TCMA

TURKISH CAPITAL MARKETS 2016 ANNUAL REVIEW

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TCMA RESEARCH

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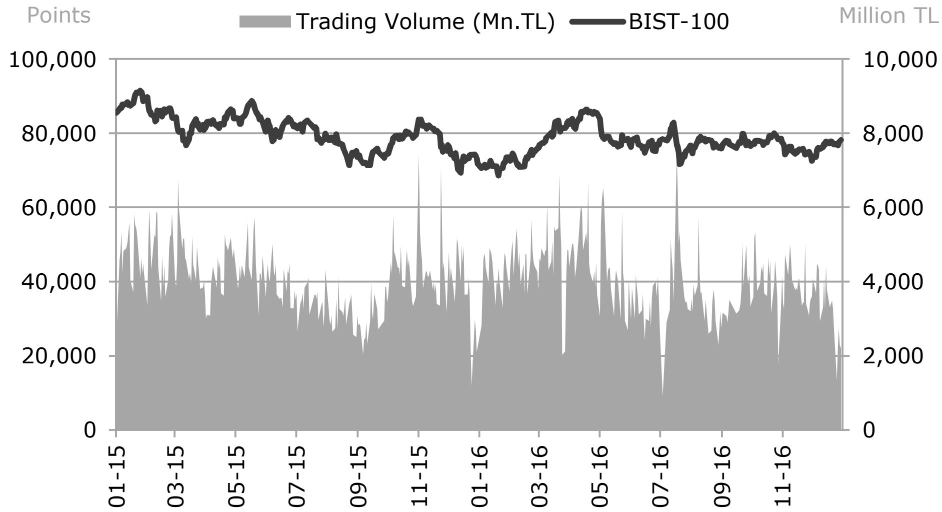
BROKERAGE FIRMS 2016/12

In this report, we are presenting a comprehensive analysis of operations and financial data obtained from 71 brokerage firms in Turkey for the year 2016.

EQUITIES

BIST-100 index which started the year around 71,000, rose over the 86,000 threshold in April. The index shrunk down to roughly 72,000 after the failed coup attempt in July. Although Moody's downgraded Turkey's long-term issuer and senior unsecured bond ratings to non-investment grade in September, foreign investors' appetite for Turkish securities continued through the end of 2016. Parallel to the rise in the international markets following the Trump victory in the US presidential elections, the Turkish market reacted favourably with a strong rally. BIST-100 ultimately finished the year at 78,000 with a 9% y-o-y rise in TL terms.

Figure 1: Stock Trading Volume and BIST-100



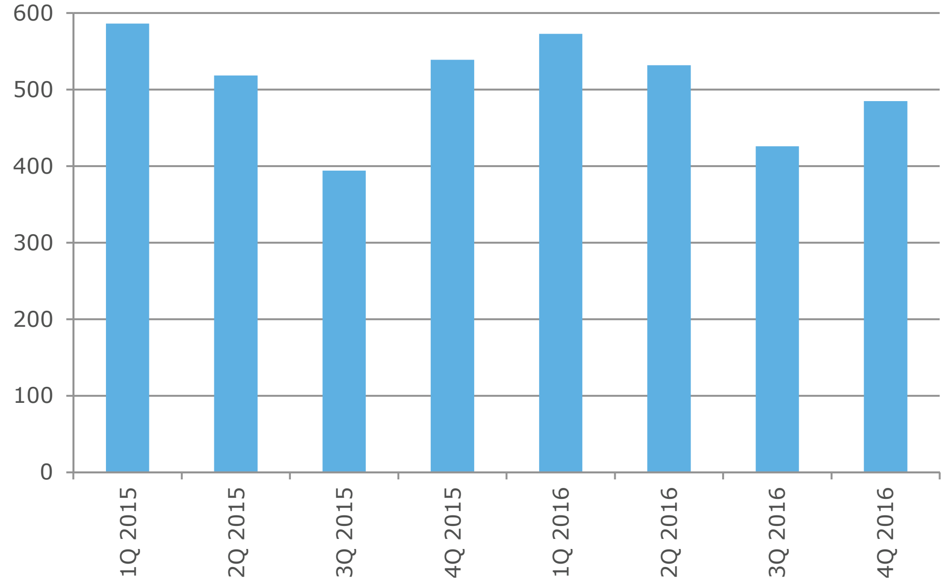
Source: Borsa İstanbul

The stock trading volume decreased by 1% to TL 2 trillion in 2016. Garanti, İş and Yapı Kredi Investments are considerably ahead of their counterparts in terms of stock trading volume and made up roughly 23% of the entire volume in 2016. The top 7 firms constitute 45% of the overall volume. In terms of trading volume, the bottom 32 firms, out of the 63 brokerages that provide stock brokerage services, make up only 11% of all the trading volume in 2016.

Domestic investors' share of the trading volume decreased by 4% to TL 1.5 trillion whereas foreign investors' transactions increased by 11% to TL 493 billion in 2016. Although 75% of the stock trading volume was generated by the domestic investors during this period, according to the Central

Registry Agency's records, these investors own only %37 of the traded stocks.

Figure 2: Equity Trading Volume of Brokerage Firms (billion TL)

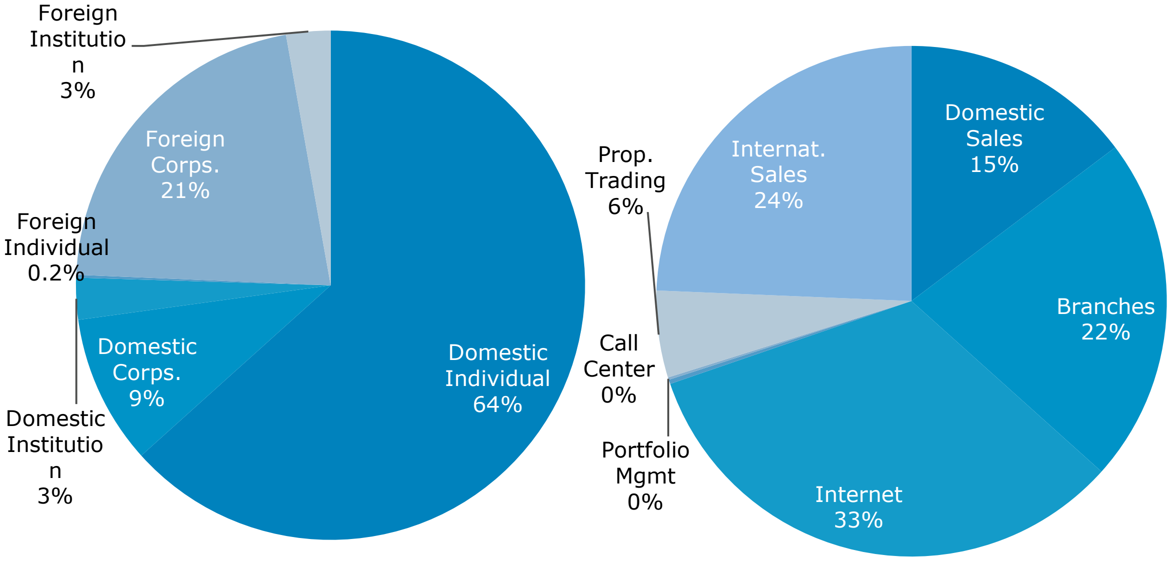


Source: Borsa İstanbul

Internet, domestic investors' favourite medium for trading, accounted for 33% of all equity trading volume for the first time in 2016. This figure hovered around 24% on average from 2011 through to 2014. Internet transactions' share has been increasing since 2015.

Relative to the previous year, international sales department's trading volume increased by 3 points to 24% as opposed to the branches, bank branches and representative offices that decreased 7 points down to 22%. The international sales departments in brokerages accounted for %28 of the stock trading volume in 2016 with TL 489 billion.

Figure 3: Investor and Department Breakdown of Equity Trading Volume



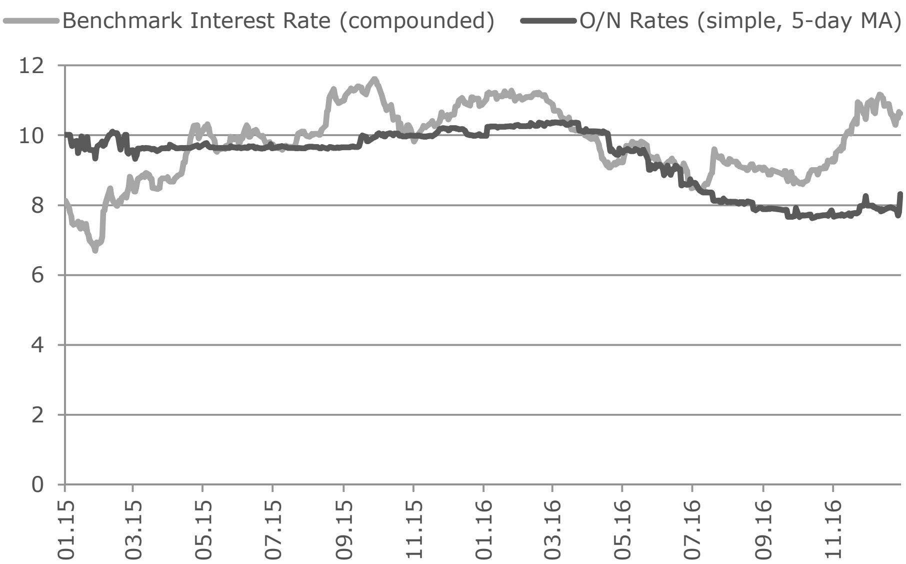
Source: TCMA

FIXED INCOME

The Turkish Central Bank gradually decreased its overnight lending rate starting from March from 10.75% to 8.25% in September. Against the rapid depreciation of the Turkish lira, in December, the Bank raised the overnight lending rate by 25 basis points to 8.5%.

The benchmark bond interest which started the year at 11%, declined to 8.5% in the first half of the year due to the Central Bank's interest rate cuts. After the July 15 coup attempt, the benchmark government bond rate quickly increased to 9.5%. In the last quarter of 2016, with the revival in economic activity in the United States and the strengthening of the labour market, the Federal Reserve raised interest rates by 25 basis points in December, increasing the federal funds rate 75 basis points. In this atmosphere, the benchmark bond interest increased again and closed the year at 10.6%.

