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FINANCIAL SERVICES IN TURKEY

May 2019



PRESIDENCY OF THE REPUBLIC OF TURKEY
INVESTMENT OFFICE



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 financial services has become the preferred sector for FDI, attracting USD 52 billion since 2005.

Strong Banking System

Banking sector dominates the Turkish financial industry, accounting for over 70 percent of overall financial services, while insurance services and other financial activities show growth potential too. There are 51 banks in Turkey* (32 deposit banks, 13 development and investment banks, 6 participation banks). Out of 51 banks, 28 are classified as foreign banks (27% of total assets in the sector 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 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

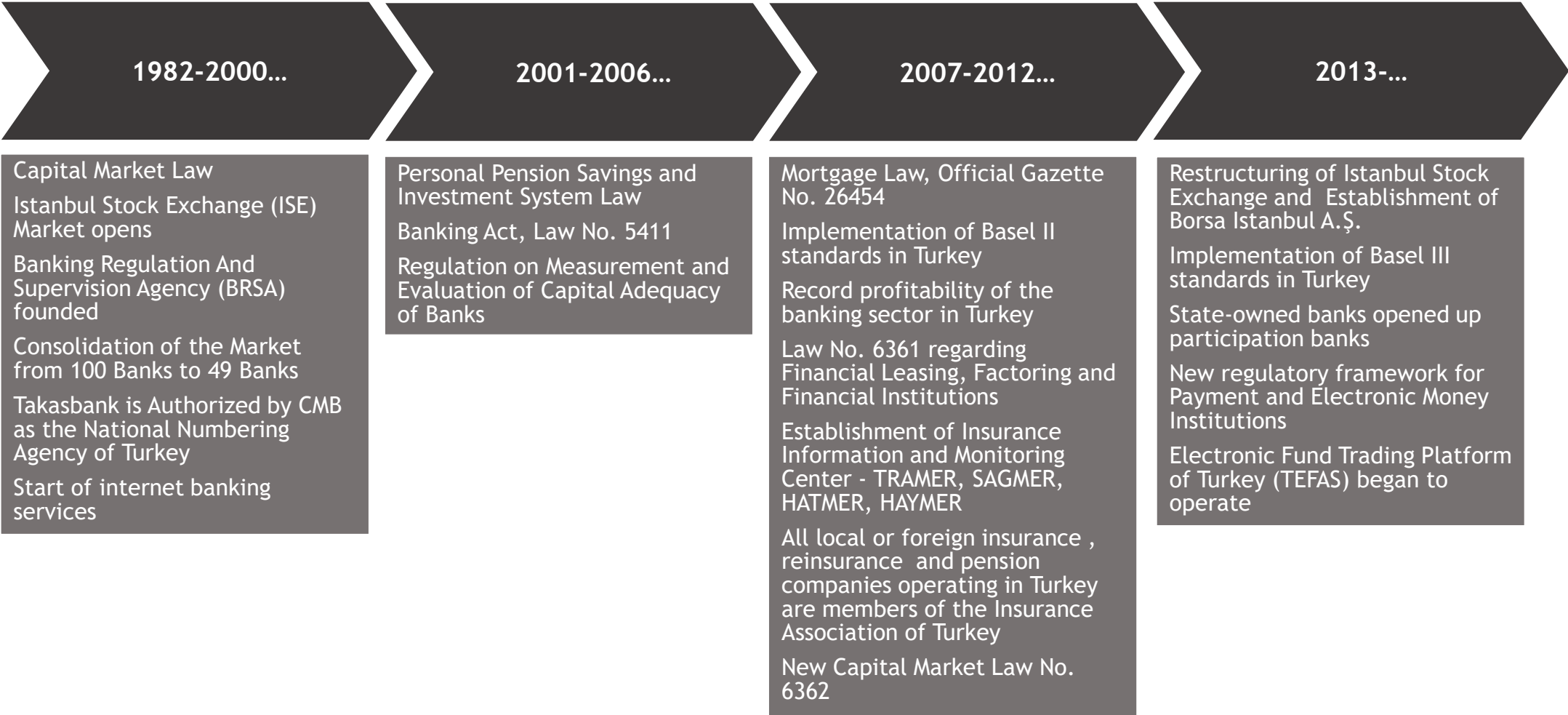
A key driver of the Turkish financial sector has been its robust economy with a bright future. Over the past 16 years, Turkish economy has been growing with an average annual real GDP growth rate of approximately 5.5 per cent and the growth momentum is expected to continue. Turkey's sizeable and diversified economy has achieved remarkable growth and became 13th largest economy in the world as of 2018. 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 gradually integrated with the global economy.

Istanbul Financial Center

Turkey has set specific economic targets to achieve in the near future. One of them 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 appoints Istanbul as 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.

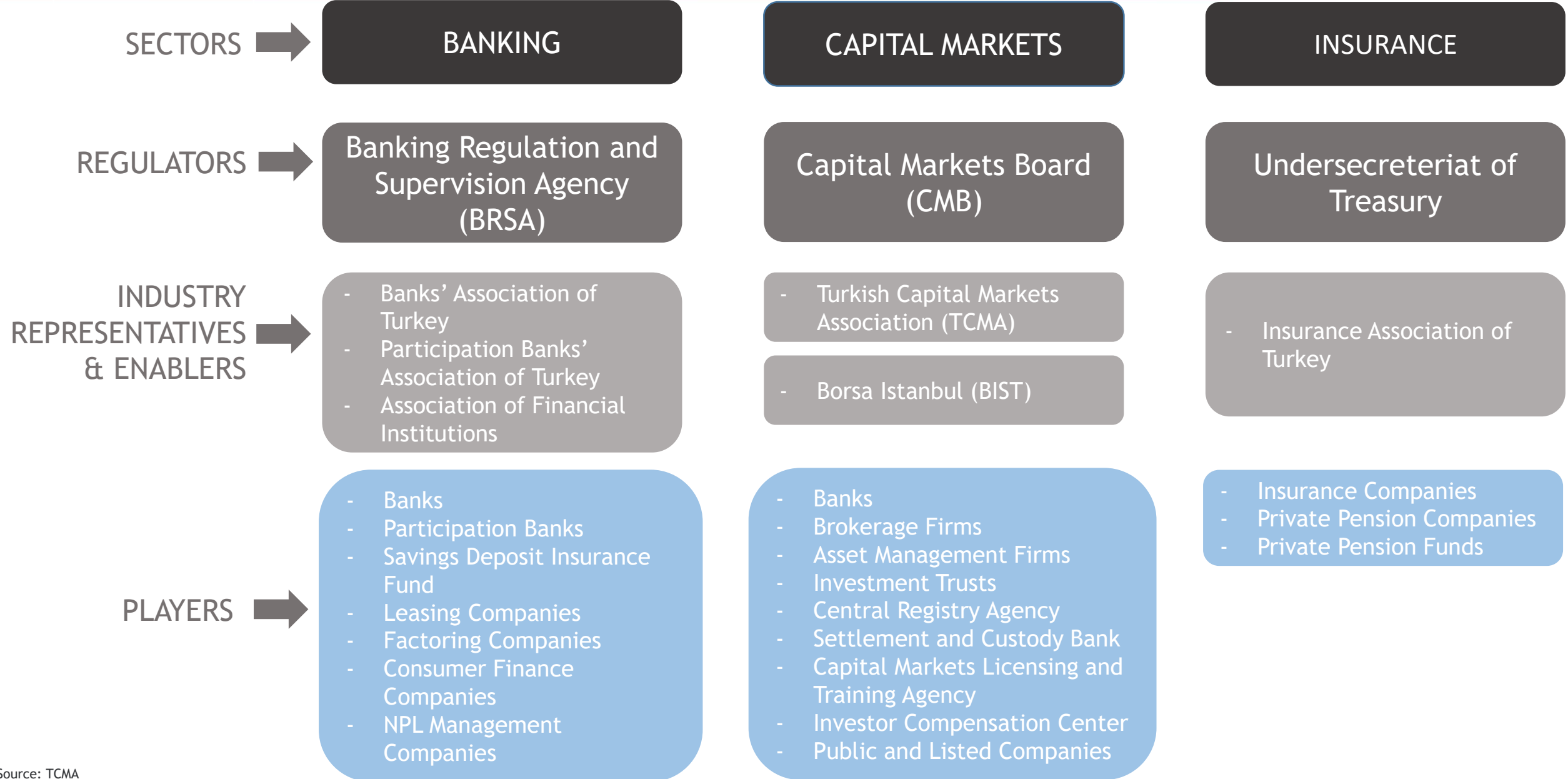
*Excluding the banks under the administration of the Savings Deposit Insurance Fund of Turkey.

Milestones of Turkish Financial Services



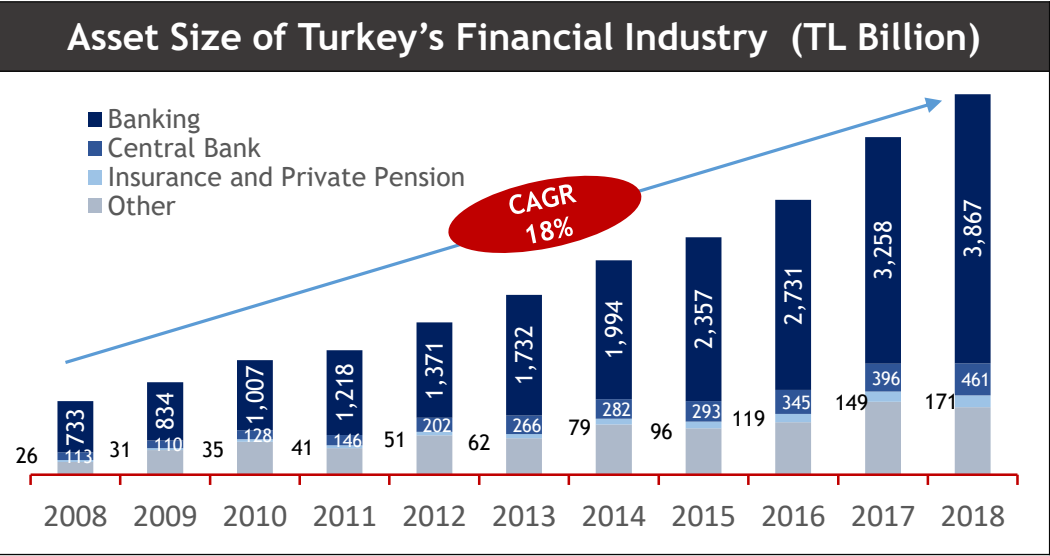
Structure of Financial Services

Consists of functioning institutional settings with a strong legal framework...



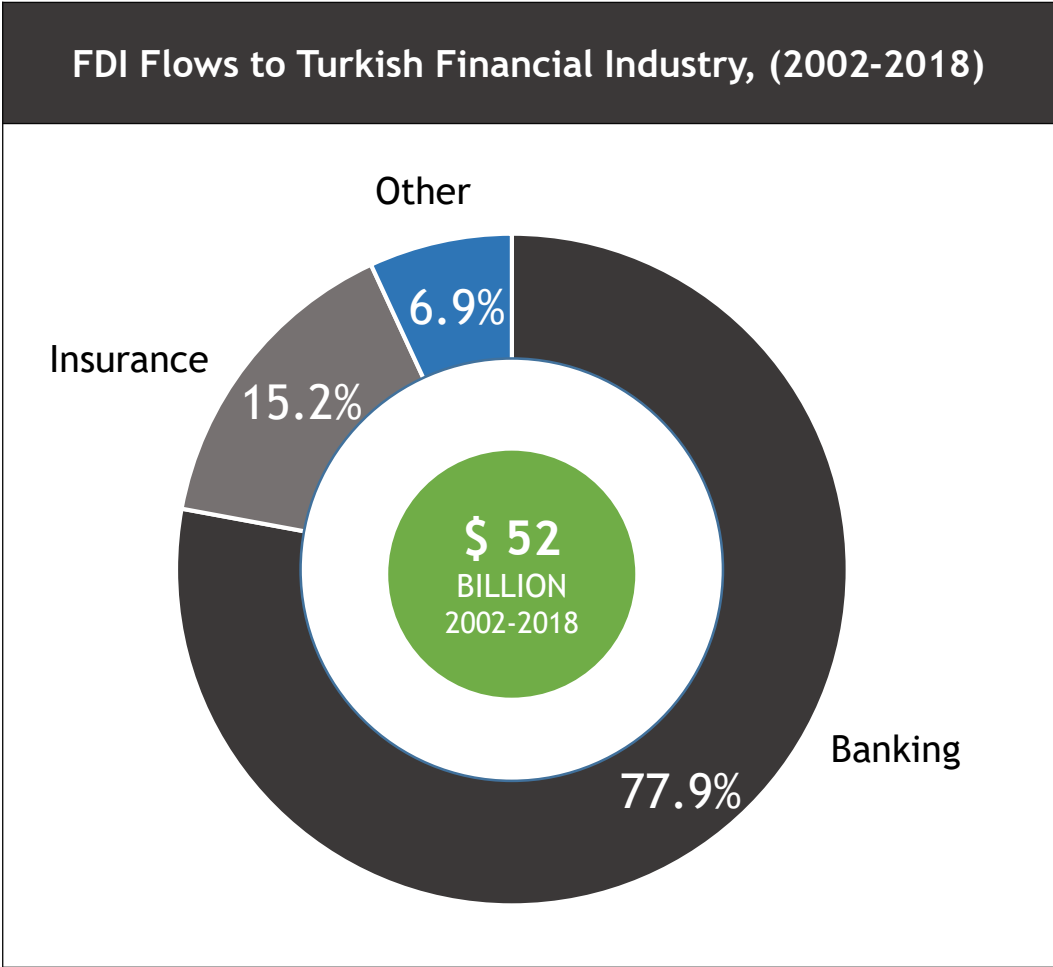
Performance of Financial Services

Led by banking, Turkish financial industry has been rapidly growing while attracting tremendous amount of foreign direct investment (FDI)...



