From the Banking Regulation and Supervision Agency:

REGULATION ON INTERNAL SYSTEMS AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS OF BANKS

SECTION ONE
Initial Provisions

PART ONE
Objective and Scope, Basis and Definitions

Objective and Scope

ARTICLE 1- (1) The purpose of this Regulation is to lay down procedures and principles concerning the internal control, internal audit and risk management systems and ICAAP to be established by banks and the functioning of these systems.

Basis

ARTICLE 2- (1) This Regulation has been prepared on the basis of Articles 24, 29, 30, 31, 32, 43,45 and 93 of the Banking Law dated October 19, 2005 and Nr. 5411.

Definitions

ARTICLE 3- (1) The following terms and expressions used in this Regulation are defined as follows;

a) Emergency and contingency plan: Plan which is a part of business continuity plan and in which the measures to be taken and the primary actions to be performed are determined for the management of risks and problems in cases which may probably cause a sudden and unplanned interruption, loss of business or crisis in activities,

b) Tier 1 capital adequacy ratio: Tier 1 capital adequacy ratio as defined in the article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

c) Bank: Banks defined in Article 3 of the Law,

ç) Information systems continuity plan: Plan which is a part of business continuity plan and prepared for providing the continuity of information system services ensuring the sustainability of activities in case of an interruption,

d) Pillar 1 risks: Risk weighted exposure amounts calculated risks pursuant to the Regulation on Measurement and Assessment of Capital Adequacy of Banks published in the Official Gazette dated June 28, 2012 Nr. 28337,

e) Primary systems: Whole of the system comprised of infrastructure, hardware, software and data which ensures the execution of banking activities as well as recording and using all the information required for fulfilling all the responsibilities defined in the Law, sub-regulations relating to the Law and other related legislation, in electronic media in a confident manner and ensuring to be accessed when needed,

f) Common Equity Tier 1 capital adequacy ratio: Common equity tier 1 capital adequacy ratio as defined in the article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

g) Countercyclical Capital Buffer: Countercyclical capital buffer in the Regulation on Capital Conservation and Countercyclical Capital Buffers,

ğ) Disaster: An incident arising from human, nature or other factors in a level that may cause a long-term interruption in activities or systems,

h) Non-executive Director: Board member who is not responsible for a unit having executive activities,

ı) Executive Unit: Unit in which direct income-generating activities are carried out,

i) Internal systems: Internal audit, internal control and risk management systems,

j) Internal Capital Requirement: The amount obtained by adding the countercyclical capital buffer as well as the highest one amongst capital conservation buffer and capital planning buffer to internal capital requirement,

k) Internal Capital Requirement ratio: Amount to be obtained by dividing the bank's internal capital requirement to total risk weighted assets,

l) Internal capital buffer: The part of the bank's intenal capital requirement ratio exceeding minimum regulatory capital adequacy standard ratio,

m) Internal capital adequacy ratio: Ratio to be obtained by dividing internal capital adequacy to total risk weighted assets,

n) Internal capital charge: Capital charge on consolidated basis considering optionally the correlation effect regarding Pillar 1 and Pillar 2 risks determined by the bank as a result of the detailed risk assessment within the scope of the ICAAP,

o) Pillar 2 risks: Risk types which are never or partially covered by Pillar 1 risks,

ö) Secondary systems: Primary system back-ups enabling the activities carried out via primary systems are sustained within acceptable interruption periods determined in business continuity plan, in case of interruption in these activities and all information required for discharging all responsibilities defined for banks in the Law, sub-regulations concerning the Law and other related legislation is accessed uninterruptedly and on-demand,

p) The ICAAP: Internal capital adequacy assessment process,

r) Business impact analysis: Analysis process of business processes and impacts of an activity interruption may create on business processes,

s) Business continuity plan: The whole written plan or set of plans which are part of business continuity management and comprised of policies, standards and procedures for performing activities in case of an interruption in accordance with the priorities of the bank and complying with the legislation,

ş) Business continuity management: Holistic management process including policies, standards and procedures for taking efficient measures in case of disaster, crisis or interruption; ensuring continuity of operations assigned for protection or saving on the targeted period of time thereof the reputation, brand value, activities creating value and interests of stakeholders and going back to pre-crisis condition, also including the determination of potential risks,

t) The Law: Banking Law Nr. 5411,

u) Interruption: Cessation of the continuity in activities of a bank or functions of a system by force majeure excluding planned transitions, ü) Counterparty credit risk: Counterparty credit risk as defined in Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

v) Credit: any of the transactions included in Article 48 of the Law,

y) Credit risk mitigation: Credit risk mitigation as defined in Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

z) The Board: the Banking Regulation and Supervision Board,

aa) The Agency: the Banking Regulation and Supervision Agency,

bb) Methodology: converting the methods, rules, principles, definitions, assumptions, input and output used in risk analysis and measurement into a system within a meaningful line and integrity and using it in risk management,

cc) Method: Processes, techniques and ways used within a plan and integrity to reach at a certain result,

çç) Model: Techniques used in quantification of risks and based on expert view, econometrics and statistics or a combination of them,

dd) Operational risk: the operational risk as defined in Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

ee) Market risk: the market risk as defined in Article 3 of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

ff) Risk: the probability of reduced economic benefit as the result of a monetary loss or an expense or loss in relation to an transaction or activity,

gg) Risk appetite: Risk level the bank wants to hold as of firm-wide and each risk type which is material, considering its risk capacity, for realizing its targets and strategies,

ğğ) Risk capacity: maximum risk level which is not leading to exceeding the limits which are legal as well as determined by the bank, if any,

hh) Risk profile: Risk types the bank is exposed to or expect to be exposed to and its risk level on risk type basis,

ıı) Capital conservation buffer: Capital conservation buffer taking place in the Regulation on Capital Conservation and Countercyclical Capital Buffers,

ii) Capital planning buffer: The buffer which will prevent the bank's capital adequacy to decrease below internal capital charge and regulatory capital amount face to possible adverse conditions and losses overa three year period, considering stress test and scenario analyses, risk appetite, capital plan, strategic plan and budget, emergency and contingency action plan for various risks and other issues deemed necessary,

jj) Senior management: the chief executive officer (CEO) and executive vice presidents of a bank, the managers of the units included within the scope of the internal systems, and those managers of the non-advisory units who serve in positions equivalent or superior to the position of executive vice president in terms of their powers and duties even if they are employed with other titles,

kk) Top management: the board of directors and senior management of a bank,

ll) Validation: determination of in which ratio the models used within the scope of methodology represents the realizations by using certainty, accuracy and consistency criteria and assessment of the soundness of other aspects of the methodology.

mm) Regulatory capital adequacy standard ratio: Capital adequacy standard ratio defined in the article 3(1) paragraph (kkk) of the Regulation on Measurement and Assessment of Capital Adequacy of Banks,

PART TWO
Establishment of Internal Systems and Responsibilities of Top Management

Establishment of Internal Systems

ARTICLE 4- (1) For the purpose of monitoring and controlling the risks to which they are exposed, banks must establish and operate adequate and effective internal systems in conformity with the scope and nature of their activities, capable of adaptation to changing conditions, and covering all their branches and organization units, and their affiliates and subsidiaries consolidated in accordance with the regulations issued on the basis of the Law, in the framework of the procedures and principles stipulated in this Regulation.

(2) The units included within the scope of the internal systems shall be established under the board of directors, within the organizational structure of the bank. The board of directors may transfer all or part of its duties and responsibilities concerning the internal systems to the internal systems manager, excluding those to be made based on audit committee's views, suggestions, assessments and similar transactions. Several internal systems managers may be appointed on condition that their duties and responsibilities are segregated on the basis of the units included within the scope of the internal systems. The responsibility for the internal systems may only be assigned to one of the non-executive directors or to committees composed of such directors or to the audit committee. If the committee member appointed as internal systems manager resigns, is dismissed, or loses the required qualifications, a new member of the board of directors having the same qualifications is required to be appointed in his place within fifteen days thereafter, if and to the extent it results in fall of the number of directors being an internal systems manager below two.

(3) For the application of the second paragraph, the fact that the executives of the units within the scope of internal systems report to the board of directors through a senior manager like an executive vice president or equivalent position who does not have any hierarchical link with the CEO in the bank's organization structure and whose assessments on performance as well as financial and personal rights are conducted by the board of directors or the audit committee does not bear the result that these units are not directly under the board of directors.

(4) Banks shall determine procedures and principles for the organizational structure and functioning of their internal systems, also considering the scope and nature of their activities, on condition that such procedures and principles are not contrary to the provisions of this Regulation.

Responsibilities of the Board of Directors

ARTICLE 5- (1) The board of directors shall have the ultimate responsibility for establishing the internal systems in accordance with the procedures and principles specified in this Regulation, operating them in an effective, adequate and suitable manner, taking all kinds of actions for accuracy, reliability and preservation of the information provided from the accounting and financial reporting system, and determining the powers and responsibilities within the bank.

(2) In the framework of the first paragraph above, the board of directors of the bank is authorized and liable;

a) To establish the organizational structure and human resources policy of the bank and to determine the criteria for the appointment of senior management,

b) To determine clearly in writing the duties and responsibilities of the internal systems manager and to monitor his activities,

c) To determine in writing the strategies, policies and the implementation procedures concerning the activities of the units included within the scope of the internal systems and to ensure that they are implemented and maintained effectively and coordinated with each other,

ç) To determine the duties, powers and responsibilities of the units included within the scope of the internal systems and of their managers clearly and without conflict of duties, to approve the working procedures and principles for the staff appointed in these units, and to ensure that the necessary resources are allocated ,

d) To give timely consideration to, and take the necessary measures for the elimination of, any mistakes or deficiencies in relation to practices concerning the internal systems which are detected by the Agency or independent auditors or brought to the attention of the board of directors by the audit committee of the bank, to assess the identified mistakes or deficiencies and ensure that internal control and internal audit activities are directed to areas where identical or similar mistakes or deficiencies may occur,

e) To decide the election and dismissal of the managers of the units included within the scope of the internal systems,

f) To ensure that the staff employed in the units included within the scope of the internal systems participate in training programs for them to receive certificates in their respective areas at the national or international level to ensure their professional competence and development,

g) To determine and monitor strategic decision-making process and ensure the establishment of planning policies,

ğ) To have information about risks the bank is exposed to and measurement methods and management of those,

h) To determine in writing the bank's polices and strategies relating to risk management in general and separately for each risk type, risk level the bank can take and related implementation procedures, to allocate maximum risk limits for units and their managers or the personnel working in those units,

ı) To identify the bank's risk appetite, to ensure that business lines, managers of the units within the scope of the internal systems and internal systems manager gather and exchange ideas, to resolve the communication problems between business lines within the aim of developing an effective risk management point of view throughout the bank and to ensure that business lines are informed about the developments, risks and risk mitigation techniques in the market,

i) To approve the policies concerning taking risks that will materially affect income-expenses of the bank, to approve changes to the policies and monitor their implementation,

j) To ensure that senior management gives timely and reliable reports to it about material risks the bank is exposed to,

k) To determine data management policies, to establish and monitor the implementation of control processes for ensuring effective operating of related systems,
l) To monitor the efficiency of internal systems,
m) To ensure establishing a system to investigate customer complaints and respond to the applicants and to ensure them to be reported regularly to itself so as to include determined issues and to take necessary measures for the complaints,
n) To ensure that procedures, controls and risk measurement systems concerning all business lines are working effectively,
o) To have enough knowledge to understand transactions realized by the bank such as capital market transactions, off-balance sheet transactions and securitisation transactions,
ö) To understand the assumptions underlying the business models, valuation and risk management practices belonging to new or complex products and transactions and additionally to evaluate the amount of risk to be exposed in case these assumptions lose their validity.
(3) The board of directors is responsible for establishment and implementation of the ICAAP.

