

2007



**BANKING
REGULATION AND SUPERVISION
AGENCY**

ANNUAL REPORT



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2007

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 2007 prepared within this framework is 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 2007.
- 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 a regulatory impact analysis related to new regulations and communiqués that came into force.



Turkish banking sector maintained its stable growth in 2007 as in previous years. In recent years, Turkish banking sector has performed its intermediation function more effectively thanks to positive economic environment, decisive policies implemented and strong regulation and supervision structure, and continued to exemplify reliable banking in international arena by its risk management culture, instruments and approaches. In contrary to its international equivalents, the BRSA has completed 2007 with a high performance and confidence despite some fluctuations and concerns in global economy, so this fact is the most concrete and objective proof for the sound structure of Turkish banking sector. In this process, The Banking Regulation and Supervision Agency has targeted further points with its responsibility consciousness in each year compared to the previous year, and shared its activities with public under the light of “transparency” and “accountability” principles.

Pursuant to the Banking Law Nr. 5411, our Agency is responsible for the regulation and supervision of a total of 257 financial institutions that are 50 banks, 48 foreign bank representatives, 65 leasing companies, 85 factoring companies and 9 consumer finance companies, as of end-2007. Total balance sheet value of the above-mentioned institutions amounted to about TRY 607 billion as of end-2007. This amount accounts for 70% of the gross domestic product. When 5 asset management companies licensed by our Agency and a total of 51 independent audit institutions, 43 of which are empowered to make financial audit in banks, 6 to make financial and information systems audit and 2 to make information systems audit in banks by outsourcing process is taken into consideration, the number of the institutions that are subject to the supervision of our Agency amounts to 313.

The 2007 agenda of our Agency included the issues such as; completion of sub-regulations regarding bank cards and credit cards market, implementation of

instruments and methods for a more prudential regulation approach, ensuring the adaptation of non-bank financial institutions to the new the legislation provisions, preparation of draft regulations concerning the New Capital Accord (Basel-II) implementations in the light of EU directives, international principles, standards and practices, introduction of framework agreements for financial restructuring of SMEs, completion of Financial Sector Assessment Program (FSAP-Turkey) and enrichment of the publications aiming to inform the public.

Our Agency's primary agenda topic in 2008 will be the completion of preparation process and regulations towards Basel-II which is planned to be initiated in 2009. Besides, other primary agenda topics are to increase the efficiency of the regulation and supervision system of non-bank financial institutions, preparation of the Institutional Strategic Plan for the period of 2009–2011 and to strengthen the structures increasing cooperation and coordination between the related institutions within the Financial Sector Commission.

Despite the negative scenarios concerning global economy, we believe that the sector will maintain its previous year's performance in 2008 and it will increase its contribution to the efficiency of the credit system and financial stability, and hence to the economy.

Upon this belief, once again I underline that our activities will continue in a higher efficiency level in 2008, and hope 2007 BRSA Annual Report will be an effective and transparent disclosure and accountability instrument for all the interested parties.

Tevfik BİLGİN

Chairman

BANKING REGULATION AND SUPERVISION BOARD



Erol BERKTAŞ

Mustafa EKİM

Ahmet ŞİRİN (Second Chairman)

Tevfik BİLGİN (Chairman)

Prof. Dr. Yusuf TUNA

Hüseyin AL

Mustafa AKIN

(from left to right)

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ABBREVIATIONS

EU	European Union
ABC	Analytic Budget Classification
BRSA	Banking Regulation and Supervision Agency
BRS	Banking Reporting System
CAD	Capital Adequacy Directive
CTED	Counter-Terrorism Committee Executive Directorate
DGS	Domestic Government Bonds
SPO	State Planning Organization
FDIC	Federal Deposit Insurance Corporation
FATF	Financial Action Task Force
GATS	General Agreement of Trade Service
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
BSEC	Black Sea Economic Cooperation
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 Corporation and Development
OG	Official Gazette
BAT	Banks Association of Turkey
CBRT	Central Bank of Republic of Turkey
PBA	Participation Banks Association
SDIF	Savings Deposit and Insurance Fund
TPRM	Trade Policy Review Mechanism
VPN	Virtual Private Network
TRY	New Turkish Lira

1 GENERAL INFORMATION

1.1 Our Mission and Vision

The mission of the Banking Regulation and Supervision Agency (the BRSA) is; to provide the confidence and stability in the financial markets, to bring competition power to the financial system, to ensure active operating of the credit system, to safeguard the rights and benefits of depositors, to take necessary measures in order to ensure the institutions subject to supervision operate healthy and orderly in a market discipline.

Our vision is to be an executive authority in world standards, having reliability and possessing organizational harmony which is based on good regulation and active supervision in financial markets, active risk management, competitiveness and efficiency in international scale, orientation to the European Union, innovativeness, professionalism and perfection.

1.2 Our Main Values and Principles

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

Impartiality: The BRSA equally treats all parties that operate within the scope of its activity field 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 aid to prevent 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: The BRSA operates in close cooperation with related national and international institutions/organizations.

Professionalism: The Agency considers the benefits of the public during reaching at 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 proposals 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

In the Banking Law Nr. 5411, the responsibilities of the Agency in order to ensure the confidence and stability in financial markets, the sound operating of the credit system, the development of the financial sector and the protection of the rights and interests of depositors, within the framework of the Law and related legislation, are determined as;

To take necessary decisions and measures in order to protect the rights of depositors and ensure sound operating of the credit system and to implement them,

To regulate, enforce and ensure the enforcement thereof, to monitor and supervise the implementation of establishment and activities, management and organizational structure, merger, disintegration, change of shares and liquidation of banks and financial holding companies as well as leasing, factoring and financing companies without prejudice to the provisions of other laws and related legislation,

To become members of international financial, economic and professional organizations in which domestic and foreign equivalent agencies participate, to sign memorandum of understanding with the authorized bodies of foreign countries regarding the issues that fall under the Agency's duty field,

To fulfill other duties assigned by the Law

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 in effect for 2006–2008 period and in this plan it is mentioned that international standards and financial developments, mainly EU Capital Requirements 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

1.4.1 Physical Structure

The BRSA uses Ankara İş Tower which it rented from İş Real Estate Investment Trust A.Ş. as the main service building as of the date of its establishment. The Agency still carries out its activities in this main service building which is constituted of three blocks and a total use of 24,440 square meters.

Istanbul service building of the Agency was rented from Anadolu Hayat Emeklilik A.Ş. in 2001 and the lease contract is continuing. Total area of the building is 5,833 square meters.

1.4.2 Organization Structure

As a result of the policies for increasing the efficiency of supervision and surveillance system and providing independent decision mechanisms, the Banking Regulation and Supervision Agency was established as a public legal entity having administrative and financial autonomy by the repealed Banks Act Nr. 4389 published in the Official Gazette dated June 23, 1999 Nr. 23734.

Comprehensive changes were made in the structure of the BRSA by the impact of service requirements and amendments were made to the legislation in 2002, 2004 and 2005 years. Within this framework, while some new units required by the services of the Agency were added to the organization structure in 2002; a more integrated structure in which permission, surveillance and enforcement functions are carried out together on institutions basis was implemented by a comprehensive restructuring made in 2004 instead of the previous structure in which the above-mentioned functions were organized separately.

Finally, organization structure of the Agency is reorganized by the “Banking Law” Nr. 5411 published in the repeated Official Gazette dated November 01, 2005 and Nr. 25983 and “Decision of Council of Ministers on Regulation on the Organization of the Banking Regulation and Supervision Agency” Nr. 2005/9859 which was published based on the said Law in the Official Gazette dated December 31, 2005, in order to be in effect as of January 01, 2006. Number of departments is determined as 10 pursuant to the new regulation made in light of public administration reform studies, on-site audit and off-site surveillance functions are combined in the same units and the personnel system as well as the status of the personnel of the BRSA has been redefined.

However, by taking into consideration the size of the sector which is subject to regulation and supervision of the BRSA, it is provisioned that departments shall be established by the Board according to “the Law on Payment of the Amounts Collected under the name of the Sale of Government Securities by Türkiye İmar Bankası Türk Anonim Şirketi whose license of making banking transactions and accepting deposit has been abolished” dated May 30, 2007 and Nr. 5667 with the approval of related Minister, on condition not to exceed the half of the number foreseen for number of departments in Article 91(1) of the Banking Law Nr 5411. Pursuant to the said amendment, four more departments were established and the number of departments in the BRSA increased to 14 from 10 according to “Regulation on Making Amendments to the Regulation on the Organization of the Banking Regulation and Supervision Agency” published in the Official Gazette dated March 01, 2008 and Nr. 26803.

The headquarter of the BRSA is in Ankara and some part of the activities are carried out from İstanbul. The Agency is comprised of the Banking Regulation and Supervision Board (the Board) and the Chairmanship.

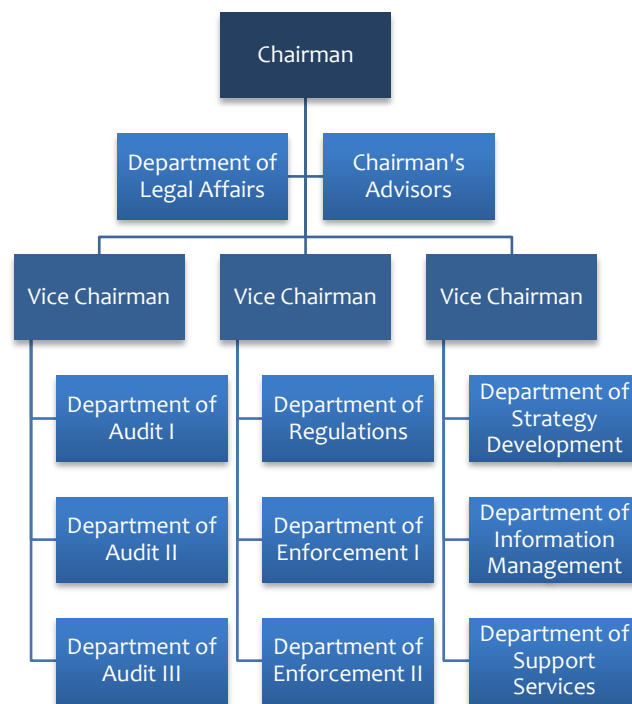
The Board: The Board is the decision-making body of the Agency and comprised of seven members including the Chairman and the Second-Chairman. The Chairman of the Board is the Chairman of the Agency, as well. Terms of office of the Chairman and members of Board are determined as six years in the Banking Law Nr. 5411 and it is provisioned that their duty cannot be terminated for any reason before their terms of office are expired, except the circumstances stipulated in the Law.

Chairmanship Organization: Chairmanship is comprised of the Chairman, Vice-Presidency, and service units. There are three vice-presidencies in the organization of the BRSA and advisors to the chairmanship can be assigned in fields such as law, press and public relations, management and finance on condition not to exceed fifteen advisors.

Service units of the BRSA are composed of 10 departments (as of 2007) which are main service, advisory and support service units organized as departments.

On the other hand, there exist audit groups comprised of sworn bank auditors and assistant sworn bank auditors as well as banking specialists and assistant banking specialists under the structure of audit departments and there exist audit teams in those audit groups carrying out their duties on institutions basis. In addition, for the sufficiency and reliability of information systems or for the audit of issues related with law or when it is deemed necessary by the Chairmanship approval; joint control, examination, inspection, project and/or other working teams may be constituted from the profession personnel in audit departments and other departments; also teams may be constituted for the audit of risk models and examination of risk analysis, banking issues as well as specialization in accounting standards exclusively.

Organization chart of the Agency as of December 31, 2007 is as follows:



Departments established in the last amendment made to the Regulation on the Organization of the BRSA are (1) Department of Audit (2) Department of Enforcement (3) Department of Risk Management (4) and Department of Foreign Affairs.

1.4.3 Information Sources

BRSA library which is aimed to be a specialized library continued to enhance its collection by adding 2.135 books, 69 periodicals and 2 foreign database subscriptions on banking, economics, law and supervision in 2007 in order to ensure efficient operating of the services.

“Actual Announcement Service” which includes the table of contents of the periodicals subscribed and some open-to-public reports published by banks as well some financial institutions are available on intranet with the title of “Non-Agency Reports”, and intra-Agency thesis as well as documents of programs such as seminars etc. attended by Agency personnel in Turkey and abroad are available on different stands.

Whole library registrations are in compliance with “the Regulation on Movable Goods”.

Table 1-1: Developments in Information Sources

Type of the Material	Total in end-2006		Added in 2007		Total in end-2007	
	Ankara	İstanbul	Ankara	İstanbul	Ankara	İstanbul
Book	5,693	3,194	1,156	979	6,849	4,173
Turkish Periodicals	127	58	47	11	174	69
Foreign Periodicals	33	10	6	5	39	15
Turkish Database (*)	3	2	-	-	3	2
Foreign Database (**)	5	5	2	2	7	7
Audiovisual Materials	140	57	9	28	149	85

(*) Kazancı Mevzuat ve İçtihat Sistemi, Lebib Yalkın Yayınları Mevbank, İcra Pro Hukuk Yazılımı

(**) Bankers' Almanac, SSRN (Social Science Resource Network), EBSCO Business Source Corporate, SourceOECD, Econlit Fulltext, Reuters, Olinext,

Within the scope of 2008 library study program, it is planned to enrich the collection with actual publications relate to the field of operations of the Agency, and to develop the impulsive implementations aiming to increase the use of information sources and to cover the needs.

1.4.4 Information Systems Resources

The BRSA makes use of information technologies in many fields such as effective realization of fundamental business processes, mainly supervision and surveillance; information sharing with banks, related public institutions and public electronically in a fast and secure manner as well as meeting the requirements of Agency personnel such as internet access, e-mail, sharing of files etc. For the selection of information technologies, the BRSA prefers solutions which are flexible and scalable enough to be adapted to possible future developments, compatible with current systems, portable between platforms, secure and cost-effective. The BRSA takes necessary measures in order to provide continuity and accessibility of its information systems within the scope of the authorities determined previously and to ensure its security on physical and practice level, moreover it makes necessary updates depending on new requirements and developing technologies. The short and medium-term target of the BRSA relating to information technologies is to establish the required standards for the most effective operating of whole processes and to obtain the integrity and to be a good example for the institutions in banking and finance sector by being qualified to obtain world-wide accepted certifications concerning information systems

management and IT security. Details of the activities within the scope of Agency management information systems in 2007 are given below.

Studies for adopting the Information Management System (IMS) software to the Agency's work-flows and documental procedures have also continued in 2007. The software was obtained in order to carry out and manage the document flow in electronic form, to get the document creation procedures under control and to provide correct and actual information flow to the management. .

On the other hand, by using IMS access to the documents which have been transferred into digital form will be easier, therefore transferring the Agency's physical archive into the digital form by scanning is planned to be outsourced. During this process, both transferring the documents into digital form and classifying the physical documents in the physical archive should be done in a suitable manner with the standard file plan of the Agency so that subsequent document access requests will be easier to cover. Furthermore, the documents in archives of which legal waiting period have expired, could be destructed comfortably according to the legal procedure as their digital copies will already be transferred to the system. Related bid is planned to be realized within 2008.

On the other hand, Legal Tracking System is developed to trace administrative lawsuits, penalty files, crime reports as well as other business items of Department of Legal Affairs in 2007. By automating the processes, consolidated data and statistics have been obtained.

Qualified Electronic Certificate (E-signature) has been obtained for the Agency personnel from Government Certification Authority in 2007. In 2008, the test scope of IMS is planned to be extended and then the system(integrated with e-signature) will be used in the whole Agency. Studies on solving the problems and requests which are likely to appear during the test period of IMS will be carried out in coordination with the firms which developed the software.

1.4.5 Human Resources

Pursuant to Article 92 of the Banking Law Nr. 5411; permanent duties and services required by the responsibilities granted to the Agency are carried out by the profession personnel and administrative personnel. Profession personnel comprised of vice-presidents, heads of the departments, managers, advisors to 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 as well as agency specialists and lawyers are employed in staff equivalent contract status. The personnel in staff equivalent contract status are subject to the Civil Servants Law Nr. 657 except wage, financial and social rights, while the remaining personnel are subject to the above-mentioned law concerning any rights and responsibilities.

Total staff number of the Agency is determined as 851 pursuant to the statement (I) annexed to the Banking Law and the ratio of staff who is not having the titles of manager, advisor and profession personnel is limited with 30% of total staff number.

Staff positions and number of personnel of the Agency is as follows:

Table 1-2: Distribution of Staff Position and Personnel of the Agency by Groups

	Number of Staff Position	Share%	Number of Personnel (2006)	Share %	Number of Personnel (2007)	Share %
Executive	17	2,0	14	2,7	15	3,0
Advisor	5	0,6	4	0,8	5	1,0
Profession Personel	622	73,1	363	70,6	348	69,3
Other Personnel	207	24,3	133	25,9	134	26,7
Total	851	100,0	514	100,0	502	100,0

Within the framework of general employment policy of the Agency, determination of and responding to human resources needs is realized by the principle of employing personnel in adequate number and qualification for the activities to be performed by taking into account the mission and vision of the Agency.

Young and qualified labor force is employed in the Agency by the assignment of personnel who were successful in competitive entrance examinations made in order to meet the personnel requirement of the Agency in 2004, 2005 and 2006 years. When the distribution of personnel by age is analyzed, it is seen that the biggest share belongs to the group of 20-30 years by 48,2% as of end-2007 as it was in end-2006.

Table 1-3: Distribution of Personnel by Age

(31.12.2007)	2006		2007	
Age Group	Number of Personnel	Share %	Number of Personnel	Share %
Between 20-30 Years	291	56,6	242	48,2
Between 31-40 Yeras	150	29,2	174	34,7
Between 41-50 Years	59	11,5	70	13,9
Between 51-60 Years	14	2,7	16	3,2
Total	514	100,0	502	100,0

Within the scope of the education policy, the Agency's personnel are attending to domestic and foreign training programs, and the master's degree is promoted to provide the required specialization. Within this scope, the ratio of personnel with a master's or doctor's degree which was 16% by end-2006 increased to 19,3% by end-2007.

Table 1-4: Number of Personnel by Academic Background

	Undergraduate		Graduate		Master		PHD		Other	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Executive	-	-	5	6	9	8	-	1	-	-
Advisor	-	-	2	3	-	-	2	2	-	-
Profession Personnel	-	-	299	271	58	70	6	7	-	-
Other Personnel	19	19	77	76	6	8	1	1	30	30
Total	19	19	383	356	73	86	9	11	30	30
Share in Total (%)	3,7	3,8	74,5	70,9	14,2	17,1	1,8	2,2	5,8	6,0

90,2% of the Agency personnel have a bachelor's degree or above and when the distribution of the Agency personnel by their education is analyzed; it is seen that the graduate personnel are mostly educated 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 fields of supervision of information systems and risk management increase the necessity for employment of personnel in technical fields like engineering and mathematics-statistics.

Table 1-5: Distribution of the Graduate Personnel by Main Fields

(31.12.2007)	2006		2007	
	Number	%	Number	%
Economics and Administrative Sciences	344	74,0	335	74,0
Law	36	7,7	35	7,7
Engineering	48	10,3	46	10,2
Mathematics-Statistics	16	3,4	16	3,5
Other	21	4,5	21	4,6
Total	465	100,0	453	100,0

2 GOALS AND PRIORITIES

The fundamental goal of the Agency is to ensure the confidence and stability in financial markets, to provide effective operating of loan system and to safeguard the rights and interests of depositors.

Moreover, five targets are determined within the framework of “BRSA Strategic Plan (2006-2008)” which determines the steps that should be taken to fulfill the Agency’s mission, targets to eliminate the uncertainties and serves as a guideline and which presents a long-term and future-oriented point of view. These are: (1) A secure, stable, active and competitive financial market, (2) An active and effective supervision system, (3) Flexible regulatory framework, (4) Transparent, fair and encouraging practices relating to customer rights (5) Adequate and effective corporate governance.

The Agency’s priorities in the light of the Ninth Development Plan (2007–2013) and the National Program as well as the targets determined in the Agency’s Strategic Plan are listed below:

Secure, Stable, Active and Competitive Financial Market

- Establishing a financial sector which reached to competitive scale, has instrument variety that will direct the resources to investment, has financial depth, regulated and supervised in international standards and in which intermediation costs are minimized,
- To encourage the use of derivative products in risk management and to increase the risk perception relating to those products,
- To improve risk management and corporate governance practices in banks,
- To increase the cooperation and information sharing with domestic and foreign supervisory authorities,
- To remove the competition obstacles faced by financial institutions and markets, to minimize intermediation costs,
- To increase the integration in financial markets by increasing the dialog and cooperation between institutions and profession groups.

Active and Effective Supervision System

- To strengthen and spread risk-focused supervision,
- To improve the practices relating to consolidated supervision,
- To provide convergence to the EU legislation concerning the supervision of financial holdings,
- To accomplish the preliminary studies relating to CRD / Basel II and start to practice and implement loan and corporate governance rating system in financial system,

Flexible Regulatory Framework

- To make regulations which will provide risk management to be applied in whole financial institutions subject to the Agency’s supervision,

Transparent, Fair and Encouraging Practices relating to Customer Rights

- To make customers be conscious about their rights, to safeguard their rights and interests, to develop preventive practices.

