

From the Banking Regulation and Supervision Agency:

REGULATION ON OWN FUNDS OF BANKS

(Published in Official Gazette dated September 5, 2013, Nr. 28756)

SECTION ONE

Objective and Scope and Basis and Definitions

Objective and Scope

ARTICLE 1 – (1) The objective of this Regulation is to set down the procedures and principles related to calculation of the sums of own funds and consolidated own funds to be considered in respect of limits to be observed pursuant to the Banking Law Nr. 5411 dated 19/10/2005 and in calculation of the standard rates concerning own funds.

Basis

ARTICLE 2 – (1) This regulation has been prepared on the basis of Articles 44 and 93 of the Banking Law Nr 5411 dated 19/10/2005.

Definitions

ARTICLE 3 – (1) The following terms used in this Regulation shall have meanings designated to them below;

- a) Bank: Bank defined in Article 3 of the Law,
- b) Capital instruments: Debt instruments regulated by the Law on the Capital Market Nr 6362 dated 6/12/2012 and any other regulations that relates this Law,
- c) Finansal institution: Finansal institution defined in Article 3 of the Law,
- ç) Fund: Saving Deposit Insurance Fund (SDIF),
- d) Law: The Banking Law Nr. 5411 dated 19/10/2005,
- e) Board: The Banking Regulation and Supervision Board,
- f) Agency: The Banking Regulation and Supervision Agency,
- g) **Abolished: (OG-23/10/2015-29511)¹**
- ğ) Turkish Accounting Standards (TAS): Accounting standards that are published as Turkish Accounting Standards and Turkish Financial Reporting Standards by the Public Oversight, Accounting and Auditing Standards Authority,
- h) **(Additional: OG-14/3/2018-30360)²** TFRS 9: TFRS 9-Financial Instrument Standard that is published by the Public Oversight, Accounting and Auditing Standards Authority.

¹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

² This amendment takes effect on the date of publication, effective from 1/1/2018.

SECTION TWO

Elements of Own Funds

Own fund

ARTICLE 4 – (1) Own fund is calculated by the sum of Tier 1 capital and Tier 2 capital which are subject to deductions laid down in the Article 9.

Tier 1 capital

ARTICLE 5 – (1) Tier 1 capital consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital.

Common Equity Tier 1 capital

ARTICLE 6 – (1) Common Equity Tier 1 capital consists of the sum of the following items which are subject to deductions laid down in the Article 9.

- a) Paid up capital which comes the last of all other receivables considering the claims in the case of liquidation of bank,
- b) Share issue premiums,
- c) **Abolished: (OG-23/10/2015-29511)**³
- ç) Retained earnings,
- d) Gains recognised in equity in accordance with TAS (Accumulated other comprehensive income and other disclosed reserves),
- e) Net profit for the current period and the previous years,
- f) **Abolished: (OG-23/10/2015-29511)**⁴
- g) Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period,

(2) Retained earnings are calculated by subtracting the sum of legal reserves allocated by banks as per Turkish Commercial Code (TCC) Nr 6102 of 13/1/2011 and relevant laws as well as their articles of association and the sum of net loss for the current period and the previous years' loss recognised in the balance sheets.

(3) **(Amended: OG-20/01/2016-29599)**⁵ The shares that are acquired in return for the funds from loan, advance or guarantee from the bank as recognised within the context of the second sentence of first paragraph of the Article 380 of TCC any portion of the capital that related to preferred shares which requires the distribution of dividend and the capital amount which has

³ he Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁴ he Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁵ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

been determined to have been increased in breach of applicable laws, shall not be taken into consideration in point (a) of paragraph 1.

(4) **(Amended: OG-20/01/2016-29599)**⁶ In determining the amount in point (e) of paragraph 1, the amount permitted by the Agency, if any, otherwise the dividends which is envisaged by the bank's general assembly or decided to be distributed in the general assembly shall not be recognised.

(5) **Abolished: (OG-23/10/2015-29511)**⁷

Additional Tier 1 capital

ARTICLE 7 – (1) (Amended: OG-20/01/2016-29599)⁸ Additional Tier 1 capital consists of the sum of the following items which are subject to deductions laid down in the Article 9.

a) Preferred shares that are not included in Common Equity Tier 1 capital except for those shares for which the undistributed dividends are required to be distributed in the subsequent periods,

b) Shares issue premiums related to the instruments referred to in point (a),

c) Eligible capital instruments and related share issue premiums that are approved by the Agency upon the application with a written declaration by the bank's board of directors which confirm that instruments meet the criteria laid down in the paragraph 2.

