



Vulnerability Assessment of the Turkish Banking Sector:

In the aftermath of the crisis and restructuring

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Outline of the Presentation

- Brief overview of the crisis and restructuring program
- Vulnerability assessment
 - FX risk
 - Credit risk
 - Interest rate risk
 - Liquidity risk
- Absorption power against potential risks
 - Capital adequacy
 - Profitability
- Current agenda and challenges ahead
- Some remarks on the Imarbank case

Banking Sector Restructuring Program (May, 2001)



State Bank Reform



Exit and Resolution of
Insolvent Banks



Strengthening
of the
Private Banks



Improving the
Regulatory and
Supervisory
Framework

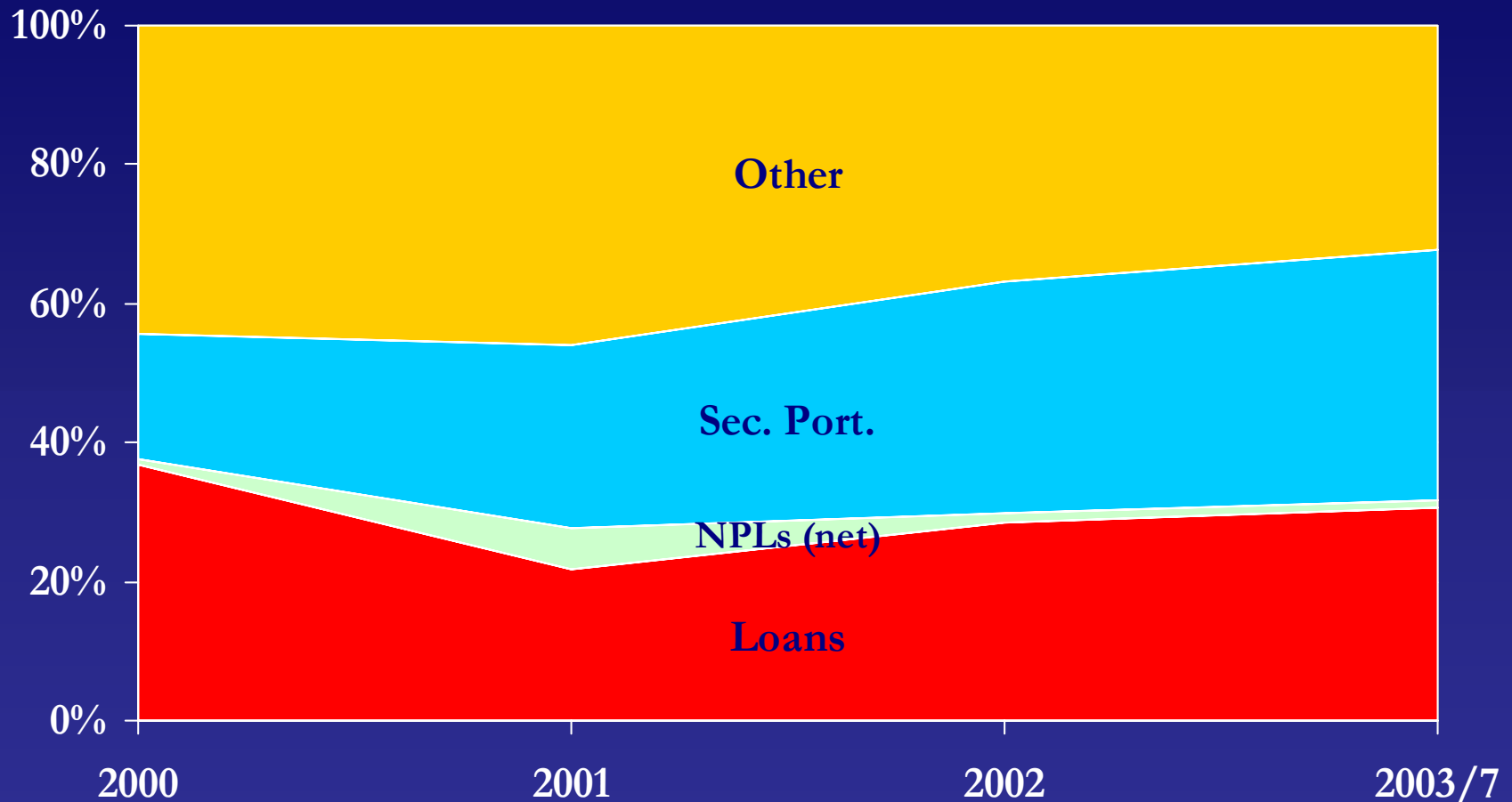
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- A large white bracket that spans the width of the four components above, grouping them together.
- Consolidation in the banking sector
 - Increase in mergers and acquisitions
 - Decline in the share of the State and the SDIF banks
 - Removal of distortionary effects of insolvent and state banks on interest rates
 - Reduction of financial risks to manageable levels
 - Strengthened capital structure
 - Improved transparency in financial statements
 - Improved regulatory and supervisory framework

