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FINANCIAL MARKETS REPORT

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



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FINANCIAL MARKETS REPORT JUNE 2008 – ISSUE 10

Department of Strategy Development

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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 related to international and national economic developments, performance analysis by functional group and sector basis of banks, financial leasing, factoring and consumer financing companies, risk level and capital adequacy of the banking sector.
- 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 as a result of updating due to various reasons in the following issues.
- 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

Fluctuations in global financial markets lead by developed countries in the last year influence the global economic activity negatively. Furthermore, it is observed in the last three-month period that the growth in global extent presents a negative appearance, the inflationist pressures continues and the ambiguities increased more. In addition to these, the fact that a new phase started in which investment banks are included within problems originated by USA mortgage market caused the global outlook to decompose further. However, while an economic conjecture which only the developed countries would be influenced was mentioned in the first half of the year, now it is a period in which emerging economies cannot decompose evidently and may prominently be influenced more from the said crisis. Although most of the loss of the banks were realized and they passed on their losses relating to housing loans, it is expected that the reflections of the crisis in financial markets on real economy to come out more clearly. In order to overcome the loan shortage, central banks announce common measures. However, the loan shortage which has not been overcome yet and the trust which cannot be established in markets cause the economic reflections to be perceived by means of the decrease in asset prices. Reputation risk which increased rapidly for all financial institutions lead by investment banks, going beyond the housing financing institutions, increased in a level preventing the market operation. Measures the developed countries took accordingly are important in solving current problems as well as the reestablishment the trust of savers and gaining reputation for the system back again. Loan cost increase in this environment shall definitely effect the economies in need of fund. In this period, decreasing demand in addition to the production increase of OPEC and oil prices peak levels decreased sharply which created a relief in current inflationist pressures. However, it is observed that prices lead by food follow a stable tendency in high levels. This situation creates an inflation risk in global scale. Presently, it is observed that the outlook is damaged in global scale, volatility in financial markets increased and economic effects of loan shortage began to be perceived. Hence, it is observed that economies and financial systems which can preserve market trust and strong capital structure will experience the period with minimum damage.

Turkish economy grew by 1.9% in the second quarter of 2008, below the average of previous periods. Despite the rapid increase in the first quarter of 2008 and the deceleration in the second quarter, continuous growth is carried on for 26 quarters. Agriculture sector having diminished and manufacture and construction industries grown slower than previous years in the second quarter are factors limiting the economic growth in this period. Having analyzed manufacture industry production index which is a pioneer indicator in growth and manufacture industry capacity usage ratio which is about current period production, no potent signal that there will be a strong growth in the third quarter. Moreover, consumer optimism having decreased and the deceleration in domestic demand make a high growth rate difficult for the following period. January-August 2008 data in financial discipline which is as important as money policy in respect of macroeconomic and financial stability designates to an improvement when compared to the same period of the year, however current deficit continues to be a risk factor in macroeconomic stability. In addition to this, annual consumer inflation reached to the highest value in the last four years in July 2008 however decreased slightly in August 2008, due to the developments in food and energy

prices. On the other hand, the possibility of jumping the reflections of crisis in global financial markets to Turkey, possible difficulties for real sector and financial institutions in reaching international funds in global crisis environment, possible negative effect of the expected economic deceleration in euro zone on foreign demand of Turkey and decrease possibility of the share of direct investments in financing current deficit are factors creating fragility.

As of June 2008, share of consumer loans within household consumer expenses increased by 0.9 points when compared to the end of the previous year and realized as 14.6%. In the said period, share of credit cards within consumer loans composition decreased by about 20% in the end of 2007 from 17.9%. The increase in the relative share of consumer loans continued and amounted to 80.1% from 70% in the end of 2004.

Turkish finance sector grew by 12.1% in the first half of 2008 when compared to the end of 2007 and amounted to TRY 861.8 billion; ratio of GDP to total financial sector assets was realized as 91.9%. In the said period, real growth in total assets of banking sector was about 6.5%. It is considered that this growth obtained in an environment in which fluctuation in external financial markets continues contribute to the economy.

In June, while TL deposit, FX account, participation funds, government securities and repos portfolios of domestic residents increased when compared to the previous three-month period, precious metal accounts, Eurobond, investment funds and stock choices decreased, total portfolio size amounted to TRY 494.9 billion. Total portfolio of abroad residents decreased slightly; while Eurobond portfolio increased stock, government securities and deposit portfolios decreased when compared to the three-month period. The increase in total size of investment portfolio by about 5% in the first half of the year designates the performance in recent years is hard to catch up this year.

Depending on the strategy in banking sector to grow by expanding branch webs rapidly, it is observed that the increase tendency in branch and personnel number continues in the second quarter of the year. The number of ATM which is one of the alternative transaction canals increased by 9% in the first half of the year. The fact that the increase rate in the number of POS decelerated when compared to previous years is considered positive in respect of operational productivity.

Strong capital structure, high asset quality, profitability ratios which preserve their positive process, well-managed exchange rate designates that strong financial structure is maintained. The fact that the said progress was obtained in a period which serious problems are experienced enabled the soundness of the sector to be tested. BRSA-PI preserved its progress above the base year value in the first six-month period of the year. While liquidity and own-funds which are the components of performance index decreased when compared to the end of the previous year, profitability and asset quality components increased. Serious fluctuation in global markets is practically a stress test for the sector. In the first half of the year, it is evaluated as a result of this stress test that the sector preserved its strong outlook in financial stability as of the current indicators.

The total assets of banking sector grew nearly by 13% within the first half of year. It is seen that the growth within the second quarter remained behind the growth within the first one. The share of loans which are the most important item within total assets is increased but its growth rate has slowed down within the second quarter. The slowdown occurred in demand throughout economy is considered

as the determinant in this development. Among the fund resources of banking sector, the deposit has shown a growth above the one of balance sheet within the second quarter. The decrease experienced in the debts to banks item is interpreted as the liquidity constriction in foreign markets to affect negatively the borrowing possibilities of the sector.

The TL part of banking sector total assets is increased by 2.3 points to 68% in June 2008 comparing to previous quarter; while the share of TL liabilities is increased by 1% to 65.3%. It is seen that the intermediation functions in banking sector keep getting stronger. As of June 2008, throughout sector loans/deposit ratio is realized as 84.4%. The demographic structure, life standards increasing dependent to the augmenting national income, the continuation of macroeconomic and financial stability are still the fundamental determinants in the building-up of the intermediations function. In June 2008, the profit of banking sector is increased by 2.3% comparing to the same period of previous year. Dependent on the decrease seen in incomes provided from asset sales and in the securities portfolio, the interest profitability from securities made the profitability decrease too, however the relative reduction occurred in deposit interest rates compared to last year and thus the decrease of interest expenses to deposit had an effect increasing the profitability.

Total off-balance sheet transactions have reached to TRY 495 billion as of June and their ratio to total asset is 75.4%. This development is mostly emanated from the increase occurred in derivative instruments.

As of June 2008, there are 58 financial leasing companies, 78 factoring companies and 9 consumer financing companies operating in the non-banking finance sector. It is seen that the own funds profitability in financial leasing sector has shown a serious decrease within the period of June, that the share of NPLs within total receivables is in an increasing tendency and it has reached to 5.7% within this period. In factoring sector, a decrease is seen in the share of NPLs within total receivables within the second quarter of year. There are also increases in its asset and own funds profitability. Again it in this period, the share of NPLs of financing companies in total loans is increased by 0.2 points and their own funds profitability is increased by 2.1 points and their asset profitability is increased by 0.3 points.

Within the framework of the developments in financial sector, the risks faced by the banking sector did not change much within the second quarter of year when compared to the first quarter. As of the second quarter, in parallel with the increase in the amount of loans, the amount of NPLs is increased by 7.7% to TRY 10.8 billion comparing to first quarter. The share of NPLs without guarantees within total NPLs is increased slightly. It is seen that the decrease in reserves for contingencies/NPLs ratio is still continuing. The increasing tendency seen in the share of FX loans within total loans is reversed as of June. In June 2008, the NPL ratio of loans is realized as 3.04%. When loans are analyzed by sectors, it is significant to see that as of this period, the NPL ratios of loans granted to agriculture, industry, services sectors have decreased, while the NPL ratios of individual loans have increased. Within this period, the share of short-termed loans within total loans is increased by 0.6 points compared to March 2008 to 45.5%.

The June 2008 loan risk scenario results which included the scenarios inquiring the cash and non-cash loans to be transformed to losses by 1% and 5% did not change much comparing to the period of March 2008 for CAR variations. The

amounts of losses appeared as a result of these scenarios as well as their ratios to own funds have increased a little.

The commercial portfolio is decreased by 5.1% within the second quarter of 2008, as a result of the reduction seen in the amount of securities available for sale and marketable securities, and it is realized as TRY 129.4 billion. As a result of scenario analysis made for measuring the market risk for the period of June 2008, it is seen that the effect of variations in the prices of second hand GS and Eurobond on capital is decreased partially compared to previous period but the effect of variations in the stock and investment fund prices on capital did not change.

The On-Balance Sheet Open Position (OBSOP) and Off-Balance Sheet Position (OBSP) which entered to a decreasing tendency within the first quarter of 2008 have shown an important augmentation within the second quarter and they have realized above USD 14 billion and USD 13.9 billion by absolute value as of end-June 2008. The FX Net General Position (FXNGP)/ Own Funds ratio did not change much. It is seen that throughout sector, the sensitivity against exchange rate variations has increased.

The one-month deficit which is increase by absolute value in TL and FX within the first quarter of 2008 has entered to a decreasing tendency within the second quarter. The FX deficit for 1–3 months did not change considerably but the TL surplus for 1–3 months is increased significantly within the second quarter of 2008. The decrease seen in TL deficits within the last quarter is evaluated as a positive development for structural interest rate risk. The scenario analysis results designate that the sensitivity against structural interest rate risk is increasing in TL while it is decreasing in FX.

Throughout sector, the FX and total liquidity adequacy ratios related to second maturity trench have decreased compared to previous period and have realized respectively as 132.4% and 132.9%. The reason is that the growth rate of total assets is lesser than the growth rate of total liabilities.

Within the period of June 2008, the total own funds of banking sector are increased by 1.9% comparing to previous quarter to TRY 82.4 billion. The risk weighted assets of sector are increased by 4.8% to TRY 493.8 billion. The capital adequacy ratio of sector is decreased by 0.5 points to 16.7 within the second quarter. This ratio is quite high than 12% which is target ratio and 8% which is legal ratio. When the risks which may be faced because of negative developments occurred in global markets recently are considered, it is seen that the sector has an adequate capital level.

As of June 2008, the banking sector profit has increased by 2.3% comparing to June 2007 and is realized as TRY 8.3 billion. Even if in international markets numerous banks have declared loss, the Turkish banking sector maintains its profitability. As of June 2008, 47.2% of the sector's total incomes are composed of interests taken form loans. The share of fees and commissions taken from loans and the banking service income within total incomes is 2.1%. The relative weight of these income items shows that the profitability of sector is emanated mostly from intermediation activities and thus the customer- focused profitability tendency is continuing within the sector.

TABLE OF CONTENTS

1	ECONOMIC FRAMEWORK and DEVELOPMENTS	1
1.1	Global Outlook	1
1.1.1	Macroeconomic Developments	1
1.1.2	Developments in Financial Markets	6
1.2	National Economic Outlook	1
2	FINANCIAL SECTOR OUTLOOK	15
2.1	General Outlook of Financial Sector	15
2.1.1	Asset Development of Financial Sector	15
2.1.2	Investment Preferences of Domestic Residents and Residents Abroad	15
2.2	Banking Sector Outlook	16
2.2.1	Market Structure Outlook	16
2.2.2	Changes in Performance Indicators	17
2.2.3	Banking Sector Balance Sheet Analysis	19
2.2.4	Banking Sector Income Statement Analysis	23
2.2.5	Off-Balance Sheet Transactions	24
2.3	Non-Banking Financial Sectors	15
2.3.1	Financial Leasing Sector Activities	25
2.3.2	Factoring Sector Activities	26
2.3.3	Consumer Financing Sector Activities	28
3	RISK, CAPITAL and PROFITABILITY EVALUATION	30
3.1	Loan Risk	30
3.2	Market Risk	15
3.3	Structural Interest Rate Risk	36
3.4	Liquidity Risk	37
3.5	Capital Adequacy	39
3.6	Profitability Analysis	41

BOXES

Box 1: Developments in Household Borrowing.....	14
Box 2: Capital Structure Analysis in the Turkish Banking Sector.....	18

TABLES

Table 1.1-1: USD Liquidity Supports of Central Banks.....	3
Table 1.1-2: Changes in ECB Euro Zone Predictions	4
Table 1.1-3: Annual Value Losses in Some Stock Markets as of end-September 2008	7
Table 1.2-1: Central Government Budget Realizations	10
Table 1.2-2: Selected Balance of Payments Items	11
Table 1.2-3: Gross Foreign Debt Stock Indicators.....	12
Table 2.1-1: Asset Size of Financial Sector	15
Table 2.1-2: Investment Preferences of Domestic Residents and Residents Abroad	16
Table 2.1-1: Structural Indicators of Banking.....	16
Table 2.1-2: Financial Soundness Indicators of Banking Sector	17
Table 2.1-3: Banking Sector Performance Index.....	17
Table 2.1-4: Developments in Intermediation Costs.....	19
Table 2.1-5: Fundamental Balance Sheet Sizes of the Sector	19
Table 2.1-6: Distribution of Personal Loans by Banking Groups.....	21
Table 2.1-7: Distribution of Personal Loans	22
Table 2.1-8: Development of Sources from Foreign Markets.....	22
Table 2.1-9: Development of Selected Income Statement Items.....	23
Table 2.1-10: Development of Off-Balance Sheet Transactions.....	24
Table 2.2-1: Fundamental Sizes Concerning Financial Leasing Sector Performance	25
Table 3.1-1: Distribution of Loans by Maturity and Monetary Unit	30
Table 3.1-2: Distribution of Large Loans Extended by Banks.....	31
Table 3.1-3: Distribution of Loans by Size and Number of Customers	31
Table 3.1-4: Distribution of Corporate and Commercial Loans by Sectors	31
Table 3.1-5: Sub-Sectors Having the Highest Share within NPL.....	32
Table 3.1-6: NPL Indemnification and Guarantee Information.....	32
Table 3.1-7: NPL Ratios in Sectoral Basis.....	32
Table 3.1-8: Loan Risk Scenario Analysis Results	33
Table 3.2-1: Distribution of Commercial Portfolio by Security Types.....	33
Table 3.2-2: Effects of Possible Changes in Second Hand GS Prices	34
Table 3.2-3: Effects of Possible Changes in Eurobond Prices.....	34
Table 3.2-4: Effects of Possible Changes in Stock and Investment Fund Prices.....	35
Table 3.2-5: Effects of Possible Changes in Rates.....	36
Table 3.3-1: Scenarios Concerning Structural Interest Rate Risk and Results	37
Table 3.4-1: FX and Total Liquidity Adequacy Ratio Components Concerning Second Maturity Trench	38
Table 3.5-1: Own Fund, Risk Weighted Assets and Capital Adequacy Ratio	39
Table 3.5-2: Own Fund Components	40
Table 3.5-3: Amounts Subject to Risk and Risk Weighted Assets.....	40
Table 3.5-4: Distribution of Legal Capital Liability	41
Table 3.6-1: Outlook of Selected Income Statement Items.....	42
Table 3.6-2: Return on Assets and Equities Ratios	42
Table 3.6-3: Ratios Concerning Profitability Indicators.....	43

CHARTS

Chart 1.1-1: JPMorgan GLB, PMI and 12-Month CPI Changes for Selected Regions	1
Chart 1.1-2: Growth Predictions by Selected Countries.....	1
Chart 1.1-3: CPI Inflation Predictions by Selected Countries.....	2
Chart 1.1-4: USA Current Transactions Balance/GDP, Budget Deficit/GDP and Interest Rates.	2
Chart 1.1-5: Short-Term and Long-Term Interest Rates	4
Chart 1.1-6: Euro Zone and England Economic Confidence Indexes	4
Chart 1.1-7: Consumer Confidence Indexes.....	5
Chart 1.1-8: Interest Expectations and Current Accounts Balance/GDP Estimates.	5
Chart 1.1-9: Bloomberg Financial Situation Index and MSCI World	6
Chart 1.1-10: iTraxx Indexes CDSs.....	7
Chart 1.1-11: EMBI General and Selected Countries.....	8
Chart 1.1-12: BIS Real Exchange Rate Indexes	8
Chart 1.1-13: Product Price Indexes	9
Chart 1.2-1: Average Growth Rates and Growth Performance within the Second Quarter of 2008.....	9
Chart 1.2-2: Industry Production Index, Capacity Usage and Employment Indicators.....	10
Chart 1.2-3: Current Accounts, Capital Movements, Reserves and Real Exchange Rate Index	11
Chart 1.2-4: Debt Stocks, Domestic Debt Stock Real Interest and Average Maturity	12
Chart 1.2-5: Interests Rates and ISE Indexes.....	13
Chart 2.1-1: Development of TL-FX Assets and Liabilities	20
Chart 2.1-2: Share of Loans in Total Assets and Deposit by Groups.....	20
Chart 2.1-3: Distribution of Loans by Types.....	20
Chart 2.1-4: Loan Indexes.....	21
Chart 2.1-5: Distribution of Loans from Foreign Markets by Bank Scales.....	22
Chart 2.1-6: Development of Derivative Transactions.....	24
Chart 3.2-1: ISE-100 Index and Daily Yield Volatility.....	35
Chart 3.2-2: IBP, FXNGP and Exchange Rate Risk Capital Liability.....	35
Chart 3.3-1: Development of Interest Deficits, Interest Margin and Components .	36
Chart 3.4-1: Development of FX and Total Liquidity Adequacy Ratios Concerning the First Maturity Tranche.....	38
Chart 3.4-2: Development of FX and Total Liquidity Adequacy Ratios Concerning Second Maturity Tranche	39
Chart 3.5-1: Own Fund, Risk Weighted Assets and Capital Adequacy Ratio Index	39

ABBREVIATIONS

EU	European Union
BFCIUS	Bloomberg Financial Situation Index
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
FED	Federal Reserve System
DC	Developing Countries
GS	Goldman Sachs
GNP	Gross National Product
GDP	Gross Domestic Product
HH	Herfindahl Hirschman
HICP	Harmonized Index of Consumer Prices
TT	Turkish Treasury
IFS	International Financial Statistics
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
IPE	International Petroleum Exchange
ISO	Istanbul Chamber of Industry
JPMI-INDU	JP Morgan Industry Index
JPMI-GLOB	JP Morgan Global Index
SME	Small and Medium Enterprises
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	Automotive Manufacturers Association
PI	Performance Index
PMI	Global All-Industry Output Index
POS	Point of Sale

RWA	Risk Weighted Assets
ROA	Return on Assets
ROE	Return on Equities
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	Savings Deposit and Insurance Fund
TL	Turkish Lira
ACMII	Association of Capital Markets Intermediary Institutions of Turkey
AIRC	Association of the Insurance and Reinsurance Companies of Turkey
CPI	Consumer Price Index
TSI	Turkish Statistical Institute
USD	American 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

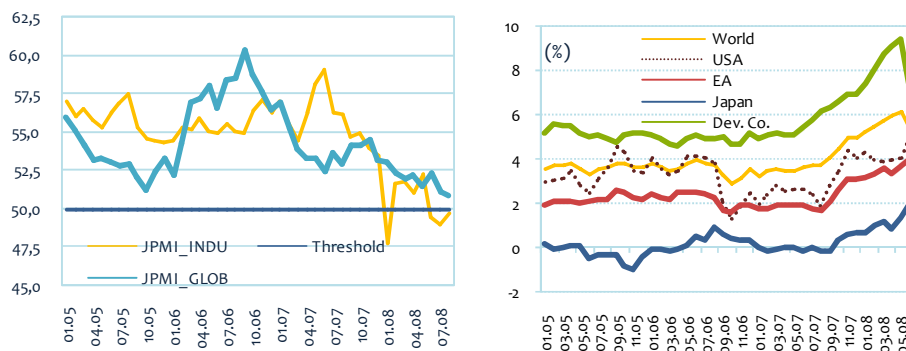
1 ECONOMIC FRAMEWORK and DEVELOPMENTS

1.1 Global Outlook

1.1.1 Macroeconomic Developments

The fluctuations experienced in global financial markets, especially in developed countries, since June 2007 have negative effects on global economic activity. Furthermore, it is seen that global slow-down probability has increased, inflationist pressures continue and uncertainties increased more in the last quarter. As a matter of fact, international institutions updated downwards their global economic activity predictions which they revised in the summer period. IMF announced its global growth ratio for 2008 as 3,9% in September. Besides, the developments experienced in financial markets in the second half of September shows that the slow-down in global economy will continue and the main argument will slide from the decomposition of developed economies and developing economies to the sharpness and length of global slow-down. JP Morgan industry/service and industry indexes are realized below the threshold values in June. Although aggregated industry production index increased when compared to the previous month, the regression is predicted to continue. As a result of fact, industry and services sectors were below the threshold value spontaneously in June, July and August and it is a sign for a more significant global slow-down.

