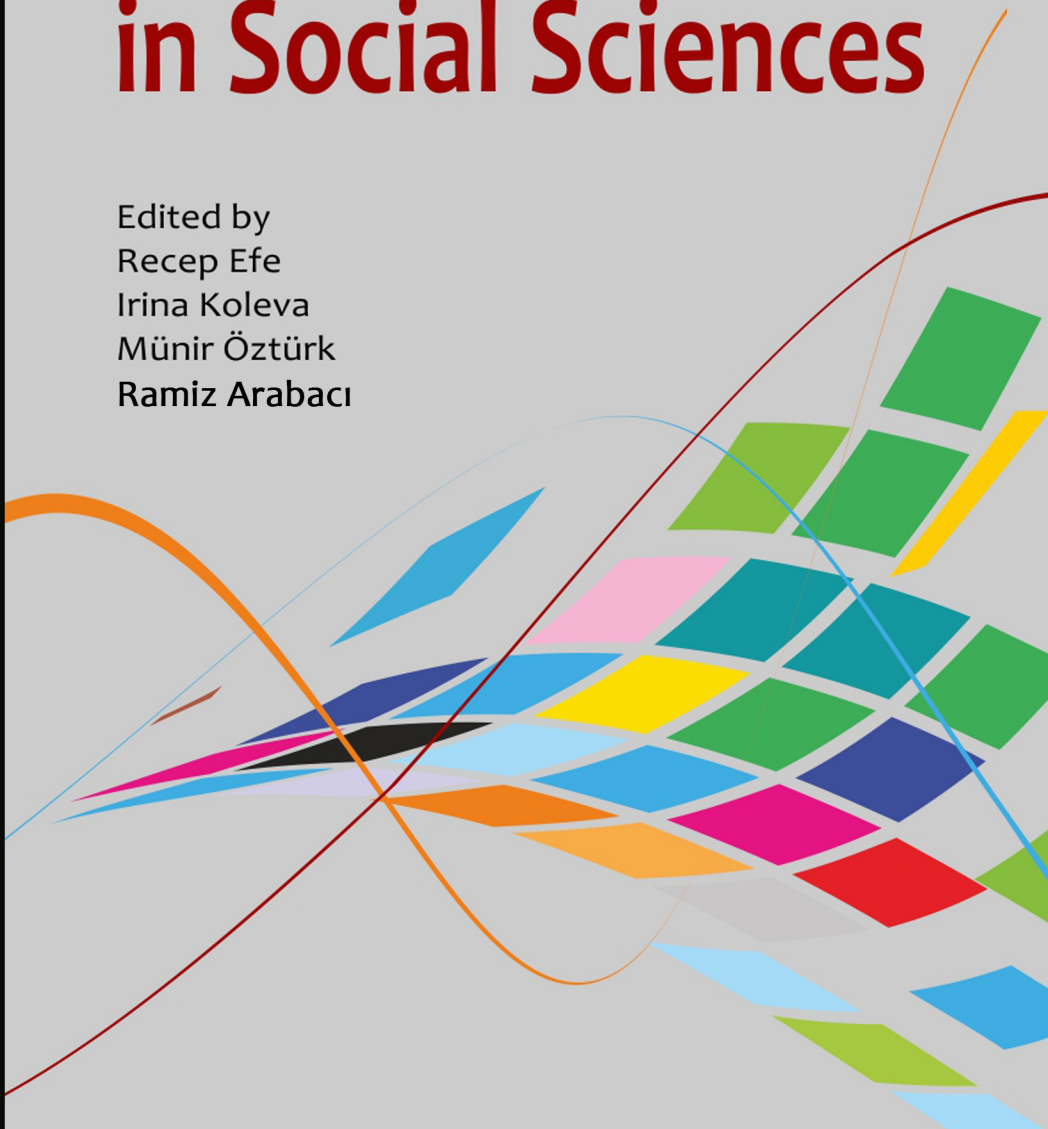
Recent Advances in Social Sciences

Edited by
Recep Efe
Irina Koleva
Münir Öztürk
Ramiz Arabacı



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PREFACE

This book, "*Recent Advances in Sciences: An Interdisciplinary Approach"* covers studies on different topics spread over 40 Chapters including foundations in Cyprus, imagery of Bulgarian socialism in the memory of national Turkish minority, the policies of the Bulgarian government during the Balkan wars, internet advertising from the users perspective, the impacts of banking crises on the finance sector, intellectual inheritors of Weber Sociology, Ataturk's pacifism policy practices with examples, Plato's and Aristotle's theories of art and artists, a new concept in the hospitality industry, urban tourism, fusion cuisine, bicycle tourism, home-type gastronomy, smart hotels, artificial intelligence and improvements in robotics, cultural tourism, strategic role of human resource management in tourism enterprises, the importance of specialist tourist guides in cultural tourism, safety perception in touristic destinations, geotourism potential of the Yellimera canyon, design for sustainability in textiles, the importance of wicker knitting in traditional Turkish arts, 3d projection mapping on ceramic surfaces, on artists' letters and art, life quality in the elderly, leadership effectiveness and work alienation of male youth leaders, anthropometric profiles of elite oil wrestlers, effects of relationship management on sports consumers, environmental temperature and exercise-induced muscle trauma, the effects of leadership styles on organizational citizenship behaviour, the use of technology in social work education: techno-social work education, migration causes and vocational qualifications and business problems of foreigners living in Turkey and education climatology of Thrace.

Contributions in each chapter have been prepared by experts in the respective fields and mirror the advancement in the approach. This book contains important future tasks of the particular fields and supplies extensive bibliographies at the end of each chapter, as well as tables and figures that illustrate the research findings. All these make this book highly useful and a must to read for students, researchers and professionals in social sciences.

We would like to express our gratitude to all contributors for their patience, as the volume has taken time for completion. Our special thanks are due to the team at Cambridge Scholars Publishing for their collaboration.

