Republic of Turkey
Undersecretariat of Treasury

Banking Supervision in Turkey

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4th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP
March 19, 2015
Ankara
This presentation exclusively addresses the questions raised by COMCEC Secretariat for `Member Country Presentations` `Session`
OUTLINE

- Financial System in Turkey
- Regulatory and Supervisory Framework
- Banking Regulation and Supervision Agency
- Banking Supervision
- From Crisis to Financial Stability
Financial System in Turkey (%)

Banking dominates Turkish financial system

Based on different definitions,
Banking represents about 61 to 85 percent of total financial sector assets

Financial System in Turkey

Financial Sector Assets (Billion TL)

Non-Bank Financial Institutions’ Assets (%)


Banking sector reached TL 2 trillion in asset size
Banking Sector Indicators

**Capital Adequacy Ratio (%)**

- Target rate 12 percent
- Legal limit 8 percent

**Asset Quality (NPL Ratio, %)**

**Return on Equity (%)**

Source: BRSA

**Capital Adequacy Ratio in Selected Emerging Markets (%)**, 2013

- Indonesia: 19.8
- Hungary: 17.5
- Colombia: 17.0
- Czech Rep.: 16.5
- Brazil: 16.1
- Poland: 15.7
- Thailand: 15.6
- Mexico: 15.6
- Turkey: 15.3
- Malaysia: 14.6
- Korea: 14.5
- Romania: 13.9
- Russia: 13.5
- Chile: 13.3
- India: 12.6
- China: 12.2

Source: IMF-FSI, BRSA
## G20 Members Basel III Implementation Progress

(as of September 2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Basel II</th>
<th>Basel 2,5</th>
<th>Basel III</th>
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<tr>
<td></td>
<td>Risk-based capital</td>
<td>G-SIB / D-SIB requirements</td>
<td>Liquidity (LCR)</td>
<td>Leverage ratio</td>
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Number code: 1 = draft regulation not published; 2 = draft regulation published; 3 = final rule published; 4 = final rule in force.

Green = adoption completed; yellow = adoption in process; red = no adoption.

Source: BIS – BCBS (2014)
Regulatory and Supervisory Framework

- A bit fragmented

- Public Finance
  - Insurance Com.
  - Private Pension Com.
  - Reinsurance Com.
  - Exchange Offices

- Payment and Settlement Systems
  - Money and foreign exchange markets
  - Reserve management

- Intermediary Institutions
  - Funds
  - Public/Listed Com.
  - Takasbank (custody)
  - Trade repositories
  - Trust
  - Securities Market

- Banks
  - Factoring Com.
  - Leasing Com.
  - Cons. Fin. Com.
  - Financial Holding Com.
  - Asset Management Com.
  - Payment institutions
  - E-money institutions
Cooperation and Coordination

A Quick Glance at Financial Safety Net

- Deposit Insurance
- Lender of Last Resort
- Prudential Regulation & Supervision
- Resolution Mechanism
Cooperation and Coordination

Financial Stability Committee

Chaired by Minister in charge of the Undersecretariat of Treasury
Regulatory and Supervisory Framework

FINANCIAL STABILITY COMMITTEE

- was established in 2011

- aims to identify and mitigate emerging systemic risk, to coordinate policy actions, and to better integrate micro- and macro-prudential perspectives among institutions
Regulatory and Supervisory Framework

Banking Sector

- Banking Regulation and Supervision Agency (BRSA) is the sole authority to carry out the supervision of banking sector including participation (Islamic) banks

- BRSA was established in August 2000 having the status of a public legal entity with autonomy
The independence of the BRSA gives autonomy in

- regulation and supervision,
- Agency administration and
- using financial resources.
BRSA conducts audits in order to ensure that

- the provisions of the Banking Law and other laws are properly adopted by supervised institutions
- to assess the financial soundness of these institutions
- to evaluate the effectiveness and sufficiency of the structures developed to monitor and manage risks that may arise from usage of IT systems in banking activities
The audit activities include two integrated processes:

- **On-Site Examination**
  - i.e. supervision of the financial tables and records according to accounting principles and auditing standards

- **Off-Site Surveillance**
  - i.e. stress testing and scenario analysis

Risk focused supervision approach adopted:

- the scope, frequency, timing and intensity of supervision and allocation of supervisory resources are decided by taking into account bank’s risk profile as well as the quality of bank’s internal control and risk management systems.

