

2006



**BANKING  
REGULATION AND SUPERVISION  
AGENCY**

# ANNUAL REPORT





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REGULATION AND SUPERVISION  
AGENCY

# ANNUAL REPORT

2006

## **The Banking Regulation and Supervision Agency Annual Report**

- It is prepared in accordance with the transparency and accountability principles and in order to inform the authorities concerned as well as public.
- It can be resourced partly by quoting from the Annual report.

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The Annual Report prepared in accordance with Articles 97 and 101 of the Banking Law nr. 5411 regarding about the activities of the Banking Regulation and Supervision Agency is submitted to the Council of Ministers and the Grand National Assembly of Turkey. The Plan and Budget Commission of Grand National Assembly is informed on this issue once a year above mentioned. Furthermore, the Report is announced to public in the website of the Agency.

*The Annual Report 2006 prepared within this framework consisted of six main parts:*

- The first part of the Report consists of general information on the Agency.
- Second part includes the targets of the Agency.
- Third part includes the activities executed by the BRSA in functional basis in 2006.
- Fourth part is dealing with financial information of the Agency.
- Institutional capability and capacity of the Agency is evaluated in the fifth part of the report.
- The sixth and last part of the report includes an regulatory impact analysis related to new regulations and communiqués that came into force.

## **“BRSA Strategic Goals”**

- **Sufficient and Effective Corporate Governance**
- **Safe, Stable, Effective and Competitive Financial Market**
- **An Effective and Efficient Supervision System**
- **Flexible Regulatory Framework**
- **Transparent, Fair and Encouraging Practices Regarding Customer Rights**

**2006-2008**



Turkish banking sector is in a significant progress in recent years. Beside the comprehensive restructuring program implemented subsequent to the crises, the decisive policies applied and macroeconomic stability; regulation and supervision framework which is approximated to international standards is also one of the fundamental factors behind this progress. The Banking Regulation and Supervision Agency which has been always on the country agenda since its establishment, always targeted further points with its responsibility consciousness in each new year when compared to past and shared its activities with public within the scope of “transparency” and “accountability” principles which are among the Agency’s main values.

Duty and responsibility field of our Agency expanded and significant changes in organization structure occurred in the beginning of 2006. Pursuant to the Banking Law Nr. 5411, our Agency is responsible for the regulation and supervision of a total of 228 financial institutions that are 50 banks, 82 leasing companies, 87 factoring companies and 9 consumer financing companies. Total balance sheet value of the above-mentioned institutions amounted to TRY 520 billion as of end-2006. This amount corresponds to about 92% of the national income. When five asset management companies whose establishment and activity licenses were given by our Agency, independent audit institutions, 42 of which has financial authorization for banks, five has financial audit and information system audit authorization, two of which has information system audit authorization for banks by outsourcing and 48 foreign bank representative offices are added the number of institutions that are subject to supervision activities reaches to 330.

The 2006 agenda of our Agency included issues having priority such as beside the adaptation process relating modifications in duties and organization structure, the transition to risk-focused supervision, preparation of sub-regulations called for by the Banking Law Nr. 5411, Basel II preparation activities, adoption of the Agency Strategic Plan, the Financial Sector Assessment Program (FSAP-Turkey) studies, initiating new publications to

inform the public, and improving human resources of the Agency. On the other hand, the study on assessing the realization level of the goals and targets foreseen in the Strategic Plan has been initiated and the preliminary results of the very operations have been reflected in the report in question. 2006 is also important from the point that the cooperation among the Agencies and the coordination mechanisms became operative in order to assure the confidence, stability and development in the financial markets. In this scope, the studies of Coordination Committee aiming to develop the cooperation between our Agency and SDIF as well as Financial Sector Commission formed by all the related public institutions and the representatives of institution associations have been started.

Our Agency will have an heavy agenda also in 2007. Among others the completion of the preparations and the regulations relating to Basel II which are planned to passed in 2008, making operative all dimensions of regulations recently came into force such as implementation, supervision, feedback and assessment, completion of the FSAP-Turkey studies, starting implementation of Strategic Plan and forming intra-agency risk policies can be specified.

The BRSA Annual Activity Report is comprised of 6 sections. While in the first section the mission and vision of the Agency and the powers, duties and responsibilities thereof and the general information relating to the Agency are presented , in the second section aims and targets are included, and in the third section the activities of the Agency carried out within the year by basic processes are discussed herein. In the fourth section which is reserved to information and evaluations relating to activities, basically financial information regarding the Agency's activities is evaluated. The fifth section of the report is reserved to institutional capability and capacity evaluation. The results of a regulatory impact analysis relating to secondary regulations which were entered into force in 2006 are presented in the sixth and the final section. The information relating to the Chairman and the Board members who performed and are still performing duty and the publication list of the Agency are included in the annex part of the Report.

Right along that the Annual Activity Report is a transparency and accountability medium; it is an important resource which procures to take lessons relating to the future by making accounting of the previous year. From this aspect, we believe that the information and the evaluations included in the report constitute a starting point for our ambitious future targets and activities.

I wish that this Report be useful for all the interested parties.

**Tevfik BİLGİN**

Chairman



## BANKING REGULATION AND SUPERVISION BOARD



1. Prof. Dr. Yusuf TUNA
2. Mustafa EKİM
3. Ahmet ŞİRİN (Second Chairman)
4. Tefik BİLGİN (Chairman)
5. Yusuf Ziya ÖNDER
6. Hüseyin AL
7. Prof. Dr. Kemal ÇEVİK

(from left to right )

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## Abbreviations

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EU	European Union
ABC	Analytic Budget Classification
BRSA	Banking Regulation and Supervision Agency
BRS	Banks Reporting System
CAD	Capital Adequacy Directive
GS	Government Securities
SPO	State Planning Organization
FDIC	Federal Deposit Insurance Corporation
FED	Central Bank of United States
FSI	Financial Stability Institute
GATS	General Agreement of Trade Service
GAS	General Administrative Services
GRECO	Group of States against Corruption
IMF	International Monetary Fund
ISACA	Information Systems Audit and Control Association
ISE	Istanbul Stock Exchange
TRNC	Turkish Republic of Northern Cyprus
SME	Small and Medium Size Enterprise
FCIB	Financial Crimes Investigation Board
OCC	Office of the Comptroller of the Currency
OECD	Organization for Economic Cooperation and Development
OG	Official Gazette
HS	Health Services
CAR	Capital Adequacy Ratio
BAT	The Banks Association of Turkey
CBRT	Central Bank of the Republic of Turkey
TS	Technical Services
PBA	Participation Banks Association
SDIF	Savings Deposit and Insurance Fund
TUBITAK	The Scientific and Technological Research Council of Turkey
VPN	Virtual Private Network
WB	World Bank
WTO	World Trade Organization
SS	Subsidiary Services
TRY	New Turkish Lira





## 1. GENERAL INFORMATION

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### 1.1 Our Mission and Vision

---

The mission of the Banking Regulation and Supervision Agency (the BRSA) is; within the framework of its duties and authorities, to provide the confidence and stability in the financial markets, to bring competition power to the financial system, to ensure that the credit system work actively, to safeguard the rights and benefits of the depositors, to take necessary measures in order to ensure the institutions subject to regulation operate healthy and orderly in a market discipline.

Our vision is to be an executive authority in world standards, based on plentiful regulation and active supervision in financial markets, active risk management, competitiveness and efficiency in international scale, departure for the European Union, innovativeness, professionalism and perfection; trusted, possessing organizational harmony.

### 1.2 Our Main Values and Principles

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BRSA shall establish, implement and develop the required regulatory and supervisory frame in order to carry out its mission and implement its vision. In this scope, BRSA's main values are:

**Impartiality:** The BRSA equally treats all parties that operate in its scope, and avoids all types of discrimination.

**Transparency and Accountability:** Informing the public about the operations of the Agency regularly and being open and ready for public evaluation and audit any time.

**Effectiveness:** Regulatory, supervisory and institutional practices are carried out regarding cost/benefit approach and special attention is given to preventing the occurrence of any possible effects that could distort the competitiveness amongst institutions. Activities are carried out by a specialist and devoted staff with high ethical values.

**Responsiveness:** Risks in the financial system are handled in a rapid and effective manner and legitimate demands of the individuals and institutions related to the activities of the Agency are timely and effectively responded.

**Participation:** Views of related parties are received and noticed during the process of drafting regulations and implementation thereof.

**Cooperation:** BRSA operates in close cooperation with related national and international institutions/organizations.

**Professionalism:** The Agency considers the benefits of the public in reaching its targets, takes responsibility and accepts the charge of accountability.

**Consumer Oriented Service:** To make the consumers conscious about financial services, to review the regulations and policies in accordance with the propositions and complaints.

**Respect,** To act in a respectful, fair and perceptive manner to the related parties, to set a value on different ideas and views and to act in a Professional manner during carrying out the responsibilities.

### 1.3 Duties, Authorities and Responsibilities

---

The Banking Regulation and Supervision Agency is established as a public legal entity with administrative and financial autonomy, with the repealed Banks Act Nr. 4389 published in the Official Gazette Nr. 23734 dated June 23, 1999 as a result of the policies for increasing the effectiveness of supervision and surveillance system and ensuring independent decision-making mechanisms. In the Banking Law Nr. 5411 which is in effect subsequent being published in the repeated Official Gazette dated November 01, 2005 and Nr. 25983, the responsibilities of the Agency, within the framework of the Law and related legislation in order to ensure the confidence and stability in financial markets, the sound operation of the credit system, the development of the financial sector and the protection of the rights and interests of depositors, are determined as;

- To take necessary decisions and measures in order to protect rights of depositors and ensure sound operating of the credit system and to implement them,
- To regulate, enforce and ensure the implementation of the establishment, activities, management and organizational structure, merger, disintegration, change of shares and liquidation of banks and financial holding companies and with the reservation of the provisions of other laws and the related regulation, financial leasing, factoring and consumer financing companies, and monitor and supervise enforcement of such,
- To become members of international financial, economic and professional organizations, in which domestic and foreign equivalent agencies participate, sign memorandum of understanding with the authorized bodies of foreign countries regarding the matters that fall under the Agency's field of duty,
- To fulfill other duties assigned by the Law.

The Banking Regulation and Supervision Board, the decision-making organ of the Agency was appointed for the first time by the decision of Council of Ministers Nr. 2000/313 dated March 23, 2000 and the service units of the Agency and the responsibilities and duties of them were arranged by the “Regulation on the Organization of the Banking Regulation and Supervision Agency” which was published in the Official Gazette Nr. 24087 dated June 22, 2000 by the Resolution of the Council of Ministers, upon the proposal of the Board. The Agency started to operate in Ankara at its main building on August 31, 2000 with the relevant public units which were previously under the structure of the Undersecretariat of the Treasury and the Central Bank of the Republic of Turkey as well as the assigned personnel from the Undersecretariat of the State Planning Organization and Finance Ministry.

Comprehensive changes were made in the Agency’s Organization structure in 2002, 2004 and 2005 due to service necessities and the changes in legislation. In this context, while some units were added to the organization structure in 2002, an integrated structure where the licensing, monitoring and enforcement functions are carried out together, was adopted by a comprehensive reorganization program in 2004.

According to the new arrangement made pursuant to public management reform, number of departments is determined to be 10, on-site audit and off-site surveillance functions are integrated and gathered under the same unit; besides sworn banks auditors and assistant sworn bank auditors, audit teams to perform on-site audit shall include other profession personnel to be deemed appropriate by the office of chairmanship, personnel system of the Agency and status of personnel is re-defined. Finally, the organization structure is rearranged by the Banking Law Nr. 5411 as well as the “Decision of Council of Ministers on the Regulation on the Organization of the Banking Regulation and Supervision Agency” published in the Official Gazette Nr. 2005/9859 dated December 31, 2005, to be effective as of January 01, 2006.

On the other hand, BRSA Strategic Plan which reflects the strategic goals and targets relating to the realization of mission and vision of the Agency is put into effect for 2006–2008 period; in this plan, it is mentioned that international standards and financial developments, mainly EU Capital Adequacy Directive and Basel II, will be followed-up; and that studies will be made on regulations relating to accounting, provisions, internal audit and risk management systems as well as data processing infrastructure of banks in order for the compliance with Acquis Communautaire.

## 1.4 Information on the Agency

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### 1.4.1 Physical Structure

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Ankara Business Tower owned by Real Estate Investment Trust was rented in 2000 as the main service building. Pursuant to the last revolving lease agreement, it was provisioned that the determination of lease beginning as of November 1, 2001 shall be extended in case not announced in end of five years, while the determination of lease was extended by five more years as of November 1, 2006. The building in question is constituted of three blocks and 24,440 square meter of total use.

Istanbul service building of the Agency was rented from Anadolu Hayat Emeklilik A.Ş. in 2001 and it was provisioned that the determination of lease beginning as of June 1, 2004 shall be extended in equal standing in case not announced in end of one year. Upon the last additional leasing, total use of the building reached to 5,833 square meters.

As standard physical settlement, in office floors in Ankara and Istanbul service buildings, there are manager and meeting rooms and personnel tables organized in open office system. According to the settlement in open office system, an area of eight square meters allocated to each and every personnel. Joint use areas on the other hand are meeting rooms, cafeteria, dining hall, library and education halls.

Agency structure and developing field of activity specified in the Banking Law Nr. 5411 and the increasing numbers of personnel in parallel leads the current physical conditions gradually become insufficient. The fact that joint use areas relating especially to services such as conference, meeting, in-service training, library and parking lot could not literally meet the demand and that vertical architectural structure which does not enable social activities require an appropriate and ergonomic building to be obtained in the following period which can respond the needs and organization style of the Agency better.

### 1.4.2 Organization Structure

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The organization structure of the Agency was composed within the scope of the Banking Law Nr. 5411 and based on the Law thereof, the Regulation on Organization enforced upon the resolution of the Council of Ministers as of January 1, 2006.

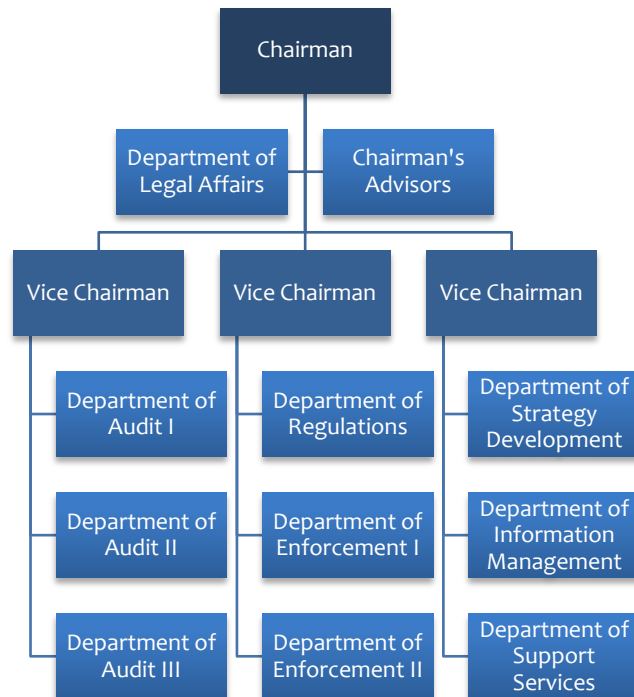
The Agency is composed of the Banking regulation and Supervision Board and the Chairmanship. The Board is the resolution organ of the Agency and consisted of seven members including the Chairman and the Vice-President. The Chairman of the Board at the same time is the Chairman of the Agency. The members are assigned by the Council of Ministers among those who have at least ten years of experience following university. It is required that at least one of the members should be law school graduate, and one should

have worked in the Agency as a vice-president, main service unit manager or Professional employee. Term of Office of the Chairman and the members of the Board is six years and their terms of office cannot be terminated unless expired.

Chairmanship is organized of; Chairman, three Vice-President, Chairman Advisors and service units. Service units of the Agency are constituted of 10 departments of which main service, advisory and associate service units organized as headships. Moreover, if necessary, coordinator personnel can be assigned within the department structure, in order to assist the heads of the departments and to provide the necessary coordination between the personnel in charge in departments thereof.

On the other hand, there are supervision groups composed of sworn bank auditors and assistant sworn bank auditors and banking specialists and assistants banking specialists within supervision departments structure, while there are supervision teams performs in institutional base within supervision groups. In addition to that, common supervision, inspection, inquiry, project and/or other work teams can be formed among the professional personnel performing in supervision departments and other departments in supervision of the adequacy and security exclusively of information systems or legal subjects or in necessary cases approved by the Chairman; and teams can be organized in order to supervise risk models and inspect risk analysis, to obtain expertise in banking subjects and in accounting standards.

Organization chart of the Agency is as follows.



### 1.4.3 Information Systems

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The complicated structure of the supervised sector and the intensive usage of information and information systems in the sector require the BRSA to convert the information acquired from large amount of data sets into the analysis and decision support systems rapidly and flexibly, by using the advanced information technologies in the most effective way. The BRSA, with a vision and strategy beyond complying with these elementary requirements, follows the developments in information technologies and information management approaches closely and tries to use the developing new technologies at the highest level in order to help the Agency realize the contemporary technology transformation.

The BRSA system architecture, designed under efficiency, flexibility, scalability, rapid development, and security and durability principles, enables the improvement of central institutional applications quickly and effectively within the Agency, by employing current qualified information technologies personnel. Thanks to the independence of application development process, basic support applications can be scaled and developed without interruption. Due to the flexibility of this structure, both the basic financial information and other information of leasing, financing and factoring companies whose regulation and supervision is transferred to the Agency upon the Banking Law Nr. 5411 can be quickly started to collect from the institutions within the scope of current Banks Reporting System (BRS). It is thought that the improved system architecture enables much flexibility and facility in the acquisition, storage and analysis of new information predicted to reach high volumes and in developing new practices in the Basel II accord process; new technology investments are continuing in order to help the system architecture support the Basel II process the most effective level.

The BRSA which has high bandwidth internet connection between Ankara and Istanbul sites accesses to internet via both sites with a high capacity connection. Moreover, there are network connections via leased lines to some public institutions from Ankara network. The entire professional personnel can access to the BRSA information systems based on client-server structure via their laptops, in addition the personnel outside of the Agency can access the BRSA network resources through internet and encoded by means of VPN (Virtual Private Network) application.

### 1.4.4 Human Resources

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Within the scope of the Banking Law Nr. 5411, professional personnel composed of vice-presidents, heads of the departments, managers, advisors of the Chairmanship and sworn bank auditors and assistant sworn bank auditors, banking specialists and assistant banking specialists, law specialists and assistant law specialists, information technologies specialists and

assistant information technologies specialists and agency specialists and lawyers are employed in staff equivalent contract status. The personnel in staff equivalent contract status are subject to the Public Employee Law Nr. 657 except wage, financial and social rights, while the remaining personnel are subject to the law thereof in any right and responsibilities.

Total staff number of the Agency is determined as 851 pursuant to the statement (I) annexed to the Banking Law and the number of staff who is not qualified in management, advisor and professional personnel is limited to 30%.

**Table 1.1: Distribution of the Agency Positions and Personnel**

(December 31, 2006)	Number of Positions	Share %	Number of Personnel Employed	Share %
Executive	17	2,0	14	2,7
Advisor	5	0,6	4	0,8
Specialized Personnel	622	73,1	363	70,6
Other Personnel	207	24,3	133	25,9
<b>Total</b>	<b>851</b>	<b>100,0</b>	<b>514</b>	<b>100,0</b>

The total personnel number was 443 by the end of 2005, 20 people has quit the Agency and 91 people has been appointed since then, and the total number of personnel has reached to 514 by the end of 2006, which is composed of 3 vice chairmen, 9 Department Heads, 2 Directors, 4 Chairman's Advisor, 150 Sworn Bank Auditors, 213 Banking Specialists and 133 other personnel. After the appointments of 67 people which succeeded in the competition exams realized within 2006, the average age of the Agency personnel which has generally a young profile decreased a little more and the rate of personnel between 20-30 years which was 54.2% by the end of 2005 increased to 56.6%.

**Table 1.2: Age Profile of the Personnel**

(December 31, 2006)	2005		2006	
Age Group	Number of Personnel	Share %	Number of Personnel	Share %
Between 20-30 Years	240	54,2	291	56,6
Between 31-40 Years	135	30,5	150	29,2
Between 41-50 Years	58	13,1	59	11,5
Between 51-60 Years	10	2,2	14	2,7
<b>Total</b>	<b>443</b>	<b>100,0</b>	<b>514</b>	<b>100,0</b>

Within the scope of the education policy, the Agency's personnel is participating to domestic and abroad training programs, and the master education is promoted to provide the necessary specialization. Within this scope, the number of personnel with a master's or doctor's degree which was 15.8% by the end of 2005 increased to 16% by the end of 2006.

**Table 1.3: Number of Personnel by Academic Backgrounds**

(December 31, 2006)	Undergraduate	Graduate	Master	PHD	Other
Executive	-	5	9	-	-
Advisor	-	2	-	2	-
Specialized Personnel	-	299	58	6	-
Other Personnel	19	77	6	1	30
<b>Total</b>	<b>19</b>	<b>383</b>	<b>73</b>	<b>9</b>	<b>30</b>
<b>Share (%)</b>	<b>3,7</b>	<b>74,5</b>	<b>14,2</b>	<b>1,8</b>	<b>5,8</b>

When the distribution of the Agency personnel by their education is observed, it is seen that the graduate personnel had mostly education in the economics and administrative sciences fields. On the other hand, the expansion of the Agency's duties and authorizations and especially the needs appearing in the matters of supervision of information systems and risk management increase the necessity of employment of personnel in technical fields like engineering and mathematics-statistics.

**Table 1.4: Distribution of the Graduate Personnel by Main Fields**

(December 31, 2006)	2005		2006	
	Number	%	Number	%
Economics and Administrative Sciences	305	76,6	344	74,0
Law	29	7,3	36	7,7
Engineering	39	9,8	48	10,3
Mathematics- Statistics	6	1,5	16	3,4
Other	19	4,8	21	4,5
<b>Total</b>	<b>398</b>	<b>100,0</b>	<b>465</b>	<b>100,0</b>



## 2. GOALS AND TARGETS

### 2.1 Goals and Targets of the Agency

The fundamental goal of the Agency is to provide trust and stability in financial markets, to make the loan system work actively, to protect the rights and interests of the clients using financial services.

On the other hand, in 2006, a Strategic Plan aiming to determine the steps that should be taken to fulfill the Agency's mission, to eliminate the uncertainties and to be a guide was prepared. Within the scope of the Strategic Plan which presents a long-termed and future-oriented point of view.

The strategic goals and targets of the BRSA including years 2006–2008 are presented in the table below.

**Table 2.1: Strategic Goals and Targets**

GOALS	TARGETS
<b>1. A secure, stable, active and competitive financial market</b>	1.1 To strengthen the trust and stability in financial markets, to develop a more healthy environment
	1.2 To develop the activity and competition in financial markets.
<b>2. An active and effective supervision system</b>	2.1 To strengthen the supervision system with risk focused approach for a banking system working regularly and safely.
	2.2 The permissions and audit results to be applied consistently and prudently with the banking systems working regularly and safely.
	2.3 To continue actively the preparations of Capital Adequacy Directive/Basel-II.
<b>3. An elastic regulative framework</b>	3.1 The regulations predicted within the Law to be prepared by taking opinion of related parties.
<b>4. Transparent, fair and encouraging applications related to the clients rights</b>	4.1 To make the clients conscious about their rights, to protect their rights and interests, to develop protective practices.
	4.2 To resolve the consumer warnings and complaints
<b>5. Sufficient and Effective Corporate Management</b>	5.1 The activities to be realized professionally, in an open and effective way.
	5.2 To increase the activities of illuminating public.
	5.3 To employ and train personnel with high qualification working effectively and productively
	5.4 To activate the management of physical and financial resources as to increase corporate capacity.
	5.5 To prepare and apply the projects developing corporate ability.

## 2.2 Fundamental Policies and Initiatives

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The fundamental policy and initiative of the Agency is to provide the effective distribution of the sources in financial system, to develop the necessary environment for the financial institutions to reach a more competitive structure, and to provide the integration with international financial markets.

Our initiatives within the light of the Ninth Development Plan (2007–2013), the National Program and the Agency's Strategic Plan are listed below.

### **Related to the effective and active supervision system:**

- To strengthen and spreading risk focused supervision,
- To ameliorate the practices related to consolidated supervision,
- To provide the coherence to the EU legislation related to the supervision of financial holdings,
- To accomplish the preliminary studies related to CRD / Basel II and to start the practice.

### **Related to the elastic regulative framework:**

- To make regulations providing the risk management to be applied in all the financial institutions subject to the Agency's supervision.

