Financial Services Sector in Turkey

October 2017
# Glossary of Terms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
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<td>AUM</td>
<td>Assets Under Management</td>
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<td>BIST</td>
<td>Borsa Istanbul</td>
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<td>BKM</td>
<td>Interbank Card Center</td>
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<td>BRSA</td>
<td>Banking Regulation and Supervision Agency</td>
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<td>CAGR</td>
<td>Compound Annual Growth Rate</td>
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<td>CAR</td>
<td>Capital Adequacy Ratio</td>
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<td>CBRT</td>
<td>Central Bank of the Republic of Turkey</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CMB</td>
<td>Capital Markets Board of Turkey</td>
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<td>CRD</td>
<td>Capital Requirements Directive</td>
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<td>EBRD</td>
<td>European Bank of Reconstruction and Development</td>
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<td>EGM</td>
<td>Pension Monitoring Center</td>
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<td>EIU</td>
<td>Economist Intelligence Unit</td>
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<td>EU</td>
<td>European Union</td>
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<td>FCI</td>
<td>Factors Chain International</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FİDER</td>
<td>Turkish Leasing Agency</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HATMER</td>
<td>Life Insurance Information and Monitoring Center</td>
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<tr>
<td>HAYMER</td>
<td>Insurance Claims Follow-up and Monitoring System</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>N/D</td>
<td>No Data</td>
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<tr>
<td>NPL</td>
<td>Non-Performing Loan</td>
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<td>O/N</td>
<td>Overnight</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>Q</td>
<td>Quarter</td>
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<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>SAGMER</td>
<td>Health Insurance Information and Monitoring Center</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>TBB</td>
<td>Turkish Bank Association</td>
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<td>TL</td>
<td>Turkish Lira</td>
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<tr>
<td>TSRB</td>
<td>Insurance Association of Turkey</td>
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<td>TCMA</td>
<td>Turkish Capital Markets Association</td>
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The Turkish financial sector proved resilient during the global financial turmoil in 2009 as well as the ensuing economic crisis thanks to the regulatory reforms and structural overhaul that the government implemented in the wake of the country’s own financial meltdown in the early 2000's. In fact, the reforms in the sector boosted investor confidence so much that financial services has become the preferred sector for FDI, attracting USD 49.6 billion during the past 15 years.

Banking dominates the Turkish financial sector, accounting for over 70 percent of overall financial services, while insurance services and other financial activities also show significant growth potential. There are 52 banks in Turkey (34 deposit banks, 13 development and investment banks, 5 participation banks). Out 52 banks, 21 hold significant foreign capital (30% of total assets are held by foreign investors).

An expanding loan base and favorable liquidity conditions contribute to the healthy growth of Turkey’s financial services. The sector enjoys a leading position in the world with an ever-growing asset size and strong equity structure protecting it against shocks that may arise from loans or turbulent market conditions.

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

A key driver of the Turkish financial sector has been its robust economy with a bright future. Over the past 14 years, Turkish economy has been growing with an average annual real GDP growth rate of approximately 5.6 per cent and the growth momentum is expected to continue. Turkey’s sizeable and diversified economy has achieved remarkable growth and became 13th largest economy in the world as of 2016.

Turkey’s economic growth has resulted in income growth and a growing robust middle class with increasing purchasing power.

As Turkish economy has expanded, it has integrated with the global economy with a staggering increase in its volume of international transactions. Such developments have further stimulated economic activity, thus expanded financial activities.

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

#### Milestones of Turkey's Financial Services Industry

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<tr>
<td>Banking Regulation And Supervision Agency (BRSA) founded</td>
<td>Regulation on Measurement and Evaluation of Capital Adequacy of Banks</td>
<td>Record profitability of the banking sector in Turkey</td>
<td>State-owned banks opened up participation banks</td>
</tr>
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<td>Consolidation of the Market from 100 Banks to 49 Banks</td>
<td></td>
<td>Law No. 6361 regarding Financial Leasing, Factoring and Financial Institutions</td>
<td>New regulatory framework for Payment and Electronic Money Institutions</td>
</tr>
<tr>
<td>Takasbank is Authorized by CMB as the National Numbering Agency of Turkey</td>
<td></td>
<td>Establishment of Insurance Information and Monitoring Center - TRAMER, SAGMER, HATMER, HAYMER</td>
<td>Electronic Fund Trading Platform of Turkey (TEFAS) began to operate</td>
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<td>Start of internet banking services</td>
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*Source:* BRSA, CMB
Turkish financial sector, led by banking, has been rapidly growing while attracting tremendous amount of foreign direct investment (FDI).

**Asset Size of Turkey’s Financial Sector (TL Billion)**

- **Banking**
- **Central Bank**
- **Insurance and Private Pension**
- **Other**

**CAGR 18%**

- 2008: 1.130
- 2009: 1.130
- 2010: 1.130
- 2011: 1.130
- 2012: 1.130
- 2013: 1.130
- 2014: 1.130
- 2015: 1.130
- 2016: 4.211

**FDI Flows into Turkish Financial Sector (Cumulative Value in $ Billion, 2002-2016)**

- **Banking**: 38.7
- **Central Bank**: 3.1
- **Insurance & Pension**: 7.8
- **Other**: Others*

**TOTAL**: $49.6 Billion

**FDI Flows into Turkish Financial Sector**

**CAGR 2008-2016**

<table>
<thead>
<tr>
<th>Sector</th>
<th>CAGR 2008-2016</th>
<th>Share 2016</th>
</tr>
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<tbody>
<tr>
<td>Banking</td>
<td>18</td>
<td>66</td>
</tr>
<tr>
<td>Central Bank</td>
<td>21</td>
<td>13</td>
</tr>
<tr>
<td>Insurance &amp; Pension</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>14</td>
<td>18</td>
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*Other includes: BIST capitalization, securities, consumer finance, real estate investments, investment trusts, asset management and venture capital investment trust assets.

Source: CBRT, BRSA, TCMA, IAT, CBRT, AFI, BIST

USD/TL as of 31.12.2016: 3.52

*Activities of Holding Companies and Other Activities Auxiliary to Financial Services
Turkish financial sector has been a magnet attracting significant amount of FDI.

**Greenfield FDI projects in Financial Services**

<table>
<thead>
<tr>
<th></th>
<th>Value ($ Billion)</th>
<th>Number</th>
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<tbody>
<tr>
<td>2003-2009</td>
<td>2.2</td>
<td>63</td>
</tr>
<tr>
<td>2010-2016</td>
<td>2.6</td>
<td>77</td>
</tr>
</tbody>
</table>

**M&As by foreign companies in Financial Services**

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<thead>
<tr>
<th></th>
<th>Value ($ Billion)</th>
<th>Number</th>
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<tbody>
<tr>
<td>2003-2009</td>
<td>23</td>
<td>69</td>
</tr>
<tr>
<td>2010-2016</td>
<td>19</td>
<td>67</td>
</tr>
</tbody>
</table>

“The Turkish banking industry is highly developed and competitive, in our segment in particular. Returns are important but for us the importance is mainly in its growth potential, the strategic location and export potential”

Sipko Schat
Executive board member responsible, Commercial banking, Rabobank.

Rabobank obtained banking license from Turkish authorities in 2013 with an initial capital investment of $300 million.

“Turkey is one of the fastest growing insurance markets worldwide, supported by a robust economic outlook and a large, young population. The transaction with Yapı Kredi is a unique opportunity to move into a market-leading position in one of Europe’s key growth markets which is also an important bridge between Europe and Middle East/Central Asia. This transaction fits perfectly into Allianz’s strategy to use bolt-on acquisitions to strengthen its position in growth markets.”

Oliver Bäte,
Member of the board of management of Allianz SE.

Allianz acquired 94% of YapıKredi Sigorta’s shares for USD 880 million and 80% of YapıKredi Bank’s pension business, YapıKredi Emeklilik, in March 2013.

Source: FDI Market, E&Y
Turkey’s foreign trade in financial & insurance services has significantly increased in recent years.

### Turkey’s Foreign Trade in Financial & Insurance Services

**Turkish Lira ($ Billion)**

- **Export**
- **Import**

#### Turkey’s Foreign Trade in Insurance & Pension Services

**Source:** CBRT

#### Turkey’s Foreign Trade in Financial Services

**Source:** CBRT
B. Banking and Financial Intermediary

i. Banking

ii. Financial Leasing

iii. Factoring

iv. Financing

v. Asset Management

vi. Payment Institutions

vii. Electronic Money Institutions
After the crisis in 2001, the Turkish banking sector was restructured and became one of the strongests in Europe.

