

From the Banking Regulation and Supervision Agency:

**REGULATION ON PRINCIPLES AND PROCEDURES REGARDING
SUPERVISION TO BE CONDUCTED BY BANKING REGULATION AND
SUPERVISION AGENCY**

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SECTION ONE

The purpose, scope, legal basis and definitions

The purpose

Article 1 – (1) The scope of this regulation is to set down the principles and procedures about the on-site supervision and surveillance of institutions which are in scope of duties of Banking Regulation and Supervision Agency.

Scope

Article 2 - This regulation includes the activities mentioned below which Banking Regulation and Supervision Agency shall conduct;

- a) Supervision of the practices of the provisions of this Law and provisions about institutions in other regulations,
- b) On-site supervision and surveillance of institutions,
- c) The evaluation of internal control, risk management, internal audit systems and risk structure at consolidated or non-consolidated basis,
- ç) The analysis of all other factors effecting financial structure as well as interest and balances between assets, receivables, own funds, debts, profit and loss accounts, liabilities and commitments,
- d) The analysis of compliance level of institutions to corporate governance principles.

Legal Basis

Article 3 – (1) This regulation has been issued pursuant to article 93 and 95 of Banking Law No. 5411 dated 19th of October 2005 and article 27 of Bank Cards and Credit Cards Law No. 5464 dated 23rd of February 2006.

Definitions

Article 4 – (1) The terms mentioned in this Regulation shall have the meanings indicated below;

- a) Bank: Deposit banks, participation banks, development banks and investment banks,
- b) Chairman: Chairman of the board,
- c) Assistant Chairman: The assistant chairman who is responsible for on-site supervision and surveillance,
- ç) Department head: Supervision department heads,
- d) Supervision: All of on-site supervision and surveillance activities which are conducted in institutions by professional personnel using the authorization which is given to Agency by the Law.
- e) Supervision cycle: Supervision processes following each other which provides continuity of supervision and which continues from planning to conclusion,
- f) Supervision plan: Working programs and annexes which are approved by Chairman,
- g) Supervision processes: Processes regarding planning, actual conduct and finalization of supervision as well as sharing of examination results with institutions if necessary,

- ğ) Rating: The rating which will be given at the end of bank supervision process,
- h) Group Head: Supervision group head who works under department head,
- i) Law: Banking Law No. 5411 and Bank Cards and Credit Cards Law No.5464,
- i) The Board: Banking Regulation and Supervision Board,
- j) Institution: Institutions which are subject to supervision of Agency,
- k) Agency: Banking Regulation and Supervision Agency,
- l) Profession Personnel: Sworn Bank Examiners and Assistant Sworn Bank Examiners, Banking Experts and Assistant Banking Experts, Law Experts and Assistant Law Experts, IT experts and Assistant IT Experts,
- m) (**App:OG-11th of July 2014-29057**) Principle of Moderation: Implementation of principles by taking own scale of banks, risk profile, activities, volume of business and transactions into consideration, issuing a statement by banks for principles not implemented fully or partially and maintaining them as written.

SECTION TWO

PRINCIPLES AND PROCEDURES CONCERNING SUPERVISION

Supervision approach of Agency

Article 5 – (1) For the purpose of efficiency, continuity, adequacy of supervision and efficient usage of supervision resources, Agency conducts supervision with dynamic approach which has risk focused perspective. Risk focused supervision is supervision approach which aims to shape the scope of supervision, allocation of supervision resources and supervision activities by taking risk profile of each institution, existence of internal controls and risk management system and their adequacy as basis.

Responsibilities of entities who are supervised

Article 6 – (1) In the process of supervision of institutions, responsibility primarily belongs to board of directors and managers of related institution. In this context, board of directors and managers of related institution are responsible for building an efficient internal audit and risk management system which is in compliance with the scope of activities of institutions, volume, size, risk profile and own funds capacity, for creating environment which enables mentioned systems to operate efficiently, for taking necessary preventions, for building an efficient surveillance system and for managing exposed risks efficiently.

(2) Agencies, institutions, related units and authorities who are subject to supervision shall give all information and documents which are requested by profession personnel on first demand with in time and form and shall help them to be examined. Entities who are supervised shall answer oral and written questions who are asked by profession personnel within time limit.

