

**BANKING  
REGULATION AND SUPERVISION  
AGENCY**

**ANNUAL REPORT  
2003**

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The Annual report about the activities of the Banking Regulation and Supervision Agency is submitted to the Council of Ministers by the end of May every year and the Planning and Budget Commission of the Grand National Assembly of Turkey is being informed about the activities of the Agency in accordance with Articles 3/2 and 6/3 of the Banks Act Nr. 4389 and Article 7 of the Act Nr. 4743 once a year.

The Annual report prepared within this framework consists of five main parts. National and international economic and financial developments affecting the banking sector are evaluated in the first part of the report. The second part includes the developments in the banking sector and the special finance houses in 2003. The structure of the Board and the Agency, staff of the Agency is presented in the third part. Regulation and supervision and other facilities of the BRSA are presented in the fourth part of the report. Developments related to the results and the budget performance is presented in the last part.



## **PREFACE**

In 2003, positive developments were experienced in Turkish economy as a result of the determined execution of the economic program. As a matter of fact, economic growth was realized above the targets, nominal and real interest rates were largely decreased, inflation rate reduced to low levels and confidence to Turkish Lira was re-established.

The Turkish banking sector reached to a healthier asset-liability structure and profitability performance when compared to 2002 through the developments of the economic indicators in parallel with the revival in the economy and the restructuring.

Although the BRSA, which has undertaken a very important mission for the Turkish economy by performing the banking regulatory and supervisory function, is a new agency, it has realized considerable improvements about the restructuring of the banking sector which was negatively affected by the crises along with the structural problems and economic fragility.

Within this framework, banking sector entered to the consolidation process, distorting effects of the Fund banks as regards competition in the system were reduced, financial risks of the sector were reduced to manageable levels, capital structure of banks was strengthened and an important level of transparency was provided on the financial statements of the banks.

For strengthening the regulatory and supervisory framework, the BRSA's regulatory activities aiming at meeting the needs of the sector continue in accordance with the European Union regulations primarily and with other international practices. The new Draft Banks Act prepared within this framework aims at both strengthening the regulatory and supervisory framework and achieving compliance with the EU legislation in the light of the realities, needs of our country and the sector as well as experiences gained. Besides, the BRSA continues its efforts for preparing the banking sector to international competition.

To provide stability and trust in the financial markets, to ensure the credit system's effective performance, and to safeguard the rights and benefits of the depositors; BRSA employs experienced staff within its organizational structure. The organizational structure of the BRSA has been reviewed for ensuring the best performance in fulfilling its responsibilities and duties by also lessons drawn from the past experiences.

The BRSA, having the status of an administratively and financially autonomous entity operates with the understanding of "Strong Banking-Strong Economy" and impartiality, independence, transparency, and accountability principles; aims to establish an internationally competitive banking sector. I have no doubt that in reaching this target, the most important power source of our Agency is its qualified, professional and devoted personnel structure.

I hope this report, which includes in detail the activities of Agency and the developments in the banking sector in 2003 will be beneficial for the users.

**Tevfik BİLGİN**  
**Chairman**

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## **OUR MISSION**

Our mission is to safeguard the rights and benefits of the depositors, to provide the proper environment in which banks and financial institutions can operate with market discipline, in a healthy, efficient and globally competitive manner, thus contributing to the achievement of long-run economic growth and stability of the country.

## **OUR VISION**

Based on of the understanding of "Strong Banking-Strong Economy", innovative approach and professionalism, our vision is becoming a regulation and supervision authority at international standards through realizing the transition to an internationally competitive banking sector resistant to internal and foreign shocks and focused on the activation of the intermediary function.

## **OUR MAIN VALUES AND TARGETS**

BRSA shall establish, implement and develop the required regulatory and supervisory frame in order to carry out its mission and implement its vision. In this scope, BRSA's main values are:

*Impartiality:* The BRSA equally treats all institutions that operate in its scope, and fulfills its responsibilities with care and impartiality, avoiding all types of discrimination.

*Transparency:* In order to carry out the operations in an accountable and transparent manner, informing the public about the operations and operation results is ensured.

*Effectiveness:* Regulatory and supervisory practices are carried out regarding cost/benefit approach and special attention is given to preventing the occurrence of any possible effects that could distort the competitiveness between sector institutions. Activities are carried out by a specialist and devoted staff with high ethical values.

*Responsiveness:* Demands of the individuals and institutions related to the activities of the Agency are timely and effectively responded.

*Cooperation:* Due diligence is given to effective and open communication with the sector, professional institutions, academic environments, and other related parties during the process of drafting regulations and implementation hereof. Besides, cooperation with other public agencies is made for ensuring consistency as regards policy implementation and regulations,

*Innovation:* Within the framework of the necessities of national economy, cooperation with national, international institutions and organizations responsible for the regulation of the financial sector is ensured considering the rapid development and change in finance.

The targets of the Agency, within the framework of the values clarified above, are;

*Safeguarding the rights and benefits of depositors-* Safeguarding the rights and benefits of depositors by setting up the balance between the requirement of safeguarding the rights of depositors and the effects of deposit insurance system which increases the moral hazards and destroys the market discipline.

*Effective supervision and regulation-* Establishing the framework of the auditing structure which will enable banks to operate in a sound environment; will be in line with the developments in the banking sector; will safeguard the competitive structure of the system and also use the early warning and intervention systems within a legal and corporate framework.

*Improving the endurance of the sector-* Increasing the resistance and flexibility of the sector against risks by developing the risk-based and consolidated supervision and regulation capacity of the Agency,

*Strong and healthy banking sector-* Ensuring the continuity of a transparent and competitive banking sector with a strong capital structure and performing within international standards

## SECTION 1. DEVELOPMENTS IN TURKISH AND WORLD ECONOMY

### 1.1. World Economy

#### 1.1.1 Macroeconomic Developments

The stagnation period seen in the world economy in 2001 and 2002 left its place to recovery in 2003. The rate and the structure of the recovery differs at regional basis. While growth rate of the Asian economies primarily of the Chinese economy and US economy was high, this rate remained lower in for the Euro Area.

The 3,9% increase in world output is mainly due to the increase in demand created by the US economy. The recovery of the US economy was mainly due to the end of the Iraq War and the re-establishment of provision of consumer and investor confidence through economic stability, reached primarily through stability in oil prices.

The over-appreciation of Euro despite the increase in US originated foreign demand, resulted with the growth rate of Euro Area countries remain below the world average.

Japanese economy continued to grow above expectations, mainly due to the general economic recovery and to the considerable increase in foreign demand, especially from China.

Although Asian economies have been negatively affected by the Severe Acute Respiratory Syndrome (SARS) contagion on the second quarter of the year, high growth rates were reached on the second half of the year, after the illness has been taken under control. This was mainly due to the increase USA based increase in foreign demand and the increase in regional trade volume, especially of China. Direct investments made to China by foreign companies due to large market and cheap labor opportunities were instrumental in this growth.

Improvement in Russian macroeconomic indicators continued. Growth has eventuated especially in oil and oil related sectors in accordance with the increase in oil production and oil prices. Besides, increase in real prices was reflected to consumption expenditure and effected the growth positively.

While the improvement signs were observed in Latin American economies, the consistency hereof is still uncertain. Besides, growth rates vary on country basis. As a matter of fact, while a high growth rate is observed in the Argentinean economy, the growth rate of Brazilian and Mexican economies were lower.

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*There was a general recovery trend in all economies over the world in 2003.*

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**Table 1.1 World Economic Indicators (Annual % Change)**

	2002	2003	2004*
<b>World Output</b>	<b>3,0</b>	<b>3,9</b>	<b>4,6</b>
Developed Countries	1,7	2,1	3,5
-United States	2,2	3,1	4,6
-Euro Area	0,9	0,4	1,7
-Germany	0,2	-1,0	1,6
-Japan	-0,3	2,7	3,4
-United Kingdom	1,7	2,3	3,5
-Canada	3,3	1,7	2,6
-Other Developed Countries	2,8	1,9	3,2
Newly Industrialized Asian Economies	5,1	3,0	5,3
Developing Countries	4,6	6,1	6,0
Africa	3,5	4,1	4,2
Developing Asia	6,4	7,8	7,4
-China	8,0	9,1	8,5
Middle East	4,2	5,4	4,1
Latin and Central America	-0,1	1,7	3,9
-Brazil	1,9	-0,2	3,5
Central and Eastern Europe	4,4	4,5	4,5
Commonwealth of Independent States	5,1	7,6	6,0
- Russia	4,7	7,3	6,0
<b>World Trade Volume (Goods and Services)</b>	<b>3,1</b>	<b>4,5</b>	<b>6,8</b>
<b>Consumer Prices</b>			
Developed Countries	1,5	1,8	1,7
Transition Economies and Developing Countries	6,0	6,1	5,7
<b>Commodity Prices</b>			
Oil (\$/Barrel)	25,0	28,9	30,0
Oil (% Change)	2,5	15,8	3,8
Other than Oil (% Change)	0,5	7,1	7,6
<b>6- Month LIBOR Interest Rate (%)</b>			
US Dollars	1,9	1,2	1,3
Euro	3,3	2,3	2,1
Japanese Yen	0,1	0,1	0,1

\* Forecast

Source: IMF, World Economic Outlook, April 2004.



### 1.1.2. Financial Developments

The global financial system was affected by the depreciation of the US dollar and low interest policies applied by advanced financial centers in 2003.

Euro's considerable value increase as regards USD at the last period of 2002 continued in 2003 also. The Japanese Yen experienced a similar development. With the fluctuating trend during the year, Dollar's value decreased considerably against Yen.

Dow Jones, NASDAQ and Nikkei indexes considerably increased in December 2003, related with the over than expected profitability performance of American and Japanese firms. On the other hand, the Euro Area stock markets were negatively effected by the budget limitation problems they experience and high inflation rates.

It was seen that Turkey, Brazil and Russia shows positive performance within the year, when the eurobonds' spreads exported by developing countries were analyzed. On the other hand; Argentina's Eurobond spreads navigates in high levels that had problems in paying its debts.

*Low interest rate policies and the decrease in the value of the dollar were determining on the development of the global financial system*

**Table 1.2 International Financial Indicators\***

	2002	2003											
	December	Jan.	Feb.	Mach	April.	May.	June.	July.	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Interest Rates (%)</b>													
USD 3-Month Libor Rate	1,41	1,37	1,34	1,29	1,30	1,29	1,12	1,11	1,13	1,14	1,16	1,17	1,17
€ 3-Month Libor Rate	2,94	2,83	2,68	2,53	2,53	2,41	2,15	2,13	2,14	2,14	2,14	2,16	2,14
USA 10 Year T-Bill Rate	4,02	4,02	3,89	3,79	3,94	3,58	3,28	3,94	4,42	4,27	4,04	4,07	4,07
Germany 10 Year T-Bill Rate	4,31	4,21	3,92	4,01	4,14	3,83	3,63	4,00	4,16	4,19	4,25	4,40	4,32
<b>Exchange Rates</b>													
Dollar/ Euro	1,020	1,063	1,078	1,079	1,087	1,158	1,166	1,137	1,115	1,126	1,170	1,171	1,265
Japanese Yen/ Dollar	121,8	118,8	119,4	118,7	119,8	117,4	118,3	118,6	118,6	114,9	109,4	108,8	107,7
Brazilian Real/ Dollar	3,63	3,43	3,59	3,45	3,10	2,96	2,88	2,88	3,00	2,92	2,86	2,91	2,92
Ruble/ Dollar	31,85	31,83	31,65	31,43	31,19	30,91	30,47	30,35	30,35	30,59	29,73	29,79	29,41
<b>Stock Indexes (Dollar Based-as of end-2002 =100)**</b>													
-ABD (DJI)	81,5	101,6	94,9	95,6	99,9	103,4	109,1	109,7	111,3	113,8	116,1	117,0	121,4
-ABD (NASDAQ)	68,2	104,0	98,3	100,9	105,6	114,1	122,2	128,6	129,2	139,0	142,9	145,2	146,5
-Euro Area (FTEU1)	75,1	99,6	93,6	90,9	98,4	105,4	111,9	109,1	109,8	112,6	117,0	120,0	132,1
-Japan (Nikkei)	81,5	99,8	98,9	95,2	91,2	95,8	103,9	107,8	115,2	128,0	135,2	129,8	132,1
-Brazil (Bovespa)	45,3	105,1	90,3	99,2	116,7	137,0	140,9	147,3	146,4	172,7	195,2	204,6	227,4
-Russia	119,7	98,5	103,2	106,5	112,7	128,7	140,5	138,3	146,6	159,9	179,5	156,6	167,7
<b>Eurobond Spread (Point)***</b>													
-Argentina	6.111	6.300	4.312	6.590	5.768	5.522	5.250	5.507	5.795	5.868	6.276	6.821	6.868
-Russia	301	260	406	246	225	180	159	172	175	140	130	155	137
-Brazil	1.474	1.457	676	1.180	933	753	712	699	670	570	524	462	378
-Turkey	702	743	599	861	796	732	699	667	569	522	429	345	294

\* Data provided reflect monthly average.

\*\* Calculation of December 2002 data was based on December 2001=100 and 2003 data based on December 2002=100.

\*\*\* Reflects year 2008 or close to maturity bills in respect of USA and Treasury bills as of January 2003

Source: Reuters.

## 1.2. Turkish Economy

Following the general elections held in November 2002, economic and political agenda was determined mainly in the framework of Copenhagen Summit, which was held in December 2002 and the efforts of Turkey on getting full membership for European Union (EU). Besides, delays have occurred as regard to forming the economy policy due to the increase in the possibility of military intervention to Iraq. In fact, the initiation of the Iraq war and the uncertainties relating to domestic economic policy led to strain in markets in the first months of the year. The determination on the continuation of existing Stand-by agreement comprising 2002-2004 period through strengthening it, was announced by the "Intention Letter on Fourth Revision" which was submitted to the International Money Fund (IMF) on April 5, 2003. Struggle against inflation, reducing the debt burden and sustainable rapid growth were determined as main targets in forming the economic policy.

The aim of public sector primary surplus foreseen is 6,5% percent in 2003 under the continuing Stand-by agreement was hold in the new Intention letter so as to decrease share of the stock of net public debt in GNP and to increase national and international confidence related to program implemented. Besides, It was decided to continue the implementation of monetary policy under the fight against inflation and to hold the aim of 2003 inflation as 20%. After the national income rate 7,8% experienced in 2002, the aim of GNP growth is determined as 5% in 2003, it was indicated that the implementation of floating exchange rate regime would be continued.

Aims in the characteristic of "Performance Criteria" related to the consolidated public sector primary surplus in 2003 in which 6,5% public sector primary surplus of GNP was aimed, consolidated public sector deficit and "indicator value" related to other public sector cumulative surplus balance are determined. The performance of 2003 fiscal policy gained importance after getting behind the aims related to public finance because of the weak income performance and increasing public expenses exceeding the expectations by the effect of early general elections especially in the second half of the 2002. In fact, total public primary surplus in 2003 eventuated over 6% of GNP by the results of the precautions taken in the area of public finance especially in the second half of the year despite the high growth rate of GNP.

In the direction of these developments, the rate of total debt stock to GNP in 2003 improved 10,2 point and eventuated at the rate of 83,5%. At the named period, total domestic debt stock increased to TL201, 3 quadrillion at the end of the 2003 and the ratio of it to GNP became 56,4 by increasing at the rate of 30,5% compared to previous year. Total foreign debt stock decreased at the ratio of 6,1% compared to the previous year and regress to TL 96,4 quadrillion related to TL's gaining value against foreign money in 2003. This amount reflects 27% of GNP. Increase of internal dept stock in cash continues in 2003 similar to 2002 and the increase of non-cash domestic debt stock remained at the level of 5,5%, while domestic debt stock in cash increased at the ratio of 46,2% compared to previous year.

Central Bank formed its monetary policy in the framework of main principle of price stability in 2003 as it was in 2002 and announced that short term rate of interest would be used in order to reach inflation target. Besides, it was pointed that strategy of "inflation targeting" would continue and short-term rate of interest would be determined oriented to coming period inflation till passing to "inflation targeting".

In the scope of existing Stand-By agreement, net internal assets were determined as "indicator value" while money base item remained as "performance criteria" in 2003. Besides, International net reserves item was also viewed as "performance criteria" as of periods. All monetary performance criteria and aims in the characteristics of indicator were reached.

About the exchange policy, implementation of floating exchange regime starting on February 2001 was foreseen to continue in 2003. In this scope, Central Bank announced that it could interfere the markets when there is short term excessive floating and it can arrange tender of transparent exchange purchase to increase exchange reserves in the process of possible inverse money substitute. In fact, Central Bank implemented tender of exchange purchase in the framework of the developments in balance of payments and continuing inverse money substitute; and also revised program targets related to Net International Reserves.

### **1.2.1. Macroeconomic Developments**

In general, uncertainties in markets decreased and expectations improved in 2003 parallel to the lessen of internal and external political worries and determined implementation of economic program. Developments gained during the establishment of the macroeconomic stability affected basic economic indicators positively. Economic growth seen in 2002 also continued in 2003 after the recession experienced in 2001.

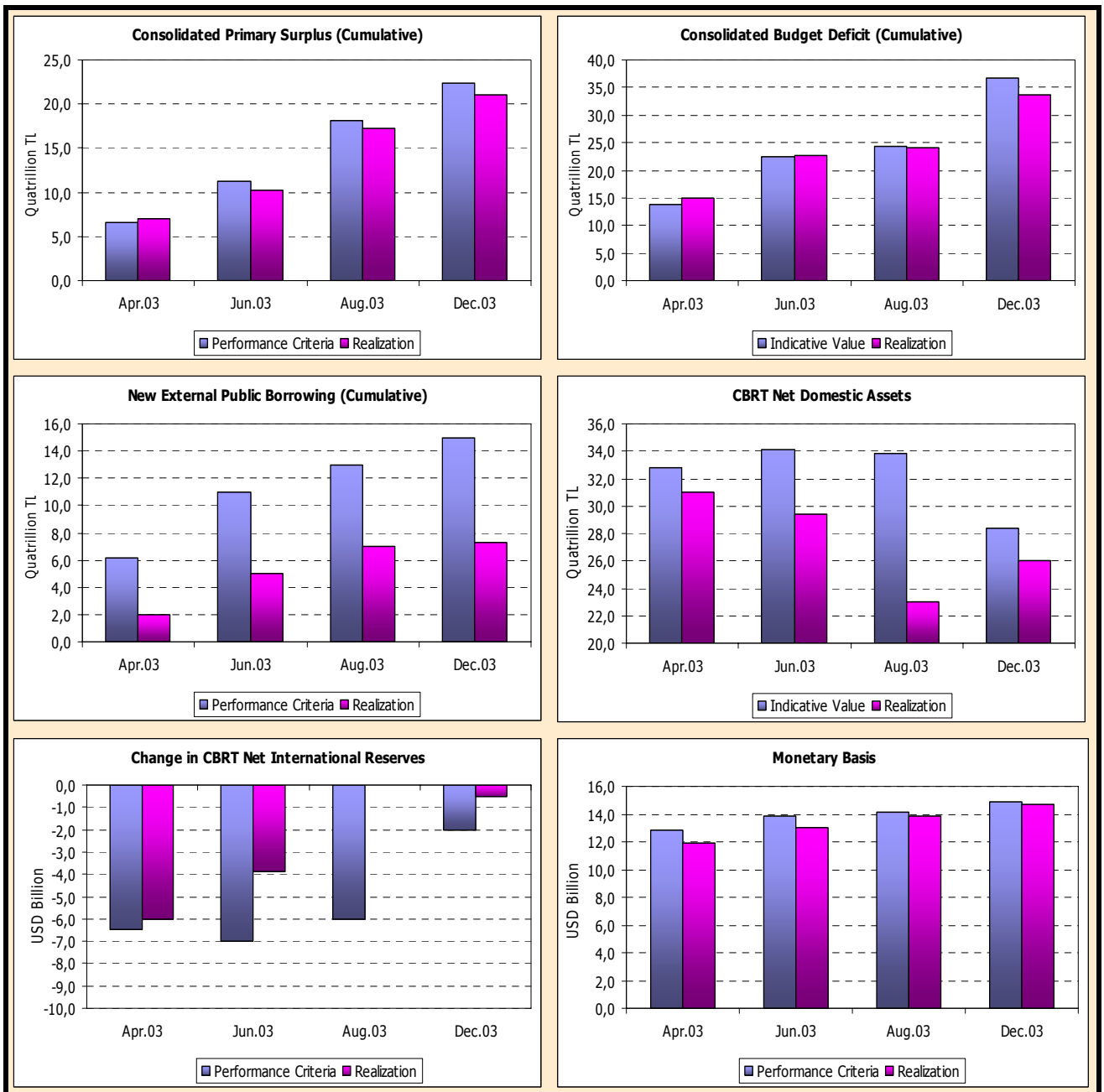
The growth of both gross domestic product (GDP) and gross national product (GNP) eventuated at the rate of 7,8% in 2002 after the sharp narrowing in 2001; and in 2003 these indicators become 5,8% and 5,9% respectively. Manufacturing sector reached to 7,8%, agricultural sector decreases at the rate of 2,5% in 2003. After the rapid growth at the first 3 months' period of 2003, decline in growth rate was seen by the effect of indefiniteness related to Iraq war and afterwards the economy started to grow. Annual GNP growth reached to 7,2% at the last three months' period. Manufacturing sector grow at the rate of 9,2% at that period.

Increase of stock 59%, goods and service export 16%, and investments/capital formation 10% were the most dynamic factors of economic growth in 2003 as of demand size. While expenses of public consumption decreased at the rate of 2,4; Increase of private consumption expenses was 6,6% at the period named.

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*Improvement provided as a result of stable implementation of economic program and decrease of internal and external uncertainties also brought economic growth along with itself.*

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Price acceleration decelerated in 2003 as a result of the implementation of fiscal and monetary policy and appreciation of TL against foreign exchange. While CPI's increase rate of 12 months eventuated at the level of 18,4%, average increase rate was at the level of 25,3%. Same ratios eventuated for WPI in turn as 13,9% and 25,6%. The low level of domestic consumptions' protection of law level caused the increase rate of CPI to become behind the increase rate of WPI in 2003 as it is in 2001 and 2002.

Increase of exportable surplus results from limitation of internal demand enlargement, improvement in cost conditions of companies and activation in the process of production affected the conditions of exportation positively. Total export in 2003 increased to USD 47,1 billion by increasing at the rate of 30,5% compared to previous year. At that period, import reached to USD 68,8 billion by increasing at the rate of 33,5% compared to previous year related to rapid increase in industry production and appreciation of TL against foreign exchange. Thus, foreign trade deficit eventuated USD 21,7 billion in 2003, which was USD 15,5 billion in 2002; the rate of export to import regressed to 68,4%.

In spite of the corruption in foreign trade balance, increase in tourism income in 2003 and attainment of net errors and omissions item to USD 4,8 billion limited the growth of current accounts deficit and current account balance showed a USD 6,6 billion deficit yearly round.

While there was USD 4 billion capital inflow in the first quarter of the year, this tendency reversed in the second and third quarter of the year and USD 1,3 and 1,7 billion capital outflows experienced. After the capital inflow of USD 0,8 billion in the second quarter of the year, USD 1,8 billion capital inflows was experienced yearly round. USD 5,3 billion Eurobond issue eventuated by the treasury was effective within the year when finance and capital accounts gave surplus.

Net direct investments reaching to USD 2,8 billion by the effect of GSM license sales revenue in 2001, regressed to USD 863 billion in 2002 and USD 76 billion in 2003. On the other hand portfolio investment (net) followed a fluctuating trend and eventuated at the amount of USD 2,6 billion inputs.

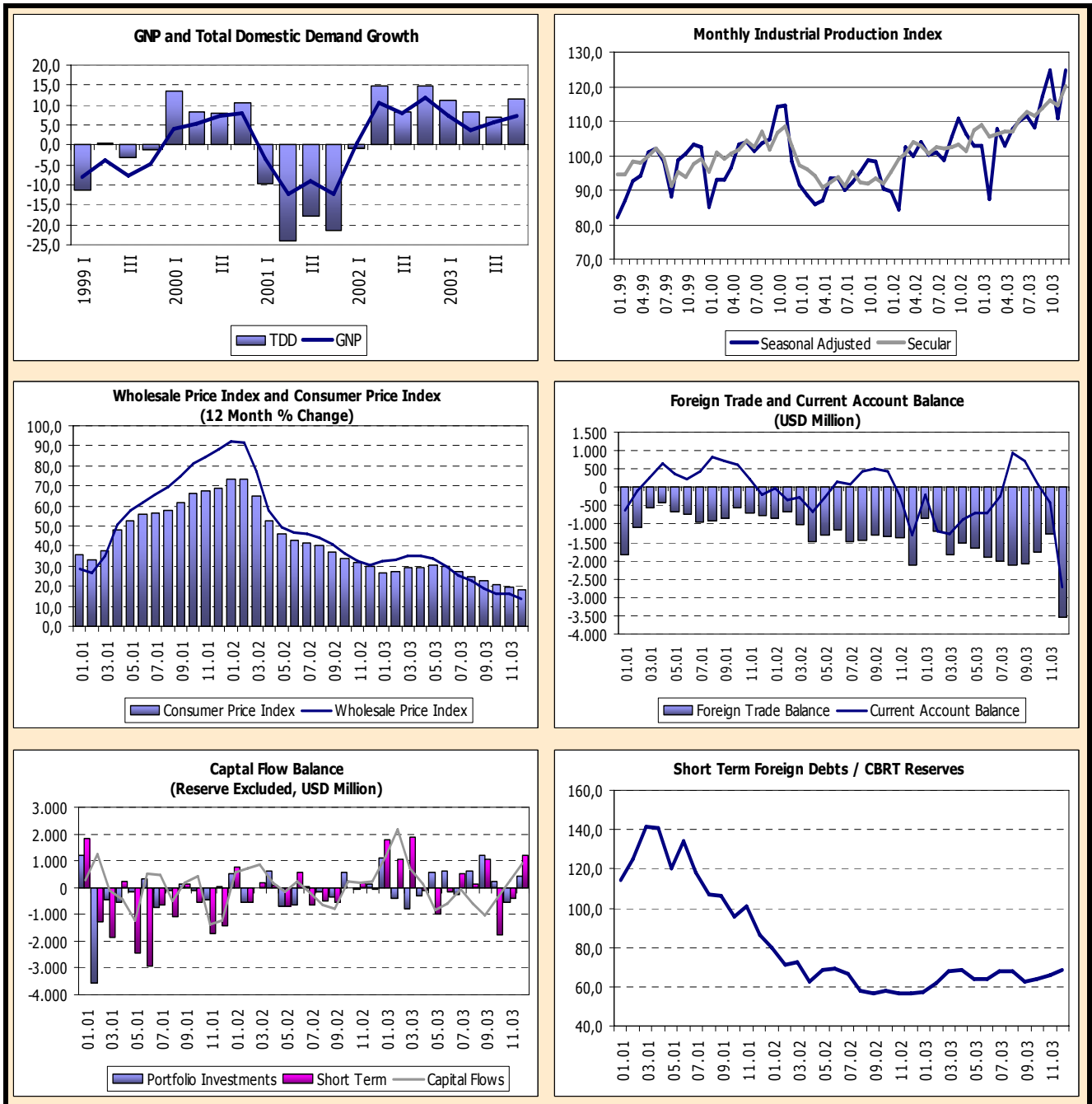
Banks paid USD 40 billion credits to overseas and general government paid USD 2,2 billion (except IMF credits) credits to overseas while private sector's net use of long term credit from overseas eventuated as USD 578 billion in 2003. USD 4,3 billion inputs eventuated related to increase in use of credits overseas in short term balance of payments on capital account.

As a result these developments, total reserves increased USD 4 billion. Depositing IMF credits used by Treasury under Central Bank accounts and tenders eventuated by Central Bank within the year were affective in increase of Reserves. In spite of this increase, short term foreign debt ratio to international reserves of Central Bank increased to the level of 65% as a result of important increase in short term debts.

