



Managing Assets: SDIF's Experience

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Savings Deposit Insurance Fund (SDIF)
TURKEY
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Presentation Outline



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- ❖ NPAs Transferred to SDIF
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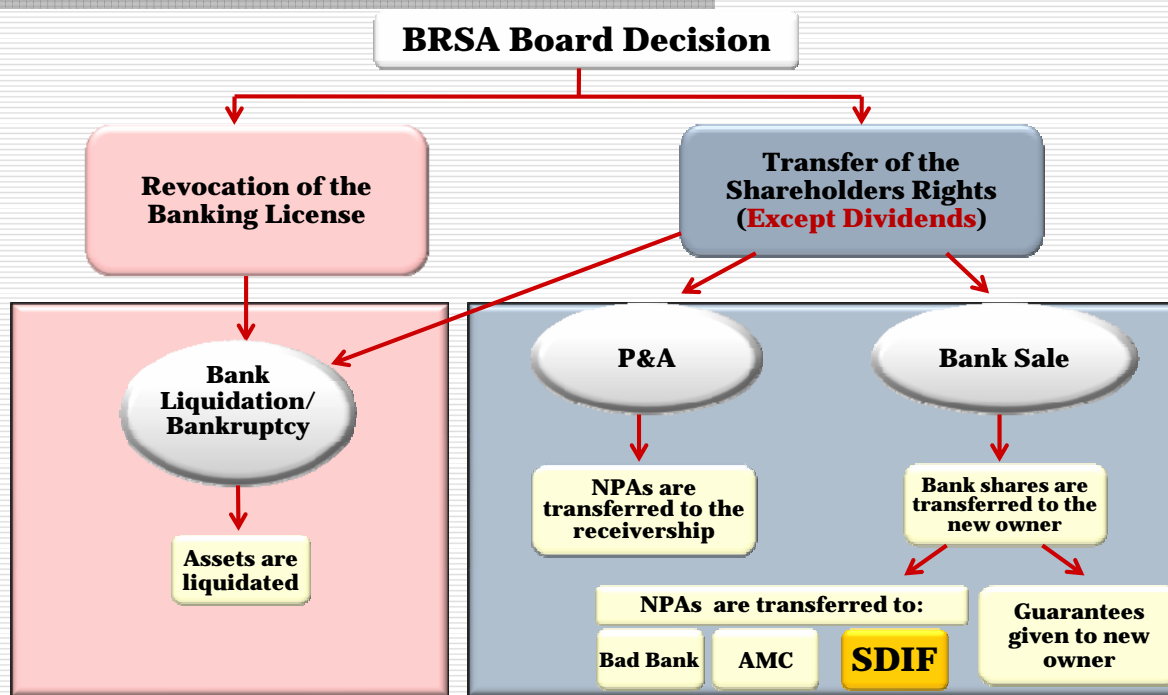
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I. Asset Management Process

SDIF's Asset Resolution Process



SDIF nominates liquidators and oversees them

SDIF executes asset management and disposition

Bank Liquidation Process



In case of revocation of the banking license;

- ❖ SDIF nominates 6 people and 3 of them are appointed as liquidators by the court.
- ❖ The assets of the bank are not sold until the bankruptcy is approved by the court, unless there is urgency for sale.
- ❖ The assets are liquidated in line with the rules and methods determined at the creditors' meeting.
- ❖ The proceeds of recoveries are distributed among the creditors in the order of preference of claims.

NPAs Transferred to the Bad Bank



- ❖ The NPAs were taken over by SDIF for quick and efficient liquidation via centralized approach but;
 - Performing assets that required banking license,
 - Off balance sheet (OBS) liabilities that were not purchased by the new ownerwere transferred to the Bad Bank.
- ❖ Bad bank, which is wholly-owned by SDIF, is limited to operations directly related to asset liquidation.
- ❖ As of December 2009, total assets of Bad Bank constitute USD 543 million.

Guarantees Given to New Owners



- ❖ SDIF guaranteed the OBS liabilities for the periods before the bank share agreements were signed by SDIF and new owners.
- ❖ Those liabilities consisted of letter of credits, guarantees, pledges and all the claims or rights of third parties that were subject to lawsuits.
- ❖ SDIF gave guarantees to compensate expected operational losses of new owners, which were due to the claims resulting from transactions made before the date of sale.

NPAs Transferred to SDIF



Non-Performing Loans

- ❖ Receivables from bank majority shareholders
- ❖ Commercial loans
 - Corporate Portfolio (Above USD 5 Mio)
 - Corporate-SMEs (USD 50K - 5 Mio)
 - SMEs (Below USD 50K)
- ❖ Individual loans

Real Estates

- ❖ Bank premises and lands
- ❖ Buildings, lands, other properties received via collection processes

Movable Goods

- ❖ Furniture, machinery, automobiles, etc.

Subsidiaries

Challenges of Transferred NPAs



- ❖ Quality of the Assets
- ❖ Depth and Condition of the Market
- ❖ Availability of Expertise & Organizational Structure
- ❖ Legal Framework
- ❖ Public Policy

The Quality of the Assets



- ❖ The challenges were;
 - High volume of majority shareholders' connected loans whose amount accounted for 50% of their banks' average asset total.
 - Inefficient loan underwriting process due to insufficient regulations regarding general credit restrictions.
 - Connected loans that exceeded limits by using back-to-back loans, fraudulent lending activities and lending through off-shore banks.
 - Difficulties in taking over and maintaining other NPAs.
- ❖ As a reflection of the centralized approach, legal arrangements were put in force where connected loans were counted as public receivables and special powers were given to SDIF for the recovery of such loans.