Qualifications of members of the audit committee

ARTICLE 6- (1) The board of directors shall appoint at least two non-executive directors from among itself as members of the bank audit committee to assist the board of directors in carrying out its audit and supervision activities. These members must;
a) Including for the last two years prior to the date of appointment;
1) Not have been executive directors of the bank,
2) Not have been employees of the bank and/or its consolidated affiliates and subsidiaries, excluding those employed in the internal systems or in the financial control and accounting units,
3) Not have been partners or employees of the institutions performing independent audit or rating or valuation of the bank or its partnerships subject to consolidation or of foreign entities which are legally affiliated with the said institutions, and not have taken part in the process of independent audit, rating or valuation,
4) Not have been partners or employees of the institutions providing consultancy or support services to the bank and/or its consolidated affiliates and subsidiaries, or among persons providing such services,
b) Not to be a qualified shareholder in the bank and/or its consolidated affiliates and subsidiaries,
c) Not be spouses, or relatives by blood or by marriage of up to (and including) the second degree, of the controlling shareholder, the executive directors or the CEO,
ç) Not have served on the audit committee of the same bank for a period in excess of nine years intermittently or permanently,
d) Not receive any remuneration or similar income under any name whatsoever from the bank and/or its consolidated affiliates and subsidiaries, based on its or their profitability, except for payments made to all personnel out of profit under the articles of association or a resolution of the general assembly of shareholders,
e) Have received education at the undergraduate level as a minimum and possess a minimum of ten years-experience in banking or finance,

f) His/her spouse and/or children must not be a CEO, an executive vice president or executive in equivalent positions in bank and/or its consolidated affiliates and subsidiaries and has the qualifications and conditions required in paragraph 1(a)and (b)excluding sub-paragraphs (1) and (2),

g) Not having duty in another commercial institution other than the below-mentioned ones;

1) Corporations subject to consolidated audit on condition to be limited with the duty of board membership,

2) Domestic or foreign legal entity partnerships having direct or indirect shares in the bank,

3) Domestic or foreign credit institutions and financial institutions which are directly or indirectly jointly or alone controlled by natural person partners of the bank or the partners stated in sub-paragraph (2) or in which they are participating with unlimited responsibility. Subparagraph (2) of this paragraph does not necessarily mean that audit committee member may at the same time can be appointed to internal systems, financial control and accounting units.

(2) The qualifications required for the selection of members of the audit committee shall also be required during their term of office. At least one of the members of the audit committee must have received education in law, economics, finance, banking, business administration, public administration or an equivalent subject at the undergraduate level as a minimum or, if they have received education in an engineering branch at the undergraduate level, they must also have received education in one of the above-mentioned subjects at the graduate level and at least one of the members of the committee must be residing in the country.

(3) In the case of a bank operating in Turkey as a branch office, one of the members of the board of managers who are not in charge of any unit engaged in executive activity shall be appointed to serve on the audit committee. This member shall be required to possess the qualifications specified in sub- paragraphs (3) and (4) of (a) of the first paragraph and in items (ç), (d) and (e) of the same paragraph. The spouse and/or children of this member must not be a member of the bank’s board of managers who is not in charge of any unit engaged in executive activity or a manager in the position of manager or vice manager of the central branch office or in an equivalent position, must not have been partners or employees of the institutions performing independent audit, rating or valuation of the bank or have taken part in the process of independent audit, rating or valuation, including for the last two years before the date of appointment, and must not have been partners or employees of the institutions providing consultancy or support services, or among the persons providing such services, including for the last two years before the date of appointment.

(4) In the event that the number of members of the audit committee falls below two for any reason whatsoever, the board of directors must, within fifteen days, appoint to the audit committee a sufficient number of its own members with the qualifications required in this article. If there are no members in the board of directors with the qualifications required in this article, nonexecutive directors may be appointed to the audit committee on a temporary basis. For such appointment, it shall be required that the director in question should be a non-executive director as from the date of appointment. The board of directors must take the necessary measures in order that a director with the

qualifications specified in this article may be appointed within one month in lieu of the member appointed to the audit committee on a temporary basis, including the making of a call for an extraordinary meeting of the general assembly to elect a new director.

Powers and responsibilities of audit committee members

ARTICLE 7- (1) The audit committee shall have the duty and responsibility, on behalf of the board of directors, to supervise the efficiency and adequacy of the bank's internal systems, the functioning of these systems and of the accounting and reporting systems in accordance with the Law and applicable regulations, and the integrity of the information that is generated, to carry out the necessary preliminary assessment for the selection of independent audit firms and rating, valuation and support service institutions by the board of directors, to monitor regularly the activities of the institutions selected by the board of directors and with which contracts have been signed, and to ensure that the internal audit activities of the partnerships subject to consolidation in accordance with regulations issued under the Law are maintained and coordinated in the consolidated fashion.

(2) Pursuant to the first paragraph above, the audit committee shall have the duty and power;

a) To supervise compliance with the provisions hereof concerning internal control, internal audit and risk management and with the internal policies and implementation procedures approved by the board of directors and to make proposals to the board of directors in relation to measures which it is considered necessary to take,

b) To establish the channels of communication that will enable the units included within the scope of the internal systems to reach the audit committee directly,

c) To supervise whether the internal audit system covers the existing and planned activities of the bank and the risks arising from these activities and to examine internal regulations concerning internal audit that will enter into force upon their approval by the board of directors,

ç) To make proposals to the board of directors concerning the election of managers to those units included within the scope of the internal systems which are affiliated to the audit committee, and to submit an opinion during the dismissal of such managers by the board of directors,

d) To receive and assess the opinions and proposals of the senior management concerning the internal systems,

e) To ensure the establishment of the channels of communication for the reporting of irregularities within the bank directly to the audit committee or to the internal audit unit or inspectors,

f) To monitor whether the inspectors are performing their duties independently and impartially,

g) To examine the internal audit plans,

ğ) To make proposals to the board of directors concerning the qualifications required for personnel to be employed in the units included within the scope of the internal systems,

h) To monitor the measures taken by the senior management and subordinated units in relation to matters identified in internal audit reports,

ı) To assess the levels of professional training and the competence of the managers and personnel employed in the units included within the scope of the internal systems,

i) To assess the availability of the necessary methods, tools and implementation procedures for identifying, measuring, monitoring and controlling the risks carried by the bank,

j) To have discussions with the inspectors and with the independent auditors of the independent audit firm conducting the independent audit of the bank, at regular intervals and at least four times a year, under programs and agendas to be determined,

k) To inform the board of directors about the opinions and assessments of the relevant senior management, of the risk management, internal control and internal audit personnel and of the independent audit firm concerning practices needed for performing the activities included within its duties and responsibilities as is due, ensuring the efficiency of these activities and developing them,

l) To review the assessments of the independent audit firm in respect of the conformity of the bank's accounting practices with the Law and other applicable legislation and to receive explanations from the relevant senior management in relation to irregularities which have been identified,

m) Together with the senior management and the independent auditors, to assess the results of independent audit, the annual and quarterly financial statements and related documents, and the independent audit report, and to resolve other issues over which the independent auditor hesitates,

n) **(Amended: Official Gazette -4/3/2017-29997)** To make an evaluation and submit its assessment report to the board of directors about the rating institutions, independent auditing institutions including those who audit information systems and valuation institutions and their chairman and members of the board of directors, auditors, managers and employees with which the bank will sign contracts in terms of their independence with the bank-related activities and the adequacy of their allocated resources and to repeat these assessments regularly during the contract period in case of receiving services, not longer than one year for valuation companies, and no more than three months for other institutions,

o) To conduct risk assessments concerning the support service that will be received by the bank, to submit its assessments in the form of a report to the board of directors and, where the service is actually outsourced, to repeat these actions regularly during the term of the contract not to be more than one year and also to monitor the sufficiency of the service provided by the support service institution,

ö) To supervise whether the financial reports of the bank accurately and fully include the necessary information and whether they are prepared in accordance with the Law and other applicable legislation, and to get any errors or irregularities identified to be corrected,

p) To have discussions with the independent auditors concerning whether the financial reports accurately reflect the financial condition of the bank, the results of activities and the cash flows of the bank and whether they have been prepared in accordance with the procedures and principles specified in the Law and other applicable legislation,

r) To report its activities carried out in a given period, on condition that such period does not exceed six months, and the results of these activities to the board of directors, including in such report its opinions regarding measures that need to be taken in the bank, practices which are considered necessary, and any other matters which it considers important for the activities of the bank to be carried on safely,

s) To check whether the personnel authorized in the crediting process have been involved in the evaluation and decision making steps thereof with regard to the crediting transactions where they or their spouses and dependent children and other natural persons or legal entities that constitute a risk group together with them are a party, or not, and to create communication channels for reporting of such relations to the audit committee.
(3) Audit committee is responsible for establishing the audit and control process that will ensure the required assurance on the adequacy and accuracy of the ICAAP.

Duties and responsibilities of senior management

ARTICLE 8- (1) The senior management shall have the duty and responsibility;
a) To develop proposals concerning practices which are considered necessary for performing the activities as is due within the scope of their duties and responsibilities, ensuring the efficiency of these activities and developing them,
b) To coordinate the bank personnel employed in the units for which they are responsible, to make a division of tasks among such personnel in view of their competencies, and to monitor whether they effectively perform their duties and responsibilities,
c) To analyze deficiencies or errors arising in the units for which they are responsible and to report these or the measures considered necessary to the relevant internal systems manager,
ç) To use initiative according to their authorization where unexpected circumstances arise,
d) To make timely and reliable reporting to the board of directors about material risks to which the bank is exposed and to look out for the compliance with risk management regarding the fields of duty,
e) To perform other tasks assigned by the board of directors.
(2) The senior managers of the units included within the scope of the internal systems shall also have the duty and responsibility to implement the strategies and policies approved by the board of directors of the bank under the Article 5 (2c) in relation to their respective units and to perform other tasks assigned by the relevant internal systems manager.

SECTION TWO
Internal Control System

PART ONE
Purpose and Scope of the Internal Control System

Purpose and scope of the internal control system

ARTICLE 9- (1) The purpose of the internal control system is to ensure that the assets of the bank are protected, that its activities are conducted efficiently and effectively and in accordance with the Law and other applicable legislation, with the internal policies and rules of the bank, and with the established practices of banking, that the reliability and integrity of the accounting and financial reporting system is maintained, and that information is available in a timely manner.

