

MAY 2010

TURKEY

BROKERAGE INDUSTRY 2009 ANNUAL REVIEW

EQUITY
MARKET

DERIVATIVES

ASSET MANAGEMENT

FIXED INCOME

**CORPORATE
FINANCE**



TSPAKB The Association of Capital Market
Intermediary Institutions of Turkey

TURKISH BROKERAGE INDUSTRY 2009 ANNUAL REVIEW

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ABBREVIATIONS

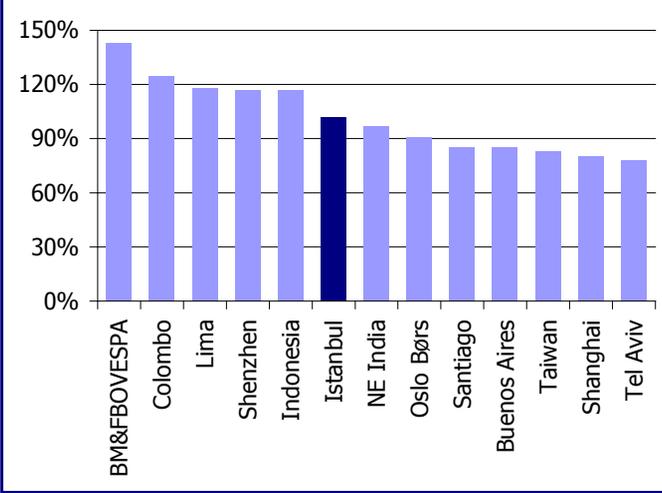
Term	Definition
CBRT	Central Bank of the Republic of Turkey
CMB	Capital Markets Board
CRA	Central Registry Agency
IFRS	International Financial Reporting Standards
ISE	Istanbul Stock Exchange
MCap	Market Capitalization
Takasbank	Settlement and Custody Bank
TL	Turkish Lira
TSPAKB	The Association of Capital Market Intermediary Institutions of Turkey
TurkDex	Turkish Derivatives Exchange
WFE	World Federation of Exchanges
Y-t-d	Year-to-Date
Y-o-y	Year-on-Year

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MARKET RETURNS

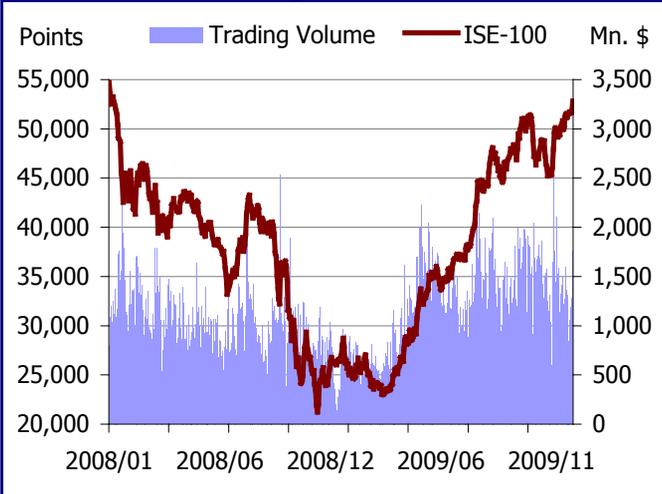
Selected Index Returns (US\$ Based) (2009)



Source: WFE

The global financial crisis affected the index returns negatively in 2008. Istanbul Stock Exchange (ISE) was among the worst performers in that year. However in 2009, the indices in the global financial markets increased significantly with positive expectations on the global outlook. In 2009, ISE-100 Index increased by 102% in US\$ terms.

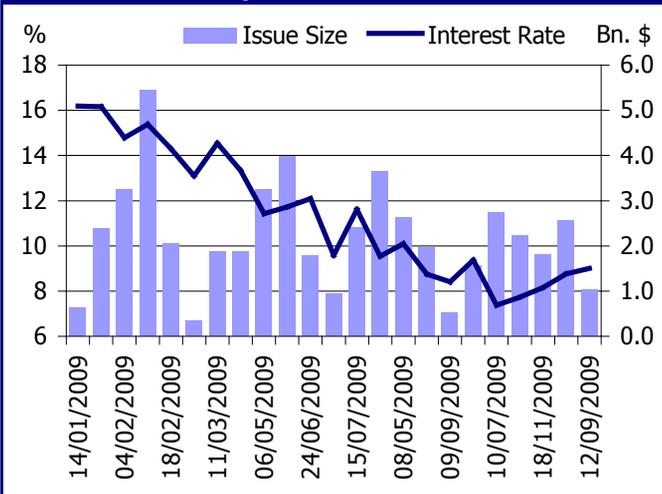
ISE-100 Index & Trading Volume



Source: ISE

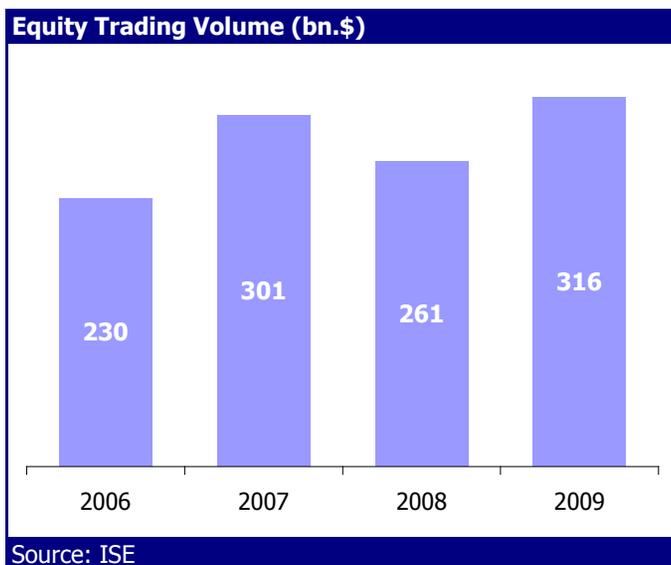
The ISE-100 index was hit by the global financial crisis in the last quarter of 2008 and started the year 2009 at 27,006 points. Yet, the markets gradually recovered starting from the second quarter of 2009. With an almost perfect V shape, the ISE-100 index ended the year at 52,825 points, recording 97% increase in Turkish Lira terms. Moreover, the average daily trading volume increased by 21%, from US\$ 1 billion to US\$ 1.2 billion in 2009.

Discounted Treasury Bill Auctions



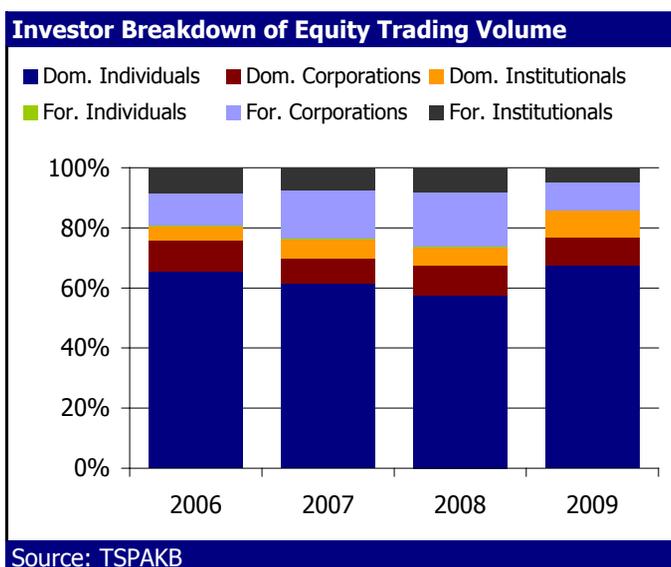
Source: Treasury

The Treasury held 2 auctions for discounted T-bills per month on average in 2009. Average issue size has been US\$ 2.2 billion per auction. On the other hand, interest rates declined from 16% to 9% throughout the year, in line with the rate cuts of the Central Bank.



