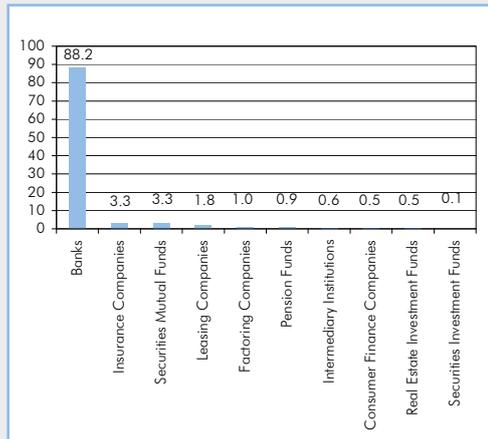


II. STRUCTURE OF THE FINANCIAL SECTOR

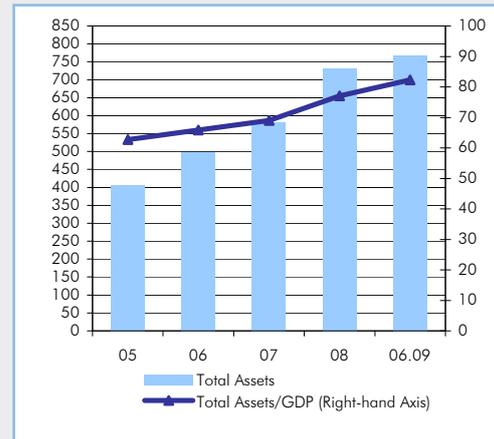
The Turkish financial sector maintained its growth trend in the first half of 2009, as well.

Chart II.1.
Composition of Balance Sheet of the Financial Sector (%)¹



Source: BRSA, CBRT, Associ. of Capital Market Intermediary Institutions, CMB
(1) Figures are as of June 2009.

Chart II.2.
Balance Sheet Size of the Banking Sector (Billion TL, %)



Source: BRSA-CBRT, TURKSTAT

The total asset size of the financial sector, which grew by 5.3 percent compared to the end of the previous year, reached TL 871 billion by the first half of 2009. 88.2 percent of financial sector assets belong to banks (Chart II.1).

II.1. Banking Sector

The Turkish banking sector consists of deposit banks, development and investment banks and participation banks that operate according to profit/loss sharing principles.

In August 2009, the number of banking sector staff reduced by 882 compared to end-2008 to become 181,788, whereas in September 2009, the number increased to 182,226. The number of banks, which was 49, remained unchanged.

In September 2009, the total asset size of the banking sector grew by 6.7 percent in real terms compared to the end of previous year and reached TL 798 billion, while it climbed by 12.3 percent to 541 billion in USD terms.

The ratio of the Turkish banking sector's asset size to GDP increased to 82.3 percent in the first half of 2009 from 77.1 percent at end-2008 (Chart II.2).

Meanwhile, as of September 2009, the concentration ratios of the first five banks and the first ten banks were realized as 60 percent and 83 percent, respectively, and these ratios remained unchanged in comparison to the end of 2008.

Table II.1 Indicators of the Banking Sector's Financial Depth and Intermediation Function^{1,2,3}

Years	Deposits/GDP	Loans/GDP	Loans/Deposits
2005	38	25	66
2006	40	30	74
2007	42	35	83
09.08	44	39	89
2008	47	40	84
06.09	50	41	83

Source: BRSA-CBRT, TURKSTAT

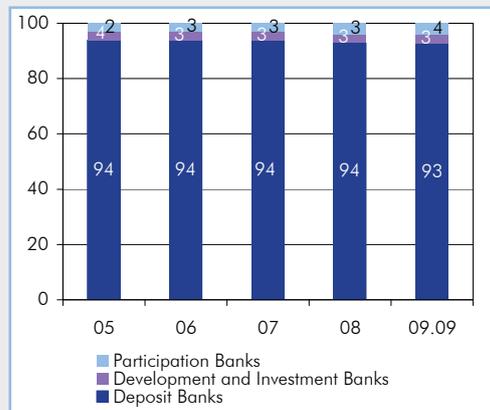
(1) Non-performing loans are included in loans.