### **Related to the sufficient and effective corporate management:**

- To increase the ability of the Agency by the implementation of the Agency's Strategic Plan with all its aspects.

### **Related to the safe, stable, active and competitive financial market:**

- To strengthen trust and stability in financial markets, to develop a more healthy environment,
- To implement the sub-regulations which became effective recently,
- To ameliorate the risk management and corporate management practices in Banks,
- To increase the collaboration and information sharing with domestic and foreign supervision authorities,
- To annul the competition barriers in front of financial institutions and markets, to reduce the costs of intermediation to minimum,
- To increase the integration in the markets by increasing the dialogues and collaboration between institutions and profession groups.

### **Related to the transparent, fair and encouraging client rights:**

- To make the clients conscious about their rights, to protect their rights and interests, to develop protective practices.

The Banks Act Nr. 5411, prepared coherently with the European Union Legislation is one of the most important steps taken relating to the integration of our financial system with international financial markets.

Another important step taken within this framework is the accordance studies to the International Convergence of Capital Measurement and Capital Standards (Basel II). Important distance has been covered within this process, and in the mean time a road map have been prepared and denounced to public. Additionally, the accomplishment of the sub-regulations related to the Banks Act, the execution of new protective standards (augmentation of the general reserve ratios, target CAR etc.) are composing the infrastructure of the risk focused and prudent supervision.

Moreover, relating to making permanent the trust and stability in the financial markets and to develop sectoral collaboration, the Financial Sector Commission and Coordination Committee, composed of the representatives of several public bodies and institutions are formed and made operative.

### 3. ANNUAL ACTIVITIES OF THE AGENCY

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#### 3.1 Supervision Activities

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As known, pursuant the Banks Act Nr. 5411 which became operative in November 1<sup>st</sup>, 2005, the onsite supervision and surveillance activities of the Agency are re-regulated with the Regulation on the Organization of Banking Regulation and Supervision Agency which came into effect in January 1<sup>st</sup>, 2006. With the Law, the supervision scope of the Agency is expanded as to include financial holdings, financial leasing, factoring and consumer financing companies. Accordingly, the onsite supervision which will be performed in the institutions subject to supervision shall be within the framework of study programs formed with the approval of the Chairman of the Agency and shall be performed by a supervision team which will be composed of sworn banks auditors and their assistants, banking specialists and their assistants, legal specialists and assistants.

In the new structure, three Supervision Departments have been formed to conduct the surveillance and onsite supervision of the institutions subject to Law, the Regulation on Principles and Procedures of the Supervision Which Will be Conducted by Banking Regulation and Supervision Agency, prepared pursuant the legal provision declaring that the principles and procedures related to supervision and surveillance will be determined by the Regulation prepared by the Agency, is entered into force subsequent its publication in the Official Gazette Nr. 26236 dated July 22, 2006. With the mentioned Regulation, it is expressed that the matters related to the supervision process and the practice of the supervision shall be determined with the supervision guide. Within this framework, the studies of overview of the supervision guides in use as to enclosing the amendments determined in the Law and the Regulation are accomplished and supervision activities are conducted within the scope of new guides.

##### 3.1.1 Onsite Supervision and Surveillance

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The supervision activity includes the whole of the onsite supervision and surveillance activities conducted in the institutions by the specialized personnel using the authorities the Law assigned to the Agency. The mentioned activities are fundamentally composed of analyzing several indicators relating to the financial performances of the banks (deposit banks, participation banks, development and investment banks) in a consolidated and/or non-consolidated base daily, weekly, monthly and quarterly, preparing periodic reports, determining the potential problems and weaknesses by stress tests, and in case of determining negative developments or fixations, informing the decision making corps without waiting the standard report to

be prepared. In the fulfilling of the supervision function, several data resources, and especially the ones in the Agency's data base are used.

### **Box 3.1: Data Resources Used in the Supervision Process**

To fulfill the supervision function in an effective and active way, it is necessary to use a wide range of data resources. The fundamental data resources, the ones reported in consolidated and/or non-consolidated base to the Agency's data base by the related institutions being ahead are as following:

- “Surveillance Reporting Set”, formed daily, weekly, monthly and quarterly, related to the following of the financial statements and limitations to which the Banks are obliged to comply within the framework of Banks Act Nr. 5411 and the related legislation,
- “Daily Reporting Set” including daily data procured within the aim of close monitoring of the liquidity situation of the system, cash flows and safekeeping values and taking the necessary measures in time,
- “Financial Institutions Abroad Reporting Set”, composed of daily, weekly, monthly and quarterly forms, related to the banks' subsidiaries subject to consolidated supervision and the branches conducting off shore activities,
- “Internal Audit and Risk Management Systems Reporting Set”, which the Banks declare pursuant the Regulation on The Banks' Internal Audit and Risk Management Systems,
- “Market Risk Reporting Set” prepared with the aim of monitoring the position risks of interest rate, exchange rates and shares and the capital adequacies related to these risks, within the framework of Regulation on Measurement and Evaluation of the Banks' Capital Adequacy,
- “Non- Bank Financial Institution Reporting Set”,
- Reports, comments and other analyze results prepared by the supervision teams consequent to the onsite audit activities,
- Independent audit reports.

## 3.1.2 The Organization of Audit Activities

### 3.1.2.1 Supervision Teams

The supervision of the banking system in the name of public, is being executed by the mediation of ten supervision group which were formed in the Vice-presidency concerned and three Department of Supervision related to thereof . Supervision Groups are comprised of sworn bank auditors and sworn bank auditors and banking specialists and as well as assistant banking specialists.

### Box 3.2: Supervision Types

It is comprised of two core activities supporting and complementing each other under the name of Agency's supervision system, on-site supervision and surveillance.

#### **On-site Supervision:**

##### **Is comprised of;**

- Analysis of concerns and balance amongst the Banks' assets, receivables, own funds, debts, profit and loss accounts, liabilities, and commitments and all other respects affecting financial structure
- Analysis of the adequacy and the efficiency of risk management and internal control systems.
- Making the risk evaluation and determining the risk profile
- Supervision the conformity of financial structure and the records with accounting principles and standards
- Supervision the conformity of the activities with the provisions of the Banking Law Nr. 5411 and the provisions included in other laws concerning the institutions within the scope of the Law thereof
- Analysis of the adequacy and reliability of information system,
- Analysis of the topics relating to the activities displaying qualification
- Consolidated supervision of financial holding company and/or banking partnership and jointly controlled partnership,
- Evaluating the corporate governance quality
- Supervision, by being limited with the service they furnish, the activities of natural and legal entities, and
- Other on-site supervision activities.

#### **Surveillance: is comprised of;**

- Stress tests and scenario analysis,
- Monitoring and evaluating the changing process in financial structure and performance with the mediation of periodical reporting.
- Following the development of the grading notes by using current data and the results of the previous on-site supervision
- Procuring to detect the changes timely in the financial structure and performance by early warning system,
- Transmitting the illicit acts to the legislation determined upon establishment reporting and reporting defaults to group president ,

Supervision groups are monitoring the developments in financial markets in theoretical and practical level at first hand and are executing their supervision activities within the scope of risk focused supervision approach and with the guidelines prepared in parallel with international practices.

**Table 3.1: Institutions within the scope of Supervision**

Type of Institution	Number	
	2005	2006
Deposit Banks	34	33
Participation Banks	4	4
Investment and development banks	13	13
Leasing Firms	84	82
Factoring Firms	88	87
Consumer Finance Companies	9	9
Asset Management Firms	4	5
Institutions having the authority to make financial audit in banks	41	42
Institutions having the authority to make financial audit and Information systems audit	-	5
Institutions having the authority to make information systems audit in banks and to make audit on field work procurement process	-	2
Foreign Bank Representative Offices in Turkey	44	48
<b>Total</b>	<b>321</b>	<b>330</b>

Supervision activities comprise risk focused supervision, supervision of legislation, denunciation and complaint analysis, and analysis and researches relating to the respects comprehending the sphere of duty and the authority of the Agency.

Within the scope of risk focused supervision approach of which was initiated to be practicing as of the beginning of 2006, Risk Evaluation Reports of the banks were prepared and the on-site supervision of the banks were realized by composing supervision plans according to risk profiles determined in bank basis. As a result of the supervision realized in the said period, a total of 235 reports , as being legislation, financial structure, Denunciation and Complaint, risk evaluation, and other respects, were prepared.

On the other hand, appointments, made in consequence of the demand of Turkish Prime Ministry Inspection Board, The Grand National Assembly of Turkey Researches Commissions and Republic of Turkey Ministry of Finance Financial Crimes Investigation Board Chairmanship, certain public

prosecutors and other agencies and institutions concerned, were included in the activities executed.

The detailed information relating to the reports arranged by supervision teams in 2006 as a result of the various researches and analysis is presented hereunder.

**Table 3.2: Reports Prepared As a Result of the Audits**

Reports	2005		2006	
	Number of Reports	Distribution %	Number of Reports	Distribution %
Risk Evaluation	0	0,0	50	21,3
Legislation Audit	114	44,7	64	27,2
Financial Structure Analysis	44	17,3	27	11,5
Denunciation and Complaint	71	27,8	43	18,3
Abroad Analysis	18	7,1	0	0,0
Task Loss Determination	3	1,2	0	0,0
Other	5	2,0	51	21,7
<b>TOTAL</b>	<b>255</b>	<b>100,0</b>	<b>235</b>	<b>100,0</b>



### 3.1.2.2 Risk Team

The Risk Team was formed pursuant to the paragraph (a) which predicting the surveillance, analysis and measurement of the complying level of the internal control, risk management and internal audit systems and corporate governance principles of the institutions within the scope of the Law and the paragraph (n) which predicting the evaluation and analysis of models techniques and processes used by the institutions relating to internal audit, risk measurement and management and the paragraph (u) which predicting that the developments relating to auditing techniques and processes in the banking sector and the Agency shall be informed and be advised in respect of thereof ,of the Article 15 of the BRSA Regulation on Organization relating to the departments of supervision.

The risk team is basically responsible from the research of risk measurement techniques and analysis methods, transmitting the results of the research thereof to the units concerned, evaluating the general risk level of the sector and the supervision of risk measurement models.

The Main Duties of the Risk Team is presented hereafter;

- Developing supervision practices that shall promote the banks to use more developed risk measurement methods and systems.
- Following the international practices relating to risk measurement models and systems
- Analyzing, evaluating, following the models and techniques used by the bank and financial institutions
- Realizing the off-site supervision activities in the light of the information of which the banks have procured to the Agency and the on-site supervision activities predicted within the scope of supervision plans,
- Providing support to supervision teams in respect of the banks' internal audit and risk management systems' audit.
- Making researches relating to the supervision activities concerning the risks to which the banks are faced and the evaluation of the risks thereof, developing techniques and proposals and rendering report to senior management.

The activities executed in 2006, and currently being executed by the risk team is presented hereunder;

- On-site supervision of the market risk models in 12 bank which were selected as sample

## Annual Activities of the Agency

- Auditing the Standard Method Practice used in capital adequacy account for market risk in the said banks,
- In case of demanding for the market risk models which are currently being used by the banks be used in legal capital account, ascertaining in which level thereof covers Basel II conditions in its current state,
- Arranging a market risk report for each bank as a result of the said analyses made.
- Following the market risk reporting , preparing a general market risk report
- Presenting the researches made in respect of Basel II as in-service training
- Sharing the other deficiencies determined in on-site audits with audit teams responsible from the bank.

### *3.1.2.3 Consolidated Analysis and Macro Reporting Team*

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Consolidated Analysis and Macro Reporting Team was formed in accordance with the sub paragraph (a) on the surveillance, analysis and measurement of references and balances between risk structure and the assets, receivables, own funds, debts, profit and losses, liabilities and commitments as well as the other elements effecting the financial constitution, and the sub paragraph (f) on the proposals on the evaluation of the gathered information taken from the Agency or which is in the Agencies database, practices and precautions taken, and the sub paragraph (t) on making contribution to the measurement and development process of the financial analysis techniques such as early warning method and reports, financial rates, performance reports and financial power rating which enable to take precautions on time and to determine the reflections which can be the result of the financial performances of the institutions, the risks they carry and the other developments in the financial conditions; of the Article 15 on the Departments of Audit of the Regulation on Organization.

The Consolidated Analysis and Macro Reporting Team is basically responsible for the constitution of solo or consolidated base surveillance statements from the Agencies database in the formats determined before, and the evaluation of them on the solo or consolidated base, the transfer of these statements to the regulation teams and the related departments of the Agency, realization of the duties such as evaluating the consolidated sector and submitting to the related regulation teams.

The sector reports prepared in the scope of sectoral reporting in various periods in the Agency and continued to be prepared actually are observed; the said reports are evaluated by the duties of the Departments of

Supervision in the framework of the Agencies new organization structure, and the preparation of 16 Reports such as market developments, deposit, rate risk, loans and derivative products, collective sector data, stress test, liquidity and borrowings, securities portfolio in weekly, two weeks, monthly and three months period is scheduled. The reports prepared regularly in 2006 are as follows.

**Table 3.3: Consolidated Analysis and Macro Reporting**

Report Title	Report Number	% Dispersion	Preparation Period
<b>I. Open to Public</b>			
Rate Risk Evaluation Report	1	0,5	Six Months
<b>II. Open to the Agency</b>			
Macro Bulletin	17	9,1	Weekly
Weekly Summary	22	11,8	Weekly
Development of the Deposit and Interest Rates	26	13,9	Two Weeks
FXNP/ Own fund Report	44	23,5	Weekly
Development of the Individual Loans	41	21,9	Weekly
Liquidity and Borrowing Report	20	10,7	Weekly
Derivative Trans. and Off-Balance Sheet Liability Report	1	0,5	Three Months
Stress Test Results	9	4,8	Three Months
Monthly Sectoral Data	6	3,2	Monthly
<b>TOTAL</b>	<b>187</b>	<b>100,0</b>	

A brief information on the reports listed in the table is stated below.

- “Macro Bulletin” in which the changes occurring in macroeconomic indicators and general evaluations are addressed, “Weekly Summary” in which the asset and liability items chosen on the sector is followed, “FXNP/Own fund Report” in which the developments occurring in FX Net Position/Own fund of the banking sector and the sector, banking group and the bank base data is shown, “Note on the Development of Individual Loans” and “Liquidity and Borrowings Statement” in which the development of the type, banking group of the individual loans and the changes of loans and the rates of credit card interest rates is followed, and the banking group and bank base data is shown,
- “The Report of the Development, concentration of Deposit and Interest Rates” in which the development of the deposit in the bases of type, maturity, bank group, Turkish Money, FX and the market interest rates are analyzed,
- “Monthly Sectoral Data Report” in which the changes occurring in the asset and liabilities chosen in sector and bank base within the month,

- “Turkish Banking Sector Rate Risk Evaluation Report” in which the developments occurring in FX Net Position of banking sector and derivative transactions of the sector and the rate origin risks, “Turkish Banking Sector Stress Test Report” in which the fragility of the sector under the negative sceneries experienced in financial markets is evaluated, the endurance against banking crises is tested and the collective risk evaluation in the scenery determined in the sector is made, “Turkish Banking Sector Derivative Transactions and Off-Balance sheet Liability Report” on the capacity, progress and risk level of off balance sheet liability and derivative transactions in the banking sector.

It is aimed to put “Computer Assisted Onsite Supervision Application Software, Counseling Training and Support Service Project” started in April 2006 into practice in order to implement the supervision and surveillance operations of the banks and the other related institutions in the framework of supervision plans and to increase the efficiency, quality and speed of the Agency’s supervision process and the supervision process and the studies of the guideline updates in accordance with the Regulations published or will be published in the scope of Banking Law Nr. 5411.

### Box 3.3: Risk Focused Supervision

Risk Focused Supervision (RFS), which the Agency adopted in the supervision activities, means to shape the supervision method, scope, time, intensity, allocation of supervision sources and supervision activities by taking the existence of each bank's risk profile as well as internal supervision and risk management systems as a base. The expected benefits from RFS Approach:

- Increasing the efficiency and effectiveness of supervision function of the Agency,
- Realizing the supervision in dynamic and uninterrupted process,
- Complying with EU Directives and international standards,
- Determining the important changes in the risk profile as a result of the changes and complexity of the financial operations and products,
- Using new supervision techniques providing efficient supervision of the risk profiles in the Banks,
- Taking precautions to manage risks and decrease the probability of its being a loss by defining, measuring and controlling the risks that banks carry (proactive supervision),
- Preventing the problems occur again by focusing on the results of the problems in banks.
- Keeping up with the changes experienced in the financial system,
- Decreasing the systemic risks,
- Increasing the endurance against the crises by providing efficient internal supervision and risk management systems in the banking system and the banks.

The aim of the supervision made in the framework of RFS is to provide understanding of the levels and types of the risks and control of them. In this framework, the quality and efficiency of the risks is important other than the risks they take as of a specific date by the activities of the banks.

RFS enables the Banks to allocate more resources to the areas where the risk is high. The Agency will realize this by;

- By determining the risks in the framework of the risk definitions generally accepted,
- Measuring the risks on general risk evaluation factor base,
- Evaluating risk management systems to determine if the banks manage and control the determined risk levels adequately
- Providing more resource reserve to the high and increasing risk areas in the bank or in the sector,
- Considering the examinations made based on the supervisions and follows to the problematic areas and the ideas on the risks that the banks carry, risk profile and the situation.

### 3.2 Regulation Activities

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According to the Banking Law Nr. 5411, the Agency is authorized to issue regulations and communiqués regarding the enforcement of this Law, through Board decisions.

In the function of regulation it was performed such activities like preparing the banking legislation, providing the accordance with the Acquis Communautaire and the international principles and standards, making amendments in the legislation in accordance with the needs appeared in practice and publishing circulars or delivering opinions about the uncertainties related to the mentioned regulations.

In the scope of the legislation studies, drafts prepared by the Agency are open to the public and they can be seen in the web page of BRSA. In this content the sector's opinions on all drafts is taken through associations of institutions. Besides, the proposals and the opinions of the related agency and institutions are taken in necessary situations. The drafts revised in the framework of the opinions and proposals are submitted to the consultation of the related Ministry about its relation with sector strategy and policy, to the State Planning Organization about its relation with the progress plan and annual program in accordance with the Article 93 of the Banking Law Nr. 5411. Following the evaluation of the said opinions and suggestions, it is submitted to the approval of the Board. The regulations and the communiqués approved by the Board are sent to the Prime Ministry to be published in the Official Gazette.

In this content, two law drafts were prepared and became a law in 2006. Twenty-four Regulations were put into force within one year in accordance with the Banking Law 5411. Besides six regulations, which are not subject to the restricted time in the Banking Law Nr. 5411, were issued in 2006 and preparation of some sub regulations were continued which will be published in 2007<sup>1</sup>.(In the beginning of 2007, three regulation and three communiqués are put into force.)

In addition, in the related period 442 comments (251 of them to the institutions other than the Agency) were provided related to the sub regulations and the Banking Law Nr. 5411.

#### 3.2.1 Regulations Came into Force

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##### 3.2.1.1. Laws

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**Law on Nr. 5472 on Making Amendments on the Banking Law Nr. 5411 (OG dated March 14, 2006 and Nr. 26108):** By this Law, amendments were made to some articles of the Banking Law Nr 5411 in order to ensure that receivables of the state and social security institutions which have the

feature of public receivables to come before the receivables of the Savings Deposit Insurance Fund.

**Law on Bank Cards and Credit Cards Nr. 5464 (OG dated March 1, 2006 and Nr. 26095):**

By this Law, in order to ensure efficient and effective functioning of the card payments system the principles and procedures for main issues, the rights, obligations and responsibilities of the parties, general transaction provisions of card usage, credit card limit, account resume, insurance and unfair usage of the card, provisions of agreements, interest calculation, general audit framework of institutions of the card payments system, the principles of information flow between the institutions regulated by the Act and related public agencies, responsibility of proof, the principles and procedures of complaints , disapprovals , related offences and penalties are regulated.

**Law on Restructuring of Debts of Small and Medium-Size Enterprises to Financial Sector Nr. 5569 (OG dated December 30, 2006 and Nr. 26392):** By this law is to restructure the financial debts of small and medium size enterprises to financial sector and continue to contribute to employment through measures to be taken such as tax exemptions and incentive documents within the scope of framework agreements and contracts concerning their loans debts relating to the loans granted by banks and other financial institutions operating in Turkey and which were transferred to non-performing or suspicious receivables accounts in those institutions as of October 31, 2006.

### *3.2.1.2. Regulations and Related Communiqués*

The regulations to be made according to the Banking Law Nr. 5411 are prepared within the framework of the principles of transparency, appropriateness for needs, applicability and clarity through obtaining the views of related institutions and units pursuant to Article 16 of the Regulation on Organization of the Banking Regulation and Supervision Agency and put into force. Regulations and related Communiqués issued within the scope of the related Law can be classified under seven main titles.

#### **1-Regulations Relating to Establishment and Operating of Banks**

**Regulation on Operations of Banks Subject to Permission and Indirect Shareholding (OG dated November 1, 2006 and Nr. 26333):** By this Regulation, the principles and procedures for the documents to be required by the Agency in opening up banks in Turkey, establishment and operating license, conditions for opening up of branches and representation offices in Turkey and abroad, acquisition and transfer of shares, capital expansion, and indirect shareholding as well as the documents to be required from persons of a foreign nationality are regulated.

In order for bank to have a partnership structure which is convenient for supervision, to guard rights and interests of depositors, which will carry out its activities in a confident and trustworthy manner, have confidence and stability in financial markets and have a structure not to jeopardize the effective operating of credit system, have a good management, adequate financial strength and required organizational structure, conditions relating to establishment of banks and opening up of a branch in Turkey of a bank incorporated abroad as well as conditions to be met by founders are made heavier by this Regulation.

**Regulation on Merger, Acquisition, Division and Share Transfer of Banks (OG dated November 1, 2006 and Nr. 26333):** Beside the regulations relating to merger and acquisitions of banks, some regulations are made relating to share transfer and division which did not exist previously in the banking legislation by this Regulation, and the procedures for share transfer are provisioned on condition not be violated Article 56(4) of the Banking Law Nr. 5411.

Standard process and procedures relating to merger, acquisition, division and share transfer are determined in this Regulation. A process comprised of five stages including Board permission, general assembly permission, transfer/merger/ division/share transfer covenant, post-covenant transactions as well as registration and announcement is foreseen for all these transactions and each stage is regulated in detail. Beside the regulations relating to merger and transfer transactions of banks, regulations relating to share transfer and division which were not included in the banking legislation previously are also included in the Regulation.

**Regulation on Voluntary Liquidation of Banks ((OG dated November 1, 2006 and Nr. 26333):** By the Regulation, the principles and procedures for voluntary liquidation is determined and the issues relating to the beginning, announcement of voluntary liquidation and the Board's obligations on voluntary liquidation transactions.

Within the framework of this Regulation, it is stated that application shall be made to the Board with a petition including grounds of ceasing operating and the liquidation demand of the related bank as well as detailed financial and legal reports analyzing probable results of the liquidation. Within 3 months following the Board's permission for the ceasing of operating and voluntary liquidation, it is obligatory that legally authorized organs of the related bank shall decide to start the liquidation transactions, otherwise the permission becomes invalid and the liquidation transactions cannot be continued.

**Regulation on Establishment and Operations of Asset Management Companies (OG dated November 1, 2006 and Nr. 26333):** By the Regulation, the principles and procedures for establishment, operating, amendment of articles of association and share transfer permissions relating to asset



management companies as well as documents to be submitted to the Agency and qualifications of senior executives and their assignments are regulated.

## **2-Regulations on Corporate Governance**

**Regulation on Principles for Corporate Governance of Banks (OG dated November 1, 2006 and Nr. 26333)** By the Regulation, structure and processes relating to corporate governance of banks and related principles are regulated. Corporate governance principles are determined in the Regulation as the principles determined by senior management and board of directors of banks in order to reach at determined targets; including determination of corporate values, transparency of management, clear determination of powers, forming a wage system which will not destroy internal balances, effective use of internal audit results and accordingly enable efficient and sound management of the bank and safeguard the rights of depositors.

**Regulation on Internal Systems of Banks (OG dated November 1, 2006 and Nr. 26333):** By the Regulation, the principles and procedures for internal control, internal audit and risk management systems to be established by banks and the functioning of these systems are provisioned. In the Regulation, duties and liabilities of the board of directors, audit committee and senior management relating to internal systems in detail and by separate titles through considering similar country practices and the requirements to be met by the members of audit committee is given. Furthermore, the differentiation between internal control system and internal audit system is clarified and provisions relating to financial reporting standards as well as provisions for special control of the compliance to regulations in force, internal policies and rules as well as to banking practices are established within the scope of internal control activities are determined.