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*As a result of political and economic stability, important decreases experienced in interest rates, TL gained value against USD, the index of İMKB tend to increase owing to the confidence environment.*

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### 1.2.2. Financial Developments

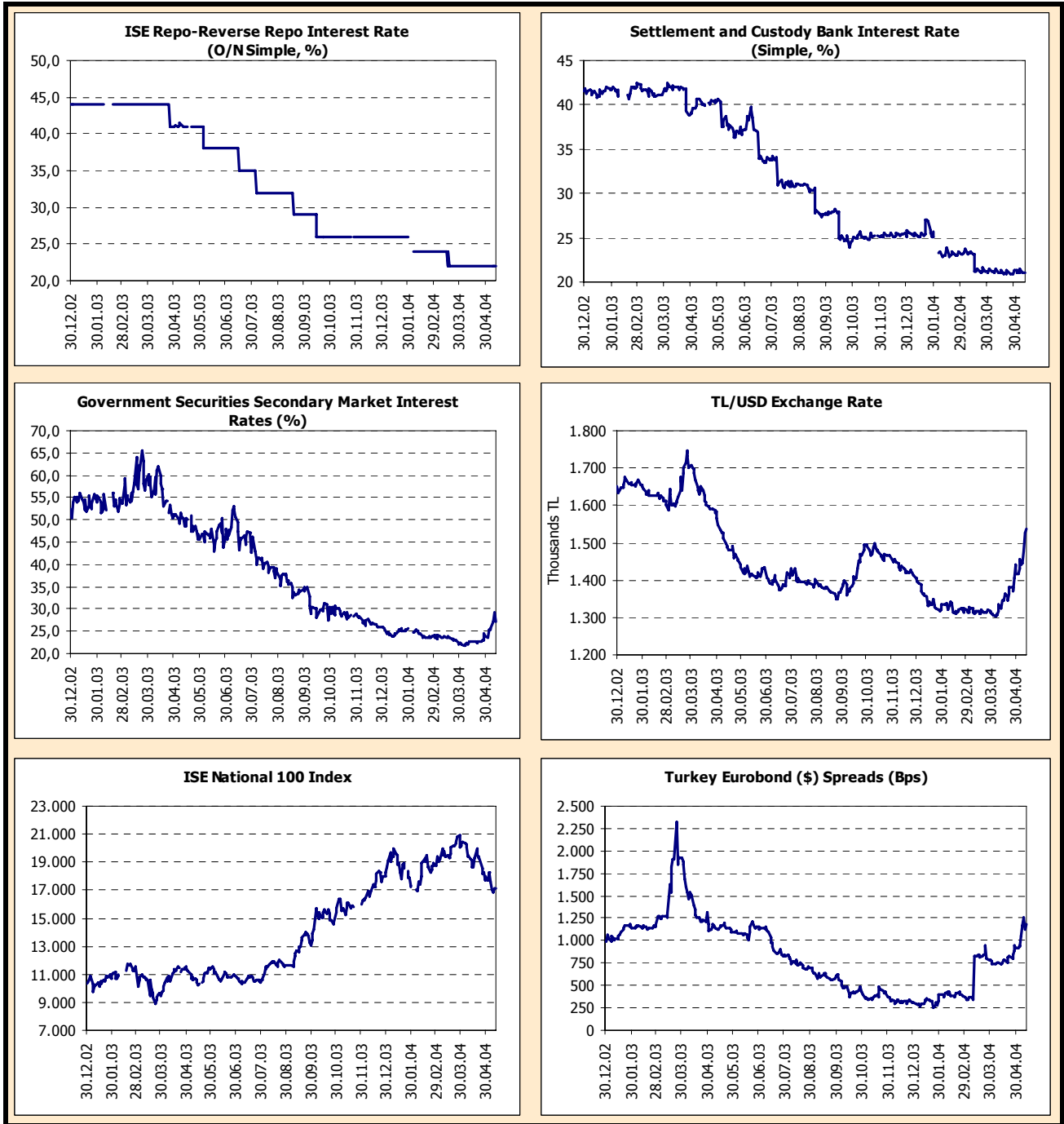
While Central Bank implemented monetary policy in the framework of price stability, which is main aim in 2003 as it was in 2002; it continued to use short-term interest rates as main appliance in the direction of primary target. Central Bank decreased its interest rates to %44 on November 11, 2002 by the optimistic atmosphere seen after one party power eventuated as a result of early elections. Decrease in indefiniteness about Iraq war affected the expectations positively and overnight interest rates regressed up to 26% by the last rebate made in October 2003.

Uncertainties about the Iraq War and the implementation of the program by the government caused tender interest rates of Treasury at the first quarter and secondary market interest rates of DİBS to stay at high levels. Tender compound interest rates of Treasury which was 57,4% at the first quarter of the year, regress to 51,9% at the second quarter and 42,1% at the third quarter of the year. Tender interest rates of Treasury regressed to 28,6% at the last quarter of the year by the effect of strengthening the confidence of the consumer and market investors and expectations to approach to inflation aim. By this way the ratio of the tender interest rates of treasury decreased to 46% in 2003, which was 62,7% in 2002. DİBS secondary market interest rates followed a parallel progress with primary market developments and DİBS compound interest rate decreased to 43,8% in 2003 which was 61,8% in 2002. Progress of the Rates named within a year developed similar to the rates eventuated in the primary rates and DİBS secondary market interest rate which was 55,5% in the first quarter of the year eventuated as 28,8% in the second quarter of the year.

Interest rates on one-month deposits, as TL started to regress as of the last quarter of 2002 and regressed to 28% at the fourth quarter of the year from 45,5% third quarter of the year.

Central Bank continued floating exchange rate regime policy in 2003, which it started to implement after the crises in 2001 and did not interfere the exchange markets except exceeding floating. Exchange rate regressed nominally related to balance of payments' progress and expectations. Exchange rate basket (USD 1+Euro 0,77) lose at the rate of nominally 7,1% value against TL while TL appreciated 14,6% against USD in 2003, it depreciated 2,4% against Euro in parallel to the developments of Euro/dollar parity.

ISE National 100 index tended to increase in the last term of 2002, showed floating progress parallel to internal and external uncertainties at the first months of 2003, however, from the second quarter of the year, it tended to increase by the decrease of uncertainties and increase in investor confidence. As a result of these developments, ISE National 100 index gained 46,9% value in TL terms and 79,6% value in dollar terms compared to the end of previous year. When the developments according to sectors are evaluated; textile and electric sectors were the sectors that lose the maximum value, while sectors of metal basic industry, banking and chemistry completed the year with maximum value increase in 2003.





**Table 1.3. Main Economic and Financial Indicators**

	2002	2003	2003			
			I	II	III	IV
GNP Growth (%)	7,8	5,9	7,4	3,6	5,6	7,2
Internal Demand (% Change)	9,2	9,4	11,2	8,4	7,1	11,5
Monthly Index of Industrial Production (% Change)	9,2	9,1	7,7	5,5	10,2	12,7
Ratio of Monthly Private Manufacturing Industry Capacity Usage (%)	72,0	78,7	75	78,3	81,2	80,2
WPI (12 Months % Change-End of the period)	30,8	13,9	35,2	29,6	19,1	13,9
CPI (12 Months % Change-End of the period)	29,7	18,4	29,4	29,8	23,0	18,4
TL/USD (Thousands TL) (Period Average)	1.505,8	1.493,1	1.644,8	1.512,2	1.388,9	1.440,9
TL/USD (12 Months % Change)	22,9	4,3	21,3	7,5	-15,4	-10,6
TL/USD (TL Thousand) (End of the period)	1.634,5	1.395,8	1.708,2	1.421,7	1.376,7	1.395,8
CBRT Real Rate of Exchange Index (CPI 1995=100)	125,3	136,4	121,8	134,8	147,9	141,3
Export (Billion Dollars)	36,1	47,1	10,3	11,3	12,2	13,3
Export (% Change)	15,1	30,5	30,8	32,8	30,8	28,3
Import (Billion Dollars)	51,6	68,8	14,2	16,4	18,4	19,8
Import (% Change)	24,5	33,5	36,5	31,7	35,9	30,6
Foreign trade deficit (Billion Dollars)	-15,5	-21,7	-3,9	-5,1	-6,2	-6,5
Tourism Income (Billion Dollars)	6,6	11,0	0,7	1,8	6,3	2,2
Balance of Current Accounts (Billion Dollars)	-1,5	6,6	-2,6	-2,3	1,4	-3,1
Balance of Payments on Capital Account (Billion Dollars)	1,4	1,8	4,0	-1,3	-1,7	0,8
Reserve Movements (Balance of payments Definition) (Billion Dollars) (+: decrease, -: increase)	-6,2	-4,0	0,7	-1,2	-5,3	-1,8
CBRT International Reserves (Billion Dollars)	26,8	33,6	26,5	28,7	33,8	33,6
Short Term Foreign Debts /CBRT International Reserves (%)	57,6	68,2	68,0	64,0	62,2	68,2
Consolidated Budgetary Balance (TL Quadrillion)	-40,1	-39,8	-10,9	-13,9	-5,1	-10,0
Primary Budget Surplus (TL Quadrillion)	11,8	18,8	4,9	5,2	6,6	2,1
Total Internal Debt (TL Quadrillion)	149,9	194,4	162,6	175,3	178,7	194,4
-Cash	89,3	130,5	101,5	116,7	120,4	130,5
-Non cash	60,6	63,9	61,1	58,6	58,3	63,9
Internal Dept Stock (Total)/M2Y (%)	112,1	128,7	122,9	135,2	129,8	128,7
Internal Dept Stock (Cash)/M2Y (%)	66,8	86,4	76,7	90,0	87,4	86,4
Public Sector Foreign Debt Stock (Billion Dollars)	84,3	91,8				91,8
Central Bank Net Domestic Assets (TL Quadrillion)	8,0	8,1	9,7	9,9	4,9	8,1
Open Market Operations (TL Quadrillion)	8,4	7,9	9,8	6,4	12,0	7,9
Money Base (IMF Definition)(TL Quadrillion)	10,4	14,7	12,1	13,0	13,9	14,7
M2Y (TL Quadrillion)	133,7	151,0	132,3	129,7	137,7	151,0
CBRT O/N Interest (Annual Simple, Average %)	49,6	45,5	58,2	52,9	42,0	29,2
Gov.Sec. Secondary Markets Interest Rate (Compound, Average, %)	61,8	34,6	41,5	39,7	32,3	25,6
Treasury Tender Interest Rate (Compound, Weighted Average, %)	62,7	46,0	57,4	51,9	42,1	26,4
Treasury Tender Average Prompt (Weighted average, Day)	201	265	274	249	263	256
TL 1-Month Deposit Rate (Annual, Simple, %)	50,2	37,6	45,5	42,1	34,7	28,0
ISE National 100 Index (TL, End of Period)	10.370	18.625	9.475	10.884	13.056	18.625
ISE National 100 Index (Dollar, End of Period)	467,0	778,4	324,5	450,3	549,2	778,4

Source: State Institute of Statistics, Undersecretariat of the Treasury, Ministry of Finance, CBRT, ISE

## SECTION 2. DEVELOPMENTS IN BANKING SECTOR<sup>1</sup>

### 2.1. General Assessment<sup>2</sup>

Despite the negative effects of the rejection of the note on sending troops to Iraq, the negotiations on USA aid and the uncertainties caused by the Iraq War experienced during the first half of 2003, the Turkish banking sector has, by the recovery of the macroeconomic activity and the decrease in nominal interest rates, reached to a healthier asset-liability structure and shown a better profitability performance.

In 2003, the number of banks and branches decreased while the number of personnel remained quite the same. Number of banks operating in the Turkish banking sector which was 54 in end-2002 decreased to 50 as of end-December 2003, 36 of which are deposit banks and 14 development and investment banks. Within 2003, Imar Bank entered into the liquidation process upon revocation of its license to perform banking activities and accept deposits, Fiba Bank was transferred to Finansbank A.Ş., ING Bank N.V. and Credit Suisse First Boston<sup>3</sup> ceased their activities in the Turkish Banking sector.

Besides the decrease in the number of banks, due to the liquidation of Imar Bank, the number of branches was also reduced by 140 to 6,076. When Imar Bank excluded, the number of branches of private banks increased by 90 when compared to end-2002.

Number of employees did not change much and was realized as 124.030 as of end-2003 when compared to end-2002. When Imar Bank personnel is not taken into account, the number of employees increased by 1,540. Data shows a considerable decrease in the number of employees of state and SDIF banks, however, an increase by 8,1% as regards private banks (excluding Imar Bank).

The number of branches abroad of banks decreased by 2 while the number of employees increased by 76 at end-2003 when compared to 2002. The increase in the number of employees abroad stemmed from the increase in number of employees of state banks by 42 without increase in its branches abroad as well as the increase in the number of employees of private banks by 33 while its branches abroad decreased.

**Table 2.1 Number of Banks and Employees\***

	Number of Banks		Number of Branches (Consolidated)		Number of Employees (Consolidated)		Number of Branches Abroad		Number of Employees Abroad	
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003
State banks	3	3	2.088	2.070	40.158	37.982	12	12	82	124
Private Banks	20	18	3.683	3.609	66.842	70.622	24	22	269	302
SDIF Banks	2	2	203	175	5.886	4.518	1	1	4	3
Foreign Banks	15	13	206	209	5.406	5.451	4	4	27	29
<b>Total of Deposit Banks</b>	<b>40</b>	<b>36</b>	<b>6.180</b>	<b>6.063</b>	<b>118.292</b>	<b>118.573</b>	<b>41</b>	<b>39</b>	<b>382</b>	<b>458</b>
Dev. And Inv. Banks	14	14	36	24	5.717	5.457	-	-	-	-
Public Capital	3	3	23	20	4.418	4.698	-	-	-	-
<b>Total</b>	<b>54</b>	<b>50</b>	<b>6.216</b>	<b>6.087</b>	<b>124.009</b>	<b>124.030</b>	<b>41</b>	<b>39</b>	<b>382</b>	<b>458</b>

\*Imar Bankası is not included in December 2003 data.  
Source: BRSA

As for activity volume per branch and employee, improvements were observed in 2003 when compared to 2002. The number of employee per branch increased from 19,9 in 2002 to

<sup>1</sup> This section of the Annual Report is taken from "Banking Sector Evaluation Report" which was published in February 2004, and updated with temporary December 2003 data. Small differences may occur due to approximation.

<sup>2</sup> State banks stand for Public Deposit Banks; Private banks for Private Deposit banks and Foreign banks for Foreign Deposit Banks. Besides, all analyses were based on local-foreign branches consolidated amounts.

<sup>3</sup> Sizes of the Bank are included in the report as it was under the liquidation process during the period the report covers, however, is not included in the number of banks.

20,4 in 2003, mainly due to the increase in private banks group. On the other hand, the number of employee per branch of other groups did not increase.

Asset size per branch increased from USD 20,9 million (TL 34,2 trillion) to USD 29,4 million (TL 41,1 trillion) during the same period. The asset size per employee has shown a similar trend and increased from USD 1 million (TL 1,7 trillion) to USD 1,4 million (TL 2 trillion).

By high growth rate and the decrease in the value of the foreign assets of banks due to the nominal decrease in the foreign exchange rates, the ratio of the total asset size of the banking system to GDP decreased by 7,7 points to 69,4% at end-2003 when compared to end-2002.

In 2003, the asset size of the banking sector increased by 17,4% (3% in real terms) and was realized as TL 249,7 quadrillion. In terms of dollars, asset size of USD 130,1 billion as of end-2002 increased by 37,5% to USD 178,9 billion together with the appreciation of TL against foreign currencies.

In terms of intermediation to the financing of the real sector, it is possible to state that the efficiency of this function of the sector increased in 2003. As a matter of fact, the loans (loans+ non-performing loans) to deposit ratio increased by 5,1 points when compared to end-2002 data to 48,2% at end-2003. On the other hand, the share of loans in GDP also increased from 17,9% as of end-2002 to 18,6% in December 2003.

In 2003, assets of banks were mostly concentrated in securities and loans while the share of liquid assets declined. Deposit is still the most important funding source of the sector and the share of own-funds in total liabilities increased with the improvement in profitability.

Although state banks' share in the banking sector has shown a decreasing trend throughout years, it was still at a high level with 36,3% as of 2003, due to public share in development and investment banks.

The 2,8% share of foreign participation in Turkish banking sector increases to 5,3 when the foreign participations to private banks as well as development and investment banks are taken into account.

In terms of concentration; when compared to 2002 data, the share of 5 banks with the highest asset size has increased by 1,3 points and reached to 59,7% by the effects of increased opportunity of access of large banks to foreign funding sources. A similar development was observed in the share of assets of largest 10 banks and this ratio increased by 1,5 points to 82,3% within the same period.

*In 2003, positive developments were experienced in asset-liability structure and profitability performance of banking sector increased.*

**Table 2.2 Turkish Banking Sector (December 2003)**

	Total Assets (TL Trillion)	% Share in Sector Total	Total Loans (TL Trillion)	% Share in Sector Total	Total Deposits (TL Trillion)	% Share in Sector Total
State banks	83.134	33,3	12.100	18,3	59.862	38,5
Private Banks	142.270	57,0	45.763	69,1	88.180	56,8
SDIF Banks	7.075	2,8	707	1,1	4.133	2,7
Foreign Banks	6.944	2,8	2.711	4,1	3.137	2,0
<b>Deposit Banks</b>	<b>239.423</b>	<b>95,9</b>	<b>61.282</b>	<b>92,5</b>	<b>155.312</b>	<b>100,0</b>
Dev. And Inv. Banks	10.265	4,1	4.940	7,5	-	-
<i>Public Capital</i>	<i>7.441</i>	<i>3</i>	<i>4.540</i>	<i>6,9</i>	-	-
<b>Total</b>	<b>249.688</b>	<b>100,0</b>	<b>66.222</b>	<b>100,0</b>	<b>155.312</b>	<b>100,0</b>
- First 5 Banks	148.955	59,7	30.901	46,7	97.843	63,0
- First 10 Banks	205.528	82,3	50.709	76,6	134.454	86,6
-First 5 Private Banks	111.434	44,6	33.988	51,3	68.611	44,2

Source: BRSA

As of December 2003, the share of branches abroad in consolidated balance sheet increased by 3,6 points to 8,2% when compared to end-2002 data. The share of loans extended by branches abroad in total loans decreased by 8,2 points to 16% while the share of deposits increased by 0,1 points to 3,9%. The decrease in loans is due to the misclassification of a loan amounting to TL 3 quadrillion extended by the branches abroad of a private bank.

## 2.2. Asset Structure

The asset structure of the banking sector has shown changes in 2003 upon Iraq War, optimism arisen following the war, the positive improvements in economic indicators and developments related to İmar Bank. While a change in favor of loans and securities was observed related to the decrease in interest rates and foreign exchange rates, the share of liquid assets<sup>4</sup> decreased when compared to end-2002.

The increase in loan demand related to the recovery of economic activity and decrease in interest rates, and the restructuring of loans under Istanbul Approach<sup>5</sup> led, in 2003, to a 18,7% increase in real terms in loans extended by the banking sector. As a result, share of loans in total assets increased by 3,5 points to 26,5%. Securities portfolio increased by 8,9% in real terms and its share in total assets increased to 42,8%. The share of liquid assets decreased by 1,9 points to 11,6% when compared to end-2002 due to the more efficient liquidity management by banks, decrease in FX exchange rates in nominal terms as well as the decrease in funding needs of banks from other banks and money markets due to the CBRT's efforts to keep the liquidity in markets in sufficient levels.

**Table 2.3 Developments in the Asset Structure of the Banking Sector (% Share)**

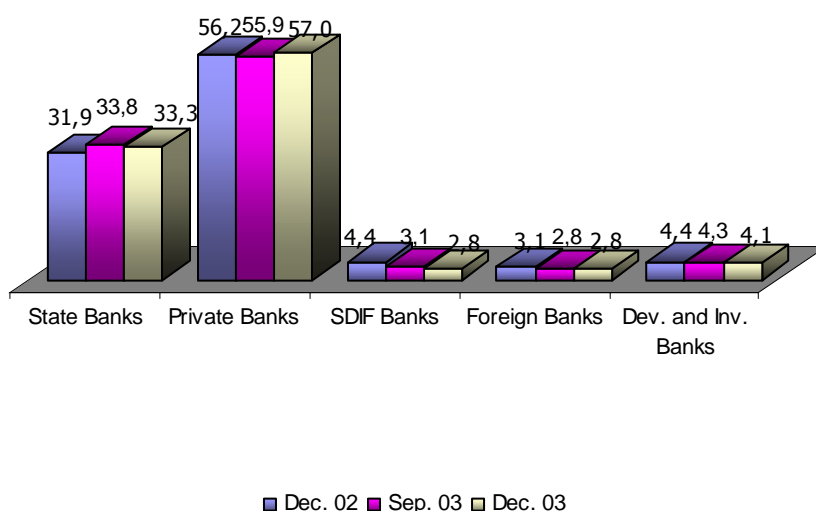
	Loans		Securities Portfolio		Liquid Assets		Subsidiaries, Affiliates, Fixed Assets		Other Assets	
	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03
State Banks	11,2	14,6	57,9	57,4	9,6	13,2	3,5	3,1	17,8	11,8
Private Banks	28,4	32,2	33,3	36,2	13,6	9,0	10,3	9,8	14,3	12,8
Foreign Banks	32,6	39,0	23,4	23,2	28,2	21,1	4,1	4,0	11,8	17,5
SDIF Banks	10,7	10,0	50,0	70,2	7,9	7,2	10,4	3,8	21,0	8,8
Dev. And Inv. B.	44,9	48,1	8,9	10,4	35,8	31,1	4,0	3,6	6,4	6,8
<b>Total</b>	<b>23,0</b>	<b>26,5</b>	<b>40,5</b>	<b>42,8</b>	<b>13,5</b>	<b>11,6</b>	<b>7,7</b>	<b>7,0</b>	<b>15,3</b>	<b>12,2</b>

Source:BRSA

In terms of share of total assets by banking groups as of end-2003, that of state banks and private banks increased by respectively 1,4 points and 0,8 points while the share of other groups decreased when compared to end-2002. Total assets of state banks and private banks increased by respectively 7,6% and 4,5% in real terms. Total assets in other bank groups decreased in real terms.

<sup>4</sup> Liquid Assets: Cash Items, Receivables from the Central Bank, Receivables from the Money Market, Receivables from Banks  
<sup>5</sup> Loan amounting TL 2 quadrillion has been restructured during this period.

### Total Assets by Banking Groups (%)



*In the asset structure of the banking sector which increased in real terms, loans and securities portfolio weighted placement structure is remained the same while liquid assets and NPLs decreased.*

When considered by bank groups, the highest decrease in real terms in total assets was in SDIF Banks with 33,3%. The decrease in short term receivables, (including the claims from the Central Bank and other banks) subsidiaries and affiliates of SDIF banks were prevailing in this shrinkage. Foreign banks followed SDIF banks with an 8,1% contraction in real terms.

**Table 2.4 Total Assets by Banking Groups**

	TL Trillion		% Share*		Nominal % Change	Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003		
<b>State Banks</b>	<b>67.831</b>	<b>83.134</b>	<b>31,9</b>	<b>33,3</b>	<b>22,6</b>	<b>7,6</b>
- TL	45.524	61.583	67,1	74,1	35,3	18,7
- FX	22.308	21.551	32,9	25,9	-3,4	-15,2
<b>Private Banks</b>	<b>119.471</b>	<b>142.270</b>	<b>56,2</b>	<b>57,0</b>	<b>19,1</b>	<b>4,5</b>
- TL	59.537	77.437	49,8	54,4	30,1	14,2
- FX	59.934	64.833	50,2	45,6	8,2	-5,1
<b>Foreign Banks</b>	<b>6.630</b>	<b>6.944</b>	<b>3,1</b>	<b>2,8</b>	<b>4,7</b>	<b>-8,1</b>
- TL	3.165	3.898	47,7	56,1	23,2	8,1
- FX	3.464	3.045	52,3	43,9	-12,1	-22,9
<b>SDIF Banks</b>	<b>9.310</b>	<b>7.075</b>	<b>4,4</b>	<b>2,8</b>	<b>-24,0</b>	<b>-33,3</b>
- TL	7.944	6.310	85,3	89,2	-20,6	-30,3
- FX	1.366	765	14,7	10,8	-44,0	-50,8
<b>Dev. and Inv. Banks</b>	<b>9.438</b>	<b>10.265</b>	<b>4,4</b>	<b>4,1</b>	<b>8,8</b>	<b>-4,5</b>
- TL	4.556	5.590	48,3	54,5	22,7	7,7
- FX	4.882	4.675	51,7	45,5	-4,2	-16,0
<b>Total</b>	<b>212.681</b>	<b>249.688</b>	<b>100,0</b>	<b>100,0</b>	<b>17,4</b>	<b>3,0</b>
- TL	120.726	154.819	56,8	62,0	28,2	12,5
- FX	91.955	94.869	43,2	38,0	3,2	-9,5

\* Percentage share for the group stands for the share in total banking sector; and for TL-FX, the share within the relevant group.

Source: BRSA

Another improvement experienced in the asset structure of the banking sector in 2003 is that TL-FX composition<sup>6</sup> changed significantly when compared to the previous year. In terms of TL-FX composition of asset structure, the share of TL-denominated assets increased from 56,8% in end-2002 to 62% in 2003. When considered by groups, share of TL-denominated assets in total assets increased in all of the bank groups. Increase in share of TL-denominated assets was mainly due to the decrease in foreign exchange rates in nominal terms.

### **2.2.1. Liquid Assets**

Cash items decreased by 5,1% in real terms in 2003 and were realized as TL 2 quadrillion. When considered by groups, a general decrease was observed in all groups except for state banks.

Receivables of banks from the Central Bank increased by 11% in nominal terms to TL 3 quadrillion during the same period. Receivables of state banks from the Central Bank increased by TL 300 trillion while that of private banks had a limited increase by TL 14 trillion.

In 2003, receivables from money market decreased by 9,1% in real terms and amounted to TL 8,8 quadrillion. When analyzed by banking groups, receivables from money market decreased for all groups also in nominal terms except for the state banks. As for state banks, receivables from money market increased by 183% in real terms to TL 4,1 quadrillion. This was mainly due to the increased lending activities of state banks in the money market, to transfer their liquidity surplus.

In 2003, receivables from banks decreased by TL 472 trillion to TL 15,1 quadrillion. This decline was mainly due to the decrease in FX-denominated receivables from banks. The receivables from banks in all groups decreased in nominal terms except for state banks, with the largest decrease in SDIF banks by 26,4%, followed by foreign banks group by 20,2%.

In 2003, the liquid assets of the banking sector decreased by 11,3% in real terms and the share thereof in total assets declined by 1,9 points to 11,6%. The decrease in the share of liquid assets in the balance sheet is evaluated as an indicator for that banks' expectations in economy is positive.

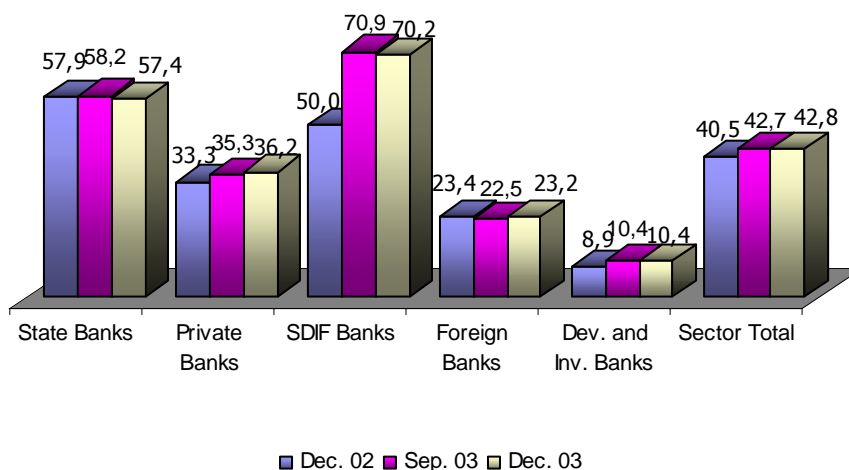
### **2.2.2. Placements Made to Securities Portfolio**

In 2003, banking sector securities portfolio (SP) increased by 8,9% in real terms to TL 106,8 quadrillion. The share of SP in total assets increased from 40,5% by the end of 2002 to 42,8% in end-2003. The share of trading securities and the securities available for sale in the SP increased while the share of held-to-maturity securities decreased. While 44,7% of SP was composed of trading securities and securities available-for-sale as of end-2002, this rate increased by 12,0 points to 56,7% in 2003. The increase in SP was significant especially in the last quarter of the year.

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<sup>6</sup> FX denominated items are included in TL indexed items.

## Share of Securities Portfolio in Total Assets (%)



When analyzed by groups, in 2003, the share of securities in total assets increased for groups excluding state and foreign banks, headed by SDIF banks by 20,2 points. The share of securities of state banks in total assets decreased by 0,5 points.

Table 2.5 Securities Portfolio by Banking Groups

	TL Trillion		% Share*		Nominal % Change	Real % Change
	Dec.02	Dec.03	Dec.02	Dec.03		
<b>State Banks</b>	<b>39.245</b>	<b>47.716</b>	<b>45,6</b>	<b>44,7</b>	<b>21,6</b>	<b>6,7</b>
- Securities Available-for-Sale	6.157	14.801	7,2	13,9	140,4	111,0
- Held-to-Maturity Securities	33.088	32.914	38,4	30,8	-0,5	-12,7
<b>Private Banks</b>	<b>39.819</b>	<b>51.485</b>	<b>46,2</b>	<b>48,2</b>	<b>29,3</b>	<b>13,5</b>
- Securities Available-for-Sale	26.632	38.981	30,9	36,5	46,4	28,5
- Held-to-Maturity Securities	13.187	12.504	15,3	11,7	-5,2	-16,8
<b>Foreign Banks</b>	<b>1.548</b>	<b>1.608</b>	<b>1,8</b>	<b>1,5</b>	<b>3,8</b>	<b>-8,9</b>
- Securities Available-for-Sale	757	1.276	0,9	1,2	68,7	48,1
- Held-to-Maturity Securities	792	332	0,9	0,3	-58,1	-63,3
<b>SDIF Banks</b>	<b>4.655</b>	<b>4.964</b>	<b>5,4</b>	<b>4,6</b>	<b>6,6</b>	<b>-6,4</b>
- Securities Available-for-Sale	4.413	4.779	5,1	4,5	8,3	-5,0
- Held-to-Maturity Securities	242	185	0,3	0,2	-23,8	-33,2
<b>Dev. And Inv. Banks</b>	<b>837</b>	<b>1.072</b>	<b>1,0</b>	<b>1,0</b>	<b>28,0</b>	<b>12,3</b>
- Securities Available-for-Sale	540	794	0,6	0,7	47,0	29,0
- Held-to-Maturity Securities	297	278	0,3	0,3	-6,5	-18,0
<b>Total</b>	<b>86.105</b>	<b>106.844</b>	<b>100,0</b>	<b>100,0</b>	<b>24,1</b>	<b>8,9</b>
- Securities Available-for-Sale	38.499	60.632	44,7	56,7	57,5	38,2
- Held-to-Maturity Securities	47.606	46.212	55,3	43,3	-2,9	-14,8

\* Percentage share for the group stands for the share of the group in total banking sector and for the sub-details, it stands for the share within the relevant group.

Source: BRSA

Securities portfolio increased by 29,3% for private banks, 21,6% for state banks, 3,8% for foreign banks, 6,6% for SDIF banks and 28,0% for development and investment banks in 2003. In parallel with the decrease in domestic borrowing interest rates for all bank groups, trading securities and securities available-for-sale (TS&SAFS) increased and held-to-maturity securities decreased. Hence, TS&SAFS portfolio of state banks increased by 140,4%, held-to-maturity securities did not have a significant change. While TS&SAFS portfolio increased by 46,4% for private banks, held-to-maturity securities decreased by 5,2%.

