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FINANCIAL MARKETS REPORT

- Economic Developments
- Financial Sector Assessment
- Banking Sector Risk Assessment



**BANKING REGULATION AND SUPERVISION
AGENCY**

**FINANCIAL MARKETS REPORT
MARCH 2008 – ISSUE 9**

Department of Strategy Development

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On Behalf Of Banking Regulation and Supervision Agency

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EXPLANATION

- The BRSA having main objective **ensuring confidence and stability in financial markets** is publishing this periodical **Report** including the evaluations concerning the performances of banks, financial holding companies and leasing, factoring and finance firms as well as significant developments realized in financial sector pursuant to the Article 97(3) of the Banking Law Nr. 5411.
- This issue of Financial Markets Report is composed of three sections. The report includes the evaluations concerning international and national economic developments, performance analysis by functional group and sector along with risk level and capital adequacy of banks, financial leasing, factoring and consumer financing companies.
- In this Report, data related to banks, unless otherwise specified, cover domestic and also foreign branch offices of the banks, and are presented by consolidating thereof.
- The BRSA declines any liability on account of tables and charts published in the Financial Markets Report.
- Periodic information included in any issue of Financial Markets Report may be changed in the following issues as a result of updating due to various reasons.
- Information and evaluations concerning Participation Banks in this issue of the report, unless otherwise specified, are included in sections relating to Banking Sector.
- The Report was prepared depending on data received from the database by the date of July 31, 2008. The updates following the mentioned date are outside the scope of the Report.

GENERAL EVALUATION

The fluctuation in the international financial markets kept deepening as of the last quarter of 2007 and it affects negatively the global economic activity; within this framework, the international institutions revise their predictions relating to this subject downwards. In addition to the slowdown signals in global activity, it is seen that the measures taken by the central banks within the aim of overcoming the liquidity tightness in developed countries have started to create inflationist pressure. Furthermore, the sharp increases observed in oil prices and agriculture/food prices have started to reflect on the consumer prices in global scale. The slowing down tendency seen in developed countries augments the possibility of decrease of the growth rate of developing countries in the near future.

The Turkish economy grew by 6.6% within the first quarter of 2008, which is above the expectations established in the markets in 2008. Within the first quarter of 2008, among the main economic activity branches, the growth rates of manufacturing industry, wholesale and retail commerce and financial intermediary institutions, which contributed considerably to the national income, have realized above the growth rate of the economy in general, and they have been the fundamental factors which carried the growth within this period. The manufacturing industry production index which has a determining role in national income and the manufacturing industry capacity usage rate which gives an idea related to the production of current period, kept increasing within the first five months of 2008 despite the fluctuations, and they are realized above the average of the same period of previous year. Despite the slowdown tendency of domestic demand seen due to the production of durable consumer goods and the domestic white goods sales show a decreasing tendency and continuation of the pessimism in the consumer confidence index, the increase in food and energy prices cause an upward movement in the inflation rates since the beginning of 2008. The continuation of offer shocks feeding from global economic conditions increases the risk of inflation.

On the contrary of the positive developments occurred in financial discipline and internal borrowing performance, the current deficit remains as a structural problem of the economy. Being a developing economy, Turkey which needs external sources especially for the investments keeps having current deficit despite the direct foreign capital entries. In the remaining part of 2008, it is seen that the principle risks are concentrated around whether or not the global fluctuations will be controlled, the economic uncertainties created by the developments inside the country and the inflation hazard.

When the general tendencies of the Turkish economy are analyzed by sectors; it is observed that as of the first quarter of 2008, the future appearance of the companies sector is alienating from the positive appearance established between years 2005 and 2007. However, the relatively negative signals formed in the fields of growth, capacity usage and exportation have no evident reflections on the existing data relating to company demography.

When the data related to companies sector borrowing from foreign banks is analyzed together with the exportation data, it is understood that after 2004, Turkey increased its debt/exportation ratio with a risk appetite higher than Argentina, Brazil, India and China. Another structure in parallel with this tendency devoted to borrow from international markets appears in the domestic loan/added value ratios of the sectors. It is observed that loan/added value

ratios of wholesale commerce, construction and metal main industry which have a high level within the cash and non-cash loans lately, are increasing in 2007 when compared to previous year. The regular increase observed in the loan/added value ratios of these sectors within 2006, 2007 and within the first 6 months of 2008, shows that the risk appetite of these sectors is still continuing in 2008. In terms of non-cash loans, the loan/added value ratios of the metal main industry and construction sector which is approaching to 50% by the end of the first six months of 2008 expresses a similar table.

Relating to housing which has an important place within the total assets of household, it is seen that excluding the decrease occurred within the third quarter of 2006, the prices have started to slow down by the end of 2007, following the fast increase within 2005-2007. The fast expansion of the housing demand which is thought to be reflected to the increases of housing prices especially within the period of 2005-2007, causes increases in the use of housing loans and it is seen that the share of housing loans within total consumer loans is increasing. The house-financing aimed loans contribute to the augmentation of household borrowing rates more than the other loan types; however by the end of 2007, the growing rate of personal finance loans exceeded the increasing rates of housing and vehicle loans.

As of March 2008, the asset size of Turkish financial sector including the CBRT, with a growing tendency in accordance with general economic activities, increased by 21% to TRY 844.6 billion when compared to the same period of previous year. Within the same period, the total assets of financial sector to GDP ratio was 95%, and the assets of banks to GDP ratio was 71.3%. By structural indicators, the banking sector kept growing within the first quarter of 2008; total number of branches increased to 8.378; number of personnel increased to 173.075 and the number of ATMs increased to 19.500.

In March 2008 period, banking sector assets was realized as TRY 634 billion. 65.6% total assets, 64.3% of total liabilities of banking sector are in Turkish Lira terms. While the share of loans increased within total asset, on the other hand the decrease in the share of securities continue. However, in the first quarter of 2008, total credit volume of banking sector increased by 12.2% when compared to the last quarter of 2007 and reached to TRY 320.4 billion. It is observed that the decrease tendency in the ratio of non-performing loans, which can be regarded as an important indicator of asset quality and performances of banks concerning risk management, to gross loans in 2007 continued in the first quarter of 2008 and the positive progress is maintained. On the other hand, ratio of loans to deposit continued to increase in the first quarter of 2008 and reached to about 82%. Furthermore, share of TL loans within total loans which were 76.1% in the last quarter of 2007 decreased by 73.1% in the first quarter of 2008.

When analyzed the development of consumer loan by types as of March 2008, it is observed that the most rapid increase was experienced in housing loans, while credit cards were stable, vehicle loans decreased relatively since 2005. In the same period, ratio of off-balance sheet transactions to total asset size increased by 76.1%.

Capital adequacy ratio (CAR) which was 18.9% in December 2007 period was realized as 17.2% in March 2008 period. Total own-funds of the banking sector increased in March 2008 period by 4.3% when compared to December 2007 period and realized as TRY 80.8 billion, on the other hand risk weighted assets increased by 15% to TRY 471 billion. Main factor of the decrease in CAR is the fact

that the amount subject to credit risk increased due to the increase in credit portfolio and that risk weights of provisional and performance bonds and letters of credits increased as of January 2008. Despite the decrease by 1.7 points in this period, CAR of the banking sector fluctuated above 12%, target ratio and 8%, legal ratio. This situation is considered as a factor to enable the banking sector to be more resistant against the negative developments observed in global markets recently. Throughout the sector, shares of the minimum capital required concerning the risks being subject to within total capital requirement; capital requirement concerning credit risk, capital requirement concerning operational risk and capital requirement concerning market risk were realized as 38%, 5.9% and 2.5%, respectively. The sector operates with a free capital by 53.7%.

Net profit of the period of the banking sector in March 2008 increased nominally by 14.4% when compared to the previous period (March 2007) and amounted to TRY 3.9 billion. Despite many banks in international markets declared loss, the fact that the profitability of the Turkish banking sector increased is evaluated as a positive development. Net interest income which increased due to the interest from loans constituted the source of the increase in profit. On the other hand, return on asset and equities of the banking sector were realized as 2.8% and 21.4%, respectively when compared to the same period of the previous year.

When the distribution of credit portfolio by size is analyzed, it is observed that the amount of loan between 10%-20% which are the first tranche of big loans extended by banks (loans which are extended to a natural person or a legal entity or to a risk group in amount of 10% of the own-funds or more) increased and that the share of the said loans both within own-funds and loans increased. However, in the same period it is observed that both the amount and the share within own-funds of loans between 20%-25% size decreased. Subsequent to the relative increase in this period in the share of loans bigger than TRY 1 million in respect of amount, share of the said loans within total was realized as 43.2%.

When the Turkish banking sector is analyzed by interest risk, it is observed that commercial portfolio which reached to TRY 124 billion as of end of 2007, due to the serious increase observed in securities available for sale by March 2008, amounted to TRY 136 billion. Furthermore, the share of FX securities in total increased in this period. In March period, while the fixed interest GS amount included in commercial portfolio increased, this situation increased the sensitivity of the sector to interest movements relatively.

When exchange rate risk is analyzed in the light of the developments in financial sector, it is observed that on-balance sheet position (OBP) and off-balance sheet position increased significantly in the last quarter of 2007, however it entered into a decreasing tendency in the first quarter of 2008 and realized as USD 5 and 5.8 billion respectively by end-March 2008. FXNGP/Own-funds ratio which fluctuated in $\pm 3\%$ tranche in the first three quarters of 2007 remained in $\pm 1.5\%$ tranche in September 2007-March 2008 period. Moreover, swap transactions constituted the most important share of off-balance sheet position.

When March 2008 period is analyzed in respect of structural interest rate risk, it is observed that it increased in absolute vale in Turkish Lira for 1-month deficit in the first quarter of the year, while there was no important change in 1 month FX deficit and 1-3 months FX deficit levels. 1-3 months TL surplus decreased considerably in the first quarter of 2008 and converted into deficit. The increase observed in TL deficits in the last quarter is considered as a negative development for structural interest rate risk.

When the development of foreign exchange concerning the daily and second maturity tranche and of the total liquidity adequacy ratios on bank groups' basis is analyzed, it is observed that the ratios were realized above the determined sub-limits in all bank groups although they are in a decrease tendency when compared to the previous period. Throughout the sector, FX and total liquidity adequacy ratios concerning the second maturity tranche displayed a decrease tendency when compared to the previous period and realized as 147.2 and 154.1, respectively. The reason of this is the fact that the increase rate in total assets is lower than the increase rate in total liabilities.

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ABBREVIATIONS

EU	European Union
OBSOP	On-Balance Sheet Open Position
ICC	Interbank Card Center
LSDB	Large Scaled Deposit Banks
BRS	Banks Reporting System
ICH	Interbank Clearing Houses
BVSP	Ibovespa-Bovespa Index
WB	World Bank
GS	Government Securities
SPO	State Planning Organization
FXDA	FX Deposit Account
EZ	Euro Zone
ECB	European Central Bank
EMBI	Emerging Market Bond Index
EUR	Euro
FED	Federal Reserve System
FMR	Financial Markets Report
FRB	Federal Reserve Board
GS	Goldman Sachs
GNP	Gross National Product
GDP	Gross Domestic Product
HH	Herfindahl Hirschman
TS	Turkish Treasury
IFS	International Financial Statistics
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
IPE	International Petroleum Exchange
ICI	Istanbul Chamber of Industry
SME	Small and Medium Size Enterprise
SSDB	Small Scaled Deposit Banks
DIB	Development and Investment Banks
LiBOR	London Inter-Bank Offered Rate
MF	Ministry of Finance
SP	Securities Portfolio
CRA	Central Registry Agency
MSCI	Morgan Stanley Capital Index
MXX	MXSE IPC
OECD	Organization for Economic Corporation and Development
MSDB	Medium Scaled Deposit Banks
AMA	Automobile Manufacturers Association
PI	Performance Index
PMI	Global All Industries Output Index
POS	Point of Sale
RWA	Risk Weighted Assets
ROA	Return on Assets
ROE	Return on Equity
S&P	Standard and Poors
CMB	Capital Markets Board of Turkey
CAR	Capital Adequacy Ratio
CBRT	Central Bank of the Republic of Turkey
NPL	Non-Performing Loans
SDIF	Saving Deposit and Insurance Fund
TL	Turkish Lira
ACMII	Association of Capital Market Intermediary Institutions of Turkey
AIRC	Association of the Insurance and Reinsurance Companies of Turkey
CPI	Consumer Price Index
TSI	Turkish Statistical Institution
USD	US Dollar
PPI	Producer Price Index
SHTM	Securities Held to Maturity
TDE	Turkish Derivatives Exchange
FX	Foreign Exchange
FXNGP	FX Net General Position
TRY	New Turkish Lira

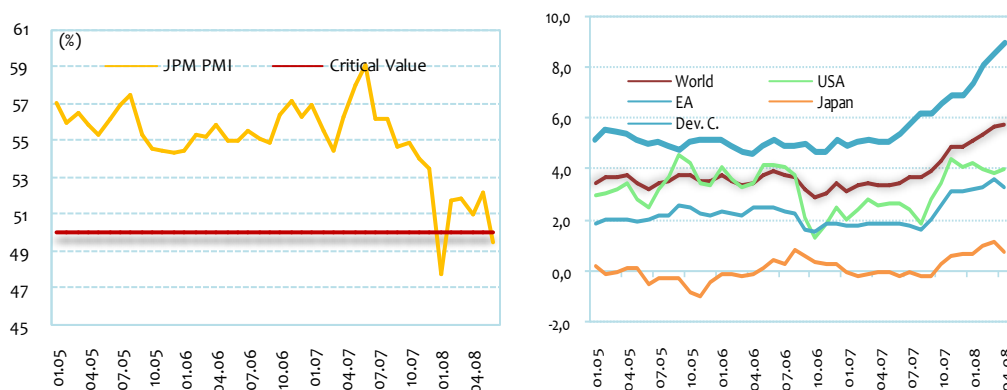
1 ECONOMIC FRAMEWORK and DEVELOPMENTS

1.1 Global View

1.1.1 Macroeconomic Developments

The global economic activity is affected negatively by the fluctuation experienced in international financial markets which has been continuing by deepening since the last quarter of 2007. Furthermore, the rapid increasing tendency especially in oil and food prices in this period leads to the corruption of economic view. As a matter of fact, international institutions revise their expectations relating to global economic activity downwards. While the World Bank announced its realization prediction in global growth rate as 3,7% for 2007, it decreased its 2008 prediction to 2,7%. Besides, JPMorgan-PMI (Global Whole Industries Output Index) which is calculated monthly by JP Morgan and Markit is realized as 49,5 in June which is below its threshold value of 50. Although the said regression in production is limited, it is remarkable that such a position is realized as simultaneously in production and services sectors for the first time in the last five years.

Chart 1.1-1: JPMorgan PMI and 12-Month CPI Changes for Selected Regions



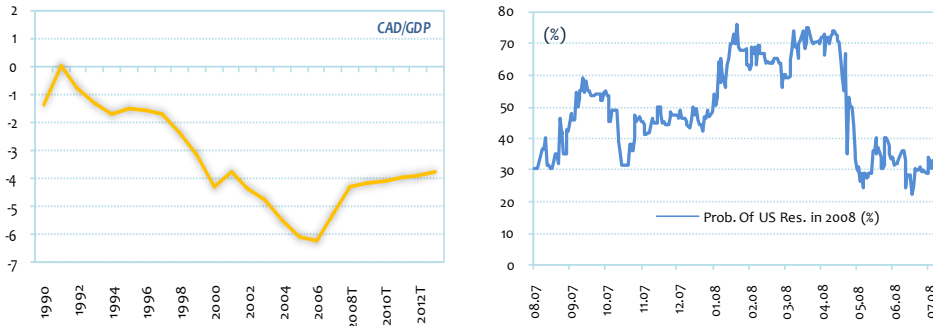
Source: Reuters

While global economic activity continues to be affected by the crisis experienced in the USA mortgage market, it is seen that the measures taken by the central banks of developed countries in order to remove the liquidity shortage in financial markets started to lead to inflationist pressures. In addition, the sharp increases observed in oil and agriculture/food prices started to reflect on consumer prices on global scale. As a matter of fact, as seen in the chart above, increase speed of 12-month consumer prices in whole countries and country groups increased when compared to previous years.

When the developments are analyzed by main regions, it is seen that the USA economy grew by 0,6% in the last quarter of 2007. Especially due to the regression in the increase speed of final demand, the ratio of current transactions deficit to national income in the USA economy decreased from 6,2% in 2006 to 4,9% in 2007. When price developments are analyzed, it is seen that especially the increase in energy and food prices increased inflation to 4% level. Within this period in which domestic demand narrowed, the weakening of USD against other currencies is foreseen to help current transactions deficit to decrease in the USA and therefore lead to the decrease of global instabilities. However, it is possible

that USD may get strengthen against other currencies in the following period again due to the inter-region growth performance.

Chart 1.1-2: USA CAD/GDP and 2008 Recession Probability

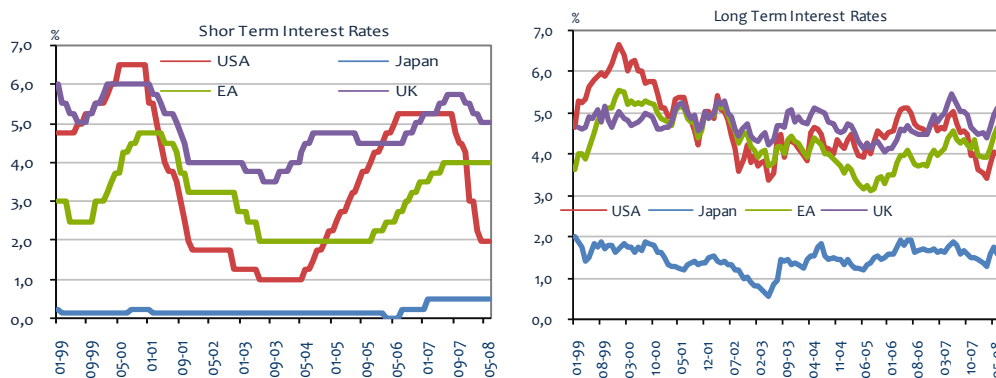


Source: Reuters

The Central Bank of the USA has taken some measures in order to remove the liquidity problem of banks and other financial institutions and decreased interest rates by a total of 325 base points since the last quarter of 2007. USA financial markets which gained stability relatively in the second quarter of 2008, shocked again with the sharp decreases in stock prices of two main mortgage companies, namely Fannie Mae and Freddie Mac. Accordingly, FED announced a provisional measure on granting loan to the said two main mortgage companies, when necessary.

When Euro zone is analyzed, it is seen that especially by thanks to the construction sector, it reached to positive growth in the first quarter of 2008, as well. Nevertheless, economic activity is foreseen to get weakened relatively in the second quarter of the year and these predictions are also supported by consumer confidence indicators.

Chart 1.1-3: Short-term and Long-term Interest Rates



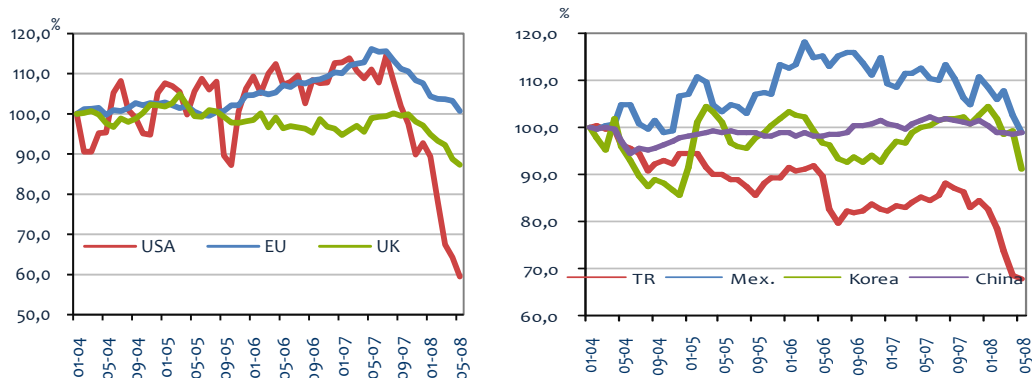
Source: Reuters

As of June 2008, Euro Zone harmonized inflation of consumer prices (HICP) is realized as 4% and the negative impact of the developments on energy prices in parallel with the developments in other economic regions are started to be felt clearly. The European Central Bank (ECB) stipulates that wage increases beside the increase in global food and energy prices have also pressure on prices. ECB

increased the policy interest rate by 25 base points to 4,25% as of July 03 and did not sign to a new increase in the following periods.

GDP growth in Japan is realized as 1% in the first quarter of 2008. Exportation is expected to have a strong performance in 2008. As a matter of fact, the World Bank foresees a growth by 1,4% for the whole year. The CPI inflation is also affected by the developments in input prices and increased to 1,3% in May 2008. Japan Central Bank (BoJ) did not change the interest rates in June and held it by 0,5% level.

Chart 1.1-4: Consumer Confidence Indexes



Source: Reuters

The slow down tendency experienced in developed economies also led to slow down in emerging economies recently and depending on the situation of global financial markets, it is probable that the slow down may be felt in a more significant way in the countries which are more sensitive to international capital flows. It is seen that economic activity keeps its strength in Asian region. While the high-proportion growth is continuing in China, a relative recovery is also observed in inflation as of May 2008. The growth performance in Latin America decreased and the increase in prices accelerated from the beginning of 2008. The growth was about 5,8% in Brazil in the first quarter of 2008 and the CPI inflation was realized as 5,5% as of May. The Central Bank of Brazil increased the interest rates by half point to 12,25% as of June.

