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# COMPARATIVE OUTLOOK ON THE PRE AND POST CRISIS PERIODS FOR THE BANKING SECTOR OF TURKISH REPUBLIC OF NORTHERN CYPRUS (TRNC)

# KRİZ ÖNCESİ VE SONRASI KUZEY KIBRIS TÜRK CUMHURİYETİ (KKTC) BANKACILIK SEKTÖRÜNE KARŞILAŞTIRMALI BİR BAKIŞ

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## ABSTRACT

This paper offers a comparative outlook of trends in banking sector development in the Northern Cyprus. Firstly, structural and financial picture of pre crisis period for TRNC will be emphasized. As a result of analysis it can be argued that noteworthy reforms have been made to survive crisis and reduce banking fragility. However, further steps should be taken for the medium and long-terrm competiveness of the sector. With emphasis on the period 2002-2006, using the financial figures and performance ratios of the largest ten banks the findings suggest that the lowering of inflation, in the aftermath of the banking crisis period, increased banks profitability together and the banking sector improvement to allocate resources more effectively and efficiently in the TRNC.

**Key Words:** Banking Crisis, Inflation, Banking Sector, TRNC

## ÖZET

Bu çalışma KKTC bankacılık sektöründeki gelişmelere karşılaştırmalı bir bakış açısı getirmektedir. Öncelikle, kriz öncesi sektördeki yapısal ve finansal yapıya vurgu yapılacaktır. Yapılan analiz sonucu, krizlere karşı dayanmak ve sektördeki kırılganlığı düşürmek için kaydadeğer reformlar yapılmıştır argümanı getirilebilir. Ancak, sektörün orta ve uzun vadeli rekabet edebilirliği açısından önemli adımların atılması gerekmektedir. Kriz sonrası 2002-2006

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dönemini kapsayacak şekilde KKTC'deki en büyük 10 bankanın finansal yapı ve performans oranları dikkate alındığında düşen enflasyon ortamında bankaların kârlılıklarının arttığı ve kaynaklarını daha verimli ve etkin kullandıkları ortaya çıkmaktadır.

**Anahtar Kelimeler:** Bankacılık Krizi, Enflasyon, Bankacılık Sektörü, KKTC

## 1. INTRODUCTION

We need to refer to following expression (Friedman and Schwartz, 1963: 419) in order to introduce basics of the banking crisis in TRNC:

*"It happens that a liquidity crisis in a unit fractional reserve banking system is precisely the kind of event that trigger- and often has triggered- a chain reaction. And economic collapse often has the character of a cumulative process. Let it go beyond a certain point, and it will tend for a time to gain strength from its own development as its effects spread and return to intensify the process of collapse".*

Banks in the TRNC were operated in small markets with limited funds, and they faces tougher competition from the Turkish bank branches. In order to grab a bigger slice of the available pie, banks overextended themselves and exposed their portfolios to great risks, with little left to fall back upon in the event of the banking crisis.[1] The Northern Cyprus economy had history of the banking crisis together with a boom-bust cycles. The exchange rate crises in Turkey led to the contraction of economy and hence have had a negative impact on the Northern Cyprus Banking Sector development. The crises drained away much needed capital from the economy, causing further hardships and depressed markets in the TRNC economy. According to NBER (2001) Turkey's adoption of an unusual sort of *"crawling peg exchange rate regime",* as part of an IMF inflation stabilization program, contributed to the crisis of November 2000 and the crisis of February 2001 to occur.[2] Early signs of crisis could be seen by analyzing the deterioration of the Turkish current account balance in the year prior to the

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[1] The fact that during the crisis, while profits may rise dramatically over the short-run, liabilities also increase disproportionately to the available reserves. Thus, if borrowers defult on large loan portfolios then the bank is left in a disastrous liquidity position, causing a chain reaction of panic among depositors and shareholders, and leading to catastrophic effects on banks and also money markets.

[2] The paradox is that the financial crisis in Turkey was misdiagnosed in November 2000, making it almost inevitable that a second crisis would occur in February 2001. Uncertainties about Turkish Politics leads to big changes in interest rates when the economies do not change at all. The Turkish government faced the dilemma that banks could be driven to bankruptcy as a result of defending the exchange rate with a tight monetary policy. In a bad political environment with the inflationary cycle and so controversial "crawling peg" exchange rate regime, the crisis worsened, leading to the erosion of the capital base of many banks, the financial fragilities, and finally a low level of economic growth and development in the Turkey (NBER, 2001).

Turkish lira crisis – or kriz- of February 2001. Sizeable increase in the current account deficit had been largely financed by "net other investment" rather than net direct investment and net portfolio investment required for the confidence in Turkish economy's outlook by foreign investors. The concept of "uncovered interest arbitrage" can explain the dynamics of Turkey's kriz. Such that expecting that fixed rate would persist forever commercial banks were motivated to borrow at low dollar rates and reinvest in much higher government bond rates so as to get significant profits. However, devaluation of the lira at a rate significantly less than what the differentials called for led to inevitable Turkish lira crisis February 22, 2001 ( Moffett *et al.,*2006: 81-83,139-142).

The effects of banking crisis in the TRNC have been disastrous for already fragile economy. In 2002, there were 23 licensed banks in the Turkish Republic of Northern Cyprus, down from a high of 39 reached in 2000, in the years 2000 and 2001, many banks failed or were merged with other banks (Table 1). According to Şafaklı (2003a), the banking crisis in the TRNC has resulted in liquidation of ten banks and ended up with economic losses of approximately 200 trillion TL that almost equivalent of 50 % of GNP for 1999 (or 250 million USD which is a third of year 2000 GDP).[3]

**Table 1: Trends in number of Banks in the TRNC (1989-2001)**

| Dates | Number of Banks |
|---|---|
| December 1989 | 13 |
| October 1990 | 13 |
| February 1992 | 14 |
| May 1992 | 14 |
| May 1993 | 20 |
| July 1996 | 25 |
| May 1997 | 27 |
| July1998 | 34 |
| July 1999 | 37 |
| October 2000 | 39 |
| October 2001 | 37 |

Source: (Safakli, 2002)

Dinamics of banking crisis changed the nature of financial intermadiation in TRNC. The sudden drop of deposits is observed , which is drastic from a 131% increase in total deposits

[3] These costs seem to capture only the transfer of gross liabilities to the state budget, and do not include recovery rates and indirect welfare or social costs. In economics, social costs means the total costs of activity, including private costs that borne by the main party and the external costs borne by others. Thus, the collapse of a financial system involves a private cost for investors, depositors, and employees of the firm. The collapse of banking system however creates social costs because the economy no longer has a method of intermediation and money transmission, (for detailed discussion, see Heffernan, 1996: 218-219).

seen in 1999 to only a 9% increase recorded in 2000. The underlying factor here was of course the collapse of commercial banks in 2000, which caused investors to lose confidence and transfer funds out of the TRNC financial system to alternatives considered safe (Şafaklı, 2003b). From the Figure 1 below data shows the confidence of investors that direct or swing their deposits from Government banks and Private commercial banks to Foreign banks with head offices in Turkey such as Türkiye İş Bankası AŞ and TC Ziraat Bankası. The Figure 2 also confirms the overall swing from 1996 pre bank crisis to June 2001 the current situation and is quite dramatic clearly illustrating that the priority for investors is safety of funds, irrelevant of whether the type of bank is foreign or a local commercial. From Figures 1 & 2 it can clearly be noted that the banking crisis has depleted the investor's confidence in Turkish Cypriot, privately owned banks in favour of those with their head offices located in Turkey.

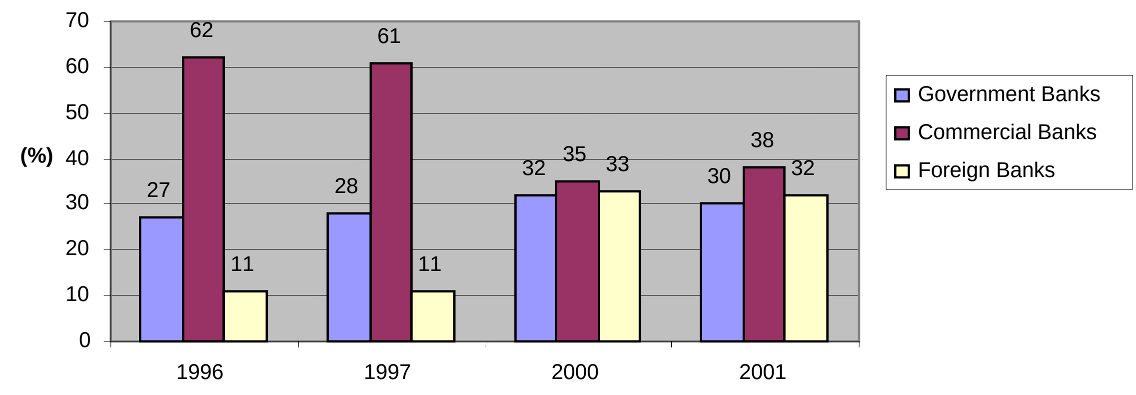


**Figure 1: Distribution of Investor Deposits in TRNC**

Source: TRNC Central Bank

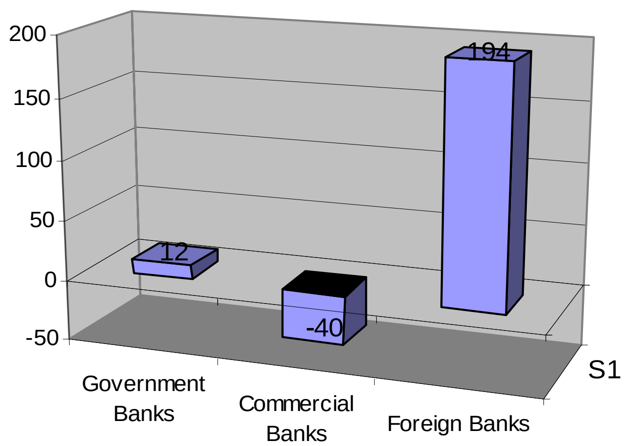


**Figure 2: % Swing in Type of Bank Preference by Investors 1996 to 2001**

Source: TRNC Central Bank

The distribution of funds provided by banks as credit in the TRNC can be seen in Figure 3. It is interesting to note that while Government and Commercial banks have seen very little increase or a decrease in deposits, it is these banks that have provided the majority of credit. On the other hand foreign banks have enjoyed a 194% increase in deposits but have not channeled these funds back into the TRNC economy.