Overview of the Turkish Banking Sector

Billion USD	Dec. 2001	Dec. 2002	July 2003	Sept 19 2003(**)
Total Assets	117.7	130.1	151.4	
- Loans	23.4	30.1	37.0	41.5
- NPLs (Net)	5.1	2.3	1.9	1.9
- Securities Portfolio	41.2	52.7	66.3	69.2
- Others	48.0	45.0	46.2	-
Total Liabilities	117.7	130.1	151.4	-
- Deposits	76.6	84.4	95.4	100.8
- Own Funds	10.3	15.4	21.7	-
- Others	30.8	30.3	34.3	-
Number of banks	61	54	51	51
Number of personnel	138.962	124.009	123.770	
Number of branches	6.885	6.216	6.169	

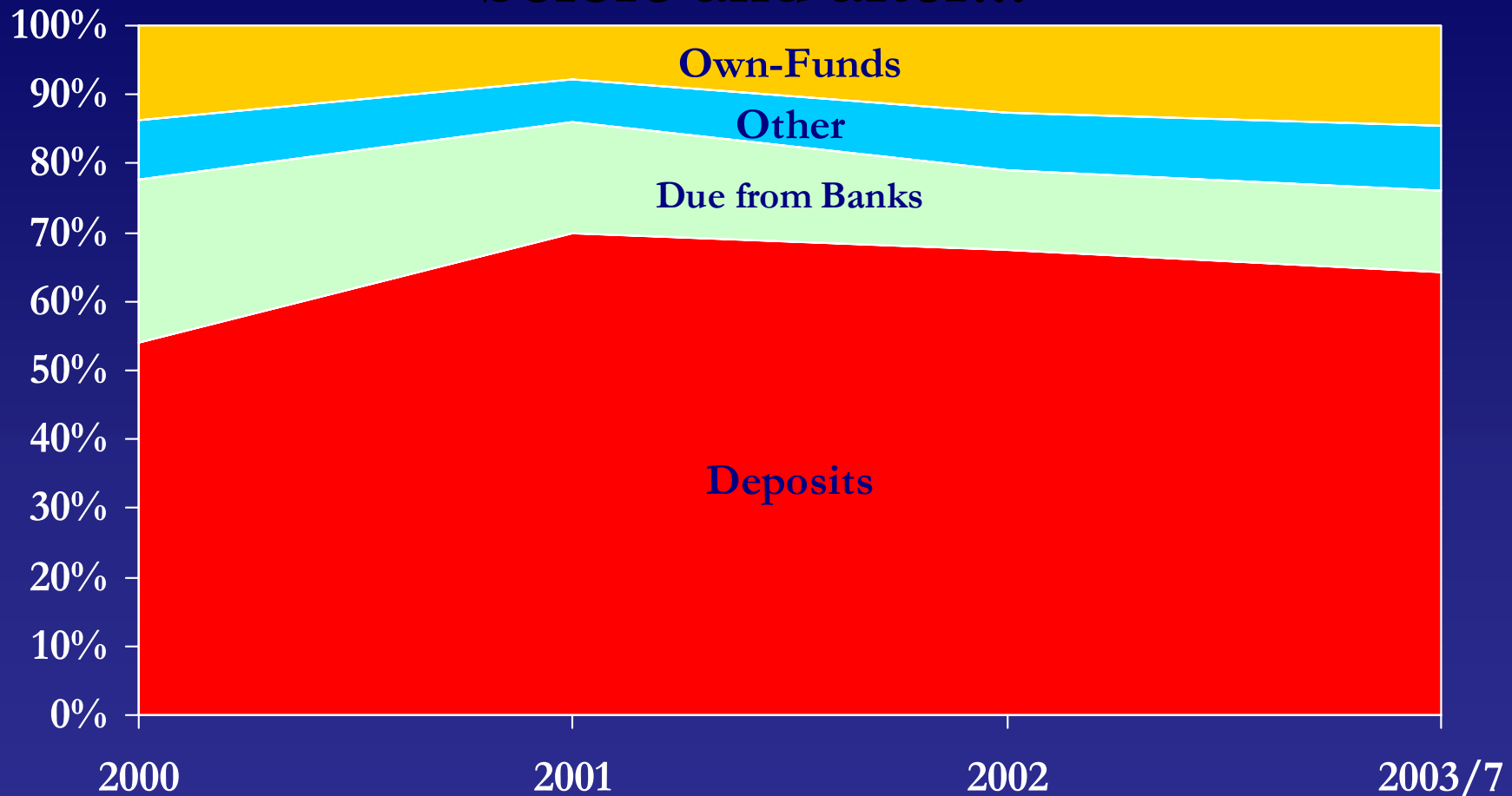
(*) Excl. Imarbank and Adabank (**) Daily monitoring system