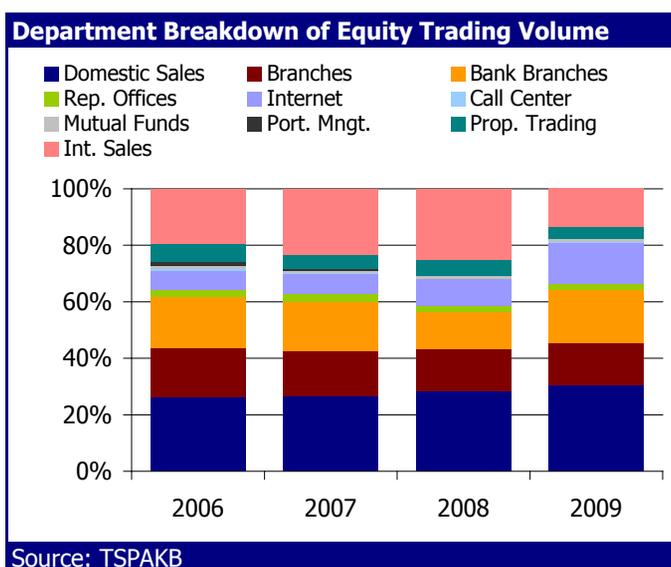
In Turkey, only brokerage firms are allowed to trade equities. Although there are 103 licensed firms as of end-2009, this report is based on the aggregate results of 91 brokerage firms, excluding the dormant ones. The following analyses cover only the brokerage firms' operations unless otherwise specified.

Although a y-o-y decline in the equity trading volume was observed between the second quarter of 2008 and the first quarter of 2009, the trading volume started to recover in the second quarter of 2009. Thus, annual equity trading volume increased by 21% to US\$ 316 billion.



Domestic investors generated 86% of total trading volume in 2009. With a 67% share, domestic individual investors are the major source of liquidity in the market. Due to the decline in foreign investors' trading volume, individual investors' share increased by 10 points in 2009. In the meantime, the total share of domestic corporations and institutional investors rose by 2 points to 18%.

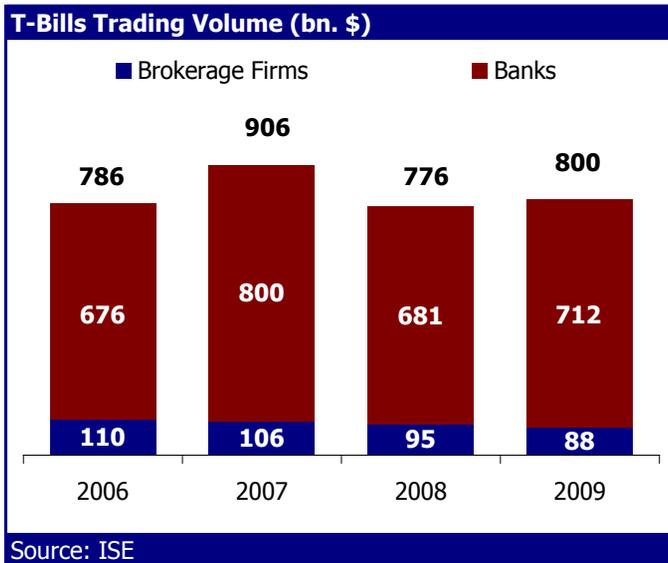
The share of foreign investors in the trading volume has been increasing since 2004 until the last quarter of 2008. But as the financial crisis deepened in 2008, their activity started to decline. The volume share of foreign investors went down from 26% to 14% in 2009. The most dramatic decline has been in the corporations group, which mainly refers to foreign banks and brokerage firms. The share of foreign corporations dropped from 18% to 9%.



Domestic sales refer to the headquarters of the brokerage firms. Branches are owned by the brokerage firms. Bank branches show the order flow from banks.

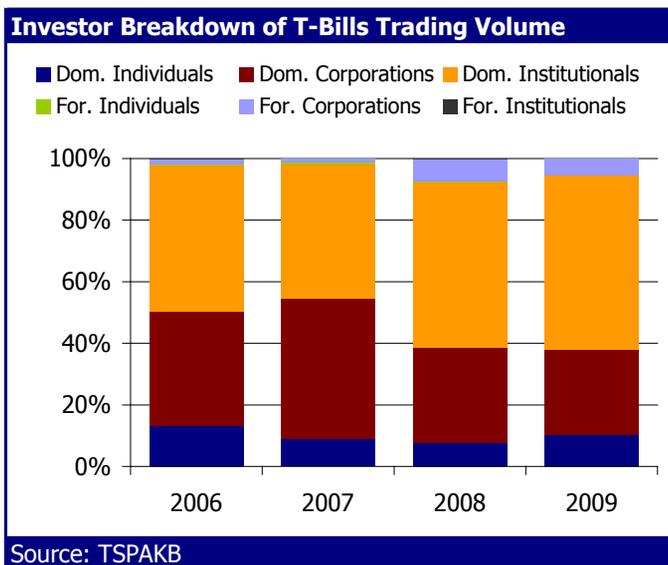
As a result of strong domestic demand, domestic sales department continued to be the major channel for brokerage firms. 31% of the equity trading volume has been generated through domestic sales department. The most significant change in the department breakdown has been seen in the bank branches and internet. One brokerage firm, which started to use bank branches instead of domestic sales department, had a strong impact on the market share of the bank branches. In 2009, bank branches' share increased from 13% to 19%. Meanwhile, the share of internet trading reached an all time high of 14%. As the foreign investors' activity decreased significantly, international sales departments' share of the trading volume declined by half to 13% in 2009.

BONDS AND BILLS MARKET



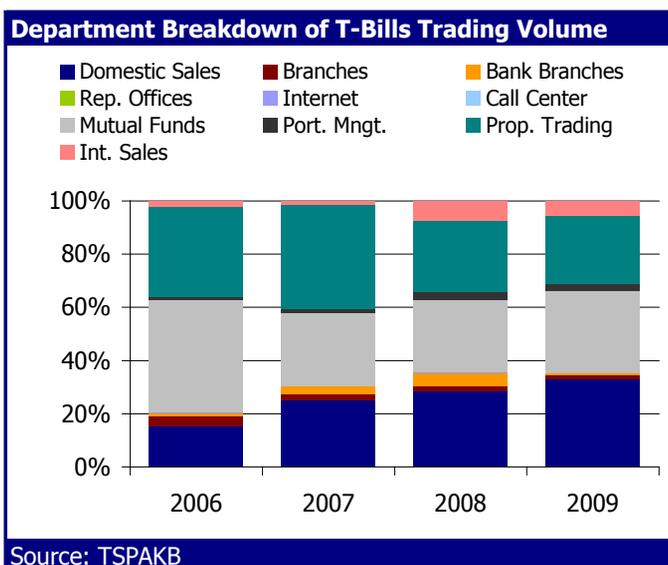
In 2009, annual T-bill trading volume increased slightly to US\$ 800 billion. With a share of 89%, banks dominate the market. 77 brokerage firms generated US\$ 88 billion of the trading volume in the bonds market, which indicates a slight decrease as compared to 2008.

The breakdown of trading volume in terms of departments and investor categories, includes the brokerage firms' statistics only.



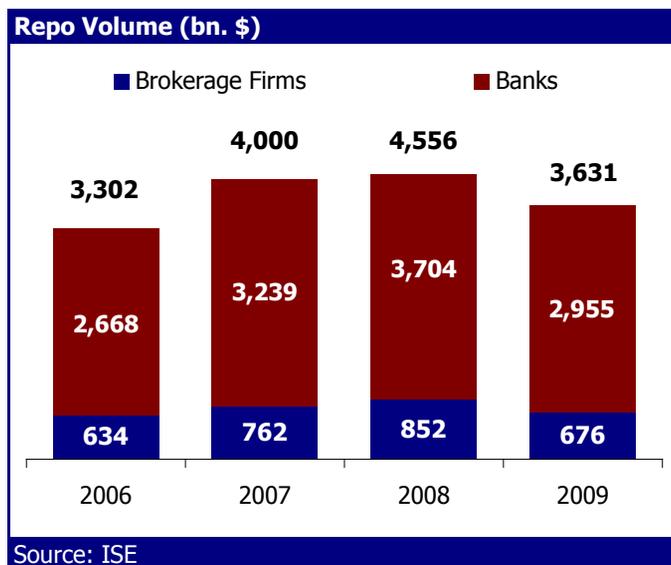
94% of T-bills trading volume is generated by domestic investors. Domestic institutional investors, which represent mutual funds, investment trusts and pension funds, has the lion's share with 56% of the trading volume. Domestic corporations, representing the proprietary trading of brokerage firms, generated 28% of T-bills trading volume.

