Turkish Capital Markets
&
The Brokerage Industry

2007

TSPAKB The Association of Capital Market Intermediary Institutions of Turkey

Turkish Capital Markets & The Brokerage Industry 2007

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ABBREVIATIONS

Term	Definition
AIRCT	The Association of the Insurance and Reinsurance Companies of Turkey
BAT	Banks' Association of Turkey
BRSA	Banking Regulation and Supervision Authority
CAGR	Compounded Annual Growth Rate
CBRT	Central Bank of the Republic of Turkey
CMB	Capital Markets Board
CRA	Central Registry Agency
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICI	Investment Company Institute
IFRS	International Financial Reporting Standards
IGE	Istanbul Gold Exchange
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
IT	Information Technologies
MCap	Market Capitalization
PBAT	Participation Banks' Association of Turkey
SME	Small and Medium Sized Enterprise
SPO	State Planning Organization
Takasbank	Settlement and Custody Bank
TRY	New Turkish Lira
TSPAKB	The Association of Capital Market Intermediary Institutions of Turkey
Turkstat	Turkish Statistical Institute
TurkDex	Turkish Derivatives Exchange
WFE	World Federation of Exchanges
Y-o-y	Year on Year

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EXECUTIVE SUMMARY

The regulatory structure of the financial sector in Turkey is fragmented. The Banking Regulation and Supervision Authority is the main regulator for banks, while the Central Bank of the Republic of Turkey also regulates some of the activities of banks, such as foreign exchange transactions. The Undersecretariat of Treasury is in charge of the insurance industry. The Capital Markets Board is the main authority for capital markets. The Capital Markets Board extends operating licenses to brokerage firms.

The Association of Capital Market Intermediary Institutions of Turkey is a self regulatory organization with all banks and brokerage firms as being compulsory members. The Association extends licenses to capital market professionals.

There are three exchanges in Turkey. Equities and fixed income securities are traded at the Istanbul Stock Exchange, futures contracts are traded at the Turkish Derivatives Exchange and precious metals at the Istanbul Gold Exchange.

Takasbank provides settlement services for all securities and serves as the central counterparty for the futures market. Takasbank also operates a money market and the securities lending and borrowing market.

The Central Registry Agency is the central custodian, where equities, fixed income securities and mutual funds are kept in dematerialized form on client accounts.

Turkish markets have grown considerably in the last five years. Annual equity trading volume increased from US$ 71 billion in 2002 to US$ 301 billion in 2007. Fixed income volumes tripled in the same period. The recently established futures market has demonstrated an astonishing performance, with annual volumes shooting up from US$ 2 billion to US$ 91 billion in just two years since 2005.

Major drivers of growth in this period were: the macroeconomic stability program implemented following the crisis in 2001; political stability established following the 2002 elections; Turkey's EU membership prospects; global appetite for risk; and fuelled by all these factors, record levels of foreign investment.

Foreign investors' share in the market has been steadily growing since 2002. Currently, they hold around 72% of the free-float at the Istanbul Stock Exchange. This figure was around 45% in 2002. Moreover, they are now generating around 25% of the equity trading volume, while five years ago it was less than 10%.

The interest of foreign investors was not only limited to portfolio investments but also FDI, particularly in the finance sector. Since 2005, major foreign institutions acquired banks, brokerage firms and insurance companies. The number of brokerage firms with foreign controlling stakes has increased from 7 to 25 out of 104 in the last couple of years. Since the establishment of a new brokerage firm is not permitted, new entries have been made through acquisitions.

Brokers offer services in securities trading, asset management, corporate finance and margin trading. Banks are not allowed to trade equities.

The product range is currently limited mainly to equities, T-bills, futures and mutual funds, as corporate bonds, options, warrants, mortgage securities and structured products are not available yet. However, serious effort is being made by all market institutions to diversify the product range. The corporate bond market has started to revive; the mortgage law was passed in 2007; a warrant draft has been opened to public discussion; hedge funds, fund of funds and guaranteed funds were regulated in 2007; and single-stock futures are expected in the near future. Thus, future growth prospects depend on the development of new products. The amazing performance of TurkDex, the Turkish Derivatives Exchange, is a strong indicator of investors' appetite for new products.

OVERVIEW OF TURKISH CAPITAL MARKETS

I. MILESTONES

A brief timeline and milestones of Turkish capital markets are presented below:

History of the Turkish Capital Markets	
1981	Capital Markets Law
1982	Capital Markets Board established.
1985	Istanbul Stock Exchange established.
1987	First mutual fund issued.
1989	Settlement and Custody Department established within ISE Decree No. 32 liberalising foreign investments.
1991	Bonds & Bills Market established within ISE.
1992	Settlement and Custody Inc. established as a separate company. Corporate bond market established within ISE.
1993	Repo-Reverse Repo Market established within ISE. Automated trading started with 50 companies.
1994	Settlement on T+2. Fully automated trading started.
1995	Settlement and Custody Bank (Takasbank) was formed. Istanbul Gold Exchange established. New Companies Market established within ISE. International Securities Market established within ISE.
1996	Securities Lending & Borrowing Market established within Takasbank Money Market established within Takasbank
1997	Banks are not allowed to trade equities, but may establish brokerage subsidiaries. First asset management company established.
1998	First credit rating agency established.
1999	Client-based custody at Takasbank.
2000	Market making system introduced for government bonds. First venture capital trust offered to the public.
2001	TSPAKB (Association) established. Investors' Protection Fund established. Futures market established within ISE. Central Registry Agency established. Remote trading started at ISE.
2002	Pension system regulation passed.
2003	Corporate governance principles published. First private pension fund established. International Financial Reporting Standards adopted.
2004	First Exchange Traded Fund established.
2005	Turkish Derivatives Exchange established. Dematerialisation of equities started.
2006	Taxation of investment instruments changed. Dematerialisation of corporate bonds started.
2007	Opening auction introduced at ISE. Mortgage Law passed. Eurobond market established within ISE.
Source: CMB	

II. REGULATORY STRUCTURE OF THE FINANCIAL SYSTEM

The Turkish financial system has a fragmented regulatory structure. Banking Regulation and Supervision Agency (BRSA) is in charge of the banking system, whereas the Capital Markets Board of Turkey (CMB) is the main regulator of the capital markets. The Undersecretariat of Treasury, on the other hand, oversees the insurance industry. Major institutions are briefly introduced below and a chart is provided on the next page with an illustration of jurisdictions.

Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority for the securities markets and institutions in Turkey. The CMB determines the operational principles of the capital markets and is responsible for the protection of the rights and interests of investors. CMB regulates and supervises public companies, listed companies, financial intermediaries, exchanges, mutual, closed-end and pension funds, Settlement and Custody Bank (Takasbank), Association of Capital Market Intermediary Institutions of Turkey (TSPAKB), Central Registry Agency (CRA) and other related institutions operating in the capital markets, such as independent audit firms, rating agencies, etc. The role of CMB will be elaborated upon in the following section.

The Exchanges; Istanbul Stock Exchange (ISE), Turkish Derivatives Exchange (TurkDex), and Istanbul Gold Exchange (IGE) have the authority to regulate their own markets, listed companies and products in these markets, and member intermediaries. Exchanges will be explained in detail in the following sections.

Banking Regulation and Supervision Agency (BRSA) is the regulatory and supervisory authority for the banking sector. The BRSA is responsible for regulating the activities of deposit banks, participation banks (Islamic banks), development and investment banks including Takasbank, foreign banks' branches in Turkey, audit firms, rating agencies, financial holding companies, leasing, factoring and consumer finance companies.

The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB) is a self-regulatory organization. All brokerage firms and banks that are authorized for capital market operations have to be members of the Association. TSPAKB sets professional rules and monitors them to provide a fair and disciplined capital market. TSPAKB establishes and enforces regulations on subjects assigned by legislation or CMB. The role of TSPAKB will be explained in detail in the next section.

Banks' Association of Turkey (BAT) is a self-regulatory organization. All deposit banks, development and investment banks (including Takasbank) operating in Turkey are members of the BAT. BAT determines professional principles and sets standards for members.

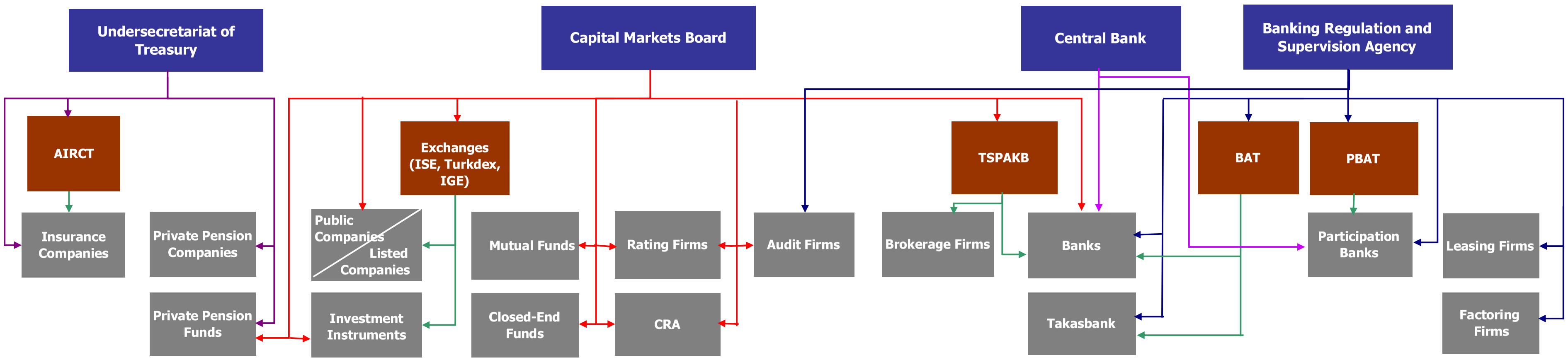
Participation Banks' Association of Turkey (PBAT) is the self-regulatory organization for participation banks. Participation banks operate under interest free (Islamic) banking principles. PBAT has the same authority as BAT on its members.

Undersecretariat of Treasury is the regulatory and supervisory authority for the insurance sector and the private pension system.

Association of the Insurance and Reinsurance Companies of Turkey (AIRCT) is a self-regulatory organization. All domestic and foreign insurance and reinsurance companies are members of the Association.

Central Bank of the Republic of Turkey (CBRT) regulates money and foreign exchange markets. CBRT has the authority to determine procedures and conditions of reserve and liquidity requirements. CBRT determines the terms and types of deposits in banks and the terms of participation funds in participation banks.

REGULATORY STRUCTURE OF THE TURKISH FINANCIAL SYSTEM



AIRCT: The Association of the Insurance and Reinsurance Companies of Turkey
BAT: Banks' Association of Turkey
CRA: Central Registry Agency
IGE: Istanbul Gold Exchange
ISE: Istanbul Stock Exchange
PBAT: Participation Banks' Association of Turkey
Takasbank: Settlement and Custody Bank
TSPAKB: The Association of Capital Market Intermediary Institutions of Turkey
Turkdex: Turkish Derivatives Exchange

III. REGULATORY FRAMEWORK OF THE CAPITAL MARKETS

In 1981, the Capital Market Law (CML) was enacted and a year later, the main regulatory body, the Capital Markets Board (CMB) was established. In 1984, the Regulation for the Establishment and Operations of Securities Exchanges led to the establishment of the Istanbul Stock Exchange (ISE). ISE started trading at the end of 1985.

The legal framework of Turkish capital markets is based upon three major regulations;

1. The Capital Market Law,
2. Regulations Concerning the Securities Exchanges,
3. Turkish Commercial Code.

Brief descriptions of relevant legislations are provided below.

A. Capital Market Law

The objective of the CML is to regulate, supervise and provide for the secure, fair and orderly functioning of the capital markets, whilst protecting the rights and interests of investors.

Capital market instruments, public offerings and sales, issuers, exchanges and other organized markets stipulated in the CML, capital market activities, capital market institutions and the structure of the Capital Markets Board are all subject to the provisions of CML.

Joint stock companies which have more than 250 shareholders or which offer their shares to the public are subject to the CML. In addition to this, securities issued by the State Economic Enterprises (including those within the scope of the privatization program), municipalities and related institutions are subject to the disclosure requirements.

CMB’s main regulatory tool is its communiqués. CMB communiqués are published according to their content under the following sections, some of which are also available in English on the CMB’s web site.

Serial	Context
I	Stocks
II	Bonds
III	Other Securities
IV	Public Corporations
V	Brokerage Houses
VI	Investment Trusts
VII	Mutual Funds
VIII	Miscellaneous Subjects
IX	Securities Exchanges
X	Independent External Auditing
XI	Accounting Principles
XII	Descriptive Communiqué

B. Decree Law No. 91 Concerning Securities Exchanges

In 1983, establishment, activities, operating principles and supervision of securities exchanges were defined by the Council of Ministers. The purpose of this Decree Law is to secure and provide for the transparent, sound and prudent operation of the securities exchanges.

The Istanbul Stock Exchange was established as a public institution with the authority to provide an organized trading platform and inform the public by disseminating securities prices. Establishment of securities exchanges is subject to the approval of the Ministry of Finance, upon the recommendation of the CMB. Securities exchanges are subject to the scrutiny and supervision of the CMB.

C. Turkish Commercial Code

The Turkish Commercial Code, enacted in 1956, regulates the establishment and operation of companies. It also defines and regulates financial instruments in general. Thus, joint stock corporations subject to the CML are required to comply with the provisions of the Commercial Code whenever a provision pertaining to a particular action is not included within the CML.

There is a new draft of the Turkish Commercial Code, currently under debate, which aims to simplify the establishment of new companies and enhance disclosure requirements for all corporations.

D. Other Relevant Legislation

Apart from the above-mentioned legislation, there are other important regulations which affect the securities markets

1. Decree No. 32

Decree No. 32 regarding the "Protection of the Value of the Turkish Currency" was enacted in August 1989 and aims to further liberalize the financial system. It allows non-residents to invest in Turkish securities and vice versa, through financial intermediaries authorized by the CMB. A recent amendment to this Decree in February 2008 defines the foreign currency transactions of brokerage firms. Accordingly, brokerage firms can buy and sell foreign currency as long as it is done with their clients and for the purpose of trading securities, which previously was not possible.

2. Regulation Concerning the Establishment and Operation Principles of Securities Exchanges

The Regulation was prepared by the Capital Markets Board and put into effect upon the decision of the Council of Ministers in 1984. It details the functioning of securities exchanges.

3. Regulation of the Istanbul Stock Exchange

The Regulation sets forth the principles and rules of operation for the Istanbul Stock Exchange and was put into effect in 1985.

IV. TAXATION

Turkey has a very liberal foreign investment policy. There are no restrictions on foreign investments, repatriation of capital and profits. Foreign individuals and corporations (including investment trusts and investment funds abroad) can freely purchase and sell all sorts of securities and other capital market instruments. However, a foreign investor should use a Turkish intermediary for capital market activities, such as, buying and selling securities, repo, portfolio management, investment consultancy, underwriting, margin trading, securities lending etc.

Tax policy of investment instruments changed dramatically at the beginning of 2006 and was significantly simplified. Basically, a 15% withholding tax has been imposed on all kinds of investment instruments (deposits, equities, bonds, mutual funds, etc.) regardless of the type of the investor (resident/non-resident, individual/corporate). However, during 2006, some amendments were made. The withholding tax rate has been reduced to 10% on some instruments for domestic investors and abolished for foreign investors. Currently, foreign investors are not subject to any taxes on securities.

We present a summary of the current system below. However, it should be noted that this presentation does not cover all instruments or all aspects of taxation.

TAXATION OF SELECTED INVESTMENT INSTRUMENTS IN TURKEY

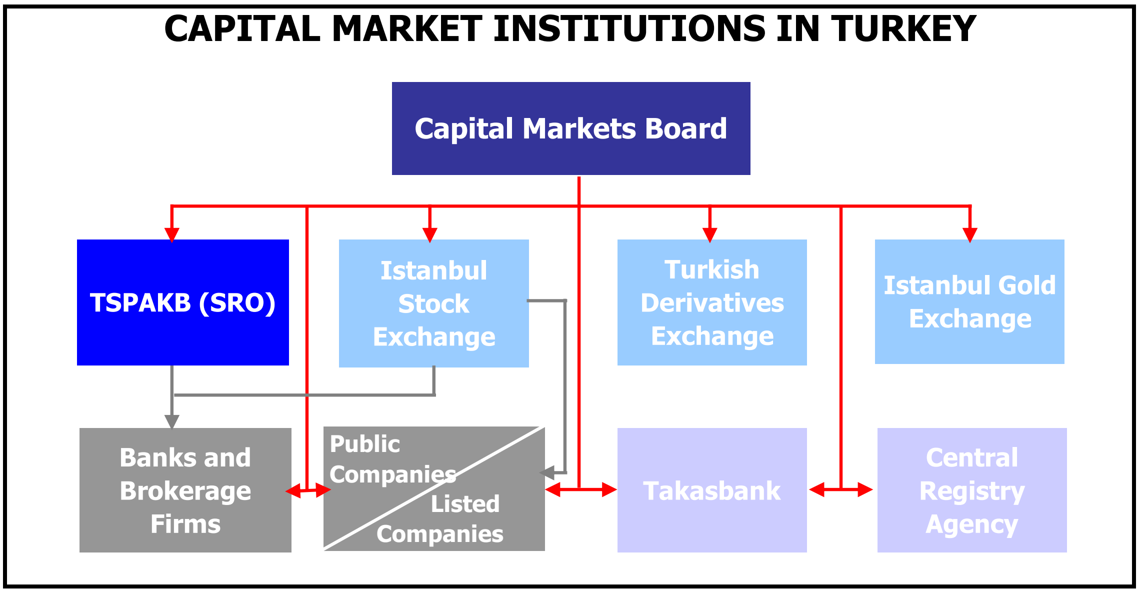
	Individuals		Corporations	
Investment	**Residents**	**Non-residents**	**Residents**	**Non-residents**
Bank Deposits	15% withholding tax.	15% withholding tax.	15% withholding tax.[2]	15% withholding tax.
Repo Interest	15% withholding tax.	15% withholding tax.	15% withholding tax.[2]	15% withholding tax.
Capital Gains and Interest on G. Bonds, Corporate Bonds, etc.	10% withholding tax.	0% withholding tax.	10% withholding tax.[2]	0% withholding tax.
Futures	0% withholding tax.[3]	0% withholding tax.[3]	Earnings are subject to corporate tax.	0% withholding tax.[3]
Listed Equities	If held for more than one year 0%, otherwise 10% withholding tax.	0% withholding tax.	If held for more than one year 0%, otherwise 10% withholding tax.	0% withholding tax.
Dividends on Equities	15% withholding tax is applied by the corporation distributing dividends.[1]	15% withholding tax is applied by the corporation distributing dividends.	Not subject to dividend withholding tax. Dividends received from resident incorporations are exempt from corporate tax.	15% withholding tax is applied by the corporation distributing dividends.

1: Half of the dividends are exempt from income tax. If the remaining amount exceeds the declaration limit (TRY 19,000 in 2008) all the income must be declared and will be subject to income tax. In that case, full amount of withholding may be deducted from the income tax.
2: Earnings are subject to corporate tax, but withholding tax is deducted.
3: The 0% tax rate is effective until 31.12.2008.

In order to be exempt from taxation, non-resident individual investors are required to provide a certificate of residence. The certificate of residence must be renewed every year. If the certificate of residence is not submitted, non-resident individuals will be treated as resident investors. For non-resident corporate investors, a certificate of incorporation is required to benefit from exemptions.

CAPITAL MARKET INSTITUTIONS

Institutional structure of the Turkish capital markets is depicted in the diagram below.



I. CAPITAL MARKETS BOARD

The Capital Markets Board of Turkey is the main regulatory and supervisory authority in charge of the securities markets. Empowered by the Capital Markets Law, the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions.

The CMB aims to ensure the safe, fair and orderly functioning of the capital markets whilst protecting the rights and interests of investors. Its ultimate objective is to foster the development of the securities markets and contribute to the efficient allocation of financial resources within the Turkish economy.

A. Organization Structure

The Capital Markets Board is governed by the Executive Board, which is the main decision-making body. The Chairman of the Executive Board also acts as the Chief Executive Officer. The Executive Board consists of seven members. The Council of Ministers appoints two members from among the four nominees of the Minister of State in charge of the Economic Affairs. The other five members are appointed from among the nominees of the Ministry of Finance, Ministry of Industry and Commerce, the Banking Regulatory and Supervisory Board, the Association of Trade Chambers and Exchanges and the Association of Capital Market Intermediary Institutions. Each of these institutions nominates two candidates, one of whom is to be elected. All members are appointed by the Council of Ministers for a period of six-years. The Council of Ministers appoints one of the members as the Chairman and the Executive Board elects one member as the Deputy Chairman. The Executive Board is the highest decision-making body of the CMB and is empowered to decide on any issue within the authority of the CMB.

B. Functions

The CMB's jurisdiction areas may be classified into three main groups:

- Primary markets,
- Secondary markets
- Financial intermediation

1. Functions Related to Primary Markets

The CMB registers the securities offered to the public and is responsible for the regulation and supervision of the entire offering process. Main functions of the CMB in this area are as follows:

- Registering publicly held companies and capital market instruments to be issued or offered to the public;
- Regulating the issue process of capital market instruments;
- Regulating the issues and public offerings of capital market instruments by non-residents;
- Regulating and supervising public offerings, capital market activities and transactions through electronic communication tools and media;
- Determining standards for offering prospectuses and circulars;
- Determining audit principles and disclosure procedures;
- Establishing financial and other reporting standards for corporations;
- Setting criteria for the establishment and operating principles of independent audit companies;
- Ensuring accurate and complete information dissemination in markets;
- Overseeing all kinds of announcements, advertisements and publications related to capital markets in order to prevent dissemination of misleading information;
- Determining principles for proxy voting in publicly held companies; and
- Regulating the rating of financial instruments.

2. Functions Related to Secondary Markets

In the secondary markets, the CMB has the authority and the responsibility to:

- Regulate and supervise both the organization and the operations of stock exchanges and over-the-counter markets;
- Set the rules and principles for the establishment of futures and option markets;
- Regulate and supervise futures contracts based upon economic and financial indicators, capital market instruments, commodities, foreign currencies and precious metals;
- Regulate and supervise precious metal exchanges;
- Regulate the margin trading, securities lending and short-selling of capital market instruments; and
- Regulate and supervise the clearing, settlement and custody systems.