(2) Capital instruments that will be included in Additional Tier 1 capital shall be required to meet the following criteria.

a) Issued, registered by the Capital Market Board (the CMB) and fully paid-in,

b) Subordinated to depositors, general creditors and subordinated debts of the bank,

c) Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors,

ç) Is perpetual, and there are no step-ups or other incentives to redeem,

d) May be callable at the initiative of the issuer only after a minimum of five years, provided that Agency's approval is taken. The following conditions shall be required to meet while

giving approval:

1) A bank must not do anything which creates an expectation that the call will be exercised; and,

⁶ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁷ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁸ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

2) They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or

3) **(Amended:OG-23/10/2015-29511)**⁹ The bank demonstrates that after the call option is exercised its capital position is well above the minimum capital requirements which is greater of: (1) The capital requirement calculated by the Regulation on Measurement and Assessment of Capital Adequacy of Banks (RCA) and the Regulation on Capital Conservation and Countercyclical Capital Buffers and the capital requirement that needs to be charged after the Internal Capital Adequacy Assessment Process or (2) If there is any other higher amount required by the Board. On the grounds that there is a major regulatory change or any tax event, it may be callable before five year provided that the Agency's approval is taken and the above mentioned conditions are met.

e) **(Amended: OG-23/10/2015-29511)**¹⁰ Any repayment of principal must be subject to prior supervisory approval. The conditions laid down in point (d) of this paragraph shall be deemed to be met for the permission granted by the BRSA.

f) The bank must have full discretion at all times to cancel distributions/payments and the term cancel distributions/payments means extinguish these payments. It does not permit features that require the bank to make distributions/payments in kind. Cancellation of discretionary payments must not be an event of default, banks must have full access to cancelled payments to meet obligations as they fall due and cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stockholders,

g) Dividends/coupons must be paid out of distributable items,

ğ) The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organisation's credit standing,

h) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument,

i) The instrument cannot have any features that hinder recapitalisation, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame,

i) **(Amended: OG-23/10/2015-29511)**¹¹ It shall be either written-down or converted into common equity in the event of the Common Equity Tier 1 Capital Adequacy Ratio (CET1) ratio/consolidated CET1 ratios of the bank fall below the 5.125% (trigger level). When this event occurs the bank shall immediately inform the Agency. The aggregate amount to be written-down/converted for all such instruments on breaching the trigger level must be at least

⁹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹⁰ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹¹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

the amount needed to immediately return the bank's CET1 ratio to the 5.125%. The write-down will have the following effects:

- 1) Reduce the claim of the instrument in liquidation;
- 2) Reduce the amount re-paid when a call is exercised; and
- 3) Partially or fully reduce coupon/dividend payments on the instrument.

j) **(Amended: OG-23/10/2015-29511)**¹² It shall be either written-off or converted into common equity to absorb losses upon the Board's Resolution if the possibility of either revoking the operating license of a bank or transferring the management and control of the bank to the SDIF emerges because of the losses the bank exposed according to Article 71 of the Banking Law.

k) **(Amended: OG-23/10/2015-29511)**¹³ If the instrument is not issued directly by the bank itself or an institution within the scope of consolidation, proceeds must be immediately available without limitation to the bank or the institution in a form which meets all the criteria in this paragraph.

(3) The subordinated loans shall be included in Additional Tier 1 capital provided that they meet all the relevant criteria laid down in the paragraph 2.

(4) **(Amended: OG-23/10/2015-29511)**¹⁴ Applications to the Agency in accordance with paragraphs 1 and 3 original or notarized copy of the subordinated loan contract or letter of registration by the CMB and text of the capital instruments shall be submitted.

(5) **(Amended: OG-23/10/2015-29511)**¹⁵ In case of any differences between the provisions of the draft contract and signed contract where the subordinated loan contract draft is submitted as part of an application made to the Agency pursuant to paragraph 4, it is also obligatory to submit to the Board a written declaration by the bank's board of directors that such differences do not eliminate the qualification of Additional Tier 1 capital instrument within five business days from the date of signature. Unless otherwise commented by the Agency, any subordinated loan received is included in calculation of Additional Tier 1 capital.

(6) In the event that the interest rates to be applied to similar capital instruments are not clearly established in the subordinated loan contract or in the prospectus of the bond or that the interest rate is excessively higher compared with similar capital instruments, the Agency may not give permission for inclusion of such capital instruments in calculation of Additional Tier 1 capital.

(7) **(Amended: OG-23/10/2015-29511)**¹⁶ Capital instruments, which are approved by the Agency, are included in the accounts of Additional Tier 1 capital as of the date of transfer to

¹² The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹³ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹⁴ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹⁵ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹⁶ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

the relevant accounts in the bank records and in the enforcement of the Article 71 of the Banking Law, it is not recognised as liabilities of the bank.

(8) In addition to criteria laid down in the paragraph 2, the Agency may impose additional criteria for each capital instrument.

(9) **(Additional: OG-6/9/2014-29111)** The principles and procedures regarding the write-down/write-off or conversion into common equity of the capital instruments which will be included in Additional Tier 1 capital shall be set by the Board.

Tier 2 capital

ARTICLE 8 – (1) (Amended: OG-23/10/2015-29511)¹⁷ Tier 2 capital consists of the sum of the following items which are subject to deductions that laid down in the Article 9:

- a) General provisions which are calculated for the risk weighted exposure amount for credit risk by using standardised approach in accordance with the RCA1,
- b) The positive amounts resulting from the calculation laid down in paragraph 2 of Article 8 of the Communiqué on Calculation of the Risk Weighted Exposure Amount for Credit Risk by Internal-rating based Approaches (CIRB),
- c) Eligible capital instruments and related share issue premiums that are approved by the Agency upon the application with a written declaration by the bank's board of directors which confirm that instruments meet the criteria laid down in the paragraph 2.