The banking sector's securities portfolio mainly consists of government securities (95,7%). The distribution of the government securities portfolio is 73,9% government bonds, 13,8% eurobonds, 8,5% foreign currency indexed securities and 3,8% treasury bills.

The share of government securities in total banking sector's securities portfolio did not change when compared with end-2002 data. Besides, in parallel with the extension of borrowing maturity of the Treasury, the share of government bonds in securities portfolio increased, while the share of treasury bills decreased.

**Table 2.6 Distribution of the Securities (TL Trillion)**

	December 2002			December 2003			% Share		Real % Change
	TL	FX	Total	TL	FX	Total	Dec.02	Dec. 03	
Government Securities	51.206	31.125	82.331	67.408	34.868	102.276	95,6	95,7	9,0
- Government Bonds	36.006	21.433	57.438	54.921	20.644	75.564	66,7	70,7	15,5
- Treasury Bills	5.852	232	6.084	3.769	86	3.855	7,1	3,6	-44,4
- FX Indexed Securities	9.349	0	9.349	8.719	0	8.719	10,9	8,2	-18,2
- Eurobonds (Treasury)	0	9.461	9.461	0	14.138	14.138	11,0	13,2	31,2
Stocks	611	72	683	850	75	925	0,8	0,9	18,9
Other	734	2.357	3.091	1.735	1.908	3.643	3,6	3,4	3,4
<b>Securities Portfolio</b>	<b>52.551</b>	<b>33.554</b>	<b>86.105</b>	<b>69.994</b>	<b>36.851</b>	<b>106.844</b>	<b>100,0</b>	<b>100,0</b>	<b>8,9</b>

Source:BRSA

In 2003, the share of TL-securities in securities portfolio increased. The share of TL-securities except FX-indexed securities which was 50,2% as of end-2002 increased to 57,3% by end-2003. FX-denominated securities are mostly composed of USD denominated securities. As a matter of fact, the share of USD denominated securities within total FX denominated securities was 81,4% and of euro denominated securities, 18,5% in end-2003.

In terms of interest structure of the securities portfolio, 52,1% of total securities are floating rate, while 43,7% are fixed rate in 2003.

The share of fixed rate securities in total securities increased in all banking groups and the share of floating rate securities and non-interest bearing securities decreased when compared to end-2002. The share of floating and fixed rate securities in total securities according to banking groups are respectively 71,3% and 25,0% for state banks, 31,5% and 63,6% for private banks, 45,2% and 51,7% for foreign banks, 13,4% and 81,4% for development and investment banks, 92,7% and 7,3% for SDIF banks.



**Table 2.7 Interest Structure of Securities Portfolio (TL Trillion)**

	December 2002			December 2003			% Share		Real % Change
	TL	FX	Total	TL	FX	Total	Dec. 02	Dec.03	
-Fixed Rate Securities	10.156	20.213	30.369	20.390	26.342	46.732	35,3	43,7	35,1
-Floating Rate Securities	41.087	10.754	51.841	47.189	8.524	55.713	60,2	52,1	-5,7
-Non-Interest Bearing Securities	1.308	2.587	3.895	2.414	1.985	4.399	4,5	4,1	-0,9
<b>Securities Portfolio</b>	<b>52.551</b>	<b>33.554</b>	<b>86.105</b>	<b>69.994</b>	<b>36.851</b>	<b>106.844</b>	<b>100,0</b>	<b>100,0</b>	<b>8,9</b>

Source:BRSA

As of end-2003, in terms of maturity structure of government securities, 48,8% are TL-denominated with maturities exceeding one year. When compared to June 2003, the share of government securities with maturities exceeding one year in total government securities increased by 3,9 points to 64,1%. This development was mainly due to the increase in FX denominated securities. The share of government securities with maturities exceeding one year is 77,3% in state banks and 44,7% in private banks.

**Table 2.8 Government Securities By Maturities (%)**

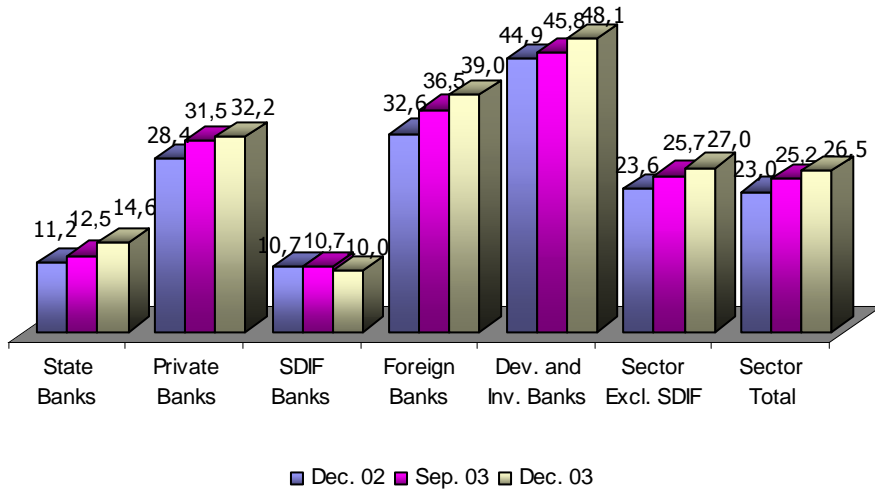
	TL Denominated Government Securities						FX Denominated Government Securities					
	<1 Month	1-3 M	3-6 M	6-12 M	1 year>	Total	<1 Month	1-3 M	3-6 M	6-12 M	1 year>	Total
<b>Banking Sector</b>												
June 2003	0,3	0,9	2,6	23,2	47,9	<b>74,9</b>	1,3	5,1	3,1	3,3	12,3	<b>25,1</b>
September2003	0,1	1,3	10,6	17,7	46,1	<b>75,8</b>	2,1	0,7	2,6	2,1	16,8	<b>24,2</b>
December 2003	1,5	2,7	8,8	15,1	48,8	<b>76,9</b>	1,0	0,8	0,4	5,7	15,3	<b>23,1</b>
<b>State Banks</b>												
June 2003	0,0	0,0	1,4	7,3	65,3	<b>74,0</b>	0,2	3,8	3,8	2,5	15,7	<b>26,0</b>
September2003	0,0	1,3	2,2	8,9	63,9	<b>76,3</b>	2,1	1,3	1,6	1,1	17,6	<b>23,7</b>
December 2003	0,0	0,2	5,4	12,3	61,9	<b>79,8</b>	0,2	0,1	0,7	3,8	15,4	<b>20,2</b>
<b>Private Banks</b>												
June 2003	0,6	2,1	4,3	44,0	21,9	<b>73,0</b>	2,9	7,3	2,5	4,9	9,4	<b>27,0</b>
September2003	0,2	1,3	21,3	29,4	20,4	<b>72,6</b>	2,2	0,0	4,2	3,6	17,4	<b>27,4</b>
December 2003	3,4	5,5	14,0	19,8	28,7	<b>71,4</b>	2,1	1,8	0,0	8,8	16,0	<b>28,6</b>

Source: BRSA

### 2.2.3. Loans

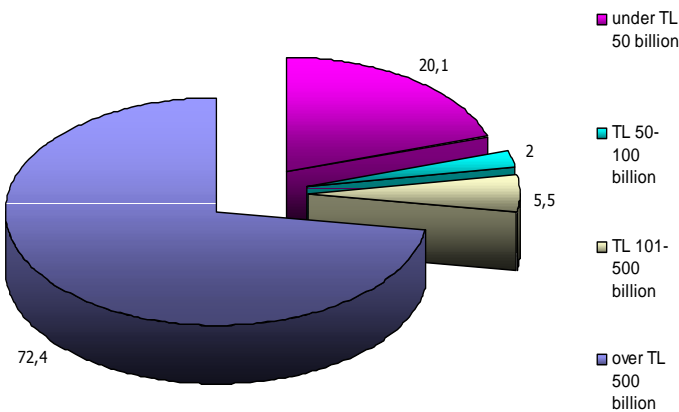
The shorter than the expected longevity of Iraq War, the hectic trend of economic recovery which followed the war, the restructuring of debts within the framework of the Istanbul Approach, the improvements in macroeconomic indicators, the decrease in foreign exchange rates and interest rates resulted with an increase in loan portfolio of the banking sector. As of end- 2003, total amount of loans of the banking sector increased by 18,7% in real terms to TL 66,2 quadrillion. In parallel, the share of loans in total assets increased by 3,5 points to 26,5% when compared to end-2002.

**Distribution of Loans in Total Assets by Groups (%)**

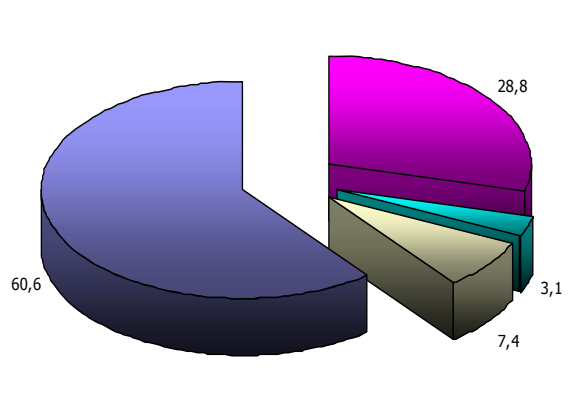


There has been remarkable increase in the TL denominated loans extended by the banking sector in 2003. TL-denominated loans increased by 57,7% in real terms while FX denominated loans decreased by 8,6%. However, FX denominated loans increased by 22% in USD basis. Hence, FX denominated loans increased from USD 17,6 billion in end-2002 to USD 21,5 billion in 2003, and its share in total assets decreased from 13,6% to 12%.

**Dist. of Loans by Size (Dec. 2002)**



**Dist. of Loans by Size (Dec. 2003)**



Loans extended by banks through their branches abroad due to advantages provided as regards intermediation costs, which increased in 2002, increased by USD 350 billion to USD 7,6 billion in 2003 when compared to end-2002.

**Table 2.9 Distribution of Total Credits by their Size and Number of Customers \***

Loan Size	December 2002		December 2003	
	Number of Customers	% Distribution	Number of Customers	% Distribution
Loans exceeding TL 500 billion	10.722	0,07	11.697	0,06
Loans from TL 101 billion to TL 500 billion	12.042	0,08	20.288	0,11
Loans from TL 50 billion to TL 100 billion	15.085	0,10	27.673	0,15
Loans under TL 50 billion	15.755.582	99,76	18.647.204	99,68
<b>Total Number of Customer</b>	<b>15.793.431</b>	<b>100,00</b>	<b>18.706.862</b>	<b>100,00</b>

\*Excluding İller Bank

Source: BRSA

When the distribution of loan sizes as of end- 2003 are analyzed, it is observed that 60,6% of total loans are composed of loans exceeding TL 500 billions and 28,8% of loans under TL 50 billion. The number of customers of loans under TL 50 billion increased by 18,3% when compared to the previous year, while those which utilized loans exceeding TL 500 billion increased by 9,1%. Another conspicuous activity is the increase of number of loans utilized between TL 51-500 billion. The number of customers of loans from TL 51 billion to TL 500 billion increased by 76,8% when compared to end-2002, to 47.961.

The share of TL denominated loans within TL denominated assets increased by 6,7 points to 23,4% in 2003, while the ratio of FX denominated loans to FX denominated assets increased by 0,3 points to 31,7%, indicating an increase in banks' tendency to extend TL loans. However, this level still states a very low intermediary function for the real sector financing (only 1/4 of assets consist of loans).

**Table 2.10 Loans by Groups**

	TL Trillion		% Share*		Nominal % Change	Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003		
<b>State Banks</b>	<b>7.616</b>	<b>12.100</b>	<b>15,5</b>	<b>18,3</b>	<b>58,9</b>	<b>39,4</b>
- TL	5.856	10.232	76,9	84,6	74,7	53,3
- FX	1.760	1.868	23,1	15,4	6,2	-6,8
<b>Private Banks</b>	<b>33.972</b>	<b>45.763</b>	<b>69,4</b>	<b>69,1</b>	<b>34,7</b>	<b>18,2</b>
- TL	11.098	21.741	32,7	47,5	95,9	71,9
- FX	22.873	24.022	67,3	52,5	5,0	-7,8
<b>Foreign Banks</b>	<b>2.161</b>	<b>2.711</b>	<b>4,4</b>	<b>4,1</b>	<b>25,4</b>	<b>10,1</b>
- TL	955	1.423	44,2	52,5	49,0	30,7
- FX	1.206	1.288	55,8	47,5	6,8	-6,3
<b>SDIF Banks</b>	<b>995</b>	<b>707</b>	<b>2,0</b>	<b>1,1</b>	<b>-28,9</b>	<b>-37,6</b>
- TL	494	433	49,6	61,2	-12,4	-23,1
- FX	501	275	50,4	38,8	-45,2	-51,9
<b>Dev. and Inv. Banks</b>	<b>4.237</b>	<b>4.940</b>	<b>8,6</b>	<b>7,5</b>	<b>16,6</b>	<b>2,3</b>
- TL	1.733	2.348	40,9	47,5	35,5	18,9
- FX	2.504	2.592	59,1	52,5	3,5	-9,1
<b>Total</b>	<b>48.981</b>	<b>66.222</b>	<b>100,0</b>	<b>100,0</b>	<b>35,2</b>	<b>18,7</b>
- TL	20.136	36.176	41,1	54,6	79,7	57,7
- FX	28.845	30.045	58,9	45,4	4,2	-8,6

\* Percentage share for the group stands for the share of the group in total banking sector and for TL-FX; for the share within the relevant group.

Source: BRSA.

When analyzed by banking groups; except SDIF banks which experienced a 0,7 points decrease in 2003, the share of loans in total assets increased in all banking groups. While the highest increase was realized with the increase in the share of FX loans in total assets by 6,4 points, the said share increased by 3,8 points for foreign banks, 3,4 points for state banks, 3,2 points for development and investment banks.

Except for SDIF banks, loans of all banking groups increased in real terms in 2003, led by state banks with 39,4%. Upon positive economic developments in 2003, state banks have started to expand their loans portfolio, which previously decreased aftermath the 2001 economic crisis. When compared to 2002, total loans of private banks increased by 18,2 points in real terms to TL 45,8 quadrillion. Also, loan extending activities of private banks was accelerated in the last quarter of 2003. The total amount of loans of private banks which increased by 16,7% during the first quarter of the year increased by 15,4% in the last quarter. In 2003, the amount of loans of foreign banks also increased by 10,1% in real terms to TL 2,7 quadrillion. The increase by 30,7% in TL denominated loans extended by foreign banks shows that TL risk bearing tendency of these banks increased. In 2003, loan portfolio of SDIF banks decreased in real terms by 37,6%. This was mainly due to the sale of Bayındırbank's individual loans.

Banks especially focused on individual loans in 2003. The share of export and export guaranteed investment loans, which have the largest share in total loans decreased from 22,6% in December 2002, by 2,4 points to 20,2 in December 2003. The share of working capital loans in total loans decreased by 2,9 points to 13,1% during the same period. The most considerable development in total loans was in consumer loans and credit cards, shares of which increased respectively from 15,7 in 2002 to 24,9% in end-December 2003.

**Table 2.11 Loans by Type (%)\***

	December 2002	December 2003
Discounted Loans	1,0	0,7
Export Loans	19,2	17,5
Export Guaranteed Investment Loans	3,4	2,7
Other Investment Loans	4,5	3,3
Working Capital Loans	16,0	13,1
Specialized Loans	1,5	2,2
Fund-based Loans	8,2	7,4
Consumer Loans	6,6	14,0
Credit Cards	9,1	10,9
Other	30,5	28,2
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

\* Excluding İller Bank.

Source: BRSA

In the said period, consumer loans increased by 164,9% in real terms and its share in total loans increased from 6,6% in 2002 to 14% in 2003. It was mainly due to the decrease in interest rates especially in the last quarter of the year and the recovery of consumption expenses postponed. In consumer loans, the increase in automobile loans is remarkable.

Automobile loans increased by 307,8% in real terms while FX indexed automobile loans also increased by 113,8%. The increase in consumption expenses and promotion of credit card use resulted with a 42,3% increase in total volume of credit card use in 2003 when compared to the previous year. The share of credit card expenses in total loans increased by 1,8 points to 10,9% when compared to 2002.

**Table 2.12 Consumer Loans and Credit Cards (TL Trillion)**

	December 2002	December 2003	Real % Change
<b>Consumer Loans</b>	<b>2.742</b>	<b>8.277</b>	<b>164,9</b>
- Housing	283	579	79,6
- Automobile	793	3.685	307,8
- Other	1.666	4.013	111,5
<b>FX Indexed Consumer Loans</b>	<b>388</b>	<b>768</b>	<b>73,7</b>
- Housing	204	329	41,5
- Automobile	122	325	113,8
- Other	63	113	57,4
<b>Credit Cards</b>	<b>4.335</b>	<b>7.030</b>	<b>42,3</b>
<b>Total</b>	<b>7.466</b>	<b>16.074</b>	<b>89,0</b>

Source: BRSA

In terms of loans by sector, there has been a concentration in industrial sector. As of end-2003, 41,7% of loans were extended to the industrial sector, followed by 30,3% with service sectors.

**Table 2.13 Loans by Sectors (December 2003)**

Main Sectors	% Share	5 Major Sectors	% Share
Agriculture	4,6	Textile and Textile Products	10,8
Industry	41,7	Wholesale and Retail Com. Motor Vehicle Services	9,6
Services	30,3	Food, Beverage and Tobacco Products	6,8
Other	23,5	Transportation, Stockage and Communication	6,4
<b>Total</b>	<b>100,0</b>	Construction	5,5

Source: CBRT

As for sectoral breakdown, the total share of the highest 5 sectors in the total loan portfolio was 39,1% in 2003. As of end-2003, the sector holding the largest share was the textile sector with a share of 10,8% followed by respectively wholesale and retail commerce, food industry, transportation and construction.

Developments observed in non-performing loans (NPL) of the banking sector positively affected the asset quality in 2003. NPL's (gross) decreased from TL 10,4 quadrillion by 27,4% to TL 8,6 quadrillion within the same period. NPL's (gross) of all banking groups decreased in real terms in 2003. The highest decrease in real terms was experienced by SDIF banks with 68,0%; followed by state banks with 17,0%, and private banks with 15,8%. This development was due to the increase in loans covered by the Istanbul Approach, more prudent approach of banks when extending loans, and increase in repayment ability of loan customers due to the growth performance of the economy.

Provisions set aside for NPL's increased from TL 6,7 quadrillion as of end-2002 to TL 7,6 quadrillion in end-2003, remaining the same in real terms.

In end-2003, the ratio of provisions to NPL's increased by 21,3 points to 85,5% when compared to the previous year. Thereby, as of end-2003, net NPL's of the banking sector was reduced by 76,8% in real terms when compared to end-2002. The provisions set aside for NPL's increased from TL 1,8 quadrillion to TL 2,6 quadrillion for private banks, from TL 3,4 quadrillion to TL 4,2 quadrillion for state banks. For SDIF banks, it decreased from TL 1,4 quadrillion to TL 622 trillion.

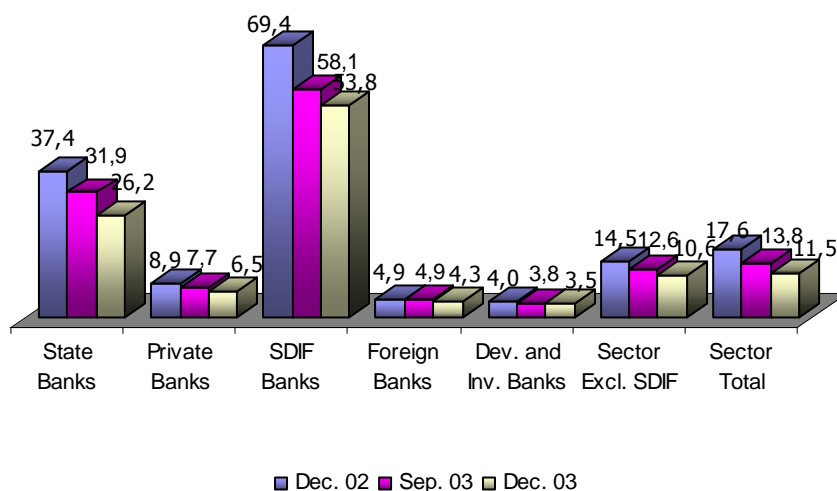
**Table 2.14 NPL's by Banking Groups (TL Trillion)**

	Dec. 2002	Dec. 2003	% Change	
			Nominal	Real
<b>NPL's (Gross)</b>	<b>10.430</b>	<b>8.629</b>	<b>-17,3</b>	<b>-27,4</b>
- State	4.545	4.300	-5,4	-17,0
- Private	3.335	3.200	-4,0	-15,8
- SDIF	2.260	825	-63,5	-68,0
- Foreign	112	123	9,8	-3,5
- Development and Investment	179	180	0,6	-11,6
<b>Provisions</b>	<b>6.691</b>	<b>7.641</b>	<b>14,2</b>	<b>0,2</b>
- State	3.358	4.198	25,0	9,7
- Private	1.766	2.561	45,0	27,3
- SDIF	1.366	622	-54,5	-60,0
- Foreign	87	97	11,5	-2,4
- Development and Investment	114	163	43,0	<b>25,3</b>
<b>Provisions/ NPL's (Gross) (%)</b>	<b>64,2</b>	<b>85,5</b>	<b>33,2</b>	<b>16,9</b>
- State	73,9	97,6	32,1	15,9
- Private	53,0	80,0	50,9	32,5

Source: BRSA

The non-performing loans ratio decreased from 17,6% as of end-2002 to 11,5% in end-2003. The highest decrease was experienced in SDIF and state banks.

**Non-Performing Loans Ratio by groups (%)**



As of end-2002, 73,6% of NPL's consisted of receivables with collateral. This rate increased to 75,4% in end-2003. When the collateral structure of NPL's is analyzed, it is observed that;

- NPL's with Group I collaterals consisting of cash and deposits, treasury bills, the securities issued by or under the guarantee of the central administrations and central banks of the OECD countries, are at a very low level,
- The share of NPL's with Group II collaterals consisting of gold and precious metals, stocks quoted on the stock exchange, asset-backed securities, private sector bills, suretyships and letters of guarantee given by banks operating in Turkey within their lending limits, guarantees of banks operating in OECD countries, guarantees of the central administrations and central banks of the OECD countries, guarantee and suretyships extended by European Central Bank, credit derivatives, transfer or pledge of firms' receivables from public sector, liquid securities, mortgages on real estate title deed and mortgages on allocated land plots, provided that their appraisal value is sufficient, is 39,5%,
- NPL's with Group III collaterals consisting of commercial pledges, export documents, pledges on motor vehicles, mortgages on aircrafts or ships, guarantees of natural persons and legal entities with high credibility, other notes obtained from customers, compose 31,6% of total NPL's,
- Other Group IV. Collaterals compose 3,5 of NPL's,
- 24,6% of NPL's have no collateral.

Restructured loans and other receivables (with also the effect of the agreement made with the Çukurova Group) increased by TL 3 quadrillion to TL 3,1 quadrillion in 2003, when compared to end-2002. Rescheduled receivables increased approximately 3 folds.

**Table 2.15 NPL's and their Collaterals (TL Trillion)**

	December 2002	December 2003
<b>Total NPL's Liabilities</b>	<b>10.430</b>	<b>8.629</b>
With Group I Collateral	348	64
With Group II Collateral	3.846	3.411
With Group III Collateral	3.169	2.729
With Group IV Collateral	313	301
Without Collateral	2.754	2.124
<b>Restructured Loans and Other Receivables</b>	<b>168</b>	<b>3.111</b>
<b>Rescheduled Loans and Other Receivables</b>	<b>370</b>	<b>995</b>

Source:BRSA

According to the Central Bank Risk Centralization Center data, 20,8% of total NPL's belongs to loans extended to wholesale-retail commerce sector, and 18,3% to textile sector in 2003.

Credit risks were reduced through regulations made in the banking sector, which provided more realistic determination of loan collaterals and distribution of risks among different sectors as well as recovery of the economic activity and the provisions set aside for most of existing non-performing loans.

### 2.2.4. Developments in Other Assets<sup>7</sup>

Other assets of the banking sector decreased in real terms in 2003. The share of interest income accruals and rediscounts in total assets decreased from 6,3% as of end-2002 to 5,1% in 2003 and the share of subsidiaries and affiliates decreased from 4,1% to 3,7%.

**Table 2.16 Other Assets (Development of Shares in Total Assets) (%)**

	December 2002	December 2003
Fixed Assets (Net)	3,6	3,3
Subsidiaries, Affiliates and Jointly-Controlled Partnerships (Net)	4,1	3,7
Interest Income and Rediscounts, Receivables from Leasing Activities, Assets to be Disposed Off, Fixed and Other Assets	9,2	7,7
<b>Total</b>	<b>16,9</b>	<b>14,6</b>

Source:BRSA

The share of fixed assets in total assets decreased by 0,3 points to 3,3% while assets to be disposed off remained at the same level of 0,8%. The decrease in subsidiaries, affiliates and fixed assets was also due to the liquidation through sale of some of these assets. These developments positively affected the free capitals of banks (Ref. Table 2.27).

### 2.3. Developments in Liability Structure

Liability structure of the banking system has changed in the January-December 2003 period. Share of the funds generated from repo transactions increased while share of deposits decreased due to decrease in nominal exchange rates. The banking system's debts to money markets and banks/total liabilities ratio decreased mainly driven by the decrease in state banks' debts to markets and other banks with respect to their increasing liquidity. Share of deposits in total liabilities decreased by 2,7 points to 62,2%, share of own funds increased by 2,1 to 14,2% and share of debts to banks decreased to 11,3% in December 2003 when compared to end-2002, as a result of improvements in profitability as well as capital increase and the developments experienced in FX exchange rates. TL-denominated deposits which have been the most important funding source for banks increased in real terms while FX-denominated deposits decreased due to exchange rate effect.

**Table 2.17 Developments in Liability Structure of the Banking Sector (%)**

	Deposit		Funds Generated from Repo Transactions		Claims to the CBRT, Money Markets and Banks		Shareholders Equity		Other Liabilities	
	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03
State Banks	71,5	72,0	1,5	1,2	7,0	4,9	9,9	11,5	10,1	10,3
Private Banks	67,5	62,0	3,4	5,7	11,7	13,0	12,7	14,7	4,6	4,6
Foreign Banks	46,5	45,2	0,0	0,3	22,3	20,5	20,9	24,0	10,2	10,1
SDIF Banks										
Bankaları	62,0	58,4	11,0	28,6	15,2	12,1	-6,7	-12,0	18,6	12,8
Dev. & Inv.	0,0	0,0	0,4	0,7	37,3	32,7	31,7	40,8	30,6	25,8
<b>Total</b>	<b>64,9</b>	<b>62,2</b>	<b>2,9</b>	<b>4,5</b>	<b>11,8</b>	<b>11,3</b>	<b>12,1</b>	<b>14,2</b>	<b>8,3</b>	<b>7,8</b>

Source:BRSA

<sup>7</sup> Consists of Interest Income and Rediscounts, Receivables from Leasing Activities, Subsidiaries, Affiliates and Jointly-Controlled Partnerships, Assets to be Disposed Off, Fixed and Other Assets



TL-FX composition of total liabilities reveals that while share of TL-denominated items increased, share of FX-denominated items decreased in all groups. Indeed, share of TL-denominated liabilities, which accounted for 49,6% in 2002, increased to 56,7% in December 2003, which was mainly driven by the decrease in nominal exchange rates.

On the other hand, for all bank groups, share of TL-denominated deposits in liabilities increased while share of FX-denominated deposits in liabilities decreased. This was mainly driven by the decrease in FX exchange rate. As regard to own funds, there was an increase for all groups excluding SDIF banks. Claims to banks decreased for all bank groups excluding private banks.

*While share of deposits and claims to banks decreased, funds obtained from own funds and repo increased; liability structure changed in favor of TL due to the decrease in FX exchange rates.*

**Table 2.18 Total Liabilities by Groups**

	TL Trillion		% Share*		Nominal % Change	Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003		
<b>State Banks</b>	<b>67.831</b>	<b>83.134</b>	<b>31,9</b>	<b>33,3</b>	<b>22,6</b>	<b>7,6</b>
- TL	44.589	60.705	65,7	73,0	36,1	19,5
- FX	23.243	22.429	34,3	27,0	-3,5	-15,3
<b>Private Banks</b>	<b>119.471</b>	<b>142.270</b>	<b>56,2</b>	<b>57,0</b>	<b>19,1</b>	<b>4,5</b>
- TL	48.636	67.218	40,7	47,2	38,2	21,3
- FX	70.835	75.052	59,3	52,8	6,0	-7,0
<b>Foreign Banks</b>	<b>6.630</b>	<b>6.943</b>	<b>3,1</b>	<b>2,8</b>	<b>4,7</b>	<b>-8,1</b>
- TL	2.901	3.469	43,8	50,0	19,6	4,9
- FX	3.729	3.474	56,2	50,0	-6,8	-18,2
<b>SDIF Banks</b>	<b>9.310</b>	<b>7.075</b>	<b>4,4</b>	<b>2,8</b>	<b>-24</b>	<b>-33,3</b>
- TL	4.486	4.305	48,2	60,8	-4,0	-15,8
- FX	4.824	2.770	51,8	39,2	-42,6	-49,6
<b>Dev. &amp; Inv. Banks</b>	<b>9.438</b>	<b>10.265</b>	<b>4,4</b>	<b>4,1</b>	<b>8,8</b>	<b>-4,5</b>
- TL	4.808	5.967	50,9	58,1	24,1	8,9
- FX	4.630	4.298	49,1	41,9	-7,2	-18,5
<b>Total</b>	<b>212.681</b>	<b>249.687</b>	<b>100,0</b>	<b>100,0</b>	<b>17,4</b>	<b>3,0</b>
- TL	105.420	141.664	49,6	56,7	34,4	17,9
- FX	107.260	108.023	50,4	43,3	0,7	-11,6

\*Percentage share for the group stands for the share of the group in total banking sector and for the sub-details, the share within the relevant group.