The Editors

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CHAPTER FIVE

THE IMPACTS OF THE BANKING CRISES WHICH OCCURRED IN THE YEARS 2000 AND 2008 ON THE TURKISH FINANCE SECTOR

MINIRE KIRBAŞLI

Introduction

The world economic and banking crisis of 2008 caused significant damage in the USA, and in other countries, in the banking sector. More than 500 major bankruptcies are known in the USA. In Europe, many banks in Greece, Greek Cyprus, Iceland, Hungary, Italy, France, etc., went bankrupt. In addition, many banks in Europe were able to continue their banking activities through financial state aid and support. But in Turkey, the banking sector has not been negatively affected much; even more, the Government did not use the authority of doubling the limit of savings insurance.

Turkey experienced a big economic and banking crisis in 2000, and to understand the impacts of the 2008 wheel, we shall study banking sector figures of 2008 along with 1998-2001-2003, so that we shall be able to give satisfactory clarification by comparing both crises for some selected main balance sheet items.

The effects of the 2008 Word Economic and Banking Crisis in Turkey

There has been a meeting held in the Istanbul Chamber of Commerce (ICC) with the attendance of İCC Board members and Turkish Banking Association (TBA), in the last months of 2016. In this meeting, the President of TBA and Mr. Hüseyin Aydın, General Manager of Turkish Agricultural Bank, indicated that: "As it is well known, in 2008, all banks in the world received financial aid from their governments in order to continue their activities, except in Turkey, and the Turkish banking sector continued to finance public and private sector companies".

This declaration is challenging, and makes us proud, even though Turkey is below average in rankings in education, sports, scientific research, economic growth, life standards, etc. Based on this outcome, we decided to study figures of the last two banking sector crises (2000 and 1998), to compare, evaluate, and share the results with you.

It's been noted that the economic and banking crisis which occurred in 2008 (in fact it was initiated in the US in 2007 and continued for a few years in America and Europe) caused more damage to the World's financial markets than the 1928-29 world economic crises. For example, we learned from media during those crisis years that a huge investment bank, Lehman Brothers, collapsed, along with close to 500 small and medium-sized private deposit banks in the USA. Many banks in Iceland, Greece, Italy, Spain, Portugal and Hungary either went bankrupt or needed government financial assistance to prevent bankruptcies. Similar events did not happen in Turkey in 2007, 2008 and later, so we can frankly say that we were not affected by the 2008 worldwide crisis like the above-noted countries, but in fact, it affected Turkey's financial sector relatively. As a result, the growth in volume of economic activities in Turkey slowed down in 2008. It is true that the majority of banks in Europe which are active nowadays, received financial aid from their governments. Especially, if we check our neighbour, Greece, not only its banks, but the entire state survived dire economic conditions. The total foreign debt of Greece increased to such a level that the Government and banks expressed that it was impossible to repay the debts. The creditors agreed to delete half of Greece's debts, and the remainder will be paid in instalments in longer terms. Many meetings were held between Greece and European Union countries, mainly Germany and France, to re-build debt repayments. Lots of economic restriction measures were taken in Greece, which negatively affected the living standards of Greeks. Turkey, and the Turkish people, have never faced such negative conditions.

Has the banking crisis come to an end completely? Unfortunately, the answer is no. I read from a newspaper in December 2016 that the Italian Government has been planning to allocate €20 billion in its 2017 budget to support Italian banks which were in need of financial aid. It is simple to say that the banks in Europe are still not very strong financially. Proudly, we can express that through 2007-2008, 2009, and nowadays, Turkish banks have not been in need of any support from the government.

To better understand and evaluate, some figures of selected balance sheet items are given below, in Table 1. At the second half of our study, we shall give figures for the period covering years 1997-2003; it will help to compare the periods. The totals are given in Turkish lira and in US

dollars respectively (explanations are made in dollars). Having figures only in Turkish lira would not provide healthy results, due to the fact that Turkey has experienced high inflation for many years, and also deleted six zeros from the currency between the 2000 and 2008 economic crises. In addition, increasing/decreasing trends of the noted years compared to previous years are shown in Table 3.

Cash Loans

When we examine total cash loans of the Turkish banking sector, it can be observed that while it was 155,139,39 million dollars at the end of 2006, it increased to 241,915,89 million dollars by the end of 2007, but decreased a little, to 241,096,73 million dollars by the end of 2008. However, it increased again to 256,177,64 million dollars by the end of 2009. Although a small decrease has occurred by the end of 2008, as shown in tables above, its of note that there is a continuously increasing trend, and the crises did not affect the markets much. Our banking sector felt the worldwide crisis in 2008, not strongly, by a small decreasing percentage. Consequently, as we observe in Table 3, it increased by 55.93% in 2007, compared to the previous year, it decreased by -0.34 in 2008, and by the end of 2009, the increasing trend has been achieved again with 6.26%.

NPL -Non Performing Loan

In economic and banking crises, the 'NPL -non performing loan'(Loans under legal follow-up) item is the most negatively affected, due to the fact that companies get financially weak and their ability to repay weakens, which reflects on the banks indirectly, and loan repayments start to fail.

The NPL -non performing loan total was 5,820,69 million dollars at the end of 2006, which increased to 8,476,41 million by the end of 2007. At the end of 2008, it increased to 8,684,45million by a margin of 2.45% and at the end of 2009, to 13,898 million dollars by 60.04%. Please review Tables 2, 3 and 4 summarizing these figures.

In order to better understand whether there is a crisis or not in the banking sector, it's important to check the ratio of NPL -non performing loan/total cash loans. This ratio is used to explain the problem of banking, whether a problem exists, and if so, at which level. This ratio is around 3% in the banking sector in normal economic conditions. If it rises up to 5%, it reveals something is going to be wrong; being prudent and initiating proactive measures are the steps to follow.