(2) Capital instruments that will be included in Tier 2 capital needs to be met the following criteria.

- a) Issued, registered by the CMB and fully paid-in,
- b) Subordinated to depositors, general creditors of the bank,
- c) Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors,
- ç) Minimum original maturity of at least five years, and there are no step-ups or other incentives to redeem,
- d) May be callable at the initiative of the issuer only after a minimum of five years, provided that Agency's approval is taken. The following conditions needs to be met while giving approval:
 - 1) A bank must not do anything which creates an expectation that the call will be exercised; and,
 - 2) They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or

¹⁷ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

3) (**Amendment: OG-23/10/2015-29511**)¹⁸ The bank demonstrates that after the call option is exercised its capital position is well above the minimum capital requirements which is greater of: (1) The capital requirement calculated by the RCA and the Regulation on Capital Conservation and Countercyclical Capital Buffers and the capital requirement that needs to be charged after the Internal Capital Adequacy Assessment Process or (2) If there is any other higher amount required by the Board. On the grounds that there is a major regulatory change or any tax event, it may be callable before five year provided that the Agency's approval is taken and the above mentioned conditions are met.

e) The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.

f) The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organisation's credit standing,

g) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument,

ğ) (**Amendment: OG-23/10/2015-29511**)¹⁹ It shall be either written-off or converted into common equity to absorb losses upon the Board's Resolution if the possibility of either revoking the operating license of a bank or transferring the management and control of the bank to the SDIF emerges because of the losses the bank exposed according to Article 71 of the Banking Law,

h) If the instrument is not issued by the bank itself or an institution within the scope of consolidation, proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 capital.

(1) (**Additional: OG-23/10/2015-29511**)²⁰ Any redemption of the principal is subject to Agency's approval. The conditions laid down in point (d) of this paragraph shall be deemed to be met for the permission granted by the BRSA.

(3) The loans deemed appropriate by the Agency upon the application made by the Board of Directors together with the written declaration confirming that they meet all the conditions in the paragraph 2, except for the conditions of being issued and registered by the CMB stated in subparagraph (a) are considered as capital instruments that will be included in Tier 2 capital

(4) (**Amended: OG-23/10/2015-29511**)²¹ In the applications to be made to the Agency in accordance with paragraphs 1 and 3 original or notarized copy of the subordinated loan contract

¹⁸ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

¹⁹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²⁰ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²¹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

or letter of registration by the CMB and text of the capital instruments shall be submitted. In case the loan contract has not been signed yet, the draft contract is submitted to the Agency.

(5) **(Amended: OG-23/10/2015-29511)**²² In cases where the draft contract is submitted in accordance with the paragraph 4, if there is a difference between the provisions of the draft contract and the provisions of the signed contract, or if the text of the capital instrument submitted is changed, it is also obligatory to submit to the Board a written declaration by the bank's board of directors that such differences do not eliminate the qualification of being Tier 2 capital instrument within five business days from the date of signature. Unless otherwise stated by the Agency, the capital instrument shall be included in calculation of Tier 2 capital.

(6) In the event that the interest rates to be applied to similar capital instruments are not clearly established in the subordinated loan contract or in the prospectus of the bond or that the interest rate is excessively higher compared with similar capital instruments, the Agency may not give permission for inclusion of such capital instruments in calculation of Tier 2 capital.

(7) Capital instruments, which are approved by the Agency, are included in accounts of Tier 2 capital as of the date of transfer to the relevant accounts in the bank records.

(8) In addition to criteria laid down in the paragraph 2, the Agency may impose additional criteria for each capital instrument.

(9) Capital instruments with remaining maturity under five years which are included in Tier 2 capital needs to be amortised 20% for each year.

(10) **Abolished: (OG-23/10/2015-29511)**²³

(11) **(Amended: OG-23/10/2015-29511)**²⁴ When general provisions calculated for the exposures using standardised approach in accordance with the RCA exceed the 1.25% of risk-weighted exposure amounts, the exceeding amount shall not be recognised in the Tier 2 capital. When the positive amounts resulting from the calculation laid in paragraph 2 of Article 8 of the CIRB exceed 0.6% of risk-weighted exposure amounts calculated under the IRB approach, this difference shall not be recognised in the Tier 2 capital.²

(12) For the purposes of the participation banks's general provisions that will be included in Tier 2 capital, the sums of general provisions which recognised in their expense accounts shall be taken into consideration.³

(13) **(Additional: OG-6/9/2014-29111)** The principles and procedures regarding the write-off or conversion into common equity of capital instruments which will be included in Tier 2 capital shall be set by the Board.