(3) Supervision, examination and investigations are conducted via information and other documents as well as financial statements which are stated by related institution, real or legal persons. Financial statements and other information and documents presented are within the responsibility of related institution.

(4) During the examinations which are conducted by profession personnel and in case they demand, institutions provide all kinds of supports including commission of personnel who works in internal control, risk management, internal audit and information management systems.

(5) During their supervision duties, agencies, institutions, related units and authorities shall provide infrastructure required by technological services, required tools and equipment, a fixed work place in order to conduct supervision in compliance with supervision requirements for profession personnel.

Quality Assurance System

Article 7 – (1) Quality assurance system is a system includes all processes in supervision and which enables the continuous increasing of quality, consistency, preparation of reports with minimum standards and improvement of supervision standards continuously for Agency to reach expected goals from supervision.

(2) Agency evaluates the compliance of supervision system and products to internationally accepted principles and standards as inseparable part of quality assurance system and provides it to be subject to independent analysis by five year periods.

Good practices guidebooks

Article 7/A – (App:OG 11/7/2014-29057) (1) Agency may publish good practices guidebooks in order to show good practices expected from banks and to inform the banks about evaluation criteria which will be taken into account in supervision which will be conducted by Agency.

(2) Principles in good practices guidebooks are used as criteria in evaluation of efficiency and adequacy of bank practices and they constitute a base for evaluation and decision making by agency about supervision findings during or after supervision.

(3) Principles in good practices guidebooks are applied within moderation principle.

SECTION THREE

Supervision Organization and Its Types

Structure of Supervision

Article 8 – (1) (**Amended: OG-24/2/2013-28569**) According to their interest, duties and authorizations given to Agency by Law are carried out by the Board, Chairmanship, Assistant Chairmanship, Department Heads and group heads and profession personnel who are temporarily and/or permanently delegated in supervision teams and surveillance activities.

(2) If it is needed, information, equipment and technical support including consultancy services may be provided out of Institution.

(3) (**Amended:OG-24/2/2013-28569**) On-site supervision activities which are organized under assistant chairmanship are carried out by this assistant chairman, supervision department heads attached to assistant chairman and adequate number of supervision groups and teams which will be formed in these departments. Surveillance activities are carried out by profession personnel who works in supervision departments who are employed for this purpose and assigned by Chairman .

(4) Institutions which supervision departments will be responsible for and profession personnel who will be employed in these departments are assigned by proposal of Assistant Chairman and approval of Chairman. For the purpose of resolving the workload intensity, profession personnel may be temporarily assigned in examinations of institutions which other supervision department is responsible for.

Agency Supervision Committee

Article 9 – (1) Agency Supervision Committee is formed by Agency Chairman, Assistant Chairman who is responsible for execution activities and Assistant Chairman who is responsible for supervision activities. Main duty of Committee is to provide coordination between supervision and execution units for the purpose of efficient execution of supervision and supervision conclusions.

(2) Committee meeting is held by the demand of Chairman and secretariat of Committee is carried out by Assistant Chairman who is responsible for supervision.

Supervision Plan

Article 10 – (1) (Amended:OG-24/2/2013-28569) After the supervision plans are prepared by group heads, they are evaluated by related department heads and are In this context; in supervision plans which shall be prepared by taking the risk profiles of banks into consideration, subjects are given place which is deemed proper among risk analyzes, examinations of financial soundness and regulation compliance and special purpose supervisions. Supervision which will be conducted in non-bank institutitons also takes place in supervision plan. In supervision plan by each institutiton, within previous examination results, surveillance findings, current risk evaluation findings and other issues, in supervision process, scope and level of on-site examination is determined. Duties which will be carried out by profession personnel depending on their expertise, supervision duties which these personnel will carry out in institutitons, planned duty periods and duty rankings are also specified in supervision plan. Scope and level of surveillance activities are determined by Departments which are responsible for surveillance activities, are presented to Chairman’s approval with Assistant Chairman’s favorable opinion.

(2) It is essential that scope and content of supervision plans must be tangible and they must contain the subjects about institutiton which is subject to supervision. Although it is essential that supervision plan must be executed without being changed during supervision cycle, it may be revised if needed. Changes in supervision plan can also be approved by Assistant Chairman if Chairman delegates authority. Subjects about supervision process and conduct of supervision is determined by supervision manuals.