(2) Deposits include participation funds, loans include funds extended by participation banks.

(3) Due from banks and due to banks are excluded.

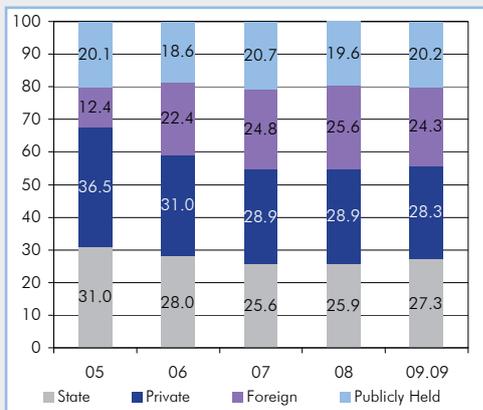
The ratios of deposits and loans to GDP, which reveal the financial depth and intermediation level of the banking sector, kept increasing; while the ratio of loans to deposits decreased. (Table II.1)

Chart II.3. Banking Sector Assets by Groups (%)



Source: BRSA-CBRT

Chart II.4. Banking Sector Assets According to Equity Ownership (%)¹



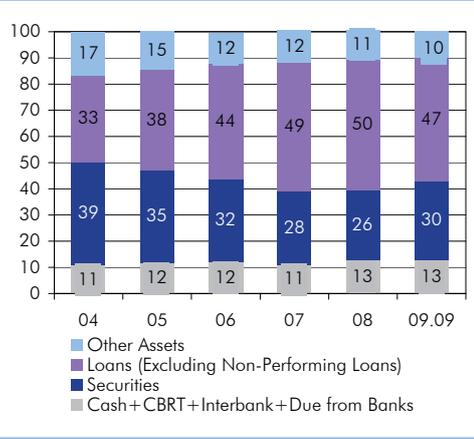
Source: BRSA-CBRT

(1) For publicly held shares no distinction is made between domestic and foreign investors

By September 2009, of the 49 banks in the Turkish banking sector, 32 are deposit banks, 13 are development and investment banks and 4 are participation banks, thus pointing to the prevalence of deposit banking in the Turkish banking sector (Chart II.3).

Based on their share in paid-up capital, the share of foreign stockholders in assets, which was 25.6 percent at end-2008, was realized as 24.3 percent in September 2009 (Chart II.4). Meanwhile, according to data of the Central Registry Agency, when the share of foreign participation in publicly held shares, which stood at 17.5 percent, are included, the share of foreign participation in the banking sector reaches 41.8 percent.

Chart II.5.
Asset Structure of the Banking Sector (%)



Source: BRSA-CBRT

Chart II.6.
Liability Structure of the Banking Sector (%)



Source: BRSA-CBRT

Loans, having the largest share in asset items, decreased by 3 points compared to end-2008, while the share of securities increased by 4 points to 30 percent as of September 2009 (Chart II.5).

As of September 2009, the share of deposits as the largest source of external funds increased by 1 point and the share of due to banks decreased by 2 points compared to end-2008, whereas the share of equity and other liabilities increased by 1 point and 2 points, respectively (Chart II.6).

II.2. Banking Sector Profitability and Capital Adequacy

II.2.1. Profitability^{1,2}

Net profit of the sector was TL 15.1 billion in the first 9 months of 2009, after having increased by 42.3 percent over the same period of the previous year.

Table II.2 Net Profit and Its Components (Million TL)

	09.08	09.09	Change (%)
I. Operating Income (A+B)	32,339	42,954	32.8
A- Net Interest Income	21,928	29,924	36.5
B- Non-Interest Income ¹	10,411	13,030	25.2
II. Non-Interest Expenses (C+D)	19,981	24,953	24.9
C- Prov. for Credits and Other Receiv.	5,239	9,658	84.3
D- Other Operating Expenses	14,742	15,295	3.7
III. Net Operating Profit (I-II)	12,357	18,001	45.7
IV. Other Income ²	957	756	-24.5
V. Provision for Taxes	2,681	3,621	22.6
VI. Net Profit (III+IV-V)	10,633	15,136	42.3

Source: BRSA - CBRT

(1) Non-Interest Income=Net fees and Commissions Income (including Banking Services Income) + Dividend Income + Net Trading Income (Loss) + Other Operating Income

