



SDIF BANK RESOLUTION EXPERIENCE

**Savings Deposit Insurance Fund (SDIF)
TURKEY
February 16, 2011**

Presentation Outline



- I. SDIF Role in Bank Resolution**
- II. SDIF Bank Resolution Activities & Lessons Learnt**
- III. SDIF New Resolution Process**
- IV. SDIF Bank Failure Action Plan**
- V. Conclusion**



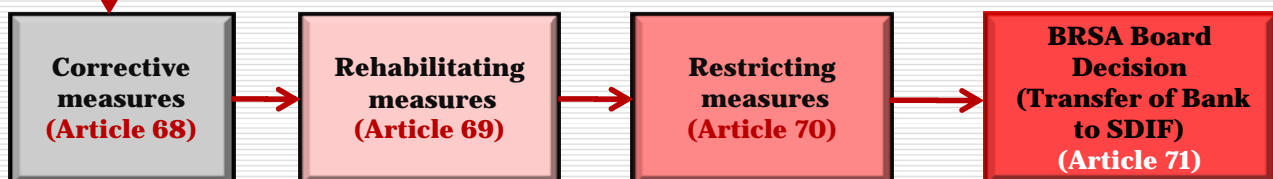
I.

ROLE OF SDIF IN BANK RESOLUTION

BRSA Measures for a Failing Bank

As a result of BRSA Supervision, if it is determined that
(Article 67)

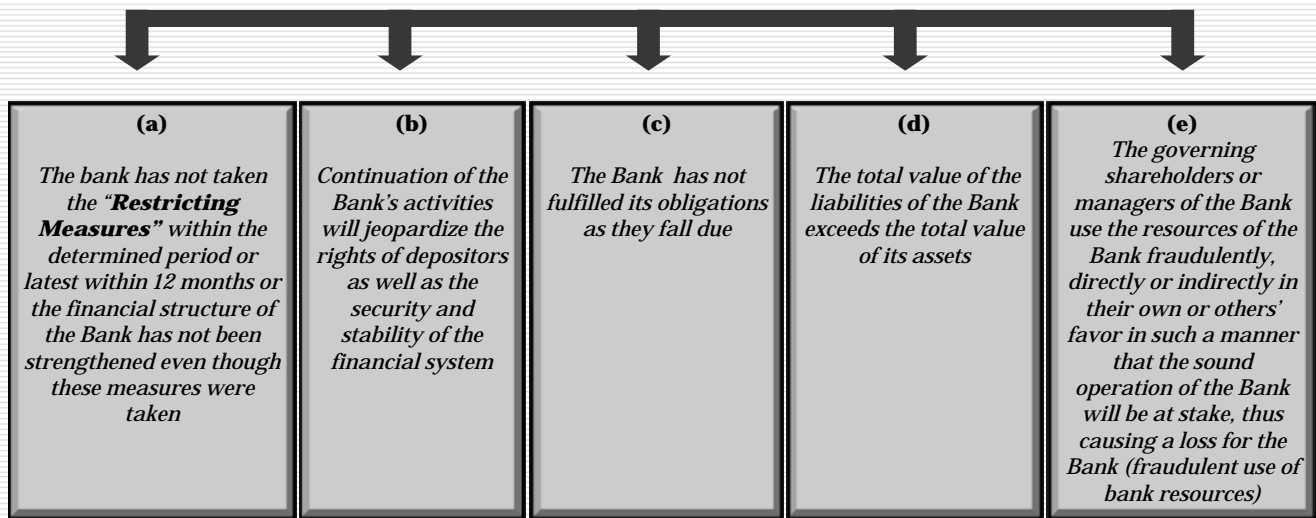
- **Maturity Gap** between assets and liabilities,
- **Incompliance** with the provisions pertaining to liquidity,
- **Insufficient** profitability to reliably perform its activities,
- **Insufficient** Capital (*Inadequate Capital Ratio*),
- **Deterioration** in the quality of the assets that will weaken the financial structure,
- **Violation** of Banking Law and the applicable regulations,
- **Inefficient** internal audit, internal control and risk management systems.



Transfer of Failed Banks to SDIF / Article 71



As a result of BRSA supervision of a Bank, if it is determined that;