Regulatory Adjustments

²² The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²³ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²⁴ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

ARTICLE 9 – (1) The following items shall be recognised as a deduction item in the calculation of Common Equity Tier 1 capital.

a) The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS,

b) Improvement costs for operating leasing,

c) With the exception of mortgage servicing rights, the net amount of items classified as intangible assets or goodwill according to TAS by deducting net of any associated deferred tax liability which would be extinguished if these items become impaired or derecognised under the TAS,

2 (**Amended: OG-14/03/2018-30360**), Article 2 - as of 1/1/2020, paragraph 11 will be changed as “When the positive amounts resulting from the calculation laid in paragraph 2 of Article 8 of the CIRB exceed 0.6% of risk-weighted exposure amounts calculated under the IRB approach, this difference shall not be recognised in the Tier 2 capital”

3 (**Abolished: OG-14/03/2018-30360**, Article 2 - as of 1/1/2020, paragraph 12 will be abolished.

ç) With the exception of deferred tax assets (DTAs) relate to temporary differences, all DTAs that rely on future profitability of the bank to be realised are to be deducted in the calculation of Common Equity Tier 1 only if the conditions that are determined by the TAS having met,

d) Credits extended contrary to the Articles 56 (4) of the Banking Law,

e) (**Additional: OG-6/9/2014-29111**) (**Amendment: OG-23/10/2015-29511**)²⁵ The absolute value of the negative amount resulting from the calculation laid down in in paragraph 2 of Article 8 of the CIRB,

f) (**Additional: OG-23/10/2015-29511**)²⁶ The gains of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet,

g) (**Additional: OG-23/10/2015-29511**)²⁷ Gain on sale related to securitisation transactions,

ğ) (**Additional: OG-23/10/2015-29511**)²⁸ Unrealised gains due to changes in own credit risk on fair valued financial liabilities,

h) (**Additional: OG-23/10/2015-29511**)²⁹ (**Amended: OG-20/01/2016-29599**)³⁰ Other than the defined benefit pension fund assets to which the bank has unrestricted and unfettered access

²⁵ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²⁶ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²⁷ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²⁸ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

²⁹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

³⁰ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

that are approved by the Agency, the defined benefit pension fund assets shall be deducted in the calculation of Common Equity Tier 1 capital net of any associated deferred tax liability which would be extinguished if the asset should become impaired or derecognised. Any increase in Common Equity Tier 1 capital realised due to the decrease in defined benefit fund liabilities shall be deducted in the calculation of Common Equity

Tier 1 capital.

1) **(Additional: OG-23/10/2015-29511)**³¹ The differences between the amount that is reached by the adjustment to the current valuation of less liquid positions made under paragraph 15 of Annex 3 of the RCA is below the amount which is found by the TAS and the paragraphs 11 and 12 of the same Annex.

(2) The deferred tax liability that will be netted with the deferred tax asset laid down in point (c) of paragraph 1 is calculated by deduction of the netted amount laid down in point (c) of paragraph 1. The deferred tax must be allocated on a pro rata basis between DTAs subject to the threshold deduction treatment and DTAs that are to be deducted in full.

(3) The following items are not recognised for the purposes of point (a) of paragraph 1.

a) **(Amended: OG-6/9/2014-29111)** The losses of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet pursuant to TAS,

b) Unrealised losses due to changes in own credit risk on fair valued financial liabilities.

(4) The following items are recognised correspondingly as a deduction item in the calculation of Common Equity Tier 1, Additional Tier 1 capital or Tier 2 capital.

a1) **(Amended: OG-23/10/2015-29511)**³² Irrespective of the location of the exposure in the banking book or the trading book, all of the net long positions of direct or indirect investments via instruments such as derivative financial instruments, credit derivatives, guarantees, and index securities in bank's own common shares and its own Additional Tier 1 and Tier 2 capital and any own share or own Additional Tier 1 and Tier 2 capital instrument which the bank could be contractually obliged to purchase should be deducted in the calculation of Common Equity

Tier 1, Additional Tier 1 and Tier 2 capital accordingly . The treatment described shall be applied irrespective of the location of the exposure in the banking book or the trading book. Gross long positions may be deducted net of short positions in the same underlying exposure only if the short positions involve no counterparty risk. Banks should look through holdings of index securities to deduct exposures to own shares. However, gross long positions in own shares resulting from holdings of index securities may be netted against short position in own shares resulting from short positions in the same underlying index. In such cases the short positions that involve counterparty risk may be included net long position provided that they are subject to the relevant counterparty credit risk charge. Following the same approach outlined above, banks must deduct investments in their own Additional Tier 1 capital in the calculation of their

³¹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

³² The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

Additional Tier 1 capital and must deduct investments in their own Tier 2 capital in the calculation of their Tier 2 capital.

a2) Reciprocal cross holdings in the capital of banking, and financial institutions shall be deducted from the same component of capital for which the capital would qualify if it was issued by the bank itself.

