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Yüksek Lisans Tezi olarak sunduğum" **The Role and the Importance of Foreign Banks in Turkish Banking System** " adlı çalışmanın, tarafimdan, bilimsel ahlak ve geleneklere aykırı düşecek bir yardıma başvurmaksızın yazıldığını ve yararlandığım eserlerin kaynakçada gösterilenlerden oluştuğunu, bunlara atıf yapılarak yararlanılmış olduğunu belirtir ve bunu onurumla doğrularım.

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Tezimin Türkiye ile ilgili bölümlerinin hazırlanmasında, konuyla ilgili istatiksel analiz hazırlama ve SPSS kullanmamda, bankacılık alanında yurtiçi ve yurtdışı literatür taraması yapmamda değerli katkılarını esirgemeyen BDDK Kurum Uzmanı Ayşegül Karabıyık'a ve ailesine sonsuz teşekkürlerimi sunarım.

Maddi ve manevi her konuda beni destekleyen, sonsuz sevgi ve ilgisini esirgemeyen sevgili aileme teşekkürü bir borç bilirim.

ÖZET

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Bu tezde yabancı bankaların Türk Bankacılık Sistemine etkileri üzerinde durulmuştur. Ticari hareketlerin globalleşmesini takiben, özellikle 1980'den sonra bankacılık hareketlerinin de globalleştiği, uluslararası bankacılık faaliyetlerinin arttığı gözlenmektedir. Yatırımcıların özellikle gelişmekte olan piyasalardaki fırsatları değerlendirmek üzere bu ülkelerde faaliyetlerini yoğunlaştırdığı görülmektedir. Türkiye'de de yabancı girişinin üzerindeki engelleri kaldırmaya yönelik düzenlemelerin yapılmasının ardından 1990'lı yıllardan sonra bankacılık sektöründe pek çok satın alma ve devir işlemi gerçekleşmiştir. Günümüzde, Türk insanının risk almayı sevmeyen yapısının da etkisiyle, yabancıların Türk Bankacılık Sektöründe çok büyük bir paya sahip olmadıkları ancak finansal kaldıraç etkisi göstererek finansal iyileşmeyi hızlandırdıkları, istihdam olanakları yarattıkları, teknolojik gelişmeleri tetikledikleri, rekabeti arttırdıkları ve uluslararası standartlarla uyum sürecini başlattıkları görülmektedir.

Anahtar Kelimeler: Yabancı Banka, Yabancı Sermayeli Banka, Uluslararası Bankacılık, Türk Bankacılık Sistemi.

ABSTRACT

Master Thesis
The Role and the Importance of Foreign Banks in Turkish Banking system
Gozde TOKMAKOGLU

Dokuz Eylul University
Institute of Social Sciences
Department of Business Administration
Finance Program

In this thesis the effects of foreign banks to the Turkish banking system is discussed. Following the globalization of trade activities, especially after 1980's, banking activities globalized and international banking operations has increased. It is observed that investors choose to operate in emerging markets in order to utilize the opportunities. After the regulations removing barriers on foreign entry, acquisitions occurred in banking sector in Turkey by 1990's. Today, with the effect of Turkish customers, who do not like taking risks, it is seen that foreign banks do not have an important share in the system but act as financial leverages and accelerate financial developments, create employment opportunities, trigger technological improvements, create competition and start harmonization process with international standards.

Key Words: Foreign Bank, Foreign Capital Bank, International Banking, Turkish Banking System.

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ABBREVIATIONS

ATM	: Automated Teller Machine
BAT	: The Banks Association of Turkey
BCCI	: Bank of Credit and Commerce International
BDDK	: Bankacılık Duzenleme ve Denetleme Kurumu
BRSA	: Banking Regulation And Supervision Agency
CBT	:Central Bank of the Republic of Turkey
CDO	: Collaterelized Debt Obligations
CDS	: Credit Default Swap
ECB	: European Central Bank
EU	: European Union
FBSEA	: Foreign Bank Supervision Act of 1991
FC	: Foreign Currency
FDIC	: Federal Deposit Insurance Corporation
FED	: Federal Reserve Bank
FBSEA	: Foreign Bank Supervision Act of 1991
FSA	: Financial Services Authority
IBA	: International Banking Act of 1978
IMF	: International Money Fund
ISE	: Istanbul Stock Exchange
OCC	: Office of the Comptroller of the Currency
OPEC	: Organization of Petroleum Exporting Countries
POS	: Point of Sale
SDIF	: The Savings And Deposit Insurance Fund
TC	: Turkish Currency
TSKB	: Turkiye Sanayi ve Kalkinma Bankasi
USA	: The United States Of America
WB	: World Bank

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INTRODUCTION

Foreign capital inflows became popular with the USA Mortgage Crisis outbreak in global markets. Structured financial products and hedge funds caused liquidity problems in the world. The crisis ended “too big to fail” idea and made people uncomfortable with financial markets, so authorities needed to take some precautions. Issuing liquidity arrangements; BRSA protected Turkish Banking System from the effects of crisis and caused Turkey’s credit rating raised. After all of these improvements, Turkish Banking System drew the attention of foreign capital. The powerful profile of the System that always has been dependent on other economies was very interesting and significant, which made me select this topic of “The Role and the Importance of Foreign Banks in Turkish Banking System”.

The history of banking should be analyzed before discussing the effects of foreign entry to the Turkish Banking System. Primitive examples of banking transactions were shown by Sumerians and Babylon people in the antiquity. Hammurabi had written standards regulating liabilities and credits in temples. In the middle ages, starting with the 11^{th} century, European countries started to commerce with eastern countries again and in order to make trade transactions easier; the need for parties that will make money transactions arose. In the new age, currency expansion all over the Europe and the difficulties of evaluating values of golden and silver ones forced the establishment of a bank; Amsterdam Bank was established in 1609. In 1694, the Bank of England was established as an early example of modern central banks. In the mid 1800’s; the outlook for the banking system was more professional because the process of industrialization was accelerating and this caused more financing needs. With the exchange of commercial banks’ private capitals with government bonds; the process of nationalizing began.

After the history part, the classification of banks according to activity areas is handled in the study. Deposit banks operate in money markets through collecting money from individuals and firms with the exchange of interest and providing loans to individuals, industrial and commercial enterprises. Development and investment banks support investments through issuing medium and long term loans to establishments, meet financial needs of industrial and commercial investments and residential housing constructions, investment projects. The banks that were established due to special regulations and operate accordingly called special-purpose banks. The banks supporting agricultural sector, middle sized and small producers, exports and constructing sector can be examined in this category. Off-shore banks are the type of free banks located outside the country of residence of the depositor and which are free of the national banking law and legislations. International banks operate in national currency with nonresidents of country or make exchange in foreign currencies. And finally central banks have been set up to regulate money supply and meet credit needs of the state.

With the increased flows of international trade and foreign direct investment, and removal of the barriers with financial liberalization; international banking concept has arisen. Increased volume of international trade, opportunities of emerging markets, disinflation, regional economic integration efforts like European Union, the desire to take the advantage of emerging markets' growth opportunities and the ability of entrepreneurs to meet the financial needs abroad with the growth of trade volume counted as the reasons of investing in new markets. As investment method, client-following strategy starting with 1960's and by 1990's branches and subsidiaries were chosen. Growth opportunities, regulations, political stability, competition, monetary principles, culture and infrastructure should be analyzed carefully before realizing investments abroad. Researchers suggest that foreign banks bring large benefits to host countries' financial systems and economies at large, main advantages are stability and efficiency. Foreign banks also could negatively affect the depth of the market, liquidity and information available to market participants by delisting shares of acquired institutions. Having access to more investment alternatives gives the courage of "cut and run" to foreign banks in recessions. Competing with large foreign banks' technologies requires great effort and capital for domestic banks. There are some differences between developed countries' and emerging markets' foreign asset shares. As the market reached to its natural capacity boundaries, there are no profit opportunities for investors. Foreign bank shares are higher in emerging markets.

For Turkey; the banking system's history started in Ottoman period. Between the years 1456-1551; 1161 foundation banks were established. Ottoman Bank established was owned by foreign capital that was privileged with the authorization of bank note issue was closed after Imperial Ottoman Bank's (Bank-i Osmanli Sahane) establishment in 1863. After Turkish Republic; banking sector analyzed within four periods; National Banking and the Statism Period(1923-1944), Private Banking Period(1944-1961), Planned Period (1961-1980) and Liberalization and Outward Expansion Period (1980-….). In the early years of the Turkish Republic, the necessity of nationalization of banking sector and government's support to settlement had accepted. Ziraat Bankasi and Is Bankasi was established. In 1930, The Central Bank of The Turkish Republic has established and in 1931 it started operating. 1944-1960 periods are the years of the changes that will influence the economy policy deeply till today.

After the history part, Turkish Banks have been classified according to their operating activities. The banks can be classified as Deposit Banks, Development and Investment Banks, Participation Banks and the Central Bank. 1980's is the beginning of the bright era for foreign banks in Turkish Banking Sector. With the stabilization and structural adjustment programs implemented by the Government, liberalization process of financial markets of Turkey started. A significant number of Turkish and foreign banks came to the System as a result of relaxation of regulatory barriers. Foreign entry to the Turkish Banking System has increased especially after 2001; lots of banks were sold to the foreign investors. The young population; increasing per capita income and the critical geopolitical location of Turkey draw attention of investors. The financial liberalization reforms realized since 1980's eased foreign entrance through reducing barriers, created a more stable and positive economic environment and thus attracted investors.

The banks of the System divided into groups according to capital structures to prepare analysis data for the 3rd part. In the system, there are "foreign banks" that 100% of shares owned by foreigners and there are "foreign capital banks" which some parts of shares owned by foreigners. The number of these banks is 30 as of 2010, 13 of them counted as foreign bank. More than 50% of the shares of 11 owned by foreigners and for the remaining part, foreign share is below 50%. 6 of these banks are development and investment banks, 21 of them are deposit banks and 3 of them are participation banks. Main purpose of the research is to examine whether the banks having high shares of foreign capital in their capital structure, have small sector shares and low financial performance compared to others. Ratio analyses and discriminant analyses are conducted to test this hypothesis.

The thesis is structured as follows; the first chapter gives information about banking in the world and the history of banking. The second chapter studies banking in Turkey and classification of banks in Turkish banking sector. Finally the third chapter discusses the role of foreign banks in Turkey by means of ratio analysis and a discriminant analysis.

CHAPTER 1

FOREIGN BANKING IN THE WORLD

Banks are the establishments operating and regularizing money and credit functions which can be defined as the economic foundations that responsible for capital, money and credit transactions; financing the needs of individuals, corporations, governments and businesses. Their operations are as old as humanity as they always needed and took important responsibilities in implementing financial decisions of countries.

In this chapter foreign banking in the world is discussed in detail starting with the history. Then, the banks are classified according to field of activities, historical development of foreign banking is examined and finally the shares of foreign banks in emerging and developed countries are analyzed.

1.1. HISTORY OF BANKING IN THE WORLD

It is believed that the word of "bank" comes from an Italian word "banco" that means table and bench. Lombardian Jewish bankers used to make banking transactions on "banco"s that they have settled in market places and in the case of couldn't meeting their commitments, their bancos were being broken by public. The word "bankruptcy" comes from here. As the goods started to be exchanged between people, the trade began; the need for a payment tool was born. With the progress of trade, difficulties occurred in collection of goods between buyers and sellers that located in different places. Also the safety need is an important reason; it was risky to transport precious metals.[1] Banking history began for these reasons.

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[1]Fatma Gundogdu, Banking in Turkey and the Evaluation of the period after 1980, Phd thesis. **(Turkiye'de Bankacilik ve 1980 sonrasi Donemin Degerlendirilmesi),** (Doktora Tezi), Ataturk Universitesi Sosyal Bilimler Enstitusu, Erzurum, 1998, pg 3.

1.1.1. Banking in the Antiquity

In the first period; Sumerians and Babylon people showed a primitive example of banking transactions.[2] The assets that religious people deposit into temples were using by priests in establishing credits for farmers. These credits were being paid after the harvest is done.

Babylon emperor Hammurabi has written standards regulating liabilities and credits in temples.[3] These standards were part of the Code of Hammurabi, the earliest known formal laws, referring raising funds, providing loans and commissions. Some of the basic concepts underlying today's banking system were present in these ancient arrangements. A wide range of deposits was accepted, loans were made, and borrowers paid interest to lenders.[4] Similar banking type arrangements could also be found in ancient Egypt. These arrangements stemmed from the requirement that grain harvests be stored in centralized state warehouses. Depositors could use written orders for the withdrawal of a certain quantity of grain as a means of payment. This system worked so well that it continued to exist even after private banks dealing in coinage and precious metals were established.[5]

In Greece, in the 5th century B.C, private bankers came into the picture. Their main responsibilities were: collecting and lending money, debt collection and making payments through money transferring between dealers. They prepared some documents making money transfer between different located dealers' safer and easier. Also first regulating activities were seen in Ancient Greece.[6]

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[2] BAT, Education site, Basic Banking Training. (TBB Egitim Sitesi, Temel Bankacilik Egitimi) http://www.tbb-bes.org.tr/, (2009), (03.07.2010).
[3] Yucel Gormez, **Banking in Turkey: History and Evaluation, Bank of Greece Working Paper 83**, July 2008, pg 8.
[4] Davies, Glyn, **A History of Money from Ancient Times to the Present Day,** University of Wales Press ,Cardiff, UK, 1994, pg 172.
[5] Davies, pg 146.
[6] BAT Basic Banking (TBB Temel Bankacilik Egitimi.).

In Roman Republic, first banking activities started in the 3rd century, as their economical activities were based on agriculture for a long period. Roman cavaliers named "publicani" financing not only private businesses but also public occupations. With the Roman Empire, private bankers called "argentarii" came into the picture. With the help of them, new regulations have done similar to today's banking system. Keeping journal and cash journal; giving statement of account were their responsibilities. State banks called "mensae" were established in all national states, they were centrally inspected and governed.[7] State banks were collecting governmental income and setting regulations about money in all over the empire. Statement of accounts needed to be sent to central office.

1.1.2. Banking in the Middle Ages and the Renaissance

Early on the middle age, in the 5th century, stagnation was observed in the banking system. As a result of Arabian invasions, Roman Empire economic union suffered, the long distance trade came to an end. Starting with the 11th century; as the trade recovered and money transfers started to realize in order to meet army's needs during crusades; European countries started to commerce with eastern countries again. Furthermore; in order to make trade transactions easier; the need for parties that will make money transactions arisen. All these improvements powered developments in banking. On the other hand, as interest is irreligious according to Christian belief; Jews became the conqueror of banking system. They were separated from the society and only dealing with money trade.[8]

Fairs settled in Champagne and Lion; taking the attention of dealers and bankers. With the help of the money transactions resulted from these fairs, the banking methods started to be modernized and integrated. Bankers were mainly dealing with foreign exchange and money transition. As the roads were dangerous, the transition was very risky. The bankers found a new solution, "payment letter". With the payment letter, some payment was being done to the owner of it, so there

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[7] Gundogdu, pg 4.
[8] Gundogdu, pg 5.

would be no need to actually transfer the payment tools. Also Italian bankers were using some receipt forms called “Contadi di Banco” further to the goods that they were deposited. Dealers were endorsing these receipt forms between them instead of money. Another development of this area was the occurrence of some famous families as bankers.[9]

1.1.3. Banking in the New Age

Center of European trade changed into Portugal, Spain, France and England from Italy and the trade was broadening with the discovery of new world. In addition, with the rise of the trade of textures and marine goods in Europe, permanent exchange centers occurred and payments systematized. Money scriveners, buyers and sellers, money agents and commission agents showed up in London, Frankfurt and especially in Amsterdam.[10] These bankers following Renaissance Italian bankers’ footsteps, they improved system upon Italian techniques, settled a national and international credit structure which is supporting modern era’s world economy. On the other hand, currency expansion all over the Europe and the difficulties of evaluating values of golden and silver ones forced the establishment of a bank; Amsterdam Bank established in 1609.[11] Amsterdam Bank purchased gold bullions; mint them into standard coins, adjusted unbalanced coins.

“Banco Florin” used as the unit of account, therefore the bank continuously improved and became a model for a long period. In 1619, Hamburg Bank established and started to work upon the same standards as Amsterdam Bank. Its unit of account; “Marc Banco” was equal to 8, 33 grams of pure silver.[12]

In the 17th century, in England, goldsmiths settled registered capital circulation system through launching banker receipt forms. The gold stocks were

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[9] Gundogdu, pg.6.
[10] History of Banking http://www.historyworld.net/ (01.08.2010).
[11] Richard Hildreth, The History Of Banks, Online Book http://socserv.mcmaster.ca/~econ/ugcm/3ll3/hildreth/bank.pdf, pg 6 (01.08.2010).
[12] Gundogdu pg.6.

increasing day by day with Spanish treasury ships coming from the new world so keeping the precious materials gained importance. Goldsmiths kept the precious deposits in safety boxes gave receipt forms called "Goldsmith's notes" to lenders and gained interest on these deposits. In 1694, the Bank of England was established as an early example of modern central banks to act as the Government's banker and debt-manager. Since then its role has developed and evolved, centered on the management of the nation's currency and its position at the centre of the UK's financial system.[13]

1.1.4. Banking in the Contemporary History

In the mid 1800's; the outlook for the banking system was more professional because the process of industrialization was accelerating and this caused more financing needs. Mainly, there were two types of banks; bank of deposits specialized on short term transactions and merchant banks that specialized on investments and long term transactions. Merchant banks established credits mostly using owners' equity and deposits. They acted as intermediaries to foreigners; marketed bonds. "Barings Bank "(1762) was the oldest merchant bank established in London.[14] "Rothschild"[15](1798) and "Hambros"[16](1839) were the most popular merchant banks of this era.

In France, "Credit Mobilier" was established in 1852[17], acted as an intermediary to selling bonds and stocks of industrial firms and railway companies. As a result of excessive demands of credits, couldn't survive and went bankrupt in 1867. Banking system of France hasn't progressed as much as UK's; they have used most of their financial sources to meet credit demands.

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[13] Bank of England, History, http://www.bankofengland.co.uk (30.08.2010).
[14] Collapse of Baring Bank, http://www.jstor.org/pss/4402560 , 1995, (30.08.2010).
[15] Rotschild History, http://www.rothschild.info/ (30.08.2010).
[16] Societe Generale Private Banking http://www.sghambros.com/ (30.08.2010).
[17] William Newmarch, **On The Recent History of The Credit Mobilier**, http://www.jstor.org online assay, (30.08.2010).

Merchant banks financed Germany's industrial growth during this period. Manufacturing companies', shipping companies', corporations' financing needs have met through issuing credits by using own equities' and stock revenues. Establishing branches abroad made German industrial development supported when the need for overseas markets arisen.

Federal Land banks where farmers' financial needs were met, hypothec banks where credits could be provided in return for commodities and mortgage banks were examples of specialization of banking system in 19th century. Moreover, with this specializations, right to issue of banknotes taken from commercial banks. This was the main step of central banks. With the exchange of commercial banks' private capitals with government bonds; the process of nationalizing began. The leader was Bank of England; and then other examples followed; Banque de France(1800), De Nederlandsche Bank(1814), Bank of Norway (1817), Austria National Bank(1817), Bank of Spain(1856), Reichbank- a German Bank(1875), Japanese Bank(1882), Bank of Portugal(1907) and Banque Nationale Suisse (1907).[18]

In 1913, the Federal Reserve System that serves as central bank in the United States, was created by an act of congress. The system consists of a seven member Board of Governors with headquarters in Washington D.C and twelve Reserve Banks located in major cities throughout the United States[19] In 1920, in Brussels, during International Finance Conference, it is decided to establish central banks in the other countries with the aim of reorganization of money and banking systems. With the 1960's, internationally operating banks started to be established all around the world like Barclays Bank International.[20]

[18] Gundogdu, pg.10.
[19] FED, The structure of Federal Reserve, http://www.federalreserve.gov/pubs/frseries/frseri.htm, 08.07.2003, (25.02.2010).
[20] Barclays Group, History, (http://group.barclays.com/).

1.2. CLASSIFICATION OF BANKING IN THE WORLD

It is difficult to make a classification of banks in a world level as banking activities are dependent on economics and capital markets. Also they are under legal supervision and have a wide field of activities. Size, form, establishment purpose and loan maturity are some of classification elements but we will discuss banks according to their areas of activity.

1.2.1. Deposit Banks

Deposit banks or commercial banks stated in other words, are the main financial institutions of industrialized economies. They operate in money market through collecting money from individuals and firms with the exchange of interest and providing loans to individuals, industrial and commercial enterprises. They have two main functions: Money creation and rendering of services. Bank of deposits create purchasing power through fund raising. These banks create deposit money through providing loans and giving the opportunity to use credit cards. It can be assumed as they take the second place in financial institutions that create purchasing power after central banks.

Their main rendering of services functions are[21]:

- Acting as institutions that money transactions are being done,
- Receiving deposits of investors and opening time deposit accounts,
- Enabling local and foreign money orders,
- Fulfilling obligations of customers like checks,
- Enabling keeping precious assets,
- Providing personal services like keeping high amounts of personal, funds, realizing salary payments etc,
- Providing credits to traders, investors and individuals.