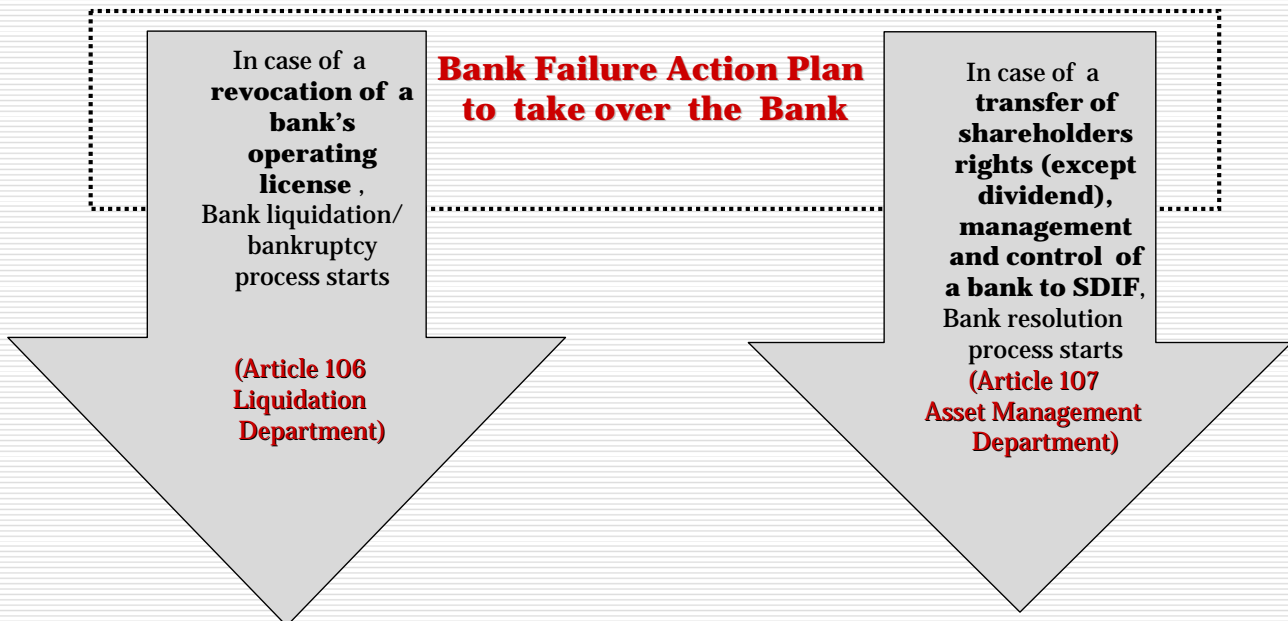


one or more of the above mentioned conditions have occurred, BRSA shall transfer the Bank to SDIF either by revoking the Bank's operating license, or by transferring the shareholders rights(except dividend).

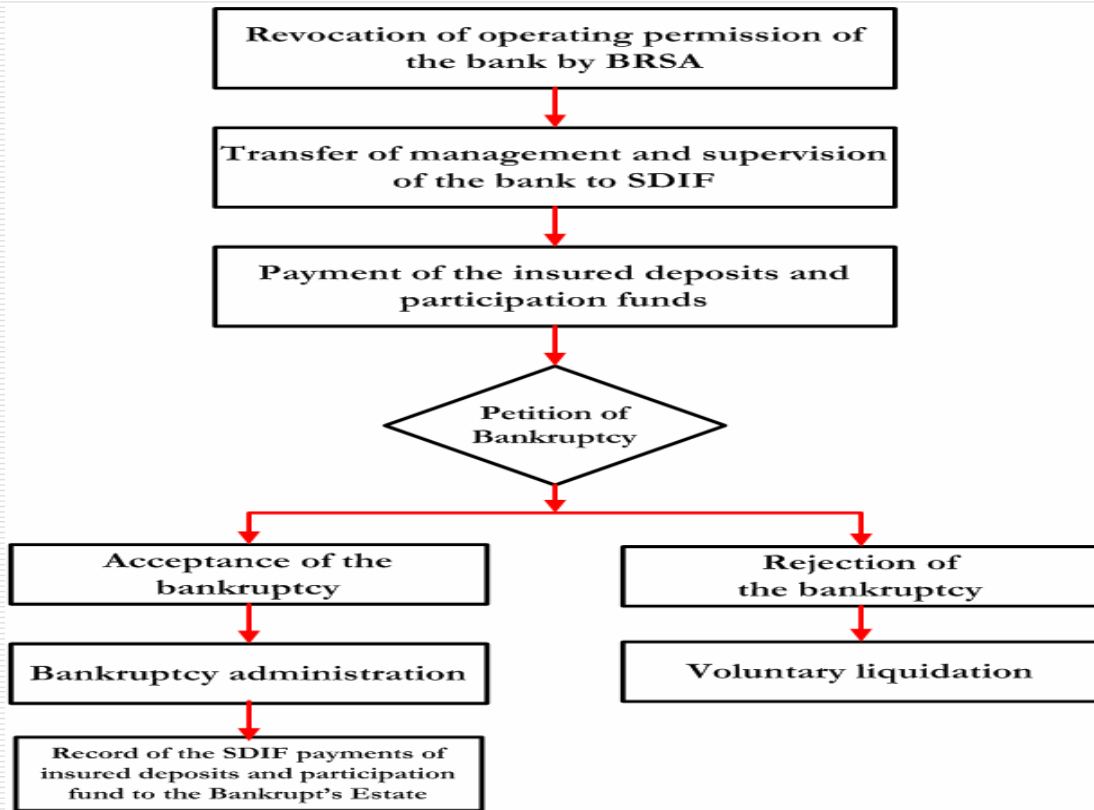
SDIF Processes After Transfer / Articles 106 & 107