Depth and Condition of the Market



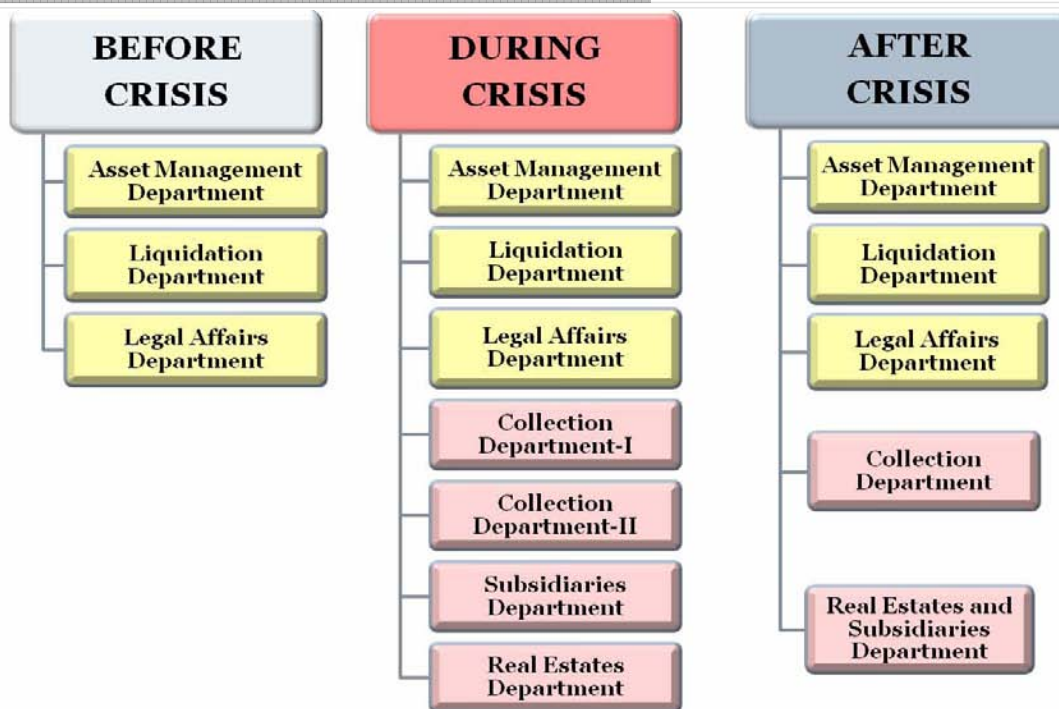
- ❖ While constituting the majority of the financial sector, banking sector in Turkey was small and not internationalized.
- ❖ There were no secondary asset markets and the capital markets were also underdeveloped.
- ❖ Due to the crisis, there was a lack of confidence and the funding mechanisms for entrepreneurs and institutional investors were insufficient.
- ❖ Investment banking practices and foreign direct investments were also quite limited.
- ❖ SDIF had to contribute to the development of secondary asset markets by conducting centralized asset management and executing special practices (CEI etc.)

Availability of Expertise



- ❖ Although SDIF had liquidation expertise, it had no authority regarding bank resolutions. Therefore SDIF faced some challenges such as;
 - Difficulty taking over 20 banks' NPAs in a short time
 - Lack of know-how and expertise
 - Requirement for developing asset management methodologies and a new organizational infrastructure
 - Requirement for consultancy service
- ❖ SDIF restructured its organization and founded specialized units that were experts in asset disposition by retaining consultancy services, especially from foreign counterparties.

Asset Management Organization



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Legal Developments



High volume of non-performing assets taken over and high amount of public resources used to resolve them required the enactment of new legislation that would expedite recovery and preserve the value of the assets:

- ❖ In case of revocation of banking license, judicial process is initiated and corporate insolvency law (**Act Nr. 2004**) is applied for the disposition of assets where the process is slow and inefficient.
- ❖ SDIF was empowered to use a strict law (**Act Nr. 6183**) developed for the collection of public claims (such as taxes), which expedites litigation and increases the amount of recovery.
- ❖ A special act (**Act Nr. 5020**) provided SDIF with the power to take over the management and control of entities/companies that bank majority shareholders have connections.
- ❖ Pursuant to Act Nr. 6183, seized assets, rights, licenses, etc. can be sold within the context of Commercial and Economic Integrity (**CEI**).