Turkey enjoys strong asset growth with a stunning CAGR 19%, with a remarkable increase in the total assets to GDP ratio from 63% in 2005 to 105% in 2016. Despite that, Turkish banking sector is still unsaturated when compared with the Euro Area.

State-owned bank Ziraat is the leader in terms of total assets with TL 357 billion, followed by İş Bank with TL 312 billion.

**Top 5 Turkish Banks by Asset Size 2016 (TL Billion)**

- Ziraat Bank: 357
- İş Bank: 312
- Garanti Bank: 284
- Akbank: 271
- YapıKredi Bank: 253

**Source:** TBB, BRSA, Eurostat, ECB

Non-consolidated balance sheet
USD/TL as of 31.12.2016: 3.52
Islamic banking operations in Turkey started in mid 1980’s under the name of «Special Finance Houses». In 2005, these institutions were renamed as «Participation Banks» and allowed to conduct banking activities in compliance with Islamic principles. Today there are five participation banks operating in Turkey.

The total asset size of participation banks was more than TL 132 billion by the end of 2016, growing at an impressive CAGR of 27% since 2005. The share of participation banks in banking sector assets increased from 2.4% in 2005 to 4.9% in 2016.
Through the years, Turkish banking sector has attracted many foreign investors.

- As of end 2016, 34% of the banking assets were owned by public banks, 37% by private banks, 29% by foreign banks.

- The share of foreign banks in total assets increased from just 4% in 2004 to 29% in 2016 while the share of state owned bank decreased to 34% from 38%.

- As of June 2017, there are 52 banks in Turkey. There are a total of 34 savings banks, 13 development and investment banks and 5 participation banks.

- 5 of the deposit banks are state owned banks, namely, Ziraat Bankası, Halk Bankası, Vakıflar Bankası, Adabank and Birleşik Fon Bankası.

- Additionally, there are 4 state owned development and investment banks: İlbank, Takasbank (İstanbul Settlement and Custody Bank Inc.), Türk Eximbank and Development Bank of Turkey.

Source: BRSA
While Turkish banking sector has been growing at full speed, it has also diversified its funding sources.

**Banking Sector Growth (TL Billion)**

![Chart showing banking sector growth from 2004 to Dec-2016](chart1)

**Liabilities of Turkish Banks**

![Chart showing liabilities distribution for Turkish banks](chart2)

Source: BRSA

USD/TL as of 31.12.2016: 3.52
Loans have performed double-digit growth rates over the past decade.

- Cash and non-cash loans increased at a rate of CAGR 22% from 2006 to 2016. Non-cash loans surpassed TL 550 billion as of end 2016, while cash loans were more than TL 1,700 billion.

- SMEs are the backbone of the Turkish economy. Turkish banks started funding SMEs at an increased rate from 2006. Total SME loan amounts increased at a CAGR of 22% during this period with more than TL 420 billion in 2016.
New products offered by banks increased the amount of consumer loans...

- Total consumer loans increased substantially with a CAGR of 23% from 2005 to 2016 exceeding TL 418 billion.
- The increase in different loan product categories offered by banks supported the increase in consumer loans. Within this scope, the introduction of mortgage loans, which constitute more than 39% of total consumer loans, reached to more than TL 160 billion with a CAGR of 26% from 2005 to 2016.
Banks’ improved risk management keeps the NPL ratio around 3%, well-positioned vis-à-vis peer economies.

- Turkish banks have been barely affected by the global economic crisis of 2009, and were able to maintain low levels of NPL ratios. The NPL ratio of Turkish banks was 3.2% as of end 2016. The main reason for this level was the comprehensive risk management framework applied by the banks.
The solid capital structure of Turkish banks allowed the sector to enjoy high profits...

- The strong growth in the Turkish banking sector was also reflected in its profits exceeding TL 38 billion in 2016.

- The total interest income, which includes interest received from loans given, interest received from required reserves, interest received from other banks and interest received from money market transactions increased over TL 195 billion.

- The banking sector not only benefits from increased income from interest but also from fees collected from other banking activities. The share from fees, commissions and banking services is around 12%
The sector grew as a result of its strong asset quality and was able to maintain high profits...

- The Turkish banking sector's return on asset (ROA) ratio was stronger than that of banks in major financial centers as well as Eastern European countries. In 2016, ROA was 2.0% in Turkey.

- Moreover, return on equity was, again, well above that of the USA and Europe with 17.5% in 2016.
Turkey’s growing banking sector also resulted in the increase in the number of bank branches.

- The total number of branches increased at a CAGR of 5% between 2006 and 2016.
- The highest number of branches belongs to commercial banks, followed by participation banks and development banks.
- The per branch employee number decreased as a result of the increasing trend towards centralization of branch operations as well as the increase in automated functions, mobile and internet banking.

The development of the banking sector over recent years has affected the usage of cashpoints. As of end 2016, there were a total of 48,421 ATM cashpoints in Turkey.

- Between 2008 and 2016, the number of ATMs grew at a CAGR of 11%.

Source: BRSA, BKM
Banks also started focusing on alternative technologies that provide low cost and faster transaction services.

- The internet banking transaction value increased CAGR 22% between 2008 and 2016. Cash transfers had the lions’ share in total internet banking transactions with 72% and increased impressively by a CAGR of 24% from 2008 to 2016. Notwithstanding the large share from cash transfers, the fastest growth was observed in payments with a staggering growth performance of 32% CAGR.

- The mobile banking transaction values rose hundredfold since 2011 with CAGR of 145% and exceeded TL 1 trillion in 2016. It is noteworthy to mention the development of mobile phone users and the number of 3G/4G LTE phone subscribers. In 2016, the number of mobile banking users increased by 58% exceeding 19 million. 4G LTE service was launched by all operators in April 2016.
Transactions for both credit and debit cards have increased significantly...

- Turkey’s vibrant and growing economy had a positive impact on the development of credit and debit cards, providing significant potential for banks.

- The number of credit cards in Turkey increased at a CAGR of 4% between 2008 and 2016. And, a staggering CAGR of 16% was realized during this time in transaction volume reaching TL 601 billion in 2016.

- The rapid development was also observed for debit cards. In 2016, transaction volume reached TL 580 billion and the CAGR since 2008 was 18%.
"ICBC’s decision to enter the Turkish market in 2015 was aiming to develop financial service network between China and Turkey in order to tie economic relations between the countries due to its globalization strategy. Turkey, being the financial center between the West and East, offering advantages of growing economy and geographical location, enabled ICBC’s institutions to boom project-oriented financial services and strengthen the synergy between its already established commercial and financial partners."

**XU KEEN, Chairman of the Board of Directors ICBC Turkey,**

- ICBC Turkey Bank A.Ş. (formerly known as Tekstil Bankası A.Ş.) was incorporated as a privately owned bank in 1986 and shares of the Bank have started publicly trading in the Borsa İstanbul (BIST) as of 1990.
- GSD Holding A.Ş. acquired 75.5% of the Tekstil Bankası A.Ş.’s shares and became the majority shareholder in 2007; and the remaining shares at 24.5% continued to publicly trade in the BIST.
- Industrial Commercial Bank of China Limited (ICBC) and GSD holding came to an agreement in 2014 for the sale of 75.5% of the shares of the Bank.
- Shares were successfully transferred to ICBC on May 22nd, 2015.
- The corporate name of the Bank has been changed from "Tekstil Bankası A.Ş." to "ICBC Turkey Bank A.Ş."
- In 2016, ICBC Turkey’s total assets increased by 23% and reached to TL 8.2 billion. Similarly, deposits and loans of the Bank increased by 30% and 23% in the same year.

**Source:** ICBC Turkey
Financial Services Sector:
Selected Players

İş Bank
- Established in 1924 and is Turkey’s largest private bank.
- The bank’s shares are held by the İşbank Pension Fund, the Republican People’s Party and 32% of the shares were open to public.
- İş Bank’s total assets were TL 312 billion by the end of 2016.
- İş Bank’s products and services include retail, corporate banking and capital market operations and other financial services such as private pensions, insurance, asset management, leasing and factoring.

Garanti Bank
- Founded in 1946, Garanti is Turkey’s second largest private bank with total assets worth TL 284 billion by the end of 2016.
- Garanti is controlled by the Spanish bank BBVA, with Doğuş Holding having the minority shares.
- Garanti provides integrated financial services in every segment of banking and has subsidiaries for pension, life insurance, factoring, leasing, brokerage and asset management on both national and international levels.

Akbank
- Established in 1948 in Adana for cotton growers, Akbank is owned by Sabancı Holding and other shareholders
- Akbank provides consumer, commercial, SME, corporate and private banking services as well as foreign exchange, foreign trade financing and treasury transactions.
- The bank’s total assets reached approximately TL 271 billion by the end of 2016.