b) **(Amended: OG-23/10/2015-29511)**³³ Irrespective of the location of the exposure in the banking book or the trading book investments including direct, indirect and synthetic holdings of capital instruments in the capital of banking, financial institutions that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the institutions will be subject to corresponding deduction approach. If the total of all holdings of investments in aggregate exceed 10% of the bank's Common Equity Tier 1 capital (after applying all other regulatory adjustments in this Article full listed prior to this paragraph) the exceeding amount multiplied by :

1) the Common Equity Tier 1 capital holdings as a percentage of the total capital holdings,

2) the Additional Tier 1 capital holdings as a percentage of the total capital holdings,

3) the Tier 2 capital holdings as a percentage of the total capital holdings The amount calculated in sub-points of (1), (2), and (3) are respectively deducted from Common Equity Tier 1, Additional Tier 1, and Tier 2 Capital. The net long position may be included provided that the gross long position net of short positions in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year.

c) **(Amended: OG-23/10/2015-29511)**³⁴ **(Amended: OG-20/1/2016-29599)**³⁵ Irrespective of the location of the exposure in the banking book or the trading book, all of the net long positions of direct or indirect investments via instruments such as derivative financial instruments, credit derivatives, guarantees, and index securities in the Additional Tier 1 and Tier 2 capital instruments of banking and financial institutions that are outside the scope of regulatory consolidation, where the bank has control power or owns more than 10% of the issued common share capital or owns 20% or more of the voting rights of the institutions, or has to consolidate their financial statements due to the TAS; or the investments as such in the parent companies of the bank or the institutions that are under common control with the bank are deducted from the Additional Tier 1 and Tier 2 capital respectively. In the calculation of the net long positions short positions in the same underlying exposure can be included on the condition that they have the same maturity with the long positions or have a residual maturity of at least one year.

³³ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

³⁴ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

³⁵ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

ç) (Amended: OG-23/10/2015-29511)³⁶ (Amended: OG-20/1/2016-29599)³⁷ Irrespective of the location of the exposure in the banking book or the trading book, net positions of the direct or indirect investments via instruments such as derivative financial instruments, credit derivatives, guarantees, and index securities in the Common Equity Tier 1 instruments of banks and financial institutions that are outside the scope of regulatory consolidation and where the bank has control power or owns more than 10% of the issued common share capital or owns 20% or more of the voting rights of the institutions, or has to consolidate their financial statements due to the TAS; or the investments as such in the institutions that are under common control with the bank, deferred tax assets that are arisen from temporary differences, and mortgage servicing rights that are recognised as intangible asset according to the TAS are taken into account in the calculation of the Common Equity Tier 1 capital as follows.

1) Excess amount of each of these items above the 10% of the bank's Common Equity Tier 1 capital that is calculated after applying previous provisions of this Article is deducted from Common Equity Tier 1 capital.

2) The total of un-deducted amounts for the purposes of sub-point (1) will be deducted from the Common Equity Tier 1 capital which is calculated in sub-point (1).

3) The total of un-deducted amounts for the purposes of sub-point (1) which exceeds the amount of 17,65% of the common equity tier 1 capital calculated according to sub-point (2) will be deducted from the Common Equity Tier 1 capital which is calculated in sub-point (1).

4) The Common Equity Tier 1 capital which is calculated in sub-point (3) is recognised as the Common Equity Tier 1 capital for the purposes of this point.

(5) For the purposes of point (b) ve (c) of paragraphs 4, a bank is required to make a deduction from a particular tier of capital and it does not have enough of that tier of capital to satisfy that deduction, the shortfall will be deducted from the next higher tier of capital.

(6) Underwriting positions held for five working days or less and temporarily certain investments where these have been made in the context of resolving or providing financial assistance to reorganise a distressed institution shall not be recognised for the purposes of paragraph 4.

(7) If the capital instrument of the bank or financial institution in which the bank has invested does not meet the criteria for Common Equity Tier 1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of the paragraph 4. If the investment is issued out of a regulated financial institution and not included in regulatory capital in the relevant sector of the financial institution, it is not required to be deducted.

(8) The following items shall be deducted from the sum of Tier 1 capital and Tier 2 capital after the all former provisions applied for the purposes of this Article.

a) Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law,

³⁶ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

³⁷ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

b) **Abolished: (OG-11/07/2017-30121)**

c) (**Abolished: (OG-23/10/2015-29511)**)³⁸

ç) (**Additional: (OG-06/09/2014-29111)**)The credit amount laid down in paragraph 5 of the Article 12/A of Regulation on Credit Operations of Banks.

(9) (**Abolished: (OG-23/10/2015-29511)**)³⁹.

(10) (**Abolished: (OG-23/10/2015-29511)**)⁴⁰.

(11) The Board may require new deduction items other than laid down in this Article.

SECTION THREE

The Calculation of Consolidated Own Fund

The Calculation of Consolidated Own Fund

ARTICLE 10 – (1) Consolidated own funds are calculated by adding minority interest and other capital issued out consolidated subsidiaries that is held by third parties which are calculated by the procedures and principles in this section into own funds on the basis of the parent banks' consolidated financial statements calculated in accordance with the provisions in the second section. The technical provisions of insurance companies shall not be recognised in the calculation of consolidated own funds.