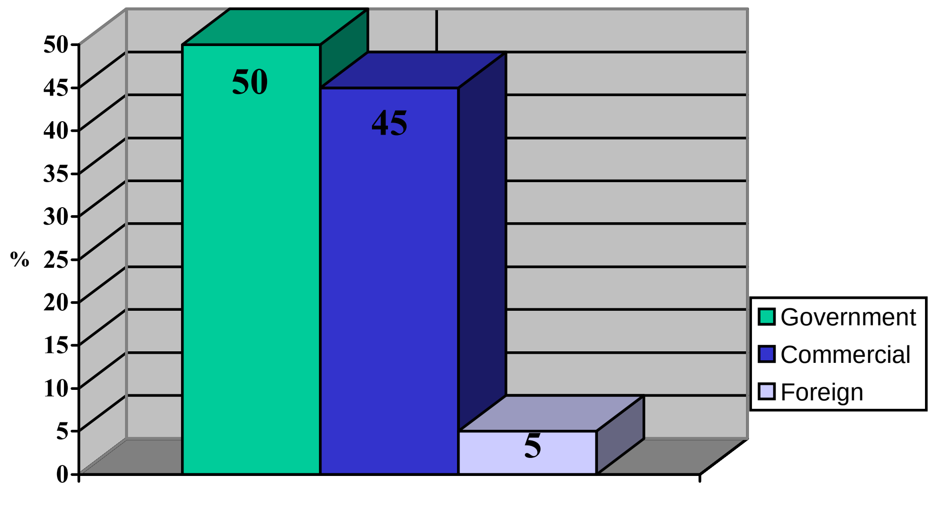


**Figure 3: Distribution of Credit provided by TRNC Banks June 2001**

Source: TRNC Central Bank data DD 30.6.2001

The prospects for the banking sector development was not very optimistic before the crisis period. Numerous factors, both external and internal factors, negatively affected the banking sector and hence lead to bank failures. The reasons for the banking failure of so many banks will not be discussed in this paper, but the major causes were connected lending, inadequate capital, and in some cases fraud by bank owners and employees. Fraud by bank owners and/or employees means the operational risk. The operational risk involves breakdowns in internal controls and corporate governance. Such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner or cause the interests of the bank to be compromised in some other way, for example, by its dealers, lending officers or other staff exceeding their authority or conducting business in an unethical or risky manner (Şafaklı, 2005; Bektaş, 2002).[4] One of the important dimensions of TRNC banking crisis was the increase in credit risk (Şafaklı, 2007). An important indicator of credit risk clarifying the capacity of bank capital to absorb the loan losses is the ratio of "total loans/total equity". From 1993 up to the beginning of banking crisis this ratio increased showing the deterioration of the said capacity. After 1999 necessary measures taken led to the decrease of this ratio. This clearly shows the role of credit risk in the banking crisis (Figure 4). The ratio "equity/total assets" just like the "total loans/total equity" ratio shows the capacity of bank capital to absorb the loan losses. As shown in Figure 5, same pattern seen Figure 4 is also observed. The ratio declined until the beginning of banking crisis and roughly started to increase after 1999. That is to say, the said capacity continuously deteriorated by the time that crisis started. This expressly reveals that weakening capacity to absorb loan losses contributed to the banking crisis.

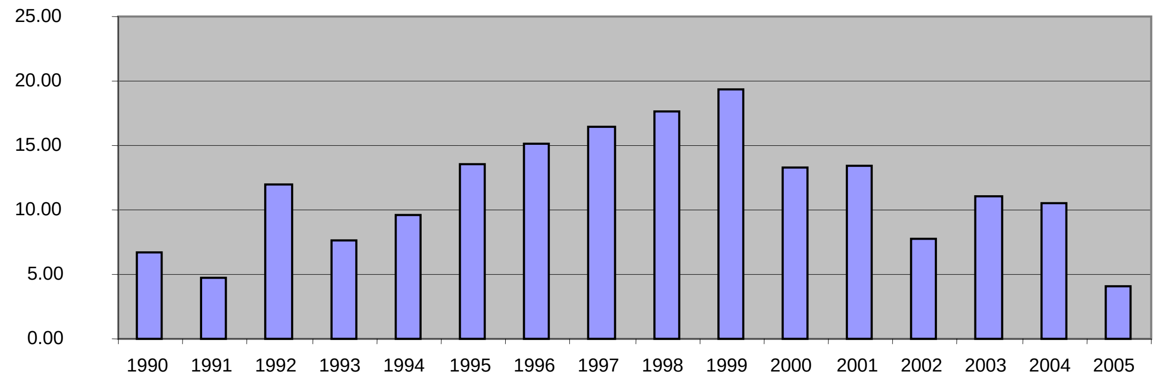


**Figure 4: The Ratio of Total Loans/Total Equity (1990-2005)**

Source: TRNC Central Bank

[4] See also Gunsel (2007), for more information about micro and macro determinants of bank failures in Northern Cyprus.

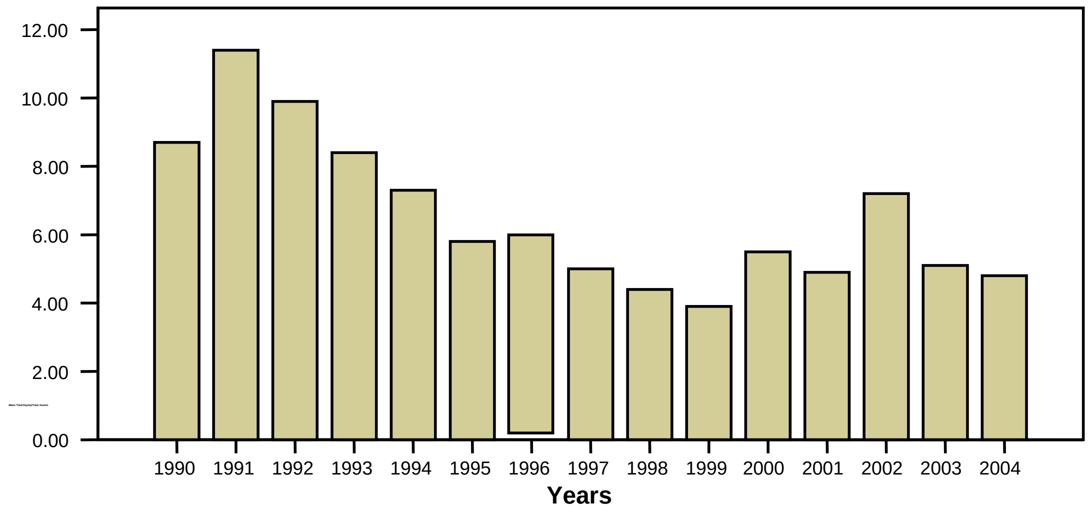


Figure 5: The Ratio of Total Equity to Total Assets in Northern Cyprus

Source: TRNC Central Bank

The weakness of the banking supervision of the TRNC Central Bank, which is the authority that licences banks and is also responsible for their supervision, was another element that led to the banking crisis in 2000. This is in line with Javed's (1998) analysis that the most important contribitory factor of banking failures in the developing countries was the weakness of the banking supervision by the Central Banks in which tried to restore public confidence by initiating half-hearted bailout actions. In many developing countries probably most important factor that contributed to the bank failures is ineffective supervision by the Central Banks, Regulatory Agencies, and the Ministry of Finance. Although the laws provide a mechanism for these agencies to closely scrutinize banking operations, they seldom do so with the required seriousness. Thus, Central Banks and finance ministers usually close their eyes to shady bank practices because of political and in some cases social considerations (Javed, 1998: 1-4).

This paper offers a comparative outlook of pre and post crisis trends in banking sector development in the Northern Cyprus. With emphasis on the period 2002-2006, using the financial figures and performance ratios of the largest ten banks were chosen for detailed analysis, according to asset size, as at the end of 2006, together with Akdeniz Garanti Bank which was merged with Kıbrıs Vakıflar Bank in 2005. These banks together make up 88-91% of the total banking sector according to asset size over the period 2002-2006.[5]

[5] See Annex 1.

## 2. BANKING PERFORMANCE OF PRE-CRISIS PERIOD

Banking failures that resulted from political factors distrupted the overall economic management of the TRNC. Before the banking crisis, banks were forced to operate in a highly political environment. Political influence was used to get loans and financing for business and hence other industrial projects that would not be approved on their own merits. This sort of political influencing in the banking sector damaged the liquidity position of the banks and generally resulted in bad debts and non-performing loans. There was a totally insufficient regulatory and supervisory system(s) in banking sector of the Northern Cyprus. Prior to 2000, the TRNC Central Bank made infrequent on-site inspections of the banks, the rise in the number of licensed banks was not matched by a rise in personnel working in the banking supervision department. As a matter of the fact, during the 1990's on-site inspections were occuring at a rate of once every three years. Risks and weaknesses adressed in the inspection reports were sent to the Ministry of Finance for further action, and unfortunately these were ignored by the politicians. Periodic inspections and audits carried from the comford of top offices without ever examining detailed records. This casual attitude on part of regulatory agencies has had a significant impact on banking failures in TRNC. The insufficiency of the regulation and hence supervision led to very low entry barriers into the banking market. This development has led to a very low licence value in banking, which substantially increased the over all risk level in the banking sector, making them a central institution of profit maximization without concern of risks for the banking sector. As shown in Table 1, the number of new bank entries into the market increased dramatically since the 1992 up to the banking crisis periods. With insufficient regulation and low degree of supervision, those bank holding companies found themselves in the middle of lots of available funds for arm's-length crediting practices and financing their own business practices without considering risks and hence market discipline. All those businesses owning banking units that taken excessive risks collapsed, with the collapse of their affiliated banks. As a result of this and other "unethical banking" practices, not only hundreds of bankers lost their jobs but also employees of those holding companies. Thus, unregulated credit and investment companies which were affiliates of those collapsing banks also collapsed. Many people who deposited their funds into those credit and investment companies lost their deposits and never been recovered since these institutions were not covered by deposit insurance schemes. With banking collapse, many depositors lost their savings and many bankers lost their jobs. Prior to the banking crisis, bank management was very complicated due to the existence of macroeconomic instability as characterized by the high volatility in the growth and real interest rates, chronic inflation, persistent fiscal imbalances and balance of payments crises that resulted in high credit and foreign exchange risks as well as very short planning horizons in Turkey as well as in the Northern Cyprus.

