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FINANCIAL SERVICES

IN TURKEY

May 2018



REPUBLIC OF TURKEY
INVESTMENT
SUPPORT & PROMOTION
AGENCY



Summary

Banking and Financial Intermediary

Capital Markets

Insurance

Turkey's Competitive Landscape



Resilient and attractive

The Turkish financial sector proved resilient during the global financial turmoil in 2009 as well as the ensuing economic crisis, thanks to the regulatory reforms and structural overhaul that the government implemented in the wake of the country's own financial meltdown in the early 2000's. In fact, the reforms in the sector boosted investor confidence so much that the industry has attracted \$51 billion during the past 15 years.

Strong Banking System

Banking dominates the Turkish financial sector, accounting for over 70 percent of overall financial services, while insurance services and other financial activities also show significant growth potential. There are 51 banks in Turkey (33 deposit banks, 13 development and investment banks, 5 participation banks). Out of 51 banks, 21 hold significant foreign capital (30% of total assets are held by foreign investors).

Unsaturated Insurance Sector

The Turkish insurance market is still underpenetrated (1.5% of GDP) compared to peer countries and will provide significant potential as new insurers set up shop and acquire a share of the relatively untapped Turkish market. Turkey has seen strong economic growth fueled in part by a young and dynamic population that is increasingly in need of financial products and services.

Favorable Investment Climate

A key driver of the Turkish financial sector has been its robust economy with a bright future. Over the past 15 years, Turkish economy has been growing with an average annual real GDP growth rate of 5.7 per cent and the growth momentum is expected to continue.

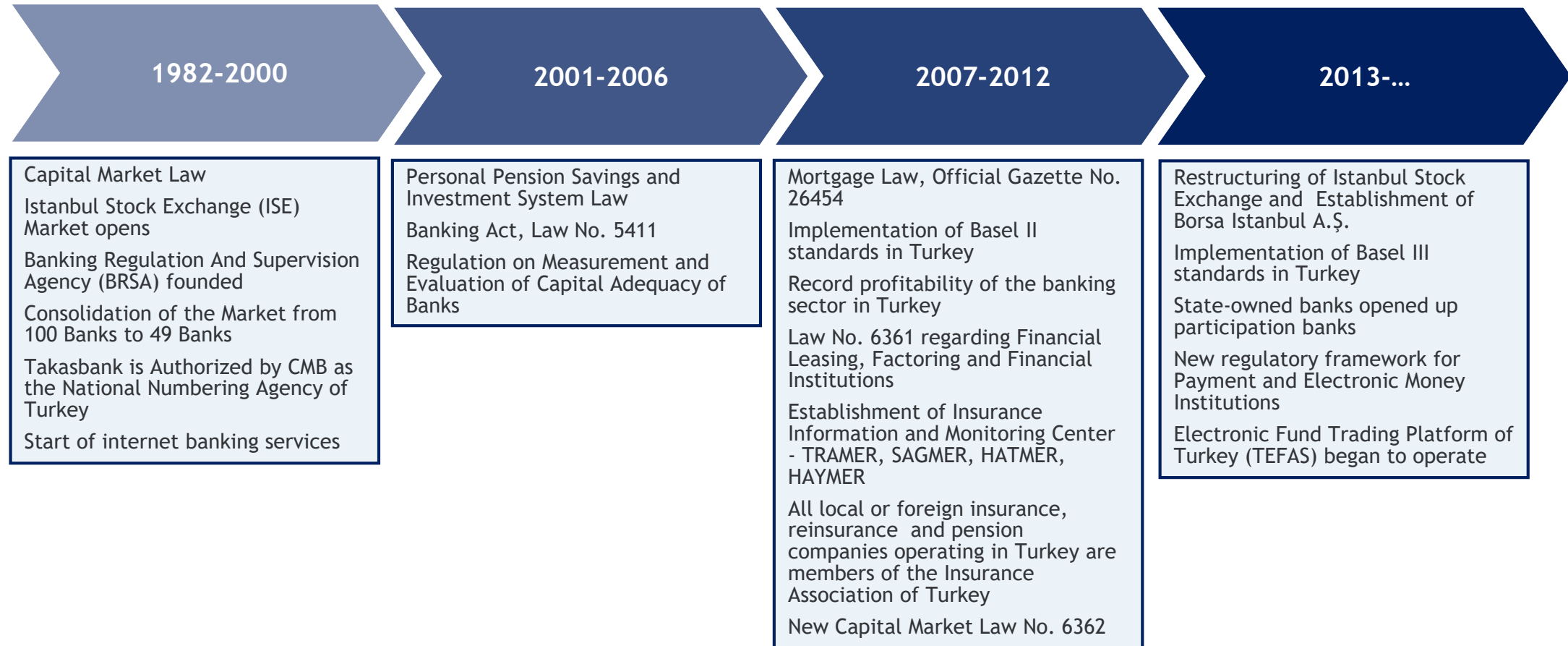
Turkey's economic growth has resulted in income growth and a growing robust middle class with increasing purchasing power. As Turkish economy has expanded, it has integrated with the global economy with a staggering increase in its volume of international transactions. Such developments have further stimulated economic activity, thus expanding financial activities.

Istanbul Financial Center

Turkey has also set specific economic targets to achieve by 2023, the centennial of the Republic. One of these targets is to transform Istanbul into a prominent financial center. Turkey's large and young population, qualified labor force, and rapidly developing markets along with its geo-strategic location, makes Istanbul an ideal candidate for an international financial hub. Since the government launched the project for Istanbul Financial Center, Istanbul has rapidly made progress and is now considered among emerging financial centers in the world.

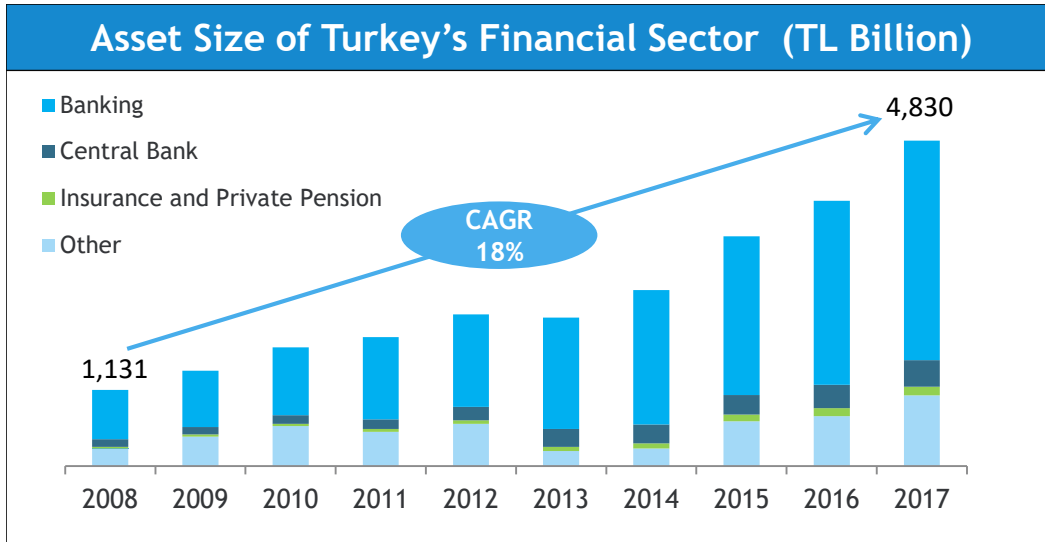


Milestones of Turkish Financial Services



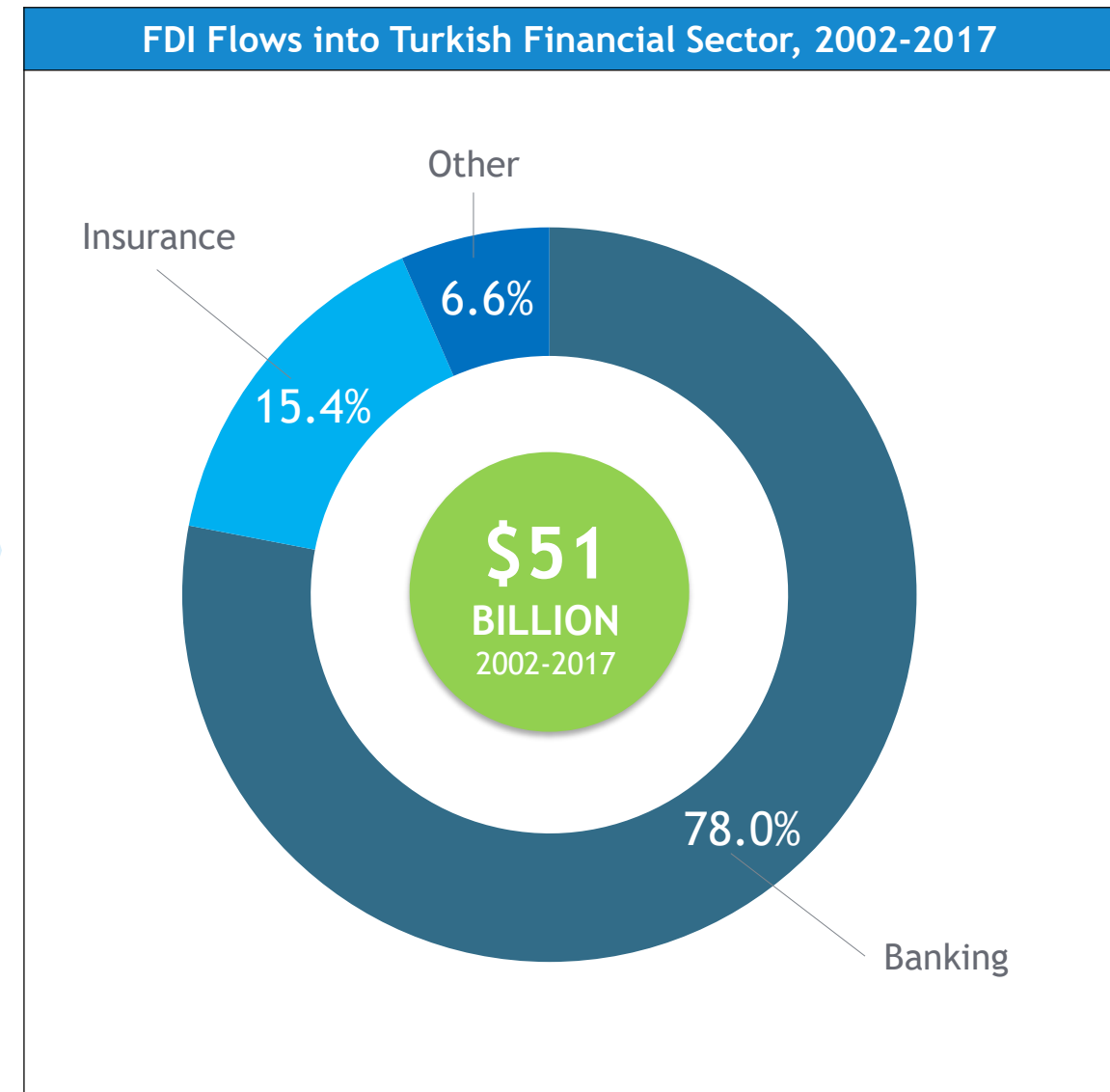


SECTORS	BANKING	CAPITAL MARKETS	INSURANCE
REGULATORS	Banking Regulation and Supervision Agency (BRSA)	Capital Markets Board (CMB)	Undersecretariat of Treasury
INDUSTRY REPRESENTATIVES & ENABLERS	<ul style="list-style-type: none"> -Banks' Association of Turkey -Participation Banks' Association of Turkey -Association of Financial Institutions 	<ul style="list-style-type: none"> -Turkish Capital Markets Association (TCMA) -Borsa Istanbul (BIST) 	<ul style="list-style-type: none"> -Insurance Association of Turkey
PLAYERS	<ul style="list-style-type: none"> -Banks -Participation Banks -Savings Deposit Insurance Fund -Leasing Companies -Factoring Companies -Consumer Finance Companies -NPL Management Companies 	<ul style="list-style-type: none"> -Banks -Brokerage Firms -Asset Management Firms -Investment Trusts -Central Registry Agency -Settlement and Custody Bank -Capital Markets Licensing and Training Agency -Investor Compensation Center -Public and Listed Companies -Rating, Appraisal, Audit Firms 	<ul style="list-style-type: none"> -Insurance Companies -Private Pension Companies -Private Pension Funds



	CAGR 2008-2017	Share 2017
Banking	18	67
Central Bank	15	8
Insurance & Pension	19	3
Other	17	22

Other includes: BIST capitalization, securities, consumer finance, real estate investments, investment trusts, asset management and venture capital investment trust assets





Summary

Banking and Financial Intermediary

Capital Markets

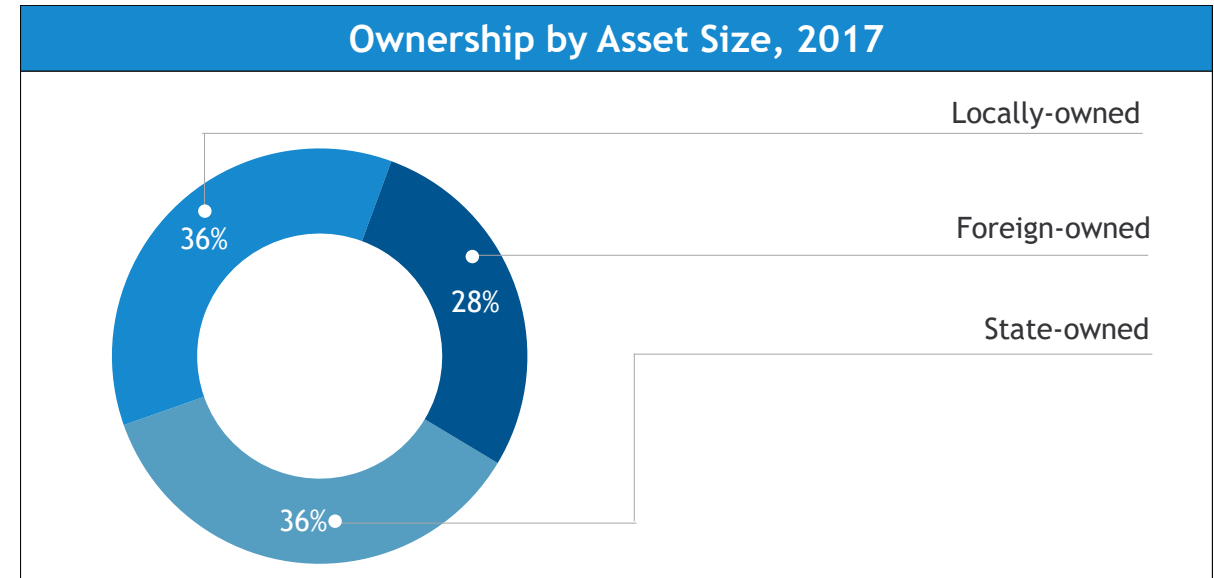
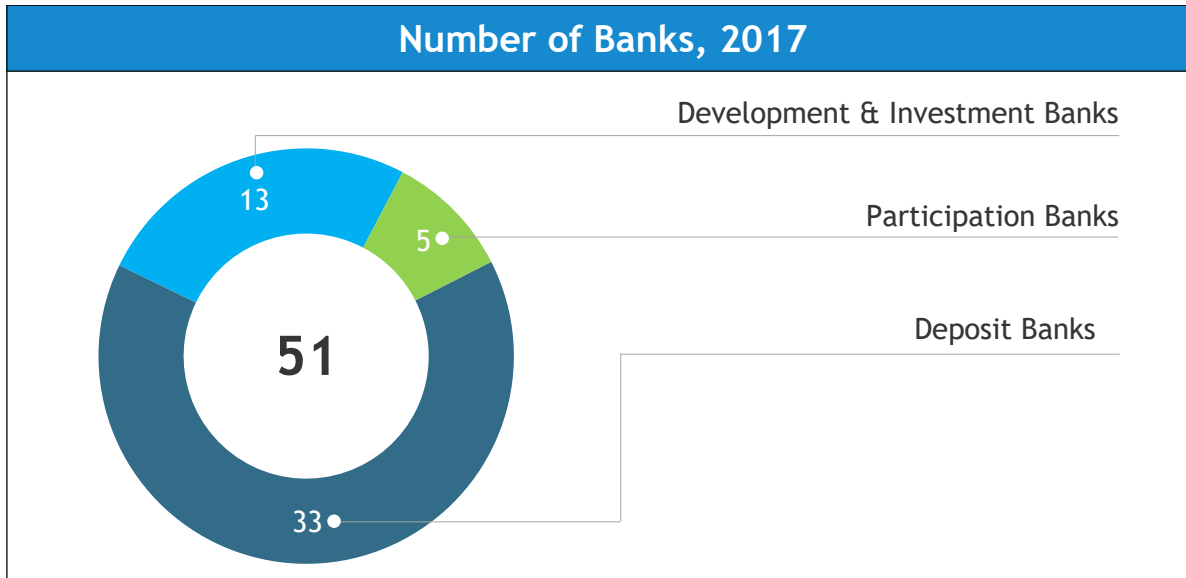
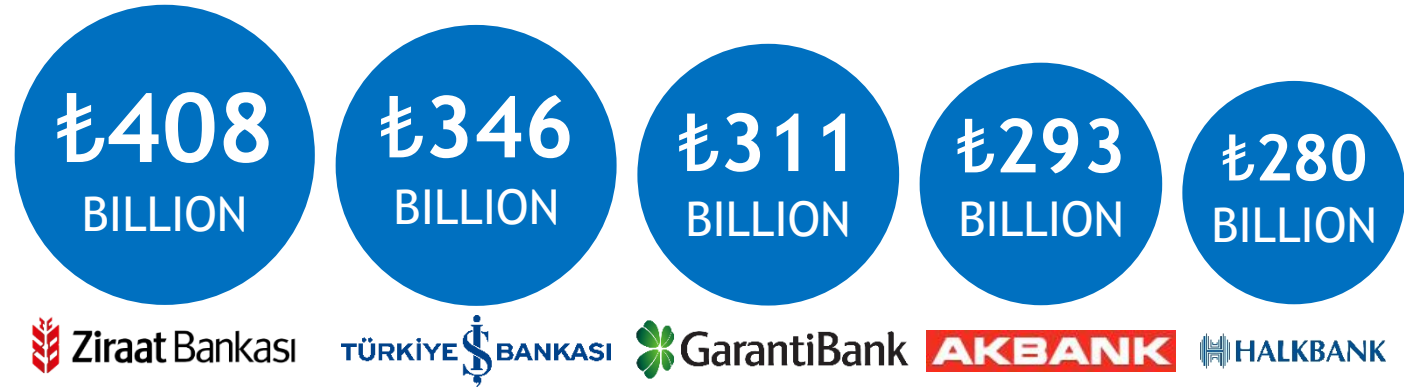
Insurance

