

EXECUTIVE SUMMARY¹

BANKING SECTOR EVALUATION REPORT

1. Asset Growth, Number of Banks and Concentration Ratios

Total assets of the banking sector, excluding banks under SDIF administration, increased in real terms during the third quarter of 2001. Despite the fact that 5 new banks were taken over, the asset size of the SDIF banks declined in real terms as a result of the sale of Sümerbank and early redemption and buy-back of Government Securities. The banking license of one of the public bank, Emlakbank, was withdrawn and only part of its assets were transferred to Ziraat Bank. Despite this consolidation, there was a real increase in state bank assets perhaps owing to the financial restructuring of these banks in May 2001. The asset growth observed in the private banking group was due to the high increase in the assets of the largest five banks.

Assets by Banking Groups (September 2001)

	Total Assets		Real % Change (TL)			% Change (\$)	
	TL Trillion	\$ Million	09-01/ 09-00	09-01/ 12-00	09-01/ 06-00	09-01/ 12-00	09-01/ 06-00
Public	46,144	30,101	-17.4	-20.6	2.6	-43.4	-5.5
Private	91,063	59,403	3.6	8.5	3.7	-22.6	-4.5
- Five Largest Banks	61,326	40,005	11.4	10.9	8.0	-20.8	-0.5
-Other	29,737	19,398	-9.4	3.7	-3.5	-26.0	-11.2
Banks under SDIF	19,875	12,965	271.4	40.3	-24.5	0.1	-30.5
Foreign	4,497	2,933	-59.6	-21.1	0.7	-43.7	-7.2
Development & Investment Banks	8,218	5,360	11.9	8.7	8.8	-22.4	0.1
Total	169,796	110,763	1.3	0.2	-0.8	-28.5	-8.6

Source: BRSA

There has been a significant decrease in the number of banks due to mergers of both some public and SDIF banks, mergers among private banks and revoking of banking licenses of some banks. As a matter of fact, number of banks fell to 68 in September 2001. Number of branches and employees also decreased significantly during the year 2001 as a result of the contraction in the activities of the banking sector, operational restructuring of public and SDIF banks and efforts to increase the efficiency in the banking sector in general.

Number of Banks and Employment

	Number of Banks			No. of Domestic Branches			Employment (Domestic)		
	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001
Public	4	4	3	2,833	2,734	2,730	70,329	60,265	56,568
Private	29	29	24	3,777	3,832	3,724	71,155	70,391	68,597
Banks under SDIF	11	5	9	1,076	877	787	20,044	16,439	14,243
Foreign	17	16	16	115	43	43	3,743	1,880	1,839
Devel. & Investment Banks	18	18	16	29	44	37	6,461	6,324	6,206
Total	79	72	68	7,830	7,530	7,321	171,732	155,299	147,453

Source: BRSA

¹This note summarizes the main points of the December 2001 issue of the quarterly report published by the Banking Regulation and Supervision Agency (BRSA). The quarterly reports reflect the BRSA's assessment of the developments in the balance sheet structure, profitability performance and financial risks in the Turkish Banking sector.

In terms of concentration, the decline in the share of largest five banks in the first half of 2001 reversed and rose to 47.6 percent in the third quarter. A similar development was also observed in the share of the assets of the ten largest banks, and this ratio reached to 67.4 percent. The merger of Ziraat Bank with Emlak Bank and also mergers of Osmanlı Bank with Körfez Bank affected these developments.

Developments in the Shares of Banking Groups

	Share in Total Assets (%)			Share in Total Loans (%)			Share in Total Deposits (%)		
	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001
Public	34.3	26.3	27.2	27.5	20.7	18.6	39.8	32.2	31.2
Private	49.5	51.1	53.6	58.1	64.8	67.2	45.9	53.1	56.6
- Five Largest Banks	32.6	33.1	36.1	41.5	48.9	52.8	30.7	35.0	38.6
-Other	16.9	18.0	17.5	16.6	15.9	14.4	15.2	18.1	18.0
Banks under SDIF	8.3	15.5	11.7	6.7	4.5	3.8	13.4	13.5	10.8
Foreign	3.4	2.6	2.6	1.3	2.1	2.4	0.9	1.2	1.4
<i>Total Deposit Banks</i>	<i>95.5</i>	<i>95.6</i>	<i>95.2</i>	<i>93.6</i>	<i>92.1</i>	<i>92.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Develop. & Invest. Banks	4.5	4.4	4.8	6.4	7.9	8.0	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BRSA

