

TURKISH CAPITAL MARKETS 2016 SEMIANNUAL REVIEW

TCMA RESEARCH

Ekin Fıkırkoca-Asena

Gökben Altaş

Mustafa Özer

Onur Salttürk

research@tspb.org.tr

Print

Printcenter

İstanbul, October 2016

ISBN 978-975-6483-57-2

www.tspb.org.tr

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TABLE OF CONTENTS

Brokerage Firms	1
<i>Equities</i>	<i>1</i>
<i>Fixed Income</i>	<i>3</i>
<i>Futures</i>	<i>5</i>
<i>Options</i>	<i>7</i>
<i>Warrants</i>	<i>9</i>
<i>Forex Market</i>	<i>9</i>
<i>Lending, Borrowing & Margin Trading</i>	<i>11</i>
<i>Corporate Finance</i>	<i>12</i>
<i>Asset Management</i>	<i>13</i>
<i>Branch Network</i>	<i>15</i>
<i>Employees</i>	<i>15</i>
<i>Financials</i>	<i>17</i>
Asset Management Companies	23
<i>Asset Management</i>	<i>23</i>
<i>Employees</i>	<i>24</i>
<i>Financials</i>	<i>26</i>

BROKERAGE FIRMS

2016/06

In this report, we are presenting a comprehensive analysis of operations and financial

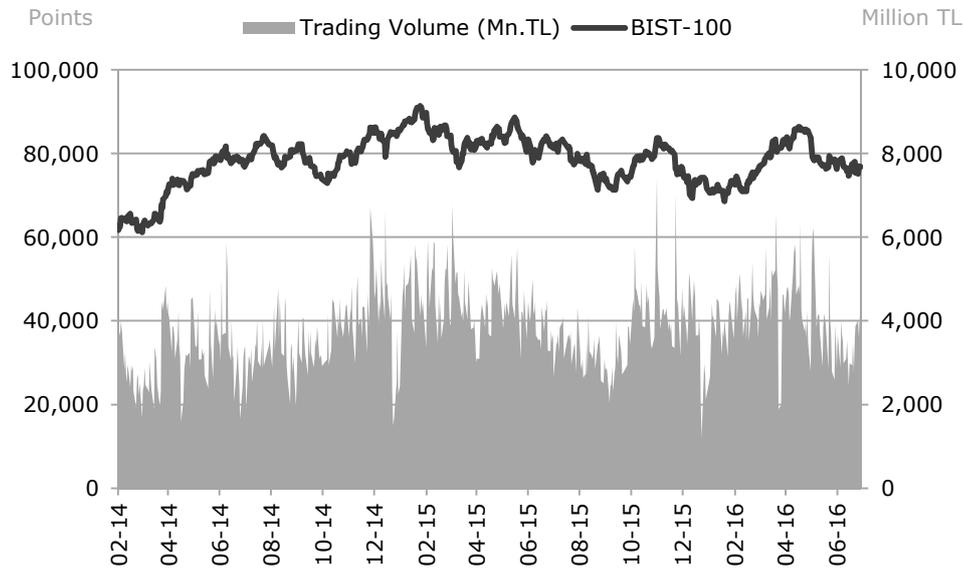
EQUITIES

Except a short term post-referendum dip, the impact of UK's exit from the EU has been relatively restricted on the international stock markets. Brexit's effects on the Turkish stock market were somewhat limited while the market was more influenced by domestic events.

data obtained from 70 brokerage firms in Turkey for the first half of 2016.

BIST-100 index, rising over the 86,000 threshold in April, started its decline after Prime Minister Davutoglu's resignation in late May. BIST-100 finished the first quarter of 2016 at 83,268 with a %18 increase while the second quarter witnessed an 8% decrease to 76,817 with foreign investors' sell orders.

Figure 1: Stock Trading Volume and BIST-100



Source: Borsa İstanbul

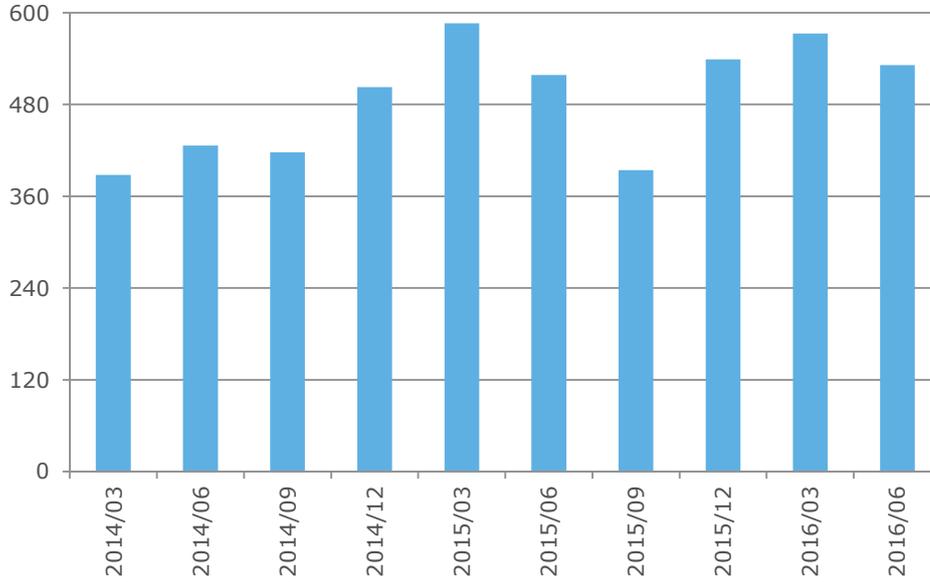
The stock trading volume remained relatively flat in the first half of 2016 at TL 1.1 trillion compared to the last year's figures. Garanti, Yapı Kredi, İş and Gedik Investments are considerably ahead of their counterparts in terms of stock trading volume

and made up roughly 31% of the entire volume in 1H2016. The bottom 25 firms in terms of trading volume, out of the 63 brokerages that provide stock brokerage services, make up only 3% of all the trading volume in the first half of the year.

Domestic investors' share of the trading volume decreased by 3% to TL 833 billion whereas foreign investors' transactions increased by 12% to TL 271 billion in 1H2016. Although 76% of the stock trading volume

was caused 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)



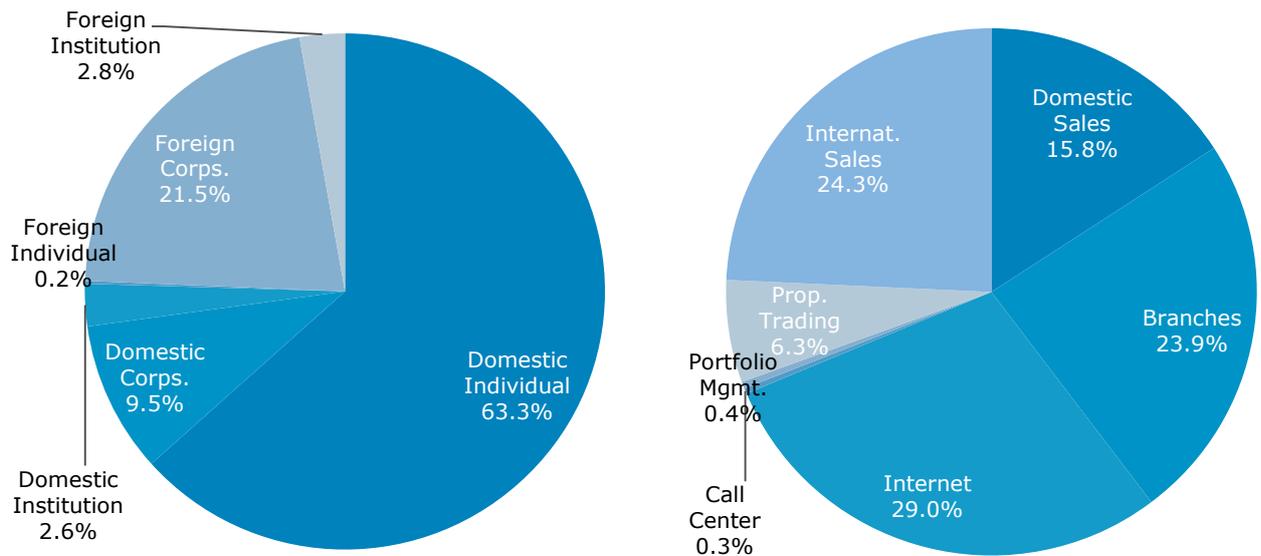
Source: Borsa İstanbul

Internet, domestic investors' favorite medium for trading, accounted for 29% of all equity trading volume for the first time in June 2016. This figure hovered around 24% on average from 2011 through to 2014. Internet transactions' share has been increasing since 2015.

Relative to last year, international sales department's trading volume increased by 2 points to 24% as opposed to the branches, bank branches and representative offices that decreased 8 points down to 24%.

The international sales departments in brokerages accounted for %24 of the stock trading volume in 1H2016 with TL 268 billion. This figure is the highest on record since 2008. It is important to note that foreign investors mostly sold stocks during the first half of 2016 whereas they bought them in the second half. Brokerages of foreign origin accounted for approximately 60% of these trades.