Turkey's Competitive Landscape



TOTAL BANKING ASSETS

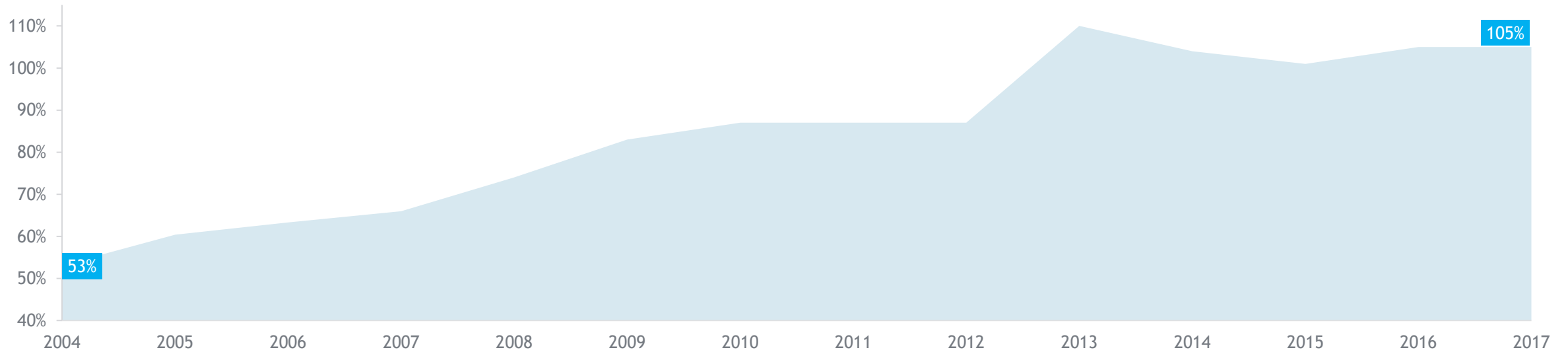
TOP 5 BANKS BY ASSET SIZE, 2017



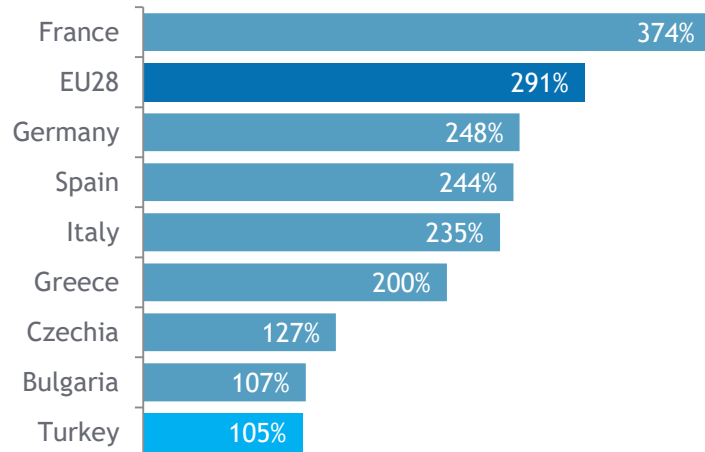
Source: BRSA, USD/TL as of 29.12.2017: ₺3.78



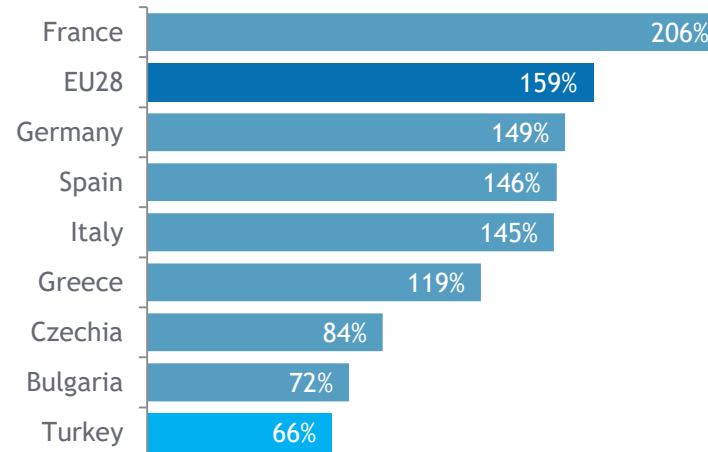
Turkish Banking Asset Size as % of GDP



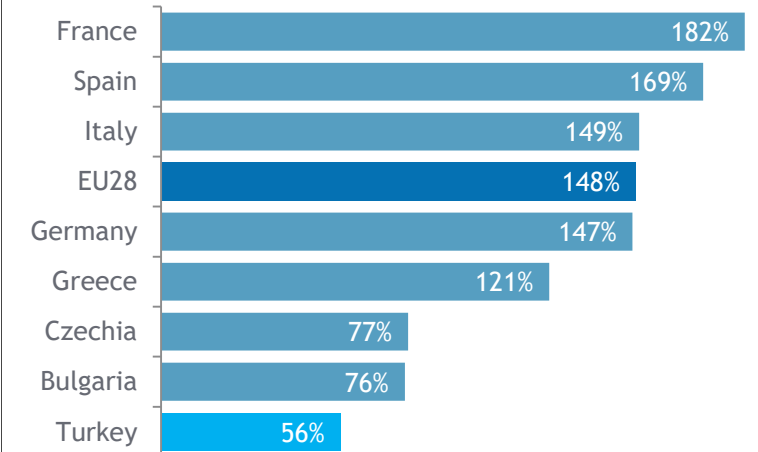
Total Asset Size as % of GDP (2016)

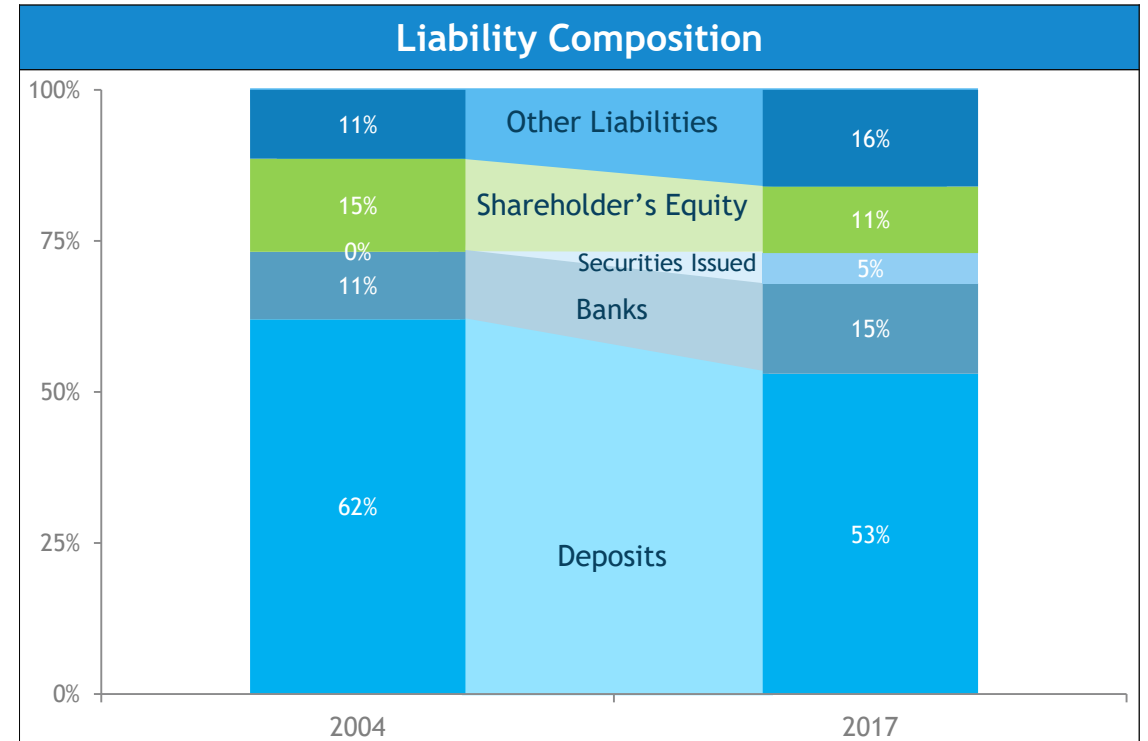
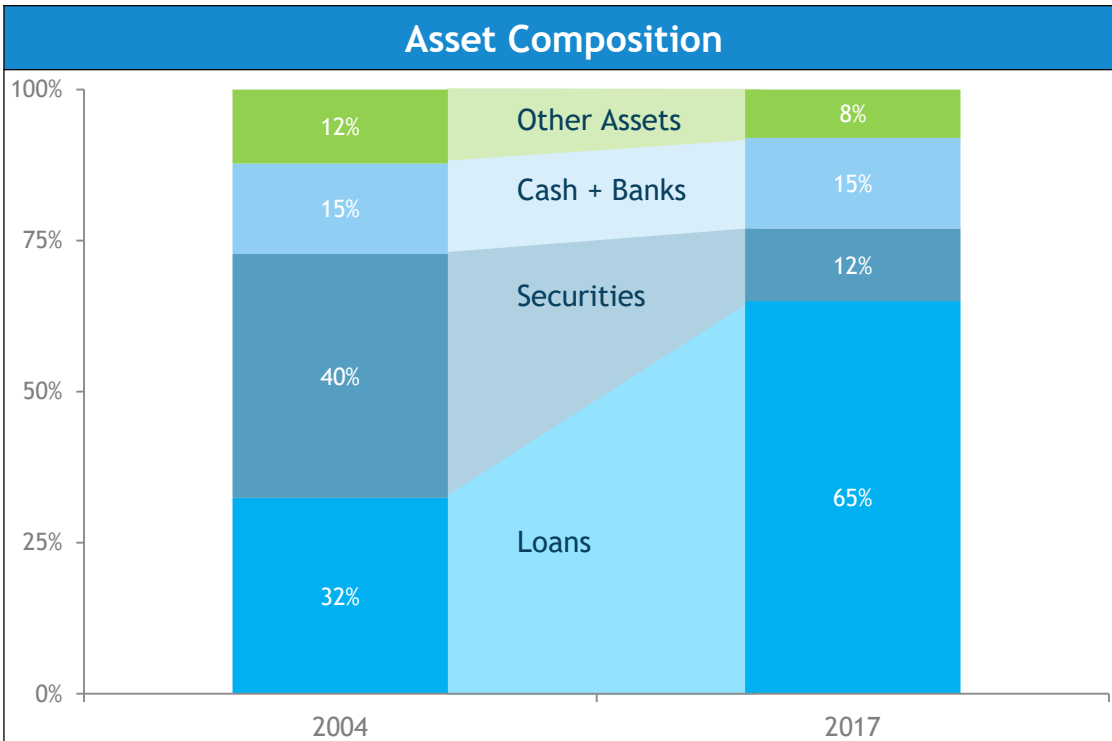
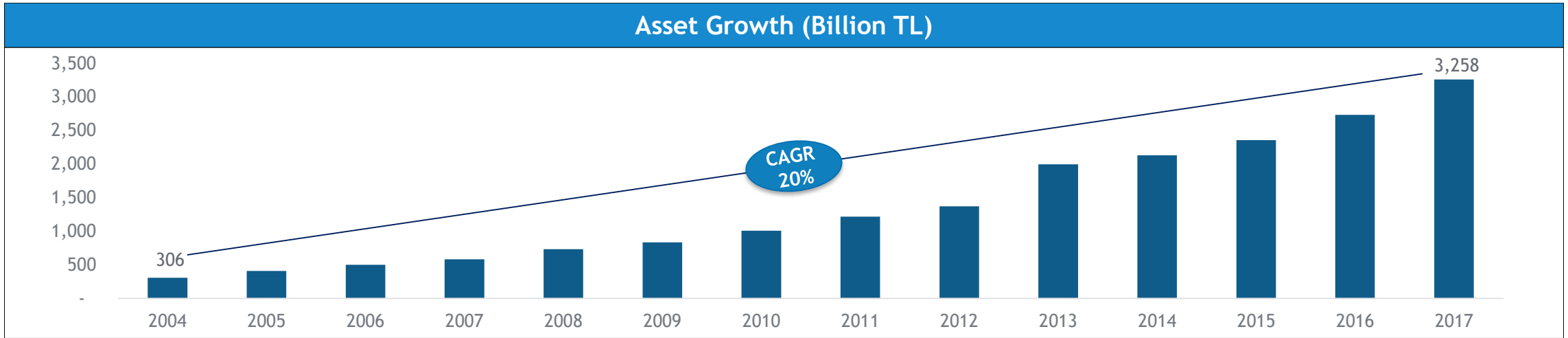


Total Loans as % of GDP (2016)



Total Deposits as % of GDP (2016)



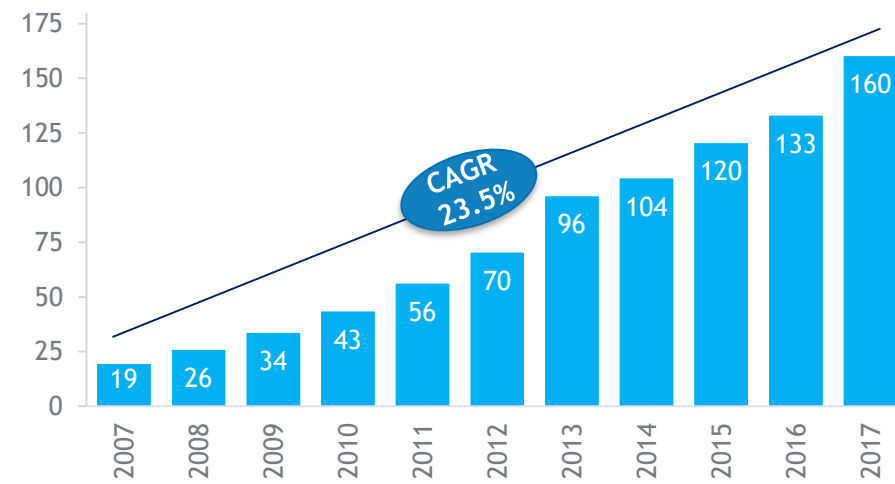




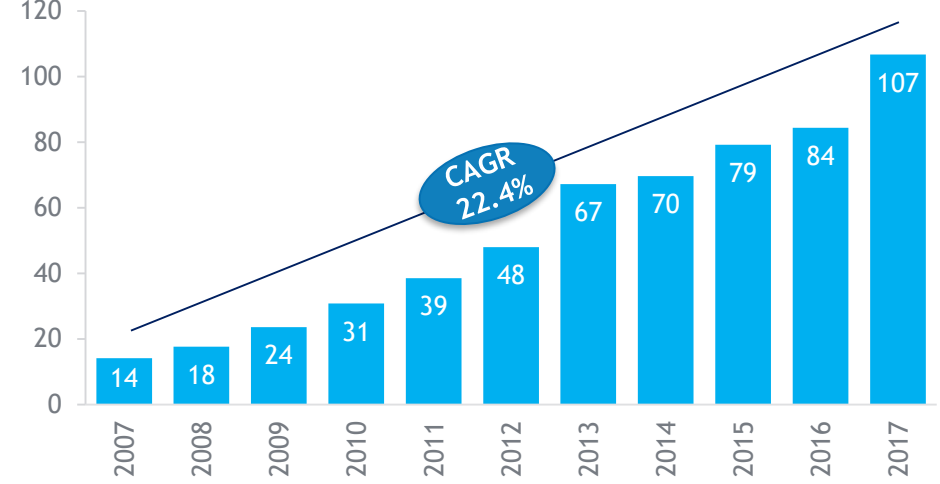
- Islamic banking operations in Turkey started in mid 1980's under the name of 'Special Finance Houses'. In 2005, these institutions were renamed as 'Participation Banks' and allowed to conduct banking activities in compliance with Islamic principles. Today there are five participation banks operating in Turkey.