Source: BRSA

### 2.3.1. Deposits

Total deposits of the banking sector decreased by 1,2% in real terms and accounted for TL 155,3 quadrillion as of December 2003 when compared to end-2002 and it mainly engendered from lower levels of TL equivalence of FX-denominated deposits as a result of lower levels of exchange rates throughout the year. Indeed, deposits increased by 31,8% and reached to USD 111,3 billion in USD terms.

As of December 2003, FX-denominated deposits accounted for 48,6%, TL-denominated saving deposits accounted for 29,2% and deposits of official, commercial and other institutions accounted for 22,2%. Share of FX-denominated deposits in the January-December 2003 period decreased by 8,6 points, which was driven by lower levels of exchange rates.

Distribution of deposits by groups indicates that share of state banks increased in 2003 while share of other groups decreased. Share of TL-denominated deposits of the State Banks in total TL-denominated deposits increased by 0,6 points to 53% while private banks' FX-denominated deposits increased to 70,6% from 70,2%. As a result of lower levels of exchange rates, share of FX-denominated deposits in total deposits decreased in all groups.

**Table 2.19 Composition of Deposits by Banking Groups**

	TL Trillion		% Share		Nominal % Change	Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003		
<b>State Banks</b>	<b>48.489</b>	<b>59.862</b>	<b>35,1</b>	<b>38,5</b>	<b>23,5</b>	<b>8,3</b>
- TL	30.881	42.344	63,7	70,7	37,1	20,3
- FX	17.608	17.518	36,3	29,3	-0,5	-12,7
<b>Private Banks</b>	<b>80.629</b>	<b>88.179</b>	<b>58,4</b>	<b>56,8</b>	<b>9,4</b>	<b>-4,0</b>
- TL	25.129	34.864	31,2	39,5	38,7	21,8
- FX	55.500	53.315	68,8	60,5	-3,9	-15,7
<b>Foreign Banks</b>	<b>3.086</b>	<b>3.137</b>	<b>2,2</b>	<b>2,0</b>	<b>1,7</b>	<b>-10,8</b>
- TL	504	591	16,3	18,8	17,3	2,9
- FX	2.582	2.546	83,7	81,2	-1,4	-13,5
<b>SDIF Banks</b>	<b>5.770</b>	<b>4.132</b>	<b>4,2</b>	<b>2,7</b>	<b>-28,4</b>	<b>-37,2</b>
- TL	2.401	2.044	41,6	49,5	-14,9	-25,3
- FX	3.368	2.088	58,4	50,5	-38	-45,6
<b>Total</b>	<b>137.973</b>	<b>155.310</b>	<b>100,0</b>	<b>100,0</b>	<b>12,6</b>	<b>-1,2</b>
- TL	58.915	79.843	42,7	51,4	35,5	18,9
- FX	79.058	75.467	57,3	48,6	-4,5	-16,2

Source: BRSA

FX distribution of deposits by groups indicates that share of TL-denominated deposits is higher at state banks while share of FX-denominated deposits is higher at private and foreign banks when compared to other groups.

Distribution of deposits by types indicates that share of FX deposit accounts in total deposits decreased while share of other deposits increased in December 2003 when compared to 2002 year-end. As of the said period, TL-denominated saving deposits increased by 14,2% in real terms to TL 45,4 quadrillion. Although FX deposit accounts decreased by 16,2% in real terms, they increased in dollar terms from USD 48,4 billion in end-2002 to USD 54 billion as of December 2003.

**Table 2.20 Deposits by Types**

	TL Trillion		% Share		Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	
TL-denominated Saving Deposits	34.851	45.368	25,3	29,2	14,2
FX Deposit Accounts*	78.964	75.413	57,2	48,6	-16,2
- Deposits of Domestic Residents (Natural Persons)	74.694	70.748	54,1	45,6	-16,9
Official, Commercial and Other Institutions' Deposits	24.011	34.475	17,4	22,2	26,0
Precious Metal Deposit Accounts	94	54	0,1	0,0	-49,6
<b>Sectoral Total</b>	<b>137.973</b>	<b>155.310</b>	<b>100</b>	<b>100</b>	<b>-1,2</b>

\* Comprised of savings deposits having the feature of FX deposit accounts and other FX-denominated deposits.

Source: BRSA

Distribution of FX deposit accounts by currencies indicates that while USD-denominated accounts decreased, EUR-denominated accounts increased within the January-December 2003 period. Hence, share of USD-denominated accounts decreased by 5,7 points from 69,5% in end-2002 to 63,8% in December 2003. Within the same period, share of EUR-denominated accounts increased by 9,5 points and reached to 32,9% mainly driven by the increase in EUR-denominated accounts and the change in EUR/USD parity in favor of EUR.

Average maturity of the deposits has lengthened in line with the positive expectations. Indeed, average maturity of TL-denominated deposits increased from 80 days at end-2002 to 88 days as of December 2003 and average maturity of FX-denominated deposits increased from 87 days to 90 days within the same period.

As regards TL-denominated deposits, share of the deposits with a maturity of less than three months decreased by 4,1 points while FX-denominated deposits decreased by 3,4 points to 85% as of December 2003 when compared to end-2002.

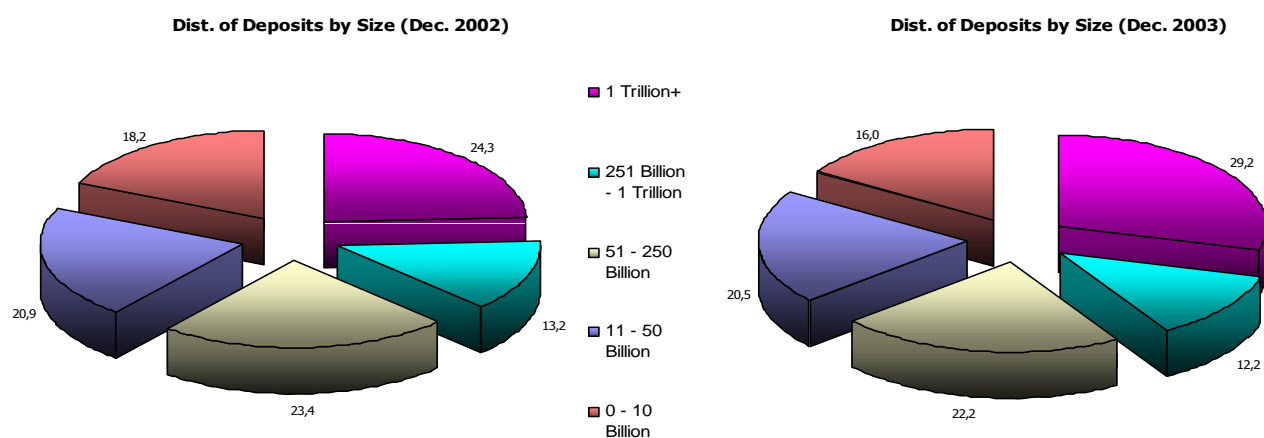
**Table 2.21 Maturity Structure of Deposits**

% Share	% Share		Real % Change
	Dec. 2002	Dec. 2003	
<b>TL Deposits (Total)</b>	<b>100,0</b>	<b>100,0</b>	<b>18,9</b>
Up to one Month	61,0	43,9	-14,5
1-3 Month	28,3	41,3	73,9
3-6 Month	6,7	10,4	85,6
6-12 Month	1,9	3,8	138,0
12 Month +	2,1	0,6	-65,4
<b>FX Deposit Accounts (Total)*</b>	<b>100,0</b>	<b>100,0</b>	<b>-16,2</b>
Up to one Month	68,3	61,2	-25,0
1-3 Month	20,5	24,2	-1,0
3-6 Month	4,8	6,2	8,5
6-12 Month	5,4	6,7	4,5
12 Month +	1,0	1,7	41,7

\* Comprised of savings deposits having the feature of FX deposit accounts and other FX-denominated deposits.

Source: BRSA

Since short-term deposits are the main funding source of the Turkish banking sector, average maturity of interest-rate-sensitive liabilities are shorter than that of interest-rate-sensitive assets. Thus, the decrease in interest rates will affect the sector positively while an increase will have an adverse effect.



Distribution of deposits by volume and number of customers indicates that composition of the domestic residents' deposits did not change in December 2003 compared to 2002 year-end and mainly concentrated on deposits amounting to between TL 51-250 billion and above TL 1 trillion. While share of the deposits amounting to above TL 250 billion accounted for 41,4% as of December 2003, share of the deposits amounting to below TL 50 billion accounted for 36,5%.

Number of deposit accounts of the domestic residents which amounted to 68 million by end-2002, increased by 15,9% to 78,8 million as of December 2003. Of the said accounts, deposit accounts of domestic residents accounted for 99,6% by number and 96,7% by size while that of foreign residents accounted for 0,4% and 3,4% respectively. Of the total deposits, deposits amounting to between TL 0-10 billion accounted for 16%, deposits amounting to between TL 11-50 billion accounted for 20,5% and deposits amounting to between TL 51-250 billion accounted for 22,2%.

**Table 2.22 Total Deposits by Size and Number of Customers (December 2003/% Share)**

	0-10 Billion	11-50 Billion	51-250 Billion	251 Billion- 1 Trillion	1 Trillion+	Total
<b>Domestic Residents</b>	<b>15,7</b>	<b>20,0</b>	<b>21,4</b>	<b>11,1</b>	<b>28,5</b>	<b>96,7</b>
Savings Deposits	8,1	8,9	5,8	3,1	3,1	29,0
Official, Commercial and Other Institutions Deposits	1,4	1,3	1,3	2,5	15,6	22,1
FX Deposit Accounts	6,2	9,8	14,3	5,5	9,8	45,6
<b>Residents Abroad</b>	<b>0,3</b>	<b>0,5</b>	<b>0,8</b>	<b>1,1</b>	<b>0,7</b>	<b>3,4</b>
FX Deposit Accounts	0,2	0,4	0,8	1,1	0,6	3,1
<b>General Total</b>	<b>16,0</b>	<b>20,5</b>	<b>22,2</b>	<b>12,2</b>	<b>29,2</b>	<b>100,0</b>
<b>Number of Accounts (Person)</b>						
<b>Domestic Residents</b>	<b>76.501.871</b>	<b>1.410.576</b>	<b>500.066</b>	<b>35.151</b>	<b>9.820</b>	<b>78.457.484</b>
- Natural Persons	68.591.861	1.186.829	423.516	21.811	4.451	70.228.468
- Legal Entities	7.910.010	223.747	76.550	13.340	5.369	8.229.016
<b>Residents Abroad</b>	<b>289.520</b>	<b>28.534</b>	<b>11.294</b>	<b>2.495</b>	<b>320</b>	<b>332.163</b>
<b>Number of Accounts</b>	<b>76.791.391</b>	<b>1.439.110</b>	<b>511.360</b>	<b>37.646</b>	<b>10.140</b>	<b>78.789.647</b>

Source: BRSA

### 2.3.2. Claims-to-Banks, Interbank Money Market and Central Bank

"Claims-to-banks" are another major funding source of the banking sector and its share in total liabilities decreased by 0,1 points compared to previous year-end and accounted for 10,4% as of end-December. Share of "claims-to-domestic banks and quasi-bank institutions" which are recognized under "claims-to-banks" item decreased by 0,1 points to 2,2% compared to 2002. Share of the funds obtained from banks and bank-like institutions abroad increased by 0,4 points as of December and accounted for 8,2%.

TL-FX composition of the "claims-to-banks" indicates that while FX-denominated claims account for 88,3% at end-2002 and the ratio decreased by 87,5% in December 2003. In dollar terms, while FX-denominated debts amounted to USD 11,9 billion at end-2002, they amounted to USD 16,2 billion by end-December.

**Table 2.23 Claims to Banks**

	TL Trillion		% Share in Total Liabilities		% Change in Real Terms
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	
<b>Claims-to-Banks</b>					
- State	2.230	2.338	3,3	2,8	-8,0
- Private	13.703	18.158	11,5	12,8	16,3
- SDIF	1.274	837	13,7	11,8	-42,3
- Foreign	1.476	1.362	22,3	19,6	-19,0
- Dev.&Inv. Banks	3.285	3.223	34,8	31,4	-13,9
- Sector	21.968	25.918	10,3	10,4	3,6
<b>- Domestic Banks and Quasi-Bank Institutions</b>					
- State	580	610	0,9	0,7	-7,7
- Private	1.951	2.770	1,6	1,9	24,6
- SDIF	897	680	9,6	9,6	-33,5
- Foreign	368	467	5,6	6,7	11,3
- Dev.&Inv. Banks	1.173	947	12,4	9,2	-29,2
- Sector	4.969	5.474	2,3	2,2	-3,3
<b>- Banks&amp;Quasi-Bank Institutions Abroad</b>					
- State	1.650	1.728	2,4	2,1	-8,1
- Private	11.454	15.388	9,6	10,8	17,9
- SDIF	377	157	4,0	2,2	-63,4
- Foreign	1.108	895	16,7	12,9	-29,1
- Dev.& Inv. Banks	2.081	2.271	22,0	22,1	-4,2
- Sector	16.670	20.439	7,8	8,2	7,6

Source: BRSA

Distribution of "claims-to-banks" by banking groups indicates that the said item decreased in all banking groups except private banks. The highest decrease was experienced in SDIF Banks and accounted for 42,3% in real terms and followed by foreign banks with a decrease of 19%. In parallel with decreasing short-term liquidity needs of SDIF banks and foreign banks, claims-to-banks of these banks decreased. "Claims-to-banks" of the private banks increased by 24,6% in real terms compared to previous year-end and "claims-to-banks abroad" also increased by 17,9% in real terms as a result of the syndication loans raised abroad.

Increasing reliability of the Turkish economy in the international markets also facilitated private banks to obtain syndication and securitization loans. While the banking sector obtained syndication loans amounting to a total of USD 3,8 billion in 2003, it reimbursed a total of USD 2,2 billion within the same period. Positive developments have been experienced as regards interest rates of the loans raised by banks and accordingly spread of 75-85 basis points at the beginning of the year decreased to 65 basis points at year-end.

**Table 2.24 Syndication Loans Received from abroad in 2003 (thousands)**

Month	Quantity	Currency	Amount	USD Equivalent	Average Maturity	Min- Max Margin and Definition
Prior to July	1	EURO	400.000	500.000	1 Year	EURIBOR + 75.00 BP
	4	USD	950.000	950.000	1 Year	LIBOR + 75:00 - 130.00 BP
July Total	5			1.450.000	1 Year	
August Total	1	USD	200.000	200.000	1 Year	LIBOR + 85:00
October Total	3	USD	525.000	525.000	1 Year	LIBOR + 80:00 - 85:00
November Total	2	USD	900.000	900.000	1 Year	LIBOR + 65:00
December Total	3	USD	700.000	700.000	1 Year	LIBOR + 65:00- 85:00
<b>TOTAL</b>	<b>14</b>			<b>3.775.000</b>		

Source: BRSA

The banking system raised a total of USD 1,3 billion of securitization loans in 2003. The said loans are generally used for project financing and have an average maturity of 5 years. This development indicates that confidence in the Turkish economy in the international markets has increased.

**Table 2.25 Securitization Loans Received from abroad in 2003 (thousands)**

Month	Quantity	Currency	Amount	USD Equivalent	Average Maturity	Purpose
September Total	1	USD	325.000	325.000	5 Years	Corporate Project Financing
November Total	2	USD	350.000	350.000	5 Years	Corporate Investment Projects
December Total	3	USD	650.000	650.000	5 Years	Investment and Financing Needs
<b>TOTAL</b>	<b>6</b>			<b>1.325.000</b>		

Source: BRSA

### 2.3.3. Own-Funds

Own-funds of the banking sector, which amounted to TL 25,7 quadrillion in 2002, increased to TL 35,5 quadrillion in real terms by December-2003. In dollar terms, own-funds increased from USD 15,7 billion to USD 25,5 billion.

The increase was mainly driven by the increase in bank reserves and period profits along with paid-up capitals. Nominal change in total own-funds accounted for 38,3% with an increase in paid-up capital accounting for 5,9 points, an increase in profits accounting for 10,6 points and an increase of 18,9 points in SDIF banks' and private bank reserves. On the other hand, own-funds of all banking groups, excluding the SDIF banks, increased in real terms compared to 2002. The decrease in SDIF banks was mainly driven by reserves and previous years' losses despite the profits realized in the current period.

Paid-up capital of the sector increased by TL 1.507 trillion as of end-2002 to TL 13.615 trillion as of December 31, 2003. The increase is engendered from increase in reserves and revaluation funds of private banks as well as subsidiary sales and in-cash capital increases in foreign and investment banks. Paid-up capital of private banks increased by TL 1.902 trillion as of end-2002 to TL 6.470 trillion as of December 31, 2003. Of this increase, in-cash capital increase accounted for 7%, increase in reserves accounted for 36 %, increase in revaluation funds accounted for 25 %, subsidiary sales accounted for 16 % and capital increases through profits accounted for 11 % compared to 2002 year-end.

**Table 2.26 Own-Fund**

	TL Trillion		% Share in Total Liabilities		Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	
<b>Total Own-funds</b>	<b>25.699</b>	<b>35.538</b>	<b>12,1</b>	<b>14,2</b>	<b>21,4</b>
- State Banks	6.747	9.574	9,9	11,5	24,5
- Private Banks	15.194	20.958	12,7	14,7	21,1
- SDIF Banks	-626	-847	-	-	-
- Foreign Banks	1.388	1.666	20,9	24,0	5,3
- Dev.&Inv. Banks	2.996	4.188	31,7	40,8	22,7
<b>Paid-up Capital</b>	<b>12.108</b>	<b>13.615</b>	<b>5,7</b>	<b>5,5</b>	<b>-1,3</b>
- State Banks	3.692	3.693	5,4	4,4	-12,2
- Private Banks	5.378	6.470	4,5	4,5	5,6
- SDIF Banks	1.006	1.084	10,8	15,3	-5,5
- Foreign Banks	500	513	7,5	7,4	-10,0
- Dev.&Inv. Banks	1.531	1.857	16,2	18,1	6,4
<b>Reserves*</b>	<b>50.258</b>	<b>43.573</b>	<b>23,6</b>	<b>17,5</b>	<b>-23,9</b>
- State Banks	11.065	3.984	16,3	4,8	-68,4
- Private Banks	10.488	12.632	8,8	8,9	5,7
- SDIF Banks	19.351	22.062	207,8	311,8	0,1
- Foreign Banks	1.408	1.057	21,2	15,2	-34,1
- Dev. & Inv. Banks	7.947	3.838	84,2	37,4	-57,6
<b>Profit/Loss for the Period</b>	<b>2.883</b>	<b>5.608</b>	<b>1,4</b>	<b>2,2</b>	<b>70,7</b>
- State Banks	1.056	1.790	1,6	2,2	48,8
- Private Banks	2.410	2.917	2,0	2,1	6,2
- SDIF Banks	-1.130	272	-	3,8	-
- Foreign Banks	83	186,2	1,3	2,7	96,9
- Dev.&Inv. Banks	464	442,6	4,9	4,3	-16,3
<b>Previous Years' Profit/Loss</b>	<b>-40.805</b>	<b>-29.333</b>	-	-	-
- State Banks	-9.075	0	-	-	-
- Private Banks	-3.969	-2.897	-	-	-
- SDIF Banks	-20.168	-24.268	-	-	-
- Foreign Banks	-609	-118,7	-	-	-
- Dev. & Inv. Banks	-6.984	-2.049	-	-	-

\* Reserves+Capital Reserves due to Inflation Accounting

Source: BRSA

When free capital of banks is analyzed, an improvement is witnessed within January-December 2003 period. Free capital of the banking system increased by 93,8 % within the January-December 2003 period due to increase in own-funds and decrease in fixed assets whilst banks' adjusted free-capital increased by 205,6 %. These developments affected banks' profitability performances positively. Distribution of free capital by banking groups indicates that most rapid increase was experienced in private banks, followed by state banks.

**Table 2.27 Free Capital By Banking Groups (TL Trillion)**

	Free Capital*		Adjusted Free Capital**	
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003
- State Banks	4.374	7.016	3.186	6.914
- Private Banks	2.830	6.993	1.259	6.355
- SDIF Banks	-1.593	-1.116	-2.486	-1.319
- Foreign Banks	1.116	1.390	1.091	1.364
- Dev. & Inv. Banks	2.614	3.823	2.550	3.806
<b>Total</b>	<b>9.341</b>	<b>18.107</b>	<b>5.600</b>	<b>17.119</b>

\* Free Capital: Own-funds – Affiliates and Subsidiaries – Fixed Assets

\*\*Adjusted Free Capital: Free Capital– NPL(net)

Source: BRSA.

## 2.4. Off-Balance Sheet Items

Increase in credit commitments as well as credit card limits and banks' prudential attitudes regarding non-cash credits such as letter of guarantee and letter of credit and forward FX transactions have affected off-balance sheet transactions in 2003.

Total off-balance sheet transactions of the banking sector increased by 19,3% in real terms within 2003. Its distribution by groups indicates that the decrease in real terms in off-balance sheet transactions accounted for 35,1% in the SDIF banks, 15,6% in development and investment banks while increase in off-balance sheet transactions accounted for 4,7% in state banks, 4,6% in foreign banks and 28,2% in private banks.

While ratio of off-balance sheet transactions of the banking sector to the balance sheet total accounted for 46,4% at end-2002, it increased to 53,8% by December 2003. Ratio of off-balance sheet transactions to total balance sheet decreased in state banks, SDIF banks and development and investment banks as of end-2003 compared to 2002 year-end while it increased in other bank groups. The said ratio decreased from 14,7% to 14,3% in state banks, from 42,7% to 41,5% in SDIF banks, from 36,5% to 32,2% in investment and development banks while it increased from 59,4% to 72,9% in private banks and from 156,7% to 178,3% in foreign banks.

**Table 2.28 Off-Balance Sheet Transactions**

	TL Trillion		% Change	
	Dec. 2002	Dec. 2003	Nominal	Real
<b>Contingencies</b>	<b>44.836</b>	<b>46.653</b>	<b>4,1</b>	<b>-8,7</b>
Letters of Guarantee	31.759	32.126	1,2	-11,2
Letters of Acceptance	1.972	2.290	16,1	1,9
Letters of Credit	8.534	8.911	4,4	-8,4
Guarantee, Suretyship and Endorsements	2.273	3.180	39,9	22,8
Other	298	147	-50,8	-56,8
<b>Commitments</b>	<b>53.903</b>	<b>87.567</b>	<b>62,5</b>	<b>42,6</b>
Exchange and Interest Rate Transactions	25.396	34.235	34,8	18,3
-Forward FX Purchase-sale transactions	9.699	13.295	37,1	20,3
a) Forward FX Purchase Transactions	4.830	6.667	38,0	21,1
b) Forward FX Sale Transactions	4.869	6.628	36,1	19,5
-Money Swap	10.516	12.059	14,7	0,6
a) Purchase	5.307	6.109	15,1	1,0
b) Sale	5.209	5.950	14,2	0,3
- Other Derivatives/ Purchase	431	2.318	437,8	372,0
- Other Derivatives/ Sale	4.750	6.563	38,2	21,3
Revocable Commitments	14.497	18.750	29,3	13,5
Credit Card Expenditure Limit Commitments	12.959	28.288	118,3	91,6
Other Irrevocable Commitments	190	3.647	1819,5	1584,6
Other	861	2.647	207,4	169,7
<b>Total Off-Balance Sheet Transactions</b>	<b>98.739</b>	<b>134.220</b>	<b>35,9</b>	<b>19,3</b>

Source: BRSA

Contingencies decreased by 8,7% in real terms in 2003 while commitments increased by 42,6%. In this period, letters of guarantee, which accounted for 68,8% of total contingencies decreased by 11,2% in real terms. The decrease in contingencies was mainly driven by the decrease in letters of guarantee of state banks, foreign banks and particularly SDIF banks as well as by the decrease in letters of credit extended by state and SDIF banks. This was mainly due to the foreign exchange rate effect to letters of credit, most of which were FX denominated. As a matter of fact, letters of credit increased from USD 5,2 billion in December 2002 to USD 6,4 billion as of December 2003.

The increase in total commitments accounted for 42,6% in real terms and mainly driven by the increase in credit card expenditure limit commitments of private, foreign and state banks and increase in revocable commitments of private banks as well as exchange rate and interest rate transactions thereof. Within the said period, credit card expenditure limits of private banks increased by 89,1% and revocable credit allocation commitments increased by 17,7% in real terms.

## **2.5. Securities under Custody of Banks**

As of December 26, 2003, excluding Settlement and Custody Bank, nominal value of securities under custody of banks increased by 77,2% compared to 2002 year-end and reached to TL 74.6 quadrillion and their market value increased by 64% and reached to TL 72.4 quadrillion. The said increase in nominal value by TL 35 quadrillion compared to December 2002 was mainly driven by the increase in government security portfolios of domestic natural persons and legal entities.

A remarkable portion of the discounted securities issued by the Treasury are held under custody of banks on behalf of natural persons and entities. In terms of nominal values, government securities and Eurobonds issued by the Treasury account for 95,7%, share stock account for 4% and other securities account for 0,3% of the securities held under custody of banks.

In terms of market values, a total of TL 33,5 quadrillion are held by domestic natural persons under the custody of banks. Of the said amount, Treasury Bills issued by the Treasury amount to TL 7,3 quadrillion, government bonds amount to TL 22,8 quadrillion, FX-indexed securities amount to USD 10,9 million and Eurobonds amount to USD 2,1 billion.



**Table 2.29 Securities held under Custody of Banks\***

Market Values	TL Trillion		% Change
	Dec. 31, 2002	Dec. 26, 2003	
<b>DOMESTIC+ ABROAD TOTAL</b>	<b>44.151</b>	<b>72.407</b>	<b>64,0</b>
<b>Total (held on behalf of Domestic Residents)</b>	<b>34.824</b>	<b>53.600</b>	<b>53,9</b>
- Natural Persons	23.244	34.511	48,5
- Legal Entities	9.676	15.964	65,0
- Insurance Firms	1.585	2.644	66,8
- Banks	87	93	7,3
- Non-Bank Financial Institutions	225	388	72,2
<b>Total (held on behalf of Foreign Residents)</b>	<b>9.328</b>	<b>18.807</b>	<b>101,6</b>
- Natural Persons	526	629	19,5
- Legal Entities	1.910	3.559	86,3
- Insurance Firms	6	0	-
- Banks	3.279	6.122	86,7
- Non-Bank Financial Institutions	3.597	10.473	191,2
<b>By Types of Securities</b>			
<b>Securities issued by the Treasury</b>	<b>37.806</b>	<b>57.913</b>	<b>53,2</b>
- <b>Domestic Residents</b>	<b>33.709</b>	<b>51.524</b>	<b>52,8</b>
- Natural Persons	22.636	33.546	48,2
- <b>Foreign Residents</b>	<b>4.097</b>	<b>6.389</b>	<b>55,9</b>
<b>Treasury Bill -</b>			
TL	20.258	10.387	-48,7
FX	689	67	-90,3
<b>Government Bond-</b>			
TL	7.409	38.401	418,3
FX	5.051	2.388	-52,7
<b>FX-Indexed Debt Securities</b>	681	516	-24,2
<b>Eurobond Issuance</b>	3.718	6.153	65,5
- <i>Domestic Residents</i>	2.253	4.352	93,2
- <i>Foreign Residents</i>	1.466	1.801	22,8

(\* ) Excluding Settlement and Custody Bank.

Source: BRSA.

As of December 2003, TL-denominated government securities with a maturity of 3-12 months accounted for 46,5% of government securities held under custody of banks. Distribution of securities under custody of banks indicates that securities with a maturity of 3-12 months has a remarkable share and this reveals that saving depositors prefer longer maturities in government securities compared to deposits. Indeed, while average maturity in deposits equals to 3 months, it amounts to nearly 10 months in government securities. Mainly due to recent increase in liquidity of government securities and due to remarkable amount of tax-free earnings from government securities as well as the ability to be used as collateral in state auctions and effect of accrued interest on market price in case of liquidation before due date.

**Table 2.30 Maturities of Government Securities Held Under Custody of Banks (% Share)**

	TL-Denominated Government Securities						FX-Denominated Government Securities					
	< 1	1-3	3-6	6-12	1	Total	< 1	1-3	3-6	6-12	1	Total
	Month	Month	Month	Month	year+		Month	Month	Month	Month	year+	
June 03	12,7	11,6	19,0	37,9	9,5	<b>90,7</b>	1,0	2,9	2,1	2,0	1,2	<b>9,3</b>
July 03	5,0	14,7	18,4	46,0	7,9	<b>92,1</b>	0,9	3,6	1,1	0,8	1,5	<b>7,9</b>
Aug. 03	1,6	16,8	25,5	42,4	4,2	<b>90,5</b>	2,0	2,0	1,9	0,0	3,5	<b>9,5</b>
Sep. 03	6,4	19,0	32,2	35,1	1,6	<b>94,4</b>	2,0	0,0	1,6	0,9	1,0	<b>5,6</b>
Oct.03	11,1	21,0	31,7	29,9	2,3	<b>95,9</b>	0,0	1,2	0,6	0,9	1,4	<b>4,1</b>
Nov.03	8,8	20,9	30,8	27,8	7,4	<b>95,7</b>	0,0	1,8	0,0	1,0	1,5	<b>4,3</b>
Dec.03	1,4	28,6	18,8	27,7	8,6	<b>85,1</b>	4,1	1,9	0,0	3,2	5,6	<b>14,8</b>

Source: BRSA

## 2.6. Capital Adequacy

While capital adequacy ratio (CAR) of the banking sector accounted for 9,3%<sup>8</sup> in 2000, it increased to 20,8% at end-2001, 26,1% at end-2002 and 30,9% in December 2003. Mainly driven by improvements in profitability, fund injections aiming at improving financial structure of the state and SDIF banks as well as capital increase of banks through their own funds within the scope of the Bank Capital Strengthening Program introduced in 2001.