	CAGR 2008-2018	Share 2018
Banking	18	71
Central Bank	15	8
Insurance & Pension	21	3
Other	18	18

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



Agenda



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TOTAL
BANKING
ASSETS

TOP 5 BANKS BY ASSET SIZE, 2018



Ziraat Bankası



TÜRKİYE İŞ BANKASI



HALKBANK

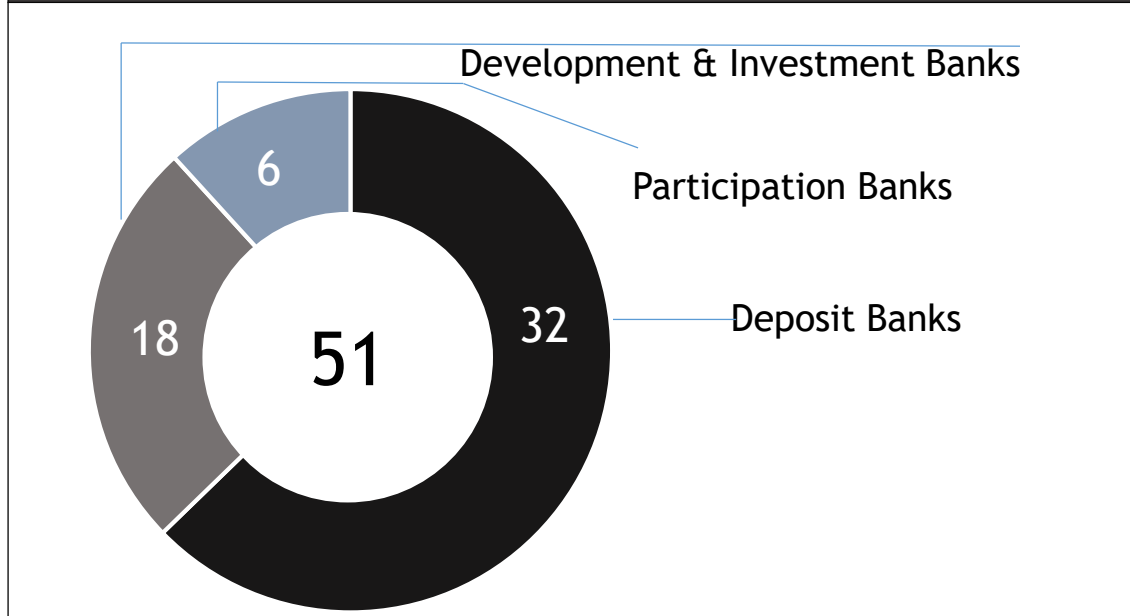


GarantiBank

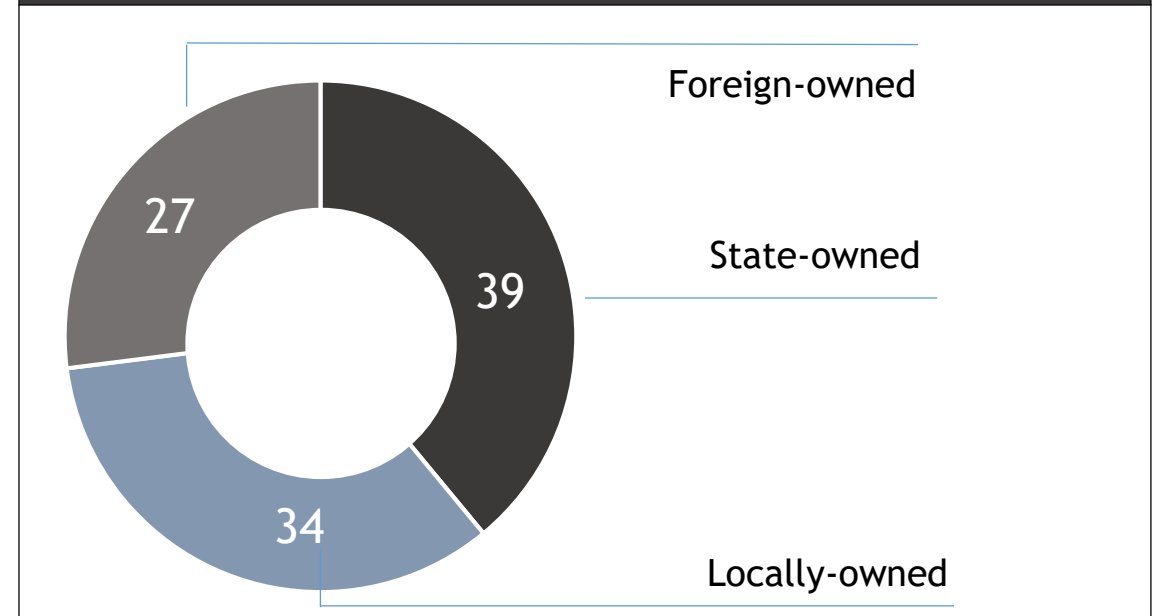


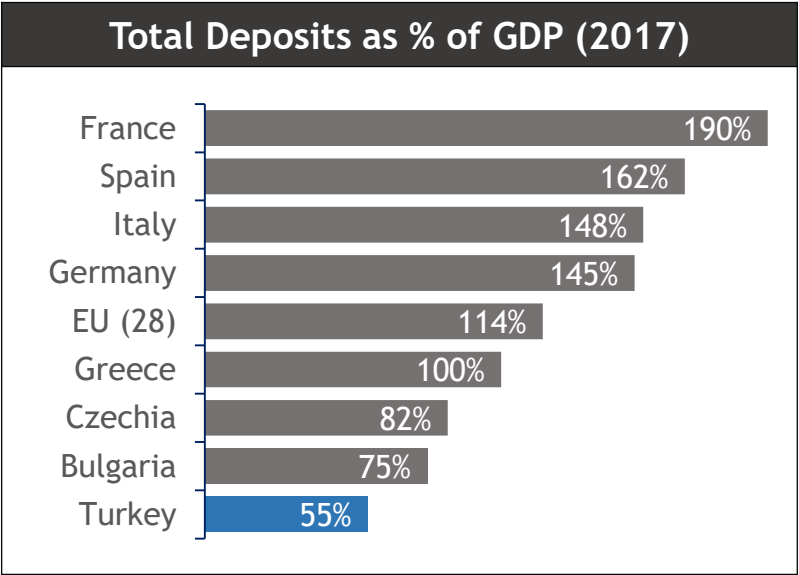
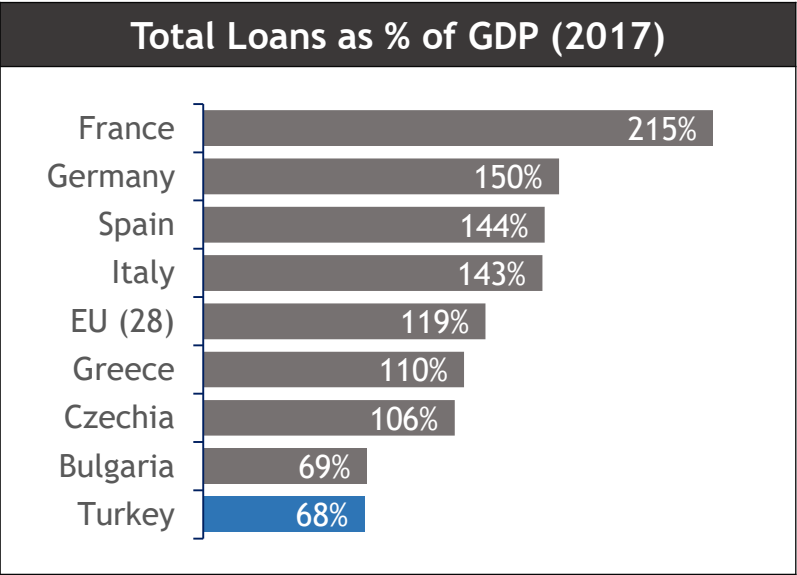
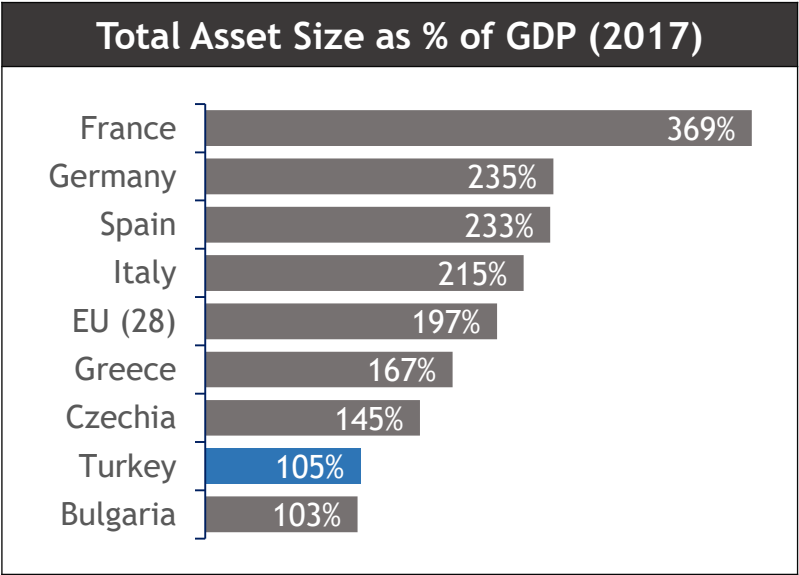
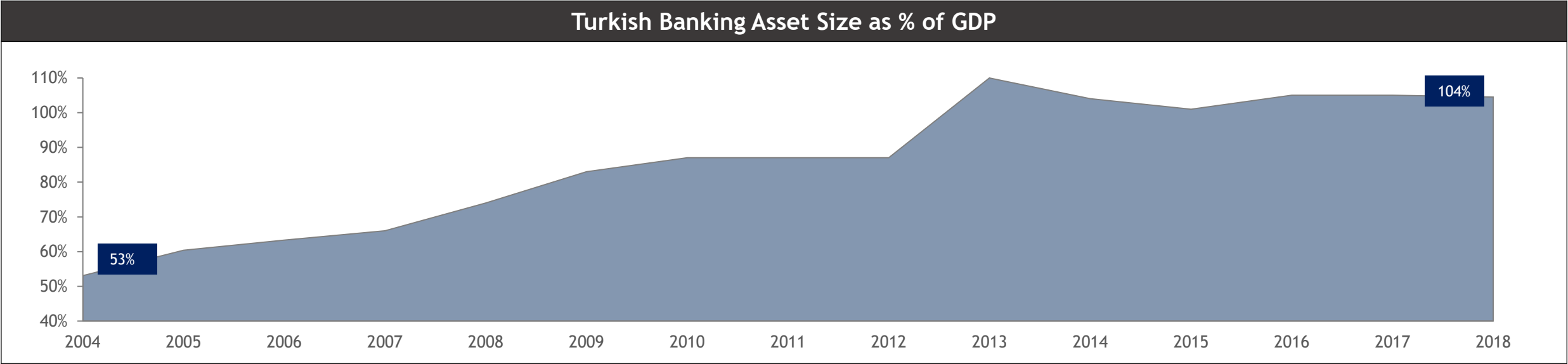
YapıKredi

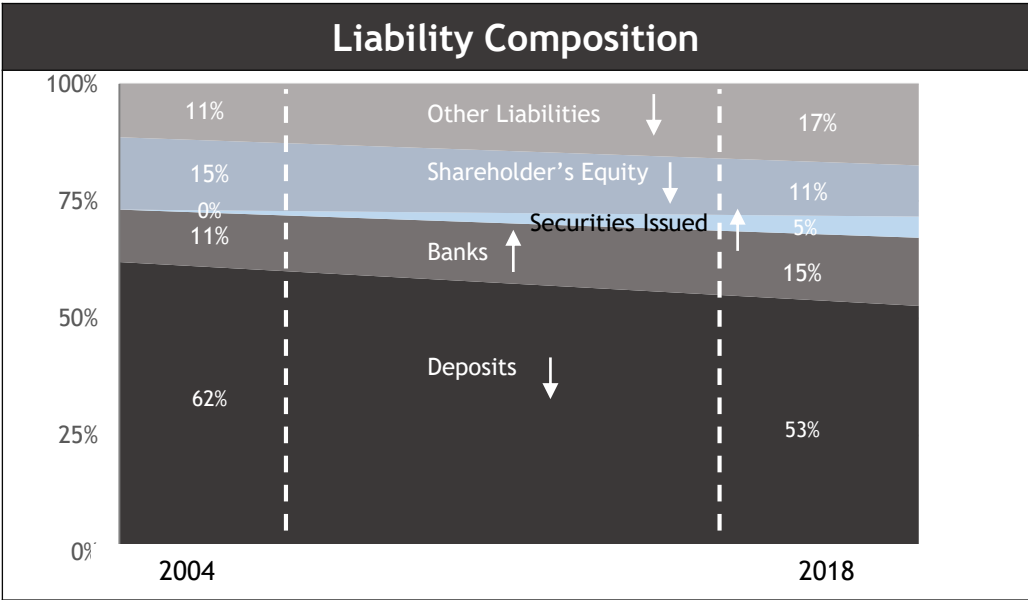
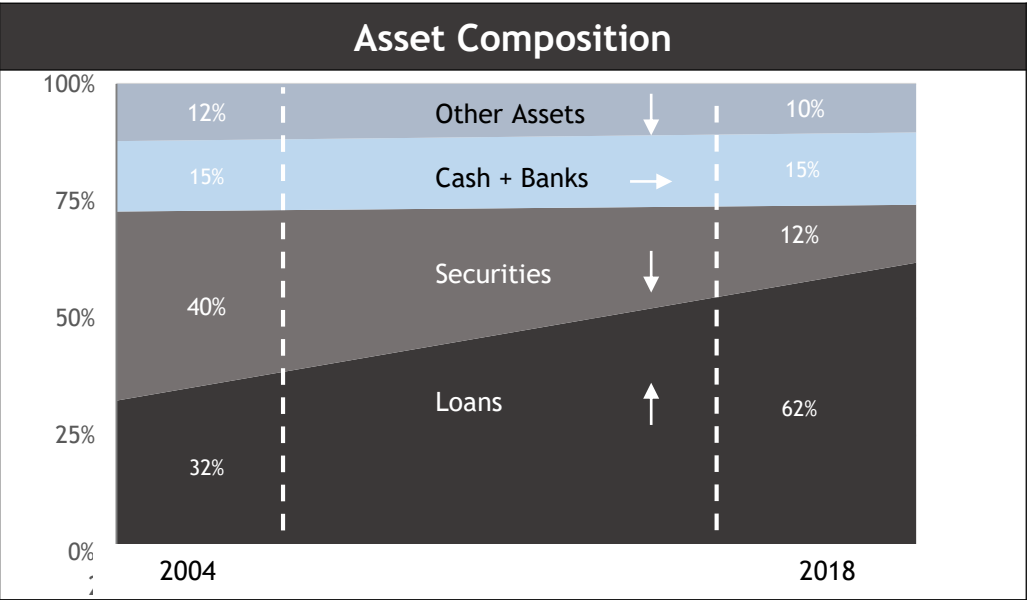
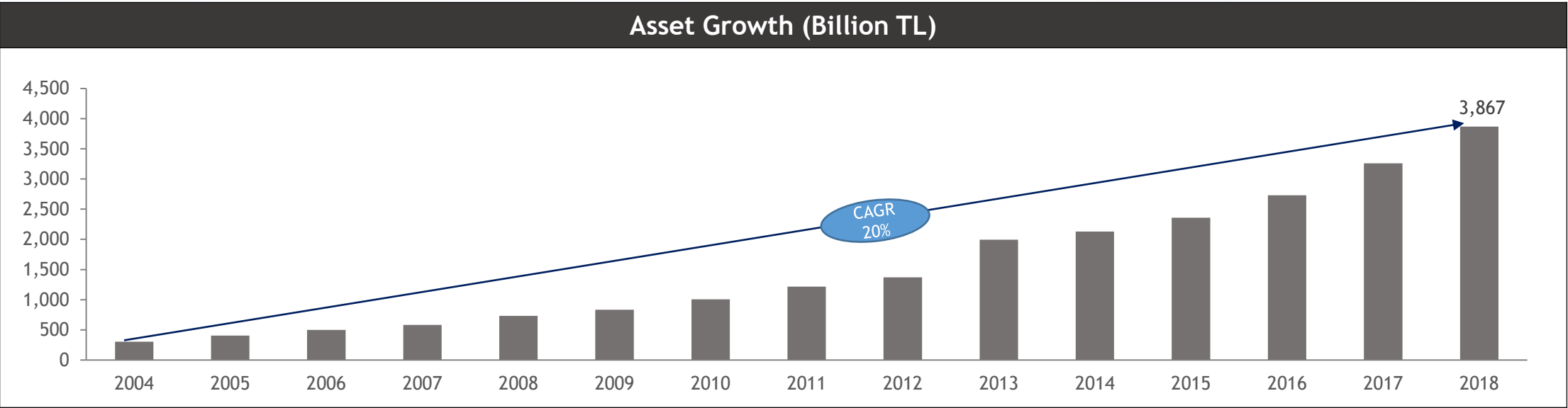
Number of Banks 2018



Ownership by Asset Size 2019^{*}







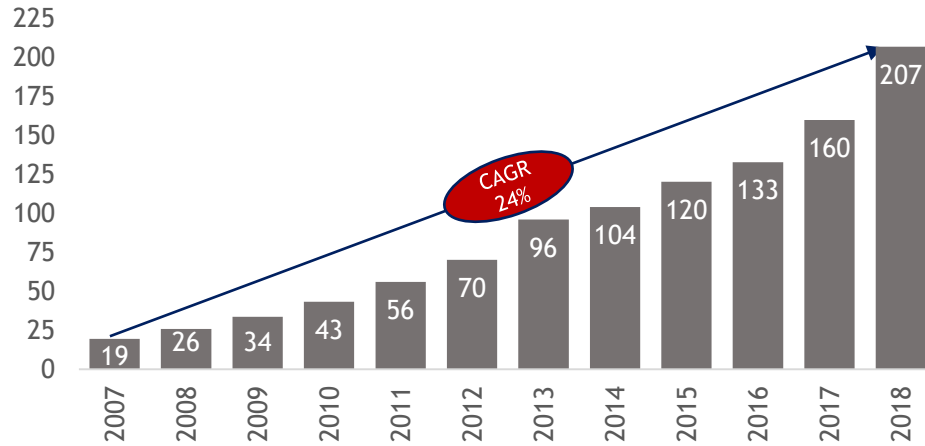
Banking Sector

Participation banks have been outperforming the overall banking industry in Turkey, but they still have significant room for growth..