- The total asset size of participation banks was more than 160 billion by the end of 2017, growing at an impressive CAGR of 23.5% since 2007. The share of participation banks in banking sector assets increased from 3.3 % in 2007 to 4.9% in 2017.

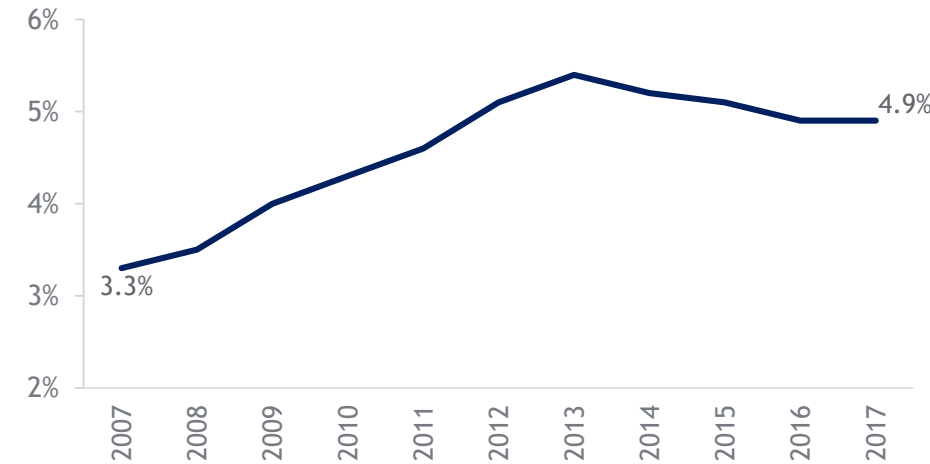
Asset Growth of the Participation Banks (TL Billion)



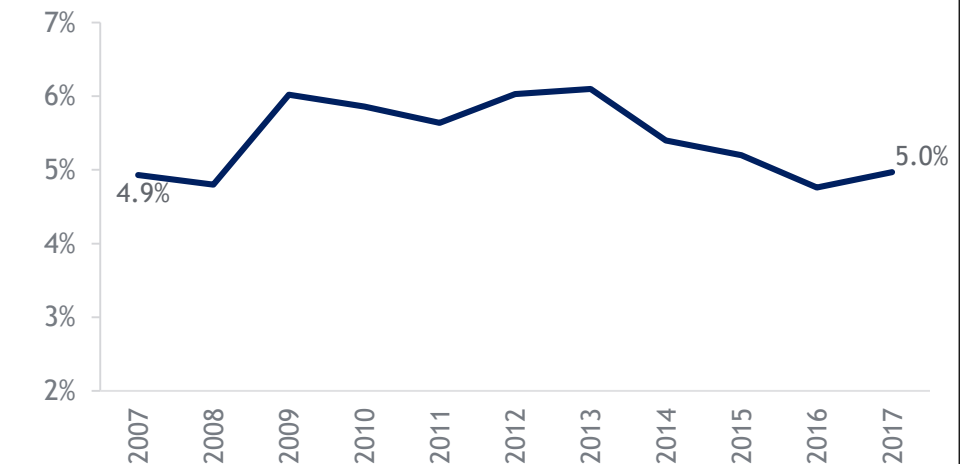
Lending Growth of Participation Banks (TL Billion)



Participation Banks' Asset as % of Total Banking Assets

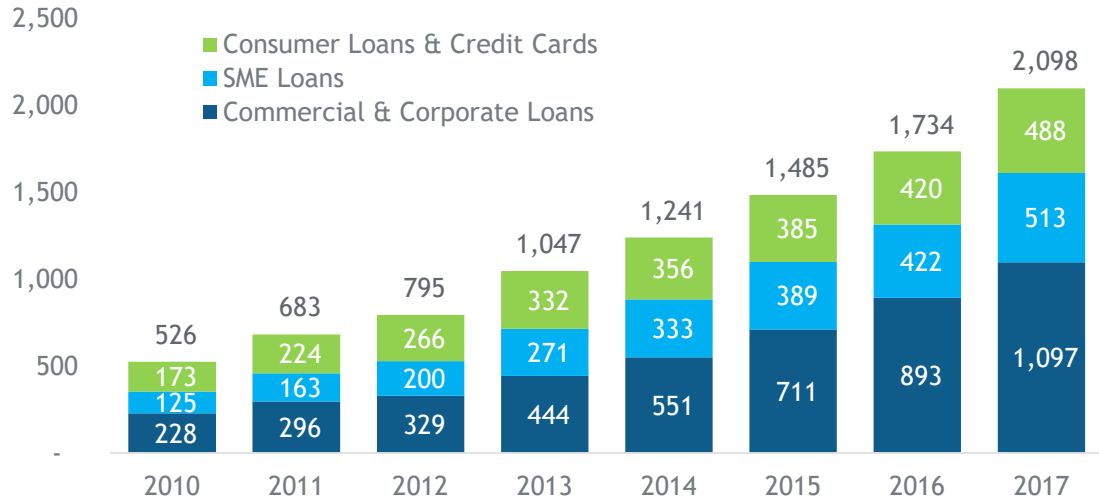


Participation Banks' Loans as % of Total Banking Loans

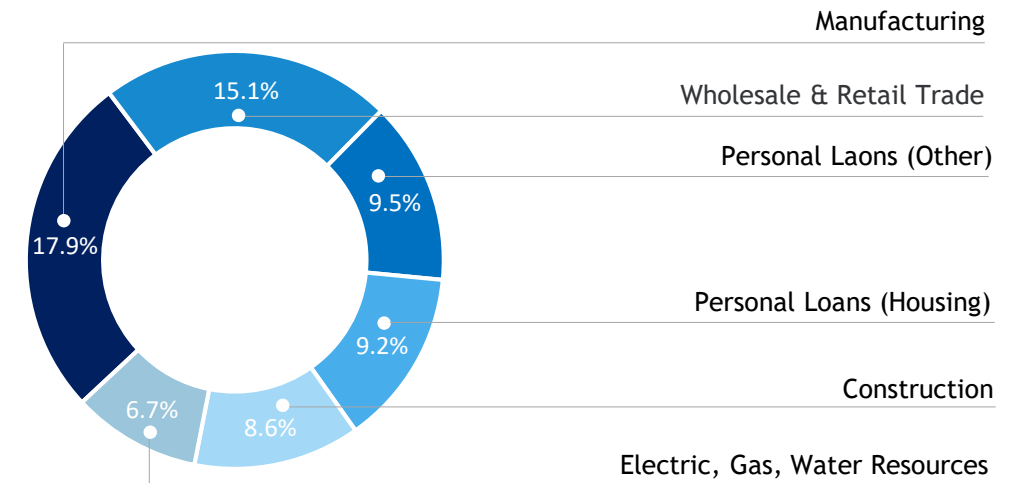




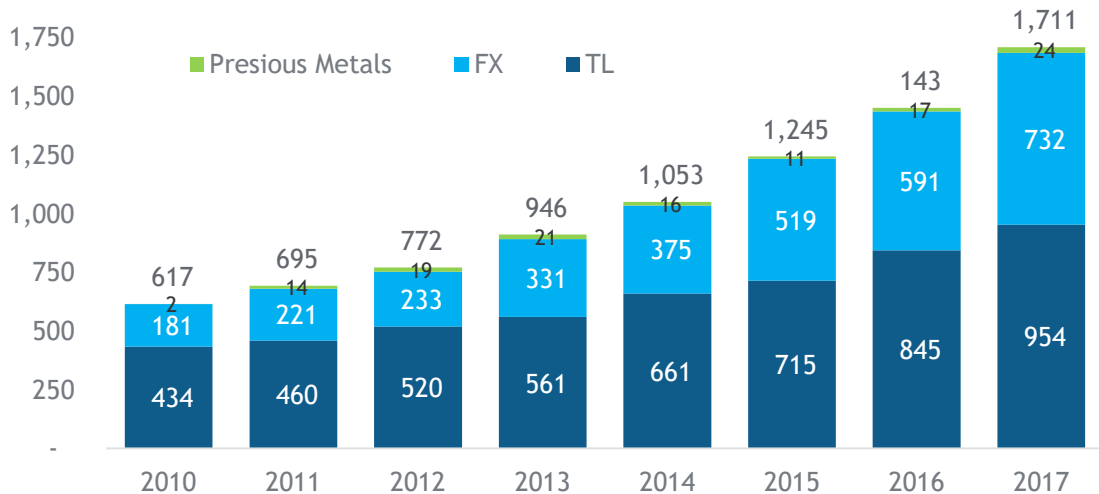
Loans (TL Billion)



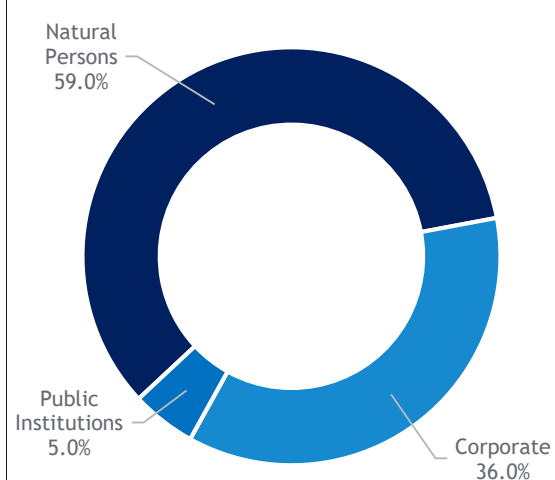
Breakdown of Loans (2017)



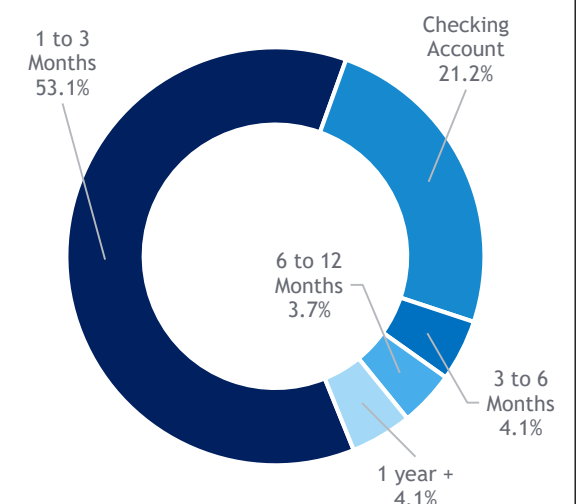
Deposits (Billion TL)



Depositors (2017)

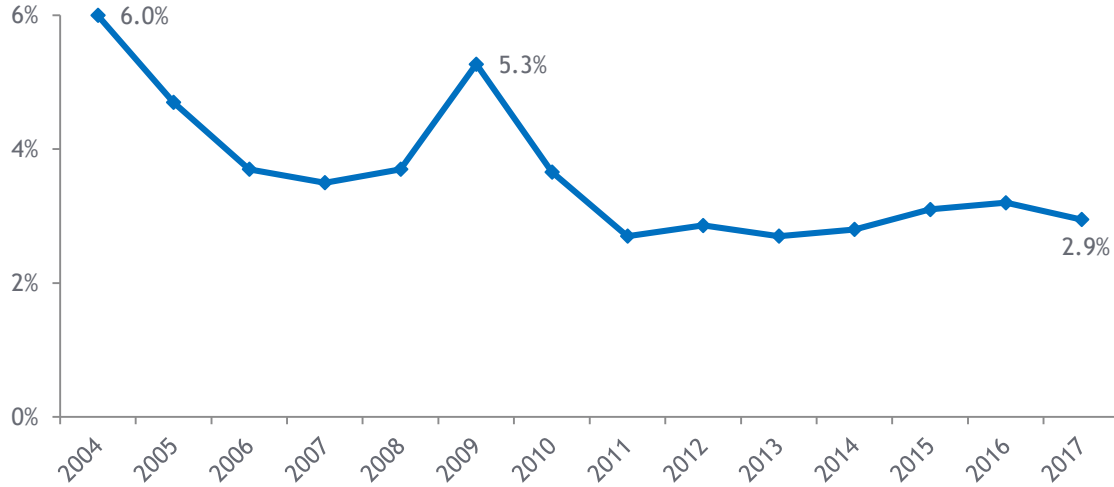


Deposits by Maturity (2017)

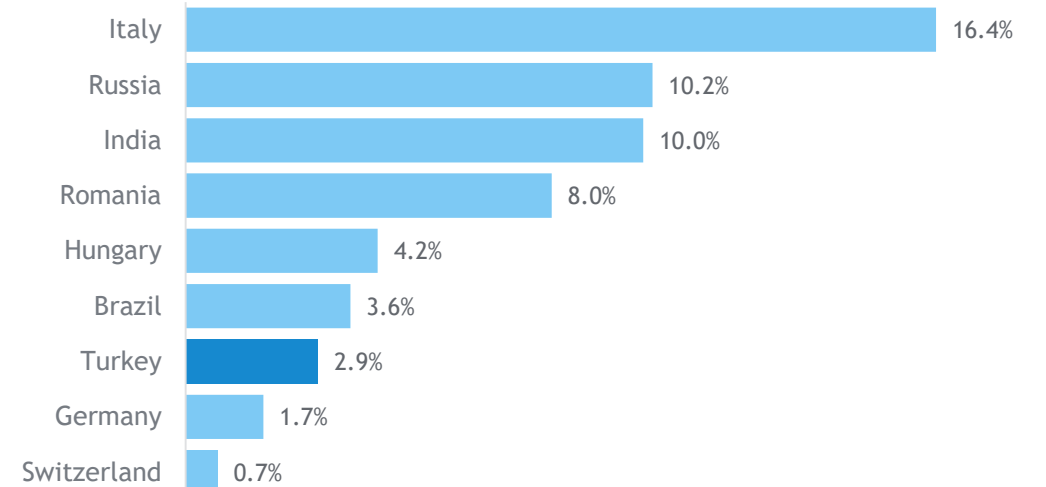




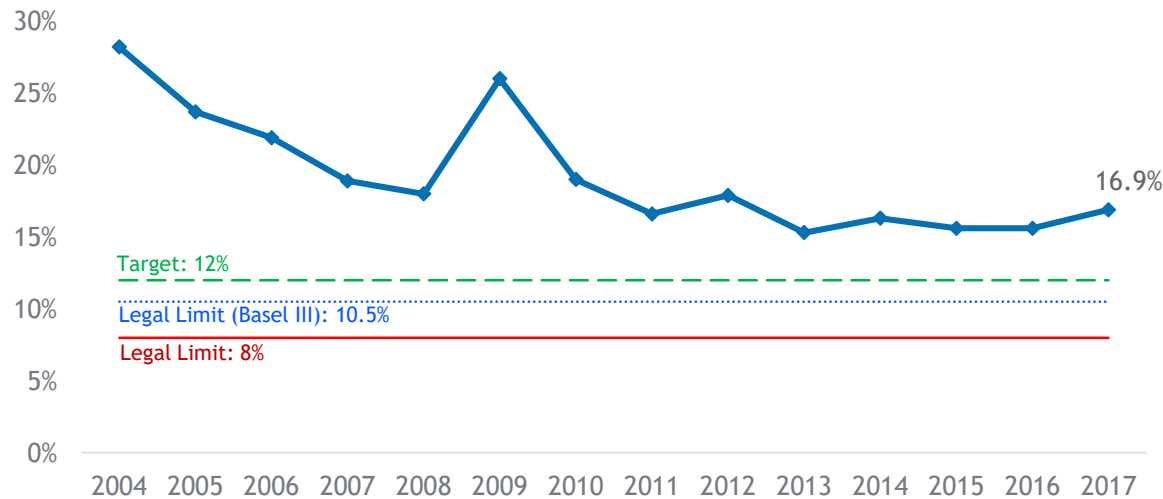
Non-Performing Loans / Total Gross Loans (NPL Ratio)