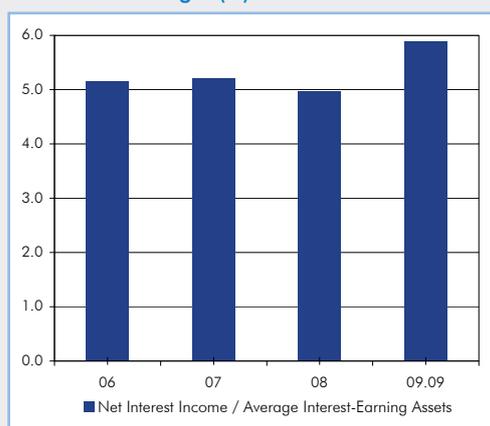
(2) Other Income = Profit Share Received Excluding Dividend Income + Extraordinary Income (Expenses)

¹ Due to variations in operating principles, assessments in this section do not include participation bank.

² The bank taken over by SDFI is not included.

In September 2009, operating income was instrumental in the surge of banking sector profits; and the increase in operating income was essentially driven by net interest income. Besides, the increase in net trading income resulting from the increase in profits obtained from capital market transactions due to the rise in profits in securities purchases and sales also pushed up non-interest income. Meanwhile, the significant surge in provisions for credits and other receivables continue to hamper profitability. The rise in non-performing loans is expected to further affect profitability adversely in the rest of 2009 (Table II.2).

Chart II.7.
Net Interest Margin (%)



Source: BRSA-CBRT

Chart II.8.
Return on Assets and Return on Equity (%)

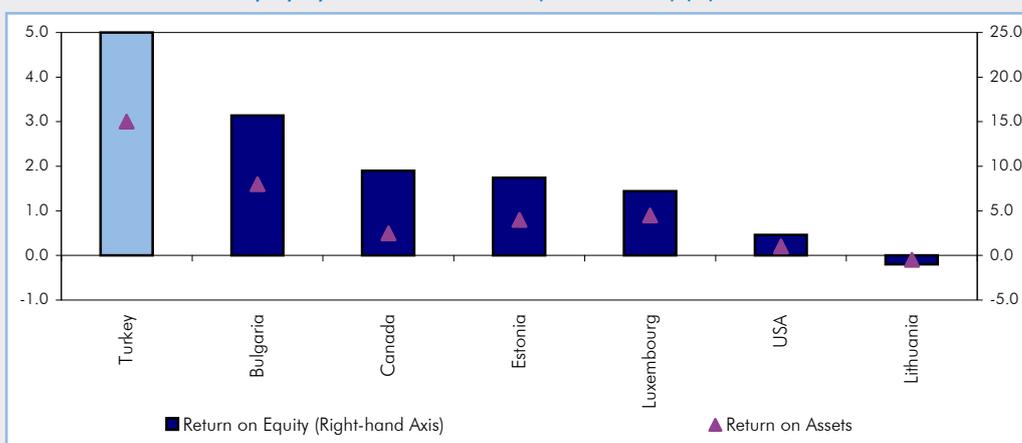


Source: BRSA-CBRT

The ratio of net interest income to average interest-earning assets, which was 5 percent at end-2008, went up to 5.9 percent in September 2009 (Chart II.7). This rapid increase is mainly attributable to the decline in funding costs due to the Central Bank's policy rate cuts along with the increase in net interest income as the said rate cuts were not reflected on interest on loans at the same rate.

As of September 2009, the return on assets and the return on equity of the banking sector displayed a remarkable increase compared to end-2008 and was realized as 2.7 percent and 21.6 percent, respectively (Chart II.8).