Supervision Departments

Article 11 – (1) Supervision activities are conducted by Supervision Departments which take places under Assistant Chairman.

(2) Department Heads are responsible for;

- a) **(Amended:OG-24/2/2013-28569)** Presenting proposals about forming the supervision groups and teams, determining group heads and personnel who will conduct surveillance and changes which will be made for them to Chairman’s approval with Assistant Chairman’s favorable opinion,
- b) Evaluation of supervision plans of institutitons which he/she is responsible for and presenting them to Assistant Chairman,
- c) Conduct of supervision activities in compliance with these plans,
- ç) Organization of setting meetings with institutitons and entitites which provide services institutitons,
- d) Evaluation of supervision products and presenting them to Assistant Chairman in order to hand in them to related units of Agency,
- e) Organizing meetings with related units of Agency when deemed necessary,
- f) Fulfilling other duties assigned by the Chairman and Assistant Chairman

(3) Administrative and secretariat services of Assistant Chairman and Department Heads are carried out by administrative personnel. Necessary number of profession personnel may be assigned by Chairman’s approval under Departments in order to help Departments Heads.

Supervision Groups

Article 12 – (1) Supervision groups are formed by Sworn-in Bank Auditors, Assistant Sworn-in Bank Auditors, Banking Experts and Assistant Banking Experts. In each supervision group, among personnel who has at least five years on-site supervision experience, Chairman approves a group head in order to coordinate subjects about supervision and conduct the supervision.

(2) Group Head shall be assigned in way that he/she will be responsible for same institutitons for maximum three years. During their duty periods, Group heads are responsible for fullfilling their related duties and provide coordination between profession personnel in team. Dismissals

of Group Heads or changing their group head position is carried out by proposal of Department Head, favorable opinion of Assistant Chairman and approval of Chairman.

(3) Supervision of institutions under responsibility of each supervision group is conducted by necessary number of supervision teams which will be formed from profession personnel under group head. With the condition that it is related to supervision being conducted, Supervision group is authorized to request all kinds of information and documents and to conduct examinations in real and legal entities without considering group is responsible for those.

(4) In cases which group head takes leave, calls sick, being employed domestic or abroad or in other cases he/she is not on duty, profession personnel in supervision team with higher seniority by supervision experience is responsible for providing work share and coordination.

Supervision Teams

Article 13 – (1) Group head conducts the supervision of institutions which he/she is responsible for by supervision teams which will be assigned in institutions and which will be formed by approval of the Chairman. Sworn-in Bank Auditors, Assistant Sworn-in Bank Auditors, Banking Experts and Assistant Banking Experts are permanent members of supervision teams. If needed, with proposal of Assistant Chairman and approval of Chairman, necessary number of IT Experts and Assistant IT Experts, Law Experts and Assistant Law Experts may be assigned in supervision teams.

(2) Exclusively regarding the supervision of reliability and adequacy of information systems of institutions, separate supervision teams are formed consisting IT Experts and Assistant IT Experts by offer of IT Department Head and proposal of related Assistant Chairman and approval of Chairman. Working principles and procedures of these teams and supervision processes which they will conduct are determined by regulations which will be set by IT Department. These teams conduct supervision of IT systems of they participate in process of supervision of IT systems in line which Chairman approves in manuals and supervision plan. Supervision plans which are set by IT Department come into force with proposal of related Assistant Chairman and approval of the Chairman.

(3) Regarding the supervision of subjects inside of their duty area and upon the proposal of Law Department Head and by approval of Chairman, separate supervision teams are formed consisting Law Experts and Assistant Law Experts. Working principles and procedures of these teams and supervision processes which they will conduct are determined by regulations which will be set by Law Department. These teams conduct supervision in subjects which consists issues in their duty area or participate in process of supervision of institutions in line which Chairman approves in manuals and supervision plan. Supervision plans which are set by Law Department come into force with proposal of related Assistant Chairman and approval of the Chairman.

(4) If needed and by the approval of Chairman; joint supervision, examination, investigation Project and/or other working teams may be formed from profession personnel who works in supervision departments and other departments. In parallel of supervision techniques, teams may be formed by Chairman for supervision of risk models and examination of risk analyzes and providing specialization in banking subjects and accounting standards.

