

All Eyes Trained on Turkey

By Paul Wouters

The chief prosecutor of the Turkish Supreme Court of Appeals, **Abdurrahman Yalçınkaya**, submitted on the 14th March an indictment to the Constitutional Court aiming to shut down the governing Justice and Development Party (AK Party), on the grounds that it had become a focal point of "anti-secular activities".

The indictment also proposed suspending the party membership of 71 members for five years — including President Abdullah Gül and Prime Minister Tayyip Erdoğan. One of the elements that appear to have been withheld by the chief prosecutor would be a speech delivered by Erdoğan in Malaysia, where he is said to have commented that as a moderate Islamic country, Turkey could serve as an example for the alliance of civilizations.

The Turkish Constitutional Court announced that it will hear the case. The decision was taken unanimously with 11/11 votes. The case against Gül, who supposedly only can be tried for treason, was approved with 7/11 votes.

The case has shocked the world, especially since the AK Party has been the most moderate and democratic party of its kind in Turkish history. Only seven months ago, it came to power through democratic elections, claiming 47 % of the popular votes. Strong disapprovals were specifically noted from the European Union, which announced that the accession talks could be hindered, if not endangered, should the AK Party be disbanded.

The government appears not to have been influenced by the ongoing proceedings and is set to continue the present modernization of the Turkish judicial and economical environment. A mini democracy reform package has been put forward and the calm leadership of the governing AK Party prevented any overheated reactions.

It may be expected that — though some further violent confrontations by opposing activist groups and individuals might be launched in the months to come — the government will succeed in controlling the situation.

The indictment appears to be construed in a very broad way and not focused on specific facts or allegations. Therefore, surprises might pop

up at any time and the outcome of the litigation cannot be predicted for sure. The AK Party is preparing for its defense and also for a change in the Turkish Constitution that would make the ban of political parties more difficult in future and that will lift the difficulty of such closures to European standards.

Key figures in participation banks				
		TOTAL (DECEMBER 2007)	TOTAL (DECEMBER 2006)	Change in (%)
		Amount	Amount	
FUNDS COLLECTED	YTL	7,863	5,259	50%
	FX	6,971	5,979	17%
	TOTAL	14,834	11,237	28%
LOANS		14,889	10,492	42%
PROBLEM LOANS (NET)		225	129	74%
TOTAL ASSETS		19,477	13,730	42%
TOTAL SHAREHOLDERS'S EQUITY		2,376	1,560	52%
PROFIT (NET)		539	391	38%

Source: BRSA Monthly Bulletin No 34

The participation banks are not expected to be hindered by or involved in the present discussions and their growth will most probably follow the general Turkish market fluctuations as usual.

General

During 2007, the business volume of Turkish participation banks increased by 30% to 35%. Similar growth is expected in 2008, said Osman Akyüz, CEO of the Turkish Participation Banks Association.

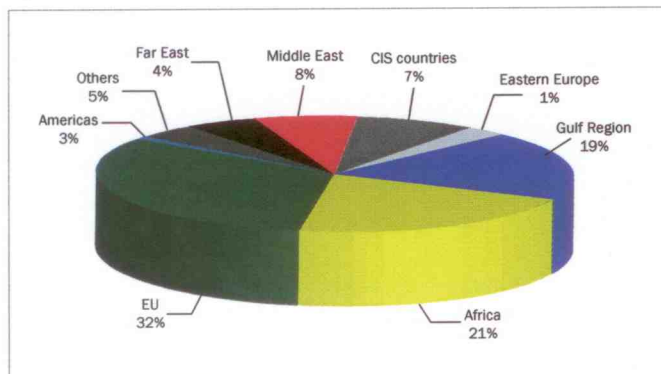
The sector is waiting impatiently for the much needed Sukuk regulations. Considering the present global credit crunch and the consequences thereof, lots of good opportunities already have been missed.

- Albaraka Türk

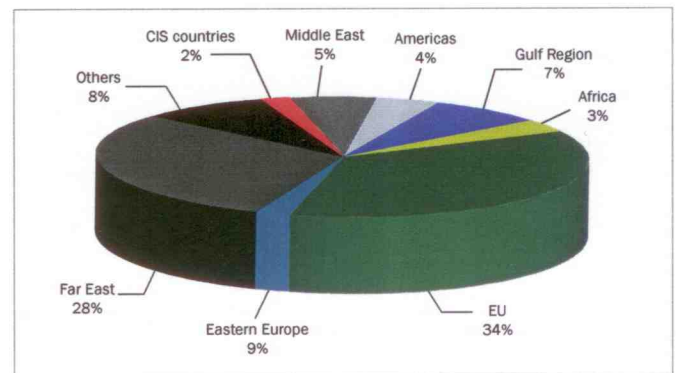
Albaraka Türk has absorbed the initial public offering (IPO) from 2007 in good order and was able to raise the net profits by 50% in 2007 over the previous year to TRY85 million (US\$65 million).

