

By the Banking Regulation and Supervision Agency:

REGULATION ON CREDIT OPERATIONS OF BANKS¹

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SECTION ONE

Objective and Scope, Basis and Definitions

Objective and Scope

ARTICLE 1– (1) The objective of this Regulation is to regulate the procedures and principles for the credits extended by the banks.

(2) The provisions of this Regulation cover the procedures and principles for:

- a) Identification of natural persons and legal entities to be included in the same risk group during identification of the risk group in respect of those serving the banks and partnerships as members of board of directors and general managers and children not under guardianship
- b) Principles for transfer of powers for extension of credit and formation and operation of and decision making by the credit committee
- c) Monitoring of credits and receipt of documents on status of accounts
- ç) Rates of consideration of credits as regards credit limits
- d) Operations not subject to credit limits
- e) Monitoring of credit limits
- f) Elimination of excesses
- g) Methods of provision of financing by the participation banks

Basis

ARTICLE 2– (1) This Regulation has been prepared on the basis of Articles 47, 48, 49, 51, 52, 54, 55 and 93 of Banking Law Nr 5411 dated 19/10/2005.

Definitions

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

¹ As amended pursuant to the Regulation dated November 12, 2009 and Nr. 27404 and the Regulation dated July 30, 2010 and Nr. 27657.

- a) Parent partnership: Parent partnership as defined in Article 3 of the Law
- b) Bank(s): Bank(s) which are defined in Article 3 of the Law
- c) Financial organization(s): Financial organization(s) as defined in Article 3 of the Law
- ç) Law: Banking Law Nr. 5411 dated 19/10/2005
- d) Consolidated equity: Consolidated equity to be calculated as per the Regulation on the Equity of Banks
- e) Control: Control as defined in Article 3 of the Law
- f) Credit(s): Transactions deemed credit under Article 48 of the Law
- g) Agency: Banking Regulation and Supervision Agency
- ğ) Qualified shares: Qualified shares as defined in Article 3 of the Law
- h) Equity: Equity to be calculated as per the Regulation on the Equity of Banks
- ı) Risk group: Risk group as defined in Article 3 of the Law
- i) Law Nr. 3568: Law Nr. 3568 of 1/6/1989 on Chartered Accounting, Chartered Accounts, Financial Consultancy and Sworn Financial Consultancy

SECTION TWO

Natural persons and legal entities to be included in the same risk group, transfer of powers for extension of credit and credit committee

Natural persons and legal entities to be included in the same risk group

ARTICLE 4- (1) In determination by the banks of natural persons and legal entities to be included in the same risk group in respect of those serving multiple partnerships as general managers, members of board of directors or chairmen of board of directors, the following are considered:

- a) Such persons hold in the partnerships where they serve a higher sum of shares than they would normally acquire as per the relevant legislation,
- b) There is a relationship of control between the partnerships where such persons serve or the existence of surety, guarantee or similar relationships of such a magnitude to cause the financial distress suffered by one of them to lead to financial distress in others,

- c) Existence of a relationship as relatives by blood and marriage of up to third and second degree, respectively, between the partners as natural persons controlling the partnerships where such positions are held,
- ç) Such persons are granted benefits beyond employment benefits proportionate to their qualifications and experience.

In the event that one or several of these facts exists or exist, those serving as chairmen or members of board of directors and the said partnerships are included in the same risk group.

(2) Article 5(4) is not applicable for those included in the risk group in which a bank is included merely due to such characteristics of the bank's members of board of directors in connection with credits to be extended to the risk group in which the bank is included.

Transfer of power for extension of credit

ARTICLE 5– (1) The powers for extension of credit in a bank basically rest with the board of directors. The board of directors is bound to develop policies regarding extension of credit, issue of approvals and other administrative principles, ensure their implementation and monitoring and take necessary measures. The board of directors may delegate its powers for extension of credit to a credit committee and office of the general manager. A written proposal by the office of general manager is sought for extension of credit or transfer of powers by the board of directors. For those credits for which documents on status of accounts must be obtained, proposals by the office of general manager regarding extension of credit must be accompanied by financial analysis and intelligence reports on credit applicants.

(2) In case of determination of the limit of credit to be extended to a natural person or legal entity, the board of directors may delegate credit extension powers to the credit committee and office of general manager at a maximum rate of ten per cent and one per cent of equity, respectively. The office of general manager (general directorate) may exercise the credit extension powers transferred to itself through other units, regional directorates or branches.

(3) Powers must be delegated by the board of directors in writing by determining clearly and in full detail the scope and limits thereof in a manner also containing any aspects required to be determined routinely during extension of credit, particularly the sum and type of credit and guarantees to be received.

(4) Those holding credit extension powers may not take part in evaluation and decision making stages related to credit operations involving themselves and spouses and children under their guardianship or other natural persons and legal entities forming the risk group with them and they notify this situation to the supervisory committee in writing.

Formation of a credit committee

ARTICLE 6- (1) A credit committee composed of minimum two members to be elected by the board of directors from among its members, who meet the same conditions sought for a general manager except for the term as per Article 25 of the Law and bank general manager or deputy general manager may be set up in order to perform the duties to be assigned by the board of directors in connection with credits. Two alternate members are elected from among the members of board of directors, who meet the same conditions sought for a general manager except for the term, to substitute the members of the credit committee who would not be able to attend any meetings. Affirmative votes of at least three fourth of the members of the board of directors are sought for election of members and alternate members of the credit committee.