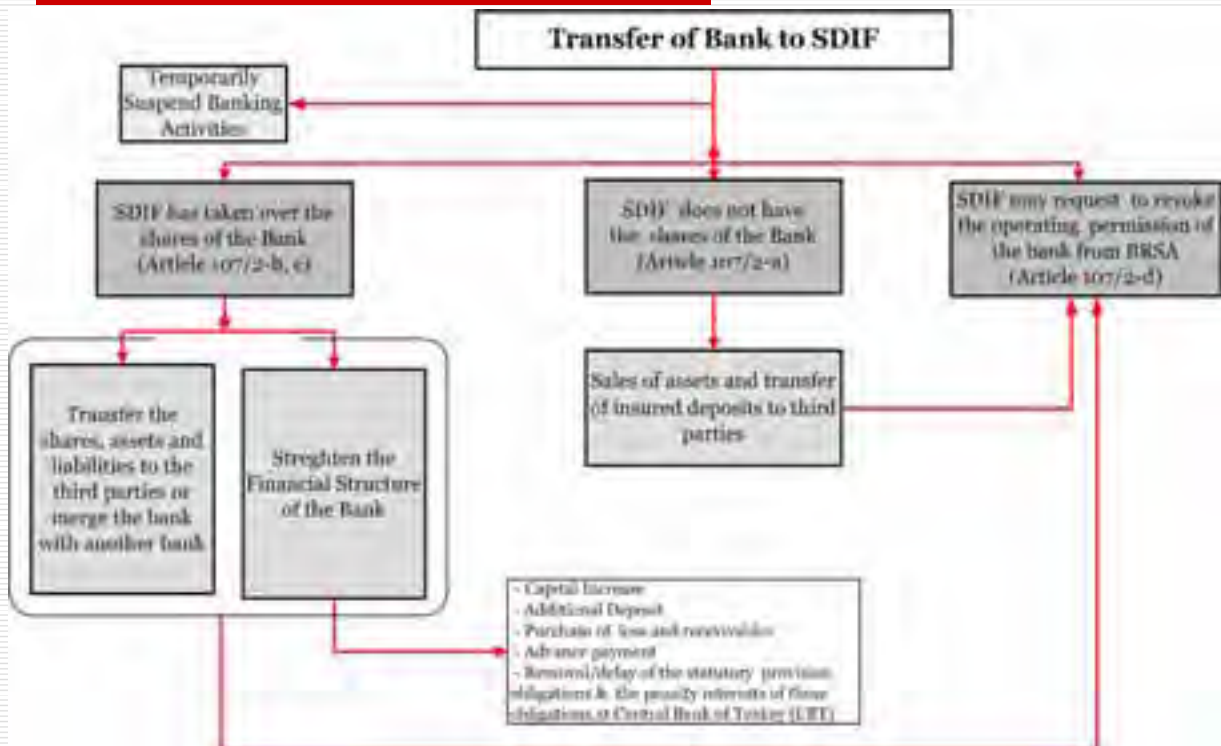
BRSA Board Decision to transfer the Bank to SDIF (Article 71)



Bank Liquidation/Bankruptcy Process / Article 106



Bank Resolution Process/ Article 107



The Resolution Process needs to be completed within 12 months.



- ❑ In the resolution process, SDIF has to use its authority in line with the principles of ensuring cost efficiency and protecting the confidence and financial stability of the system.
- ❑ SDIF should complete the resolution process of the banks whose management and control have been transferred to the Fund within 9+3 months.
- ❑ In order to provide financial assistance to a bank SDIF has to own majority or all of the shares of the bank.
- ❑ The upper limit of the financial assistance that SDIF may provide is settled as the amount of insured deposits of the related bank.



II. SDIF BANK RESOLUTION EXPERIENCE & LESSONS LEARNT

Reasons for the 2000-2001 Banking Crisis



External

- ❑ Political and economic instability
- ❑ High profile close relationships among politicians, bankers, media owners and bureaucrats
- ❑ Contingent effects of 1998 Russian crisis and 2001 Argentina crisis

Internal

- ❑ Weaknesses in regulatory and supervisory framework
- ❑ During 1990's banking licenses granted without considering fit and proper criteria
- ❑ High level of connected lending and misuse of funds
- ❑ Undercapitalization and excessive risk taking

Outcomes of 2000-2001 Crisis



- ❑ Approximately **50.000 bank employees** lost their jobs due to the failure of banks within 3 years.
- ❑ Restructuring program applied for the banking industry.
- ❑ Cost of the bank failures to Turkish tax payers reached to **USD 28 billions**.
- ❑ In order to support confidence in the banking industry, government extended its blanket guarantee to off-balance sheet liabilities in addition to on-balance sheet liabilities
- ❑ Due to the limit of “net domestic assets” in the standby agreement with the IMF, Central Bank of Turkey could not perform its lender of last resort function although banks were really in need of liquidity.
- ❑ The crisis did not have a spillover effect internationally, because **SDIF** paid back about **USD 5 billions** of loans to international creditors .