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Export distribution



Import distribution



Source of graphs: Albaraka Türk

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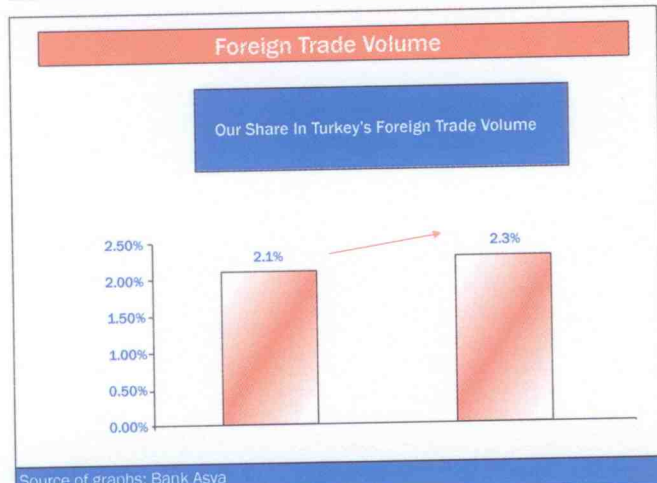
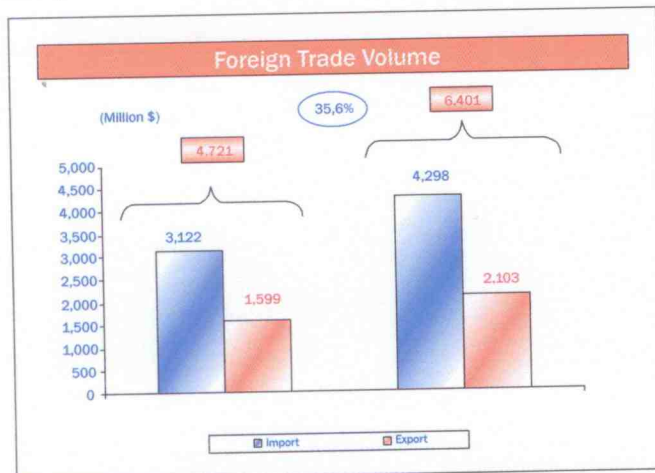
Total assets increased by 48% to TRY3.7 billion (US\$2.82 billion), and total loans increased by 44% to TRY2.85 billion (US\$2.2 billion). Deposits saw an increase of 39%, reaching TRY3 billion (US\$2.3 billion).

- **Bank Asya**

Publicly listed since 2006, Bank Asya increased its net profit in 2007 to TRY221 million (US\$168 million), a 51% increase as compared to 2006.

The capital equity of Bank Asya increased by 35% to TRY854 million (US\$651 million) and that its total assets reached TRY6.26 billion (US\$4.77 billion), a 50% increase as compared to 2006.

Deposits in the bank increased by 47% to TRY4.7 billion (US\$3.6 billion).



Source of graphs: Bank Asya

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- **Kuveyt Türk**

The Kuwaiti-Turkish joint-capital participation bank increased its profits in 2007 by 109%, totalling TRY74.1 million (US\$56.4 million), compared to the preceding year.

Kuveyt Türk CEO Ufuk Uyan explained that the bank had reached a historically high profitability rate and aimed to grow total assets by 59%, to TRY6 billion (US\$4.6 billion), and by 63% in loans extended to TRY5 billion (US\$3.8 billion) in 2008.

As at end-2007, Kuveyt Türk had around 1,800 employees. This figure will reportedly increase to 2,189 this year. Twenty-five new branches are expected to be opened, bringing the total number to 113.

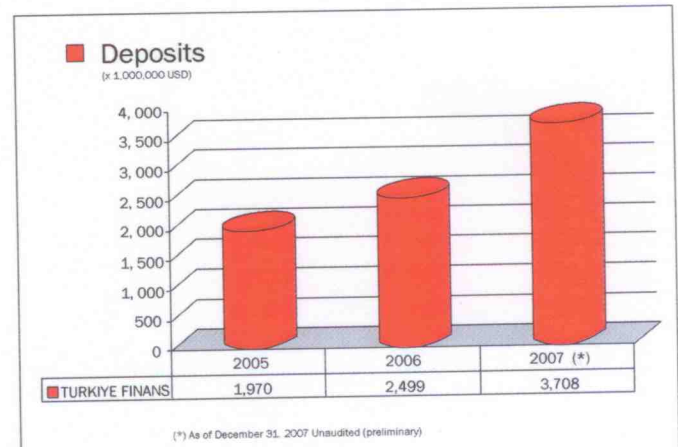
Due to the ongoing uncertainty in the global financial markets, the IPO that was planned earlier this year has been delayed. A new date has not yet been fixed.