Source: BRSA
Areas to be focused are determined. Identified areas in RAS are inspected and analyzed in detail.

Examiners deal with other subjects that are not dealt in SPR and they evaluate bank’s ICAAP.

Examiners assign banks a rating using FSA Module.
BRSA – Participation Banks

- Currently four participation banks operating in the sector
- BRSA allowed state banks to establish three new Participation Banks
- BRSA treats Participation Banks as conventional counterparts and implements legislations and guidelines without differentiation
- In line with the development of the sector, a new department has been established especially for participation banks
Turkish banking sector experience has been a success story

“From Crisis to Financial Stability” working paper distributed to you shares Turkey’s experience comprehensively
From Crisis to Financial Stability

The Pre-crisis Conditions of Turkish Banking Sector (Pre- 2001)

- Inadequate capital base
- Small and fragmented banking structure
- Dominance of state banks in total banking sector
- Weak asset quality (concentrated credits, group banking and concentrated risks, mismatch between loans and provisions)
- Extreme exposure and fragility towards market risk (maturity mismatch, FX open position)
- Inadequate internal control systems, risk management and corporate governance
- Lack of transparency

Source: BRSA
From Crisis to Financial Stability

Banking System Restructuring Program (2001)

**Main Objective**
- To eliminate distortions in the financial sector and
- To adopt regulations to promote an efficient, globally competitive and sound banking sector

<table>
<thead>
<tr>
<th>Restructuring of the state banks</th>
<th>Strengthening of the Private Banks</th>
<th>Exit and Resolution of Insolvent Banks</th>
<th>Improving the Regulatory and Supervisory Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Elimination of state banks' overnight liabilities to the parties other than the Central Bank of Turkey</td>
<td>- Capital injection</td>
<td>- Bad assets of the SDIF banks shall be transferred to collection department of the SDIF</td>
<td>- Capital Adequacy</td>
</tr>
<tr>
<td>- Strengthening capital structure of state banks</td>
<td>- Utilization of subordinated debt</td>
<td>- Reduce the overnight borrowing liabilities of SDIF banks.</td>
<td>- Risk Management</td>
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<tr>
<td>- Elimination of duty losses and their accrued interests</td>
<td>- Mergers and acquisitions</td>
<td>- Operational restructuring of the SDIF banks.</td>
<td>- Credit Limits and Provisions</td>
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<tr>
<td></td>
<td>- Rationalization of branches and personnel</td>
<td></td>
<td>- Accounting Standards and Independent Auditing</td>
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<td></td>
<td>- Cost reduction</td>
<td></td>
<td>- Encouraging merge and acquisitions</td>
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<tr>
<td></td>
<td>- Restructuring of concentrated credits</td>
<td></td>
<td>- MoUs with other countries' supervisory authorities</td>
</tr>
</tbody>
</table>

Source: BRSA
From Crisis to Financial Stability

Banking System Restructuring Program (2001)

BANKING SECTOR RESTRUCTURING PROGRAM

- State Bank Reform
- Strong Capital Base
- Cost Efficiency
- Efficient Supervision
- Market Discipline and Transparency

Sound Banking
Strong Economy and Sustainable Growth Environment

Corporate Restructuring

- Structural Reform
- Macroeconomic Stability
- Decline in Public Deficit

Source: BRSA
From Crisis to Financial Stability

The Results of Restructuring Program

- Consolidation in the banking sector
- Increase in mergers and acquisitions
- Decline in the share of the State and the SDIF Banks
- Removal of distortionary effects of insolvent and state banks on interest rate
- Reduction of financial risks to manageable levels
- Strengthened the capital structure
- Improved transparency in financial statements
- Improved regulatory and supervisory framework

Source: BRSA
THANK YOU

For further information

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