REGULATION ON CALCULATION OF LIQUIDITY COVERAGE RATIO OF BANKS

FIRST SECTION
Subject Matter and Scope, Basis and Definitions

Subject Matter and Scope

ARTICLE 1- (1) The purpose of this regulation is to determine the procedures and principles regarding banks' having high quality liquid assets stock at a sufficient level to cover their net cash outflows in order to designate minimum liquidity level, both at a consolidated level and on an individual basis.

Basis

ARTICLE 2- (1) This Regulation, lays down rules to specify in detail the liquidity coverage requirement provided for in first paragraph of Article 43, Article 46 and Article 93 of the Banking Law No: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) Bank: Banks defined in Article 3 of the Law,

b) Financial institutions: Financial institutions defined in Article 3 of the Law,

c) Public entity: Public entities defined in Article 3 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks published in the Official Gazette Nr:28337 of 28/6/2012,

ç) Law: Banking Law No 5411,

d) **(Revised:OG-13/7/2017-30123)** Small and medium sized entities (SME): Entities defined in Article 3 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks.

e) Risk weight: Risk scores corresponded to risk weights stated at the Annex 1 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks,

f) Credit institutions: Credit institutions defined in Article 3 of the Law,

g) Board: Banking Regulation and Supervision Agency's Board,

ğ) Agency: Banking Regulation and Supervision Agency,

h) Net master agreement: Netting agreement framework covering repo and/or securities or commodity lending and/or other transactions based on capital market,

ı) Derivative transaction: Derivative financial instruments and credit derivatives stated at the Regulation on Measurement and Evaluation of Capital Adequacy of Banks,

i) Turkish Accounting Standards (TAS): Accounting standards published as Turkish Accounting Standards and Turkish Financial Reporting Standards approved by the Public Oversight, Accounting and Auditing Standards Board in accordance with the Statutory Decree on the Organization and Duties of the Public Oversight, Accounting and Auditing Standards Authority Nr:660 dated 26/9/2011.

SECOND SECTION
Measuring Liquidity Level and Liquidity Coverage Ratio

Measuring liquidity level and liquidity coverage ratio

ARTICLE 4 – (1) Liquidity level of banks shall be measured by calculating liquidity coverage ratio on consolidated and individual level in Turkish Lira and FX total and consolidated and individual level in FX.

(2) Liquidity coverage ratio is calculated by dividing high quality liquid assets stock to net cash outflows.

(3) **(Revised:OG-20/1/2016-29599)** Individual total and FX liquidity coverage ratios may be calculated as follows respectively: Turkish Lira and FX total liquidity coverage ratio and FX liquidity coverage ratio is calculated for each day and weakly arithmetic average is calculated. Consolidated total and FX liquidity coverage ratios may be calculated as follows respectively: Turkish Lira and FX total liquidity coverage ratio and FX liquidity coverage ratio is calculated for each day and monthly arithmetic average is calculated.

(4) Consolidated and individual total liquidity coverage ratio should not be less than %100, consolidated and individual FX liquidity coverage ratio should not be less than %80.

(5) **(Revised:RG-20/1/2016-29599)** By taking the approval of the Central Bank of the Republic of Turkey, the Board has the right to differentiate liquidity coverage ratios stated in paragraph 4 of this article for development and investment banks.

(6) **(Additional:OG-20/1/2016-29599)** If a system-wide liquidity stress is determined by the assesments of the Central Bank of the Republic of Turkey and Agency, Agency may allow banks to use their stock of HQLA, thereby liquidity coverage ratio may fall below the limits stated in paragraph 4 of this article after taking the approval of the Central Bank of the Republic of Turkey.

THIRD SECTION
High Quality Liquid Assets and High Quality Liquid Assets Stock

High quality liquid assets

ARTICLE 5 – (1) High quality liquid assets are composed of level 1 liquid assets, 2A and 2B level liquid assets which are part of level 2 liquid assets.

(2) In order to classify an asset high quality liquid asset this asset should possess below mentioned characteristics:

a) Ease and certainty of valuation.

b) It should have active and sizable market where the asset has low bid-ask spreads, high trading volumes, large and diverse number of market participants which reduces market concentration.

c) Even during liquidity stress environment it should be a reliable source of liquidity.

ç) Without prejudice to the provisions of fifth paragraph the asset should not be encumbered.

d) **(Revised:OG-20/1/2016-29599)** There should not be any legal, regulatory, contractual, operational or other restrictions that prohibits bank to use, sell, freely transfer, and liquidate the asset.

e) It should be listed on a developed and recognized exchange. Namely, it shall either be Turkish Lira or unit of currency that are declared as indicative exchange and effective rates.

