



**BANKING
REGULATION AND SUPERVISION
AGENCY**

July 25, 2007

PRESS RELEASE

As it is known, comprehensive version of International Convergence of Capital Measurement and Capital Standards (Basel II) was published in June 2006 by the Basel Banking Committee and Basel II provisions were included in the Acquis Communautaire by the Directives (Capital Requirements Directive –CRD) Nr. 2006/48 and 2006/49 which were published in the same period. Various Quantitative Impact Studies - QIS have been realized in order for estimating possible impacts of texts which lead fundamental changes in the calculation of capital adequacy of banks.

Impact studies in our country which were made in order to observe the impacts of the provisions of Basel-II and related EU Directives on capital adequacy of banks in Turkish banking sector started with participating to QIS-3 study which was made in 2003 by the Basel Committee. Following the QIS-3 study which was realized with the participation of the banks which comprises about 60% of the sector asset size, the first local Quantitative Impact Study, QIS-TR1, was made with 23 banks, sector share of which reach to 95% in 2004. Finally, QIS-TR2 study was realized with the participation of 31 banks which comprises about 97% of the sector. Data belonging to September 2006 were used in QIS-TR2 study.

QIS-TR2 study which was made referring to Basel-II and CRD provisions is important since the majority of banks have participated and it is the recent study which enables the evaluation of the impacts of Basel-II provisions on the capital adequacy of banks.

Fundamental findings obtained from this study are as follows:

- Average capital adequacy ratio of banks which had participated in the study decrease by 5.6 points from 19,31% to 13,68%. The said decrease corresponds to a decrease by 29,16% in ratio. When compared to former QIS studies, it is seen that QIS-TR2 study has a lesser impact on capital adequacy ratio. Meanwhile, when 8% which is the legal minimum capital adequacy ratio in whole world countries is taken into consideration, the ratio of 13,68% based on the projection occurred as a result of the calculations is 5,68 points above the legal ratio. In other words, it is seen that even if Basel-II provisions is applied in Turkish Banking Sector as of today, capital adequacy ratio of our system may realize in a higher level than many European countries.
- The main reason of the decrease of the banks' capital adequacy is not the 0% risk weight of FX public securities within their portfolios, but the fact that Turkey was weighted by 100% risk weight because of its country rating grade.
- Another reason of the decrease of capital adequacy ratio is the operational risk which is recently included to the calculations.
- Similarly to the finding of former QIS studies, it is determined that the positive impact of retail portfolio on capital adequacy is still continuing.
- Contrary to the findings of former QIS studies, it is determined that,
 - i. The SME portfolios which include only the loans and other receivables extended to SMEs and
 - ii. The portfolios which includes mostly the loans extended to real sector companies (SMEs and big size enterprises)
 have an positive effect on the capital adequacy rather than a negative one.

The **Basel-II Quantitative Impact Study (QIS-TR2) Evaluation Report** in which studies and evaluations about QIS, is composed of six sections. After the first section, which is the introduction, in the second section, general information related to the quantitative impact studies realized in our country is given. In the third section, the methods for calculating the capital adequacy ratio for QIS-TR2 study is explained. The general information about QIS-TR2 study is given within the forth section. In the fifth section of the Report, the results of QIS-TR2 study are evaluated in details. Within this part, the results are evaluated based on the portfolios and risks,

and the findings are compared to the QIS-3 and QIS-TR1 realized previously and various scenario analysis are given. In the last section of the Report, general evaluations are given. In the annex of the Report, 94 charts composed of detailed statistics related to the results of QIS-TR2 study take place.

The Basel-II Second Quantitative Impact Study (QIS-TR2) Evaluation Report is available in the official web-site of the Banking Regulation and Supervision Agency, www.bddk.org.tr.