Adequate and Effective Corporate Governance

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

3 ANNUAL ACTIVITIES OF THE AGENCY

3.1 Audit Activities

Pursuant to the Banking Law Nr. 5411, on-site audit of the institutions which are subject to supervision shall be performed within work programs that are formed with the approval of the Chairman of the Agency and shall be performed by an audit team to be selected among the profession staff of the Agency consisting of sworn bank auditors and assistant sworn bank auditors, banking specialists and assistant banking specialists, information technologies specialists and assistant information technologies specialists, law specialists and assistant law specialists.

Surveillance and on-site audit of the activities of the institutions subject to the Law Nr. 5411 are conducted by the Departments of Audit. Procedures and principles of audit and surveillance were determined by the "Regulation on the Procedures and Principles of the Audit to be Made by the Banking Regulation and Supervision Agency" published in the Official Gazette dated July 22, 2006 and Nr. 26236, and audit activities are executed by the audit guidelines within the scope of the above-mentioned Regulation.

Box 3-1: Scope of the Audit Activities

Audit Activities include;

- The supervision of implementation of provisions stated in Law Nr. 5411 and other laws on institutions,
- Surveillance and on-site audit of institutions,
- Assessment of risk structure of banks on consolidated and non-consolidated basis, internal control, risk management and internal audit systems,
- Analysis of the balance between assets, receivables, equities, debts, income statement accounts, liabilities and commitments of banks and all the factors influencing financial structure as well, and
- Analysis of the conformity level of institutions to institutional management principles.

The Agency has adopted Risk Focused Audit Approach in order to ensure efficiency, continuity and sufficiency of supervision and efficient use of supervision resources.

3.1.1 On-Site Audit and Surveillance

Supervision activities are composed of two fundamental activities; on-site audit and surveillance. These activities, fundamentally conducted by;

- Analyzing various indicators on financial performances of banks on consolidated and/or non-consolidated basis daily, weekly, monthly and quarterly and preparing periodic reports,
- Supervising banks in terms of compliance to the Law and other related legislation,
- Informing the departments in charge and other decision making units of the Agency prior to standard reporting in case potential problems or deficiencies are spotted through stress tests or in case developments or findings indicate serious problems,

On-Site Audit Activities

On-site audit activities are comprised of;

- Analyzing Banks' assets, receivables, own funds, debts, profit and loss accounts, liabilities, and commitments and all other respects affecting financial structure,
- Evaluating risk and determining the risk profile,
- Analyzing adequacy and efficiency of risk management and internal control systems,
- Supervising compliance of financial structure and records with accounting principles and standards,
- Supervising compliance of the activities of institutions which are within the scope of the Law with the provisions of the Banking Law Nr. 5411 and the provisions included in other laws,
- Analyzing adequacy and reliability of information system,
- Analyzing activities with priority,
- Performing consolidated supervision of financial holding companies and/or banking partnerships and jointly controlled partnerships,
- Evaluating the corporate governance quality,
- Supervising, the activities of natural and legal entities which provide certain services to the institutions, this supervision being limited with the service they provide.
- Audit of the institutions within the scope of the Law on Bank Cards and Credit Cards, Nr. 5464,

and other on-site audit activities.

Surveillance Activities

Surveillance activities include;

- Making stress tests and scenario analysis,
 - Monitoring and evaluating the changing process in financial structure and performance by means of periodical reporting,
 - Following the development of the bank's rating by using current data and the results of the previous on-site supervision,
 - By means of early warning systems, making timely assessments of changes in financial structure and performance.
 - Follow-up and analysis of financial developments on sector and institutions basis,
 - Reporting to group leaders the noncompliance with laws and false reportings which are spotted while analyzing the data sent by institutions
 - Analyzing compliance with the Law,
 - Surveillance of the institutions within the scope of Law Nr. 5464,
- and other surveillance activities.

Data base of the Agency is the main source used while performing audit function besides other various sources.

Box 3-2: Data Sources Used in Audit 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, mainly reported in consolidated and/or non-consolidated base to the Agency's data base by the related institutions 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,
- "Weekly Liquidity Ratio Notification Form" including the standard ratios calculated daily on monitoring the banks in maintaining and keeping the adequate liquidity level so as to meet their liabilities with their assets, within the scope of the Regulation on Measurement and Evaluation of Liquidity Adequacy,
- "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 Capital Adequacy of Banks,
- "Operational Risk Analysis Form" prepared annually in order to procure the information concerning measurement of the operational risk, upon the Regulation on Measurement and Evaluation of Capital Adequacy of Banks
- Weekly forms including the standard ratios calculated daily so as to ensure the balance between foreign exchange assets and liabilities and own funds of banks are monitored and evaluated within the scope of the Regulation on the Principles Concerning the Calculation and Implementation of "Foreign Exchange Net General Position / Equity" Standard Ratio by Banks on Consolidated and Non-Consolidated Basis,
- "Financial Institutions Abroad Reporting Set" composed of quarterly forms concerning subsidiaries of banks subject to consolidated supervision and branches performing off-shore banking activities,
- "Non-Bank Financial Institutions Reporting Set" composed of quarterly forms, related to the legal restrictions non-Bank financial institutions are obliged to comply with pursuant to the Banking Law Nr. 5411 and the related legislation and monitoring their financial structure,
- Results of report, opinion and other analyses prepared as an outcome of on-site audit activities,
- Independent audit reports.
- Analytic information generated from Early Warning System,
- Other information received or collected from institutions subject to audit.

Organization of Audit Activities

Supervision duties and authorities assigned to the Agency pursuant to the Law Nr. 5411 are conducted accordingly by; the Board, Chairmanship, Vice-Presidency, Departments and groups leaders under their structure as well as the profession staff assigned in audit teams temporarily and/or permanently.

Beside audit teams; risk team and consolidated analysis and macro reporting team defined in “Bank Supervision Process Guidelines” (KAMRE) take place in the supervision process of the Agency.

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 are:

- 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 in banks from reoccurring by focusing on the causes rather than the results,
- 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 an understanding of the levels and types of the risks and control these risks. In this respect, the efficiency and quality of risk management is more important than the quantity of risks that banks undertake at a specific date due to its activities.

RFS enables the Banks to allocate more resources to the areas where the risk is high. The Agency will realize this 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 whether the banks manage and control the determined risk levels adequately
- Allocating more resource to the high and increasing risk areas in a specific bank or in the sector,
- Considering the examinations made based on the supervisions and following to the problematic areas and the views on risks that banks carry, risk profile and the situation.

Numeric information on the institutions subject to supervision of the Agency is as follows:

Table 3-1: Institutions within the Scope of Supervision

Type of Institution	As of year-end (number)	
	2006	2007
Deposit Banks	33	33
Participation Banks	4	4
Development and Investment Banks	13	13
Leasing Companies (*)	82	65
Factoring Companies (*)	87	85
Financing Companies	9	9
Asset Management Companies	5	5
Institutions Authorized to Make Financial Audit in Banks	42	43
Institutions Authorized to Make Financial and Information Technologies Audit in Banks	5	6
Institutions Authorized to Make Information Systems Audit in Banks via Outsourcing	2	2
Foreign Bank Representative Offices in Turkey	48	48
Total	330	313

(*) Excluding four leasing companies under liquidation and one factoring company.

Supervision activities comprise; risk focused supervision, supervision of legislation, denunciation and complaint analysis as well as analyses and researches on the subjects fall under the duty and authority field of the Agency. Furthermore, assignments based on the demands of Turkish Prime Ministry Inspection Board, the Grand National Assembly of Turkey Research Commissions and Ministry of Finance Financial Crimes Investigation Board (MASAK), Offices of Director of Public Prosecutions as well as other related institutions are included in the activities performed.

As a result of the audits made during 2007 period, a total of 366 reports were prepared on legislation, financial structure, denunciation and complaint, risk assessment and other subjects. 28 of the said reports are comprised of the reports prepared as a result of the audits made in branches.

Detailed information on the reports prepared subsequent to various investigation and researches conducted by audit teams are as follows.

Table 3-2: Reports Prepared as a Result of Supervisions

Reports	2006		2007	
	Number of Reports	% Distribution	Number of Reports	% Distribution
Risk Assessment	50	21,3	46	12,6
Legislation Supervision	64	27,2	138	37,7
Financial Structure Analysis	27	11,5	46	12,6
Denunciation and Complaint	43	18,3	27	7,4
Overseas Inspection	0	0,0	0	0,0
Task Loss Determination	0	0,0	1	0,3
Other	51	21,7	108	29,5
TOTAL	235	100,0	366	100,0

On the other hand, upon the Regulation on Principles for Establishment and Operation of Leasing, Factoring and Financing Companies, it is deemed necessary to examine a total of 100 leasing, factoring, financing companies before the completion of adjustment transactions. Hence, limited inspection reports were prepared by making audit of activities of the said companies. Inspections relating to the said companies continue and 37 reports were prepared on the subject in 2007.

Risk Team

Risk Team, is basically responsible for the research of risk measurement techniques and analysis methods, transmitting these research results to the related departments, evaluating the general risk level of the sector and the supervision of risk measurement models. Main duties of the Risk Team are as follows:

- Developing supervision practices that shall promote the banks to use more developed risk measurement methods and systems,
- Following international practices relating to risk measurement models and systems,
- Analyzing, evaluating, following the models and techniques used by the bank and financial institutions and reporting bank applications,
- Realizing the off-site supervision activities in the light of the information of which the banks have submitted 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,
- Conducting research, improving techniques and submitting suggestions on the supervision activities relating to the evaluation of risks the banks are exposed to and reporting to the top management.

The activities performed in 2007 and currently being performed by the Risk Team are as follows:

- Examining market risk models on-site in state banks and 12 private banks which are selected as sample,
- Analyzing the influence of amendments made as of November 1, 2006 to capital adequacy regulations on value subject to market risk calculated by standard method in 32 deposit banks,
- Examining the models for the interest rate risk in the banking book on-site in 14 banks which are selected as sample and determining appropriate risk management systems and processes for interest rate risk in the banking book,
- Determining banking book interest rate risk profiles of banks,
- Preparing banking book interest rate risk report for each bank as a result of these inspections,
- Preparing a master report on banking book interest rate risk subsequent to the completion of banking book interest rate risk reports of selected banks,
- Making on-site examination in banks which have applied to use standard method in calculating the required capital for operational risk and preparing report so as to assess the implementation,
- Examining the derivative transactions of banks which frequently use derivative instruments, transaction contracts and accounting records; on-site audit of related processes in operation center and reporting the findings,
- In order to determine the examination process relating to the use of market risk measurement methods and risk management quality of banks, preparing "Guideline on the Evaluation Process of Market Risk Management Quality" as an addition to the existing "Bank Risk Evaluation Guideline",
- Preparing "Guideline on Supervision Process of Banking Book Interest Rate Risk of Banks" as an addition to the existing "Guideline on Evaluation of Banking Book Interest Rate Risk",
- Preparing the Derivative Transactions Daily Change Follow-up Report on monthly basis,
- Preparing the Securities Daily Change Follow-up Report on monthly basis,
- Presenting the researches made in respect to Basel II as in-service training,
- Sharing other deficiencies determined in on-site audits with audit teams responsible for the bank.

Consolidated Analysis and Macro Reporting Team

Consolidated Analysis and Macro Reporting Team is responsible for composing surveillance statements periodically or on demand on solo or consolidated basis in formats defined in data base of the Agency formerly, valuation of them on solo or consolidated basis and submitting these statements to audit teams and related

departments of the Agency after a general assessment. Moreover, the duties of this Team include performing a consolidated sector assessment and submitting it to related audit teams.

Various reports are prepared on bank and sector basis in the Agency on subjects such as market developments, deposit, loans, securities portfolio, derivatives, aggregated sector data, liquidity, exchange rate risk, stress test on weekly, two-weeks, monthly, quarterly, and six-months and annually basis. The reports prepared in 2007 are as follows.

Table 3-3: Consolidated Analysis and Macro Reportings

Name of the Report	Number of Reports	% Distribution	Preparation Period
Exchange Rate Risk Evaluation Report	2	0,9	Semi-Annually
Country Risk Report	2	0,9	Semi-Annually
Turkish Banking Sector Derivative Transactions	2	0,9	Semi-Annually
Macro Bulletin	46	19,7	Weekly
Weekly Summary Report	50	21,4	Weekly
Development of Deposit and Interest Rate	26	11,1	Fortnightly
FXNGP / Equity Report	41	17,5	Weekly
Development of Consumer Loans	48	20,5	Weekly
Turkish Banking Sector Stress Test Outcome	2	0,9	Quarterly
Monthly Sectoral Data Report	7	3,0	Monthly
Securities Report	1	0,4	Semi-Annually
Turkish Banking Sector Profitability Analysis	2	0,9	Semi-Annually
Banking Sector Surveillance Report	2	0,9	Quarterly
Overseas Organizations of Banks Established in Turkey	2	0,9	Semi-Annually
Turkish Banking Sector Potential Non-Performing Loans Analysis Report	1	0,4	Annually
TOTAL	234	100,0	

On the other hand, many presentations were made to different institutions in 2007 by the Departments of Audit on the developments experienced in banking sector.

3.1.2 Information Systems Supervision

Information systems supervision authority of the institutions subject to the Law Nr. 5411 is given to the Department of Information Management. Supervision activities within this scope shall be planned following the preparation and approval of the supervision guidelines within 2008. In 2007;

- Audits were made by independent auditors in banks in 2006, the reports submitted to the Agency were examined and the findings in the content of the report were followed-up,
- Information systems audit was made in four banks and a factoring company in order to meet the analysis requirements containing technical information and the detections were reported,
- Participation as 'observer' was made to the information systems audits made by independent audit institutions,
- Complaints and information demands relating to information systems were assessed and concluded,
- Participation was made to lectures and seminars in order to inform the sector on information systems supervision and presentations were made.

In the light of the information, findings and detections obtained as a result of the information systems audit; information systems profile of the banking sector was assessed and "Turkish Banking Sector Information Systems Assessment Report" relating to the said audit period was prepared. According to the Report, numeric data and points that stand out for the information technologies departments of the banks and practice controls profiles, the most important stages of supervision were assessed and determinations were made relating to the sector in general. In the light of the findings determined in audits, assessments were made relating to the common and significant deficiencies faced in work processes and information technologies processes on banking activities.

Studies on "Computer Assisted On-Site Audit Implementation Software, Counseling Training and Support Service Project" which was initiated to strengthen and develop the on-site audit activities of the Agency in April 2006 continued in 2007 and the project is in temporary admission level.

Moreover, having regard to the aim and needs as well as international models and standards of the BRSA in 2007, studies on the information systems audit guidelines was initiated, and these studies are planned to be concluded by the first quarter of 2008.

3.2 Regulation Activities

Pursuant to the Article 93 of the Law Nr. 5411, it is provisioned that the Agency shall use the powers assigned thereto within the scope of the Law and other related legislation provisions by the regulatory transactions or special resolutions to be made by the Agency and that the Agency is authorized to publish regulations and communiqués relating to the implementation of the Law hereof upon the resolution of the Board.

Within the scope of regulation function; studies on the banking legislation was made in order to establish conformity with international banking rules and the EU practices, amendments were made to the legislation in accordance with the needs arise in practice and opinions are submitted about the hesitations arise relating to the said 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.

Accordingly, in 2007; a draft act was prepared and came into force, while the becoming law process of two draft acts still continue. Amendments were made to thirteen of the regulations and four communiqués in force pursuant to the Law Nr. 5411 and came into force. Moreover, five regulations and four communiqués as well as the Board Resolution on the "Procedures and Principles Concerning Tier-II Debts to be Considered Within the Equities of Companies, Subsequent to the Article 3(ç) of the Regulation on Principles for Establishment and Operation of Leasing, Factoring and Financing Companies" and the Board Resolution dated March 4, 2008 and Nr. 26806 were published in 2007 and preparation studies on some sub-regulations to be published in 2008 continued.

Table 3-4: Distribution of Regulations Put into Force by 2007 as of Types

Type of the Regulation	2006	2007 Yılı
Law	2	1
Regulation	30	5
Amendment to Regulation	-	13
Communiqué	5	4
Amendment to Communiqué	-	4
Circular	1	1
Board Resolution	12	2
TOTAL	50	30

In addition, a total of 405 comments (170 intra-Agency and 235 to other institutions) were provided concerning the Law Nr. 5411, the Law Nr. 5464 and the Law on Restructuring the Debts of Small and Medium Size Enterprises to Financial Sector Nr. 5569 and related sub-regulations in the period examined. The Table concerning the comments given by the Agency is as follows.

Table 3-5: Comments Given by the Agency on the Related Regulations

Regulations to which Comments were Given	Intra-Agency	To other Institutions
Banking Law Nr. 5411	50	72
Sub-Regulations on the Banking Law Nr. 5411	71	93
Accounting	31	42
Law Nr. 5569 and related Regulation (*)	4	15
Law Nr. 5464 and related Regulation (**)	14	13
Total	170	235

(*) “Law on Restructuring the Debts of Small and Medium Size Enterprises to Financial Sector” Nr. 5569 and “Regulation on General Conditions of Approval, Acceptance and Implementation of Financial Restructuring Framework Agreements”

(**) “Law on Bank Cards and Credit Cards” Nr. 5464 and “Regulation on Bank Cards and Credit Cards”

3.2.1 Regulations in Force

In 2007, regulations required to be established depending on the Laws Nr. 5411, 5464 and 5569 and “the Law on Payment of the Amount Collected under the name of the Sale of Government Securities by Türkiye İmar Bankası Türk A.Ş. whose license on banking transactions and accepting deposits has been abolished Nr. 5667”, which also includes making amendments to the Law Nr. 5411 were prepared within the scope of transparency, fitness for need and applicability principles and put into force. Regulations which were put into force are as follows under eight titles.

1- Law on Payment of the Amount Collected under the name of the Sale of Government Securities by Türkiye İmar Bankası Türk A.Ş. whose license on banking transactions and accepting deposits has been abolished Nr. 5667 (OG dated May 30, 2007 and Nr. 26537): By the Law, amendments were made to Article 91(1)(3), Article 101(4), Article 120 (3) and Article 124 (1) of the Law Nr. 5411. Accordingly, it is provisioned that;

- Upon the approval of the related Minister, departments shall be formed by the Board on condition not to exceed the half of the number of departments foreseen in the Article 91(1) of the Law Nr. 5411,
- Total number of Chairmanship advisors that may be assigned, when necessary, for the fields such as law, press and public relations, administration and finance to be raised from five to fifteen,
- Internal audit of the Agency shall be performed within the scope of the procedures and principles to be determined by the Board while the provisions of the Law on Public Finance Governance Law Nr. 5018 shall be applied for its independent audit,
- Internal audit of the Fund shall be realized within the scope of the procedures and principles to be determined by the Fund, while its external audit shall be performed by the Turkish Court of Accounts by examining the annual expenditure accounts and expenses of the Fund.

2-Regulations on the Establishment and Operations of Banks

Regulation on Making Amendments to the Regulation on Operations of Banks Subject to Permission and Indirect Shareholding (OG dated July 24, 2007 and Nr. 26592): Based on the requests concerning the status of representative offices established in Turkey of the banks established abroad, it has been regulated in order to ensure to remove the uncertainties concerning whether or not the representative offices established in Turkey shall get authorization again from the BRSA within the scope of Article 10 of the Regulation, in case the partnership structures of the banks established abroad change, taken over by another bank, merge or their titles change.

Regulation on Making Amendments to the Regulation on Procurement of Support Services by Banks and Authorization of Such Service Providers (OG dated July 24, 2007 and Nr. 26592): It has been regulated in order to ensure to remove the problems experienced in the sector concerning support services the banks procure and the authorization of such service providers.

Regulation on Making Amendments to the Regulation on Authorization and Activities of the Organizations that will Conduct Independent Audit in Banks (OG dated July 24, 2007 and Nr. 26592): Based on the requests made to BRSA, it has been regulated to decrease the number of documents required from independent audit institutions during authorization process and from the personnel employed and the requirements related to follow-up and evaluation of members of board of directors, legal auditors and managers, and to ensure to eliminate the problems the Agency came across during the implementation.

Regulation on Making Amendments to the Regulation on Authorization and Activities of the Organizations that will Provide Valuation Services to Banks (OG dated September 29, 2007 and Nr. 26658): It has been regulated for authorizing the institutions providing valuation services to banks, terminating their authorities temporarily or permanently in order to decrease the number of documents demanded from the valuation institutions and the personnel employed and on which principles the valuation report will be prepared.

Regulation on Making Amendments to the Regulation on Authorization and Operations of Rating Agencies (OG dated September 29, 2007 and Nr. 26658): It has been regulated subsequent to evaluation of the requests to decrease the number of documents required from rating agencies during authorization process and from the personnel employed and the requirements related to follow-up and evaluation of members of board of directors, legal auditors and managers.