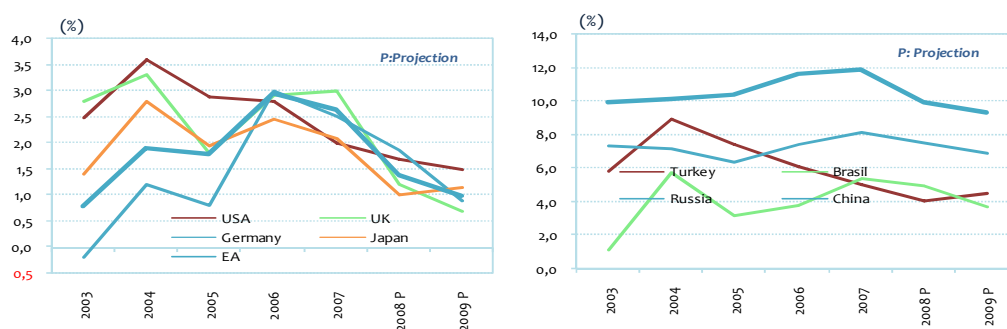
Chart 1.1-1: JPMorgan GLB, PMI and 12-Month CPI Changes for Selected Regions



Source: Bloomberg and IMF

As a matter of fact, macroeconomic predictions compiled for 2008 and 2009 for countries selected by Bloomberg within the scope of recent developments points out that growth rate of developed countries will significantly be below the potential ratios. On the contrary, a more moderate slow-down is predicted for certain developing countries (DC).

Chart 1.1-2: Growth Predictions by Selected Countries

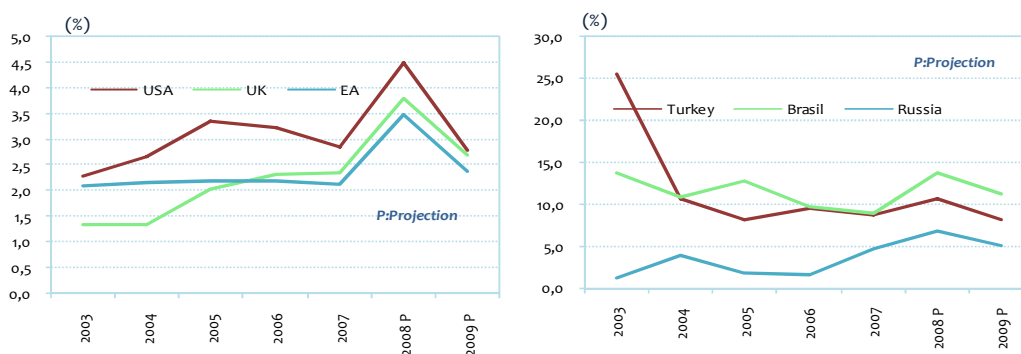


Source: Bloomberg

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When price developments by global scale are observed, different from the previous quarter, it is seen that the inflation pressure which arose from the increase in energy prices, decreased relatively. Accordingly, it is seen that the inflation ratios of especially the developing countries improved. However, an inflation risk is in question in further periods for the developed country economies which had a rapid monetary expansion in the direction of the financial crisis experienced. Furthermore, although there is a relative decrease in energy and goods prices in global markets, the high level of the volatility in prices increases the uncertainties. Besides, while the indolence in labor force market in developed countries limits the wage increases, it is probable that the burden brought on public financing in order to resolve the crisis in many developed countries, especially in the USA, shall lead to inflationist pressures. Therefore, although there is an improvement in inflation rates in general in the third quarter of 2008, it is seen that all international institutions point out the inflation risk for the following period.

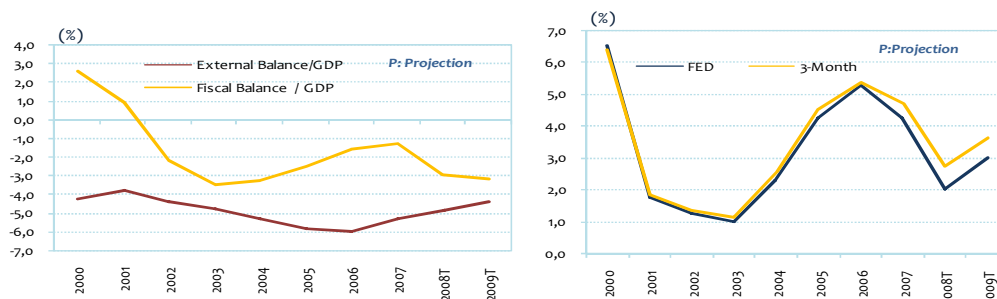
Chart 1.1-3: CPI Inflation Predictions by Selected Countries



Source: Bloomberg

When the developments are analyzed by regions, it is seen that, beyond the expectations, the USA economy grew by 3,3% in the second quarter of 2008. The expectations of official institutions for this period are about 1,9% and the expectations of private intuitions are about 2,7% level. Depending on the regression in the USA economy, especially in the increasing speed of final demand, as of the second half of 2007; the ratio of current transactions deficit to national income regressed. The increasing exportation performance which increased by the help of poor USD is the fact behind the growth experienced in the second quarter of 2008. When the price developments are analyzed, it is seen that especially the increases in energy and food prices increased the inflation up to 5,4% in August. Seasonally corrected unemployment rate increased by 0,4 points to in August when compared to the previous month and realized as 6,1%.

Chart 1.1-4: USA Current Transactions Balance /GDP, Budget Deficit /GDP and Interest Rates



Source: Reuters

Beside the developments experienced in macroeconomic indicators in the USA in the second half of the year, the mortgage market-centered financial crisis experienced in the USA within the last one year, entered into a new phase including the banks. Until the beginning of September, the USA was foreseeing to remove the liquidity shortage in the market by funding the banks within the framework of the principles it declared in the previous period. However, two big housing financing companies Fannie Mae and Freddie Mac are taken over by the USA government on September 07, 2008. This situation increased the confidence depression in the market and it also means possible costs of the crisis will increase significantly. On September 14, 2008, Lehman Brothers declared bankruptcy following its announcement of its last quarter loss by USD 3,9 billion as of August and on September 15, 2008, Bank of America bought Merrill Lynch for about USD 50 billion and this was a sign for a new period in which the financial crisis also comprises the banking sector. As a matter of fact, FED opened a credit channel up to USD 85 billion to AIG which is one of the most important insurance companies in the world in return for 79,9% shares of AIG will be transferred to the control of the government. For the reason of such a measure, FED showed that AIG'S system would otherwise be more fragile and therefore the bankruptcy is avoided because it might lead to additional problems.

Within the scope of the developments experienced in the middle of September, the uncertainty over the USA economy increased rapidly and accordingly FED, European Central Bank (ECB), Central Bank of Japan (BoJ), Central Bank of Canada and Central Bank of Switzerland declared liquidity-increasing common measures on September 18, 2008. The said plan which comprises a liquidity injection amounting to about USD 247 billion targets to remove the global credit shortage. Then, the central banks of Australia, Norway, Denmark and Sweden also participated in the said measures. Thus, total USD liquidity support of global central banks increased to USD 277 billion.

Table 1.1-1: USD Liquidity Supports of Central Banks

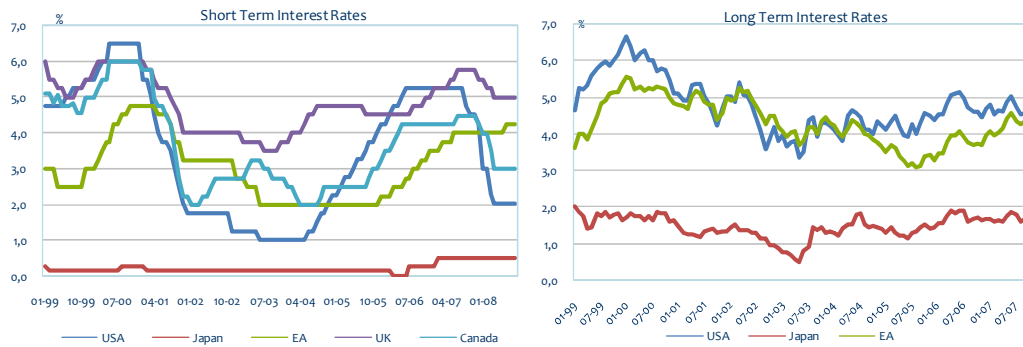
USD Billion	Liquidity Facility		Liquidity Facility		Liquidity Facility
ECB	110	Switzerland	27	Denmark	5
Japan	60	Canada	10	Sweden	10
England	40	Australia	10	Norway	5

Source: US Treasury, FED.

As a result of the fact that banking sector in the USA is facing liquidity shortage due to bad asset quality and the weight of liquidity shortage is increasing as a systemic risk factor, it is announced that the USA Treasury will implement a plan towards financial system as of September 23 by also taking the support of the FED. According to first declarations, USA Treasury buys the said bad assets which are a problem for financial system for return of USD 700 billion by targeting to provide a base price to enable at least the price formation in the market and to avoid the crisis. As a matter of fact, this plan was also supported by international institutions. Nevertheless, to avoid a systemic crisis, it is highlighted that liquidity support and secondly purifying of bad assets from the balance sheets of financial institutions is important and besides capital structure of financial system shall be strength. In order for financial system to regain operation and to avoid current crisis effects to turn into a credit shortage and lead to a widespread macroeconomic crisis, it is obligatory that the liquidity shortage be removed and the capitals of financial institutions are made strong. As a result, the financial crisis experienced in the USA has the possibility to spread to banking sector and lead a credit shortage and to increase the period of and depth of the economic slow down.

Following the growth by 0,7% in Euro Zone in the first quarter of 2008, GDP decreased by 0,2% in the second quarter as expected. Also the regression in consumption and the weakening in investment expenditures were effective on this development. The regression in oil prices is expected to have positive impacts on real expandable income and the economic activity is expected to have a relative improvement in the remaining of the year.

Chart 1.1-5: Short-term and Long-term Interest Rates



Source: Reuters

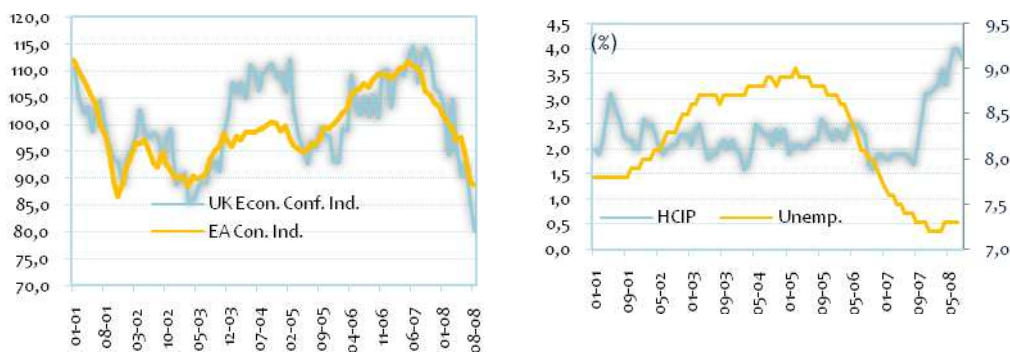
As of August 2008, Euro Zone harmonized inflation of consumer prices (HICP) is realized as 3,8% and there existed a slackening when compared to the previous months. However, ECB increased its 2008 and 2009 inflation expectations in its September predictions. This is seen as the results of the uncertainties experienced in financial markets and the measures taken by central banks against the liquidity shortage.

Table 1.1-2: Changes in ECB Euro Zone Prediction

	2007	2008 Pred.	2009 Pred.
Real GDP – June 2008	2,7	1,5-2,1	1,0-2,0
Real GDP – September 2008	2,6	1,1-1,7	0,6-1,8
HICP – June 2008	2,1	3,2-3,6	1,8-3,0
HICP – September 2008	2,1	3,4-3,6	2,3-2,9

While European central bank revised its growth predictions downwards and inflation expectations upwards, the latest reliance indexes and employment data announced relating to the region seem to lead to worse realizations.

Chart 1.1-6: Euro Zone and England Economic Confidence Indexes



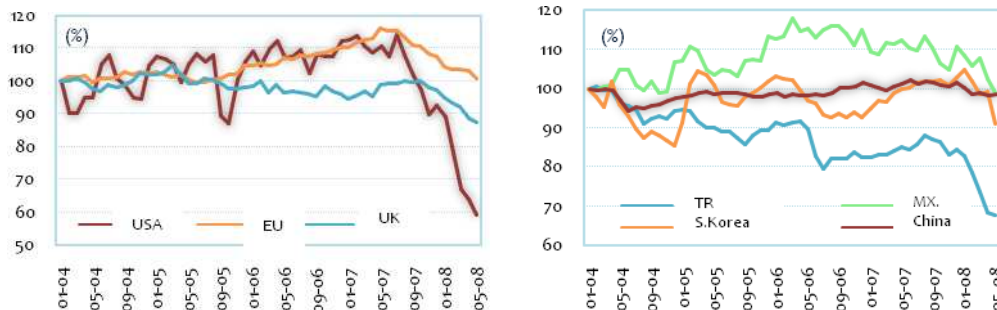
Source: Reuters

Although there is a compulsory slackening in monetary policy in Euro Zone, the ratio of public debt stock to GDP decreased to 66,4% in 2007 which is its lowest level since 1995. Within this scope, finance policies are to be used in a more efficient manner in order to remove the possible effects of the financial crisis in Euro Zone.

GDP decreased by 0,7% in Japan in the second quarter of 2008. The narrowing in exportation performances and in domestic demand are also determiners for the said regression. Although exportation is expected to have a relatively strong performance in 2008, growth is foreseen to be

under pressure. Beside the weakening in the growth performance, CPI inflation increased to 2,3% in July 2008 by also the impact of the increases in input prices. Japan Central Bank (BoJ) did not change interest rates and held them at 0,5% level in August.

Chart 1.1-7: Consumer Confidence Indexes

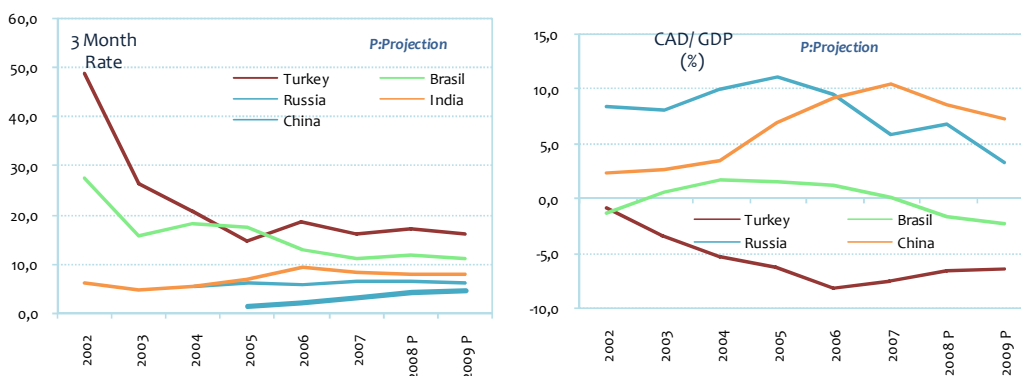


Source: Reuters

Face to these problems within the Japanese economy, the government put into practice a stimulus package amounting approximately USD 107.5 billion, including also the tax deduction, in the beginning of September. While preparing an additional budget for this package, the financing resources were not still clear. Furthermore, the constriction tendency within the other economic fields is very important for the exportation performance which is a fundamental determinant for Japan.

At the point that the financial crisis has reached, it is seen that the economies of developing countries are slowly entering within its impact area. The slowdown tendency observed in developed countries causes the decline of growth rates of emerging economies. When the Asia zone within the first quarter of 2008 is observed, it is seen that the growth have lost acceleration but kept its high level. In China, the growth decreased by 10.1% within the second quarter of the year, however the vivacity especially in domestic demand. As of July 2008 the relative amelioration of the inflation is still continuing.

Chart 1.1-8: Interest Expectations and Current Accounts Balance/GDP Estimates



Source: Bloomberg

There is a slowdown observed in the growth performance of Latin America, the price increases have fastened since the beginning of 2008. In Brazil, the growth has realized as 1.6% within the second quarter of 2008, the CPI inflation is 6.2% as of July. The Brazil has a economic structure based on exportation, so it is expected that it will be affected negatively especially from the distortion in international demand conditions.

It is seen that Russia maintained its high growth rate (10.4%) within the second quarter of year and the unemployment rate maintained its low level (5.3%). However, as of August the yearly price increases have realized as 15%.

While the growth rates are slowing down, the price increases are gaining speed in all counties. Moreover, amelioration in interest rates is not expected within this period. It is predicted that within this period, the economies requiring external source will be affected more from the changing conditions. However, the confidence and stability that each economy will be able to offer to global investors will determine the level of affection. Especially economies which will be able to increase their variety in the market and to maintain their economic constitutions will be affected the least from the global slowdown.

The main risk factor which is pointing for global economy in the present conjuncture, is the possibility of the loan crisis appeared in US economy ABD to spread to the banking sector and thus the system may be faced with a capital inadequacy and be exposed to a wide lost of credibility. The prestige risk which has exceeded the housing finance institutions and increased quickly in all financial institutions, especially in the investment banks, has reached to a level where it can affect the functions of the market. Within this framework, it is important that the measures taken by developed countries shall resolve the current problems, but also re-establish the confidence of savers so the system may gain its credibility. In case of the functions of markets do not return to their normal state, it is still highly possible that the loan constriction may affect more deeply the production and the present global slowdown may transform into a deep recession.

1.1.2 Developments in Financial Markets

The difficulties experienced in global markets caused a disruption in the economic view in the whole world the increasing vulnerability and uncertainties caused the reduction of asset prices in financial markets.

The “financial situation” index prepared by Bloomberg has decreased to its lowest level as of September 2008. Similarly, the MSCI World stock market index shows sharp decreases. Alongside the general disruption of the economic view in stock markets, the downward revision of the firms’ income projections, which resulted by important losses.

Chart 1.1-9: Bloomberg Financial Situation Index and MSCI World

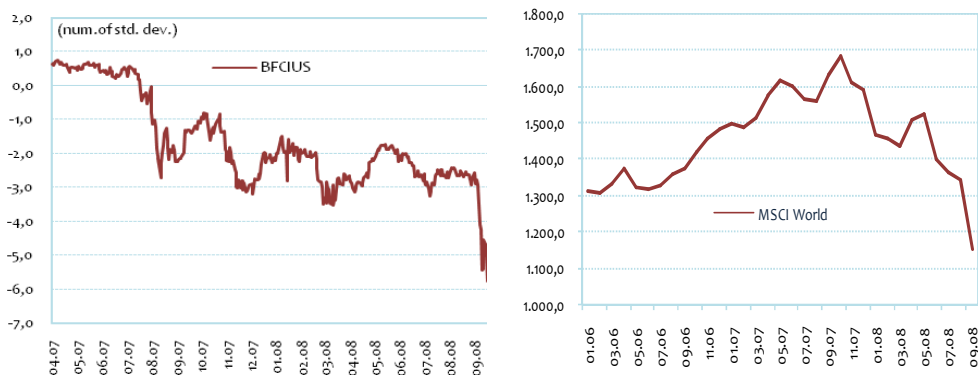


Table 1.1-3: Annual Value Losses in Some Stock Markets as of end-September 2008

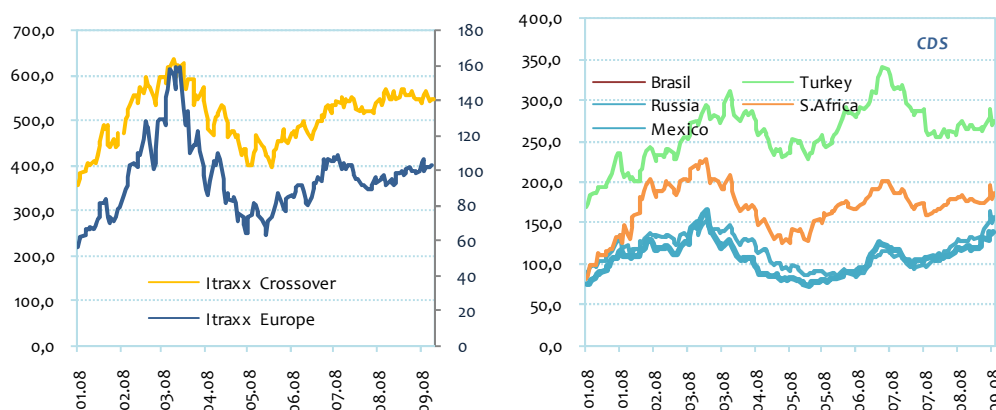
	By National Monetary Unit		By US Dollar	
	Value by Year-End	Sept-Ag. 2008	Value by Year-End	Sept-Ag. 2008
DJI	-16,9	-4,5	-16,9	-4,5
Mexico. Bolsa	-13,2	-2,5	-11,7	-6,6
Brazil	-18,9	-6,9	-20,9	-16,3
Japan Nikkei	-22,6	-9,4	-17,2	-6,6
FTSE 300	-25,3	-5,8	-25,3	-6,2
MSCI Europe	-27,5	-5,4	-27,5	-5,8
DAX-Germany	-23,5	-3,9	-24,2	-4,3
Euronext 150	-24,0	-9,1	-24,0	-9,5
Ireland	-44,8	-14,9	-44,8	-15,3
Russia RTS	-43,0	-20,7	-43,0	-20,7
ISE-100	-34,5	-8,7	-37,8	-12,2
China Shenzen	-22,7	-9,1	-54,1	-2,9

When the stock market is observed, it is seen that the economic and financial view which is already disrupted relatively since the beginning of year, is deteriorated quickly after the developments in September and in the stock markets of developing countries there are losses by US Dollar around 9%.

