

By the Banking Regulation and Supervision Agency:

**REGULATION ON THE PROCEDURES AND PRINCIPLES FOR
DETERMINATION OF QUALIFICATIONS OF LOANS AND OTHER
RECEIVABLES BY BANKS AND PROVISIONS TO BE SET ASIDE ¹**

(Published in Official Gazette Nr. 26333 dated November 1, 2006)

SECTION ONE

Objective and Scope and Basis and Definitions

Objective and Scope

ARTICLE 1 – (1) The objective of this Regulation is to regulate the procedures and principles for classification by the banks of their credits and other receivables according to qualifications and provisions to be allocated for them.

Basis

ARTICLE 2 – (1) This Regulation has been prepared on the basis of Articles 53 and 93 of Banking Law Nr. 5411 dated October 19, 2005.

Definitions:

ARTICLE 3 – (1) The following terms used by this Regulation shall have the express meanings designated to them below:

- a) Bank(s): Banks defined by Article 3 of the Banking Law,
- b) Law: Banking Law Nr. 5411,
- c) Provisions: Sums allocated under the financial statements through calculation and recognized as expenses for the purpose of covering any losses already arisen or expected to arise out of credits and other receivables, although their final sums are not exactly determined,
- ç) Credits and other receivables: Transactions considered loans as per Article 48 of the Law as well as other receivables recorded under the assets of the balance sheets,

¹ Version amended pursuant to the Regulation published in the Official Gazette Nr. 26779 dated February 6, 2008 and the Regulation published in the Official Gazette Nr. 27119 dated January 23, 2009.

d) Guarantee(s): All kinds of assets, guarantees and securities as well as any other contractual rights, which ensure total or partial guarantee of any bank receivables as a hedge against the risk of non-payment of credits and other receivables.

SECTION TWO

Classification of Loans and Other Receivables

Classification of Loans and Other Receivables

ARTICLE 4 – (1) Banks, including their overseas branches, have to classify and monitor their loans and other receivables according to the groups indicated below in respect of respective recovery capabilities and debtors' creditworthiness levels by having due regard to the procedures and principles established by this Regulation:

a) Group One – Loans of a Standard Nature and Other Receivables : this group includes classification of loans and other receivables

1) which are extended to any natural persons and legal entities having a financial structure worth being credited,

2) for which principal and interest payments are structured depending on debtors' payment capability and cash flow position,

3) for which payments are made on terms, no repayment problems are not expected in the future and which are totally recoverable / collectable,

4) involving debtors in whose creditworthiness no deterioration including any signs of weakness has been detected including any signs of weakness

b) Group Two – Loans and Other Receivables Under Close Monitoring: this group includes classification of loans and other receivables

1) which are extended to any natural persons and legal entities holding a creditable financing structure, do not presently face any problems in respect of principal or interest payments but which require close monitoring due to reasons such as observation of negative trends in debtors' payment capability or cash flow positions or expectations for occurrence of such things or the fact that credit users face substantial financial risks or,

2) for which problems are likely to arise in connection with effecting of principal and interest payments as per the conditions contained by contracts and there is a risk of non repayment of debts entirely or partially in case such problems are not solved or,

3) **(Amended Sub-Paragraph: OG-23/1/2009-27119)** of which the repayment is highly likely but also the collection of capital and interest payments is delayed for more than thirty days as of the day of their payment dates for several reasons, however which do not carry the condition of delaying time to be classified among Group Three or,²

4) Which are quite likely to suffer weakness because debtors have an irregular cash flow structure difficult to control although their creditworthiness have not deteriorated.

c) Group Three – Loans and Other Receivables with Limited Recovery means: this group includes classification of loans and other receivables

1) which have limited means for total recovery because debtors' equity or guarantees extended by them are found inadequate to cover payment of debts on respective terms and are likely to lead to losses in case any such problems observed are not solved or,

2) for which debtors have suffered deterioration in their creditworthiness and credits have suffered weakness consequently or

3) for which recovery of principal and interest or both delays for more than ninety days from their terms or due dates provided that this is no more than one hundred eighty days or,

4) for which it is believed that recovery by banks of principal or interest or both would delay for more than ninety days from their terms or due dates due to reasons such as problems encountered by debtors over operating capital financing or additional liquidity creation.

c) Group Four – Loans and Other Receivables with Suspicious Recovery: this group includes classification of loans and other receivables

1) for which repayment or liquidation is not considered likely or,

² Version before amended by the Regulation (OG-23/1/2009- 27119): “for which recovery of principal or interest payments delays for no more than ninety days from dates of terms or due dates for various excusable reasons although repayment is a strong likelihood or,”

2) for which it is quite likely that all of the loan sums falling due or becoming payable cannot be recovered by banks in the framework of the considerations laid down by loan contracts or

3) for which debtors are recognized to have suffered substantial deterioration and weakness in respect of their creditworthiness but which are still not considered having a nature of loss because of the contribution expected to be made by means such as mergers, opportunities for securing new financing or capital expansion to debtors' creditworthiness and capability of recovering credits or