(5) **(Amended:OG-24/2/2013-28569)** In forming the supervision teams, Professional development and qualification of profession personnel is considered within the means. Profession personnel who are assigned for on-site supervision are put into rotation between groups once in two years maximum and between supervision departments in deemed proper periods by approval of Chairman. Institutions which profession personnel responsible for surveillance are put into rotation in deemed proper periods.

Supervision Types

Article 14 – (Amended: OG-23/10/2015-29511)

(1) Agency supervision system consists of two basic activities called on-site supervision and surveillance which complete each other:

a) On-site supervision consists of following activities and other on-site supervision activities:

1) Analysis of relations and balances between assets, receivables, own funds, debts, profit and loss accounts, liabilities and commitments of banks and analysis of all other factors affecting financial structure,

2) Examination of adequacy and efficiency of risk management, internal control and internal audit systems.

3) Evaluation of all risks which are important for banks including the risks arising from concentration, securitization, off-balance sheet and valuation practices and determination of risk profile,

4) Examination of banks for compliance with regulations which are set for maintaining capital and liquidity in level adequate to cover risks exposed or possible to be exposed by banks.

5) Examination of compliance of financial statements and records with accounting principles and standards.

6) Examination of compliance of activities with provisions of Banking Law No.5411 and provisions about institutions which are in scope of this Law in other regulations,

7) Analysis of reliability and adequacy of IT systems,

8) Examination of subjects about activities which contains specialty,

9) Consolidated supervision of financial holding institutions and/or bank affiliates and affiliates which are controlled together.

10) Evaluation of quality of corporate governance,

11) As being limited to services, examination of activities of real and legal entities who provide services to institutions,

b) Surveillance consists of following activities and other surveillance activities

1) Stress tests and scenario analyzes,

2) Surveillance and evaluation of changing process of financial structure and performance by periodical reporting,

3) Surveillance of development of ratings by using previous on-site supervision results and current data,

4) Providing an on time preception for changes in financial structure and performance by early warning systems,

5) Surveillance and analyzing of financial events by sector and institution,

6) Handling in contravention of legislations and reporting errors which are spotted through institutions reports to related units,

7) Compliance to legislations analysis

Supervision cycle

Article 15 – (1) Supervision conducted by Agency consists of independent processes which follows and repeats themselves. Dynamic processes which take place in supervision cycle may differ according to risk profile, size, variation and complexity of activities of each bank. **(Amended sentence:OG-24/2/2013-28569)** Following processes which take place in supervision cycle are carried out by group heads, supervision teams and profession personnel who are assigned for surveillance.

a) **(Amended :OG-24/2/2013)** Surveillance Process: Surveillance function in supervision process is conducted by Supervision Departments which are assigned for this purpose.

Surveillance activities are conducted permanently in each process of supervision cycle based on institution.

b) Risk evaluation and Creating Risk Profile: In this process within the framework of start-up meetings with managers of related bank, evaluation of surveillance data and other analysis techniques, works are done to constitute base for subsequent processes. Examination method and Essentials are stated in manuals regarding risk evaluation.

c) Preparation of Supervision Plan: Supervision plans are prepared within Essentials which are stated in Article 10 of this regulation.

Ç) On-site examination process: It consists on-site examination activities which will be conducted in institutions when needed in any stage of supervision cycle or if they are foreseen in supervision plan.

d) Conclusion meeting: Supervision conclusions are shared with institution management in a conclusion meeting.

e) Supervision Conclusions: Supervision is finalized by deciding rating which shows bank risk level and by preparation of supervision reports and other evaluations.

f) Execution of Supervision Conclusions: Supervision conclusions are handed in to other units in agency, The Board and related units establish transactions if deemed necessary.

2) If it is foreseen in supervision plan, all of the supervision cycle processes mentioned above are applied for banks; processes in (a), (c), (ç) and (f) sub-paragraphs of paragraph 1 are applied for non-bank institutions.

Denunciations, complaints and other examinations

Article 16 – (1) The denunciations and complaints submitted to the Agency in accordance with the Law On The Use of the Right to Petition dated 1/11/1984 No. 3071 and the applications for information submitted to the Agency in accordance with the Law on the Right to Information dated 9/10/2003 No. 4982 shall be subject to the preliminary examination, preliminary assessment, audit and enforcement stages. The application procedures and principles for each stage are determined by the President, taking into account the Regulation on Organization of Banking Regulation and Supervision Agency.