3-Regulations on Corporate governance

Regulation on Making Amendments to the Regulation on Internal Systems of Banks (OG dated June 14, 2007 and Nr. 26552): By this Regulation which is prepared in order to resolve the problems experienced in practice and to establish efficiency in on-site audit, qualifications required in audit committee members have been changed, and the banks have become obliged to establish their information systems in a structure that enables to keep accounting records in compliance with the uniform chart of account on transaction basis.

Communiqué on the Principles to be taken as Basis in Information Systems Management in Banks (OG dated September 14, 2007 and Nr. 26643): The minimum procedures and principles the banks shall take as basis in management of information systems they use in their activities are determined by this Communiqué. Principles the banks are required to consider in managing their risks arising from information systems and the issues relating to preparation for supervision were defined. The Communiqué which was prepared having regard to similar international examples and standards also defines the matters to be considered on special transactions such as Internet Banking and ve ATM security.

Regulation on Making Amendments to the Regulation on the Procedures and Principles for Notification of and Taking Oath and Declaration of Assets by Executives to be Appointed to the Top Management of Banks and Maintenance of Case-Books of Resolutions (OG dated July 24, 2007 and Nr. 26592, OG dated October 10, 2007 and Nr. 26669): It is provisioned that; of the declaration of assets belonging to chairman and members of board of directors, chairman and members of board of managers as well as managers and assistant managers, the ones except those submitted to the authorities specified in the Regulation on Declaration of Assets which was put into force subsequent to the Cabinet Decision dated August 10, 1990 and Nr. 90/7486 and pursuant to the Declaration of Assets, Bribery and Corruption Law Nr. 3628, shall be submitted to the Agency as a whole in a list attachment in every month-end. Furthermore, based on the papers submitted to to the Agency concerning the said Regulation, it is provisioned that the declarations of assets belonging to other officials shall be preserved in the personnel affairs departments of the related bank so as to be submitted to the Agency upon its demand and within the scope of the related legislation.

4-Regulations on Protective Provisions

Regulation on Making Amendments to the Regulation on Credit Operations of Banks (OG dated February 2, 2007 and Nr. 26422): By the amendments made to the said Regulation, it is provisioned that the commitments in unlimited guarantee form given to competent authorities of foreign countries pursuant to the legislation of related country, in provision for the liabilities of subsidiaries and affiliates of these banks performing banking activities in foreign countries shall be considered in thirty percent. Moreover, it is determined that the amount of commitments in unlimited guarantee form that will be taken as a basis in calculating the credit limitation shall be reached by subtracting loans extended to the bank by the said institutions and Tier-I which is calculated in accordance to the legislation of the related country from the liabilities of subsidiaries and affiliates. In addition, partnership shares in consolidated banks and financial institutions are included in transactions which are not subject to credit limitation.

Regulation on Making Amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks (OG dated June 9, 2007 and Nr. 26547): Some provisions that cause uncertainties in the provisions of the Regulation on Measurement and Evaluation of Liquidity of Banks came into force subsequent to its publication in the Official Gazette dated November 1, 2006 and Nr. 26333 cleared up, risk weights of some asset and liability which will be taken into account in liquidity ratio calculation have been amended.

Regulation on Making Amendments to the Regulation on the Procedures and Principles for Sales and Purchase of Precious Metal and Disposal of Commodities that have been Acquired due to Receivables by Banks (OG dated July 24, 2007 and Nr. 26592): Subsequent to the Regulation in question, it is provisioned that the banks may buy and sell contracts of gold, silver and platin effecting transactions in Derivatives Exchange and the standards and qualities of which is determined by competent authorities and the trading of gold, silver and platin which effect transactions in Precious Metals Exchange and of which acceptability are affirmed by the Turkish Treasury or Istanbul Gold Exchange. Moreover, it is provisioned that the banks may allocate the commodities the banks acquired due to their receivables to their usage on condition that it meets the number and qualification to carry out their banking activities, and the said commodity shall be evaluated within the scope of the Regulation on the Procedures and Principles for Sales and Purchase of Precious Metal and Disposal of Commodities that have been Acquired due to Receivables by Banks.

Regulation on Making Amendments to the Regulation on Own-Funds of Banks (OG dated September 29, 2007 and Nr. 26658): Subsequent to the Regulation prepared in order to resolve the problems and uncertainties experienced in the implementation of the Regulation on the Own-funds of Banks;

- Base amount subject to operational risk was added to the balance of the limitation the general provisions are subject to own-funds calculation,
- In accordance with the prudential requirement, value decreases in securities available for sale and subsidiary and affiliates (the part in debit balance of the account) were included in tier-II capital account by 100% as a factor decreasing tier-II capital,
- The qualifications required in Tier-I and Tier-II debts are changed,
- When primary tier-II capital debts are paid early or secondary tier-II capital debts are paid before maturity, it is also stipulated that the payments do not generate negative effect in liquidity adequacy of the bank in the licenses given by the Agency,
- Of the borrowing instruments foreign bank and financial institutions issued and bought by the banks or loans extended to these institutions, those monitored, pursuant to the legislation of the country, in accounts equivalent to tier-I capital or tier-II capital by the fund user, are obliged to be considered as primary and secondary tier-II debts extended by the bank, regardless of the qualifications required and in accordance to the equivalent accounts the fund users monitor,
- In consolidated own-fund accounting, the bank was ensured to be monitored within capital item to which profit/loss factors are related and the off-group capital the bank formed with its consolidated partners.

Regulation on Making Amendments to the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (OG dated October 10, 2007 and Nr. 26669): Pursuant to the Regulation which was prepared in order to resolve problems

experienced in practice and to consider new financial instruments related to capital adequacy;

- For secured securities, 10 percent group was added to the risk groups defined as 0, 20, 50, 100% "Risk Weighted In-Balance Assets, Non-Cash Loans, Commitments and Derivative Financial Instruments" in annex of the Regulation,,
- Provisions on capital liability accounting to concrete criterion for general market risk and specific risk concerning securities available for sale were introduced,
- Subjects concerning the calculation of the amount subject to operational risk were clarified.
- Submission periods of the tables concerning capital adequacy standard ratio and consolidated capital adequacy standard ratio were complied with the periods defined in the "Regulation on Procedures and Principles for Accounting Practices and Retention of Documents by Banks".

5-Regulations Relating to Financial Reporting

Communiqué on the Procedures and Principles of Administrative Fines to be Imposed in Reporting Carried out within the Scope of Banking Data Transfer System (OG dated March 22, 2007 and Nr. 26470): Scope and principles of the administrative fines to be imposed in disorganizations which may occur in proper, reliable and on time information transfer in the reporting received from banks and by means of the Banking Data Transfer System used as basic input in supervision and surveillance activities were determined and the Communiqué was came into force as of July 1, 2007.

Circular in Principles on Supervision and Reporting of Consolidated Information Systems Nr. BSD.2007/1: It was prepared in order to clarify the content and form requirements of the contracts to be signed with independent audit institutions regarding the information systems of partners of banks subject to consolidation and in the scope of information systems and reporting of consolidated information systems supervision.

Communiqué on Making Amendments to the Communiqué on Uniform Chart of Accounting (OG dated September 10, 2007, and Nr. 26639): It became effective in order to make uncertainties clear in the implementation of the Communiqué on Uniform Chart of Accounting.

Communiqué on Making Amendments to the Communiqué on Uniform Chart of Accounting to be Applied by Participation Banks (OG date September 10, 2007 and Nr. 26639): It became effective in order to make the uncertainties clear in the implementation of the Communiqué on Uniform Chart of Accounting and to be Applied by Participation Banks.

Communiqué on Making Amendments to the Communiqué on Financial Statements to be Announced to the Public by Banks and Related Disclosures and Footnotes (OG dated September 22, 2007 and Nr. 26651): It was regulated in order to ensure compliance with the amendments made to the Communiqué on Uniform Chart of

Accounts and Prospects and to disclose the requirements of the Turkish Financial Reporting Standard Nr 7.

Publication of the Communiqué on Making Amendments on the Communiqué on Report Format Concerning Information Systems to be Performed in Banks by Independent Audit Institutions (OG dated November 5, 2007 and Nr. 26691): Preparing consolidated supervision reports and supervision letter samples which enable giving statements in the supervisions made and making necessary amendments to include the other sections of the Communiqué accordingly.

6-Regulations on Non-Bank Financial Institutions

Board Resolution on Procedures and Principles Concerning Tier-II Debts to be Considered in Own-funds of Companies, Subsequent to the Article 3(1)(ç) of the Regulation on Principles for Establishment and Operation of Leasing, Factoring and Financing Companies: Qualifications of tier-II debt leasing, factoring and financing companies shall include in own-fund were determined pursuant to the Board Resolution dated January 11, 2007 and Nr. 2085.

Communiqué on Procedures and Principles Concerning Provisions to be Set Aside by Financial Leasing, Factoring and Financing Companies for their Receivables (OG dated July 20, 2007 and Nr. 26588): Pursuant to the Article 23 of the Regulation on Principles for Establishment and Operation of Leasing, Factoring and Financing Companies, in order to meet their losses derived from the receivables resulted from their operations or losses foreseen to result, yet the amount is not known exactly, companies have to set aside provisions within the scope of the procedures and principles to be determined by the Board. The Communiqué in question became effective, in order to determine the procedures and principles concerning provisions to be set aside by financial leasing, factoring and financing companies for receivables.

Communiqué on Uniform Chart of Accounting to be Applied by Financial Leasing, Factoring and Financing Companies and the Form and Content of the Financial Statements to be Announced to Public (OG dated May 17, 2007 and Nr. 26525): Pursuant to the Article 24 of the Regulation on Principles for Establishment and Operation of Financial Leasing, Factoring and Financing Companies, companies are obliged to ensure uniformity in their accounting systems; correctly record all their transactions; and timely and correctly prepare their financial reports in a style and format that will meet the requirements of providing information, that is clear, reliable and comparable and that is suitable for auditing, analysis and interpretation, in accordance with to the procedures and principles to be determined by the Board as regards to the international accounting standards. According to the Communiqué in question, companies must recognize their activities in the accounts stated in the Communiqué, in compliance with the Turkish Accounting Standards.

7-Administrative Regulations

Regulation on Professional and Ethic Principles Related to the Personnel and the Board Members of the Banking Regulation and Supervision Agency Shall Obey (OG dated February 2, 2007 and Nr. 26422): Subsequent to the Regulation, which was implemented in order to determine the Professional and ethic principles the Board members and the personnel of the BRSA shall obey; so as to provide they perform their duties based upon the Law Nr. 5411 and the related legislation, within the angle of

powers that written under the mentioned Law, without any influence or pressure, provide ongoing trust in public and financial markets that the Agency perform its duties in neutrality and to maintain this trust; principles on benefiting by the services of the institutions, surveillance and supervision, giving information and preserving secrecy, practices out of the agency and using personal information knowledge.

Regulation on the Banking Regulation and Supervision Agency Human Resources (OG dated February 10, 2007 and Nr. 26430): Having regard to the Civil Servant Law Nr. 657 and sub-regulations thereof and the special provisions in the Banking Law, the Regulation which was implemented in order to regulate human resources policy and plan of the BRSA, qualifications of the personnel, appointment, training and other subjects on human resources was regulated.

Regulation on Making Amendments to the Regulation on the Procedures and Principles Concerning the Supervision to be Conducted by the Banking Regulation and Supervision Agency (OG dated March 10, 2007 and Nr. 26458): "The Regulation on Procedures and Principles Concerning the Supervision to be Conducted by the Banking Regulation and Supervision Agency" was amended regarding to the supervision and surveillance of the activities of the institutions to which operation license is given pursuant to the Law Nr. 5464.

Regulation on Competing, Authorization and Competence Tests and Working Procedures and Principles Concerning Professional Personnel of the Banking Regulation and Supervision Agency (OG dated March 23, 2007 and Nr. 26471): The selection, training principles, authority test, preparing thesis, competence test and working procedure and principles of professional personnel were provisioned.

8- Other Regulations

Regulation on the General Conditions Concerning the Approval, Acceptance and Implementation of Financial Restructuring Framework Contracts (OG dated January 31, 2007 and Nr. 26420): Pursuant to the "Regulation on General Conditions of Approval, Acceptance and Implementation of Financial Restructuring Framework Agreements" prepared subsequent to the Article of the Law on Restructuring the Debts of Small and Medium Size Enterprises Nr. 5569 which was came into force subsequent to its publication in the Official Gazette dated December 30, 2006 and Nr. 26392 known also as "Anatolian Approach" in public, procedures and principles on signing, approval and implementation of Financial Restructuring Framework Agreements were regulated.

Regulation on Bank Cards and Credit Cards (OG dated March 10, 2007 and Nr. 26458): Procedures and principles on activity principles of institutions included in card payment system, issuing and usage of bank cards and credit, institutions issuing cards and relations between card holders, liabilities of card institutions and member offices and clearing and payment operations were regulated.

3.2.2 Regulations Came into Force in 2008

Regulation on Making Amendments to the Regulation on the Principles and Procedures Related to the Determination By Banks of Qualifications of the Loans and Other Receivables and to the Provisions to be Set Aside (OG dated February 6, 2008 and Nr. 26779): As regards to the fact that it should be subject to general provision by

1% equivalent to the minimum provision rate in practices of Primary Group Loans in country practices and the “Regulation on the Principles and Procedures Related to the Determination By Banks of Qualifications of the Loans and Other Receivables and to the Provisions to be Set Aside”, it was prepared in order to ensure making amendments to cash loans classified in the Second Group and non-cash loans are subject to general provision by 2% and 4%, respectively.

Regulation on Making Amendments to the Regulation on Bank’s Procurement of Support Services and Authorization of Such Service Providers (OG dated February 13, 2008 and Nr. 26786): It was prepared in order to ensure the institutions, which perform marketing services of the banks excluding advertisement services including those outsourced by banks are considered as support service institution consequent to including them under the scope of the “Regulation on Banks Procure Support Services and Authorization of Such Service Providers” and also to implement the notification and feedback principle for support services the banks procure from their domestic and foreign affiliates or jointly controlled partnerships and qualified shareholders; the branches in Turkey of the banks whose head offices are abroad procure from their head offices and support services procured from support service institutions established with the direct partnership of at least 3 banks.

Regulation on Making Amendments to the Regulation on the Organization Regulation of the Banking Regulation and Supervision Agency (OG dated March 1, 2008 and Nr. 26803): It was prepared to establish supervision and enforcement departments, one each, Foreign Affairs Department and Risk Management Department, pursuant to provision added to the Article 91(1) of the Law Nr. 5411 with the Law on Payment of the Amount Collected under the name of the Sale of Government Securities by issuing Türkiye İmar Bankası Türk A.Ş. whose license on banking transactions and accepting deposits has been abolished parallel to the provisions stated in the Law Nr. 5667.

The Banking Regulation and Supervision Board Resolution (OG dated March 4, 2008 and Nr. 26806): It was provided in order to determine the procedures and principles concerning supervision and surveillance of BRSA and the institutions subject to consolidated supervision; consolidated supervision to be carried out with competent authorities; supervision results, and the information and document exchange and usage based on supervision, upon the empowering given under the Article 66(3) of the Law Nr. 5411.

Regulation on Making Amendments to the Regulation on Measurement and Evaluation of Capital Adequacy of Banks (OG dated March 22, 2008 and Nr. 26824): Two amendments were made to the regulation subsequent. Under the first amendment, having regard to the points that the contracts concerning Credit Deposit Account Limit Commitments and Credit Card Expenditure Limit Commitments are drawn up in a way that they can be denounced, yet concentration volume in the sector, conversion rate to cash loan and right to denounce the commitment is not active in comparison to other loans, it has been foreseen that conversion ratios regarding these contracts decreased by 20% from 50% in capital adequacy calculations.

In accordance with the other amendment, having regard to the points that the loan derived from installment purchases procured by credit cards realized at foreseen maturities, the possibility of a negative development to be experienced in economy

within this maturity to weaken the refund ability of customers and that these loans are not collateralized, it is aimed that the risk weights of loans derived from installment purchases are increased according to the remaining time of maturity.

Regulation on Making Amendments to the Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies (OG dated March 23, 2008 and Nr. 26825): It was regulated in order to make amendments to change the own-funds definition in the Regulation on Principles for Establishment and Operation of Leasing, Factoring and Financing Companies and revocation of operating licenses of the companies.

3.2.3 Regulations Planned to be Issued and the Preparations Thereof

Working on draft legislations are summarized below.

Draft Law on Making Amendments to the Banking Law: In order to resolve the problems encountered during the execution of the present legislation, the study regarding the mentioned Draft is ongoing.

Draft Law on Leasing, Factoring and Financing Companies: In order to provide leasing, factoring and financing companies operate within the legal regulations to meet current needs, Draft Law on Leasing, Factoring and Financing Companies abolishing the entire Law Nr. 3226 and provisions of the Decree Law Nr. 90 and containing some new provisions was prepared. Having been finalized after opinions intra-Agency were taken and evaluated, the Draft was presented to the opinions out of the Agency.

Draft Regulation on Making Amendments to the Regulation on Procedures and Principles for Accounting Practices and Retention of Documents by Banks: It was prepared in order to re-regulate the provisions for publishing financial statements, as more time is required for preparing and publishing additional consolidated financial statements foreseen in the "Draft Communiqué on Making Amendments to the Communiqué on Preparation of Consolidated Financial Statements of Banks". The opinion of the sector on the subject is demanded.

Draft Regulation on Making Amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks: In order to ensure Turkish banking sector not to face liquidity inadequacy in the cases there is liquidity inadequacy in foreign banking and capital markets, it was prepared for decreasing risk weight (90%) of principal capital of bank overdraft loans, and the provision of the provisional Article 1, which was applied until June 1, 2007, is initiated to be applied for deposit and participation banks permanently, of the current Regulation aiming banks to hold liquid assets especially in deposit draws by relating, in order to handle this draw, some asset items that do not have maturity and that are considered as liquid one hundred percent with some liability items. Intra-Agency and out of Agency opinions about the subject were evaluated and the Draft, having been finalized, after been put into agenda and negotiated, was transferred to the Board.

Draft Communiqué on Making Amendments to the Communiqué on Procedures and Principles on the Provisions to be Allocated by Leasing, Factoring and Financing Companies for their Receivables: It was prepared considering the problems faced in practice concerning durations for allowing special provisions and the follow-up of

rediscounts of receivables. The Draft legislation is presented to the opinions of Leasing Society, Consumer Finance Companies and Factoring Society.

Draft Communiqué on Making Amendments to the Communiqué on Preparation of Consolidated Financial Statements of Banks: It was prepared in order to ensure subsidiaries and jointly controlled partnerships of parent banks, regardless of whether or not credit institution or financial institution, prepare additional consolidated financial statements at year-end by consolidating their financial statements and including their associates to the financial statements to be prepared accordingly. The opinion of the sector is demanded hence.

Regulation on Making Amendments to the Regulation on Operations of and Indirect Shareholding in Banks Subject to Permission and the Draft Communiqué on Procedures and Principles on the Activities of the Representative Offices Opened in Turkey: The studies on draft regulation regarding representative offices are ongoing.

Draft Regulation on Credit Risk Management: Studies continue on preparing the Draft Regulation on Credit Risk Management determining the procedures and principles for establishing and maintaining an effective and adequate credit risk management in banks, consistent with the scope and structure of their activities and convenient to the changing conditions, including all branches and partnerships subject to consolidation. Following these studies, the draft in question will be presented to the opinions out of the Agency.

3.3 Enforcement Activities

Enforcement activities are gathered under two main titles; evaluation and enforcement transactions and establishment, authorization and license transactions. Within this scope, it executes the evaluation and enforcement activities of banks, financial leasing, factoring and financing companies as well as licensing procedures of representative offices of foreign banks, institutions authorized to conduct independent audit in banks, asset management companies, institutions to provide valuation and rating services and card system institutions.

Activities on the compliance of financial leasing, factoring and financing companies with the “Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies” (the Regulation) continued in 2007. The said compliance activities include evaluation of whether the companies have adequate corporate governance within the scope of Regulation. The compliance of 13 financial leasing, 7 factoring and 2 financing companies were approved by the resolutions of the Board at various dates in 2007, while the compliance activities of other companies are still in progress.

On the other hand, pursuant to the Board Resolution dated November 29, 2007 and Nr. 2395, the compliance period of 12 financial leasing and 3 factoring companies under the structure of the Savings Deposit Insurance Fund was extended to December 31, 2008.

Evaluation and enforcement activities as well as establishment, authorization and license transactions realized by the BRSA in 2007 are as follows.

3.3.1 Evaluation and Enforcement Activities

In evaluation and enforcement activities, measures required to be taken by banks and financial leasing, factoring and financing companies are determined by evaluating the information obtained as a result of the surveillance and on-site audit activities executed by Departments of Audit together with the information and documents received from institutions subject to supervision and independent audit companies and other persons and institutions. Evaluations relating to these measures are transferred to related institutions for the establishment of the necessary transactions; furthermore information is transmitted to Departments of Audit in order to be followed-up in surveillance and supervision transactions.