Table 1: Selected Balance Sheet Items of the Years 2006-2009 in TL

	2006	2007	2008	2009
Cash Loans	218,063,925,000.00	280,453,091,000.00	366,901,000,000.00	381,013,000,000.00
NPL -non performing loan	8,181,561,000.00	9,826,701,000.00	13,216,000,000.00	20,671,000,000.00
Total Assets	484,857,262,000.00	561,171,879,000.00	705,871,000,000.00	798,533,000,000.00
Deposits	312,832,244,000.00	356,983,744,000.00	453,485,000,000.00	507,258,000,000.00
Total Shareholders	57,977,531,000.00	73,485,931,000.00	82,696,000,000.00	106,467,000,000.00
This Year's profit	10,981,399,000.00	14,331,479,000.00	12,774,000,000.00	19,477,000,000.00
Year-end TL/USD rate	1.41	1.16	1.52	1.49

Source: *https://www.tbb.org.tr*

If this ratio exceeds 5%, critical mitigation measures must be put in force to prevent possible bankruptcies. Table 4 outlines the figures for the purpose.

Table 2: Selected Balance Sheet Items between the years 2006-2009 in million $

	2006	2007	2008	2009
Cash Loans	155,139,39	241,915,89	241,096,73	256,177,64
NPL -non performing loan	5,820,69	8,476,41	8,684,45	13,898,34
Total Assets	344,946,83	484,060,97	463,839,53	536,901,10
Deposits	222,561,36	307,930,43	297,992,51	341,059,64
Total Shareholders	41,247,53	63,388,19	54,340,91	71,584,08
This Year's profit	7,812,61	12,362,18	8,394,01	13,095,54

Source*: Prepared using data in Table 1 and TL/USD Central Bank year-end rates.*

Table 3: Selected Balance Sheet Items' Trend (%)

	2006/2007	2007/2008	2008/2009
Cash Loans	55.93	-0.34	6.26
NPL -non performing loan	45,63	2.45	60.04
Total Assets	40.33	-4.18	15.75
Deposits	38.36	-3.23	14.45
Total Shareholders	53.68	-14.27	31.73
This Year's profit	58.23	-32.10	56.01

Source: *Prepared using data in Table 2.*

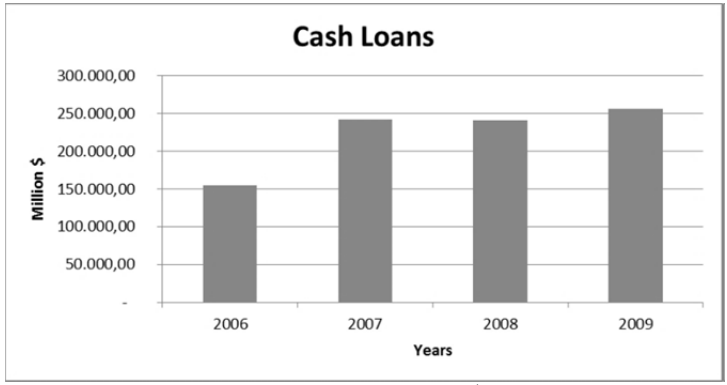


Fig. 1: The Year-End Totals of Cash Loans (million $)

Table 4: NPL -non performing loan /Total Cash Loans (%)

Year	Rate %
2006	3.75
2007	3.50
2008	3.60
2009	5.43

Source: Prepared using Table 2 figures.

When you examine Table 4, the NPL -non performing loan over total cash loans ratio has been 3.75% by the year end in 2006, it decreased to 3.50% at the end of 2007, and it is nearly at the same level by the end of 2008; at 3.60%. But it increased to 5.43% by the end of 2009 and it shows that the negative effects of world banking crisis were felt, but not strongly, and the Turkish banking sector did not need any government intervention or financial support.

Other balance sheet items are also evaluated to identify a crisis and its impacts. It is obvious that the negative effects of crisis can be observed mostly via NPL -non performing loan item. However, we need to reassure that in the Turkish banking sector, no bank was pushed into a financial problem, it had been under strict control of the Banking Regulation and Supervision Agency, and their assets had been turned over to the Banking Insurance Fund's management. In addition, no bank in Turkey was in urgent need of government financial support.

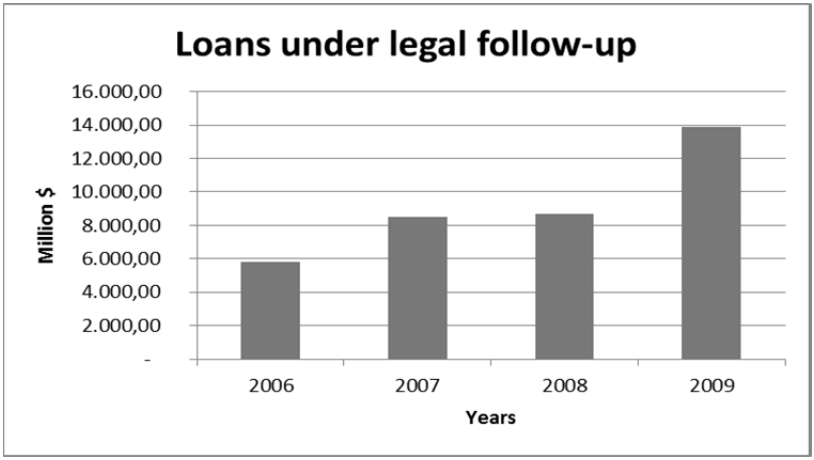


Fig. 2: The Changes of NPL -non performing loan by Years (million $)

Total Assets

Now we need to review total assets, to understand whether the banking sector reacted well, and how the performance has been resulted.

