

Banking Sector Reform

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Outline of the Presentation

Overview

Banks under the Savings and Deposit Insurance Fund (SDIF)

Private Banks

Our Vision

About the BRSA

- ❑ Became fully operational in September 2000

- ❑ An autonomous body, managed by a seven-member board

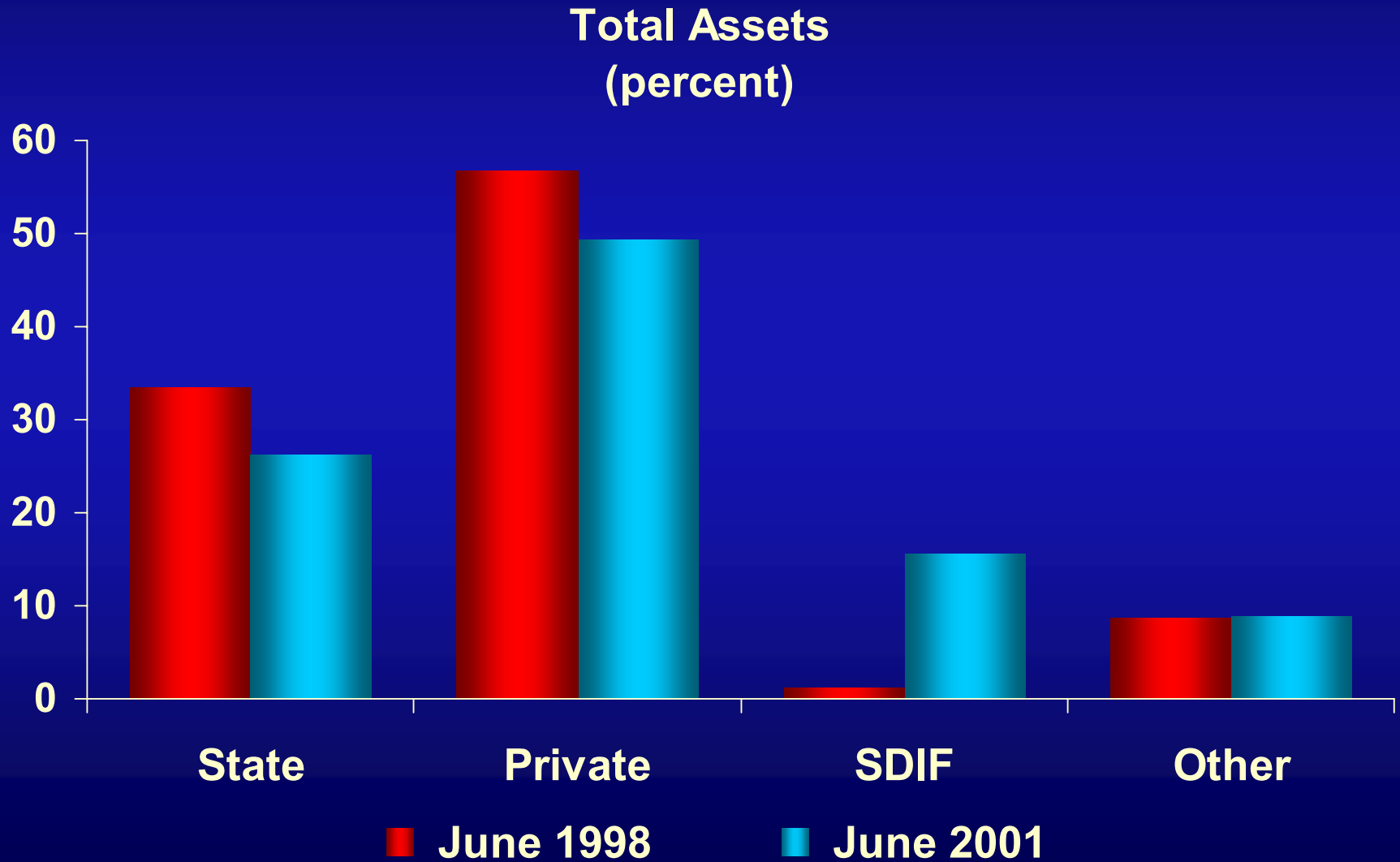
- ❑ Responsible for the administration of SDIF (Savings Deposit Insurance Fund) since August 2000

