

From the Banking Regulation and Supervision Agency:

REGULATION ON THE PROCEDURES AND PRINCIPLES FOR ACCOUNTING PRACTICES AND RETENTION OF DOCUMENTS BY BANKS

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

SECTION ONE

Objective and Scope, Basis and Definitions

Objective and Scope

ARTICLE 1 – (1) The objective of this Regulation is to set down the procedures and principles for achievement of transparency and uniformity over accounting and reporting systems of banks, prevention of exclusion of their transactions from records, sound and reliable recognition of their operations in accordance with their actual costs and preparation, reporting and publication of financial statements containing information on their consolidated and non-consolidated financial positions and financial performances and managerial efficiency on a correct and timely basis and retention of documents.

Basis

ARTICLE 2 – (1) This Regulation has been prepared on the basis of Articles 37, 39, 42, 93 and 95 of the Banking Law Nr. 5411 dated 19/10/2005.

Definitions

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

- a) Bank: Bank defined in Article 3 of the Law
- b) Law: Banking Law Nr. 5411
- c) Board: Banking Regulation and Supervision Board
- ç) Agency: Banking Regulation and Supervision Agency
- d) Associations of Institutions: Banks Association of Turkey and the Participation Banks Association of Turkey
- e) Turkish Accounting Standard: Turkish Accounting Standards and Turkish Financial Reporting Standards put into force by the Turkish Council of Accounting Standards as well as annexes to and interpretations concerning them.

SECTION TWO

Recognition of operations, financial statements and financial reports

Recognition of operations

ARTICLE 4 – (1) Banks recognize their operations in their accounting systems as per this Regulation and communiqués to be enacted by the Board. It is essential that operations are

recognized under accounting records in line with the Turkish Accounting Standards subject to the provisions of the Communiqué on the Conceptual Framework for Principles for Preparation and Presentation of Financial Statements under Position Nr. 1 by the Turkish Council of Accounting Standards, which was issued in the Official Gazette Nr. 25702 dated 16/1/2005. However, procedures and principles governing recognition of operations by subsidiaries, joint ventures and associates and arrangement of consolidated financial statements, financial statements for public disclosure and explanations and footnotes concerning them are determined by communiqués to be enacted by the Board.

Financial statements

ARTICLE 5 – (1) Financial statements consist of financial position statement (with off-balance sheet account), profit and loss statement, equity change statement and cash flow statement and profit distribution statement. Footnotes and explanations on financial statements and any explanatory reports and statements concerning information contained by financial statements are an integral part of financial statements. Financial position statement and profit and loss statement constitute the basic financial statements together with footnotes, explanations and annexes.

Financial position statements

ARTICLE 6 – (1) Financial position statements are statements reflecting the bank's economic and financial positions as of a certain date and indicating its assets, liabilities and equity in the form of accounts of assets and liabilities in a true and correct manner. The assets part of the financial position statements is arranged according to the quickness for conversion into cash funds as the liabilities part is arranged according to payment quickness.

(2) Financial position statements are prepared according to the basis of net value. Therefore, accounts having the nature of regulating the bank's structures of assets and liabilities are indicated as individual deduction items under the relevant items. Accounts reflecting the liabilities and assets structure of the financial position statements cannot be mutually offset. It is ensured that accounts yielding a debt balance are included in the assets part of the balance sheet while accounts yielding a receivable balance are included in the liabilities part.

(3) Assets are indicated in the financial position statements in case the right of utilizing their future economic benefits belongs to the bank and that there are values or costs that can be measured reliably. No accrual operation is conducted for any receivables the sums of which cannot be determined definitively. Such receivables are indicated by explanation and footnotes concerning the items of assets.

(4) Liabilities are indicated in the financial position statement in case a deed is possessed leading resources containing economic benefits to leave the bank and the necessary sum to meet this deed is measured reliably.

(5) All the foreign resources of the bank, which are known and the sums of which can be estimated appropriately, including those the sums of which cannot be determined definitively or which are subjects of conflicts must be determined and recorded and shown in the financial position statements accordingly.

(6) Off- balance sheet accounts refer to the off-balance sheet accounts, which do not concern the bank's assets and liabilities at a first degree and are used for the purpose of recognizing non-

cash credits provided to customers and rights and obligations which will lead to debts or receivables in the future and values under derivative possession and information intended to be followed under the accounting discipline.

(7) Because the balances of the off-balance sheet accounts do not bear a nature of real values of assets and liabilities, the accounts in this group are not compared to the accounts of financial position statements and profit and loss statements.

Profit and loss statement

ARTICLE 7 – (1) Profit and loss statements are statements indicating all the proceeds and income generated by the bank in a given accounting period as well as all the costs and expenses incurred in a classified manner and summarizing the results of the period's operations as profit or loss.

(2) All the income and expenses are taken under record on the basis of dates of accrual and indicated in the profit and loss statement for the accounting period during which they are accrued.