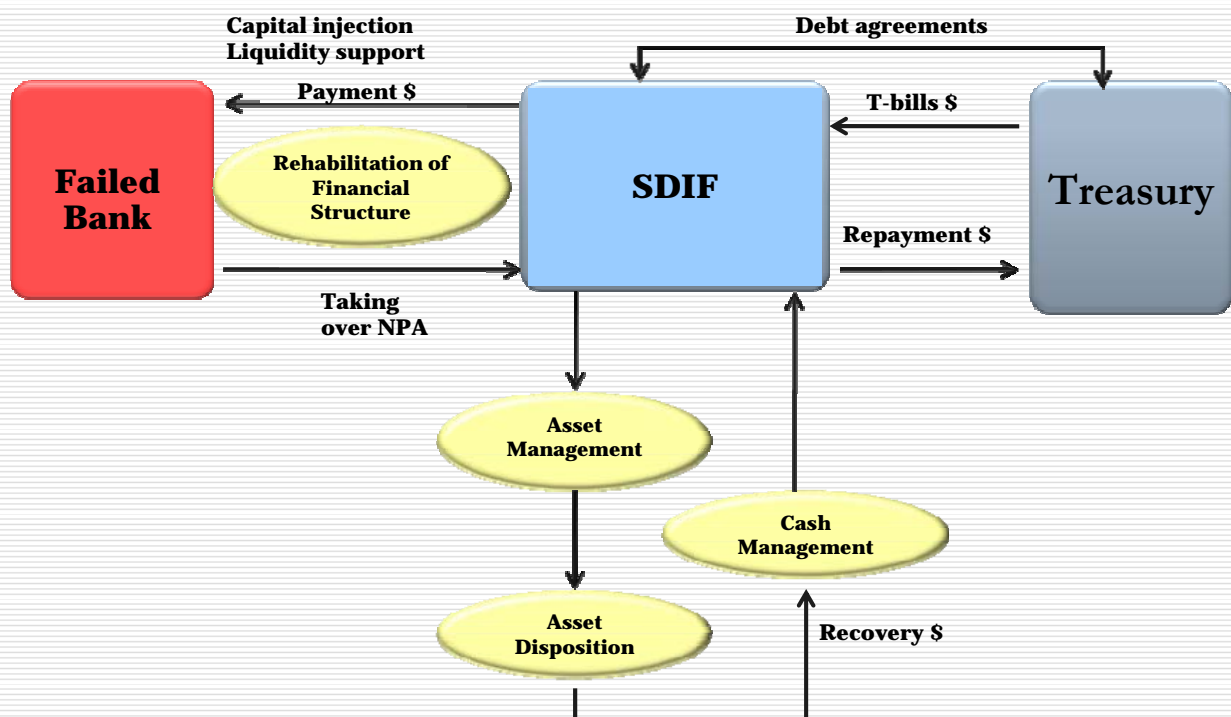
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Public Policy Objectives

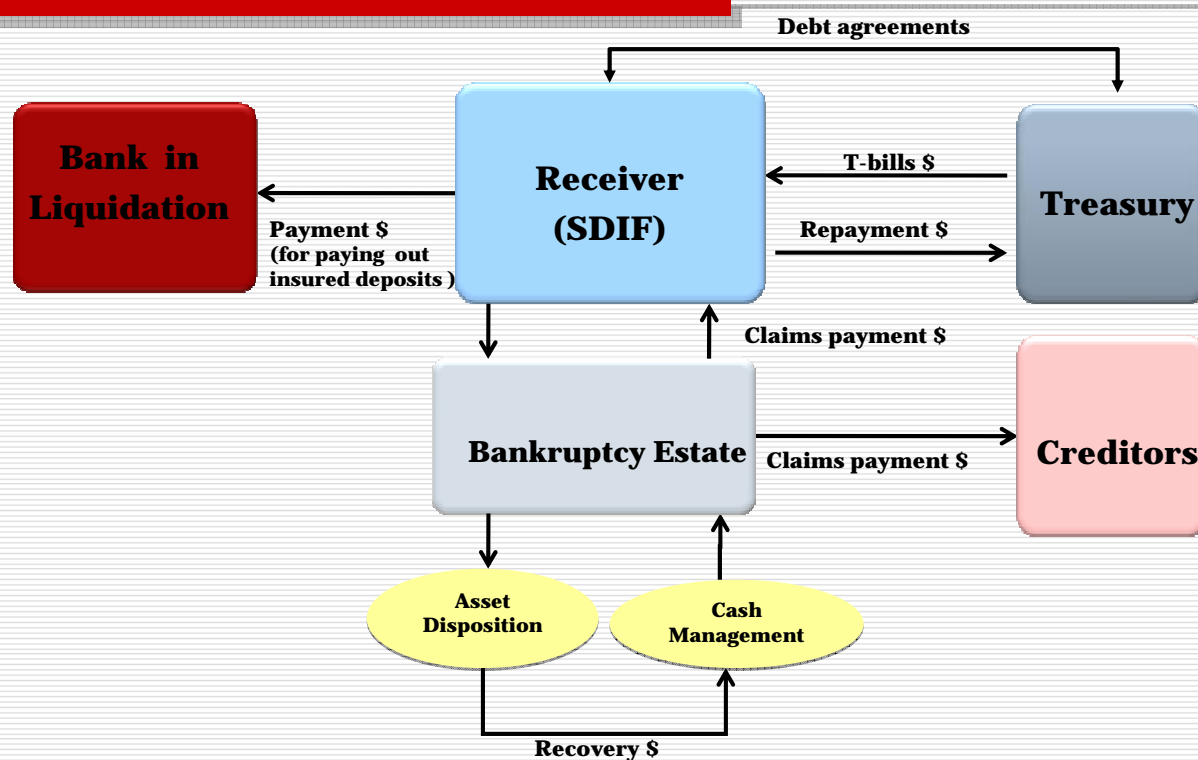


- ❖ In order to maintain financial stability, most failed banks were rehabilitated.
- ❖ SDIF played an active role in the effective resolution of NPAs and the quick recovery of public cost.
- ❖ Commercial entities of failed banks of which shares or loans were acquired by SDIF were kept away from financial distress.
- ❖ The legal follow up against debtors prevented moral hazard.