Figure 4: Interest Rates



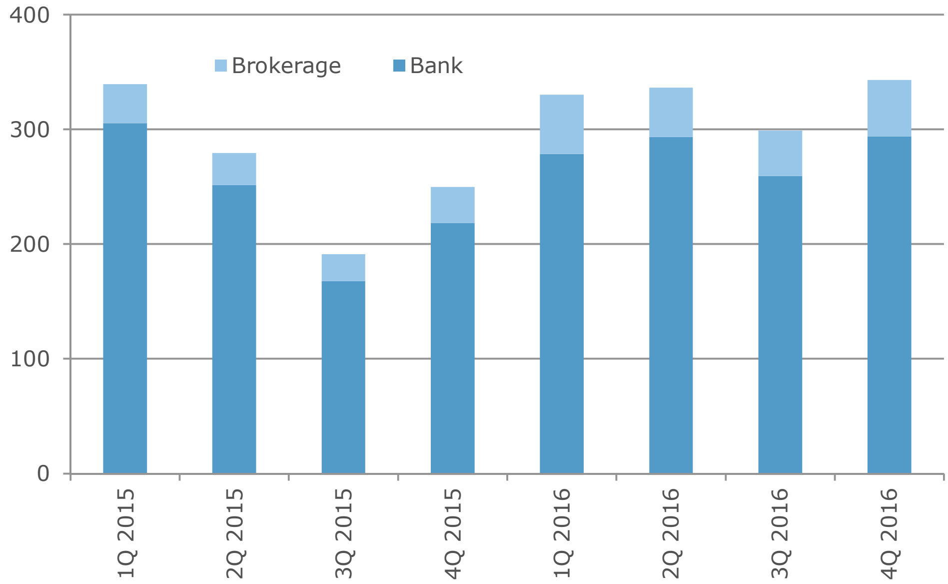
Source: Borsa İstanbul, Bloomberg

In the fixed income market, both brokerage firms and banks are authorized to execute trades. Figures in this section represent the sum of public and corporate bonds and bills traded at Borsa İstanbul and OTC markets. The figures displayed here represent the trading volume of financial intermediaries; these exclude the transactions by the Central Bank and Takasbank, Turkey's sole clearing and settlement bank.

Banks are the dominant players in the bonds & bills market, while brokerage firms' share has increased in 2016 to reach 18%. In the repo market, the brokerages firms' share of the market hovers around 10%.

In 2016, 57 brokerage firms generated a trading volume of TL 184 billion in the bonds & bills market, up 57% compared to the previous year's figure.

Figure 5: Investment Firms' Fixed Income Trading Volume (billion TL)

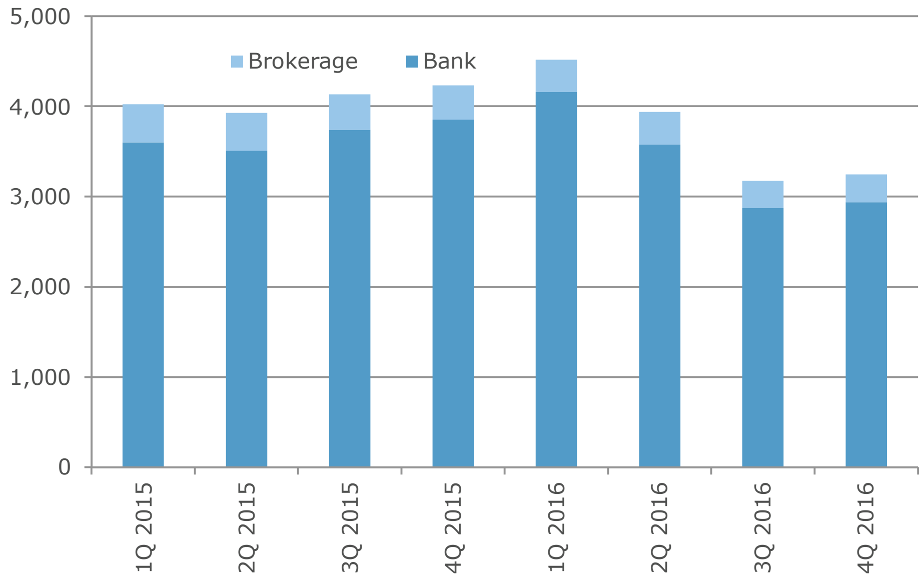


Source: Borsa İstanbul

Among brokerage firms, only a few companies make up the bulk of the market: Yapı Kredi and Ak Investments constituted 68% of the fixed income trading volume of brokerage firms in 2016. Brokerage firms have historically generated %70 of their business through the domestic sales department, which increased to %80 by the end of 2016

In 2016, 84% of the fixed income trading volume of brokerage firms was generated by domestic institutional investors.

Figure 6: Investment Firms' Repo Trading Volume (billion TL)



Source: Borsa İstanbul

In the repo market, trading volume generated in 2016 by the 41 brokerage firms decreased by 18% compared to 2015. Similar to the fixed income market, the repo market appears to be highly concentrated with the bulk of the volume generated by a few dominant players. Although there were more than 40 brokerage firms with trading volume in the repo market in 2016, Halk, Vakıf, Yapı Kredi and, Ak Investments made up 61% of the trading volume of brokerage firms.

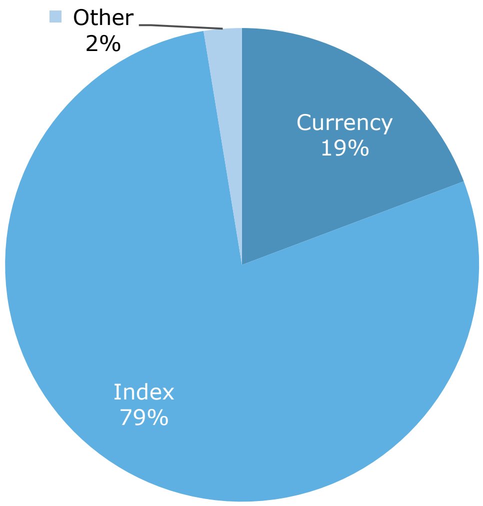
Similar to the fixed income market, an overwhelming majority of the investors in the repo market consisted of domestic investors. In 2016, domestic institutional investors generated 77% of the entire repo volume.

FUTURES

Banks and brokerage firms are authorized to execute trades at the Borsa İstanbul Futures and Options Market (VIOP). Futures can be written on 10 different asset classes. Index and currency options constitute 98% of the futures trading volume with the rest of asset classes having a limited share of the market. In 2016, the share of equity index based contracts declined to 77% compared to 81% in 2015, while the share of foreign currency contracts rose to 23% from 18%.

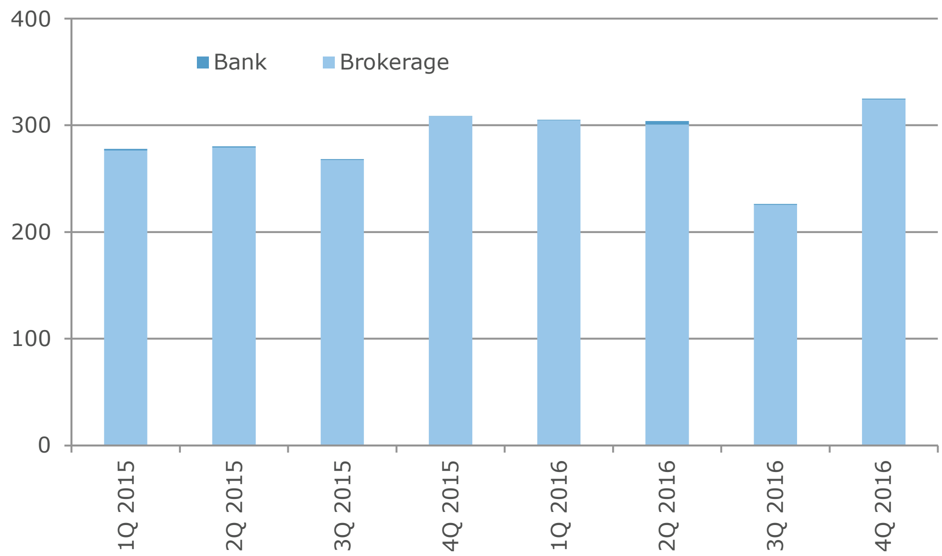
60 brokerage firms generated a trading volume of TL 1.2 trillion in 2016, up 2% from 2015.

Figure 7: Futures Trading Volume by Asset Class



Source: Borsa İstanbul

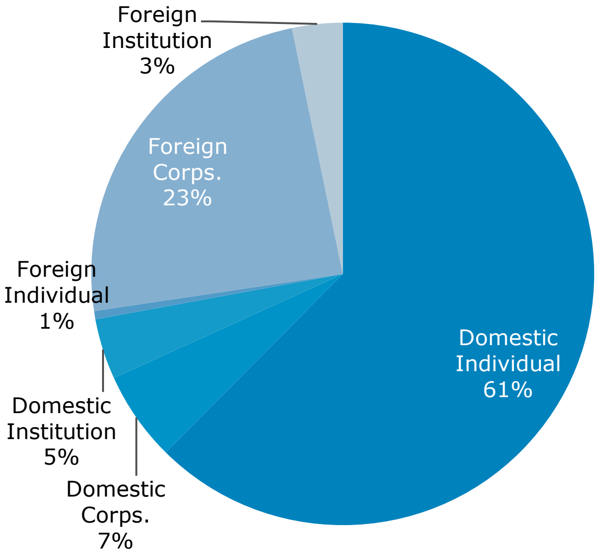
Figure 8: Investment Firms' Futures Trading Volume (billion TL)

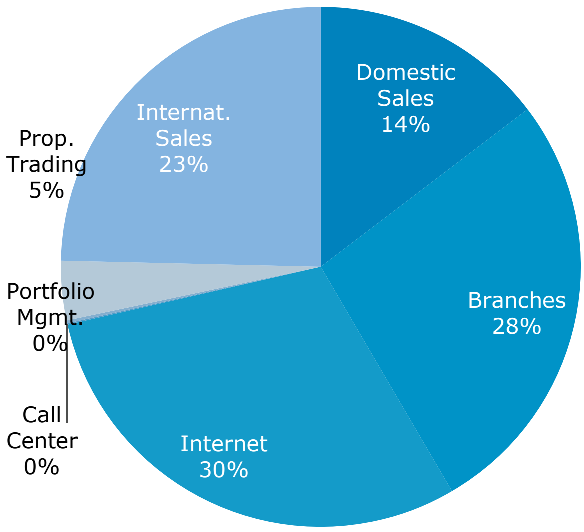


Source: Borsa İstanbul

Contrary to the fixed income and repo markets, brokerage firms dominate the futures market by generating almost the entire trading volume. The reason why brokerage firms make up more than 99% of the market is that as per securities market regulations, banks are not permitted to trade equity-based contracts, which represent a substantial portion of the traded contracts.

