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# FINANCIAL MARKETS REPORT

- Macro Financial Framework
- Developments in Financial Sector
- Risk, Capital and Profitability Evaluation





**BANKING  
REGULATION AND SUPERVISION  
AGENCY**

# **FINANCIAL MARKETS REPORT MARCH 2011 – ISSUE 21**

Department of Strategy Development

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**Owner: TEVFİK BİLGİN**

**Editor: FARUK DEMİR**

**BANKING REGULATION AND SUPERVISION AGENCY**

**Atatürk Bulvarı No: 191 06680 Kavaklıdere Ankara-Türkiye**

**DEPARTMENT OF STRATEGY DEVELOPMENT**

**Tel: (312) 455 65 29, Fax: (312) 424 08 74**

**Web-Site: [www.bddk.org.tr](http://www.bddk.org.tr) , e-mail: [fpr@bddk.org.tr](mailto:fpr@bddk.org.tr)**

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## EXPLANATION

- The BRSA having the 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 the **Financial Markets Report** is composed of three sections. In the section of macro financial framework, global and national economic developments were given while in the section of developments in financial market the developments in money and capital markets as well as performance analyses of banks, financial leasing, factoring and consumer financing companies in sector basis were included and in the final section includes the banks' riskiness levels, as well as their capital adequacy and profitability analysis and scenario analyses.
- In this Report, data related to banks, unless otherwise specified, cover domestic and also foreign branch offices of banks, and are presented by consolidating thereof.
- BRSA takes necessary measures to ensure the quality and reliability of the data used in tables and charts presented in this **Report**. However BRSA declines any liability on account of tables and charts published in the Financial Markets Report.
- Periodic information included in any issue of **Financial Markets Report** may be changed in the following issues as a result of updating due to various reasons.
- **This Report** was prepared depending on data received from the database by the date of May 30, 2011. The updates following the mentioned date are outside the scope of the **Report**.



## GENERAL EVALUATION

While global growth has reached the performance in pre-crisis period, disintegration between economic regions deepened. The IMF foresees that the growth rate to be 2.5% for developed economies, 6.5% for emerging economies and that global growth rate to be 4.5% in 2011. It is suggested that this differentiation in growth performances that became clear after the crisis nourishes global imbalances which are risk factors for the economic and financial stability. Another risk field which became prominent in respect of global economic outlook in this period is the acceleration in product and energy prices. These price increases began to create inflationist pressures throughout the world, particularly in emerging economies. Furthermore, it is observed that country risks increased in some developed economies, particularly for European region. The facts that banking system in these economies is still problematic concerning capital adequacy and household borrowing is high are considered to be the fundamental fragilities. Economic disintegration and strong global capital flows causing price increases in asset markets of emerging economies and warm-up possibilities in these economies are considered to be another risk field. Managing all these risks effectively requires high policy coordination in national and international level.

Economic indicators concerning the first quarter of 2011 and other leading data announced as of May 2011 indicate that positive disintegration of Turkey with developed economies continues and a growth performance close to that ratio might be achieved, yet below the level in last quarter of 2010. Growth environment emerged due to the financial stability which is founded on finance, money and borrowing policies as well as strong financial system continue to be supported mainly by strong domestic demand. It is observed that optimism perception in real and consumer sector expectations continues, rigidness in employment sector maintains its relaxation tendency. It is observed that current deficit risk which arose depending on the foreign trade deficit caused by external resource usage which increased as private sector investments and consumer demand and capital movements got wide continued also in the first months of 2011. It is foreseen that measures taken for the resource of the said fragility are begun to be felt, while net results shall appear in the second half of 2011. Although it can be said that risks are manageable, new measures might be taken in case of need.

Total assets of the financial sector increased by 5.4% when compared to end-2010 and realized as TL 1.4 trillion as of March 2011. In total assets of financial sector, banking sector realized as 77.2% and continued to be the biggest sector. There was no rationalization in the number of financial leasing companies due to financial circumstances and failure to adapt the integration process. Access channels to financial sector grow, predominantly as banking sector. 144 new branches were included in the banking sector when compared to the end of the year, while the number of employed personnel increased by 1.675 persons. Depositors continued to be the biggest customer population. Number of total insurance policies increased in parallel with the increase in non-life policies and life policies. The increase continues in credit customers by 782 persons when compared to the end of the year. When investment portfolios are analyzed; it is seen that TL deposit and stock preferences of domestic residents increased, share of investment funds and GS increased, while share of FX deposit account decreased.

As of March 2011, total assets of banking sector increased by 3.9% in the last three-month period to TL 1 trillion. Asset growth in the sector was originated from credit; the contribution of loans to the said growth was 3.8; contribution of receivables from banks, CBRT and markets item was 1.6 points, while securities portfolio, cash assets and other assets contributed negatively by 0.9, 0.1 and 0.6 point, respectively. While the stable growth in liabilities of the sector continues, securities issued grew highly in the last three-month period.

Outlook of the financial soundness indicators was positive and stable as of March 2011. Capital adequacy of the sector is rather high. The increase in asset quality continues. A slight decrease was experienced in profitability indicators of the sector in the last three-month period. Although

liquidity of the sector continued its decreasing trend, there is no risk and foreign exchange risk maintains its manageable outlook. Loans from foreign markets continued to increase and realized as USD 24.2 billion as of March 2011. Ratio of off-balance sheet transactions to total assets increased to 116.5% as of March 2011.

**Table: Banking Sector Soundness Indicators**

%	2005	2006	2007	2008	2009	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11
Official Equity/Risk Weighted Assets	23,7	21,9	18,9	18	20,6	20,0	19,2	19,3	19,0	18,0
Tier-I /Risk Weighted Assets	24,3	21,3	18,3	17,2	18,6	18,1	17,5	17,5	17,0	16,4
NPL (Net)/Equity	1,6	1,5	1,8	3,3	3,2	3,1	2,8	2,7	2,4	2,2
NPL/Gross Loans	4,7	3,7	3,5	3,7	5,3	4,9	4,4	4,3	3,7	3,2
ROA	2,7	3,2	3,3	2,5	3,3	3,9	3,6	3,2	3,0	2,8
ROE	20,4	27,1	26,6	20	26,4	31,3	28,6	25,2	22,3	20,7
Net Interest Incomes (Interest Margin)/Gross Income	60,5	60,4	61,0	64,7	67,1	63,8	62,0	61,1	61,5	55,6
Non-Interest Expenses /Gross Income	49,2	46,2	44,9	47,6	38,1	37,3	39,9	42,4	43,4	43,2
Liquid Assets/Total Assets			54,1	45,3	48,3	48,7	47,5	47,2	47,1	44,0
Liquid Assets/Short-Term Debts			93,7	75,2	80,1	80,3	75,8	75,8	77,3	74,8
FX Open Position/Equity	4,6	4,4	2,4	1,7	-0,3	-0,4	0,6	-1,5	0,1	0,3

Total assets of non-banking financial sector maintained their growth tendency also in the first quarter of 2011. Hereunder, total assets of asset management companies, consumer financing companies, factoring companies and financial leasing companies increased in March 2011 by 64.8%, 42.1%, 29.8% and 10.5%, respectively when compared to the same period of previous year. When the share within the non-banking financial sector is analyzed, it is seen that shares of financial leasing and factoring sectors decreased in parallel with growth performance of asset, while shares of assets management companies and consumer financing companies increased. When the profitability of non-banking financial sector is analyzed, it is observed that net profits of period of financial leasing, factoring and consumer financing companies increased, while net profits of period of asset management companies weakened. The increasing tendency experienced throughout non-banking financial sector in respect of equities continues also in this period. The number of loss-making companies having decreased in the sector in the first quarter of 2011 is considered to be a positive development.

**Table: Banking Sector Risk Evaluation**

	December 2010	March 2011	Expectations concerning the Following Period
<b>Credit Risk</b>	Downward	Downward	The improvement in credit quality to continue due to the noticeable decrease in the rate of follow-up of loans
<b>Market Risk</b>	Fixed	Fixed	GS and Eurobond weight in commercial portfolio to continue and exchange rate risk to maintain at a tolerable level
<b>Derivative Transactions</b>	Fixed	Fixed	Share of over-the-counter transactions in derivative transactions to continue
<b>Structural Interest Rate Risk</b>	Upward	Upward	The deficit between interest sensitive assets and liabilities to continue in the short term
<b>Liquidity Risk</b>	Upward	Upward	FX and total liquidity ratios concerning the 1 <sup>st</sup> and 2 <sup>nd</sup> maturity tranche to increase
<b>Concentration Risk</b>	Fixed	Fixed	No significant change to be observed in credit concentration

Developments experienced in risk factors in the first quarter of 2011 indicates that market risk is preserved in banking sector related risk outlook, while the current risk level is preserved in risks derived from derivative transactions and concentration risk and the risk level in credit risk maintains its decreasing trend. According to stress test results, increasing trend of risks concerning structural interest rate continue. Besides, FX and total liquidity ratios concerning the first and second maturity tranche having decreased more indicates that the risk outlook concerning liquidity risk is upwards. A recovery is expected concerning credit and liquidity risk outlook in the following period.

The decrease trend observed in NPL of banking sector in 2010 continues in the first quarter of 2011 in parallel with the decrease in NPL and loan amount. NPL has decreased to 3.2% in March 2011. The amount of NPL has decreased to TL 18.9 billion in this period by decreasing 5.4% as to the previous period. The improvement in credit quality is also seen by credit types and it is thought that it is important to increase asset quality by making more effort. SME loans, consumer loans and commercial loans have decreased by 8.7%, 5.1% and 2.8% respectively in this period. Aging analysis made for consumer loans indicates that ratio of NPL extended after the first half of 2009 has decreased significantly. In addition, it is thought that ratio of NPL for credit cards and consumer loans was relatively higher and it is considered that increasing the quality of these loans in following period is significant in respect of decreasing the credit risk the sector is exposed.

The amount subject to market risk of the banking sector reached TL 34.8 billion in the first quarter of 2011 by increasing 6.2% as to the end-2010. Capital liability of the sector derived from foreign exchange reached TL 0.6 billion by increasing 19.6% as to the previous quarter. In March 2011, the decreasing effect of the scenarios relating to increases on prices of second hand GS, Eurobond, stocks and investment funds comprising commercial portfolio of the sector on capital of the sector decreased as to December 2010 period. While on-balance sheet FX short position of the sector increased 28.4% to TL 27.6% billion in the first quarter of 2011 as to the previous quarter, off-balance sheet FX surplus position of the sector reached to TL 29.2 billion by increasing 35.4% as to the previous period. Thereby, FX Net General Position of the sector reached TL 1.6 billion in March 2011 from TL 0.1 billion in December 2010. The ratio of FXNGP/Equities of the sector reached to 1.14% from 0.06% in this period as to the previous period.

The significance of swap transactions realized on money-currency and interest in derivative transactions realized by banks continue. Maturity structure of derivate transactions shortened more in the first quarter of 2011. It is noteworthy that the share of transactions made with persons residing abroad and transactions to which the banks are party in total are high. As in previous periods, it is another important respect that derivative transactions been realized was over the counter quality and a significant part of it was made relating to purchase and sale purpose.

While there was a deficit amounting to TL 129.5 billion, TL 54.2 billion, TL 22.9 billion, TL 70.6 billion in 1 month of TL, 1 month of EUR, total FX respectively, there was a deficit amounting to TL 4.6 billion, TL 7.6 billion, TL 9.5 billion, TL 12.1 billion in 1-3 months of TL, 1-3 months USD and EUR and total FX respectively in March 2011 period. There was a decrease in one month TL short position while there was an increase in 1 month USD, EUR and total FX short position in the first quarter of the year as to the previous quarter. 1-3 months of TL position which was in long position in December 2010 became short position in March 2011. There was a decrease in 1-3 months USD, EUR and total FX short position in the first quarter of 2011 as to the previous quarter. Placing interest has realized as 7.5%, interest cost and interest margin have realized as 4.5% and 3.1% respectively in March 2011.

Liquidity adequacy ratios relating to first and second maturity tranches indicate a recession in the first quarter of 2011 as to end-2010. The decrease in due securities portfolio has been the most important factors in the realization of the said decline. FX liquidity adequacy ratios have not shown a significant change in this period. Stock value liquidity adequacy ratio calculated for evaluation and monitoring of liquidity balance between assets and liabilities of banks has initiated to increase with the effect of amendment policy of required reserves of the CBRT. The effect of resolutions relating to required reserves of the CBRT in recent period has also been observed on deposit. The share of deposit up to 1 month in total deposits regressed to 21.7% from 26%, while there was an increase in longer term deposit.

It is observed that a partial decrease by 1 point is observed in the shares of total cash loans amount of the biggest 25, 50 and 100 loans which banking sector extended in the first quarter of 2011 as to end-2010. It is seen that the loans extended are partially smaller in scale in this period when the distribution of loans in respect of amounts is observed and in the meantime loan amount granted per person remained constant. The fact that approximately 31% of total loans are comprised of personal loans such as mortgage, consumer loans and credit cards is considered to be a positive in respect of concentration risk.

The capital adequacy ratio of the banking sector was 18% in March 2011 with a decrease amounting to 1 point as to December 2010 period. The high increase trend observed in risk weighted assets in comparison to equities continues. While the equities of the sector increased by 1.9%, risk weighted items increased by 7.5% and a decrease amounting to 1 point was experienced in CAR in the first quarter of the year. While the biggest increase was experienced in 100% risk weighted loans with TL 39.8 billion, the biggest increase in equities was observed in capital reserves with TL 14.8 billion. In the first quarter of 2011, tier-I of the banking sector increased by TL 4 billion.

Net period profit of banking sector was TL 5.476 million after the decrease by 13.1% in March 2011 as to the same period of the previous year. The decrease observed in net interest incomes has affected period net profit in negative manner by the effect of decrease in interest from securities while non-interest income and expense balance did not displayed a significant change in the period mentioned. 92.8% of net profit of the period of the sector belongs to deposit banks, 4.1% and 3.1% belong to development and investment banks and participation banks respectively. While net profits of deposit banks and participation banks decreased, net profit amounts of development and investment banks increased by TL 14 million by the effect of the increase in net interest incomes as to the same period of previous year. While income creation rate of assets was 2.8% in March 2011, due to decline in interest rates, it is below the ratio of 3.2% observed in the same period of the previous year. While average asset size of the sector increased by 19.6% in the period mentioned, the fact that total incomes of the sector displayed an increase amounting to 3.3% indicates that income creating ratio of assets decreased.

Strong capital structure and prudential risk management implementations of the sector are the most important reason that the sector's capital adequacy remains strong even in possible shocks implemented to risk factors within the scope of sensitivity and scenario analysis applied within the scope of stress test study. As a result of sensitivity analysis results, it is seen that loan expansion is effective in increasing sensitivity relating to turning into loss of cash and non-cash loans which are credit risk factors of banks' incomes. Sensitivity analysis made within the scope of market risk indicates that the positions which the banks take relating to interest rate, stock prices and FX risk factors are in reasonable levels. Scenario analysis of the sector made relating to asset liability maturity mismatch structural interest rate risk indicates that the sensitivity of banks' incomes to changes in interest rate increases. This result is also observed in scenario tests prepared by using econometric model and scenario in which total loss is the highest is the scenario of high interest rate increase.

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## ABBREVIATIONS

EU	European Union
AU	Australia
AT	Austria
BRSA	Banking Regulation and Supervision Agency
BFCIUS	Bloomberg Financial Condition Index
BIS	Bank for International Settlements
OBSOP	On-Balance Sheet Open Position
BR	Brazil (real)
RUB	Russia (Ruble)
CA	Canada
CNY	China (Yuan)
DB/WB	World Bank
DE	Germany
GDS	Government Debt Securities
FXDA	FX Deposit Account
ECB	European Central Bank
EIA	U.S. Energy Information Administration
EMBI	Emerging Markets Bond Index
EUR	Euro
FAO	Food and Agriculture Organization
FED	Federal Reserve System
FMR	Financial Markets Report
FR	France
GR	Greece
GDP	Gross Domestic Product
SFVDRPL	Securities of which Fair Value Difference is Reflected on Profit/Loss
UoT	Undersecretariat of Treasury
IIF	Institute of International Finance
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
IND	India
IT	Italy
CUR	Capacity Usage Ratio
SME	Small and Medium Size Enterprises
KR	Korea
DIB	Development and Investment Bank
LU	Luxembourg
LIBOR	London Interbank Offered Rate
MoF	Ministry of Finance
MENA	Middle East and Northern Africa
SP	Securities Portfolio
CRA	Central Registry Agency
MSCI	Morgan Stanley Capital Index
NO	Norway
OECD	Organization for Economic Corporation and Development
OIS	Overnight Indexed Swap
PI	Performance Index
PL	Poland
PT	Portugal
POS	Point of Sale
RWA	Risk Weighted Assets
ROA	Return on Assets
ROE	Return on Equity
SE	Sweden
CMB	Capital Markets Board of Turkey
CAR	Capital Adequacy Ratio
CBRT	Central Bank of the Republic of Turkey
FR	Follow-Up Ratio
NPL	Non-Performing Loans
TL	Turkish Lira
TP	Turkish Lira
TUR	Turkey
TSPAKB	The Association of Capital Market Intermediary Institutions of Turkey
CPI	Consumer Price Index
TSI	Turkish Statistical Institute
USA/ABD	United States of America
UK	Ukraine
USD	US Dollar
PPI	Producer Price Index
SHTM	Securities Held to Maturity
n.d.	No Data
WEF	World Economic Forum
IA	Investment Assets
CBA	Centers and Branches Abroad
FX	Foreign Exchange

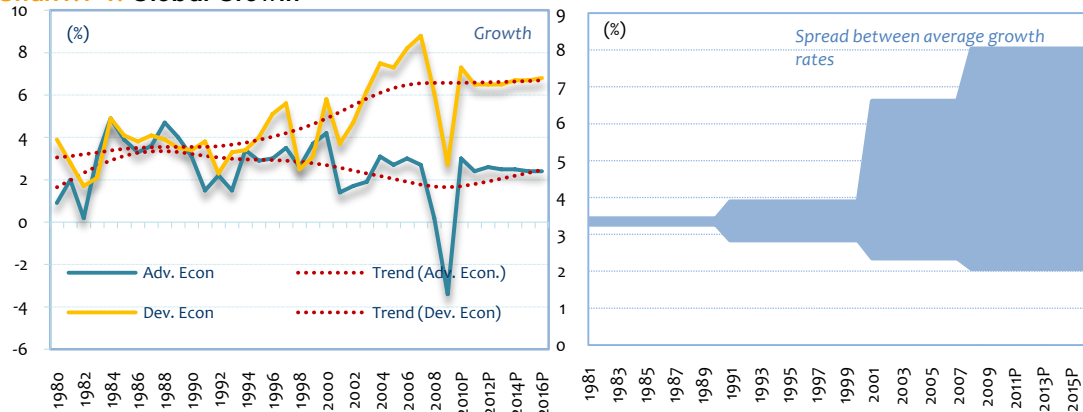


# 1 MACRO FINANCIAL FRAMEWORK

## 1.1 Global Framework

Global economic recovery continues to gain strength. The IMF predicts the global growth as 4.5% for 2011 and 2012. However, the continuation of regional imbalance in growth performances leads to concerns. When sub-detail of the IMF predictions is observed, the imbalance is seen obviously. While growth rate for developed economies is about 2.5%, this rate for emerging economies increases to 6.5% for 2011 and 2012.

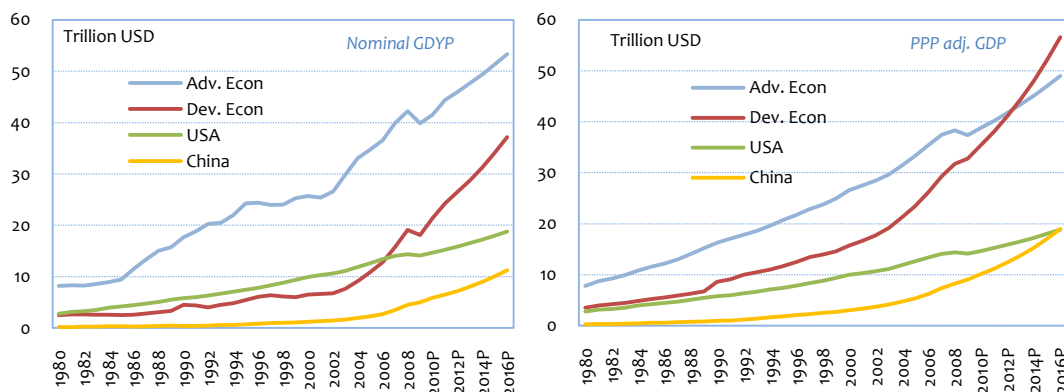
**Chart 1.1-1: Global Growth**



Source: IMF and BRSA, P: Prediction

For observing the development process for the separation in global growth performances, periodical average growth rates of developed economies and emerging economies for 1980-2015 period are analyzed. Accordingly, annual average growth rates are calculated for four different periods. These are 1980-1990 period which is the first phase of globalization, 1990-2000 period which comprises country-based and regional financial crisis period, 2001-2007 period which is up to 2007 global crisis and the recovery period after 2008, respectively. When average growth rates relating to the mentioned periods are analyzed, it is seen that while developed economies' growth is about 3.25%, it decreased to about 2% by steps and emerging economies increased from 3.5% to 8% gradually. It shows that growth performance difference between two economic blocks increased to about 6 points as of the latest period.

**Chart 1.1-2: Nominal GDP and PPP Adjusted GDP**



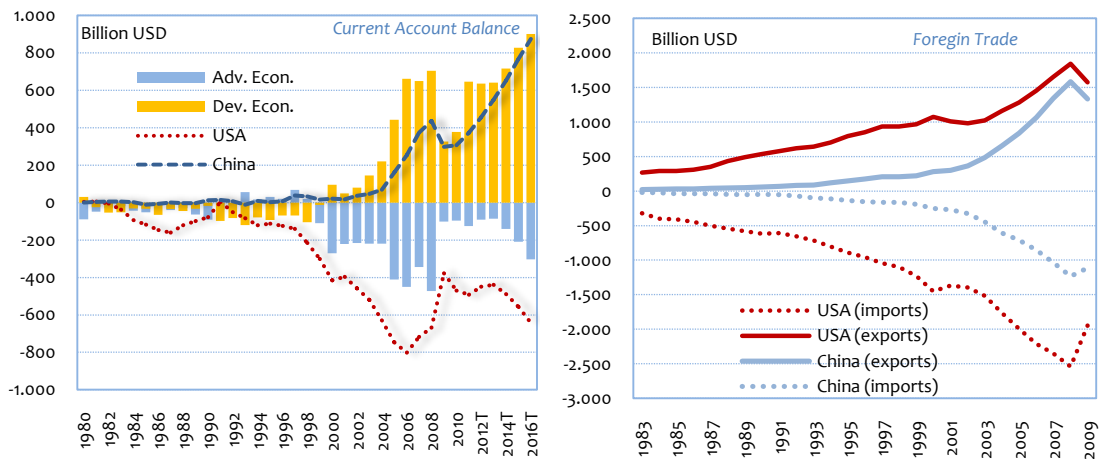
Source: IMF and BRSA, P: Prediction

The mentioned differentiation in growth speeds leads to decrease in the weight of developed countries in global economy. As a matter of fact, when it is analyzed over national income

calculated according to purchase power parity, total value added of emerging economies is predicted to catch the developed economies as of 2012.

Although this situation points out to a more egalitarian global product distribution on country basis in long term, it causes global imbalances which are experienced within the scope of current international monetary system to continue by increasing. Furthermore, together with the global crisis, international financial stability term has come into the forefront. Preventing all the factors which may jeopardize the global stability is the primary target of international institutions. As a matter of fact, the direct relation between global imbalances and financial stability increased the importance of resolution of macro structural problems in the agenda.

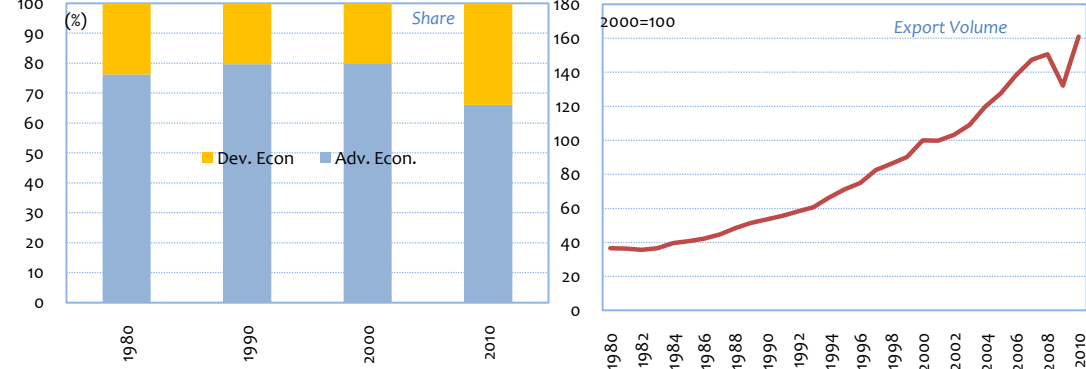
**Chart 1.1-3: Regional Current Balance and Foreign Trade Developments**



Source: IMF and BRSA, P: Prediction

Another important area of global imbalances is comprised of foreign trade and current transactions balance as well as capital movements. The fact that current imbalances are treating the international monetary system also causes risks for sustainable growth and global financial stability. It is accepted that there are two fundamental developments behind global imbalances. First of the mentioned developments is the inclusion of emerging market economies like China and India to world trade system. Global product increase benefited significantly from this development. Secondly, as foreign trade liberalized, both trade volumes increased and the share of foreign trade in global product increased. The increase in cross-border capital movements accompanied these two results.

**Chart 1.1-4: Global Output Distribution and Export Volume**

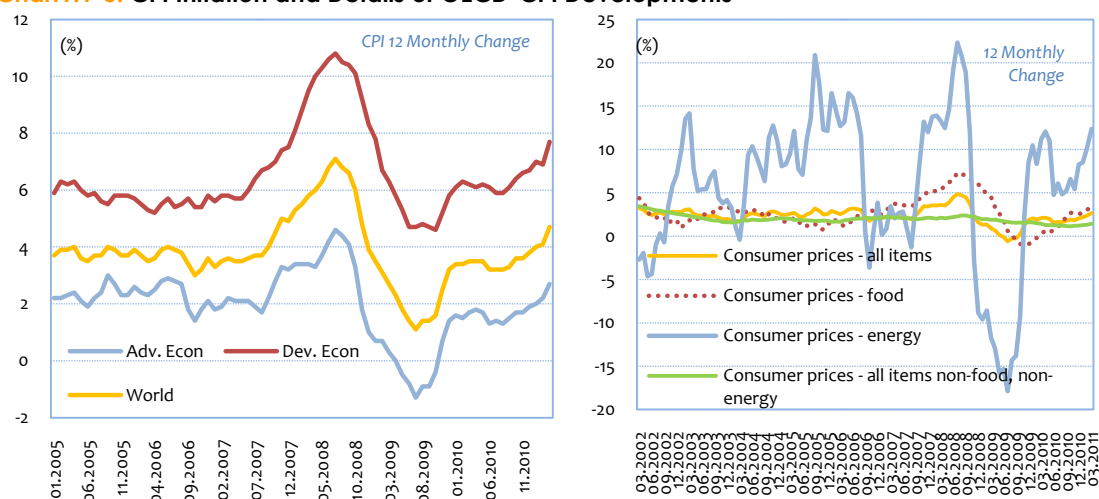


Source: IMF and BRSA

Although global crisis is not in the bottom level anymore, the facts that developed economies still grow below their potentials and the high level of unemployment make the problems in these economies permanent. In developed economies, expansionary finance policies used within the scope of fight with crisis are exited gradually. Nevertheless, the distortion in public sector balances and debt stock continues. This situation leads to the continuation of concerns relating to power and persistence of domestic demand in developed economies. In emerging economies, acceleration in capital flows and increase in asset prices are observed depending on high growth performance and the relative liquidity abundance in developed countries.

As a result of the facts that the increase in product and raw material prices continue to create a positive foreign trade shock on some emerging economies and that there are not significant changes in savings trends in economies, primarily the USA and China, which contribute to global imbalance, international institutions foresee that global imbalances will continue by increasing.

**Chart1.1-5: CPI Inflation and Details of OECD-CPI Developments**



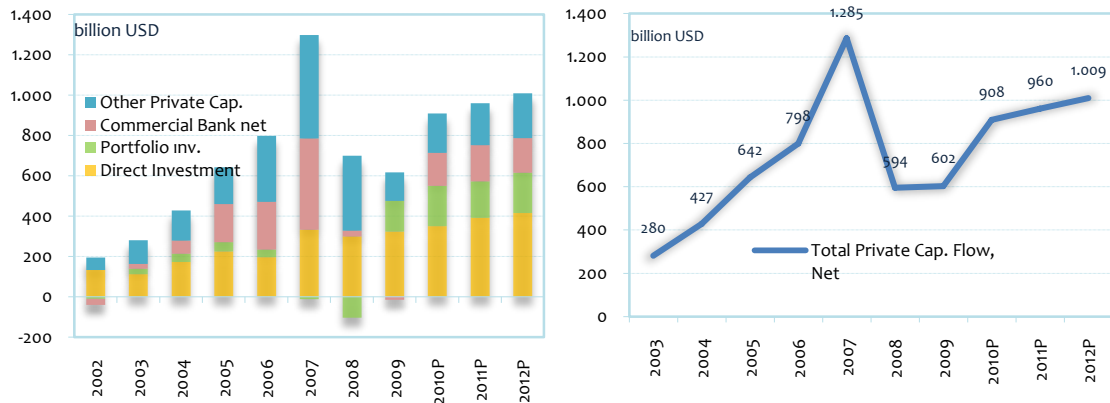
Source: IMF and OECD

One of the other remarkable developments in global macroeconomic conjuncture is the increasing trend in product and energy prices. In addition to the strong trend of global demand than expected, supply shocks experienced due to natural disasters and geopolitical risks created a pressure on prices. While it is not evaluated in a level to create an inflationist pressure in developed economies yet, it is stated that price increases is a risk for emerging economies. As of March 2011, 12-month consumer prices increase rate increased to 2.7% in developed economies. The same ratio is 6.9% for emerging economies as of February 2011. March 2011 prediction is about 7.5%.

Annual price increases rose to 2.1% in March 2011 in OECD region. When price developments in OECD countries are analyzed, the impact of compounds of food and energy prices is seen obviously. As of December 2010, inflation in energy compounds of consumer prices is realized as 8.5% and the inflation in food compounds is realized as 2.6%. Annual inflation ratio excluding energy and food is about 1.2% in the same period.

Depending on the increase in investor confidence after the global crisis, international capital movements re-accelerated as of 2010. Strong economic performance of emerging economies and relative sound macro balances contributed to re-acceleration of capital flows. Net private capital flows in 2010 are expected to increase by 50% when compared to the previous year and realize as USD 908 billion and this increasing trend is also expected to continue in 2011 and 2012. Private capital flows are foreseen to exceed USD 1 trillion limit again in 2012.

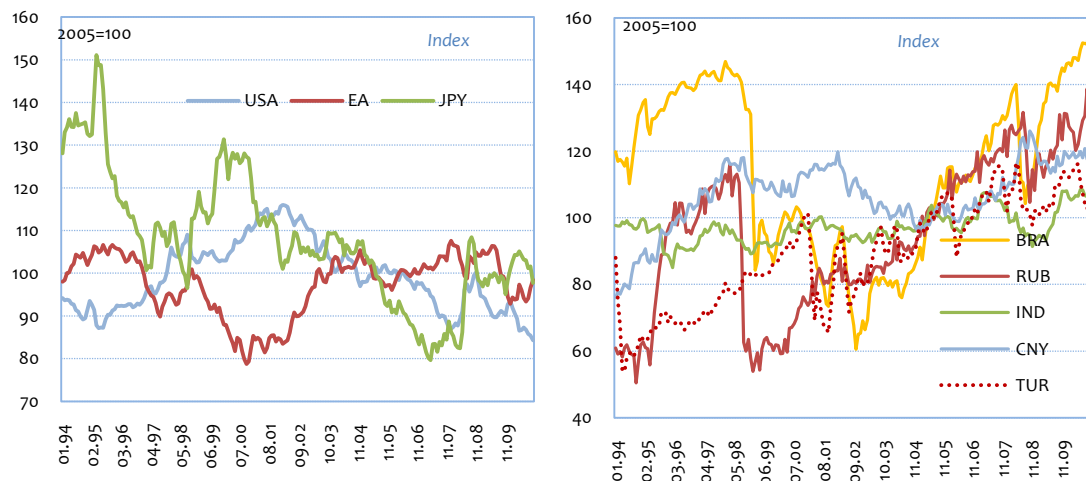
**Chart 1.1-6: Capital Movements towards Emerging Economies**



Source: IIF

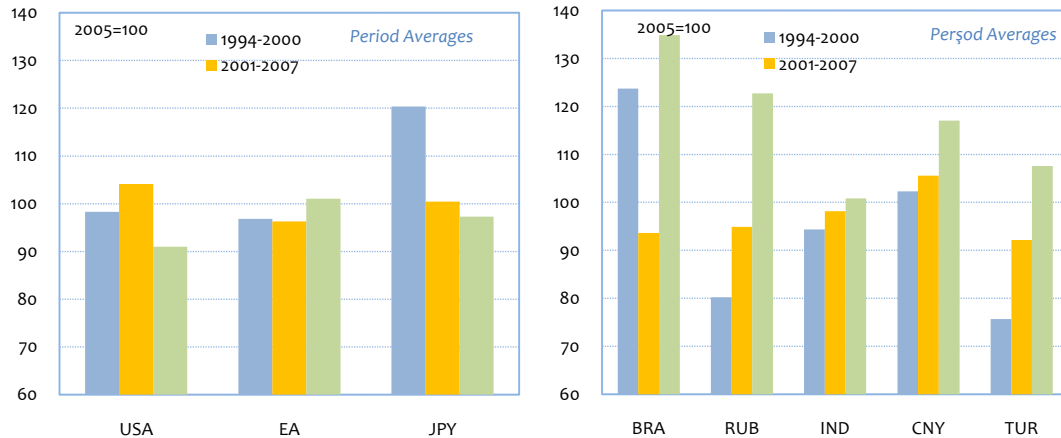
Global liquidity which increased after 2000 strengthened capital flows towards emerging economies. Stagnation in 2007-2009 period which had been experienced due to the impacts of global economic crisis was overcome by the fact that developed economies continued to monetary expansion as of the first phase of the financial crisis. As of 2010, capital movements have returned to their pre-crisis levels. In an environment where many countries adopted volatile FX exchange rate regime implementation, increasing capital flows and strong growth performance of emerging economies caused national currencies of those economies to gain value. Furthermore, a foreign trade limit impact is seen in some emerging economies in parallel with the increase in product and energy prices. Especially the real exchange rate increase in emerging economies after 2001 is remarkable.