Figure 3: Investor and Department Breakdown of Equity Trading Volume



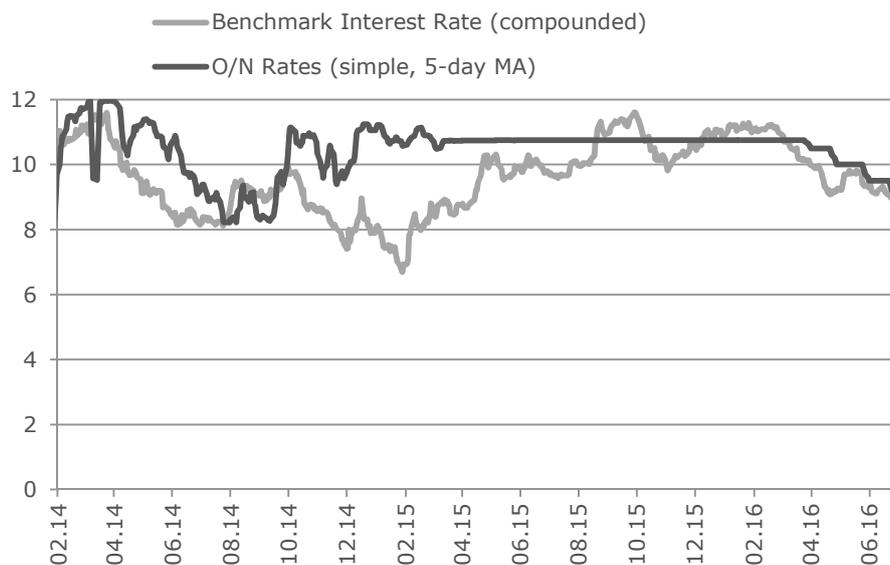
Source: TCMA

FIXED INCOME

Developed countries' central banks continued to maintain their dovish positions and kept interest rates at record lows in the second half of 2016 in order to boost global growth.

The Turkish Central Bank's progressive rate cuts since the end of March 2016 caused BIST O/N rates to fall to 9% from 10.75% in 1Q2016 and the benchmark interest rate to 8% from 11% in January.

Figure 4: Interest Rates



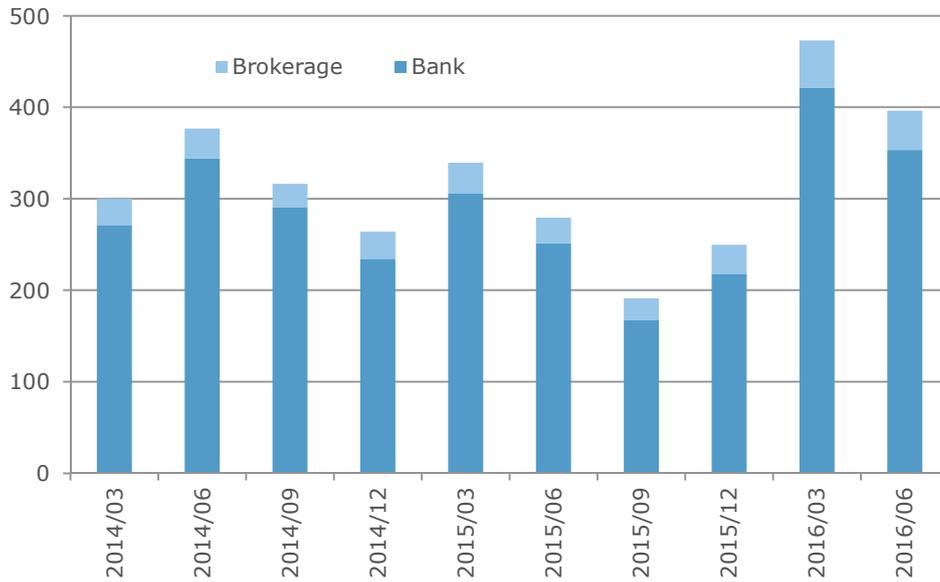
Source: Borsa İstanbul, Bloomberg

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 both the bonds & bills market as well as the repo market, with the brokerages firms' share of the market hovering around %10.

In the first half of 2016, 52 brokerage firms generated a trading volume of TL 95 billion in the bonds & bills market, up 52% compared to last 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 66% of the fixed income trading volume of brokerage firms in the first half of 2016. Brokerage firms have historically generated %70 of their business through the domestic

sales department, which increased to %80 in June 2016 for the first time.

In the first half of 2016, 83% 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 1H2016 by the 38 brokerage firms decreased by 14% compared to 1H2015. 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 38 brokerage firms with trading volume in the repo market in 1H2016, Halk, Vakıf,

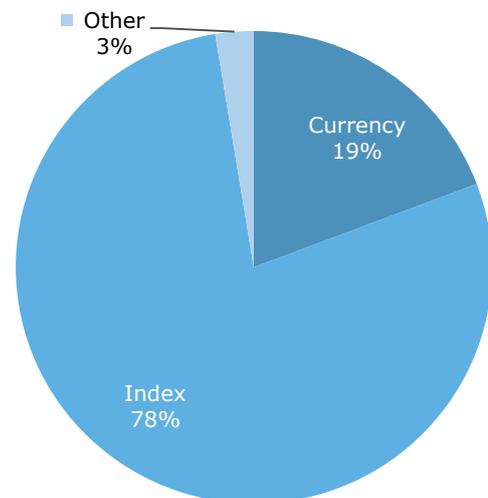
Yapı Kredi and Ak Investments made up 62% of the trading volume of brokerage firms. Similar to the fixed income market, an overwhelming majority of the investors in the repo market consisted of domestic investors. In 1H2016, domestic institutional investors generated 77% of the entire repo volume.

FUTURES

Banks and brokerage firms are authorized to execute trades at the Borsa İstanbul Futures and Options Market (VIOP). Futures can be written on 9 different asset classes. Index and currency options constitute 97% of the futures trading volume with the rest of asset classes having a limited share of the market.

58 brokerage firms generated a trading volume of TL 605 billion in the first half of 2016, up 9% from the first half of 2015.

Figure 7: Futures Trading Volume by Asset Class



Source: Borsa İstanbul

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

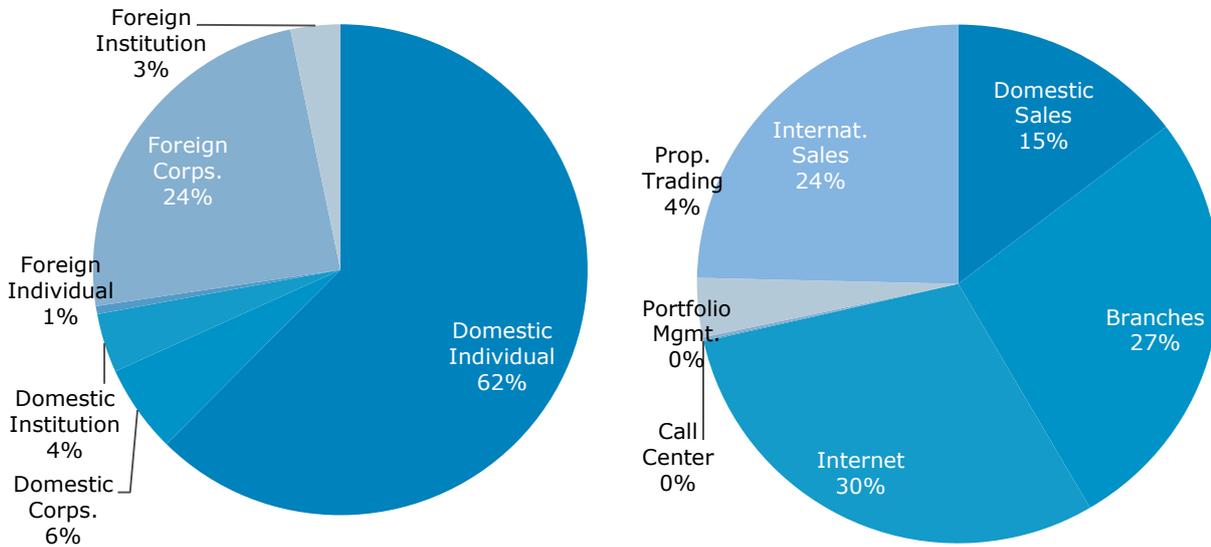


Source: Borsa İstanbul

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 mar-

ket 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 1H2016, domestic individual investors' share of the

market decreased by 1 point to 62% compared to the previous year whereas domestic corporations share increased to 6%.