Figure 9: Investor and Department Breakdown of Futures Trading Volume





Source: TCMA

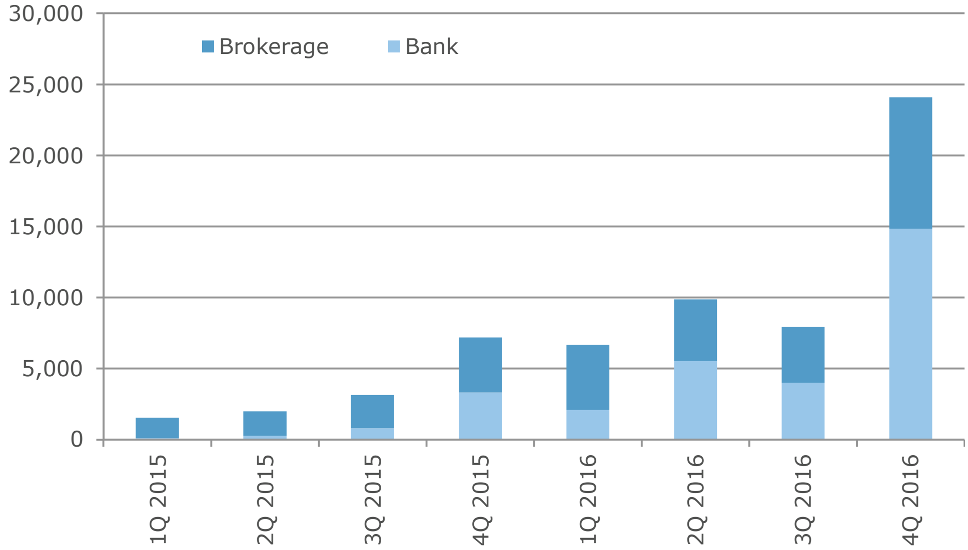
The futures trading volume of brokerage firms is overwhelmingly generated by domestic individual investors. In 2016, domestic individual investors' share of the market decreased by 1 percentage points to 61% compared to the previous year whereas domestic corporations share increased to 7%.

TEB Investment got first place in 2016 with 13% share of the transactions generated by brokerage firms, being closely followed by İş and Garanti Investments each at 10% share.

Internet, branches and representative offices as well as the international sales departments account for the bulk of the trading volume of brokerage firms. In 2015, internet accounted for 30% of the volume. Meanwhile, the domestic sales departments' weight increased by 4 points from 10% to 14%.

OPTIONS

Figure 10: Investment Firms' Options Trading Volume (billion TL)

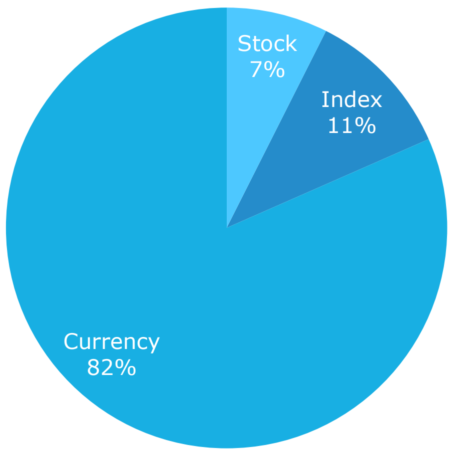


Source: Borsa İstanbul

Option contracts first started to trade at Borsa İstanbul in 2012. Banks and brokerage firms are authorized to execute trades at the Borsa İstanbul Futures and Options Market (VIOP). In 2016, 35 brokerage firms and 5 banks generated a total trading volume of TL 49 billion. 45% of the trading volume was generated by the brokerage firms.

82% of the option contracts traded at Borsa İstanbul is currency contracts. Those contracts' share was only 5% at the end of 2014. The rise in the volatility of exchange rates resulted in higher trading volumes in those contracts.

Figure 11: Options Trading Volume by Asset Class

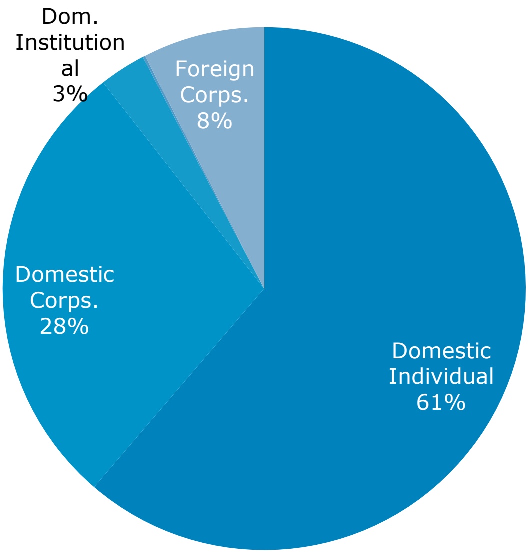


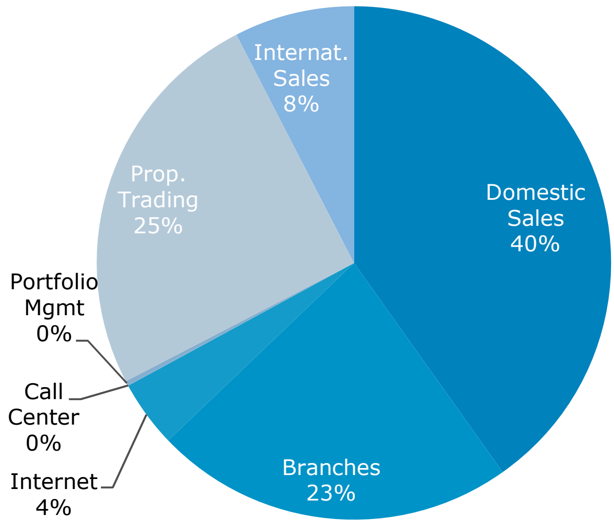
Source: Borsa İstanbul

Options aroused much interest in the market since its introduction in 2012. Much of the volume is generated by the domestic investors and the trading volume increased by 135% since 2015.

In the second quarter of 2016, for the first time since the options were first introduced into the market, brokerage firms' trading volume decreased. The increased activities of Garanti and Akbank in currency options surpassed brokerage firms' trading volume in the second quarter as well.

Figure 12: Investor and Department Breakdown of Options Trading Volume





Source: TCMA

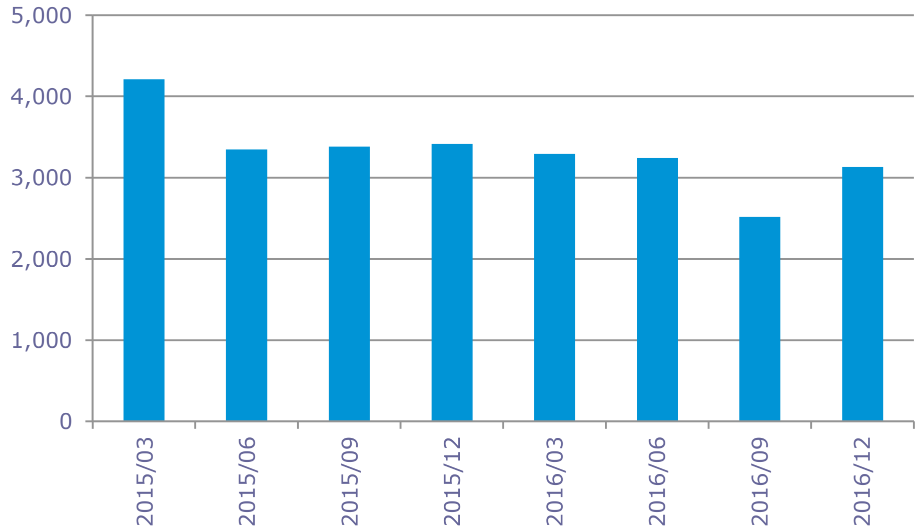
In 2016, 61% of the total trading volume of brokerage firms was generated by domestic individual investors. 25% of the volume during this time was generated by the firms' own accounts.

In the options market among brokerage firms, Osmanlı Investment ranked first with 23% of the market with Yatırım Finansman and İş Investments having second and third place with 14% and 13%, respectively.

A highly concentrated market, the first 8 brokerage firms in terms of trading volume owned 90% of the trading generated by brokerage firms, with a total volume of TL 20 billion.

WARRANTS

Figure 13: Brokerage Firms' Warrant Trading Volume (billion TL)



Source: Borsa İstanbul

In 2016, 48 brokerage firms generated a trading volume of 12 billion TL. The volume decreased by 15% compared to 2015.

Similar to the stock market, the warrant market is also dominated by domestic investors. In warrants, foreign transactions are executed with foreign issuing entities for marketing making purposes, which account for 30% of the total trading volume.

The warrant market is considerably concentrated. İş Investments and Deutsche Securities own 32% and %30 of the market, respectively and collectively generated 7.5 billion TL worth of trading volume in 2016.

FOREX MARKET

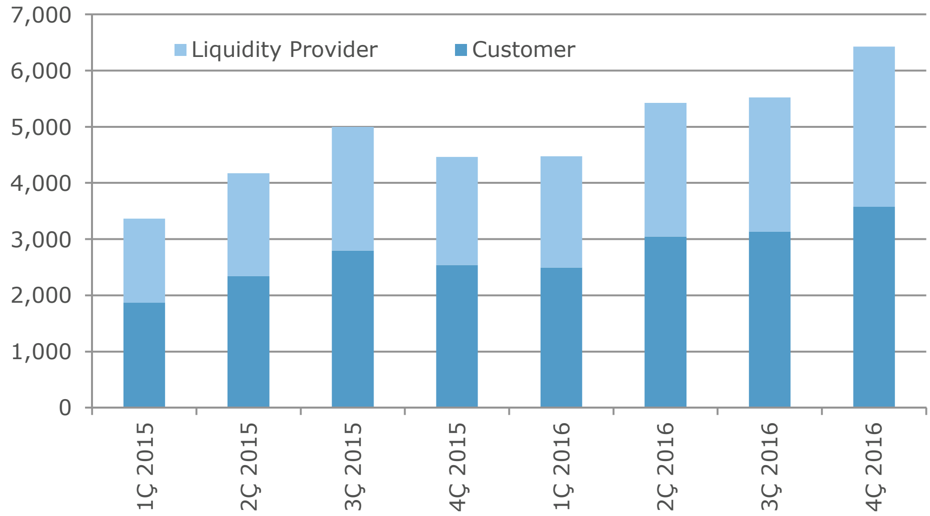
Only brokerage firms are allowed to offer leveraged forex transactions in the Turkish capital markets. In 2016, 44 brokerage firms generated a total volume of TL 22 trillion.

As per the regulation aiming at increased transparency released by the Capital Markets Board of Turkey, our Association started to announce on its website several information regarding brokerage firms involved leveraged (forex) transactions in the year 2016.

A fast growing segment of the industry, the forex market grew by 28% compared to 2015. The last quarter of 2016 registered the highest growth volume to date.