4) for which the delay of recovery of principal or interest or both from respective terms or due dates exceeds one hundred eighty days provided that this delay is not longer than one year.

d) Group Five – Loans and Other Receivables Having the Nature of Loss: this group includes classification of loans and other receivables

1) for which it is firmly believed that recovery is not possible or

2) for which recovery of principal or interest or both delays for more than one year from respective terms or due dates or

3) for which it is believed by banks that such loans and receivables have suffered weakness and that debtors have totally lost their creditworthiness because it is quite likely that non-performance of entire recovery of any sums falling due or becoming payable in a period of more than one year is quite likely although they bear the characteristics listed by Groups Three and Four.

(2) The basic criterion by which the deed is assumed to have occurred in respect of the classification mentioned by this article is that recovery of credits and other receivables have delayed for the periods indicated in the definitions and explanations related to the groups. In addition, in order for loans to be classified by banks according to their qualifications as indicated by the first sub-paragraph, it is required that it is firmly established that other considerations indicated in the definitions and explanations concerning such groups have materialized or that they are quite likely to materialize and that debtors' creditworthiness has deteriorated, that such loans have suffered weakness or that they cannot be recovered or that there is an absolute opinion in this respect.

(3) Even if the periods indicated in the groups in connection with recovery of payments concerning loans and other receivables are not overdue, banks may classify their loans and other receivables under Groups Three, Four and Five by having due regard to the criteria and risk management principles laid down by the present article.

(4) **(Additional Paragraph: OG-23/1/2009-27119)** Excluding the ones extended to natural persons and legal entities composing the risk group to which the bank is included, the loans extended to natural persons and legal entities composing a risk group pursuant the paragraph one of the Article 49 of the Law are evaluated separately as of the persons composing the risk group in the application of this Regulation.

Non-performing loans

ARTICLE 5 – (1) All the loans classified as Groups Three, Four and Five pursuant to present article are considered non-performing loans in terms of implementation of this Regulation whether any assessed interest sums and burdens on debtors such as interest and the like have been added up to principal or re-financed.

(2) In the event that a loan customer has multiple loans extended by the same bank and that any of these loans is considered non-performing as required by classification made, all the debts of the said credit customer to the bank are classified under the same group of non-performing loans. In the event that the first loan, which is treated as non-performing receivables, is totally paid back, the other loans of the loan customer may be re-classified by assessing them pursuant to Article 4.

(3) In case of cash loans extended in the form of debit current accounts having no registered terms, loans are considered non-performing loans and classified in the relevant group accordingly in the event that periodical interest and any sub-items thereof are added up to principal following non payment in a period of more than ninety days, that such debts are not paid out in a period of more than ninety days after relevant accounts are in excess, that interest sums and principal facing delay over recovery are re-financed by extending another credit line to credit debtors in a manner violating the provisions of Article 11 or that the account limit is exceeded continually for more than ninety days.

Considerations to be observed over classification of loans and other receivables

ARTICLE 6 – (1) Evaluation of qualifications of loans and other loans takes as a basis the procedures and principles laid down by the Regulation on the Internal Systems of Banks, crediting policies and rules established by banks in line with banking principles and practices and respective bank structures and written and non-written criteria adopted as part of their risk monitoring processes.

(2) In classification of loans and other loans under Article 4:

a) Deterioration in loan worthiness refers to existence of any of cases where debtors are incapable of meeting liabilities regarding their assets on respective terms fully, financial leverage ratio is not at an acceptable level according to the standard criteria used by banks in loan evaluation, they are deprived of their debt payment capability to a considerable extent and their operating capital and / or equity proves inadequate so severely leading deterioration in their capability of recovering loans,

b) Weakness suffered by loans refers to a situation where it is quite likely on the basis of current conditions and events as part of evaluation conducted that recovery of any loans falling due cannot be secured by banks in the framework of the binding conditions stipulated by loan contracts,

c) Registered values of loans refer to the previous account values of loans without deduction of special provisions, which appear in banks' accounting books.

(3) In respect of implementation of this Regulation, whether creditworthiness has deteriorated is determined by constant evaluation of all the personal, financial and economic factors affecting loan risks through employment of methods involving analyses of financial, sector and company specific values and scales, which relate to the nature of management of companies.

(4) Establishment by banks of a situation quite likely to occur in respect of loans and other loans must be based on estimates to be made by making use of reasonable and supportable assumptions and calculations. Measurement of the extent of weakness suffered by loans or other loans requires banks to make a forecast in this way and reach a decision by evaluating the situation as a whole. In addition to the other criteria established for determination of loans and other loans and their classification, banks may use any of the measurement methods for determining if loans have suffered weakness, which:

a) Involve discounting present values of future estimated cash flows with the effective interest limit expressing the internal revenue of loans by taking into account interest sub-items,

b) Is according to the observable market prices / applicable rates of loan values,

c) Involves measurement of if loans have deteriorated if conversion into cash is a strong probability in case of crediting based on guarantees or when loan repayment or liquidation entirely depends on cashing of guarantees.