The main risk factors in the current conjuncture are the increases in energy and food prices. This situation especially has negative impacts on domestic price developments of underdeveloped and developing countries. In addition, the rapid increase in food and energy prices has social impacts since it's accelerating the impoverishment, has financial policy reflections and payment balance reflections since restriction measures on foreign trade is on agenda again; and it is seen as the area which forces the most the global economy in medium and long-term.

Furthermore, the deepening risk of the crisis experienced in financial markets of developed economies, mainly the US economy is still in question.

Table 1.1-1: World Economy Fundamental Risk Areas

	Change in Risk		Change in Risk Level
Global Slow Down in 2008	---	Risk of Developed Fin. Mark.	↑
USA Recession Risk in 2008	↓	USA Fin. Crisis Deepening Risk	↑
EZ Recession Risk in 2008	↓	EZ Corruption in Financial Markets	---
Emer. Econ. Grow.Perf.	↑	Increase in Global Macro	↓
Inflation Risk	↑	Risk of Increase in Oil Prices	↑
		Risk of Increase in Product Prices	↑

1.1.2 Developments in Financial Markets

The biggest obstacle against the continuation of the expansion in global finance markets after 2005 is the instability created by the value loss in USD in international FX markets. Due to the developments which remove the reliance factor and the recession in financial markets, housing loans crisis which started in the USA also reflected to European and Asian countries. These reflections turned to concrete data in 2008.

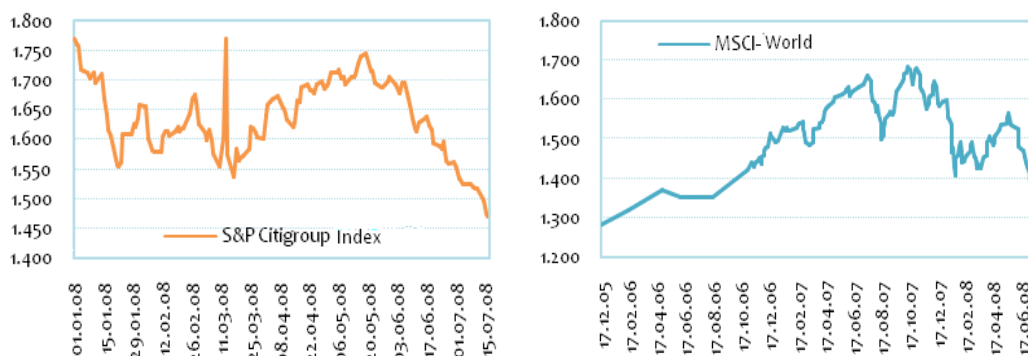
Recently, mortgage crisis have been lasting for 1 year and the most biggest 31 stock exchanges of the world have a value loss of USD 4,6 trillion accordingly this shows that foreseeing the dimensions of the crisis is still not possible. As a matter of fact, there is a recession possibility also in the EU recently.

Table 1.1-2: Annual Value Loss in Some Stock Exc.s as of First Half of 2008

Stock Exchanges	Loss (%)		Stock Exchanges	Loss (%)	
	USD-denominated	Self currency-denominated		USD-denominated	Self currency-denominated
Ireland	-31,80	-41,50	Tokyo	-13,60	-25,80
New Zealand	-28,60	-27,50	Turkey	-13,30	-18,40
London	-18,00	-17,40	Germany	-7,40	-20,60
Euronext	-17,40	-29,20	China - Shenzhen	-0,40	-10,20
USA - Nasdaq	-13,80	-13,80			

MSCI World Index which shows the stock exchange situation of developed 23 countries decreased to its least level since 2006 due to the losses in loan markets and the concerns of investors about the slow down relating to EU, especially German economy.

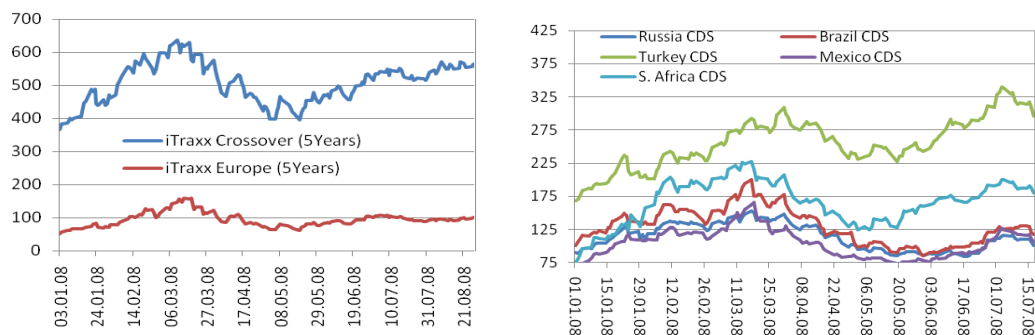
Chart 1.1-5: Global Stock Exchange Indexes



Source: Bloomberg

The iTraxx Europe which measures the credit risk of 125 European companies which are in the investable level in CDS market and iTraxx Crossover which shows the default insurance premium of 50 country companies which have similar ratings with Turkey gives similar reflections with the global indicators. The predictions relating to the effects of the USA mortgage crisis are revised after the balance sheet data announced by European banks and this has reflected to the index. As a matter of fact, iTraxx Europe index the slope of which was under 100 base points around May increased again to 100 base points as of mid-July.

Chart 1.1-6: iTraxx Indexes and CDSs



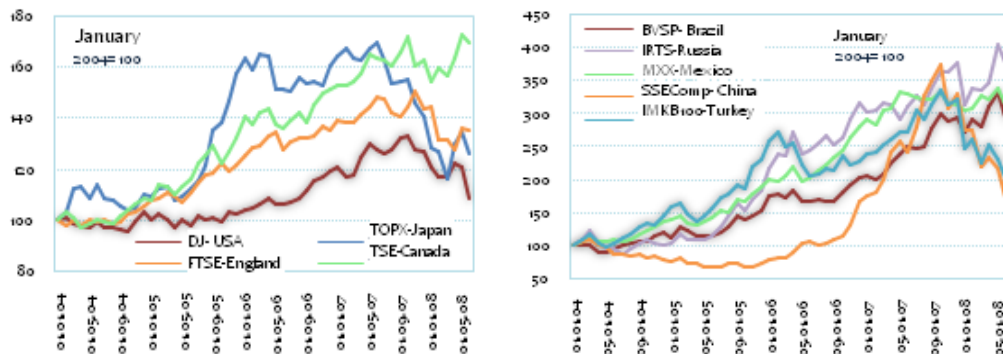
Source: Bloomberg

All the countries analyzed are seen to be affected from the fluctuations experienced in parallel with the predictions on global liquidity shortage. The said impact which was limited relatively in Russia, Brazil and Mexico was observed more in S. Africa as of the second quarter of the year and the risk Premium of the said country increased significantly. In June, country risk Premium increase in Turkey has reached to its highest level in 2008. Concerns relating to current deficit, liquidity shrinkage and the decrease of risk appetite are among the fundamental factors of the effects in Turkey.

Stock exchange indexes show that recovery efforts in developed countries are not sufficient enough. While there have been decreases after the recovery in stock exchanges of Japan and Canada in similar periods, it is seen that the stock exchange of England tried to keep its resistance but Dow Jones index has the biggest loss in this process and decreased up to the levels in 2006.

The situation in developing countries is similar. Although Russia experienced decreases in the middle of the year, it had a significant recovery when compared to other countries while Mexico and Brazil had a motion in parallel to each other. Stock Exchange indicators in Turkey was in an effort of recovery as of the last quarter of 2007 but it had a loss by 13,3% due to the impact of internal politic developments.

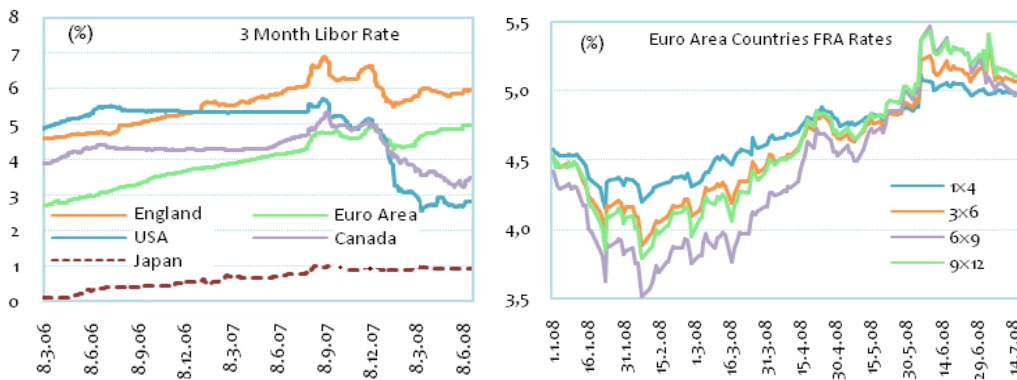
Chart 1.1-7: Stock Exchange Indexes



Source: Reuters

Developed countries interbank indebtedness interest rates have small changes for three-month libor in 2008. While libor rates partially decreased in England, USA and Canada, there was stability in Euro zone countries and Japan.

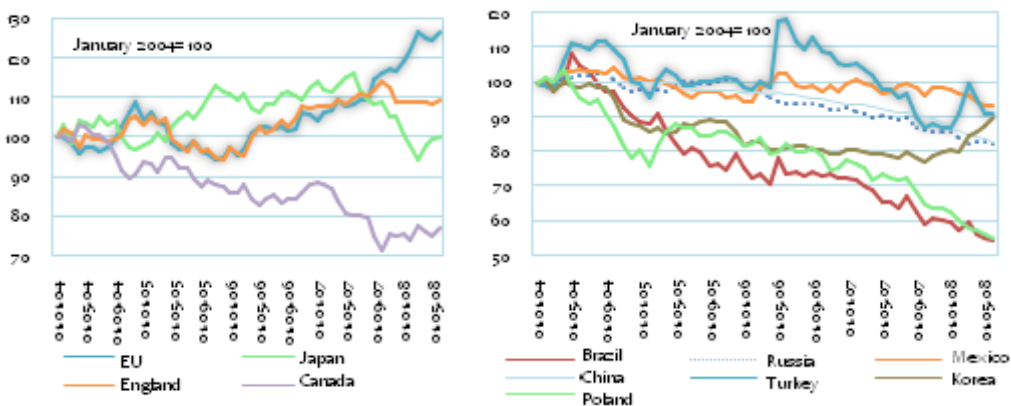
Chart 1.1-8: Interest Indicators



Source: Bloomberg

The impacts of the crisis is also seen in the nominal exchange rate curves of developed and developing countries. Exchange rate motions are generally observed to go downwards in developing countries.

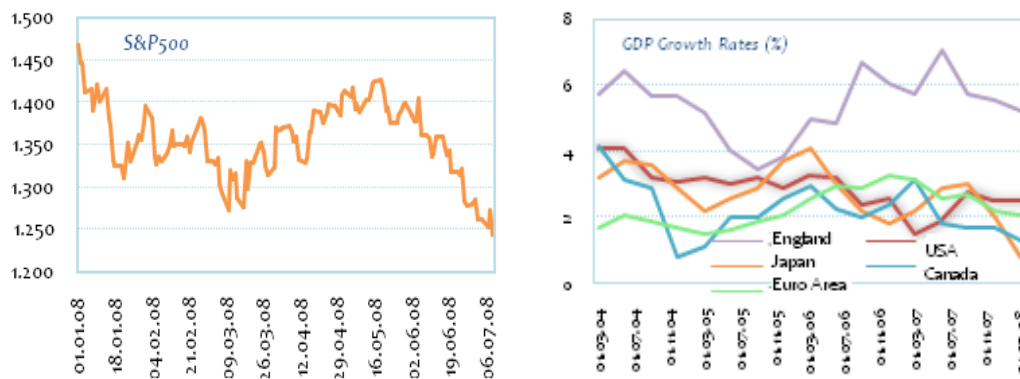
Chart 1.1-9: Nominal FX Exchange Rate Indexes



Source: Reuters

The motion of S&P500 index in 2008 is a reflection of the stagflation expectations in the USA. Recovery efforts experienced after the decrease occurred especially in the last months is quite below the expected level yet. It is also possible to see this situation in the GDP data of the developed countries. Recovery is only observed in Japan within the said countries while there is not any serious movement indicator in Canada, the USA and the Euro Zone.

Chart 1.1-10: S&P 500 and Growth in Developed Countries



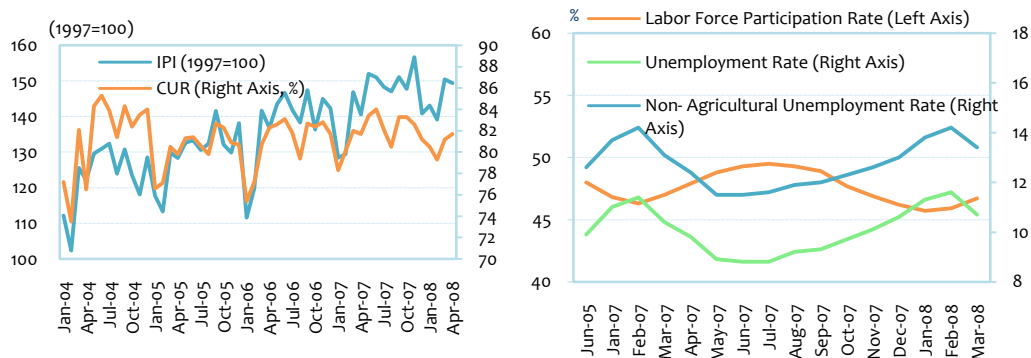
1.2 National Economic Outlook

Turkish economy grew above the expectations originated in markets by 6.6% in the first quarter of 2008. Thus, despite the relative deceleration in 2007, the continuous growth tendency for the last 25 quarters is preserved due to the relative expansion in the first period of 2008.

In the first quarter of 2008, manufacturing industry, wholesale and retail trade, among the branches of main economic activity, which contribute considerably to the national income and growth rates of financial intermediary institutions were realized higher than throughout the economy. These sectors were the main branches of activity dragging the growth in the said period. Furthermore, the fact that agriculture sector experienced a growth by 5.6% when compared to the same period of the previous year contributed to a satisfactory performance throughout the economy, despite the effect of the relatively low growth rate in construction sector by 2.8%. However, although agriculture sector which decreased depending on the draught in 2007 grew due to the base effect in the first quarter of 2008, it is not expected that the said sector to continue at the same rate in the remaining part of 2008. Besides, the fact that construction sector which uses industry products as intermediate goods decelerated is risk in point of growth in the last three quarter of 2008.

On the other hand, banking sector data indicates that credit volume continued to increase in the first quarter of 2008 and financial institutions continue to fund real sector and household sector. However, when analyzed growth by expenditures, it is observed that domestic consumption of resident household, ultimate consumption expenditures of the government and gross capital formation- as machine equipment purchase of private sector and construction sector investments are determinant despite the share of public is negative-increased by 7.3%, 4.2% and 9.5%, respectively, when compared to the previous year. Accordingly, due to the fine performances observed in private consumption and investment items and services, manufacture industry and agriculture sector, the first growth figures of 2008 were realized close to average of the last 5 years.

Chart 1.2-1: Industrial Production, Capacity Usage and Labor Force Indicators



Source: TSI

Manufacture industry capacity usage ratio which offers suggestions about the manufacture industry production index and current period production that are determinant in national income continued its increase tendency despite the fluctuation in the first five months of 2008 and realized above the same period of the previous year. According to these pioneering indicators, it is expected that production will continue to increase in the second quarter of 2008 yet not sharp. However, positive process in growth and production side does not reflect sufficiently to the employment data. Competition in economy necessitates employment production and the fact that labor force supply increase more rapidly than demand, despite the boom in economic activity, prevents employment rate to decrease more. Although unemployment rate decreased when throughout Turkey in March 2008 when compared to the previous month, it increased when compared to the same period of the previous year. The fact that unemployment rate proceeded high is a negative development in point of income creating capacity of household sector.

Due to the fact that production of durable consumption goods and white goods domestic sale experienced a decrease tendency and pessimism in consumer trust index continues, deceleration signals are observed in domestic demand. However, acceleration in food and energy prices gives rise to an increase in inflation rates since the beginning of 2008. As annual consumer inflation reached to 10.61% as of June 2008, deviation from the rate the Central Bank targeted continues. Furthermore, it is possible that increasing energy and food prices affects economic growth negatively by decreasing domestic demand.

Table 1.2-1: Central Management Budget Realizations

		Jan.-May	%	2008	Jan.-May	%	%
TRY Million	2007	07	Share	Target	08	Share	Chng.
Budget Expenses	203.501	17.689	8,7	222.553	15.823	7,1	-10,5
Expenses Excluding Interest	154.769	13.071	8,4	166.553	14.141	8,5	8,2
Interest Expenses	48.732	4.618	9,5	56.000	1.681	3,0	-63,6
Budget Incomes	189.617	19.725	10,4	204.556	19.212	9,4	-2,6
Budget Balance	-13.883	2.036	-14,7	-17.997	3.389	-18,8	66,5
Non-Interest Balance	34.848	6.654	19,1	38.003	5.070	13,3	-23,8

Source: Ministry of Finance (Public Accounts Bulletin)

In financial discipline, which is as important as monetary policy in point of controlling the inflation, January-May 2008 data indicates a relative improvement

when compared to the same period of the previous year. In the said period, due to the decrease in budget expenses and the positive developments in budget incomes (especially in tax incomes), budget balance increased when compared to the previous period by 66.5% and experienced a surplus by TRY 3.3 billion, however a decrease by 23.8% was realized in non-interest surplus. In addition to this, automatic price increases of the day and regulations in some taxes may contribute to financial discipline however may as well cause the inflation to increase.

Table 1.2-2: Payments Balance Indicators

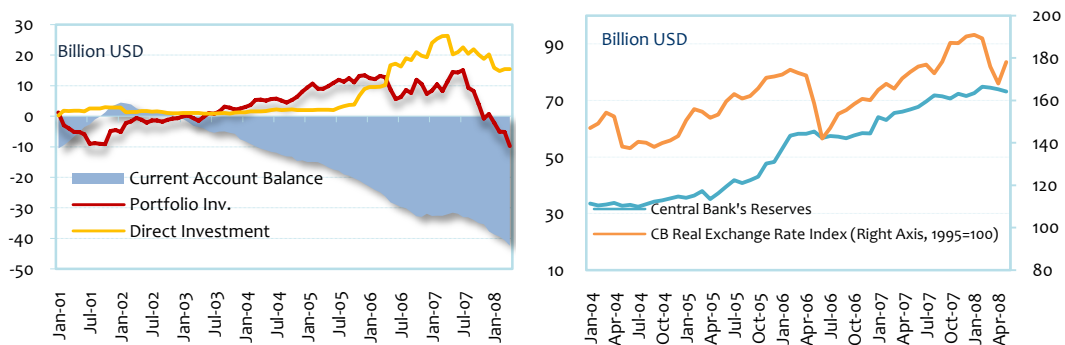
USD Million	2004	2005	2006	2007	Jan-May 07	Jan-May 08	% Change
Current Accounts	-14.431	-22.137	-31.893	-37.753	-16.157	-21.541	33,3
Foreign Trade Balance	-22.736	-32.988	-40.941	-46.705	-16.507	-22.036	33,5
Capital and Finance Account	13.388	20.302	32.066	36.612	11.355	21.947	93,3
Direct Investments (net)	2.005	8.967	19.065	20.099	9.625	4.390	-54,4
Abroad	-780	-1.064	-924	-2.106	-1.482	-1.663	12,2
Domestic	2.785	10.031	19.989	22.205	11.107	6.053	-45,5
Portfolio Investments (net)	8.023	13.437	7.373	717	7.014	-1.095	-115,6
Stock and Shares	1.427	5.669	1.939	5.138	2.018	927	-54,1
Notes Payable	7.984	9.001	9.463	-2.358	5.744	-1.948	-133,9
Other Investments (net)	4.184	15.745	11.742	23.828	-190	17.563	-9.343,7
Business Loans (Liabilities)	4.201	3.074	674	4.228	1.487	3.200	115,2
Loans (Liabilities)	6.133	11.610	19.601	27.353	11.694	18.698	59,9
General Government	-267	-4.637	-5.223	-3.901	-2.438	2.219	-191,0
Banks	5.708	9.248	5.814	5.608	3.110	3.001	-3,5
Other Sectors	5.106	9.880	19.010	25.646	11.022	13.478	22,3
Reserve Assets	-824	-17.847	-6.114	-8.032	-5.094	1.089	-121,4
Current Deficit /GDP (%)	-3,7	-4,6	-6,1	-5,7	-	-	-

Source: CBRT

Foreign demand experiences a relatively strong process as of May 2008 and foreign trade deficit continues due to the fact that import increased while export grew when compared to the same period of the previous year. However, a moderate increase is observed in export/import ratio, as a positive development. On the other hand, current deficit preserves its place in the agenda as the structural problem of economy.

As a matter of fact, current deficit in January-May 2008 increased by 33.3% when compared to the same period of 2007. In the said period, net capital inflow in direct investments item decreased by 54.4% and a net outflow was experienced in portfolio investments. Global ambiguities cause abroad residents to be net sellers in stock and government securities markets. It is necessary that global ambiguities to be decreased in order the direct investments which play an important role in financing of current deficit increase.

