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Financial Markets Report which is published quarterly and sixth volume thereof is prepared upon June 2007 data is comprised of three sections; (1) Economic Framework and Developments, (2) Financial Sector Outlook and (3) Risk, Capital and Profitability.

Developments experienced in global markets as of the second half of 2007 designates that a new period has started. Developments in financial markets of developing countries, leading USA economy increased the risks on global economic activity. While fluctuations experienced in housing loan market of developed countries especially in September put intensive pressure on financial markets, one of the main concern factors is that the domestic demand which was strong in the countries thereof will no longer be maintained. Hence, weakening demand in developed countries markets will be compensated only if strong economic activity is maintained in emerging market economies. Likewise, relative decrease in the strength of USA economy increases ambiguities concerning the direction of global capital movements and the risks, accordingly. In following periods, developments in financial markets and financial institutions became more important.

As of the second half of 2006, growth rate of Turkish economy decreased relatively. GNP increased by 3.9 % in the second quarter of 2007, when compared to the same period of the previous year. However, foreign demand is currently live and contributes to growth positively, notwithstanding the developments experienced in global markets. As the price expectations which were disturbed as a result of global effects approximated to the CBRT targets in time, the CBRT executed interest rate cut, within the scope of the developments in demand and cost conditions. Nevermore, the new increase in energy prices, expansion in government expenditure in the first half of the year and rigidity in expectations signifies that the risk on inflation continues. When public finance practice in the first half of 2007 is observed, it is noted that the growth rate of central budgetary incomes is below the growth rate of expenditures. Increase especially in non-interest expenditures is perceived as the discipline in finance policy practice is ruined and relaxation risk increased. It is predicted that measures on this field shall be tightened in the following period. When the international and national environment is analyzed in Turkish economy, it is observed that a new period has started, leading the developments experienced in global financial markets. Furthermore tendencies in growth and price developments designate an economic structure which requires to be more sensitive and cautious in monetary and fiscal policies. Within this framework, the importance of the Turkish financial sector increases even more. The cautions increasing activities within the credit system will assist to the other policies to increase their activities and to be longevous.

When the financial markets are observed generally in Turkey, it is seen that the sector continued its growth which is parallel to the general economic activity in June 2007. By June 2007, the total asset size of the Turkish financial sector increased by 6.8% to TRY 713.9 when compared to the previous end-of-year. The total asset size of the financial sector to GDP ratio is 116.6%, while the banking sector assets to GDP ratio is 87.2%. The rate of the assets of the financial leasing companies, factoring companies and consumer financing companies, which are the other institutions subject to BRSA's supervision and surveillance to GDP is 3%. Alongside to the structural indicators of the banking sector, the performance of the Turkish economy indicates that the Turkish banking sector maintains its high growth potential.

The financial solidity of the banking sector shows that the sector is working with a capital adequacy ratio which is considerably high than the legal limits and increases its capital. The positive conduct of the profitability indicators continued in June 2007 and the share of 45 banks which was profited within the total assets is realized over 99%. While the total operating costs to total income ratio decreased within the sector in general, the share of personnel expenses within the operating costs is decreasing depending to the organic growth trend of the sector. In June 2007, the periodical net profit of the Turkish banking sector increased by 57.1% nominally when compared to the previous period (June 2006) and reached to TRY 8.1 billion and the asset profitability is realized as 2.9%.

The asset amount per bank which is one of the banking sector capacity indicators increased to TRY 10.7 billion. As of June 2007, the number of branches per bank kept increasing and is realized as 152. BRSA Performance Index has reached its highest level within the second quarter of the year.

The asset size of the banking sector increased by 6.8% to TRY 533.7 billion within the second quarter of the year when compared to the previous end-of-year, and the total credit volume reached to TRY 247.5 billion and increased its share within the balance sheet to 46.4%. The deposit to loan ratio kept increasing within the second quarter of the year and reached to 74.6%. Within this period, contrarily to the first quarter, the share of securities portfolio within the total assets decreased and realized as 31%.

The total deposit volume, which has a share of 62.2% within the total resources increased by 7.9% in June 2007 and reached to TRY 331.9 billion. Within the mentioned period, when the resources provided from foreign markets are analyzed, it is seen that the especially the securitization loans increased considerably, and the banking sector used securitization loan 25% more when compared to the previous period.