**Chart 1.1-7: Real Effective Exchange Rate Indexes**



Source: BIS

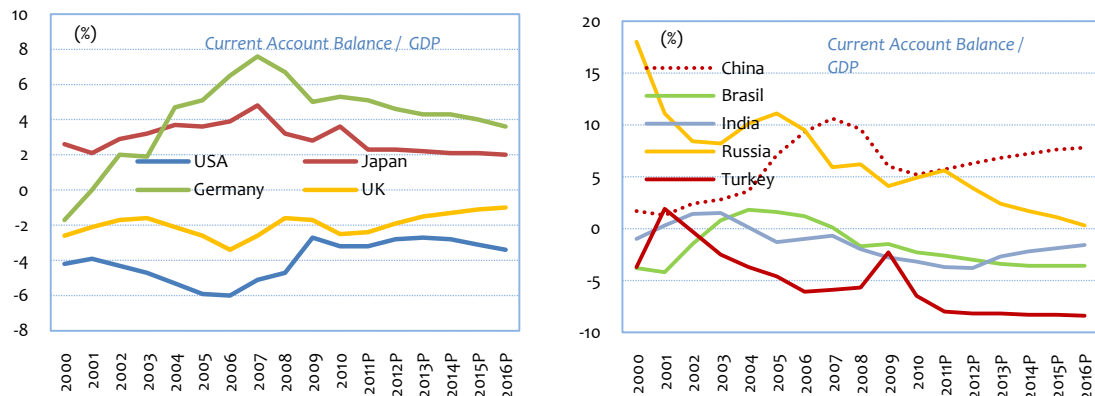
**Chart 1.1-8: Real Exchange Rate by Periods**



Source: BIS

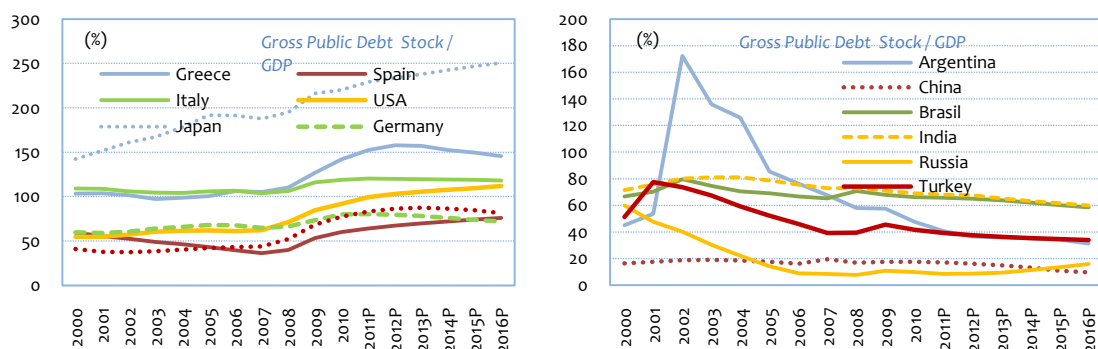
It is important that developed economies can manage their public saving deficits and emerging economies can meet the growth pressure including employment increase. Failure to provide export increase and weakening of growth in developed economies having external deficit become both the reason and result of imbalances under the current conjuncture. While this situation prevents access to tight fiscal policy implementation, it causes imbalances to deepen more. Warnings of international institutions concerning these risks continue.

**Chart 1.1-9: Current Transactions Deficit /GDP**



Source: IMF

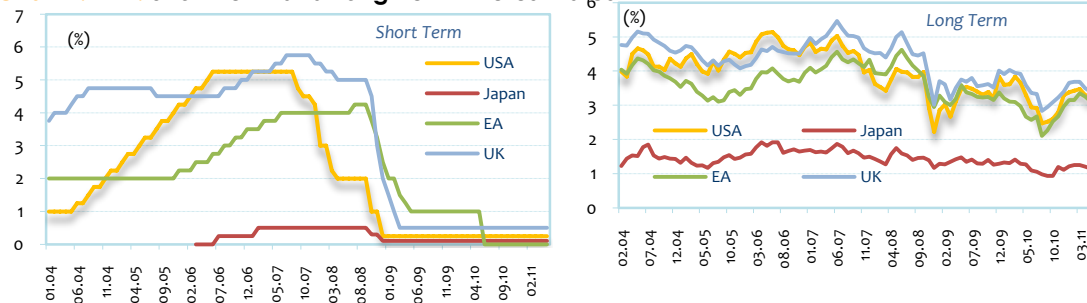
**Chart 1.1-10: Gross Public Debt Stock / GDP**



Source: IMF

Debt stock problem in developed economies necessitates discipline in fiscal policy in medium and long term. Monetary policy carries on in a structure in compliance with the conjuncture in the short run. As a matter of fact, the fact that growth performance is below the potential delays monetary tightening. Accordingly, there is no change in short-term interest rates.

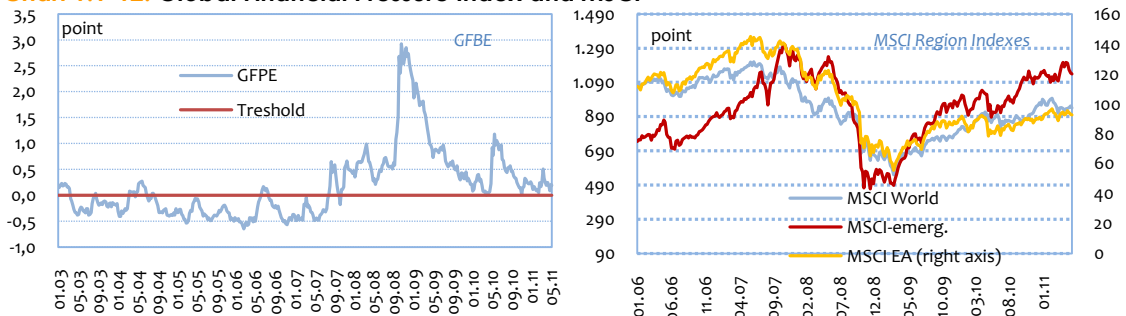
**Chart 1.1-11: Short-Term and Long-Term Interest Rates**



Source: Reuters

The global financial stability is secured within the scope of recovery in macroeconomic conditions and persistence in economy policies, while the increase in capital markets continued. When global asset price indexes are analyzed, it is observed that all indexes increased particularly emerging market economies group. Euro Zone was the region in which the increase was more limited. This fact can be seen more clearly when stock indexes presented in terms of national currency units and US Dollar based on end-2006 value are analyzed.

**Chart 1.1-12: Global Financial Pressure Index and MSCI**



Source: Bloomberg and BRSA.

Global Financial Pressure Index prepared by the Bank of America-Merrill Lynch Global Research continues to be around zero. This fact points out that risk perception is low and the pressure is relatively low in global scale. The index increased beginning from the last quarter of 2010 and in the first months of 2011 due to the debt problem in Europe, however recessed back to zero, thanks to the measures taken. It is observed that the said index is clearly positive.

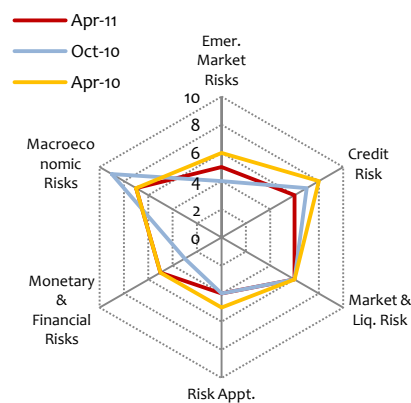
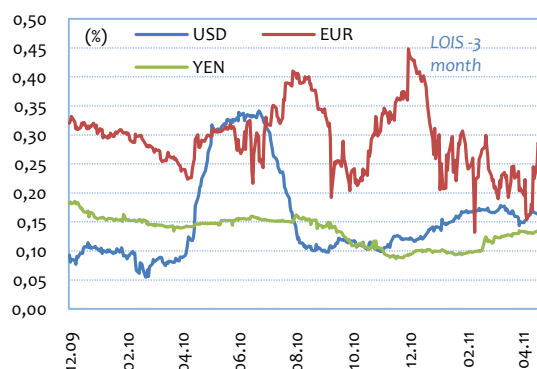
**Table 1.1-1: Stock Indexes of Selected Countries**

End-Period	National Currency Unit Terms						US Dollar Terms					
	2006	2007	2008	2009	2010	May 11,	2006	2007	2008	2009	2010	May 11,
MSCI-World	100,0	107,1	62,0	78,8	86,3	91,5	100,0	107,1	62,0	78,8	86,3	91,5
MSCI-Europe	100,0	100,1	54,5	69,3	74,9	76,9	100,0	100,1	54,5	69,3	74,9	76,9
MSCI-Emer. Mar.	100,0	136,5	62,1	108,4	126,2	127,7	100,0	136,5	62,1	108,4	126,2	127,7
Dow Jones	100,0	106,4	70,4	83,7	92,9	101,3	100,0	106,4	70,4	83,7	92,9	101,3
Nikkie 225	100,0	88,9	51,4	61,2	59,4	56,4	100,0	93,8	67,8	78,9	86,5	83,0
Germany DAX	100,0	122,3	72,9	90,3	104,8	111,8	100,0	136,4	78,0	98,2	105,4	120,0
Mexbol	100,0	111,7	84,6	121,4	145,8	133,8	100,0	110,6	65,8	100,4	127,6	124,4
Bovespa	100,0	143,6	84,4	154,2	155,8	143,4	100,0	172,9	77,2	189,1	200,4	189,0
Ireland	100,0	73,7	24,9	31,6	30,7	31,9	100,0	81,5	26,3	34,4	31,1	34,3
Russia TRS	100,0	111,3	36,6	83,9	99,9	96,8	100,0	119,8	32,8	73,6	86,1	90,9
ISE 100	100,0	142,0	68,7	135,0	168,7	168,0	100,0	171,7	63,3	128,1	154,8	150,2
China	100,0	196,7	68,1	122,5	105,0	106,3	100,0	210,1	77,8	140,0	124,3	127,7
Italy	100,0	92,7	47,5	56,6	50,1	53,7	100,0	103,4	50,2	61,5	50,4	57,7
Spain	100,0	107,3	65,0	84,4	69,7	73,7	100,0	119,7	69,6	91,8	70,1	79,1
Portugal	100,0	118,3	59,5	83,3	78,1	81,4	100,0	130,8	62,9	90,5	79,1	87,8
Greece	100,0	117,9	40,7	50,0	32,2	31,1	100,0	130,3	43,0	54,3	32,6	33,4

Source: Bloomberg

When the global risk map prepared by the IMF is analyzed, it is observed that there is a recovery in credit risk, emerging market risks and risk appetite components as of April 2011, while in other fields displayed no change. The fields having no change are especially those in which macroeconomic risks are evaluated. This indicates that country debt stock problems continue. As a matter of fact, no matter how compatible and supportive the macroeconomic policy implementations are, a slight increase was observed in LIBOR-OI spreads in the first five-month period of 2011.

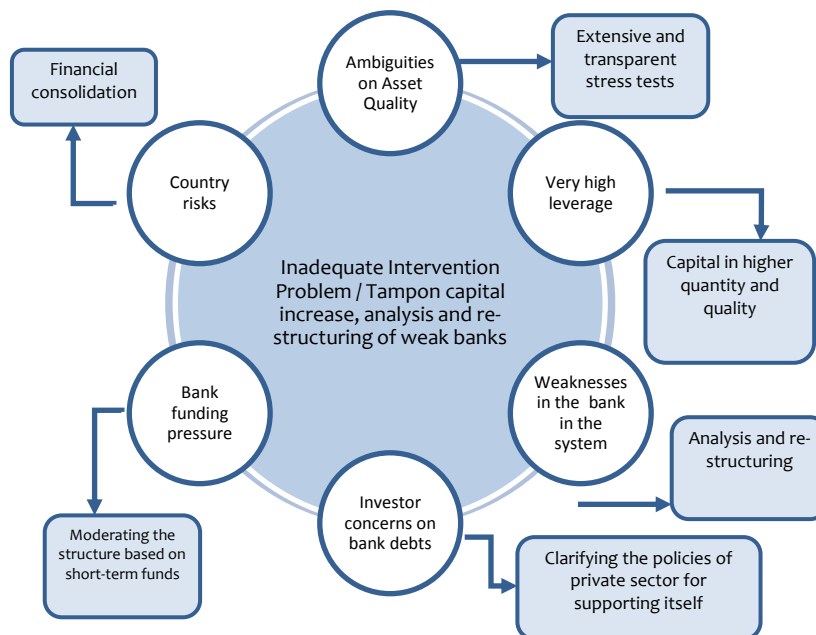
**Chart 1.1-13: LIBOR-OI Spreads and Global Risk Map**



Source: Bloomberg and IMF

Country risks are still the leading risk fields affecting the conduct of global financial markets and financial stability. Public debt stock problem is the issue through which the imbalance in European economy can be observed clearly. Many European economies project a tough harmonization process. Implementation risks such as delays and disruptions possible to emerge during this process threaten financial stability as well as markets. As a matter of fact, the country risk is limited with only public finance field. The banking sector having fragile structure and ongoing capital requirement is defined as a secondary risk field in developed economies particularly Europe.

**Table 1.1-2: Banking Sector Risks in Developed Economies and Measurement Suggestions**

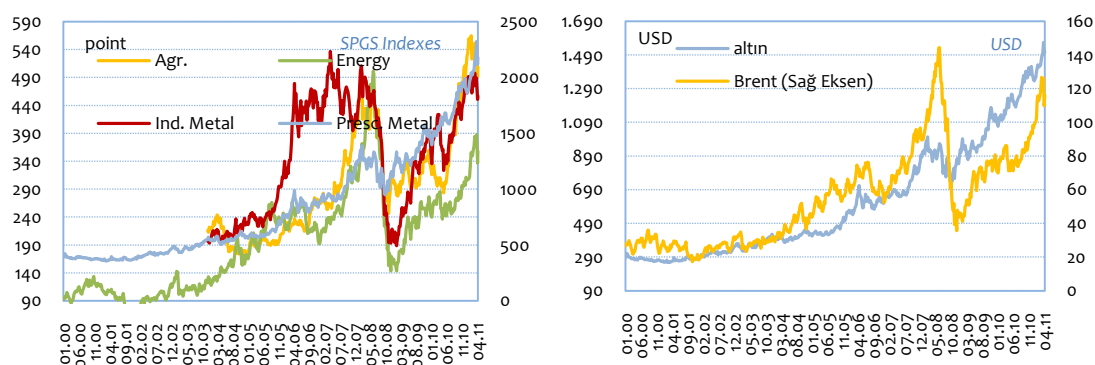


Source: IMF GFSR

Soundness/health of banking sector in developed economies continues to be the main agenda of international institutions. The IMF clearly suggests to the said countries a series of measures aiming to achieve a stronger capital structure in their center. Consequently, it is noted one more time that a sector having a strong capital structure in which risks can be managed better, awareness is high and financial reporting and transparency issues are settled.

Another problem concerning financial stability and banking sector is household borrowing. High household borrowing of developed economies delay the recovery in domestic demand, on the other hand it poses a risk for financial institutions. Ongoing high unemployment ratio prevents household income to increase. This situation creates worries in respect of financial institutions as well as social concerns.

**Chart 1.1-14: SPGS Product Prices and Oil Prices**



Source: Bloomberg

Energy and product prices increased above the projected level. Political developments experienced in MENA region causes energy prices to increase. Besides, the increasing ambiguity accelerates the increase in precious metal particularly gold prices. Having

considered the increasing movement in agriculture prices, it is expected that inflationist pressures shall increase globally in the medium term.

**Table 1.1-3: CDS Spreads**

	2006	2007	2008	2009	2010	May 26, 2011
USA	1,05	8,40	..	..	41,51	49,5
Germany	6,00	6,90	45,90	26,33	59,31	40,0
Australia	..	..	117,80	40,20	50,00	51,2
England	2,00	8,90	106,90	82,33	73,50	59,5
China	18,00	..	188,40	73,24	67,58	73,3
Japan	3,63	8,50	44,20	68,10	72,00	85,0
France	1,44	9,70	54,10	32,07	107,89	85,2
S. Korea	17,00	46,50	318,70	85,41	93,88	98,5
Mexico	40,00	70,00	291,80	134,02	113,00	102,6
Brazil	99,50	103,00	298,50	123,00	111,00	105,0
S. Africa	42,25	78,30	395,70	144,15	124,82	122,0
S. Arabia	..	..	235,00	90,00	75,40	127,9
Russia	43,00	87,50	743,50	186,69	146,50	140,8
Indonesia	115,17	153,50	638,30	190,35	129,02	135,8
<b>Turkey</b>	<b>184,75</b>	<b>166,50</b>	<b>411,10</b>	<b>185,00</b>	<b>140,84</b>	<b>166,0</b>
India	46,00	118,10	361,70	118,00	160,73	178,6
Italy	9,00	20,30	156,90	109,30	239,87	160,0
Spain	2,88	18,20	100,70	113,58	350,00	255,0
Egypt	78,25	100,80	600,00	255,00	242,50	338,0
Portugal	4,69	17,70	96,30	91,61	500,97	671,2
Argentina	202,00	460,70	3905,00	961,06	609,54	605,7
Greece	7,00	22,10	232,10	286,42	1010,00	1.419,9

Source: Bloomberg

When CDS spreads of G20 and other selected countries are analyzed, it is observed that spreads of countries increased having high country risk in recent period. Furthermore, spreads of generally developed and emerging economies realized in 45-175 base point tranche. This situation is a reflection of high performance of emerging economies. 5-year CDS spreads of Turkey decreased to 150-175 tranche.

**Table 1.1-4: Hypothetical Carry Trade Yields**

USD Open	March 2011- Dec.r 2010	Dec. 2010- Sept. 2010	Dec. 2010- Dec. 2009	TRY Surplus	March 2011- Dec. 2010	Dec. 2010- Sept.2010	Dec. 2010- Dec. 2009
Argentina	0,54	1,48	4,07	USA	0,99	-4,89	3,64
Australia	2,14	7,24	19,09	Argentina	0,46	-6,44	-0,29
Brazil	3,65	4,07	13,64	Australia	-1,13	-12,48	-14,76
Britain	3,09	-0,76	-3,14	Brazil	-2,63	-9,15	-9,51
China	-0,06	0,77	1,44	Britain	-2,07	-4,09	6,66
Denmark	5,83	-1,80	-6,62	China	1,05	-5,70	2,25
Euro	5,88	-1,70	-6,39	Denmark	-4,78	-2,99	10,02
Philippines	0,56	0,80	8,44	Euro	-4,83	-3,10	9,80
Sweden	6,81	0,66	6,91	Philippines	0,44	-5,72	-4,50
Israel	1,77	3,20	8,47	Sweden	-5,75	-5,57	-3,02
Iceland	1,33	-0,36	16,23	Israel	-0,76	-8,24	-4,53
Japan	-1,96	2,77	14,53	Iceland	-0,33	-4,50	-12,01
Canada	2,58	3,76	6,71	Japan	2,93	-7,79	-10,37
Korea	2,98	1,33	4,23	Canada	-1,57	-8,83	-2,83
Malaysia	1,81	1,49	15,07	Korea	-1,96	-6,28	-0,43
Mexico	4,37	2,77	9,95	Malaysia	-0,81	-6,45	-10,89
Egypt	-0,65	-0,33	0,31	Mexico	-3,33	-7,79	-5,95
Poland	4,92	-0,63	0,12	Egypt	1,64	-4,54	3,34
Romania	11,72	-0,57	-1,77	Poland	-3,88	-4,23	3,53
Russia	8,16	1,14	1,84	Romania	-10,62	-4,28	5,35
Singapore	1,68	2,60	9,55	Russia	-7,09	-6,08	1,86
Taiwan	-1,02	7,20	9,94	Singapore	-0,67	-7,61	-5,57
Turkey	1,00	-4,66	3,77	Taiwan	2,00	-12,44	-5,94

Source: Bloomberg

When hypothetical carry trade yields which are calculated by considering 3-month deposit interests are analyzed, it is seen that Romania Leu made a return by 11.72% on US Dollar deficit in the first quarter of 2011.

When hypothetical yields on Turkish Lira are analyzed, it is observed that the highest yield in this period was in Japanese Yuan by 2.93%. Nominal value decrease in Turkish Lira and position surplus made a negative return in the last quarter of 2010. As a matter of fact, as it can be seen in these hypothetical yields, there is a recession in the recent period in carry-trade facilities on TL.

### Box 1: Household Debt Burden

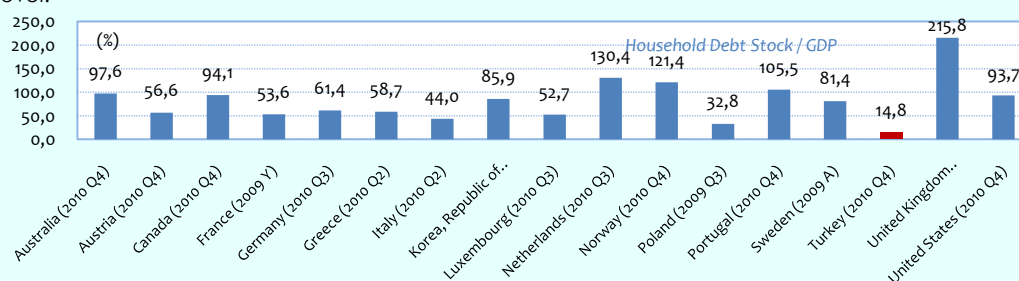
When the data concerning household wealth and indebtedness compiled by the OECD is analyzed, it is seen that ratio of liabilities to GDP is between 100-175%. However, it should be noted that this data belongs only to developed economies due to the difficulties in compiling. The ratio of net financial wealth stocks of these economies to GDP is rather high (by 200-300% tranche).

(Ratio to GDP, %)	2002	2003	2004	2005	2006	2007	2008	2009
<b>Canada</b>								
Net Wealth	512,7	516,1	518,1	534,5	545,5	548,5	547,4	549,2
Net Financial Wealth	231,4	224,0	214,6	216,5	217,9	210,6	211,7	211,0
Liabilities	117,1	120,6	124,3	129,4	131,8	137,3	141,7	148,4
<b>France</b>								
Net Wealth	571,3	621,2	682,1	748,2	792,6	806,3	753,2	746,3
Net Financial Wealth	183,1	189,6	194,9	200,5	210,4	213,6	185,8	201,7
Liabilities	75,6	79,7	83,7	91,0	96,5	100,3	102,3	106,6
<b>Germany</b>								
Net Wealth	533,7	547,8	561,2	581,4	605,7	627,6	614,6	..
Net Financial Wealth	145,9	158,2	167,2	180,2	189,4	198,2	184,9	202,0
Liabilities	112,1	110,9	109,6	107,1	104,8	101,7	97,5	98,6
<b>Italy</b>								
Net Wealth	746,2	770,0	793,9	823,5	845,8	855,0	820,8	..
Net Financial Wealth	293,0	290,7	297,6	304,8	304,0	293,1	254,5	..
Liabilities	58,3	62,3	66,7	71,9	75,7	79,2	79,8	..
<b>Japan</b>								
Net Wealth	719,4	728,1	720,1	739,2	744,7	735,3	697,0	..
Net Financial Wealth	340,7	361,1	369,4	397,1	401,4	386,3	356,5	..
Liabilities	133,6	133,6	131,4	131,8	130,4	127,4	127,2	..
<b>United Kingdom</b>								
Net Wealth	715,6	748,0	797,2	827,0	866,7	900,8	752,7	810,5
Net Financial Wealth	260,8	265,9	270,0	304,3	310,7	307,6	243,3	295,3
Liabilities	134,0	145,0	160,0	162,3	176,0	183,6	177,6	170,6
<b>USA</b>								
Net Wealth	515,4	563,2	593,8	640,7	646,5	616,3	469,5	486,1
Net Financial Wealth	267,6	304,0	317,1	335,5	349,4	348,2	248,0	273,6
Liabilities	109,9	117,8	124,1	131,3	135,6	137,8	130,3	127,5

Source: OECD

(\*) Net wealth is defined as non-financial assets-liabilities. Net financial wealth means financial assets-liabilities. Non-financial assets are mainly composed of real estate. For more detailed information (<http://www.oecd.org/eco/sources-and-methods>).

Another international resource concerning household debt is the IMF Financial Soundness Indicators. When annual debt stock is analyzed, it is seen that emerging economies are in a lower indebtedness level.

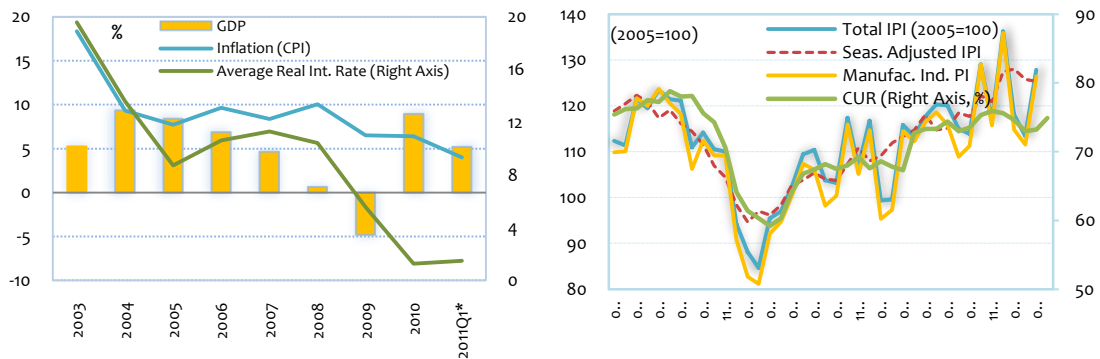


Source: IMF-FSI

## 1.2 National Framework

The economic growth of Turkey continued strongly during all quarters of 2010 and the differentiation from global recovery has become clearer. Total demand which has slowed down after the global crisis in 2009 became the fundamental source of the economic growth as of 2010, especially with the peak of the internal demand. Within this period, the external demand conducting moderately and the internal demand growing quickly have carried the economic growth to 9.2%. The decrease of the inflation and real interests within the same period has encouraged the investment and consumer expenses. However, the external trade deficit which has grown due to the increase of short-term capital flows entering to our country and the current deficit have intensified relatively the concerns relating to financial stability.

**Chart 1.2-1: Growth, Inflation, Real Interest Rate and Industrial Production Indicators**

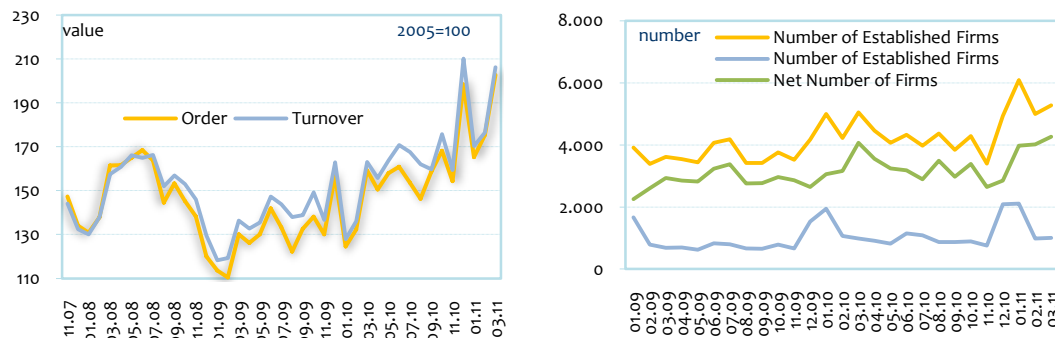


Source: TSI, CBRT. (\*) Growth Expectation for 2011 (CBRT Expectation Survey)

Despite the policies put into effect by the CBRT to slow down the growth of loans, the loan expansion kept continuing

g within the fourth quarter of 2010 and the first quarter of 2011, especially for consumer loans, which shows that the effects of measures taken have not reached the targeted level yet, however it is with high probability that the foreseen slowdown of demand will appear within the second half of 2011. The indicators belonging to the first quarter of 2011 and the latest data announced show that the economic recovery is continuing with a tendency close to the one in the last quarter of 2010. As of March 21, there is a growth expectation by 5.2% in average for 2011 in the expectation surveys, but according to the data of April-May 2011, it is possible to exceed this ratio. Nevertheless, total industry and manufacturing industry production indexes show that there will be a smaller growth within the first two quarters of this year comparing to previous year.

**Chart 1.2-2: Manufacturing Industry Orders and Company Indicators**

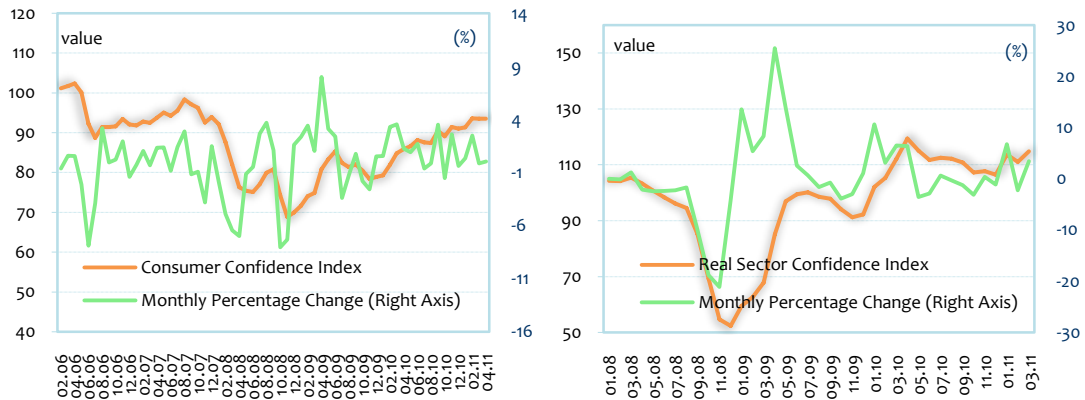


Source: TSI

Within the first quarter of 2011, the growing rate of these indicators as well as other leading indicators has slowed down comparing to the previous quarter. Additionally, the indicators concerning the number of opening and closing companies are pointing out the same fact. The number of opening companies is evolving faster than the number of closing companies, which shows that the entrepreneurs find the current period favorable for working environment. In consequence, the indicators of production, capacity, ordering, endorsement and the numbers of opening and closing companies are verifying that the positive tendencies in economic activity are remaining still. It is expected that the strong recovery of the economy will keep continuing more moderately as of the second half of 2011.

Other indications concerning the continuation of strong internal demand can be observed from consumer and real sector indexes. The consumer confidence index is below 100 points which is the lower limit for optimism, but it has increased perpetually since July 2009 and kept its tendency also in March 2011.

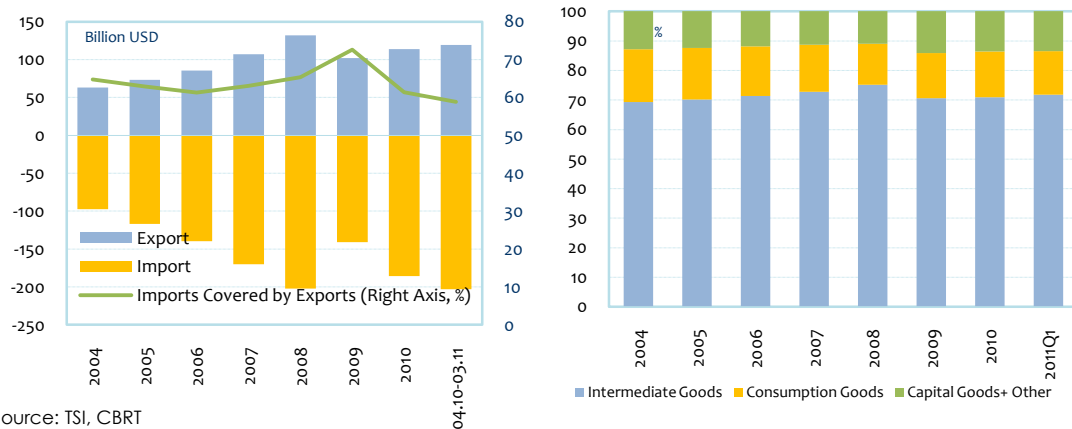
**Chart 1.2-3: Consumer and Real Sector Confidence Indexes**



Source: TSI, CBRT

The consumers' desire to purchase semi-durable and durable consumer goods for the next period remains to be strong. It is not expected for the consumers to reduce their consumptions within the second half of 2011, if there are no additional developments in fiscal and monetary policies. The real sector confidence index is conducting in higher levels comparing to consumer confidence and has reached its highest level in May 2011 with 116.7 points.

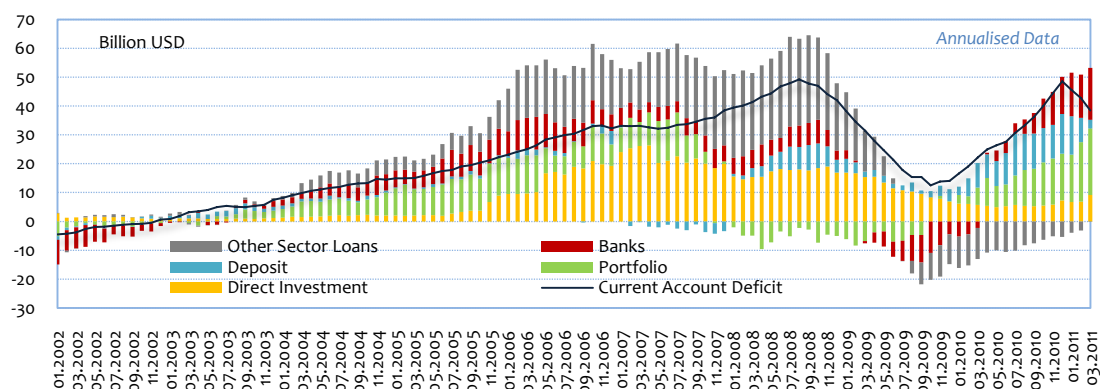
**Chart 1.2-4: Export, Import, Balance and Composition of Import by Classification of Goods**



Source: TSI, CBRT

The increase of demand in external markets and the loss value of TL have created a development in the exportation performance. In March 2011, the exportation has increased by 19.7% comparing to the same period of previous year and reached USD 11.8 billion. Within the same period, the strong internal demand and the importations gaining speed originally emanating from energy prices is realized as USD 21.6 billion with an increase by 44.1%. The current deficit does not ease down, because especially the importations are growing faster than the exportations. The share of intermediate goods in the importations is high, therefore, the effects of loss value of TL as well as the measures to reduce the internal demand on the importation have not entirely appeared yet.

**Chart 1.2-5: Capital Movements and Current Account Deficit**



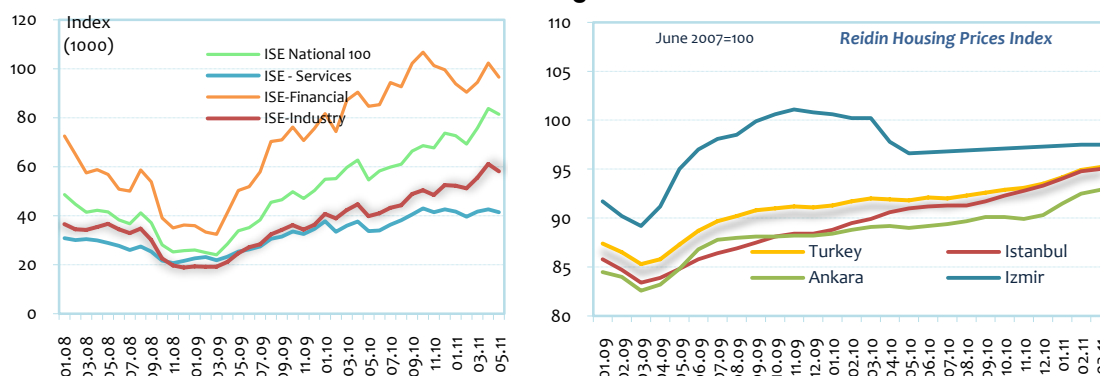
Source: CBRT (1) The "Banks" item is compiled from the detailed presentation of CBRT Payments Balance, from the "loans" item under the "other investments" item.