(2) To achieve the intended purpose of the internal control system;
a) A functional division of tasks must be established and responsibilities are apportioned within the bank,
b) The accounting and financial reporting system, the information system and the internal communication channels must be established such that they operate effectively,
c) A business continuity plan and other related plans must be prepared,
ç) Internal control activities must be formed; and,
d) Workflow charts must be formed showing the work steps and the controls over the work processes of the bank.
(3) The internal control system shall be structured so as to cover the domestic and overseas branches of the bank, its head office units, its affiliates and subsidiaries subject to consolidation, and all its activities.

Functional division of tasks

ARTICLE 10- (1) The powers and responsibilities of all units, personnel and committees within the bank shall be determined clearly and in writing, with a division of tasks in relation to the activities on the same subject, in order to prevent mistakes, fraud, conflicts of interest, manipulation of information and misuse of resources at the bank. Activities from which conflicts of interest may arise shall be identified and minimized and the functions of deciding to carry out a transaction that creates a risk, accounting the transaction and managing the risk that arises from the transaction shall be entrusted to the responsibility of different members of personnel.

Establishment of information systems

ARTICLE 11- (1) The structure of the information systems to be established within the bank must be commensurate with the scale of the bank and with the nature and complexity of the products that are offered.

(2) The information systems to be established shall enable as a minimum;
a) All the information to carry out banking activities and fulfill all the responsibility defined for banks in the Law, in sub-regulations relating to the Law and in other related legislation to be kept and used so as to enable access safely and when necessary in electronic media,
b) Risks, including regulatory and internal capital adequacy calculations, to be measured using risk measurement methods or models and to be reported in a timely and effective manner,
c) Data aggregation to be made on the basis of products offered, types of activity, geographical areas, or risk groups,
ç) Deviations from the annual budget and targets to be identified,
d) Warning information to be generated in the event of coming close to pre-determined risk limits,
e) Timely reporting of identified maximum risk levels being exceeded and of exceptions, where there are no exceptions for exceeding of risk limits or risk levels, auto control points to be established to prevent the exceeding,
f) Allocation of the capital requirement concerning services offered and activities according to the risk-taking level,
g) Stress tests and scenario analyses to be made,

ğ) Accounting records, to be kept by composing directly in operation basis without taking as reference another accounting system meantime and on primary systems required to be established in the country pursuant to the paragraph 4 according to Uniform Chart of account Plan and Turkish Accounting Standards.
(3) The reliability of the information systems must be ensured and they must be regularly updated and necessary changes made.
(4) Banks are obliged to have their primary and secondary systems domestically.
(5) The Board shall be authorized to determine the elements of the information systems of banks and the minimum procedures and principles related to their control.
(6) Whether or not considered to get support services within the scope of primary and secondary systems, personnel shall be employed domestically in adequate qualification and number to obtain continuality for the mentioned systems.
(7) In respect of implementing the paragraph 2(ğ), provided to reserve legislation provisions relating to required books and all other conditions required in this sub paragraph, the banks can account their transactions by consolidating in respect of transaction type in minimum level, finance subject, types of collateral, risk level, party type, being resident, launch date, maturity, value date, legal deductions being subject to, implementing the same interest rate, being subject to deduction in the same wage/commission ratio. In such cases, it is obligatory to keep transactions in each cumulative accounting record, in information system in manner to enable accounting in transaction basis when wanted and in manner to make examination together with each detail including transaction based accounting detail.

Establishment of the communication structure and communication channels

ARTICLE 12- (1) It shall be ensured that information vertically and horizontally flows within the organizational structure of the bank so as to reach the relevant levels of management and the responsible personnel in safety and that the managers of lower units and the operational personnel are fully informed of the bank’s objectives, strategies, policies, implementation procedures and expectations. Information to be directed towards personnel shall include data concerning the policies related to bank activities, their implementation procedures, and the activity performance of the bank. It shall be ensured that the bank personnel are aware of the rules concerning their duties and responsibilities and that the necessary information rapidly reaches the concerned personnel.
(2) Through horizontal information flow, it shall be ensured that information held by a unit within the bank or a unit within an entity controlled by the bank is shared with other units in need of that information.
(3) Suitable communication channels must be established and maintained to ensure that problems encountered by bank personnel are reported to the management levels in their own units and to the internal control unit and that any matters over which they hesitate or which they find doubtful according to usual practices are reported to the internal audit unit as well as the management levels and the unit to which problems are reported.
(4) All measures shall be taken to ensure that the communication channels to be established do not constitute a breach of the confidentiality obligation under the Article 73(3) of the Law.

Business continuity management and plan

ARTICLE 13-(1) Banks must establish a business continuity management structure approved by the board of directors in order to ensure the sustainability of activities in case of a interruption or to save them on time to minimize operational, financial, legal and reputational negative effects.
(2) Within the scope of business continuity management, required processes are implemented and necessary measures are taken in order to fulfill the requirements of business continuity.
(3) Studies on business impact analysis are made relating to business continuity planning and recover strategies are determined. Within the lights of these studies, a business continuity plan is formed and this plan is approved by the board of directors.
(4) Within the scope of business impact analysis, internal and external dependencies are determined by the participation of related personnel and operations are classified according to their importance level in order to determine the activity level required in a probable interruption. Probable risks which may occur on activities depending on different interruption scenarios and their potential effects are assessed.
(5) A recovery strategy taking work impact analysis as a basis and revealing recovery priorities and targets is developed. Details concerning the implementation of recovery strategy are mentioned in business continuity plan.
(6) It is fundamental that business continuity plan is in conformity with targets and priorities of the bank thereto current and sufficient. In this plan which risks are defined loud and clear take place the subjects of defining duties and responsibilities so as to manage activity interruptions, sustaining authority and decision-making structure according to the plan in case the personnel in charge cannot be reached and in which circumstances the plan shall be implemented. While the plan is developed, support service institutions are also taken into consideration, if exists. The personnel is informed on the business continuity plan within the scope of their relation and trained on duties and responsibilities.
(7) An emergency and contingency plan is formed as a part of business continuity plan so as to determine actions to be carried out and measures to be taken initially in case of an emergency or contingency. If the situation encountered cannot be resolved within the scope of this plan, other sections of business continuity plan is put into use.
(8) Within the scope of emergency and contingency plan, necessary measures are taken to overcome problems or crisis that may arise, a management and working environment is created, so as to be used when necessary, that are not exposed to the same risks in which the environment the main services are given. In the emergency and contingency plan:
a) In the presence of possible emergencies and contingencies, an order of priority, transfer of authority, regulations concerning the personnel required by the situation, contact arrangements between the management and personnel as well as order and methods shall be determined clearly for each bank operation.
b) For a possible emergency and contingency regarding the payment and settlement systems, a possible communication organization shall be established between the authorities of the Central Bank of the Republic of Turkey, the persons responsible for the interbank payments, agreements and settlement systems and the Agency; as well as a communication channel or network open to public for the public and the customers.

c) A communication strategy shall be determined in which communication methods to be used to ensure that customers and media organs receive accurate and timely news are defined.

ç) The usage of multi-communication methods shall be guaranteed by using private lines between general directorate and branches, but also between information processing center and branches.

d) All sources that the bank may need to maintain banking activities shall be considered, the measures concerning the preservation of the assets and the procedures concerning the evaluation of damaged assets shall be determined.

e) Maximum care shall be shown to the security of customers and personnel.

(9) Business continuity plan and other plans within the scope of this plan, are transmitted to all units concerned in printed manner with a content determined within the scope of duty and responsibilities of them. It is provided that the personnel have information on alternative communication channels, on responsibility that they assume within the scope of this plan and the plan. An authorized unit is determined for the coordination of the respects determined in the plan.

(10) The continuity of information systems is handled in information systems continuity plan approved by the board of management prepared within the scope of business continuity plan and in state of emergency and contingency plan. As plans within the scope of business continuity plan can be prepared separately, they can be a part of a plan.

(11) A system to review plans within the scope of business continuity plan is composed. The plans are updated following a review after changes that shall affect information systems.

These plans are tested at least once in a year in head office and in pilot branches and in other units by taking into account of probable short-term or long term interruptions in processes processing automatically or manually. Support service institutions, if exists, that shall play role in alarming of information technology systems supporting critical work processes, are also included to the tests. The results of tests are reported to senior management following an appropriate evaluation and are used in case of a need in updating the plan.

Internal control activities

ARTICLE 14- (1) The internal control activities shall include as a minimum the following controls:

a) Control of transactions to execute activities;

b) Control of the communication channels and information systems and the financial reporting system; and

c) Compliance controls.

(2) Internal control activities shall be part of all daily activities of the bank. The written policies and implementation procedures concerning internal control shall be developed so as to be executed first by the personnel carrying out the activity and then by the internal control staff, and all personnel of the bank shall be informed of the policies and implementation procedures concerning the internal control activities developed in relation to the activities carried out by them.

PART TWO
Controls in the Scope of Internal Control Activities

Control of transactions to execute activities

ARTICLE 15- (1) Transactions concerning the execution of the activities of banks constitute the operational activities. The aim of the controls related to operational activities is to ensure the efficiency and effectiveness of operations.

(2) Banks must implement the following control activities in relation to operational activities.

a) Reporting: Preparation of daily, weekly or monthly reports on extraordinary events, doubtful transactions, non-conformities, and general performance, for submission to the top management.

b) Physical controls: Setting rules and limitations on access to, and utilization and keeping of, tangible assets, including financial assets such as cash and securities owned by the bank or held in custody in the name of clients or other parties, and making inventories of all tangible assets at regular intervals.

c) Approval and authorization: Establishing bilateral and cross control and signature procedures, and obtaining approval or authorization for transactions above certain limits.

ç) Interrogation and reconciliation: Interrogating the accuracy of transaction details, activities, and outputs related to risk management models, comparing the accounts, and carrying out reconciliations at regular intervals.

d) Checks of compliance with limits and monitoring of violations and non-conformities: Checking compliance with general and special risk limits and monitoring violations of limits.

Control of communication channels and information systems

ARTICLE 16- (1) The communication channels and information systems of the bank shall be controlled to ensure that information obtained within the bank is reliable, complete, traceable, consistent, in a suitable format and character to meet the requirement, and accessible by relevant units and personnel in a timely manner.

(2) The controls related to the communication channels shall consist of control activities regarding:

a) Whether there are restrictions on information generated within the bank, or in its consolidated affiliates and subsidiaries, which must be subject to any restriction under the Law and other applicable legislation or under policies and strategies approved by the bank’s board of directors and which is accessible by the relevant unit and personnel;

b) Whether the personnel are regularly informed of the bank, their respective units and their performance;

c) Whether the personnel are informed of changes to the Law and other applicable legislation and of new products or activities; and

ç) The frequency at which the relevant personnel report problems encountered and matters over which they hesitate in comparison with usual practices to the management levels in their own units and to the internal control unit.

(3) The controls related to the information systems shall consist of the overall information system controls and the implementation controls. The overall information

system controls shall include controls of the activities related to the information system and its management and of the processes related to these activities. The implementation controls shall include the internal controls that must be used in all work processes such defining, generating and using the financial data included within the information systems and used to conduct or support banking activities, ensuring the integrity and reliability of these data, and authorizing access to them. Data creation/authorization controls, input controls, data processing controls, output controls and limit controls shall be performed as a minimum within the scope of the implementation controls. The Board is authorized to specify procedures and principles concerning the scope of minimum controls to be executed in the framework of the overall information system controls and the implementation controls.