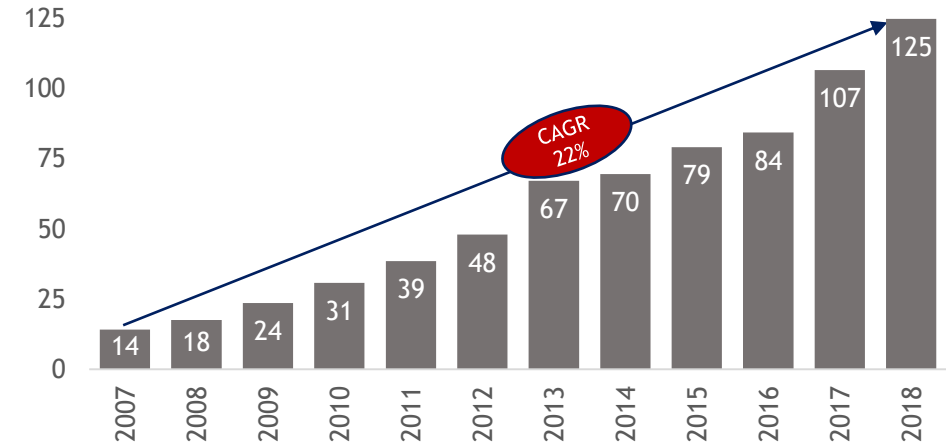


- Islamic banking operations in Turkey started in mid 1980's under the name of 'Special Finance Houses'. In 2005, these institutions were renamed as 'Participation Banks' and allowed to conduct banking activities in compliance with Islamic principles. Today there are six participation banks operating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

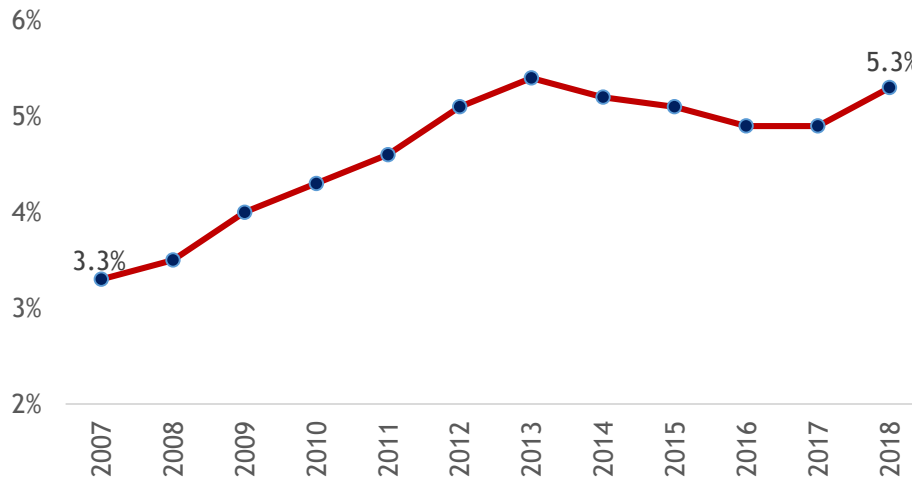
Asset Growth of the Participation Banks (TL Billion)



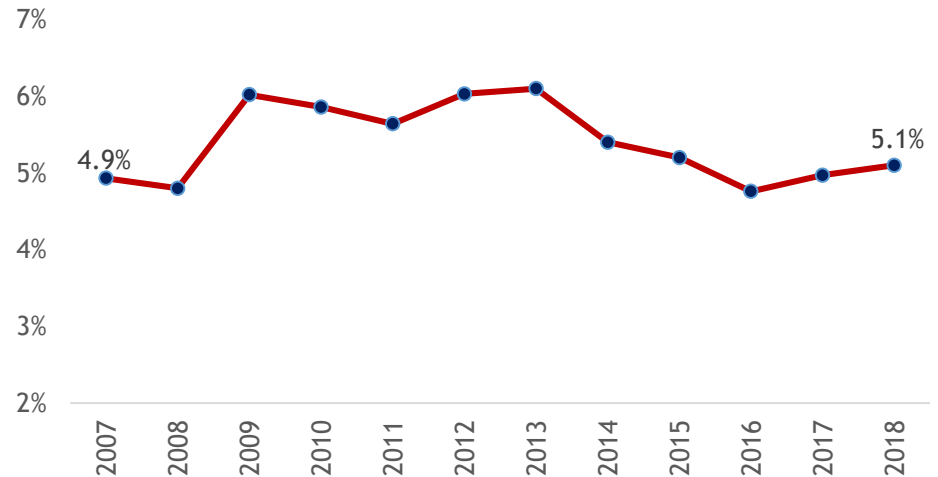
Lending Growth of Participation Banks (TL Billion)



Participation Banks' Asset as % of Total Banking Assets

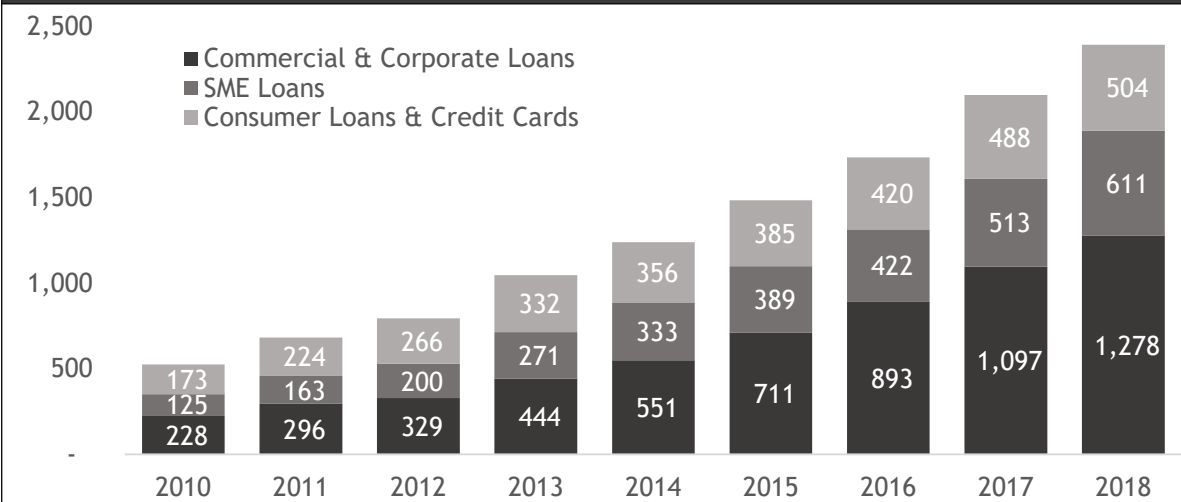


Participation Banks' Loans as % of Total Banking Loans

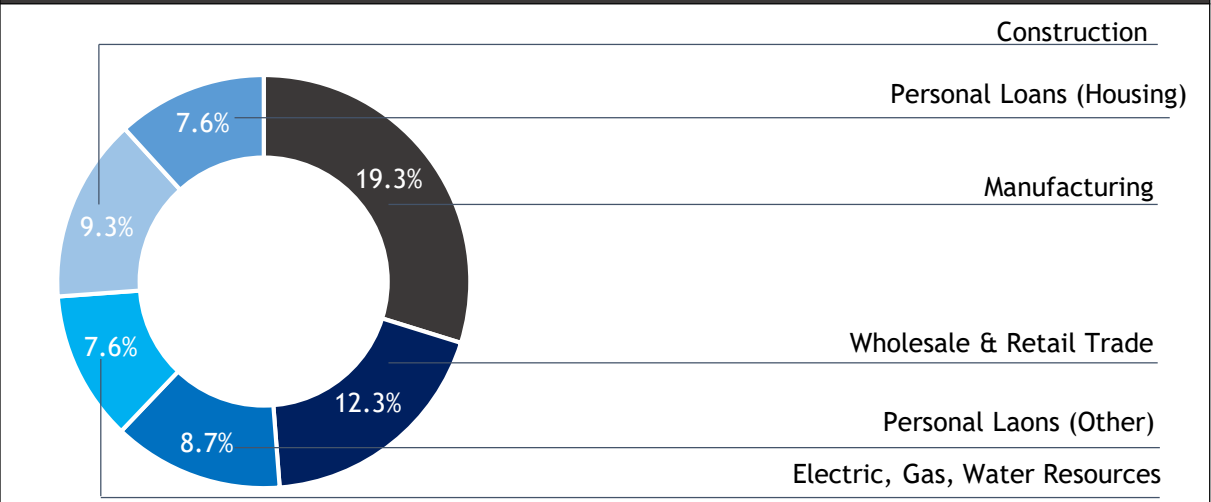




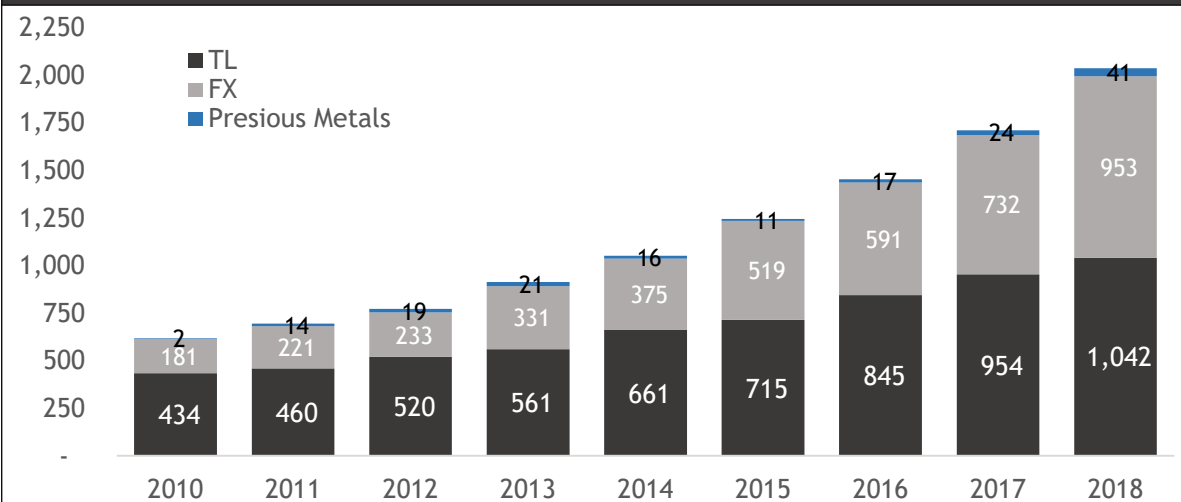
Loans (TL Billion)



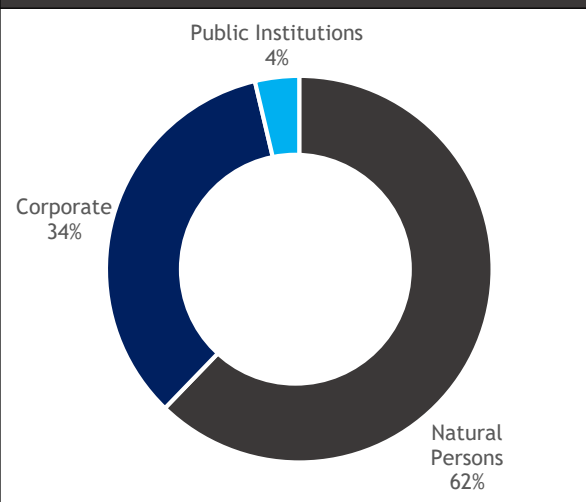
Breakdown of Loans (2018)



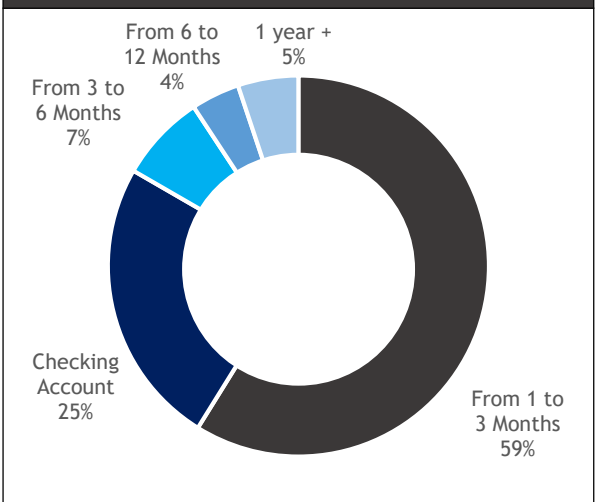
Deposits (TL Billion)



Depositors (2018)

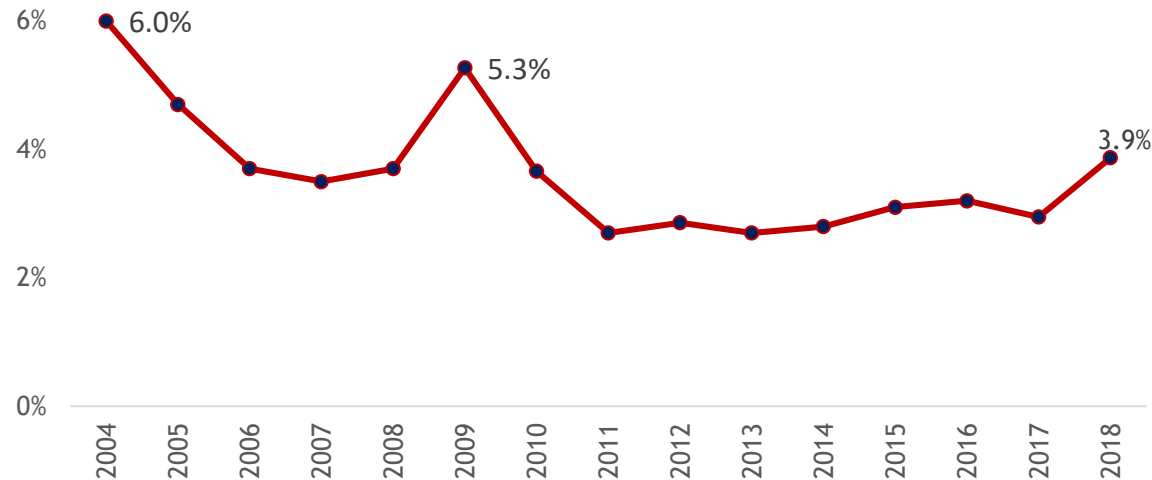


Deposits by Maturity (2018)

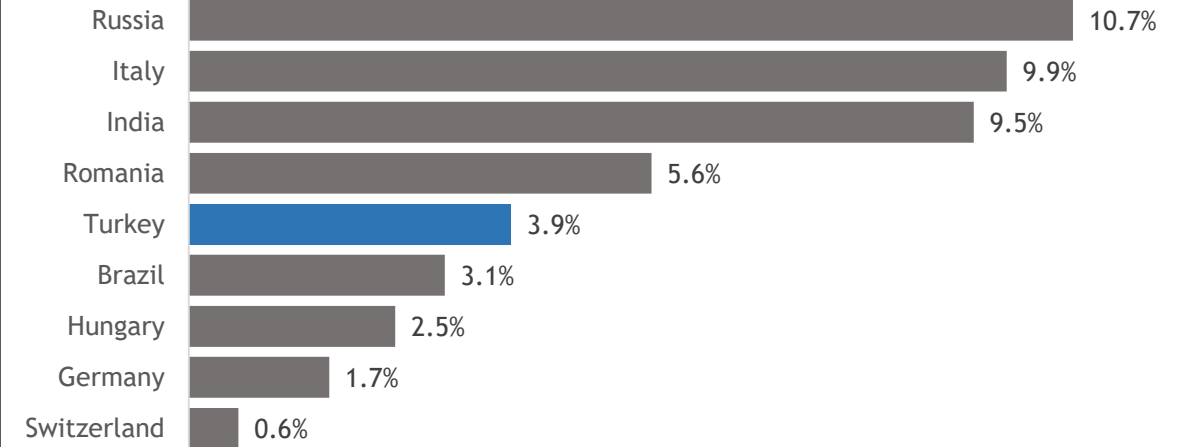




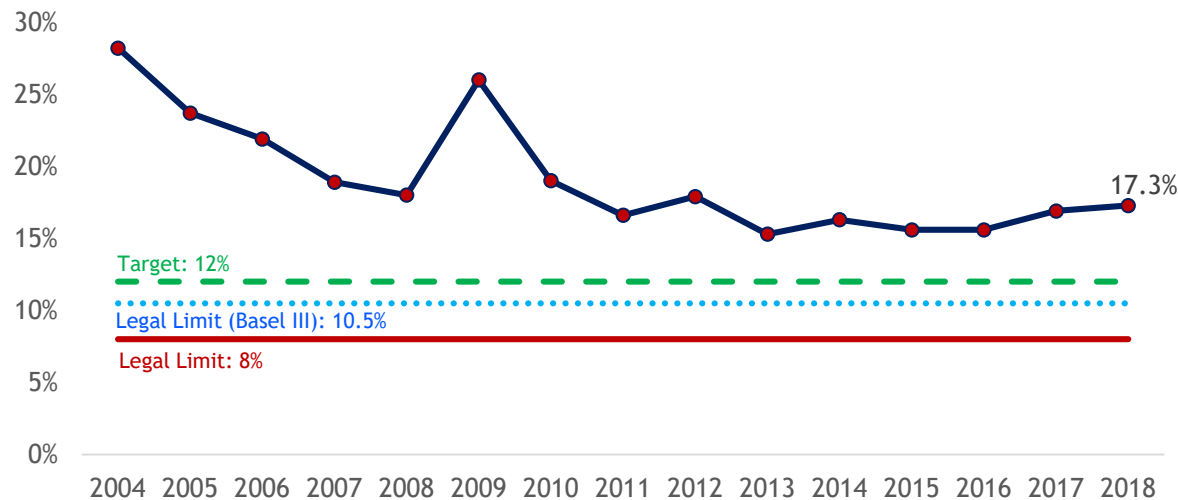
Non-Performing Loans/ Total Gross Loans (NPL Ratio)