Under the macroeconomic instability and hence successive financial crises in Turkey during the 1990s, with the latest taking place in 2001 caused significant macroeconomic instability in TRNC. Thus, the Turkish Lira depreciated and inflation climbed to 70% in 2002. Treasury bill rates shot up to around 200% in early 2001 and real interest rates (ex post) rose to about 30%. Since then, economic conditions in Turkey have improved markedly, inflation has fallen, and growth has bounced back, though real interest rates have remained elevated at around 10%, (see detailed discussions on IMF 1998 and 2000; TBB, 2005). One of the most important characteristics of 90`s was very high interest rates on Turkish Lira which is adopted as legal tender in North Cyprus.[6] On average, it was 25 % in real terms, which had a significant impact on banking Institutions. Banking sector in the TRNC was financing Turkish Treasury and extending almost no credits in the domestic credit market. Turkish Treasury being the largest credit customer of the local banks crowded out the local credit customers in the TRNC. The Turkish Lira is the legal currency in the TRNC and consumer price inflation in Northern Cyprus generally follows that of Turkey. For the past thirty years Turkey has experienced persistent high level of inflation, CPI was in three digits in the years 1980 and 1994, and for much of the time above the 45% average for the year 2002.

## 3. BANKING PERFORMANCE OF POST- CRISIS PERIOD

Rather then acting in an ad hoc manner whenever a crisis has surface in the banking sector, the Central Bank together with the political authorities have shown a variety of actions to correct the structural weaknesses in the aftermath of the banking crisis (1999-2002) keeping in mind that both bank based and market based systems are susceptible to crises.[7] In order to

[6] In fact, TRNC is already a dollorised economy as it uses the Turkish Lira as a legal tender. The growing empirical research on dollarisition is in non-conclusive, as to whether dollorised economies grow fasted than non-dollarised economies.

[7] Allan (2004) concludes that both bank based and market based systems are susceptible to crises. Bank-based systems clearly face the possibility of banking crises. However market-based systems are also susceptible to crisis as well. Thus, contagion and financial fragility can also occur in bank-based and market-based systems. In terms of stability, neither system has a particular advantage.

correct structural weaknesses, legislation was enacted in 2001 to make the TRNC Central Bank independent from political authority, at the same time a new Banking Law was passed. Also a new Governor was appointed to the TRNC Central Bank.[8] This change has made the transformation from political influence to full independence easier, since the previous Governor was more used to the old school of thought, which sanctioned political control over monetary policy. After the passing of the new Banking Law, the TRNC Central Bank began issuing regulations to provide the framework for all aspects of banking activity. Young professionals were recruited into the Central Bank, and teams of supervisors trained in modern supervision techniques. Continuous off-site monitoring of banks' monthly balance sheets became possible through the adoption of the Uniform Plan of Accounts and Accounting Principles. On-site inspections were programmed to occur at least once a year for all banks. The banks adapted to the new regulations and began the process of improving their balance sheets; many banks were burdened with non-performing loans, and the resolution of these non-performing loans that is still continuing today.

### 3.1 Economic and Political Environment

The chronic inflation rate affected banks' asset and liability management decisions unfavourably and caused income from core banking operations to be displaced by float income and arbitrage gains. The unstable macroeconomic environment coupled with tax and regulatory distortions led to the explosive growth of the financial market (Repo Markets) in Turkey and so increased the maturity mismatch risk of the banking sector .[9] Over the period 2002-2006, with the help of the IMF, Turkey was pursuing an economic stabilisation program with two main objectives to reduce inflation and to maintain a budget surplus before interest payments over the period 2002-2006. Hence, this period marked a radical reduction in inflation with a return to single digit CPI in Turkey as well as in TRNC, as shown in Table 2. The Central Bank of the Republic of Turkey is charged with maintaining price stability as

[8] The fact is that the previous Governor (Banking crisis Governer) was an older man and so he was more used to the *"old school of thought"*, which sanctioned political control over monetary policy over a long period of time.

[9] According to Alper *et al* (2001) "the unstable macroeconomic environment in Turkey coupled with tax and regulatory distortions led to the explosive growth of the Repo Market and increased the maturity mismatch risk of the Turkish banking sector since 99% of the volume of transactions take place on Repos of a single day maturity whereas the underlying government securities have 15 months average maturity. The existence of state banks in Turkey also introduced additional distortions to the banking sector due to their loss duties, such as directed lending at subsidized rates to favoured sectors."

well as exchange rate stability. In order to dampen demand and help the disinflation program, it has been maintaining tight monetary policy with high real interest rates on the Turkish Lira.

**Table 2: Inflation (CPI) in the TRNC and in Turkey**

| TRNC | Year End (%) | Average for year (%) | Turkey | Year End (%) | Average for year (%) |
|---|---|---|---|---|---|
| **2002** | 24.5 | 43.0 | **2002** | 29.7 | 45.0 |
| **2003** | 12.6 | 21.3 | **2003** | 18.4 | 25.3 |
| **2004** | 11.6 | 9.1 | **2004** | 9.3 | 10.6 |
| **2005** | 2.7 | 6.4 | **2005** | 7.7 | 8.2 |
| **2006** | 19.2 | 12.2 | **2006** | 9.6 | 9.6 |

(Source: State Planning Organization in TRNC – State Statistical Institute in Turkey )

In the TRNC, roughly half the deposits are held in the Turkish Lira, with the other half being held in Pounds Sterling, US Dollars, Euro and a small fraction in Cyprus Pounds. The rates of interest on the Turkish Lira on deposits and loans in the TRNC follows developments in Turkey very closely, and these rates are a major determinant of the banks' net interest income, because interest margins on the Turkish Lira are much higher than for foreign currencies (see Annex 3 and Annex 7). Table 3 shows how the Central Bank of the Republic of Turkey (TCMB) adjusted the interest rate on overnight deposits and loans of the Turkish Lira with the reduction in inflation. The interest rate reached a low point of 13.25% on deposits on 28th April 2006, however this was followed by large outflows of capital from Turkey, triggering a rapid slide in the value of the Turkish Lira, which put upward pressure on inflation, hence within two months the interest rate was back up to 17.25%, a quarter point above the rate reached on the 11th of January 2005.[10]

**Table 3: The Central Bank of the Republic of Turkey Overnight Interest rates for the Turkish Lira**

| Date | Overnight deposits | Overnight loans |
|---|---|---|
| 20.02.2002 | 57.00% | 62.00% |
| 14.03.2002 | 54.00% | 61.00% |
| 08.04.2002 | 51.00% | 58.00% |
| 30.04.2002 | 48.00% | 55.00% |
| 05.08.2002 | 46.00% | 53.00% |
| 11.11.2002 | 44.00% | 51.00% |
| 25.04.2003 | 41.00% | 48.00% |
| 04.06.2003 | 38.00% | 45.00% |
| 16.07.2003 | 35.00% | 41.00% |
| 06.08.2003 | 32.00% | 38.00% |
| 18.09.2003 | 29.00% | 35.00% |
| 15.10.2003 | 26.00% | 31.00% |

[10] There are no markets or government debt markets in TRNC from which to derive risk free rates. Given the Currency Union with Turkey, Turkish Treasury bill yields provide a good approximation.

| | | |
|---|---|---|
| 05.02.2004 | 24.00% | 29.00% |
| 17.03.2004 | 22.00% | 27.00% |
| 08.09.2004 | 20.00% | 24.00% |
| 20.12.2004 | 18.00% | 22.00% |
| 11.01.2005 | 17.00% | 21.00% |
| 09.02.2005 | 16.50% | 20.50% |
| 09.03.2005 | 15.50% | 19.50% |
| 11.04.2005 | 15.00% | 19.00% |
| 10.05.2005 | 14.50% | 18.50% |
| 09.06.2005 | 14.25% | 18.25% |
| 11.10.2005 | 14.00% | 18.00% |
| 09.11.2005 | 13.75% | 17.75% |
| 09.12.2005 | 13.50% | 17.50% |
| 02.01.2006 | 13.50% | 16.50% |
| 28.04.2006 | 13.25% | 16.25% |
| 08.06.2006 | 15.00% | 18.00% |
| 26.06.2006 | 17.25% | 20.25% |
| 28.06.2006 | 17.25% | 22.25% |
| 21.07.2006 | 17.50% | 22.50% |

(Source: The Central Bank of the Republic of Turkey)

As stated earlier, the TCMB has been pursuing "tight monetary policy" in order to rein in inflation, there have been high real interest rates on the Turkish Lira, this has also had an effect on the rate of exchange for the Turkish Lira, over this period the Turkish Lira has been increasing in value against the major currencies. However, this increase in value has not been a steady one, there have been short periods when it has rapidly declined in value, only to resume its upward trend once again. The TRNC Central Bank does not take overnight deposits from banks operating under its supervision, however it adjusts the interest paid to banks' clearing accounts in parallel with the TCMB overnight rate for the Turkish Lira (Table 4). The interest is credited annually at the end of the calendar year .

**Table 4: TRNC Central Bank Turkish Lira Interest Rates Paid to Banks**

| | |
|---|---|
| 07.05.2002 | 38.00% |
| 09.05.2003 | 37.00% |
| 09.06.2003 | 35.00% |
| 04.08.2003 | 33.00% |
| 15.08.2003 | 30.00% |
| 01.10.2003 | 28.00% |
| 30.10.2003 | 25.00% |
| 24.02.2004 | 23.00% |
| 26.03.2004 | 21.00% |
| 17.09.2004 | 19.00% |
| 27.12.2004 | 17.00% |
| 18.01.2005 | 16.00% |
| 10.03.2005 | 14.50% |
| 03.06.2005 | 14.00% |
| 17.10.2005 | 13.50% |
| 14.12.2005 | 13.25% |

| | |
|---|---|
| 01.06.2006 | 13.00% |
| 12.06.2006 | 14.50% |
| 03.07.2006 | 16.75% |
| 31.07.2006 | 17.00% |

(Source: The TRNC Central Bank)

The TRNC Central Bank does not print money, it cannot control the interest rate on the Turkish Lira, the only instrument of monetary control available to it is the reserve requirement rate. The reserve requirement is assessed at the end of each month and paid, or withdrawn, on the fifteenth of the succeeding month (Table 5). The reserve requirement has been set at high levels, ostensibly to protect depositors' funds, but probably to bolster the TRNC Central Bank balance sheet.