(3) For the implementation of point (c) of second paragraph, a bank should analyze the impairment of assets that would be classified under level 2A or level 2B liquid assets or if there is no data exists related to that asset since it has been issued recently, a bank should analyze the impairment of other assets issued by the same issuer having equivalent liquidity quality over a 30-day period during a relevant period of significant liquidity stress. Maximum decline of price should not exceed 10% for level 2A liquid assets, 20% for level 2B liquid assets, 40% for equities over a 30-day period during a relevant period of significant liquidity stress.

(4) Assets received as collateral for derivative transactions that are not netted with its related cash outflow pursuant to fifth paragraph of Article 20 and for short-term securities financing transactions, collateral swap transactions (reverse repo, securities borrowing, margin trading, collateral swap transactions) are considered high quality liquid asset stock should they have the requisite qualifications stated at second paragraph of this article and there is no legal or operational restrictions for the bank to rehypothecate those assets on the generation of the liquidity are regarded as level 1 or level 2 high quality liquid assets.

(5) Assets having the requisite qualifications stated at second paragraph of this Article excluding point (ç), which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the Central Bank of the Republic of Turkey (CBRT) or a public sector entity (PSE) but have not been used to generate liquidity may be included in the stock.

(6) Banks should not include in the stock of HQLA any assets, or liquidity generated from assets, they have received under right of rehypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day.

(7) Covered bonds and residential mortgage backed securities issued by the bank itself or its affiliated entities along with common equity shares and other financial instruments (corporate debt securities) issued by the bank itself or other credit or financial institutions or any of their affiliated entities, even if those marketable securities representing claims on or guaranteed by sovereigns or central banks, shall not be qualified as high quality liquid asset.

(8) When calculating the consolidated liquidity coverage ratio, if there is liquidity transfer restrictions that forbids a bank's foreign branch or its affiliate to transfer their sources to the banking group, affiliate's or branch's high quality liquid asset stock that that is held in excess of the total net cash outflows that are required to achieve the ratios stated at paragraph 4 of Article 4 which are are not transferable, should be excluded.

(8) Konsolide edilen bir ortaklığın ya da bankanın yurtdışındaki şubesinin kaynaklarının bankaya transfer edilmesini engelleyen bir hususun bulunması durumunda, ortaklığın veya şubenin yüksek kaliteli likit varlık stokunun, ortaklığın veya şubenin 4 üncü maddenin dördüncü fıkrasında belirtilen oranları tutturması için gerekli olan tutarları aşan kısmı ana ortaklık bankanın likidite karşılama oranı hesaplamasında dikkate alınmaz.

(9) When calculating liquidity coverage ratio, the Board has the authority to determine alternative high quality liquid assets that a participation bank may hold as supplementary.

Level 1 assets
ARTICLE 6- (1) Level 1 assets are limited to:

a) Coins, banknotes and FX cash.

b) **(Revised:OG-20/1/2016-29599)** Demand deposits and time deposits held at central bank including required reserves to the extent that the central bank policies allow them to be drawn down in times of stress.

c) Marketable securities representing claims on or guaranteed by sovereigns, central banks, public sector entities, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks where they are rated by an export credit agency or a recognized external credit assessment institution and assigned a 0% risk weight.

ç) **(Revised:OG-20/1/2016-29599)** All of the debt securities denominated in Turkish Lira and issued by the Undersecreteriat of Treasury of the Republic of Turkey or the Central Bank of the Republic of Turkey and debt securities issued by those institutions in foreign currencies eligible up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken.

d) Where the sovereign has a non-0% risk weight: All of the debt securities denominated in the domestic currency issued by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country and domestic sovereign or central bank debt securities issued by those institutions in foreign currencies eligible up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken where those countries are rated by an export credit agency or a recognized external credit assessment institution and has a non- 0% risk weight.

e) Where the sovereign has a non-0% risk weight: Limited to the consolidated liquidity coverage ratio calculation, all of the debt securities denominated in the domestic currency issued by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country and domestic sovereign or central bank debt securities issued by those institutions in foreign currencies eligible up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken where those countries are rated by an export credit agency or recognized external credit assessment institution and has a non- 0% risk weight.

(2) **(Additional:OG-20/1/2016-29599)** In the implementation of point (b) of the first paragraph of this article, if the haircuts are stricter for accounts at central banks in the country in which the liquidity risk is being taken where the foreign branch and consolidated subsidiaries are legally incorporated, then the stricter haircuts should be applied.

Level 2A assets

ARTICLE 7- (1) Level 2A assets are limited to:

a) Without prejudice to the provisions of points (d) and (e) of first paragraph of Article 6, marketable securities representing claims on or guaranteed by sovereigns, central banks, public sector entities and multilateral development banks where they are rated by an export credit agency or a recognized external credit assessment institution and assigned a 20% risk weight.

b) Corporate debt securities and covered bonds having a long-term credit rating from a recognized external credit assessment institution of at least AA- or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating; or do not have a credit assessment by a recognized external credit assessment institution but are internally rated as having a probability of default corresponding to a credit rating of at least AA-.

