

From the Banking Regulation and Supervision Agency:

**REGULATION ON  
DETERMINATION OF GROUP OF CONNECTED CLIENTS AND LOAN  
LIMITS**

**FIRST CHAPTER  
Preliminary Provisions**

**Subject Matter**

**ARTICLE 1** – (1) The purpose of this Regulation is to set out the principles and procedures regarding the determination of group of connected clients by banks and calculation of loan limits on consolidated and non-consolidated basis.

**Basis**

**ARTICLE 2** – (1) This Regulation has been prepared on the basis of Articles 43, 47, 48, 49, 54, 55, 77 and 93 of the Banking Law no. 5411 dated 19/10/2005.

**Definitions**

**ARTICLE 3** – (1) For the purpose of this Regulation, the following definitions shall mean;

- a) Trading book: Trading book defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks published in the Official Gazette dated 23/10/2015 and numbered 29511,
- b) Parent undertaking: Parent undertaking defined in the Article 3 of the Law,
- c) Tier 1 capital: Tier 1 capital to be calculated according to the Regulation on Own Funds of Banks published on the Official Gazette dated 5/9/2013 and numbered 28756,
- ç) Bank: Banks defined in the Article 3 of the Law,
- d) Banking book: Banking book defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- e) Senior claims: Senior claims defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- f) Tranche: Tranche defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- g) Economic interdependence: Pursuant to the fourth paragraph of the Article 49 of the Law; existence of sureties, guarantees or similar relationships amongst loan clients where one of the counterparties were to experience repayment difficulties, other(s) as a result, would also be likely to encounter repayment difficulties,
- ğ) Financial institution: Financial institutions defined in the Article 3 of the Law,
- h) Unfunded credit protection: Unfunded credit protection defined in the Article 3 of the Regulation on the Measurement and Assessment of Capital Adequacy of Banks,
- ı) Controlling shareholder: Controlling shareholder defined in the Article 3 of the Law,
- i) Internal ratings based approaches: Internal ratings based approaches defined in the Article 3 of the Regulation on the Measurement and Assessment of Capital Adequacy of Banks,
- j) Subordinated claims: Subordinated claims defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- k) Public sector entity: Public sector entity defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- l) Law: Banking Law no. 5411 dated 19/10/2005,

- m) Counterparty credit risk: Counterparty credit risk defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- n) Short call option position: Position of the party selling the call option,
- o) Short put option position: Position of the party selling the put option,
- ö) Collective Investment Undertakings (CIU): Collective Investment Undertakings (CIU) defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- p) Consolidated Tier 1 capital: Consolidated Tier 1 capital to be calculated pursuant to procedures and principles set forth in the Regulation on Own Funds of Banks,
- r) Consolidated own funds: Consolidated own funds to be calculated pursuant to procedures and principles set forth in the Regulation on Own Funds of Banks,
- s) Control: Control defined in the Article 3 of the Law,
- ş) Loan: Transactions considered as loans pursuant to the Article 48 of the Law,
- t) Credit institution: Credit institutions defined in the Article 3 of the Law,
- u) Loan to value ratio: The ratio of the loan amount to the value of the asset taken as collateral,
- ü) Credit derivative: Credit derivative defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- v) Strike price: The price at which the right to buy or sell the underlying asset may be used during or at the end of maturity;
- y) Board: Banking Regulation and Supervision Board,
- z) Agency: Banking Regulation and Supervision Agency,
- aa) Securities financing transactions: Repo, reverse repo, securities lending and borrowing and margin lending transactions,
- bb) Central counterparty : Central counterparty defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- cc) Central government: Central government defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- çç) Qualified share: Qualified share defined in the Article 3 of the Law,
- dd) Own Funds: Own funds to be calculated pursuant to procedures and principles set forth in the Regulation on Own Funds of Banks,
- ee) Reference obligation: Reference obligation defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- ff) Systemically important bank: Banks recognized as systemically important banks in accordance with the Regulation on Systemically Important Banks, published in the Official Gazette dated 23/2/2016 and numbered 29633,
- gg) Covered bonds: Covered bonds defined in the Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- ğğ) Derivative financial instruments: Contracts listed in the sixth paragraph of the Article 5 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- hh) Derivative transactions: Derivative financial instruments and credit derivatives specified in the Regulation on Measurement and Assessment of Capital Adequacy of Banks,
- ii) Long call option position : Position of the party purchasing the call option,
- ii) Long put option position : Position of the party purchasing the put option.