The forex market is a highly fragmented market with many firms having a small size of the total market. Işık Investments ranked first with 10% of the market, followed by Invest-Az and GCM which each have a 9% market share in the forex market.

Figure 14: Brokerage Firms' Forex Trading Volume (billion TL)

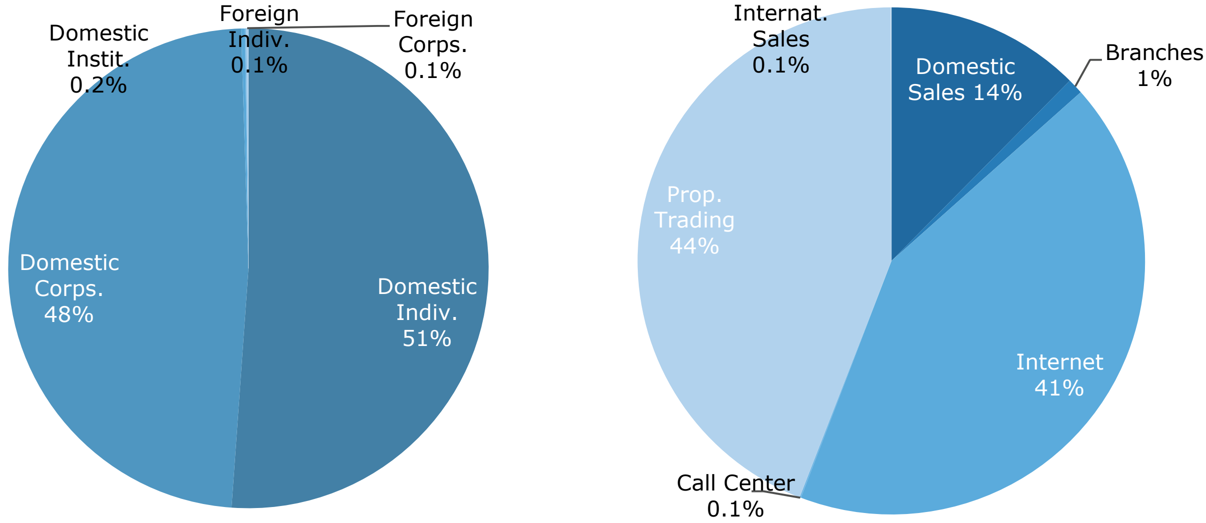


Source: Borsa İstanbul

Domestic investors were the largest investor category with a 99% share of the forex market in 2016. Internet is the most frequently utilized channel in the forex market among others with 41% of the transactions taking place over the internet. Branches and representative offices make up a negligible portion of the trading volume in the forex market as opposed to the stock and futures markets.

Brokerage firms that own a significant portion of the forex transactions appear to have limited activities in other markets such as the stock and futures markets and choose to deliberately specialize only in forex transactions.

Figure 15: Investor and Department Breakdown of Forex Trading Volume



Source: TCMA

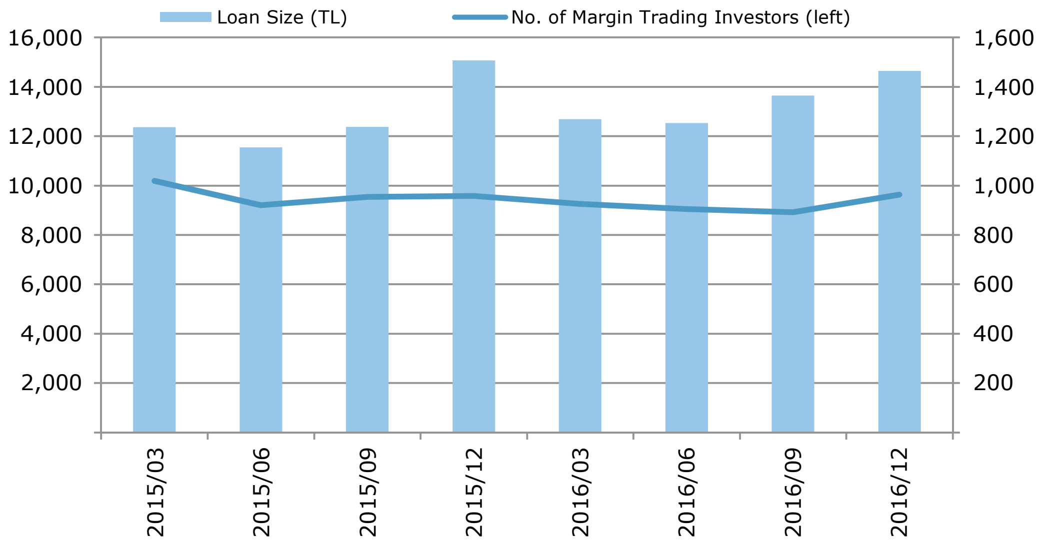
LENDING, BORROWING & MARGIN TRADING

Brokerage firms' total loan size in margin trading and number of margin trading clients remained roughly flat relative to 2015 year-end.

As of end 2016, 46 brokerage firms lend TL 1.5 billion to margin-trading clients.

It is important to note that a client may have more than a single account at multiple brokerage firms.

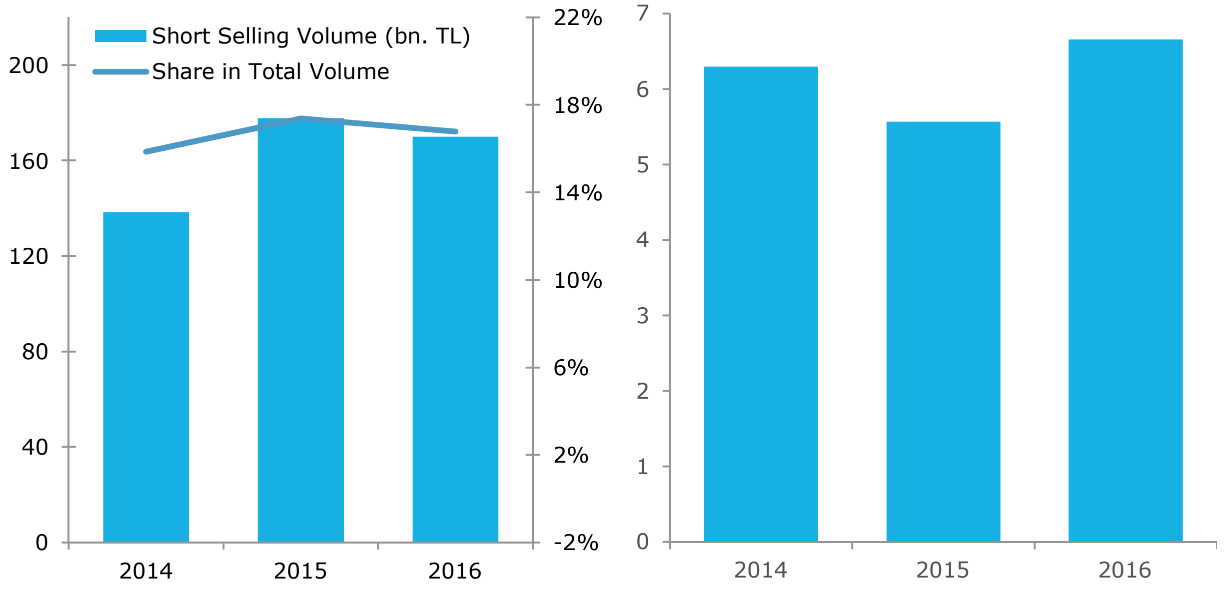
Figure 16: Margin Trading at Brokerage Firms



Source: TCMA

Short selling at Borsa İstanbul decreased by 4% relative to last year to TL 170 billion (corresponding to 18% of the equity trading volume), whereas securities lending & borrowing activities increased to TL 6.7 billion, a 20% rise compared to 2015.

Figure 17: Short Selling and Securities Lending & Borrowing (billion TL)



Source: TCMA

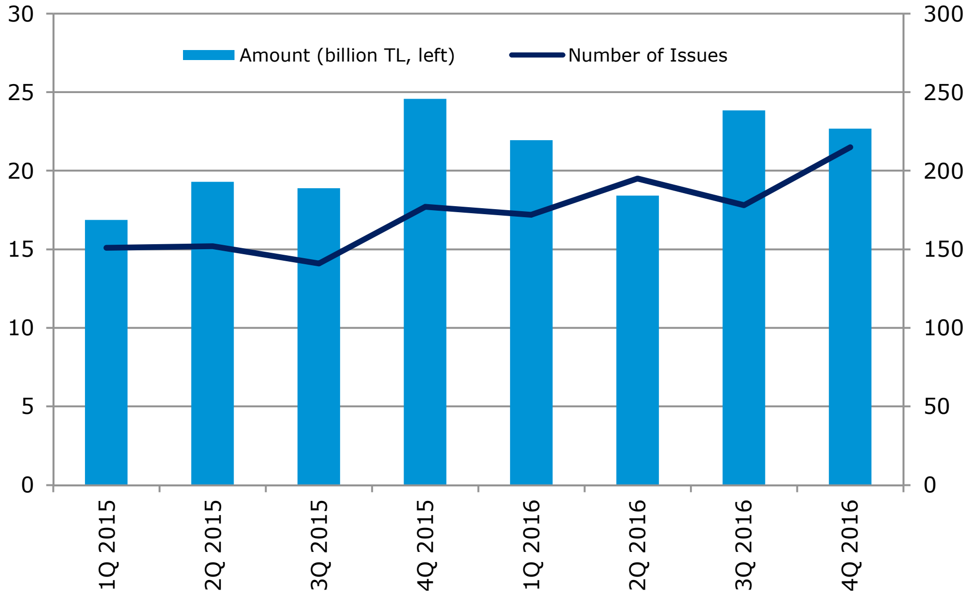
CORPORATE FINANCE

Table 1: Corporate Finance Activities (Completed Projects)								
	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Initial Public Offering	3	1	1	1	1	1	0	0
Sec. Public Offering	0	0	0	0	0	0	0	0
Debt Instr. Issuance	145	152	136	175	165	188	166	183
M&A / Buy Side	0	0	0	0	1	1	1	1
M&A / Sell Side	1	7	3	0	1	6	2	2
Private Equity	0	0	0	0	0	0	0	0
Capital Increases	19	6	1	8	17	6	4	1
Dividend Distribution	26	15	5	7	23	4	8	9
Privatisation / Buy Side	0	0	0	0	1	0	0	0
Privatisation / Sell Side	0	0	0	0	0	0	0	1
Other Consultancy	15	7	8	4	25	17	31	17
Total	**209**	**188**	**154**	**195**	**234**	**223**	**212**	**214**