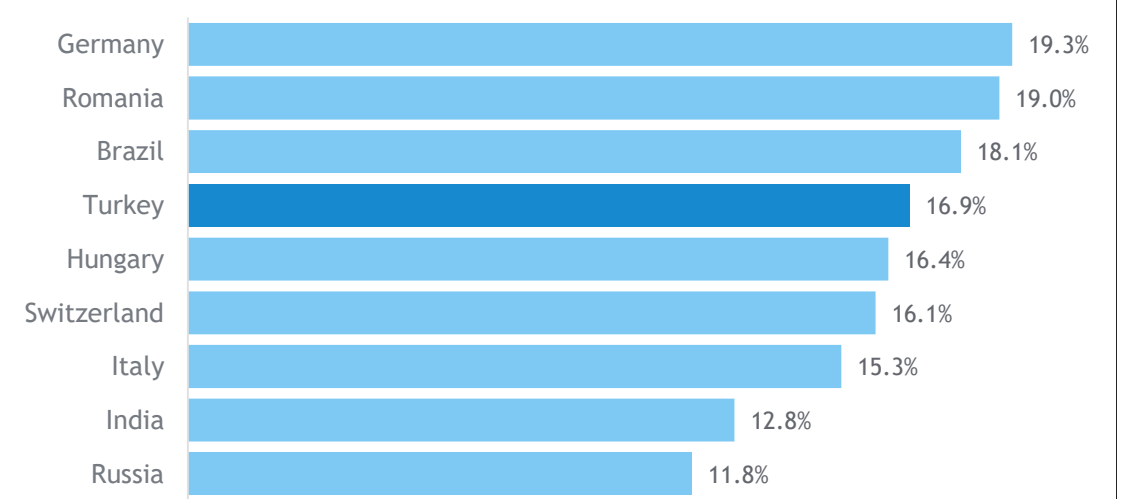
NPL Ratio, 2017*



Capital Adequacy Ratio

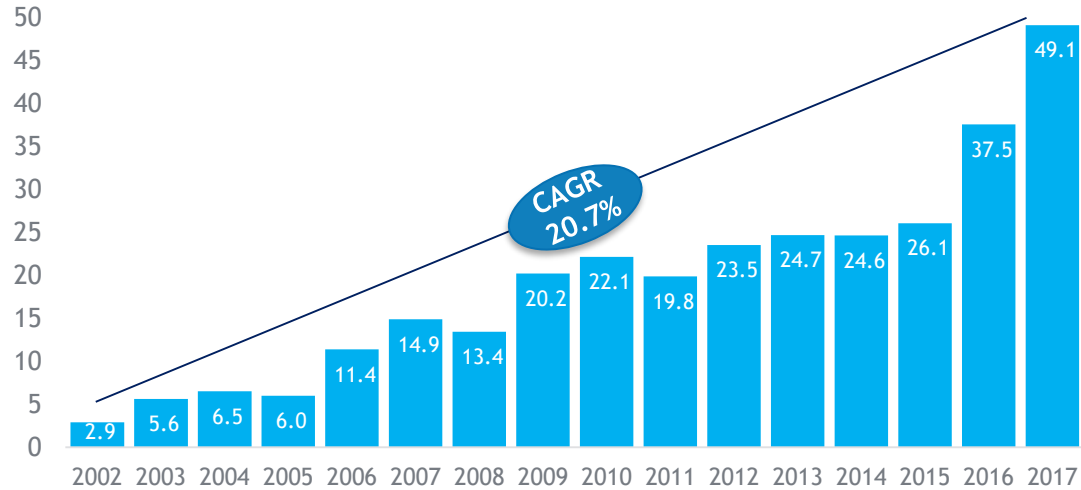


Capital Adequacy Ratio, 2017*





Net Income (Billion TL)

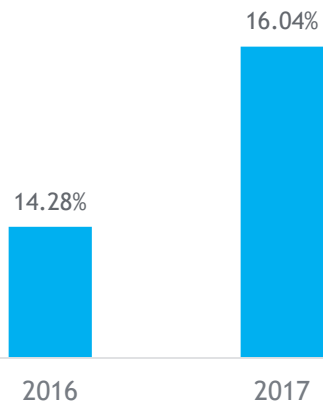


Income Statement (Billion TL)

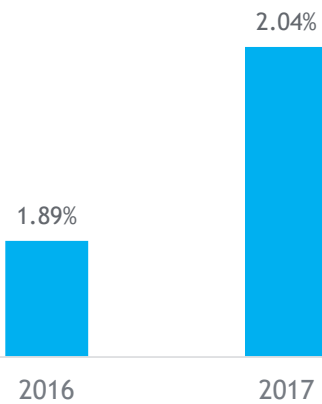
	<u>2017</u>	<u>2016</u>	<u>2007</u>
Total Interest Income	247.5	194.7	70.6
Total Interest Expenses	134.1	103.4	44.5
<u>NET INTEREST INCOME/ EXPENSE</u>	<u>113.4</u>	<u>91.3</u>	<u>26.0</u>
Special Provisions for Non performing Loans	19.8	21.5	3.0
<u>NET INTEREST INCOME/ EXPENSE AFTER PROVISIONS</u>	<u>93.6</u>	<u>69.9</u>	<u>23.1</u>
Total Non-Interest Income	55.7	46.5	16.0
Total Non-Interest Expenses	77.8	67.6	22.2
Total Other Non Interest Income /Expense	-10.2	-1.5	1.3
<u>TOTAL NON-INTEREST INCOME/EXPENSE</u>	<u>32.3</u>	<u>22.6</u>	<u>4.9</u>
<u>PROFIT/LOSS BEFORE TAX</u>	<u>61.3</u>	<u>47.3</u>	<u>18.2</u>
Provision for Taxes	12.2	9.7	3.3
<u>NET INCOME</u>	<u>49.1</u>	<u>37.5</u>	<u>14.9</u>

Returns

Return on Equity

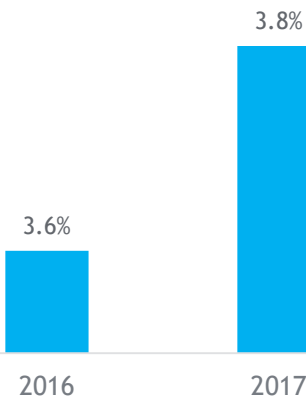


Return on Assets

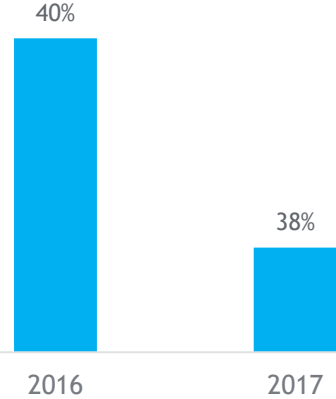


Margins

Net Interest Margin*

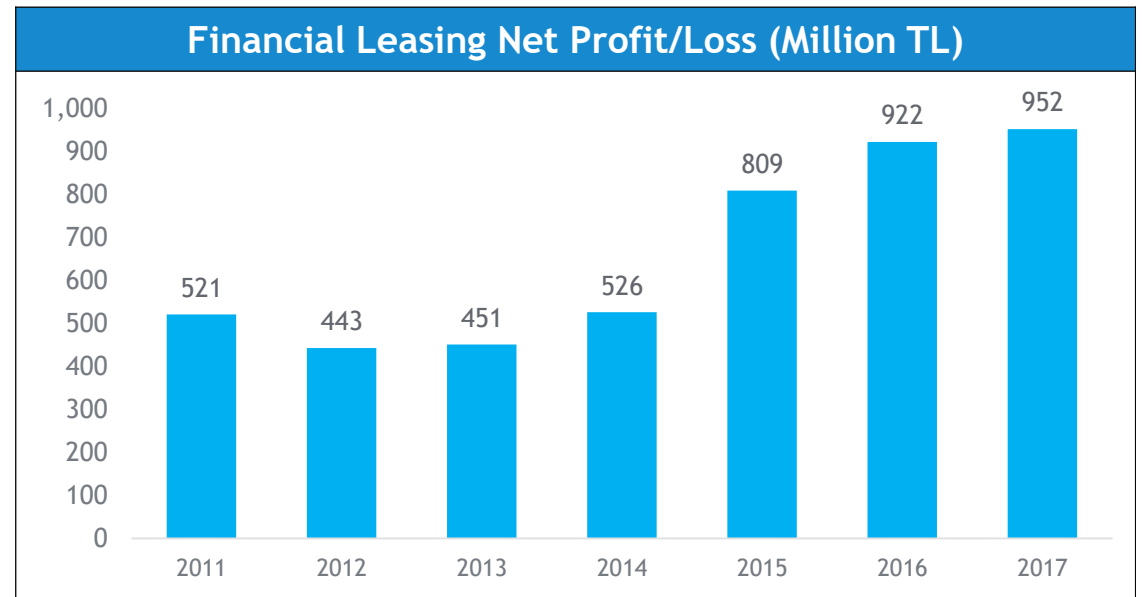
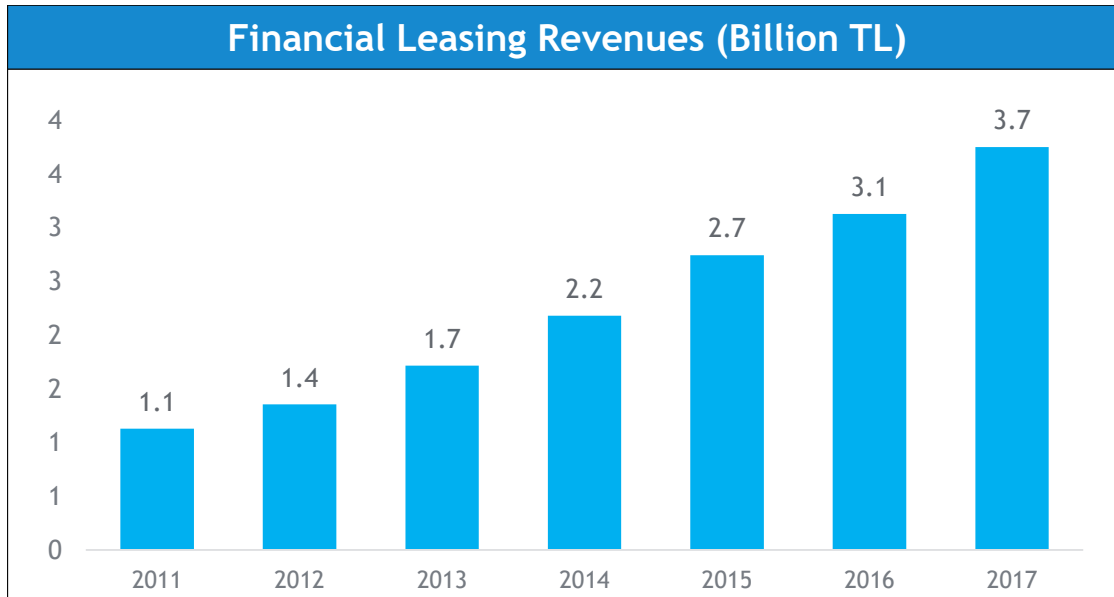
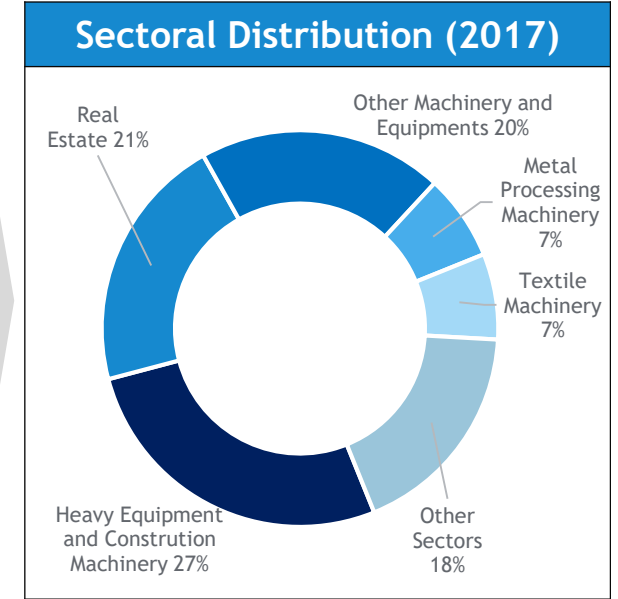
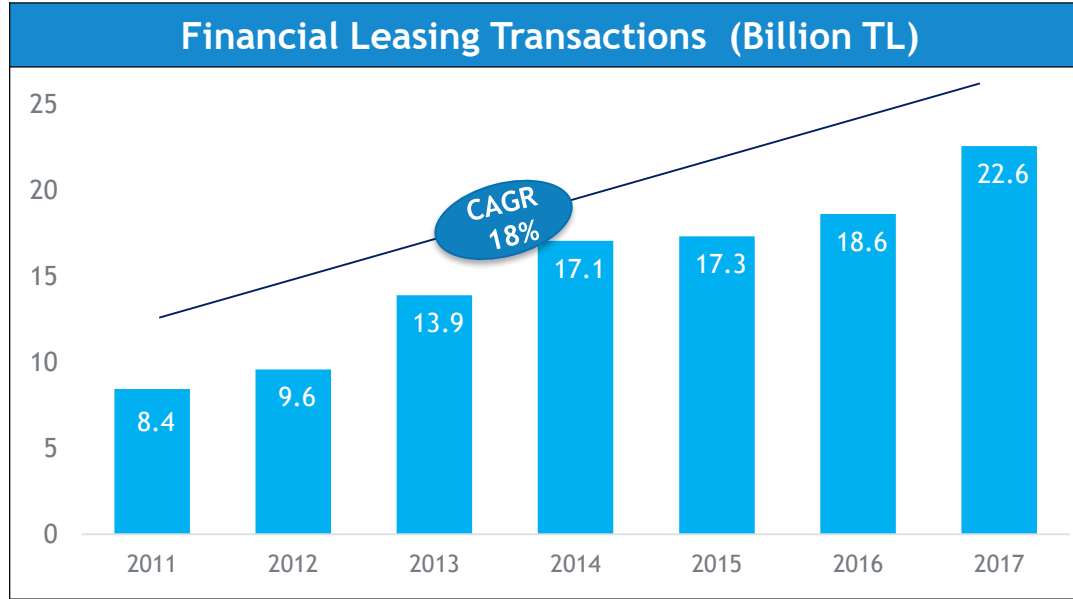