3. Functions Related to Financial Intermediation

The Capital Market Law defines capital market activities as well as the types of institutions allowed to operate in capital markets, and empowers the CMB to set the requirements that these institutions should fulfil. Capital market institutions are defined in the CML as follows;

- Intermediary institutions (i.e. banks and brokerage firms),

- Investment companies (including real estate and venture capital investment companies),
- Mutual funds,
- Other institutions (i.e. settlement, custody, asset management companies etc.).

Capital markets activities within the scope of the CML are as follows:

- Financial intermediation for public offering or issuing of capital market instruments which have to be registered with the CMB;
- Intermediation on previously issued capital market instruments (i.e. secondary market trading);
- Financial intermediation for trading futures contracts based on economic and financial indicators, capital market instruments, commodities, foreign currencies and precious metals;
- Repo/reverse repo agreements;
- Portfolio management and investment consultancy;
- Margin trading, securities lending and short-selling of securities; and
- Activities of other capital market institutions.

II. TSPAKB (Association of Capital Market Intermediary Institutions of Turkey)

The Association of Capital Market Intermediary Institutions of Turkey (Association) was established as a self-regulatory organization in March 2001.

All the brokerage firms and banks that are authorized for capital market operations must become members of the Association. As of May 2008, 41 banks and 104 brokerage firms are members.

A. Organization Structure

The statutory bodies of the Association are the General Assembly, the Board of Directors and the Board of Auditors. The General Assembly is the highest decision-making body, where each member firm has one voting right.

The Board of Directors is composed of seven members, who are elected for a term of two years. The Board of Auditors has three members, also serving for two years.

The Secretary General carries out the daily management and administration of the Association.

B. Objectives and Functions

The Association aims to:

- Contribute to the development of capital markets and intermediation activities;
- Facilitate solidarity among its members;
- Safeguard prudent and disciplined conduct of business by its members;
- Prevent unfair competition among members; and
- Enhance professional know-how in the sector.

The main functions of the Association are to:

- Establish professional rules and regulations;

- Set safety measures to prevent unfair competition;
- Monitor professional developments, changes in rules and regulations and inform members thereof;
- Evaluate complaints against its members;
- Impose disciplinary action on members, when necessary;
- Assist in the resolution of disputes arising from off-exchange transactions among its members or between its members and investors;
- Appoint arbitrators upon the request of concerned parties;
- Conduct research on Turkish and international capital markets;
- Offer training programs;
- Issue licenses to capital market professionals who are required to pass exams organized by the CMB;
- Keep records of all capital market professionals; and
- Cooperate with related foreign institutions.

C. Licensing of Market Professionals

Since 2003, capital market professionals are required to get a license in order to be employed at intermediaries or other capital market institutions, such as asset management companies, real estate appraisers etc. There are several types of licenses for market professionals. At least one among the first four is a requirement for employment at intermediaries.

1. Basic Level (sales, traders, officers, etc.)
2. Advanced Level (managers, research, corporate finance etc.)
3. Settlement & Operations (back office)
4. Derivatives (derivatives traders, managers, back office)
5. Real Estate Appraisal (mortgage and real estate appraisers)
6. Residential Real Estate Appraisal (mortgage and real estate appraisers)
7. Credit Rating (credit rating agencies)
8. Corporate Governance Rating (corporate governance rating agencies and Investor Relations Departments at public companies)
9. Independent Auditing in Capital Markets (independent auditors of public companies and intermediaries)

In order to be licensed, an individual needs to pass an exam organized by the CMB. Then, s/he applies to the Association with the required documents and gets his/her license. License holders' detailed information is kept at the Association's registry and a limited version is published on its web site. Licenses have to be renewed every four years through the attendance of a one-day training course on the Association's premises. As of May 2008, there are nearly 25,000 license holders on the Association's registry. Total number of employees at the brokerage firms is close to 6,000.

III. ISTANBUL STOCK EXCHANGE

Istanbul Stock Exchange (ISE) was established at the end of 1985. ISE is a mutual organization, with banks and brokerage firms as members. In fact, it has a quasi-governmental structure. The Chairman is appointed by the government, but the remaining four Board Members are elected by the General Assembly from among its members. ISE has some self-regulatory authority on its members and has its own budget, but major decisions are subject to CMB approval.

Currently, the securities traded on ISE markets are:

- Equities,
- Exchange traded funds,
- Government bonds and Treasury bills,
- Corporate bonds,
- Money market instruments (repo/reverse repo), and
- Foreign securities (i.e. Turkish Treasury's eurobonds).

A. Organization Structure

The ISE is governed by an Executive Council (i.e. Board) which is composed of five members. The Chief Executive Officer of the ISE is appointed by the government for a term of five years and is also the Chairman of the Executive Council. The remaining four members are elected by the General Assembly from amongst the two categories of members: banks and brokerage houses.

The General Assembly, composed of ISE members, is the supreme decision-making body of the ISE. Its decisions are subject to ratification and review of the CMB. The General Assembly also decides on issues related to the management and administration of the ISE. Each member has one vote at the meetings. Two internal auditors appointed by the General Assembly audit all accounts and financial statements of the ISE. ISE's accounts and financial statements are also independently audited.

B. Functions

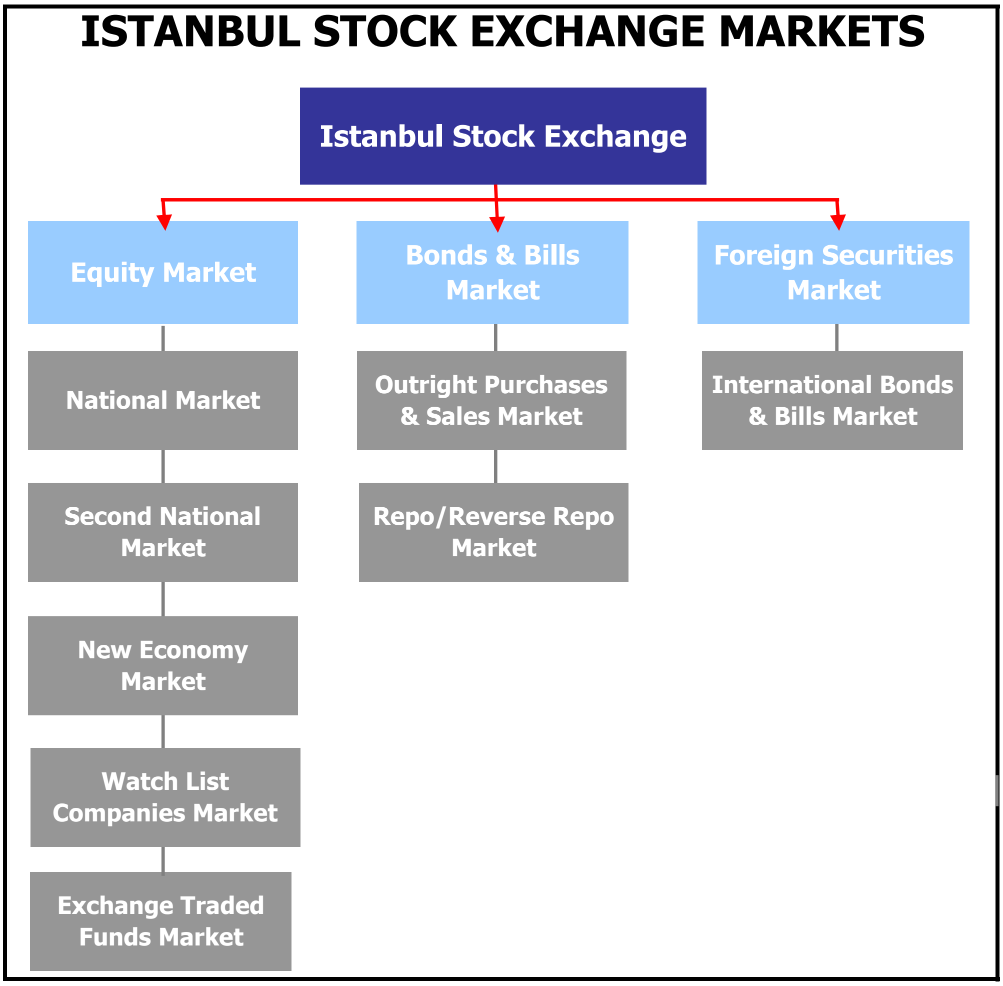
ISE sets its functions as follows:

- Examine listing application of securities, request additional information and documents if necessary;
- Launch the Derivatives Market[1];
- Determine types of securities to be traded on the Exchange, launch necessary markets and disclose information about traded securities;
- Determine working days and hours for the Exchange markets;
- Ensure reliable and smooth trading of securities;
- Sanction the ISE members violating ISE regulations; and
- Take necessary precautions in line with the rules and regulations in the event of extraordinary circumstances on the Exchange (i.e. suspicious trading, manipulation etc.).

C. Markets

There are three main markets at the Istanbul Stock Exchange and several sub-markets within these main markets.

[1] Previously, a futures market was established within ISE but it didn't become operational. Later, in 2005, the Turkish Derivatives Exchange was established and currently there is no derivatives activity within ISE.



1. Equity Market

Equities, rights coupons and exchange-traded funds are traded on the equity market. Only brokerage firms are allowed to trade equities.

The size of sub-markets is provided in the table below. As can easily be observed, ISE mainly consists of the National Market.

ISE Markets (30.04.2008)		
Markets	**No. of Companies**	**MCap. (mn. $)**
National	291	208,605
Second National	14	1,064
New Economy	3	76
Watch List	10	86
Total	**318**	**209,831**
Source: ISE		

a. National Market

ISE National Market is the main market where companies that fulfill the listing and liquidity criteria determined by the ISE, are traded. Listing requirements are given in detail in the following sections.

Liquidity (daily average trading volume and number of contracts) criteria are reviewed quarterly. In case a company fails to meet the minimum criteria, it is transferred to the Second National Market. The main indicator of the ISE, the ISE National-100 Index, is composed of 100 companies listed on the National Market.

As of the end of May 2008, there are 291 companies traded on the National Market.

b. Second National Market.

The Second National Market was established for small and medium-sized companies. The Second National Market consists of companies transferred from the National Market and companies that fall short of the listing requirements on the National Market. The ISE Executive Council decides on the transfer and listing of a company in the relevant market. 14 companies are listed on the Second National Market as of the end of May.

c. New Economy Market

The New Economy Market was established for technology companies active in telecommunications, information systems, electronics, internet, computer manufacturing, hardware, software and media. Currently, 3 companies are listed in the New Economy Market.

d. Exchange Traded Funds (ETF) Market

The ISE Executive Council decides on the listing and trading of ETFs in this market upon the written request of the CMB. At the end of May 2008, there were 8 ETFs listed in the market.

Exchange Traded Funds Listed on the Istanbul Stock Exchange

ISE Code	Name	Underlying	Constituents
DJIST	Dow Jones Istanbul 20	Dow Jones Turkey Titans 20 Index	20 Blue-Chip Companies
ISDJE	Dow Jones Turkey 15	Dow Jones Turkey Equal Weighted 15 Index	15 Large Companies
FBIST	FTSE Istanbul Bond	FTSE Turkish Lira Government Bond Index	Government bonds with a minimum issue size of TRY 1 bn.
SPTUR	S&P/IFCI Akbank	S&P/IFCI Turkey Index	56 Blue-Chip Companies
NFIST	Non-Financial Istanbul 20	Dow Jones Non-Financial Istanbul 20 Index	20 Industrial Blue-Chip Companies
SMIST	Small and Medium Sized Istanbul 25	Dow Jones Turkish Smaller Companies İstanbul 25 Index	25 Medium Sized Companies
DJIMT	Bizim Menkul Değerler A.Ş. Dow Jones Islamic Markets Turkey	Dow Jones Islamic Market Turkey	28 Islam Compliant Companies
GLDTR	Istanbul Gold	Gold price at the Istanbul Gold Exchange	Gold

Source: ISE, TSPAKB

e. Watch List Companies Market

The Watch List Companies Market is for companies under special surveillance and investigation due to extraordinary events. Extraordinary events cover unusual trades, incomplete, inconsistent and/or late disclosure of information to the public, failure to comply with the existing rules and regulations, and other situations that may lead to delisting. As of May 2008, 10 companies are in the watch list market.

f. Wholesale Market

The Wholesale Market provides a platform for large trades. Equities of listed or unlisted companies can be traded in this market. Pre-agreed trades, as well as block offers to the public are allowed. Block sale of privatized companies are also done in this market. Settlement can either be done through Takasbank or among the parties of the transaction upon their application and ISE's approval.

g. Rights Coupon Market

The Rights Coupon Market is a market for secondary trading of pre-emptive rights coupons during capital increases.

h. Official Auction

The courts, the court-bailiff's offices and other government agencies may request the sale of certain equities as a result of a legal case. The price is either set by these authorities or determined at an auction in this market.

i. Primary Market

Initial public offering of companies can be done in this market. Moreover, pre-emptive rights of the listed companies are also offered to the public in the Primary Market.

In the Primary Market, an ask order can only be given by the intermediary institution managing the public offering. Equities bought by the members cannot be resold in this market.

j. Trading

ISE has been fully computerized since 1994. Prices are determined on a multiple price-continuous auction method. The computerized system automatically matches buy and sell orders on a price and time priority basis.

Traders enter the orders via their workstations located at the ISE or in their offices. It is a blind order system with counterparties identified only after matching.

Trading Hours at ISE Equity Market		
National Market	Opening Auction	09:30-09:45
Second National Market	I. Session	09:45-12:00
New Economy Market	Lunch Break	12:00-14:00
Exchange Traded Funds	II. Session	14:00-17:00
Primary Market Wholesale Market Official Auction Market		11:00-12:00
Watch List Companies Market		14:00-15:00
Rights Coupon Market	Relevant Market's Trading Hours	

Equity trading is done in two separate sessions, first session in the morning and second in the afternoon. The opening auction is a classic single-price auction. Orders are entered into the trading system during the predefined time interval without matching. At the end of the order-entry period, opening prices are determined and orders are matched.

Unit of trading (lot) is the minimum quantity by which a stock, a rights coupon or an ETF can be traded. 1 lot of a stock represents 1 share (TRY 1 at par value), 1 lot of rights coupon represents 1 coupon (the rights coupon attached to a stock of TRY 1 at par value). In the ETF Market, 1 lot size is 1 certificate with a nominal value of TRY 1.

k. Settlement

The settlement of equities and cash is done on T+2 by Takasbank, through delivery-versus-payment (DVP) system. The securities settlement operations are carried out via Takasbank Settlement Pool Account with the Central Registry Agency (CRA). CRA and Takasbank systems are fully interlinked in real time, so securities transfers are reflected in the CRA instantaneously. Settlement is realized along with the details transferred from the CRA.

The custody accounts are held with the CRA. Intermediaries have a settlement pool account besides their own portfolio account and client sub-accounts. The cash accounts are held at Takasbank.

At the end of each trading day, ISE transmits details of all transactions to Takasbank. Takasbank multilaterally nets the settlement positions, determines the obligations of each broker in each security, and calculates their net cash position.

The net settlement position on client basis is transmitted to CRA on the trade day (T). Details of netting are available to brokers electronically on T, showing also settlement amounts due. At the end of the day, the securities of the delivering clients are blocked automatically by the CRA for settlement purposes.

On T+1, net settlement records that are checked by the CRA are made available to brokers electronically.

On T+2, the securities of the delivering clients are transferred from the blocked settlement account to the settlement pool account of the broker within the CRA system. Securities are transferred to client sub-accounts by the CRA.

Brokers are expected to fulfil their cash obligations through their cash accounts at Takasbank from 09:00 to 16:00 for equity settlements.

For cash settlement dues, brokers may,

- transfer funds from their accounts at other banks;
- use same day receivables from the ISE Bonds and Bills Market;
- use same day receivables from the Takasbank Money Market;
- borrow from the ISE repo market with same day value date; and/or
- borrow from the Takasbank Money Market with same day value date.

If the amount is still not covered, the brokerage firm defaults. Default procedures are explained in the next section. Firms generally charge penalty interest from their clients for failed settlement dues.

However, equity settlement is different. If, on the settlement date, the client is unable to deliver the equities s/he sold, the broker may;

- borrow the equities from the Securities Lending/Borrowing market, which is explained on the following pages;
- borrow the equities from another client with his/her written consent;
- borrow the equities in the OTC market from another brokerage firm (The equity holdings of brokerage firms are available through data vendors' screens); and/or
- borrow the equities from foreign institutions.

Settlement procedures are the same for the ETF Market.

l. Failed Trades and Default Procedures

If a party fails to fulfil its settlement obligation, ISE charges a default penalty based on overnight interest rates.

If default is covered on T+2 but after 16:00, then the highest of ISE Repo/Reverse Repo Market's or the Central Bank's overnight interest rate is applied.

However, if default is covered on T+3, relevant interest rate is multiplied by three and the penalty payment is calculated accordingly.

If default is not covered on T+3, Takasbank notifies the ISE, indicating due obligations (cash or securities), the brokerage firm's detailed list of securities and cash receivables pledged at Takasbank.

ISE holds a default auction for buying the required securities or liquidating the brokerage firm's collateral. Auction's settlement is on the same day (i.e. T+3). If the receivables still do not cover obligations, then Takasbank Guarantee Funds are used.

m. Collateral for the Equity Market

All intermediary institutions must deposit the collateral determined for each market of the ISE in which they operate.

The collateral is deposited at the Central Bank or any public bank stipulating it to be at ISE's disposal.

The following are accepted as collateral:

- Cash (TRY or foreign currency);
- Treasury bills and government bonds;
- An irrevocable and unconditional bank letter of guarantee. The amount of the guarantee is determined by the ISE for each brokerage firm. The issuer of the guarantee letter could be a foreign or a domestic bank, branches of foreign banks in Turkey and Islamic banks. However, the issuer should not have any affiliation with the brokerage firm.

The stock market collateral is calculated once in every quarter and is the sum of the following:

Fixed Collateral: The fixed amount is TRY 500 (~US$ 420).

Proportional Collateral: 5% of the average daily equity trading volume in the last 3 months.

Supplementary Collateral: 10% of the total amount of the defaults that exceed TRY 10,000 within the last 3 months.

Odd-Lot Collateral: The TRY 50,000 (~US$ 42,000) should be deposited only by the members executing odd-lot transactions (Off-Exchange).

A new brokerage firm pledges only the average collateral, which is the sum of fixed and proportional collateral assigned by the ISE.

2. Bonds & Bills Market

There are two sub-markets within the Bonds & Bills Market; Purchases & Sales and Repo/Reverse Repo. Government bonds and Treasury bills are traded in this market. Currently, there is no activity in corporate bonds. Banks and brokerage firms are allowed to operate in the Bonds & Bills Market.

a. Purchases and Sales Market

In the Purchases and Sales Market, the value dates of orders vary from same day to 90 days. If the nominal value of an order is less than TRY 100,000, it is considered as a small order. Orders are given in multiples of TRY 100,000 up to TRY 5,000,000 nominal. Small orders must be in multiples of TRY 1,000 up to TRY 99,000 nominal. All orders can be matched with several other orders, i.e. splitting is possible.

All members can download their trade books from the ISE web site or have them sent to their pre-registered e-mails at the end of each trading session. Members can also access their trade books at any time through their terminals.

Price, yield, volume information of best orders, details of the last transaction and a summary of total transactions excluding the trading parties are displayed on terminals and disseminated real-time.

b. Repo/Reverse Repo Market

In the Repo/Reverse Repo Market, the securities are safe kept on behalf of the participant involved in reverse repo transaction, in a segregated account. Securities are marked-to-market daily, during the repo period. Margin calls are made if necessary.

The "beginning value date" of orders varies from zero to seven days. If the nominal value of a repo/reverse repo order is less than TRY 500,000, it is considered as a small order. Orders are given in multiples of TRY 500,000 up to TRY 10,000,000. Small orders must be in multiples of TRY 1,000 up to TRY 499,000. All orders can be matched with several other orders.

c. Over the Counter Market

All transactions in the OTC Market, which take place among banks, brokerage houses, individual and institutional investors, are agreed upon on the telephone or through systems such as Reuters Dealing. Transactions are settled through banks' accounts at the Central Bank or brokerage firms' accounts at Takasbank. Unless otherwise agreed by the parties, the settlement date is the trade day. OTC market transactions must be registered at the Istanbul Stock Exchange.

d. Trading

The Central Bank, banks and brokerage firms that have the necessary licenses may trade in the market. A computerized order matching and reporting system is in place in both the Purchases and Sales Market and the Repo/Reverse Repo Market. Members may enter their orders via terminals in their own offices. Orders are matched according to price and time priorities. Both the Purchases and Sales Market and the Repo/Reverse Repo Market operate on a multiple price-continuous auction system. Trading hours are presented in the table below.

Trading Hours at ISE Bonds & Bills Market		
Purchases and Sales Market	Same day value date	09:30-12:00 13:00-14:00
	Other value dates	09:30-12:00 13:00-17:00
Repo/Reverse Repo Market	Same day beginning value date	09:30-12:00 13:00-14:00
	Other beginning value dates	09:30-12:00 13:00-17:00

e. Settlement

Clearing and settlement is handled by Takasbank. The settlement date for transactions is T+0, unless otherwise agreed between the parties.

The settlement of government debt securities traded in the organized and OTC markets are done through the Electronic Securities Transfer System operated by the Central Bank. Takasbank has a securities account with the CBRT in order to facilitate the settlement of government debt securities.

After a trade, the ISE issues confirmations to both parties and to Takasbank. Takasbank multilaterally nets all trades for each ISE member for each security traded and for cash. Netting results are reported to the members electronically on trade day. Only trades done before 14:00 hrs can be settled on the same day.

Trading members are expected to fulfil their cash obligations by using their cash accounts with Takasbank for the Bonds and Bills Market settlements by 16:30 hrs. They can also transfer cash from their other accounts at Takasbank, from other banks using the CBRT's Electronic Fund Transfer (EFT) system, use same day receivables from the ISE Stock Market or the Takasbank Money Market.

f. Collateral for the Bonds and Bills Market

Members (banks and brokerage firms) are required to keep collateral in order to trade in the Bonds & Bills Market. Assets that are accepted as collateral are as follows:

- Cash Collateral (TRY, US$, € and gold deposits),
- Bonds and Bills,
- Bank Letters of Credit. The issuer of the guarantee letter could be foreign or domestic banks, branches of foreign banks in Turkey or Islamic banks. However, the issuer should not have any affiliation with the brokerage firm.