The volume of off-balance sheet transactions has increase to TRY 344.5 billion by June 2007 and the ratio thereof to total balance sheet size has realized as 64.5%. While the total derivative transaction was in the level of TRY 134 billion, swap transactions has the biggest share in the said transactions by 66.1%.

There existing differences in respect of asset extension within the second quarter of 2007 in off-banking financial sectors. The growth rate of total asset of leasing and factoring sector in this period was above the growth rate of consumer financing sector. While the employment in consumer financing sector was decreased, the employment in leasing and factoring sector the employment has increased. Besides while it can be observed an increase in the profitability of leasing and consumer financing firms' own fund and asset, there observed even a little decrease in factoring firms in the said ratio. Building sector in leasing receivables and textile leather clothing sector in factoring receivables and means of transport sector in financing loans has the biggest share.

The developments in basic size of financial sector have affected risk positions of which the sector is exposed and their amounts in different ways. When evaluated in respect of banking sector, in the first half of 2007, it can be observed that the amount of the loans and their share within total assets were increased in all banking groups. It can be observed that the amount of gross NPL has increased in all banking groups in the said period. The policy of setting aside provision continued on during 2006 has carried on within the first half of 2007. the share of TL loans within the total loans has reached to 75.3%. NPL ratio which was in the tendency of decrease during 2006 has followed more stagnant movement and it was realized as 3.64% by June 2007. But it can be observed a decrease within the last one year period in indemnification ratios of NPL in general. When observed interest ratio risk emanated from commercial portfolio and derivative transactions, it can be observed that position exposed to risk was not changed in March-June period.

When observed banking sector in respect of exchange risk, FX net general position has given a deficit amounting to USD 613 billion by June 30, 2007. In-balance sheet deficit position within the said period was in between USD 6.5 and 8 billion in sector general. It can be observed that share of FX net general position amounts to own funds ratio was -1% and thereof was manageable.

There observed an increase in TL denominated Interest deficit for one month which are in the state of the amount subject to structural interest rate risk, within the second quarter of 2007. Besides while the share of fixed interest assets within the assets were decreased, the share of variable interest assets were increased and the share of variable interest assets in liabilities were increased. Sector's being more sensitive to the change in TL interest in short term rather than the change in FX interests is evaluated as a development increasing structural interest rate risk. Interests remained horizontal in the observed period; interest margin increased as a result of the costs of interest costs.

The rates of daily FX liquidity adequacy ratio and the total liquidity adequacy rates in the total bank groups realized over the bottom limits of Liquidity Regulation. In the said development, the changes made in the Liquidity Regulation had an important role.

The standard adequacy ratio realized as 22,2% in March 2007 was realized as 18,7% as of June 2007 period. The total own funds of the banking sector became TRY 67,6 billion by increasing TRY 3 billion in June 2007, on the other hand risk weighed assets increased to TRY 361,4 billion as a result of the addition of the operational risk based total to the capital adequacy ratio as of June 1, 2007. In case that the operational risk was not added to the countings, the capital adequacy ratio is realized as 21,6% in June 2007. It is seen that the operational risk based total started to be counted as of June 2007 was determined as TRY 46.820 billion and it is the risk type which brings the highest capital requirement after the loan risk total by increasing the market risk base.

In the framework of risk evaluation, when the non-bank financial institutions are observed it is seen that there is a significant increase in the ratio of general transaction limit of the financial leasing sector in March 2007-June 2007 period. The maturity disharmony is seen from the point of riskiness however the decrease between the receivables and debts affects the riskiness of the sector positively. When the transaction limit for the factoring companies is generally observed, it is seen that while the higher risky group is large scaled companies, the riskiness is proportional with the scale of the company. There is not any maturity disharmony for the Factoring companies. The transaction ratio of the consumer financing companies realized below the upper limit in the June 2007 period. When the provisionary rate of receivables under follow up is analyzed in the consumer financing companies, an increase was seen as of December 2006 period. The increase seen in the Provisionary rate is determined as a development decreasing the riskiness.

Financial Markets Report in which the detailed developments of the summary above is published in the official web site of the Banking Regulation and Supervision Agency, http://www.bddk.org.tr/turkce/Raporlar/Finansal_Piyasalar_Raporlari/Finansal_Piyasalar_Raporlari.aspx