(2) In the event that the foreign banks operating in Turkey by opening up branches establish credit committees, the board of directors functions as a credit committee at the same time.

Principles for operation of credit committees

ARTICLE 7- (1) The credit committee convenes with participation of all of its members.

(2) Resolutions adopted by the credit committee unanimously are directly implemented while resolutions adopted by it with a majority of votes are put into implementation after approval by the board of directors.

(3) The committee agenda is determined by the general manager or by his / her deputy if he / she is not available and it is communicated to other members. A written proposal by the office of general manager (general directorate) is sought for extension of credit by the credit committee. It is obligatory that proposals to be made in connection with credits for which

documents on status of accounts are required to be obtained must be accompanied by financial analysis and intelligence reports on credit applicants.

(4) The board of directors is obligated to supervise operations of the credit committee. Each member of the board of directors is entitled to request the credit committee for all kinds of information on the operations of the committee and conduct any controls as he / she deems necessary.

(5) Resolutions by the credit committee are recorded on the book of resolutions. Credit committee book of resolutions is maintained subject to the procedures and principles governing the board of directors' book of resolutions.

SECTION THREE

Documents on status of accounts

Receipt of documents on status of accounts

ARTICLE 8– (1) Banks have to receive documents on status of accounts for any credits to be extended except for the operations listed below:

- a) Operations which do not exceed two hundred and fifty thousand Turkish Lira²,
- b) Operation conducted with public entities, their affiliates and local administrations covered by the central administration excluding public economic enterprises and their affiliates, subsidiaries and participations
- c) Operations conducted with the central governments and central banks of foreign countries or against bonds and bills issued or guaranteed by them
- ç) Operations based on cash, cash equivalent values and accounts and precious metals
- d) Operations based on bonds and bills issued or guaranteed by the Treasury, Privatization Administration or Mass Housing Administration in respect of repayment
- e) Operations conducted with the Central Bank of the Republic of Turkey or with the markets entrusted with this bank
- f) Securities for trading purposes acquired from the securities exchanges or second hand markets to make use of fund surpluses with very short terms
- g) Shares purchased from the organized stock exchanges or on ground of receivables

² As amended pursuant to the Regulation dated November 12, 2009 and Nr. 27404.

ğ) Inter-bank operations by local banks limited to call operations or operations with a term of less than three months and securities and guarantees to be issued upon counter surety of these banks

h) Operations with a credit risk of not more than USD five million based on the calculations to be made pursuant to Article 54(6) of the Law regarding the rates of consideration for credits, which are conducted with banks or financial organizations enjoying rating marks classified as Class II as a minimum under Annex 1 and non cash credits to be extended upon their surety.

(2) Documents on status of accounts are received within six months following every annual accounting period as long as a credit relationship continues, excluding consumer loans³.

Documents to be accepted as status of accounts

ARTICLE 9– (1) Pursuant to the Article 8 1), banks accept the following as documents on status of accounts with introductory information to be drawn up according to the model under Annex 2:

a) Balance sheets and profit / loss statements of banks and financial organizations and public entities including annexes thereto with any footnotes to be incorporated therein as per the particular legislation or accounting systems governing them,

b) Balance sheets and profit / loss statements including financial statements annexed thereto of partnerships and capital market intermediaries, the securities of which are publicly traded, which also incorporate any footnotes to be drawn up pursuant to the capital market legislation,

c) Balance sheets and profit / loss statements and financial statements annexed thereto also including any footnotes meeting international standards, which will be drawn up by those not covered by paragraphs (a) and (b), namely: persons resident in Turkey and overseas resident persons, in line with the Accounting System Implementation Communiqué issued by the Finance Ministry pursuant to Tax Procedural Law Nr. 213 dated 4/1/1961 and the foreign legislation governing overseas resident persons, respectively

This form is not received for partnership shares. Retention of the circular issued for savings holders in place of these documents will be sufficient in case of investments to be made on securities to be issued through public offers.

³ As amended pursuant to the Regulation dated November 12, 2009 and Nr. 27404.

(2) For specialty credits to be extended to natural persons not maintaining books on the basis of balance sheets, documents on status of accounts to be drawn up in line with the nature of the operations of such persons may be received subject to approval by the Agency.

(3) Documents on status of accounts to be received for natural persons for operations not having the nature of a commercial credit in line with Annex 3 must be accompanied by documents certifying the person's ID particulars and income.

(4) It is obligatory that documents on status of accounts to be received from those resident in Turkey are signed by authorized and responsible persons and further that financial sheets to be received from the overseas resident persons with a total credit risk of more than USD five hundred thousand with the bank based on the calculations to be made pursuant Article 54(6) of the Law, which governs the rates of consideration for credits, and also from those with a credit rating of lower than Class Two as classified under Annex 1 must be certified by independent auditing companies authorized by the legislation of relevant countries or operating at an international level. Independent auditing reports continue being received within 6 months following each accounting period as long as the credit relationship continues.

Audit of documents on status of accounts

ARTICLE 10– (1) It is essential that in case that credits to be extended by them to customers than the entities and partnerships in which more than half of capital is held by the public administrations, public economic enterprises and organizations included under the scope of Law Nr. 3291 dated 28/5/1986, which are part of the central administration, are in excess of TRY two million, the compliance of the documents on status of accounts including balance sheets and schedules of profit and loss attached thereto with the provisions of the legislation, accounting principles and accounting standards in force in Turkey is audited by the career practitioners authorized to conduct audits, who have received licenses as per Law Nr. 3568.