[21] Gundogdu, pg.15.

1.2.2. Development and Investment Banks

Development and investment banks have important roles in industrialization. They support investments through issuing medium and long term loans to establishments. Investment banks generally located in countries that have developed capital markets whereas development banks are located in underdeveloped countries. Investment banks meet corporations and government's long term financial needs with the individuals' savings.

Development banks meet financial needs of industrial and commercial investments and residential housing constructions, investment projects; facilitates partnership of foreign capital to investments; providing technical support to corporations, acting in order to develop capital markets and giving support to investment projects with internally or externally provided public funds.

1.2.3. Banks Established on Special Purposes

The banks that were set up due to special regulations and operate accordingly called special purposed banks. The banks supporting agricultural sector, middle sized and small producers, exports and constructing sector can be examined in this category. For example; public banks operate with the aim of meeting middle and short term financial needs of artisans and small traders. Commercial banks don't give financial support to these individuals as they carry high level of risk and have difficulties in paying credits. Burden of debt and interest of these individuals is disadvantageous for country so public banks have critical roles. They are supported by government and subject to special regulations. Also, agricultural banks established with the aim of meeting farmers' financial needs, supporting them to put their products to good use. Another example; land banks, like public banks, have settled in order to meet financial needs of agricultural sector.[22] It is possible to

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[22] Jessica de Wit, **Revitalizing Blighted Communities with Land Banks**, 2006, pg.1, (http://www.umich.edu/~econdev/landbank).

increase agricultural income through utilizing production possibilities with these organizations because of low interest credit and easier payment alternatives. They are supported by governments.

1.2.4. Off-Shore Banking

Off-Shore banks are the type of free banks located outside the country of residence of the depositor and which doesn't due to the banking law and legislations. They operate under minimum legal supervision and taxation.[23]

These banks use a different currency than their location's currency, the revenues came up from their services isn't taxed and foreign currency accounts aren't under delimitation. Offshore banking centers open wide range of opportunities for its users: access to innovative banking products, anonymity, safety, politically and economically safe environment.[24]

Off-shore banks developed after 1960's due to the developments of Eurodollar market and the accumulation of oil revenues of OPEC countries. They provide banking services to international enterprises and multinational companies operate in money market through exporting certificate of deposits and provide funds from interbank market. Their main services can be counted as: euro–credit syndications, foreign bill of exchange emissions, interest swaps, money swaps, fund management, leasing, factoring, forfeiting, foreign currency and gold transactions.

The main advantages of off-shore banks are:

- Providing an economically and politically stable environment with no fear of assets to be frozen, seized or disappeared.

[23] http://www.capitalconservator.com/offshore-bank/ (30.08.2010).
[24] http://www.offshorebankingtoday.com/ (30.08.2010).

- Operating with a lower cost base and providing higher interest rates than the legal rate in the home country due to lower overheads and a lack of government intervention.
- Providing greater privacy.
- Helping developing countries source investment, creating growth in their economies and helping redistribute world finance from the developed to the developing world.
- Getting paid for the interest without tax being deducted.
- Being offered a wide range of banking services that may not be available from domestic banks such as anonymous bank accounts, higher or lower rate loans based on risk and investment opportunities not available elsewhere.
- Being linked to other structures, such as offshore companies, trusts or foundations, which may have specific tax advantages for some individuals.

Operating centers of Off-Shore banks are[25]; Turkish Republic of Northern Cyprus, Bahrain, Bahamas, Netherlands Antilles, Cayman Islands, Lichtenstein, London, Paris, Zurich, Frankfurt, US International Banking Facilities, New York, Chunnel Islands, Bermuda, Hong-Kong, Luxembourg and Switzerland.

1.2.5. International Banks

International banks operate in national currency with nonresidents of country or make exchange in foreign currencies. This concept emerged with the expending abroad of national banks. Comparative advantages and operating effectiveness, eagerness to be in important financial centers, the capacity of capital and management, profitable overseas markets, growth expectations in the international markets and minimization of the international trade limitations accelerated international banking. They mainly; operate in international financial centers, have

[25] http://www.worldoffshorebanks.com/ (01.09.2010).

worldwide branches, can serve all banking all banking facilities to local and foreign customers with high transaction volume, make fund transfers, accept deposits and issue loans and make currency trade.[26]

1.2.6. Central Banks

The usage of banknotes as an exchange tool instead of gold caused the emergence of central banks in the 19th century. Generally it can be said that central banks have settled to regulate money supply and meet credit needs of the state. Especially, Bank of England was settled as a corporation that financing government and then got the authorization of issuing banknotes, trading precious metals and commercial bills.

There are some differences between banks according to fund structure[27]:

- Some central banks have settled with government funds: Sweden, China, Persia,
- Some central banks have nationalized after settlement: England, France, Netherlands,
- Some central banks' funds are owned by partially government and private people: Mexico, Greece,
- Some central banks' funds are owned by government, commercial banks and other private entities and private people: Turkey, some South American countries.

Central banks are critical as they ensure stabilization of currency through controlling money supply and credit and deposit volume. The responsibilities of consulting to government about monetary and financial issues, keeping international payment tools and cash reserves increase the importance of central banks.

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[26]**What You Need To Know About International Banking?** http://www.business-in-asia.com/article_banking.html (01.09.2010).
[27]BIS Central Bank Hub http://www.bis.org/cbanks.htm.

1.3. HISTORICAL DEVELOPMENT OF FOREIGN BANKING

Historical development process of foreign banking is examined in this part of thesis to specify the importance of foreign banking in banking system. Firstly, international banking concept and internationalization are emphasized and then the methods, factors, advantages and disadvantages of foreign entry are explicated.

1.3.1. International Banking Concept

The term of international banking has come into our lives with the increased flows of international trade and foreign direct investment. International banking is realizing foreign trade investment in national currencies with nonresidents of the country and competing with residents and nonresidents in foreign currencies.

Financial liberalization removed barriers of the investment and the firms that invested abroad with the aim of benefit from international opportunities leaded internationalization process of banking. This process speeded up with technological and communicational developments. Banks have invested abroad in order to benefit from new opportunities and maintain relationships with existing customers. There are some economical reasons of investing in new markets[28]which are; increased volume of international trade, opportunities of emerging markets, disinflation, regional economic integration efforts like European Union, the desire to take the advantage of emerging markets' growth opportunities and the ability of entrepreneurs to meet the financial needs abroad with the growth of trade volume.

As the volume of international trade increased, banks started to invest in the countries having high volume of trade transactions. This geographic diversification helped to risk distribution. Dissemination of funds to different countries also helps to maintain stabilization.

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[28] BRSA, Foreign Entry to the Turkish Banking System, ARD Working Reports, No: 2005/6, September 2005, pg 1. (Bankacilik Duzenleme ve Denetleme Kurumu, Bankacilik Sektorune Yabanci Girisi: Kuresel Gelismeler ve Turkiye, ARD Calisma Raporlari No: 2005/6, Eylul 2005, pg 1).

The trend of banks to invest in financial centers that have tax advantages is natural as they are also profit making companies. Especially saturated financial markets of developed countries cause banks to invest in emerging markets which have profit advantages. The related researches show that banks prefer to invest in emerging market having growth, high profit and competition advantages.[29] Comparative advantages are attracting investors; moreover; technological advantages, competitive service standards and management skills helps the investment decision to be made. Also size and capacity of the bank, having economies of scale advantage and the variety of offered goods and services strengths the position of the bank in the market.

1.3.2. History of International Banking and Foreign Entry

International banking activities increased after 2nd World War with the formation of euro money markets, collapse of fixed rate regime and petrol crisis. After 2nd World War; while economic situation of European countries was getting worse, capital accumulation of capital was observed in the USA. International economical and monetary systems' regulations were leaded by USA. 45 countries came together in Bretton Woods in 1944 and agreed on a framework for international economic cooperation. Main aim was avoiding a repetition of the terrible economic policies that had contributed to the Great Depression. In 1945, the first 29 countries signed Articles of agreement and the IMF came into formal existence. IMF began operations on March 1, 1947. The fist country was France borrowing from the IMF.[30] The World Bank has similar establishment purposes; it was the facilitator of post-war reconstruction and development to the present day mandate of worldwide poverty.[31]

The Energy Crisis of 1973 accelerated international banking operations. Sudden rise of oil prices caused dollar surpluses in exporting countries so the need for international banks occurred to transfer surpluses to importing countries. Banks

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[29] Bumin Mete, Foreign Banks in Turkish Banking System, Turhan bookstore, December 2007. (**Turk Bankacilik Sektorunde Yabanci Bankalar**, Turhan Kitabevi, Ankara 2007), pg 1.
[30] IMF, http://www.imf.org/ History,(02.06.2010).
[31] The World Bank, http://www.worldbank.org/ History, (02.06.2010).

started to consider country risk with the emerging market crises occurred in 1980's. Mexico, Brazil and the Argentine which has big amounts of debts to banks explained one by one that they can't pay their debts and so had crises. The loan amounts provided to emerging countries sharply decreased after these crises.

International Banking has gone through alternate fortunes in the last centuries; it was common at the end of 19th century when foreign banks were deeply involved in financing large investment abroad, towards colonies and declined during interwar period.[32] Banks preferred branches and subsidiaries as entry method to foreign countries by 1990's. They realized direct investments; provide services not only to their current country customers but also to local customers that have relationships with their country. They acted as local banks abroad. After 1990's, foreign investments increased all over the world with the new elastic regulations about foreign entry. As restrictions minimized and tax and legal systems developed in this direction; foreign investment process has accelerated. Local currency depreciation comparative to investor country's currency also supports investment decision. Political and economical stabilization, low labor costs, good communications and transport infrastructure and high interest rates are the other attractive factors.[33]

American companies started to operate in an international basis in the international markets as the capital flows to Europe increased for reconstructuring. As it was mentioned before, all these international trade activities leaded international banking operations. During this period, foreign banks choose to continue their activities in the countries where they have established; "**correspondent banking**" chosen as the type of organization.

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[32] Dario Focarelli, Alberto Franco Pozzolo; **"Where do Banks Expand Abroad?"** An empirical Anaylsis, 2000, pg.2.

[33] Ahmet Algan**, Internationalization Process of Banking, An example: Kocbank, Mazter thesis (Bankacilik Sektorunde Uluslararasilasma Sureci ve Kocbank Ornegi,**Yuksek Lisans Tezi), 2006, pg75.

Correspondent banking doesn't require foreign direct investment and being physically located in the country. Relationships are established through mutual agreements between different country's banks. Banks issue foreign currency loans, execute letter of credit transactions, provide sector-specific and economical information related to local market in compliance with their relationship. [34]

Client-following strategy preferred starting with 1960's. Existing customers followed abroad, the countries chosen according to customers' investments. With this way, there would be the opportunity of bearing costs till gaining new customers, establishing new relationships and continuing existing relationships with current customer portfolio. This method is also known as defensive expansion. During this period, lots of American banks invested in European financial markets following the investments of American firms to Europe. In this strategy, according to the degree of presence in the country, organization types can be representation offices, agencies, branches and subsidiaries.

A representation office is the most limited type of establishing commercial relationships. In contrast to correspondent banking, the bank is physically located in the country that it invested with all its employees. In order to facilitate investor bank's operations on behalf of it; they act as an intermediary for payments, prepare loan transactions and collect information loans.

Agencies have more extended authorities. They can issue loans, receive funds from international money markets, realize international trade financing and manage main bank's investments.

Branches and subsidiaries can operate all international banking activities including receiving funds from individuals and corporations and issuing loans. **Branches** legally operate as a part of the bank**;** issue short term corporate credits, finance international trade transactions, actively participate in foreign exchange,

[34] Bumin, pg 10.

money and stock markets and manage investments in the investment country. If the investor bank purchases more than half of the shares of a country's bank, it called **subsidiary.** Investor bank aims to be a part of the competition of the investment country with the help of the bank it became a subsidiary. Subsidiaries use the advantage of broad branches of local bank; provide new financial products and services to local customers, acts like local banks.

1.3.3. The Reasons for Internationalization of Banks

Income level of countries has increased due to high production volume and advanced technology with 1990's and caused over savings raise. This huge amount of over savings made financial sector grew and due to the increased competition and low interest rates caused by globalization made investors look for new profitable markets. Banks, in order to use these opportunities and serve more customers, started to become internationalized.[35]

Foreign investment regulations allowing banks to open new branches and establishments abroad, international capital flows, emerging market banking crisis's, technological developments have led to a significant increase in the share of foreign banks in the sector till 1990's.[36] Banking systems of emerging markets affected with these changes in approaches that opening domestic markets to competition of foreign banks, the arrangements of banking regulation and supervision systems of emerging markets and the opportunities of growth potential and profit.

Developed countries' banking systems were affected by increased global competition, the pressure of other sectors, and the decline in profit margins of traditional services, attraction of cross border and seeking of economies of scale in order to decrease operational costs. Developed countries also moved to internal

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[35] Ahmet Dincer, Consolidation in Banking Sector, Country Experiences and Suggestions to Turkey, Master thesis, **(Bankacilik Sektorunde Konsolidasyon, Ulke Deneyimleri ve Turkiye Icin Oneriler,**DPT Uzmanlik Tezi) 2006, pg 135.

[36]BAT Bankers Journal, **Foreign Banks in Turkey, (**TBB Bankacilar Dergisi, **Turkiye'de Yabancı Bankalar**,)Sayı 52, 2005, pg 3.

markets with the aim of providing services to multinational corporations which are already their customers in other parts of the world.[37] Other factors that push developed country banks to invest in other markets can be listed as: [38]

- The advantage of increasing market share,
- Economies of scale advantages,
- Increasing profits through minimizing costs,
- Meeting new customers with local connections,
- Changing sector dynamics with new techniques.

All in all; globalization of financial services and removal of barriers to foreign entry could be the most important reasons of international banking. Globalization of financial services resulted in a competition for banks. Also, the cost of information, communication and computation declined which is very important for banking during last decades. Banks need to get the advantage of economies of scale that come out as a result of these developments. Although there were strong incentives to expand abroad; barriers have prevented it for a long time. Most countries established strict requirements on the availability of banking licenses, put restrictions on the number of branches.

To summarize, the banks of developed countries show a tendency to invest in emerging markets where they are needed to finance economical growth. As the investment o abroad increased, the terms of international and multinational banking have come up.

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[37] Christian E.Weller, Mark J. Scher**. The Impact of Multinational Banks on Development Finance**, 2006.

[38] Banking from Crisis to Tomorrow. (Krizden Yarına Bankacılık", s.6, www.econturk.org/Turkiyeekonomisi/bankacilik.pdf) (01.09.2010).

1.3.4. The Factors that Affect Foreign Bank Entry

Foreign banks mainly follow their domestic clients abroad as it explained before, and also pursue market opportunities in the host countries. They are generally attracted to countries with fewer restrictions on entry and bank activity.[39] They also want to utilize arbitrage opportunities and take the advantages of low costs and limited regulations.[40]

Investing abroad is an important and risky decision so it requires a detailed examination about the host country before being made. Growth opportunities, regulations, political stability, competition, monetary principles, culture and infrastructure should be analyzed carefully before realizing investments.

As home country's mature economical situation is a driving factor to search for new markets, economical potential of host country it is an important factor to make investment decision. Claessen (2000) have some researches supporting that foreign banks are attracted to markets with low taxes and high per capita income. Profit opportunities appear to be a key factor affecting the pattern of banks' international expansion. The importance of lower per capita GDP, lower inflation and larger credit market assigns a prominent role to the expected growth of the destination country.[41]

Host country regulations aim to protect domestic banks through limiting competition. Investors should examine regulations of countries and choose advantageous markets. Researches show that the countries with fewer regulatory banking activity restrictions are preferred. According to Goldberg and Grosse (1994), foreign banks had a greater presence in countries with less strict regulations. Tax

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[39] George Clarke, Robert Cull, Maria Soledad Martinez Perla, Susana M.Sanchézi **"Foreign Bank Entry: Experience, Implications for Developing Economies and Agenda for Further Research"**, The World Bank Research Observer vol.18, No 1, 2003, pg 26.

[40] Vesile Cakar**. Foreign Capital Bank Entries and the effects on the National Banking, (Yabanci Sermayeli Banka Girisleri ve Ulusal Bankacilik Uzerine Etkileri**), CBRT, proficiency theisis, 2003, pg.21.

[41] Focarelli and Pozzolo, pg. 18.

laws are also important because it directly affects profits and the decision of what kind of office to be established. Asian countries had strict regulations about foreign direct investment; they showed protective approach about their banking systems. For example, in Thailand, foreign share of commercial banks was limited with 49% till 1990's. Also foreign bank employees have limited working licences. In Malaysia, the foreign share couldn't exceed 30% and no new licenses for foreign banks are issued. Also employees should be local.[42]

Constantly changing political majority in a country causes to changes in laws and this raises the risk of investment. Inconsistent political system could affect predicted returns on investment so political stability is an important factor for investors. Monetary policies regulating and limiting banking activities also be considered before investing to the host country. If there are limitations about foreign currency, loans and loan to equity ratio, the investor country could face problems.

Having competitive advantages such as technical expertise is also important in host country. Studies show that foreign entry force domestic banks to lower costs and follow technical developments in the banking sector; they create a hard competition for the whole sector.

Cultural factors; especially language; is an important determinant too. The need to overcome the disadvantage of local knowledge led to the emergence of "regional evolvers" that is banks that focus their activities on a particular region, such as the Spanish banks in Latin America.[43] The commonality of language has made Latin America comfortable for the Spanish and permits easy communication and transfer of managers. The Spanish banks already had some familiarity with the region. All had had some offices, branches or small subsidiaries there since the 1970s

[42] BRSA 2005/6 pg 26.
[43] IMF Stabilization Report, 2000, pg 156.

and early 1980s.[44] Similar to this case; Austrian, Belgian, Dutch and German banks choose Central Europe and Australian and Japanese banks choose Asia.

Finally, host country should have a good infrastructure; unproblematic communication and transportation networks with other financial centers, legal arrangements should have be completed and the attitude of financial authorities should be positive to foreign capital.

1.3.5. Advantages of Foreign Entry

Researches suggest that foreign banks bring large benefits to host countries' financial systems and economies at large. It is said that mainly there are two advantages; **stability and efficiency**. It is commonly believed that there is a positive relationship between profitability and openness encouraging banks reduce costs and diversify their income. Internationalization can help in the process of building more robust and efficient financial systems by introducing international practices and standards, by improving the quality, efficiency and breadth of financial services, and by allowing more stable sources of funds.[45]

Global banks have greater access to resources from abroad so have more stable funding and lending patterns than domestic banks. As they have a geographically diversified portfolio, can't easily be affected from the stress of host country. Subsidiaries are parts of globally diversified entries so they are sources of stability; they bring new capital to emerging markets to overcome crisis. Clarke (2000) and Demirguc-Kunt (1998) suggest that increased participation of foreign banks lower the probability of banking crisis. Through providing a more stable

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[44] Mauro F. Guillén, Adrian E. Tschoegl, **At Last the Internationalization of Retail Banking? The Case of the Spanish Banks in Latin America**, 1999, pg 23.
[45] Stijn Claessens, Tom Glaessner**, Internationalization of Financial Services in Asia,** 1998, pg 33.

source of credit they can make banking system more robust to shocks.[46]The presence of foreigners fosters the stability of the deposits.

Many researchers suggest that significant foreign bank presence is associated with a reduction in margins, profitability and overall expenses in domestically owned banks. Independently of their market share they have positive effect on banking system. Through increasing the number of financial products available to local customers, they foster efficiency and development of the sector. Mexico derivatives market is a good example of it. While foreign bank participation in total assets is 82 percent; their share in derivatives operations is 94 percent.[47]

The entry of multinational banks into developing economies is supposed to create more market discipline for domestic banks, thus making them more efficient, and enhancing financial stability[48]. To look from a different perspective; greater efficiency in loan allocation should stabilize the banking system as banks become better at evaluating borrowers. It is also frequently asserted that foreign bank entry can render national banking markets more competitive, and thereby can force domestic banks to start operating more efficiently.[49] Enty of a foreign bank to a country triggers other multinational banks for investments, it means more capital inflow to the country.

Functioning of national markets also get improved as a result of foreign entry; with positive welfare implications for banking customers. The relaxation of restrictions on foreign bank entry may similarly reduce domestic banking profits, but with positive overall welfare implications for the domestic economy[50]

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[46] IMF Stabilization report, pg 163.
[47] Juan Cárdenas, Juan Pablo Graf, Pascual O'Dogherty; **Foreign banks entry in emerging market economies: a host country perspective**; 2003, pg 3.
[48] Christian E. Weller, Mark J. Scher. "**The Impact of Multinational Banks on Development Finance, 2006**, pg 1.
[49] Stijn Claessens, Asli Demirguç-Kunt, and Harry Huizinga. "**How Does Foreign Entry Affect the Domestic Banking Market?**", World Bank Policy Research Working Paper 1918, 1998, pg 18.
[50] Claessens and others, pg 18.

Technological developments could be counted as the other advantage as new entrants bring new technologies, products and management techniques. Domestic banks try to adopt these changes in order to compete so the banking system becomes "ever-growing"[51] As a final advantage; it can be said that through decreasing the concentration of market, they mitigate negative effects of it.