(3) All the income and expenses are classified on the basis of resources; each group of expenses is compared to the group of expenses it relates to and indicated on the basis of their gross sums. Any income items may not be excluded from the profit and loss statement by netting them entirely or partially.

(4) Income is recognized in the profit and loss statement when there is a reliably measurable increase in economic benefits that can be derived depending on an increase in assets or a decrease in liabilities. Recognizing income is realized simultaneously with the increase in assets or decreases in liabilities.

(5) Expenses are recognized in the income statement when there is a reliably measurable decrease in economic benefits that can be derived depending on a decrease in assets or an increase in liabilities. Recognizing income is realized simultaneously with the decrease in assets or increase in liabilities.

(6) Any non-realized income and profits may not be indicated as having realized or those realized income may not be indicated to be in excess of or less than actual sums. Correct settlement of accounts and mutual agreement thereto must be carried out at the starts and ends of the relevant period or periods so that a certain period or periods can reflect true results of operations.

(7) In the event that there is a need to make a correction record in connection with income, expenses, profit and loss records but that such records are not of a magnitude calling for corrections in the financial statements of the previous periods, any such corrections made are indicated by the period's profit and loss statement.

Cash flow statements

ARTICLE 8 – (1) Cash flow statements are statements indicating cash flows (cash collections and payments) representing the changes taking place in the banks' cash and assets similar to cash in a certain accounting period by classification on the basis of banking operations, investment operations and financing operations in respect of their resources and utilization places. Cash flow statements contain financial data used in evaluation of the bank's capability

of generating cash and cash equivalent assets, their sums, timing and definitiveness and the basis of cash is adopted over arrangement of these statements.

Equity change statements

ARTICLE 9 – (1) Equity change statements are drawn up such that they can indicate period start balances of each of the items of principal and contributive capital, any increases or decreases taking place in such items during the period and period-end balances separately. For the purpose of ensuring comparability, previous period movements apart from current period movements are indicated in a separate part.

Financial reports

ARTICLE 10 – (1) (**Amended OG 23/10/2015-29511**) Year-end financial statements prepared in line with the format and contents laid down by this Regulation and relevant communiqués, independent audit report and additional information which will take place in the annex of them and deemed appropriate to be declared by the Board and risk management disclosures constitute year-end financial reports; financial statements concerning the related interim period excluding profit distribution statement, independent audit report, interim report including the evaluations relating to interim activities of the bank’s chairman of board of directors and general manager which will take place in the annex thereof as well as additional information which are deemed appropriate to be declared by the Board and risk management disclosures constitute interim period financial reports.

SECTION THREE

Consolidation of Financial Statements for Foreign Branches of the Banks and Responsibility of the Board of Directors

Consolidation of financial statements of foreign branches of the banks

ARTICLE 11 – (1) It is mandatory that the financial statements of the foreign branches of domestic banks established in Turkey be consolidated with the financial statements of the bank’s domestic operations.

(2) In the event that the financial statements of foreign branches of the banks have not been drawn up in line with the principles covered by this Regulation, necessary corrections are made during preparation of consolidated financial statements and compliance is thus achieved with the procedures and principles determined by this Regulation.

(3) In the event that the financial statements of foreign branches of the banks have been drawn up through adoption of different accounting policies, such differences caused by accounting policies are eliminated during preparation of consolidated financial statements by applying common accounting policies subject to the principles laid down by this Regulation. If it is impossible accurately to calculate the differences caused by the accounting policies, the operation of correction is conducted on the basis of certain assumptions and estimates and such assumptions and estimates are explained by footnotes.

(4) The financial statements of foreign branches are consolidated by taking as a basis the date of preparation of the financial statements of the bank’s head office.

(5) Assets and liabilities accounts of foreign branches are taken into the consolidated financial position statements by applying the method of “full consolidation”. It is ensured that assets, resources, income and expenses and off-balance sheet accounts of foreign branches are combined with the assets, resources, income, expenses and off- balance sheet accounts of the head office at one hundred per cent. Assets and liabilities accounts of the bank’s foreign branches and domestic units are added up. Receivables and debts of the bank’s head office and foreign branches from and to one another are mutually deducted.

(6) Income and expenses of foreign branches are entirely taken under the profit and loss statements. Any income and expenses arising out of transactions between domestic and foreign units taken under consolidation are mutually written off.

(7) Major practices between the head office and foreign units are indicated by footnotes on the consolidated financial statements and major impact of such practices on assets, resources, financial positions and profit / loss are clarified. Countries and cities where foreign branches are located, their sizes of assets and deposits and valuation methods used in different items of consolidated financial statements and methods used in value corrections must be explained by footnotes of the financial position statements as well as profit and loss statements.

