	29.0
Non-financials	3.0	3.1	5.8	12.2	22.1
Short term	24.6	25.1	28.5	34.9	53.0
Central bank	16.4	23.0	31.9	37.1	42.0
Banks	1.7	2.9	3.3	2.8	2.6
Non-financials	6.3	9.7	14.5	17.7	19.8
Total	8.4	10.5	14.1	16.6	19.6
Medium and long term	129.7	144.3	160.8	168.8	206.5

Source: Undersecretariat of the Treasury
*Provisional

The share of the public sector in total outstanding debt was 34 percent while the Central Bank had a share of 7 percent. The share of the banking system in total outstanding debt was 21 percent, and non-financial sectors had a share of 38 percent. The ratio of the public sector debt (excluding the Central Bank's debt) to GNP receded to 17 percent from 19 percent.

Of the long-term outstanding external debt, USD 29.1 billion were owed to official creditors, and USD 135.4 billion were owed to private creditors. The greatest share among the official creditors belonged to international institutions item which also included International Monetary Fund, with USD 22.5 billion. Considering the outstanding external debt owed to private creditors, USD 68.2 billion were owed to commercial banks and USD 36.3 billion were obtained through bond issues.

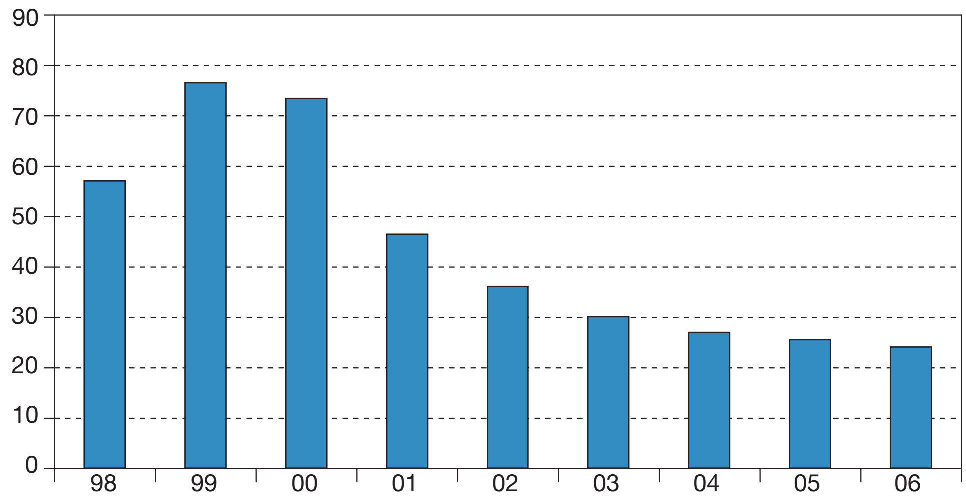
3. Banking System in Turkey in 2006[1,2]

3.1. The number of banks and branches

The number of deposit banks, and investment and development banks in Turkey was 46 as of the end of 2006. Total number of banks declined by 1 due to the merger of Koçbank AŞ and Yapı ve Kredi Bankası AŞ. Interest of foreign investors towards Turkish banking sector continued to be materialized in 2006. National Bank of Greece SA acquired 46 percent stake in Finans Bank AŞ and Dexia Participation Belgique SA acquired 75 percent stake in Denizbank AŞ. Hence, these two banks switched category from the privately-owned commercial banks group into the group of foreign banks established in Turkey.

Additionally; a stake of 58 percent in Bankpozitif Kredi ve Kalkınma Bankası AŞ was bought by Hapoalim BM Bank; a stake of 99 percent in Tat Yatırım Bankası AŞ was bought by Merrill Lynch European Asset Holdings Inc. Both of these banks also switched category from the privately owned development and investment banks group to the foreign development and investment banks group.

Number of Banks (1995-2006)



Among the banks operating in Turkey: 33 were deposit banks and 13 were development and investment banks. 3 of the deposit banks were state-owned and 14 were privately-owned. There was one bank owned by the Savings Deposit Insurance Fund (SDIF). The number of foreign deposit banks was 15. Of the development and investment banks; 3 were state-owned, 6 were privately-owned, and 4 were foreign banks.

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[1] Development and investment banks, and deposit banks are included.

[2] The format of the data provided by banks was changed with the related Communique-Financial statements and related explanation and footnotes of the banks that is disclosed to the Public-. Therefore, there can be differences between data in this section and in the financial tables of the groups.

Upward trend in the number of branches continued in 2006, increasing by 602 and reached 6,849. The number of branches increased by 576 in deposit banks group and by 26 in development and investment banks group. The number of branches in foreign deposit banks group rose by 679 as a result of the transfer of Denizbank AŞ and Finansbank AŞ into foreign banks group from privately-owned banks group. Accordingly, the number of branches in privately-owned deposit banks decreased by 217, while that in state-owned banks rose by 114.

Number of Banks and Branches*

	2002		2005		2006	
	Bank	**Branch**	**Bank**	**Branch**	**Bank**	**Branch**
Deposit banks	40	6,087	34	6,228	33	6,804
State-owned banks	3	2,019	3	2,035	3	2,149
Private banks	20	3,659	17	3,799	14	3,582
SDIF banks	2	203	1	1	1	1
Foreign banks	15	206	13	393	15	1,072
Development and investment banks	14	19	13	19	13	45
State-owned banks	3	4	3	4	3	22
Private banks	8	12	8	13	6	11
Foreign banks	3	3	2	2	4	12
Total	54	6,106	47	6,247	46	6,849

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

3.2. Number of employees

Number of bank employees also increased in 2006, which stemmed from foreign banks and state-owned banks. The number of employees rose by 1,177 in state-owned banks and 15,184 in foreign banks, while there was a drop of 5,586 and 62 in the number of employees in private banks and SDIF banks, respectively. Number of employees in development and investment banks also rose by 172.