On the other hand, foreign investors' share remained at 6% in 2009. One brokerage firm created 94% of total foreign investors' trading volume. It is known that foreign investors prefer to trade T-bills through banks rather than brokerage firms.



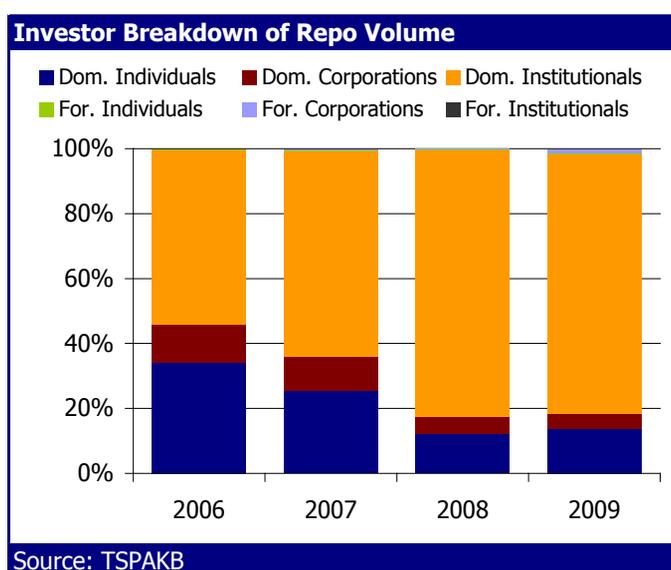
89% of T-bill trading is done through the domestic sales departments, mutual funds and proprietary trading. With the strong demand in domestic investors' side, domestic sales department generated 33% of the total trading volume.

This major channel is followed by mutual funds with a share of 31%, and proprietary trading with a 26% share.



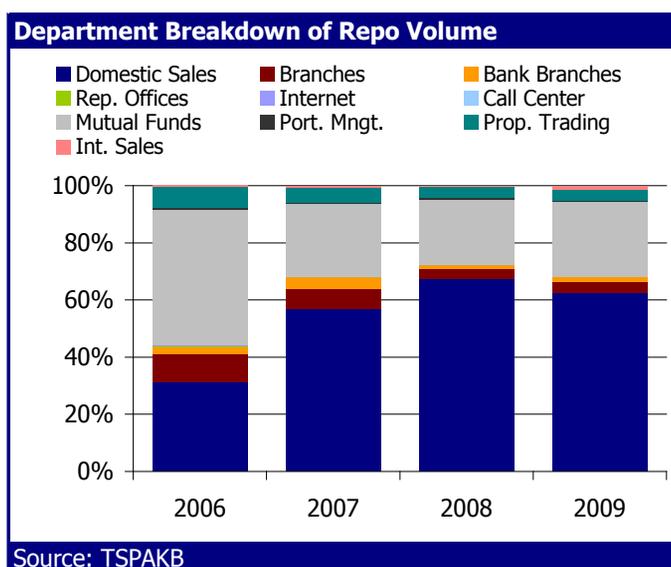
Contrary to the bond market, annual repo trading volume decreased by 20% to US\$ 3.6 trillion in 2009. Similar to T-bill trading volume, banks dominate the market with nearly US\$ 3 trillion trading volume. Banks and brokerage firms' share remained at the same level as in 2008, at 81% and 19% respectively.

The breakdown of the repo volume, in terms of departments and investor categories, includes the brokerage firms' statistics only.



Domestic investors created almost the entire (98%) trading volume in the repo market, although foreign investors' share increased slightly in 2009.

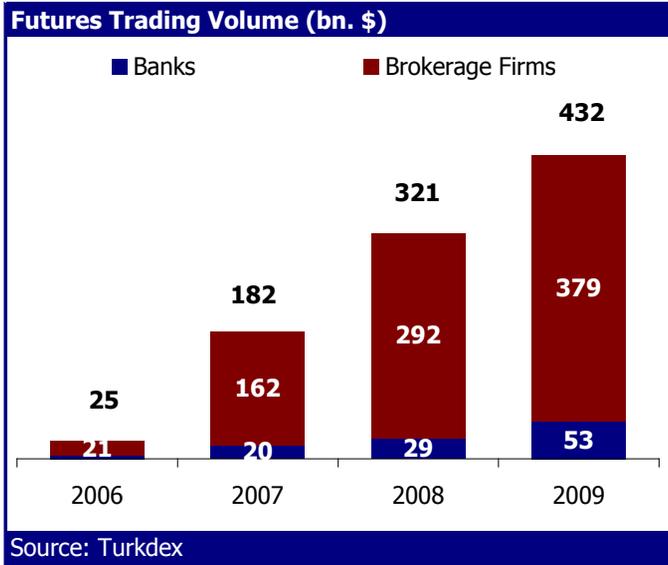
In this breakdown, domestic institutional investors, which mainly indicate the money market mutual funds managed by brokerage firms or their affiliated portfolio management companies, are the major investor group with a volume share of 80%. One brokerage firm generated 46% of domestic institutional investors' repo volume.



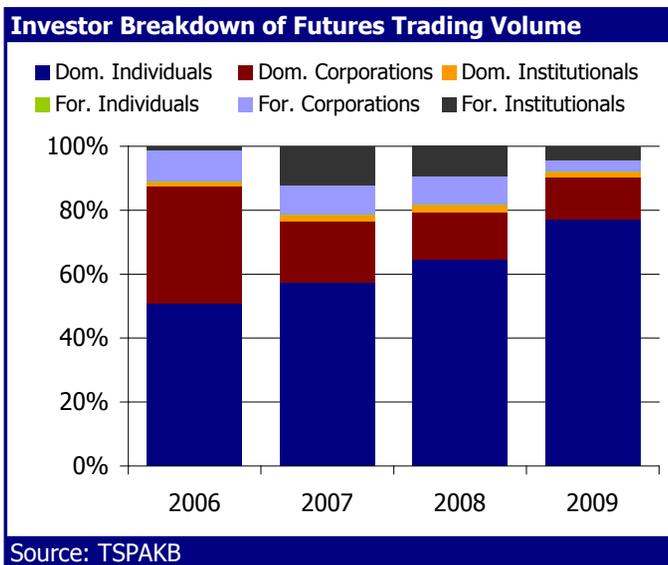
A considerable amount of repo trading volume is done through domestic sales and mutual funds. While domestic sales generated 63% of repo transactions, mutual funds represented 26% of the total trading volume.

A detailed analysis of the repo market shows that concentration in repo transactions among brokerage firms is relatively high. A single brokerage firm generated 38% of total repo transactions.

DERIVATIVES MARKET

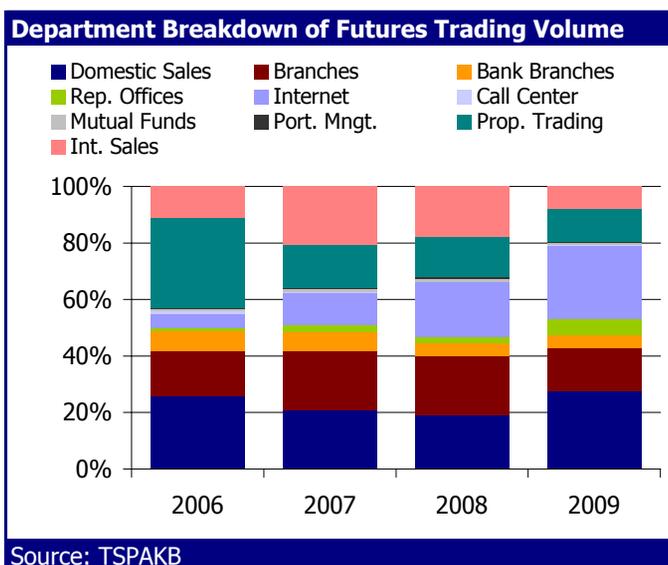


Although the trading volume of the futures market increased by 34%, reaching US\$ 432 billion, the high growth rate of the market started to slow down. Contrary to the fixed income market, brokerage firms dominate the market with an 88% trading share. Yet, banks' share rose slightly from 9% to 12% in 2009.



