

From the Banking Regulation and Supervision Agency:

THE REGULATION ON THE INTERNAL SYSTEMS OF BANKS¹

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

SECTION ONE

Initial Provisions

PART ONE

Objective and Scope, Basis and Definitions

Objective and scope

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

Basis

ARTICLE 2- (1) This Regulation has been prepared on the basis of Articles 23(3), 24, 29, 30, 31, 32 and 93 of Banking Law dated October 19, 2005 and Nr. 5411.

Definitions

ARTICLE 3- (Amended: OG-01/06/2010-27598) (1) The following terms and expressions used in this Regulation are defined as follows:

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

¹ This Regulation has been amended with the “Regulation on Making Amendments to the Regulation on Internal Systems of Banks” published in the Official Gazette dated June 14, 2007 and Nr. 26552 and “Regulation on Making Amendments to the Regulation on Internal Systems of Banks” published in the Official Gazette dated November 30, 2008 and Nr. 27070 and “Regulation on Making Amendments to the Regulation on Internal Systems of Banks” published in the Official Gazette dated June 01, 2010 Nr. 27598.

- b) Bank: Banks defined in Article 3 of the Law,
- c) Information systems contingency plan: Plan which is a part of business continuity plan and prepared for providing the continuity of information system services ensuring the sustainability of activities in case of a deduction,
- ç) Primary systems: Whole of the system comprised of infrastructure, hardware, software and data which ensures the execution of banking activities as well as recording and using all the information required for fulfilling all the responsibilities defined in the Law, sub-regulations relating to the Law and other related legislation, in electronic media in a confident manner and ensuring to be accessed when needed,
- d) Disaster: Case arising from human, nature or other factors in a level that may cause a long-term deduction in activities or systems,
- e) Board member who does not have executive duty: Board member who is not responsible for a unit having executive activities,
- f) Unit operating in executive nature: Unit in which directly income-bearing activities are carried out,
- g) Internal systems: Internal audit, internal control and risk management systems,
- ğ) Secondary systems: Primary system substitutes enabling the activities carried out via primary systems are sustained within acceptable interruption periods determined in business continuity plan, in case of interruption in these activities and all information required for discharging all responsibilities defined for banks in the Law, sub-regulations concerning the Law and other related legislation is accessed uninterruptedly and on-demand,
- h) Work impact analysis: Analysis process of work processes and impacts of an activity interruption may create on work processes,
- ı) Business continuity plan: The whole written plan or plans which are part of business continuity management and comprised of policies, standards and procedures for performing

activities in case of an interruption in accordance with the priorities of the bank and complying with the legislation,

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

j) The Law: Banking Law Nr. 5411,

k) Deduction: Interruption of the continuity in activities of a bank or functions of a system by force majors excluding planned transitions,

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

m) Credit risk: the probability of a loss that the bank may incur from the failure of a credit customer to comply with the requirements of the contract that has been made and to perform all or part of his obligations in time,

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

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

ö) Liquidity risk: the risk that the bank may fail to perform its payment obligations in time because it does not have a sufficient level and quality of cash assets or cash inflows to meet its cash outflows fully and in time as the result of an imbalance in its cash flow,

p) Operational risk: the operational risk as defined in Article 3 of the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks published in the Official Gazette dated November 01, 2006 Nr. 26333,

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

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

- ş) Senior management: the board of directors and top-level management of a bank, and
- t) Top-level management shall mean the general manager and assistant general managers of a bank, the managers of the units included within the scope of the internal systems, and those managers of the non-advisory units who serve in positions equivalent or superior to the position of assistant general manager in terms of their powers and duties even if they are employed with other titles.

PART TWO

Establishment of Internal Systems and Responsibilities of Senior Management

Establishment of the internal systems

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

(2) The units included within the scope of the internal systems shall be established under the board of directors, within the institutional structure of the bank. The board of directors may transfer all or part of its duties and responsibilities concerning the internal systems to the officer in charge of these systems. Several officers in charge of the internal systems may be appointed on condition that their duties and responsibilities are segregated on the basis of the units included within the scope of the internal systems. The responsibility for the internal systems may only be assigned to one of the non-executive directors or to committees composed of such directors or to the audit committee. In the event that the director in charge of the internal systems, or a member of the committee in charge of the internal systems, resigns or is removed from such office, such that, in the latter case, the number of members falls below two, or ceases to have the required qualifications, a director with the same qualifications must be appointed in lieu of him within fifteen days.

(3) **(Additional Sub-Clause: OG-24/02/2011-27856)** For the application of second paragraph, the fact that the executives of the units within the scope of internal systems is under the structure of board of directors through an assistant general manager or equivalent top rank executive who does not have a hierarchic connection with general manager in the bank's organization structure and whose evaluation on performance as well as financial and personal rights are made by board of directors or audit committee does not bear the result that these units are not directly under the board of directors.

(4) ²**(Amended Sub-Clause: OG-24/02/2011-27856)** Banks shall determine procedures and principles for the institutional structure and functioning of their internal systems, also considering the scope and nature of their activities, on condition that such procedures and principles are not contrary to the provisions of this Regulation.

Responsibilities of the board of directors

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

(2) In the framework of the first paragraph above, the board of directors of the bank shall have the power and responsibility:

- a) To establish the institutional structure and human resources policy of the bank and to determine the criteria for the appointment of top-level management;
- b) To determine clearly in writing the duties and responsibilities of the officer in charge of the internal systems and to monitor his activities;

² Pursuant to the amendment made to the Regulation published in the Official gazette dated February 24, 2011 Nr. 27856, paragraph 3 is added so as to follow Article 4(2), current paragraph 3 of the same article is changed as paragraph 4.

