

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

**REGULATION ON MEASUREMENT AND ASSESSMENT OF LEVERAGE  
LEVELS OF BANKS<sup>1</sup>**

(Published in the Official Gazette dated November 5, 2013 Nr. 28812)

**SECTION ONE**

**Objective and Scope, Basis and Definitions**

**Objective and Scope**

**ARTICLE 1** - (1) The objective of this regulation is to set down the principles and procedures about ensuring to have adequate capital on consolidated and unconsolidated basis against the potential risks that the banks may be exposed to with the effect of leverage.

**Basis**

**ARTICLE 2**- (1) This regulation has been prepared based on Article 43, 47 and 93 of Banking Law No:5411 dated October 19, 2005.

**Definitions**

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

- a) Tier 1 Capital: Tier 1 capital calculated according to the Regulation on Own Funds of Banks published in Official Gazette No:28756 dated September 5, 2013,
- b) Bank: Bank defined by the Article 3 of Banking Law,
- c) Off-balance sheet transactions: Non-cash credit and commitments excluding credit derivatives determined in Article 5(3) of the Regulation on Measurement and Assessment of Capital Adequacy of Banks published in Official Gazette No:28337 dated June 28, 2012,
- ç) Balance sheet assets: Balance sheet assets besides the replacement costs of derivative financial instruments and credit derivatives,
- d) Securities financing transactions: repo transactions, reverse repo transactions, securities or commodities borrowing or lending transactions, long settlement transactions and margin lending transactions,

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<sup>1</sup> Regulation on Measurement and Assessment of Leverage Levels of Banks published in Official Gazette No:28812 dated November 5, 2013 is replaced by the Regulation published in Official Gazette No:28948 dated March 21, 2014.

- e) Consolidated tier 1 capital: consolidated tier 1 capital calculated according to the Regulation on Own Funds of Banks published in Official Gazette No:28756 dated September 5, 2013,
- f) Protection buyer: the party who completely or partially transfers the credit risk arising from the reference asset with a credit derivative to third parties,
- g) Protection seller: The party who undertakes completely or partially the credit risk arising from the reference asset with a credit derivative,
- ğ) Credit derivative: credit default swap or total yield swap,
- h) Board: The Banking Regulation and Supervision Board,
- i) Reference asset: In credit derivatives, the asset which will be used in determining the amount to be paid in cash delivery or the asset which will be delivered in bodily delivery,
- ı) Derivative financial instruments: derivative financial instruments determined in Article 5(6) of Regulation on Measurement and Assessment of Capital Adequacy of Banks published in Official Gazette No:28337 dated June 28, 2012,
- j) Turkish Accounting Standards (TAS):accounting standards published in the name of Turkish Accounting Standard and Turkish Financial Reporting Standard by the approval of Public Oversight Accounting and Auditing Standards Authority pursuant to the Decree Law No:660 and other regulations about this field,
- k) Replacement cost: equivalent value to the cost that needed to be tolerated in order to replace the current asset with another asset which has same function and lifetime and which has similar features with current asset in terms of components like productivity and profitability.

## **SECTION TWO**

### **Leverage Ratio Calculation and Notification**

#### **Leverage Ratio**

**ARTICLE 4** - (1) Leverage ratio is calculated by dividing tier 1 capital to total risk amount.

(2)As of March, June, September and December, the three-month simple arithmetic mean of leverage ratio which is calculated monthly must be minimum three percent and this must continue.

#### **Consolidated Leverage Ratio**

**ARTICLE 5** - (1) Consolidated leverage ratio is calculated by dividing consolidated tier 1 capital to consolidated total risk amount.

(2) As of March, June, September and December, the three-month simple arithmetic mean of consolidated leverage ratio which is calculated monthly must be minimum three percent and this must continue.

## **Calculation of Total Risk Amount**

**ARTICLE 6** -(1) Total risk amount includes overall risk amounts of balance sheet assets, off-balance sheet transactions, derivative financial instruments and credit derivatives and securities financing transactions.

(2) The risk amounts of balance sheet assets are calculated by subtracting special provisions which are reserved pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in Official Gazette No:26333 dated November 1, 2006 from their amounts evaluated pursuant to Turkish Accounting Standards. The risk amount is not calculated for assets discounted from tier 1 capital.

(3) In calculation of risk amounts of off-balance sheet transactions, the value of their risk amounts evaluated pursuant to Turkish Accounting Standards after subtracting the special provisions reserved pursuant to the Regulation on Procedures and Principles for Determination of Loans and Other Receivables by Banks and Provisions to be Set Aside is taken into consideration. For unconditionally cancellable commitments % 10 of credit conversion factor is applied, on the other hand for all the other off-balance sheet transactions %100 of credit conversion factor is applied.

(4) The risk amounts of derivative financial instruments and credit derivatives for which the bank is a protection buyer are calculated by using the valuation method according to their fair values determined in Annex-2 of Regulation on Measurement and Assessment of Capital Adequacy of Banks,

(5) The risk amounts of credit derivatives for which the bank is a protection seller are calculated by adding the replacement cost of credit derivative to the fair value of reference asset which is the subject of protection, on condition that the provisions of paragraph 6 remain hidden.