Banks Transferred to SDIF: Main Indicators



Date of Transfer	Number of Banks	Total Assets (USD millions)	Deposits (USD millions)	Market Share (Total Assets)	Market Share (Deposits)	Number of Depositors
1994	3	3.050	2.165	%4,1	%6,7	55.137
1997	1	1.745	1.446	%1,86	%2,38	1.028.677
1998	1	826	487	%0,70	%0,63	91.061
1999-2001	18	25.456	19.101	19,07%	21,75%	6.871.177
2002	1	6.661	4.924	%5,16	%5,99	993.893
2003	1	5.935	6.059	%3,44	%5,49	398.568
Total	25	43.673	34.182	%34,33	%42,94	9.438.513

- After the crisis of **1994** a more severe crisis was experienced in **2000-2001** and **18 banks** failed with a market share of **22 percent**.
- During the resolution process of **25 banks**, SDIF covered losses of more than **9 million depositors** and guaranteed **USD 34 billions** of deposits.
- Government extended its **blanket guarantee** to **off-balance sheet liabilities** in addition to on-balance sheet liabilities.

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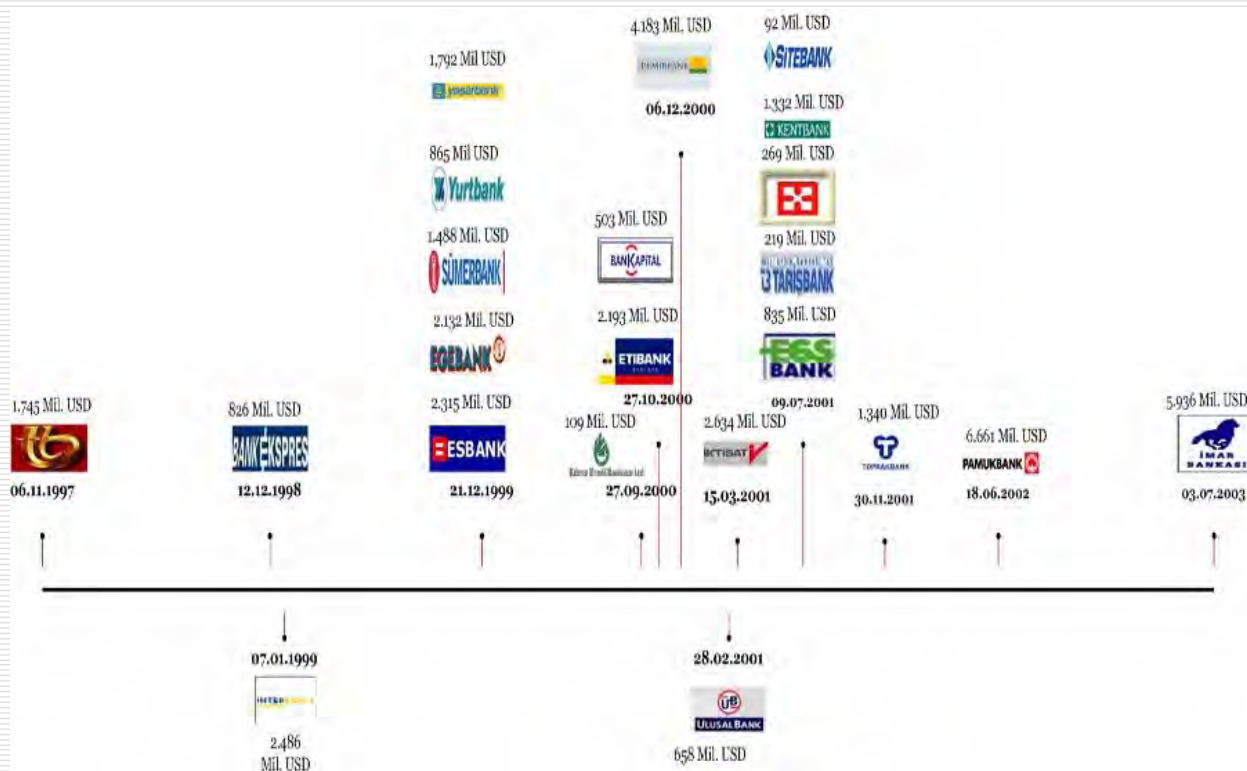
Resolution with Figures



Method	Number of Banks
Sold	4
Merged and Sold	6
Transferred to a Public Bank	1
Merged under the Bad Bank	8
Liquidation (Ongoing Process)	6
TOTAL	25

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Time Table for Failures



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SDIF's Bank Resolution Approach



- ❑ To be empowered to **use stricter laws** developed for **public claims** such as taxes-other than ordinary legal framework-to cover losses of failed banks caused **due to misused funds**.
- ❑ To have the authority to **reschedule the debts** with any debtor.
- ❑ To offer **special discount programs** in order to accelerate collection processes.
- ❑ To **sell non-performing loan portfolios** and all other assets.
- ❑ To **take over the management & control of corporations** due to the existence of connection with majority shareholders and their default of payments.
- ❑ To **sell the assets of the corporations** including all business contracts and client base **in the form of an economic unity** rather than the shares of the corporation.

