

Banking Sector Developments

November 2002



“Strong Banking Sector, Strong Economy”



Consolidation of the banking sector continues...

	1997	1998	1999	2000	2001	As of November 11, 2002
Commercial Banks	59	60	62	61	46	41
State	5	4	4	4	3	3
Private	35	36	31	28	22	21
Foreign	18	18	19	18	15	15
SDIF	1	2	8	11	6	2
Investment and Development Banks	13	15	19	18	15	14
State	3	3	3	3	3	3
Private	7	9	13	12	9	8
Foreign	3	3	3	3	3	3
TOTAL	72	75	81	79	61	55



Main Indicators of the Banking Sector

USD Million	I					II	
	1997	1998	1999	2000	2001	December 2001	July 2002
Total Assets	94.645	117.767	133.535	154.955	119.974	116.661	117.814
Loans	40.349	41.997	36.891	47.404	29.090	23.899	24.638
Non-performing Loans	1.014	3.248	4.309	5.895	6.123	9.595	7.969
Securities Portfolio	13.333	17.699	26.653	27.485	41.725	41.059	46.737
Deposits	55.552	69.630	80.316	87.680	76.686	75.938	76.202

I: Year-end data not reflecting three-staged audit and inflation accounting results.

II: Data reflecting three-staged audit and inflation accounting results.



Market Shares by Groups

	Share in Total Assets(%)		Share in Total Loans (%)		Share in Total Deposits (%)	
	December 2001	July 2002	December 2001	July 2002	December 2001	July 2002
State Banks	31,7	33,0	21,9	18,3	33,7	35,3
Private Banks	52,9	54,0	59,4	65,1	54,8	56,2
SDIF Banks	7,7	5,2	5,2	3,5	9,5	6,1
Foreign Banks	3,1	3,3	3,7	4,2	2,0	2,4
Investment and Development Banks	4,6	4,5	9,8	8,9	-	-
Total	100,0	100,0	100,0	100,0	100,0	100,0



