

Turkey 2009 Campaign



Interview Transcript:

Zafer Kurtul

Vice-Chairman of Akbank

A SERIES OF REPORTS PRODUCED BY PM COMMUNICATIONS

DISTRIBUTED WITH *THE SUNDAY TELEGRAPH*



PM Communications: Last week you were quoted in *Foreign Affairs* as saying: “Turkey could be one of the least affected countries if we manage the situation well.” Could you please elaborate on that quote? Why is this true and what, in your view, needs to be done to manage the situation well?

Zafer Kurtul: We are in a better position at the moment, vis-à-vis many countries. The origin of the problem was subprime lending, and banks around the world have a lot of these toxic assets. But in the Turkish banking system, we do not have these types of assets. Turkey’s banking system, at the moment, doesn’t really have a major problem when you look at our balance sheets, which are very transparent. They are transparent in a sense that we do not have derivative products or complex products. It is basically loan, deposits and equity. And the banking system’s leverage is around 8 times. For example, this is Akbank’s leverage. We compare that to other banks that are 30 or 40 times and you see we are not highly leveraged. So you will see the difference in terms of balance sheet strengths. So we have enough capital. Capital adequacy ratio is around 15 per cent in the system. We are a well-capitalised banking system.

However, the problem now is for the real sector. Exports are coming down. The domestic market is slowing. Companies, manufacturers cannot sell their products, volumes are decreasing. So what could happen is an increase in non-performing loans (NPLs). This is the area where there is presently at risk.

The total loan amount in industry is about US\$400 billion and our bank’s equity is about US\$80 billion. This ratio today is around 3.67. So when you look at total loans and equity, you can’t see a major threat for the banking system, even regarding NPLs. I can talk about the reasons. The domestic market is big and we have a better distribution of income. Secondly, we have a strategic geographic position. Currently exports are shrinking, but probably in the last quarter of this year we will see exports increasing once again.

Another risk could be the liquidity risk of the banking system. Banks are borrowing from abroad to fund their loan portfolios. We know this funding ability is becoming more and more difficult. However, we have a good deposit base in this country. The loan-to-deposit ratios are below 100 per cent. So at the moment we have enough deposits in the country to finance our loan portfolio. This deposit base is a good thing for the banking sector and for the country.

PM Communications: Given this context, do you anticipate that Turkey’s larger companies will look increasingly towards domestic-based funding?

Zafer Kurtul: Yes, this is what we are seeing. Foreign banks market shares are decreasing in the lending business.

PM Communications: One of Akbank’s strengths is consumer lending. What do you foresee for this markets segment?

Zafer Kurtul: We should mention that loan to GDP ratio is again small in Turkey, around 30 per cent. Consumer loan to GDP is again quite small, around 40 per cent. So the country is not highly leveraged.



Akbank has housing loans, auto loans, general purpose loans and credit cards. All of those facilities are not growing now as in they did past. This year will probably continue like this, and we will see growth again in 2010.

PM Communications: I would like to ask about this restructuring programme “New Horizons” and your subsequent strategic partnership with Citigroup. What have both of these things meant to Akbank?

Zafer Kurtul: We started our restructuring programme in 2001. The aim was to make Akbank a more customer-focused bank as well as to enable the bank to grow profitably. We have achieved most of the goals, and the growth rate was quite impressive. I can give numbers. For Q3 of 2008 (three months year-to-date) total assets increased 22.4%. Loan portfolio growth increased 24%. Deposit growth was 20%. Net interest income growth was 15%. Commission growth was 17%. So the bank has been growing as if we were acquiring medium-sized banks every year.

In the last quarter of 2008 of course this growth came down and this year is slow as well. But that is normal after new growth of 5 or 6 years. It will pick up again.

Citigroup for Akbank is a strategic partner. This partnership sent a message to us and to the public that Turkey is important for them and is one of their growth areas. We have many projects with Citigroup that are going quite well. Our specific cooperation areas, for example, include domestic and international networks. There are also knowledge-transfer cooperation areas. Citigroup is a global bank, so we are getting information about a lot of other countries from them. We have cooperation in investment banking, but of course the market is slow, but for the future this is a potential for us.