(2) The provisions in the procedures and principles of operation concerning audits, which are implemented as per Law Nr. 3568 are applicable for the procedures and principles to be observed over audits.

Audits of documents on status of accounts and audit reports and other considerations

ARTICLE 11– (1) The operation of auditing is conducted by providing a note on the documents on status of accounts and schedules of profit and loss attached thereto after preparation of the report meeting the principles in Annex 4 that such documentation has been prepared in compliance with the accounting principles and accounting standards in force in Turkey. The foot of the said note is signed by the career practitioner by indicating name and title.

(2) In the event that the balance sheets and profit/loss statements have not been prepared in compliance with the accounting principles and accounting standards in force in Turkey, the audit report may be conditional upon the implementation provisions of Law Nr. 3568.

(3) Career practitioners who will conduct audits must be included in the list of recognized career practitioners published by the Turkish Chamber of Chartered Accountants, Financial Consultants and Sworn Financial Consultants.

(4) Other considerations concerning audits, which are not covered by this Regulation are subject to Law Nr. 3568 and legislative provisions concerning this law.

SECTION FOUR

Rates of consideration in credit limits, calculation of credit limits on a consolidated basis, operations not subject to credit limitations

Consideration of non cash credits, futures and options contracts and other similar contracts and partnership shares

ARTICLE 12– (1) Operations listed by Article 48 of the Law and bills of surety, guarantees and sureties received by the banks in connection with such operations are included in credit limitations.

(2) In implementation of credit limits;

a) payment commitments are considered at a rate of one hundred per cent for guarantee letters issued for provision of cash, acceptance credits, purchase guarantees in issues of securities, credit cards spending limits and checks,

b) **(Amended by the OG dated November 12, 2008 Nr. 27052)** Counter guarantees to be issued by the banks in connection with guarantee letters given for overseas contracting

services and guarantee letters to be extended to overseas entities in the form of consortia, of which the Turkish Export Credit Bank Corp. (Türkiye İhracat Kredi Bankası AŞ) is a part and counter-guarantees to be granted by banks relating to advance payments and bid bonds to be issued by the Turkish Export Credit Bank Corp. (Türkiye İhracat Kredi Bankası AŞ) as part of overseas contracting services are considered at a rate of forty per cent, and in the case that guarantee letters and counter-guarantees to be granted under this scope are granted by a consortium to be formed by at least three banks and each bank to takeover 15% of the risk, they are considered at a rate of twenty percent,

c) Non cash credits extended against securities issued or guaranteed by the banks operating in Turkey in respect of payment or on the basis of counter surety of these banks are considered at a rate of twenty five per cent,

ç) Other non cash credits are considered at a rate of fifty per cent,

d) Bills of surety, guarantees and sureties covered by the paragraph is considered at the same rate as the rate of consideration for credit for which bills of surety or guarantees or sureties are underwritten, excluding the calculation of the limit of eight times covered by the Article 54(4) of the Law.

(3) In implementation of the credit limits laid down by Article 54 of the Law;

(a) Nominal values of futures transactions based on foreign currency, interest rates and gold and swap trading contracts and trading options purchased are considered after multiplying them with the rates indicated in the following table depending on the initial terms of the contracts:

INITIAL TERM (Term on the contract)	Contracts Related to Interest Rates (%)	Contracts Related to Exchange Rates and Gold (%)
With a term of up to two weeks	0	0
With a term of one year and less	0,5	2
With a Term of one year to 2 years	1	5
Two years and for every additional year after two years	1	3

b) It is considered adding up the sums obtained by multiplying the positive market rates of the contracts related to futures, swap trading contracts based on shares, precious metals other than gold and other products and trading options purchased by the rates indicated in the table below depending on the remaining terms of their nominal values:

PERIOD BEFORE TERM (Term on the Contract)	Contracts Related to Shares (%)	Contracts Related to Precious Metals Other Than Gold (%)	Contracts Related to Other Assets (%)
Those with one year or less before their terms	6	7	10
Those with more than one year and less than five years before their terms	8	7	12
Those with five years and more before their terms	10	8	15

(4) Partnership shares are considered on the basis of their sums of costs in respect of limitations laid down by Articles 54 and 56 of the Law. Shares held for trading purposes for which period of possession is not longer than five business days are not considered.

(5) **(Amended paragraph: OG dated February 02, 2007 and Nr. 26422)** Commitments of an unlimited guarantee nature extended by the banks operating in Turkey to competent authorities in foreign countries for their obligations concerning their partnerships and participations in such foreign countries as per the legislation of said countries are considered at the rate of thirty percent and the sum to be taken as a basis in calculation of credit limits is computed by deducting from the obligations of the subsidiaries or participations the credits extended by the subsidiaries or participations to the bank and the principal capital calculated by the subsidiary or participation according to the legislation of such a country.

(6) The provisions of Article 14 are reserved for the rates of consideration for the operations related to the central administrations, central banks and credit organizations in the foreign countries.

Calculation of credit limits on a consolidated basis

ARTICLE 13– (1) The credit limits covered by Article 54 of the Law in respect of principal partners according to the arrangements put into implementation as per the law are calculated and applied on a consolidated basis according to the procedure laid down by the present article.

(2) Consolidated credit limits are calculated on the basis of the periods for preparation of consolidated financial statements by taking into account the credits included in the balance sheet and off-balance sheet accounts of the parent partnership and each partnership in the group of financial institutions subject to consolidation and the sum of consolidated equity calculated as per the Regulation on the Equity of Banks. Factoring receivables of financial institutions subject to consolidation as well as items concerning their various loans and borrowed funds have the nature of cash credit.