Current deficit tendency which accelerated with the developments in foreign trade kept its conduct and became a fragility element as of March 2011. Between January-March 2011, tourism incomes have increased by 28.5%, and the net output of other investments composed of direct investments, portfolio investments and interests which are the components of investment income balance was USD 2.9 billion. Net domestic investments of non-residents has increased by 154% comparing to the same period of previous year and reached USD 4 billion. Non-residents have realized net selling by USD 1.4 billion in stock market and a net purchase by USD 6.6 billion in government debt securities market within the period of January-March 2011. On the other hand, within the same period, the banking sector has realized a bond issuance amounting to USD 1 billion and net selling amounting to USD 50 million concerning domestic bond issuances.

In conclusion, while the current transactions account has a deficit by USD 22.1 billion, an annual increase by 120% is realized as of January-March 2011. Even if the developments signalize that the measures taken have started to give results, due to the continuous effect emanating from foreign trade balance, the rate of current deficit did not slow down periodically. Nevertheless, when the current transactions deficit is analyzed in its aggregation of the last twelve months, it is seen that it started to decrease as of January 2011.

The upwards tendency of ISE index kept continuing within the first quarter of 2011 and this observation did not vary also during April-May 2011. It is seen that the possible effects of current deficit developments and the problems in countries of the region on Turkey are occasionally priced as upwards risk perception in ISE. Even so, Turkey is still a center of attention for stock investors having long-term point of view. House prices, which are another important indicator for asset prices present a moderate increasing tendency almost horizontal within the first quarter of 2011. Housing loans becoming costly, it is possible that the increase seen in house prices within previous periods gives place to a more horizontal conduct.

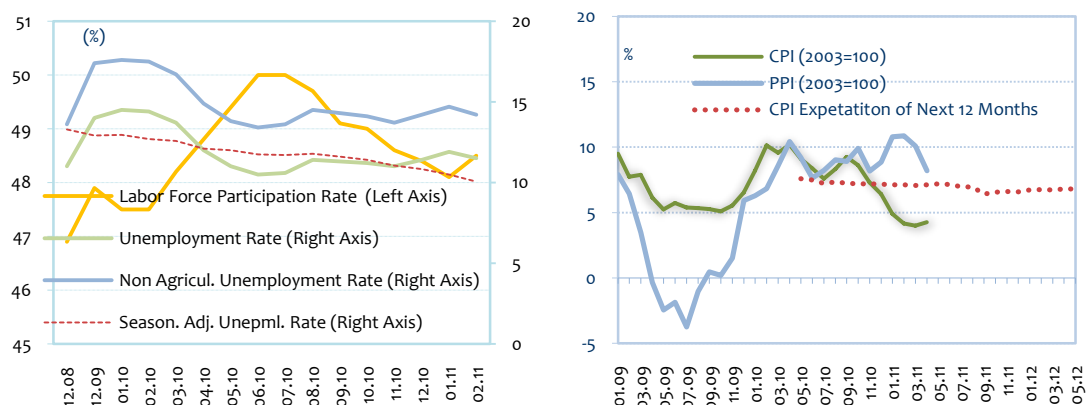
**Chart 1.2-6: ISE Indicators and Residential Housing Prices**



Source: CBRT, Reidin

The recovery in labor market which was conducted positively in general since the second half of 2010 continued also in February in a monthly and annual basis and the rate of unemployment has decreased to 11.5% comparing to previous month. This rate is 3 points lesser comparing to previous year. Furthermore, it is seen that the easing tendency of the rate of unemployment purged from seasonal effects has also continued in February 2011.

**Chart 1.2-7: Development of Labor Indicators and Inflation Rates**



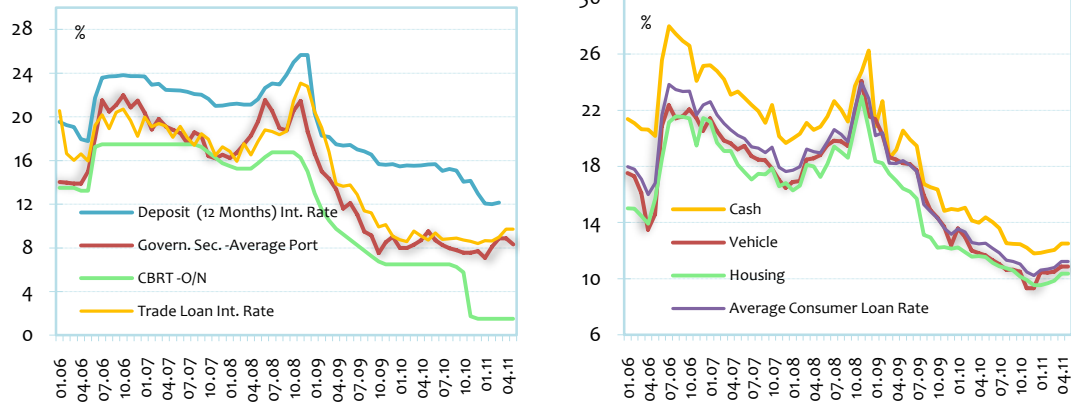
Source: CBRT, TSI

When the general level of prices which is one of fundamental parameters of financial stability is observed, it is seen that as of April 2011, the annual CPI inflation is realized as 4.26%. The downwards movement of consumer prices despite strong internal demand may be changed and become upwards due to the delayed effects of increasing energy prices and basis effects. Nevertheless, consumer prices are below the expected inflation and it is foreseen that these prices will present stagnancy in accordance with the targets of central bank in medium terms.

Internal demand being strong despite the effects of measures based on money and loan tightening signalizes that the real reflections of these measures will appear more clearly within the second half of 2011. High required reserve ratios are still remaining and this approach is accompanied by wide interest corridor and low policy interest rates. With these policy combinations, loan costs have started to increase, which is understood from the interest rates in the market. As a matter of fact, the differentiation of required reserves according to maturity provides a basis for giving more interest to long-term deposits.

Interest rates of consumer, housing and vehicle loans which are also main consumer loan items are moving upwards since January 2011. A similar observation is also valid for the interest rates of average commercial loans. It is possible that in the loan prices become upwards due to the increase of fund cost in banking sector and accordingly the loan demand may slow down. On the other hand, the repo tender interest rate for one week which is a policy interest rate is pegged at 6.25% also as of April 21, 2011, and the central bank kept the limits of interest corridor between overnight borrowing and lending as 1.5% and 9%.

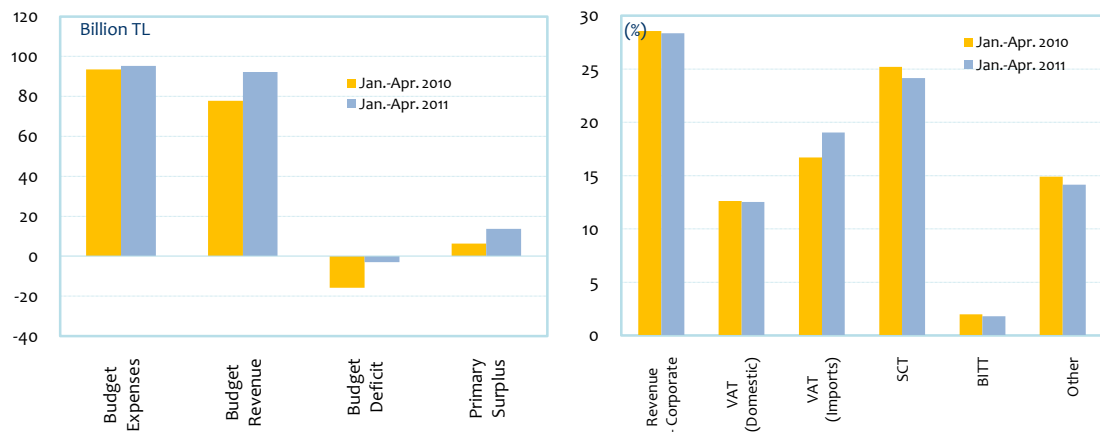
**Chart 1.2-8: Interest Rates**



Resource: BRSA, CBRT, TSI

Turkey, thanks to disciplined policies followed in public finance, is contributing to financial stability by separating from equivalent economies. January-April 2011 period has been a period in which the stability was protected in respect of public finance. While the budget deficit has decreased by 80.6% as to the same period of previous year, non-interest surplus has increased by 119.6% in January-April 2011 period. While tax incomes and income and corporate tax have grown by 21.4% and 20.4% respectively, the rapid growth of value-added-tax taken from imported products has been affected in this development as in latest quarters. Personnel expenditures and goods and service procurement expenses have been the most predominant items in expense items.

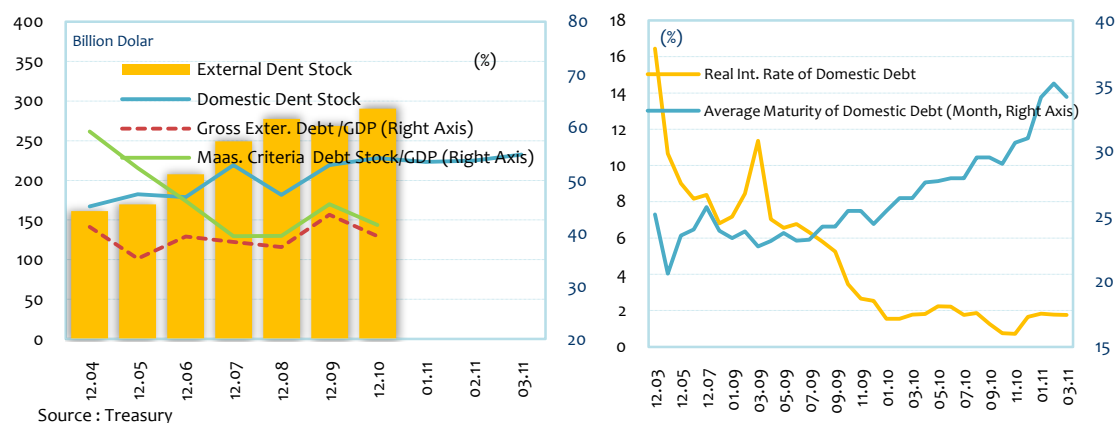
**Chart 1.2-9: Budget Indicators**



Source: Ministry of Finance

Internal debt stock of Turkey, having a more stable policy when compared to EU member and candidate countries, has realized as USD 232.4 billion in March 2011. The fact that 2010 has passed in stability in respect of growth, the main indicators relating to the first quarter of 2011 has create an expectation that the growth shall continue and that financial discipline continue with stability are clinching the sustainability of internal borrowing. As a matter of fact, the due date of internal debt stock is in tendency to extend and real interest is in tendency to decrease. There is an upwards risk in internal debt stock real interest and a slight downwards risk in its maturity by the partial effect of risks emanating from current deficit and general economic conjuncture in March 2011.

**Chart 1.2-10: Debt Stocks, Internal Debt Stock Real Interest and Its Average Maturity**



The ratio of total gross external debt stock to GDP has decreased to 39.5% by decreasing 4.1 points as to the previous year by end-2010. The debts (short and long-term) of non financial institutions belonging to private sector comprising 36.7% of total gross external debts stock has decreased by 5.7 points as to the previous year.

**Table 1.2-1: Gross External Debt Stock Indicators**

(%)	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Short Term Debts</b>									
Public/Total	2,0	2,9	3,2	2,9	2,1	1,8	1,8	2,0	2,0
Private/Total	10,7	13,1	16,8	19,7	18,5	15,5	17,1	16,5	25,0
Private Financial Institution/Private Sector Total	39,2	44,4	48,4	51,5	54,0	42,9	51,0	50,9	67,1
Private Non Financial Institutions/Private Sector Total	60,8	55,6	51,6	48,5	46,0	57,1	49,0	49,1	32,9
<b>Long Term Debts</b>									
Public/Total	64,8	63,2	57,1	47,7	40,0	34,0	31,1	34,0	32,7
Private/Total	22,5	20,9	22,9	29,7	39,5	48,7	50,0	47,5	40,3
Private Financial Institutions /Private Sector Total	16,4	17,6	23,3	31,8	34,8	34,6	29,3	27,7	29,3
Private Non Financial Institutions/Private Sector Total	83,6	82,4	76,7	68,2	65,2	65,4	70,7	72,3	70,7
Non Financial Institutions /Total Debt	25,3	24,5	26,2	29,8	34,3	40,7	43,7	42,4	36,7
Total External Debt Stock /GDP	56,2	47,3	41,2	35,3	39,5	38,4	37,8	43,6	39,5

Source: Treasury

## Box 2: Household and Companies Sector

The share of household liabilities/ household assets has increased to 35.1% in March 2011. The rate of liabilities to GDP is confirming the tendency to increase by 14.4%. The said ratios are in manageable level when compared to other countries.

**Table: Household Financial Assets and Liabilities**

TL Billion	2003	2004	2005	2006	2007	2008	2009	2010	Mar.11
<b>Assets</b>									
Individual Pension Fund	0,0	0,3	1,2	2,8	4,6	6,0	9,1	12,0	12,1
Stock	9,2	12,4	15,8	15,7	17,5	10,8	24,5	32,6	35,8
Public Borrowing Securities (GS+Eurobond)	36,1	41,0	33,3	27,7	19,2	19,7	13,0	8,4	9,8
Savings Deposit , Participation Funds and Current Accounts	100,9	124,6	147,8	185,4	215,5	288,0	321,1	369,3	382,5
Money in Circulation	9,8	12,4	18,2	24,4	25,0	29,3	34,3	45,2	46,6
<b>Total</b>	<b>156,0</b>	<b>190,7</b>	<b>216,3</b>	<b>256,0</b>	<b>281,8</b>	<b>353,8</b>	<b>402</b>	<b>467,5</b>	<b>486,8</b>
<b>Liabilities</b>									
Consumer Loan	5,9	12,8	29,7	48,0	68,9	85,2	97,4	132,7	143,8
Credit Card Debt Balance	1,7	4,4	7,5	10,7	12,6	14,7	19,1	23,2	23,4
Consumer Finance Companies Loans	0,4	0,9	1,8	1,4	1,7	1,6	1,7	2,9	3,2
Individual Financial Leasing Debts	-	-	-	0,5	0,9	1,0	0,7	0,6	0,6
<b>Total</b>	<b>8,0</b>	<b>18,1</b>	<b>39,0</b>	<b>60,6</b>	<b>84,1</b>	<b>102,5</b>	<b>118,9</b>	<b>159,4</b>	<b>171,0</b>
(%)Liabilities/Assets	5,1	9,5	18,0	23,7	29,8	29,0	29,6	34,1	35,1
Liabilities/GDP(%)	1,8	3,2	6,0	8,0	10,0	10,8	12,5	14,4	v.y.

Data following 2005 is including banks, participation banks and consumer loans extended by consumer finance companies and NPL relating to these loans, installment credit card debt balance and NPL receivables. Loan amounts are gross numbers including NPL. Credit card debt balance is comprised of installment credit card debt balance and non performing credit card receivables. Resource : BRSA, TSI, CMB, CBRT, CRA

**Table: The Ratio of Household Debt to GDP as to Countries**

(%)	AU	AT	CA	DE	FR	GR	IT	KR	LU	NO	PL	PT	SE	TR	UK	USA
Data Period	10Ç4	10Ç4	10Ç4	10Ç3	09	10Ç2	10Ç2	09Ç4	10Ç3	10Ç4	09Ç3	10Ç4	09	10Ç4	10Ç1	10Ç4
HHD/GDP(*)	97,6	56,6	94,1	61,4	53,6	58,7	44,0	85,9	52,7	121,4	32,8	105,5	81,4	14,4	215,8	93,7

Resource: FSI, IMF (\*) HHD=Household Debt. Turkey data is our calculation.

The ratio of FX Assets to FX Liabilities of real companies was realized as 47.9% in 2010. Short term FX Net position has only given a deficit amounting to USD 0.3 billion.

**Table: FX Assets and Liabilities of Non financial Sector Companies**

USD Billion	2003	2004	2005	2006	2007	2008	2009	2010
<b>Assets</b>								
Deposit	30,2	37,7	45,4	62,6	76,1	80,5	79,2	86,7
Securities	20,0	24,6	30,9	45,4	54,8	60,4	57,3	62,1
Export Receivables	0,9	1,3	1,0	0,9	0,8	0,7	1,1	1,2
Direct Capital Investment to Abroad	4,4	6,0	6,4	8,8	10,3	8,6	9,5	10,8
<b>Liabilities</b>	4,9	5,8	7,1	7,5	10,2	10,8	11,3	12,6
Cash Loans	50,7	58,7	72,4	100,5	139,4	160,9	156,4	181,0
Cash Loans	44,1	49,4	61,4	88,8	124,9	146,3	141,1	162,9
Loans Provided from the Country	18,2	20,5	26,4	34,8	46,3	48,1	50,3	81,9
Short Term FX Loans	0	0	0	0	14,4	15,9	14,3	17,9
Loans Provided from Abroad	26,0	28,9	34,9	54,0	78,6	98,2	90,8	81,1
Short term	1,6	1,2	1,1	1,1	0,7	1,2	0,7	1,0
Import Debts	6,5	9,4	11,0	11,7	14,5	14,6	15,2	18,1
FX Net Position	-20,5	-21,1	-27,0	-37,9	-63,3	-80,4	-77,1	-94,3
Short Term Assets						69,6	67,9	74,1
Short Term Liabilities						76,3	67,8	74,4
Short Term Net FX Position						-6,7	0,1	-0,3

Resource: CBRT

According to CBRT statistics, while total loan the due date of which is up to March 2012 was USD 56.3 billion, USD 23.5 billion thereof was emanated from short term debts.

**Table: Maturity Distr. of Loan Debt up to one Year of Private Sector from Abroad (March 2011)**

USD Billion	Apr.11	May.11	June.11	July.11	Aug.11	Sept.11	Dec.11	Nov.11	Dec.11	Jan.12	Feb.12	Mar.12	Total
<b>Long Term</b>	2,7	2,9	3,1	2,5	2,4	2,2	2,2	1,7	4,4	2,5	2,5	4,0	32,8
<b>Financial</b>	0,9	0,5	0,9	0,9	0,6	0,9	0,7	0,6	0,7	0,8	1,0	1,3	9,8
Banks	0,7	0,3	0,5	0,7	0,5	0,4	0,4	0,4	0,3	0,4	0,8	1,1	6,6
Non Bank Financial Inst.	0,2	0,3	0,4	0,2	0,1	0,5	0,3	0,1	0,4	0,4	0,2	0,2	3,3
<b>Non bank</b>	1,8	2,3	2,2	1,6	1,8	1,3	1,4	1,1	3,7	1,7	1,5	2,6	23,0
<b>Short term (*)</b>	6,1	2,8	1,2	0,6	1,1	2,6	2,5	0,5	2,2	0,5	0,4	2,8	23,5
<b>Financial</b>	5,9	2,6	0,9	0,5	1,0	2,5	2,4	0,5	2,1	0,5	0,3	2,8	22,1
Banks	5,3	2,6	0,8	0,5	1,0	2,5	2,4	0,4	2,0	0,4	0,3	2,7	20,9
Non Bank Financial Inst .	0,6	0,1	0,2	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,2
<b>Non bank</b>	0,3	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	1,4
<b>Total</b>	8,9	5,7	4,2	3,1	3,5	4,8	4,7	2,2	6,6	3,0	2,9	6,8	56,3

Resource: CBRT (\*) Except consumer loans

## 2 DEVELOPMENTS IN FINANCIAL SECTOR

### 2.1 General Outlook of Financial Sector

Asset size of financial sector has maintained its increasing trend and become TL 1.4 trillion as of March 2011. While the weight of banking sector in financial sector did not change, the growth in compounds of financial sector in general continued. A decrease by 0.5 points is realized in securities intermediary institutions' assets.

**Table 2.1-1: Asset Size of Financial Sector**

(TL Billion)	2002	2003	2004	2005	2006	2007	2008	2009	Mar.10	Dec.10	Mar.11	% Dist.
CBRT	74,1	76,5	74,7	90,1	104,4	106,6	113,5	110	112,1	128,4	139,7	9,9
Banks	212,7	249,7	306,4	406,9	499,7	581,6	732,5	834	860,5	1.007,0	1.046,0	77,2
Financial Leasing C.	3,8	5	6,7	6,1	10	13,7	17,1	14,6	14,3	15,8	15,8	1,2
Factoring Companies	2,1	2,9	4,1	5,3	6,3	7,4	7,8	10,4	11,1	14,5	14,4	1,1
Consumer Fin. Companies	0,5	0,8	1,5	2,5	3,4	3,9	4,7	4,5	4,5	6,1	6,4	0,5
Asset Management C.	n.a.	n.a.	n.a.	n.a.	n.a.	0,2	0,4	0,4	0,4	0,7	0,73	0,1
Insurance Companies (1)	5,4	7,5	9,8	14,4	17,4	22,1	26,5	33,3	32,6	31,0	35,1	2,4
Pension Companies	0	3,3	4,2	5,7	7,2	9,5	12,2	15,7	16,5	17,8	17,8	1,4
Pension Inv. Funds		0,0	0,3	1,2	2,8	4,6	6,0	9,1	9,7	11,7	11,7	0,0
Securities Inv. Trust (2)	1,0	1,3	1,0	2,6	2,7	3,8	4,2	5,2	6,4	8,0	7,5	0,9
Securities Inv. Trust (2)	0,1	0,2	0,3	0,5	0,5	0,7	0,6	0,7	0,7	0,7	0,7	0,1
Securities Inv. Fund (2)	9,3	19,9	24,4	29,4	22	26,4	24,0	29,6	28,9	29,7	33,2	2,3
Real Estate Inv. Trust (2)	1,1	1,2	1,4	2,2	2,5	4,1	4,3	4,7	4,7	5,1	13,9	0,4
Venture Capital Trust (2)	0,0	0,0	0,1	0,1	0,1	0,2	0,1	0,2	0,2	0,2	0,2	0,0
Port. Man. Comp.(3) (4)	5,8	17,8	24,5	30,2	26,0	31,2	30,7	40,0	41,3	44,9	48,1	3,4
<b>Total</b>	<b>315,9</b>	<b>382,8</b>	<b>455,2</b>	<b>591,5</b>	<b>697,8</b>	<b>806,5</b>	<b>972,4</b>	<b>1.096,7</b>	<b>1.127,4</b>	<b>1.303,8</b>	<b>1.373,8</b>	<b>100,0</b>

Source: BRSA, CBRT, TT, CMB, ACMII (1) January 2011 data is used. (2) December 2010 data is used. (3) January 2011 data is used. (4) Portfolio size managed by portfolio management companies.

As of March 2011, total number of institutions is 425 and the number of banks operating in financial sector decreased to 48 since two global-capital deposit banks merged under a single roof. It is determined that the decrease in number of financial leasing companies arising from not being adapted to orientation process and financial conditions ended in March 2011. While number of factoring companies decreased by 2, number of pension companies increased by 2, number of real estate investment trusts increased by 6 and number of venture capital investment trusts increased by 2.

**Table 2.1-2: Institutions Operating in Financial Sector**

Number	2005	2006	2007	2008	2009	Mar.10	Sep.10	Dec.10	Mar.11
Banks	51	50	50	49	49	49	49	49	48
Deposit	34	33	33	32	32	32	32	32	31
Participation	4	4	4	4	4	4	4	4	4
Development Investment	13	13	13	13	13	13	13	13	13
Domestic Private	26	21	18	16	16	16	16	16	16
Public	8	8	9	9	9	9	9	9	9
Global Capital	17	21	23	24	24	24	24	24	23
Financial Leasing	84	81	68	50	47	47	47	35	35
Factoring	88	86	86	81	78	80	78	76	74
Consumer Financing	9	9	9	10	10	10	10	11	11
Asset Management	4	5	5	5	6	6	6	6	6
Financial Holding Companies	0	0	0	3	3	3	3	3	3
Insurance (1)	46	47	51	62	55	57	57	57	58
Ind. Pension (1)	11	11	11	12	13	14	14	14	16
Reinsurance (1)	1	1	1	2	1	1	1	1	1
Other Insurance (1)	34	35	39	48	41	42	42	42	41
Securities Intermediary Ins. (1)	101	100	104	104	103	103	103	103	103
Securities Inv. Trust	26	30	33	34	33	33	33	31	31
Real Estate Inv. Trust	10	11	13	14	14	14	15	18	24
Venture Capital Trust (2)	2	2	2	2	2	2	2	2	4
Portfolio Management Companies (2)	19	19	19	23	23	23	24	28	28
<b>Total Number of Institutions</b>	<b>440</b>	<b>440</b>	<b>440</b>	<b>437</b>	<b>423</b>	<b>427</b>	<b>427</b>	<b>419</b>	<b>425</b>

Source: BRSA, TT, CMB, AIRC, ACMII.

(1) December 2010 data is used since March 2011 data is not published yet. (2) November 2010 data is used since December 2010 data is not published yet.

Number of persons benefiting from banking services continued to increase together with the expansion of access channels to financial sector. 144 new branches started to operate in banking sector in December 2010 – March 2011 period, and accordingly number of personnel in the sector also increased. The steady growth in alternative distribution channels of banks continued in March 2011, as well.

**Table 2.1-3: Access Channels to Financial Services**

Number	2005	2006	2007	2008	2009	Mar.10	Dec.10	Mar.11
Bank Branches	6.568	7.302	8.122	9.304	9.581	9.601	10.066	10.210
Deposit Banks	6.241	6.904	7.658	8.724	8.968	8.986	9.419	9.537
Dev. And Investment Banks	35	42	42	44	44	42	40	40
Participation Banks	292	356	422	536	569	573	607	633
Insurance Branches	14.453	15.322	15.695	n.a.	n.a.	n.a.	n.a.	n.a.
Branches of Intermediary Inst.	234	246	231	185	157	155	n.a.	n.a.
Bank Personnel	138.724	150.966	167.760	182.665	184.205	186.620	191.180	192.855
Deposit Banks	127.851	138.599	153.212	166.326	167.063	169.118	173.133	174.622
Dev. And Investment Banks	5.126	5.255	5.361	5.307	5.340	5.377	5.370	5.417
Participation Banks	5.747	7.112	9.187	11.032	11.802	12.125	12.677	12.816
Personnel Working in Insurance (1)	12.837	15.156	14.950	16.007	13.953		14.820	15.610
Personnel Working in Sec. Intermediary Ins.	5.916	5.898	5.861	5.102	4.715	4.802	v.y.	4948
Bank ATMs	14.836	16.513	18.795	21.953	23.952	24.593	27.334	28.322
POS (Thousand)	1.141	1.283	1.629	1.886	2.048	2.067	2.175	2.243

Source: BRSA, ACMI, TT, AIRC

(1) Number of permanent, contracted, part-time and full time personnel in head offices and regions of companies.

Depositors are still the biggest customer mass of financial sector.<sup>1</sup> It is observed that the increase in number of insurance policies experienced in 2010 is also continuing in the first quarter of 2011. The increase in number of loan customers in the first quarter shows that the mentioned number will be more than that of previous year in 2011. The number of financial leasing customers decreased by 3,478 in parallel with the stagnation in the sector.

**Table 2.1-4: Customer Outlook of Financial Sector**

Thousand	2006	2007	2008	2009	2010	Mar.11	Change as per Prev. Year-end.		
							2010 (%)	Mar.11 (%)	2011 (Number)
Depositor (Deposit Banks) (1)	70.613	70.234	66.664	66.917	47.252	48.748	-29,4	3,2	1.496
Depositor (Participation Banks) (1)	1.003	1.210	1.408	1.973	2.113	2.217	7,1	4,9	104
Loan Customer	27.712	34.194	38.181	39.389	41.496	42.278	5,3	1,9	782
Credit Card Customer	25.580	27.658	25.662	26.499	27.787	27.964	4,9	0,6	177
Financial Leasing	n.a.	n.a.	74	60	50	46.9	-16,0	-6,9	-3.478
Factoring	n.a.	n.a.	50	41	57	61	39,2	7,9	4.531
Consumer Financing	n.a.	n.a.	357	230	262	272	14,0	4,2	10.956
Number of Insurance Policies	31.469	34.320	32.922	33.961	40.143	46.645	18,2	16,2	6.502
Nr. Of Policies other than Life Ins.	27.791	28.687	30.254	31.756	37.147	41.734	17,0	12,4	4.590
Nr. Of Life Insurance	3.678	5.633	2.668	2.205	2.996	4.024	35,9	63,8	1.912
Ind. Pension Contract	1.208	1.600	1.933	2.204	2.526	2.378	15,0	-6,2	-157
Inv. Fund Investor (2)	927	940	999	1.000	1.043	1.036	4,3	1,2	13
Pension Inv. Fund Investor (2)	2.471	2.998	2.939	2.999	3.327	3.412	11,0	2,5	85
Pension Inv. Fund Investor	2.808	4.385	4.974	5.369	5014	6.196	-6,6	23,6	1.182

Source: BRSA, CMB, ACMI, EGS, AIRC, MKK.

(1) Deposit/participation account depositors having a remainder of zero as of June 2010 are excluded from number of depositor. (2) January 2011 data is used.

As of March 2011, investment portfolios of domestic residents increased by 1.9% when compared to the previous period and became TL 765.1 billion. The share of TL deposit, mutual funds and stocks increased in total investment portfolio of domestic residents while the share of Eurobond, FX deposit account and GS decreased. The value of investment portfolio of residents abroad increased by 4.9% in March 2011 when compared to the previous year-end and realized as USD 110 billion.

<sup>1</sup> Comparison could not be made due to the definitional difference occurred as a result of deduction of zero-remainder accounts from total number of depositors as of mid-2010.

**Table 2.1-5: View of Investment Portfolios**

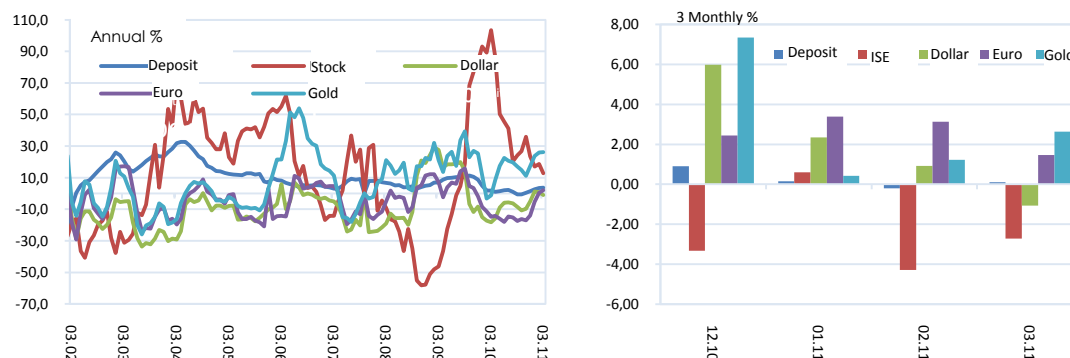
						% Share		% Change	
	2007	2008	2009	2010	Mar. 11	2010	2011	2010	Mar.11 (quarterly)
<b>Domestic Residents (TL Million)</b>									
TL Deposit	206.082	262.738	299.910	380.513	394.778	50,7	51,6	26,9	3,7
FX Deposit	111.619	141.858	150.435	159.254	154.237	21,2	20,2	5,9	-3,2
Precious Metals Account	163	344	1.200	2.377	3.455	0,3	0,5	98,1	45,4
Part. Bank. Collected Funds	14.626	18.636	26.064	32.121	32.402	4,3	4,2	23,2	0,9
GS	56.852	63.237	65.452	61.544	64.522	8,2	8,4	-6,0	4,8
Eurobond	4.309	4.867	5.328	5.382	5.334	0,7	0,7	1,0	-0,9
Mutual Funds	26.381	23.979	29.608	29.712	30.842	4,0	4,0	0,3	3,8
Repo	2.733	2.199	1.383	1.501	1.882	0,2	0,2	8,5	25,4
Pension Inv. Funds (1)	4.559	6.042	9.105	11.691	12.536	1,6	1,6	28,4	7,2
Ins. Premium Production	10.931	11.779	12.436	14.129	4.510	1,9	0,6	13,6	
Stock	31.070	20.097	40.591	52.382	60.584	7,0	7,9	29,0	15,7
<b>Subtotal</b>	<b>469.324</b>	<b>555.777</b>	<b>641.512</b>	<b>750.606</b>	<b>765.082</b>	<b>100,0</b>	<b>100,0</b>	<b>17,0</b>	<b>1,9</b>
<b>Residents Abroad (USD Million)</b>									
Stock (1)	62.070	23.308	47.248	61.497	58.797	58,5	53,3	30,2	-4,4
GS (1)	32.113	20.308	21.086	32.710	39.675	31,1	36,0	55,1	21,3
Deposit	8.488	9.034	10.448	10.836	11.820	10,3	10,7	3,7	9,1
<b>Subtotal</b>	<b>102.671</b>	<b>52.650</b>	<b>78.782</b>	<b>105.043</b>	<b>110.292</b>	<b>100,0</b>	<b>100,0</b>	<b>33,3</b>	<b>5,0</b>
<b>TOTAL (TL Million)</b>	<b>588.905</b>	<b>635.400</b>	<b>760.134</b>	<b>913.003</b>	<b>935.754</b>			<b>20,1</b>	<b>2,5</b>

Source: BRSA, CRA, AIRC, CBRT, CMB.

(1) Stock and GS amounts in the ownership of residents abroad in the EVDS of the Central Bank.

When the yields of investment instruments are reduced by CPI as of March 2011, while gold provided the highest real yield by 26.2%, the ISE's yield was 11.7%. The US Dollar caused its investor to lose by 1.2%. Real yield of deposit was about 3.6%.

**Chart 2.1-1: Real Yields of Investment Instruments**



Source: TSI

## 2.2 Banking Sector Outlook

### 2.2.1 Soundness Analysis

Financial soundness indicators of Turkish banking sector did not change remarkably in March 2011 when compared to the previous period. Legal equity/risk weighted assets and Tier-I/risk weighted assets ratios which are followed up relating to soundness of capital structure of banking sector decreased slightly when compared to end-2010. The fact that NPL provisions/equities and NPLs/gross loans ratios which are used in the analysis of asset quality of the sector decreased when compared to the previous quarter is found positive from the point of view of asset quality. The decrease in the ratio of net interest income to gross income continues and the importance of non-interest income increases. Liquid assets/total assets and liquid assets/short-term debts ratios show that liquidity in the sector, although decreased relatively, is still at adequate levels. The ratio of FX open position/equities points out that exchange rate risk is in a limited level.

