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PRESS RELEASE

In order to eliminate the instability that deepened in the aftermath of the November and February crises, the Turkish government prepared a strengthened economic program aimed at financial stabilisation, disinflation and improved governance and transparency. An important pillar of the program consists of a renewed effort to eliminate structural weaknesses that had not been fully tackled by the 2000 program, particularly by restructuring and rehabilitating the banking sector. The underlying strategy of the BRSA towards establishing a sound banking sector and the action plan for the restructuring are outlined in the "Banking Sector Restructuring Program".

The details of the Banking Sector Restructuring Program will be published, on May 16, 2001, on the website of the Banking Regulation and Supervision Agency (www.bddk.org.tr).

A brief summary of the program is provided below:

The main goals of the Banking Sector Restructuring Program

- A comprehensive financial restructuring and rehabilitation of the state banks;
- A rapid resolution of the banks under the administration of the Savings Deposit Insurance Fund (SDIF)
- Measures to facilitate the strengthening of the private banking system.

The two main pillars of the Bank Restructuring Program:

1. Financial and operational restructuring of the banking sector,
2. Further improvement of banking regulation and supervision in order to promote efficiency and competition in the banking sector.

1. Financial and Operational Restructuring

A summary of the measures regarding the financial and operational restructuring of the state and SDIF banks are listed below. A significant part of these measures are already undertaken and are expected to bring relief to the financial markets in the near future.

State Banks

- Elimination of the overnight liabilities to the parties other than the central bank,
- The securitization of the duty losses of the state banks and the provision of liquidity by the central bank through repurchase agreements,
- Scaling down of the state banks balance sheets as these repos are converted to outright purchases by June 2001,
- Elimination of duty losses; any further support provided via state banks will need to be budgeted and thus will not lead to duty losses at state banks,
- Recapitalisation of the state banks
- Establishment of a joint professional board to manage the state banks,
- Withdrawal of Emlak Bank's license and the transfer of its liabilities and assets to Ziraat Bank,
- The privatization of Vakifbank,
- Closure of inefficient branches and promotion of retirement to bring down personnel costs,
- Privatization of Ziraat and Halk bank within 3 years.

Banks Under Management of the Savings Deposits Insurance Fund(SDIF)

- Management of the SDIF banks by a joint board, and further consolidation of some SDIF banks under a second bridge bank,
- Elimination of the overnight liabilities to the parties other than the central bank,
- The securitization of the losses of the SDIF banks and the provision of liquidity by the central bank through repurchase agreements,
- Scaling down of the SDIF banks' balance sheets as these repos are converted to outright purchases by June 2001,
- Strengthening of the capital base and provision of foreign currency securities to SDIF banks in order to limit their foreign currency open position exposure,
- Rationalisation of the branch and personnel network,
- Sale of financial and non-financial subsidiaries, vehicles and moveable assets,
- Transfer of bad assets to the collection department of the SDIF,
- Arrangements to facilitate the collection of non-performing loans of the SDIF banks,
- The resolution of the SDIF banks by end-2001 via sale or liquidation.

In order to establish a sound banking system, an important element will be the strengthening of the banks' net worth and financial condition. BRSA, the Turkish Treasury and the Central Bank are working together to identify measures to eliminate the distortions that adversely affect the banking sector. In order to rapidly resolve the economic and financial crisis, it is of utmost importance that the real and the financial sector work in cooperation.

Strengthening of the financial health of the private banks

- The BRSA has introduced an enhanced monitoring system for all banks to make sure that unviable banks are not allowed to engage in unsound practices and that prompt corrective action is taken.

- BRSA has conducted a series of extensive discussions with individual private banks to identify their specific problems, the impact of the crisis and to formulate solutions.
- Based on these discussions, BRSA has received, on an individual bank basis, comprehensive Letters of Commitment regarding the bank's business plan, projections and if necessary the restructuring/rehabilitation strategy,
- The BRSA will actively follow up on the implementation of such plans through time-bound commitment letters. Relevant action will be taken against the banks that do not fulfil the performance criteria identified in the Letters of Commitment.
- In the context of these letters, the private banks have proposed a combination of measures including capital injection, mergers and acquisitions, rationalization of branch and personnel network, reduction in costs, restructuring of concentrated loans, sale of subsidiaries and real estate, and, partial or total sale of shares to domestic and foreign partners.
- BRSA has provided for the banks to include term profits as capital. By end-April 2001 the private banks committed to a capital injection of TRL 1.4 quadrillion; some of this injection has already taken place.

2. Legal and Institutional Changes

Amendments to the Banking Law

- The legal amendment defining "consolidated own funds" is introduced to allow consolidation of related parties lending and make the regulation fully consistent with EU standards.
- Banks' non-financial subsidiaries are limited to 15% of total net worth and the total sum of all such subsidiaries are limited to 60% of total net worth with a transition period until 2009.
- Forward contracts, option contracts and other similar derivative type operations will be included under the definition of "credit" to limit the overall exposure to individual and related counter parties.
- Corporate tax deductibility of specific provisions is clarified.

Regulations introduced by BRSA

- Communiqué on the "Accounting Practices" will be published on June 30, 2001 and will be effective as of January 1, 2002. The communiqué will aim to cover the inclusion of repo transactions on balance sheets and full adoption of international accounting standards.
- In order to prevent loan concentration, direct and related loans will be amalgamated in the calculation of lending limit to a group.
- The establishment of Banks' Internal Control and Risk Management system, which is scheduled to be effective as of January 1, 2002, will be closely monitored.
- Banks will be obliged to take into account market risks in capital adequacy the calculation on an individual basis by January 1, 2002, and on a consolidated basis by July 1, 2002.

- Banks will be encouraged to utilize independent external audit in assessing their internal control and risk management systems as well as credit portfolios and market risks.
- Off-shore banks owned by Turkish entities will be supervised in corporation with the host country supervisory agency.
- Turkish banks' foreign branches will be subject to on site supervision.

To promote efficiency and competition in the banking sector

Joint work is being conducted with the relevant authorities in the areas of:

- Review of the withholding tax rates and reserve requirements in order to promote long term savings,
- Extension of tax advantages as defined in law 4605 to the merger of banks' subsidiaries,
- The removal of the requirement of the two year holding period for property and subsidiaries to be eligible for corporate tax exemption and reduction of withholding tax on exempted income generated from the sales of these properties and subsidiaries.

We strongly believe that the implementation of the restructuring program will establish a sound Turkish banking sector that will promote economic growth and stability.