The loan markets have entered under additional pressure because of loss expectations related to firms and especially to financial institutions and the distortions in balance sheets and the loan spreads are increased generally. It is important to see that this situation is appeared despite decrease of oil and commodity prices within the second period of year and the measures taken in USA to correct the balance sheets of financial institutions.

Within the period following the taken over of Bearn Stearns in March a relative amelioration is occurred in loan spreads, however within the second quarter of year the pressures have increased again. In September, the fact that the crisis in the mortgage system have become to a level including also investment banks increase more the spreads.

Chart 1.1-10: iTraxx Indexes and CDS



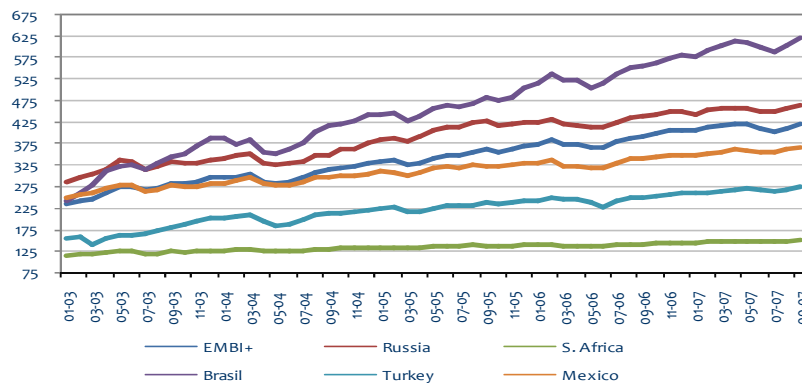
Source: Bloomberg

Moreover, the constriction in monetary markets continued also in September and as it is mentioned within the previous section, this pressure continued until the common liquidity measures of developed countries' central banks. The inflation concerns increasing in addition to the liquidity constriction as well as the diminution of external financing possibilities are challenging the emerging market economies. The relief created by the decrease of energy and good prices was

short-termed the change in the view of these economies has started to be reflected in the loan spreads and stock prices of these countries.

The emerging market economies which protected their healthy view within the whole 2007 and within the first two quarter of 2008 are facing very different conditions within the recent period. The fact that the economic outlook of developed economies is weakening by the crisis is deteriorating the out sourcing possibilities. When this is combined with the increasing inflation risk, the expectations related to company profits and profitabilities are deteriorating and the asset prices are affected negatively.

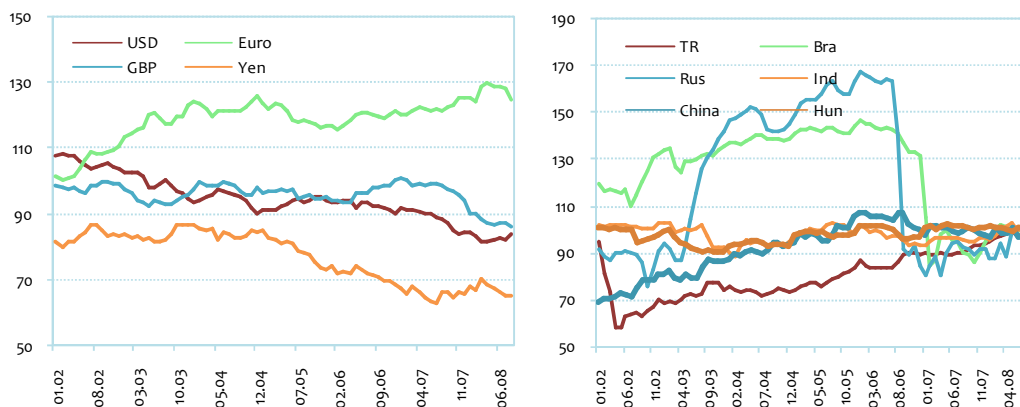
Chart 1.1-11: EMBI General and Selected Countries



Source: Bloomberg

The difficulty in financial markets which is continuing since June 2007 and the weakening in the performances of developed economies and especially in USA in addition create also explicit effects on international markets. When the real exchange rate indexes prepared by BIS are analyzed, the pointing subject is that US dollar had lose value within 2008 in real basis and then re-entered into a relative value-gaining process as of the end of second quarter of year. As it is mentioned before, within this period the trade balance of the USA experienced a relative amelioration within the framework of low dollars. When the developing countries are observed, TRY kept gaining value. The monetary units of Russia and Brazil which experienced value loss in real basis within 2007 have started to re-gain value. Furthermore, it is monitored that nominal exchange rates have high volatility within the framework of the uncertainties in financial markets.

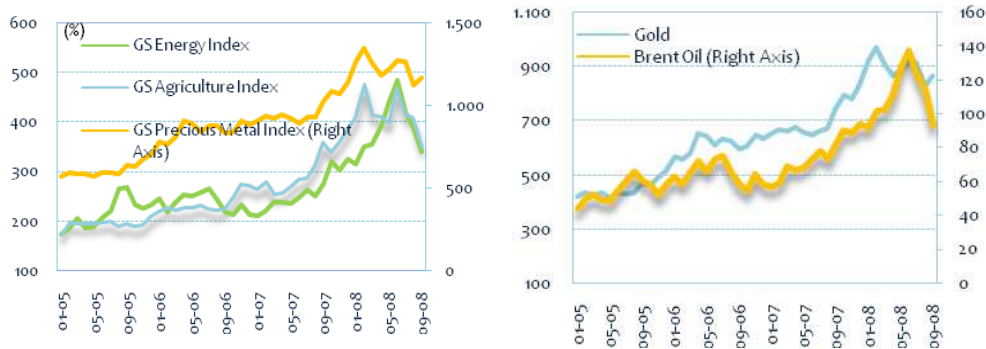
Chart 1.1-12: BIS Real Exchange Rate Indexes



Source: BIS

Another development in the international financial markets within the third quarter of year is the diminution observed in energy, agriculture and precious metal prices. The price of oil which was in an increasing tendency since a long time is now decreased below 100 US Dollars. Within this last period, as a result of the diminution in demand in addition to the increase of production by OPEC, the oil prices have experiences sharp decreases from top levels.

Chart 1.1-13: Product Price Indexes

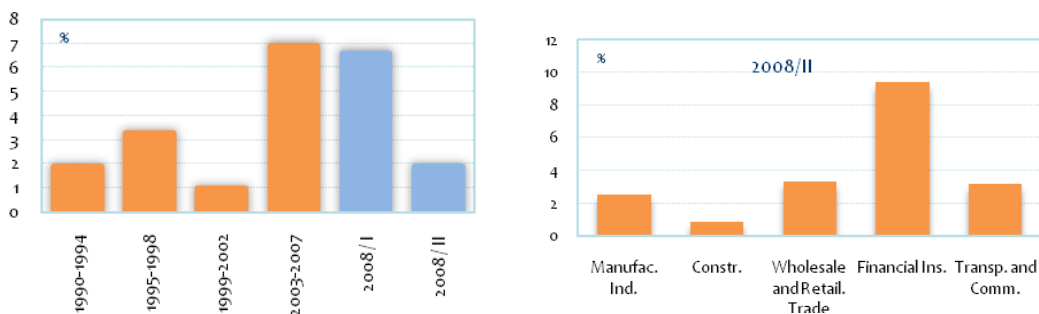


Source: Reuters

1.2 National Economic Outlook

The Turkish economy had grown by 1.9% within the second quarter of 2008, which is below the expectations. Despite the slowing down tendency within the second quarter alongside the relatively fast increase within the first quarter of 2008, the continuous growth tendency is going on since 26 quarters. When it's analyzed for long-term since the 90's; it is seen that the economy which grew by 1% in average within the period of 1999–2002, has reached a high growth rate within the period of 2003–2007 with 6.9% and that it stayed below this average within the first two quarters of 2008.

Chart 1.2-1: Average Growth Rates and Growth Performance within the Second Quarter of 2008



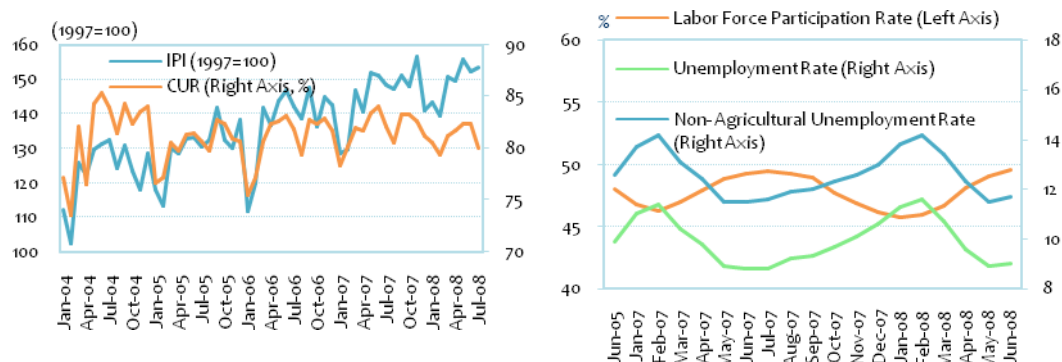
Source: TSI

Within the second quarter of 2008, among the main economic activity branches, the growth rates of the manufacturing industry, the wholesale and retail trade, and the activities of transportation-storage, communications and financial intermediation institutions; which make important contributions to the national income have realized higher than the economy in general. While these sectors were the main activity branches which carried the growth within the said period, the diminution of the agricultural sector and the slow growth of manufacturing industry and construction sector when compared to previous years were the factors limiting the growth within the second quarter.

On the other hand, the banking sector data show that the loan volume kept growing within the second quarter of 2008 and that the financial institutions kept funding the real and household sectors. As a matter of fact, when the national income is discussed according to the expenses, it is

observed that comparing to previous year domestic consumption of settled household is increased by 2.9%, the final consumption expenditure of the state is increased by 7% and the gross fixed capital formation is increased by 1.1% (despite the negative share of public, due to the fact that the private construction sector investments were determinant).

Chart 1.2-2: Industry Production Index, Capacity Usage and Employment Indicators



Source: TSI

When analyzed manufacture industry capacity usage ratio which is an important indicator about manufacture industry production index which is the pioneer indicator of growth and current period production, no strong signal is observed that there will be a strong growth in the third quarter. However, while manufacture industry production index increased only slightly in the first half of 2008 when compared to the same period of the previous year, capacity usage ratio decreased. In addition to this, despite the relative boom in economic activity, unemployment rate does not decrease. Although unemployment ratio decreased throughout Turkey in May 2008 when compared to the previous month, it realized above the same period of the previous year. In long term, while unemployment ratio being high is a negative development in income creation capacity of household, it is risky in realization of liabilities for indebted households.

There was no evident increase tendency in production of main durable consumption goods and sales of domestic white goods. Furthermore, the fact that pessimism in consumer trust index continued in August 2008, domestic demand was realized weaker in the second quarter of 2008 when compared to the first period. On the other hand, acceleration in food and energy prices caused an upward movement in inflation ratios since the beginning of 2008 and the annual consumer inflation reached to the highest value in last four years as of July 2008 by 12.06%. However, as of July 2008, the outlook of food prices and the possibility of energy price inflation to remain limited as oil prices decreased may reduce the pressure in general price level in the remaining period of the year. However, annual consumer inflation decreased by 11.13% as of September 2008.

Table 1.2-1: Central Government Budget Realizations

TRY Million	2007	Jan-Aug. 07	% Share	2008 Target	Jan-Aug. 08	% Share	% Change Jan-Aug. 08/07
Budget Expenses	204.068	15.931	7,8	222.553	20.437	9,2	28,3
Expenses Excluding Interest	155.315	11.613	7,5	166.553	12.297	7,4	5,9
Interest Expenses	48.753	4.318	8,9	56.000	8.140	14,5	88,5
Budget Incomes	190.360	19.459	10,2	204.556	26.447	12,9	35,9
Budget Balance	-13.708	3.529	-25,7	-17.997	6.010	-33,4	70,3
Non-Interest Balance	34.045	7.847	23,0	38.003	14.150	37,2	80,3

Source: Ministry of Finance (Public Accounts Bulletin)

In financial discipline which is as important as monetary policy in point of macroeconomic and financial stability, January-August 2008 data indicates an improvement when compared to the same period of the previous year. Increase budget incomes in the said period is more rapid than the increase in budget expenses and accordingly budget balance increased by 70.3% when compared to

the previous period and gave a surplus by TRY 6 billion. Moreover, non-interest surplus in August 2008 constituted 37.2% of target budget surplus.

Table 1.2-2: Selected Balance of Payments Items

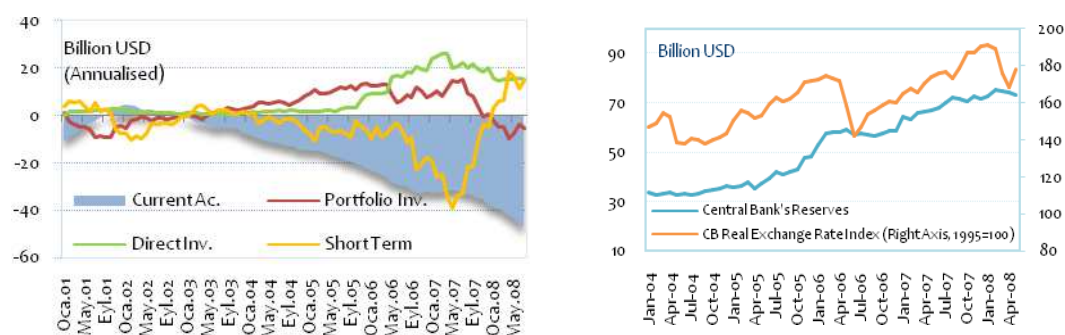
USD Million	2004	2005	2006	2007	Oca.-Tem.07	Oca.-Tem.08	% Change
Current Accounts	-14.431	-22.137	-31.893	-37.753	-22.140	-31.554	42,5
Foreign Trade Balance	-22.736	-32.988	-40.941	-46.705	-25.255	-35.249	39,6
Capital and Finance Account	13.388	20.302	32.066	36.612	19.984	35.917	79,7
Direct Investments (net)	2.005	8.967	19.065	20.099	12.748	7.529	-40,9
Abroad	-780	-1.064	-924	-2.106	-1.768	-1.829	3,5
Domestic	2.785	10.031	19.989	22.205	14.516	9.358	-35,5
Portfolio Investments (net)	8.023	13.437	7.373	717	8.530	2.535	-70,3
Stocks	1.427	5.669	1.939	5.138	3.754	3.351	-10,7
Notes Payables	7.984	9.001	9.463	-2.358	6.205	-364	-105,9
Other Investments (net)	4.184	15.745	11.742	23.828	6.569	26.512	303,6
Business Loans (Liabilities)	4.201	3.074	674	4.228	3.097	5.610	81,1
Loans (Liabilities)	6.133	11.610	19.601	27.353	14.640	26.721	82,5
General Provisions	-267	-4.637	-5.223	-3.901	-2.567	2.209	-186,1
Banks	5.708	9.248	5.814	5.608	3.612	5.277	46,1
Other Sectors	5.106	9.880	19.010	25.646	13.595	19.235	41,5
Reserve Assets	-824	-17.847	-6.114	-8.032	-7.863	-659	-91,6
Current Deficit/GDP (%)	-3,7	-4,6	-6,1	-5,7	-	-	-

Source: CBRT

Foreign demand was relatively strong as of January-July 2008, however while export grew when compared to the same period of the previous year as import increased, foreign trade deficit continued to increase. Ratio of export to import increased moderately when compared to the same period of the previous year.

On the other hand, the fact that the current deficit continues to increase is a risk factor in point of macroeconomic stability. However, current deficit in January –July 2008 increased by 42.5% when compared to the same period of 2007 and amounted to USD 31.5 billion. In the said period, net capital inflow realized in direct investments item decreased by 40.9% and net USD 2.5 billion of input was realized in portfolio investments. In a period in which global crisis are experienced, abroad residents obtained positions in stock market and government securities market (along with the net purchase by USD 413 million in July 2008) as net buyers.

Chart 1.2-3: Current Accounts, Capital Movements, Reserves and Real Exchange Index



Source: CBRT

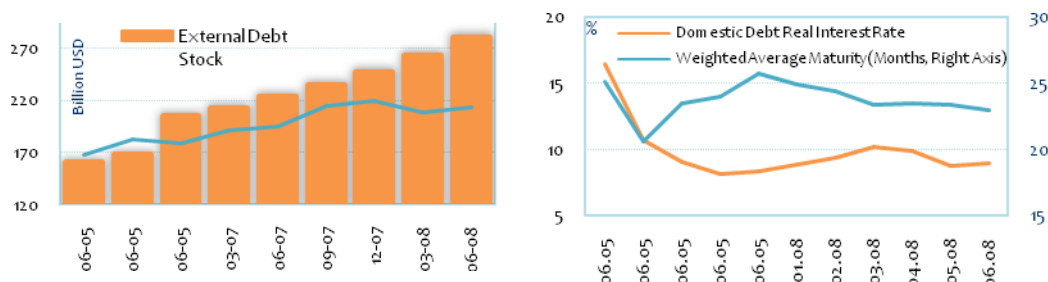
Another matter as simultaneously important as growth, inflation and current deficit is the development of domestic and foreign debt. Hence, of total gross foreign debt stock which amounted to USD 284.4 billion in June 2008, 43.8% is constituted of debts of non-financial institutions belong to private sector. Having considered this ratio was 26.3% in the end of 2004; it is understood that dependence of real sector to global credit market increased gradually.

Table 1.2-3: Gross Foreign Debt Stock Indicators

(%)	2004	2005	2006	2007	2008/I	2008/II
Short Term /Total Foreign Debt	19,8	22,0	19,7	16,9	17,1	18,3
Long Term / Total Foreign Debt	80,2	78,0	80,3	83,1	82,9	81,7
Public Sector / Total Foreign Debt	60,4	51,0	42,5	36,1	34,6	33,0
Private Sector / Total Foreign Debt	39,6	49,0	57,5	63,9	65,4	67,0
Private Financial Institutions/ Private Sector	33,6	38,8	40,1	36,3	35,0	34,6
Private Sector Non- Financial Institutions / Private Sector	66,4	61,2	59,9	63,7	65,0	65,4
Private Sec. Non- Finan. Institutions / Total Foreign Debt	26,3	30,0	34,4	40,7	42,5	43,8
Total Foreign Debt Stock/GDP	41,2	35,0	39,0	37,5	-	-

Source: TT

Chart 1.2-4: Debt Stocks, Domestic Debt Stock Real Interest and Average Maturity

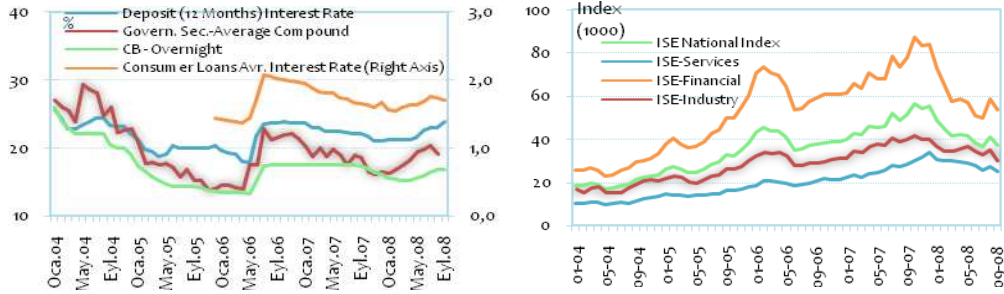


Source: TT

On the other hand, real interest of domestic debt stock which is mainly based as basic strategy on TL terms and fixed interest instruments decreased evidently, while its weighted average maturity followed a light downward progress. Global financial fluctuations and ambiguities may influence the maturity and interest structure of domestic debt negatively. On the other hand, the fact that domestic risks lessened facilitates the real interest to decrease and the maturity to get longer. As the domestic ambiguities decreased considerably in recent period, it is possible that the cost of public financing is influenced positively.