When the figures in Table 2 and Table 3 are evaluated, it is observed that the banking sector ended year 2006 with 344,946,83 million dollars, and it ended year 2007 with 484,060,97 million dollars, increasing by 40.33%. By the end of 2008, total assets have been 463,839,53 million dollars, decreasing by 4.18% compared to the previous year. Actually, although it decreased a little, this negative step was not reflected in banking activities, the performance of banks increased by 15.75% in 2009, and the total assets reached 536,901,10 million dollars (Fig. 3).

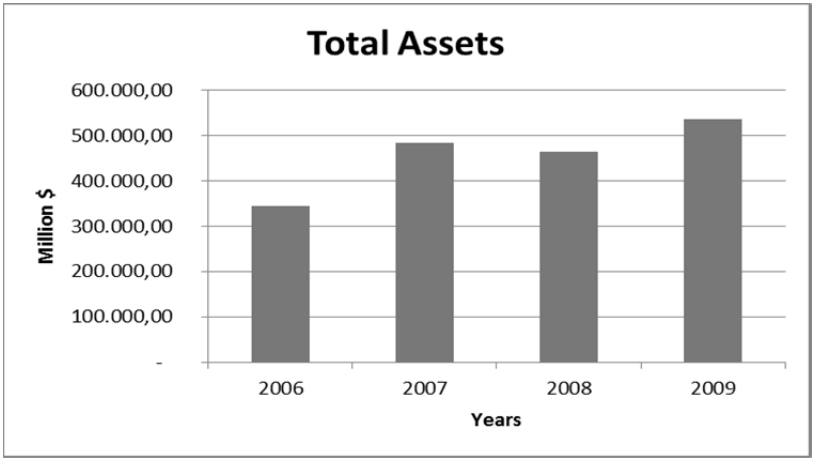


Fig. 3: The Changes of Total Assets by Years (million $)

Total Deposits

We also examined some liability items as well as assets in our study. We preferred total deposits, equities, and annual profits under liabilities. I believe that even if we check the trend and structure of deposits, it is enough to understand the crisis and its effects.

As seen in Table 2 and Table 3, total deposits by the end of 2006 were 222,561,36 million dollars and it increased to 307,930,43 million dollars by 38.36%, but decreased a little by 3.23%, due to the crisis, by the end of 2008, being 297,992,51 million dollars compared to previous year (Please review Fig. 3).

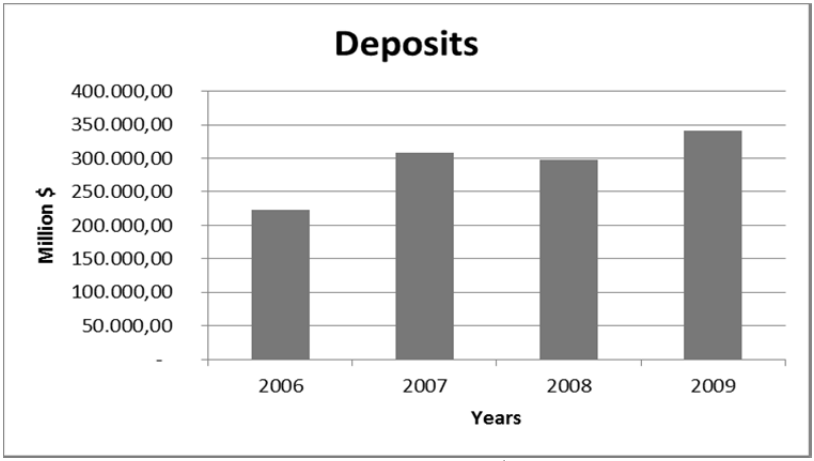


Fig. 4: The Changes of Deposits by Years (million $)

Shareholders Equity and Profitability

As observed in Table 2, the total equity of our banks by the end of 2006 was 41,247,53 million dollars, and the 2006 profits were 7,812,61 million dollars. In 2007, the normal positive trend continued, total equity was 63,388,19 million dollars, and total profit realized was 12,362,18 million dollars.

When the data of Table 2 and Table 3 are examined, the equities being 53,340,91 million dollars, decreasing by 14.27% by the end of 2008, which was the year the crisis was felt mostly, total profit decreased by 31.73%, being 8,394,01 million dollars, compared to 2007. Although the crisis affected Turkish banks negatively in equities and profitability in 2008, Turkish banks' managements managed the crisis well, and their performance started to increase in 2009. Comparing 2009 figures with 2008, by the end of 2009 equities increased by 31.73% and reached 71,584,08 million dollars, with the total profit of banks reaching 13,095,54 million dollars, increasing by 56.01% (Figs. 5 and 6).



Fig. 5: The Changes in Shareholders' Equity by Years (Million $)

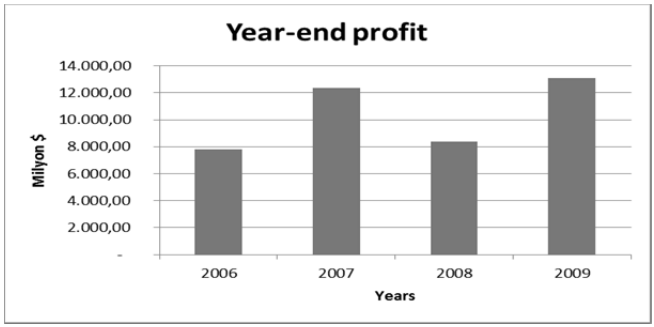


Fig. 6: The Changes in Year-end Profits by the Years (million $)

Consequently, we want to determine that, as we stated in the introduction section of this study, many banks failed, and stopped their activities in the World, due to the banking crisis. The ones that continued their activities were able to do so, only because they received financial support from their governments. Proudly, as proven by the given figures, Turkish banks' managements could overcome the crisis without any domestic and foreign aid being injected.

2000-2001 Crisis Which Affected Turkish Republic?

In order to better understand the effects of the crisis in 2007-2008, we believe it will be better to analyse the 2000-2001 crisis, and its results in Turkey. To explain the above expressed relationship, 1998-1999 (the period just before big crisis), and 2002-2003 (the years following the big crisis) need to be taken into consideration and examined. In relation to these periods, the balance sheet figures are enough to understand the financial situation of the banking sector in Turkey.