Control of the financial reporting system

ARTICLE 17- (1) The control of the financial reporting system aims to ensure the integrity and reliability of the accounting and reporting systems. The controls to be performed in this context shall include as a minimum:

a) Special control of the information included in financial reports and control of the actions providing the basis for the information that is controlled, having considered the information which, if not included in financial statements or incorrectly expressed therein, may considerably affect economic decisions made by users on the basis of the information in the financial statements;

b) Control to identify possible errors and omissions during the process between the recording of transactions, assets and liabilities and their reflection in financial reports; and

c) Control to establish whether financial reports have been prepared in accordance with the Law and regulations issued reliance upon the Law.

Compliance controls

ARTICLE 18- (1) Compliance controls are intended to ensure that all activities which the bank carries out or plans to carry out, and new transactions and products, are in compliance with the Law and other applicable legislation, with the internal policies and rules of the bank, and with banking practices. It shall be ensured that bank personnel are promptly informed of any changes to the Law and other applicable legislation or to the internal policies and rules of the bank.

(2) Uninterrupted compliance control shall be performed by the internal control unit or by a unit to be assigned the duty of compliance control which shall operate under the same internal systems manager as the internal control unit and which shall be organized independently of the other activities of the bank.

(3) Before authorization is sought from the board of directors for new products and transactions or activities planned to be carried out, an opinion shall be received from the unit assigned under the second paragraph above.

(4) In overseas branches of the bank and in its consolidated affiliates and subsidiaries, at least one member of personnel each shall be assigned to control compliance under the regulations abroad and to make reporting to the unit assigned the duty of compliance control under the second paragraph above.

PART THREE
The Internal Control Unit and Internal Control Personnel

The internal control unit

ARTICLE 19- (1) The internal control system, the internal control activities, and how they are to be executed, shall be designed by the internal control unit together with the senior managers of the other relevant units, having considered the characteristics of all activities carried out by the bank.

(2) The internal control unit shall be staffed with one manager and with professionally qualified personnel in a sufficient number according to the scale of the bank and the nature and complexity of its activities. The internal control unit shall be physically located within the head office of the bank. In the case of banks established abroad which operate in Turkey through branch offices, the internal control unit shall be created in the central branch office.

(3) Whether the internal control activities are carried out, whether the rules and limitations are complied with and whether the targets have been reached shall be checked at the various management levels specified and at the relevant control steps and points and shall be reported by the internal control personnel to the internal control unit through normal means or urgently, also considering the nature of the findings.

(4) The procedures and principles concerning the distribution of internal control activities between the personnel carrying out the operational activities of the bank and the internal control personnel, the number of internal control personnel to be allocated for each internal control activity, and the control mechanisms and methods to be used, shall be determined jointly by the manager of the internal control unit and the senior management related. The coordination and cooperation of the internal control personnel with the other personnel conducting the activities of the bank in the location where the internal control personnel perform their duties shall be ensured by the internal control unit.

(5) Control results reported to the internal control unit shall be kept in this unit. Such reports shall be separated as between those made by the operational personnel and those made by the internal control personnel and shall be further classified according to their nature. The reports so grouped shall be evaluated by the manager of the internal control unit and the relevant senior management, and the necessary measures shall be taken to improve the internal control system or to conduct the internal control activities without any interruption.

(6) In periods of up to three months each, the audit committee shall be provided with information concerning actions under the fifth paragraph above.

(7) The manager of the internal control unit must have a minimum of seven years-experience in banking. The manager of the internal control unit shall assess whether the internal control personnel have the qualifications that are required by their duties, powers and responsibilities, shall prepare training programs to improve their professional knowledge, skills and abilities, and shall monitor whether they are performing their duties impartially without being influenced by the executive units.

(8) In banks in which internal control unit activities are possible to be conducted by an internal control personnel, internal control unit activities are executed by the said personnel, having also duty, authorization and responsibilities of internal control unit administrator.

Duties and powers of internal control personnel

ARTICLE 20- (1) The internal control personnel of the internal control unit shall conduct their duties in the units or branches where the operational activities are executed and in the head office. Banks may keep permanent internal control personnel in certain branches, considering the share of the branch activities in the total business volume of the bank, the operational risks carried by those branches, their impact within the total risk profile of the bank, their numbers of personnel, and the possibilities of controlling their daily activities from the center. The posts of the internal control personnel shall be changed at intervals considered appropriate by the manager of the internal control unit. The internal control personnel shall not engage in any activity other than internal control activities.

(2) The internal control personnel shall request information based on reports from the units concerned in order to monitor, review and control the reliable performance of all activities of the bank, shall implement controls or reviews based on general or special observations and monitoring through various control documents and tools, shall put their findings in the form of reports, and shall prepare warning messages and communicate them to the units concerned. The internal control personnel shall be provided with the authority to demand additional explanations from bank personnel concerning matters which they monitor, review and control, and to seek their opinions.

(3) The internal control unit regulations, prepared by the internal control unit, considered appropriate by the relevant internal systems manager, and approved and adopted by the board of directors, shall include provisions concerning the required educational status, experience, levels of knowledge and skill, and other qualifications of internal control personnel.

SECTION THREE
The Internal Audit System

PART ONE
Purpose, Scope and Organization of Internal Audit, and Professional Diligence

Purpose and scope of the internal audit system

ARTICLE 21- (1) The purpose of the internal audit system is to give the top management assurance that the activities of the bank are conducted in accordance with the Law and other applicable legislation and with the internal strategies, policies, principles and targets of the bank and that the internal control and risk management systems are effective and adequate.

(2) To achieve the intended purpose of the internal audit system, all activities of the bank without any limitation and all its units, including the units of the domestic and overseas

branches and the head office, shall be examined and audited periodically and on a risk basis, any deficiencies, errors and abuses shall be identified, opinions and proposals shall be submitted to prevent them from occurring again and to secure the effective and efficient use of bank resources, and the accuracy and reliability of information and reports communicated to the Agency and to the senior management shall be assessed, through internal audit activities.

(3) In periodic and risk-based audits:

a) The adequacy and effectiveness of the internal control and risk management systems shall be assessed.

b) The information systems shall be reviewed, including the electronic information system and electronic banking services and under the procedures and principles set forth in Section Five titled as "Principles for Information Systems and Banking Processes Audit" of the Regulation on Bank Information Systems and Banking Processes Audit to be performed by External Audit Institutions published in the Official Gazette dated January 13, 2010 Nr. 27461.

c) The accuracy and reliability of accounting records and financial reports shall be examined.

ç) The conformity of operational activities with the procedures specified, and the functioning of the related internal control implementation procedures, shall be tested.

d) The conformity of operations with the Law and other applicable legislation and with the internal strategies, policies, implementation procedures and other internal regulations of the bank shall be audited.

e) The accuracy and reliability of reports submitted to the board of directors and the audit committee under the internal regulations of the bank, and of statutory reports, and the conformity of these reports with the applicable time-limits, shall be audited.

(4) Where risk measurement models are used in the bank, the following points shall be audited in relation to such models;

a) Whether the results obtained through the risk measurement models and methods are incorporated in daily risk management,

b) The pricing models and valuation systems used by the bank,

c) The risks covered by the risk measurement models used by the bank,

ç) The accuracy and suitability of the data and assumptions used in the risk measurement models,

d) The reliability, integrity and timely availability of the source of the data used in the risk measurement models; and,

e) The accuracy of the back-tests used for the risk measurement models.

(5) The bank's consolidated affiliates and subsidiaries shall also be subjected to internal audit.

(6) The ICAAP shall be audited within the frame of related legislation and internal regulations of the bank within the scope of the internal audit system by internal auditing unit or independent auditors.

The internal audit unit

ARTICLE 22- (1) The function of internal audit in banks shall be performed by the internal audit unit, where inspectors and internal audit staff shall be employed in a sufficient number depending on the size of the bank and on the complexity, intensity, scope and risk level of its activities, with the aim of performing the audit services foreseen in the Law and other applicable legislation and in the internal regulations of the bank regularly and at the level required for these services.

(2) The manager of the internal audit unit must have a minimum of seven years-experience in banking. The manager of the internal audit unit shall conduct the internal audit activities in accordance with the policies and implementation procedures concerning audit activities and with the internal audit plans.

(3) The manager of the internal audit unit shall;

a) Determine the policies and implementation procedures concerning internal audit activities, receive the favorable opinion of the audit committee and put them into practice upon their approval by the board of directors.

b) Supervise the internal audit activities and monitor and guide the audit policies, programs, processes and practices.

c) Assess whether the inspectors have the qualifications required by their powers and responsibilities, prepare training programs to improve their professional knowledge, skills and abilities, and monitor whether they are performing their duties independently and impartially with the necessary professional diligence and attention.

(4) In banks where it is possible to conduct the audit activities with one inspector, the audit activities shall be executed by that inspector, who shall also have the duties, powers and responsibilities of the internal audit unit manager.

(5) Other than periodic and risk-based audits, special audits shall also be performed by the internal audit unit upon request by the board of directors or the audit committee, in accordance with the purpose of internal audit.

Qualifications and powers of inspectors

ARTICLE 23- (1) The inspectors shall perform their duties and responsibilities impartially and independently. To this end, they shall not be accountable to anyone in the bank management other than the manager of the internal audit unit, the relevant internal systems manager and the board of directors and, in the performance of their duties, they shall be free from any conflicts of interest due to reasons such as personal or family relations or the position within the bank.

(2) Where any circumstances exist which are prejudicial to their independence and impartiality, inspectors shall notify them to the manager of the internal audit unit and to the audit committee in advance of the audit and withdraw from the duty. Inspectors may not take part in the audit of any transactions for which they were responsible due to positions held by them in the past.

(3) The board of directors shall ensure that the inspectors are properly authorized to use initiative in all units and units of the bank, to obtain information from any personnel of the bank, and to have access to all records, files and data of the bank, so that they may effectively perform their duties and responsibilities.

(4) The internal audit regulations, prepared by the internal audit unit, considered appropriate by the relevant internal systems manager, and approved and adopted by the board of directors shall include provisions concerning the required educational status, experience, knowledge and skills of inspectors. Those inspectors who are to audit the information technologies of the bank must have minimum knowledge and skills in the area of information technologies and audit techniques based on information technologies,

as proven by their fields of study or by training certificates they have received. This requirement shall also apply to the inspector employed in a bank under the fourth paragraph of Article 22 above.

Professional diligence in internal audit

ARTICLE 24- (1) Inspectors must perform their duties with professional diligence and attention, which requires the ability to identify as a minimum;

a) The scope of the work to be required by the duty;

b) The applicable legislation and internal regulations and implementation procedures, their relevance to the area to be audited, and the extent of the work they require;

c) The effectiveness and adequacy of the risk management and internal control systems concerning the activities subject to audit;

ç) The probability of material errors, irregularities or deliberate non-conformities in the activities and transactions subject to audit;

d) The computer-supported audit techniques and data analysis techniques that may be used;

e) The risks that may arise from the activity or transaction subject to audit; and

f) Where a consultancy service is provided, the needs and expectations of the persons who will benefit from it, including the period of time within which to complete the work required by the service and its reporting, and the scope and complexity of the work required by that service.