## **SECOND CHAPTER**

### **Principles for Determining Group of Connected Clients**

#### **Group of connected clients**

**ARTICLE 4-** (1) A real person and his/her spouse and children, the undertakings where they are members of board of directors or general manager or where the undertakings which they or a legal person control individually or jointly, directly or indirectly or participate with unlimited liability, constitute a group of connected clients.

(2) A bank and its qualified shareholders, members of the bank's board of directors, general manager, deputy general managers and its executives working as equivalent or superior to the ones listed above in terms of powers and responsibilities, even if they are employed at other job positions, and their spouse and children, as well as the undertakings they control individually or jointly, directly or indirectly or participate with unlimited liability or where they are members of board of directors or general manager constitute the related party of the bank. Partnerships in which participation banks and development and investment banks participate in order to provide interest-free financing are not considered within the scope of this paragraph.

(3) While determining the group of connected clients, the evaluation whether there is economic interdependence between the loan clients shall also be made.

(4) In determining the group of connected clients specified in the first and second paragraphs, jointly controlled undertakings shall be included in the group of each shareholder that jointly controls these undertakings.

(5) Provided that there is no other relationship that requires them to be considered in the same group of connected clients; two or more clients controlled by or economically dependent on central governments, central banks or public sector entities subject to the same risk weighting as exposures to central governments in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks are not required to be considered in the same group solely due to this relationship.

(6) As an exception;

a) With respect to the persons that should be included in the same group of connected clients according to the first and second paragraphs, if there are specific circumstances or corporate governance safeguards,

b) With respect to the persons that should be included in the same group of connected clients due to economic interdependence according to the third paragraph, if a counterparty will not be effected from the default or the financial difficulties of the other counterparty, by finding new funding sources or alternative business partners

provided that these exceptions are demonstrated by the banks, these persons does not necessarily be included in the same group of connected clients together. Information and documents on this regard must be made available for supervision.

#### **Principles regarding economic interdependence in determining group of connected clients**

**ARTICLE 5-** (1) While determining the group of connected clients of real or legal persons whose exposures calculated in accordance with this Regulation on consolidated and non-consolidated basis exceeds 5% of the bank's Tier 1 capital, an analysis shall be made whether these clients are economically dependent on other clients based on the criteria listed below. Regarding the loan clients that do not exceed the 5% limit, it is appropriate to consider the criteria listed below in determining the group of connected clients:

a) 50% or more of the client's annual gross revenues or annual gross expenses are derived from transactions with the other client.

b) The client guarantees, stands surety or is liable by other means for the exposure of the other client fully or partly, and the exposure is so significant that when the claim occurs, the guarantor is likely to default.

c) A significant part of the goods or services produced by the client is sold to another client which cannot easily be replaced by other party.

c) The expected sources of income to repay the loans of more than one client are the same and there are no other sources of income of these clients that will allow them to repay their loan in full.

d) The financial problems experienced by another client would cause difficulties for the client in terms of full and timely repayment of liabilities.

e) The default or insolvency of another client is likely to be associated with the default or insolvency of the client.

f) For more than one client, the majority of the fundings of each client are from the same source and there is no alternative fund provider in case of default of the common fund provider.

(2) Pursuant to subparagraphs (a), (b), (c), (d) and (e) of the first paragraph where the economic dependence is one-way, the client economically depended on other client shall be included in the group of that client but it is not required to include the other client in the client's group unless there is different relationship between these clients that requires them to be considered in the same group. Pursuant to subparagraphs (ç) and (f) of the first paragraph where the economic dependence is two-way, clients with economic interdependence between each other are included in each other's groups.