Due to the reasons indicated in the introduction, the selected balance sheet items are given in Turkish lira (Table 5), and US Dollars in Fig. 6. In addition, the fluctuations and trends are given in Table 7.

Table 5: Selected Balance Sheet Items (million TL).

	1998	2001	2003
Cash Loans	14,122,355,000.-	37,085,766,000.-	69,990,148,000.-
NPL -non performing loan	1,016,341,000.-	9,521,425,000.-	8,628,656,000.-
Total Assets	36,827,949,000.-	169,221,332,000.-	249,749,773,000.-
Deposits	24,185,291,000.-	116,646,946,000.-	160,812,250,000.-
Total Shareholders	2,128,713,000.-	14,683,827,000.-	35,537,885,000.-
This Year's profit	759,986.-	11,237,395.-	5,610,281.-

Year-end TL/USD rate: 1998: 313,707.00, 2001: 1,446,638.00, 2003: 1,393,278.00
Source: https://www.tbb.org.tr

Table 6: Selected Balance Sheet Items (million $)

	1998	2001	2003
Cash Loans	45,017,66	25,635,83	50,234,16
NPL -non performing loan	3,239,78	6,581,76	6,193,06
Total Assets	117,396,01	116,975,59	179,253,37
Deposits	77,095,16	80,633,13	115,420,07
Total Shareholders	6,785,67	10,150,31	25,506,67
This Year's profit	2,42	-7,77	4,03

Source: Prepared using figures in Table 5 and TL/USD rates provided by Turkish Central Bank year–end rates.

Table 7: Selected Balance Sheet Items Trend (%)

	2001/98	2003/2001
Cash Loans	-43,05	95,95
NPL -non performing loan	103,15	-5,91
Total Assets	-0,36	53,24
Deposits	4,59	43,14
Total Shareholders	49,58	151,29
This Year's Profit	-420,64	-151,84

Source: Prepared using figures in Table-6

As has been indicated in the first section of our study, the selected balance sheet items of the Turkish banking sector were evaluated based on the figures of Table 5, Table 6, and Table 7. We shall study these figures under separate sections.

Cash Loans

When Table 5 and Table 6 data are examined, cash loans by the end of 1998 were 45,017,66 million dollars. Compared to 2001, cash loans have decreased by 43.05% and been 25,635,83 million dollars. By the end of 2003, compared to 2001, it increased by 95.95% and have been 50,234,16 million dollars. As shown in Fig. 7, there are big, dramatic changes (fluctuations) among the numbers; before the crisis, during the crisis, and after the crisis.

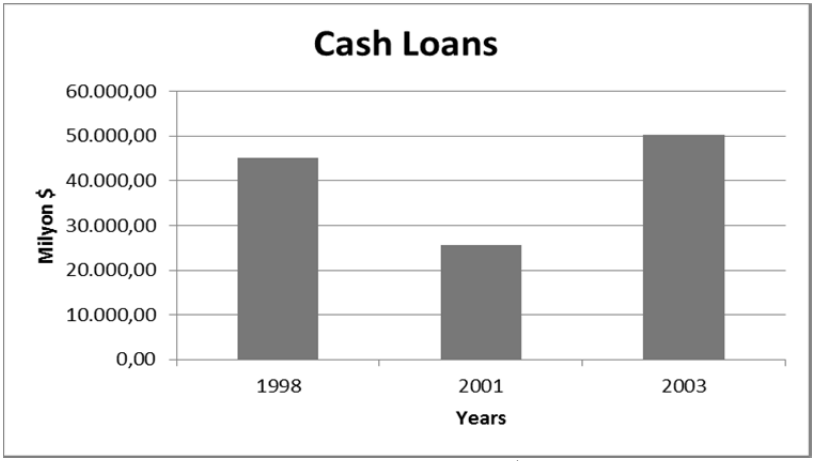


Fig. 7: The Year-End Totals of Cash Loans (million $)

NPL -Non Performing Loan

NPL -non performing loan, in other words the problematic loans total which could not be repaid at value date, was 3,239,78 million dollars by the end of 1998. It increased to 6,581,76 million dollars in 2001, and by the end of 2003 it was 6,193,06 million dollars (Fig. 6). During the crisis years, liquidation, in other words clearing the problematic loans, took time. As shown in Table 7 and Table 8, in 2001, problematic loans increased by 103.15% compared to 1998, and the problematic loans over total loans ratio increased to 26%, which was dramatically high in comparison with tolerable levels of 5%. These figures prove that the 2001 crisis was very strong and its negative impact was greater than expected (Fig. 8).

Table 8: NPL -non performing loan / Total Cash Loans (%)

YEARS	%
1998	7
2001	26
2003	12

Source: Prepared using figures in Table 5

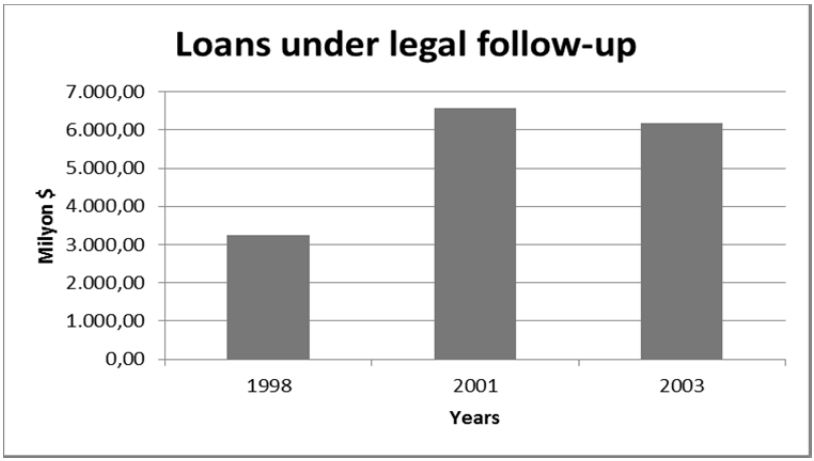


Fig. 8: The Changes of NPL -non performing loan by Years (million $)