PART TWO
Internal Audit Activities and Working Principles

Internal audit activities

ARTICLE 25- (1) The periodic and risk-based internal audit activities of banks shall consist of preparing the internal audit plan, putting it into effect, executing it through work programs, reporting the results to the management of the internal audit unit, to the management of the unit concerned, to the relevant internal system officer, to the audit committee and, through the audit committee, to the board of directors, and monitoring the measures taken by the management bodies of the units concerned in the framework of the audit reports.

Risk-based audit

ARTICLE 26- (1) An effective internal audit system is implemented on the basis of the risk evaluations of the internal audit unit. Internal audit risk evaluations represent an activity conducted by the internal audit unit to determine the areas to be accorded priority in audit work, the details to be considered, and the frequency of audit, in the light of the risks to which the bank is exposed and the controls related to those risks.

(2) In order that risk evaluations may be made as of every year;

a) All transactions, types of product, services offered, and tasks, shall be defined;

b) The activities executed in the scope of the defined transactions, types of product, services and tasks, and the provisions of the Law and other legislative matters that concern them, shall be identified;
c) The important business units and products and the related activity and control risks shall be identified and the documents concerning the structure of the risk management and internal control systems shall be determined; and
ç) Risk measurement and rating systems shall be used to evaluate the activity and control risks related to the important business units and products and to identify their degrees of importance.
(3) The evaluation of the activity and control risks related to the important business units and products and the identification of their degrees of importance shall be carried out with the help of the matrix in Annex 1, so as to cover also each consolidated organization. In the risk evaluation to be made by the internal audit unit, the risk compositions carried by the bank must be monitored and evaluated as a minimum in terms of the areas indicated in the matrix in Annex 1.
(4) The risk evaluations concerning the units and functions shall be made jointly with the unit managers. The opinions of the internal control and risk management units shall also be received during the risk evaluations. The final decision concerning the risk evaluations shall be the responsibility of the internal audit unit.
(5) The risk evaluations shall be regularly reviewed. Events that may affect the risk evaluations such as new products, new systems, changes to the Law and other applicable legislation, and changes in organization or personnel in important positions, vertical changes in volume and amount of activities shall be communicated by unit managers to the internal audit unit, which shall in turn review the risk evaluations in the light of such changes.
(6) The manager of the internal audit unit shall examine the risk evaluations and any changes and verify their conformity.

The internal audit plan

ARTICLE 27- (1) The internal audit plan shall be formed on the basis of the risk evaluations made under Article 26. The opinion of the senior management concerning the plan shall also be received. After being found appropriate by the relevant internal systems manager, the plan shall be put into effect upon its approval by the board of directors.
(2) The internal audit unit shall, when necessary, update the audit plan in accordance with the established policies, and the updated plan shall be submitted to the relevant internal systems manager. Important changes and updates to the audit plan shall be put into effect after receiving the favorable opinion of the relevant internal systems manager and upon their approval by the board of directors. The updated plan shall include information concerning the audit activities performed until the date of updating, the amount of time allocated for them, and the reasons for the important changes that have been made.
(3) The internal audit plan shall be prepared also considering any special investigations to be carried out and any consultancy services and training to be received during the period. The internal audit plan shall include;
a) The areas to be audited during the period, including the order of importance and priority which results from the risk-based evaluations;
b) The purpose of the audit;

c) Summary risk evaluations concerning each area or activity to be audited and the relevant provisions of the Law and other applicable legislation;
ç) The time and the audit period in which the planned audit work is to be carried out; and
d) The resources needed for the audit activities, and the possible effects of any resource constraints.

The audit period

ARTICLE 28- (1) The audit period means the frequency of audits. Under ordinary conditions, the audit period shall be determined by the activities and areas to be audited, the inspectors, and the time in which the audit may be carried out. Areas considered being riskier following risk assessments shall be audited more frequently than others.

Work Programs

ARTICLE 29- (1) For each audit task given in the scope of the audit areas identified in the internal audit plan, a work plan shall be prepared covering all transactions in the audit area of the bank, the audit techniques to be used, the procedures to be followed in obtaining information, the practices concerning documentation, and the presentation of the results and the audit report. The work program shall include in detail the objective of the audit and the activities to be carried out to achieve this objective.
(2) The audit procedures used shall be documented in the form of work sheets. The work sheets must be so drawn up as to show whether the audit task has been completed as foreseen in the work program and the manner in which the task has been executed, and must be signed by the relevant inspector together with his/her name and surname.
(3) Under ordinary conditions, the work program shall include the practices related to the following points as a minimum.
a) Non-scheduled audits to be performed if deemed necessary.
b) Checking of the records to be audited.
c) Examination and assessment of the internal control systems, policies and implementation procedures.
ç) Risk assessments.
d) Reviewing the relevant article of the Law or other applicable laws, regulations and rules.
e) Use of sampling methods and techniques; and
f) Confirmation of selected transactions and account balances through the following practices as a minimum:
1) Examining the consistency of auxiliary accounts, general ledger entries and control records with each other,
2) Examining the documents on which records are based,
3) Directly inspecting exceptional practices, and suitable monitoring activities; and
4) Physical audits.

Sampling methods and techniques

ARTICLE 30- (1) In audits, sampling methods and techniques shall be used to select and verify account balances and transactions of the relevant period and to test the internal control practices related to them. Work program shall include test targets, the actions to be implemented to reach these targets, and the numbers of transactions and accounts to be examined.

(2) The sampling method and technique to be used shall be determined in the light of such points as the characteristics of the group that the sample represents, the numbers of transactions and accounts that it includes, the effectiveness of the internal controls related to the group in question, and the cost constraint. It shall be preferable to use statistical methods in cases such as where the characteristics of the group that the selected sample represents are similar to those of the sample or where the group includes a large number of transactions or items, and to use non-statistical methods in other cases or where statistical methods would be costly.

(3) In the selection and implementation of sampling methods and techniques, the inspectors must include in their work sheets the following points;

a) The formation of the sampling target;

b) The size of the group that is sampled and its characteristics that are studied;

c) The determination of the sample size; and

ç) The selection of the sampling methodology.

Internal Audit Reports

ARTICLE 31- (1)The internal audit reports shall be so issued as to provide the top management with information about the conformity of a given unit or activity with the Law and other applicable legislation and the internal policies and implementation procedures of the bank, about the effectiveness of the operated processes and internal controls, and about the corrective actions that it is considered necessary to take. The inspectors must share their findings and proposals with the parties concerned and have their audit reports reach the audit committee and the board of directors through the internal audit unit as soon as possible after the completion of the audit work. The work sheets to be drawn up by the inspectors must be in support of the reports. The work sheets shall be delivered to the internal audit unit together with the report.

(2) The internal audit reports shall be prepared in accordance with the requirements of internal audit and the audited area. They shall include:

a) A summary of the identified problems and the conclusions;

b) The scope and objectives of the audit;

c) Detailed audit results (the degree of importance related to the subject of audit in the framework of identified points, and its detailed reasons);

ç) Proposals, if any, and their benefits; and

d) Other information that may be needed by the top management.

(3) After the audit is completed, the inspectors shall meet with the relevant unit manager to discuss the draft audit report, to ensure that any incorrect information is corrected, and to receive the comments of the relevant unit management on the determinations and the measures to be taken. After this meeting, the final version of the audit report, including any comments of the relevant unit management, shall be submitted to the internal audit unit, which shall in turn communicate it to the managers authorized to take corrective actions.

(4) The manager of the internal audit unit shall, at least quarterly, submit to the audit committee a report on the activities performed by the internal audit unit and review these activities jointly with the audit committee. The audit committee shall present this report,

together with its own comments, to the board of directors within ten working days at the latest. The report in question shall include as a minimum the following points:
a) The completed, continuing, postponed and cancelled audit activities and their level of conformity with the annual audit plan;
b) Any training received by the inspectors during the reporting period;
c) Important accounting problems and any ambiguities in relation to reports made to the Agency and audit findings;
ç) A summary of the audits performed in relation to the information systems;
d) Risk assessments and their summary;
e) Error reports concerning the audit and internal controls;
f) Opinions towards the elimination of important weaknesses communicated to the managers authorized to take corrective actions; and
g) Any other points which the audit committee and the internal audit unit consider appropriate to be included.

Monitoring activities

ARTICLE 32- (1) The inspectors shall monitor actions towards the points that they have proposed in their internal audit reports and that the internal audit unit has communicated to the managers authorized to take corrective actions.
(2) The inspectors shall report the results of their monitoring activities under the first paragraph and their comments to the internal audit unit, which shall in turn communicate them to the audit committee. Such reports shall be given consideration in the internal audit plans to be made in subsequent periods.

Consultancy services

ARTICLE 33- (1) Consultancy services in relation to new products and services or policies and implementation procedures may be received from the internal audit unit in banks. However, the provision of such consultancy services shall not imply approval of the matters subject to consultancy.

Auditing of partnerships subject to consolidation

ARTICLE 34- (1) Banks shall take all necessary measures to ensure that their internal audit units can inspect all activities and units of their consolidated affiliates and subsidiaries without limitation.

SECTION FOUR
The Risk Management System

Purpose of risk management and establishment of risk management system

ARTICLE 35- (1) The purpose of the risk management system is to ensure that consolidated and non-consolidated risk exposure of the bank as well as risks arising from transactions made is defined, measured, reported, monitored and controlled through policies, implementation procedures, and limits, which are intended to monitor, to keep

under control and, where necessary, to change the risk-yield structure of the future cash flows of the bank and, in connection with this, the nature and level of its activities.
(2) To establish a suitable and adequate risk management system within the bank;
a) Adequate policies, implementation procedures, and limits to enable the management of the different aspects of risks arising from activities; and,
b) Risk management activities shall be clearly defined in accordance with the procedures and principles specified in this Chapter.
(3) Complexity level of risk management system is formed in proportion with the banks' sizes and complexity of their activities. In case the agency finds the mentioned level insufficient, banks are obliged to remove this insufficiency according to the size of transactions to be made in a period which will not be less than fifteen days.
(4) Considering the principles and procedures stated in this section, banks are obliged to establish and implement an effective risk management system for material risks in compliance with volume and complexity level of activities that bear risks. Within this scope, alongside Pillar 1 risks, Pillar 2 risks such as liquidity risk, interest rate, concentration, securitisation, country, transfer, reputation, residual, compliance and strategy risks arising from banking accounts shall also be taken into account considering their level of importance. Moreover, risks which are minor on their own but which may cause significant losses when combined with other risk types is also included within this obligation.
(5) Within the frame of Article 7/A of the Regulation on Principles and Procedures Concerning the Audit to be performed by the Banking Regulation and Supervision Agency, banks consider the guidelines published by the Board to set forth the best practices concerning risk management. Banks shall manage their risks according to the provisions of this Regulation beside the principles and procedures stated in the mentioned guidelines within the frame of principle of proportionality. For the risk types about which no guideline is published, a risk management system in compliance with the provisions of this Regulation is established and implemented.
(6) The bank shall review periodically the risk management process within the aim of ensuring its integrity, accuracy and appropriateness. Fields required to be reviewed are shall include the following as a minimum:
a) The appropriateness of capital assessment process considering the bank's own scale, risk profile, as well as the volume, nature and complexity of its activities, businesses and transactions,
b) Determination of large loans and risk concentrations,
c) Accuracy and integrity of the data which is used as inputs in the bank's risk assessment process,
ç) Appropriateness and validity of scenarios used within risk assessment process,
d) Stress test and assumptions relating to the process.