On the other hand, global and national economic developments had a series of influences on monetary and capital markets. Nevertheless, although the Central Bank policy interest ratio which is decreased in parallel with the domestic demand narrowed in the end of 2007 decreased by 15.25% in the beginning of 2008, it is increased by 16.75% following the increases performed in May, June and July 2008. However, the said ratio was held stable in August and September 2008, depending on the expectations that international credit conditions and the problems in global economy will continue to limit the total demand, on the other hand the fact that domestic ambiguities having decreased will support domestic demand and the decrease expectations in oil and commodity prices. On the other hand, domestic and external shocks have reflected to ISE and national index displayed a decrease tendency from December 2007 to June 2008. However, recovery tendency in ISE index turned into fluctuation and decrease again as not only the domestic outlook improved but also the responses of the related authorities to problematic areas in global credit markets are occasionally assessed positively by markets.

Chart 1.2-5: Interest Rates and ISE Indexes



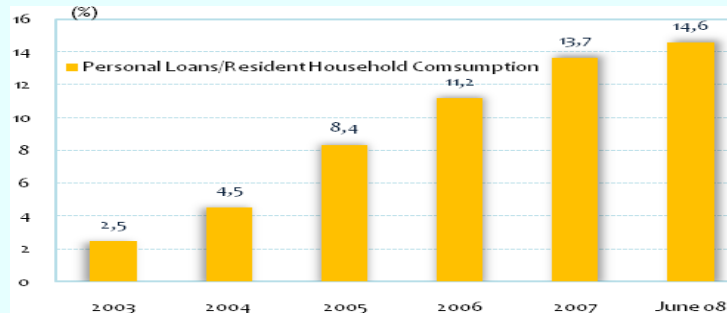
Source: CBRT

Although the ambiguities in domestic economy diminished, it grows difficult for the last two quarters of the year to close in positive performance, due to the negative developments in global economic conditions. In case the measures taken by developed economies in order to get over the global crisis been effected and foreign investors continue to trust Turkish economy, it is possible that growth tendency to continue even though decelerates. Furthermore, a possible global decrease in food, energy and commodity prices will influence domestic inflation Outlook positively. Yet, there are some risk factors which might affect Turkish economy in the remaining part of 2008. The factors creating fragility are; the possibility to bounce for crisis in global finance markets to Turkey, the possible difficulties the real sector and financial institutions may encounter in access to international funds in global crisis environment, the possible negative influence of economic deceleration expected in euro zone to foreign demand foreign demand of Turkey and the possibility of the share of direct investments in current accounts financing to decrease.

Box 1: Development in Household Borrowing

When analyzed the real development of household consumer loans, it is observed that total credit expansion rate which grew about by 100% in 2003-2005 decreased relatively since 2006 according to the national and international developments. This tendency continued during January-June 2008 period. However, the share of consumer loans within household consumer expenses as of June 2008 period increased by 0.9 points when compared the end of previous year and was realized as 14.6%.

Chart: Ratio of Consumer Loans Private Final Consumption Expenses

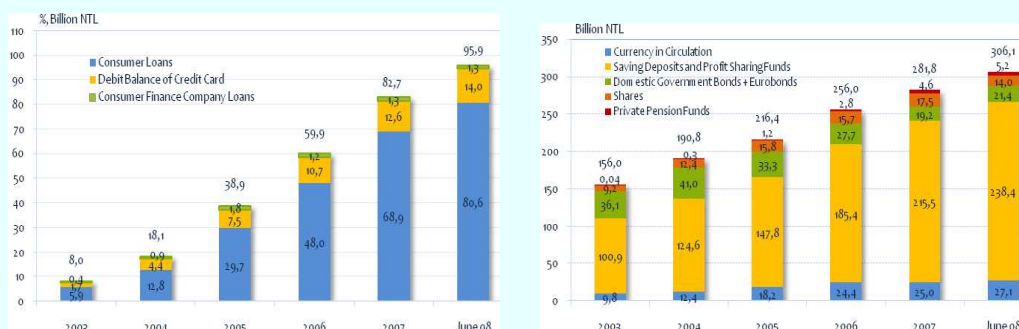


2005, 2006 and 2007 data includes consumer loans extended by banks, participation banks and consumer finance companies and non-performing loans concerning these loans, installment credit card debt balances and non-performing credit card receivables.

Source: BRSA, TSI

The share of credit card payables within consumer loan composition decreased in the said period by 17.9% from about 20% in the end of 2007. The increase in the relative share of consumer loans continued and increased by 80.1% from 70% in the end of 2004. The increase in household becoming conscious in point of credit card usage as well as the differentiation between consumer credit interest rates and credit card interest rates became evident were affective in this development.

Chart: Development of Household Debt Burden and Development of Household Financial Assets



Credit amounts are gross figures including non-performing loans. Credit card debt balance is constituted of installment credit card balance and non-performing receivables.

Source: BRSA, TSI, CMB, CBRT, TT.

When analyzed the financial asset portfolio of household in real terms; it is observed that total portfolio grew in real terms by 21% when compared to the end of 2007. When analyzed the portfolio structure, it is observed that while the weighted share of saving deposit, participation fund and current accounts total continue, the share of consumer pension funds increased. The share of other investment instruments decreased partially.

2 FINANCIAL SECTOR OUTLOOK

2.1 General Outlook of Financial Sector

2.1.1 Asset Development of Financial Sector

Turkish finance sector grew by 12,1% when compared to the previous year-end to TRY 861,8 billion in the first half of 2008. In this period, total assets of banking sector which comprises 76,2% of the finance sector grew by 12,9%. When the increase in CPI is taken into consideration, it shows a real growth by 6,5%. This growth which is obtained in such circumstances where the fluctuation in foreign financial markets continues is thought to have contributions to economy. The growth of non-banking financial is seen to be limited relatively in the second quarter of the year. Within this context, it is possible to say that the developments experienced in foreign financial markets reflect on the said sectors in a more negative manner. The ratio of total assets of finance sector to GDP which may be evaluated as an indicator for financial deepening is realized as 91,9%.

Table 2.1-1: Asset Size of Finance Sector

(TRY Billion)	2003	2004	2005	2006	2007	Mar.08	Jun.08	% Distribution Jun.08	Asset/GDP (%) Jun.08
Banks	255	313,8	406,9	499,5	581,6	634,0	656,9	76,2	69,0
Financial Leasing Companies	5,0	6,7	6,1	10,0	13,7	15,3	15,2	1,8	1,7
Factoring Companies	2,9	4,1	5,3	6,3	7,4	7,9	8,7	1,0	0,9
Consumer Fin. Companies	0,8	1,5	2,5	3,4	3,9	4,3	4,4	0,5	0,5
Insurance Companies	7,6	9,8	14,4	17,4	20,5	22,7	23,5	2,7	2,5
Retirement Companies	3,3	4,2	5,7	7,2	9,9	11,0	10,3	1,2	1,1
Securities Intermediary Agencies (1)	1,3	1,0	2,6	2,7	3,9	3,9	4,0	0,5	0,4
Sec. Inv. Partner.	0,2	0,3	0,5	0,5	0,7	0,6	0,6	0,1	0,1
Sec. Inv. Funds	19,9	24,4	29,4	22,0	26,4	26,6	24,4	2,8	2,9
Real Estate Inv. Partner.	1,2	1,4	2,2	2,5	3,9	3,8	4,0	0,5	0,4
CBRT	76,5	74,7	90,1	104,4	106,6	114,5	109,8	12,7	12,5
Total	370,4	437,7	560,0	668,6	768,6	844,6	861,8	100,0	91,9

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 Domestic Residents and Residents Abroad

While TL deposit, FX deposit, participation funds, Government Securities, repo portfolios of domestic residents increased in June when compared to the previous quarter, preference for precious metal accounts, Eurobond, investment funds and stocks decreased. Total size of portfolio investments belonging to domestic residents increased to TRY 494,9 billion as of June 2008. Precious metal accounts, participation bank funds, FX deposit and deposit are the most increased items in the portfolio of domestic residents in the first half of 2008. Increased interest of deposit and similar participation funds due to the competition experienced in deposit market and relatively low risk under current conjuncture is thought to be affective on the said preference.

There is a slight decrease in total portfolio of residents abroad; while Eurobond portfolio increased stock, Government Securities and deposit portfolios decreased when compared to the previous quarter. The decrease in ISE 100 by about 40% in the first half of the year determined the decrease in stock portfolio of residents abroad which is their most important portfolio preference. The increase of total size of investment portfolio by about 5% in the first half of the year points out that the performance in recent years is hard to be experienced within this year.

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

TRY Million	2005	2006	2007	2008/06	P. % Distribution 08/06	G. % Distribution 08/06	07/12- 08/06 % Change
Domestic Residents							
TRY Deposit	141.716	168.943	206.081	228.596	46,2	38,8	10,9
FX Deposit Accounts	82.128	108.754	111.619	127.933	25,9	21,7	14,6
Precious Metals Accounts	96	250	152	241	0,0	0,0	58,6
Part. Banks Collected Funds	8.369	10.788	14.626	17.096	3,5	2,9	16,9
GS	55.276	55.781	56.852	62.006	12,5	10,5	9,1
Eurobond	5.348	5.413	4.309	3.961	0,8	0,7	-8,1
Investment Funds	29.374	22.012	26.381	24.440	4,9	4,1	-7,4
Repo	1.486	2.202	2.733	2.484	0,5	0,4	-9,1
Retire. Inv. Funds	1.219	2.821	4.558	5.167	1,0	0,9	13,4
Stocks	23.020	26.256	31.070	22.980	4,6	3,9	-26,0
Total	348.032	403.220	458.381	494.904	100,0	83,9	8,0
Residents Abroad							
Stocks	33.483	35.083	69.876	43.664	56,5	7,4	-37,5
GS	17.528	24.512	30.375	27.600	35,7	4,7	-9,1
Eurobond	634	555	376	600	0,8	0,1	59,6
Deposit	3.434	4.186	4.947	5.466	7,1	0,9	10,5
Total	55.079	64.336	105.574	77.330	100,0	13,1	-26,8
GENERAL TOTAL	403.111	467.556	563.956	589.556		100	4,5

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

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

2.2 Banking Sector Outlook

2.2.1 Market Structure Outlook

Depending on the strategy of growing by expanding the branch nets in banking sector, the trend of the increase in number of branches and personnel continued in the second quarter of the year. From the point of view of the increase in number of branches and personnel, it is remarkable that participation banks have a growth above the sector general. The number of ATMs which are one of the alternative transaction channels grew by 9% in the first half of the year. The slow down in the increasing speed of number of POS when compared to the previous year is deemed as positive from the point of view of operational productivity. The decrease in the number of credit and credit card customer in the first quarter of the year was in an increasing tendency again in the second quarter.

Table 2.1-1: Structural Indicators of Banking

	2003	2004	2005	2006	2007	Mar.08	Jun.08
Number of Banks	55	53	51	50	50	50	50
Public Deposit Banks	3	3	3	3	3	3	3
Private Deposit Banks	18	18	17	14	12	11	11
Banks under the SDIF	2	1	1	1	1	1	1
Foreign Deposit Banks	13	13	13	15	17	18	18
Development and Investment Banks	14	13	13	13	13	13	13
Participation Banks	5	5	4	4	4	4	4
Number of Branches	6.078	6.219	6.537	7.296	8.117	8.378	8.722
Deposit Banks	6.046	6.186	6.220	6898	7.653	7886	8.203
Development and Investment Banks	32	33	25	42	42	44	48
Participation Banks			292	356	422	448	471
Number of Personnel	124.030	127.944	138.724	150.793	167.760	173.075	177.175
Deposit Banks	118.603	122.592	127.851	138.426	153.212	157.942	161.483
Development and Investment Banks	5.427	5.352	5.126	5.255	5.361	5.395	5.378
Participation Banks			5.747	7.112	9.187	9.738	10.314
Number of ATM	12.726	13.556	14.836	16.513	18.795	19.500	20.451
Number of POS (Thousand)	662	912	1.141	1.283	1.629	1.697	1.818
Number of Deposit Accounts (Thousand)	78.790	80.087	82.958	86.131	91.063	94.400	87.011
Number of Participation Accounts (Thousand)			1.202	1.414	1.623	1.697	1.751
Number of Credit Customers (Thousand)	18.707	25.168	29.153	30.685	35.403	34.343	36.044
Number of Credit Card Customers (Thousand)			25.155	25.580	27.658	24.284	25.070
Number of Banks			755	1.008	1.086	1.268	1.264

Source: BRSA, BCC

2.2.2 Changes in Performance Indicators

Strong capital structure, high asset quality, positive profitability ratios, good management of exchange rate risk points out that financial strength still continues. The serious fluctuation experienced in global markets was exactly a stress test for the sector. In the first half of the year, it is seen that the sector keeps its strong view according to the current indicators obtained as a result of the said stress test. Similarly, the fact that sector hold its free capital about 75% is important to show that own funds are used for funding real banking activities. The fact that sector's FX net general position is well below the legal limits shows that Exchange rate management is made successfully. ROA and ROE ratios shows that strong profitability performance continues despite the negative developments experienced in foreign markets.

Table 2.2.1-2: Financial Soundness Indicators of Banking Sector

(%)	2005	2006	Jun.07	Sep.07	Dec.07	Mar.08	Jun.08
Capital Adequacy Standard Ratio	23,7	22,3	18,7	19,4	18,9	17,2	16,8
Free Capital /Total Own funds	65,7	72,6	73,6	75,4	75,3	75,5	75,2
FX Net General Pos. /Own funds	-0,2	0,5	-1,2	0,1	-0,3	1,2	0,2
NPLs /Gross Loans	4,8	3,8	3,9	3,6	3,5	3,1	3,1
Provisions for NPLs /NPLs	88,7	89,7	87,7	87,6	86,8	84,8	82,5
Individual Loans /Total Loans	31,1	32,3	31,2	32,9	33,2	31,8	32,4
Number of Profit-making Banks /Total Number	45/51	41/50	45/50	45/50	46/50	40/50	44/50
Assets of Profit-making Banks /Total Assets	93,9	99,4	99,6	99,6	99,3	99,0	99,5
Return on Assets (ROA)	1,7	2,5	2,9	2,5	2,8	2,8	2,5
Return on Equities (ROE)	10,9	19,2	23,5	20,5	21,8	21,9	20,0
Net Int. Inc. After Prov. /Total Gross Income	30,8	26,9	26,2	26,8	26,7	27,0	26,8
Non-Interest Income /Non-Interest	52,0	79,3	80,9	75,2	72,3	73,9	72,6

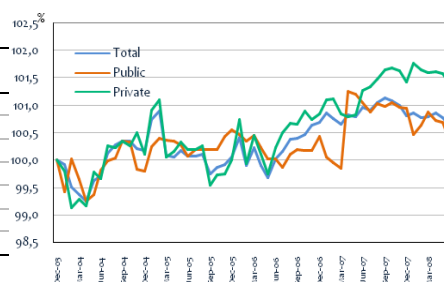
(1) Total Gross Income = Interest Income + Non-Interest Income

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 half of 2008 are evaluated below.

- BRSA-PI kept its value over the base year in the first half of the year.
- When compared to the previous year, liquidity and own funds which are among performance index components decreased, while Exchange rate risk management decreased, the compounds of profitability and asset quality increased.
- Indicators relating to capital adequacy continue to its controlled decreasing tendency due to the regulations entered into force and the increase in loan portfolio.
- A slight decrease was experienced in exchange risk management when compared to the first quarter of the year. The decrease in FX asset/FX liabilities was effective on this development.
- The continuation of the strong view of intermediation functions in the sector provided that the increase in profitability compound of the index to continue.
- Among BRSA-PI compounds, asset quality compound of the index which has a motion below the base year during the whole observation period kept its view in the second quarter of 2008.

Table 2.2.1-3: Banking Sector Performance Index

Period	PI	Liquidity	Own Funds	Exc. Rate Risk
2003	100,0	100,0	100,0	100,0
2004	100,2	100,2	99,6	100,1
2005	100,1	100,7	99,4	99,8
2006	100,7	100,5	99,4	100,1
2007	100,8	101,8	99,7	99,1
03/2008	100,8	101,8	99,1	99,2
06/2008	100,6	101,5	98,8	98,6



Box 2: Capital Structure Analysis in Turkish Banking Sector

BANK	Share of Bank s in	Public, Private and Foreign Distribution of Global Capital Share (%)				
		Public	Private	Proportional Share (*)		
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.S.	11.3	0.0	63.9	10.3	25.8	36.1
ALTERNATİFBANK	0.5	0.0	99.9	0.0	0.1	0.1
ANADOLUBANK A.S.	0.5	0.0	100.0	0.0	0.0	0.0
ARAP TÜRK B.	0.1	15.4	20.6	64.0	0.0	64.0
UNICREDIT BANCA Dİ 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	0.2	0.0	35.0	65.0	0.0	65.0
BİRLEŞİK FON BANKASI A.S.	0.1	100.0	0.0	0.0	0.0	0.0
CALYON BANK T.A.S.	0.0	0.0	0.0	100.0	0.0	100.0
CITIBANK	0.7	0.0	0.0	100.0	0.0	100.0
CALIK YATIRIM	0.0	0.0	100.0	0.0	0.0	0.0
DENİZBANK	2.7	0.0	0.2	75.0	24.8	99.8
DEUTSCHE BANK A.S.	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.S.	3.8	0.0	10.0	51.7	38.3	90.0
FORTIS BANK A.S.	1.7	0.0	5.7	65.0	29.2	94.2
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	2.2	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.S.	2.3	0.0	0.0	100.0	0.0	100.0
SOCIETE GENERALE	0.1	0.0	0.0	100.0	0.0	100.0
SEKERBANK	1.1	0.0	52.7	0.0	47.3	47.3
T.C.ZİRAAT B.	14.0	100.0	0.0	0.0	0.0	0.0
T.EKONOMİ B.	2.1	0.0	88.3	0.0	11.7	11.7
T.GARANTİ B.	11.7	0.0	37.1	20.8	42.1	62.8
T.HALK B.	7.0	75.0	19.1	0.0	5.9	5.9
T.İS BANKASI	13.0	0.0	78.1	0.0	21.9	21.9
T.KALKINMA B.	0.1	99.1	0.9	0.0	0.0	0.0
T.SİNAİ KALKINMA B.	0.8	8.4	85.0	0.0	6.6	6.6
T.VAKIFLAR B.	7.3	74.5	4.0	0.0	21.5	21.5
TAİB YATIRIM BANKASI A.S.	0.0	0.0	0.7	99.3	0.0	99.3
İMKB TAKAS VE SAKLAMA BANKASI A.S.	0.3	0.0	95.1	4.9	0.0	4.9
EUROBANK TEKFEN A.S.	0.5	0.0	6.8	93.2	0.0	93.2
TEKSTİL BANKASI A.S.	0.5	0.0	96.2	0.0	3.8	3.8
TURKISH BANK	0.1	0.0	60.0	40.0	0.0	40.0
TURKLAND BANK A.S.	0.1	0.0	0.0	100.0	0.0	100.0
TÜRKİYE İHRACAT KREDİ BANKASI A.S.	0.7	100.0	0.0	0.0	0.0	0.0
WESTLB AG	0.1	0.0	0.0	100.0	0.0	100.0
YAPI VE KREDİ B.	9.3	0.0	17.2	76.2	6.6	82.8
ALBARAKA TÜRK KATILIM BANKASI A.S.	0.7	0.0	26.7	61.9	11.4	73.3
ASYA KATILIM BANKASI A.S.	1.2	0.0	72.0	0.0	28.0	28.0
KUVEYT TÜRK EVKAF FİNANS KURUMU A.S.	0.7	0.0	19.8	80.2	0.0	80.2
TÜRKİYE FİNANS KATILIM BANKASI A.S.	1.0	0.0	40.0	60.0	0.0	60.0
Toplam (%)	100.0	26.6	31.9	24.3	17.1	41.5

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 July 2008, the share of public capital in Turkish banking sector is 26,6% and the share of private capital is 31,9%. On the other hand, according 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 24,3%. When the stocks held by foreign residents (17,1% stock market shares) are added to this ratio, the total foreign capital share becomes 41,5%.