Concentration in the Banking Sector (%)

	Share in Total Assets (%)			Share in Total Loans (%)			Share in Total Deposits (%)		
	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001
Five Largest Banks(*)	47.8	41.8	47.6	42.1	41.9	44.8	51.3	48.7	53.4
Ten Largest Banks(*)	69.2	64.2	67.4	72.7	69.7	69.5	72.9	71.6	73.7

Source: BRSA

(*) Ranked by assets

2. Asset Structure

Due to the adverse developments experienced in the first half of 2001, the banking sector had to concentrate in short-term investment. The same trend was also observed in the third quarter. Long-term investment opportunities for the banking sector declined considerably due to the concentration in short term funding together with the contraction in economic activity.

Securities portfolio including securities in non-trading portfolio remained as the largest asset item in total assets in the third quarter as well. In this period, while the share of claims on banks in total assets decreased, the share of loans remained unchanged compared to the end of second quarter.

Selected Assets

	TL Trillion			Percentage Share			Reel % Change	
	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001	Sept.01 / Dec.00	Sept..01 / June 01
Claims on Banks (*)	18,853	29,898	30,129	18.1	19.7	17.7	-1.9	-10.6
Loans	31,845	39,184	43,908	30.6	25.8	25.9	-15.3	-0.6
Securities Portfolio + Securities in Non-Trading Portfolio	18,463	49,462	57,658	17.7	32.6	34.0	91.8	3.5
-Securities Portfolio	11,995	32,532	38,391	11.5	21.4	22.6	96.5	4.7
-Sec. in Non-Trading Portfolio	6,468	16,930	19,267	6.2	11.1	11.3	82.9	1.0
Other	34,932	33,350	38,101	33.6	22.0	22.4	-33.0	1.4
-Interest Rediscount and Income	4,031	13,200	14,449	3.9	8.7	8.5	120.1	-2.8
Total Assets	104,093	151,894	169,796	100.0	100.0	100.0	0.2	-0.8

Source: BRSA, (*) CBRT, Interbank, Claims on banks, Securities Portfolio, Loans

Loans

The real decrease in loans during January-June period continued in the third quarter due to decline in TL loans in particular. However, the rate of contraction in the loan portfolio slowed down to some extent.

While the loans extended by public and SDIF banks continued to decline, loans extended by the private banks increased in real terms in the third quarter in contrast to the decline observed in the first half 2001.

During the first nine months of the year 2001, the loan portfolio of state and SDIF banks shrunk considerably in real terms, whereas the contraction in private banks' loan portfolio was rather limited.

The share of export loans in total loans rose to 23.2 percent in September 2001, whereas the decreasing trend in the shares of specialized loans and consumer loans continued during the third quarter. The increase observed in export loans was mainly due to sharp depreciation of TL. The decrease in specialized loans mainly stemmed from limiting the credits that state banks could extend and the indexation of interest rates on specialized loan to annualized average interest rate of T-Bills.

Consumer loans and credit cards growth continued to decline in the third quarter, albeit at a significantly lower pace.

Loans by Type

	TL Trillion			Percentage Share			Real % Change	
	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001	Sept.01/ Dec.00	Sept.01/ June.01
Export Credit	5,933	8,445	10,198	18.6	21.5	23.2	5.5	7.2
Export Guaranteed Investment Loans	692	1,160	1,468	2.2	3.0	3.3	30.3	12.3
Other Investment Loans	1,078	1,962	2,447	3.4	5.0	5.6	39.4	10.7
Working Capital Loans	988	1,566	2,251	3.1	4.0	5.1	39.9	27.6
Specialized Loans	2,830	2,085	1,994	8.9	5.3	4.5	-56.7	-15.1
Fund based Loans	2,942	3,281	3,353	9.2	8.4	7.6	-30.0	-9.3
Consumer Loans	4,632	3,201	2,699	14.5	8.2	6.1	-64.2	-25.2
Credit Cards	2,170	2,333	2,417	6.8	6.0	5.5	-31.6	-8.1
Other	10,580	15,154	17,080	32.6	37.9	38.1	-0.9	0.0
Total Loans	31,845	39,184	43,908	100.0	100.0	100.0	-15.3	-0.6

