From the Banking Regulation and Supervision Agency:

REGULATION ON CAPITAL CONSERVATION AND COUNTER-CYCLICAL CAPITAL BUFFERS

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

SECTION ONE
Objective, Scope, Basis, Definitions and Abbreviations

Objective and Scope

ARTICLE 1 – (1) The objective of this Regulation is to set down the procedures and principles for the calculation of additional Common Equity Tier 1 amount required to be held by banks as capital conservation buffer and counter-cyclical capital buffer as well as the transactions to be made and measures to be taken in case additional Common Equity Tier 1 requirement cannot be met.

Basis

ARTICLE 2 – (1) This Regulation has been prepared based on Articles 43 and 93 of the Banking Law Nr. 5411 dated October 19, 2005.

Definitions and Abbreviations

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

a) Bank(s): Bank(s) which are defined by Article 3 of the Law,
b) Bank-specific counter-cyclical capital buffer (BSCCB): Additional Common Equity Tier 1 amount to be held by banks to prevent own funds becoming inadequate according to the regulations on capital adequacy due to credit expansion resulting in increase in the general risk level of financial sector,
c) Bank-specific counter-cyclical capital buffer ratio: The ratio taken as basis in the calculation of additional Common Equity Tier 1 expected to be held as bank-specific counter-cyclical capital buffer,
ç) Common Equity Tier 1: Common Equity Tier 1 calculated pursuant to the Regulation on Own Funds of Banks published in the Official Gazette dated September 05, 2013 Nr. 28756,
d) Counter-cyclical buffer ratio: The ratio to be publicly announced to be used in the calculation of bank-specific counter-cyclical capital buffer ratio,
e) Additional Common Equity Tier 1: Additional Common Equity Tier 1 calculated pursuant to the Regulation on Own Funds of Banks published in the Official Gazette dated September 05, 2013 Nr. 28756,
f) Law: Banking Law Nr. 5411,
g) Board: the Banking Regulation and Supervision Board,
ğ) Agency: the Banking Regulation and Supervision Agency,
h) Own funds: Own funds calculated pursuant to the Regulation on Own Funds of Banks published in the Official Gazette dated September 05, 2013 Nr. 28756,

ı) Risk-weighted assets (RWA): The amount to be found as a result of division of bank's own fund to capital adequacy standard ratio calculated according to the Regulation on Measurement and Evaluation of Capital Adequacy published in the Official Gazette dated June 28, 2012 Nr. 28337,
i) Capital conservation buffer (CPB): Additional Common Equity Tier 1 amount to be held by banks to prevent own funds becoming inadequate according to the regulations on capital adequacy due to the losses caused by deterioration in economic and financial indicators,
j) Capital conservation buffer ratio: The ratio taken as basis in the calculation of additional Common Equity Tier 1 expected to be held as capital conservation buffer.

SECTION TWO
Additional Common Equity Tier 1 Calculation, Ratios and Limitations

Additional Common Equity Tier 1
ARTICLE 4 – (1) Additional Common Equity Tier 1 amount is the part exceeding the Common Equity Tier 1 amount the banks uses to cover the core and Tier I capital adequacy ratios as well as capital adequacy standard ratio required pursuant to the article 28 for non-consolidated calculations and article 29 for consolidated calculations of the Regulation on the Measurement and Assessment of Capital Adequacy of Banks published on the Official Gazette number 28337 dated June 28, 2012.
(2) Additional Common Equity Tier 1 requirement of banks is the amount to be obtained by multiplying the sum of BSCCB ratio and CPB ratio by RWAA.
(3) CPB ratio is twenty-five per mil in consolidated and non-consolidated basis.
(4) BSCCB ratio shall be calculated by banks in consolidated and non-consolidated basis, based on country specific geographic distribution of their credit portfolio, within the principles and procedures determined by the Board. The cyclical buffer for the risks in Turkey to be used by banks in their BSCCB calculation shall be determined by the Board.