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SDIF Resolution Techniques

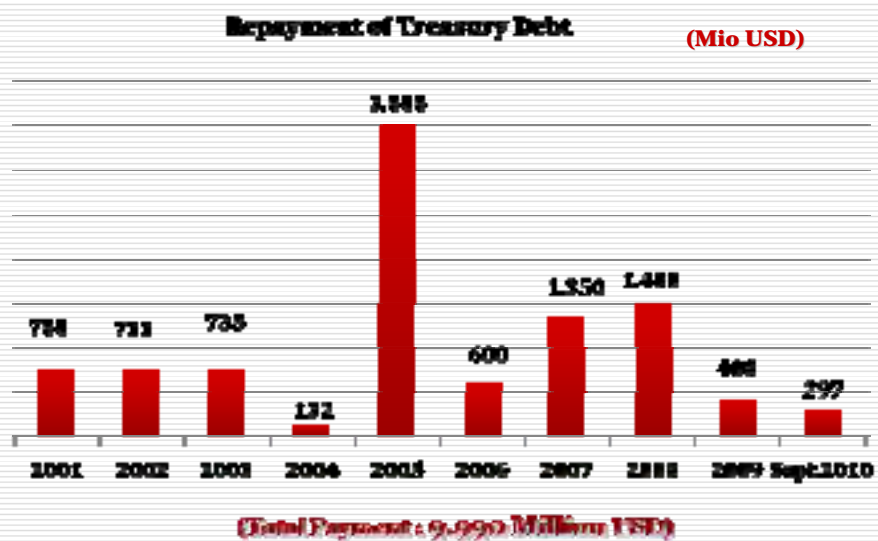
Methods		# of Banks
Without transferring Bank to SDIF	Open Bank Assistance	1
Full Resolution	Sales of Bank Shares	10
	Acquisition	1
	Merger	8
	Winding Up	1
	Liquidation	5
Assets Taken Over by SDIF	Majority Shareholders	<ul style="list-style-type: none"> ☐ Legal process ☐ Rescheduling ☐ Special Collection Regime (15/7a, 15/7b and CEI Sales) 17
	Corporate & Individual NPLs	<ul style="list-style-type: none"> ☐ Legal process ☐ Rescheduling ☐ Asset Sales (Direct/Rev.Sharing) 20
	Real Estates & Movables	Asset Sales 20
	Subsidiaries	<ul style="list-style-type: none"> ☐ Rehabilitation ☐ Mergers and Acquisition ☐ Sales ☐ Liquidation 20
Other	Sales of Deposits	3
	Sales of Branches	5



Resolution Cost: Borrowing & Repayment of TBills

(As of September 30, 2010)

BORROWING AMOUNTS (As of Borrowing Date)	
Year	Mio USD
2000	5.687
2001	11.879
2002	1.662
2003	5.070
2004	1.579
TOTAL	25.877



As of November 2008, the debt as **USD 78,4 billion** (=93,3 billion TRY) of SDIF to the Treasury (principal+interest) has been cancelled within the scope of the "Law on the Regulation of the Debt Management and Public Financing".

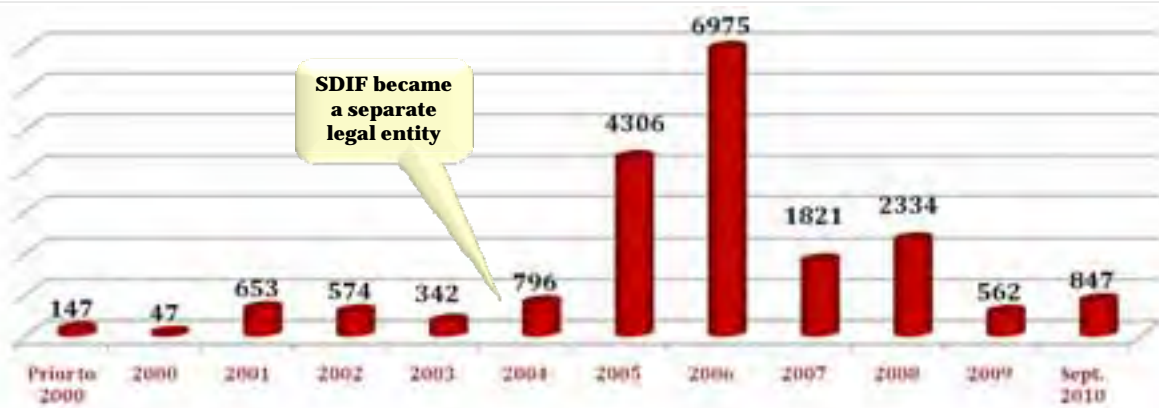
The expected amount to be paid to the Treasury up to **2018** is approximately **USD 2.4 billion**.