Asset structure of the private banks before and after...



Million USD	2000	2001	2002	2003 July
Total Assets of Prv. Banks	71,834	66,775	73,093	84,341

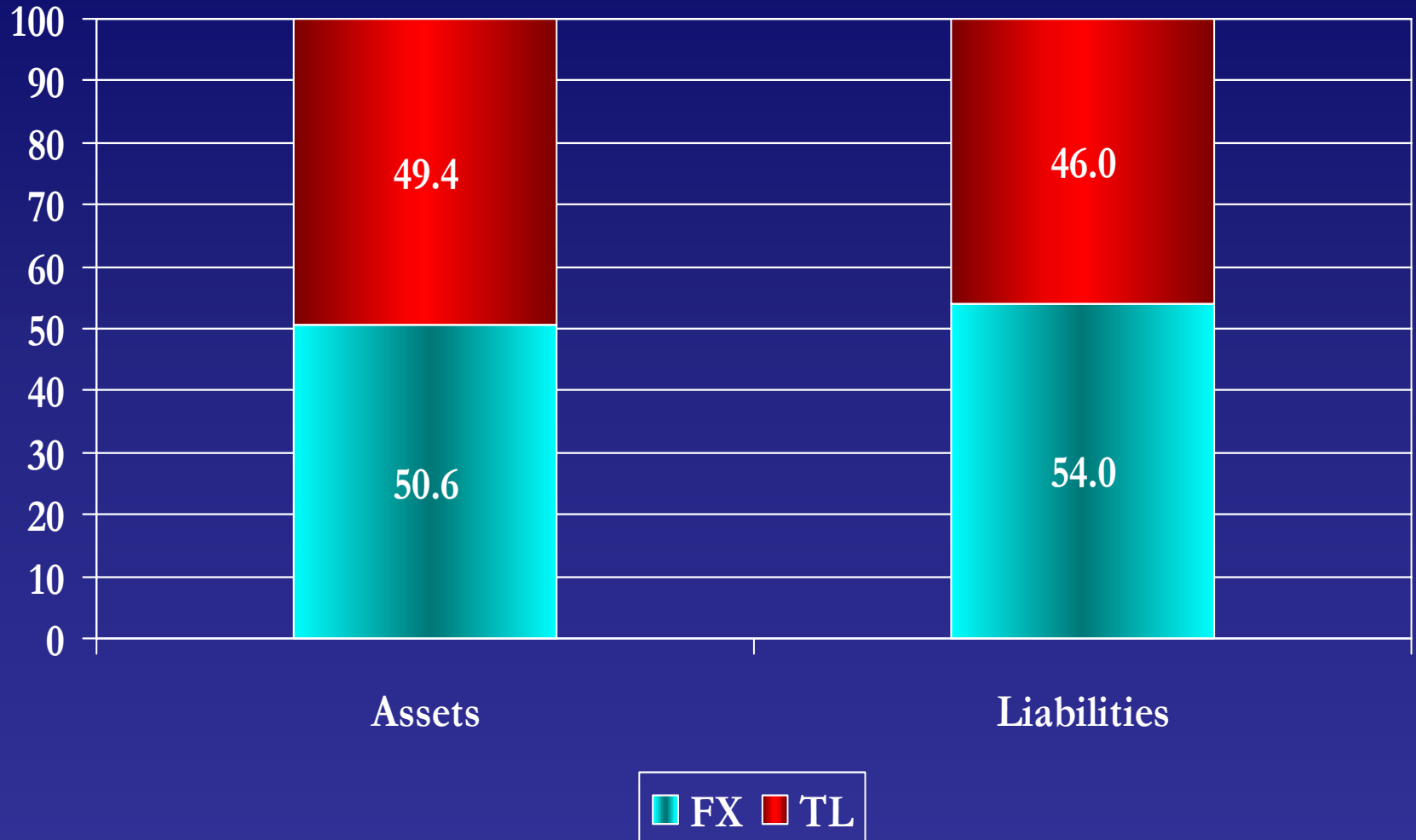
Liability structure of the private banks before and after...