**Regulation On The Procedures And Principles For Notification Of And Taking Oath And Declaration Of Assets By Executives To Be Appointed To Top Management Of Banks And Keeping Of Books Of Resolutions (OG dated November 1, 2006 and Nr. 26333):** By the Regulation, the principles and procedures for documents to be submitted to the Agency following the election of members of board of directors of banks or following their appointment in the case of vacancy in membership position for any reason, notifications to be submitted to the Agency in the Annex of a letter following the appointment of the members elected to the audit committee by the board of directors of banks, documents to be submitted to the Agency in the Annex of a letter relating to the persons to be appointed to the position of general manager and deputy general manager, taking oaths and submissions of declaration of assets by the persons to be appointed to top-management of banks as well as keeping the records of resolutions adopted by boards of directors, audit committee and credit committee are regulated.

### 3-Regulation on Protective Provisions

**Regulation on Own Funds of Banks (OG dated November 1, 2006 and Nr. 26333):** Procedures and principles concerning consolidated and non-consolidated bank own funds elements included in the Banking Law Nr. 5411 and to be considered in calculation of limitation and ratios relating to own funds are regulated pursuant to the Regulation prepared in compliance with EU Directive Nr. 2006/48 regulating the provisions of Acquis Communautaire on own funds of banks and Basel-II standards and sorting out the problems stem from the previous implementation.

According to the Regulation, free provisions made for possible risks to the extent of twenty-five percent of the core capital are included in core capital instead of supplementary capital, while subsidiary, affiliates shares and immovable properties sales gains to be added to core capital and the portion amounting up to fifteen percent of the common equity of primary quasi-capital debts are included in core capital calculations. On the other hand, provided that a specific transition period is taken into consideration, while the portion amounting up to ten percent of the core capital of the deferred tax asset amount and the portion exceeding some limits of the investments made to credit institutions and partnerships excluding financial institutions are regarded among the items reduced from core capital, special costs, prepaid expenses and intangible assets reduced from supplementary capital in the previous period are regarded as items reduced from core capital. Immovable properties exceeding some limits and commodities the banks had to acquire due to their receivables and which cannot be charged off in 5 years following the acquiring date are also included to the assets to be reduced from total of core capital and supplementary capital.

Some items known as “innovative instruments” in international implications and which demonstrate capital investment character other than borrowing instrument are included in core capital and supplementary capital calculation within the scope of some ratios by the name of “primary quasi-capital debt”.

Harmonizing with Basel-II, revaluation funds are taken into account by forty five percent in the calculation of supplementary capital, in addition to quasi-capital loans, borrowing instruments which bear the criteria required for these type of loans and are issued by banks are included to supplementary capital. Secondary quasi-capital with borrowing character the banks issued to qualified shareholders and borrowing instruments with primary and secondary quasi-capital borrowing character are taken into consideration as discount item in own funds calculation.

**Regulation on Loan Transactions of Banks (OG dated November 1, 2006 and Nr. 26333):** Provisions of the Regulation includes the procedures and principles on the identification of the real and legal persons to be included in the same risk group, in the context of the board of directors’ member and general manager of banks and their undertakings as well as their children

who are not under their custody, , formation of credit committee upon transferring the authority to grant loan, working and decision making principles of credit committee, monitoring of loans and receiving the chart of account , consideration ratios of loans in loan limitations, transactions which are not subject to credit limitations.

**Regulation on Measurement and Evaluation of Capital Adequacy of Banks (OG dated November 1, 2006 and Nr. 26333):** Pursuant to the Regulation, procedures and principles on providing banks hold adequate own funds in consolidated and non-consolidated basis against the losses can arise due to the risks exposed are regulated, principles on calculation of capital obligation for commodity risk and settlement risk are determined, risk weights for some balance sheet assets and non-cash loan and commitments amended, amount subject to operational risk is included in the Regulation. Moreover, additions are made on required subjects and risk weights of some balance sheet assets and non-cash loan and commitments are amended by re-evaluating EU legislation and Basel models.

Four communiqués are published within the scope of the Regulation. Pursuant to the Communiqué on the Calculation of Capital Obligation According to the Standard Method for Market Risks Arising from Options (OG dated November 3, 2006 and Nr. 26335), procedures and principles on banks in calculating the capital obligation according to the standard method for the market risk arising from options.

By the Communiqué on Calculation of Market Risks via Risk Measurement Models and Assessment of Risk Measurement Models (OG dated November 3, 2006 and Nr. 26335), standards concerning the risk measurement models the banks shall use in calculating the market risk and procedures and principles on calculating risk measurement models and market risk are set out. Credit derivatives to be taken into consideration in the calculation of capital adequacy standard ratio according to standard method

Pursuant to the Communiqué to be taken into Consideration in the Calculation of Capital Adequacy Standard Ratio According Standard Method (OG dated November 3, 2006 and Nr. 26335), procedures and principles on the banks taking into account the credit derivatives for the calculation of the standard ratio of the capital adequacy according to the standard method are set out.

By the Communiqué on the Structural Position (OG dated November 3, 2006 and Nr. 26335), procedures and principles on foreign exchange and indexed to foreign exchange assets of the banks which may fall into their structural positions scope, qualities structural position require and conditions to benefit from capital obligation exemption granted to structural position are set out.

**The Regulation on Measurement and Evaluation of the Liquidity Adequacy of Banks (OG dated November 1, 2006 and Nr. 26333):** Upon the Regulation, procedures and principles on assets of the banks provide and maintain the sufficient liquidity level to meet their obligations are regulated.

Pursuant to the Regulation, it is obligatory for banks to provide two different liquidity adequacy ratios, total liquidity adequacy ratio and foreign exchange liquidity adequacy ratio, in accordance with the provisions included in the related articles.

Upon the Regulation, assets and liabilities to be taken into consideration in the calculation of total liquidity adequacy ratio and foreign exchange liquidity adequacy ratio are set out. Securities subject to repos, reverse repos and securities borrowing market transactions and set up to guarantee, TR. Government Securities and Revenue Partnership Bonds monitored in the securities held to maturity, assets and liabilities indexed to foreign exchange, deposit, private current account, participation account, non-cash loans and commitments, syndication loans and consideration type and ratios of derivative financial transactions and residual term to maturity of asset and liabilities are provisioned as well.

**The Regulation on the Standard Ratio of the Foreign Currency Net General Position to Own Funds to be Calculated and Implemented by the Banks on a Consolidated and Non-consolidated Basis (OG dated November 1, 2006 and Nr. 26333):** By the Regulation, in order to ensure relation and balance between foreign currency asset and liabilities on the part of banks are established and foreign currency position is maintained coherent with own funds, procedures and principles on foreign currency net general position/equity standard ratio are regulated.

While the Regulation does not contain considerable changes when compared to the amended regulation, some concepts are shortened and simplified, definitions on own funds and consolidated own funds and the amount of own funds to be taken into consideration in the calculation of the ratio in question have become perspicuous by addressing to the Regulation on the Own Funds of the Banks. Moreover, in case an exceeding occurs in the ratio inferred in the Regulation as a result of the decreases experienced in the own funds, provision on removing the exceeding mentioned within the period to be determined by the Agency is imposed.

**The Regulation on the Procedures and Principles on Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Made Therein (OG dated November 1, 2006 and Nr. 26333):** By the Regulation, procedures and principles on classification of the loans and other receivables of the banks by character and provisions to be made for them are set out.

Upon this Regulation substitutes the Regulation on the Determination of the Qualifications of Loans and Other Receivables for which Provisioned to be Set Aside by Banks and the Procedures and Principles for the Provisions to be Set Aside, commitments to be taken into account in the calculation of special provisions to be made and the classification relating to the provisions in question are arranged systematically, some subjects discussed previously by means of the Circular are included in the Regulation which enables the regulations represent an integrity. Moreover, in order to ensure the financial structures of the banks are strengthened, general provision ratios are increased by one percent from five per thousand for cash loans, while the said ratio is increased by two per thousand from one per thousand for non-cash loans and a practice is developed concerning the new ratios are calculated upon the exceeding amounts by cash and non-cash loan amounts basis subject to general provision practice before the date the Regulation is came into effect.

**Regulation on the Grants and Aids to be Extended by Banks and Institutions Subject to Consolidated Supervision (OG dated November 01, 2006 Nr 26333):** With this Regulation, the issues related to the calculation period relating to the limits of grants and aids within the Act Nr. 5411, the scope of grants and aid prohibition, the calculation methodology of the limits of grants and aids, and the compensation of the exceeds generated from the reduces that may occur in own funds are being provisioned.

**Regulation on the Procedures and Principles for Sales and Purchase of Precious Metal and the Disposal of Properties and Commodities That Have Been Acquired Due to Receivables by Banks (OG dated November 01, 2006, Nr. 26333):** With this regulation, the principles and procedures concerning precious metals of which banks can engage in purchase- sale and the disposal of properties and commodities that have been acquired due to receivables, are set forth.

Within the Regulation, it is provisioned that, the assets subject to amortization which will be disposed and the possibility of disposing within 1 year as from the obtaining date specified within the Circular on the amortization of the assets to be disposed, dated February 9, 2006 Nr 2006/1 of which seem high, shall not be subject to amortization, provided that within this term, an active study by the bank related to the sales plan and the accomplishing the sales plan was being made and that the asset was offered for sale to a price near to its market price. Also, it is provisioned that the assets subject to amortization which are not seem possible to be disposed within 1 year as of the date of obtaining or seemed possible to be disposed but could not be disposed within 1 year as of the date of obtaining, shall be subject to amortization separately depending to their quality, each starting from the date of obtaining, using the profitable prospects and amortization rates, in accordance to the Tax Procedure Law Nr. 213.

With the Regulation, it is predicted that; the assets subject to the amortization which were not disposed after the termination of three years shall be subject to the amortization by doubling the amortization rate as of the date of termination; the assets which were not subject to amortization shall be subject to redemption if three years have been passed since their obtain and they are not disposed yet, by making provisions of 5% for each year as of the date of obtaining; according to the Regulation on the Own Funds of Banks, the assets which are not disposed in five years after obtaining date shall taken into account as value reduced from the capital within the own fund calculation on the net book value; and the assets obtained from receivables shall not be made subject to the evaluation in any case and by no means.

#### **4-Regulations Relating Financial Reporting**

##### **Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks (OG dated November 01, 2006, Nr. 26333):**

The objective of this Regulation is to regulate 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 sheets 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.

With the Communiqué on the Regulation of the Consolidated Financial Sheets of Banks, published within the scope of the Regulation (OG dated November 8, 2006 Nr. 26340), the procedures and principles related to the regulation of the consolidated financial sheets by banks are determined to ensure to obtain information about financial states of the main partnership banks and the results of their activities as a whole.

##### **Regulation on Authorization and Activities of the Organizations that will Perform External Audit at Banks (OG dated November 1, 2006, Nr. 26333):**

The purpose of this Regulation is to lay down the principles and procedures related with the authorization, activities of, and revoking of powers of the external audit institutions that will conduct external audit at banks and covers the external audit activities to be conducted at banks by the organizations authorized to conduct audit.

##### **Regulation on Information Systems Audit to be Made in Banks by External Audit Institutions (OG dated May 16, 2006, Nr. 6170):**

With this Regulation, the principles and procedures relating to the qualifications of the institutions and their partners to be assigned, qualifications of members of profession, the liabilities of the parties, general principles and responsibilities, co-operation, purchase of outdoor service, the report to be prepared and the notification of the report are regulated. With the Communiqué On the Format of the Report Relating to the Information Systems Audit to be Made

in Banks by External Audit Institutions (OG dated December 5<sup>th</sup>, 2006, Nr. 26367), the procedures and principles related with the contents and format of the audit reports which shall be prepared within the scope of the Regulation on Information Systems Audit to be Made in Banks by External Audit Institutions are determined.

**Regulation on Authorization and Operations of Assessment Agencies for the Banks (OG dated November 01, 2006, Nr. 26333):** The objective of this Regulation is to regulate the procedures and principles for authorization, operations and cancellation of authorization of organizations, which will provide assessment agencies to banks. The Regulation aims financial statement users to obtain more confidential information, the assessment agencies realized within this scope to be more transparent and possible risks to be ascertained by predicting the risk emanating developments.

**Regulation on Authorization and Operations of Rating Agencies (OG dated November 01, 2006, Nr. 26333):** The objective of this Regulation is to regulate the procedures and principles for authorization and operations and revoking of authorization of rating agencies. Within the mentioned Regulation, the rating operations are classified as; credit rating, consistency to the corporate management principles rating and valuation of validity of the rating methodologies.

Within the Regulation, principles related to; the qualifications required by the Agency in the authorization of rating agencies and their staff determined in the Regulation,; the documents and information which will be demanded from the related institutions in the application of taking authorization; the professional principles to which the staff shall comply; professional adequacy concept for the staff; independency principles; principles to keep away the rating agencies and their staff from conflicts of interests are determined.

**Regulation on the Procedures and Principles for Preparation and Publication of Annual Report by Banks (OG dated November 01, 2006, Nr. 26333):** The objective of this Regulation is to regulate the procedures and principles for preparation and publication of annual report by banks, containing information on their statues, managerial and organizational structures, human resources, operations, financial positions, evaluations, by management and future expectations as well as financial sheets, abstract Executive Board reports and external audit reports subject to principles of corporate governance for the purpose of providing information to bank shareholders, savings holders and other relevant persons and entities.

## 5-Regulations Relating Non-Bank Financial Institutions

**Regulation on Principles for Establishment and Operations of Financial Leasing, Factoring and Consumer Financing Companies (OG dated October 10, 2006, Nr. 26315):** The objective of this Regulation is to regulate procedures and principles related to the establishment and operation

permissions, amendments to articles of association, transfers of shares, managers, covenants to be drawn up, transaction limits, revoking of operation permissions, mergers, transfers, divisions and winding up, accounting, reporting and audits concerning financial leasing companies, factoring companies and consumer financing companies.

To provide more effective supervision in the sector, the provisions of establishment and operation permission of the companies and the quality of the founders are made difficult in the Regulation. Transparent and explicit shareholder structure that does not prevent the efficient supervision of the Agency is deemed obligatory for the legal founders; and while the shares of the financial leasing companies can be issued to the bearer and registered, it is provisioned that the shares of all companies should be issued to the registered. The provision of having not directly or indirectly held a share of ten per cent or more in or the control of the banks, the operational permissions of which have been discontinued or which have been transferred to the Savings Accounts Insurance Fund or the banks transferred to the Fund before came into force of Banking Law No 5411, excluding voluntary liquidation is imposed on the founders of the companies. The provisions of establishing appropriate service units and internal control, accounting, information processing and reporting systems, forming the adequate personnel positions for these units and determining the adequate job titles, duties and the responsibilities of the personnel is added to the pre conditions of the operation license.

In the scope of the regulation, the Procedures and Principles on the Regulation of Financial Leasing Contract Shorter than Four Years but not Shorter than Two Years dated December 29, 2006 is came in to force.

**Regulation on the Financial Holding Companies (Official Gazette Nr. 26333 dated November 1, 2006):** With this regulation, procedures and principles on the scope, corporate structure, limitations and supervision of the financial holding companies are regulated to determine the application regarding provisions that financial holding companies shall to be subject to. The regulation, by forming a boundary of the scope and quality of the financial holding companies and the regulations that they are subject to, removes the legislation loophole on the issue. It is provisioned in the regulation that the legal and natural persons having the qualified share in the capital of financial holding companies should have the required qualifications, the amendments of main covenant of the said companies, having and transferring share and supervision and sharing the supervision information and the precautions taken are subject to the elements similar to the ones in the banks. Besides, regulations parallel to the banks are foreseen on the board of directors, supervision committees and the members of them, senior management and corporate governance principles, accounting and reporting system as well as the consolidated financial reports of the financial holding companies.



**Regulation on Bank's Procurement of Outsourcing Services and Authorization of such Service Providers (Official Gazette Nr. 26333 dated November 1, 2006):** With this Regulation, rules and procedures of authorization of the institutions which provide services as the extension and complementary of main services to the banks and the principles relating to the types of outsourcing services that can be procured are regulated. Although they are usually outsourced by banks, the Regulation does not cover services which are not regarded as the extension and complementary of banks' main services, such as consultation, marketing, security, nourishment, transportation and cleaning services as well as the law services provided by mandate contract

#### **6-Regulation on the Deposits**

**Regulation on Acceptance and Withdrawal of Deposits and Participation Funds and Any Deposit, Participation Fund, The Bailed Goods and Receivable That Have Been Subjected to Prescription (Official Gazette Nr. 26333 dated November 1, 2006):** The principles and procedures on the acceptance and withdrawal of special current account and participation account, private fund pools formed by the participation banks, participation fund, deposits, bailed goods and other receivables subject to prescription, are regulated with this regulation. Besides, the principles on framework agreements that will be arranged by credit institutions with their customers, , the scope of participation fund, deposits, the bailed goods and other receivables subject to prescription, how and by whom the liabilities regulated in the Article 62 of the Banking Law Nr. 5411 will be fulfilled, the periods of notification, transfer and announcement,, the prescription of the values in the safe deposit boxes and the blocked accounts are determined.

#### **7-Administrative Regulations**

**Banking Regulation and Supervision Agency Register Supervisors Regulation (Official Gazette Nr. 26067 dated February 1, 2006):** The Public Servant Law Nr. 657 regarding the personnel of the Agency and the Public Servant Records Administrators who will make the evaluation in the framework of the related legislation and the Procedures and Principles on the register evaluation is determined with this regulation.

**Banking Regulation and Supervision Agency Discipline Supervisors Regulation (Official Gazette Nr. 26067 dated February 1, 2006):** The Public Servant Law Nr. 657 regarding the personnel of the Agency and the Discipline Supervisors and the Procedures and Principles on the discipline is determined with this regulation.

Both of the regulations are prepared in accordance with the Article 92 of the Banking Law Nr. 5411 and the Amended Articles 124 and 112 of the Public Servant Law Nr 657. When the Procedures and Principles on the Discipline is considered, the decisions of the Regulation on the Discipline Boards and

Discipline Supervisors came into force with the Public Servant Law Nr 657 and the resolution of Council of Ministers Nr. 8/5336 dated September 17, 1982 is expected to be implemented; and when the Procedures and Principles on the Register is considered, the decisions of the Regulation on the Public Servant Records came into force with the Public Servant Law Nr 657 and the resolution of Council of Ministers Nr. 86/10985 dated September 8, 1986 is expected to be implemented.

**Regulation on Working Procedures and Principles of Financial Sector Commission (Official Gazette Nr. 26151 dated April 28, 2006):** The Procedures and Principles on the Financial Sector Commission formed with the Banking Law Nr. 5411 in order to increase the cooperation between the efficiency in the markets and agencies and in order to determine the common policy on the sector is determined with this regulation.

The commission is constituted from the representatives of Agency, Ministry of Finance, the Treasury Undersecretariat, Central Bank, Capital Market Board, Fund, Competition Board, Undersecretariat of State Planning Organization, Istanbul Gold Exchange, securities stock exchanges, Futures and Options Markets and the associations of institutions.. The Commission is responsible for exchange of information, cooperation and coordination among institutions, propose joint policies and express views regarding the matters that relate to the future of the financial sector, with a view to establishing and ensuring confidence and stability as well as development in the financial markets.

**Regulation on the Procedures and Principles of the Operations of Banking Regulation and Supervision Board (Official Gazette Nr. 26226 dated July 12, 2006):** The points such as Board meetings, meeting agenda, meeting and quorum, warrants, decision records, publication and disclosure of the decisions, the relationships of the members with the service units are regulated with this regulation by taking the amended regulation on the operating principles of Banking Regulation and Supervision Agency and the legislation of the other Supreme Boards into consideration.

**Regulation on the Procedures and Principles regarding the Audit Carried out by the Banking Regulation and Supervision Agency (Official Gazette Nr. 26236 dated July 22, 2006):** Onsite supervision and off-site supervision carried out in the institutions that are subject to the Law, organization of supervision activities and the responsibilities of supervisor and supervised is defined with this regulation.

The aim of the regulation is to determine the Procedures and principles on the supervision of institutions under the authority of Banking Regulation and Supervision Agency. The regulation constitutes the supervision of the implementation of legislation provisions for the institutions under the supervision, the off-site and onsite supervision of these institutions as well as the analysis of the adequacy level of them to the corporate governance

principles, the evaluation of the internal control, risk management and internal supervision systems of the banks on consolidated and non-consolidated bases.

The most important innovation of this regulation is that the risk-focused supervision approach aiming to shape the scope, intensity of supervision, allocation of the supervision resources and supervision activities on the bases of the existence of the risk profile and internal control and risk management system of each institution as well as the adequacy of them is adopted. Besides, different from the previous implementations it is provisioned that the supervision system and the products of the Agency shall be analyzed independently as of five-year periods in the scope of quality assurance system.

### 3.2.1.3 The Core Regulations Prepared by Establishment Associations

Pursuant to the Articles 75, 76, 80 and 82 of the Banking Law Nr.5411, the regulations prepared by the associations of institutions, approved by the Board and came into force in 2006 are presented hereunder:

The Status of the Banks Association of Turkey

- The Status of Participation Banks Association of Turkey
- Conditions and Principles for announcements and advertisements that members of the Banks Association of Turkey are obliged to comply.
- Conditions and Principles for announcements and advertisements that members of the Participation Banks Association of Turkey are obliged to comply the Communiqué concerning the minimum requirements pertaining to the format and contents of the contracts to be signed between banks and their individual customers and the operations to which the contracts shall be practiced, and;

As being separately for Participation Banks Association of Turkey and Banks Association of Turkey member Banks :

- Banking Ethical Principles
- The communiqué concerning the Formation, Operation Principles and Procedures of Customer Complaints Arbitration Committee
- Customer Complaints Arbitration Committee Entry Form for Complaints
- Information Brochure of Customer Complaints Arbitration Committee

### 3.2.2 Regulations Planned to be Issued and the Preparations thereof

Operations relating to the preparation of the two communiqué draft and a draft act and a regulation are being carried on in 2007. The explanations relating to the regulations thereof are included hereunder.

**Leasing , Factoring and Finance Companies Draft Act:** Pursuant to the Banking Law Nr.5411 the authority of regulation and supervision of financial leasing, factoring and finance companies were transferred to our Agency. As a result of the changes observed in financial sector and the requirements arise in application, by taking into account that the Decree Law Nr. 90 on the transactions of lending loans was not sufficient for the said companies to fulfill their activities in reliable and efficient manner, a Draft Act, which shall respond the actual requirements which provide that the said companies shall make certain new transactions presenting diversity from their current activities, is being prepared.

**The Regulation Draft on the BRSA Professional Personnel's Competition, Authorization, Competence Examination and Principles and Procedures of Operation:** the Draft of which the respects concerning professional personnel selection, training principles, authorization exam, preparation of thesis, proficiency examination and working principles and procedures were provisioned, was transmitted to Prime Ministry and was came into force by being published in Official Gazette dated March 23, 2007, nr. 26471.

**The Communiqué Draft on Uniform Chart of Account and Prospects thereof to be applied by Non-Bank Financial Institutions:** the intra Agency views relating to the Draft prepared are being evaluated for procuring uniformity in respect of financial reporting and entering into account for all non-bank financial institutions, having the uniform balance sheet and income statement directly, securing the information required for supervision and surveillance in verifiable and supervised manner directly and healthy, reaching the information directly to the information ,of which the authorities need for monitoring the economy and directing thereof , and other statistical information and for providing to have the information in standard manner of which are required for various analysis and comments.

**The Communiqué Draft on Principles and Procedures relating to administrative fines to be applied in Reporting made within the scope of Banking Data Transfer System:** the Communiqué, prepared with a view of transmitting the essential information timely, reliably and correctly for the Agency's supervision and surveillance activities, has come into force by being published in Official Gazette dated March 22, 2007, nr. 26470.

### 3.3 Enforcement Activities

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The enforcement activities being executed by the BRSA are gathered, as being evaluation and practicing operation and, establishment, authorization and license operations, in two titles. Within the scope of that, the license operations, relating to the banks subject to the supervision and surveillance of the BRSA, the foreign banks representative office in Turkey, institutions authorized to make independent audit in banks and asset management firms; and enforcement and assessment activities relating to the banks are being executed. Together with the coming into force of the Banking Law Nr. 5411 in November 1, 2005, BRSA was entitled to have authorization in respect of granting authorization to the institutions that shall furnish services of valuation and rating to the banks. Besides, pursuant to the Articles 93 and 170 of the said Law, executing the license operations relating to the establishment and activities of financial leasing, factoring and finance companies and supervision and surveillance thereof were transferred to the authority and responsibility of the BRSA.