Chart 1.2-2: CAB, Capital Movements, Reserves and Real Rate of Exchange Index



Source: CBRT

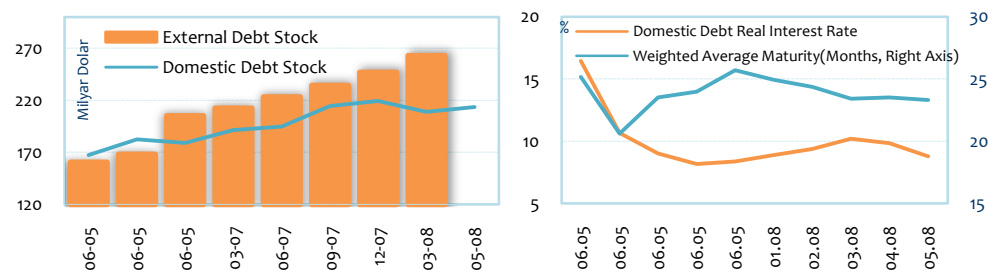
Another subject that is equally important as growth, inflation and current deficit is the development of domestic and foreign debt. Accordingly, 42.6% of gross debt stock which reached to USD 263 billion in March 2008 is constituted of debts of non-financial institutions in private sector. Given this ratio was 26.3% in the end of 2004; it comes out that dependence of real sector to the global credit market increased gradually.

Table 1.2-3: Gross Foreign Debt Stock Indicators

(%)	2004	2005	2006	2007	2008/1
Short Term / Total Foreign Debt	19,8	22,0	19,7	16,9	16,9
Long Term / Total Foreign Debt	80,2	78,0	80,3	83,1	83,1
Public Sector / Total Foreign Debt	60,4	51,0	42,5	36,1	34,6
Private Sector / Total Foreign Debt	39,6	49,0	57,5	63,9	65,4
Private Financial Institutions/ Private Sector	33,4	38,7	40,0	36,3	34,9
Private Sector Non-Financial Institutions/ Private Sector	66,6	61,3	60,0	63,7	65,1
Private Sector Non-Financial Institutions / Total Foreign Debt	26,3	30,1	34,5	40,7	42,6
Total Foreign Debt /GDP	41,2	35,0	39,0	37,5	-

Source: TT

Chart 1.2-3: Debt Stocks, Domestic Debt Stock Real Interest and Average Maturity

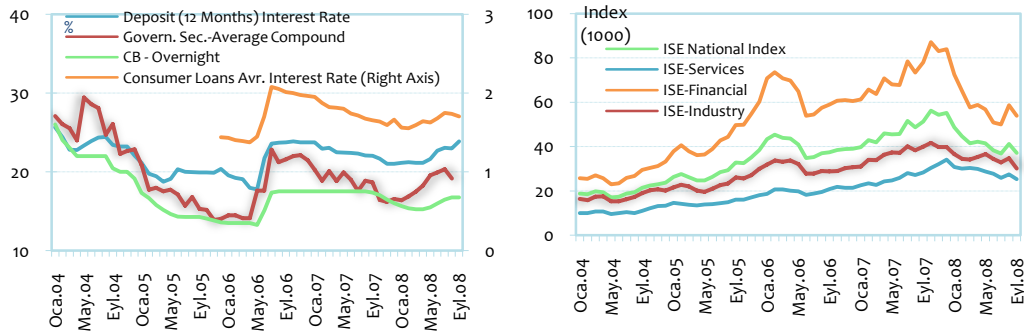


Source: TT

On the other hand, real interest of domestic debt stock which is constituted, as the main strategy, largely of TL terms and fixed interest instruments decreased considerably, a more horizontal process is observed while its weighted average maturity decreases lightly. Financial fluctuations and ambiguities prove to be an important obstacle in extension of domestic debt and decrease of interest.

A series of effects of the economic developments experienced recently is observed on monetary and capital markets. As a matter of fact, despite the Central Bank policy interest rate which was decreased in parallel with the domestic demand recessed in the end of 2007 decreased by 15.25% in the beginning of 2008, it increased by 16.75% pursuant to the increases made in May, June and July 2008.

Chart 1.2-4: Interest Rates and ISE Indexes



Source: CBRT

The fact that supply shocks nourished by global economic conditions continue creates inflation risk. Hence, the central bank composes its monetary policy considering these risks and may increase interest moderately when necessary. On the other hand, domestic and foreign shocks were reflected to the ISE and national index experienced a decrease tendency from December 2007 to June 2008.

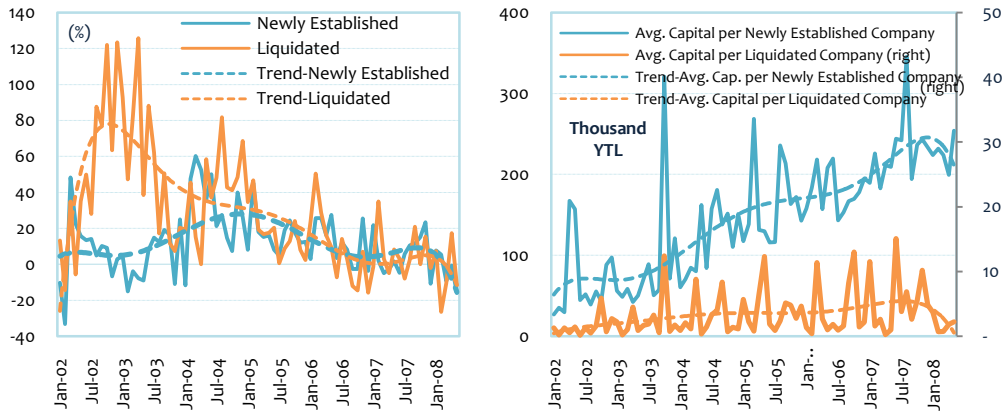
Consequently, the first quarter of 2008 was closed with a better performance than expected. As global and domestic ambiguities decrease, it is possible that the second quarter as well to close with a positive performance. On the other hand, whether or not the global fluctuations can be controlled and inflation danger subjects are leading subjects as the areas in which risks are intense in the remaining part of 2008. By overcoming global depression and removing the ambiguities; it would be possible for Turkey which has a strong banking system to approximate to the growth rate by 5.5% foreseen for 2008, in case tight finance and monetary policy are preserved, micro economic reforms are achieved and EU membership process accelerate again.

1.3 Fund Demanding Sectors

1.3.1 Companies Sector

Company demography statistics displays important information on the current and future outlook of companies sector in Turkey. When analyzed the annual change in the number of established and closed company in the last 5 year period (Chart 1.3-1), it is observed that the two series approximated through a common growth trend since 2004 and they moved in a parallel way between 2004-2007 years. Increase rate of the number of closed companies which experienced an increase tendency since the beginning of 2007 following the minor fluctuation in the second quarter of 2006 turned back to a decrease process again after August 2007. Growth rate in the number of opened companies regained the acceleration it lost in February-June 2007 until October, however the deceleration observed in this trend after October continued in the beginning of 2008 as well.

Chart 1.3-1: Newly Established and Closed Companies and Average Capital



Source: TSI

Box 1: Importance of Non-Finance Sectors for the Finance Sector

Providing credit to non-finance companies and household sector is main service of the banks. Banks are also exposed to credit risk by providing credit. Financial behaviors, risk perceptions and endurance to negative developments of non-finance companies and household may compose major effects especially on the incomes and balance-sheet of the banks, consequently on the financial stability.

Having analyzed within this perspective, it is observed that the most important part of loans which composed 49.1% of the assets of Turkish Banking Sector as of end of 2007 is constituted of consumer loans and credit cards and loans extended to construction and wholesale trade sectors. When analyzed these information which presents significant signals for the sectoral structure of credit risks of banking system along with non-performing loan data which refers to the risks began to realize, it gives strong risk signals concerning especially the loans extended to credit cards and textile and textile products industry.

Although it is evident that the important of these information for high risk sectors, in addition to the banking information, monitoring liquid and/or solubility indicators as well as structural information for the said parties enable producing strong analysis concerning especially the risks on system level. Hence, it is fundamentally important that non-bank sectors are monitored in a more clear framework and approach.

Table 1.3-1: Distribution of Loans 2007

Sectors	Cash Loans						Non-Cash Loans			
	Short Term		Medium and Long-Term		Total		NPL		Share (%)	Cum. Share (%)
	Share (%)	Cumu. Share (%)	Share (%)	Cumu. Share (%)	Share (%)	Cumu. Share (%)	Share (%)	Cumu. Share (%)		
Personal Loan Housing	0,2	0,2	20,6	20,6	11,1	11,1	2,1	2,1	0,0	0,0
Personal Loan Other	4,6	4,8	14,8	35,4	10,1	21,2	5,1	7,2	0,0	0,0
Credit Cards	19,8	24,6	0,2	35,6	9,3	30,5	17,8	24,9	35,9	35,9
Other	9,4	34,0	8,7	44,3	9,0	39,5	12,4	37,3	4,6	40,5
Wholesale Trade and Brokerage	6,5	40,5	4,0	48,2	5,1	44,7	6,1	43,4	5,2	45,7
Construction Business	5,4	45,9	4,1	52,3	4,7	49,4	3,9	47,3	13,1	58,7
Textile and Textile Manufacturing Industry	5,4	51,3	2,2	54,5	3,6	53,0	15,5	62,7	2,8	61,5
Monetary Institutions (Bank, PFI, Leasing, Factoring, Financing Companies)	4,7	55,9	3,2	57,6	3,8	56,8	0,7	63,4	3,7	65,2
Food, Beverage and Tobacco Industry	4,8	60,7	2,0	59,6	3,3	60,1	5,2	68,6	2,0	67,1
Metal Main Industry and Processed Minerals										
Manufacturing Industry	4,3	65,0	2,6	62,2	3,4	63,5	1,0	69,6	5,0	72,1

Source: BRSA

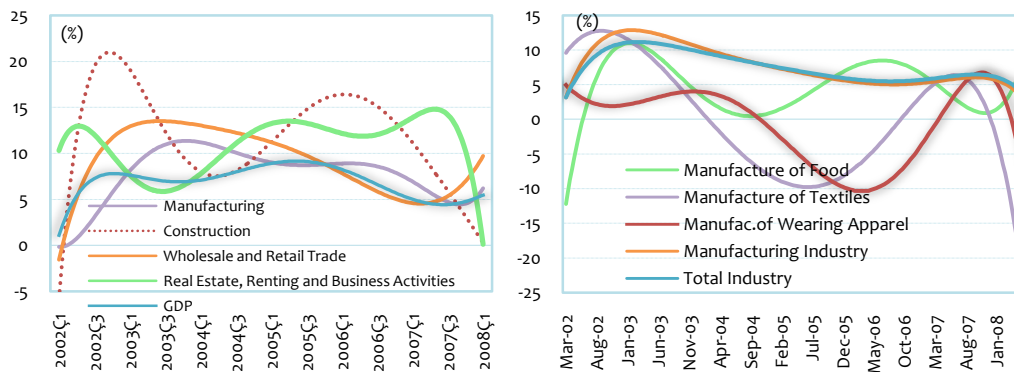
Another important tendency in company sector is the stable increase observed in average capital amount per established companies especially following the first quarter of 2003. Average capital amount per company in nominal terms, from the first quarter of 2006 to the last quarter of 2007, amounted to TRY 250 thousand with an increase of which trend estimation value amounts to 400%. This tendency which still expresses a high increase even removing from inflation, displayed a significant pause in the second quarter of 2006, reached to the peak point in the last quarter of 2007 after the revival in the following periods. In the tendency chart, whether or not the strength loss observed following 2007 would convert into a decrease in following months will be revealed in future period data.

This outlook, in which company demography data are expressed, reveals that business and entrepreneurship world reacts strongly to political conjecture (especially elections and changes in political power) as well as the shocks in

main macroeconomic variables (foreign exchange, interest rate etc.). The same tendencies in companies sector indicates that work life durations of companies after 2003 (average life) began to increase and that inter-sectoral activity of capital and activity in rapid initiation-abandonment in entrepreneurship decreased.

According to this information, GNP annual growth tendencies with fixed prices designate similar periodic movements. GNP growth rate which increased over 5% as of the second half of 2002, moved among 5-10% from the second half of 2003 to the third quarter of 2007. However, deceleration which became evident especially in the second quarter of 2006, despite the improvement after the second half of 2007, increased the possibility of a tendency around 5% to be formed in 2008.

Chart 1.3-2: Growth Tendencies in Main Sectors



Source: TSI

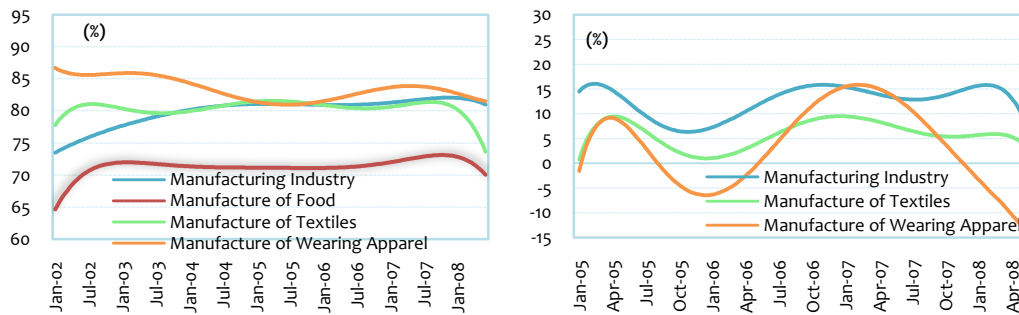
Annual growth rates of added values of sectors designate significant tendency changes. While the pause in the second quarter of 2006 converted into a deceleration in growth rates of manufacture industry and construction sectors, deterioration possibility in negative growth respect is observed in construction sector. Real estate, renting and business activities sector which improved after the fluctuation in the second quarter of 2006 and of which growth tendency strengthened until the third quarter of 2007 displayed rapid recession signals following the third quarter of 2007. Rapid strengthening in retail and wholesale trade sector after the second quarter of 2007 is the fundamental factor of the fact that GDP growth trend estimation increased above 5% following the improvement in manufacture industry.

A similar of the outlook described above is displayed by manufacture industry monthly production indexes. Manufacture industry annual growth values which reached to 13%'s in the last quarter of 2002 experienced a relaxation until the third quarter of 2006, and entered into a rapid deceleration period including the possibility of growth converting negative following the improvement in the months beginning from this period to August 2007. Textile and cloth industries which are considered reacting severely to the rates of exchange were effective in this structure and growth tendencies of these industries which began to convert into positive following March 2006 supported manufacture industry production until the end of the third quarter of 2007. Growth tendency in textile industry and after that cloth industry which changed rapidly into negative, due to the influence of new Turkish Lira gaining value owing to political stability in the following period,

was effective in the fact that manufacture industry annual growth decreased below 5% despite the rapid increase in food industry.

Other findings supporting these trend analyses concerning sector added value developments can be observed in capacity usage and export tendencies Charts.

Chart 1.3-3: Manufacturing Industry Capacity Usage and Export Tendencies

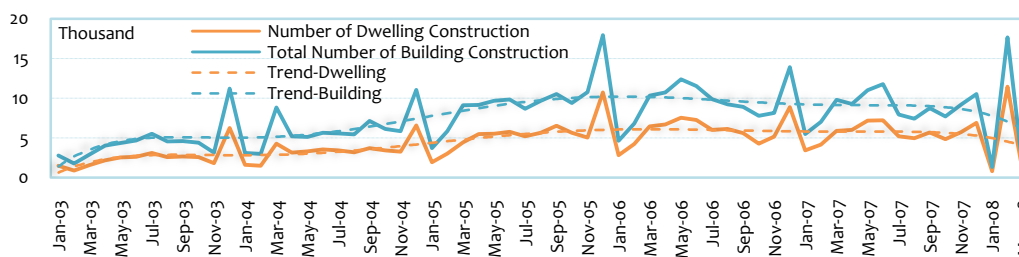


Source: TSI

As the Charts above states, it is observed that cloth sector contrary to the tendencies in manufacture and other sub-industries reacted positively to the values decreases of the new Turkish Lira; however it lost its export capacity rapidly while it could preserve production capacity in TL valuation processes.

Construction industry, similar to manufacture and sub-sectors, affected from the fluctuation in the second quarter of 2006. In 2003-2007 period, building construction numbers (as to construction licenses), which decreased in January-February period and increased as of March after hitting the peak in November-December period seasonally, lost acceleration as of the tendency after the second quarter of 2006. The tendency which improved following July 2007 began to lose strength in the first months of 2008, especially due to the rapid decrease in March data which is expected to be high seasonally.

Chart 1.3-4: Tendencies in the Number of House and Building Construction



Source: TSI

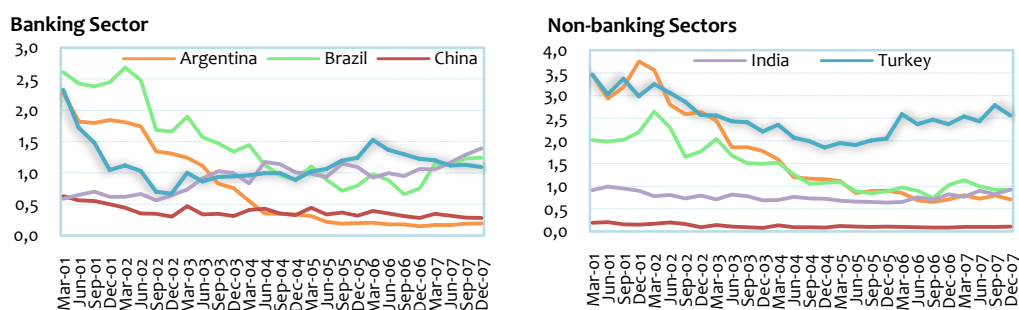
The non-financial sectors (and especially the real sector) showed a steady growth since the beginning of 2003 until mid-2006; it's a common opinion that this growth power was engendered mostly from the political stability conception inside and outside the country, and the expansion of decision making processes from short term to medium term based on positive conditions in global economy and on creation of positive expectations. Especially the positive development of the stability perception and the positive effects of global economy make the forecast horizon of economic units related to fundamental macroeconomic prices expand, and provide them to move act courageously about risk taking.

Important evidence supporting this determination comes from the data of debts that banking and non-banking sectors take from foreign banks. According to data of Bank for International Settlements (BIS), the level of debts that the Turkish banking sector had taken from foreign banks which was exceeding over the double of total exportations, within two years, it decreased to 70% of the exportations, and within the following period from after the general elections in 2002 until mid-2005 it increased to 100% and then to 150% within the first quarter of 2006. The risk perception which empowered with the fluctuation occurred in the second period of 2006, made that the debts that the Turkish banking sector take from foreign banks to the exportations ratio decrease gradually towards 100% until mid-2007; the decreasing tendency continued also within the last quarter after the stagnation within the third quarter of 2007.

Differently from the banking sector, the non-banking sectors, made their foreign debt amount decrease gradually from 3.5-folds of exportations to two-folds within the period between the first quarter of 2001 and the fourth quarter of 2004. The most important factors which affected this fast structural re-positioning of non-banking sectors are the risk perception which remained relatively stronger compared to other sectors after the crisis of 2001-2002 and the interdiction in their possibility to take debts directly from foreign sources between years 2001-2004. The relaxation established in 2005 and afterwards and the relief in the risk perception of non-banking companies, made that the foreign debt of this sector to their exportations ratio reach more than 2.5 folds as of first quarter of 2006, the horizontal movement around 2.5 folds continued after the fluctuation in 2006, however a strong borrowing tendency has appeared within the third quarter of 2007 which is around threefold of the exportations. In the last quarter of 2007, the fast increase in the Turkish exportations pulled the foreign debt to total exports ratio of non-banking sector to 2.6.

The positive expectations about many subjects and especially about the length of stability horizon encourage the banking and non-banking sectors about taking more risks, so both of the sectors tend to take more risks in 2003 and afterwards compared to related sectors of developing countries similar to Turkey. However, the banking sector can accord faster to the changes in global risk perceptions because the global interaction and because it is placed in more interior fields of the information structure. It is seen clearly within the Chart below that the non-banking sectors act differently from the ones in other developing countries and that the risk perception is very different compared to other countries.

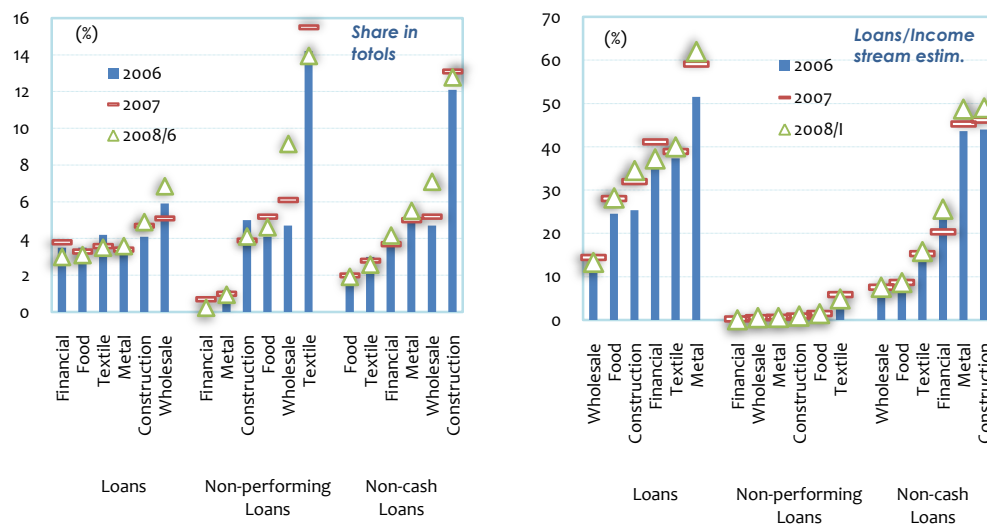
Chart 1.3-5: Ratio of Debts Taken from Foreign Banks to Exports



Source: BIS, CEIC

The risk taking intentness of non-banking sectors kept increasing after the correction in 2006 and became more distinctive for some sub-sectors when the shares of domestic use of credit are considered as well as loan/income flow rates.

