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5th Issue of Financial Markets Report is Published.

Financial Markets Report which is prepared quarterly and the fifth issue of which is based on the data of March 2007 is comprised of three sections; (1) Economic Framework and Developments, (2) Financial Sector Evaluation and (3) Banking Sector Risk Assessment.

When global economic and financial framework is viewed, it is seen that the strong growth trend continuing for the last five years continues also in 2006. However, especially the recent developments experienced in USA real estate markets caused disruptions in expectations on global scale and led fluctuations to increase. Beside this conjuncture of financial markets, the continuation of geo-politic risks relating to Middle East region points out that a period with increasing risks in general is started. In Turkish economy, especially due to the narrowing in domestic demand, growth rate slowed down relatively in the second half of 2006. High foreign demand in this period enabled the continuation of production increase. Slow down tendency in demand factors has also been observed in total consumer loans amount. The expansion in loan volume continues in parallel with the expectations relating to total production increase and domestic economic activity.

When Turkish financial system in general is viewed, it is seen that growth trend continued also in March 2007. Total asset size of the financial system increased by 5% when compared to the end of the previous year and realized as TRY 592,6 billion as of March 2007. Asset size of the banking sector which has the highest share in Turkish financial system increased by 3,2% to TRY 515,3 billion in the same period. While the ratio of asset size of financial system to GDP is about 99%, the ratio of assets of the banking sector to GDP is about 86,1%. On the other hand, the ratio of assets of leasing companies, factoring companies and consumer financing companies to GDP is about 3,3%.

Financial stability indicators concerning banking sector indicate that the sector operates with capital adequacy ratio above the legal limits by having high rate capital thereby increased its free capital. Favorable progress in profitability indicators maintained in March 2007, while the share of 44 lucrative banks in total assets of the sector was realized above 99%. That the ratio of total operating costs to total incomes decreased throughout banking sector is considered favorable in productivity. When balance sheet structure of the banking sector is

analyzed as of March 2007, it is observed that total assets amounted to TRY 515.2 billion and the volume of credit increased by 44.7% by amounting to TRY 230.4 billion. As a result of conducting financial intermediation function more effectively, ratio of loans to deposit increased by 72.1% in the first quarter of the year. In the first quarter of the year, the share of TL-denominated liabilities in total liabilities, as of March 2007, was realized as 63%, while the share of FX-denominated liabilities was realized as 37%. As of March 2007, total deposit volume increased by 4% and amounted to TRY 319.5 billion. Moreover, in March 2006 - March 2007 period, total net profit of the banking sector increased by 24.6% and amounted to TRY 3.4 billion. Capital adequacy ratio, which was 21.9% in December 2006 period was realized as 22.2% as of March 2007.

Turkish Banking Sector operates as exposed to various risks in the global market of present day. However, it is observed that risk management ability increased in the banking sector especially following risk culture is widespread and deepened, and that the risks exposed are manageable. Management of risks can be maintained with the banking sector and surveillance authority by actively monitoring the sector and conditions. It is consequential that the banking sector can perform internal evaluation throughout the processes.

Financial Markets Report, in which developments summarized above are discussed in detail, is available in the official web-site of the Banking Regulation and Supervision Agency, [http://www.bddk.org.tr/turkce/Raporlar/Finansal Piyasalar Raporlari/Finansal Piyasalar Raporlari.aspx](http://www.bddk.org.tr/turkce/Raporlar/Finansal_Piyasalar_Raporlari/Finansal_Piyasalar_Raporlari.aspx) as of 22 August, 2007.