(5) If the present value of future estimated cash flows or the observable market prices / current rates of loans or market rates of credit guarantees are below the registered values of such loans, banks may classify such loans under relevant groups by also taking into account other factors after believing that such loans have deteriorated because it is likely that their recovery cannot be secured.

(6) In measurement of loan deterioration, interest assessed and rediscounted, postponed commissions, other burdens and all the elements of revenue and expense affecting loan sums are included in the loan registered values.

(7) Actual results obtained by banks regarding cash flows may differ from estimates taken as a basis for such measurements. In the event that considerable differences are observed between future estimated cash flows and actual cash flows that have taken place, the operation of measurement is performed again. Banks must perform evaluation which can demonstrate sums and timing of estimated cash flows in the best manner on the basis of individual loans. This evaluation takes as a basis the data to be used in determination of creditworthiness of a credit debtor. However, in case certain individual credits suffering deterioration such as consumers loans, credit card receivables and mortgaged house loans which constitute big groups having smaller balances and same characteristics are similar to those of other loans which have suffered weakness, banks may make use of statistics such as average recovery periods, average recovery sums and actual interest rates in order to measure the extent of deterioration and they may evaluate such loans altogether as a whole.

(8) In the event that the sums owned by banks, which are subject to evaluation, fall below the costs of possession, bonds and similar capital market instruments and partnership shares, for which “Provisions for Falls in Values of

Securities” or “Provisions for Falls in Values of Securities of Subsidiaries, Affiliates and Securities to Be Held Until Maturity” have to be put aside, are re-evaluated depending on the creditworthiness of those issuing such assets and any changes in the risk features and the position of loans used by them pursuant to Article 4 and classified as part of the Loans and Other Receivables under Groups Three, Four or Five.

(9) In the event that organizations issuing bonds and similar securities or partnership shares have utilized credit from banks holding them in their assets or have debts to such banks in any manner, bonds and similar securities or partnership shares are classified in the same group as loans and other receivables by taking into consideration the points laid down by Article 4 and present article.

SECTION THREE

General Provisions, Particular Provisions and Guarantees

General provisions

ARTICLE 7 – (1) (Amended Paragraph: OG-6/2/2008-26779, OG-23/1/2009-27119) Banks allocate general provisions,

a) At a rate of one per cent (1%) of the total sum of cash credits of a standard nature and two per thousand (0.2 %) of the total sum of guarantee letters, sureties and other non-cash loans.

b) At a rate of two percent (2%) of the total cash loans which are closely monitored and four per thousand (0.4%) of the total sum of guarantee letters, sureties and other non-cash loans.

The rates determined in this Paragraph are applied as one quarter for the payment obligations emanated from the legislation related to Act Nr. 3167 on Regulating the Payments by Cheque and Protecting the Cheque Holders, relating to the each cheque leaf of the chequebook which are received since five years. In the application of this provision, the cash loans qualified as standard and the cash loans which are monitored closely include the loans and other receivables monitored in on-balance sheet accounts, excluding the “Account of Receivables to be Refined”, “Account of Fees, Commissions and Other Receivables Subject to Suspicious Recovery” and “Account of Loans and Other Receivables Having the Nature of Loss”.³

³ Version before amended by Regulation (OG-6/2/2008-26779): “Banks allocate general provisions at a rate of one percent (1%) of the total sum of cash loans of a standard nature, which are under close monitoring and two per thousand (0.2%) of the total sum of guarantee letters, sureties and securities and other non-cash loans. As part of implementation of this provision, cash loans of a standard nature and cash loans under close monitoring cover loans and other receivables monitored as part of the accounts inside balance sheets outside “Account of Receivables to be Refined”, “Account of Fees, Commissions and Other Receivables Subject to Suspicious Recovery” and “Account of Loans and Other Receivables Having the Nature of Loss”; (OG-23/1/2009-27119) Banks allocate general provisions at a rate of; a) one percent (1%) of the total sum of cash loans of a standard nature and two per thousand (0.2%) of the total sum of guarantee letters, sureties and securities and other non-cash loans; b) two percent (2%) of the total sum of cash loans under close monitoring and four per thousand (0.4%) of the total sum of guarantee letters, sureties and securities and other non-cash loans. In the application of this provision, the cash loans of a standard nature and cash loans under close monitoring include loans and other receivables monitored within on-balance sheet accounts, excluding “Account of Receivables to be Refined”, “Account of Fees, Commissions and Other Receivables Subject to Suspicious Recovery”, and “Account of Loans and Other Receivables Having the Nature of Loss”.

(2) Amounts monitored under the accounts of “Receivables from Derivative Financial Instruments” are taken into account in calculation of general provisions on the basis of the sums to be computed multiplying them by the rates of conversion into credit indicated by the Regulation on Loan Transactions of Banks by applying the general provision rate applicable for cash loans.