Ziraat Bank
- Homeland Funds, the origin of Ziraat Bank, was founded in 1863 to support farmers and agricultural development.
- The Republic of Turkey Prime Ministry Under secretariat of the Treasury is the sole owner of Ziraat Bank.
- Ziraat Bank is the largest bank in Turkey and has the most extensive network.
- Ziraat Bank’s total assets reached TL 357 billion by the end of 2016.

Source: Company websites
# Participation Banks: Selected Players

<table>
<thead>
<tr>
<th>Bank</th>
<th>Overview</th>
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| **Ziraat Katılım** | • Ziraat Katılım is Turkey’s first state-owned participation bank established in 2015  
• It operates in credit intermediation and related activities.  
• Türkiye Finans had assets worth TL 7.9 by the end of 2016.  
• The bank has retail, commercial and SME banking services for both national and international customers. |
| **Albaraka**    | • Established in 1984 by Albaraka Banking Group, Islamic Development Bank and other investors; it is a pioneer in participation banking in Turkey.  
• Albaraka had TL 32.8 billion of total assets as of end 2016.  
• Albaraka Türk offers its customers participation accounts, personal and corporate finance, leasing and project-based profit and loss sharing services. |
| **Kuveyt Türk** | • Kuveyt Türk started its activities in 1989.  
• It is owned by Kuwait Finance House, the Public Institution for Social Security of Kuwait, the Turkish Directorate General of Foundations and the Islamic Development Bank.  
• Kuveyt Türk’s total assets were TL 48.4 billion in 2016.  
• The bank’s main products are current and participation accounts, investment and saving accounts and leasing. |

**Source:** Company websites
Turkey’s leasing transaction volume reached USD 7.7 billion in 2015, which means approximately 10% CAGR since 2011. Despite the huge growth in Turkey’s leasing sector, it is still underpenetrated but significant upside potential as leasing asset size grows.

The total asset size grew at an impressive CAGR of 14% from 2007 to 2016 to more than TL 44 billion.

Furthermore, participation banks in Turkey can also conduct financial leasing operations on tangible items.
Real estate had the highest share in financial leasing with 28% in 2015.

The Turkish government promotes financial leasing operations. As of December 2011, it reduced the VAT applied for leasing operations to 1% for leasers that have investment incentive documents. The items that can be leased include steam boilers, steam turbines, concrete pumps and centrifuges among other items. In light of this support, financial leasing receivables steadily increased.

Financial leasing receivables increased at CAGR of 17.6% between 2008 and 2016 exceeding TL 51 billion in 2016.

Leasing of construction equipment had the highest share in terms of investment amount with 25%, followed by real estate with 24%.

Source: BRSA, FKB
### Leasing Sector Operational Figures

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</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>32</td>
<td>29</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Number of Branches</td>
<td>69</td>
<td>72</td>
<td>75</td>
<td>117</td>
<td>138</td>
<td>143</td>
<td>141</td>
</tr>
<tr>
<td>Number of Personnel</td>
<td>1,286</td>
<td>1,217</td>
<td>1,258</td>
<td>1,361</td>
<td>1,458</td>
<td>1,504</td>
<td>1,519</td>
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<tr>
<td>Number of Clients</td>
<td>50,428</td>
<td>43,294</td>
<td>45,089</td>
<td>46,752</td>
<td>52,041</td>
<td>56,396</td>
<td>58,373</td>
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<tr>
<td>Number of Contracts</td>
<td>10,186</td>
<td>14,648</td>
<td>17,787</td>
<td>19,790</td>
<td>20,302</td>
<td>23,124</td>
<td>23,751</td>
</tr>
</tbody>
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- The leasing sector in Turkey makes up a significant part of the non-banking sector with 23,751 contracts in 2016.
- In 2016, the number of skilled personnel in the leasing sector was 1,519 and the total number of clients was 58,373.
- With 26 institutions all across Turkey, leasing companies provide necessary services to their clients.
The leasing sector is a promising one with 14% growth in revenues in 2016 compared to 2015.

- Revenues in the leasing sector in Turkey have been increasing since 2009.
- As of 2016, leasing revenues were TL 3,127 million, which corresponds to a 14% increase compared to the previous year and 9% CAGR since 2008.
- Net profit increased from TL 809 million to TL 922 million in 2016.

**Leasing Revenues and Net Profits/Loss (TL Million)**

- Leasing Revenues
- Net Profit/Loss

Source: BRSA

USD/TL average for 2016: 3.02
# Leasing Sector:

## Selected Players

### BNP PARIBAS Leasing Solutions
- BNP Paribas Leasing Solutions, a global leader in financial services, signed a cooperation agreement with TEB Leasing in 2005.
- In 2009, BNP acquired Fortis Leasing.
- TEB Leasing and Fortis Leasing then merged under the umbrella of BNP Paribas Finansal Kiralama A.Ş. in 2011.
- BNP leases medical and data processing equipment, energy facilities, transport vehicles, construction machinery and real estate. Its total assets in 2016 was TL 3.1 million.

### SIEMENS AG Leasing
- Siemens Finansal Kiralama A.Ş. was established in 1997 by Siemens AG Leasing, which has offices in more than 20 countries.
- Siemens leases printing machines, textile, tourism and office equipment, transport vehicles, computers and software, cranes and construction machinery, power stations and communication and security systems.

### GARANTI Leasing
- Garanti Leasing was founded in 1990.
- It uses Garanti Bank branches as a distribution channel. In 2007, Garanti Leasing founded Garanti Fleet.
- Garanti Leasing aims to become the first Turkish leasing company to open offices overseas.
- Business premises, real estate, medical and office equipment, construction, textile and manufacturing machinery can be leased from Garanti Leasing.
- Garanti Leasing’s total assets in 2016 amounted to TL 5.5 million.

### YATIRIM Leasing
- Yatırım Leasing was founded in 1993. It joined TETAŞ Group in 2004. The company offers its clients investment services in different sizes and terms and consultancy to promote leasing activities in Turkey.
- Yatırım Leasing provides financing for capital such as medical and construction equipment, press and packaging, appliances for metals and textile sectors.
- The company’s total assets were TL 96.4 million in 2016.

Source: Company Websites
The assets in the factoring sector in Turkey have been increasing significantly, reaching TL 33.1 billion in 2016.

- In Turkey, factoring was introduced in 1988 to support manufacturers’ export activities. One of the major advantages of factoring is its ability to provide companies with immediate cash flow for their accounts receivable.
- Turkish factoring sector has been growing with a CAGR of 20% between 2008 and 2016, reaching TL 33.1 billion by the end of 2016.
- Receivables in the sector grow with a CAGR of 17% since 2011.
Factoring revenues increased by 17% in 2016 demonstrating a vast potential in the sector.

- The revenue and net profit of the factoring sector have been increasing since 2009.
- Compared to 2009, factoring revenues increased 220% reaching TL 4.3 billion in 2016.
- The net profits in factoring reached TL 665 million in 2016.

Factoring Revenues and Net Profit (TL Billion)

![Graph showing factoring revenues and net profit from 2008 to 2016, with a significant increase in both metrics from 2014 to 2016.]

Source: BRSA

USD/TL average for 2016: 3.02
The total numbers of clients and contracts have been increasing in the factoring sector demonstrating its high service potential.

<table>
<thead>
<tr>
<th>Factoring Sector Operational Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Number of Companies</td>
</tr>
<tr>
<td>75 78 76 76 66 62</td>
</tr>
<tr>
<td>Number of Agencies &amp; Branches</td>
</tr>
<tr>
<td>243 247 319 366 379 360</td>
</tr>
<tr>
<td>Number of Personnel</td>
</tr>
<tr>
<td>3,819 4,186 4,650 4,980 4,804 4,716</td>
</tr>
<tr>
<td>Number of Clients</td>
</tr>
<tr>
<td>91,029 84,769 87,624 93,327 95,416 98,908</td>
</tr>
</tbody>
</table>

- The table above provides some of the most crucial operational figures of the factoring sector. The sector continued its growth between 2011 and 2016 in almost every operational activity.
- For example, the number of branches and agencies in the factoring sector increased from 243 in 2011 to 360 in 2016. This also resulted in the increase of highly skilled personnel in this field reaching a total of 4,716, which is a 23% increase compared to 2011.