Million USD	2000	2001	2002	2003 July
Total Liabilities of Prv. Banks	71,834	66,755	73,093	84,341

Vulnerability Assessment: FX Risk (1)

TL / FX composition of the private banks' balance sheet (As of July 2003)



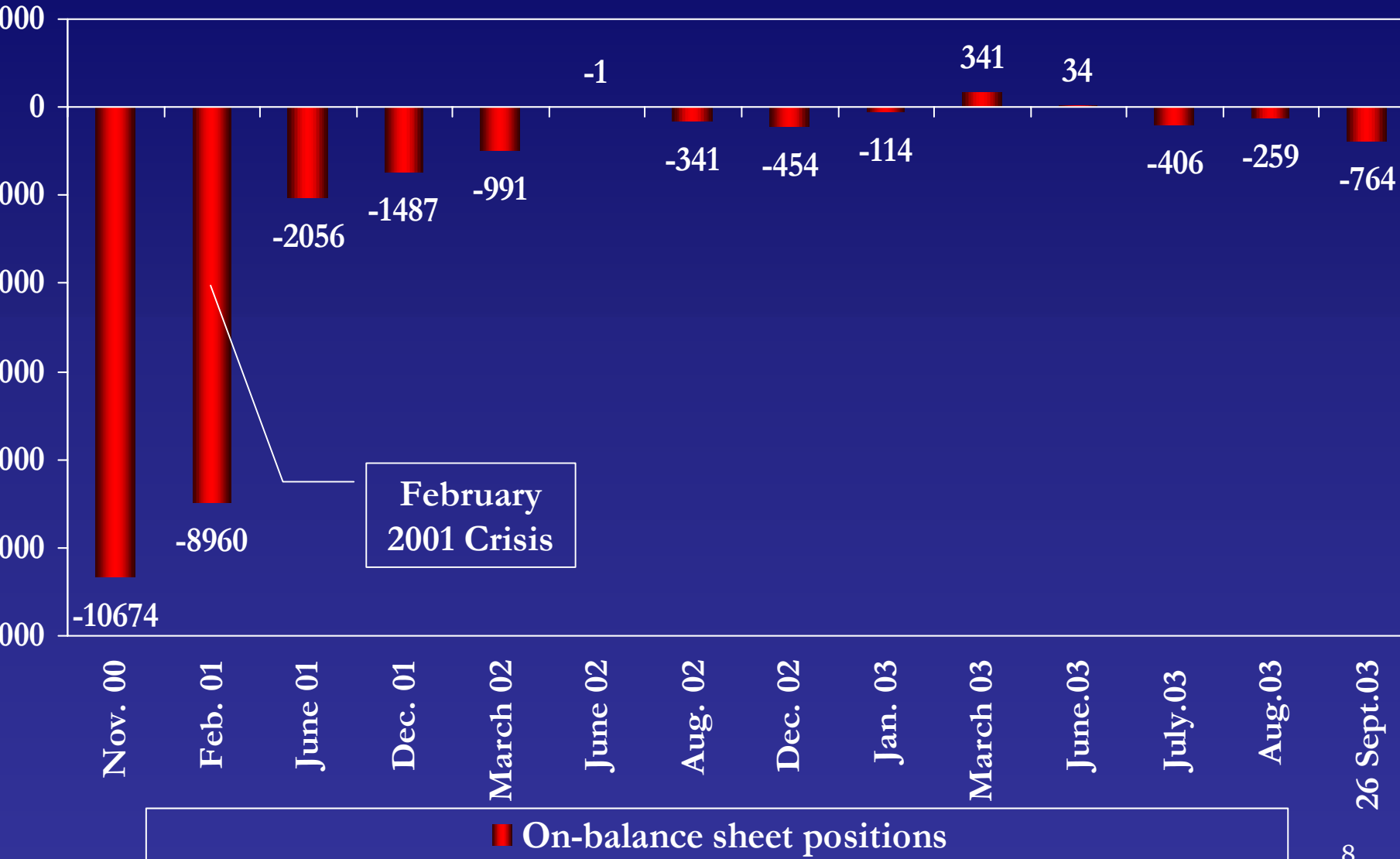
Note: FX Asset include FX-indexed securities