(3) In calculation of the credit limit which can be extended to a risk group, all the debts and obligations by the natural persons and legal entities covered by the definition of the risk group to all the partnerships included in the group of financial institutions subject to consolidation, which have the nature indicated by the second sub-clause, are considered.

(4) In calculation of the credit limit that may be extended to a risk group on a consolidated basis, the definition of the risk group is applied as “risk group in which the group of financial institutions is also included” by taking into account the parent partnership and every partnership included in the group of financial institutions subject to consolidation.

(5) The credit limits covered by Article 54 of the Law are also calculated and applied on a non consolidated basis.

(6) For the purpose of implementing the provisions of the law, whichever has excess in the limits calculated on consolidated and non consolidated bases is considered the sum of excess; in case of an excess in both of them, the higher amount is considered.

(7) The provisions related to the rates of consideration laid down by Articles 12 and 14 and operations which will not be subject to any limits are reserved.

Rates of consideration for operations related to the central administrations, central banks and credit institutions of foreign countries

ARTICLE 14– (1) For the purpose of implementing the credit limits under the law;

1) Operations to be considered at a rate of zero per cent

a) Credits to be extended to the central administrations and central banks of foreign countries which have country ratings classified as Class One in Annex 1 and credits to be extended against securities issued by them or other guarantees provided

b) Credits to be extended to the European Central Bank and Credits to be extended against securities to be issued by this bank or guaranteed to be provided by it

2) Operations to be considered at a rate of twenty per cent

a) Participations in those of issues of securities or other forms of borrowing by “Multilateral Banks and Financial Organizations”, which have credit ratings classified as Class One in Annex 1, and credits to be extended against guarantees to be given by them

b) Credits to be extended by the credit institutions in foreign countries, which have credit ratings classified as Class One in Annex 1, to those, which have credit ratings classified as Class One in Annex 1, and credits to be extended against guarantees to be given by them

c) Credits to be extended by those of securities, which have credit ratings classified as Class One in Annex 1, issued under surety of the credit institutions in foreign countries, which have credit ratings classified as Class One in Annex 1

3) Operations to be considered at a rate of fifty per cent

a) Credits to be extended to the central administrations and central banks of foreign countries, which have credit ratings classified as Class Two in Annex 1, and credits to be extended against securities issued by them or other guarantees given

b) Credits to be extended to those credit institutions with their head offices in foreign countries, which have credit ratings classified as Class One in Annex 1, and Credits to be extended to against guarantees to be given by them

c) Credits to be extended b the credit institutions in foreign countries, which have credit ratings classified as Class One in Annex 1, to those, which have credit ratings classified as Class Two in Annex 1, and credits to be extended against guarantees to be given by them

ç) Credits to be extended by those of securities, which have credit ratings classified as Class

One in Annex 1, issued under surety of the credit institutions in foreign countries, which have credit ratings classified as Class Two in Annex 1.

4) Operations to be considered at a rate of eighty per cent

a) Credits to be extended to the central administrations and central banks of foreign countries, which have credit ratings classified as Class Three in Annex 1, and credits to be extended against securities issued by them or other guarantees given

b) Credits to be extended to those credit institutions with their head offices in foreign countries, which have credit ratings classified as Class One in Annex 1, and Credits to be extended to against guarantees to be given by them

c) Credits to be extended to those credit institutions with their head offices in foreign countries to those, which have credit ratings classified as Class Two in Annex 1, and Credits to be extended to against guarantees to be given by them

ç) Credits to be extended by those of securities, which have credit ratings classified as Class One in Annex 1, issued under surety of the credit institutions in foreign countries, which have credit ratings classified as Class Third in Annex 1.

5) Operations to be considered at a rate of fifty per cent:

a) Credits to be extended to all kinds of banks, credit institutions and Financial institutions having their head offices in the off shore banking zones excluding those whose financial sheets are consolidated with the banks extending credits by the full consolidation method and Credits to be extended to against securities issued by such organizations and entities, guarantees to be issued by them or pursuant to their surety

b) Those of cash credits extended to foreign banks, credit institutions and Financial organizations, which are tied to conditions other than terms in respect of repayment and those extended for use by certain natural persons or legal entities or risk groups for forming guarantees for credits to be extended

c) Mutual operations.

(2) Operations other than those indicated by the first sub-clause are considered at a rate of one hundred per cent.

(3) The non cash loans and futures operations and options contracts and other similar contracts covered by the present article are additionally weighted on the basis of the rates in this article after the rates of consideration laid down by Article 12 are applied.

(4) In the event that an excess occurs in the credit limits due to the falls in or withdrawal of the ratings awarded by the international rating institutions and that the access cannot be eliminated through withdrawal of loans at call extended, loans at call may be maintained until the terms of securities, deposits and other credit accounts provided that loans at call are not involved in any additional extensions or maturity renewals.

(5) In case of emergence of class distinction between the ratings given by multiple international rating institutions about the same country, borrower, borrowing, securities or bank in respect of the classifications covered by Annex 1, the lower of such ratings is considered.

(6) The banks are obliged to provide, follow and maintain all kinds of information and documents about their operations benefiting the provisions of the present article, which leave no room for suspicion about their soundness. The bank has the burden to prove that the operations are eligible for utilization of the privileged rates laid down by the present article.