Cash Management Process (Bank Resolution)



Cash Management Process (Bank Liquidation)



Resolution Income



Distribution of Resolution Income (USD Million)

	(As of Dec, 2009)
Recoveries	17,849
Recoveries from Non Performing Loans	6,937
<i>NPL-Majority Shareholders</i>	5,610
<i>NPL-Corporate</i>	1,210
<i>NPL-Consumer</i>	117
Recoveries through Commercial and Economic Integrity Sales	7,450
Recoveries from Subsidiaries	679
Recoveries from Real Estate and Other Assets	783
Recoveries from Banks and Liquidated Subsidiaries	2,000
Financial Income	808
TOTAL	18,657

Through resolution activities, SDIF collected USD 18.7 billion as of December 2009. SDIF has collected USD 16.8 billion of that amount since 2004.

Cash Projections

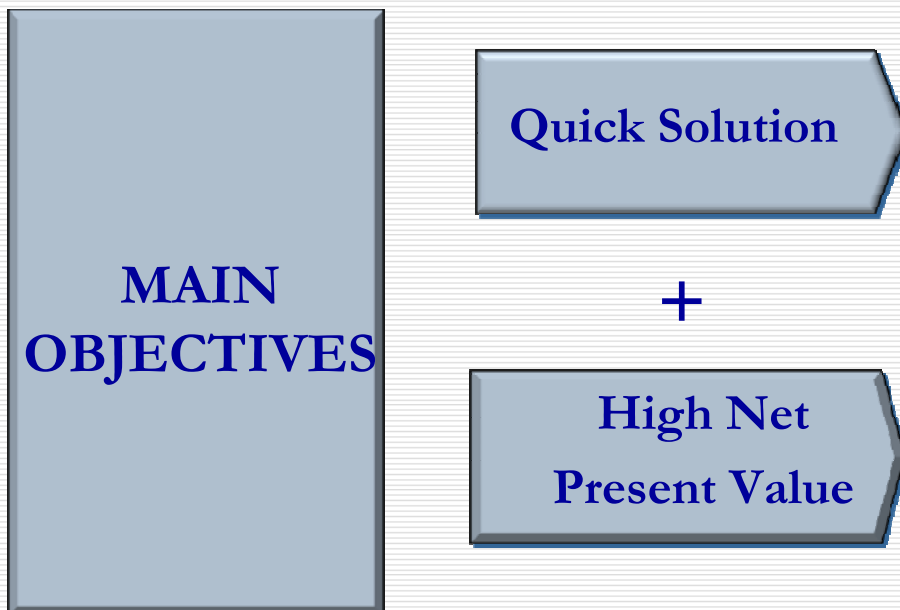


- ❖ SDIF prepares **Business Plans** for projected recoveries and Annual Projection Plans for cash collections.
- ❖ SDIF senior management is informed quarterly regarding the revision of Projection Plans and the realization of collections.
- ❖ Within the context of cancellation of debt, SDIF submits collection figures regularly to the Undersecretariat of Treasury.
- ❖ Also, SDIF informs the public of relevant collection figures through its web site.



II. Asset Disposition Process

SDIF's Asset Disposition Strategy

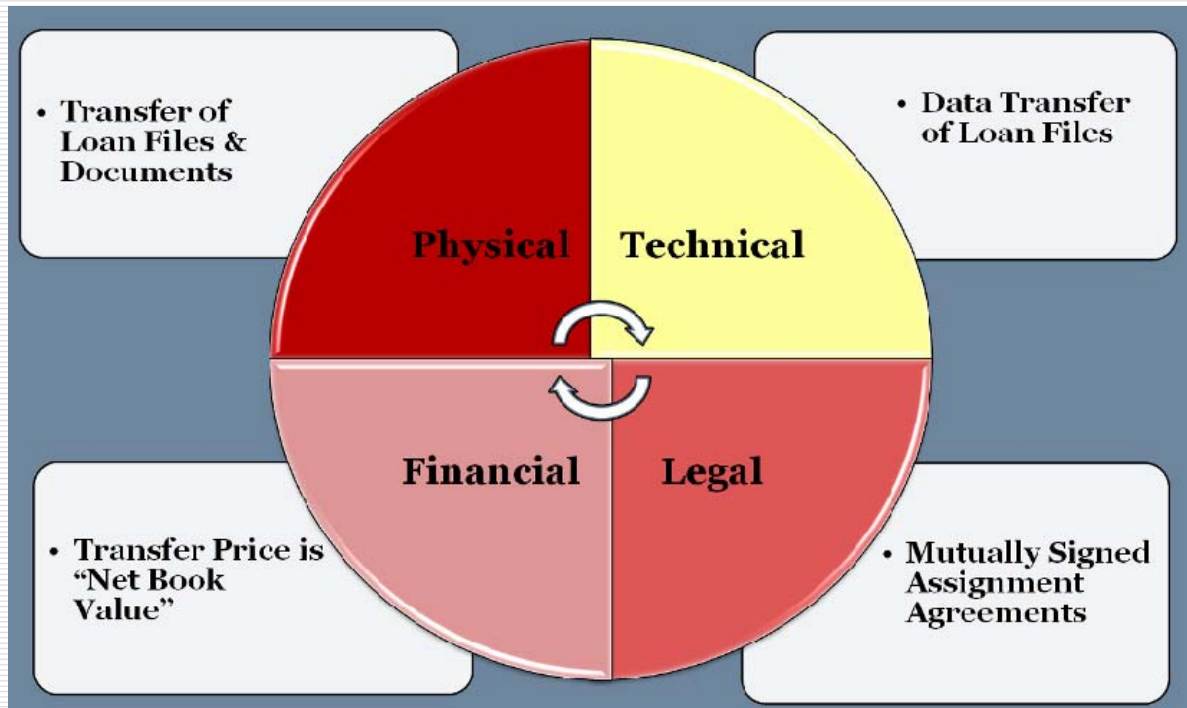


SDIF's Asset Disposition Tools



Tools	SDIF
Resolution of assets through P & A	✓
Negotiations with borrowers	✓
Asset sales	✓
Asset management contracting	✓
Auction/sealed bid	✓
Securitization	-
Equity partnerships	✓