Vulnerability Assessment: FX Risk (2)

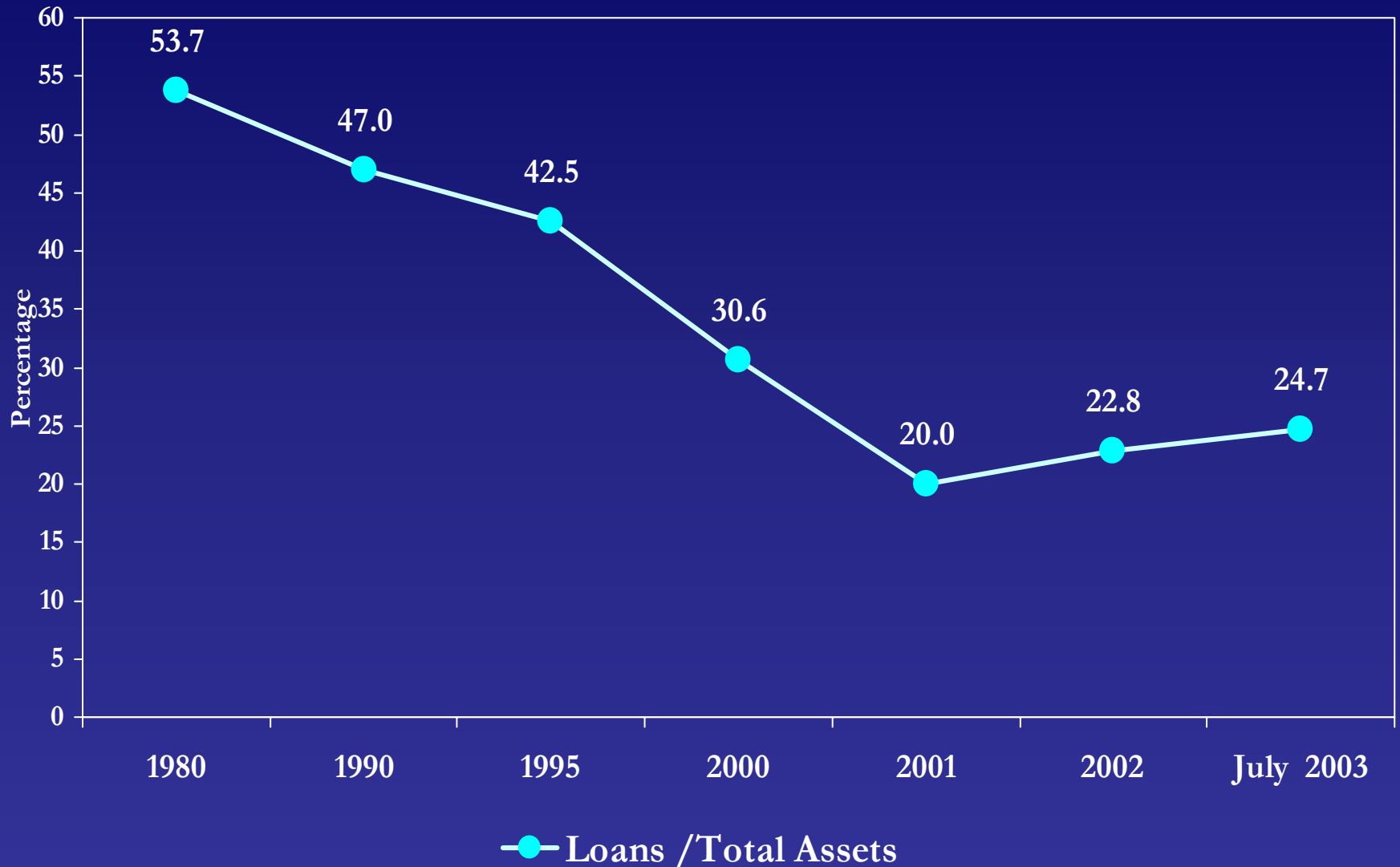
Million USD	On-Balance Sheet Foreign Currency Position (Including FX indexed Positions)					
	2000 Nov.	2001 Dec.	2002 Dec.	2003 March	2003 June	Sept. 26 2003
State Banks	-184	-130	194	242	292	233
Private Banks	-10.674	-1.486	-454	341	34	-764
SDIF Banks	-5.177	-441	-367	-63	-99	-19
Foreign Banks	-1.966	108	42	-19	182	-158
Investment Banks	-441	40	34	-15	102	-46
On-Balance Sheet Position	-18.442	-1.909	-551	486	511	-753
Total Net Position	-6.133	-450	-449	23	519	-328
-Private	-954	110	-335	289	-57	--659
Net Position/Own Funds	-70.7	-1.7	-4.3	5.3	2.9	-1.7
-Private	-11.6	2.7	-6.4	5.9	-0.6	-6.0

