FINANCIAL SECTOR

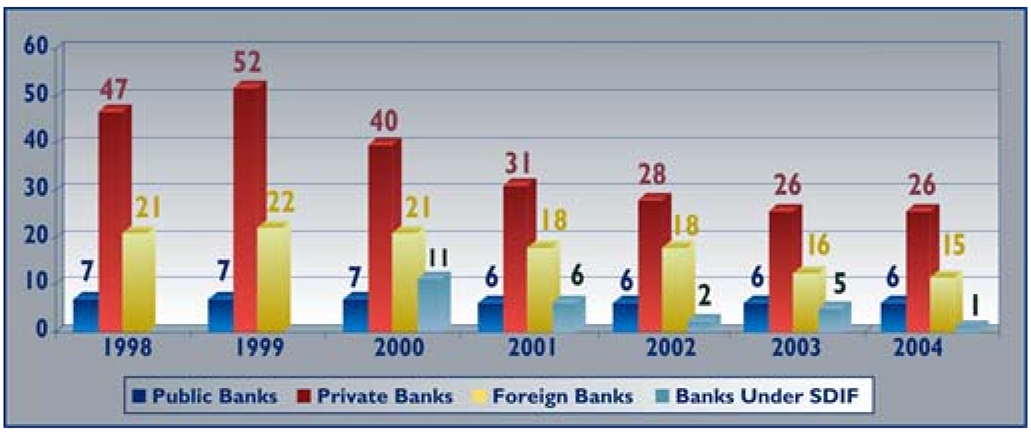
BANKING SECTOR

In compatible with the "Program for the Transition to a Strong Economy" launched by the government, the major reforms were carried out in the finance sector between the years of 1999 and 2002. In this context, banking legislation was adjusted to international regulations, BIS recommendations and European Union banking directives.

With the amendments, the Saving Deposits Insurance Fund (SDIF) was given authority and responsibility to restructure a bank in deficiency, to facilitate its sale in full or in part or to liquidate the remainder based on existing laws. By doing so, it was desired to restore the proper link between the estranged banking sector and the overall economic system through rapid and wide range restructuring efforts as well as attaching special importance to rehabilitating public sector banks and failed banks under the auspices of the SDIF.

In the light of these structural reforms, the administration of 5 privately owned banks was taken over by the SDIF and the license of a development and investment bank was revoked. With the addition of 8 banks transferred to the Fund, the number increased 13 by the end of April 2000. There has been a significant decrease in the number of banks due to the mergers of both some public and SDIF banks, mergers among private banks and revoking of banking licenses of some banks.

Number of Banks



Source: Association of Turkish Banks

"The Banking Sector Restructuring Program" was initiated in May 2001 with the aim of modifying the banking sector into a sound and competitive structure in consistent with the sustainable growth. The main components of the program can be summarized as follows:

- Financial and operational restructuring of the state banks to towards the goal of privatization,
- Amelioration of the SDIF banks by using the methods of merger, sale or liquidation,
- Strengthening the financial structure of the private banks,
- Ensuring efficient supervision, auditing and competition conditions by completing legal and institutional framework

Also, a new Banking Draft Law has been submitted to the Parliament in April 2005. It has been has been prepared in line with the EU Directives, international principles and standards as well as the BASEL (Banking Supervision and Auditing Committee) principles in order to regulate the sector. The new law includes important changes to bring trust to financial markets ensuring security and stability in financial markets and the efficient operation of the credit system as well as protecting the rights and interests of depositors.