Haircuts are applied, varying according to the nature of the collateral. Bank Letter of Credit can not exceed 50% of total collateral.

The amount of collateral depends on the trading limit of the member firm. Trading limits are determined by the Istanbul Stock Exchange. Members cannot exceed their trading limits during a session, unless their trades are settled.

g. Trading Limits

The main criteria used in determining trading limits are the member's shareholders' equity and the fixed income portfolio of the mutual funds it owns or manages.

The maximum trading volume (gross limit) is calculated as follows:
Shareholder's equity x 15 + size of fixed income portfolio of mutual funds it founded or manages.

Gross limit is the maximum amount the intermediary can trade during the day, which roughly equals the latest shareholders' equity multiplied by 15. It could be increased to three times that amount, if additional collateral conditions are met.

Once the gross limit is determined, a net limit is assigned to the member by taking into account its average daily trading volume and its settlement default history. After the net limit is set and approved by the ISE Executive Council, the member firm provides the necessary collateral and uses its net limit. The required collateral is 5% of the net limit.

As an example to clarify the mechanics of this process: Assume that the brokerage firm's shareholders' equity is US$ 1 million. Thus, its gross limit is US$ 15 million. Also assume that the brokerage firm manages mutual funds of US$ 1.5 million, of which US$ 1 million is in fixed income and the remaining US$ 0.5 million in equities. Hence, the final gross limit is US$ 16 million. However, the ISE may determine the firm's net limit as US$ 15 million. If the company wants to use its limit to the full, 5% of this amount, US$ 750,000, should be pledged as collateral. However, if the company prefers to pledge US$ 500,000 as collateral, then its net trading limit is set as US$ 10 million (=US$ 500,000/5%).

Trading limits can be increased by depositing excess collateral. Each unit of collateral grants 20 units of trading limit (i.e. 5% ratio). That is, if US$ 1 million is deposited as excess collateral, an additional US$ 20 million can be traded.

If, under special circumstances, the company wants to exceed its net limit or even gross limit, it could do so by collateralizing the excess amount in full.

Continuing with the example given above: let's assume that the firm is willing to trade US$ 20 million's worth of bonds on a given day. Its net limit is US$ 15 million and gross limit is US$ 16 million. It meets the collateral requirements in full, i.e. US$ 750,000 required by its net limit. In order to increase it net limit to US$ 20 million, the firm has to deposit additional collateral of US$ 5 million, i.e. the difference between the trading value and the net limit.

3. Foreign Securities Market

Listed Turkish sovereign eurobonds are being traded at the International Bonds submarket since April 2007. The market is open from Monday to Friday between 09:30-12:00 and 13:00-17:00 hours.

a. Trading

The Market is operating on a multiple price-continuous auction trading system. The system provides fully automated, remote-access, electronic order matching and reporting.

Order matching is based on price and time priorities. Members are subsequently informed about the executed transactions. Information on price and volume of best orders, details of the last transaction and a summary of all transactions are disseminated real time.

Orders are based on a "100" face value, on the relevant currency of the Eurobond. Value date of the orders can be between 3 (T+3) and 15 (T+15) days.

Transactions take place between 09:30-12:00 and 13:00-17:00 hours.

All ISE members authorized to operate in the Bonds and Bills Sales and Purchases Market are eligible to operate in the Foreign Securities Market. Members do not have to deposit any extra collateral, since their transactions are evaluated within trading limits for the Bonds and Bills Market.

b. Settlement

Takasbank handles cash and security clearing and settlement of eurobonds, at the value date, via its international clearing agents. Takasbank's international clearing agents are Citibank for cash and Euroclear for securities. Settlement currency is the currency of the relevant eurobond. Netted amounts are settled.

4. Indices

a. Equity Indices

Until the end of 1996, ISE used to compute only the ISE-100, Financials and Industrials indices. As of 1997, sector and sub-sector indices began to be calculated. All equity indices are calculated as price and total return indices. Price indices are free float capitalization weighted.

ISE price indices are computed throughout the trading session every 15 seconds, while the return indices are calculated and announced at the end of the session only. The ISE National-100 Index is the main indicator of the market.

Some of the basic indices are explained below:

ISE National-100 has been calculated since the inception of the ISE. It comprises of the 100 largest and most liquid companies listed on the National Market. Constituents are reviewed quarterly. ISE National-100 Index contains **ISE National-50** and **ISE National-30** Index companies.

ISE National-All Shares Index comprises of all National Market companies except investment trusts.

ISE Investment Trusts Index comprises of investment trusts traded on the National Market.

ISE Second National Market Index comprises of all companies traded on the Second National Market.

ISE New Economy Market Index comprises of all companies traded in the New Economy Market.

ISE Corporate Governance Index comprises of companies with a corporate governance rating of at least 6 out of 10. Ratings are assigned by independent rating agencies authorized by the Capital Markets Board.

Sector and sub-sector indices are composed of National Market companies, excluding investment trusts. ISE also calculates all indices on a US dollar basis and the ISE National-100 on a Euro basis.

b. Bonds and Bills Indices

Government Debt Securities (GDS) indices are divided into two main groups; Price/Performance Indices and Portfolio Performance Indices.

The **Price Index** is an indicator reflecting the price fluctuations of Treasury bills or government bonds due to interest rate changes provided that the maturity term remains constant. The index is calculated with five different maturities of 91, 182, 273, 365 and 456 days. Maturity term is kept constant in order to reflect the effect of the interest rate changes on the price index.

The **Performance Index**, on the other hand, is an indicator of yield. It reflects the price changes of the bonds/bills (with the above mentioned maturities), due to interest rate fluctuations and as the time to maturity diminishes.

Since price/performance indices are designed to reflect the changes in the yield curve, they are calculated only once at the end of each trading day. **Portfolio Performance Indices**, on the other hand, take into account the intra-day transactions on a real time basis.

Bond Indices are total return indices and are calculated using the prices of TRY denominated discounted government securities which are traded on the Purchases and Sales Market between 9:30-12:00 and 13:00-14:00. They are calculated real time following any trade in these securities. The government securities, which were not traded on the previous or the current day, are not used in the index calculations. Thus, the number of securities used in the indices can vary.

Repo Index reflects the average daily yield of overnight repo transactions. The rate used for index calculations is the volume weighted average rate of overnight transactions in the Repo-Reverse Repo Market.

5. Initial Public Offerings

Public offering procedures and disclosure requirements of the public companies are regulated by the Capital Markets Board. According to the Capital Markets Law, public companies are defined as "joint stock corporations whose shares are offered to the public or which are considered to have been offered to the public”. If the number of shareholders exceeds 250, the shares of a joint stock company is considered to have been offered to the public and these corporations are subject to the Capital Markets Law.

Shares to be offered to the public are required to be registered with the CMB. The related registration processes and sales methods of shares are defined in;

- Communiqué Serial:I No:26 on Principles Regarding Registration with the Capital Markets Board and Sale of Shares
- Communiqué Serial:VIII No:22 on Principles Regarding Sales Methods of Capital Market Instruments through Public Offering.

a. Public Offering of Equities

Prerequisites for public offering of equities are:

- The capital of the company should be all paid-in;
- Shares should be freely transferable; and
- The free float rate should be at least
  - 25%, if the paid-in capital of the company is equal or less than TRY 14,200,000,
  - 15%, if the paid-in capital of the company is between TRY 14,200,000 and TRY 70,800,000,
  - 5% if the paid-in capital of the company is equal or more than TRY 70,800,000.

These are the thresholds for 2008, and they are revalued each year.

Two methods can be used for the offering: underwriting (book building) and best effort (offering on the stock exchange). In underwritten offerings, the demands of investors are collected through “fixed price” or “price bids”. In best effort, shares may be offered to the public on the ISE Primary Market.

Shares sold through public offering must be fully paid in cash. The CMB shall require from the shareholders or intermediary institutions a guarantee that unsold shares will be purchased and paid completely.

b. Registration with the Capital Markets Board

The main document of public offering is the prospectus. Other fundamental documents are the financial statements and the independent auditors’ reports. Audited financial statements in line with the CMB’s accounting standards (i.e. IFRS) for the last 3 financial years and the latest interim financial statements, if available, should be provided.

Applications to the CMB are evaluated through consideration of whether or not the prospectus and circulars truly and fully reflect the information on the company and shares to be offered. If the information is found to be insufficient, not reflective of the truth or likely to abuse the public’s good faith, the CMB may refrain from registering the company, providing a formal explanation therefore. Otherwise, the shares are registered.

Following registration with the CMB, the prospectus must be registered at the Trade Registry and published in the Trade Registry Gazette within 15 days. The public will be invited by a circular to purchase the shares. Circulars for investors should be published in 15 days, following the registration of the prospectus.

c. Cost of Public Offerings

There are four main cost components for the issuers.

Fees Paid to Brokerage Firms: These fees are freely negotiable and depend on the services offered and the size of the offering.

Fees Paid to the Capital Markets Board: CMB's registration fee is 0.2% of the total offering size.

Fees Paid to the Istanbul Stock Exchange: Listing fee for the National and Second National Market is 0.1% of the nominal value of the company's paid-in capital. Registration fee for the New Economy Market is half of that at 0.05%.

Furthermore, there is an advertisement fee of TRY 3,000 (~US$ 2,400) to publish circulars of an offering on the ISE Daily Bulletin.

Other Costs: In addition to the above, the issuer generally bears the audit, due diligence, marketing and advertising expenses.

6. Listing Requirements

a. Equities

The following conditions and documents are required to be provided for listing on the ISE:

- The audited financial statements for the last three years and the latest quarter if applicable;
- The company must have made a profit-before-tax for the last two years. However, if the offering size exceeds TRY 40 million or if the free-float rate is at least 35%, only last year's profitability is required;
- The shareholders' equity must be at least TRY 14 million;
- Market capitalization of the offered shares must be at least TRY 21 million and free-float must be at least 25%. If free-float is below 25%, offering size must be at least TRY 40 million;
- The company's Articles of Incorporation must not include any provisions restricting the transfer or circulation of the securities to be traded on the Exchange or preventing the shareholders from exercising their rights;
- There should be no open or pending legal disputes of significant size which might affect the company's production and/or activities; and
- The company must not have suspended its activities for more than three months during the previous year.

b. Debt Securities

There are two basic requirements to list debt instruments at the ISE. Firstly, the nominal value of the issue must be at least TRY 750,000. Secondly, the entire amount of the issue must be offered to the public. Also, there are other conditions and documents required from the issuer:

- At least three calendar years must have passed since the establishment of the company;

- The latest financial statements should have been independently audited;
- The company must have a profit-before-tax for the last two years. If the company is already listed with free-float of at least a 25%, only the previous year's profitability is required;
- The shareholders' equity of the company must be at least TRY 1.4 million; and
- The company's Articles of Incorporation must not include any provisions restricting the transfer and circulation of the securities traded on the Exchange or preventing the shareholders from exercising their rights.

7. Delisting

Securities may be delisted upon the decision of the Executive Council through consultation with the Listing Committee, for the cases listed below:

- Negative shareholders' equity;
- Non-compliance with the rules and regulations, especially violation of disclosure and insider trading regulations;
- Filing for bankruptcy or suspending operations for more than three months;
- Dissolution of the company;
- Company facing difficulties in paying its debts or financially distressed;
- Company not fulfilling the fee obligations of the Exchange;
- Cancellation or invalidation of any permits, licenses or agreements of the company crucial to its operations;
- An independent auditor gives a negative opinion or refrains from giving an opinion for the last two financial periods;
- Loss of 2/3 of the operational capacity due to any disaster such as fire, war, terrorism, etc.; and
- Defaulting on debt securities.

However, voluntary delisting is not easy. According to ISE rules, companies may apply for delisting, but "the ISE Executive Council may require the company to take some precautions prior to delisting, in order to prevent investors' losses".

In practice, voluntary delistings have not happened so far, even in cases where the free float has fallen below 0.5%. However, currently there is work in progress to define and ease voluntary delisting rules.

IV. TURKISH DERIVATIVES EXCHANGE

Turkish Derivatives Exchange Inc. (TurkDex) was established in July 2002 as a private company in Izmir. It became operational in February 2005, as the only derivatives exchange in Turkey.

A. Organization and Shareholder Structure

TurkDex has 11 shareholders as depicted on the table on the following page. The 10 member Board of Directors is composed of:

- 1 representative from the Istanbul Stock Exchange,
- 2 representatives from the Union of Chambers and Commodity Exchanges of Turkey,
- 2 representatives from TSPAKB,
- 3 representatives from bank and brokerage firm shareholders,

- 1 representative from the Izmir Mercantile Exchange, and
- the CEO of TurkDex

Shareholder Structure of TurkDex	
Union of Chambers and Commodity Exchanges of Turkey	25%
Istanbul Stock Exchange	18%
Izmir Mercantile Exchange	17%
Yapi ve Kredi Bank	6%
Akbank	6%
Vakif Investment Securities	6%
Garanti Bank	6%
Is Investment Securities	6%
TSPAKB	6%
Takasbank	3%
Industrial Development Bank of Turkey	1%

B. Functions

As of February 2008, only futures contracts are traded at TurkDex. Current contracts are as follows:

1. Currency futures (TRY/US$ and TRY/€),
2. Interest rate futures (91 and 365 day T-Bills, benchmark bonds),
3. Equity index futures (ISE-30 and ISE-100 indices), and
4. Commodity futures (cotton, wheat, gold).

TurkDex operates on an entirely electronic trading platform.

C. Members and Clearing House

Intermediaries (banks and brokerage firms) willing to trade derivatives have to be authorized by the Capital Markets Board. Capital adequacy rules are also enforced by the CMB. As of May 2008, TurkDex has 83 members. All trading members are also clearing members.

All clearing and settlement activities of TurkDex are handled by Takasbank. Takasbank is recognized by the UK FSA as an "Approved Depository" and an "Approved Bank". It also complies with the "Eligible Foreign Custodian" definition of the US SEC. The Guarantee Fund managed by Takasbank also covers settlement defaults of TurkDex transactions.

D. Trading

Trading is done on a multiple price, continuous auction method. The computerized system automatically matches orders based on price and time priority. TurkDex system has an online, real-time connection with Takasbank, which allows the monitoring of all orders, transactions, margins and positions on a client account basis.

Orders can be sent either via the wide area network or through the TurkDex Trading Room. Orders are entered on a client account basis. The system controls the adequacy of the margin at the moment of trade through its online connection with Takasbank. Order entry is possible without the stipulated margin, however it is not executed if there is not sufficient collateral.

TurkDex is open from Monday to Friday and trading hours are given in the table on the next page. In the non-trading period, the system is open. However, order entry or execution is not possible. In this period, member representatives may log on to the system, execute queries and may aggregate order files to be sent to the system after the start of a normal session. Furthermore, "valid till cancellation" orders or "orders with dates" may be cancelled or modified.

Trading Hours at TurkDex	
Non-trading Period	08:45-09:30
Session	09:30-12:00
Lunch Break	12:00-13:00
Session (Continues)	13:00-17:10
Announcement of Settlement Prices and Margin Calls	17:25
Clearing Period	17:25-14:30 (next trading day)
Start of Default	14:30 (next trading day)

Last 10 minutes of the normal session is called the "closing period". Settlement prices for the regular trading day are announced at 17:25. Margin calls are announced on the Takasbank Derivatives System (TVIS) screen of the members.

Clearing period is between 17:25 on the transaction day (T+0) and 14:30 on the following day (T+1).

E. Margining

Margin amounts are deposited at Takasbank on the client's account.

Trade margins are categorized into three groups:

Initial Margin: The margin required to take any open position is called the initial margin. Initial margin for each security is specified in the relevant contract. Lower margin requirements may be set for calendar spread positions.

Maintenance Margin: It is the minimum margin level allowed to be carried due to losses incurred on positions or depreciation of the non-cash collateral. If trade margin drops below the maintenance margin, Takasbank places a margin call.

Extraordinary Margin: The Exchange may request additional margins during extraordinary circumstances.

Assets accepted as margin collateral are:

- New Turkish Lira (TRY),
- Foreign currency (USD, EUR),
- Foreign currency indexed bonds,
- Government bonds and Treasury bills,
- Equities (included in ISE-30 Index), and
- Mutual funds.

At least 30% of the total collateral must be deposited in cash. All non-cash collateral is subject to haircuts determined by Takasbank. Collateral are marked-to-market daily by Takasbank.

F. Clearing

The clearing and settlement of transactions are executed on a cash settlement basis. Physical delivery is not possible. Members should fulfil their margin requirements by 14:30 the following day (T+1, 14:30).

Takasbank acts as the central counterparty and guarantees the settlement of transactions. But the guarantee is limited to the collateral taken from the members and the size of the guarantee fund.

Trades are executed on a client account basis, which means that margins are also monitored on account basis. However, although the margins are followed on account basis, clearing members are responsible for the margin calls.

Everyday, after the announcement of daily settlement prices of contracts by TurkDex, Takasbank starts marking-to-market on account basis. If the collateral fall below the maintenance margin, a margin call is announced by Takasbank. If the collateral is above the maintenance margin in an account, but the cash margin is negative after the losses are deducted from the cash collateral, the relevant member shall be required to pay for the negative balance (bring the cash margin balance up to "0") by a margin call. While daily losses are deducted from the cash collateral on the same day (T+0), profits are added to the cash collateral on the following day (T+1).

G. Contract Specifications

The following futures contracts are traded at TurkDex:

1. Currency futures (TRY/US$ and TRY/€),
2. Interest rate futures (91 and 365 day T-Bills, benchmark bonds),
3. Equity index futures (ISE-30 and ISE-100 indices), and
4. Commodity futures (cotton, wheat, gold).

Summary contract specifications are provided in the tables below.

Currency Futures		
Contract Name	TRYUSDollar	TRYEuro
Underlying Asset	TRY/US Dollar	TRY/Euro
Contract Size	1,000 US Dollar	1,000 Euro
Price Quotation	Sample quote = 1.4155 TRY or 1.8870 TRY	
Tick Size	0.0005 = 0.5 TRY	0.0005 = 0.5 TRY
Contract Months	3 nearest calendar months from February, April, June, August, October and December	
Final Settlement Day	Last business day of the contract month	
Source: TurkDex		

Index Futures		
Contract Name	ISE 100	ISE 30
Underlying Asset	ISE National-100 stock price index	ISE National-30 stock price index
Contract Size	10% of the index in TRY	
Price Quotation	0.1% of index with three decimals	
Tick Size	0.025 (25 Index points)	
Contract Months	3 nearest calendar months from February, April, June, October and December	
Final Settlement Day	Last business day of the contract month	
Source: TurkDex		

Interest Rate Futures			
Contract Name	91 Day T-Bill	365 Day T-Bill	T-Benchmark
Underlying Asset	91 day Turkish T-Bills with a face value of 100 TRY	365 day Turkish T-Bills with a face value of 100 TRY	A discounted benchmark T-bill chosen by TurkDex.
Contract Size	10,000 TRY (or 100 T-Bills, Contract size = 94.475*100 = 9,447.5 TRY)		
Price Quotation	Quoted per 100 TRY face value (94.546 TRY or 94.547 TRY)		
Tick Size	0.001 = 0.1 TRY	0.005 = 0.5 TRY	0.010 = 1 TRY
Contract Months	3 nearest calendar months from February, April, June, August, October and December		The first, the third and the fifth month after January, April, July and October when the Turkish Treasury is issuing longer maturities.
Final Settlement Day	The next business day after the 91 day T-bill auction. If there is no auction, the third Tuesday of the month.	The third Tuesday of the contract month	Last business day of the contract month
Source: TurkDex			

Commodity Futures			
Contract Name	Aegean Cotton	Anatolian Red Wheat	Gold
Underlying Asset	Aegean Standard 1 Cotton	Anatolian Red Hard Wheat	995/1000 fineness refined gold
Contract Size	1 ton	5 tons	100 grams
Price Quotation	Per kg with three digits (1.825 or 1.830 TRY)	Per kg with four digits (0.3865 or 0.3870 TRY)	Per gram with three digits (22.680 TRY)
Tick Size	0.005 = 5 TRY	0.0005 = 2.5 TRY	0.005 = 0.5 TRY
Contract Months	March, May, July, October and December		3 nearest calendar months from February, April, June, August, October and December
Final Settlement Day	Last business day of the contract month		Next business day after the last trading day.
Source: TurkDex			

V. ISTANBUL GOLD EXCHANGE

The Istanbul Gold Exchange (IGE) became operational in July 1995. The IGE has two main markets:

- Precious Metals Market (spot transactions for gold, silver and platinum)
- Precious Metals Lending Market (for gold).

Silver and platinum trading started in December 1998. Non-standard gold transactions within the Precious Metals Market were launched in October 1999. This enables scrap gold trading in a secure environment by eliminating counterparty risk. It also removes assaying concerns regarding non-standard bullions. The Precious Metals Lending Market started operations in March 2000.

Futures and Options Market, which was launched in August 1997 at the IGE, was closed on January 31, 2006 as gold futures contracts were introduced at TurkDex on February 1, 2006.

A. Organization Structure

The statutory bodies of the Istanbul Gold Exchange are the General Assembly, Board of Directors, Board of Auditors and Committees. The General Assembly of Exchange consists of Exchange members and is the highest decision-making body.

The Board of Directors consists of four members elected by the General Assembly and the Exchange President is assigned by the government. The President is also the Chairman of the Executive Board. Similar to the Istanbul Stock Exchange, IGE has a mutual structure.

B. Functions

The main functions of the IGE are to:

- Launch markets for the trading of precious metals, definition and standards of which are determined by the Undersecretariat of Treasury;
- Launch markets for the trading of precious metal-based capital market instruments;
- Ensure fair, reliable and stable trading;
- Disseminate market information to the public; and
- Sanction IGE members violating the IGE regulations.

VI. TAKASBANK (ISE Settlement and Custody Bank)

Takasbank is the "Clearing and Settlement Center for the Istanbul Stock Exchange", the "Clearing House for the Turkish Derivatives Exchange" and the "National Numbering Agency of Turkey". Apart from these functions, Takasbank operates the money market and the securities lending & borrowing market, provides banking services including cash loans to members, and other services such as cross-border settlement and custody.

Takasbank was established in 1988 as a department of the ISE. It originally provided settlement services for securities traded on the ISE. In January 1992, a separate company was established, which took over the operations of the department. This company was renamed Takasbank in 1996.

Established under the Turkish Banking Law and incorporated as a non-deposit taking bank, Takasbank is a specialized bank dedicated to securities services in Turkey.