**Table 2.2-1: Banking Sector Soundness Indicators**

(%)	2005	2006	2007	2008	2009	Mar.10	June.10	Sep.10	Dec.10	Mar.11
Legal Equities /Risk Weighted Assets	23,7	21,9	18,9	18	20,6	20	19,2	19,3	19,0	18,0
Tier-1 / Risk Weighted Assets	24,3	21,3	18,3	17,2	18,6	18,1	17,5	17,5	17,0	16,4
Provisions for NPLs /Equities	1,6	1,5	1,8	3,3	3,2	3,1	2,8	2,7	2,4	2,2
NPLs /Gross Loans	4,7	3,7	3,5	3,7	5,3	4,9	4,4	4,3	3,7	3,2
ROA	2,7	3,2	3,3	2,5	3,3	3,9	3,6	3,2	3,0	2,8
ROE	20,4	27,1	26,6	20	26,4	31,3	28,6	25,2	22,3	20,7
Net Int. Income (Interest Margin)/Gross Income	60,5	60,4	61,0	64,7	67,1	63,8	62,0	61,1	61,5	55,6
Non-interest Expenditures / Gross Income	49,2	46,2	44,9	47,6	38,1	37,3	39,9	42,4	43,4	43,2
Liquid Assets /Total Assets			54,1	45,3	48,3	48,7	47,5	47,2	47,1	44,0
Liquid Assets /Short-term Debts			93,7	75,2	80,1	80,3	75,8	75,8	77,3	74,8
FX Open Position/Equities	4,6	4,4	2,4	1,7	-0,3	-0,4	0,6	-1,5	0,1	0,3

## 2.2.2 Financial Statements Analysis

Total assets of banking sector grew by 3.9% in March 2011 when compared to the previous three months. Loans contributed to the said growth by 3.8 points, while receivables from banks, CBRT and markets contributed by 1.6 points. Securities portfolio, cash assets and other assets contributed negatively to asset growth by 0.9, 0.1 and 0.6 point, respectively. Share of loans within total assets amounted to 53.9%, while share of securities portfolio decreased to 26.6%. Continuing increase in the share of TL assets is considered as a positive development in respect of balance-sheet quality.

All items contributed positively to growth of total liabilities. As of March 2011, deposit, debts to banks, funds from repo transactions, securities issued and other liabilities contributed to growth in total liabilities by 1.2, 1, 0.8, 0.4 and 0.4 points, respectively. Particularly, securities issued doubled in the last three months and its contribution to total liability growth is noticeable.

**Table 2.2-2: Banking Sector Brief Balance-Sheet Sizes**

	TL Billion						12-Month % Change % Ratio in Balance-Sheet				
	2008	2009	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11	Mar.10	Mar.11	Mar.10	Mar.11
<b>Assets</b>											
Cash Assets	6,0	7,6	5,8	6,7	6,9	9,2	8,3	4,3	43,7	0,7	0,8
Receivables from Banks, CBRT and Money Markets	88,7	90,3	83,4	84,9	78,4	76,3	93,0	-9,7	11,5	9,7	8,9
Securities	194,0	262,9	275,6	278,3	274,7	287,9	278,6	30,5	1,1	32,0	26,6
Loans	367,4	392,6	416,8	454,9	475,4	525,9	564,3	13,8	35,4	48,4	53,9
Net NPL	2,8	3,6	3,7	3,4	3,4	3,2	3,0	-5,2	-17,9	0,4	0,3
Subsidiaries, Affiliates and Jointly Controlled Partnerships	10,3	12,7	12,8	13,0	14,2	15,3	16,1	25,3	26,0	1,5	1,5
Other	63,3	64,4	62,5	67,4	74,2	89,2	83,2	-3,1	33,1	7,3	7,9
<b>Total</b>	<b>732,5</b>	<b>834,0</b>	<b>860,4</b>	<b>908,6</b>	<b>927,4</b>	<b>1.007,0</b>	<b>1046,4</b>	<b>14,1</b>	<b>21,6</b>	<b>100,0</b>	<b>100,0</b>
Total TL Assets	510,2	611,1	633,2	669,9	691,2	749,2	776,6	22,2	22,7	73,6	74,2
Total FX Assets	222,3	223,0	227,3	238,8	236,2	257,8	269,8	-3,5	18,7	26,4	25,8
<b>Liabilities</b>											
Deposit (Funds Collected)	454,6	514,6	534,3	564,5	573,0	617,0	629,3	14,4	17,8	62,1	60,1
Debts to Money Markets and CBRT	0,4	0,8	0,7	1,1	0,7	0,8	1,0	-52,3	33,6	0,1	0,1
Debts to Banks	92,8	86,1	91,7	100,0	101,5	122,4	132,1	-0,5	44,1	10,7	12,6
Funds from Repo Transactions	40,8	60,7	53,1	56,0	51,8	57,5	66,0	24,3	24,4	6,2	6,3
Securities Issued (Net)	0,0	0,1	0,1	0,2	1,9	3,1	7,1		5001,2	0,0	0,7
Other	57,6	60,8	63,8	67,6	71,5	71,6	75,8	8,9	18,9	7,4	7,2
Equities	86,4	110,9	116,8	119,3	126,9	134,6	135,0	27,3	15,6	13,6	12,9
<b>Total</b>	<b>732,5</b>	<b>834,0</b>	<b>860,4</b>	<b>908,6</b>	<b>927,4</b>	<b>1.007,0</b>	<b>1046,4</b>	<b>14,1</b>	<b>21,6</b>	<b>100,0</b>	<b>100,0</b>
Total TL Liabilities	476,8	570,2	593,1	628,2	642,2	699,3	718,6	21,5	21,2	68,9	68,7
Total FX Liabilities	255,7	263,9	267,3	280,4	285,2	307,7	327,8	0,7	22,6	31,1	31,3

In the loan composition, share of consumer and SME loans decreased in the last three months, while share of other commercial and corporate loans increased. As of March 2011, consumer loans, SME loans, other commercial and corporate loans contributed to the growth on annual basis by 11.8, 11 and 12.5 points, respectively. Strong growth performance began in SME loans in 2010 continued in the first three-month of 2011.

**Table 2.2-3: Consumer and Commercial Loans**

	TL Million					% Distribution					Annual Growth (%)			
	2007	2008	2009	2010	Mar.11	2008	2009	2010	2010	Mar.11	2008	2009	2010	Mar.11
Consumer	95.696	117.995	130.950	174.224	186.898	32,1	33,4	33,1	33,1	32,1	23,3	11,0	33,0	35,8
SME Loans	76.521	84.605	83.271	125.734	135.692	23,0	21,2	23,9	24,0	23,0	10,6	-1,6	51,0	51,4
Other Comm. and Corp.	113.400	164.845	178.399	225.893	241.713	44,9	45,4	43,0	42,8	44,9	45,4	8,2	26,6	27,6
<b>Total</b>	<b>285.616</b>	<b>367.445</b>	<b>392.621</b>	<b>525.851</b>	<b>564.303</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>28,7</b>	<b>6,9</b>	<b>33,9</b>	<b>35,4</b>

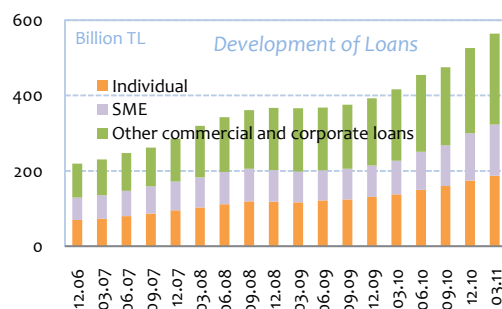
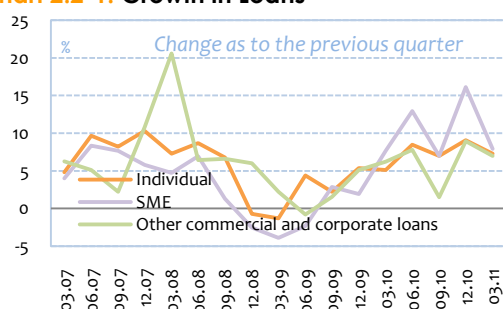
Consumer loans and export loans which grew in the last three-month period by 7.3% experienced a relatively high growth within total loans. Export loans grew highly depending especially on the increase in export in recent months. The said loans contributed to the 7.3% credit growth by 1 point the last three-month, while consumer loans and corporate loans contributed by 2.2 points and 1 point, respectively.

**Table 2.2-4: Selected Loans**

	TL Million					Increase as to Previous Quarter					Contr. to Growth %		
	2009	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11	Mar.10	Mar.11
Consumer Loans	93.337	99.516	108.521	116.850	129.041	140.472	6,6	9,0	7,7	10,4	8,9	1,6	2,2
Corporate Loans	85.259	93.027	117.319	118.828	135.175	144.648	9,1	26,1	1,3	13,8	7,0	2,0	1,8
Credit Cards	37.612	38.156	40.798	42.906	45.238	46.426	1,4	6,9	5,2	5,4	2,6	0,1	0,2
Export Loans	26.181	28.169	31.160	31.534	36.064	41.198	7,6	10,6	1,2	14,4	14,2	0,5	1,0
Other Inv. Loans	23.890	24.541	24.158	23.973	24.893	26.390	2,7	-1,6	-0,8	3,8	6,0	0,2	0,3
Other Loans	126.665	133.683	133.151	141.569	155.496	165.170	5,5	-0,4	6,3	9,8	6,2	1,8	1,8
<b>Total</b>	<b>392.944</b>	<b>417.093</b>	<b>455.108</b>	<b>475.659</b>	<b>525.907</b>	<b>564.303</b>	<b>6,1</b>	<b>9,1</b>	<b>4,5</b>	<b>10,6</b>	<b>7,3</b>	<b>6,1</b>	<b>7,3</b>

When the conduct of the growth in loans is analyzed by periods, it is observed that SME loans experienced a relatively high growth in the last period. Other commercial and corporate loans continue to be dominant in credit distribution while consumer loans maintain their share by about 33%.

**Chart 2.2-1: Growth in Loans**



Deposit which is the most significant liability of the banking sector maintained its conduct also in March 2011. While total deposit increased by 17.8% in the last one-year period, among deposit components, commercial and other institutions' deposit displayed a relatively high growth and increased annually by 21.5%. In the composition of deposit, share of commercial and other institutions' deposit and official institutions' deposit increased. When the development of deposit in respect of domestic and abroad residents is considered, it is observed that share of deposit held by domestic residents increased and its increase rate is relatively high.

**Table 2.2-5: Development of Deposit**

	TL Million					Annual Increase %		Share %	
	2008	2009	Mar.10	2010	Mar.11	2010	Mar.11	2010	Mar.11
Savings (TL+FX)	278.110	306.535	314.380	349.832	361.924	14,1	15,1	58,8	57,5
Commercial and Other Corp. Deposit	84.728	107.175	112.300	148.631	136.393	38,7	21,5	21,0	21,7
Official Institutions' Deposit	17.359	21.279	24.138	32.763	38.832	54,0	60,9	4,5	6,2
Precious Metal Deposit Ac count	344	1.200	1.255	2.377	3.455	98,1	175,3	0,2	0,5
FX Deposit Account	60.396	62.699	64.619	66.681	70.438	6,3	9,0	12,1	11,2
<b>Total Domestic Resident Deposit</b>	<b>440.937</b>	<b>498.889</b>	<b>516.692</b>	<b>600.284</b>	<b>611.043</b>	<b>20,3</b>	<b>18,3</b>	<b>96,7</b>	<b>97,1</b>
Savings	6.865	8.238	8.058	9.503	9.972	15,4	23,8	1,5	1,6
Commercial and Other Corp. Deposit	772	546	1.860	1.541	1.432	182,0	-23,0	0,3	0,2
Precious Metal Deposit Ac count	10	20	17	21	29	9,5	67,3	0,0	0,0
FX Deposit Account	6.015	6.928	7.660	5.687	6.864	-17,9	-10,4	1,4	1,1
<b>Total Abroad Resident Deposit</b>	<b>13.662</b>	<b>15.732</b>	<b>17.594</b>	<b>16.753</b>	<b>18.298</b>	<b>6,5</b>	<b>4,0</b>	<b>3,3</b>	<b>2,9</b>
<b>Total Deposit</b>	<b>454.599</b>	<b>514.620</b>	<b>534.286</b>	<b>617.037</b>	<b>629.340</b>	<b>19,9</b>	<b>17,8</b>	<b>100,0</b>	<b>100,0</b>

Increase in loans from external markets continued also as of March 2011. In the distribution of the said liabilities, the increase in favor of syndication loans continued and became clear, while securitization loans continued to decrease in volume as well. Depending on this, average maturity of liabilities from external markets shortened slightly.

**Table 2.2-6: Development of Resources from Foreign Markets**

	USD Billion							Weighted Average Maturity (year)	
	2008	2009	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11	Mar.10	Mar.11
Syndication Loans	10,7	7,4	9,2	10,0	10,5	14,2	15,4	1,0	1,2
Securitization Loans	12,4	10,9	10,3	9,7	9,5	9,3	8,8	6,3	6,5
Total	23,2	18,2	19,4	19,7	20,0	23,5	24,2	3,8	3,2
Syndication Loans/Total Liabilities (%)	2,5	1,5	1,9	2,0	1,9	2,5	2,6		
Securitization Loans/Total Liabilities (%)	2,9	2,2	2,1	1,9	1,7	1,6	1,5		

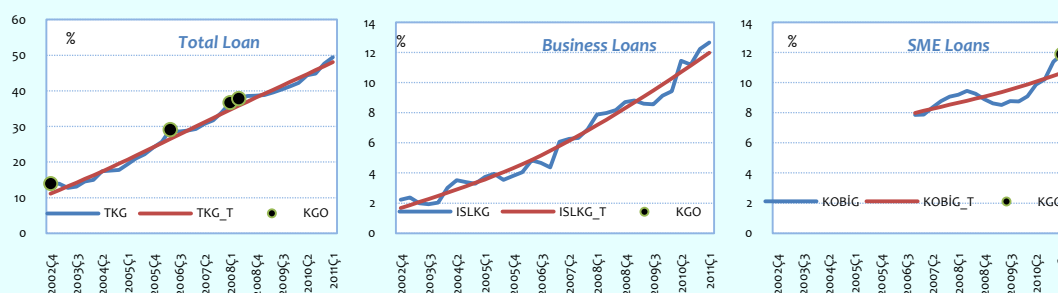
**Box 3: Credit Expansion**

It is evaluated that whether or not credit expansion indicates a development to the extent to pose a risk, credit expansion exceeds 1.5 standard deviations from trend value of loan/GDP ratio in the same period and the said ratio exceeds 10% of the annual growth rate.

According to the charts prepared in line with this definition, blue line indicates loan/GDP ratio belonging to the related item, red line indicates the trend of the ratio concerned and dots indicates the periods for credit expansion corresponding the definition.

In this context, when credit expansion is analyzed as of March 2011, it is observed that other consumer loans and SME loans items experienced a high growth in accordance with the definition and in other credit types did not exceed the said tranches.

**Chart: Periods Suitable to Credit Expansion Definition**





Total off-balance sheet transactions grew by 13% in the last three-month period. While share of non-cash loans and liabilities in off-balance sheet transactions decreased, share of commitments continue to increase. As of March 2011, 47% of commitments were constituted of derivative transactions. Revocable credit commitments within other commitments had a share by 58%, while share of credit card expenditure commitments continue to decrease and realized as 18%. Ratio of in-balance sheet transactions to assets increased to 112.1% in March 2011.

**Table 2.2-7: Development of Off-Balance Sheet Transactions**

	TL Million						% Change as to Previous Period		Ratio to Balance-Sheet, %		
	2008	2009	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11	Dec.10	Mar.11	Mar.11	
Tot. Off-Balance Sheet Tran. (1+2)	476.043	579.786	612.729	883.106	937.771	1.038.093	1.172.815	10,7	13,0	103,1	112,1
Non-Cash Loans and Liab. (1)	125.837	134.036	140.827	148.024	153.211	163.570	175.593	6,8	7,4	16,2	16,8
Letters of Guarantee	93.291	101.606	105.574	109.427	115.737	120.367	126.689	4,0	5,3	12,0	12,1
Letters of Credit	23.863	22.762	25.263	27.471	25.865	30.393	33.742	17,5	11,0	3,0	3,2
Other	8.684	9.668	9.989	11.126	11.608	12.810	15.161	10,4	18,4	1,3	1,4
Commitments (2) (3+4)	350.206	445.750	471.903	735.082	784.561	874.524	997.223	11,5	14,0	86,9	95,3
Derivative Transactions (3)	196.392	251.205	299.612	371.096	381.549	391.029	463.482	2,5	18,5	38,8	44,3
Other Commitments (4)	153.815	194.546	172.291	363.986	403.012	483.494	533.741	20,0	10,4	48,0	51,0
Credit Card Expen. Limit Comm.	65.138	74.844	77.235	79.143	82.431	89.326	97.052	8,4	8,6	8,9	9,3
Comm. for Use Guaranteed											
Credit Allocation	26.875	30.483	32.247	18.133	19.866	22.748	24.783	14,5	8,9	2,3	2,4
Payment Comm. for Cheques.	16.627	21.258	30.226	28.534	30.657	31.059	33.715	1,3	8,6	3,1	3,2
Revocable Credit Alloc. Comm.	16.488	16.488	17.785	184.273	204.876	290.487	311.686	41,8	7,3	28,9	29,8
Forward Asset Purch. Comm.	7.663	15.326	1.060	15.076	20.400	12.001	19.288	-41,2	60,7	1,2	1,8
Other	21.023	36.145	13.738	38.828	44.782	37.875	47.217	-15,4	24,7	3,8	4,5

When the development in banking sector through its leverage ratios is analyzed, it is observed that ratio of liabilities to assets increased in the last period. The share of deposit within liabilities displayed a slight decrease. Although liabilities/equities ratio increased in the last period, it is rather below global banks average by about 30%, which indicates a significant flexibility. A limited decreasing tendency was observed in the share of deposit under 12 months, which is considered positive in respect of asset/liability mismatch of the sector.

**Table 2.2-8: Banking Sector Leverage Ratios**

%	2002	2003	2004	2005	2006	2007	2008	2009	2010	Mar.11
Liabilities/Asset Total	87,9	85,8	85,0	86,6	88,1	87,0	88,2	86,7	86,6	87,1
Equities/ Asset Total	12,1	14,2	15,0	13,4	11,9	13,0	11,8	13,3	13,4	12,9
Deposit/Assets	64,9	62,2	62,4	61,8	61,6	61,4	62,1	61,7	61,3	60,1
Liabilities / Equities	728	603	567	644	739	667	748	652	648	675
Short-Term Deposit (<12Months)/Liability Total				59,3	59,8	59,7	60,2	59,7	59,6	58,0
Auto Financing Ratio*	140,3	127,6	107,4	123	100,4	96,5	93,8	107,9	123,3	150,9

Auto financing ratio= (Income Reserves-Accumulated Loss)/Paid-Up Capital\*100

Total profit of the banking sector decreased by 13.1% in March 2011 when compared to the same period of previous year, and became TL 5.5 billion. The Central Bank increased required reserves for deposit and stopped interest payment for these reserves, causing net interest incomes to decrease by 13.9% when compared to the same period of previous year. The fact that the sector increased its net non-interest incomes by 17.7% when compared to the same period of previous year is considered important in respect of sustainable profitability.

**Table 2.2-9: Development of Selected Income Statement Items**

(TL Million)	2006	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11	% Cha. Comp. to Prev. Year	
										Mar.10	Mar.11
Interest Incomes	55.848	70.553	85.768	85.291	19.579	38.693	57.182	77.396	19.294	-16,0	-1,5
Interest Expenses	34.612	44.503	54.786	43.488	8.971	18.532	28.631	38.725	10.156	-33,1	13,2
Net Interest Income (Expense)	21.237	26.049	30.982	41.803	10.608	20.162	28.551	38.671	9.138	7,2	-13,9
Total Non-Interest Incomes	14.670	16.025	17.422	19.214	5.843	11.957	17.567	23.704	6.615	13,6	13,2
Total Non-Interest Expenses	18.748	22.218	26.593	27.890	7.443	14.523	21.923	30.201	8.499	8,6	14,2
Net Non-Interest Income (Expense)	-4.079	-6.193	-9.170	-8.676	-1.601	-2.566	-4.356	-6.497	-1.884	-6,5	17,7
Tot. Other Non-Interest Income (Exp.)	-571	1.312	272	1.910	325	388	603	312	683	-62,4	110,3
Tax Provision	3.122	3.350	3.218	4.970	1.532	2.823	3.838	5.149	1.407	28,3	-8,2
Net Profit (Loss)	11.364	14.859	13.421	20.182	6.299	12.169	16.849	22.128	5.476	22,1	-13,1

#### Box 4: Capital Structure of the Banking Sector

March 2011		Public, Private and Global Distribution of Shareholders (%)				
Name of Bank	Share within Total Assets (%)	Share of Domestic Public (%)	Share of Domestic Private (%)	Global Share (%)		
				Proportional Share	Stock Market Share	Total
1 ADABANK	0,0	100,0	0,0	0,0	0,0	0,0
2 AKBANK	10,9	0,0	64,2	10,3	25,6	35,9
3 AKTİF YATIRIM BANKASI	0,2	0,0	100,0	0,0	0,0	0,0
4 ALBARAKA TÜRK KATILIM BANKASI	0,8	0,0	21,6	61,9	16,6	78,5
5 ALTERNATİFBANK	0,5	0,0	100,0	0,0	0,0	0,0
6 ANADOLUBANK	0,5	0,0	100,0	0,0	0,0	0,0
7 ARAP TÜRK BANKASI	0,2	15,4	20,6	64,0	0,0	64,0
8 ASYA KATILIM BANKASI	1,4	0,0	65,7	0,0	34,3	34,3
9 BANK MELLAT	0,3	0,0	0,0	100,0	0,0	100,0
10 BANKPOZİTİF KREDİ VE KALKINMA BANKASI	0,2	0,0	30,2	69,8	0,0	69,8
11 BİRLEŞİK FON BANKASI	0,1	100,0	0,0	0,0	0,0	0,0
12 CREDIT AGRICOLE YATIRIM BANKASI TÜRK	0,0	0,0	0,0	100,0	0,0	100,0
13 CİTİBANK	0,6	0,0	0,0	100,0	0,0	100,0
14 DENİZBANK	2,8	0,0	0,2	75,0	24,9	99,9
15 DEUTSCHE BANK	0,2	0,0	0,0	100,0	0,0	100,0
16 DİLER YATIRIM BANKASI	0,0	0,0	100,0	0,0	0,0	0,0
17 EUROBANK TEKFEN	0,4	0,0	30,0	70,0	0,0	70,0
18 FİNANSBANK	3,8	0,0	0,2	58,2	41,6	99,8
19 GSD YATIRIM BANKASI	0,0	0,0	100,0	0,0	0,0	0,0
20 HABİB BANK LİMİTED	0,0	0,0	0,0	100,0	0,0	100,0
21 HSBC BANK	2,1	0,0	0,0	100,0	0,0	100,0
22 ING BANK	2,0	0,0	0,0	100,0	0,0	100,0
23 İLKER BANKASI	1,0	100,0	0,0	0,0	0,0	0,0
24 İMKB TAKAS VE SAKLAMA BANKASI	0,2	6,8	90,5	2,7	0,0	2,7
25 JP MORGAN CHASE BANK NATIONAL ASSOCIATION	0,0	0,0	0,0	100,0	0,0	100,0
26 KUYEY TÜRK KATILIM BANKASI	1,0	0,0	19,8	80,2	0,0	80,2
27 MERRILL LYNCH YATIRIM BANK	0,0	0,0	0,0	100,0	0,0	100,0
28 FİBABANKA	0,1	0,0	0,0	100,0	0,0	100,0
29 NUROL YATIRIM BANKASI	0,0	0,0	100,0	0,0	0,0	0,0
30 SOCIETE GENERALE S.A.	0,1	0,0	0,0	100,0	0,0	100,0
31 ŞEKERBANK	1,3	0,0	57,5	0,0	42,5	42,5
32 T.C. ZİRAAT BANKASI	14,5	100,0	0,0	0,0	0,0	0,0
33 TAİB YATIRIM BANKASI	0,0	0,0	0,7	99,3	0,0	99,3
34 TEKSTİL BANKASI	0,3	0,0	88,9	0,0	11,1	11,1
35 TURKISH BANK	0,1	0,0	60,0	40,0	0,0	40,0
36 TÜRKLAND BANK	0,2	0,0	0,0	100,0	0,0	100,0
37 TÜRK EKONOMİ BANKASI	3,0	0,0	33,1	46,0	20,9	66,9
38 TÜRKİYE FİNANS KATILIM BANKASI	1,1	0,0	35,3	64,7	0,0	64,7
39 TÜRKİYE GARANTİ BANKASI	11,9	0,0	32,7	26,1	41,2	67,3
40 TÜRKİYE HALK BANKASI	7,5	75,0	3,0	0,0	22,0	22,0
41 TÜRKİYE İHRACAT KREDİ BANKASI	0,6	100,0	0,0	0,0	0,0	0,0
42 TÜRKİYE İŞ BANKASI	13,3	0,0	78,6	0,0	21,4	21,4
43 TÜRKİYE KALKINMA BANKASI	0,2	99,1	0,9	0,0	0,0	0,0
44 THE ROYAL BANK OF SCOTLAND N.V.	0,1	0,0	0,0	100,0	0,0	100,0
45 TÜRKİYE SİNAİ KALKINMA BANKASI	0,8	0,0	71,1	0,0	28,9	28,9
46 TÜRKİYE VAKIFLAR BANKASI T.A.O.	7,3	74,8	4,6	0,0	20,6	20,6
47 WESTLB A.G.	0,1	0,0	0,0	100,0	0,0	100,0
48 YAPI VE KREDİ BANKASI	8,6	0,0	44,8	38,1	17,1	55,2
<b>Total (%)</b>	<b>100,0</b>	<b>27,5</b>	<b>31,5</b>	<b>21,5</b>	<b>19,5</b>	<b>40,9</b>

Shares other than the shares of global (proportional and stock market share) and public (Turkey), and including the real persons, foundations collateral funds, stock market shares not held by foreign residents and similar shareholders.

In the Turkish banking sector, while the share of global banks by their asset size has increased nearly by 0.7 points within the last three months, the share of public banks has decreased by 0.4 points and the share of domestic private banks has decreased by 0.3 points. The share of global capital has increased to 40.9% as of March 2011 when the proportional shares and stock market shares are added.

Among the incomes of the banking sector, the share of net interest incomes has decreased notably by 2.3 points within the last three months. The decreasing tendency of the share of interest expenses within total expenses is still continuing. The share of the sum of the sector's fees and commission incomes and banking services incomes within total incomes has kept its increasing tendency. Within the last three months, the sector's non-interest expenses to incomes ratio has increased, which is considered as a negative development for profitability.

**Table 2.2-10: Income Statement Ratios**

(%)	2005	2006	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11
Net Int. Inc. After Prov./Total Incomes (1)	29,6	27,4	26,3	24,7	30,0	35,4	33,6	32,4	32,7	30,4
Int. Exp. /Total Exp. (2)	55,6	64,9	66,7	67,3	60,9	54,7	56,1	56,6	56,2	54,4
Bank. Serv. Inc. and Fees and Com. /Tot. Incomes	12,1	11,9	11,8	12,1	13,0	13,4	13,7	13,9	14,2	14,7
Tot. Non-Int. Exp./Total Expenses	44,4	35,1	33,3	32,7	39,1	45,3	43,9	43,4	43,8	45,6
Tot. Non-Int. Exp. /Total Incomes	35,2	26,8	25,3	25,7	26,2	28,9	28,5	29,1	29,7	32,0

(1) Total Incomes: Interest Incomes + non-interest incomes + total other non-interest incomes (2) total expenses: interest expenses + non-interest expenses

When the cash flow table used in the analysis of cash flows in banking sector is evaluated as of December 2010; it is seen that cash and equivalent assets have decreased by TL 5 billion comparing to end-2009. The decrease of net cash flow coming from banking activities by TL 53 billion was effective in this development.

**Table 2.2-11: Cash Flows in Banking**

(TL Million)	Dec.08	Dec.09	Dec.10	Cha. 09-10
Cash Flows Concerning Banking Activities				
Activity Profit of Asset and Lia. Subject to Banking Act. Before Valuation (I) (1+2)	9.905	32.924	28.450	-4.474
Items providing Cash Entry from Main Activities (1)	99.093	112.717	102.467	-10.250
Interests Collected	82.036	89.631	78.252	-11.379
Dividends Collected	622	511	463	-48
Fees and Commissions Collected	10.840	11.691	12.322	631
Other Earnings	2.288	4.403	3.801	-602
Collections from NPL Accounted as Loss	3.307	6.479	7.628	1.149
Items Creating Cash Outflow from Main Activities (2)	-89.188	-79.793	-74.017	5.775
Interests Paid	-53.332	-45.157	-38.875	6.282
Cash Payments to Personnel and Service Providers	-11.931	-13.779	-17.334	-3.554
Taxes Paid	-3.411	-6.264	-5.919	344
Other Payments	-20.513	-14.592	-11.889	2.703
Change in Assets and Lia. Subject to Banking Activities (II)	41.086	38.859	-9.687	-48.546
Net Cash Flow Coming from Banking Activities (I+II)	50.991	71.783	18.762	-53.021
Cash Flows Concerning Investment Activities	0	0	0	0
Net Cash Flow Coming from Investment Activities	-31.209	-66.521	-23.611	42.910
Cash Flows Concerning Financing Activities	0	0	0	0
Net Cash Flow Coming from Financing Activities	2.230	-1.128	3.317	4.444
Effect of Change in Exchange Rate on Cash and Cash Equivalent Assets	1.925	-330	361	691
<b>Net Increase in Cash and Cash Equivalent Assets</b>	<b>23.980</b>	<b>3.726</b>	<b>-1.171</b>	<b>-4.897</b>
Cash and Cash Equivalent Assets in the Beginning of the Period	59.331	83.025	79.287	-3.738
Cash and Cash Equivalent Assets by the End of the Period	82.372	86.824	78.116	-8.709

Note: The Cash Flow Table was composed by consolidating the periodical reporting made by Independent Audit Institutions to BRSA.

Another operational ratio of the banking sector, the total operating expenses/total expenses ratio has decreased by 1.3 points within the last one year, while the personnel expenses/total operating expenses ratio and (personnel expenses+ provision for termination indemnities)/total assets ratio have not changed considerably. Personnel cost per personnel and provision for termination indemnities per personnel ratios have both increased comparing to the same period of previous year.

**Table 2.2-12: Development of Activity Ratios in Banking Sector**

%	2002	2003	2004	2005	2006	2007	2008	2009	Mar.10	2010	Mar.11
Total Operating Expenses/Total Expenses	27,1	31	38,1	42,9	33,9	32,2	31,3	38	43,5	42,1	42,2
Personnel Expenses/Total Operating Expenses	30,2	32,3	32,9	28,9	36	37,2	38,5	38,4	38,5	40,1	38,6
Personnel Expenses + Prov. For Ter. Indem. /Total Assets	1,8	1,7	1,6	1,4	1,3	1,4	1,4	1,3	0,3	1,2	0,3
Personnel Expenses +Prov. For Ter. Indem. /Nbr. Of Pers. (TL Thousand)	30,1	34,2	37,6	40,7	44,1	48,5	54,2	57,2	15,0	62,6	16,1
Provision for Termination Indemnities /Nbr. Of Personnel (TL)	1.209	1.741	1.207	1.218	854	935	644	659	283	1.778	329
Total Operating Expense =Non-Interest Expenses –General Reserve Provision											

## 2.3 Outlook of Non-Banking Financial Sector

Total assets of the non-banking financial sector<sup>2</sup> have grown by 23.1% within the first quarter of 2011 comparing to the same period of previous year. Accordingly, total assets of the asset management companies, consumer financing companies, factoring companies and financial leasing companies have increased respectively by 64.8%, 42.1%, 29.8% and 10.5% in March 2011 comparing to the same period of previous year. When the percentage share inside the non-banking financial sector is analyzed, it is observed that the weight of financial leasing and factoring companies tends to reduce, but the share of consumer financing and asset management companies keeps increasing. Accordingly, while the shares of financial leasing sector and factoring sector have decreased respectively from 42.7% and 39.2% to 42.4% and 38.5% in March 2011 comparing to previous period, the shares of consumer financing companies and asset management companies have increased respectively from 16.3% and 1.8% to 17.2% and 2%. Especially as of the first quarter of 2009, the share of financial leasing companies has decreased, while the share of factoring companies has increased and got close to the share of financial leasing companies.

### 2.3.1 Financial Leasing

Total assets of financial leasing sector have shown a growth by 10.5% as of the first quarter of 2011 when compared to the same period of previous year. The increase of receivables and banks account of the sector was effective in this development. Accordingly, while the receivables have increased by 8% within the first quarter of 2011 comparing to the same period of previous year, their share within the balance sheet has decreased by 1.6 points comparing to the same period of previous year. Among the balance sheet items, the placements made to banks keep increasing and the share of this item within balance sheet has grown by 0.9 points comparing to the same period of previous year. When the resource structure of the sector is analyzed comparing to previous year, it is observed that the loans received and equities have increased. The growth by 15.1% in equities and the increase in its share of balance sheet are remarkable. Within the period of March 2011, the off-balance sheet accounts to balance sheet ratio has increased by 8.4 points comparing to the same period of previous year, while the weight of guarantees taken followed under off-balance sheet transactions has reduced, but the weight of derivative financial instruments and custody accounts has increased.

**Table 2.3-1: Financial Leasing Sector Fundamental Balance Sheet Sizes**

(TL Billion)	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11	Cha.* (%)	Share within Balance Sheet (%)	
										Mar.10	Mar.11
Receivables	11,7	13,9	10,8	10,1	9,8	9,7	10,2	10,9	8,0	70,6	69,0
NPLs	0,5	1	1,5	1,5	1,5	1,5	1,5	1,5	-2,9	10,7	9,2
Reserves	0,3	0,4	0,6	0,6	0,6	0,7	0,7	0,7	20,4	4,5	4,6
Banks	0,8	1,4	1,6	2	2,2	2,3	3,1	2,3	16,4	13,9	14,7
<b>Total Assets</b>	<b>13,7</b>	<b>17,1</b>	<b>14,7</b>	<b>14,3</b>	<b>14,2</b>	<b>14,4</b>	<b>15,8</b>	<b>15,8</b>	<b>10,5</b>	<b>100,0</b>	<b>100,0</b>
Loans Granted	10,3	13,7	10,7	10,3	10,0	10,0	11,2	11,0	7,2	71,9	69,9
Equities	2,5	3	3,5	3,5	3,7	3,7	3,9	4,0	15,1	24,6	25,5
Total Off-Bal. Sheet Accounts	8,1	15,6	16,8	16,8	17,2	17,3	18,6	20,0	18,8	117,9	126,2
Guarantees Taken	n.d.	13,4	14,1	13,9	13,8	13,4	13,7	14,2	1,8	97,5	89,5
Guarantees Given	n.d.	0,7	0,7	0,7	0,7	0,7	0,7	0,7	5,6	4,6	4,7
Der. Financial Inst.	n.d.	0,9	1,1	0,9	1,0	1,3	1,9	2,3	152,1	6,3	14,4
Custody Accounts	n.d.	0,4	0,8	1,2	1,6	1,9	2,2	2,6	114,0	8,4	16,2

\*Comparing to the same period of previous year

Net term profit of the sector has increased nearly by 5.8% within the first quarter of 2011 comparing to the same period of previous year. The increase by 1% in non-financial leasing incomes and the decrease by 0.2% in non-financial leasing expenses were effective in this development. It is observed that the financial leasing income and expenses items of the sector are considerably low comparing to non-financial leasing incomes and expenses. Accordingly

<sup>2</sup> Total of Financial Leasing Sector, Factoring Sector, Consumer Financing Sector and Asset Management Companies.

the non-financial leasing incomes of the financial leasing sector are above the activity incomes of the sector.