Total Assets

Total assets by the end of 1998, which was a successful year without any problem, was 117,396 million dollars. It decreased to 116,975,59 million dollars by the end of 2001. We can say that it was a sharp turn after three consecutive successful years. The reasons for the decrease were the increase in the Turkish Lira/USD exchange rate to 1,639,745 TL, due to big devaluation in the crisis, from 313,707 TL in 1998. In addition, about 30 banks stopped their banking activities in the big 2000-2001 crisis. By the end of 2003, banking sector performance recovered to normal levels and total assets increased to 179,253,37 million dollars (Table 6 and Table 9).

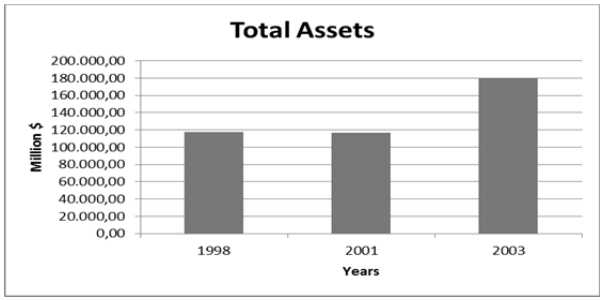


Fig. 9: The Changes of Total Assets by Years (million $)

Total Deposits

Total deposits reached 77,095,16 million dollars by the end of 1998 and increased to 80,633,13 million dollars by the end of 2001. It continued to increase, and were 115,420,07 million dollars by the end of 2003 as shown in Table 6. These figures show that savings in the banking system were not negatively affected by the crisis (Table 6 and Table 8).

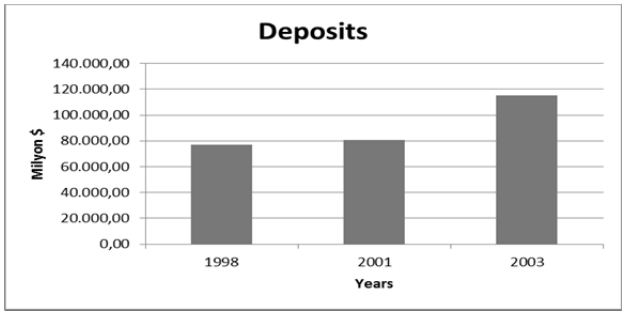


Fig. 10: The Changes of Deposits by Years (million $)

Shareholders Equity and Profitability

The total shareholders' equity of Turkish banks was 6,785,67 million dollars, and the overall profit was 2.4 million dollars by the end of 1998. At the end of big crisis (reference date of 31.12.2001), the total equities were 10,150,31 million dollars. As of same date, the banking sector's consolidated loss (banks together with their subsidiaries and affiliates such as insurance and leasing companies) was 7.77 million dollars, but in the following two years, the banking sector performed well and total equities increased to 25,506.67 million dollars and profit increased to 4.03 million

dollars (Table 6 and Fig. 11). The reasons for the sharp up-turn of equities were mainly the shareholders' injection of cash (increase of paid-in capitals) and the prevention of dividend payments to shareholders, imposed by the Banking Regulation and Supervision Agency, to strengthen financial positions of the banks, close scrutiny and control of the banking sector, and strict regulation in parallel with International Banking Standards (Basel II and III criteria).

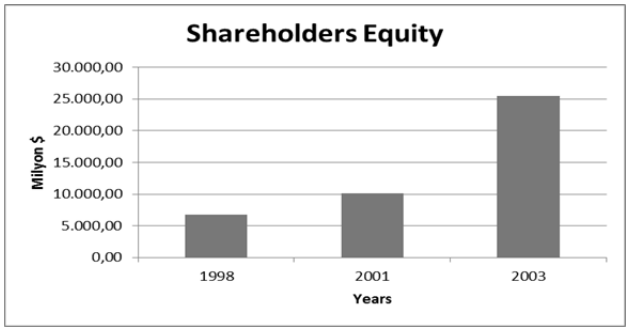


Fig. 11: The Changes in Shareholders Equity by Years (Million $)

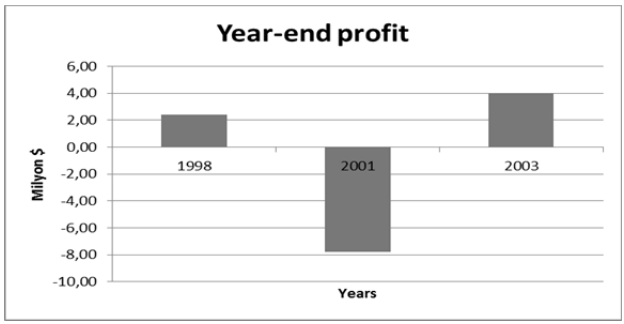


Fig. 12: The Changes in Year-end Profits by Years (million $)

By evaluating the above figures, we intended to show how strong the crisis was, during the years 2000 and 2001. These figures enable us to express why we may say the 2007-2008 crisis affected the Turkish Banking System relatively less than the previous one.

The 2000-2001 Crisis, the Reasons, the Results, and its Impacts on the 2007-2008 Crisis

At the beginning of 2000, the number of commercial and deposit banks acting in Turkey were 61, but decreased to 41 by the end of 2001. The number of development and investment banks decreased from 18 to 14. Ottoman Bank and Körfezbank had been acquired by Garanti Bank, during the period of crisis, to get stronger finances and to reduce operational expenses in order to manage the crisis; the majority of the banks failed, ceased their activities, and their operational control had been taken over by the Banking Insurance Fund for liquidation processes.