- c) To determine in writing the strategies and policies and the procedures of implementation concerning the activities of the units included within the scope of the internal systems and to ensure that they are implemented and maintained effectively and coordinated with each other;
- ç) To determine the duties, powers and responsibilities of the units included within the scope of the internal systems and of their managers clearly and without duplication, to approve the working procedures and principles for the staff employed in these units, and to ensure that the necessary resources are allocated;
- d) To give timely consideration to, and take the necessary measures for the elimination of, any mistakes or deficiencies in relation to practices concerning the internal systems which are identified by the Agency or independent auditors or brought to the attention of the board of directors by the audit committee of the bank, to evaluate the identified mistakes or deficiencies and ensure that internal control and internal audit activities are directed to areas where identical or similar mistakes or deficiencies may occur;
- e) To decide the selection and removal of the managers of the units included within the scope of the internal systems;
- f) To ensure that the staff employed in the units included within the scope of the internal systems participate in training programs for them to receive certificates in their respective areas at the national or international level to ensure their professional competence and development;
- g) To have knowledge concerning the risks to which the bank is exposed, the methods of measuring these risks and their management;
- ğ) To determine in writing the risk management policies and strategies of the bank generally and for each type of risk, the level of risk it can take, and the related procedures of implementation, and to allocate maximum risk limits for the units and their managers or the staff employed in those units;
- h) To approve the policies concerning the taking, monitoring, management and reporting of such risks as would considerably affect the incomes and expenses of the bank, and changes to these policies, and to supervise their implementation;

- 1) To ensure that the bank has a process whereby the level of equity in relation to the level of risk assumed by the bank is determined and equity management strategies;
- i) To ensure that the top-level management submits to it timely and reliable reports concerning the important risks to which the bank is exposed;
- j) To monitor the efficiency of the risk management systems;
- k) To ensure that a system is developed for investigating customer complaints and giving answers about their outcome to those concerned and that such complaints are regularly reported to it, including matters to be specified.

Qualifications for membership of the audit committee

ARTICLE 6- (1) The board of directors shall appoint at least two non-executive directors from among itself as members of the bank audit committee to assist the board of directors in carrying out its audit and supervision activities. These members must:

- a) Including for the last two years before the date of appointment,
 - 1) Not have been executive directors of the bank;
 - 2) Not have been employees of the bank or its partnerships subject to consolidation, excluding those employed in the internal systems or in the financial control and accounting units;
 - 3) Not have been partners or employees of the institutions performing independent audit or rating or valuation of the bank or its partnerships subject to consolidation or of entities abroad which are legally affiliated with the said institutions, and not have taken part in the process of independent audit, rating or valuation;
 - 4) Not have been partners or employees of the institutions providing consultancy or support services to the bank or its partnerships subject to consolidation, or among persons providing such services;
- b) Not hold a qualified interest in the bank or in its partnerships subject to consolidation;
- c) Not be spouses, or relatives by blood or marriage of up to (and including) the second degree, of the controlling partner, the executive directors or the general manager;

c) Not have served on the audit committee of the same bank for a period in excess of nine years with or without interruption;

d) Not receive any remuneration or similar income under any name whatsoever from the bank or its partnerships subject to consolidation, based on its or their profitability, except for payments made to all personnel out of profit under the articles of association or a resolution of the general assembly;

e) Have received education at the undergraduate level as a minimum and possess a minimum of ten years experience in banking or finance; and

f) **(Amended: OG-24/02/2011-27856)** Not having duty in another commercial institution other than the below-mentioned ones³;

g) **(Additional: OG-24/02/2011-27856)** Not having duty in another commercial institution other than the below-mentioned ones;

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

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

3) Domestic or abroad credit institutions and financial institutions which are directly or indirectly jointly or alone controlled by natural person partners of bank or the partners stated in sub-paragraph (2) or in which they are participating with unlimited responsibility, **(Additional phrase: OG-14/06/2007-26552)** Subparagraph (2) of this paragraph does not necessarily mean that audit committee member cannot be assigned to internal systems and financial control and accounting units at the same time.

(2)⁴ **(Amended: OG-24/02/2011-27856)** The qualifications required for the selection of members of the audit committee shall also be required during their term of office. At least one

³ **(Before amendment) f)** His/her spouse and children must not be general manager, assistant general manager or executive in equivalent positions in bank or partnerships subject to consolidation and has the qualifications and conditions required in paragraph 1(a) and (b) excluding sub-paragraph (1).

⁴ **(Before amendment) (2)** The qualifications searched for in the selection of audit committee members are searched for during the term of this duty of these members. At least one of the audit committee members to be assigned shall have an under-graduate degree in at least one of branches such as law, economy, finance, banking, business administration, public administration and equivalent branches; if he/she has an under-graduate degree in engineering, he/she shall have a graduate degree in the mentioned branches.

of the members of the audit committee must have received education in law, economics, finance, banking, business management, public administration or an equivalent subject at the undergraduate level as a minimum or, if they have received education in an engineering branch at the undergraduate level, they must also have received education in one of the above-mentioned subjects at the graduate level and at least one of the members of the committee must be residing in the country.

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

(4) In the event that the number of members of the audit committee falls below two for any reason, the board of directors must, within fifteen days, appoint to the audit committee a sufficient number of its own members with the qualifications required in this article. If there are no members in the board of directors with the qualifications required in this article, non-executive directors may be appointed to the audit committee on a temporary basis. For such appointment, it shall be required that the director in question should be a non-executive director as from the date of appointment. The board of directors must take the necessary measures in order that a director with the qualifications specified in this article may be appointed within one month in lieu of the member appointed to the audit committee on a temporary basis, including the making of a call for an extraordinary meeting of the general assembly to elect a new director.