(3) Loans indicated in the first sub-paragraph of Article 55 of the Law excluding those covered by paragraphs (d) and (h) are not considered in calculation of general provisions.

(4) As non-cash loans subject to general provisions impose a debt obligation on banks that may arise in the future due to non-performance of a condition such as guarantee letters, acceptance credits, letter of credit commitments and endorsements, they are also any kinds of non-cash irrevocable loans putting them in a position as a creditor from other persons at the same time.

(5) Sums of general provisions calculated monthly on the last day of each month are recognized in “General Provisions” account in the liabilities by writing them down as expense.

Special provisions

ARTICLE 8 – (Amended Article: OG-23/1/2009-27119) (1) Special provisions are allocated for the loans and other receivables classified considering the Articles 4, 5 and 6 at a rate of:

- a) Minimum twenty per cent (20 %) from the date of inclusion in Group Three,
- b) Minimum fifty per cent (50 %) from the date of inclusion in Group Four,
- c) One hundred per cent (100 %) from the date of inclusion in Group Five.

The rates determined within this paragraph are given to loan customers having loans classified under Third, Forth or Fifth Group and for each cheque leaf of the chequebooks which the date of acquisition was five years ago, the payment obligations emanated from the related legislation and the Act Nr. 3167 on Regulating the Payments by Cheque and Protecting the Cheque Holders is applied as one of quarter.

- (2) Of the assets indicated by the eighth sub-paragraph of Article 6:

a) The provisions for falls in value rates as long as they are monitored within the related accounts;

1) Are transferred into accounts related to special provisions if these assets are classified among the Third, Fourth and Fifth Group loans and other receivables

2) If they are less than the sum of special provisions required to be allocated, additional special provisions are allocated; in case it is in excess, the sum of these provisions is maintained as special provisions.

b) In the event that value decrease provisions required to be set aside as a result of the process of being subjected to valuation are higher than the sum of special provisions required to be set aside, special provisions are set aside on the basis of the higher sum. In case of direct partnership or extending loans to the partnership to which the bank is a shareholder, the partnership shares are classified based on their evaluation according to the classification of the mentioned loans among Third, Fourth or Fifth Group loans and other receivables. The partnership shares which are classified this way are put to impairment test according to the Turkey Accounting Standards and monitored based on their calculated values. However, even if there is no impairment detected relating to the partnership shares which are classified among Third, Fourth or Fifth Group loans and other receivables and put to impairment test according to the Turkey Accounting Standards, the bank may allocate special provision for the mentioned partnership share on condition that it would be on the rate predicted within the said classification.⁴

⁴ Version before amended by the Regulation (OG-23/1/2009-27119): “ARTICLE 8- (1) Special provisions are allocated at a rate of:

a) minimum twenty percent (20%) from the date of inclusion in Group Three;

b) minimum fifty percent (50%) from the date of inclusion in Group Four;

c) One hundred percent (100%) from the date of inclusion in Group Five

(2) Of the assets indicated by the eighth sub-paragraph of Article 6:

a) Sums of “Provisions for Falls in Values of Securities” or “Provisions for Falls in Values of Securities of Affiliates, Subsidiaries and Securities to be held until Maturity” as long as they are monitored under relevant accounts;

1) are transferred to the accounts for special provisions to be put aside in case of classification of these assets as part of the loans and other receivables under Groups Three, Four and Five;

2) if they are less than the sum of special provisions required to be allocated, additional special provisions are allocated; in case it is in excess, the sum of these provisions is maintained as special provisions.

b) In the event that value decrease provisions required to be set aside as a result of the process of being subjected to valuation are higher than the sum of special provisions required to be set aside, special provisions are set aside on the basis of the higher sum.

Guarantees

ARTICLE 9 – (1) Banks have to classify and monitor guarantees concerning their loans and other receivables on the basis of the below mentioned groups of guarantees. Sums of guarantees are just taken into consideration as the deduction to be made off the sum of receivables in calculation of the sum of special provisions.

a) First group of guarantees cover:

1) cash funds, deposits, participation funds and gold depot accounts provided that pledge or assignment contracts are arranged and funds provided from repo transactions made in return for bonds, bills and similar securities issued or guaranteed by the Turkish Treasury Under-secretariat, Central Bank, Directorate of Privatization Administration and Mass Housing Administration in respect of payment thereof and Type (B) investment fund participation certificates, receivables of member businesses arising out of credit cards and gold reserves maintained with banks,

2) Transactions carried out with the Turkish Treasury Under-secretariat, Central Bank, Directorate of Privatization Administration and Mass Housing Administration and transactions made in return for bonds, bills and similar securities issued or guaranteed by these entities in respect of payment thereof,

3) Securities issued by or on the basis of surety of the central governments and central banks of OECD countries and guarantees and sureties to be issued by this Bank,