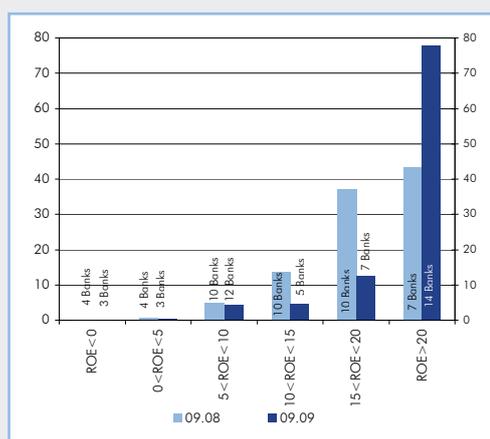
Chart II.9.
Return on Assets and Equity by Selected Countries (March 2009) (%)



Source: Global Financial Stability Report, IMF-October 2009

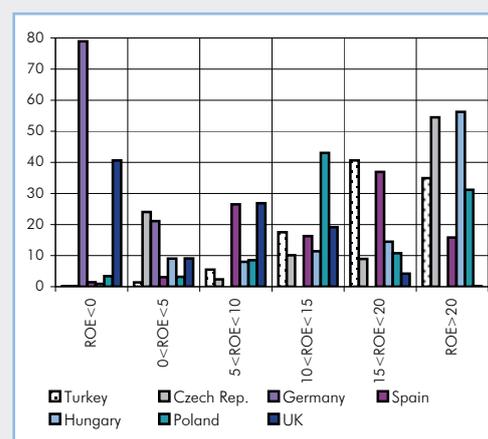
A comparison of the Turkish banking sector with selected countries for the March 2009 period suggests that both return on assets and return on equity perform well on the Turkish side (Chart II.9).

Chart II.10.
Return on Equity Based on Asset Share (%)



Source: BRSA-CBRT

Chart II.11.
Return on Equity Based on Asset Share by Selected Countries (%) (December 2008)



Source: BRSA-CBRT, EU Banking Sector Stability, ECB, August 2009

A comparison of September 2009 and September 2008 indicates that the number of banks with return on equity above 15 percent rose from 17 to 21; while their share within total assets went up from 80.6 percent to 90.3 percent. On the other hand, the surge in asset share of banks with return on equity above 20 percent is more remarkable. The number of banks declaring losses went down from 4 to 3 (Chart II.10).

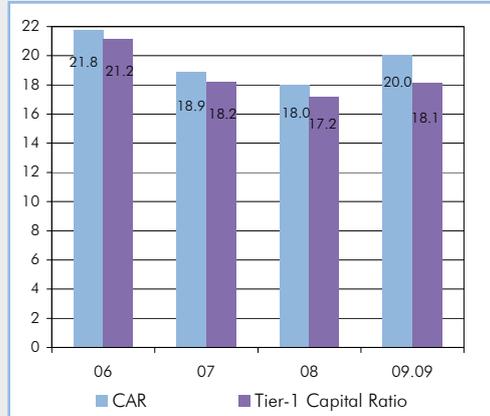
A comparison between asset shares in terms of return on equity of banks in selected countries suggests that the asset share of banks with a return on equity above 15 percent is far too high in Turkey compared to both developed and developing countries. While the asset share of banks declaring losses stood at 0.1 percent in Turkey and the Czech Republic, it emerged higher in other countries (Chart II.11).

The surge in both net interest income and net trading income due to the decline in interest rates in the first nine months of 2009 had a favorable effect on the sector's profitability. Nevertheless, competition in credit granting among banks that has spilled over onto prices and expected hikes in non-performing loans lead to anticipation that the sustainability of a similar performance in profits in 2010 is highly unlikely.

II.2.2. Capital Adequacy

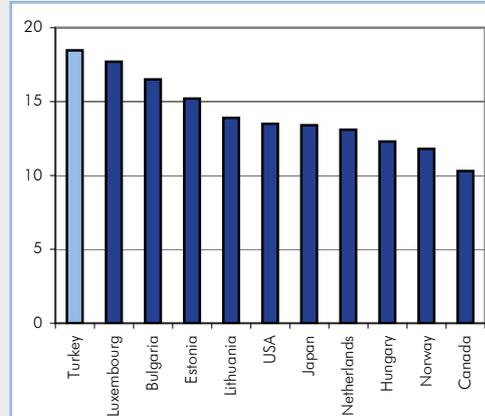
The unconsolidated capital adequacy ratio (CAR) of the banking sector, which is the ratio of own funds to total exposure stemming from credit, market and operational risks, is above both the minimum requirement of 8 percent and the target ratio of 12 percent for all periods under review.