Operations by the banks established abroad with the head Office of their branches in Turkey and with other branches established abroad

ARTICLE 15- (1) If a bank established in another country has branches in Turkey and its branches place deposits in their head offices or other branches abroad, then such deposits shall be deemed to constitute a credit pursuant to Article 48 (1) of the Law and included in the calculation of "the risk group including the bank" as defined in Article 54 (1) thereof.

(2) For the purposes of this Article, funds obtained from the head office or other branches abroad shall be treated as a cash equivalent under Article 55 of the Law provided that their maturity is not shorter than the term of such deposits placed.

Transactions not subject to credit limitations

ARTICLE 16- (1) The following operations are also not subject to the credit limitations covered by Article 54 of the Law pursuant to Article 55 (1i) of the Law:

a) Loans at call and loans with a maturity of up to three months without any postponement,

which are mutually extended by the banks, excluding those extended as guarantees or pledges or to certain natural persons and legal entities or risk groups

b) Those with a maturity of up to six months, which are sight and have no postponement, out of the operations conducted in the markets created for establishment by the Turkish Union of Banks of the Turkish Lira Reference Interest Rate (TRLIBOR)

c) Credits extended to the Türkiye İhracat Kredi Bankası

d) Daily differences arising out of the non-conformity between the records of debts and receivables of the branches of banks in Turkey and their head offices and other branches established abroad as per the first sub-clause of Article 15.

(e) Loans granted in exchange for the bails provided within the scope of the support given by the Undersecretariat of Treasury within the framework of the temporary article 20 of the Law on Public Finance and the Arrangement of Debt Management number 4749 dated March 28, 2002,

(f) Transactions made in exchange for the debt securities issued in form of securities by the bank which has granted the loan⁴.

Monitoring credit limits

ARTICLE 17– (1) In calculation of credit limits by the banks, the facts that persons using credit actually and persons extending credit may be different or that credit may have been extended to multiple persons by considering factors involving who is liable for eventual risks in respect of banks and who is liable thereof and individual credit limits must be monitored separately on the basis of each natural person and legal entity.

Compensation of excesses

ARTICLE 18– (1) In calculation of credit limits, last period equity and consolidated equity calculated as per the Regulation on the Equity of Banks are taken into account. In the event that there are excesses in calculation of limits covered by Articles 54 and 56 of the Law due to the falls that may take place in equity and consolidated equity, such excesses must be made up for in the period of seven months that follows the period of calculation of equity and consolidated equity by increasing equity or consolidated equity in a manner to compensate for such excesses occurring or decreasing the operations which cause such

⁴ Added pursuant to the Regulation dated July 30, 2010 and Nr. 27657.

excesses. In case the equity or consolidated equity is met through capital expansion, it is essential that the sum, which is equal to the missing portion of the equity or consolidated equity in respect of the sum of increase, must be collected within this seven month period. If the excess that have occurred requires increases in equity and consolidated equity, expansion is achieved by taking into account the equity requiring the highest sum of increase.

SECTION FIVE

Miscellaneous and Final Provisions

Methods of supplying financing by the participation banks

ARTICLE 19– (1) The procedures and principles for the financing methods which are to be treated as credit as per the Article 48 (2) of the Law are as follows:

a) Corporate financing support: It is the operation of imposing debts on an enterprise on condition of payment of costs of all kinds of merchandise, securities, real estate, rights and services needed by such an enterprise to suppliers within the framework of a contract to be concluded between the participation banks and enterprise that will use such funds. It is obligatory that a copy of the document concerning the trading of the funds to be extended under this method be retained by the participation bank.

b) Individual Financing Support: It is the operation of imposing a debt on the buyer on condition of payment of the costs of goods or services directly bought by buyers as natural persons from suppliers to the suppliers by the participation bank. It is obligatory that a copy of the document concerning the trading of the funds to be extended under this method be retained.

c) Profit and Loss Sharing Investment: It is the operation of extension by the participation banks to natural persons and legal entities on condition of participation in profit and loss which will arise out of all the operations or certain operations or trading of a certain lot of goods by such persons. For extension of funds under this method, “Profit – Loss Sharing Investment Contract” is concluded with natural persons and legal entities which will use such funds as per the model in Annex 5. The banks participate in profit and loss of natural persons and legal entities for which they extend credit at the rates established by the contract. “Profit – Loss Sharing Investment Contract” clearly indicates the shares to be received by banks in profit and loss and guarantees to be received by them, if any. Such a

contract does not incorporate any provisions for guarantee of profit at a determined rate independently of the project profitability.

ç) Financial leasing: It entails procurement and leasing of the movables and immovable by the participation bank and development and investment bank within the framework of the relevant provisions of Law Nr 3226 dated June 10, 1985 on Financial Leasing.

d) Financing of Documents Against Goods: It is the operation of extending funds against documentation based on goods subject to a written contract between a participation bank and fund user.

e) Joint investments: They entail participation by the participation banks in capital of companies with development potential and in need of funds on condition that the shareholdings to be acquired as per the provisions of the contract to be concluded between the parties are disposed of through public offers within maximum seven years or participation in funds to be developed for the purpose of financing a certain investment, provided that the limitations in the Article 56 (1) of the Law are considered. It is obligatory that contracts to be drawn up for investment through participation in capital incorporate provisions governing the rights and obligations of the parties, particularly the issues related to the management of the company having a participation in its capital.

Regulation abolished

ARTICLE 20– (1) The Regulation on the Establishment and Operations of Banks issued in Official Gazette dated June 27, 2001 Nr. 24445 and the Regulation on the Establishment and Operations of Private Financial Institutions published in Official Gazette dated September 20, 2001 Nr. 24529 are hereby abolished.