### **THIRD CHAPTER**

#### **Loan Limits, Values of Exposures for Calculation of Loan Limits, Exemptions from Loan Limits**

##### **Loan limits**

**ARTICLE 6-** (1) The sum of the exposure values of the loans to be extended by banks to a real or legal person or a group of connected clients shall not exceed 25% of the Tier 1 capital and own funds.

(2) The sum of the exposure values of the loans to be extended to the related party of the bank shall not exceed 20% of the Tier 1 capital and own funds. The Board is entitled to raise this ratio up to 25% or down to the legal limit.

(3) The total of loans to be extended by banks to the shareholders who holds 1% and more of the bank's own funds and who are registered in the shareholders' ledger, irrespective of whether they are controlling shareholders or whether they own qualified shares, and to their group of connected clients, shall not exceed 50% of own funds.

(4) Loans extended to a real or legal person or a group of connected clients equal to or exceed 10% of the own funds are considered as large exposures and the sum of these loans shall not exceed 8 times the own fund.

(5) The Board may impose a more prudent limits for loans extended by systemically important banks to other systemically important banks or to banks designated as global systemically important banks by international competent authorities.

(6) The loan limits specified in this Article are calculated and applied on consolidated and non-consolidated basis.

(7) Consolidated loan limits are calculated by taking into consideration the loans included in the on-balance sheet and off-balance sheet accounts of the parent undertaking and each subsidiary included in the group of financial institutions subject to consolidation, the consolidated Tier 1 capital and consolidated own funds. Factoring receivables and other lendings of consolidated financial institutions shall be considered as cash loans.

(8) In the calculation of loan limits on a consolidated basis all debts and liabilities, specified in the seventh paragraph, of real and legal persons within the definition of group of connected clients to all subsidiaries included in the group of financial institutions subject to consolidation shall be taken into consideration.

(9) In the calculation of loan limits on a consolidated basis, the related party of the bank shall be applied as the risk group including financial institutions by taking into consideration

the parent undertaking and each subsidiary included in the group of financial institutions subject to consolidation.

(10) Loans extended to jointly controlled subsidiaries shall be deemed to have been extended to the group of connected clients of each shareholder who jointly controls the subsidiary to the extent of the ratio of the shares held by each of the shareholders who jointly control these subsidiaries.

### **Calculation of exposure value for trading book and banking book positions**

**ARTICLE 7-** (1) All on-balance sheet and off-balance sheet exposures taken into account within the scope of the Regulation on Measurement and Assessment of Capital Adequacy of Banks and either in the banking book or trading book, shall be added to the calculation of loan limits by using the exposure values specified in this Article.

(2) Without prejudice to the provisions of the third and fourth paragraphs, the exposure value of on-balance sheet loans in the banking book shall be taken into account by net of specific provisions set aside in accordance with the Regulation on the Procedures and Principles for Classification of Loans and Provisions To Be Set Aside published in the Official Gazette dated 22/6/2016 and numbered 29750 and valuation adjustments. It is at the discretion of the banks to take into account the loans in question with the exposure value before the deduction of the specific provisions and valuation adjustments.

(3) Securities financing transactions shall be taken into account by the exposure value calculated in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks.

(4) Transactions that give rise to counterparty credit risk in trading or banking books shall be taken into account by the exposure value calculated in accordance with the Standardised Approach Method for Counterparty Credit Risk Measurement determined within the scope of the Regulation on Measurement and Assessment of Capital Adequacy of Banks.

(5) The exposure value of non-cash loans and commitments in the banking book shall be calculated by deducting the specific provisions set aside in accordance with the Regulation on the Procedures and Principles for Classification of Loans and Provisions To Be Set Aside and then by applying the credit conversion factors set out in the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks, with a floor of 10%. It is at the discretion of the banks to take into account the non-cash loans in question with the exposure value before the deduction of the specific provisions and valuation adjustments.