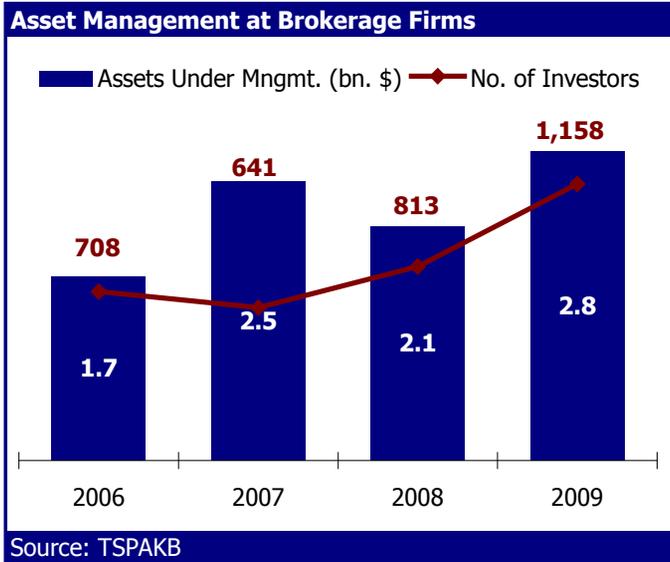
Domestic corporations' trading volume increased by 38%, but their market share declined slightly to 13% by 2 points, as compared to 2008.

A decline of 31% in foreign investors' trading volume reduced their market share to 8% from 18%. Concentration in foreign investors' futures trading volume is high. Two brokerage firms, out of 29, generated half of the total foreign investors' trading volume.

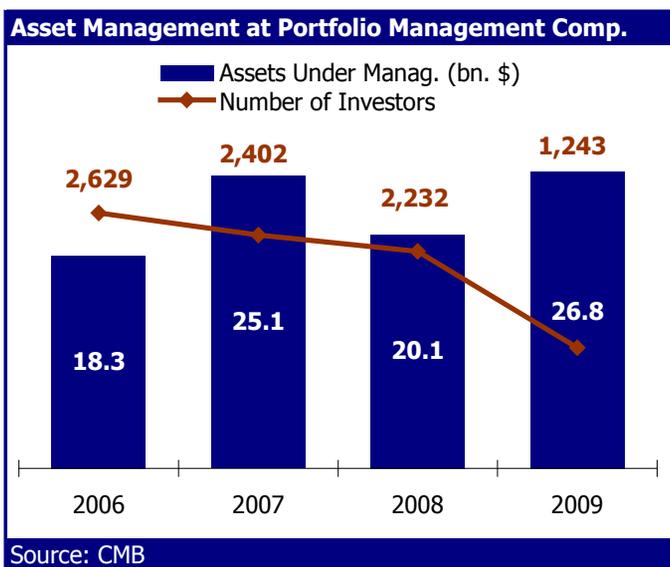


Domestic sales departments, representing the headquarters of the brokerage firms, generated 28% of the futures trading volume, indicating 9 points increase in market share. On the other hand, branches' share dropped by 6 points to 15% due to the decline in the number of branches.

Internet's share continued to increase in 2009. This channel generated a quarter of the total futures' trading volume. Futures trading through internet is above the equity trading volume through internet since 2008.



The number of brokerage firms, which offer asset management services dropped from 39 to 32 in 2009. However, number of investors and asset under management increased by 42% and 32% respectively in US\$ terms.

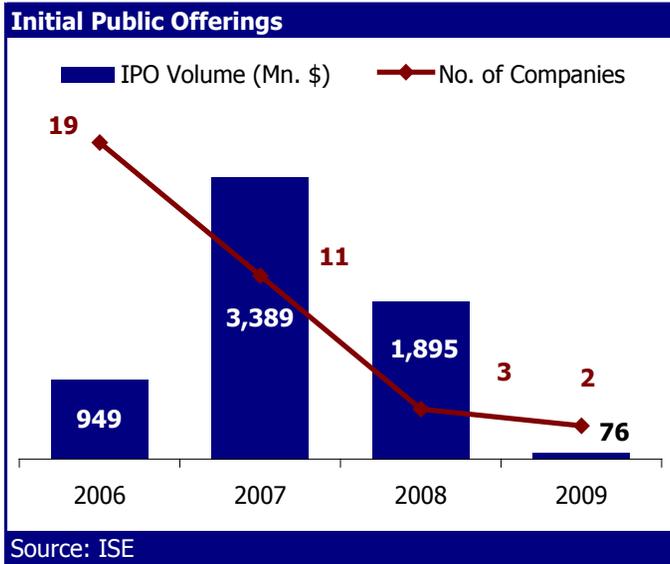


Portfolio management services are also provided by portfolio management firms. The number of investors at portfolio management companies decreased remarkably to 1,243 by the end of 2009, due to a data update. On the other hand, assets under management increased by 33% to US\$ 27 billion. As the number of clients declined, the average portfolio size per client increased from US\$ 9 million to US\$ 22 million.



Amidst the global financial crisis, total loan size and number of margin trading investors decreased sharply in 2008. By the end of 2009, total loan size increased by 88% to US\$ 315 million. This amount is still below the levels recorded at the end of 2006 and 2007.

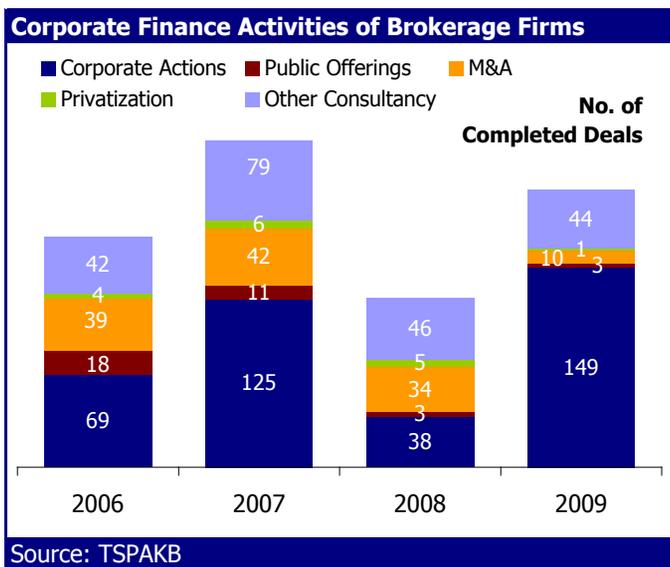
CORPORATE FINANCE & BRANCH NETWORK



The global financial crisis limited the number of public offerings. In 2008, there were 3 public offerings, amounting to US\$ 1.9 billion. Almost the entire amount of that size was raised by the privatization of Turk Telekom which has been the largest IPO ever in Turkey.

In the first half of 2009, there were two public offerings; an exchange traded fund (US\$ 69 million) and a company (US\$ 7 million).

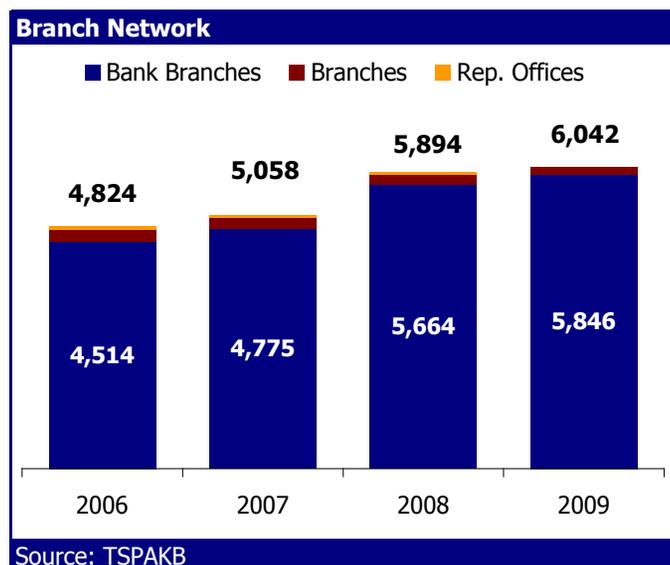
On the other hand, listing regulations of the ISE have been revised in 2009. Accordingly, public companies (i.e. having more than 250 shareholders) have now the opportunity to become listed after fulfilling certain conditions, without having to go through a formal IPO procedure.



