



**Republic of Turkey**  
**Undersecretariat of Treasury**

**Banking Supervision in Turkey**

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**4<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP**  
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**Ankara**



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This presentation exclusively addresses the questions raised by COMCEC Secretariat for `Member Country Presentations` Session



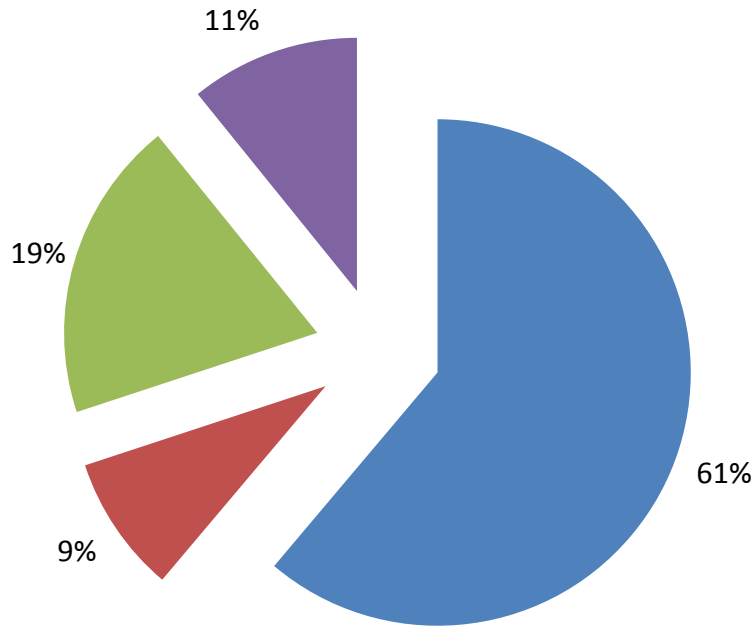
# OUTLINE

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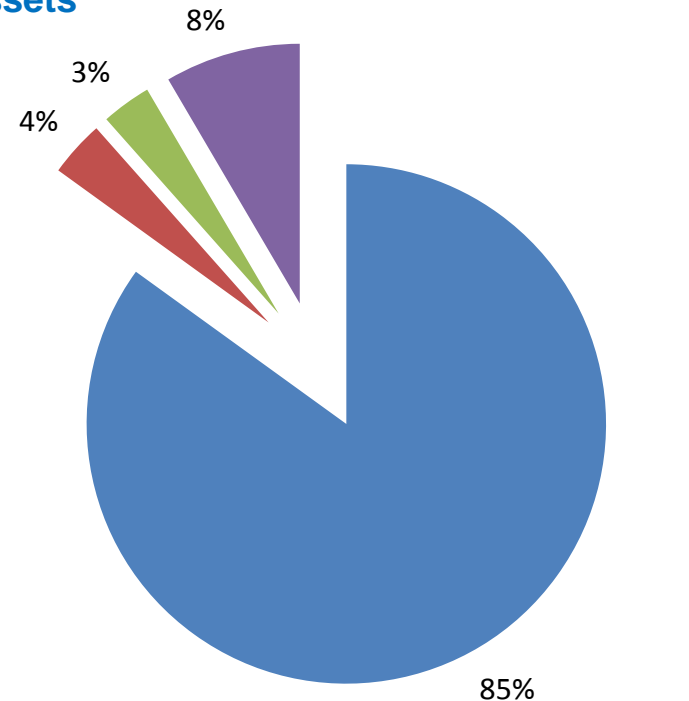
- Financial System in Turkey
- Regulatory and Supervisory Framework
- Banking Regulation and Supervision Agency
- Banking Supervision
- From Crisis to Financial Stability

# Financial System in Turkey (%)

Financial Sector Assets



- Banks
- Central Bank
- Borsa Istanbul (Market Capitalization)
- Non-Bank Financial Institutions



- Banks
- Portfolio Management Com.
- Insurance Companies
- Other Non-Bank Financial Institutions