Cost / Income Ratio



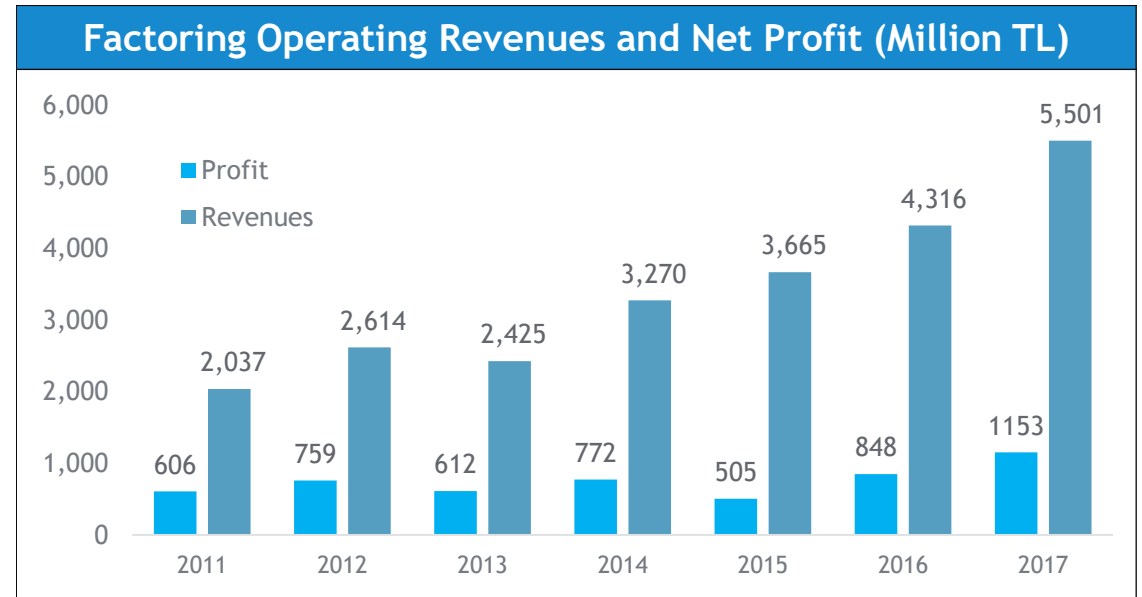
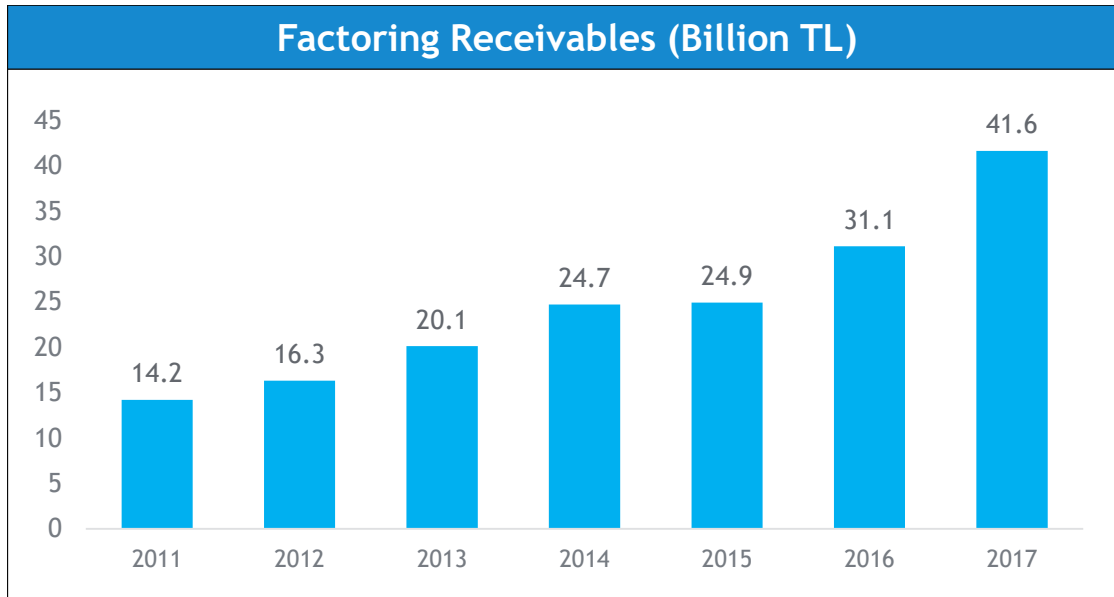
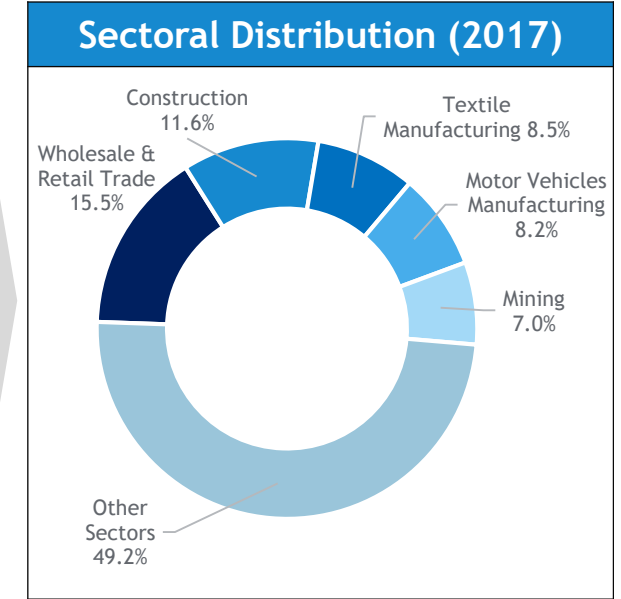
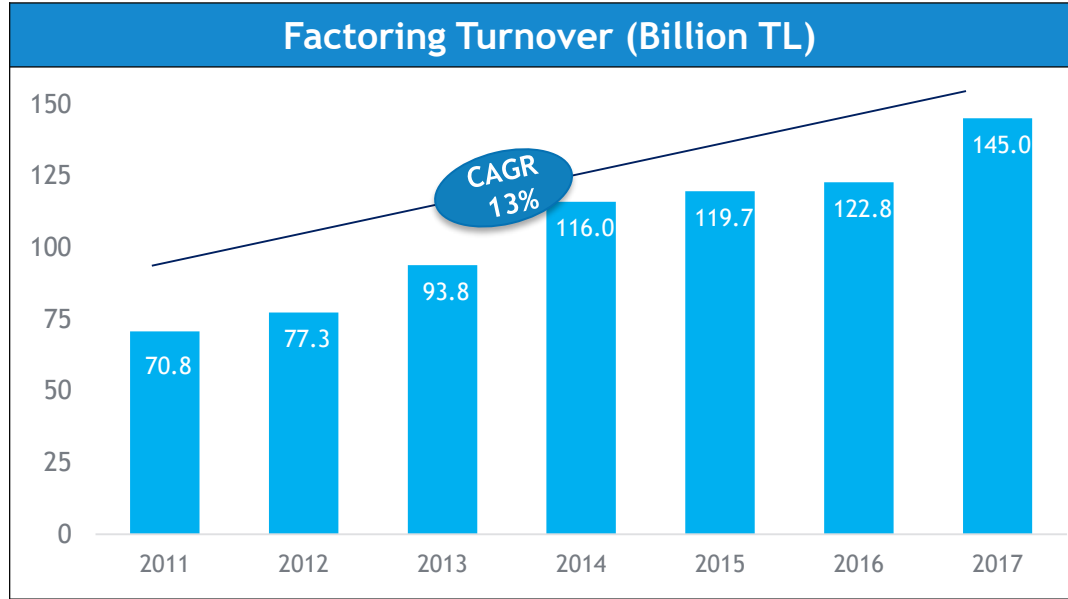


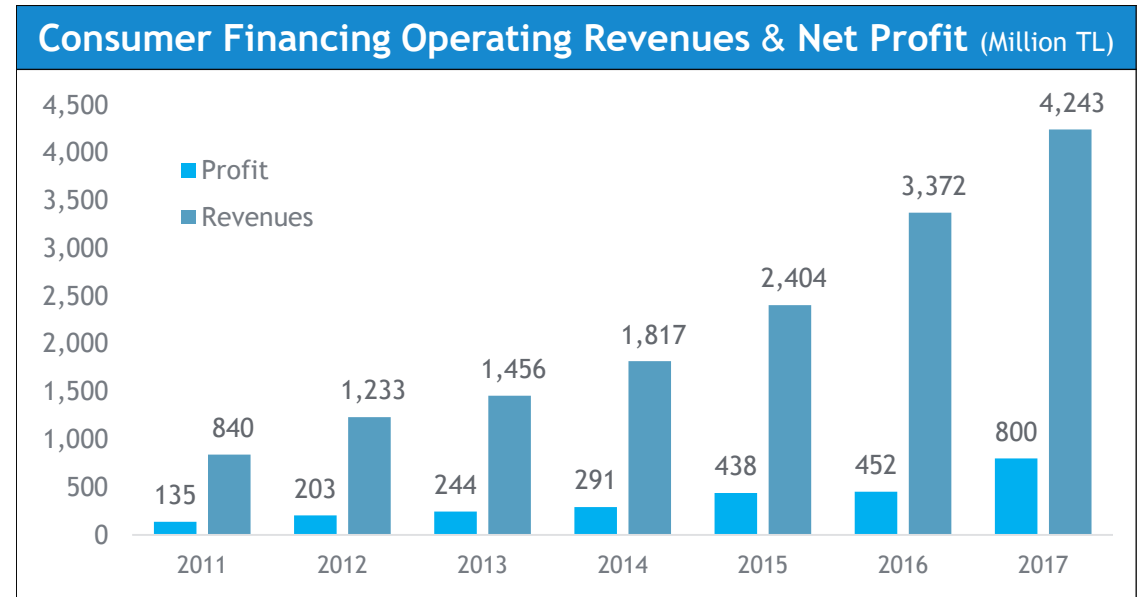
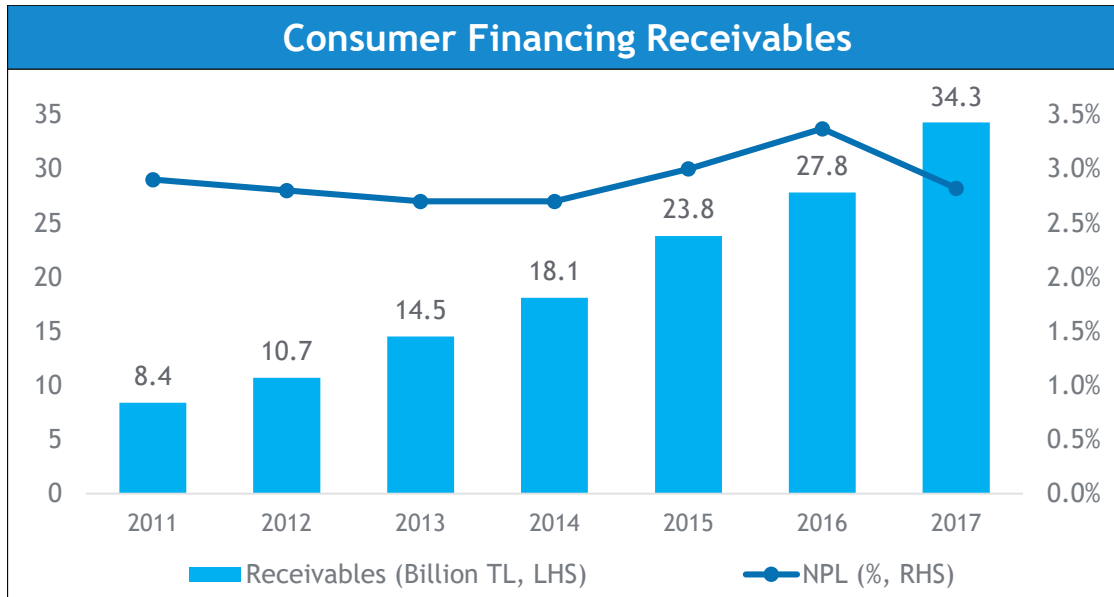
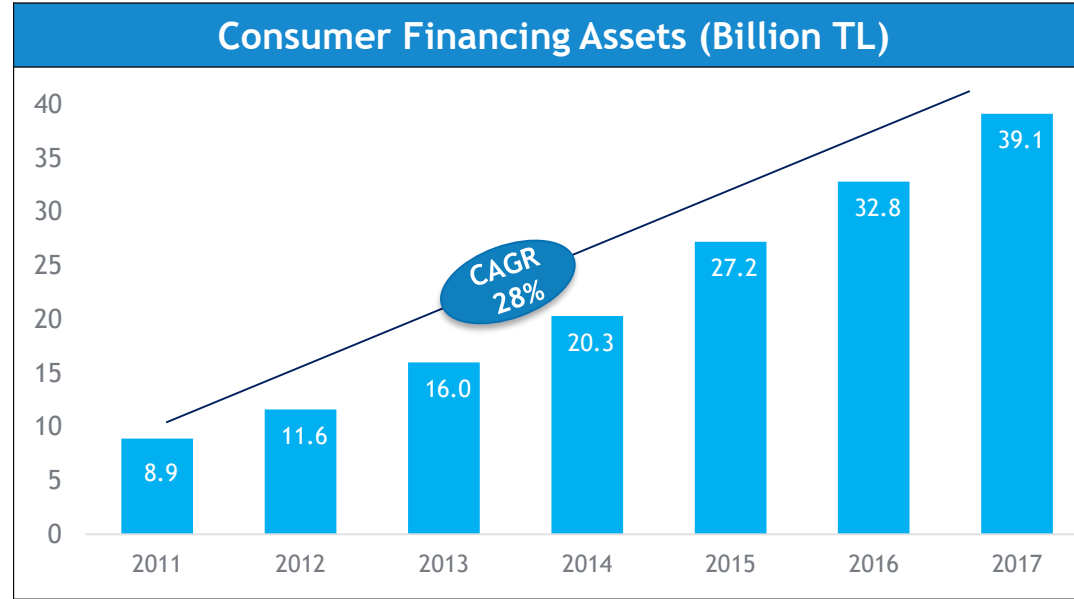
Leasing in Numbers	
	2017
Companies	25
Employees	1,453
Clients	57,605
Branches	139





Factoring in Numbers	
	2017
Companies	61
Employees	4,778
Clients	109,658
Branches	388







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Capital Markets Law passed
CMB was established
Istanbul Stock Exchange was established



Liberalization of Foreign Investment
Fully automated trading started
Corporate Governance Principles were published
first ETF was established



New IFRS regulation was adopted
Public Disclosure Platform was introduced
First Islamic Bond was issued



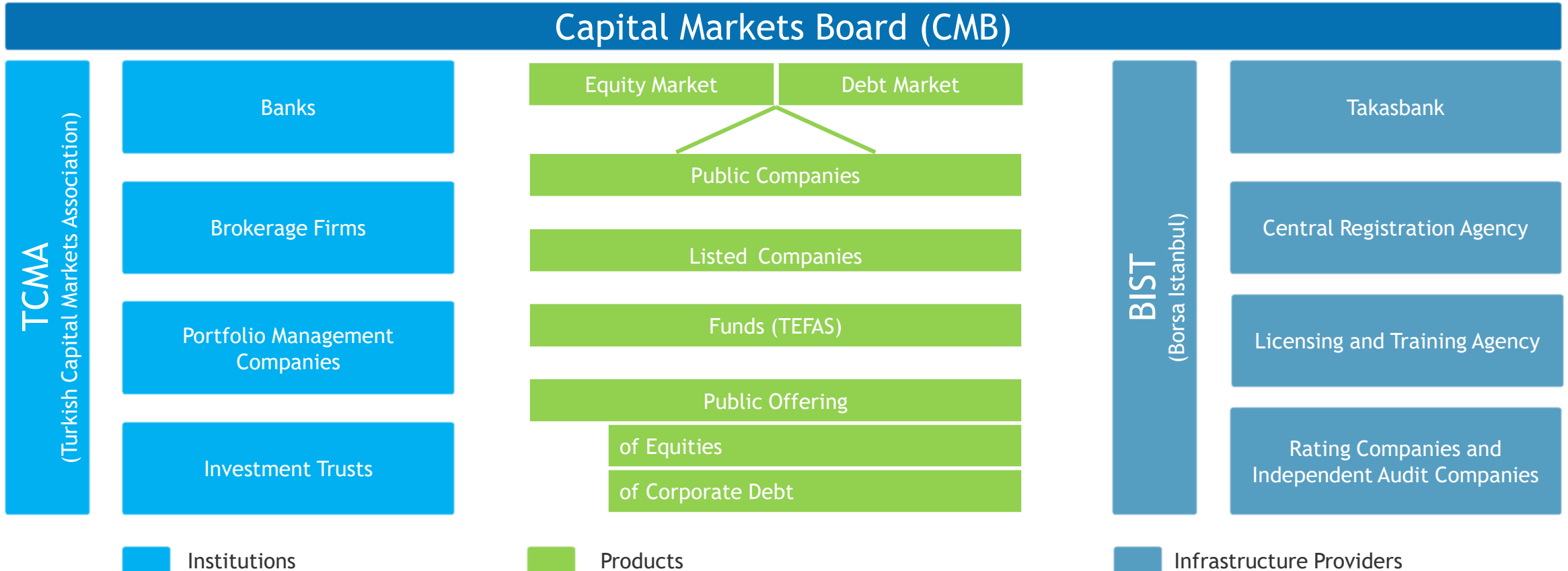
New Capital Markets Law passed



ISE demutualized and transformed to Borsa Istanbul
Borsa Istanbul merged with Istanbul Gold Exchange and Derivatives Exchange



Electronic Fund Distribution Platform of Turkey (TEFAS) began to operate





411

COMPANIES TRADED AT BIST
2017

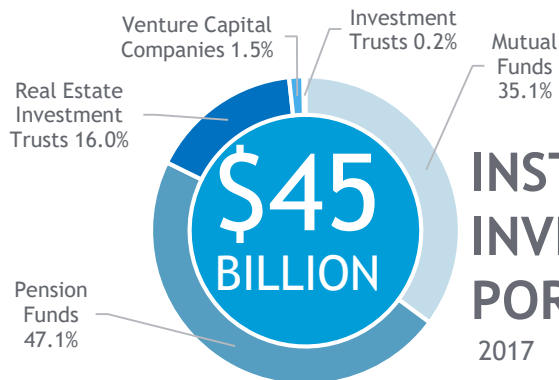
\$227 BILLION

MARKET CAPITALIZATION OF BIST
2017

1+ MILLION

EQUITY INVESTORS
2017

MARKET CAPITALIZATION AS % OF GDP
2017



\$45 BILLION

INSTITUTIONAL INVESTORS PORTFOLIO
2017

\$18 BILLION

CORPORATE BONDS MARKET
2017

\$2.3 TRILLION

FOREX TRADING VOLUME
2017



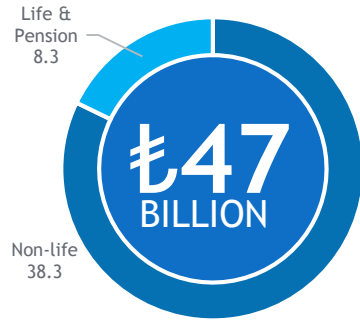
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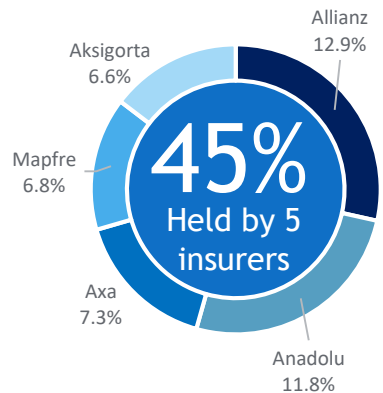
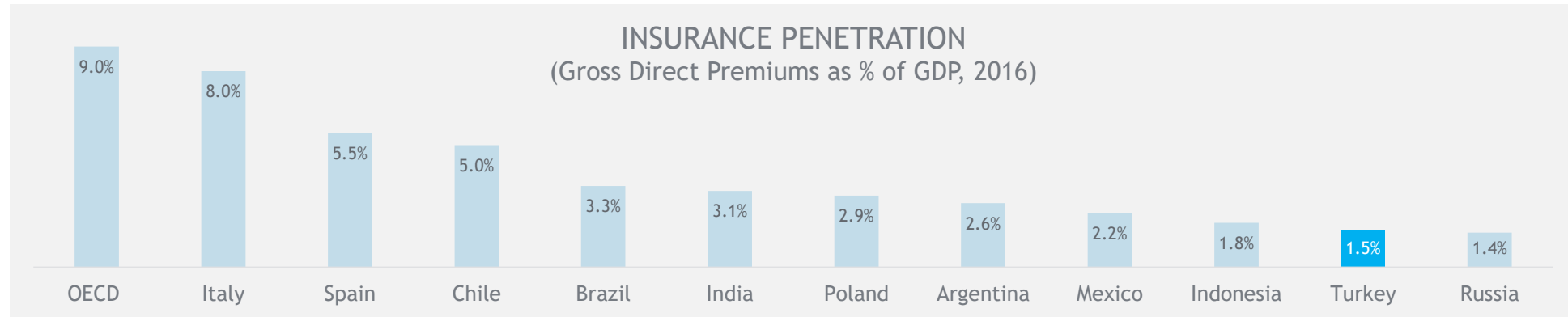
GROSS PREMIUMS WRITTEN
2017