Accordingly, following the evaluation made on on-site audit and off-site surveillance results and denunciation and complaints by the related departments; 5 criminal complaints were made regarding the persons who were determined to be responsible for various banks and 6 persons' authority to sign in banks were abolished temporarily in 2007. Pursuant to the Law Nr. 5411 and the Law Nr. 5464, administrative fines were imposed on various institutions as; 75 on deposit and participation banks, 22 on development and investment banks, 7 on financial leasing, factoring and financing companies, and 2 on independent audit institutions.

Besides, evaluation of the reports concerning the information systems audits performed in banks in 2006 was realized gradually. Findings included in audit reports were evaluated by classifying in accordance to the level of importance and evaluations on bank basis were made. Following these evaluations, considerations relating to the findings included in reports and operation plans aiming to remove them were demanded from banks. Moreover, the plan was demanded to be renewed in quarterly periods so as to include the developments realized. Plans the banks submitted were analyzed and suitability and sufficiency thereof were evaluated. Studies within this scope continue, and it is planned to be carried on until the findings are removed.

By means of the Information Systems Audit Control Implementation, it is planned that the information systems studies performed until now and to be performed next year by independent audit institutions and all the information therein are controlled by the Agency in 2008. In accordance with the said implementation, all the information relating to the information systems audit shall be submitted to the Agency after being approved by the authorities of the related institutions, through the information transfer carried out between the Agency and banks and independent supervision institutions. The implementation will enable to standardize the process and restore the surveillance/follow-up and control mechanism on the process through the automation of the Information Systems Audit Control process.

On the other hand, Coordination Committee, which was established within the scope of evaluation and enforcement activities, pursuant to the Law Nr. 5411 continued its studies.

Box 3-4: Coordination Committee

In the Article 100 titled “Coordination Committee” of the Banking Act Nr. 5411, it is foreseen that a coordination committee shall be established and composed of the Chairman and Vice-Chairmen of the Agency as well as the Chairman and Vice-Chairmen of SDIF. According to the mentioned Article, this committee would be set up to ensure that maximum cooperation be established between the Agency and the Fund, with respect to the exchange of information regarding general status of the banking sector, measures to be taken as a result of the supervision of deposit banks, 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.

In the Act, it is predicted that the committee shall convene minimum once every three months, at a frequency to be agreed by the parties and that any of the parties shall provide the information and documents requested by the other parties, within the period to be agreed on.

The Committee has realized four coordination meetings within 2007. In these meetings, information exchange was realized related to the general status of the banking sector, measures to be taken as a result of the supervision of credit institutions, calculation of risk-based insurance premiums, and transactions in the competency of the Fund.

In the meeting dated January 31, 2007, in addition to the general subjects, negotiations related to “Strategic Cooperation Agreement”, the technical infrastructure studies established within the aim of sharing the Credit Institutions Surveillance System Reporting Package with the SDIF were realized.

In the meeting dated April 20, 2007, it is decided that deposit and participation fund amounts within the scope of insurance shall be included in the supervision program of the BRSA and that BRSA shall control these amounts by sampling them.

According to the decision made in the meeting dated July 31, 2007, after that the studies conducted by SDIF related to risk-based insurance premiums tariff were completed, SDIF and BRSA shall form a common study group and reassess the subject.

In the meeting dated October 26, 2007, it is decided that a sub- study group composed of experts from both two institutions shall be formed related to amendments in risk-based Premium tariff.

3.3.2 Establishment, Authorization and Permission Activities

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

Within this framework; authorizations on establishment, operation, share transfer, merger and acquisition, opening branches and representative offices are granted to banks as well as financial leasing, factoring and financing companies, transactions for capital increase requests of those institutions are matured, amendments 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, applications for authorization of institutions which will provide valuation, rating and independent audit services to banks and establishment applications of asset management companies are concluded. In addition, the documents concerning minimum requirements to be met by top management of the above-mentioned institutions as well as oath and declaration of property are monitored. Besides, the authorization transactions for the institutions within the scope of Act Nr. 5464 are carried out.

Activities realized in 2007 within the scope of establishment, authorization and permission activities are as follows.

3.3.2.1 Establishment and Authorization Activities

In 2007, five institutions are granted establishment license and three of them are also granted operation license. The institutions which are granted establishment and operation licenses are as follows.

Table 3-6: Companies Received Establishment and Operation License

Title of Company	Type of Activity	Date and Number of Board Resolution
Anadolu Faktoring Hizm.A.Ş.	Establishment License	25.01.2007-2094
	Operation License	17.05.2007-2182
Turkish Finansal Kiralama A.Ş.	Establishment License	23.02.2007-2124
	Operation License	02.08.2007-2263
Turkish Faktoring A.Ş.	Establishment License	23.02.2007-2125
	Operation License	24.10.2007-2350
First Faktoring A.Ş.	Establishment License	08.11.2007-2359
İstanbul Finansman A.Ş.	Establishment License	08.11.2007-2360

According to the Board Resolution Nr. 2419 dated December 27, 2007, it is accepted that the title of the company which was Gayrimenkul Geliştirme ve Pazarlama Hiz. Tic. A.Ş. is changed into DD Konut Finansman A.Ş. and the company is transformed into a financing company. The operation license of the mentioned company is still in the evaluation process.

On the other hand, the companies operation licenses of which were revoked by Board Resolutions in 2007 are as follows.

Table 3-7: Companies Operation Licenses of which were Revoked

Title of Company	Date and Number of Board Resolution
Doruk Finansal Kiralama A.Ş.(*)	25.01.2007-2095
Doğuş Finansal Kiralama A.Ş.(*)	
Soylu Finansal Kiralama A.Ş. (*)	
K Faktoring A.Ş.(**)	
Kura Finansal Kiralama A.Ş. (*)	10.05.2007-2177
Öz Finans Faktoring Hizmetleri A.Ş.(***)	22.11.2007-2387
Demir Kiralama A.Ş.(***)	17.05.2007-2181
General Electric Finansal Kiralama A.Ş.(***)	28.06.2007-2229
Yalçınlar Finansal Kiralama A.Ş.(***)	27.09.2007-2328
Dal Finansal Kiralama A.Ş.(***)	22.11.2007-2387
Ser Finansal Kiralama A.Ş.(***)	

(*) Revoked pursuant the Article 29(1) of the Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.

(**) In accordance with the company's demand, it is deemed appropriate that its operation license be revoked as of December 31, 2006.

(***) In accordance with the demand of the companies, it is deemed appropriate that their operation licenses be revoked.

The lawsuits filed against the Agency by Analitik Gözlem Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. and Ergin Uluslararası Denetim ve Yeminli Mali Müşavirlik A.Ş. authorizations of which were previously revoked have been resulted, so the authorization of these institutions for independent audit in banks were returned by the Board resolutions Nr. 2117 dated February 16, 2007 and Nr. 2179 dated May 10, 2007, respectively.

The authorization of Cevdet Suner Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. to make independent audit in banks was annulled permanently according to the Board Resolution Nr. 2315 dated September 13, 2007, as the company made an application to the Agency declaring that it will not perform in supervisory and consultancy fields.

The compliance procedure of 43 independent audit companies which already have the authorization to make independent audit in banks with the provisions of the "Regulation on the Authorization and Activities of Institutions which will Make Independent Audit in Banks" amended by the Regulation published in the Official Gazette dated July 24, 2007 and Nr. 26592 is still in progress.

On the other hand, the applications of three independent audit companies for making information systems audit in banks were evaluated and concluded by the Agency and the information related to these institutions are as follows.

Table 3-8: Independent Audit Companies Authorized for Information Systems Audit

Name of Independent Audit Company	Date and Number of Board Resolution Concerning the Authorization
Gürel Yeminli Mali Müşavirlik ve Bağımsız Denetim Hizmetleri A.Ş. (*)	29.8.2007 - 2288
HLB Saygın Yeminli Mali Müşavirlik ve Bağımsız Denetim A.Ş. (**)	29.08.2007 - 2289
Kapital Bağımsız Denetim ve Yeminli Mali Müşavirlik A.Ş. (**)	07.12.2007 - 2396

(*) Independent Audit Company Authorized to Make Information Systems Audit in Banks

(**) Independent Audit Company Authorized to Make Information Systems Audit in Banks with the Outsourcing Process.

According to the Board Resolutions Nr. 2204 dated June 7, 2007 and Nr. 2452 dated January 17, 2008, and pursuant to the Article 12 of the Act Nr. 5582 on "Making Amendments to Several Acts Related to Housing Finance System" and pursuant to the annex Article 38/A(2) of the "Capital Market Act Nr. 2499", apart from the requirements for establishment of a financial leasing and financing company existed in "The Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies", some additional requisites were issued to the financial leasing and financing companies which are planning to operate in housing finance profession. Currently, there are 12 establishment and authorization applications received from the said companies, where the evaluation procedures of those are still in progress.

Information relating to establishment applications received by the Agency in 2007 and which are still under evaluation process are as follows.

Table 3-9: Establishment and Authorization Applications Under Evaluation

Company and Type of Operation	Number of Applications	
	2006	2007
Establishment/Authorization Applications for Fin. Leas. Companies	1	3
Establishment/Authorization Applications for Factoring Companies	14	19
Establishment/Authorization Applications for Financing Companies	1	4
Authorization Applications for Independent Audit Companies	7	11
Authorization Applications for Housing Finance	-	12
Authorization Applications for Valuation Companies	9	5
Authorization Applications for Rating Companies	1	3
Establishment/Authorization Applications for Ass. Man. Companies	-	2
Authorization Applications for Card System Companies	-	4
Opening of Foreign Bank Representative Offices	4	5
TOTAL	37	68

3.3.2.2 Licensing Activities

Permissions granted according to the Law Nr. 5411 and the Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies in 2007 as a result of the evaluations of applications made to the Agency are as follows.

Permissions for Share Transfers, Mergers and Acquisitions

Various share transfers, mergers and transfer operations are granted permission in 2007 by the following Board Resolutions pursuant to related legislation provisions.

1. By to the Board Resolution Nr. 2101 dated January 25, 2007, within the scope or re-organization process of UniCredito Italiano S.P.A., which is shareholder directly in Koç Finansal Hizmetler A.Ş. and indirectly in Yapı ve Kredi Bankası A.Ş., aiming to unify all of its direct and indirect banking affiliates installed in Middle and Eastern Europe (exluding the Bank Pekao S.A. installed in Poland), under the Bank Austria Creditanstalt AG, of which it possesses 94.98% of its capital, it is decided pursuant the Article 18 of Banking Law Nr. 5411 that, 50% of capital of Koç Finansal Hizmetler A.Ş., which belongs to UniCredito Italiano S.P.A. shall transferred to Bank Austria Creditanstalt AG. This transfer will result the change of shareholding of Yapı Kredi Faktoring A.Ş. ve Yapı Kredi Finansal Kiralama A.O., because the shares of UniCredito Italiano S.P.A. in Koç Finansal Hizmetler A.Ş. will decrease under 50% and the Bank Austria Creditanstalt AG will possess indirectly the 40.09% of the paid capital of Yapı ve Kredi Bankası A.Ş. which is TRY 3.142.818.454,1.
2. By the Board Resolution dated February 7. 2007 and Nr. 2111, within the framework of liquidation procedure of Türk Ticaret Bankası A.Ş., it is deemed appropriate that the Bank share in Ticaret Finansal Kiralama A.Ş. which was its subsidiary, and 99.993 of the shares belonging to other partners would be taken over by Ali ÖZHAMURKAR, pursuant to Article 13 of the Regulation on Establishment and Operation Principles of Financial Leasing, Factoring and Financing Companies.
3. By the Board Resolution dated February 23, 2007 and Nr. 2126, following issues were deemed appropriate pursuant the Article 18 of Act Nr. 5411 and Article 13 of the Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies;
 - Eurobank EFG Holding (Luxembourg) S.A. to take over Tekfen Holding A.Ş. corresponding to 70% of capital of Tekfenbank A.Ş. and a total of 3.500.000.000 shares corresponding to TRY 35.000.000 in nominal value and 700.000 founders share belonging to TST International Finance S.A.,
 - Eurobank EFG Holding (Luxembourg) S.A to be a shareholder indirectly in Tekfen Finansal Kiralama A.Ş. consequently to the takeover of the above mentioned shares

Consequently, the direct share of Tekfen Holding A.Ş. decreased from 57.61% to 5% and the direct share of TST International Finance S.A. decreased from 40.62% to 23.23% while the direct share of Eurobank EFG Holding increased to 70%, and the indirect shares of EFG Eurobank Ergasias S.A., EFG Consolidated Holdings S.A., Private Financial Investments Holding Limited, EFG Bank European Financial Group and Latsis Family exceeded the indirect share limits prescribed in the legislation.

4. By the Board Resolution dated March 8, 2007 and Nr. 2133, the transfer of 99.99% of the shares of Anadolu Cetelem Tüketici Finansman A.Ş. (its new title is TEB Tüketici Finansman A.Ş.) to TEB Mali Yatırımlar A.Ş. was deemed appropriate pursuant to the Article 13 of Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.
5. By the Board Resolution dated March 15, 2007 and Nr. 2141, the transfer of 97.51% shares in Pamuk Faktoring A.Ş. belonging to the SDIF directly and 76% shares in Pamuk Finansal Kiralama A.Ş. which is a subsidiary of Pamuk Faktoring A.Ş. indirectly to Karadeniz Holding A.Ş. is deemed appropriate pursuant to the Article 13 of Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.
6. By the Board Resolution dated May 17, 2007 and Nr. 2185, the transfer of all the shares of Optima Faktoring Hizmetleri A.Ş. and Başer Faktoring A.Ş. in Sun Finansal Kiralama A.Ş. which is 85% in total to Ahmet ÇELİK is deemed appropriate pursuant to the Article 13 of Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.
7. By the Board Resolution dated May 24, 2007 and Nr. 2192, the increase of share percentage of Istanbul Stock Exchange in İMKB Takas ve Saklama Bankası A.Ş. from 32.62% to 33.29% is deemed appropriate pursuant to the Article 18 of the Law Nr. 5411 and the Article 11 of Regulation on Operations of Banks Subject to Permission and Indirect Shareholding.
8. By the Board Resolution dated June 7, 2007 and Nr. 2202, the fact that Coöperativie BVS Financial Services U.A. to become a shareholder in Eko Finans Faktoring Hizmetleri A.Ş. with a share ratio of 25% is deemed appropriate pursuant to the Article 13 of Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.
9. By the Board Resolution dated June 21, 2007 and Nr. 2222, the permission to begin the operations related to the transfer of the shares that Koç Finansal Hizmetler A.Ş. owns in Yapı Kredi Faktoring A.Ş., Yapı Kredi Finansal Kiralama A.O. and Yapı Kredi Bank Azerbaijan Joint Stock Company and the shares of Yapı ve Kredi Bankası A.Ş. is deemed appropriate pursuant the Article 19 of the Law Nr. 5411 and the Article 5 of Regulation on Merger, Transfer, Division and Share Transfer of Banks.
10. By the Board Resolution dated August 16, 2007 and Nr. 2276, and the authorization taken from general shareholders, the share transfer draft agreement arranged and signed by the boards of directors of Koç Finansal Hizmetler A.Ş. and Yapı ve Kredi Bankası A.Ş. is deemed appropriate for approval, pursuant to the Article 19 of Law Nr. 5411 and Article 21 of Regulation on Merger, Transfer, Division and Share Transfer of Banks.

11. By the Board Resolution dated August 29, 2007 and Nr. 2286, the transfer of 99.99% of the shares belonging to Fortis Faktoring A.Ş. to Fortis Commercial Finance Holding N.V. is deemed appropriate pursuant to the Article 13 of Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.
12. By the Board Resolution dated September 20, 2007 and Nr. 2321, it is deemed appropriate that Murat Uğur AKSOY shall become shareholder in a ratio of 75.59% in Ortak Faktoring A.Ş., within the framework of the Article 13 of Regulation on Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies.
13. By the Board Resolution dated December 12, 2007 and Nr. 2416, the permission to take over of shares owned by Armed Forces Pension Fund corresponding to 100% of Oyakbank A.Ş.'s capital, directly by ING Bank N.V. and indirectly by ING Group N.V. and Stichting ING Aandelen is deemed appropriate pursuant to the Article 18 of Law Nr. 5411.
14. By the Board Resolution dated December 27, 2007 and Nr. 2426 and pursuant to the Article 18 of Law Nr. 5411, it is decided that National Bank of Kuwait (NBK) shall buy 2.200.000.000 of the shares owned by Özyol Holding A.Ş., so that its indirect shareholding the capital of Turkish Bank A.Ş. increases to 31.43%, consequently, the indirect share ownership of Turkish Factoring Hizmetleri A.Ş. and Turkish Finansal Kiralama A.Ş. would be changed; and also, while the paid-up capital of the Bank increases from TRY 70.000 to TRY 80.000, NBK shall participate to the capital increase and its share in the Bank's capital shall rise to 40%.

Permissions for Off-Shore Operations, Representative Office and Branch Openings, Registrations

Permissions were granted to Bankpozitif Kredi ve Kalkınma Bankası A.Ş. for acquiring a subsidiary in Kazakhstan, to HSBC Bank A.Ş. for opening four branches in Turkish Republic of Northern Cyprus and to Citibank A.Ş. for opening representative office in Azerbaijan in 2007.

The data related with five foreign banks, whose application deemed appropriate in 2007 for opening a representative office in Turkey is as follows.

Table 3-10: Permissions for Opening Representative Offices

Name of Bank	Country of Origin	Date and Num. of Board Resolution	Opening Date Of the Office
Citibank N.A	USA	January 18, 2007	March 1, 2007
Kuwait Finance House Bahrain B.S.C.	Bahrain	February 27, 2007	Permission is expired due to not commencing its activit. within term
OJSC Orienbank	Tajikistan	May 24, 2007	Permission term is extended
Depfa Bank Plc	Ireland	June 21, 2007	August 10, 2007
DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbh	Germany	October 24, 2007	Has not started operating yet.

Pursuant to the Article 8 of Act on Financial Leasing, in cases where a financial leasing company domiciled abroad does not have a branch in Turkey, financial leasing contracts are registered by the Agency. Within this scope, the Agency has registered financial leasing contracts concerning 23 aircrafts and 9 textile machines in 2007.

3.4 Strategy Development Activities

3.4.1 Activities about Strategy and Policies

The work on establishment of a performance evaluation system which is critically important for evaluating the achievement of aims and targets determined in the Agency's Strategic Plan and for executing effectively the strategies and policies continued in 2007. The performance evaluation process is prescribed to be composed of three parts which are determination of criteria, data collection and analysis, and reporting. In this context, first of all performance evaluation systems of foreign equivalent supervision authorities were examined in order to determine the performance criteria and utilizable performance criteria types were determined. The work on the draft related to activity-based criteria planned to be used in the first step are still continuing.

The Financial Sector Commission which was formed with the aims of ensuring exchange of information, cooperation and coordination among institutions, proposing joint policies and expressing 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 has made three meetings in 2007. The Commission focused its 2007 activities on determination of joint study topics and groups, and the preparation of the framework document to be signed by the member institutions of the Commission as well as competition in the financial sector.

Box 3-5: Financial Sector Commission

The Financial Sector Commission (FSC), established according to the Article 99 of the Law Nr. 5411, is in charge of providing information exchange, cooperation and coordination between institutions, making common policy suggestions and giving opinion about the subjects related to the future of financial sector, with the aim of assuring the confidence, stability and development in the financial markets. The FSC is, within the BRSA, composed of the representatives of the BRSA, Ministry of Finance, the Treasury Undersecretariat, Central Bank, Capital Market Board, SDIF, Competition Board, Undersecretariat of State Planning Organization, Istanbul Gold Exchange, securities stock exchanges, Futures and Options Markets and the associations of institutions. It is provisioned in the Law Nr. 5411 that the Commission shall meet at least twice a year and shall inform the Council of Ministers about the meeting results.

The Commission made an extraordinary meeting at the Competition Board on February 27, 2007 with a special agenda of "Competition in Capital Markets". In the meeting, the approaches and experiences of Competition Board related with maintaining the competition in financial markets as well as the approaches of the European Union and the applicability of such approaches in Turkey were evaluated and cooperation fields for developing a sound competition environment in the financial markets were viewed.

The agenda of the Commission's ordinary meeting dated May 31, 2007 was determined as economic and financial developments and developments regarding competition in financial markets and the participants evaluated comprehensively the agenda items and exchanged their opinions. In the meeting, it is also decided that a working group shall be established to prepare a working report related to the common policy issues and develop collaboration and coordination between the institutions. In this context, the working group made a meeting on June 22, 2007. The "Draft Document Related to Joint Activities of Member Institutions of Financial Sector Commission" prepared according to the decision made in this meeting has been presented to the member institutions for consultation.