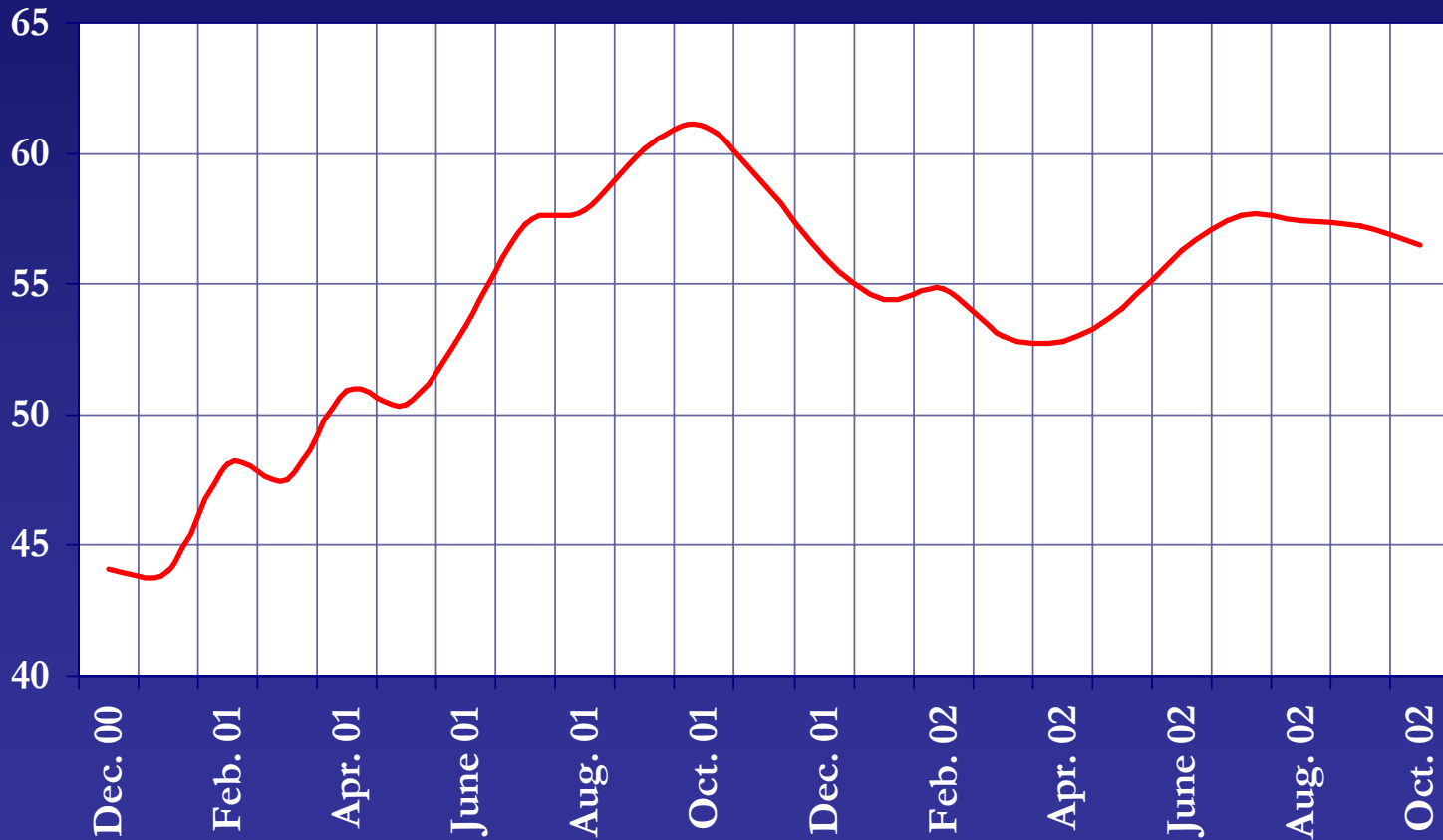
Developments in Deposits

- Total deposits as of October 2002 is TL 133.3 quadrillion (USD 80.1 billion). 42% of total deposits is denominated in TL while 58% is in FX terms.
- Of the total deposits;
 - 36% is in three big deposit taking state banks,
 - 41% is in four big deposit taking privately-owned banks,
 - 5% is in a big deposit taking SDIF bank.
- Level of deposit concentration for 8 big banks is about 82%.



The Share of Foreign Currency Deposits in Total Deposits which showed a decline after October 2001 increased in May-July period due to the devaluation of TL, but started to decrease thereafter.

F/X Deposit Accounts/Total Deposits (%)