Level 2B assets

ARTICLE 8- (1) Level 2B assets are limited to:

a) Residential mortgage backed securities that satisfy all of the following conditions may be included in Level 2B:

1) Having a long-term credit rating from a recognized external credit assessment institution of AA or higher, or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating.

2) The underlying asset pool is restricted to residential mortgages and cannot contain structured products;

3) The underlying mortgages are "full recourse" loans (ie in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property)

4) A maximum loan-to-value ratio (LTV) of the underlying asset pool to the residential mortgages should be 80% on average at issuance.

5) The securitizations are subject to "risk retention" regulations which require issuers to retain an interest in the assets they securitize.

b) Without prejudice to the provisions of points (d) and (e) of first paragraph of Article 6, marketable securities representing claims on sovereigns and central banks where they are rated by an export credit agency or a recognized external credit assessment institution and assigned a 50% risk weight.

c) Corporate debt securities having a long-term credit rating from a recognized external credit assessment institution between A+ and BBB- or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating; or do not have a credit assessment by a recognized external credit assessment institution and are internally rated as having a probability of default corresponding to a credit rating of between A+ and BBB-.

ç) **(Revised:OG-20/1/2016-29599)** Exchange traded and centrally cleared common equity shares among which are denominated in Turkish Lira and a part of BIST100 index or denominated in the currency of the jurisdiction where a bank's liquidity risk is taken where the foreign branch of the bank exists and the equity is a part of that country's major stock index.

d) **(Revised:OG-20/1/2016-29599)** Peculiar to the consolidated liquidity coverage ratio calculation, exchange traded and centrally cleared common equity shares constituent of the major stock index where the bank's liquidity risk is taken and denominated in the currency of that jurisdiction.

Total stock of high quality liquid assets

ARTICLE 9- (1) Total stock of high quality liquid asset stock could be calculated by deducting exposures stated at fourth paragraph of this Article from high quality liquid asset total by using the formula in Annex 3.

(2) Regardless of where they are classified/recognized, high quality liquid assets should be measured at an amount no greater than their current market value which is calculated according to the related TAS. After haircuts stated in Annex 1 and Annex 2 have been applied to that current market value of the asset, that asset could be included the stock of high quality liquid assets.

(3) When applying the caps stated at fourth paragraph of this Article, it is presumed that short-term securities financing transactions and collateral swap transactions (repo, reverse repo, securities borrowing, securities lending, margin trading and collateral swap transactions) with a maturity date up to and including 30 calendar days would be exercised as of the date of liquidity coverage ratio calculation. In this context, when the mentioned transactions are recognized, adjusted level 1, adjusted level 2A and adjusted level 2B assets are calculated by,

(a) Including received high quality liquid assets to the bank's level 1, level 2A or level 2B assets according to its relevance,

(b) Deducted delivered high quality liquid assets from the bank's level 1, level 2A or level 2B assets according to their relevance.

Adjusted Level 2B assets in the stock of high quality liquid assets should not exceed the lower of

i) 15% of the sum of the adjusted amount of Level 1 assets, the adjusted amount of Level 2A assets, and the adjusted amount of Level 2B assets,
ii) and 25% of the adjusted amount of Level 1 assets

After this limitation has been applied, the amount of adjusted Level 2 assets should be less or equal to 25% of the sum of the adjusted amount of Level 1 assets, the adjusted amount of Level 2A assets, and the adjusted amount of Level 2B assets.

Conditions required to continue to be involved in total stock of high quality liquid assets

ARTICLE 10– (1) A bank is permitted to hedge the market risk associated with ownership of the stock of HQLA and still include the assets in the stock. If it chooses to hedge the market risk, the bank should take into account (in the market value applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold).

(2) If an asset with a maturity date up to and including 30 calendar days is included as part of the stock of high quality liquid assets, the associated cash inflows cannot also be counted as cash inflows.

(3) If an eligible liquid asset became ineligible due to forfeiture stated at second paragraph of Article 5 or rating downgrade, a bank is permitted to keep such assets in its stock of liquid assets for an additional 30 calendar days. This would allow the bank additional time to adjust its stock as needed or replace the asset.

FOURTH SECTION
Net Cash Outflow and Its Calculation

Net cash outflow
ARTICLE 11– (1) The term total net cash outflows is defined as the total expected cash outflows minus total expected cash inflows.

(2) The amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in this Regulation.

(3) For any collateral swap transaction with a maturity date up to and including 30 calendar days, in which the bank has swapped Level 1 collateral assets (borrowed) for Level 2 collateral assets (lent) cash outflow is calculated, in which the bank has swapped Level 2 collateral assets (borrowed) for other Level 1 collateral assets (lent) cash inflow is calculated.

Cash outflow
ARTICLE 12– (1) Without prejudice to the fifth provisions of this Article cash outflows are calculated as follows: Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates stated at Annex 1 and Annex 2 at which they are expected to run off or be drawn down maturing within 30 calendar days. Cash outflows should include interest/profit share (for participation banks) and payment of expenditures that are expected to be paid during the 30-day time horizon through their related transactions/liabilities.