Source: TCMA

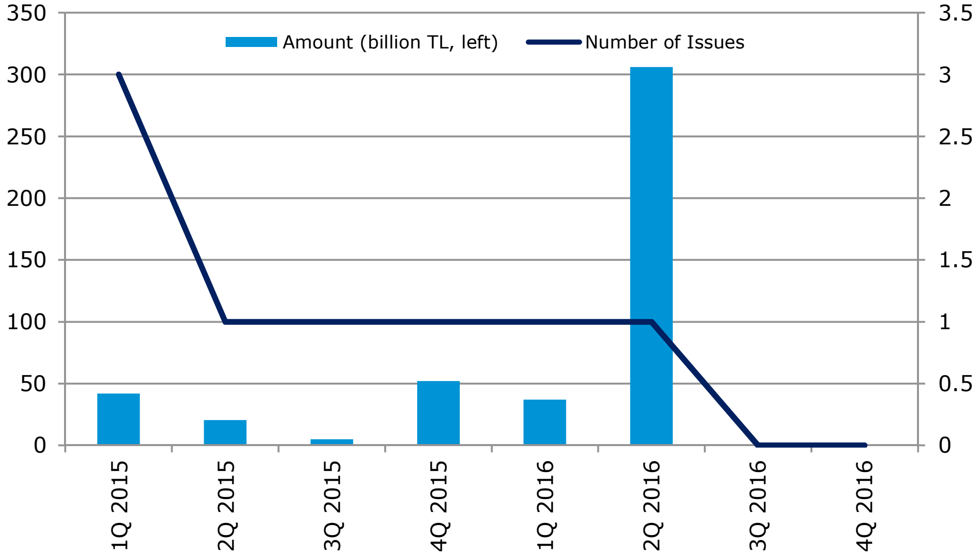
In 2016, brokerage firms completed 883 corporate finance projects, 702 of which were bond issuances.

Figure 18: Corporate Bond Issues (Public Issuance and Private Placement)



Source: Borsa İstanbul

Figure 19: Initial Public Offerings



Source: Borsa İstanbul

Two IPOs were made in 2016, raising a total of TL 343 million. In the first quarter, Çuhadaroğlu Metal Industries raised TL 37 million by going public, followed by Via real estate investment trust which raised TL 306 million through its IPO in the second quarter. However, Via REIT was subsequently delisted.

In 2016, TL 87 billion was raised through 757 bond issuances. Some of these issues were underwritten by brokerage firms with the rest handled by banks. One of the bond issuances underwritten by banks was privately placed so it is excluded from the figured on figure 18.

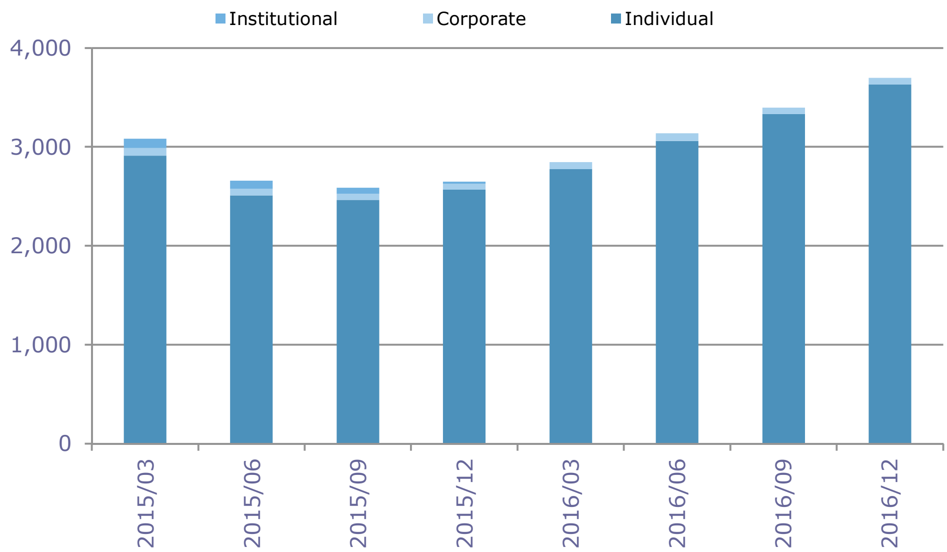
On the other hand, in 2016, 28 capital increases and 44 dividend distributions were conducted by brokerages. During the same period, brokerage firms completed 90 other consultancy projects that include valuations, market making activities, feasibility analyses.

ASSET MANAGEMENT

In Turkey, brokerage firms may provide wealth management services in addition to their traditional brokerage services, whereas collective investment schemes are managed exclusively by asset management companies. The number of brokerage firms offering asset management services stood at 17 in 2016.

The number of individual investors rose by 41% y-o-y, whereas the number of institutional investors increased by 12%. Altogether the number of investors rose by 40%. It is important to note that clients may have multiple accounts in several brokerage firms.

Figure 20: Asset Management - Number of Investors

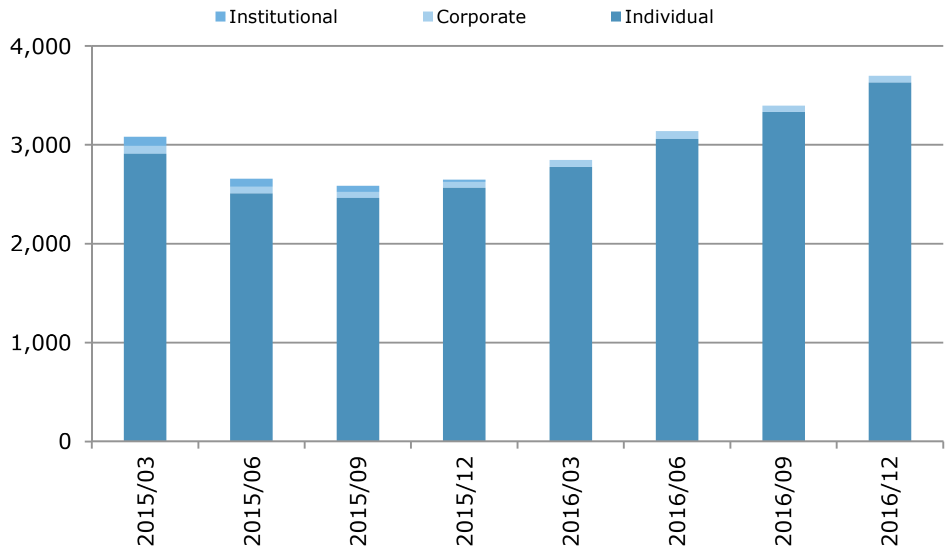


Source: TCMA

The management of mutual funds was transferred from brokerage firms to asset management companies due to the change in regulations in 2012. This led to a dramatic decrease in the AUM of brokerage firms, with the AUM dropping from TL 5 billion at 2014-year-end to TL 1.3 billion in 2016. During this time, the AUM of individual investors remained mostly flat whereas the AUM of institutional investors fluctuated downwards with the AUM totalling TL 39 million by year end 2016.

In December 2016, AUM for individual investors averaged TL 359,000 whereas it averaged TL 590,000 for corporate clients.

Figure 21: Assets Under Management (billion TL)



Source: TCMA

BRANCH NETWORK

Table 2: Branch Network	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Branches	153	200	282	323	331	330	310	310
Repres. Offices	64	62	78	76	74	69	67	59
Bank Branches	7,026	6,984	6,817	5,763	5,770	5,018	5,214	5,018
Total	**7,243**	**7,246**	**7,177**	**6,162**	**6,175**	**5,417**	**5,591**	**5,387**

Source: TCMA

Other than headquarters, brokerage firms use their bank branches, own branches and representative offices in order to service their customers. Branches and representative offices are owned and staffed by brokerage firms. As of 2016, 45 brokerage firms have off-HQ offices and more than 90% of these are bank branches.

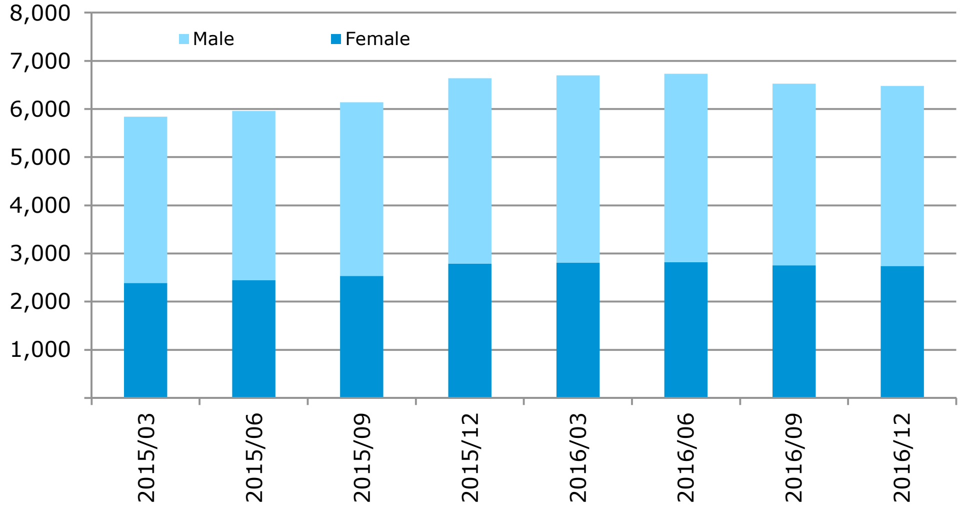
The number of bank branches has been declining since 2015, reflecting the changing regulatory framework. The legal status of bank branches was changed from an agency agreement between banks and brokerage firms to a relation of order reception and transmission. While the number of bank branches declined by nearly 700 in one year to 5,018 in 2016 as some banks ended their agency agreements.

EMPLOYEES

The total number of employees in brokerage firms decreased by 251 in the second half of the year, down to 6,478 at year-end.

42% of the workers are female. Women's share in the workforce remained at 40% from 2012 through to 2015. Average employee count per firm increased from 74 in 2015 to 91 in 2016 due to the aggressive growth strategies of forex firms as well as firm closures.

Figure 22: Brokerage Firms' Employees



Source: TCMA

There is a higher concentration of employees in the branches and representative offices, domestic sales and administrative affairs departments. Due to recent regulatory changes mentioned above, some of the workers previously employed by the banks at bank branches were transferred to brokerage branches and representative offices. Brokerage firms' branch employee count jumped from around 900 in 1H2015 to 1,421 by the end of 2016 and representative office from 398 to 565. On the other hand, brokerage firm employees working at bank branches decreased from 270 in June 2015 to 19 in 2016. Overall, the number of personnel employed in the branch network decreased by 4% y-o-y to 2,005.

Due to the rise of forex companies and their aggressive growth and marketing strategies, there has been an increase of 5% in the number of personnel employed at the domestic sales department. This figure currently stands at 1,245.