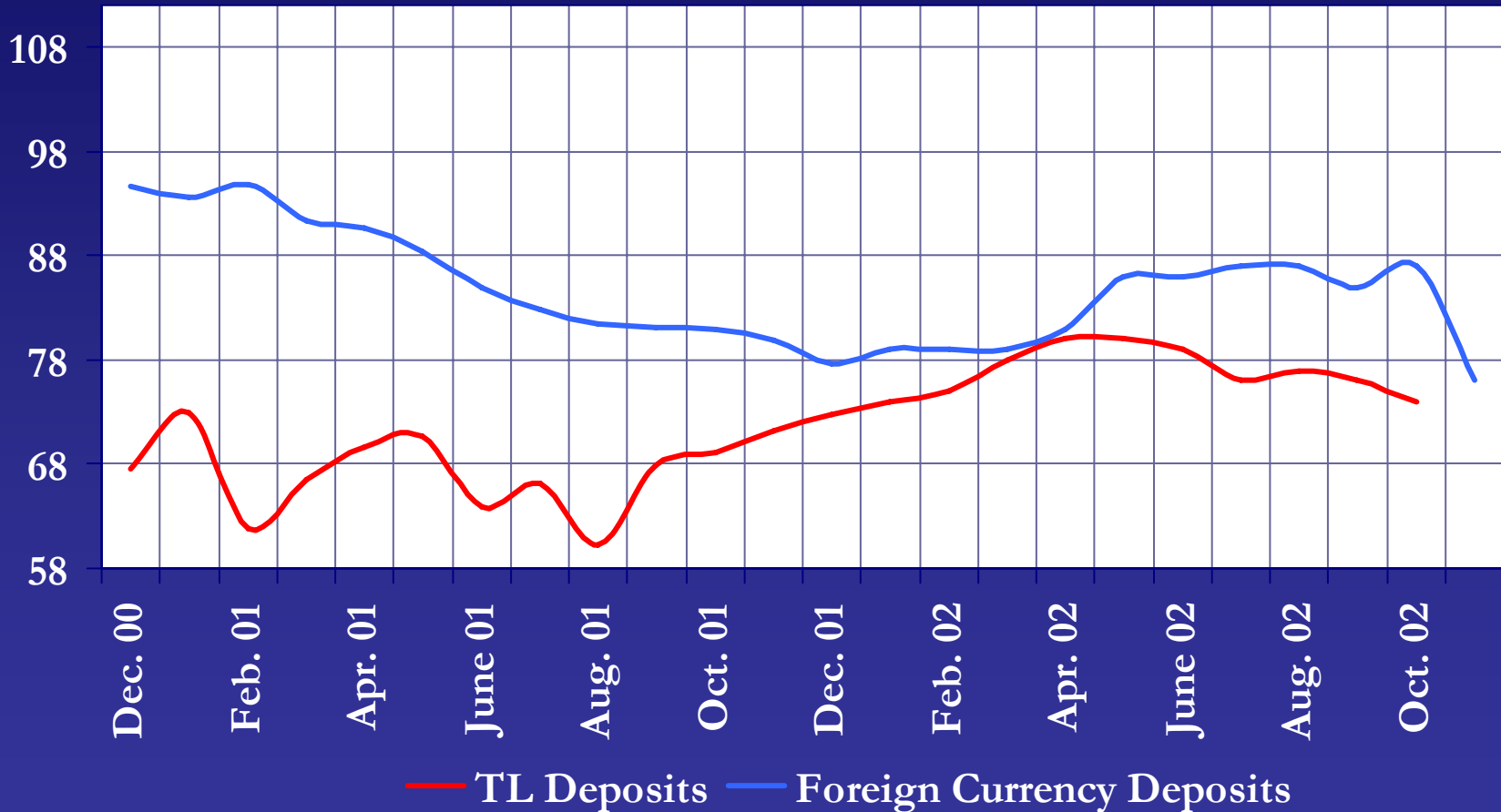
Maturity of Deposits

- A relative improvement is observed in deposit maturities when compared to 2001. However, as of October 2002, 50% of deposits are demand deposits and deposits with maturities less than a month.
- Deposits, having maturities of less than three months constitute about 88% of total deposits.
- As the maturity of domestic debt stock is 14.2 months and the average maturity of non-cash domestic debt stock is 65.5 months, it is apparent that banks obtain funds with very short maturities but can place these funds with 10 times longer maturities at best.



An increase in the average maturity of TL deposits compared to 2001 is particularly notable.

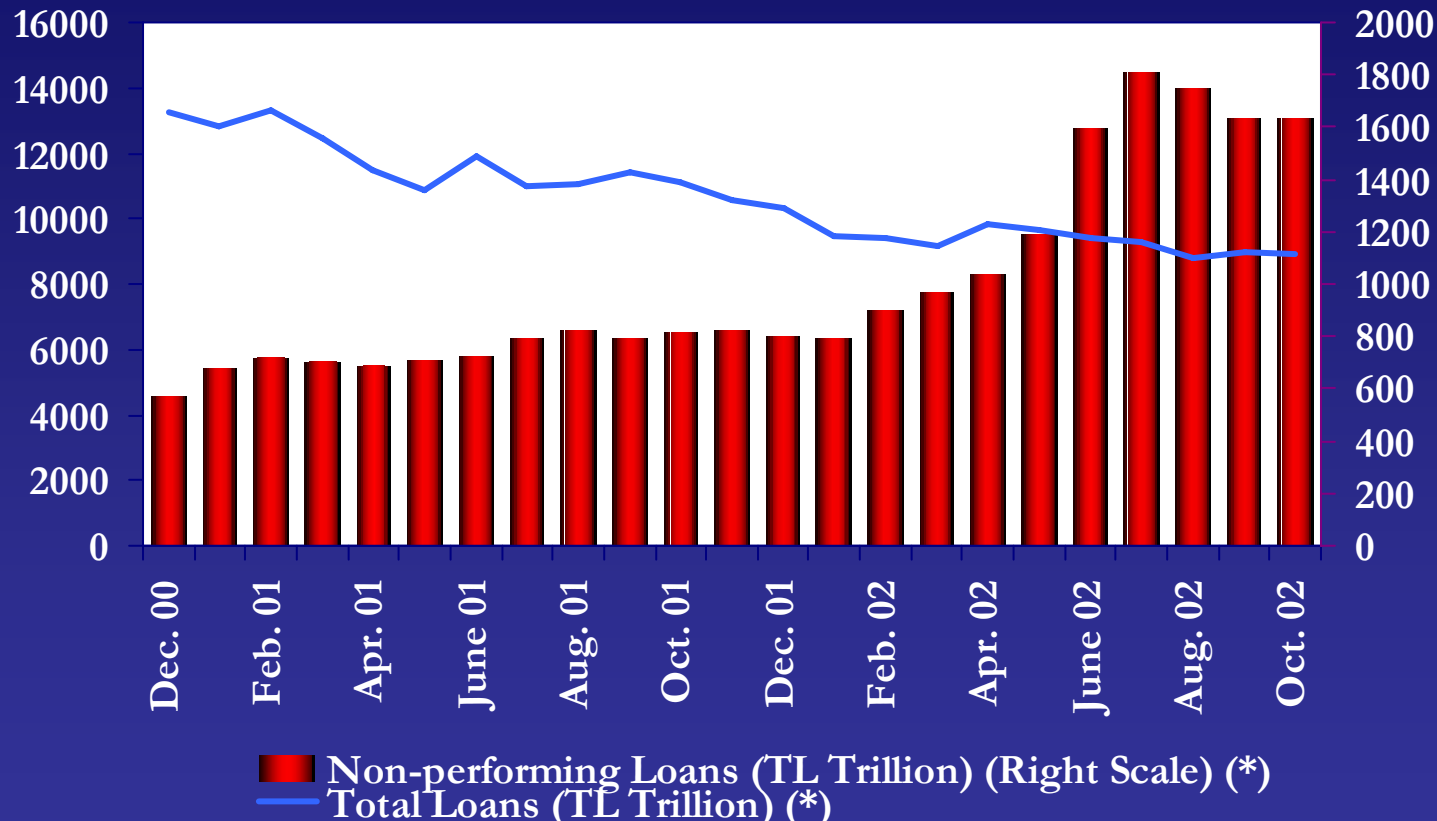
AVERAGE MATURITIES OF DEPOSITS





The decrease in the Total Loan Volume of Private Banks has slowed down considerably in the second half of 2002.