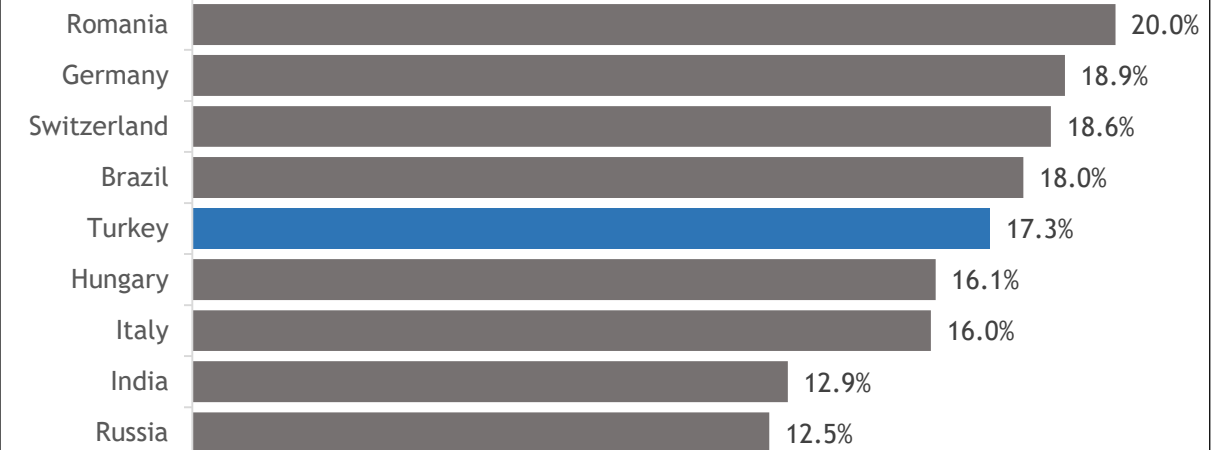
NPL Ratio (2018*)



Capital Adequacy Ratio

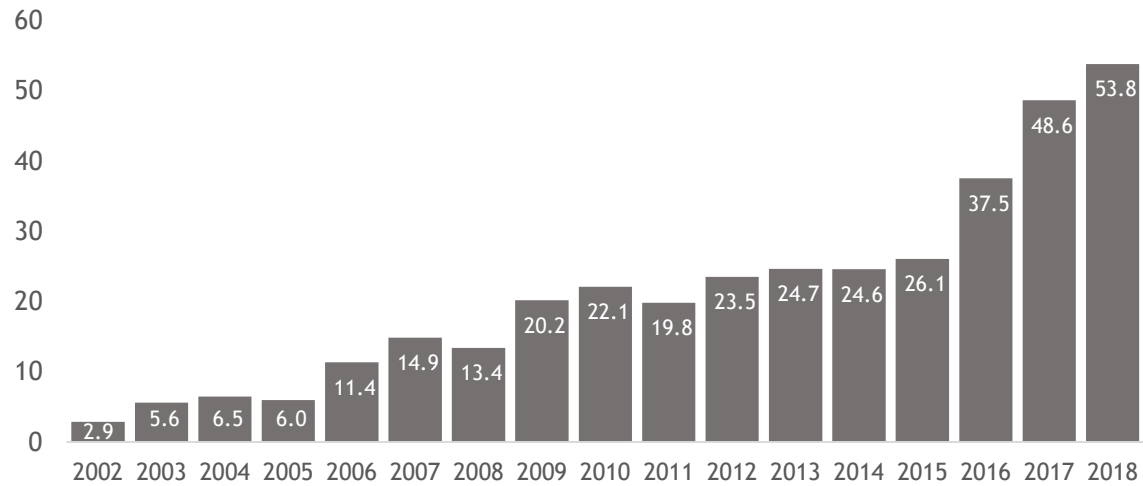


Capital Adequacy Ratio (2018*)





Net Income (Billion TL)

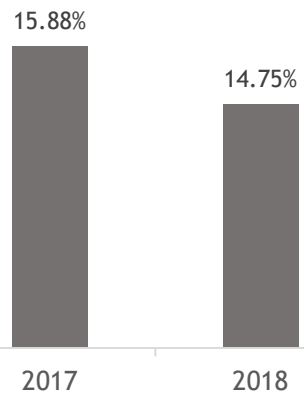


Income Statement (Billion TL)

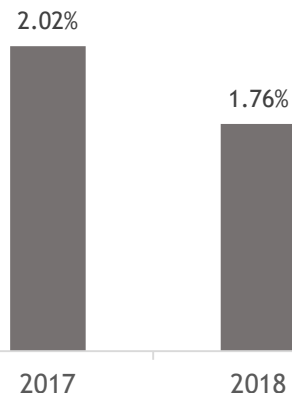
	2018	2017	2008
Total Interest Income	368.5	247.5	85.8
Total Interest Expenses (-)	222.3	134.1	54.8
NET INTEREST INCOME/ EXPENSE	146.2	113.4	31.0
Special Provisions for Non performing Loans	35.2	19.8	5.4
NET INTEREST INCOME/ EXPENSE AFTER PROVISIONS	111	93.6	25.6
Total Non-Interest Income	77.2	55.7	17.40
Total Non-Interest Expenses (-)	110.5	78.2	26.6
Total Other Non Interest Income /Expense	-11.6	-10.2	0.3
TOTAL NON-INTEREST INCOME/EXPENSE	-44.9	-32.7	-8.9
PROFIT/LOSS BEFORE TAX	66.1	60.9	16.6
Provision for Taxes	12.3	12.2	3.2
NET INCOME	53.8	48.6	13.4

Returns

Return on Equity

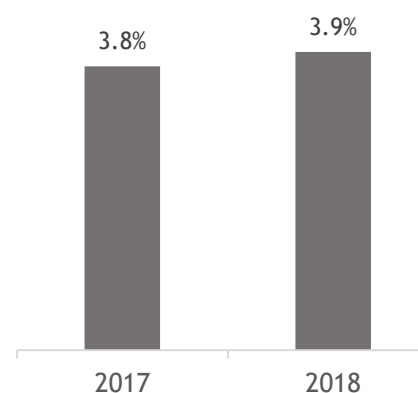


Return on Asset

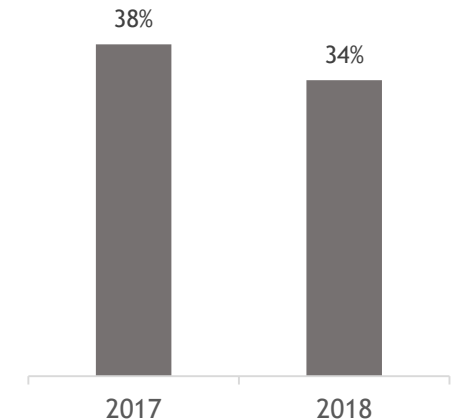


Margins

Net Interest Margin*

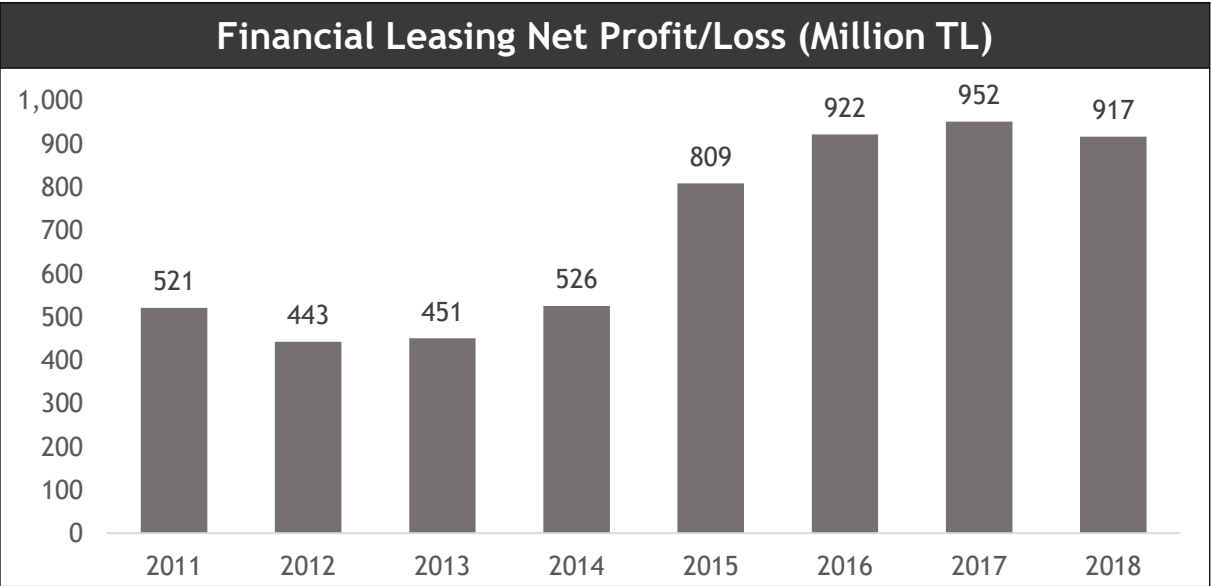
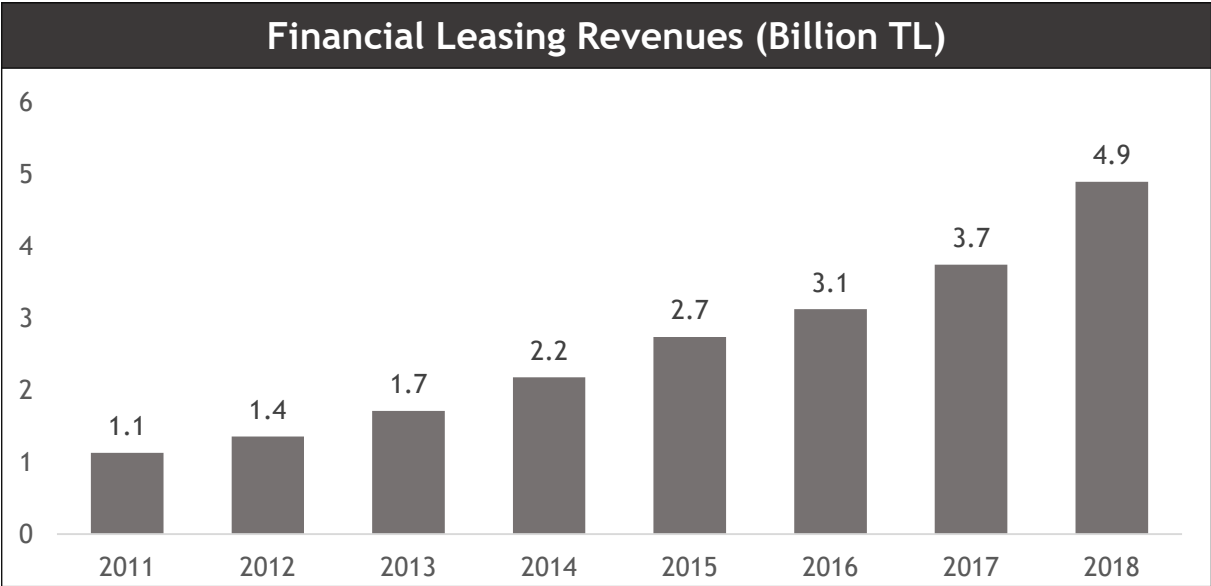
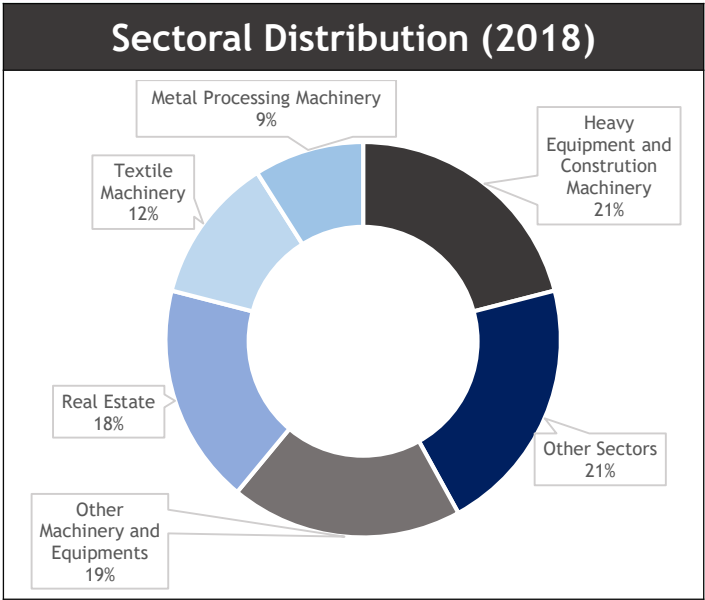
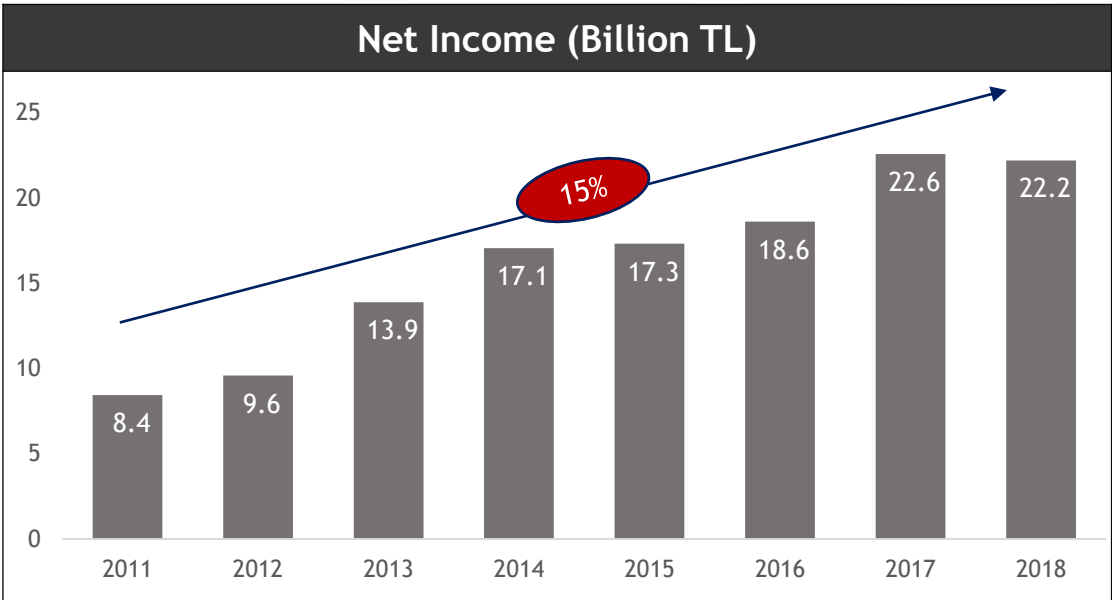