Adaptation

PROVISIONAL ARTICLE 1– (1) The banks which have exceeded the limits covered by the Law in terms of the sum of credits extended by them to natural persons and legal entities or a risk group due to the new provisions concerning the rates of consideration introduced by Article 12 may never extend new credits to such natural persons and legal entities or risk group in any manner whatsoever. Starting from the calendar year following the date of entry into force of the provisions of this Regulation, the banks eliminate the sums of excess taking place in the total sums of credits extended by them to natural persons and legal entities or a risk group for each year until December 31, 2009 by redeeming thirty per cent of such sums

by the end of the first year, sixty per cent by the end of the second year and one hundred per cent by the end of the third year.

Entry Into Force

ARTICLE 21– (1) This Regulation enters into force on the date of publication.

Enforcement

ARTICLE 22– (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Agency.

ANNEX - 1

Classification of International Organizations and Regions and Credit Organizations and Credit Ratings

Credit organizations refer to the banks, for which operating permissions are issued by the competent authorities of foreign banks,

Off-shore Banking Zones refer to private banking centers, the demarcation of which is outside a country where banking operations are in place or which are excluded from the economic and financial legislation in force on a country wide basis or which are prohibited to receive deposits and funds from nationals of the country of incorporation, which are excluded from the administrative, financial and economic legislation implemented throughout the country although they are located within the country's political territories or for which different and privileged regulations, particularly those related to banking and tax legislation, are applicable, and entire territories of those countries where the legislation implemented on a nationwide basis is arranged without any particular differentiation such that it can compete with off shore banking zones.

International credit rating institutions refer to at least one of the rating institutions, "Moody's", "Standard & Poor's" and "Fitch IBCA", which periodically assess the creditworthiness of the central administrations and central banks of countries in general and repayment or payment capabilities of debtors or debts, securities or organizations and entities issuing them, their bank ratings or soundness of financial structures of banks and financial organizations and their debt servicing capabilities in general and publicly announce their ratings to an international audience and receive recognition for their ratings in international markets.

Multilateral Banks and Financial Organizations refer to the following banks and financial organizations founded under the multilateral treaties concluded between the countries: International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), International Finance Cooperation (IFC), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), Asian Development Bank (AsDB)", African Development Bank (AfDB), Islamic Development Bank (IsDB) and Black Sea Trade and Development Bank (BSTDB).

International Credit Ratings

The international credit ratings which will be assumed as Class One, Class Two, Class Three and Class Four for the purpose of implementation of this Regulation are as follows in respect of the types of ratings used by the international credit rating institutions and their symbols.

1) Country and International Long Term Credit Ratings for Foreign Currency Commitments (In terms of borrowers or securities issued or other borrowings)

	Class One	Class Two	Class Three	Class Four
Moody's	Aaa, Aa1, Aa2	Aa3, A(1,2,3)	Baa1, Baa2	Baa3, Ba(1,2,3)
S&P's	AAA, AA(+), AA	AA(-), A (+,-)	BBB (+), BBB	BBB(-), BB(+,-)
Fitch IBCA	AAA, AA (+), AA	AA(-), A (+,-)	BBB (+), BBB	BBB(-), BB(+,-)

2) International Short Term Credit Ratings for Foreign Currency Commitments (In terms of borrowers or securities issued or other borrowings)

	Class One	Class Two	Class Three
Moody's	Prime-1	Prime -2	Prime-3
S&P's	A-1(+), A-1	A -2	A -3
Fitch IBCA	F1(+), F1	F2	F3

3) International Long Term Creditworthiness (UVKD) or Financial Capability (FG) Ratings for Foreign Currency Commitments, Which Are Given to Banks:

	Class One	Class Two	Class Three	Class Four
Moody's (FG) (UVKD)	A Aaa	B+, B Aa(1,2,3), A(1,2,3)	C+, C Baa1, Baa2	D+, D Baa3, Ba(1,2,3)
S&P's (UVKD)	AAA	AA(+,-), A(+,-)	BBB(+), BBB	BBB(-), BB(+,-)

Fitch IBCA (FG) (UVKD)	A AAA	A/B , B AA(+,-), A(+,-)	B/C, C BBB(+), BBB	C/D, D BBB(-), BB(+,-)
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ANNEX -2

Documents on status of accounts to be received by banks from applicants for credits and surety or guarantees to be extended

Introductory Information

I- Of the company:	
Commercial title	
Date of establishment / Commercial or Free Artisans Registration Nr	
Dates and Numbers of the Turkish Journal of Trade Registrations	
Place of business, address, telephone, telex and fax numbers	
Nationality	
Tax office and tax registration number	
Operational weight in the sector of	

operation (%)	
Principal field of operation	
Ancillary fields of operation	
Known title of the capital group of which it is a part and this group's share in capital	

II- In the companies without a status as a legal entity	
Of the partnerships in which the company owner (owners), spouse(s) and children have participation with unlimited liability	
Titles	
Addresses	
Total shareholdings in these partnerships (%)	

Of the partnerships in which the company owner (owners) and spouse(s) and children and partnerships having their participation with unlimited liability control capital or management individually or collectively	
Titles / names	

Addresses	
Their total shareholdings in these partnerships (%)	
Of the partnerships in which the partnerships with a participation by the company owner (owners) and spouse(s) and children and partnerships in which they control capital individually or collectively control capital, management and supervision individually or collectively, directly or indirectly	
Titles / names	
Addresses	
Their direct and indirect shareholdings in these partnerships (%)	

