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### **Financial Markets Report Issue 7 has been published.**

Financial Markets Report which is published quarterly and seventh issue thereof is prepared upon September 2007 data is comprised of three sections; (1) Economic Framework and Developments, (2) Financial Sector View and (3) Risk, Capital and Profitability Assessment.

Developments experienced in global markets as of the second half of 2007 designates that world economy has entered into a new conjuncture. Developments in financial markets of developed countries, mainly the USA housing market, often leads to global fluctuations. While the said fluctuations in loan market affect the risk perceptions of international investors, it also leads to relative tightening of global liquidity conditions. Hence, central banks of developed countries have announced a common measures set besides the decrease in interest rates of the USA for the protection of global liquidity conditions. It is predicted that global growth tendency will slow down due to the factors such as the slow down in the USA economy, pressure on financial markets, increase in input prices, however it will be realized as 5,2% and 4,8% respectively in 2007 and 2008 years anyway.

Growth rate of Turkish economy which slowed down relatively as of the second half of 2006 also continued to slow down in the third quarter of 2007. However, when the compounds of growth is analyzed, it is seen that the re-increase in private consumption expenditures points out that total domestic demand is in a recovery tendency following the elections. When the growth is analyzed by sectoral added values, it is seen that low growth performance in the third quarter of the year is mainly sourced from the sharp regression in agricultural production. The increase in energy prices, the expansion in public expenditures in the first half of the year and the distortions in expectations caused to get far away from inflation target. The fact that the relaxation in public finance practice in the first half of 2007 was replaced with a more disciplined practice after the elections is very important for the positive expectations relating to Turkish economy. Furthermore, due to the fact that the Central Bank will continue to its reserve accumulation also in 2008 within the scope of the developments in global financial markets and the continuing interest of international capital decreases the fragilities of Turkey in this field. It is necessary that the economic policies shall be formed in

order to minimize the uncertainties and the practices shall be made more intensely and carefully in the following period. A sound and efficient financial system will contribute to the strength of predictability in economic framework by also the continuation of reliance and stability in economy.

When Turkish banking sector is analyzed generally, it is observed that the sector maintained a more rapid growth tendency in comparison to the general economic activity in September 2007. As of September 2007, total asset size of Turkish financial sector increased by 8.7%, when compared to the end of the previous year and amounted to TRY 726.8 billion levels. While the ratio of GDP to the asset size of finance sector was 116.3%, the ratio of GDP to the assets of banking sector was 87%. The ratio of GDP to the assets of leasing, factoring and consumer finance companies, which fall within the scope of supervision and regulation of the BRSA, is 3.1%. General tendencies in recent years designates the Turkish banking sector maintains high growth potential.

**Table: Selected Indicators**

	2005	2006	Mar.07	Jun.07	Sep.07
<b>Structural Indicators</b>					
Number of Banks	51	50	50	50	50
Number of Branches	6.537	7.296	7.431	7.654	7.856
Number of Personnel	138.724	150.793	153.640	156.746	162.952
<b>Asset Size (TRY Billion)</b>					
Banks	406,9	499,5	515,3	533,7	543,5
Total Financial System	560,0	668,6	698,0	715,1	726,8
<b>Financial Soundness Indicators (%)</b>					
Capital Adequacy Standard Ratio	23,7	22,3	22,2	18,7	19,4
Free capital/ Total Own funds	65,7	72,6	73,5	73,6	75,4
After-Tax Return on Assets (ROA)	1,7	2,5	2,5	2,9	2,5
After-Tax Return on Equity (ROE)	10,9	19,2	20,6	23,5	20,5
<b>Financial Productivity Indicators (%)</b>					
Total Operating Costs /Total Income (1)	65,5	50,4	48,7	47,3	48,6
Personnel Expenses/ Total Operating Costs	28,9	36,0	38,4	39,5	39,3

Financial soundness indicators concerning banking sector reveals that the sector continues to operate with capital adequacy ratio high above the legal limits and that increased its free capital. Positive progress in profitability indicators continued in September 2007 and the share of 45 lucrative banks within total assets was realized above 99%. While the ratio of total operating costs to total income increases throughout the sector, the share of personnel expenses in operating costs decreased moderately when compared to the previous period. In September 2007, net profit for the period of Turkish banking sector increased in nominal terms by 35%, when compared to the previous period (September 2006) and amounted to TRY 11.8 billion and the asset return on assets was realized as 2.5%.

Asset amount per bank, one of the capacity utilization indicators of the banking sector, amounted to TRY 10.8 billion. As of September 2007, the number of branches per bank continued to increase and was realized as 157. BRSA Performance Index reached its highest value as of the third quarter of 2007.

The asset size of the banking sector increased by 8.8% in the third quarter of 2007 when compared to previous end-of-year and was realized as TRY 543.5 billion, while the total loan volume has reached to TRY 261.4 billion and increased its share within the balance sheet to 48.1%. The deposit to loan ratio kept increasing and has reached to 77.7% within the third quarter of year. Within this period, the share of securities portfolio (SP) within total assets was realized as 30.6%. The total deposit volume which has a share of 61.9% within total resources, increased by 9.3% as of September 2007 to TRY 336.3 billion.