Developments in Loans (Private Banks)

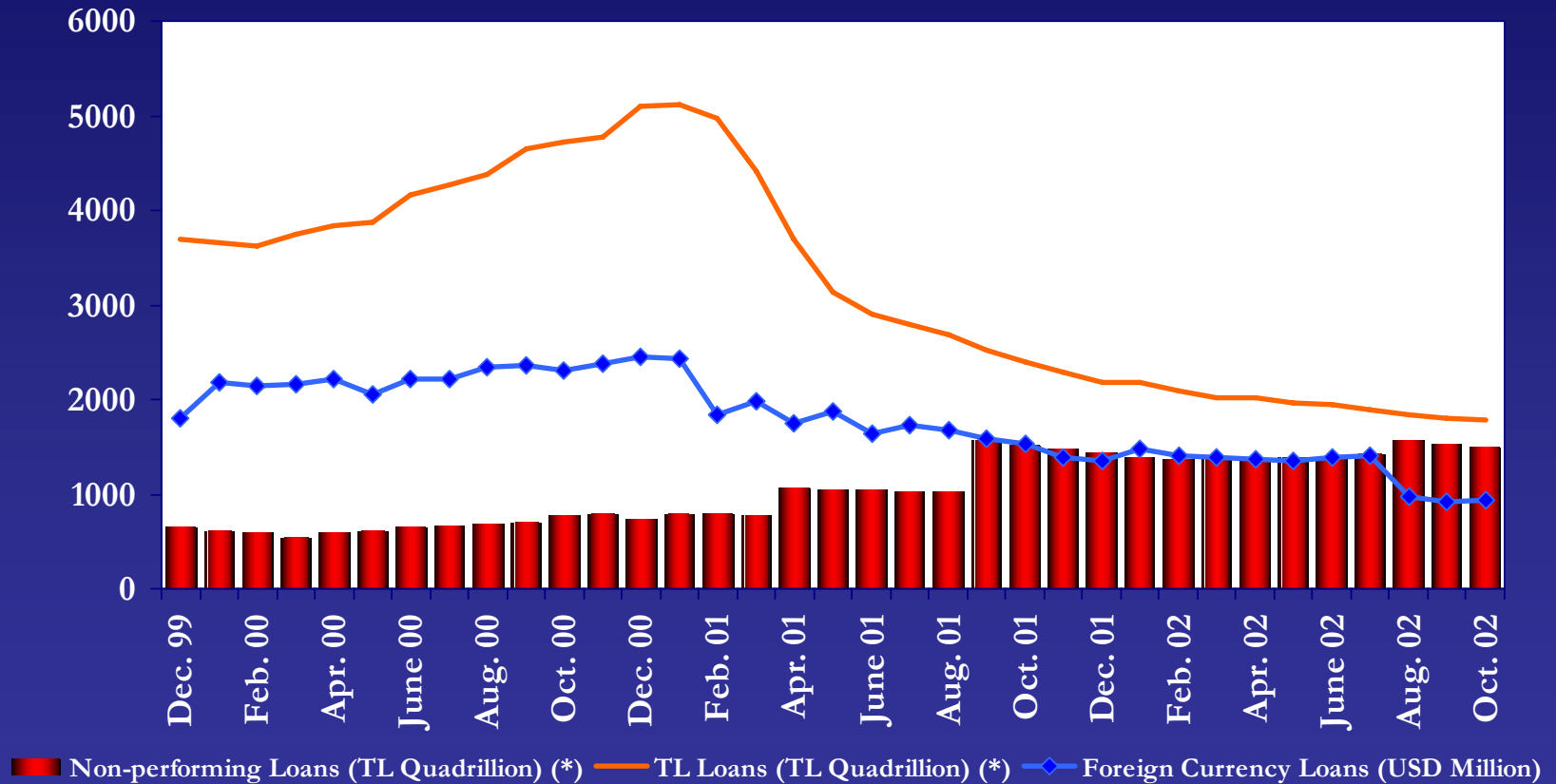


(*) TL Loans and non-performing loans are expressed in constant prices (December 2000). The unpaid accumulated interest accruals recorded under the loan account of Pamukbank are excluded from all of the series.



The sharp decrease in TL Loans of the State Owned Banks has slowed down considerably since the beginning of 2002.