Resolution Income: Collections in Terms of Cash



As of September, 2010

Million USD



Cumulative Resolution Income



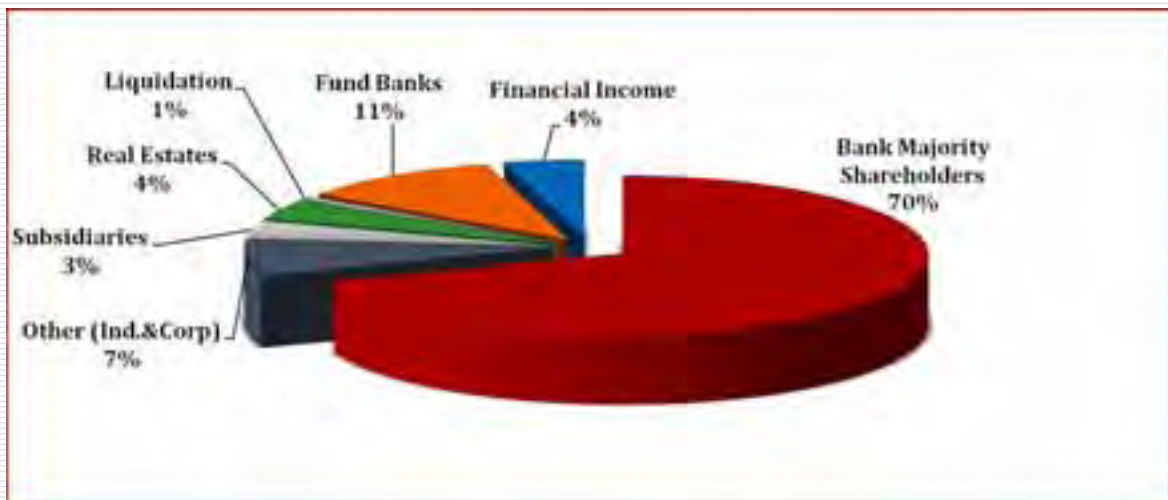
In the process of resolutions SDIF collected **USD 19.5 billions** as of **September 30, 2010**. **SDIF** collected **USD 17,6 billions** of that amount **since 2004**.

Total Resolution Income (Cash) Distribution



(As of 30.09.2010)

(Total : 19.504 Million USD)



III.

SDIF NEW RESOLUTION PROCESS

SDIF's New Resolution Approach

❑ **Main objective of SDIF** for resolution process is;

- To provide **maximum contribution** to the **stability** of the **financial system**
- To **increase** the **effectiveness** and **readiness of resolution** processes

❑ The **Banking Law 5411** covers the **major requirements** of the Fund in bank resolution and bank liquidation operations **due to the enhancements made** in the law with respect to the experiences the Fund gained due to the 2000-2001 financial crisis of Turkey.

❑ The Fund has to complete the resolution process of the banks whose management and control have been transferred to the Fund **within 9+3 months** pursuant to the Banking Law 5411 and in line with the **principle of ensuring cost efficiency**.

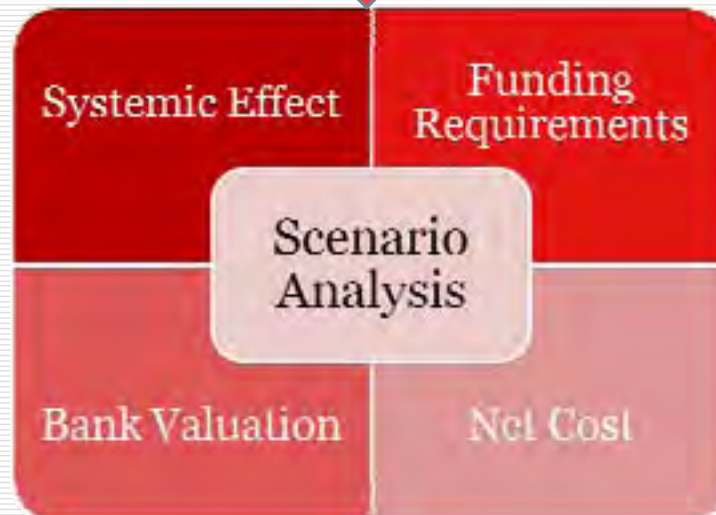
Within this framework, SDIF finished the constitution of **Bank Failure Action Plan** to take over a bank and continue to run following projects:

- **Bridge Bank** implementation
- **Payment Process of Insured Deposits and Participation Funds**
- **Constitution of a model for determination of optimum resolution strategy**

Proposed Model for Determination of Optimum Resolution Strategy



Early Warning System (IRMD & AMD)
Determination of the probability of a bank to be taken over by SDIF



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Proposed Model for Determination of Optimum Resolution Strategy