Corporate finance services are provided by brokerage firms, as well as M&A consultancy companies, auditors and other consultants. However, this section covers only the corporate finance activities of brokerage firms. During 2009, 24 brokerage firms were active in this market.

In 2009, the number of completed deals went up from 126 to 207. The increased number of corporate actions was the underlying reason of this surge. In 2009, 79 companies increased their paid-in capital through brokerage firms, while 69 companies used brokerage firms to pay dividends. In 2008, these numbers were 21 and 26, respectively.

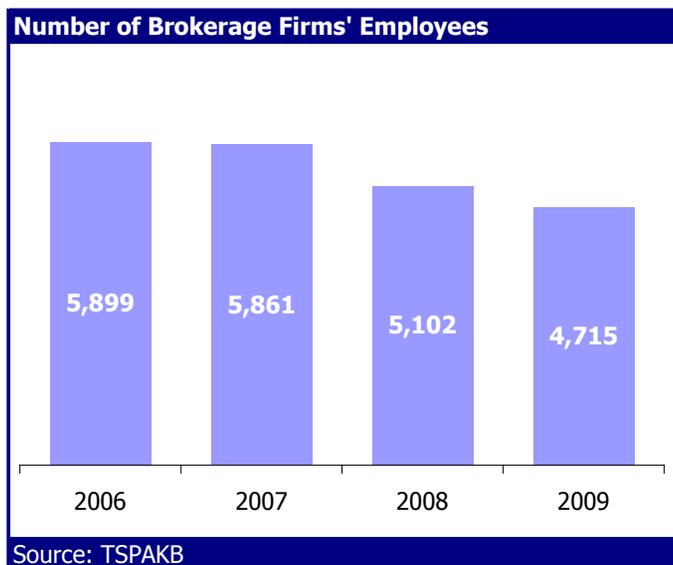
On the other hand, the number of buy and sell side privatization consultancy projects decreased to 10, from 34 a year ago.



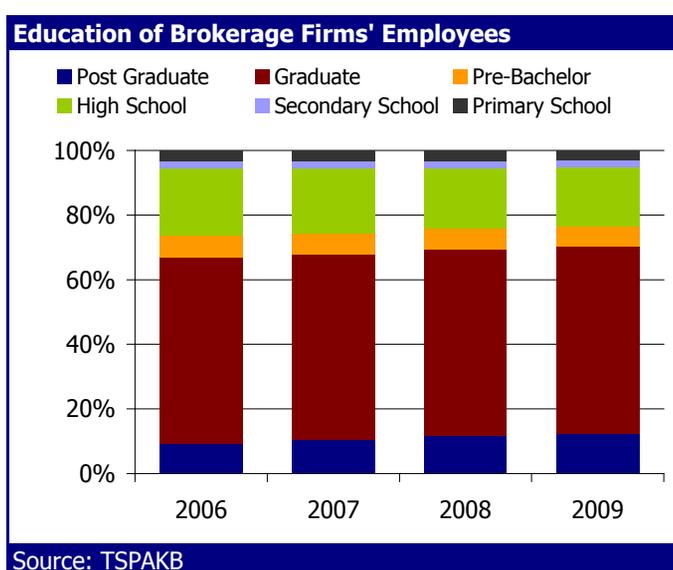
Brokerage firms reach investors through three sales points; bank branches, own branches and representative offices.

Branches and representative offices are owned and staffed by brokerage firms. On the other hand, bank branches are also used as sales agents, based on agreements between the banks and the brokerage firms.

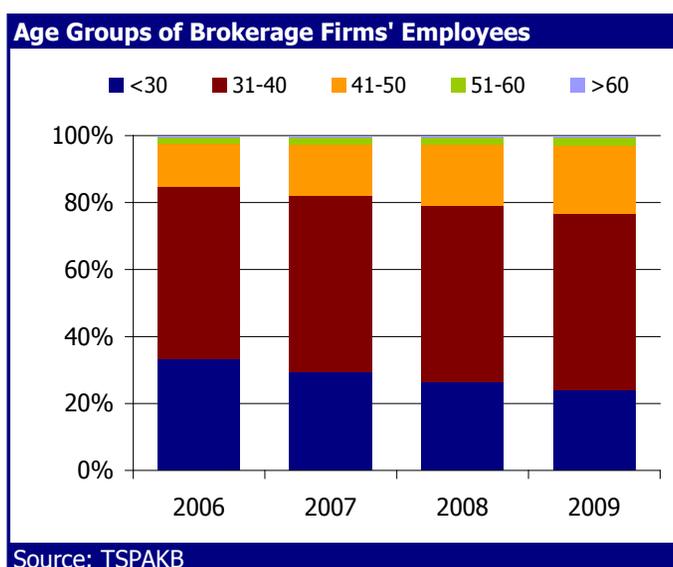
With the effect of the global financial crisis, brokerage firms started to close down their branches and representative offices in 2008. Closures continued in 2009 as well. In 2009, the total number of branches and representative offices decreased from 230 to 196. On the other hand, the number of bank branches increased from 5,664 to 5,846, with the banks expanding their branch network.



Between 2004 and 2007, brokerage firms employed around 5,900 personnel. In 2008, due to the global crisis, the number of brokerage firms' employees declined to 5,102. In 2009, the decline continued and the total number of personnel came down to 4,714, although layoffs slowed down in the last quarter of the 2009. This figure is the lowest level of employment since 1999. The most significant decline took place in branches due to closures.

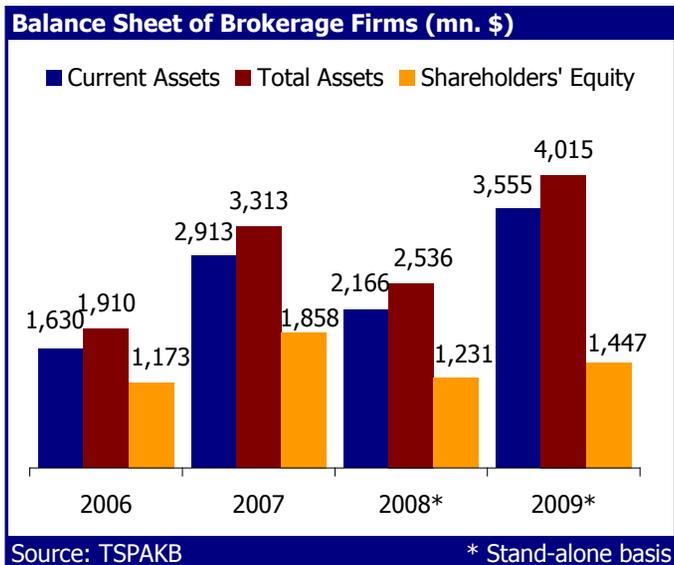


The education level of the sector has been increasing. 76% of brokerage firms' employees have at least a graduate diploma. On the other hand, the share of employees under pre-bachelor degree decreased by 1 point to 24%, signalling that the layoffs took place mainly in the less-educated segment.