Chart II.12.
Capital Adequacy Ratio (Unconsolidated) (%)



Source: BRSA-CBRT

Chart II.13.
CAR by Selected Countries (March 2009)



Source: Global Financial Stability Report, IMF-October 2009

Although the CAR of the banking sector displayed a decrease in 2007 and 2008 due to not only the convergence process to Basel II but also the growth in loans, it went up by 2 points in September 2009 compared to end-2008 and reached 20 percent (Chart II.12). This essentially stemmed from high profitability and the strengthening of own funds due to the effect of the Securities Revaluation Fund.

In September 2009, the tier-1 capital ratio, which is the ratio of core capital to total exposure stemming from credit, market and operational risks, also displayed a similar tendency and became 18.1 percent with an increase of 0.9 points compared to end-2008 (Chart II.12).

In spite of the negative impact of the global crisis, the CAR of the banking sector maintained its high level in comparison with the selected countries (Chart II.13). Particularly in developed economies, in a period when the capital erosion of banks due to the consequences of the crisis was overcome through capital increase and/or government support, the Turkish banking sector did not need any capital support.

Table II.3. The Ratio of Capital Intervention by Government to GDP by Selected Countries

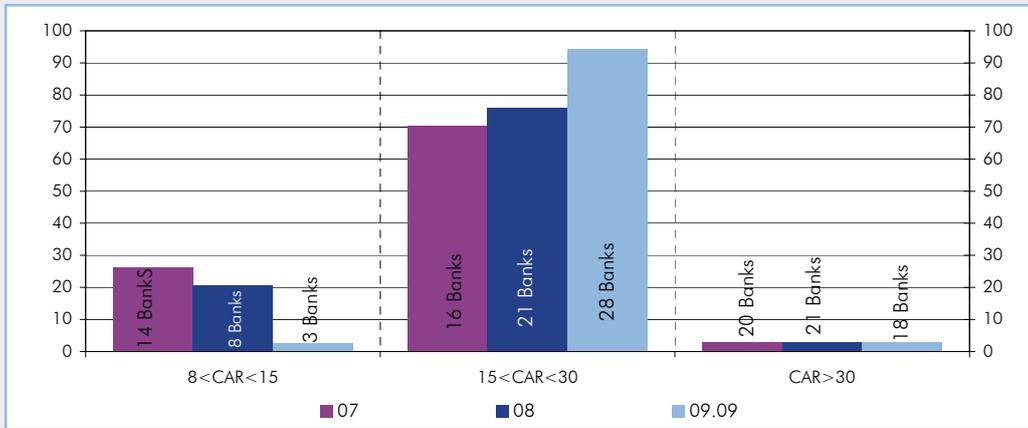
Countries	Recapitalization (%)
Euro Area ¹	1.82
Japan	0.02
Sweden	1.95
Switzerland	1.06
UK	2.19
USA	3.19

Source: Global Financial Stability Report, IMF- October 2009

(1) GDP-weighted composite of Austria, France, Germany, Greece, Ireland, Italy, Netherlands, and Spain

Capital interventions of countries to their financial sectors added up to an enormous amount. To exemplify, capital support granted in the USA by the government reached 3.19 percent of the national income (Table II.3).

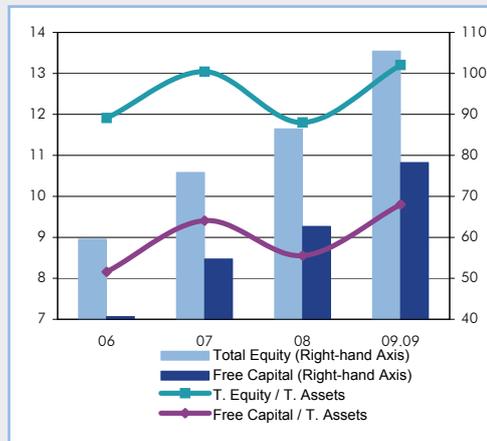
Chart II.14.
Asset Share of Banks Based on Capital Adequacy Ratio (%)



Source: BRSA-CBRT

The CAR of 42 banks, which held 79.2 percent of sector assets, remained above 15 percent at end-2008; whereas that of 46 banks holding 97.4 percent of sector assets realized above 15 percent in September 2009 (Chart II.14). Meanwhile, shares of sector assets of banks with CARs between 8 and 15 percent fell from 20.8 percent to 2.6 percent.