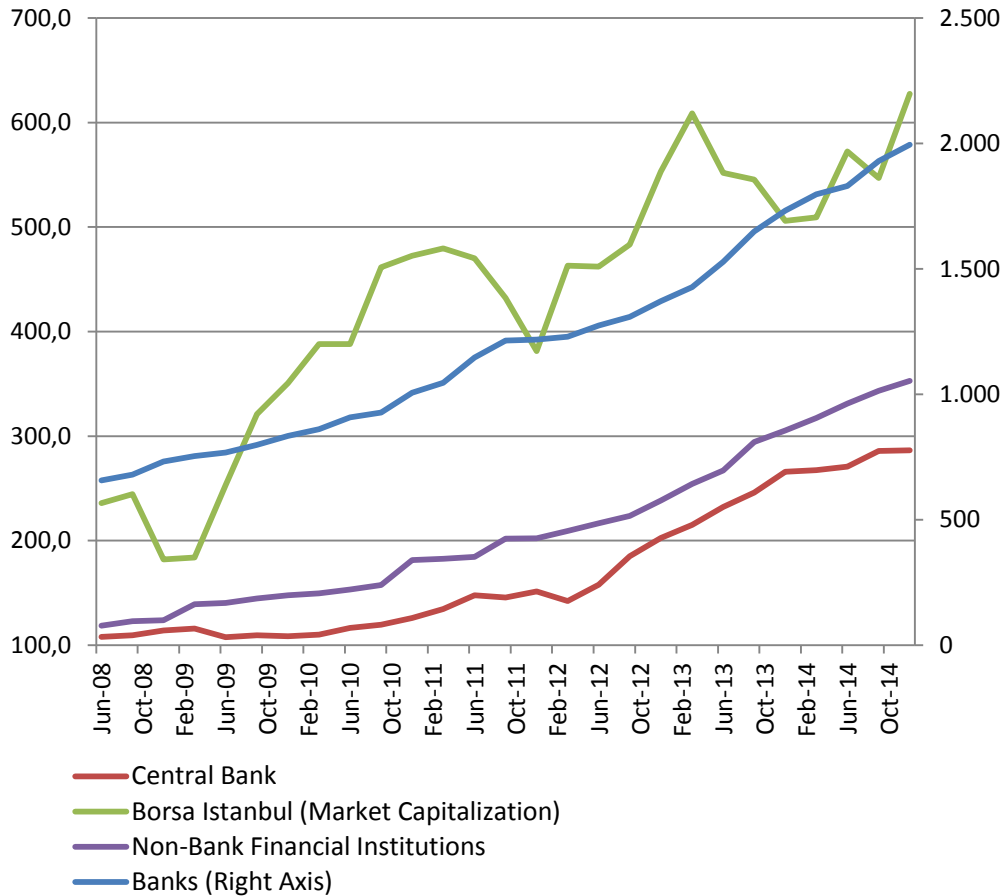
**Banking dominates Turkish financial system**