(6) In the event that a bank is both protection seller and protection buyer,

a) If the borrowers of reference assets of credit derivative for which the bank is protection buyer and seller and the payment priority of assets are same and,

b) If the maturity of credit derivative for which the bank is a protection buyer is equal to or longer than credit derivative for which the bank is a protection seller the fair values of reference assets which are the subject of protection are clarified. The risk amount of credit derivative for which the bank is a protection seller is calculated by adding the potential credit risk amount to be calculated as determined in Annex-2 of Regulation on Measurement and Assessment of Capital Adequacy of Banks through replacement cost of credit derivative and clarified parts to the fair values of parts which are not clarified of reference assets that is subject of protection.

(7) In implementation of paragraphs (5) and (6), if the fair value of reference asset is lower than its nominal value, the nominal value is used.

(8) The risk amount of securities financing transactions that the bank carried out on its own behalf is the part of evaluated amount of given cash, security or commodity pursuant to Turkish Accounting Standards which is over than the evaluated amount of received cash, security and commodity pursuant to Turkish Accounting Standards.

(9) The risk amount of securities financing transactions which the bank ensured to be completed of their exchange by mediating is the part of evaluated amount of cash, security or commodity given by the customer/counterparty pursuant to Turkish Accounting Standards which is over the evaluated amount of cash, security or commodity received by the customer/counterparty pursuant to Turkish Accounting Standards.

(10) In calculation of risk amounts, credit risk mitigation techniques cannot be used and credits and deposit are not clarified.

### **Notification Period and Diversification Authority**

**ARTICLE 7** -(1) The tables included in Annex-1 and Annex-2 about leverage ratio and consolidated leverage ratio are sent to the Agency within the periods to be determined by the Board following the accounting period.<sup>2</sup>

(2) The Board can decide the determination of a different leverage ratio and consolidated leverage ratio by considering the internal systems, active and financial positions of banks, the implementation of separate ratio on the basis of the bank and the changing of accounting and sending periods.

## **SECTION THREE**

### **Miscellaneous and Final Provisions**

#### **Inconsistency with Proportional Limits**

**ARTICLE 8** - (1) If leverage ratio or consolidated leverage ratio falls under the minimum ratio, it is obligatory to be in consistent with the minimum ratio within the period to be determined by the Board provided that not over than six month as of the accounting period.

(2) In the event that minimum ratios cannot be provided, banks must notify to the Agency the reasons of this with the measures planned to be taken about removing this matter within the sending period of tables in Annex-1 and Annex-2.

(3) In analysis to be carried out, if it is identified that a fictive operation was done in order to reach the minimum ratio established by this Regulation, the minimum ratio of the related period is recounted by correcting the past amounts that meet these operations.

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<sup>2</sup> Version amended pursuant to the Regulation published in Official GazetteNo:28948 dated March 21, 2014.

## **Entry into Force**

**ARTICLE 9** - (1) Articles 4(2), 5(2) and 8(1) of this Regulation enter into force on January 1, 2015, other articles of this Regulation enter into force on January 1, 2014.

## **Enforcement**

**ARTICLE 10** - (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Agency.

<b>The OG which the Regulation in published</b>	
<b>Date</b>	<b>Number</b>
5.11.2013	28812
<b>The OG which the Amendments of Regulation in published</b>	
<b>Date</b>	<b>Number</b>
21.03.2014	28948

## LEVERAGE RATIO NOTIFICATION STATEMENT

..... A.Ş./T.A.Ş.

Calculation Date:

		First Month	Second Month	Third Month
<b>I.</b>	<b>Tier 1 Capital</b>			
<b>II.</b>	<b>Total Risk Amount</b> (2.1+2.2+2.3+2.4+2.5)			
<b>2.1.</b>	Balance Sheet Asset			
<b>2.2.</b>	Off-Balance sheet transactions			
<b>2.2.1.</b>	Unconditionally cancellable commitments			
<b>2.2.2.</b>	Other off-balance sheet transactions			
<b>2.3.</b>	Derivative financial instruments and credit derivatives			
<b>2.4.</b>	Securities financing transactions			
<b>2.4.1.</b>	Transactions carried out on its own behalf			
<b>2.4.2.</b>	Transactions that the bank ensured to be completed of their exchange by mediating			
<b>2.5.</b>	Assets to be subtracted from tier 1 capital (-)			
<b>III.</b>	<b>Leverage Ratio (I/II)</b>			
<b>IV.</b>	<b>Leverage Ratio Average (<math>\Sigma</math>III/3)</b>			

## CONSOLIDATED LEVERAGE RATIO NOTIFICATION STATEMENT

..... A.Ş./T.A.Ş.

**Calculation Date:**

		<b>First Month</b>	<b>Second Month</b>	<b>Third Month</b>
<b>I.</b>	<b>Consolidated Tier 1 Capital</b>			
<b>II.</b>	<b>Consolidated Total Risk Amount</b> (2.1+2.2+2.3+2.4+2.5)			
<b>2.1.</b>	Balance Sheet Asset			
<b>2.2.</b>	Off-Balance sheet transactions			
<b>2.2.1.</b>	Unconditionally cancellable commitments			
<b>2.2.2.</b>	Other off-balance sheet transactions			
<b>2.3.</b>	Derivative financial instruments and credit derivatives			
<b>2.4.</b>	Securities financing transactions			
<b>2.4.1.</b>	Transactions carried out on its own behalf			
<b>2.4.2.</b>	Transactions that the bank ensured to be completed of their exchange by mediating			
<b>2.5.</b>	Assets to be subtracted from tier 1 capital (-)			
<b>III.</b>	<b>Consolidated Leverage Ratio (I/II)</b>			
<b>IV.</b>	<b>Consolidated Leverage Ratio Average (<math>\Sigma</math>III/3)</b>			