(2) (**Amended: G-06/09/2014-29111**) If the minority interests in the subsidiary are funded directly or indirectly by the parent bank or subsidiary through a special purpose vehicle (SPV) or other vehicle or contract, they are not recognized in the calculation of parent bank's consolidated own funds.

(3) The minority interest and shares of third parties of subsidiaries which are established abroad correspondingly recognised in line with the procedures and principles in the Article 12,13, and 14 in the calculation of consolidated own funds provided that they meet all of the criteria laid down in the Article 6,7 and 8.

(4) For the purposes of the investments in consolidated insurance entities, parent banks shall also calculate their consolidated own funds as if these investments to insurance companies are being made to unconsolidated financial institution (deduction approach) laid down in the Article 9/4-(c) (ç) as well as the consolidation approach.

(5) The lower of the consolidated own fund that is calculated in accordance with paragraphs 1 (consolidation approach) and 4 (deduction approach) are recognised as the regulatory consolidated own fund.

Capital instruments issued by the subsidiaries established abroad

³⁸ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

³⁹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁴⁰ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

ARTICLE 11 – (1) (Amended: (OG-23/10/2015-29511))⁴¹ Capital instruments issued by the subsidiaries subject to consolidation and established abroad shall be recognised in consolidated own funds on the condition that they meet the criteria laid down in the Article 7 and 8.

(2) The board of directors of the bank must make a written statement confirming that these instruments and loans meet the conditions in the relevant articles and the legal documents regarding them approved by the component authority and the texts translated into Turkish by sworn translators must be kept by the bank for submission during audits. .

Minority interests

ARTICLE 12 – (1) (Amended: (OG-20/01/2016-29599))⁴² The minority interest in the subsidiaries subject to consolidation shall be recognised in the bank's consolidated Common Equity Tier capital as laid down in the following paragraphs on the condition that the minority interests in these subsidiaries have the same qualifications that are laid down in the Article 6 and those subsidiaries are subject to same prudential regulations and level of supervision as the banks.

(2) Minority interest that will be recognised in consolidated Common Equity Tier capital is calculated by total minority interest minus the amount of the surplus Common Equity Tier 1 of the subsidiary attributable to the to the minority shareholders.

(3) (Amended: (OG-20/01/2016-29599))⁴³ Surplus Common Equity Tier 1 of the subsidiary is calculated as the Common Equity Tier 1 of the subsidiary minus the lower of: (1) the minimum Common Equity Tier 1 requirement of the subsidiary plus the capital conservation buffer and (2) the portion of the consolidated minimum Common Equity Tier 1 requirement plus the capital conservation buffer that relates to the subsidiary.

(4) The amount of the surplus Common Equity Tier 1 that is attributable to the minority shareholders is calculated by multiplying the surplus Common Equity Tier 1 by the percentage of Common Equity Tier 1 that is held by minority shareholders.

Tier 1 qualifying capital issued by consolidated subsidiaries

ARTICLE 13 – (1) The third parties' share in the consolidated subsidiaries of the bank including the shares stated in the Article 12 shall be recognised in the bank's consolidated Tier 1 capital as laid down in the following paragraphs provided that having the same qualifications laid down in the Article 6 or meet all the criteria laid down in the Article 7.

(2) The amount which will be recognised in the consolidated Tier 1 capital shall be calculated as total Tier 1 capital of the subsidiary issued to third parties minus the amount of the surplus Tier 1 capital of the subsidiary attributable to the third party investors.

⁴¹ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁴² The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

⁴³ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

(3) **(Amended: (OG-20/01/2016-29599))**⁴⁴ Surplus Tier 1 capital of the subsidiary is calculated as the Tier 1 capital of the subsidiary minus the lower of: (1) the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer and (2) the portion of the consolidated minimum Tier 1 capital requirement plus the capital conservation buffer that relates to the subsidiary.

(4) The amount of the surplus Tier 1 capital that is attributable to the third party investors is calculated by multiplying the surplus Tier 1 capital by the percentage of Tier 1 capital that is held by third party investors.

(5) The amount of Additional Tier 1 capital which recognised in the calculation of Tier 1 capital for the purposes of this Article shall not include the amounts recognised in Common Equity Tier 1 capital calculated in the Article 12.

Tier 1 and Tier 2 qualifying capital issued by consolidated subsidiaries

ARTICLE 14 – (1) The third parties' share in the consolidated subsidiaries of the bank including the shares stated in the Article 12 and 13 shall be recognised in the bank's consolidated Tier 1 and Tier 2 capital as laid down in the following paragraphs provided that having the same qualifications laid down in the Article 6 or meet all the relevant criteria in the Article 7 or 8.

(2) The amount which will be recognised in the consolidated Total Capital shall be calculated as total capital instruments of the subsidiary issued to third parties minus the amount of the surplus Total Capital of the subsidiary attributable to the third party investors.