In the second ordinary meeting of the Commission dated November 30, 2007, the latest developments in the financial sector and economy were assessed. An extraordinary meeting is planned to be made in April 2008 in order to evaluate the Draft Document regarding cooperation and coordination between member institutions and to determine the study program of 2008.

Regarding strategies and policies area, it is planned that preparation work of the “BRSA Strategic Plan (2009-2011)” would be conducted in 2008, and also studies and reports would be prepared related to the policy issues with priority within the framework of Financial Sector Commission.

3.4.2 Corporate Process and Quality Management Activities

Within the scope of corporate processes and quality management activities, work on preparation of the corporate document codes which will be applicable by all service units has continued. Work on determination of job descriptions of positions at the Agency as well as job and operation flows are almost completed. Furthermore, a guide including the principles and procedures of distribution of the Agency’s periodicals was prepared and put into practice with the aim of providing effective distribution of the publications inside and outside the Agency in 2007.

In 2008, it is planned that; the corporate document codes be completed with the collaboration of Directorate General of State Archives, a guide including the principles and procedures related to the preparation process of the Agency’s periodicals be arranged and put into practice, the corporate performance evaluation system be established and the job descriptions of the Agency as well as job and operation flows and corporate risk management system gain operability.

3.4.3 Research and Analysis Activities

Within the scope of research and analysis activities, a working paper relating to the CRD/Basel 2 Country Practices was published; information notes relating to credit risk, market risk, operational risk and other topics were prepared. Presentations about the effects of Basel 2 were made in several conferences. Furthermore, various information notes and presentations about the global fluctuation occurred in July-August period and its probable effects on Turkish Banking Sector were prepared for the Financial Sector Commission.

The draft program and the principles and procedures related to the “BRSA Seminars” which are expected to contribute to the research and analysis activities of the Agency as well as to the process of establishing strategies and policies have been determined; these seminars will be open to the participants from inside and outside the Agency. With such seminars, it is aimed to establish well-attended, academic and semi-academic discussion platforms. Thus, the platforms are expected to create an intellectual and informational richness which will support the Agency’s decision processes, to increase the collaboration between the parties within the sector and also to increase the dialogue and information exchange between the Agency and sector and professional groups, to support the process of information production, to develop the Agency culture and to increase the motivation of the personnel.

In 2008, it is planned to launch the BRSA Seminars, and to make researches and analyses regarding the Agency’s duty field and to publish their results as working papers.

3.4.4 Monitoring/Evaluating the Economies and Financial Markets

In the context of monitoring developments in national and international economies and in real and financial sectors, determining and evaluating the risks to occur due to these developments in the banking sector, the preparation of information notes as well as periodicals also continued in 2007.

The “Financial Markets Report”, which was started to be published according to the Article 97 of Act Nr. 5411, including important developments in the financial sector and the performances of banks and leasing, factoring and financing companies, was kept being published with a more enriched content. The Report which is being published quarterly has mainly included economic developments, an evaluation of financial sector and a risk analysis of banking sector, while the scopes of analysis and observations related to the risk level of the banking sector have been expanded. In 2007, four Reports were published and announced to public through the internet.

In addition to the Financial Markets Report, and according to the Article 97(3) of Law Nr. 5411, the publication of “Structural Developments in Banking” has been started, including the assessments of structural developments in banking sector and non-bank financial sector (leasing, factoring and financing companies). With this publication, it is aimed to monitor and evaluate; the general market structure, intermediation activities, restructuring process, integration with foreign markets and especially to the EU, the capacity indicators of the sector and strategies and policies affecting the sector in Turkey. This publication is considered complementary to the Financial Markets Report.

Another periodical started to be published in 2007 is the “Directory of Main Strategies and Policies” which is for official use only. With this Directory which is planned to be published quarterly, it is aimed to enable the Agency to follow, carry out and report effectively and actively the strategies and policies established in various levels regarding the BRSA’s domain in the light of the principles of efficiency, collaboration, professionalism, transparency and accountability.

As to following and evaluating the developments in national and international economies and financial markets; many presentations, speeches and information notes were prepared especially on the developments in the global markets and in banking sector, risk developments, mortgage, consumer loans, credit cards, foreign capital entrance to the sector and investment preferences of domestic and foreign residents.

In 2008, it is planned to keep developing the publications related to monitoring and evaluating the economies and financial markets and to start to publish a monthly “Bulletin for Current Topics in Financial Markets”. According to the principles of transparency, accountability and consumer focused service concept which take place in the BRSA Strategic Plan; the Bulletin shall intend to monitor the institutional activities and developments in the financial sector, to provide sectoral and professional integration by increasing the dialogue and collaboration between related parties within the sector and to provide customer consciousness. The developments and activities deemed useful to be presented to the public by the Agency or by the sector, and the planned and scheduled activities in the agenda related to the incoming period are planned to be presented monthly in this Bulletin.

3.4.5 Project Activities

The Financial Sector Assessment Program (FSAP-Turkey), conducted with the collaboration of World Bank and International Money Fund (IMF), was completed in March 2007. The program was started in April 2006 and coordinated by Turkish Treasury. During the program Turkish financial sector was analyzed in depth. In the meetings, the BRSA was evaluated within the framework provided in the “Core Principles for Effective Banking Supervision” document of the Basel Committee on Banking Supervision. Moreover, the general outlook of the banking sector, crisis management and stress test practices were also discussed. The final report including the results (Turkey: Financial System Stability Assessment) was published in the official web-site of IMF in November 2007. Given the importance of convergence to the internationally accepted principles and standards in banking supervision, it is expected that the study results will play a guiding role for BRSA’s strategies and policies hereafter.

In the area of international standards on risk management, following activities were conducted regarding the Capital Requirements Directives (CRD) of the European Union and the New Basel Capital Accord (Basel 2) published by Basel Banking Supervision Committee:

- The second Quantitative Impact Study which was carried out to determine the effects of Basel 2 and related EU provisions on Turkish banking sector (QIS-TR2) was completed as of July 2007 and several evaluation reports were prepared. In this context, a report including the sectoral data was presented on the Agency’s web-site.
- The comprehensive version of Basel 2 document published by the Basel Committee on Banking Supervision in June 2006 was translated to Turkish by the Banks Association of Turkey (BAT). This document was then reviewed by Basel 2 Steering Committee and BRSA and released in the Agency’s web-site.
- The works related to the implementation of Basel 2 were continued, considering also EU directives, international principles, standards and practices.
- Several presentations related to Basel 2 were performed in national and international conferences, seminars and workshops.
- Meetings related to Basel 2 were held with the participation of international institutions, foreign banks and rating companies.
- Informative documents regarding the effects of Basel 2 on SMEs have been prepared.
- Training programs related to Basel 2 were attended.
- The coordination and guidance of the activities of Basel 2 Steering Committee, established in cooperation with BAT and the banks to conduct works related to the banking sector, kept being conducted. In this context, meetings were held with working groups established within the Basel 2 Steering Committee, regarding the calculation of capital for operational risk which became a legal requirement after June 2007, content of financial tables to be prepared by banks

within the international accounting standards, and work on reporting set for supervisory purposes within CRD/Basel 2.

- Basel 2 Progress Reports were prepared and published with the aim of ensuring more effective monitoring of the steps taken by banks towards Basel 2.

On the other hand, the implementation of Basel 2 for the credit risk capital requirement calculation based on ratings has been postponed to January 2009.

In 2008, the activities related to CRD/Basel 2 Project will continue by taking into consideration international principles and standards; and empirical impact analyses will be made for Basel 2 national discretions.

3.5 Legal Affairs Activities

In 2007, activities of representing the Agency before judicial and administrative authorities/courts and bailiff's offices with the aim of following up, defending and settling down all the legal conflicts which BRSA is a party and all transactions belonged to BRSA, giving legal opinions and answering notifications and complaints submitted to Agency were ongoing.

The information related to the filed lawsuits against/by Agency is submitted in the table below on the basis of their nature.

Table 3-11: Filed Lawsuits Related to Agency

Lawsuits	2006	%	2007	%
Administrative Lawsuits	24.512	98.6	26.151	98.7
• T. İmar Bankası T.A.Ş.	23.249	94.8	23.900	91.4
• Demirbank T.A.Ş.	1.031	4,2	1.921	7,4
• Other Administrative Lawsuits	232	1.0	330	1.2
Criminal Lawsuits	154	0.6	162	0.6
Civil Lawsuits	191	0.8	210	0.7
Total Pending Lawsuits	24.836	100.0	26.474	100.0
Finalized Lawsuits	21		49	

As it can be seen in the Table 3-11, 98.7% of the filed lawsuits against/by BRSA are administrative lawsuits. As it is known, this situation emanates from the full remedy actions filed for the demand of the settlement of the losses claimed to be suffered due to the sale of treasury bill and deposit transactions realized by T. İmar Bankası T.A.Ş. whose license to operate banking activities and accept deposit was terminated and the actions filed by the small shareholders of Demirbank T.A.Ş. The rest of administrative lawsuits are composed of actions for annulment and full remedy related to administrative decisions taken by the Agency or the Board according to the banking legislation as well as general legislation. On the other hand, the criminal actions brought as a result of criminal complaints of the Agency and civil actions for or against the Agency were also followed.

Within the scope of the function of delivering legal opinion in legal matters determined in the Regulation on the Organization of the Banking Regulation and Supervision Agency Article 20(d), 167 legal opinions were delivered to the related units of the Agency and several public institutions. Within this framework, the number of legal opinions delivered to regulation and enforcement units was 95 (57% of total). Additionally, 41 legal opinions (24% of total) were delivered related to strategy, information management and support services units and these legal opinions vary from the memorandum of understandings signed between the Agency and foreign supervision and surveillance authorities to problems encountered related to personnel regimes. Within this period, 15 legal opinions (9% of total) were delivered to supervision units. In the same period, the number of legal opinions delivered to related public institutions is 16 (10% of total). Furthermore, 286 writs coming from different courts were answered.

On the other hand, the requests and complaints attained to the Agency concerning the institutions and matters within the scope of Act Nr. 5411 and the resolution of conflicts which may arise from outside the scope of civil law between institutions subject to the Act and third parties were analyzed. Consequently, 1838 demands and complaints submitted to the Agency personally, or via telephone or e-mail were processed. The distribution of the notifications and complaints by subjects is as follows:

Table 3-12: Notifications and Complaints by Subjects

Subjects	2006		2007	
	Number	Share%	Number	Share%
Credit Cards	476	27.0	585	31.8
Other Subjects	333	18.9	177	9.6
Consumer Loans	225	12.7	266	14.5
Deposit Accounts	152	8.6	177	9.6
Interest, Costs and Commissions	117	6.6	145	7.9
Prb. About Negative Qualified Loans	90	5.1	55	3.0
Settlement of İhlas Finans Kur. A.Ş.	81	4.6	49	2.7
Notifications	51	2.9	30	1.6
Internet Banking	44	2.5	68	3.7
Problems Emanating from Checks	44	2.5	52	2.8
Government Equity	45	2.5	48	2.6
Off Shore	21	1.2	17	0.9
Property Researches	16	0.9	26	1.4
Shares	15	0.8	18	1.0
Dissolution of Attachment	12	0.7	10	0.5
Inproper Behaviour Against Customer	12	0.7	11	0.6
Demands of Tribunal/Public Prosecutor/Leg. Auth.	11	0.6	10	0.5
Transfers	6	0.3	15	0.8
Job Demands	6	0.3	3	0.2
BRSA Units and Legal Personality	5	0.3	32	1.7
Other Loans	2	0.1	10	0.5
Non-Cash / Corporate Loans	1	0.1	23	1.3
SDIF Units and Legal Personality	-	-	2	0.1
Deposit Insurance	-	-	6	0.3
Banking Applications Under the Civil Law/Agreement	-	-	3	0.2
Total	1.765	100.0	1.838	100.0

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 conflict, unless the matters do not violate the mandatory provisions of the Banking Law Nr. 5411 and Bank and Credit Cards Act Nr. 5464. The distribution of the complaints about credit cards by subjects is given in the Table below.

Table 3-13: Subjects of Complaints about Credit Cards

Subjects	2006		2007	
	Num.	Share%	Num.	Share%
Claims for Re-structuring of the Debt	98	20.6	32	5.5
High Levels of the Interests Applied to Credit Cards	59	12.4	57	9.7
Non-Canceling the Card Despite the Client's Demand	32	6.7	91	15.6
Loss, Thievery and Fraud Cases	41	8.6	31	5.3
High Levels of Fees and Commissions Taken	53	11.1	216	36.9
Arrangement of Card Without Informing the Client	37	7.8	37	6.3
Not Giving Credit Card	5	1.1	10	1.7
Not Giving POS Machine	-	-	3	0.5
Other	151	31.7	108	18.5
Total	476	100	585	100.0

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

Table 3-14: Requests within the Scope of Act on Right of Obtaining Information

Subjects	2006		2007	
	Number	Share%	Number	Share%
Applications in which Information or documents are achieved completely	1.189	38.8	1.231	30.8
Applications in which information or documents are achieved partially	163	5.3	-	-
Applications Denied	1.551	50.5	2.703	67.5
Applications in which information or documents are achieved by annulling/separating the confidential/hidden	2	0,1	-	-
App. Oriented to Other Ins. and Establishments	163	5.3	67	1.7
Applications Subject to Jurisdiction After Denying	-	-	-	-
Total	3.608	100.0	4.001	100.0

3.6 Information Systems Activities

3.6.1 Banks Reporting System

Currency Transfers Abroad: The currency transfers at home and abroad are monitored with the application of “Currency Transfers Abroad” and through Monthly Currency Transfers forms.

Weighted Composite Rating Application(WCRA): The Weighted Composite Rating Implementation (WJRI) is developed to monitor whether or not the banks financially operate through stable and reliable manner and to diagnose in advance the banks developing in a negative way and to provide that they are followed-up closely. The WCRA is a supervision instrument presenting both numerical and graphical situations of banks in the sector and providing their follow-up concerning their positive and negative developments in a determined period.

Bank Performance Reporting System (B-PeRe): This application which can be activated monthly provides users detailed information about the non-consolidated financial situation of any bank they examine (the data related to consolidated legal limits are also present in the implementation).

By this application , users may get information about the current situation of a bank, monitor its financial performance trend and analyze a bank’s position within the peer group and sector including its tendency within the peer group. Within this scope, the implementation serves to off-site surveillance and on-site audit as it gives a bank’s general outlook.

Early Warning System: The system is developed by using the ratio set data, based on the information in forms within the Banks Reporting System (BRS). Early warning reports include the reports in which standard time slices such as long-term and short-term slices are used. Seven different types of reports are produced in the System. These report types are comprised of sub-reports including asset quality, sensitivity, liability structure, profitability, own funds and liquidity ratio. Within the framework of Early Warning System, a bank’s ratio development is given comparatively within the scope of long and short term historical development of peer group and banking sector. Furthermore, ratio comparisons are made monthly in the level of peer group and sector.

Bank Reporting Performance Evaluation and Penalty Application: “Communiqué on the Principles and Procedure Related to Administrative Fines Applied to the Reporting Made within the Scope of Banking Data Transfer System” determines the scope and principles of the administrative fines to be applied in the interruptions to the accurate, reliable, and on-time information transfer related to the reporting which are taken from banks via Banking Data Transfer System and used as fundamental data on the surveillance and supervision activities of the Agency. Within the scope of this Communiqué, defenses have been requested from the banks which are found to have problems as a result of the evaluations related to the reporting made in the period of July-September 2007.

The Bank Reporting Performance Evaluation and Penalty Application is developed related to the mentioned Communiqué; first version thereof which includes determination and registration of the cases requiring feedback and administrative

sanction was put in effect in July 2007, and the user interface which includes penalty evaluation was put in effect in December 2007.

With the aim of supporting the Bank Reporting Performance and Penalty Application, an additional application was developed composing statistical data such as the banks' monthly average cross-errors, average solution-providing times, and average form sending times. Interfaces presenting graphically the reporting performances of the banks with comparisons between themselves and comparisons in their own by periods were developed using these data.

The application is planned to be expanded so as to include administrative sanctions related to the reports coming from Departments of Audit and to feed the sanctions applied with other implementation in 2008.

Studies Conducted to Provide the Reporting of Asset Management Companies to the Agency: With the aim of performing the supervision and surveillance function of our Agency and giving the best general view related to the financial system, Asset Management Companies will submit electronically and quarterly to the Agency their balance sheets, income statements, tables of loans by customers and relations with financial sector (by customers). The studies related to the forms within the set were started by end-2007 and it is planned that the reporting would be made quarterly in 2008.

Studies to Collectivize Some Subjects Within the Bank Reporting System: Studies were conducted jointly related to the matters suggested by the Banks Association of Turkey (BAT) about collectivizing the Electronic Data Transfer System (EDTS) of the Central Bank of Republic of Turkey (CBRT) and the Bank Reporting System of BRSA. As a result of these studies, the two institutions agreed on using XML source file as a reporting standard matching cross control groups and making amendments twice a year at most in order to minimize making amendments, as a reporting standard and realizing the reporting twice a year; the agreement was sent to the BAT.

Credit Bureau of Turkey (CBT) Systems: Among the services of CBT shared by the member institutions, the Credit Reference System (CRS), Consumer Disputes Processing System (CDPS), Fraud Prevention and Detection System (FPDS) and Internet Fraud Prevention and Detection System (IFPDS), which are developed by using the customer information, are presented and opened to use of audit group leaders.

Financial Performance Report Application of the Banks (FPRAB): The current application is developed by updating the format for banks. The FPRAB application is also started to be produced in the system for participation banks.

Stress Test Application : The stress test application was developed to monitor the effects of internal and external economic developments in the banks' financial structures as realistic as possible and on time. Required updating was made in the application, within the framework of Communiqué on Uniform Chart of Accounts and Explanation thereof which became operative in 2007 and the BRS amendments.

Studies for Producing the Data Related to Credit and Deposit in Provinces: The deposits and loans, which are the most important items of the sources and uses of funds of banking sector, are treated with the bank/branch code data used in the EFT

system executed within the CBRT for the data requirement related to geographical distribution of these balance sheet items.

In September 2007, a software development project to implement the interfaces presenting the graphical distribution of the information set produced by banking data by provinces and by countries was started. The technologies that may be used within this scope were investigated and especially the thematic map production was treated as a major subject and the Geographical Information Systems was analyzed. It is planned to make a decision on the technologies and instruments to be used in this study and to obtain first concrete outcomes in 2008.

Preparation of SME Loans Form: With the aim of determining the relationship of small and medium-scale enterprises (SME) which have an important place in the Turkish economy, with the financial system and making this information be used by other related agencies and institutions besides the BRSA, a form was prepared including several information related to the loans extended by banks to SMEs. In this form, the definition of SMEs was based on the Regulation on Definition, Qualities and Classification of Small and Medium Enterprises. The form includes the amounts of cash and non-cash loans extended to SMEs by banks as well as the amounts of non-performing loans and the number of customers for each of these items. The mentioned form was started to be reported as of March 2007 and includes also the data of end-2006. The data taken from this form are published as a group within the monthly bulletin of the Agency.

Non-Bank Financial Institutions Reporting Set: The studies for updating the reporting set for banks in accordance with Uniform Chart of Accounts (UCA) in order for it to be used by Leasing, Factoring and Financing Companies were completed in the beginning of January 2008.

The updated form set will be announced to institutions and will be taken in this format as of March 2008.

Control of Consistency of the Financial Statement Information in the Independent Audit Reports and the Reporting Made by Banks to the Agency: In the reporting related to balance sheet and income statement made by banks to the Agency and in the information related to balance sheet and income statement regulated as a result of audits made by independent audit institutions, as some differences were detected from time to time, accordingly, it is decided that the consistency of these financial statements shall be controlled. The studies started within the scope of control infrastructure in 2007 will be completed in the first half of 2008 and the control of consistency of these financial statements will be started in 2008.

Attaining Knowledge About the Studies of IMF Related to “Financial Soundness Indicators” and Adding the “Financial Soundness Indicators” Set to the Banking Sector Ratio Set: IMF has prepared a financial ratio set titled Financial Soundness Indicators with the aim of detecting the strong or weak sides of the financial system worldwide and developing appropriate policies in the light of these information. Many countries have participated in this study and prepared their own “Financial Soundness Indicators” related to their financial/real sectors and the IMF grouped these data and published them in its website within 2007. In Turkey, with the aim of providing the data from financial/real sector, a team under coordination of the BRSA and composed

by representatives of CBRT, Turkish Treasury, Turkish Statistical Institute and Capital Markets Board was assigned. In May 2007, a meeting was organized by IMF in which representatives of our Agency as well as other participant countries reviewed the Financial Soundness Indicators and discussed the problems/questions faced and experienced in the process of preparation of the set and some resolution proposals were made for these problems. Currently, studies related to the calculation of the ratios within Financial Soundness Indicators for banking sector are almost completed by our Agency. When these studies are completed, it is intended that these criteria which are aimed to be an international standard evaluation set for assessing the financial system, to be included both in the evaluation of our banking sector and to get ready the required system infrastructure for the future demands of IMF in this subject.

