MOROĞLU ARSEVEN

Turkey’s Banking Regulator Amends Loan Classifications and Provision Requirements, Plus Method for Calculating Bank Equity

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Turkey's Banking Regulation and Supervision Agency has made a series of regulatory amendments to loan classifications, provisions to be reserved for loans, as well as methods for calculating bank equity. The amendments are intended to help banks increase annual profits, particularly after the discount in general reserve ratios for consumer credits.

Loan Qualifications and Provisions To Be Set Aside

A series of provisions are introduced for banks based on the Turkish Financial Reporting Standards No. 9 ("**TFRS 9**"), published the by Public Oversight, Accounting and Auditing Standards Authority, which aim to harmonize Turkey's reporting standards with the corresponding International Financial Reporting Standards.

As a result, banks must now group credits based on the associated risks and determine their internal strategies accordingly. Banks are no longer required to apply general provisions to be allocated. Rather, the rate of provision to be set aside must depend on the risk level for each credit group. Specified credit groups include:

- First Group: Loans of Standard Nature
- Second Group: Loans Under Close Monitoring
- Third Group: Loans with Limited Recovery
- Fourth Group: Loans with Suspicious Recovery
- Fifth Group: Loans having the nature of Loss

Moreover, principles and procedures are outlined for illiquid claims, reclassification, as well as restructuring.

Banks are categorized as either being subject to TFRS 9, or not subject to TFRS 9, with different provision rates applying for each category. Banks subject to TFRS 9 are no longer required to allocate a general provision for loans which do not fall within the scope of TFRS 9. On the other hand, general and special provisions are determined separately for banks which are not subject to TFRS 9.

Banks must comply with the new requirements and TFRS 9 by 1 January 2018. Banks which are not compliant at this date will be required to allocate higher provision rates for loans.

Please see this link for the full text of the Regulation On The Procedures and Principles For Determining Loan Qualifications By Banks and Provisions To Be Set Aside, published in Official Gazette number 29750 on 22 June 2016, entering into effect on 1 January 2017 (only available in Turkish).

Calculating Bank Equity

Changes are made to provisions addressing property and commodity transactions, regulated under Article 57 of Banking Law numbered 5411.

Accordingly, when calculating equity, these transactions are now deducted from the sum of original capital and supplementary capital. The net book value of the property and commodities which are not disposed within three years after the acquisition date (despite banks being required to dispose of them) in accordance with Article 57, are deducted from the sum of the original and supplementary capital.

Please see this link for the full text of the Regulation Amending the Regulation on Equity of Banks, published in Official Gazette number 29750 on 22 June 2016, entering into effect on 1 January 2017 (only available in Turkish).

Please see these links for further information about other recent amendments published by the Agency in the Official Gazette on 23 October 2015 (capital adequacy, risk management disclosures, securitization, and risk assessment models) and 20 January 2016 (internal systems, capital adequacy, liquidity coverage ratio, equity, as well as disclosures related to credit risk reduction techniques and risk management statement).

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- DR. E. SEYFİ MOROĞLU, LL.M.