Vulnerability Assessment: FX Risk (3)

Large FX open positions of private banks diminished.



Vulnerability Assessment: Credit Risk (1)



Vulnerability Assessment: Credit Risk (2)

	NPL Ratio (%)			Provision/NPL (%)		
	2001 Dec.	2002 Dec.	2003 Aug.	2001 Dec.	2002 Dec.	2003 Aug.
State Banks	37.3	37.4	32.9	62.7	73.9	81.5
Private Banks	27.6	8.9	9.4	31.5	53.0	55.3
Foreign Banks	5.5	4.9	5.1	75.6	77.7	78.5
Investment Banks	10.7	4.0	4.2	82.3	64.2	87.9
SDIF banks	67.3	69.4	62.1	55.9	60.5	73.1
TOTAL	29.3	17.5	16.3	47.1	64.2	71.3

Vulnerability Assessment: Credit Risk (3)

Voluntary debt restructuring(Istanbul Approach), as of September 2003

Applications	Number of Firms Applied	Total debt applied for restructuring (Million USD)
a) Large Scale Firms	(32 Groups) 208	5,415.2
b) Small Scale Firms	100	672.7
Total	308	6,087.9
Signed Agreements	Number of firms Agreed	Total restructured Debt
a) Large Scale Firms	(20 Groups) 157	4,561.1
b) Small Scale Firms	69	555.7
Total	226	5,116.9
Realizations	Realization rate (%)	Realization rate (%)
a) Large Scale Firms	75.5	84.2
b) Small Scale Firms	69.0	82.2
Total	73.4	84.2

Vulnerability Assessment: Interest Rate Risk (1)

Securities Portfolios



Vulnerability Assessment: Interest Rate Risk (2)

Average Yield on Auctioned Government Bonds



Most traded Gov. Bond's interest rate on the secondary market as of September 2003

Vulnerability Assessment: Interest Rate Risk (3)

Domestic debt stock by interest rate structure (as of August 2003)