As illustrated in table 3, the average number of personnel is the highest in the domestic sales department with 23 in 2016. Brokerage firms employ an average of 4 analysts in their research departments.

Table 3: Brokerage Firms' Employees

	Employee Breakdown			Average No. of Employees
	2014	2015	2016	2016
Branch, Bank Br., Rep. Office	26.4%	31.3%	31.0%	5.4
Branches	14.9%	23.0%	21.9%	4.6
Bank Branches	5.4%	0.2%	0.3%	0.0
Representative Offices	6.0%	8.2%	8.7%	9.6
Domestic Sales	14.9%	18.9%	19.5%	22.5
Broker	3.1%	1.9%	1.7%	2.2
Dealer	5.6%	4.9%	4.3%	6.6
International Sales	3.6%	3.1%	3.0%	5.3
Treasury	2.0%	2.0%	2.2%	3.9
Portfolio Management	0.9%	0.7%	0.6%	2.1
Corporate Finance	2.8%	2.2%	2.2%	3.5
Research	4.5%	3.8%	3.5%	4.2
Financial & Admin. Affairs	14.8%	12.2%	12.4%	11.3
Internal Audit	3.2%	2.9%	3.1%	2.9
Human Resources	1.3%	1.2%	1.2%	2.0
IT	5.2%	5.0%	5.3%	5.5
Other	11.7%	10.0%	10.2%	10.0

Source: TCMA

FINANCIALS

Stand-alone financial statements, prepared according to the International Financial Reporting Standards (IFRS) and in line with a detailed manual released by our Association were collected from brokerage firms.

By the end of 2016 brokerage firms' total assets increased by 38% y-o-y to TL 21 billion, mostly reflecting increased deposit balances. The bulk of assets continue to be liquid as current assets increased to TL 20 billion.

Out of this sum, TL 13 billion is in cash and cash equivalents while trade receivables related to settlement dues is around TL 5 billion.

Table 4: Financial Statement of Brokerage Firms (million TL)

	2014	2015	2016	% Change 2016/2015
Current Assets	**14,138**	**14,242**	**20,109**	**41.2%**
Cash and Cash Equivalents	8,454	7,796	13,143	68.6%
Financial Assets (Short-term)	1,063	1,142	1,054	-7.7%
Trade Receivables (Short-term)	4,142	4,814	5,227	8.6%
Others	479	490	685	39.9%
Non-Current Assets	**994**	**1,070**	**1,069**	**-0.1%**
Financial Assets (Long-term)	617	593	591	-0.3%
Others	377	477	477	0.1%
TOTAL ASSETS	**15,132**	**15,312**	**21,178**	**38.3%**
Short-Term Liabilities	**11,395**	**11,180**	**16,430**	**47.0%**
Financial Liabilities (Short-term)	7,517	6,806	10,541	54.9%
Trade Payables (Short-term)	3,576	3,926	5,357	36.5%
Others	302	449	532	18.5%
Long-Term Liabilities	**78**	**122**	**412**	**238.8%**
Equity	**3,659**	**4,010**	**4,336**	**8.1%**
Paid-in Capital	2,053	2,288	2,384	4.2%
Adjustments on Equity	280	276	272	-1.4%
Shares Premiums/Discounts	8	9	9	10.0%
Non-Classified to Profit or Loss	107	82	118	44.6%
Income or Expenses Classified to Profit or Loss	470	535	569	6.3%
Retained Profit/Loss	368	388	499	28.7%
Net Profit/Loss	372	433	483	11.6%
TOTAL LIABILITIES	**15,132**	**15,312**	**21,178**	**38.3%**

Source: TCMA

Bulk of brokerage firms' short term assets (cash and cash equivalents + short-term financial assets) measuring TL 14 billion are held in reverse repo transactions and bank deposits as shown in table 5. The rise in short-term mostly reflects the rising deposit balance.

Table 5: Short Term Assets of Brokerage Firms (million TL)				
Financial Instruments	2014	2015	2016	% Change 2016/2015
Repo and Deposits	8,262	7,584	12,788	68.6%
Public Bonds & Bills	362	341	254	-25.4%
Corporate Bonds & Bills	427	392	518	32.1%
Equities	167	209	191	-8.9%
Other	107	200	91	-54.3%
Total	**9,325**	**8,726**	**13,843**	**58.6%**

Source: TCMA

Brokerage firms have TL 17 billion total liabilities. Short term financial liabilities make up TL 11 billion of this amount, while TL 5 billion is trade payables related to brokerage activities.

Financial table details of brokerage firms show that, TL 7 billion of brokerage firms' short term liabilities are in the money markets, and TL 2.6 billion are bonds issued.

The outstanding amount of bonds issued by brokerage firms has increased by more than TL 1.3 billion in the year 2016. Outstanding bonds issued by 7 brokerage firms (Ak, Gedik, İş, Oyak, Tera, Ünlü ve Yapı Kredi Investments) measures TL 2.6 billion as of end-2016. Out of those firms, Gedik, Ünlü ve Yapı Kredi issued bonds for the first time in 2016.

INCOME STATEMENT OF BROKERAGE FIRMS

In 2016, brokerage firms' total revenues increased by 9% y-o-y to TL 2.2 billion, reflecting rising brokerage commissions.

In 2016, brokerage commission increased by 14% to TL 1.5 billion, mainly due to the 16% rise in commissions from equity trading, despite stagnant trading volume. The increase reflects the change of Garanti Investment's agreement on order placement with Garanti Bank. The effective commission rate on equity transactions (calculated by the net amount left to the brokerage firm) increased accordingly from 0.028% in 2015 to 0.033% in 2016.

Table 6: Breakdown of Brokerage Firms' Revenues (million TL)				
	2014	2015	2016	% Change 2016/2015
Brokerage Commissions	1,017	1,332	1,511	13.5%
Proprietary Trading	78	89	106	18.8%
Corporate Finance	136	170	164	-4.0%
Asset Management	48	50	37	-26.8%
Customer's Interest	188	210	211	0.2%
Other	119	150	147	-1.6%
Total	**1,587**	**2,001**	**2,175**	**8.7%**

Source: TCMA

Commission revenue on derivative trading recorded TL 164 million. This increase reflects the rising derivatives trading of a brokerage firm in international markets.

While leveraged FX trading volume increased by 29% y-o-y, increase in revenues is limited to 6%. The discrepancy reflects losses incurred by some brokers which trade from their own book rather than trading with a liquidity provider. Two top performing brokerage firms (İntegral and GCM) generated one third of the revenues. Those firms constitute only 13% of the forex trading volume of customers. Commissions from the trading of foreign securities reached TL 62 million, reflecting the Eurobond commissions raised by one brokerage firm.

Table 7: Breakdown of Brokerage Revenues (million TL)

	2014	2015	2016	% Change 2016/2015
Equities	495	539	626	16.0%
Derivatives	130	150	166	11.0%
Fixed Income	16	21	19	-10.7%
Foreign Securities	3	21	62	192.5%
Forex	374	601	639	6.3%
Total	**1,017**	**1,332**	**1,511**	**13.5%**

Source: TCMA

The revenues from corporate finance activities declined by 4% y-o-y to TL 164 million. TL 97 million is generated by IPOs and bond issuances.

Table 8: Breakdown of Brokerage Firm's Corporate Finance Revenues (mn .TL)

	2014	2015	2016	% Change 2016/2015
IPO	100	95	97	2.6%
M&A	13	43	34	-22.3%
Corporate Actions	2	3	2	-18.5%
Others	22	29	30	3.2%
Total	**136**	**170**	**164**	**-4.0%**

Source: TCMA

As shown in the table 6, brokerage firms generated TL 106 million revenues from proprietary trading. With the portfolio transfer of mutual funds to asset management companies, asset management revenues decreased by 27% to TL 37 million.

Table 9: Breakdown of Brokerage Firm's Operating Expenses (million TL)

	2014	2015	2016	% Change 2016/2015
Marketing, Sales, Distribution and R&D	176	300	387	29.1%
Trading Commissions Paid to Exchanges	105	149	147	-0.8%
Other Marketing, Sales, Distribu. and R&D	71	151	239	58.7%
Administrative	1,182	1,419	1,594	12.4%
Salaries and Fringe Benefits	698	836	950	13.6%
Depreciation Expenses	30	38	42	11.0%
Depreciation Expenses on Intangible Assets	4	6	7	13.2%
Membership Fees and Contributions	9	10	14	33.2%
Commissions and Other Service Charges	40	45	36	-20.3%
Taxes and Other Legal Dues	64	85	83	-2.2%
Other Administrative Expenses	337	398	462	16.0%
Total	**1,358**	**1,718**	**1,981**	**15.3%**

Source: TCMA

In the year 2016, brokerage firms' total expenses increased by 15% y-o-y to TL 2 billion. Marketing fees increased by 29% to reach TL 387 million.

Personnel expenses increased by 14% to TL 950 million. The average monthly cost of an employee rose by only 4% (below the inflation level) to TL 11.985 in 2016.

Table 10: Income Statement of Brokerage Firms (million TL)

	2014	2015	2016	% Change 2016/2015
Sales Revenues (net)	192,296	185,113	164.222	-11.3%
Cost of Sales	-190,708	-183,111	-162.047	-11.5%
Gross Profit/Loss	**1,587**	**2,001**	**2.175**	**8.7%**
Marketing, Sales and Distribution Expenses	-176	-299	-386	29.2%
Administrative Expenses	-1,182	-1,419	-1.594	12.4%
Research & Development Expenses	0	-1	-1	14.7%
Other Operating Income	177	264	398	50.9%
Other Operating Expenses	-125	-246	-261	5.8%
Operating Profit/Loss	**281**	**301**	**332**	**10.5%**
Income from Investment Activities	8	39	3	-92.6%
Expenses from Investment Activities	0	-1	-2	216.9%
Profit/Loss From Participations	7	9	17	88.7%
Profit/Loss Before Tax From Financial Expenses	**296**	**348**	**350**	**0.6%**
Financial Income	779	788	1.067	35.4%
Financial Expenses	-622	-604	-816	35.1%
P/L Before Tax From Continuing Operations	**453**	**532**	**601**	**12.9%**
Continuing Operations Tax Income / Expense	**-83**	**-100**	**-118**	**18.5%**
Current Tax Income / Expense	-59	-89	-115	28.9%
Deferred Tax Income / Expense	-24	-11	-3	-68.0%
Profit /Loss From Continuing Operations	**370**	**433**	**483**	**11.6%**
Net P/L After Tax from Discontinued Operations	2	0	0	-
Net Profit /Loss	**372**	**433**	**483**	**11.6%**