**Based on different definitions,**

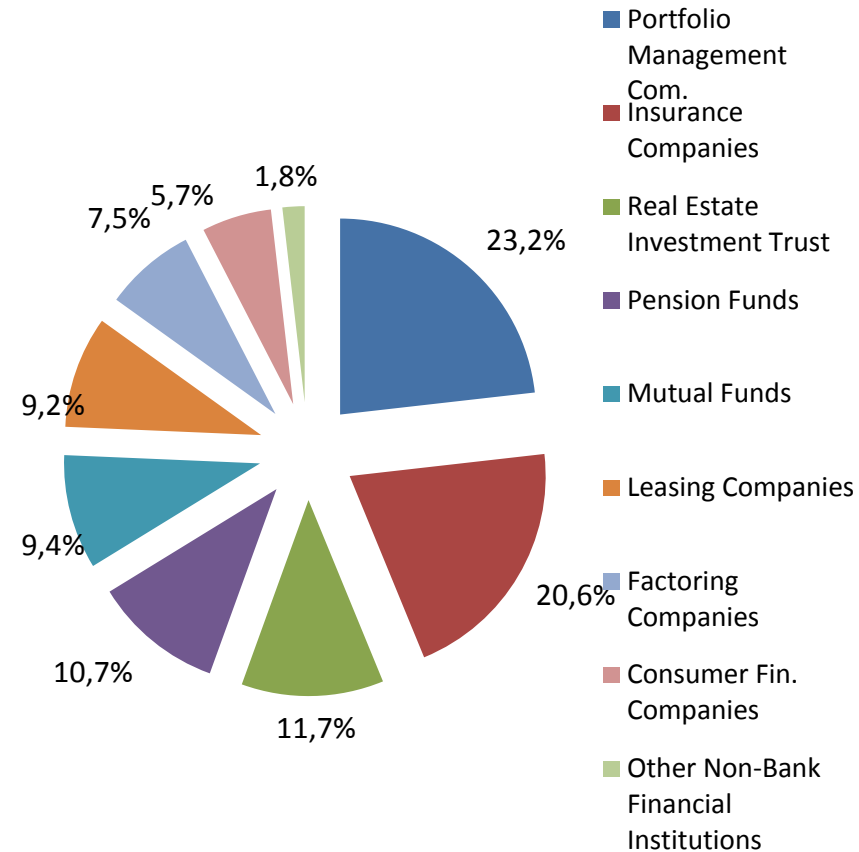
**Banking represents about 61 to 85 percent of total financial sector assets**

# Financial System in Turkey

Financial Sector Assets (Billion TL)

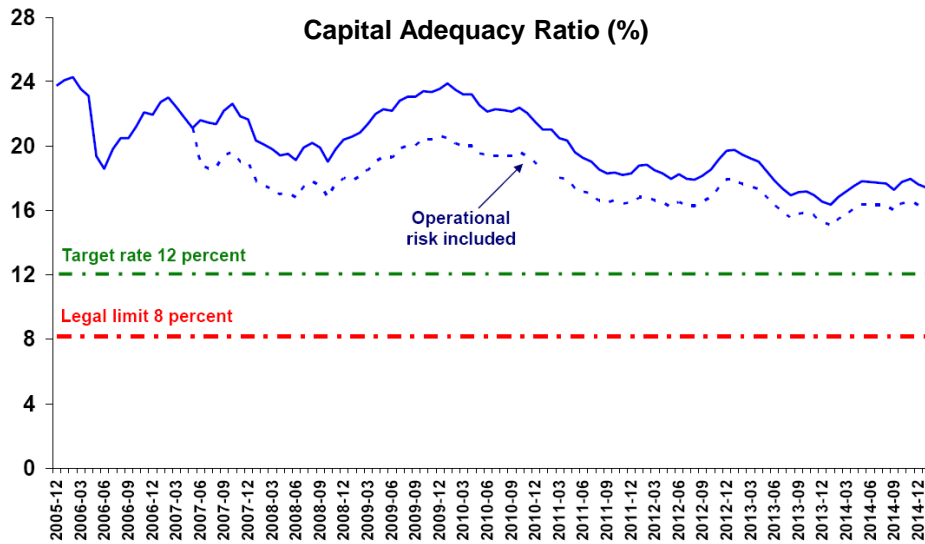


Non-Bank Financial Institutions' Assets (%)