Share of Different Groups of Banks in the Sector

	Number of Banks	Share in Total Assets (%)		Share in Total Loans (%)		Share in Total Deposits (%)	
		2003	2004	2003	2004	2003	2004
Commercial Banks	35	96	96	100	100	89	91
Public Banks	3	32	33	34	38	17	18
Private Banks	18	56	57	58	57	65	67
Banks Under SDIF	1	4	3	5	3	3	1
Foreign Banks	13	3	3	2	2	4	4
Development & Investment Banks	13	4	4	-	-	11	9

Source: Association of Turkish Banks

The total assets were realized as USD 117.7 billion in 2001, the loss of 8.2 billion USD was recorded in banking sector at the same year. By the end of 2002, the total asset size of the banking system increased up to 130.1 billion USD and as of 2004 total assets increased to 230 billion USD. Following the implementation of the restructuring program, the stabilizing consolidations enhanced, while the number of the banks fell from 61 in 2001 to 54 in 2002 and to 48 by the end of 2004.

Concentration in the Banking Sector

	Share in Total Assets (%)			Share in Total Loans (%)			Share in Total Deposits (%)		
	2002	2003	2004**	2002	2003	2004**	2002	2003	2004**
Five Largest Banks*	58	60	60	55	54	53	61	62	62
Ten Largest Banks*	81	82	82	74	75	76	86	86	86

Source: Association of Turkish Banks *(*): Ranked by assets, (**) As of September 2004*

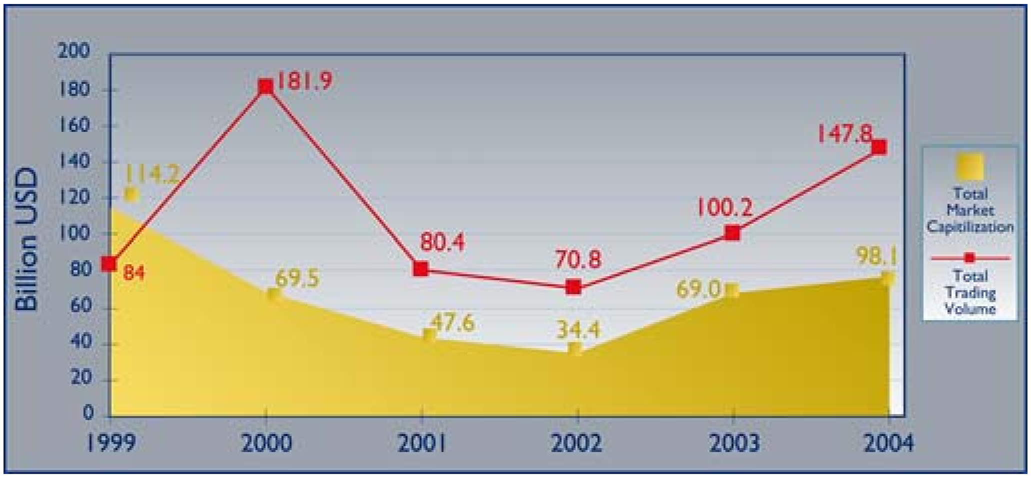
STOCK EXCHANGE MARKET

Inaugurated at the beginning of 1986, the Istanbul Stock Exchange (ISE) is the sole securities market of Turkey established to provide trading in equities, right coupons, Government bonds, Treasury bills, revenue sharing certificates, bonds issued by the Privatization Administration and corporate bonds and to carry out overnight transactions. The ISE is a semi-autonomous professional public organization whose members are investment banks, commercial banks and brokerage houses. The ISE members engage in activities such as underwriting new issues, trading for their clients and their own accounts in the secondary market, managing customers' portfolios, providing investment consultancy services and dealing in overnight operations, securities lending and margin trading.

As of end of 2004, 111 brokerage houses and 43 banks are members of the ISE and there are 275 listed companies. Stocks of 274 companies are traded in the National Market and besides the National Market, Second National Market, New Economy Market and Watch List Companies Market are available for the trading of companies which do not fulfill the listing requirements and lack the necessary qualifications for trading on the National Market.

Based on the closing values on the last trading day of 2000, the total market value of the companies traded on the ISE stood at 69.5 billion USD, which was registered as 114.2 billion USD at the end of 1999. In 2001, as a result of the recession, the annual total market value of stocks decreased to 47.6 billion USD in 2001 and 34.4 billion USD in 2002. As of end of 2004, total traded volume stood at 148 billion USD and total market capitalization reached 98 billion USD.