Excluding the SDIF banks, capital adequacy ratios of all banking groups were realized above the legal ratio. While CAR of SDIF banks accounted for -7,5% in December 2002, it decreased to -21,6% in December 2003. Excluding the SDIF banks, capital adequacy ratio of the sector increased from 27,1% to 32,4% within the said period.

**Tablo 2.31 Sub-Items of CAR by Banking Groups (TL Trillion)**

	State Banks		Private Banks		Foreign Banks		Dev. & Inv. Banks		SDIF Banks	
	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03	Dec.02	Dec.03
Tier 1 Capital	6.737	9.467	14.339	19.122	1.382	1.637	2.962	4.088	-941	-850
Tier 2 Capital	343	463	1.497	2.417	69	98	520	603	640	264
Tier 3 Capital	0	0	0	0	0	0	0	0	602	0
Values to be Discounted from Capital	681	692	3.137	3.647	219	216	89	125	368	24
Own-funds	6.400	9.238	12.698	17.892	1.233	1.518	3.393	4.566	-391	-616
Total Risk-weighted Items	13.249	16.409	64.759	76.110	3.760	4.190	5.880	5.824	5.240	2852
a. Risk weight account for 0%	0	0	0	0	0	0	0	0	0	0
b. Risk weight account for 20%	1.207	1.424	3.422	3.504	399	234	209	260	357	244
c. Risk weight account for 50%	2.452	3.373	9.069	8.899	601	621	302	246	334	448
d. Risk weight account for 100%	8.188	9.021	43.584	53.703	2.352	3.041	4.780	4.556	3.452	1386
e. Amount exposed to Market Risk	1.403	2.591	8.683	10.005	408	293	589	763	1.098	774
<b>CAR</b>	<b>48,3</b>	<b>56,3</b>	<b>19,6</b>	<b>23,5</b>	<b>32,8</b>	<b>36,2</b>	<b>57,7</b>	<b>78,4</b>	<b>-7,5</b>	<b>-21,6</b>

Source: BRSA

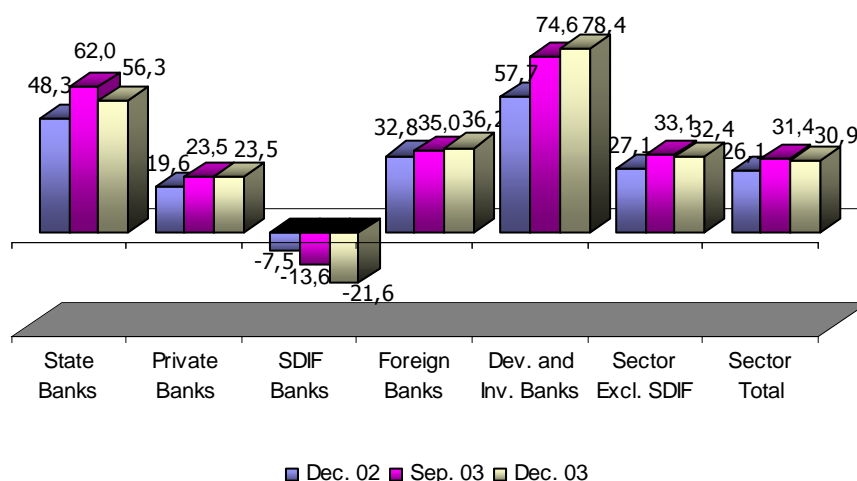
Capital adequacy ratio of state banks increased from 48,3% to 56,3% within the January-December 2003 period mainly driven by the changes in period profit

Within the same period, capital adequacy ratio of private banks increased from 19,6% to 23,5%. While increase in risk-weighted assets (particularly loans and forward FX transactions), adversely affected the CAR, increase in capital reserves, reserves, paid-up capital and period profit due to inflation accounting along with decrease in previous years' losses positively affected the CAR.

Capital adequacy ratio of foreign banks increased from 32,8% and reached to 36,2% and their total risk-weighted assets increased due to loans and forward FX transactions while increase in own-funds was engendered from period profits and positive developments in previous years' losses.

<sup>8</sup> Data as regards year 2000 were calculated according to non-inflation-adjusted financial statements while data of years 2001-2002 were calculated in accordance with inflation-adjusted financial statements. In year 2000, CAR accounted for 7,7% in state banks, 15,3% in private banks, -62,3% in SDIF banks, 21,9% in foreign banks and 32,5% in development and investment banks.

### Capital Adequacy by Banking Groups (%)



*The Capital Adequacy Ratio of all bank groups except SDIF banks increased due to capital increase from own-funds and profitability performances and is realized above the legal ratio.*

CAR of development and investment banks increased from 57,7% to 74,8% as a result of decrease in previous years' losses and increase in own-funds as well as decrease in risk-weighted assets.

Total own-funds of SDIF banks decreased due to previous years' losses and decrease in revaluation fund of securities; total risk-weighted assets decreased in line with decrease in receivables from banks, guarantee and suretyships, loans along with subsidiaries and affiliates; and as a result CAR decreased to -21,6%.

## 2.7. Profitability Performance and Analysis of Income Statement

### 2.7.1. Profitability

Profitability of the banking sector increased in December 2003 mainly due to the economic recovery, profits generated from foreign exchange transactions through developments in exchange rates, increase in profits from capital markets transactions (despite the decrease in profits generated from securities due to decrease in interest rates).

While the banking sector earned a profit of TL 2,9 quadrillion as of December 2002, this figure has been TL 5,6 quadrillion as of December 2003. In dollar terms, the sector increased its profit from USD 1,8 billion to USD 4 billion within the same period. As of end-2003, profitability performances of all banking groups increased while profitability of development and investment banks decreased. Net profit/total assets ratio increased from 1,4% to 2,2% and net profit/equities ratio increased by 4,5 points and reached to 15,8% within the same period.

*The profitability of the banking sector has been increased due to the rise in profit on capital market transactions and from the decrease in foreign exchange losses which stemmed from the decrease in interest rates and in exchange rates.*

**Table 2.32 Profitability Ratios in the Banking Sector (%)**

	State		Private		Foreign		Dev.&Inv.		Sector excl.SDIF		Total Sector	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Net Profit/ Total Assets	1,6	2,2	2,0	2,1	1,3	2,7	4,9	4,3	2,0	2,2	1,4	2,2
Net Profit/ Total Own-funds	15,7	18,7	16,0	13,9	6,0	11,2	15,5	10,6	15,3	14,7	11,3	15,8

Source:BRSA

Improvement in profitability performance of state banks gradually increased in line with their financial and operational restructuring. Decrease in short-term financing needs and particularly higher decrease in interests accrued on repo transactions as well as the increase in interests accrued on money market transactions in line with excess liquidity, are the main factors that increased profitability. Besides, beginning of making profits on foreign exchange transactions and increase in profits from capital market transactions, positively affected the profitability performance of the state banks. As a result, state banks, which made a profit of TL 1,1, quadrillion as of December 2002, made a total profit of TL 1,8 quadrillion in December 2003. These developments have also affected profitability ratios (Net Profit/Total Assets ratio increased from 1,6% to 2,2% and Net Profit /Own-fund ratio increased from 15,7% to 18,7%).

**Table 2.33 Net Period Profit/Loss**

	TL Trillion		USD Million	
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003
State Banks	1.056	1.790	646	1.283
Private Banks	2.410	2.917	1.474	2.090
SDIF Banks	-1.130	272	-691	195
Foreign Banks	83	186	51	133
Development & Investment Banks	464	443	284	317
<b>SECTOR</b>	<b>2.883</b>	<b>5.608</b>	<b>1.764</b>	<b>4.018</b>
<b>Sector Excluding the SDIF</b>	<b>4.013</b>	<b>5.336</b>	<b>2.455</b>	<b>3.823</b>

Source:BRSA

Such developments were also witnessed in private banks. Due to decrease in interest rates, capital market transaction profits remarkably increased and decrease in nominal exchange rates converted high FX losses of the previous period into profits. As a result, profits made by private banks in December 2003 increased to TL 2,9 quadrillion. Profitability ratios of the private banks indicate that Net Profit/Total Assets ratio increased from 2% to 2,1% and Net Profit/Equity ratio decreased from 16% to 13,9%.

While SDIF banks underwent a loss of TL 1,1 quadrillion at end 2002, they generated a profit of TL 272 trillion as of end 2003 mainly driven by income earned from asset sale along with conversion of FX losses into profits and decrease in other non-interest income. While Net Profit/Total Assets ratio was negative as of December 2002, it accounted for 3,8% as of December 2003.

Foreign banks increased their profits in real terms within December 2002–December 2003 period. However, profits of development and investment banks decreased in nominal terms within the same period due to remarkable decrease in collections item for previous years' income, which is recognized under "other non-interest income" item.

### 2.7.2. Income-Expense Structure

As for income-expense structure of banking sector, while interest income comprised 85% of total income and interest expense comprised 71% of total expense at end-2002, share of interest income and expense decreased by the impact of the decrease in interest rates at end-2003 (the said rate was realized as 76% and 69% respectively).

**Table 2.34 Selected Profit /Loss Items**

	TL Trillion		USD Million		% Change	
	Dec.02	Dec.03	Dec.02	Dec.03	Nominal	Real
<b>Interest Income</b>	<b>44.397</b>	<b>39.255</b>	<b>27.162</b>	<b>28.123</b>	<b>-11,6</b>	<b>-22,4</b>
Interests from Loans	10.382	10.455	6.352	7.490	0,7	-11,6
Interests from Banks	1.486	880	909	630	-40,8	-48,0
Interests from Interbank Money Market Transactions	3.435	2.631	2.102	1.885	-23,4	-32,8
Interests from Total Securities*	27.539	23.236	16.848	16.647	-15,6	-25,9
Other Interest and Quasi-interest Income	1.109	1.559	679	1.117	40,5	23,3
<b>Interest Expense</b>	<b>31.596</b>	<b>27.997</b>	<b>19.331</b>	<b>20.058</b>	<b>-11,4</b>	<b>-22,2</b>
Interests to Deposits	26.313	23.223	16.099	16.637	-11,7	-22,5
Interests to Banks	2.348	1.595	1.436	1.143	-32,1	-40,4
Interests to Interbank Money Market Transactions	268	265	164	190	-1,1	-13,2
Other Interest and Interest Alike Expense	142	601	87	430	323,2	271,6
<b>Net Interest Income (Expense)</b>	<b>12.800</b>	<b>11.257</b>	<b>7.831</b>	<b>8.065</b>	<b>-12,1</b>	<b>-22,8</b>
Special Provision for NPL's	3.637	2.622	2.225	1.878	-27,9	-36,7
<b>Net Interest Income (Expense) After Provisions</b>	<b>9.163</b>	<b>8.635</b>	<b>5.606</b>	<b>6.187</b>	<b>-5,8</b>	<b>-17,3</b>
<b>Net Non-Interest Income – Expense</b>	<b>-4.414</b>	<b>-5.494</b>	<b>-2.701</b>	<b>-3.936</b>		
Non-Interest Income	7.731	7.189	4.730	5.150	-7,0	-18,4
Non-Interest Expenditure	12.145	12.682	7.430	9.086	4,4	-8,4
<b>Other Non-Interest Income –Expense</b>	<b>-692</b>	<b>4.925</b>	<b>-423</b>	<b>3.528</b>		
Capital Market Transaction Profits (net)	3.269	5.095	2.000	3.650	55,9	36,8
Foreign Exchange Profits (net)	-2.371	1.631	-1.451	1.169		
Extraordinary Income (Expense) (Net)**	-1.589	-1.802	-972	-1.291	13,4	-0,5
<b>Pre-Tax Profit (Loss)</b>	<b>4.057</b>	<b>8.066</b>	<b>2.482</b>	<b>5.779</b>	<b>98,8</b>	<b>74,5</b>
Tax Provision	1.153	2.458	705	1.761	113,3	87,2
<b>Net Profit (Loss)</b>	<b>2.905</b>	<b>5.608</b>	<b>1.777</b>	<b>4.018</b>	<b>93,1</b>	<b>69,5</b>

\*Interest from total securities is comprised of sum of Interest from Trading, Available-for-Sale and Held-to-Maturity Securities.

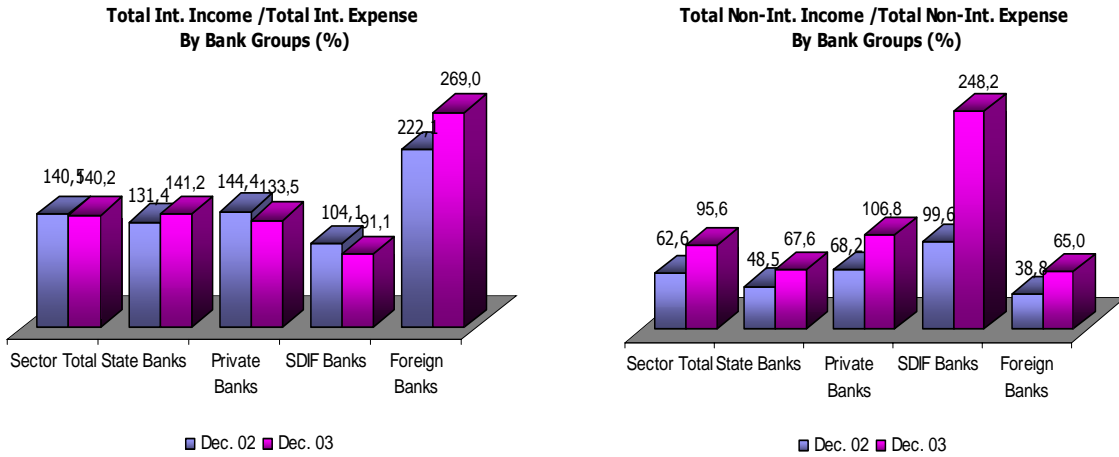
\*\* Stands for the sum of Other Provisions and Subsidiaries, Provision for Affiliated and Jointly Controlled Partnerships.

Source: BRSA

As a result of the transfer of NPL's of SDIF banks to the Collection Department and prudent attitudes of banks when granting loan, special provisions for NPL's decreased significantly and this led to a limited decrease in net interest income after provisions at end-2003.

Due to the decrease in placements to banks and increase in share of securities, interests from banks decreased when compared to end-2002, also the interests from securities continued to be the biggest income item in interest income and total income (share of interest from securities in interest income is 59 % and share thereof in total income is 45%).

While no important developments were observed as regards the coverage ratio of total interest income of the sector to total interest expense; when considered by banking groups, the said rate increased in state and foreign banks and decreased in private and SDIF banks. Coverage ratio of total non-interest income to total non-interest expense increased to 96% from 63% due to the increase in banking services income, income obtained from sales of assets as well as the increase in profits obtained from capital market transactions and foreign exchange profits. This development is caused by the remarkable increase in private banks.



### Interest Income

When compared to the same period of the previous year, interest income decreased by 11,6% in nominal terms and 22,4% in real terms from TL 33,9 quadrillion as of end- 2003. Besides, interest income decreased in nominal terms in all groups. In parallel to the decrease in interest rates, decrease in interests earned from securities, loans, banks and capital market transactions in real terms led to this development.

Although loans granted in 2003 increased in real terms when compared to the previous year, interest earned from loans decreased in real terms due to the decrease in interest rates. Share of interest income from loans in total interest income increased by 3 points to 26,6 % due to real increase in loan volume.

Economic stability also had effects on the interest rates of bonds issued by the Treasury<sup>9</sup>, accordingly interests from total securities decreased in nominal terms at end-December 2003 when compared to the same month of the previous year. When evaluated on group basis, the highest nominal decrease was observed in state and foreign banks by 19 %, as for private banks the decrease was by 10,9%.

In parallel with the decrease in interest rates in 2002-2003 December, interests from banks and interbank money market transactions significantly decreased in nominal and real terms. On the other hand, share of other interest and quasi-interest income in total interest income increased to 4% in December 2003 from 2,5 % in December 2002.

### Interest Expenses

As of December 2003, total interest expenses decreased in nominal terms as it was in total interest income. Total interest expenses decreased by 22,2% in real terms when compared to the previous year and was realized as TL 28 quadrillion. The decrease was mainly due to the decrease in interest rates in the same period.

The share of interest accrued on deposits, still the most important foreign resource of the banking sector, in total interest expense was realized as 82,9 %. On the other hand, in parallel with the decrease of the share of "claims-to-banks" in liabilities, share of interest granted to banks in total interest expense decreased by 1,7 point to 5,7 % in the said period.

<sup>9</sup> Stands for Interest from Securities, Interest from Trading and Available-for-Sale and Held-to-Maturity Securities.

By the impact of the decrease in interest rates, interest accrued on repo transactions decreased by 16,9% in real terms to TL 2,2 quadrillion as of December 2003.

Resolution of the liquidity problem of state banks and SDIF banks caused banks to operate in a more competitive environment. It caused net interest margins to shrink and, in parallel, net interest income to decrease. Accordingly, net interest income decreased by 22,8 % in real terms to TL 11.3 quadrillion in the said period.

### **Non-Interest Income and Expense**

While both non-interest income and non-interest expense of banking sector decreased in real terms, real decrease in non-interest expense was considerably higher. Non-interest expense increased by 7 % in nominal terms (decreased by 18,4% in real) from TL 7,7 quadrillion to TL 7,2 quadrillion as of 2003 January-December period. Due to the shrinkage of interest margins as a result of the decrease in interest rates in 2003, banks focused on charging fees on other operational transactions. Besides, income obtained from asset sales has further limited the decrease of non-interest income in real terms.

The highest real increase in non-interest income in 2002 occurred in income obtained from asset sales by 574 %. The said development mainly arose from the asset sales of SDIF banks.

Another important development which affected the sector profitability was the increase in banking services income which comprised 43% of non-interest income, by 25% to TL 3,1 quadrillion from TL 2,5 quadrillion in the said period.

Non-interest expense of banking sector decreased by 8,4 % in real terms when compared to the previous year and was realized as TL 12,7 quadrillion in 2003. Personnel expenditures, which had a significant share in the non-interest expenses, also decreased in real terms. As the number of employee working in the sector did not change, it is observed that average fee increase was below the inflation rate.

Other non-interest expenses which had the biggest share in non-interest expenses decreased by 13,4 % in real terms to TL 4,7 quadrillion. The remarkable decrease in other non-interest expenses of SDIF banks was effective in this development.

### **Other Non-Interest Income and Expense**

Other non-interest income-expense balance played an important role in the remarkable increase of the profit of banking sector within 2003, which had generated a limited level of profit. Other non-interest expenses (net) amounting to TL 692 trillion as of end-2002 turned into an income item amounting to TL 4,9 quadrillion in September 2003.

When other non-interest income-expense items are analyzed, it is seen that capital market transaction profits increased by 36,8 % in real terms to TL 5,1 quadrillion by the impact of the decrease in interest rates. The remarkable increase in income from security purchase/sales transactions of private and state banks had an effect on this development.

In the same period, as a result of the appreciation of TL against foreign currencies, foreign exchange loss amounting to TL 2,4 quadrillion turned into foreign exchange profit amounting to TL 1,6 quadrillion. When analyzed on group basis, the highest foreign exchange profit is obtained by private banks.

**Table 2.35 Capital Market Transactions, Foreign Exchange Profits and Other Non-Interest Income (TL Trillion)**

	Cap. Mar. Trans. Profits (Net)		Foreign Exchange Profits (Net)		Other Non-Interest Income (Net)	
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003
State Banks	503	1.065	-133	198	-734	526
Private Banks	2.276	3.670	-1.583	1.199	-69	4.330
SDIF Banks	314	41	-735	85	803	110
Foreign Banks	118	189	93	127	-124	179
Development and Investment Banks	57	130	-13	22	-568	-220
<b>TOTAL</b>	<b>3.269</b>	<b>5.095</b>	<b>-2.371</b>	<b>1.631</b>	<b>-692</b>	<b>4.925</b>

Source: BRSA

## 2.8. FX Positions of Banks

Banking sector's on-balance sheet FX short position realized a decreasing trend after the crisis experienced, decreased significantly due to the fluctuating exchange rate system adopted in February 2001 along with the impact of clearing operation on Treasury bills in June 2001 and decreased to USD 551 million level at end-2002.

Despite the decrease in the FX exchange rate in 2003, the banking system was more prudent regarding on balance-sheet FX position due to the previous experiences. On-balance sheet FX short position decreased by USD 531 million at end-2003 when compared to the end of previous year and was realized at USD 20 million levels.

**Table 2.36 Developments in FX Positions of Banks (Million Dollar)**

	2000	2001	2002	2003			
				March	June September	December	
<b>On-Balance Sheet Position (*)</b>	<b>-14.553</b>	<b>-1.588</b>	<b>-551</b>	<b>486</b>	<b>511</b>	<b>-744</b>	<b>-20</b>
State Banks	-144	191	194	242	292	233	227
Private Banks	-8.377	-1.486	-454	341	34	-754	-367
SDIF Banks	-3.984	-441	-367	-19	182	-19	1
Foreign Banks	-1.803	108	42	-63	-99	-158	82
Development and Investment Banks	-245	40	34	-15	102	-46	37
<b>Net General Position (**)</b>	<b>-5.444</b>	<b>-129</b>	<b>-449</b>	<b>723</b>	<b>519</b>	<b>-324</b>	<b>269</b>
State Banks	-91	189	194	242	289	236	227
Private Banks	-1.182	110	-335	459	-57	-649	-135
SDIF Banks	-4.030	-441	-366	-18	183	-19	1
Foreign Banks	-35	-9	-9	-7	23	-3	39
Development and Investment Banks	-107	22	67	47	81	111	137
<i>Memo note:</i>							
<b>FX Indexed Position (USD Million)</b>	<b>3.436</b>	<b>8.557</b>	<b>9.132</b>	<b>9.164</b>	<b>9.573</b>	<b>9.285</b>	<b>9.224</b>
Private Banks	2.499	6.777	6.690	6.699	6.900	6.826	6.746
SDIF Banks	330	747	1.462	1.481	1.570	1.344	1.376
Foreign Banks	177	405	165	204	226	245	290

(\*)On-Balance Sheet Position= FX Position +FX Indexed Position.

(\*\*)Net General Position= On-Balance Sheet Position +Forward Transactions

Source: BRSA

When evaluated by banking groups; while state banks continued to have FX long position by end-2003, on-balance sheet FX short position of private banks decreased to USD 367 million at end-2003 from USD 454 million at end-2002. On the other hand, in 2003, FX long positions of foreign banks and development-investment banks remained unchanged compared to end-2002. FX short position of the sector including forward transactions turned into a long position at end-2003 and was realized as USD 269 million.



Including forward positions; net long position is observed for all groups except private banks. Net short position of private banks decreased to USD 135 million at end-2003 from USD 335 million at end-2002.

*Banking sector, which had short position in the previous years, had FX long position in 2003*

## 2.9. Liquidity Structure of Banks

Economic stability and the decrease in interest rates in 2003 decreased the liquidity risk of banking sector. Banking sector started to invest its low-yield liquid assets to higher-yield assets and accordingly the share of banks' liquid assets in total assets (excluding Securities Portfolio) decreased by 1,9 points to 11,6 % in December 2003 when compared to end-2002. Including securities portfolio, which is mostly comprised of Government Securities, the share of liquid assets in total assets, decreased by 0,4 point and was realized as 54,4 % in the said period.

**Table 2.37 Share of Liquid Assets in Total Assets (%)**

	December 2002			December 2003		
	T L	F X	Total	T L	F X	Total
Cash	0,4	0,5	0,9	0,4	0,4	0,8
Receivables from the Central Bank	0,6	0,7	1,2	0,5	0,6	1,2
Receivables from Money Markets	3,2	0,8	4,0	3,1	0,4	3,5
Receivables from Banks	0,8	6,6	7,3	0,9	5,1	6,1
<b>Total Excluding Securities Portfolio</b>	<b>5,0</b>	<b>8,5</b>	<b>13,5</b>	<b>5,0</b>	<b>6,6</b>	<b>11,6</b>
Securities Portfolio (Net)*	24,7	15,8	40,5	28,0	14,8	42,8
- Trading and Available-for-Sale Portfolio	8,1	10,0	18,1	13,1	11,2	24,3
<b>Total Liquid Assets+Securities Portfolio</b>	<b>29,7</b>	<b>24,3</b>	<b>54,0</b>	<b>33,0</b>	<b>21,4</b>	<b>54,4</b>

\* Stands for the sum of Trading, Available-for-Sale and Held-to Maturity Securities.

Source: BRSA

When liquid assets are analyzed on an item basis, share of "NPL's" in "liquid assets" decreased by 2,5 points to 11,2 % due to the decrease in short-term financing need of the sector. The decrease in FX denominated receivables from banks led to this development. On the other hand, share of Securities Portfolio, which has the highest share in total liquid assets, increased in the said period.

**Table 2.38 Distribution of Liquid Assets (%)**

	December 2002			December 2003		
	F X	Total	F X	Total	F X	Total
Cash	0,7	0,9	1,6	0,7	0,8	1,5
Receivables from the Central Bank	1,1	1,2	2,3	1,0	1,2	2,2
Receivables from Money Markets	6,0	1,5	7,4	5,7	0,8	6,5
Receivables from Banks	1,5	12,2	13,6	1,7	9,4	11,2
<b>Total Excluding Securities Portfolio</b>	<b>9,2</b>	<b>15,8</b>	<b>25,0</b>	<b>9,2</b>	<b>12,1</b>	<b>21,3</b>
Securities Portfolio (Net)*	45,8	29,2	75,0	51,5	27,1	78,7
- Trading and Available-for-Sale Portfolio	15,0	18,5	33,6	24,1	20,6	44,7
<b>Total Liquid Assets+Securities Portfolio</b>	<b>55,0</b>	<b>45,0</b>	<b>100,0</b>	<b>60,7</b>	<b>39,3</b>	<b>100,0</b>

\* Stands for the sum of Trading, Available-for-Sale and Held-to Maturity Securities.

Source: BRSA

When assets and liabilities of the sector is compared according to their maturities, coverage ratio of assets with a maturity of less than 3 months to liabilities with a maturity of less than 3 months was about 40% in 2003. It was mostly driven by the short-term structure of deposits which were the most important funding resources of banks (while liquidity structure in Turkish banking system is being analyzed, it must be taken into consideration that an important portion of deposits was not withdrawn from the system even in crisis periods). Furthermore, injection of liquidity by the Central Bank to the system in crisis periods and repurchase bids for government securities offered by the Treasury were the main two factors which significantly limit the liquidity risk of banks.

**Table 2.39 Assets' Coverage Ratio of Liabilities by their Maturities in Banking Sector (%)**

	For Maturities Shorter than 3-Months		For Total of All Maturities	
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003
<b>State Banks</b>	<b>28,2</b>	<b>32,5</b>	<b>111,0</b>	<b>112,2</b>
TL	22,4	28,0	120,0	120,2
FX	37,5	42,8	96,4	96,6
<b>Private Banks</b>	<b>45,3</b>	<b>46,9</b>	<b>114,6</b>	<b>105,5</b>
TL	63,7	60,2	178,0	166,1
FX	35,9	37,5	84,6	86,8
<b>Sector</b>	<b>41,2</b>	<b>43,0</b>	<b>113,2</b>	<b>108,9</b>
TL	46,1	46,0	150,4	131,0
FX	37,5	39,8	85,8	87,9

Source: BRSA

## 2.10. Special Finance Houses<sup>10</sup> (SFH)

While balance sheet size of SFH's amounted to 1,8% of total banking sector and SFH balance sheet at end-2002, the said rate increased to 2% by September 2003 and 2,1 % by end-2003.

As a result of the SFH's efforts for increasing their network of branches nationwide, the number of branches increased by 86 to 234 and number of employee increased by 972 to 3.502 in December 2003 when compared to end-2002.

**Table 2.40 Special Finance Houses - Number of Employee and Branches**

	Dec. 2002	June 2003	Sept. 2003	Dec. 2003
Number of Institutions (Number)	5	5	5	5
Number of Branches (Number)	148	166	181	234
Number of Employee (Number)	2.530	2.966	3.267	3.502
Balance-Sheet Size (TL Trillion)	3.962	4.188	4.574	5.252
Balance-Sheet Size (USD Million)	2.424	2.947	3.322	3.763
Off-Balance Sheet Transactions (TL Trillion)	799	1.023	1.183	1.579
Off-Balance Sheet Transactions (USD Million)	489	720	859	1.131

Source: BRSA

### 2.10.1. Developments in Asset Structure

Total asset size of SFH's increased by 16,3 % in real terms to TL 5,3 quadrillion as of end-2003 when compared to end-2002. Within the same period, In dollar terms, asset size increased by 55,2% to USD 3,8 billion. By end-2002, while 34,9% of total assets of SFH's was TL-denominated and 65,1% is FX-denominated, these figures were realized as 49,7% and 50,3% respectively by end-2003.

<sup>10</sup> Data pertaining Special Finance Houses are temporary and the financial statements drawn-up in accordance with the Tax Procedure Law were considered.

**Table 2.41 Selected Items of SFH's Balance Sheet**

	TL Trillion						USD Million		Real Change
	December 2002			December 2003			Dec. 02	Dec. 03	
	TL	FX	Total	TL	FX	Total	Total		
-Placement of Funds	608	1.493	2.101	1.344	1.794	3.138	1.285	2.248	31,1
-Receivables from Banks	71	475	547	202	328	530	335	379	-15,0
-Overdue Receivables(net)	50	195	245	66	59	124	150	89	-55,5
-Fixed Assets	501	0	501	722	0	722	307	518	26,5
-Funds Raised	420	2.786	3.206	1.127	2.984	4.111	1.961	2.945	12,5
-Own Funds	360	40	400	600	72	672	245	481	47,4
Total Off-Bal. Sheet Liab.	379	421	799	873	706	1.579	489	1.131	73,4
<b>Total Assets</b>	<b>1.382</b>	<b>2.581</b>	<b>3.962</b>	<b>2.612</b>	<b>2.639</b>	<b>5.252</b>	<b>2.424</b>	<b>3.762</b>	<b>16,3</b>

Source: BRSA

Share of placement of funds amounting to 53% of total assets by December 2002 increased by 6,8 points to 59,8% and share of fixed assets increased by 1,2 points to 13,8% by end-2003. Within the same period, share of receivables from banks decreased to 10,1% from 13,8% and share of overdue receivables (net) decreased to 2,4%.