The folders, belonging to 83 leasing firms, 89 factoring firms and 9 finance companies under the structure of undersecretary of Turkish Treasury, were transferred to BRSA and within the scope of the legislation concerned, the operations under the responsibility of BRSA and the Board relating to the said firms were determined. It has initiated to the studies relating to the determination of the principles and procedures to be applied in the assessment of the applications submitted to the BRSA by the said firms. Within the scope of the said studies, the discussions were made with the official institutions and the members of the associations, and for implementing until the legislation studies be accomplished, the principles and procedures relating to the firms' registration of the cross border transactions and the evaluation of the firms' transactions subject to permission were determined.

With the Resolution Nr. 1791, dated February 2, 2006 of Banking Regulation and Supervision Board, It is deemed appropriate that the financial statement and the reports 2005 of the leasing firms ,which are not obligatory to be subject to independent audit before, be audited by independent audit institutions authorized by our Agency and/or Capital Markets Board. As a result of the evaluations made by taking into basis as December 31, 2005 period independent audit reports prepared relating to the said firms, the administrative acts required were established.

#### 3.3.1 Assessment and Enforcement Operations

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In assessment and enforcement process, the measures of which the banks and leasing, factoring and finance companies are required to take within the scope of the legislation relating to the Law and in Banking Law Nr. 5411, by evaluating the information obtained as a result of surveillance and on-site

audit studies, information and documents transmitted from banks, leasing, factoring and finance companies and independent audit companies and from other person, agencies and institutions, are determined. The evaluations relating to the said measures are being transmitted to the institutions concerned for establishing the required operations and the information flow to the units and the authorities concerned are provided. Besides, the required operations, with a view to provide the institutions thereof to display activity in accordance with the legislation, are being executed.

Within the scope of that, following the evaluation of denunciation and complaints and the results of on-site audit and surveillance in 2006, the total of 10 criminal complaints, concerning the persons which their responsibilities were fixed relating to various banks, were made and 5 persons authorization to sign in banks were temporarily abrogated. Pursuant to the Banks Act Nr. 4389 and the Banking Law Nr.5411, 47 administrative fines concerning deposit and participation banks, 4 thereof concerning development and investment banks and 2 administrative fines concerning leasing firms were executed. Besides, pursuant to the Act Nr.5464 on Bank Cards and Credit Cards, 12 administrative fines concerning the banks were executed.

Besides, within the scope of evaluation and enforcement activities, Coordination Committee with SDIF was formed and has initiated to its studies for the aim of sharing the required information concerning general condition of banking system, measures to be taken as a result of the audits of credit institutions, analysis results which shows financial structure of credit institutions to be used in the calculation of risk based insurance premiums, and number of deposit and participation fund accounts, insured deposit and participation funds, total deposit and participation fund amount of the banks thereof.

**Box 3.4: Coordination Committee**

It is determined in the Article 100 of the Banking Law Nr. 5411 that a Coordination Committee consisting of the Chairman and vice-chairmen of BRSA and SDIF shall be set up. The said committee in accordance with the said article shall be responsible for ensuring that maximum cooperation be established between the Agency and the Fund when it is necessary to carry out transactions in the competency of the Fund, with respect to the exchange of information regarding the general status of the banking sector, measures to be taken as a result of the supervision of credit institutions, results of analyses indicating the financial standing of credit institutions to be used in calculating the risk-based insurance premiums, the number of deposit and participation fund accounts, total amount of the insured deposits and participation funds and the total amount of deposits and participation funds in these institutions.

It is determined in the Banking Law that the Committee shall convene minimum once every three months, at a frequency to be agreed by the parties, and any of the parties shall provide the information and documents requested by the other parties, within the period to be agreed on.

The Committee convened five times in 2006 and the principles and procedures of the Coordination Committee as well as the information share were discussed in the first convention in January 27, 2006. In this framework, it is decided that the SDIF could benefit from the BRSA's risk follow-up system, and the kind of the information share and cooperation between those agencies on the premium determination and bank resolution shall be detailed by a sub-working group, which will be formed. In this framework, the protocol on the information share and cooperation as well as the principles and procedures of Cooperation Committee was signed in January 31, 2006 and the sub working groups of the Committee were determined in February 17, 2006.

In the second convention arranged in February 23-24, 2006, the scope of information share and cooperation was determined.

It is decided in the convention dated March 28, 2006 that all the forms and ratio set except customer base forms in the "Reporting Package of Credit Institutions Surveillance System" in BRSA shall be opened to the usage of SDIF, one copies of "Risk Evaluation Reports" and "Risk Evaluation Matrix" sent to the BRSA by the credit institutions, the reports prepared by the independent supervision institutions and precautions required on the credit institutions shall be submitted to the SDIF by BRSA and the Premium rates applied relating to the credit institutions shall be submitted to BRSA on the institution base by the SDIF.

The effects of the economic fluctuations experienced on the financial structure of the banks in recent period by BRSA and the risks it caused were discussed and evaluated by BRSA in the convention in July 14, 2007. In this scope, its also mentioned that while the economic fluctuation experienced decreased the capital adequacy ratios of the banks, none of the banks decreased under the legal limit and it is thought that the fluctuation could be overcome with a little loss. Besides, it is decided in convention that the Information Share Protocol dated April 14, 2003, signed between BRSA and SDIF shall be abolished as the said protocol includes the information share among agencies by the decision of Cooperation Committee dated March 28, 2006.

In the convention dated October 30, 2006, the general evaluation of recent situation of the banking system was made. In the second part of the convention, a presentation mentioning the importance of the cooperation and information share, which would be made between BRSA and SDIF in the efficient application of the deposit insurance and analysis functions, was made. Besides, it is mentioned by the BRSA in the convention that the technical infrastructure studies on the opening of ratio set to the usage of SDIF is continued by the authorities of two Agencies and these studies will be completed approximately one month period, and it is decided that a research would be made by the BRSA, a study group to prepare Strategic Cooperation Agreement draft which arrange the scope and operation of information share and cooperation between the BRSA and SDIF would be prepared in order to form a technical and operational infrastructure relating to the regulation of total deposits and contribution fund in the scope of insurance announced by the credit institutions.

### 3.3.2 Establishment, Authorization and Permission Transactions

For the issues subject to permission for establishment, authorization and permission transactions determined in the Banking Law Nr. 5411 and related legislation, applications made to BRSA are examined, evaluated and concluded.

Within this framework; permissions for establishment, operating, share transfer, merger, transfer, opening up branch and representative offices are granted to banks as well as leasing, factoring and financing companies, transactions for capital increase demands of those institutions are maturated, changes in articles of association, assignment of general manager and assistant general managers are evaluated within the scope of the Banking Law and related legislation. Furthermore, transactions for authorization of institutions which will provide valuation and rating services to banks as well as permission transactions for the establishment of asset management companies are carried out; authorization demands of independent audit companies to perform independent audit in banks are evaluated. Besides, oath and declaration of property which are necessary to be taken as well as documents relating to minimum requirements to be met by members of board of directors, general managers and assistant general managers pursuant to the Law and documents relating to general assembly meetings of banks are monitored.

Activities realized relating to establishment, authorization and permission transactions in 2006 are as follows.

#### 3.3.2.1 Establishment and Authorization Transactions

In 2006, two applications which were made to BRSA relating to establishment of asset management companies are deemed appropriate as a result of the evaluations made, furthermore three independent audit institutions are granted authority to make audit in banks. Information on the said establishment license and authorization transactions is in the following table.

**Table 3.4: Companies which are granted Establishment License and Audit Authority**

Title of the Company	Type of Transaction	Date and Number of Related Board Resolution
Anadolu Varlık Yönetim A.Ş.	Establishment Lic.	16.02.2006-1811
Köprü Varlık Yönetim A.Ş. (*)	Establishment Lic.	08.03.2006-1832
Avrasya Bağımsız Denetim ve YMM A.Ş.	Audit Authority	02.02.2006-1788
Başaran Nas YMM A.Ş.	Audit Authority	04.04.2006-1849
Ser&Berker Bağımsız Denetim ve YMM A.Ş.	Audit Authority	27.10.2006-2006

(\*) Establishment license is invalid as of September 05, 2006 since the company did not start operating through completing the establishment transactions in its legal period and the founder partners notified that the company will not start operating.



Information on establishment demands on institutions basis which are submitted to BRSA in 2006 and which are still under evaluation process are as follows.

**Table 3.5: Establishment and Authorization Applications under Evaluation Process**

Type of Company and Transaction	Number of Applications
Establishment of Leasing Company	1
Establishment of Factoring Company	14
Establishment of Financing Company	1
Authority Demand for Independent Audit Company	7
Authority Demand for Valuation Company	9
Authority Demand for Rating Company	1
Opening up of Representative Office of Foreign Bank	4
<b>TOTAL</b>	<b>37</b>

On the other hand, within the framework of the decision of suspension of execution in the lawsuit filed by Anadolu Bağımsız Denetim A.Ş. (whose authority to make independent audit in banks is revoked by the Board Resolution dated August 03, 2004 and Nr. 1350) against BRSA in 13th Department of Council of State, the authority of the above-mentioned Company is restituted.

Sırdaş Bağımsız Dış Denetleme ve Mali Müşavirlik A.Ş.'s authority to make independent audit in banks is revoked by the Board Resolution dated June 08, 2006 and Nr. 1896.

### 3.3.2.2 Permission Transactions

Permissions granted according to Banking Law Nr. 5411 and other related legislation in 2006 as a result of the evaluations on the applications made to BRSA are as follows.

#### 3.3.2.2.1 Share Transfer, Merger and Transfer Permissions

Various share transfers, merger and transfer operations are granted permission in 2006 with Resolutions of Banking Regulation and Supervision Board according to related legislation provisions.

1. By the Resolution of Banking Regulation and Supervision Board dated February 02, 2006 and Nr. 1796, pursuant to Article 18 (1), (3) and (6) of the Banking Law Nr. 5411; permissions are granted for the following operations.
  - Share transfer dated November 24, 2004 which enables BCP Participacoes Financeiras, SGPS, Sociedade Unipessoal, Lda to obtain share in Novabank S.A. directly and in Bankeuropa Bankası A.Ş. indirectly as %50+1,

- Share transfer dated April 26, 2005 which enables BCP Participacoes Financeiras, SGPS, Sociedade Unipessoal, Lda to obtain share directly as 100% in Novabank S.A. and in Bankeuropa Bankası A.Ş. indirectly as 99,99%, which causes direct partnership share of Dimitrios Contominas in Novabank S.A. to decrease from 20% to 0% and its share ratio of indirect partnership share in Bankeuropa Bankası A.Ş. to decrease from 40-1% 0%, direct partnership share of Intercapital Trust Limited in Novabank S.A. and indirect partnership thereof in Bankeuropa Bankası A.Ş. to decrease from 20-1% to 0%, direct partnership share of Interamerican Hellenic Life Insurance Company S.A. in Novabank S.A. and indirect partnership share thereof in Bankeuropa Bankası A.Ş. to decrease from 10% to 0%,
  - Direct share ownership of BCP Internacional II, Socieda Unipessoal SGSPS Lda in Bankeuropa Bankası A.Ş. in ratio of 99,99%, decrease of indirect share ownership of BCP Participacoes Financeiras, SGPS, Sociedade Unipessoal, Lda in Bankeuropa Bankası A.Ş. from 99,99% to 0%, decrease of direct share of Novabank S.A. in Bankeuropa Bankası A.Ş. from 99,99% to 0%.
2. By the Board Resolution dated May 25, 2006 and Nr. 1883, it is deemed appropriate that articles of association be amended in order to enable Deniz Finansal Kiralama A.Ş. to increase its capital from TRY 38.100.000.- to TRY 78.000.000.- and by the Board Resolution dated May 03, 2006 and Nr. 1867 according to Article 93 of the Banking Law Nr. 5411 it is deemed appropriate that the capital increase whole of which amounts to TRY 39.900.000.- be met in cash by Denizbank A.Ş., thus the share of Denizbank A.Ş. in Deniz Finansal Kiralama A.Ş. to increase from 10,87% to 56,46%.
  3. By the Board Resolution dated June 22, 2006 and Nr. 1912, Libyan Foreign Bank which owns 47,69% of Arap Türk Bankası A.Ş. is granted permission for takeover of the Bank's 10,91% shares from Tekfenbank A.Ş. pursuant to Article 18(1) of the Banking Law Nr. 5411.
  4. By the Board Resolution dated July 28, 2006 and Nr. 1944, it is deemed appropriate that National Bank of Greece SA (NBG) to take over the portion amounting to 46% of Finansbank A.Ş. which are owned by Fiba Holding A.Ş., Fina Holding A.Ş., Girişim Factoring A.Ş. and Fiba Factoring Hizmetleri A.Ş. as well as whole founder shares belonging to partners and shares to be bought following public offering or in the case that 50+1% is not reached subsequent to public offering, then to take over the portion to reach at that ratio from the partners, National Bank of Greece S.A. to have indirect share in Finans Finansal Kiralama A.Ş. due to it has takeover the shares of Finansbank A.Ş., and to have Malta Ltd. as a subsidiary by purchasing the shares of Finansbank A.Ş..
  5. By the Board Resolution dated August 17, 2006 and Nr. 1955; within the scope of capital increase of Nurol Yatırım Bankası A.Ş. from TRY 28.282.000

to TRY 45.000.000, due to the fact that the whole of the capital increase amounting to TRY 16.718.000 is met in cash by Nurol Holding A.Ş., it is deemed appropriate pursuant to Article 18(1) of the Banking Law Nr. 5411 that direct partnership share of Nurol İnşaat ve Ticaret A.Ş.(which did not participate in the capital increase) in Nurol Yatırım Bankası A.Ş. to decrease from 25,39% to 15,96%, and indirect partnership share thereof to decrease from 26,15% to 16,43%.

6. By the Board Resolution dated August 17, 2006 and Nr. 1959, granting permission for merger through transfer of Toprak Finansal Kiralama A.Ş. (which is open to public) with FFK Fon Finansal Kiralama A.Ş. is deemed appropriate pursuant to the Leasing Act Nr. 3226, Regulation on Establishment and Operations of Leasing Companies and Article 93 of the Banking Law Nr. 5411, without prejudice to other related legislation provisions.
7. By the Board Resolution dated August 17, 2006 and Nr. 1960, Tarshish-Hapoalim Holdings and Investments Ltd. company which is under the structure of Hapoalim Group is granted permission for takeover 57,55% shares of Bankpozitif Kredi ve Kalkınma Bankası A.Ş through capital increase pursuant to Article 18(1) of the Banking Law Nr. 5411.
8. By the Board Resolution dated September 07, 2006 and Nr. 1968, increase of share of Sanko Holding A.Ş in Sanko Finansal Kiralama A.Ş. from 16% to 40% through merger by transfer of Sanko Tekstil Sanayi ve Ticaret A.Ş. and Sanko Yatırım A.Ş. under the structure of Sanko Holding A.Ş. through dissolution without liquidation is deemed appropriate pursuant to leasing legislation, the Board Resolution dated May 03, 2006 and Nr. 1867 and Article 93 of the Law.
9. By the Board Resolution dated September 21, 2006 and. Nr. 1973; Deutsche Bank AG is deemed appropriate to takeover 89,99% shares of the Bank's capital owned by Pilgrim Financial Services LLP and 9.99% of the Bank's shares owned by DB Foreign Investments Corporation pursuant to Article 18 of the Banking Law Nr. 5411.
10. By the Board Resolution dated September 28, 2006 and Nr. 1983, Dexia Participation Belgique SA whole shares of which are directly and indirectly owned by Dexia SA/NV is deemed appropriate to take over Zorlu Holding A.Ş.'s share which corresponds to 74,9965% of Denizbank A.Ş.'s capital, to grant permission for having indirect share ownership in Deniz Faktoring A.Ş. and Deniz Finansal Kiralama A.Ş. due to its takeover the shares of Denizbank A.Ş. pursuant to Article 18 of the Banking Law Nr. 5411.
11. By the Board Resolution dated September 28, 2006 and Nr. 1990, it is granted permission for transfer of Koçbank A.Ş. to Yapı ve Kredi Bankası A.Ş. with all its rights, claims, debts and liabilities and through its legal entity to be ceased without liquidation.

12. By the Board Resolution dated November 09, 2006 and Nr. 2016, granting permission for merger through transfer of Koç Finansal Kiralama A.Ş. with Yapı Kredi Finansal Kiralama A.O. is deemed appropriate, without prejudice to provisions of other related legislation, pursuant to Article 30 of the Regulation on Establishment and Operating of Leasing, Factoring and Financing Companies and Leasing Act Nr. 3226.
13. By the Board Resolution dated November 09, 2006 and Nr. 2017, transfer of Fortis Finansal Kiralama A.Ş.'s %99,99 shares to Fortis Lease Group S.A. is deemed appropriate pursuant to Article 13 of the Regulation on Establishment and Operating of Leasing, Factoring and Financing Companies.
14. Pursuant to the Resolution of the Board dated November 30, 2006 and Nr. 2040, it was deemed appropriate that Merrill Lynch European Asset Holdings Inc., whose whole shares belong indirectly to Merrill Lynch&Co. Inc. take over 99.947% share of Tat Yatırım Bankası A.Ş. based on the Article 18 of the Banking Law Nr. 5411.
15. On condition that the whole of the Akbank T.A.Ş.'s shares are being increased from TRY 2.200.000.000 to 2.400.000.000 with an increase of TRY 200.000.000 by covering in cash, clear from any collusion, and the whole transactions relating to this increase of capital are being perfected pursuant to the Article 17 of the Law thereof and to the Article 12 of the Regulation on Operations of and Indirect Shareholdings in Banks Subject to Permission, whole paid-up capital of the Bank by Citibank Overseas Investment Corporation (COIC) so as to lead the result that the share of Hacı Ömer Sabancı Holding A.Ş. in the paid-up capital of the Akbank T.A.Ş. declined below 33% as it decreased by 31.38% from 34.23% and the indirect share of Erol Sabancı within the Bank declined below 10% as it decreased by 7.26% from 11.52% pursuant to the Resolution of the Board dated December 12, 2006 and Nr. 2052; it is granted permission, 20% of Bank shares out of the total Bank shares following this the capital increase thereof, including the shares by 8.33% to be acquired with this capital increase to be taken over directly by COIC and indirectly by Citibank N.A., Citicorp Holdings Inc. and Citigroup Inc., pursuant to the Article 18 of the Banking Law Nr. 5411.
16. Pursuant to the Resolution of the Board dated December 14, 2006 and Nr. 2060, it is deemed appropriate that Yapı Kredi Faktoring A.Ş. is merged with Koç Faktoring A.Ş. by take over upon the Decree Law Nr. 90 and Article 30 of the Regulation on Establishment and Operations of Leasing, Factoring and Finance Companies, without prejudice to the other legislation provisions.
17. Pursuant to the Resolution of the Board dated December 21, 2006 and Nr. 2073, it is deemed appropriate that Bank's shares equivalent to 33.98% of its paid-up capital, so as to lead the result that the share of Şekerbank T.A.Ş. Personel Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı

within Şekerbank T.A.Ş. capital declined below 50% as it decreased by 33.98% from 53.53% and the share of Şekerbank T.A.Ş. Personnel Sosyal Sigorta Sandığı Vakfı declined below 10% as it decreased by zero from 14.43% is resolved to be taken over by Turan Alem Securities JSC whose whole capital is owned by Bank TuranAlem JSC, upon the Article 18 of the Banking Law 5411.

18. Pursuant to the Resolution of the Board dated December 28, 2006 and Nr. 2075; it is deemed appropriate that 50% and 41% of MNG Bank A.Ş. shares is turned over to Arap Bank and BankMed, respectively, upon the Article 18 (1) of the Banking Law Nr 5411.
19. Pursuant to the Resolution of the Board dated December 28, 2006 and Nr. 2075, it is deemed appropriate that 76% of MNG Finansal Kiralama A.Ş. shares owned by MNG Bank A.Ş. and 52.34% of MNG Faktoring Hizmetleri A.Ş. shares to be transferred to Mehmet Nazif Günel is deemed appropriate upon the Article 93(a) of the Law thereof and the Article 13 of the Regulation on Principles on Establishment and Operations of Leasing, Factoring and Finance Companies.

Moreover, within the context of permit operations, it is granted permission in the partnership structures of two private deposit banks and two participation banks to be changed upon the provisions of the Banking Law Nr. 5411.

### Box 3.5: Partnership Structure Changes with no Influence on Bank Ownership

**Yapı ve Kredi Bankası A.Ş.:** Pursuant to the Resolution of the Banking Regulation and Supervision Board dated May 25, 2006 and Nr. 1879, it is granted permission that the indirect share of Koç Holding A.Ş. in Yapı ve Kredi Bankası A.Ş. to increase by 20.003% from 17.75%, while the indirect share of UniCredito Italiano S.P.A. in Yapı ve Kredi Bankası A.Ş. is granted permission to increase by 32.28 % from 33.01%.

**Turkish Bank A.Ş.:** Pursuant to the Resolution of the Banking Regulation and Supervision Board dated November 23, 2006 and Nr. 2036, it is granted permission that indirect shares of Burçin Özyol in Turkish Bank A.Ş., T.Özyol Yatırımları Ltd. and Türk Bankası Ltd. KKTC decrease by 2.544% from 17.104%, by 2.463% from 16.576% and by 5.82331% from 39.19%, respectively that lead the result of the fact that the share of Özyol Holding A.Ş. in Turkish Bank A.Ş. increased by 94.329% from 65.915%, direct shares increased by 93,47% from 60.09% and which accordingly lead the result that the direct shares of M.Tanju Özyol increased by 82.051% from 61.59%.

**Türkiye Finans Katılım Bankası A.Ş.:** Pursuant to the Resolution of the Banking Regulation and Supervision Board dated June 22, 2006 and Nr. 1911; it is deemed appropriate upon the Article 18(1) and (3) of the Banking Law Nr. 5411 that share transfers resulting the direct and indirect partnership interests total on Türkiye Finans Katılım Bankası A.Ş. (Bank) capital increased by 11.923% from 4.753 % as a result of the transfer operation of shares of Murat ÜLKER by 3.98% and of Ahsen Özokur by 3.19% on the Bank capital to Fon Finansal Kiralama A.Ş., in consideration of the direct share of Murat ÜLKER on the Bank decreased by 16.317% from 20.297% and of the partnership Yıldız Holding A.Ş., presently the partner of the Bank, in Fon Finansal Kiralama A.Ş.

**Asya Katılım Bankası A.Ş.:** Pursuant to the Resolution of the Banking Regulation and Supervision Board dated December 14, 2006 and Nr. 2056, it is deemed appropriate upon the Article 18 of the Banking Law Nr. 5411 that the shares belonged to Mustafa Akyol, among the current partners of Asya Katılım Bankası A.Ş., who owns a share of TRY 10.000 with TRY 1 nominal value in A group and TRY 5.000 with TRY 1 nominal value in B group and İnci Akyol who owns a share of TRY 1 nominal value TRY 1.000 in A group and TRY 1 nominal value TRY 5000 in B group is transferred to Muammer Yurtsever.

Pursuant to the Resolution of the Banking Regulation and Supervision Board dated January 18, 2006 and Nr. 2092, it is deemed appropriate upon the Article 18 of the Banking Law Nr. 5411 that partnership interest of TRY 300.000 with TRY 1 nominal value in A group (privileged) of Muzaffer Mustafa Kadioğlu, who passed away among the partners of Asya Katılım Bankası A.Ş. to be transferred to Makbule Kadioğlu. Moreover, B group share of the person passed away with TRY 300.000 nominal value was transferred to Makbule Kadioğlu without being subject to Board permission.

### 3.3.2.2.2 Cross-Border Operation Licenses, Representative Offices and Branch Licenses, Registration Transactions and Operation License Cancellation

Pursuant to the Resolution of the Board dated July, 27 2006 and Nr. 1940; it is deemed appropriate that Türkiye Sınai Kalkınma Bankası A.Ş. participate to the European Investment Fund by 0.15%, pursuant to the Article 14 of the Law and the Article 12 of the amended “Regulation on the Establishment and Operations of the Banks”.

It is deemed appropriate for the two banks to open branches abroad, all of which shall be in Northern Cyprus Turkish Republic. Moreover, the demand of deposit and participation banks to open total 315 branches is deemed appropriate.

In 2006, the demand of three foreign banks to open representative offices in Turkey is perceived by the BRSA. The information on the bank representative offices deemed appropriate to be opened by the Board is in the Table below.

**Table 3.6: Representative Offices Which are Granted Operation License**

	Name of the Bank	Country of Origin	Date and Number of Board Resolution on Representative Office Opening	Date of the Representative Office Went into Operation
1	Banco Sabadell	Spain	02.02.2006-1789	01.03.2006
2	DZ Bank A.G.	Germany	02.02.2006-1790	01.04.2006
3	Doha Bank	Qatar	22.06.2006-1914	29.09.2006

Within the scope of the Resolution of the Board dated July 20, 2006 and Nr. 1936, it is resolved upon the related court decisions that the operation license of Kızılkaplan Faktoring Finans Hizmetleri A.Ş. is abolished.