Limitations
ARTICLE 5 – (1) In case the additional Common Equity Tier 1 amount to be calculated by banks in consolidated and non-consolidated basis is less than the additional Common Equity Tier 1 requirement, the profit distribution shall be limited in proportion to the maximum profit distribution ratio equivalent to the slice given in the following table, to be found by dividing the additional Common Equity Tier 1 to additional Common Equity Tier 1 requirement.

Slices	Maximum Profit Distribution Ratio (%)
25% or less	0
More than 25% but 50% or less	20
More than 50% but 75% or less	40
More than 75% bur 100% or less	60

(2) If in both consolidated and non-consolidated calculations, the additional Common Equity Tier 1 amount is less than additional Common Equity Tier 1 requirement, banks shall take into consideration the calculation causing the highest profit distribution limitation in the application of the first paragraph.

SECTION THREE
Profit Distribution, Capital conservation Plan and Calculation and Notification Period

Profit Distribution

ARTICLE 6 – (1) The amount of profit distribution to be made within the framework of the first paragraph of the article 5 shall be found by multiplying maximum profit distribution ratio by distributable profit amount. Principles and procedures regarding the scope and calculation of distributable profit amount shall be determined by the Board.

(2) In the application of this Regulation, following shall be accepted as profit distribution:

a) Dividend payments to be made to shareholders and share buybacks.

b) Payments on Additional Tier 1 instruments that the bank has the option to not to pay.

c) All types of discretionary remuneration or benefits to the employees within the scope of Turkish Financial Reporting Standard number 2.

ç) Other payments and transactions to be determined by the Board.

(3) In the implementation of the second paragraph, payments certain scrip dividends that do not result in a depletion of Common Equity Tier 1 and and the payments failure of which would result in default and which serve as liabilities for banks and claim for counterparties are not considered profit distribution.

(4) Banks are obliged to ensure that the amounts of minimum profit distributions are calculated clearly and accurately and create processes to ensure the profit distribution limitations are followed. Banks are also obliged to make ready these processes and calculations for the examination of the Agency.

(5) The legal limitations of profit distributions related to the items in second paragraph and additional limitations determined by the Board or the Agency are reserved.

Capital conservation Plan and Other Measures

ARTICLE 7 - (1) The banks which are subject to the profit distribution limitations within the scope of Article 5 shall submit to the Agency a capital conservation plan, approved by the board of directors of the bank, to ensure additional Common Equity Tier 1 requirement in one month following the reporting of maximum profit distribution ratio (in one month following the day bank is identified that it was failing to meet additional Common Equity Tier 1).

(2) Capital conservation plan shall include the following considerations:

a) determinations and assessment of reasons for the bank's being subject to the profit distribution limitations,

b) the time schedule on ensuring the additional Common Equity Tier 1 requirement by taking into account the profit distribution planned to be made pursuant to the Article 5,

c) the measures to be taken for ensuring the additional Common Equity Tier 1 requirement,

ç) the expectations about income, expense and balance sheet within the scope of the time schedule mentioned in paragraph (b),

d) the information and documents to be submitted by the bank to demonstrate the adequacy of its capital conservation plan.

(3) The Agency shall assess the capital conservation plan and ask for necessary changes in the plan, if required.

(4) Banks shall submit to the Agency quarterly progress reports containing their assessments on operations that are conducted pursuant to the capital conservation plan and the conformity level thereof.

(5) Banks shall conform to the capital conservation plan at the maximum level. The Board is entitled to take additional measures by assessing the economic conjuncture as well as the adequacy of banks' conformity level to the capital conservation plan.

Calculation and Notification Period

ARTICLE 8 - (1) Banks are obliged to submit to the Agency their calculations to be made within the scope of Article 5 in the same periods and dates within the calculations and notifications of capital adequacy standard ratio.

SECTION FOUR
Miscellaneous and Final Provisions

Transition time at Minimum Ratio

PROVISIONAL ARTICLE 1 - (1) The following ratios shall be considered as capital conservation buffer ratio for each year till January 1, 2019.

Year	Capital conservation Buffer Ratio (%)
2014	0
2015	0
2016	0,625
2017	1,25
2018	1,875

Entry into Force

ARTICLE 9 - (1) This Regulation enters into force on January 1, 2014.

Enforcement

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