Cost / Income Ratio



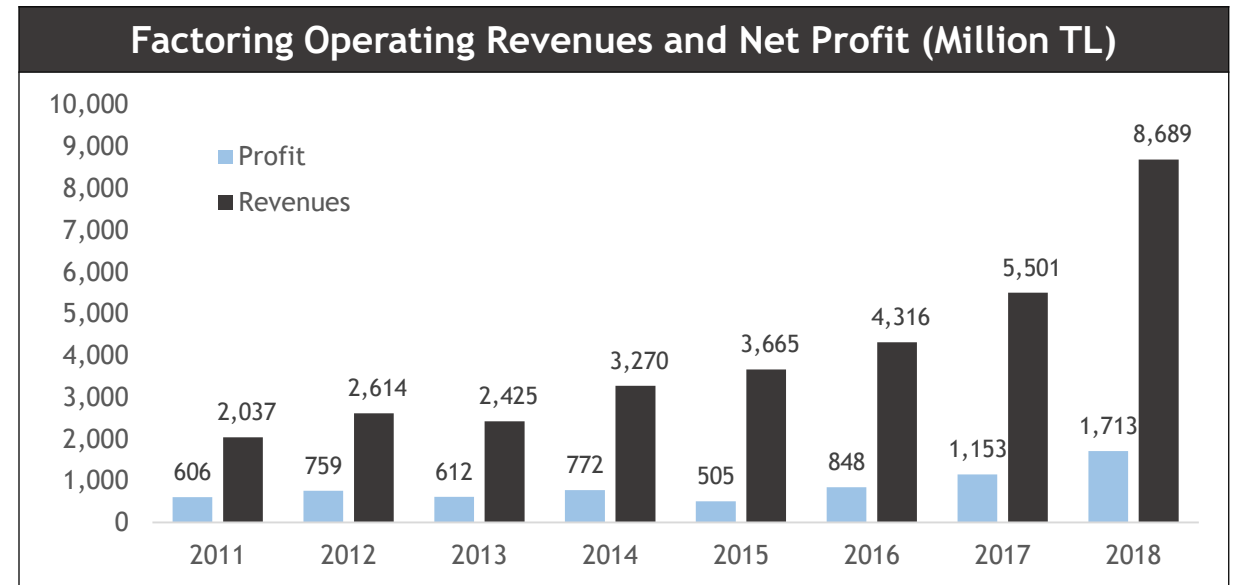
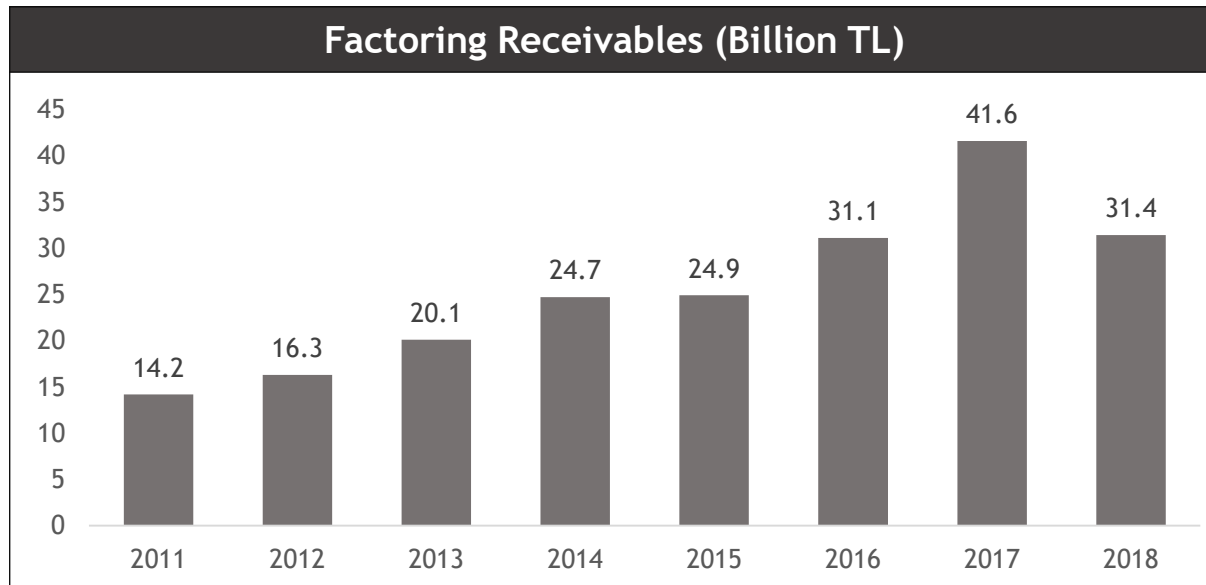
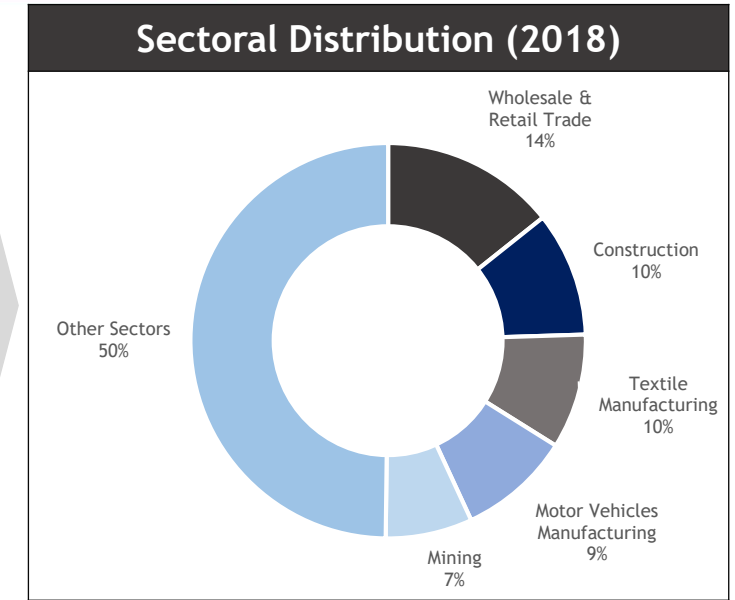
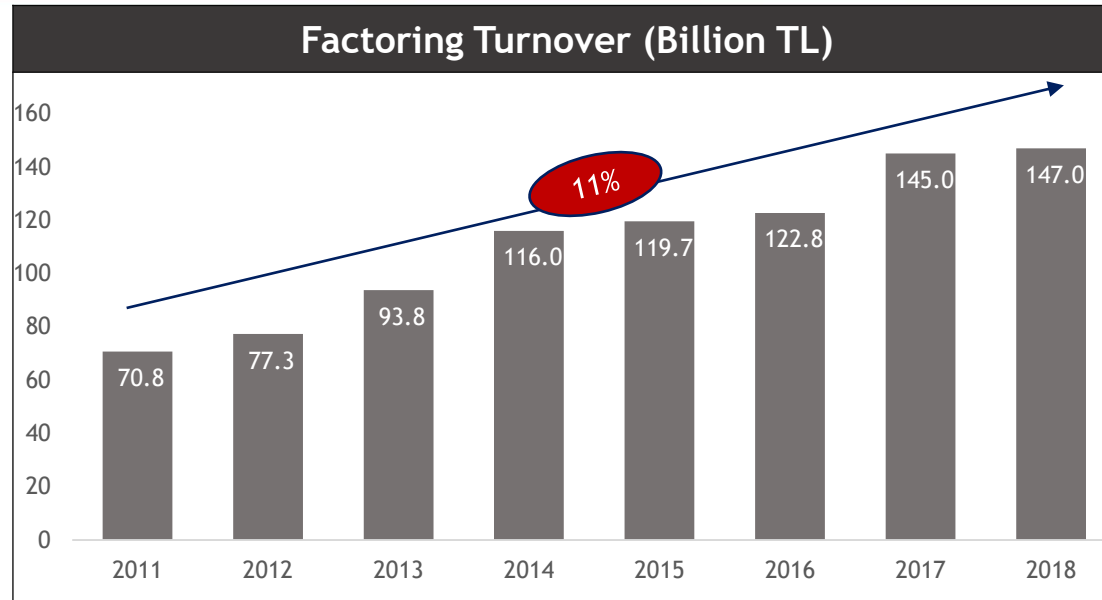


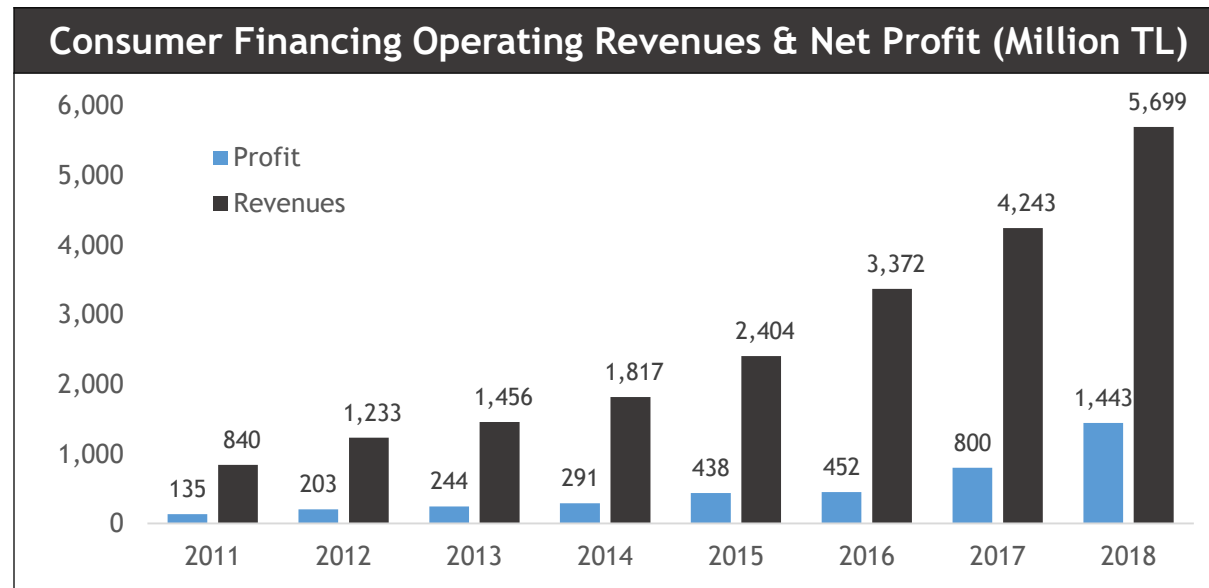
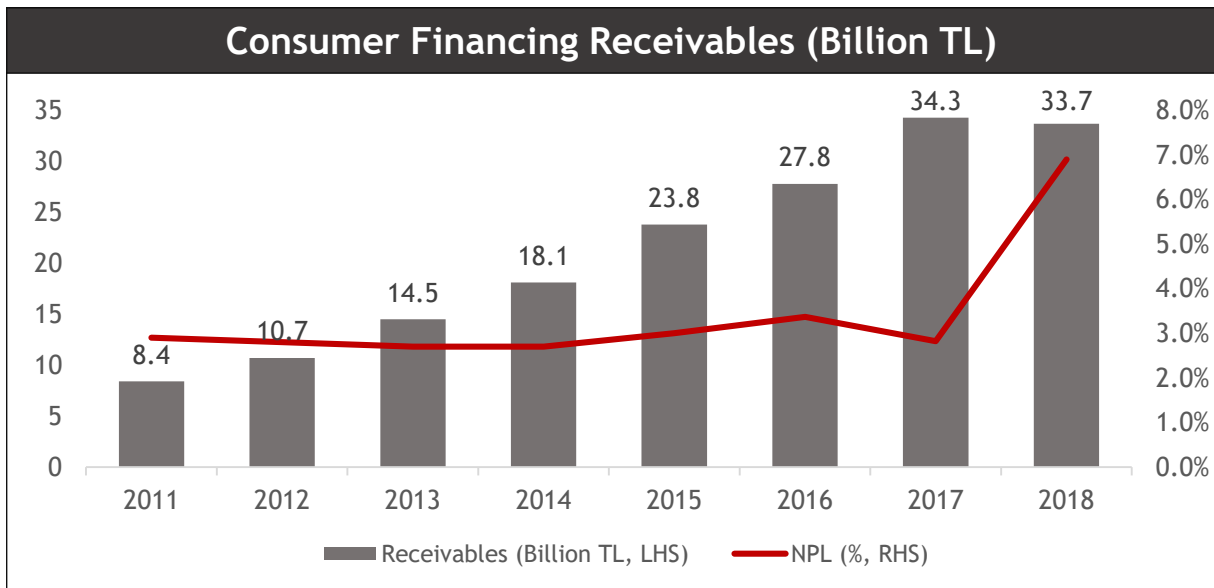
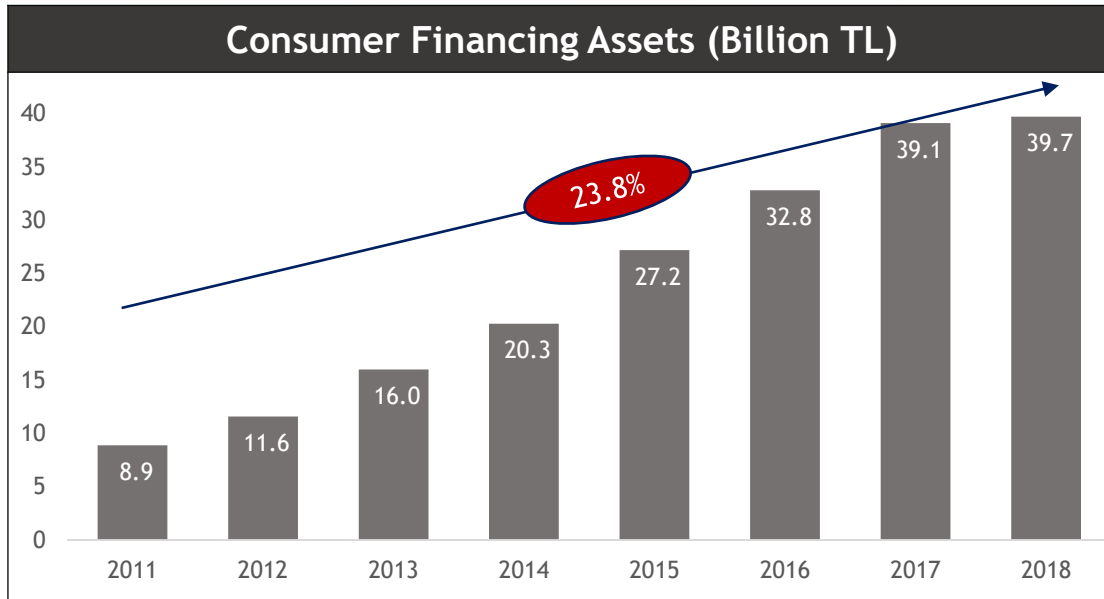
Leasing in Numbers	
	2018
Companies	24
Employees	1,401
Clients	53,510
Branches	131





Leasing in Numbers	
	2018
Companies	58
Employees	4,355
Clients	92,422
Branches	354





Agenda



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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