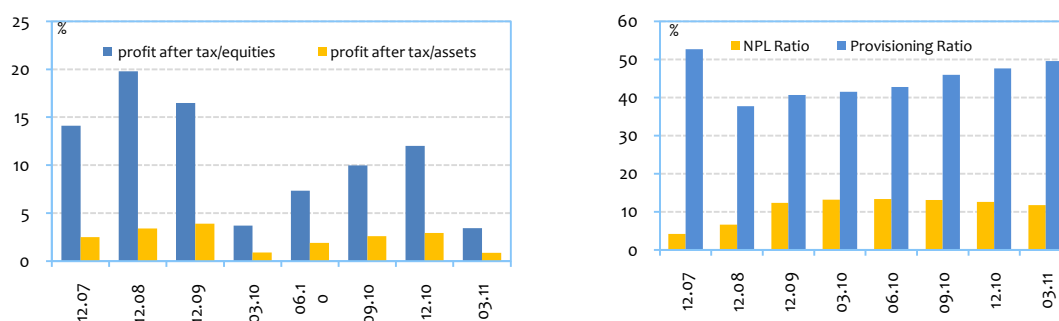
**Table 2.3-2: Financial Leasing Companies Selected Items of Income Statement**

(TL Million)	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11	Cha.* (%)
Financial Leasing Incomes	1.287	1.538	1.358	289	546	805	1.035	268	-7,5
Non- Financial Leasing Incomes	1.695	6.147	5.032	824	1.729	2.886	3.722	831	0,8
Financial Leasing Expenses	589	807	620	110	208	318	423	115	4,1
Non- Financial Leasing Expenses	1.769	5.846	4.882	725	1.530	2.611	3.341	724	-0,2
Activity Expenses	246	223	222	59	110	164	229	66	10,8
Tax Provision	10	8	-270	20	35	51	63	15	-26,8
Net Profit/Loss of Period	348	590	576	130	268	373	463	138	5,8

\*Comparing to the same period of previous year

It is observed that, within the first three months of 2011, the sector could not show its performance of the first quarter of 2010 regarding return on assets and return on equities. The highest rate for return on assets is seen by the end of 2009 with 3.9%. NPL ratio of the financial leasing sector had a slight decreasing tendency as of mid-2010. The decrease of this ratio is considered as a positive development; however this ratio is still high when compared to the values within the period of 2007-2009/03. The provision ratio has increased remarkably as of the third quarter of 2009 but still hasn't reached its level of 2007.

**Chart 2.3-1: Financial Leasing Sector Performance Indicators**



The share of financial leasing sector within the non-banking financial sector is in a decreasing tendency since the first quarter of 2009. No considerable changes were observed in the sector's FX risk. The number of companies bearing a loss has decreased by 5 to 4 within the first quarter of 2011.

**Table 2.3-3: Financial Leasing Sector Soundness Indicators**

(%)	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11
Share within Non-Banking Sector	54,5	57,9	49	47,1	44,8	43,1	42,7	42,4
Receivables/Equities Ratio	4,7	4,7	3,1	2,9	2,7	2,6	2,6	2,7
Profit After Tax /Equities	14,1	19,8	16,5	3,7	7,3	10,0	12,0	3,4
Profit After Tax /Assets	2,5	3,4	3,9	0,9	1,9	2,6	2,9	0,9
NPL Ratio	4,2	6,6	12,3	13,2	13,4	13,1	12,6	11,8
Reserve Ratio	52,7	37,7	40,7	41,5	42,8	45,9	47,6	49,6
FX Assets /Assets	70,9	79,2	73,2	70,1	69,9	67,4	67,5	73,0
FX Liabilities /Liabilities	72,6	76,7	68	65,3	64,0	60,8	61,0	64,8
On-Balance Sheet FX Net Position/Equities	-9,4	14,1	21,8	19,6	22,9	25,4	27,0	32,4
Off-Balance Sheet FX Net Position/Equities	167,8	339,9	315,3	317,2	306,2	293,3	313,7	319,8
Transaction Limit Ratio (<30)	5,9	5	3,8	3,2	3,0	2,9	3,0	3,0
Nr. of Companies Bearing a Loss (Nbr.)	20	4	5	7	7	9	9	4

When the service webs in financial leasing sector are analyzed, a recession is observed within the first three quarter of 2011 comparing to the same period of previous year. Within the first quarter, the numbers of branches and representative offices have decreased while the number of personnel has increased comparing to the same period of previous year. On the other hand, the numbers of customers and contracts have decreased respectively by 17.3% and 11.1%.

**Table 2.3-4: Financial Leasing Sector Operational Indicators**

(Number)	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11	Change*
Nr. Of Branches	10	18	18	17	16	16	16	16	-1 (Nr.)
Nr. Of Rep. Offices	65	80	76	75	72	69	69	68	-7 (Nr.)
Nr. Of Personnel	1557	1427	1280	1271	1287	1286	1286	1280	9 (Nr.)
Nr. Of Customers	n.d.	73.577	60.010	56.750	54.741	51.716	50.428	46.950	-17,3 (%)
Nr. Of Contracts	n.d.	121.627	98.596	92.337	89.251	84.806	82.615	82.127	-11,1 (%)

\*Comparing to the same period of previous year

### 2.3.2 Factoring

The asset growth rate of the factoring sector kept its level in previous period as of March 2011, while the sector has grown by 29.3% comparing to the same period of previous year. The receivables item of which the share within the assets of the sector is 86.5% has grown by 36.4% within the last 12 months. Within the period of March 2011, the increase of loans granted is realized as 31.7% comparing to the period of March 2010. On the other hand, when the developments in off-balance sheet accounts are analyzed, it is seen that while the guarantees taken have increased by 40.5% and derivative instruments by 103.4% comparing to previous year, the custody accounts have decreased by 22.9%. While the share of guarantees taken and custody accounts among off-balance sheet accounts have decreased comparing to the same period of previous year, the weight of derivative financial instruments has increased.

**Table 2.3-5: Factoring Sector Fundamental Balance Sheet Sizes**

(TL Billion)	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11	Cha. * (%)	Share within Balance Sheet (%)	
										Mar.10	Mar.11
Receivables	6,2	5,6	8,4	9,1	10,4	11,4	12,4	12,4	36,4	82,1	86,5
NPLs	0,3	0,5	0,5	0,5	0,5	0,7	0,5	0,5	6,3	4,5	3,7
Reserves	0,2	0,4	0,4	0,4	0,4	0,5	0,4	0,5	13,2	3,9	3,2
Banks	0,4	1,1	1,1	1,1	1,0	1,0	1,2	0,9	-21,8	10,0	6,0
<b>Total Assets</b>	<b>7,6</b>	<b>7,8</b>	<b>10,5</b>	<b>11,1</b>	<b>12,3</b>	<b>13,4</b>	<b>14,5</b>	<b>14,4</b>	<b>29,3</b>	<b>100,0</b>	<b>100,0</b>
Loans Granted	4,9	4,9	7,6	8,2	9,3	10,2	11,1	10,8	31,7	74,3	75,2
Equities	2	2,4	2,5	2,5	2,7	2,8	3,0	3,0	21,3	23,0	21,1
Total Memorandum Accounts	23,4	30,6	28,3	30,1	33,8	34,5	37,9	34,0	12,9	272,1	236,7
Fac. Trans. Risk of which is not Undertaken	n.d.	3,9	2,4	2,7	3,0	2,6	3,1	3,2	16,7	24,3	22,0
Guarantees Taken	n.d.	15,6	10,5	11	10,9	13,1	17,4	15,5	40,5	99,7	107,7
Derivative Financial Instruments	n.d.	1,4	1	1,1	1,9	2,2	1,9	2,2	103,4	9,8	15,6
Custody Accounts	n.d.	7,9	12,8	13,6	15,6	14,9	12,7	10,5	-22,9	123,4	73,1

\* Comparing to the same period of previous year

The profitability performance of the factoring sector was positive within the first quarter of 2011 comparing to the same period of previous year like it had within the last quarter of 2010. Period profit of the sector has increased by 4.7% comparing to the same period of previous year. Among the income items, the factoring incomes have increased by 25% while non-factoring incomes have decreased by 30.3%.

**Table 2.3-6: Factoring Companies Selected Income Statement Items**

(TL Million)	2007	2008	2009	Mar.10	Jun.10	Sept.10	Dec.10	Mar.11	Chan. *(%)
Factoring Incomes	1.531	1.757	1.358	329	699	1.098	1.514	411	25,0
Non Factoring Incomes	2.203	1.926	1.708	460	998	1.754	2.945	321	-30,3
Factoring Expenses	620	808	527	148	314	495	685	189	28,1
Non Factoring Expenses	2.285	1.838	1.649	426	926	1.651	2.720	304	-28,6
Activity Expenses	265	345	315	86	184	279	390	104	20,7
Tax Provision	78	53	96	16	44	58	87	18	10,9
Net Period Profit/Loss	427	440	327	98	194	295	390	103	4,7

\* As to the Same Period of the Previous Year

The ratio of profit after tax to equities is approximately 13%. The NPL ratio has increased to 4.1% from 4% as to the previous period.

**Chart 2.3-2: Factoring Sector Performance Indicators**



The share of factoring companies in non banking financial sector has been in a decreasing trend as of the third quarter of 2010. It is seen that on-balance sheet exchange rate risk has slightly decreased in March 2011 period. As a positive development, number of companies which bared a loss decreased to 10 by decreasing 4 in the first quarter of 2011 as to the previous quarter.

**Table 2.3-7: Factoring Sector Soundness Indicators**

(%)	2007	2008	2009	Mar.10	Jun.10	Sept.10	Dec.10	Mar.11
The Share in Non Banking Financial Sector	30,0	26,3	34,9	36,5	38,8	40,2	39,2	38,5
The Ratio of Receivables/Equities	3,1	2,4	3,4	3,6	3,9	4,0	4,2	4,1
Profit Following Tax/Equities	21,3	18,5	13,1	3,9	7,3	10,5	13,1	3,4
Profit Following Tax/Assets	5,6	5,6	3,1	0,9	1,6	2,2	2,7	0,7
NPL	4,0	8,2	5,9	5,2	4,7	5,5	4,0	4,1
Provision Ratio	87,0	77,0	83,7	84,8	85,2	73,7	85,3	85,2
FX Assets /Assets	11,6	15,4	8,2	6,9	7,8	8,7	9,1	13,1
FX Liabilities /Liabilities	24,0	35,1	16,9	16,1	16,2	17,0	17,5	19,7
In Balance Sheet FX Net Position/Equities	-46,9	-64,6	-36,6	-40,0	-39,0	-39,6	-41,2	-31,2
Off Balance Sheet FX Net Position/Equities	40,3	175,3	189,7	184,8	209,8	196,6	188,6	266,4
Transaction Limit Ratio (<=30)	3,3	2,3	3,5	3,7	4,1	4,3	4,4	4,2
Number of Firm Made Loss (Unit)	13	13	15	15	14	17	14,0	10,0

In parallel with asset growth performance of the sector, the increase was realized in the number of branches, representative offices and personnel. The number of branches has increased by 2 and the number of representative offices and personnel has increased by 45 and 627 respectively. The increase in number of customers and contracts were 31.85 and 22.4% respectively in March 2011 as to the same period of the previous year.

**Table 2.3-8: Factoring Sector Operational Indicators**

(Unit)	2007	2008	2009	Mar.10	Jun.10	Sept.10	Dec.10	Mar.11	Change*
Number of Branch	16	20	26	27	27	27	28	29	2(Unit)
Number of Representative Office	119	128	116	139	155	163	175	184	45 (Unit)
Number of Personnel	2.912	3.009	2.959	3.051	3.229	3.445	3.557	3.678	627 (Unit)
Number of Customer	v.y.	50.228	40.997	46.750	50.869	53.747	57.094	61.602	31,8 (%)
Number of Contract	v.y.	146.558	65.952	72.082	68.732	75.142	89.516	88.259	22,4 (%)

\* As to the same period of previous year.

### 2.3.3 Consumer Financing

Total assets of consumer financing sector have continued to expand in the first quarter of 2011 also. The weight of receivables item in assets has upsurged the ratio of 84.1%, as the same period of the previous year, by 90.7% in March 2011. There is a decrease by 14.5% in NPL in this period. In spite of a positive development in respect of asset quality, the balance sheet share of equities has decreased to 7.8% from 9.2%. Loans received in liabilities have increased by 39.6% in March 2011 as to the same period of the previous year. The increase emanated from guarantees taken in off-balance sheet accounts has been effective in the growth on off-balance sheet accounts.

**Table 2.3-9: Consumer Finance Sector Balance Sheet Main Sizes**

(TL Billion)	2007	2008	2009	Mar.10	Jun.10	Sept.10	Dec.10	Mar.11	Change.* (%)	Share of balance Sheet (%)	
										Mar.10	Mar.11
Receivables	3,7	4	3,9	3,8	4,1	4,6	5,4	5,8	53,5	84,1	90,7
NPL	0,1	0,3	0,4	0,3	0,3	0,3	0,3	0,3	-14,5	7,5	4,0
Provisions	0,1	0,1	0,1	0,2	0,2	0,2	0,2	0,2	-11,9	3,4	2,7
Banks	0	0,3	0,3	0,5	0,4	0,3	0,4	0,4	-18,0	10,0	6,4
<b>Total Assets</b>	<b>3,9</b>	<b>4,7</b>	<b>4,5</b>	<b>4,5</b>	<b>4,7</b>	<b>5,1</b>	<b>6,1</b>	<b>6,4</b>	<b>42,9</b>	<b>100,0</b>	<b>100,0</b>
Loans Taken	3,2	3,7	3,6	3,5	3,6	3,9	4,5	4,9	39,6	76,8	76,0
Equities	0,3	0,4	0,4	0,4	0,4	0,5	0,5	0,5	25,4	9,2	7,8
Total Off-Bal.Sheet Accounts	3,3	0,9	2,5	1,9	2,5	3,4	4,4	4,4	129,8	41,1	67,9
Guarantees Taken	v.y.	0,2	1,2	1,3	1,6	2,1	2,9	3,2	149,4	28,3	50,4
Derivative Financial Instruments	v.y.	0,7	0,9	0,5	0,8	1,0	1,2	1,1	122,6	12,0	17,3

\* As to the Same Period of the Previous Year

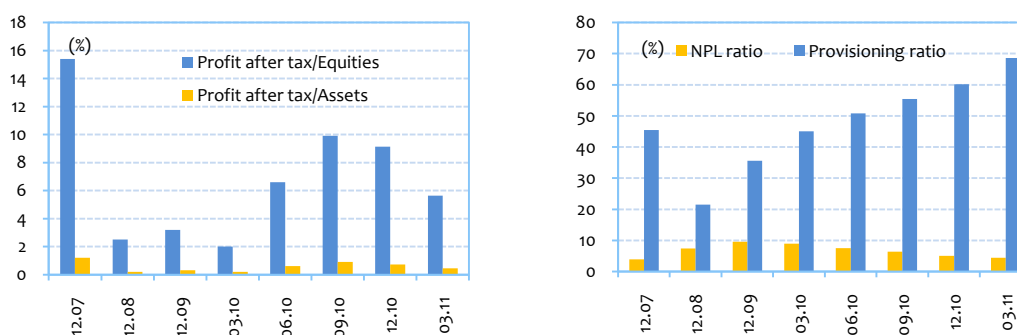
Net period profit of consumer financing sector has shown an increase amounting to 245.2% as to the previous year. An increase in consumer financing incomes was experienced by 15.2% in March 2011 as to the same period of the previous year. Consumer financing expenses have increased by 19.6% in the same period. Consumer financing income and expenses are progressing in close levels and are behind operating incomes and expenses amounts.

**Table 2.3-10: Consumer Finance Companies Income Statement Selected Items**

(TL Million)	2007	2008	2009	Mar.10	Jun.10	Sept.10	dec.10	Mar.11	Change.* (%)
Consumer Finance Incomes	565,4	688	666,8	154,4	307,3	469,7	643,5	177,8	15,2
Non Consumer Finance Incomes	288	1515	540	100,1	236	278,2	344,6	123,1	23,0
Consumer Finance Expenses	441,4	490,8	457,2	97,4	201,7	303,8	412,2	116,5	19,6
Non Consumer Finance Expenses	258,4	1523	523,4	100,3	226,7	261,9	323,5	104,4	4,1
Activity Expenses	80,1	138	118,1	25,3	54,5	85,8	142,2	31,2	23,3
Tax Provision	27,9	11,6	12,5	4	2,6	11,8	16,0	8,9	123,6
Net Period Profit/Loss	45,6	9,5	13,3	8,2	29,2	46,0	43,0	28,3	245,2

\* As to the Same Period of the Previous Year

Profitability indicators of the sector have been following a positive conduct as of the first quarter of 2010. The decrease in NPL ratio is affecting positively the asset structure of the sector. On the other hand, there is a stable increase in provision ratios as of 2008.

**Chart 2.3-3: Consumer Finance Sector Performance Indicators**

An increase is observed in the share of consumer financing sector in non banking financial sector as of the first quarter of 2010. There is an increase in respect of FX risk as of the first quarter of 2011. The fact that FX assets and liabilities continue its decreasing trend in balance sheet of the sector as of the beginning of 2009 is indicating that confidence to TL is continuing. There is no change in the number of loss making companies in the first quarter of 2011. But when considered the number of companies operating in sector is 11, it is noticeable that the number of loss making companies is 4.

**Table 2.3-11: Consumer Finance Sector Soundness Indicators**

(%)	2007	2008	2009	Mar.10	June.10	Sept.10	Dec.10	Mar.11
The Share in Non Bank Financial Sector	15,5	15,8	15,1	14,9	14,8	15,2	16,3	17,2
Receivables/ Equities	12,4	10,6	9,5	9,1	9,2	9,9	11,6	11,6
Following Tax Profit/Equities	15,4	2,5	3,2	2	6,6	9,9	9,1	5,6
Profit Following Tax /Assets	1,2	0,2	0,3	0,2	0,6	0,9	0,7	0,4
NPL Ratio	3,9	7,4	9,6	8,9	7,5	6,4	5,0	4,4
Provision Ratio	45,5	21,5	35,6	45	50,8	55,4	60,2	68,6
FX Assets /Assets	17,7	9,3	8,1	7,6	5,7	5,1	3,9	3,7
FX Liabilities/Liabilities	30	43,9	42,7	34,8	32	31,0	28,9	27,2
In Balance Sheet FX Net Position/Equities	-163,1	-432	-380,7	-295,2	-279,7	-283,0	-322,0	-301,5
Off Balance Sheet FX YP Net Position/Equities	184,3	82,3	180,5	128,8	146,9	153,9	233,2	218,4
Transition Limit Ratio (<30)	12,2	10,8	10	9,4	9,9	10,4	11,7	12,3
Number of Firms Made Loss	1	4	4	4	2	5	4	4

The number of branches and representative offices which are operational indicators of consumer financing sector did not change, while the numbers of personnel, customers and representative offices keep increasing. 58 more personnel were employed in the sector in the first quarter of 2011 as to the same period of the previous year. There is an increase approximately by 24% in the number of customers and contracts.

**Table 2.3-12: Consumer Finance Sector Operational Indicators**

(Unit)	2007	2008	2009	Mar.10	Jun.10	Sept.10	Dec10	Mar.11	Change*
Number of Branch	3	3	1	1	1	1	1	1	0 (Nr)
Number of Representative Office	0	0	0	0	0	0	0	0	0 (Nr)
Number of Personnel	474	544	512	509	514	538	551	567	58 (Nr)
Number of Customer	v.y.	357.475	229.676	220.181	225.150	238.113	261.905	272.861	23,9 (%)
Number of Contract	v.y.	371.965	242.441	232.217	233.035	251.324	276.208	287.576	23,8 (%)

\* As to the Same Period of Previous Year

### 2.3.4 Asset Management

It can be seen that the growth in the sector was 52.5% in last 12 months period when asset management companies' main balance sheet sizes are evaluated in March 2011. While the increase especially seen in banks and other financial institutions account was determinative in the said development, the balance sheet share of this item has increased to 17.1% from 8.6%. While the provisions were increased by 14.7%, the share of balance sheet has decreased to 15.6% from 20.8% in the same period. The share of balance sheet has decreased to 26.2% from 30.7% in spite of the fact that the equities have increased by 30% in the liability structure of the sector. The fact that the growth in equities was behind the growth in total assets was effective in the decrease of balance sheet share. Similarly it is seen that the ratio of off balance sheet accounts to balance sheet has regressed in last one year due to the decrease of the share of balance sheet of custody accounts. While balance sheet shares have decreased, there is an increase amounting to 21.3% and 16% in custody accounts and off-balance sheet accounts respectively in the first quarter of 2011 as to the previous year.

**Table 2.3-13: Asset Management Companies Main Balance Sheet Sizes**

(TL Million)	2007	2008	2009	Mar.10	Jun.10	Sept.10	Dec.10	Mar.11	Change. *(%)	Balance Sheet Share Mar.10	Mar.11
Banks and Other Financial Institutions	28,5	40,9	39,6	41,5	56,9	74,7	103,5	125,0	201,4	8,6	17,1
Loans Taken Over	34,7	17,9	190,2	254,6	236,9	235,9	344,3	0,0	-100,0	53,0	0,0
NPL Taken Over	90,6	311	198,7	261,7	256,7	249,2	277,9	683,8	161,2	54,5	93,4
Provisions	33,2	7,8	96,2	99,7	103,3	110,1	108,9	114,4	14,7	20,8	15,6
<b>Total Assets</b>	<b>241,3</b>	<b>369,8</b>	<b>355,5</b>	<b>480,3</b>	<b>484,5</b>	<b>491,7</b>	<b>657,7</b>	<b>732,3</b>	<b>52,5</b>	<b>100,0</b>	<b>100,0</b>
Loans Taken	157,1	287,1	218	297,1	310,3	307,7	466,7	525,2	76,7	61,9	71,7
Equities	72,9	74,8	126,6	147,5	150,5	166,0	178,6	191,7	30,0	30,7	26,2
Total Off Balance Sheet Accounts	123,9	188,5	118,9	180,9	185,6	185,7	214,0	209,9	16,0	37,7	28,7
Letter of Guarantees	2,4	16,3	10,1	18,5	22,1	23,0	22,1	13,1	-29,4	3,9	1,8
Commitments	5,8	5,6	0	2,9	2,9	2,1	2,3	0,8	-73,9	0,6	0,1
Derivative Financial Instruments	41,4	28,2	7,8	7,8	7,6	7,6	7,6	7,6	-3,1	1,6	1,0
Custody Accounts	72,9	137	101	151,7	153,0	153,0	181,9	184,0	21,3	31,6	25,1

\* As to the same period of the previous year.

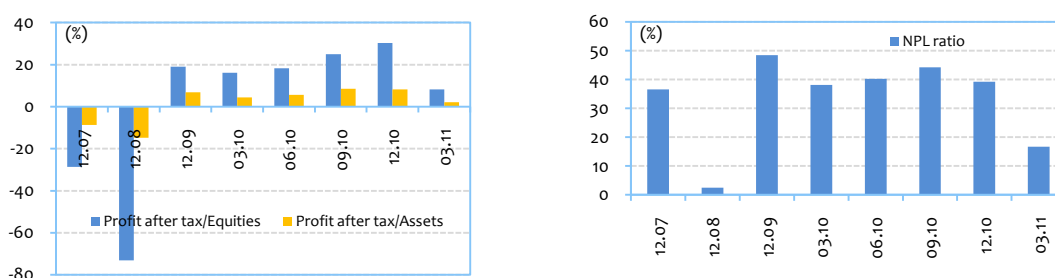
The profitability performance of asset management companies has decreased in March 2011 while it was in increasing trend as of September 2009. The profit of the sector has decreased by 19.3% in the first quarter of 2011 as to the same period of the previous year. The decrease in fees and commission incomes was determinative in this development. It is seen that loss emanating from FX transactions was increased in this period.

**Table 2.3-14: Asset Management Companies Selected Income Statement Items**

(TL Million)	2007	2008	Dec.09	Mar.10	Jun.10	Sept.10	Dec.10	Mar.11	Change (%) Mar.2010- Mar.11
Interest Incomes	6,3	2,4	129,8	34,9	82,2	126,0	179,4	65,1	86,7
Interest Expenses	12,1	15,5	27,3	7,6	15,6	26,2	35,8	11,0	45,3
Wage and Commission Incomes	1,5	2,4	-4,4	0,2	-7,0	-12,0	-16,0	-8,6	-4399,5
Other Activity Incomes	18,8	24,2	61,4	6	25,8	56,2	79,4	23,3	288,4
Other Activity Expenses	31,4	36,5	38	9,3	47,3	86,2	139,3	42,0	351,6
FX Transactions Profit/Loss	4,626	-33,276	-7,362	-0,71	-2,5	2,5	1,3	-2,6	265,6
Tax Provisions	-1,6	-2,2	1	0,3	0,8	4,4	0,6	2,0	573,3
Net Period Profit/Loss	-20,9	-54,7	24,1	19,6	27,4	41,6	54,2	15,8	-19,3

There is a decrease in respect of ROE and ROA in asset management sector in the first three months of 2011. When provisioning rates are considered, it can be seen that provisioning rate of factoring, financial leasing and consumer financing companies is in the lowest level in March 2011. This can be respected as a normal development when considered that asset management firms are effective by definition in providing collection following taken over of NPL and in taking bad loans out of banking system by its role in finance sector and operational principles.

**Chart 2.3-4: Asset Management Sector Performance Indicators**



The share of asset management companies in non bank financial sector has increased to 2% from 1.8% in the first quarter of 2011 as to the previous quarter. The ratio of equities to receivables is progressing in the same levels with the previous period in March 2011. When the share of FX transactions is observed, it is seen that the ratio of FX liabilities to liabilities has shown an increase as of the first quarter of 2010. The ratio of On-Balance Sheet FX Net Position/Equities has increased slightly in the last quarter and it is bearing a risk concerning its maintainability. As a positive development, there are no loss-making companies in the sector.

**Table 2.3-15: Asset Management Sector Soundness Indicators**

(%)	Dec.07	Dec.08	Dec.09	Mar.10	June.10	Sept.10	Dec.10	Mar.11
The Share in Non Banking Financial Sector	0,9	1,2	1,2	1,5	1,5	1,5	2,0	2,0
Equities/Receivables Ratio	58,2	22,8	32,5	23,4	30,5	34,2	28,7	28,0
Following Tax Profit/Equities	-28,7	-73,1	19	16,2	18,2	25,0	30,3	8,2
Following Tax Profit/Assets	-8,7	-14,8	6,8	4,4	5,7	8,5	8,2	2,2
Provisioning Ratio	36,6	2,5	48,4	38,1	40,2	44,2	39,2	16,7
FX Assets/ Assets	55,1	19,1	17,7	14,7	13,1	13,8	13,2	11,9
FX Liabilities/Liabilities	67,2	78,4	16	30,6	27,6	26,1	29,4	30,5
In Balance Sheet FX Net Position/Equities	-40,1	-292,9	4,9	-58,4	-46,6	-36,6	-59,9	-70,9
Number of Firms Made loss (Nr.)	2	4	3	2	3	1,0	0,0	0,0
Total Number of Firms (Nr.)	5	5	6	6	6	6	6	6

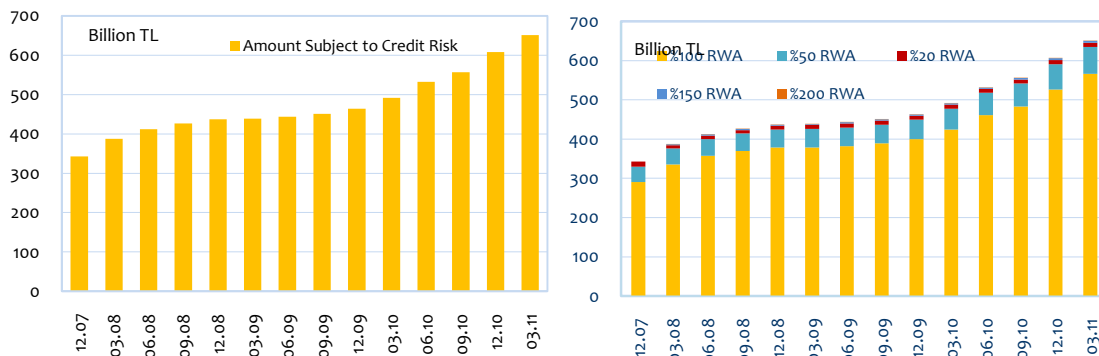
### 3 RISK, CAPITAL and PROFITABILITY EVALUATION

#### 3.1 Risk Analysis

##### 3.1.1 Credit Risk

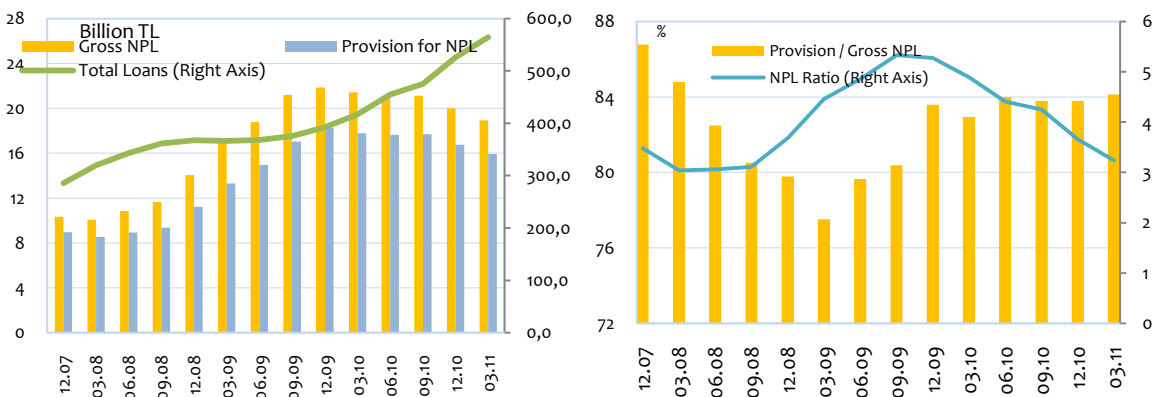
As of the first quarter of 2011, amount subject to credit risk of banking sector increased by 7.2% when compared to the previous quarter in parallel with the increasing loan volume and reached to TL 651 billion. When compounds of amount subject to credit risk are analyzed, it is seen that 100% risk weighted assets which comprise 87% of risk weighted assets increased by 7.6% in this period.

**Chart 3.1-1: Amount Subject to Credit Risk and Risk Weighted Assets**



The decreasing trend seen in follow-up ratios (FR) as of 2010 is continuing in the first quarter of 2011 in parallel with the decrease in non-performing loans (NPL) and the increase in loan amount. FR decreased by 3.2% as of March 2011. In this period, NPL amount decreased by 5.4% to TL 18.9 billion when compared to the previous quarter. The coverage ratio of provisions to NPLs increased by 0.3 points as of March 2011 when compared to the previous quarter and realized as 84.1%.

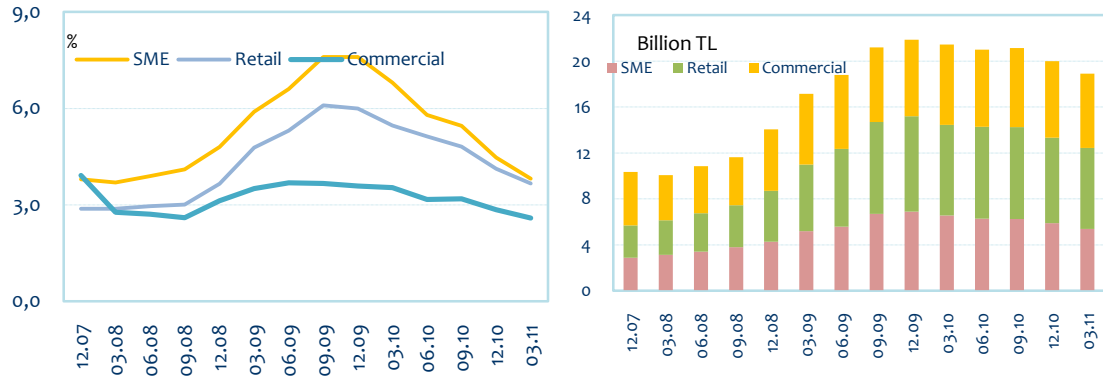
**Chart 3.1-2: Development of NPLs and FR**



When loans are analyzed by types, it is seen that the decreasing trend observed in NPL and FR of SME loans, personal loans and commercial loans is continuing as of the first quarter of 2011. NPL values of SME loans, personal loans and commercial loans decreased by 8.7%, 5.1% and 2.8%, respectively in this period. Follow-up ratios decreased to 3.8% for SME loans, 3.7% for personal loans and 2.6% for commercial loans in the same period. The fact that the mentioned

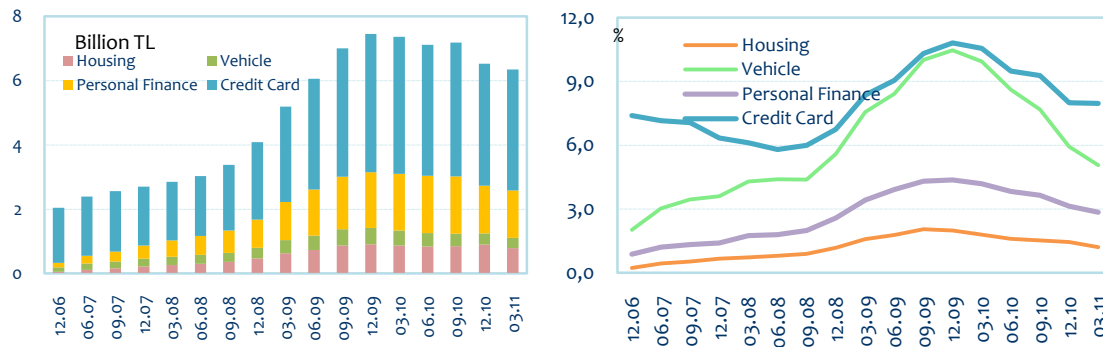
ratios are the lowest values realized as of the beginning of 2009 and are close to level in pre-crisis period is a sign for increasing loan quality.

**Chart 3.1-3: NPL and FR Developments of Personal and Commercial Loans as well as SME Loans**



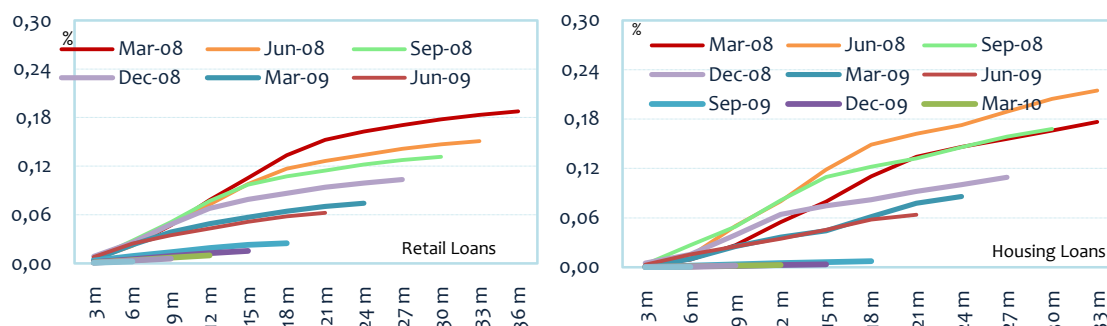
When personal loans are analyzed, it is seen that NPL amount relating to housing, vehicle, consumer loans and credit cards decreased by 11.2%, 11.4%, 0.9% and 0.5% respectively as of March 2011 when compared to end-2010. In parallel, FR relating to the mentioned loans also keeps their decreasing trend. Follow-up ratios decreased to 8% for credit cards, 5.1% for vehicle loans, 1.2% for housing loans, 2.9% for consumer loans. The mentioned ratios are the lowest values observed since end-2008. In the light of these indicators, although there is recovery after the global crisis, it is seen that follow-up ratios for credit cards and vehicle loans are relatively high and it is important to increase the quality of loans in order to diminish the credit risk exposed by banking sector in the following period.