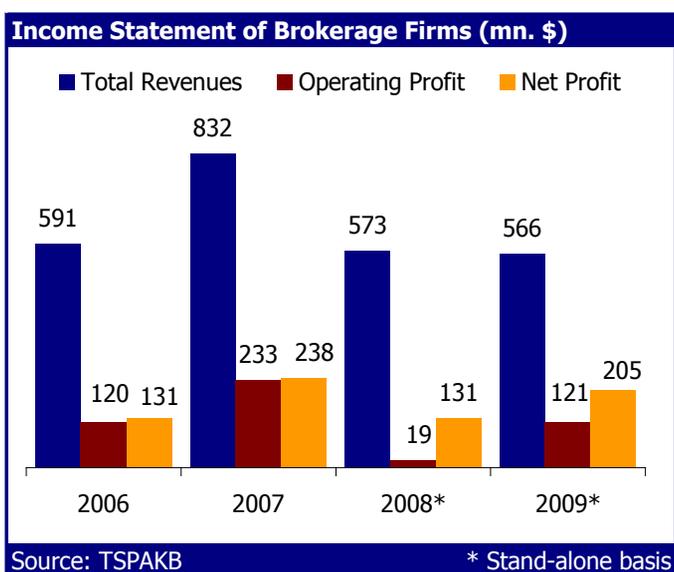
Although the majority of employees are aged under 40, an aging trend is observed. The breakdown shows that the share of employees under 40 decreased by 3 points to 77% in 2009.

FINANCIAL STATEMENTS



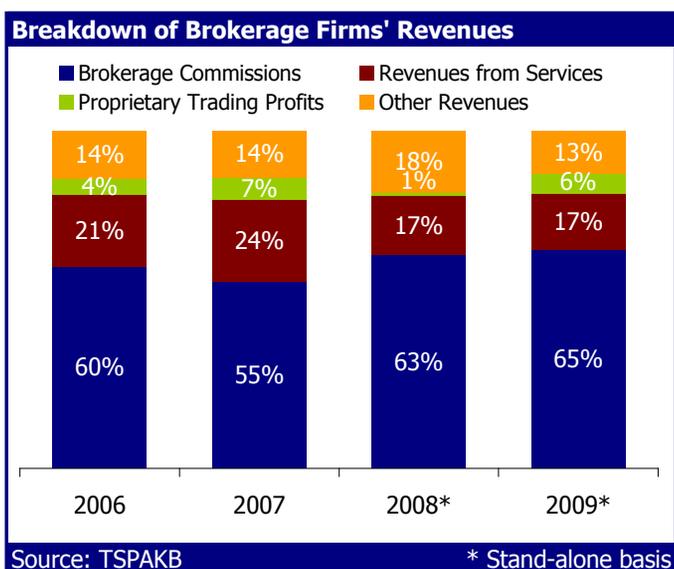
International Financial Reporting Standards (IFRS) have been adopted in capital markets since 2005 and revised in 2008. In this section, financial statements cover the aggregate data of 95 brokerage firms in 2008 and 91 firms in 2009. Since 2008, our Association gathers the stand-alone financial statements of brokerage firms.

By the end of 2009, total assets of brokerage firms reached US\$ 4 billion. Asset structure is quite liquid as 89% of total assets is composed of current assets. With a 49% share, cash and cash equivalents is the major account. Bank deposits are the most important item in this group. Shareholders' equity of US\$ 1.5 billion represents 36% of total liabilities. Short term liabilities, which include the overnight borrowings and settlement payables, form 63% of total liabilities. 94% of overnight borrowings were made by two brokerage firms which borrowed short-term from the money market and invested in longer-term bank deposits.



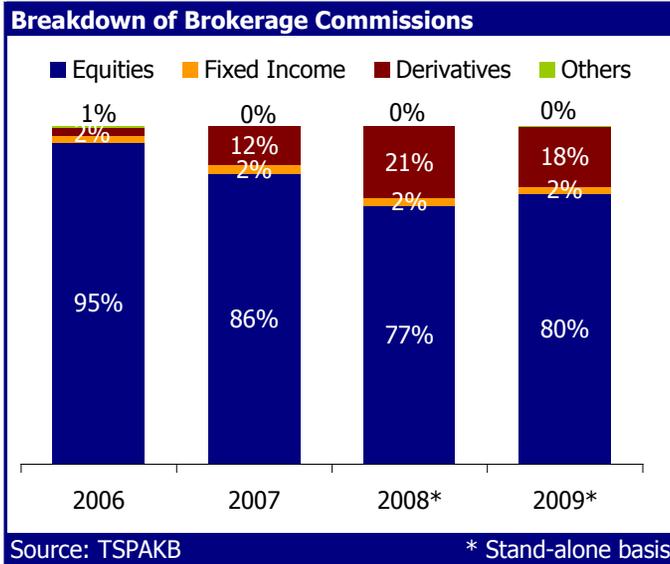
In 2009, brokerage firms' total revenues declined slightly by 1% to US\$ 566 million. While revenues remained at the same level, net profits increased by 56% to US\$ 205 million, thanks to the decline in operating expenses.

Brokerage firms generate revenues from brokerage commissions, services, proprietary trading and other operations.



The major revenue source of the industry is brokerage commissions. Brokerage firms generated 65% of their revenues from brokerage commissions in 2009.

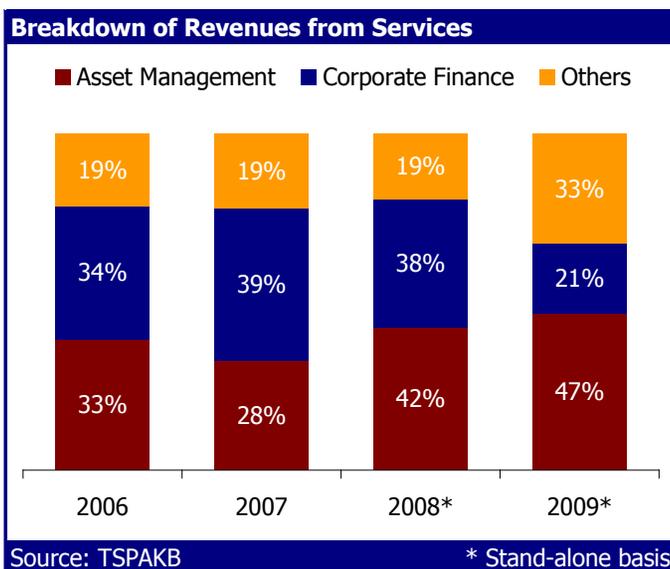
Revenues from services, which refer mainly to asset management and corporate finance activities, represented 17% of total brokerage firms' revenue. Brokerage firms posted profits from securities trading, which generated 6% of the revenues in 2009. Other revenues, including mainly interest income, dividends received and alike, contributed to 13% of total revenues.



In 2009, brokerage firms earned US\$ 373 million in brokerage commissions. Equity trading commissions, with an 80% share, are the major revenue item in this breakdown.

Effective commission rate on equity trading could be estimated by the net amount left to the brokerage firm, excluding rebates to clients and revenue sharing with the sales agents. In 2009, the effective commission rate was 0.050% as compared to 0.057% in 2008. Please note that this should not be interpreted as the rate charged from the client.

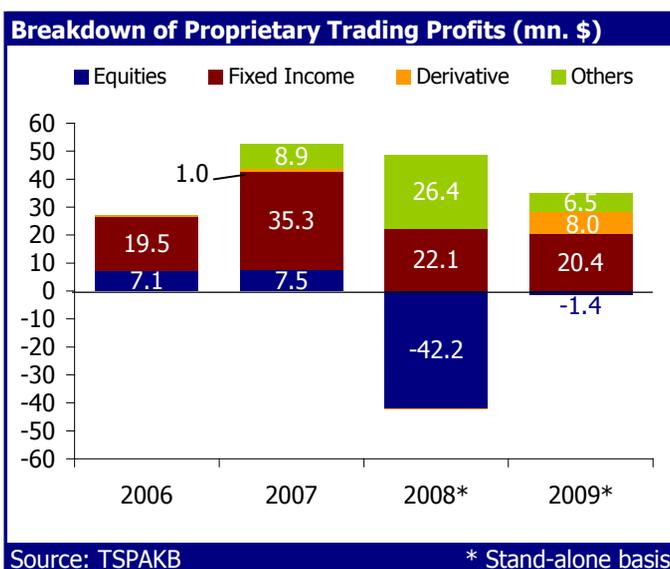
In line with rising trading volumes, the share of derivative commissions has been increasing significantly until 2008. However, the financial crisis slowed down the growth of the market. In 2009, brokerage firms generated 18% of their commissions on derivatives operations.