Number of Employees

	2002	2005	2006
Deposit banks	118,329	127,857	138,570
State-owned banks	40,159	38,046	39,223
Private banks	66,869	78,806	73,220
SDIF banks	5,886	395	333
Foreign banks	5,416	10,610	25,794
Development and investment banks	4,942	4,401	4,573
State-owned banks	4,174	3,657	3,728
Private banks	691	697	596
Foreign banks	77	47	249
Total	123,271	132,258	143,143

Source: Banks Association of Turkey

Deposit banks employed 97 percent of employees in the banking sector. Of all employees in deposit banks; 27 percent were employed in state-owned banks, 51 percent in privately-owned banks, and 18 percent in foreign banks.

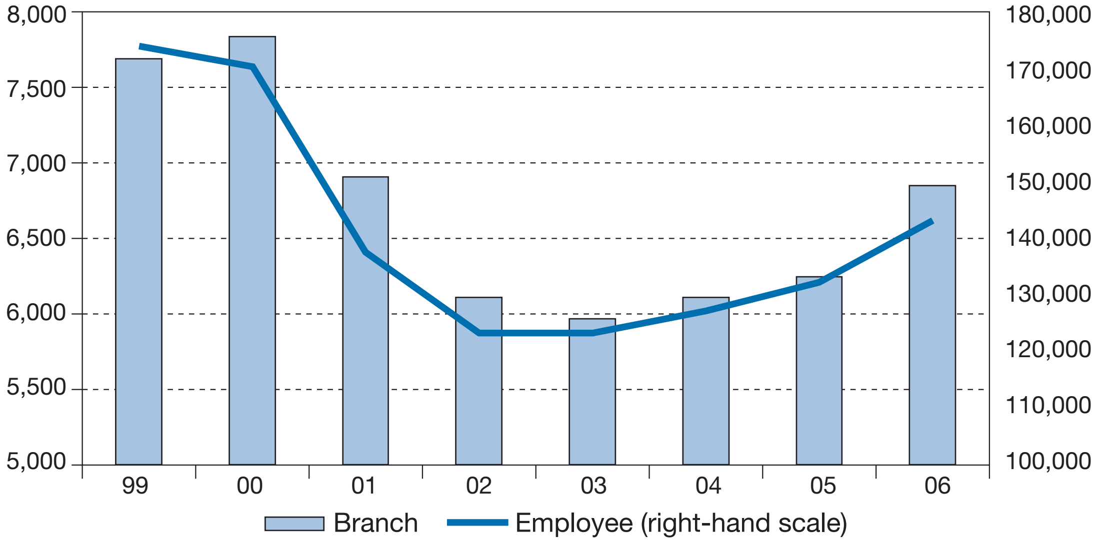
Number of Branches and Employees Per Bank

	Branch			Employee		
	2002	2005	2006	2002	2005	2006
Deposit banks	152	183	203	2,958	3,761	4,199
State-owned banks	673	678	683	13,386	12,682	13,074
Private banks	183	223	256	3,343	4,636	5,230
SDIF banks	102	1	1	2,943	395	333
Foreign banks	14	30	71	361	816	1,720
Development and investment banks	1	1	2	353	339	352
State-owned banks	1	1	1	1,391	1,219	1,243
Private banks	2	2	2	86	87	99
Foreign banks	1	1	3	26	24	62
Total	113	133	146	2,283	2,814	3,112

Source: Banks Association of Turkey

The number of bank branches and employees decreased in 2000-2003 period as a result of the transfer of some of financially weak banks to Savings Deposit Insurance Fund and/or closure of banks within the framework of the banking restructuring program.

Number of Employees and Branches (1999-2006)

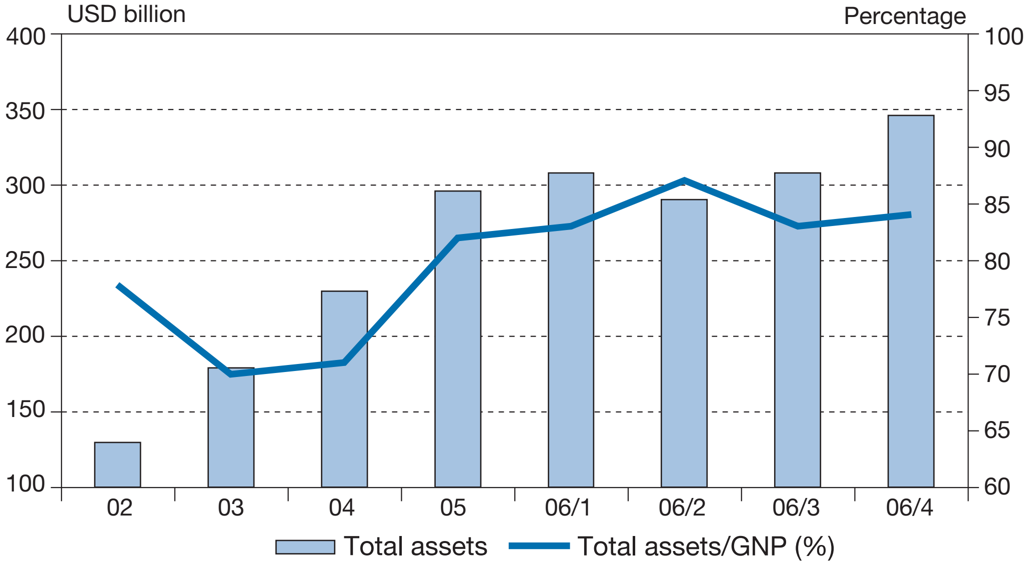


3.3. The Size of Balance Sheet

As of December 2006 total assets of the banking sector rose by 22 percent and amounted to TRY 486 billion (USD 346 billion) as compared to the end of 2005. Total assets to GNP ratio also climbed to 85 percent from 82 percent in the same period.