(6) Straight debt instruments and equities in trading book shall be taken into account by the accounting value.

(7) For derivative transactions in trading books where the referenced name has risk of default, the exposure of the referenced name is calculated as follows:

a) For derivative financial instruments excluding options, long and short positions which are used in market risk calculations in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks, shall be decomposed into their individual legs and only transaction leg representing exposures of the bank due to the default of the referenced name shall be taken into account in the calculation of loan limits.

b) For credit derivatives, where the bank is the protection seller, the exposure value of the referenced name shall be the amount due in the case that the default triggers the payment, minus the absolute market value of the credit protection. For credit-linked notes, where the bank is the protection seller, the exposure shall be taken into account in the calculation of the loan limits of both the issuer of the credit-linked bond and the referenced name.

c) For the exposure value of the options in the trading book; for long call option position the market value and for short put option position the strike price of the option minus its market value shall be the exposure value. The profit determined as the market value of the option

for short call option positions and the profit determined by subtracting the market value of the option from the strike price for long put option positions are deducted from the total of other exposure values of the counterparty. If the total exposure value found as a result of this calculation is negative, the the exposure value shall be set to zero.

#### **Offsetting long and short positions in the trading book**

**ARTICLE 8-** (1) Long and short positions of securities in trading book having the same issuer, coupon payments, currency and maturities may be offset.

(2) Different securities with the same issuer may be offset if the short position has same or junior seniority to the long position. In order to determine the relative seniority of positions, securities shall be allocated according to their seniority such as equity, senior claim, subordinated claim. In cases where the allocation of securities by priority imposes an excessive burden for the bank, short and long positions of different securities with the same issuer may not be offset.

(3) If there is a net short position as a result of offsetting short and long positions, this short position shall not be included in the loan limit calculations.

(4) In the event that a position in the trading book is hedged by a credit derivative, if the reference obligation and the position hedged are different; the underlying of the hedge should have the same or junior seniority as the position hedged in order to recognise the credit protection.

(5) In the event that a position in the trading book is hedged by a credit derivative, the exposure reduced from the exposure of the original counterparty shall be corresponded to the loan limits calculations of the credit protection provider.

(6) In the event that protection is provided by credit default swaps for positions in trading book, if the credit default swap provider or the referenced entity is not a credit institution or financial institution, for the protection seller, the counterparty credit risk exposure calculated in accordance with the Standardised Approach Method for Counterparty Credit Risk Measurement determined within the scope of the Regulation on Measurement and Assessment of Capital Adequacy of Banks shall be taken into account as the exposure value of the protection seller instead of the exposure reduced from the exposure of the original counterparty.

(7) Long and short positions across the trading and the banking book cannot be netted.

#### **Calculation of the exposure value of covered bonds**

**ARTICLE 9-** (1) Covered bonds are taken into account over 100% of their nominal value in the calculation of loan limits of the issuer, without prejudice to the provision of the second paragraph.

(2) Covered bonds that meet the following conditions may be taken into account in the calculation of loan limits over at least 20% of their nominal value:

a) The pool of underlying assets consists of the following claims:

1) Claims on or guaranteed by the central government, central bank, public sector entities or multilateral development banks within the scope of the Regulation on Measurement and Assessment of Capital Adequacy of Banks; or

2) Claims secured by mortgages on residential real estate, which correspond to a risk weight of 35% or less in the calculation of the exposure subject to credit risk in accordance with the standard approach in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks and whose loan to value ratio is 80% or less; or

3) Claims secured by commercial real estate mortgages that correspond to a risk weight of 100% or less in the calculation of the exposure subject to credit risk in accordance with the standard approach in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks and whose loan to value ratio is 60% or less.

b) The nominal value of the asset pool shall exceed the nominal value of the covered bonds by at least 10%.

(3) In addition to the assets specified in subparagraph (a) of the second paragraph, substitute assets defined in the Article 3 of the Communiqué on Covered Bonds (III-59.1) published in the Official Gazette dated 21/1/2014 and numbered 28889 or assets accepted as substitute assets in the issuance of covered bonds in accordance with the regulations of equivalent foreign countries and derivative transactions provided for hedging risks may also be added to the asset pool.