1.3.6. Disadvantages of Foreign Entry

Foreign entry brings many disadvantages to economies too. Greater participation of foreigners could expose host economies to events taking place in other countries where their foreign banks operate.[52]

Countries may, however, face adjustment cost in internationalizing their financial systems, including effects on labor.[53] They might consider committing through the international banking system standards and this could create costs. Modern technologies used by large foreign banks rely mainly on hard data not always available in emerging markets' small and medium enterprises. This pushes domestic banks to a hard competition, requires great effort and capital.

Foreign banks also could negatively affect the depth of the market, liquidity and information available to market participants by delisting shares of acquired institutions. Having access to more investment alternatives gives the courage of "cut and run" to foreign banks in recessions. They have a tendency to release their investments if operations aren't performing as expected. Also they are prone to serve large and transparent customers of the country which is called "cherry picking". Studies support that small firms have difficulties in obtaining funds from foreign commercial banks. As a result of choosing most profitable markets and customers and leaving risky ones to domestic banks, foreign banks increase overall riskiness of domestic bank portfolios.

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[51] Cárdenas and others, pg 4.
[52] Cárdenas and others, pg 2.
[53] Claessens and Glaesner, pg 33.

Some researches argue that a growing multinational banking presence may indeed induce domestic banks to lend more, but for riskier projects as they become less prudent in their activities under mounting competitive pressures[54] In this view, expanding loan exposure of domestic banks leading to greater financial instabilities ensue from more speculative financing in the wake of greater international financial competition[55] Also, an increase in the share of foreign banks leads to a lower profitability of domestic banks.[56]

Table 1: Potential Direct and Indirect Effects of Foreign Presence to the Host Country

Stability factor of the local banking market	Potential direct effects of the presence of foreign banks	Potential indirect effects of the presence of foreign banks
Deposit base stability	Higher deposit insurance by foreign branches	Possible flight to quality during crises
Risk of contagion and bank panics	Increases the bankruptcies of local banks through competition	Reduces the contagion because of possible flights to quality
Credit supply	More stable credit supply because of parent support; possible credit rationing due to stricter lending policy	
Liquidity and capitalization	Increases the capitalization of acquired banks, better liquidity	May reduce the liquidity of a local market due to delisting of acquired banks
External shocks		Reduces the better vulnerability of the host market through better capitalization and parental support; increases the exposure to external shocks through international linkages
Supervision		Branches of foreign banks import supervision to the host country

Source: Janek Oiboupin**, Impact of Foreign Banking Sector stability in Central and Eastern European Countries**, 2005, pg 97.

54 Claessens and others, pg.18.
55 Weller and Scher, pg.1.
56 Claessens and others, pg.18.

1.4. FOREIGN SHARES IN THE BANKING SECTORS

The share of foreign banks in an increasing trend since 1990's as it mentioned before. In this part, foreign banks in the USA, European Countries and emerging markets are analyzed and supported with examples.

1.4.1. Foreign Banks in the USA

The activities of U.S. offices of foreign banks grew in the 1970s. With early 1980s, the growth of industry slowed but it began to pick up during the latter part of the decade. Regulation and supervision need occurred in the early 1990s. With the extraordinary growth in the presence of foreign banks in the US since 1970s, the review and supervision procedures of it complicated the U.S. regulators.

The Riegle-Neal Interstate Banking and Branching Efficiency Act, signed into law on September 29, 1994, which was structured to transform the U.S. banking system. The act allowed a foreign bank, subject to certain regulatory approvals, to establish de novo branches in states outside the foreign bank's "home state" if a U.S. bank headquartered in the same home state could establish such branches. In 1978, with the International Banking Act of 1978 (IBA), federal and state control over foreign bank operations in the United States tightened. In 1991, Foreign Bank Supervision Act, the FBSEA signed which greatly expanded the supervisory authority contained in the International Banking Act of 1978 and placed the bulk of this authority in the hands of the Federal Reserve Board. After that, the entry of foreign banks in the United States slowed down. The Riegle-Neal Act also regulates Off-Shore activities. FBSEA required that each branch, agency and commercial lending company subsidiary of a foreign bank be examined on an annual basis by a federal or state regulator—the Fed, OCC, FDIC or state banking agency. FBSEA also authorized the Fed to examine all US branches, agencies, representative offices and commercial lending company operations of foreign banks[57]. For example national banks are supervised and regulated by OCC; state banks, bank holding companies and financial holding companies are regulated and supervised by FED and some state laws; foreign banks, representative offices, branches and agencies are regulated and supervised by FED, FDIC, OCC or some state laws according to their structures.

As of June 2007 lots of foreign banking organizations had established operations in the United States in the form of representative offices, branches, agencies or banking subsidiaries. Foreign banks entering the US market through branches and agencies have traditionally emphasized wholesale international commercial banking activities, such as interbank lending, trade finance and corporate lending, as well as money market and capital markets activities. Foreign banks have also established or acquired significant nonbank financial institutions in the United States, including investment banks, insurance companies, investment management companies, mutual fund complexes, mortgage companies, finance companies and other financial service providers. In addition, they have been important investors in the US venture capital and merchant banking markets. In fact, the amount of third-party assets held by foreign banks in nonbank financial institutions exceeds the amount of assets held in banking offices or subsidiaries.[58]

There are six principal types of organization through which foreign banks can engage in varying activities in the United States: representative offices, agencies, branches, banks, Edge Act and Agreement international banking corporations, and commercial lending companies. Foreign banks that have a representative office or offices only in the United States are not subject to any restrictions on their US nonbank activities. Foreign banks maintaining an agency or branch in the United

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[57] http://business.highbeam.com/industry-reports/finance/branches-agencies-of-foreign-banks.(01.10.2010).

[58] PriceWaterHouseCoopers, **A regulatory guide for foreign banks in the United States 2007–2008 edition, pg.8.**

States or that have a commercial lending company, Edge Act or Agreement corporation or bank subsidiary are subject to the nonbanking prohibitions of the BHC Act on their US operations.

Some information is given below about US Banking System. The data is taken from The Federal Reserve Board, “Share Data for the US Offices of Foreign Banking Organizations” part. Asset amounts, loans and deposits examined and summarized in the tables.

Table 2: Asset Amounts of US Banking System

	Loans (Billions of $)					Change in Loans (%)			
Type	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**
Domestic Owned Banks	11.041	10.790	11.234	10.250	9.160	2,3	-3,9	9,6	11,9
Foreign Owned Banks	1.007	959	974	824	832	5,0	-1,6	18,3	-1,0
US Branches and Agencies	2.027	1.912	2.053	2.043	1.683	6,0	-6,9	0,5	21,4
Total	**14.075**	**13.661**	**14.261**	**13.117**	**11.675**	**3,0**	**-4,2**	**8,7**	**12,4**

Source: FED.

As can be seen from the table above, for 2006-2010 periods the average total asset amount of banking sector is 13.357.750 millions of $. 78,6% share belong to domestic owned banks, 6,9% share belong to foreign owned banks and 14,6% share belong to branches and agencies in average. In this period, foreign owned bank assets increased by 5,2 % average.

Table 3: Loan Amounts of US Banking System

	Loans (Billions of $)					Change in Loans (%)			
Type	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**
Domestic Owned Banks	6.021	5.898	6.229	6.070	5.442	2,1	-5,3	2,6	11,5
Foreign Owned Banks	536	534	546	493	480	0,4	-2,3	10,8	2,7
US Branches and Agencies	468	486	621	561	432	-3,8	-21,7	10,6	29,8
Total	**7.025**	**6.918**	**7.396**	**7.125**	**6.355**	**1,5**	**-6,5**	**3,8**	**12,1**

Source: FED.

For loans, the average amount of total loans of the system is 6.963.690 millions of $ for 2006-2010 periods. 85,2 % share belong to domestic owned banks, 7,4 % share belong to foreign owned banks and 7,4 % share belong to branches and agencies. In this period, foreign owned bank loans increased by 2,9 % average.

Table 4: Deposit Amounts of US Banking System

	Deposits (Billions of $)					Change in Deposits (%)			
Type	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**
Domestic Owned Banks	7.611	7.585	7.372	6.713	6.132	0,3	2,9	9,8	9,5
Foreign Owned Banks	709	687	645	534	543	3,3	6,5	20,8	-1,5
US Branches and Agencies	1.070	1.115	961	1.095	833	-4,1	16,0	-12,2	31,5
Total	**9.390**	**9.387**	**8.978**	**8.342**	**7.508**	**0,0**	**4,6**	**7,6**	**11,1**

Source: FED.

For deposits, the average amount of total deposits of the system is 8.720.719 millions of $ for 2006-2010 periods. 81,4 % share belong to domestic owned banks, 7,1 % share belong to foreign owned banks and 11,6 % share belong to branches and agencies. In this period, foreign owned bank loans increased by 7,2 % average.

1.4.2. Foreign Banks in the European Countries

European country data is given in this part. There are some differences between developed countries' and emerging markets' foreign asset shares. As the market reached to its natural capacity boundaries, there are no profit opportunities for investors.

As can be seen from the table, while examining the foreign shares among the countries of the European Union, large differences in banks' foreign shares are observed. The first 15 member countries that called EU have developed economies. The other members; Eastern European countries gained their economical independence lately so their banking systems weren't developed then. After direct investment flows; foreign shares of these countries increased a lot.

With 2008 data provided from Central Bank; the average foreign share of EU 15 countries is 29, 79 percent; whereas; the other members' is 75, 92 percent.

Foreign shares are limited within EU 15 except Luxembourg, Finland and Ireland. But it can said that new members' like Estonia, Slovakia and Czech Republic's banking systems are under the dominance of foreigners.

Table 5: Foreign Shares of Credit Institutions of Some Selected EU Countries (2008)

Old Members of EU	Foreign Share in Credit Institutions (%)	New Members of EU	Foreign Share in Credit Institutions (%)
Germany	11,5	Bulgaria	83,4
Austria	23,4	Czech Republic	90,8
Belgium	26,9	Estonia	97,3
Denmark	17,5	Latvia	67,8
Finland	69,5	Lithuania	84,8
France	13,3	Hungary	60,4
Holland	5,7	Poland	71,7
England	50,9	Romania	79,4
Ireland	56,6	Slovakia	92,8
Spain	10,6	Slovenia	30,8
Sweden	9,4		
Italy	12,1		
Luxembourg	95,2		
Portugal	22,1		
Greece	22,2		
Average	**29,79**	**Average**	**75,92**

Source: The Central Bank of Republic of Turkey, **Financial Stability Report**, May 2010.

Examining the numbers of financial institutions of EU-27 countries are observed that Luxembourg, Slovakia, Czech Republic, Ireland, Romania, Estonia, Northern Cyprus, Lithuania, Malta, Greece, Bulgaria, The Netherlands, Latvia, Portugal, Slovenia foreign controlled subsidiaries and branch numbers are much bigger than the number of domestic credit institutions. This ratio is 92,7% in United Kingdom, 77,6% in Spain and 60% in Belgium.

Table 6: Domestic and Foreign Controlled Financial Institutions of European Countries (2010)

Country	Number		Amount (in billions of €)	
	Domestic Credit Institutions	Foreign-Controlled Subsidiaries and Branches	Domestic Credit Institutions Total Assets	Foreign-Controlled Subsidiaries and Branches Total Assets
EU-27	3.826	1.037	36.908,6	9.473,3
Belgium	10	6	642,4	602,7
Bulgaria	8	22	6,4	29,9
Czech Republic	4	30	7,5	151,1
Denmark	118	7	756,5	170,9
Germany	1.703	92	8.417,50	965,2
Estonia	3	14	0,4	30,9
Ireland	6	33	511,9	918,5
Greece	12	34	397,7	101,4
Spain	143	111	3.563,90	313,1
France	10	3	6.498,00	246,7
Italy	52	9	2.525,20	238,7
North. Cyprus	7	32	102,3	59,8
Latvia	10	17	9,6	18,9
Lithuania	4	12	5	21
Luxembourg	14	135	98	718,9
Hungary	155	34	53,5	77,1
Malta	6	17	8,6	43,6
The Netherlands	31	64	2.448,40	403,6
Austria	673	58	909,7	283,4
Poland	586	58	91,1	186,5
Portugal	51	58	414,1	118,3
Romania	7	35	10,6	67
Slovenia	10	11	42,2	15,2
Slovakia	3	23	3,4	50,7
Finland	86	30	126,9	338,7
Sweden	18	3	1.397,40	6,2
UK	96	89	7.860,40	3.295,30

Source: European Central Bank.

1.4.3. Foreign Banks in Emerging Countries

Foreign bank investment is an important component of economic growth contributes the financial sector reform in poor countries and perceived as a feature of globalization and increased financial integration. It is obvious that foreign bank entry foreign bank shares are higher in emerging markets. Generally it is seen that foreign share is smaller in developed country as in these countries there are big banks having the capability of financing economic growth. Whereas, in emerging markets, internal resources seem to be insufficient, external financing is needed. As seen from the table; especially European countries perform their banking activities outside of their countries with a 45% share. European banks choose operating in profitable markets out of home country whereas Asia Pacific and North American banks performs most of their activities in their home countries.

Table 7: Portfolio Diversification

	Percentage of Activities		
Banks Based in:	Home Country	Rest Of The Region	Rest Of The World
North America (20 banks)	77	8	15
Europe (50 banks)	55	24	21
Asia and Pacific (20 banks)	86	5	9

Source: Pascual O'DOGHERTY, **"Foreign Bank Entry In Emerging Market Economies: A Host Country Perpective"**, May 2007, (2006 data) pg 8.

Most of the big banks of the world have concentrated on Latin American and Asian countries as can be seen below, Latin American countries are very popular with profitable opportunities.

Table 8: Banks' Net Profit Structure by Region (%)

Bank	Home	Europe	Asia	North America	Latin America	Other	Total
HSBC	22	10	**39**	21	8		100
BBVA	32			1	**47**	20	100
Santander	31	27			**34**	8	100
Scotiabank	60			3	13	23	100
Citigroup	54		17		13	16	100

Source: Pascual O'DOGHERTY, "Foreign Bank Entry in Emerging Market Economies: A Host Country Perpective", May 2007, (2006 data) pg 8.

Some country's foreign asset shares and foreign bank numbers are stated. As they are emerging countries'; their foreign share percentage attracts attention. For 2008, Hungary, Czech Republic and Poland have bigger foreign asset shares than average foreign assets with 94% , 89% and 70%. The average foreign share of these 7 banks is 55%.

Table 9: Foreign Bank Shares (2008)

Country	Foreign Bank Assets/Total Assets(50%)	# Foreign Banks/# total Banks	# number of Foreign Banks
Armenia	33	27	3
Azerbeijan	2	9	1
Georgia	50	43	3
Ukraine	45	28	13
Hungary	94	91	21
Poland	70	76	34
Czech Republic	89	67	16
Average	**55**	**49**	**13**

Source: HACIBEDEL, Burcu. **Implications of Foreign Bank Activities in Emerging Markets OECD Development Centre**, Warsaw, 17 November 2009.

CHAPTER 2

FOREIGN BANKING IN TURKEY

Foreign banking in the world was analyzed in the first part of the thesis. This part includes historical periods of banking sector and foreign banking in Turkey. Legal arrangements, pulling factors to invest in Turkey and the reasons of foreign banks to enter into Turkish Banking System is examined to specify the importance and the role of foreign banks in the System.

2.1. HISTORY OF BANKING IN TURKEY

The historical evaluation of Turkish Banking System; examination of the periods that have been passed through is important for a better understanding of today's situation. Examining the history of Turkish Banking System enables to see which dynamics affected the sector and how the financial system changed the direction. In this part of thesis, history of Turkish Banking is examined in detail, the operating banks are classified and foreign entry is analyzed with the reasons and the history.

2.1.1. Banking Before the Turkish Republic

The developed business life in Ottoman economics also developed credit transactions, the person and foundations that provide credit emerged. These foundations may be called foundation banks because of their level of development. Between the years 1456-1551; 1161 foundation banks were established.[59]

Armenians, Jews and Greeks who are called exchangers and Galata bankers became active when Ottoman Treasury had difficulties. Turkish society has always

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[59] Ahmet Tabakoglu**, The history of Turkish Banking (Turk Iktisat Tarihi**, 1. Baskı, Dergah Yayinlari) No.122 Istanbul 1986, pg 312.

stayed out of these activities because of its social structure and religious beliefs. These people ran the businesses like exchange, policy and commission. Ottoman governments that applied to Galata bankers so often had to get into debt.

Reforms changed over the political, social and economical structure of the country. One of the innovations in the period of Sultan Abdulmecid was coining. The first Ottoman bank note “kaime-i nakdiye-i mutebere” was issued in 1839.[60] Kaimes were debt certificates or treasury bonds bearing interest rate. They were handmade and stamped by the official seal. Since these banknotes could be easily faked, people's confidence in paper money weakened. Thus, Kaime banknotes were replaced with the printed notes beginning from 1842. Kaime banknotes were printed in various forms and amounts in the Ottoman Empire until 1862.[61] But as they used in only domestic market, it was still impossible to enable the competitive capacity in the foreign market. The rate of Ottoman money towards foreign currency had to be stabilized. Government made an agreement with two Galata bankers, a French and an Italian. J.Alleon and Th.Baltazzi took over to stabilize the foreign exchange.[62] This was the first step of Istanbul Bank, by other name Bank de Constantinople or Bank-ı Dersaadet which was the first bank in the Ottoman Empire. Istanbul Bank went bankrupt due to the financial difficulties in 1852.

The need of a bank to control money affairs was mentioned in Royal Edict of Reform, 1856. One English investor group was authorized to establish Ottoman Bank (Bank-ı Osmani). It is believed that modern banking system of the Ottoman Empire has started with Ottoman Bank which is owned by foreign capital. The bank that was privileged with the authorization of bank note issue was closed after Imperial Ottoman Bank’s (Bank-i Osmanlı Sahane) establishment in 1863.[63] The investors joined the newly established bank. Today, Ottoman Bank is the bank that we are talking about. The authorization of bank note issue was carried by this bank until the

[60] Gundogdu, pg.55.
[61] TCMB, History of Paper Money, http://www.tcmb.gov.tr/yeni/egm/ing/b001000e.php (01.09.2010)
[62] Arikan Tarik Saygili, Impacts Of Wrong Financial Decisions On Collapse Of An Empire: The Ottoman Case, African Journal of Business Management Vol.3 (4), March 2009, pg 154.
[63] Apak and Tavsanci, pg. 36.

establishment of Central Bank of the Republic of Turkey and then the bank privatized.

In this period, lots of banks were established with foreign capitals but their activities did not last long. Sirketi Umumiye Osmanlı Bank (1864), Itibari Umumii Osmanli Sirketi (1869), Avusturya-Osmanlı Banka (1870), Avusturya-Turk Bank (1870) are the examples for these banks.[64] These banks' services were to provide money for the government, to transport and to provide loan to some privileged companies but they were not satisfactory to provide the loan need of the market.

The foreign borrowing increased gradually because of the progressing trade relations with the European countries. When the government could not pay the foreign borrowings, in 1881, Duyun-u Umumiye İdaresi was established due to the agreement done with the foreign creditors, as a declaration of the bankruptcy of the Ottoman Treasury and external control over public finances was introduced.[65] State sovereignty got into a difficult position when this management took the control of some taxes. On the other hand, this management provide security for the foreign capital. Lots of banks were established with the foreign capital. These banks tried to extend their dominance by opening many new departments throughout the Empire. By this way, they could both control financial activities and make a profit excessively. The departments in Izmir, Jaffa and Jerusalem of French Credit Lyonnais went into action in Istanbul, the departments in Palestinian cities of a Palestinian Bank established by English (1902), the departments opened by Deutsche Orient Bank, a German Bank in Istanbul, Bursa, Adana, Mersin, Tarsus and Edirne in a short time (1906), the department in Trabzon, Samsun, Izmir and Mersin of Greek Athens Bank (1904), the department opened by Italian Bank Societe Commerciale D'oriente Bank in Istanbul and after Banco di Roma are the examples to show how these banks work intensely.[66]

[64] Gormez, pg.11.
[65] Gormez, pg.11.
[66] Gundogdu, pg.58.

The studies started to develop the national commerce in Second Constitutional Period, some banks were established that provide loan agricultural and commercial credit. The most important ones of the banks that provide agricultural credit are Milli Aydın Bankası (1914) and Manisa Bagcılar Bankası (1917), closed out in 1984. Konya İktisad-I Milli Bankası (1911), Konya Turk Ticaret Bankasi (1920), Adapazarı İslam Ticaret bankası (1913), its first name, was decommissioned of banking and deposit money in 2001 and today it is closed out and with its current name, Turk Ticaret Bankası, Karaman Milli Bankası (1915), Aksehir Bankası (1916), Adapazarı Emniyet Bankası (1919), Bor Zurra ve Tuccar Bankası (1922) are the most important ones that provide commercial credit. Osmanlı İtibar-i Milli Bankası (1917), accepted as the beginning of the private sector banking in Turkey joined Turkiye Is Bankasi that was established in 1924.[67]

Government cases were prepared by the leadership of Mithat Pasa to meet agricultural credit need (1863). The cases served an effective service for a long time but their service could not be controlled because they did not belong to a system so they were started to underused. As a result of the need of an organization with central authority, they were placed with Ziraat Bankasi in 1888.