3.6.2 Internet Applications

The web-site of the Agency was visited by 293.466 persons and 952.054 times in 2007. The amount of monthly visit was approximately 78.000.

Table 3-15: Most Visited Agency Internet Pages

Sites Visited	2006		2007	
	Number	Share %	Number	Share%
Legislation	79.324	23.9	74.197	30.7
Human Resources	62.435	18.8	10.633	4.4
E-bulletin and Other Data	44.376	13.4	31.654	13.1
Banks	43.436	13.1	39.049	16.1
Publications and Reports	34.521	10.4	34.970	14.4
Basel II	34.404	10.4	32.082	13.3
Contact Us	33.596	10.1	19.439	8.0

In 2007, a survey was developed in the Internet, to which the banks may reach and communicate their opinions related to the regulation made in 2006 and the results of this survey were transmitted to the related units of the Agency.

The new website of the BRSA, preliminary studies of which were completed in 2006, was opened to service in 2007. This interface, developed as a portal, provides more efficient and user friendly way to the users and also, by means of the developed updating application, the data updates are made fast and directly by related departments.

Furthermore, activities such as displaying the BRSA web-site access statistics as monthly reports including weekly, monthly, quarterly and annual statistics for the site visitors, providing the public access to the independent audit reports of banks taken from the independent audit institutions, public access to the banking sector executives' expectations survey available to fill in the Internet, making the data related to credit cards, including conventional interest ratio by cards (shopping and cash), commission rate, commission amount, annual fees and other costs, sample interest calculations

and promotion data, and publishing the "Daily Banking Sector Report", "Daily Economic Report" and "Monthly Bulletin" were also continued in 2007.

The Monthly Bulletin is planned to be made interactive in 2008.

3.6.3 System, Network and Security Activities

While the required maintenance work was continuing in the Agency's network and systems, the work for increasing the use of information systems and making the updates was also kept continuing. Within this scope, the domain server, e-mail server, firewall and intrusion detection systems were renewed as of software and hardware.

The settlement and wiring of the data center, including all the equipment within the Agency's IT infrastructure, were re-arranged so as to meet actual and future requirements.

System requirements related to the project of updating the servers and similar hardware within the Agency's information systems infrastructure, and making changes in the logical system architecture and establishing a disaster recovery center were determined, companies related to these services were consulted and specifications were prepared.

In 2008, it is planned that a bid would be made for the project of renewing the system architecture and establishing a disaster recovery center so as purchasing required hardware and installing the software.

To prevent the access of unauthorized users to the Agency's Intranet, a network access control application is planned for user computers.

Furthermore, to provide the security against pilferage of the laptops used in the Agency, a disc encryption system is planned to be implemented.

3.6.4 Other Activities

Survey Activity in the Banks Related to Support Services Purchase: A survey study was conducted to assess the security, confidentiality and accessibility of banking data at home and abroad. With this survey, information related to maintenance, transmission and back up of the customer information and banking data produced and used by the banks operating in Turkey was received from banks.

Studies on Providing a More Secure Bank Cards and Credit Cards Usage Infrastructure: A report was prepared based on the studies related to frauds realized by using credit cards.

3.7 Activities within the Scope of Foreign Relations

3.7.1 Relations with Domestic Institutions

In 2007, the Agency kept exchanging views and sharing information with Turkish Treasury, State Planning Organization, SDIF and CBRT in order to provide coordination and cooperation between the institutions and to conduct monetary, loan and banking policies in accordance with the Article 98 of the Banking Law Nr. 5411. Moreover, the Agency exchanged information on the issues relating to the banking sector with public agencies and institutions, as well.

3.7.2 MoUs Signed with the Equivalent Foreign Supervision Authorities

The Agency signs Memorandums 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. Additionally to the Memorandums signed within the scope of the common aim to provide stability of financial system, two Memorandums of Understanding were signed between the Agency and Georgia Central Bank as well as Dubai Financial Services Authority in 2007.

The MoUs that have been signed by the Agency until today are listed in the table below. Furthermore, the negotiations on the signing of MoUs with Belgium, Israel, Macedonia and Kosovo continue.

Table 3-16: Memorandums of Understanding Signed

Country	Institution	Date
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	Bahrain Monetary Authority	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 Rep. of Azerbaijan	June 14, 2005
Bulgaria	National Bank of Bulgaria	September 13, 2005
China	China Banking Regulatory Commission	July 11, 2006
Dubai	Dubai Financial Services Authority	August 23, 2007
Georgia	Central Bank of Georgia	November 02, 2007

3.7.3 Relations with the European Union

The studies for the completion of commitments on Economic Criteria as well as Corporate Restructuring measures within the Agency's duty field 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 studies of "Turkey Contribution to the Regular Progress Report of 2007" were participated in and opinions were delivered on the subjects within the duty field of the Agency in the Progress Report.

Within the framework of participation process, the Agency's assessments related to scanning results reports, prepared relating to the sections of "Free Movement of Capital", "Corporate Law", "Statistics", "Protection of Consumer and Health", which

shall be conducted before starting the negotiations and which were realized in 2006, were transmitted to the institutions responsible from the coordination.

8 sub-committees were formed according to the Decision Nr. 3/2000 of the Turkey- EU Partnership Commission with the aim of directing the analytical investigation process related to the legislation between Turkey and the Union. Among these committees, the Sub-Committee Nr. 2 of Internal Market and Competition and the Sub-Committee Nr. 6 of Turkey-EU Economic and Monetary Matters, Capital Movements and Statistics have realized meetings respectively in January 16 and 18, 2007 in Brussels. The represents of the Agency have participated in these meetings and have made a presentation related to the developments occurring in the Turkish banking sector.

Within the framework of Pre-Accession Financial Monitoring Process started by the European Commission in 2001, the studies of Pre-Accession Economic Program (PAEP) which are prepared every year kept continuing and the evaluations and updates related to the subject were submitted to the State Planning Organization, which is responsible from coordination.

With the cooperation of TAIEX (Technical Assistance Information Exchange Unit) and the BRSA, a workshop about “Financial Risk Management” was organized in Ankara on July 5-6, 2007. Within the scope of this workshop, experts coming from England, Austria and Luxembourg and assigned in the European Parliament and in the financial authorities of their countries have made some presentations in which they transmit the implementations and experiences of EU member countries. The Capital Markets Board, Turkish Treasury and the CBRT have also participated to the workshop.

Pursuant to Article 16 of Decision Nr. 1/95 of Turkey- European Union Association Council, a “Collective Work Group” was established with the aim of signing a free trade agreement between our country and Chile. The Agency have participated in the meetings of this Group and delivered its opinions on banking issues.

3.7.4 Relations with IMF and World Bank

Within the scope of fifth review realized within the framework of Stand-By Agreement which was signed with the International Monetary Fund (IMF), meetings relating to banking sector and the issues under the duty field of the Agency were made with the IMF delegation visiting our country. Within this framework, the Agency delivered its opinions related with the “Expert Report” prepared by IMF Experts about the fifth review.

On the other hand, the Agency has contributed to the updating of the Annual Report on Exchange Rate Arrangements and Restrictions prepared by the IMF.

The World Bank prepares the Country Economic Report for all member countries for two year periods; within the scope of this report, the Agency delivered opinion to the Turkish Treasury related with the issues under the duty field of the Agency in the “Maintaining the Fast Growth”.

Furthermore, our opinion was delivered related to the issues under the duty field of the Agency of “Implementation Accomplishment Report”, prepared with the aim of evaluating the implementation and performance of the Third Program Financial and Public Sector Adjustment Loan (PFPSAL-III), provided by the World Bank and which was closed as of June 30, 2006.

3.7.5 Relations with Other International Institutions

Within the scope of General Agreement on Trade in Services (GATS), aiming to increase the liberalization and transparency in the international service trade, a new multilateral discussion tour was started in 2000. The Agency has followed and participated in the discussion process by delivering its opinions and proposals related to the matters within the scope of its duties.

Within the framework of discussions realized with several countries in the stage of participating in the World Trade Organization, the evaluations related to the banking sector commitments of these countries were delivered to Turkish Treasury which is responsible for coordination, and on the other hand, the issues which are in the commitments list of Turkey and which fall under duty field of the Agency were updated within the framework of amendments in the banking legislation.

Our opinions and evaluations related to the Turkey Investigation realized within the framework of Reviewing the Policies of World Trade Organization were delivered to the Undersecretariat of Foreign Trade.

The studies realized by Financial Markets Committee conducted by Organization for Economic Co-Operation and Development were participated in and required updating were realized in the related publications.

Our evaluations concerning issues under the duty field of the BRSA of the report prepared as a result of Turkey Investigation of Convention on Combating Bribery, within the scope of OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, were delivered to the Ministry of Foreign Affairs; and the meetings organized on several dates were participated by the Agency representatives.

The Financial Action Task Force (FATF) was established by G-7 countries with the aim of providing the cooperation required to prevent the use of banking sector and financial system as an instrument of money laundering, and our country is a member of this Group. The studies realized with the aim of preventing the laundering of the income from crime through financial system and causing the legislations to become closer to each other were participated actively and the opinions and evaluations of the Agency related to the subject were delivered.

Within the visit realized by the experts of the Counter- Terrorism Committee Executive Directorate within the United Nations Security Council on May 14-18, 2007, information was given related to the subjects within duty field of the Agency.

According to the provisions of "Economic and Financial Cooperation Protocol Between Republic of Turkey and Turkish Republic of Northern Cyprus" which was signed on April 18, 2003 with the aim of providing stability and to sustainable economic growth to the TRNC economy, the Republic of Turkey Technical Delegation which was composed of representatives of several public institutions and BRSA continued its studies in 2007 with the aim of monitoring the implementation of TRNC Economic Stability and Transition to Production-Based Growth Program and the related meetings were participated in regularly.

The Agency authorities have participated in the Organization for Economic Co-operation Second Summit of Ministers of Finance and Economy and First Finance-Economy Top-Level Officials Meeting realized on April 5-7, 2007 in our country.

3.8 Support Activities

3.8.1 The Activities of Banking Regulation and Supervision Board

The Board has made 56 meetings in 2007 and has made 351 Resolutions as a result of these meetings. The functions and duties given to BRSA according to the Banking Law Nr. 5411 caused an increase in the number of Board Resolutions when compared to previous years.

The Board Resolutions made by the Board pursuant the Banking Law Nr. 5411 and other related legislation are concerning the subjects such as regulation, permission activities, and administrative sanctions. Moreover, some issues such as the administrative and financial activities and personnel operations are also resolved by the Board. The information related with the Resolutions made in 2007 is as follows.

Table 3-17: Board Resolutions made in 2006-2007

Subject	2006		2007	
	Number	Share%	Number	Share%
I- Board Resolutions on Banks	188	60.6	214	61.0
A. Regulation	44	14.2	45	12.8
B. Permission Activities	36	11.6	46	13.1
Share Transfer	15	4.8	15	4.3
Branch or Repr. Office Opening	6	1.9	15	4.3
Transfer- Merger	(*)4	1.3	2	0.6
Expansion of Activities (Art. 4 of Act. Nr. 5411)	9	2.9	12	3.4
Establishing Partnership Abroad or Participating to a Partnership	2	0.6	2	0.6
C. Sanctions	80	25,8	95	27,1
Temporary Annulation/ Restitution of Authority to Sign of Bank Officials	12	3.9	6	1.7
Implementation/Non-implementation of Administrative Fine	68	21.9	89	25.4
• Contradiction to Repealed Act Nr. 4389 and/or to Act Nr. 5411	57	18.4	81	23.1
• Contradiction to Act on Bank Cards and Credit Cards Nr. 5464	11	3.5	8	2.3
D. Other	28	9,0	28	8,0
II- Board Resolutions on Non- Bank Financial Institutions	16	5.2	55	15.7
A. Regulation	4	1.3	5	1.4
B. Permission Activities	6	1.9	26	7.4
Share Transfer	3	1.0	9	2.6
Transfer- Merger	3	1.0	-	-
Granting/Not Granting Permission to Establishment	-	-	14	4.0
Permission to Operate	-	-	3	0.9
C. Sanctions	2	0.6	13	3.7
Annulations of Permission to Operate	1	0.3	6	1.7
Implementation/Non Implementation of Administrative Fine	1	0.3	7	2.0
D. Other	4	1.3	11	3.1
III- Board Resolutions Related to Independent Audit Institutions	22	7.1	16	4.6
A. Permission Activities	13	4.2	6	1.7
Permit/Not Permit to Conduct Independent Audit in Banks	5	1.6	2	0.6
Permit/Not Permit to Conduct Information Systems Audit in Banks	8	2.6	4	1.1
B. Sanctions	2	0.6	4	1.1
Annulment of Authority to Conduct Independent Audit	2	0.6	1	0.3
Implementation/Non-implementation of Administrative Fine	-	-	3	0.9
C. Other	7	2.3	6	1.7
IV- Board Resolutions on the Establishment of Asset Management Companies	2	0.6	-	-
V-Board Resolutions on Filling/Not Filling Crime Complaint	40	12.9	21	6.0
VI-Board Resolutions on Administrative, Financial Issues and Operations About Personnel of the Agency	42	13.5	45	12.8
TOTAL	310	100.0	351	100.0

(*) These four Resolutions are relating to the merger processes of Koçbank A.Ş. and Yapı ve Kredi Bankası A.Ş.

3.8.2 Training Activities

The participation to in-service training, domestic courses, seminars and such training activities as well as foreign training programs of the Agency's personnel was provided with a view to increase their knowledge and skills concerning their function and that they shall renew themselves and besides, they shall follow the developments in the business field.

7.725 days of training possibilities were created in total, including domestic ones and the ones abroad; which is an average of 15 days per personnel in 2007. The distributions by days and numbers of participation in the training are as follows.

Table 3-18: Training Activities

Years	Number of Participants	Number of Days
2004	670	4.392
2005	1.419	4.550
2006	1.360	5.845
2007	1.738	7.725

The distribution by subjects of the trainings participated in 2006 and 2007 is as follows.

Table 3-19: Training Activities by Subject

Subject	Number of Participants		Number of Days	
	2006	2007	2006	2007
General Banking	318	410	2.020	4.917
Accounting	93	40	403	223
Economy	150	38	355	125
Audit	29	360	284	1.327
Law	63	8	538	21
Computer	40	71	169	168
Illicit Money	1	10	2	42
Legislation	93	4	1.713	9
Other (EU, Quality etc.)	483	797	361	893
TOTAL	1.360	1.738	5.845	7.725

The participations of the Agency personnel to the courses, seminars, conferences and similar training programs organized abroad by international institutions and the supervisory authorities in banking sectors of foreign countries, related to general banking, economy, risk and similar professional subjects are as follows.

Table 3-20: Distribution of Foreign Training Activities by Institutions

Institutions	Number of Days	
	2006	2007
FDIC	124	112
FED	50	10
FSI	26	5
IMF	40	23
ISACA (*)	40	-
WB	29	20
OCC	70	20
Other	163	174
TOTAL	542	364

(*) Information Systems Audit and Control Association

The information related to the basic training programs, courses, conferences, seminars and similar training activities organized at home by the Agency and other institutions in 2007 are as follows.

Table 3-21: Distribution by Subjects and Participants of Domestic Training Activities

Subjects	Participation		Number of Days		Profile of Participants (1)
	2006	2007	2006	2007	
Basic Training Program	57	85	171	850	ASBA-ABE
Preparatory Training Program (Ban/Fin/Acc)	114	69	3.306	1.380	ASBA-ABE
Institution Operations of Banks and Non-Banks	-	66	36	2.376	ASBA-ABE
Research and Thesis Writing Techniques	-	35	-	70	ASBA-ABE
Consolidated Supervision Seminar (2)	-	90	-	180	SBA-ASBA-BE-ABE
Bank Audit Seminar (3)	-	25	-	100	SBA-ASBA-BE-ABE
Market Risk Analysis Seminar (4)	50	-	250	-	SBA-ASBA-BE-ABE
Loan Risk Analysis Seminar	59	-	59	-	SBA-ASBA-BE-ABE
Business Objects Training	74	-	148	-	SBA-ASBA
Training for Proficiency Test	36	35	360	525	ASBA-ABE
Motivation-Management Skills	73	-	146	-	M
Other (5)	794	1.262	863	1.884	M
TOTAL	1.257	1.667	5.303	7.365	

1- SBA: Sworn Banks Auditors, ASBA: Assistant Sworn Banks Auditor, BE: Banking Experts, ABE: Assistant Banking Experts, M: Mixed 2- The Training was organized by World Bank officials. 3- The Seminar was organized by OCC officials. 4- The training was organized by FED officials. 5- Programs related to subjects such as general banking, economy, law, personal competence, organized by Banks Association of Turkey, OECD, CBRT, PWC etc.

3.8.3 Communication Activities

The communication activities conducted with the aim of informing public and sector about the issues within duty field of the Agency continued in 2007. Within this scope, press meetings, press releases and presentations were organized. With the aim of informing the public, press releases related to twenty-three different subjects under four main titles were made. The press releases by their subjects are as follows.

Table 3-22: Press Releases by Their Subjects

Subject	2006		2007	
	Number	Share%	Number	Share%
Implementations related with Banks	3	20.0	5	21.8
Basel II	2	13.3	5	21.8
Corporate Activities	2	13.3	4	17.3
Publications	7	46.7	8	34.8
Other	1	6.7	1	4.3
Total	15	100.0	23	100.0

The Journal of BRSA Banking and Financial Markets which is a refereed journal including Turkish and English original articles had started to be published with the aim of supporting the academic studies contributing to the development of financial markets. The first and second issue of BRSA Journal and the “International Convergence of Capital Measurement and Capital Standards - A Revised Framework (the New Capital Accord-Comprehensive Version) which is the sixth publication of BRSA were also published in 2007.

The informative demands coming from the media relating to the supervision and regulation activities of the Agency were responded with the contributions of related units, several materials related with the Chairman and Agency to be used in news about the Agency were communicated to press organs.

The news and articles about the Agency and banking sector as well as developments in the financial markets are monitored actually and within this scope the national and foreign newspapers and magazines are scanned as to prepare the “Press Bulletin” including the economic, commercial and financial developments in our country and in the world. The press bulletin which is presented to the use of the Agency’s personnel by the intranet is also sent to the executives of some public institutions. On the other hand, the news about BRSA broadcasted in national and local televisions are also watched, the reports thereof are transmitted to related units.

With the aim of presenting the activities and structure of the BRSA, the events such as conferences and symposiums organized by public institutions, private sector and universities were participated in and several presentations were realized.

Furthermore, the proposals, demands and complaints sent to the Agency are evaluated and oriented to the related units.

3.8.4 Administrative and Financial Affairs Activities

The Agency shall use freely the financial resources which were allocated to it according to the Law Nr. 5411 within the scope of principles and procedures determined in its own budget as far as its duty and authority necessitates. Within this scope Agency's Budget and its final accounts which were prepared by taking into account the previous year's budget amounts and also with the determination of the Agency's income and expenditures are submitted to the Grand National Assembly of Turkey and a copy of the final account is submitted to the Ministry of Finance.

In 2007, relating to the implementation of the Regulation on Movable Goods, prepared according to the Act on Public Financial Management and Control Nr. 5018, the Movable Goods Data System software was purchased with the aim of updating the movable goods registries of the Agency and providing the compliance of registration and control operations of goods and materials used in the Agency's services with the Regulation and to monitor them electronically.

All the furniture and fixtures purchased since the Agency has started to operate and used by the personnel in the in Ankara and Istanbul buildings were registered by transferring them to Movable Goods Data System and the operations of barcoding and debit to related personnel were completed.

With a view to the personnel working in the Agency's premises in Istanbul to be on time on their duty, a bid was opened in 2007 to provide a service of personnel transporting by hiring, according to the Public Bid Act Nr. 4734; the winner company has started to operate as of February 01, 2007.

On the other hand, 85 laptops required for the personnel were purchased by tenders.

4 FINANCIAL INFORMATION

4.1 Results of Budget Implementation

Results of expenditure budget implementation of the Agency in 2006 and 2007 are as follows.

Table 4-1: 2006 and 2007 Allocation and Expenditure Realizations

(TRY Thousand)	Initial Allocation		Total Budget Alloc. After Transfer		Used		Remainder	
	2006	2007	2006	2007	2006	2007	2006	2007
Personnel Expenditures	30.534	25.532	28.108	28.944	24.838	27.500	3.270	1.444
Social Security Institution Premium	838	8.146	1.134	3.777	971	1.178	163	2.599
Goods and Service Purchases	22.253	27.409	24.378	28.047	18.852	20.606	5.526	7.441
Current Transfers	1.415	250	1.420	1.361	1.069	1.278	351	83
Capital Expenditures	30.479	31.663	30.479	30.871	679	702	29.800	30.169
Total	85.520	93.000	85.520	93.000	46.410	51.264	39.110	41.736

When initial allocations, allocation transfers, total expenditure amounts and allocation surplus of 2007 expenditure budget is analyzed by main expenditure items, it is seen that a total of TRY 93,000 thousand was allocated for 2007 and a total of TRY 51.264 thousand was expended from budget allocation in 2007.