Powers and responsibilities of audit committee members

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

(2) Under the first paragraph above, the audit committee shall have the duty and power:

- a) To supervise compliance with the provisions hereof concerning internal control and with the internal policies and implementation procedures approved by the board of directors and to make proposals to the board of directors in relation to measures which it is considered necessary to take;
- b) To supervise whether the internal audit unit is performing its obligations as determined in this Regulation and in the internal policies;
- c) To establish the channels of communication that will enable the units included within the scope of the internal systems to reach the audit committee directly;
- ç) To supervise whether the internal audit system covers the existing and planned activities of the bank and the risks arising from these activities and to examine internal regulations concerning internal control that will enter into force upon their approval by the board of directors;
- d) To make proposals to the board of directors concerning the selection of managers to those units included within the scope of the internal systems which are attached to the audit committee, and to submit an opinion during the removal of such managers by the board of directors;

- e) To receive the opinions and proposals of the top-level management concerning the internal systems and to evaluate such opinions and proposals;
- f) To ensure the establishment of the channels of communication for the reporting of irregularities within the bank directly to the audit committee or to the internal audit unit or inspectors;
- g) To monitor whether the inspectors are performing their duties independently and impartially;
- ğ) To examine internal audit plans;
- h) To make proposals to the board of directors concerning the qualifications required for personnel to be employed in the units included within the scope of the internal systems;
- ı) To monitor the measures taken by the top-level management and subordinated units in relation to matters identified in internal audit reports;
- i) To evaluate the levels of professional training and the competence of the managers and personnel employed in the units included within the scope of the internal systems;
- j) To evaluate the availability of the necessary methods, tools and implementation procedures for identifying, measuring, monitoring and controlling the risks carried by the bank;
- k) To have discussions with the inspectors and with the independent auditors of the independent audit institution conducting the independent audit of the bank, at regular intervals and at least four times a year, under programs and agendas to be determined;
- l) To inform the board of directors about the opinions and evaluations of the relevant top-level management, of the internal control and internal audit personnel and of the independent audit institution concerning practices needed for performing the activities included within its duties and responsibilities as is due, ensuring the efficiency of these activities and developing them;
- m) To review the evaluations of the independent audit institution in respect of the conformity of the bank's accounting practices with the Law and other applicable legislation and to receive explanations from the relevant top-level management in relation to irregularities which have been identified;

n) Together with the top-level management and the independent auditors, to evaluate the results of independent audit, the annual and quarterly financial statements and related documents, and the independent audit report, and to resolve other issues over which the independent auditor hesitates;

o) To evaluate the independence of the rating institutions, the independent audit institutions, including those which carry out audits of information systems, and the valuation institutions with which the bank will sign contracts, and of their presidents, directors, auditors, managers and employees, in their activities related with the bank, and the sufficiency of the resources that are allocated, to submit its evaluations in the form of a report to the board of directors, and, where services are actually procured, to repeat these actions regularly during the term of the contract for up to three months;

ö) To make a risk evaluation concerning the support service that will be received by the bank, to submit its evaluations in the form of a report to the board of directors and, where the service is actually procured, to repeat these actions regularly during the term of the contract for up to three months and also to monitor the sufficiency of the service provided by the support service institution;

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

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

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

ş) To monitor whether or not those who are authorized to extend loan themselves or their spouses or minor children, or other natural or legal persons that constitute a risk group

together with them, are involved in the stages of evaluation and decision-making related to any credit transactions to which they are party, and to establish the channels of communication that will ensure they are informed of these points.

Duties and responsibilities of top-level management

ARTICLE 8- (1) The top-level management shall have the duty and responsibility:

- a) To develop proposals concerning practices which are considered necessary for performing the activities as is due within the scope of their duties and responsibilities, ensuring the efficiency of these activities and developing them;
- b) To coordinate the bank personnel employed in the units for which they are responsible, to make a division of tasks among such personnel in view of their competencies, and to monitor whether they effectively perform their duties and responsibilities;
- c) To analyze deficiencies or errors arising in the units for which they are responsible and to report these or the measures considered necessary to the relevant internal systems officer;
- ç) To use initiative according to their authorization where unexpected circumstances arise;
- d) To make timely and reliable reporting to the board of directors about important risks to which the bank is exposed; and
- e) To perform other tasks assigned by the board of directors.

(2) The top-level managers of the units included within the scope of the internal systems shall also have the duty and responsibility to implement the strategies and policies approved by the board of directors of the bank under the Article 5 (2c) in relation to their respective units and to perform other tasks assigned by the relevant internal systems officer.

SECTION TWO

The Internal Control System

PART ONE

Purpose and Scope of the Internal Control System

Purpose and scope of the internal control system

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

(2) To achieve the intended purpose of the internal control system:

- a) A functional division of tasks must be established and responsibilities are apportioned within the bank;
- b) The accounting and financial reporting system, the information system and the internal communication channels must be established such that they operate effectively;
- c) **(Amended: OG-01/06/2010-27598)** A business continuity plan and other related plans must be prepared;
- ç) Internal control activities must be formed; and
- d) Work flow charts must be formed showing the work steps and the controls over the work processes of the bank.

(3) The internal control system shall be structured so as to cover the domestic and overseas branches of the bank, its head office units, its partnerships subject to consolidation, and all its activities.

Functional division of tasks

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

Establishment of information systems

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

(2) The information systems to be established shall enable as a minimum:

a) **(Amended: OG-November 30, 2008-Nr. 27070)⁵**: All the information on the bank to be kept and backed up and used so as to enable access through internet domestically, safely and when necessary⁶,

b) Risks to be measured using risk measurement methods or models and to be reported in a timely and effective manner;

c) Data aggregation to be made on the basis of products offered, types of activity, geographical areas, or risk groups;

ç) Deviations from the annual budget and targets to be identified;

d) Warning information to be generated in the event of coming close to pre-determined risk limits;

⁵ Amendment made to this sub-paragraph enters into force as of April 1, 2009. **(Before the amendment)** *a) All information concerning the bank to be stored and used safely in the electronic medium;*

⁶ Enforcement of the amendment made to the mentioned sub-paragraph of this Regulation published in the Official Gazette dated June 01, 2010 Nr. 27598 has been postponed until May 01, 2012 and is as follows:

“a) All the information to carry out banking activities and fulfill all the responsibility defined for banks in the Law, in sub-regulations relating to the Law and in other related legislation to be kept and used so as to enable access safely and when necessary in electronic environment.”

