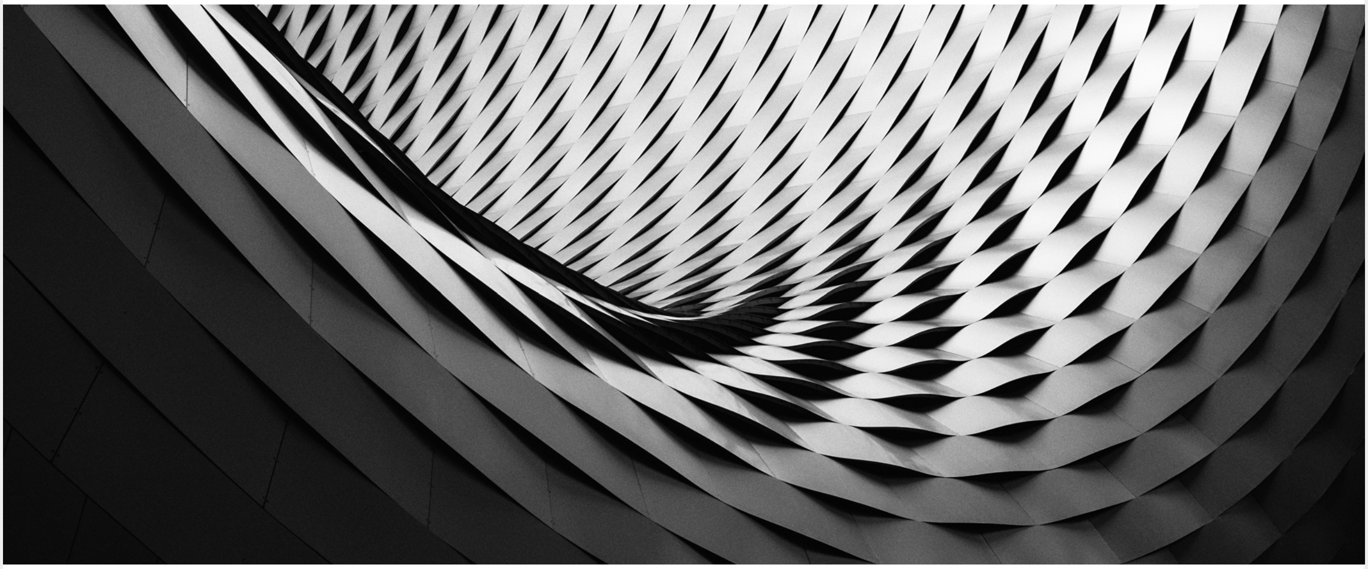
Briefing

Paksoy

Financial measures for COVID-19

April 2020



Dear Clients, Colleagues and Friends,

Turkish government has announced a number of economic policy responses designed to mitigate the impact of COVID-19 for businesses and individuals.

We set forth below certain measures taken by the Turkish government to ensure a continued flow of credit while providing temporary relief to certain businesses in managing cash flow challenges.

A. Rescue Funding

Pursuant to announcement of the Banking Association of Turkey dated 27 March 2020, (i) cheque payment support credit will be provided in an amount of TRY 1M – 10M depending on the annual turnover of the companies with a 9.5% annual interest rate and (ii) economic stability shield credit support will be provided in an amount of TRY 5M – 50M depending on the annual turnover of the companies with a 9.5% annual interest rate. All institutional and commercial clients of the banks which are affected due to the pandemic may apply for both types of credit.

B. Credit Guarantee Fund

The Decree on the Treasury Support to Credit Guarantee Institutions was amended on 30 March 2020 to increase the limits on guarantees provided by the Ministry of Treasury and Finance to a financial institution in connection with loans made to individuals and to legal entities including SMEs. The credit guarantee limit has been increased to TRY 50 billion from TRY 25 billion.

C. Loan Repayment and Enforcement Relief

On 22 March 2020, the President of the Turkish Republic issued the Decree to Suspend Enforcement and Bankruptcy Proceedings. Accordingly,

- except for enforcement proceedings concerning alimony receivables, all pending enforcement, or debt collection, and bankruptcy proceedings for all corporates as well as individuals are suspended until 30 April 2020, and

- the initiation of new enforcement and bankruptcy proceedings and implementing interim attachment orders have been prohibited for all corporates as well as individuals until 30 April 2020.

Furthermore pursuant to the Law on Amendment of Certain Laws No. 7226 announced in the Official Gazette dated 26 March 2020, imprisonment sanctions will not be enforced for bounced-cheque crimes pursuant to Cheque Law no. 5941 committed until 24 March 2020.

In addition repayment obligations of craftsmen to Halkbank are postponed for 3 months.

D. Financial and Regulatory Measures

The Banking Regulatory and Supervisory Authority ("BRSA")

BRSA has announced a number of targeted measures by amending certain regulations or taking new regulatory decisions, including:

- **Derivative Transactions of banks**: BRSA has now further decreased the limit over the cross currency derivative transactions of Turkish banks with foreign entities as follows:

  » The total of the transactions conducted by the banks with the persons residing abroad for TRY purchase at the maturity will be limited with 1% of their equity capital, and

    - The total of the transactions conducted by the banks with the persons residing abroad for TRY sale at the maturity will be limited with
    - 1% of their equity capital for the transactions which will become due in seven days,
    - 2% of their equity capital for the transactions which will become due in 30 days,
    - 10% of their equity capital for the transactions which will become due in one year.