2.1.2. Banking During the Republic Period

Turkish Republic had taken over a non-dependent a banking system from the Ottoman Empire. 33 banks were operating in the Ottoman Empire, 20 of them were national and the others were foreign.[68] As there were no specialized investment banks that issuing credits to industrial sector in the country, the system was dependent exports and imports so could easily be affected by other countries' economical conditions. Ottoman Bank which has undertaken important responsibilities was also carrying out the role of the Central Bank but as it were managing from outside, it was creating pressure on the government.

[67] Gundogdu, pg.59.
[68] Gundogdu, pg 60.

Banking sector after the foundation of Turkish Republic can be analyzed in four periods:

- National Banking and the Etatism Period (1923-1944)
- Private Banking Period (1944-1961)
- Planned Period (1961-1980)
- Liberalization and Outward Expansion Period (1980-….)

2.1.2.1. National Banking and the Etatism Period (1923-1944)

In the early years of the Turkish Republic, the necessity of nationalization of banking sector and government's support to settlement had accepted. During the Izmir Economic Congress that held between17th February-4th March 1923; related proposals of farmer, industrialist and trader groups' have been evaluated.

Ziraat Bankasi reorganized and tried to be renewed in order to meet the needs of the farmer group. Besides dealing with agricultural credits, it has given authorization about all banking activities. Turkiye Is Bankasi has settled in 1924 upon trader group's request. It has been supported by government in order to make it able to meet traders' needs and be an economic development tool.[69]

In 1925, Turkiye Sınai ve Maadin Bankası which was aiming to develop national industry and mining sector was established according to industry group's requests. Although it was one of the first examples of emerging countries' industrial banks, couldn't exist for a long time. In 1932, it transferred its operational activities to Devlet Sanayi Ofisi and its banking activities to Turk Sanayi Kredi Bankasi. Because of insufficient funds and labour potential, lack of technical knowledge and

[69] Gormez, pg.13.

uncourageous entrepreneurs; Sumerbank was established in 1933 instead of these two foundations. [70]

The following year, in 1926, to help the construction of the poor conditions of the country after a very long battle period, Emlak ve Eytam Bankasi was established. Emlak Kredi Bankasi took over the bank in 1946. Lots of Turkish corporations have been settled in many areas by Turkish banks through collaborating with foreign capital and also they became shareholders of many corporations during this period. For example, Turkiye İs Bankasi became the founder and the shareholder in Elektrik-Radyo T.A.S.[71]

After 1926, before the great depression, a decline has occurred in the Turkish export goods. This situation caused balance of payment crises. The fluctuations of Turkish money was putting Turkish importers in trouble. A central bank was needed to minimize the effects of internal and external fluctuations came up with great depression. In 1930, The Central Bank of The Turkish Republic has established and in 1931 it started operating. Regulating money market, realizing treasury operations and protecting the value of Turkish money were main responsibilities of it. Also a lot of banks were established between 1923 and 1932. There were 44 at the end of 1932. Foreign-invested banks in the country were continuing their operations by opening lots of branches till the end of 1929 but most of them were closed down at the end of this year.

After the year 1933, etatism principle was adopted for the economic development. While the total production volume was increasing, the volume of money was stabilized by the government to maintain the value of money as it was determined that sudden increases caused the inflation. Under these circumstances, the extension of the banking system gained so much importance to meet liquidity need in the economy. The general deposit and loan volume in the system increased as the result of establishment of the new banks with lots of branches.

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[70] Gundogdu, pg.65.
[71] Gundogdu, pg.65.

Denizbank whose goals were first of all to run the maritime authorities, to establish the new ones and to finance them were established in 1937. Then had the authority to provide all the banking services. The services of the bank stopped in 1840 because its failure in the long period and transferred its duties in the maritime field to Turkish Maritime Bank Corporation. Halkbank that went into operation in 1938 was established to find solution for the credit problems of small businesses and to overcome the difficulties of craftsmen for finding credits.

2.1.2.2. Private Banking Period (1944-1961)

1944-1960 periods are the years of the changes that will influence the economy policy deeply till today. The basic characteristics of the period are starting multiparty system, developing of the private sector and starting close relationships with the western countries.

The power of the period Democratic Party was defending continuing industrialization under the leadership of private sector and foreign economic relations without state interference. Reduced number of private local banks due to the economic slowdown in Turkey resulting from the global economic crisis and the advent of the Second World War increased again after 1950 with the establishment of 30 new banks.[72]

Industrial Development Bank of Turkey (TSKB) whose activities are to provide investment credits to private sector, to provide foreign currency for the projects and to help the investor technically was founded in 1950. In the following years, this bank has a big influence on the private sector's investments to the fields of textile, food, materials of constructions and nonferrous heavy metal industry. [73]

[72] Denizer, pg.6.
[73] The Industrial Development Bank of Turkey http://www.tskb.com.tr/ (30.07.2010).

In 1954, Vakifbank was established. This bank's activities were to provide loan in exchange for moveable and real estate property, to get into a partnership, to buy and sell real estate, to carry out all the banking activities. Besides this, Yapi Kredi(1944), Garanti Bank(1946), Akbank(1948) and Pamukbank(1955) are the banks founded in this period.[74] Yapi Kredi Bank's method, having started by Yapi Kredi in Turkish Banking System, collecting deposit money with distributing bonus aroused interest.[75]

In 1958, The Banks Association of Turkey became operational. All the banks operating in Turkey must be the member of The Banks Association of Turkey, having the legal entity, except Central Bank of the Republic of Turkiye.

2.1.2.3. Planned Period (1961-1979)

In the years of 1960 - 1979, the development plan and programs were adopted for the economical activities by abandoning the perception of liberal economy policy carried out in the previous periods. The state interference to the banking sector increased, a closed economical system was tried to be developed. The development of import- substitution industry and finance problems were tried to be solved, institutional and legislative arrangements were made in this direction. The policies applied for commercial banking prevented new accesses to the system; a few big banks grew stronger. It was observed that regional banks were closed and the number of deposit banks increased.

Under interest rate controls, the only mode of competition to collect deposit was non-price competition in the form of establishing branch network throughout the country. Also, rising inflation during late 1960's and low interest rates provided a strong incentive banks to expand their branches.[76]

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[74] Denizer pg.7.
[75] Gundogdu, pg.66.
[76] Denizer, pg.9.

In the first five-year development plan; it was emphasized to distribute the loans efficiently and productively in the economy. In 1963, Akbank, Is Bank, Garanti, Bank, VakifBank, Ottoman Bank and Turkey Credit Bank demanded in the plan; Industrial Investment and Credit Bank, the development bank that will provide investment credits for the private sector, was founded. The State Investment Bank was established on 21st of March, 1964 to provide loan for investments of the state economic enterprises and to give obligation guarantee when needed. In the second five-year development plan period, the number of the branches of the banks increased significantly. The number was 1840 in 1963 and increased to 3427 at the end of 1971.[77] In the third five-year development plan period, State Industiral Employee Bank was founded in 1975 to evaluate the savings of people and citizens working abroad profitably and to direct them for industrial investments. And finally, in the fourth five-year development plan period, intensive legal reforms were made.

Regulatory restrictive policies, coupled with the exit of 23 banks over the 1960-1980 have led to highly concentrated market structure, and an overbranched, inefficient banking system. By 1980, the top 5 banks controlled about 70 percent of deposits, 64 percent of assets and owned 60 percent of all branches, as well as controlled more than 70 percent of the number of deposit accounts.Hence, although the development strategy and its related financially and regulatory restrictive policies contributed to the industrialization of Turkey, they may have introduced distortions that are difficult to eliminate with respect to the systems' efficiency and competitiveness.[78]

2.1.2.4. Liberalization and Expansion Period (1980-…)

The tendency for liberalization of financial markets at an international level started to become stronger in these years. The controls of interest were deregulated, the organizational structure of the banks were changed, the restrictions about the transactions with the foreign money started to be removed. The banking sector

[77] Gungodu, pg.75.
[78] Denizer, pg.11.

started a new term at the international level. The quality of the service increased with the development of the technology day by day.

In June 1980, simultaneously with the structural adjustment and broad liberalization policies that put an end to the import substitution era, financial reforms were launched by the Government. The goal was to develop a competitive and efficient financial system that would support a more liberal economy. This was to be achieved through deregulation and promoting entry into the system. Reforms eliminated interest rate restrictions and eased entry into the market and permitted new types of financial instruments and institutions. The initial phase of deregulation saw sharp increases in interest rates.[79] Larger banks increased their rates which resulted in fierce competition and extremely high real interest rates. This situation, combined with financial distress in real sectors led to the collapse of six banks during 1983 and 1984. Central Bank began to reregulate deposit interest rates. In late 1988, deposit rates were again liberalized.

Reforms were successful in attracting entry into the banking system, one of the key objectives. In 1989 when Turkish money became fully convertible, the borders on the capital inflow and outflow were removed on a large scale. Foreign direct capital will invest by coming to country; domestic savings needs would be met by external savings. The establishments of banks were easier because the terms about the establishment of new banks were mitigated. Both resource and investment types were increased with the increasing competition. The funds were used for government debt securities, capital market transactions and foreign exchange transactions, the new organs and services as foreign exchange deposit accounts, credit cards, consumer credits, leasing, factoring, forfeiting, swap, forward, future, options and automated teller machine (ATM) were presented to the investors.

[79] Denizer, pg. 16.

2.2. CLASSIFICATION OF BANKS IN TURKISH BANKING SECTOR

Banks are classified differently in various sources as previously mentioned. These classifications can be done accordingly to the functions, company objectives, formats, sizes, capital resources and the range of the services. It is possible to examine Turkish banks generally in four groups in Turkish banking sector:

- Deposit Banks
- Development and Investment Banks
- Participation Banks
- Central Banks

2.2.1. Deposit Banks

Bank of Deposits finance trade and manufacturing activities with the deposits they collect through short term transactions. They issue loans, purchase fixed assets and securities and take shares with their resources of funds some of which are deposits, credits and equities. They are one of the regulatory corporations of the monetary system. Creating deposit money through credit cards and check; minimizing risks through diversifying their asset and liability structure creates difference between the other financial institutions. As it mentioned before; main functions of deposit banks could be counted as deposit money creation, rendering of services, fund providing and fund usage.

Three types of deposit banks take place in the Turkish banking sector[80]:

- *State-owned deposit banks:* Turkiye Cumhuriyeti Ziraat Bankası A.S, Turkiye Halk Bankası A.S., Turkiye Vakıflar Bankası T.A.O.

[80] According to BAT http://www.tbb.org.tr/ June 2010 data.

- *Privately owned deposit banks:* Adabank A.S., Akbank T.A.S, Alternatif Bank A.S., Anadolubank A.S., Sekerbank T.A.S, Tekstil Bankası A.S., Turkish Bank A.S, Turk Ekonomi Bankası A.S., Turkiye Garanti Bankası A.S., Turkiye Is Bankası A.S, Yapi Kredi Bankası A.S.

- *Foreign Banks:* Arap Turk Bankasi A.S, Citibank A.S., Denizbank A.S, Deutsche Bank A.S., Eurobank Tekfen A.S, Finans Bank A.S, Fortis Bank A.S, HSBC Bank A.S., ING Bank A.S, Milennium Bank A.S, Turkland Bank A.S., Bank Mellat, Habib Bank Limited, Societe Générale(SA), The Royal Bank of Scotland N.V, WestLB AG.

2.2.2. Development and Investment Banks

Investment banks are the type of banks which have limited banking activities with no authorization of collecting deposits. As they don't have an extensive branch network, they can't provide all banking services.

They provide their resources through issuing debt bonds and borrowing from foreign banks. These resources is used in financing securities porfolios, leasing transactions and providing medium and long term investment loans to the firms. Other main responsibilities of investment banks can be summarized as[81]:

- Mediating firms in issuing securities
- Providing letter of guarantees
- Fulfilling foreign trade transactions
- Carrying out mergers and acquisitions
- Providing investment consulting services
- Providing public offering services

[81]Ekodialog.com,http://www.ekodialog.com/Makaleler/yatirim-bankasi-birincil-pazarlar.html (05.08.2010).

Development banks have established within the development plans of the government for funding prioritized development regions and sectors.

Main objectives of the development banks are[82]:

- Providing investment capital
- Supporting all the investment projects of all the sectors
- Mediating the shareholder and partner relationships between foreign and domestic capital and firms
- Assisting in the development of the capital market
- Providing technical support to entrepreneurs
- Supporting industrialization

Development banks have no authorization to collect deposits like investment banks. Their resources of funds are; loans gathered from international corporations, supports of government and the interests of the bonds they issued.

In Turkey, there are three types of investment and development banks[83]:

- *State-owned:* İller Bankası, Turk Eximbank, Turkiye Kalkinma Bankasi A.S.

- *Private*-owned: Aktif Yatirim Bankasi A.S., Diler Yatirim Bankasi A.S, GSD Yatirim Bankasi A.S., ISE Settlement and Custody Bank Inc, Nurol Yatirim Bankasi A.S., Turkiye Sınai Kalkinma Bankasi A.S.

- *Foreign investment and development banks:* Bank Pozitif Kredi ve Kalkinma Bankasi A.S., Credit Agricole Yatirim Bankasi Turk A.S., Merill Lynch Yatitim Bankasi A.S., Taib Yatirim Bankasi A.S., JP Morgan Chase Bank N.A.

[82]Turkiye Kalkinma Bankasi http://www.kalkinma.com.tr/misyonumuz-ve-vizyonumuz.aspx.
[83] According to Turkiye Bankalar Birligi http://www.tbb.org.tr/ June 2010 data.

2.2.3. Participation Banks

Participation banks' working principle is "participating" to profit and loss different from classical banks. "Interest" isn't a part of this picture; it is used neither in collecting nor in providing funds. Instead, customers join to profit and loss; they are supplied goods and services. The funds that doesn't used in classical banks with the concern of interest because of religious beliefs become a part of the economy with the participation bank concept. Collected funds used in corporate and individual financing support, financial leasing and business projects; the needs of industry and businesses like raw material, commodities, real estate, machinery and equipment supply is provided through the financing of the purchase and sale of goods. While there is an interest rate commitment in collecting and utilization of funds in classical banking concept; there isn't even principle commitment in participation banks. To talk about loans, the needed goods is purchased for the customer and then charged with a premium amount by installments. This is an advantage for the economy because grey economy could be recorded by this way. Other activities of participation banks are[84]:

- Check book services
- Money remittances
- Letters of guarantee, performance bonds
- Credit cards, POS terminals
- Foreign currency transactions including foreign trade banking
- Alternative distribution channels like internet and telephone banking, ATMs

The first examples of participation banks of Turkey are; Albaraka Turk and Faisal Finans Kurumu. Today, participation banks carry on their activities in more than 60 countries all around the world. Citibank, HSBC Bank, Union Bank of

[84] BAT Main Banking Training, (TBB Egitim Sitesi, Temel Bankacilik Egitimi,) http://www.tbb-bes.org.tr/, (2009), (08.07.2010).

Switzerland, Kleinwort Benson, ANZ Grindlays and Goldman Sachs are the western examples of this concept.[85]

Today, as of June 2010, the members of The Participation Banks Association of Turkey are; Albaraka Turk Katilim Bank, Asya Katilim Bank A.S, Kuvyet Turk Katilim Bank A.S and Turkiye Finans Katilim Bank A.S.

2.2.4. Central Bank

Central banks are institutions leading their countries' banking systems. They regulate money markets and control money supply, manage gold and foreign exchange reserves, organizing external payments are general responsibilities of central banks. Our central bank's; The Central Bank of the Republic of Turkey's (TCMB) which starts operation on 3rd of October, 1931 main objective is achieving and maintaining price stability. [86]

The Central Bank of the Republic of Turkey; identifies the tools of monetary policy, supports government's growth and employment policies. In addition, fundamental duties according to its law are[87]:

- Carrying out open market operations
- Taking necessary measures in order to protect domestic and international value of Turkish lira with government
- Issuing money
- Determining the exchange rate regime
- Determining the procedures and the principles about reserve requirements and liquidity requirement.
- Conducting rediscount and advance transactions

[85] Turkiye Katılım Bankaları Birligi http://www.tkbb.org.tr/.
[86] CBRT main page, (Turkiye Cumhuriyeti Merkez Bankasi) http://www.tcmb.gov.tr
[87] Law on the CBRT http://www.tcmb.gov.tr/yeni/eng/.

- Managing gold and foreign exchange reserves of the country
- Regulating volume and the circulation of Turkish Lira
- Taking precautions for enhancing the stability in the financial system and taking regulatory measures with respect to money and foreign exchange markets
- Monitoring the financial markets

Fundamental powers of the Bank stated in its law are as follows[88]:

- The Bank is the only corporation in Turkey issuing banknotes.
- The Bank determines the inflation target together with the Government and determines related monetary policy. It is the ultimate body authorized and responsible to implement the monetary policy.
- The Bank is authorized to utilize monetary policy instruments with the objective to achieve and maintain price stability.
- The Bank is authorized to grant advance to the Savings Deposits Insurance Fund under extraordinary conditions and in cases when the resources of the Fund are insufficient.
- The Bank carries out the operations of extending credits to banks.
- The Bank is authorized to request from banks, the interest rates to be charged in credit operations and deposit – taking.
- In order to monitor financial markets, it is authorized to request necessary information and to gather statistical information from banks, other financial institutions and from establishments and institutions.

[88] Law on the CBRT http://www.tcmb.gov.tr/yeni/eng/.

2.3. FOREIGN ENTRY TO THE TURKISH BANKING SYSTEM

Foreign entry process has started in Ottoman period in Turkey. Since Ottoman period mergers, acquisitions, nationalizations, terminations, getting operating licenses explained in detail bank by bank in this part.

2.3.1. History of Foreign Banks in Turkey

Turkish banking sector's relationship with foreign capital started in Ottoman period. Foreign entry isn't a new case in Turkish Banking as the first examples of foreign banks have been seen in Ottoman Empire. In the following years, foreign banks continued their operations with the increasing economical relations with Europe. In the first years of Turkish Republic, The Government showed a liberal approach in parallel to the strategy of industrialization via private sector encouragement, tried to develop national banking system. There were no entry restrictions.

In 1930's, although the Government hasn't changed regulatory policies, there was no entry into the system, public banks established and supported the enterprises. What is more, most small private local banks left the country due to the economic slowdown in Turkey resulting from the global economic crisis and the beginning of the Second World War. All these developments caused a decrease in the number of the banks and increased the dominance of public banks in the sector.

In 1960's; The Government's policies were restrictive. Financial system was dominated by commercial banks and they became an instrument of planned industrialization policies and operated under a framework characterized by controlled interest rates, directed credit programs, high reserve requirements, and other restrictions on financial intermediation, as well as restricted entry[89]. Under interest

[89] Cevdet Denizer, **The Effects of Financial Liberalization and New Bank Entry on Market Structure and Competition in Turkey**, Macroeconomics and Growth Development Research Group September 1997, pg1).

rate controls, the only competition method was collecting deposits, non-price competition, in the form of establishing branch network throughout the country. Inflation continued rising. These conservative approaches damaged system's efficiency created an incompetent environment and caused a large number of banks exit the country till 1980. There was no chance for foreigners to be alive.

1980's is the beginning of the bright era for foreign banks. With the stabilization and structural adjustment programs implemented by the Government, liberalization process of financial markets of Turkey started. Financial reforms eliminated interest rate controls, eased the entry of new financial institutions, both bank and non-bank, and allowed new types of instruments. There were also policy measures to develop equity and bond markets.[90]A significant number of Turkish and foreign banks came to the System as a result of relaxation of regulatory barriers. Through deregulation and supporting the foreign entry to the System, the aim was developing a competitive and efficient financial system that would support a more liberal economy.