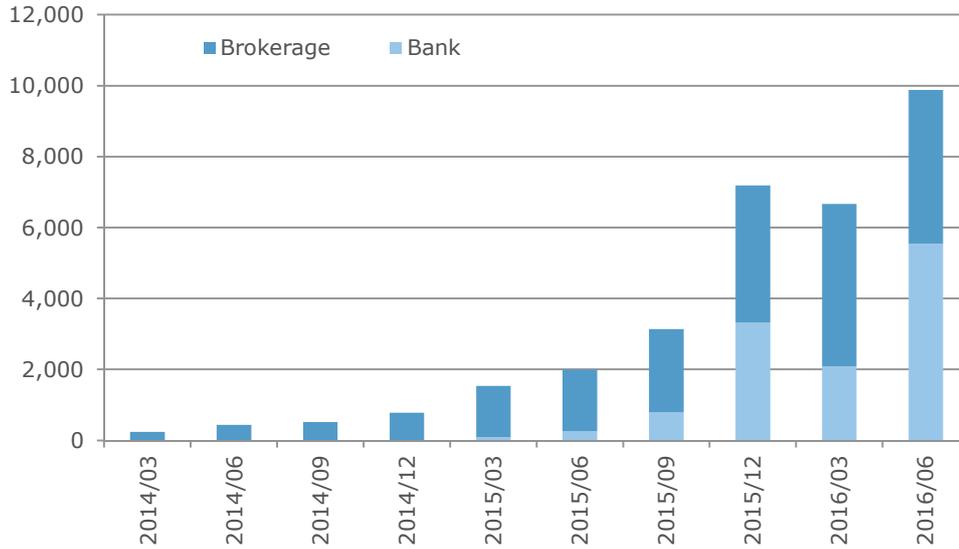
TEB Investment got first place in the first half of 2016 with 15% share of the transactions generated by brokerage firms, being closely followed by İş and Garanti Investments at 10% and 9% market share respectively.

Internet, branches and representative offices as well as the international sales departments

account for the bulk of the trading volume of brokerage firms. In 1H2015, internet accounted for 34% of the volume whereas this year internet's weight dropped down to 30%. Meanwhile, the domestic sales departments' weight increased by 6 points from 9% to 15%.

OPTIONS

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

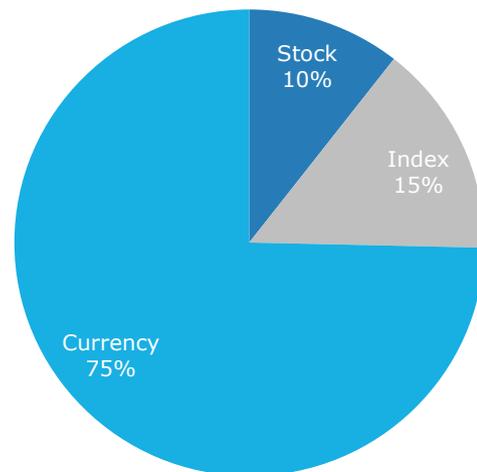


Source: Borsa İstanbul

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 the first quarter of 2016, 33 brokerage firms generated a total trading volume of TL 8.9 billion. 54% of the trading volume was generated by the brokerage firms.

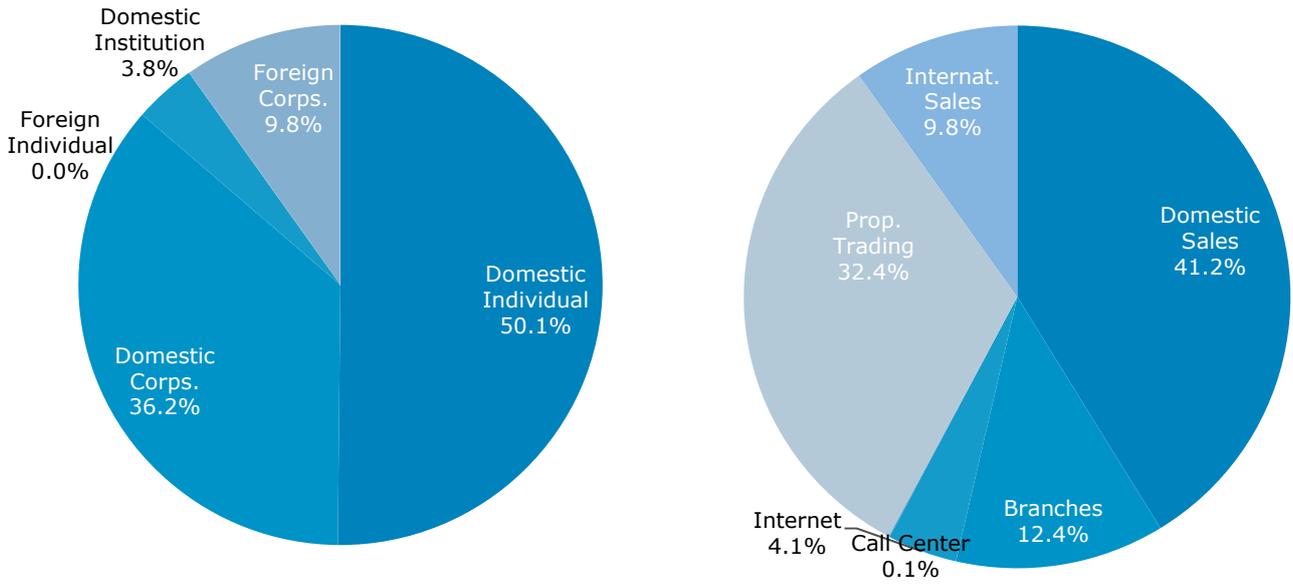
75% of the option contracts traded at Borsa İstanbul are currency contracts which only stood at 5% at the end of 2014.

Figure 11: Options Trading Volume by Asset Class



Source: Borsa İstanbul

Figure 12: Investor and Department Breakdown of Options Trading Volume



Source: TCMA

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 181% since June 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.

In the first six months of 2016, the half of the total trading volume of brokerage firms

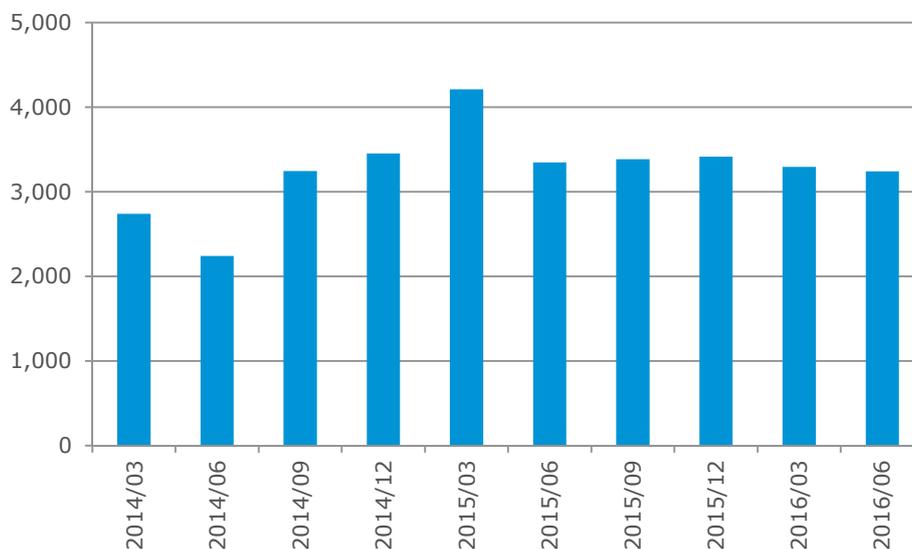
was generated by domestic individual investors. 32% of the volume during this time was generated by the firms' own accounts.

In the options market among brokerage firms, İş Investment ranked first with 21% of the market with Ak and Osmanlı Investments having second and third place with 14% and 12% respectively.

A highly concentrated market, the first 8 brokerage firms in terms of trading volume owned 91% of the trading generated by brokerage firms, with a total volume of TL 8.1 billion.

WARRANTS

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



Source: Borsa İstanbul

In the first half of 2016, 47 brokerage firms generated a warrant trading volume of 6.5 billion TL. The volume decreased by 14% compared to the first half of 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 31% of the total trading volume.

The warrant market is considerably concentrated. İş Investments and Deutsche Securities each own 31% of the market and collectively generated 4 billion TL worth of trading volume in the first half of 2016.

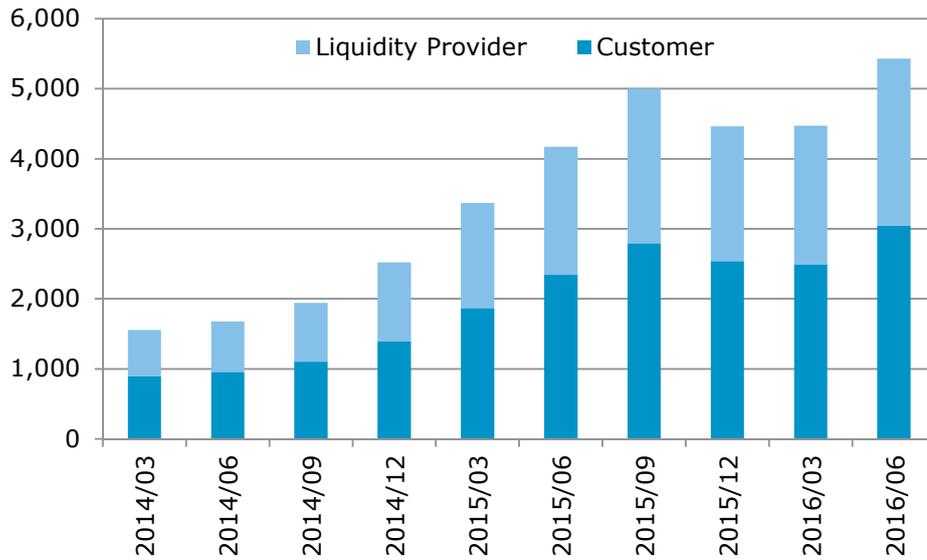
FOREX MARKET

Only brokerage firms are allowed to offer leveraged forex transactions in the Turkish capital markets. In the first half of 2016, 41 brokerage firms generated a total volume of TL 9.9 trillion. A fast growing segment of the industry, the forex market grew by 31% compared to the first six months of 2015. However, despite the remarkable growth, a closer look at quarterly results reveals that

the increase appears to be decelerating since the beginning of 2016.

