

**From the Banking Regulation and Supervision Agency:**

**REGULATION ON MEASUREMENT AND EVALUATION OF INTEREST RATE  
RISK IN THE BANKING BOOK BY STANDARD SHOCK METHOD**

(Published in the Official Gazette dated August 23, 2011 Nr. 28034)

**SECTION ONE**

**Objective and Scope, Basis and definitions**

**Objective and Scope**

**ARTICLE 1** - (1) The objective of this Regulation is to regulate the principles and procedures for the measurement and evaluation of interest rate risk arising from on-balance and off-balance sheet positions in the banking book by standard shock method.

**Basis**

**ARTICLE 2** - (1) This Regulation has been prepared on the basis of Articles 43 and 93 of Banking Law Nr 5411 dated 19/10/2005.

**Definitions**

**ARTICLE 3** - (1) The following terms used in this Regulation shall have the meanings expressly designated to them below:

- a) Purchase and sale accounts: Financial instruments banks hold so as to transact purchase and sale transactions in money and capital markets in short term basis; to benefit from expected or actual price differences between purchase and sale prices or other price and interest rate changes; or to mediate purchase and sale or including repo and securities lending due to market making for such sales as well as derivative financial instruments made so as to protection from the risks which stem from the said financial instruments and the related positions or to decrease the risks mentioned and on-balance sheet and off-balance sheet accounts and positions in which speculative derivative financial instruments are monitored are followed-up.
- b) Bank: Bank defined in Article 3 of the Law,
- c) Banking book: All interest sensitive on-balance sheet and off-balance sheet items excluding the items followed in purchase and sale accounts as well as the items other than subordinated

debts taken into consideration in own funds calculation pursuant to the Regulation on Own funds of Banks published in the Official Gazette dated November 01, 2006 Nr. 26333.

c) Discount Ratio: The ratio for each maturity band which is obtained from the risk free yield curves that are determined on the basis of currency units by taking into consideration the positions in interest-sensitive banking book by banks,

d) Discount ratio: The ratio which is obtained by using the discount ratio and which reduces the position in each maturity tranche to its current value,

e) Law: The Banking Law Nr. 5411,

f) Board: The Banking Regulation and Supervision Board,

g) Agency: The Banking Regulation and Supervision Agency,

g) Net position amount: The difference between assets and liabilities in interest-sensitive banking book for each maturity band,

h) Own funds: Own funds calculated according to the Regulation on Own Funds of Banks,

i) Standard shock: Positive or negative interest rate shock to be announced by the Agency in certain periods,

i) **(Added: OG-27/3/2021-31436)** Participation account: Participation account defined in Article 3 of the Law.

## **SECTION TWO**

### **Calculation and Regulatory Reporting of and Excess of Interest Rate Risk in the Banking Book Standard Ratio**

#### **Proportional Limit, calculation method and notification**

**ARTICLE 4 - (1) (Amended: OG-27/3/2021-31436)** Interest rate risk in the banking book standard ratio is obtained by subtracting present value of the net position amounts that are obtained by allocating the cash flows of interest sensitive banking book positions into maturity bands that are provided in the Annex 1 from the present value of these positions where discounting is based on positive and negative standard shock applied discount factors. Then the ratio that indicates the highest loss for the bank after the aggregation of these differences by maturity and currency units divided by the own funds is called the interest rate risk in the banking

book standard ratio. In the calculation of the interest rate risk in the banking book standard ratio, the positions in the banking accounts originating from the participation account are taken into account at a rate to be determined by the Board.

(2) Interest rate risk in the banking book standard ratio shall not exceed twenty percent. The Board is authorized to differentiate the interest rate risk in the banking book standard ratio on the bank or banking group basis.

(3) Interest rate risk in the banking book standard ratio shall be calculated as of the last day of each month. The time sheet in the Attachment-1 shall be filled on three different monetary units which are Turkish Lira and Turkish Lira equivalents of USD and Euro. Assets and liabilities in other foreign currencies are taken into consideration in the Euro sheet by applying the related cross exchange rates. In the calculation of Turkish Lira equivalents of the positions, the Turkish Accounting Standards as well as the valuation principle specified in the regulations entered into force pursuant to the Law are applied as of the date of calculation.

(4) In the calculation of interest rate risk standard ratio arising from banking accounts, the own funds amount of the last period notified to the Agency by banks is taken into consideration.

(5) Related to the calculation of interest rate risk standard ratio banks shall keep available for supervision the information to differentiate purchase and sale positions from banking book positions based on maturity and monetary unit, on-balance sheet and off-balance sheet items excluded from the calculation, information concerning the consideration within the calculation of bank overdrafts, overdraft accounts, credit card receivables and other assets and liabilities of which inclusion to the calculation requires predetermined assumptions, as well as the method used to determine the discount ratios.

(6) The Board is authorized to request also the consolidated calculation of the Interest rate risk in the banking book standard ratio as of consolidated own funds calculation periods, from banks qualified as parent bank according to the regulations put into force pursuant to the Law and having the duty of preparing consolidated financial statements, within the frame of principles and procedures determined by the Board itself.

### **Inconsistency to proportional limit**

**ARTICLE 5 -** (1) In case the minimum ratio stated in the second paragraph of article 4 is exceeded, final period excess amount that arise if any of the conditions specified in the following sub-paragraphs is present shall be decreased from own-funds in calculation of capital adequacy standard ratio concerning the period mentioned.

- a) In case previous period minimum ratio is exceeded,
  - b) In case the minimum ratio is exceeded twice within previous 12-month period.
- (2) Banks are obliged to notify to the Agency the causes of excess, along with the measures to be taken for eliminating excess, within the period of delivery for the reporting form included in Annex-1.
- (3) In case the minimum ratio is exceeded due to decreases that may occur in own-funds and if required, these excesses are eliminated in a period to be assigned by the Agency.
- (4) In case a fictitious action for maintaining interest rate risk in the banking book standard ratio is detected in the supervisions, the ratio concerning the related period is re-calculated by removing relevant amounts from that periods assets and liabilities. Whether or not the transaction is fictitious in implementation of this article is determined by having considered the economic logic of and parties of the transaction.

### **SECTION THREE**

#### **Miscellaneous and Final Provisions**

##### **Transactions carried out by participation banks**

**ARTICLE 6** - (1) Expressions of interest in this Regulation refers to dividend in respect of funds extended by participation banks stated in article 48 (2) of the Law.

##### **Entry into force**

**ARTICLE 13** - (1) Articles 4 and 5 of this Regulation enters into force as of July 01, 2012 while other provisions enter into force as of September 01, 2011.

##### **Enforcement**

**ARTICLE 14** - (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Agency.

##### **Annex**