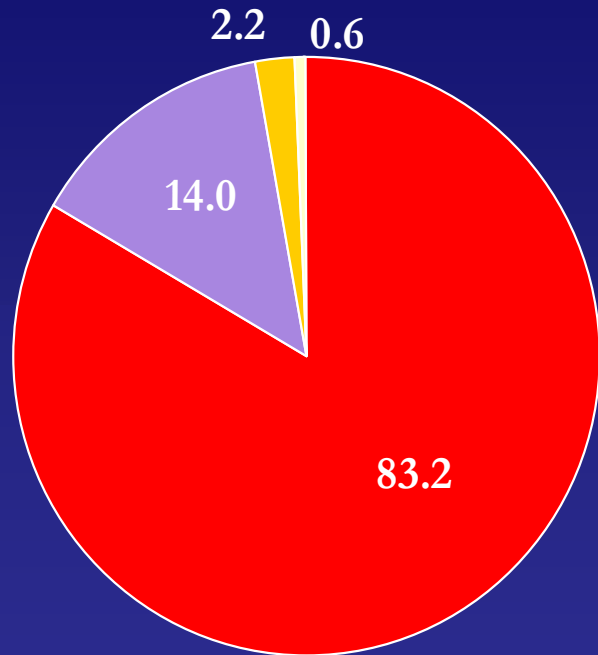
Fixed rate	34.6
Floating rate	39.8
FX	25.6
- FX denominated	15.5
- FX indexed	10.1
Total	100.0
Total (Trillion TL)	178,906
Total (Billion USD)	127.7

Vulnerability Assessment: Interest Rate Risk (4)

Composition of the securities portfolio	2000	2001	2002	2003 July
Trading Portfolio	11,995	16,833	38,499	46,080
Non-Trading Portfolio	6,468	42,456	47,606	48,230
TOTAL (Trillion TL)	18,463	59,288	86,105	94,320
TOTAL-Million USD	27,485	41,185	52,680	66,340
Trading Portf./ T. Sec. Portfolio (%)	65.0	28.4	44.7	48.0

Vulnerability Assessment: Liquidity Risk (1)

Composition of Deposits by Maturity



■ Less than 3 months

■ 3-6 Months

■ 1 year

■ 1+ year

The average maturity for TL deposits is around 83 days (87 days for FX deposits) as of August 2003, which was around 62 days February 2001.

83.2% of deposits have a maturity of less than 3 months (78 bl USD).

Short-term assets amount for around 11% of total assets (around 17 billion USD).

Vulnerability Assessment: Liquidity Risk (2)

- Market still operates on excess liquidity
- Active government bond secondary market
- Monetary policy framework allows Central Bank to be the “Lender of Last Resort”
- CBRT provides intraday limits against government bonds placed as collateral.
- Moreover, a buy-back facility can be used in case of a liquidity shortage.

Capital buffer for potential risks

Capital Adequacy Ratio

CAR (%)	2000	2001	2002	2003 July	2003 Aug.(*)
State Banks	7.7	56.6	50.2	59.8	61.4
Private Banks	15.3	14.9	19.6	22.3	22.3
SDIF Banks	-62.3	-10.7	-7.5	-9.6	-10.2
Foreign Banks	21.9	44.0	32.8	32.6	32.0
Investment Banks	32.5	41.6	58.4	72.8	74.0
TOTAL	9.3	21.4	25.3	29.6	30.0
TOTAL (Excluding SDIF Banks)	15.2	22.6	27.3	31.4	31.7