Source: BRSA
### Factoring Sector: Selected Players

<table>
<thead>
<tr>
<th>Company</th>
<th>Establishment Year</th>
<th>Services Provided</th>
<th>Key Facts</th>
</tr>
</thead>
</table>
| **Garanti Factoring** | 1990               | Factoring services to industrial and commercial companies. | - Garanti Factoring was established in 1990 in order to provide factoring services to industrial and commercial companies.  
- Garanti Factoring open edits shares to the public in 1993 and is traded on Borsa Istanbul.  
- The company currently has 20 branches in 14 cities of Turkey.  
- The total assets of the company were TL 2.9 billion in 2016. |
| **YapıKredi Factoring** | 1999               | Factors commercial companies and more than 90% of its customer base is small and medium size enterprises. | - YapıKredi Factoring was established in 1999.  
- The company provides services to commercial companies and more than 90% of its customer base is small and medium size enterprises.  
- YapıKredi Factoring is an active member of both the Factoring Association and Factors Chain International (FCI).  
- In 2016, the total assets of YapıKredi Factoring were TL 3.1 billion. |
| **TEB Factoring**   | 1997               | Domestic and international factoring services. | - TEB Factoring was established in Turkey in 1997.  
- The company provides factoring services domestically and internationally.  
- Since 1998, TEB Factoring is a member of the Factors Chain International.  
- The total assets of TEB Factoring in 2016 amounted to TL 1.7 billion. |

*Source: Company Websites*
Turkish consumer financing sector has been constantly growing since 2009.

- One of the main advantages of consumer financing companies is their ability to provide fast and efficient loans for their customers. Most consumer financing companies in Turkey are focused on specific financing fields such as car loans or mortgages, which allow them to serve their customers faster and with a variety of choices targeted to them.

- Also, it is important to note that with the amendment of Law No. 6361 regarding "Leasing, Factoring and Financing Company Law," new benefits were introduced in the consumer financing sector in 2012.

- According to the law, financing companies now have the title of credit institutions and are now allowed to provide cash loan up to 5% of their total assets.

- As of 2016, total assets for the consumer financing sector was TL 32.8 billion increasing by 21% compared to the previous year.

- Non-performing loans (NPLs) ratio in the sector has been relatively low, revolving around 3%.
## Major Players

<table>
<thead>
<tr>
<th>Name</th>
<th>Web Page</th>
<th>What They Do</th>
</tr>
</thead>
<tbody>
<tr>
<td>DD Mortgage</td>
<td><a href="http://www.ddm.com.tr">http://www.ddm.com.tr</a></td>
<td>Founded in 2006 by Doğan Holding and Deutsche Bank as the first mortgage company of Turkey.</td>
</tr>
<tr>
<td>VDF</td>
<td><a href="http://www.vdf.com.tr/">http://www.vdf.com.tr/</a></td>
<td>Established in 1999 by Volkswagen and Doğuş Finans, VDF offers 5 types of credit covering 7 brands for its customers across Turkey.</td>
</tr>
<tr>
<td>Şeker Finans</td>
<td><a href="https://sekerfinans.com.tr/">https://sekerfinans.com.tr/</a></td>
<td>Şeker Finans started its operations in 2008 under the name Istanbul Finans and then merged with Şekerbank in 2010. It offers mortgage and renovation work loans.</td>
</tr>
<tr>
<td>EXIMbank</td>
<td><a href="http://www.eximbank.gov.tr">http://www.eximbank.gov.tr</a></td>
<td>In 2015, it provided USD 21.7 billion loans, USD 13.7 billion insurance. Its total financial support accounted for 20.4% of Turkey’s exports. As of 2015, it has total assets worth of TL 44.4 billion.</td>
</tr>
<tr>
<td>Koçfinans</td>
<td><a href="http://www.kocfinans.com.tr/">http://www.kocfinans.com.tr/</a></td>
<td>Koçfinans offers its customers car, mortgage and education loans. Since its founding in 1995, the company has provided credit for more than 3.8 million customers, approximately USD 11 billion worth of loans.</td>
</tr>
<tr>
<td>Koç Fiat Kredi</td>
<td><a href="https://www.kocfiatkredi.com.tr">https://www.kocfiatkredi.com.tr</a></td>
<td>Koç Fiat Kredi was founded in 2000 by Koç Holding and Fiat and was later bought by Tofaş Türk Otomobil Fabrikaları A.Ş. It is a captive finance company serving 4 brands. In 2016, the company made loans worth of TL 2.3 billion.</td>
</tr>
<tr>
<td>Orfin</td>
<td><a href="http://www.orfin.com.tr/">http://www.orfin.com.tr/</a></td>
<td>Orfin has been operating since 2011 and has a financial portfolio of products worth EUR 22.5 billion worldwide. In Turkey, the company has TL 192 million shareholders equity and offers its services for the sales of the Renault and Dacia brands.</td>
</tr>
<tr>
<td>TEB Cetelem</td>
<td><a href="http://www.tebcetelem.com.tr/">http://www.tebcetelem.com.tr/</a></td>
<td>TEB Cetelem was the product of the partnership between TEB Financial Investments A.Ş and BNP Paribas Personal Finance, which has been active in Turkey since 1995.</td>
</tr>
<tr>
<td>Tarım Kredi</td>
<td><a href="http://tarimkredi.org.tr/">http://tarimkredi.org.tr/</a></td>
<td>Since 1863 the cooperative has given general purpose loans for agricultural producers including loans for pesticides, fertilizers, animal husbandry, oil, and irrigation up to TL 50,000, which is to be repaid in 1 - 4 years with interest rates varying between 8 or 10%.</td>
</tr>
</tbody>
</table>

Source: Company Websites
NPL management to create value for the financial system

• Asset Management Companies are licensed and regulated by the BRSA
  ➢ to collect NPL portfolios with different loan types and security structures
    ➢ loans
    ➢ credit card receivables
    ➢ and other assets of
guidelines financial institutions including banks, leasing companies and others.
  ➢ by using their own capital or issuing bonds
  ➢ to liquidate or resell by restructuring

Functions of Asset Management Companies
→ clean-up of banks’ balance sheets
→ provide liquidity to financial system
→ Restore financial customers to good financial health

• There are 12 Asset Management companies in Turkey
Alternative payment systems have been emerging in Turkey

- **Payment Institutions** are licensed and regulated by the BRSA
- Maturing financial markets, developing fintech ecosystem and growing e-commerce market made it attractive for banks and non-bank institutions to operate in alternative payment systems
- There are 27 payments institutions operating in Turkey
- Services provided by Payment Institutions:
  - Virtual POS
  - Fraud Protection
  - Mobile Payments
  - Marketplace solutions
  - Invoice Payments
- On top of the services provided by Payment Institutions, Electronic Money Institutions are allowed to issue Electronic Money which is a digital equivalent of cash.
- There are 8 Electronic Money Institutions operating in Turkey.

**E-commerce Transactions (2012-2016)**

- Number of Transactions (million)
- Volume of Transactions (billion TL) (RHS)

Source: BKM Banking and Financial Intermediary
C. Capital Markets

i. Borsa Istanbul

ii. Brokerage

iii. Portfolio Management

iv. Investment Trusts

v. Funds (Investment and Pension)
A brief timeline of developments in Turkish Capital Markets

- Capital Markets Law passed
- CMB was established
- Istanbul Stock Exchange was established
- Liberalization of Foreign Investment
- Fully automated trading started
- Corporate Governance Principles were published
- First Islamic Bond was issued
- New IFRS regulation was adopted
- Public Disclosure Platform was introduced
- First ETF was established
- New Capital Markets Law passed
- ISE demutualized and transformed to Borsa Istanbul
- Borsa Istanbul merged with Istanbul Gold Exchange and Derivatives Exchange
- Electronic Fund Distribution Platform of Turkey (TEFAS) began to operate

**Capital Markets Board**

**Institutions**
- Banks
- Brokerage Firms
- Portfolio Management Companies
- Investment Trusts

**Products**
- Equity Market
- Debt Market
- Public Companies
- Listed Companies
- Funds (TEFAS)
- Public Offering of Equities
- Public Offering of Corporate Debt

**Infrastructure Providers**
- Takasbank
- Central Registration Agency
- Licensing and Training Agency
- Rating Companies and Independent Audit Companies
Regulatory Framework of the Turkish Capital Markets

**Capital Markets Law (CML)**
- CML is in accordance with EU regulations
- The goal is to have a robust and well-functioning capital markets while strengthening the investor protection
- CML defines capital market activities and types of institutions allowed to operate in capital markets

**Capital Markets Board (CMB)**
- CMB is the regulatory and supervisory authority in the Turkish Capital Markets
- CMB aims to ensure the safe, fair, effective and orderly functioning of the capital markets while protecting investor rights
- CMB regulates and supervises
  - «Capital Users» and «Capital Providers»
  - Intermediaries and Instruments
  - Market Infrastructure Providers

**Intermediaries and Instruments**
- Brokerage Firms
- Portfolio Management Companies
- Investment Trusts
- Funds

**Market Infrastructure Providers**
In Turkey, only brokerage firms are allowed to trade equities.

**Brokerage Firms Fact Sheet**

- As of 2016, there are 66 brokerage firms performing in the equity market.
- 76% of the total share of the trading volume in the equity market was generated by domestic individuals, corporations and institutional investors. Foreign investors contributed 24% of total trading volume.
- In the derivatives exchange market, 66 brokerage firms were operating as of 2016. The total trading volume of intermediaries was TL 1.1 trillion in 2016. 72% of the trades were made by domestic investors and 28% by foreign investors.