4) Guarantees and sureties of banks operating in OECD countries,

5) Securities to be issued by European Central Bank or the surety of this Bank and the guarantees and sureties to be issued by this Bank,

6) Sureties, guarantee letters, bill guarantees, acceptances and endorsements that the banks operating in Turkey will give within the limits of their credit limits.

b) The second group of guarantees cover:

Includes;

1) Precious metals other than gold

2) Shares quoted with the Stock Exchange and Type (A) investment fund participation certificates

3) Private sector bonds and asset based securities excluding those issued by debtors

4) Credit derivatives agreement providing hedging against credit risks

5) Assignment or pledge of assessed receivables of natural persons and legal entities from the public entities

6) Securities that may easily convertible into currency and valuable papers representing merchandise and all kinds of merchandise and property at sums not exceeding their market values

7) Mortgages of real estate at the Land Registry and mortgages of real estate built on allocated land provided that their values according to expertise reports are adequate,

8) Export documents based on shipping bill or transport papers

9) Bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities

c) The third group of guarantees cover the following:

1) Pledges on commercial operations

2) Other export papers

3) Pledge on vehicles, pledge on lines of commercial vehicles and license plates for commercial vehicles

4) Pledges on airplanes or ships

5) Sureties by natural persons and legal entities enjoying creditability higher than that of debtors

6) Other promissory notes received from natural persons and legal entities

ç) The fourth group of guarantees covers the types of guarantees not covered by the first three groups.

(2) Securities held in possession of banks as lessors as part of financial leasing transactions are treated on the basis of their groups of guarantees matching the respective qualifications in the present article.

Consideration of guarantees in calculation of special provisions

ARTICLE 10 – (1) Valuation and recognition of guarantees are conducted pursuant to the procedures and principles determined by the Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks and relevant Communiqués. However,

a) In valuation of guarantees in terms of mortgages on real estate;

It is essential that

1) value of mortgage is determined by finding out if it reflects the actual value of such an asset through a comparison with the fair value of asset (determination and documentation of sale prices of real estate of similar qualifications located in the same places) or with the value as a basis for insurance if insured,

2) in case the fair value is below the mortgage value, the fair value rather than the mortgage value is taken in calculation of the sum constituting loan guarantee,

3) Determination of fair values of real estate which serve as guarantees for loans and other receivables constituting one per cent (1 %) or more of the total of loans and other receivables as well as of real estate having a mortgage value of higher than two million New Turkish Liras presumably is carried out in line with the procedures and principles laid down by the Regulation on Authorization and Activities of Institutions to Give Valuation Services to Banks, in case the value proves lower than value of mortgage as a result of valuation, guarantees are considered in calculation of special provisions on the basis of the value which proves lower,

b) In valuation of guarantees having the nature of commodity and operational pledges,

It is essential that

1) second hand market prices or values as a basis for insurance in case of those subject to insurance are taken into account in determination of fair value,

2) in case the determined value proves lower than the sum covered by the pledge, lower value is considered in calculation of guarantees.

(2) After the valued sum of guarantee is determined, the portion of this sum, which is totally at the disposal of banks and cashable, is taken into account in determination of the sum which will be subject to special provisions. In case there are benefits or savings of another party other than banks on guarantees, the portion which is not disposable by the bank is not taken into consideration in determination of the sum of receivables subject to special provisions.

(3) Valuation of sureties by natural persons and legal entities with creditability higher than that of debtors, which are treated under the third group of guarantees, is made by performing measurement of financial and economic capabilities of such sureties or guarantors using evaluations made by credit intelligence units and records of the risk

center recordings by the Central Bank of the Republic of Turkey. In valuation of such a guarantee, abilities of these persons to pay out their obligations are taken into consideration instead of the sums of sureties given by these persons or sums which they are obligated for. Any sureties and guarantees received from any natural persons and legal entities not enjoying any credibility including any valuable such as promissory notes and checks issued by these persons are not treated as guarantees as part of the implementation of this Regulation.

(4) Credibility and payment abilities of issuers of bills are also considered in valuation of bills of exchange which are issued as guarantee.

(5) Sums of receivables subject to special provisions are calculated by reducing the sums of guarantees valued as per the procedures and principles established by present article off the sums of bad receivables monitored under Groups Three, Four and Five at the rates of consideration indicated below. The operation of determining the sums of receivables subject to special provisions is carried out by taking as a basis individual receivables of the bank for each debtor and the valued sums of that debtor's guarantees.

Rate of consideration for Group One guarantees: One hundred percent (100 %)

Rate of consideration for Group Two guarantees: Seventy five percent (75 %)

Rate of consideration for Group Three guarantees: Fifty percent (50 %)

Rate of consideration for Group Four guarantees: Twenty five percent (25 %)

(6) The sum of guarantees that will be taken into consideration in calculation of special provisions may not exceed the sum of bad receivables. In case the sum of valued guarantees exceeds the sum of bad receivables, the sum to be found by applying the corresponding rates of consideration indicated above only to the portion of the sum of bad receivables hereof is considered the deductible sum.