Deregulation caused some problems immediately. Interest rates increased sharply and economic situation got worse. Lots of banks collapsed. Central Bank had to reregulate deposit interest rates and continued till 1988. In late 1988, deposit rates were liberalized again. Some of the missions of the reforms completed with intensive foreign entry to the System. Attracting reforms easing of entry restrictions; increased the number of banks from 43 to 66 between 1980 and 1990. Out of the 43 banks in 1980, 8 banks were either liquidated or merged with other institutions. Hence, there were 31 de novo entries into the System, of which 19 were foreign and 11 national during the 1980-90 period.[91]

Banking System followed this trend, foreign share increased year by year; some banks collapsed and left the country during crises periods and then new settlements occurred. The process of restructuring of Banking System started with

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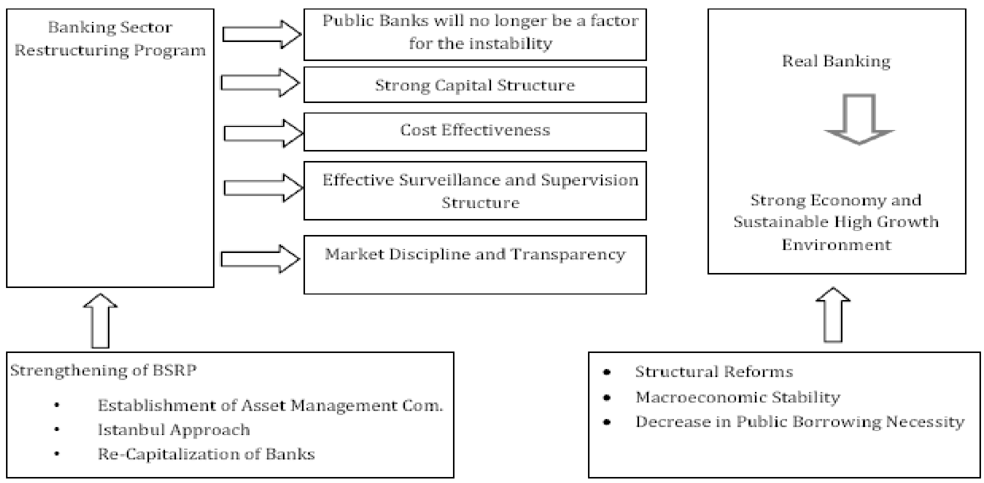
[90] Denizer, pg 12.
[91] Denizer, pg 15.

the financial crises November 2000 and February 2001. Regulations realized and corporations were established to improve Banking System. Banking Regulation and Supervision Agency (BRSA) was established in 2000 with the aim of auditing banks. In 2001, Central Bank Law was modified to find a cure to the chronic inflation. In 2001, May 15th The Banking Sector Restructuring Program (BSRP), announced focused on the intermediation function and aimed at transitioning to an internationally competitive banking sector which is resilient to internal and external shocks. The priorities of the BSRP were identified as recovering the deterioration caused by the 2000-2001 crises in the banking sector and building a strong base for the System by clearing it from weak banks.[92] Below; the scheme of restructuring program can be seen. According to it; public banks would be restructured, private banks' structure would be developed, a prompt resolution of the banks under SDIF would be realized and legal and corporate regulations would be realized.

Scheme 1: Restructuring Program Scheme



Source: BRSA, From Crisis To Financial Stability (Turkey Experience), 2009, pg. 12.

Crises also took the attention of foreign investors. After the recovery solutions, Banking System drew a hopeful picture; assets grew in as stable way, credit volume and profits have increased. These factors gave the courage to the investors and foreign entry process which is examined in the next part in detailed has

[92] BRSA From Crisis to Financial Stability (Turkey Experience), 2009, pg. 12.

started. The foreign banks which have operated in Turkey and for some reasons have left the market can be seen from the table below:

Table 10: Foreign Banks that Terminated Activities in Turkey

Name	Establishment Year	Explanation
Banca Commerciale Italiana	1919	Liquidated in 1977
Bank of Credit and Commerce International	1982	Liquidated in 1990
Credit Lyonnais Turkey	1987	Acquisition in 2004
Credit Suisse First Boston	1998	Liquidated in 2003
ING Bank N.V.	1997	Liquidated in 2003
Kibris Kredi Bankası Ltd	1989	Cancellation of operating license in 2000
Morgan Guaranty Trust Co.	1999	Merger in 2001
Osmanli Bankasi A.S	1863	Acquisition in 2001
Rabobank Nederland	1998	Liquidated in 2002

Source: BRSA, Foreign Entry to Turkish Banking system: Global Developments and Turkey, ARD Working Reports (**Bankacılık Sektorune Yabanci Girisi: Kuresel Gelismeler ve Turkiye**, ARD Calisma Raporlari):2005/6, pg.13.

2.3.2. Timeline of Foreign Participation

Foreign entry to the Turkish Banking Sector has increased after the regulations as it mentioned before. The Turkish Banks that sold to foreign investors after 2001 can be listed as follows[93]:

- 20th September 2001; Demirbank sold to a British bank, HSBC Plc for 350 millions of US dollars. The bank is operating under the name of HSBC Bank currently.
- Sitebank that has transferred to Saving Deposits Insurance Found in July 2001; sold to Novabank S.A in December 2001, for 3 millions of US dollars. The name changed to Bank Europa in 2003 and to Milennium Bank in 2006.

[93] Bumin, pg 56.

- 24th May 2002, UniCredito Italiano Group from Italy took over half of Koc Financial Services which has 99,8 percent of Kocbank. The cost of this acquisition was 240 millions of US dollars. On the 1st of October, Yapı Kredi Bank took over Kocbank.
- 10th February, BNP Paribas became the shareholder of TEB Mali Yatirimlar paying 216, 8 millions of US dollars. Through this partnership, BNP Paribas had 42,125 percent of share of TEB.
- 11th April 2005, Fortisbank paid 880 million euros for 89,3 percent share of Disbank. The bank is operating under tha name of Fortisbank.
- 24th August 2005, General Electric Group purchased 25, 5 percent share of Turkiye Garanti Bankasi for 1556 millions of dollars.
- 28th September 2005, Kocbank purchased 54,7 percent of Yapı Kredi Bank for 1160 million euros. As a consequence, UniCredito Italiona Group had the 28,7 percent share of Yapı Kredi Bank.
- 13th December 2005; Bank Hapoalim from Israel purchased 57,55 percent shares of C Credit and Devlopment Bank for 113 millions of US dollars.
- Banks operates under the name of Bank Pozitif Credit and Development Bank.
- 3rd April 2006, Fiba Group sold Finansbank's 46 percent of shares to National Bank of Greece for 2.323 millions of US dollars.
- 8th May 2006; a bank from Greece, EFG Eurobank purchased 70 percent shares of Tekfenbank for 182 millions of US dollars.
- 30th May 2006; Dexia Bank; a Belgium-French bank purchased 75% of shares for 2.437 millions of US dollars.
- 22nd June 2006; 33,98 percent shares of Sekerbank was sold to a Kazakh bank; Bank Turan Alem Group to 254 millions of US dollars.
- 31th August 2006; Tat Investment Bank sold to Merrill Lynch for 6 millions of US dollars.
- 4th September 2006; 91 % of MNG Bank shares sold to Lebanese Bankmed and Jordanese Arapbank Plc to 160 millions of US dollars. Bankis operating under the name of Turkland Bank.

- 17th October 2006; American Citigroup purchased 20% shares of Akbank for 3.100 million dollars.
- 19th June 2007; Oyakbank was totally sold to a Dutch; ING Bank to 2673 millions of US dollars.
- 17th July 2007; Saudi Arabian National Commercial Bank purchased 60% shares of Turkiye Finans Katilim Bank for 1.080 million US dollars.
- 31st July 2007; 40% shares of Turkish Bank sold to National Bank of Kuwait to 160 millions of US dollars.

Table 11: Origins of Buyer Banks

Bank	Sold Share Percentage (%)	Name Of The Buyer	Origin Of The Buyer
Demirbank	100	HSBC Plc	UK
Sitebank	100	Novabank	Portugal
Tatbank	100	Merill Lych	USA
Oyakbank	100	ING Bank	The Netherlands
Mng Bank	91	Bankmed-Arapbank	Lebanon-Jordan
Disbank	89,3	Fortis	The Netherlands-Belgium
Denizbank	75	Dexia	France-Belgium
Tekfenbank	70	EFG Eurobank	Greece
C Kredi	57,5	Bank Hapoalim	Israel
Kocbank	50	Uni Credito	Italy
Alternatifbank	47	Alphabank	Greece
Finansbank	46	NB of Greece	Greece
TEB	42,1	BNP Paribas	France
Sekerbank	33,9	Bank Turan Alem	Kazakhstan
Yapi Kredi	28,7	Uni Credito	Italy
Garanti	25,5	GE Finance	USA
Akbank	20	Citigroup	USA

Source: Bumin 2007.

Purchases of shares held by foreign investors reach a pick in between 2005-2007. The developments of the economical indicators of Turkish economy attracted foreigners. Also, as it can be observed from the table above; it can be seen that most of the acquisitions realized by European Union member countries.

2.3.3. The Reasons of Foreign Bank Entry

Turkey is a popular country for foreign investors for a lot of reasons. After the restructuring program that mentioned in the part 2.3.1, popularity increased a lot among foreign investors. The most common factors pulling foreign banks to Turkey are stated in the table below.

Table 12: Factors Pulling Foreign Banks To Turkey

Factors Pulling Foreign Banks to Turkey	
Population	No limitations to foreign ownership
Per Capita income	Easier entrance to the Turkish markets
Reforms in the investment area	Interest rates
Foreign Trade and growth potentials	Inflation rates
Geopolitics	Corporate governance system
EU accession process	Auditing and regulations
Easy takeover of Turkish banks	Exchange rate system
Size of Turkish banks	Basel II Agreement
Equal treatment of Turkish & foreign banks	Consumer Credits and mortgage

Source: Globalization of Turkey's Banking Sector: Determinants of Foreign Bank Penetration in Turkey, Ahmet Faruk Aysan, Sanli Pınar Ceyhan 2008, pg95 International Research Journal of Finance and Economics ISSN 1450-2887 Issue 15 (2008).

The young population; increasing per capita income and the critic geopolitical location of Turkey draw attention of investors. The financial liberalization reforms realized since 1980's eased foreign entrance through reducing barriers, created a more stable and positive economic environment and invited investors. The structure of Turkish banks; their sizes and flexible regulations gave courage to them. Inflation rate and interest rates are getting better. Moreover, as we are in the EU accession process, some international regulations started to be realized like Basel II Agreement and auditing systems. These international standards make investors feel safe.

Also, as geographical diversification is an advantage; big foreign banks want to increase their market share and strengthen their positioning in a country which has strategically importance with its location; placed between Asia and Europe. For example, by purchasing Dexia could increase its customer base reaching nearly 1.4

million retail customers in Turkey by purchasing Denizbank.[94] Purchasing Akbank shares empowered Citigorup's positioning in the market and the same is true for BNP Paribas that purchased TEB shares. Product and service variation of the host country bank even though it is being expected as an advantage of foreign entry, could attract investors. Finansbank attracted National Bank of Greece with its high quality retail products such as car loans, consumer loans, insurance, and checks.[95]

The deserve to use the profitable advantages of host country's other sectors like tourism, navigation, construction and other financial sectors like leasing, factoring and insurance is also a pushing factor. As it mentioned before, Turkey has growing opportunities in many sectors. These factors make our country attractive.

2.3.4. Legal Arrangements of Foreign Bank Entry

Bank Association of Turkey's banking law; the law no. 5411 aims to regulate the principles and procedures of ensuring confidence and stability in financial markets, the efficient functioning of the credit system and the protection of the rights and interests of depositors.[96] This law is regulating the Banking System of Turkey including; deposit banks, participation banks, development and investment banks, the branches in Turkey of such institutions established abroad, financial holding companies, Banks Association of Turkey, Participation Banks Association of Turkey, Banking Regulation and Supervision Agency, Savings Deposit Insurance Fund and also the banks established as per their special laws, on the condition to preserve the provisions of their special laws. All the corporations mentioned here should act accordingly to this law.

Foreign entry regulations like the details about the conditions of getting permission for establishment or opening branches and representative offices in Turkey, their establishment conditions, required qualifications of founders,

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[94] Aysan, Ahmet, Şanlı Pınar Ceyhan, pg 96.
[95] Aysan and Ceyhan, pg 96.
[96] The Banking Law No. 5411, September 2008, pg. 9.

requirements for the opening of a branches in Turkey by banks headquartered abroad, how to get the operating permissions, the revocation of establishment permission, the revocation of operating permission, how to open domestic branches, the requirements about cross border activities and the permission for authorization of independent audit, valuation, rating and outsourcing institutions is specified in the law.

Permission for establishment or opening branches and representative offices in Turkey is explained in the 6th article of the law. This article states that the bank must fulfill the conditions of this law and should get at least five board members' of affirmative votes. Conditions about off-shore banking; financial reporting, audit and activity procedures are determined by Board decision. Representative offices could be opened on condition that they do not accept deposits or participation funds. Establishment conditions are given in the 7th article. The requirements of establishing a bank in Turkey are[97]:

- Being established as a joint stock company,
- Its shares should be issued against cash and to name,
- The founders should meet the requirements indicated herein ,
- Its members of board of directors shall bear the qualifications set out in the corporate governance provisions in this Law and shall have the professional experience required for carrying out the planned activities,
- Its envisaged fields of activity shall be in harmony with planned financial, managerial and organizational structure,
- Its paid-up capital, consisting of cash and free of all kinds of fictitious transactions, should not be less than 30 million New Turkish Liras(for investment and development banks the amount shouldn2t be less than two-thirds of this),
- Its articles of association shall not be in conflict with the provisions of this law,

[97] The Banking Law No. 5411, September 2008.

- There should be a transparent and open partnership structure and organizational chart that will not constitute an obstacle for the efficient supervision of the institution,
- There should not be any element that hampers its consolidated supervision,
- The work plans for the envisioned fields of activity, the projections regarding the financial structure of the institution including capital adequacy, the budgetary plan for the first three years and an activity program including internal control, risk management and internal audit system showing the structural organization must be submitted.
- Requirements for the opening of branches in Turkey by banks headquartered abroad are stated in 9th article. The requirements are:[98]
- Its primary activities must not have been prohibited in the country where they are headquartered,
- The supervisory authority in the country, wherein the headquarters of the bank is located should not have negative views regarding its operation in Turkey,
- The paid-in capital reserved for Turkey should not be less than the amount indicated in Article 7,
- The members of the board of managers should have adequate professional experience to be able to satisfy the requirements laid down in the corporate governance provisions and to perform the planned activities,
- It must submit an activity program indicating work plans for the fields of activity covered by the permission, the budgetary plan for the first three years as well as its structural organization.
- The group including the bank must have a transparent partnership structure.

[98] The Banking Law No. 5411, September 2008.

CHAPTER 3

AN ANALYSIS ABOUT THE ROLE OF FOREIGN BANKS IN TURKEY

In this part of the thesis, the role of foreign banks operating in Turkish Banking System aimed to be analyzed. Firstly, studies from world and Turkey were examined, methods and findings were identified. After these researches, foreign and foreign capital banks in Turkish Banking System analyzed according to balance sheet items, branch and employee numbers. Outcomes of these ratio analyses were supported by discriminant analyses.

3.1. AN OVERVIEW OF PREVIOUS RESEARCH ON FOREIGN BANKING

Previous studies on foreign banking examined in detail before selecting the analyzing method. In this part of thesis, studies are summarized in two parts; international studies and studies from Turkey.

3.1.1. International Studies about Foreign Banking

Foreign entry has increased not only in real economies but also in banking sectors in our globalized world. Parallel to these developments; some important researches analyzing foreign effects on banking sectors has been realized in the world. The studies that accepted as most important ones in the literature are analyzed in this part.

Claessens and others examine the extent and effect of foreign presence in domestic banking markets in their research “How does foreign entry affect domestic banking markets (2000)?” They try to investigate how net interest margins, overhead, taxes paid, and profitability differ between foreign and domestic banks using the data between the years 1988-1995; from 80 countries’ commercial banks. Findings differ in developed and developing countries. Results show that; foreign banks have higher profits than domestic banks in developing countries whereas domestic banks are more powerful in developed countries. Also in this study; the effects of foreign entry on domestic banks examined and it is found that increased presence of foreign banks is associated with a reduction in profitability and margins for domestic banks. Financial statements of banks and ratio analyses are used in the study.

Uiboupin tries to analyze the short term effects of foreign banks entry on bank performance in the Central and Eastern European (CEE) Countries in her study, "Effects of Foreign Bank Entry on Bank Performance in the CEE Countries (2004)". She uses 10 central and eastern European Countries' 219 banks data for the years 1995-2001 for panel data regressions. Her results show that foreign banks entry affects negatively domestic banks' revenues from interest-earning assets, non-interest income, and profitability. Moreover; foreign bank entry raises the overhead costs of the local banks in short term. Generally, it is observed that foreign banks entry is likely to increase competition in the host country.

Detragiache and others studied how foreign bank penetration affects financial sector development in poor countries in their study: "Foreign Banks in Poor Countries: Theory and Evidence (2006)". They observe that when domestic banks are better than foreign banks at monitoring soft information customers, foreign bank entry may hurt these customers and worsen welfare. Also they specify that credit to the private sector should be lower in countries with more foreign bank penetration, and that foreign banks should have a less risky loan portfolio.

Angelo A. Unite and Mark Sullivan examined the affects of foreign entry to domestic banks for the years 1990 and 1998 for Philippine banking sector using accounting data with panel data regressions (2008). They found that foreign bank entry is related with a reduction in interest rate spreads and bank profits for domestic banks but causes improvements in operating efficiencies.

Hermes and Lensink analyzed banking data for 48 countries' 982 banks for the years 1990-96 in 2004 to observe if there is a relationship between foreign bank presence and the performance of the domestic banking sector and takes into account the role of the level of development of the financial sector of the beneficiary country. Their main finding was foreign presence make costs and margins fall for domestic banks.

The share of foreign banks in an increasing trend since 1990's as it mentioned before. Researchers suggest that there are differences in foreign shares between countries. Nicolo, Philip Bartholomew, Jahanara Zaman and Mary Zephirin examined 103 countries' banking data in 2003. In this study, they accept the banks having more than 50% of the shares owned by foreigners as foreign and compared foreign banks' asset share in the total sector between 1995 and 2000. According to the study summarized at the table below there is an obvious increase in foreign assets of banking sector in all over the world. To examine in detail:

- Total bank asset amount increased from 33.530 billion of USD to 43.670 billion of USD with a 30 percent increase.
- Foreign bank asset amount moved up to 9.121 billion of USD with an increase in the share from 23 percent to 28 percent.
- Highest increase during this period is seen in Western European countries. They have 67 percent of total world foreign controlled assets increase
- United States takes second place in foreign ownership increase; North America's share increased to 22 percent from 8 percent. The reason behind is expansion of European banks in the United States.

Although it could be overlooked because of the size, Latin American foreign share increase is important too. Total foreign asset share increased from 18 percent to 40 percent. The reason behind could be the aggressive entries to Argentina and Mexico. East Asia and Eastern Europe follows these countries. As seen from the table; there is a tendency to increase in the foreign shares of the banking sector.

Some countries like Latin America show above average increases whereas others' amounts are on average.

Table 13: Foreign Bank Ownership, by Region and by Per Capita

By Region (Number of countries)	Total Bank Assets (US$ bill)		Foreign Controlled Total Assets (US $ bill)		Total Foreign Asset Share		Mean Foreign Asset Share		Changes		
	1995	2000	1995	2000	1995	2000	1995	2000	Foreign Assets	Foreign Asset Share	Mean Foreign Asset Share
All Countries(103)	33.530	43.670	5.044	9.121	15	21	23	27	4.077	6	4
North America(2)	4.467	6.764	454	1.321	10	20	8	13	867	10	5
Western Europe(19)	16.320	22.780	3.755	6.473	23	28	24	32	2.718	5	8
Eastern Europe(17)	319	449	80	133	25	30	21	35	53	5	14
Latin America(14)	591	781	108	312	18	40	14	27	204	22	13
Africa(25)	154	155	13	12	9	8	38	29	-1	-1	-9
Middle East(9)	625	864	85	141	13	16	14	16	56	3	2
Central Asia(4)	150	242		7	2	3	4	6	7	1	2
East Asia(11)	9.961	10.412	455	624	5	6	14	18	169	1	4
Oceania(2)	582	698	90	95	15	14	39	37	5	-1	-2

Source: Gianni **De Nicolo, Philip Bartholomew, Jahanara Zaman and Mary Zephirin, Bank** Consolidation, Internationalization and Conglomeration: Trends and Implications for Financial Risk, IMF Working Paper, July 2003, pg16.

Torsten Wezell investigated the efficiency of domestic and foreign banks in the Central American region during 2002-07 in his study "Bank Efficiency amid Foreign Entry: Evidence from the Central American Region (2010)". Data Envelopment Analysis and Stochastic Frontier Analysis are used and it is found that foreign banks are not necessarily more efficient than their domestic counterparts. The regional banks that were acquired by global banks in a wave of acquisitions during 2005-07 can keep up with the local institutions. He also found that the efficiency of these acquired banks is shown to have dropped during the acquisition year

Bayraktar and Wang examined the impact of foreign bank entry on the performance of domestic banks, and how this relationship is affected by the sequence of financial liberalization in their study: "Foreign Bank Entry, Performance of Domestic Banks and the Sequence of financial Liberalization" (2004). They used 30 developed and developing countries' banking data for the years 1995-2002. Through applying panel data regressions they found that the degree of openness to foreign bank entry varies a great deal which is not correlated with average income levels or with GDP growth and there is a relationship between financial liberalization and the performance of domestic banking sector. After controlling for macroeconomic variables and grouping 30 countries by their sequence of liberalization, examining average foreign shares' and average number of foreign banks', Bayraktar and Wang observed that foreign bank entry has significantly improved domestic bank competitiveness in countries which liberalized their stock market first. Countries which liberalized their capital account first seem to have benefited less from foreign bank entry as compared to the others. Generally it is seen that foreign share is smaller in developed country as in these countries there are big banks having the capability of financing economic growth. Whereas, in emerging markets, internal resources seem to be insufficient, external financing is needed. Their conclusions support this hypothesis which examined in a detailed way in the following part. According to the table it is seen that:

- China, Finland and Sweden have the smallest foreign asset shares with 0, 2; 0, 4 and 0, 5 percents. Hong Kong has the greatest share with 61, 3 percent.
- Ireland and Hong Kong are the most open countries to foreign banks with 61, 7 and 44, 2 percent of quantity share of foreign banks. Japan and Taiwan has limited percentages of foreign bans numbers with 1, 7 and 3, 7.
- During this period, Turkey had 5, 1 percent of foreign asset share and 13, 3 percent of foreign bank number share.