Clearing and settlement rules are specified by the ISE, in accordance with the general rules and regulations of the CMB. Due to Takasbank's status as a bank, the Banking Regulation and Supervision Authority and the Central Bank of Turkey also regulate Takasbank.

Settlement of transactions is done through Delivery Versus Payment, with daily netting.

A. Organization and Shareholder Structure

Takasbank is owned by the ISE and 86 of its members. According to the Articles of Incorporation, no single shareholder can hold more than a 5% stake, except for the ISE. Current shareholder structure of Takasbank is as follows:

Shareholder Structure of Takasbank	
Istanbul Stock Exchange	32.63%
19 Banks	34.48%
67 Brokerage Firms	32.89%

The Board of Directors is composed of 11 members. Composition of the Board is as follows:

- 4 representatives from the ISE,
- 1 representative from the CMB,
- 5 representatives from ISE members (banks and brokerage houses)
- President and CEO of Takasbank.

B. Functions and Services

Main functions of Takasbank are as follows:

- Provides central clearing and settlement services for the organized markets of the ISE;
- Acts as the central counterparty and clearing house for the Turkish Derivatives Exchange;
- Operates the Takasbank Money Market, an OTC market where ISE members can lend and borrow funds;
- Operates the Securities Lending and Borrowing Market, where members can lend and borrow securities;
- Provides cash loan services for ISE members;
- Takasbank Electronic Transfer System (TETS) enables brokerage houses to transfer securities (government bonds and Treasury bills) and cash electronically, in connection with the Central Bank's "Electronic Fund Transfer" (EFT) and "Electronic Securities Transfer" systems; and
- As the National Numbering Agency of Turkey, Takasbank assigns International Securities Identification Numbers (ISIN) to the securities issued in Turkey.

C. Takasbank Money Market

Takasbank Money Market (TMM) started operations in 1996. All banks and brokerage firms, who are ISE members, may sign a Letter of Undertaking and start lending or borrowing in the market. Takasbank guarantees settlement.

1. Trading Limits

Transactions take place between 10:00-12:00 and 13:00-15:30. Maturities change between 1 to 30 days, 45 days, 2 months and 3 months. Minimum trading amount is TRY 5,000, with increments of TRY 1,000. Order rate increments are in 0.05% and multiples.

Brokerage firms may call Takasbank and place their orders over the phone or may enter orders at the Takasbank terminals located in their offices.

Orders are matched through the Takasbank system, based on price-time priorities. Best bid-ask rates are published online, real time. Settlement is done by 16:00 each day.

2. Collateral

The borrowing brokerage firm is requested to place 125% of the amount it would bid in the market. Collateral are marked-to-market, real-time. No collateral is requested from the lender.

The following assets are accepted as collateral:

- Cash (TRY, FX),
- Letters of Guarantee (TRY, FX),
- Treasury Bills and Government Bonds,
- Mutual Funds, and
- Equities.

A 25% haircut is applied for equities. The others are valued at market prices. If the total value of collateral falls below 115% of the outstanding borrowing of the brokerage firm, Takasbank makes a margin call and requests the amount be raised to 125%.

D. Securities Lending and Borrowing Market

Takasbank Securities Lending and Borrowing Market (Securities L/B Market) was established to facilitate short-selling and equity settlements. Only brokerage firms, allowed by the CMB, may operate in the market. They sign a Letter of Undertaking with Takasbank and start lending or borrowing. Takasbank does not guarantee the settlement. It only operates the market.

1. Trading

Securities that may be lent or borrowed are equities in the ISE National Market and ETFs. The market value of the transaction is calculated by multiplying the weighted average price in the second session of the previous day and the number of the security to be borrowed/lent.

Prices are quoted as annual interest rates, which is also referred to as the commission rate. The commission rates are freely determined by the parties. Commission increments are in 0.01% (one basis points) and multiples.

Trading is done between 09:30-12:00 and 13:30-16:15. The maturity of the orders may be:

- between 1 and 7 days,
- 1, 2 and 3 weeks, or
- 1, 2, 3, 6, 9 and 12 months.

Brokerage firms may place their orders through Takasbank terminals located in their offices.

If a lending order is entered into the system, securities are transferred from the customer's account to the Takasbank's account at the Central Registry Agency. If a borrowing order is entered, the collateral is checked. The market value of a single order can not exceed TRY 1.5 million.

Orders are matched through the Takasbank system based on price-time priorities. Best bid-ask rates are published online, real time. Settlement (security and cash transfer) is done at the time of the transaction. Repayments are done by 16:30 on maturity date.

The financial rights arising from the securities (rights issues, stock splits and dividends) remain with the lender, however, the managerial rights (voting rights) are transferred to the borrower.

2. Collateral

The borrower must have a marked-to-market collateral of at least 100% of the borrowed amount during the transaction. The maintenance collateral rate is 105% of the borrowed amount. If the collateral value falls below the maintenance rate, Takasbank makes a margin call to the broker.

The following are accepted as collateral:

- Cash (TRY, FX),
- Letter of Guarantee (TRY, FX),
- Treasury Bills and Government Bonds,
- Mutual Funds,
- Equities, ETFs, and
- Gold.

Haircuts are applied to equities and mutual funds. The others are valued at market prices.

Borrowers may borrow up to the amount allowed by their collateral. No collateral is required for lenders.

E. Guarantee Fund

The ISE has established a Guarantee Fund aiming to avoid delays and defaults in the settlement of transactions. The Fund is financed by the fines collected from ISE members with late settlement deliveries.

The Guarantee Fund, currently managed by Takasbank, provides the initial liquidity for the settlement process every day. At the end of a settlement, if all the parties fulfil their obligations, the fund is released in full. Otherwise, it is used to cover the default. Therefore, the Guarantee Fund is actually a temporary liquidity facility for the settlement process.

VII. THE CENTRAL REGISTRY AGENCY

The Central Registry Agency Inc. (CRA) is the only central depository for all dematerialized capital market instruments. It was established in 2001 as a private company. The communiqué about the terms and conditions for registration of dematerialized capital market instruments was enacted in December 2002. The dematerialization process was completed in 2006 for equities and in 2007 for mutual funds.

A. Organization and Shareholder Structure

The shareholders of the CRA are as follows:

Shareholder Structure of CRA	
Takasbank	64.9%
Istanbul Stock Exchange	30.0%
TSPAKB	5.0%
Istanbul Gold Exchange	0.1%

The 7 member Board of Directors is composed of:

- 2 members from ISE,
- 2 members from Takasbank,
- 1 member from TSPAKB,
- Chairman, who is also the Vice Chairman of the Capital Markets Board, and
- General Manager.

The principles governing the duties, authority and operations of the CRA are defined in its Articles of Incorporation. The CRA must seek the approval of the CMB for any modifications to its Articles of Incorporation.

B. Functions

Main functions of the CRA are to:

- Dematerialize and register capital market instruments and the rights attached, in electronic form, with respect to issuers, intermediary institutions and rights holders;
- Protect the integrity and consistency of records;
- Ensure confidentiality of records;
- Manage the Investors' Protection Fund (IPF); and
- Liquidate insolvent intermediary institutions when necessary on behalf of the IPF.

C. Investors' Protection Fund

The Investors' Protection Fund was established in 2001 to cover the obligations to investors of bankrupt brokerage firms and banks, with respect to equity transactions. Receivables from trading other securities, such as government bonds, are not covered. The Fund also carries out the liquidation process of intermediaries.

For 2008, the Fund covers up to YTL 51,674 (app. € 27,000) of receivables per investor. All intermediaries have to make annual contributions to the Fund. Moreover, half of the administrative fines imposed by the CMB, ISE and TSPAKB are paid to the Fund.

VIII. OTHER CAPITAL MARKET INSTITUTIONS

Other capital market institutions are the institutions whose establishment and principles of operation are determined by the CMB. These include:

- Clearing and settlement institutions,
- Rating institutions,
- Independent auditors,
- Investment consultancy companies,
- Asset management companies,
- Financial companies established with the objective of issuing asset-backed securities,
- Institutions related to mortgage-backed securities,
- Venture capital mutual funds,
- Venture capital investment companies,
- Intermediary institutions dealing with futures transactions, and
- Custodians.

INTERNATIONAL COMPARISON

In this section, we provide a brief analysis of where Turkish capital markets stand globally. All ratios in this section are calculated in terms of US dollars.

I. GLOBAL COMPARISON

According to IMF data, Turkey was the 17th largest economy in 2007 with a GDP of US$ 659 billion. Its share in the global GDP is 1.2%.

Gross Domestic Product (2007)			
		bn. $	**Share**
1	United States	13,844	25.5%
2	Japan	4,384	8.1%
3	Germany	3,322	6.1%
4	China	3,251	6.0%
5	United Kingdom	2,773	5.1%
6	France	2,560	4.7%
7	Italy	2,105	3.9%
8	Spain	1,439	2.6%
9	Canada	1,432	2.6%
10	Brazil	1,314	2.4%
17	**Turkey**	**659**	**1.2%**
	Total World	**54,391**	**100.0%**
Source: IMF, TurkStat			

Although Turkey is ranked 17th in terms of GDP, its capital market's ranking varies from between the 25th place to the 30th, from amongst the members of the World Federation of Exchanges (WFE). The World Federation of Exchanges has 56 exchanges as members.

Domestic Market Capitalization-2007				
		MCap (bn. $)	**Global Share**	**MCap/GDP**
1	New York SE	15,651	25.8%	114%
2	Tokyo SE	4,331	7.1%	101%
3	Euronext	4,223	7.0%	112%
4	Nasdaq	4,014	6.6%	29%
5	London SE	3,852	6.3%	145%
6	Shanghai SE	3,694	6.1%	121%
7	Hong Kong Exchanges	2,654	4.4%	1315%
8	TSX Group	2,187	3.6%	173%
9	Deutsche Börse	2,105	3.5%	68%
10	Bombay SE	1,819	3.0%	185%
26	**Istanbul SE**	**290**	**0.5%**	**44%**
	Total*	**60,693**	**100.0%**	**130%**
Source: WFE, IMF, ISE, TurkStat *Osaka Stock Exchange and National Stock Exchange of India are excluded from total due to dual listings.				

The market capitalization of the ISE constitutes around 0.5% of global market capitalization. Although the global average MCap-to-GDP is around 130%, ISE's MCap-to-GDP ratio is 44% as of the end of 2007.

In terms of number of listed companies, ISE ranks 32nd, representing 0.7% of the listed companies in the world.

Number of Listed Companies-2007			
		Listed Companies	Global Share
1	Bombay SE	4,887	10.8%
2	TSX Group	3,951	8.7%
3	BME Spanish Exchanges	3,537	7.8%
4	London SE	3,307	7.3%
5	Nasdaq	3,069	6.8%
6	Tokyo SE	2,414	5.3%
7	New York SE	2,273	5.0%
8	Australian SE	1,998	4.4%
9	Korea Exchange	1,757	3.9%
10	National Stock Exchange India	1,330	2.9%
32	**Istanbul SE**	**319**	**0.7%**
	Total	**45,258**	**100.0%**
Source: WFE			

Although liquidity is one of ISE's stronger areas, it still ranks at 25th place. Turnover ratio (Trading Volume/MCap) is around 100%, while the global average is around 160%.

Equity Trading Volume-2007				
		Equity Trading Volume (bn. $)	Global Share	Equity Volume/MCap
1	New York SE	29,210	29.4%	186.6%
2	Nasdaq	15,320	15.4%	381.7%
3	London SE	10,324	10.4%	268.0%
4	Tokyo SE	6,476	6.5%	149.5%
5	Euronext	5,648	5.7%	133.8%
6	Deutsche Börse	4,324	4.4%	205.4%
7	Shanghai SE	4,070	4.1%	110.2%
8	BME Spanish Exchanges	2,971	3.0%	166.8%
9	Borsa Italiana	2,312	2.3%	215.5%
10	Hong Kong Exchanges	2,139	2.2%	80.6%
25	**Istanbul SE**	**301**	**0.3%**	**103.4%**
	Total*	**99,392**	**100.0%**	**163.8%**
Source: WFE, ISE				
*Osaka Stock Exchange and National Stock Exchange of India excluded from total due to dual listings.				

The debt securities data in the table presented on the next page is compiled from the data of the Bank for International Settlements and IMF as of September 2007. The size of the domestic debt market exceeds US$ 200 billion in Turkey. Debt securities-to-GDP ratio is 33%, while the global average is 109%. This reveals that the size of the debt securities market is still meagre. It should be added that the size of the Turkish corporate bond market is negligible, as nearly 100% of outstanding debt securities are issued by the government.

Domestic Debt Securities (2007/09)					
		Domestic Debt Securities (bn. $)	Domestic Debt Securities/GDP	Government Bonds' Share	Corporate Bonds' Share
1	U.S.	23,900	173%	27%	73%
2	Japan	8,707	199%	81%	19%
3	Italy	2,942	140%	59%	41%
4	France	2,653	104%	52%	48%
5	Germany	2,458	74%	53%	47%
6	Spain	1,532	106%	32%	68%
7	China	1,529	47%	68%	32%
8	U.K.	1,354	49%	67%	33%
9	Canada	1,134	79%	63%	37%
10	South Korea	1,119	117%	43%	57%
22	**Turkey**	**217**	**33%**	**100%**	**0%**
	Total	**55,389**	**109%**	**47%**	**53%**
Source: BIS, IMF, TurkStat					

The global mutual funds' data is published by the Investment Company Institute. According to the latest figures as of September 2007, the size of institutional investors in Turkey is quite low, when compared to other countries.

Mutual Funds (2007/09)				
		Mutual Funds (bn. $)	Global Share	Mutual Funds/GDP
1	U.S.	11,919	46.2%	86%
2	Luxembourg	2,609	10.1%	5,202%
3	France	1,995	7.7%	78%
4	Australia	1,224	4.7%	135%
5	U.K.	951	3.7%	34%
6	Ireland	921	3.6%	356%
7	Hong Kong	721	2.8%	349%
8	Canada	707	2.7%	49%
9	Japan	701	2.7%	16%
10	Brazil	575	2.2%	44%
33	**Turkey**	**21**	**0.1%**	**3%**
	Total	**25,822**	**100.0%**	**51%**
Source: ICI, IMF, TurkStat				

II. EMERGING MARKETS COMPARISON

In this section, we compare the Turkish capital market's size with other emerging markets. We also adopt a long-term approach, starting our analysis from 1995.

Broad Index Returns (US$ Based)				
	2005	2006	2007	2005-2007
Brazil	45%	45%	72%	151%
Turkey	**59%**	**-6%**	**72%**	**62%**
Malaysia	0%	31%	41%	84%
Thailand	1%	8%	35%	46%
Israel	25%	16%	35%	56%
South Korea	58%	13%	31%	49%
Greece	14%	34%	31%	75%
Poland	23%	59%	30%	107%
South Africa	28%	24%	20%	48%
Argentina	19%	48%	15%	70%
Mexico	44%	46%	11%	62%
Austria	24%	41%	9%	55%
Source: WFE				

ISE performed well in 2005 and 2007, but it was the only declining market in 2006. In the last three years, Turkey ranks 7th in terms of cumulative returns among the group of 12 countries. The table also illustrates the volatility of the Turkish market.

The MCap/GDP ratio has been increasing steadily since 1995. However, since other markets are also developing at a similar pace, Turkey's ranking has not changed significantly.

Market Capitalization/GDP					
	1995	**2000**	**2005**	**2006**	**2007**
South Africa	183%	99%	227%	279%	305%
Malaysia	241%	125%	138%	156%	203%
Israel	37%	54%	94%	115%	158%
South Korea	35%	29%	91%	94%	119%
Brazil	19%	35%	54%	67%	116%
Thailand	81%	24%	70%	68%	90%
Greece	11%	73%	51%	68%	78%
Austria	14%	15%	41%	60%	68%
Poland	3%	18%	31%	44%	58%
Turkey	**12%**	**26%**	**34%**	**31%**	**44%**
Mexico	32%	22%	31%	41%	44%
Hungary	-	25%	29%	37%	37%
Argentina	15%	16%	26%	24%	23%
Source: WFE, IMF, ISE, TurkStat					

The number of listed companies is 319 as of end-2007, similar to its level in end-2000. The major reason for this is the severe crisis of 2001, when many banks and their subsidiaries went bankrupt and delisted. Although the IPO market revived after 2004, ISE still has around 320 listed companies, roughly the same figure as in 2000.

Number of Listed Companies					
	1995	**2000**	**2005**	**2006**	**2007**
South Korea	721	702	1,616	1,689	1,757
Malaysia	526	790	1,019	1,025	986
Israel	654	665	584	606	654
Thailand	416	381	504	518	523
South Africa	638	606	373	389	411
Brazil	544	467	381	350	404
Poland	65	225	241	265	375
Mexico	185	177	326	335	367
Turkey	**205**	**315**	**304**	**316**	**319**
Greece	186	310	304	290	283
Austria	148	111	111	113	119
Argentina	149	125	104	106	111
Hungary	-	59	44	41	41
Source: WFE, ISE					

In comparison with its peers, Turkey has a very liquid market. Although the turnover ratio has been declining, it still ranks second. The decline is mainly due to the increase in foreign investors' equity holdings. As will be analyzed in detail in the Investors section, foreign investors have a very low turnover ratio (i.e. have a longer investment horizon) when compared with domestic investors. As their share has been rapidly increasing since 2003, the turnover ratio of the market has been declining. But, Turkey is still the market with the lowest liquidity risk.

Equity Trading Volume/Market Capitalization					
	1995	2000	2005	2006	2007
South Korea	102%	375%	169%	161%	179%
Turkey	**245%**	**262%**	**124%**	**140%**	**104%**
Hungary	15%	102%	74%	74%	103%
Greece	37%	88%	45%	52%	64%
Thailand	44%	72%	77%	72%	60%
Austria	41%	32%	37%	43%	55%
Malaysia	28%	47%	29%	32%	52%
South Africa	6%	59%	37%	44%	51%
Brazil	39%	45%	35%	39%	44%
Israel	26%	44%	40%	40%	43%
Poland	60%	61%	33%	37%	42%
Mexico	39%	37%	24%	28%	31%
Argentina	85%	21%	14%	10%	13%
Source: WFE, ISE					

The debt-to-GDP ratio peaked in 2001 reaching 51% owing to the financial crisis and the rising government borrowing requirement. But with the help of the stabilization program and the financial sector reforms, debt-to-GDP has declined to lower levels.

Outstanding Fixed Income Securities/GDP					
	1995	2000	2005	2006	2007/09
South Korea	284%	83%	107%	114%	117%
Greece	192%	67%	88%	99%	99%
Malaysia	196%	77%	90%	94%	83%
Austria	208%	67%	68%	78%	80%
Brazil	92%	48%	62%	65%	69%
Thailand	39%	26%	45%	53%	53%
Czech Republic	25%	36%	50%	57%	51%
Hungary	57%	32%	44%	52%	49%
South Africa	178%	46%	45%	43%	41%
Mexico	11%	23%	35%	37%	37%
Poland	38%	22%	35%	38%	34%
Turkey	**24%**	**18%**	**38%**	**34%**	**33%**
Argentina	29%	15%	40%	36%	31%
Source: BIS, IMF, TurkStat					

As mentioned previously, nearly all debt securities are issued by the government. There is virtually no corporate bond market. In 2006, there were two corporate bond issues totalling around US$ 100 million. In 2007, two corporate bonds were issued for US$ 115 million and three commercial papers for US$ 177 million.

Sovereign Bonds/Total Outstanding Fixed Income Securities					
	1995	2000	2005	2006	2007/09
Poland	100%	100%	100%	100%	100%
Turkey	**94%**	**100%**	**100%**	**100%**	**100%**
Greece	97%	100%	94%	92%	92%
Hungary	97%	94%	88%	90%	91%
Czech Republic	78%	82%	87%	85%	83%
Argentina	77%	66%	78%	79%	82%
Brazil	64%	83%	76%	74%	73%
Thailand	14%	53%	68%	66%	69%
South Africa	77%	79%	70%	64%	61%
Mexico	81%	56%	52%	55%	56%
Malaysia	52%	39%	42%	41%	43%
South Korea	25%	31%	45%	46%	43%
Austria	49%	54%	42%	41%	40%
Source: BIS, IMF					

Until 1994, there was an active corporate bond market led by bank bonds and asset-backed securities. However, during the crisis in 1994, a new tax was imposed on corporate bonds due to the high borrowing requirement of the government. Government bonds were tax exempt so as to attract the fixed income demand. This tax was abolished in 2006 and currently there is no difference in tax treatment. However, the corporate bond market has not revived since then. The CMB is currently revising the relevant legislation.

The size of the mutual fund market relative to GDP has been declining in Turkey. Mutual funds' total portfolio is around 3% of GDP as of September 2007, considerably below peer countries' average. Moreover, a major portion of the portfolio consists of money market mutual funds. In other words, equity funds are negligible.

Mutual Funds/GDP					
	2003	**2004**	**2005**	**2006**	**2007/09**
Brazil	31%	33%	34%	39%	44%
Austria	34%	35%	36%	40%	37%
South Korea	20%	26%	25%	28%	34%
South Africa	21%	25%	27%	30%	33%
Poland	4%	5%	6%	8%	11%
Greece	20%	19%	13%	10%	10%
Hungary	5%	5%	5%	6%	9%
Mexico	5%	5%	6%	7%	8%
Czech Republic	4%	4%	4%	5%	4%
Turkey	**5%**	**5%**	**5%**	**3%**	**3%**
Argentina	2%	2%	2%	3%	3%
Source: ICI, Mutual Funds Fact Book 2007, IMF, TurkStat					

It could be concluded that the size of the Turkish capital markets does not reflect the potential suggested by the size of the country's GDP.

BROKERAGE INDUSTRY

As of end-May 2008, there are 41 banks and 104 brokerage firms in the market. Activities of 7 brokerage firms have been temporarily suspended either voluntarily or by CMB enforcement.

With the decision of the CMB on August 15, 1996, banks were required to transfer their equity market operations to a brokerage firm as of January 1997. Therefore, only brokerage firms are allowed to trade equities. In all other markets, banks and brokerage firms are allowed to operate.

I. NUMBER OF BROKERAGE FIRMS

As the market expanded, the number of brokerage firms declined. In the last decade, the number of brokerage firms fell from 142 to 104, mainly due to the 2001 crisis. As of May 2008, 7 of them are suspended from the market either by CMB enforcement or voluntarily. Moreover, establishment of new brokerage firms is not allowed. Thus, fewer players are sharing a larger market.