The forex market is a highly fragmented market with many firms having a small size of the total market. Sanko Investment ranked first with 12% of the market, followed by Işık Securities which has a 10% market share in the forex market.

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



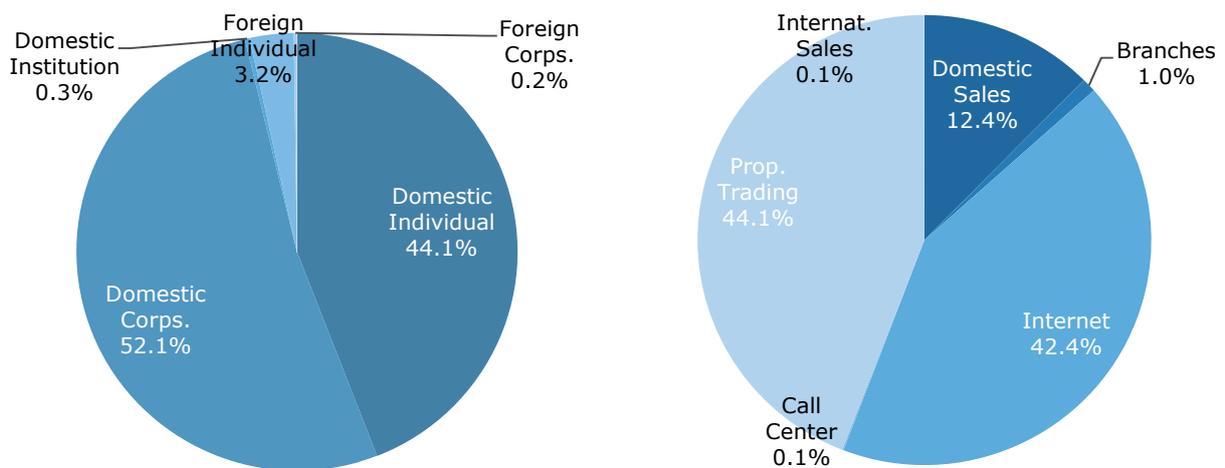
Source: Borsa İstanbul

Domestic investors were the largest investor category with a 97% share of the forex market in 1H2016. Internet is the most frequently utilized channel in the forex market among others with 42% of the transactions taking place over the internet. Branches and representative offices make up a negligible portion of the trading vol-

ume 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



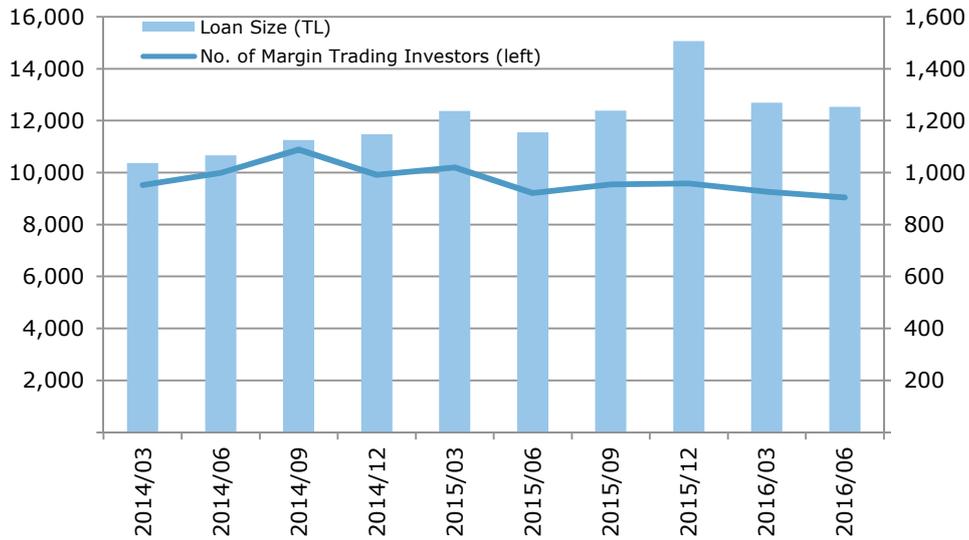
LENDING, BORROWING & MARGIN TRADING

Brokerage firms' total loan size in margin trading and number of margin trading clients decreased slightly relative 2015 year-end.

As of end of June 2016, 47 brokerage firms lend TL 1.3 billion to margin-trading clients.

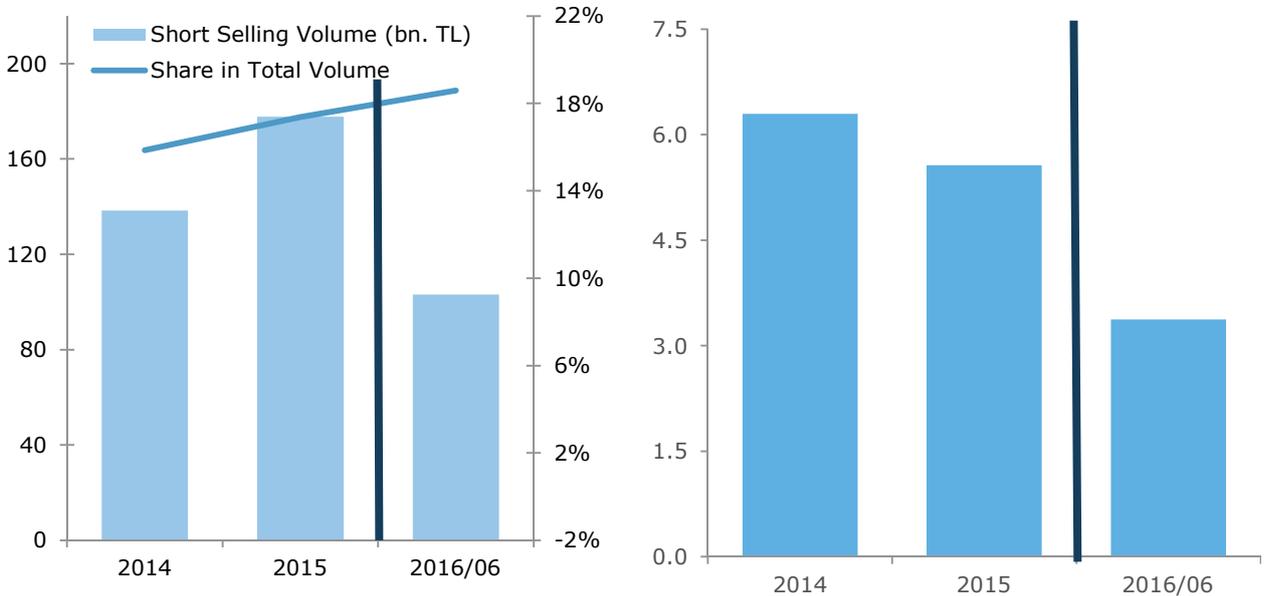
It is important to note that a client may have more than a single account at multiple brokerage firms.

Figure 16: Margin Trading at Brokerage Firms



Source: TCMA

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



Source: TCMA

Short selling at Borsa İstanbul rose by 10% relative to last year to TL 103 billion, whereas securities lending & borrowing activities

increased to TL 3.4 billion, a 5% rise compared to the same period in 2015.

CORPORATE FINANCE

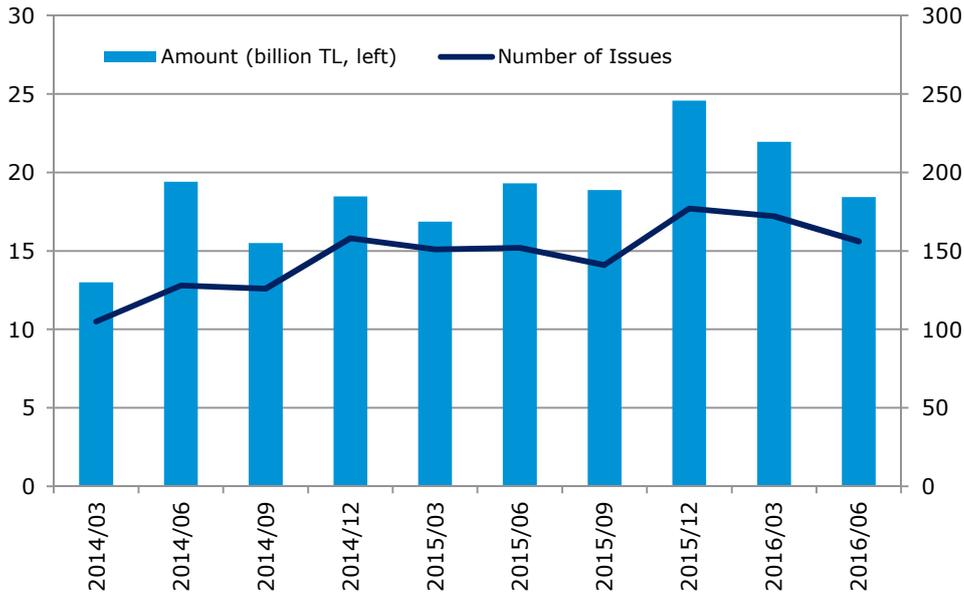
Table 1: Corporate Finance Activities (Completed Projects)						
	2015/03	2015/06	2015/09	2015/12	2016/03	2016/06
Initial Public Offering	3	1	1	1	1	1
Secondary Public Offering	0	0	0	0	0	0
Debt Instruments Issuance	145	152	136	175	165	188
M&A / Buy Side	0	0	0	0	1	1
M&A / Sell Side	1	7	3	0	1	6
Private Equity	0	0	0	0	0	0
Capital Increases	19	6	1	8	17	6
Dividend Distribution	26	15	5	7	23	4
Privatisation / Buy Side	0	0	0	0	1	0
Privatisation / Sell Side	0	0	0	0	0	0
Other Consultancy	15	7	8	4	25	17
Total	209	188	154	195	234	223