**Table 5: TRNC Central Bank Reserve Requirement Rates**

| | **Turkish Currency** | **Foreign Currency** |
|---|---|---|
| 30.06.2002 | 15% | 16% |
| 30.11.2002 | 14% | 15% |
| 30.04.2003 | 13% | 14% |
| 31.10.2003 | 12% | 13% |
| 31.01.2004 | 11% | 12% |
| 31.07.2004 | 10% | 11% |
| 30.06.2006 | 9% | 10% |

(Source: TRNC Central Bank)

The period 2002-2006 have also been witness to radical changes in the "political environment", the single most important development being the major international effort to seek a resolution of the Cyprus Problem, spearheaded by the United Nations, culminating in the drawing up of the Annan Plan, a comprehensive outline for a normalisation of relations between the two communities in Cyprus, and a blueprint for the formation of a new Federal Republic of Cyprus.[11] The expectation that at long last there would be a solution, led to a flurry of construction and property development activity in the TRNC. Increased banking sector activites is due to large capital inflows into the TRNC economy. The property development created greater demand for land on which to build, hence real estate prices started to rise steeply as a result of increasing demand for land. The increase in real estate prices, created a windfall for banks struggling with non-performing loans. Since bank loans

[11] In fact, on the 23rd of April 2003, the checkpoint at Ledra Palace Hotel, Nicosia was opened to all civilians wishing to cross the Green Line. Thousands made the crossing from both sides, and within months more crossing points were opened. It is the expectation that at long last there would be a solution, led to a flurry of construction and property development activity in the TRNC. Much of the property development was being marketed to Western Europeans, creating large capital inflows into the TRNC.

secured with mortgages on real estate, these loans were generally at or sometimes greater than the value of the collateral in the years 2000 and 2001. However, with the increase in real estate values, the values of the collateral began to exceed the outstanding loans, and so the borrowers became keener to repay their loans and remove the mortgages, or a sale was agreed, whereby the bank was repaid in full and the borrower was able to cash in the surplus. With the impact of a growing economy and increasing real estate prices, the banks began to finance the construction industry, and generally bank loan books began to grow (See Annex 8 for Loans and Annex 9 for Ratio of Loans to Assets ). With the increase in activity in the construction sector the economy began to grow in real terms, with GNP per capita increasing from USD 4,409 in 2002 to USD 11,802 in 2006- this changes in GNP are shown in Table 6.

**Table 6: Gross National Product (current prices YTL)**

| Sectors | 2002 | 2003 | 2004 | 2005 | 2006[1] |
|---|---|---|---|---|---|
| Agriculture | 125,668,939 | 176,365,032 | 222,993,161 | 214,199,034 | 241,457,792 |
| Industry | 157,576,560 | 191,426,018 | 231,046,611 | 281,023,837 | 359,528,201 |
| Construction | 62,012,967 | 93,301,912 | 106,808,649 | 164,910,648 | 271,053,946 |
| Trade-Tourism | 215,553,628 | 300,879,734 | 391,227,279 | 541,407,692 | 580,370,695 |
| Transport-Communication | 185,264,818 | 221,109,706 | 257,580,209 | 328,773,502 | 402,237,437 |
| Financial Institutions | 89,952,347 | 115,256,267 | 187,245,582 | 195,523,141 | 239,440,186 |
| Home ownership | 41,431,860 | 50,851,059 | 61,591,937 | 70,261,205 | 95,803,184 |
| Self employed and services | 138,860,124 | 152,767,569 | 225,376,845 | 307,873,501 | 385,565,851 |
| Public services | 277,867,134 | 404,604,239 | 510,392,550 | 628,119,922 | 772,820,741 |
| Import taxes | 113,513,408 | 170,842,157 | 262,481,261 | 338,288,483 | 371,970,366 |
| GDP total | 1,407,701,785 | 1,877,403,694 | 2,456,744,086 | 3,070,380,967 | 3,720,248,400 |
| Net factor income from abroad | 11,001,479 | 29,667,270 | 64,062,661 | 73,318,645 | 86,521,500 |
| GNP total | 1,418,703,264 | 1,907,070,964 | 2,520,806,747 | 3,143,699,612 | 3,806,769,900 |
| GNP per capita ( in USD) | 4,409 | 5,949 | 8,095 | 10,567 | 11,802 |
| Population | 213,491 | 215,790 | 218,066 | 220,289 | 222,442 |

(Source State Planning Organization) [1] Forecast

From Table 7, looking at the Gross Domestic Product (GDP) figures, one wonders how the growth in GDP correlates with the growth in banks' total assets (TA), the table below compares the two. We can see that banks' total assets are greater than GDP by a multiple of around 1.5, and that over this period the rate of growth in GDP has exceeded the rate of growth in banks' total assets.[12]

**Table 7: GDP and Banks' Total Assets (TA)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **GDP (TL)** | 1.407.701.785 | 1.877.403.694 | 2.456.744.086 | 3.070.380.967 | 3.720.248.400 |
| **TA (TL)** | 2.253.162.150 | 2.899.460.928 | 3.639.972.252 | 4.217.990.574 | 5.575.744.912 |
| **TA/GDP** | 160,06% | 154,44% | 148,16% | 137,38% | 149,88% |

Source: TRNC State Planning Organization- TRNC Central Bank

The fact that banks' total assets exceeds GDP shows that the banking sector is well developed, and that the citizens of the TRNC use the banks to meet their financial requirements. However, a common and continuing "criticism of the banks" is that they are reluctant to finance the real economy, by providing loans to SMEs and to major development projects. Looking at the banks' balance sheets (see Annex 9 Ratio of Loans to Assets ) one can see that for all banks the ratio of total loans to total assets was 27.6% at the end of 2002, rising to 39.9% at the end of 2006. One can also see from Annex 9 that lending activity is concentrated into the state sector banks and the medium sized private sector banks, the largest private sector bank Turkish Bank behaving in the same way as the branch banks from Turkey, that is refraining from lending.

### 3.2 Impediments to Bank Lending Activities: Credit Market in the TRNC

There are several reasons for a bank to refrain from lending, also the potential for making loans is curtailed by the small size and instability of the economy. The state and public sector enterprises together account for about a third of the total loan book, and one must say that they have been very poor borrowers in the past. Loans have had to be continually rolled over, even though each new government economic program has an item stating that borrowing will be curtailed and existing loans will be repaid over a specified period. Lending by banks to the state and public sector enterprises is almost exclusively carried out by the two state sector

[12] In fact, Demirguc-Kunt and Huizinga (1999) asserts that for countries with under developed financial systems, a move toward a more developed financial system reduces bank margins for market development and banks, financial structure per se- the development of banks relative to that of markets-appears to have no independent effect on bank performance.

banks. When a bank forecloses on a loan and triggers the sale of the mortgaged property, any income tax, corporation tax, value added tax, property tax, social security payment, etc. owed to the state by the borrower must also be paid, and at best the bank holding the mortgage splits the proceeds of sale 50:50 with the state. The size of the borrowers' future liability in respect of unpaid taxes is a factor that no lending officer can assess when granting a loan, so under these circumstances the appetite to lend is diminished, especially if a bank can profitably use its funds elsewhere. The time taken for a court to issue a liquidation order on a defaulted loan, is unduly long. It can take years between the time a loan is declared delinquent by the bank, subsequent application to the courts and finally the sale of the collateral. A judiciary which has very little understanding of the basic principles of finance, and no sympathy for the banks. Since 2003, the questioning of the property title deeds issued by the TRNC. Finally, asymmetric information, the lender has no access to objective and independent financial information on the borrower. The balance sheets and profit and loss accounts submitted annually to the Income and Tax Office seldom show a true picture. The positive relation between market power and lending to small and young borrowers might only hold if lenders are able to recover their collateral in case of failure and if they are able to screen borrowers before-hand.

Recent empirical literature has established a relation between availability and cost of loans and the legal and informational environment in which lenders and borrowers operate, (Demirgüç-Kunt and Detragiache,1998a,1998b; Demirgüç-Kunt and Huizinga, 1999; Demirgüç-Kunt *et al.,* 2000).This relationship is precisely demonstrated in the TRNC, where the banks operate in a legal environment which prevents swift and equitable resolution of loan foreclosures, hence the banks charge relatively high rates of interest on loans to cover the increased risk of lending (Claessens *et al.,* 1998).

**3.3 The Role of Government Credit Market: Credit Schemes**

Government loan schemes have been justified on grounds that they can help diminish existent credit market imperfections, notably overcome the problem of asymmetric information. By stimulating the creation of a lending relationship, banks learn about the creditworthiness of new customers. It is hoped that banks continue these relationships once the loan scheme has been retired. Credit subsidies are one example of a government loan scheme. They lower the interest rate on the loan, and thus reduce moral hazard and adverse selection problems; more economically viable investments take place. Mankiw (1986) points out that this also creates a "deadweight loss": some economically unviable projects might take place, and the cost of the subsidy needs financing (taxation to finance the subsidy also creates distortions). Credit subsidies generally supplement government credit lines, aiming to overcome the problem of short maturities, typically acute after financial turmoil. In a post-crisis environment, banks encounter difficulties to attract deposits, notably of longer maturity. But in TRNC, liquidity pressures have eased since 2001. Criticism of traditional government credit schemes has pointed to their "second best" nature, and failure to address underlying distortions. If the lack of collateral represents the underlying problem then it is optimal to unlock collateral through say clarification of property rights. Finally, government funds raise issues of political interference, corruption, and accountability. Overall, the analysis so far suggests that apart from macroeconomic stability, policy should focus on eliminating credit market imperfections – especially the extent of asymmetric information that prevent banks from allocating funds to profitable investment opportunities. Financial support is likely to be effective only if used to lower the initial high level of fixed costs of servicing small sized loans (which discourage banks from entering the market) and for reducing information asymmetries.

### 3.4 Structural Change and Underlying Structural Weaknesses

The banking crisis and new government regulation have fundamentally altered the nature of credit markets, bringing to the fore underlying structural weaknesses of TRNC credit markets and within banks. As mentioned, in the past, lending to related parties (such as the bank owners) accounted for a large part of banks' portfolios. Lenders were well informed about the likely success of projects; risk analysis and credit assessment techniques were probably not needed and hence remained underdeveloped. This has changed. New regulation enacted in 2001 severely restricts connected lending practices. Banks have to evaluate the creditworthiness of projects that they know little of and cannot influence. In order to analyse the relative weaknesses of bank lending to the corporate sector in Northern Cyprus over the last four years the analysis covers a wide-range of potential factors that have been identified in the literature as affecting credit markets, namely macroeconomic conditions, access to bank funding, problems of asymmetric information, economies of scale in lending, the availability of collateral, and the quality and effectiveness of the judicial system.[13] While relatively high interest rates and the rebuilding of balance sheets after the 1999-2002 banking crisis have constrained financial intermediation in Northern Cyprus from 2001-2003, we attribute the ongoing weakness in lending to the corporate sector to more structural flaws in credit markets. In particular, we point to the small average size of firms and hence high average cost of loans; the lack of reliable information on borrowers; the lack of collateral, inadequate credit assessment and lending skills; and problems in enforcement of creditor rights as the main problems. The ownership structure of banks might also influence the relation between market power and access to and costs of external financing. Domestically, owned banks might have more information and better enforcement mechanisms than foreign owned banks, and so might be more willing to lend to opaque borrowers. Government owned banks are mostly non-profit maximising and often have the explicit mandate to lend to certain groups of borrowers (Krueger and Tornell, 1999).