**Total Assets of Brokerage Firms (USD Billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets (USD Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>4.2</td>
</tr>
<tr>
<td>2012</td>
<td>6.4</td>
</tr>
<tr>
<td>2013</td>
<td>6.5</td>
</tr>
<tr>
<td>2014</td>
<td>6.5</td>
</tr>
<tr>
<td>2015</td>
<td>5.3</td>
</tr>
<tr>
<td>2016</td>
<td>6.0</td>
</tr>
</tbody>
</table>

**Breakdown of Revenue for Brokerage Firms (2016)**

- Brokerage Commissions: 70%
- Revenues from Services: 19%
- Proprietary Trading Profit/Loss: 7%
- Other Revenues: 5%

Source: TCMA
Turkey’s Portfolio Management industry has a higher potential than that of its peers...

### Types of Portfolio Management Companies

<table>
<thead>
<tr>
<th>Portfolio Management Companies</th>
<th>Real Estate Portfolio Management Companies</th>
<th>Venture Capital Portfolio Management Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Establish and manage</td>
<td>• Establish and manage</td>
<td>• Establish and manage</td>
</tr>
<tr>
<td>• Securities Mutual Funds</td>
<td>• Real Estate Investment Funds</td>
<td>• Venture Capital Investment Funds</td>
</tr>
<tr>
<td>• Foreign Mutual Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Pension Mutual Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Guaranteed Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Protected Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Investment Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Real Estate Investment Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Venture Capital Investment Funds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 50 Portfolio management companies
- Total Portfolio size is 34.6 billion USD (TL 122 billion)
- 19% CAGR of portfolio size since the global financial crisis
- 211 portfolio managers
- TL 333 million of Portfolio Management Commissions
- TL 3.5 million Investment Consultancy Revenues

Source: CMB, TCMA
Turkey’s Portfolio Management industry has a higher potential than that of its peers...

- Total portfolio size of portfolio management companies has been increasing with a CAGR of 24% since 2002 and reached 122 billion TL (35 billion USD) at the end of 2016.
- On the other hand, total portfolio size/GDP ratio is on upward trend and increased to 4.7%.
- Besides, the ratio still lags behind that of other developed and developing European countries, which means a higher potential for future growth.

Source: CMB, TCMA, EFAMA
Net asset value of Investment Trusts more than doubled in the last 6 years...

Investment Trusts
- Investment Trusts are close-ended joint-stock companies with a fixed number of shares which manage portfolio of capital market instruments and real estates.
- There are 3 types of Investment Trusts
  - **Securities Investment Trusts (SIT):** Securities Investment Trusts are required to invest at least 25% of their assets in equities that are issued by Turkish companies.
  - **Real Estate Investment Trusts (REIT):** Real Estate Investment Trusts manage a portfolio composed of real estates, real estate projects, real estate-based rights, infrastructural investments and services, and other capital market and Money market instruments.
  - **Venture Capital Investment Trusts (VCIT):** Venture Capital Investment Trusts can purchase stocks and borrowing instruments issued by the entrepreneur companies, issue borrowing instruments, participate in the active management of the entrepreneur company, and invest in other venture capital investment trusts.
- Investment trusts may employ portfolio managers to manage their own portfolios. They can also get portfolio management or investment advisory service from Portfolio Management Companies.
- Investors trade shares of investment trusts in the stock Exchange. They are paid dividends at the end of the years.

Net Asset Value of Investment Trusts

<table>
<thead>
<tr>
<th>Year</th>
<th>SIT (Billions TRY)</th>
<th>REIT (Billions TRY)</th>
<th>VCIT (Billions TRY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>12.9</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>20.0</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>23.7</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>22.9</td>
<td>22.9</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>26.4</td>
<td>26.4</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CMB
43 companies are managing mutual funds as of December 2016...

Mutual Funds

- Mutual funds are established in the form of open-end investment companies in Turkey.
- They do not have any legal entity.
- There are two different types of mutual funds in Turkey, Type A and Type B.
  - Type A mutual funds are required to invest at least 25% of their assets in equities that are issued by Turkish companies.
  - Mutual funds that have no such obligations are classified as Type B mutual funds.
- Kinds of mutual funds are classified according to their asset allocation such as
  - Securities
  - Foreign
  - Guaranteed
  - Protected
  - Investment
- There are 384 mutual funds as of December 2016 with a net asset value of TL 43.8 billion.
A new investment fund instrument for Turkey: Real Estate Investment Funds...

**Real Estate Investment Funds (REIFs):**
- established and managed by Portfolio Management Companies or Real Estate Portfolio Management Companies.
- can be sold to Qualified Investors
- REIFs are allowed to engage only in management of portfolios comprised of the following assets and transactions:
  - Real estates and property rights,
  - Private and public debt instruments, and shares of joint-stock companies established in Turkey
  - Foreign private and public debt instruments and joint-stock company shares
  - Time deposit and participation account;
  - Investment fund units;
  - Repo and reverse repo transactions;
  - Warrants and certificates;
  - Lease certificates and real estate certificates;
  - Settlement and Custody Bank Money transactions;
  - Cash collaterals and premiums of derivative transactions;
  - Specially designed foreign investment instruments and loan participation notes deemed appropriate by the Board,
  - Other investment instruments deemed appropriate by the Board.
- at least 80% of the portfolio of a REIF should be invested in real estate.
An investment fund focused on ventures...

**Venture Capital Investment Funds (VCIFs):**
- established and managed by Portfolio Management Companies or Venture Capital Portfolio Management Companies.
- can be sold to Qualified Investors
- VCIFs are allowed to engage only in management of portfolios comprised of the following assets and transactions:
  - Venture capital investments
  - Private and public debt instruments, and shares of joint-stock companies established in Turkey
  - Foreign private and public debt instruments and joint-stock company shares
  - Time deposit and participation account;
  - Investment fund units;
  - Repo and reverse repo transactions;
  - Warrants and certificates;
  - Lease certificates and real estate certificates;
  - Settlement and Custody Bank Money transactions;
  - Cash collaterals and premiums of derivative transactions;
  - Specially designed foreign investment instruments and loan participation notes deemed appropriate by the Board,
  - Other investment instruments deemed appropriate by the Board.
- at least 80% of the portfolio of a VCIF should be invested in ventures.

Net Asset Value, 2016

TL 73.9 million

Source: CMB
Pension reform unlocked Turkey’s potential in Pension Funds...

**Pension Funds:**
- can be established by Pension companies
- it is an investment product like mutual funds, run just specifically for individuals who have decided to participate in individual retirement system.
- The contributions collected from the individuals are transmitted to pension funds which are established as the structure of a mutual fund.
- the participants are entitled to choose among a wide range of funds
- Funds are managed by Portfolio Management companies.
- There are 263 pension funds in Turkey as of December 2016 with a total asset value of TL 58.5 billion.
- Auto-enrolment in private pension plans has recently been introduced which offers significant growth opportunity for pension funds.

### Consolidated Portfolio Structure of Pension Funds as of December 2016

- Government Bonds 45%
- Corporate Bonds 7%
- Foreign Securities 10%
- Reverse Repo 1%
- Money Market Instruments 10%
- Others 15%
- Stocks 12%

### Source:
CMB, EGM
**TEFAS: A new platform for Funds trading**

**TEFAS**

- TEFAS is an electronic platform which provides access to all mutual funds

- All individuals and institutional investors with an investment account can use TEFAS to trade mutual funds founded by any Portfolio Management Company

- TEFAS allows the investors to reach competitive statistics

**Total Volume, 2016**

- TL 21.6 billion

**Number of Institutions, 2016**

- Brokerage: 25
- Portfolio Management: 14
- Participation Banks: 2
- Banks: 18

**Number of Funds, 2016**

- Mixed Funds: 6
- Money Market Funds: 3
- Debt Funds: 72
- Equity Funds: 68
- Precious Metals Funds: 11
- Basket Funds: 13
- Participation Funds: 23
- Variable Funds: 61

**Source:** TEFAS
Case Study: BIST, a fully integrated Exchange

SHAREHOLDERS
- Turkish Capital Markets Assoc. 1.3%
- Nasdaq OMX 7.0%
- EBRD 10%
- Others 8.1%
- Turkiye Wealth Fund 73.6%

MARKET DATA & INDICES
- 190k users of market data products
- 383 index types (equity indices, debt securities indices, sustainability index etc.)