Source: TCMA

In the first half of 2016, brokerage firms completed 457 (234 in 1Q, 223 in 2Q) cor-

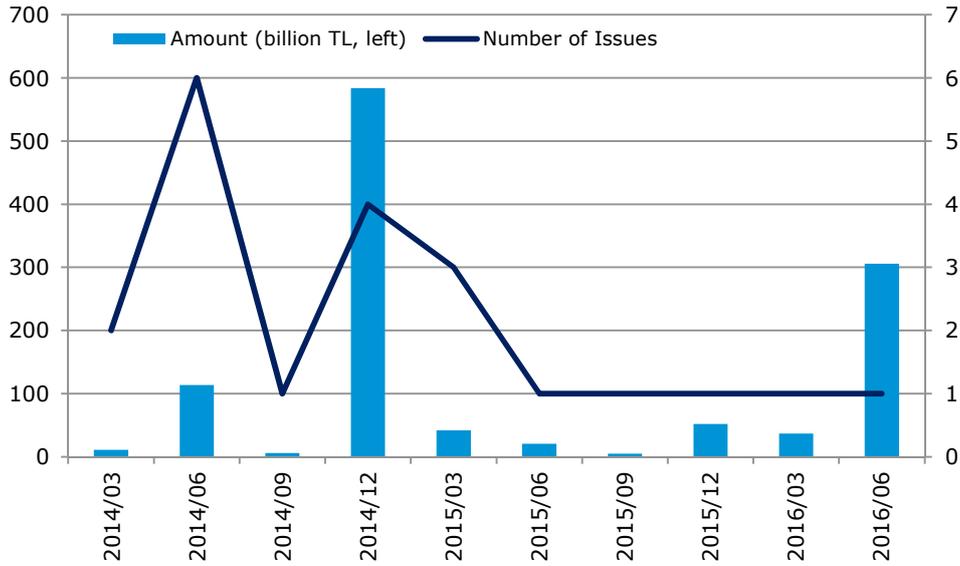
porate finance projects, 353 of which were bond issuances.

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 during the first half of 2016, raising a total of TL 380 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 343 million through its IPO in the second quarter. Via was subsequently delisted. In the first half of 2016, TL 40 billion was raised through 370 bond issuances, 353 of which 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 17.

On the other hand, in the first quarter of 2016, 23 capital increases and 27 dividend distributions were conducted by brokerages. During the same period, brokerage firms completed 42 other consultancy projects that include valuations, market making activities, feasibility analyses.

ASSET MANAGEMENT

Brokerage firms provide wealth management services in addition to their traditional brokerage services. The new regulation framework in line with the EU acquis requires that collective investment schemes

are managed exclusively by asset management companies. The number of brokerage firms offering asset management services declined to 17 in 2016, from 24 in 1H2015 as a result of those regulations.

Figure 20: Asset Management - Number of Investors

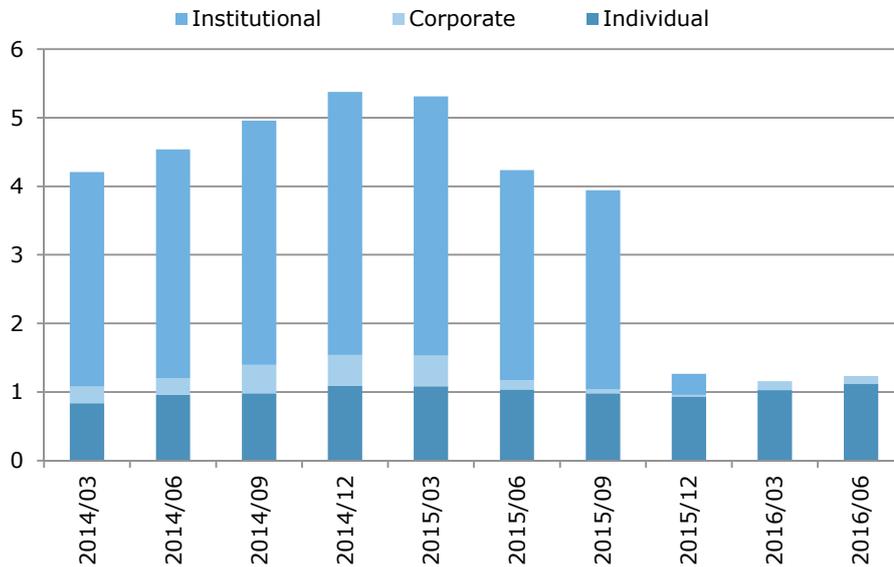


Source: TCMA

The number of individual investors rose by 22% y-o-y whereas the number of institutional investors increased by 15%. Altogether the number of investors rose by

18%. It is important to note that clients may have multiple accounts in several brokerage firms.

Figure 21: Assets Under Management (billion TL)



Source: TCMA

The management of mutual funds was transferred from brokerage firms to asset management companies due to the new regulations in 2012. This led to a dramatic decrease in the AUM of brokerage firms, with the AUM dropping from TL 4 billion at 2014-year-end to TL 1.2 billion. During this

time, the AUM of individual investors remained mostly flat whereas the AUM of institutional investors fluctuated downwards with the AUM totaling TL 118 million.

In June 2016, AUM for individual investors averaged TL 364,000 whereas it averaged

TL 1.6 million for corporate clients.

BRANCH NETWORK

	2015/03	2015/06	2015/09	2015/12	2016/03	2016/06
Branches	153	200	282	323	331	330
Representative Offices	64	62	78	76	74	69
Bank Branches	7,026	6,984	6,817	5,763	5,770	5,018
Total	7,243	7,246	7,177	6,162	6,175	5,417

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 June 2016, 47 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 were changed from an agen-

cy agreement between banks and brokerage firms to a relation of order reception and transmission. While the number of bank branches declined by nearly 2,000 in one year to 5,770 in June 2016 as some banks ended their agency agreements, the number of branches rose by 65% to 330.

The decrease in the number of bank branches in 2Q2016 is attributable to Ziraat Investment's agency contract termination with Ziraat Bank.

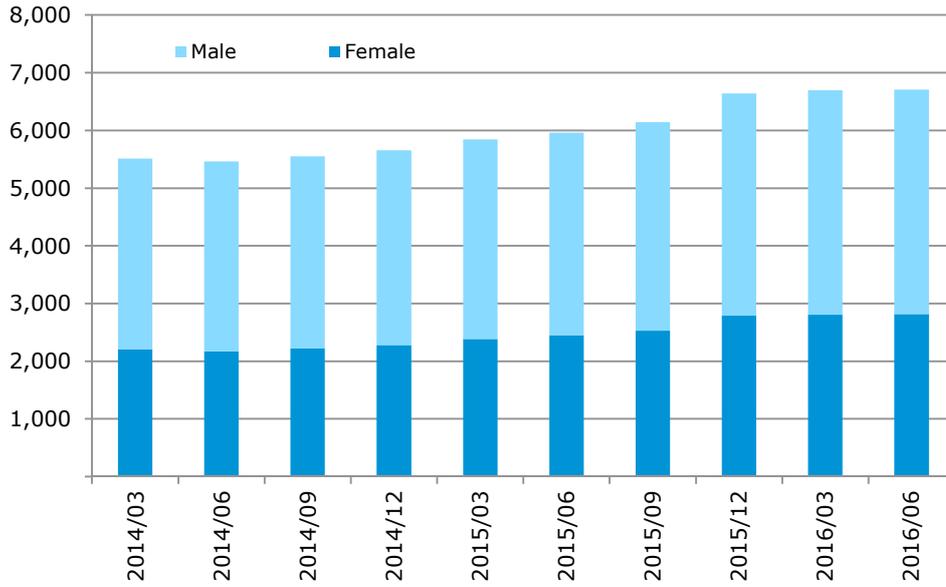
EMPLOYEES

The total number of employees in brokerage firms continued to increase, reaching 6,709 in the first half of 2016.