Scenario Analysis of the Banks

Bank Taken Over by SDIF

Update of Scenario Analysis Results

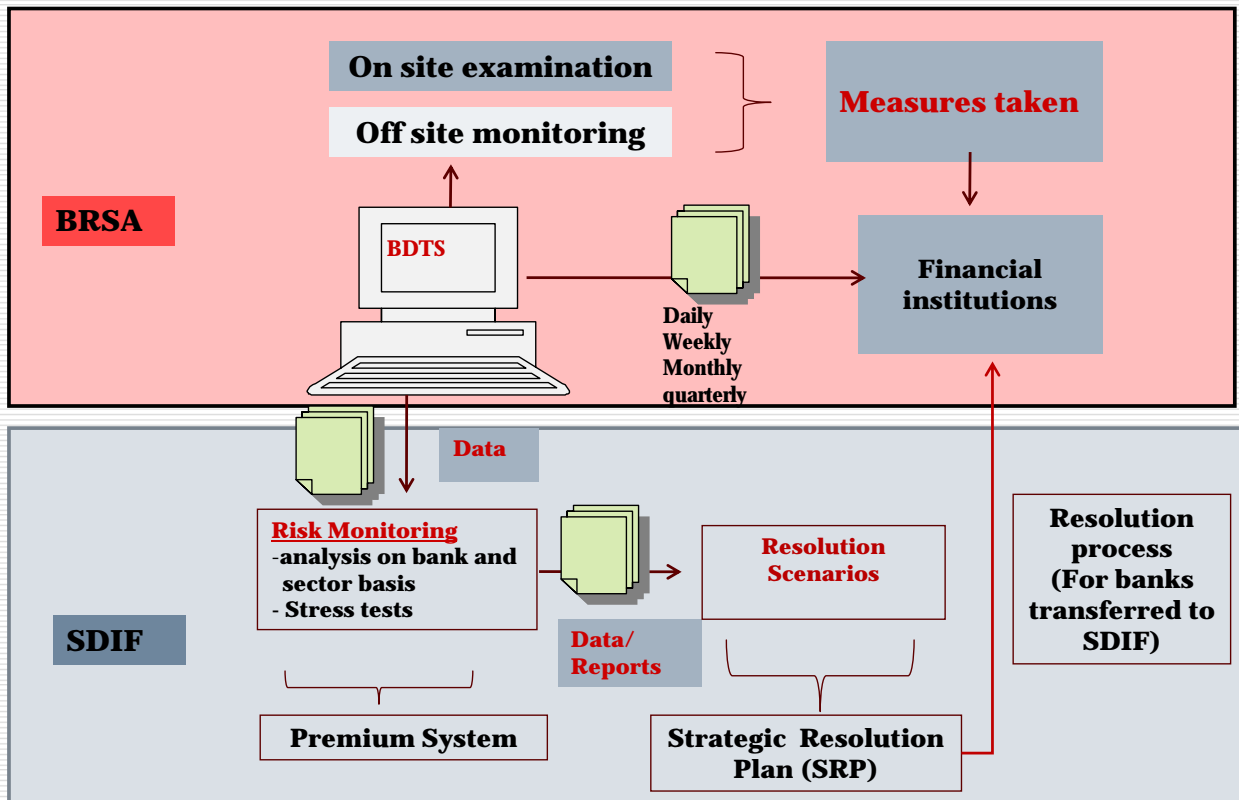
- Funding Requirements
- Bank Valuation
- Net Cost
- Systemic Effect

- Determine the optimum resolution method,
- Prepare Resolution Strategy Plan (RSP),
- Propose RSP to the Board of SDIF

- Implement RSP after approval of the SDIF Board
- Follow up the accomplishments of RSP

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Proposed Model for Determination of Optimum Resolution Strategy



IV.

BANK FAILURE ACTION PLAN

What is a Bank Failure Action Plan ?



It is an action plan to take over a failed bank and it describes the **urgent operational actions** that SDIF and the bank have to perform on the day of transfer and the following days.

The **aim** of using **BFAP** is;

- to determine the **necessary actions** the bank has to take during and after the transfer to the Fund and to prioritize these actions.
- to organize the **critical activities** both the Fund and the Bank have to perform and to determine the responsible staff and the methods to follow.
- to minimize the risk of having **losses** in legal process.

Why do we need BFAP ?