Revenues from services cover mainly asset management and corporate finance fees. "Others" refer to fees charged on custody services, as well as money and securities transfers. Service revenues were US\$ 96 million in 2009, which indicates a 3% decline.

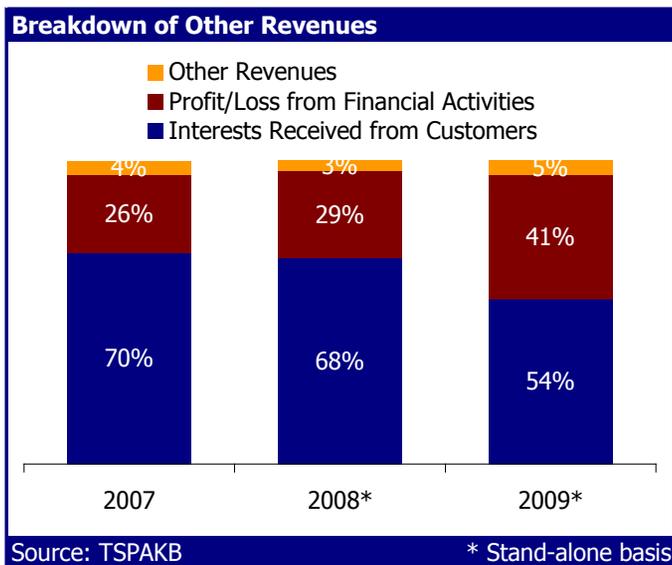
In 2009, almost half of brokerage firms' operating income was generated by asset management activities.

As the global recession affected the initial public offerings, brokerage firms' corporate finance activities were mainly limited to corporate actions. The revenues from corporate finance transactions declined nearly by half in 2009.



Brokerage firms have recorded proprietary trading profits of US\$ 34 million in 2009. While they posted a loss of US\$ 1 million in equities, fixed income securities became the major revenue item with a US\$ 20 million profit. In 2009, brokerage firms earned US\$ 8 million from derivatives trading for their own portfolio.

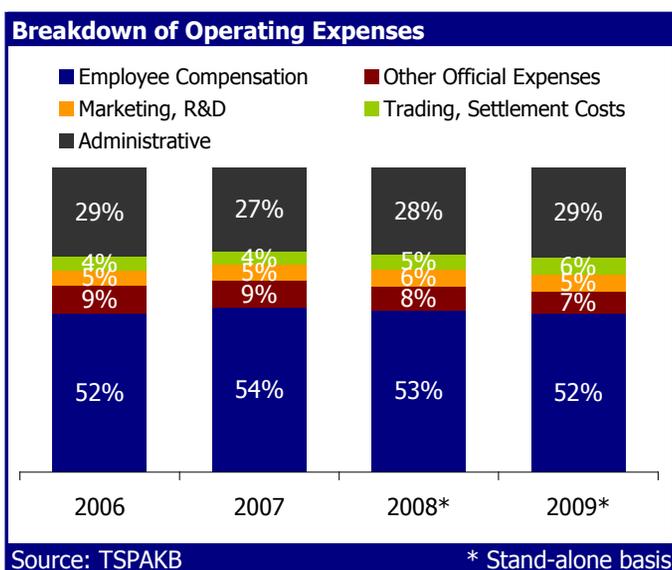
FINANCIAL STATEMENTS



In 2009, brokerage firms' other revenues declined from US\$ 105 million to US\$ 73 million.

The most significant change took place in the interests received from customers. Interest revenues declined by half, as the margin rates decreased, in line with the rate cuts of the Central Bank.

Profit/loss from financial activities remained at the same level. But its share rose by 12 points due to the decline in interest revenues. This account mainly reflects the revenues of one brokerage firm's arbitrage trades.



In 2009, the operating expenses declined by 19% to US\$ 477 million. More than half of the expenses are incurred by employee compensations, which refer to the salaries, social security payments, health insurance and alike. The average monthly cost of an employee declined to US\$ 4,324 in 2009, from US\$ 4,653 in 2008.

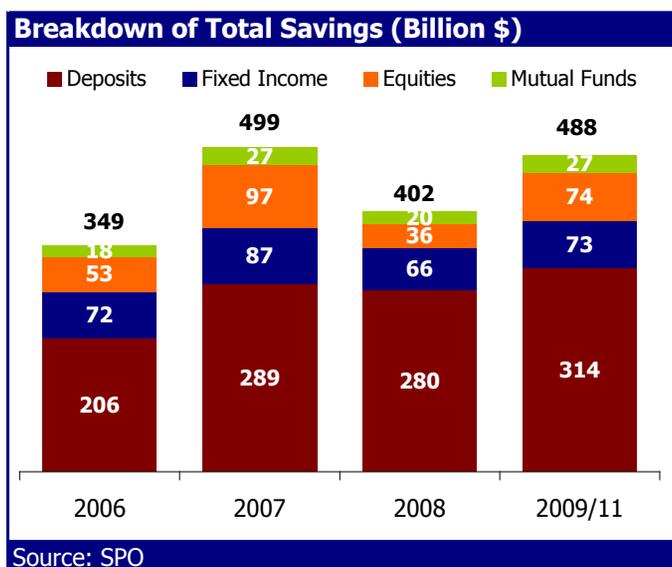
Administrative expenses, which include office rents and other infrastructure expenses, represent 29% of total expenses.

Breakdown of Brokerage Firms' Profits

	2008	2009	Change
No. of Profit Makers	39	68	74%
No. of Loss Makers	56	23	-59%
Total Profits (Mn. \$)	193	228	18%
Total Losses (Mn. \$)	-61	-23	-62%
Net Profits/Losses	131	205	56%

Source: TSPAKB

In 2009, 68 brokerage firms recorded a total of US\$ 228 million profits, while 23 brokerage firms incurred total losses of US\$ 23 million. Consequently, aggregate net profits of the industry increased by 56% to US\$ 205 million in 2009.



As of November 2009, total savings increased to US\$ 488 billion, which corresponds to around 80% of GDP. Domestic residents hold 84% of total savings.

Within investment preferences, bank deposits are the major component and has 64% share. Both fixed income and equities constitute 15% of total investors' portfolio, each. In 2009, the value of equities doubled and hence its share increased by 6 points from 9% a year ago. Mutual funds, with a US\$ 27 billion size represent 6% of total investments.

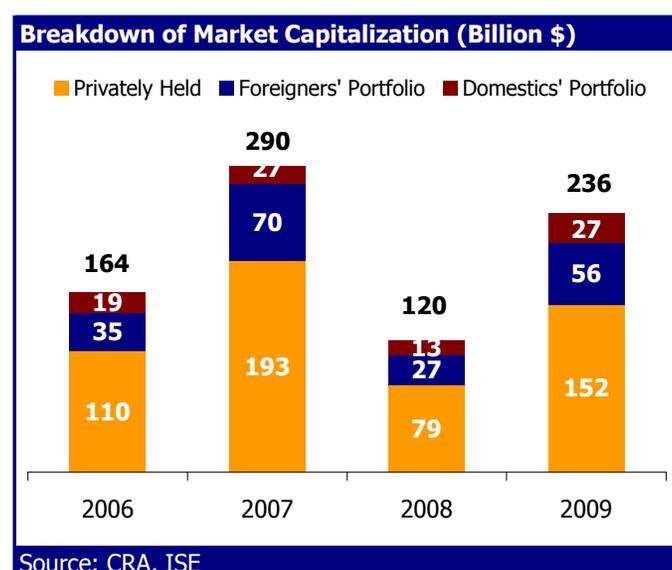
Number of Equity Investors

	2007	2008	2009
Domestic Investors	934,070	983,264	993,253
Dom. Individuals	931,433	980,337	990,388
Dom. Corporations	2,223	2,492	2,429
Dom. Institutionals	216	222	223
Dom. Other	198	213	213
Foreign Investors	6,696	6,586	7,008
For. Individuals	3,984	4,181	4,094
For. Corporations	1,350	734	856
For. Institutionals	1,345	1,649	2,053
For. Other	17	22	5
Total	940,766	989,850	1,000,261

Source: CRA

The number of investors with equity holdings increased slightly to 1 million by the end of 2009 with the participation of around 10,000 new domestic individual investors. At the end of 2009, the number of domestic equity investors reached 993,000.