**Chart 3.1-4: NPL and FR Development of Personal Loans**



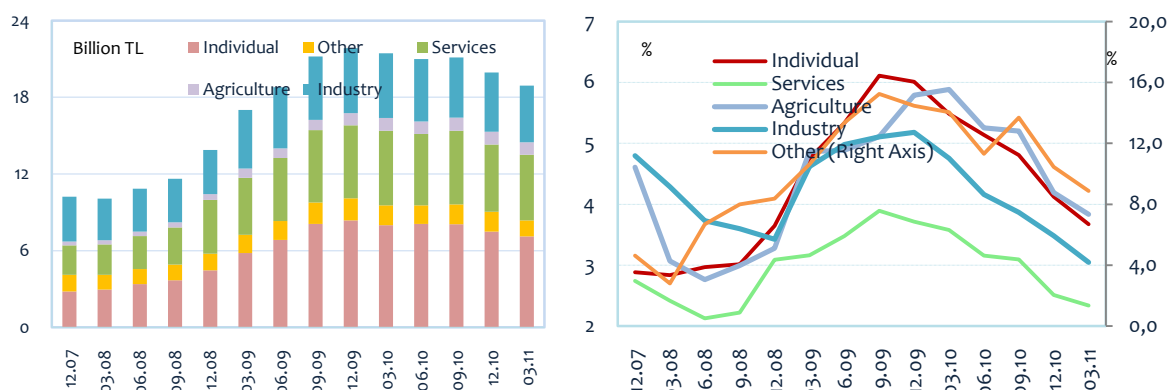
When aging analysis of personal loans is made, it is seen that loans granted after the global economic crisis turned to follow-up slower than loans granted in crisis periods. Especially the speed of turning to follow-up of the loans granted after the first half of 2009 decreased remarkably. This situation explains the decrease in NPLs and FR. When the said analysis is made for housing loans, a similar scene is seen, as well.

**Chart 3.1-5: Aging Analysis of Personal Loans**



Monitoring the quality of loans extended on sector basis is important for the analysis of credit risk. Accordingly, when the distribution of NPL amount of loans extended on sector basis is analyzed, it is seen that NPL amount for all sectors decreased as of the first quarter of 2011. It is remarkable that NPL amount relating to personal loans and loans granted to industry sector decreased by 4.9% and 4.2% respectively in March 2011 when compared to the previous quarter. When follow-up ratios of loans are analyzed by sector basis, it is seen that the mentioned ratio decreased to 3.7% for personal loans, 2.3% for services sector loans, 3.8% for agricultural sector loans, 3% for industry sector loans. The decreases observed in NPL amounts and follow-up ratios are deemed as positive in the context of recovery in loan quality.

**Chart 3.1-6: Sectoral Distribution of NPLs and FR**



In the first quarter of 2010, FR values belonging to sub-sectors having the highest share in NPL decreased in all sectors when compared to the previous period. While the share of NPLs relating to other individual loans and housing loans in total NPLs decreased in this period when compared to the previous period, the share of other items in NPLs increased. While credit cards still have the highest share by 20% in total NPLs, it is followed by other individual loans by 11.8% and textile and textile products industry by 8.2%. When considered that FR relating to credit cards has a share of 8% in cash loans, it is thought that more decrease in mentioned ratio will have positive aspects on credit risk of banking sector. Similarly, FR relating to loans granted to textile sector is rather high when compared to other sectors.

**Table 3.1-1: Sub-sectors having the Highest Share in NPLs**

(%)	Sep.10			Dec.10			Mar.11		
	Share in NPL	FR	Share in Cash Loans	Share in NPL	FR	Share in Cash Loans	Share in NPL	FR	Share in Cash Loans
Credit Cards	19,9	8,9	8,8	19,4	7,9	8,3	20,0	7,5	8,0
Consumer and Other Loans	12,1	4,3	11,8	12,1	3,7	11,5	11,8	3,1	11,9
Textile and Textile Products Ind.	7,2	10,0	2,8	7,8	9,0	2,9	8,2	7,9	3,1
Wholesale Commerce and Brokerage	8,0	5,6	5,9	6,5	4,1	5,6	6,8	3,7	5,8
Construction	5,7	4,0	5,9	6,4	4,1	5,6	6,7	3,7	5,7
Agriculture	4,6	5,3	3,6	4,7	4,2	4,0	4,9	3,8	4,0
Individual Housing Loans	4,4	1,6	11,3	4,3	1,4	11,2	4,2	1,2	11,3
Retail Commerce and Personal Products	3,6	4,7	3,2	3,6	4,1	3,1	3,7	3,6	3,2
Food, Beverages and Tobacco Ind.	3,1	3,8	3,4	3,1	3,3	3,4	3,4	3,3	3,3

The decreasing trend in NPL increased its volume in end-2010 and the mentioned amount decreased by TL 1.1 billion to TL 18.9 billion as of the first quarter of 2011 when compared to the previous year-end. When collateralization structure of NPL is analyzed, it is seen that the share of unguaranteed NPL amount in total NPL is realized as 49.7%. The ratio of guaranteed portion of NPLs to total loan amount increased by 0.8 points to 35.7% in the first quarter of 2011 when compared to end-2010.

**Table 3.1-2: Collateral and Guarantee Information Related to NPL**

	Gross bal. Sheet (TL Billion)			Proportional Distr. By Collateral (%)			Total Collateral /Loans (%)		
	Eyl.10	Ara.10	Mar.11	Eyl.10	Ara.10	Mar.11	Eyl.10	Ara.10	Mar.11
	Total NPLs	21,1	20,0	18,9	100,0	100,0	100,0	36,3	36,5
With I. Group Collateral	0,1	0,1	0,1	0,3	0,4	0,3	63,4	64,1	74,1
With II. Group Collateral	6,9	6,7	6,3	32,5	33,5	33,3	74,5	72,3	74,0
With III. Group Collateral	3,2	3,1	2,8	15,3	15,5	14,7	71,6	71,4	66,8
With IV. Group Collateral	0,4	0,4	0,4	1,8	1,8	2,0	54,5	53,3	51,8
Without Collateral	10,6	9,8	9,4	50,1	48,8	49,7			
Re-Structured Receivables	0,7	0,6	0,6						
Receivables Attached to a new Redemption Plan	0,8	0,8	0,7						

As of the first quarter of 2011, loan volume keeps its growth trend and the mentioned growth is more faster than the equity growth of the sector. This situation has caused the possible increase of the effect of losses which may occur in cash and non-cash loans on the equity. The effect of loss which may occur if 1% of cash loans turn into loss on the equity has increased by 0.20 points to 3.47% as of the first quarter of 2011 and realized as 3.27%. It is estimated that in this case, the sector's CAR will decrease by 0.53 points. When it is envisaged that this loss by 1% is realized in non-cash loans, it is estimated that the sector's CAR will be decreased by 0.14 points. Even if a loss by 10% is realized in cash and non-cash loans, the sector's capital would be above the legal limits, which shows that the sector has a sound capital structure.

**Table 3.1-3: Credit Risk Stress Test Results**

Scenario	Dec.10				Mar.11			
	Loss (TL Million)	CAR (%)	CAR Change (Point)*	Loss/ Equ(%)	Loss (TL Million)	CAR (%)	CAR Change (Point)*	Loss/ Equ. (%)
1% of Cash Loans Turn into Loss	4.268	17,67	-0,53	3,27	4.603	16,69	-0,53	3,47
5% of Cash Loans Turn into Loss	21.341	15,52	-2,68	16,39	23.017	14,52	-2,70	17,35
10% of Cash Loans Turn into Loss	42.682	12,73	-5,47	32,78	46.034	11,71	-5,51	34,71
1% of Non- of Cash Loans Turn into Loss	1.186	18,05	-0,15	0,91	1.257	17,08	-0,14	0,94
5% of Non- of Cash Loans Turn into Loss	5.930	17,46	-0,74	4,55	6.288	16,49	-0,73	4,74
10% of Non- of Cash Loans Turn into Loss	11.860	16,72	-1,48	9,11	12.577	15,76	-1,46	9,48

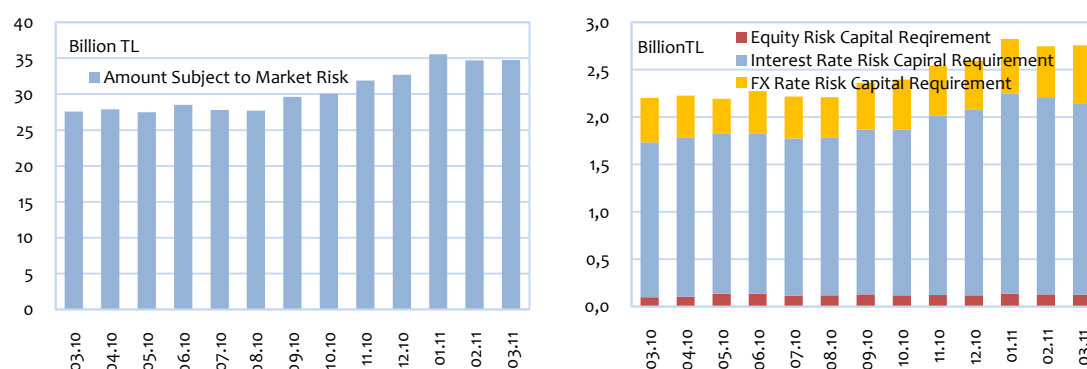
Note: The data of İller Bankası are excluded.

\* Average CAR of December 2010 period is 18.20%. Average CAR of March 2011 period is 17.22%.

### 3.1.2 Market Risk

In the first quarter of 2011, amount of banking sector subject to market risk increased by 6.2% to TL 34.8 billion when compared to the fourth quarter of 2010. When capital liability values relating to market risk compounds are analyzed, it is seen that sector's capital liability arising from exchange rate risk and interest rate risk increased by 19.6% and 2.9% to TL 611.5 and 2.021 million respectively in this period when compared to the previous period. Capital liability relating to stock position risk which decreased in the previous period increased by 6.1% to TL 127 million in the first quarter of 2011 when compared to the previous period.

**Chart 3.1-1: Amount Subject to Market Risk and Capital Liability**



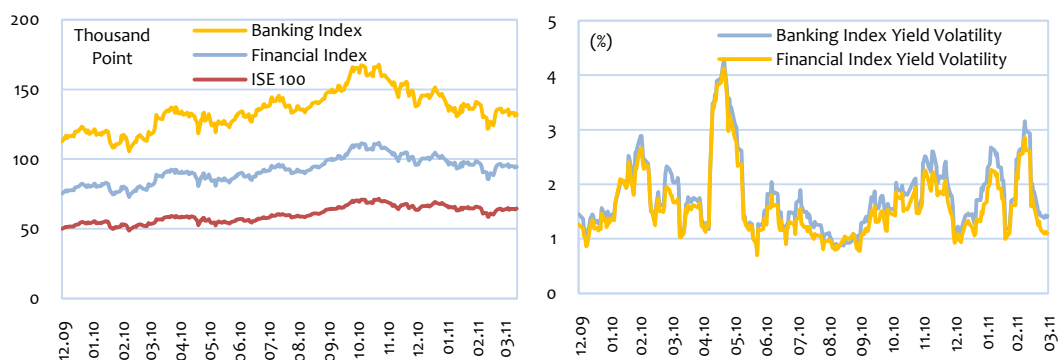
While the share of GS in banking sector commercial portfolio increased by 1.4 points to 87.4% in the first quarter of 2011 when compared to the previous quarter, the share of Eurobond decreased by 1 point to 8.2% when compared to the previous quarter. The share of stocks and investment funds by 0.4% did not change. When interest structure of sector's commercial portfolio is analyzed, it is seen that while the share of variable interest portfolio increased by 4.2 points to 51.8% in the first quarter of 2011 when compared to the fourth quarter of 2010, the share of fixed-interest portfolio decreased by 4.4 points to 46.9% when compared to the previous period. While the share of FX portfolio in commercial portfolio decreased by 1.6 points to 12.6% as of March 2011 when compared to December 2010, the share of TL portfolio increased by 87.4%.

**Table 3.1-4: Distribution of Banking Sector Commercial Portfolio**

(%)	December 2010			March 2011		
	TL	FX	Total	TL	FX	Total
GS	84,4	1,6	86,0	85,7	1,6	87,4
Variable Interest	45,1	0,0	45,1	49,4	0,0	49,4
Fixed Interest	38,6	1,6	40,2	35,4	1,6	37,0
Other	0,7	0,0	0,7	0,9	0,0	0,9
Eurobond	0,0	9,2	9,2	0,0	8,2	8,2
Variable Interest	0,0	0,0	0,0	0,0	0,0	0,0
Fixed Interest	0,0	9,2	9,2	0,0	8,2	8,2
Equity Share and Investment Fund	0,3	0,1	0,4	0,3	0,1	0,4
Other	1,1	3,2	4,4	1,4	2,6	4,0
Variable Interest	0,4	2,0	2,5	0,5	1,8	2,4
Fixed Interest	0,7	1,2	1,9	0,8	0,8	1,6
Other	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL	85,8	14,2	100,0	87,4	12,6	100,0
Variable Interest	45,6	2,0	47,6	49,9	1,8	51,8
Fixed Interest	39,3	12,0	51,3	36,2	10,6	46,9
Other	1,0	0,1	1,1	1,2	0,1	1,3

ISE 100 index, financial index and banking index decreased as of end-March 2011 when compared to end-December 2010. In the last quarter of 2010, yield volatility of financial index and banking index had a more fluctuating motion when compared to the first quarter of 2011.

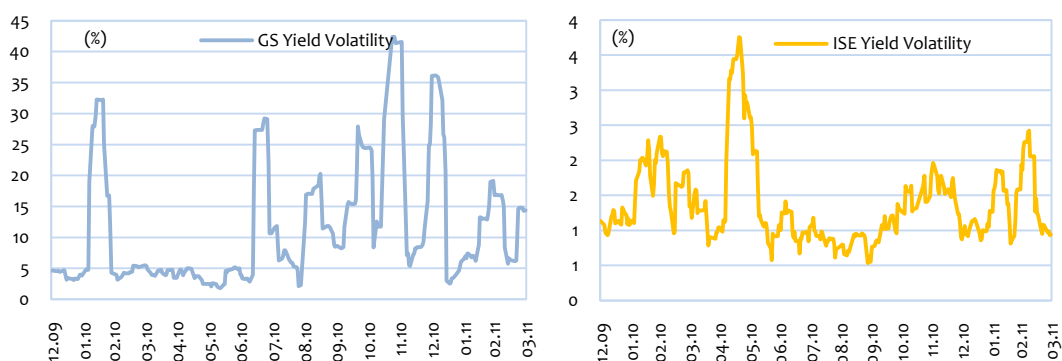
**Chart 3.1-2: ISE Financial and Banking Index and Yield Volatilities \***



Source: Bloomberg, \*Yield Volatility Flexibility is calculated using the nine-day active average method.

GS yield volatility which had a fluctuating motion in the last quarter of 2010 has a less fluctuating motion in the first quarter of 2011. ISE yield volatility which had an even motion in the last quarter of 2010 has a slight fluctuating motion in the first quarter of 2011. Especially in February and March 2011, there were significant fluctuations in ISE yield volatility.

**Chart 3.1-3: ISE and GS Yield Volatilities**



Source: Bloomberg, \*Yield Volatility Flexibility is calculated using the nine-days active average method.

By the impact of the decrease in banking sector fixed –interest GS portfolio by 10.9% in the first quarter of 2011 when compared to the last quarter of 2010 and the fact that there was not a significant change in equities of the sector when compared to the previous period, the reducing impact of the probable decreases in second hand GS prices on sector's capital diminished when compared to the previous period. The reducing impact of the probable decrease by 10% in second hand GS prices on the sector's capital which was 6% in December 2010 decreased to 5.3% in March 2011.

**Table 3.1-5: Impacts of Probable Changes in Second-hand GS Prices**

	March 2011 (TL Million)			Change in Second Hand GS Prices (%)					
	Commercial Portfolio	GS with Fixed Interest	Equity	-10	-5	-1	1	5	10
				Effect of Price Changes on the Capital (%)					
Deposit Banks	185.467	67.245	114.952	-5,8	-2,9	-0,6	0,6	2,9	5,8
DIB	3.446	1.485	14.472	-1,0	-0,5	-0,1	0,1	0,5	1,0
Total	188.913	68.730	129.424	-5,3	-2,7	-0,5	0,5	2,7	5,3
	December 2010 (TL Million)								
Deposit Banks	189.223	75.745	114.979	-6,6	-3,3	-0,7	0,7	3,3	6,6
DIB	3.140	1.392	14.109	-1,0	-0,5	-0,1	0,1	0,5	1,0
Total	192.363	77.137	129.088	-6,0	-3,0	-0,6	0,6	3,0	6,0

In March 2011, as a result of the remarkable decrease by 13.7% in fixed-interest Eurobond portfolio of banking sector when compared to December 2010 period, the reducing impact of probable 10% decrease in fixed-interest Eurobond prices on sector's capital decreased from 1.4% to 1.2% in the first quarter of 2011 when compared to the previous quarter.

**Table 3.1-6: Impacts of Probable Changes in Eurobond Prices**

	March 2011 (TL Million)			Change in Eurobond Prices %					
	Commercial Portfolio	Eurobond with Fixed Interest	Equity	-10	-5	-1	1	5	10
				Effect of Price Changes on the Capital (%)					
Deposit Banks	185.467	15.002	114.952	-1,3	-0,7	-0,1	0,1	0,7	1,3
DIB	3.446	306	14.472	-0,2	-0,1	0,0	0,0	0,1	0,2
Total	188.913	15.307	129.424	-1,2	-0,6	-0,1	0,1	0,6	1,2
	December 2010 (TL Million)								
Deposit Banks	189.223	17.441	114.979	-1,5	-0,8	-0,2	0,2	0,8	1,5
DIB	3.140	304	14.109	-0,2	-0,1	0,0	0,0	0,1	0,2
Total	192.363	17.746	129.088	-1,4	-0,7	-0,1	0,1	0,7	1,4

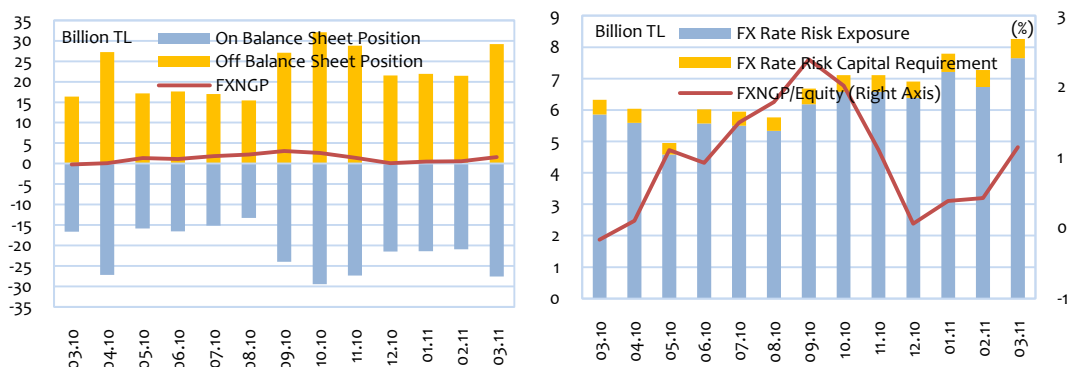
In the first quarter of 2011, the reducing impact of the probable decrease by 10% in stock and investment fund prices on sector's capital did not change when compared to the previous period and continued as 0,06%. In this period, the impact of related scenarios on bank capitals for deposit banks and D&I banks did not change when compared to the previous period.

**Table 3.1-7: Impacts of Probable Changes in Stock and Investment Fund Prices**

	March 2011 (TL Million)			Change in ES+IF Prices (%)					
	Commercial Portfolio	Stock and Investment Fund	Equity	-10	-5	-1	1	5	10
				Effect of Price Changes on the Capital (%)					
Deposit Banks	185.467	647	114.952	-0,06	-0,03	-0,01	0,01	0,03	0,06
DIB	3.446	88	14.472	-0,06	-0,03	-0,01	0,01	0,03	0,06
Total	188.913	735	129.424	-0,06	-0,03	-0,01	0,01	0,03	0,06
	December 2010 (TL Million)								
Deposit Banks	189.223	651	114.979	-0,06	-0,03	-0,01	0,01	0,03	0,06
DIB	3.140	86	14.109	-0,06	-0,03	-0,01	0,01	0,03	0,06
Total	192.363	736	129.088	-0,06	-0,03	-0,01	0,01	0,03	0,06

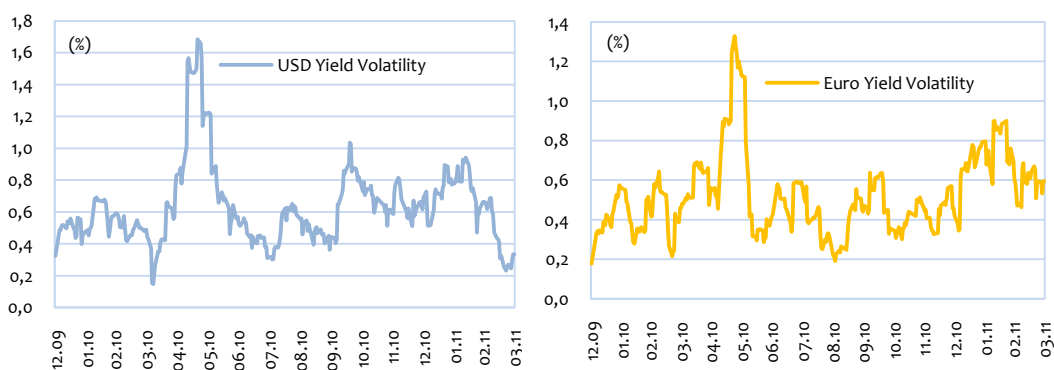
In March 2011 period, on-balance sheet FX position of banking sector continued to stay in short position and increased by 28.4% when compared to December 2010 from TL 21.5 billion to TL 27.6 billion. In the first quarter of 2011, off-balance sheet FX position of the sector continued to stay in long position and increased by 35.4% when compared to the previous quarter from TL 21.5 billion to TL 29.2 billion. FXNG which was TL 0.1 billion in the last quarter of 2010 reached to TL 1.6 billion in the first quarter of 2011. The amount subject to exchange rate of the sector increased by 19.6% to TL 7.6 billion in the first quarter of 2011 when compared to the previous quarter. FXNGP/Equities ratio which was 0.06% as of December 2010 increased to 1.14% as of March 2011.

**Chart 3.1-4: OBP, FXNGP and Exchange Rate Capital Liability**



In the first quarter of 2011, USD yield volatility continued to its slight fluctuating motion it had in the last quarter of 2010. Euro yield volatility which had an even motion in the last quarter of 2010 left its place to a slight fluctuating motion in the first quarter of 2011. In the mentioned period, USD and Euro yield volatility did not have significant fluctuations and it is a positive development.

**Chart 3.1-5: USD and Euro Yield Volatilities\***



Source: CBRT \* Yield Volatility Flexibility is calculated using the nine-days active average method.

While the reducing impact of probable changes in FX exchange rates in the first quarter of 2011 on banking sector's capital increased for deposit banks, D&IBs and for sector general when compared to the previous quarter, it decreased for participation banks. The reducing impact of a probable increase by 25% in the first quarter of the year on sector's capital increased from 3.9% to 5% when compared to the previous period. The reducing impact of a probable decrease by 20% in FX exchange rates on capital of participation banks operating with on-balance sheet FX long position decreased from 5.5% to 4.4% in March 2011 when compared to the previous period.

**Table 3.1-8: Impacts of Probable Changes in Exchange Rates**

	As of 25 March 2011 (USD Million)					Rate of Change in Exchange Rates (%)					
						-20	-10	1	5	25	50
	On-Balance Sheet Position (OBSP)	Equity (Eq.)	OBSP/Eq. (%)	FXNGP	FXNGP/Eq. (%)	Effect of Change in Exchange Rates on Capital (%)					
Deposit B.	-19.447	77.266	-25,2	921	1,2	5,0	2,5	-0,3	-1,3	-6,3	-12,6
DIB	469	9.436	5,0	21	0,2	-1,0	-0,5	0,0	0,2	1,2	2,5
Participation B.	777	3.536	22,0	52	1,5	-4,4	-2,2	0,2	1,1	5,5	11,0
Total	-18.201	90.238	-20,2	995	1,1	4,0	2,0	-0,2	-1,0	-5,0	-10,1
As of 31 December 2010 (USD Million)											
Deposit B.	-15.253	75.924	-20,1	-10	0,0	4,0	2,0	-0,2	-1,0	-5,0	-10,0
DIB	376	9.191	4,1	28	0,3	-0,8	-0,4	0,0	0,2	1,0	2,0
Participation B.	959	3.469	27,6	22	0,6	-5,5	-2,8	0,3	1,4	6,9	13,8
Total	-13.918	88.584	-15,7	40	0,0	3,1	1,6	-0,2	-0,8	-3,9	-7,9

### 3.1.3 Risks Arising from Derivative Transactions

The distribution of derivative transactions made by banking sector by the underlying shows that the weight of derivative transactions on money-FX and interest continued in the first quarter of 2011. In this period, while the share of money-FX derivatives increased moderately, the share of interest derivatives decreased.

**Table 3.1-9: Derivative Transactions by Type and Underlying**

%	December 2010					March 2011				
	Option	Forward	Futures	Swap	Total	Option	Forward	Futures	Swap	Total
Money-FX Derivatives	17,09	13,02	0,20	43,89	74,20	19,64	14,65	0,29	40,43	75,01
Interest Derivatives	3,40	0,01	2,37	17,22	23,00	2,89	0,00	0,54	18,34	21,78
Equity Share-Security Derivatives	0,13	-	0,08	-	0,21	0,20	-	0,03	-	0,23
Precious Metal Derivatives	0,16	0,35	0,24	0,06	0,82	0,09	0,44	0,16	0,17	0,86
Commodity Derivatives	-	0,01	0,01	0,05	0,06	0,00	0,00	0,05	0,06	0,12
Index Derivatives	0,12	-	-	-	0,12	0,16	-	0,00	-	0,16
Credit Default Derivatives	-	-	-	0,71	0,71	-	-	-	0,58	0,58
Total	20,89	13,38	2,90	61,93	99,11	22,98	15,10	1,08	59,58	98,73

In the valuation made by types, it is seen that the high share of swap transactions continues. In this period, while the share of swap and futures transactions decreased, the share of option and forward transactions increased.

**Table 3.1-10: Derivative Transactions by Maturity**

%	December 2010								March 2011							
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	5-10 Years	More than 10 Years		Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	5-10 Years	More than 10 Years	
Option	30,78	19,66	21,78	19,86	7,92	0,00	0,00		29,79	26,27	14,58	22,27	7,10	0,00	0,00	
Forward	43,58	23,63	17,97	12,01	2,33	0,47	0,00		44,13	25,15	11,15	15,60	3,61	0,36	0,00	
Future	53,20	19,57	8,71	18,52	0,00	0,00	0,00		16,83	27,94	54,00	1,23	0,00	0,00	0,00	
Swap	34,20	10,70	6,18	7,45	32,82	6,82	1,83		29,81	11,36	8,29	9,15	32,14	7,30	1,94	
Other	66,57	1,46	0,00	0,19	26,63	5,15	0,00		98,62	0,14	0,00	0,74	0,51	0,00	0,00	
Total	35,54	14,50	11,07	10,94	22,49	4,32	1,13		42,14	14,51	9,05	11,21	18,33	3,77	0,99	

When derivative transactions are analyzed by maturity structure, it is seen that maturities of derivative transactions started to shorten in 2011. As of end-2010, 50% of derivative transactions had a maturity of 3 months or shorter, this ratio increased to 56.7% in the first quarter of 2011. The weight of swap transactions continues in derivative transactions having maturity more than 1 year.

**Table 3.1-11: Appearance of Derivative Transactions by Transaction Purposes**

%	December 2010		March 2011	
	Held for Cash Flow Hedges	Held for Trading	Held for Cash Flow Hedges	Held for Trading
Option	0,67	99,33	0,4	99,6
Forward	0,02	99,98	0,01	99,99
Swap	0	100	0	100
Futures	9,81	90,19	8,86	91,14
Total	6,22	93,78	5,37	94,63

When distribution of derivative transactions by transaction purpose is analyzed, it is seen that the share of trading transactions increased in the first quarter of 2011. The share of trading derivative transactions in total derivative transactions is realized as 94.63% as of March 2011. 2.4% of money-FX swaps which has an important share in total amount and 23.49% of interest swaps are made for risk-protection.

**Table 3.1-11: Appearance of the Counter Parties of Derivative Transactions**

%	December 2010				March 2011			
	Banks	Non-Bank Fin. Institutions	Other Legal Entities	Natural Persons	Banks	Non-Bank Fin. Institutions	Other Legal Entities	Natural Persons
Option	52,44	1,89	25,04	20,63	54,33	2,28	24,74	18,65
Forward	40,93	4,68	47,56	6,83	41,65	3,82	47,31	7,22
Swap	70,53	27,38	0,67	1,41	48,53	44,88	3,01	3,58
Futures	89,08	3,08	7,75	0,09	89,39	3,09	7,46	0,05
Other	67,78	2,57	0,81	28,83	84,53	0,00	0,24	15,22
Total	74,31	3,74	16,37	5,58	73,59	3,43	17,34	5,64

When derivative transactions are analyzed in respect of counter parties, it is seen that the weight of Banks continue. It is noteworthy that share of banks especially in swap transactions have a rather high share in total amount. Another important development experienced as of the first quarter of 2011 is the decrease in the share of banks in futures transactions and the increase in the share of non-bank financial institutions. On the other hand, the increase in the share of other legal entities continues in the first quarter of 2011.

**Table 3.1-12: Domestic-Abroad Appearance of Counter Parties of Derivative Transactions**

%	December 2010		March 2011	
	Domestic	Abroad	Domestic	Abroad
Option	47,54	52,46	45,81	54,19
Forward	60,82	39,18	60,03	39,97
Futures	2,90	97,10	22,67	77,33
Swap	9,45	90,55	9,49	90,51
Other	32,22	67,78	18,05	81,95
Total	24,34	75,66	25,75	74,25

Whether or not derivative transactions belong to domestic or abroad residents indicates the high share of transactions residing abroad of the counter party within total transactions continue. As of March 2011, about 90% of swap transactions was made with persons residing abroad.

**Table 3.1-13: Derivative Transactions Over-the-Counter /Organized Market**

%	December 2010		March 2011	
	Over the Counter	Organized Market	Over the Counter	Organized Market
Option	100	0	100	0
Forward	100	0	100	0
Swap	100	0	100	0
Futures	0	100	0	100
Other	100	0	100	0
Total	97,1	2,9	98,02	1,08

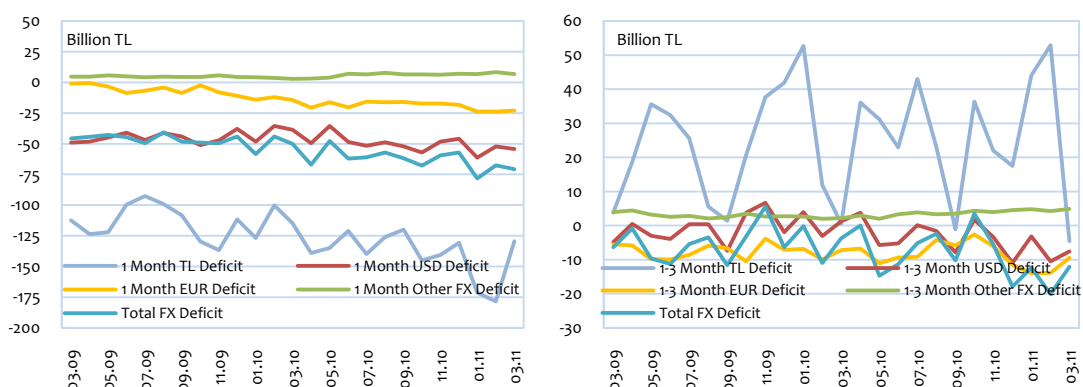
It is important that derivative transactions are carried out in over-the-counter or organized markets in respect of the evaluation of the risk they carry. Organized markets have a rather smaller counter party risk in comparison to over-the-counter markets due to the clearance and payments mechanisms and collateralization implementations. When it is analyzed whether or not derivative transactions are over-the-counter or organized, it is seen that the share of over-the-counter derivative transactions in total derivative transactions continued to increase in the

first quarter of 2011. Share of over-the-counter derivative transactions realized as 98.02%. In this analysis, it is assumed that all option transactions are over-the-counter.

### 3.1.4 Structural Interest Rate Risk<sup>3</sup>

In the first quarter of 2011, 1-month TL open position decreased when compared to the previous quarter, while 1-month USD, EUR and total FX open position increased. 1-3 months TL position which is in a close position as of December 2010 became an open position by March 2011. In the first quarter of the year, 1-3 months USD, EUR and total FX open position decreased when compared to the previous quarter. In March 2011 period, 1-month TL, 1-month USD, 1-month EUR and total FX had deficits by TL 129.5 billion, 54.2, 22.9 and 70.6, respectively; while 1-3 months TL, 1-3 months USD, EUR and total FX had surplus by TL 4.6, 7.6, 9.5 and 12.1 billion, respectively.

**Grafik 3.1-6: Interest Deficit**



In March 2011 period, due to the fact that placement interest decreased more than interest cost in comparison to December 2010 period, interest margin recessed by 0.5 point. As of March 2011, placement interest realized as 7.5%, while interest cost and interest margin realized as 4.5% and 3%, respectively.

**Table 3.1-14: Interest Margin and Components**

(%)	Mar.10	Apr.10	May.10	Jun.10	Jul.10	Aug.10	Sep.10	Oct.10	Nov.10	Dec.10	Jan.11	Feb.11	Mar.11
Placement Interest (1)	9,5	9,4	9,2	9,1	9,1	9,0	8,8	8,7	8,6	8,4	8,0	7,3	7,5
Interest Cost (2)	4,8	4,9	4,8	4,9	5,0	5,1	5,0	5,0	4,9	4,8	4,7	4,3	4,5
Interest Margin (3)	4,6	4,5	4,4	4,2	4,1	4,0	3,8	3,8	3,7	3,6	3,3	3,0	3,0

(1):  $((1 + (\text{Total Interest Incomes} / \text{Asset Sensitive to Average Interest}))^{(12/\text{related month})}) - 1$

(2):  $((1 + (\text{Total Interest Expenses} / \text{Liability Sensitive to Average Interest}))^{(12/\text{related month})}) - 1$

(3):  $[(1) - (2)]$

The effect of interest changes within the scope of scenario analysis included below on bank profitability is calculated, so as to evaluate the structural interest rate risk amount the sector is exposed to. In the analysis, remaining times until re-pricing periods of assets and liabilities of banks, average placement interest and liability cost were taken into consideration. In the calculations, it is assumed that sensitivity of assets and liabilities of banks to interest remains unchanged during analysis period, there is no new liability input and there is no time value of money.

