Road to Basel-III
Strategies and Priorities of the BDDK

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- The roadmap from Basel I to III
- Outstanding issues and pending decisions
- Turkish Banks and Basel-III
- Strategies to increase both the quality and quantity of bank capital

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The Roadmap from Basel I to III

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Regulatory Infrastructure

- Banking Act # 5411 (November 2005)
- Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks (November 2006, June 2007, January 2009)
- Regulation on the Internal Systems of Banks (November 2006, June 2007, November 2008)
- Regulation on Measurement and Evaluation of Capital Adequacy of Banks (November 2006, October 2007, March 2008)
  - Credit Derivatives
  - Options
  - Value at Risk Models
  - Structural position

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The Roadmap from Basel I to III

Progress Related to Basel-II

- Current Regulation on the Measurement and Evaluation of Banks Capital Adequacy (dated 2006) is compliant with the Basel-II Provisions related to market risk.

- Current Capital Adequacy Regulation is also made compliant with Basel-II by including operational risk measurement approaches in July 2007.

- Draft regulations that are fully compliant with Basel-II have been made public.

    - Starting from July 2011 a one year parallel run is planned.

The Roadmap from Basel I to III

Progress Related to Basel-II

- Quantitative Impact Studies– QIS 3, QIS-TR1, QIS-TR2, QIS-TR3
  - QIS-TR3 Results: As of March 2010 consolidated capital adequacy ratio of banks decreases from %18,35 to %16,95 with the implementation of Basel-II

- Seminars– together with KOSGEB ve TBB
- Working Papers
- Committees
- Progress Reports
- Pillar II Related Work: Regulation on Liquidity Risk, Regulation on Interest Rate Risk in the Banking Book

For more information, see:

http://www.bddk.org.tr/websitesi/turkce/Basel-II/Basel-II.aspx

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Outstanding Issues and Pending Decisions

Following Global Financial Crisis – Initial Response by the BCBS: July 2009

- Revisions to the Basel II market risk framework
- Enhancements to the Basel II framework

Basel Committee Reform Package

- Based on mission assigned to BCBS by the G-20, in December 2009 a Reform Package was announced.
- Components of the Package:
  1. *"Strengthening the resilience of the banking sector"*
     a) Raising the quality, consistency and transparency of the capital base.
     b) Strengthening the risk coverage of the capital framework.
     c) Introducing a leverage ratio
     d) A countercyclical capital framework
  2. *"International framework for liquidity risk measurement, standards and monitoring "*

Outstanding Issues and Pending Decisions

GHOS Meeting 12 September 2010 :

- Easing the December 2009 document by taking into account the problems that were faced by several countries (not Türkiye).
  - Reducing the ratio that is based on common equity to %4,5
  - Reducing total CAR to %10
  - Reducing capital conservation buffer to %2,5
- Allowing longer transition periods.

Outstanding Issues and Pending Decisions

Calibration of Capital Adequacy

	Common Equity (%)	Tier 1 (%)	Total (%)
Minimum	4,5	6,0	8,0
Capital Conservation Buffer	2,5		
Minimum Plus Capital Conservation Buffer	7,0	8,5	10,5
Countercyclical Capital Buffer	0 – 2,5		

Outstanding Issues and Pending Decisions

Annex 2: Phase-in arrangements (shading indicates transition periods)

(all dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January 2019
Leverage Ratio	Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015					Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625%	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
Net stable funding ratio		Observation period begins						Introduce minimum standard	

Outstanding Issues and Pending Decisions

- Turkey's BCBS Membership: 25 May 2009

- BDDK's Comments During Consultation Process

    - Credit Ratings of ECAI and Basel-III

    - FX denominated treasury securities – liquidity

    - Minority interests

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Outstanding Issues and Pending Decisions

BRSA Implementation Plan:

- Revisions to the Basel II market risk framework :
  - Regulations will be prepared by the end of 2011.
  - Have minimum effect on Turkish Banks
- Basel-III:
  - Currently a Comprehensive - QIS Study is being implemented
  - Additional impact studies have been undertaken
  - The schedule that is announced by the BCBS will be followed.