Intermediation costs in the banking sector increased slightly due to the increase in interest paid to deposit by banks in the second quarter of the year, interest margin increased from 5,3 points which is March 2008 to 5,6 points. The interventions for decreasing the tax and similar public liabilities in banking sector may lead to a more effective intermediation function and it may prevent banking services to slide to abroad.

Table 2.2.1-4: Developments on Intermediation Costs

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

2.2.3 Banking Sector Balance Sheet Analysis

Total assets of banking sector grew by 13% in the first half of the year. The growth was below the first quarter in the second quarter of the year. Although the share of loans which is the most important item in total assets increased, there is a slow down in its growth speed. The slow down experienced in the second quarter of the year in the demand in economy in general was a determiner for this development. The deposit which is among the fund resources of the banking sector increased well beyond the balance sheet growth. The decrease experienced in debts to banks item is evaluated as the liquidity shortage experienced in foreign markets had negative impacts on the indebtedness facilities of the sector.

Table 2.2.1-5: Fundamental Balance Sheet Sizes of the Sector

TRY Billion	2005	2006	Mar.07	Jun.07	Sep.07	Dec.07	Mar.08	Jun.08
Assets								
Cash Values	3,1	4,5	3,3	3,3	3,5	5	4,7	4,9
Banks, CBRT and Money								
Market Receivables	33,1	40,3	54,2	57,3	53,3	55,2	62,5	66,5
Securities	143	158,9	165,6	166,8	166,5	164,7	136,4	173,0
Net NPL	0,9	0,9	1,0	1,2	1,2	1,4	1,5	1,9
Loans	156,4	219	230,3	247,5	261,4	285,6	319,6	342,7
Subs., Affiliates and Jointly								
Controlled Partnerships	11,1	9,2	9,6	9,8	10,1	10,8	10,0	10,2
Other	59,3	66,9	51,3	48	47,5	58,9	99,3	57,8
Total	406,9	499,7	515,3	533,7	543,5	581,6	634,0	656,9
Liabilities								
Deposit (Funds Collected)	251,5	307,6	319,5	331,9	336,3	356,9	389,8	405,8
Debts to Banks (including								
Money Markets and CBRT)	54,8	70,9	67,3	67,9	66,1	71,6	85,1	82,3
Own funds	54,7	59,5	64,2	66,4	71,6	75,9	76,0	77,2
Other	45,9	61,6	64,2	67,6	69,5	77,2	83,1	91,6
Total	406,9	499,7	515,3	533,7	543,5	581,6	634,0	656,9

Banking sector had a fund flow amounting to TRY 32,3 billion in April-September 2008. Nearly half of the increase in funds was obtained from deposit while the fund amount obtained from own funds was about 4%. 72% of the funds obtained are used in the financing of loans. Securities portfolio decreased by 16% of total amount change in the said period.

TL portion of total assets of banking sector increased by 2,3 points when compared to the previous quarter and realized as 68,0% in June 2008. The decrease in FX assets is in securities portfolio and loans had effects on the said increase. The fact that FX exchange rate increased by 4% when compared to the previous quarter had effects on the increase of the share of TL liabilities by 1 points to 65,3%.

Chart 2.2.1-1: Development of TL-FX Assets and Liabilities



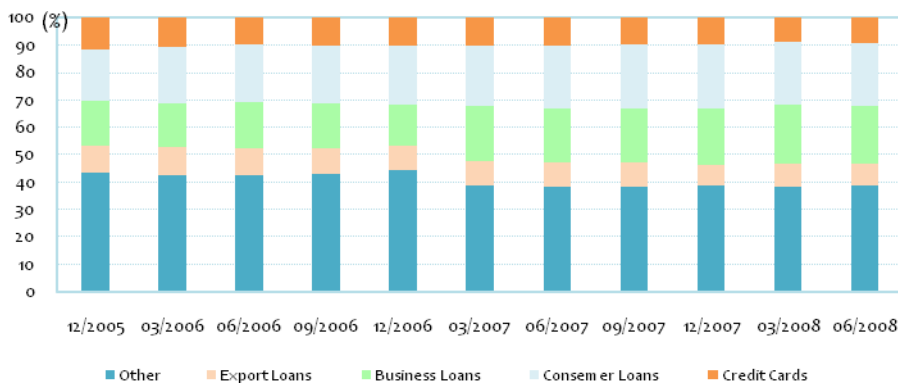
Intermediation function is continuing to get strong in the banking sector. The ratio of loans/deposit in sector general is realized as 84,4% as of June 2008. Demographic structure, increasing life standards depending on the increasing national income, continuation of macroeconomic and financial stability are the main factors for the intermediation function to get strength.

Chart 2.2.1-2: Share of Loans in Total Assets and Deposits by Groups



It is seen that no significant change is experienced in the distribution of loans by types in the banking sector in June 2008 and individual loans is still the weighted item.

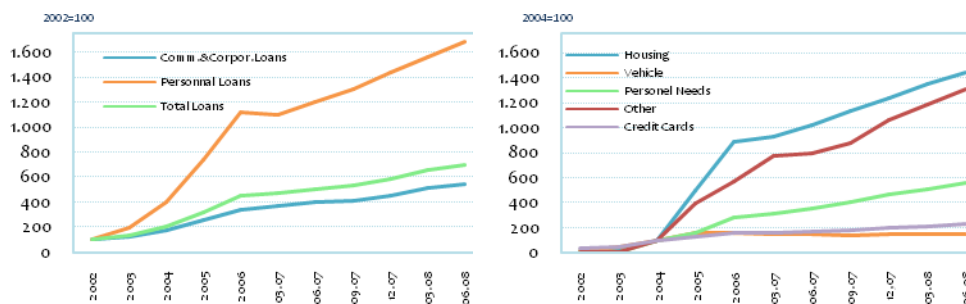
Chart 2.2.1-3: Distribution of Loans by Types



Total loan volume of the banking sector increased by 20,2% when compared to end-2007 and realized as TRY 343 billion in the first half of 2008. The increase in loans in the second quarter of the year was relatively lower than the first quarter due to the impact of the slow down in economic growth. However, total loans which increased by 13% in the first half of 2007 when compared to end-2006 and it increased by 20,2% in the first half of 2008 when compared to end- 2007 and this shows that there does not exist a slow down in the trend. The said determination is also valid within the context of commercial loans and individual loans.

When change indexes relating to total and individual loans granted by banking sector, it is seen that the increase in both commercial and corporate loans between the period of 2002 and March 2008 accelerated in 2007 and the said tendency also continued in 2008. Especially individual loans had a high growth speed since 2002. When increase speed of individual loans by types is analyzed, it is seen that the fastest increase is experienced in housing loans.

Chart 2.2.1-4: Loan Indexes



98% of the individual loans are granted by deposit banks. Among deposit banks, private deposit banks have a share of 58% and foreign banks have a share of 20%. Foreign banks have a better performance in individual loans when compared to their share in total assets.

Table 2.2.1-6: Distribution of Personal Loans on Banking Groups

TRY Billion	2004	2005	2006	2007/06	2007/09	2007/12	2008/03	2008/06
Deposit	26,44	45,52	67,16	77,17	83,7	92,6	99,26	107,83
-Public	5,37	8,73	14,21	16,75	18,11	20,57	22,63	24,83
-Foreign	2,73	5,58	12,82	15,06	16,48	18,59	23,71	25,12
-Private	18,34	31,21	40,13	45,36	49,11	53,44	52,92	57,88
Participation	-	1,19	1,88	2,11	2,16	2,19	2,17	2,45
DIB	0,01	0,02	0,06	0,12	0,16	0,2	0,23	0,26

The increase in share of consumer loans in individual loans composition is remarkable. Consumer loans which consisted about half of individual loans as of 2004 comprise 72% thereof as of June 2008. The increasing tendency in housing loans is the most significant factor for this development. While housing loans increased more than 14 folds from 2004 to June 2008, consumer loans increased by 6 folds and credit cards increased by 2 folds. Another remarkable development in consumer loans is the slow down in vehicle loans. The share of vehicle loans in consumer loans which was 33% in 2004 decreased to 8% in June 2008. Vehicle loans had a relative limited increase by 1,4 folds in the said period. The share of credit cards in individual loans decreased during the said period from 52% to 28% by the impact of increase in market saturation, consciousness of consumer and the related regulations

Table 2.2.1-7: Distribution of Personal Loans

TRY Billion	2004	2005	2006	2007/03	2007/06	2007/09	2007/12	2008/03	2008/06
Consumer Loans	12.73 1	29.462	47.575	50.495	55.527	61.163	67.877	73.368	79.100
Housing	2.631	13.037	23.377	24.530	26.961	29.730	32.448	35.445	37.919
Vehicle	4.194	6.445	6.661	6.215	6.086	5.979	6.154	6.012	6.049
Individual Loans	5.585	8.715	15.719	17.269	19.924	22.633	25.860	28.178	30.936
Other	320	1.264	1.818	2.482	2.556	2.822	3.414	3.734	4.196
Credit Cards	13.92 0	17.259	21.526	21.927	23.874	24.860	27.103	27.598	30.607
Installment	3.784	6.103	9.027	9.090	9.685	9.787	10.772	10.878	11.851
Without Installment	10.13 7	11.156	12.499	12.837	14.189	15.073	16.331	16.720	18.755
Tot. Individual Loans	26.65 1	46.721	69.101	72.422	79.401	86.023	94.980	100.966	109.707

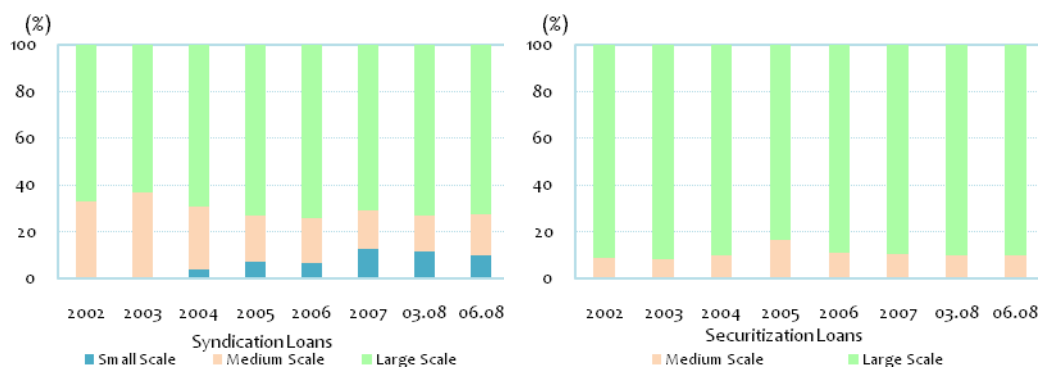
Deposit weighted resource structure in banking sector continues. In the resource composition which was in a stable motion in the recent years; own funds have a share of 12%, debts to banks have a share of 13%, deposit 62% and foreign resources have a share of 14%.

The global crisis being experienced increased the cost of indebtedness from foreign markets. However, growth potential of Turkish economy and its positive structure as well as strong financial structures of banks obtaining fund from foreign markets and good risk management implementations are evaluated as factors which will perpetuate obtaining foreign resources. When funds from foreign markets are analyzed by bank scale, it is seen that the share of small-scale banks for syndication loans is about 10% and the said resource are mostly used by large-scale banks. 90% of securitization loans are used by large-scale banks while small-scale banks don't have a share.

Table 2.2.1-8: Development of Sources from Foreign Markets

USD Billion	2003	2004	2005	2006	2007	2008/3	2008/6	Weighted Average Maturity 2008/6
Syndication Loans	3,8	6,5	8,1	12,5	13,2	13,2	13,3	1,6
Securitization Loans	2,8	3,5	7,0	9,2	13,1	13,0	12,6	7,6
Total	6,6	10,0	15,1	21,7	26,4	26,2	25,9	4,7

Chart 2.2.1-5: Distribution of Loans from Foreign Markets by Bank Scale



2.2.4 Banking Sector Income Statement Analysis

The profit of banking sector increased by 2,3% in June 2008 when compared to the same period of the previous year. In this period new actors in the banking sector targeted to increase their market share with various products and services and it is evaluated that profitability may be waived a little. The decrease in the income from sales of assets had impacts on the decrease of other non-interest income and accordingly led to relatively limited increase of profitability. Depending on the decrease in securities portfolio, interest income from securities decreased and the relative decrease experienced in deposit interest rates when compared to the previous year led to decrease in interest expenditures paid to deposit. The increase in net non-interest income is evaluated as an important factor for the continuation of the profitability of the banking sector. The development of alternative service channels other than the branches obtains facilities to customers and besides it has a potential to create serious service income for banks. The continuation of branching in the banking sector and the proliferation of new service fields are increasing the need of qualified personnel. Accordingly, the employment of new personnel and transfers between banks occurring in all levels are the facts that pulling the salaries within the sector. The banking sector finished the year 2007 with a loss in the capital market transactions; within the first half of 2008, it made profit. The exchange transactions from which nearly TRY 1.6 billion profit had been made in the last end-of-year, are affected from the fluctuations in the foreign financial markets and losses have been made within the first three months, which affected negatively the profitability. As of June, it is seen that this item is a positive value which is so low that it may not affect the profitability.

Table 2.2.1-9: Development of Selected Income Statement Items

	TRY Million			% Distribution			% Change.(When Compared to the Same Period of Previous Year)		
	12.07	03.08	06.08	12.07	03.08	06.08	12.07	03.08	06.08
				7	8	8			
Interest from Loans	39.363	11.449	23.560	55,8	58,9	59,2	36,2	30,2	29,1
Interest from Securities	24.511	6.382	12.757	34,7	32,9	32,1	13,3	4,3	4,4
Other	6.679	1.596	3.452	9,5	8,2	8,7	25,6	-6,8	4,3
Interest Income	70.553	19.428	39.768	100,	100,0	100,	26,3	16,8	17,7
Interest to Deposits	35.444	9.384	19.396	79,6	79,3	78,7	26,5	11,1	13,4
Interest to Banks	5.263	1.356	2.668	11,8	11,5	10,8	22,4	7,5	5,5
Other	3.797	1.092	2.587	8,5	9,2	10,5	66,0	27,4	42,4
Interest Expenditures	44.503	11.833	24.658	100,	100,0	100,	28,6	12,0	14,9
Net Interest Income (Exp.)	26.049	7.595	15.118	-	-	-	22,7	25,2	22,6
Wage and Commissions from Loans	2.050	573	1.217	12,8	11,9	13,0	18,8	20,1	20,4
Banking Service Income	8.283	2.315	4.847	51,7	47,9	51,7	25,4	26,5	24,1
Other	5.692	1.949	3.314	35,5	40,3	35,3	-10,2	77,4	9,4
Total Non-Interest Income	16.025	4.837	9.377	0	100,0	0	9,2	42,0	18,0
Personnel Expenditures	7.974	2.233	4.694	35,9	34,1	36,3	22,1	26,1	23,9
Provisions	3.031	1.390	2.162	13,6	21,2	16,7	25,3	109,6	95,3
Other	11.213	2.918	6.067	50,5	44,6	46,9	14,4	23,9	20,7
Total Non-Interest Expenditures	22.218	6.541	12.924	100,	100,0	100,	18,5	36,5	30,3
Net Non-Interest Income (Exp.)	-6.193	1.704	3.547	-	-	-	51,8	23,0	79,3
Capital Marker Oper. Profits (Loss.)(Net)	-811	408	455	61,9	1227,9	62,1	-169,1	543,3	-310,3
Foreign Exchange Profits (Loss.)(Net)	1.664	-622	28	126,9	1871,0	3,9	-197,2	-422,1	-96,2
Other	459	247	250	35,0	743,1	34,0	-1475,4	-38.245,8	-7,6
Total Other Non-Interest Inc. (Exp.)	1.312	33	733	0	100,0	0	-329,9	-87,0	-7,5
Tax Provision	3.350	973	2.065	-	-	-	7,3	22,0	24,5
Net Profit (Loss)	14.859	3.920	8.281	-	-	-	30,8	14,4	2,3

2.2.5 Off-Balance Sheet Transactions

The total off-balance sheet transactions have reached TRY 495 billion as of June and their share within total balance sheet size is 75.4%. This development was mostly because of the increase in derivative financial instruments of which its share within total balance sheet size is increased by 10 points compared to the same period of previous year.

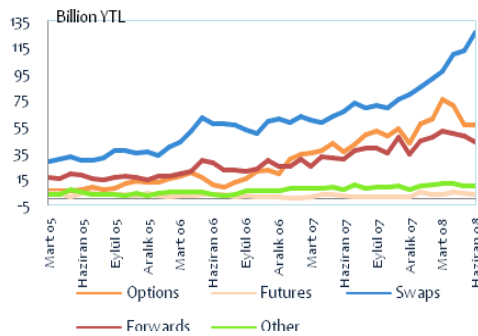
Table 2.2.1-10: Development of Off-Balance Sheet Transactions

	TRY Million				Share within Balance Sheet (%)				% Increase Compared to Same Period of Previous Year		
	12.06	12.07	03.08	06.08	12.06	12.07	03.08	06.08	12.07	03.08	06.08
Tot. Off-Bal. She. Trans. (1+2)	277.444	385.544	482.155	495.018	55,5	66,3	76,1	75,4	39,0	57,7	43,7
Non-Cash Loans and Liabilities (1)	86.721	96.743	112.085	119.682	17,4	16,6	17,7	18,2	11,6	27,2	32,1
Commitments (2)	190.724	288.801	370.070	375.336	38,2	49,7	58,4	57,1	51,4	70,1	47,8
Derivative Financial Instruments	107.151	160.444	232.306	231.985	21,4	27,6	36,6	35,3	49,7	88,0	73,1
Other Commitments	83.573	128.357	137.765	143.352	16,7	22,1	21,7	21,8	53,6	46,6	19,6

Derivative transactions have growth by 45% in June 2008 compared to end-2007. The Swap transactions having the biggest share within derivative transactions and which aim to provide protection against exchange rate risk are increased by 60.9%. Another pointing within the second quarter of 2008 is that all derivative transactions besides swap transactions have decreased. The options which are second range within derivative transactions since the end of year 2006, showed a fast increase within the first quarter of year and then they decreased considerably within the second quarter.

The derivative products shall be evaluated as financial instruments requiring a serious specialization because of their sophisticated structure and which are in relationship with the banks' internal control, supervision and technologic infrastructure. The derivative products are considered as a required instrument especially to manage the exchange rate risk; their usage to make irrational profit outside this aim could engender risk for the sector in the confidence to the system and its soundness.

Chart 2.2.1-6: Development of Derivative Transactions



2.3 Non-Banking Financial Sectors

As of June 2008, after the annulment of official authorizations of 12 companies and the establishments of 2 new companies, there are 58 financial leasing companies operating within the sector. Within the same period, after the annulment of official authorizations of 7 companies and the establishment of 3 new companies the number of factoring companies decreased to 78; and after the establishment of 1 new company the number of consumer financing companies increased to 9.

2.3.1 Financial Leasing Sector Activities

In the financial leasing sector, with also the impact of the current global crisis it is observed that the own funds profitability has shown a considerable decrease within the period of June. Similarly, the asset profitability has decreased too. However, the number of companies bearing a loss within the sector remained the same in June compared to March. The on-balance sheet FX net position ratio has turned into positive since March and it's 4.8% within the period of June. In paralel with these developments, it is seen that the share of NPLs within total receivables maintains its tendency to increase and that it expanded by 1.7% points as of the second quarter of 2008 to 5.7%.

Table 2.3-1: Major Indicators Related to Financial Leasing Sector Performance

	Dec.06	Dec.07	Mar.08	June08
NPLs /Gross Receivables %	3,1	3,7	4	5,7
Number of Loss-making Companies	18	19	10	10,0
Term Profit/Total Own Funds %	19,1	14,1	20,1	11,4
Term Profit/Total Assets %	3,8	2,5	3,5	2,1
On-Balance Sheet FX Net Position/Own Funds %	-5,5	-9,4	4,9	4,8
Transaction Limit Ratio (< 30)	4,7	5,9	5,3	5,0

In conjunction with the negative developments within the world finance markets, the assets of financial leasing companies have shown a decline by 1.1% within the period of June 2008. It is observed that the decreasing assets are mostly emanated from the decrease by 1.7% in financial leasing receivables and the increase by 2% in special provisions.