- e) Timely reporting of identified maximum risk levels being exceeded and of exceptions;
- f) Allocation of the capital requirement concerning services offered and activities according to the risk-taking level;
- g) Stress tests and scenario analyses to be made; and
- ğ) **(Amended: OG-24/02/2011-27856)**⁷ Accounting records, to be kept by composing directly in operation basis without taking as reference another accounting system meantime and on primary systems required to be established in the country pursuant to the paragraph 4 according to Uniform Chart of account Plan and Turkey Accounting Standards.
- (3) The reliability of the information systems must be ensured and they must be regularly updated and necessary changes made.
- (4) **(Amended: OG-01/06/2010-27598)** Banks are obliged to have their primary and secondary systems domestically.
- (5) The Board shall be authorized to determine the elements of the information systems of banks and the minimum procedures and principles related to their control.
- (6) **(Additional: OG-01/06/2010-27598)** Whether or not considered to get support services within the scope of primary and secondary systems, personnel shall be employed domestically in adequate qualification and number to obtain continuity for the mentioned systems.
- (7) **(Additional: OG-24/02/2011-27856)** In respect of implementing the paragraph 2(ğ), provided to reserve legislation provisions relating to required books and all other conditions required in this sub paragraph , the banks can account their transactions by consolidating in respect of being subject to deduction such as transaction type in minimum level, finance subject, guarantee type, risk level, party type, being resident, launch date, maturity, value date, legal deductions being subject to, implementing the same interest rate, the same wage/commission. In such cases, it is obligatory to keep transactions in each cumulative accounting record, in information system in manner to enable accounting in transaction basis when wanted and in manner to make examination together with each detail including transaction based accounting detail.

⁷ **(Before Amendment)** Accounting records to be kept pursuant to uniform chart of accounts (Date of entry into force for before amendment: September 15, 2007)

Establishment of the communication structure and communication channels

ARTICLE 12- (1) It shall be ensured that information vertically and horizontally flows within the institutional structure of the bank so as to reach the relevant levels of management and the responsible personnel in safety and that the managers of lower units and the operational personnel are fully informed of the bank's objectives, strategies, policies, implementation procedures and expectations. Information to be directed towards personnel shall include data concerning the policies related to bank activities, their implementation procedures, and the activity performance of the bank. It shall be ensured that the bank personnel are aware of the rules concerning their duties and responsibilities and that the necessary information rapidly reaches the concerned personnel.

(2) Through horizontal information flow, it shall be ensured that information held by a unit within the bank or a unit within an entity controlled by the bank is shared with other units in need of that information.

(3) Suitable communication channels must be established and maintained to ensure that problems encountered by bank personnel are reported to the management levels in their own units and to the internal control unit and that any matters over which they hesitate or which they find doubtful according to usual practices are reported to the internal audit unit as well as the management levels and the unit to which problems are reported.

(4) All measures shall be taken to ensure that the communication channels to be established do not constitute a breach of the confidentiality obligation under the Article 73(3) of the Law.

Business continuity management and plan

ARTICLE 13 – (Amended article together with its title: OG-01/06/2010-27598)

(1) Banks must establish a business continuity management structure approved by the board of directors in order to ensure the sustainability of activities in case of a deduction or to save them on time to minimize operational, financial, legal and fiduciary negative effects.

(2) Within the scope of business continuity management, required processes are implemented and necessary measures are taken in order to fulfill the requirements of business continuity.

(3) Studies on business impact analysis are made relating to business continuity planning and recover strategies are determined. Within the lights of these studies, a business continuity plan is formed and this plan is approved by the board of directors.

(4) Within the scope of business impact analysis, internal and external dependencies are determined by the participation of related personnel and operations are classified according to their importance level in order to determine the activity level required in a probable deduction. Probable risks which may occur on activities depending on different deduction scenarios and their potential affects are evaluated.

(5) A rescue strategy taking work impact analysis as a basis and revealing rescue priorities and targets is developed. Details concerning the implementation of rescue strategy are mentioned in business continuity plan.

(6) It is fundamental that business continuity plan is in conformity with targets and priorities of the bank thereto current and sufficient. In this plan which risks are defined loud and clear take place the subjects of defining duties and responsibilities so as to manage activity interruptions, sustaining authority and decision-making structure according to the plan in case the personnel in charge cannot be reached and in which circumstances the plan shall be implemented. The personnel is informed on the business continuity plan within the scope of their relation and trained on duties and responsibilities.

(7) An emergency and unexpected situation plan is formed as a part of business continuity plan so as to determine actions to be carried out and measures to be taken initially in case of an emergency or unexpected situation. If the situation encountered cannot be resolved within the scope of this plan, other sections of business continuity plan is put into use.

(8) Within the scope of emergency and unexpected situation plan, necessary measures are taken to overcome problems or crisis that may arise, a management and working environment is created, so as to be used when necessary, that are not exposed to the same risks in which the environment the main services are given. In the emergency and unexpected situation plan:

a) In the presence of possible emergency and unexpected situations, an order of priority, transfer of authority, regulations concerning the personnel required by the situation, contact

arrangements between the management and personnel as well as order and methods shall be determined clearly for each bank operation.

b) For a possible emergency and unexpected situation regarding the payment and agreement systems, a possible communication organization shall be established between the authorities of the Central Bank of the Republic of Turkey, the persons responsible for the interbank payments, agreements and settlement systems and the Agency; as well as a communication channel or network open to public for the public and the customers.