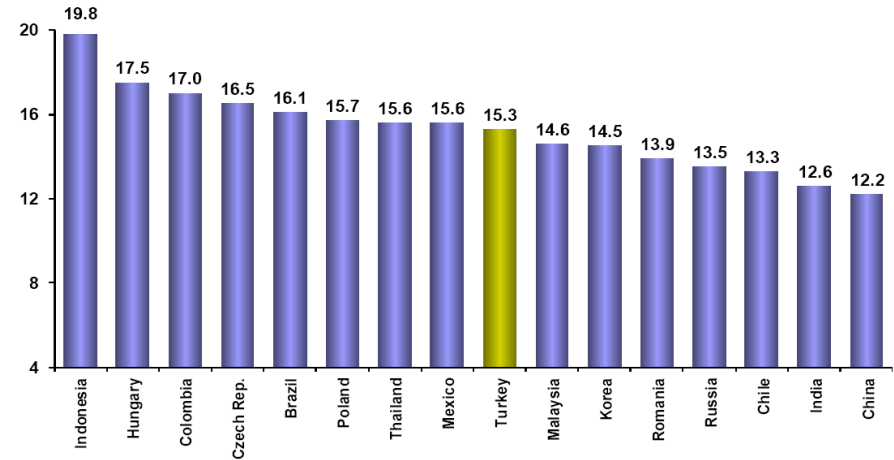
**Banking sector reached TL 2 trillion in asset size**