On the other hand, the number of foreign investors increased by 6.4% to around 7,000. The major increase took place in the foreign institutional investors group.



As of end-2009, market capitalization doubled to reach US\$ 236 billion. US\$ 152 billion of market capitalization is privately held; meaning 35% of ISE companies' shares are freely floating.

INVESTORS

Equity Ownership (mn. \$)	2007	2008	2009
Domestic Investors	27,020	13,205	27,292
Dom. Individuals	15,080	7,090	16,476
Dom. Corporations	8,838	4,677	7,886
Dom. Institutionals	1,029	569	1,155
Dom. Other	2,072	870	1,776
Foreign Investors	70,454	27,332	56,274
For. Individuals	202	87	296
For. Corporations	38,619	8,565	15,913
For. Institutionals	31,603	18,673	40,057
For. Other	30	7	8
Total	97,474	40,537	83,566

Source: CRA

Total equity portfolio has increased by twice to US\$ 84 billion. Yet, it has not reached the pre-crisis level.

Although the share of foreign investors declined in the aftermath of the crisis, they still hold two-thirds of the free float market capitalization at the end of 2009. Foreign institutional investors are the leading investor group with US\$ 40 billion portfolio. The share of foreign corporations, which include banks and brokerage firms, is around 20%.

The domestic individuals, who generate the majority of the trading volume, own only one-fifth of the free float.



Foreign investors continue to hold two-thirds of the free-float market capitalization. On the other hand, they generated only 14% of trading volume in 2009, representing a decline by half as compared to 2008.

For. & Dom. Investors in the Equity Market				
Equity (mn. \$)	Portfolio Size	Inflow/ Outflow	Gain/ Loss	Average
				Holding Days
Foreign Investors				
2006	35,083	2,129	-858	280
2007	70,213	8,524	26,606	275
2008	27,297	-1,794	-41,122	231
2009	56,246	2,256	26,693	322
Domestic Investors				
2006	18,680	-483	2,007	34
2007	26,801	-3,272	11,393	35
2008	13,169	4,253	-17,886	37
2009	27,342	-1,985	16,159	28

Source: CRA, ISE, TSPAKB

The equity portfolio of foreign investors was US\$ 27.3 billion at the beginning of 2009. During the year, foreign investors bought US\$ 2.3 billion through ISE markets. At the end of 2009, their portfolio value was US\$ 56.3 billion. Thus, it can be calculated that the value of their portfolios has increased by US\$ 26.7 billion (=US\$ 56.3 billion - US\$ 27.3 billion - US\$ 2.3 billion). Average holding period is calculated by using the trading volume and average portfolio size. Foreign investors traded 2.27 times of their average portfolio size in 2009. This means that they have changed their portfolios 1.13 times. Thus, their average holding period (or investment horizon) is calculated as 322 days (=365/1.13).

In 2009, domestic investors' portfolio has also increased substantially. Their average holding period is around one month, which reaffirms that they are the major source of the market liquidity.

Age Groups of Retail Equity Investors			
mn. \$	2007	2008	2009
>39	2,860	1,451	2,934
40-59	7,790	3,574	8,902
60>	4,632	2,152	4,936
Total	15,282	7,177	16,772

Source: CRA

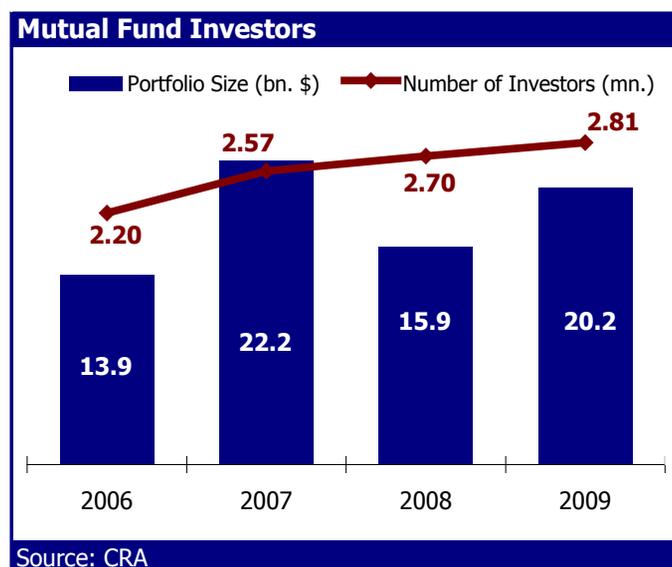
Domicile of Retail Equity Investors			
mn. \$	2007	2008	2009
First 5 Cities	12,005	5,595	13,257
Other 76 Cities	3,044	1,477	3,166
Residents Abroad	233	105	349
Total	15,282	7,177	16,772

Source: CRA

*İstanbul, Ankara, İzmir, Adana, Bursa

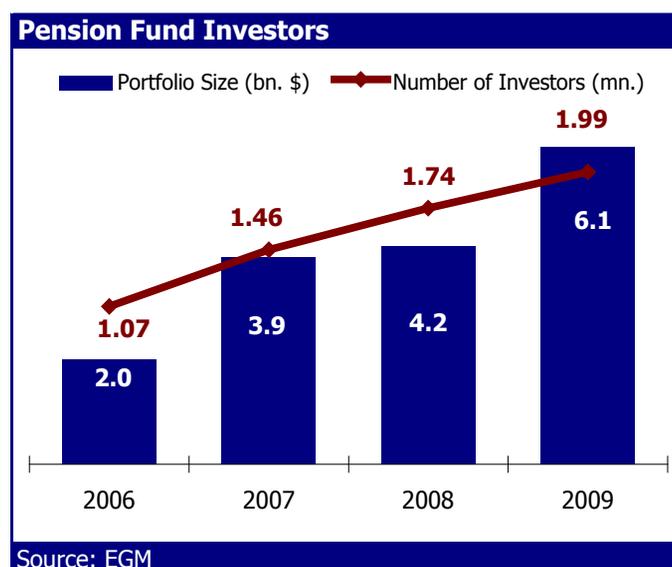
At the end of 2009, 53% of retail investors' portfolios are held by the group between 40-59 years of age.

There is a high concentration of equity ownership in terms of provinces. Investors living in 5 cities (İstanbul, Ankara, İzmir, Bursa, Adana) own 80% of the retail equity portfolio.



Source: CRA

By the end of 2009, total number of mutual fund investors increased slightly to 2.8 million, which is 3 times more than the investors with equity holdings. Total size of mutual funds increased from US\$ 16 billion to US\$ 20 billion, y-o-y.



Source: EGM

The private pension system has been growing steadily since its inception in 2003. The number of pension fund investors reached 2 million at the end of 2009, while the asset size increased to US\$ 6 billion, from US\$ 4.2 billion a year ago.

Capital Market Institutions

Capital Markets Board of Turkey

Central Registry Agency

Istanbul Gold Exchange

Istanbul Stock Exchange

Takasbank - Settlement and Custody Bank

Turkish Derivatives Exchange

www.cmb.gov.tr

www.mkk.com.tr

www.iab.gov.tr

www.ise.org

www.takasbank.com.tr

www.turkdex.org.tr

Public Institutions

Banking Regulation and Supervision Agency

Central Bank of the Republic of Turkey

Financial Crimes Investigation Board

Undersecretariat of Treasury

www.bddk.org.tr

www.tcmb.gov.tr

www.masak.gov.tr

www.treasury.gov.tr

Professional Associations

Association of Brokerage Firms' Managers

Association of Publicly Traded Companies' Managers

Association of Stock Market Investors

Banks' Association of Turkey

Corporate Governance Association of Turkey

Investor Relations Association of Turkey

Participation Banks' Association of Turkey

Turkish Institutional Investment Managers' Association

www.bakyd.org.tr

www.koteder.org.tr

www.boryad.org

www.tbb.org.tr

www.tkyd.org

www.tuyid.org.tr

www.tkbb.org.tr

www.kyd.org.tr