Risk management policies and implementation procedures

ARTICLE 36- (1) In determining the risk management policies and implementation procedures, the following points as a minimum shall be considered;
a) The strategy, policy and implementation procedures belonging to the bank's business lines,
b) Conformity with the volume, nature and complexity of the activities of the bank,

c) The bank's risk strategy and level of risk that the bank can take,
ç) The risk monitoring and management capacity of the bank,
d) The past experience and performance of the bank,
e) The levels of specialization of the managers of the units that conduct the activities in their respective areas; and,
f) Obligations stipulated in the Law and other applicable legislation.
(2) Risk management policies and implementation procedures must adapt to changing conditions. The board of directors or the relevant internal systems manager shall regularly assess their adequacy and make the necessary changes.
(3) Risk management policies and implementation procedures must also include risk mitigation techniques such as hedging, insurance or credit derivatives.
(4) The bank shall determine its policy and implementation procedures special to each risk type in written, regulate them and review their efficiency and usage.

Risk management activities

ARTICLE 37- (1) Risk management activities are carried out by risk management unit and personnel.
(2)Risk management activities are comprised of;
a) Timely and comprehensive definition,
b) Measurement,
c) Monitoring,
ç) Controlling and reporting of risks being exposed to on consolidated and non-consolidated basis as well as risks arising from transactions made with the risk group in which the bank is included.

Risk limits

ARTICLE 38- (1) Risk limits are determined as associated clearly with the loss amount and allocated capital amount, connected with the risk appetite. Within this scope, risk appetite approved by the board of directors is shared to risk types, units, business lines and products as well as other levels deemed necessary and allocated. Furthermore, transaction limits are established per personnel, sub-unit or unit for risk limits in the required areas, mainly credit allocation and treasury transactions.
(2) Bank shall determine implementation procedures concerning proposal, assessment, approval, notifying in the bank, monitoring and audit processes of risk limits and the principles determined are approved by the board of directors. Surveillance responsibility for the bank's risk profile not to exceed risk limits and values realized to be monitored by top management of the bank belongs to the board of directors.
(3) Risk limits are determined as a part of risk appetite on consolidated and non-consolidated basis by considering the size of bank in financial system. The risk limits shall be regularly reviewed and adapted in accordance with changes in market conditions and in the bank strategy
(4) Risk limits shall be notified to related units and related personnel shall be ensured to understand them. Limit usages are monitored closely and limit exceeding shall be notified to the senior management promptly in order to take necessary actions.
(5) Limit exceeding exceptions are defined in bank's risk appetite structure and rules for exceptions are defined in writing. Furthermore, early warning limits shall be determined

by the board of directors and required implementation procedures in the case limits are exceeded shall be defined. Necessary explanations on issues such as transfer, mitigation of risk or avoiding the risk are given in implementation principles.

Risk appetite framework

ARTICLE 39- (1) Banks are obliged to establish a structure comprised of policies and processes to determine the risk appetite and monitor the conformity of units to the risk appetite.

(2) Banks are obliged to set, measure, monitor and manage the risk limits for controlling the current risk profile in order not to exceed the risk appetite approved by the board of directors. Risk appetite structure shall be reviewed when necessary, once in a year at a minimum.

New products and services

ARTICLE 40- (1) New products and services offered by banks shall be subjected to a careful assessment. It shall be ensured that the necessary personnel, technology and financial resources are available for these products and services to be offered and that the top management is fully aware of the risks involved in the new products and services.

2) Proposals to offer a new product or service must include the following points:

a) A description of the product or service,

b) Detailed assessment of the risks that may arise from the product or service,

c) The cost-benefit analysis of the product or service,

ç) Determination of the necessary resources to assess risk management practices and carry out effective risk management for the new product or service,

d) An analysis linking the activities to be performed concerning the new product or service to the financial structure and capital of the bank; and,

e) Implementation procedures to be followed in measuring, monitoring and controlling the risks that would arise from the new product or service.

(3) The opinions of all relevant units concerning the offer of the new product or service shall be received.

(4) The bank shall make an assessment after the new product or service is offered, and this assessment shall be taken into account where similar products or services are developed in the future.

The risk management unit and personnel

ARTICLE 41- (1)The risk management unit shall be assigned the following responsibilities as a minimum:

a) To design and implement the risk management system,

b) To determine the risk management policies and implementation procedures on the basis of the risk management strategies,

c) To ensure that the risk management policies and implementation procedures are implemented and complied with,

ç) To ensure that, before entering into a transaction, the risks are understood and sufficiently assessed,

d) To participate in the process of designing, selecting and putting into practice the risk measurement models and giving preliminary approval, to review the models regularly and to make the necessary changes,
e) To generate daily reports from the risk measurement models used by the bank and to analyze the reports,
f) To ensure that the quantifiable risks are kept within the limits determined and to monitor the utilization of these limits,
g) To monitor compliance with the limits determined on the basis of the bank as a whole by aggregating the limits determined in low levels,
ğ) To ensure that the results of risk measurement and risk monitoring are reported in a regular and timely manner to the board of directors or the relevant internal systems manager and the senior management.
h) To ensure the implementation of the ICAAP in the bank and accordingly to coordinate the preparation of the ICAAP Report.
(2) The risk management unit regulation, prepared by the risk management unit, considered appropriate by the relevant internal systems manager, and approved and adopted by the board of directors, shall include provisions concerning the required educational status, experience and levels of knowledge and skill of the risk management unit personnel.
(3) The manager of the risk management unit must have a minimum of seven years-experience in banking. The manager of the risk management unit shall assess whether the personnel of the unit have the qualifications that are required by their duties, powers and responsibilities, shall prepare training programs to improve their professional knowledge skills and abilities, and shall monitor whether they are performing their duties impartially without being influenced by the executive units.
(4) In banks where activities carried out by risk management unit may be performed by one personnel, risk management unit activities are executed by the aforementioned personnel having duty, authority and responsibilities of head of risk management unit.

Risk measurement and measurement process

ARTICLE 42- (1) Banks shall establish reliable, integrated and effective systems for the measurement of quantifiable risks and for the assessment of non-quantifiable risks they are exposed to and this system shall be in compliance with their structure, product varieties and activity fields.
(2) Banks shall take all necessary measures for accurate interpretation of results produced by risk measurement system. Banks shall take all necessary measures against interpretation errors which may arise from errors and missing parts in including risk measurement system results into decision making process.
(3) Banks shall ensure risk analysis and assessments to be made by methods which will reflect the bank's risk profile in an accurate manner, risk profile to be monitored and taken under control.
(4) Different measurement methods and models may be used to measure and assess risks. Measurement and assessment of risks are based on written assumptions and techniques.

In determining the methods or models to be used for risk measurement, banks shall consider the following points as a minimum:
a) The structure, volume and complexity of activities;
b) Why the model or method is needed;
c) The assumptions of the method or model;
ç) The availability of the data to be used;
d) The suitability of the information systems; and
e) The experience of the personnel.
(5) The board of directors or the relevant internal systems manager must assess the assumptions and limitations concerning the model used, the basic assumptions used to measure risks, and the sufficiency and suitability of data sources and implementation procedures.
(6) The accuracy and reliability of the risk measurement method or model shall be determined by means of back tests using actual results. The risk measurement methods and models shall be periodically updated to reflect changing market conditions.
(7) Written policies and implementation procedures shall be created within the bank in relation to the functioning of the risk measurement systems, and methods shall be developed to monitor compliance with these policies and implementation procedures. Data management process is also regulated in written policy and implementation procedures relating to the functioning of risk measurement systems.

Stress Testing Program

ARTICLE 43-(1) Banks shall establish and operate a stress testing program in order to measure its material risks and vulnerabilities which may arise from both negative developments peculiar to the bank and the developments in stressed economic and financial environment. Top management is responsible for establishment and implementation of a stress testing program as a whole,
(2) Stress testing program shall be based on historical data including statistical risk and loss predictions, based on quantitative analysis and complementary for other risk management methods and qualitative implementations.
(3) Stress testing program shall include clearly defined purposes, good designed scenarios in compliance with the bank's activities and its risk arising from those activities, written assumptions, a strong methodology, reporting basing the decisions taken, revising stress testing processes in a continuous and efficient manner and management actions based on stress testing results.
(4) Stress testing program requires, an overall firm-wide stress testing, in addition to each material risk type.
(5) Stress testing to be made concerning market and counter-party risk as well as bank's total liquidity risk shall be made simultaneously once a month or more frequently and results are monitored closely by the top management.
(6) Overall stress testing shall be made not to be less than at least once a year and always by year-ends. Banks shall make particular stress testing by material risk types by year-ends.
(7) Best practices relating to stress testing program and principles on the notification to be made to the Agency shall be explained by a guideline to be published by the Board. The bank shall manage the stress testing program within the scope of provisions of this

Regulation as well as principles and principle explanations stated in the mentioned guideline within the frame of principle of proportionality.

Data management process

ARTICLE 44- (1) Data management process shall be formed in order to ensure data quality and obtaining data timely, accurately and in a reliable manner as well as to ensure data safety.

(2) All criteria and procedures applied in ensuring data quality are determined in writing. The following issues are taken into consideration in obtaining data quality to be used within the scope of risk measurement system.

a) Having internal regulations comprising the task sharing concerning the preparation, collection and reporting of data.

b) Having adequate personnel, required computer web and other technical hardware.

c) Having the policies used in data preparation based on a certain ground, looking for maximum benefit in the selection of resource and statistical techniques and setting them out clearly.

ç) Being able to make explanation concerning under which conditions and periods the data is collected as well as its preparation process.

d) Having terms and definitions concerning the method used to be in compliance with internationally accepted definitions.

e) Having data resource to have the capacity to prepare statistics.

f) Having data to be subject to reporting with certain intervals and timely.

(3) Processes relating to data obtaining, in accordance with the activities and scale of bank, shall be implemented by considering the data be ensured timely, accurately and in a safe manner and taking into account all risks. Banks shall form the written procedures for ensuring the maintenance of conformity of historical data to measurement as well as written procedures for adjustments according to assessments, scale and similar methods, the scope of them and the related power distribution.

(4) On conditions where intra-bank data are not adequate for risk measurement, external data are tailored with statistical methods and are included in the bank's data base. Banks are obliged to ensure the external data which they will make subject to risk measurement to be in compliance with the bank's activity field, structure, internal control environment and its scale. External data is obtained so as to include the information on loss amount realized, scale of activities of related business line, reason of loss event, and the conditions it occurred.

(5) Banks shall record, beside information on gross loss amounts, the explanatory information on time of realization of loss, repayments made for compensation of loss, reason and factors of loss event. Detail level of this information is determined in conformity with the size of related gross loss amount.