Table 2.3-2: Major Balance Sheet Items of Financial Leasing Sector

TRY Billion	2006	2007	Mar.08	June08	Share within Balance Sheet June08
Balance Sheet Items					
Banks	0,5	0,8	0,7	0,8	5,0
Financial Leasing Receivables (Net)	8,5	11,7	13,5	13,1	87,1
NPLs (Net)	0,1	0,2	0,4	0,4	2,9
Other Assets	0,8	1,0	0,8	0,8	5,0
Total Assets	10,0	13,7	15,3	15,2	100,0
Loans Granted	7,3	10,3	12,0	11,8	78,0
Own Funds	2,0	2,5	2,7	2,8	18,4
Other Liabilities	-3,1	-4,7	-3,5	-2,5	-16,3
Total Off-Balance Sheet Accounts	6,2	8,1	11,1	12,2	80,1

The receivables have decreased above the decline in the total assets and their share within the balance sheet decreased to 87.1%. However, the receivables from banks which compose 5% of the companies' assets increased by 5%. In this difficult period, the increase by 4.2% in own funds is considered as a positive development against possible risks.

Table 2.3-3: Financial Leasing Receivables

(TRY Million)	Dec.07	Mar.08	June08	Share (%)	Growth (%)	Dist. By Customer Group			
						Ind. Ent. (SME)	SME	Non-Fin. Comp.	Other *
Agriculture	899	951	927	7,1	-2,5	8,6	3,1	1,8	34,9
Industry	5.122	5.762	5.734	43,8	-0,5	47,6	48,7	46,4	15,2
Services	5.818	6.448	6.381	48,7	9,7	43,5	47,6	51,3	49,8
Other	43	58	60	0,5	3,4	0,3	0,5	0,5	0,1
Total	11.883	13.218	13.101		0,9	1.556	5.296	4.685	1.563

*All customers –Individual Enterprises (SME)-Commercial Enterprises Qualified as SME –Non-Financial Companies

As a major item in the balance sheet, the financial leasing receivables are TRY 13.1 billion according to the receivable notification records. The distribution of these receivables did not change much comparing to previous period; the share of industrial sector is 43.8%, the share of services sector is 48.7%, the share of agricultural sector is 7.1% and the share of other sectors is 0.4%.

When the distribution of receivables by customer groups is analyzed; it is seen that the share of individual enterprises is 11.9%, the share of SMEs is 40.4%, the share of non-financial companies is 35.8% and the share of other customers is 11.9%.

Table 2.3-4: Selected Income Statement Items of Financial Leasing Companies

TRY Million	Dec.06	Dec.07	Mar.08	June08	08/06-07/06 Change by %
Core Activity Income	954,9	1.287,4	389,9	764,2	28,0
Other Activity Income	1.812,5	1.695,4	1.701,7	2.992,3	334,7
Personnel Expenses	83,5	100,6	31,9	61,2	23,7
Core Activity Expenses	630,3	835,0	58,5	115,2	-67,5
Other Activity Expenses	1.779,9	1.768,9	1.609,4	2.845,6	292,3
FX Transactions(net)	-19,6	-24,4	30,9	26,0	-297,3
Term Net Profit	363,2	348,1	195,0	317,2	68,6

As it was in the first quarter, when compared to the period of June 2007, the financial leasing incomes increased by 28% within the period of June 2008. On the other hand the growth rate of interest expenses decreased comparing to previous period; they grew by 72.4% within the first quarter while they grew by 51.1% in the second quarter comparing to the same periods of the previous year. A similar development is observed in the growth rate of personnel expenses. The growth rate which was 32.1% within the first quarter remained limited as 23.7% within the second quarter compared to the same period of previous year. The fluctuations occurred in financial markets also affected the profitability of sector and compared to the growth by 79.1% in the term net profit realized in the first quarter, in the second one, a growth by 68.6% is realized compared to the same period of previous year. Within this framework, the profit of sector increased from TRY 188.1 million to TRY 317 million.

2.3.2 Factoring Sector Activities

It is observed that the increase in the share of NPLs of factoring companies within total receivables in March 2008 turned to be a decrease by 0.5 points in June 2008. Similarly, the asset profitability increased by 1.8 points and the own funds profitability increased by 6 points. In parallel with these positive developments, the number of loss-making companies decreased from 24 to 15. On the other hand, the receivables to own funds ratio (Transaction limit ratio) increased by 0.5 points and the on-balance sheet FX net position decreased by 7.7 points.

Table 2.3-5: Major Indicators Related to Factoring Sector Performance

	Ara.06	Ara.07	Mar.08	Haz.08
NPLs /Gross Receivables %	2,3	3,2	5,3	4,8
Number of Loss-making Companies	11,0	13,0	24,0	15,0
Term Profit/Total Own Funds %	27,9	21,0	1,8	8,7
Term Profit/Total Assets %	7,8	5,6	0,5	2,3
On-Balance Sheet FX Net Position/Own Funds %	-43,3	-48,0	-60	-52,3
Transaction Limit Ratio (< 30)	3,0	3,3	2,8	3,3

The assets of factoring companies showed a better performance comparing to the first quarter and within the period of June 2008, they grew by 32.6% compared to previous year. It is seen that the financing source of growth of the assets is mostly the increasing financial and commercial debts. However it is seen that in balance sheet, the NPL ratio of receivables increased from 3.4% to 4.8% compared to previous year. Nevertheless, the fact that this ratio decreased to 4.8% in the second quarter of year from 5.3% in the previous quarter, is evaluated as a positive development.

Table 2.3-6: Major Balance Sheet Items of Factoring Sector

TRY Million	2006	2007	Mar.08	June08	Share within Balance Sheet June08
Asset					
Banks	0,6	0,6	0,4	0,3	3,9
Factoring Receivables (Net)	5,1	6,2	6,5	7,5	85,5
NPLs (Net)	0,0	0,0	0,1	0,1	0,7
Other	0,6	0,7	1,0	0,9	9,9
Total	6,3	7,6	7,9	8,7	100
Liabilities					
Loans Granted	4,2	4,9	5,3	6,1	69,6
Own Funds	1,8	2,0	2,3	2,3	26,3
Other	0,4	0,6	0,3	0,4	4,1
Total	6,3	7,6	7,9	8,7	100
Total Off-Balance Sheet Accounts	18,5	23,4	26,9	29,5	337,5

The factoring receivables having the most important share within the assets with 85.5% increased by 15.8%, which is better than in first quarter, and their share within the assets increased by 3.4 points.

Table 2.3-7: Factoring Receivables

TRY Million	Dec.07	Mar.08	June08	Share %	Growth (%)	Comm. Ent.	SME*	Other**
Agriculture	106	111	150,3	1,6	35,4	1,9	2,4	1,5
Industry	4.443	4.596	5.101	67,9	11,0	66,5	65,4	45,7
Services	1.874	2.018	2.441	29,8	21,0	30,7	31,5	52,2
Other	55	51	72	0,8	41,1	1	0,7	0,6
Total	6.477	6.776	7.764	100,0	14,6	6.442	1130	235

*Non-Financial Companies (SME)+Individual Enterprises (SME)

**All Customers-Non-Financial Companies -SME

Comparing to the period of June 2007, the factoring incomes increased by 23.1%. Within the same period, while interest expenses increased by 21.9% and personnel expenses increased by 51.4%, the net expenses from other activities decreased by 50.2%. In the second quarter of 2008, the term profit increased by 85.4% comparing to the same period of previous year. The term profit increased due to the decrease by 50.2% of the Net Expenses and Losses from Total Other Activities which cleared the reduction of term profit in previous year resulting from the augmentation in provisions because of NPLs; the increase of exchange rates which caused exchange losses exceed exchange profits; the increase of interest payments generated by the increase of interest rates.

Table 2.3-8: Selected Income Statement Items of Factoring Companies

TRY Million	Dec.06	Dec.07	Mar.08	June08	08/06-07/06 Change %
Factoring Incomes	1.021,2	1.400,8	374,0	816,2	23,1
Interest Expenses	495,2	608,3	163,2	348,9	21,9
Personnel Expenses	106,2	139,7	44,1	93,2	51,4
Total Income from other Activities- Net Exp.	140,9	-81,7	-40,5	-9,3	-50,2
Tax Provision	61,0	78,0	2,6	19,4	-31,7
Net Profit of Period	490,8	426,6	41,7	200,2	85,4

2.3.3 Consumer Financing Companies Sector Activities

Within the period of June 2008, the share of NPLs of financing companies in total loans increased by 0.2 points, while the own funds profitability increased by 2.1 points and the asset profitability by 0.3 points; the on-balance sheet net position decreased by 56.1 points. In this period, the number of loss-making companies also decreased as reduced from 4 to 3 in the second quarter.

Table 2.3-9: Major Indicators Related to Consumer Financing Sector Performance

	Dec.06	Dec.07	Mar.08	June08
NPLs /Gross Receivables %	2,4	2,2	4,6	4,8
Number of Loss-making Companies	0	1	4	3
Term Profit/ Total Own Funds %	19,0	17,0	5,7	7,6
Term Profit/ Total Assets %	1,4	1,3	0,4	0,7
On-Balance Sheet FX Net Position / Own Funds %	-153	-161	-381	-324,9
Transaction Limit Ratio (< 30)	13,6	12,2	12,0	10,0

The assets of financing companies increased by 1.4% in the period of June 2008, when compared to March 2008. It is seen that the principle source of the growth is the increase in the own funds. The growth rate of loans remained far below the increase by 6.5% observed in the previous period and is realized as 1.3%. On the other hand, the share of loans within balance sheet decreased only by 0.2 points. The share of NPLs increased by 0.4 points and realized as 3.3%. It is observed that the funds placed in banks itemized in the balance sheets of financing companies increased considerably by 23.8% and in parallel with this development their share within the assets increased by 0.8 points to 4.3%.

Table 2.3-10 Major Balance Sheet Items of Consumer Financing Sector

TRY Billion	2006	2007	Mar.08	Haz.08	Share within Balance Sheet June08
Assets					
Banks	0,1	0,0	0,2	0,2	4,3
Loans	3,2	3,7	3,9	4,0	90,6
NPLs (Net)	0,0	0,1	0,1	0,1	3,3
Other	0,1	0,1	0,1	0,1	1,7
Total	3,4	3,9	4,3	4,4	100
Liabilities					
Loans Granted	2,8	3,2	3,4	3,5	79,0
Own Funds	0,2	0,3	0,3	0,4	8,7
Other	0,4	0,4	0,5	0,5	12,4
Total	3,4	3,9	4,3	4,4	100
Total Off-Balance Sheet Accounts	2,2	3,3	1,0	1,1	24,4

When the data related to loans are observed closely, it is seen that total loans of consumer financing companies increased by 2.7% in the period of June 2008, and that the biggest growth is realized in industrial sector with 12.9%. While the shares of individual enterprises and SMEs within loans increased respectively by 0.8 and 6.7 points, the share of commercial companies is decreased by 8.5 points and the share of other customers decreased by 2.5 points.

Table 2.3-11: Financing Companies' Loans

(TRY Million)	Dec.07	Mar.08	June08	Share (%)	Growth (%)	By Customer Group			
						Ind.	Comm.	SME*	Other**
Agriculture	12,8	12,6	11,2	0,3	-11,4	0,0	0	1,3	0,0
Industry	2.555,0	2656,1	2985,9	72,6	12,9	95,8	57,7	41,4	78,5
Services	579,6	651,4	690,2	16,8	6,7	1,2	17,5	57,2	0,8
Other	656,3	688,0	424,8	10,3	-40,1	2,9	24,9	0,1	20,7
Total	3.804	4008,1	4112,0	100,0	2,7	1.247	988	821,448	2.022

*Non-Financial Companies (SME)+Individual Enterprises(SME)

**All Customers-Individual (consumers)- Non-Financial Companies - Non-Financial Companies (SME)- Individual Enterprises(SME)

Comparing to the period of June 2007, in the period of June 2008, the financing incomes of financing companies increased while their net incomes from other activities decreased. Accordingly, the financing incomes increased by 30%, the interest expenses increased by 2.5% and personnel expenses increased by 38.8% while the term profit decreased by 7.8%.

Table 2.3-12: Selected Income Statement Items of Financing Companies

TRY Million	Dec.06	Dec.07	Mar.08	June08	08/06-07/06 Change %
Financing Incomes	445,7	548,4	181,8	340,7	30,0
Interest Expenses	335,9	427,1	114,9	233,6	2,5
Personnel Expenses	31,3	36,2	9,7	23,3	38,8
Total Income-Expenses from Other Activities Net	29,1	29,7	-11,8	2,2	-95,7
Other Activity Expenses	0,2	-0,1	0,0	0,0	0,0
Tax Provision	17,1	23,8	4,9	7,0	-53,6
Net Term Profit	46,2	49,7	18,6	28,7	-7,8

3 RISK, CAPITAL and PROFITABILITY EVALUATION

3.1 Loan Risk

The loan volume which was TRY 319.6 billion as of the first quarter of 2008 is increased by 7.2% and has reached to TRY 342.7 billion within the second quarter. Even if within the period of December 2007–March 2008, the FX loan volume did experience a big increase, this tendency was reversed within the second quarter of year. Within the second quarter of year, the FX loans are decreased by 0.5% comparing to previous quarter and were realized as TRY 85.6 billion. The most important reason in this decrease was the decrease occurred in exchange rates between the two periods. The increase observed in FX indexed loans within the first quarter of year remained limited within this period due to same reasons and was realized as 3.3%. Accordingly, the FX loans and FX indexed loans which grew rapidly within the first quarter of year 2008 have slowed down within second quarter, yet more a partial decrease by TRY 0.4 billion was occurred in FX loans.

The non-cash loans and liabilities grew by 6.8% within the second quarter of year compared to the first one and reached to TRY 119.7 billion. The share of FX non-cash loans within total non-cash loans which was 58% by the end of 2007 is increased in 2008, and is realized as 63% within the second quarter as it was in first quarter.

The NPL of banking sector are increased by 7.7% to TRY 10.0 billion within the second quarter. The decrease observed in the reserved provisions to NPL ratio is still continuing. This ratio was realized as 82.5% in the same period. While by the end of 2006 there were provisions reserved by 90% of NPLs, within the second quarter of 2008 this ratio is decreased nearly by 8 points and this fact is evaluated as a negative fact for loan risk management.

Within the second quarter of 2008, the share of short-termed loans within total loans seems to increase moderately. Additionally, the terms of credit cards and consumer loans are elongated. It is interesting to observe that, especially the share of long-termed consumer loans within total consumer loans has increased by 1.2 points to 91.9% within the second quarter of year. Within the framework of these data, it can be said that the terms of loans excluding personal ones have generally shortened. Within this period, when it's analyzed by monetary type, it is observed that in both short and long terms, the share of FX loans within total loans have decreased moderately.

Table 3.1-1: Distribution of Loans by Term and Monetary Unit

%	Loans			Credit Cards			Consumer Loans		
	Dec. 07	Mar. 08	June 08	Dec. 07	Mar. 08	June08	Dec. 07	Mar. 08	June08
Total Short-Termed	45,9	44,9	45,5	98,8	99,4	99,0	9,8	9,3	8,1
TL	38,3	36,2	37,7	98,6	99,2	98,9	9,8	9,3	8,1
FX	7,6	8,7	7,8	0,2	0,2	0,1	0,0	0,0	0,0
Total Long-Termed	54,1	55,1	54,5	1,2	0,6	1,0	90,2	90,7	91,9
TL	37,8	36,9	37,4	1,2	0,6	1,0	90,2	90,7	91,8
FX	16,3	18,1	17,1	0,0	0,0	0,0	0,0	0,0	0,0
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
TL	76,0	73,1	75,1	99,8	99,8	99,9	100,0	100,0	100,0
FX	24,0	26,9	24,9	0,2	0,2	0,1	0,0	0,0	0,0

When the distribution of large loans extended by banks is analyzed, it is seen that within the second quarter of 2008 the amount of loans which are higher than 10% of the banks' own funds and which are between 10%-20% is increased when compared to the first quarter of 2008 and that the share of the total of these loans is increased both in total own funds and total loans. In June 2008, the loans which are higher than the 10% of banks' own funds to total own funds ratio is increased by 7.8 points comparing to the previous quarter to 45.1%, and the loans which are equivalent to 10%-15% of the banks own funds to total own funds ratio is increased by 7.6 points to 25.7%, and the loans equivalent to 15%-20% of the banks' own funds to total own funds ratio is increased by 1.1 points to 15.3%. This situation is evaluated as a negative development for the concentration risk of loans. Nevertheless, as of the same period, the loans which are equivalent to 20%-25% of the banks' own funds have decreased as amount as well as their share within loans

and own funds. The ratio of loans equivalent to 20%-25% of the banks' own funds to total own funds, which was 5.0% as of March 2008 is decreased to 3.9% in June 2008.

Table 3.1-2: Distribution of Large Loans Extended by Banks

%	Dec.07		Mar.08		June08	
	Rate to Own Funds	Rate to Loans	Rate to Own Funds	Rate to Loans	Rate to Own Funds	Rate to Loans
Higher than 10	29,9	7,0	37,3	8,4	45,1	9,5
Between 10-15	12,8	3,0	18,1	4,1	25,7	5,4
Between 15-20	7,5	1,8	14,2	3,2	15,3	3,2
Between 20-25	6,9	1,6	5,0	1,1	3,9	0,8

**Loans granted to a natural person or legal entity or a risk group which is 10% or higher than 10% of the own funds are considered as large loans.*

Within the second quarter of 2008, there were no important changes in the distribution of loans by size and number of customers. In the distribution by sizes, the total amounts of loans higher than TRY 1 million and the ones lesser than TRY 51 thousand have still the biggest shares. Within this period, the loan amount per customer kept increasing in all loan scales similarly to the previous period.

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

Loan Amount	Total Loans (%)			Nr. Of Customers (%)			Loan Amount per Cust. (TRY Th.)		
	Dec.07	Mar.08	June08	Dec.07	Mar.08	June08	Dec.07	Mar.08	June08
Higher than TRY 1 million	40,55	43,19	42,79	0,06	0,07	0,07	5.494	6.083	6.209
TRY 501 Th.-TRY 1 million	5,02	4,82	4,88	0,06	0,06	0,07	698	706	713
TRY 101 Th.-TRY 500 Th.	13,58	13,07	13,09	0,56	0,63	0,63	194	194	196
TRY 51 Th.-TRY 100 Th.	7,76	7,60	7,66	0,89	1,00	1,03	70	71	71
Lesser Than TRY 51 Th.	33,09	31,32	31,57	98,43	98,24	98,21	3	3	3
General Total	100,00	100,00	100,00	100,00	100,00	100,00	8	9	10

Within the second quarter of 2008, the little decrease occurred in the amount of loans granted to the industrial sector caused the share of loans granted to this sector within total loans to decrease by 1.1 points. The increase in the loans granted to services sector made increase the share of loans granted to this sector within total loans. When the NPL ratios are analyzed by sectors, it is seen that in all sectors the NPL ratios are still decreasing. The NPL ratio of industry, agriculture and services sectors which was 3.22 in March 2008 is decreased to 2.80 in June 2008. When the structure of non-cash loans granted to these sectors is analyzed, it is observed that the shares of loans granted to the sectors of agriculture and industry within total non-cash loans are increasing.

Table 3.1-4: Distribution of Corporate and Commercial Loans by Sectors

June 08 (%)	Distribution by Sectors of Cash Loans			NPL Ratio	Non-Cash Loans
	Short-Termed	Medium-Long Termed	Total (Gross)		
Agriculture	6,45	4,93	5,71	2,76	1,22
Industry	46,11	32,53	39,90	3,73	43,91
Mining	2,26	1,16	1,71	1,53	2,99
Manufacturing Ind.	43,01	28,28	36,31	4,02	37,34
Electricity-Gas-Water	0,84	3,09	1,88	0,17	3,58
Services	47,44	62,54	54,39	2,12	54,87
Total*	100,00	100,00	100,00	2,80	100,00
Tot. Corp. and Com. Loans (TRY Billion)		120,08	114,19	241,71	119,68
Corp. and Com. Loans/Total Loans		76,39	60,64	67,83	66,79
Mar. 08 (%)					
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 Ind.	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	3,22	100,00
Tot. Corp. and Com. Loans (TRY Billion)		109,10	110,28	226,14	112,09
Corp. and Com. Loans/Total Loans (%)		75,87	62,25	68,38	66,23

**Does not include the loans granted to the sectors of agriculture, industry and services.*

When the sub-sectors are analyzed as of the period of March 2008-June 2008, it is seen that the sub-sector of textile and textile products have the biggest share for NPLs, that its NPL ratio is increased from 10.89% to 11.16%, and that the NPL ratio of credit cards is decreased from 6.12% to 5.91%.