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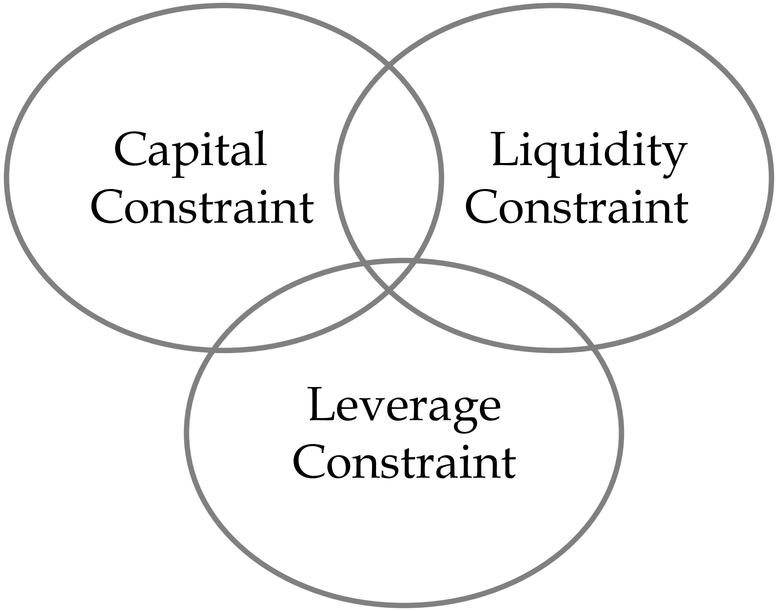
Turkish Banks and Basel-III

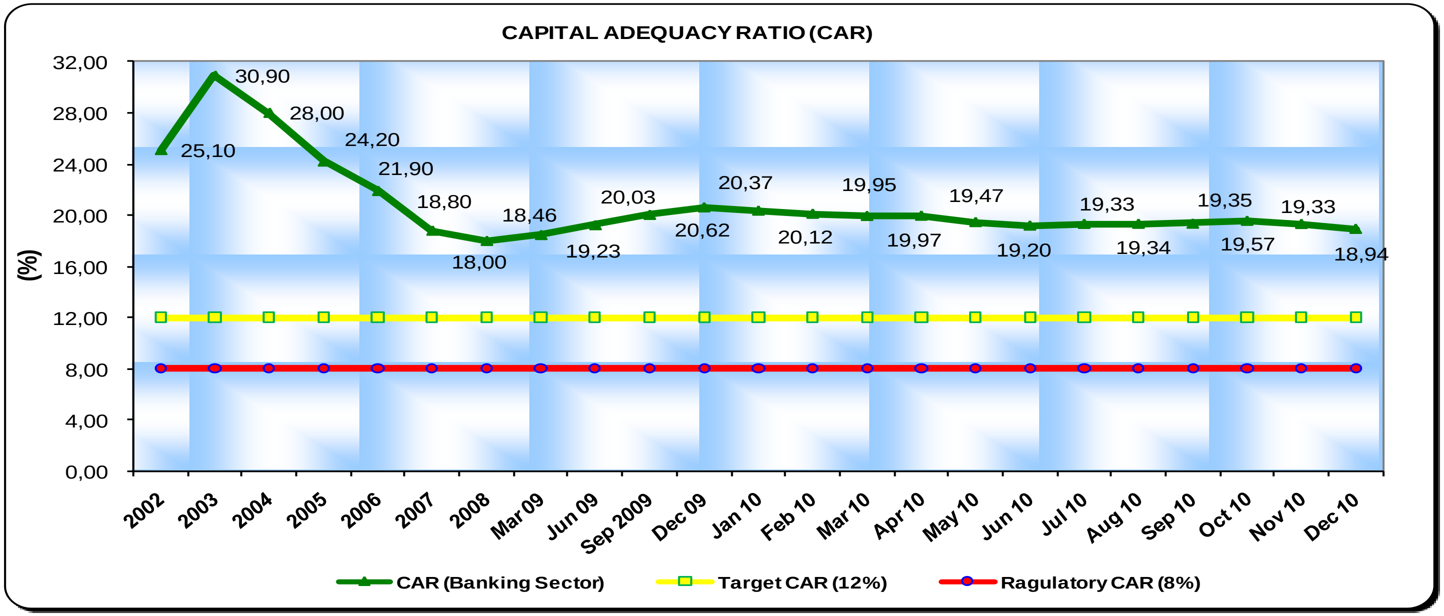
- Banks need to alter their business plans following Basel-III



- Additional regulations by the FSB: i.e. G-SIFI and SIFI

Turkish Banks and Basel-III

- CAR of the Turkish Banking Sector is at very high levels.