Acquisition of NPLs



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Acquisition of Other Assets



Technical:

- ❖ The inventory of assets to be transferred to the SDIF is prepared.
- ❖ Financial statements, legal and tax issues of the subsidiaries are analyzed.
- ❖ Legal and physical conditions of the real estates and movables are investigated.

Legal:

- ❖ Real estates and shares of subsidiaries are registered to the SDIF.
- ❖ The SDIF Board as general assembly appoints board of directors of those subsidiaries.

Financial:

- ❖ The assets are transferred to the SDIF with their net book values based on the decision of the SDIF Board.

Physical:

- ❖ Movables are put under custody.

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Legal Proceedings for NPLs



- ❖ For the recovery of non-performing loans, the standard legal framework is Bankruptcy and Enforcement **Act No. 2004**.
- ❖ SDIF is empowered to apply a strict law (Act Nr. 6183) developed for the collection of public claims (such as taxes), which expedites litigation and increases the amount of recovery.
- ❖ Within the framework of **Banking Act No. 5411**, SDIF is authorized to conduct legal proceedings against majority shareholders and managers of the bank for the recovery of misused bank resources.
- ❖ SDIF generally manages the legal proceedings of NPLs in a **centralized manner** by hiring many attorneys during recovery processes.
- ❖ SDIF may **outsource the legal process** by making agreements with attorneys due to the high number of NPL files and geographic distribution of its retail portfolio.

Legal Proceedings under Act No. 2004



- ❖ SDIF has the power to utilize the Bankruptcy and Enforcement Act No. 2004 for its claims regarding NPLs.
- ❖ Stages of legal proceedings are:
 - 1-Initiation of the legal process
 - SDIF's Application to Execution Office
 - Notification of payment to debtor
 - 2-Prosecution/Attachment
 - 3-Court Assessment (Judicial Appraisal)
 - 4-Court Sale (Judicial Sale)
 - 5-Collection
- ❖ Debtor or owner of the collateral can raise objections during each stage of the legal process. Each objection stops legal proceedings for the decision of court up to 6-12 months.
- ❖ Legal proceedings may be completed in 2-5 years with limited recovery.

Legal Proceedings under Act No. 6183



- ❖ The legal proceedings according to **Act No. 6183** are directly executed with an administrative process under the management of SDIF.
- ❖ There are **5 major stages** in the Law on the Procedure for the Collection of Public Receivables No. 6183:
 - 1-Initiation of the process
 - Notification of payment order to debtor
 - Investigation of assets owned by debtor
 - 2-Attachment /Precautionary Attachment
 - 3-Assessment (Asset Valuation)
 - 4-Auction
 - 5-Distribution of collection due to preference of claims
- ❖ Objection of debtor or owner of the collateral does not interrupt the actions of SDIF for the recovery.
- ❖ Recovery process may be stopped only by court decision (“*stay of execution*”)

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Challenges & Effectiveness



- ❖ In legal proceedings under Act no. 2004, objections of debtors, owners of collaterals and guarantors **protract litigation**. However, SDIF has non-judicial power under Act no. 6183 and thus objections are handled administratively.
- ❖ During legal follow-up, assets and collaterals related to loans may lose their **market value** because of changes in market conditions. Thus, recoveries may decrease.
- ❖ Litigation **costs decrease** the effective net recovery from NPLs. However, Banking Law exempts SDIF from paying legal fees.
- ❖ On the other hand, threat of civil action enforces debtors, guarantors and owners of collateral to repay debt amount and motivates them to **cooperate**.
- ❖ Outsourcing legal proceedings increases the monitoring **workload** of SDIF, though a Legal Proceeding System has been designed to monitor all files.

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Restructuring Agreements for NPLs



- ❖ SDIF signed restructuring agreements with majority shareholders, commercial companies and individuals for the receivables assumed from failed banks. Restructuring for retail portfolio is conducted under discount programs.
- ❖ SDIF also participated in the restructuring facilities of other creditors with commercial credits (**Istanbul Approach**).
- ❖ SDIF has the power to own subsidiaries or real estates based on restructuring agreements or bid in auctions of those assets.
- ❖ Receivables from majority shareholders constitute the largest amount in restructuring agreements. In this scope, 4 shareholders have paid out the full amount of their debt and 4 shareholders still continue to pay.