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

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

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

e) Maximum importance shall be attached to the security of customers and personnel.

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

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

(11) A system to review plans within the scope of work continuity plan is composed. The plans are updated following a review after changes that shall affect information systems. These plans are tested at least once in a year in general management and in model branches and in other units by taking into account of probable short-term or long term deductions in processes processing automatically or manually. Support service institutions, if exists, that shall play role in alarming of information technology systems supporting critical work processes, are also included to the tests. The results of tests are reported to senior management following an appropriate evaluation and are used in case of a need in updating the plan.

Internal control activities

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

- a) Control of actions to execute activities;
- b) Control of the communication channels and information systems and the financial reporting system; and
- c) Compliance controls.

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

PART TWO

Controls in the Scope of Internal Control Activities

Control of actions to execute activities

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

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

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

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

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

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

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

Control of communication channels and information systems

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

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

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

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

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

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

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

Control of the financial reporting system

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

- a) Special control of the information included in financial reports and control of the actions providing the basis for the information that is controlled, having considered the information which, if not included in financial statements or incorrectly expressed therein, may considerably affect economic decisions made by users on the basis of the information in the financial statements;
- b) Control to identify possible errors and omissions during the process between the recording of transactions, assets and liabilities and their reflection in financial reports; and
- c) Control to establish whether financial reports have been prepared in accordance with the Law and regulations introduced under the Law.

Compliance controls

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

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

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

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

PART THREE

The Internal Control Unit and Internal Control Personnel

The internal control unit

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

(2) The internal control unit shall be staffed with one manager and with professionally qualified personnel in a sufficient number according to the scale of the bank and the nature and complexity of its activities. The internal control unit shall be physically located within the head office of the bank.

In the case of banks established abroad which operate in Turkey through branch offices, the internal control unit shall be created in the central branch office.

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

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

(5) Control results reported to the internal control unit shall be kept in this unit. Such reports shall be separated as between those made by the operational personnel and those made by the internal control personnel and shall be further classified according to their nature. The reports

so grouped shall be evaluated by the manager of the internal control unit and the relevant high-level management, and the necessary measures shall be taken to improve the internal control system or to conduct the internal control activities without any disruption.

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

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

(8) **(Additional Paragraph: OG-24/02/2011-27856)** In banks in which internal control unit activities are possible to be conducted by a internal control personnel, internal control unit activities are executed by the said personnel, having also duty, authorization and responsibilities of internal control unit administrator.

Duties and powers of internal control personnel

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

(2) The internal control personnel shall request information based on reports from the units concerned in order to monitor, review and control the reliable performance of all activities of the bank, shall implement controls or reviews based on general or special observations and monitoring through various control documents and tools, shall put their findings in the form

of reports, and shall prepare warning messages and communicate them to the units concerned. The internal control personnel shall be provided with the authority to demand additional explanations from bank personnel concerning matters which they monitor, review and control, and to seek their opinions.

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

SECTION THREE

The Internal Audit System

PART ONE

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

Purpose and scope of the internal audit system

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

(2) To achieve the intended purpose of the internal audit system, all activities of the bank without any limitation and all its units, including the units of the domestic and overseas branches and the head office, shall be examined and audited periodically and on a risk basis, any deficiencies, errors and abuses shall be identified, opinions and proposals shall be submitted to prevent them from occurring again and to secure the effective and efficient use of bank resources, and the accuracy and reliability of information and reports communicated to the Agency and to the senior management shall be assessed, through internal audit activities.

(3) In periodic and risk-based audits:

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

b) **(Amended paragraph: OG-24/02/2011-27856)**⁸ The information systems shall be reviewed, including the electronic information system and electronic banking services and under the procedures and principles set forth in Section Five titled as “Principles for Information Systems and Banking Processes Audit” of the Regulation on Bank Information Systems and Banking Processes Audit to be performed by External Audit Institutions published in the Official Gazette dated January 13, 2010 Nr. 27461.

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

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

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

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

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

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

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

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

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

⁸ **(Before amendment)** b) Information systems are reviewed including electronic information system and electronic banking services and within the scope of procedures and principles determined in Section Four of Regulation on Information Systems Audit to be Performed by External Audit Institutions in Banks published in the Official Gazette dated May 16, 2006 Nr. 26170 titled as “Information Systems Audit”.

- d) The reliability, integrity and timely availability of the source of the data used in the risk measurement models; and
 - e) The accuracy of the retrospective tests used for the risk measurement models.
- (5) The bank's partnerships subject to consolidation shall also be subjected to internal audit.

The internal audit unit

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

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

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

- a) Determine the policies and implementation procedures concerning internal audit activities, receive the favorable opinion of the audit committee and put them into practice upon their approval by the board of directors;
- b) Supervise the internal audit activities and monitor and guide the audit policies, programs, processes and practices;
- c) Assess whether the inspectors have the qualifications required by their powers and responsibilities, prepare training programs to improve their professional knowledge, skills and abilities, and monitor whether they are performing their duties independently and impartially with the necessary professional diligence and attention.

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

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

Qualifications and powers of inspectors

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

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

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

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

training certificates they have received. This requirement shall also apply to the inspector employed in a bank under the fourth paragraph of Article 22 above.

Professional diligence in internal audit

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

- a) The scope of the work to be required by the duty;
- b) The applicable legislation and internal regulations and implementation procedures, their relevance to the area to be audited, and the extent of the work they require;
- c) The effectiveness and adequacy of the risk management and internal control systems concerning the activities subject to audit;
- ç) The probability of material errors, irregularities or deliberate non-conformities in the activities and transactions subject to audit;
- d) The computer-supported audit techniques and data analysis techniques that may be used;
- e) The risks that may arise from the activity or transaction subject to audit; and
- f) Where a consultancy service is provided, the needs and expectations of the persons who will benefit from it, including the period of time within which to complete the work required by the service and its reporting, and the scope and complexity of the work required by that service.