### 3.5 Expected Effects of Low Level of Inflation on Banks

In the disinflation environment, banks are endeavouring to increase their net operational income due to the fact that their net interest income has decreased. In this context, efforts to reduce costs will encourage co-operation among banks in various areas. We expect that increasing competition in the Turkish banking sector will cause the banks to endeavour creating variety in products and services in order to keep their customer base intact (Kaya and Doğan, 2005). As theory and empirical evidence suggests macroeconomic stability is a necessary condition for sustained and efficient financial intermediation**.** A growing theoretical literature describes mechanisms whereby even predictable increases in the rate of inflation interfere with the ability of the financial sector to allocate resources effectively. According to Boyd *et al.* (2001); as inflation rises, the marginal impact of inflation on banking lending activity and market development diminishes rapidly. The authors also found that for economies with inflation rates exceeding 15 percent (15 %), there is a discrete drop in financial sector performance.

[13] Comparisons can be made with other relevant country experiences notably in South East Asia, South East Europe and the ex-transition economies more generally (see Corsetti *et al,* 1999; Eichengreen and Rose, 1998; Domac and Ferri, 1999 for more information).

As shown, inflation in Turkey and TRNC has come down significantly. Given Turkey's commitment to macroeconomic stability; TRNC might want to stick with the Turkish Lira. But Turkey's risk premium will remain non-negligible until further far-reaching reforms have taken place. In the medium run, the merits of alternative monetary anchors –such as the euro- might therefore be worth exploring, in order to lock-in recent achievements in price stability.[14] For the medium term, to ensure the sustainability of financial sector lending, it will be important to lock-in low and stable inflation expectations. This calls for some thinking about sustainable long term monetary policy frameworks most appropriate for the Northern Cypriot economy.

It has been seen in countries where the inflation rate has steadily been reduced from high levels, that the profit margins of banks are also reduced. One would have expected that as the inflation rate came down, that the banks would have felt the squeeze, and that the number of banks operating in the TRNC would have reduced through mergers and acquisitions. None of this has happened during this period, the profit margins have on the whole been consistently good, as measured by Profit(Loss) Before Tax (Annex 2), Shareholders' Funds (Annex 4), Return on Equity (Annex 5), Return on Assets (Annex 6) and Net Interest Margin (Annex 7). The major reason for this is that over this period the banks' loan books have grown considerably, creating greater income. Another reason for the fact that bank consolidation has failed to occur is that there is no culture of shared ownership in the TRNC, almost all enterprises are owned by a few, mostly closely related individuals.

## 4. CONCLUSION

As a conclusive remark the basic causes of financial and banking crisis in TRNC when analyzed within the framework of theoretical foundations are regulatory and supervisory deficiency, a period of very high interest rates, fierce competition, mismanagement of financial institutions, bank panics and risk areas that are credit risk & credit risk management, market risk, interest rate risk, liquidity risk, capital adequacy, concentration of risk and large exposures and connected lending. In this regard, noteworthy legal and structural reforms

[14] A complete analysis of the costs and benefits of Euro– in terms of optimal currency area, strategic considerations (timing, politics, and incentives), and necessary accompanying reform packages is beyond the scope of this paper.

have been made to survive crisis and adapt to changing environment so as to optimize the efficiency of bank management and supervisory process. However, further steps should be taken for the international competiveness of domestic commercial banks. Firstly, when compared to European Union minimum start-up capital should be increased. Furthermore, commercial banks should be encouraged and/or forced to merge in order to strengthen their equity and asset structure parallel to the trend of financial consolidation in the world. Second, The legal system must also come under scrutiny because financial institution and their legal representative face an uphill battle when borrowers default on loan repayments. The legal system is slow in processing such applications. Even after judgment the penalties awarded are not sufficient to deter individuals who have used asymmetric information flow to their benefit and caused the bank to execute adverse selection when granting credit. Banks, due to the problems they encounter with the legal process attempt to resolve unpaid loans themselves by lengthy face-to-face negotiations. This procedure may resolve some cases but many outstanding loans continue to accumulate interest, growing out of all proportion only to be referred to the law courts for a solution. In addition to this, criminal complaints about commercial banks by Central Bank to the office of public prosecutor do not work efficiently in a timely manner. Therefore, the supervisory efficiency is weakened. As a complementary to effective legal system the model used by Financial Services Authority (FSA) in UK can be considered. FSA is a supervisory body that has been given the authority to control and supervise banks to ensure they operate to regulatory standards. If found to have stepped outside of the set boundaries, the FSA have the right to warn, penalize and close banks. The role of "Financial Ombudsman Service and Financial Services Compensation Scheme" as independent arrangements for resolving complaints against firms and for paying compensation if firms collapse is also given to FSA in UK (Casu *et al.,* 2006: 174-175). Third, The New Capital Accord (Basle II) which aims to introduce a more comprehensive and risk-sensitive treatment of banking risks to ensure that regulatory capital bears a closer relationship to credit risk (Basel Committee, 2004) should be implemented. Currently, the Pillar 1 of Basel II is not applied for the measurement of risk-asset ratio. Furthermore, systematic supervisory review (Pillar 2) and effective disclosure of market discipline (Pillar 2) are not adequately implemented. Market discipline needed for public awareness is also necessary for effective deposit insurance system in TRNC to reduce moral hazard and adverse selection problem (Şafaklı and Güryay, 2007).

There seem to be a number of factors which could underlie current depressed levels in bank credit to the private sector. Perhaps a broad and comprehensive package of micro and macroeconomic reforms is needed for the TRNC financial sector to become an efficient and robust intermediary. Naturally, Reforms should aim to reduce credit risk and the cost of funds in order to increase the efficiency of financial intermediation The increase of bank credits to private sector should not be politically aimed at the expense of greater credit risk reflecting infeasible project financing, existence of asymmetric information and moral hazard.

The government is spending far more than it can raise through taxation and customs, hence it is ever more reliant on the aid from Turkey. Contractors carrying out public works projects, such as road building, are being paid very late, creating a huge liquidity problem, as all businesses seek to delay their payments to suppliers, complaining of non-payment of their own invoices to others, including the state. At the centre of all this some place the banks, stating that there is large reserve of money within the banking sector, which should be channeled into loans to provide liquidity for enterprises.

The branch banks from Turkey are being especially criticised for refraining from lending to enterprises, almost all their lending being to finance consumers. Hence, the TRNC Central Bank imposed a special liquidity requirement of 25% for all banks which placed funds, totaling in excess of five times equity and reserves, with banks outside the TRNC. Also the government proposed a new tax on banks with a loans to deposits ratio below 55%, this law was passed by parliament, however it has not yet been implemented. Furthermore, government declares that all properties in TRNC should be pledged as collateral by banks even though there are judgements of European Court of Human Rights (ECHR) and European Court of Justice stating that original owners of most of the property in TRNC reside in South Cyprus and their property should be compensated and returned.

Forcing banks to make loans is always a recipe for disaster, under these circumstances, lending officers eager to fulfil their targets are likely to make bad lending decisions. The state should instead address the impediments to lending. It is likely that problem loans will increase in the near future.

On the whole the period studied by this paper has been optimistic to the banking sector, and the steps taken to make the banks more accountable and open to scrutiny by the supervisors, is helping the sector avoid another general crisis of confidence. It is improtant that banking sector is managed and supervised efficiently and effectively to achieve national interest-dynamic, growth-oriented, and sound banking practices in the economy of the TRNC.