(6) Technical infrastructure used within the scope of risk measurement process is established in a flexible manner to be adapted to possible developments and changes and not to disrupt the measurement process. Unless obligatory with exceptional reasons, no retrospective corrections made on data sets. Ground and quality of the corrections to be made with obligatory reasons are explained in those written records.

(7) From the point of view of data safety, a secure structure is established for information input, monitoring and access to information on data bases to which there are information

flow from different resources. For regular control of data quality, responsibilities concerning transactions within the scope of data management process as well as definition and scope of process are determined in writing.

Reporting of risks within the bank

ARTICLE 45- (1) Unless not separately regulated in best practice guidelines, banks shall establish comprehensive reporting systems for risks in order to be used in management of material risks, determination of strategies and decision-making. Banks shall prepare periodic and non-periodic reports within this scope.

(2) The reports prepared shall include all information enabling the top management to assess the level and development of material risks, as well as their effects on capital requirement, the appopriateness of assumptions used in risk measurement and assessment systems, the adequacy of capital level which the bank is obliged to keep for all material risks, its compliance with regulatory and internal capital targets and ratios, future capital requirement and the amendments to be made in the strategic plan within this scope. Reports shall include at a minimum;

a) Development of risk amount and loss possibilities,

b) Results of individual risk type and overall firm-wide stress testing as well as scenario analysis,

c) Whether or not there is an exceeding in risk limits,

ç) Assumptions and parameters basing the risk assessment process as well as restrictions concerning models used and changes made to them,

d) Risk mitigation techniques and risk transfer strategies,

e) Product analysis,

f) Strategic plan amendment proposals required to be made within the frame of risk assessments.

(3) Reports shall be regularly submitted to the board of directors and top management as well as to units responsible for risk generation and monitoring. The unit preparing the reports shall be ensured to obtain the necessary data directly from the information system.

SECTION FIVE
The ICAAP

PART ONE
Definition and elements of the ICAAP

Internal capital requirement and the ICAAP

ARTICLE 46- (1) Banks are obliged to calculate the capital internally which will meet the risks exposed or which may be exposed on consolidated and non-consolidated basis and maintain their activities with a capital higher than this amount on consolidated and non-consolidated basis.

(2) The ICAAP is a process/whole of processes to ensure that the management body;

a) Accurately and comprehensively identify, measure, aggregate, monitor and report the bank's risks,
b) Calculate and hold adequate internal capital in relation to the bank's risk profile, risk management process, adequacy of internal systems, strategies and activity plan,
c) Establish and use sound risk management systems and develop them further.
Banks are obliged to establish, implement and develop the ICAAP within its own structure.
(3) The ICAAP comprises capital planning and also the qualitative aspects of corporate governance and risk management ability which do not reflect to financial information. It shall also consider the impact of economic cycles, and sensitivity to other external risks and factors.
(4) The provisions of this Regulation, other related legislations and best practice guidelines within the scope of the principle of proportionality shall be taken into consideration in the establishment and implementation of the ICAAP.
(5) The ICAAP shall be integrated to the bank's organizational structure, risk appetite framework and activity processes; and shall form a basis for them.

Fundamental elements of the ICAAP

ARTICLE 47- (1) Main elements of the ICAAP are given below while their explanations are given in the following articles.
a) Bank must have a process for assessing and measuring its internal capital charge and requirement relative to its risk profile.
b) Establishment and implementation of the ICAAP is the responsibility of the bank.
c) The ICAAP is designed wholly in compliance with the bank's needs and risk profile.
ç) The ICAAP should form an integral part of the management process and decision making culture of the bank.
d) The ICAAP should be reviewed annually or more frequently, when needed.
e) The ICAAP should be risk based.
f) The ICAAP comprises all the risks of the bank on consolidated basis.
g) The ICAAP should be forward-looking.
ğ) The ICAAP should be based on adequate measurement and assessment processes.
h) The ICAAP should produce a reasonable and applicable outcome. Within the scope of the ICAAP, internal capital adequacy of the bank should be assessed and its internal capital requirement should be calculated as amount and ratio.

Responsibility of banks in establishment and implementation of ICAAP

ARTICLE 48- (1) Each bank is responsible for its ICAAP, and for setting internal capital targets that are consistent with its risk profile and operating environment.
(2) The responsibility for initiating and designing the ICAAP rests jointly with the senior management and severally with the board of directors.
(3) The bank's ICAAP comprising the methodologies, assumptions, procedures and capital policy should be reviewed and approved by the board of directors. The results of the ICAAP should be reported to the senior management at the required frequency.
(4) At the same time, the bank should be able to prove how the ICAAP meets the regulations and resolutions made by the Agency.

(5) If any outsourcing service is taken by the bank in establishing the ICAAP within the frame of the Regulation on Banks' Procurement of Support Services published in the Official Gazette dated November 05, 2011 Nr. 28106, the Bank as well as related unit and persons retain fully responsibility for its ICAAP regardless of the degree of outsourcing. Outsourcing should not harm the ability of the ICAAP to fully reflect the bank's specific situation and individual risk profile. No standard approach shall be permitted.

Designing the ICAAP by the bank's requirements and risk profile

ARTICLE 49- (1) The ICAAP shall be established and implemented by considering the banks' own scale, risk profile; volume of their activities, business and transactions, content and complexity.

(2) Capital planning and management shall be fully integrated into the bank's overall risk management culture and approach and it should be ensured that related policies and procedures are communicated and implemented bank-wide and supported by sufficient authority and resources.

(3) The ICAAP should be tailored to the bank's circumstances and needs, and it should use the inputs and definitions that the bank normally uses for internal purposes.

The ICAAP's impact on management processes and decision-making culture

ARTICLE 50- (1) The ICAAP should form an integral part of bank's management processes so as to enable the senior management to assess, on an ongoing and regular basis, the risks that are inherent in their activities and material to the bank. This could range from using the ICAAP to allocate capital to business units, to having it play a role in the individual credit decision process, to having it play a role in more general business decisions like expansion plans and budgets.

Review

ARTICLE 51- (1) The ICAAP should be reviewed by the bank as often as is deemed necessary, at least annually, to ensure that risks are covered adequately and that capital coverage reflects the actual risk profile of the bank.

(2) Any changes in the bank's strategic focus, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP should initiate appropriate adjustments to the ICAAP without waiting for the periodical review.

(3) In the review, whether or not new risks occurred in the business of the bank should be assessed and if deemed significant, these risks shall be identified and incorporated into the ICAAP.

(4) All units of the bank shall review the ICAAP relating to their own activities. Internal audit unit shall assess the ICAAP by making an overall review including the reviews of the units.

The ICAAP is Risk-based

ARTICLE 52- (1) The ICAAP is implemented as risk-based. In this process, while assessing internal capital adequacy, the bank first should put forward its risk profile and

the conditions relating to its operating environment and then determine the internal capital requirement level which are consistent with them.
(2) The bank may take other considerations into account in determining the internal capital requirement level, such as expectations and goals relating to the credit ratings which assigned by the credit rating agencies, market reputation and strategic goals.
(3) Within the scope of the ICAAP, nonquantifiable risks are also defined clearly. Risk assessment and mitigation of them are made by using qualitative technique and instruments.

The ICAAP is Comprehensive

ARTICLE 53- (1) The ICAAP should capture all the material risks to which the bank is exposed, at a minimum Pillar 1 risks. The bank may use its own terms and methodology while determining and categorizing material risk factors. However, the bank should explain in detail the terminology and methodology it used in the ICAAP Reports.
(2) Within the scope of the ICAAP, risk types can be categorized as follows. However, no matter how its categorization way is, the bank should implement a measurement and assessment process to cover the following risks.
a) Pillar 1 risks.
b) Pillar 2 risks that are material to the bank and defined by the bank.
c) Risks arising from external risks factors, arising from the regulatory, economic or business environment and which are not covered by the above-mentioned risk types.

The ICAAP is Forward-looking

ARTICLE 54- (1) The ICAAP is designed and implemented with a forward-looking perspective.
(2) The ICAAP should take into account the bank's strategic plans and how they relate to macroeconomic factors. The bank should develop a comprehensive internal strategy for maintaining capital levels which can incorporate factors such as loan growth expectations, future sources and uses of funds and dividend policy, and changes in capital adequacy depending on the economic cycle. Information on the mentioned strategy should be given in the ICAAP report.
(3) The bank should have an explicit, approved capital plan which states the bank's growth objectives, the process for determining the capital level to reach at that objective and it should set forth in broad terms the capital planning process and the responsibilities for that process. The capital plan should also lay out how the bank will comply with capital adequacy ratios in a minimum of three-year period, any relevant limits related to own funds, and a general contingency plan for dealing with divergences and unexpected events.
(4) In capital planning, the bank should conduct, within the scope of the first sentence of Article 43(6), stress tests which take into account the risks arising from its activities and the position in macroeconomic cycle. Furthermore, environmental factors which affect the performance or bearing risk such as legislation amendments and probable actions of peer financial institutions are also analyzed in the ICAAP.

Finding appropriate and available measurement-assessment methods and processes

ARTICLE 55- (1) The bank shall determine a measurement method for each risk type according to its scale, risk profile, activities, volume and quality of its business and transactions within the direction of principle of proportionality. The method to be applied shall be selected by trying to find the most appropriate one among many alternatives from regulatory capital calculations to economic capital models.
(2) In the measurements and assessments within the scope of the ICAAP, the bank, beside quantitative data concerning risks, shall also consider qualitative factors and management quality of risks. Nonquantifiable risks shall be assessed by using substantial determinations and objective indicators, as much as possible.
(3) Results obtained from risk measurement and assessments within the scope of the ICAAP shall be considered in determination of strategy and risk appetite.

PART TWO
Implementation, results and reporting of the ICAAP

The ICAAP Report
ARTICLE 56- (1) Banks shall prepare a report including their assessments on risk measurement, capital and liquidity planning as well as risk management abilities made within the scope of the ICAAP, not to be less than at least once a year and always by year-ends. It is called as the ICAAP report. The Agency, when needed, can change the obligation and frequency to prepare the ICAAP report on bank basis.
(2) Bank's analysis and assessments relating to capital and liquidity adequacy and planning in the ICAAP Report shall be considered in the audits to be made by the Agency.
(3) Form and content of the ICAAP Report shall be determined by the guideline to be published by the Board. In case the bank fails to prepare a report to meet the requirements stated in the guideline and if it is detected in the audits to be made by the Agency, a capital amount in exchange of the mention detection shall be considered separately within the scope of internal capital buffer.
(4) The ICAAP Report shall be prepared with the participation of all related units of the bank under the coordination of risk management unit. The board of directors is the ultimate responsible for preparation of the ICAAP in compliance with the legislation and the guidelines published.