(2) Cash outflows are classified as unsecured funding, secured funding, structured financial liabilities and off balance sheet liabilities.

(3) Where there is potential that an item could be counted in multiple outflow categories, a bank only has to assume up to the maximum contractual outflow for that product.

(4) When setting cash outflow date, the earliest possible contractual maturity date that all funding is callable/payment could be made should be considered.

(5) Below mentioned liabilities are considered cash flow item even if their maturity date fall outside the 30 calendar day liquidity coverage ratio window.

a) Deposits/participation funds if early withdrawal does not result in a significant penalty that is materially greater than the loss of interest/profit share.

b) All funding that is callable by the funds providers and with options that are exercisable at the investor's discretion.

c) **(Revised:OG-20/1/2016-29599)** All fundings that are not callable by the fund providers any given time and although they are exercisable at bank's discretion, a bank should take into account reputational factors that may limit a bank's ability not to exercise the option.

(6) Below mentioned items shall not be included cash outflow calculation.

a) Funding that is callable by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon.

b) Operational costs.

c) If the bank's short position is being covered by a collateralized securities financing transaction, the bank should assume the short position will be maintained throughout the 30-day period and it receives a 0% outflow.

Retail deposit run-off and other unsecured funds

ARTICLE 13- (1) **(Revised:OG-20/1/2016-29599)** When calculating liquidity coverage ratio, effective and fully insured deposit/participation funds of natural person's which are not subject to commercial transactions and (i) they are in the transactional accounts or (ii) the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely are classified under unsecured borrowing as stable deposit/participation fund. In the implementation of this paragraph, unless otherwise it is evaluated by the Board, foreign currency deposits/participation funds should be treated as less stable deposits/participation funds.

(2) For the purpose of the first paragraph of this Article a retail deposit shall be considered to be part of an established relationship where the depositor meets at least one of the following criteria:

a) Opened a deposit/participation fund account at the bank at least 12 months ago,

b) Has a borrowing relationship with the credit institution where the loans' maturity is non defined or open,

c) Has a borrowing relationship with the credit institution for long term loans at least 12 months duration,

ç) Has at least one other active product, other than a loan or deposit/participation fund, with the credit institution.

(3) Any amount in excess of the deposit insurance limit for retail deposit is to be treated as "less stable". If a bank is not able to readily identify which retail deposits would qualify as "stable" according to the above definition, it should place the full amount in the "less stable" buckets. Other deposits/participation funds and their run off factors will be determined by the Board.

(4) If only the unsecured debt instruments issued by the bank are sold exclusively in the retail market and held in retail accounts including small business customer accounts, then those instruments held by the retail customers (natural person) are classified as unsecured funds to retail customers.

Unsecured wholesale funding provided by small business customers

ARTICLE 14 – (1) For the application of this Regulation, small business customers that qualify for retail clients are those having total liabilities to the bank separately are less than the receivables including deposits/participation funds and other extensions of funds calculated according to point (c) of second paragraph of Article 6 of Regulation on Measurement and Evaluation of Capital Adequacy of Banks and less than the amount stated at that point. Small business customers that do not qualify retail clients, are classified as "other customers" as part of Article 15.

(2) **(Revised:OG-20/1/2016-29599)** For the liquidity coverage ratio calculation, fully insured transactional deposits/participation funds accounts of the retail client's or deposit/participation funds which the retail client depositors have established relationships with the bank that make deposit/participation fund withdrawal highly unlikely are classified under unsecured borrowing as stable deposit/participation fund.

(3) For the purpose of second paragraph of this Article a small business customer deposit shall be considered to be part of an established relationship where the depositor meets at least one of the criteria stated at points (a) to (ç) of second paragraph of Article 13.

(4) Any amount in excess of the deposit insurance limit for small business customers is to be treated as "less stable". If a bank is not able to readily identify which small business customer deposits would qualify as "stable" according to the above definition, it should place the full amount in the "less stable" buckets or "other deposit/participation fund" bucket. Other deposits/participation funds and their run off factors will be determined by the Board.

(5) If only the unsecured debt instruments issued by the bank are sold exclusively in the retail market and held in retail accounts including small business customer accounts, then those instruments held by the small business customer retail client are classified as unsecure wholesale funding provide by small business customers.

Unsecured wholesale funding to other customers

ARTICLE 15 – (1) Deposits/participation funds of customers other than retail and small business customers are classified as unsecured funds according to their counterparties and whether they are operational or not, other unsecured funds to those customers are classified as unsecured funds according to their counterparties while calculating cash outflow.

(2) When calculating liquidity coverage ratio, insured deposits/participation funds of sovereigns, central banks, multilateral development banks, public sector entities and institutions except credit or financial institutions are classified as either stable or less stable deposit/participation fund, uninsured ones are classified as either operational or non-operational less stable deposit/participation fund.