Table 3.1-5: Sub-Sectors Having the Biggest Shares in NPL

	Mar.08			June08		
	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	18,12	6,12	8,74 (4)	18,58	5,91	9,28 (3)
Textile and Textile Products	13,52	10,89	3,48 (7)	13,84	11,16	3,46 (9)
Other	11,46	2,80	12,51 (1)	10,64	6,76	4,6 (6)
Wholesale Trade and Brokerage	6,12	1,88	10,02 (3)	7,20	2,17	10,19 (2)
Food, Beverage and Tobacco	5,95	4,04	4,44 (6)	6,67	3,88	5,19 (5)
Individual Loans Other	5,16	5,01	3,08 (10)	4,79	4,52	3,17 (11)
Construction	4,07	2,62	4,75 (5)	4,55	2,67	5,2 (4)
Retail Trade and Individual Goods	3,23	4,70	2,06 (14)	3,57	4,28	2,5 (14)
Agriculture*	2,95	3,02	2,98 (11)	2,93	2,70	3,31 (10)
Individual Loans Housing	2,61	0,74	11,04 (2)	2,92	0,83	10,98 (1)

*Fishing and hunting are not included.

Within the period of March 2008 - June 2008, total NPLs are increased by 7.7% to TRY 10.8 billion. When the indemnification structure of these NPLs is analyzed, a little increase is observed in the share of the ones which are not guaranteed within NPLs. This increase can be considered as a negative development for loan risk management, especially within the framework of recent developments occurring in loan markets. Nevertheless, the guarantee amounts to loans ratio is still augmenting. Especially the loans having second and third group guarantees to total loans ratio kept increasing and were realized respectively as 73.7% and 75.9% in June 2008. Furthermore, the decrease seen in the share of loans having forth group of guarantee within total loans is evaluated as a positive fact for reducing loan risk.

Table 3.1-6: NPL Indemnification and Guarantee Information

	Gross Balance (TRY million)			Proportional Distribution by Guarantee (%)			Total Guarantee/Loan (%)		
	Dec 07	Mar 08	June 08	Dec 07	Mar 08	June 08	Dec 07	Mar 08	June 08
Total Non-Performing Loans	10.345	10.070	10.843	100,0	100,0	100,0	36,3	39,4	40,7
a) With I. Group Guarantee	54	27	30	0,5	0,3	0,3	85,0	54,3	50,2
b) With II. Group Guarantee	3.891	3.643	3.871	37,6	36,2	35,7	64,1	70,5	73,7
c) With III. Group Guarantee	1.739	1.728	1.905	16,8	17,2	17,6	62,5	73,8	75,9
d) With IV. Group Guarantee	243	242	244	2,4	2,4	2,3	50,7	46,1	39,7
e) Without Guarantee	4.417	4.430	4.792	42,7	44,0	44,2			
Re-Structured Receivables	477	198	197						
Rec. Attributed to a New Redemption Plan	387	344	296						

The decrease observed generally in NPL ratios in 2007 is still continuing within the first two quarters of year. When it's analyzed in sectoral basis, the most remarking matter within the second quarter of year is the decrease occurred in NPL ratios of loans granted to agricultural and industrial sectors. Nevertheless, the fact that this ratio is more volatile in the agricultural sector compared to other sectors shall be taken into consideration. The NPL ratio of individual loans which is in a decreasing tendency since March 2007 is increased to 2.97% as of the second quarter of 2008. When it's observed generally, the NPL ratio which was 3.05% in March 2008 did not change much and is realized as 3.04% in June 2008.

Table 3.1-7: NPL Ratios in Sectoral Basis

%	Dec. 06	March 07	June 07	Sept. 07	Dec. 07	March 08	June 08
Individual	2,98	3,12	3,07	3,02	2,88	2,84	2,97
Agriculture	6,78	4,05	2,99	4,27	4,61	3,07	2,76
Industry	4,57	5,17	5,24	4,97	4,80	4,29	3,73
Services	2,80	2,66	2,47	2,51	2,49	2,41	2,12
Other	5,98	4,54	5,80	5,18	4,62	2,79	6,68
Total	3,71	3,65	3,64	3,58	3,42	3,05	3,04

The scenario analysis results related to June 2008 do not include much changes compared to the period of March 2008 in CAR variation basis. A little increase is observed in loss amounts

appearing as a result of these scenarios and in their rate to own funds. Within the first quarter of year, the share of probable loss to be appear in case of 1% of cash loans to be transformed into loss within own funds was 3.4%; this share is increased to 3.6% within the second quarter. This result can be attributed to the fact that the growth rate of loans was higher than the growth rate of own funds. Accordingly, the possible losses which may be emanated from loan risk may affect more the own funds and thus, the capital adequacy.

Table 3.1-8: Loan Risk Scenario Analysis Results

Scenario (TRY Million)	Mar.08				June08			
	Loss	CAR (%)	CAR Variation (Points) *	Loss/ Own Funds (%)	Loss	CAR (%)	CAR Variation (Points) **	Loss/ Own Funds (%)
1% of Cash Loans to be Transformed into Loss	2.628	16,01	-0,50	3,41	2.821	15,51	-0,51	3,60
5% of Cash Loans to be Transformed into Loss	13.142	13,95	-2,56	17,01	14.107	13,39	-2,63	18,01
1% of Non-Cash Loans to be Transformed into Loss	776	16,37	-0,14	1,01	826	15,87	-0,15	1,05
5% of Non-Cash Loans to be Transformed into Loss	3.879	15,77	-0,74	5,03	4.130	15,27	-0,75	5,28

Notes: The data related to Iller Bankası is excluded.

* The average CAR of March 2008 period is 16.51%.

**The average CAR of June 2008 period is 16.02%.

3.2 Market Risk

Commercial portfolio, in the second quarter of 2008, due to the decrease in securities available for sale and securities trading portfolio amount, decreased by 5.1% when compared to the previous quarter and was realized as TRY 129.4 billion. Derivative financial instruments amount in which a considerable increase was observed in the first quarter of 2008, experienced a partial decrease in the second quarter of the year. Derivative financial instruments decreased by TRY 232.0 billion in the second quarter of 2008.

There observed no considerable change in commercial portfolio by types in March 2008-June 2008 period. GS continues to constitute the biggest weight in the said structure. When commercial portfolio is analyzed as of currency types, what strikes the attention is the share of TL securities within total increased by 75% from %70 in the second quarter. In addition to this, developments in global markets and ambiguity environment arise accordingly continue to increase the interest to fixed interest securities.

Table 3.2-1: Distribution of Commercial Portfolio by Securities Types

%	Mar.07			Jun.08		
	TL	FX	Total	TL	FX	Total
GS	69,58	15,08	84,66	74,72	9,74	84,46
Variable Interest	34,78	8,77	43,56	39,00	3,48	42,48
Fixed Interest	34,80	6,31	41,10	35,71	6,26	41,97
Eurobond	0,00	12,21	12,21	0,00	12,26	12,26
Variable Interest	0,00	0,01	0,01	0,00	0,00	0,00
Fixed Interest	0,00	12,20	12,20	0,00	12,25	12,25
Stock and Investment Fund	0,35	0,07	0,41	0,37	0,06	0,43
Other	0,13	2,59	2,72	0,16	2,70	2,85
Variable Interest	0,02	2,33	2,35	0,02	2,43	2,45
Fixed Interest	0,11	0,26	0,37	0,13	0,27	0,41
TOTAL	70,06	29,94	100,00	75,24	24,76	100,00
Variable Interest	34,80	11,11	45,91	39,02	5,91	44,94
Fixed Interest	34,90	18,77	53,67	35,85	18,79	54,63
Other	0,35	0,07	0,41	0,37	0,06	0,43

Average composite interest rate of GS in secondary market which decreased by 16% in September 2007 was realized as 16.7% in the end of 2007. Interests which increased again in 2008 due to the fluctuation in global markets increased to 18.5% as of March 2008. The said increase continued as

of the second quarter of the year and the ratio mentioned reached to 21% in June 2008. Interest rates which began to follow a more stable progress in parallel with the fact that the influence of the fluctuation diminished around the end of 2007, began to follow a higher progress in 2008 as the secondary influences of fluctuation increased. The said situation continued in the second quarter. The fact that the fluctuation in interest rates increased again in 2008 causes an increased in the market interest rate risk the sector is exposed to.

When analyzed the scenario analysis for June 2008 period, it is observed that the effect of change in second hand GS prices on capital decreased partially when compared to the previous period. This was led by the decrease experienced in fixed interest GS amount in June 2008 when compared to the previous period and the increase in own-funds caused this. It is observed that deposit banks of which the ratio of fixed interest GS amount they had in their portfolio to their capital is high shall extremely influence from the possible changes in GS prices. In March 2008-June 2008 period, fixed interest GS amount included in commercial portfolio decreased by TRY 1.8 billion, while total own-funds increased by TRY 0.3 billion in the same period.

Table 3.2-2: Effects of Possible Changes in Second-Hand GS Prices

June 2008 (TRY Million)	Commercial Portfolio	Fixed Interest GS	Own-fund	Changes in Second-Hand GS Prices %					
				-10	-5	-1	1	5	10
				Effect of Changes in Prices to Capital (%)					
Deposit	127.326	52.199	64.417	-8,1	-4,1	-0,8	0,8	4,1	8,1
DIB	2.037	938	9.639	-1,0	-0,5	-0,1	0,1	0,5	1,0
Total	129.364	53.138	74.056	-7,2	-3,6	-0,7	0,7	3,6	7,2
March 2008 (TRY Million)									
				Effect of Changes in Prices to Capital (%)					
Deposit	133.915	53.959	64.198	-8,4	-4,2	-0,8	0,8	4,2	8,4
DIB	2.444	1.301	9.307	-1,4	-0,7	-0,1	0,1	0,7	1,4
Total	136.359	55.261	73.505	-7,5	-3,8	-0,8	0,8	3,8	7,5

In parallel with the decrease in total commercial portfolio, fixed interest Eurobond amount decreased in the second quarter of 2008. Having added the partial increase in own-funds to the said decrease resulted in a decrease in the influence of the change in Eurobond prices in the scenario analysis made upon June 2008 data. The fact that the fixed interest Eurobond/own-fund ratio of deposit banks is high caused the effect of the changes in Eurobond prices on capitals of banks became more evident.

Table 3.2-3: Effects of Possible Changes in Eurobond Prices

June 2008 (TRY Million)	Commercial Portfolio	Fixed Interest Eurobond	Own-fund	Changes in Eurobond Prices %					
				-10	-5	-1	1	5	10
				Effect of Changes in Prices to Capital (%)					
Deposit	127.326	15.219	64.417	-2,4	-1,2	-0,2	0,2	1,2	2,4
DIB	2.037	296	9.639	-0,3	-0,2	0,0	0,0	0,2	0,3
Total	129.364	15.515	74.056	-2,1	-1,0	-0,2	0,2	1,0	2,1
March 2008 (TRY Million)									
				Effect of Changes in Prices to Capital (%)					
Deposit	133.915	16.084	64.198	-2,5	-1,3	-0,3	0,3	1,3	2,5
DIB	2.444	299	9.307	-0,3	-0,2	0,0	0,0	0,2	0,3
Total	136.359	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, due to the global financial crisis, follows a downward progress in 2008. The index decreased by 35.000 in June 2008 from 56.000 in the end of last year. The ambiguity environment the global crisis has brought increases the volatility of ISE index. Nevertheless, the ISE index of which daily yield volatility approximated to 4% in March 2008 began to follow a more stable progress around the second quarter.

Chart 3.2-1: ISE-100 Index and Daily Return Volatility



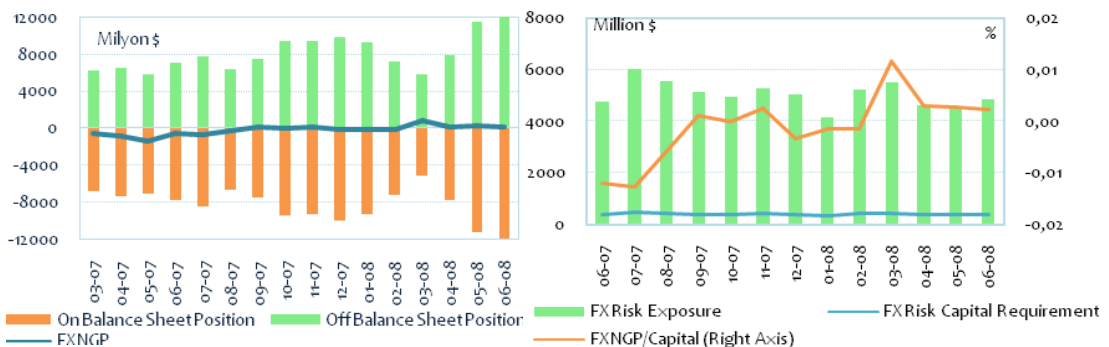
The fact that there was no significant change in own-funds as well as in stock and investment fund amount of which price changes on the capital of the sector are rather limited in comparison to the changes in GS and Eurobond prices, as its share within commercial portfolio is limited enabled the scenario analysis which analyze the effects of the changes in stock and investment fund prices to display no considerable change in June when compared to March.

Table 3.2-4: Effects of Possible Changes in Stock and Investment Fund Prices

June 2008 (TRY Million)		Change in S+IF Prices (%)							
		-10	-5	-1	1	5	10		
	Commercial Portfolio	Stock and Investment Fund	Own-fund	Effect of Changes in Prices to Capital (%)					
Deposit	127.326	501	64.417	-0,08	-0,04	-0,01	0,01	0,04	0,08
DIB	2.037	45	9.639	-0,05	-0,02	0,00	0,00	0,02	0,05
Total	129.364	546	74.056	-0,07	-0,04	-0,01	0,01	0,04	0,07
March 2008 (TRY Million)									
Deposit	133.915	522	64.198	-0,08	-0,04	-0,01	0,01	0,04	0,08
DIB	2.444	44	9.307	-0,05	-0,02	0,00	0,00	0,02	0,05
Total	136.359	566	73.505	-0,08	-0,04	-0,01	0,01	0,04	0,08

In-balance sheet position (IBP) and off-balance sheet position (OBP), which started a decrease tendency in the first quarter of 2008 experienced a significant increase in the second quarter of the year and was realized as 14 in absolute value and USD 13.9billion as of the end of June 2008. FXNGP/Own-fund ratio which displayed an important increase in March 2008 fluctuated in ± 1.5% band in the second quarter of the year.

Chart 3.2-2: FXNGP and FX Risk Capital Requirement



It is noteworthy that the capital of Development and Investment banks shall be influenced positively from exchange increases and negatively from exchange decreases. It is observed that scenario results applied upon June 2008 data belonging to participation banks of which

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

Table 3.2-5: Effects of Possible Changes in Rates

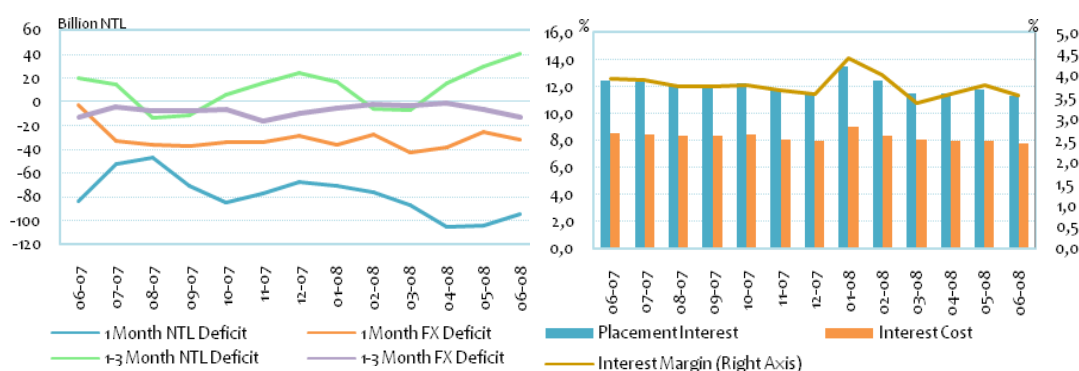
As of June 27, 2008 (USD Million)	In-Balance Sheet Position (IBP)	Own-fund	IBP/Own-fund (%)	FXNGP	FXNGP/Own-fund (%)	Change Ratio in Rates (%)					
						-20	-10	1	5	25	50
Deposit	-14.326	56.921	-25,2	98	0,2	5,03	2,52	-0,25	-1,26	-6,29	-12,58
Development	94	7.888	1,2	28	0,4	-0,24	-0,12	0,01	0,06	0,30	0,60
Participation	349	2.116	16,5	32	1,5	-3,30	-1,65	0,16	0,82	4,12	8,25
Total	-13.883	66.925	-20,7	158	0,2	4,15	2,07	-0,21	-1,04	-5,19	-10,37

3.3 Structural Interest Rate Risk

When analyzed the change in the period, it is observed that one-month deficit which increased in absolute value in TL and FX in the first quarter of 2008 entered into a decrease tendency in the second quarter of the year. While there observed no significant change in 1-3 months FX deficit levels, 1-3 months TL surplus increased considerably in the second quarter of 2008. The decrease observed in TL deficits in the last quarter is evaluated as a positive development in respect of structural interest rate risk.

In the second quarter of 2008, it is observed that average placing interest decreased by about 1.1 points to 11.3%, while average interest cost decreased by 0.8 points to 7.7%. There was no important change in interest margin.

Chart 3.3-1: Development of Interest Deficits, Interest Margin and Components



According to the scenario analysis conducted in order to determine the structural interest rate risk level the sector is exposed to, the effect of interest changes on profitability of the bank is calculated, given residual terms to reprising of assets and liabilities of banks and average placing interest and liability cost are data. In the calculations, it is assumed that the sensitivity of the assets and liabilities of banks to interest does not change during the analysis period. Furthermore, it is assumed in the analysis that there is no liability input and the time value of money is neglected. In the Table below, according to the scenario 3, TL interests increased by 1 point after 1 month, 2 points in 1-3 months period, 3 points in 3-6 months period and 6 points in 6-12 months period.

Table 3.2-1: Scenarios Concerning Structural Interest Rate Risk and Results

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	
Profit/Loss (TRY Million)	December 07			March 08			June 08		
	TP	FX	Total	TL	FX	Total	TL	FX	Total
Scenario1	-1.194	0	-1.194	-1.497	0	-1.497	-1.666	0	-1.666
Scenario2	0	-690	-690	0	-866	-866	0	-732	-732
Scenario3	-11.954	0	-11.954	-15.953	0	-15.953	-16.850	0	-16.850
Scenario4	0	-3.895	-3.895	0	-4.772	-4.772	0	-4.246	-4.246
Scenario5	-4.830	-2.475	-7.305	-6.641	-3.022	-9.664	-6.563	-2.732	-9.295
Scenario6	-11.942	-3.451	-15.394	-14.973	-4.330	-19.303	-16.658	-3.660	-20.318
Scenario7	-18.316	-8.506	-26.822	-18.893	-11.218	-30.111	-23.558	-9.954	-33.511
Scenario8	1.194	0	1.194	1.497	0	1.497	1.666	0	1.666
Scenario9	0	690	690	0	866	866	0	732	732
Scenario10	11.954	3.895	15.850	15.953	4.772	20.726	16.850	4.246	21.096

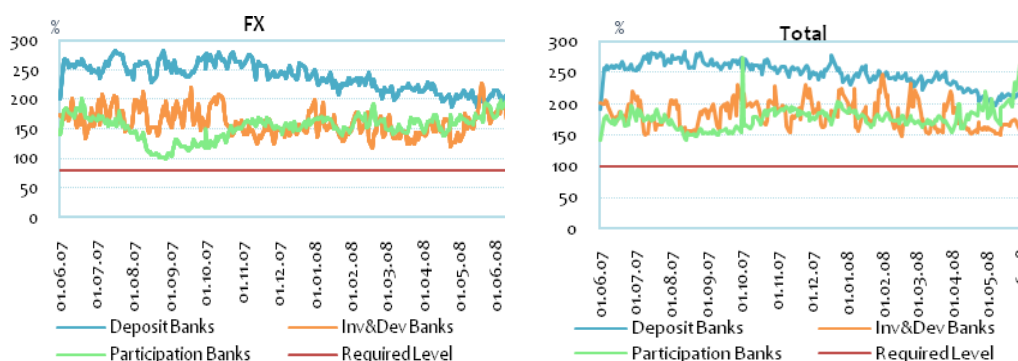
According to the scenario results being applied, having analyzed the alternative profits and losses arise in TL and FX items, it is observed that TL total profit and loss values in all scenarios are higher in absolute value in June 2008 period when compared to March 2008 period; while FX total profit and loss values are lower.