# Banking Sector Indicators



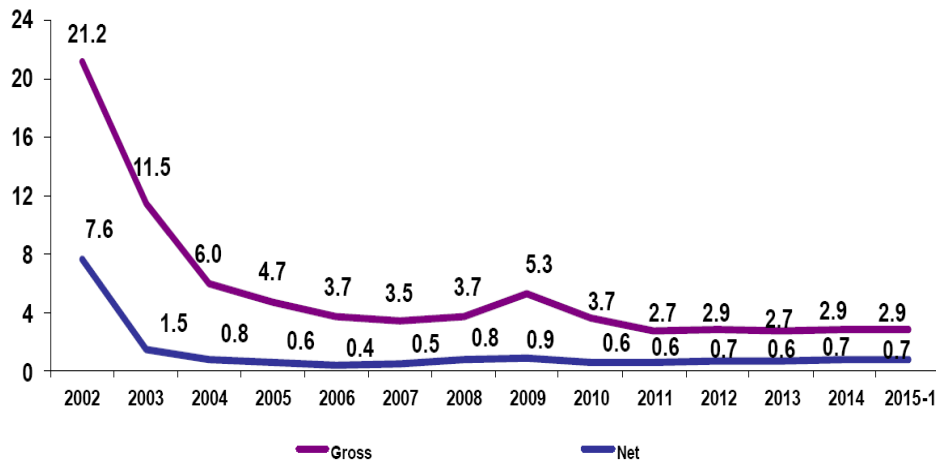
Source: BRSA

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



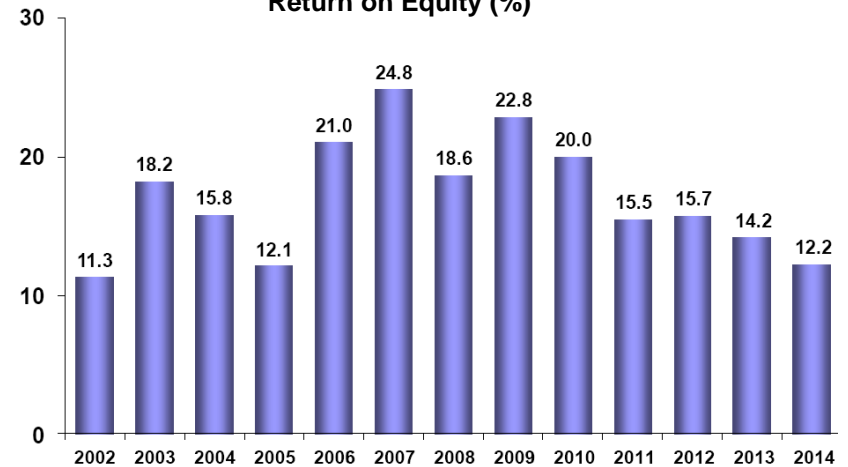
Source: IMF-FSI, BRSA

### Asset Quality (NPL Ratio, %)



Source: BRSA

### Return on Equity (%)



Source: BRSA

# G20 Members Basel III Implementation Progress

## (as of September 2014)

	Basel II	Basel 2,5	Basel III	Basel III	Basel III	Basel III
			Risk-based capital	G-SIB / D-SIB requirements	Liquidity (LCR)	Leverage ratio
Argentina	4	4, 1	4	4, 1	4, 1	4, 3
Australia	4	4	4	3, 2	4	2
Brazil	4	4	4	1	2	2
Canada	4	4	4	3, 4	3	2
China	4	4	4	4, 1	4	4, 1
European Union	4	4	4	3, 2	4, 1	4, 1
France	4	4	4	3, 2	4, 1	4, 1
Germany	4	4	4	3, 2	4, 1	4, 1
India	4	4	4	3, 4	3	2
Indonesia	4	2	4	3, 1	2	2
Italy	4	4	4	3, 2	4, 1	4, 1
Japan	4	4	4, 1	4, 1, 1	2	1
Korea	4	4	4	4, 1	2	1
Mexico	4	4, 1	4, 1	1	1	1
Russia	4, 2, 2	4, 2	4, 3, 1	4	2	2
Saudi Arabia	4	4	4	2	4	3
South Africa	4	4	4	3	3, 1	3, 1
Turkey	4	4	4	1	4, 3	4, 3
United Kingdom	4	4	4	3, 2	4, 1	4, 1
United States	4	4	4	1	3	4

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.

# 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

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

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





# Cooperation and Coordination

## A Quick Glance at Financial Safety Net

Deposit  
Insurance

Lender of Last  
Resort

Prudential  
Regulation  
&  
Supervision

Resolution  
Mechanism



TÜRKİYE CUMHURİYET  
MERKEZ BANKASI



Cooperation and Coordination

# Financial Stability Committee

Chaired by Minister in charge of the  
Undersecretariat of Treasury



TÜRKİYE CUMHURİYET  
MERKEZ BANKASI



# 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

# Banking Regulation and Supervision Agency (BRSA)

The independence of the BRSA gives autonomy in

- regulation and supervision,
- Agency administration and
- using financial resources.