**Table: Selected Balance Sheet Items**

TRY Billion	2005	2006	Mar.07	June07	Sept.07
Cash As., Banks, Cent. Bank. and Money Mark. Rec.	36,2	44,8	57,5	60,6	56,8
Securities Portfolio	143,0	158,9	165,6	166,8	166,5
Loans	156,4	219,0	230,3	247,5	261,4
Deposit	251,5	307,6	319,5	331,9	336,3
Own funds	54,7	59,5	64,2	66,4	71,6

The volume of off-balance sheet operations had increased to TRY 376.8 billion as of September 2007 and its ratio to total balance sheet size was realized as 69.3%. Total derivative operations were realized as TRY 169 billion as of this period. Within this period, the highest share in derivative operations was the share of swap operations with 41.7%.

As of September, the total assets of financial leasing, consumer financing and factoring companies kept growing. It is observed that in all three sectors the employment had increased. While the share of financial leasing receivables within the total asset was increasing, in factoring and consumer financing companies, the shares of receivables/loans within total assets is decreased. Similarly to the previous periods, in financial leasing receivables, the highest share belongs to the construction sector, in factoring receivables, the highest share belongs to the textile leather clothing sector, and in financing loans, the highest share belongs to transportation vehicles.

The cash and non-cash amounts were increased when compared to the end of second quarter of 2007, however, especially the decrease occurred in exchange rates in August-September caused the reduce of TRY provisions of FX and FX indexed loans. While, in the third quarter, the cash loans were increased by 5.6%, the fact that gross and net NPL have increased respectively by 4% and 4.7% contributed to the decrease of relative risk. Within the same period, the shares of TL loans were increased in the portfolio, but the distribution of the portfolio between short and long term was the same. NPL ratios maintained generally their stagnant conduct; the average NPL ratio which was 3.64% in June 2007 was decreased to 3.58 in September 2007.

**Table: Selected Risk Indicators**

Selected Risk Indicators	Dec 2006	Mar 2007	June 2007	Sept 2007
Loans to NPLs Ratio (%)	3,71	3,65	3,64	3,58
Second Hand GS Market Interest Yield Volatility (%)	0,24	0,14	0,16	0,16

ISE100 Index Yield Volatility (%)	3,1	0,9	1,6	2,3
On-Balance Sheet FX Position (USD million)	-5.549	-6.758	-7.746	-7.458
TL Interest Deficiency in 1 Month Maturity (TRY billion)	-63.092	-53.336	-54.907	-70.909
Total Liquidity Adequacy Ratio in 1 Month Maturity (%)	119,9	113,4	159,8	166,2

Derivative transactions have shown an increase within the third quarter of the year. In spite of the fact that there was not any significant change in the distribution of commercial portfolio by securities types, while the share of variable rate securities in portfolio was increased, the share of fixed interest securities was decreased. Average compound interest realized in Government Securities secondary market was increased in July and August, by the effect of turbulence which has shown its effect on world markets, and by decreasing subsequently was ended in the level of 16.99% in September 2007 period. While on-balance sheet short position was realized as USD 6.8 billion by the end-of the first quarter of 2007, it has initiated to increase by the end of the second quarter and it has reached to the highest level with USD 9.2 billion in July. It was realized as USD 7.5 billion by showing a decrease by the end of the analysis period. FX net general position was realized as USD 73 million by turning into positive value by the end-2007. It can be observed that rate of exchanges and rate of exchange volatility have shown an increase due to fluctuations experienced in global markets in August, but subsequently it was decreased.

When interest deficits which are in the state of the amount subject to structural interest rate risk were analyzed, it can be observed that TL deficits have changed in the direction of increase (to negative) in the third quarter of the year, and FX deficits have followed a horizontal movement. As a result of the scenarios implemented, when the alternative profit and loss arose in TL and FX items were analyzed, it can be observed that total profit and loss values were higher as absolute value in September 2007 period when compared to June 2007 period nearly in all scenarios.

It can be observed that total liquidity adequacy ratios ,relating to daily maturity tranche and one month maturity tranche, was realized above minimum limit determined in Regulation on Liquidity. Besides, it can be seen that CAR of operational risk was decreased by 2.8 points in September.

CAR was realized as 19.4% in September 2007 period from 18.7% in June 2007. In spite of the fact that individual capital adequacy ratio was decreased in investment and development banks group in June 2007-September 2007 period, it can be observed that individual CAR was increased in sector general. The fact that consolidated CAR was increased in sector general was another respect observed. Besides, it can be observed that ratio of capital surplus was increased in parallel with the increase of CAR.

The resource of the significant increase in profitability was continued on to be comprised from the increase in loan interest income and securities portfolio interest income. When the profitability of the sector was analyzed as to bank group, it can be observed that the share

of the state bank in sector's profitability was decreased and that the share of private banks was increased.