When analyzed the scenarios expressing the unit increases in interests, it is observed that loss amount in Scenario 1 representing the 1 point TL interest rate increase in 1-month period which was TRY 1.497 million in March 2008 period was calculated as TRY 1.666 million. Similarly, loss amounts in Scenario 2 representing the 1 point USD interest rate increase in 1-month period which was TRY 866 million in March 2008 period were realized as TRY 732 million in June 2008 period. These results designate the sensitivity to structural interest rate risk increases in TL while it decreases in FX.

3.4 Liquidity Risk

Having considered the development of daily foreign exchange and total liquidity adequacy ratios in bank groups basis, it is observed that in Deposit and Development and Investment bank groups, daily foreign exchange liquidity adequacy ratios and total liquidity adequacy ratios were realized above the determined bottom limits, despite the decrease tendency when compared to the previous period. In participation banks group, both FX and total liquidity adequacy ratios increased when compared to the previous period.

Chart 3.4-1: Development of FX and Total Liquidity Adequacy Ratios Concerning the First Maturity Tranche



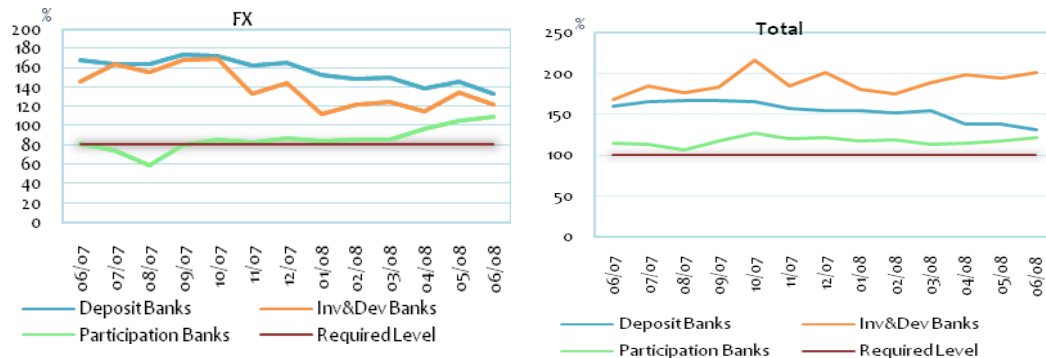
Throughout the sector, foreign exchange and total liquidity adequacy ratios concerning the second maturity tranche displayed a decrease tendency when compared to the previous period and were realized as 132.4% and 132.9%, respectively. The reason of this development is the increase rate in total assets is lower than the increase rate in total liabilities.

Table 3.4-1: FX and Total Liquidity Adequacy Ratio Components Concerning Second Maturity Tranche

(TRY Million)	March 08		Jun.08		(TRY Million)
	TL	FX	TL	FX	
Assets					
Cash Assets and CBRT	24.515	6.841	28.060	6.348	107.273
Fair Value and Securities Available for Sale	114.139	27.772	107.908	21.036	4.452
Banks Abroad Centers and Branches	23.594	19.890	25.779	21.980	2.662
Receivables	9.604	4.525	6.554	4.719	33.844
Loans	77.544	13.571	65.113	9.740	12.587
Securities Held to Maturity	18.589	2.906	19.319	2.323	37.787
Derivative Transactions	52	6	45	3	28.285
Total	306.094	103.122	307.198	110.421	231.187
Second Maturity Liquidity Adequacy Ratio	154,1	147,2	132,9	132,4	83.424
					Total

In bank groups basis, when analyzed the development of foreign exchange and total liquidity adequacy ratios concerning the second maturity in the first quarter of 2008, it is observed in Development and Investment bank group that FX liquidity ratio maintained its decrease tendency when compared to the previous period, while total liquidity rate entered into an increase tendency. Moreover, it is observed that both FX and total liquidity ratios in Deposit bank group are in a decrease tendency, while the both liquidity adequacy ratios in Participation bank groups are in an increase tendency. On the other hand, liquidity adequacy ratios concerning the second maturity tranche in all bank groups are above the bottom limit.

Chart 3.4-2: Development of FX and Total Liquidity Adequacy Ratios Concerning Second Maturity Tranche



3.5 Capital Adequacy

Capital adequacy ratio which was 17.2% in March 2008 period was realized as 16.7% as of June 2008. The decrease by 0.5 points observed in the second quarter was derived from the increase in the amount subject to credit risk. However, 0% risk weighted assets of the sector decreased by 11% in recent period; total own-funds of the Banking sector increased by 1.9% in June 2008 period when compared to March 2008 period and was realized as TRY 82.4 billion; risk weighted assets increased by 4.8% to TRY 493.8 billion.

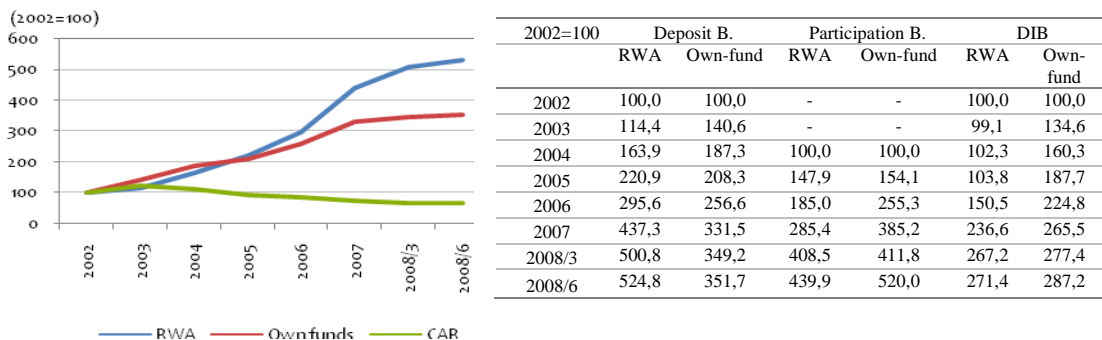
Table 3.5-1: Own-fund, Risk Weighted Assets and Capital Adequacy Ratio

	Own-fund (TRY Million)			RWA (TRY Million)			CAR		
	2008/3	2008/6	% change	2008/3	2008/6	% change	2008/3	2008/6	Point change
Sector	80.835	82.400	1,9	471.094	493.821	4,8	17,2	16,7	-0,5
Deposit	69.635	70.122	0,7	435.754	456.605	4,8	16,0	15,4	-0,6
DIB	9.414	9.745	3,5	15.710	15.959	1,6	59,9	61,1	1,2
Participation	2.499	3.1556	1.162,7	20.737	22.331	7,7	13,6	14,1	0,5
State	17.140	14.781	-13,8	98.404	102.054	3,7	17,4	14,5	-2,9
Private	39.291	41.250	5,0	247.425	260.8570	954,3	15,9	15,8	-0,1
Foreign	12.492	13.467	7,8	88.817	92.619	4,3	14,1	14,5	0,4
Big Scale	52.626	52.116	-1,0	319.416	335.295	5,0	16,5	15,5	-1,0
Medium Scale	14.293	20.202	-99,9	109.165	120.567	10,4	13,1	16,8	3,7
Small Scale	14.627	10.705	-26,8	43.617	39.033	-10,5	33,5	27,4	-6,1

As of June 2008, CAR of the banking sector was above 10% the target ratio and 8% the legal ratio. This situation, given the negative developments observed in global markets recently; designates that the banking sector preserves its prudential approach to the possible risks.

When analyzed risk weighted assets, own-fund and capital adequacy ratio as index; it is observed that risk weighted asses in deposit banks are in a more rapid increase tendency when compared to own-funds, however the increase tendency in own-funds in development and investment banks are more rapid. CAR tendency for the sector in general is in a moderate decrease tendency.

Chart 3.5-1: Own-fund, Risk Weighted Assets and Capital Adequacy Ratio Index



When analyzed the proportional shares of the items constituting own-fund, it is observed that tier-I constitute 97.4% of own-fund total before the values are decreased from capital. The said ratio increased by 2.1 points when compared to the previous period. In the said period, paid-up capital increased by 5.4% while legal reserves increased by 22%. The increase in items mentioned designates the capital structure of the sector got stronger.

As tier-II is higher than the values decreased from capital throughout the sector, own-funds are higher than tier-I. This situation caused Tier I ratio which constituted of the ratio of tier-I to risk weighted assets is lower than CAR which is calculated by taking own-funds as basis. As of June 2008, tier-I ratio was realized as 16.3%.

Table 3.5-2: Own-fund Components

	2007		2008/3		2008/6		% Change (08/03- 08/06)
	TRY Million	% Share	TRY Million	% Share	TRY Million	% Share	
Tier-I	74.638	96,4	77.021	95,3	80.249	97,4	4,2
-Paid-up Capital	31.623	40,8	31.801	39,5	33.509	40,9	5,4
-Legal Reserves	33.661	43,5	20.390	47,0	24.879	51,4	22,0
-Net profit of the period and profit of previous year	15.408	19,9	27.360	33,6	8.740	10,6	-68,1
-Net loss of the period and the part of loss of previous years which cannot be met by legal reserves	18.756	-24,0	33.200	-40,7	18.062	-21,8	-45,6
Tier-II	7.138	9,2	7.505	9,3	6.216	7,5	-17,2
-General provisions,	2.534	3,3	2.946	3,6	3.177	3,9	7,8
-Debts Quasi Secondary Capital	3.347	4,3	4.813	6,0	5.157	6,3	7,1
Third Generation Capital	0	0,0	0	0,0	0	0,0	-
Values Decreased from Capital.-)	4.339	5,6	3.690	4,6	4.064	4,9	10,1
Own-funds	77.436	100,0	80.835	100,0	82.400	100,0	1,9

It is observed that the biggest proportional decrease in 0% risk weighted assets was realized in assets subject to risk weight by TRY 18.5 billion. The decrease both observed in A group securities available for sale included in securities portfolio by YTU 5.9 billion and in non-cash loan and commitments included in A group guarantee or extended to those in A1 group were effective in this development.¹ In the said period, 100% risk weighted assets increased by TRY 21.8 billion and 6.5%. In the same period, while the amount subject to market risk decreased by 8.4%; the amount subject to operational risk experienced no change.

Table 3.5-3: Amounts Subject to Risk and Risk Weighted Assets

	2007		2008/3		2008/6		08/3-6 %Chan.
	TRY Million	% Share	TRY Million	% Share	TRY Million	% Share	
Assets with 0% of Risk Weight	229.758	34,6	166.674	26,6	148.170	-11,1	-11,1
Assets with 10% of Risk Weight	0	0,0	0	0,0	0	-	-
Assets with 20% of Risk Weight	63.713	9,6	42.289	6,7	45.310	5,6	7,1
Assets with 50% of Risk Weight	78.757	11,9	80.371	12,8	84.613	5,3	5,3
Assets with 100% of Risk Weight	290.711	43,9	335.604	53,5	357.453	6,4	6,5
Assets with 150% of Risk Weight	-	-	1.688	0,3	1.831	8,5	8,5
Assets with 200% of Risk Weight	-	-	120	0,0	141	17,0	17,5
Amount Subject to Credit Risk	343.275	83,9	386.613	82,1	411.467	83,3	6,4
Amount Subject to Market Risk	14.854	3,6	25.376	5,4	23.249	4,7	-8,4
Amount Subject to Operational Risk	51.180	12,5	59.104	12,5	59.104	12,0	0,0
Total Risk Weighted Assets	409.309	100,0	471.094	100,0	493.821	100,0	4,8

When analyzed the information regarding the share of minimum capital to be held concerning the risks being exposed to within total capital adequacy, it is observed that the highest share throughout the sector belongs to the capital liability concerning credit risk. However, while credit

¹ A1 Group: Treasury, CBRT, Public Participation Administration, Turkish Privatization Administration, central banks and central and regional administrations of OECD countries and Eximbank
A Group guarantees: Securities issued by those included in A Group or upon their guarantee or in return for cash or guaranteed to be paid by them, bailment and guarantees of those included in A Group and cash

risk capital liability constitutes 83.3% of total capital liability; market risk capital liability constitutes 4.7% of the total. In the said period, capital liability which is calculated for foreign exchange risk evaluated according to market risk corresponds to 1% of the total liability by TRY 355 million.

Table 3.5-4: Distribution of Legal Capital Liability

2008/6	Deposit		DIB		Participation B.		Total	
	TRY Million	%	TRY Million	%	TRY Million	%	TRY Million	%
Credit Risk Capital Liability	30.325	83,0	1.025	80,3	1.598	89,5	32.917	83,3
Market Risk Capital Liability	1.797	4,9	64	5,0	7	0,4	1.860	4,7
-Exchange Risk Capital Liability	355	1,0	27	2,1	4,5	0,3	386,5	1,0
Operational Risk Capital Liability	4.406	12,1	188	14,7	181	10,1	4.728	12,0
Total Capital Liability	36.528	100,0	1.277	100,0	1.786	100,0	39.506	100,0

3.6 Profitability Analysis

Profit of the banking sector increased by 2.3% in June 2008 and was realized as TRY 8.3 billion when compared to June 2007 period. Although many banks declared loss in international markets, Turkish banking sector continues to increase its profitability. Profitability and accordingly own-funds of the sector having increased creates a strong ground for the possible risks the fluctuation observed in global markets may create on Turkish banking sector in the following periods.

When analyzed the selected income and expense items of the banking sector, it is observed that interests from loans constitute 47.2% of total incomes as of June 2008. When compared to June 2007, interests from loans increased by 29.1%. Credit interest incomes increased by TRY 12.1 billion in the second quarter of the year when compared to the previous quarter and was realized as TRY 23.6 billion. In the last one-year period, interests from securities increased by 4.4%, yet below the increase in interests from loans. Having considered the securities portfolio of the sector grew by 4.5% in the last 1-year period; securities interest incomes increased with an increase in parallel with the portfolio.

When analyzed the expense items of the sector; it is observed that interests to deposit constitute 51.6% of total expenses; on the contrary the share of the interests to financial markets remained in 12.2% levels. Given these, it comes to the conclusion that the deposit weighted financing structure of the sector is preserved.

While interest incomes of the sector in the last 1-year period increased by 17.7%; increase rate in interest expenses was realized as 14.9%. In the said period, net interest incomes of the sector increased by 22.6%. The increase in net interest incomes when compared to the previous period is by 99.1%.

The share of fees and commissions from loans and banking service incomes within total incomes is 12.1%. Total of the said items increased by 109.9% when compared to March 2008.

When analyzed the distribution of income items within total incomes, it is observed that profitability was basically derived from intermediary activities and the customer-focused profitability tendency maintained in the sector.

Table 3.6-1: Outlook of Selected Income Statement Items

TRY Million	Jun.07	2007	Mar.08	Jun.08	Share in total income or expense	08/06-07/06 % Change	08/06-08/03 % Change
Interests from Loans	18.251	39.363	11.449	23.560	47,2	29,1	105,8
Interests from Financial Markets	1.635	2.777	1.004	1.896	3,8	15,9	88,8
Interests from Securities	12.220	24.511	6.382	12.757	25,6	4,4	99,9
Total Interest Incomes	33.781	70.553	19.428	39.768	79,7	17,7	104,7
Interests to Deposit	17.102	35.444	9.384	19.396	51,6	13,4	106,7
Interest to Financial Markets	4.225	8.815	2.258	4.579	12,2	8,4	102,8
Total Interest Expenses	21.447	44.503	11.833	24.650	65,6	14,9	108,3
Net Interest Incomes	12.335	26.049	7.595	15.118	30,3	22,6	99,1
Fees and Commissions from Loans	1.010	2.050	573	1.217	2,4	20,4	112,4
Banking Services Incomes	3.904	8.283	2.315	4.847	9,7	24,1	109,4
Total Non-Interest Incomes	7.944	16.025	4.837	9.377	18,8	18,0	93,9
Operation Expenses	4.423	9.271	2.558	5.381	14,3	21,7	110,4
Capital Market Transactions Profits (Losses)	-216	-811	408	455	1,2	-310,3	11,5
Foreign Exchange Profits (Losses)	739	1.664	-622	28	0,1	-96,2	-104,5
Total Non-Interest Expenses	9.922	22.218	6.541	12.924	34,4	30,3	97,6
Net Profit of the Period	8,1	14,9	3,9	8,3	0,0	2,3	112,8

SP Interest Incomes: Securities Trading Portfolio + Securities Available for Sale + SHT

Interests from Financial Markets: Interests from Banks + Interests from Money Markets + Interests from Reverse Repo Transactions

Banking Service Income: Transfer Commissions + Collection and Payment Commissions + Credit Card Fees and Commissions + Other

Operation Expenses: Personnel Expenses + Severance Pay Provision Expense + Amortization Expenses

Interests to Financial Markets: Repo Interest Expenses + Interest Expenses to Banks + Money Market Transactions Interest Expense

Capital Market Operation Income/Loss: Securities Purchase/Sale Profit/Loss + Profit/Loss from Derivative Financial Instruments

In the second quarter of the year, return on assets and return on equities of the banking sector decreased slightly and the said figures were realized as 2.6% and 20.3%, respectively. In the same period, return on equities ratio of big-scale banks decreased. This situation derived from the fact that the increase rate in total own-funds is higher than the increase in net profit of the period in big-scale banks. While in the said period a moderate decrease is observed in return on assets and equities of small-scale banks; return on assets and equities of medium-scale banks increased.

Table 3.6-2: Return on Assets and Equities Ratios

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

When conducted the ratio analysis of the banking sector in respect of profitability, it is observed that the income endowment capacity of assets increased in June 2008 period. However, total incomes to total assets ratio increased by 8.7% in the said period. On the other hand, total expenses to total liabilities ratio increased by 3.3 points.

In the analyzed period, as the increase rate in interest is lower than the increase rate in interest expenses, ratio of interest incomes to interest expenses decreased slightly. In the said period, interest incomes are 1.6 times of interest expenses.

Net interest margin which displays how much interest income the banks secured from their total assets was realized as 6.2% as of June 2008. While interest creating potential of interest yielding assets in the said period was 7.8%; interest expenses to interest costing liabilities was 4.7%. Accordingly, spread which is equal to the difference between interest income margin and interest expense margin of the bank is positive and by 3%. In the same period, ratio of non-interest

incomes to non-interest expenses increased by 4.1% when compared to the previous period and was realized as 78.2%.

Table 3.6-3: Ratios Concerning Profitability Indicators

	Dec.0 3	Dec.0 4	Dec.0 5	Dec.0 6	Dec.0 7	Mar.0 8	Jun.0 8
Total Incomes /Average Total Asset	20,7	17,5	15,3	15,5	16,2	4,3	8,7
Total Expenses / Average Total Liability	18,1	13,4	12,6	11,8	12,5	3,3	6,6
Interest Incomes /Interest Expenses	140,8	177,6	176,3	160,9	158,0	163,9	161,3
Net Interest Margin (Net Interest Incomes / Average Total Asset)	5,1	7,8	8,0	8,9	10,7	3,1	6,2
Interest incomes/Interest-yielding assets	19,7	16,2	12,6	12,9	14,0	3,5	7,8
Interest expenses/Interest-costing liabilities	14,2	9,6	7,4	8,4	9,5	2,3	4,7
Spread	5,5	6,7	5,1	4,6	4,5	1,2	3,0
Non-Interest Incomes/ Non-Interest Expenses	56,7	56,1	51,8	76,8	71,9	74,1	78,2
Interest Incomes/Total Income	84,4	83,2	81,1	79,8	81,8	80,4	79,7
Interest Expenses/Total Expense	68,5	61,0	55,8	65,3	67,1	64,9	65,6
Operating Expenses/Total Income	27,6	29,9	36,4	26,4	25,4	26,5	25,9
Interest to Deposit /Average Deposit	16,6	11,0	9,5	10,0	10,8	2,7	5,5
Interest Incomes from Loans /Average Loans	19,92	18,87	16,71	15,15	16,09	4,34	8,5
Interests from Securities Portfolio /Average SP	24,5	18,1	14,0	14,0	14,8	3,8	7,5

Spread: (Interest incomes/ Interest-yielding assets) - (Interest expenses/Interest-costing liabilities)