<sup>3</sup>Unlike the interest rate risk taken into consideration within the scope of market risk, it is a risk derived from the mismatch in re-pricing periods between all asset and liability items of the bank.

**Table 3.1-15: Scenarios concerning Structural Interest Rate Risk and Results**

Scenarios	Change in TL Interests (point)				Change in FX Interests (point)			
	1 month	1-3 months	3-6 months	6-12 months	1 month	1-3 months	3-6 months	6-12 months
Scenario 1	1,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Scenario 2	0,00	0,00	0,00	0,00	1,00	0,00	0,00	0,00
Scenario 3	1,00	2,00	3,00	6,00	0,00	0,00	0,00	0,00
Scenario 4	0,00	0,00	0,00	0,00	0,25	0,50	0,75	1,50
Scenario 5	1,00	1,00	1,00	1,00	0,50	0,50	0,50	0,50
Scenario 6	10,00	0,00	0,00	0,00	5,00	0,00	0,00	0,00
Scenario 7	0,00	0,00	10,00	0,00	0,00	0,00	5,00	0,00
Scenario 8	-1,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Scenario 9	0,00	0,00	0,00	0,00	-1,00	0,00	0,00	0,00
Scenario 10	-1,00	-2,00	-3,00	-6,00	-0,25	-0,50	-0,75	-1,50

Profit/Loss (TL Billion)	December 2010						March 2011					
	TL	USD	EUR	Other FX	Total FX	Total	TL	USD	EUR	Other FX	Total FX	Total
Scenario 1	-2,6	0,0	0,0	0,0	0,0	-2,6	-2,5	0,0	0,0	0,0	0,0	-2,5
Scenario 2	0,0	-0,8	-0,4	0,1	-1,2	-2,4	0,0	-1,0	-0,5	0,0	-1,4	-2,8
Scenario 3	-35,7	0,0	0,0	0,0	0,0	-35,7	-40,7	0,0	0,0	0,0	0,0	-40,7
Scenario 4	0,0	-5,3	-3,9	1,3	-7,9	-15,7	0,0	-6,1	-4,2	1,3	-9,1	-18,1
Scenario 5	-13,0	-3,3	-2,2	0,7	-4,8	-22,7	-14,2	-3,8	-2,5	0,7	-5,6	-25,4
Scenario 6	-26,3	-4,2	-2,1	0,3	-5,9	-38,2	-24,9	-4,9	-2,4	0,2	-7,0	-38,9
Scenario 7	-44,9	-12,1	-8,9	2,9	-18,0	-80,9	-49,9	-14,4	-10,4	2,8	-22,0	-93,9
Scenario 8	2,6	0,0	0,0	0,0	0,0	2,6	2,5	0,0	0,0	0,0	0,0	2,5
Scenario 9	0,0	0,8	0,4	-0,1	1,2	2,4	0,0	1,0	0,5	0,0	1,4	2,8
Scenario 10	35,7	5,3	3,9	-1,3	7,9	51,5	40,7	6,1	4,2	-1,3	9,1	58,8

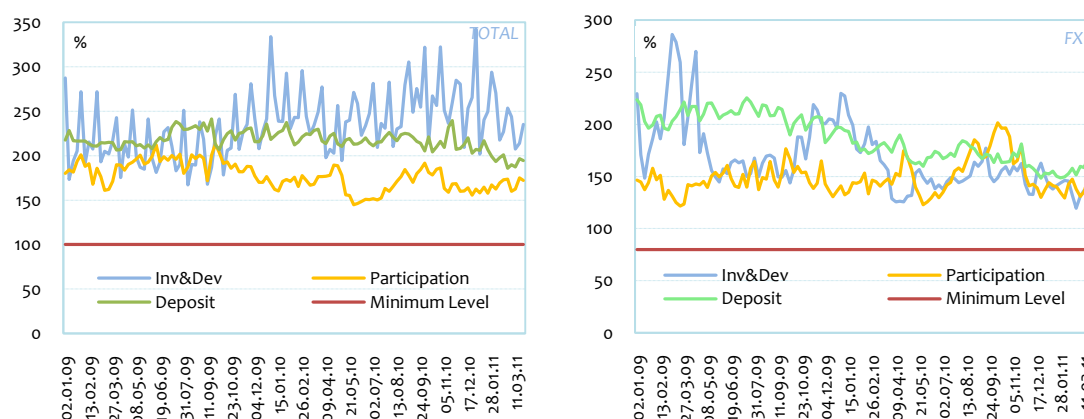
In line with profit and expected loss amounts in TL and FX items within the scope of scenarios concerning structural interest rate; the expected loss increased in USD, EUR and total FX positions for scenarios 2, 4, 5, 6 and 7 as of March 2011, while the expected profit in the said positions for scenarios 9 and 10 increased in comparison to the previous period. While the expected profit and loss in TL position decreased when compared to the previous period for scenarios 1, 6 and 8, an increase was experienced in scenarios 3, 5, 7 and 10.

### 3.1.5 Liquidity Risk

As of March 2011, total liquidity adequacy ratio in banking sector concerning the first maturity tranche decreased when compared to end-2010. The decrease in the ratio stemmed from the decrease in due securities portfolio of banks as well as the increase in funds procured through repo. The said ratio which displayed generally a decreasing tendency in recent periods, continued to fluctuate high above the legal limit.

When FX and total liquidity adequacy ratios are analyzed in functional bank groups basis, it is observed that the ratios concerning each three groups are above the legal limit in the first quarter of the year. As of March 2011, total liquidity adequacy ratio decreased to 194% from 207% and to 235% from 342%, respectively for deposit banks and development and investment banks when compared to end-2010, while the said ratio increased to 172% from 163% for participation banks. The increase in cash assets in assets side and the decrease in due funds in participation accounts in liabilities side caused the said ratio for participation banks to increase. On the other hand, FX liquidity ratio increased for deposit and participation banks while decreased for development and investment banks.

**Chart 3.1-7: Total and FX Liquidity Adequacy Ratios concerning the First Maturity Tranche**



As of the first quarter of 2011, total liquidity adequacy ratio in banking sector concerning the second tranche decreased to 130.1% when compared to December 2010 period. The decreases in due securities and receivables items were the factors which made the biggest effect on the decrease of the ratio. When the other liquidity components concerning the said maturity tranche are analyzed, it is seen that cash assets and derivative transactions in assets side increased, while placements made to banks decreased. In liabilities side, all components increased excluding other liabilities item comprised predominantly by funds from repo transactions. FX liquidity adequacy ratio displayed no significant change when compared to end-2010.

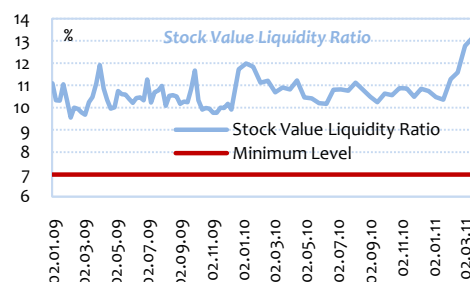
**Table 3.1-16: FX and Total Liquidity Adequacy Ratio Components concerning the Second Maturity Tranche**

TL Million, (%)	FX				Total			
	Mar.10	Sep.10	Dec.10	Mar.11	Mar.10	Sep.10	Dec.10	Mar.11
<b>Assets</b>								
Derivatives	48.498 (39)	60.263 (44)	51.110 (41)	64.784 (47)	60.111 (14)	72.001 (16)	65.835 (14)	78.535 (16)
Banks, Abroad Centers and Branches	21.870 (18)	21.897 (16)	17.905 (14)	18.279 (13)	26.142 (6)	28.813 (6)	27.965 (6)	25.394 (5)
GUD	17.228 (14)	17.681 (13)	16.258 (13)	14.017 (10)	143.672 (34)	152.961 (34)	172.670 (36)	160.459 (33)
Securities Held to Maturity	11.406 (9)	8.501 (6)	8.134 (7)	6.560 (5)	77.569 (18)	70.835 (16)	66.205 (14)	57.453 (12)
Loans	11.513 (9)	12.191 (9)	11.767 (10)	14.771 (11)	75.768 (18)	86.480 (19)	88.951 (18)	88.709 (18)
Cash Assets, CBRT	7.674 (6)	8.759 (6)	11.673 (9)	10.710 (8)	28.803 (7)	33.566 (7)	43.918 (9)	58.367 (12)
Receivables	4.850 (4)	6.294 (5)	7.011 (6)	7.479 (5)	16.134 (4)	10.075 (2)	18.073 (4)	13.095 (3)
IS (Net)	7 (0)	6 (0)	1 (0)	10 (0)	20 (0)	16 (0)	10 (0)	13 (0)
<b>Total</b>	<b>123.045</b>	<b>135.592</b>	<b>123.860</b>	<b>136.610</b>	<b>428.221</b>	<b>454.747</b>	<b>483.627</b>	<b>482.024</b>
<b>Liabilities</b>								
Deposit	50.356 (48)	54.413 (49)	55.593 (50)	59.055 (48)	156.522 (52)	173.397 (54)	188.988 (53)	192.381 (52)
Derivatives	41.796 (40)	46.269 (41)	41.453 (38)	46.059 (38)	60.585 (20)	72.395 (22)	65.250 (18)	79.328 (21)
Other Liabilities	4.011 (4)	4.439 (4)	5.382 (5)	4.971 (4)	52.161 (17)	46.633 (14)	65.760 (19)	60.066 (16)
CBRT, Banks, Abroad Centers and Branches	3.881 (4)	2.384 (2)	2.635 (2)	5.726 (5)	7.634 (3)	7.904 (2)	7.905 (2)	9.668 (3)
Other Loans	2.648 (3)	2.118 (2)	2.918 (3)	3.710 (3)	4.078 (1)	3.588 (1)	6.555 (2)	7.030 (2)
Off-Balance Sheet Transactions	2.038 (2)	2.120 (2)	2.218 (2)	2.389 (2)	18.846 (6)	18.375 (6)	19.602 (6)	21.961 (6)
<b>Total</b>	<b>104.731</b>	<b>111.744</b>	<b>110.199</b>	<b>121.912</b>	<b>299.826</b>	<b>322.293</b>	<b>354.061</b>	<b>370.434</b>
<b>Liquidity Adequacy Ratio (%)</b>	<b>117,5</b>	<b>121,3</b>	<b>112,4</b>	<b>112,1</b>	<b>142,8</b>	<b>141,1</b>	<b>136,6</b>	<b>130,1</b>

Stock Value Liquidity Ratio which is calculated so as to monitor and evaluate the liquidity balance among assets and liabilities of banks and is in a horizontal conduct for a long time increased in the first quarter of 2011 due to the increase made by the CBRT in required reserves and realized as 12.7% by March 2011. Cash assets and CBRT item used in calculation of the ratio increased by 21% when compared to end-2010, by about 120% in the last one year.

**Table 3.1-17: Stock Value Liquidity Ratio<sup>4</sup>**

TL Million	Mar.10	Sep.10	Dec.10	Mar.11
Cash Assets and CBRT	26.308	30.563	47.550	57.732
Banks, Abroad Centers and Branches	17.307	18.022	15.396	10.815
Receivables	21.585	24.932	22.263	24.272
TOTAL ASSETS	65.201	73.517	85.210	92.818
Deposit	542.223	592.050	633.151	659.244
CBRT, Banks, Abroad Centers and Branches	31.076	34.758	40.693	42.487
Other Loans	46.797	50.480	62.717	68.302
TOTAL LIABILITIES	620.096	677.288	736.561	770.034

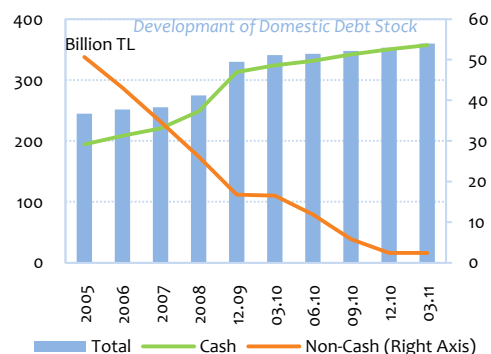


Share of banks in the distribution of domestic debt stock by creditors which was TL 359.9 billion as of March 2011 decreased when compared to end-2010. This decrease also reflects the decrease in securities portfolio of banks in the first quarter of 2011. While receivables of banks from the Treasury were TL 218.5 billion as of December 2010, this figure recessed to TL 214.5 billion in March 2011. Share of private banks within banking sector in domestic borrowing decreased to 28.2% from 30.7%. While share of non-banking sector in the distribution of domestic debt by creditors increased, while share of abroad residents reached the highest level in recent periods.

**Table 3.1-18: Domestic Debt Stock by Buyers**

%	2006	2007	2008	2009	2010	2011 March
Banking Sector	49,1	51,7	54,9	63,4	62,9	59,6
State B.	24,2	23,4	26	26,9	25,7	25,4
Private Banks	21,5	23,4	23,3	30,8	30,7	28,2
Foreign B.	2,9	4,1	4,9	4,9	5,5	5,1
Dev. Inv. B.	0,6	0,8	0,7	0,8	1,0	1,0
Non-Bank Sector <sup>5</sup>	44	42,3	40,6	34,2	35,1	38,4
Natural Persons	8,8	5,9	5,5	2,9	1,5	1,7
Legal Entities	18,1	18,5	19,8	18,5	17,0	17,6
SIF <sup>6</sup>	3,5	4,5	5	4,2	4,1	4,2
Abroad Residents	13,6	13,4	10,3	8,6	12,5	14,8
CBRT	6,9	6	4,5	2,3	2,0	2,0
TOTAL	100	100	100	100	100	100

Source: Turkish Treasury



When maturity structure of deposit which is the most significant funding resource of banks is analyzed, it is seen that short-term deposit maintained its weight. However, resolutions the CBRT had concerning required reserves began to take effect in the first quarter of 2011. Yet, the decrease in the amount of deposit with a maturity of up to 1 month in the period mentioned reflected as an increase in deposits with longer maturities. While share of the deposit with a maturity of up to 1 month within total deposit was 26% as of end-2010, it decreased to 21.7% as of March 2011. Share of deposit with a maturity of more than 3 months within total deposit which was 8.4% in end-2010 increased to 11.6% in the first quarter of 2011. It is foreseen that the measures the CBRT took so as to extend the maturity of deposit shall increase their effects in the following periods of 2011 under the current circumstances. In addition to this, it is expected that maturity of deposit shall be extended by means of other policy options.

<sup>4</sup> Pursuant to the Article 15/A (1) of the Regulation on Measurement and Evaluation of the Liquidity Adequacy of Banks, it is provisioned that "Simple arithmetic average of 14-day period including the period of establishment of statutory provisions of the ratio of the sum of cash position, effective deposits, checking free accounts opened by the Central Bank, cash in transit, due securities, deposits of precious metals, checks purchased, checking free accounts opened by banks, overseas head offices and branches including overnight placements, overnight receivables from the interbank money market, statutory reserves which are to be calculated over their stock values irrespective of their respective terms to the sum of total deposits, CBRT, Banks, Headquarters and Branches Abroad Accounts and Other Loans excluding quasi-capital loans cannot be less than seven percent."

<sup>5</sup> Non-bank sector includes all natural persons and legal entities excluding the Savings Deposit Insurance Fund.

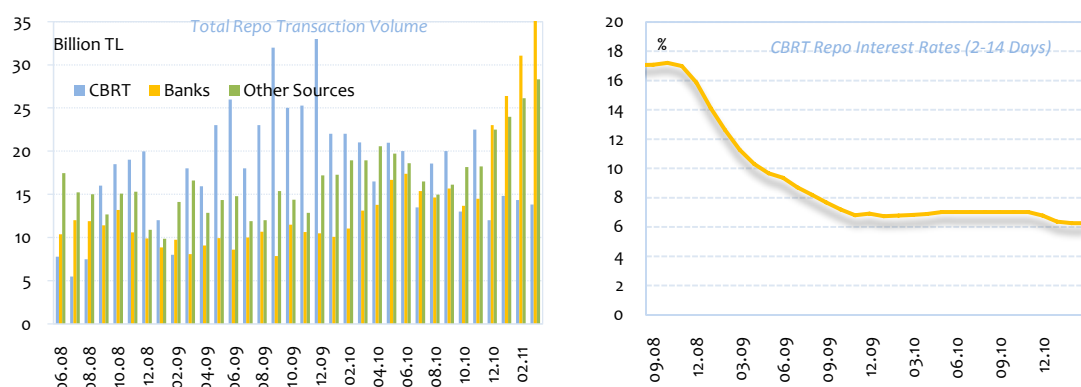
<sup>6</sup> SIF: Securities Investment Fund

**Table 3.1-19: Maturity Structure of Deposit**

%	Jun.08	Sep.08	Dec.08	Mar.09	Jun.09	Sep.09	Dec.09	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11
At call	15,8	15,4	13,7	13,6	14,2	15,8	15,6	14,8	15,5	15,4	15,9	15,6
Up to 1 Month	31,0	28,4	31,5	31,6	30,7	29,3	27,7	29,9	30,3	29,7	26,0	21,7
Between 1 to 3 Months	44,6	46,6	46,1	46,1	46,8	46,4	48,5	47,7	46,7	46,4	49,7	52,1
Up to 3 Months	91,4	90,4	91,2	91,3	91,6	91,4	91,9	92,4	92,5	91,5	91,6	89,4
Between 3 to 6 Months	3,7	4,4	3,3	3,5	3,4	3,5	3,3	3,3	3,6	4,5	4,1	5,4
Between 6 to 12 Months	2,2	2,4	2,5	1,9	1,8	1,7	1,6	1,5	1,3	1,4	1,5	1,7
Above 1 Year	2,8	2,7	2,9	3,3	3,2	3,4	3,3	2,8	2,5	2,6	2,7	3,5
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Share of repo transactions within liabilities of banking sector which was 5.7% as of December 2010 increased to 6.3% in March 2011. It is important that functioning, infrastructure and management of repo market which increasingly gained more importance in liquidity management run properly. As of March 2011, fund amount procured from repo transactions amounted to TL 66 billion. TL 24 billion of this amount was procured from the CBRT, TL 21.5 billion from banks and TL 20.5 billion from other resources. It is seen that funds procured from the CBRT which decreased significantly in end-2010 increased in the recent period.

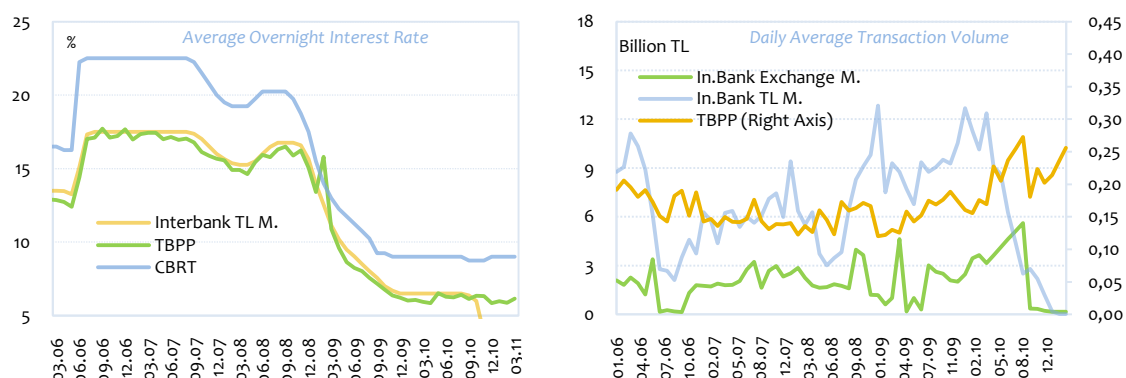
**Chart 3.1-8: Repo Transactions**



Source: BRSA, CBRT.

Overnight interest rates in money markets which the banks use in liquidity management maintain their horizontal process in 2010 also in the first quarter of 2011. Overnight TL interest in interbank markets which are also known as secondary market which was 6.5% as of March 2011, overnight average interest in Settlement and Custody Bank fluctuates around 6.2%.

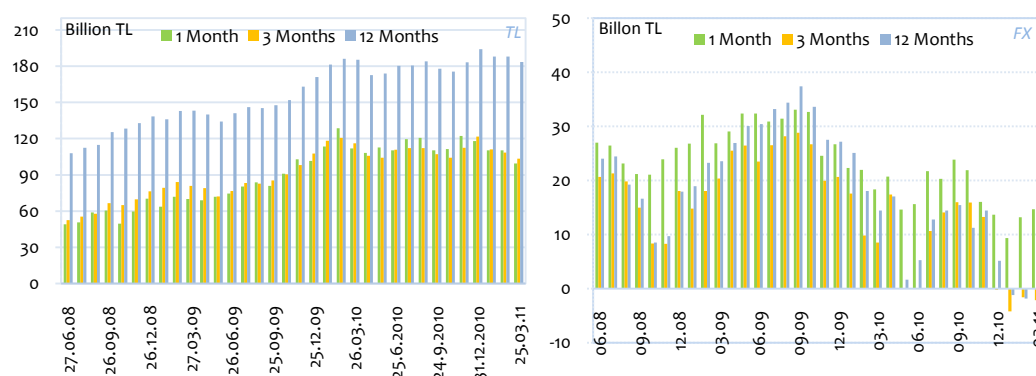
**Chart 3.1-9: Development of Interbank Markets and Settlement and Custody Bank**



When the liquidity is analyzed in the banking sector by maturities, it is seen that liquidity surplus in maturities basis continues to exist for Turkish Lira. However, the said surplus decreased slightly when compared to end-2010. When foreign exchange liquidity is analyzed, it is seen that there

is a liquidity surplus for 1 month, while there is a liquidity deficit for 3 months and 12 months. Both the decrease in value of securities portfolio in assets side for 1-month maturity tranche and the increase in deposit and long-term repo transactions in liability side are the most significant factors having an effect on liquidity surplus to be formed.

**Chart 3.1-10: Liquidity Surplus/Deficit by Maturities**



When payment schedule of syndication and securitization loans which effects especially FX liquidity in banking sector in medium and long term is analyzed, it is observed that total of TL 18 billion (USD 11.8 billion) syndication, TL 2.6 billion (USD 1.6 billion) securitization loan repayment is made. The biggest payment shall realize in May, September and December. While the banking sector made syndication loan repayment by USD 9.1 billion in one last year, it obtained new syndication loan by USD 15.3 billion and the renewal ratio realized above 100%. Total of syndication and securitization loan balance to be amortized during 2012-2022 is TL15.8 billion (USD 10.3 billion). Under the current circumstances, 51.8% of syndication and securitization loans are loans in euro terms, 47.4% in USD term and 0.8% is in TL term.

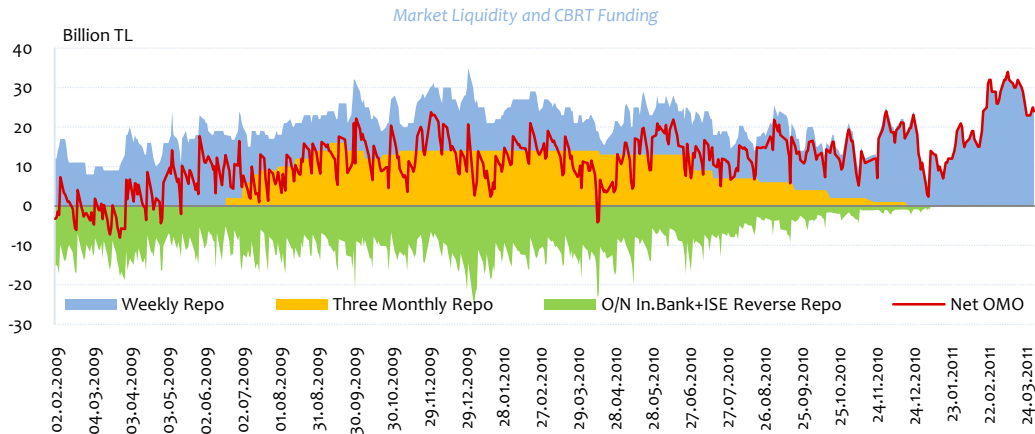
**Table 3.1-20: Syndication and Securitization Loans Payment Schedule**

(Million)	EURO				DOLLAR				TOTAL <sup>7</sup>	
	Syndication		Securitization		Syndication		Securitization		TL	\$
	TL	\$ Equivalent	TL	\$ Equivalent	TL	\$	TL	\$		
April 2011	1.707	1.122	67	44	677	446	163	106	2.914	1.912
May 2011	2.815	1.833	36	24	543	353	288	178	3.682	2.388
June 2011	0	0	0	0	0	0	221	220	221	220
July 2011	756	496	9	6	198	130	271	194	1.233	825
August 2011	748	487	36	24	182	119	273	193	1.240	823
September 2011	3.105	2.018	0	0	975	634	339	151	4.419	2.802
October 2011	2.265	1.491	9	6	711	469	296	0	3.282	1.966
November 2011	0	0	36	24	0	0	297	0	333	24
December 2011	2.299	1.495	0	0	1.053	684	232	170	3.584	2.349
2012 - 2022	3.581	2.329	1.387	910	1.031	671	9.805	6.403	15.803	10.312

Net liquidity deficit in the market which was TL 10.9 billion as of December 31, 2010 realized as TL 24 billion in end-March 2011. As of March 31, 2011, the CBRT compensated the deficit by funding the market by TL 24 billion with repo transactions.

<sup>7</sup> Due to the securitization payment in terms of Turkish Lira at the value of TL 300 million of which dollar equivalent is \$ 194 million and of which maturity date is April 13, 2011, TL and \$ equivalent totals of syndication and securitization payments included in April 2011 row differentiates from the figures in Total row.

**Chart 3.1-11: Liquidity in the Market**



Source: CBRT

### 3.1.6 Concentration Risk

Pursuant to the Banking Law, loans extended to a natural person or legal entity or a risk group that are equal to or exceeds 10% of equities shall be considered as large loans. Share of large loans within total loans and equities decreased by the first quarter of 2011. In March 2011, ratio of loans larger than 10% of equities of banks to total equities decreased by 1.5 points when compared to end-2010 to 31%, while their ratio to total loans decreased by 0.6 point when compared to end-2010 to 6.8%.

**Table 3.1-21: Distribution of Large Loans Extended by Banks**

%	Sep.10		Dec.10		Mar.11	
	Ratio to Equities	Ratio to Loans	Ratio to Equities	Ratio to Loans	Ratio to Equities	Ratio to Loans
Larger than 10	30,8	7,4	32,5	7,4	31,0	6,8
Between 10-15	19,9	4,8	16,0	3,7	19,7	4,4
Between 15-20	7,9	1,9	13,0	3,0	10,4	2,3
Between 20-25	3,0	0,7	3,5	0,8	0,8	0,2

When the development of the biggest 25, 50 and 100 cash loans the banking sector extended within total cash loan amount, it is observed as of the first quarter of 2011 that shares of these loans within cash and non-cash loans decreased partially, when compared to end-2010. In this period, shares of the biggest 25, 50 and 100 cash loan amounts within total cash loans realized as 15%, 20% and 26%. Share of the biggest 100 non-cash loan amount within total non-cash loans realized as 54% as of the first quarter of 2011.

**Table 3.1-22: Share of the Largest 25, 50 and 100 Loans Extended by Banks within Total**

%	Dec.07	Dec.08	Dec.09	Mar.10	June 10	Sep.10	Dec.10	Mar.11
Share of the Largest 25 Cash Loans within Total Cash Loans	16	17	17	17	17	16	16	15
Share of the Largest 50 Cash Loans within Total Cash Loans	20	23	23	22	22	21	21	20
Share of the Largest 100 Cash Loans within Total Cash Loans	25	28	29	28	28	27	27	26
Share of the Largest 250 Non-Cash Loans within Total Non-Cash Loans	32	36	38	37	36	35	35	34
Share of the Largest 50 Non-Cash Loans within Total Non-Cash Loans	41	46	48	47	46	45	45	44
Share of the Largest 100 Non-Cash Loans within Total Non-Cash Loans	52	56	58	57	55	55	55	54

When the distribution of loans is analyzed by amount as of the first quarter of 2011, it is seen that the share of loans larger than TL 1 million within total loans decreased by 1 point to 48.7%. While the share of loans smaller than TL 51 thousand within total loans displayed no significant change, credit amount per customer for loans in TL 51 thousand-TL 100 thousand and TL 101 thousand-TL 500 thousand scales increased by 0.4 and 0.5 point, respectively. In the light of

these indicators, it can be said that loans extended in the first quarter of 2011 are in smaller scale when compared to end-2010, however credit amount extended per person remained stable.

**Table 3.1-23: Distribution of Loans by Size and Number of Customers**

Credit Amount	Total Loans (%)			Number of Customers (%)			Credit Amount per Customer (TL Thousand)		
	Sep.10	Dec.10	Mar.11	Sep.10	Dec.10	Mar.11	Sep.10	Dec.10	Mar.11
Larger than TL 1 million	47,7	49,7	48,7	0,1	0,1	0,1	7.446	7.722	7.376
Between TL 501 thousand –TL 1 million	4,4	4,3	4,4	0,1	0,1	0,1	727	717	727
Between TL 101 thousand-TL 500 thousand	10,7	10,8	11,3	0,6	0,7	0,8	197	192	197
Between TL 51 thousand-TL 100 thousand	7,3	7,5	7,9	1,2	1,4	1,5	71	70	71
Less than TL 51 thousand	30,0	27,8	27,7	98,0	97,8	97,6	4	4	4
Total	100,0	100,0	100,0	100,0	100,0	100,0	12	13	13

When the distribution of cash loans is analyzed in sector basis, it is seen that 61.7% of total loans was extended to 10 different sectors as of the first quarter of 2011. In addition to this, the fact that about 31% of total loans constituted of consumer loans in which the number of customers is rather high such as housing loans, individual loans and credit cards is also considered positive in respect of credit concentration risk. When it is analyzed beginning from 2008, it can be said that the decrease in the share of credit cards within total loans derived from individual consumer loan preference of credit customers.

**Table 3.1-24: Concentration of Loans on Sector Basis**

%	Dec.08	Dec.09	Mar.10	June 10	Sep.10	Dec.10	Mar.11
Personal Consumer and Other Loans	10,3 (2)	11,1 (2)	10,3(2)	11,3(1)	11,8(1)	11,5(1)	11,9 (1)
Consumer Housing Loans	10,4 (1)	11,3 (1)	10,4(1)	11,2(2)	11,3(2)	11,2(2)	11,3 (2)
Credit Cards	9,3 (3)	9,5 (3)	9,1(3)	8,8(3)	8,8(3)	8,3(3)	8,0 (3)
Wholesale Trade and Brokerage	5,6 (4)	5,7 (5)	5,4(5)	5,8(5)	5,9(5)	5,6(5)	5,8 (4)
Construction	5,4 (5)	6,0 (4)	5,5(4)	6,0(4)	5,9(4)	5,5(6)	5,7 (5)
Monetary Institutions (Bank, Financial Leasing, Fac., Fin. Companies)	3,7 (8)	3,6 (8)	3,8(6)	3,9(6)	4,5(6)	4,5(6)	4,8 (6)
Agriculture	3,3 (10)	3,8 (6)	3,4(8)	3,6(8)	3,6(8)	4,0 (7)	4,0 (7)
Main Metal Ind. and Processed Mine Prod. Ind.	3,8 (7)	3,6 (7)	3,5(7)	3,9(7)	3,7(7)	3,8(8)	3,7 (8)
Food, Beverage and Tobacco Ind.	3,1(11)	2,8 (12)	3,1(11)	3,1(9)	3,4(9)	3,4(9)	3,3 (9)
Retail Trade and Personal Products	2,5(13)	3,2(9)	3,0(10)	2,9(13)	3,2(10)	3,1(10)	3,2 (10)

Note: Figures in parenthesis the order of the share of the credit amount accredited to that sector within total loans.

When the distribution of deposit by amount and number of customers is analyzed as of the first quarter of 2011, it is observed that distribution of deposit amount in scale basis and number of depositors displayed no significant change. Deposit per depositor increased in general total by TL 0.2 thousand to TL 6.1 thousand. In this period, the mentioned increase observed in deposit per depositor derived from the decrease in the number of depositors in small deposit group as well as the increase in deposit amount.

**Table 3.1-25: Distribution of Deposit by Size and Number of Customers**

Deposit Amount	Total Deposit (%)			Number of Depositors (%)			Deposit Amount per Depositor (TL Thousand)		
	Sep.10	Dec.10	Mar.11	Sep.10	Dec.10	Mar.11	Sep.10	Dec.10	Mar.11
Larger than TL 1 million	44,8	47,1	47,0	0,0	0,0	0,0	7.898,8	8.349,2	7.919,4
Between TL 250 thousand-TL 1 million	14,5	14,6	14,6	0,2	0,2	0,2	507,9	508,0	491,9
Between TL 51 thousand-TL 250 thousand	20,8	20,6	20,9	1,0	1,1	1,2	109,7	110,5	108,6
Between TL 11 thousand-TL 50 thousand	14,2	12,6	12,5	2,9	3,0	3,1	26,5	24,6	24,3
Smaller than TL 10 thousand	5,6	5,1	5,0	95,9	95,7	95,5	0,3	0,3	0,3
Total	100,0	100,0	100,0	100,0	100,0	100,0	5,5	5,9	6,1

When the distribution of deposit under insurance is analyzed by size and number of customers, it is observed that 49% of the said deposit was between TL 40 thousand- 50 thousand as of the first quarter of 2010. However, accounts of 90.7% of the depositors having deposit under insurance are smaller than TL 10 thousand. In the same period, it is observed that amount of deposit under insurance per depositor increased by TL 0.1 thousand to TL 3.5 thousand.

**Table 3.1-26: Distribution of Deposit under Insurance by Size and Number of Customers**

Deposit Amount	Total Deposit (%)			Number of Depositors (%)			Deposit Amount per Depositor (TL Thousand)		
	Sep.10	Dec.10	Mar.11	Sep.10	Dec.10	Mar.11	Sep.10	Dec.10	Mar.11
Smaller than TL 10 thousand	16,9	16,8	16,6	91,3	90,8	90,7	0,6	0,6	0,6
Between TL 10 thousand-TL 20 thousand	13,8	13,5	13,5	3,1	3,2	3,2	14,6	14,5	14,5
Between TL 20 thousand-TL 30 thousand	11,8	11,6	11,4	1,5	1,6	1,6	25,2	25,0	24,2
Between TL 30 thousand-TL 40 thousand	9,6	9,6	9,5	0,9	0,9	1,0	35,2	34,9	34,4
Between TL 40 thousand-TL 50 thousand	47,9	48,5	49,0	3,2	3,4	3,5	48,5	48,4	48,2
Total	100	100	100,0	100	100	100,0	3,2	3,4	3,5

### 3.2 Capital Adequacy Evaluation

As of March 2011, the banking sector capital adequacy ratio (CAR) is 18%. The high increasing tendency seen in risk weighted assets comparing to equities is continuing. Within the first quarter of year, while the sector's equities increased by 1.9%, risk weighted assets increased by 7.5% and a decrease by 1 point is realized in CAR. The highest increase in risk weighted assets is realized in 100% risk weighted loans with TL 39.8 billion, while within the same period the highest increase in equities is realized in capital reserves with TL 14.8 billion.