Process for Restructuring Agreements



Pre-arrangements

- Assessment of debtors, colletterals, etc.
- Negotiation with debtors

Payment Plan

- Calculation of debt amount
- Determination of payment plan
- Additional Guarantees

Follow up

- Temporary suspension in legal process
- Follow up the installment payments and incompliances with the terms & conditions of the repayment agreement

Discount Programs



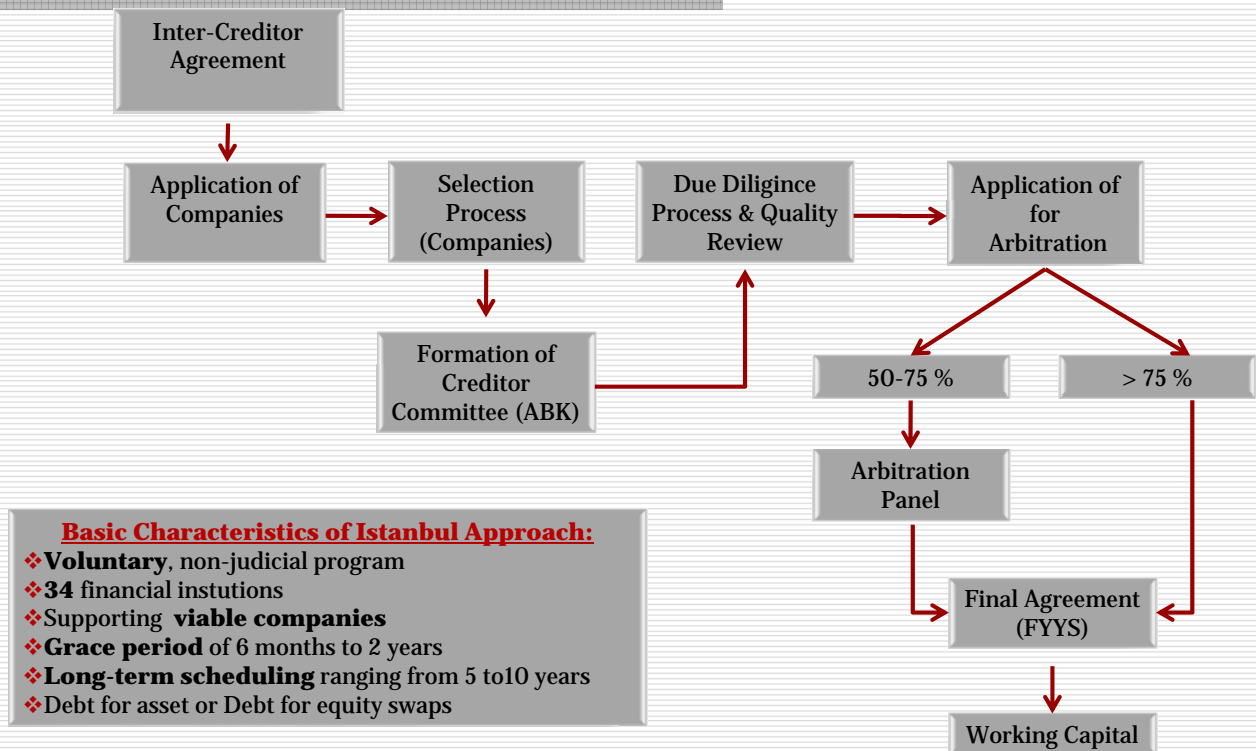
- ❖ SDIF introduced discount programs for **retail portfolio** including **SME loans, consumer loans, and credit card receivables**.
- ❖ The processes of discount programs are similar to that of the restructuring processes. The main differences are; there are no additional collateral requirements and the duration is short.
- ❖ This program allowed SDIF to encourage debtors for cash payments, **reduced litigation** and **operational cost** and enabled **early recovery**. Also, it provided greater transparency and accountability.
- ❖ Discount programs enabled debtors to repay their debts with high discount rates (50% for cash, 30% for restructurings up to 24 months)
- ❖ With regard to discount programs, SDIF collected **USD 251 million** and resolved **41.875 credit files**.

İstanbul Approach



- ❖ Between 2002-2005, SDIF participated in the restructuring program for the NPLs of corporate borrowers. The program, called “**İstanbul Approach**”, allowed banks and other financial institutions to restructure the loans due from viable borrowers.
- ❖ This approach allowed companies that can not pay their debt to banks and other financial institutions due to 2001 economic crisis to restructure their loan debts for their operations, and if necessary, to provide additional resources (working capital).
- ❖ **USD 6.021 million** debt belonging to **322 companies** was restructured (state-owned banks: %36; SDIF and Fund Banks: %23). Sum of the restructured loans by the end of 2002 was about 16 % of total gross loan volume.
- ❖ Istanbul Approach enabled companies to continue their economic activities and supported employment and real sector.

Process for İstanbul Approach



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Challenges & Effectiveness



- ❖ Restructuring agreements increase the **market value** of NPLs as well as the borrowers' access to external sources of funds both in terms of debt and equity.
- ❖ Restructuring agreements increase the chance of recovery as SDIF receives additional collateral, which also increases the **market value** of the debt.
- ❖ Restructuring of debt facilitates mutual agreement on the debt amount and increases the debtor's **motivation to cooperate**.
- ❖ Litigation expenses and thus **costs** to SDIF are reduced.
- ❖ For commercial borrowers, restructuring agreements enable the continuation of employment and economic activities and thus provide **contribution to employment** and **economy**. Furthermore, majority shareholders' financial stress regarding non-banking activities are minimized.