#### Placement of Funds

Amount of placement of funds increased by 31,1 % in real terms when compared to end-2002, to TL 3,1 quadrillion by December 2003. In dollar terms, placement of funds increased by 75% to USD 2,2 billion.

As of end-2003, 75,3% of the funds raised was granted for production support. Share of placement of funds through profit/loss sharing and leasing activities in total placement of funds was realized as 4,2% and 19,1% respectively. Fund placement through production support and profit/loss sharing, having a considerable share in SFH's loans, were mostly extended to domestic private sector with short maturity. As of 2003, the number of customers, which utilized funds from SFH's reached to 60.588.

*Assets of SFH's having a short-term funding and placement structure increased in real terms within this period and showed a TL weighted structure together with the decrease in foreign exchange rates.*

**Table 2.42 Placement of Funds (December 2003- TL Trillion)**

	Short-term		Medium and Long Term		To Public Sector	To Private Sector	Total	(%) Share
	TL	FX	TL	FX				
	Placement of Funds for Production Support	1.157	1.149	0	56	1	2.361	2.362
Placement of Funds through Profit/Loss Sharing	38	77	0	15	0	130	130	4,2
Placement of Funds through Leasing Method	2	2	99	494	0	598	598	19,1
Other Placement of Funds	48	0	0	0	0	48	48	1,4
<b>Total Placement of Funds</b>	<b>1.245</b>	<b>1.228</b>	<b>99</b>	<b>565</b>	<b>1</b>	<b>3.137</b>	<b>3.138</b>	<b>100,0</b>

Source: BRSA

Gross overdue receivables of SFH's decreased to TL 315,7 trillion by end-2003 from TL 420 trillion by end- 2002. Net overdue receivables after provisions were realized as TL 244,7 trillion and TL 124,1 trillion respectively.

SFHs' deposits held in banks in pursuant to correspondence agreements signed decreased by 15 % in real terms to TL 530 trillion by end-2003. Since claims on banks is mostly denominated in FX, the nominal decrease in FX exchange rates led to a decrease in this account.

Share of fixed assets in the balance sheet increased by 26,5 % in real terms by end-2003 to 13,8% from 12,6% at end-2002 since leased assets are recognized under fixed assets account. Besides, in accordance with the provisions of the relevant acts, companies conducting leasing transactions shall fully comply with International Accounting Standards Nr. 17 as of July 01, 2003.

### 2.10.2. Developments in Liability Structure

Main funding sources of SFH's, other than own funds, are funds raised through special current accounts and accounts giving right to profit/loss sharing. The said funds are mostly FX-denominated. While 22,9% and 77,1% of total liabilities were TL and FX-denominated respectively by end-2002, they were realized as 37,1% and 62,9% respectively by December 2003. Share of funds raised in total liabilities decreased to 78,3% by December 2003 from 80,9%, ratio of own funds increased to 12,8% from 10,1% compared to 2002.

#### Funds Raised

Funds raised increased by 12,5 % in real terms when compared to end-2002 and reached to TL 4,1 quadrillion by end-2003. Since funds raised were mostly denominated in FX and due to the decrease in nominal exchange rates, the increase has been insignificant. In dollar terms, funds raised increased by 50,1% to USD 2,9 billion.

**Table 2.43 Funds Raised (December 2003- TL Trillion)**

	TL	FX	Total	Percentage Share
Sharing Accounts	847	2.226	3.073	74,8
Current Accounts	277	614	892	21,7
Special Project Accounts	3	109	111	2,7
Other	0	35	35	0,8
<b>Total Funds Raised</b>	<b>1.127</b>	<b>2.984</b>	<b>4.111</b>	<b>100,0</b>

Source: BRSA

Of the funds raised amounting to a total of TL 4,1 quadrillion, 74,8% is comprised of sharing accounts, 21,7% is of current accounts and 2,7% is of funds raised for special project accounts. Of total sharing accounts amounting to TL 3,1 quadrillion, 27,6 % is TL denominated and 72,4% is FX denominated. Most of the funds raised are comprised of funds over TL 10 billion (73%). Of the 907,687 fund customers, current accounts below TL 500 million accounted for 66,2% of the total accounts (907.687).

Due to increase in paid-up capital and period profits, total own funds increased by 47,4 % in real terms and reached to TL 672 trillion in 2003.

**Table 2.44 Own Fund**

	TL Trillion		Shares in Total liabilities		Real % Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	
<b>Total Own Fund</b>	<b>400</b>	<b>672</b>	<b>10,1</b>	<b>12,8</b>	<b>47,4</b>
Paid-up Capital	286	420	7,2	8	28,9
Legal Reserves	11	12	0,3	0,2	-6,8
Fixed Asset Revaluation Fund	123	202	3,1	3,8	43,5
Profit (Loss) for the Period	17	75	0,4	1,4	274,8
Previous Years' Profit (Loss)	-38	-37	-	-	-

Source: BRSA

### 2.10.3. Off-Balance Sheet Transactions

Off-balance sheet transactions increased by 73,4% in real terms to TL 1.579 trillion within 2003 and the ratio of off-balance sheet transactions to the balance sheet total increased to 30,1%. In terms of TL and FX composition of off-balance sheet items, the share of FX-denominated transactions decreased in December 2003 when compared to December 2002.

During the period analyzed, share of letters of guarantee which comprised an important portion of off-balance sheet liabilities increased by 1,7 point to 67,6% when compared to the year-end. SFH's realized forward FX purchase/sale transactions amounting to TL 15 trillion in 2003.

*The increase in FX weighted funds raised remained limited and the liability structure has shown a positive development by the effects of the increase in own funds and profitability real terms.*

**Table 2.45 Off-Balance Sheet Transactions**

	TL Trillion		Percentage Change	
	Dec. 2002	Dec. 2003	Nominal	Real
<b>Contingencies</b>	<b>783</b>	<b>1.446</b>	<b>84,7</b>	<b>62,1</b>
Letters of Guarantee	526	1.067	102,9	78,0
Acceptances	15	34	126,7	98,9
Letters of Credit	241	344	42,8	25,4
Guarantee, Suretyships and Endorsements	1	1	5,0	-12,2
<b>Commitments</b>	<b>16</b>	<b>133</b>	<b>731,3</b>	<b>629,5</b>
FX and Int. Rate related Transactions	0	15		
Revocable Commitments	-	97		
<b>Total Off-Balance Sheet Transactions</b>	<b>16</b>	<b>22</b>	<b>37,5</b>	<b>20,7</b>
<b>Contingencies</b>	<b>799</b>	<b>1.579</b>	<b>97,6</b>	<b>73,4</b>

Source: BRSA

#### 2.10.4. Profitability

There has been an improvement in the profitability performance of SFH's also as a result of the decrease in uncertainties in the economy and the recovery of economic activities. SFH's which disclosed a net period profit of TL 17 trillion in 2002, realized a profit amounting to TL 74,5 trillion as of end-2003 with an increase of 247,8% in real terms. The increase in profits was mainly due to increase in incomes and conversion of foreign exchange losses into foreign exchange profits.

In parallel with the improvement in profitability, asset profitability of SFH's increased to 1,4% as of end-2003 from 0,4% as of end-2002. By the effect of the increase in paid-up capital and period profits in 2003, own-fund profitability increased to 11,1% from 4,4%.

**Table 2.46 Selected Items of SFH's Income Statement**

	TL Trillion		USD Million		Real Change
	Dec. 2002	Dec. 2003	Dec. 2002	Dec. 2003	
<b>Incomes</b>	<b>468</b>	<b>694</b>	<b>286</b>	<b>497</b>	<b>30,2</b>
-Income from Placement of Funds	462	682	283	489	29,6
<b>Expenses</b>	<b>155</b>	<b>285</b>	<b>95</b>	<b>204</b>	<b>62,0</b>
-Profits Distributed to Raised Funds	154	285	94	204	62,2
<b>Net Income (Expenses)</b>	<b>313</b>	<b>409</b>	<b>192</b>	<b>293</b>	<b>14,5</b>
-Other Incomes	76	215	46	154	149,2
-Other Expenses	325	516	199	370	39,3
<b>Other Incomes (Expenses)</b>	<b>-18</b>	<b>26</b>	<b>-11</b>	<b>19</b>	<b>-225,1</b>
-Foreign Exchange Profits (Loss) (Net)	-19	23	-11	16	-207,1
<b>Net Profit for the Period</b>	<b>17</b>	<b>75</b>	<b>11</b>	<b>53</b>	<b>274,8</b>

Source: BRSA

#### 2.10.5. FX Positions of SFHs

SFH's shall also comply with the said legal limit stipulated by the Regulation on the Principles for the Calculation of FX Net Position/Own Fund Standard Ratio by Banks on a Consolidated and Non-Consolidated Basis published in the Official Gazette dated January 31, 2002. FX net short position of SFH amounted to USD 33 million by September 2003 (this amount did not include any forward short position). FX net position/own fund ratio of SFH's have been in compliance with legal limits and accounted for -9,9 %.

FX short position of SFH increased to USD 33 million in September 2003 and to USD 65 million in December 2003 from USD 20 million at end-2002.

**Table 2.47 Developments in FX Position of SFH (Million Dollars)**

	2002	2003			
		March	June September	December	
On-Balance Sheet Position (1)	-20	-30	-41	-33	-65
Net Position (2)	-20	-30	-41	-33	-65

(1) On-Balance Sheet Position = FX Position + FX Indexed Position.

(2) Net General Position = On-Balance sheet position + Forward Transactions

Source: BRSA

### 2.10.6. Liquidity Structure of SFH's

The liquidity structures of SFH's are mostly affected by the maturity structure of funds placed and funds raised. Accordingly, funding and placement structure of SFH's are mostly concentrated on short term. Furthermore, shares of assets with a maturity of more than 12 months and liabilities with a maturity of up to 1 month in total increased in December when compared to end-2002. In December 2002, 65,3% of funds raised (with date of maturity) are funds with a maturity of up to 1 month, 24,8% thereof are funds with a maturity of up to 1-3 months, while 36,9 % of assets with maturity date are comprised of assets with a maturity of up to 1 month, 14,8% thereof are assets with a maturity of between 1-3 months. As of 2003, 69,4 % of liabilities are comprised of funds with a maturity of up to 1 month, 21,7 % thereof are funds with a maturity of between 1-3 months, while 31,6% of assets with maturity date are comprised of assets with a maturity up to 1 month, 14,2% thereof are assets with a maturity between 1-3 months.

**Table 2.48 Maturity Structure of Assets and Liabilities of SFH's (% Distribution)**

	December 2002		December 2003	
	Assets	Liabilities	Assets	Liabilities
Up to 1 Month	36,9	65,3	31,6	69,4
Between 1-3 Months	14,8	24,8	14,2	21,7
Between 3-6 Months	16,4	3,6	16,5	2,5
Between 6-12 Months	13,6	3,2	15,4	3,2
More than 12 Months	18,2	3,0	22,2	3,2
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: BRSA

## **SECTION 3. BANKING REGULATION AND SUPERVISION AGENCY (BRSA)**

### **3.1. Establishment and Development of the BRSA <sup>11</sup>**

The Banking Regulation and Supervision Agency which was established by the Banks Act Nr. 4389 and with the aim of increasing the efficiency of surveillance and supervision of banks started operating as of August 31, 2000 by combining the units which are previously under the structure of the Treasury and the CBRT and responsible for the surveillance and supervision of banking sector, under its structure.

Fundamental duties and powers of the Agency are as follows;

- to make regulations within the scope of the powers granted by the Banks Act,
- to ensure the implementation of regulations,
- to control and finalize the implementation,
- to ensure the guarantee of deposits,
- to prevent any transaction and practice which can jeopardize rights of depositors as well as regular and safe operating of banks and which can generate important losses in economy,
- to make decisions and take measures required for efficient operating of loan system.

The decision-making body of the Agency is the Banking Regulation and Supervision Board in accordance with Article 3(3) of the Banks Act Nr. 4389. Tevfik BİLGİN was appointed as the Chairman of the Agency and the Board by the resolution dated November 07, 2003 Nr. 2003/6347 of the Council of Ministers. Second Chairman of the Agency is Ahmet ŞİRİN and other members of the Board of Directors are Yusuf Ziya ÖNDER, Mehmet Nuri DOĞULU, Prof. Dr. Kemal ÇEVİK, Mustafa EKİM and Prof. Dr. Yusuf TUNA.

### **3.2. Organization Scheme and Restructuring**

Within the scope of the Banks Act Nr. 4389, the Agency is organized as departments in numbers required by the duties and powers and comprised of main service units, Board of Sworn Bank Auditors, advisory units and support service units.

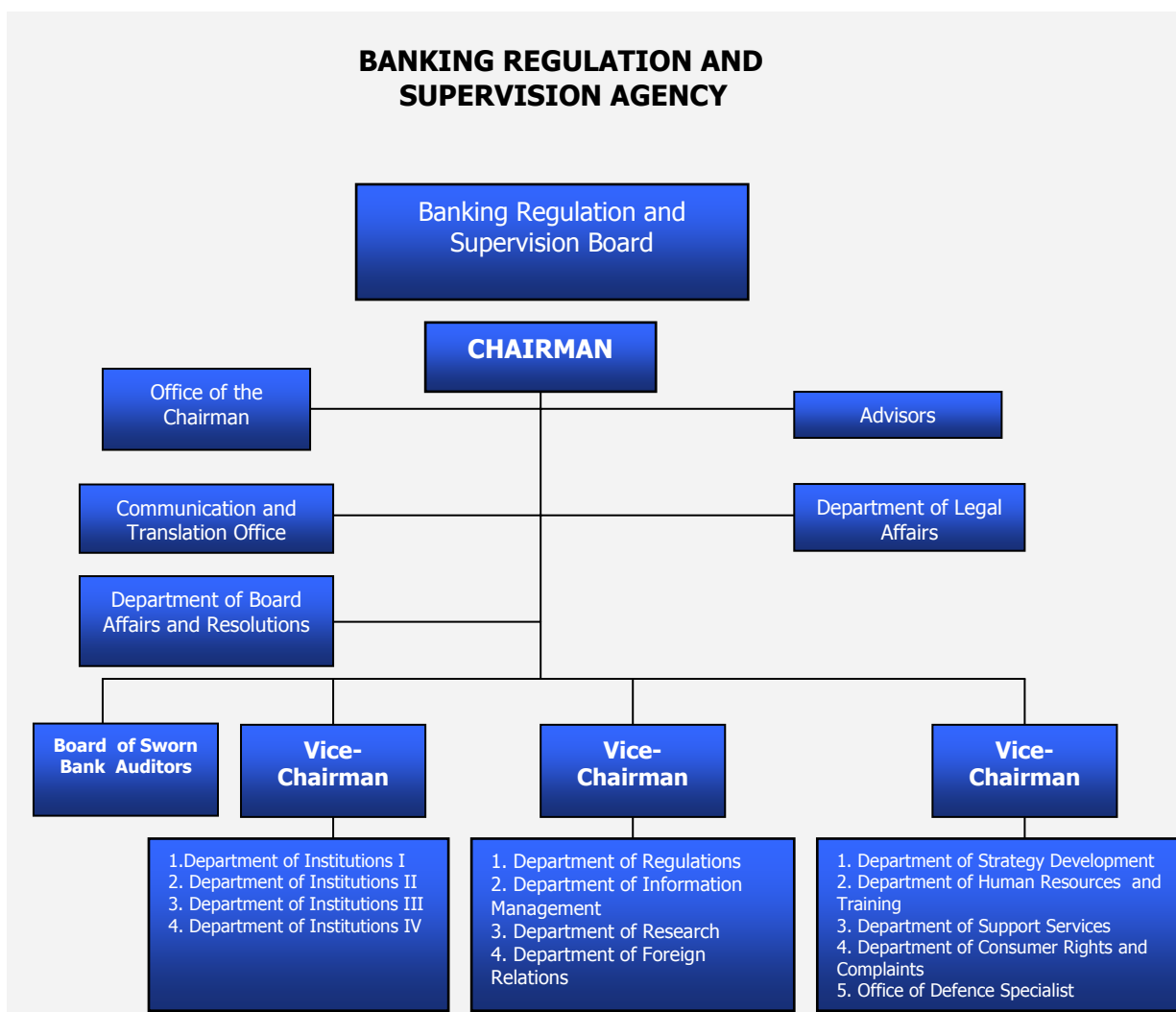
In addition to the organizational changes made within the scope of "Organizational Restructuring Report" prepared by the Organizational Revision and Administrative Efficiency Working Group formed within the scope of the studies carried out since the date the Agency started its operations till today with a view to ensure the Agency to have a more effective, strong and flexible organization, in 2003, establishment of Data Management and Analysis Techniques Department was decided within the scope of the power granted to the Board by Article 12 of the Regulation on the Organization of the BRSA.

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<sup>11</sup> BRSA's administration and representation power on the Savings Deposit Insurance Fund is revoked by the Act Nr. 5020 entered into force on December 26, 2003 and the SDIF has been established as a separate legal entity. Accordingly, all tables and evaluations included in Section 3, relating to information on the Agency personnel also include the SDIF personnel as regard to the report date.



On the other hand, in January 2004, a committee was formed by the office of chairmanship in order to evaluate the efficiency of the changes made within the scope of "Organizational Restructuring Report" which was prepared as regard to regulating the Agency's organizational structure and to determine the organization structure which will enable the Agency to carry out its duties and powers in a more sound manner. As a result of the studies carried out by the said committee, by the Board Resolution dated March 16, 2004 Nr. 1233, it has been decided that; some units to be removed, some to be combined, changes be made in duty distributions of existing units, new units be established, new commission, committee and working groups be formed and the organizational structure is determined as follows.



### 3.3. Employees of the Agency and Profiles Thereof

The Agency has the principle of working with qualified personnel as a general employment policy. Employments were also realized with the same policy in 2003, personnel appointed and left are as follows.

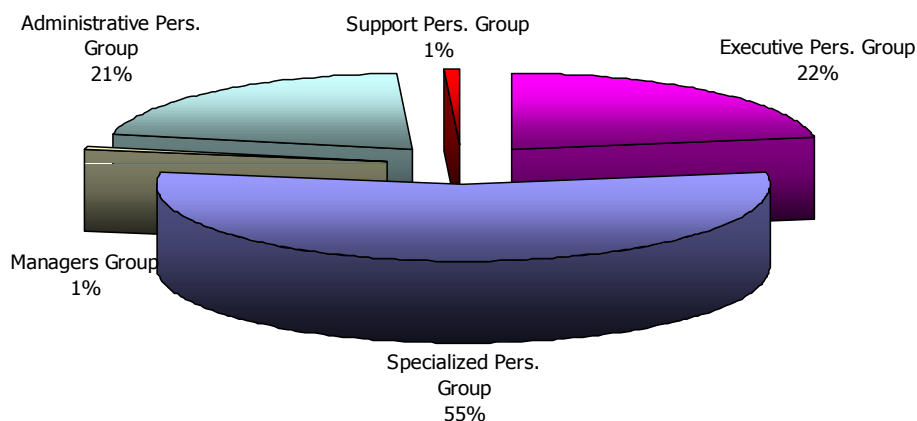
**Table 3.1 Personnel Movements**

Months	Existing		Appointed		Left		Total	
	2002	2003	2002	2003	2002	2003	2002	2003
January	325	324	-	-	1	-	324	324
February	324	324	1	-	2	1	323	323
March	323	323	1	1	-	-	324	324
April	324	324	-	-	-	-	324	324
May	324	324	-	-	-	-	324	324
June	324	324	-	1	-	1	324	324
July	324	324	-	-	1	1	323	323
August	323	323	-	-	-	3	323	320
September	323	320	1	-	-	1	324	319
October	324	319	1	-	1	-	324	319
November	324	319	3	-	2	-	325	319
December	325	319	-	4	1	-	324	323
<b>TOTAL</b>			<b>7</b>	<b>6</b>	<b>8</b>	<b>7</b>		

Distribution of Agency positions on service groups basis as well as number of personnel employed are as follows.

**Table 3.2 Distribution of Agency Positions**

Service Group	Number of Total Positions	Number of Personnel Employed
(A) Executive Personnel	103	73
(B) Specialized Personnel	275	177
(B) Managers	3	3
(C) Administrative Personnel	103	67
(D) Support Personnel	7	3
<b>Total</b>	<b>491</b>	<b>323</b>



55% of The Agency's personnel are comprised of personnel employed in positions included in specialized personnel group (sworn bank auditors /banking specialists /Agency specialists and assistants thereof). Information regarding academic background of the personnel is as follows.

**Table 3.3 Number of Personnel By Academic Background**

Service Group	Elementary	High School	Associate	Under Grad.	Master	Doctorate
(A)Executive Personnel				33	35	5
(B)Specialized Personnel				156	18	3
(B)Managers			1	2		
(C)Administrative Personnel	2	19	24	20	2	
(D)Support Personnel		2	1			
<b>Total</b>	<b>2</b>	<b>21</b>	<b>26</b>	<b>211</b>	<b>55</b>	<b>8</b>
<b>Share in Total (%)</b>	<b>1</b>	<b>7</b>	<b>8</b>	<b>65</b>	<b>17</b>	<b>2</b>

Detailed distribution of the Agency personnel by titles is as follows.

**Table 3.4 Number of Personnel by Titles**

Group	Title	Number of Personnel
A	Chairman of Board of Sworn Bank Auditors	1
A	Vice-President of the Fund	2
A	Vice-President of the Agency	3
A	Chief Advisor of the Agency	3
A	Advisor of the Agency	3
A	Head of Department	24
A	Deputy Head	37
B	Chief Sworn Bank Auditor	11
B	Sworn Bank Auditor	44
B	Assistant Sworn Bank Auditor	16
B	Chief Specialist	19
B	Banking Specialist	18
B	Assistant Banking Specialist	42
B	Agency Specialist	4
B	Assistant Agency Specialist	13
B	Lawyer (Agency Specialist)	1
B	Lawyer (Assistant Agency Specialist)	7
B	Chairmanship Private Bureau Manager	1
B	Sworn Bank Auditors Board Private Bureau Manager	1
B	Archive and Reporting Manager	1
B	Architect-Engineer	1
B	Doctor	1
C	Defense Expert	1
C	Administrative Chief	8
C	Execution Prosecution Officer	1
C	Administrative Personnel	8
C	Librarian	2
C	Switchboard Operator	2
C	Information Desk Officer	1
C	Secretary	28
C	Chief Driver	1
C	Driver	15
D	Distributor	2
D	Floor Cleaner	1
<b>TOTAL</b>		<b>323</b>

## SECTION 4. ACTIVITIES

### 4.1. Regulation

The Agency is obliged and entitled to make required decisions and take necessary measures in order to realize its objectives and reach its targets. The Agency is entitled, to issue regulations and communiqués relating to the practice of the Banks Act Nr. 4389 through Board Resolutions. The Board and the Agency both use their powers through implementing regulating operations and by making qualified decisions. Regulations and communiqués having the feature of regulating operation are entered into force by being published in the Official Gazette.

#### A) Amendments Made to the Banks Act Nr. 4389

- As a result of the amendments made in Article 35 of the "Act on Making Amendments to Some Acts" published in the Official Gazette dated April 24, 2003 and Nr. 25088 and to first sentence of Article 20(2) of the Banks Act Nr. 4389; non-deposit taking banks have been exempted from the obligation to calculate and practice the credit limits stated in the said Act according to consolidated basis, furthermore they are obliged to set aside provisions for loans and other receivables. By the provision added to paragraph 6(c) of the same article, Guarantee Fund is exempted from any kind of duties, levies and taxes including income and corporate taxes.
- Amendments have been made to Articles 6, 9, 14, 15, 17, 20, 22, 24 of the Banks Act Nr. 4389 and Articles 15/a, 17/a, Annex 1, 2, 3, 4, 5, 6 have been added to the same Act by the "Act on making Amendments to Some Acts by the banks act Nr. 5020" published in the Official gazette dated December 26, 2003 Nr. 25328.

#### B) Regulations Relating to Establishment and Activity Principles

- **Amendments Made to the Act on the Establishment and Activities of Banks:** By the Regulation published in the Official Gazette dated June 10, 2003 Nr. 25134, partnerships subject to surveillance and supervision through being accounted according to full consolidation method by banks are ensured to be considered out of the transactions which will be taken into consideration by 150% in the practice of loan limits stipulated in the said Act.
- By the amendments made to Article 10 of the "Act on Regulating the Payments with Cheque and Safeguarding Cheque Holders Nr. 3167" by the Act Nr. 4814 and by the Regulation published in the Official Gazette dated September 20, 2003 Nr. 25235 which was prepared by taking into consideration banks' obligation to hold additional capital which arose as a result of CBRT regulations regarding thereof, it has been ensured that non-cash loans granted by banks through granting credit card and cheque book are taken into consideration with the ratio of 25 % in the practice of loan limits in the Act. Furthermore, the same Regulation ensured that, for the specialization loans to be granted to natural persons who do not record a book according to balance-sheet basis, account status statements to be prepared in accordance with the qualification of their activities can be taken on condition to take permission from the Agency.

**ISSUES BROUGHT BY THE ACT NR. 5020 WHICH WAS PUT INTO EFFECT ON DECEMBER 26, 2003 ON MAKING AMENDMENTS TO THE BANKS ACT NR. 4389 AND TO SOME OTHER ACTS**

The objectives of the Act Nr. 5020 are;

- To punish efficiently bank owners and those responsible who make corruption and got benefit over banks, through destroying the financial structure of a bank and caused it to be taken over by the SDIF which leads both bank's customers as well as the country and citizens thereof to go under a big financial burden,
- To ensure public not to go under the loss arose from the said situations and ensure making collections from bank owners and those responsible.
- To bring more strict and deterrent rules in order for similar events not to be recurred.

Mainly the Act regulates the amendments to be made in the Banks Act for achieving the above-mentioned aims, and harmonizes the acts related to the amendments made.

Amendments made are as follows;

- Any kind of bank resources used in favor and any property, right and receivables transferred to third persons with simulated transactions by the shareholders who directly or indirectly control the management and supervision of a bank whose management and supervision are taken over by the SDIF and whose license to carry out banking transactions and accept deposits is revoked by the Banking Regulation and Supervision Board will be legally considered as Treasury receivables.
- Treasury receivables will be prosecuted and collected in accordance with the Act on the Principles on the Prosecution of State lawsuits and the Act on the Principles on the Collection of Public Receivables Nr. 6183 and shall be followed up by the lawyers of the Treasury.
- Any lawsuits filed or to be filed within the scope of Treasury receivables shall continue also in judiciary recess. Experts shall be selected from those charged in official agencies and institutions and hearings cannot be suspended more than 30 days.
- Banking crimes are taken under the scope of the Act on Anti-Money Laundering Nr. 4208.
- In order to prevent expert corruption, on condition that strong suspects and evidences exist regarding the fact that expert report submitted to the Court are not compatible with physical fact and actual facts, and without prejudice to the legal and criminal responsibilities of those experts stipulated in other acts, it is provisioned that transactions shall be made pursuant to Act Nr. 3628 on Declaration of Personal Property and Elimination of Bribery and Embezzlement.
- In the lawsuits filed against those having fraudulent transactions through resource transfer from banks, it is known that majority shareholders and pervious managers destroyed bank records and evidences, and transferred their properties to their relatives or other persons by various transactions with simulation, burden of proof belongs to the other party in such lawsuits. Because, in Turkish Civil Code it is stipulated that proof of the claim belongs to plaintiff in cases no other provision exists in the act. By the amendment, burden of proof belongs to defendant party.
- Powers of the public prosecutor as regard to banking crimes are increased. All kinds of properties, receivables or other things acquired as a result of transfer of all and any unfair enrichment acts by the perpetrators and participants in crime and held in possession of their blood relatives or relatives by marriage or other third persons shall be seized by the Public Prosecutor.
- Heavy imprisonment and fines relating to banking crimes are brought.
- It is provisioned that articles 4 and 6 of the Law no 647 on the Execution of Criminal Sentences and the provisions of release on probation shall not be applied for the persons who are sentenced due to the banking crimes, unless they pay the debts and compensations they owe to the Fund or the Treasury, or these debts and compensations shall be received from their possessions.
- A stricter follow up for declaration of properties of banks' existing owners and those responsible is ensured. In case as of an inconsistency in declaration of properties, increases in properties will be considered as unjust gain.
- Regulations relating to the SDIF are changed and a SDIF structure similar to that of the BRSA is formed. The SDIF, which has seven members of Board of Directors including its own Chairman, is headquartered in Istanbul. The structure and powers of the SDIF is determined.
- Collections shall be made by the collection department of the Ministry of Finance in places where a collection department of the SDIF is absent and savings shall be made without tax burden of assets of banks taken over by the SDIF.

- **Amendments Made to the Act on the Establishment and Activities of Special Finance Institutions:** In order to ensure a uniformity in the practice of common provisions which special finance institutions and banks are subject to, of the Banks Act Nr. 4389, increasing the diversity in fund collection methods of special finance institutions and enlarging the field which they can extend fund; some issues were added to the Regulation by the Regulation published in the Official Gazette dated June 20, 2003 Nr. 25144; and these are relating to:
  - The evaluation of the structure of the activity to be carried out in off-shore banking abroad and their relationship with the headquarter, regulating and auditing thereof and reaching at correct information relating to those activities,

- During the determination of natural persons and legal entities forming a risk group for special finance institutions, determination of natural persons and legal entities to be included in the same risk group from the point of view of those having duties as the chairman or the member of the board of directors ( including general managers) of more than one partnership.

Furthermore below-mentioned changes are made:

- Special Finance Houses are given the opportunity to open cumulative participation account.
- Production support as well as purchase-sales methods of documents against goods are redefined as corporate financing support and financing for documents against goods respectively.
- Definition on consumer financing support has been amended.
- Provision of article relating to transactions not subject to loan limitations between institutions is rearranged.