PART TWO

Internal Audit Activities and Working Principles

Internal audit activities

ARTICLE 25- (1) The periodic and risk-based internal audit activities of banks shall consist of preparing the internal audit plan, putting it into effect, executing it through work programs, reporting the results to the management of the internal audit unit, to the management of the

unit concerned, to the relevant internal system officer, to the audit committee and, through the audit committee, to the board of directors, and monitoring the measures taken by the management bodies of the units concerned in the framework of the audit reports.

Risk-based audit

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

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

- a) All transactions, types of product, services offered, and tasks, shall be defined;
- b) The activities executed in the scope of the defined transactions, types of product, services and tasks, and the provisions of the Law and other legislative matters that concern them, shall be identified;
- c) The important business units and products and the related activity and control risks shall be identified and the documents concerning the structure of the risk management and internal control systems shall be determined; and
- ç) Risk measurement and rating systems shall be used to evaluate the activity and control risks related to the important business units and products and to identify their degrees of importance.

(3) The evaluation of the activity and control risks related to the important business units and products and the identification of their degrees of importance shall be carried out with the help of the matrix in Annex 1, so as to cover also each consolidated organization. In the risk evaluation to be made by the internal audit unit, the risk compositions carried by the bank must be monitored and evaluated as a minimum in terms of the areas indicated in the matrix in Annex 1.

(4) The risk evaluations concerning the units and functions shall be made jointly with the unit managers. The opinions of the internal control and risk management units shall also be

received during the risk evaluations. The final decision concerning the risk evaluations shall be the responsibility of the internal audit unit.

(5) The risk evaluations shall be regularly reviewed. Events that may affect the risk evaluations such as new products, new systems, changes to the Law and other applicable legislation, and changes in organization or personnel in important positions, shall be communicated by unit managers to the internal audit unit, which shall in turn review the risk evaluations in the light of such changes.

(6) The manager of the internal audit unit shall examine the risk evaluations and any changes and verify their conformity.

The internal audit plan

ARTICLE 27- (1) The internal audit plan shall be formed on the basis of the risk evaluations made under Article 26. The opinion of the high-level management concerning the plan shall also be received. After being found appropriate by the relevant internal systems officer, the plan shall be put into effect upon its approval by the board of directors.

(2) The internal audit unit shall, when necessary, update the audit plan in accordance with the established policies, and the updated plan shall be submitted to the relevant internal systems officer. Important changes and updates to the audit plan shall be put into effect after receiving the favorable opinion of the relevant internal systems officer and upon their approval by the board of directors. The updated plan shall include information concerning the audit activities performed until the date of updating, the amount of time allocated for them, and the reasons for the important changes that have been made.

(3) The internal audit plan shall be prepared also considering any special investigations to be carried out and any consultancy services and training to be received during the period. The internal audit plan shall include:

- a) The areas to be audited during the period, including the order of importance and priority which results from the risk-based evaluations;
- b) The purpose of the audit;

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

The audit period

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

Work programs

ARTICLE 29- (1) For each audit task given in the scope of the audit areas identified in the internal audit plan, a work plan shall be prepared covering all transactions in the audit area of the bank, the audit techniques to be used, the procedures to be followed in obtaining information, the practices concerning documentation, and the presentation of the results and the audit report. The work program shall include in detail the objective of the audit and the activities to be carried out to achieve this objective.

(2) The audit procedures used shall be documented in the form of work sheets. The work sheets must be so drawn up as to show whether the audit task has been completed as foreseen in the work program and the manner in which the task has been executed, and must be signed by the relevant inspector together with his/her name and surname.

(3) Under ordinary conditions, the work program shall include the practices related to the following points as a minimum:

- a) Non-scheduled audits to be performed if deemed necessary;
- b) Checking of the records to be audited;

- c) Examination and evaluation of the internal control systems, policies and implementation procedures;
- ç) Risk evaluations;
- d) Reviewing the relevant article of the Law or other applicable laws, regulations and rules;
- e) Use of sampling methods and techniques; and
- f) Confirmation of selected transactions and account balances through the following practices as a minimum:
 - 1) Examining the consistency of auxiliary accounts, general ledger entries and control records with each other;
 - 2) Examining the documents on which records are based;
 - 3) Directly inspecting exceptional practices, and suitable monitoring activities; and
 - 4) Physical audits.

Sampling methods and techniques

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

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

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

- a) The formation of the sampling target;
- b) The size of the group that is sampled and its characteristics that are studied;
- c) The determination of the sample size; and
- ç) The selection of the sampling methodology.

Internal audit reports

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

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

- a) A summary of the identified problems and the conclusions;
- b) The scope and objectives of the audit;
- c) Detailed audit results (the degree of importance accorded to the subject of audit in the framework of identified points, and its detailed reasons);
- ç) Proposals, if any, and their benefits; and
- d) Other information that may be needed by the senior management.

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

(4) The manager of the internal audit unit shall, at least quarterly, submit to the audit committee a report on the activities performed by the internal audit unit and review these activities jointly with the audit committee. The audit committee shall present this report, together with its own comments, to the board of directors within ten working days at the latest. The report in question shall include as a minimum the following points:

- a) The completed, continuing, postponed and cancelled audit activities and their level of conformity with the annual audit plan;
- b) Any training received by the inspectors during the reporting period;
- c) Important accounting problems and any ambiguities in relation to reports made to the Agency and audit findings;
- ç) A summary of the audits performed in relation to the information systems;
- d) Risk evaluations and their summary;
- e) Error reports concerning the audit and internal controls;
- f) Opinions towards the elimination of important weaknesses communicated to the managers authorized to take corrective actions; and
- g) Any other points which the audit committee and the internal audit unit consider appropriate to be included.