Developments in Loans (State Banks)

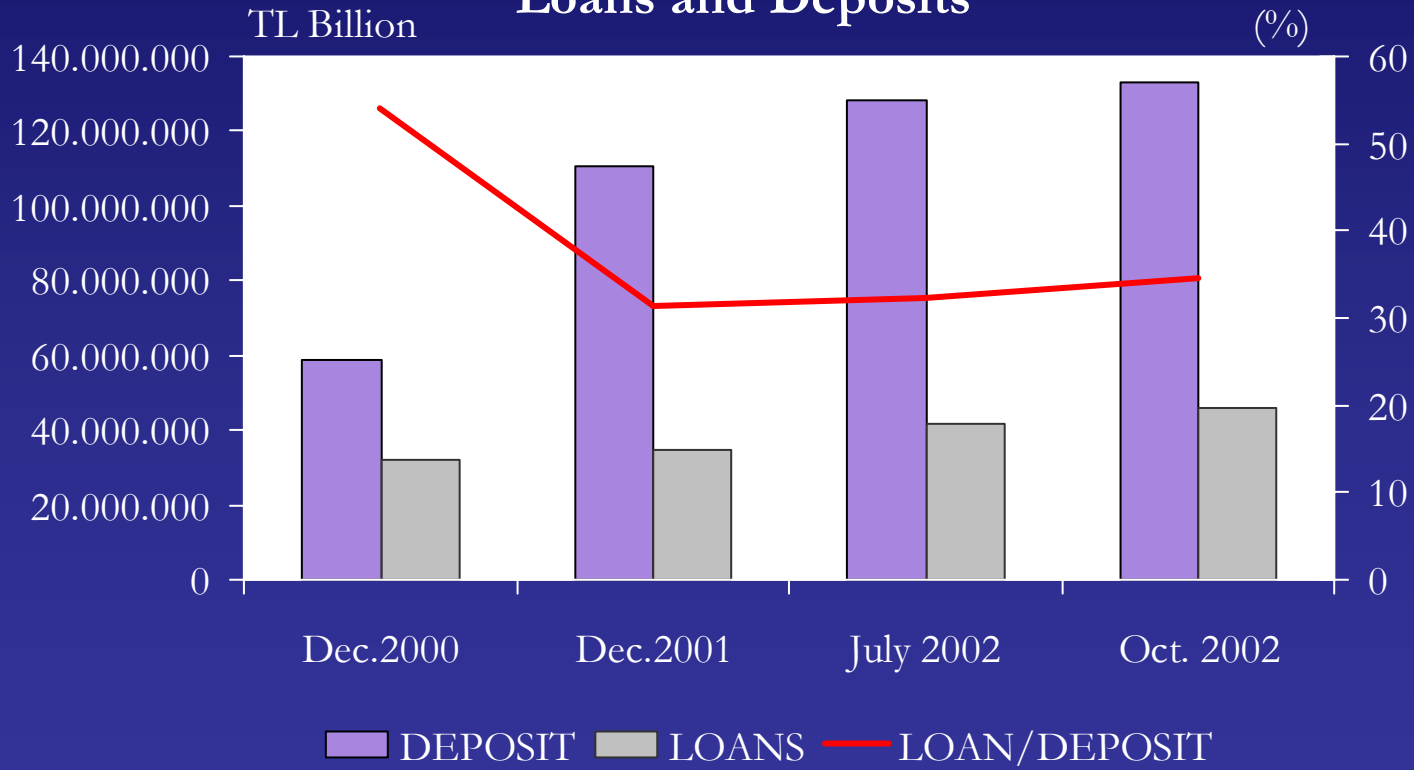


(*) TL Loans and non-performing loans are expressed in constant prices (December 1999).



As of October 2002, the amount of in-cash loans extended by banks is TL 46.1 Quadrillion, loans to deposits ratio is 34.6%.

Comparative Developments in Loans and Deposits





Non-Performing Loans (gross) Decreased to TL 13.4 Quadrillion as of July 2002 from TL 13.9 Quadrillion in End-2001.

TL 6.9 Quadrillion was Set Aside for These Receivables.

TL Trillion	DECEMBER 2001				JULY 2002			
	Non-Performing Loans (Gross)	Provisions Set aside	Non-Performing Loans(Net)	Transformation ratio of the NPLs(%)	Non-Performing Loans(Gross)	Provisions Set aside	Non-Performing Loans (Net)	Transformation ratio of the NPLs(%)
Public Banks	4.469	2.802	1.667	37,1	4.835	3.281	1.554	39,0
Private Banks	6.767	2.130	4.637	24,7	6.734	2.559	4.175	20,0
Foreign Banks	78	59	19	5,5	91	69	22	5,0
Dev. Inv. Banks	400	329	71	10,7	163	77	86	4,2
SDIF Banks	2.234	1.249	985	55,4	1.579	944	635	51,8
TOTAL	13.948	6.570	7.379	28,6	13.403	6.930	6.473	24,4
USD Million								
Public Banks		1.937	1.153		2.875	1.951	924	
Private Banks		1.473	3.205		4.004	1.521	2.483	
Foreign Banks		41	13		54	41	13	
Dev. Inv. Banks		228	49		97	46	51	
SDIF Banks		863	681		939	561	378	
TOTAL	9.642	4.541	5.100		7.969	4.120	3.849	



Total placements made on public securities by deposit taking banks are TL 80.9 quadrillion. It can be concluded by banks that TL 61 of each TL 100 deposits collected is lent to the Treasury.