(4) In the calculation of the loan-to-value ratio specified in subparagraph (a) of the second paragraph, the principles regarding the valuation of real estates and the review of the valuations determined within the scope of the Regulation on Measurement and Assessment of Capital Adequacy of Banks shall be taken into consideration.

(5) The conditions set out in the second paragraph must be satisfied at the initial issuance and throughout the remaining maturity of the covered bonds.

### **Calculation of the exposure value of investments in CIUs, securitisation positions and other structured financial instruments**

**ARTICLE 10-** (1) In the calculation of loan limits, on whose loan limits the risks arising from the investments in CIU, securitisation positions or other structured financial instruments in trading or banking book will be included shall be determined as follows:

a) If the exposure value of any underlying asset under the invested structures is 0.25% or more of the bank's Tier 1 capital, the counterparties corresponding to these underlying assets shall be identified and the exposure value is taken into account together with the other risks, if any, of these counterparties in the calculation of loan limits. If the borrowers of the underlying assets cannot be identified, these assets are considered as transactions with unknown counterparties and all transactions with unknown counterparties are monitored under a single group of connected clients.

b) If the exposure value of any underlying asset under the invested structures is less than 0.25% of the bank's Tier 1 capital, the exposure value may be taken into account in the calculation of the loan limits of the structure itself without identifying the counterparties corresponding to these underlying assets.

(2) In the calculation of loan limits, the exposure value of the investments made in CIU, securitisation positions or other structured financial instruments are determined as follows:

a) Where it is necessary to identify the counterparties corresponding to the underlying assets of the invested structures;

1) In structures where investors have the same seniority level, as in the CIU, the exposure value for the underlying asset is the value of the underlying asset multiplied by the pro rata share that the bank holds in the structure,

2) In structures where investors have different seniority levels, as in securitisation transactions, the exposure value for the underlying asset is calculated by multiplying the lower of the value of the tranche in which the bank invests and the nominal value of the underlying asset in the structure by the bank's share in that tranche, to be calculated separately for each tranche.

b) In case it is not necessary to identify the counterparties corresponding to the underlying assets of the invested structures; the nominal value of the investment shall be taken into account as the exposure value.

(3) In case of several individually immaterial investments in structures with identical underlying assets, it is obligatory to prove that the investment decisions are not made for the purpose to circumvent loan limits by avoiding the responsibility of identifying the counterparties.

(4) For investments in CIU, securitisation positions or other structured financial instruments, in addition to the risks posed by the underlying asset, third parties within these structures that may create additional risk factors such as fund manager, founder, liquidity provider, credit protection provider, etc. shall be identified and whether they create common risk factors shall be assessed on an event-by-event basis within the framework of the specific circumstances of the structure and the roles of third parties.

a) In the event that a situation that requires the invested structures to be evaluated in the same group of connected clients is detected, the risks of different structures with common risk factors shall be taken into account together or

b) In the event that a situation that requires the invested structure and the third party to be evaluated in the same group of connected clients is detected, the structure and the other exposures of the third party to the bank shall be taken into consideration together.

(5) Subparagraph (b) of the second paragraph shall be applied independently from the assessment to be made regarding the existence of common risk factors.

#### **Calculation of exposure values of central counterparties**

**ARTICLE 11-** (1) In the calculation of loan limits, the exposure value of the transactions with the central counterparties consist of the sum of the exposure value related to the clearing and settlement transactions specified in the table below and other exposures calculated pursuant to the second paragraph:

	<b>Exposure value</b>
Trade Exposures	Like all other exposures
Segregated initial margin (bankruptcy remote)	0 (zero)
Non segregated initial margin (not bankruptcy remote)	Nominal amount of initial margin
Unfunded default fund contributions	0 (zero)
Pre-funded default fund contributions	Nominal amount of the contribution
Equity stakes	Nominal amount of equity stakes

(2) In the calculation of the exposure value for other transactions with the central counterparty, the provisions regarding the calculation of the exposure values of the transactions with other counterparties specified in this Regulation shall apply.