Source: TCMA

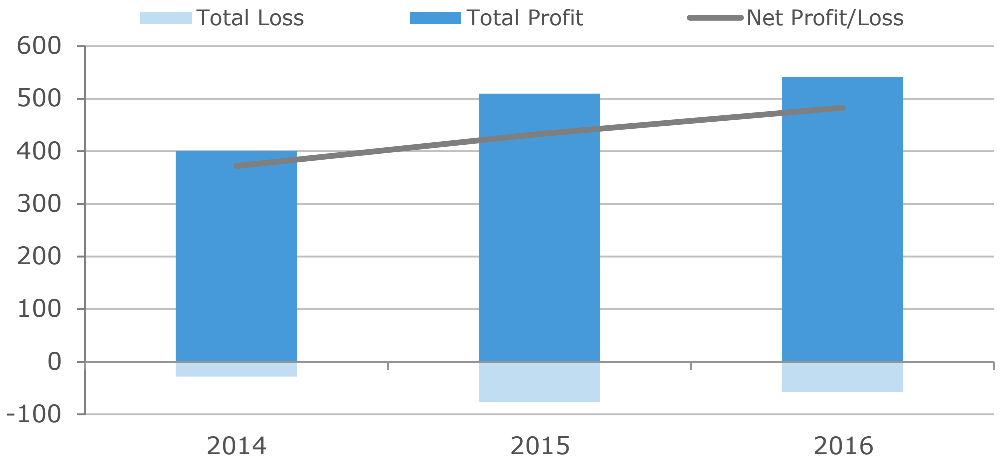
While the absolute increase in operational expenses exceeds that of revenues, thanks to the increase in net other revenues reflecting revaluation accounts and asset sales operating profit of the industry increased by 11% compared to 2015 to reach TL 332 million.

Net income from investment activities had reached TL 38 million in 2015 due to the sale of a fixed asset, while in 2016, those revenues stand only at TL 1 million. Net financial income increased by TL 67 million due to increased interest revenues from bank deposits (some firms raise liquidity from money markets or by issuing bonds and invest those funds in deposits), and derivatives and swap transactions.

At the bottom line, net profit of brokerage firms increased by 12% y-o-y to 483 million TL. TL 75 million of this sum was generated by firms mainly trading in the forex market.

The most profitable brokerage firms in the year 2016 was İş Investment with TL 88 million profit and Yapı Kredi Investment with TL 63 million net profit. Out of 71 brokerage firms, only 55 of them posted a profit as illustrated in figure 22.

Figure 22: Brokerage Firms' Profits and Losses(million TL)



Source: TCMA

Due to increase in paid-in capital, return of equity slightly ameliorated to 11.7% in the in 2016, compared to 11.2% in 2015.

Table 11: Profitability of Brokerage Firms

	2014	2015	2016
Return on Equity	10.7%	11.2%	11.7%
Earnings Per Share (TL)	0.18	0.19	0.20

Source: TCMA

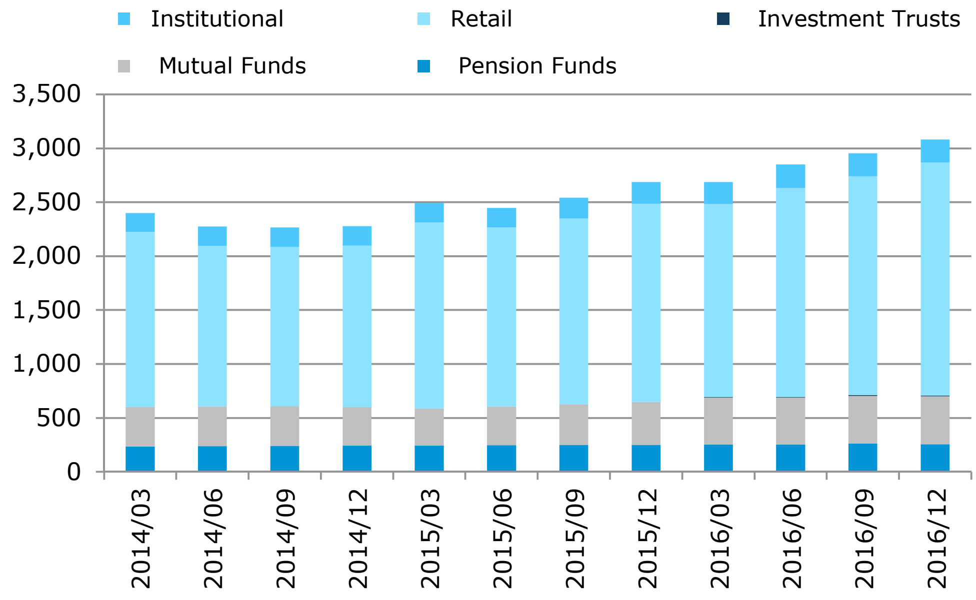
ASSET MANAGEMENT COMPANIES 2016/12

Activities and financials of asset management companies for the year 2016 were collected by our Association. As of end-2016, 50 asset management companies' data were compiled, six of these companies are specialized in real estate asset management.

ASSET MANAGEMENT

Although there are 50 asset management companies operating as of December 2016, 44 of them provide asset management services. Of the other six institutions, one is a newly established asset management company and the other five are real estate asset management companies. Whereas, at the end of 2015 42 institutions were managing collective investment schemes or discretionary portfolios, this number increased to 44 by the end of 2016.

Figure 1: Asset Management – Number of Investors



Source: TCMA

At the end of 2016, the number of investors increased to 3.082, while 2.375 of them are discretionary portfolio management customers. However, when evaluating customer numbers, it should be taken into account that there might be double counting as some customers might have accounts in more than one institution.

Total assets under management increased by 21% compared to the end of 2015 and amounted TL 122 billion, with an increase in both pension and mutual funds. Pension funds constitute half of this portfolio volume. These funds have grown by 26% within one year, with the help of the state contribution to individuals' savings.

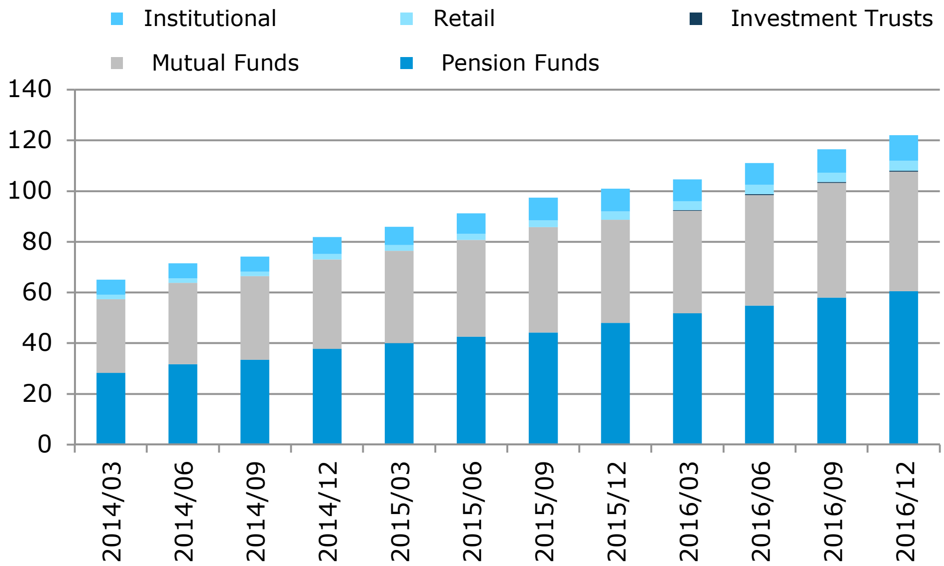
Mutual funds also grew by 16% in the last year and reached to TL 47 billion. TL 3.7 billion of this amount is composed of private funds established for specific investors.

The portfolio size of real estate and venture capital investment funds established for the first time in 2016 are TL 87 million and TL 73 million, respectively.

TL 14 billion of the total assets under management belong to retail and institutional investors who receive discretionary portfolio management services. As of the end of 2016, while the average portfolio size of retail investors receiving discretionary portfolio management services is TL 1.8 million, this amount is TL 47 million for institutional investors.

The portfolio of investment trusts constitutes less than 1% of the total portfolio size with TL 415 million.

Figure 2: Assets under Management (billion TL)



Source: TCMA

Market concentration remains high as İş Asset Management holds 22% and Ak Asset Management holds 16% of the total portfolio. Bank-owned top four asset management companies (İş, Ak, Yapı Kredi and Garanti Asset) have 62% share in assets under management. The public-owned banks (Ziraat, Vakıf, and Halk Asset) followed these institutions with 18%.

As of end-2016, 22 asset management companies are managing pension funds. Bank-owned asset management companies account for a large share. The top 3 firms (Ak, İş and Garanti Asset) have 55% in asset under management (AUM). Out of 21 firms, independent firms represent only 2% of assets.

43 companies are managing mutual funds as of December 2016. İş, Yapı Kredi and Garanti Asset Management hold 41% of the mutual funds' portfolio. 11 asset management companies which have more than 1 billion TL assets under their management constitute 93% of total mutual fund's portfolio.

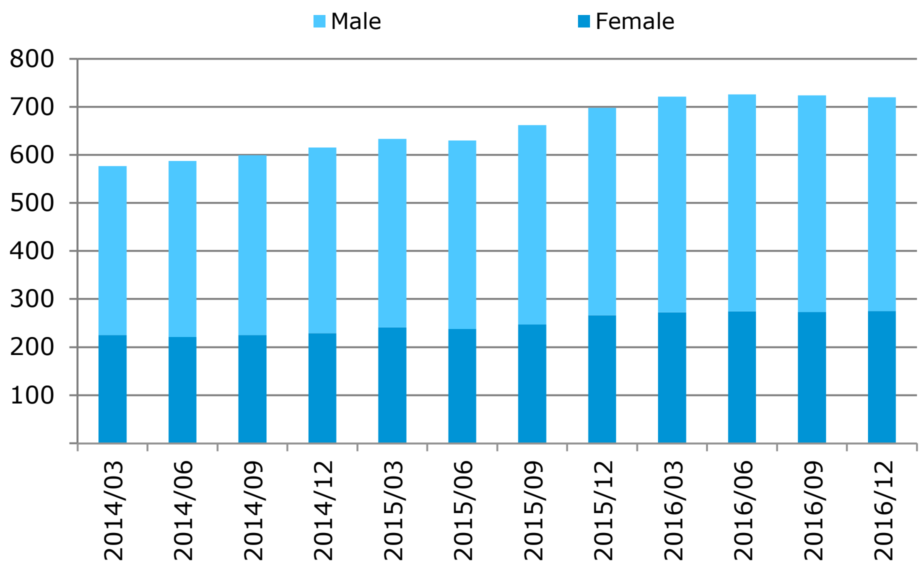
There is also a high concentration in discretionary asset management. Three bank-owned asset management companies (Ziraat, Ak and İş Asset) hold more than two thirds of the discretionary portfolio. Out of 27 firms offering this service, 17 are independent asset management companies. Independent companies have greater share in retail portfolio management compared with collective portfolio management, with a market share of 42%.