Upon the Article 8 of the Leasing Law Nr. 3226, in cases the company leased resident abroad does not have a branch in Turkey; leasing agreements are registered by the BRSA. Hence, the registration of the agreements on the 54 planes brought to the country as of the report date by leasing and of which invoice value amounting about to USD 2 billion was realized by the BRSA.

## 3.4 Strategy Development Activities

### 3.4.1. Strategy and Policies

In 2006, of the activities realized in strategy and policy field leads “BRSA Strategic Plan” including 2006-2008 periods was accepted and was put into force. Strategic Plan which aims to conduct the activities of the Agency in a professional, open and effective way with strategic management understanding rather than daily decisions and thus to develop the quality of regulation, supervision and practice processes actions is accepted upon the Resolution of the Banking Regulation and Supervision Agency Board dated June 15, 2006 and Nr. 1907 and announced to public opinion.

Studies carried out on developing performance evaluation system which has a critical significance in implementing Strategic Plan effectively has been another fundamental item of agenda. Studies include three basic components which are determining performance criteria, data collection and analysis and reporting. Within this scope, first of all, the performance rating systems of foreign equivalent supervision authorities were analyzed, and it is foreseen that solely the activity based criteria are used for 2006 which is the period subject of the first performance rating and in addition to that it is foreseen that other criteria types are benefited in the following periods.

Financial Sector Assessment Program (FSAP-Turkey) of whose preliminary preparations begun in February has been one of the important milestones for the strategy and policies of the Agency. Within the scope of the program, FSAP delegation, constituted of World Bank and International Monetary Fund (IMF) authorities, conducted detailed observations on regulation and supervision frame and risks of Turkish financial system upon the two visits in April and September.

Upon to the legal frame and organization structure changed in accordance with the Banking Law Nr. And 5411 and revolving organization regulation, updating current Agency Work Processes studies began to be conducted. Within this scope, other studies on implementing Strategic Plan with all its elements such as on specifying work definitions concerning Agency activities and work and transaction flows, forming inter-Agency risk policies were carried out.

Result analysis on regulation drafts on capital adequacy, liquidity adequacy and reserves were realized; opinions are formed in the light of UE legislation and international standards and principles about unity status and banking ethical principles and sub regulations planned to be prepared upon the Banking Law Nr. 5411.



### Box 3.6: Financial Sector Assessment Program (FSAP-Turkey)

Basic aim of the Financial Sector Assessment Program (FSAP), which is carried out jointly by World Bank and International Monetary Fund (IMF) and which is a program based on volunteerism is to facilitate to determination and analyzing the fragilities in financial sectors and to contribute economic growth by supporting the development and efficiency of the financial sector to increase.

Within the scope of the Program in question, current applications of the supervision authorities are compared with “Basic Principles on Effective Supervision and Surveillance in Banking” (Basic Principles) of the Basel Committee in order to evaluate the efficiency of supervision capacity in banking, it is advised that these principles are adopted in order to ensure the supervision and surveillance of financial system to be strengthened and it is expected from supervision authorities, when necessary, to take necessary precautions and obligations.

In order to contribute the financial sector reform process in 2006 in Turkey, Financial Sector Assessment Program (FSAP-Turkey) study is initiated in the coordination of the Turkish Treasury; Turkish financial sector is analyzed in detail, within the scope of the Program, by the FSAP delegation consisting of IMF and World Bank representatives. The Program was carried out in three phases; negotiations in the first phase were realized in April 2006, in the second phase in September 2006 and the last stage negotiations were realized in March 2007.

The studies the concerning banking and off-bank financial sector which constitutes the weighted section of the were carried out in the Agency, in the coordination of the Strategy Development Department, within the scope of the question sets sent beforehand by the FSAP delegation and the demanded data, preliminary preparation was made in February and March. Assessment of BRSA was made basically in Basic Principles during the negotiations conducted in a technical level and rather detailed way and information on the regulatory provisions on each principle and Agency implementation is furnished to the delegation. In addition to that, negotiations were held between FSAP delegation and the Agency on stress test practice, general outlook of the banking sector, crisis management. In the first level negotiations about cohesion evaluation to Basic Principles, generally all activities and practices of the Agency were emphasized, while more specific issues such as scope and content of in-site audit reports and consolidated data set were dwelled upon in the second level negotiations. In the negotiations completed in March 2007, regulations completed basically in end- 2006 and practices thereof were discussed. Following each phase, all draft Report prepared by the delegation were analyzed in detail and the detailed opinion and assessments were transmitted by the mediation of the Turkish Treasury. It is expected the FSAP studies shall be completed in mid-2007.

In the period which the FSAP Turkey study was conducted, developments of cardinal importance in the regulation and supervision of the Banking sector were experienced and sub-regulations foreseen in the Banking Law was completed and put into force. Following this, new audit guides were adapted to these regulations and implementation phase began. When the importance of the level of internationally accepted principles and standards in the banking audit, it is expected that the study results shall guide the future strategy and policies of the Agency.

Within the scope of the analysis studies, a substantially detailed labor report titled “Foreign Capital in Banking” including developments and possible results and policy suggestions concerning foreign capital interest to the Turkish banking sector in recent years was prepared and submitted to the information of the Agency. Similarly, a labor report titled “Factoring Transactions and Banks” relating the demand of some banks on developing their activities including factoring transactions in addition to the developments in the duty extent of the Agency was prepared and submitted to the Board.

Moreover in 2006, a questionnaire was conducted in order to develop the cooperation with the institutions in the scope of supervision. Questionnaire results on specifying cooperation potential on strategy development, research and librarianship provided beneficial information and opinions to enlighten cooperation strategies to be improved for the Agency.

In 2007, it is planned, before all else, that FSAP-Turkey studies are completed, department and activity manuals are prepared and work processes documents and manuals constitute the first components of quality, performance and institutional risk management systems, following the Agency Work Processes are updated. Moreover, performance criteria are aimed to be developed and reported so as to measure the performance of the Agency more effectively in the light of Agency Strategic Plan and other country experiences.

On the other hand, it is planned that “BRSA Seminars” are held monthly in order to create understanding and information wealth by constituting well-attended, academic and semi-academic debate platforms in the subjects concerning the Agency in 2007, to improve dialogue and information sharing opportunities of the Agency with sector and professional groups along with inter-sectoral cooperation, to support information production process and to contribute the Agency culture and personnel motivation to be improved

### 3.4.2. Monitoring and Evaluation of the Financial Developments

Within the scope of the studies to be carried out on monitoring the developments in national and international economies and real and financial sectors, determining and evaluating the risks they shall expose to the banking sector, labor reports and information notes along with periodicals are carried out to be prepared. Hence, upon the Article 97 of the Banking Law Nr. 5411, “Financial Markets Report” which is began to be published concerning the important developments experienced in the financial sector, performances of banks and leasing, factoring and finance companies supplemented the transparency within Agency and the sector right along with offering a broad and holistic evaluation and perspective to Turkish financial sector. In the report published quarterly, substantially; take place the developments on economic developments, financial sector assessment,

banking sector risk analysis and strategy and policy issues. Three volumes were published in 2006 and following its printing and publication the report can be accessed through internet.

Moreover, 42 presentations and speeches, 54 information notes and ad-hoc or periodic 14 different data set on developments in banking sector in the lead, risk developments, housing loans, consumer loans, credit cards, development and investment banking, foreign capital inflow to the sector and investment preferences of internal and external residents, in order to monitor and evaluate the developments in national and international economies and financial markets were prepared.

Within the scope of the Banking Law Nr. 5411, all related public bodies and institutions and the Financial Sector Commission consisting of representatives of institution unions along with the Agency set to operate their studies in 2006 and realized two meetings.

### Box 3.7: Financial Sector Commission

The Article Nr. 99 titled “Financial Sector Commission” of the Banks Act Nr 5411, it is predicted that a Financial Sector Commission composed of the representatives of the Agency, Ministry of Finance, Ministry of Treasury, Central Bank, Capital Market Board, SDIF, Turkish Competition Authority Board, Undersecretariat of State Planning Organization, Istanbul Gold Exchange, Istanbul Stock Exchange, Turkish Derivatives Exchange and the institution unions shall be founded by the Banking Regulation and Supervision Agency.

Pursuant the mentioned Act, the Commission is charged to provide information sharing, inter institutional collaboration and coordination, to advance proposals of common policies and to express view regarding the future of the finance sector, within the aim of restoring the confidence, stability and progress in the markets. Also within the mentioned Article, it is provisioned that the Commission shall be meet at least every six months and results of the meeting shall be presented to the Cabinet.

The Regulation on the Working Principles and Procedures of the Financial Sector Commission is entered into force subsequent to its publication in the Official Gazette Nr. 26151 dated April 28, 2006. It is predicted that the ordinary meetings of the Commission shall be in May and November, and the interval meetings shall be in February and August; the secretariat services of the Commission are conducted by the Department of Strategy Development and the Cabinet is informed regularly about the meetings realized.

- The Commission had realized its first meeting in May 30, 2006, under the chairmanship of Mr. Tevfik BİLGİN, the Chairman of BRSA. Chairmen, Undersecretaries and/or Deputy Secretaries and General Managers from the mentioned institutions have participated to this meeting. The agenda of the meeting was determined as the developments in banking, money market and insurance sectors, and within the framework of this agenda, expensive presentations and evaluations have been made related to the structural, corporate and conjectural developments occurring in the financial sector and to the economic environment surrounding the financial sector. The evaluations mostly major on subjects as; the effects of the fluctuations occurred in recently in financial markets, the increase of fundamental ratios and off-balance sheet transactions of the banks, the investment preferences of foreigners, taxation of derivative instruments and other capital market instruments, the increase of the housing loans, FX open positions of reel segment and the reduce of the intermediation costs of banks. Moreover, the general trend of the macro economic data is analyzed in the meeting and it is determined that the fragility of the Turkish economy against extrinsic shocks has been mostly decreased and that the prerequisites required for effective monetary policies supporting financial stability have been mostly fulfilled.
- The second meeting of the Commission has been realized in November 30, 2006 again in the chairmanship of Mr. Tevfik BİLGİN. The agenda of the meeting was fixed as; macro economic framework, developments of the financial sector and determining the common collaboration areas. Within this scope, matters as growth, developments of employment and demand, the effects of the fluctuation of May- June in financial markets, risk perception of banks and in CBRT policies, the influence of the change in the tax regime of securities in foreign investments have been evaluated and the ownership shares in the financial sector have been emphasized.
- It is agreed in the second stated meeting dated November 30, 2006 that the Commission holds a half-time meeting with “Competition in Financial Markets” special agenda in end-February 2007. Upon the meeting in question, it is aimed to deliberate the collaboration fields within the scope of evaluating the Competition Authority approaches and experiences on preserving competition in financial markets, European Union approaches and applicability of them for Turkey as well as developing a healthy competition environment in financial markets.

It is decided relating to the procedures and principles of the Commission that the conventions of the Commission shall consists of two sessions, risk oriented basic developments on the financial markets shall be the subject of the first session, and the evaluation of the reports prepared by the working groups created to make them work in the fields determined in the coordination of the commission secretary shall be the subject of the second session.

In the following periods, it is planned to develop a private web site for the studies of the Commission in the Agency’s web site and to announce the activities of the Commission to the public efficiently.

Meetings were realized with the representatives of domestic and foreigner institutions visiting the Agency within the scope of monitoring the developments in the economic and financial sectors and also following the general banking system and evaluating the possible risks upon the banking sector.

An extensive study report related on housing loans which grew significantly during the past years and became an important part of the Turkish banking sector loans was prepared and presented to public.

The starting to publish the “Structural Developments in the Banking Sector Report” aiming to evaluate the structural and long-termed developments in the banking sector, the amelioration of the process of preparing the Financial Markets Report as to become more systematic and focusing to the research activities are planned for 2007.

### 3.4.3. Activities Conducted Relating to the Risk Management

Related on the risk management, international projects are being conducted, effectiveness analysis is being made and contributions are being made to the banks’ evaluation process of risk management systems.

Within the scope of researches and analysis about risk management issues, two study reports related on operational risks were published; information notes related on credit risk, market risk and operational risk were prepared.

Presentations about the effects and application of Basel-II were realized in several conferences. Moreover, the analysis which were published as “Risk Assessment Report” before were transferred into the “Financial Markets Report” published quarterly since this year and the risk level of the banking sector were continued to be analyzed.

Activities oriented to the European Union Capital Requirements Directive (CRD) and the New Basel Capital Accord (Basel- II), and related on the international standards were conducted. Within this framework;

- Strategically and politically, updating studies were made related on the Road Map of Transition to Basel-II (2<sup>nd</sup> draft).
- A note was prepared related on the parts that require translation within the aim of reflecting the amendments made on the document dated November 2005 embracing the updated text of Basel-II.
- Related on Basel-II, national and international conferences, seminars and workshops such as “Organization of Islamic Development SME Task Force”, “Risk Management in International Finance Arena and Finance Sector” were conducted and eight presentations were realized.
- Texts were prepared within the aim of informing about the influences of Basel-II on SMEs.

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- Meetings with several consultancy companies were made to take training and consultancy services related on Basel-II and assessment reports about these interviews were prepared.
- The studies of coordination and orientation of the activities of committees founded related on Basel-II (Basel-II Project Committee to conduct the studies in the Agency; BAT to conduct the studies of sector and Basel-II Steering Committee founded with the banks) were continued.
- “Progress Report Related to the Transition to Basel-II”, prepared following the survey results made relating to the Banks’ studies of transition to Basel-II was published.
- Within the aim of following more effectively the progress the banks made about Basel-II, amendments were made in the format and the content of progress reports, and progress survey related to the transition to Basel-II was prepared.
- The report containing the results of the mentioned surveys will be published in 2007.
- Meetings were made with international institutions, foreign banks and rating companies related to the Basel-II.
- A training project related to Basel-II was prepared with TAIEX and was communicated to the European Union.
- Within the aim of establishing an efficient communication channel between the Agency and the banks to conduct effectively the Basel II project, an Extranet application was built and this application was developed as to provide the required information sharing. Moreover, the Extranet application is used also to provide the communication with banks in the Quantitative Impact Study (QIS-TR2) Project.
- Principles and procedures and project calendar related on the Quantitative Impact Study (QIS-TR2) which constitutes 97.28% of the Banking Sector and including 31 banks was established and QIS-TR2 were begun.

11 study reports prepared by Basel-II Steering Committee sub-groups were observed and assessment notes relating on these reports were prepared.

Within the process of preparation of the regulations related to the Banks Act Nr. 5411, 33 opinions were delivered.

The activities planned to be conducted in 2007 related on the risk management are; making researches and analysis related on risk management, conducting international projects, and impact studies just like in 2006.

Within the scope of researches and analysis about risk management, researches related to credit, market and operational risks which are the fundamental banking risks will be conducted and results will be published as working papers. In the “Financial Markets Report”, the part in which the risk level of the financial sector is evaluated will be enriched.

The activities related to the CRD/Basel-II Project will be continued within the scope of Road Map. Moreover, QIS- TR2 which was started to analyze the possible effects of Basel-II will be accomplished within 2007.

#### 3.4.4. Information. Sources and Library Services

The Library of the Agency, which aims to be a specialized library with its sources of information related to the banking and finance sector, intended to develop its collection for more efficient and effective librarianship services in 2006.

In 2006, within the scope of librarianship services, 1.618 books about banking, economy, law and supervision were purchased, and 201 subscriptions to periodical publications were made, study about the principles and procedures of library’s working and operation was conducted, periodical/non-periodical publications about the field of activity of the Agency were provided as a result of the collaborations with public institutions and universities, in order the databases used Agency-wide to be presented to service efficiently, it was provided, monitored and updates via library. “Shelf of” Exterior Thesis and the “Self of Articles” in which the sources of information prepared outside the Agency are presented were opened and the intranet of the Library was updated.

As a pursuit of the services started within the scope of electronic librarianship; the “Actual Annunciation Service” presenting the table of contents of the periodicals subscribed and the “Reports from Outside the Agency” in which the reports open to public published by banks and some financial institutions were given in the intranet, the thesis prepared by the Agency staff and the domestic/ abroad training documents were listed in the intranet of the Agency and also in the same shelves in the Library.

**Table 3.7: Developments in the Sources of Information**

Type of Material	End of 2005		Added or Renewed in 2006		End of 2006	
	Ankara	Istanbul	Ankara	Istanbul	Ankara	Istanbul
Books	4.872	2.397	821	797	5.693	3.194
Domestic Periodicals	64	42	127	58	127	58
Foreign Periodicals	6	17	6	10	6	10
Domestic Databases (*)	3	3	3	3	3	3
Foreigner Databases (**)	5	5	5	5	5	5
CD- Roms	119	46	21	11	140	57

(\*) Kazancı Law and Opinion System, Lebib Yalkın Publications Mevbank,

(\*\*) Bankers' Almanac, SSRN (Social Science Resource Network), EBSCO Business Source Corporate, Reuters, Olis-Net

Within the scope of the Library's 2007 working program, the enrichment of the collection via the current publications about the field of activity of the Agency, development of encouraging practices aiming to increase the use of sources of information and fulfill the needs, establishing an "Articles Database" including sources of information about banking and financial system prepared outside the Agency are planned.

### 3.5 Legal Affairs

The information related to the filed lawsuits against/by Agency was submitted in the table below classified by the quality of the above mentioned.

**Table 3.8: Filed Lawsuits Related to Agency**

Lawsuits	2005	2006
Administrative Suits (*)	(**) 24.302	21.500
Criminal Suits	154	147
Legal Suits	356	265
<b>Total Pending Suits</b>	<b>24.812</b>	<b>21.912</b>
<b>Definitive Suits</b>	<b>34</b>	<b>(***) 21</b>

(\*) Most of the administrative suits are filed because of purchasing Domestic Government Bonds from T. İmar Bankası T.A.Ş., while calculating the said figure the number of suits filed because of deposit to the mentioned bank was accepted as 6.000.

(\*\*) By 2005, 95% of administrative suits is composed by files about T. İmar Bankası T.A.Ş., 4,4% is composed by files about Demirbank T.A.Ş.

(\*\*\*) Express the number of suits which became definitive in 2006.

As it can be seen in the Table 3.8, 98% of the suits to which the Agency is party is administrative. As it is known, this situation emanates from the unlimited law suits filed for the demand of the settlement of the losses claimed to be suffered due to the sale of treasury bill realized by T. İmar Bankası T.A.Ş whose license to operate banking activities and accept deposit was terminated and deposit transactions and action for rescission brought and/or the unlimited law suits filed by the shareholders of Demirbank T.A.Ş.



whose participation rights excluding dividends and management and supervision were transferred to the SDIF.

The administrative suits besides of that are composed of actions of nullity and unlimited suits opened against different types of administrative actions established by the Agency or the Board pursuant the banking legislation but also general legislation. On the other hand, the criminal suits filed as a result of crime reports made by the Agency and legal suits filed by or against the Agency are also followed.

Within the scope of the delivering opinion in legal matters function pursuant the Banking Regulation and Supervision Agency's Organization Article 20(d), 203 comments were delivered by the related units of the Agency to several public institutions and those were mostly consultation and were realized oriented to the regulation and application units. Within this framework, 133 (65% of the total) comments were delivered to the regulation and application units, and comments related to the regulations required to be came into force pursuant the Banks Act Nr. 5411 take an important place. However, the participation to the Agency's regulation activity is not limited to deliver comments to sub-regulation drafts. Within this framework, an active role was played especially in the preparation of Draft Act on Bank and Credit Cards On the other hand, enforcement departments were consulted on the Bank Cards and Credit Cards Law Nr. 5464 dated March 01, 2006; Decree Law on Lending Money Transactions Nr. 90 which authorize the Agency in the framework of the amendments made by the Banking Law Nr. 5411 and implementation of Financial Leasing Law Nr. 3226 as well as the Banking Law Nr. 5411. Additionally, 46 comments (23% of total) were delivered to the strategy, information management and auxiliary services units and these comments vary from the international agreement records signed between the Agency and the surveillance and supervision authorities of foreign countries to the application problems related to personnel regimes. The delivering comments related to supervision activities are mostly realized as comments delivered to the application units but within this period, 14 comments (7% of total) were delivered directly to supervision units. The number of comments delivered on behalf of the Agency to the related public institutions is 10 (5% of total).

**Table 3.9: Distribution by Subject of the Notifications and Complaints Submitted to the Agency**

Subjects	2004		2005		2006	
	Number	Share %	Number	Share %	Number	Share %
Credit Cards	230	22,5	327	23,6	476	27,0
Other Subjects	163	15,9	295	21,3	333	18,9
Consumer Loans	58	5,7	112	8,1	225	12,7
Deposit Accounts	97	9,5	159	11,5	152	8,6
Interest, Costs and Commissions	60	5,9	123	8,9	117	6,6
Prb. About Negative Qualified Loans	63	6,2	49	3,5	90	5,1
Settlement of İhlas Finans Kur. A.Ş.	99	9,7	51	3,7	81	4,6
Notifications	34	3,3	47	3,4	51	2,9
Internet Banking	13	1,3	12	0,9	44	2,5
Problems Emanating from Checks	-	-	43	3,1	44	2,5
Government Bond	-	-	90	6,5	45	2,5
Off Shore	-	-	-	-	21	1,2
Property Researches	12	1,2	22	1,6	16	0,9
Shares	37	3,6	24	1,7	15	0,8
Dissolution of Attachment	-	-	-	-	12	0,7
False Transaction of Bank	-	-	-	-	12	0,7
Demands of Tribunal/Public Prosecutor/Legal Auth.	-	-	-	-	11	0,6
Transfers	28	2,7	4	0,3	6	0,3
Job Demands	-	-	-	-	6	0,3
BRSA Units and Legal Personality	14	1,4	7	0,5	5	0,3
Other Loans	-	-	-	-	2	0,1
Non-Cash / Corporate Loans	35	3,4	17	1,2	1	0,1
SDIF Units and Legal Personality	80	7,8	5	0,4	-	-
<b>Total</b>	<b>1.023</b>	<b>100</b>	<b>1.387</b>	<b>100</b>	<b>1.765</b>	<b>100</b>

The distribution based on subjects of 1.765 demands delivered to the Agency personally or by telephone or e-mail, within the framework of the provisions of Act Nr. 3071 on Using the Right of Petition related to the institutions and matters within the scope of Banks Act Nr. 5411 are listed in the Table 3.9.

When the complaints delivered to the Agency are observed by subject, it is seen that the most intensive ones are those related to credit cards. The Agency does not intervene to the subject, unless the matters do not violate the mandatory provisions of the Banks Act Nr. 5411 and Bank and Credit Cards Act Nr. 5464. The distribution by subjects of the complaints about credit cards is given in the Table 3.10.

**Table 3.10: Subjects of Complaints About Credit Cards**

Subject	2005		2006	
	Nr	Share%	Nr	Share%
Claims for re-structuring the debt	42	12,8	98	20,6
Elevation of the interests applied to credit cards	108	33,0	59	12,4
Non- canceling the card despite the client's demand	22	6,7	32	6,8
Situations of lost, steal and fraud	40	12,2	41	8,6
Elevation of fees and commissions taken	24	7,3	53	11,1
Arrangement of card without informing the client	11	3,4	37	7,8
Not giving credit card	10	3,1	5	1,0
Other	70	21,4	151	31,7
<b>Total</b>	<b>327</b>	<b>100,0</b>	<b>476</b>	<b>100,0</b>

The processes made related to the requests done within the scope of the provisions of Act on Right of Obtaining Information Nr. 4982 are presented in the Table 3.11.

**Table 3.11: Application Made to the Agency within the Scope of the Right of Obtaining Information**

Subjects	2005		2006	
	Nr	Share%	Nr	Share%
Application of which information or documents are achieved completely	1.090	64,5	1.189	38,8
Application of which information or documents are achieved partially	50	3,0	163	5,3
Applications denied	339	20,0	1.551	50,5
Applications of which information and documents are achieved by annulling/ separating the information confidential/hidden	1	0,1	2	0,1
Applications oriented to other institutions and establishments	210	12,4	163	5,3
Applications subject to jurisdiction after denying	1	0,1	-	-
<b>Total</b>	<b>1.691</b>	<b>100,0</b>	<b>3.608</b>	<b>100,0</b>

### 3.6 Information Management Activities

Most of the activities of 2006 is focused on the issues related to Information Systems Supervision, Banks Reporting System (BRS) and the Agency Management Information Systems. The system, network and security operations and internet services are the fundamental functions and the studies related to them are still continuing. In accordance with the Agency's demand, information systems supervisions related to definite processes in banks were conducted by independent audit institutions. A form set was created aiming to monitor the data of non-bank financial institutions and this set is started to be taken quarterly in electronic form via BRS. Under the

principle of information sharing between governmental agencies, the data set to be shared is enlarged after the revision of the current situation. The credit cards practices/applications of the credit card issuers are started to be published in the Agency's website for public disclosure. The required amelioration efforts have been continuing in order to increase the functioning of Agency's information systems and to provide their up-to-datedness.