Table 14: Ranking of Countries According to the Share of Foreign Banks

Asset share of foreign banks (in % of total assets)		Number of foreign banks as a share of total number of banks	
Argentina	17,4	Argentina	25
Brasil	8,3	Brazil	21,3
Canada	16,8	Canada	30
Chile	20	Chile	23,5
China	0,2	China	8,6
Colombia	16,8	Colombia	17,5
Denmark	14	Denmark	10,6
Finland	0,4	Finland	9,9
France	15	France	19,8
Germany	3	Germany	6,6
Hong Kong, China	61,3	Hong Kong, china	44,2
Indonesia	12,3	Indonesia	35,4
Ireland	29,9	Ireland	61,7
Italy	4,6	Italy	6
Japan	2,6	Japan	1,7
Korea, Rep	5,2	Korea, Rep	5,6
Malaysia	15,5	Malaysia	17,4
Mexico	40,7	Mexico	24,1
Norway	16,4	Norway	14,9
Peru	35,9	Peru	37,2
Philippines	7,1	Philippines	18,7
Portugal	28,1	Portugal	30,1
Spain	6,6	Spain	14,6
Sweeden	0,5	Sweeden	8,7
Taiwan, China	3,6	Taiwan, China	3,7
Thailand	5,8	Thailand	24,4
Turkey	5,1	Turkey	13,3
United Kingdom	25,5	United Kingdom	34,3
United States	7,5	United States	11,8
Venezuela, RB	23,2	Venezuela, RB	15

Source: Nihal Bayraktar and Yang Wang, **Foreign Bank Entry, Performance of Domestic Banks and the Sequence of Financial Liberalization**, 2004.

Jennifer S. Crystal and others studied on emerging markets in their study Does Foreign Ownership Contribute to Sounder Banks in Emerging Markets? The Latin American Experience (2001). They used bank-specific data for a range of Latin American countries, across the seven largest countries; they found that the financial strength ratings of local banks acquired by foreign entities generally show slight improvement relative to their domestic counterparts. However, foreign banks often had higher average loan growth, higher average provisioning expense, and greater loss-absorption capacity. With the help of these results, they suggest that foreign ownership may provide important positive influences on the stability and development of emerging market banking systems.

Donald P. Morgan and Philip E. Strahan studied the relationship between foreign entry and business volatility in their paper "Foreign Bank Entry and Business Volatility: Evidence from US States and other Countries (2003)". They showed empirically that bank integration across U.S. states over the late 1970s and 1980 dampened economic volatility within states. In international means, they found that foreign bank integration, which advanced widely during the 1990s, has been either unrelated to volatility of firm investment spending or positively related to that volatility. They concluded as if countries open their banking sectors to foreign entry, business spending may become more volatile.

Hidenobu Okuda and Suvadee Rungsomboon studied the impact of foreign bank entry on Thai domestic banks by using panel data on 17 domestic commercial banks from 1990 to 2002 in their paper "The Effects of Foreign Bank Entry on the Thai Banking Market: Empirical Analysis from 1990 to 2002(2004)". They examine different factors affecting bank performance, including changes in the foreign ownership of banks, financial regulations, and market structure and found that an increase in foreign bank presence leads to a rise in overhead expenses, a decline in profits, and an increase in the interest spreads of domestic banks. In the short run, increased competition from foreign banks negatively affects domestic banks. However, in the long run, domestic banks' performance should improve.

3.1.2. Studies about Foreign Banking in Turkey

For Turkey; there are limited researches examining foreign effects to Turkish banking sector. Denizer's is one of them; in his study, "Foreign Entry in Turkey's Banking Sector, 1980-1997"(1999), he used data between the years 1980 and 1997. In this period, he analyzed the impact of 17 foreign banks to the System that entered. His analyses were based on three measures; net interest margin, overhead expenses and return on assets. He observed that foreign bank entry reduced the overhead expenses of domestic commercial banks, strengthening profits. Also, despite having small scales of operations, foreign banks entering the sector had a strong effect on the competition. Finally, he suggested that foreign banks had a positive impact on financial and operations planning, credit analysis, marketing, and human capital.

Aktas and Kargin compared domestic and foreign banks in Turkish banking sector by some financial ratios in their study, “Comparing Foreign and National Banks According to Financial Ratios(2007)”(Turk Bankacilik Sektorundeki Yabanci ve Ulusal Bankalarin Finansal Oranlar Acisindan Karsilastirilmasi, 2007). They found that foreign banks have higher “Capital Adequacy” and “Liquidity” ratios by t-tests. Moreover, they observed that there are differences at some ratios associated with “Revenue-Cost Structure”.

Bayrakdaroglu and Ege evaluate the results of the entries of foreign capital in Turkish banking sector in their study, “Globalization and Foreign Capital Entry to Turkish Banking System: Performance Analysis of National and Foreign Capital Banks in Turkey (2007)”. (Kuresellesme ve Turk Bankacilik Sektorunde Yabanci Sermaye Girisleri: Turkiye’de Ulusal ve Yabanci Sermayeli Bankalarin Finansal Performanslarinin Analizi). They analyze financial performances of national-owned and foreign-owned banks and found out that foreign-owned banks performed better than national-owned banks.

Cakar specifies that there are several positive and negative consequences of foreign bank entry in her thesis, “Foreign Capital Bank Entry and Effects on National Banking System (2003)”. (Yabanci Sermayeli Banka Girisleri ve Ulusal Bankacilik Sektorleri Uzerindeki Etkileri). She says that foreign presence increases competition, improves efficiency of financial sector using new technology and instruments. On the other hand, she also says that it is not still clear that if foreign banks provide a more stable Banking System or local banks will get into trouble because of competition. She says that, foreign banks achieve higher profits in developing countries than domestic banks. She also highlights that increase in the share of foreign banks in banking sector could be a threat for the country to implement and monitor its monetary and credit policies. She observes that foreign banks have lagged effect on net interest margin due to their low market share in the sector.

Kose investigates the effect of the foreign bank presence on the performance of domestic banks in the Turkish Banking System in his study. "Foreign Bank Presence and Domestic Bank Performance in Turkish Banking System (2009)" He analyzes 13 deposit banks' data for the period 2004-2007. Examining interest spreads; non-interest incomes and overhead costs of domestic banks, he found out that these indicators vary depending on the foreign bank presence; however there are no significant differences in terms of profitability and loan loss provisions. He concludes that foreign bank effects on domestic banks can be considered negligible in terms of profitability and risk taking.

Ata compared domestic and foreign banks in Turkish Banking System by their financial performances and analyzed the effects of foreign capital on the performances of the banks in his study, "Comparing Foreign Entry to the System according to Domestic and Foreign Banks (2009)" (Banka Yabancilasmasinin Turkiye'deki Yerli ve Yabanci Bankalar Acisindan Karsilastirilmasi). A logistic regression analysis using profitability, efficiency, liquidity and risk factors variables are performed using data from domestic and foreign banks. Data period was 2002-2007. He states that domestic banks are more efficient compared to foreign banks with respect to performance criteria. However, when FDG/TA, AKKAR and FK/TA variables are considered, the foreign bank's efficiency increased.

In his master thesis; Operations and the Effects of Foreign Banks in Emerging Markets: An Evaluation on Turkey (Yabanci Bankalarin Gelismekte Olan Ulkelerdeki Faaliyetleri ve Etkileri: Turkiye Acisindan Bir Degerlendirme); Nuri Cemhan Sevimeser suggested that banks that having efficiency problems in developing countries with the lack of strong institutional structure made international banks to enter developing countries systems'. He says that, especially as the efficiency became a fundamental problem lately, studies on it increased a lot. His aim was analyzing Turkish Banking System according to efficiency; grouping all the banks in the System according to asset structures and come to a conclusion through data envelopment analysis. The main finding of the study suggests that foreign banks are the most efficient banks in the sector, followed by state-owned banks while the private banks are at the bottom of the list. The data also shows that the efficiency trends of foreign and local banks are similar despite the significant differences in their efficiency scores. This shows that private and local banks affect each other and are both prone to the contextual financial and economic ebbs and flows.

In his thesis of "Foreign Capital in Banking Sectors of Emerging Markets and Turkey" (Gelismekte Olan Ulkelerde Bankacilik Sektorunde Yabanci Sermaye ve Turkiye), Riza Karakurt analyzed the impact of foreign banks entries on the performance of domestic banks, and secondly how this relationship is affected by the financial liberalization. He examined the shares of foreign banks in different countries the reasons of foreign entry to these countries and foreign entry process to Turkish Banking System. Also foreign banks, their roles in Turkish Banking System, and the fact of international banking are examined. He suggested that foreign capital in national banking system has different functions and effects in developed and developing countries. In developing countries, foreign owned banks are more active and profitable.

Mukaddes Kesemen has a study on "Foreign Direct Investments in Banking Sectors and a Turkey Example" (Bankacilik Sektorunde Dogrudan Yabancı Yatırımlar ve Turkiye Ornegi 2009). She tries to examine the affects of recent FDIs and of their relative increase in the finance sector upon the banking sector. She analyzes foreign entry process to Turkish Banking System giving the number of foreign banks, the ratio of foreign bank number to total bank number year by year. Through giving examples from other studies, she suggests that the benefits of foreign banks to the economy should be considered; strong financial position and and the high esteem in their respective fields should be priorities of evaluating foreign banks which wants to enter to the System. The bank should not only have a profit target but also should act as a bridge between the home economy and the host.

Zahide Ipek Buyukkircali studied on the affects of the foreign investments, which have increased in the banking sector, to the sector and economy in her master thesis; "Foreign Capital in Banking Sectors, Dimensions and Effects to the Economy" (Bankacilik Sektorunde Yabanci Sermaye, Boyutları, Sektore ve Ekonomiye Etkileri, 2009). She analyzed in a detailed way the reasons of increase of foreign banking, positive and negative sides, especially the reasons of foreign entry to Turkey and Turkish System's situation year by year giving some ratios like credits per deposits, credits per assets, equity per assets and profitability per assets. She suggests that, building up a close supervision and control system and ensuring stability in the finance sector is required to be able to get the maximum utility from the foreign bank entries. In the bank entries; mostly the entries towards providing the stability of the country and finance of the real sector must be promoted and the increasing share of foreign banks in the sector must be followed carefully.

Nese Sayak; in her master thesis "Foreign Direct Investment Entry to the Turkish Banking Sector and Examining the Effects to the Development of the Sector" (Turkiye'de Dogrudan Yabanci Sermayenin Bankacilik Sektorune Girisi ve Sektorun Gelisimine Etkilerinin Incelenmesi, 2009), examines foreign direct investments; the affects of foreign direct investments, advantages and disadvantages. For Turkey; she gives information about foreign entry process to our country; the history of financial liberalization; the reasons of foreigners choosing Turkey. She gives ratios year by year; number of foreign banks; asset structures, employee amounts.

In the master thesis; The Effect of Foreign Capital Entry to Efficiency of Domestic Banking (Bankacilik Sektorunde Yabanci Sermaye Girislerinin Yerli Bankalarin Verimliligine Etkisi), 2009; Selin Sunerin tries to analyze foreign banks' effects to Banking System in terms of efficiency. Through data enveloping analysis; banks in Turkish Banking System between 2002 and 2007 examined according to their ownership structures and concludes that foreign banks and domestic banks are going parallel about efficiency effects.

Hande Kocak, in her master thesis of “Foreign Capital Effects to Banking Sectors, a Turkey Example” (Bankacilik Sektorundeki Yabanci Sermaye Etkileri; Turkiye Ornegi, 2009); analyzes the advantages and disadvantages of financial liberalization. She examines the behaviors of foreign banks during financial crises, gives examples of crises like Brazil, Mexico, Argentina and Turkey. She concludes that despite their little shares; foreign banks have both positive and negative effects to the Turkish Banking System. They improve the sector whereas they carry the risk of moving profits to their home countries.

In his master thesis, “The development and Economical Effects of Foreign Capital in Turkish Banking Sector” (Turk Bankacılık Sektorunde Yabanci Sermayenin Gelisimi ve Ekonomik Etkileri, 2010), Abdullah Serdar Kalgay studies about the pulling factors of foreign banks to the countries and the affects of them. He concludes that; foreign banks increase competition in the banking sector and there is no evidence that foreign entry has negative effects on national banks.

3.2. SHARES OF FOREIGN BANKS IN TURKISH BANKING SECTOR

In this part of thesis; Turkish Banking Sector is generally overviewed and also a comparison to European Countries' capacities indicators is made. Finally, foreign capital shares of banks examined through ratio analyses.

3.2.1. Turkish Banking Sector Overview

Turkish banking sector shows a growth potential despite the bad effects of the global financial crisis. During the crisis and post-crisis period, the supervision mandate of BRSA was expanded, its international structure was revised, a strategic planning approach was adopted, regulation process was made more participatory and transparent, and the supervision system was strengthened through the integration of on-site and off-site audit and introduction of new approaches, methodologies and practices in order to increase institutional capacity.[99]

Table 15: Indicators of Access to Banking Services

(Number)	2010/3	2009/3	2009	2008	2007	2006
Number of Banks	**49**	**49**	**49**	**49**	**50**	**50**
Public Deposit Banks	3	3	3	3	3	3
Private Deposit Banks	11	11	11	11	12	14
SDIF Banks	1	1	1	1	1	1
Global Deposit Banks	17	17	17	17	17	15
Development and Investment Banks	13	13	13	13	13	13
Participation Banks	4	4	4	4	4	4
Number of Branches	**9.601**	**9.344**	**9.581**	**9.304**	**8.122**	**7.302**
Deposit Banks	8.986	8.758	8.968	8.724	7.658	6.904
Development and Investment Banks	42	46	44	44	42	42
Participation Banks	573	540	569	536	422	356
Number of Personnel	**186.619**	**182.120**	**184.216**	**182.667**	**167.760**	**15.966**
Deposit Banks	169.117	165.768	167.074	166.328	153.212	138.599
Development and Investment Banks	5.377	5.279	5.340	5.307	5.361	5.255
Participation Banks	12.125	11.073	11.802	11.032	9.187	7.712
Number of ATMs	**24.593**	**22.291**	**23.952**	**21.953**	**18.795**	**16.513**
Number of POS Machines (000)	**2.067**	**1.891**	**2.048**	**1.886**	**1.629**	**1.283**
Num. of Intern. Bank Active Custom.(000)	6.006	5.419	5.974	5.169	4.274	3.368

Source: BRSA

[99] BRSA, From Crisis to Financial Stability (Turkey Experience), Working Paper, December 29, 2009.

Within the first quarter of 2010, total number of branches within the sector has increased by 20 to 9601 compared to 2009 end-of-year. Within this period, the number of personnel has increased by 2.403, which is a qualified contribution to level of employment. At the end of the first quarter of 2010, the number of ATMs has increased by 2.7%, the number of POS machines has increased by 0.9% and the number of internet banking customers by 0.5% compared to end of 2009. It is expected that the internet banking will increase in coming days near future due to its transaction facilities and cost advantages.[100]

The strong structure in the banking sector is preserved within the first quarter of 2010. Capital adequacy ratio of the sector is highly above legal limit. Own funds increased all along 2009 also kept increasing within first quarter of 2010. Liquidity indicator of the sector presents a stable structure. FX position/total own funds ratio remains very limited which indicates low exchange rate risk. The off-balance sheet transactions to total balance sheet size ratio has increased within first quarter of 2010 compared to the end of previous year. The steady level of the NPL/gross loans ratio of the sector has turned into a decline, which is considered a positive development. The number of profitable banks during last five quarters remained same, while the share of total assets of these banks within total assets of the sector has decreased slightly within the first quarter of 2010. While the interest incomes remain important for profitability, the share of interest expenses within total expense has decreased, which influenced profitability positively. These two developments observed together in interest incomes/interest expenses ratio created the stable sector profitability trend. Non-interest incomes/non-interest expenses ratio which decreased during 2009 has increased considerably within the first quarter of 2010.[101]

Highly competitive and saturated local markets drive banks to invest in the countries where there are growth and profitability opportunities. Developed countries' competitive, saturated and less profitable sector prohibits investments. As we mentioned before, emerging market economies became attractive at this point.

[100] BRSA, Financial Markets Report, Issue 17, ISSN: 1307-0347, pg. 27, March 2010.
[101] BRSA, Financial Markets Report, Issue 17, ISSN: 1307-0347, pg 27, March 2010.

Especially, European Union banking system is facing a recession during the recent years. There haven't any profit or growing opportunities left as it became saturated so they choose internationalization to increase profits. Turkey is an attractive market for them. Below attached there are some table about EU and Turkey Banking System. The table shows a comparison between European Union Countries and Turkey's capacity indicators. The growth potential of Turkey is obvious while comparing with the EU members with the highest population per credit institutions, population per employee, population per branch and asset per employee numbers.

Table 16: Comparing Capacity Indicators Between EU and Turkey (2009)

Country	Number of Credit Institutions	Population per Credit Institutions	Population per Employees	Population per Branches	Assets per Employees (1000 €)
Belgium	105	101.162	169	2.461	19.498
Bulgaria	30	255.333	219	1.260	1.054
Czech Republic	54	193.130	261	5.233	3.888
Denmark	171	32.117	104	2.505	20.666
Germany	1.989	41.287	120	2.077	11.488
Estonia	17	78.882	218	5.218	3.587
Ireland	501	8.862	110	4.961	34.863
Greece	66	170.015	170	2.740	6.982
Spain	362	125.948	165	990	12.229
France	728	88.077	130	1.618	14.674
Italy	818	73.214	176	1.754	10.657
Cyprus	163	4.859	63	858	9.411
Latvia	34	66.647	163	3.444	2.319
Lithuania	84	39.976	303	3.451	2.395
Luxembourg	152	3.211	18	2.131	34.239
Hungary	197	50.954	230	2.856	2.857
Malta	23	17.913	105	3.712	10.800
The Netherlands	302	54.437	142	4.806	19.269
Austria	803	10.391	106	1.967	13.559
Poland	712	53.534	202	2.952	1.392
Portugal	175	60.731	170	1.663	7.734
Romania	43	498.698	299	2.908	1.180
Slovenia	24	85.000	166	2.923	3.990
Slovakia	26	207.923	262	4.297	3.180
Finland	357	14.882	207	3.178	14.939
Sweden	182	50.654	184	4.553	17.954
UK	391	156.079	123	4.877	17.826
Turkey	**49**	**1.480.843**	**394**	**7.573**	**9780**
EU27	8.510	58.550	149	2.092	12.656

Source: BRSA, Financial Markets Report, December 2009. (Bankacilikta Yapisal Gelismeler, Sayı 4, Aralik 2009), pg 51.

3.2.2. Shares of Foreign Banks

Analyzing Turkish Banking System according to capital structures; there are "foreign banks" that 100% of shares owned by foreigners and there are "foreign capital banks" which some parts of shares owned by foreigners. Foreign and foreign capital banks operating in Turkish Banking system are listed in the table below:

Table 17: Share of Foreign Capital in Turkish Banking System (2010)

Bank	Pub.	Private	Foreign	Type
Citibank A.S.	0	0	100	Deposit Bank
Deutsche Bank A.S.	0	0	100	Deposit Bank
HSBC Bank A.S.	0	0	100	Deposit Bank
ING Bank A.S.	0	0	100	Deposit Bank
Millennium Bank A.S.	0	0	100	Deposit Bank
Bank Mellat	0	0	100	Deposit Bank
Habib Bank Limited	0	0	100	Deposit Bank
JPMorgan Chase Bank N.A.	0	0	100	Development and Investment
Société Générale (SA)	0	0	100	Deposit Bank
The Royal Bank of Scotland N.V.	0	0	100	Deposit Bank
WestLB AG	0	0	100	Deposit Bank
Credit Agricole Yat. Bank Turk A.S.	0	0	100	Development and Investment
Merrill Lynch Yatırım Bank A.S.	0	0	100	Development and Investment
Taib Yatırım Bank A.S.	0	0,7	99,3	Development and Investment
Turkland Bank A.S.	0	9	91,0	Deposit Bank
Kuveyt Turk Katılım Bankası	0	19,8	80,2	Participation Bank
Denizbank A.S.	0	0,2	75,0	Deposit Bank
Eurobank Tekfen A.S.	0	30	70,0	Deposit Bank
BankPozitif Kredi ve Kal.Bank. A.S.	0	30,2	69,8	Development and Investment
Fortis Bank A.S.	0	5,6	65,0	Deposit Bank
Finans Bank A.S.	0	5,6	65,0	Deposit Bank
Turkiye Finans Katılım Bankası	0	35,3	64,7	Participation Bank
Arap Turk Bankası A.S.	15,4	20,6	64,0	Deposit Bank
Albaraka Turk Katılım Bankası	0	21,8	61,9	Participation Bank
Turkish Bank A.S.	0	60	40,0	Deposit Bank
Yapı ve Kredi Bankası A.S.	0	45,4	38,1	Deposit Bank
Turk Ekonomi Bankası A.S.	0	46,4	35,1	Deposit Bank
Turkiye Garanti Bankası A.S.	0	37,6	20,8	Deposit Bank
Akbank T.A.S	0	64,4	10,3	Deposit Bank
IMKB Takas ve Saklama Bank. A.S.	8,9	86,2	4,9	Development and Investment

Source: BRSA, BAT

The number of foreign and foreign capital banks is 30 as of 2010, 13 of them counted as foreign bank. More than 50% of the shares of 11 owned by foreigners and for the remaining part, foreign share is below 50%. 6 of these banks are development and investment banks, 21 of them are deposit banks and 3 of them are participation banks. These 3 participation banks and 6 development and investment banks aren't examined in this study.