In the table below, the number of active brokers (i.e. excluding those suspended) is presented according to their ownership structure. The table classifies firms according to majority ownership.

Number of Active Brokerage Firms							
	2001	2002	2003	2004	2005	2006	2007
SDIF*	19	8	6	6	5	1	0
State	4	4	4	4	4	4	4
Foreign	5	9	6	6	7	18	25
Domestic	95	98	91	91	85	77	70
Total	**123**	**119**	**107**	**107**	**101**	**100**	**99**
Source: TSPAKB				*: State Deposit Insurance Fund			

During the 2001 crisis, the bankrupt banks and their subsidiaries were overtaken by the State Deposit Insurance Fund (SDIF). The Fund didn't immediately close down the banks or their subsidiaries, but gradually slowed down their activities, sold some of them and merged others. Immediately after the crisis, the SDIF became the owner of 19 brokerage firms, the second largest group with respect to ownership. However, as of end-2007 there are no brokerage firms left within SDIF.

State owned brokerage firms are subsidiaries of the state-owned banks which are Halkbank, Ziraatbank, Vakifbank and Kalkinma Bank.

The increase in the number of foreign-owned brokerage firms is striking. In the last couple of years, around 20 brokerage firms' majority stake was taken over by foreign institutions. Furthermore, there are also minority foreign holdings in 12 more firms, which are mainly bank-affiliated.

On the following page, acquisitions in the last three years have been presented. None of the deal sizes were announced.

Acquisitions in the Brokerage Industry (2005-2007)						Acquisition
	Previous Name	Current Name	Seller	Buyer	Stake	Date
1	TEB Yatırım Men. Değ. A.Ş. *	TEB Yatırım Men. Değ. A.Ş.	Domestic	Foreign	42.1%	10/02/2005
2	Tezal Men. Değ. A.Ş.	Opus Men. Değ. A.Ş.	Domestic	Domestic	100.0%	15/03/2005
3	HC İstanbul Men. Değ. A.Ş.	EFG İstanbul Men. Değ. A.Ş.	Foreign	Foreign	100.0%	06/05/2005
4	Stok Men. Değ. A.Ş.	Tera Men. Değ. A.Ş.	Domestic	Domestic	98.0%	24/06/2005
5	Bender Men. Değ. A.Ş.	Deutsche Securities Men. Değ. A.Ş.	Foreign	Foreign	100.0%	29/07/2005
6	Ticaret Men. Değ. A.Ş.	Ticaret Yatırım Men. Değ. A.Ş.	Domestic	Foreign	100.0%	02/08/2005
7	Global Men. Değ. A.Ş.	Global Men. Değ. A.Ş.	Foreign	Foreign	20.0%	30/09/2005
8	Dış Yatırım Men. Değ. A.Ş.	Fortis Yatırım Men. Değ. A.Ş.	Domestic	Foreign	89.3%	21/11/2005
9	Garanti Yatırım Men. Kıy. A.Ş.*	Garanti Yatırım Men. Kıy. A.Ş.	Domestic	Foreign	20.0%	22/12/2005
10	C Men. Değ. A.Ş.	Pozitif Men. Değ. A.Ş.	Domestic	Foreign	99.0%	29/12/2005
11	Pamuk Yatırım Men. Değ. A.Ş.	Kapital Men. Değ. A.Ş.	Domestic	Domestic	95.1%	30/05/2006
12	Bumerang Men. Değ. A.Ş.	Galata Men. Değ. A.Ş.	Domestic	Domestic	100.0%	09/06/2006
13	Arı Menkul Kıymetler A.Ş.	UBS Men. Değ. A.Ş.	Domestic	Foreign	100.0%	14/07/2006
14	Finans Yatırım Men. Değ. A.Ş.	Finans Yatırım Men. Değ. A.Ş.	Domestic	Foreign	89.7%	28/07/2006
15	İktisat Men. Değ. A.Ş.	Orion Investment Men. Değ. A.Ş.	Domestic	Foreign	100.0%	03/08/2006
16	Menka Men. Değ. Tic. A.Ş.	Sardis Men. Değ. A.Ş.	Domestic	For.-Dom.	100.0%	01/09/2006
17	Deniz Yatırım Men. Kıy. A.Ş.	Deniz Yatırım Men. Kıy. A.Ş.	Domestic	Foreign	75.0%	28/09/2006
18	Deniztürev Men. Değ. A.Ş.	Deniztürev Men. Değ. A.Ş.	Domestic	Foreign	75.0%	28/09/2006
19	Ekspres Yatırım Men. Değ. A.Ş.	Ekspres Yatırım Men. Değ. A.Ş.	Domestic	Foreign	74.9%	28/09/2006
20	Yapı Kredi Yatırım M. D. A.Ş. *	Yapı Kredi Yatırım Men. Değ. A.Ş.	Domestic	Foreign	43.6%	28/09/2006
21	Arıgil Men. Değ. A.Ş.	Morgan Stanley Men. Değ. A.Ş.	Domestic	Foreign	100.0%	27/10/2006
22	Tat Men. Değ. A.Ş.	Merrill Lynch Men. Değ. A.Ş.	Domestic	Foreign	100.0%	05/12/2006
23	Ak Yatırım Men. Değ. A.Ş.	Ak Yatırım Men. Değ. A.Ş.	Domestic	Foreign	20.0%	06/12/2006
24	As Men. Kıy. A.Ş.	BGC Partners Men. Değ. A.Ş.	Domestic	Foreign	100.0%	22/12/2006
25	Inter Yatırım Men. Değ. A.Ş.	Unicorn Capital Men. Değ. A.Ş.	Domestic	Foreign	81.8%	28/12/2006
26	Baran Men. Değ. A.Ş.	Credit Suisse İstanbul Men. Değ. A.Ş.	Domestic	Foreign	100.0%	08/02/2007
27	Dundas Ünlü Men. Değ. A.Ş.	Standard Ünlü Men. Değ. A.Ş.	For.-Dom.	Foreign	61.3%	01/03/2007
28	Şeker Yatırım Men. Değ. A.Ş.*	Şeker Yatırım Men. Değ. A.Ş.	Domestic	Foreign	34.0%	15/03/2007
29	Gisad Men. Değ. A.Ş.	Daruma Men. Değ. A.Ş.	Domestic	Domestic	100.0%	01/06/2007
30	Ata Yatırım Men. Kıy. A.Ş.*	Ata Yatırım Men. Kıy. A.Ş.	Domestic	Foreign	7.1%	04/07/2007
31	Opus Men. Değ. A.Ş.	Citi Men. Değ. A.Ş.	Domestic	Foreign	100.0%	11/09/2007
32	MNG Men. Kıy. Yatırım A.Ş.	Lehman Brothers Men. Değ. A.Ş.	Domestic	Foreign	100.0%	17/09/2007
33	Eti Men. Kıy. A.Ş.	Eti Men. Kıy. A.Ş.	SDIF	Domestic	100.0%	19/10/2007
34	Form Men. Değ. A.Ş.	Credit Agricole Cheuvreux M. D. A.Ş.	Domestic	Foreign	100.0%	13/12/2007
Source: TSPAKB						* Acquired stake less than %50.

II. REGULATORY FRAMEWORK

To provide investment services, all intermediary institutions have to be authorized by the CMB. Only brokerage houses and banks authorized by the CMB may apply for membership to the ISE, TurkDex or the Association.

CMB's Communiqué Serial:V, Number 46 is the main regulation regarding the establishment and activities of brokerage firms. Intermediary institutions are required to obtain a license from the CMB in order to be able to offer services. CMB determines minimum requirements for application and examines each application in detail before issuing a license.

The operating licenses can be summarized as follows:
1. Securities Trading (Banks are authorized only for intermediation of Off-Exchange Transactions),
2. Public Offering,
3. Portfolio Management,
4. Investment Consultancy,
5. Repo/Reverse Repo Agreements,
6. Margin Trading, Securities Lending and Short-Selling, and
7. Derivatives Trading

There are minimum capital requirements for obtaining licenses. Current amounts are presented in the table below.

Minimum Capital Requirements for Brokerage Firms TRY	2008
Securities Trading	780,000
Public Offering	392,000
Repo/Reverse Repo Agreements	392,000
Portfolio Management	313,000
Investment Consultancy	82,000
Margin Trading, Securities Lending and Short-Selling	-
Derivatives Trading	-
Total	**1,959,000**
Source: CMB	

Technically, "Margin Trading, Securities Lending and Short-Selling" license is not considered as a "license" but a "permit", so it is not taken into account for the minimum capital requirements. All brokerage firms must have at least the Securities Trading license. Derivatives Trading license does not require additional capital. In order to become a full service brokerage firm, at least TRY 1.96 million (~US$ 1.63 million) paid-in capital is required as of 2008.

CMB Communiqué Serial:V, No:34 defines capital adequacy requirements. There are three thresholds to be met at all times:

- Minimum capital required by the licenses held,
- Last three months' operating expenses, and
- Risk-adjusted capital.

Risk-adjusted capital is based on the risk weighting of assets by the coefficients determined by the CMB. Some items, such as real estate, are deducted from the shareholders' equity and the remaining portion of the equity is expected to exceed the risk-weighted assets. The main approach is similar to Basel I. There are currently some studies to adopt Basel II requirements (or Capital Adequacy Directive of the EU) for capital market institutions. In the banking sector, where the BRSA is in charge, full implementation of Basel II is expected to be completed in 2009.

In addition to minimum capital requirements, other conditions (listed below) should also be met in order to operate a brokerage firm:

- The brokerage firm should be established as a joint stock company;
- The brokerage firm should have 100% of its capital in registered form;
- The capital must be fully paid-in;
- The brokerage firm should meet the minimum capital requirements;
- Necessary collateral and guarantees must be allocated. 15% of the minimum capital required by the licenses held should be pledged at Takasbank;
- Service units must be established, adequate personnel must be recruited, a satisfactory accounting, record keeping, information, communication and documentation system must be in place, technical hardware must be provided, an internal control and audit system must be set up, job descriptions, the authority and responsibilities of the personnel must be determined and cash, securities and other assets kept within the institution must be insured against fire and theft. CMB makes on-site inspections to check the adequate fulfilment of these requirements;
- The brokerage firm should apply for membership to TSPAKB (Association) and participate in the Investor Protection Fund;
- Founders must have the necessary financial capacity and credibility;
- Managers must be university graduates, and all expert personnel must be at least high school graduates; and

- The general manager and assistant general managers must either have a minimum of 7 years of professional experience in financial markets or management, or possess an Advanced Level License.

Any ownership changes surpassing 10%, 20%, 33% or 50% of the brokerage firm's capital is subject to CMB approval. Also, CMB must be notified of changes that do not affect these thresholds.

Brokerage firms provide services for equities, bonds, derivatives, margin trading, asset management, investment consultancy and corporate finance transactions. In the following section, each business line is analyzed in detail.

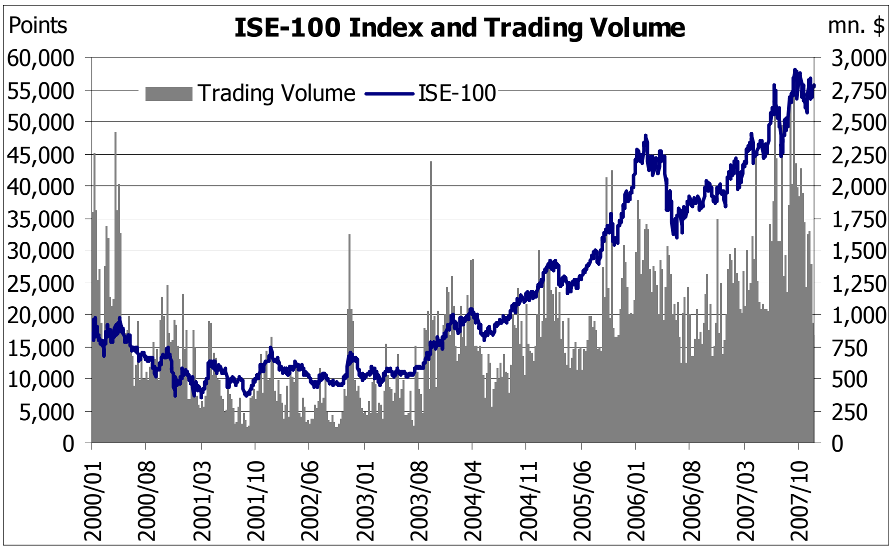
III. EQUITY MARKET

Major indicators of the equity market are presented in the table below.

Equity Market at a Glance	No. of Companies[1]	No. of IPOs[1]	Delistings[1]	IPO Size (mn. $)	Market Cap. (mn. $)	Trading Volume (mn. $)	No. of Brokerage Firms[2]
1997	258	29	-	420	61,879	58,104	140
1998	277	20	-	383	33,975	70,396	142
1999	285	10	-	91	114,271	84,034	136
2000	315	35	2	2,806	69,507	181,934	129
2001	310	1	5	0.2	47,689	80,400	126
2002	288	4	11	56	34,402	70,756	119
2003	285	2	3	11	69,003	100,165	117
2004	297	12	-	483	98,073	147,755	112
2005	306	11	-	1,790	162,814	201,763	107
2006	322	19	-	949	163,775	229,642	106
2007	327	11	2	3,389	289,986	300,842	104

Source: ISE
1: Numbers may not add up due to relistings and mergers.
2: Since 1997, only brokerage firms are allowed to trade on the equity market.

Turkey went through a major crisis in 2001. The market lost two-thirds of its value in just a couple of months. Many banks and their subsidiaries were taken over by the State Deposit Insurance Fund (SDIF) and gradually moved out of the market.



An economic stabilization program was put into place with the support of the IMF in 2001. The banking sector went through serious reforms and restructuring. The period from 2001 up until 2003 was a consolidation period in which markets were trying to recover. After 2003, the effects of the economic program became apparent: declining inflation and real interest rates. Moreover, the risk appetite in international markets was in favour of emerging markets and the flow of foreign investment, both as FDI and as portfolio investments, boosted the market.

The index's retreat in 2006 was due to the volatility of international markets fuelled by the interest rate hikes in the US. The market recovered later, backed by the continuing flow of foreign investment. And, until the beginning of 2008, up trend continued.

A. Number of Listed Companies

Due to the financial crisis of 2001, some banks and their affiliated companies were taken over by the SDIF and delisted. Around 13 companies are allowed to be traded at the so-called "Off-Exchange Market", but trading is negligible.

The IPO market revived after 2003, averaging 13 new listings per year. Average IPO size was between US$ 40-50 million until 2007. Vakifbank's US$ 1.27 billion IPO in 2005 and Halkbank's US$ 1.84 billion IPO in 2007 were exceptions. Both are state owned banks. But still, excluding Halkbank's IPO, the average size of offerings almost tripled in 2007 to around US$ 150 million.

As of end-2007, there are 319 companies traded at the ISE, approximately the same figure as in the year 2000.

B. Market Capitalization

Market capitalization increased by 9-fold in the last five years, starting in 2002 right after the crisis. Sizeable companies were added to the market, along with an increase in the value of listed companies.

As of end-2007, total market capitalization reached a peak of US$ 290 billion. Average free-float on the ISE is 32% and thus the free-float market capitalization was US$ 93 billion.

C. Trading Volume

Total trading volume increased by 4-times since 2002. Average daily trading volume increased by 30% in 2007 to US$ 1.2 billion from US$ 920 million a year ago.

Trading Volume in ISE Markets (2007)

Markets	No. of Companies	Share in Trading Volume
National Market	292	98.7%
Second National Market	14	1.1%
New Economy	3	0.1%
Watch List	10	0.0%
Total	**319**	**100.0%**

Source: ISE

Trading at the Istanbul Stock Exchange concentrates on National Market companies. 92% of the listings are on the National Market, and 99% of the volume is generated in these companies.

1. Trading Volume by Investor Categories

TSPAKB publishes data on the structure of trading volumes in different markets, based on the data compiled from brokerage firms.

The share of foreign investors in the equity trading volume, has increased from 8% to 24% in the last five years. On the other hand, as will be explained in detail in the Investors section, foreign investors hold around 72% of the free-float.

Foreign corporations mainly reflect banks and brokerage firms, whereas foreign institutionals reflect funds' trading. There is an outstanding increase in foreign corporations' trading volume.

Share of domestic corporations and institutionals are almost stable, whereas the share of domestic individuals has been declining. Still, market liquidity depends mainly on domestic individuals, although they hold around 15% of the free-float.

Breakdown of Equity Trading Volume by Investor Categories					
	2003	2004	2005	2006	2007
Domestic Investors	**92%**	**87%**	**80%**	**81%**	**76%**
Dom. Individuals	76%	72%	65%	66%	61%
Dom. Corporations	10%	10%	12%	10%	9%
Dom. Institutionals	6%	5%	4%	5%	6%
Foreign Investors	**8%**	**13%**	**20%**	**19%**	**24%**
For. Individual	0%	0%	0%	0%	0%
For. Corporations	2%	7%	8%	11%	14%
For. Institutionals	5%	6%	11%	8%	9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Source: TSPAKB					

2. Trading Volume by Departments

While the previous section focussed on "Who is providing liquidity?"; this section answers the question: "Through which channels is liquidity generated?".

Breakdown of Equity Trading Volume by Departments					
	2003	2004	2005	2006	2007
Domestic Sales	34%	26%	25%	26%	26%
Branches	20%	20%	18%	17%	16%
Bank Branches	21%	24%	20%	18%	17%
Rep. Offices	3%	3%	2%	2%	3%
Internet	3%	5%	6%	7%	7%
Call Center	1%	1%	1%	1%	0%
Mutual Funds	3%	2%	2%	1%	1%
Portfolio Mngt.	1%	1%	1%	1%	1%
Prop.Trading	8%	6%	7%	7%	5%
International Sales	8%	12%	20%	19%	24%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Source: TSPAKB					

Domestic sales refer to the headquarters of the brokerage firm. Branches are owned by the brokerage firm itself. Bank branches are owned by banks, with which brokerage firms have agency agreements. Since banks are not allowed to trade in the equity market, they serve as agents of, generally affiliated, brokerage firms. Representative offices are again owned by the brokerage firms, but unlike branches, they cannot open investor accounts and should only direct order flow. Proprietary trading reflects the brokerage firms' transactions on their own accounts. The international sales department serves international investors.

As the share of domestic investors decline, so does the share of the domestic retail network. Internet trading rapidly grew initially and later stabilized at around 7% of total volume. Proprietary trading has also been declining. Needless to say, the International Sales departments have been busier in 2007 than ever before.

IV. BONDS & BILLS MARKET

A. Market Shares

Banks and brokerage firms compete in the fixed income market. Banks dominate the market with almost 90% of T-bill trading and 80% of repo turnover share. Since 2004, brokerage firms have been losing the market share they had gained after the turmoil of 2001.

Fixed Income Market at a Glance						
	Number of		T-Bill Share		Repo Share	
	Banks	Brokerage Firms	Banks	Brokerage Firms	Banks	Brokerage Firms
1997	61	140	92%	8%	93%	7%
1998	65	142	93%	7%	90%	10%
1999	71	136	93%	7%	90%	10%
2000	73	129	95%	5%	87%	13%
2001	58	126	90%	10%	76%	24%
2002	48	119	85%	15%	71%	29%
2003	44	117	80%	20%	74%	26%
2004	43	112	81%	19%	79%	21%
2005	41	108	82%	18%	82%	18%
2006	40	105	86%	14%	81%	19%
2007	41	104	88%	12%	81%	19%
Source: ISE						

B. Trading Volume

Main indicators of the fixed income market are provided in the table on the next page. Only government bonds and T-bills are traded in the market.

The fixed income market dried up after the 2001 crisis, but later recovered. T-bill trading and repo volume have almost tripled since 2002. Still, the figures are far from the levels reached in 2000.

There is also another trend one can observe in the table. Trades in the organized market are becoming more dominant. In 1997, 30% of T-bill trading was done at the ISE market, whereas in 2007 it reached 60%. Similarly, while 26% of the repo trading was in the organized market in 1997, in 2007 it topped 84%.

Fixed Income Trading Volume						
	ISE Markets		OTC Market		Total	
	T-Bill		T-Bill		T-Bill	
(bn.$)	Trading	Repo	Trading	Repo	Trading	Repo
1997	35	374	82	1,047	118	1,422
1998	68	372	235	1,142	304	1,514
1999	84	589	404	1,264	488	1,854
2000	263	887	502	1,622	765	2,508
2001	37	627	88	765	125	1,392
2002	67	481	89	277	157	758
2003	144	702	100	254	245	956
2004	263	1,090	158	281	420	1,372
2005	359	1,387	174	251	533	1,639
2006	270	1,770	140	351	410	2,122
2007	279	1,993	184	375	463	2,369
Source: ISE						

1. T-Bill Trading Volume by Investor Categories

The figures in the following section reflect the structure of the brokerage firms' trading volume only. There is no comparable data available for banks. Therefore, the following comments and figures do not cover a major part of the market. TSPAKB data has only been available since 2006.

Foreign investors' T-bill trading through brokerage firms is quite limited. Although it is assumed that foreign investors prefer to trade T-bills through banks, there is no data available to verify this.

Breakdown of T-Bill Trading Volume by Investor Categories	2006	2007
Domestic Investors	**98%**	**98%**
Dom. Individuals	13%	9%
Dom. Corporations	37%	45%
Dom. Institutionals	48%	44%
Foreign Investors	**2%**	**2%**
For. Individual	0%	1%
For. Corporations	2%	1%
For. Institutionals	0%	0%
Total	**100%**	**100%**
Source: TSPAKB		

Domestic individuals form 9% of the trading volume. The rest is almost equally divided between domestic corporations and domestic institutional investors. 39% out of 45% done by domestic corporations belongs to the proprietary trading of brokerage firms. Thus, corporate clients' share is a mere 6%. Domestic institutional investors mainly reflect the transactions of the mutual funds managed by the brokers.

2. T-Bill Trading Volume by Departments

There are three major channels through which T-bill trading is done. Mutual funds managed by brokerage firms generate 29% of the volume. The other 29%, traded through domestic sales and other retail networks, belongs to individuals and other corporate clients of the firm.

Breakdown of T-Bill Trading Volume by Departments		
	2006	2007
Domestic Sales	15%	23%
Branches	4%	3%
Bank Branches	1%	3%
Rep. Offices	0%	0%
Internet	0%	0%
Call Center	0%	0%
Mutual Funds	42%	29%
Portfolio. Mngt.	1%	2%
Prop. Trading	34%	39%
International Sales	2%	2%
Total	**100%**	**100%**
Source: TSPAKB		

Proprietary trading's high share of the volume stems from the trading system of the market. In the T-Bill market, client account trading is not available. Therefore, when a broker receives a T-bill order from a client, it directs the order to the ISE from its own account. When the trade is executed, the broker sells the T-bill to the client as an OTC trade, at a small profit, instead of a brokerage commission. Therefore, proprietary trading share increases.