TRY 27,500 thousand of the total expenditure amounting to TRY 51,264 thousand was realized as personnel expenditure. Accordingly, personnel expenditures comprises 53,6%, premium expenditures paid to social security institutions for the Agency's personnel comprises 2,3%, goods and service purchases comprises 40,2%, current transfers comprises 2,5% and capital expenditures comprises 1,4% of total expenditures.

When observed the distribution of the expenses generally in 2007 as to allocation types, the share of items such as consumer goods and inventory stock purchases, fixture purchases, machine-equipment and vehicle purchases, traveling expenses' being quite low within total expenses is an indicator of the saving policy being adopted in the Agency.

It is provisioned in the Article 17 of the Law on Public Financial Management and Control Nr. 5018 that regulatory and supervisory institutions shall prepare their budgets with the apprehension of three-year budgeting and according to their strategic plans and performance targets as well as institutional, functional and economic classification system. Summary of the implementation results of BRSA 2007 Budget which was prepared according to the Analytic Budget Classification (ABC) pursuant to the provisions of the said law and the regulations of the Ministry of Finance are as follows.

Table 4-2: 2007 Budget Final Accounts

BUDGET CODE and NAME	Init. Paym.	Trans.	Total	Expen.	Ratio (%)	Remai. Alloc.
00.02- PRINCIPAL CLERK	6.612	-961	5.651	4.964	9,7	687
01- Personnel Expenditures	4.308	-236	4.072	3.746	7,3	326
02- Social Security Institution Premium Expenditures	893	-650	243	99	0,2	144
03- Goods and Service Purchases	1.411	-77	1.334	1.119	2,2	215
06- Capital Expenditures		2	2	0,5	0	1
00.04- SUPPORT SERVICE DEPARTMENT	50.284	3.101	53.385	20.810	40.6	32.575
01- Personnel Expenditures (İkm.)	337	44	381	321	0,6	60
02- Social Security Institution Premium Expen. (İkm.)	115		115	34	0	81
03- Goods and Service Purchases (İkm.)	59	12	71	7	0	64
01- Personnel Expenditures (Other)	3.072	249	3.321	3.025	5,9	296
02- Social Security Institution Premium Expenditures)	1.042	-461	581	197	0,3	384
03- Goods and Service Purchases (Other)	376	605	981	820	1,6	161
03- Goods and Service Purchases (General)	15.380	1.329	16.709	15.015	29,2	1.694
05- Current Transfers (General)	250	1.111	1.361	1.278	2,5	83
06- Capital Expenditures (General)	29.693	212	29.865	113	0,2	29.752
00.24- DEPARTMENT OF LEGAL AFFAIRS	3.695	-227	3.468	3.069	6,0	399
01- Personnel Expenditures	1.833	215	2.048	1.979	3,9	69
02- Social Security Institution Premium Expenditures	628	-431	197	92	0,2	105
03- Goods and Service Purchases	221	24	245	149	0,3	96
03- Goods and Service Purchases (General)	1.014	-35	979	849	1,7	130
41.00- DEPARTMENT OF AUDIT I	4.220	125	4.345	3.767	7,34	578
01- Personnel Expenditures	2.622	662	3.284	3.196	6,2	88
02- Social Security Institution Premium Expenditures	899	-620	279	135	0,3	144
03- Goods and Service Purchases	700	83	783	437	0,9	346
42.00- DEPARTMENT OF AUDIT II	3.984	144	4.128	3.633	7,1	495
01- Personnel Expenditures	2.518	579	3.097	3.018	5,9	79
02- Social Security Institution Premium Expenditures	861	-640	221	125	0,2	96
03- Goods and Service Purchases	605	205	810	490	1,0	320
43.00- DEPARTMENT OF AUDIT III	4.045	-244	3.801	3.283	6,4	518
01- Personnel Expenditures	2.547	298	2.845	2.621	5,1	224
02- Social Security Institution Premium Expenditures	873	-667	206	108	0,2	98
03- Goods and Service Purchases	625	115	740	549	1,1	191
06- Capital Expenditures		10	10	5	0	5
44.00- DEPARTMENT OF REGULATIONS	2.341	-254	2.087	1.571	3,1	516
01- Personnel Expenditures	1.438	43	1.481	1.442	2,8	39
02- Social Security Institution Premium Expenditures	491	-146	345	57	0,1	288
03- Goods and Service Purchases	412	-151	261	72	0,1	188
45.00- DEPARTMENT OF ENFORCEMENT I	2.495	-164	2.331	1.810	3,5	521
01- Personnel Expenditures	1.676	-12	1.664	1617	3,2	47
02- Social Security Institution Premium Expenditures	573	120	453	66	0,1	387
03- Goods and Service Purchases	246	32	214	127	0,2	87
46.00- DEPARTMENT OF ENFORCEMENT II	1.751	215	1.966	1.463	2,8	503
01- Personnel Expenditures	1.101	278	1.379	1.353	2,6	26
02- Social Security Institution Premium Expenditures	376	-100	276	61	0,1	214
03- Goods and Service Purchases	275	37	312	49	0,1	263
47.00-DEPARTMENT OF STRATEGY DEVELOPMENT	6.421	-979	5.442	2.541	5,0	2.901
01- Personnel Expenditures	1.707	370	2.077	1.937	3,8	139*
02- Social Security Institution Premium Expenditures	584	-150	434	82	0,2	351
03- Goods and Service Purchases	3.981	1.076	2.905	520	1,0	2.385
06- Capital Expenditures	150	-123	27	1	0	26
48.00- DEPARTMENT OF INFORMATION MANAGEMENT	7.153	-756	6.397	4.352	8,5	2.045
01- Personnel Expenditures	2.375	922	3.297	3.247	6,3	50
02- Social Security Institution Premium Expenditures	812	-384	428	121	0,2	307
03- Goods and Service Purchases	2.105	-401	1.704	401	0,8	1.303
06- Capital Expenditures	1.860	-893	967	583	1,1	384
G E N E R A L T O T A L	93.000	0	93.000	51.264	100	41.736

4.2 Explanations Relating to the Basic Financial Statements

4.2.1 Balance-sheet

Summary balance-sheet 2007 of the Agency is presented, comparatively with 2006, as follows.

Table 4-3: 2006 and 2007 Summary Balance-Sheets

ASSET (TRY Thousand)	2006	2007
1. Total Current Assets	127.080	124.195
1.1 Liquid Assets	126.597	123.014
1.2 Trade Receivables	427	384
1.3 Other Receivables	17	528
1.4 Inventories	0	132
1.5 Other Current Assets	39	135
2. Total Fixed Assets	1.500	1500
2.1- Tangible Assets	1.500	1500
2.1.1- Tangible Assets (gross)	6.925	6.936
2.1.2- Accumulated Depreciation	-5.425	-5.436
2.2- Intangible Assets	-	0
2.2.1- Equities	657	980
2.2.2- Accumulated Depreciation	-657	-980
TOTAL ASSET	128.580	125.695
LIABILITY (TRY Thousand)		
1. Short-term Foreign Resources Total	1.232	1.097
1.1 Financial Debts	5	0
1.2 Commercial Debts	130	39
1.3 Other Debts	90	101
1.4 Taxes Payable and Other Fiscal Liabilities	1.007	957
2. Long-term Foreign Resources Total	84.313	77.895
2.1 Income-expenditure Collection Belonging to Next Years	84.313	77.895
3. Own-funds Total	43.035	46.703
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	40.208	43.877
TOTAL LIABILITY	128.580	125.695

Total cash in liquid assets amounts to TRY 2,000 thousand and banks total amounts to TRY 123,055 thousand; and after subtracting payment orders regulated amounting to TRY 43 thousand from the said total, total liquid asset is realized as TRY 123,014 thousand. TRY 384 thousand which is registered in trade receivables represents the receivables from contribution shares.

Of the Agency's total short-term liability amounting to TRY 1,097 thousand, TRY 957 thousand comprises the tax due paid by means of withholding tax return concerning December 2007 period; TRY 101 thousand comprises various payments to be made to the personnel and TRY 39 thousand comprises the amounts to be paid to other persons and institutions.

4.2.2 Income Realizations

Income realizations for 2006 and 2007 by budget and realization amounts are as follows.

Table 4-4: 2006 and 2007 Income Budget and Realizations

(TRY Thousand)	Budget		Realization		Difference	
	2006	2007	2006	2007	2006	2007
Contribution Share Incomes	78.455	84.500	78.453	84.310	-2	-190
Other Incomes	7.065	8.500	8.165	10.576	1.100	2.076
- Interest Incomes	7000	8.445	8.129	9.589	1.129	1.144
- Other Various Incomes	65	55	36	987	-29	932
Transfer from Previous Year	-	-	-	-	-	-
Total	85.520	93.000	86.618	94.886	1.098	1.886

It is provisioned pursuant to the Article 101(3) of the Law Nr. 5411 that the amount to be collected as contribution share to the expenses of the Agency shall be determined in order not to exceed three in ten thousand of previous end-year budget totals of the institutions mentioned. Pursuant to the provision herein, ratio of contribution shares to be paid by banks, leasing, factoring and financing companies, in order to provide to meet each year's expenses, is determined by the Board. The basic ratios to determine the amounts to be collected as contribution shares as of years are determined by the Board, as follows.

- 3,00 in ten thousand in 2000, - 3,00 in ten thousand in 2001,
- 2,75 in ten thousand in 2002, - 1,75 in ten thousand in 2003,
- 3,00 in ten thousand in 2004, - 3,00 in ten thousand in 2005,
- 2,50 in ten thousand in 2006, - 2,00 in ten thousand in 2007,
- 1,50 in ten thousand in 2008.

It is foreseen in the preparation of 2007 budget that a contribution share to expenses by TRY 84,500 thousand shall be collected from banks. Upon this income estimation, contribution share amounting to TRY 84,310 thousand was collected from banks. While the ratio of contribution share income within 2007 incomes was realized as 88,9%, remaining 11,1% constituted of interest incomes from forward TL accounts.

4.2.3 Income Statement

The Income Statement 2007 of the Agency is presented, comparatively with 2006, hereunder.

Table 4-5: 2006 and 2007 Income Statements

(TRY Thousand)	2006	2007
1. Contribution Share Incomes	78.454	85.297
2. Sales Discounts	-	-
3. Net Incomes (1-2)	78.454	85.297
4. Cost of the Sales	-	-
5. Activity Expenditures	46.410	51.099
6. Activity Profit or Loss (3-5)	32.044	34.287
7. Ordinary Income from Other Activities	8.165	9.589
8. Ordinary Expenditures from Other Activities	-	-
9. Financing Expenditures	-	-
10. Extraordinary Incomes	-	-
11. Extraordinary Income and Losses	-	-
PERIOD RESULT (6 + 7 - 8 - 9 + 10 -11)	40.209	43.877

Unused income surplus of the Agency amounting to TRY 43,877 thousand was transferred to the general budget in March 2008.

4.3 Financial Audit of the Agency

Subsequent to the Article 101 of the Law Nr. 5411, it is foreseen that internal audit of the Agency shall be realized within the scope of the procedures and principles to be determined by the Board; while external audit of the Agency shall be realized in accordance to the provisions of the Law on Public Financial Governance and Control Nr. 5018. Accordingly, external audit of the Agency in 2007 shall be executed by the Turkish Court of Accounts pursuant to the Article 68 of the Law Nr. 5018.

5 EVALUATION OF CORPORATE CAPABILITY AND CAPACITY

5.1 Advantages

- ✱ The new financial structure which was brought by the Banking Law Nr. 5411,
- ✱ The authority to exercise the power granted by the Law to itself on its own,
- ✱ Strategic management understanding which was came into force in 2006,
- ✱ As a result of the new organization structure, the efficiency of work and operation flows increased and coordination necessity decreased,
- ✱ Material resources enabling the use of high quality manpower and technology,
- ✱ An efficient combination of the 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 Challenges

- ⌚ Convergence process to Basel-II and European Union CRD directives
- ⌚ Process of transition to strategic planning and budgeting approach
- ⌚ Financial autonomy's not being established literally in implementation

5.3 Assessment

Basel-II and Convergence Process to European Union CRD directives

The New Capital Accord Framework Basel-II was put into force in G-10 and EU countries and in certain emerging countries in 2007. While the Accord which was designed for G-10 countries implies certain costs for our country and other emerging countries, it would enable getting important opportunities in terms of international convergence and competition power of the financial sector.

In spite of the preparation studies included in the section concerning the activities of the Agency, it is considered that convergence process of Basel-II and the European Union CRD Directive which was based on a similar structure, would become a burden on the BRSA in terms of regulation, supervision, information systems and manpower.

Transition process to strategic planning and budgeting approach

It is important to develop the management of financial resources of the Agency so as to increase the institutional capacity. Pursuant to the Article 101 of the Banking Law; in preparation of the budget of the Agency it is taken into account that the budget, by being associated with Progress reports, is prepared in accordance with the strategic plan and annual targets, funding support required is provided to take sound resolutions within the scope of the priorities foreseen in the strategic plan, intra-Agency risk management system results and resource distribution connection is strengthened, convergence of financial resources with strategic priorities. However, as performance-based budgeting has not literally come into force in our country yet and comprehensive studies are needed for BRSA implementation, convergence between strategic plan and budget has not been established completely. Accordingly, studies on defining and implementing BRSA performance criteria and developing a performance management system based on the criteria thereof and related legislation and implementations of the Ministry of Finance are followed closely.

6 IMPACT ANALYSIS REGARDING SUB-REGULATIONS

In order to determine the economic and social effects of sub-regulations on the sector published by the Agency pursuant to the Article 101(6) of the Banking Law Nr. 5411; the opinions and general evaluations of the banks within the sector were consulted by conducting surveys in 2007.

6.1 General Evaluation

Most of the sub-regulations published in 2007 became effective in the second half of the year. When the time passed since the publication of the regulation is taken into consideration, it is estimated that it will take some more time for the economic and social effects to appear completely. Moreover, as some sub-regulations are prepared in order to ensure the regulations in force are updated, the survey results shall be evaluated regarding this fact.

After the poll forms are analyzed, the findings listed below are archived. Regulations;

- Clarified the standards related to the implementation.
- Eliminated the legislation gap and ambiguities.
- Contributed positively to accountability and transparency.
- Contributed to the convergence with international standards and EU norms.

On the other hand, convergence process to some regulations is much more longer especially for small-scale banks and cost of convergence to the regulation varies depending on the different scale sizes between banks.

Box 6-1: Evaluations Made by Banks based on Regulations

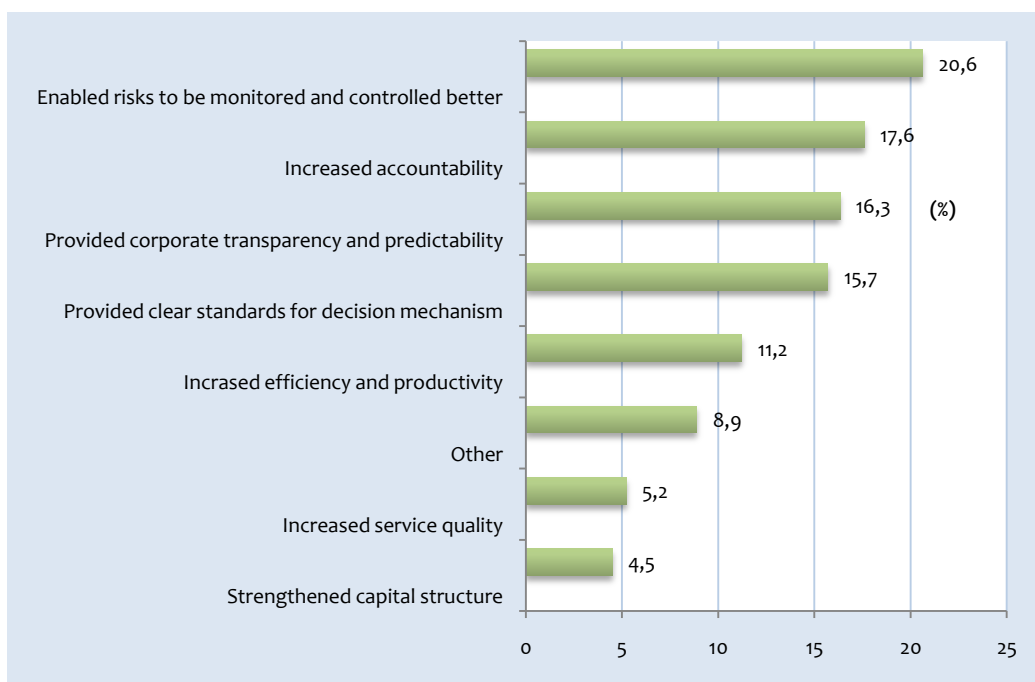
Nr	Regulation	Impact
1	Regulation on Making Amendments to the Regulation on Internal Systems of Banks	Contributed to the development of corporate governance approach.
2	Regulation on Making Amendments to the Regulation on the Procedures and Principles for Notification of and Taking Oath and Declaration of Assets by Executives to be Appointed to Top Management of Banks and Keeping Books of Resolutions	Brought clearness in some subjects. It will contribute positively to the confidence in banking sector.
3	Regulation on Banking Cards and Credit Cards	Brought a uniform implementation to the bank cards and credit cards and filled the legislation gap. But also created additional infrastructure and personnel costs.
4	Regulation on Making Amendments to the Regulation on Measurement and Evaluation of Capital Adequacy Ratio of Banks	Especially the operational risk calculation is become more detailed and comprehensible, contributed to a more adequate calculation of capital adequacy ratio.
5	Regulation on Making Amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks	The liquidity calculation is based to a more adequate ground, a more harmonic relation between liquidity and capital adequacy was established. The scale differences between banks were not considered.
6	Regulation on General Conditions Related to Approval and Implementation of Financial Re-Structuring Framework Agreements	It was generally evaluated as positive because it will help the bona-fide companies with ability to pay debts to be gained to the economy.
7	Regulation on Making Amendments to the Regulation on Authorization and Activities of Institutions that will Perform Independent Audit in Banks	Contributed to the confidence on financial sector, and to the transparency and efficiency of independent audit.
8	Communiqué on Uniform Chart of Account and Its Explanation and Communiqué on Amendment of Communiqué on Uniform Chart of Account and Its Prospects	The Uniform Chart of Account was prepared in compliance with the Turkish Accounting and Financial Reporting Standards. On the other hand, additional explanations will be needed on some issues.
9	Communiqué on Uniform Chart of Account and Its Prospects to be Implemented by Participation Banks	Provided uniformity to accounting and financial reporting.
10	Communiqué on Principles and Procedures for the Administrative Fines to be Imposed on relating to the Reporting to be Made under the Scope of Banking Data Transfer System	Increased the reporting performances of banks, but the fact that penal sanctions were strict may be cause to negative pressure upon the personnel working in this area.
11	Regulation on Principles and Procedures Related to the Provisions allocated by Leasing, Factoring and Financing Companies for their Receivables	Provided accounting harmony between banks and financial subsidiaries and brought open standards to the sector.
12	Communiqué on Uniform Chart of Account and Its Prospects to be implemented by Leasing, Factoring and Financing Companies and Form and Contents of the Financial Statements to be Announced to Public	Contributed to transparency and the financial statements were made comparative.

6.2 Assessment of the Questionnaire

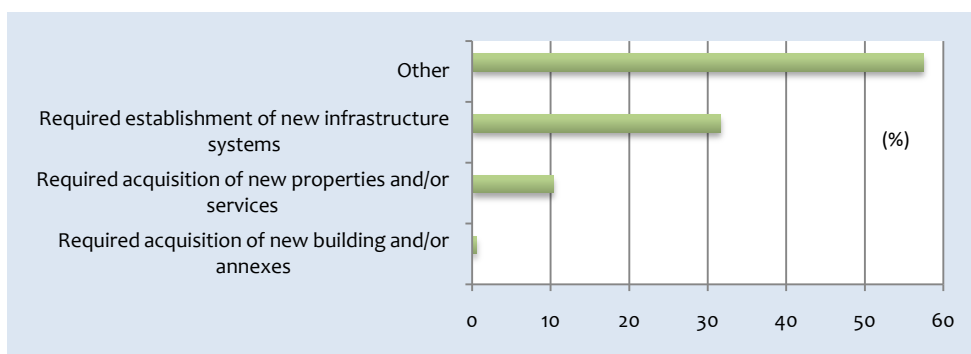
The questionnaire, prepared so as to receive the general assessments of the sector relating to the sub-regulations made in 2007 by the Agency, was sent to the banks, demanding the banks to fill in the questionnaire forms separately for each of the regulation. When assessing the effects of the regulations, the banks in general used cost-benefit analysis and risk analysis methods. Banks were allowed to mark more than one alternative for each of the question. The responses received from banks were aggregated and assessed in question basis and the percentage distribution of the responses marked for each question was displayed as chart. On the other hand, statements made by the banks relating to the “other” category among the 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.