(5) **(Abolished paragraph: OG-24/02/2011-27856)**⁹

⁹ **(Abolished Paragraph)** (5) *Internal audit reports and internal audit department reports are prepared in Turkish.*

Monitoring activities

ARTICLE 32- (1) The inspectors shall monitor actions towards the points that they have proposed in their internal audit reports and that the internal audit unit has communicated to the managers authorized to take corrective actions.

(2) The inspectors shall report the results of their monitoring activities under the first paragraph and their comments to the internal audit unit, which shall in turn communicate them to the audit committee. Such reports shall be given consideration in the internal audit plans to be made in subsequent periods.

Consultancy services

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

Auditing of partnerships subject to consolidation

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

SECTION FOUR

The Risk Management System and Final Provisions

PART ONE

Purpose and Scope of the Risk Management System

Purpose of risk management

ARTICLE 35- (1) The purpose of the risk management system is to ensure that the risk exposure of the bank is defined, measured, monitored and controlled through policies, implementation procedures, and limits, which are intended to monitor, to keep under control and, where necessary, to change the risk-yield structure of the future cash flows of the bank and, in connection with this, the nature and level of its activities.

(2) To establish a suitable and adequate risk management system within the bank:

- a) Adequate policies, implementation procedures, and limits, to enable the management of the different aspects of risks arising from activities; and
- b) Risk management activities shall be clearly defined in accordance with the procedures and principles specified in this Chapter.

Risk management policies and implementation procedures

ARTICLE 36- (1) Banks shall determine written policies and implementation procedures on a consolidated and non-consolidated basis to manage each of the risks arising from their activities.

(2) In determining the risk management policies and implementation procedures, the following points as a minimum shall be considered:

- a) The strategies, policies and implementation policies related to the activities of the bank;
- b) Conformity with the volume, nature and complexity of the activities of the bank;
- c) The level of risk that the bank can take;

- c) The risk monitoring and management capacity of the bank;
- d) The past experience and performance of the bank;
- e) The levels of specialization of the managers of the units that conduct the activities in their respective areas; and
- f) Obligations stipulated in the Law and other applicable legislation.

(3) Risk management policies and implementation procedures must adapt to changing conditions. The board of directors or the relevant internal systems officer shall regularly evaluate their adequacy and make the necessary changes.

(4) Risk management policies and implementation procedures must also include risk mitigation techniques such as hedging, insurance or credit derivatives.

Risk limits

ARTICLE 37- (1) Written limits must be determined for quantifiable risks such as credit risk, market risk, interest rate risk and liquidity risk arising from the activities of banks, and these limits must be approved by the board of directors. The risk limits shall be determined jointly with the high-level managers concerned, including the relevant internal systems officer, the manager of the risk management unit and the general manager of the bank.

(2) The risk limits shall be determined:

- a) In accordance with the level of risk that the bank can take, with its activities and with the size and complexity of its products and services; and
- b) As a minimum on the basis of personnel, units, the bank as a whole or the group in which the bank is included.

The risk limits shall be regularly reviewed and adapted in accordance with changes in market conditions and in the bank strategy.

(3) It shall be ensured that the risk limits are communicated to the relevant units and understood by the relevant personnel.

(4) The utilization of the limits shall be closely monitored and any violations promptly notified to the high-level management for the necessary measures to be taken.

New products and services

ARTICLE 38- (1) New products and services offered by banks shall be subjected to a careful evaluation. It shall be ensured that the necessary personnel, technology and financial resources are available for these products and services to be offered and that the senior management is fully aware of the risks involved in the new products and services.

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

- a) A description of the product or service;
- b) Detailed evaluation of the risks that may arise from the product or service;
- c) The cost-benefit analysis of the product or service;
- ç) Determination of the necessary resources to evaluate risk management practices and carry out effective risk management for the new product or service;
- d) An analysis linking the activities to be performed concerning the new product or service to the financial structure and capital of the bank; and
- e) Implementation procedures to be followed in measuring, monitoring and controlling the risks that would arise from the new product or service.

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

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

PART TWO

Measuring, Monitoring and Reporting of Risks and the Responsibilities of the Risk Management Unit

Risk management activities

ARTICLE 39- (1) The risk management activities shall be conducted by the risk management unit and personnel.

(2) The risk management activities shall consist of:

- a) Measurement of risks;
- b) Monitoring of risks; and
- c) Controlling and reporting of risks.

The risk management unit and personnel

ARTICLE 40- (1) The risk management unit shall be assigned the following responsibilities as a minimum:

- a) To design and implement the risk management system;
- b) To determine the risk management policies and implementation procedures on the basis of the risk management strategies;
- c) To ensure that the risk management policies and implementation procedures are implemented and complied with;
- ç) To ensure that, before entering into a transaction, the risks are understood and sufficiently evaluated;
- d) To participate in the process of designing, selecting and putting into practice the risk measurement models and giving preliminary approval, to review the models regularly and to make the necessary changes;

e) To generate daily reports from the risk measurement models used by the bank and to analyze the reports;

f) To ensure that the quantifiable risks are kept within the limits determined and to monitor the utilization of these limits;

g) To monitor compliance with the limits determined on the basis of the bank as a whole by aggregating the limits determined on a unit basis for each type of risk; and

ğ) To ensure that the results of risk measurement and risk monitoring are reported in a regular and timely manner to the board of directors or the relevant internal systems officer and the high-level management.

(2) The risk management unit regulation, prepared by the risk management unit, considered appropriate by the relevant internal systems officer, and approved and adopted by the board of directors, shall include provisions concerning the required educational status, experience and levels of knowledge and skill of the risk management unit personnel.