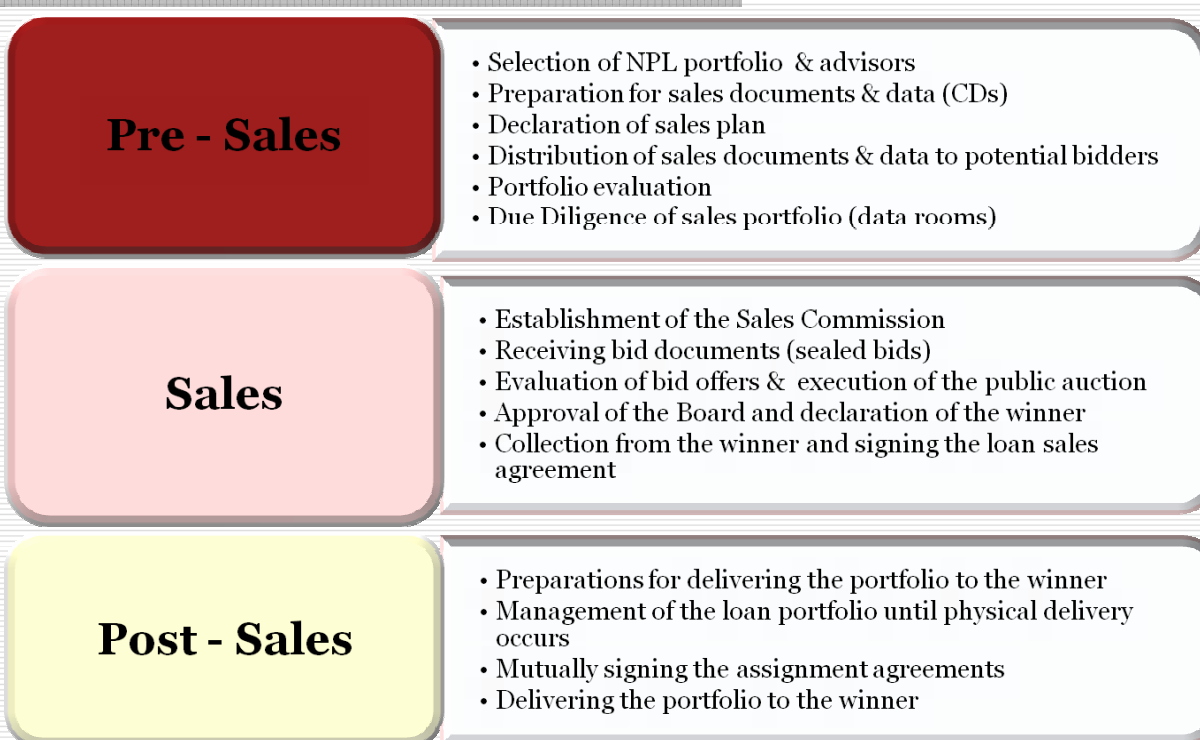
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NPLs Sales to AMCs



- ❖ SDIF sold its NPL portfolio that consisted of corporate loans to AMCs. In the process, SDIF aimed to receive the **best bid** through a **competitive** process according to a **timetable** announced and considering the **market capacity and expectations**.
- ❖ In that manner, SDIF realized two Non-Performing Corporate Loan Sales.
- ❖ In the **first Sale**, SDIF made a “**direct sale (outright sale)**” and sold NPLs with a total principal amount of USD 223 million consisting of 281 loans for USD 22.5 million.
- ❖ In the **second Sale**, SDIF made a “**sale based on revenue sharing**” and sold NPLs with a total principal amount of USD 934 million consisting of 10,812 loans for an initial cash payment of USD 161 million and 43% revenue sharing.
- ❖ As of December 31, 2009, SDIF received USD 110 million due to revenue sharing and **total income** from all NPL sales reached **USD 293.5 million**.

Process for NPL Sales



Challenges & Effectiveness



- ❖ SDIF realised **two** successful NPL sales for the receivables from corporate borrowers. For the first one, it hired a sales consultant, and for the second, a legal consultant. A **sales methodology** was structured that included various sales documents and a time schedule, and the process worked diligently.
- ❖ Since there was no domestic market for NPL sales at the time, foreign investors participated in the process together with local counterparts. Detailed **work** was required to determine the **market value** of NPLs.
- ❖ With the NPL sales, SDIF pioneered the development of a secondary market for NPLs and the establishment of asset management companies. As a result, NPL sales had significant **contributions to the economy**.
- ❖ Further operational **costs** arising from legal and administrative follow up processes of NPLs were avoided.

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Commercial & Economic Integrity Sales



- ❖ SDIF may conduct Commercial and Economic Integrity (CEI) sales for the properties, equipments, licenses, rights, contracts and other assets of companies controlled under provisions of Act No. 6183.
- ❖ CEI incorporates only those assets providing synergy for core business and having more economic value when together.
- ❖ CEI sales allow those assets to be a part of a new legal structure and continue their operations within that new structure, free from the liabilities of their once related companies.
- ❖ CEI sales provide higher amounts of recovery and the proceedings are distributed among all beneficiaries.
- ❖ As of December 31, 2009, SDIF realized **43 CEI sales** totaling **USD 6.8 billion**, including the sales of the second largest GSM and media companies for USD 4.5 billion and USD 1.1 billion respectively

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Process for CEI Sales



Pre - Sales

- Notification of regularity authorities
- Valuation of CEI
- Preparation of bid documents
- Announcement of sale (official gazette)
- Preparation of the information package
- Delivery of the bid documents to potential bidders
- Initiation of due diligence (Data Rooms)

Sales

- Establishment of the Sales Commission
- Receipt of bid documents (sealed bids)
- Evaluation of bid offers & execution of the public auction
- Approval of the Board & declaration of the winner
- Request for the approval of sale from the regulatory authorities
- Collection from the winner & execution of the transfer agreement

Post - Sales

- Preparation of Distribution List for the collected amount
- Announcement of the List
- Distribution of the collected amount to beneficiaries or wait for the result of the legal process in case of objection to the List

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Challenges & Effectiveness



- ❖ SDIF had to establish a team and develop expertise for CEI sales. It also had to **work** with maximum efficiency to avoid protraction as the process required the approval of related regulatory authorities.
- ❖ Sale of assets in an operating enterprise prevents losses in the value of the assets that would otherwise be liquidated. CEI sales increase the **market value** of the assets and the recoveries from sales.
- ❖ In CEI sales, employees are retained with their personal and financial rights. Public claims are served first from the recoveries. SDIF gained a high international reputation from CEI sales. All these had significant **contributions to the economy**.