Accordingly, the extension of the maturity of those transactions or their termination before the maturity will be subject to the approval of the BRSA.

- **The Regulation on Bank Cards and Credit Cards**: The BRSA determined the minimum payment amount for credit cards as 20% on 31 March 2020, although it is entitled to determine such minimum payment amounts in a range between 20% and 40% of the debt incurred in the relevant period. Additionally, the BRSA announced that banks can grant non-payment periods to credit card holders until 31 December 2020 and that banks will be entitled not to request the minimum payment amount.

- **Measures regarding reporting periods**: With its decision dated 2 April 2020 and numbered 8976, the BRSA decided to grant an additional 60 days for the reporting requirements of banks, financial leasing, factoring and financing companies regulated under different regulations.

- **Measures regarding non-performing loans**: With its decision dated 17 March 2020 and numbered 8948 and its decision dated 27 March 2020 and numbered 8970, the BRSA decided that the following measures would be in force until 31 December 2020:

  » The 30-day default period for loans to be classified under group 2 loans pursuant to the BRSA Regulation on Classification of Loans and Provisions, has been changed to 90 days.

   - The 90-day default period for loans to be classified as non-performing loans has been changed to 180 days for the loans classified under group 1 loans (loans of a standard nature pursuant to the BRSA Regulation on Classification of Loans and Provisions) and group 2 loans pursuant to the BRSA Regulation on Classification of Loans and Provisions.
   - For loans that continue to be classified under the group 1 loans despite the 30-day default, banks will continue to set aside provisions in accordance with their own risk models used in the calculation of expected loan loss under TFRS 9.
   - For loans that continue to be classified under the group 2 loans (as explained above) despite the 90-day default, banks will continue to set aside provisions in accordance with their own risk models used in the calculation of expected loan loss under TFRS 9.
   - Banks will no longer be required to classify, as group 3 loan (i.e., loans; (i) the collection of (the principal and/or interest of) which has/have been delayed for more than 90 days but not more than 180 days from the payment due date, or (ii) classified as performing after restructuring but principal and/or interest payments of which have been overdue for more than 30 days within one year of restructuring or loans which have been subject to another restructuring within a year of a previous restructuring) the loans restructured and classified as performing loans following a restructuring and where the principal and/or interest payments have been overdue for more than 30 days within a one-year monitoring period or restructured once again within this period.

- **Measures regarding credit transactions of banks, financial leasing, factoring and financing companies**: With its decision dated 27 March 2020 and numbered 8971, the BRSA decided that the following measure would be taken:
   - In case the principal and interest payments of consumer and vehicle loans extended by banks, financial leasing, factoring and financing companies are postponed until 31 December 2020, the delay will not be taken into account in determining maturity limits under the legislation (i.e., 48 to 60 months).

- **Measures regarding liquidity ratios**: With its decision dated 26 March 2020 and numbered 8967, the BRSA decided that the following measures would be in force until 31 December 2020:
   - Deposit-taking and participation banks will not be obliged to comply with the requirements of Article 32 of the Regulation on the Calculation of Banks' Liquidity Ratio for the cases where their liquidity ratios are not in compliance with this Regulation. Accordingly, they will not be obliged to remedy such inconsistency within two weeks.
   - Development and investment banks will be immune from the requirements set forth under paragraphs (1), (2) and (3) of Article 15 of the Regulation on the Calculation of Banks' Liquidity Ratio in relation to unsecured debts to other parties.
   - In order to ease operational requirements, development and investment banks will be immune from the liquidity ratio reporting requirements.

- **Measures regarding fluctuations in the financial markets**: With its press release dated 23 March 2020 the BRSA decided that the following measures would be in force until 31 December 2020:
   - Banks will be entitled to use the year-end buying exchange rate of 2019 to calculate the amount subject to credit risk under the Regulation on the Calculation and the Evaluation of Banks' Capital Adequacy.

» Banks may calculate the equity amount for the capital adequacy ratio calculation under the Regulation on Banks' Equity by disregarding the negative net valuation differences related to the securities held in their "Securities whose fair value difference is reflected on other comprehensive income portfolio" as of 23 March 2020. However, current legislative requirements will be applicable for such securities acquired after 23 March 2020.

» Banks may calculate their net foreign currency position by disregarding the value decrease in the securities they held in their portfolio as of 23 March 2020.

In addition to the above, the equity which should be provided for consumer housing finance, has been lowered to 10% for houses with a value below TRY 500,000.

Central Bank of Turkey (CBT)

- On 29 March 2020, the CBT announced the following changes to the Communiqué on Maximum Interest Rates Applicable to Credit Card Transactions:

  » The monthly maximum contractual interest rate has been reduced (i) from 1.40% to 1.25% for credit card transactions in Turkish lira; and (ii) from 1.12% to 1.00% for credit card transactions in foreign currencies.

  » The maximum monthly default interest rate was reduced (i) from 1.70% to 1.55% for credit card transactions in Turkish lira; and (ii) from 1.42% to 1.30% for credit card transactions in foreign currencies.

  » The maximum monthly contractual and default interest rates for credit card transactions were previously announced regularly in three-month intervals, but the above rates will now apply until any further announcement.

Sera Somay
Partner
ssomay@paksoy.av.tr

Merve Kurdak Kurtdarcan
Associate
mkkurtdarcan@paksoy.av.tr