42% of the workers are female. Women's share in the workforce remained at 40% from 2012 through to 2015 when increases

in the hiring of female employees led to an increase in the amount of female employees, raising this ratio to 42%. Average employee count per firm increased from 74 in June 2015 to 96 in June 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. This led to an increase in the number of personnel of 56% in branches and 34% in representative offices from June 2015 to June 2016. In parallel with these changes, brokerage branch employee count jumped from 987 to 1,540 and representative office from 398 to 533. On the other hand, brokerage firm employees working at back branches decreased from 270 in June 2015 to 11 in June 2016. Overall, the number of personnel employed in the branch network increased by 26% y-o-y to 2,084.

Due to the rise of forex companies and their aggressive growth and marketing strategies,

there has been a significant increase of 45% in the number of personnel employed at the domestic sales department.

Persons newly joining the industry appear to be under 30 years of age and have less than 5 years of work experience. On the other hand, the number of older and more experienced personnel somewhat decreased compared to 2015 year-end.

As illustrated in table 3, the average number of personnel is the highest in the domestic sales department with 24 in June 2016. This figure stood at 11 in June 2015 which indicates the aggressive growth activities of brokerage firms. Brokerage firms employ an average of 5 workers in the research departments although this number falls to 3 for firms specialized in forex activities.

Table 3: Brokerage Firms' Employees

	Employee Breakdown			Average No. of Employees
	2014	2015	2016/06	2016/06
Branch, Bank Br., Rep. Office	27.1%	31.5%	31.1%	5.2
Branches	15.6%	23.4%	23.0%	4.7
Bank Branches	5.9%	0.2%	0.2%	0.0
Representative Offices	5.5%	7.9%	7.9%	7.7
Domestic Sales	13.0%	17.9%	19.6%	24.3
Broker	3.5%	2.0%	1.8%	2.4
Dealer	6.0%	5.1%	4.6%	6.6
International Sales	3.7%	3.0%	3.0%	5.3
Treasury	2.0%	1.8%	2.1%	4.1
Portfolio Management	0.9%	0.8%	0.5%	1.9
Corporate Finance	3.0%	2.4%	2.1%	3.7
Research	4.8%	3.8%	3.6%	4.5
Financial & Admin. Affairs	14.8%	12.4%	12.1%	11.6
Internal Audit	3.2%	3.0%	3.0%	2.9
Human Resources	1.3%	1.3%	1.2%	2.0
IT	5.3%	4.9%	5.1%	5.8
Other	11.6%	10.1%	10.2%	10.5

Source: TCMA

FINANCIALS

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

By the end of June 2016 brokerage firms' total assets increased by 25% y-o-y to TL 19 billion, mostly reflecting increased deposit balances. The bulk of assets continue to be liquid as current assets increased to TL 17 billion.

Out of this sum, TL 10 billion is in cash and cash equivalents while trade receivables related to settlement dues is around TL 5 billion.

The increase in total assets compared to June 2015 reflects new bond issuances and rising borrowing in the money market of 3 brokerage firms.

Table 4: Financial Statement of Brokerage Firms (million TL)				
	2014	2015	30.6.2015	30.6.2016
Current Assets	14,138	14,242	13,915	17,144
Cash and Cash Equivalents	8,318	7,796	7,845	10,386
Financial Assets (Short-term)	1,063	1,142	956	1,118
Trade Receivables (Short-term)	4,149	4,814	4,533	4,972
Others	609	490	581	668
Non-Current Assets	994	1,070	1,021	1,557
Financial Assets (Long-term)	617	593	583	1,069
Others	377	477	439	488
TOTAL ASSETS	15,132	15,312	14,937	18,701
Short-Term Liabilities	11,395	11,180	10,923	14,020
Financial Liabilities (Short-term)	7,375	6,806	6,562	8,871
Trade Payables (Short-term)	3,590	3,931	3,958	4,813
Others	430	444	403	336
Long-Term Liabilities	78	122	142	649
Equity	3,659	4,010	3,872	4,032
Paid-in Capital	2,053	2,288	2,287	2,317
Adjustments on Equity	280	276	278	272
Shares Premiums/Discounts	8	9	8	8
Non-Classified to Profit or Loss	107	82	62	94
Income or Expenses Classified to Profit or Loss	470	535	516	569
Retained Profit/Loss	368	388	415	526
Net Profit/Loss	372	433	306	246
TOTAL LIABILITIES	15,132	15,312	14,937	18,701

Source: TCMA

Bulk of brokerage firms' short term assets (cash and cash equivalents + short-term financial assets) are held in reverse repo transactions and bank deposits as shown in table 5.

Brokerage firms have TL 19 billion total liabilities. Short term financial liabilities make up TL 9 billion of this amount, while TL 5 billion is trade payables related to brokerage activities.

Table 5: Short Term Assets of Brokerage Firms (million TL)				
Financial Instruments	2014	2015	30.6.2015	30.6.2016
Repo and Deposits	8,262	7,584	7,603	10,158
Public Bonds & Bills	362	341	332	267
Corporate Bonds & Bills	427	392	316	515
Equities	167	209	165	294
Other	107	200	143	42
Total	9,325	8,726	8,559	11,276

Source: TCMA

Financial table details of brokerage firms show that, TL 5 billion of brokerage firms' short term liabilities are in the money markets, and TL 3 billion are bonds issued.

Since June 2015, the outstanding amount of bonds issued by brokerage firms has increased by more than TL 2 billion. In June

2015, 3 brokerage firms had issued bonds (İş, Oyak, Tera Investments) while in June 2016 this number reached 5, with the bond issuance of Ak and ve Yapı Kredi Investment.

INCOME STATEMENT OF BROKERAGE FIRMS

In the first half of 2016, brokerage firms' total revenues increased by 9% y-o-y to TL 1.1 billion.

The growth in revenues reflects rising brokerage commissions, which make two thirds of revenues.

Table 6: Breakdown of Brokerage Firms' Revenues (million TL)				
	2014	2015	30.6.2015	30.6.2016
Brokerage Commissions	1,017	1,319	673	759
Proprietary Trading	78	100	48	47
Corporate Finance	136	170	103	83
Asset Management	48	50	28	15
Customer's Interest	188	210	103	114
Other	119	154	69	99
Total	1,587	2,004	1,025	1,118

Source: TCMA

In the first half of 2016, brokerage commission increased by 13% to TL 759 million, mainly due to increased revenues from equity and derivatives trading. The effective commission rate on equity transactions (calculated by the net amount left to the brokerage firm) increased from 0.029% to 0.031% in the first half of 2016. This increase results from the change of Garanti Investment's agreement on order placement with Garanti Bank.

Commission revenue on derivative trading is increased by 41% to TL 108 million. This increase reflects the rising derivatives trading of a brokerage firm in international markets.

While leveraged FX trading volume increased by 31% y-o-y, increase in revenues

is limited with 9%. While in 2015, leveraged FX trading was the major source of brokerage revenues, in the first half of 2016, equity trading generated the largest brokerage revenues for the industry.

While 44 brokerage firms actively trades in leveraged FX trading two top performing brokerage firms (Integral and GCM) generated 29% of the revenues. Those firms constitute only 13% of the forex trading volume of customers.

In the first half of 2016, brokerage firms earned revenue of 47 million TL from proprietary trading.

Table 7: Breakdown of Brokerage Revenues (million TL)				
	2014	2015	30.6.2015	30.6.2016
Equities	495	539	301	331
Derivatives	130	157	77	108
Fixed Income	16	21	11	10
Forex	377	602	284	310
Total	1,017	1,319	673	759

Source: TCMA

The revenues from corporate finance activities declined by 20% y-o-y to TL 83 million. TL 50 million is generated by IPOs and bond issuances. One third of the total revenue was generated by İş Investment.

Table 8: Breakdown of Brokerage Firm's Corporate Finance Revenues (mn .TL)				
	2014	2015	30.6.2015	30.6.2016
IPO	100	93	48	50
M&A	13	43	34	16
Corporate Actions	2	3	2	2
Others	22	31	19	15
Total	136	170	103	83

Source: TCMA

With the portfolio transfer of mutual funds to asset management companies, asset management revenues decreased nearly by half to TL 15 million. Morgan Stanley Investment generated half of those revenues.

Table 9: Breakdown of Brokerage Firm's Operating Expenses (million TL)				
	2014	2015	30.6.2015	30.6.2016
Marketing, Sales, Distribution and R&D	176	300	127	187
Trading Commissions Paid to Exchanges	105	149	69	89
Other Marketing, Sales, Distribu. and R&D	71	151	57	98
Administrative	1,182	1,419	686	784
Salaries and Fringe Benefits	698	836	412	466
Depreciation Expenses	30	38	17	20
Depreciation Expenses on Intangible Assets	4	6	3	4
Membership Fees and Contributions	9	10	5	7
Commissions and Other Service Charges	40	45	20	17
Taxes and Other Legal Dues	64	85	40	39
Other Administrative Expenses	337	398	189	230
Total	1,358	1,718	812	971

Source: TCMA

In the first half of 2016, brokerage firms' total expenses increased by 20% y-o-y to TL 971 million. Marketing fees increased by half to reach TL 187 million.

In accordance with the increased number of employees, personnel expenses increased by 13% to TL 466 million. The average monthly cost of an employee stands at TL 11.635 in the first half of 2016.