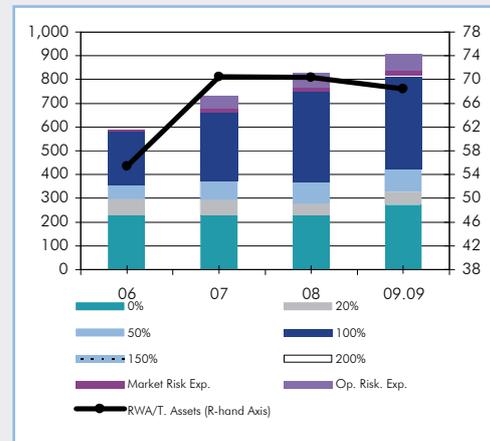
Chart II.15.
Free Capital of the Banking Sector
(%, Billion TL)



Source: BRSA-CBRT

The ratios of free capital to total assets and total shareholders' equity to total assets indicated an increase in September 2009 compared to the figures of end-2008. The surge in free capital, despite the rise in NPLs, signifies the high quality of the banking sector's capital (Chart II.15).

Chart II.16.
Composition of Total Risk Exposure
(Billion TL, %)

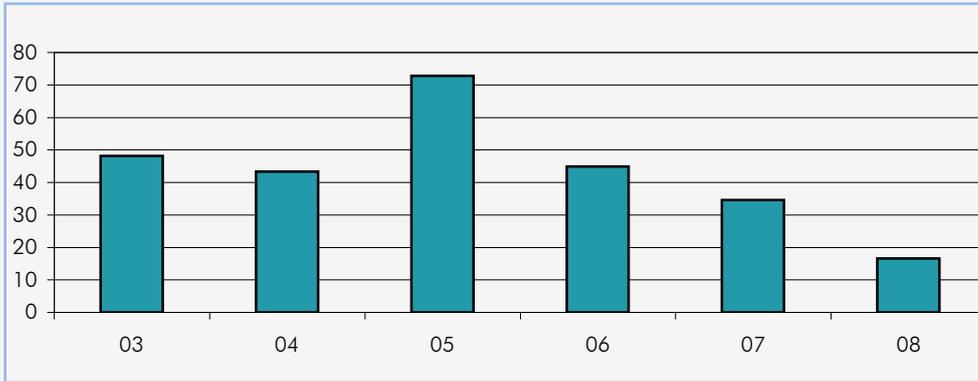


Source: BRSA-CBRT

The ratio of total exposure stemming from credit, market and operational risks to total assets decreased from 70.4 percent at end-2008 to 68.4 percent in September 2009 (Chart II.16).

Box 9. Dividend Payout Ratio of Deposit Banks

Chart 1. Dividend Payout Ratio of Deposit Banks (%)



Source: BRSA-CBRT, Audit Reports of Banks

For deposit banks, dividends paid amounted to TL 2 billion at end 2008, decreasing by 57.1 percent compared to the end of the previous year. The dividend payout ratio of deposit banks decreased from 34.6 percent at end-2007 to 16.6 percent at end-2008 (Chart 1). The global crisis has reinforced the significance of maintaining a strong capital structure for banks. In this respect, banks' retaining their profits is regarded as a positive development.

Chart 2. Effects of Alternative Dividend Payout Ratios on Tier 1 Capital Ratio (%)



Source: BRSA-CBRT, Audit Reports of Banks

The effects of a partial dividend payment or total suspension of dividend payments from profits of 2007 and 2008, on the tier 1 capital ratio of deposit banks, were analyzed. Accordingly, a total suspension of 2007 dividend payments would have increased the tier 1 capital ratio by 1 percentage point in 2008, from 15.6 percent to 16.6 percent.

The total suspension of dividend payments from the profit for end-2008 would have increased the tier 1 capital ratio from 16.6 percent to 17 percent as of September 2009, while the 50 percent dividend payment from profit for 2008 would have decreased the tier 1 capital ratio to 15.8 percent (Chart 2).