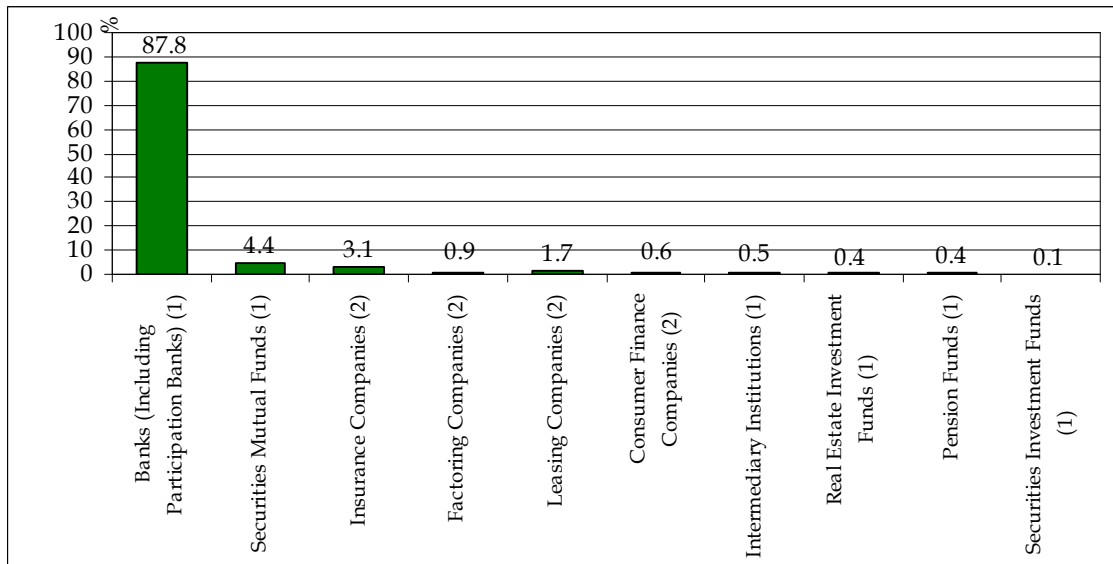


## SECTION II

### STRUCTURE OF THE FINANCIAL SECTOR

The Turkish financial sector has continued to demonstrate stable growth despite the fluctuation period of May-June 2006. Furthermore, the interest of foreign investors in the banking sector has also continued increasingly in the same period.

**Chart II.1**  
**Balance Sheet Size of the Financial Sector**



Source: BRSA, CBRT, Turkish Capital Market Intermediary Institutions, CMB

(1) As of September 2006, (2) As of June 2006

The total asset size of the financial sector increased by 15 percent as of September 2006, when compared to the previous year-end and reached 539.3 billion New Turkish Liras. About 88 percent of total financial sector assets are composed of bank assets (Chart II.1).

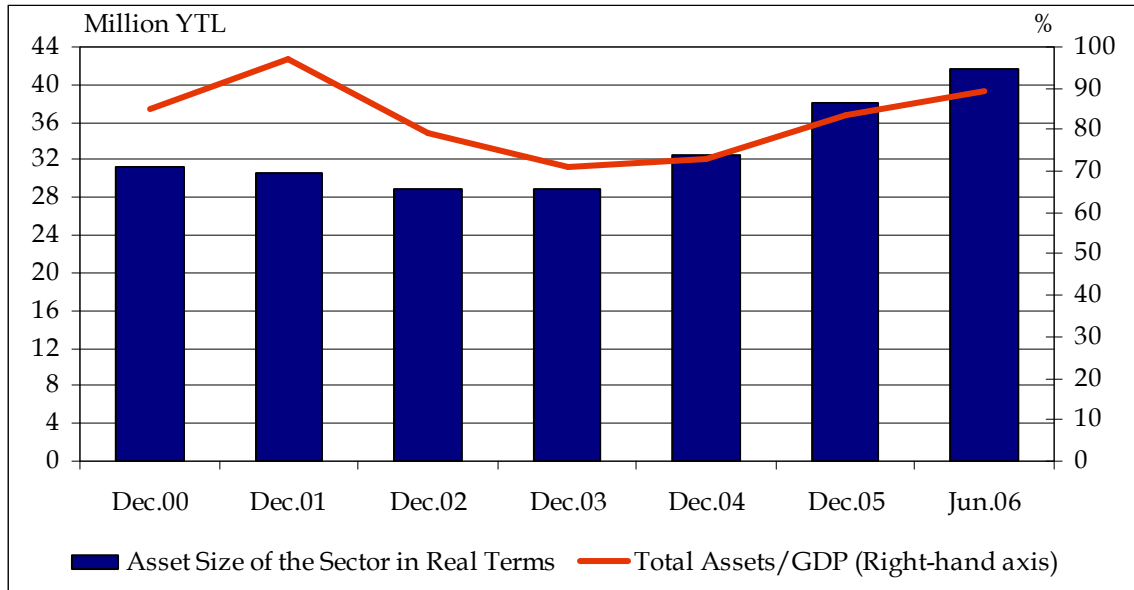
## II.1. Banking Sector

The Turkish banking sector consists of deposit banks, development and investment banks and participation banks that operate according to the profit/loss sharing principle. Data of participation banks are included in the assessments of this section.