3.2.2.1. Asset Shares of Foreign Banks

Total assets for Turkish Banking System increased by 3,2% by reaching 860,5 billions of TL, comparing to the end of 2009 as of March 2010. Turkish currency assets increased by 3,6% and foreign currency assets increased by 1,9% in the first quarter of 2010. The asset shares of foreign and foreign capital banks between years 2006 and 2010 can be seen in the table below.

Table 18: Shares of Foreign Banks in Assets (%)

Bank Name	2010/3	2009/3	2009	2008	2007	2006
Turkiye Garanti Bankası A.S.	12,3	12,6	12,6	12,1	11,6	10,1
Akbank T.A.S	11,6	11,3	11,4	11,7	11,7	11,5
Yapı ve Kredi Bankası A.S.	7,8	8,7	7,7	8,7	8,7	9,8
Finans Bank A.S.	3,5	3,6	3,5	3,6	3,6	3,6
Denizbank A.S.	2,6	2,7	2,6	2,6	2,6	2,3
ING Bank A.S.	1,8	2,1	1,8	0,2	2,2	2,4
Turk Ekonomi Bankası A.S.	1,8	1,9	1,8	2,0	2,0	1,7
HSBC Bank A.S.	1,7	1,9	1,7	2,0	2,3	2,1
Fortis Bank A.S.	1,5	1,5	1,4	1,6	1,7	1,7
Citibank A.S.	0,6	0,8	0,6	0,7	0,7	1,2
Eurobank Tekfen A.S.	0,4	0,5	0,5	0,5	0,5	0,2
Deutsche Bank A.S.	0,2	0,1	0,2	0,1	0,1	0,2
Arap Turk Bankası A.S.	0,1	0,1	0,1	0,1	0,1	0,1
Bank Mellat	0,1	0,1	0,0	0,0	0,0	0,0
Millennium Bank A.S.	0,1	0,1	0,1	0,2	0,2	0,2
Société Générale (SA)	0,1	0,1	0	0,1	0,1	0,1
The Royal Bank of Scotland N.V.	0,1	0,2	0,1	0,2	0,2	0,1
Turkish Bank A.S.	0,1	0,1	0,1	0,1	0,1	0,1
Turkland Bank A.S.	0,1	0,1	0,1	0,1	0,1	0,1
Habib Bank Limited	0,0	0,0	0,0	0,0	0,0	0,0
WestLB AG	0,0	0,0	0,1	0,1	0,2	0,1

Source: BRSA, BAT.

Private banks share the 58% of total sector profits in the first quarter of 2010. The profit share ratio is 27,6% for state-owned deposit banks, 7,9% for foreign banks, 3,4% for investment and development banks and 3% for participation banks.

Analyzing asset shares in the System for the years between 2006 and 2010 for the first ten banks; it is observed that Is Bankasi and Ziraat Bankasi share the 1st and 2nd places; Akbank and Garanti are ranked as 3rd and 4th, Yapi Kredi and Vakiflar Bankasi take the 5th and 6th places, Halkbank is ranked as 7th and Finansbank, Denizbank, ING and Turk Ekonomi Bank take 8th, 9th and 10th places in this period. It is also obvious that Garanti, Akbank, Yapı Kredi, Finansbank and Denizbank take the first 5 places as foreign and foreign capital banks. They all have a qualification in common; having settled down with Turkish capital. The asset shares of the foreign banks within Turkish Banking System varies among 0,1% and % 1,8 whereas the shares of foreign capital banks rises up to 12,3%.

3.2.2.2. Loan Shares of Foreign Banks

After analyzing the asset structure, loan shares which is an important item of banking system is stated in this part. Loan percentages which was 53,1% of total assets in 2008; has declined parallel to the crisis. At the end of 2009, it has reached to a minimum with 47,1%. In 2010, positive improvements were observed in banking sector so loan percentage increased to 48,4% by March 2010. At the end of first quarter, loan amount has increased to 416,8 billions of TL with a 6,2% increase. In the same period, Turkish currency loans increased by 5,5% and foreign currency loans were increased by 6%.

Positive developments and low interest rates made the demand of loans increase. In the first quarter of 2010, state-owned bank loans increased by 6,9%, private bank loans increased by 6,8%, foreign bank loans increased by 5,6% and participation bank loans increased by 4%.

Foreign banks have the highest rate of non-performing loans with 7,2%. This rate is 4,8% for participation banks, 4,6% for private banks, 4,3% for state owned banks and 2,4% for investment and participation banks.

Table 19: Relative Growth of Banking System Loans (%)

Bank	2010/3	2009/3	2009	2008	2007	2006
Turkiye Garanti Bankası A.S.	13,34	13,92	13,05	13,60	13,27	12,54
Akbank T.A.S.	10,54	11,59	10,42	12,09	13,20	12,99
Yapı ve Kredi Bankası A.S.	10,14	10,70	9,94	10,54	10,17	10,32
Finans Bank A.S.	4,65	4,16	4,61	4,87	5,05	5,12
Denizbank A.S.	3,67	3,65	3,72	3,48	3,71	3,13
ING Bank A.S.	2,71	2,95	2,89	3,01	3,03	3,36
Turk Ekonomi Bankası A.S.	2,39	2,11	2,36	2,32	2,45	2,27
HSBC Bank A.S.	2,26	2,49	2,30	2,65	3,33	3,45
Fortis Bank A.S.	1,92	1,87	1,82	1,97	1,97	2,22
Citibank A.S.	0,53	0,71	0,55	0,68	0,70	0,81
Eurobank Tekfen A.S.	0,33	0,31	0,33	0,30	0,31	0,26
Turkland Bank A.S.	0,19	0,16	0,19	0,16	0,15	0,14
Millennium Bank A.S.	0,18	0,23	0,19	0,24	0,26	0,29
Arap Turk Bankası A.S.	0,08	0,10	0,09	0,09	0,05	0,05
Bank Mellat	0,07	0,06	0,06	0,05	0,04	0,06
The Royal Bank of Scotland N.V.	0,07	0,05	0,05	0,05	0,10	0,07
Turkish Bank A.S.	0,06	0,06	0,06	0,05	0,05	0,06
Société Générale (SA)	0,04	0,03	0,04	0,03	0,03	0,04
Deutsche Bank A.S.	0,02	0,02	0,02	0,04	0,06	0,04
WestLB AG	0,01	0,01	0,01	0,01	0,01	0,00
Habib Bank Limited	0,00	0,01	0,00	0,01	0,00	0,00

Source: BRSA, BAT.

Examining the loan amounts starting from 2006; it is identified that despite foreign capital banks have a significant share, foreign banks don't have a relative importance. The banks have more than 10% share in loans; Turkiye Garanti Bankasi, Akbank and Yapi Kredi are already the leaders of the Turkish Banking System, 3 of first five banks. The other banks have strict regulations on loans so the usage amount is limited. Also, because of the advanced methods of foreign banks in calculating risks, the amount of non-accruing loans decreases and this leads an effective usage of sources.

3.2.2.3. Deposit Shares of Foreign Banks

Turkish Banking System deposits which is the main fund resource of balance sheet with 62,1% share. In the first quarter, reached to 534,3 billions of TL increasing by 3,8%. Deposit amounts increased in all groups of banks in the first quarter. On the other hand; increase amounts are low in foreign banks and participation banks comparing the 2009 rates.

Foreign and foreign capital banks have appropriate deposit structures for loans when they examined in detail. In the first quarter of 2010; it is seen that Garanti, Akbank and Yapi Kredi take place as the first three banks. Our country has limited financing opportunities; deposits concentrate on Ziraat Bankasi and Turkiye Is Bankasi. The concept of "too big to fail" prevents deposits to flow other banks, foreign banks and foreign capital banks aren't even in the picture.

Table 20: Relative Growth of Banking System Deposits (%)

Bank	2010/3	2009/3	2009	2008	2007	2006
Turkiye Garanti Bankası A.S.	12,45	12,62	12,38	11,62	10,95	9,63
Akbank T.A.S.	11,25	10,82	11,01	11,51	11,50	10,93
Yapı ve Kredi Bankası A.S.	7,99	9,01	8,05	9,20	9,01	9,95
Finans Bank A.S.	3,85	3,65	4,00	3,51	3,63	3,66
Denizbank A.S.	2,32	2,21	2,29	2,20	2,58	2,31
Turk Ekonomi Bankası A.S.	1,77	2,03	1,86	2,04	1,98	1,73
HSBC Bank A.S.	1,73	1,85	1,76	2,03	2,15	1,89
ING Bank A.S.	1,73	2,01	1,88	2,20	2,49	2,53
Fortis Bank A.S.	1,06	1,08	1,15	1,20	1,58	1,50
Citibank A.S.	0,70	1,06	0,71	0,93	0,91	1,72
Eurobank Tekfen A.S.	0,35	0,38	0,37	0,40	0,32	0,24
Turkland Bank A.S.	0,17	0,14	0,17	0,13	0,09	0,11
Deutsche Bank A.S.	0,16	0,12	0,11	0,06	0,06	0,17
Millennium Bank A.S.	0,16	0,19	0,18	0,22	0,27	0,28
The Royal Bank of Scotland N.V.	0,14	0,15	0,14	0,14	0,12	0,13
Turkish Bank A.S.	0,08	0,09	0,10	0,09	0,10	0,10
Bank Mellat	0,05	0,03	0,02	0,02	0,01	0,01
Société Générale (SA)	0,03	0,01	0,02	0,06	0,00	0,03
Arap Turk Bankası A.S.	0,03	0,02	0,04	0,02	0,02	0,03
WestLB AG	0,03	0,04	0,05	0,14	0,16	0,19
Habib Bank Limited	0,00	0,00	0,00	0,00	0,00	0,00

Source: BRSA, BAT.

3.2.2.4. Equity Shares of Foreign Banks

State-owned deposit banks have the highest increase in equities with 7,6% in the first quarter of 2010. Foreign banks are the other bank group which has a increase in equities comparing to the sector. The equity shares of foreign and foreign capital banks between years 2006 and 2010 can be seen in the table below.

Table 21: Relative Growth of Banking System Equity (%)

Banka	2010/3	2009/3	2009	2008	2007	2006
Akbank T.A.S.	13,19	12,94	13,33	13,55	14,43	12,19
Turkiye Garanti Bankası A.S.	12,99	11,59	12,51	11,45	9,37	8,06
Yapı ve Kredi Bankası A.S.	7,91	8,35	7,77	8,29	6,67	5,77
Finans Bank A.S.	3,38	3,63	3,41	3,43	3,57	3,72
Denizbank A.S.	2,47	2,42	2,47	2,46	1,98	2,13
HSBC Bank A.S.	2,28	2,64	2,34	2,74	2,75	2,20
ING Bank A.S.	1,79	2,05	1,83	1,95	1,73	1,68
Fortis Bank A.S.	1,77	2,13	1,84	2,18	2,24	1,92
Turk Ekonomi Bankası A.S.	1,51	1,72	1,55	1,72	1,24	0,95
Citibank A.S.	0,76	0,94	0,80	0,96	0,93	0,86
Eurobank Tekfen A.S.	0,39	0,47	0,41	0,33	0,37	0,20
The Royal Bank of Scotland N.V.	0,33	0,35	0,34	0,24	0,23	0,23
Deutsche Bank A.S.	0,32	0,42	0,39	0,41	0,46	0,33
Arap Turk Bankası A.S.	0,26	0,29	0,27	0,31	0,12	0,15
Turkland Bank A.S.	0,19	0,24	0,20	0,25	0,14	0,12
WestLB AG	0,14	0,15	0,15	0,15	0,14	0,16
Turkish Bank A.S.	0,14	0,17	0,14	0,18	0,13	0,17
Millennium Bank A.S.	0,11	0,16	0,11	0,18	0,14	0,19
Bank Mellat	0,07	0,07	0,07	0,07	0,06	0,06
Société Générale (SA)	0,04	0,04	0,02	0,05	0,03	0,06
Habib Bank Limited	0,04	0,04	0,04	0,04	0,04	0,02

Source: BRSA, BAT.

There is a different situation in equity structure; Akbank takes the first place unlike the tables of loans and deposits. Akbank prefers working with a strong capital structure and less risk; the explanation of this table is this working style of Akbank, different from Garanti and Yapi Kredi. The effects of foreign banks that known as operating with a strong equity structures tried to be analyzed. The equity shares of foreign banks having more than 50% foreign capital varies under 1% of the total sector.

3.2.2.5. Branch and Employee Numbers of Foreign Banks

Analyzing branch and employee numbers of Turkish Banking Sector according to banking groups; state owned banks opened new branches in the first quarter of 2010 despite the fact that all foreign, private and investment and development banks were terminated activities of some of their branches. Foreign banks closed 21, private banks closed 15 and investment and development banks closed 2 banks in the first quarter.

Examining the last year; state-owned banks employed the highest amount of employees with 2.415 people. Private Banks hired 1.122, participation banks hired 1.052, investment and development banks hired 98 and finally foreign banks hired 95 employees.

Table 22: Branch and Employee Numbers of Foreign Banks

Banks	2010		2009		2008		2007		2006	
	B	E	B	E	B	E	B	E	B	E
Türkiye Garanti Bankası A.Ş.	859	16.675	788	16.827	726	16.350	588	14.517	483	11.907
Akbank T.A.Ş.	913	15.330	878	14.714	868	15.127	716	13.513	683	12.333
Yapı ve Kredi Bankası A.Ş.	868	14.411	838	14.333	861	14.795	676	14.249	598	13.478
Finans Bank A.Ş.	503	11.734	461	10.107	458	9.986	411	9.061	309	7.751
Denizbank A.Ş.	500	8.573	450	7.789	400	7.376	320	6.634	262	5.528
Türk Ekonomi Bankası A.Ş.	335	5.646	788	5.871	336	6.400	273	5.141	170	3.565
HSBC Bank A.Ş.	333	6.570	336	6.430	335	6.853	237	5.733	193	5.018
ING Bank A.Ş.	323	5.865	359	6.110	366	6.357	365	5.922	349	5.403
Fortis Bank A.Ş.	269	4.572	297	5.007	300	5.378	268	5.041	225	4.335
Citibank A.Ş.	37	2.116	37	1.851	56	2.315	54	2.349	54	2.228
Eurobank Tekfen A.Ş.	54	875	42	743	42	661	36	549	31	567
Turkland Bank A.Ş.	27	510	25	464	25	457	16	390	10	266
Deutsche Bank A.Ş.	1	101	1	90	1	94	1	82	1	81
Millennium Bank A.Ş.	18	292	18	303	18	320	16	300	16	315
The Royal Bank of Scotland N.V.	3	129	8	164	8	205	6	201	1	128
Turkish Bank A.Ş.	21	273	25	276	26	292	22	272	17	218
Bank Mellat	3	51	3	51	3	50	3	49	3	52
Société Générale (SA)	16	259	16	230	16	234	1	107	1	56
Arap Türk Bankası A.Ş.	6	255	6	230	3	170	3	175	3	174
WestLB AG	1	42	1	42	1	42	1	43	1	41
Habib Bank Limited	1	16	1	16	1	16	1	16	1	16

Source: BAT.

Foreign and foreign capital banks increase the number of branches, the range of financial products, and the number of employees working in finance sector and use high technology methods. As a result; they cause the financial system to develop. The foreign bank branch number increased from 3.411 to 5.091 between the years 2006 and 2010 as can be seen from the Table 19. This means nearly 50% increases in shares; easier access to banking services with a more extensive branch network.

Employment opportunities are one of the other advantages that provided by foreign banks. Percentage of employees employed by foreign banks has increased nearly 26%. In 2006; total number of employees was 73.460 and in 2010, this number increased to 94.295. Creating employment opportunities is an important advantage for Turkey as unemployment rate is high.

3.3. A RESEARCH ABOUT FOREIGN DEPOSIT BANKS IN TURKEY

The financial services sector in Turkey includes banks and insurance companies and non-bank financial institutions such as factoring companies, leasing companies, consumer financing companies, pension companies, intermediary institutions, investment funds, investment partnerships and real estate investment partnerships. The Banking System has a major share in the financial sector and deposit banking is the most important part of it. In this part of the study the efficiency of foreign capital in deposit banking is analyzed.

3.3.1. Purpose of the Research

The purpose of this thesis is to determine the role of foreign banks to the Turkish Banking System, which has ridden out the financial crisis successfully. In order to understand the foreign role in a detailed way; a study that divided the banks into groups according to their capital structures and analyzing them through some financial ratios was conducted. Main purpose of the research is to clarify whether the banks having high shares of foreign capital in their capital structure, have small sector shares and low financial performance compared to others.

In the section 3.2 "The Shares of Foreign Banks", descriptive ratio analyses were performed with the aim of specifying the importance of foreign capital in the Banking System. The findings were interpreted in two groups; foreign capital banks and foreign banks. This classification was made according to the controlling share structure. In this part; it is tried to achieve the result that the ratios selected to divide banks into groups are successful and reflect current situation of the System. Because of this, banks are arranged in three groups like having 1% -49 %, 50%-99% and 100% foreign capital. All in all, ratio analyses results aimed to be supported with a statistical analysis that predicting group belongings.

3.3.2. Scope and Constraints of the Research

The scope of this study is 21 foreign and foreign capital deposit banks operating in the System during 2006-2010 periods. The reasons of examining only deposit banks are mentioned below:

- Many important banks around the world have terminated their activities after global crisis. Global players of deposit banking have shares in Turkish Banks; this situation makes the System sensitive to global fluctuations.
- Financial authorities took some precautions after global crisis. Most important one was changing deposit insurance limits. The limits have been increased for example; in UK; the limit has been raised from 35 thousands of £ to 50 thousands of £. Deposit banks gained importance after these developments.
- Investment and development banks do not have an important share in Turkish Banking System despite the fact that their perception as being one of the responsible of crises. Participation banks have a different approach about interest concept.

The reasons why the years between 2006 and 2010 are selected are stated below:

- Most of the foreign banks of Turkish Banking System were affected negatively from the global financial crisis. Authorities accept that USA mortgage crisis caused global crisis and for this reason the year before the crisis, 2006, is taken as start up in research to analyze the situation before crisis and see the effects of it clearly.
- As there were still fluctuations in Turkish Banking System because of 2001 crisis; the political and economical environment were unstable and BRSA could not still realized legal arrangements; the period between

2000-2005 has not analyzed in this study. For example; during the period 2002-2004; inflation accounting applied but starting from 2005, the technique has removed. In 2006, BRSA published regulations about uniform accounting which is a big step for the System.

- The period supplies healthy and comparable information as capital structures of the banks change frequently especially before 2006. For example, despite the fact that Denizbank states as private capital commercial bank in 2005; it is accepted as foreign capital bank after 2006.

Table 23: Foreign Shares of the Banks (%)

NAME OF THE BANK	2006	2007	2008	2009	2010
ABN AMRO BANK	100,0	100,0	100,0	100,0	NA
THE ROYAL BANK OF SCOTLAND N.V	NA	NA	NA	NA	100,0
AKBANK	20,0	21,0	10,3	10,3	10,3
ARAP TURK BANK	65,0	65,0	64,0	64,0	64,0
BANCA DI ROMA	100,0	100,0	NA	NA	NA
BANK MELLAT	100,0	100,0	100,0	100,0	100,0
CITIBANK	100,0	100,0	100,0	100,0	100,0
DENİZBANK	99,7	99,8	75,0	75,0	75,0
DEUTSCHE BANK	100,0	100,0	100,0	100,0	100,0
FINANSBANK	89,4	89,9	61,4	58,2	58,2
FORTIS BANK	93,3	94,1	65,0	65,0	65,0
HABİB BANK	100,0	100,0	100,0	100,0	100,0
HSBC BANK	100,0	100,0	100,0	100,0	100,0
MILLENIUM BANK	100,0	100,0	100,0	100,0	100,0
MNG BANK	91,0	NA	NA	NA	NA
TURKLAND BANK	NA	91,0	91,0	91,0	91,0
ING BANK	NA	100,0	100,0	100,0	100,0
SOCIETE GENERALE S.A.	100,0	100,0	100,0	100,0	100,0
SEKERBANK	34,0	34,0	0,0	0,0	0,0
TURK EKONOMI BANK	42,1	0,0	70,2	35,1	35,1
TURKIYE GARANTI BANK	25,5	20,9	20,8	20,8	20,8
TEKFENBANK	70,0	NA	NA	NA	NA
EUROBANK TEKFEN	NA	93,2	70,0	70,0	70,0
TURKISH BANK	5,8	40,0	40,0	40,0	40,0
WESTLB A.G.	100,0	100,0	100,0	100,0	100,0
YAPI KREDI BANK	40,1	40,1	38,1	38,1	38,1

Source: BRSA.