The main reasons for the growth in the banking sector were revival in economic activity and increased capacity of borrowing from international markets. The annual growth rate in the banking sector was 35 percent in the first half of the year before it slowed down to 22 percent in the second half of the year due to the contraction of loan demand in the aftermath of the market volatility in May-June 2006.

Total Assets and Total Assets / GNP (2002-2006)



Total balance sheet size of the banking sector recorded a growth of TRY 89 billion in 2006. Of this increase; 60 percent (TRY 53.4 billion) stemmed from deposits, 26 percent (TRY 23 billion) from non-deposit resources, and the rest resulted from other liabilities and shareholders' equity. Of the overall funds secured, 67 percent were used for loans (TRY 59.7 billion), 18 percent (TRY 15.9 billion) for securities portfolio, and 18 percent (TRY 16.2 billion) for liquid assets.

Nominal Change in Balance Sheet Items (TRY million)

	Assets	
	June 2006	*December 2006*
Liquid assets	1,200	16,164
Securities	16,658	15,924
Loans	45,278	59,719
Other assets	-4,851	-2,799
Total	58,284	89,007
-TRY	26,837	51,524
-Fx	31,447	37,483
	Liabilities	
	June 2006	**December 2006**
Deposits	38,643	53,374
Non-deposit funds	17,284	23,025
Shareholders' equity	-2,809	4,265
Other liabilities	5,166	8,343
Total	58,284	89,007
-TRY	21,728	48,367
-Fx	36,556	40,640

Source: Banking Regulation and Supervision Agency

Almost all of the increase in liquid assets was in foreign currencies and came about in the second half of the year. Also due to the increase in foreign exchange deposit demand, banks increased the liquid assets, which they held in banks abroad. Rate of increase in total loans decelerated in the same period.

The rate of increase in foreign exchange deposits accelerated in the second half of the year, but the increase in TRY equivalent of foreign exchange deposits in the banking sector was limited due to TRY's subsequent appreciation. Banking sector reduced its borrowing from abroad in the second half of the year. There was a considerable increase in resources obtained through repurchase agreements in this period.

Shareholders' equity contracted depending on the fall of the market value of the securities portfolio due to the rise in interest rates in the first half of the year. There was a rise in the value of the shareholders' equity in the second half as the volatility in the markets proved short-lived and due to fall in the interest rates of government domestic debt instruments.

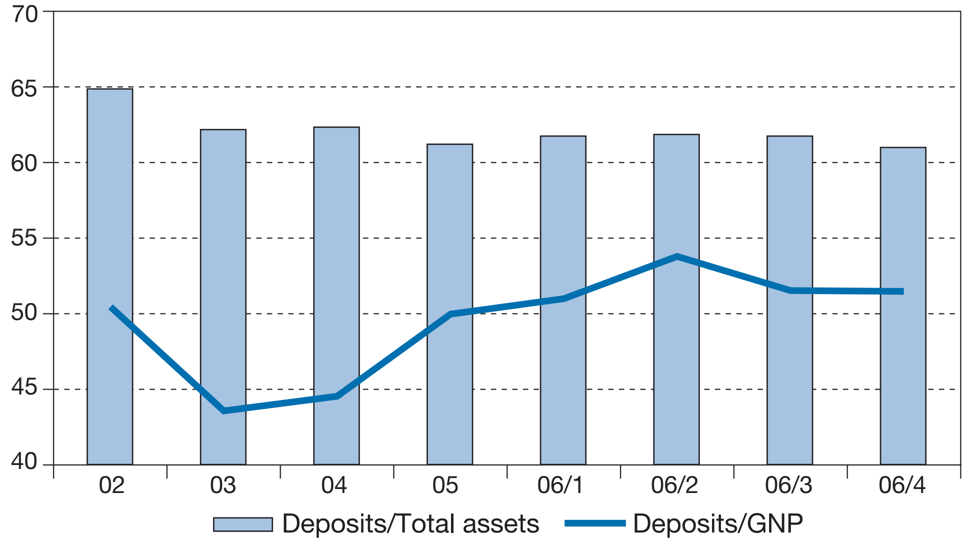
Total Assets by Groups, December 2006

	TRY million	USD million	Per. change (TRY)	Per. change (USD)
Deposit banks	470,622	334,819	23	17
State-owned and SDIF banks	145,458	103,485	15	10
Private banks	265,844	189,132	12	7
Foreign banks	59,320	42,203	186	173
Development and investment banks	15,347	10,918	19	14
Total	485,969	345,738	22	17

Source: Banking Regulation and Supervision Agency

In deposit banks group; the state-owned and SDIF banks grew by 15 percent, private banks by 12 percent, while foreign banks grew by 186 percent. Growth rate in the balance sheets of development and investment banks was 19 percent. The balance sheet size in deposit banks grew by 27.3 percent on the average.

Deposits / Total Assets and Deposits / GNP (Percentage)



* The scale of the chart is limited at 70 percent

3.4. Market Shares

The share of deposit banks in total assets was 97 percent, while the share of development and investment banks was 3 percent. In deposit banks group; the shares of state-owned and the SDIF banks, and private banks in total assets fell to 30 percent from 32 percent and to 55 percent from 60 percent, respectively. On the contrary, the share of foreign banks increased by 7 percentage points to 12 percent.