# BRSA - Banking Supervision

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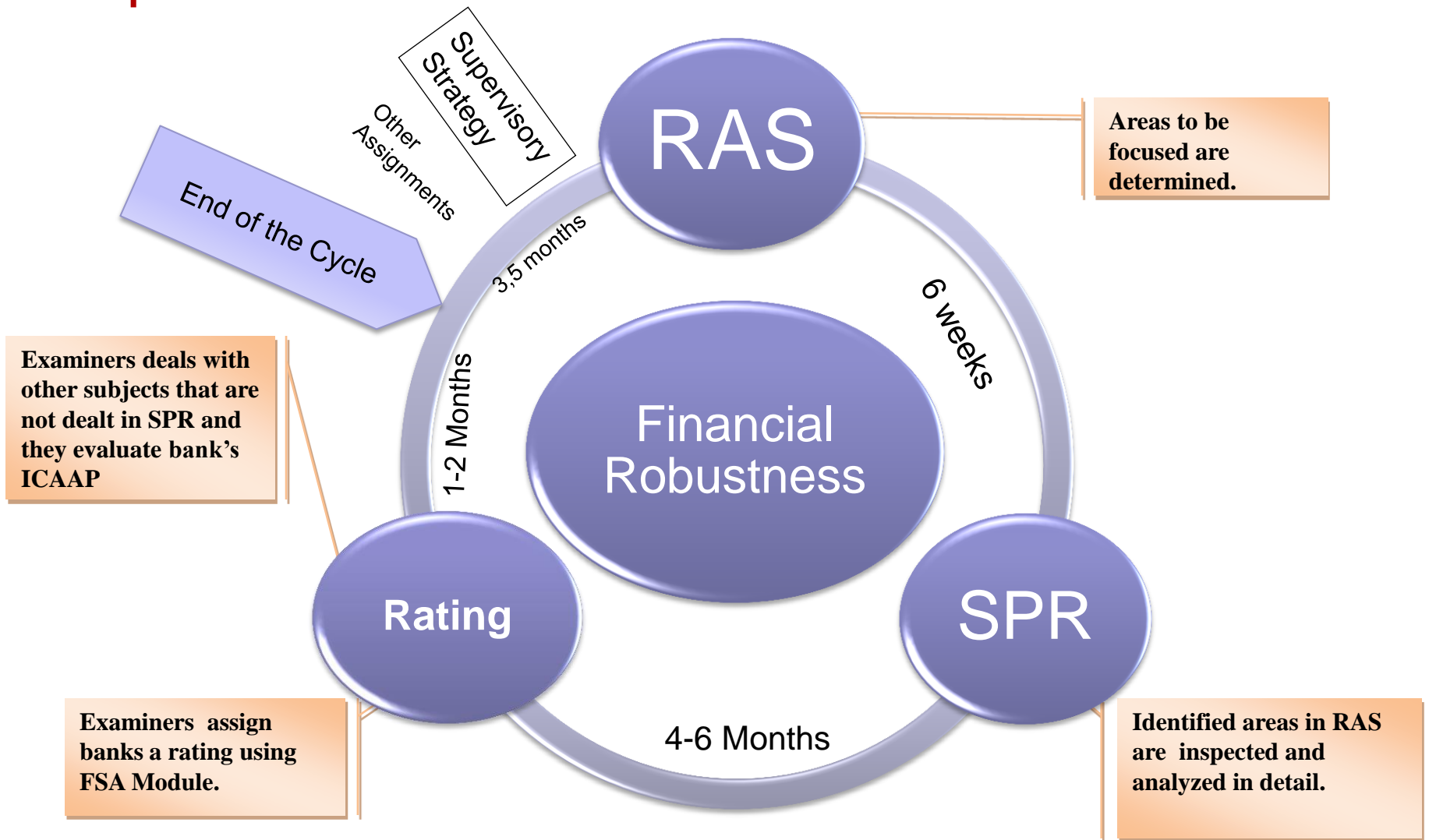
BRSA conducts audits in order to ensure that

- 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

# BRSA - Banking Supervision

- 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.

# Supervision Circle





## BRSA – Participation Banks

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- 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

# From Crisis to Financial Stability



BANKING REGULATION AND  
SUPERVISION AGENCY

## From Crisis to Financial Stability (Turkey Experience)

September 3, 2010

Working Paper  
(Revised Third Edition)