(7) In the event that a sum of bad receivables is guaranteed by those types of guarantee monitored under multiple groups;

(a) Calculation of guarantees to be considered in determination of the sum which will be subject to special provisions is commenced in the first group deemed the most liquid according to the ranking of groups.

(b) Whether the individually valued sums of types of guarantees exceed the sum of bad receivables is checked.

(c) The portion which will be exempted from special provisions for bad receivables is calculated by multiplying the portion of the valued sum of the type of guarantee treated first in calculation, which is most equal to the sum of bad receivables, by the rate of consideration applicable for this guarantee. The same operation applies for the types of guarantees in the same group first and in other guarantee groups subsequently, if any, provided that it is of the same type of guarantee, individually in the given sequence.

(ç) In the event that there is a balance for which special provisions are to be set aside with regard to bad receivables as a result of these operations, special provisions are to be set aside on the basis of this balance.

(8) Banks may set aside special provisions of up to the entire sum of such bad receivables, provided that they are not less than the rates of special provisions applicable for the group under which bad receivables are classified regardless of the sum of guarantees, by taking as a basis the assumptions of reliability and prudence laid down by the Communiqué on the Conceptual Framework for Preparation and Submission of Financial Statements published in Official Gazette dated January 16, 2005 Nr. 25702 by the Turkish Accounting Standards Council.

PART FOUR

Restructuring, Accounting and Reporting of Loans and Other Receivables

Restructuring of loans and other receivables

ARTICLE 11 – (1) In the event that failure to meet payment obligations towards banks stems from temporary liquidity difficulties relating to the loans and other receivables as part of the principles of classification laid down by Article 4, loans and other receivables including any overdue interest may be restructured or subject to a new redemption plan for the purpose of providing debtors with liquidity capability and ensuring recovery of receivables by banks provided that the procedures and principles laid down by present article are abided.

(2) For the purpose of implementation of this Regulation, temporary liquidity difficulties are treated as a manageable cash deficit stemming from the fact that fund inflows and outflows, sales incomes or operational revenues arising from normal operations of a loan debtor having payment capability to meet its obligations fully on a timely basis have become unstable as such fluctuate because of unexpected and temporary reasons.

(3) Any restructured loans continue being monitored under Groups Three, Four and Five of loans and other receivables under which they have been monitored to date, for a period of minimum six months. Provisions continue being set aside for such receivables at the rates applicable for the groups under which they are monitored during this period.

(4) Any restructured loans may be transferred to “Account of Loans Restructured and Tied to a Redemption Plan” at the end of this period provided that at least fifteen percent (15 %) of the total sum of receivables has been repaid, that they have been monitored under the groups under which they have been monitored for a period of six months and there have been no default problems.

(5) In case there are problems over any payments that should be made as per present article and restructuring contract, restructured loans and other claims may be restructured once again ultimately provided that twenty per cent (20 %) of the outstanding principal debts is recovered every year.

(6) Loans and other receivables from the natural persons and legal entities in the risk group a bank belongs to as indicated by the Article 49 of the Law may be tied to a new redemption plan subject to the principles laid down by present article on condition that no additional loan lines are extended. Banks may classify receivables transferred to “the Account of Loans Restructured and Tied to a Redemption Plan” under groups to be determined by re-evaluating their qualifications subject to the principles of classification laid down by Article 4.

Valuation, accounting and reporting

ARTICLE 12 – (1) Valuation and accounting of loans and other receivables classified under the groups laid down by this Regulation as well as accounting of provisions set aside and displaying of accounts concerning them on financial statements

are conducted as per the procedures and principles stipulated by the Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks and related Communiqués.

(2) Banks are obliged to include, group, monitor and evaluate their loans and other receivables under respective service records in compliance with the classification laid down by Article 4.

(3) Banks have to transfer their “Loans and Other Receivables having Limited Means for Recovery” and “Loans Suffering Suspicious Recovery” to “Account of Receivables to be Liquidated”; “Other Receivables Suffering Suspicious Recovery” to “Account of Fees, Commissions and Other Receivables Suffering Suspicious Recovery” and “Loans and Other Receivables having the nature of Loss” to “Account of Loans and Other Receivables having the nature of Loss”, as classified by them.

(4) The requirement for transfer to “Accounts of Receivables to be Liquidated” also applies for the costs of non-cash loans, which have not been recovered and have converted into cash loan or have been compensated. Non-cash loans classified under Groups Three, Four and Five of loans and other receivables may not be monitored under “Accounts of Receivables to Be Liquidated” unless they are compensated or converted into cash funds. The activities concerning the accounting in the liabilities of banks’ balance sheets of special provisions to be set aside for non-cash loans which have not yet been indemnified for or turned into cash although they are classified as part of loans and receivables under Groups Three, Four and Five are conducted according to the procedures and principles laid down by the Regulation on the procedures and principles for Accounting Practices and Retention of Documents by Banks and related Communiqués.