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## ANNEX

**Annex 1: Banks Total Assets (million TRL or TRY)**

| | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rank | | Share | Rank | | Share | Rank | | Share | Rank | | Share | Rank | | Share |
| CT Coop.Central Bank | 1 | 541.018.244 | 24,0% | 1 | 797.302.362 | 27,5% | 1 | 946.512.464 | 26,0% | 1 | 1.099.395.648 | 26,1% | 1 | 1.338.808.048 | 24,0% |
| Türkiye İş Bankası | 2 | 382.789.259 | 17,0% | 2 | 441.209.606 | 15,2% | 2 | 551.863.983 | 15,2% | 2 | 566.966.840 | 13,4% | 2 | 841.503.078 | 15,1% |
| Turkish Bank | 3 | 280.130.241 | 12,4% | 3 | 320.293.513 | 11,0% | 3 | 407.368.569 | 11,2% | 5 | 431.288.167 | 10,2% | 5 | 514.527.776 | 9,2% |
| Akdeniz Garanti Bankası | 4 | 158.296.982 | 7,0% | 6 | 168.048.802 | 5,8% | 8 | 141.563.699 | 3,9% | | | 0,0% | | | 0,0% |
| Kıbrıs Vakıflar Bankası | 5 | 153.849.002 | 6,8% | 4 | 193.871.164 | 6,7% | 5 | 263.008.535 | 7,2% | 3 | 456.040.173 | 10,8% | 4 | 560.220.518 | 10,0% |
| Limasol T.Coop.Bank | 6 | 146.259.564 | 6,5% | 7 | 160.728.558 | 5,5% | 6 | 175.088.170 | 4,8% | 9 | 136.475.193 | 3,2% | 10 | 159.719.703 | 2,9% |
| TC Ziraat Bankası | 7 | 120.900.064 | 5,4% | 8 | 153.090.072 | 5,3% | 7 | 151.838.389 | 4,2% | 6 | 173.467.150 | 4,1% | 8 | 197.329.135 | 3,5% |
| Asbank | 8 | 75.328.346 | 3,3% | 9 | 107.331.712 | 3,7% | 9 | 141.969.754 | 3,9% | 7 | 164.608.810 | 3,9% | 7 | 216.559.712 | 3,9% |
| İktisat Bankası | 9 | 60.532.961 | 2,7% | 10 | 85.480.115 | 2,9% | 10 | 113.667.509 | 3,1% | 8 | 156.838.556 | 3,7% | 6 | 242.356.318 | 4,3% |
| HSBC | 10 | 45.043.967 | 2,0% | 5 | 180.037.124 | 6,2% | 4 | 323.062.406 | 8,9% | 4 | 438.192.298 | 10,4% | 3 | 644.157.416 | 11,6% |
| Altınbaş/Creditwest | 13 | 20.316.670 | 0,9% | 13 | 41.796.506 | 1,4% | 11 | 67.116.251 | 1,8% | 10 | 126.300.512 | 3,0% | 9 | 185.527.438 | 3,3% |
| | | | 88,1% | | | 91,4% | | | 90,2% | | | 88,9% | | | 87,9% |
| Total Bank Assets | | 2.253.162.150 | | | 2.899.460.928 | | | 3.639.972.252 | | | 4.217.990.574 | | | 5.575.744.912 | |
| Number of Licensed Banks | | 23 | | | 24 | | | 25 | | | 23 | | | 23 | |
| | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| **Public Sector Banks** | Rank | | Share | Rank | | Share | Rank | | Share | Rank | | Share | Rank | | Share |
| CT Coop.Central Bank | 1 | 541.018.244 | 24,0% | 1 | 797.302.362 | 27,5% | 1 | 946.512.464 | 26,0% | 1 | 1.099.395.648 | 26,1% | 1 | 1.338.808.048 | 24,0% |
| Akdeniz Garanti Bankası | 4 | 158.296.982 | 7,0% | 6 | 168.048.802 | 5,8% | 8 | 141.563.699 | 3,9% | | | 0,0% | | | 0,0% |
| Kıbrıs Vakıflar Bankası | 5 | 153.849.002 | 6,8% | 4 | 193.871.164 | 6,7% | 5 | 263.008.535 | 7,2% | 3 | 456.040.173 | 10,8% | 4 | 560.220.518 | 10,0% |
| | | | 37,9% | | | 40,0% | | | 37,1% | | | 36,9% | | | 34,1% |
| **Private Sector Banks** | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
| Turkish Bank | 3 | 280.130.241 | 12,4% | 3 | 320.293.513 | 11,0% | 3 | 407.368.569 | 11,2% | 5 | 431.288.167 | 10,2% | 5 | 514.527.776 | 9,2% |
| Limasol T.Coop.Bank | 6 | 146.259.564 | 6,5% | 7 | 160.728.558 | 5,5% | 6 | 175.088.170 | 4,8% | 9 | 136.475.193 | 3,2% | 10 | 159.719.703 | 2,9% |
| Asbank | 8 | 75.328.346 | 3,3% | 9 | 107.331.712 | 3,7% | 9 | 141.969.754 | 3,9% | 7 | 164.608.810 | 3,9% | 7 | 216.559.712 | 3,9% |
| İktisat Bankası | 9 | 60.532.961 | 2,7% | 10 | 85.480.115 | 2,9% | 10 | 113.667.509 | 3,1% | 8 | 156.838.556 | 3,7% | 6 | 242.356.318 | 4,3% |
| Altınbaş/Creditwest | 13 | 20.316.670 | 0,9% | 13 | 41.796.506 | 1,4% | 11 | 67.116.251 | 1,8% | 10 | 126.300.512 | 3,0% | 9 | 185.527.438 | 3,3% |
| | | | 25,9% | | | 24,7% | | | 24,9% | | | 24,1% | | | 23,7% |

| **Branch Banks** | **2002** | | | **2003** | | | **2004** | | | **2005** | | | **2006** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Türkiye İş Bankası | 2 | 382.789.259 | 17,0% | 2 | 441.209.606 | 15,2% | 2 | 551.863.983 | 15,2% | 2 | 566.966.840 | 13,4% | 2 | 841.503.078 | 15,1% |
| TC Ziraat Bankası | 7 | 120.900.064 | 5,4% | 8 | 153.090.072 | 5,3% | 7 | 151.838.389 | 4,2% | 6 | 173.467.150 | 4,1% | 8 | 197.329.135 | 3,5% |
| HSBC | 10 | 45.043.967 | 2,0% | 5 | 180.037.124 | 6,2% | 4 | 323.062.406 | 8,9% | 4 | 438.192.298 | 10,4% | 3 | 644.157.416 | 11,6% |
| | | | **24,4%** | | | **26,7%** | | | **28,2%** | | | **27,9%** | | | **30,2%** |

**Annex 2: Profit (Loss) Before Tax (million TRL or TRY)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| CT Coop.Central Bank | 6.608.467 | 5.898.001 | 8.361.618 | 11.334.145 | 30.713.100 |
| Türkiye İş Bankası | 903.885 | 4.874.367 | 8.106.160 | 5.063.634 | 6.673.471 |
| Turkish Bank | 1.835.579 | 1.624.688 | 5.566.361 | 6.058.132 | 2.829.520 |
| Akdeniz Garanti Bankası | 553.278 | -23.446.071 | -23.849.472 | | |
| Kıbrıs Vakıflar Bankası | 1.191.600 | 7.061.202 | 15.663.024 | 5.108.751 | 2.887.719 |
| Limasol T.Coop.Bank | -7.275.161 | -5.037.818 | 4.714.162 | 1.585.375 | -427.307 |
| TC Ziraat Bankası | 0 | -3.543.342 | 11.018.775 | 8.342.706 | 6.674.013 |
| Asbank | 1.443.348 | 2.930.463 | 5.184.796 | 4.874.649 | 6.377.429 |
| İktisat Bankası | 1.017.790 | 3.336.095 | 7.398.055 | 4.155.575 | 2.548.952 |
| HSBC | 2.520.176 | 5.409.115 | 4.801.063 | 4.225.718 | 7.157.948 |
| Altınbaş/Creditwest | 365.110 | 337.625 | 4.901.812 | 7.842.249 | 3.491.479 |

**Annex 3: Net Interest Income (million TRL or TRY)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| CT Coop.Central Bank | 49.367.901 | 75.504.546 | 83.505.698 | 88.449.569 | 60.630.093 |
| Türkiye İş Bankası | 4.736.225 | 8.563.953 | 10.981.550 | 10.801.080 | 13.567.747 |
| Turkish Bank | 6.846.933 | 9.074.795 | 11.923.593 | 11.885.807 | 13.670.037 |
| Akdeniz Garanti Bankası | -5.032.489 | -9.331.883 | -10.772.589 | | |
| Kıbrıs Vakıflar Bankası | 6.826.748 | 15.544.106 | 25.266.521 | 18.321.218 | 29.917.064 |
| Limasol T.Coop.Bank | -5.224.046 | -889.030 | 5.269.927 | 5.136.094 | 6.285.234 |
| TC Ziraat Bankası | -35.131.094 | 8.169.953 | 8.955.567 | 7.692.475 | 9.244.457 |
| Asbank | 4.113.042 | 6.862.596 | 7.984.250 | 8.211.030 | 10.993.616 |
| İktisat Bankası | 5.013.046 | 6.411.749 | 7.758.367 | 10.457.636 | 13.085.295 |
| HSBC | 3.895.792 | 2.184.838 | 3.726.197 | 7.181.566 | 12.317.106 |
| Altınbaş/Creditwest | 1.924.983 | 4.940.094 | 6.919.764 | 9.236.570 | 10.387.395 |

**Annex 4: Shareholders' Funds (Capital+Reserves+P&L Acc) (million TRL or TRY)**

| | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share | | Share | | Share | | Share | | Share |
| CT Coop.Central Bank | 19.643.894 | 12,07% | 23.446.719 | 15,86% | 29.510.040 | 15,08% | 38.973.561 | 14,33% | 69.938.126 | 20,64% |
| Türkiye İş Bankası | 9.766.255 | 6,00% | 12.950.983 | 8,76% | 16.183.025 | 8,27% | 14.174.862 | 5,21% | 18.690.723 | 5,52% |
| Turkish Bank | 52.191.386 | 32,06% | 53.575.604 | 36,23% | 55.243.934 | 28,24% | 57.385.487 | 21,10% | 62.634.296 | 18,48% |
| Akdeniz Garanti Bankası | 2.730.158 | 1,68% | -19.999.127 | -13,52% | -43.844.904 | -22,41% | | | | |
| Kıbrıs Vakıflar Bankası | 4.615.009 | 2,84% | 9.444.870 | 6,39% | 20.701.548 | 10,58% | 24.501.344 | 9,01% | 28.867.713 | 8,52% |
| Limasol T.Coop.Bank | 1.710.908 | 1,05% | -3.397.953 | -2,30% | 1.364.730 | 0,70% | 4.523.378 | 1,66% | 5.058.546 | 1,49% |
| TC Ziraat Bankası | 6.097.051 | 3,75% | 2.553.709 | 1,73% | 15.382.982 | 7,86% | 13.456.228 | 4,95% | 13.592.228 | 4,01% |
| Asbank | 6.435.481 | 3,95% | 7.670.167 | 5,19% | 11.524.229 | 5,89% | 13.347.781 | 4,91% | 16.403.075 | 4,84% |
| İktisat Bankası | 4.535.936 | 2,79% | 6.963.388 | 4,71% | 12.659.186 | 6,47% | 16.015.144 | 5,89% | 19.906.064 | 5,87% |
| HSBC | 6.973.702 | 4,28% | 9.448.929 | 6,39% | 9.695.420 | 4,96% | 9.921.143 | 3,65% | 16.923.868 | 4,99% |
| Altınbaş/Creditwest | 3.621.333 | 2,22% | 3.860.765 | 2,61% | 7.540.490 | 3,85% | 13.531.245 | 4,97% | 17.518.708 | 5,17% |
| | | 72,69% | | 72,03% | | 69,49% | | 75,68% | | 79,54% |
| Banks' Total Equity | 162.777.518 | | 147.880.263 | | 195.652.976 | | 271.985.036 | | 338.878.754 | |
| Number of Licensed Banks | 23 | | 24 | | 25 | | 23 | | 23 | |