LISTINGS
- Domestic and foreign IPOs/SPOs
- Debt securities (e.g., corporate bonds, sukuk)
- 405 listed companies
- USD 169 Bn Market Capitalization

TRADING
- Equity
  - stocks, rights coupons, ETFs, warrants and certificates
  - Over 1 million equity investor pool with +280 billion USD trading volume in 2016
- Debt Securities
  - Government bonds, corporate bonds, Eurobonds, sukuk, repo transactions
  - 3.2 trillion USD traded value in 2016
- Derivatives
  - options on equity, index, currency and futures on equity, index, precious metals, commodity, power, foreign indices, ETFs etc.
  - +170 Bn USD traded value in 2016
- Precious Metals and Stones
  - gold, silver, palladium, platinum
  - 9 Bn USD traded value in 2016

CLEARING & SETTLEMENT
Takas Istanbul (Istanbul Settlement and Custody Bank)
- CCP of Turkish Capital Markets
- Borsa İstanbul’s share in Takas Istanbul: 63.04%

VERTICAL INTEGRATION
- Borsa İstanbul brings together all the exchanges operating in the Turkish capital markets under a single roof.
  - Transparent
  - Efficient
  - Reliable
  - Accessible markets
- Borsa İstanbul is on its road to be a world-exchange technology which linkes with other markets. This vision will add value to the drive of making Istanbul an international financial center.

REGISTRY
Merkezi Kayıt İstanbul (M KK)
Borsa İstanbul’s share in MKK: 30.1 % (total share: 70.5%)
Takas Istanbul’s share in MKK: 64.9%
Borsa Istanbul has liquidity of 200%, which exceeds emerging market exchanges.

BIST is the Turkish stock exchange located in Istanbul. There are 405 companies that are quoted on Borsa Istanbul. The exchange aims to have 1,000 companies listed from a minimum of 10 different countries by 2023. Thus strengthening its position and ensuring its competitiveness on the global arena.

- BIST had a market value of USD 158 billion and a annual trading volume of more than USD 325 billion as of December 2016.
- BIST has a higher market value and trading volume from other major peer exchanges in the region. However, compared to developed markets there is considerable growth potential.
- BIST’s liquidity was higher with a 200% trading volume to market value ratio.

![Comparison of Exchanges (2016)](image)

Source: WFE, IMF
Borsa Istanbul: An attractive place for fund raising

Number of Public Offerings

Total Value of Public Offerings (USD Billion)

Number of Corporate Debt Issuances

Total Value of Corporate Debt Issuances

Source: CMB, Borsa Istanbul, TCMA
D. Insurance

i. Non-Life Insurance

ii. Life Insurance and Pensions
The premiums to GDP ratio in Turkey is low, demonstrating potential for growth in the future years.

- Turkey’s total premiums as a percentage of GDP is 1.55%.
- The insurance market is still underpenetrated compared to peer countries and will provide significant potential as new insurers set up shop and acquire a share of the relatively untapped Turkish market. Turkey has seen strong economic growth fueled in part by a young and dynamic population that is increasingly in need of financial products and services.

**Total Premiums as a Percentage of GDP, Country Comparison (2015)**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>1.41%</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.55%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2.18%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3.27%</td>
</tr>
<tr>
<td>India</td>
<td>3.44%</td>
</tr>
<tr>
<td>China</td>
<td>3.57%</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.90%</td>
</tr>
<tr>
<td>Spain</td>
<td>5.10%</td>
</tr>
<tr>
<td>Germany</td>
<td>6.24%</td>
</tr>
<tr>
<td>Italy</td>
<td>8.68%</td>
</tr>
</tbody>
</table>

**Total Premium Growth as % of GDP in Turkey**

<table>
<thead>
<tr>
<th>Year</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1.29%</td>
</tr>
<tr>
<td>2010</td>
<td>1.28%</td>
</tr>
<tr>
<td>2011</td>
<td>1.33%</td>
</tr>
<tr>
<td>2012</td>
<td>1.40%</td>
</tr>
<tr>
<td>2013</td>
<td>1.55%</td>
</tr>
<tr>
<td>2014</td>
<td>1.40%</td>
</tr>
<tr>
<td>2015</td>
<td>1.55%</td>
</tr>
</tbody>
</table>

*Source: Swiss Re, Sigma, World Insurance in 2015*
Turkey’s insurance sector asset size grew at a CAGR of 21% between 2008 and 2016.

- There are a total of 62 active insurance and retirement pension companies in Turkey of which 38 are non-life insurance companies, 4 life insurance and 18 pension companies and 2 reinsurance company as of 2015.

- The asset size of non-life insurance increased a stunning CAGR 16%, while the asset size of life insurance and pension companies also reported a significant increase of a CAGR of 24% during the same period.

- Total asset size increased at a CAGR of 21% between 2008 and 2016 in the non-life and life insurance sector surpassing TL 120 billion in 2016.

- Life insurance premiums grew at CAGR of 16% between 2009 and 2016 to over TL 5,030 million, while non-life insurance grew at a CAGR of 19% exceeding TL 35,440 million.

Source: TSB
USD/TRY as of 31.12.2016: 3.52
The premiums grew in every business line of insurance between 2009 and 2016.

- Premiums grew in every business line in the insurance sector between 2009 and 2016. The areas of land vehicles liability and general losses, grew considerably registering CAGRs of 28% and 21% respectively.

Breakdown of Premiums in 2016

<table>
<thead>
<tr>
<th>Premiums</th>
<th>Share in Total Premium</th>
<th>CAGR (2009-2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Vehicles Liability*</td>
<td>32%</td>
<td>28%</td>
</tr>
<tr>
<td>Land Vehicles</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>General Losses</td>
<td>9%</td>
<td>21%</td>
</tr>
<tr>
<td>Health</td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td>Fire and Forces of Nature</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Life</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Other Non-Life**</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

*Land vehicles liability insurance is compulsory.

**Other non-life insurance includes accident, railway rolling stock, aircraft, maritime, aircraft liability, general liability, credit, suretyship, financial losses, legal protection and assistance.
Banks are increasingly considering insurance products for cross-selling opportunities.

- Insurance sales in Turkey are conducted via direct sales, agencies, bancassurance and brokers.
- Total insurance sales reached about TL 40.5 billion in 2016. 88% of these sales were non-life insurance sales with more than TL 35 billion in sales, while the rest were life insurance sales with a total worth of more than TL 5 billion.
- Agencies had the biggest share in total sales constituting more than 60% of total sales with with around TL 25 billion. The significant amount of sales is due to the strong presence of agencies in Turkey. There were more than 15,000 actively operating agencies as of 2016.
- Agency sales are followed by bancassurance sales. Bancassurance grew from 17% to 22% from 2008 to 2016, exceeding TL 8.8 billion in total sales.

Source: Undersecretariat of Treasury, TSB
Allianz is the market leader in non-life insurance, the life insurance market is dominated by Ziraat.

- Allianz was the leader in non-life insurance market in terms of written premiums in 2016 with a share of 16.3% after the acquisition of Yapı Kredi Sigorta in 2014. Anadolu Sigorta and Axa Allianz with 12.6% and 10.1% market shares, respectively.

- The large scale non-life insurance companies (the top 5 companies) represent 53% of total market as of December 2015.

- Ziraat Hayat and Emeklilik started its operations in the life insurance business in 2009. As of 2010, Ziraat Hayat and Emeklilik became the market leader in terms of life insurance premiums and continued to be the leader thanks to its large retail customer base and branch network. Ziraat Hayat and Emeklilik had a share of 16.5% in 2015, followed by Allianz with 11.5% and Anadolu with 10.7%.
The government will fund 25% of a participant’s monthly contribution in order to promote savings.