3. Repo Volume by Investor Categories

Repo trading through brokerage firms is again dominated by domestic investors. Domestic institutional investors generate 63% of brokerage firms' repo volume. These clients are generally the money market mutual funds managed by the brokers directly or through their affiliated portfolio management companies.

Breakdown of Repo Volume by Investor Categories		
	2006	2007
Domestic Investors	**99%**	**99%**
Dom. Individuals	34%	26%
Dom. Corporations	11%	10%
Dom. Institutionals	54%	63%
Foreign Investors	**1%**	**1%**
For. Individual	0%	0%
For. Corporations	0%	0%
For. Institutionals	0%	0%
Total	**100%**	**100%**
Source: TSPAKB		

Domestic individuals are slightly more active in repo transactions than they are in T-bill trading. Almost half of domestic corporations' volume represents proprietary trading.

4. Repo Volume by Departments

As mentioned previously, the mutual funds' repo volume reflects mainly the money market mutual funds managed by the brokerage firm. Moreover, the 47% traded through domestic sales are generally done by the portfolio management companies within the same group, for the mutual funds they are managing.

Breakdown of Repo Volume by Departments		
	2006	**2007**
Domestic Sales	29%	47%
Branches	10%	7%
Bank Branches	2%	4%
Rep. Offices	0%	0%
Internet	0%	0%
Call Center	0%	0%
Mutual Funds	50%	35%
Portfolio Mngt.	1%	0%
Prop. Trading	7%	5%
International Sales	1%	1%
Total	**100%**	**100%**
Source: TSPAKB		

V. FUTURES MARKET

A. Market Shares

The futures market has been growing exponentially. The market opened in February 2005. In three years, the trading volume exploded from US$ 2.2 billion to US$ 91 billion. The figures in the table below reflect the trading volumes of intermediaries, which is double the market volume, since it is the sum of buy and sell transactions.

Futures Market at a Glance						
	No. of Intermediaries			Trading Volume (mn. $)		
	Banks	Brokerage Firms	Total	Banks	Brokerage Firms	Total
2005	14	42	56	1,482	3,037	4,519
2006	15	47	62	4,383	20,595	24,978
2007	17	62	79	19,583	161,940	181,523
Source: TurkDex						

Contrary to the fixed income market, brokerage firms get the lion's share in futures trading. Brokerage firms' share of trading volume increased to 89% in 2007 from 67% in 2005. Due to the impressive growth, the number of intermediaries in the market also increased from 56 to 79 in the same period.

B. Trading Volume

There are 6 groups of contracts, as depicted in the table.

Futures Market Main Indicators						
	No. of Contracts Traded			Trading Volume (mn. $)		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
Index	164,931	2,194,245	17,016,913	491	7,411	82,740
Currency	1,601,797	4,429,502	7,849,609	1,669	4,714	8,017
Interest Rate	2,184	1	401	15	0	3
Benchmark T-Bill[1]		3,317		0	18	0
Commodity	396	13	110	1	0	0
Gold[1]		1,425		0	3	0
Total	**1,769,308**	**6,628,503**	**24,867,033**	**2,176**	**12,147**	**90,759**
Source: TurkDex						
[1]: Benchmark T-Bill and Gold contracts were introduced in 2006.						

It is easily seen that trading is concentrated only in two groups of contracts; index and currency. Index contracts are based on ISE-30 and ISE-100 equity indices. Currency contracts on US$ and €. This structure is in contrast to foreign futures markets, where generally interest rate futures dominate.

Also, there is an overwhelming shift from currency contracts to index contracts. As will be explained in the next section, this may be attributable to the increasing interest of domestic retail investors in this new market. It is assumed that individual investors tend to trade index contracts, while domestic corporations (banks, companies etc.) are more likely to trade currency contracts.

Turkdex has been working on changing the definitions and structure of the non-performing contracts, especially interest rate futures, in order to improve trading volumes.

1. Futures Trading Volume by Investor Categories

Again, data is only available from the beginning of 2006 and covers only trading by brokerage firms. But, since brokerage firms generate around 90% of total trading, the figures below are quite representative of the whole market.

Similar to the trend in the equity market, foreign investors' share has increased substantially. In 2007, they generated 21% of futures trading volume. Foreign institutional investors' activity is soaring.

Still, domestic investors are the major players of the market, generating 79% of trading volume. Moreover, domestic individuals are also increasingly becoming more active, thanks to the marketing efforts of brokers and Turkdex.

Although the trading volume of domestic corporations increased considerably in monetary terms, their share in the total trading volume has declined dramatically to 19% in 2007. Indeed, 15% out of this 19% share consists of proprietary trading.

Breakdown of Futures Trading Volume by Investor Categories	2006	2007
Domestic Investors	**89%**	**79%**
Dom. Individuals	51%	57%
Dom. Corporations	37%	19%
Dom. Institutionals	1%	2%
Foreign Investors	**11%**	**21%**
For. Individual	0%	0%
For. Corporations	10%	9%
For. Institutionals	1%	12%
Total	**100%**	**100%**
Source: TSPAKB		

2. Futures Trading Volume by Departments

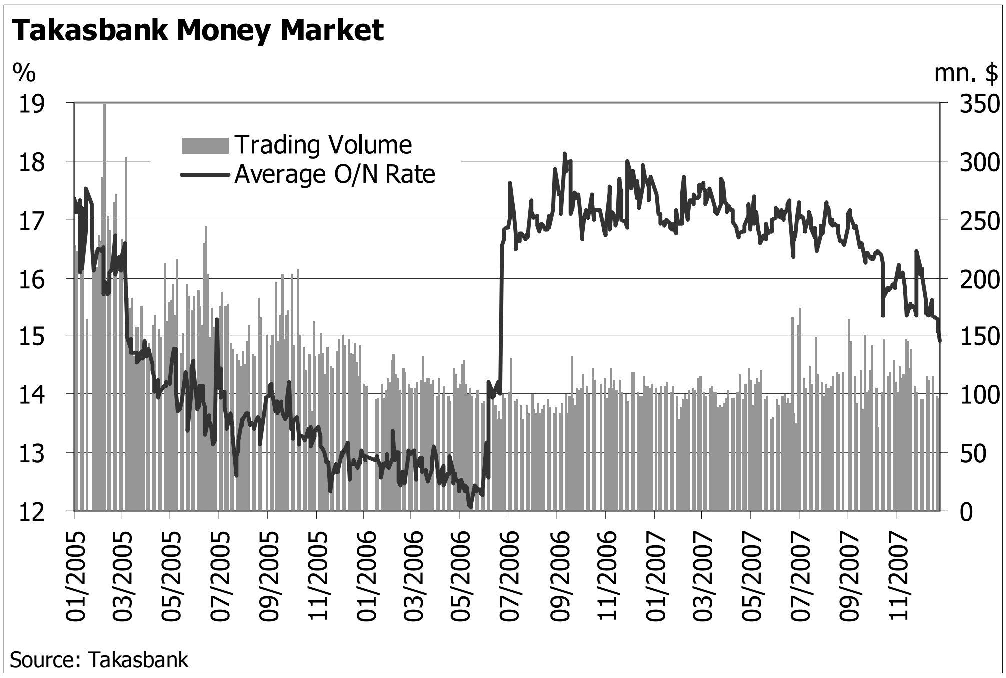
Domestic sales, i.e. headquarters of brokerage firms, generates around one-fifth of trading volume. Branches are marketing futures more effectively. The share of internet trading doubled as the number of brokers offering futures trading through internet increases. While the trading volume is increasing rapidly, the share of proprietary trading is declining as new investors are coming into the market.

Breakdown of Futures Trading Volume by Departments	2006	2007
Domestic Sales	26%	21%
Branches	16%	21%
Bank Branches	7%	7%
Rep. Offices	1%	2%
Internet	5%	11%
Call Center	1%	0%
Mutual Funds	1%	1%
Portfolio. Mngt.	0%	0%
Prop. Trading	32%	15%
International Sales	11%	21%
Total	**100%**	**100%**
Source: TSPAKB		

VI. MONEY MARKET

In 2007, the average daily transaction volume of this market was US$ 105 million, slightly higher than the previous year's average of US$ 101 million.

Overnight borrowing rates were around 16% at the beginning of 2007, which later fell gradually to around 12%. However, due to the global credit concerns in June 2007, overnight rates shot up to over 17%. Towards the end of 2007, rates eased slightly to around 15%.



VII. SECURITIES LENDING/BORROWING

In 2007, 256 securities were subject to borrowing and lending transactions. The size of the market doubled in 2007 and annual trading volume reached US$ 1.1 billion.

Securities Lending & Borrowing (Million US$)			
	2006	2007	Change
No. of Securities	220	256	16%
Annual Trading Volume	537.2	1,077.4	101%
Avg. Daily Trading Volume	2.1	4.3	99%
Source: ISE			

VIII. SHORT-SELLING

Authorized ISE members are allowed to short-sell all equities traded in the ISE markets, except those listed on the Watch List Market. In 2007, short-selling volume rose by 75% to US$ 10 billion.

Short-Selling (Million US$)					
				Breakdown	
	2006	2007	% Change	2006	2007
Stock	5,841	10,259	76%	97.7%	98.3%
ETF	138	181	30%	2.3%	1.7%
Total	**5,979**	**10,439**	**75%**	**100.0%**	**100.0%**
Source: ISE					

IX. CORPORATE FINANCE

There is no public data on the size of corporate finance transactions, except for public offerings. However, the number of corporate finance transactions is published in detail by the TSPAKB. Also, revenues generated from corporate finance deals are analyzed in the Financial Statements section.

Corporate finance consultancy services are provided by a variety of companies. M&A consultancy companies, auditors and other independent consultants may engage in these projects. Therefore, this section does not cover all corporate finance activities in Turkey.

Corporate Finance Transactions of Brokerage Firms					
	2003	2004	2005	2006	2007
Initial Public Offering	2	10	11	19	11
Secondary Public Offering	-	-	-	-	-
M&A / Buy Side	2	5	11	12	22
M&A / Sell Side	9	6	5	28	19
Private Equity	3	1	0	1	1
Capital Increases	66	59	54	31	30
Dividend Distribution	45	20	60	20	43
Privatisation / Buy Side	3	2	16	2	4
Privatisation / Sell Side	6	4	3	2	2
Other Consultancy	22	84	47	42	67
Total	**158**	**191**	**207**	**157**	**199**
Source: TSPAKB					

As mentioned previously, there were 11 initial public offerings amounting to US$ 3.4 billion in 2007. IPOs are exclusively done through brokerage firms.

41 M&A projects were finalized by the consultancy of brokerage firms in 2007, some of which are cross-border.

Private equity refers to sell side consultancy, during the acquisition of a company by a private equity fund.

Listed companies may use brokerage firms during corporate actions. In 2007, 30 companies increased their paid-in capital through brokerage firms. 43 companies used brokerage firms whilst paying dividends. Corporate actions are generally done for companies within the same group.

Buy side privatization consultancy refers to services provided to potential buyers. Thus, the number of finalized deals does not necessarily reflect the actual privatization of the company. A consultancy service may have been provided to a potential buyer although the transaction was not realized.

Sell side privatization means consultancy services given to The Privatization Administration. Similarly, the transaction need not be completed. Submission of a valuation report or an offering prospectus may be considered as completion of a project.

Other consultancy mainly covers valuation or restructuring consultancy services.

X. ASSET MANAGEMENT

Asset management services can be provided by brokerage firms and portfolio management companies. Portfolio management companies have a 91% share in the market, in terms of the size of assets under management. Around 95% of the managed portfolios belong to institutional investors. Therefore firstly institutional investors will be briefly described.

There are two major classes of mutual funds; equity and fixed income. Equity mutual funds are also referred to as A-Type Funds, whereas others are referred to as B-Type. 97% of total funds comprise of fixed income instruments. Moreover, money market ("Liquid") funds constitute 85% of fixed income funds.

Private pension system was introduced towards the end of 2003 and is growing exponentially.

Investment trusts have to be listed on the ISE and there is no significant growth in this segment. Real estate investment trusts (REITs) are becoming more popular as real estate prices have spiked, especially in the last couple of years.

Exchange traded funds (ETFs) were introduced to the market in 2005 and have grown considerably since then. As of May 2008, there are 8 ETFs traded at the ISE.

Institutional Investors mn. $	**2003**	**2004**	**2005**	**2006**	**2007**
Mutual Funds–Fixed Income	11,494	17,708	20,977	15,701	21,670
Mutual Funds–Equity	476	583	786	599	762
Private Pension Funds	19	222	913	2,048	3,813
Real Estate Inv. Trusts	715	752	1,864	1,487	2,723
Investment Trusts	135	220	360	280	317
Exchange Traded Funds	-	-	40	88	226
Venture Capital Inv.Trusts	2	64	69	68	63
Total	**12,842**	**19,548**	**25,010**	**20,271**	**29,574**
Source: CMB					

The size of the institutional investors does not match the growth in other segments of the market. There is no stable growth, but rather fluctuations. Despite the stumbling development of the institutional investor base, the market is expected to grow, with the introduction of new products and fund types. Guaranteed funds and hedge funds are recently regulated by the CMB and the first examples of guaranteed funds were offered to the public at the end of 2007. New offerings are pending CMB approval.

Portfolio management companies were introduced to the market in 1997. However, they became more active after 2001. Brokerage firms started to transfer their asset management services to their affiliated portfolio management companies. Therefore, asset management activity is limited at brokerage firms.

In the below table, details of asset management services in brokerage firms are provided. The number of individual investors receiving discretionary portfolio management services fell sharply to 650. However, their managed assets increased by 51%. The average asset size per investor went up from around US$ 120,000 to US$ 205,000.

Asset Management by Brokerage Firms	2004	2005	2006	2007
Number of Investors	**961**	**1,028**	**897**	**804**
Individual Investors	829	886	748	652
Mutual Funds–Equity	45	46	50	51
Mutual Funds–Fixed Income	50	61	64	65
Other Institutional Investors	14	13	11	13
Other Corporations	23	22	24	23
Assets Under Management (mn. $)	**2,275**	**2,448**	**1,726**	**2,608**
Individual Investors	84	99	89	134
Mutual Funds–Equity	138	111	91	154
Mutual Funds–Fixed Income	1,879	1,894	1,359	2,076
Other Institutional Investors	84	67	66	113
Other Corporations	90	278	122	131
Source: TSPAKB				

80% of assets managed by brokerage firms are fixed income mutual funds. Fixed income mutual fund growth has been 53% between 2006 and 2007.

Other institutional investors refer to insurance companies and trusts. Their average portfolio is around US$ 9 million.

Asset Management by Portfolio Management Companies	2004	2005	2006	2007
Number of Investors	**2,283**	**2,603**	**2,629**	**2,402**
Individual Investors	1,942	2,190	2,197	1,934
Institutional Investors	255	289	290	330
Corporations	86	124	142	138
Assets Under Management (mn. $)	**18,105**	**22,395**	**18,259**	**25,061**
Individual Investors	206	434	450	585
Institutional Investors	17,346	21,258	17,141	23,606
Corporations	553	703	667	870
Source: CMB				

The table above presents details of asset management at portfolio management companies. There are 18 portfolio management companies in the market, with US$ 25 billion of assets under management. US$ 24 billion of these assets belong to 330 institutional investors.

The number of individual investors receiving services from portfolio management companies also fell. But, their average portfolio size increased from US$ 205,000 to US$ 303,000.

XI. MARGIN TRADING

The number of margin trading clients has been increasing steadily, along with the total loan size. The market has grown by a CAGR of 25% in the last three years. Average loan size per client is nearly US$ 40,000 as of end-2007.

Margin Trading	2004	2005	2006	2007
Number of Clients	8,796	9,501	10,270	10,730
Total Loan Size (mn. $)	219	284	340	424
Source: TSPAKB				

XII. RETAIL NETWORK

A. Branch Network

As mentioned earlier, branches and representative offices are owned and staffed by brokerage firms. Branches are allowed to open client accounts, whereas representative offices can only direct client orders.

Bank branches are used based on an agency agreement between the bank and the brokerage firm. Agents are generally within the same group of companies. Since banks are not allowed to trade equities, they benefit from the opportunity of offering equity trading services through their agent broker. In return, brokerage firms get access to a wide retail network and client base.

The total number of branches has not changed much over time, although there may be considerable changes at individual brokerage firms. Representative offices seem to have lost their appeal and are gradually being closed down.

Bank branches are the major channel for reaching investors. The increase of the bank branch network stems from two factors: firstly, the banks open more branches, secondly, the banks decide to offer the equity trading services at more of its existing branches.

Retail Network	2003	2004	2005	2006	2007
Branches	227	224	234	246	231
Rep. Offices	73	67	69	64	52
Bank Branches	3,688	4,450	4,406	4,514	4,775
Total	**3,988**	**4,741**	**4,709**	**4,824**	**5,058**
Source: TSPAKB					

B. Internet Trading

Internet trading started to become popular after 2003. The number of brokerage firms offering internet trading services has increased to 68 as of end-2007.

Number of investors might be double counted in the below table. The figure is the sum of internet trading clients at each broker. Therefore, if a client is trading through two brokerage firms, s/he is counted twice.

Internet Transactions	2004	2005	2006	2007
No. of Brokerage Firms	50	61	61	68
Equities				
No. of Internet Investors	128,266	118,800	181,801	186,622
No. of Trades	9,191,243	10,858,346	13,018,098	15,339,686
Internet Trading Volume (mn.$)	14,155	22,587	30,275	41,922
Bonds and Bills				
No. of Internet Investors	-	-	694	586
No. of Trades	-	-	2,838	2,933
Internet Trading Volume (mn.$)	-	-	14	24
Futures and Options				
No. of Internet Investors	-	-	1,082	3,650
No. of Trades	-	-	105,989	890,513
Internet Trading Volume (mn.$)	-	-	993	18,500
Source: TSPAKB				

In 2007, total equity trading volume via the internet increased by 38%. Average transaction size is around US$ 2,750.

Internet trading for bonds and futures data has been available since the beginning of 2006. Bond trading over the internet is not common among brokerage firms. In 2007, only US$ 24 million was traded by around 600 clients.

Futures trading via the internet is booming, parallel to the main market. Also, the number of brokerage firms offering futures trading on the internet is increasing. Average transaction size is around US$ 21,000.

C. Call Centers

Call centers are losing their popularity to the internet. Brokerage firms are gradually closing their call centers. Thus, equity trading volumes are declining. Even futures trading does not show sustainable growth.

Call Center Transactions	2004	2005	2006	2007
No. of Brokerage Firms	16	15	13	13
Equities				
No. of Call Center Investors	57,876	42,359	40,424	30,129
No. of Trades	1,288,495	1,082,707	902,091	696,204
Call Center Trading Volume (mn.$)	2,973	3,503	3,001	2,729
Bonds and Bills				
No. of Call Center Investors			426	407
No. of Trades			1,654	1,061
Call Center Trading Volume (mn.$)			46	52
Futures and Options				
No. of Call Center Investors			304	628
No. of Trades			12,866	12,151
Call Center Trading Volume (mn.$)			213	311
Source: TSPAKB				

However, compared to internet transactions, the average size of equity transactions is larger in call centers at US$ 3,900. Similarly, the average size of futures transactions is around US$ 26,000. Thus, it could be inferred that the clients prefer to trade through a customer representative for larger trades.

XIII. EMPLOYEES

Number of employees oscillates at around 5,900 for the whole sector. On average, a brokerage firm has around 60 employees.

No. of Employees at Brokerage Firms				
2003	2004	2005	2006	2007
6,035	5,906	5,916	5,898	5,860
Source: TSPAKB				

The table below depicts staff breakdown by department. It could also be interpreted as the organization structure of an average brokerage firm.

30% of total employees are working in the branch network. The figure for bank branches does not cover the employees of the banks, but rather the employees of the brokerage firm located at bank branches.

Staff Breakdown by Department					
	2003	2004	2005	2006	2007
Branch, Bank Br., Rep. Office	28%	32%	32%	32%	30%
Branch	18%	21%	21%	20%	19%
Bank Branch	5%	7%	8%	8%	8%
Representative Office	4%	4%	4%	4%	3%
Financial & Admin. Affairs	16%	15%	15%	15%	16%
Broker	12%	11%	11%	10%	9%
Dealer	10%	9%	9%	9%	9%
Domestic Sales (Main Office)	5%	5%	5%	6%	6%
Research	4%	4%	4%	4%	4%
Internal Audit	3%	3%	3%	3%	3%
Treasury	3%	2%	3%	2%	3%
IT	2%	3%	3%	3%	3%
Corporate Finance	2%	2%	2%	3%	3%
Portfolio Management	1%	1%	1%	1%	1%
International Sales	1%	1%	2%	2%	2%
Human Resources	1%	1%	1%	1%	1%
Other	11%	11%	10%	11%	10%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Source: TSPAKB					

The most densely staffed teams are Financial and Administrative Affairs. This group includes accounting, administrative affairs and back-office personnel. An average team consists of 9 people.

Brokers refer to floor traders. They are generally located at the ISE and trade through ISE terminals. Dealers are customer representatives located at the headquarters or branches. They receive client orders and either direct them to brokers or to the electronic trading system. As remote trading is becoming more commonly used, the number of brokers is declining.

Domestic sales refer to the sales and marketing teams located at the headquarters.

There are around 250 researchers in the sector. According to the CMB rules, each brokerage firm has to have at least one Internal Auditor. There are around 40 brokerage firms with a corporate finance department and the total number of the corporate finance staff is around 160. Portfolio management staff is also limited, as this business line is transferred to portfolio management companies.

There are 30 brokerage firms with an International Sales department. In total, there are 130 people serving foreign investors directly. In 2007, 30 new recruits were added to this department. An average team consists of 4 to 5 people.

"Other" covers personnel not associated with a department, such as secretaries, drivers or the top management.

In the below table, employees are grouped according to their education levels. Post-graduate refers to masters, PhD or higher degrees. Graduate covers university graduates and pre-bachelor refers to the group graduated from a 2-year college after high school.

The share of university graduates (pre-bachelor and above degrees) has increased from 69% to 74% since 2003.