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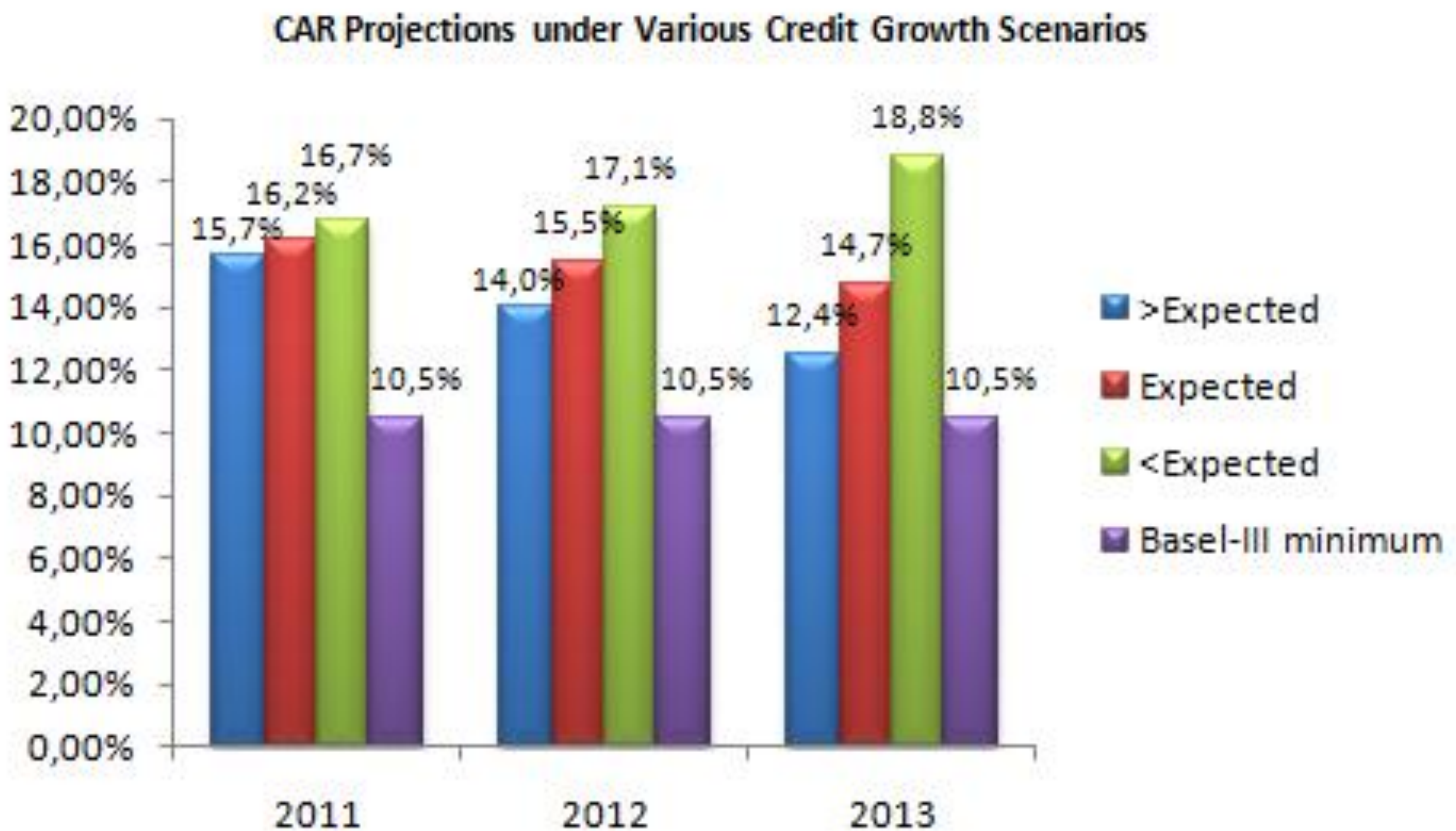
Turkish Banks and Basel-III