(3) In cases where the bank is a clearing member or a client, the counterparty of the risks arising from clearing and settlement transactions shall be determined in accordance with the provisions on Calculation of Capital Requirement for Risks Arising from Central Counterparties in ANNEX-4 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks.

(4) It is not obliged to consider more than one central counterparty in the same group of connected clients only due to clearing and settlement transactions, provided that there is no other relationship between them that requires them to be considered in the same group of connected clients.

#### **Recognition of credit risk mitigation techniques in loan limit calculations**

**ARTICLE 12-** (1) In the calculation of loan limits, financial collaterals, unfunded credit protections and on-balance sheet netting that meet the minimum requirements pursuant to the Communiqué on Credit Risk Mitigation Techniques published in the Official Gazette dated 6/9/2014 and numbered 29111 shall be taken into account as credit risk mitigation. Collaterals that are exclusively taken into account in the calculation of the amount subject to credit risk

with internal ratings based approaches shall not be used for credit risk reduction in the calculation of loan limits.

(2) If the credit risk mitigation techniques mentioned in the first paragraph are used in capital adequacy calculations made in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks, they also shall be used in loan limits calculations.

(3) In case of using financial collateral;

a) The value of the portion of the claim collateralised by the market value of the financial collateral, if the Simple Financial Collateral Method specified in the Communiqué on Credit Risk Mitigation Techniques is used,

b) Collateral amount taken into account in counterparty credit risk calculation,

c) In case the Comprehensive Financial Collateral Method specified in the Communiqué on Credit Risk Mitigation Techniques is used; the volatility-adjusted value, defined in the Article 40 of the mentioned Communiqué, of the collateral calculated using the Standard Volatility Adjustment Approach specified in the Article 42 of the mentioned Communiqué,

shall be deducted from the exposure of the original counterparty and this deducted amount shall be added in the calculation of the loan limits of the protection provider.

(4) In case of use of unfunded credit protection, the hedged amount shall be deducted from the exposure of the original counterparty and this deducted amount shall be added in the calculation of the loan limits of the protection provider.

(5) If the conditions specified in the Communiqué on Credit Risk Mitigation Techniques for on-balance sheet netting are met, such netting agreements shall be taken into account in the calculation of loan limits as specified in the Communiqué on Credit Risk Mitigation Techniques.

(6) In case of a maturity mismatch where the residual maturity of the credit protection is less than the residual maturity of the hedged receivable;

a) The original maturity of the protection is less than one year,

b) The residual maturity of the hedge is less than three months,

the existence of any of these conditions, the related credit protection shall not be recognised.

(7) In case of maturity mismatch, the value of credit protection to be recognised in the calculation of loan limits shall be determined with the same approach used in capital adequacy calculations in accordance with the Regulation on Measurement and Assessment of Capital Adequacy of Banks.

#### **Transactions of Turkish branches of banks headquartered abroad with their headquarters and other branches established abroad**

**ARTICLE 13-** (1) Deposits made by Turkish branches of banks headquartered abroad to their headquarters and other branches established abroad are considered as loans within the scope of the first paragraph of the Article 48 of the Law and are included in the calculation of the the related party of the bank's exposure values.

(2) Funds provided from headquarters and other branches established abroad are considered as cash collateral within the scope of financial collateral in the application of the Article 12.

#### **Transactions not subject to loan limits**

**ARTICLE 14-** (1) The following transactions are not subject to loan limits:

a) Exposures to central governments, central banks or public sector entities subject to the same application as claims from central governments pursuant to the Regulation on Measurement and Assessment of Capital Adequacy of Banks and claims protected by guarantees provided by central governments or securities issued by central governments, provided that the conditions specified in the Communiqué on Credit Risk Mitigation Techniques are met.

b) Intra day exposures arising from transactions of banks with other banks, including banks headquartered abroad.

c) Exposures arising from clearing activities with central counterparties performing qualified transactions within the scope of the Regulation on Measurement and Assessment of Capital Adequacy of Banks.