(*). Provisional

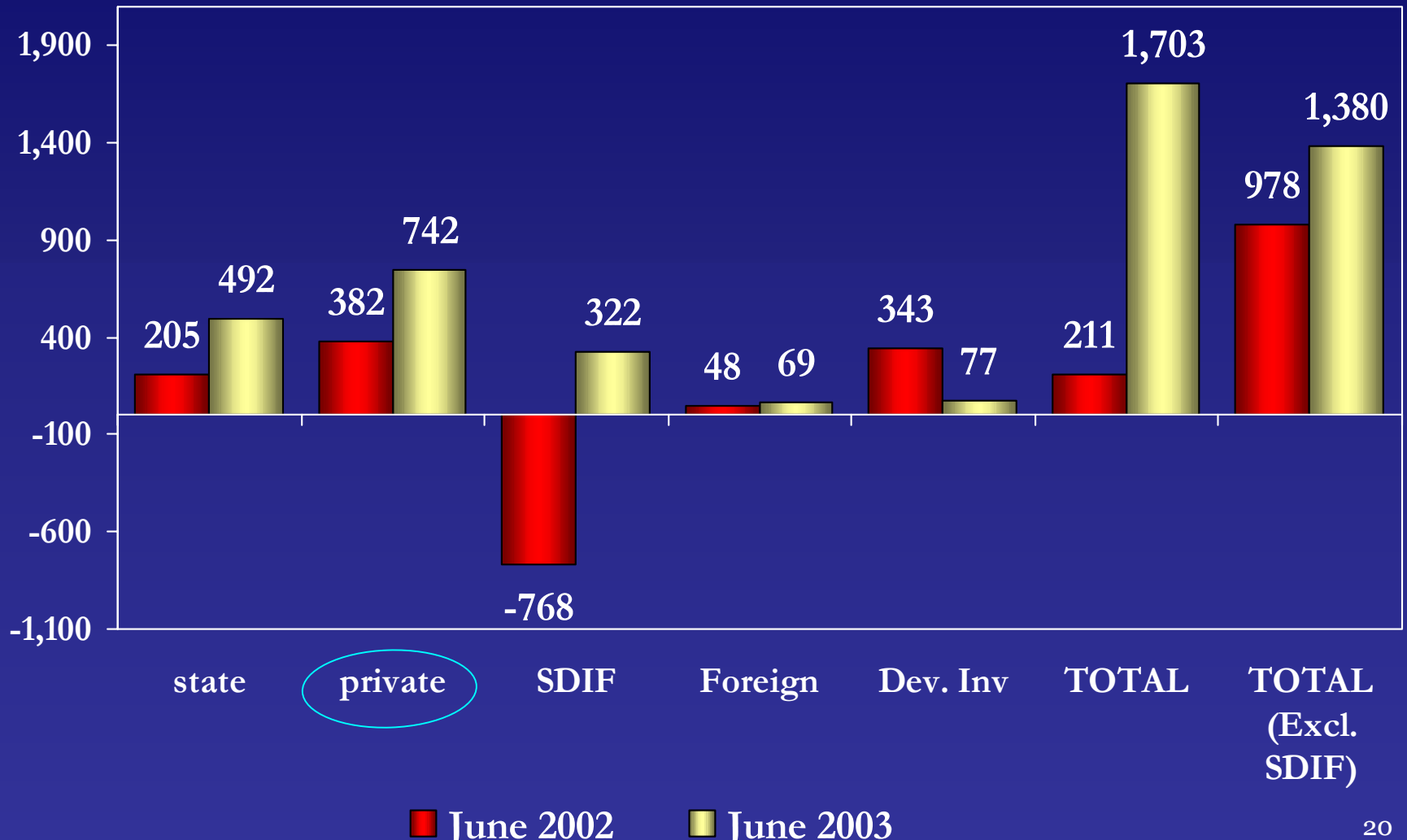
Profitability to sustain capital adequacy

Net Profit / Loss

Million USD	2000 Dec.	2001 Dec.	2002 June	2002 Dec.	2003 June
State Banks	-276	-1,111	206	646	493
Private Banks	553	-5,128	382	1,487	742
SDIF Banks	-4,927	-1,873	-768	-1,026	322
Foreign Banks	91	20	48	54	69
Investment Banks	320	149	343	284	77
TOTAL	-4.239	-8.241	211	1,443	1,703
TOTAL (Excl. SDIF)	688	-6,368	978	2,468	1,380

The profitability of the banking sector improved compared to the same period of the previous year.

Profit (loss) for the Period (Million USD)



Issues to be addressed and new challenges

- Low level of intermediation, rationalization of intermediation costs
- Lifting of full guarantee, shifting to limited guarantee; improved market discipline
- Low level of free capital
- Connected lending limits
- Maturity mismatch and short-termism
- Risk based supervision, developing strategies to adapt Basel II
- Establishment of secondary markets for distressed debt, and incentives for rapid resolution of NPLs

Imarbank: Is it an example for the rest of the system?

- ❑ Imarbank is an unique case with;
 - ❑ Large discrepancy between deposits registered in bank's book and deposited by the public
 - ❑ Illegal bond operations
 - ❑ Off-shore deposits transformed to domestic deposits
- ❑ Big difference between reported and non-reported deposit amounts.
- ❑ Imarbank type of financial scandals have been observed internationally, both in developed and developing countries...
- ❑ Some of the major frauds in the last 15 years:
 - ❑ BCCI (1991) Barings (1995)
 - ❑ Allied Irish Bank (2002) Baninter (2003)
- ❑ Hence, Imarbank cannot be an representative example for the Turkish banking system, It must be dealt and analyzed individually.

Thank you ...