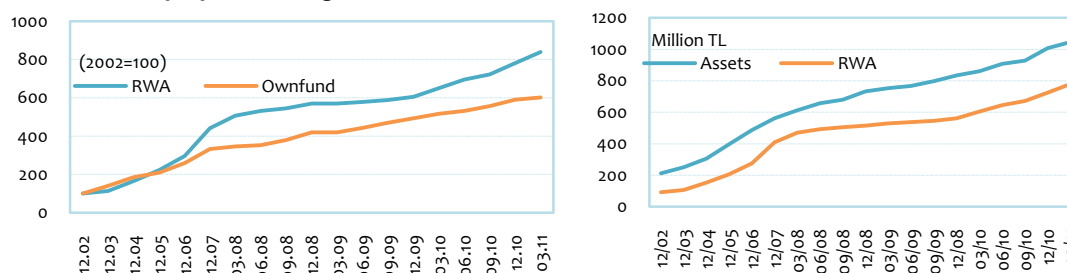
**Table 3.2-1: Equity, Risk Weighted Assets and Capital Adequacy Ratio**

	Equity (TL Billion)				RWA (TL Billion)				CAR (%)			
	Sep.10	Dec.10	Mar.11	% variation (Mar.11-Dec.10)	Sep.10	Dec.10	Mar.11	% variation (Mar.11-Dec.10)	Sep.10	Dec.10	Mar.11	Point Variation (Mar.11-Dec.10)
Sector	129,9	137,6	140,2	1,9	671,5	725,6	780,0	7,5	19,3	19,0	18,0	-1,0
Deposit	111,3	118,0	120,0	1,7	615,1	665,5	715,8	7,6	18,1	17,7	16,8	-0,9
- Public	26,8	29,4	30,3	3,1	155,7	173,3	184,8	6,6	17,2	17,0	16,4	-0,6
- Local Private	65,2	68,5	70,7	3,2	350,5	376,1	416,9	10,8	18,6	18,2	17,0	-1,2
- Global	19,3	20,0	19,0	-5,0	109,0	116,0	114,0	-1,7	17,7	17,3	16,6	-0,7
DIB	13,4	14,2	14,6	2,8	22,4	24,2	25,9	7,0	59,8	58,6	56,5	-2,1
Participation	5,1	5,4	5,6	3,7	33,9	35,8	38,2	6,7	15,2	15,1	14,6	-0,5
Large Scaled	85,9	91,6	92,6	1,1	470,5	511,1	550,0	7,6	18,2	17,9	16,8	-1,1
Medium Scaled	22,7	23,5	24,4	3,8	140,7	150,3	161,4	7,4	16,1	15,6	15,1	-0,5
Small Scaled	21,3	22,4	23,2	3,6	60,2	64,2	68,8	7,2	35,3	35,0	33,7	-1,3

Explanation: Equity amount is taken from SY440 form and is different from the balance sheet equity.

When analyzed by function groups, it is seen that the CARs of deposit, participation and development-investment banks decreased respectively by 0.9, 0.5 and 2.1 points.

**Chart 3.2-1: Equity, Risk Weighted Assets Index**



The CAR which was entered to an increasing tendency due to the recession seen in 2008 and the placement preference to riskless assets, has continued its moderate decreasing tendency within the first quarter of 2011 in parallel with the growth and increase in risk preferences since the beginning of 2010; the increase by 0.1 point seen within the third quarter of 2010 being an exception. When the sector's asset size and risk weighted assets are analyzed, it is seen that the increasing rate of risk weighted assets was under the increasing rate of assets since the second quarter of 2008, however since the first quarter of 2010, risk weighted assets increase more than the assets, with the effect of the change in risk preferences. Within the first quarter of 2011 risk weighted assets increased by 7.5%, while the assets increased by 3.9%.

The principle capital of the banking sector has increased by TL 4 billion within the first quarter of 2011. Among the principle capital items, the highest increase is seen in reserve funds by TL 14.8 billion, as a result of transferring the period profits of end- 2010 to the reserves. The share of principle capital within the equity has exceeded its level in December 2010 which was 89.8% and is realized as 91% as of March 2011. The weighted structure of the principle capital within the equity points out the high quality of the capital in the Turkish banking sector.

**Table 3.2-2: Main Equity Components**

(TL Million)	2007	2008	2009	Mar.10	Jun.10	Sep.10	Dec.10	Mar.11	Share within Equity	% Variation (Mar.11-Dec.10)
Principle Capital	74.638	88.619	104.139	109.097	113.056	117.597	123.625	127.652	91,0	3,3
-Paid-Up Capital	31.623	39.406	42.542	44.459	46.298	46.653	47.931	48.558	34,6	1,3
-Paid-Up Capital Inflation Difference		7.263	7.057	6.693	6.634	6.640	6.640	7.309	5,2	10,1
-Share Premiums		3.333	3.174	3.174	3.169	3.169	3.170	3.170	2,3	0,0
-Reserve Funds	33.661	39.911	49.228	56.206	62.431	62.376	62.023	76.841	54,8	23,9
-Net Period Profit and Prof. of Prev. Years	15.408	13.718	20.568	17.222	13.159	17.490	22.752	9.245	6,6	-59,4
-Loss not Covered by Reserve Funds	-18.756	-18.023	-17.992	-17.942	-17.945	-17.864	-17.867	-17.822	-12,7	-0,3
Supplementary Capital	7.138	8.560	12.201	12.763	12.321	13.634	14.493	13.849	9,9	-4,4
-General Reserves	2.534	3.641	4.083	4.310	4.584	4.665	5.060	5.902	4,2	16,6
-Secondary Subordinated Debts	3.347	5.493	5.538	5.523	5.460	5.339	5.182	5.115	3,6	-1,3
-45% of Sec. Available for Sale and Sec. Increment Value Funds conc. Affili. and Subs.		-692	2.461	2.798	2.111	3.420	4.022	2.644	1,9	-34,3
Assets Deducted from Capital	-4.339	-4.452	-1.300	-1.343	-1.392	-1.346	-553	-1.252	-0,9	126,4
Equities	77.436	92.727	115.040	120.517	123.984	129.885	137.564	140.249	100,0	2,0

83.3% of risk weighted assets is composed of amount subject to loan risk. 87% of total amount subject to loan risk is composed of 100% risk weighted assets. In parallel with the loan growth, among the items within the banking accounts the highest increase is realized in 100% risk weighted assets by TL 39.8 billion within the first quarter of year. TL 28.9 billion of this increase is emanating from 100% risk weighted loans. In parallel with the increase in housing loans, an increase by TL 7.9 billion is realized in 50% risk weighted loans. The increase of 0% risk weighted assets within this period is TL 10.8 billion.

**Table 3.2-3: Risk Weighted Assets and Amounts Subject to Risk**

(TL Million)	2007	2008	Dec.09	Mar.10	June10	Sep.10	Dec.10	Mar.11		% Var. Dec.10-Mar.11
								Amount	Weighted Amount	
- Assets with 0% Risk Weight	229.758	228.731	262.657	251.271	261.134	246.219	264.778	275.581	0	4,1
- Assets with 10% Risk Weight	0	0	0	0	0	0	0	0	0	-
- Assets with 20% Risk Weight	63.713	48.257	51.460	51.711	49.248	51.603	55.585	52.550	10.510	-5,5
- Assets with 50% Risk Weight	78.757	94.785	99.039	105.458	113.131	117.472	129.169	137.155	68.577	6,2
- Assets with 100% Risk Weight	290.711	375.908	402.532	424.448	461.338	482.725	526.525	566.321	566.321	7,6
- Assets with 150% Risk Weight	-	1.747	2.228	2.104	2.464	2.683	2.942	3.023	4.535	2,8
- Assets with 200% Risk Weight	-	173	392	431	426	513	636	659	1.318	3,6
Amount Sub. to Loan Risk	343.275	435.919	466.470	491.538	532.300	556.832	607.912		651.261	7,1
Amount Sub. To Market Risk	14.854	19.947	24.939	27.591	28.494	29.669	32.694		34.753	6,3
Amount Sub. To Op. Risk	51.180	59.681	70.569	84.975	84.975	84.975	84.975		93.991	10,6
Total Risk Weighted Assets	409.309	516.547	561.979	605.103	645.769	671.475	725.581		780.005	7,5

\*Amount subject to Operational risk is taken from the SY430 form, and may be different from the amount calculated according to basic indicator approach.

Capital requirement expresses the minimum amount of capital which shall be kept due to risks imposed and is calculated by basing on amounts subject to risk. 83.5% of the capital requirement of banking sector is composed of loan risk, while 12.1% is composed of operational risk and 4.5% is composed of market risk. The free equity amount which is calculated by deducting the capital requirement from total equity has decreased by TL 1.6 billion comparing to end-2010 to TL 77.8 billion, due to the relatively high increase realized in risk weighted assets and accordingly in capital requirement.

**Table 3.2-4: Distribution of Legal Capital Requirement**

March 2011	Deposit		DIB		Participation B.		Total	
	TL Billion	% Sh.	TL Billion	% Sh.	TL Billion	% Sh.	TL Billion	% Sh.
Loan Risk Cap. Req.	47.713	83,3	1.717	82,9	2.672	87,3	52.101	83,5
Market Risk Cap. Req.	2.654	4,6	103	5,0	24	0,8	2.780	4,5
Operational Risk Cap. Req.	6.903	12,1	251	12,1	365	11,9	7.519	12,1
Total Cap. Req.	57.269	100,0	2.071	100,0	3.061	100,0	62.400	100,0
Free Equity	62.751		12.556		2.542		77.849	
December 2010								
Loan Risk Cap. Req.	44.497	83,6	1.597	82,4	2.540	88,6	48.633	83,8
Market Risk Cap. Req.	2.501	4,7	101	5,2	14	0,5	2.616	4,5
Operational Risk Cap. Req.	6.245	11,7	240	12,4	313	10,9	6.798	11,7
Total Cap. Req.	53.243	100,0	1.937	100,0	2.866	100,0	58.046	100,0
Free Equity	64.721		12.265		2.532		79.518	

When the effects of possible exchange rate and interest changes on CAR are analyzed, it is seen that an increase by 10% in USD exchange rate while other variables are fixed will create a decrease by 0.4 point in CAR. An increase by 10% in Euro exchange rate will create a decrease by 0.27 point in CAR. On the other hand, an upwards change which may be occurred in the interest rate will cause a decrease by 0.58 point in CAR; and a downwards change by 1 point will cause an increase by 0.6 points.

**Table 3.2-5: Effect of Possible Exchange Rate and Interest Changes on Capital Adequacy Ratio**

March 2011	Change in Exchange Rate (USD) (%)				Change in Exchange Rate (Euro) (%)				Change in TL Interest Rates (Point)			
	-10	1	5	10	-10	1	5	10	-2	-1	+1	+2
Estimated RWA Change (%)	-1,27	0,13	0,64	1,27	-0,69	0,07	0,35	0,69	0,88	0,43	-0,42	-0,83
Estimated Equity Change (%)	-1,10	0,11	0,00	-1,11	0,98	-0,10	-0,49	-0,97	7,95	3,92	-3,80	-7,50
Estimated CAR Change (points)	0,03	0	-0,11	-0,40	0,29	-0,03	-0,14	-0,27	1,21	0,6	-0,58	-1,16

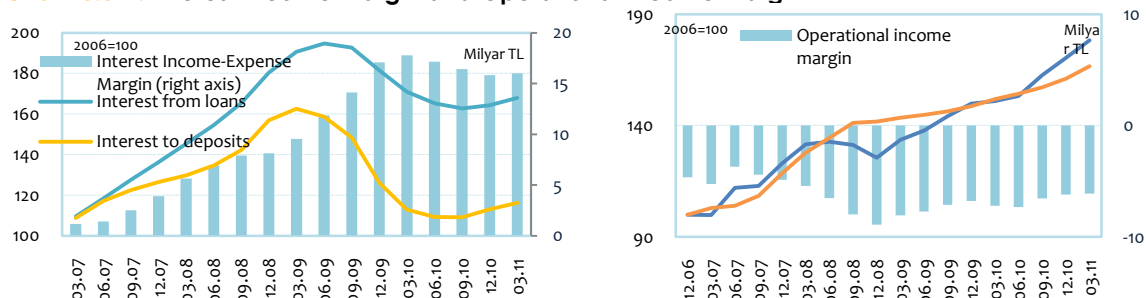
### 3.3 Profitability Analysis

As of March 2011, net period profit of the banking sector is TL 5.5 billion. The net period profit which was realized as TL 6.3 billion within the same period of previous year is decreased by 13.1%. Within this period, while non-interest income and expense balance did not change significantly, the diminishment seen in net interest incomes due to the effect of the decrease of interests taken from securities has affected negatively the net period profit.

Within the first quarter of 2011, the sector's incomes are TL 26.6 billion and its expenses without tax provision are TL 19.7 billion. Comparing to the first quarter of 2010, the sector's incomes have increased by TL 845 million, while its expenses without tax provision have increased by TL 1.8 billion. Within this period, depending on the diminishment seen in interests taken from securities by TL 1.2 billion, the net interest incomes have decreased by TL 1.5 billion. In parallel with the amelioration of loan quality, the decrease of special reserves by TL 447 million and the increase seen in banking service incomes and capital market transaction profits respectively by TL 406 million and TL 1.6 billion are the main factors influencing the profitability positively.

Within the last 12 months, the interest incomes taken from loans have increased by 9.2% and by TL 1.1 billion; while the interest expenses paid to deposit have increased by 12% and by TL 870 million. The interest income-expenses margin which is calculated based on annualized amounts of loan interest incomes and deposit interest expenses, has shown a decreasing tendency between the first quarter of 2010 and the first quarter of 2011, but it increased by 1.1% within the last three months.

**Chart 3.3-1: Interest Income Margin and Operational Income Margin**



Note: Indexes of change for each period are obtained by aggregating the amounts belonging to previous 12 months.

The value calculated according to annualized amounts of operational income margin which is equal to the difference between non-interest incomes and non-interest expenses is TL minus 6.1 billion as of March 2011. Within the first quarter of year, the increasing rate of non-interest incomes was higher than the increasing rate of expenses, which is why the operational income margin decreased as absolute value.

As of March 2011, 92.8% of net profit of the sector belongs to deposit banks, while 4.1% belongs to development and investment banks and 3.1% to participation banks. While net profits of deposit banks and participation banks decreased comparing to the same period of previous year, the net profit figures of development and investment banks increased by TL 14 million, with also the effect of upwards movement of net interest incomes. Within this period, the net interest incomes of participation banks also increased, however the deterioration in non-interest income-expenses balance in favor of non-interest expenses has affected negatively the profitability. Within the same period, the net interest incomes of deposit banks decreased due to the fall of interests taken from securities.

**Table 3.3-1: Income-Expenses Items by Function Groups**

(December 2010) (TL Million)	Deposit		Participation		DIB		Total	
	Mar.10	Mar.11	Mar.10	Mar.11	Mar.10	Mar.11	Mar.10	Mar.11
Interests from Loans	10.514	11.460	684	751	190	228	11,387	12.440
Interests from Financial Markets	403	272	128	5	95	92	515	370
Interests from Securities	7.078	5.902	38	41	104	86	7,220	6,029
<b>Interest Incomes</b>	<b>18.410</b>	<b>18.056</b>	<b>776</b>	<b>818</b>	<b>394</b>	<b>420</b>	<b>19,579</b>	<b>19,294</b>
Interests to Deposit	6.829	7.703	411	408	0	0	7,241	8,111
Interests to Financial Markets	1.528	1.756	5	18	64	67	1,597	1,841
<b>Interest Expenses</b>	<b>8.483</b>	<b>9.646</b>	<b>416</b>	<b>426</b>	<b>72</b>	<b>84</b>	<b>8,971</b>	<b>10,156</b>
<b>Net Interest Incomes</b>	<b>9.927</b>	<b>8.410</b>	<b>360</b>	<b>392</b>	<b>321</b>	<b>336</b>	<b>10,608</b>	<b>9,138</b>
<b>Special Provisions</b>	<b>1.378</b>	<b>938</b>	<b>97</b>	<b>104</b>	<b>27</b>	<b>13</b>	<b>1,502</b>	<b>1,055</b>
Fees and Commissions from Loans	650	692	141	153	31	30	822	875
Banking Services Incomes	2.529	2.874	71	86	18	63	2,618	3,024
<b>Non-Interest Incomes</b>	<b>5.422</b>	<b>6.141</b>	<b>311</b>	<b>332</b>	<b>110</b>	<b>142</b>	<b>5,843</b>	<b>6,615</b>
Operation Expenses	2.895	3.179	194	227	86	99	3,175	3,505
Provision for Securities Impairment	176	256	0	0	8	6	183	262
Pro. For Subsidiaries, Affiliates and Jointly Cont. Part. Imp.	15	1	0	0	2	0	17	2
<b>Non-Interest Expenses</b>	<b>6.892</b>	<b>7.828</b>	<b>384</b>	<b>467</b>	<b>167</b>	<b>204</b>	<b>7,443</b>	<b>8,499</b>
Capital Market Transaction Profits/Losses	-755	812	54	54	5	2	-697	867
Exchange Profits/Losses	1.022	-176	-9	3	8	12	1,022	-162
<b>Other Non-Interest Incomes</b>	<b>267</b>	<b>614</b>	<b>45</b>	<b>56</b>	<b>13</b>	<b>13</b>	<b>325</b>	<b>683</b>
<b>Period Profit</b>	<b>7.347</b>	<b>6.399</b>	<b>235</b>	<b>209</b>	<b>249</b>	<b>275</b>	<b>7,831</b>	<b>6,880</b>
<b>Net Period Profit</b>	<b>5.902</b>	<b>5.080</b>	<b>185</b>	<b>169</b>	<b>212</b>	<b>226</b>	<b>6,299</b>	<b>5,476</b>

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

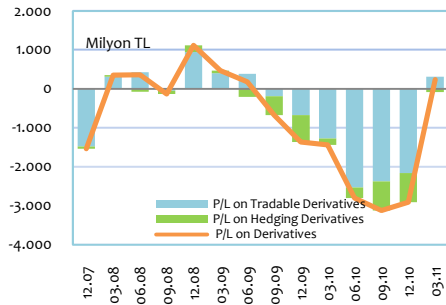
Interests to Financial Markets: Repo Interest Expenses + Expenses of Interests Paid to Banks + Money Market Transactions Interest Expenses

Operation Expenses: Personnel Expenses + Provisions for Termination Indemnities + Other Operation Expenses + Amortization Expenses

Within the first quarter of 2011, the sector made a profit by TL 867 million from capital market transactions. Within this period, the sector made a profit by TL 315 million from marketable

derivative transactions, and a loss by TL 79 million from derivative transactions held for cash flow hedges; and a profit by TL 236 million from derivative transactions in total. Within the previous quarter, the sector had made a profit by TL 3.1 billion from securities trading transactions, but a loss by TL 2.9 billion especially from derivative transactions caused the conclusion of capital market transactions with loss; within the first quarter, with the profit in derivative transactions, profit was made in capital market transactions.

**Chart 3.3-2: Profit/Loss from Derivative Financial Instruments**



(TL Million)	2009	2010	Mar.11
From Forward Exchange Trade Transactions	742	579	213
From Forward Interest Contract Trade Tr.	-22	4	-3
From Swap Money Trade Tr.	-862	-1.745	148
From Swap Interest Trade Tr.	-1.191	-1.572	-130
From Loan Default Swap Trade Tr.	4	-7	-3
From Futures Money Trade Tr.	-4	6	1
From Futures Interest Trade Tr.	-4	-9	3
From Money Trade Options	181	233	-17
From Interest Trade Options	28	15	6

Total P/L from derivatives held for cash flow hedges and tradable derivatives.

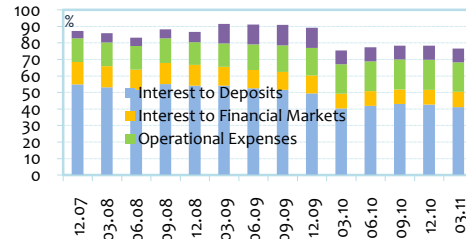
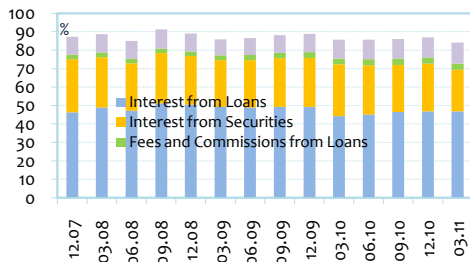
When the development of interest incomes by loan types is analyzed, it is seen that incomes of interests taken from consumer loans are composing 31.8% of total loan interest incomes and that incomes of interests taken from credit cards which are composing 8.7% of loan interest incomes decreased by TL 114 million within the last 12 months, on the other hand interest incomes increased for all other loan types.

**Table 3.3-2: Interest Incomes by Loan Types**

(March 2011)	2008		2009		03.2010		12.2010		03.2011	
	TL Mil.	% Sh.	TL Mil.	% Sh.	TL Mil.	% Sh.	TL Mil.	% Sh.	TL Mil.	% Sh.
Interest Inc. from Consumer Loans	13.194	25,3	14.399	27,4	3.590	31,5	14.967	31,5	3.960	31,8
Interest Inc. from Installment Commercial Loans	6.549	12,6	6.406	12,2	1.387	12,2	5.530	11,6	1.468	11,8
Interest Inc. from Credit Cards	5.819	11,2	6.102	11,6	1.198	10,5	4.840	10,2	1.084	8,7
Interest Inc. from Directed Loans	2.807	5,4	3.203	6,1	661	5,8	2.757	5,8	742	6,0
Interest Inc. from Exportation Loans	2.585	5,0	2.643	5,0	403	3,5	1.655	3,5	455	3,7
Interest Inc. from Credit Deposits	2.146	4,1	2.603	5,0	580	5,1	2.372	5,0	594	4,8
Interest Inc. from Loans to Fin. Sector	787	1,5	630	1,2	147	1,3	715	1,5	188	1,5
Interest Inc. from NPL and Rec. Qualified as Loss	723	1,4	803	1,5	256	2,2	1.155	2,4	342	2,7
Interest Inc. from Loans	52.110	100,0	52.478	100,0	11.387	100,0	47.498	100,0	12.439	100,0

When the distribution of income items within total incomes is analyzed, it is seen that as of end-2010, 46.8% of total incomes is composed of interests taken from loans; 22.7% of interests taken from securities. The share of interests taken from securities within total incomes has decreased within the first quarter. On the other hand, the share of banking services incomes composed of incomes items such as transfer commissions, insurance commissions, expertise fees and credit card fees and commissions within total income increased by 0.5 point to 11.4%.

**Chart 3.3-3: Shares of Income/Expenses Items within Total Income/Expenses\***



\*Giderlere vergi provizyonu dahil edilmemiştir.

Within the first quarter of 2011, return on assets and return on equity of the banking sector decreased respectively by 0.3 and 1.4 points to 2.2% and 16.7%, because the increase of annualized net profit figure remained behind the increase of asset and equity averages for 12 months.

**Table 3.3-3: Return on Assets and Return on Equity**

	ROA (%)							ROE (%)						
	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11
Sector	2,0	2,6	2,7	2,6	2,5	2,5	2,2	16,8	20,2	20,1	19,1	18,2	18,1	16,7
Deposit	1,9	2,6	2,7	2,6	2,5	2,5	2,1	17,5	22,0	21,9	20,8	19,9	19,7	16,7
Participation	2,8	2,4	2,3	2,2	2,1	2,0	1,8	21,6	17,3	17,4	16,5	15,8	15,5	14,4
DIB	4,5	4,0	3,6	3,2	2,8	3,0	2,9	9,4	8,5	7,6	6,8	6,1	6,3	6,3
Large Scaled	2,2	2,7	2,9	2,8	2,7	2,6	2,1	19,3	24,6	25,0	24,1	22,7	21,9	17,3
Medium Scaled	1,4	1,9	1,7	1,6	1,7	1,9	1,4	10,2	14,3	12,3	11,8	12,4	14,5	10,5
Small Scaled	2,4	3,0	2,6	2,5	2,2	2,2	2,2	9,9	9,3	7,8	7,7	7,1	7,5	9,2

Income creating ratio of assets of the banking sector is 2.8% as of March 2011, and it is under its value within the same period of previous year which was 3.2% due to the fall of interest rates. Within this period, average asset size of the sector increased by 19.6%, while total incomes increased by 3.3%, which caused the fall of total incomes/total assets ratio. Total expenses to average liabilities ratio increased by 0.2 points to 2.1% within the period of March 2010.

**Table 3.3-4: Profitability and Investment Return Ratios**

(%)	2003	2004	2005	2006	2007	2008	2009	Mar.10	June10	Sep.10	Dec.10	Mar.11
<b>Profitability Ratios</b>												
Total Incomes /Ave. Tot. Assets	22,9	17,2	15,9	15,5	16,4	15,9	13,8	3,2	6,2	8,7	11,3	2,8
Total Exp. /Ave. Tot. Lia.	18,1	13,4	12,6	11,8	12,5	12,5	9,3	2,3	4,4	6,3	8,2	2,1
Net Interest Margin *	5,1	6,4	5,4	4,7	4,9	4,8	5,4	1,3	2,4	3,3	4,3	1,0
Int. Incomes /Int. Expenses	140,8	177,6	176,3	160,9	158,0	156,5	196,1	218,2	208,8	199,7	199,9	190,0
Int. Incomes /Int. Bearing Assets	19,7	16,2	12,6	12,9	14,0	13,9	11,9	2,6	4,9	7,1	8,9	2,16
Int. Exp. /Int. Bearing Liabilities	14,2	9,6	7,4	8,4	9,5	9,3	6,6	1,3	2,6	3,9	4,9	1,23
Spread**	5,5	6,7	5,1	4,6	4,5	4,6	5,3	1,3	2,4	3,2	4,0	0,93
Non-Interest Inc. /Non-Interest Expenses	95,5	50,9	63,0	74,8	77,7	66,2	75,6	82,9	85,0	83,0	79,5	85,9
Activity Ratio***	54,3	58,0	62,9	53,0	51,2	54,6	44,3	44,4	44,7	46,9	48,0	51,7
Int. Paid to Deposit/Average Deposit	16,6	11,0	9,5	10,0	10,8	11,0	7,4	1,5	2,9	4,4	5,7	1,4
Int. Income from Loans/Ave. Loans	19,9	18,9	16,7	15,1	16,1	15,8	14,4	3,1	5,9	8,5	10,7	2,6
Fee-Com. Income from Loans/Ave. Loans	1,6	1,3	1,0	0,8	0,7	0,8	0,9	0,2	0,4	0,6	0,7	0,2
Int. Inc. from Securities Ave. Sec. Port.	24,5	18,1	14,0	14,0	14,8	15,3	12,3	2,9	5,3	7,1	9,5	2,2
Nbr. Of Profit-Making Banks/Tot. Nbr. Of Banks	39/50	40/48	45/51	41/50	46/50	44/49	46/49	44/49	44/49	45/49	46/49	41/48
Assets of Profit-Making Banks/Tot Assets	97,6	91,7	93,9	99,3	99,7	99,8	99,8	99,6	99,6	99,6	99,6	98,9
<b>Investment Return Ratios</b>												
Profit per Share (TL million)	-	-	-	-	-	4,59	5,32	2,29	2,30	2,32	2,39	2,57

\*Net interest margin: Net Interest Incomes/Average Total Assets

\*\*Spread: (Interest Incomes/Interest Bearing Assets)-(Interest Expenses/Interest bearing liabilities)

\*\*\*Activity Ratio: Non-Interest Expenses / (Net interest incomes + Non-interest incomes)

As of March 2011, interest incomes to interest expenses coverage ratio decreased from 218.2% to 190% comparing to the same period of previous year, because the interest incomes decreased by 1.5% and the interest expenses increased by 13.2%.

The net interest margin which shows the level of creating net interest income of the sector's assets decreased by 0.3 point to 1% comparing to March 2010. As of March 2011, the interest income creating capacity of interest bearing assets is 2.2%, while the interest expenses to interest bearing liabilities ratio is 1.2%. Spread signifying the difference between the interest income margin and interest expenses margin decreased by 0.4 point comparing to the same period of previous year to 0.9%.

Within the last 12 months period, the share of interest taken from loans within average loans decreased more than the share of interest paid to deposit within average deposit. Non-interest incomes-non-interest expenses balance has shown a positive development on the contrary of other profitability indicators, and increased from 82.9% to 85.9%.

Within the first quarter of 2011, the number of profit-making banks decreased. Accordingly, within this period, among 48 banks operating within the sector, 41 have made profit. The share of total assets of profit-making banks within total sector assets is 98.9%.

### 3.4 Scenario Analysis

Stress tests are used to measure the resistance of the banking sector face to several risks such as loan risk, interest rate risk, exchange rate risk and stock price change risk. In the scenario analyses in which the effects of the changes of more than one risk factor in the same time are measured, an econometric model is developed to provide the internal consistency of changes of risk factors based on historical data.

**Table 3.4-1: Scenarios and Scenario Analysis Findings**

Scenarios and Stress Factors Calculated as a Result of Scenarios (Monthly Effects -%)	Cash Loan Loss Ratio <sup>1</sup>	Change of Stock Prices	Change of USD Exchange Rate (%)	Change of EUR Exchange Rate (%)	TL Int. Rate <sup>3</sup> (point)	USD Int. Rate <sup>4</sup> (point)	EUR Int. Rate <sup>4</sup> (point)	Dep. Crossing Ratio <sup>5</sup>
Daily Increase by 5% in Euro/TL rate within 3 workdays	0,03	34,72	-16,84	15,76	5,90	1,5	1,88	2,28
Daily Increase by 5% in USD/TL rate within 3 workdays	0	4,35	15,76	11,97	5,30	2,4	2,2	1,07
Increase by 2 and 3 points in TL interests within 2 workdays	0,1	19,53	-22,75	2,25	11,25	2,76	2,63	3,55
Decrease by 3.6%, 6.5% and 6.5% in the Index within 3 workdays	0	-15,46	3,39	3,28	7,25	2,68	2,66	1,02

<sup>1</sup> Expresses the transformation percentage of loans within present performing loan portfolio to loss.

<sup>2</sup> Expresses the changes in ISE 100 indexes.

<sup>3</sup> Expresses the CBRT overnight borrowing interest rate.

<sup>4</sup> The FX interest rates are calculated based on LIBOR.

<sup>5</sup> Expresses the transfer rate of the deposit within maturity trenches by longer than 1 month to the maturity by less than 1 month.

When the scenarios involving all the stress factors used in stress tests within the frame of the econometric model used for forming scenarios and four different assumptions are analyzed;

In the scenario with an increase by 5% in Euro/TL rate within 3 workdays, it is foreseen that the cash loan loss rate will be 0.03 and that TL, USD and Euro interest rates will be respectively 5.9, 1.5 and 1.88, respectively. It is expected that the crossing rate between maturities will be 2.28%. Furthermore, a monthly increase by 34.72% is expected in stock prices, a fall by 16.84% is expected in USD rate and an increase by 15.76% is expected in Euro rate.

In the scenario with an increase by 5% in USD/TL rate within 3 workdays, TL, USD and Euro interest rates are realized respectively as 5.3, 2.4 and 2.2. Moreover, a monthly increase by 4.35% is expected in stock prices, as well as increases by 15.76% and 11.97% in USD and Euro Rates.

In the scenario with an increase by 2 and 3 points in TL interests within 2 workdays, it is foreseen that USD and Euro interest rates will be respectively by 2.76 and 2.63. Moreover, a monthly increase by 19.53% in stock prices, a fall by 22.75% in USD rate, and an increase by 2.25% in Euro rate are expected. It is foreseen that the cash loan loss rate will be 0.1%, and the crossing rate between maturities will be 3.55%.

In the scenario with decreases by 3.6%, 6.5% and 6.5% in the index, it is expected that the TL, USD and Euro interest rates will be realized respectively as 7.25, 2.68 and 2.66. The crossing rate between maturities is assumed to be 1.02%.

**Table 3.4-2: Scenario Test Results Profit – Loss**

Scenario Results Profit-Loss (TL Million)	From Exchange Rates	From Loans	From TL Interests	From USD Int.	From EUR Int.	Estimated Tot. P/L	Securities P/L
Daily Increase by 5% in Euro/TL Rate within 3 Workdays	-4.489,3	-138,1	2.077,9	744,1	67,3	-1.738,1	1.070,6
Daily Increase by 5% in USD/TL Rate within 3 Workdays	743,1	0	5.694,9	-585,1	-111,4	5.741,6	1.500,3
Increase by 2 and 3 Points in TL Interests within 2 Workdays	-3.600,4	-46	-27.258,7	-1.105,7	-348,9	-32.359,7	-9.586,9
Decrease by 3.6%, 6.5% and 6.5% in Index within 3 Workdays	68,6	-414,3	-5.805,1	-989,5	-364,2	-7.504,6	-2.542,5

The effect of the scenarios developed on the capital structure of the banking sector as of March 2011 is calculated by basing on total balance sheet of the banking sector. Among all scenarios, the one causing the highest loss is the one with the increase in TL interests by 2 and 3 points within 2 workdays. It is estimated that this scenario will cause a total loss by TL 32.4 billion with other risk factors. Another scenario causing high loss is the one with decrease in ISE 100 Index by 3.6%, 6.5% and 6.5% within 3 workdays. It is estimated that this scenario will cause a total loss by TL 7.5 billion with other risk factors. It is estimated that the scenario with an increase by 5% in Euro/TL rate within 3 workdays will cause a loss limited to TL 1.7 billion. On the other hand, it is estimated that the daily increase by 5% in USD/TL rate within 3 workdays will provide a profit for the sector according to the positions in present situation as well as risk factors affected. In these estimations, it is assumed that the current interest rate is 6.25% for TL and 2% for USD and Euro.

**Table 3.4-3: Scenario Test Results – Capital Adequacy**

Scenario Results Capital Adequacy (TL Million)	Estimated Equity	Est. P/L Affecting RAV (Exchange Rate Excluded)	Exchange Rate Variation Amount Affecting RAV	Est. RAV	Est. CAR (%)	Est. Capital Req. (%)	Est. CAR Under Minimum Rate
Daily Increase by 5% in Euro/TL Rate within 3 Workdays	130.856,0	2.751,2	-8.123,3	763.635,7	17,1	0	none
Daily Increase by 5% in USD/TL Rate within 3 Workdays	138.335,6	4.998,5	21.832,9	794.970,7	17,4	0	none
Increase in TL Interest Rates by 2 and 3 Points within 2 Workdays	100.234,4	-28.759,3	-21.115,3	730.368,3	13,7	0	none
Decrease in Index by 3.6%, 6.5% and 6.5% within 3 Workdays	125.089,5	-7.573,1	5.071,9	770.127,0	16,2	0	none

According to estimated profit/loss data, the scenarios causing the highest loss for the sector in Capital Adequacy Ratio are respectively the one with the increase in TL interests by 2 and 3 points within 2 workdays and the one with decrease in ISE 100 Index by 3.6%, 6.5% and 6.5% within 3 workdays. In the scenario with decrease in ISE 100 Index by 3.6%, 6.5% and 6.5% within 3 workdays, it is estimated that the CAR will be 16.2%. It is estimated that the realization of the scenario with increase in TL interests by 2 and 3 points within 2 workdays will cause a diminution of the sector's CAR to 13.7%. This scenario is the extreme scenario in which all the risk factors are negative, however the sector's CAR remains considerably high, which is considered as a positive fact showing the strength of the sector's capital structure.