The main reasons were:

1- Economic crisis
2- Poor management
3- Improper auditing
4- Abusing of shareholders to the banks' advantage

Let us try to explain in more detail the reasons causing the crisis:

Total saving deposits of individuals were guaranteed by the insurance fund, in other words protected by Government Guarantee. So total saving deposits of financially collapsed banks pertaining to individuals had been paid by the fund. As a result, billions of Turkish Lira were transferred from the Treasury, which we believe not fair from the taxpayer's point of view. For example, newspapers revealed that İmar Bank, which was one of the bankrupted banks, claimed its saving deposits total was 750 million dollars, instead of 6 billion dollars, in order to reduce the reserve requirements liability required by the Turkish Central Bank. This resulted in paying less tax, reducing savings insurance premiums to be paid to the Savings Deposit Fund, etc. The biggest burden on the Turkish Treasury was the Uzan Group of Companies, through İmar Bank and Adabank, as declared by the media after the crisis. The Government took over ownership of all Uzan Group Companies, but later officially declared that those companies' assets were not enough to cover liabilities, and the entire cost was paid by the Government (even the unpaid taxes of Uzan Group have still been unpaid), through taxpayers' money.

It is important to state hereby, that after the big banking crisis of the years 2000-2001, the savings deposit insurance limit, which was unlimited for each account before the crisis, received a cap; the limit is 50,000.00 TL, which is nearly equivalent of €20,000.00, in parallel with the limit of European Union countries. Recently, the savings deposit insurance coverage limit has been set to 100,000.00 TL.

According to a study prepared by the Banking Regulation and

Supervision Agency, 25 banks which are currently continuing banking activities have been in need of 224 trillion TL (six zeros were not taken off at that time) in order to reach the standard equities adequacy (efficiency) ratio (Source: http://www.tmsf.org.tr/default.html).

We mentioned four issues as the main reasons for the great Turkish banking crisis in 2000-2001 having huge costs for the Turkish economy. In Turkey, due to the fact that exports have been always less than imports, the economy can run, and investments are always financed through foreign loans (presently it is still the same); when there are economic crises, devaluation comes afterwards. The TL/USD exchange rate was 205,110 TL in 1997 (before six zeros were deleted), but increased to 1,639,745 TL at the end of 2002. In other words, the TL/USD exchange rate multiplied by eight in four years. The companies invested in, by borrowing foreign currency loans, were unable to repay their debts, and many of them declared bankruptcy. Economic activities in Turkey could not be performed properly. It was impossible for the banks not to be impacted under these circumstances. Besides the above four main reasons, there were some other reasons that generated the economic and banking crisis of 2000-2001.

One of the other reasons that we mentioned was the poor management of banks. Some of the banks failed especially because senior management executives and managers could not manage the risks which occurred from the situation. They were not well educated or experienced, their narrow vision could not understand the dynamics of the domestic and international economy, and could not foresee developments, and consequently, they were unable to take precautionary steps well ahead of time and during the years of crisis.

In addition to the above stated reasons, there have been inadequate audits. The International Banking and Reporting Standards have not been adopted, and auditors have not complied with these standards.

The financial statements of banks have been issued and declared to the public, including lots of mistakes and missing information; Turkish banks had not been efficiently audited before the 2000-2001 crisis, by international independent auditing firms and by Turkish official banking inspectors (auditors) as strictly as in the last 15 years and at present. Only the banks that received loans from international markets were audited according to international standards, and their annual reports published accordingly. Even these audits have not been sufficient; one of the most famous international independent auditors, Arthur Andersen, did audit one of the biggest energy companies of the world, ENRON Energy Company of USA, but it collapsed in 2001, which was a great scandal. ENRON's

stocks had been traded at $90.05 at New York Stock Exchange House, based on the highlights of audited good financial reports, but with the sudden bankruptcy of ENRON, the share value decreased to pennies. This event made it clear that international independent auditors had not been reliable and accountable in doing their jobs. Following this scandal, Arthur Andersen was also forced to end its activities.

The other auditing body in Turkey, the Banking Regulation and Supervision Authority, had some similarities as well.

In summary, Turkish banks were not closely inspected, nor audited, by international and local official auditing bodies efficiently, because the rules and regulations were not forcing them to do so.

Under the above noted conditions, it has been suspicious how the banks in those years were audited, and how the financial statements were prepared, issued and published.

The owners of the banks made transactions against rules and regulations, and these illegal transactions caused the banks to have weakened capital structures. The top management executives let the bank owners to do so, in order not to lose their jobs. These mistakes, transactions against rules and regulations, and unprofessional acts, initiated the big banking crisis of 2000-2001, followed by other important factors.

The Banking Regulation and Supervision Authority issued quite strict regulations in compliance with Banking Law Number 4389 (Law 4389), and following Law Number 5411 (Law 5411), approved by the Turkish Parliament.

Law 4389 and 5411 have been enacted as a reaction to the outcome of the crisis:

1- Banks' Law Article 24, related with Board Members election, describes the terms and conditions, and their duties and responsibilities.

As rule of thumb, the Board of Directors is primarily responsible for increasing the performance of a company. The volume of transactions must grow, and surely the profit. Besides increasing performance, the Board of Directors is also responsible for the compliance of all activities and transactions with the rules and regulations in force. They should closely follow, check, and evaluate the banking activities, to minimize all potential and possible risks.