Market Shares of Groups (Percentage)

	Total assets			Total deposits			Total loans		
	02	05	06	02	05	06	02	05	06
Deposit banks	96	97	97	100	100	100	89	96	97
State-owned and SDIF banks	36	32	30	39	39	37	20	21	22
Private banks	56	60	55	58	57	53	65	68	59
Foreign banks	3	5	12	2	3	10	4	7	15
Development and invest. banks	4	3	3	-	-	-	11	4	3
Total	100	100	100	100	100	100	100	100	100

Source: Banking Regulation and Supervision Agency

The share of foreign banks in total deposits rose by 7 percentage points to 10 percent. The shares of state-owned and SDIF banks, and private banks decreased by 2 and 4 percentage points to 37 percent and 53 percent, respectively.

In deposit banks group, the shares of state-owned and SDIF banks, and foreign banks in total loans rose to 22 percent from 21 percent and to 15 percent from 7 percent, respectively. On the contrary; the share of private banks dropped to 59 percent from 68 percent.

3.5. Concentration

The largest five banks had a share of 63 percent, and the largest ten banks had a share of 86 percent in total assets of the banking sector. The share of the largest ten banks in total assets increased by one percentage point compared with the previous year. The largest five banks were consisted of one state-owned and 4 privately-owned banks as of the end of 2006; while there were 3 state-owned banks and 7 private banks in the largest ten banks.

Concentration in Banking Sector* (Percentage)

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

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

The Number of Banks by Asset Size

USD billion	+0-1		1-2		2-5		5-10		10-20		20-40		40+
	99	06	99	06	99	06	99	06	99	06	99	06	06
Number													
Deposit b.	37	15	10	3	7	5	6	5	4	1	1	4	3
State					1		1		1		1	2	1
Private	15	6	6	3	5	1	5	2	3			2	2
Foreign	17	8	1		1	1		3		1			
SDIF	5	1	3		1								
Dev. inv. b.	17	10	1		1	3							
Total	54	25	11	3	8	5	6	5	4	1	1	4	3

There were 3 banks with an asset size larger than USD 40 billion, and 7 banks larger than USD 20 billion. However, asset size of more than half of the banks in the banking sector was below USD 1 billion.

3.6. Currency Structure of Balance-Sheet and “Fx Assets and Fx Liabilities”

As of December 2006, TRY assets rose by 19 percent and foreign exchange assets rose by 30 percent compared to 2005. Similarly, TRY liabilities grew by 19 percent while the growth rate in foreign exchange liabilities was 29 percent. The shares of TRY assets and TRY liabilities in balance sheet declined to 66 percent and 62 percent from 68 percent and 64 percent, respectively.

Considering deposit banks group; state-owned banks had a TRY-weighted balance sheet structure. The share of TRY assets in total assets was 78 percent in state-owned banks, and 60 percent in private banks. Similar difference existed on liability side; the share of TRY funds in state-owned banks was 76 percent, while this ratio in private banks was 57 percent.

Fx Position by Groups(*) (Percentage)

	Per. share Fx assets		Per. share Fx liabilities		USD billion Fx assets-Fx liabilities	
	2005	2006	2005	2006	2005	2006
Deposit banks	32	34	36	38	-11.9	-13.5
State-owned and SDIF banks	19	22	21	24	-1.8	-2.1
Private banks	38	40	43	43	-9.3	-7.3
Foreign banks	36	35	42	45	-0.1	-4.1
Development and investment banks	32	32	33	33	-0.1	-0.2
Total	32	34	36	38	-12.0	-13.7

(*)The definition of Fx position used in the table means the difference between Fx assets and Fx liabilities in balance-sheet. This definition differs from that of ‘Net General Position’ in the regulation on standard ratio for Fx Net General Position/Capital Base issued by the Central Bank and BRSA. Hence, Fx denominated loans in the balance-sheet, Fx assets and Fx liabilities in the off-balance sheet are not included in the former definition.

The difference between foreign exchange assets and foreign exchange liabilities which shows in-balance sheet foreign exchange position of the banking sector, was - USD 13.7 billion in 2006. Private deposit banks had USD 7.3 billion portion of in-balance sheet net foreign exchange position of the sector. On the other hand; net general foreign exchange position of the banking sector gave a surplus of USD 184 million.

Net General Fx Position (USD million)

	2004	2005	2006
Deposit banks*	-122 *	-154 *	96 *
State-owned banks	379	55	144
Private banks	-519	-243	-189
SDIF banks	…	…	…
Foreign banks	18	34	142
Development and investment banks	50	57	88
Total*	-71	-97	184

Source: Banking Regulation and Supervision Agency, Weekly Bulletin
* SDIF banks excluded.

3.7. Structure of Assets

There was a strong demand for corporate and consumer loans in the first half of 2006 which was stimulated by the strong domestic demand and supported growth in total assets. On the other hand, increase in securities portfolio and liquid assets was limited. Nevertheless, the rate of increase in total loans slowed down in the second half of the year and liquid assets increased. The rise in liquid assets mainly stemmed from the item of receivables from banks and in foreign currencies. On the other hand, TRY's real appreciation against major currencies in the second half of the year restricted the rise in TRY equivalent of the liquid assets.