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

	2014	2015	30.6.2015	30.6.2016
Sales Revenues (net)	192,296	185,115	104,184	91,038
Cost of Sales	-190,708	-183,111	-103,159	-89,920
Gross Profit/Loss	1,587	2,004	1,025	1,118
Marketing, Sales and Distribution Expenses	-176	-299	-126	-187
Administrative Expenses	-1,182	-1,419	-686	-784
Research & Development Expenses	0	-1	0	0
Other Operating Income	177	264	136	166
Other Operating Expenses	-125	-246	-139	-155
Operating Profit/Loss	281	303	209	157
Income from Investment Activities	8	39	39	0
Expenses from Investment Activities	0	-1	0	0
Profit/Loss From Participations	7	9	11	10
Profit/Loss Before Tax From Financial Expenses	296	351	260	167
Financial Income	779	788	408	522
Financial Expenses	-622	-606	-301	-392
P/L Before Tax From Continuing Operations	453	532	366	296
Continuing Operations Tax Income / Expense	-83	-100	-60	-50
Current Tax Income / Expense	-59	-89	-54	-42
Deferred Tax Income / Expense	-24	-11	-6	-8
Profit /Loss From Continuing Operations	370	433	306	246
Net P/L After Tax from Discontinued Operations	2	0	0	0
Net Profit /Loss	372	433	306	246

Source: TCMA

Despite the growth in revenues, due to increased costs operating profit of the industry decreased by 25% y-o-y to TL 157 million.

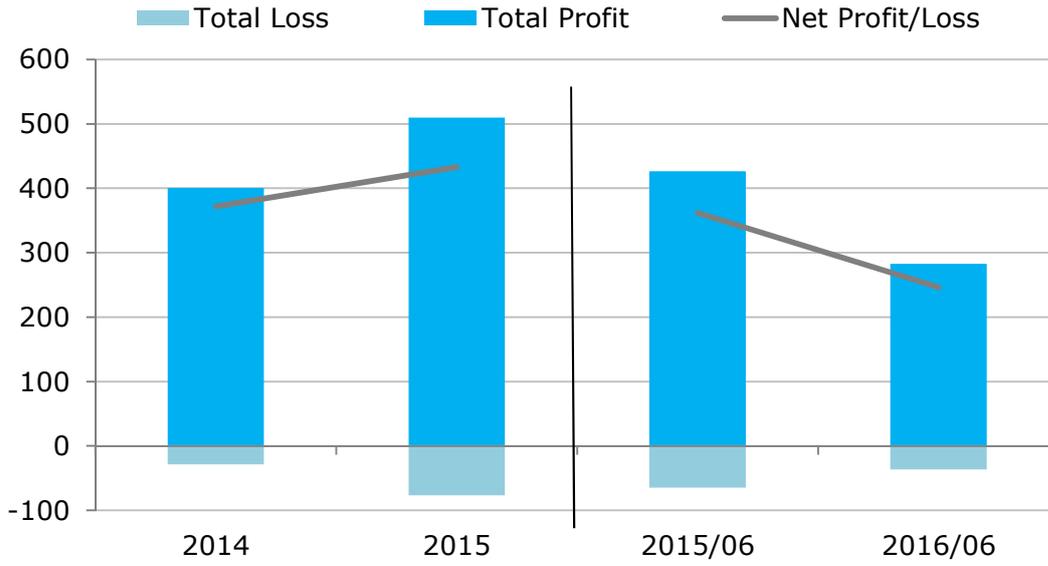
Income from investment activities reached TL 39 million last year due to the sale of a fixed asset. In 2016, those revenues stand only at TL 240,000. Net financial income increased by TL 23 million due to increased interest revenues from bank deposits.

At the bottom line, net profit of brokerage firms decreased by 20% y-o-y to 246 million TL.

The most profitable brokerage firms in the first half of the 2016 was İş Investment with TL 48 million profit and Yapı Kredi Investment with TL 41 million net profit.

Out of 70 brokerage firms, only 44 of them posted a profit as illustrated in Figure 22.

Figure 23: Brokerage Firms' Profits and Losses(million TL)



Source: TCMA

Due to increase in paid-in capital and decline in net profit, earning per share as of June 2016 decreased to TL 0.16. Similarly,

return of equity decreased to 9.4% in the first half of 2016, from 13.9% in June 2015.

	2014	2015	2015/06	2016/06
Return on Equity	10.7%	11.2%	13.9%	9.4%
Earnings Per Share (TL)	0.18	0.19	0.22	0.16

Source: TCMA

ASSET MANAGEMENT COMPANIES 2016/06

As of June 2016, 51 asset management companies' data were collected. 45 of them are currently offering asset manage-

ment services; whereas 6 newly established real estate asset management companies did not yet start operating.

ASSET MANAGEMENT

As of June 2016, asset management companies have 2,850 customers, 2,155 of them being individual investors. It is important to note that clients may have multiple accounts in several firms. The number of individual investors rose by 8% compared to March 2016, while their asset size rose by 4% to reach TL 3.6 billion.

With the increase in both mutual and pension funds, total asset under management rose by 21% y-o-y to TL 111 billion. Roughly 50% of the AUM is under pension funds while 39% are in mutual funds. Only

11% of the holdings come under the category of discretionary asset management. As of June 2016, the share of investment trusts in total AUM is less than 1%.

The direct government contribution to the private pension schemes resulted in a rapid increase in pension fund assets and pension funds portfolio exceeded that of mutual funds in the second half of 2014. Still, it is interesting to note that in the second quarter of 2016, assets of mutual funds rose by 8% to reach TL 44 billion, while pension funds grew by 6%.

Figure 1: Asset Management – No. of Investors



Source: TCMA

Market concentration remains high as of June 2016. İş Asset Management holds 21% and Ak Asset Management holds 16% of the total portfolio. Bank-owned top four asset management companies (İş, Ak, Yapı Kredi and Garanti Asset Management) have 62% of assets under management.

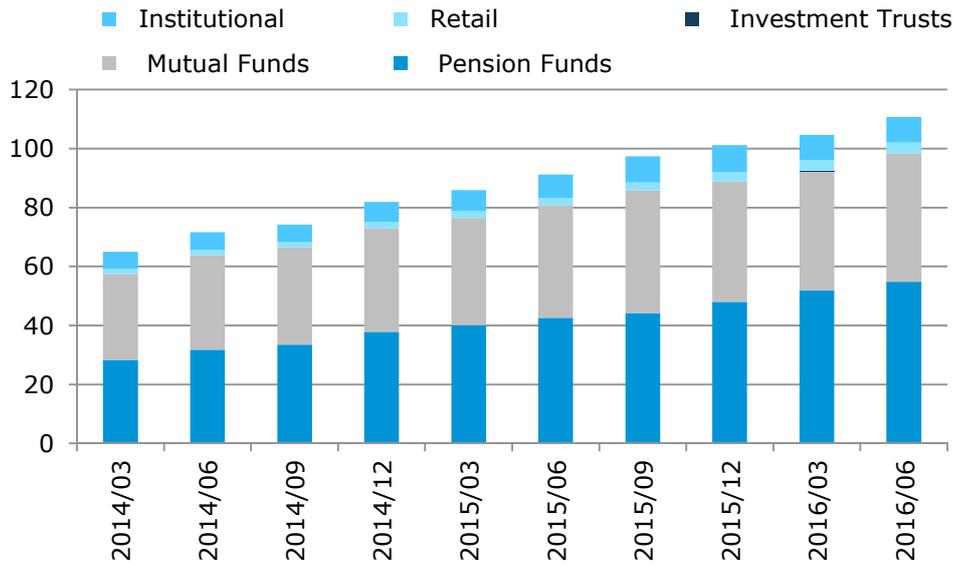
38 companies are managing mutual funds as of June 2016. İş Asset Management and Yapı Kredi Asset Management hold 40% of the mutual funds' portfolio. 11 asset management companies which have more than 1 billion TL assets under their management make up 92% of total mutual fund's portfolio.

As of June 2016, 21 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 management) have 55% in AUM. Out of 21 firms, only 6 of them are independent firms, but they represent only 3% of assets.

There is also a high concentration in discretionary asset management. Three bank-owned asset management companies (Ziraat, Ak and İş Asset Management) hold more than two thirds of the discretionary portfolio. Independent asset management companies have greater share in retail portfolio management with a market share of 42%.

Figure 2: Assets Under Management (billion TL)



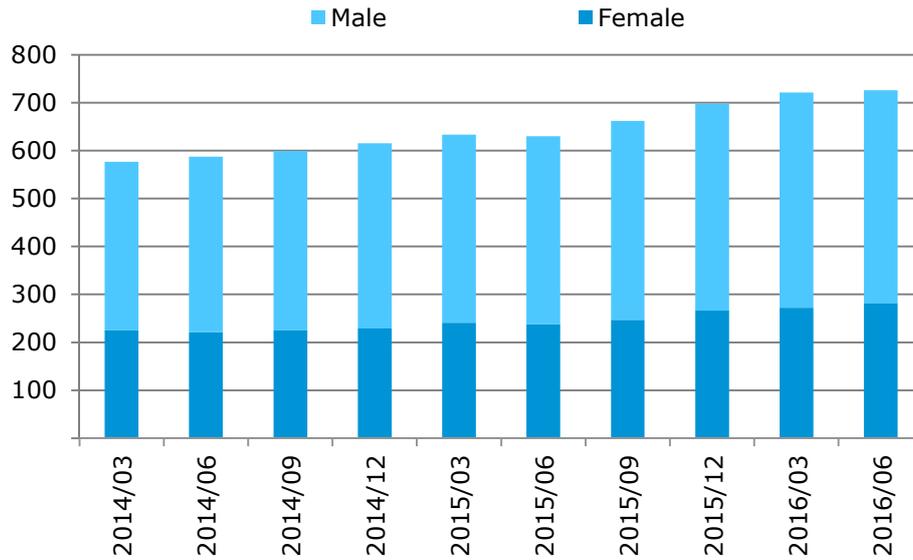
Source: TCMA

EMPLOYEES

In line with the increase in the number of companies operating in the asset management industry, the number of personnel increased to 726 in June 2016. Female employees constitute 39% of the workforce.