Effect of Basel-III

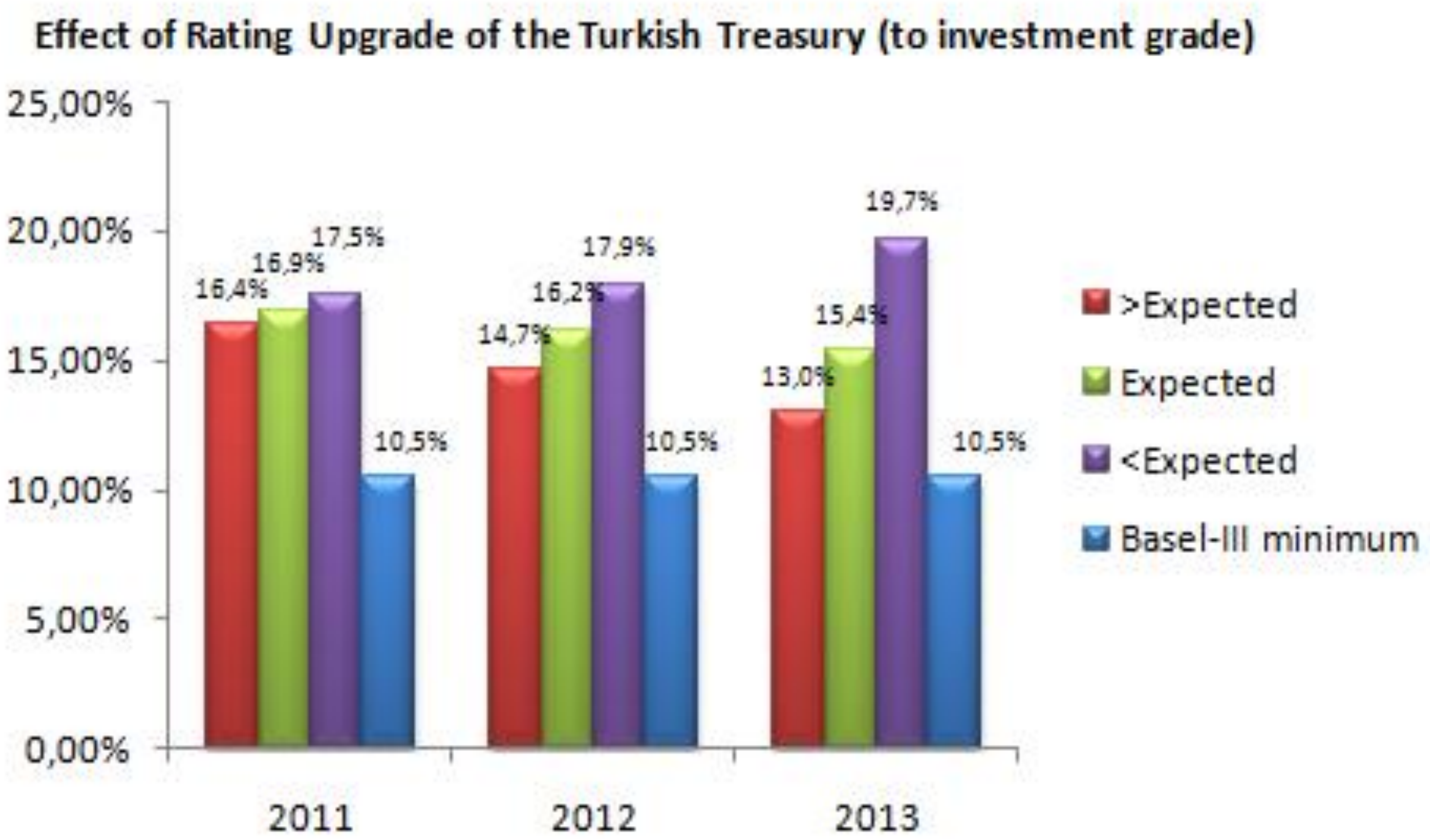
- Groups 1 banks (BCBS's definition) should raise important amount of capital in order to comply with the common equity ratios.
- Strong Capital Structure of the Turkish Banking Sector: Within own funds the percentage of subordinated debt and hybrid instruments is low, paid-in capital and profit reserves and undistributed profits are high (which are taken into account in common equity)

As of June 2010	Amount (*1000 TL)	Percentage
Tier I Capital	113.055.045	91,2%
Paid in Capital	46.297.649	37,3%
Retained Earnings	62.430.683	50,4%
Other	4.326.713	3,5%
Tier II Capital	12.320.900	9,9%
Tier III Capital	0	0,0%
Deductions	1.392.234	1,1%
Total Own Funds	123.983.711	100,0%