Chart 1.3-6: Sub-Sectors Taking High Shares from Loans and Loan/Income Ratios



Source: BRSA, TSI

When the sectoral current added value data which are obtained by distributing the GDP values anticipated by TSI to sectors by using the offer-use and input-output tables of Turkish economy are accepted as the incomes of sectors, it is observed that the loan/income flow rates of wholesale commerce are construction sectors, having the highest shares within cash and non-cash loans in 2007 and within the first six months of 2008 were increased in 2007 comparing to 2006. The loan/income flow rate of the wholesale commerce sector which was 13.8% in 2006, increased to 14.5% in 2007; the one of construction sector increased from 25.4% to 32%. Regular increases in the loan/income rates of construction and metal main industries during 2006, 2007 and first 6 months of 2008 show that the risk appetite of these sectors are continuing.

When it's observed considering non-cash loans, the loan/income flow rates of metal main industry and construction sectors which are approached to 50% as of the end of first 6 months of 2008 are signaling a similar risk table, and the high level of the textile sector in NPLs and the fact that NPL amount is approaching to 5% of the added value of this sector are evaluated together, it is seen that a considerable risk appears.

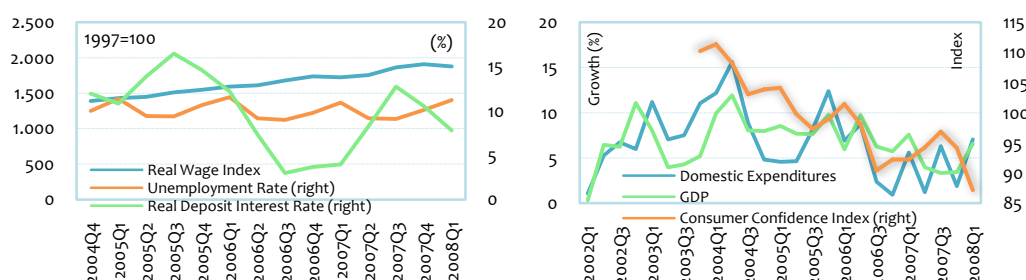
The principle finding that these tendencies defined with their general aspects above show relating to financial markets is that the banking and non-banking sectors acted with positive expectations for stability and predictability after 2002; but because of the difference between these two sectors considering the closeness to global markets and interactivity, the banking sector and non-banking sector are in a different risk perception. This finding is also shows that the banking sector which has the advantages of discipline and knowledge for a

better risk management; can make important contributions to the Turkish economy by transmitting the right signals to non-banking sectors.

1.3.2 Household Sector

In Turkey, the economic conditions of the household are ameliorated after 2002. Even if the positive developments related to the unemployment problem were restricted, the success realized in decreasing inflation after 2002 made the real incomes of household increase. Important information to determine this development is the TSI real wage index showing that the real wage had maintained its level within the period afterwards 2002.

Chart 1.3-7: Macro Indicators and Consumer Confidence



Source: TSI

The strengthening of stability and the expansion of decision-making horizon, decreased the acquirement cost of the household to financing sources, but increased the payment maturities. If it is considered that, in parallel with the real wage data, the real household incomes did at least not decreased after 2002, the increase in real income, the decrease in real interest rates compared to past and the extended payment maturities present altogether a structure which explain the high increases in the domestic household consumption.

Table 1.3-2: Development of Private Consumption Expenses

(Annual Real % Change with the Prices of 1998)	Quarterly					Annual			
	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2004	2005	2006	2007
Domestic Consumption	5.6	1.2	6.3	1.9	7,1	10.2	7.5	4.6	3.8
Food, Alcohol and Tobacco	7.0	3.7	3.6	0.2	5,8	1.7	8.7	3.9	3.5
Clothing and Footwear	-0.7	-10.8	-4.3	0.8	7,7	5.2	-10.7	-3.9	-3.9
House, Water, Elec., Gas and other Fuel	3.0	4.2	3.4	2.9	4,4	4.6	5.3	4.6	3.4
Furniture, Home Appliance and Home Maintenance Services	7.3	-3.9	2.7	1.0	3,0	16.3	22.2	5.3	1.5
Health	6.3	6.6	22.8	11.8	15,9	20.2	23.2	20.7	11.6
Transportation and Communication	3.1	-1.8	12.9	4.9	17,7	18.5	6.0	7.4	4.6
Entertainment and Culture	-1.8	-4.7	-0.8	-1.8	-2,4	24.8	-0.7	-3.5	-2.2
Education	12.6	4.5	5.6	-9.1	0,5	16.5	19.0	14.3	4.5
Restaurants and Hotels	7.3	0.3	4.3	-6.6	5,2	6.8	0.4	2.5	1.8
Several Goods and Services	15.5	12.8	18.2	3.8	4,3	17.1	15.2	7.0	12.3
GDP	7.6	4.0	3.4	3.4	6,6	9.4	8.4	6.9	4.5

Source TSI

The growth rate of domestic consumption which turned into positive from negative values after 2002, has reached its top level in 2004 with its rate

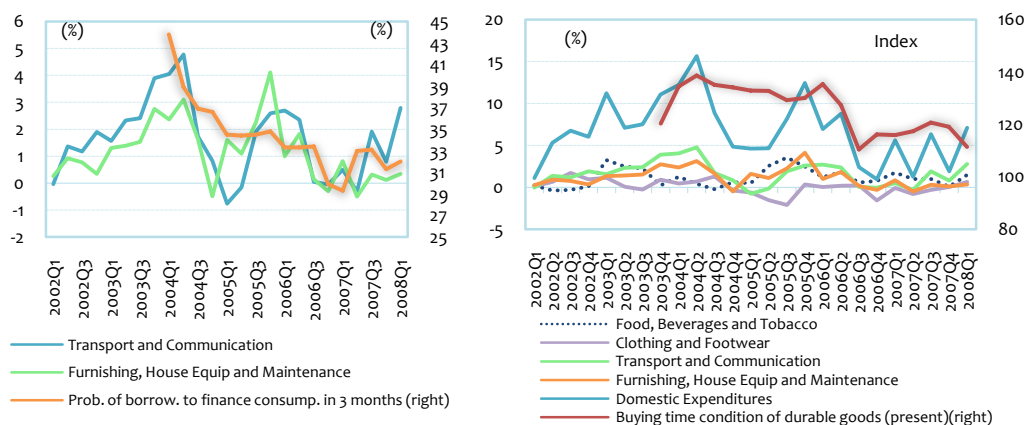
exceeding 10%; it gradually decreased within following years but it maintained its power until the second quarter of 2006. The growth rate of consumption which reduced to 4.6% and 3.8% considerably in 2006 and 2007, showed an important acceleration within the first quarter of 2008 with 7.1%.

Alongside with the acceleration observed in growth rate after 2002, there occurred changes in consumption in terms of expenditure groups too and the domestic consumption was tended to expenditure groups such as furniture, home appliances and home maintenance services, health, transportation and communication, entertainment and culture, education restaurants and hotels, of which income elasticity is higher, with also the effect of factors increasing the real income. Within the period of 2003-2007, the most important components of domestic consumption within expenditure groups besides food was composed of furniture, home appliances and home maintenance services which are related to housing and vehicles, the fundamental assets for household, and also transportation and communication.

There is not a stable structure between domestic consumption and consumer confidence index (in the meaning of carrying leader or consecutive indicator quality), but they continue to be in interaction. The growing rate of domestic consumption which was around 16% within second quarter of 2004, decreased to the band of 1%-7% after the third quarter of 2006 and within the same period, the consumer confidence index decreased below 90 within the first quarter of 2008 from its level of 110.

Within the framework of positive expectations determined above, the borrowing tendencies of household, show a development similar to consumer confidence index which presented a high level like 110 as of the end 2003 and which didn't lose its strength until the second quarter of 2006 despite the fluctuations. The data of borrowing for consumption possibility within three months, which decreased from its high level of 40%, started within the first quarter of 2004, to 31% within the second quarter of 2006 and to 28% within the fourth quarter of same year, shows that the borrowing willingness of household was decreased considerably between 2003 and 2006. A principal determination expressed by this data which had reached to its trough within first quarter of 2007 and followed an unstable horizontal movement afterwards, is that the borrowing attitude of household is dependent on macro prices as well as on political conjuncture.

Chart 1.3-8: Expenditures and Borrowing-Durable Consumption Tendency



Source: TSI

When the development of household borrowing willingness is analyzed with the expenditure of transportation-communication, and furniture-home appliance and home maintenance services, it is seen that the borrowing possibility data expressed with households is reflected mostly to the expenses as tendencies.

Another data exposing more sharply the view expressed here comes also from studies of consumer confidence index. According to average perception of sample household which is digitized by TSI, the conformity to purchase durable consumption goods index which got the value of 120 within the last quarter of 2003, was increased considerably within the first quarter of 2004 to 140. These high values which present a very positive view in the way of assessment of household in buying durable consumption goods, kept their strength, despite the gradual loosening, until the second quarter of 2006. In the end of this positive period, the index data is decreased from above 130 to a value near 110 by the third quarter of 2006, which shows that the strongest reaction to the fluctuations within the second quarter of 2006 was shown by the household expectation relating to buy durable consumption goods. The index tried to recover until the third quarter of 2007, but it lost strength with the political and economic developments afterwards and in the first quarter of 2008, it decreased to its level within the third quarter of 2006.

If the negativity within the fourth quarter of 2004 is neglected, the conformity to buy durable consumption goods index seems to constitute a prior indicator data, due also to the increasing number of observations as a result of adding the data of new period for domestic consumption growth. From this point of view, it is thought that the possibility of domestic growth to be attenuate is high within the second quarter of 2008.

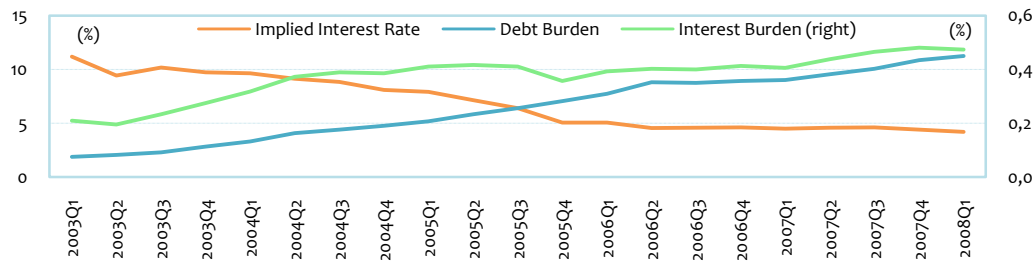
The debt burden indicator, which is calculated as the ratio of quarterly period balance of consumer loans and credit cards, to their GDP values¹ with annualized current prices, shows that the household debt burden is in a regular increasing tendency since the first quarter of 2003. By the beginning of 2003, the total debt burden which had a value equivalent to 2% of GDP, kept increasing steadily within the following periods, despite the real growing performance of GDP, until the third quarter of 2006. The debt burden ratio which showed a horizontal movement around 9% after the correction in the third quarter of 2006 until the first quarter of 2007 kept increasing within and afterwards the second quarter of 2007 and exceeded 11% as of the first quarter of 2008.

The estimates of household interest burden, acquired by proportioning the interest income coming from consumer loans and credit cards to GDP values with annualized current prices, within the aim of analyzing the development of interest burden on the household (not in an approach of comparison in an international level), show that the interest burden keeps increasing alongside the debt burden. But differently from the fast increase of debt burden which is almost uninterrupted, the interest burden jumped from 0.2% in the first quarter of 2003 to 0.4% in the second quarter of 2004; then between the third quarter of 2004 and first quarter of 2007, kept fluctuating around 0.4%, and entered to an increasing tendency within the following periods.

¹ There isn't an actual disposable income series produced by TSI, so the GDP figures which may present lower the debt burden compared to the common method, but can put correctly its development are used instead of disposable income.

The quarterly implied consumer loan interest rate, which is derived as the ratio of interest income coming from consumer loans and credit cards to the debt balance belonging to these loan groups, decreased from 11% within first quarter of 2003 to 4.6% within the second quarter of 2006; this was the most important cause of relative slowdown in the growth of the interest burden. The effect of the fluctuation within the second quarter of 2006 interrupted the decrease of implied interest rate and put it in a narrow tunnel between 4% and 5%.

Chart 1.3-9: Household Debt Burden, Interest Burden and Implied Interest Rate



Source: BRSA

According to the annual household income distribution statistics of TSI within the period of 2002-2005, when it's considered that the disposable household income is equivalent to 35% in average of GDP values, the household debt and interest burdens are estimated respectively as 31.1% and 1.4% as if the fourth quarter of 2007.

When the debt burden indicator which is calculated using the quarterly period balances of consumer loans and credit cards and GDP values with annualized current prices (2007/IV value is 11%), is compared to IMF data related to end-2005 within similar approach, it is seen that the household debt burden of Turkey stays behind the average figure of developed countries which is 58% and the average figure of developing Asian countries which is 27.5%, however it is close to the average figure of developing European countries (12.1%).

Principal causes of these low values are the income level per person, financial deepening and interest rates, but also the international comparisons show that the longitude of the maturities of mortgage and the limit of maximum loan granting are also important in the augmentation of indebtedness ratio.

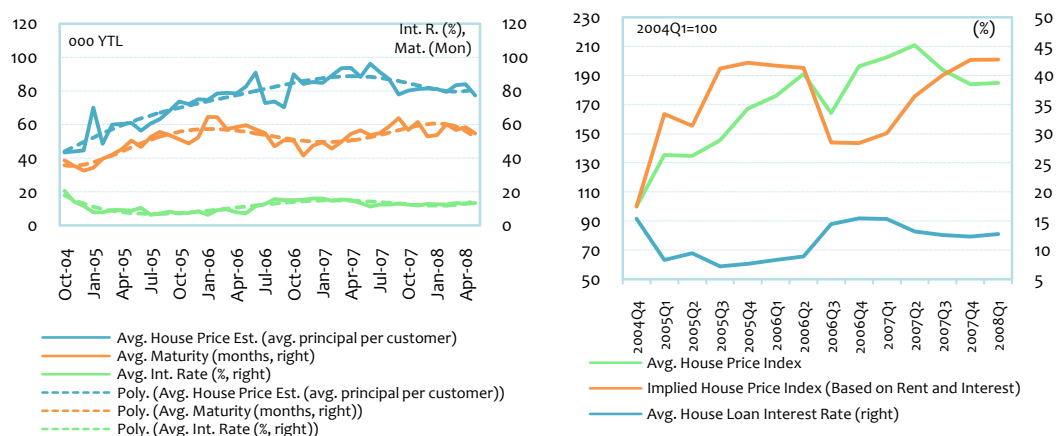
Table 1.3-3: Typical Characteristics of Mortgage Financing in Selected Countries, 2005

Countries	Average Loan Maturity	Average Loan Granting	Household Debt to GDP
USA	30	75 (97)	88
Germany	25-30	67 (80)	70
Austria	20-30	60 (80)	50
Belgium	20	83 (100)	40
Denmark	30	(80)	109
Finland	15-18	75 (80)	41
France	15	67 (100)	41
Holland	30	90 (115)	110
England	25	69 (110)	93
Spain	15	70 (100)	65
Sweden	<30	77 (80)	62
Italy	15	55 (80)	28
Norway	15-20	(80)	74
Portugal	15	83 (90)	80
Turkey (Housing Loan)	<5	-(75)	11 (2007Q4)
Greece	15	75 (80)	32

Source: Denmark National Bank

The analysis realized on the loan data that the BRSA had collected from banks show that the typical maturity in Turkey is increased to 5 years at most (60 months) within the period of 2004-2007. Furthermore, despite the fast decrease in interest after 2002, the average housing loan interest rate is increased only to 6.34% (July 2005) at its lower value and these rates couldn't be carried on for too long and they are increased above 10% after the second quarter of 2006. Another important indicator exposed by loan data is the average estimation of house prices. This indicator which is acquired by the division of capital amounts of recently opening housing loans to the number of customers shows a conduct coherent to the economic developments. The indicator designated decrease in house prices within the third quarter of 2006; between March 2007 in which the Act Nr. 5582 relating on the housing finance system became operative and June 2007, it showed recovery, then it kept decreasing until September 2007 and started increasing afterwards. However, when the tendency values of the indicator are analyzed, it is seen that the ascendance is too limited and it doesn't seem to be continuous. The principle tendencies showed by the other data related to housing loans designate that the increase of maturity length is stopped within the last period but the increase in interest rates is still continuing.

Chart 1.3-10: Indicators Related to Developments in Housing Market and Loans

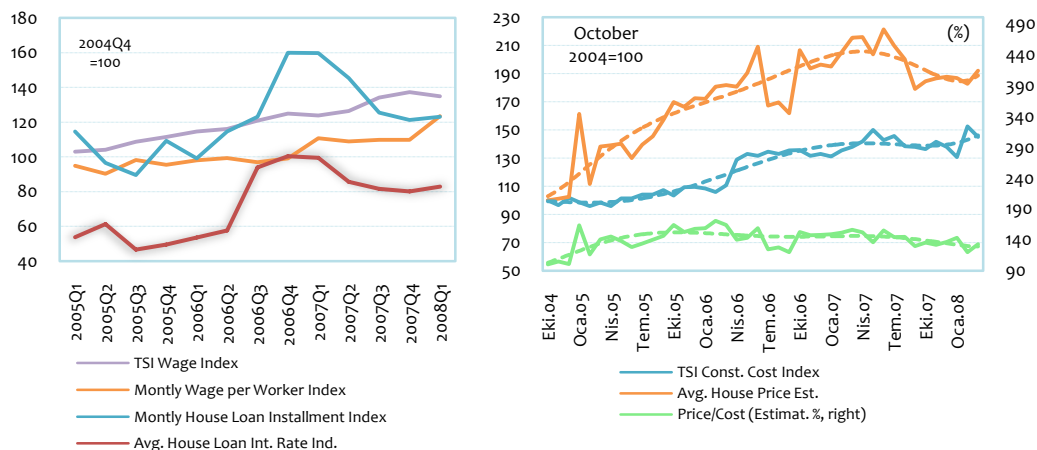


Source: BRSA

When it's analyzed alongside the other related information, the average house price indicator given above, which is a doubtful indicator, shows views with intuitive meanings. When the average interest rate, acquired from average indicator of house prices and BRSA data are analyzed in a common ground with the rent index produced by TSI (when they're both converted to indexes as 2004/IV=100) a considerable periodical change is appearing. The price index of rent income for 20 years based on their current value, which conducted above the average housing price index from the first quarter of 2005 until the third quarter of 2006, showed an important decrease on this date and started to conduct below the average housing prices index. The rent-based price index had turned to its position above the housing price index after the third quarter of 2007.

This development means that; within the period between third quarter of 2006 and third quarter of 2007, it is seen that the housing prices showed an increase above the economic valuation criteria. Another information which supports this economic interpretation may be acquired by taking the TSI real price index as reference.

Chart 1.3-11: Price, Housing Loan Interest, Installment and Cost Indicators



Source: BRSA, TSI.

In parallel with the periodical movement mentioned above, the average housing loan installation index, calculated based on the loan data collected by BRSA from banks as an implied indicator, followed a conduct above the TSI real price within the period of 2006/III-2007/III. When this development is evaluated as an increase of risk appetite resulted by a speculative increase of housing prices, it is thought that the household give responds beyond the instantaneous economic evaluations to the developments in the economic and political conjuncture. Even if it cannot be qualified as irrational, this instantaneous reaction exceeding the behavior of average pricing is thought to be realize basing on long-termed expectations and the calculations of opportunity costs that may created by these expectations, rather than economic evaluations; and this may be exposed by the relation between costs and prices.

After a bounce within the second quarter of 2006, the costs index followed a static conduct until the first quarter of 2007, but the average price index showed a fast increase until June 2007; this fact seems to be supporting the idea of expectation-based pricing mentioned above.

2 FINANCIAL SECTOR VIEW

2.1 General View of Financial Sector

2.1.1 Asset Development of Financial Sector

Asset size of Turkish finance sector including the CBRT increased by 21% to TRY 844,6 billion as of March 2008 when compared to the same period of the previous year. A growing tendency in compliance with the general economic activities is observed in all financial sectors in 2007. It is seen that the ratio of total assets of Turkish finance sector to GDP is about 95,0% and the ratio of assets of banks to the said size is about 71,3% level in the same period. The above-mentioned ratios are based on the calculation made by considering 1998-based national income amounts which are newly announced by the TSI. On the other hand, relative structural weight of banking sector continues in the finance sector and 75,1% of total assets of finance sector are comprised of banking sector assets as of March 2008. In addition; the share of financial leasing companies, factoring companies and consumer financing companies which are the main institutions of non-bank financial sector is realized as 3,3% in the said period. Accordingly, when considered by asset size, 78,4% of the financial sector is under the supervision and surveillance of the BRSA.