### 3.6.1 Information Systems Supervision

In accordance with the Agency's demand, information systems supervisions related to definite processes in banks were conducted by independent audit institutions. To prevent the risks related to establishing repeated information systems or double registry systems in the banks, the information system controls within the banks were identified, tested, and the banks were informed about the measures to be taken.

Regulation on Information Systems Audit to be Conducted in Banks by Independent Audit Institutions was published. Within this Regulation, the principles and procedures related to the supervision of the processes and systems for the banks' information systems and financial data productions by authorized independent audit agencies are regulated.

Communiqué related to the Form of the Report Related to the Information Systems Audits Conducted in Banks by Independent Audit Institutions is published. With this Communiqué, the principles and procedures relating to the contents and form of the audit reports which will be prepared within the scope of the Regulation on Information Systems Audit Conducted in Banks by Independent Audit Institutions are determined. The audit of information systems in banks by independent audit institutions for 2006 is started, the reports will be sent to the Agency within 2007. In addition, the evaluations of the authorization applications related to the information systems audit in banks and the authorization processes are started.

**Table 3.12: Independent Audit Institutions Authorized to Supervise Information Systems**

Name of the Independent Audit Institution	Nr. and date of the Board Resolution on authorization
Akis Serbest Muhasebeci Mali Müşavirlik A.Ş.	August 24, 2006-1965
Başaran Nas Serbest Muhasebeci Mali Müşavirlik A.Ş.	September 28, 2006-1982
DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.	September 12, 2006-1971
Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.	December 14, 2006-2064
Rehber Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş.	November 23, 2006-2037

Preparation studies for the communiqué on principles of the information systems management by which the main criteria to be complied with is stated for the effective management of the information systems for those under the supervision scope has been conducted.

### 3.6.2 Banks Reporting Systems (BRS)

As the authorization and responsibility on the regulation and supervision of the financial leasing, financing and factoring companies are transferred to the Agency as of January 01, 2006 in accordance with the Banking Law Nr. 5411, the Set of Non-Bank Financial Institutions containing both main financial and other information required in the scope of on-site and off-site supervision of the institutions is formed, and this form set is started to be taken quarterly by BRS in electronic environment.

New controls have been added to the system beyond the new reporting set, and an alarm mechanism is established for the case of incomplete and late data. The existing ratio set produced from BRS data was extended with new ratios and was opened to use. Financial Performance Report Application of the Banks (BAFPER) used by the audit departments was updated with new ratios added to the system. The studies on the development of Bank Performance Reporting System is continuing. In order to identify usage statistics of the data collected from the banks and the non-bank financial institutions by the BRS, the database queries made by the Agency staff was started to be traced. The prepared statistical information is planned to be used in order to decrease the reporting burden of the institutions.

Under the information sharing principal between Agencies, the existing protocol with SDIF was renewed and a larger data set was provided to be shared with SDIF. The data sharing made in the framework of existing protocols with the Central Bank is continued by adding new forms, which are added to the system

In order to identify possible problems earlier by monitoring the risks of banks closely, an early warning reporting system was developed which is under usage for testing.

In accordance with the related Article of the Banking Law 5411, in order to receive information which will be used in supervision and surveillance on time and correctly, the preparations for the designation of the procedures and principles on the determination of the late and incomplete reporting, or reported with control errors or the continuation of these errors in the reports that the banks submitted to BRS are completed. For this aim, the necessary analysis and infrastructure studies are completed by the contribution of the related parties.

Finally, a application is developed in order to obtain the information of the cross border financial leasing contract in electronic environment and to evaluate these information.

### 3.6.3 Agency Management Information Systems and E-signature

The studies in order to make the Information Management System software obtained in order to implement and manage document flow in the Agency, the share of the information and document inside and outside the Agency, to follow the document formation process, to provide correct and updated information flow to the Agency convenient with the Agency was continued.

As of the first months of 2006, meetings were held on the insufficiencies of the implementation of e-signature with The Scientific & Technological Research Council of Turkey, the State Planning Organization and Telecommunication Agency which are the implementing, regulatory, supervisory institutions. The Agency took necessary actions and made contributions on the determination of important standards such as correcting the indefiniteness of E-signature and supporting the different writing types by the different document formats.

In accordance with the Organization Regulation of the Banking Regulation and Supervision Agency and the banking Law Nr. 5411 Human Resources Software developed within the Agency was updated parallel to the changes in the Agency organization

Legal Affairs Pursuit System (HITS) as well as administrative litigation and reports were opened to users. By this way, manual preparation of the case reports was prevented and consolidated data and statistics were provided.

In accordance with the law on Information Obtaining Right Nr. 4982, a system was established including information demand via internet, preparation of the answers, sending the answer by e-mail and reporting function.

### 3.6.4 Internet Applications

The internet site of the Agency was visited by 309.996 persons and 959.110 times in 2006. The monthly visit number was approximately 75.000.

**Table 3.13: Most Visited Agency Internet Pages**

Sites Visited	2005		2006	
	Number	% Share	Number	% Share
Legislation	75.072	26,2	79.324	23,9
Human Resources	60.893	21,2	62.435	18,8
E-bulletin and Other Data	41.281	14,4	44.376	13,4
Bank	27.979	9,8	43.436	13,1
Publications and Reports	28.487	9,9	34.521	10,4
Basel II	27.060	9,4	34.404	10,4
Reach Us	25.815	9,0	33.596	10,1

The implementations of the institutions on the credit cards were started to be published in the internet site as of June 2006 for public disclosure. The information of the credit card covers agreed interest rate on credit card base (cash&carry and cash), commission rate and amount, annual price and other prices, sample interest calculations, promotion information and other necessary explanations.

Basel II Extranet Portal application was developed in order to help the Basel II studies to be applied with the working groups formed with the banks in 2006 and it was opened to the use of the Agency and the banks. Within the context of public disclosure, independent audit reports and the results of the banking sector directors' expectation questionnaire made out of internet, "Daily Banking Sector Report", "Daily Economic Report" and "Monthly Bulletin" was continued to be presented. Besides, access statistics of the Agency's internet site was opened to use in the web site of the agency by including weekly, quarterly and yearly periods.

### 3.6.5 System, Network and Security Actions

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There were not any problems or interruptions in the computer networks and systems of the Agency in 2006. As it was made before, while necessary servicing was continued, necessary renewing practices were continued in order to increase the usability of the information systems of Agency and to provide the updates.

In 2006, the laptops of all the professional employee of the Agency was installed and they were given smart cards in order to increase the number of the personnel of the Agency benefiting from the "BRSA Remote Access Project" started to be applied for the provision of efficient, flexible and secure access to the resources in the Agency's computer network of the personnel working outside the Agency.

Besides, there were studies regarding the updates and renewals of the servers and other hardware which have been used for more than five years in the information systems of the Agency. In this scope, some changes were planned on the topology of the IT infrastructure and those changes will be implemented in near future.

License purchase including the server and the client operating systems, Office Applications, e-mail and database management system software was realized with Microsoft by a "Enterprise Agreement".

## 3.7 Auxiliary Activities

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### 3.7.1 Activities of the Banking Regulation and Supervision Board

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Banking Regulation and Supervision Agency realized 65 meetings in 2006 and because of these meetings 310 decisions were taken. Extra tasks and authorizations of the Agency in accordance with the Banking Law Nr. 5411

caused an increase of the resolution numbers of the Agency compared to the previous year.

The Board Resolutions are relating to the regulations, license transactions, administrative sanctions taken because of the Banking Law. Besides, some issues on the personnel transactions as well as the administrative and financial transactions are adjudicated by the Board. The information on the said resolutions is as follows.

**Table 3.14: Board Resolutions in 2006**

Subject	Number	% Share
<b>I- Board Resolutions on the Banks</b>	<b>188</b>	<b>60,6</b>
<b>A. Regulation</b>	<b>44</b>	<b>14,2</b>
<b>B. License Transactions</b>	<b>36</b>	<b>11,6</b>
• Share Transfer	15	4,8
• Opening Branch and Representative Office	6	1,9
• Merger-Acquisition	(*)4	1,3
• Activity Enlargement (Art. 4, Law Nr. 5411)	9	2,9
• Establishing Partnership abroad and Participating to Partnerships Established	2	0,7
<b>C. Sanction</b>	<b>80</b>	<b>25,8</b>
• Temporarily Canceling/Restituting Bank Authorities' Authority to Sign	12	3,9
• Administrative Fine Enforcement/Unenforcement	68	21,9
➤ Violations of the Repealed Act Nr. 4389 and/or Banking Law Nr. 5411	57	18,4
➤ Violations of Bank Cards and Credit Cards Law Nr. 5464	11	3,5
<b>D. Other</b>	<b>28</b>	<b>9,0</b>
<b>II- Board Resolution on the Non-Bank Financial Institutions</b>	<b>16</b>	<b>5,2</b>
<b>A. Regulation</b>	<b>4</b>	<b>1,3</b>
<b>B. License Transactions</b>	<b>6</b>	<b>1,9</b>
• Share Transfer	3	0,9
• Merger-Acquisition	3	0,9
<b>C. Sanction</b>	<b>2</b>	<b>0,6</b>
• Canceling of Activity License	1	0,3
• Administrative Fine Enforcement/Unenforcement	1	0,3
<b>D. Other</b>	<b>4</b>	<b>1,3</b>
<b>III- Board Resolutions on The Independent Supervision Institutions</b>	<b>22</b>	<b>7,1</b>
Giving/Not Giving/Canceling Authority of External Supervision in the Banks	7	2,3
Giving/Not Giving/Canceling the Authority of Information Systems Supervision in the Banks	8	2,6
Other	7	2,2
<b>IV- Board Resolutions on the Establishment of the Asset Management Company</b>	<b>2</b>	<b>0,7</b>
<b>V-Board Resolution on Informing Offense/Non-Informing Offense</b>	<b>40</b>	<b>12,9</b>
<b>VI-Board Resolution on Administrative, Financial and Personnel Transactions of the Management of the Agency</b>	<b>42</b>	<b>13,5</b>
<b>TOTAL</b>	<b>310</b>	<b>100,0</b>



(\*) The Said four resolution is on the process of the merger of Koçbank A.Ş. as well as Yapı ve Kredi Bankası A.Ş.

### 3.7.2 Human Resources Activities

In accordance with the Article 92 of the Banking Law Nr. 5411, the Professional Personnel and Administrative Personnel carry on the regular tasks and services that are the necessities of the duties given to the Agency. Vice Chairmen, Department Heads, Managers, Chairman Counselor and Professional personnel and agency specialists and lawyers are employed under contracts signed for their position.

While determining and supplying the human recourse need, in order to reach the aims the principle of working with qualified and quorum personnel is adopted in the general employment policy.

In order to meet the need of human resource, the Agency opened “Assistant Sworn Bank Auditor and Assistant Banking Specialist Entrance Examination” in September 2006 by announcing it overall in Turkey, and the entering transactions of 67 of the 72 candidates who are successful in the examination is completed in November and December 2006. It is seen that most of said personnel graduated from Economics and Administrative Sciences. Except the personnel taken by the examination, 24 personnel started to business by assignment and transfer.

**Table 3.15: Education Profile of the Personnel who started to work by the examination in 2006**

Branches	Assistant Sworn Bank Auditors	Assistant Banking Specialist (Banking Field)	Assistant Banking Specialist (Cognitive Field)	Assistant Banking Specialist (Legal Field)	Total
Economics and Administrative Sciences	32	10	-	-	42
Legal Education	-	-	-	5	5
Engineering	-	1	9	-	10
Maths-Statistics	-	-	10	-	10
<b>Total</b>	<b>32</b>	<b>11</b>	<b>19</b>	<b>5</b>	<b>67</b>

On the other hand, 20 personnel left their jobs by transfer or resignation in 2006.

The general, register, family, communication, academic background, department, title, city and status movements, Proxy info, determination of service period and pensionary info, leave info, military service info and similar info of the Agency personnel is followed in the electronic environment, and by the help of the said module, both the personnel and their administrators could reach updated information about the personnel.

### 3.7.3 Activities of Foreign Relations, Training and Communication

#### 3.7.3.1 Relations with Domestic Institutions

The Agency Exchange views and share information with Turkish Treasury, State Planning Organization, SDIF and CBRT in order to provide coordination and cooperation between the Agencies and implement money, credit and banking policies in accordance with the Article 98 of the Banking Law Nr. 5411. Moreover, the Agency exchange information on the issues relating to the banking sector with the public Agencies and Institutions besides the agencies defined in the Law.

#### 3.7.3.2 Memorandum of Understandings Signed with the Supervision Authorities of the Foreign Countries

The Agency signs Memorandum of Understanding with the foreign supervision authorities in accordance with the Article 98 of the Banking Law Nr. 5411 on the consistency of policies and regulations. In the framework of the common aim to provide stability of financial system, an Memorandum of Understanding was signed with Banking Regulation Commission of China responsible for the supervision and surveillance of financial system of People's Republic of China 2006.

The memorandum of understandings that have been signed by the Agency are presented in the below table. Besides negotiations on the signing of memorandum of understanding with the foreign supervision authorities continue.

**Table 3.16: Signed Memorandum of Understandings**

Country	Institution	Date
Turkish Republic of Northen Cyprus TRNC	Central Bank of TRNC	September 17, 2001
Albania	Central Bank of Albania	October 19, 2001
Romania	Central Bank of Romania	February 19, 2002
Bahrain	Money Authority of Bahrain	July 30, 2002
Indonesia	Central Bank of Indonesia	December 11, 2002
Kazakhstan	Central Bank of Kazakhstan	May 22, 2003
Pakistan	National Bank of Pakistan	January 20, 2004
Malta	Financial Services Authority of Malta	December 10, 2004
Greece	Central Bank of Greece	January 28, 2005
Kyrgyzstan	National Bank of Kyrgyzstan	May 17, 2005
Republic of Azerbaijan	National Bank of the Republic of Azerbaijan	June 14, 2005
Bulgaria	National Bank of Bulgaria	September 13, 2005
China	Banking Regulation Commission of China	August 11, 2006

### *3.7.3.3 Relations with European Union*

The studies for the completion of commitments on Economic Criteria as well as Corporate Restructuring precautions in the field of the Agency's task area and in the National Program of Turkey in order to undertake the Legislation of European Union published in the Official Gazette Nr. 25178 dated July 24, 2003 were continued. The Agency delivered opinion on the issues which are in the field of Agency to the studies of "Turkey Contribution to the Regular Progress Report of 2006" prepared in the coordination of European Union Secretary in order to submit to the EU Commission.

In the framework of the contribution process started in October 3, 2005, the representatives of the Agency participated to the preparation, screening and detailed screening meetings on the sections of "Free Movement of Capital", "Corporate Law", "Financial Services", Economic and Money Policy", "Statistics", "Protection of Consumer and Health" and "Financial Control" in the process of screening before passing to negotiations with EU. In the detailed screening meeting realized in May 2-3, 2006 on the Financial Services sections, a presentation on the issues of the function of BRSA, the last developments and regulations in the sector was made. Besides, after the completion of the screening meetings, it has been participated to the working group meetings formed by negotiation section.

The contribution to the meetings of the subcommittees on the Economic and Monetary Issues, Capital Movement and Statistics as well as single market and Competitive Subcommittee which was realized by Turkey-EU Partnership Committee and which aimed the orientation of analytic examination process was provided.

### *3.7.3.4 Relations with International Monetary Fund and World Bank*

In the scope of the studies of third and forth reviews realized in the framework of Stand-by Agreement which was agrees with International Monetary Fund (IMF), meetings on the issues under the Agency and the issues about banking sector are realized with the IMF teams, and the studies on the commitments under the sphere of duties and in the Letter of Intend dated July 07, 2006 are continued. On the other hand, the updating of Global Financial Stability Report and Annual Report on Exchange Arrangements and Exchange Restrictions prepared by IMF were contributed by our Agency.

Our opinions on the related parts of Country Economic Memorandum prepared in the scope of the contribution process of our country to EU prepared by World Bank were informed to the Turkish Treasury.

### *3.7.3.5 Relations with other International Institutions*

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Participation to Financial Markets Committee meetings, within the structure of OECD, for exchanging ideas concerning structural-institutional regulations relating to finance markets with member countries was provided in 2006. On the other hand following the transmission of the views, relating to the draft report prepared by EDRC, which is found in OECD body, it has been participated to EDRC Turkey Examination Meeting, arranged in Paris, in September 6-7, 2006.

Within the scope of the GATS, it has been participated to following and negotiation process by transmitting our view and proposals in respects which came into the sphere of duty within the scope of a new multilateral negotiation tour of which was initiated by the beginning of 2000 with a view to increase the liberation and transparency level in international service trade.

On the other, in 2006, participation to the meetings realized in Geneva, relating to multiple demands destining to a group of country, which our country is included in financial services field, in WTO. Within the scope of the negotiations realized with various countries, which are within the process of participation to WTO, the evaluations relating to banking sector commitments of the said countries were transmitted to Turkish Treasury, institution responsible from coordination, and on the other hand, the respects included in the commitments list of Turkey and which came within the sphere of duty of the Agency were updated within the scope of the amendments in banking legislation.

Participation was provided to studies and meetings realized by Financial Markets Committee executed within the structure of OECD, the required updating in the publications concerned were realized and it was participated to the studies concerning preparation and evaluation of GRECO country report with the Ministry of Justice coordination.

By FATF, of which our country is also a member and was established by G-7 countries for providing the required cooperation for preventing that the banking sector and financial system be used as the mediator of money laundering, active participation to the studies were realized with a view to converge the legislations and to prevent the laundering the incomes gained from crime by financial system, and the Agency's views and evaluations concerning the respect thereof were transmitted.

### *3.7.3.6 Training Activities*

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The participation of in-service training, inland courses, seminars and such like training activities and also foreign training programs of the Agency's personnel was procured with a view that they shall increase their knowledge

and skills concerning their function and that they shall renew their selves and besides they shall monitor the developments in the business. While an opportunity of training amounting to a total of 5,845 days, including inland and abroad, was procured, 11 days of training in average per each personnel was provided. The distribution of the said training programs by abroad/inland is presented hereunder.

**Table 3.17: Abroad and Inland Training Activities**

Years	Abroad		Inland		Total	
	Number of Participant	Number of days	Number of Participant	Number of days	Number of Participant	Number of days
2004	76	336	594	4.056	670	4.392
2005	68	324	1.351	4.226	1.419	4.550
2006	103	542	1.257	5.303	1.360	5.845

The participation state of the personnel to training activities, conferences, seminars, courses arranged by international institutions in abroad and other countries' regulatory authorities in banking field concerning general banking, economics, risk and such career respects, was presented hereunder.

**Table 3.18: The distribution of In-land Training as to the Institutions Arranged Thereof**

Institutions	Number of Participant		Number of days	
	2005	2006	2005	2006
FDIC	12	12	145	124
FED	4	2	17	50
FSI	14	11	31	26
IMF	4	6	11	40
ISACA (*)	6	8	30	40
WB	4	8	23	29
OCC	5	8	25	70
Other	19	48	42	163
<b>TOTAL</b>	<b>68</b>	<b>103</b>	<b>324</b>	<b>542</b>

(\*) Information Systems Audit and Control Association

Information relating to inland basic training programs, courses, conferences, seminars and such training activities of which were organized by our Agency and other institutions in 2006 are presented in the table hereunder.

**Table 3.19: Distribution of In-land training activities as to subjects**

Subjects	Participation		Number of Days	
	2005	2006	2005	2006
Basic and Preparatory Training Program	76	171	1.785	3.477
Authority Exam Preparation Training	-	36	-	360
Risk	50	109	250	309
Basel-II (*)	40	-	80	-
Banking Law	57	-	741	-
Information Technologies and IT Supervision	30	74	90	148
Motivation and Management Skills	-	73	-	146
Other (**)	1.098	794	1.280	863
<b>TOTAL</b>	<b>1.351</b>	<b>1.257</b>	<b>4.226</b>	<b>5.303</b>

(\*) Seminar, was realized with the technical support of TAIEX which making within the structure of EU Commission Extending Directorate General.

(\*\*) Programs concerning the respects of general banking, economics, law, legislation of tender, personal skills etc. of which were organized by Banks Association of Turkey, OECD, Central Bank of the Republic of Turkey

#### 3.7.3.7 Other Training Activities

Sending 10 personnel of the Agency to foreign master's degree in law, engineering, international relations, mathematics, accounting, econometrics, statistics, administrating, economics, finance, banking in the universities of United States of America and Europe and procuring 78 Agency's personnel to participate foreign language training programs with a view that they shall develop foreign language information level, were provided.

#### 3.7.3.8 Communication

The communication activities were executed within the scope of the strategies which takes basis the transparency principle and informing the public in true manner. Within the scope of that press conference, press releases, panel discussions and presentations were made. Press releases in 15 different respects and on 5 titles relating to inform the public were made and press conferences were arranged in the Agency for two times.

Information demands coming from print and mass media were concerning the respects which came into the field of the Agency responded by the contribution of the units concerned, and various materials concerning the Chairman and the Agency were transmitted to press for being used in the news taken place in the media concerning the Agency. 122.000 news and comments which the name of the BRSA were mentioned in the media during

2006 were published. 38.900 thereof are concerned with credit cards, 24.600 with mortgage, and 51.000 thereof are concerned with foreign banking. Developments, news and comments relating to the Agency and the sector of which the Agency is responsible from its supervision and regulation are tried to be followed closely. Within the scope of that, "Press Bulletin" which including economic, commercial and financial developments in our country and in the world, is being prepared by being scanned the domestic and foreign newspapers and periodicals, daily. "Press Bulletin", which is presenting to the usage of Agency's personnel by intranet, is being transmitted to certain public institutions, a priori to Grand National Assembly of Turkey. While the print media is being followed, monitoring reports of the news published in television channels are being followed and immediate access to the news, which were determined as thereof were published concerning BRSA, are provided. Support was given to National news channels concerning Agency's activity field and within the scope of institutional communication activities, a support was given to activities such like symposium and conferences which public bodies, private sector and universities has arranged and various participations to thereof were made. Within the scope of that, informative presentations of the institutional activities in Boğaziçi, Kültür, Uludağ, Bilkent, Atatürk, İstanbul, Ankara ve Karadeniz Teknik Universities were made.

On the other hand, the required referring to the units concerned are being done by evaluating the proposals, demands and complaints which were transmitted to the Agency by communication addresses.

**Table 3.20: Press Releases by subjects**

Subject	2005		2006	
	Unit	Share %	Unit	Share%
Enforcements concerning banks	5	26,3	3	20,0
Basel II	3	15,8	2	13,3
Institutional activities	2	10,5	2	13,3
Publications	7	36,8	7	46,7
Other	2	10,5	1	6,7
<b>Total</b>	<b>19</b>	<b>100,0</b>	<b>15</b>	<b>100,0</b>

### 3.7.4 Activities of Administrative and Financial Affairs

As far as financial resources, duty and authority, which were allocated to the Agency, entailing, it is a principal cause that thereof shall be used freely within the scope of principles and procedures determined in its own budget. Within the scope of that, Agency's Budget and its final accounts which were prepared by taking into account of previous year's budget amounts and also with the determination of the Agency's income and expenditures are being presented to Grand National Assembly of Turkey and a copy of the final account is transmitted to Ministry of Finance.

It was put out a tender pursuant to the Public Procurement Act Nr. 4734 for the procurement of the service "Computer assisted off-site audit application software, consultancy, training and support" that 200 person shall be using thereof with a view to procure technological software and hardware support concerning to develop and fortify the off-site activities of our Agency by the unit concerned, in 2006. While it was initiated to the project in April 27, 2006 by the firm which has obtained the contract as a result of the tender, it was undertaken to accomplish thereof in 2007.

By making the agreement of the licenses relating to application and data base Microsoft software which is being used predominantly not only in server computers but also in user computers in the information systems sub-structure of our Agency, the licenses were registered in the name of our Agency.

185 desktop computers, for the requirements of the Agency's personnel, were purchased by the mediation of the State Supply Office.

Payments belonging to expenditures relating to Retirement deduction, personnel salaries, in-land and in abroad traveling expenses, training and health expenditures and others were continued on to be realized , as it was common, in 2006.



## 4. FINANCIAL INFORMATION

### 4.1 Results of Budget Implementation

While it was not predicted income-expenditures disparities within the scope of 2006 year's budget, 2005 and 2006 incomes were presented hereunder by their budget and realization amounts.