PREMIUM GROWTH
2012-2017

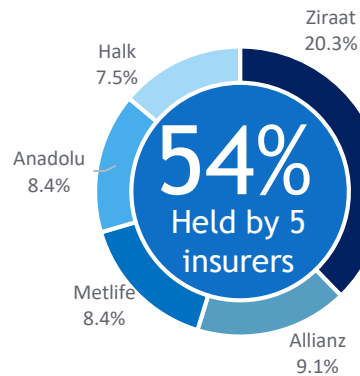


TOTAL ASSETS
Including reinsurance 2017



NON-LIFE INSURANCE MARKET SHARE

Top 5 Market Leaders, 2017



LIFE INSURANCE MARKET SHARE

Top 5 Market Leaders, 2017



AUTHORIZED INSURERS
2017



COMPULSORY INSURANCE PRODUCTS

Motor third party liability for bodily injury and property damage.	Professional liability cover for tour operators.
Earthquake insurance on private dwellings.	Medical malpractice insurance for doctors and dentists.
Third party liability for bodily injury and medical expenses for passengers on intercity and international transport.	Professional indemnity insurance for independent auditors
Third party liability for passengers on vessels registered to carry 12 or more passengers.	Sea pollution liability for companies situated near the shoreline
Personal accident cover for intercity coach passengers.	Public liability insurance for private security guards.
Personal accident cover for miners.	Third party legal liability and passenger liability for aircraft.
Professional indemnity insurance for companies providing professional services to banks.	Insurance of goods that are subject to finance leasing.
Liability of companies engaged in the production, storage, and handling of LPG cylinders.	Professional indemnity insurance for electronic signature certificate providers.
Liability insurance for companies engaged in the production, storage, transport, and sale of combustible, explosive or flammable materials.	



Summary

Banking and Financial Intermediary

Capital Markets

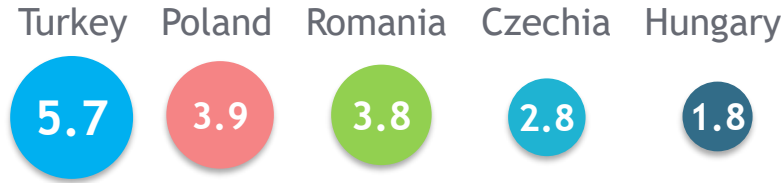
Insurance

Turkey's Competitive Landscape



13TH LARGEST ECONOMY

Average Annual GDP Growth (%), 2003-2017

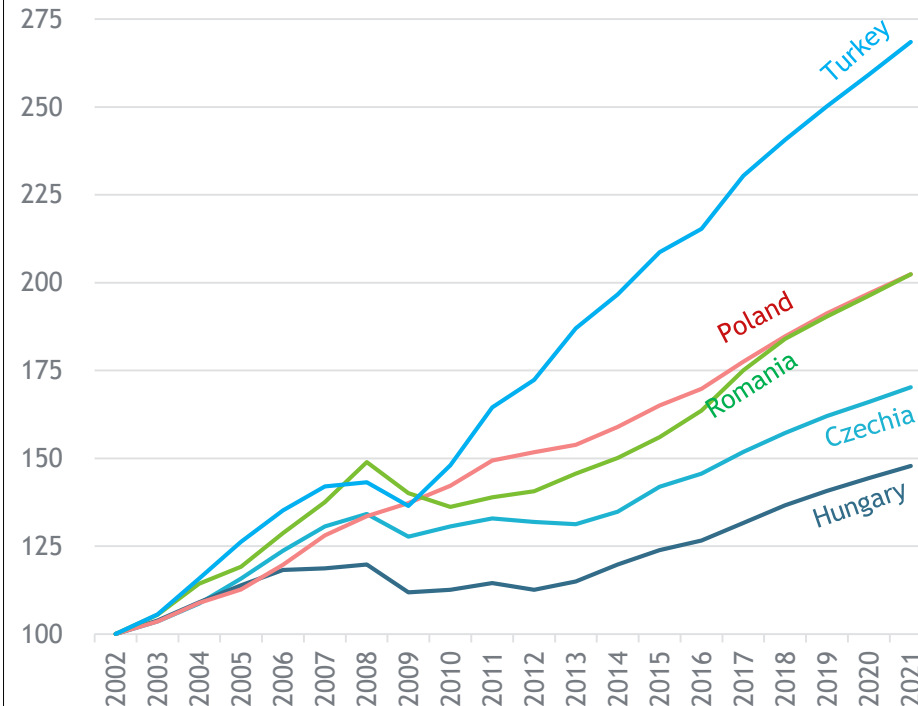


Fastest growing economy in G20

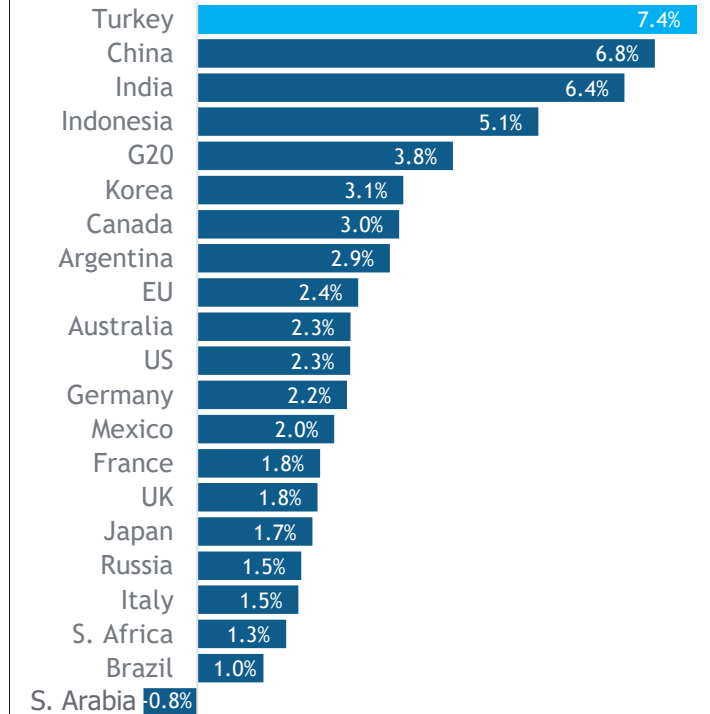
Ranking of Economies by GDP at PPP

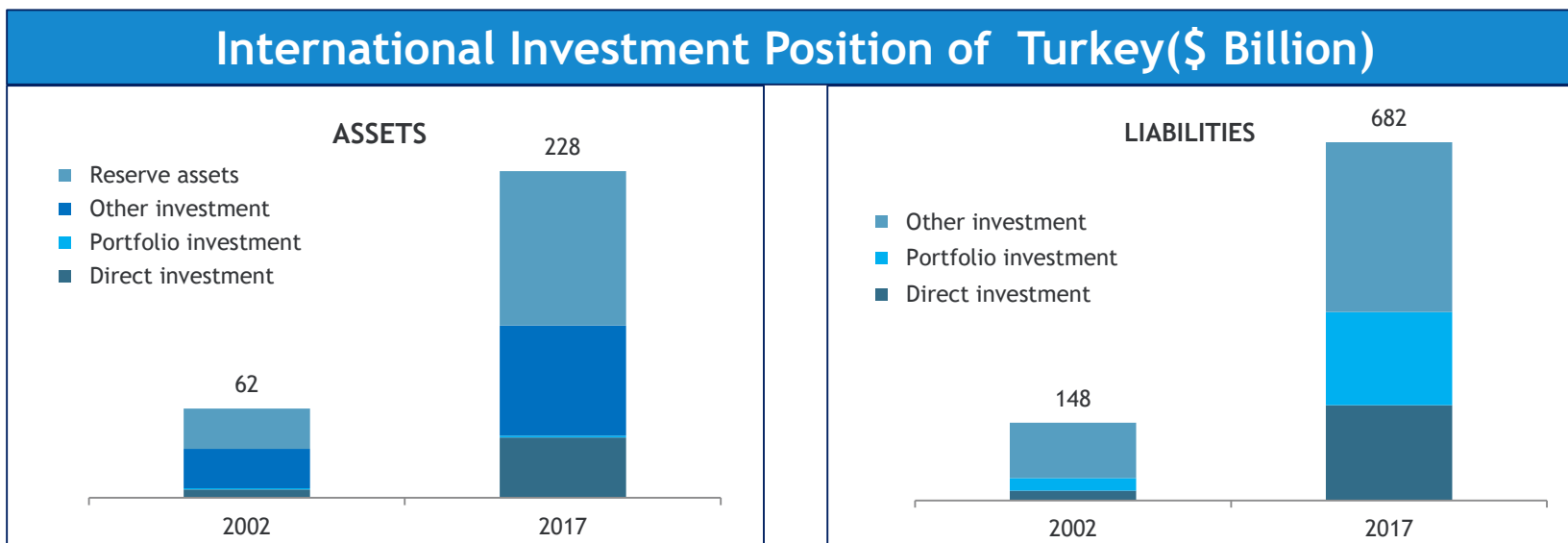
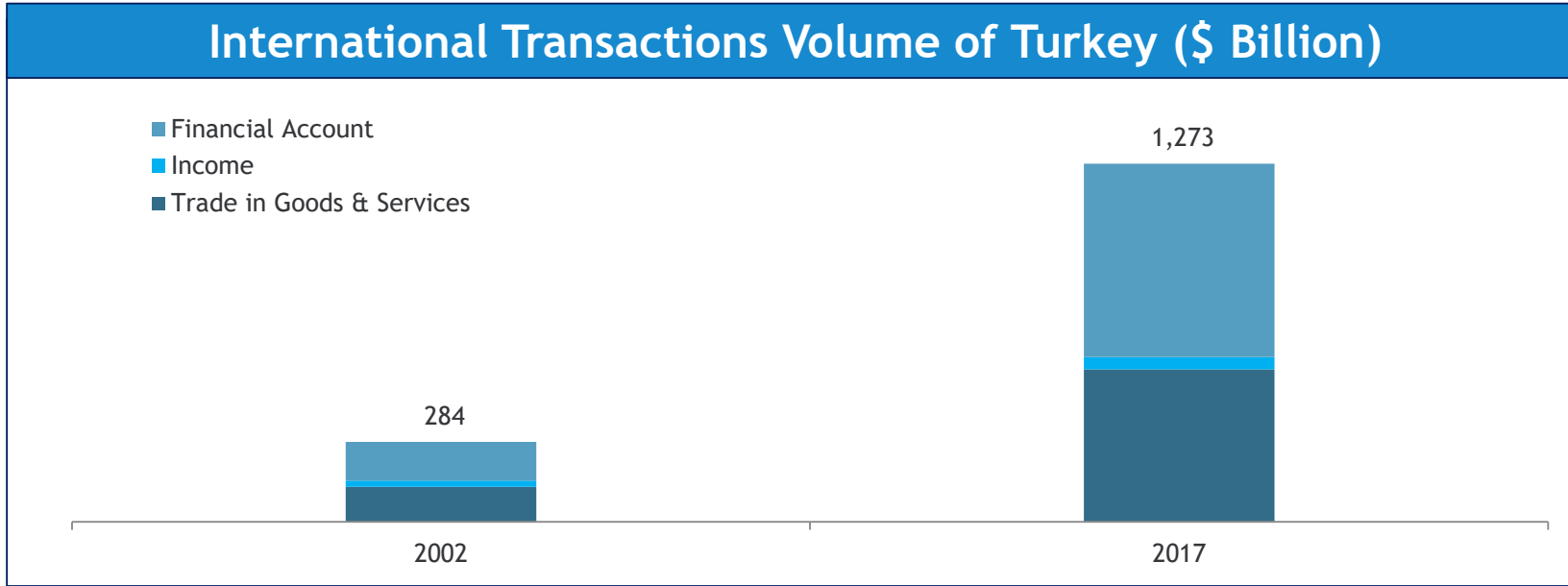
2003	2017	2021
1 USA	1 CHINA	1 CHINA
2 CHINA	2 USA	2 USA
3 JAPAN	3 INDIA	3 INDIA
4 GERMANY	4 JAPAN	4 JAPAN
5 INDIA	5 GERMANY	5 GERMANY
6 RUSSIA	6 RUSSIA	6 RUSSIA
7 FRANCE	7 INDONESIA	7 INDONESIA
8 UK	8 BRAZIL	8 BRAZIL
9 BRAZIL	9 UK	9 UK
10 ITALY	10 FRANCE	10 FRANCE
11 MEXICO	11 MEXICO	11 MEXICO
12 INDONESIA	12 ITALY	12 ITALY
13 SPAIN	13 TURKEY	13 ITALY
14 CANADA	14 S. KOREA	14 S. KOREA
15 S. KOREA	15 SPAIN	15 IRAN
16 S. ARABIA	16 S. ARABIA	16 SPAIN
17 IRAN	17 CANADA	17 S. ARABIA
18 TURKEY	18 IRAN	18 CANADA

Real GDP Growth (Index: 2002=100)



2017 Real GDP Growth in G20



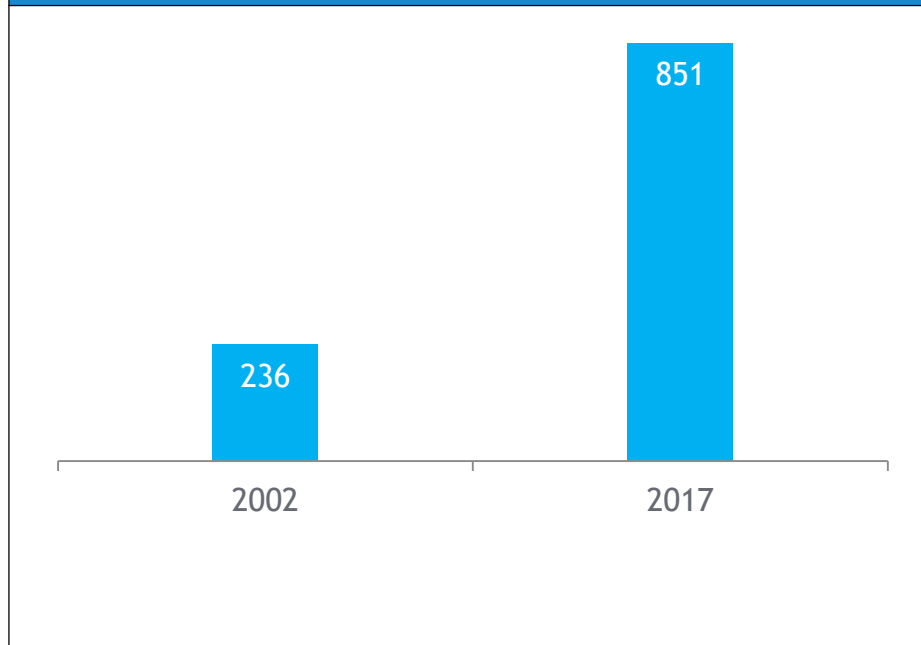




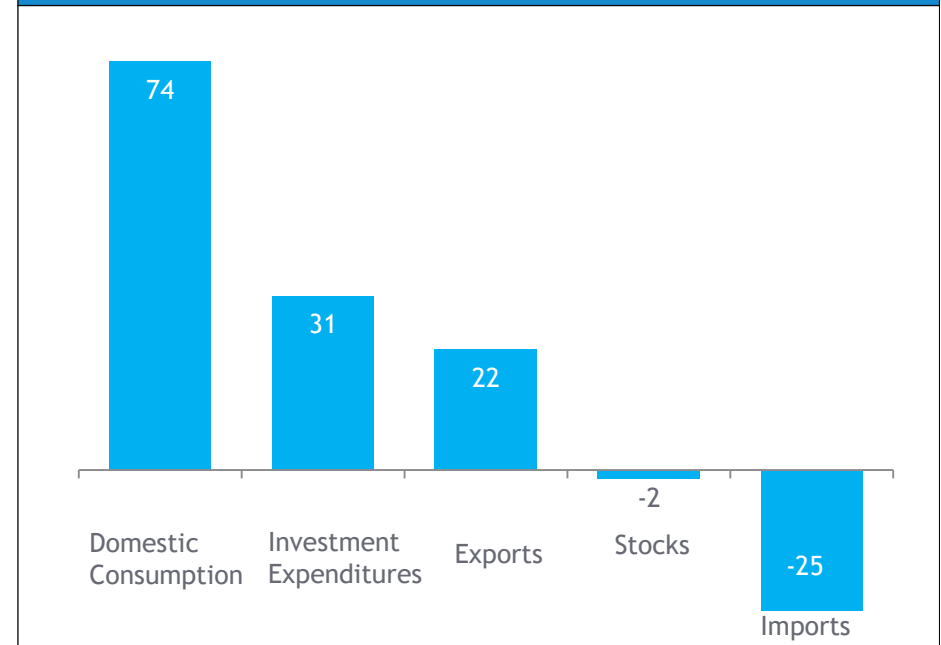
Turkish economy has more than tripled over the past 15 years and is promising more growth in future