On the other hand, by the Regulation published in the Official Gazette dated April 22, 2004 Nr. 25441 amendments were made relating to the following issues;

- Non-cash loans granted by banks and special finance institutions through granting credit card or cheque book shall be taken into consideration with the ratio of 25 % in the calculation of loan limits in the Banks Act Nr. 4389 in order to ensure uniformity between special finance institutions and banks.
- In order to ensure the removal of problems faced in practice, amendment made to the provision prohibiting special finance institutions to acquire subsidiaries by the funds they extended from special current accounts and participation accounts, enabling that partnership share can be acquired for the liquidation of non-performing loans.

C) Regulations Regarding Standard Ratios

- **Amendments Made to the Act on the Measurement and Evaluation of Banks' Capital Adequacy:** By the Regulation published in the Official Gazette dated March 01, 2003 Nr. 25035, additions were made to loans to be taken into consideration with 0% risk weight and loans to be taken into consideration with 50% risk weight items as well as guarantees and indemnities items.
- **Amendments Made to the Act on the Principles Relating to the Calculation of "FX Net General Position/ Own Fund" Standard Ratio on a Consolidated and Non-Consolidated Basis and Practice Thereof:** Due to the changes made in the Uniform Accounting Plan and Explanation Thereof, some changes were made relating to making corrections in parallel with the said regulations and to determine correctly the concern and balances between banks' own funds as well as FX assets and liabilities thereof, to be valid as of May 05, 2003, and the issue was notified to the Banks association of Turkey and Special Finance Institutions Association by letters dated April 09, 2003 Nr. 4149 and April 15, 2003 Nr. 4353 respectively.

D) Regulations Regarding Accounting Practices

- **Amendments made to the Communiqué on the Uniform Accounting Plan and Explanation Thereof:** In order to ensure transparency and uniformity in banks' accounting and record system by removing the problems faced in practice, amendments were made to the Communiqué on the Uniform Accounting Plan and Explanation Thereof, by the Communiqué published in the Official Gazette dated December 31, 2003 Nr. 25333 relating to the liabilities of banks regarding bad cheques, deferred tax, assets and liabilities, value decreases of FX indexed loans and accounting of loans extended by banks' branches abroad.

E) Regulations Regarding Financial Restructuring Program

- **Amendments Made to the Regulation on General Conditions Relating to Approval, acceptance and Practice of Financial Restructuring Framework Agreement:** Amendments were made to Article 9 of **Regulation on General Conditions Relating to Approval, acceptance and Practice of Financial Restructuring Framework Agreement** published in the Official Gazette dated April 11, 2002 Nr. 24723 by the Regulation published in the Official Gazette dated July 25, 2003 Nr. 25179 in order to ensure the realization of the classification of loans which are under the scope of restructuring, by taking into consideration the solvency of debtor and prudence principle.

F) Regulations Regarding Savings Deposit Insurance Fund and Guarantee Fund

- **Amendments Made to the Regulation on Special Finance Institutions Special Current and Participation Account Guarantee Fund:** Said Regulation is amended by the Regulation published in the Official Gazette dated June 27, 2003 Nr. 25151 by Special Finance Institutions Association. By the amendments made, a method similar to the collection of savings deposit insurance fund premiums is ensured to be used for the collection of guarantee fund premiums.
- **Board Resolution dated May 14, 2003 Nr. 1043:** By the said Resolution, reduction of the burden on banks, of the practice of the Resolution dated May 31, 2000 Nr. 2000/682 of the Council of Ministers on Premiums to be Collected by the Savings Deposit Insurance Fund and transition to risk-based premium system are decided.
- **Board Resolution dated July 03, 2003 Nr. 1083:** By taking into consideration the banking Regulation and Supervision Board Resolution dated January 15, 2001 Nr. 151, practice of Article 3 of the Resolution of Council of Ministers dated May 31, 2000 Nr. 2000/682 is amended the said Board Resolution to be valid as of July 03, 2003. Accordingly, it is decided that; whole of the sum of principal and interest amounts of accounts defined in article 1 of the said Resolution of Council of State are under the scope of insurance guarantee as of July 03, 2002 and the portion amounting up to TL 50 billion of the said accounts are under the scope of insurance guarantee as of July 05, 2004.
- **Board Resolution dated July 03, 2003 Nr. 1084:** By the said Resolution, practice of temporary full insurance guarantee is decided to be removed to be valid as of July 05, 2004.
- **Board Resolution dated October 31, 2003 Nr. 1143:** By the said Resolution, Board Resolutions dated May 14, 2003 Nr. 1043 and July 03, 2003 Nr. 1083 have been removed and the Principles on savings Deposit Subject to Insurance Guarantee and Premiums to be Collected by the Savings Deposit Insurance Fund are re-determined to be valid as of July 03, 2003.

G) On-Going Regulatory Studies

- **Draft Act on Amendments to be Made to some articles of the Act Nr. 3226 dated June 10, 1985 on Leasing and the Decree Law Nr. 90 dated September 09, 1983 on Money Lending Activities:** Studies on the Draft regarding the transfer of the responsibility for the regulation and supervision of non-bank credit institutions from the Treasury to the Banking Regulation and Supervision Agency are continuing under the structure of our Agency.
- **Draft Act on Micro Financing Institutions:** The Draft regulating the principles regarding the establishment, management, operating and auditing of micro financing institutions to be established for providing financing for micro entrepreneurs is submitted to the relevant Ministry of State and Deputy Prime Ministry. Studies on the Draft are continuing under the structure of our Agency by also benefiting from the views taken from relevant public institutions.
- **Draft Act on Bank Cards and Credit Cards:** The Draft which was prepared to lay down principles regarding ,
  - the usage of credit cards and bank cards issued by banks as well as credit cards issued by institutions having the authority to issue cards, to regulate the operating principles of institutions to issue cards or make card acceptor agreements,
  - rights and liabilities of credit card and bank card users arose from holding and using those cards as well as banks, card issuers or those making card acceptor agreements and card acceptors that have made card acceptor agreements in order to be included in the card system,
  - and to regulate the operating principles of institutions to issue cards or make card acceptor agreements and submitted to the relevant Ministry of State and Deputy Prime Ministry. Studies on the Draft are continuing under the structure of our Agency by also benefiting from the views taken from relevant public institutions.
- **Draft Banking Act:** A Draft is prepared in order to ensure Banks Act Nr. 4389 to be consistent with the European Banking Legislation, to have a systematic structure, to remove the problems faced in practice, and to make it respond to changing needs. Studies on the Draft are continuing under the structure of our Agency by also considering the views of profession unions as well as European Union Directives and international principles and standards.

## 4.2. Supervision and Practice

### 4.2.1. Off-Site Audit

Off-site audit activities are carried out through analyzing various indicators relating to banks/SFIs' financial performance in daily, weekly, monthly and quarterly periods and in the case of preparing periodic reports and/or negative developments or determinations, through notifying related units and decision-makers without waiting for preparing standard reports. Data sources used during carrying out said activities are;

- Preparing "Surveillance Reporting Package" which is comprised of weekly, monthly and quarterly forms oriented to the follow-up of limitations that the banks have to comply within the scope of their financial situations as well as the Banks Act and related legislation;



- "Daily Reporting Set" which includes daily data for close monitoring of liquidity status, cash movements and custody security information as well as taking necessary measures in time;
- "Market Risk Reporting Set" which is prepared for monitoring interest rate, exchange rate and stock position risks and capital requirements relating those risks, within the scope of the Regulation on Calculation and Evaluation of CAR of banks.

Furthermore, financial structure reports prepared by Sworn bank Auditors and independent audit reports are other important sources used in off-site audit process.

Main off-site activities realized in 2003 are as follows;

- Following up and reporting banks'/SFIs' compliance with the Banks Act and related legislation, liquidity status, capital adequacy ratios, FX positions by daily, weekly, monthly, quarterly periods on a consolidated and non-consolidated basis,
- Preparing "Financial Status Determination Report" quarterly on bank/SFI basis in which banks' and SFIs liquidity and fund management own fund adequacy, asset quality as well as income-expense balance and profitability status are analyzed,
- Preparing reports within the scope of studies of Supervision and Surveillance Committees formed in order for the evaluation of the information on banks and SFIs, together with the representatives of related units,
- Preparing "Banking Sector Performance Analysis (Ranking) Report" in which performance analysis of Turkish Banking Sector is made by using ratios on bank basis and rating thereof is made within the groups they are included in,
- Preparing "Turkish Banking Sector Financial Strength Classification Report" in which the bank classes are presented on a consolidated and comparative basis, according to their financial strength ,
- Preparing "Turkish Banking Sector Stress Test Report" in which the fragility level of banking sector and banks one-by-one within the scope of different scenario analysis,
- Preparing "Banks' and Special Finance Institutions' Compliance with Loan Limits of the Banks Act and Group Risks Report" in which the loans extended to Bank owner groups by both their own banks and other banks are analyzed,
- Preparing " Turkish Banking Sector Country Risks Report" in which banks' risks by countries are analyzed,
- Preparing "Turkish Banking Sector Loan Analysis Report" on the determination of potential bad loans in banking sector and the analysis of loans in the sector,
- Preparing "Organizations Abroad of Banks Established in Turkey (branches and subsidiaries abroad) and Financial Sizes Report",
- Preparing "Banking Sector Data" report in which banking sector data selected within the scope of daily, weekly, monthly and quarterly reports taken from banks and periodic development thereof are given on a bank basis and/or on a consolidated basis,
- Preparing report on "Bank Retirement Funds".

Number of reports prepared within the scope of the said off-site surveillance activities in 2003 is as follows:

**Table 4.1 Surveillance Reports**

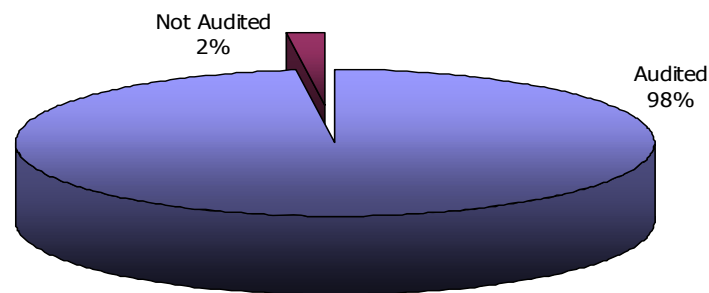
Name of Reports	Number
Bank/SFI Financial Situation Determination Report	214
Bank/SFI Supervision and Surveillance Committee Reports	65
Turkish Banking Sector Performance Analysis (Ranking) Report	4
Turkish Banking Sector Rating Report	2
Turkish Banking Sector Stress Test Report	4
Turkish Banking Sector Country Risks Report	2
Report on Turkish Banking Sector Compliance With Loan Limits and Group Risks	4
Report on Turkish Banking Sector Loan Analysis (Potential Non-Performing Loans)	1
Report on Organization Abroad of Banks Established in Turkey and Financial Sizes Thereof	2
Bank/SFI FX Net General Position Report	36
Report on Bank Retirement Funds	1
<b>Total</b>	<b>335</b>

#### 4.2.2. On-Site Audit

Within the structure of the banking Regulation and Supervision Agency, on-site audit of banks on behalf of public is carried out by the Sworn Bank Auditors Board comprising a total of 72 profession personnel as 11 chief auditor, 53 auditors, and 7 assistant auditors and the Chairman of the Board of Directors as of December 31, 2003. Financial structure, legislation and risk-oriented audits are carried out by Sworn Bank Auditors within the scope of guidelines prepared in parallel with international practices.

Audit activities of the Board can be summarized as making financial structure analysis, risk-oriented audit, legislation audit, denunciation and inspections on complaints as well as making inspections and researches relating to the issues under the Agency's duty and authority field and stating opinions.

On the other hand, charging made relating to the demand of Prime Ministry, Parliamentary Research Commissions and Ministry of Finance Financial Crimes Investigation Board as well as other related agencies and institutions are among important audit activities of the Board. Annual audit activities of the Board are carried out within the scope of the approvals granted by the Board Chairmanship, through annual working programs which are put into effect by January. Issues to be covered by annual working plan and the units to be audited are distributed to auditors and assistant auditors within a timetable determined by the Board Chairmanship; results of reports, dictums, researches and studies are submitted to related authorities following been evaluated by the Chairmanship. Accordingly, audits and researches were made in 47 of 54 banks in Turkish Banking System and in 5 special finance institutions in 2003 . Share of banks which are inspected in Turkish Banking System by their 2002 balance sheet sizes are as follows.



98% of Turkish Banking System (including Special Finance Institutions) was inspected by Sworn Bank Auditors and Assistant Sworn Bank Auditors in 2003. 41 auditors were actually charged for the inspections made on İmar Bankası in 2003. Furthermore, almost all auditors have made inspections in the stage of agreements on accounts, in the process following the takeover of İmar Bankası by the SDIF. Details of the reports prepared by Sworn Bank Auditors as a result of the inspections and researches they made are as follows:

**Table 4.2 Reports**

Reports	Number of Reports
Financial Structure Analysis	61
Legislation Audit	85
Determination of Duty Losses	1
Tax	3
Denunciation and Complaints	24
Other (Research, studies etc.)	30
<b>TOTAL</b>	<b>204</b>

As a result of financial structure analysis inspections made on headquarters of banks and special finance institutions as well as various practices made in headquarters of banks and branches, relating to the implementation of the legislation starting with the Banks Act Nr. 4389, 204 reports were prepared in 2003 and transferred to related units and offices. Besides, 34 capital increase inspection is finalized, 140 dictums, 30 of which is relating to İmar Bankası, including the researches and evaluations relating to denunciation, complaint and similar issues transferred to the Board is prepared.

Information on charging based on the demand of Prime Ministry and Financial Crimes Investigation Board as well as other related agencies and institutions in 2003 are as follows.

**Table 4.3 Charging**

Related Institution	Auditors Charged
Prime Ministry	11
Ministry of Finance Financial Crimes Investigation Board	28
Inspection Abroad	5
Other (Offices of Public Prosecutors)	3
<b>TOTAL</b>	<b>47</b>

#### 4.2.3. Evaluation and Practice Activities

In the evaluation and practice phase which is the third stage of audit process, information submitted by surveillance and audit units as well as information and documents submitted by banks, independent audit firms and other persons, agencies and institutions are evaluated by related units, measures to be taken by banks are determined and notified to banks, and the practice of the instructions are closely monitored.

Accordingly, the license of Türkiye İmar Bankası T.A.S. to perform banking activities and accept deposits has been revoked upon the decision Nr: 1085 dated July 03, 2003 of the Banking Regulation and Supervision Board (the Board), pursuant to Article 14 /3 of the Banks' Act Nr. 4389, due to the fact that the Bank could not timely fulfill its obligations, that it did not take the required measures, and that continuation of its banking activities would have posed a danger to depositors' rights as well as the safety and soundness of the financial system. As a result of the inspections made for the said Bank as of July 03, 2003 which is the date of the revocation of its license to carry out banking transactions and accept deposits, it has been determined that;

- Real deposit amount was hidden from public authority,

- Unauthorized and unbacked sale of government securities,
- Misleading information given to public authorities,
- Off-record transactions,
- Transactions oriented to tax evasion,
- Special use of data-processing technologies in order to demonstrate real assets and liabilities of the Bank different from what it is,
- Manipulation by the General Directorate, of accounting records realized by branches through implementing accounting records which will affect account balances,
- Organizational regulations in order to prevent the reveal of transactions realized.

Within the scope of determinations included in the reports relating to the said transactions, a notice of crime was filed against bank owners and ex-managers who are found to be responsible for the acts and transactions which are sanctioned in the Turkish Criminal Code and the Banks Act. Furthermore, the reports arranged are submitted to related public agencies and institutions in order to ensure the implementation of necessary transactions for the issues that are under their duty and authority field.

Partnership rights excluding dividend rights in Adabank A.S., of shareholders who no longer satisfy the fit and proper criteria required for founders pursuant to the Banks Act NR. 4389 as a result of the revocation of İmar Bankası's license to carry out banking activities and accept deposits, are used by the SDIF. Furthermore, by the resolution of the Banking Regulation and Supervision Board, two members of board of directors were appointed to Adabank A.Ş. on July 04, 2003 pursuant to Article 14(1) of the Banks Act and on July 25, 2003, whole members of board of directors were dismissed and new members, excluding those appointed previously, were assigned to replace their positions.

On the other hand, as a result of the legislation reports prepared relating to various banks including İmar Bankası and other data, a total of 39 notices of crime were filed against those who are determined to be responsible, 7 administrative fine were practiced, and 22 persons were prohibited temporarily to work as authorized signatories in banks pursuant to Article 9(5) of the Banks Act.

#### **4.2.4. Establishment, Authorization and Licensing Activities**

Within the scope of establishment, authorization and licensing activities carried out by the BRSA; authorizations on establishment, operation, share transfer, mergers and acquisitions, opening branches and acquirement of subsidiaries are granted.

Besides, documents concerning the applications on the sale of SDIF banks, the authorization requests of independent audit firms to perform independent audit on banks, authorization requests on establishment of asset management companies, the banks' capital increase requests and finalization of the transactions concerning hereof, the concordance of amendments on the articles of association of the Banks Act, the concordance of the appointments of bank general managers and assistant general managers to related regulations, the oath and declaration of property required by Law and the documents on minimum requirements to be fulfilled by Board members and general managers and assistant general managers as required by Law and the documents on the General Assemblies of Banks are observed, the limits of letters of guarantee banks can offer for the tenders subject to the Act Nr. 2886 are determined and requests on delay extension as regards the disposal of immovable and real estates acquired due to receivables are evaluated and finalized.

In this regard, among the operations realized in 2003, there is one new bank establishment and one merger activity.

- Following the application made to our Agency by the Istanbul Turkey Central Branch of Citibank N.A. Centered in New York, N.Y., the establishment of a bank titled Citibank A.Ş. was authorized by the resolution Nr. 1149 dated December 8, 2003 of the Board. The transfer of the Istanbul Turkey Central Branch of Citibank N.A. Centered in New York, N.Y to the said Bank and the transactions concerning the initiation of the operations of Citibank A.Ş. were finalized on March 31, 2003.
- A preliminary authorization was given as regards the initiation of the transactions concerning the transfer of Fiba Bank A.Ş. to Finansbank A.Ş. on December 20, 2002 and upon the Board resolution Nr. 1023 dated April 3, 2003, the finalization of the said transactions to be finalized was deemed appropriate.

Besides, within 2003, voluntary liquidation resolutions were made by two foreign bank branches operating in Turkey and within this scope, the liquidation of ING Bank N.V. Istanbul Turkey Central Branch was decided upon the resolution Nr. 1037 dated May 1, 2003 of the Board and the liquidation of Credit Suisse First Boston Turkey Istanbul Central Branch was decided upon the resolution Nr. 1127 dated September 11, 2003 of the Board, pursuant to the Article 18, paragraph (2) of the Banks Act Nr. 4389. The liquidation process of the said banks is still continuing.

All Turkish and foreign banks and special finance houses operating in Turkey and Turkey branches of foreign banks realized a total of TL 1.634.348 billion capital increase in 2003. The details are as shown below:

**Table 4.4 2003 Capital Increases (TL Billion)**

	Cash	Internal Resources	Total	% Annual Change*
Private Deposit Banks	162.491	1.248.965	1.411.456	26,3
State Deposit Banks	0	1.111	1.111	0,03
Foreign Banks	30.402	0	30.402	8,6
Foreign Bank Branches	0	1.310	1.310	0,9
Private Investment Banks	42.302	11.000	53.302	22,5
State Investment Banks	0	0	0	0,0
Foreign Investment Banks	0	0	0	0,0
Special Finance Houses	44.903	89.097	134.000	46,8
SDIF Banks	0	2.767	2.767	0,3
<b>TOTAL</b>	<b>280.098</b>	<b>1.354.250</b>	<b>1.634.348</b>	<b>13,4</b>

\* Reflects the annual change in paid-up capital when compared to end-2002..

Within 2003, the application of two banks and two special finance houses for acquiring subsidiaries abroad and of a bank and a special finance house for opening branches abroad were assessed and the said branches have started their operations following the grant of the relevant licenses. Besides, a special finance house has made an application to our Agency for opening a representative office abroad in 2003, the assessments were made and the license was granted however, the said representative office has not started its operations yet.

In 2003, the applications of five independent audit firms for an authorization to perform independent audit in banks and special finance houses were evaluated and the authorizations were given by Board resolutions. The details on these firms are as shown below.

**Table 4.5 Authorized Independent Audit Firms**

Name of the Independent Audit Firm	Date and Number of the Board Resolution on Authorization
1 Consulta Bağımsız Denetim ve YMM A.Ş.	January 7, 2003/950
2 Işık Yeminli Mali Müşavirlik A.Ş.	January 7, 2003/949
3 Bilgi Denetim Yeminli Mali Müşavirlik A.Ş.	January 29, 2003/975
4 Can Uluslararası Denetim A.Ş.	January 29, 2003/975
5 Arılar Bağımsız Dış Denetim A.Ş.	July 3, 2003/1081

On the other hand, the authorization of an independent audit firm to perform independent audit on banks and special finance houses which was permanently cancelled in

2002 due to its operations infringing the Regulation on Authorization of the Auditing Institutions and Permanent or Temporary Withdrawal of Their Authorities was returned upon the assessment made following the termination of the period.

Within the scope of the transactions made in 2003 concerning the sale of the Fund banks, the applications concerning the sale of Pamukbank T.A.Ş., which is under the SDIF structure, were assessed.

Besides, the applications of four foreign banks to open representative offices in our country were received by our Agency. The information on the representative offices establishments of which were deemed appropriate by the Board is as follows.

**Table 4.6 Representative Offices to which Operating Licenses were Granted**

Name of the Bank	Date and Number of Resolution on License to Open Representative Office	Date at which the Representative Office Started to Operate
1 Royal Bank of Canada	May 14, 2003/1044	July 30, 2003
2 ING Bank N.V.	June 3, 2003/1060	June 26, 2003
3 Credit Industriel et Commercial (CIC)	June 12, 2003/1066	September 1, 2003
4 Standard Chartered Bank	June 12, /1070	December 1, 2003

Following the entry into force of the Regulation on Establishment and Operations of Asset Management Companies upon being published in the Official Gazette Nr. 24893 dated October 1, 2002, an asset management company has applied to our Agency and within 2003, within this framework the establishment of Bebek Varlık Yönetim A.Ş. was authorized by the Board resolution Nr. 1138 dated October 14, 2003.

### 4.3. Other Operations

#### 4.3.1. Analysis and Research Activities

Beside activities on issuing regulations concerning the banking sector and the surveillance and supervision hereof, the BRSA also performs analysis and research focused on the financial sector, mainly the banking sector. The research activities of the BRSA mainly focus on the surveillance and supervision techniques and structural issues on the financial sector.

Some of the analysis and research activities performed within 2003 are the New Basel Capital Accord (Basel-II), the structural trends in and problems of the Turkish banking system, the intermediary costs in the banking system and the reduction hereof, profitability and resources in the banking sector, derivatives in the banking sector, concentration in the banking system, financial holding firms, international deposit insurance practices, asset management companies and the effects of the Istanbul approach on the Turkish banking.

#### The New Basel Capital Accord

Studies on the possible impacts of the New Basel Capital Accord published in 2001 by the Basel Committee on Banking Supervision which has undertaken the mission of coordination and cooperation between national banking supervision authorities for the effective monitoring and supervision of the activities of banks at the global basis and which is planned to enter into force at the beginning of 2007 in G-20 countries, and the applicability hereof to our country's banking sector are still continuing.

It is certain that, Basel II, which is expected to have impact on the Banking sector in international terms especially as regards capital adequacy and also on resource costs,

disclosure and risk management, will, besides banks and the financial system, will also have impacts on our economy in terms of our adoption of the principles of Basel II.

Within this framework, our Agency carries out the activities towards the determination of the possible impacts of and establishment of infrastructure related to the Basel II approaches in coordination with the Banks Association of Turkey.

#### Quantitative Impact Studies

- Quantitative Impact Studies consists of collecting data from banks aiming at measuring quantitative impacts of Basel-II over capital liabilities and play an important role in the process of finalizing the Basel-II and tests the efficiency of the measures proposed. Our country has actively participated to the QIS-3 studies, which has been the last and most detailed and, this participation provided important inputs in terms of determination of policies and strategies to our Agency and participant banks.
- The most attended meeting as regards the QIS-3 was the one held in Istanbul on March 10-11, 2003, hosted by our Agency. This has contributed to our country's prestige at the international arena and provided the opportunity of establishing important communication channels.
- The 3<sup>rd</sup> Draft Text on Basel-II was published on April 29, 2003 by the Basel Committee and the opinion of our Agency was sent to the Basel Committee on Banking Supervision on July 23, 2003 together with the opinion of the banks.
- With the aim of ensuring the more healthier determination of the possible impacts of Basel-II to our country's system and the understanding and evaluation of these impacts by non-participant banks, a consensus was reached with the representatives of the Banks Association of Turkey for the realization of a study similar to QIS-3 with the participation of as much banks as possible. It was thereby decided to initiate a quantitative impact study with the participation of 22 banks. The studies related to the issue are still continuing.

#### Basel II Orientation Committee

- On the other hand, in order to plan efficiently the transition process to Basel-II, "Basel-II Orientation Committee" comprised of the risk management officials of banks member to the Turkish Banks Association was established under the coordination of our Agency in order to act as a platform on issues of the establishment of the required infrastructure, a road map on the transition process, performance of a general benefit/cost analysis, the development of required tools and techniques and enhancing cooperation between related parties.
- The committee has first started its studies at the Turkish banks Association center in Istanbul on March 4, 2003.
- The Orientation Committee members have unanimously agreed on the "road map" foreseen for the transition to Basel II Capital Accord on their meeting held on September 26, 2003. This "road map" which does not have a nature of a commitment neither to the Basel Committee not to the other related parties was published in our website.
- In order to perform studies concerning the processes stated in the "road map", sub-working groups were established within the structure of the Banks Association of Turkey.

Studies within the scope of Basel II on the determination, modeling and regulation of interest rate risk and operational risks to be included in the calculation of capital adequacies of banks are continuing.

### **Intermediation Costs in the Turkish Banking Sector <sup>12</sup>**

The macroeconomic inconsistencies experienced in the Turkish economy complicated the efficient performance of the intermediation function by being the most important cost element on the financial sector and prevented the focusing on operational and public costs. On the other hand, the macroeconomic environment which improved together with the effects of the political stability reached through the economic program initiated in 2001 and the general election has shown that the most important element which limited the international competitiveness of the banking sector were the financial public liabilities. Upon studies carried out with the participation of the related agencies and institutions as regards the revision of these costs and creating acceleration in the banking sector, important findings arose as regards the size and effects of these burdens. A consensus was reached by all parties on the necessity to decrease the costs caused by the public burden.

On the other hand, the results of reducing intermediary costs were not satisfactory enough due to the public primary surplus and currency cellar targets and restrictions on reductions of some regulatory agencies. The developments on the reduction of intermediary costs in Turkish banking sector caused by the public burden are as follows:

- By the resolution Nr. 1143 dates October 31, 2003 of the Board; progressive rated SDIF premium payments to be paid by banks to be calculated related to certain ratios banks will meet in addition to a basis rate were foreseen and the effective premium rates were reduced approximately by half.
- The delay of the special transaction tax to be collected from deposit owners, F/X deposit owners and participation account holders in special finance houses pursuant to the Act Nr. 4481 dates November 26, 1999 was not extended and the practice was terminated.
  - Pursuant to Article 30 of Act Nr. 5035 on Amendments to be Made on Some Acts published in the Official Gazette dated January 2, 2004; stamp duty exemption was provided for documents to be issued for the providing and collection of the loans (including personal loans) to be extended by banks, foreign credit institutions and international institutions and the annotations on hereof and annotations of endorsements and guarantee on commercial papers and,
  - Pursuant to Article 31 of the same Act, transactions concerning the providing and collection of the loans to be extended by banks, foreign credit institutions and international institutions, the guarantees and collection hereof were exempted from fees.

#### **4.3.2. Domestic and International Cooperation Activities**

Besides cooperating with the Treasury Undersecretariat, the Undersecretariat of State Planning Organization and the Central Bank pursuant to Article 3, paragraph 9 of the Banks Act, our Agency has also connections with other agencies and institutions, mainly with General Secretariat of the European Union on issues related to banking sector.

The information on programs and activities performed related to other international agencies and institutions are as follows:

##### Memorandum of Understandings

Pursuant to Article 3, paragraph 10 of the Banks Act, the Board may cooperate and exchange information with any authority of a foreign country responsible for supervision within the framework of agreements it will enter into with such entities. Within this framework, Memorandums of Understanding (MoUs) were signed with the Turkish Republic of Northern Cyprus, Albania, the Central Bank of Romania, the Bahrain Monetary Authority, the Central Bank of Indonesia, the Central Bank of Kazakhstan and the Central Bank of Pakistan. Besides, work on the signing of MoUs with regulation and supervision authorities of Italy, Greece, Russia, Azerbaijan, England, Germany, France, Bosnia-Herzegovina, Switzerland, Portugal, Ireland, Georgia, Macedonia, Nederland, Malta, Luxemburg, United Arab Emirates and Kosovo continue.

##### Relations with the IMF and the World Bank

<sup>12</sup> The wide-ranged studies carried out by the BRSA with the participation of related agencies on the size of intermediation costs in the Turkish banking sector caused by public burden were finalized on April 2003. The said study entitled "Reducing Intermediation Costs in Turkish Banking Sector" was published as BRSA-Study Report on November 2003. The report can be reached upon the BRSA website.



Talks are held with the IMF team within the scope of the Review within the framework of the agreed upon Stand-By Agreement dated February 4, 2002 and with the World Bank team within the scope of the PFPSAL III and the Economic Reform Loan to be provided on issues related to the banking sector and issues falling under the responsibility of our Agency. Besides, our Agency has contributed to the updating of the "Annual Report on Exchange Arrangements and Exchange Restrictions" drawn-up by the IMF.