**Table 4.1: 2005 and 2006 Income Budget and Realizations of them**

(Try Thousand )	Budget		Realization		Disparity	
	2005	2006	2005	2006	2005	2006
Contribution Shares Income	76.436	78.455	74.994	78.453	-1.442	-2
Other developments	8.064	7.065	9.628	8.165	1.564	1.100
- Interest Incomes	7.500	7.000	9.618	8.129	2.118	1.129
- Other various incomes	564	65	10	36	-554	-29
Turnover from the previous year	-	-	2.830	-	2.830	-
<b>Total</b>	<b>84.500</b>	<b>85.520</b>	<b>87.452</b>	<b>86.618</b>	<b>2.952</b>	<b>1.098</b>

While the year 2006 budget were getting prepared, it was predicted that TRY 78,455 thousand of contribution share shall be collected from the banks. With the said income estimation, a contribution share amounting to TRY 78,453 thousand was collected from the banks. While the share of contribution shares within the incomes of 2006 was realized as 90, 6%, the remainder part amounting to 9, 4% comprises from interest incomes gained from TRY time deposits. In the budget of 2006, it was determined that the resources of the Agency shall be rated in domestic government bonds, foreign exchange deposit accounts or in TRY time deposit accounts. Within the scope of that, as a result of rating the funds of the Agency within the scope of Public Treasury Communiqué provisions and the Resolution of the Board dated January 31, 2003 and Nr. 979, an interest income amounting to TRY 8,129 thousand was gained.

Expenditure budget of the Agency in years 2005 and 2006 was presented in the following table.

**Table 4.2: 2005 and 2006 Allocation and Expenditure Realizations**

(TRY Thousand)	Total Budget							
	Initial Allocation		Allocation after Transfers		Used		Remainder	
	2005	2006	2005	2006	2005	2006	2005	2006
Personnel expenditures	18.847	30.534	19.461	28.108	19.198	24.838	263	3.270
Social Security Institution Premium expenditures	733	838	805	1.134	765	971	40	163
Goods and Service Purchases	20.987	22.253	17.311	24.378	16.719	18.867	592	5.510
Current transfers	875	1.415	46.354	1.420	47.382	1.069	-1.028	351
01- General Budget Transfer	-	-	44.451	-	46.481	(*)-	-1.030	-
02- Other Current Transfer	875	1.415	903	1.420	901	1.069	2	351
Capital Expenditures	43.058	30.479	569	30.479	544	679	25	29.800
<b>Total</b>	<b>84.500</b>	<b>85.520</b>	<b>84.500</b>	<b>85.520</b>	<b>84.608</b>	<b>46.425</b>	<b>-108</b>	<b>39.095</b>

(\*) Agency's income surplus, of which were not used, amounting to TRY 40,194 thousand, in 2006 were transferred to the general budget in March 03, 2007.

When analyzed Initial allocations, allocation transfers, total expenditure amounts and allocation surplus of 2006 expenditure budget by main expenditure items, it can be observed that an allocation amounting to TRY 85,520 thousand was allocated and a total of TRY 46,425 thousand of expenditure from budget allocation was allocated for the year 2006.

Of TRY 46,425 thousand, which is total expenditure amount, TRY 24,838 thousand was realized as personnel expenditure. Within the scope of that, personnel expenditures comprises 53.5%, premium expenditures paid to social security institutions for the Agency's personnel 2.1%, goods and service purchases 40.6% , current transfers 2.3% and capital expenditures 1.5% of the total expenditures.

When observed the distribution of the expenses in 2006 as to allocation types, the shares of the items such as consumer goods and material purchases, inventory stock purchases, machine –equipment and vehicle purchases, traveling expenses' being quite low within the total expenses is an indicator of the saving policy being executed in the Agency.

Supervisory and regulatory institutions' apprehension of budget for three years budgeting was provisioned in the Article 17 of the Act Nr. 5018 on Public Financial Management and Control that they shall prepare thereof as

to strategic plans and performance aims and as to institutional, functional and economic classification system.

On the other hand, it was determined in the Article 9(b) of the Budget Act on 2004 fiscal year Nr. 5027 that, the Ministry of Finance is authorized to determining the accounting system and the standards of them with Analytical Budget Classification (ABC) , developing the said system and their standards, make the all kind of studies relating to be executed thereof along or separately and determining the agencies and institutions or their units which shall make pilot application.

With the provisions of the law afore mentioned, in the Budget Practicing Directions of which the Ministry of Finance was published, it was decided that ABC shall also become widespread in the agencies and institutions which falls outside of consolidated budget.

Practicing results of BRSA 2006 Budget, prepared according to ABC within the scope of the provisions of the said law, was presented in the table, as a summary, hereunder.

**Table 4.3: 2006 Budget Final Account State**

(TRY Thousand) BUDGET CODE And NAME	Initial Payment	Transfer	Total Expenditures	Ratio (%)	Remainder Allocation	
<b>00.02- PRINCIPAL CLERK</b>	<b>7.674</b>	<b>1.626</b>	<b>9.300</b>	<b>5.388</b>	<b>11,6</b>	<b>3.912</b>
01- Personnel Expenditures	6.425	-209	6.216	4.090	8,8	2.126
02- Social Security Institution Premium expenditures.	99	53	152	117	0,3	35
03- Goods and Service Purchases	1.149	1.782	2.932	1.181	2,5	1.751
<b>00.04- SUPPORT SERVICE DEPARTMENT</b>	<b>47.949</b>	<b>966</b>	<b>48.915</b>	<b>18.641</b>	<b>40,2</b>	<b>30.274</b>
01- Personnel expenditures (İkm.)	619	-262	358	329	0,7	29
02- Social Security Institution Premium expenditures. (İkm.)	24	1	25	15	0,0	10
03- Goods and Service Purchases (İkm.)	64	11	75	20	0,0	55
01- Personnel Expenditures (Other.)	3.147	-258	2.889	2.820	6,1	69
02- Social Security Institution Premium expenditures. (Other)	134	57	191	168	0,4	23
03- Goods and Service Purchases (Other)	431	119	550	456	1,0	94
03- Goods and Service Purchases (General.)	13.713	1.068	14.782	13.549	29,2	1.232
05- Current Transfer (General.)	1.415	5	1.421	1.069	2,3	352
06- Capital expenditures (General.)	28.400	225	28.625	215	0,5	28.410
<b>00.24- DEPARTMENT OF LEGAL AFFAIRS</b>	<b>2.460</b>	<b>75</b>	<b>2.535</b>	<b>2.328</b>	<b>5,0</b>	<b>206</b>
01- Personnel Expenditures	1.937	-115	1.822	1.785	3,9	37
02- Social Security Institution Premium expenditures	57	13	70	68	0,2	2
03- Goods and Service Purchases	200	17	217	145	0,3	72

(TRY Thousand)	Initial	Transfer	Total	Expenditures	Ratio	Remainder
BUDGET CODE And NAME	Payment				(%)	Allocation
03- Goods and Service Purchases (General.)	265	160	425	329	0,7	96
<b>00.26- AGENCY'S ADVISORY OFFICE</b>	<b>857</b>	<b>-728</b>	<b>129</b>	<b>0</b>	<b>0</b>	<b>129</b>
01- Personnel Expenditures	806	-730	76	0	0	76
02- - Social Security Institution Premium expenditures	26	0	26	0	0	26
03 Goods and Service Purchases	25	2	27	0	0	27
<b>41.00- DEPARTMENT OF AUDIT I</b>	<b>3.243</b>	<b>122</b>	<b>3.365</b>	<b>3.279</b>	<b>7,1</b>	<b>86</b>
01- Personnel Expenditures	2.702	-57	2.644	2.632	5,7	13
02- Social Security Institution Premium expenditures	72	41	113	102	0,2	11
03- Goods and Service Purchases	469	138	608	545	1,2	62
<b>42.00- DEPARTMENT OF AUDIT II</b>	<b>3.242</b>	<b>130</b>	<b>3.372</b>	<b>3.173</b>	<b>6,8</b>	<b>199</b>
01- Personnel Expenditures	2.701	-44	2.657	2.522	5,4	136
02- Social Security Institution Premium expenditures	72	41	113	102	0,2	10
03- Goods and Service Purchases	469	133	602	549	1,2	53
<b>43.00- DEPARTMENT OF AUDIT III</b>	<b>3.243</b>	<b>25</b>	<b>3.267</b>	<b>3.081</b>	<b>6,6</b>	<b>186</b>
01- Personnel Expenditures	2.702	-157	2.545	2.454	5,3	91
02- Social Security Institution Premium expenditures	72	36	108	96	0,2	11
03- Goods and Service Purchases	469	146	615	530	1,1	84
<b>44.00- DEPARTMENT OF REGULATIONS</b>	<b>1.774</b>	<b>-38</b>	<b>1.736</b>	<b>1.529</b>	<b>3,3</b>	<b>207</b>
01- Personnel Expenditures	1.398	69	1.467	1.348	2,9	119
02- Social Security Institution Premium expenditures	42	9	51	48	0,1	3
03- Goods and Service Purchases	334	-116	218	133	0,3	85
<b>45.00- DEPARTMENT OF ENFORCEMENT I</b>	<b>2.337</b>	<b>-328</b>	<b>2.009</b>	<b>1.766</b>	<b>3,8</b>	<b>243</b>
01- Personnel Expenditures	2.023	-236	1.787	1.612	3,5	175
02- Social Security Institution Premium expenditures	59	1	60	56	0,1	4
03- Goods and Service Purchases	255	-93	162	98	0,2	64
<b>46.00- - DEPARTMENT OF ENFORCEMENT II</b>	<b>2.337</b>	<b>-900</b>	<b>1.437</b>	<b>1.215</b>	<b>2,6</b>	<b>222</b>
01- Personnel Expenditures	2.023	-808	1.215	1.101	2,4	114
02- Social Security Institution Premium expenditures	59	1	60	40	0,1	20
03- Goods and Service Purchases	255	-93	162	74	0,2	88
<b>47.00- DEPARTMENT OF STRATEGY DEVELOPMENT</b>	<b>4.910</b>	<b>-1.623</b>	<b>3.287</b>	<b>2.179</b>	<b>4,7</b>	<b>1.108</b>
01- Personnel Expenditures	1.749	118	1.867	1.722	3,7	145
02 Social Security Institution Premium expenditures	57	12	69	67	0,1	2
03- Goods and Service Purchases	3.095	-1.753	1.342	390	0,8	952
06- Capital expenditures	9	0	9	0	0,0	9
<b>48.00- DEPARTMENT OF INFORMATION MANAGEMENT</b>	<b>5.491</b>	<b>672</b>	<b>6.163</b>	<b>3.843</b>	<b>8,3</b>	<b>2.320</b>
01- Personnel Expenditures	2.299	263	2.562	2.423	5,2	139
02- Social Security Institution Premium expenditures	64	31	95	90	0,2	5

(TRY Thousand) BUDGET CODE And NAME	Initial Payment	Transfer	Total	Expenditures	Ratio (%)	Remainder Allocation
03- Goods and Service Purchases	1.058	603	1.661	866	1,8	795
06- Capital expenditures	2.070	-225	1.845	464	1,0	1.381
<b>TOTAL GENERAL</b>	<b>85.520</b>	<b>0</b>	<b>85.520</b>	<b>46.425</b>	<b>100,0</b>	<b>39.095</b>

## 4.2 Explanations relating to the Basic Financial Statements

### 4.2.1 Balance-sheet

While total cash in liquid assets is TRY 5 thousand and the banks total TRY 126.662 thousand ; after dropping TRY 92 thousand , payment orders regulated, from the said total, total liquid asset becomes TRY 126.575 thousand. TRY 427 thousand, recorded in trade receivables, is presenting the receivables from contribution shares.

Of the Tax due required to be paid until January 20, 2007 by making declaration with withholding tax return of the short-term debt of the Agency amounting to TRY 1,225 thousand, of which TRY 1,007 thousand was relating to December 2006; TRY 85 thousand comprises various payments to be effected to personnel and TRY 133 thousand comprises the amounts to be paid to the other persons and institutions.

The Agency's summary balance sheet 2006 was presented comparatively with 2005 in the following table.

**Table 4.4: 2005 and 2006 years Summary Balance-Sheets**

(TRY Thousand )		
ASSET	2005	2006
1. Total Current Assets	81.070	127.057
1.1 Liquid assets	80.550	126.575
1.2 Trade Receivables	438	427
1.3 Other Receivables	71	17
1.4 Other Current Assets	11	38
2. Total Fixed Assets	1.500	1.500
2.1- Tangible Assets	1.500	1.500
2.1.1- Tangible assets (gross)	6.449	6.925
2.1.2- Accumulated depreciation	-4.949	-5.425
2.2- Intangible assets	-	-
2.2.1- Equities	136	657
2.2.2- Accumulated depreciation	-136	657
<b>TOTAL ASSET</b>	<b>82.570</b>	<b>128.558</b>
LIABILITY	2005	2006
1. short-term foreign resources total	1.286	1.225
1.1 financial Debts	0,4	5
1.2 Commercial debts	500	113
1.3 Other debts	41	90
1.4 Taxes Payable and Other Fiscal Liabilities	745	1.007
2. Long-term foreign resources total	78.454	84.313
2.1 Income-expenditure collection belonging to next years	78.454	84.313
3. Own-funds total	2.831	43.020
3.1 Previous years Affirmative Activity Results	85.924	85.924
3.2 Previous years Negative Activity Results	-83.097	-83.097
3.3 Period Negative activity Result	-	-
3.4 Period Affirmative Activity Result	4	40.193
<b>TOTAL LIABILITY</b>	<b>82.570</b>	<b>128.558</b>

#### 4.2.2 Income Statement

The Income Statement 2006 of the Agency was presented, comparatively with 2005, hereunder.

**Table 4.5: 2005 and 2006 Income Statements (TRY Thousand)**

EXPLANATION	2005	2006
1. Contribution share incomes	74.994	78.454
2. Sales Discount	-	-
3. Net Incomes (1-2)	74.994	78.454
4. Cost of the Sales	-	-
5. Activity Expenditures	38.127	46.425
6. Activity Profit or Loss (3-5)	36.867	32.029
7. Usual Incomes from other activities	9.618	8.164
8. Usual expenditures from other activities	46.491	-
9. Financing Expenditures	-	-
10. Extraordinary Incomes	10	-
11. Extraordinary Expenditure and loss	-	-
<b>PERIOD RESULT (6 + 7 - 8 - 9 + 10 -11)</b>	<b>4</b>	<b>40.193</b>

#### 4.3 Results of Financial Supervision

In the Article Nr.101 of the Banking Law Nr. 5411, relating to the external audit of the Agency, it was predicted that the Act Nr. 5018 on Public Financial Administration and Control be executed.

Within the scope of that, the Agency's external audit after expenditure relating to 2006 shall be executed by the Court of Accounts pursuant to the article 68 of the said Law.

## 5. EVALUATION OF INSTITUTIONAL CAPABILITY AND CAPACITY

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### 5.1 Advantages

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- The new financial structure of which the Banking Law Nr.5411 has brought,
- The authority to exercise the power granted by the Law to itself on its own,
- Strategic management understanding which was put into practice in 2006,
- As a result of the new organization structure, the efficiency of work and transaction flows' being increased and a decrease in coordination necessity,
- Material resources, enabling the use of high quality manpower and technology,
- An efficient combination of use of highly qualified personnel and recruitment of skilled personnel,
- The efficient usage of flexible and powerful information systems based on current technology

### 5.2 Weakness

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- Adaptation Process to Basel II and EU CRD Directives
- Process of transition to strategic planning and budgeting approach
- Financial autonomy's not being adopted exactly in practice

### 5.3 Evaluation

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#### **Basel-II and CRD**

The New Capital Accord Basel II shall be put into practice by the end-2007 in G-10 and EU Countries and certain emerging countries. While the Accord which was designed for G-10 countries implies certain costs for our country and other emerging countries, non-implementation of the Accord may cause missing of some significant opportunities in terms of international convergence and competition power of the financial system.

In spite of all wide ranging preparation studies of presented in the chapter regarding the activities of the Agency in the detailed manner, it is thought



that Basel II and the EU CRD adaptation process which is based on such a structure will impose significant costs on the BRSA in terms of regulation, supervision, information systems and man power.

### **Strategic Planning and Budgeting**

It is important to develop the management of financial resources of the Agency in order to improve the institutional capacity. Pursuant to the Article Nr. 101 of the Banking Law; while the budget of the Agency is getting prepared it is taken into account of the respects of preparing the budget as to strategic plan and annual targets while associating with Development Plans; procuring the required financing support for taking healthy resolutions within the scope of the priorities foreseen in strategic plan, fortifying the connection of intra-Agency risk management system results and resource distribution, harmonizing of financial resources with strategic priorities. As because of that the performance based budgeting was not fully put into practice yet in our country and BRSA application requires comprehensive studies the harmony in between strategic plan and budget was not exactly established. Within the scope of that, the studies in respect of defining the BRSA performance criteria, implementing thereof, developing a performance management system around the said criteria are being carried on and in a parallel process the concerned legislation and the practices of the Ministry of Finance are being followed closely.

## 6. REGULATORY IMPACT ANALYSIS REGARDING SUB-REGULATIONS

Pursuant to the Article 101(6) of the Banks Act Nr. 5411, to determine and analyze the economic and social effects of the sub- regulations published by the Agency on the sector; the opinions and general evaluations of the banks within the sector were consulted by conducting polls<sup>1</sup>.

### 6.1 General Evaluation

Most of the secondary regulations published in 2006 became effective in November. When the time passed since the publication of the regulations is taken into consideration, it is estimated that it will take some more time for the economic and sociological effects to appear completely. Moreover, since some of the secondary regulations are the updated versions of the ones published before or they include their fundamental elements, the poll results shall be evaluated regarding this fact. The difficulty of determining the effects of an additional regulation with all of its aspects is obvious. On the other hand, after a careful analysis of the poll results, the important findings listed below are achieved.

#### **Regulations have;**

- Contributed to the elimination of the ambiguities and misunderstandings, and clarified the standards related to the application.
- Corrected the legislation gap.
- Contributed positively to the accountability and transparency.
- Contributed to the accordance with the international standards and European Union norms.
- Despite the physical, human and financial burdens that they brought for short- term, it is expected that the regulations will bring positive effects in the long-term.

#### **On the other hand;**

- The adaptation process to the regulations can be longer especially for small scaled banks.
- The cost of the adaptation varies also depending on the different scale sizes between banks.
- Sampled appliances and/or guides are needed for the regulations for which technical aspect is dominant.

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<sup>1</sup> The analysis related to the effects of the mentioned sub- regulations on the Agency could not be made because the preparations of practice of budgeting based on performance were continuing, and the evaluations of the subject in Strategic Plan and the regulatory impact analysis guide was not published by the time this study was being made.

**Box 6.1: Evaluations Made by Banks Based on Regulations**

<b>Nr</b>	<b>Name of the Regulation</b>	<b>Its Effect</b>
1	Regulation on Operations of and Indirect Shareholding in Banks Subject to Permission	It is stated that expressly the standards related to the establishment of the Banks, their opening branches inside the country and abroad, and procuring and turnover the shares, so it helped eliminating the doubts about this subject.
2	Regulation on the Merger, Acquisition, Division and Share Transfer of the Banks	It is provided that corporate transparency and predictability for the merger, turnover, division and share exchange of the Banks. On the other hand, comprehensive evaluations related mentioned above certain time limits
3	Regulation on Voluntary Liquidation of the Banks	Clear standards are expressed.
4	Regulation on Establishment and Operations of the Asset Management Companies	It overcame the legislation gap.
5	Regulation on Corporate Governance Principles for Banks	It brought clarity and transparency to the shareholders, workers, management and the services presented to the clients customers of the Banks.
6	Regulation Concerning on Internal Systems of the Banks	It created a positive effect for the sector, and it increased accountability by providing a better monitoring and control of the risks to be exposed to. On the other hand, it brought changes to the organizational structure of the Banks, induced to an additional training needs. Moreover, it is expressed that the cost burden brought for small and medium sized banks shows differences.
7	Regulation on the Procedures and Principles for Notification of and Taking Oath and Declaration of Assets by Executives to be Appointed to Top Management of Banks and Keeping of Books of Resolutions	It is determined that elasticity can be brought to the notification term of the persons to be appointed to the top management to the Agency.
8	Regulation on the Own funds of the Banks	It contributed to the straightening of the Banks' capital structures. But it is stated that it can make heavier the conditions of the secondary quasi-capital debts and so obtaining quasi-capital debt would be more difficult in medium and long term.
9	Regulation on Loan Transactions of the Banks	It is provided that the better monitoring and control of the risks to be exposed to. On the other hand, it is stated that it would be appropriate to bring elasticity to the proportion of non-cash loans.
10	Regulation on Measurement and Evaluation of Capital Adequacy of the Banks	It is underlined that closeness to the European Union and international norms and especially to the Basel-II criteria relating to the operational risk subject was provided, that the capital adequacy of the Banks was expressed in a more realistic way, and that the burdens related to the affiliates and subsidiaries were eliminated.
11	Regulation on Measurement and Evaluation of Liquidity Adequacy of the Banks	It came into force an extensive measurement about liquidity and contributed to the better management of risks.
12	The Regulation on the Standard Ratio of the Foreign Currency Net General Position to Own Funds to be Calculated and Implemented by the Banks on a Consolidated and Non-consolidated Basis	There are no significant differences considering the anterior regulation.

**Box 6.1: Continuing**

Nr	Name of the Regulation	Its Effect
13	The Regulation on the Procedures and Principles on Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Made Therein	It increased the general provision ratio. But it contributed to making more transparent the financial statements of the Banks.
14	Regulation on the Grants and Aids to be Extended by Banks and Institutions Subject to Consolidated Supervision	It drew the limits of the grants and to whom the grants can be made, the application unity was provided by adopting a common standard.
15	Regulation on the Procedures and Principles for Sales and Purchase of Precious Metal and the Disposal of Properties and Commodities That Have Been Acquired Due to Receivables by Banks	It is clarified that the evaluation principles of the assets obtained due to the receivables, and helped to making transparent the balance sheets and ameliorating the asset quality.
16	Regulation on Principles and Procedures for Accounting Practices and Retention of Documents by Banks	It increased the transparency and credibility of balance sheets of the banks, and provided that in accordance with the EU and international standards. However it is underlined that the application should be gradual and the accordance terms should be longer.
17	Regulation on Authorization and Activities of the Organizations that will Perform External Audit at Banks	It is provided that corporate transparency and predictability, it affected positively the working quality by better monitoring and control of the risks to be exposed to, and it is increased the confidence to the financial sector.
18	Regulation on Information Systems Audit to be Made in Banks by External Audit Institutions	It increased the confidence to the sector, created positive effect for information security, provided that corporate transparency and predictability. On the other hand, it is emphasized that the cost of the regulation may be varied depending on the scale differences of the banks.
19	Regulation on Authorization and Operations of Assessment Agencies for the Banks	It will provide positive effect to the sector in long-term.
20	Regulation on Principles and Procedures of the Authorization and Operations of the Rating Agencies	It brought clear standards to the authorization and activities of rating agencies and provided that unanimous applications regarding above matter.
21	Regulation on Principles and Procedures Related on the Preparation and Publication of the Annual Reports by Banks	It is provided that standardization to the annual reports prepared by Banks and increased the confidence related to the information and explanations within the report.
22	Regulation on Principles for Establishment and Operations of Financial Leasing, Factoring and Financing Companies	It brought clear standards and filled the gap in this area.
23	Regulation on Financial Holdings	It is provided that the unanimous transactions related to the practices of financial holdings.
24	Regulation on Bank's Procurement of Outsourcing Services and Authorization of such Service Providers	It is expressed that it would be more appropriate that the operations within the scope of consulting services should be explained in a more detailed way.