III- In the companies with a status as a legal entity;	
Names and capital shares of managers and auditors	
Chairman of the board of directors	

Members of board of directors	
Auditors (and if they are partners)	
Directors authorized as per Article 319 of Turkish Commercial Code	
Names and capital shares of those partners having qualified shares in capital	
Names and capital shares of those partners included in the controlling capital group	
In case of the partnership of capital groups other than the controlling capital group, known names and capital shares of these groups	
If shares are publicly offered and if yes, rate of such public offers	
Capital shares of overseas resident natural persons and legal entities	

Of the partnerships which are controlled in terms of capital, management and supervision jointly with other companies and persons included in the capital group having direct or indirect control of the company capital or separately, directly or indirectly;

Titles / names	
-----------------------	--

Addresses	
Their direct and indirect shareholdings in these partnerships (%)	
Of the natural persons and legal entities in a relationship, which are of a scale to cause the company to suffer financial distress in case it encounters financial distress:	
Titles / names	
Addresses	

IV-Financial information (For the last three years)	1. Year	2. Year	3. Year
Total assets			
Disposable (liquid) assets			
Total current assets			
Long term and fixed assets			
Call and overdue foreign funds			
Short term foreign funds			
Long term foreign funds			
Equity			
Period profit or (loss)			
Stocks			

Exports (US Dollars)			
Imports (US Dollars)			
Sales from productions			
Information on Added Values			
Salaries and Wages Paid			
Rents Paid			
Indirect Taxes			
Value Added Tax			
Other taxes			
Subsidies (-)			
Subsidies & tax refunds			
Refundable VAT on Exports			
V- Other information			
Nr. of staff (annual average)			
Whether or not it is subject to any special accounting period			
Title of the independent auditing organization auditing the company			
If it has an international credit rating; if yes, type, degree and date of the credit rating and international credit rating institution issuing the rating			
Ongoing investments;			
Type			

Start date	
Scheduled completion date	
Total investment costs	
Sum of actual investment	
VI- For Contractors: (to be completed separately for each ongoing job)	
Employer	
Job Commencement Date	
Deadline extension (if any)	
Award value of the job	
Escalation and price difference	
Year end progress payments	
Sums of withholding taxes deducted (-)	
Total revenues	
Total expenditures	

ANNEX -3

Documents on status of accounts to be received from natural persons for operations not having the nature of a commercial credit

Surname:

Name:

Father's Name:

Sex:

Nationality:

Place and Date of Birth:

Marital Status:

ID Card Serial No:

Date and Place of Issue:

Driving License No, if any:

Date and Place of Issue:

Tax ID No:

Education:

Of the family members of cohabitation:

Name Surname	Degree of relationship	Date of Birth	Job and Profession if Employed	School name if receiving education
1.				
2.				
3.				
4.				
5.				

Address of Legal Domicile:

District: **Province:** **Postal Code:**

Telephone: **Home:** **Cellular:**

E-mail address:

Duration of domicile at the current address in terms of years:

House of domicile: **Own** **Rent**

Owned by one of the family members **Lodging**

If house of domicile is rented:

Monthly rent:

If the house of domicile is owned by himself / herself or by one of the family members, is there mortgage on it?:

Are there any debts payable on the house? :

Sum if there are any mortgage or debts:

Monthly debt servicing sum:

Beneficiary of the mortgage:

Social Security Organization of which he / she is a member:

Pensions Fund Registration No:

SSK Registration No:

Bağkur Registration No:

Other (insert) Registration No:

Profession:

Title of Employer in Case of Present Employment:

Address:

Telephone:

Position - Title:

Duration of employment by the present employer in terms of years:

Title of Previous Employer In Case of Employment of Less Than Two Years by the Present Employer:

Address:

Telephone:

Period of employment:

Reason for Leaving:

Type of Job in Case of Self Employment:

Title of the Workplace:

Commercial Registration No:

Tax Registration No:

Address:

Telephone:

Duration of Self Employment In Terms of Years:

Of Real Estate Owned:

	Type	Address	Vol. Nr.	Page Nr.	Island Nr.	Parcel Nr.	Area	Share	Sum if mortgaged	Mortgage beneficiary and degree
1										
2										
3										
4										
5										

Make if a car is owned:

Year:

License Plate Nr.:

Purpose of use:

Share:

Total sum of credits and other debts payable:

Monthly payment sum:

Of credits and debts:

Type	Sum	Creditor
1.		
2.		
3.		
4.		
5.		

Bank information:

Bank Name	Branch	Account type	Balance
1.			
2.			
3.			
4.			
5.			

Credit Card Information:

Card Name	Issuer	Card Number
1.		
2.		
3.		
4.		
5.		

Of the credit requested:

Type	Sum	Payment Term
1.		
2.		
3.		
4.		
5.		

Income Information:

Of Income	Sum (Monthly Net)
------------------	--------------------------

Type (Wages, Salaries, Rents, Etc.)	Own	by other family members
1.		
2.		
3.		
4.		
5.		

Of two persons or organizations which can provide information about applicant:

Name Surname (Title)	Address	Telephone
1.		
2.		

Date

Signature of applicant

ANNEX -4

Principles for Preparation of Reports Concerning Auditing of documents on status of accounts and balance sheets and schedules of profit and loss annexed thereto, which will be received from applicants for credits, surety or guarantees to be extended by banks

An audit report will be prepared as per “Report Cover” in Annex 4/A and “Report Order” in Annex 4/B.