As an outcome of these responsibilities, the Board of Directors of the banks must review the financial reports on a monthly basis to evaluate authenticity of activities, volume of transactions, number of new customers, and increasing profitability, and must instruct Senior Management to address issues accordingly. Besides this responsibility and

duty, they need to review and evaluate the reports that are presented to them by the Auditing Committee prepared by the Inspection Council and Auditing Units of the banks. Accordingly, they become aware of the mistakes and possible risks that the bank may or may not take. In addition, the board must review and evaluate audit reports prepared by officials of the Banking Regulation and Supervision Agency, along with the reports of international independent auditors. Consequently, they provide instructions to acting bodies in order to prevent mistakes, minimize risks and increase performance and profitability of the bank. Finally, the Board of Directors must be responsible for both increasing the activities generating revenue, and banking transactions, and making sure of the legitimacy of the transactions in compliance with the rules and regulations. There will be no mistakes and risk if there are no transactions!

Unfortunately, Banks' Law Article 24 describes Board of Directors responsibilities as follows:

"To prepare the process (internal rules and regulations) of risk management and internal audits according to the prevailing rules and regulations, to obtain adequacy, best practice and compliance, to provide security of the system of financial statements, to determine the duties and responsibilities of the governing positions in the bank."

There are no statements about directing the bank to increase performance and profitability. During the crisis period, the banking sector personnel's responsibility was only to prepare financial reports through the previous years' data, audit, and prepare officially required documents for the submission to the Banking Regulation and Supervision Agency and trying to find answers to their questions.

2- With the new Law 5411, the special finance institutions undertook banking activities according to the Islamic system, named 'Participation Banking' requiring banks to follow the requirements of Banking Law, such as being audited, transparent to public, and insuring savings deposits, as normal banks in Turkey.

3- The expiration period for documentation is 20 years in banks' receivables, according to the Law 5411 Article 13. For example, if a bank declares a loss in its statement, and consequently, it is turned over to the Savings Deposit Fund, or I've been approved for a cash loan, when the borrowing company's performance was very good, profitable, well-known, reputable, and it has paid the accrued interests at the end of every financial periods, and the bank extended the loan for years, but by chance after six years, suddenly this company went to bankruptcy. Under these conditions, the Saving Deposit Fund will consider me as guilty, and call me to court, and the Court will judge me for years. If I'm found guilty, I

will pay the unpaid credit with accrued interest. If I am dead, my wife and children are responsible for paying the unpaid credit that I had approved six years before, considering that the judgement period may be eight or 13 years later.

The expiration period for all documentation is five years, according to Turkish Tax Law, 10 years according to Turkish Commercial Law, but surprisingly, it is 20 years in Banking Law.

4- There are very sensitive, strict qualifications, terms and conditions put in force with the new Banking Laws after the 2000-2001 crisis, with respect to starting up a new bank; receiving required approval, minimum limits for the qualification of the bank owners, etc. Due to the high limits, no new bank has been established in Turkey since 1997, until ODEABANK had the chance and received approval, only a few years ago.

5- The Basel III criteria had been in force all around the world after the 2007 worldwide economic and banking crisis. In Turkey, it was put in force in 2013. Basel I standards and Basel II standards (criteria) have been in force in 1986 and 1996 respectively; thus having much more detail and more sensitive calculations, and mitigation measures. With Basel III criteria, besides standard capital adequacy (equity) ratio criterion, new obligations have been put in force such as main equity, essence equity, and additional equity. These have been defined sensitively, and new capital (equity) adequacy ratio calculations have been asked for on a monthly and quarterly basis. Leverage ratio is an additional requirement, while liquidity ratio calculations are restricted in short term receivables and payables.

According to Basel II standards, the capital adequacy ratio (equities over the sum of total calculated credit risk + total calculated market risk + total calculated operational risk) must be minimum 8% in all markets, all around the world, but in Turkey, in practice, if it is less than 12%, the Banking Regulation and Supervision Agency will enforce some limitations to that bank, such as prevention of dividend payments, or forbidding it to open new branches. These additional requirements allowed the banks to have increased operational capital.

The minimum 12% ratio noted above, which has been required for banks in Turkey, will be a must for worldwide banks over the next 10 years, with annual increases over the years, starting in 2013.

Why have we provided these examples and emphasized them? After 2003, Turkish banks improved their financial performance in profitability, in a way that the Turkish market attracted foreign capital. Foreign investors acquired many banks totally, or became shareholders, by purchasing good amount of shares.

Conclusion

In the introduction of this study, we indicated that many countries have been negatively impacted from the 2007-2008 worldwide banking crisis. We also mentioned that Turkish banks managed the crisis well and did not receive any financial support from the government. We provided 2006-2007-2008 and 2009 selected balance sheet items, to prove our presumption. In addition, we explained the impact of the 2000-2001 crisis compared to the 2007-2008 crisis.

One of the main reasons for the banks being able to manage the 2007-2008 crisis was the Banking Regulation and Supervision Agency being very devoted to enforcing international banking standards (Basel Committee Criteria), having Turkish financial institutions and banks audited vigorously, and replicating this for leasing, insurance, and factoring companies. Presently, the severe rules and regulations, along with audits, are still in force, as it must have been all along.

The banks are of the key components of the financial markets. As the financial sources (savings) are collected from individuals, and serviced to investors to be used in economic growth activities as investments, a banking crisis may generate an economic crisis. To minimize the risks in the banking sector, to overcome the negative domestic and international effects, our system has to continue to obey the standards, rules and regulations (some of which are described above). In addition, the government should not allow any kind of intervention that may jeopardize the well-being of the banking sector.

During the last two decades, governments have not compromised on any banking rules and regulations with populist political approaches. The Banking Regulation and Supervision Agency complied with international standards strictly more than other countries. If the government does not intervene in the future, in the management (plans, programmes, activities) of independent organisations such as the Banking Regulation and Supervision Agency, the Central Bank of Turkey, the Turkish Savings Deposit Fund, and the Capital Markets Board, preventive measures for any potential economic and financial crises will be in place.

While economics of many countries and financial performance of many banks all around the world were affected by 2007-2008 crises, banks in Turkey have not experienced much. Although, there have been many local and international factors, our markets did not feel as badly as in the 1994 and 2000-2001 crises, thanks to the measures put in force after the 2000-2001 crises.

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