Education of Brokerage Firm Employees					
	2003	2004	2005	2006	2007
Post Graduate	8%	9%	8%	9%	10%
Graduate	52%	54%	57%	58%	57%
Pre-Bachelor	8%	8%	6%	7%	6%
High School	24%	22%	22%	21%	20%
Secondary School	3%	3%	2%	2%	2%
Primary School	4%	4%	3%	3%	3%
Source: TSPAKB					

The final categorization is based on age groups. Brokerage firms used to have a younger employee profile. The share of the group under 30 years of age was 43% in 2003. It dropped to 29% in 2007. There are several reasons for this. First, lay-offs during brokerage firm closures following the 2001 crisis hit younger and inexperienced workers the most. Second, brokerage firms have not been recruiting heavily for a long time and fresh graduates were not able to enter the market. And finally, the ones who were able to keep their jobs aged and moved to the second line (31-40 years of age) as observed from the table.

Age Groups of Brokerage Firm Employees					
	2003	2004	2005	2006	2007
<30	43%	39%	34%	33%	29%
31-40	45%	48%	52%	52%	53%
41-50	10%	11%	12%	13%	15%
51-60	2%	2%	2%	2%	2%
>60	0%	0%	0%	0%	0%
Source: TSPAKB					

XIV. FINANCIAL STATEMENTS

Since 2005, International Financial Reporting Standards (IFRS) have been adopted in capital markets, and brokerage firms started to keep their records accordingly. Therefore, financial data prior to 2005 are not comparable. In this section, sector aggregates reflect the financial results of 101 brokerage firms in 2005, 99 firms in 2006 and 98 firms in 2007.

A. Balance Sheet

Brokerage firms' total asset growth was 73% in 2007 reaching $ 3.3 billion.

Asset structure is quite liquid as 88% is composed of current assets. At end-2006, current assets corresponded to 85% of total assets. Liquid assets, marketable securities and trade receivables (mainly settlement receivables) are the major accounts in assets.

Shareholders' equity represents 50% of total liabilities. Major liability accounts are money market borrowings and settlement dues.

1. Assets

Liquid assets grew substantially in 2007. Bank deposits is the major item, which increased from US$ 388 million to US$ 1,026 million. The remaining part of the liquid assets consists of repo transactions and money market mutual fund investments.

AGGREGATE BALANCE SHEET OF BROKERAGE FIRMS (mn. US$-IFRS)			
Assets	**31.12.2005**	**31.12.2006**	**31.12.2007**
I. Current Assets	**1,590.2**	**1,630.0**	**2,913.2**
A. Liquid Assets	363.5	427.4	1,128.1
B. Marketable Securities (net)	633.6	528.1	795.0
C. Trade Receivables (net)	478.5	571.2	834.9
D. Receivables From Affiliates (net)	15.5	12.6	25.9
E. Other Receivables (net)	62.5	71.5	83.4
F. Deferred Taxes	0.4	0.6	0.5
G. Other Current Assets	36.2	18.5	45.5
II. Non-Current Assets	**320.4**	**280.1**	**400.2**
A. Trade Receivables (net)	1.2	1.5	3.3
B. Receivables From Affiliates (net)	0.0	0.0	0.0
C. Other Receivables (net)	0.0	0.6	0.2
D. Financial Assets (net)	207.4	179.8	250.0
E. Goodwill (net)	-2.8	-2.3	12.2
F. Tangible Assets (net)	97.1	85.9	109.8
G. Intangible Assets (net)	7.0	7.8	9.6
H. Deferred Taxes	8.6	5.1	12.7
I. Other Non-Current Assets	1.8	1.8	2.4
Total Assets	**1,910.5**	**1,910.1**	**3,313.5**
Source: TSPAKB			

The 49% increase in marketable securities remained far below the total assets' growth of 73%. Hence, its share in total assets has declined from 28% to 24%. The portfolio allocation of brokerage firms is provided in the table on next page.

Deposits and repo transactions form 55% of the sector's total investments in financial instruments. However, the notable increase in bank deposits is mainly due to the position of one single brokerage firm. This firm borrowed heavily from the money market and invested in bank deposits to benefit from an interest rate spread.

Financial Assets of Brokerage Firms			
mn. $	31.12.2005	31.12.2006	31.12.2007
Deposits & Repo	363.5	422.2	1,128.1
Government Bonds	462.3	340.0	513.5
Corporate Bonds	0.2	3.7	25.6
Equities	198.2	239.3	330.6
Others	40.3	25.5	45.4
Total	**1,064.5**	**1,030.7**	**2,043.2**
Breakdown			
Deposits & Repo	34.1%	41.0%	55.2%
Government Bonds	43.4%	33.0%	25.1%
Corporate Bonds	0.0%	0.4%	1.3%
Equities	18.6%	23.2%	16.2%
Others	3.8%	2.5%	2.2%
Total	**100.0%**	**100.0%**	**100.0%**
Source: TSPAKB			

Government bonds' share in financial assets declined from 33% to 25%, mainly reflecting the investment strategy of this broker. On the other hand, the share of equities also fell from 23% to 16%. There is also a remarkable increase in corporate bonds, which stems from the underwritten holdings of a brokerage firm. "Other" assets mainly refer to mutual funds.

Trade receivables increased by 46% reaching US$ 835 million, due mainly to settlement accounts. There are two major sub-accounts: settlement and margin trading receivables. The sum of settlement receivables from clients and from Takasbank amount to US$ 349 million. Corresponding settlement dues are on the liability side as trade payables. Margin trading receivables increased by 19% to US$ 423 million.

Receivables from money market operations amounted to US$ 62 million, out of US$ 83 million other receivables in 2007.

Among the non-current assets, the most important item is financial assets, which basically refers to participations and collateral. Participations is around US$ 202 million, while collateral is around US$ 38 million as of end-2007.

Goodwill mainly reflects the value of participations. In 2007, a brokerage firm acquired an affiliated asset management company and the negative goodwill of the industry turned positive.

Tangible assets are real estates, vehicles, office equipment and the computer network of brokerage firms. There has been no substantial tangible asset investment for a long time in the sector.

Intangible assets mainly refer to software investments and the foundation expenses of brokerage firms.

2. Liabilities

Liability structure changed slightly in 2007 as compared to 2006. Short-term liabilities increased by 98%, shareholders' equity by 57%. Thus, the share of short-term liabilities increased from 37% to 43%. Contrarily, shareholders' equity's stake declined from 56% to 51%. The industry has limited external financing and a strong capital base.

Financial liabilities have hovered at around US$ 60 million over the last couple of years and reflect bank loans. These are generally the loans extended by the parent banks to their subsidiary brokers. External bank lending is not very common.

Other financial liabilities, on the other hand, almost tripled to US$ 674 million. Nearly this entire amount represents overnight borrowing from the money market. As mentioned previously, the increase stems mainly from the transactions of one brokerage firm. This company preferred to borrow short-term from the money market and invest in longer-term deposits.

AGGREGATE BALANCE SHEET OF BROKERAGE FIRMS (mn. US$-IFRS)			
Liabilities	**31.12.2005**	**31.12.2006**	**31.12.2007**
I. Short-Term Liabilities	**662.0**	**713.4**	**1,415.9**
A. Financial Liabilities (net)	120.5	61.9	63.6
B. Instalments of LT Financial Liabilities	0.1	0.0	0.0
C. Leasing Debts (net)	0.4	1.0	1.1
D. Other Financial Liabilities (net)	67.7	267.0	674.2
E. Trade Payables (net)	338.3	283.1	498.9
F. Debts to Affiliates (net)	21.8	16.6	23.7
G. Advances Received	2.6	0.8	2.0
H. Debt Provisions	49.3	40.1	81.9
I. Deferred Taxes	0.4	0.0	0.0
J. Other Liabilities (net)	60.9	42.8	70.5
II. Long-Term Liabilities	**25.2**	**24.1**	**39.6**
A. Financial Liabilities (net)	0.1	5.1	5.1
B. Leasing Debts (net)	0.5	0.5	0.2
C. Other Financial Liabilities (net)	0.0	0.0	0.0
D. Trade Payables (net)	0.1	0.1	0.1
E. Debts to Affiliates (net)	0.0	0.5	2.4
F. Advances Received	0.0	0.0	0.0
G. Debt Provisions	15.9	13.7	22.2
H. Deferred Taxes	8.7	4.2	9.6
I. Other Liabilities (net)	0.0	0.0	0.0
III. Consolidated Equity of Participations	**104.8**	**105.8**	**183.0**
IV. Shareholders' Equity	**1,118.6**	**1,066.8**	**1,675.1**
A. Paid-in Capital	531.8	543.7	782.7
B. Capital Adjustments due to Cross-ownership	-0.8	0.0	0.0
C. Capital Reserves	525.5	364.2	503.4
D. Profit Reserves	126.6	128.3	269.0
E. Net Profit/Loss	203.8	131.2	237.9
F. Accumulated Profit/Loss	-268.3	-100.6	-117.9
Total Liabilities and Equity	**1,910.5**	**1,910.1**	**3,313.5**
Source: TSPAKB			

Trade payables, as mentioned earlier, mainly reflect settlement dues. US$ 423 million of the US$ 499 million is related to settlement operations.

Debts to affiliates are mostly dividends and bonuses payable.

Other short-term liabilities amount to US$ 71 million, of which US$ 55 million are taxes due.

Long-term liabilities increased to US$ 40 million in 2007, from US$ 24 million a year ago. US$ 15 million of this amount is provisions for severance payments and US$ 10 million are deferred taxes. There is also a long-term bank loan of US$ 5 million booked under financial liabilities.

Consolidated equity of participations increased by 73% to US$ 183 million, due to the acquisition of an asset management company by an affiliated brokerage firm.

Shareholders' equity rose by 57% to US$ 1.7 billion. US$ 239 million of the US$ 606 million increase stemmed from fresh capital injection. The rest belongs to the increase in reserve accounts and profits.

Capital reserves increased by 38% to US$ 503 million. 75% of capital reserves are inflation adjustments on the equity.

The 81% increase in net profits will be analyzed in the next section.

B. Income Statement

Sales revenues reflect the amount of securities sold on the brokerage firm's own trading book, whereas cost of sales refers to purchases. The difference yields the proprietary trading profits/losses.

Revenues from services reveal earnings from main business lines, such as brokerage, corporate finance and asset management commissions. Other real operating income refers to revenues generated by other business lines, such as margin trading. Hence, gross real operating profit/loss account, in fact, refers to the total revenues of the brokerage industry.

AGGREGATE INCOME STATEMENT OF BROKERAGE FIRMS (mn. US$-IFRS)			
	31.12.2005	31.12.2006	31.12.2007
A. Sales Revenues (net)	149,732.4	103,997.2	120,467.4
B. Cost of Sales (-)	-149,653.2	-103,970.5	-120,412.6
C. Revenues from Services (net)	501.9	468.8	640.4
D. Other Real Operating Income (net)	106.3	95.7	137.0
Gross Real Operating Profit/Loss	**687.4**	**591.1**	**832.1**
E. Operating Expenses (-)	-462.3	-471.2	-599.5
Net Real Operating Profit/Loss	**225.1**	**119.9**	**232.7**
F. Revenues & Profits from Other Operations	139.1	144.1	243.2
G. Expenses & Losses from Other Operations (-)	-43.3	-59.2	-72.9
H. Financial Expenses (-)	-12.1	-32.7	-67.7
Operating Profit/Loss	**308.9**	**172.2**	**335.3**
I. Net Monetary Gain/Loss	0.0	0.3	0.4
Profit/Loss From Consolidated Participations	**-29.0**	**-7.9**	**-32.0**
Profit/Loss Before Tax	**279.9**	**164.5**	**303.7**
J. Taxes (-)	-76.1	-33.3	-65.8
Net Profit/Loss	**203.8**	**131.2**	**237.9**
Source: TSPAKB			

Although gross real operating profit reflects total revenues, there are some accounting items that should be adjusted to reach the exact revenue figure. The following section analyses revenues and their breakdown in detail. Small discrepancies with the income statement are due to adjustments, such as provisions for capital gains/losses, failed trade corrections and settlement due dates.

1. Revenues

The breakdown of revenues in the table below is slightly different from what is suggested by the gross profit on the income statement. Figures in this section reflect the revenue breakdown better than the income statement. As in some brokerage firms, total revenues on the income statement might include accrued profits or losses on the proprietary portfolio. These effects are adjusted in the revenue analysis section on the following pages.

Brokerage revenues refer to brokerage commissions on all types of securities. Other operating revenues are revenues earned from other major businesses, such as corporate finance, asset management and margin trading. Proprietary trading is simply the difference between sales and cost of sales items on the income statement.

Total revenues increased by 40% in 2007 to US$ 833 million.

Brokerage commissions are the main source of revenues, although its share decreased slightly from 60% to 56%. Contribution of other operating revenues has been 38%. Proprietary trading profits form around 7% of revenues.

Total Revenues of Brokerage Firms			
Revenues (mn.$)	**31.12.2005**	**31.12.2006**	**31.12.2007**
Brokerage Revenues	365.6	355.9	465.2
Other Operating Revenues	254.3	212.1	313.1
Proprietary Trading Profit/Losses	74.8	26.7	54.8
Total	**694.8**	**594.7**	**833.1**
Revenue Breakdown			
Brokerage Revenues	52.6%	59.8%	55.8%
Other Operating Revenues	36.6%	35.7%	37.6%
Proprietary Trading Profit/Losses	10.8%	4.5%	6.6%
Total	**100.0%**	**100.0%**	**100.0%**
Source: TSPAKB			

Breakdown of the major revenue items are analyzed in the following sections.

a. Brokerage Revenues

Total brokerage revenues increased by 31% to US$ 465 million. Equity commissions, amounting to US$ 400 million in 2007, constitute 86% of all brokerage commissions. However, its share has been declining from 95% in favour of futures commissions.

Despite the 31% increase in the equity trading volume of the market, equity commissions increased by only 18%. This indicates that the average commission rate declined in 2007, which will be analyzed further below.

Brokerage Revenues of Brokerage Firms			
Brokerage Revenues (mn.$)	**31.12.2005**	**31.12.2006**	**31.12.2007**
Equity Commissions	360.7	339.0	400.1
Fixed Income Commissions	4.4	7.5	11.2
Futures Commissions	0.3	7.6	53.9
Other Brokerage Commissions	0.1	1.8	0.0
Total	**365.6**	**355.9**	**465.2**
Brokerage Revenues			
Equity Commissions	98.7%	95.2%	86.0%
Fixed Income Commissions	1.2%	2.1%	2.4%
Futures Commissions	0.1%	2.1%	11.6%
Other Brokerage Commissions	0.0%	0.5%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**
Source: TSPAKB			

Futures commissions became the second most important commission income item in just two years and generated 12% of all brokerage revenues in 2007.

Fixed income commissions increased by 50%, but its share is still negligible. However, it should be noted that generally when brokerage firms are trading fixed income securities at the ISE for their customers, first they buy the securities on their own account and then sell it to the client at a small profit, instead of charging a commission. Thus, in effect, a portion of fixed income commissions is booked as proprietary trading profits. However, no data is available on the size of fixed income commissions. Therefore, the figures here should be assumed to be the minimum level of fixed income commissions.

Other brokerage commissions in 2006 were due to the eurobond and foreign securities transactions of a single brokerage firm. In 2007, there is negligible activity in that segment.

Since equity transactions generate nearly 86% of all brokerage revenues, it deserves a closer look. In the table below, Brokers' Volume refers to the equity trading volume of brokerage firms. When proprietary trading volume is subtracted from the total, Clients' Volume is reached. Effective commission rate is calculated by dividing commission revenues by the clients' volume.

Equity Brokerage Commissions (mn. $)			
	31.12.2005	**31.12.2006**	**31.12.2007**
Brokers' Volume	403,527	459,285	601,683
Proprietary Volume	26,803	30,462	30,765
Clients' Volume	376,724	428,823	570,918
Equity Brokerage Revenues	361	339	400
Effective Commission Rate	0.0958%	0.0790%	0.0701%
Source: TSPAKB			

Effective commission rate has been declining continuously. However, it should be noted that this figure is the net commission amount left to the brokerage firm, after rebates to clients and revenue sharing with the agent banks. It is not the commission rate charged from the client. Still, the declining rates suggest that the commissions charged from the clients are also declining.

b. Other Operating Revenues

Other operating revenues increased by 48% in 2007. The 68% growth of asset management revenues topped the table as the most important revenue source in this group. US$ 122 million was generated from asset management activities in 2007.

Margin trading revenues are the second most important source of revenue, which increased by 25%.

With the record high IPO volume in 2007, corporate finance revenues rose by 50% to reach a record level of US$ 59 million.

Other commissions are generated from settlement and custody fees, money and securities' transfer fees and alike. These revenues reached US$ 20 million in 2007.

Other revenues stem mainly from the accrued interest earnings and appreciation of the brokerage firm's own portfolio. Additionally, around a quarter of this figure comes from the interest charges on late settlement payments of customers. Thus, it is not a revenue source from business lines and is prone to market fluctuations.

Other Operating Revenues of Brokerage Firms			
Other Operating Revenues (mn.$)	**31.12.2005**	**31.12.2006**	**31.12.2007**
Corporate Finance Revenues	19.8	39.3	59.1
Asset Management Revenues	119.3	72.4	121.6
Margin Trading Revenues	54.4	70.6	87.9
Other Commissions	20.3	15.9	19.6
Other Revenues	40.5	13.9	25.0
Total	**254.3**	**212.1**	**313.1**
Other Operating Revenues' Breakdown			
Corporate Finance Revenues	7.8%	18.5%	18.9%
Asset Management Revenues	46.9%	34.1%	38.8%
Margin Trading Revenues	21.4%	33.3%	28.1%
Other Commissions	8.0%	7.5%	6.3%
Other Revenues	15.9%	6.6%	8.0%
Total	**100.0%**	**100.0%**	**100.0%**
Source: TSPAKB			

2. Proprietary Trading Profits/Losses

In the table below, public bonds cover government bonds and Treasury bills. It is the largest revenue source among proprietary trading profits. In 2007, bond trading profits jumped from US$ 19 million to US$ 99 million.

There are two components within public bond trading. First, as mentioned before, the commission part. Second is the profit from own-book trading. There is no exact data on the first component. However, a major portion of the second component is related to the losses in foreign securities in 2007. An important part of the 5-fold increase in public bond trading profits stems from the spread positions on foreign securities. While a loss was incurred on foreign securities, handsome profits were made on Turkish government bonds.

Proprietary Trading Profits/Losses of Brokerage Firms			
Prop. Trading Profits/Losses (mn.$)	**31.12.2005**	**31.12.2006**	**31.12.2007**
Equities	29.8	7.0	22.2
Corporate Bonds	0.0	0.0	0.0
Public Bonds	43.4	19.1	98.6
Mutual Funds	0.5	0.4	-9.1
Foreign Securities	0.1	0.0	-58.2
Futures	0.0	0.2	1.1
Other Securities	1.1	-0.1	0.2
Total	**74.8**	**26.7**	**54.8**
Proprietary Trading Profits/Losses' Breakdown			
Equities	39.8%	26.3%	40.5%
Corporate Bonds	0.0%	0.2%	0.1%
Public Bonds	58.0%	71.6%	180.1%
Mutual Funds	0.6%	1.6%	-16.7%
Foreign Securities	0.1%	0.1%	-106.3%
Futures	0.0%	0.6%	2.0%
Other Securities	1.5%	-0.4%	0.4%
Total	**100.0%**	**100.0%**	**100.0%**
Source: TSPAKB			

Equity trading profits were quite lucrative in 2007 and brokerage firms managed to pocket US$ 22 million in trading profits.

The US$ 9 million loss on mutual funds is due to ETF trading. Part of this loss also stems from arbitrage positions both in the futures market and the cash market.

More than US$ 1 million was earned on futures positions, which used to be negligible in previous years.

3. Operating Expenses

Although total revenues increased by 40%, the increase in operating expenses was limited to 27%. More than half of the operating expenses are incurred by employee benefits. Employee benefits include salaries, legal employment dues, health insurance, transportation and alike.

Operating Expenses of Brokerage Firms			
Operating Expenses (mn.$)	**31.12.2005**	**31.12.2006**	**31.12.2007**
Employee Compensation	220.0	246.0	324.4
Administrative	129.9	120.7	145.9
Marketing, Sales	22.7	24.2	32.8
Trading, Settlement Costs	19.6	20.3	25.6
Other Legal Dues	46.5	43.1	52.4
Depreciation	23.7	17.0	18.4
Total	**462.3**	**471.2**	**599.5**
Operating Expenses' Breakdown			
Employee Compensation	47.6%	52.2%	54.1%
Administrative	28.1%	25.6%	24.3%
Marketing, Sales	4.9%	5.1%	5.5%
Trading, Settlement Costs	4.2%	4.3%	4.3%
Other Legal Dues	10.1%	9.1%	8.7%
Depreciation	5.1%	3.6%	3.1%
Total	**100.0%**	**100.0%**	**100.0%**
Source: TSPAKB			

In the table below, a slightly more detailed analysis of employee compensation is provided. Average number of employees in 2007 was 5,897. Total expenses on employees were US$ 324 million in the same period. Thus, the annual expense per employee is US$ 55,007 and monthly cost of one employee is calculated as US$ 4,584. It should be noted that, this is not the salary that an average employee is paid, but rather the gross cost of an employee to the brokerage firm, including all fringe benefits and legal dues. The monthly cost of an employee rose by 33% on average in 2007. On a TRY basis, the average cost of an employee increased by 21% in the same period.

Cost of Brokerage Firms' Employees			
	31.12.2005	**31.12.2006**	**31.12.2007**
No. of Employees (End-period)*	5,882	5,894	5,850
Average No. of Employees*	5,885	5,952	5,897
Average Annual Cost per Employee	37,376	41,323	55,007
Average Monthly Cost per Employee	3,115	3,444	4,584
Source: TSPAKB			
*Employees at active brokerage firms			

Administrative expenses include office rents and other infrastructure expenses, such as electricity, telephone, mailing, regular IT expenses etc. The annual increase has been contained at 21%.

The marketing and sales item includes travel expenses, printing and distribution of research reports, some of the branch costs and miscellaneous items. The US$ 33 million figure at the end of 2007 represents a 36% increase.

Trading and settlement costs refer to the fees and commissions paid to Takasbank and the Central Registry Agency. The figure includes money transfer fees as well. The 26% increase reflects mainly the increase in transaction volumes.

Other legal dues include advance taxes and membership fees to ISE, TurkDex, TSPAKB and similar institutions.