The number of banks in the sector decreased to 50 as a result of the merger of Yapı Kredi Bankası and Kocbank as of October 2006 and the number of personnel increased by 9,593 when compared to the year-end and reached 148,250 as of September 2006.

The asset concentration ratio of the largest five banks is 59 percent and the largest 10 banks is 82 percent as of September 2006. These ratios have not changed significantly when compared to the previous year-end.

**Chart II.1.1**  
**Development of the Banking Sector<sup>1</sup>**



Source: BRSA-CBRT

<sup>1</sup> Asset size of the banking sector is expressed in real terms by using the "1994=100 CPI"

As of June 2006, the total asset size of the banking sector increased by 15 percent compared to the previous year-end and reached 467.5 billion New Turkish Liras. In USD terms, the total asset size decreased to 291.7 billion USD from 303.3 billion USD in the same period as a result of the increase in foreign exchange rates. On the other hand, total asset size of the sector has reached 473.7 billion New Turkish Liras and 317.5 billion USD as of September 2006.

While the asset size of the Turkish banking sector to GDP ratio was realized as 83.5 percent in 2005, it reached 89.5 percent in June 2006 (Chart II.1.1). This indicates

that the Turkish banking sector has been growing more rapidly than GDP, which has been continuously increasing for the last 18 quarters.

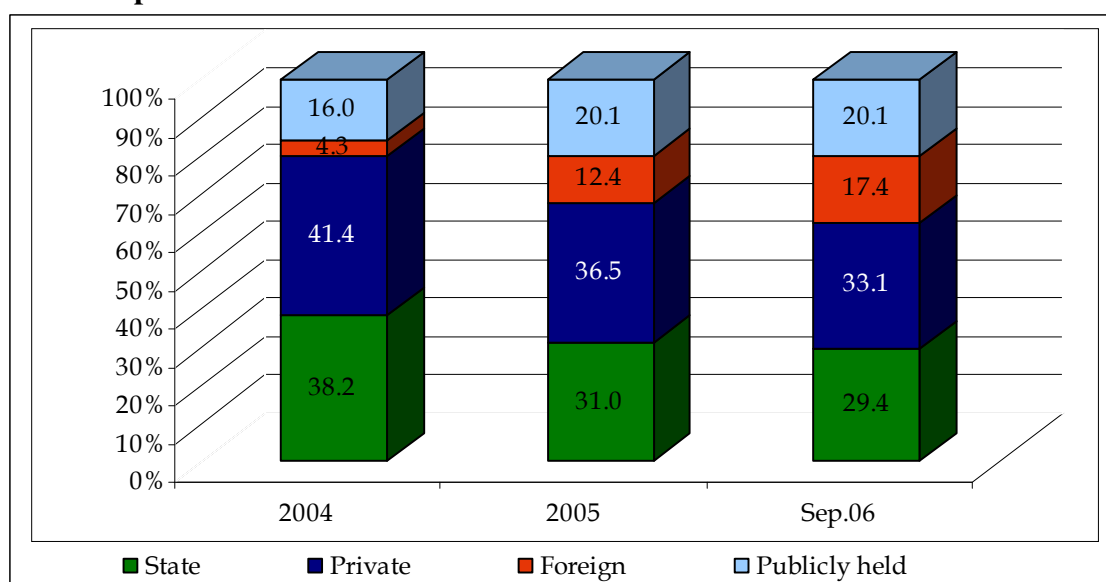
**Table II.1.1**  
**Financial Depth and Intermediation Ratios of the Banking Sector**

Years	Deposits/GDP	Loans/GDP	Loans/Deposits
2002	51.6	22.6	43.9
2003	44.3	21.8	49.1
2004	45.8	25.8	56.3
2005	51.5	33.6	65.3
2006/6	55.8	40.5	72.5

Source: BRSA-CBRT

Loans to deposits, deposits to GDP and loans to GDP ratios have all continued to increase. This indicates that access to financial services by the public and the intermediation level of the banking sector has further improved (Table II.1.1).