**Annex 5: Return on Equity**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| CT Coop.Central Bank | 33,64% | 25,15% | 28,33% | 29,08% | 43,91% |
| Türkiye İş Bankası | 9,26% | 37,64% | 50,09% | 35,72% | 35,70% |
| Turkish Bank | 3,52% | 3,03% | 10,08% | 10,56% | 4,52% |
| Akdeniz Garanti Bankası | 20,27% | -117,24% | -54,40% | | |
| Kıbrıs Vakıflar Bankası | 25,82% | 74,76% | 75,66% | 20,85% | 10,00% |
| Limasol T.Coop.Bank | -425,22% | -148,26% | 345,43% | 35,05% | -8,45% |
| TC Ziraat Bankası | 0,00% | -138,75% | 71,63% | 62,00% | 49,10% |
| Asbank | 22,43% | 38,21% | 44,99% | 36,52% | 38,88% |
| İktisat Bankası | 22,44% | 47,91% | 58,44% | 25,95% | 12,80% |
| HSBC | 36,14% | 57,25% | 49,52% | 42,59% | 42,29% |
| Altınbaş/Creditwest | 10,08% | 8,75% | 65,01% | 57,96% | 19,93% |

**Annex 6: Return on Assets**

| | | | | | |
|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| CT Coop.Central Bank | 1,22% | 0,74% | 0,88% | 1,03% | 2,29% |
| Türkiye İş Bankası | 0,24% | 1,10% | 1,47% | 0,89% | 0,79% |
| Turkish Bank | 0,66% | 0,51% | 1,37% | 1,40% | 0,55% |
| Akdeniz Garanti Bankası | 0,35% | -13,95% | -16,85% | | |
| Kıbrıs Vakıflar Bankası | 0,77% | 3,64% | 5,96% | 1,12% | 0,52% |
| Limasol T.Coop.Bank | -4,97% | -3,13% | 2,69% | 1,16% | -0,27% |
| TC Ziraat Bankası | 0,00% | -2,31% | 7,26% | 4,81% | 3,38% |
| Asbank | 1,92% | 2,73% | 3,65% | 2,96% | 2,94% |
| İktisat Bankası | 1,68% | 3,90% | 6,51% | 2,65% | 1,05% |
| HSBC | 5,59% | 3,00% | 1,49% | 0,96% | 1,11% |
| Altınbaş/Creditwest | 1,80% | 0,81% | 7,30% | 6,21% | 1,88% |

**Annex 7: Net Interest Margin**

| | | | | | |
|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| CT Coop.Central Bank | 9,12% | 9,47% | 8,82% | 8,05% | 4,53% |
| Türkiye İş Bankası | 1,24% | 1,94% | 1,99% | 1,91% | 1,61% |
| Turkish Bank | 2,44% | 2,83% | 2,93% | 2,76% | 2,66% |
| Akdeniz Garanti Bankası | -3,18% | -5,55% | -7,61% | | |
| Kıbrıs Vakıflar Bankası | 4,44% | 8,02% | 9,61% | 4,02% | 5,34% |
| Limasol T.Coop.Bank | -3,57% | -0,55% | 3,01% | 3,76% | 3,94% |
| TC Ziraat Bankası | -29,06% | 5,34% | 5,90% | 4,43% | 4,68% |
| Asbank | 5,46% | 6,39% | 5,62% | 4,99% | 5,08% |
| İktisat Bankası | 8,28% | 7,50% | 6,83% | 6,67% | 5,40% |
| HSBC | 8,65% | 1,21% | 1,15% | 1,64% | 1,91% |
| Altınbaş/Creditwest | 9,47% | 11,82% | 10,31% | 7,31% | 5,60% |

**Annex 8: Loans (million TRL or TRY)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **CT Coop.Central Bank** | | | | | |
| Loans | 251.687.966 | 356.869.224 | 473.978.466 | 598.069.749 | 875.108.627 |
| Non-performing loans (net) | 6.215.934 | 10.017.528 | 8.882.270 | 7.562.415 | 20.091.801 |
| Non-performing loans (gross) | 18.798.953 | 21.335.962 | 18.420.407 | 16.235.627 | 30.601.784 |
| Loan loss provision | 12.583.019 | 11.318.434 | 9.538.137 | 8.673.212 | 10.509.983 |
| Total loans | 270.486.919 | 378.205.186 | 492.398.873 | 614.305.376 | 905.710.411 |
| Ratio of non-performing loans | 7,0% | 5,6% | 3,7% | 2,6% | 3,4% |
| Ratio of total loans/total assets | 50,0% | 47,4% | 52,0% | 55,9% | 67,6% |
| Annual increase in total loans | | 39,8% | 30,2% | 24,8% | 47,4% |
| Share in total bank loans | 43,99% | 48,37% | 41,99% | 39,13% | 39,02% |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Türkiye İş Bankası** | | | | | |
| Loans | 15.947.428 | 15.552.346 | 28.698.906 | 49.157.732 | 104.020.654 |
| Non-performing loans (net) | 0 | 0 | 0 | 0 | 0 |
| Non-performing loans (gross) | 612.451 | 267.354 | 254.802 | 355.789 | 682.522 |
| Loan loss provision | 612.451 | 267.354 | 254.802 | 355.789 | 682.522 |
| Total loans | 16.559.879 | 15.819.700 | 28.953.708 | 49.513.521 | 104.703.176 |
| Ratio of non-performing loans | 3,7% | 1,7% | 0,9% | 0,7% | 0,7% |
| Ratio of total loans/total assets | 4,3% | 3,6% | 5,2% | 8,7% | 12,4% |
| Annual increase in total loans | | -4,5% | 83,0% | 71,0% | 111,5% |
| Share in total bank loans | 2,69% | 2,02% | 2,47% | 3,15% | 4,51% |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Turkish Bank** | | | | | |
| Loans | 24.404.962 | 20.944.340 | 72.523.981 | 87.771.079 | 81.589.211 |
| Non-performing loans (net) | 818.978 | 0 | 0 | 0 | 2.664.307 |
| Non-performing loans (gross) | 2.154.222 | 1.327.161 | 1.306.530 | 1.041.840 | 3.953.414 |
| Loan loss provision | 1.335.244 | 1.327.161 | 1.306.530 | 1.041.840 | 1.289.107 |
| Total loans | 26.559.184 | 22.271.501 | 73.830.511 | 88.812.919 | 85.542.625 |

| | | | | | |
|---|---|---|---|---|---|
| Ratio of non-performing loans | 8,1% | 6,0% | 1,8% | 1,2% | 4,6% |
| Ratio of total loans/total assets | 9,5% | 7,0% | 18,1% | 20,6% | 16,6% |
| Annual increase in total loans | | -16,1% | 231,5% | 20,3% | -3,7% |
| Share in total bank loans | 4,32% | 2,85% | 6,30% | 5,66% | 3,69% |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Akdeniz Garanti Bankası** | | | | N/A | N/A |
| Loans | 65.712.939 | 57.221.351 | 55.354.793 | | |
| Non-performing loans (net) | 5.666.711 | 8.729.158 | 0 | | |
| Non-performing loans (gross) | 11.866.711 | 17.061.050 | 11.510.772 | | |
| Loan loss provision | 6.200.000 | 8.331.892 | 11.510.772 | | |
| Total loans | 77.579.650 | 74.282.401 | 66.865.565 | | |
| Ratio of non-performing loans | 15,3% | 23,0% | 17,2% | | |
| Ratio of total loans/total assets | 49,0% | 44,2% | 47,2% | | |
| Annual increase in total loans | | -4,3% | -10,0% | | |
| Share in total bank loans | 12,62% | 9,50% | 5,70% | | |
| | | | | | |
| | | | | | |
| **Kıbrıs Vakıflar Bankası** | **2002** | **2003** | **2004** | **2005** | **2006** |
| Loans | 14.095.135 | 20.841.803 | 75.707.061 | 217.251.835 | 310.379.150 |
| Non-performing loans (net) | 3.024.398 | 1.839 | 0 | 4.779.252 | 33.225.633 |
| Non-performing loans (gross) | 6.960.851 | 6.687.908 | 9.390.646 | 25.533.786 | 70.310.209 |
| Loan loss provision | 3.936.453 | 6.686.069 | 9.390.646 | 20.754.534 | 37.084.576 |
| Total loans | 21.055.986 | 27.529.711 | 85.097.707 | 242.785.621 | 380.689.359 |
| Ratio of non-performing loans | 33,1% | 24,3% | 11,0% | 10,5% | 18,5% |
| Ratio of total loans/total assets | 13,7% | 14,2% | 32,4% | 52,2% | 62,0% |
| Annual increase in total loans | | 30,7% | 209,1% | 185,3% | 56,8% |
| Share in total bank loans | 3,42% | 3,52% | 7,26% | 15,46% | 16,40% |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Limasol T.Coop.Bank** | | | | | |
| Loans | 25.374.226 | 23.662.536 | 42.417.358 | 57.257.673 | 56.752.159 |