Source: BRS/A

Securities

Investment in securities (including the non-tradable securities portfolio) remained to be main item in the assets of the banking sector during the third quarter, owing to special issue government bonds provided to public and SDIF banks as part of the restructuring plan. As of September 2001, the ratio of total securities (repo included) over total assets was 39 percent, unchanged from end June 2001.

In the third quarter, the share of the securities portfolio in total assets rose significantly in state and private banks, while it decreased in other groups. The decline in the share of the securities portfolio in the SDIF banks during the third quarter was due to the early redemption of government securities and the sale of Sümerbank to a private bank.

3. Liability Structure

Total liability structure of the banking sector continued to shift in favor of FX denominated sources, while moving towards shorter maturity, in the third quarter of 2001.

During this period, the share of deposits in total liabilities continued to increase, whilst the share of borrowings from banks decreased. The share of shareholders' equity in total liabilities declined to 9.2 percent at the end of September 2001 from 10.8 percent in June.

Liability Structure of Banks

	TL Trillion			Percentage Share			Real % Change	
	Dec. 2000	June 2001	Sept. 2001	Dec. 2000	June 2001	Sept. 2001	Sept..01/ Dec.00	Sept.01/ June 01
Deposits	58,900	87,553	105,461	56.6	57.6	62.1	9.9	6.9
Due to Banks	23,907	27,688	26,933	23.0	18.2	15.9	-30.8	-13.7
- Domestic Banks	8,479	6,963	5,887	8.1	4.6	3.5	-57.4	-25.0
- Foreign Banks	14,810	20,380	20,461	14.2	13.4	12.1	-15.2	-10.9
Shareholders' Equity	7,202	16,351	15,645	6.9	10.8	9.2	33.4	-15.1
Other	14,084	20,302	21,757	13.5	13.4	12.8	-5.1	-4.9
Total	104,093	151,894	169,796	100	100	100	0.2	-0.8

Source: BRSA

Deposits

Deposits, which are the main source of funding of the sector grew by 6.9 percent in real terms in the third quarter of the year and reached 105.5 quadrillion TL by the end of September 2001. During this period, TL deposits decreased by 8.3 percent in real terms, while the FX deposits rose by 18.8 percent mainly due to continuing depreciation of TL. Hence, the share of TL deposits eroded from 43.8 percent in June 2001 to 37.6 percent in September 2001.

Currency Composition of Deposits

	December 2000			June 2001			September 2001			Real % Change	
	TL	FX	Total	TL	FX	Total	TL	FX	Total	Sept..01/ Dec.00	Sept.01/ June 01
State Banks	18,151	5,331	23,483	19,430	8,762	28,192	20,811	12,040	32,852	-14.1	3.4
Private Banks	8,740	18,289	27,030	13,819	32,827	46,647	15,730	43,973	59,703	35.6	13.6
SDIF Banks	3,738	4,157	7,896	4,941	6,731	11,672	2,946	8,459	11,406	-11.3	-13.3
Foreign Banks	205	284	490	172	868	1,040	141	1,357	1,499	87.8	27.9
Total	30,837	28,062	58,900	38,364	49,188	87,553	39,630	65,831	105,461	9.9	6.9

Source: BRSA

Shortening of the maturity of the deposits continued in the third quarter owing to the as uncertain and volatile macroeconomic environment. The share of short-term (sight deposits+1 month deposit+3 month deposits) TL deposits in total TL deposits remained unchanged compared to June 2001 while longer-term (one year or longer) deposits rose by 245.5 percent in real terms in the third quarter of 2001. This increase mainly stemmed from the 3-year deposit made to Sümerbank by the SDIF. The average maturity of FX deposits continued to decline, and the share of short-term FX deposits to total FX deposits rose to 84.3 percent as of September 2001. A considerable concentration is observed especially in 1-3 months maturity for the FX deposits.