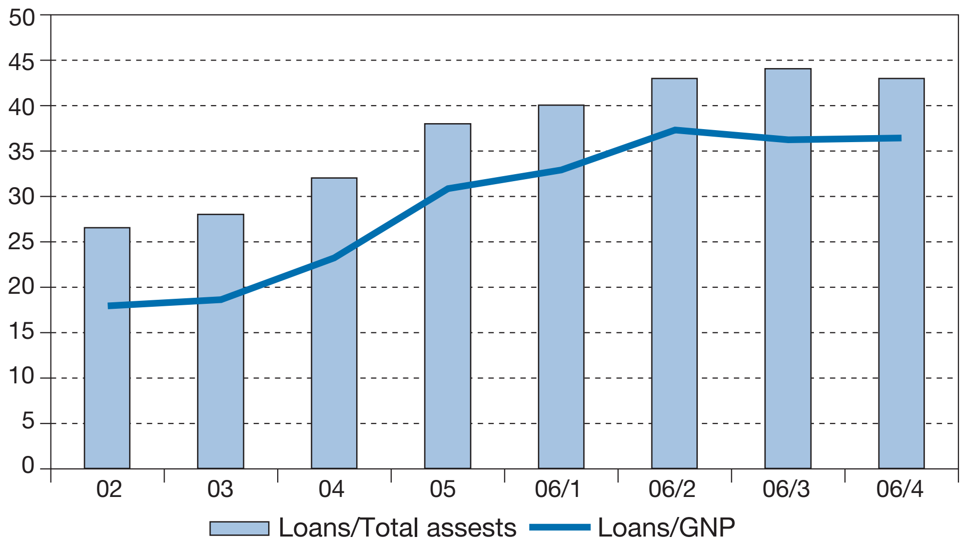
The Structure and Development of Assets

	TRY million	USD million	Per. change (TRY)	Per. share 2005	Per. share 2006
Liquid assets	77,455	55,105	26	15	16
Securities	158,940	113,076	11	36	33
Trading securities (net)	14,239	10,130	-18	4	3
Invest. sec. for sale (net)	96,145	68,401	23	20	20
Invest. sec. held to maturity (net)	48,556	34,545	2	12	10
Loans	210,420	149,701	40	38	43
Non-performing loans	8,179	5,819	9	2	2
Specific provisions (-)	7,426	5,283	10	2	2
Permanent assets	16,237	11,552	-12	7	3
Investments and associates	9,098	6,473	-17	3	2
Subsidiaries	7,139	5,079	-4	2	1
Property and equipment (net)	14,305	10,177	32	3	3
Intangible assets (net)	8,612	6,127	-32	3	2
Other assets	485,969	345,738	22	100	100

Source: Banking Regulation and Supervision Agency

The shares of liquid assets and loans in total assets in 2006 rose by 1 and 5 percentage points to 16 percent and 43 percent, respectively, while the share of securities portfolio dropped by 3 percentage points to 33 percent. Permanent assets fell by 12 percent to USD 16 billion, and accordingly the share of permanent assets in total assets dropped by 4 percentage points to 3 percent.

Loans/Total Assets and Loans/GNP (Percentage)



There was a significant change in the structure of securities portfolio. The shares of securities held for trading purposes and the securities held to maturity dropped by 1 percent and 2 percentage points, respectively, while the share of securities available for sale was unchanged.

Total loans grew by 40 percent to TRY 210 billion as of the end of 2006. Loans in domestic currency had a share of 74 percent in total loans. The share of corporate loans in total loans was 69 percent. Sub-sectors of industry having major shares in corporate loans were wholesale trade with a share of 6 percent, textile with 5 percent, and construction with 4 percent. The shares of all other industries were less than 4 percent.

The share of consumer loans in total loans continued to boost in 2006 mainly due to rapid growth in housing loans. Credit cards had a share of 33 percent in consumer loans; housing loans 33 percent, and automobile loans 10 percent.

Breakdown of Loans by Sectors (TRY million)

		Per. share			Per. change
	2006	2002	2005	2006	(According to 2005)
Commercial loans	159,531	86	71	69	40
Consumer loans	71,223	14	29	31	51
Credit cards	23,242	9	11	10	26
Other loans	47,981	5	18	21	67
Housing	23,433	1	8	10	89
Automobile	6,798	1	4	3	9
Other	17,750	3	6	8	77
Total	230,754	100	100	100	43

Source: Banking Regulation and Supervision Agency

The rise in non-performing loans was limited despite the deterioration in expectations due to the market volatility in the first half of the year and the sudden rise in interest rates. This development was mainly resulted from the vitality in economic activity which created strong demand for loans.

Breakdown of Non-performing Loans by Sectors (2006, TRY million)

	Total loans	Non-performing loans (gross)	Per. share
Commercial loans	159,531	6,427	4.0
Consumer loans	71,223	2,123	3.0
Credit cards	23,242	1,716	7.4
Other loans	47,981	407	0.8
Housing	23,433	56	0.2
Automobile	6,798	138	2.0
Other	17,750	213	1.2
Total	230,754	8,550	3.7

Source: Banking Regulation and Supervision Agency

Specific provisions continued to be allocated for a great part of the non-performing loans. Non-performing loans before provisioning increased by 14 percent and reached TRY 8,550 million at the end of 2006. Ratio of non-performing loans before provisioning to total loans was about 4 percent. The share of non-performing loans was 0.8 percent in consumer loans, and 0.2 percent in housing loans.