(3) **(Amended: (OG-20/01/2016-29599))**⁴⁵ Surplus Total Capital of the subsidiary is calculated as the Total Capital of the subsidiary minus the lower of: (1) the minimum Total Capital requirement of the subsidiary plus the capital conservation buffer and (2) the portion of the consolidated minimum Total Capital requirement plus the capital conservation buffer that relates to the subsidiary.

(4) The amount of the surplus Total Capital that is attributable to the third party investors is calculated by multiplying the surplus Total Capital by the percentage of Total Capital that is held by third party investors.

(5) The amount of Total Capital which recognised in the calculation of Tier 2 capital for the purposes of this Article shall not include the amounts recognised in Common Equity Tier 1 capital calculated in the Article 12 and amounts recognised in Additional Tier 1 calculated in the Article 13.

(6) **(Amended: (OG-23/10/2015-29511))**⁴⁶ Where capital has been issued to third parties out of a SPV, such capital can be included in consolidated Additional Tier 1 or Tier 2 and treated as if the bank itself had issued the capital directly to the third parties only if it meets all the relevant

⁴⁴ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

⁴⁵ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

⁴⁶ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

entry criteria that are laid down in the Article 7 or 8 and the only asset of the SPV is its investment in the capital of the bank in a form that meets or exceeds all the relevant entry criteria (Assets that relate to the operation of the SPV may be excluded from this assessment if they are de minimis). In cases where the capital has been issued to third parties through an SPV via a fully consolidated subsidiary of the bank, such capital shall be treated as if the subsidiary itself had issued it directly to the third parties and shall be included in the bank's consolidated Additional Tier 1 or Tier 2 capital in accordance with the treatment outlined in the Article 13 provided that they meet all of the criteria laid down Article 7 or 8.

SECTION FOUR

Miscellaneous and Final Provisions

The calculation period of own fund and consolidated own fund

ARTICLE 15 – (1) The own funds and consolidated own funds are calculated by end of the months. The Board is entitled to change the periods for calculation period of the own funds and consolidated own funds even on the basis of individual banks.

Repealed Regulation

ARTICLE 16 – (1) The Regulation on Own Funds of the Banks issued on the Official Gazette dated November 1, 2006 Nr.26333 is repealed.

(2) The references made to the Regulation stated in the paragraph 1 is respected to be made to this Regulation

The treatment regarding the inflation based correction difference

PROVISIONAL ARTICLE 1 – (1) The inflation based correction difference amounts shall be transferred to related items.

The treatment regarding the regulatory adjustments

PROVISIONAL ARTICLE 2 – (Amended: (OG-06/09/2014-29111)) (1) The amounts which will be calculated in accordance with points (c) and (ç) of paragraph 1 and points (b), (c) ve (ç) of paragraph 4 of the Article 9 will be phased-in 20% until 1/1/2015, 40% until 1/1/2016, 60% until 2017, and 80% until 1/1/2018. The remainder not deducted from capital; for the purposes of points (c) and (ç) of paragraph 1 of the Article 9 will continue to deduct from Tier 1 capital, points (b), (c) ve (ç) of paragraph 4 of the Article 9 will be deducted from the sum of the Tier 1 capital and Tier 2 capital, namely Total Capital.

(2) The treatment laid down in the Article 9/4(ç) shall be applied as follows between 1/1/2014 and 1/1/2018.

ç) **(Amended: OG-23/10/2015-29511)⁴⁷ (Amendment: OG-20/10/2016-29599)⁴⁸** Irrespective of the location of the exposure in the banking book or the trading book, net positions of the direct or indirect investments via instruments such as derivative financial instruments, credit

⁴⁷ The Regulation amendment published in the Official Gazette dated 23/10/2015 and numbered 29511 enters into force on 31/3/2016

⁴⁸ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

derivatives, guarantees, and index securities in the common equity tier 1 instruments of banks and financial institutions that are outside the scope of regulatory consolidation and where the bank has control power or owns more than 10% of the issued common share capital or owns 20% or more of the voting rights of the institutions, or has to consolidate their financial statements due to the TAS; or the investments as such in the institutions that are under common control with the bank, deferred tax assets that are arisen from temporary differences, and mortgage servicing rights that are recognised as intangible asset according to the TAS are taken into account in the calculation of the common equity tier 1 capital as follows.

- 1) If each of the significant investments in the common shares of unconsolidated financial institutions, mortgage servicing rights, and DTAs that arise from temporary differences exceed 10% of the bank's Common Equity Tier 1 capital (after applying all other regulatory adjustments in this Article full listed prior to this paragraph) the exceeding amount is required to be deducted from Common Equity Tier 1 capital.
- 2) The exceeding amount of 15% of the total of undeducted amounts for the purposes of paragraph 1 will be deducted from the Common Equity Tier 1 capital which is calculated in paragraph 1.
- 3) The Common Equity Tier 1 capital which is calculated in point (2) is recognised as the Common Equity Tier 1 capital for the purposes of this point.

The treatment regarding the minority interest and other third parties' shares

PROVISIONAL ARTICLE 3 – (1) The minority interest and other third parties shares which will not be included in the regulatory capital in accordance with the Articles 12, 13 and 14 will be phased in 80% by 1/1/2015, 60% by 1/1/2016, 40% by 2017, and 20% by 1/1/2018.