**Chart II.1.2**  
**Distribution of the Turkish Banking Sector Assets According to Equity Ownership<sup>1</sup>**



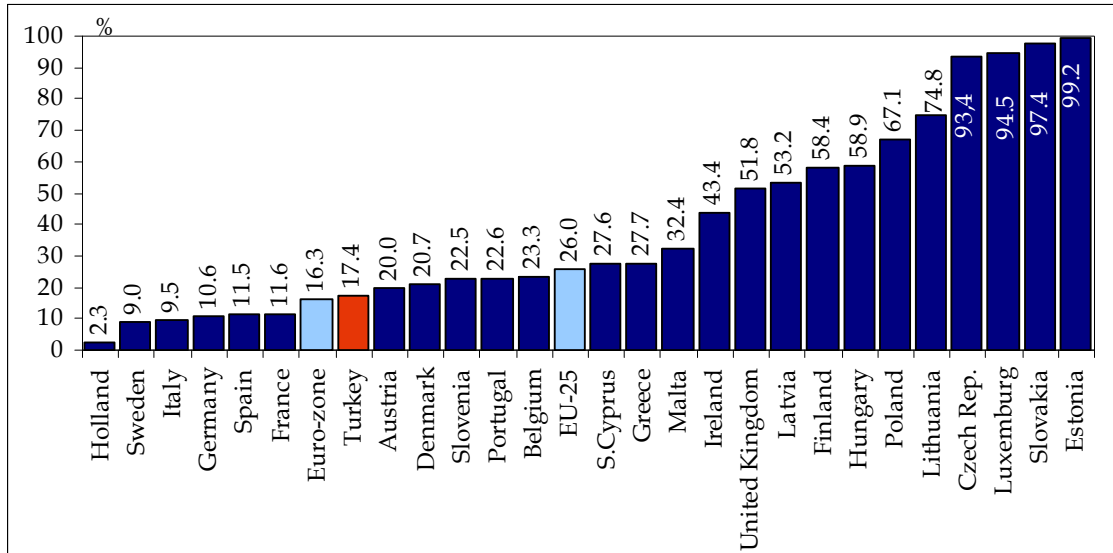
Source: BRSA-CBRT

<sup>1</sup> For publicly held shares no distinction is made between domestic and foreign investors.

As a result of the increasing interest of foreign investors in the Turkish banking sector in 2006, the share of equity held by foreigners reached 17.4 percent of the balance sheet of the banking sector in September 2006, including the banks the share transfer process of which have been terminated in November 2006 (Chart II.1.2). If the shares of the banks (Akbank, Şekerbank, Tekfenbank, MNG and Alternatifbank), which were declared to be sold to foreigners and whose share transfer processes have not yet been legally terminated, are included, the foreign equity in the sector reaches 20.5 percent. On the other hand, according to the data of the Central Registry Agency, in publicly held shares, the share of the foreigners was 15.7 percent with respect to total assets of the sector as of November 10, 2006. When this share is added, the share of

foreigners reaches 36.2 percent. Despite the fluctuations of the May-June period, the increasing interest of foreigners in the banking sector points to the fact that foreigners evaluate the growth potential of the Turkish banking sector as high.