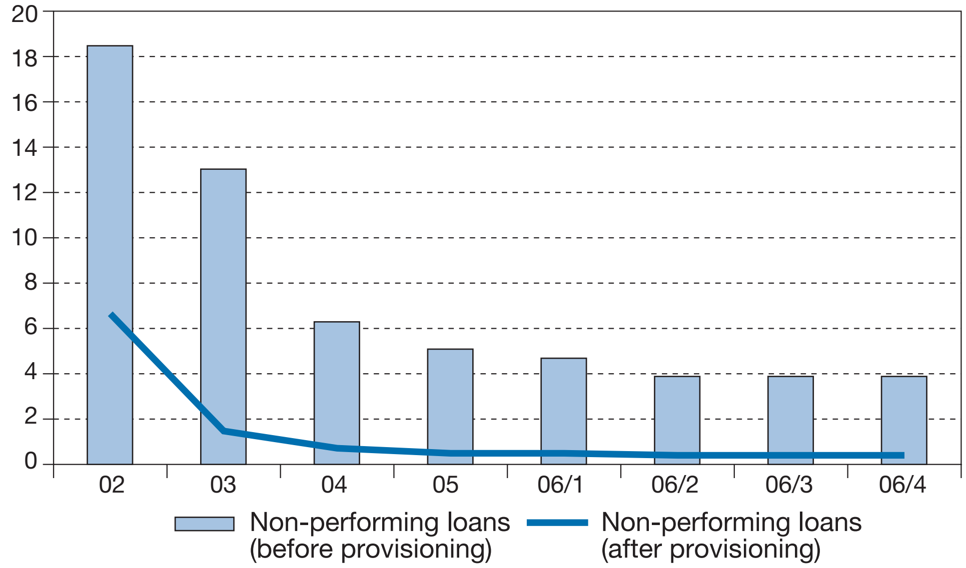
Non-performing Loans* and Specific Provisions (Percentage)

	Non-performing loans/ Totaal loans			Specific provisions/ Non performing loans	
	2002	2005	2006	2005	2006
Deposit banks	20	5	5	90	91
State-owned and SDIF banks	24	8	5	97	96
Private banks	9	4	4	86	88
Foreign banks	5	4	3	83	90
Development and investment banks	3	3	3	93	95
Total	19	5	4	90	91

* Before provisions
Source: Banking Regulation and Supervision Agency

Specific provisions were allocated for 91 percent of the non-performing loans. There was no significant change in the amount of non-performing loans after provisioning. Along these specific developments; the share of non-performing loans after provisioning in total loans dropped to 0.15 percent from 0.19 percent.

Non-performing Loans/Total Loans (Percentage)



3.8. Structure of Liabilities

Total deposits rose by 22 percent and amounted to TRY 296 billion, whereas their share in total liabilities was unchanged at 61 percent. TRY equivalent of foreign exchange deposits increased by 30 percent, while their USD equivalent rose by 24 percent. The share of foreign exchange deposits in total deposits also rose by 2 percentage points to 24 percent. On the other hand, TRY deposits grew by 17 percent and their share in total liabilities fell by 2 percentage points to 37 percent.

Non-deposit funds which made up 21 percent of the total liabilities rose by 30 percent and reached TRY 101 billion at the end of 2006. Borrowing from banks accounted for 70 percent of non-deposit funds. There was no considerable change in the maturity structure in 2006 as the average maturity of total deposits was about 2.5 months. The average maturity of TRY deposits was 2.4 months, and that of foreign exchange deposits was 2.7 months.

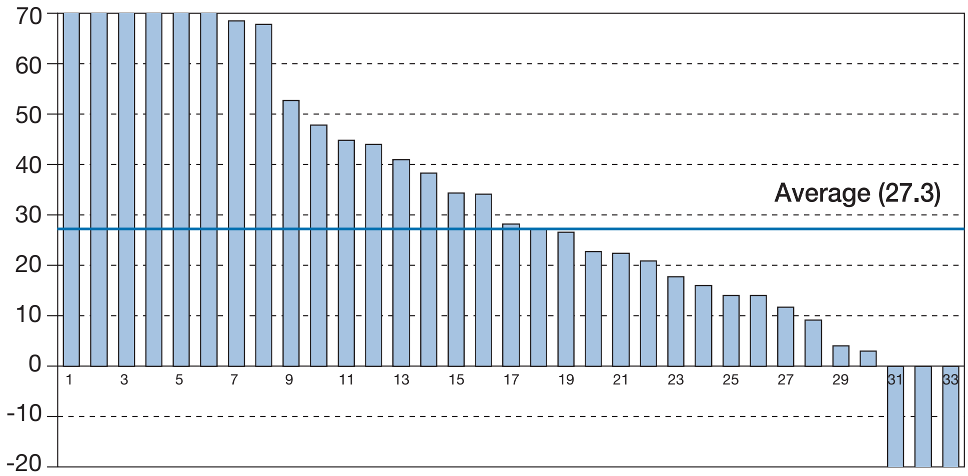
The Structure and Development of Liabilities

	TRY million	USD million	Per. change (TRY)	Per. share 2005	Per. share 2006
Deposits	296,495	210,938	22	61	61
TRY	181,091	128,835	17	39	37
Fx	115,404	82,103	30	22	24
Non-deposit funds	100,584	71,559	30	20	21
Shareholder's equity	57,997	41,261	8	14	12
Paid-in capital	25,285	17,989	26	5	5
Supplementary capital	38,232	27,200	-10	11	8
Profit reserves	-18,384	-13,079	-3	-5	-4
Profit or loss	11,090	7,890	94	1	2
Previous year inc./loss	1,774	1,262	-61	1	0
Current year inc./loss	30,893	21,979	37	6	6
Other liabilities	485,969	345,738	22	100	100

Source: Banking Regulation and Supervision Agency

As of December 2006; 61 percent of total deposits was in TRY denominated, and 39 percent was foreign exchange deposits. These rates were 64 percent and 36 percent respectively at the end of 2005. The ratio of TRY deposits to total deposits was 75 percent in the state-owned banks and SDIF banks, 54 percent in private banks, and 44 percent in foreign banks.

Deposit Banks - Growth in Balance Sheet (Percentage)



*The scale of the chart is limited at 70 percent.