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

(4) **(Additional paragraph: OG-24/02/2011-27856)** In banks where activities carried out by risk management unit may be performed by one personnel, risk management unit activities are executed by the aforementioned personnel having duty, authority and responsibilities of head of risk management unit.

Risk measurement methods

ARTICLE 41- (1) Banks shall establish effective systems for the measurement of quantifiable risks and for the evaluation of non-quantifiable risks.

(2) Different measurement methods and models may be used to measure and evaluate risks. In determining the methods or models to be used for risk measurement, banks shall consider the following points as a minimum:

- a) The structure, volume and complexity of activities;
- b) Why the model or method is needed;
- c) The assumptions of the method or model;
- ç) The availability of the data to be used;
- d) The suitability of the information systems; and
- e) The experience of the personnel.

(3) The board of directors or the relevant internal systems officer must evaluate the assumptions and limitations concerning the model used, the basic assumptions used to measure risks, and the sufficiency and suitability of data sources and implementation procedures.

(4) The accuracy and reliability of the risk measurement method or model shall be determined by means of retrospective tests using actual results. The risk measurement methods and models shall be periodically updated to reflect changing market conditions.

(5) Written policies and implementation procedures shall be created within the bank in relation to the functioning of the risk measurement systems, and methods shall be developed to monitor compliance with these policies and implementation procedures.

Scenario analysis and stress testing

ARTICLE 42- (1) Banks must have the capacity to measure the impact of any changes in the risk factor on their incomes and expenses.

(2) Banks shall establish a system to implement stress testing and scenario analyses in a regular fashion so as to evaluate the impact of unexpected market conditions on their basic areas of activity.

(3) The results of scenario analyses and stress testing shall be regularly reviewed by the board of directors or the high-level management and reflected in policies and limits.

PART THREE

Miscellaneous and Final Provisions

Obligation to notify

ARTICLE 43- (1) Banks must notify the Agency in writing of the appointment or removal of the internal systems officer, the members of the audit committee, and the high-level managers of the units included within the scope of these systems, within seven working days from the date of the relevant decision.

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

(3) Banks shall, within three months from the date of publication of this Regulation, report to the Agency their approved risk management policies and implementation procedures.

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

(5) Among the internal audit unit reports submitted to the board of directors under the fourth paragraph of Article 31 hereof, the year-end report which corresponds to the period of one year shall be sent to the Agency within ten days from the date of its submission to the board of directors. This report shall be prepared on the basis of the one-year period.

Applications to be made in Turkish

ARTICLE 43/A (Additional Article: OG-24/02/2011-27856) - (1) Within the frame of this Regulation, Banks shall realize in Turkish all of their;

- a) Reportages including the ones to be made by units within the scope of internal systems and the personnel of this unit to the top management, by up level management to the

- top management and to the executive board of the audit committee and the reportages to be made to the top management concerning the control activities related to operational activities,
- b) Internal rules to be implemented such as strategy, policy, application methods under any name,
 - c) Internal writings.

The Regulation abolished

ARTICLE 44- (1) The Regulation on the Internal Audit and Risk Management Systems of Banks which was published in the Official Gazette Nr. 24312 dated February 8, 2001 is hereby abolished.

Adaptation of audit committee members

PROVISIONAL ARTICLE 1- (1) Banks shall bring their situation into line with the provisions of Article 6 hereof by May 01, 2007.

Harmonization process of information systems

PROVISIONAL ARTICLE 2- (Additional Provisional Article: OG-01/06/2010-27598)

(1) Banks which are obliged to transport their systems to inland within the scope of article 11(4) of the Regulation equip their systems with this Regulation until May 1, 2012 and notify the studies they shall carry out in accordance with the procedures and principles set forth by the Agency.

Adaptation period concerning procurement of support services

PROVISIONAL ARTICLE 3- (Additional Provisional Article: OG-01/06/2010-27598)

(1) Support services procured by banks, which are in violation of the Article 11(4) of this Regulation are aligned with this Regulation during the transition process set forth in Provisional Article 2.

Adaptation period concerning the usage of primary systems in operation-based accounting

PROVISIONAL ARTICLE 4- (Additional Provisional Article: OG-24/02/2011-27856)

(1) Pursuant the second sub-clause of the Article 11, in keeping records of accounting based on operations, Banks which do not possess information systems which may keep records upon the primary systems necessary to be established inside the country pursuant to the forth sub-clause of the same article and by not taking another accounting system as reference and by composing directly these records, shall make their situation appropriate to this structure until May 1, 2012.

Entry into Force

ARTICLE 45- (1) The provisions of this Regulation enters into force on the date of its publication, except for Article 9(2e), which shall enter into force on April 1, 2007.

Enforcement

ARTICLE 46- (1) The provisions of this Regulation shall be enforced by the Chairman of the Banking Regulation and Supervision Agency.

ANNEX - 1

BANK RISK EVALUATION MATRIX

<i>Operational Activities in the Bank</i>	<i>Volume or Relative Weight</i>	<i>Risks Concerning Operational Activities</i>							<i>Risk Management</i>	
		<u><i>Credit Risk</i></u>	<u><i>Market Risk</i></u>	<u><i>Liquidity Risk</i></u>	<u><i>Operational Risk</i></u>	<u><i>Regulatory Risk</i></u>	<u><i>Credibility Risk</i></u>	<u><i>Other Risks</i></u>	<i>Supervision</i>	<i>Internal Control</i>
Lending (it may be listed by types)										
Individual Banking Operations										
Deposit Collecting and Investment Products										
Fund Management (including balance-sheet and off-balance-sheet trading operations)										
Financial Investments and										

Placements										
Administration and Custody of Client Funds										
Mergers and Takeovers										
Insurance Services										
Payments System										
Information Systems										
Human Resources										
Legal Transactions										
New Technologies										
Other Activities										
<i>Final Risk Level:</i>										