**Box 6.1: Continuing**

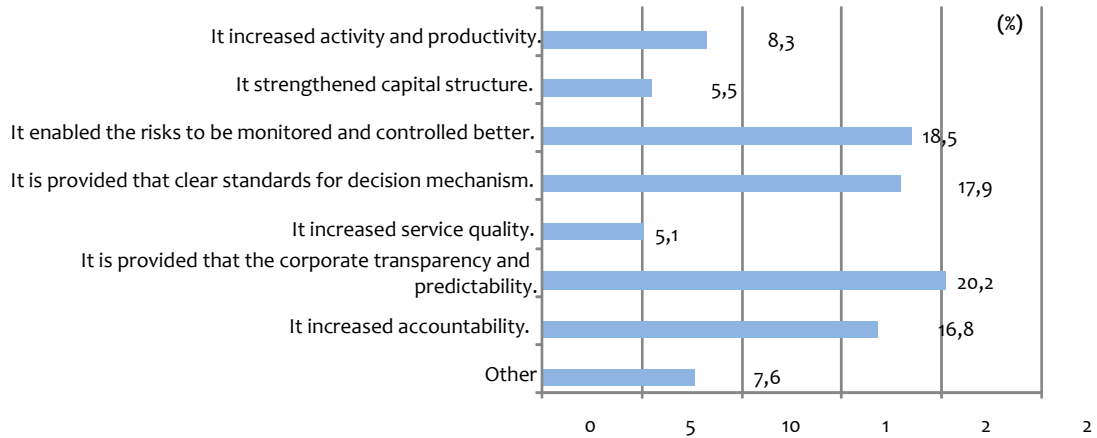
Nr	Name of the Regulation	It Effects
25	Regulation on Acceptance and Withdrawal of Deposits and Participation Funds and Any Deposit, Participation Fund, Bailed Goods and Receivable That Have Been Subjected to Prescription	It created a positive effect for protecting the rights and interests of the customers, however increased partially red-tape.
26	Communiqué Considering the Credit Derivatives for the Calculation of the Standard Ratio of the Capital Adequacy According to the Standard Method	It helped the understanding of the practice and principles of derivative operations within the calculation of capital adequacy ratio.
27	Communiqué on the Report Format Related to the Information Systems Audit to be Performed by External Audit Institutions in Banks	It contributed to a net and calculable evaluation infrastructure and a transparent informing method for the risks related on the controls in the banking operations within the intermediation of information systems and information system processes.

## 6.2 Assessment of the Questionnaire

A questionnaire which was prepared so as to receive the general assessments of the sector relating to secondary regulations and released in 2006 by the Agency was sent to banks and it was asked from banks to fill in the questionnaire forms for each regulation separately. When assessing the effects of regulations the banks in general used cost-benefit analysis, multiple-criterion analysis risk analysis methods. The banks were allowed to mark more than one alternative for each question. The responses received from banks were assessed in question basis and the percentage distribution of the responses marked for each question was displayed in chart. On the other hand, statements made by the banks relating to the “others” category which take place among response alternatives, due to its variety, were assessed aggregately rather than been displayed in the charts in detail, in addition to this general tendencies were reflected to the text.

Within the scope of the questionnaire, before all else, it was attempted to determine the general benefits of the regulations made to the sector. Within this scope, the possible benefits of regulations were listed, besides it was asked to define in “others” alternative should another benefit exists other than those listed.

**Chart 6.1: Benefits of Regulation**

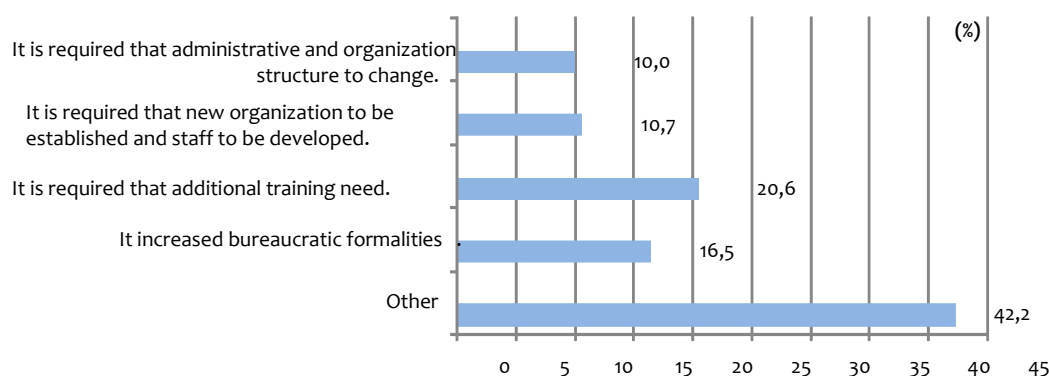


As it can be observed from the chart above, among the most important benefits of regulations; are that it provides the corporate transparency and predictability, it enables the risks to be monitored and controlled better, it introduces open standards for decision mechanism and it increases accountability.

**Chart 6.2.a. Physical Costs of Regulation**



“Other” alternative was marked as the physical costs of regulations. When the explanations in “others” alternatives are examined; it is observed that a great majority of the responses indicates that regulations did not impose additional physical cost. Besides, the most important physical cost is that it introduced additional infrastructure systems.

**Chart 6.2.b. Human Costs of Regulations**

“Others” alternative was marked in great majority as the human costs of regulations like physical costs. When the explanations in “others” alternatives are examined; it is observed that a great majority of the responses indicates that regulations did not impose additional human cost. Besides, the most important human costs are; additional training need and bureaucratic formalities.

### 2.c. Financial Burdens Regulations Yield

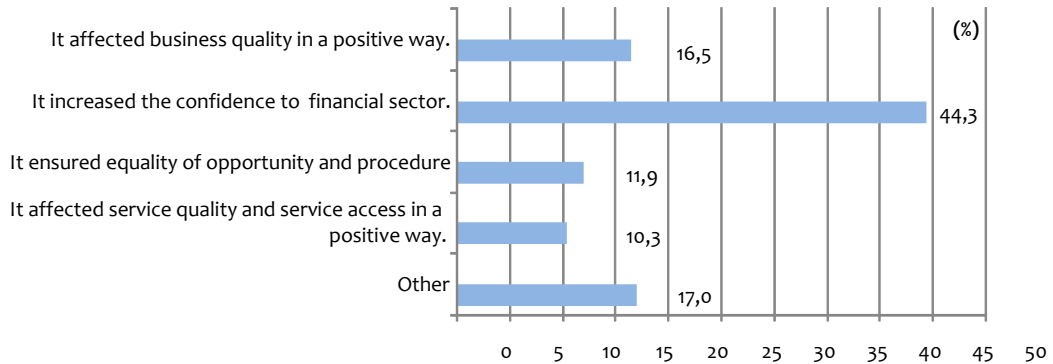
Financial burdens of regulations are subject to assessment in two main sections- vertical and horizontal. Horizontal effects are listed as; “changes in banking activities issues”, “effects of services given on cost”, “number of personnel”, “change in investment level” and “other” alternatives. In order to measure the effects of these, it is demanded that both these titles are scored and the financial cost, if there is any, is defined. As a result of aggregating the responses given; it is defined that the regulations had no financial effect on each and every alternative listed above by over 90% and in parallel to this cost amount section was not filled.

Vertical effects are listed as “changes in personnel expenses”, “changes in IT expenses”, “non-recurring expenditure need”, “ongoing expenditure need” and “other” alternatives. In order to measure the effects of these, it is demanded that both these titles are scored and the financial cost, if there is any, is defined. As a result of aggregating the responses given; it is defined that the regulations had no financial effect on each and every alternative listed above by over 90% and in parallel to this cost amount section was not filled. On the other hand, IT expenses are financially the most burdensome title. When the cost amounts corresponding to this title is considered, it is observed that the amounts are low to the extent that capital of banks.

According to the results above, it is observed that regulations yielded a financially low burden. On the other hand, when the period following the

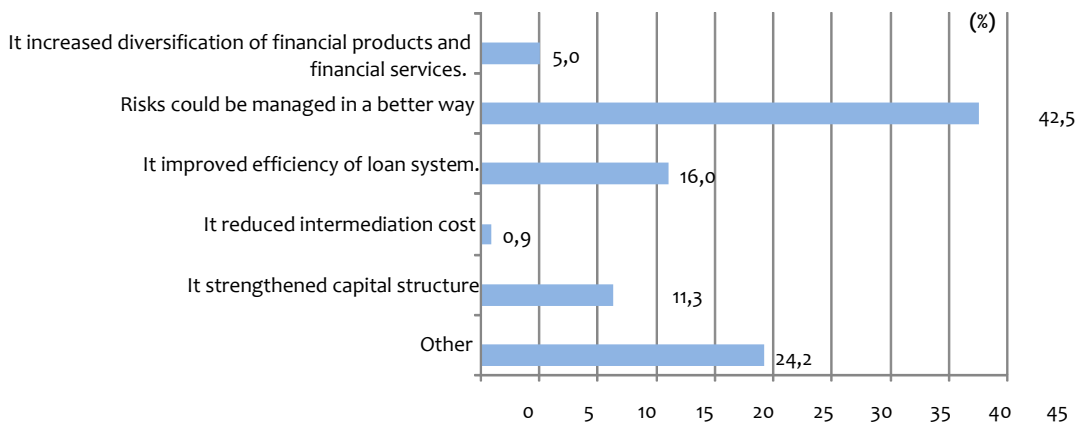
regulations is published is considered it is observed that an increase was experienced in costs in time.

**Chart 6.3. a. Social Effects of the Regulations**



The most important social effect of the regulations, as it can be conceived from the chart above, is its' making contribution to the confidence concerning financial sector. The option "other" is following thereof. When observed the explanations in the other option, it was determined that the elapsed time for evaluating the social effects of the regulations was inadequate.

**Chart 6.3.b. The Effects of Regulations to Economic and Commercial Life**



As it can be seen from the chart above, the most important effect of the regulations to economical and commercial life was to procure the risks to be managed in a better way. The option "other" is following thereof. When observed the explanations in "Other" option, it was determined that the regulations, in weighted manner, shall increase the own fund cost.

**3. c. The Effects of the Regulations to the Sectors Concerned**

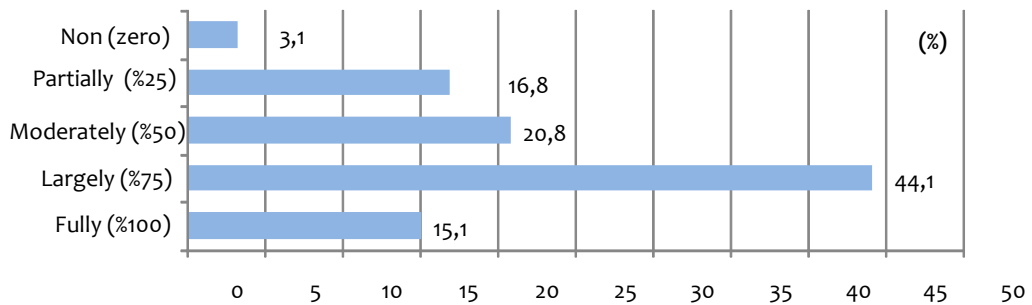
This question was prepared for evaluating, in respect of period of time and appropriateness, the negative and positive effects of the regulations to the shareholders of the bank, the managers of the bank, the personnel of the



bank, public, the regulatory authority (BRSA), the customers of the bank and, if exists, to other sectors. Besides, the duration of the effect and appropriateness of the effect were separated into two parts, as being short-term maturity (up to one year period) and medium/long term maturity (exceeding one year period).

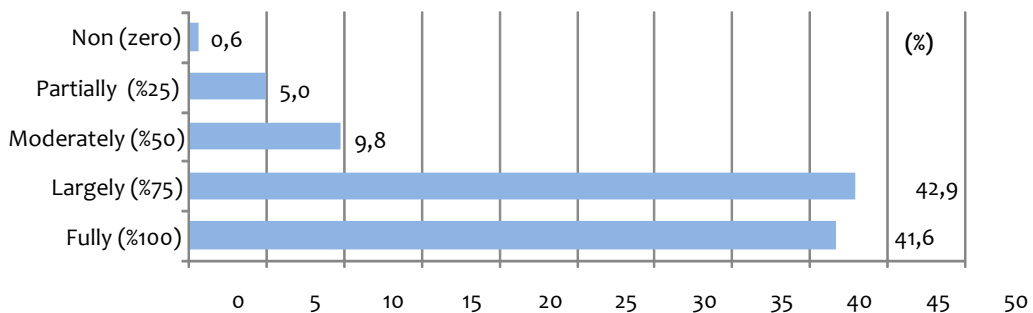
It was determined that the effects of regulations in general, both in the short term and in medium/long term in respect of period and appropriateness to all sectors shall be in positive way of a high percentage (an average of 80%-90%). When analyzed further details, it was declared that the effect in short run , in respect of its duration, shall have partially a negative effect especially on bank’s shareholders and managers (an average of 15%-25%) , but it was said that negative effect shall decrease in the medium and long term. In addition to that, it was declared that the regulations’ negative effects both in short term and in medium/long term to banks’ customers in respect of duration and appropriateness shall be quite limited.

**Chart 6.4. The Opportunity to Declare the Point of Views in Regulation Process**



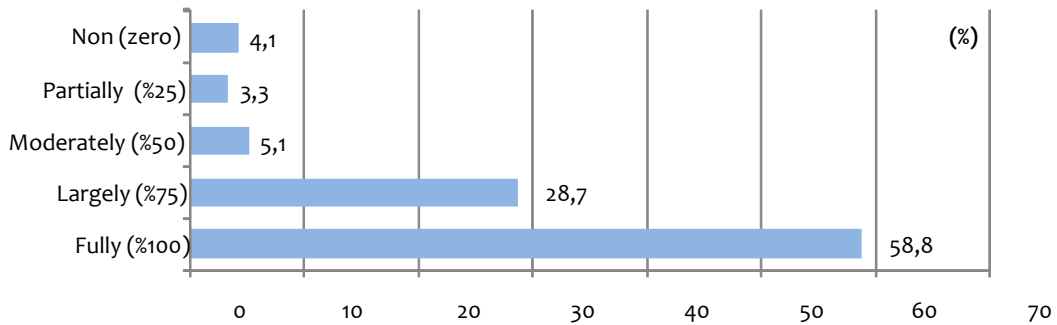
As it can be conceived from the chart above, while making regulations, more than a half of the banks, has found an opportunity to declare their point of view drastically or completely. On the other hand, the ratio of the banks which could not declare the point of view is quite low.

**Chart 6.5. Applicability of the Regulations**



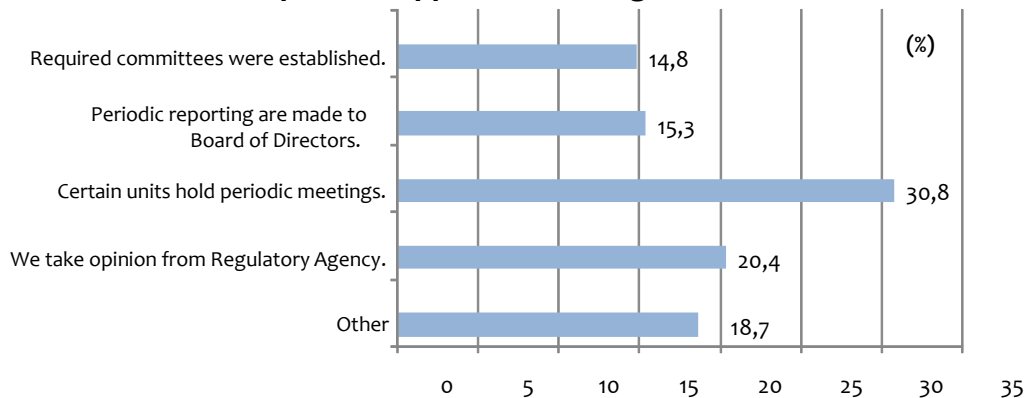
Most of the banks think that the regulations are applicable. Most of the banks which thinks that the regulations are partially and in medium level applicable are small-scale and partially medium-scale banks.

**Chart 6.6. Compliance with the Regulation**



It can be seen from the chart above that the most of the banks have attuned to the regulations.

**Chart 6.7. The Follow-up of the Application of Regulations**



The applications relating to the regulations are being followed up by making periodic meetings with the units concerned in general, taking opinion from the regulatory agency and making reporting to board of directors. In the option “Other” it was determined to take the opinion of Law Department and to inform all of the personnel with in-bank circulars.

ANNEXES



## ANNEX 1. PUBLICATIONS OF THE BRSA

Nr.	Subject	Date
<b>I. STRATEGIES and POLICIES</b>		
<b>a) The New Basel Capital Accord (Basel II)</b>		
1	The Road Map for the Transition to New Basel Capital Accord (Basel-II) (Turkish)	May 2005
<b>II. INTERNATIONAL REFERENCES</b>		
5	International Convergence of Capital Measurement and Capital Standards (Basel-II) – The New Basel Capital Accord (Turkish Translation)	October 2005
4	High Level Principles on the Cross Border Practice of New Accord (Basel-II)	June 2005
3	Implementation of Basel II: Practical Considerations	June 2005
2	International Convergence of Capital Measurement and Capital Standards (The Third Pillar- Market Discipline)	March 2005
1	International Convergence of Capital Measurement and Capital Standards (The Second Pillar Supervisory Review Process)	January 2005
<b>III. WORKING PAPERS</b>		
<b>a) The New Basel Capital Accord (Basel II)</b>		
7	Establishing Operational Risk Database in Banks	March 2006 / 3
6	Modeling of Operational Risk Database	March 2006 / 2
5	The Guidebook on the Understanding of Basel-II National Discretion	October 2005 / 8
4	The Possible Impacts of Basel-II on the SME Loans	August 2005 / 4
3	Basel Approach to Operational Risk: Three Pillars of Operational Risk	July 2005
2	Basel Approach to Operational Risk: An Assessment on Operational Risk Data	July 2005
1	Basel-II, Economic Repercussions and The Transition Process	May 2005 / 3
<b>b) General Banking Issues</b>		
18	The Developments in the Housing Loans of Turkish Banking Sector	March 2006 / 1
17	The Efficiency Development in the Turkish Banking Sector during Disinflation Process	November 2005 / 10
16	Intermediation Costs in Turkish Banking Sector	November 2005 / 9
15	Turkish Banking Sector during the integration to European Union	September 2005 / 7
14	Foreign Entry in Banking Sector: Global Developments and Turkey	September 2005 / 6
13	The Comparative study for Turkey and the New European Union Members	August 2005 / 5
12	Administrative Fines From The Perspective of Discretionary Power of Banking Authorities	April 2004 / 1

## Annex 1. Publications of BRSA

11	Reduction of Intermediation Expenses in the Turkish Banking Sector	November 2003 / 1
10	Financial Burdens in banking Sector: Stock Market Transactions Expenses in Turkey and the World	October 2002
9	Restructuring in Banking Sector: Japan Case	July 2002
8	Determinants of Profitability in Turkish Banking System 1997-2000	June 2002 / 1
7	CAMELS Analysis in Turkish Banking Sector	September 2001 / 1
6	The Cost of Resources in Turkish Banking System: (1996–2000)	July 2001 / 5
5	Modeling the Net Interest Margin in Turkish Banking System	June 2001 / 4
4	Liquidation of Non-Performance Assets through the Asset Management Companies	May 2001 / 3
3	Restructuring in Banking Sector: The Argentina Case	February 2001 / 2
2	Restructuring in Banking Sector: The South Korea Case	January 2001 / 1
1	Struggle with Inflation Program, Consumer Loans and Probable Risks Thereof	October 2000 / 1

Nr.	Subject	Date
<b>IV. INFORMATIVE NOTES</b>		
<b>The New Basel Capital Accord (Basel II)</b>		
1	The New Basel Capital Accord (Basel II) with 10 questions	January 2005
<b>V. OCCASIONAL PAPERS</b>		
<b>a) The New Basel Capital Accord (Basel II)</b>		
4	Banking Sector Basel-II Progress Report	June 2006
3	Results of the first survey on Turkish Banking System Basel-II	December 2005
2	Results of the second survey on Turkish Banking System Basel-II	July 2005
1	Quantitative Effect Study (QIS-TR) Evaluation Report	December 2004
<b>b) General Banking</b>		
8	FX Risk Evaluation Report of the Turkish Banking Sector	June 2006
7	Banking Law (with the new repealed Act Nr. 4389)	November 2005
6	Turkish Banking Sector Capacity Analyze (1981–2000)	July 2005
5	Report on Consumer Loans	September 2004
4	Report on Consumer Loans	August 2004
3	BRSA Lawsuit Prosecution Report (in Zip Format)	October 31, 2003
2	Micro Entrepreneur Oriented Financing Strategy: Microfinance	October 1, 2002
1	Information Report on Pamukbank	June 27, 2002
<b>VI. PERIODICALS</b>		
<b>a) Continuing</b>		
<b>General Banking Issues</b>		
12	Financial Markets Report	September 2006
11	BRSA Annual Reports	2000–2005
10	Expectation Survey of Banking sector Administrator Sector (3 Months)	October 2005
9	Web Site Access Statistics (Monthly)	September 2005
8	Annual Reports: 2000–2003	June 2005
7	Monthly Bulletins (Monthly)	February 2005
6	Credit Cards Interest Rates (Monthly)	February 2005
5	Banks and SFIs	Weekly
4	Board Resolutions	Weekly
3	Economic Reports (Daily)	December 16, 2004
2	Banking Sector Report and Notification on the Daily Banking Sector Report (Daily)	December 31, 2003
1	Monthly Evaluation Report (Monthly)	September 2003
<b>Risk and The New Basel Capital Accord (Basel II)</b>		
5	Risk Evaluation Report (July 2005 )	December 2005

## Annex 1. Publications of BRSA

4	Risk Evaluation Report (June 2005 )	November 2005
3	Risk Evaluation Report (December 2004 )	August 2005
2	Risk Evaluation Report (June 2004)	September 2004
1	Risk Evaluation Report (Mart 2004 )	June 2004
<b>b) Discontinuing</b>		
25	Progress Reports (02.08.2001 – 21.10.2003)	July 2005
24	Banking Sector Evaluation Report	October 2004
23	Banking Sector Evaluation Report	February 2004
22	Banking Sector Evaluation Report	September 2001
21	Progress Reports (02.08.2001 – 21.10.2003)	June 2005
21	Banking Sector Evaluation Report	June 2001
20	Bank Capital Strengthening Program – Progress Report-VII	October 23, 2004
19	Bank Capital Strengthening Program – Progress Report VI	April 21, 2003
18	Bank Capital Strengthening Program – Progress Report -V	November 18, 2002
17	Bank Capital Strengthening Program – Progress Report -IV	July 23, 2002
16	Bank Capital Strengthening Program – Progress Report	June 21, 2002
15	Bank Capital Strengthening Program – Introduction Guide	February 20, 2002
14	Bank Capital Strengthening Program – Progress Report	February 6, 2002
13	Bank Capital Strengthening Program	January 11, 2002
12	Banks Managed by the SDIF: Performance and Progress Report	August 24, 2001
11	SDIF Lawsuit Prosecution Report	October 31, 2003
10	SDIF Subsidiary Sale Report	September 2003
9	SDIF Real Estate Sale Report	September 2003
8	SDIF Subsidiary Sale Report	October-November 2003
7	2003 SDIF Independent Auditors' Report	April 26, 2004
6	2002 SDIF Independent Auditors' Report	June 2, 2003
5	SDIF Monthly Balance Sheets	January 2002-December 2003
4	SDIF Monthly Income Statements	January 2002-December 2003
3	Banking Sector Restructuring Program	May 15, 2001
2	Banking Sector Restructuring Program: Action Plan	September 25, 2001
1	Banking Sector Reform (Progress Report)	August 2, 2001



## ANNEX 2. CHAIRMEN AND MEMBERS WHO WERE IN CHARGE OR ARE STILL IN CHARGE IN THE BRSA

NAME-SURNAME	TITLE	DATE OF INITIATION	DATE OF LEAVING
<b>Chairmen</b>			
Tevfik BİLGİN	Chairman	01.12.2003	Continuing
R. Engin AKÇAKOCA	Chairman	19.03.2001	05.11.2003
Zekeriya TEMİZEL	Chairman	06.04.2000	03.03.2001
<b>Second Chairmen</b>			
Ahmet ŞİRİN	Second Chairman	12.08.2003	Continuing
İbrahim Halil ÇANAKCI	Second Chairman	11.12.2002	05.05.2003
Ali Vefa ÇELİK	Second Chairman	13.06.2001	07.08.2001
Biltekin ÖZDEMİR	Second Chairman	06.04.2000	13.06.2001
<b>Members</b>			
Hüseyin AL	Member	28.07.2005	Continuing
Prof.Dr. Yusuf TUNA	Member	12.08.2003	Continuing
Mustafa EKİM	Member	01.07.2003	Continuing
Yusuf Ziya ÖNDER	Member	13.06.2001	Continuing
Prof.Dr. Kemal ÇEVİK	Member	06.04.2000	Continuing
Mehmet Nuri DOĞULU	Member	13.06.2001	13.06.2005
Atilla TAŞDEMİR	Member	13.06.2001	13.06.2003
Ali Akın TARI	Member	13.06.2001	13.06.2003
Ural ŞEKERCİ	Member	06.04.2000	13.06.2001
Servet TAŞDELEN	Member	06.04.2000	13.06.2001
Prof.Dr. Bilge HACIHASANOĞLU	Member	06.04.2000	13.06.2001
Halil YETGİN	Member	06.04.2000	13.06.2001





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