| | | | | | |
|---|---|---|---|---|---|
| Non-performing loans (net) | 24.092.572 | 20.007.483 | 18.155.039 | 9.224.157 | 7.678.744 |
| Non-performing loans (gross) | 27.237.073 | 23.846.042 | 21.738.776 | 13.078.261 | 14.694.628 |
| Loan loss provision | 3.144.501 | 3.838.559 | 3.583.737 | 3.854.104 | 7.015.884 |
| Total loans | 52.611.299 | 47.508.578 | 64.156.134 | 70.335.934 | 71.446.787 |
| Ratio of non-performing loans | 51,8% | 50,2% | 33,9% | 18,6% | 20,6% |
| Ratio of total loans/total assets | 36,0% | 29,6% | 36,6% | 51,5% | 44,7% |
| Annual increase in total loans | | -9,7% | 35,0% | 9,6% | 1,6% |
| Share in total bank loans | 8,56% | 6,08% | 5,47% | 4,48% | 3,08% |
| | | | | | |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **TC Ziraat Bankası** | | | | | |
| Loans | 905.729 | 1.842.503 | 2.580.310 | 4.162.963 | 6.579.026 |
| Non-performing loans (net) | 516.945 | 468.249 | 403.376 | 373.460 | 367.319 |
| Non-performing loans (gross) | 616.907 | 556.226 | 481.994 | 460.919 | 461.931 |
| Loan loss provision | 99.962 | 87.977 | 78.618 | 87.459 | 94.612 |
| Total loans | 1.522.636 | 2.398.729 | 3.062.304 | 4.623.882 | 7.040.957 |
| Ratio of non-performing loans | 40,5% | 23,2% | 15,7% | 10,0% | 6,6% |
| Ratio of total loans/total assets | 1,3% | 1,6% | 2,0% | 2,7% | 3,6% |
| Annual increase in total loans | | 57,5% | 27,7% | 51,0% | 52,3% |
| Share in total bank loans | 0,25% | 0,31% | 0,26% | 0,29% | 0,30% |
| | | | | | |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Asbank** | | | | | |
| Loans | 14.627.309 | 21.193.303 | 45.738.752 | 68.463.142 | 122.255.770 |
| Non-performing loans (net) | 11.906.917 | 6.880.266 | 4.151.727 | 1.808.673 | 26 |
| Non-performing loans (gross) | 19.004.446 | 16.306.555 | 14.293.579 | 11.964.421 | 10.478.133 |
| Loan loss provision | 7.097.529 | 9.426.289 | 10.141.852 | 10.155.748 | 10.478.107 |
| Total loans | 33.631.755 | 37.499.858 | 60.032.331 | 80.427.563 | 132.733.903 |
| Ratio of non-performing loans | 56,5% | 43,5% | 23,8% | 14,9% | 7,9% |
| Ratio of total loans/total assets | 44,6% | 34,9% | 42,3% | 48,9% | 61,3% |
| Annual increase in total loans | | 11,5% | 60,1% | 34,0% | 65,0% |
| Share in total bank loans | 5,47% | 4,80% | 5,12% | 5,12% | 5,72% |
| | | | | | |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **İktisat Bankası** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Loans | 28.087.713 | 33.223.136 | 64.174.846 | 92.756.694 | 129.733.403 |
| Non-performing loans (net) | 0 | 0 | 11.855.778 | 703.210 | 12.292.391 |
| Non-performing loans (gross) | 4.863.461 | 5.503.691 | 15.070.623 | 7.528.741 | 23.234.016 |
| Loan loss provision | 4.863.461 | 5.503.691 | 3.214.845 | 6.825.531 | 10.941.625 |
| Total loans | 32.951.174 | 38.726.827 | 79.245.469 | 100.285.435 | 152.967.419 |
| Ratio of non-performing loans | 14,8% | 14,2% | 19,0% | 7,5% | 15,2% |
| Ratio of total loans/total assets | 54,4% | 45,3% | 69,7% | 63,9% | 63,1% |
| Annual increase in total loans | | 17,5% | 104,6% | 26,6% | 52,5% |
| Share in total bank loans | 5,36% | 4,95% | 6,76% | 6,39% | 6,59% |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **HSBC** | | | | | |
| Loans | 719.277 | 2.581.763 | 10.141.586 | 11.163.581 | 32.531.448 |
| Non-performing loans (net) | 1.004 | 7.373 | 24.569 | 46.093 | 141.038 |
| Non-performing loans (gross) | 20.285 | 17.122 | 53.348 | 153.247 | 398.136 |
| Loan loss provision | 19.281 | 9.749 | 28.779 | 107.154 | 257.098 |
| Total loans | 739.562 | 2.598.885 | 10.194.934 | 11.316.828 | 32.929.584 |
| Ratio of non-performing loans | 2,7% | 0,7% | 0,5% | 1,4% | 1,2% |
| Ratio of total loans/total assets | 1,6% | 1,4% | 3,1% | 2,6% | 5,1% |
| Annual increase in total loans | | 251,4% | 292,3% | 11,0% | 191,0% |
| Share in total bank loans | 0,12% | 0,33% | 0,87% | 0,72% | 1,42% |
| | **2002** | **2003** | **2004** | **2005** | **2006** |
| **Altınbaş/Creditwest** | | | | | |
| Loans | 12.149.962 | 15.185.672 | 30.343.075 | 49.422.750 | 78.858.780 |
| Non-performing loans (net) | 2.205.376 | 0 | 0 | 0 | 0 |
| Non-performing loans (gross) | 2.451.572 | 2.939.504 | 3.443.397 | 3.390.808 | 4.164.691 |
| Loan loss provision | 246.196 | 2.939.504 | 3.443.397 | 3.390.808 | 4.164.691 |
| Total loans | 14.601.534 | 18.125.176 | 33.786.472 | 52.813.558 | 83.023.471 |
| Ratio of non-performing loans | 16,8% | 16,2% | 10,2% | 6,4% | 5,0% |
| Ratio of total loans/total assets | 71,9% | 43,4% | 50,3% | 41,8% | 44,7% |
| Annual increase in total loans | | 24,1% | 86,4% | 56,3% | 57,2% |
| Share in total bank loans | 2,37% | 2,32% | 2,88% | 3,36% | 3,58% |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **Total Loans (all banks)** | 614.815.444 | 781.960.794 | 1.172.537.569 | 1.569.924.604 | 2.321.298.754 |
| Annual increase in total loans | | 27,19% | 49,95% | 33,89% | 47,86% |
| | | | | | |
| **Chosen Banks** | | | | | |
| Total Loans | 548.299.578 | 664.966.552 | 997.624.008 | 1.315.220.637 | 1.956.787.692 |
| Total NPL (gross) | 94.586.932 | 95.848.575 | 95.964.874 | 79.743.439 | 158.979.464 |
| Ratio of non-performing loans | 17,25% | 14,41% | 9,62% | 6,06% | 8,12% |
| Loans granted by other banks | 66.515.866 | 116.994.242 | 174.913.561 | 254.703.967 | 364.511.062 |

**Annex 9: Ratio of Loans to Assets**

| Public Sector Banks | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** |
| CT Coop.Central Bank | 270.486.919 | 541.018.244 | **50,0%** | 378.205.186 | 797.302.362 | **47,4%** | 492.398.873 | 946.512.464 | **52,0%** | 614.305.376 | 1.099.395.648 | **55,9%** | 905.710.411 | 1.338.808.048 | **67,7%** |
| Akdeniz Garanti Bankası | 77.579.650 | 158.296.982 | **49,0%** | 74.282.401 | 168.048.802 | **44,2%** | 66.865.565 | 141.563.699 | **47,2%** | n/a | n/a | | n/a | n/a | |
| Kıbrıs Vakıflar Bankası | 21.055.986 | 153.849.002 | **13,7%** | 27.529.711 | 193.871.164 | **14,2%** | 85.097.707 | 263.008.535 | **32,4%** | 242.785.621 | 456.040.173 | **53,2%** | 380.689.359 | 560.220.518 | **68,0%** |
| Total | 369.122.555 | 853.164.228 | **43,3%** | 480.017.298 | 1.159.222.328 | **41,4%** | 644.362.145 | 1.351.084.698 | **47,7%** | 857.090.997 | 1.555.435.821 | **55,1%** | 1.286.399.770 | 1.899.028.566 | **67,7%** |

| Private Sector Banks | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** |
| Turkish Bank | 26.559.184 | 280.130.241 | **9,5%** | 22.271.501 | 320.293.513 | **7,0%** | 73.830.511 | 407.368.569 | **18,1%** | 88.812.919 | 431.288.167 | **20,6%** | 85.542.625 | 514.527.776 | **16,6%** |
| Limasol T.Coop.Bank | 52.611.299 | 146.259.564 | **36,0%** | 47.508.578 | 160.728.558 | **29,6%** | 64.156.134 | 175.088.170 | **36,6%** | 70.335.934 | 136.475.193 | **51,5%** | 71.446.787 | 159.719.703 | **44,7%** |
| Asbank | 33.631.755 | 75.328.346 | **44,6%** | 37.499.858 | 107.331.712 | **34,9%** | 60.032.331 | 141.969.754 | **42,3%** | 80.427.563 | 164.608.810 | **48,9%** | 132.733.903 | 216.559.712 | **61,3%** |
| İktisat Bankası | 32.951.174 | 60.532.961 | **54,4%** | 38.726.827 | 85.480.115 | **45,3%** | 79.245.469 | 113.667.509 | **69,7%** | 100.285.435 | 156.838.556 | **63,9%** | 152.967.419 | 242.356.318 | **63,1%** |
| Altınbaş/Creditwest | 14.601.534 | 20.316.670 | **71,9%** | 18.125.176 | 41.796.506 | **43,4%** | 33.786.472 | 67.116.251 | **50,3%** | 52.813.558 | 126.300.512 | **41,8%** | 83.023.471 | 185.527.438 | **44,7%** |
| Total | 160.354.946 | 582.569.784 | **27,5%** | 164.131.940 | 715.630.404 | **22,9%** | 311.050.917 | 905.210.253 | **34,4%** | 392.675.409 | 1.015.511.238 | **38,7%** | 525.714.205 | 1.318.690.947 | **39,9%** |

| Branch Banks | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** |
| Türkiye İş Bankası | 16.559.879 | 382.789.259 | **4,3%** | 15.819.700 | 441.209.606 | **3,6%** | 28.953.708 | 551.863.983 | **5,2%** | 49.513.521 | 566.966.840 | **8,7%** | 104.703.176 | 841.503.078 | **12,4%** |
| TC Ziraat Bankası | 1.522.636 | 120.900.064 | **1,3%** | 2.398.729 | 153.090.072 | **1,6%** | 3.062.304 | 151.838.389 | **2,0%** | 4.623.882 | 173.467.150 | **2,7%** | 7.040.957 | 197.329.135 | **3,6%** |
| HSBC | 739.562 | 45.043.967 | **1,6%** | 2.598.885 | 180.037.124 | **1,4%** | 10.194.934 | 323.062.406 | **3,2%** | 11.316.828 | 438.192.298 | **2,6%** | 32.929.584 | 644.157.416 | **5,1%** |
| Total | 18.822.077 | 548.733.290 | **3,4%** | 20.817.314 | 774.336.802 | **2,7%** | 42.210.946 | 1.026.764.778 | **4,1%** | 65.454.231 | 1.178.626.288 | **5,6%** | 144.673.717 | 1.682.989.629 | **8,6%** |

| | 2002 | | | 2003 | | | 2004 | | | 2005 | | | 2006 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** | Total Loans | Total Assets | **L/A** |
| **All Banks** | 614.815.444 | 2.253.162.150 | **27,3%** | 781.960.794 | 2.899.460.928 | **27,0%** | 1.172.537.569 | 3.639.972.252 | **32,2%** | 1.569.924.604 | 4.217.990.574 | **37,2%** | 2.321.298.754 | 5.575.744.912 | **41,6%** |
| **Chosen Banks** | 548.299.578 | 1.984.467.302 | **27,6%** | 664.966.552 | 2.649.189.534 | **25,1%** | 997.624.008 | 3.283.059.729 | **30,4%** | 1.315.220.637 | 3.749.573.347 | **35,1%** | 1.956.787.692 | 4.900.709.142 | **39,9%** |
| Number of Licensed Banks | | 23 | | | 24 | | | 25 | | | 23 | | | 23 | |