At first hand, within the scope of the questionnaire, it was aimed to determine the general benefits of the regulations for the sector. Accordingly, possible benefits of the regulations were listed, and it was asked what might be another benefit other than those listed in to be defined “other” option.

Chart 6-1: Benefits of Regulation

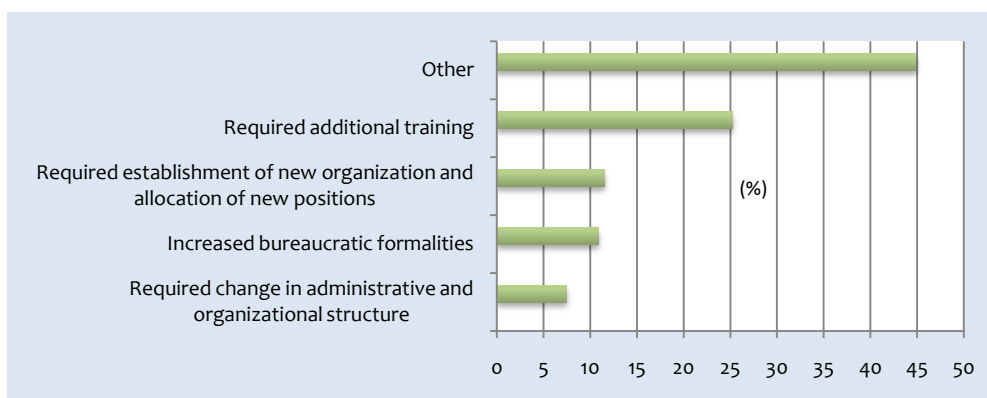


As it can be observed from the chart above among the most important benefits of the regulations; are that it provides the risks are monitored and controlled better, it increases accountability, it enables the corporate transparency and predictability and it introduces open standards for decision mechanism.

Chart 6-2: Physical Costs of Regulations

Total cost of the regulations concerning the sector was assessed. Total costs were assessed in three titles; physical, human and financial costs.

“Other” alternative was marked as the physical costs of the regulations. When the explanations in “other” alternative are examined; it is observed that a great majority of the responses indicates that regulations did not impose additional physical cost. In addition to that, the most important physical cost is that it has imposed additional substructure systems.

Chart 6-3: Human Costs of Regulations

The “other” option was marked in great majority as the human costs of regulations line in physical costs. When explanations in “other” option are analyzed; it is indicated that it did not largely impose additional human costs. Besides the most important human costs stated are; additional training need and establishing a new organization and personnel.

Financial Burdens Imposed by Regulations

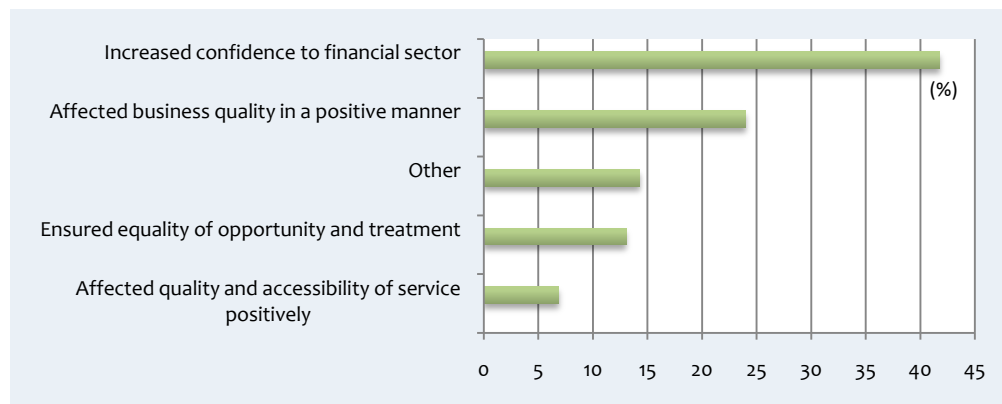
Financial burdens of the regulations are subject to assessment in two main sections- vertical and horizontal. Horizontal effects are listed as; “changes in banking activity issued”, “effect of services given on costs”, “number of personnel”, “change in investment level” and “other” alternatives. In order to measure the effects of these, it is demanded that both the titles are scored and financial costs, if 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 80%. On the other hand, Regulations on Bank Cards and Credit Cards, Capital Adequacy, Liquidity Adequacy and the Communiqué on Procedures and Principles relating to Administrative Fines to be Applied in Reporting Made within the Scope of Banking Data Transfer System did not impose a considerable monetary burden, though they increased limitedly the cost of the service given and the personnel need.

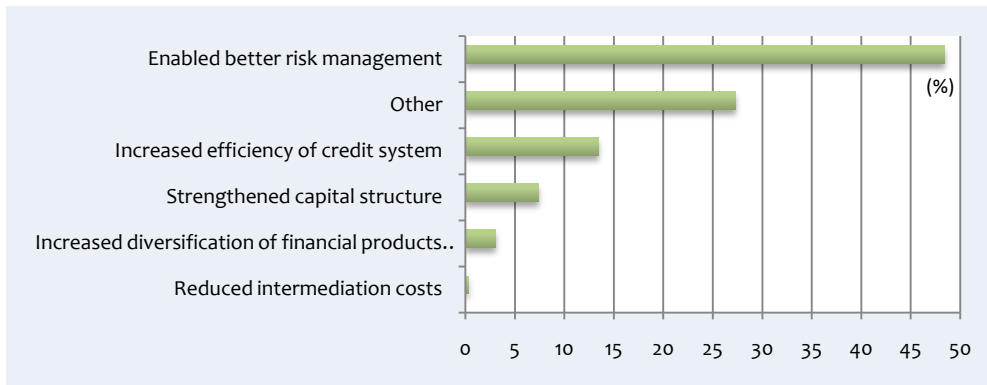
Vertical effects are listed as “change in personnel expenses”, “changes in IT expenses”, “non-recurring expenditure need”, “ongoing expenditure need” and “other” alternatives. In order to measure the effects of these it is demanded that both the titles are scored and financial costs, if any, is defined. 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 75%. On the other hand, Regulations on Internal Systems, Bank Cards and Credit Cards, Capital Adequacy, Liquidity Adequacy and the Communiqué on Procedures and Principles relating to Administrative Fines to be Applied in Reporting Made within the Scope of Banking Data Transfer System imposed an additional financial burden on personnel, IT and non-recurring expenditures. When the cost amounts corresponding to these alternatives are considered, it is observed that the ratio of the said amounts to capital ratio of banks is low.

According to the results above, it is observed that regulations yielded a low financial burden. On the other hand, having regard to the period after the regulations were published, it is observed that costs increased in time.

Chart 6-4: Social Effects of the Regulations



As it can be seen in the Chart above, the most important social effect is of the regulations is that they contributed to the confidence in the financial sector. This effect is followed by “affected positively the work quality”.

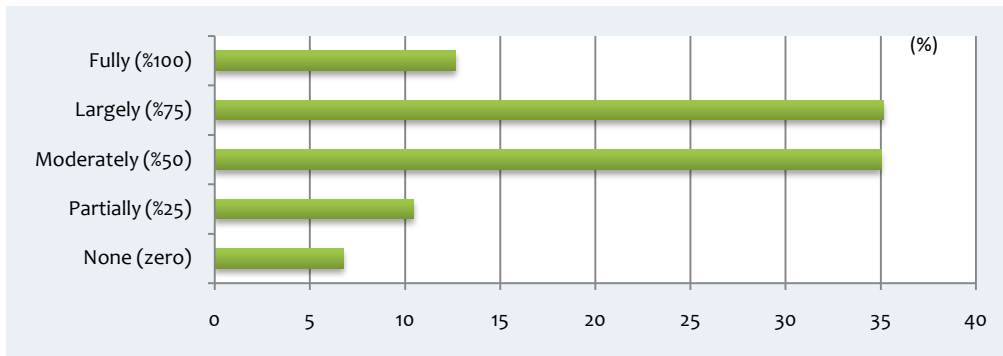
Chart 6-5: Effects of Regulations to the Economic and Commercial Life

As it can be seen in the Chart above, the most important effect of regulations to the economic and commercial life is that they provided a better management of risks. This effect is followed by “Other” option. When the explanations within the “Other” option are analyzed; it is seen that the effects of sub-regulations to economic and commercial life are directly observed.

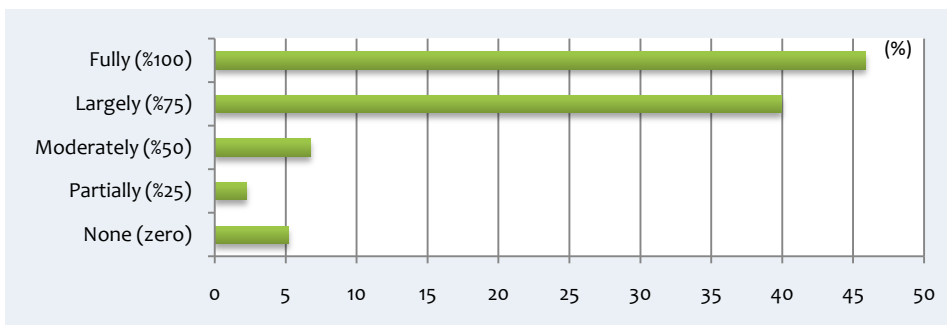
The Effects of Regulation to the Sectors Concerned

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).

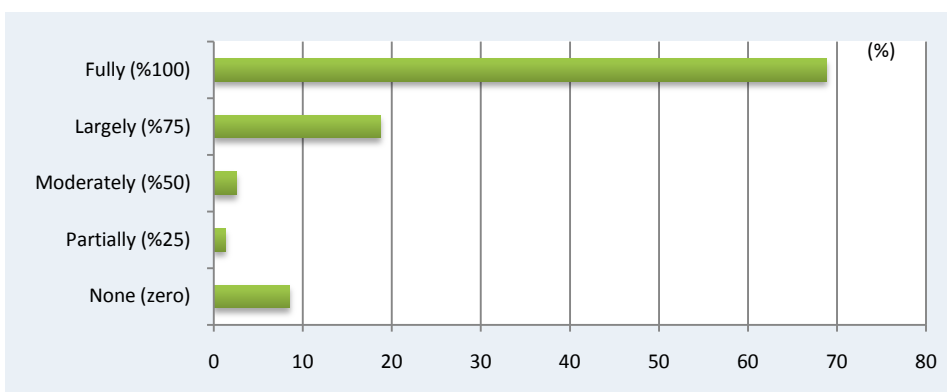
It was determined that the effects of regulations in general, both in the short term and in medium/long term in respect of period and appropriateness to all sectors shall be in positive way of a high percentage (an average of 80%- 90%). When analyzed further details, it was declared that the effect in 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 6-6: Opportunity to Deliver Opinions in Regulation Process

As seen in the Chart below, the majority of banks have found the opportunity to deliver their opinions in the process of regulation in medium level, high level or completely. On the other hand, the rate of banks which has found any opinion to deliver their opinions is very low.

Chart 6-7: Applicability of Regulations

Most of the banks find the regulations applicable. The majority of the banks that were found the regulations applicable in medium and partially are small sized and partially medium sized banks.

Chart 6-8: Compliance with the Regulation

In the Chart above, it can be seen that most of banks have complied with the regulations. The majority of banks which complied with the regulation partially and in medium level are small sized banks.

Chart 6-9: Follow-Up of the Implementation of Regulations



The implementations relating to the regulations are being followed-up usually by organizing periodic meetings with the related units, taking opinion form the regulatory institution and making reporting to the board of directors.

Annexes

7 ANNEX 1. LIST OF BRSA PUBLICATIONS

Nr.	Subject	Date
I. STRATEGIES AND POLICIES		
a) The New Basel Capital Accord (Basel II)		
1	The Road Map for the Transition to New Basel Capital Accord (Basel II) (Turkish)	May 2005
II. INTERNATIONAL REFERENCES		
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 Implementation 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 (Third Pillar- Market Discipline)	March 2005
1	International Convergence of Capital Measurement and Capital Standards (Second Pillar Supervisory Review Process)	January 2005
III. WORKING PAPERS		
a) The New Basel Capital Accord (Basel II)		
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) General Banking Issues		
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 the Turkish Banking Sector	November 2005 / 9
15	Turkish Banking Sector in the Process of Integration to European Union	September 2005 / 7

Annex 1. List of BRSA Publications

Nr.	Subject	Date
14	Foreign Entry in Banking Sector: Global Developments and Turkey	September 2005 / 6
13	The Comparative Study for Turkey and the New European Union	August 2005 / 5
12	Administrative Fines from the Perspective of Discretionary Power of Banking Authorities	April 2004 / 1
11	Reduction of Intermediation Costs in the Turkish Banking Sector	November 2003 / 1
10	Financial Burdens in Banking Sector: Stock Market Transactions Expenses in Turkey and Worldwide	October 2002
9	Restructuring in Banking Sector: Japan Case	July 2002
8	Determinants of Profitability in Turkish Banking System: (1996-2000)	June 2002 / 1
7	CAMELS Analysis in Turkish Banking Sector	September 2001 / 1
6	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: Argentina Case	February 2001 / 2
2	Restructuring in Banking Sector: South Korea Güney Case	January 2001 / 1
1	Struggle with Inflation Program, Consumer Loans and Probable Risks Thereof	October 2000 / 1
IV. INFORMATIVE NOTES		
The New Basel Capital Accord (Basel II)		
1	The New Basel Capital Accord (Basel II) in 10 Questions	January 2005
V. OCCASIONAL PAPERS		
a) The New Basel Capital Accord (Basel II)		
4	Banking Sector Basel-II Progress Report	June 2006
3	Results of Turkish Banking System Basel II 2. Survey	December 2005
2	Results of Turkish Banking System Basel II 1. Survey	July 2005
1	Quantitative Effect Study (QIS-TR) Evaluation Report	December 2004
b) General Banking		
8	FX Risk Evaluation Report of the Turkish Banking Sector	June 2006
7	Banking Law (with the Repealed Law Nr. 4389)	November 2005
6	Turkish Banking Sector Capacity Analysis (1981–2000)	July 2005
5	Report on Consumer Loans	September 2004
4	Report on Consumer Loans	August 2004
3	BRSA Lawsuit Prosecution Report	October 31, 2003
2	Micro Entrepreneur Oriented Financing Strategy: Microfinance	October 1, 2002

Annex 1. List of BRSA Publications

Nr.	Subject	Date
1	Information Report on Pamukbank	June 27, 2002
VI. PERIODICALS		
a) Continuing		
General Banking Issues		
13	Journal of BRSA Banking and Financial Markets	October 2007
12	Financial Markets Report	Sept. 2006
11	BRSA Annual Reports	2000–2005
10	Expectation Survey of Banking Sector Administrator Sector	October 2005
9	Web Site Access Statistics	Sept. 2005
8	Annual Reports: 2000–2003	July 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)	Dec. 16, 2004
2	Banking Sector Report and Notification on the Daily Banking Sector Report (Daily)	Dec. 31, 2003
1	Monthly Evaluation Report (Monthly)	Sept. 2003
Risk and The New Basel Capital Accord (Basel II)		
5	Risk Evaluation Report (July 2005)	Dec. 2005
4	Risk Evaluation Report (June 2005)	Nov. 2005
3	Risk Evaluation Report (December 2004)	August 2005
2	Risk Evaluation Report (June 2004)	Sept. 2004
1	Risk Evaluation Report (March 2004)	June 2004
b) Discontinuing		
25	Progress Reports (February 8, 2001 – October 21, 2003)	July 2005
24	Banking Sector Evaluation Report	Oct. 2004
23	Banking Sector Evaluation Report	Feb. 2004
22	Banking Sector Evaluation Report	Sept. 2001
21	Banking Sector Evaluation Report	June 2001
20	Bank Capital Strengthening Program – Progress Report -VII	Oct. 23, 2004
19	Bank Capital Strengthening Program – Progress Report – VI	April 21, 2003
18	Bank Capital Strengthening Program – Progress Report –V	Nov. 18,2002
17	Bank Capital Strengthening Program – Progress Report –VI	July 23, 2002
16	Bank Capital Strengthening Program – Progress Report	June 21, 2002

Annex 1. List of BRSA Publications

Nr.	Subject	Date
15	Bank Capital Strengthening Program – Introduction Guide	Feb. 20, 2002
14	Banking Sector Re-Structuring Program: Progress Report	Feb. 6, 2002
13	Banking Sector Re-Structuring Program	Jan. 11, 2002
12	Banks Managed by the SDIF: Performance and Progress Report	August 24, 2001
11	SDIF Lawsuit Prosecution Report	Oct. 31, 2003
10	SDIF Subsidiary Sale Report	Sept. 2003
9	SDIF Real Estate Sale Report	Sept. 2003
8	SDIF Subsidiary Sale Report	Oct.- Nov. 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- Dec. 2003
4	SDIF Monthly Income Statements	January 2002-Dec. 2003
3	Banking Sector Re-Structuring Program	May 15, 2001
2	Banking Sector Re-Structuring Program: Action Plan	Sept. 25, 2001
1	Banking Sector Re-Structuring Program (Progress Report)	August 2, 2001

Detailed Press Releases

Date	Subject
Dec.27,2007	Press Release Related to Nr. 7 of Financial Markets Report
Nov.05,2007	Press Release Related to Electronic Fraud Alert
Oct.30,2007	Press Release Related to Beginning to Publish of Journal of BRSA Banking and Financial Markets
Oct.26,2007	Press Release Related to Nr. 6 of Financial Markets Report
Sept.18,2007	Press Release Related to the Sale of Oyakbank
Aug.22, 2007	Press Release Related to Nr. 6 of Financial Markets Report
Aug.15, 2007	Press Release Related to an Article Published in a Newspaper Dated August 1, 2007
Aug. 08,2007	Press Release Related to ABank from BRSA
July 25, 2007	Press Release Related to Basel 2 Second Quantitative Effect Study (QIS-TR2) Evaluation Report
July 25,2007	Press Release Related to Domestic Government Bonds (DGB) Payments
July 25,2007	Frequently Asked Questions and Answers About Domestic Government Bonds
July 23,2007	Press Release Related to Basel II
July 09, 2007	Press Release Related to the Publication of Structural Developments in Banking
July 03,2007	Press Release Related to Banking Sector Basel II Progress Report
June 28,2007	Press Release Related to the Translation of the Document named International Convergence of Capital Measurement and Capital Standards (Basel II)
May 17,2007	Press Release from the Banking Regulation and Supervision Agency
April30, 2007	Press Release Related to the Financial Markets Report
April 24,2007	Press Release Related to the BRSA Annual Report 2006
April 10,2007	Press Release Related to Turkish Banking Sector FX Risk Evaluation Report II
April04, 2007	Press Release Related to Financial Re-Structuring Framework Agreement
March16,2007	Press Release Related to the Communiqué Relating to Banking Cards and Credit Cards
March 9,2007	Press Release Related to Preparations of Basel II
January 15, 2007	Press Release Related to the Re-Structuring of the Debts of SMEs to the Financial Sector

8 ANNEX 2. CHAIRMEN AND MEMBERS

NAME-SURNAME	TITLE	DATE OF INITIATION	DATE OF LEAVING
Chairman			
Tevfik BİLGİN	Chairman	December 1 st , 2003	Continuing
R.Engin AKÇAKOCA	Chairman	March 19, 2001	November 5, 2003
Zekeriya TEMİZEL	Chairman	April 6, 2000	March 3, 2001
Second Chairmen			
Ahmet ŞİRİN	Second Chairman	August 12, 2003	Continuing
İbrahim Halil ÇANAKCI	Second Chairman	December 11, 2002	May 5, 2003
Ali Vefa ÇELİK	Second Chairman	June 13, 2001	August 7, 2001
Biltekin ÖZDEMİR	Second Chairman	April 6, 2000	June 13, 2001
Members			
Mustafa EKİM	Member	July 1 st , 2003	Continuing
Prof. Dr. Yusuf TUNA	Member	August 12, 2003	Continuing
Hüseyin AL	Member	July 28, 2005	Continuing
Erol BERKTAŞ	Member	November 14, 2007	Continuing
Mustafa AKIN	Member	November 16, 2007	Continuing
Yusuf Ziya ÖNDER	Member	June 13, 2001	June 13, 2007
Prof.Dr. Kemal ÇEVİK	Member	April 6, 2000	June 13, 2007
Mehmet Nuri DOĞULU	Member	June 1 st , 2001	June 13, 2005
Atilla TAŞDEMİR	Member	June 13, 2001	June 13, 2003
Ali Akın TARI	Member	June 13, 2001	June 13, 2003
Ural ŞEKERCİ	Member	April 6, 2000	June 13, 2001
Servet TAŞDELEN	Member	April 6, 2000	June 13, 2001
Prof.Dr. Bilge HACIHASANOĞLU	Member	April 6, 2000	June 13, 2001
Halil YETGİN	Member	April 6, 2000	June 13, 2001

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