

## Banking on a brighter future.

<http://business.guardian.co.uk/turkeyrevisited/story/0,,1804339,00.html>

The financial sector has come a long way since the dark days of 2001. Foreign companies are battling to gain a foothold in the booming Turkish market, which is currently winning more investors than any other country

When National Bank of Greece agreed \$2.44bn terms to take a 46% stake in Finansbank last month, it was not just another deal in the acquisition-hungry banking world. The groundbreaking partnership between age-old adversaries Greece and Turkey was a graphic demonstration of just how far the Turkish banking sector has come since the dark days of the 2001 financial crisis.

Turkish banking is in rude health, and the Finansbank deal is just one of a series of takeover moves that have swept through the sector as foreign companies jostle to gain a foothold in the booming Turkish market. Just a few weeks ago the latest deal saw Belgian bank Dexia agree to buy a 75% stake in DenizBank, Turkey's 10th-largest bank with 1.4 million retail customers, for \$2.44bn. It is buying the stake from Turkey's Zorlu Holding conglomerate and is also launching a tender offer for the remaining shares. This values the whole of DenizBank, which claims to be the world's eighth fastest-growing bank, at \$3.25bn.

"The acquisition will provide Dexia with a unique opportunity to become an important player in the Turkish market," says Dexia chief executive Axel Miller. "We have no doubt that value will come out of this project very quickly."

It also gives Dexia a significant stake in an economy that is growing at a rate five times faster than its home market, Belgium. Compared with EU countries, Turkish banking has significant growth potential. Total banking assets constitute 82% of Turkey's GDP, whereas this ratio is close to almost 300% in the case of EU-15 and over 200% for 12 eurozone countries.

There is big potential, too, on the product front: measuring housing loans to GDP ratio, the EU-15 average is 50% to 70%, while in Turkey the figure is just 3% despite the recent rapid growth. In retail loans, the ratio to GDP is 12% in the UK, compared with 9% in Turkey.

There is an even bigger gap in pensions and investment funds. That potential is behind the rush of foreign investment, which has taken the share of foreign banks in Turkey up from just 3.3% to over 18% since late 2004. European banks to have entered the Turkish market include the French bank BNP Paribas, which bought a 42% stake in Turk Ekonomi Bank (TEB) and GE Consumer Finance, which took 25.5% of Garanti Bankasi. Last year, the Dutch-Belgian bank Fortis bought a 93% stake in Disbank, and other Greek banks are following National Bank of Greece into Turkey with their own moves.

Ersin Özince is chief executive of Turkey's largest publicly traded bank, IsBank, and chairs the Turkish banking association. He sees many more deals to come: "Businessmen have no limits in their appetites. Every single day I am discussing with my European peers their increasing will for acquisitions in this market." He adds: "We are going to unite in economic terms, no one will stop us ... I even have Greek peers and have taken the banking association to Athens. We are sharing some ideas. Turkey is winning more new investors than any other country, including central Europe, and the banking sector is worth the sum of all of central Europe," he says.

IsBank is a huge player, not only in the Turkish but also the world market. It is the only Turkish company to have won a place in the Forbes list of the world's biggest 500 companies, claiming 319th position in the most recently published list. It has climbed 247 places in the global league over the past two years. It has 2,500 ATMs, 17,000 staff, 900 branches and state-of-the-art technology. According to Forbes, its assets total \$34.5bn and its market value reached \$20bn at one stage, overtaking even Commerzbank, although it has since slipped back to nearer \$12bn.

When the financial system went into meltdown five years ago, many of the banks required capital injections from shareholders to keep them afloat. Around 20 failed banks were taken into the Savings Deposit Insurance Fund for sale or liquidation. But the recovery of the sector since the tough recovery plan agreed with the IMF has been little short of remarkable. The Banking Authority (BRSA) now takes a far stronger supervisory role, easing fears of a repetition of the 2001 crisis. The government has also passed a new banking act to bring local banking practices closer to EU standards. The law will introduce strict rules regarding the "fit and proper" criteria for bank ownership, restrict risk exposure to group companies and enhance the supervision of the sector.

The Turkish government took an important step last year by launching an IPO for Vakifbank, raising over €1bn. Halkbank is the latest bank to undergo privatisation, a process likely to be completed by the end of this year. The sale of Halkbank has aroused substantial interest from foreign investors and its general manager, Huseyin Aydin, noted "great interest" in the bank from potential investors on a recent visit he made to London.

Aydin expects the privatisation to bring "very significant demand" from overseas, and believes privatisation and the subsequent rise in foreign investment has been an important factor in the current stability of the banking sector. He says overseas interest will continue to grow: "The most important advantage of Turkey among the member states of the EU is its young population. We shall be the youngest nation of Europe when our full membership process to the European Union is completed. And we know that this factor will provide a great advantage for our country."

He believes the banking sector is "well organised and prepared" for the EU. Staff are well-trained and technology has advanced to meet global standards, overseen by the strengthened BRSA. Halkbank, which has over 550 branches throughout Turkey, specialises in small and medium-scale enterprises (SMEs), which were hard hit by the crisis of 2001. It has recently stepped up its support for smaller companies, such as increasing credit facilities and providing medium- and long-term loans. It is also keen to expand in corporate and commercial banking.

Ak Emeklilik, part of Sabanci Holding, is Turkey's largest pensions company and general manager Meral Ak Egemen sees huge scope for growth. "Compared with the UK or US, it is a very underdeveloped market. They have hundreds of products while we have less than 10 products in the life area."

The pensions business in Turkey has grown rapidly, with 500,000 people holding private pensions by mid-2005, a figure expected to grow to 750,000 by 2010. Garanti Emeklilik is one of the country's leading pension firms, with general manager Erhan Adali predicting it will soon capture the number-one position. He points to increased productivity as one of the growth drivers: "In the old days, a salesperson selling 5 to 10 policies a month was doing a great job," he says.

"Now we expect our sales team to sell some 40 pension contracts monthly. That means we

are not only growing bigger but also getting more productive." He is unconcerned at the recent turbulence in the currency market and dismisses fears of another financial crisis: "Turkey has come a long way since 2001 and has learnt a great deal from it." Although a more gradual adjustment to the lira would have been preferable to the sharp decline seen in recent weeks, he says: "There has been tremendous improvement in the financial markets; required structural changes have been made and, most importantly, the Turkish people have tasted the benefits of a stable political and economic environment and will not allow it to be altered."