- **Türkiye Finans**

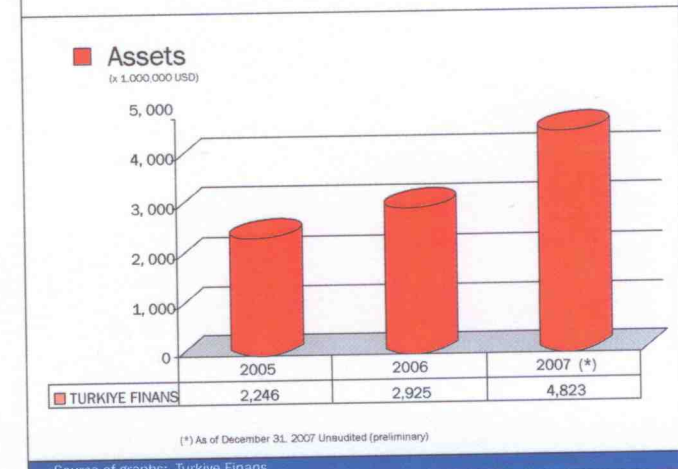
Still privately owned, Türkiye Finans aims for 30% growth in assets in 2008, 27% growth in capital and 46% growth in loan issuance. The goal for TRY203 million (US\$155 million) in profit before taxes could be hindered by the raise in the value-added tax imposed on leasing transactions at the beginning of 2008.

Yunus Nacar, CEO of Türkiye Finans, said leasing was one of the primary tools used by participation banks in financing new investments: "This

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(*) As of December 31, 2007 Unaudited (preliminary)



(*) As of December 31, 2007 Unaudited (preliminary)

Source of graphs: Türkiye Finans

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latest regulation [tax raise] not only blocks the usage of an important financial tool, but also decreases the accessibility of loans with 48 to 60-month long maturity periods for small entrepreneurs.”

The bank aims to increase the number of branches by 27% from 138 to 175 and intends to add another 1,000 employees to its 2,500 workforce.

Thanks to outstanding performance in previous years, the bank has attracted the attention of foreign investors and received no fewer than 15 merger and acquisition proposals.

After it had agreed to sell a 60% stake to Saudi Arabia-based National Commercial Bank (NCB) in July 2007 and the transaction was approved by the Turkish banking regulator BDDK early March 2008, the actual handover was completed at the end of the same month.

CEO of NCB Abdulkarim Abu Al-Nasr stated that the partnership with both the Boydak and Ülker groups would offer great opportunities. There is growing global interest in interest-free banking and still much more potential that can be tapped in Turkey.

Besides access to larger financial resources and business accomplishments, the cooperation is expected to result in a substantial transfer of know-how and a fast implementation of the latest IT banking techniques.



Türkiye Finans expects to increase its number of branches by 27%

- Qatar Islamic Bank, Turkish Bank

Just last month, Qatar Islamic Bank filed an application for a license to run a participation bank (Islamic bank) in Turkey. It would be the fifth license of its kind, not to mention a valuable addition to the market.

The partnership talks between the National Bank of Kuwait (NBK) and Turkish Bank, established in 1982, have ended positively. NBK, a leading financial player in the Gulf Cooperation Council, will buy 40% of Turkish Bank's shares for US\$160 million.

Turkish Bank is a conventional bank and will not apply for a license as a participation bank.

Positive prospects

Political turmoil aside, the most interesting news will be generated from the result of the renegotiation of the ongoing stand-by program of the International Monetary Fund that will soon expire.

That program has dominated Turkish financial policy for a long time now and resulted, coupled with sound economical reforms, in the exceptional growth and stability in Turkey these past few years.

“Though every economy will be affected more or less by the present credit crunch, the Turkish economy – and certainly the Turkish participation banks – appears to be relatively safe”

Among the alternatives for a replacement are post-program monitoring and a precautionary stand-by program that does not include funding. This will most probably result in the continuation of the present policies and will further sustain growth amid the present turmoil in the global financial markets.

Turkey will be able to obtain the remaining loans from the IMF and if the latest review is approved by the IMF executive board, US\$3.6 billion in loans will be released.

IMF expects Turkey's gross domestic product (GDP) to grow by 4% in 2008 and 4.3% next year. According to the just released IMF “World Economic Outlook” report, Turkey's rate of inflation based on consumer prices might be estimated to be 7.5% this year and 4.5% in 2009.

The expectation on the current-account deficit for 2008 is 6.7% of GDP and 6.3% for 2009.

Though every economy will be affected more or less by the present credit crunch, the Turkish economy – and certainly the Turkish participation banks – appears to be relatively safe.

All in all, subject to further developments in the closure case, this results in stable to slightly positive prospects for Turkey during 2008 and well into 2009. (F)

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