Breakdown of Total Deposit by Groups (TRY million, 2006)

	TRY	Fx	Total	Percentage share TRY	Percentage share Fx	Percentage share Total
Deposit banks	181,091	115,404	296,495	61	39	100
State-owned and SDIF banks	82,275	26,776	109,051	75	25	100
Private banks	85,478	71,404	156,882	54	46	100
Foreign banks	13,338	17,224	30,562	44	56	100

Source: Banking Regulation and Supervision Agency

3.9. Shareholders' equity

Shareholders' equity of the banking sector increased by 8 percent and reached TRY 58 billion (USD 41.3 billion). The rise of shareholders' equity was only 3 percent in dollar terms. Limited increase in shareholders' equity was the result of the profit distribution and the losses stemmed from revaluation in securities portfolio due to the rise in interest rates fueled by the market volatility in the first half of 2006. Consequently, shareholders' equity, which fell by TRY 2,809 million in the first half of the year increased by TRY 7,073 million in the second half of the year. The major contribution to the growth in shareholders' equity came from the increase in paid-in capital and net profits.

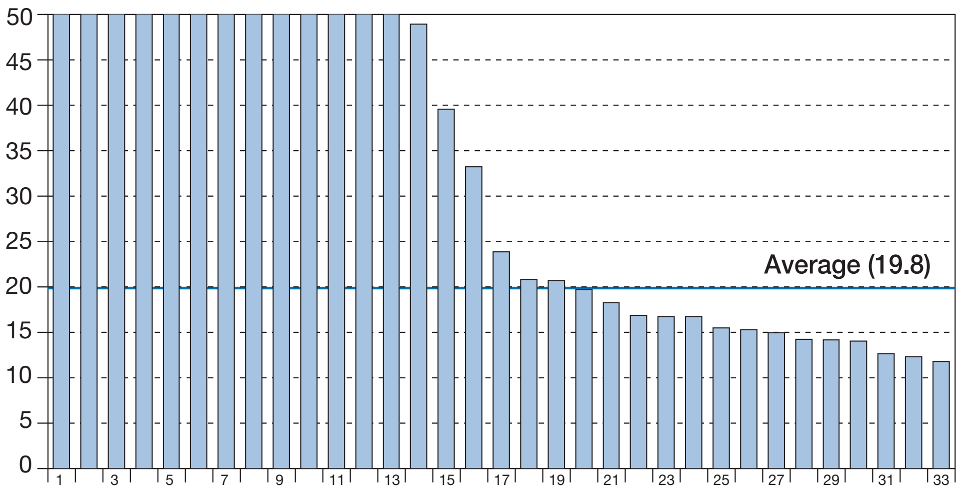
Shareholders' equity

	TRY million	USD million	Per. change (TRY)	Per. change (USD)	Capital adequacy ratio*
Deposit banks	50,428	35,876	6	1	19.9
State-owned and SDIF banks	15,709	11,176	6	1	41.2
Private banks	27,625	19,654	-6	-10	17.8
Foreign banks	7,094	5,047	15	105	16.6
Development and inv. banks	7,570	5,386	21	16	142.8
Total	57,998	41,262	8	3	22.4

Source: Banking Regulation and Supervision Agency
* Shareholders' equity/Risk weighted assets

Capital adequacy ratio of the banking sector dropped to 22.4 percent as of December 2006 from 24.2 percent as of December 2005. The capital adequacy ratio of deposit banks was realized as 19.8 percent. The ratio of 19 banks was above this average.

Deposit Banks - Capital Adequecy Ratio (Percentage)



* The scale of the chart is limited at 50 percent.

Despite the limited growth in shareholders' equity, free shareholders' equity continued to grow due to the decline in permanent assets. Free shareholders' equity (shareholders' equity - permanent assets – non-performing loans after provisioning) rose to TRY 41 billion (USD 29.2 billion) from TRY 34 billion (USD 25.7 billion). The ratio of free shareholders' equity to total assets was unchanged at about 8 percent.

Free shareholders' equity*

	TRY million			Share holders' equity/ Total assets (Percentage)		
	2002	2005	2006	2002	2005	2006
Deposit banks	3,053	28,717	33,887	1.5	7.5	7.2
State-owned and SDIF banks	700	11,720	12,846	0.9	9.3	8.8
Private banks	1,262	14,351	15,196	1.1	6.1	5.7
Foreign banks	1,091	2,646	5,845	16.5	12.8	9.9
Development and inv. banks	2,550	5,777	7,120	27.0	44.9	46.4
Total	5,602	34,494	41,007	2.6	8.7	8.4

* Shareholders' equity-permanent assets-loans under follow-up after specific provisions
Source: Banking Regulation and Supervision Agency

Net profits of the banking sector grew by 94 percent to TRY 11,090 million. Considering deposit banks; net profits grew by 32 percent in state-owned and SDIF banks, 237 percent in private banks, 200 percent in foreign banks. The rate of growth in the net profits of development and investment banks was 7 percent.

Net Profit-Loss, 2006

	Net profit-Loss (TRY million)	(USD million)	Per. change TRY	USD
Deposit banks	10,359	7,370	106	96
State-owned and SDIF banks	4,126	2,935	32	26
Private banks	4,692	3,338	237	222
Foreign banks	1,541	1,096	200	187
Development and investment banks	732	521	7	2
Total	11,090	7,890	94	85