**Chart II.1.3**  
**Foreign Equity Ownership in EU Countries and Turkey<sup>1</sup>**

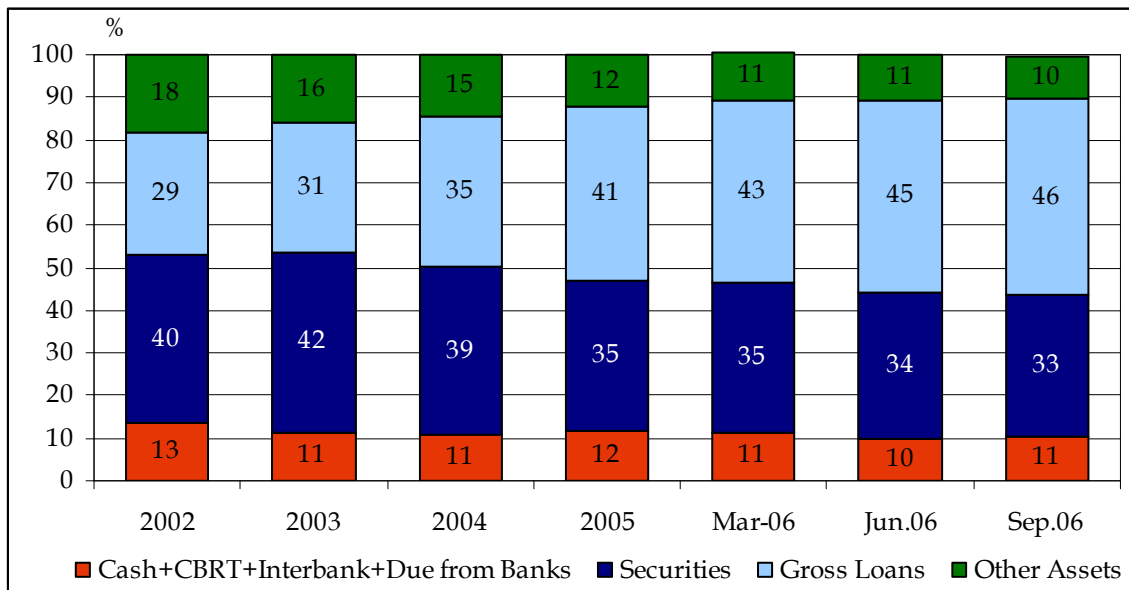


Source: ECB-CBRT-BRSA

<sup>1</sup> Data of Turkey as of September 2006, others as of 2005

When the share of foreign equity is analyzed, it is observed that the average of the EU-25 is 26 percent and the countries that joined the Union in the last period remain above the average of the EU-25. As of September 2006, according to legally terminated acquisitions and mergers by foreigners, Turkey is slightly above the average of Eurozone countries but under the average of EU-25 (Chart II.1.3).

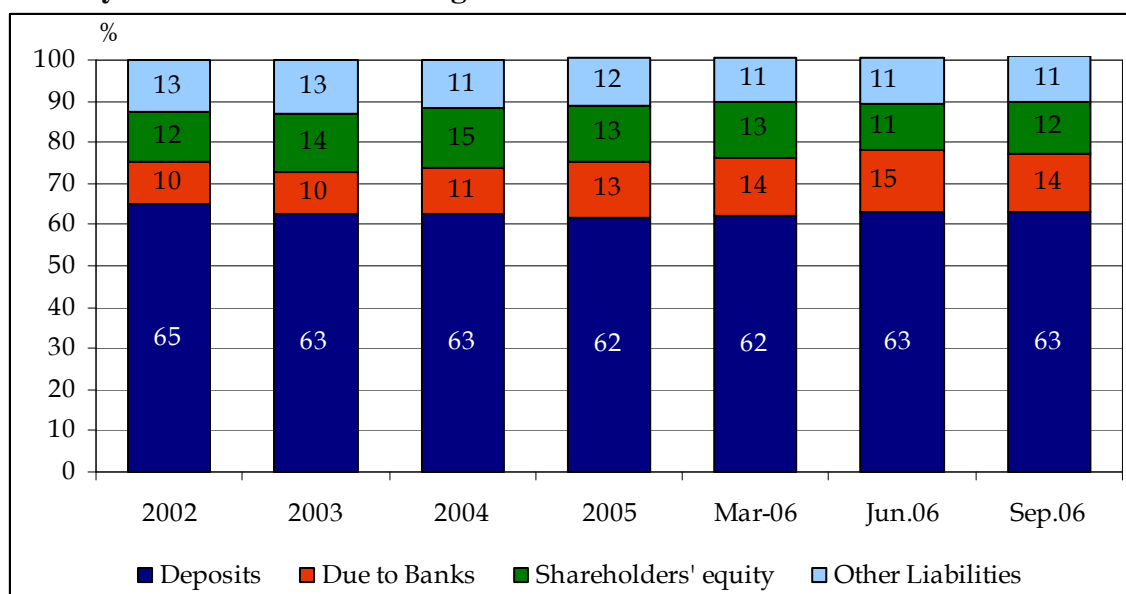
**Chart II.1.4**  
**Asset Structure of the Banking Sector**



Source: BRSA-CBRT

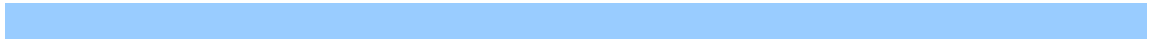
The share of loan portfolio as the largest asset item continued to increase in 2006 and reached 45 percent in June and 46 percent in September. Despite the slow down in the growth rate of loans in the June-September period, the share of loans has increased as a result of the decrease in the shares of securities and other assets (Chart II.1.4).

**Chart II.1.5**  
**Liability Structure of the Banking Sector**



Source: BRSA-CBRT

In 2006, the share of shareholders' equity in total liabilities decreased by 1 percent compared to year-end 2005 and stood at 12 percent. As a result of the increase in foreign currency deposits and foreign exchange rates, the share of deposits in total liabilities increased by 1 point and reached 63 percent (Chart II.1.5).



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