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Disposition of Other Assets



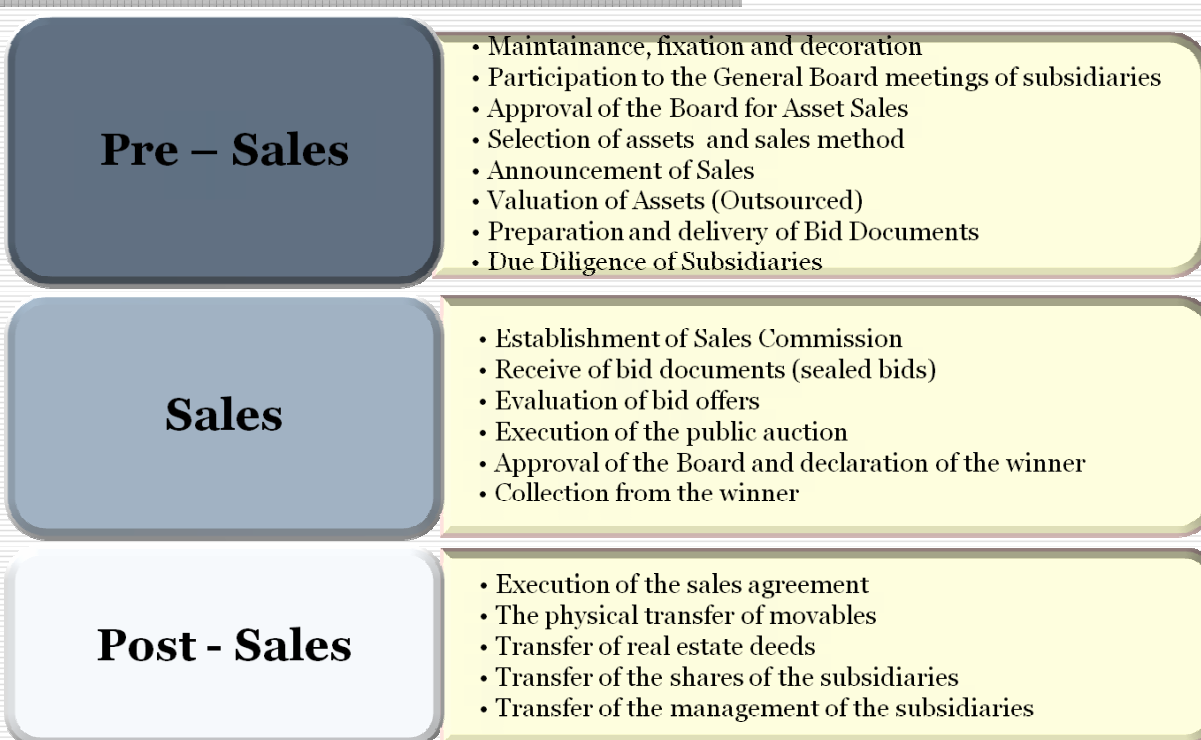
❖ Real Estates & Movables

It covers the period of sale or disposal of real estates and movable goods (paintings & antiques, vehicles) registered in the asset of the banks of which management and inspection rights have been taken over. Out of **5249 real estates** taken over by the SDIF, **4836** were **sold**, out of **2925 paintings & antiques**, **2263** were **sold**, and out of **164 vehicles**, **162** were **sold**. In total, **88 %** of the portfolio was resolved.

❖ Subsidiaries

The term subsidiary is used for companies that are wholly-owned, majority-owned or minority-owned by a failed financial institution. Out of **703 companies** that were taken over by the SDIF, **132** of them were **sold**, **24** were **liquidated** and **251** were **cancelled** from the trade registry. The **remaining 254 companies** are still waiting to be resolved.

Process for Sale of Other Assets



III. Conclusion

Conclusion

During 2000-2001 banking crisis, SDIF's powers and responsibilities were enlarged in bank resolution. Within this framework, SDIF has been responsible for the management and disposition of failed banks' assets.

Asset Management

- ❖ SDIF managed NPAs, most of which consist of majority shareholders connected loans, effectively with well designed regulatory framework and organisation .
- ❖ SDIF accumulated valuable expertise in asset management, contributed to improvement of secondary asset markets.
- ❖ As a result of its experience, SDIF has achieved to organize the asset management process and legal framework in line with core principles related to recovery.

Asset Disposition

- ❖ SDIF established its asset disposition strategy for maximum return and utilized new methods for effective recovery such as Istanbul Approach, Loan Sales and CEI Sales.
- ❖ SDIF accelerated recoveries by retaining consultancy services for expert valuation and efficient sales processes.
- ❖ Legal framework for asset disposition has evolved and SDIF gained special powers regarding recovery.
- ❖ With the experience of the last 10 years, SDIF now has an international competence in asset recovery.

Thank You ...