The average number of employees per asset management company stands at 14. Top 4 firms employ one third of the work force. Those firms represent 62% of assets under management.

Figure 3: Asset Management Companies' Employees



Source: TCMA

The biggest employer is Is Asset Management with 64 employees whereas the lowest number remains at 3 for the newly established firms. An average of 5 portfolio managers is employed in the industry. Personnel employed in the domestic sale department represent 11% of the total employees. Only one company has an international sales department which employs 2 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.

	Employee Breakdown			Average No. of Employees 2016/06
	2014	2015	2016/06	
CEO	6.0%	6.6%	7.0%	1.0
Portfolio Management	29.6%	29.8%	28.9%	4.7
Domestic Sales	11.1%	11.6%	11.2%	3.4
Financial Advisory	1.8%	2.7%	2.8%	1.7
International Sales	0.3%	0.4%	0.4%	3.0
Research	4.9%	5.2%	5.2%	1.7
Risk Management	3.9%	3.6%	3.9%	1.4
Fund Service Unit	6.5%	6.4%	7.0%	2.1
Financial & Admin.	16.7%	16.3%	15.6%	2.4
Internal Audit	7.6%	7.9%	8.4%	1.6
Human Resources	0.7%	0.9%	0.7%	1.7
IT	1.3%	1.5%	1.5%	1.6
Other	9.6%	7.2%	7.4%	2.3

Source: TCMA

FINANCIALS

As of June 2016 asset management companies' current assets measure TL 453 million. 93% of these assets consist of current

assets. 47% 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	2015/06	2016/06
Current Assets	373.3	472.4	382.5	452.3
Cash and Cash Equivalents	252.2	315.1	275.2	303.6
Financial Assets (Short-term)	72.9	96.5	68.8	103.6
Other Current Assets	0.0	0.1	0.0	0.0
Non-Current Assets	37.0	34.4	32.6	35.7
Tangible Assets	12.1	10.9	10.9	11.8
Financial Assets (Long-term)	11.8	10.6	10.4	10.9
Other Non-Current Assets	13.1	12.9	11.3	13.0
TOTAL ASSETS	410.3	506.8	415.1	488.0
Short-term Liabilities	40.1	44.7	30.7	34.4
Long-term Liabilities	5.5	6.2	5.6	7.3
Equity	364.7	455.9	378.9	446.3
Paid-in Capital	206.0	279.9	247.2	312.6
Adjustments on Equity	10.2	11.2	11.2	12.4
Share Premiums/Discounts	6.3	5.3	5.3	5.3
Other	0.9	0.4	0.3	0.8
Reserves on Retained Equities	61.7	67.4	74.4	76.5
Retained Profit/Loss	10.0	1.0	-1.6	-2.7
Net Profit/Loss	69.5	90.8	42.0	41.5
TOTAL LIABILITIES	410.3	506.8	415.1	488.0

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 160 million TL in the first half of 2016. TL 100 million was generated by mutual funds. While pension funds' asset size is bigger, revenues from pension fund management remained at TL 45 million. This difference indicates higher management fees for mutual funds (0.20%) as opposed to pension funds (0.47%).

Table 3: Breakdown of Asset Management Companies' Revenues (million TL)				
	2014	2015	2015/06	2016/06
Portfolio Management Commissions	227.8	290.2	136.9	156.1
Collective Portfolio Management	202.6	267.7	125.3	145.9
Mutual Funds	134.0	176.7	86.1	99.5
Investment Trusts	-	-	-	1.3
Pension Funds	68.6	91.0	39.2	45.1
Discretionary Portfolio Management	25.2	22.5	11.6	10.2
Retail	10.5	10.3	5.5	5.2
Corporate	14.7	12.2	6.1	5.0
Investment Consultancy Revenues	3.2	3.9	1.1	1.4
Mutual Fund Sales Revenues	0.0	0.0	0.0	0.07
TOTAL	231.0	294.1	138.0	157.5

Source: TCMA

Expenses

Asset management companies' administrative expenses rose by 26% in the first half of 2016 to reach TL 125 million. Personnel expenses which represent more than half of the expenses rose by 22%.

The average monthly cost of an employee increased 6% y-o-y to TL 17,055. On the other hand, per capita net profit is TL 57,169.

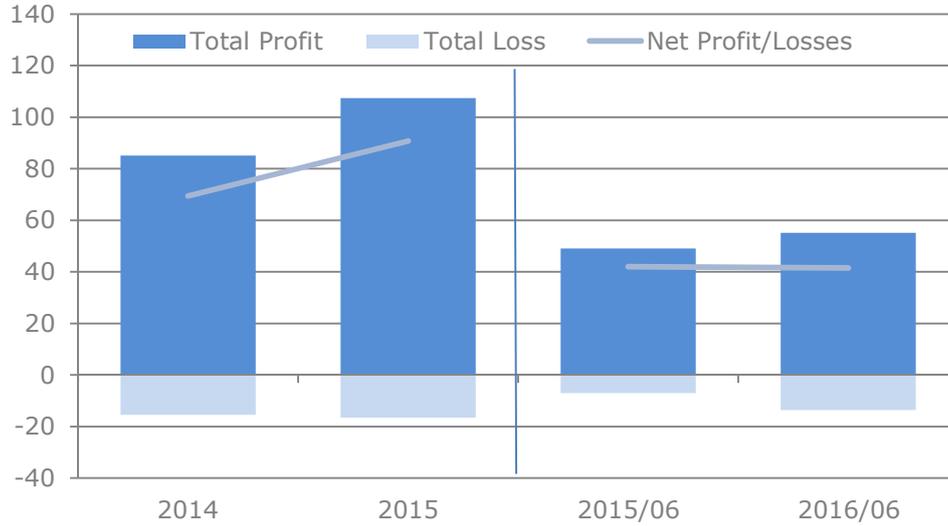
Table 4: Income Statement of Asset Management Companies (million TL)				
	2014	2015	2015/06	2016/06
Sales Revenues (net)	317.2	427.5	205.4	405.0
Cost of Sales	-87.2	-131.5	-70.7	-250.7
Profit/Loss from Commercial Activities	230.0	296.0	134.7	154.3
Gross Profit/Loss	230.0	296.0	134.7	154.3
Marketing, Sales and Distribution Expenses	-3.4	-4.0	-1.5	-2.0
Administrative Expenses	-169.7	-216.5	-99.6	-125.4
Salaries and Fringe Benefits	-109.7	-130.1	-60.2	-73.2
Research & Development Expenses	-0.1	0.0	0.0	0.0
Other Operating Income	9.3	13.9	7.5	9.4
Other Operating Expenses	-1.2	-1.6	-0.4	-1.5
Operating Profit/Loss	65.0	87.8	40.7	34.9
Income from Investment Activities	12.7	15.1	8.5	12.0
Expenses from Investment Activities	-1.9	-3.4	-3.3	-3.6
Profit/Loss Before Financial Expenses	75.8	99.5	45.8	43.2
Financial Income	20.8	19.2	8.7	12.4
Financial Expense	-7.0	-1.3	-0.6	-1.2
Profit/Loss Before Tax From Operations	89.6	117.3	54.0	54.4
Continuing Operations Tax Income / Expense	-20.1	-26.5	-12.0	-12.9
Current Tax Income / Expense	-22.2	-26.7	-11.1	-13.2
Deferred Tax Income / Expense	2.1	0.2	-0.9	0.3
Profit/Loss From Continuing Operations	69.5	90.8	42.0	41.5
Net Profit/Loss	69.5	90.8	42.0	41.5

Source: TCMA

While both revenues and expenses increased, net profit remained stagnant at TL 42 million. Of the 51 portfolio management companies, only 20 registered profits in

the first half on 2016. These companies generated 55 million TL in profits whereas 31 companies produced losses of 13 million TL.

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



Source: TCMA

The increase in the equity resulted in a management companies from 22.4% to a decline of the return on equity of the asset 21.4%.

Table 5: Profitability of Asset Management Companies				
	2014	2015	2015/06	2016/06
Return on Equity	23.5%	27.7%	22.4%	21.4%
Profit/Revenues	30.2%	30.7%	31.2%	26.9%

Source: TCMA

ISBN 978-975-6483-57-2

TURKISH CAPITAL MARKETS ASSOCIATION

Büyükdere Caddesi
No:173 1. Levent Plaza
A Blok Kat:4 34394
Levent/İstanbul

+90 212 280 8567
+90 212 280 8589
info@tspb.org.tr
www.tspb.org.tr