ISE Total Market Capitalization and Trade Volume (1999-2004)



Source: ISE

The Bonds and Bills Market was organized as a computerized order matching, reporting system to operate for both the outright purchases and sales, overnight rate/reverse overnight transactions, and trading of real estate certificates. The members communicate their orders via terminals in their own offices who act as "blind brokers". After an order is integrated into the computer system, it is processed according to price and time priorities. The market operates on a multiple price-continuous trading system and only the best price orders are automatically matched.

Istanbul Stock Exchange International Market (ISEIM), where foreign debt securities and debt securities of the Republic of Turkey and its local administrations issued for trading abroad began to be traded, was established on February 25, 1997. Stocks of foreign companies and foreign mutual funds are traded as depository receipts. All proceeds (including but not limited to dividends, capital gains and interests) that foreign individual and institutional investors will earn on the market operating in a free zone are exempt from tax. The International Market was established in a free trade zone in order to provide a fair and organized market for the trading of the depositary receipts of foreign equities, Eurobonds and other foreign bonds as well as repurchase agreement. All trading and settlement operations and payments on the Market are carried out in USD (or in other convertible currencies approved by the ISE Executive Council). For debt securities, transactions on the market are conducted in a multiple price-continuous auction system. For equities and mutual fund units/shares traded as depository receipts, transaction in the market shall be conducted in a multiple price-continuous auction quote and order driven system with the support of a market maker for each depository receipt.

The ISE Settlement and Custody Bank (TAKASBANK) is an investment bank owned by the ISE and its members. The bank handles the settlement of equities, bonds and overnight transactions carried out in the ISE as well as other related services such as exercising of pre-emptive rights, dividend collection, coupon cutting etc. The settlement period for stock transactions is two business days following the trade date. TAKASBANK has been recognized as the sole and exclusive central depository in Turkey by the Capital Markets Board and as an "eligible foreign custodian" by the US Securities and Exchange Commission (SEC).

INTERNATIONAL RELATIONS OF ISE

In 1993, the ISE was recognised as a "Designated Offshore Securities Market" by the U.S. Securities and Exchange Commission (SEC) and as an "appropriate foreign investment market for the private and institutional Japanese investors" by the Japan Securities Dealers Association (JSDA) on May 9, 1995. Recently, the Austrian Ministry of Finance approved Istanbul Stock Exchange as a regulated market in order to enable Austrian funds to invest into the ISE. There are no restrictions on foreign portfolio investors trading in the Turkish securities market. Hence, the Turkish stock and bond markets are open to foreign investors, without any restrictions on the repatriation of capital and profits.

The ISE is a founding member of the "Federation of Euro-Asian Stock Exchanges" (FEAS), established in Istanbul, on May 16, 1995. The ISE is also a full member of the "World Federation of Exchanges" (WFE), the "Federation of Euro-Asian Stock Exchanges" (FEAS), the "International Securities Services Association" (ISSA), the "International Securities Market Association" (ISMA), the "European Capital Market Institute" (ECMI) and the World Economic Forum (WEF), "Swiss Futures and Options Association" (SFOA) and an affiliate members of "International Organization of Securities Commission" (IOSCO). The ISE was re-elected as the President of FEAS for another two-year term ending in May 2005.

ISE has signed protocols/memorandums of understanding (MoU) with the Stock Exchanges of various countries which are Azerbaijan, Kazakhstan, Kyrgyzstan, the United Kingdom, Turkish Republic of Northern Cyprus and Uzbekistan. Within the framework of "Trilateral Capital Markets" the stock exchanges of Greece, Israel and Turkey, settlement and custody institutions together with brokerage houses convened in Athens in February 2003 and reached an agreement to establish a technical linkages to ensure easier, faster and more secure execution of transactions.