Borrowings from Banks

The contraction of the funding possibilities from external markets in the first half of the year, due to the deterioration of the economic outlook and slowing global economic activity eased in the third quarter of the year, and banks started renewing loans as well as receiving new loans.

The share of borrowings from banks in total liabilities declined to 15.9 percent in the third quarter from 23 percent at the end of 2000. Borrowings from the banks abroad declined to 13.3 billion dollars from 22.0 billion dollars in the same period.

Shareholders' Equity

During the third quarter of the year, the shareholders' equity rose in the state and private banks due to the increases in paid-in capital and the improvement in profitability performance, while shareholder's equity rose in foreign and investment and development banks mainly as a result of the rise in the current period's profit. On the other hand, the shareholders' equity of the banks under SDIF, declined from 4.2 quadrillion TL in June to 551 trillion TL in September. This is mainly attributable to the decrease in reserves (due to the transfer of government securities related to the sale of Sümerbank) and the increase in the current period's loss. The increase in the loss for the current period mainly originates from the 5 new banks taken under the administration of SDIF in July 2001.

The capital adequacy ratio (CAR), which rose significantly in the first half of 2001 with the capital support provided to SDIF and state banks by the Treasury and SDIF, declined from 19.7 to 17.4 percent in the third quarter of the year. However, excluding SDIF banks, capital adequacy ratio increased from 14.3 percent to 15.9 percent during the same period.

CAR of state banks, which was 7.7 percent at the end of 2000, rose to 19.8 percent in June 2001 and to 26.9 percent in September 2001. CAR in the private banks declined to 10.4 percent in June 2001, then rose to 10.9 percent in September 2001. The CAR of SDIF banks, however, declined to 13.4 percent in September 2001 from 91.4 percent in June 2001. The main factor behind this development is the take-over of 5 insolvent (banks with negative capital) private banks by the SDIF.

Capital Adequacy Ratio

(%)	2000		2001	
	September	December	June	September
Public	7.9	7.7	19.8	26.9
Private	16.6	15.3	10.4	10.9
Banks under SDIF	-241.7	-62.3	91.4	13.4
Foreign	19.9	21.9	27.1	25.7
Devel. & Inv. Banks	32.2	32.5	31.0	31.3
Total (Excl. SDIF)	15.9	15.2	14.3	16.1
Total (Incl. SDIF)	7.7	9.3	19.7	15.9

Source: BRS.A

4. Off-Balance Sheet Transactions

In the third quarter of 2001, the off-balance sheet transactions of the banking sector decreased by 13.2 percent in real terms. The ratio of total off-balance sheet transactions to total balance sheet continued to decline in all banking groups except the SDIF banks.

Credits and commitments, which is one of two main items of the off-balance sheet transactions, increased by 1.3 percent during the third quarter of the year, while contingencies contracted by 19.6 percent. During this period, the letters of guarantee, which comprises 71 percent of the total credits, grew by 3.1 percent in real terms

The 19.6 percent decrease in the total contingencies mainly resulted from the decline in FX and interest rate transactions and the contraction in repo and reverse repo transactions. The main factor behind the significant reduction in FX and interest rate transactions is the decline in forward FX transactions after the shrinking of the FX short positions. Repo and reverse repo transactions on the other hand, declined mainly due to the falling interest rates and increase in the withholding tax. Moreover, the reduction of repo transactions of the state and SDIF banks as part of the restructuring program has been effective in this development.