EMPLOYEES

Even though there is a slight decrease in the second half of the year in the number of asset management companies' employees, the number of personnel increased from 698 to 720, when compared to the end of 2015. Female employees constitute 39% of the workforce.

İş and Yapı Kredi Asset employ the largest number of personnel with 64 and 62 people, respectively, while the newly established Albaraka Asset, and Burgan Asset, which is in the process of closing, have the lowest employment with two people.

Figure 3: Asset Management Companies' Employees



Source: TCMA

Top 4 firms (İş, Yapı Kredi, Garanti, Ak Asset) employ one third of the work force. Those firms represent 62% of assets under management. %34 of asset management companies' employees holds a master's or Phd degree, whereas %57 of them has a bachelor's degree.

The average age of the employees of the asset management company is estimated to be 38 years.

Table 1: : Asset Management Companies' Employees				
	Employee Breakdown			Average No. of Employees
	2014	2015	2016	2016
CEO	6.0%	6.6%	6.9%	1.0
Portfolio Management	29.6%	29.8%	29.1%	4.2
Domestic Sales	11.1%	11.6%	11.0%	1.6
Financial Advisory	1.8%	2.7%	2.7%	0.4
International Sales	0.3%	0.4%	0.4%	0.1
Research	4.9%	5.2%	5.4%	0.8
Risk Management	3.9%	3.6%	4.0%	0.6
Fund Service Unit	6.5%	6.4%	7.0%	1.0
Financial & Admin.	16.7%	16.3%	15.5%	2.2
Internal Audit	7.6%	7.9%	8.4%	1.2
Human Resources	0.7%	0.9%	0.7%	0.1
IT	1.3%	1.5%	1.5%	0.2
Other	9.6%	7.2%	7.4%	1.1

Source: TCMA

The average number of employees per asset management company stands at 14. An average of 4 portfolio managers is employed in the industry.

Personnel employed in the domestic sale department represent 11% of the total employees.

Only one company (İş Asset) has an international sales department which employs 3 people.

As per regulatory requirements, asset management companies are required to have in-house personnel or outsource fund services, research and risk management services. Nearly 40% of the firms have an average of 1-2 personnel in these departments.

FINANCIALS

As of December 2016 asset management companies' total assets rose by 20% year-on-year to reach TL 609 million. 94% of these assets consist of current assets. 50% of the total assets are held by the top 5 asset management companies.

Table 2: Financial Statement of Asset Management Companies (million TL)

	2014	2015	2016	2016/2015 % Change
Current Assets	**373.3**	**472.4**	**571.4**	**21.0%**
Cash and Cash Equivalents	252.2	315.1	366.2	16.2%
Financial Assets (Short-term)	72.9	96.5	131.4	36.1%
Other Current Assets	48.2	60.8	73.8	21.5%
Non-Current Assets	**37.0**	**34.4**	**37.6**	**9.2%**
Tangible Assets	12.1	10.9	10.8	-0.6%
Financial Assets (Long-term)	11.8	10.6	11.5	8.2%
Other Non-Current Assets	13.1	12.9	15.2	18.3%
TOTAL ASSETS	**410.3**	**506.8**	**609.0**	**20.2%**
Short-term Liabilities	40.1	44.7	48.6	**8.7%**
Long-term Liabilities	5.5	6.2	8.2	**32.1%**
Equity	**364.7**	**455.9**	**552.2**	**21.1%**
Paid-in Capital	206.0	279.9	358.4	28.0%
Adjustments on Equity	10.2	11.2	11.2	0.6%
Share Premiums/Discounts	6.3	5.3	5.3	0.0%
Other Comprehensive Income	0.9	0.4	1.1	172.6%
Reserves on Retained Equities	61.7	67.4	71.2	5.7%
Retained Profit/Loss	10.0	1.0	-5.8	-
Net Profit/Loss	69.5	90.8	110.7	22.0%
TOTAL LIABILITIES	**410.3**	**506.8**	**609.0**	**20.2%**

Source: TCMA

Operating Income

Income stream of asset management companies can be split into three categories. These are portfolio management commissions, consultancy fees and fund sales revenues. In the Turkish asset management industry, nearly all of the income is generated by portfolio management commissions.

Asset management companies earned nearly TL 337 million TL in 2016. TL 211 million was generated by mutual funds. While pension funds' asset size is bigger, revenues from pension fund management remained at TL 99 million. This difference indicates higher management fees for mutual funds (0.49%) as opposed to pension funds (0.18%). It is observed that the average management fee in mutual funds is higher (0.83%) in independent asset management companies. However, the share of these institutions in total portfolio remains at 9% by the end of 2016.

In the case of discretionary portfolio management, the industry generated TL 20 million revenues. The management fee rate was 0.16% in private portfolio management. This rate is 0.31% for independent institutions, which account for 22% of the total managed discretionary portfolio size.

Table 3: Breakdown of Asset Management Companies' Revenues (million TL)				
	2014	2015	2016	2016/2015 % Change
Portfolio Management Commissions	**227.8**	**290.2**	**333.7**	**15.0%**
Collective Portfolio Management	202.6	267.7	313.5	17.1%
Pension Funds	68.6	91.0	99.4	9.2%
Mutual Funds	134.0	176.7	211.3	19.6%
Investment Trusts	-	-	2.8	-
Discretionary Portfolio Management	25.2	22.5	20.1	-10.5%
Retail	10.5	10.3	9.8	-5.0%
Corporate	14.7	12.2	10.3	-15.2%
Investment Consultancy Revenues	**3.2**	**3.9**	**3.5**	**-10.1%**
Mutual Fund Sales Revenues	**0.0**	**0.0**	**0.0**	**-**
TOTAL	**231.0**	**294.1**	**337.2**	**14.7%**

Source: TCMA

Expenses

Asset management companies' administrative expenses rose by 18% in 2016 to reach TL 225 million, when compared to the previous year. Personnel expenses which represent 57% (TL 146 million) of the expenses rose by 12%.

While the average number of employees in the sector was 648 in 2015, it was 718 at the end of 2016. The average monthly cost of an employee amounted to TL 16,960. On the other hand, the average monthly net profit per employee was TL 12,856.

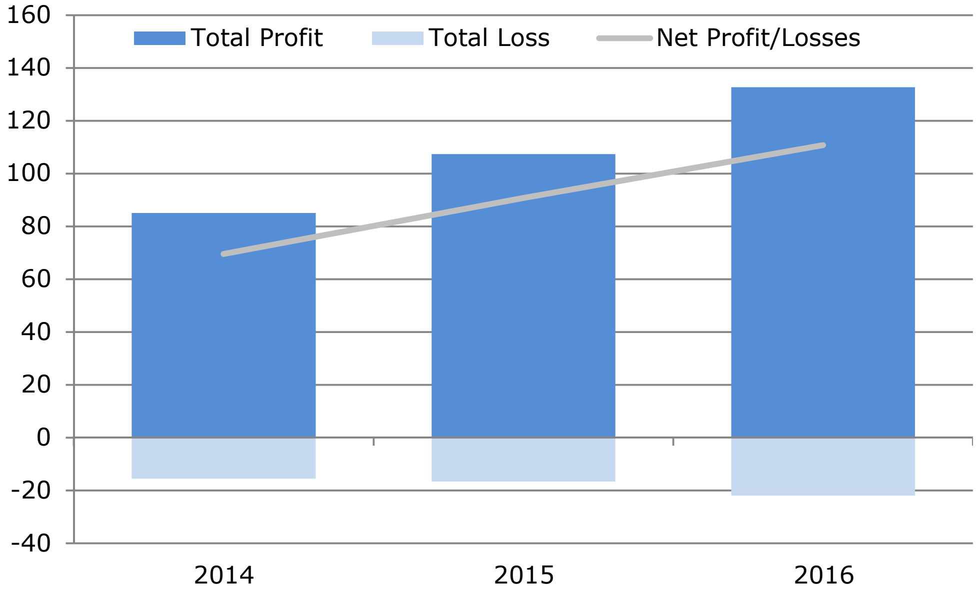
Table 4: Income Statement of Asset Management Companies (million TL)				
	2014	2015	2016	2016/2015 % Change
Sales Revenues (net)	317.2	427.5	915.5	114.2%
Cost of Sales	-87.2	-131.5	-568.5	332.5%
Gross Profit/Loss	**230.0**	**296.0**	**347.0**	**17.2%**
Marketing, Sales and Distribution Expenses	-3.4	-4.0	-4.8	19.0%
Administrative Expenses	-169.7	-216.5	-255.1	17.9%
Salaries and Fringe Benefits	-109.7	-130.1	-146.1	12.3%
Research & Development Expenses	-0.1	0.0	0.0	49.8%
Other Operating Income	9.3	13.9	20.0	43.8%
Other Operating Expenses	-1.2	-1.6	-2.3	39.1%
Operating Profit/Loss	**65.0**	**87.8**	**104.8**	**19.4%**
Income from Investment Activities	12.7	15.1	18.4	22.0%
Expenses from Investment Activities	-1.9	-3.4	-3.7	7.3%
Profit/Loss Before Financial Expenses	**75.8**	**99.5**	**119.5**	**20.2%**
Financial Income	20.8	19.2	25.2	31.5%
Financial Expense	-7.0	-1.3	-1.8	37.0%
Profit/Loss Before Tax From Operations	**89.6**	**117.3**	**142.9**	**21.8%**
Current Tax Income / Expense	-22.2	-26.7	-33.2	23.9%
Deferred Tax Income / Expense	2.1	0.2	1.0	343.6%
Net Profit/Loss	**69.5**	**90.8**	**110.7**	**22.0%**

Source: TCMA

Asset management companies' revenues increased by 17% to TL 347 million in 2016, while net profit for the end of period 2016 rose by 22% to TL 111 million.

In 2016, half of the 50 asset management companies lost TL 22 million in total, wheras the other half made a profit of TL 133 million. Yapı Kredi and Ak Asset, which made the highest profits, recorded profits of TL 30 and TL 27 million, respectively and accounted for half of the industry's total profit.

Figure 4: Asset Management Companies' Profits and Losses (million TL)



Source: TCMA

On the other hand, despite rising net profit, the profitability of the asset management companies did not change much, compared to the previous year as illustrated in the table 5.

Table 5: Profitability of Asset Management Companies

	2014	2015	2016
Return on Equity	21.7%	23.1%	23.6%
Profit/Revenues	30.2%	30.7%	31.9%

Source: TCMA

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