1. DOCUMENTS TO BE REQUESTED

The following documents for the last three years are benefited in preparation of an audit report:

- a) Balance sheets and income sheets (as certified by the tax office)
- b) Financial statements submitted to the banks
- c) End of the period final trial balances
- d) Statutory books
- e) General assembly documents (schedules of attendance, operating reports, auditors’ reports and the like)
- f) Letter containing information about the footnotes on the financial statements
- g) Credit agreements
- h) Copies of Turkish Journal of Trade Registrations containing establishment, amendments and capital expansion
- i) Declarations of incomes and corporate and value added taxes, banking and insurance transactions taxes and stamp taxes and relevant accrual documents for the last year
- j) Auditing and certification reports and annexes thereto for the approval periods, if any
- k) Original of the specimen of signature and operating certificate

2. WORKS TO BE DONE

Information required to be incorporated in the Part on General Information of the report from the documents listed above. It is obligatory that the documents are taken as a basis during these works to the maximum extent possible. For instance, information on the field of operation and names and addresses of partners having qualified shares will be prepared on the basis of the articles of association and general assembly schedules of attendance, respectively.

The form of financial explanatory notes on the documents on status of accounts must be prepared on the basis of documents and written and signed declarations by the entities concerned.

Similarly, footnotes on the financial statements must be prepared on the basis of documents and written and signed declarations by the entities concerned.

Considerations to be incorporated in the Part on Procedural Analysis will be established by analyzing the documents listed above.

During analysis of accounts, it must be checked if the financial statements of the entities concerned match with the records on the ledgers. Although analysis of the financial sheets involves an accounting audit basically, any changes to equity, structures of revenues and expenses, debts and financial liabilities for the last three years will be examined and assessed in detail. Studies to be carried out will conform to the auditing standards.

3. INFORMATION TO BE INCORPORATED IN THE CONCLUDING SECTION OF THE REPORT

The concluding part of the report will state as per Article 52 of the Law that the balance sheets, profit – loss statements (income statements) and documents on status of accounts prepared by the company and audited by the licensed auditors are in compliance with the principles and rules of accounting or that they are conditionally compliant thereto.

ANNEX - 4/A

Report Nr. :/...../200..

Annexes to the Report:

**COVER OF THE AUDIT REPORT ON CERTIFICATES OF STATUS OF
ACCOUNTS AND BALANCE SHEETS AND PROFIT AND LOSS STATEMENT
ATTACHED THERETO**

Of the Licensed Auditor conducting the audit:

NAME SURNAME :

CHAMBER OF ASSOCIATION :

OFFICE ADDRESS :

TEL. NUMBER :

Of the contract serving as a basis: DATE :

NR :

Of the Credit Customer NAME SURNAME (TITLE) :

ADDRESS :

TAX OFFICE and TAX ACCOUNT NO :

TEL. NUMBER :

ACCOUNTANT IN CHARGE :

PERIOD OF ANALYSIS :

SUBJECT OF ANALYSIS :

CONCLUSION :

ANNEX - 4/B
REPORT ORDER

I. GENERAL INFORMATION

This part will incorporate the following information as a minimum.

- Name and surname and title of the credit customer and names and addresses of partners holding qualified shares
- Assessments regarding the credit customer's field of operation and sector or sectors of operation and the company's position in the sector
- Names and surnames of the credit customer's Executive Board president, Executive Board members, general manager and deputy general managers
- Credit customer's commercial registration and registration number
- Names of those responsible for accounting and accounting supervision of the credit customer's accounting department and if such persons have been titled such as chartered accountants, chartered accountants as financial consultants and sworn financial consultants.
- Credit customer's organizational structure, internal control system and arrangements related to risk management, if any
- Licensed auditor's assessment of the credit customer's accounting system
- Participations of the credit customer, if any, and its shares in them and information on their fields of operation, if so

II. PROCEDURAL ANALYSIS

The following considerations will be addressed by this part as a minimum:

- Information on certification of statutory books

- If records on the books are compliant with the recording rules and accounting principles

- If records are based on corresponding documents

III. ANALYSIS OF ACCOUNTS

This part will incorporate comments if the balance sheets and profit and loss statements have been prepared in accordance with the procedures and principles for preparation of financial statements as well as detailed assessments to be made in connection with the statement of changes in equity and a detailed analysis of incomes and expenses and credit customer's debts and financial liabilities covering a period of last three years.

IV. FINANCIAL STATEMENTS AUDITED

Documents on status of accounts and balance sheets and profit and loss statements and financial explanatory notes attached thereto.

V. CONCLUSION

ANNEXES:

1. Balance sheet audited by the licensed auditor
2. Income statements audited by the licensed auditor
3. Documents on status of accounts audited by the licensed auditor
4. Financial explanatory notes

ANNEX 5

MINIMUM ELEMENTS TO BE INCORPORATED INTO “PROFIT – LOSS PARTNERSHIP INVESTMENT CONTRACT”

1- Full titles of the participation bank and party using funds and names and signatures of authorized officers executing the agreement

2- Addresses of the parties

3- Sum of funds extended:

TL :

FX :

4- Rates of participation in profit and loss of the participation bank and party using funds:

Rate of participation in profit: %

Rate of participation in loss : %

5- Stipulation that the sum payable by the organization in case of loss will be limited to the funds extended by it

6- Scope and explanation of the operation of the party using funds as a basis for the profit-loss partnership contract

7- Term of the profit – loss partnership