(5) No accruals of interest and rediscount may be made for the relevant periods concerning any sums which have become bad receivables as per Article 5. Any accruals of interest and discounts, which are earlier made for any sums which have turned into bad receivables and written down as revenue although they are not recovered, are corrected with reverse records on accounting records by debiting the relevant account of interest revenues or closed by crossing them out. In the event that accruals of interest are recovered from debtors in cash, such sums cannot be crossed out. In the event that the

registered sums of bad loans including any accruals of interest and discounts made thereof are met by the first group of guarantees entirely and that there are any accruals of interest or discounts written down as income for bad receivables although they have not been recovered, banks have to take such sums of revenues out of income accounts and transfer them to the “Valuation Fund for Loans and Other Receivables” accounts to be directly monitored under other liabilities. Accruals of interest and discounts related to such sums not written down as income by transferring them to the said fund cannot be crossed out.

(6) Banks have to classify any loans and other receivables extended by their overseas branches and allocation of provisions aside for them in accordance with the procedures and principles laid down by this Regulation apart from the principles of classification and allocation of provisions in force in the countries where such branches operate. In the event that the sums of provisions required to be set aside by branches as per the legislation and practices in force in the countries where they operate are less than the sums required to be set aside according to the procedures and principles established by this Regulation, any such differences are supplemented by setting aside additional provisions.

(7) In the event that declines are observed in the prices of bonds and similar capital market instruments and partnership shares due to macroeconomic reasons and exclusively of supply and demand in the capital markets and the prices of the present assets comprise below acquisition cost, such assets may not be classified again as such as determined by this Regulation.

(8) Banks decide if their loans and other receivables must be re-classified entirely or partially by examining the qualifications of loan customers, debtors and guarantees in respect of the considerations and credibility laid down by Article 4 independently of any loan and risk analysis to be conducted before extension of loan in terms of maximum quarterly balance sheet periods or whenever any development arises leading to risks regardless of this period. In this scope, it is obligatory that evaluation results regarding any loans and receivables having a sum of higher than one hundred thousand New Turkish Liras as well as the first two hundred loans and other receivables

in terms of sums in any case are covered by exclusive reports along with justification thereof and that such reports are available for audits.

PART FIVE

Miscellaneous and Final Provisions

Exemptions

ARTICLE 13 – (1) Rates of particular and general provisions are deemed zero for any loans allocated from the funds established pursuant to the relevant laws, decrees and communiqués in line with instructions of competent authorities and risks of which do not belong to intermediary banks, banks' sums of receivables to be monitored under "Receivables from Public Institutes and Establishments" accounts, receivables transferred to another bank by way of liquidation according to the relevant articles of the abolished Decree Law Nr. 70, Nr. 3182 and abolished Banking Law Nr. 4389 and special and general provision rates for the transactions made in accordance with the abolished Banking Law transactions made upon the Law Nr. 3332 dated March 25, 1987.

Funds extended by participation banks and other receivables

ARTICLE 14 – (1) Special and general provision accounts set aside for funds and other receivables extended from participation accounts in accordance to the provisions of this Regulation are reflected in accounts of expenses and accounts of participation according to the rates of participation in losses laid down by the relevant provision of the Regulation on the Procedures and Principles for Acceptance and Withdrawal of Deposits and Participation Funds, Custody and Receivables Undergoing Lapse of Time.

2) Participation banks may reflect in their accounts of expenses the portion of provisions set aside which correspond to the participation accounts, provided that the provisions of Turkish Commercial Code Nr. 6762 dated June 29, 1956 are reserved and that this is approved by their general assemblies.

3) Participation banks may, provided that this is prompted by participation account contracts to be drawn up as per the provisions of the Regulation on the Procedures and Principles for Acceptance and Withdrawal of Deposits and Participation Funds, Custody and Receivables Undergoing Lapse of Time, set aside a portion of up to five per thousand of the sums of profit to be distributed to participation accounts as provisions for use to

meet the portion of the special provisions corresponding to the share of participation accounts.

4) Interest terms mentioned in this Regulation refer to a share of profit in respect of the funds extended by the participation banks stated in Article 48 (2) of the Law.

Abolished regulation

ARTICLE 15 – (1) Regulation on Making Amendments to the Regulation on the Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside which was published in Official Gazette dated June 30, 2001 Nr. 24448 are hereby abolished.

Implementation of general provisions

PROVISIONAL ARTICLE 1 – (1) Banks set aside general provisions, at the rates established by the first sub-clause of Article 7, at the sums of cash loans and guarantee letters of a standard nature under close monitoring, letters of guarantees and bills of guarantee and sureties and other non-cash loans for which they calculated general provisions as of the end of the last month before this Regulations enters into force, on the basis of their remanent sums. In other cases, the specified rates are applied as five per thousand (0.5 %) and one per thousand (0.1 %), respectively.