Off-Balance Sheet Transactions

	TL Trillion			Real % Change	
	2000 December	2001 June	2001 September	Sept. 2001/ Dec. 2000	Sept. 2001/ Dec. 2001
Total Credits	24,916	35,428	40,418	-0.4	1.3
Letters of Guarantee	17,366	24,716	28,715	1.5	3.1
Acceptance Credit	1,251	1,876	1,930	-5.3	-8.7
Documentary Credit	4,736	6,457	7,156	-7.2	-1.6
Guarantees, Bank-giro	1,531	2,345	2,579	3.5	-2.4
Prefinancing Credit with Letter of Guarantee	33	34	37	-30.4	-3.3
Total Contingencies	80,116	79,865	72,315	-44.6	-19.6
Fx and interest Rate Transactions	60,079	58,750	52,935	-45.9	-20.0
-Forward Fx Transactions	43,764	42,071	39,330	-36.1	-1.2
-Money Swaps	10,407	12,005	8,861	-46.8	4.3
Other Commitments	4,090	4,774	5,458	-18.1	1.5
Revocable Commitments	1,116	1,946	2,600	43.1	18.6
Repo and Reverse Repo Transactions	14,830	14,395	11,321	-53.1	-30.2
Total	105,032	115,293	112,733	-34.1	-13.2

Source: BRSA

5. Profitability

Following important losses in the first half of the year, banking sector's profitability performance improved in the third quarter as a result of the increase in the net interest income. As a matter of fact, excluding SDIF banks, banking sector realized 697 million dollars profit in the third quarter, compared to a loss of 381 million dollars in the second quarter.

The losses of the SDIF banks, on the other hand, rose from TL 4.5 quadrillion in the first half of 2001 to TL 6.2 quadrillion at the end of September. This was mainly due to takeover of 5 new banks to SDIF, and the decrease in the interest income earned on government securities as a result of early redemptions and buybacks.

Net Profit (Loss) for the Period

	TL Trillion			\$ Million		
	Sept. 2000	June 2001	Sept. 2001	Sept. 2000	June 2001	Sept. 2001
Public	48	-955	-407	73	-763	-266
Private	1,267	45	771	1,910	36	503
Banks under SDIF	-1,563	-4,493	-6,172	-2,356	-3,586	-4,026
Foreign	135	261	328	203	208	214
Devel. & Inv. Banks	170	172	377	256	137	246
Total	57	-4,970	-5,103	86	-3,967	-3,329
Total (Excl. SDIF)	1,620	-477	1,068	2,442	-381	697

Source: BRSA

Selected Income and Expense Items of the Banking Sector

	TL Trillion			Percentage Change	
	Sep. 2000	June 2001	Sept. 2001	2001-Sep./ 2000-Sep.	2001-Sep./ 2000-June
Interest Income	16,113	30,954	41,645	158.5	34.5
Interest on Loans	5,448	8,386	12,109	122.3	44.4
Interest on Deposits in Banks	1,664	3,522	3,817	129.4	8.4
Interest on Interbank Money Mark.	125	1,267	1,827	1,364.7	44.1
Interest on Gov. Bonds & T-Bills	3,871	8,921	13,978	261.1	56.7
Other Int. & Int. alike Income	4,842	8,427	8,991	85.7	6.7
Interest Expenses	11,964	22,236	28,477	138.0	28.1
Interest on Deposits	7,829	14,859	19,714	151.8	32.7
Interest on Banks	2,670	5,483	6,354	137.9	15.9
Interest on Interbank Money Mark.	127	741	746	486.7	0.6
Other Int. & Int. alike Income	1,270	1,077	1,541	21.3	43.1
Net Interest Income	4,149	8,718	13,169	217.4	51.1
Provisions for NPLs	481	2,039	3,518	630.7	72.6
Provisions for Loan Losses	115	707	717	523.0	1.5
Net Interest Income after Prov.	3,553	5,972	8,933	151.4	49.6
Net Non-Interest Income	-1,842	-1,677	-2,821		
Non-Interest Income	2,369	2,473	3,483	47.0	40.8
Non-Interest Expenses	4,211	4,150	6,304	49.7	51.9
Other Non-Interest Income	-1,127	-8,649	-10,547		
Capital Market Transactions (net)	690	-1,673	-1,370		
FX Transactions (net)	-1,576	-6,961	-9,184		
Profit-Loss before Tax	584	-4,354	-4,435		