Inspection Concerning Data, System and Processes
ARTICLE 57- (1) Internal audit unit shall inspect the accuracy of the data used in the ICAAP Report, adequacy of the system and processes as well as whether or not data, system and processes allows accurate information and analysis. However, the board of directors, when it deems necessary, can have this inspection to be made by an External audit company assigned within the scope of the Regulation on Bank Information Systems and banking processes Audit to be performed by External Audit Institutions, instead of internal audit unit. If the Agency finds inadequate the inspection made by internal audit unit, it can require the bank, in addition, to assign an external audit company.
(2) The inspection can be performed prior to or in parallel with the risk assessment which will constitute the basis of the ICAAP Report. However, risk analysis and calculations

shall be made after eliminating the findings to be obtained from the inspection. If it is impossible to actually eliminate the mentioned findings in a short time, exclusively peculiar to the mentioned findings, an equivalent, applicable and more prudential option shall be preferred and the ICAAP Report relating to the current year shall be prepared. Furthermore, an action plan for eliminating the findings promptly shall be put in writing and put into effect.
(3) Within the context of the inspection the validation process to be made within the scope of Article 58 shall be examined.

Validation of Internal Model

ARTICLE 58- (1) Internal validation of risk measurement methodology based on the model concerning economic and/or regulatory capital adequacy used by bank within the scope of the ICAAP shall be made by a team independent from the units which developed the mentioned methodology or independent from the executive units. The team shall report directly to the audit committee.
(2) In the case that the bank has no or insufficient expertise on the validation of internal model, instead of the team to be formed within the bank or in addition to the validation to be made by the team to be formed within the bank, on condition to consider the issues stated in Article 73 of the Law, it is possible to make validation by taking support from an expert institution. In the case outsourcing relating to validation is provided, responsibility of the bank and related units or persons still maintains without considering the level of service taken.
(3) In case support service is taken for internal model validation from an expert institution, it is ensured in the contract to be made that the mentioned institution shall provide any information and documents required by the Agency and the bank, provide any support in the process of inspection of the validation as well as make software or other validation instruments to be used.
(4) Banks shall make internal validation process to be written so as to include the elements providing the independency of internal validation team.

Capital Planning Buffer

ARTICLE 59- (1) Bank is obliged to calculate and allocate a capital planning buffer.
(2) In overall stress testing and scenario analyses concerning the bank as a whole which will be used in capital planning, the bank shall form a minimum of three scenarios as base, negative situation and excessively negative situation. Furthermore, the Agency can determine a uniform scenario or scenario series peculiar to a bank or to be implemented to all banks. In such a case, capital planning buffer is determined by taking into consideration all scenarios determined by the Agency and the bank.

Internal Capital Buffer and Internal Capital Requirement

ARTICLE 60- (1) The part of the bank's internal capital requirement exceeding the minimum regulatory capital amount is held as common equity tier 1 capital.
(2) Internal capital requirement ratio calculated by analysis made by the bank within the scope of the ICAAP shall be assessed in the audits made by the Agency. As a result of assessments made, internal capital requirement ratio calculated by the bank shall be accepted or in case missing parts and/or errors are found, a new internal capital

requirement ratio shall be determined by correcting them. Unless the Agency makes a notification including its assessment on the ICAAP Report, internal capital requirement ratio determined by the bank shall be valid.

(3) Within the scope of the ICAAP, banks shall take all necessary actions and measures for removing the weakness to be detected in risk management and control ability for each risk type. Internal capital buffer to be added for the weakness in risk management and control; shall be a temporary measure to be implemented within the period until the mentioned actions and measures comes to the force. Strengthening of risk management, implementation of internal limits in all decision-making mechanisms efficiently, strengthening of provisions and reserves and strengthening of internal control activities etc. may be cited amongst these measures and actions.

(4) In case the Agency, within the scope of supervision and surveillance activities, detects the probability that the bank cannot meet the internal capital requirement ratio for the bank's risk profile, or detects the probability that the bank does not hold sufficient capital for each important risk type, it takes the measures deemed necessary, including to add capital.

(5) In case current capital adequacy ratio stay below internal capital requirement ratio, the bank shall promptly submit to the Agency an action plan that will ensure to come up over internal capital requirement ratio. The mentioned plan enters into practice after being approved by the Agency. At the end of the period foreseen in the plan, a new ICAAP Report is prepared and results of the action plan are submitted to the Agency.

(6) During the period in which the bank's current capital adequacy ratio stays below internal capital requirement ratio, beside taking other necessary measures to be deemed necessary by the Agency, dividends cannot be distributed to partners, members of the board of directors or personnel under any name unless permitted by the Agency.

(7) Common equity tier 1 ratio, tier 1 ratio and leverage ratio shall be calculated separately for three years for which overall stress tests are made. Principally these ratios calculated under stress circumstances shall not fall below regulatory limits.

Establishment and implementation of the ICAAP on a consolidated basis

ARTICLE 61-(1) Parent bank should consolidate, monitor and assess all material risks arising from consolidated partnerships, and should control them if required.

(2) There are two approaches in the consolidated implementation of the ICAAP. First of them is surveillance through standard risk reports and the other is the direct inclusion of the partnership within the bank's risk management system. The bank should consider the risk profile of the partnership in which it has shares, as well as its contribution to the consolidated risk level to choose between these two approaches or to implement a combination thereof.

(3) In the surveillance through standard risk reports, a system should be built in a form and content standards of which are determined and as to provide periodical risk information. The standardization degree of these risk reports and integration to the bank's risk management system should be increased to provide the implementation of risk control processes by the bank for its partnerships.

(4) In the direct inclusion of the partnership to the bank's risk management system, risk arising positions and transactions of partnerships are wholly integrated to the bank's risk surveillance and management system. This method should be preferred for partnerships

having an important effect on consolidated risk level and to which the bank has the ability to intervene directly.
(5) With regards to surveillance and control of risks, the integration level between the bank and the partnerships owned by the bank may differ in terms of risk or transaction types. For example the partnership having a significant weight in one risk type may not have any significant weight in another risk type. The integration level between the bank and the partnership should be high for risk type in which the partnership has a significant weight.
(6) In implementing the ICAAP on a consolidated basis, the bank should not abide by the definition and scope of consolidation specified in the legislation. Within this framework, the partnership may be excluded only if it is determined that risks arising from the mentioned partnership are not affecting significantly the bank's consolidated internal risk level and its internal capital requirement and that this fact is explained in the ICAAP Report. Accordingly, the assessment should be made based on the partnership's risk profile, rather than the inclusion of the partnership to the definition of consolidation specified in the legislation.

Affiliates and branches in Turkey of banks resident abroad

ARTICLE 62– (1) To use the methodologies developed by banks resident abroad by affiliates and branches of these banks in Turkey for calculations in their ICAAP, they should be made subject to validation within the scope of the article 58 and all information and documents required regarding these methodologies should be submitted to the Agency by the affiliate or branch resident in Turkey.
(2) If the validation concerning the methodology used by the affiliates in Turkey of banks resident abroad is accepted or realized by foreign supervision authorities equivalent to the Agency, this validation may be accepted as a validation made within the scope of the article 58, on condition that a memorandum of understanding concerning the frame of cooperation and information sharing is signed between the Agency and the related supervision authority through the medium of the bank and provided that the information and documents procured from the foreign supervision authority or the bank resident abroad are found adequate.
(3) From the point of view of implementation of first and second paragraph, in the case the methodology of a bank established abroad is used by its affiliate in Turkey, it is stipulated that model, process and instruments concerning the methodology shall be wholly established in the affiliate in Turkey. Within this scope, a management model which takes as basis determination and monitoring of risk management resolutions within the frame of data and reporting sent over the affiliate in Turkey, from the headquarter independent from senior management of the affiliate in Turkey is not appropriate with the ICAAP.

SECTION SIX
Miscellaneous and Final Provisions

Notification Obligation

ARTICLE 63- (1) Banks must notify the Agency in writing of the appointment or resign of the internal systems manager or committee members, the members of the audit committee, and the senior managers of the units included within the scope of these systems, within seven working days from the date of the relevant decision.

(2) Banks shall report to the Agency their internal regulations concerning the duties, powers and responsibilities of the audit committee and of the internal systems manager and the organizational structure, duties, powers and responsibilities of the internal audit unit, the risk management unit and the internal control unit. Any changes to these internal regulations shall be notified to the Agency within the following ten days.

(3) Banks shall report to the Agency the changes in their approved risk management policies and implementation procedures as well as their new strategy and policy texts within the following ten days from their approval.

(4) The internal audit plans prepared pursuant to Article 27 hereof and the risk assessments used in those plans and conducted pursuant to Article 26 hereof must be sent to the Agency within ten days from the approval of those plans.

(5) Internal audit unit reports submitted to the board of directors pursuant to Article 31(4) hereof shall be sent to the Agency within ten days.

(6) Banks shall submit to the Agency their ICAAP reports to be prepared by year-ends until end-March of the following year. The Agency shall change, if required, the preparation and submission frequency of the report on bank basis.

(7) Banks shall submit the Stress Test Report on universal and particular stress testing results which they will conduct as of year-ends within the scope of Article 43(6) to the Agency until end-March of the following year. The Agency, if required, shall change the preparation and notification frequency as well as scope of the report on bank basis.

(8) Banks shall submit the inspection report prepared within the scope of the article 57(1) to the Agency, with the first ICAAP report following the preparation of this report.

(9) Internal model validation report, prepared within the scope of the article 58 shall be submitted to the Agency with the first ICAAP report following its preparation.

Applications to be made in Turkish

ARTICLE 64– (1) Within the frame of this Regulation, Banks shall realize in Turkish all of their;

a) All kind of reports, including the ones to be issued and delivered by internal systems unit and the personnel of such unit to the top management, by senior management to the top management and by audit committee to the board of directors, reports to be prepared within the scope of the ICAAP and the reports to be prepared to the top management concerning the control activities related to operational activities,

b) All kind of internal rules such as strategies, policies, implementation procedures to be generated under any name whatsoever,

c) Internal correspondences.

Superseded Regulation

ARTICLE 65- (1) The Regulation on the Internal Systems of Banks which was published in the Official Gazette Nr. 28337 dated June 28, 2012 is hereby superseded.

(2) References made in other regulations to the Regulation on the Internal Systems of Banks which is superseded by this Article are deemed to be made to the Regulation hereby.

Year-end Reporting

PROVISIONAL ARTICLE 1- (1) Pursuant to Article 63 (6 and 7), banks shall prepare the reports stated in those paragraphs for 2013 year-end. Reports prepared shall be submitted to the Agency until the end of second month following the publication of this Regulation.

Entry into Force

ARTICLE 66- (1) This Regulation enters into force on the date of its publication.

Enforcement

ARTICLE 67- (1) The provisions of this Regulation shall be enforced by the Chairman of the Banking Regulation and Supervision Agency.

ANNEX- 1

BANK RISK ASSESSMENT MATRIX

Fields of Activity	*Volume or Relative Weight*	***Risks Concerning Activity Lines***							***Risk Management Systems***				**Compound Average Risk level**
		Credit Risk	*Market Risk*	*Liquidity Risk*	*Operational Risk*	*Regulatory Risk*	*Reputation Risk*	*Other Risks*	*Senior Management Oversight*	*Policies, Implementation Procedures and Limits (Borders)*	*Risk Management, Monitoring and Management Information System*	*Internal Controls*	
Corporate Finance													
Trading													
Retail Banking													
Retail Intermediation													
Commercial banking													
Clearing and Settlements													

Agency Services													
Asset Management													
Mergers and Acquisitions													
Insurance Services													
Information Systems													
Human Resources													
Legal Transactions													
New Technologies													
Other Activities													
Final Risk Level:													