BANKING
REGULATION AND
SUPERVISION AGENCY

PRESS RELEASE

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The New Economic Programme (NEP) has announced that financial soundness of the banks would be assessed in order to evaluate their financial structure and asset quality, and depending on the results of these assessments, a comprehensive set of policies would be introduced. The assessments specified in the NEP have been conducted and completed by the Banking Regulation and Supervision Agency of Turkey (BRSA) in close cooperation with relevant governmental authorities.

In the context of the studies for the assessment of the financial soundness of the banks, the BRSA teams have undertaken in-depth analysis of credit portfolios and as a consequence, the loans in watch list and impaired categories have been reclassified under different assumptions following a more prudential perspective stipulated by the relevant regulations. The effect of these loan reclassifications on capital adequacy ratio was calculated under the assumption that there would be a prompt reclassification of the loans (i.e. the loans would not be reclassified gradually) and the provisioning rate for reclassified loans would be equal to the average provisioning rate of the new classification category. Additionally, in this assessment, the positive effects of the two temporary regulations introduced by the BRSA in August have been disregarded.

Under the prudential approach and assumptions summarized above and given that the positive effects of probable changes in the asset structure of banks have been disregarded, the estimations indicate that the non-performing loans ratio might increase to 6% and capital adequacy ratio might decrease to 15.5% next year.

Even though the globally accepted minimum capital adequacy ratio set by the Basel Committee on Banking Supervision is 8%, the BRSA has been implementing a target capital adequacy ratio of 12%. The capital adequacy ratio estimated through financial health assessment studies is well above these limits.

Despite the positive outlook of the financial health of the Turkish Banking Sector, state-owned and private banks have recently been strengthening their own funds structure by issuing subordinated debt and increasing their paid-in capital with a prudential perspective. Additionally, profitability of the banking sector supports its capital adequacy through internal capital generation.

The BRSA will keep on assessing the financial health assessment studies during the macroeconomic rebalancing period. In addition to these comprehensive and credit-based studies, the BRSA closely monitors the capital and liquidity adequacy of the banks against the macroeconomic shocks by means of top-down stress tests conducted semi-annually. Furthermore, banks prepare reports on their corporate governance and risk management framework as well as their capital and liquidity adequacy under various scenarios as required by the “Regulation on Bank’s Internal Systems and Internal Capital Adequacy Assessment Process” and submit their reports to the BRSA on annual basis.

To conclude, the studies conducted by the BRSA indicate that Turkish Banking Sector sustains its financial strength and health, and the current capital structure is sufficient to manage the risks likely to arise though asset quality issues.

Respectfully announced to the public.