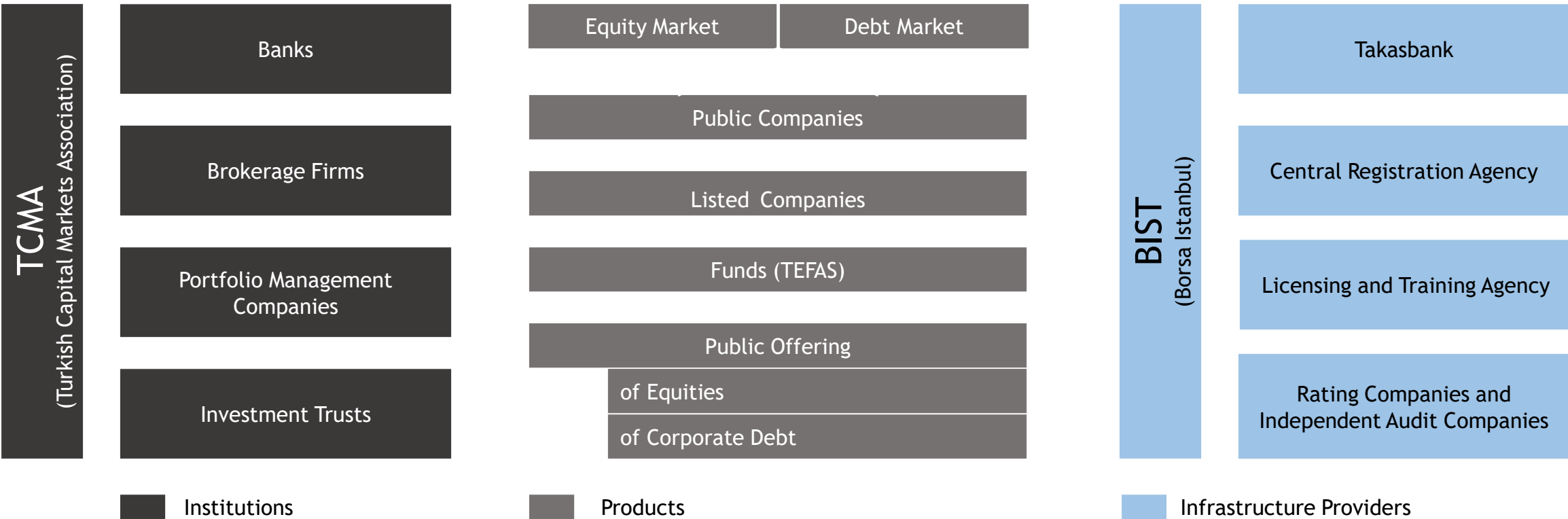


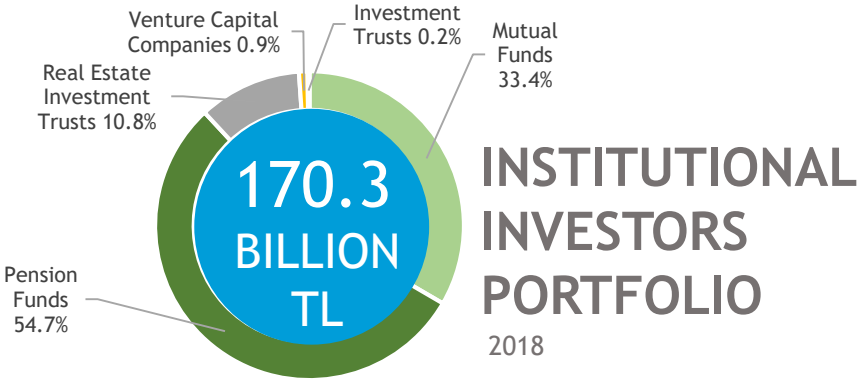
ISE demutualized and transformed to Borsa Istanbul
Borsa Istanbul merged with Istanbul Gold Exchange and Derivatives Exchange



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

Capital Markets Board (CMB)





Agenda



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Banking and Financial Intermediary

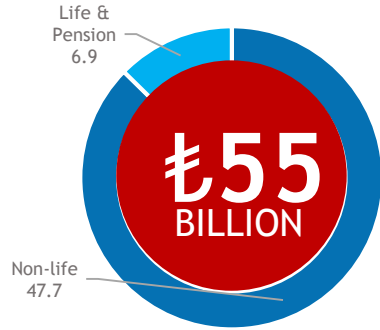
Capital Markets

Insurance

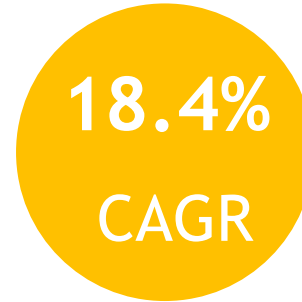
Turkey's Competitive Landscape

Insurance

Despite robust growth, Turkey still has an unsaturated insurance industry...



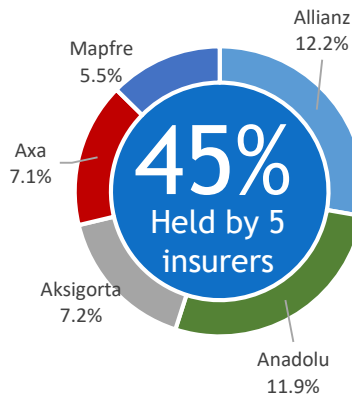
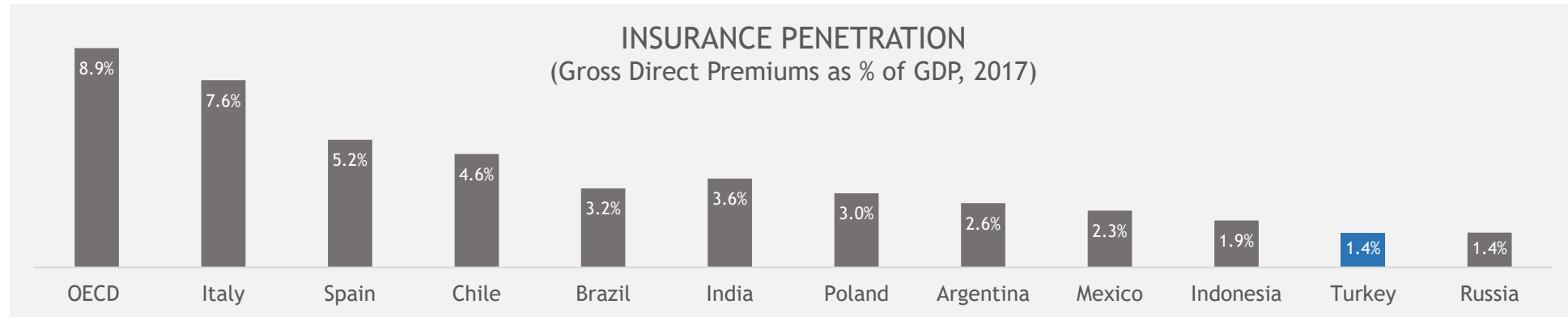
**GROSS
PREMIUMS
WRITTEN**
2018



**PREMIUM
GROWTH**
2012-2018

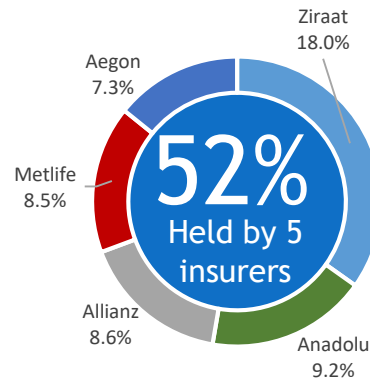


**TOTAL
ASSETS**
Including reinsurance
2018



**NON-LIFE
INSURANCE
MARKET
SHARE**

Top 5 Market Leaders, 2018



**LIFE
INSURANCE
MARKET
SHARE**

Top 5 Market Leaders, 2018



**AUTHORIZED
INSURERS**
2018



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.

Agenda



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13TH
LARGEST
ECONOMY

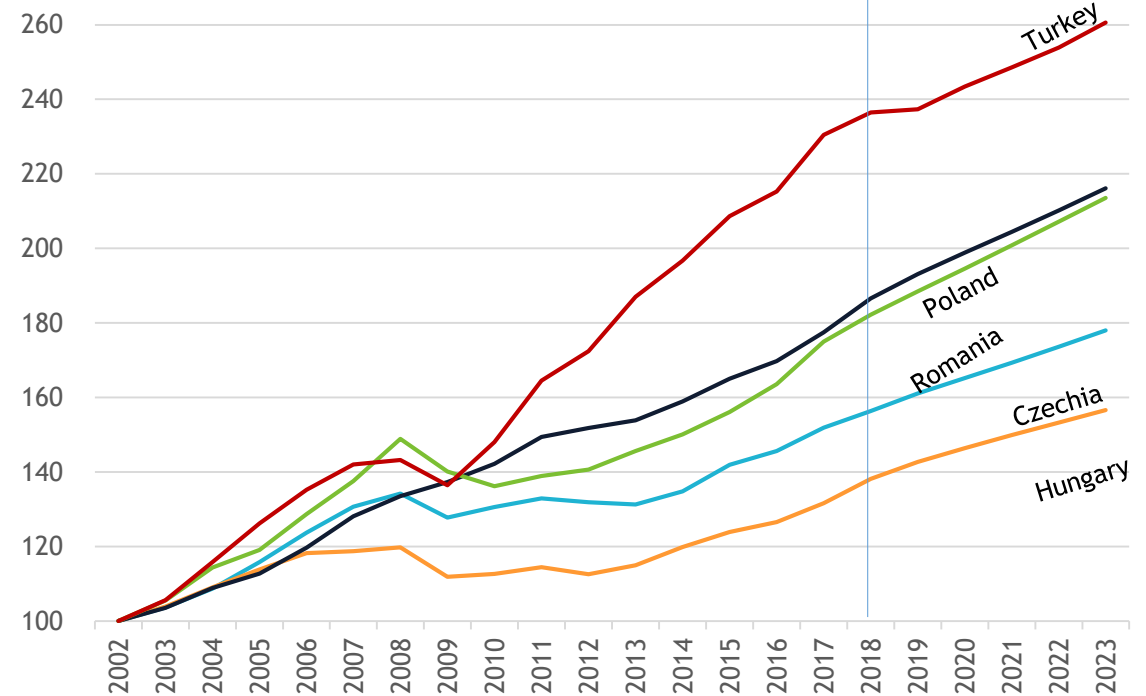
Ranking of Economies by GDP at PPP

2003	2018
1 USA	1 CHINA
2 CHINA	2 USA
3 JAPAN	3 INDIA
4 GERMANY	4 JAPAN
5 INDIA	5 GERMANY
6 RUSSIA	6 RUSSIA
7 FRANCE	7 INDONESIA
8 UK	8 BRAZIL
9 BRAZIL	9 UK
10 ITALY	10 FRANCE
11 MEXICO	11 MEXICO
12 INDONESIA	12 ITALY
13 SPAIN	13 TURKEY
14 CANADA	14 S. KOREA
15 S. KOREA	15 SPAIN
16 S. ARABIA	16 S. ARABIA
17 IRAN	17 CANADA
18 TURKEY	18 IRAN

Average Annual GDP Growth (%), 2003-2018



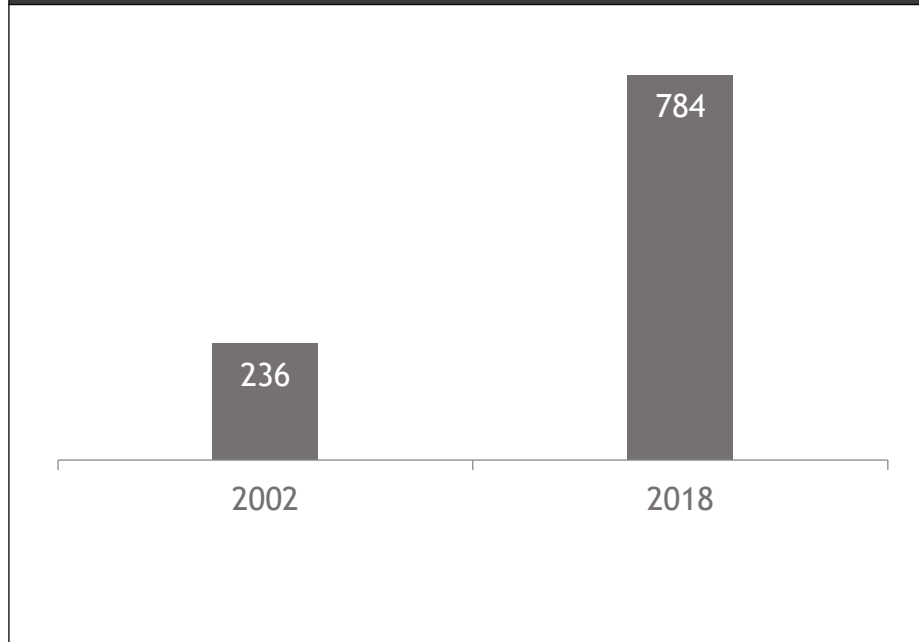
Real GDP Growth (Index: 2002=100)





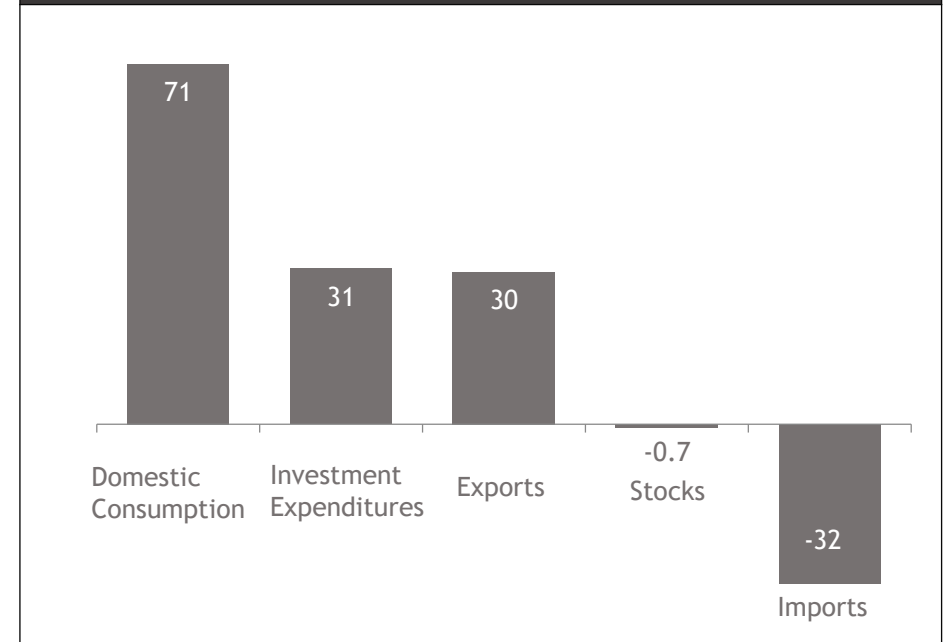
Turkish economy has more than tripled over the past 15 years and is promising more growth in future