Source: BRSA

Profit and Loss on Capital Markets and FX Transactions

(TL Trillion)	Capital Mrk.Trn. Profit (Net)			FX Transactions Profit (Net)			Total		
	Sep. 2000	June 2001	Sept. 2001	Sep. 2000	June 2001	Sept. 2001	Sep. 2000	June 2001	Sept. 2001
Public	-170	-1,884	-1,821	-71	-200	-527	-241	-2,084	-2,348
Private	587	718	517	-762	-3,970	-5,467	-175	-3,252	-4,950
Banks under SDIF	7	-673	-246	-491	-2,745	-3,166	-484	-3,418	-3,412
Foreign	245	129	141	-233	47	71	12	176	212
Devel. & Inv. Banks	21	38	39	-20	-94	-95	1	-56	-56
Total	690	-1,673	-1,370	-1,576	-6,961	-9,184	-886	-8,634	-10,554

Source: BRSA

6. Financial Risks

Liquidity and Interest Rate Risk

Decline in economic activity and increasing uncertainty have led banks to keep their portfolios in liquid and quasi-liquid assets. The share of liquid and quasi-liquid assets in total assets increased from 30.6 percent at the end of 2000 to 41.2 percent in September 2001.

Developments in the Liquid and Quasi-Liquid Assets of the Banking Sector

	% Share in Total Assets				% Share in Liquid Assets				% Change		
	Sept. 2000	Dec. 2000	June 2001	Sept. 2001	Sept. 2000	Dec. 2000	June 2001	Sept. 2001	09-01 /09-00	09-01 /12-00	09-01 /06-01
Cash	0.9	1.0	0.9	0.9	3.1	3.3	2.1	2.2	69.0	47.7	13,5
Claims on CBRT	1.0	1.2	1.2	1.1	3.2	4.0	2.8	2.7	98.7	51.1	5,8
Claims on Interbank Mark.	1.2	1.7	4.4	3.6	4.0	5.5	10.6	8.7	414.7	247.4	-9,7
Claims on Banks	16.7	15.2	14.1	13.0	53.8	49.7	33.5	31.6	38.5	39.8	3,6
Total Excl. Sec. Port.	19.8	19.1	20.6	18.6	64.0	62.4	49.0	45.2	66.3	59.2	1,3
Securities Portfolio	11.2	11.5	21.4	22.6	36.0	37.6	51.0	54.8	258.7	220.1	18,0
Tot. Liquid Assets	31.0	30.6	42.0	41.2	100.0	100.0	100.0	100.0	135.6	119.7	9,8
<i>Memo:(Quadrillion TL):</i>											
Total Liquid Assets	29.7	31.9	63.8	70.0							
Sec. in non-trading port.	4.7	6.5	16.9	19.3							

Source: BRSA

The liquid asset-liabilities coverage ratio is highest in development and investment banks (151.7%), which is followed by foreign banks(91.1%), private banks(61.9%), state banks(45.5%) and SDIF banks(25.5%). For maturities shorter than 3 months the coverage ratio increased in state and development banks, while it decreased in private, SDIF and foreign banks. For maturities longer than 3 months all banking groups have coverage ratios over 100 percent.

Coverage Ratio of Liquid Assets to Liquid Liabilities

%	For Maturities Less Than 3 Months				For all Maturities			
	Sept.00	Dec.00	June 01	Sept.01	Sept.00	Dec.00	June 01	Sept.01
State Banks	46.8	24.7	40.6	45.5	81.8	74.2	104.3	103.4
- TL	38.0	16.5	29.8	39.6	77.8	69.8	108.8	110.0
- FX	71.6	69.4	70.6	58.5	95.6	92.2	93.3	91.4
Private Banks	78.5	75.2	70.2	61.9	121.0	107.3	106.9	103.6
- TL	115.7	97.7	85.8	87.0	216.2	176.4	171.4	171.2
- FX	57.6	60.8	62.1	51.2	79.8	74.0	79.5	78.4
Foreign Banks	101.4	90.2	112.5	91.1	112.1	108.0	116.9	115.1
- TL	259.7	178.1	229.4	211.6	342.3	234.7	191.0	201.6
- FX	59.6	49.9	80.5	63.5	62.5	58.4	95.6	95.5
SDIF Banks	21.1	33.1	26.8	25.5	42.2	75.8	101.1	77.6
- TL	41.8	40.1	48.7	57.8	98.9	108.1	215.5	240.7
- FX	10.7	26.5	15.3	17.0	13.3	48.2	44.1	37.4
Dev. & Inv. Banks	143.0	127.3	150.4	151.7	134.2	135.4	133.5	131.4
- TL	152.1	139.0	130.8	129.1	224.7	230.7	223.2	217.6
- FX	133.7	116.1	175.1	176.3	97.8	95.8	102.1	105.9
Total	71.1	56.8	63.8	59.6	105.2	95.3	107.5	105.2
- TL	81.0	52.2	61.4	65.6	130.8	112.4	140.1	141.4
- FX	62.0	62.8	65.9	55.3	81.5	77.3	83.7	82.9