#### Relations with the European Union (EU)

Our Agency regularly participated to the sub-committee meetings held by the Secretariat General for the EU Affairs for the monitoring of the developments realized as regards the commitments made in the "National Program for the Adoption of the Acquis" published on July 23, 2003. Besides, contributions were made to the activities coordinated by the Secretariat General as regards the Progress Report

#### Relations with the OECD

Our Agency has participated to the work and other activities concerning the Financial Action Task Force and the Committee on Financial Markets conducted by the OECD, to which our country is a member.

#### Cooperation with the Turkish Republic of Northern Cyprus (TRNC)

In 2003, our agency has regularly participated to the activities performed by the Turkish Republic Technical Team (established pursuant to the provisions of the "Financial and Economic Cooperation Protocol" signed between the Government of the Turkish Republic and the TRNC with the aim of providing the TRNC economy stability and sustainable economic growth) in order to monitor the practice of the TRNC Program of Transition Based on Economic Stability and Production.

#### General Agreement on Trade and Services (GATS)

Our Agency has actively participated to the studies initiated at the beginning of 2000 for the increasing of liberalization and transparency in the services sector within the scope of GATS. Within 2003, the banking commitments of various countries were evaluated within the framework of our national policy targets and our opinions were sent to the public agency coordinating the issue. Besides, other workshops realized within the framework of GATS negotiations were participated to and the commitment list of our country submitted to WTO was updated within the framework of the issues falling under the responsibility of our Agency in line with the legal amendments realized.

Within the framework of the Agreement Establishing the WTO and the Trade Policy Review Mechanism aiming at providing further transparency and comprehensiveness to the trade legislation and practices of member states and increasing the commitment to the rules, regulations and engagements brought by plurilateral trade agreements and contributing to better functioning plurilateral trade system, contributions were made at the process of preparation of the report on the review performed in our country in 2003 on issues concerning the issue area of our Agency.

#### Euro-Mediterranean Free Trade Area

Upon the Conference held at the level of Foreign Ministers in Barcelona on November 1995, it was decided to agree upon the Euro-Mediterranean Association Agreement with the purpose of further enhancing the economic cooperation between Europe and the Mediterranean, establishment of a Free Trade Area for goods by 2010 and expanding this liberalization to the service sector. Our Agency contributes to the activities performed within the scope of the establishment of the said Free Trade Area. Besides, our Agency has participated to the financial services workshop held within the framework of the MEDA project approved at the Euro-Mediterranean Conference.

#### Other

Meetings were held with the representatives of international and foreign agencies and institutions on the current developments on the banking sector and the activities performed by our Agency as regards the concordance with international standards on monitoring and supervision.

#### **4.3.3. Activities Concerning the Ensuring and Measurement of Quality**

The Agency has conducted several activities for ensuring quality and quality guarantee as regards its operations:

##### Intra-Agency satisfaction surveys were conducted.

Self-evaluation surveys were conducted with the participation of all the Agency personnel at end-2002 and end-2003 with the aim of measuring the intra-Agency satisfaction level and of determining resource adequacy, development, corporate culture and work processes. The results hereof served as a data basis for both the research studies conducted and the decision-making process of the senior management.

##### A Survey on Efficiency was conducted at the banks and special finance houses, which are our most important stakeholders.

An efficiency survey was conducted on September 2003 to measure the evaluation made by the top managers of banks and special finance houses, which are the main target market of the Agency, to the activities the Agency has realized since its establishment and its approach to the sector and for planning the activities to be performed based on the resulting opinions and proposals.

Upon evaluation of the answers given to the survey by the top management of institutions subject to the Banks Act, the following has revealed;

- That they were generally satisfied with the performance of the BRSA,
- That since its creation, positive improvements were made as regards the supervision and monitoring of the Turkish banking system,
- That it has a positive impact on the confidence to the Turkish banking system,
- That as a result of its activities, the Turkish banking system has become even stronger than it was in the past.

Studies on the measurement of the efficiency of supervisory and monitoring activities of the Agency were made through comparison.

In September 1997, the study entitled "Main Principles Concerning Efficient Supervision in Banking", in October 1999, the document entitled "Methodology of Main Principles and on April 2001, the study entitled "Management of Supervisory Self-Evaluation Process- Practice" which clarifies by which method the authority may more efficiently perform its self-evaluation was published by the BIS in order to making proposals to surveillance and supervision authorities and ensuring the removal of deficiencies within the framework of a program.

Based on the criteria stated on these documents and by utilizing the proposed method, our Agency has conducted a study concerning the evaluation of its own surveillance and supervision activities. The self-evaluation initiated in January 2003 and finalized in September 2003 was composed of four stages which were the evaluation of the legal framework required for the application of the supervisory process, analysis of the practice concerning supervision policies and procedures, evaluation of the concordance to the criteria stated in Main Principles Methodology and the preparation on an action plan for the removal of deficiencies determined. Activities foreseen as regards the removal of deficiencies determined continue.

Various research studies were conducted on issues effecting the quality of the Agency's activities.

In order to provide the Agency personnel with a general information on contributing to obtaining quality to the activities of the Agency and preparation of regulation that would effect the functioning of the Agency, the following studies were conducted; Performance Evaluation and Accountability Liability in the Public Sector, Possible Effects of the Draft Act on Public Finance Management and Control Hereof and Public Management to the Establishment of the Performance Evaluation System in the BRSA, Performance Measurement Systems- Literature Scanning, Management of the BRSA and the Agency Culture, Improving the Quality of Regulations, Global Applications and Inferences for the BRSA.

#### **4.3.4. Activities on Corporate Communication**

On October 2002, the Corporate Communication Department was established with the aim of regularly informing the public on issues concerning the activities of the BRSA and the banking sector, evaluation of the complaints and renunciations made to the Agency on institutions and issues subject to the Act and the proposals and claims on these, informing the customers on their rights and liabilities and creating a society conscious on the financial system.

Within this framework, press conferences, television programs and interviews were organized. The complaints and renunciations made to the Agency and related proposals and claims were evaluated and resolved through ensuring the necessary coordination at the intra-Agency level and/or with banks

Various informative presentations were made at universities and institutions on the activities of the Agency, an intra-Agency magazine was published and various social activities and courses were organized with the aim of contributing to the institutional identity of the BRSA.

#### 4.3.5. Activities on Training

Within 2003, a total of 2.026 days of both, domestic and abroad training opportunities were provided to our personnel. Within this framework, the average daily training per head is 6,3 days. The distribution of the said training programs by topics is as follows.

**Table 4.7 Training Activities by Topics**

Topics	Total Participation	Number of Days
Accounting	148	878
Economics	108	237
Personal Skills	90	176
General Banking	50	124
Computer (Professional)	39	89
Supervision	11	27
Law	10	30
European Union	4	12
Foreign Languages (Translation)	4	12
Computer (General Users)	4	12
Risk Management in Banking	4	7
Other	101	422
<b>TOTAL</b>	<b>573</b>	<b>2.026</b>

The participation of 19 personnel to training programs abroad was provided.

The participation of a total of 105 BRSA and SDIF personnel to a total of 24 seminars organized by the Banks Association of Turkey (BAT) was provided. Besides, the following 16 group training programs were organized:

**Table 4.8 Group Trainings**

Topics	Total Participation	Participant Profile
International Accounting Standards (Ankara)	84	Mixed
Human First- Consciousness of Us in the Workplace	66	Mixed
Bank Accounting	42	Assistant Bank Specialists
Money Markets and Reserve Management	42	Assistant Bank Specialists
METU 7th International Economy Congress	33	Mixed
Changes in the Banking Sector and Future in Banking	27	Mixed
Active Academy – 1. International Finance Summit	25	Mixed
IT Control and Security	24	Auditors and Information Technologies Personnel
Bank Accounting and Financial Statement Analysis	20	Agency Specialists
International Accounting Standards (Istanbul)	20	Auditors
External Audit in Banks	19	Mixed
Improving Driver Attitudes	18	Drivers
Workshop on Loan Structuring for Supervision	15	Mixed
Microsoft NET Application Improvement Environment	15	Information Technologies Personnel
The Emotional Intelligence and the Importance Hereof in Working Life	15	Mixed
Administrative Law	7	Lawyer (Assistant Agency Specialists)

#### Library Services

- The requests by Agency units concerning the books that shall be present at the Agency Library were evaluated and mostly provided.
- Upon finalization of the relevant work on infrastructure for providing actual announcement service, the presentation of the "contents" page of 59 Turkish and 57 foreign publications has started.
- The data base on Turkish and foreign publications and articles were updated.

#### Other Services

- Within 2003, graduate studies abroad contingency was determined and the necessary actions for the sending of a total of 7 personnel abroad for graduate programs were made.
- The Chairmanship approval for 128 personnel to benefit from foreign language training programs performed in Turkey.

#### **4.3.6. Activities on Information and Data Management**

Activities carried out within 2003 were weighted on Banks Reporting System and Agency Information Technologies. System, network, security studies and internet and intranet services which are the main functions, were the other activities continued.

##### Banks Reporting System

The Banking Data Collection System (BDCS) was established in 2002 by solely the BRSA opportunities, based on the secure data transfer system called Banks Data Transfer System (BDTS); and in 2003, this was transformed into Banks Reporting System (BRS) by adding feedback to banks, reporting and administrative infrastructures into the structure.

Main characteristics of BRS are:

- Security: Transfer of data over the internet through certificate and password utilization and by authorized users,
- Elasticity: Easy and at short notice reflection of the changes in work rules to the system,
- Sustainability: 7/24 hour operation of the hardware and software,
- On-site Control: Providing the intra-consistency of the data through intra-form control mechanisms with the aim of shortening the communication process and minimizing the communication traffic,
- Consistency: Providing the intra-consistency of the report pile through using forms and periodical control mechanisms with the aim of increasing data quality,
- Minimum Human Interaction: Minimizing the human interaction level by ensuring the full automation of the work process

Important improvements were made in 2003 with the aim of strengthening and maturing these main characteristics. First of all, the automation of the form transfer and cross-control systems was realized for ensuring minimum human interaction. Thereby, nearly 3000 control functions have been realized while the simultaneous reporting made by banks. This improvement has further contributed to the strengthening of the consistency on the reporting system. By the beginning of 2003, high levels on on-site control, consistency and minimum human interaction features of the system were reached by intra-control results that are supported interactively at the time of form transfer, cross control and ensuring the feedback about absent forms to the bank interactively. Still through the studies conducted within 2003, the feedbacks to follow a hierarchical graduation was ensured and therefore, banks were provided with the opportunity to follow the changes in the efficiency of their own reporting systems by also informing the top management when necessary. The opportunity to switch the automatic feedback system to manual mode has ensured the considerable improvement of the elasticity feature of the system.

Still within 2003, a structure enabling the observation of the reporting errors and sending behavior of banks with the aim of the increase of efficiency and consistency in the long run for the information gathered within the scope of the BRS. This structure which enables the keeping of the reporting and errors related will serve as a basis for obtaining behavioral clues in the long run and contribute to the taking of necessary measures within this framework.

Besides the improvements of the main features as mentioned above, the tools and applications added to the system as regards the display and reporting of the data has enabled the transformation of the system which started to operate as a data collection system in 2002 a to complete structure called as the BRS in 2003.

The BRS which enables the transfer to the BRSA and analysis of all form packages except the Daily Status Data, Weekly Exchange Rate Risk, Monthly Market Risk, Quarterly Consolidated Market Risk and Internal Audit Risk Management Systems as of end-2003 will cover all form packages by the inclusion of the said ones as well within 2004.

Within the framework of protocols signed with the SDIF and the CBRT as regards reducing the reporting burden of banks, access to some specific forms in the database was given to the mentioned institutions.

Web page accessible only by banks provides these with the most actual information through the publication of the most actual information on form packages, frequently asked questions and documents sent to the BAT.

As regards the periods of sending and correcting errors concerning information sent to the Agency via BRS a 60% improvement was realized in 2002 and the error number has decreased by 75%.

#### Agency Information Technologies

In order to enable the facilitation of corporate management processes through transferring hereof to computer environment and ensuring regularity, the integration hereof within a common infrastructure which will enable the data exchange and for providing the corporate information needs and elastic reporting hereof, the study named e-bddk was initiated at the beginning of 2003. Within the scope of the study, programs which are currently used include Training Programs, Personnel Id-Card Application, Leave Application, Vehicle Management Application, Performance Evaluation Application, Retirement Application, Corporate Communication application and Document Management System.

#### System, Network and Security Studies

Studies concerning the development and improvement of system, network and security infrastructure were mostly finalized within 2002. As the targeted standards were reached as regards the security, accessibility and utilization facility of the system, no important interruptions or problems were experienced within 2003 in terms of network and system in any centers the Agency is operating. The surveillance of the system continued in 2003 in terms of answering to the requests, adaptation of the technologic improvements and determination of security gaps, the developments on hereof were reported and the up to dateness of the system was protected.

As a result of the ongoing studies for providing the opportunity of remote access to Agency resources for the Agency personnel, the remote e-mail access was brought to the targeted standards by the end of 2003.

On the other hand, as a result of the research conducted with the aim of the availability of improving network technologies for the increasing of elasticity and efficiency within the scope of the Agency's activities, a new and efficient wireless network application was developed by end-2003. It is planned to launch some of the wireless network applications for the covering the needs in variable utilization areas more fast and with a lower cost within 2004.

Besides, within 2003, the development and specialization of user support services, which constitutes an important part of the system activity, was observed as an important necessity and a considerable improvement was made on the issue.

#### Internet Services

The BRSA internet services became more rich by the addition of Weekly Bulletin and Library Scanning Service in 2003. By the increase in the number of documents added related to the development of the contents, the documents added within 2003 increased to a total of 620, 360 of which in Turkish and the remaining 260 in English.

Within the first half of 2003, the number of visitors of the internet site which was approximately 30.000, increased by four fold as of July 2003. Most viewed pages and total visits were "İmar Bank Page" (78.151), "Legislation" (46.360), "Press Releases" (37.472), "Real Estates" (36.051), "Publications and Reports" (35.631), "English" (19.067).

**Table 4.9 General Statistics of the BRSA's Website**

<b>General Statistics (January 2003-March 2004)</b>		
Visits	Visits	675.389
	Daily Average	1.514
	Rate of International Visits	30,32%
	Rate of Visits of Unknown Resources	55,47%
Visitors	Total Visitors	194.730
	Visitors that visited the site only once	107.809
	Visitors that visited the site more than once	86.921

#### **4.3.7. Legal Activities**

Legal activities consist of ensuring the representation of the Agency as regards the follow-up, defending and resolving the conflicts regarding the Agency or to which the Agency is party before judicial and administrative authorities, the follow-up and defending of the lawsuits brought by or against the Agency, the opinion giving of the Agency to other agencies and institutions on issues concerning the Banks Act and other legislation, the timely taking of legal measures defending the Agency's interests and preventing conflicts and the making of agreements and deals in concordance with these principles. Within this framework, the number of lawsuits our Agency is party as of end-2003 is shown in the table below.

**Table 4.10 Lawsuits to Which the BRSA is Party**

<b>Lawsuits</b>	<b>Number</b>
Total Pending Lawsuits	1.549
Civil Lawsuits	146
Criminal Lawsuits	108
Administrative Lawsuits	1.295
Finalized Lawsuits*	11

\* Of the lawsuits finalized, 7 are civil lawsuits, 2 criminal lawsuits and 2 administrative lawsuits.

## SECTION 5. BUDGET REALIZATION AND FINANCIAL STRUCTURE

### 5.1. Budget

Pursuant to Article 7 of the Act Nr. 4743 on the Restructuring of Debts to the Financial Sector and Amendments to Some Acts, the annual accounts and expense transactions of the Agency are audited by a commission comprised of a Prime Ministry Inspector, Prime Ministry Supreme Council Inspector and Ministry of Finance Inspector.

When, pursuant to the Banks Act Nr. 4389, the total income of the Agency from Participation Shares collected from banks and special finance houses and income from other activities and total expenses are taken into account, no income-expense difference was foreseen in 2003 budget.

**Table 5.1 2003 Income (TL Billion)**

	2003 Budget	Realization	Difference
Income from Participation Shares	30.875	29.211	-1.664
-Banks		28.809	
-Special Finance Houses		402	
2002 Turnover	81.025	84.447	3.422
-2000-2001 Income-Expense Difference	-	59.257	-
-2002 Income-Expense Difference	-	25.190	-
<b>Total</b>	<b>111.900</b>	<b>113.658</b>	<b>1.758</b>

During the preparation of 2003 budget, a participation to expenses amounting to TL 30,9 trillion from banks and special finance houses was foreseen. However, upon evaluation of the finalized balance sheets of banks and special finance houses submitted to the Agency following the preparation of the budget, the participation share income was accrued as TL 29,2 trillion for 2003. Within 2002, TL 28,8 trillion of this accrual was collected. On the other hand, the remaining TL 0,4 trillion participation share was deposited within the following period.

It was foreseen to transfer the TL 81 trillion income-expense difference of 2002 budget by the 2003 budget. However, a total of TL 84,5 trillion income-expense difference (TL 59,3 trillion of which from 2001 and TL 25,2 trillion from 2002) has occurred from 2002 to 2003. The remaining TL 3,4 trillion was engendered from the difference between the prospects and realizations of income-expense differences.

Within the income items realized as of end-2003, there also exist "interest income" and "exchange rate differences" items which were not prospected in the budget. By the 2003 budget, the investment of Agency's resources to government securities or in foreign exchange accounts or time savings deposit accounts was provisioned. Article 8 of the Budget Act for 2003 Nr. 4726 and the General Communiqué of the Public Treasury foresees the budget and all resources of public agencies and institutions established by a special legislation be invested in accounts in the CBRT or T.C. Ziraat Bankası A.Ş..

As a result of the investment of the Agency's funds in accordance with the Board Resolution Nr. 979 dated January 31, 2003 made based upon the above-mentioned provisions and determinations related to the Public Treasury, a total of TL 27,5 trillion interest income and TL 829 billion income from the foreign exchange rate difference was engendered.

The share of participation shares income in the Agency's income was realized as 51% in 2003, of which, 50% is from banks and 1% from special finance houses. An important part (48%) of the Agency's 2003 income was the interest income from TL-denominated time deposits. FX-denominated deposit accounts transferred to 2003 from 2002 were converted to TL and deposited to TL-denominated time deposit accounts pursuant to the provisions of Public Treasury. From the 2003 income, TL 829 billion (1%) was composed of income from foreign exchange rate differences. Although foreign exchange rate differences do not have



income nature, were considered as Agency income as a result of the budget and accounting systems applied. The expenditure and expense amounts for 2003 (Budget Final Account) is as follows.

**Table 5.2. BRSA's Year 2003 Budget Final Account (TL Billion)**

BUDGET	2003 Initial Expenditure	Exp. Transfer	Budget Expend.	2003 Expenses	Rate		Remaining
					A	B	
<b>Personel Expenditure</b>	<b>19.000</b>	<b>-3.400</b>	<b>15.600</b>	<b>13.083</b>	<b>% 13,5</b>	<b>% 48,3</b>	<b>2.517</b>
Wages	16.000	-3.400	12.600	11.116	% 11,4	% 41,1	1.484
Wages (Abroad)	800	0	800	738	% 0,8	% 2,7	62
Premiums	1.700	0	1.700	1.025	% 1,1	% 3,8	675
Social Aid	0	0	0	0			
Other Personel Expenditure	500	0	500	204	% 0,2	% 0,8	296
Social Sec. Premium Expenses	650	0	650	501	% 0,5	% 1,8	149
<b>PURCHASE OF GOODS &amp; SERVICES</b>	<b>18.240</b>	<b>250</b>	<b>18.490</b>	<b>11.580</b>	<b>% 11,9</b>	<b>% 42,8</b>	<b>6.910</b>
<b>Purchase of Consumption Goods and Materials</b>	<b>1.780</b>	<b>0</b>	<b>1.780</b>	<b>821</b>	<b>% 0,8</b>	<b>% 3,0</b>	<b>959</b>
Purchase of Stationery and Materials	600	0	600	57	% 0,1	% 0,2	543
Purchase of Energy and Water Exp.	980	0	980	644	% 0,7	% 2,4	336
Fuel and Oil Expenses	110	0	110	69	% 0,1	% 0,2	41
Other Consumption Goods and Mat. Purchases	90	0	90	51	% 0,1	% 0,2	39
<b>Travelling Allowances</b>	<b>1.570</b>	<b>200</b>	<b>1.770</b>	<b>364</b>	<b>% 0,4</b>	<b>% 1,3</b>	<b>1.406</b>
Domestic	300	200	500	145	% 0,2	% 0,5	355
Abroad	970	0	970	85	% 0,1	% 0,3	885
Legal Expenses	100	0	100	0			100
Fees and Duties Payable	200	0	200	134	% 0,1	% 0,5	66
<b>Purchase of Services</b>	<b>12.115</b>	<b>50</b>	<b>12.165</b>	<b>9.103</b>	<b>% 9,4</b>	<b>% 33,6</b>	<b>3.062</b>
Adm. and Oper. Expenses	2.350	0	2.350	2.227	% 2,3	% 8,2	123
Payments to Advisory Firms&Nat.Persons	920	0	920	91	% 0,1	% 0,4	829
Accomodation Expenses	960	0	960	386	% 0,4	% 1,4	574
Accession Expenses	700	0	700	307	% 0,3	% 1,1	393
Communication Expenses	980	0	980	882	% 0,9	% 3,2	98
Carriage Expenses	5	50	55	8	% 0,0	% 0,1	47
Payments subject to timetable	100	0	100	44	% 0,0	% 0,2	56
Rents	6.000	0	6.000	5.156	% 5,3	% 19,0	844
Other Service Purchase Expenses	100	0	100	2	% 0,0	% 0,0	98
Treatment Expenses	1.200	0	1.200	399	% 0,4	% 1,5	801
Repres. And Present. Expenses	200	0	200	28	% 0,0	% 0,1	172
Durable Mat. Fac. And Repair Exp.	400	0	400	73	% 0,1	% 0,3	327
Immovable Fac. And Repair Exp.	75	0	75	20	% 0,0	% 0,1	55
Training Expenses	900	0	900	772	% 0,8	% 2,8	128
<b>CURRENT TRANSFERS</b>	<b>20.060</b>	<b>52.150</b>	<b>72.210</b>	<b>71.430</b>	<b>% 73,6</b>	<b>% 5,3</b>	<b>780</b>
Add. Res. Payable to Ret. Fund	700	0	700	672	% 0,7	% 2,5	28
Ret. Bonus, Prem. and Similar	200	0	200	50	% 0,1	% 0,2	150
Agency Contr. To Food Exp.	800	0	800	463	% 0,5	% 1,7	337
Civil Protection Exp. Part. Share	110	150	260	245	% 0,3	% 0,9	15
Social Transfers	250	0	250	0			250
SDIF Adm. Expenses	18.000	-18.000	0	0			0
Trans. to General Budget	0	70.000	70.000	70.000	% 72,1		0
<b>CAPITAL EXPENSES</b>	<b>49.950</b>	<b>-47.000</b>	<b>2.950</b>	<b>477</b>	<b>% 0,5</b>	<b>% 1,8</b>	<b>2.473</b>
Purchase of Office Furnish	600	0	600	2	% 0,0	% 0,1	598
Purchase of Office Equipment	800	0	800	21	% 0,0	% 0,1	779
Purchase of Vehicles	50	0	50	0			50
Purchase of Publicaitons	500	0	500	69	% 0,1	% 0,2	431
Non-Fin. Right Purchases	3.000	-2.000	1.000	385	% 0,4	% 1,4	615
Real Estate Purchases	45.000	-45.000	0	0			0
Construction and Repair Exp.	0	0	0	0			0
Unforeseen Expenses	4.000	-2.000	2.000	0			2.000
	<b>111.900</b>	<b>0</b>	<b>111.900</b>	<b>97.072</b>	<b>% 100,0</b>	<b>% 100,0</b>	<b>14.828</b>

PS: (A) : Rate of each expense item to total expenses (Expense Item/ 97.072)

(B) : Rate of each expense item to total expenses excluded from the transfer made to General Budget (Expense Item/ 27.072)

When initial expenditure of 2003 budget, expenditure transfers, total expense amounts and remainders are analyzed on main expense items basis, it is observed that for 2003, a total of TL 111,9 trillion expenditure was created, that various transfers were made upon the Chairman's consent, that a total amount of TL 97 trillion expense was made from budget expenditures in 2003 and that 86,7% of the budget expenditures were utilized as of end-2003.

From a total of TL 97 trillion of expenses, TL 70 trillion of this amount was transferred to the General Budget and TL 13 trillion was realized as personel expenses. Within this framework, the share of personel expenses in 2003 expenses is 48,3%. On the other hand, 42,7% of Agency's expenses were realized for purchase of goods and services. Purchase of services compose a considerable amount of the expenses made under this item. The most important part of purchase of services consists of the rent paid for the Agency's service buildings in Ankara and İstanbul. Current transfers, mostly composed of additional provisions paid to the Retirement Fund and Civil Defense Fund, constitute 5,3% of 2003 expenses. Agency capital expenses compose 1,8% of the total expenses. The premiums paid for the Agency personel to the social security institutions compose 1,8% of the Agency's expenses.

When the 2003 expenses in general are examined by the expenditure types and economic sort, the low share of items such as purchase of consumption goods and material, purchase of inventory, purchase of machinery and vehicles and travelling allowances is a sign of the Agency's conservative economic policy.

## 5.2. Balance Sheet

Of a total of TL 108.270 billion recognized under current assets, TL 108,243 billion is the amount deposited in the bank and the remaining TL 27 billion is the amount kept in cash. The TL 2.209 billion commercial receivables stand for the receivables from participation shares. As all the fixed assets purchased within the year are amortized through recognizing expense, the total of tangible fixed assets and intangible fixed assets amount zero.

Of the TL 605 billion short-term liability of the Agency, TL 346 billion is the tax amount to be declared and paid until January 20, 2004 through withholding tax return for December 2003, TL 19 billion is various payments made to the personel and TL 240 billion is the amount to be paid to other persons and entites.

The Agency's 2003 comparative condensed balance sheet is as follows.

**Table 5.3. BRSA 2003 Comparative Condensed Balance Sheet (TL Million)**

<b>ASSETS</b>	<b>31.12.2002</b>	<b>31.12.2003</b>	<b>LIABILITIES</b>	<b>31.12.2002</b>	<b>31.12.2003</b>
Current Assets	113.923.441	108.270.176	Financial Liabilities	454	423
Commercial Receivables	5.235.010	2.208.636	Commercial Liabilities	187.373	239.617
Other Receivables	20.738	19.419	Other Liabilities	9.480	19.191
Other Assets	17.298	690	Tax and Other Liab. Payable	496.415	346.101
<b>Total Assets</b>	<b>119.196.487</b>	<b>110.498.921</b>	Tot. S-T Foreign Resources	693.722	605.332
Tangible Fixed Assets	0	0	Int. Inc. and Exp. Accured	34.055.527	64.954.917
Tangible Fixed Assets (Gross)	4.549.852	4.570.669	Tot. L-T Foreign Resources	34.055.527	64.954.917
Accumulated Amortization	-4.549.852	-4.570.669	Previous Years' Income	59.257.687	84.423.730
Intangible Fixed Assets	0	0	Net Income (Loss)	25.189.551	-39.485.058.
Rights	136.253	136.253	Total Own Funds	84.447.238	44.938.672
Accumulated Amortization (-)	-136.253	-136.253			
Total Fixed Assets	0	0			
<b>TOTAL ASSETS</b>	<b>119.196.487</b>	<b>110.498.921</b>	<b>TOTAL LIABILITIES</b>	<b>119.196.487</b>	<b>110.498.921</b>

### 5.3. Income Statement

The TL 70 trillion other extraordinary expenses and losses in the Income Statement stands for the transfer made to the account of the Central Accounting Management of the Ministry of Finance as contribution to General Budget Income pursuant to the Article 15 of the Act Nr. 4481, amended by laws Nr. 4605 and 4783.

The comparative income statement of the Agency as of 2003 is as shown below.

**Table 5.4. BRSA's Year 2003 Income Statement (TL Million)**

EXPLANATION	Previous Period December 31, 2002	Current Period December 31, 2003
<b>PARTICIPATION SHARE INCOME</b>	<b>25.767.059</b>	<b>29.210.580</b>
- Banks	25.394.050	28.808.739
- SFH	373.009	401.841
<b>REDUCTIONS FROM SALE ( - )</b>	<b>0</b>	<b>0</b>
<b>NET INCOME</b>	<b>25.767.059</b>	<b>29.210.580</b>
<b>COST OF SALES ( - )</b>	<b>0</b>	<b>0</b>
<b>OPERATING EXPENSES ( - )</b>	<b>23.793.381</b>	<b>27.060.623</b>
- Research and Development Expenses (-)	525.818	841.659
- General Administrative Expenses(-)	23.267.563	26.218.964
<b>OPERATING INCOME OR LOSS</b>	<b>1.973.678</b>	<b>2.149.957</b>
<b>ORDINARY INCOME FROM OTHER OPERATIONS</b>	<b>23.248.426</b>	<b>28.370.345</b>
- Interest Income	2.756.195	27.541.619
- Foreign Exchange Rate Income	20.491.974	828.726
- Other Ordinary Income and Profits	257	
<b>ORDINARY EXPENSES FROM OTHER OPERATIONS ( - )</b>	<b>32.648</b>	<b>70.011.119</b>
- Bank Commission and Transfer Expenses (-)	32.648	11.119
- Other Ordinary Expenses and Losses (-)		70.000.000
<b>FINANCING EXPENSES ( - )</b>		
<b>EXTRAORDINARY INCOME</b>	<b>94</b>	<b>5.759</b>
- Other Extraordinary Income	94	5.759
<b>EXTRAORDINARY EXPENSES AND LOSSES( - )</b>		
<b>PERIOD RESULT</b>	<b>25.189.551</b>	<b>-39.485.058</b>