- In October 2001, private pension plans were established in Turkey after the enactment of Law No. 4632 - Private Pension Plans Savings and Investment System. The objective of the new pension regulation can be described as follows:
  - Increase the savings behavior of the population with the new tax and financial incentives
  - Involve and integrate the non-working population into the system
  - Decrease the lapse issue within the system

### Government Grants and Advantages
- The government will contribute 25% of the monthly participant contribution into a separate pension contract. The government’s annual contribution will be up to 25% of the gross annual minimum wage.
- The participant is eligible for the pension fund with the following terms:
  - 0-3 years of participation (0% of the fund)
  - 3-6 years of participation (15% of the fund)
  - 6-10 years of participation (35% of the fund)
  - 10 years of participation and before the age of 56 (60% of the fund)
  - 10 years of participation and after the age of 56 (retirement), death and disability (100% of the fund)

### Major Conditions for the Individual Pension Plans
- A minimum 10 years in the system
- A minimum retirement age of 56
- No more requirement of minimum 10 years of contribution payment
- Participants can switch funds 6 times and pension plans 4 times a year
- Once the participant retires, he/she can claim the amount via three different means (i.e., total payment of asset under management, installed repayment, and annuity contract)
- A contract is signed when the first contribution amount is transferred into the company’s account.
- The participant has the right to withdraw the money in the fund up to 60 days after the contract has been signed.
- There is gradual tax on net return instead of accumulated value. Pricing is based on the riskiness of the pension fund.

Source: EGM
In 2015, the size of the Turkish pension funds relative to GDP was almost doubled over the past 6 years.

- Pension funds in the world’s developed and developing countries play a crucial role in the economy since they provide long term funds to the market.
- In 2015, the ratio of pension funds to GDP in Turkey was 4.3%, an increase from 2.2% in 2010. The figure is still significantly lower than major OECD countries. However, there is great potential for the market because of the government's promotion of savings plans to the general population.

Source: OECD, IMF
Gross national savings make up 24.9% of Turkey’s GDP in 2016, up from 23.2% in 2013..

- Gross national savings as a percentage of GDP was 24.9% in 2016, which is relatively lower than other countries.
- The Turkish government is trying to increase savings by enhancing the private pension system and generally raising awareness and promoting household savings. Thus, the government aims to increase the savings to 18% by 2018.

Source: IMF
Both AUM and contribution amounts had rapid growth since 2006 with a CAGR of 3.4% and 3.3%, respectively.

- The number of participants in Turkey’s pension funds increased at a CAGR of 20% between 2006 and 2016, while total contributions increased at a CAGR of 33% during the same period.

- As of 2016, total contributions reached TL 44.4 billion, which is a staggering 20% increase from the previous year. This increase was due to the new pension regulation, in which the government funds 25% of the monthly contribution and automatic enrolment.

- According to the Pension Monitoring Center’s database, the total number of contracts increased to 7.7 million with 6.6 million participants. The assets under management exceeded TL 53 billion.

Source: EGM
USD/TL as of 31.12.2016: 3.52
The top 4 pension funds constituted 61% of the market.

- AvivaSA Yaşam ve Emeklilik is the market leader in the pension fund sector in terms of assets under management. However, it is not the market leader in terms of number of participants.
- Garanti Emeklilik ve Hayat and Allianz has the highest share in terms of number of participants with 17% and 18% respectively as the end of 2016.
### Non-Life Insurance Sector:

#### Selected Players

<table>
<thead>
<tr>
<th>AXA Sigorta</th>
<th>Allianz Sigorta</th>
<th>Anadolu Sigorta</th>
<th>Güneş Sigorta</th>
</tr>
</thead>
<tbody>
<tr>
<td>• French insurance giant Axa entered the Turkish insurance market in 1995 under the name Axa Oyak Life Insurance.</td>
<td>• In 1988, the German company Allianz along with Tokio Marine Insurance from Japan bought shares of Şark Sigorta operating under Koç Holding.</td>
<td>• Anadolu Sigorta was founded in 1925 by İş Bank.</td>
<td>• Güneş Sigorta was established in 1957.</td>
</tr>
<tr>
<td>• In 2008, AXA bought Oyak’s shares.</td>
<td>• Allianz owns 96.2% of the life insurance shares of the company. The other 3.8% is held by Tokio Marine.</td>
<td>• 57% of the company is owned by Milli Reasürans T.A.Ş. and the rest is publicly listed.</td>
<td>• Vakif Emeklilik owns 36% of Güneş Sigorta and Groupama, one of the leading insurance companies in France, owns 36%. The rest of the shares are owned by the Retirement Foundation of Vakıfbank’s personnel and the public.</td>
</tr>
<tr>
<td>• 93% of the shares of the company belong to Axa Holding A.Ş., 7% to Ziraat Bank and the rest to smaller stakeholders.</td>
<td>• A Allianz acquired Yapı Kredi Sigorta in 2014</td>
<td>• Anadolu Sigorta’s total assets reached TL 5.3 billion in 2016.</td>
<td>• Güneş Sigorta's total assets under management reached in 2016 TL 1.2 billion.</td>
</tr>
<tr>
<td>• AXA Sigorta’s total assets in 2016 reached TL 5.4 billion.</td>
<td>• Allianz’s total assets in 2016 reached TL 7.4 billion.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Life Insurance Sector:
### Selected Players

<table>
<thead>
<tr>
<th>NN HAYAT ve EMEKLILIK</th>
<th>GARANTI EMEKLILIK ve HAYAT</th>
<th>ANADOLU HAYAT ve EMEKLILIK</th>
<th>AvivaSA Emeklilik ve Hayat</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>• Oyak Emeklilik A.Ş., was founded in 2003.</strong>&lt;br&gt;<strong>• Dutch financial services group ING acquired the company in 2007.</strong>&lt;br&gt;<strong>• Oyak Emeklilik’s name changed to ING Emeklilik in 2009.</strong>&lt;br&gt;<strong>• The company was renamed NN Emeklilik in February 2015.</strong>&lt;br&gt;<strong>• NN Continental Europe Holding BV owns the company</strong></td>
<td><strong>• Garanti Emeklilik ve Hayat began its operations in 2002.</strong>&lt;br&gt;<strong>• 85% of Garanti Hayat ve Emeklilik’s shares are owned by Garanti Bank, the remaining are owned by Dutch insurance company Achmea.</strong>&lt;br&gt;<strong>• Garanti Emeklilik ve Hayat’s total assets under management was more than TL 11 billion in 2016.</strong></td>
<td><strong>• Anadolu Hayat Emeklilik was founded in 1990 and is Turkey’s only publicly listed insurance company.</strong>&lt;br&gt;<strong>• 62% of the company’s shares are owned by İş Bank, 20% by Anadolu Sigorta, 17% is open to public and less than 1% is held by Milli Reasürans T.A.Ş.</strong>&lt;br&gt;<strong>• In 2016, the company’s asset under management totaled TL 14.4 billion.</strong></td>
<td><strong>• AvivaSA was established in 2007 with approximately 50% percent of its shares divided between Sabancı Holding and Aviva.</strong>&lt;br&gt;<strong>• Aviva is a global insurance company headquartered in Britain with over 50 million customers.</strong>&lt;br&gt;<strong>• AvivaSA had TL 12.9 billion asset under management in 2016.</strong></td>
</tr>
</tbody>
</table>

Source: TSB and Company websites
E. Turkey’s Competitive Landscape

i. Turkey’s Macroeconomic Outlook

ii. Favorable Demographics

iii. Skilled and Cost-Competitive Labor Force

iv. Investment Environment & Stakeholders

v. Geostrategic Location
Turkey’s sizeable and diversified economy has achieved remarkable growth with a bright future, further increasing financial activity.

13th largest economy in the world

<table>
<thead>
<tr>
<th>2016 GDP ($ Trillion, PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (1) 21,3</td>
</tr>
<tr>
<td>US (2) 18,6</td>
</tr>
<tr>
<td>India (3) 8,7</td>
</tr>
<tr>
<td>Japan (4) 5,2</td>
</tr>
<tr>
<td>Germany (5) 4,0</td>
</tr>
<tr>
<td>Russia (6) 3,8</td>
</tr>
<tr>
<td>Brazil (7) 3,1</td>
</tr>
<tr>
<td>Indonesia (8) 3,0</td>
</tr>
<tr>
<td>UK (9) 2,8</td>
</tr>
<tr>
<td>France (10) 2,7</td>
</tr>
<tr>
<td>Mexico (11) 2,3</td>
</tr>
<tr>
<td>Italy (12) 2,2</td>
</tr>
<tr>
<td>Turkey (13) 2,0</td>
</tr>
</tbody>
</table>

Real GDP Growth (Index: 2002=100)

As the Turkish economy has developed, it has integrated with the global economy and financial markets with increasing cross-border capital flows.

**International Transactions Volume of Turkey (USD Billion)**

- Financial Account
- Income & Expenditure
- Trade in Goods & Services

**International Investment Position of Turkey (USD Billion)**

- Reserve assets
- Other investment
- Portfolio investment
- Direct investment

Source: CBRT
Turkey’s economic growth has resulted in income growth and a growing robust middle class with increasing purchasing power.