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



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

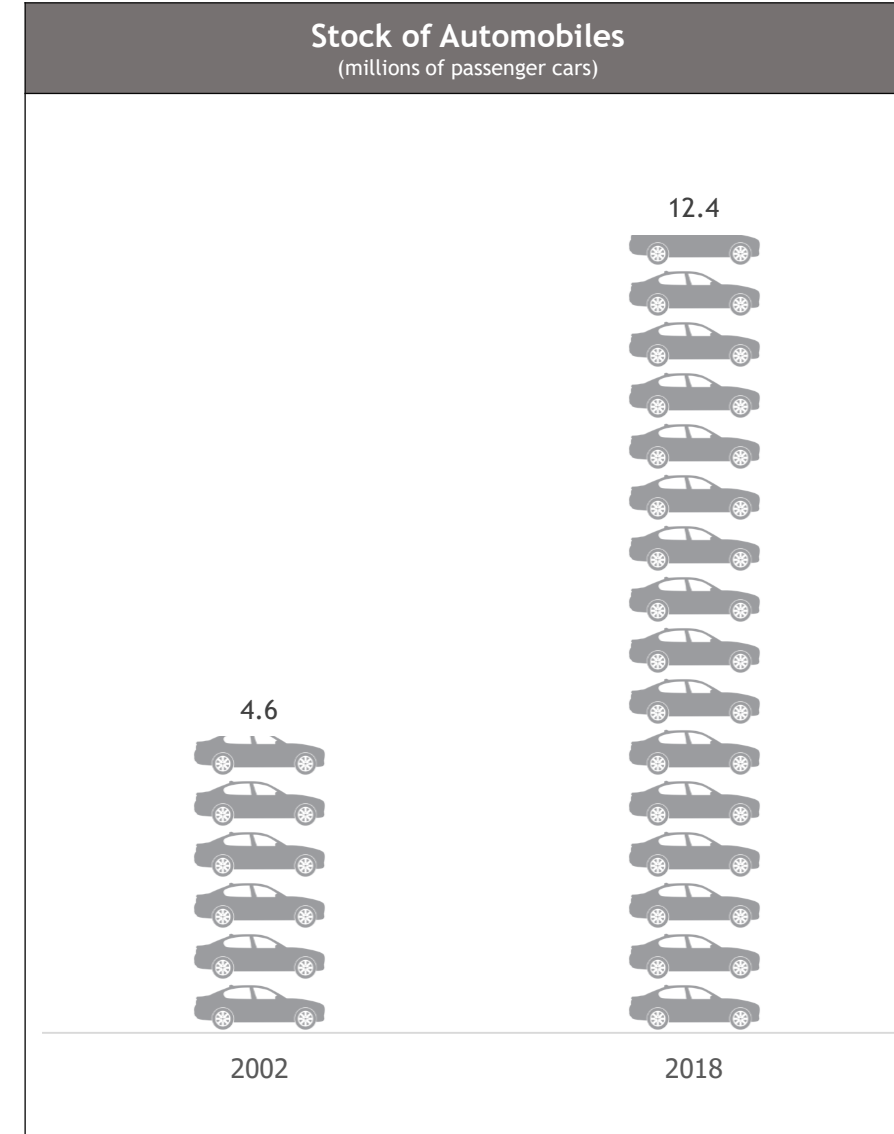
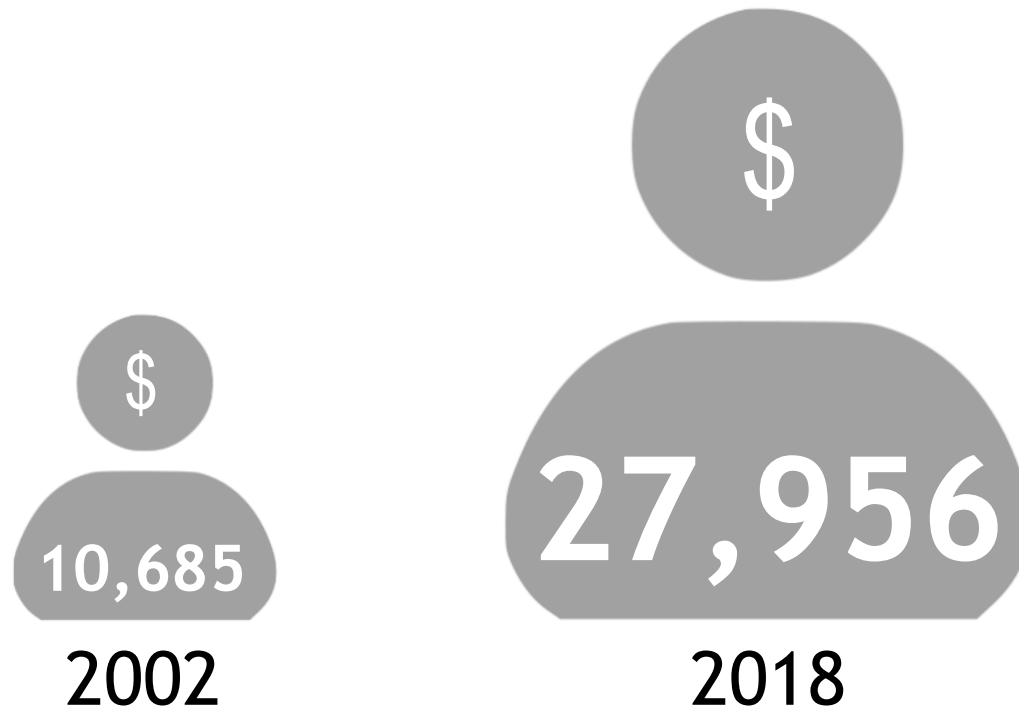
Contribution to GDP Growth 2002-2018* (%)





Income per capita

(GDP per capita at purchasing power parity)

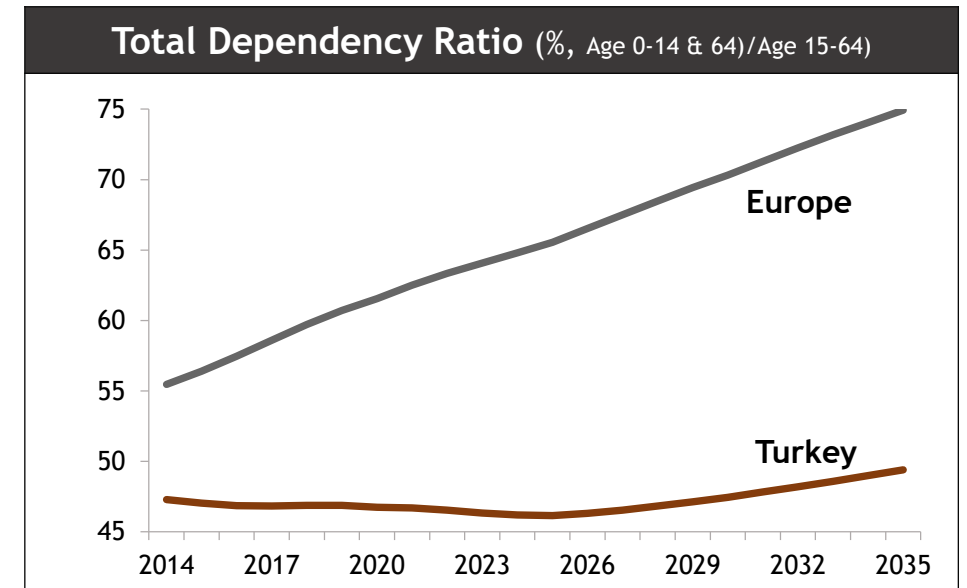
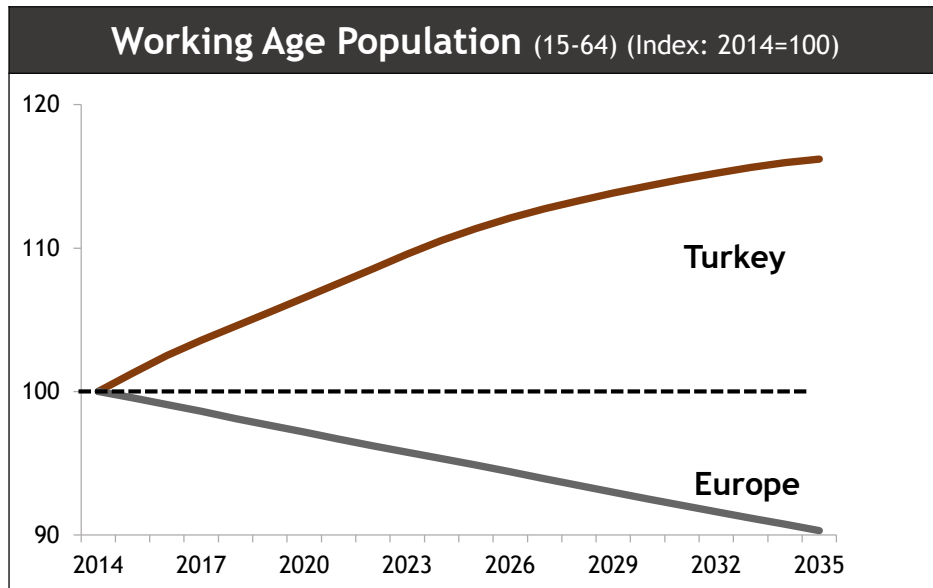
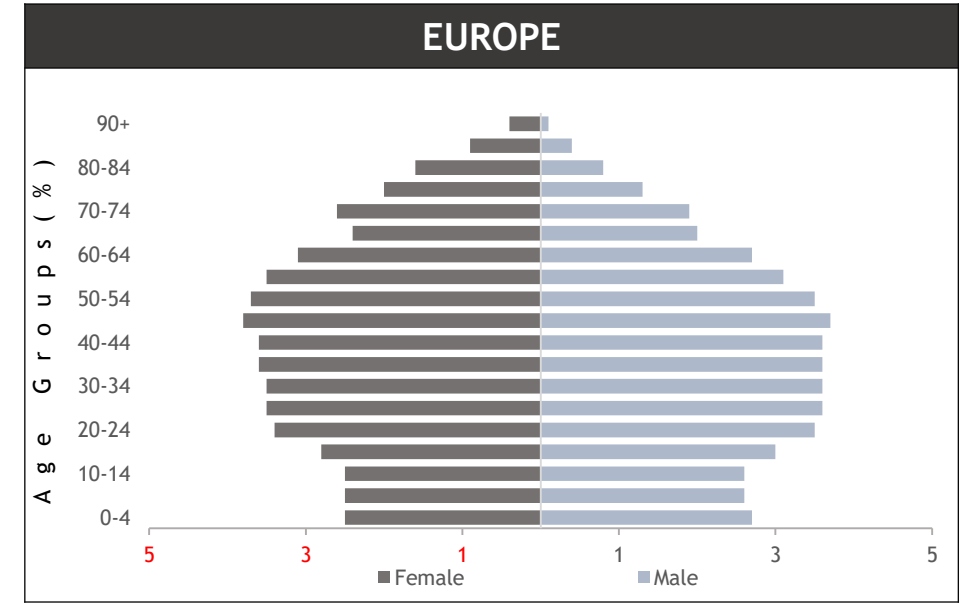
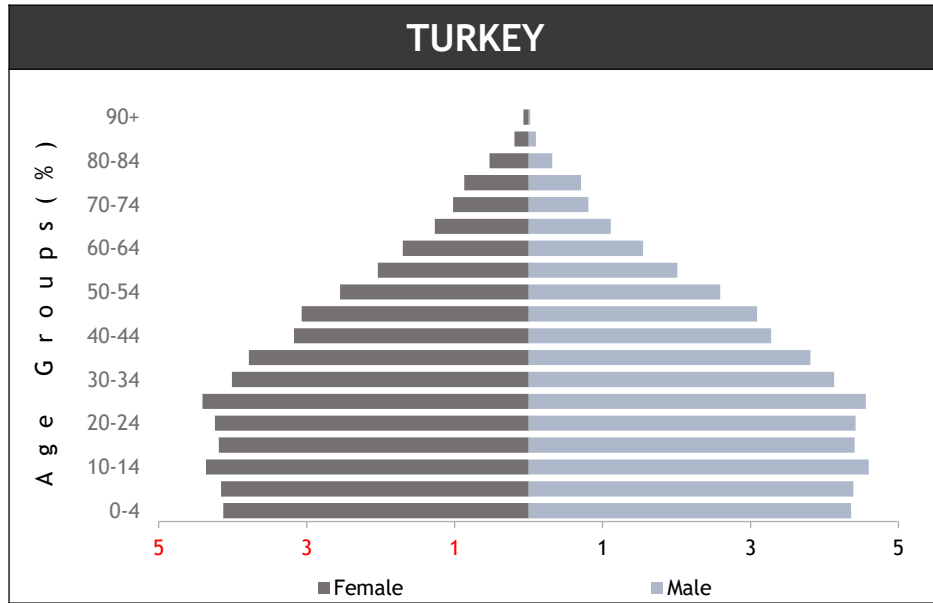




82
MILLION

Favorable Demographics

half of population under age 32..



Strategic Location

to manufacture, export and manage...



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 255 destinations in 122 countries