(3) **(Revised:OG-20/1/2016-29599)** If banks are unable to determine whether the deposit/participation fund is operational or the Agency approval is not given after the evaluations to banks that are conducting these operational activities at the level indicated in this Regulation then the entire deposit/participation fund should be considered non-operational.

(4) In this Regulation, qualifying operational deposits generated by such an activity are ones where:

a) The deposits/participation funds are by-products of the underlying services provided by the banking organization and not sought out in the wholesale market in the sole interest of offering interest income/profit share.

b) The deposits/participation funds are held in specifically designated accounts and priced without giving an economic incentive to the customer to leave any excess funds on these accounts.

c) The active relationship with the depositor has existed for at least 12 months.

ç) **(Additional:OG-20/1/2016-29599)** The level of concentration risk due to a significant portion of deposits/participation funds are provided by a small proportion of customers must not be high.

(5) Qualifying activities in this Regulation refer to clearing, custody or cash management activities that meet the following criteria:

a) The customer is reliant on the bank to perform these services as an independent third party intermediary in order to fulfil its normal banking activities over the next 30 days.

b) These services must be provided under a legally binding agreement to institutional customers.

c) The termination of such agreements shall be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

(6) A clearing relationship, in this Regulation, refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, reconciliation and confirmation of payment orders; daylight overdraft, overnight financing and maintenance of post-settlement balances; and determination of intra-day and final settlement positions.

(7) A custody relationship, in this Regulation, refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions.

(8) A cash management relationship, in this Regulation, refers to the provision of cash management and related services to customers. Cash management services, in this context, refers to those products and services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer's ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

9) **(Revised:OG-20/1/2016-29599)** Banks must determine the methodology for identifying excess deposits to fulfill clearing, custody and cash management activities and these excess deposits should be excluded from operational deposits/participation funds category.

(10) **(Additional:OG-20/1/2016-29599)** If the deposits/participation funds under consideration arises out of correspondent banking or from the provision of prime brokerage services it shall not be treated as operational deposits/participation funds.

Other unsecured funds

ARTICLE 16– (1) Required reserves deposited to the central banks, disregarding the counterparty of the unsecured debt instruments other than those stated at fourth paragraph of Article 13 and stated at fifth paragraph of Article 14, short positions a bank engages on its behalf except those stated at point (c) of sixth paragraph of Article 12 and dividends, contractual interest payments and any other contractual cash outflows should be captured under other unsecured fund category.

(2) It's assumed that average portion of the required reserves that should be deposited to the Central Bank of the Republic of Turkey stay stable for the next required reserve calculation period. For a required reserve calculation period (14 days), the daily average required reserves to be deposited to the CBRT calculated for the remaining days within 14 days exceeding the required reserve that is calculated a day before the liquidity coverage ratio calculation day shall not be considered cash outflow.

(3) **(Additional:OG-20/8/2015-29451) (Revised:OG-20/1/2016-29599)** When calculating the LCR, for circumstances stated below a cross-border banking group should apply the liquidity parameters adopted in Annex-1 and Annex-2 to all branches abroad and to all legal entities being consolidated except for the treatment of retail and small business deposits/participation funds that should follow the relevant parameters adopted in host jurisdictions in which the entities operate.

a) For retail and SME customers' deposits/participation funds no cash outflow rate is determined/required in the scope of LCR.

b) Host jurisdictions where the bank is consolidated or the bank's liquidity risk is taken where the foreign branch of the bank exists have not implemented the LCR; or

c) Cash outflow rates determined for the implementation of this Regulation are stricter for retail and SME customers' deposits/participation funds.

Secured funding

ARTICLE 17- (1) Secured funds in this Regulation are limited to:

a) Repo,

b) Securities borrowing transactions,

c) Margin trading,

ç) Collateral swaps,

d) Collateral lent to the bank's customers to cover short positions that are stated at third paragraph.

(2) Run off factors of secured funding are determined according to the type of the collateral and the counterparty.

(3) A customer short position for the implementation of first paragraph describes a transaction where a bank's customer sells a security it does not own, and the bank subsequently obtains the same security from internal or external sources to make delivery into the sale. Internal sources include the bank's own inventory of collateral as well as rehypothecatable collateral held in other customer margin accounts. External sources include collateral obtained through a securities borrowing, reverse repo, or like transaction.

(4) If there are more than one collateral for secured funding and those collaterals are not in a segregated margin account that can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account, it is assumed that primarily non-high quality liquid assets, then respectively level 2B, level 2A and level 1 high quality liquid assets are posted as collateral when calculating cash outflow for the secured funding.

(5) Encumbered part of the secured funding that exceeds the market price of it is considered unsecured funding.

(6) If the underlying asset of a collateral is denominated in Turkish Lira then this liability is classified as unsecured funding when calculating foreign currency liquidity coverage ratio.