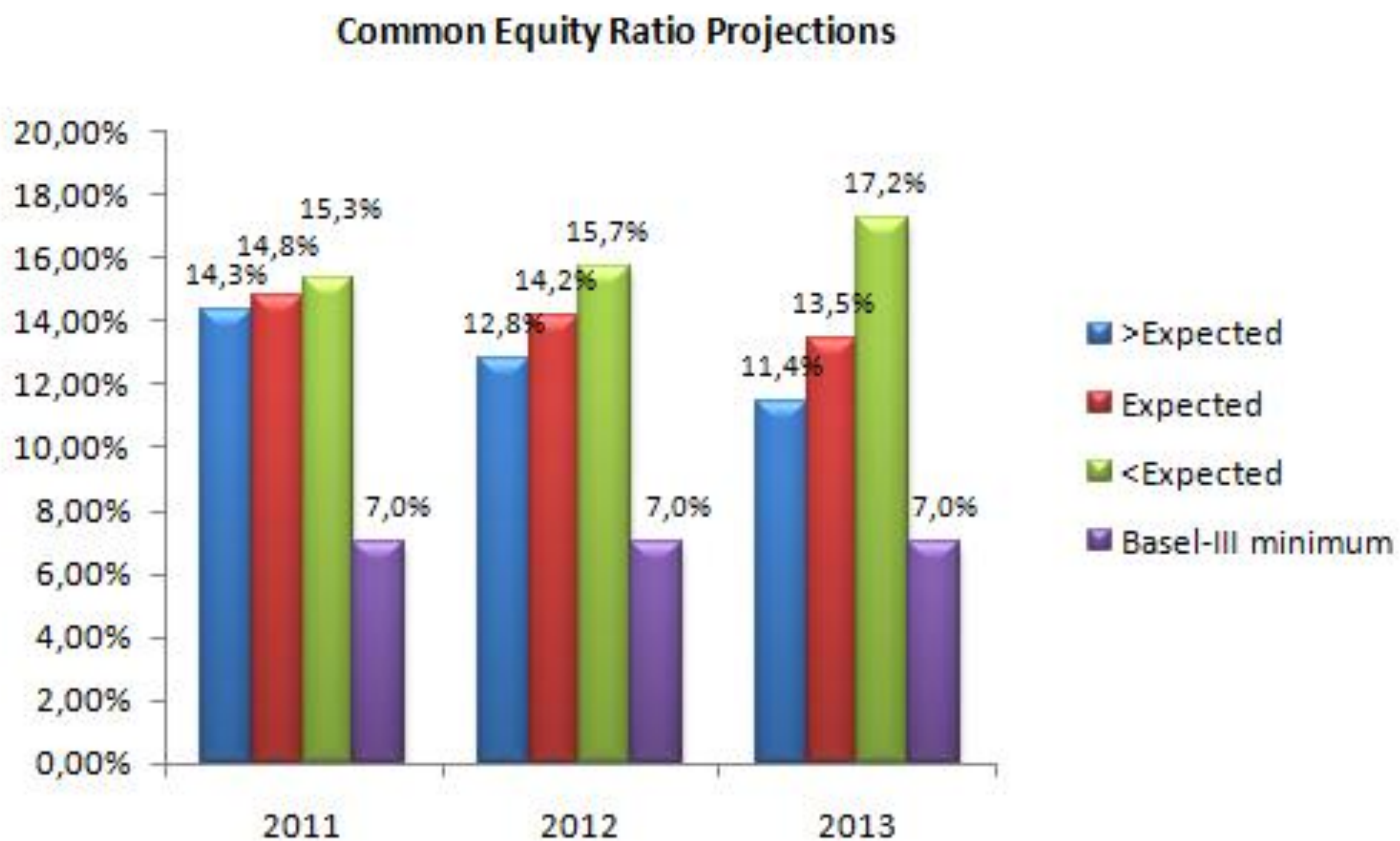
Turkish Banks and Basel-III



Turkish Banks and Basel-III



Turkish Banks and Basel-III



Turkish Banks and Basel-III

⌂ Requirements for the liquidity in the existing regulation (since 2006)

First term (Maturity between 0-7 days)

Second term (Maturity between 0-31 days)

1) Total liquidity adequacy ratio

$$\frac{Liquid\ Assets + Cash\ Inflow\ Within\ 1\ Week\ (Month) Maturity}{Cash\ Outflows\ 1\ Week\ (Month) Maturity} \geq 100\%$$