- 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

# From Crisis to Financial Stability

## Banking System Restructuring Program (2001)

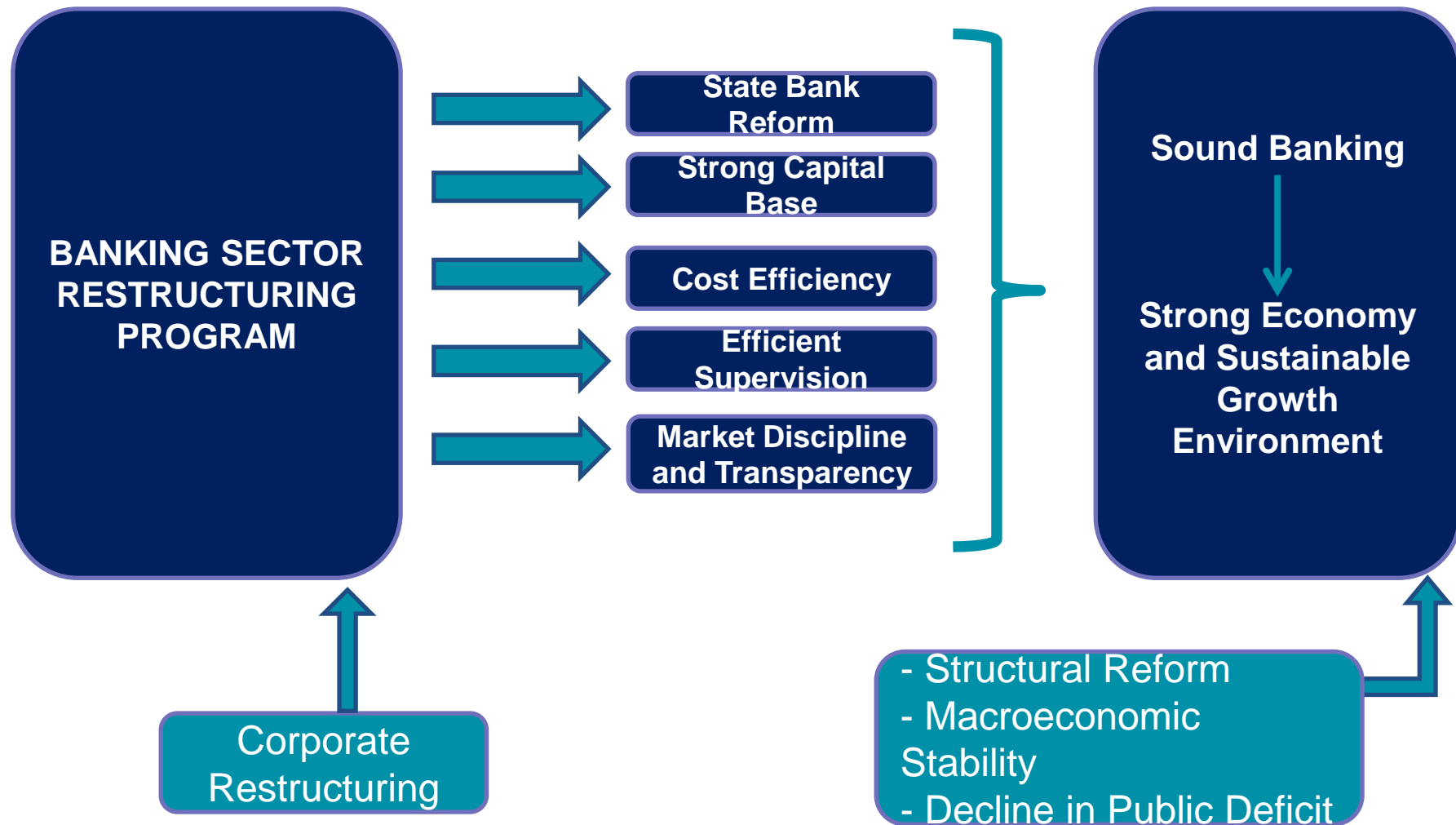
### Main Objective

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

<u>Restructuring of the state banks</u>	<u>Strengthening of the Private Banks</u>	<u>Exit and Resolution of Insolvent Banks</u>	<u>Improving the Regulatory and Supervisory Framework</u>
<ul style="list-style-type: none"><li>- Elimination of state banks' overnight liabilities to the parties other than the Central Bank of Turkey</li><li>- Strengthening capital structure of state banks</li><li>- Elimination of duty losses and their accrued interests</li></ul>	<ul style="list-style-type: none"><li>- Capital injection</li><li>- Utilization of subordinated debt</li><li>- Mergers and acquisitions</li><li>- Rationalization of branches and personnel</li><li>- Cost reduction</li><li>- Restructuring of concentrated credits</li></ul>	<ul style="list-style-type: none"><li>- Bad assets of the SDIF banks shall be transferred to collection department of the SDIF</li><li>- Reduce the overnight borrowing liabilities of SDIF banks.</li><li>- Operational restructuring of the SDIF banks.</li></ul>	<ul style="list-style-type: none"><li>- Capital Adequacy</li><li>- Risk Management</li><li>- Credit Limits and Provisions</li><li>- Accounting Standards and Independent Auditing</li><li>- Encouraging merge and acquisitions</li><li>- MoUs with other countries' supervisory authorities</li></ul>

# From Crisis to Financial Stability

## Banking System Restructuring Program (2001)



# 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



# THANK YOU

For further information

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