Implementation until March 1, 2010 concerning customers having more than one loan

PROVISIONAL ARTICLE 2 – (Inserted article: OG-January 3, 2009-27119)

(1) Article 5(2) of this Regulation is applied until March 3, 2010 as follows.

a) Special provision implementation is applied to the loans with no default problems among loans classified within the same group, due to the fact that any loan belonging to loan customer having multiple loans is treated as bad loan as per the classification being made,.

b) Other loans and receivables are treated as per the article 4, in the event of the sum of default bad loans and other receivables are collected, and may be classified in

First Group on condition that it is monitored in the Second Group for a period of at least six months in case of conditions relating to bad loan receivables classification lack.

Implementation until March 1, 2010 concerning restructuring and bounding by new redemption plan of loans and other receivables

PROVISIONAL ARTICLE 3 – (Inserted article: OG-January 23, 2009-27119)

(1) Article 11 of this Regulation is applied until March 3, 2010 as follows.

a) Loans and other receivables classified in the Second Group may be tied to new redemption plan provided that it is limited with two times. Loans and other receivables subject to new redemption plan may be classified in First Group loans and other receivables provided that at least ten percent (10%) of the total sum of receivables has been repaid. Of the loans and other receivables which are classified in the First Group due to the fact that the conditions tied to new redemption plan and foreseen in re-classification are fulfilled, those which are classified in the Second Group again or tied to new redemption plan and which continue to be monitored within Second Group loans and other receivables as the conditions foreseen for the re-classification failed to be fulfilled may be classified in the First Group loans and receivables again provided that fifteen percent (15%) of the total sum of receivables has been repaid. In the event that loans and other receivables within this scope are tied to new redemption plan for the second time by extending loans additionally, the said loans and receivables are classified in the Third Group until five percent (5%) of the total sum of receivables has been repaid and it is banks' preference to set aside special provisions for those provided that the sum equivalent to the indicated portion of the payments foreseen in the redemption plan are realized. Banks may classify their loans and other receivables they tied to new redemption plan in Third, Fourth or Fifth Group as to their relation, following the evaluation made according to the classification principles defined in the article 4.

b) In the event that failure to meet payment obligations towards banks stems from temporary liquidity difficulties relating to the loans and other receivables as part of the

principles of classification laid down by Article 4, loans and other receivables including any overdue interest may be restructured limited with three times or subject to a new redemption plan for the purpose of providing debtors with liquidity capability and ensuring recovery of receivables by banks provided that the procedures and principles laid down by present article are abided. Restructuring, according to the implementation of the present Regulation, refers to tying a loan or receivable to a new redemption plan by extending loans additionally when necessary or extending the maturity of the current loan or receivable or in another way provided that it is deemed appropriate by the bank. Additional loan being extended is evaluated in the group which the restructured loan of the loan customer who is party to restructuring implementation in the implementation of this Regulation is monitored in.

c) For the purpose of implementation of this Regulation, temporary liquidity difficulties are treated as a manageable cash deficit stemming from the fact that fund inflows and outflows, sales incomes or operational revenues arising from normal operations of a loan debtor having payment capability to meet its obligations fully on a timely basis have become unstable as such fluctuate because of unexpected and temporary reasons.

ç) Any restructured loans may be transferred to “Account of Loans Restructured and Tied to a Redemption Plan provided that,

1) At least five percent (5%) of the total sum of receivables in the first restructuring has been repaid, that they have been monitored under the groups under which they have been monitored for a period of three months

2) At least ten percent (10%) of the total sum of receivables in the second restructuring has been repaid, that they have been monitored under the groups under which they have been monitored for a period of six months

3) At least fifteen percent (15%) of the total sum of receivables in the third restructuring has been repaid, that they have been monitored under the groups under which they have been monitored for a period of one year.

Within this period, special provisions continue to be set aside for the said receivables, excluding loans extended additionally if any, at the special provision rates applied to the group they are monitored in. Loans extended additionally within the scope of restructuring are classified in the same group with the restructured loan within the determined periods. However, it is banks' preference to set aside special provisions for the loans in this type as of the groups they are monitored in. Loans and receivables transferred to the "Account of Loans Restructured and Tied to a Redemption Plan" are classified in the Second Group at least for a period of six months. Loans and receivables within this scope may be classified in the First Group again at the end of the specified period provided that there is no default problem.

d) In the event that First Group guarantee at the sum of at least half of the loans and receivables subject to restructuring is secured to the bank by the debtor, periods concerning the transfer of Third, Fourth or Fifth group loans and receivables to "Account of Loans Restructured and Tied to a Redemption Plan" is applied at half the rate.

e) Receivables from natural persons and legal entities included in the risk group the bank defined in the Article 49 of the Law is included in may be tied to a new redemption plan on condition that no additional loan is extended as per the principles set in this article.

Validity

ARTICLE 16 – (1) This Regulation enters into force as of the date of publication.

Enforcement

ARTICLE 17 – (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Board.