Table 2.1-1: Asset Size of the Finance Sector

(TRY Billion)	2002	2003	2004	2005	2006	2007	Mar.08	% Distribution Mar.08	Asset/GDP (%) Mar.08
Banks	216,7	255	313,8	406,9	499,5	581,6	634,0	75,1	71,3
Finan. Leasing Companies	3,8	5,0	6,7	6,1	10,0	13,7	15,3	1,8	1,7
Factoring Companies	2,1	2,9	4,1	5,3	6,3	7,4	7,9	0,9	0,9
Consumer Fin. Companies	0,5	0,8	1,5	2,5	3,4	3,9	4,3	0,5	0,5
Insurance Companies	5,4	7,6	9,8	14,4	17,4	20,5	22,7	2,7	2,6
Retirement Companies	0,0	3,3	4,2	5,7	7,2	9,9	11,0	1,3	1,2
Securities Intern. Agencies (1)	1,0	1,3	1,0	2,6	2,7	3,9	3,9	0,5	0,4
Sec. Inv. Partner.	0,1	0,2	0,3	0,5	0,5	0,7	0,6	0,1	0,1
Sec. Inv. Funds	9,3	19,9	24,4	29,4	22,0	26,4	26,6	3,1	3,0
Real Estate Inv. Partner.	1,1	1,2	1,4	2,2	2,5	3,9	3,8	0,4	0,4
CBRT	74,1	76,5	74,7	90,1	104,4	106,6	114,5	13,6	12,9
Total	314,1	370,4	437,7	560,0	668,6	768,6	844,6	100,0	95,0

Source: BRSA, CBRT, Treasury, CMB, Association of the Insurance and Reinsurance Companies of Turkey, Association of Capital Markets Intermediary Institutions of Turkey, Turkish Statistical Institute

(1) Includes Association of Capital Markets Intermediary Institutions of Turkey member institutions and December 2007 data.

CBRT data are obtained from the CBRT analytic balance sheet.

2.1.2 Investment Preferences of Residents and Residents Abroad

Total size of portfolio investments belonging to domestic residents increased to TRY 483,5 billion as of March 2008. When the distribution of the portfolio is analyzed, it is seen that deposit comprises 74,7% of the total portfolio. In the same

period, the share of government securities held by domestic residents in total portfolio is 13,3% while the shares of stock investments and investment funds are 4,9% and 5,5%, respectively. When analyzed proportionally, the biggest decrease was realized by 23,3% in stock investments when compared to end-2007. Repo investments decreased by 14,2% and eurobond investments decreased by 3,8% in the first quarter of 2008. When deposit investments which have the biggest share in investments of domestic residents are analyzed, it is seen that FX deposit investments increased more than TL deposit investments proportionally on contrary to the recent trend. Portfolio investments of residents abroad decreased by USD 27,3 billion when compared to the end of previous year and realized as USD 78,2 billion as of March 2008. It is seen that investment of residents abroad decreased by 25,9% in the first quarter of 2008 when compared to end-2007. While stock investments which have the biggest share in investments of residents abroad decreased by 35,8% when compared to end-2007, deposit investments increased by 13,5%.

Table 2.1-2: Investment Preferences of Residents and Residents Abroad

TRY Million					P. % Distribution	G. % Distribution	07/12- 08/03 % Change
Domestic Residents	2005	2006	2007	2008/03	08/03	08/03	
TRY Deposit	141.716	168.943	206.081	221.222	45,8	39,4	7,3
FX Deposit Accounts	82.128	108.754	111.619	123.875	25,6	22,1	11,0
Precious Metals Accounts	96	250	152	263	0,1	0,0	61,3
Part. Banks Collected Funds	8.369	10.788	14.626	16.071	3,3	2,9	9,9
GS	55.276	55.781	56.852	60.329	12,5	10,7	6,1
Eurobond	5.348	5.413	4.309	4.146	0,9	0,7	-3,8
Investment Funds	29.374	22.012	26.381	26.642	5,5	4,7	1,0
Repo	1.486	2.202	2.733	2.346	0,5	0,4	-14,2
Retire. Inv. Funds	1.219	2.821	4.558	4.788	1,0	0,9	5,0
Stocks	23.020	26.256	31.070	23.842	4,9	4,2	-23,3
Total	348.032	403.220	458.381	483.524	100,0	86,1	5,5
Residents Abroad							
Stocks	33.483	35.083	69.876	44.890	57,4	8,0	-35,8
GS	17.528	24.512	30.375	27.304	34,9	4,9	-10,1
Eurobond	634	555	376	412	0,5	0,1	9,0
Deposit	3.434	4.186	4.947	5.613	7,2	1,0	13,5
Total	55.079	64.336	105.574	78.219	100,0	13,9	-25,9
GENERAL TOTAL	403.111	467.556	563.956	561.743		100,0	-0,4

Source: BRSA, CMB, ISE, CBRT, Central Registration Agency

PS: P. % Distribution = Partial % Distribution, G. % Distribution = General % Distribution

2.2 Banking Sector View

2.2.1 Market Structure View

Banking sector continued to grow in the first quarter of 2008 as it did in 2007 and accordingly total number of branches in the sector reached to 8.378, number of personnel reached to 173.075, and number of ATMs reached to 19.500. There is a little decrease in the number of credit customers which increased in 2007. A deposit banking-weighted structure is observed in the sector. Number of foreign deposit banks reached to 18.

Table 2.2-1: Structural Indicators of Banking

	2002	2003	2004	2005	2006	2007	06-07 Change	2008 /03	07/12- 08/03 Change
Number of Banks	59	55	53	51	50	50	0	50	0
Public Deposit Banks	3	3	3	3	3	3	0	3	0
Private Deposit Banks	20	18	18	17	14	12	-2	11	-1
Banks under the SDIF	2	2	1	1	1	1	0	1	0
Foreign Deposit Banks	15	13	13	13	15	17	2	18	1
Development and Investment Banks	14	14	13	13	13	13	0	13	0
Participation Banks	5	5	5	4	4	4	0	4	0
Number of Branches	6.203	6.078	6.219	6.537	7.296	8.117	826	8.378	256
Deposit Banks	6.169	6.046	6.186	6.220	6898	7.653	760	7886	228
Development and Investment Banks	34	32	33	25	42	42	0	44	2
Participation Banks				292	356	422	66	448	26
Number of Personnel	124.009	124.030	127.944	138.724	150.793	167.760	16967	173.075	5315
Deposit Banks	118.321	118.603	122.592	127.851	138.426	153.212	14786	157.942	4730
Development and Investment Banks	5.688	5.427	5.352	5.126	5.255	5.361	106	5.395	34
Participation Banks				5.747	7.112	9.187	2075	9.738	551
Number of ATM	12.035	12.726	13.556	14.836	16.513	18.795	2282	19.500	705
Number of POS (Thousand)		662	912	1.141	1.283	1.629	346	1.697	68
Number of Deposit Accounts (Thousand)	67.993	78.790	80.087	82.958	86.131	91.063	4932	94.400	3337
Number of Participation Accounts (Thousand)				1.202	1.414	1.623	209	1.697	74
Number of Credit Customers (Thousand)	15.784	18.707	25.168	29.153	30.685	35.403	4718	34.343	-1060
Number of Credit Card Customers (Thousand)				25.155	25.580	27.658	2824	24.284	-4121

Source: BRSA, BCC

2.2.2 Change in Performance Indicators

When the financial soundness indicators which are formed to contribute to macro surveillance of the banking sector and to follow up the probable fragilities and strengths of the sector is analyzed, it is seen that banking sector has a high-level capital ratio. The CAR decreased when compared to end-2007 and realized about 17,2% level but it is still highly above 8% which is the legal limit. The ratio of non-performing loans to gross loans which is deemed as a significant indicator of the asset quality and the banks' performances relating to risk management which was in a decreasing tendency in 2007 also continued in the first quarter of 2008 and the positive motion still continues. The development in profitability indicators points out that the fluctuations experienced in financial markets have limited effects on the sector.

Table 2.2-2: Financial Soundness Indicators of Banking Sector

(%)	2005	2006	Mar.07	Jun.07	Sep.07	Dec.07	Mar.08
Capital Adequacy Standard Ratio	23,7	22,3	22,2	18,7	19,4	18,9	17,2
Free Capital /Total Own funds	65,7	72,6	73,5	73,6	75,4	75,3	75,5
FX Net General Pos. /Own funds	-0,2	0,5	-1,3	-1,2	0,1	-0,3	1,2
NPLs /Gross Loans	4,8	3,8	3,9	3,9	3,6	3,5	3,1
Provisions for NPLs /NPLs	88,7	89,7	88,4	87,7	87,6	86,8	84,8
Individual Loans /Total Loans	31,1	32,3	31,4	31,2	32,9	33,2	31,8
Number of Profit-making Banks /Total Number of Banks	45/51	41/50	44/50	45/50	45/50	46/50	40/50
Assets of Profit-making Banks /Total Assets	93,9	99,4	99,3	99,6	99,6	99,3	99
Return on Assets (ROA)	1,7	2,5	2,5	2,9	2,5	2,8	2,8
Return on Equities (ROE)	10,9	19,2	20,6	23,5	20,5	21,8	21,9
Net Int. Inc. After Prov. /Total Gross Income (1)	30,8	26,9	26,7	26,2	26,8	26,7	27
Non-Interest Income /Non-Interest Expenditures	52,0	79,3	71,1	80,9	75,2	72,3	73,9

(1) Total Gross Income = Interest Income + Non-Interest Income

The developments occurred in the Banking Regulation and Supervision Agency Performance Index (BRSA-PI), built to monitor the performance of the banking sector as of the first quarter of 2008 are evaluated below.

- BRSA-PI kept its value in end-2007.
- When the components of performance index are analyzed, it is seen that only the value of own funds component decreased. The decrease of both the capital adequacy ratio and the ratio of free capital to total assets in the sector has affected the own funds component in a negative manner.
- The sector's preference to stay liquid continues in the same level.
- The value of the compound which was formed to evaluate the exchange rate risk management did not change remarkably although it increased a little in the first quarter of 2008 when compared to end-2007. The ratio of FX net general position to own funds is in a more positive point when compared to previous months and this affects the exchange rate risk compound in a positive manner.
- The profitability in the sector which has been increasing for the last two years kept out its increasing tendency in the first quarter of 2008. The increase in commissions from loans and interest income which is a result of the fact that the sector performed its intermediation function in a more effective manner as well as the increase in the asset and own funds profitability of private banks in parallel had positive impacts on the said increase.
- Asset quality which has been increasing continuously since 2003 which was the base year for BRSA-PI also kept its positive motion in the first quarter of 2008 and reached at its highest level ever. The fact that the sector protected the quality in loan portfolio, continued to strengthen its intermediation function and decreased the fixed assets had positive impacts on the asset quality.

Box 2: Capital Structure in Turkish Banking Sector

MARCH 2008	Share of Banks in Total Assets (%)	Public, Private and Foreign Distribution of Shareholders (%)				
		Public	Private	Global Capital Share (%)		
				Proportional Share (*)	Share of Stock Exchange	Total (**)
ABN AMRO BANK	0,2	0,0	0,0	100,0	0,0	100,0
ADABANK	0,0	100,0	0,0	0,0	0,0	0,0
AKBANK T.A.Ş.	11,9	0,0	62,0	21,0	17,0	38,0
ALTERNATİFBANK	0,4	0,0	99,4	0,0	0,6	0,6
ANADOLUBANK A.Ş.	0,5	0,0	100,0	0,0	0,0	0,0
ARAP TÜRK B.	0,1	15,0	20,0	65,0	0,0	65,0
UNICREDIT BANCA DI ROMA	0,0	0,0	0,0	100,0	0,0	100,0
BANK MELLAT	0,0	0,0	0,0	100,0	0,0	100,0
BANKPOZİTİF KREDİ VE KALKINMA BANKASI A.Ş.	0,2	0,0	42,5	57,6	0,0	57,6
BİRLEŞİK FON BANKASI A.Ş.	0,1	100,0	0,0	0,0	0,0	0,0
CALYON BANK T.A.Ş.	0,1	0,0	0,0	100,0	0,0	100,0
CITIBANK	0,8	0,0	0,0	100,0	0,0	100,0
ÇALIK YATIRIM	0,0	0,0	100,0	0,0	0,0	0,0
DENİZBANK	2,8	0,0	0,0	99,8	0,2	100,1
DEUTSCHE BANK A.Ş.	0,2	0,0	0,0	100,0	0,0	100,0
DİLER YATIRIM	0,0	0,0	100,0	0,0	0,0	0,0
FİNANSBANK A.Ş.	3,7	0,0	9,9	90,0	0,1	90,1
FORTIS BANK A.Ş.	1,7	0,0	4,5	94,1	1,4	95,5
GSD YATIRIM B.	0,0	0,0	100,0	0,0	0,0	0,0
HABİB BANK	0,0	0,0	0,0	100,0	0,0	100,0
HSBC BANK	2,3	0,0	0,0	100,0	0,0	100,0
İLLER B.	0,9	100,0	0,0	0,0	0,0	0,0
JP MORGAN CHASE BANK	0,0	0,0	0,0	100,0	0,0	100,0
MERRILL LYNCH	0,0	0,0	0,0	100,0	0,0	100,0
MILLENİUM BANK	0,2	0,0	0,0	100,0	0,0	100,0
NUROL YATIRIM B.	0,0	0,0	100,0	0,0	0,0	0,0
ING BANK A.Ş.	2,2	0,0	0,0	100,0	0,0	100,0
SOCIETE GENERALE	0,1	0,0	0,0	100,0	0,0	100,0
ŞEKERBANK	1,1	0,0	47,7	34,0	18,3	52,3
T.C.ZİRAAT B.	13,6	100,0	0,0	0,0	0,0	0,0
T.EKONOMİ B.	2,1	0,0	45,0	42,1	12,9	55,0
T.GARANTİ B.	11,4	0,0	48,3	20,9	30,9	51,8
T.HALK B.	7,1	75,0	2,4	0,0	22,6	22,6
T.İŞ BANKASI	13,3	0,0	76,8	0,0	23,2	23,2
T.KALKINMA B.	0,1	99,1	0,9	0,0	0,0	0,0
T.SINAI KALKINMA B.	0,9	8,4	86,5	5,1	0,0	5,1
T.VAKIFLAR B.	7,4	58,6	19,0	0,0	22,4	22,4
TAİB YATIRIM BANKASI A.Ş.	0,0	0,0	1,0	99,0	0,0	99,0
İMKB TAKAS VE SAKLAMA BANKASI A.Ş.	0,2	0,0	90,1	9,9	0,0	9,9
EUROBANK TEKFEN A.Ş.	0,5	0,0	30,0	70,0	0,0	70,0
TEKSTİL BANKASI A.Ş.	0,5	0,0	89,4	0,0	10,6	10,6
TURKISH BANK	0,1	0,0	54,9	45,1	0,0	45,1
TURKLAND BANK A.Ş.	0,1	0,0	9,0	91,0	0,0	91,0
TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.	0,6	100,0	0,0	0,0	0,0	0,0
WESTLB AG	0,0	0,0	0,0	100,0	0,0	100,0
YAPI VE KREDİ B.	8,7	0,0	47,1	40,9	12,0	52,9
ALBARAKA TÜRK KATILIM BANKASI A.Ş.	0,7	0,0	22,5	61,9	15,6	77,5
ASYA KATILIM BANKASI A.Ş.	1,1	0,0	61,3	0,0	38,7	38,7
KUVEYT TÜRK EVKAF FİNANS KURUMU A.Ş.	0,7	0,0	19,8	80,2	0,0	80,2
TÜRKİYE FİNANS KATILIM BANKASI A.Ş.	0,9	0,0	40,0	60,0	0,0	60,0
Total (%)	100,0	25,2	34,8	26,0	14,0	40,0

Share excluding the shares of foreigner (proportional and stock market) and public (Turkey) and including the shares of stock market not held by real persons, foundations, supplementary funds, foreign residents and similar shareholders.

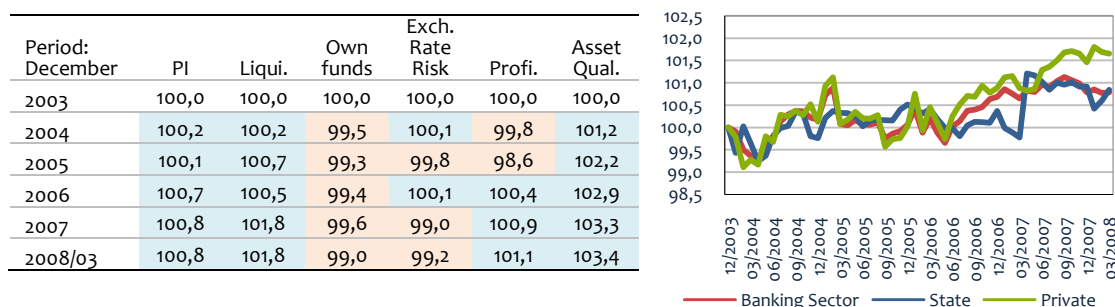
(*)Proportional Calculation = (foreign share ratio in the bank * bank's assets) / total assets of the sector

(**)Total = Proportional calculation + stock market shares

Source: BRSA, CRA, Data from Banks. The **monthly data is temporary**; there may be some mistakes emanating from rounding off and differences between information sources.

According to asset sizes as of March 2008, the share of public capital in Turkish banking sector is 25,2% and the share of private capital is 34,8%. On the other hand, according to the calculations made regarding the banks stock transfer process of which is over in the same period and considering the new foreign capital investments made in different rates, the share of global capital in Turkish banking system is 26%. When the stocks held by foreign residents (14% stock market shares) are added to this ratio, the total foreign capital share becomes 40%. When compared to end-2007, it is seen that total foreign capital share decreased by 1,1 points.

Table 2.2-3: Banking Sector Performance Index



Since the interest rates were in a horizontal motion, tax ratios remained the same and there was no change in the legal provisions ratios in the first quarter of 2008, intermediation costs remained in the same levels when compared to end- 2007. Net interest paid to depositor which was 18,5% as of end-2007 was realized as 18,2% in the first quarter of 2008. Due to the fact that total loan cost on customers decreased and interest margin stayed in the same level, the share of public burden in loan cost increased from 22,5% to 22,6%.

Table 2.2-4: Developments in Intermediation Costs

(%)	2005	2006	Mar.07	Jun.07	Sep.07	Dec.07	Mar.08
(a) Net interest paid to Depositor (c-b)	16,6	19,7	19,7	19,0	19,1	18,3	18,2
(b) Tax Paid by Depositor (point)	3,6	3,5	3,5	3,4	3,4	3,2	3,2
(c) Interest Paid by Bank	20,2	23,2	23,1	22,4	22,4	21,5	21,4
(d) Public Burden on Deposit (point)	1,2	1,2	1,2	1,2	1,2	1,2	1,2
(e) Loan Interest Rate (c+d)	21,4	24,4	24,3	23,6	23,6	22,7	22,6
(f) Taxes Paid by Loan Customer (point)	0,7	1,0	1,0	0,9	0,9	0,9	0,9
(g) Total Loan Cost on Customer (e+f)	22,1	25,4	25,3	24,5	24,5	23,6	23,5
(h) Interest Margin (point) (g-a)	5,5	5,7	5,7	5,5	5,5	5,3	5,32
(i) Public Burden Share within Total Loan Cost (h/g)	25,0	22,4	22,3	22,3	22,3	22,5	22,6

(a) Net interest rate left to the customer after the deduction of public burdens in the mentioned periods.

(b) Public burdens taken like income tax stoppage on depositors.

(c) Yearly TRY deposit interest rate with 1 one-month maturity given to depositor by Bank.

(d) Public qualified payments collected by bank from depositors composed of the SDIF premiums on funds, participation share to the BRSA expenditure, and legal reserves liabilities.

(e) At-par loan interest rate calculated by bank by considering that profit and operational expenditure margins as null.

(f) The cost decreasing effect of deduction of Banking and Insurance Transaction Tax and taxes considered as expenditure from tax assessment is taken into consideration.

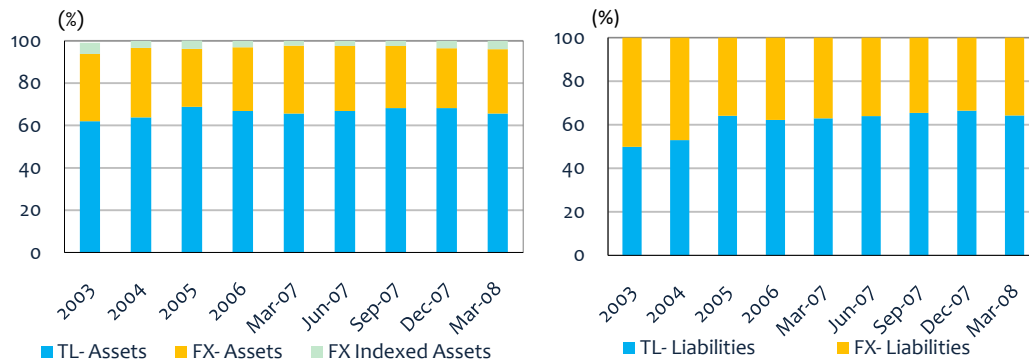
In light of principal balance sheet indicators, the banking sector grew up by 9% in the first quarter. Loans have the biggest share in total assets of banking sector. Banks perform their intermediary functions to canalize savings into production in a stronger manner in time and this has positive contributions to sound development of economy. On the other hand, while the share of loans in total assets increases, the share of securities continues to decrease.