4. Other Income Statement Items

If we return to other income statement items, we see that revenues from other operations have increased by 72% from US$ 141 million in 2006 to US$ 242 million in 2007. Revenues from other operations refer mainly to interests received and accrued. Nearly US$ 153 million of the total in 2007 belongs to interest income, of which US$ 100 million is received on deposits. The shift in assets, in favour of deposits, is reflected in interest income on deposits.

Around $ 81 million of revenues from other operations is due to the appreciation of equities and fixed income securities on the trading book. Remaining US$ 8 million is dividends received.

On the other hand, expenses from other operations increased by a mere 23%. This item mainly includes accrued expenses, provisions and portfolio depreciation.

Financial expenses shot up by 107% to US$ 68 million, due to the increase in overnight money market borrowing. In the balance sheet analysis, it was mentioned that a single brokerage firm increased its overnight money market borrowing and shifted to bank deposits. Thus, interest expenses increased along with interest revenues.

5. Profits

With the net positive effect of other revenue items, operating profits increased by 95% to US$ 335 million in 2007.

The loss figure in consolidated participations indicates that the consolidated subsidiary, in fact, has made a profit. It is the effect of an accounting principle. First, the subsidiary is consolidated in full, and then the stake belonging to other shareholders is deducted from the income statement.

The corporate tax rate is a flat 20%. Thus, due taxes are calculated as US$ 66 million for 2007.

After deducting losses from consolidated participations and taxes, net profits recorded US$ 238 million in 2007. This corresponds to an 81% increase from 2006. 2007 has been a lucrative year for the brokerage industry.

INVESTORS

I. INVESTMENT PREFERENCES

The Banking Regulatory and Supervisory Authority (BRSA) has been announcing data on the portfolio allocation of domestic and foreign investors since 2005. According to the BRSA, the total size of savings has reached US$ 501 billion as of 2007. 79% of savings are held by domestic investors.

The upper part of the table reflects the savings within the banking system. Participation Bank Funds refer to Islamic banking. Precious Metal Deposits are deposits linked to gold. 72% of savings are parked in the banking system.

After deposits, the second major instrument is government bonds and bills. These constitute 13% of domestic investors' portfolios. Equity is on the third row, but represents only 7% of their investments, despite the strong performance of the equity market. Nearly all mutual fund investments are into fixed income funds.

Residents' Investment Breakdown				Breakdown
Million $	2005	2006	2007	2007
TRY Deposits	105,616	120,193	177,763	45%
FX Deposits	61,207	77,372	96,281	24%
Precious Metal Deposits	72	178	131	0%
Participation Bank Funds	6,237	7,675	12,616	3%
Bonds/Bills	41,195	39,685	49,040	12%
Eurobonds	3,986	3,851	3,717	1%
Mutual Funds	21,891	15,660	22,756	6%
Repo	1,107	1,567	2,357	1%
Pension Funds	908	2,007	3,932	1%
Common Stocks	17,156	18,680	26,801	7%
Total	**259,377**	**286,867**	**395,395**	**100%**
Source: BRSA				

Foreign investors, on the other hand, have a very different portfolio allocation. They invest nearly two-thirds in equities and one-third in government bonds. In two years, their portfolio size has more than doubled, thanks to the performance of the market, as well as new investment flows.

Non Residents' Investment Breakdown				Breakdown
Million $	2005	2006	2007	2007
Common Stocks	33,483	35,083	69,876	66%
Bonds/Bills	17,528	24,512	30,375	29%
Eurobonds	634	555	376	0%
Deposits	3,434	4,186	4,947	5%
Total	**55,079**	**64,336**	**105,574**	**100%**
Source: BRSA				

II. NUMBER OF EQUITY INVESTORS

Before the establishment of the Central Registry Agency (CRA) in 2005, Takasbank was providing statistics on equity investors. However, after 2005, CRA has been publishing data but there has been some changes in methodology.

The table below shows the number of investor accounts with equity investments. After the 2001 crisis, there is a gradual decline in the number of equity accounts, which seems to have stabilized around 1 million. In 2007, there is a slight increase.

No. of Equity Accounts						
2001	2002	2003	2004	2005	2006	2007
1,139,039	1,104,728	1,032,909	1,009,156	1,006,993	1,021,446	1,040,853
Source: Takasbank, CRA						

The number of investors, however, is different from the number of accounts, due to several accounts being held by a single investor at different brokerage firms. Roughly, there is a difference of 100,000 between them. In the below table, the number of investors and their breakdown is provided. If the two tables in this section are analyzed together, in 2007, around 940,000 investors have roughly 1,040,000 equity accounts.

Around 13,000 new domestic individuals have made an equity investment in 2007. The number of domestic corporations with equity holdings has also increased.

No. of Equity Investors		
	2006	2007
Domestic Investors	**921,099**	**934,070**
Dom. Individual	918,787	931,433
Dom. Corporate	1,926	2,223
Dom. Institutionals	206	216
Dom. Other	180	198
Foreign Investors	**6,001**	**6,696**
For. Individual	3,816	3,984
For. Corporate	1,180	1,350
For. Institutionals	988	1,345
For. Other	17	17
Total	**927,100**	**940,766**
Source: CRA		

The number of foreign investors increased by 12% in 2007, mainly due to the flocking of institutional investments. Foreign corporations, which increased by 14%, mainly refer to foreign banks and brokerage firms.

III. EQUITY OWNERSHIP

In the table below, the structure of equity ownership is provided.

Breakdown of Equity Portfolios by Investor Categories							
mn. $	2001	2002	2003	2004	2005	2006	2007
Domestic Investors	**5,502**	**4,723**	**8,433**	**12,788**	**18,453**	**18,707**	**27,020**
Dom. Individual	4,555	3,778	6,656	9,239	11,757	11,192	15,080
Dom. Corporate	687	730	1,277	2,200	4,331	5,839	8,838
Dom. Institutionals	133	110	282	328	653	570	1,029
Dom. Other	127	105	218	1,021	1,713	1,106	2,072
Foreign Investors	**5,095**	**3,625**	**8,919**	**15,548**	**34,012**	**34,818**	**70,454**
For. Individual	49	51	85	108	135	133	202
For. Corporate	2,637	2,160	4,854	8,397	17,201	20,000	38,619
For. Institutionals	2,350	1,382	3,954	7,006	16,625	14,662	31,603
For. Other	59	32	26	38	51	24	30
Total	**10,597**	**8,348**	**17,352**	**28,336**	**52,465**	**53,525**	**97,474**
Source: Takasbank, CRA							

Foreign investors' interest in the Turkish equities has mounted especially since 2004. Their 43% share of equity holdings in 2002 increased to 72% by the end of 2007.

Domestic individuals' share, on the other hand, declined from 45% to 15% in the same period. However, they are still generating more than 60% of the equity trading volume.

Domestic institutional investors' equity holdings are still negligible, corresponding to around 1% of the free-float market capitalization.

Foreign corporations, i.e. banks and brokerage firms, and foreign institutional investors have become the major investors of the Turkish equity market. Foreign institutional investors' portfolio more than doubled in 2007.

A. Age Groups of Retail Equity Investors

Since custody is centralized and kept on an account basis, detailed information is available on the age, gender and domicile of investors. Naturally, these details are relevant for individual investors. Therefore, individual investor portfolios are analyzed in the following two sections.

Breakdown of Retail Investor Equity Portfolios by Age Groups							
mn. $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
<39	1,465	1,096	1,751	2,397	2,581	2,282	2,860
40-59	2,495	2,075	3,753	5,156	6,789	5,908	7,790
60>	644	658	1,238	1,794	2,522	3,134	4,632
Total	**4,604**	**3,829**	**6,741**	**9,346**	**11,891**	**11,325**	**15,282**
Source: Takasbank, CRA							

Similar to the employee profile of brokerage firms, the investor profile was younger in previous years. In 2001, 31% of individual equity portfolios were held by the group below 39 years of age. In 2007, this figure declined to 19%. Equity holdings of over-60 group have increased from 16% of individual portfolios to 30%.

B. Domicile of Retail Equity Investors

Investors can also be grouped according to the cities they are living in. There are 81 provinces (or, cities) in Turkey. In the table below, we present the concentration of individual investors in terms of their portfolio sizes.

The weight of the first 5 cities; Istanbul, Ankara, Izmir, Bursa and Adana do not change much, whichever way the data is sorted. Rankings in terms of total number of investors or portfolio sizes, number of individual or corporate investors or their portfolios, reveal more or less the same results.

Breakdown of Retail Investor Equity Portfolios by Provinces							
mn. $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
First 5 Cities*	3,608	2,955	5,116	7,058	9,109	7,315	12,005
Other 76 Cities	920	818	1,528	2,146	2,597	3,887	3,044
Residents Abroad	76	55	97	143	185	122	233
Total	**4,604**	**3,829**	**6,741**	**9,346**	**11,891**	**11,325**	**15,282**
Source: Takasbank, CRA				* İstanbul, Ankara, İzmir, Adana, Bursa			

IV. MUTUAL AND PENSION FUND INVESTORS

After the dematerialization of mutual funds was completed, the CRA started publishing data on mutual fund investors as well. Institutional investors are included in the "other" figures.

Total number of mutual fund investors increased by 15% in 2007, while their portfolios shot up by 54%. But, this is not due to the performance of the equity market, as only 3% of mutual funds are equity funds. Rather, the increase is mainly due to new inflows into funds.

Domestic individuals are the main investors in mutual funds, and domestic corporations have a 10% share. The number of mutual fund investors is more than 2.5 times the number of equity investors.

Mutual Fund Investors	2006		2007	
	No. of Investors	Portfolio (mn. $)	No. of Investors	Portfolio (mn. $)
Domestic Investors	**2,199,412**	**14,037**	**2,549,004**	**18,270**
Dom. Individual	2,168,123	12,426	2,486,672	16,086
Dom. Corporate	22,077	1,295	47,171	1,789
Dom. Other	9,212	316	15,161	394
Foreign Investors	**25,421**	**127**	**17,609**	**187**
For. Individual	10,921	74	17,239	119
For. Corporate	11,876	48	347	48
For. Other	2,624	5	23	20
Total	**2,224,833**	**14,164**	**2,566,613**	**18,457**
Source: CRA				

The pension fund market is showing a steady and strong growth. Since 2004, the number of pension investors has increased by 67% annually on average and the CAGR of pension funds has been 156% in the same period. Pension funds are managed by portfolio management companies.

Pension Funds	2004	2005	2006	2007
No. of Investors	314,257	672,696	1,073,650	1,453,896
Fund Size (mn. $)	197	930	2,428	3,928
Source: Pension Monitoring Center				

V. FOREIGN INVESTORS

Foreign investors are becoming more and more dominant in the equity market. Their holdings of free float have increased to 72% and their share of equity turnover to 24%. In the following section, we analyze the activities of foreign investors and compare them with domestic investors.

As can be observed from the table on the next page, foreign investors' trading volumes and equity holdings has increased substantially since 2003. Following the stabilization in 2006, due to the concerns about the interest rate hikes in the US, record levels are reached in 2007.

The primary market reflects the investments of foreign investors during initial and secondary public offerings, as well as in the block sales market. Foreign investors have always been major participants of public offerings. Notable investments in 2007 have been the IPO of Halkbank and Citibank's participation in Akbank. Foreign investors bought US$ 1.3 billion out of the US$ 1.7 billion offering of Halkbank. Citibank paid US$ 1.4 billion for 20% of Akbank.

Foreign Investors in the Equity Market

(mn. $)	Trading Volume	Equity Portfolio Size	Primary Market*	Secondary Market**	Inflow/ Outflow	Gain/ Loss	Avg. Holding Period (days)
1998	11,670	3,700	977	-418	559	-2,876	303
1999	17,879	15,358	10	1,024	1,034	10,624	283
2000	33,410	7,404	2,677	-3,134	-457	-7,497	250
2001	12,139	5,635	10	509	518	-2,287	292
2002	12,869	3,450	64	-15	49	-2,234	242
2003	17,334	8,954	82	1,010	1,091	4,412	213
2004	37,368	16,141	950	1,430	2,380	4,807	207
2005	81,101	33,782	1,477	4,087	5,564	12,077	204
2006	88,519	35,083	979	1,144	2,123	-822	280
2007	144,143	70,213	3,905	4,533	8,438	26,692	275

Source: ISE, Takasbank, CRA, TSPAKB
*: Primary market shows investments in the initial and secondary public offerings.
**: Secondary market shows the net effect of buying and selling at the ISE.

Secondary market activities are the netted amounts of buy and sell trades at the ISE. Inflow and outflow figures show the sum of primary and secondary market transactions. In the last decade, foreign investment inflows through the equity market have been US$ 21 billion. 40% of this amount was realized in 2007 alone. This indicates the pace of foreign inflows to the Turkish market.

Gain and loss is calculated as follows. The US$ 35.1 billion of equity portfolio, on the 2006 row, is the figure owned by foreign investors at the beginning of 2007. During 2007, they bought US$ 3.9 billion of equities during IPOs and other primary market operations. Additionally, they invested US$ 4.5 billion through secondary market trades. In total, they have increased their investments by US$ 8.4 billion. If equity prices had not changed, one would expect them to have a portfolio value of US$ 43.5 billion (=US$ 35.1 billion + US$ 8.4 billion). But, at the end of 2007, their portfolio value was US$ 70.2 billion. Thus, it can easily be inferred that the value of their portfolios have increased by US$ 26.7 billion (=US$ 70.2 billion - US$ 43.5 billion). In other words, the figure reflects the capital gains or losses, not realized profits or losses.

During the crisis of 2001, foreign investors made substantial losses as compared to their portfolio sizes. The loss in 2000 was due to the fluctuations, the first signs of the coming crisis of 2001. However, the market recovered later and the losses were turned into substantial gains by 2005. The US$ 26.7 billion gain in 2007 is an all time record.

Average holding period is based on the trading volume and average portfolio size i.e. turnover ratio. Foreign investors traded 2.6 times of their average portfolio size in 2007. This means that they have changed their portfolios 1.3 times. Thus, their average holding period (or investment horizon) is calculated as 275 days (=365/1.3). The shortest investment span was in 2004, 7 months.

While foreign investors are flocking into the market, domestic investors are gradually moving out of the market.

Domestic Investors in the Equity Market							
(mn. $)	Trading Volume	Equity Portfolio Size	Primary Market*	Secondary Market**	Inflow/ Outflow	Gain/ Loss	Avg. Holding Period (days)
1998	129,122	3,118	334	418	753	-2,628	23
1999	150,188	8,667	99	-1,024	-925	6,474	22
2000	330,457	10,714	1,765	3,134	4,900	-2,852	28
2001	148,661	5,822	0	-509	-508	-4,384	33
2002	128,644	4,580	168	15	183	-1,425	27
2003	182,997	8,188	7	-1,010	-1,003	4,610	23
2004	258,142	12,196	357	-1,430	-1,072	5,081	26
2005	322,426	17,141	487	-4,087	-3,600	8,544	30
2006	370,766	18,680	661	-1,144	-483	2,022	34
2007	457,541	26,801	1,261	-4,533	-3,273	11,394	35

Source: ISE, Takasbank, CRA, TSPAKB
*: Primary market shows investments in the initial and secondary public offerings.
**: Secondary market shows the net effect of buying and selling at the ISE.

The trading volume is calculated by deducting the foreign investors' volume from the total volume of brokers (i.e. twice the market volume). Equity portfolio data is released by Takasbank and CRA. The primary market figure shows the investments during public offerings. Secondary market results are the reverse of foreign investors, because, investors could be grouped into two, as foreign and domestic. If one is a net buyer, the other is a net seller. Inflow and outflows, gains and losses, as well as average holding period are calculated in the same manner as foreign investors.

The trading volume and equity portfolios of domestic investors have also grown substantially since 2002. Records were broken in 2007. However, the in and outflow figures show that domestic investors are gradually leaving the market to foreign investors. Still, they have made hefty gains, since the market has been in an up-trend since 2003.

The effect of domestic investors on the market liquidity is also evident in this table. Their average holding period is around one month. In 2003, it was three weeks.

POTENTIAL DEVELOPMENT AREAS

Turkish capital markets currently depend on a few products; namely equities, government bonds and bills, mutual funds and recently futures. However, the market is expanding and new products are being introduced and developed. The increased diversification of products will assist the diversification of brokerage services and investors. The expected development areas are briefly summarized below.

I. CORPORATE BONDS

Until the crisis in 1994, there was an active corporate bond market in Turkey. Major issuers were financial institutions (banks, leasing companies, consumer finance companies). However, in 1994 the government introduced a 13.2% withholding tax on private sector bonds, whereas government bonds were exempted. Along with the crowding out effect due to increased budget deficits, the corporate bond market dried up until 2006.

In 2006, the taxation of bonds was equalized and first issues appeared. The decline in the interest rates and diminishing public borrowing also helped. As of end-2007, the portfolio value of 8 new issues reached US$ 330 million.

Relevant regulations are in place, but minor adjustments are needed as the current legislation is outdated. CMB is revising the rules and regulations in order to smooth the issuance of corporate bonds.

Moreover, the mortgage law was passed in 2007. The CMB also issued relevant communiqués. However, there are no issues yet due to adverse market conditions initiated by the global market turmoil.

II. DERIVATIVES

The amazing growth of TurkDex indicates the appetite of Turkish investors for new products. Although currently the futures market depends on basically two products, there are studies to diversify the product range. TurkDex plans to introduce single-stock futures to the market and develop new contracts on interest rates. In the longer term, they are planning to launch options.

Another soon-to-be-expected product is warrants. The CMB issued a draft communiqué on warrants in February 2008. Public opinions are being evaluated currently. It is planned that the regulations be finalized in the second half of the year and it is expected that warrants will be launched in 2009.

The final issue about derivatives is the trading of OTC products. Currently, OTC derivatives are not allowed to be issued or traded by brokerage firms. However, there are no restrictions for banks. The CMB is currently working on a draft regulation, allowing the introduction of OTC products, especially options, by brokerage firms.

III. ASSET MANAGEMENT

The CMB issued regulations on fund of funds, hedge funds and guaranteed funds in

2006 and 2007. As of May 2008, there are 3 funds of funds in the market. The guaranteed funds market is also growing rapidly with the issue of new funds almost every month.

Introduction of futures alone has led to a variety of investment strategies in the market. If coupled with options, various creative products could be offered to investors.

Fund types are expected to be enriched further, by the introduction of foreign currency denominated funds for medium term. Adoption of EU's UCITS (Undertakings for Collective Investment in Transferable Securities) Directive is finalized and many of the funds will be UCITS-compliant.

IV. STRUCTURED PRODUCTS

Structured products currently available in the market are guaranteed funds and option-embedded deposits.

Currently, banks are offering index-linked deposits and deposits with knock-out currency options.

Generally, banks offer a certain base interest rate for 6-month time deposits and a portion of the ISE-100 index's performance during the period.

The second common type has currency options. If the TRY/US$ exchange rate remains within a specified band in the period, the investor is paid a higher interest than the prevailing rates. If the exchange rate exceeds the specified bands, the investor does not receive any interest.

When OTC option trading is allowed by the brokerage firms, similar products based on securities are expected in the market. For example, a combination of a T-bill and a call index-option would be competing with the index-linked deposits explained above.

V. CORPORATE FINANCE

Major potential development areas are public offerings, M&As and privatizations.

Currently, there are 140 companies listed on the ISE out of the top 1.000 industrial companies in Turkey. In other words, 860 of the largest industrial companies are not listed yet. This could be interpreted as the potential of the IPO market.

M&A activity boomed in the last couple of years. A recent report by Ernst & Young estimates that in 2007, 182 M&A deals were completed amounting to US$ 25.5 billion. Total size of M&A deals are presented in the table below.

M&A Deals in Turkey					
	2003	2004	2005	2006	2007
No. of Deals	80	91	164	154	182
Size (bn. US$)	1.4	2.5	30.3	18.3	25.5
Source: Ernst & Young					

Foreign interest in the Turkish market started with the finance sector. First, banks were acquired by foreign institutions, followed by brokerage firms and then M&As spread to the insurance sector. Although M&A activity seems to be slowing down, because of the recent global market turmoil, it is expected to grow rapidly and expand into industrial sectors in the next phase.

The third major area of corporate finance projects involves privatizations. The government is committed to privatizations, and sizeable deals were completed in the last few years. Privatization revenues are presented in the table below. Privatization activity continues, as illustrated by the IPO of Turk Telekom in May 2008.

Privatizations in Turkey					
	2003	**2004**	**2005**	**2006**	**2007**
Size (bn. US$)	0.2	1.3	8.2	8.1	4.2
Source: Privatization Administration					

VI. REGULATORY FRAMEWORK

The Turkish Commercial Law is being revised, as part of the adoption of the EU acquis. Buy-backs, which are not currently allowed, will be introduced into the system. It is not expected to make a significant impact on the market, but still, it may have a positive effect on the trading volumes of listed companies.

CMB is working on smoothing delistings. Currently, voluntary delisting of a company is practically not possible. Revision of delisting rules is expected to have a positive effect on the acquisition of listed companies and tender offers through brokerage firms.

There are also dedicated studies to improve the efficiency of the securities lending and borrowing market.

CAPITAL MARKET INSTITUTIONS

Capital Market Institutions	
Capital Markets Board of Turkey	www.cmb.gov.tr
Central Registry Agency	www.mkk.com.tr
Istanbul Gold Exchange	www.iab.gov.tr
Istanbul Stock Exchange	www.ise.org
Takasbank - Settlement and Custody Bank	www.takasbank.com.tr
Turkish Derivatives Exchange	www.turkdex.org.tr
Public Institutions	
Banking Regulation and Supervision Agency	www.bddk.org.tr
Central Bank of the Republic of Turkey	www.tcmb.gov.tr
Financial Crimes Investigation Board	www.masak.gov.tr
Undersecretariat of Treasury	www.treasury.gov.tr
Professional Associations	
Association of Brokerage Firms' Managers	www.bakyd.org.tr
Association of Publicly Traded Companies' Managers	www.koteder.org.tr
Association of Stock Market Investors	www.boryad.org
Banks' Association of Turkey	www.tbb.org.tr
Corporate Governance Association of Turkey	www.tkyd.org
Credit Bureau of Turkey	www.kkb.com.tr
Participation Banks' Association of Turkey	www.tkbb.org.tr
Turkish Institutional Investment Managers' Association	www.kyd.org.tr

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22	BANKPOZİTİF KREDİ VE KALKINMA BANKASI A.Ş.	www.bankpozitif.com.tr
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