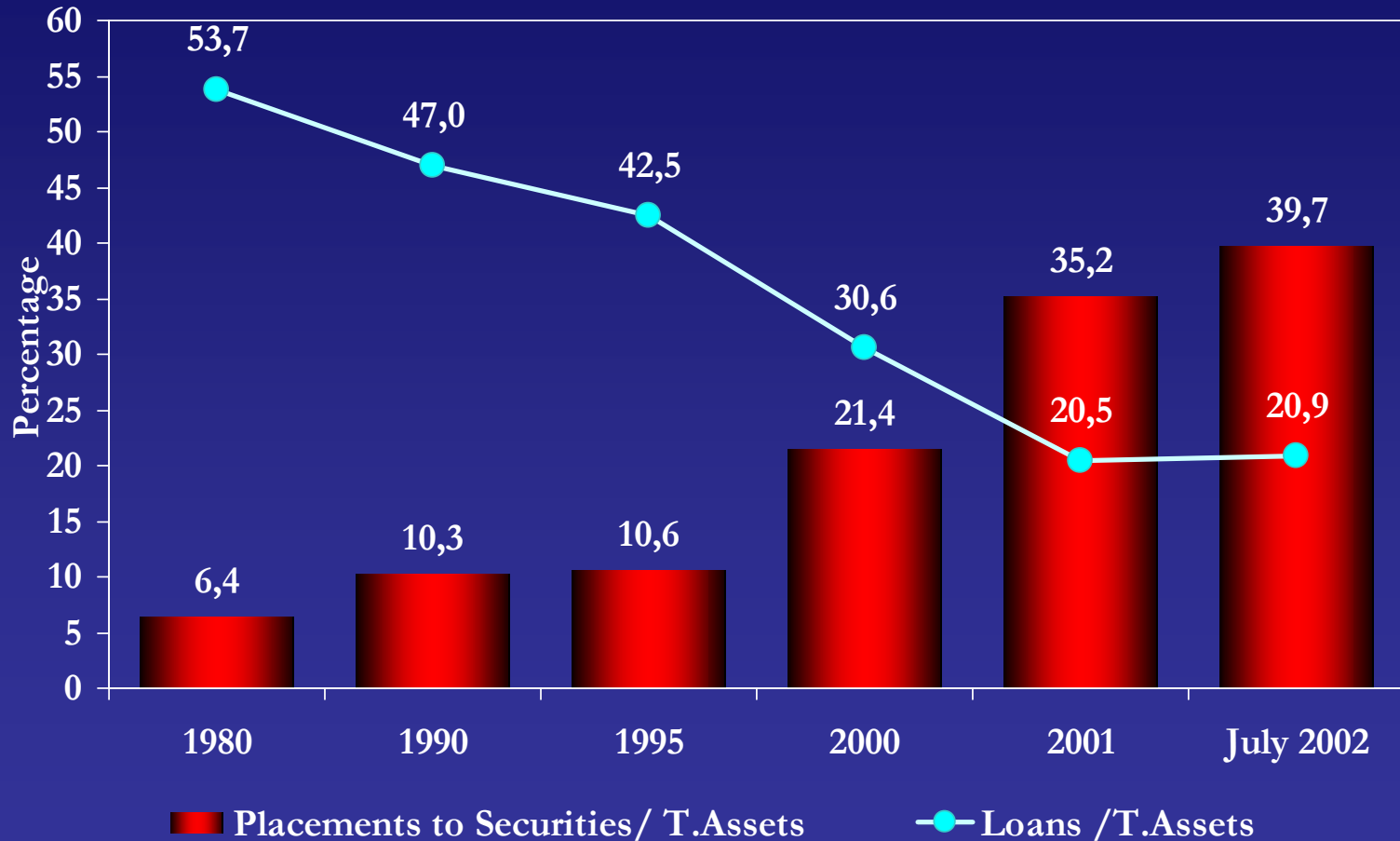
Comparative Developments in the Stock Securities and Deposits



(*) Securities Stock=Securities Portfolio + Fixed Securities (Including Repo)