- ❑ Key Objectives:
 - Foster confidence in banks and contribute to the strengthening of the sector
 - Protect the depositor rights

Crisis Implications

- ❑ Sharp increase in funding costs due to the increase in interest rates and maturity mismatch**
- ❑ Capital losses due to a sharp mark-to-market decline in the value of government securities holdings**
- ❑ Capital losses due to a sharp change in foreign exchange rate and open foreign currency position**
- ❑ Potential build up of non-performing loans**

Before and After...



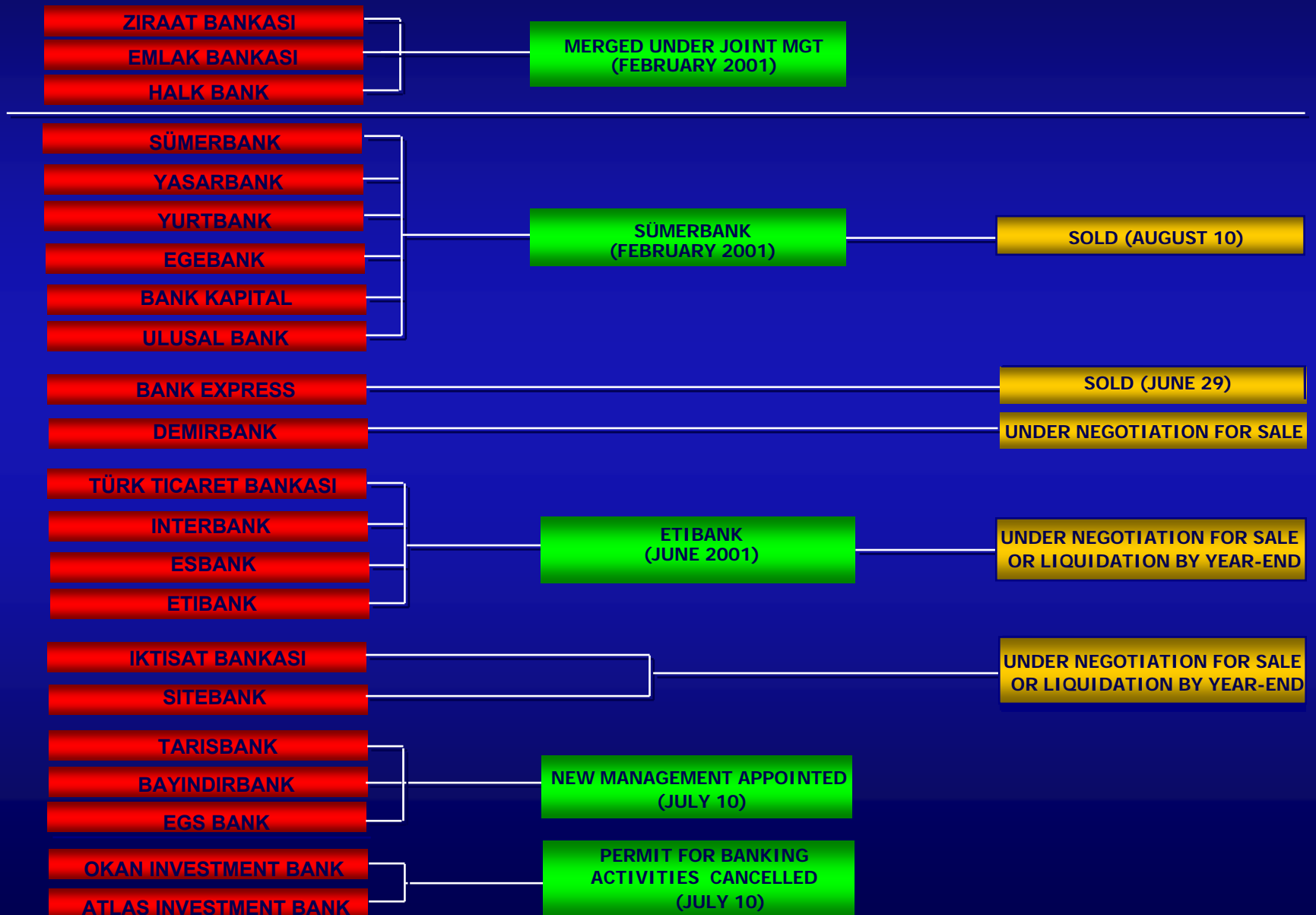
Bank Restructuring Strategy

Objective: to eliminate the distortions in the financial sector and to adopt regulations to promote an efficient, globally competitive and sound banking sector