Source: BRSA

Sharp increase in liquid assets and flexible monetary policy under the new program has led to a significant reduction in the liquidity risk of the banking sector throughout 2001. Similarly, improvements in the coverage ratio of interest sensitive assets to liabilities and

increase in the share of floating rate and indexed government securities in the total securities portfolio resulted in a considerable reduction in interest rate risk of the banking sector .

Exchange Rate Risk

Following the shift to the floating exchange rate regime in February 2001, efforts to close the FX short positions accelerated in the banking system. Swap operation conducted by the Turkish Treasury in June 2001 further contributed to close the FX short positions.

The tendency to close FX short positions continued in the third quarter of 2001. In fact, FX short positions (excluding forward positions) in the banking sector fell to 1.9 billion dollars at the end of September from 24 billion dollars in June. When forward positions are included FX short position registered as 695 millions dollars at the end of September.

During the third quarter, private banks' short FX position (excluding forward positions) decreased from 2.1 billion dollars to 907 million dollars. Including forward positions private banks had a long position of 309 million dollars at the end of September.

As a result of the takeover of the 5 new private banks in July, the SDIF banks' short position increased from 558 million dollars in June to 1.2 billion dollars in September.

FX Position (Million Dollars)

	Excluding Forward Positions			Including Forward Positions		
	Dec 2000	June 2001	Sept. 2001	Dec 2000	June 2001	Sept. 2001
Public	-144	195	116	-90	200	117
Private	-8,377	-2,056	-907	-1,182	140	309
Banks under SDIF	-3,984	-602	-1,249	-4,030	-558	-1,165
Foreign	-1,803	5	85	-36	-6	17
Devel. & Inv. Banks	-245	41	23	-107	71	27
Total (Excl. SDIF)	-10,569	-1,815	-683	-1,415	405	470
Total (Incl. SDIF)	-14,553	-2,417	-1,932	-5,445	-153	-695

Source: BRS.A

Credit Risk

The contraction of economic activity, sharp decline in asset prices and deterioration of the balance sheets of the firms and households have accelerated the non-performing loans (NPL's) during 2001. Furthermore, better classification of loan losses by State banks led to higher provisioning by the banks. Thus, NPL's increased from 4 quadrillion TL at the end of 2000 to 9 quadrillion TL in September 2001. The loan loss ratio, which was 11.1 percent in December rose to 13.8 percent in June 2001 and 17.0 percent in September.

The prospects for the recovery in economic activity will be the most important factor to stabilize the loan loss ratio for the private banks in the near future. In this regard, improvement in economic activity on seasonally adjusted basis in the third quarter and expected output recovery in 2002 will likely help to contain the credit risk. Increased sensitivity of the banking sector to risk management will also contribute to a limitation of the credit risk in the coming periods. Additionally, the efforts to solve the NPL problem on voluntary basis between financial and real sectors and to establish asset management companies will help to resolve the stock problem of non performing loans.

Ratio of Loans to Total Assets and Shareholders' Equity (As of September 2001)

	%	LLR⁽¹⁾	Loans/T.Assets	Loans/ Shareholders' Equity
Public		29.6	17.7	196.1
Private		4.7	32.4	341.2
Banks under SDIF		70.0	8.5	305.0
Foreign		5.4	23.2	158.1
Devel. & Inv. Banks		4.1	43.0	216.8
Total (Excl. SDIF)		17.0	25.9	280.6
Total (Incl. SDIF)		10.7	28.2	279.8

Resource: BRS4

(1) LLR: *Loan Loss Ratio: Non-Performing Loans / (Loans + Non-Performing Loans) * 100*