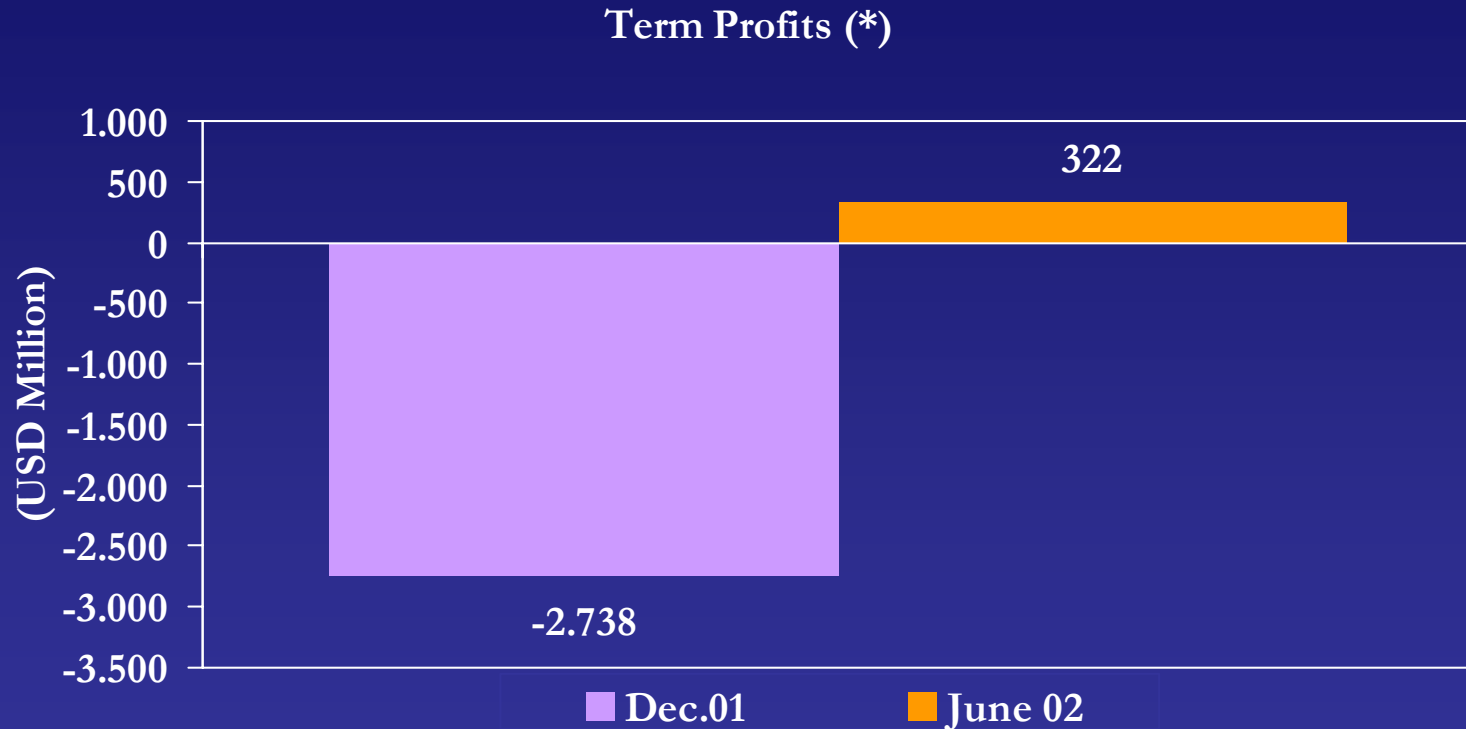
High public deficits limit the resources transferable to the real sector.



Note: 2001 and July 2002 data reflect the after three-staged audit and inflation accounting results.



There has been an important progress in profitability performances of private banks in the first half of 2002.