Funds provided by structured financial instruments

ARTICLE 18- (Revised:OG-20/1/2016-29599)

(1) Loss of funding on asset-backed securities, covered bonds and other structured financing instruments when these instruments are issued by the bank itself are considered funds from structured financial instruments when calculating cash outflow. In calculation of cash outflow the following risks, but are not limited to, must be taken into account (i) the inability to refinance maturing debt, and (ii) the existence of derivatives or derivative-like components contractually written into the documentation associated with the structure that would allow the return of assets in a financing arrangement, or that require the original asset transferor to provide liquidity, effectively ending the financing arrangement within the 30-day period.

(2) If the structured financing activities of a bank stated in the first paragraph are conducted through a special purpose entity, irrespective of whether or not the special purpose entity is consolidated, these activities must also be considered as cash outflow.

Off-balance sheet liabilities

ARTICLE 19 – (1) When calculating cash outflow, off-balance sheet items are limited to:

a) Derivative liabilities (cash outflows).

b) Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts.

c) Increased liquidity needs related to the potential for valuation changes on posted collaterals.

ç) Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty.

d) Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted.

e) Increased liquidity needs related to contracts that allow collateral substitution to non-high quality liquid assets.

f) Increased liquidity needs related to market valuation changes on derivative or other transactions.

g) Other off balance sheet liabilities that are irrevocable or conditionally revocable.

ğ) Other off balance sheet liabilities that are unconditionally revocable.

Derivative liabilities

ARTICLE 20 – (1) Cash outflows from derivative transactions with a maturity date up and including 30 calendar days is included in the calculation of LCR based on the expected contractual amount of cash outflow by the date of calculation of LCR.

(2) For cash settled derivatives, the party of the transaction who incurred a loss considers cash outflows specified at first paragraph of this Article exceeding cash inflows derivative liabilities.

(3) For contracts that require physical delivery cash outflows and cash inflows are calculated at the rates prescribed at Annex 1 and Annex 2. For derivatives with physical delivery denominated at the same currency, amount of cash outflows in excess of cash inflows are captured as derivative liabilities. In the calculation of FX liquidity coverage ratio, for cross currency derivatives with physical delivery, no netting is allowed.

(4) For contracts that can be settled in both cash and physical delivery, the transaction is regarded as cash settled.

(5) Where a derivative transaction is collateralized by high quality liquid assets and the bank is legally entitled and operationally capable to re-use the collateral in new raising transactions once the collateral is received, the collateral in question is captured at the rate for level 1 assets, level-2A assets or level 2-B assets prescribed at Annex 1 and Annex 2 and cash outflows from the derivative transaction is calculated net of the collateral received. Assets received as collateral for derivatives transactions that are not segregated and are legally able to rehypothecated may be included in the stock of high quality liquid assets provided that the bank records an appropriate outflow for the associated risks as set out in this article.

(6) Early exercisable options are included in the calculation of liquidity coverage ratio even if their remaining maturity is more than 30 calendar days. If the early exercisable option is in the money to the option buyer, option buyer calculates cash inflow based on the amount that he will receive at the date of calculation of liquidity coverage ratio. If it is out of money to the option seller, option seller calculates cash outflow based on the amount he will pay at the date of calculation of liquidity coverage ratio. Non-exercisable options with a remaining maturity of more than 30 calendar days are not included in the calculation of liquidity coverage ratio.

(7) If a valid master netting agreement exists, cash flows may be calculated on a net basis where inflows can offset outflows by counterparty.

Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts

ARTICLE 21 – (1) For each contract in which the bank assumes that additional collateral or cash outflow will have to be posted for, drawdown of contingent facilities, or early repayment of existing liabilities upon any downgrade up to and including a 3-notch downgrade of the bank's short or long-term credit rating by a recognized credit rating agency are considered in the cash outflow calculation.

Increased liquidity needs related to the potential for valuation changes on posted collaterals

ARTICLE 22 – (1) For contracts in which posted collateral is not level 1 asset type collateral and it is required to cover the potential valuation changes of the collateral, cash outflow should be calculated to cover the potential loss of market value of the collateral, based on the notional amount required to be posted.

(2) **(Revised:OG-20/1/2016-29599)** For the transactions stated at the first paragraph of this Article or other obligations, if the bank is legally entitled and operationally capable to re-use or rehypothecate the collateral in new cash raising transactions once the collateral is received, the collateral received and posted could be netted on a counterparty basis. While netting, collaterals received are considered at the rates for level 1 assets, level 2A assets and level 2B assets stated at Annex 1 and Annex 2 of this Regulation respectively, 100% run off factor is applied to collaterals posted.

(3) Any collateral that is in segregated margin account can only be used to offset outflows that are associated with payments that are eligible to be offset from the same account.

Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty

ARTICLE 23 – (1) The excess amount of non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements, is captured as outflow.

Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted

ARTICLE 24 – (1) The collateral that is contractually due but where the counterparty has not yet demanded the posting of it is captured as outflow.

Increased liquidity needs related to contracts that allow collateral substitution to non-high quality liquid assets

ARTICLE 25 – (1) The high quality liquid assets that has been received as collateral and where the bank is legally entitled and operationally capable to re-use them in new raising transaction and can be substituted for non-high quality liquid assets without the bank's consent is captured as outflow.

Increased liquidity needs related to market valuation changes on derivative or other transactions

ARTICLE 26 - (1) Any outflow generated by increased liquidity needs related to market valuation changes on derivative or other transactions should be calculated by identifying the largest absolute net 30-day collateral flow realized during the preceding 24 months. The absolute net collateral flow is based on both realized outflows and inflows. For derivatives and other transactions with realized flows less than 24 months, calculation is started from the date the transaction has been conducted.

(2) For the implementation of the first paragraph of this Article, inflows and outflows of transactions executed under the same netting agreement can be treated on a net basis.

Other off balance sheet liabilities that are irrevocable or conditionally revocable

ARTICLE 27- (1) (Revised:OG-20/1/2016-29599) Cash outflows regarding irrevocable or conditionally revocable other off balance sheet liabilities are treated according to the counterparty of the transaction for the commitments except those stated at fifth, sixth and seventh paragraph of this Article for the calculation of liquidity coverage ratio.

(2) For the implementation of this Regulation, irrevocable or conditionally revocable other off balance sheet liabilities are classified as below:

(a) Facilities that would refinance debt that is already taken by a customer from financial markets (Liquidity facilities to the customers),

(b) Other off balance sheet liabilities including both facilities that would refinance debt that is not yet taken by a customer from financial markets and guarantees, lending commitments to the customers. (Credit facilities to the customers).

(3) Where the liquidity facilities to the customers have a remaining maturity date up to and including 30 calendar days, that amount is included in the cash outflow calculation. The portion of the commitment posted that does not mature within the 30-day window is excluded from the calculation. Other off balance sheet liabilities including both facilities that would refinance debt that is not yet taken by a customer from financial markets and guarantees, lending commitments to the customers are included in cash outflow calculation regardless of their maturities by taking into account their committed value.

(4) Irrevocable or conditionally revocable other off balance sheet liabilities are calculated net of any high quality liquid assets eligible for the stock of high quality liquid assets, if high quality liquid assets have already been posted as collateral by the counterparty to secure the facilities or that are contractually obliged to be posted when the counterparty will draw down the facility, if the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the commitment facility is drawn, and there is no undue correlation between the probability of drawing the facility and the market value of the collateral and collateral is not already counted in the stock of HQLA for the calculation of liquidity coverage ratio.

(5) For the implementation of this Article, where customer short positions are covered by other customers' collateral that does not qualify as high quality liquid assets (where banks have internally matched client assets against other clients' short positions where the collateral does not qualify as Level 1 or Level 2), and the bank may be obligated to find additional sources of

funding for these positions in the event of client withdrawals, then this contingent obligation is regarded as cash outflow.

(6) Trade finance instruments consist of trade-related obligations directly underpinned by the movement of goods or the provision of services and all other noncash loans granted for this purpose are regarded as other off balance sheet liabilities that are irrevocable or conditionally revocable disregarding the counterparty of the transaction.

(7) Cash outflows regarding irrevocable or conditionally revocable off balance sheet liabilities that are not included in any other paragraphs of this article above and non contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities, which are not consolidated but where there is the expectation that the bank will be the main liquidity provider when the entity is in need of liquidity should be captured as other irrevocable or conditionally revocable other off balance sheet liabilities. The cash outflows regarding joint ventures or minority investments in entities should be calculated in accordance with the methodology agreed by the bank's supervisor.

Other off balance sheet liabilities that are unconditionally revocable

ARTICLE 28 – (1) Cash outflows related to other off balance sheet liabilities that are unconditionally revocable are included in the calculation of liquidity coverage ratio at the rates specified at Annex 1 and Annex 2 disregarding the counterparty of the obligation.

Cash inflows

ARTICLE 29 – (1) Cash inflows are calculated by multiplying the outstanding balances of various categories or types of assets and off-balance sheet items by the inflow rates stated at Annex 1 and Annex 2.

(2) Contractual agreement transactions with a maturity date up to and including 30 calendar days without prejudice to the provisions of third paragraph of this Article are considered in cash inflow calculation. Cash inflows arising from interest and profit share and income payments with a maturity date up to and including 30 calendar days are calculated on their related transaction and assets.

(3) Minimum payments of principal, fee, commission, dividend or interest associated with an open maturity receivables (receivables having no specific or non-defined maturity), provided that they are contractually due within 30 days, should be considered cash inflow.

(4) The latest possible payment date based on the contractual rights available to counterparties is considered determining the cash inflow date.