..driven by a robust domestic market and entrepreneurial private sector which has spurred investments and exports

Turkish Economy (GDP at current prices, \$Billion)



Contribution to GDP Growth 2002-2017 (%)

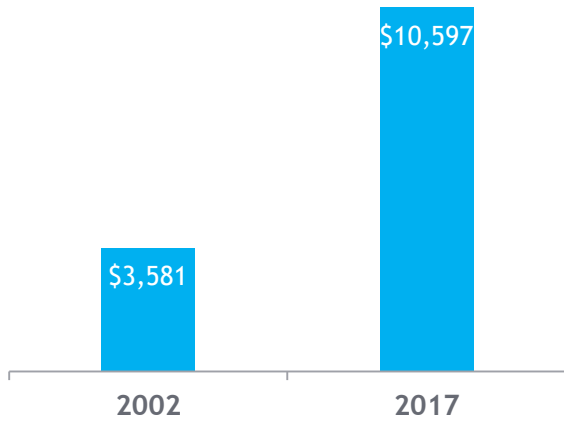


Domestic Market

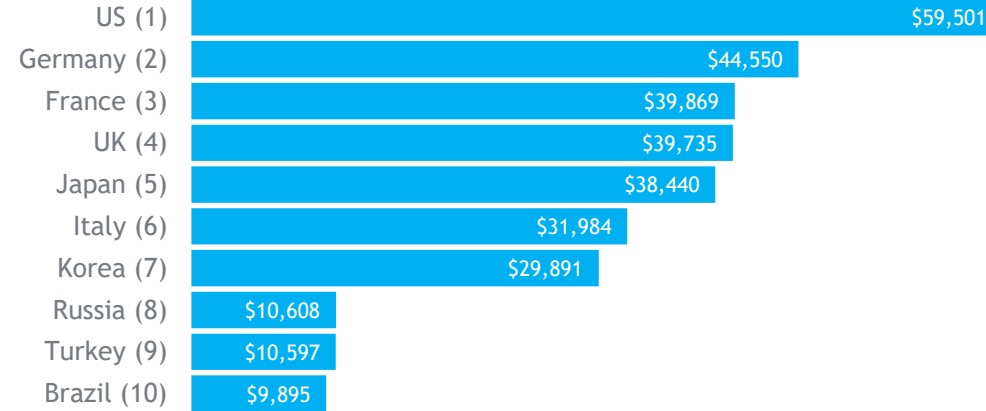
Turkey's economic growth has paved the way for the emergence of a sizeable middle-class with an increasing purchasing power...



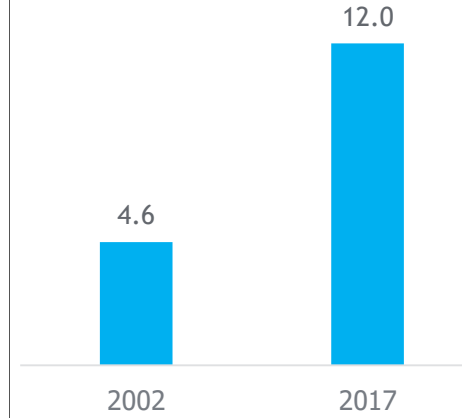
Tripling Income per capita
(GDP per capita, current prices)



GDP per capita in countries with population over 50 million, 2017

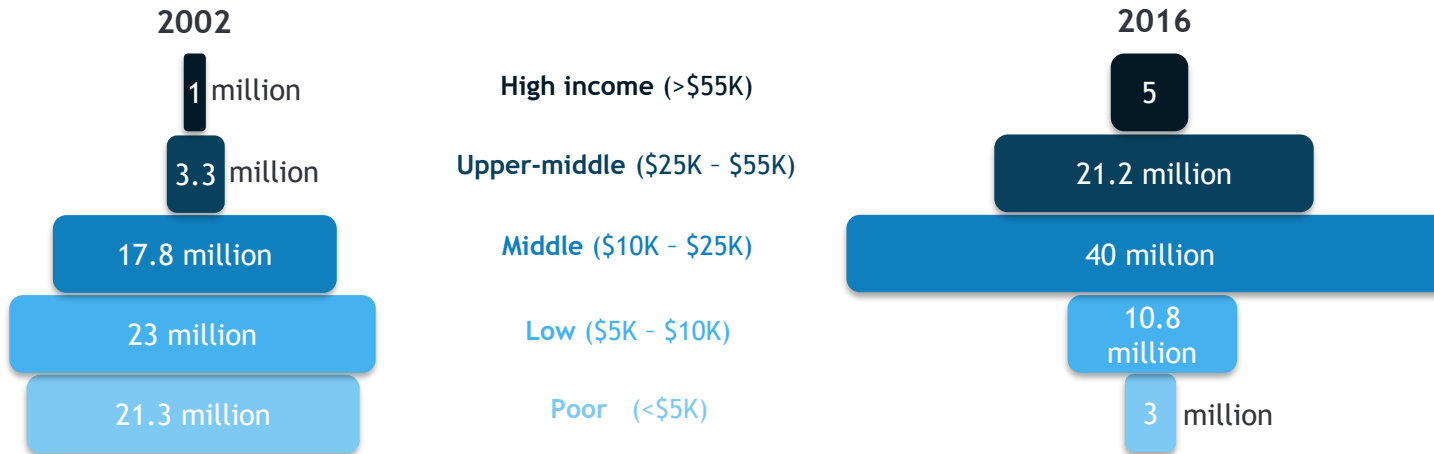


Stock of Automobiles
(millions of passenger cars)

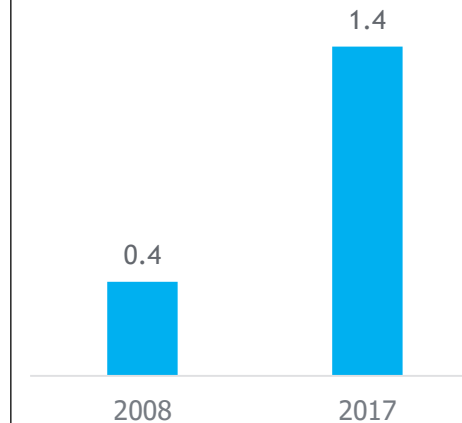


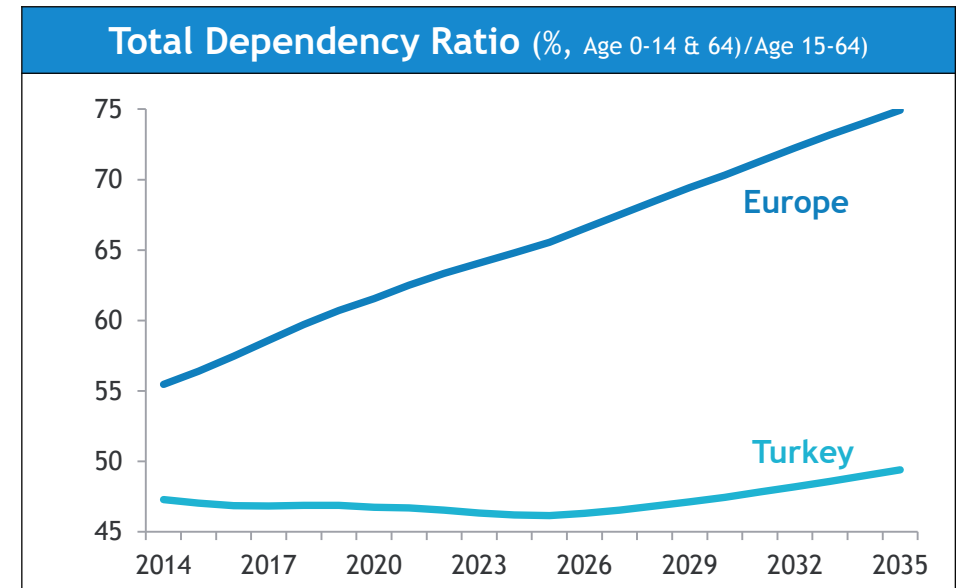
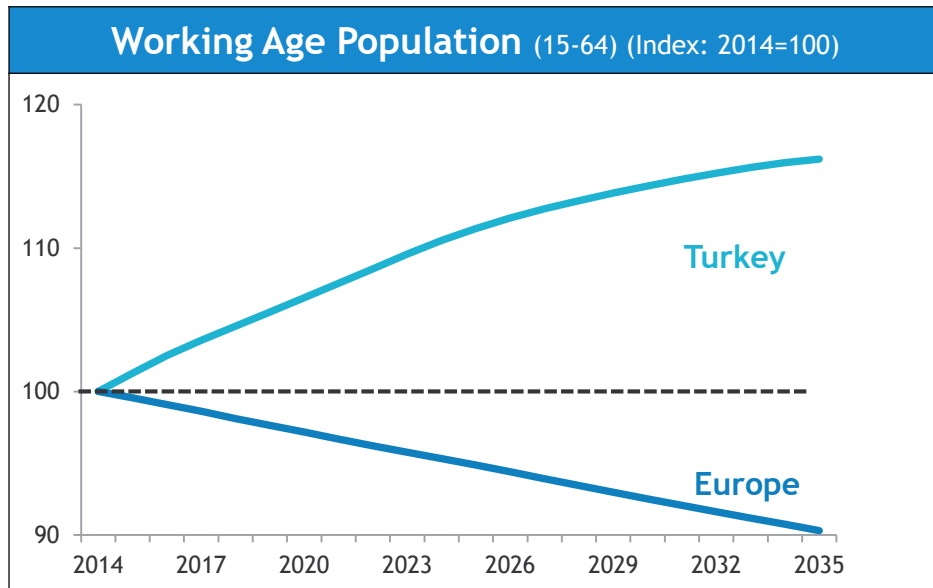
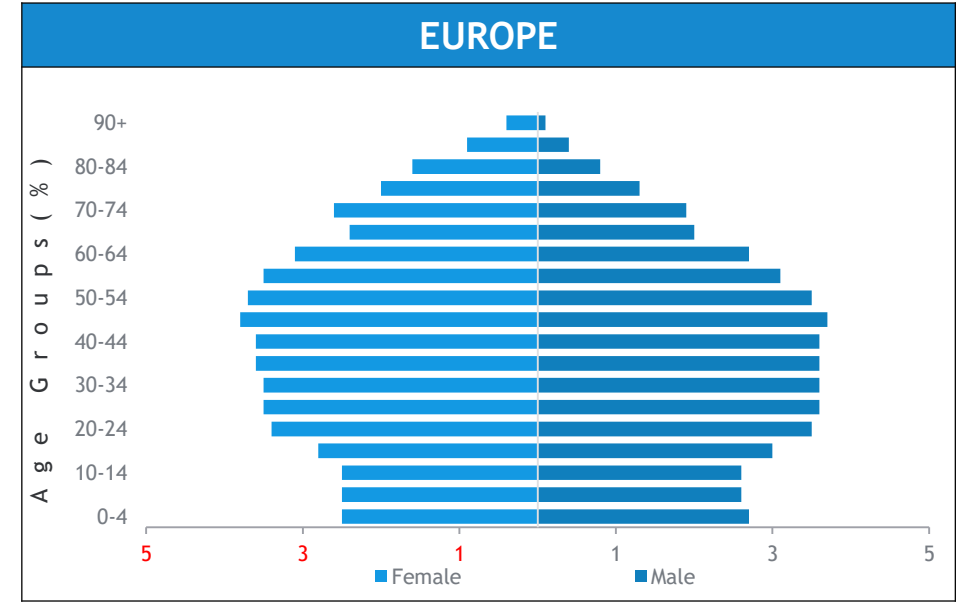
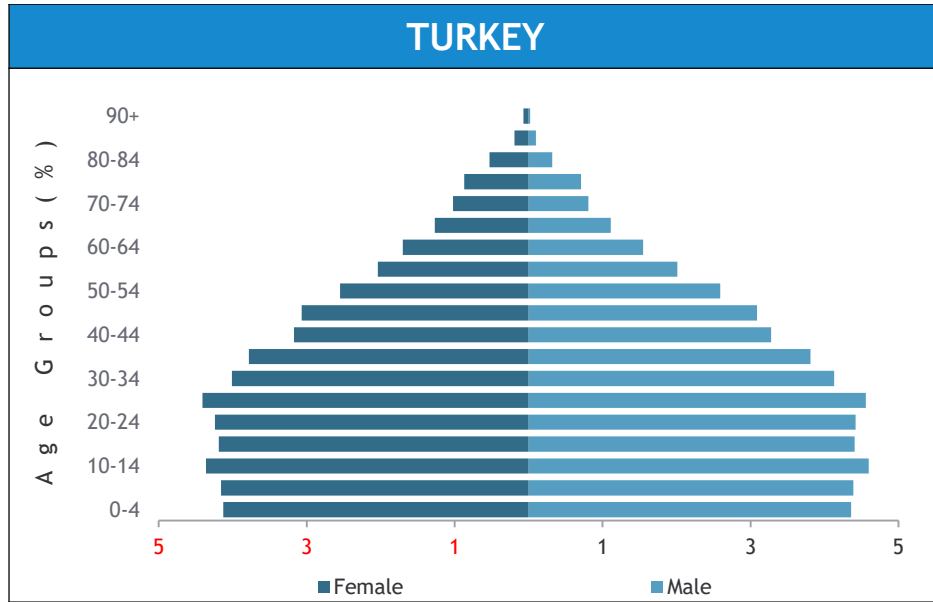
The Rise of Turkish Middle Class

(# of individuals by annual disposable income per capita)