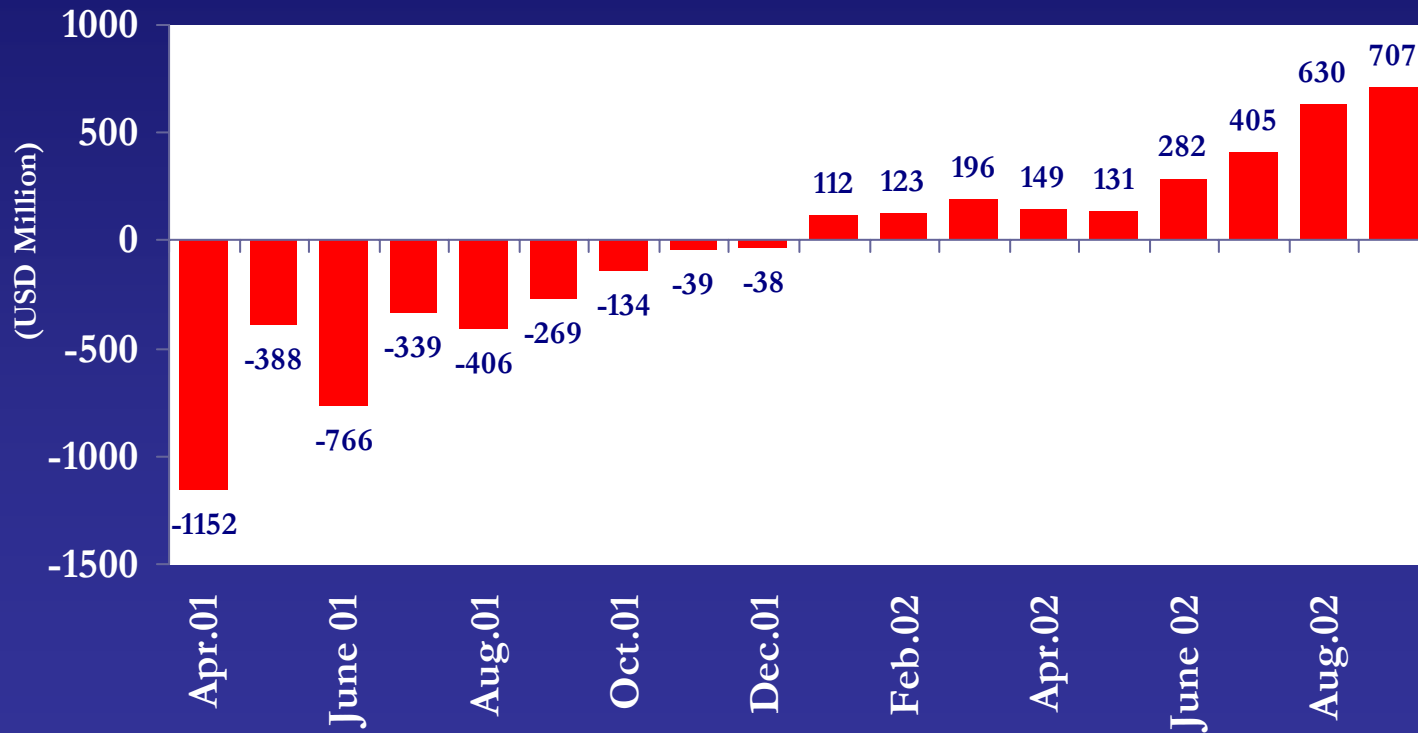


(*)Refers to profit/loss position of the 25 Bankscovered by the Bank Capital Strengthening Program.



State banks also have started to generate profits in 2002.

Term Profits of State Banks





Capital Structure of the Sector has been Strengthened.

- Capital support has been provided to State and SDIF banks.
- Capital needs of private banks have been determined upon completion of the three-stage audit process.
- Capital structure of the banks having capital shortage has been strengthened.
- Capital has been set aside for market risks.



Capital Adequacy of the Sector as of July 2002

- Private Banks have realized capital increases amounting to TL 2.2 quadrillion as of end 2001.
- Capital increases realized during the first seven months of 2002 amounts to TL 528 trillion.
- A subordinated loan amounting to TL 213.4 trillion was extended to Vakıflar Bankası, which was determined to have a capital shortage following the recapitalization program, by the SDIF from the Treasury resources.
- Total own funds of the sector amounts to TL 20.2 quadrillion (USD 11.9 billion) excluding the SDIF banks, and TL 16.5 quadrillion (USD 10.3 billion) including the SDIF banks.
- Capital adequacy ratio of the sector as of July 2002 is 16.75%.



On-balance sheet FX open position of the sector (including FX indexed positions) has decreased to USD 460 million as of October 11 from USD 18.4 billion in November 2000.

USD Million	On-Balance Sheet Foreign Currency Position (Including FX indexed Positions)			Foreign Currency Net General Position		
	November 2000	December 2001	October 11, 2002	November 2000	December 2001	October 11, 2002
Public	-184	-130	190	-184	-132	189
Private	-10.674	-1.486	-119	-954	110	-122
SDIF	-5.177	-441	-433	-4.777	-441	-432
Foreign	-1.966	108	-118	-110	-9	-14
Development & Investment	-441	40	18	-108	22	59
TOTAL	-18.442	-1.909	-460	-6.133	-450	-320



Besides the foreign exchange rate risk, the interest rate and credit risks have come down to manageable levels.

■ Interest Rate Risk

- Issuance of bonds with variable interest rates contributes to the limiting of interest rate risk.
- Sensitivity of State Owned and SDIF banks to interest rate risks has been reduced considerably.

■ Credit Risk

- The non-performing loans have been adequately classified after the three-stage audit.
- Collaterals have been taken into account realistically .
- Setting-aside of necessary provisions has been ensured.



Reflections of the Restructuring Program on the Banking Sector

- The banking sector entered into a consolidation process.
- The weight of State Owned and the Fund banks in the system has declined.
- Financial risks of the Banking sector have been reduced to manageable levels.
- Capital structure of the sector has been strengthened.
- The sector has re-entered into a growth period.
- The profitability performance of Private banks has improved and State Owned banks have started to generate profit.



Although risks in the sector have been significantly limited after the restructuring, banking system remains fragile.

- High volume of non-performing assets and the need for their prompt resolution
- High level of intermediation costs and low profitability
- Share of Government Securities portfolio in total assets preserves its high level



SPECIAL FINANCE INSTITUTIONS

- According to consolidated data of SFIs as of July 2002;
- Funds collected by these institutions amount to TL 2.7 quadrillion.
- Their total assets are TL 3.3 quadrillion.
- Asset market share of the 5 SFIs is 1.6 %, and the share of funds collected by them in total deposits of the sector is 2.1 %.
- The fact that losses incurred from non-performing loans are not reflected to the depositors' accounts with the concern of not being able to distribute dividend constitutes a potential risk for this sector.