(2) In the preliminary examination and assessment stages regarding the denunciations, complaints and the transactions subject to the application for information submitted to the Agency, only if there is a strong suspicion that the provisions of Law No. 5411, Law No. 5464, on Financial Leasing, Factoring, Financing and Savings Financing Companies Law dated 21/11/2012 No. 6361 and the sub-regulations related to the laws aforementioned and other laws granting authority and responsibility to the Agency regarding banks and other financial institutions subject to the supervision of the Agency have been violated and if a conclusion is reached that a more detailed examination is required, the denunciations, complaints and applications for information are subject to inspection in accordance with the procedures and principles determined within the framework of the first paragraph. Otherwise, the application is finalized after feedback is provided to the applicant regarding the situation.

SECTION FOUR Supervision Conclusions

Supervision Products

Article 17 – (1) Supervision conducted are finalized by preparation of report, evaluation, written note or information note depending the nature of examinations.

(2) Data collecting in supervision process, methods and processes used for the evaluation of collected data, report types and principles and procedures for all mentioned above are determined by supervision manuals which are prepared by Assistant Chairman and approved by Chairman.

(3) Identified issues from supervision are shared with management of related institution in coordination of group head in final meeting and report is finalized by taking their opinions about subject. Opinions may not be taken for supervision conclusions which are thought objectionable to be shared with management.

(4) **(Amended:OG-24/2/2013-28569)** In preparing report; supervision cycle, supervision plan, supervision manuals and other manuals, practice instructions and sub-regulations are taken into consideration. Prepared on-site examination reports are handed in to department head with letter of referral. Supervision conclusions are sent to related units of Agency, other institutions or authorities by Assistant Chairman for information or necessary action to be taken. It is essential to give information to Assistant Chairman about the results of execution.

(5) In case profession personnel in teams have different opinions among them, dissident personnel puts opposition commentary in reports.

Resolution of errors and flaws in supervision products

Article 18 – (1) Supervision products handed in to department is examined by department. In this examination; existence of issues are looked for such as supervision products to be flawless, to be in compliance with manuals, opinions within to be in compliance and legal consistency. Supervision products which are not prepared in compliance with supervision manuals and legislations or which have errors and flaws are returned to related profession personnel for resolving them.

(2) Related profession personnel shall send supervision product back to department in due form with correcting errors, flaws and other issues which requires supervision product to be returned.

Consultation Commission

Article 19 – (1) Disagreement between profession personnel in supervision teams, between supervision teams and group head or supervision teams and department are resolved when deemed necessary by Consultation Commission which are established by Assistant Chairman with the proposal of related department head. Consultation Commission can also be established for problems emerged or possible to emerge. If disagreement emerges between department and Assistant Chairman, disagreement is resolved by Supervision Committee. Reasoned decisions of Consultation Commission and Agency Supervision Committee binds related Assistant Chairman, department and supervision team.

(2) Consultation Commission consists at least three people, majority of it consists group heads and the rest consists profession personnel who is responsible for supervision and who bear at least five years experience. If there is no Assistant Chairman decision about who will be president of commission, group head among members who has most experience becomes president.

Uniforming Supervision Conclusions

Article 20 – (1) For uniforming practices and enabling practices to be backed up by sound proofs and findings against possible legal disputes, as a result of Agency Supervision, in case of finding out actions which require legal investigation by taking the opinion of Law Department, assessments are given place in report about people who are thought to be responsible for those actions and whether they endanger the safety of bank activities or not.

SECTION FIVE
Various and Final Provisions

Sub-regulations

Article 21 – (1) If deemed necessary for subjects which are regulated by this regulation, sub- regulations which will come into force by approval of chairman, by authorization which has been determined in Banking Regulation and Supervision Agency Organization Regulation which has come into force by Council of Ministers Decision no.2005/9859 dated 28/12/2005 may be issued.

First practice of quality assurance system

Provisional Article 1 – (1) First practice period of provision No.7 of this regulation is decided by Board.

Entry into force

Article 22 – (1) This regulation comes into force on the date of publication.

Enforcement

ARTICLE 23 – (1) The provisions of this Law are enforced by the Chairman of the Board.