Table 2.2-5: Banking Sector Fundamental Balance Sheet Sizes

TRY Billion	2005	2006	Mar.07	June07	Sep.07	Dec.07	Mar.08	Mar.08 (%)
Assets								
Cash Values	3,1	4,5	3,3	3,3	3,5	5	4,7	0,7
Banks, CBRT and Money								
Market Receivables	33,1	40,3	54,2	57,3	53,3	55,2	62,5	9,9
Securities	143	158,9	165,6	166,8	166,5	164,7	136,4	21,5
Net NPL	0,9	0,9	1	1,2	1,2	1,4	1,5	0,2
Loans	156,4	219	230,3	247,5	261,4	285,6	319,6	50,4
Subs., Affiliates and Jointly								
Controlled Partnerships	11,1	9,2	9,6	9,8	10,1	10,8	10,0	1,6
Other	59,3	66,9	51,3	48	47,5	58,9	99,3	15,7
Total	406,9	499,7	515,3	533,7	543,5	581,6	634,0	100,0
Liabilities								
Deposit (Funds Collected)	251,5	307,6	319,5	331,9	336,3	356,9	389,8	61,5
Debts to Banks (including								
Money Markets and CBRT)	54,8	70,9	67,3	67,9	66,1	71,6	85,1	13,4
Own funds	54,7	59,5	64,2	66,4	71,6	75,9	76,0	12,0
Other	45,9	61,6	64,2	67,6	69,5	77,2	83,1	13,1
Total	406,9	499,7	515,3	533,7	543,5	581,6	634,0	100,0

65.6% of the total assets of banking sector and 64.3% of its total liabilities are TL. However, a decrease is observed in the first quarter of 2008 as the TL proportion of total assets and liabilities was respectively 68.2% and 66.5%, as of end-2007.

Chart 2.2-1: TL-FX Assets and Liabilities



In the first quarter of 2008, the total loan volume of the banking sector increased by 12.2% when compared to the last quarter of 2007 and reached to TRY 320.4 billion. In parallel with the augmentation of financing needs of real sector and households, the share of loans in the total assets continued to increase and reached to 50.4% as of March 2008. Within this scope, the deposit to loan ratio also continued to increase within the first quarter of 2008 from 80% to 82%. The share of TL loans in total loans which was 76.1% in the last quarter of 2007, decreased to 73.1% in the first quarter of 2008.

Chart 2.2-2: The Share of Loans in Total Assets and Deposit by Groups

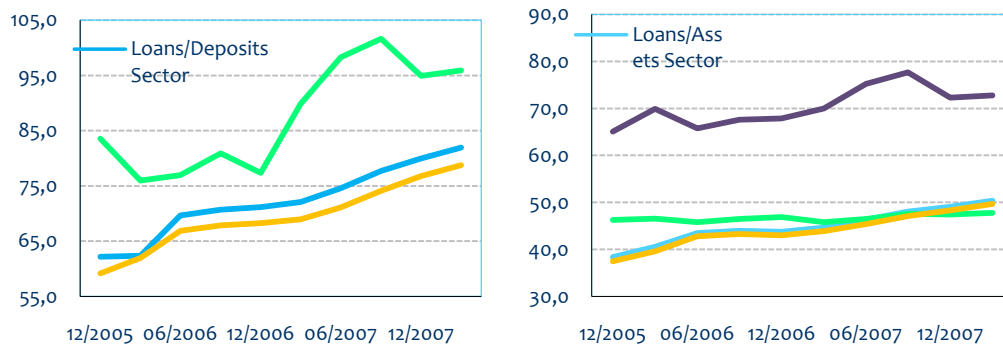
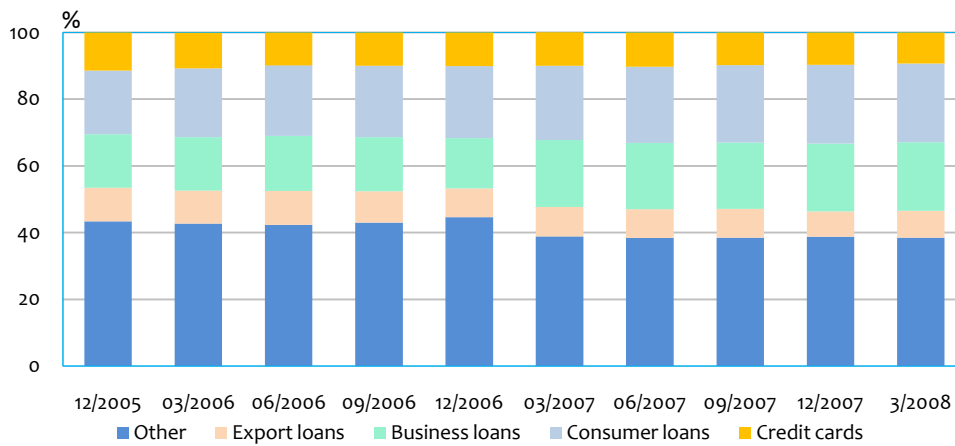
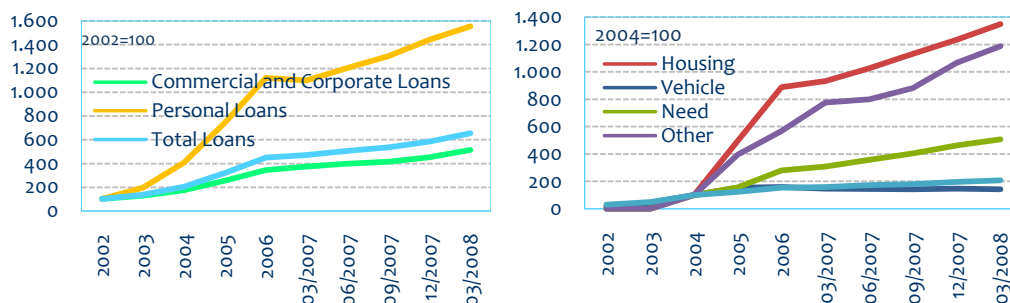


Chart 2.2-3: Distribution of Loans by Types



When the development indexes related to total and personal loans extended by the banking sector are analyzed, it is observed that within the period between 2002 and March 2008, the increase in both personal and commercial and corporate loans gained acceleration in 2007 as this tendency is also continuing in 2008. Especially personal loans showed a high growth rate since 2002. When the growth rates of personal loans by their types are analyzed, it is seen that the fastest increase is occurred in housing loans.

Chart 2.2-4: Loan Indexes



When the distribution of personal loans is analyzed based on banking groups it is seen that, among the TRY 99.3 billion of personal loans extended by deposit

banks; 22.8% were extended by public deposit banks, 23.9% were extended by foreign deposit banks and 53.3% were extended by private deposit banks.

Table 2.2-6: Distribution of Personal Loans Based on Banking Groups

TRY Billion	2004	2005	2006	2007/03	2007/06	2007/09	2007/12	2008/03
Deposit	26,44	45,52	67,16	70,35	77,17	83,7	92,6	99,26
-Public	5,37	8,73	14,21	15,39	16,75	18,11	20,57	22,63
-Foreign	2,73	5,58	12,82	13,66	15,06	16,48	18,59	23,71
-Private	18,34	31,21	40,13	41,3	45,36	49,11	53,44	52,92
Participation	-	1,19	1,88	1,98	2,11	2,16	2,19	2,17
DIB	0,01	0,02	0,06	0,09	0,12	0,16	0,2	0,23

Despite the high amounts of personal loans extended, the highest NPL ratio belongs to private deposit banks with 3.5%. The NPL ratio in participation banks is similarly 3.5% while the personal loans extended by these banks are in a low level which is TRY 2.7 billion. In public deposit banks, the NPL ratio is considerably low with 1.1%.

Table 2.2-7: NPL Ratios of Personal Loans Based on Banking Groups

%	2004	2005	2006	2007/03	2007/06	2007/09	2007/12	2008/03
Deposit	6,9	9,8	8,2	8,5	8,2	8,2	8,2	8
-Public	1,4	1,2	1,1	1,2	1,2	1,2	1,1	1,1
-Foreign	2,4	5,2	3,7	3,7	3,4	3,4	3,6	3,4
-Private	3,1	3,4	3,4	3,6	3,6	3,6	3,5	3,5
Participation	-	5,3	6,8	7,6	7,1	5,7	3,2	3,5
DIB	0	0	4,1	2,8	1,2	1,8	0,9	0,8

When the development of personal loans is observed, it is seen that the increasing tendency is continuing since 2002 nominally and it reached to TRY 101.7 billion as of March 2008. However, the increase in real terms which is calculated based on the same period of previous year has started to reduce with a sharp decrease beginning from 2004 while as of June 2007, it has re-entered to a moderate increasing tendency.

2.3 Non-Banking Financial Sectors

As of March 2008, there are 63 financial leasing², 84 factoring and 9 consumer financing companies. Financial leasing companies have 1.553 personnel and 17 branches, factoring companies have 3.088 personnel and 26 branches, financing companies have 480 personnel and 3 branches.

2.3.1 Financial Leasing Sector Activities

The negative effects of the increase of value added tax faced in financial leasing sector in the beginning of year are surmounted quickly and the own funds profitability increased to 20.1%, and the asset profitability increased to 3.5%. In parallel with this, the number of companies bearing a loss within the sector is reduced from 19 to 10 and on-balance sheet FX net position has turned from negative to positive. Contrary to these developments, the share of NPLs within total receivables increased by 0.3 points.

² There are also 10 development and investment banks and 4 participation banks conducting financial leasing transactions.

Table 2.3.-1: Main Indicators of the Financial Leasing Sector Performance

	Mar. 06	June 06	Sep. 06	Dec. 06	Mar. 07	June 07	Sep. 07	Dec. 07	Mar. 08
NPLs /Gross Receivables %	3,3	2,9	2,9	3,1	3,4	3,5	3,5	3,7	4,0
Nbr. Of Comp. making a Loss	20	17	19	18	19	24	22	19	10
Period Profit/Total Own Funds %	5,3	9,0	14,6	19,1	5,5	9,1	12,8	14,1	20,1
Period Profit/ Total Assets %	1,3	1,9	3,0	3,8	1,0	1,7	2,3	2,5	3,5
On-B/S FX net Position/Own Funds %	-13,0	-11,0	-9,0	-5,5	-12,9	-9,2	-2,2	-9,4	4,9
Transaction Limit Ratio (< 30)	3,3	4,0	4,0	4,7	4,9	5,5	5,5	5,9	5,0

Within the period of March 2008, the assets of financial leasing companies increased by 11.9%. The sources of the increasing assets are financial and commercial debts and the increase in the own funds. The growth rate of the receivables occurred above the growth rate of the assets and their share within the balance sheet increased to 87.7%. On the other hand, the cash values and securities held by companies have decreased. Despite the environment of global uncertainty, the sector seems to maintain its dynamism.

Table 2.3 -2: Financial Leasing Receivables

(TRY Million)	Dec.07	Mar.08	Share (%)	Growth (%)	Distribution by Customer Group			
					Pers. Ins.	SMEs	Non-Fin. Com.	Other
Agriculture	899	951	7,2	5,7	7,6	3,9	2,1	37,3
Industry	5.122	5.762	43,6	12,5	47,6	48,4	44,9	13,5
Services	5.818	6.448	48,8	10,8	44,6	47,1	52,7	49,1
Other	43	58	0,4	33,8	0,2	0,6	0,2	0,1
Total	11.883	13.218		11,8	1.606	4.775	4.131	1.353

The financial leasing receivables, constituting the most important item of the balance sheet, have reached to TRY 13.2 billion according to receivables notification registries. 43.6% of receivables are in industrial sector, 48.8% are in services sector and 7.2% are in agricultural sector. As of period, the growth by 16.5% in textile, leather and clothing sector which is a sub-sector of industry and the growth by 16.1% in transportation and communication sectors and the health education and social services sector which are the sub-sectors of services are pointing out.

When the distribution of receivables by customer groups is analyzed, it is seen that the share of personal institutions is 13.5%, the share of SMEs is 40.2%, the share of non-financial companies is 34.8% and the share of other customers is 11.4%. It is interesting to see that the shares of groups having an important share within sector are increasing in the construction sector.

When compared to the period of March 2007, the financial leasing earnings increased by 28.8% within the period of March 2008. Within the same period, the interest expenses increased by 72.4%. The extraordinary profits increased from TRY 2 million to TRY 29 million. On the other hand, the increase in personnel expenditure remained limited by 32.1%. In conclusion; the financial leasing sector has realized an rise in interim profit by 79.1% and increased its profits from TRY 109 million to TRY 195 million.

2.3.2 Factoring Sector Activities

It is observed that within the period of March 2008, the share of NPLs of factoring companies within total receivables kept increasing and that they increased by 2.1 points when compared to the period of December 2007. Within the same framework, the asset profitability decreased by 5.1 points and the own funds profitability decreased by 19.22 points. In conclusion, the number of companies making a loss increased from 13 to 24. On the other hand, it is seen that the receivables to own funds ratio (transaction limit ratio) decreased by 0.5 points and the on-balance sheet FX net position increased by -12 points.

Table 2.3.-3: Main Indicators of Factoring Sector Performance

	Mar. 06	June 06	Sep 06	Dec 06	Mar 07	June 07	Sep. 07	Dec. 07	Mar. 08
NPLs/Gross Receivables %	2,5	2,0	2,1	2,3	2,5	2,7	2,9	3,2	5,3
Number of Compa. Making Loss	10	18	11	11	14	11	15	13	24
Period Profit/Total Own Funds %	4,4	3,4	25,1	27,9	7,2	6,2	11	21	1,8
Period Profit/ Total Assets %	1,3	0,8	7,4	7,8	2,2	1,4	0,6	5,6	0,5
On-B/S FX net Posit./ Own Funds %	-37	-45	-35,1	-43,3	-41	-50	-49	-48	-60
Transaction Limit Ratio(< 30)	2,8	3,3	2,8	3,0	3,0	3,2	3,4	3,3	2,8

The assets of factoring companies showed a growth by 14.7% in March 2008 compared to previous year. It is seen that the source of the growth of assets are mostly the increasing financial and commercial debts. It is observed that while the financial and commercial debts within the balance sheet are increasing, the funds could not be transformed to factoring receivables evenly, that the cash held in banks are augmented, and that the receivables to NPL ratio is increased from 3.2% to 5.3%.

The factoring receivables having a share by 82.1% within the assets have grown by 11% when compared to previous period and their share within the assets decreased by 2.7 points. The growth by 22.4% in non-metallic mines sub-sector within the industrial sector and the one by 21.9% in constructions sector and the shrinkage by 25.8% in the sub-sectors of wholesale and sale by retail, repair and commissioning are pointing out. When the receivables are analyzed based on customer groups, it is seen that 82.8% of the receivables are from non-SME commercial institutions, 11.2% are from SMEs and 6% are from other customer groups. This distribution shows that comparing to previous period, the share of SMEs within the receivables decreased by 3.3 points, and the share of other sectors increased by 2.5 points.

Table 2.3.-4: Factoring Receivables

(TRY Million)	Dec.07	Mar.08	Share%	Growth (%)	Com. Ins.	SME	Other
Agriculture	102	107	1,6	4,3	1,5	2,0	2,1
Industry	4.378	4.501	67,9	2,8	69,1	68,1	50,9
Services	1.846	1.973	29,8	6,9	28,6	29,2	46,4
Other	55	51	0,8	-7,5	0,8	0,6	0,6
Total	6.381	6.632	100,0	3,9	5.491	745,2	395,9

When compared to the period of March 2007, the incomes of factoring companies have shown a growth by 23%. Within the same period, the interest expenditure increased by 37.9%, personnel expenditure increased by 83%, and the net loss resulted by other activities increased by 86%, and the interim profit decreased by 61.6%. Periodically, the increase in interest payments emanated by

the augmentation of interest rates, the increase in reserves caused by NPLs and the fact that exchange losses have exceeded the exchange incomes resulted by the augmentation of the exchange rates caused the reduction of the interim profit.

2.3.3 Consumer Financing Sector Activities

Within the period of March 2008, the share of NPLs of consumer financing companies within total loans increased by 2.4 points, while their own funds profitability decreased by 11.3 points and their asset profitability decreased by 0.9 points, and their on-balance sheet net position negatively increased by 221 points. In conclusion, the number of companies making loss which was 1 in previous period increased to 4 within this period.

Table 2.3.-5: Indicators of Performance of Consumer Financing Sector

	Mar. 06	June 06	Sep. 06	Dec. 06	Mar. 07	June 07	Sep. 07	Dec. 07	Mar. 08
NPLs/Gross Receivables %	1,4	1,6	1,7	2,4	2,0	1,7	2,0	2,2	4,6
Nbr. Of Companies Making Loss	2	0	1	0	1	1	1	1	4
Period Profit/ Total Own Funds %	4,0	10,0	16	19	6,0	11,0	14,0	17,0	5,7
Period Profit/ Total Assets %	0,3	0,7	1,2	1,4	0,4	0,9	1,1	1,3	0,4
On-Balance Sheet FX net Position/Own Funds %	-167	-211	-113	-153	-157	-152	-163	-161	-381
Transaction Limit Ratio (< 30)	13,1	14,2	13,3	13,6	13,0	11,9	11,3	12,2	12,0

The assets of financing companies showed a growth by 10.2% within the period of March 2008. It is seen that the fundamental source of the growth is the increase of financial and commercial debts. The growth rate of loans which is 6.5% stayed behind the growth rate of the assets and its share within the balance sheet decreased by 3.2 points. The share of NPLs is 2.9%. On the other hand, it is observed that the cash assets held by financing companies have shown a considerable increase.

According to the analysis of the data related to loans, it is seen that total loans of financing companies have grown by 5.2% within the period of March 2008, and the highest growth occurred in the services sector with 12.7%, but also that the shares of personal and SME customers within loans decreased respectively by 1.6 and 1.9 points while the shares of commercial companies and other customers increased evenly.

Table 2.3.-6: Financing Companies' Loans

(TRY Million)	Share		Share		Growth (%)	By Customer Group			
	Dec.07	(%)	Mar.08	(%)		Personal	Comm. Comp	SME	Other
Agriculture	12,8	0,3	12,6	0,3	-0,9	0,1	0,0	0,0	0,2
Industry	2.555,0	67,2	2.648,2	66,2	3,6	95,8	57,7	95,5	61,6
Services	579,6	15,2	653,0	16,3	12,7	1,7	17,5	3,4	7,2
Other	656,3	17,3	688,0	17,2	4,8	2,4	24,9	1,1	30,9
Total	3.804	100	4.002	100	5,2	1.243	988	440	1.331

As compared to the period of March 2007, a reduction in all income items of the financing companies is observed in March 2008. Within this framework, financing incomes decreased by 67%, interest incomes decreased by 73%, personnel expenses decreased by 73% and period profit decreased by 63%.

3 RISK, CAPITAL and PROFITABILITY EVALUATION

3.1 Banking Sector Risk, Capital and Profitability Evaluation

3.1.1 Loan Risk

Total cash loan volume which was TRY 285.6 billion as of end-2007 increased by 11.9% to TRY 319.6 billion within the first quarter of 2008. The FX loan volume which increased by 9.8% within the period of September 2007–December 2007 showed an increase by 25.4% within the period of December 2007- March 2008 and reached to TRY 86 billion. FX-indexed loans which were TRY 18.5 billion as of December 2007 increased by 23.3% in March 2008 to TRY 22.8 billion. Within this framework, the growth of FX loans and FX-indexes loans is faster than the growth of TL loans within 2008.

The non-cash loans and liabilities which had a low growth rate until the period of December 2007 and which grew by 4% within the period of September 2007-December 2007, showed an important growth by 15.9% as of the first quarter of 2008. As of the first quarter of 2008, it is seen that the share of FX non-cash loans which decreased in 2007 re-increased and constitute the 63% of non-cash loans. This rate has shown an increase by five points comparing to end-2007.

Within the first quarter of 2008, the NPLs decreased by 3.7% comparing to end-2007 and they realized as TRY 9.3 billion. Within this period, only the NPLs of participation banks showed an increase. The decrease occurred in the reserves to gross NPLs ratio during the whole 2007 kept also continuing within the first quarter of 2008. This ratio which was 86.8% by the end-2007 is realized as 84.8% within the first quarter of 2008. When compared to the period of December 2007, both gross NPLs and the provisions reserved have decreased in March 2008. The decrease occurred in the provisions to gross NPLs ratio is evaluated as a negative factor for loan risk.

As of the first quarter of 2008, the share of short-termed loans within total loans keeps decreasing. Especially for consumer loans, the growth rate of medium and long-termed loans is conducting above the growth rate of short-termed loans. When it's analyzed based on monetary unit, both short-term and long-term, the share of FX loans within total loans increased.