PM Communications: Can you tell us about your background and what experiences you have brought with you to Akbank?

Zafer Kurtul: I went to school at University of Wisconsin-Madison. Prior to Akbank I was with Citibank as well as BNP-AK-Dresdner Bank. Basically I did corporate banking. I joined Akbank in 1998 as an Executive Vice President and in November 2000 was appointed the CEO.

PM Communications: In the last few years there has been an increasing amount of competition in the sector, which has resulted in significant investments in technology and innovation. Akbank, particularly following your transformation over the last five years, has established a reputation for innovation. Can you talk about any of Akbank’s products, services or technologies?

Zafer Kurtul: After the New Horizon programme, we changed all the technology and infrastructure of the bank. Now we are using state-of-the-art technology. Ninety-five per cent of our operations are centralised. The goal is to make sure branches are focusing on sales instead of doing co-operations. There is also a focus on efficiency gains. So if you look at loans-per-employee and deposits-peremployee, we are the most efficient bank in Turkey. All of those things are disciplined cost-control measures based on advanced technology. For us, efficiency is very important. Secondly, it is important that we focus on innovation, on new products and on being close to customers – investing in our distribution channels and distribution technologies like CRM. All of those things are part of the main strategy – to make the bank more customer-focused.



PM Communications: Akbank's brand is the strongest banking brand name in the country. To what do you attribute the strength of Akbank's brand?

Zafer Kurtul: The bank was established in 1948. Perception of the bank is excellent. We have about 870 branches throughout the country. The bank has been very profitable for 20-25 years, the most profitable institution in Turkey. In addition, we spent a lot of time working on the brand, making sure it is well recognised. In the past, the brand perception was the trust. We want to keep that, but we have also added innovation to that perception.

PM Communications: International investors are watching the privatisation process of Turkey's banking sector closely. It is thought that Halkbank will be the next one to go, either through share sale or direct offloading to a competitor. Akbank is considered the most likely potential buyer. Are you interested in Halkbank?

Zafer Kurtul: The government's target is to privatise Halkbank. However, the market conditions are not suitable at the moment. The valuations are too low. However if Halkbank is put on sale at some point, we will definitely look at it. If we decide it creates shareholder value, we'll be interested. However we should also mention that the size of the bank is quite big so it would be a risky transaction, and we need to be careful with that.

PM Communications: You have seen a lot of changes in the sector and have successfully led Akbank through previous macro-economic crises. Looking forward, what are your goals and priorities for 2009-10?

Zafer Kurtul: In 2009 we will need to be very prudent. The aim is not to grow the bank in 2009. We want to make sure we support our customers, so we are quite selective with the lending portfolio. In 2010 we will see higher growth in our loans and our business. Growth will start in 2009 and will continue again, at least for five years.

In terms of market capitalisation, we are at the moment in the top 20 banks in Europe. We want to stay there.

PM Communications: As a top bank in Europe and a leader in the sector here in Turkey, what final message would you like to send readers in the UK about Akbank, Turkey's banking sector and Turkey itself?

Zafer Kurtul: Akbank is a prominent bank and will continue to be a major player in the sector. We are very enthusiastic about Turkey and the growth opportunities here. The country offers a lot of opportunities for investors. For instance, when we look at stock market valuations, it is very cheap. Particularly when we look at Akbank's stock – even though we are in the top 20 in Europe – it is almost book value. We expect our market value to grow in 2010. So Akbank, like Turkey itself, is a good investment. In Turkey, interest rates are quite high, so with the current exchange rates Turkish Lira assets are good investments. In Turkey we can find many good projects in certain sectors. For example, real estate, energy, banking – with the current valuations – telecommunications and tourism, particularly in Istanbul.

PM Communications: Thank you very much for your comments.