(5) Below stated cash inflows related to secured transactions are included in cash inflow calculation considering the type of the collateral disregarding the counterparty. If the underlying asset of a collateral is denominated in Turkish Lira then this receivable is not classified as secured when calculating foreign currency liquidity coverage ratio.

a) Reverse repo,
b) Securities lending,
c) Margin trading,
ç) Collateral swaps.

(6) Non-high quality liquid assets' principal, interest/profit share (for participation banks), participation, contribution margins or dividends are considered cash inflow disregarding the counterparty and whether they are encumbered or unencumbered.

(7) Disregarding the counterparty cash inflows related to derivative transactions are included in calculation according to the procedures and principles stated at Article 20.

(8) **(Revised:RG-20/1/2016-29599)** Banks may also recognise cash inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in high quality liquid assets.

(9) **(Additional:OG-20/1/2016-29599)** Transactions and assets excluding those stated at fifth, sixth, seventh and eighth paragraphs are included in cash inflow calculation according to the counterparty of the transaction disregarding whether they are secured or unsecured.

Transactions and assets excluded cash inflow calculation

ARTICLE 30– (1) Cash inflow shall not be calculated for assets and transactions stated below:

a) High quality liquid assets.

b) 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 the Official Journal No:26333 and dated 1/1/2006 non-performing loans or receivables a bank expects a default within the 30-day time horizon and contingent transactions.

c) Without prejudice to the provisions of third paragraph of Article 29, used portion of the credit line for revolving credit facilities, assuming the existing loan is rolled over.

ç) If the collateral obtained through reverse repo, securities borrowing, or collateral swaps, which matures within the 30-day horizon, is re-used (ie rehypothecated) and is used to cover short positions that could be extended beyond 30 days)

d) Noncash loans, letter of credits, guarantees, warrantees and commitments obtained by the bank.

e) Deposits held at credit or financial institutions for operational purposes.

f) Cash inflows related to non-financial revenues according to the TAS.

FIFTH SECTION
Reporting Obligations of Institutions and Administrative Measures

Reporting Obligations of Institutions
ARTICLE 31 – (Revised:OG-20/1/2016-29599)

(1) Template stated at Annex 1 related to nonconsolidated total and FX liquidity coverage ratios which are calculated weekly and template stated at Annex 2 related to consolidated total and FX liquidity coverage ratios which are calculated monthly should be reported to the Agency in harmony with the time horizon determined by the Board.

Administrative measures
ARTICLE 32 – (Revised:OG-20/1/2016-294599)

(1) If the total and FX liquidity coverage ratios are less than the ones stated at the fourth paragraph of Article 4 or the ratios are expected to fall below the minimum standard then the reasons and the measures planned to be taken should be reported to the Agency immediately.

(2) Noncompability in the nonconsolidated total and FX liquidity coverage ratios should be compensated within the following two weeks. Within a calendar year, including the compensated noncompability in the nonconsolidated total and FX liquidity coverage ratios, more than six noncompabilities shall not be achieved.

(3) Within a calendar year, more than two consecutive noncompability shall not be achieved when calculating consolidated total and FX liquidity coverage, and including the compensated noncompability in the consolidated total and FX liquidity coverage ratios more than two noncompabilities shall not be achieved.

SIXTH SECTION
Various and Final Provisions

Treatment regarding liquidity coverage ratio

TEMPORARY ARTICLE 1- (1) While implementing the provisions of Article 4, total and FX liquidity coverage ratio that will be on effect until 1/1/2019 are determined by the Board, by taking the approval of the Central Bank of the Republic of Turkey.

Treatment regarding calculation method of consolidated total and FX liquidity coverage ratio
TEMPORARY ARTICLE 2- (Revised:OG-28/2/2017-29993)

(1) When implementing the third and fourth paragraphs of Article 4 consolidated total liquidity coverage ratio and consolidated FX liquidity coverage ratio are calculated as of the last day of the month until 1/1/2018.

Reporting requirement

TEMPORARY ARTICLE 3- (1) Reporting to the Agency within the context of Article 31 of this Regulation shall start from 1/4/2014.

Entry into force

ARTICLE 33 – (1) Fourth paragraph of Article 4 and Article 32 shall apply from 1/1/2015, other provisions of this Regulation shall enter into force from 1/1/2014 following that of its publication in the Official Journal.

Enforcement

ARTICLE 34 – (1) The provisions of this Regulation are implemented by the Chair of the BRSA.

	Regulation on Calculation of Liquidity Coverage Ratio of Banks	
	Official Gazette Date	**Official Gazette Number**
	21/3/2014	28948
	Revised Regulations on Calculation of Liquidity Coverage Ratio of Banks	
	Official Gazette Date	**Official Gazette Number**
1	20/8/2015	29541
2	20/1/2016	29599
3	28/2/2017	29993
4	13/7/2017	30123
5	15/8/2017	30155