The treatment regarding the capital instruments that issued before 1/1/2014

PROVISIONAL ARTICLE 4 – (1) (**Amended: OG-20/01/2016-29599**)⁴⁹ The outstanding capital instruments included in the calculation of Additional Tier 1 capital and Tier 2 capital as of 1/1/2014 that are issued prior to 12/10/2010 and do not meet the criteria for inclusion in capital laid down in the Article 7 or 8 will be phased out between 1/1/2014 and 31/12/2014 by 20% each year and by 10% in each subsequent year. This calculation is made by the total amount of the all capital instruments in each tier of capital.

(2) For the purposes of paragraph 1, capital instruments with an incentive to be redeemed will be treated as follows:

- a) For an instrument that has a call and a step-up prior to 1 January 2013 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and meet the criteria in the Articles 7 or 8, it will be included in the relevant tier of capital.
- b) For an instrument that has a call and a step-up on or after 1 January 2013 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and meet the criteria

⁴⁹ The Regulation amendment published in the Official Gazette dated 20/1/2016 and numbered 29599 enters into force on 31/3/2016.

in the Articles 7 or 8, it will be included in the relevant tier of capital. Prior to the effective maturity date, the instrument would be subject to the treatment in the paragraph 1.

c) For an instrument that has a call and a step-up between 12 September 2010 and 1 January 2013 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and does not meet the new criteria in the Articles 7 or 8, it will not be included in the relevant tier of capital. Capital instruments among aforementioned items that meet criteria in the Articles 7 or 8 except sub-point (j) of paragraph 2 in Article 7 and sub-point (ğ) of paragraph 2 of the Article 8 will be subject to the treatment in the paragraph 1.

ç) For an instrument that has a call and a step-up on or after 1 January 2013 (or another incentive to be redeemed), if the instrument is not called at its effective maturity date and does not meet the new criteria in the Articles 7 or 8, it will not be included in the relevant tier of capital as of effective maturity date. These items will be subject to the treatment in the paragraph 1 prior to the effective maturity date.

d) For an instrument that had a call and a step-up on or prior to 12 September 2010 (or another incentive to be redeemed), if the instrument was not called at its effective maturity date and does not meet the new criteria in the Articles 7 or 8, it will be subject to the treatment in the paragraph 1.

(3) Capital instruments that are issued between 12/09/2010 and 1/1/2013 are subject to the treatment in the paragraph 1 provided that they meet the criteria in the Articles 7 or 8 except sub-point (j) of paragraph 2 in Article 7 and sub-point (ğ) of paragraph 2 of the Article 8.

(4) Capital instruments that are issued after 1/1/2013 will be included in the regulatory capital provided that they meet the criteria in the Articles 7 or 8.

(5) Outstanding Common Equity Tier 1 capital items that are included in the regulatory capital as of 12/09/2010 and do not meet the criteria in the Article 6 will be subject to the treatment in paragraph 1, provided that they are issued by a non-joint stock company, recognised as equity according to the TAS, and fully (100%) included in the Tier 1 capital.

The treatment regarding provisions that are set aside by the banks which apply TFRS 9

PROVISIONAL ARTICLE 5 – (1) (Additional: OG-14/03/2018-30360)⁵⁰ The positive amount arising from the difference between the total expected credit loss (ECL) provisioning as of the date that expected credit loss provisions are started to set aside within the scope of TFRS 9 in accordance with “the Regulation On Procedures and Principles for Classification of Loans and Provisions to Be Set Aside” and provisions that are calculated before the starting of the TFRS 9 practice may included in the Common Equity Tier 1 Capital by 80% in the first year, by 60% in the second year, by 40% in the third year, by 20% in the fourth year.

(2) For the purposes of the paragraph 1, in determining the risk weighted exposure amount for credit risk in accordance with the RCA calculated under the IRB approach the absolute value of the negative amounts resulting from the calculation laid in paragraph 2 of Article 8 of the CIRB shall be deducted from the positive amount that stated in the first paragraph before included in the Common Equity Tier 1 Capital.

⁵⁰ This amendment takes effect on the date of publication, effective from 1/1/2018.

(3) For the purposes of this Article, the amount that are included in the Common Equity Tier 1 Capital shall not be recognised in the calculation of Tier 2 Capital.

(4) The banks that choose to apply a transitional arrangement shall inform the Agency in the first reporting period. The banks that do not choose to apply the transitional arrangement at time of commencement of ECL provisioning that are set aside in accordance within the scope of TFRS 9 practice shall not apply this treatment afterwards.

(5) Any deferred tax asset (DTA) arising from a temporary difference that are calculated from the amount that are included in the Common Equity Tier 1 Capital must be disregarded for the calculation of the Common Equity Tier 1 Capital during the transitional period.

Entry into force

ARTICLE 17 – (1) This Regulation enters into force as of 1//1/2014.

Enforcement

ARTICLE 18 – (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Agency.