Responsibility of the board of directors

ARTICLE 12 – (1) The board of directors is obligated to determine the financial reporting system, duties, powers and responsibilities, ensure the information systems be in an adequate level and observe implementation, including recognition of operations, preparation, approval and inspection of financial statements and submission of them to competent authorities and publication thereof as per the procedures and principles laid down by this Regulation. Depending on this obligation, the board of directors is responsible for taking necessary measures in connection with identification of basic policies, development of business definitions, powers and responsibilities in line with business flow diagrams in a clear manner, rendering the internal and external information flow systems adequate, establishment of powers and responsibilities in a clear manner and surveillance of related implementation in connection with the accounting and reporting systems.

SECTION FOUR

Signature, submission and publication of financial reports by authorized persons

Signature of financial reports by authorized persons

ARTICLE 13 – (1) Year-end and interim period financial reports and financial statements, excluding independent auditing reports, annexed to these reports as well as related explanations and footnotes including financial statements drawn up at the end of each month, the contents and format of which will be determined by the Board are signed by the chairman of board of directors, supervisory committee members, general managers, deputy general managers in charge of financial reports and relevant unit managers or persons having titles equivalent to them in the banks established in Turkey by stating names and titles with a statement that they are in compliance with the provisions of this Regulation and accounting records.

(2) Signature obligation is met by the members of the board of directors in the case of banks operating in Turkey by opening branches.

Submission and publication of financial reports

ARTICLE 14 – (1) (Amended OG: 2/4/2019-30733) Banks have to submit their year-end consolidated and nonconsolidated financial reports to the Agency and institution associations electronically. by the end of April that follows the related year.

(2) **(Amended OG: 2/4/2019-30733)**Banks operating in Turkey by opening branches have to submit their year-end financial position statements and profit and loss statements on their operations in Turkey as well as their explanations and footnotes and financial position statements and profit and loss statements of their head offices, which are drawn up by their management centers in Turkey and signed by the board of managers, to the Agency and associations of institutions electronically.

(3) **(Amended OG: 2/4/2019-30733)** Banks have to submit non-consolidated and consolidated interim financial reports to be drawn up as of the end of March, June and September to the Agency and associations of institutions electronically within forty five days and seventy five days, respectively.

(4) Banks have to submit copies of financial position statements and profit and loss statements to be drawn up at the end of each month as well as any other additional information and explanations requested by the Agency to the Agency within thirty days following the respective period.

(5) **(Amended OG: 2/4/2019-30733)** Banks should announce in the Official Gazette their year-end consolidated and non-consolidated financial statements without footnotes until the end of April that follows the related year.

(6) **(Amended OG: 31/12/2013-28868)** The associations of institutions are obligated to publish each bank's year-end financial reports submitted to them on their Internet pages as of publication date of financial statements without footnotes in the Official Gazette at the latest as per the fifth paragraph and to publish interim financial statements within seven days from date of submission to them.

(7) **(Amended OG: 31/12/2013-28868)** Banks have to publish their year-end financial reports and interim financial reports on their Internet pages as of the date of publication of financial statements without footnotes in the Official Gazette as per the fifth paragraph and after public disclosure by the associations of institutions, respectively, making them available for access by users for a period of minimum five years thereafter.

(8) The Agency is entitled to grant additional time limits for submission of the financial reports to be disclosed to the public to the authorities identified by the first paragraph and their subsequent announcement in case of coincidental events.

(9) Banks have to submit surveillance reports containing financial statements, reports and statements, for which procedures and principles will be set forth by the Agency, to the Agency subject to the principles and time limits to be laid down by the Board.

SECTION FIVE

Miscellaneous and Final Provisions

Uniform chart of accounts and explanations thereof

ARTICLE 15 – (Repealed OG. 1/8/2019-30849)

Competent authority

ARTICLE 16 – (1) The Agency is authorized to make explanations regarding the implementation of this Regulation and the Board is authorized to make additional regulations.

Retention of documents

ARTICLE 17 – (1) Banks are obligated to retain for presentation whenever requested within their own premises the originals of any documents concerning their operations or their copies in a manner leaving no room for their accuracy if keeping originals is not possible as well as mechanically reproduced copies of any letters sent to their customers or private or public entities, which shall be arranged by assigning them dates and numbers sequentially, including any letters, telegrams, electronic mails, notices and notifications any other letters received from their customers or public or private entities and organizations.

(2) It is obligatory to keep the documents specified in the first paragraph, by specifying the date, number and subject in the document registration system to be created. Banks, without prejudice to the restrictions imposed by other laws, may store documents other than legal books in microfilm, microfiche or in electronic, magnetic or similar media in a manner allowing their presentation during the audits to be performed by the Agency or upon request.

Repealed Regulation

ARTICLE 18 – (1) The Accounting Implementation Regulation issued in the repetitive issue of Official Gazette Nr. 24793 dated 22/6/2002 is hereby repealed.

Adaptation period

PROVISIONAL ARTICLE 1 – (1) Implementation of the communiqués abolished by this Regulation continues until after the communiqués to be enacted pursuant to this Regulation take force.

Entry Into Force

ARTICLE 19 – (1) This Regulation enters into force on the date of its publication.

Enforcement

ARTICLE 20 – (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Agency.