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

- **2002:** $3,581
- **2016:** $10,807

### Income Groups
(Annual disposal income per capita)

- **2002:**
  - 1 million
  - 3.3 million
  - 17.8 million
  - 23 million
  - 21.3 million

- **2016:**
  - 5 million
  - 21.2 million
  - 39.9 million
  - 10.8 million
  - 3 million

**Source:** IMF, Turkstat, Euromonitor
Despite increasing income, Turkey still lags behind in financial inclusion as compared to peer economies, giving room for growth in financial services.

In order to address financial gaps, Turkey launched a national Financial Inclusion Strategy in 2014.

**Account at a financial institution (% of population aged 15+)**
- Turkey: 56.7
- Average of Upper Middle Income Countries: 70.5

**Saved at a financial institution in the past year (% of population aged 15+)**
- Turkey: 9.1
- Average of Upper Middle Income Countries: 32.2

**Financial Inclusion Strategy**
- Access to Financial Products and Services
- Financial Education
- Financial Consumer Protection

*Source: World Bank Global Findex 2014*
Turkey has a quite favorable demographic structure with a bright prospect which will further support economic activity in Turkey.

**Working Age Population (15-64) (Index: 2014=100)**

**Total Dependency Ratio (%) (Age 0-14 & Age 65+) / Age 15-64**

*Source:* Turkstat, Eurostat, UN, 2016
Turkey’s labor markets support the financial sector’s human resources need with a cost-competitive labor base.

<table>
<thead>
<tr>
<th>Year</th>
<th>People Employed (thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>273</td>
</tr>
<tr>
<td>2016</td>
<td>301</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>IT Skills Availability</th>
<th>Finance Skills Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>6.0</td>
<td>5.9</td>
</tr>
<tr>
<td>France</td>
<td>6.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Germany</td>
<td>6.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Italy</td>
<td>7.0</td>
<td>7.1</td>
</tr>
<tr>
<td>UK</td>
<td>7.2</td>
<td>7.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>7.6</td>
<td>7.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Labor Cost per Hour (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>56.3</td>
</tr>
<tr>
<td>France</td>
<td>51.7</td>
</tr>
<tr>
<td>Germany</td>
<td>49.7</td>
</tr>
<tr>
<td>Italy</td>
<td>45.9</td>
</tr>
<tr>
<td>UK</td>
<td>43.8</td>
</tr>
<tr>
<td>Ireland</td>
<td>38.5</td>
</tr>
<tr>
<td>Spain</td>
<td>19.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: Eurostat, Turkstat, IMD
Turkey’s regulatory environment is highly friendly to foreign direct investment in financial sector.

Source: OECD

*The FDI Index measures the restrictiveness of a country’s FDI rules by looking at four main types of restrictions on FDI:
1. Foreign equity limitations;
2. Screening or approval mechanisms;
3. Restrictions on the employment of foreigners as key personnel;
4. Operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership.
Turkish financial industry is also supported by university & industry collaboration through a finance-oriented technology development zone.

Istanbul Finance Technopark

<table>
<thead>
<tr>
<th>About</th>
<th>Target Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Turkey’s first thematic technopark</td>
<td>• Companies Operating in the Banking and Finance Sectors</td>
</tr>
<tr>
<td>• Produce technological and financial information</td>
<td>• SMEs that produce hardware and software for the financial sector</td>
</tr>
<tr>
<td>• Make innovation in products</td>
<td>• Start-up Companies operating in the financial, money and capital markets and software, information technology and technology sectors</td>
</tr>
<tr>
<td>• Commercialize technological and financial information</td>
<td></td>
</tr>
<tr>
<td>• Create investment opportunities in technology intensive areas through ensuring the cooperation of research companies and organizations with the finance and manufacturing sectors</td>
<td></td>
</tr>
</tbody>
</table>

Shareholders

Borsa İstanbul

Boğaziçi University
Turkey is committed to transform Istanbul into an international financial center.

Istanbul Financial Center

Key Features

- Istanbul Financial Center will house the head offices of the Turkey’s financial market governing bodies, state-owned and private banks, and related businesses. It will cover 4.2 million square meters of office, residential, retail, conference, hotel and park space.

- The government is working to improve the Turkish tax system, legal and fiscal environment, political and economic stability and regulatory framework in order to attract financial investments.

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

Tom Shave, Deloitte Senior Manager

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

Dimitris Tsitsiragos, Vice-President, IFC
Turkey’s financial sector is also strengthened through efficient supervisory and regulatory institutions.

<table>
<thead>
<tr>
<th>Name</th>
<th>Web Page</th>
<th>What They Do</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank of the Republic of Turkey</td>
<td><a href="http://www.tcmb.gov.tr">www.tcmb.gov.tr</a></td>
<td>Its purpose is to create efficiency in all the financial sectors of the economy, especially money, credit and capital markets as well as determining and implementing policy contributing to financial stability, managing foreign exchange and gold reserves, printing money and overseeing payment systems.</td>
</tr>
<tr>
<td>Banking Regulation and Supervision Agency</td>
<td><a href="http://www.bddk.org.tr">www.bddk.org.tr</a></td>
<td>Ensures confidence, stability and competitiveness in financial markets to ensure effective operation of the credit system, protects the rights and interests of investors and takes necessary measures to make institutions subject their supervision steady and secure.</td>
</tr>
<tr>
<td>The Banking Association of Turkey</td>
<td><a href="http://www.tbb.org.tr">www.tbb.org.tr</a></td>
<td>Contributes to the development of banking sector and its competitiveness, prevents unfair competition and aims to make Istanbul an international financial center in the world.</td>
</tr>
<tr>
<td>The Insurance Association of Turkey</td>
<td><a href="http://www.tsb.org.tr">www.tsb.org.tr</a></td>
<td>Specializes in the development of the insurance, reinsurance and private pension sectors, TSB provides advice to public authorities, monitors developments, conducts research, eliminates unfair competition of its members and produces a code of ethics for practices.</td>
</tr>
<tr>
<td>Pension Monitoring Center</td>
<td><a href="http://www.egm.org.tr">www.egm.org.tr</a></td>
<td>Since 2007, EGM monitors the pension system on a daily basis, collects data and implements licensing exams.</td>
</tr>
<tr>
<td>Capital Markets Board of Turkey</td>
<td><a href="http://www.spk.gov.tr">www.spk.gov.tr</a></td>
<td>Regulatory and supervisory authority in charge of the securities market, which makes detailed regulations for organizing the market and developing capital market instruments and institutions.</td>
</tr>
<tr>
<td>Borsa Istanbul</td>
<td><a href="http://www.borsaistanbul.com">www.borsaistanbul.com</a></td>
<td>Borsa Istanbul A.Ş. was founded in 2012. It trades capital market instruments, foreign currencies, precious metals and gems and other contracts and documents.</td>
</tr>
</tbody>
</table>
Istanbul’s strategic location and its connectivity with the rest of the world has already enabled it to be a regional hub for global companies.

Global companies are managing dozens of countries from Istanbul

Source: Turkish Airlines
Given Turkey’s strategic location, a significant economic activity is taking place around Turkey.

Access to Multiple Markets

**EUROPE**
- GDP: $18.3 trillion
- Import of Financial Services: $120 billion
- Insurance: $45 billion
- Population: 676 million

**RUSSIA**
- GDP – $1.3 trillion
- Import of Financial Services: $2.4 billion
- Insurance: $1.7 billion
- Population: 146 million

**MENA**
- GDP: $3.5 trillion
- Import of Financial Services: $5.9 billion
- Insurance: $13 billion
- Population: 712 million

**CENTRAL ASIA & CAUCASUS**
- GDP: $0.4 trillion
- Import of Financial Services: $200 million
- Insurance: $400 million
- Population: 85 million

1.6 Billion People; $24 Trillion GDP; around $200 billion trade in Financial & Insurance Services at a 4-hour flight distance from Turkey

Source: IMF World Economic Outlook and ITC; GDP and Population
## INVEST IN TURKEY

**INVESTMENT SUPPORT & PROMOTION AGENCY OF TURKEY**

<table>
<thead>
<tr>
<th><strong>A governmental body attached to the Prime Ministry</strong></th>
<th><strong>Private sector approach with public sector capabilities</strong></th>
<th><strong>Acting as your solution partner</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>General &amp; customized business information &amp; Sectoral analysis &amp; reports</td>
<td>Site selection support to find appropriate location/land for your investment</td>
<td>Arrangements of meetings with governmental bodies and other stakeholders</td>
</tr>
<tr>
<td>Facilitating your investment at all stages</td>
<td>Matchmaking with local partners &amp; establishing business linkages</td>
<td>Project launch &amp; Press release Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Facilitating your visit to Turkey</td>
</tr>
</tbody>
</table>