After the list has been prepared; the banks which experienced capital structure changes during 2006-2010 were defined. Banking data module of BAT was examined in order to create the banks list to be analyzed. Main capital structure changes taken from BAT are listed below:

- ABN AMRO Bank N.V.'s corporate name changed as "The Royal Bank of Scotland N.V." on 19th March 2010.
- Banca di Roma S.P.A.'s corporate name changed as "Unicredit Banca di Roma S.PA." on 26th March 2008.
- 3rd April 2007; MNG Bank A.S.'s corporate name changed as "Turkland Bank A.S.". After the shares sold to Arap Bank Plc and BankMed officially on 29th January 2007; this privately owned deposit bank's status changed as "foreign capital bank."
- Tekfenbank A.S.'s corporate name changed as "Eurobank Tekfen A.S." on 11th January 2008. After the shares has sold to Eurobank EFG Holding(Luxemburg) S.A. on 16th March 2007 officially; this privately owned deposit bank's status changed as "foreign capital bank".
- The corporate name of Bank Europa A.S. has changed as Milennium Bank on 29th November 2006.
- On 28th September 2006; shares of Denizbank A.S has sold to Dexia Participation Belgique S.A and bank's status changed as "foreign capital bank".
- Finans Bank A.S's shares sold to National bank of Greece S.A on 28th July 2006 and bank's status changed as "foreign capital bank".
- Yapi Kredi Bankasi A.S. took over Kocbank on September 28th 2006 with all rights, receivables, debt and liabilities.
- Unicredit Banca di Roma S.P.A terminated its activities on 13th November 2008 in Turkey.
- On 24th December 2007; shares of Oyak Bank A.S. sold to ING Bank N.V and bank's status changed as "foreign capital bank".

Table 24: Foreign Shares Subjected to Analysis (%)

NAME OF THE BANK	2006	2007	2008	2009	2010
AKBANK	20,0	21,0	10,3	10,3	10,3
ARAP TURK BANK	65,0	65,0	64,0	64,0	64,0
BANK MELLAT	100,0	100,0	100,0	100,0	100,0
CITIBANK	100,0	100,0	100,0	100,0	100,0
DENIZBANK	99,7	99,8	75,0	75,0	75,0
DEUTSCHE BANK	100,0	100,0	100,0	100,0	100,0
EUROBANK TEKFEN	70,0	93,2	70,0	70,0	70,0
FİNANSBANK	89,4	89,9	61,4	58,2	58,2
FORTIS BANK	93,3	94,1	65,0	65,0	65,0
HABİB BANK	100,0	100,0	100,0	100,0	100,0
HSBC BANK	100,0	100,0	100,0	100,0	100,0
ING BANK	NA	100,0	100,0	100,0	100,0
MILLENIUM BANK	100,0	100,0	100,0	100,0	100,0
SOCIETE GENERALE S.A.	100,0	100,0	100,0	100,0	100,0
THE ROYAL BANK OF SCOTLAND N.V	100,0	100,0	100,0	100,0	100,0
TURK EKONOMI BANK	42,1	0,0	70,2	35,1	35,1
TURKISH BANK	5,8	40,0	40,0	40,0	40,0
TURKIYE GARANTI BANK	25,5	20,9	20,8	20,8	20,8
TURKLAND BANK	91,0	91,0	91,0	91,0	91,0
WESTLB A.G.	100,0	100,0	100,0	100,0	100,0
YAPI KREDI BANK	40,1	40,1	38,1	38,1	38,1

Source: BRSA and our calculation.

The banks which were acquired or merged are defined with their current names, in 2010. For example; ABN AMRO Bank data is used for the years 2006-2009 for Royal Bank of Scotland despite it started its operations in 2010 in Turkey. MNG Bank and Tekfenbank datas were used for the year 2006 for the banks Turkland and Eurobank Tekfen. Banca Di Roma could not be analyzed as it terminated its activities in 2007. Also, as Sekerbank does not have foreign capital in its structure after 2007, it wasn't analyzed in the study. Despite stock market shares were ignored in the study; as Turk Ekonomi Bank has stock shares listed in the market in 2007; its foreign share percentage was observed as ”0” and so ignored. There were no data for ING Bank for the year 2006 because it purchased strong capital structured Oyak Bank.

3.3.3. Methodology of the Research

Arranging foreign capital and foreign banks according to their controlling share structure, the analysis aimed to test the hypothesis that low foreign shared banks constitutes a group. For this reason, discriminant analysis method which is a statistical technique is used to classify the dependent variable between two or more categories.

Discriminant analysis also has a regression technique, which is used for predicting the value of the dependent categorical variable. It is used to predict or explains a nonmetric dependent variable with metric/nonmetric independent variables. Discriminant analysis also has assumptions as stated below, such as multiple linear regressions, linear relationships, homoscedastic relationships, untruncated interval data, etc.

- Variables should have multivariate normality
- All groups should have equal covariances
- Dependent variables should not have linearity.

Logistic regression is the alternative technique and it is frequently used in place of discriminant analysis when data does not meet the assumptions. Logistic regression generally used up to 2 groups of variables in studies. As there are 3 group of dependent variables in the study; discriminant analysis is preferred to logistic regression.

SPSS program version 16.0 has been used to make the discriminant analysis. SPSS is used in most of domestic and international scientific researches as it provides international standards and have the advantage of being executed compatible with excel.

3.3.4. Application of Analysis with SPSS

Actual group bank list containing all of the banks that is analyzed was prepared as a starting point. Banks are arranged in three groups like having 1% -49 %, 50%-99% and 100% foreign capital as it mentioned before so there are 3 actual groups. The group having %1-49 foreign share called 1; the group having %50-99 foreign share called 2 and finally the group with 100% foreign share is called 3. The names of the banks are listed below according to their groups. There are 5 banks in the first group, 6 in the second group and 10 in the third group.

Table 25: Actual Group Bank List

Actual Group	**1**	**2**	**3**
Share of Foreign Capital	**% 1-49**	**% 50-99**	**% 100**
Bank Name	AKBANK GARANTI BANK TURK EKONOMI BANK TURKISH BANK YAPI KREDI BANK	ARAPTURK BANK DENIZBANK EUROBANK TEKFEN FİNANSBANK FORTIS BANK TURKLAND BANK	BANK MELLAT CITIBANK DEUTSCHE BANK HABİB BANK HSBC BANK ING BANK MILLENIUM BANK SOCIETE GENERALE THE ROYAL BANK WESTLB A.G.

In discriminant analysis, the sample should be large enough, say 30 cases for each predictor variable. As it is impossible to increase the number of banks in the research; 21 banks are taken twice for the analysis.

Dependent variables were selected after the list of banks in groups has been completed in order to make estimations. The most important criteria about selection of ratios was having less than 0,7 correlation between them, otherwise assumptions could not have met. The list of dependent variables is listed below:

Table 26: List of Independent Variables

Ratios	Abbreviations
FC Assets / Total Assets	FCAA
Non-interest Income / Total Assets	NIITA
Shareholder's Equity / (Amount subject to credit+market+operational risk)	SER
Total Deposits / Total Assets	TDTA
Total Income / Total Expenses	TITE
Net Profit (losses) / Paid-in capital	NPPC
Asset Share in the Group	ASG
TC Deposit / Total Deposit	TCDTD
FC Assets / FC Liabilities	FCAL
Liquid Assets / (Deposits + Non-Deposit Funds)	LAD

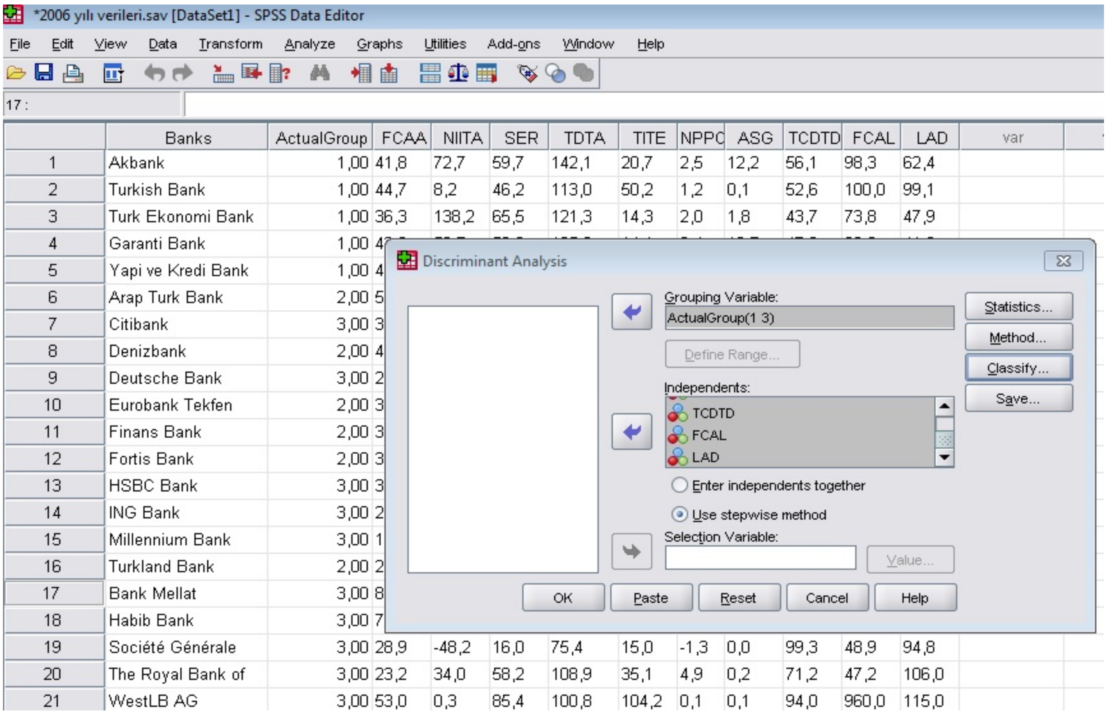
The ratios of 2006-2009 periods are taken from BAT's website, selected from the module of the banks and sector information- statistical reports part. As 2010 data has not issued yet by BAT; audit reports and third quarter financial reports were used from banks' web sites for detailed data and calculations completed accordingly. Some explanations about calculation of ratio items are stated below:

- Non-interest Income= Net Fees and Commissions Income + Dividend Income + Trading Profit/Loss + Other Operating Income
- Shareholders' Equity / (Amount subject to credit risk + Amount Subject to Market Risk + Amount subject to operational risk) (Capital Adequacy Ratio): Prepared in the "Financial Position" section of the Communique-Financial statements and related explanation and footnotes of the banks that is disclosed to the public-
- Total Income = Interest Income + Net Fees and Commissions Income + Dividend Income + Trading Profit/Loss + Other Operating Income
- Total Expenditures = Interest Expenses + Other Operating Expenses
- Liquid Assets = Cash and Balances with the Central Bank of Turkey + Financial assets where fair value change is reflected to income statement (net) + Banks and Other Financial Institutions (changed as "Banks after 2007") + Money Market Placements + Financial Assets Available for Sale (net)

- Non-Deposit Funds = Interbank Money Market Takings + Loans Borrowed + Funds + Marketable Securities Issued

After defining dependent and independent variables, the first step of analysis was entering the data to SPSS sheet in order to make discriminant analysis Analyze→Classify→Discriminant are selected. In the discriminant analysis section dependent variable is selected and transferred as “grouping variable”. Range is specified in “define range” as minimum 1 and maximum 3. Finally, ratios are transferred as “independents”. Table 25 shows the screen shot of the SPSS. The steps are followed for each year between 2006 and 2010. The results for each year are summarized in section “Findings of the Research”.

Scheme 2: SPSS Discriminat Analysis Module



Results of the analyses were examined if they are meaningful and valid before interpreting. Canonical Correlation, Eigenvalue and Wilk’s Lambda statistics were evaluated with this aim.

Table 27: Canonical Correlation, Eigenvalue and Wilk's Lambda

	2010	2009	2008	2007	2006
Canonical Correlation	0,774	0,820	0,897	0,897	0,705
Square of Canonical Correlation	59,9 %	67,2%	80,5%	80,5%	49,7%
Eigenvalue	1,496	2,054	4,137	4,132	0,989
Wilk's Lambda	32,4 %	23,2 %	8,8 %	10,8 %	38,5 %

Canonical Correlation values' squares which measures the relation between discriminant scores and groups is taken. It is observed that the discriminant model explains an important part of variance of dependent variable. In 2006, 49,7%, in 2007 and 2008 80,5% , in, 2009 67,2% and in 2010, 59,9% of variation is explained.

Eigenvfalue statistics shows the level of explicability of dependent variable variance by the function. In general, higher than 0,40 eigenvalue numbers accepted as successful and meaningful. In the analysis, eigenvalues are higher than 0,40 in all of the years. In other words, Discriminant function arranged groups successfully.

Wilk's lambda statistics shows the part of the total variance that couldn't explain by groups' differences. In the analysis, in 2006 38,5%, in 2007 10,8%, in 2008 8,8%, in 2009 23,2% and in 2010 32,4% of variances of classification results couldn't be explained by total variance of classification results.

Discriminant analysis was conducted in order to test if the banks having small shares of foreign capital could form a group. It is observed that the banks having small shares of foreign capital say less than 50% could form groups with higher than 60% success. Especially Akbank, Yapi Kredi and Garanti Bankasi that important for Turkish Banking System stayed in actual groups with a 100% success that have set in the beginning. Turkish Bank which is in 1st actual group is predicted as in 3rd group in 2006 and in 2nd group in 2010. Turkiye Ekonomi Bank is predicted as in 1st group only in 2008 but in 2nd group in the other years.

Table 28: Classification Results of Analysis

Years	Actual Group	Predicted Group Membership						Total	
		1		2		3			
2006	1	3	60%	1	20%	1	20%	5	100%
	2	0	0%	5	83%	1	17%	6	100%
	3	0	0%	3	30%	7	70%	10	100%
2007	1	4	80%	1	20%	0	0%	5	100%
	2	0	0%	5	83%	1	17%	6	100%
	3	0	0%	2	20%	8	80%	10	100%
2008	1	5	100%	0	0%	0	0%	5	100%
	2	0	0%	6	100%	0	0%	6	100%
	3	0	0%	2	20%	8	80%	10	100%
2009	1	4	80%	1	20%	0	0%	5	100%
	2	0	0%	5	83%	1	17%	6	100%
	3	0	0%	2	20%	8	80%	10	100%
2010	1	3	60 %	2	40 %	0	0 %	5	100%
	2	0	0 %	6	100 %	0	0 %	6	100%
	3	0	0 %	2	20 %	8	80 %	10	100%

The 2nd group of banks that have 50-99% foreign share is correctly classified by 100% success between the years 2008-2010. According to the discriminant analysis; in 2006, only Arapturk Bank and in 2007 and in 2009 only Finansbank is classified false; they assumed as they were in 3rd group.

Within the 3rd group which is a combination of the foreign ones, 80% success achieved in 2007, 2008 and 2009 in classification. The success rate is 70% in 2006 and 2010. According to the results; ING Bank in all years, HSBC during 2006-2009 period, Millennium in 2006 and Bank Mellat in 2010 was predicted as they were in 2nd group.

Examining the ratio of original grouped cases correctly classified in discriminant analysis, it is observed that success is 71,4% in 2006, 90,5% in 2008 and 81% 2007, 2009 and 2010. In general, it is observed that there are misclassified cases in Turkishbank, Turkiye Ekonomi Bankasi, Arap Turk Bankasi, Finans Bank, HSBC, ING, Bank Mellat and Millennium. Arap Turk Bankasi, Bank Mellat and

Millennium Bank predicted 1; Turkishbank and Finans Bank predicted 2; Turkiye Ekonomi Bankasi and HSBC predicted 4 and ING Bank predicted 5 times in a wrong group within 2006-2010 period.

Wrong classification cases; especially HSBC and ING Bank; entered to the System through purchasing Demirbank and Oyakbank, both of them were strong and important banks of the System. Purchasing powerful positioned banks of the System gives the advantage of a successful start to operations. They aren't perceived as "foreigners" by Turkish investors as their roots are inspiring confidence in Turkey. The finding of discriminant analysis supports this decision.

CONCLUSION

Investing abroad is an important and risky decision so it requires a detailed examination about the host country before being made. Growth opportunities, regulations, political stability, competition, monetary principles, culture and infrastructure should be analyzed carefully before realizing investments.

Advantages cannot be ignored as researches show that foreign entry improves banking sector efficiency; increases competition, increases access to finance by broadening service network and lower the cost of capital and supply a stable source of finance. On the other hand, the tendency to lending only to multinational companies which is called cherry-picking and going back to home countries in crises times which is known as cut and run creates risk for domestic markets.

The financial crisis which started in the USA Mortgage markets, affected the financial markets and banking sectors of all developed countries. The banking sector that experienced liquidity problems; started looking for new sources of capital as a result of this mergers, acquisitions and nationalization trend that increased in the global banking sector.

Foreign capital inflows are important for the financial markets to develop. From the perspective of foreign capital, especially the countries are attractive for investors that have diversified capital market instruments. In this thesis; Turkish Banking System is discussed that gained importance as money market corporations increased in Turkish financial markets. Capital market instruments that are limited with the stock exchange market are not taken into consideration. In addition; derivatives of organized derivatives market don't have an important effect on Turkish Banking System. 99 % of derivatives are included in off-balance sheet transactions as marketable securities. Assuming the effects of capital market instruments fixed the affects of foreign and foreign capital banks have been tried to be analyzed in this study. Ratio analyses are used because of the problems and incompatibility of historical data. As BRSA was established in 2000; historical data wasn't available in the Systems, so not only BRSA but also BAT used for data researches. Deposit banks are discussed in this study in order to interpret data in line to international banking standards.

Two types of capital structures are seen in Turkish Banking System; foreign banks and foreign capital banks. In this study, the banks that are totally owned by foreign capital are referred to as foreign banks and the banks that a portion of their capital owned by foreigners are referred to as foreign capital banks. The aim of this separation is to analyze the effect of foreign capital on Banking System. For example; despite the fact that Akbank has a portion of foreign capital; as investors and customers are in the dark about this situation; the bank is perceived as Turkish bank. This perception doesn't allow bank to be affected negatively after foreign entries.

As risky investments are not preferred by Turkish investors; Ziraat Bankasi and Turkiye Is Bankasi are accepted as the most popular banks with their old histories and wide branch networks around Turkey. Especially state-owned banks have comparative advantages as their obligations met by the government in a bankruptcy situation. The first 5 banks lead the System with a 60% share; this explains the investors' mindset. There is ING in the first 10 banks; considering that due to purchasing Oyak ING has this share; it can be said that there is no foreign banks in the first ten.

Analyzing Turkish Banking System; it is seen that Akbank and Garanti which are foreign capital banks; having less than 50% foreign share; takes place in the first 5 banks of the System. When we examine the asset structure; 2 foreign capital banks having more than 10% share seen; Garanti (12,3%) and Akbank (11,6%). The reason of these large shares is the perception of customers that Garanti and Akbank are the biggest Turkish capital banks after Ziraat and Is Bankasi. Moreover, as they have survived after hyperinflation periods, got over the times that banks accepted as the safety deposit banks of governments, they gained strength and established a market presence.

There is no such a big foreign bank in the System, having a big share of asset but they act as financial leverages and affect the development of the System positively. Because of the low credit ratings; Turkish Banking System faced difficulties in borrowings for long ages. Therefore, high-cost syndication and securitization loans have been forced to use, System did not benefit from financial leverage, banking activities couldn't have realized in real sense because of the interest rate policies of central banks. With the establishment of BRSA in 2000; Turkish Banking System started to get institutionalized, studies carried on with similar corporations like FSA and with the restructure of SDIF; the effects of bankrupt banks removed from the System. Moreover, the international standards like BASEL followed and one of the biggest problems of Turkish Banking System, the issue of achieving competent and historical data, has been solved.

This study was based on deposit banks as deposit banks have high shares in Turkish Banking System comparing to investment & development banks and participation banks. The results were statistically significant, so the study could be a source to other studies that will be realized on banking system in the following years. Moreover, the study should also be applied to participation and investment & development banks' to specify the importance of foreign capital in our banking system, as foreign capital inflows to the money and capital markets subjected to discussion lately, especially after the outbreak of the USA Mortgage crisis. Governments started to take strict measures on foreign capital inflows after the developed countries have experienced economical crises in recent years. High leveraged financial products like hedge funds, CDO and CLO does not exist in Turkish financial markets; the capital markets are immature and the usage of derivatives are only for trading; Turkish economy has not been affected badly by the crisis; on the contrary it has become more popular for foreign capital. All in all, it can be said that accepting foreign shareholders means more financial success for Turkish Banking System than total foreign capital.

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