Source: Banking Regulation and Supervision Agency

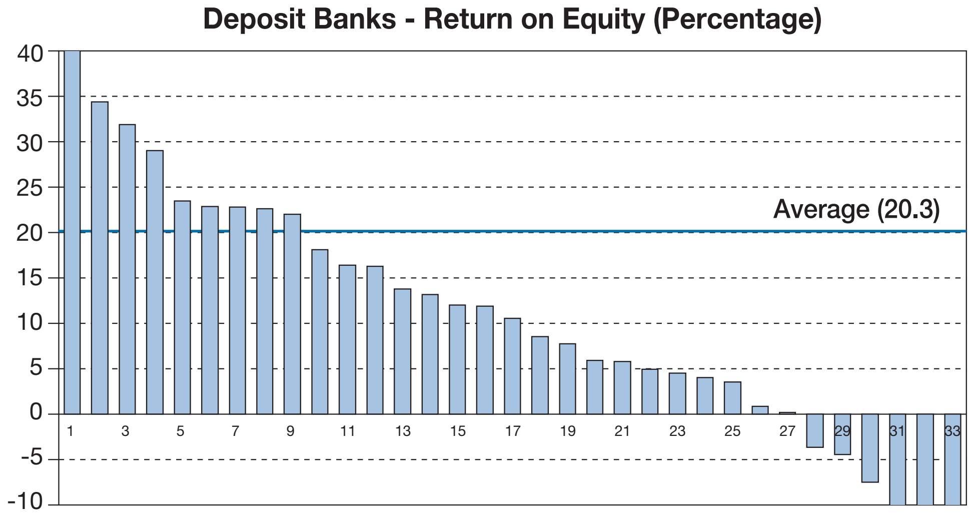
Main reasons behind the positive performance of profits were contraction in specific provisions, rapid growth in non-interest income and slower growth in non-interest expenses.

Return on Assets and Return on Equity, 2006

	Return on assets (Percentage)	Return on equity (Percentage)
Deposit banks	2.2	20.5
State-owned and SDIF banks	2.8	26.3
Private banks	1.8	17.0
Foreign banks	2.6	21.7
Development and investment banks	4.8	9.7
Total	2.3	19.1

Source: Banking Regulation and Supervision Agency

Rapid growth in the net profit of the period had positive effect on banks' profit ratios as net return on assets rose to 2.3 percent from 1.4 percent and return on equity rose to 19.1 percent from 10.6 percent. Return on equity was above the annual average interest rate of the government domestic securities for the first time in the near past.



* The scale of the chart is limited at 40 percent.

Average return on equity in deposit banks was 20.3 percent as of December 2006. There were 9 banks having the ratio above this average.

3.10. Income-Expenditure

Net interest income of the banking system increased by about 12 percent. Interest income increased by 29 percent, while interest expenditures grew by 41 percent. An upward trend in interest rates in the second half of the year prompted acceleration of the interest expenditures due to the mismatch between the maturities of the assets and liabilities. While the increase in interest income from the securities portfolio was limited; the increase in interest expenditures due to borrowing from other banks and through repurchase transactions accelerated further. Therefore, net interest margin's contribution to net profit contracted.

Income-Expenditure Structure, December 2006

	TRY million	USD million	Per. change (TRY)	Per.change (USD)
Interest income	54,415	38,713	29	23
Interest expense	33,842	24,077	41	35
Net interest income	20,573	14,636	12	7
Non interest income	13,973	9,941	42	36
- Net fees and commission income	1,466	1,043	14	9
-Services income	6,517	4,636	26	20
Non interest expense	18,023	12,822	-5	-9
-Personnel	6,294	4,478	19	14
- Net fees and commission expense	1,462	1,040	12	7
Other non interest expense	-258	-184	-112	-112
-Net trading income/expense	-225	-160	-111	-110
-Profit/loss on trading account sec.	1,244	885	-10	-14
-Foreign exchange income/losses	-1,469	-1,045	-298	-289
-Other	-33	-23	-1,750	-1,675
Income before taxes	14,144	10,063	56	49
Provisions for taxes on income	3,054	2,173	-9	-13
Net profit/loss	11,090	7,890	94	85

Source: Banking Regulation and Supervision Agency

On the other hand; increase in non-interest income, proceeds of sale of subsidiaries and commissions income, income from the subsequently collected non-performing loans which had been written off after provisioning, all supported the increase in profit volume in the banking sector. Operational costs increased in line with the increase in the number of branches and employees; however, non-interest expense fell due to the reduction in 2006 of the specific provisions set aside in 2005.

Profits before tax increased by 56 percent. Provisions for taxes on income dropped by 9 percent also due to the drop in the corporate tax by 10 percentage points to 20 percent. Accordingly, net profit for the banking sector rose by 94 percent and reached TRY 11.1 billion in 2006.

3.11. Off-Balance Sheet Items

Off-balance sheet items rose by 19 percent, commitments by 40 percent, and derivative financial instruments by 61 percent in 2006. Hence, the rate of increase in total off-balance sheet items (non-cash credits) was 33 percent.

Off-Balance Sheet Items, December 2006

	TRY million	USD million	Per. change TRY	USD
Guaranties and warranties	77,026	54,799	19	13
Commitments	187,875	133,662	40	34
-Derivative financial instruments	106,257	75,595	61	54
-Other commitments	81,618	58,066	20	14
Total	264,901	188,461	33	27

Source: Banking Regulation and Supervision Agency

Hedging transactions carried out via derivative financial instruments, which had the highest increase, restricted the exchange losses fuelled by the market volatility in the first half of the year.

3.12. Number of ATM, POS and Cards

According to the data of Interbank Card Center, total number of credit cards increased by 8 percent to 32.4 million as of December 2006 compared with the end of 2005. Total number of debit cards also increased by 11 percent and reached 53.5 million in the same period.

Number of ATM, POS and Cards

	2005	2006	Change
ATM	14,823	16,511	1,688
(thousands)			
Credit cards	29,978	32,433	2,455
Debit cards	48,243	53,464	5,221
POS	1,141	1,283	142

Source: Interbank Card Centre

The numbers of POS (Point of Sale) and ATM (Automatic Teller Machine) also increased by 12 percent and 11 percent in 2006, and reached 1,282,658 and 16,511 respectively.