Table 3.1-1: Distribution of Maturity and Monetary Unit in Loans and Credit Cards

%	Loans			Credit Cards			Consumer Loans		
	Dec. 06	Dec. 07	Mar. 08	Dec. 06	Dec. 07	Mar. 08	Dec. 06	Dec. 07	Mar. 08
Short-Termed Total	46,8	45,9	44,9	94,6	98,8	99,4	9,8	9,8	9,3
TL	37,7	38,3	36,2	94,7	98,6	99,2	9,8	9,8	9,3
FX	9,1	7,6	8,7	0,2	0,2	0,2	0,0	0,0	0,0
Long-Termed Total	53,2	54,1	55,1	5,1	1,2	0,6	90,2	90,2	90,7
TL	36,8	37,8	36,9	5,1	1,2	0,6	90,2	90,2	90,7
FX	16,4	16,3	18,1	0	0,0	0,0	0,0	0,0	0,0
Total	100,0	100,0	100,0	100	100,0	100,0	100	100,0	100,0
TL	74,6	76,0	73,1	99,8	99,8	99,8	100	100,0	100,0
FX	25,4	24,0	26,9	0,2	0,2	0,2	0,0	0,0	0,0

When the distribution of grand loans extended by banks is analyzed, it is seen that; within the first quarter of 2008, the amount of loans which compose between 10%-20% of the banks' own funds is grown comparing to end-2007 and that the shares of these loans within both own funds and loans are also increased. As of the same period, it is seen that both the amount and shares within loans and own

funds of the loans composing the 20%-25% of the banks' own funds are decreased.

Table 3.1-2: Distribution of the Grand Loans Extended by Banks

%	Dec.06		Dec.07		Mar.08	
	Proportion to Own Funds	Proportion to Loans	Proportion to Own Funds	Proportion to Loans	Proportion to Own Funds	Proportion to Loans
Higher than 10	51,1	12,0	29,9	7,0	37,3	8,4
Between 10-15	21,2	5,0	12,8	3,0	18,1	4,1
Between 15-20	13,7	3,2	7,5	1,8	14,2	3,2
Between 20-25	11,8	2,8	6,9	1,6	5,0	1,1

*The loans which compose 10% or higher of the own funds extended to one natural or legal person or to a risk group are considered as grand loan.

As of the first quarter of 2008, the share of loans granted higher than TRY 1 million within total loans increased nearly by 3 points. The distribution of number of customer did not vary much; only the share of number of customer to which a loan between TRY 51 thousand-TRY 100 thousand within the total increased a little. For the same period, the loan amount per customer increased in all loan scales and especially for loans higher than TRY 1 million, the fast increase occurred in the mentioned amount is considerable.

Table 3.1-3: Distribution of Loans by Size and by Number of Customers

Amount of Loan	Total Loan (%)			Nr. Of Customers (%)			Loan Amount per Customer (TRY Th.)		
	Dec.06	Dec.07	Mar.08	Dec.06	Dec.07	Mar.08	Dec.06	Dec.07	Mar.08
Higher than TRY 1 million	42,36	40,55	43,19	0,05	0,06	0,07	6.146	5.494	6.083
TRY 501 Th. -TRY 1 million	4,87	5,02	4,82	0,05	0,06	0,06	710	698	706
TRY 101 Th. - TRY 500 Th.	12,48	13,58	13,07	0,46	0,56	0,63	199	194	194
TRY 51 Th.- TRY 100 Th.	6,75	7,76	7,60	0,71	0,89	1,00	70	70	71
Lower than TRY 51 Th.	33,55	33,09	31,32	98,72	98,43	98,24	3	3	3
Total	100,00	100,00	100,00	100,00	100,00	100,00	7	8	9

It is seen that the share of loans extended to the agricultural sector increased, and that the shares of services and industrial sectors within the total decreased a little in the first quarter of 2008. When the NPL ratios in sectoral base are analyzed, it is observed that NPL ratios decreased in all sectors. The NPL ratios decreased also in the sub-sectors of industrial sector within the same period.

Table 3.1-4: Sectoral Distribution of Corporate and Commercial Loans

Mar. 08 (%)	Sectoral Distribution of Cash Loans				NPL Ratio	Non-Cash Loans
	Short-Termed	Medium-Long Termed	Total (Gross)			
Agriculture	6,62	4,96	5,81	3,07	1,11	
Industry	46,88	34,42	41,07	4,29	42,82	
Mining	2,22	1,21	1,71	1,50	2,83	
Manufacturing Industry	43,73	29,98	37,39	4,63	36,73	
Electricity-Gas-Water	0,94	3,23	1,98	0,16	3,26	
Services	46,49	60,62	53,12	2,41	56,07	
Total	100,00	100,00	100,00	3,14	100,00	
Tot. Corporate and Comm. Loans (TRY Billion)	109,10	110,28	226,14		112,09	
Corp. and Comm. Loans/Tot. Loans (%)	75,87	62,25	68,38		66,23	

When the NPLs by sub-sectors within the period of December 2007–March 2008 are analyzed, the most interesting thing is the decrease by 2 points occurred in the NPL of textile and textile products sub-sectors. This situation designates the transformation of the view from negative to static. In parallel with this development, the NPL ratio of this sector which was 13.1% by the end-2007 decreased within the first quarter of 2008 to 10.9%.

Table 3.1-5: Sub-Sectors Having the Highest Shares within NPL

	Dec.07			Mar.08		
	Share within NPL (%)	NPL/Total Loans (%)	Share(%) and Range within Cash Loans	Share within NPL (%)	NPL/Total Loans (%)	Share(%) and Range within Cash Loans
Credit Cards	17,76	6,34	9,3 (3)	18,12	6,12	8,74 (4)
Textile and Textile Products Ind.	15,45	13,09	3,63 (8)	13,52	10,89	3,48 (7)
Other	12,39	4,64	9,03 (4)	11,46	2,80	12,51 (1)
Wholesale Commerce and Commissioning	6,05	4,00	5,14 (5)	5,95	4,04	4,44 (6)
Food, Beverage and Tobacco Ind.	5,17	5,28	3,29 (10)	5,16	5,01	3,08 (10)
Individual Loan Other	5,06	1,75	10,05 (2)	6,12	1,88	10,02 (3)
Construction	3,90	2,86	4,7 (6)	4,07	2,62	4,75 (5)
Retail Trade and Personal Products	2,74	4,27	2,18 (13)	3,23	4,70	2,06 (14)
Agriculture*	2,67	4,86	1,85 (15)	2,95	3,02	2,98 (11)
Individual Loan Automobile	2,40	3,87	2,11 (14)	2,58	4,15	1,87 (15)

*Fishing and hunting are not included.

Total NPLs decreased by 3% within the period of December 2007-March 2008 to TRY 10.1 Billion. Also within this period, the amount of unsecured NPLs and the share of unsecured loans within total NPLs increased. This increase can be evaluated as a negative situation for loan risk especially within the framework of recent development in the global loan markets.

Table 3.1-6: NPL Assurance and Guarantee Information

	Gross Balance (TRY million)			Proportional Distribution According to Assurance (%)			Total Assurance/Loan (%)		
	Dec 06	Dec 07	Mar 08	Dec 06	Dec 07	Mar 08	Dec 06	Dec 07	Mar 08
	Total NPL	8.550	10.345	10.070	100,0	100,0	100,0	38,0	36,3
a) With Assurance Group I.	19	54	27	0,2	0,5	0,3	52,6	85,0	54,3
b) With Assurance Group II.	3.382	3.891	3.643	39,6	37,6	36,2	71,0	64,1	70,5
c) With Assurance Group III.	1.374	1.739	1.728	16,1	16,8	17,2	51,1	62,5	73,8
d) With Assurance Group IV.	224	243	242	2,6	2,4	2,4	61,4	50,7	46,1
e) Without Assurance	3.552	4.417	4.430	41,5	42,7	44,0			
Re-Structured Receivables	1.477	477	198						
Receivables on New Redemption Plan	583	387	344						

The general decrease in the NPLs during 2007 kept also continuing within the first quarter of 2008. When it's analyzed in sectoral basis, the most conspicuous thing within the first quarter of year is the decrease occurred in NPL ratio of agricultural loans. However, the fact that the mentioned ratio is more volatile in the agricultural sector comparing to other sector shall be considered. The NPL ratio which was generally 3.42% in December 2007 is decreased to 3.05% in March 2008.

Table 3.1.-7: NPL Ratios in Sectoral Basis

%	December 06	March 07	June 07	September 07	December 07	March 08
Personal	2,98	3,12	3,07	3,02	2,88	2,84
Agriculture	6,78	4,05	2,99	4,27	4,61	3,07
Industry	4,57	5,17	5,24	4,97	4,80	4,29
Services	2,80	2,66	2,47	2,51	2,49	2,41
Other	5,98	4,54	5,80	5,18	4,62	2,79
Total	3,71	3,65	3,64	3,58	3,42	3,05

The scenario analysis results of March 2008 do not comprise any considerable changes in CAR variation comparing to the period of December 2007. According to these, an increase is observed in the emergent loss amounts as well as the proportion of these amounts to the own funds. This situation can be considered as a consequence of the fact that the growth rate of loans is higher than own funds. Consequently, it is possible that the probable losses emanated from loan risk affects the own funds and thus the capital adequacy more seriously.

Table 3.1.-8: Loan Risk Scenario Analysis Results

Scenario (TRY Million)	Dec.07				Mar.08			
	Loss	CAR (%)	CAR Varia. (Point) *	Loss/ Own Funds (%)	Loss	CAR (%)	CAR Varia. (Point) **	Loss/ Own Funds (%)
Transformation of 1% of Cash Loans to Loss	2.329	17,62	-0,52	3,18	2.628	16,01	-0,50	3,41
Transformation of 5% of Cash Loans to Loss	11.645	15,49	-2,65	15,92	13.142	13,95	-2,56	17,01
Transformation of 1% of Non-Cash Loans to Loss	674	17,99	-0,15	0,92	776	16,37	-0,14	1,01
Transformation of 5% of Non-Cash Loans to Loss	3.369	17,39	-0,75	4,60	3.879	15,77	-0,74	5,03

Not: The data related to İller Bankası are excluded.

* Average CAR related to the period of December 2007 is 18.14%.

**Average CAR related to the period of March 2008 is 16.51.

3.1.2 Market Risk

Commercial portfolio amount which reached to TRY 124 billion as of end of 2007 amounted to TRY 136 billion, as a result of the increase observed especially in securities available for sale in March 2008. Derivative financial instruments grew by 45% in the first quarter of 2008 when compared to the end of 2007 and amounted to TRY 232.3 billion.

Distribution of securities by types shall be considered in the assessment of sensitivity to risk factors in respect of market interest rate risk.

Table 3.1-9: Distribution of Commercial Portfolio by Securities Types

%	Dec.07			Mar.08		
	TL	FX	Total	TL	FX	Total
GS	73,39	12,33	85,72	69,58	15,08	84,66
Variable Interest	40,54	6,03	46,57	34,78	8,77	43,56
Fixed Interest	32,85	6,31	39,15	34,80	6,31	41,10
Eurobond	0,00	10,95	10,95	0,00	12,21	12,21
Variable Interest	0,00	0,00	0,00	0,00	0,01	0,01
Fixed Interest	0,00	10,94	10,94	0,00	12,20	12,20
Stock and Share and Investment Fund	0,37	0,06	0,43	0,35	0,07	0,41
Other	0,15	2,75	2,90	0,13	2,59	2,72
Variable Interest	0,03	2,44	2,46	0,02	2,33	2,35
Fixed Interest	0,13	0,31	0,43	0,11	0,26	0,37
TOTAL	73,91	26,09	100,00	70,06	29,94	100,00
Variable Interest	40,57	8,47	49,04	34,80	11,11	45,91
Fixed Interest	32,97	17,56	50,53	34,90	18,77	53,67
Other	0,37	0,06	0,43	0,35	0,07	0,41

In December 2007-March 2008 period, share of FX securities within total increased. The said situation derived from GS which composes 85% of total securities. Besides, developments in global markets increased the interest to fixed interest securities. When analyzed securities by types, it is observed that the share of state securities within total securities decreased partially. The decrease in the said period was balanced with the increase in the share of Eurobond by 2.5 points.

Average composite interest rate realized in secondary market for GS which decreased by 16% in September 2007 with the effect of the fluctuation in global markets was realized as 16.7% in the end of 2007. Interests which began to increase again as of 2008 reached to 18.5% as of March 2008. Interest rates, which began to experience a moderate process in parallel with the fact that the effect of the fluctuation diminished around the end of 2007, became more fluctuated, due to the fact that secondary effects of fluctuation occurred again in March 2008. The fact that the fluctuation in interest rates increased again as of 2008 causes an increase in the market interest rate risk the sector is exposed to.

It is observed that deposit banks of which have high fixed interest GS total in portfolios/capital ratio shall influence intensively the most from the changes in GS prices. On the other hand, the fact that there was no important change in total own-funds in December 2007- March 2008 period, while there was an increase by TRY 9 million in fixed interest GS amount in the commercial portfolio in the same period, worked out the relative effect of the scenarios practiced to be more evident.

Table 3.1-10: Effects of Possible Changes in Second Hand GS Prices

March 2008 (TRY Million)				Change in Second Hand GS Prices			
	Commercial Portfolio	Fixed Interest GS	Own-fund	-5	-1	1	5
				Effect of Changes in Prices to Capital (%)			
Deposit	122.841	53.959	64.198	-4,2	-0,8	0,8	4,2
DIB	1.803	1.301	9.307	-0,7	-0,1	0,1	0,7
Total	124.644	55.261	73.505	-3,8	-0,8	0,8	3,8

Eurobond amount which decreased in the end of 2007 when compared to September 2007 increased again as of the first quarter of 2008. Having added the relative minor decrease in own-funds to the said increase resulted in the fact that the scenario analyses made upon March 2008 data produce more negative results than the previous period.

Table 3.1-11: Effects of Possible Changes in Eurobond Prices

March 2008 (TRY Million)					Change in Eurobond Prices					
	Commercial Portfolio	Fixed Interest Eurobond	Own-fund		-10	-5	-1	1	5	10
					Effect of Changes in Prices to Capital (%)					
Deposit										
Bank	122.841	16.084	64.198		-2,5	-1,3	-0,3	0,3	1,3	2,5
DIB	1.803	299	9.307		-0,3	-0,2	0,0	0,0	0,2	0,3
Total	124.644	16.383	73.505		-2,2	-1,1	-0,2	0,2	1,1	2,2

ISE index, which is analyzed within the scope of stock price risk, began to increase in 2008 and reached to the highest level of the year in mid-February. The index, which began to decrease due to the effect of global fluctuation afterwards, realized as 39.000 levels in March. Although, there was an increase in index yield volatility in the beginning of 2008, which experienced a short-term bounce in August 2007, the index experienced a more moderate process as of March.

Chart 3.1-1: ISE-100 Index Daily Yield Volatility



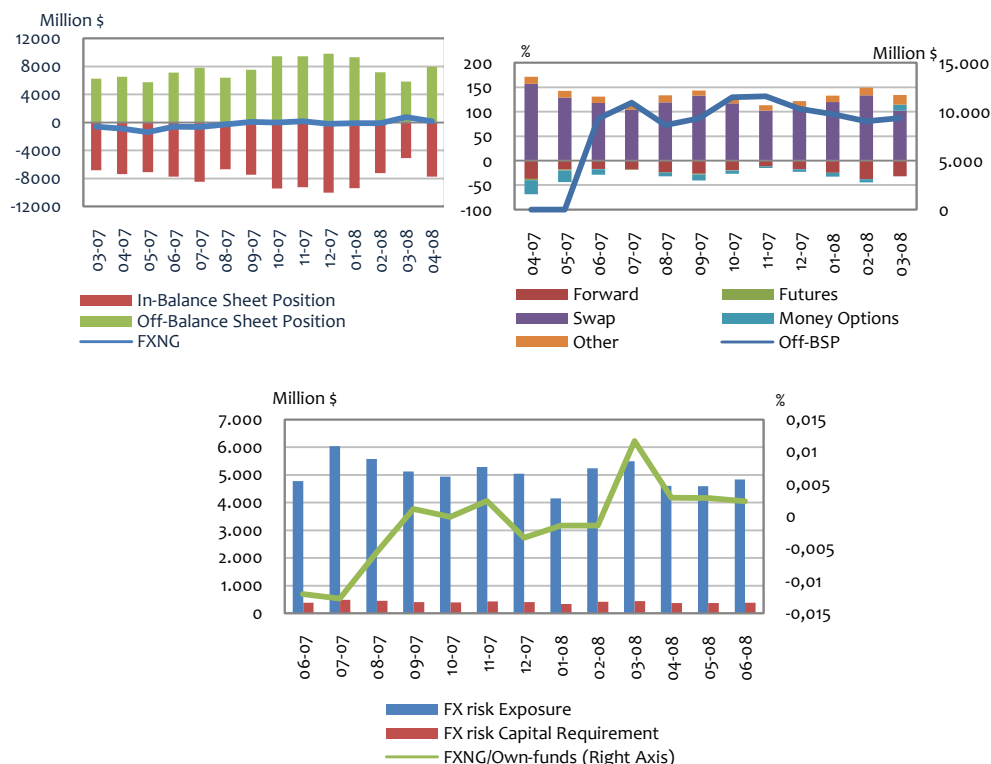
It is observed that the effects of stock and investment fund price changes on the capital of the sector are rather limited when compared to GS and Eurobond prices. On the other hand, even when the decrease in own-funds is added to the increase in commercial portfolio and stock investments, it is observed that scenario results prepared according to March 2008 data does not contain a significant change in respect of banks when compared to December 2007.

Table 3.1-12: Effects of Possible Changes in Stock and Investment Fund Prices

March 2008 (TRY Million)				Changes in S+IF Prices (%)					
				-10	-5	-1	1	5	10
Commercial Portfolio									
Deposit	122.841	522	64.198	-0,08	-0,04	-0,01	0,01	0,04	0,08
DIB	1.803	44	9.307	-0,05	-0,02	0,00	0,00	0,02	0,05
Total	124.644	566	73.505	-0,08	-0,04	-0,01	0,01	0,04	0,08
December 2007 (TRY Million)				Changes in S+IF Prices (%)					
				-10	-5	-1	1	5	10
Commercial Portfolio									
Deposit	121.534	467	64.533	-0,07	-0,04	-0,01	0,01	0,04	0,07
DIB	2.320	44	8.952	-0,05	-0,02	0,00	0,00	0,02	0,05
Total	123.854	510	73.486	-0,07	-0,03	-0,01	0,01	0,03	0,07

On-balance sheet open position (OBOP) and off-balance sheet position (OBP) increased significantly in the last quarter of 2007; however it entered into a decrease tendency in the first quarter of 2008 and was realized as USD 5 and 5.8 billion in the end of March 2008. It is observed that FXNGP/Own-fund ratio which fluctuation in $\pm 3\%$ tranche in the first three quarters of 2007 fluctuated in $\pm 1.5\%$ tranche in September 2007–March 2008 period. Swap transactions constitute the most important share of off-balance sheet position.

Chart 3.1-2: Balance Sheet Positions, FXNGP and Exchange Risk Capital Liability



On the other hand, it strikes the attention that capital of participation banks shall be influenced positively from exchange increases, while it shall be influenced negatively from exchange rate decreases. It is observed that scenario results of

participation banks of which FXNG/Own-fund ratio decreased in absolute value practiced according to March 2008 data produced more negative results when compared to the previous period. This situation derived from the fact that the on-balance sheet positions and foreign exchange net general positions of the said banks are positive. It is observed throughout the sector that sensitivity to exchange changes decreased.

Table 3.1-13: Effects of Possible Changes in Exchange Rates

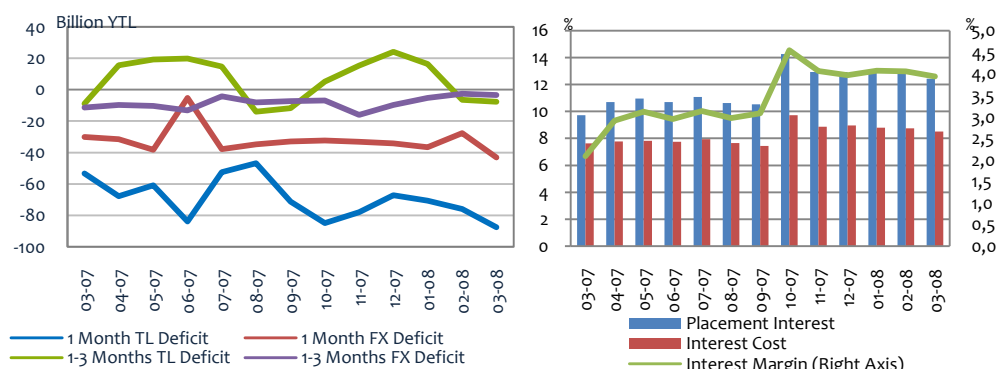
As of March 28, 2008 (USD Million)	On-Balance Sheet Position	Own-fund	On-balance sheet P./Own-fund (%)	FXNGP	FXNGP/Own-Fund (%)	Change Ratio in Rates (%)					
						-20	-10	1	5	25	50
Deposit	-5.730	62.050	-9,2	708	1,1	1,85	0,92	-0,09	-0,46	-2,31	-4,62
Development	201	7.322	2,7	-6	-0,1	-0,55	-0,27	0,03	0,14	0,69	1,37
Participation	628	1.953	32,2	39	2,0	-6,43	-3,22	0,32	1,61	8,04	16,08
Total	-4.901	71.325	-6,9	741	1,0	1,37	0,69	-0,07	-0,34	-1,72	-3,44

3.1.3 Structural Interest Rate Risk

When the change within the period is analyzed, it is observed that the 1-month deficit increased in Turkish Lira in absolute value in the first quarter of 2008, 1-month FX deficit and 1–3 months FX deficit experienced no significant change. 1–3 months TL surplus decreased considerably in the first quarter of 2008 and converted into a deficit. The increase observed in the last quarter of TL deficits in the last quarter can be evaluated as a negative development in respect of structural interest rate risk.