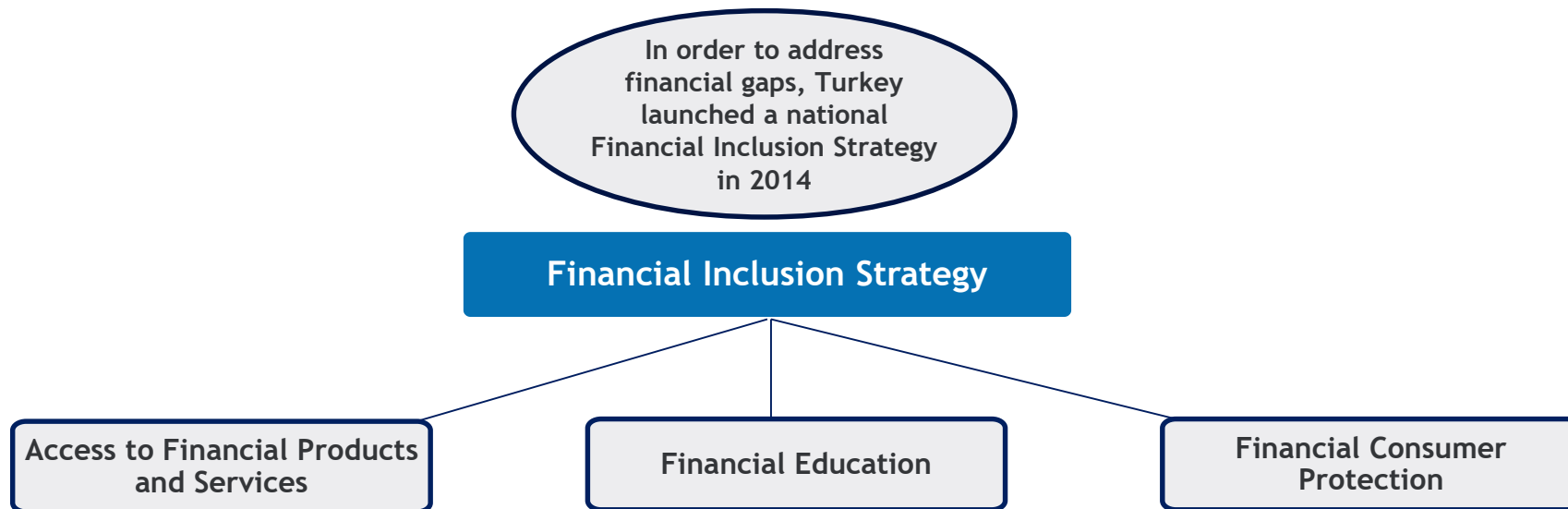
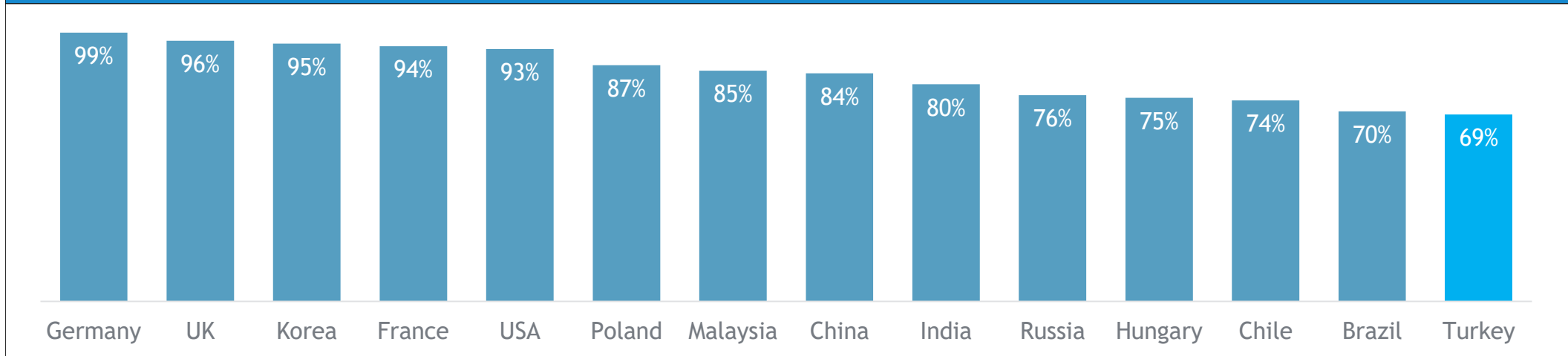
Annual House Sales
(million of houses)







Percentage of Adults with a Bank Account

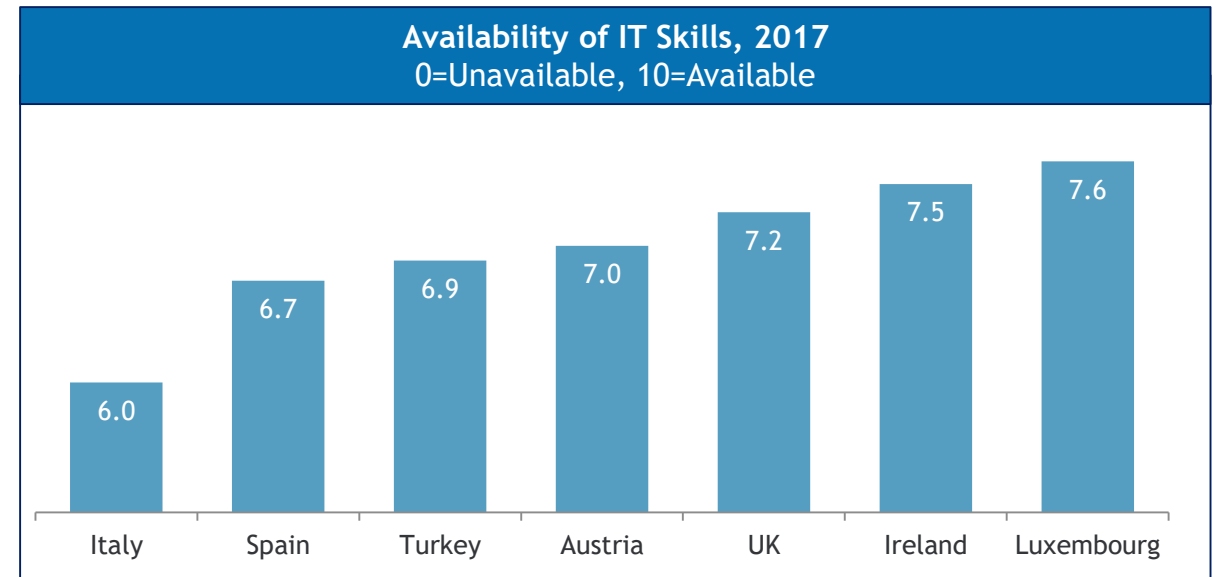
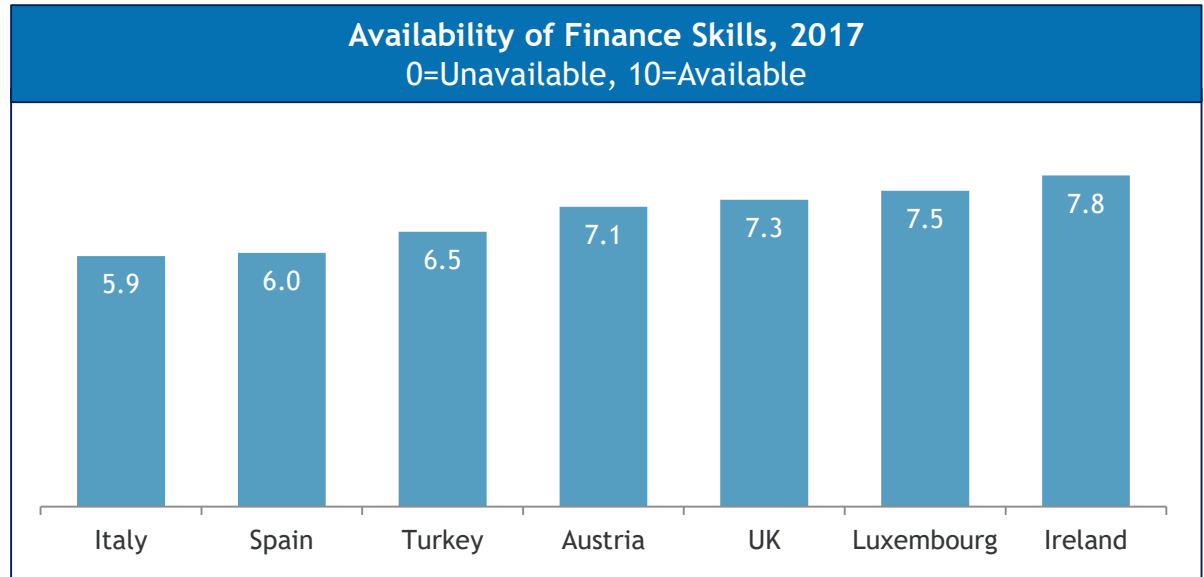
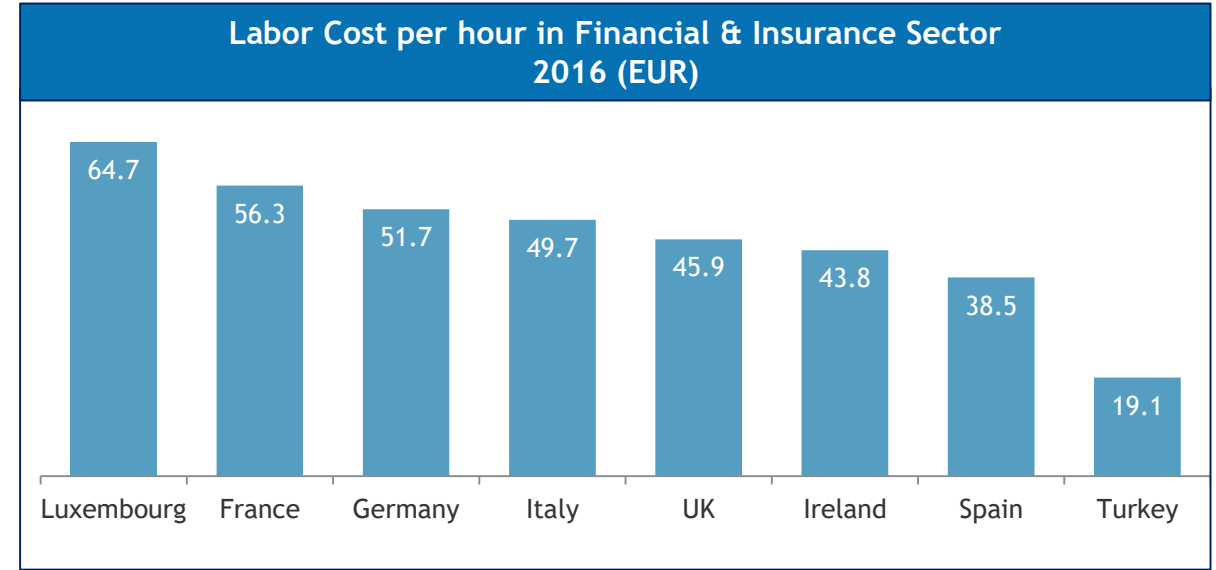




271K

**PEOPLE EMPLOYED
IN THE TURKISH
FINANCIAL AND
INSURANCE SECTOR**

2017





About

- Produce technological and financial information
- Make innovation in products
- Commercialize technological and financial information
- Create investment opportunities in technology intensive areas through ensuring the cooperation of research companies and organizations with the finance and manufacturing sectors

Target Groups

- Companies Operating in the Banking and Finance Sectors
- SMEs that produce hardware and software for the financial sector
- Start-up Companies operating in the financial, money and capital markets and software, information technology and technology sectors




PROXIMITY TO MAJOR MARKETS


1.5 billion people and \$24T GDP in Europe, MENA and Central Asia at 4 hour flight-distance

CONNECTIVITY


Turkish Airlines connects you to 246 destinations in 120 countries

MANUFACTURING & EXPORT HUB FOR MULTINATIONALS







 **TOYOTA** Exporting 85% of its production

 **Ford** Exporting 77% of its production

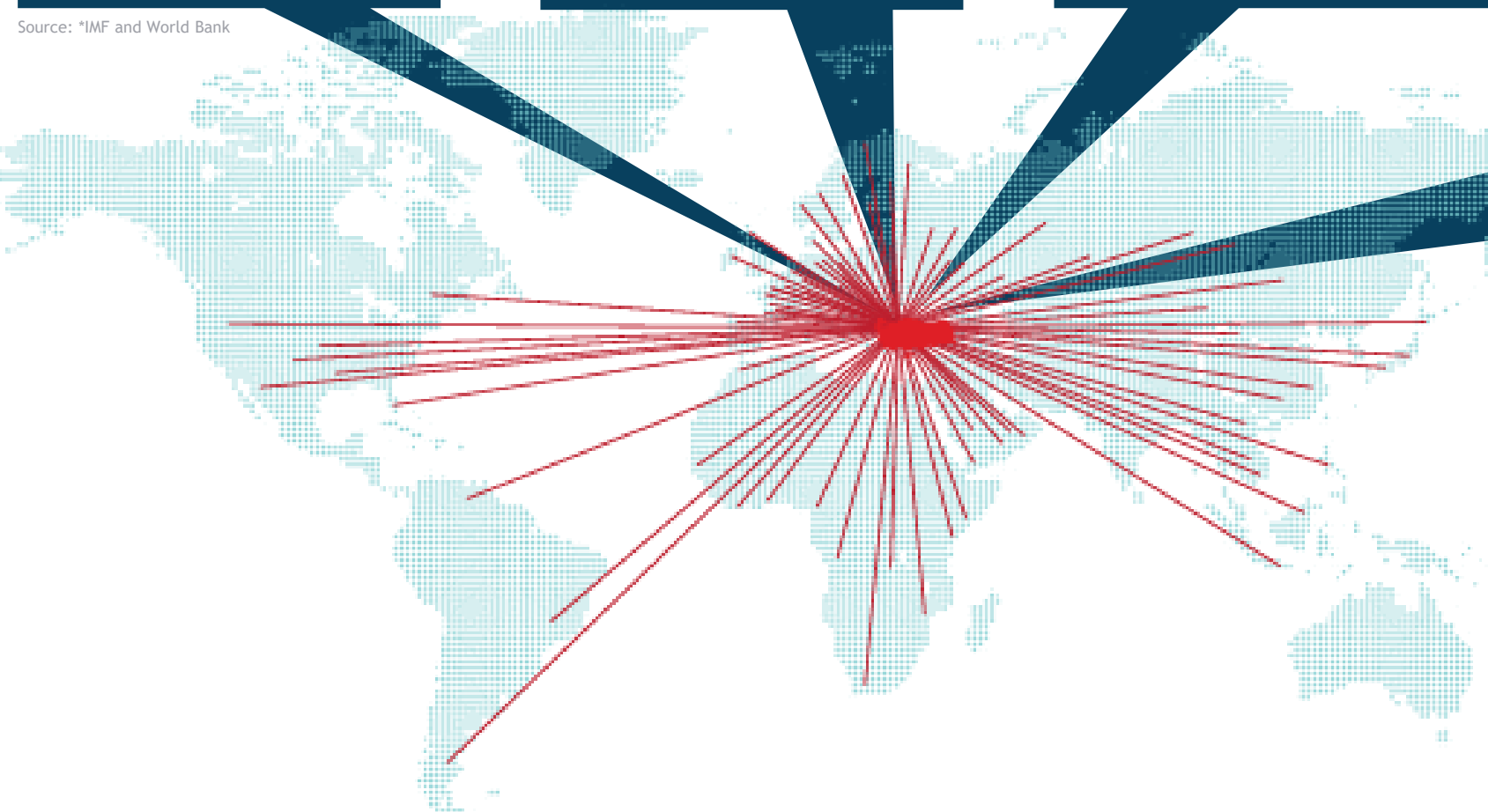
 **Nestlé** Production base for MENA

 **BOSS** Largest production facility worldwide

AS WELL AS MANAGEMENT HUB FOR MULTINATIONALS

-  **B/S/H/** 89 countries
-  **GE Healthcare** 80 countries
-  **thyssenkrupp** 72 countries
-  **intel** 67 countries
-  **Verifone** 60 countries
-  **gsk** 30 countries

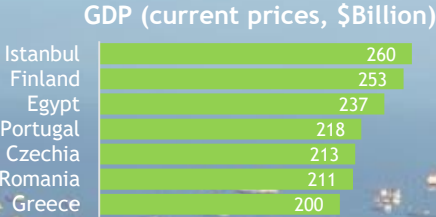
Source: *IMF and World Bank





\$260
BILLION
2017

THRIVING LOCAL ECONOMY AT GLOBAL SCALE

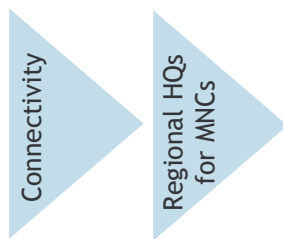


IMPROVING LEGISLATION

- New Capital Markets Law
- New Commercial Code
- Istanbul Arbitration Center
- Unifying All Exchanges (Stock, Derivative, Gold, etc.) under BIST
- New investment fund structures, capital-raising products and listing procedures.



STRATEGIC LOCATION



SKILLED LABOR FORCE

2017

- 6.6 million labor force; ~2 million with higher education
- One of the largest concentrations of universities in the world with 58 universities
- 87K employed in financial and insurance services
- 113K employed in information and communication



- Undersecretariat of Treasury: <http://www.treasury.gov.tr/>
- Central Bank of the Republic of Turkey: <http://www.tcmb.gov.tr/>
- Banking Regulation and Supervision Agency: <http://www.bddk.org.tr/>
- Capital Markets Board of Turkey: <http://www.cmb.gov.tr/>
- Borsa Istanbul: <http://www.borsaistanbul.com/>
- Turkish Capital Markets Association: <http://www.tspb.org.tr/>
- Takas Istanbul (Istanbul Clearing, Settlement and Custody Bank Inc.): <http://www.takasbank.com.tr/>
- Public Disclosure Platform: <http://www.kap.org.tr/>
- CSD of Turkey: <http://www.mkk.com.tr/>
- Banks Association of Turkey: <http://www.tbb.org.tr/>
- Participation Banks Association of Turkey: <http://www.tkbb.org.tr/>
- Insurance Association of Turkey: <http://www.tsb.org.tr/>
- Association of Financial Institutions: <http://www.fkb.org.tr/>
- Turkish Institutional Investment Managers' Association: <http://www.tkyd.org.tr/>
- Turkish Investor Relations Society: <http://www.tuyid.org/>
- Association of Real Estate and Real Estate Investment Companies: <http://www.gyoder.org.tr/>
- Turkish Payment and Electronic Money Institutions Association: <http://www.oded.com.tr/>
- Capital Markets Licensing Registry and Training Services: <http://www.spl.com.tr/>



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