2) Foreign currency liquidity adequacy ratio

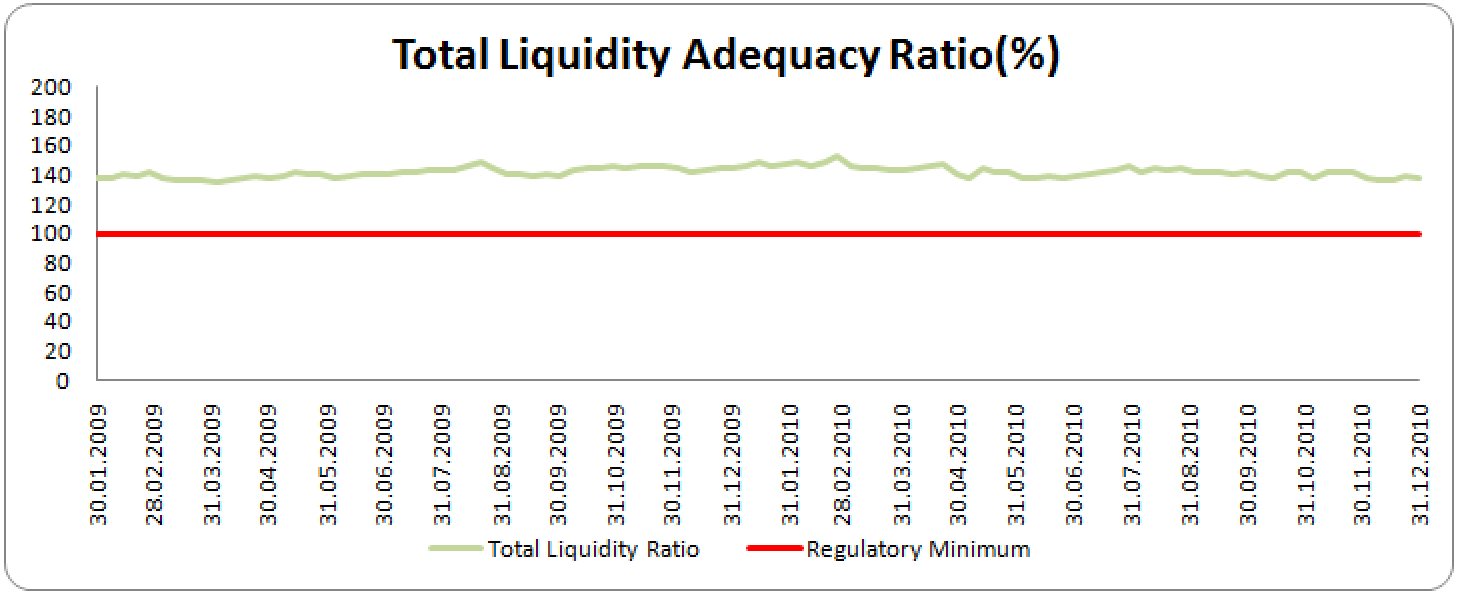
$$\frac{FX\ Liquid\ Assets + FX\ Cash\ Inflows\ Within\ 1\ Week\ (Month) Maturity}{FX\ Cash\ Flows\ Within\ 1\ Week\ (Month) Maturity} \geq 80\%$$

3) Stock liquidity adequacy ratio

$$\frac{Stock\ Values\ of\ Liquid\ Assets\ Regardless\ of\ Maturity}{Stock\ Values\ of\ Certain\ Liabilities\ Regardless\ of\ Maturity} \geq 7\%$$

Turkish Banks and Basel-III

- The Liquidity ratio (0-31 days) reported by all banks in the Turkish Banking Sector is parallel to (even more conservative in some items) the Liquidity Coverage Ratio of the Basel-III Framework.



Basel-III LCR Ratio:

BRSA's Assessment : 131%* as of End-2010

*Calculated based on highly conservative assumptions

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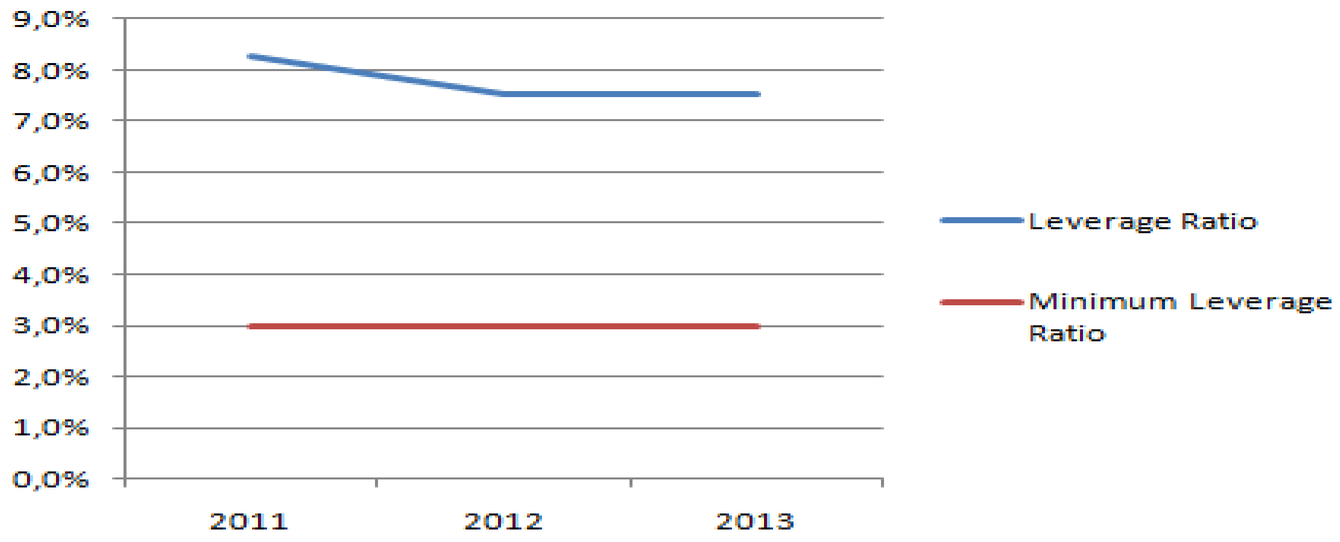
Turkish Banks and Basel-III

Projections -Leverage Ratio



	Leverage Ratio	1/Leverage
2011	8,3%	12,1
2012	7,3%	13,7
2013	6,9%	14,5

Turkish Banks and Basel-III

- Turkey is one of the few countries in which no defaults were observed in its banking sector during global the financial crisis. (Even there were no banks in need for government support).

- Strong capital base and CAR ratios of the Turkish Banking Sector will differentiate it from the banking sectors of other countries in the long run after the implementation of Basel-III rules.

- It is expected that the liquidity ratios of Basel-III will not have significant effect on the credit growth and profitability of the Turkish Banking Sector.

- Deposit oriented banking will come back to the centre of banking business in the near future.

- Leverage will not be a constraint for Turkish banks which brings an important advantage over the EU banks.

Therefore;

  - Corporates will not be negatively affected by the implementation of the Basel-III rules by the banks in Türkiye.

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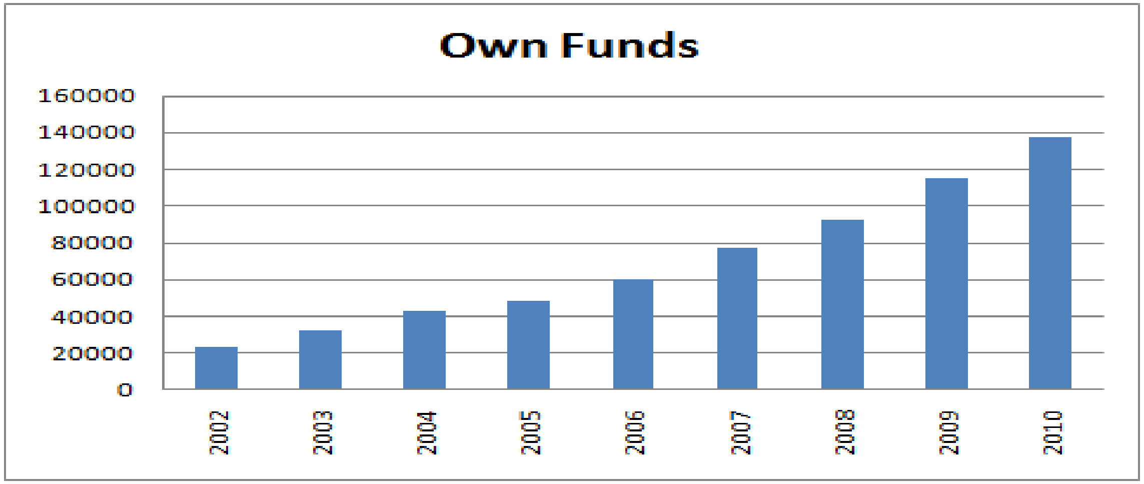
Strategies to Increase Both the Quality and Quantity of Bank Capital

Existing Strategies

- Permissions for dividend payments.

