

Banking Regulation and Supervision Agency



Towards a Sound and Competitive Turkish Banking System

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Objective

- ✓ Eliminate distortions in financial sector and adopt regulations to promote an efficient, globally competitive and sound banking sector

Main Pillars

- I. Restructuring of the state banks
- II. Resolution of SDIF banks
- III. Strengthening of the private banks
- IV. Strengthening regulatory framework



I. State Banks

Developments in 2001 - 1

Financial Restructuring

- ✓ Strengthening of capital base
- ✓ Elimination of the overnight liabilities
- ✓ Liquidation of duty losses
- ✓ Appropriation in the budget for any support provided through state banks
- ✓ Determination of deposit rates uniformly with market rates
- ✓ Efficient management of loan portfolio



I. State Banks

Developments in 2001 - 2

Operational Restructuring

- ✓ Appointment of a Joint Board of Directors
- ✓ Transfer of Emlak Bank to Ziraat Bank

| | <u>Dec.2000</u> | <u>Dec.2001</u> |
|------------------|-----------------|-----------------|
| No. of Employees | 61.700 | 47.900 |
| No. of Branches | 2.494 | 2.398 |

- ✓ Monitoring programme for profitability, liquidity, and interest rate spreads
- ✓ Establishment of internal control, financial control and risk management units



I. State Banks

2002 Targets

- ✓ Implementation of the strategic plan and detailed institutional restructuring programmes
- ✓ Further reduction in the number of branches and personnel
 - Branches around 1.500
 - Personnel around 32.000
- ✓ Finalisation of the privatisation process of Vakıf Bank



II. SDIF Banks

Developments in 2001 - 1

Financial Restructuring

- ✓ Strengthening of capital base
- ✓ Elimination of overnight liabilities
- ✓ Substantial reduction of FX open positions
- ✓ Determination of deposit rates uniformly with market rates
- ✓ Deposits sale to other banks through auction
(to 8 private banks, USD 2.6 billion + TRL 479 trillion)
- ✓ Transfer of FX liabilities to Ziraat Bank

II. SDIF Banks



Developments in 2001 - 2

Operational Restructuring

| | <u>As of Transfer Date</u> | <u>Dec.2001</u> |
|------------------|----------------------------|-----------------|
| No. of Branches | 1.619 | 673 |
| No. of Personnel | 32.569 | 11.264 |

- ✓ As of December 2001, sale of TRL 370 trillion of subsidiaries and TRL 66 trillion of movable assets and real estate have been realized

II. SDIF Banks



Developments in 2001 - 3

Asset Management and Collection

- ✓ Transfer of institutional and individual loan files to the Collection Department
(As of December 28, 2001, 6.110 institutional and 63.717 individual loan files were transferred)
- ✓ Collection of Claims
(As of December 2001, a total collection of USD 909 million was realised)
- ✓ Restructuring of claims
(New payment scheme for claims worth of USD 1.7 billion of 48 debtors)

II. SDIF Banks



Restructuring of SDIF Banks

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 As of Jan 25 | Total |
|-------------------------------|------|------|------|------|------|-------------------------|-------|
| Banks taken over | 1 | 1 | 6 | 3 | 8 | - | 19 |
| Merged Banks | - | - | - | - | 7 | 1 | 8 |
| Sold Banks | - | - | - | - | 3 | 1 | 4 |
| License Withdrawals | - | - | - | - | 3 | - | 3 |
| Under Legal Procedure | - | - | - | - | 2 | - | 2 |
| Banks Remaining under SDIF | 1 | 2 | 8 | 11 | 4 | 2 | |



II. SDIF Banks

2002 Targets

- ✓ Resolution of Toprakbank and Bayındırbank
- ✓ Formation of bridge bank with focus on asset management
- ✓ Faster resolution of loan files and collaterals transferred to the Collection Department
- ✓ Preparation of monthly balance sheets of SDIF starting from March 2002
- ✓ Independent external auditing of SDIF



III. Private Banks

Özel Bankalar

Developments in 2001

- ✓ Banks realized capital increase of USD 1.3 billion as of December 2001
- ✓ Debt swap operation: Private banks' FX open position to USD 1.5 bn in December 2001 from USD 8.4 bn at end-2000
- ✓ Lower interest rate risks: Issuance of floating rate, FX indexed and FX denominated government bonds
- ✓ Financial and Real Sector Council: to develop strategies to resolve NPLs and to restructure corporate debts



III. Private Banks

Recapitalisation Scheme - 1

Rationale

- ✓ Increase in potential credit risk
 - Deep-rooted structural problems
 - Deeper than expected recession
 - Adverse international environment
- ✓ Limited possibilities of liquidation of assets in current economic conditions
- ✓ Limited scope for raising new capital from domestic and foreign private investors
- ✓ Vicious circle of banking crisis-real sector crisis



III. Private Banks

Recapitalisation Scheme - 2

Objectives

- ✓ Ensuring transparency and enhancing confidence in banking sector
- ✓ Maximizing capital contributions by banks' owners
- ✓ Encouraging mergers and acquisitions
- ✓ Enabling banks to start extending credits to real sector
- ✓ Contributing to efficient functioning of corporate debt restructuring schemes
- ✓ Restoring market discipline by removing blanket guarantee

IV. Regulatory Framework



Developments in 2001-1

- ✓ Introduction of concept of “consolidated own funds”
- ✓ Limitation of non-financial subsidiaries
- ✓ Inclusion of derivatives in definition of credit
- ✓ Adequate definition of risk group
- ✓ Limiting direct and indirect loans to related parties



IV. Regulatory Framework

Developments in 2001 - 2

- ✓ Tax deductibility of loan loss provisions
- ✓ Tax incentives to encourage increase in own funds
- ✓ Tax incentives to facilitate mergers and acquisitions of banks and their subsidiaries
- ✓ Remuneration of required reserves on TRL deposits
- ✓ Differential withholding tax rates on repo, TL and FX deposits with lower rates for longer maturity deposits



IV. Regulatory Framework

2002 targets

- ✓ Inclusion of market risks in calculation of capital adequacy ratio
(solo basis by January; consolidated basis by July 2002)
- ✓ Close monitoring of efficient functioning of internal control and risk management systems
- ✓ Inclusion of repo transactions on balance sheet beginning from February 1, 2002.
- ✓ Full adoption of new accounting system to enable banks to prepare balance sheets for end of 2002 in line with IAS
- ✓ Review tax regime for financial transactions to eliminate distortions



Resolution of Non-Performing Loans

- ✓ Establishment of “Asset Management Companies”
- ✓ Voluntary corporate debt restructuring (Istanbul Approach)
- ✓ Review of loan loss provisioning rules
- ✓ Improvement in legal framework for bankruptcy and collateral foreclosure

Ultimate Goal: A Sound and Competitive Turkish Banking Sector



Banking Sector in 2000

- ✓ Financing public sector deficits
- ✓ Systemic distortions created by state banks
- ✓ Group financing without sufficient capital provision
- ✓ Inadequate capital base
- ✓ Inadequate internal control, risk management and governance
- ✓ Lack of Transparency



Banking Sector in the Medium Term

- ✓ Financial intermediation
- ✓ Level playing field among banks
- ✓ Market discipline and transparency
- ✓ Strong corporate governance culture and adequate risk management
- ✓ Improved global competitiveness
- ✓ Efficient supervision