It is observed that average placing interest decreased about by 0.5 points to 12.4% in the first quarter of 2008, while average interest cost decreased by 0.4 points to 8.5%. No important change is observed in interest margin.

Chart 3.1-3: Development of Interest Deficits, Interest Margin and Components



In the various scenario analysis performed in order to determine the structural interest rate risk level the sector is exposed to, effect of interest changes on profitability of the bank is calculated according to the data such as residual times to reprising dates of asset and liabilities of the bank and average placing interest and liability cost. In the calculations, it is assumed that sensitivity of asset and liability of the bank to interest does not change during the analysis period. Furthermore, in the analyses, it is assumed that there is no new liability inflow and

the time value of the money is neglected. In the table below, according to scenario 3, TL interests increase by 1 point in 1 month, by 2 points in 1-3 months, 3 points in 3-6 months and 6 points in 6-12 months period.

Table 3.1-14: Scenarios Concerning Structural Interest Rate Risk

Scenarios	Change in TL Interests (points)				Change in FX Interests (points)			
	1 month	1-3 months	3-6 months	6-12 months	1 month	1-3 months	3-6 months	6-12 months
Scenario1	1,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Scenario2	0,00	0,00	0,00	0,00	1,00	0,00	0,00	0,00
Scenario3	1,00	2,00	3,00	6,00	0,00	0,00	0,00	0,00
Scenario4	0,00	0,00	0,00	0,00	0,25	0,50	0,75	1,50
Scenario5	1,00	1,00	1,00	1,00	0,50	0,50	0,50	0,50
Scenario6	10,00	0,00	0,00	0,00	5,00	0,00	0,00	0,00
Scenario7	0,00	0,00	10,00	0,00	0,00	0,00	5,00	0,00
Scenario8	-1,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Scenario9	0,00	0,00	0,00	0,00	-1,00	0,00	0,00	0,00
Scenario10	-1,00	-2,00	-3,00	-6,00	-0,25	-0,50	-0,75	-1,50

As a result of the scenarios practiced, when analyzed the alternative profit and loss occur in TL and FX items, it is observed that total profit and loss values in all scenarios is higher in absolute value in March 2008 period when compared to December 2007 period.

Table 3.1-15: Scenario Results Concerning Structural Interest Rate Risk

Profit/Loss (TRY Million)	September 07			December 07			March 08		
	TL	FX	Total	TL	FX	Total	TL	FX	Total
Scenario1	-1.203	0	-1.203	-1.194	0	-1.194	-1.497	0	-1.497
Scenario2	0	-691	-691	0	-690	-690	0	-866	-866
Scenario3	-13.451	0	-13.451	-11.954	0	-11.954	-15.953	0	-15.953
Scenario4	0	-3.468	-3.468	0	-3.895	-3.895	0	-4.772	-4.772
Scenario5	-5.654	-2.254	-7.908	-4.830	-2.475	-7.305	-6.641	-3.022	-9.664
Scenario6	-12.035	-3.456	-15.492	-11.942	-3.451	-15.394	-14.973	-4.330	-19.303
Scenario7	-17.571	-7.728	-25.300	-18.316	-8.506	-26.822	-18.893	-11.218	-30.111
Scenario8	1.203	0	1.203	1.194	0	1.194	1.497	0	1.497
Scenario9	0	691	691	0	690	690	0	866	866
Scenario10	13.451	3.468	16.919	11.954	3.895	15.850	15.953	4.772	20.726

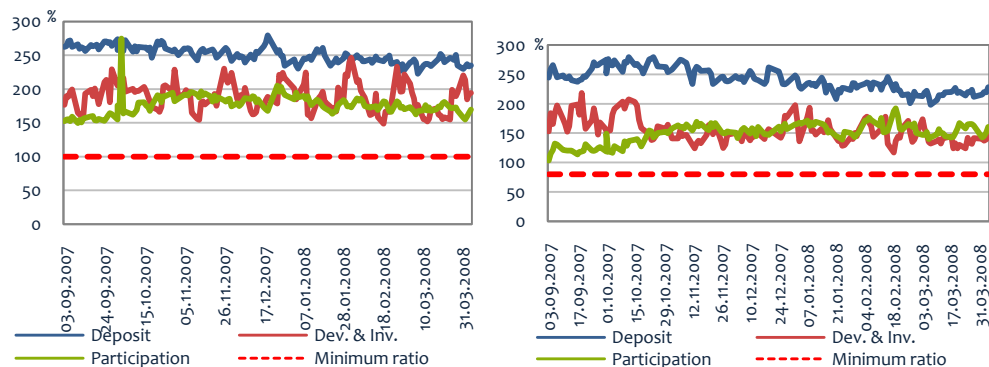
When analyzed the scenarios stating the unit increases in interests, it is observed that loss amount in Scenario 1 which representing TL interest rate increase by 1 point in 1-month period is TRY 1.194 million in December 2007 period, it is calculated as TRY 1.497 million for March 2008. Similarly, loss amounts in Scenario 2 representing USD interest rate increase by 1 point in 1-month period was realized as TRY 690 million in December 2007 and TRY 866 million in March 2008 period. These results designates to the sensitivity to structural interest rate risk.

3.1.4 Liquidity Risk

When analyzed the development of daily foreign exchange and total liquidity adequacy ratios in bank groups' basis, it is observed that daily foreign exchange liquidity adequacy ratios and total liquidity adequacy ratios were realized above

the determined sub-limits in all bank groups, despite the decrease tendency when compared to the previous period.

Chart 3.1-4: Development of Daily FX and Total Liquidity Adequacy Ratios



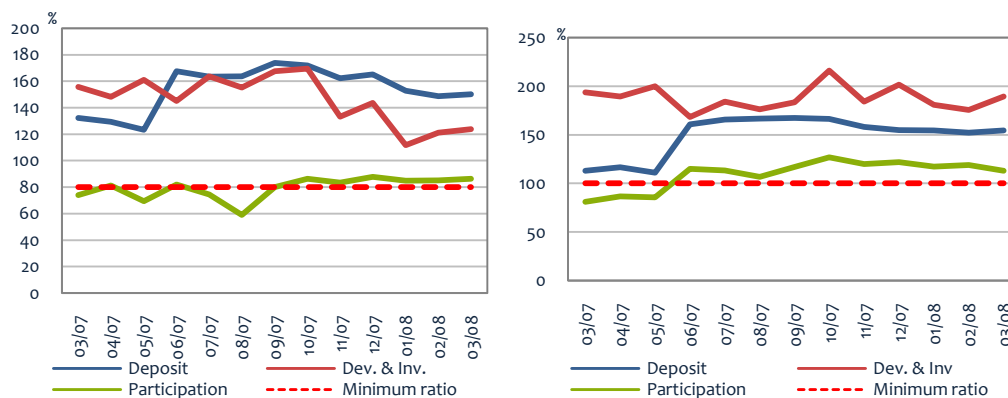
Throughout the sector, foreign exchange and total liquidity adequacy ratios concerning the second maturity tranche experienced a decrease tendency when compared to the previous period and realized as 147.2% and 154.1%. The reason of this is the fact that increase rate in total assets is lower than the increase rate in total liabilities.

Table 3.1-16: FX and Total Liquidity Adequacy Ratio Components (2nd Mat. Tranc.)

(TRY Million)	December 07		March 08		December 07		March 08		(TRY Million)
Assets	TL	FX	TL	FX	TL	FX	TL	FX	Liabilities
Cash Assets and CBRT	24.101	6.176	24.515	6.841	100.251	30.833	107.273	33.078	Deposit
Fair Value and Securities Available for Sale	2.097	298	2.169	27.772	3.299	1.448	4.452	2.568	CBRT, Banks Abroad Center and Branches
Banks Abroad Center and Branches	21.931	17.865	23.594	19.890	3.419	2.211	2.662	1.960	Other Loans
Receivables	8.940	3.924	9.604	4.525	32.386	2.585	33.844	2.596	Other Liabilities
Loans	71.885	11.192	77.544	13.571	11.934	1.160	12.587	1.590	Off-Balance Sheet Transactions
Securities Held to Maturity	19.251	3.521	18.589	2.906	30.845	19.652	37.787	28.285	Derivative Transactions
Derivative Transactions	30.850	24.876	38.056	27.610	182.133	57.888	198.606	70.077	Total
Total	282.557	93.586	306.094	103.122					
Second Maturity Liquidity Adequacy Ratio	155,1	161,7	154,1	147,2					

In bank groups basis, when analyzed the development of foreign exchange and total liquidity adequacy ratios in the first quarter of 2008 concerning the second maturity tranche, it is observed that it always realized below the sub-limits despite the decrease tendency when compared to the previous period.

Chart 3.1-5: FX and Total Liquidity Adequacy Ratio Components (2nd Maturity Tr.)



3.1.5 Capital Adequacy

Capital adequacy ratio (CAR) which was 18.9% in December 2007 realized as 17.2% as of March 2008 period. Total own-funds of the banking sector increased by 4.3% in March 2008 period when compared to December 2007 period and realized as TRY 80.8 billion, though risk weighted assets increased by 15% and reached to TRY 471 billion.

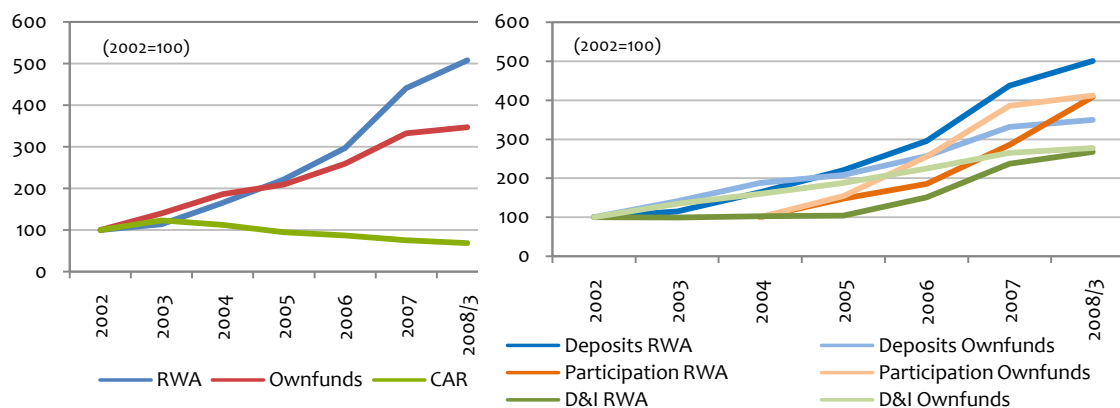
Table 3.1-17: Own-fund, Risk Weighted Assets and Capital Adequacy Ratio

	Own-fund (TRY Million)			RWA (TRY Million)			CAR		
	2007	2008/3	% change	2007	2008/3	% change	2007	2008/3	% change
Sector	77.436	80.835	4,39	409.308	471.093	15,09	18,9	17,2	-9,30
Deposit	66.087	69.635	5,37	380.469	435.754	14,53	17,4	16,0	-8,00
DIB	9.009	9.414	4,49	13.915	12.373	-11,08	64,7	76,1	17,51
Participation	2.337	2.499	6,91	14.489	18.391	26,94	16,1	13,6	-15,78
State	17.014	17.140	0,74	82.425	74.587	-9,51	20,6	23,0	11,32
Private	39.058	39.291	0,60	229.970	206.955	-10,01	17,0	19,0	11,78
Foreign	10.018	12.492	24,69	68.511	74.309	8,46	14,6	16,8	14,96
Big-Scale	50.814	52.626	3,57	279.714	319.416	14,19	18,2	16,5	-9,31
Medium-Scale	12.208	14.293	17,08	88.766	109.165	22,98	13,8	13,1	-4,80
Small-Scale	11.952	14.627	22,38	39.170	43.617	11,35	30,5	33,5	9,90

The reason of the decrease of CAR while own-funds of the sector increase is the increase in risk weighted assets. Main reason of the increase in risk weighted assets is the increase in the main amount subject to credit risk. This situation derives from both the increase in credit portfolio and the fact that the risk weight of provisional and performance bonds as well as the letters of credit was increased as of January 2008.

CAR of the banking sector, despite the decrease by 1.7 points as of March 2008, fluctuated above 12%, the target ratio and 8%, the legal ratio. This situation is regarded as a factor to enable the banking sector to be more resistant against the negative developments observed in the global markets recently.

Chart 3.1-6: Own-fund, Risk Weighted Assets and Capital Adequacy Ratio Index



When analyzed risk weighted assets, own-fund and capital adequacy ratio as index; it is observed that for the sector and deposit banks risk weighted assets are in a more rapid increase tendency than won-funds, however the increase tendency in participation and development and investment banks is more rapid. When analyzed CAR tendency throughout the sector, it is observed that there is a moderate decrease. One of the main reasons of this development is the fact that capital requirement is yielded for operational risk as of June 2007.

Table 3.1-18: Own-fund Components and Risk Weighted Assets

	2007		2008/3		Change	
	Amount (TRY Million)	%	Amount (TRY Million)	%	Amount (TRY Million)	%
Tier-I	74.638	96,4	77.021	99,5	3,2	
Tier-II	7.138	9,2	7.505	9,7	5,1	
Third Generation Capital	0	0,0	0	0,0	-	
Values Decreased from Capital	4.339	5,6	3.690	4,8	-15,0	
0% Risk Weight	229.759	34,6	166.646	26,7	-27,5	
20% Risk Weight	63.714	9,6	41.534	6,7	-34,8	
50% Risk Weight	78.755	11,9	80.370	12,9	2,1	
100% Risk Weight	291.154	43,9	335.349	53,8	15,2	

When analyzed the proportional shares of the items constituting own-fund, due to the fact that Tier-II is higher than the value decreased from capital throughout the sector, it is observed that own-funds are higher than Tier-I. This situation caused the capital adequacy ratio which is constituted of the Tier-I to risk weighted assets ratio is lower than CAR which is calculated by taking own-funds as a basis. Tier-I ratio as of March 2008 was realized as 16.3%.

The biggest proportional decrease in risk weighted assets was realized in assets subject to 20% of risk weight. The fundamental reason of this situation is the fact that provisional and performance bonds as well as the letters of credit which were subject to 20% of risk weight until January 2008 were taken out of this group and included in a higher risk group. The reason of the decrease in 0% risk weight assets is the fact that securities available for sale were included in purchase and sale accounts and evaluated in the amount subject to market risk, in case their share within total balance sheet exceeds 10%.

Table 3.1-19: Distribution of Legal Capital Requirement

	Deposit		DIB		Participation		Total	
	Amount (TRY Million)	Rate	Amount (TRY Million)	Rate	Amount (TRY Million)	Rate	Amount (TRY Million)	Rate
2008/3								
Credit Risk Capital Requirement	28.500	40,9	990	10,5	1.471	58,9	30.962	38,0
Market Risk Capital Requirement	1.953	2,8	79	0,8	6,4	0,3	2.039	2,5
Operational Risk Capital Req.	4.407	6,3	188	2,0	181	7,3	4.775	5,9
Free Capital	34.775	49,9	8.157	86,6	840	33,6	43.772	53,7

When the data relating to the share of required minimum capital concerning the risks being exposed to within total capital requirement is analyzed, it is observed that capital requirement concerning credit risk has the biggest share throughout the sector.

3.1.6 Profitability Analysis

Profit of the banking sector increased by 26.2% in March 2008 period when compared to March 2007 period and the profit of the sector was realized as TRY 3.9 billion. Although many banks in international markets made public of loss, profitability of the Turkish banking sector increased which is a positive sign. Despite the possibility of fluctuation in global markets to affect our banks in following periods, the fact that profitability increased and that was influenced to own-funds is important in respect of the increase in capital structure and endurance to fluctuation of the banking sector.

Source of the increase in profit is; net interest income which increased due to the interest from loans. When compared to March 2007 period, net interest income increased by 25.2%. In March 2008 period, when analyzed total income-expense structure of the sector; it is observed that total income of the sector increased by 20.4% when compared to March 2007 period, while total expense increased by 18.6%. While the share of banking service income within total income increased, share of SP interest incomes decreased.

Table 3.1-20: Selected Income Statement Items and Their Shares within Total

	Dec.05		Dec.06		Dec.07		Mar.08	
	Amount (TRY Million)	Rate (%)	Amount (TRY Million)	Rate (%)	Amount (TRY Million)	Rate (%)	Amount (TRY Million)	Rate (%)
Credit interest incomes	19.954	23,2	27.543	18,9	37.568	20,2	10.927	16,3
SP interest incomes	18.843	20,1	21.625	13,8	24.510	15,1	4.832	8,5
Capital market operation income	6.871	7,3	24.511	18,2	38.047	22,6	11.086	17,6
Banking service incomes	5.166	5,5	6.517	4,2	8.088	4,2	2.251	11,3
Loss on Exchange	34.151	38,7	65.209	44,8	67.970	39,0	38.520	56,7
Deposit interest expenses	19.775	22,4	27.246	18,7	34.365	19,7	9.061	13,3
Operational expenses	10.540	12,0	12.057	8,3	14.340	8,2	3.803	5,6
Provision expenses	6.314	7,2	5.525	3,0	2.285	3,2	2.285	3,4
Capital market operation expenses	5.495	6,2	23.268	16,0	38.814	22,3	10.713	15,8
Interests to financial markets	3.966	4,5	6.398	4,4	8.682	5,0	2.221	3,3
Financial liabilities	3.742	4,2	3.575	2,5	591	0,3	226	0,3
Other non-interest expenses	2.650	3,0	1.760	1,2	1.773	1,0	403	0,6

- *SP Interest Incomes: Securities Trading Portfolio + Securities Available for Sale + SHT*
- *Capital Market Operation Income: Securities Purchase/Sale Income + Income from Derivative Financial Instruments*
- *Capital Market Operation Loss: Securities Purchase/Sale Loss+ Loss from Derivative Financial Instruments*
- *Loss from Derivative Financial Instruments*
- *Banking Service Income: Transfer Commissions + Collection and Payment Commissions +Credit Card Fees and Commissions + Other*
- *Operation Expenses: Personnel Expenses+ Severance Pay Provision Expense + Other Operating Expenses + Amortization Expenses*
- *Interests to Financial Markets: Repo Interest Expenses + Interest Expenses to Banks + Money Market Transactions Interest Expense*

When compared to the same period of the previous year, return on asset and own-fund of banking sector decreased moderately and was realized as 2.8% and 21.4%, respectively. While medium-scale banks were effective in this decrease, it increased the profitability of big-scale banks. On the other hand, the reason of the decrease in medium-scale banks is the deceleration in profitability rate.

Table 3.1-21: Return on Assets and Equities Ratios by Function Group

	ROA %					ROE %				
	Dec.04	Dec.05	Dec.06	Dec.07	Mar.08	Dec.04	Dec.05	Dec.06	Dec.07	Mar.08
Sector	2,3	1,7	2,4	2,8	2,8	16,4	11,8	20,0	21,7	21,4
Deposit	2,3	1,5	2,4	2,7	2,7	17,7	11,7	21,1	23,1	22,8
Participation	-	3,0	3,3	3,2	3,1	-	33,5	30,8	27,3	25,7
DIB	2,9	5,8	5,2	5,0	4,9	6,7	12,1	10,8	10,5	10,4
Big-Scale	2,3	1,2	2,3	2,8	2,9	16,7	9,1	20,9	24,9	25,3
Medium-Scale	2,1	3,0	2,6	2,2	1,8	15,0	22,7	23,1	18,1	15,2
Small-Scale	2,8	3,5	2,5	3,5	3,3	16,0	13,9	9,6	11,8	11,3

When carried out the ratio analysis of banking sector in respect of profitability, it is observed that in March 2008 period, total incomes to average assets ratio and total expenses to average liabilities ratio were realized in parallel with the same period of the previous year as 4.3% and 3.3%, respectively. In the period examined, although ratio of non-interest incomes to non-interest expenses increased when compared to the previous period, it realized as 74.1%, indicating

non-interest incomes meet some portion of non-interest expenses. On the other hand, the fact that banking sector increased especially its intermediary function and increased credit interest incomes enabled interest incomes increased more rapidly than interest expenses and interest incomes were 1.6 times of interest expenses in March 2008 period.

Table 3.1-22: Ratio Analysis

	Dec.03	Dec.04	Dec.05	Dec.06	Mar.07	Dec.07	Mar.08
Total Incomes /Aver. Tot. Asset	20,7	17,5	15,3	15,5	4,2	16,2	4,3
Total Expenses /Aver. Tot. Liability	18,1	13,4	12,6	11,8	3,2	12,5	3,3
Interest Incomes/Interest Expenses	140,8	177,6	176,3	160,9	156,7	158,0	163,9
Non-Interest Incomes /Non-Interest Expenses	56,7	56,1	51,8	76,8	71,1	71,9	74,1
Interest Incomes/Total Income	84,4	83,2	81,1	79,8	83,3	81,8	80,4
Interest Expenses/Total Expense	68,5	61,0	55,8	65,3	69,3	67,1	64,9
Operating Expenses/Total Income	27,6	29,9	36,4	26,4	23,5	25,4	26,5
Net Profit/Aver. Own-funds	18,1	16,4	11,8	5,8	5,1	21,6	5,5
Interest to Deposit /Aver. Deposit	16,6	11,0	9,5	10,0	2,9	10,8	2,7
Interest Income from Loans /Aver. Loans	19,92	18,87	16,71	15,15	4,26	16,09	4,34