Main pillars:

- financial and operational restructuring of state banks
- the resolution of SDIF banks
- the strengthening of the private banks
- strengthening the legal and regulatory environment of the banking sector

Restructuring State and SDIF Banks



SDIF: Resolution

SDIF Bank	Bidder	Deadline
Demirbank	HSBC	Sep 20
Etibank	Koc Group	Oct 1
İktisat	UniCredito	Oct 15
Sitebank	NovaBank	Oct 17
Tarişbank	will be put for sale once tranfer balance sheet is prepared	
Bayındırbank		
Kentbank		
EGS Bank		

SDIF: Financial Restructuring

- As of July 31, 2001, the SDIF banks have \$18.3bn total assets, \$15.9bn total liabilities and \$2.4 bn shareholders' equities**
- The capital base of the SDIF Banks has been strengthened by injection of government funds**
- Loss accumulation by the SDIF Banks has been halted. As of July 31, 2001, accumulated total loss is close to \$10bn**
- The net open position down to \$844mn from over \$5bn**

SDIF: Operational Restructuring

- ❑ Significant reductions in daily operational costs were achieved due to cuts in employment (35%) and in the number of branches (27%)**
- ❑ Bad assets of the SDIF banks are transferred to Collection Department of the SDIF.**
- ❑ All banks under SDIF to be sold or otherwise resolved by end-2001**
- ❑ Remaining deposits of the SDIF banks to be transferred to other banks with specifically designed instruments as assets**

Strengthening Private Banks

- Extensive discussions with individual private banks to identify their specific problems, the impact of the crisis and to formulate solutions
- Time-bound “Letters of Commitment” regarding the bank’s business plan, projections and if necessary the restructuring/rehabilitation strategy
- Banks realized a capital increase of USD 1.1bn of the total commitment of USD 1.4bn as of end-July
- All banks expected to meet prudential ratios by end-2001

Response to Crisis: Measures

- ❑ **Swap in June contributed to a virtual elimination of open positions**

- ❑ **Measures adopted in late July**
 - to reduce financial intermediation costs
 - to increase the attractiveness of TL deposits
 - to lengthen the maturity of savings deposits

- ❑ **The package included:**
 - Differential withholding tax rates with lower rates for longer maturity deposits
 - Remuneration of required reserves on TRL deposits
 - Legislative changes to facilitate mergers and acquisitions of banks and their subsidiaries

Wildcard: NPLs

- ❑ **Total credits / GDP = 13% for private banks; 25% for the sector**
- ❑ **Credits three times as large as banks' equity; and twice as large for the sector as a whole**
- ❑ **Gross NPL / L = 4.5% for private banks; 17.0% for banking sector**
- ❑ **London approach a la Turca: Banks Association and Chambers of Industry working on projects to enhance the repayment capacity of the corporate sector**

Our Vision

- ❑ **To establish a sound Turkish banking sector with a total of at least USD 500bn of assets within a five-year period**
- ❑ **A banking sector with a strong corporate governance culture and adequate risk management practices**
- ❑ **Regulation on Internal Control and Risk Management Systems of the Banks, effective Jan 02**
 - limitation of non-financial subsidiaries
 - inclusion of derivatives in the definition of credit
 - tax deductibility of loan loss provisions
 - full adoption of international accounting standards

Our Vision (2)

- ❑ High quality and transparent off-site and on-site supervision by BRSA
- ❑ Dissemination of information about BRSA actions and the banking sector through press releases and comprehensive reports published at our website (www.bddk.org.tr).
- ❑ Proper working of the external audit process