ç) Amounts deducted from own funds' components.

(2) In case the exposures specified in subparagraph (a) of the first paragraph are hedged with a credit derivative, the exposure value calculated in accordance with the fifth and sixth paragraphs of the Article 8 and the fourth paragraph of the Article 12, as relevant, shall be taken into account in the loan limits of the counterparty providing the credit protection, regardless of whether the original exposure is exempted from loan limits.

(3) The article 55 of the Law shall also be taken into account in the loan limits calculated in proportion to the own funds.

(4) Advances, guarantees and sureties accepted from real or legal persons included in a group of connected clients to constitute the collateral of the loans extended to the same group of connected clients shall not be taken into account in the calculation of the loan limits of the group of connected clients.

(5) In addition to the transactions specified in this Article, the following transactions shall not be taken into account in the calculation of the loan limits extended to the related party of the bank:

a) Shareholding interests in consolidated banks and financial institutions.

b) Unlimited guarantees given by banks operating in Türkiye to the competent authorities of foreign countries against the liabilities of the consolidated subsidiaries of these banks engaged in banking activities in foreign countries in accordance with the legislation of the relevant country.

c) Shareholding interests acquired free of charge as a result of all kinds of capital increases and valuation of shareholding interests that do not require any fund outflow.

## **FOURTH CHAPTER**

### **Reporting on Loan Limits and Breaches of the Limits**

#### **Reporting of loan limits**

**ARTICLE 15-** (1) In the calculation of loan limits, the latest consolidated Tier 1 capital and own funds and non-consolidated Tier 1 capital and shareholders' own funds calculated in accordance with the Regulation on Own Funds of Banks are taken into account and loan limits are calculated and reported to the Agency at the end of each month.

#### **Breaches of the limits and elimination of excesses**

**ARTICLE 16-** (1) In case of an excess in loan limits, banks are obliged to immediately notify the Agency of the reasons thereof together with the measures planned to be taken to eliminate the said situation.

(2) In the event of volatility in financial markets, the Board is authorized not to consider the breach in transactions in the interbank money market as non-compliance with the limits in order to ensure stability in the interbank money market.

(3) Whichever of the limits calculated on consolidated and non-consolidated basis is exceeded shall be taken into consideration as the excess amount, and if there is an excess in more than one limit, the higher amount shall be taken into consideration

(4) If loan limits are breached due to decreases in consolidated or non-consolidated Tier 1 capital or own funds, such excesses must be eliminated within a period of six months. In case the excess requires an increase in consolidated or non-consolidated Tier 1 capital or own funds, the increase shall be realized by taking into account the Tier 1 capital or own funds that requires the highest increase amount.

## **FIFTH CHAPTER**

### **Miscellaneous and Final Provisions**

#### **Application for development and investment banks**

**ARTICLE 17-** (1) Development and investment banks shall be subject only to the Articles 4 and 5 of this Regulation. The Board is authorized to decide to apply the provisions of this Regulation for one, a group or all of the development and investment banks or to determine loan limits different from those set forth in this Regulation, taking into account the application of corporate governance provisions and protective provisions.

#### **Adaptation**

**PROVISIONAL ARTICLE 1-** (1) As of the effective date of this Regulation, banks exceeding any of the loan limits set forth in the first and second paragraphs of the Article 6 shall not grant new loans to this real or legal person or group of connected clients in any form or manner. Starting from the date of entry into force of the provisions of this Regulation, banks shall eliminate the excess amounts until 31/12/2024 by amortizing fifty percent of these amounts until 30/6/2024. The Board is authorized to extend these dates up to one year.

#### **Enforcement**

**ARTICLE 18-** (1) This Regulation shall enter into force on 1/1/2024.

#### **Execution**

**ARTICLE 19-** (1) The provisions of this Regulation shall be executed by the Chairman of the Banking Regulation and Supervision Agency.