MANUFACTURING & EXPORT HUB FOR MULTINATIONALS



TOYOTA Exporting 85% of its production



Ford Exporting 77% of its production



Nestlé Production base for MENA



BOSS Its largest production facility worldwide

AS WELL AS MANAGEMENT HUB FOR MULTINATIONALS



B/S/H/ 89 countries
GE Healthcare 80 countries



KNAUF 80 countries



thyssenkrupp 72 countries



intel 67 countries



POWERCHINA 63 countries

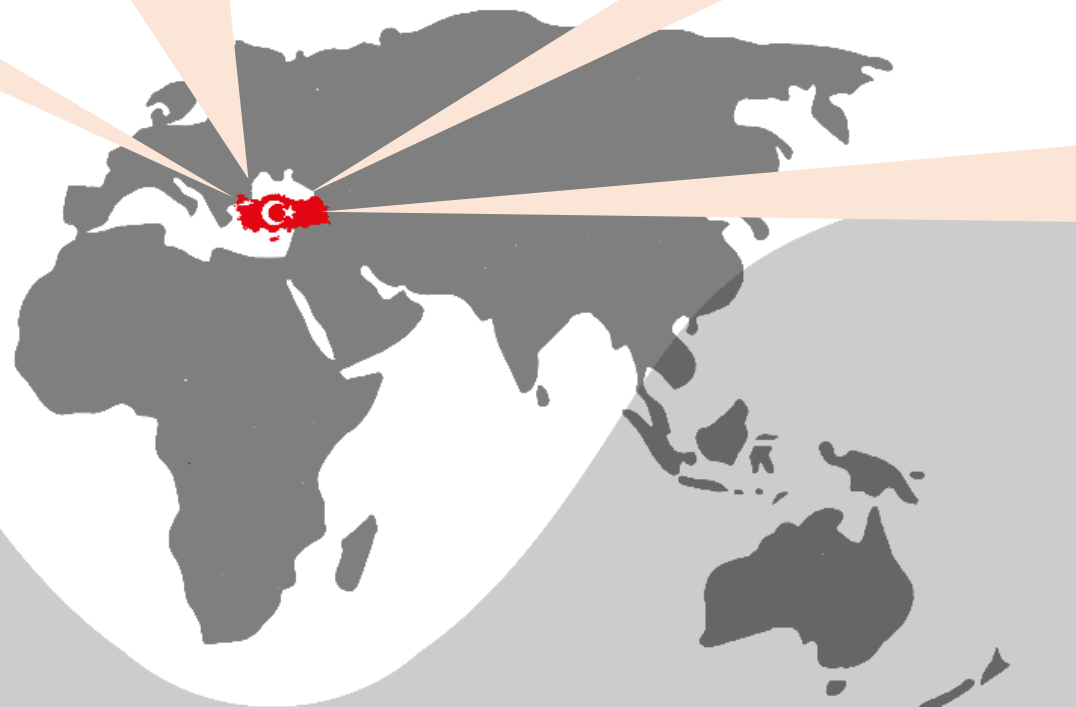


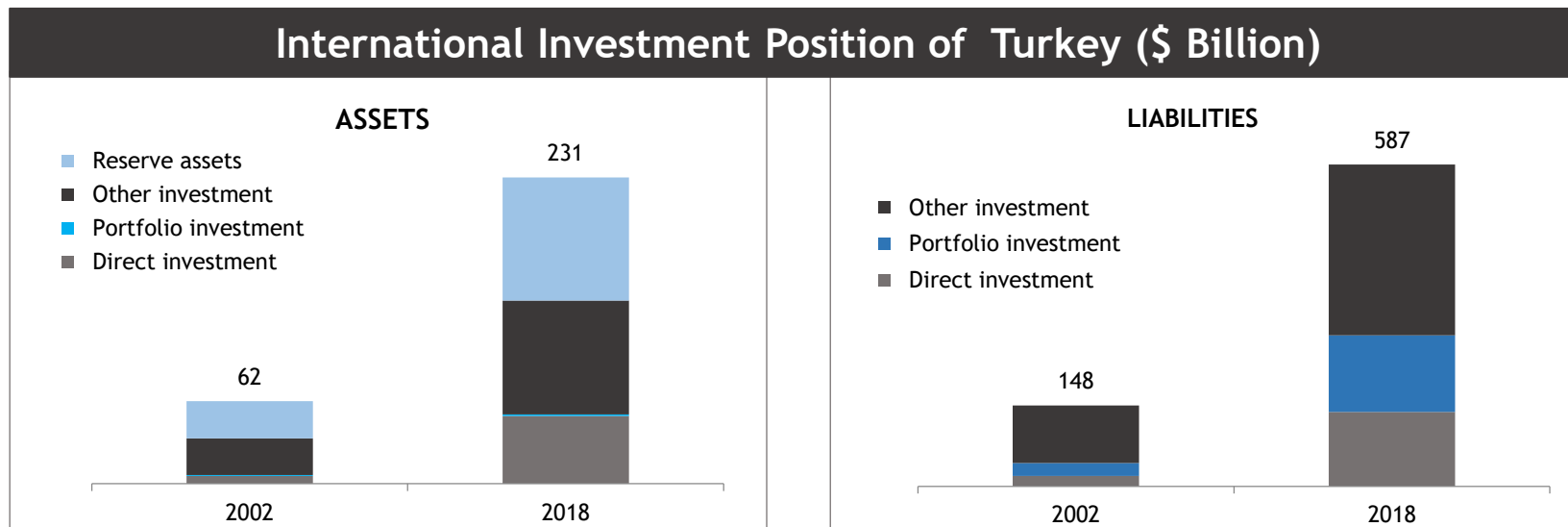
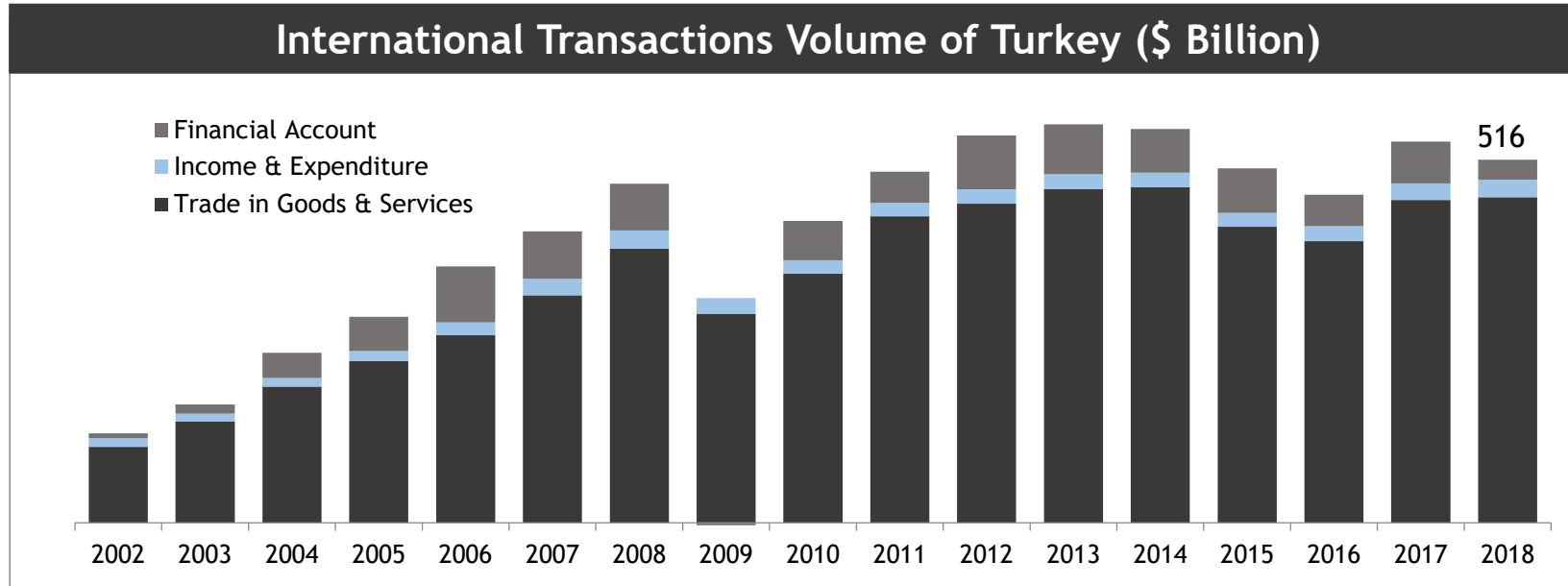
Verifone 60 countries



gsk 30 countries

**16
TIME
ZONES**





Skilled workforce
with cost advantage

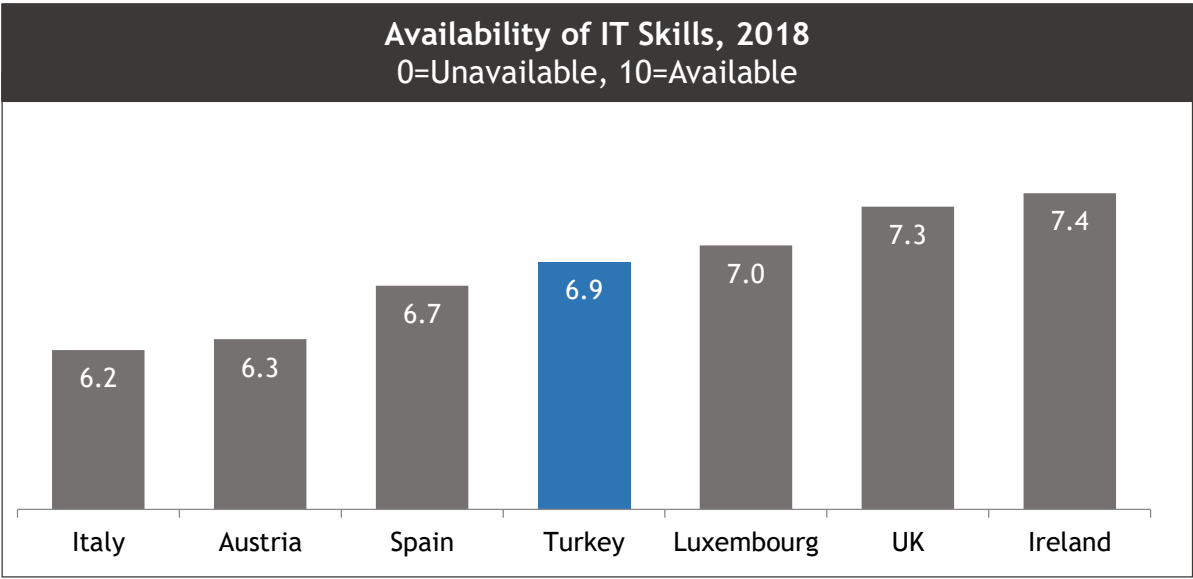
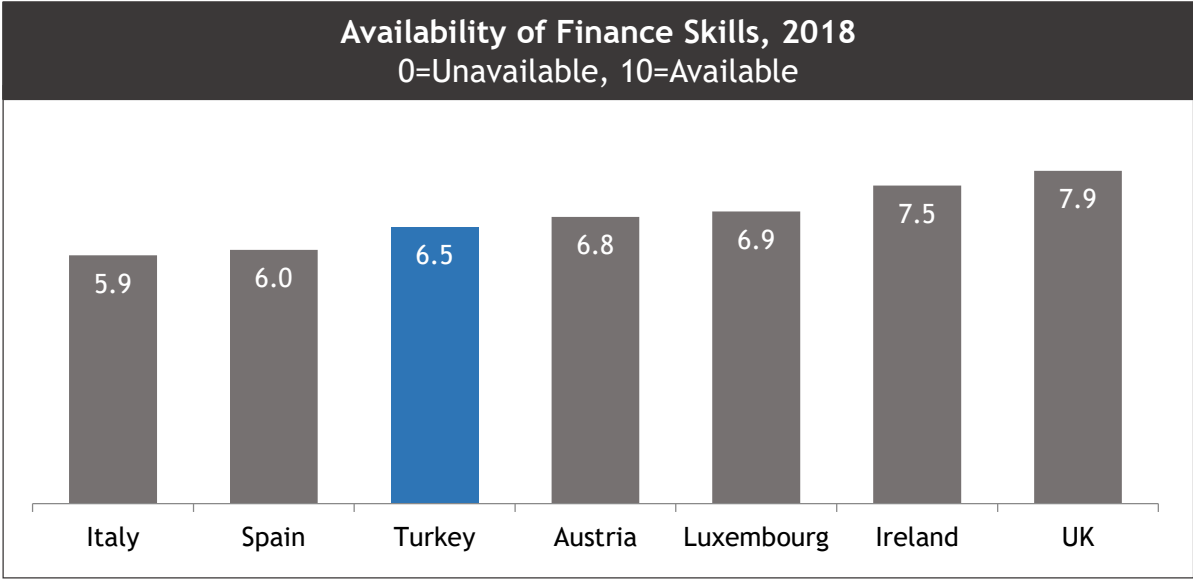
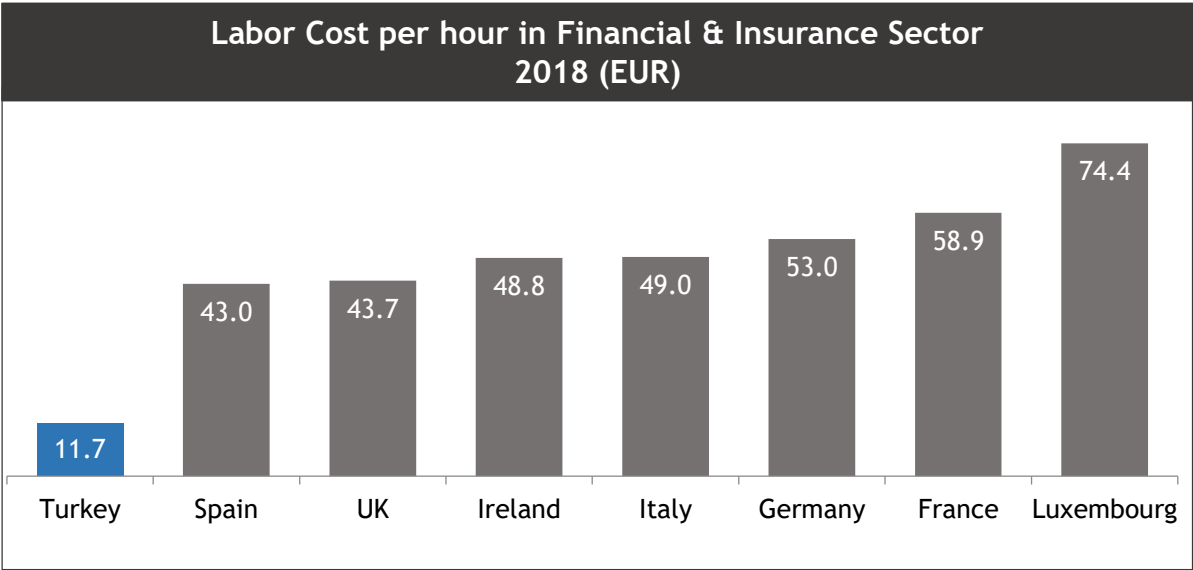
Turkey's labor markets support the financial sector's human resources need with a cost-competitive labor base..



255K

PEOPLE EMPLOYED
IN THE TURKISH
FINANCIAL AND
INSURANCE SECTOR

2018



Source: Turkstat, IMD World Competitiveness Yearbook Executive Opinion Survey based on an index from 0 to 10; Eurostat



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

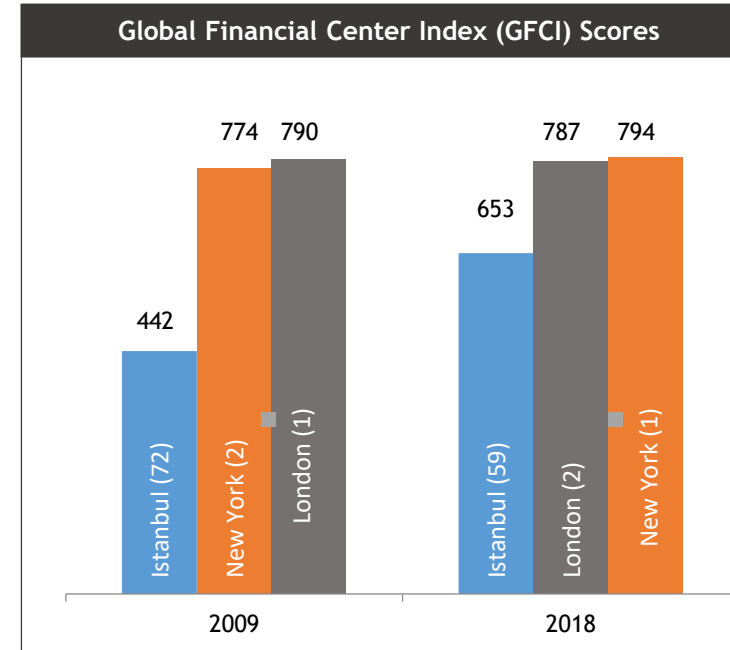


Istanbul Financial Center Project

Key Features

- Istanbul Financial Center will house the head offices of the Turkey's financial market governing bodies, state-owned and private banks, and related businesses. It will cover 4.2 million square meters of office, residential, retail, conference, hotel and park space.
- The government is working to improve the Turkish tax system, legal and fiscal environment, political and economic stability and regulatory framework in order to attract financial investments.
- Presidential Finance Office was established in 2018, with a mission to implement and monitor İstanbul Financial Center Project.
- İstanbul is a broad and deep and established transnational financial center, same category as Geneva, Shanghai and Tokyo, according to GFCI.

Istanbul is converging with top financial centers..



Source: GFCI (Rank)

“İstanbul satisfies the majority of the criteria of a financial center”

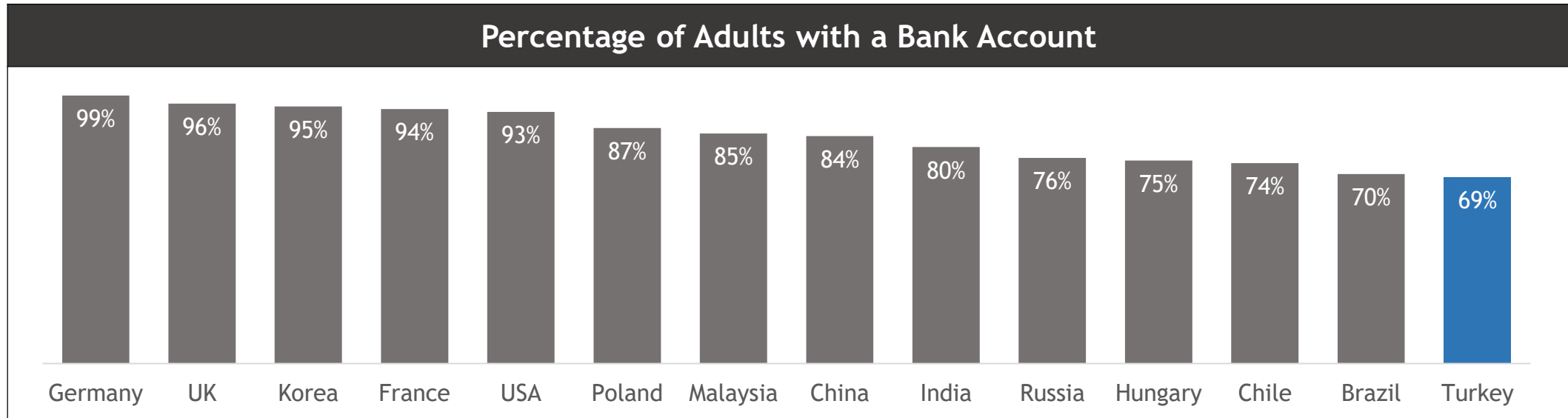
Tom Shave, Deloitte Senior Manager



“Besides regional proximity to our clients, İstanbul provides appropriate infrastructure, convenient airport links, and a good quality of life for our staff.”

Dimitris Tsitsiragos,
Vice-President, IFC







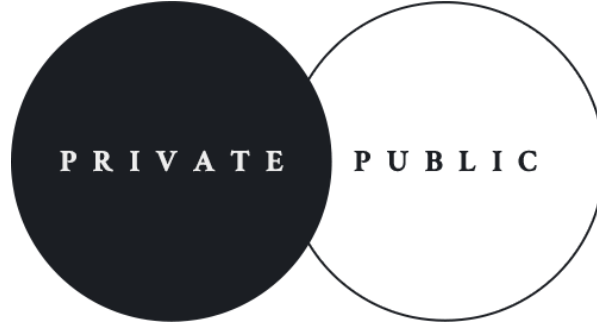
- Ministry of Treasury and Finance: <http://www.treasury.gov.tr/>
- Central Bank of the Republic of Turkey: <http://www.tcmb.gov.tr/>
- Banking Regulation and Supervision Agency: <http://www.bddk.org.tr/>
- Capital Markets Board of Turkey: <http://www.cmb.gov.tr/>
- Borsa Istanbul: <http://www.borsaistanbul.com/>
- 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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A governmental agency reporting to the President



Private sector approach with public sector capabilities



Acting as your solution partner



General & customized business information & Sectoral analysis & reports

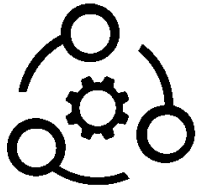


Site selection support to find appropriate location/land for your investment



Arrangements of meetings with governmental bodies and other stakeholders

AFTERSALES



Facilitating your investment at all stages



Matchmaking with local partners & establishing business linkages



Project launch & Press release Services



Facilitating your visit to Turkey



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