	CAR>18%	16%<CAR<18%	13%<CAR<16%
Max Distribution	20%	15%	10%
Max Allowable Decrease in CAR After Distribution	100 bp	70 bp	40 bp
Existance of General Reserves for Potential Risks	Additional 15% of General Reserves	Additional 10% of General Reserves	



- Target CAR - %12

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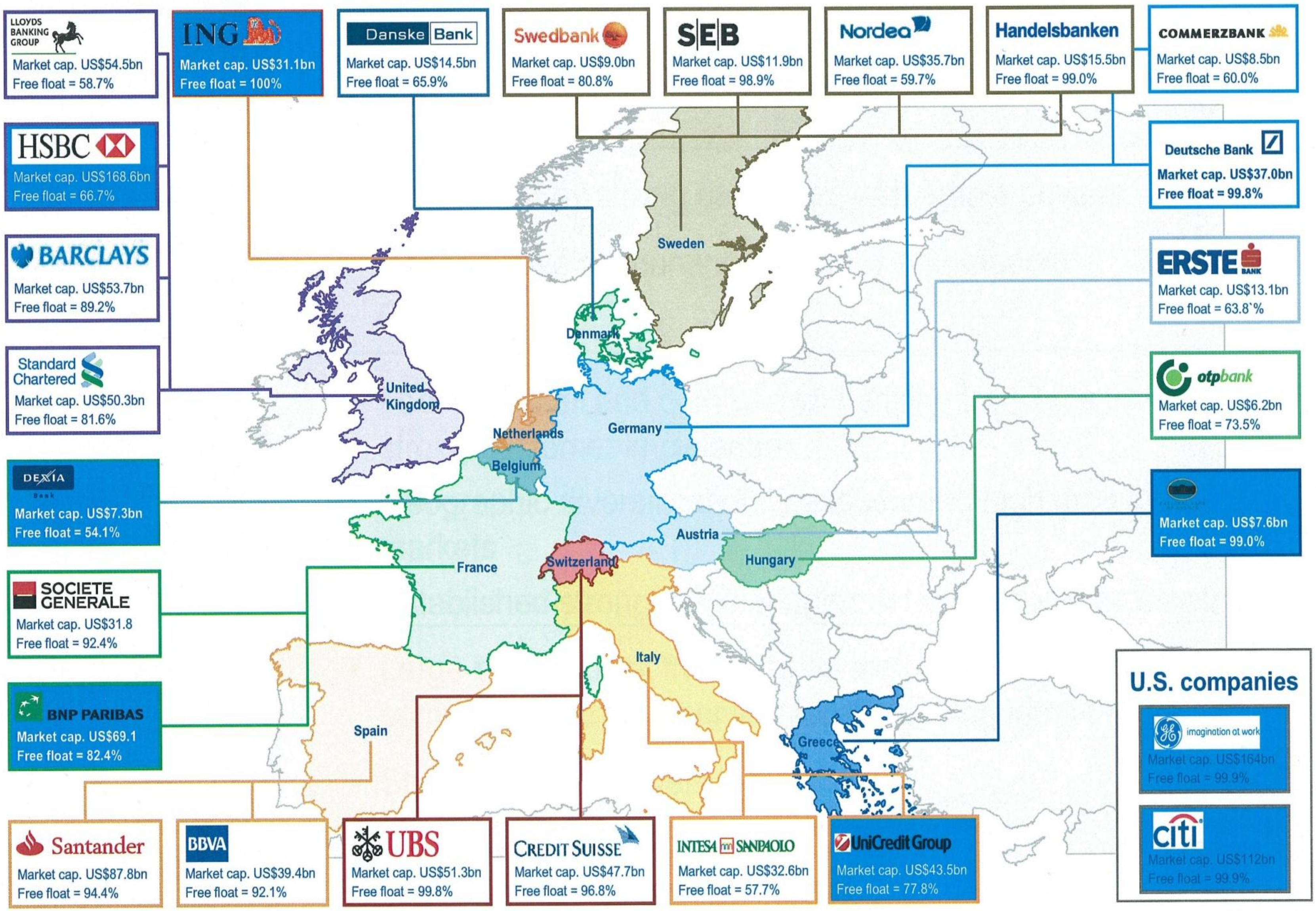
Strategies to Increase Both the Quality and Quantity of Bank Capital

Future Strategies

- Home-host relations
  - Proactive actions when considered necessary.
- Ownership structure

Strategies to Increase Both the Quality and Quantity of Bank Capital



THANK YOU

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