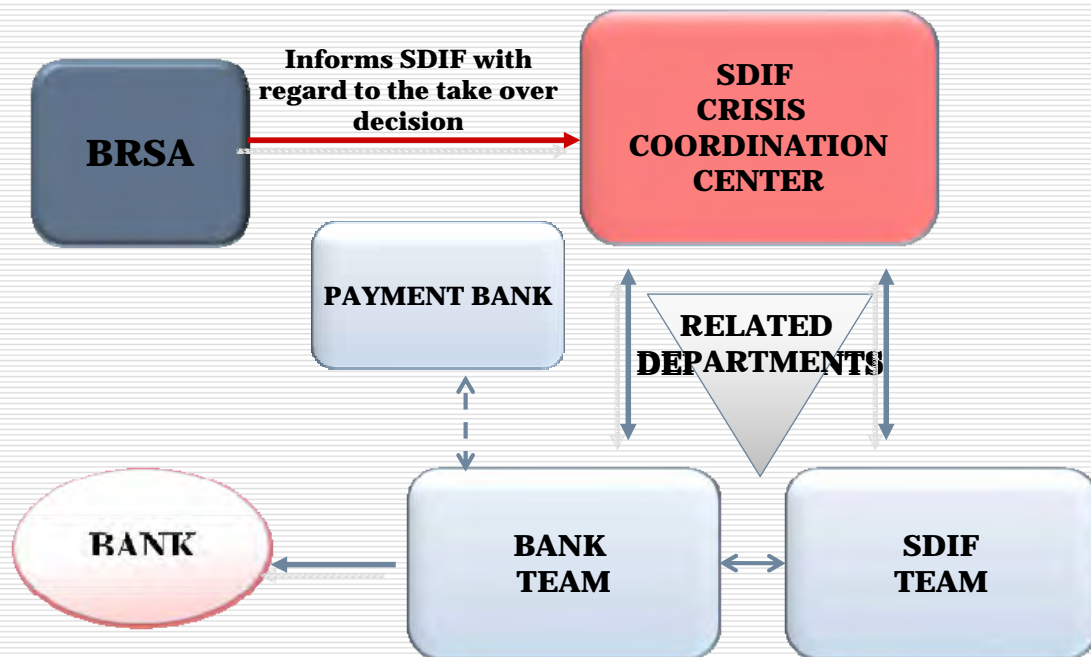


The Fund has to complete the resolution process of the banks whose management and control have been transferred to the Fund **within 9 +3 months** pursuant to the Banking Law 5411 and in line with the principle of ensuring **cost efficiency** and **maintaining the security and stability of the financial system**.

Within this framework **BFAP**;

- will **provide the Fund to access necessary data** to be used at the Fund Resolution Model on time and safely.
- will be effective **to verify the insured deposits** in case of revocation of the banking operating licence by BRSA.
- will have a great importance to **take control of bank IT systems and maintain systems and data security**.

BFAP Organization Chart



BFAP Critical Functions



- MANAGERIAL ACTIVITIES
- BANK DOCUMENTS
- BANK IT SYSTEMS
- BANK MAJORITY SHAREHOLDERS & MANAGERS
- COMMUNICATION
- PUBLIC NOTIFICATION
- SDIF RESOLUTION PLAN & FUNDING REQUIREMENTS
- INSURED DEPOSITS
- LOGISTICS

Sub-Activities of Critical Functions



MANAGERIAL ACTIVITIES

- Determine the newly appointed Bank Managers
- Take Board resolution of newly assigned Bank Management
- Declare Bank Management Team
- Cancel list of previously authorized signatures and declare the new one

BANK DOCUMENTS

- Protect and reconcile the legal books, money and valuable documents
- Take safety measures for archives and correspondence records
- Participate in the production of various reports from bank IT systems for SDIF Resolution Plan

BANK IT SYSTEMS

- Implement necessary protection measures for Bank IT systems and take backup of all systems for data security
- Stop all internet banking, ATM, Credit Card (Cease of Visa/Mastercard memberships), SWIFT operations and all correspondent banking transactions

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Sub-Activities of Critical Functions



BANK MAJORITY SHAREHOLDERS & MANAGERS

- Ask for declaration of their assets
- Prohibit from leaving Turkey and take court resolution for preliminary injunction or attachment for their properties, rights and receivables

COMMUNICATION

- Ministry of Internal Affairs and one of a State-Owned Bank for safety of branches
- Land Registry Office to stop registration activities of bank properties
- Trade Registry Office to prevent shares transfer of Bank Subsidiaries
- Other Government Offices

PUBLIC NOTIFICATION

- Publish a notification to the public and organize meeting
- Use of bank Call Center and web site
- Inform SDIF organization

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Sub-Activities of Critical Functions



SDIF RESOLUTION PLAN & FUNDING REQUIREMENTS

- Request necessary data and reports (bank IT structure) from BRSA
- Determine liquidity requirement of the bank and start funding process
- Prepare a proposal of SDIF Resolution Plan and Funding requirements for the approval of the Board

INSURED DEPOSITS

- Prepare insured deposit owners list and determine the total amount to be paid
- Determine funding requirement for the payments of insured deposits and start funding process
- Make a contract with a state owned bank for payment process

LOGISTICS

- Organize meetings with Team Members (Central Team and Bank Team) to start BFAP process
- Supply technical and logistic requirements of Team Members



V.

CONCLUSION



Conclusion

- ❑ 2000- 2001 crisis caused a high level of cost for the banking sector of Turkey. The cost, born by Turkish Public was **28 billion USD** and increased significantly to a higher level by adding interest calculations.

- ❑ After 2000-2001 Crisis, Turkish banking sector realized **significant improvements** in the following areas;
 - Rehabilitation of the state banks (financial & organizational).
 - Improvements of the capital adequacy and risk management of private banks (BRSA Banking Sector Restructuring Programme).
 - Establishment of an effective banking regulation and supervision system.
 - **Resolution of intervened banks and their assets by SDIF**
 - Amendments on banking regulations and other relevant acts to empower the regulatory frameworks

- ❑ Therefore, Turkish banking system has not been significantly affected by the recent financial crisis. On the other hand, considering that the risks are becoming different in the financial systems, the supervision authorities should actively rearrange the current frame in a way that respond to the changing behaviors of financial institutions.



Thank You ...