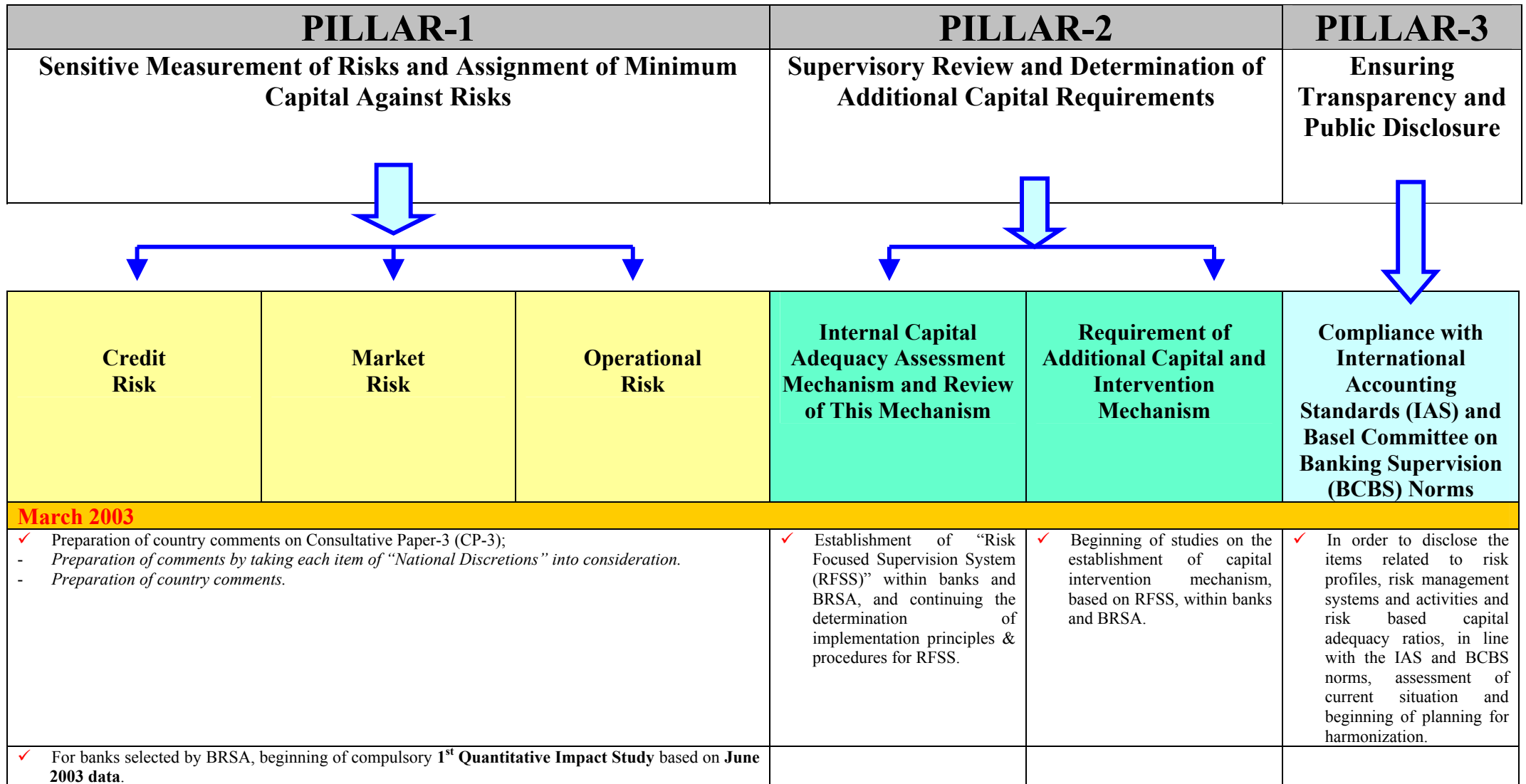


ROAD MAP FOR THE TRANSITION TO “NEW BASEL CAPITAL ACCORD (BASEL-II)”^(*)

* “The Basel-II Steering Committee” unanimously agreed on this Road Map on 26 September 2003. The Road Map is subject to a dynamic assessment and updating process. The Steering Committee is formed by representatives from Banking Regulation and Supervision Agency (BRSA) and eight banks and the secretariat of the Steering Committee is carried out by Banks Association of Turkey (BAT).

ROAD MAP FOR THE TRANSITION TO “NEW BASEL CAPITAL ACCORD (BASEL-II)”



Till July 2003			
✓ Beginning of business line classification in line with Basel-II definitions.		✓ Pursuant to the provisions of “ Regulation on Internal Control and Risk Management Systems of Banks ” issued in Official Gazette on 8 February 2001, review of banks’ internal systems and risk profiles.	✓ Searching and analyzing G-10 practices and future plans on disclosure of the items related to risk profiles, risk management systems and activities and risk based capital adequacy ratios, in line with the IAS and BCBS norms.
✓ In order to measure risks better, planning of necessary revisions in the accounting system regarding the business line classifications.		✓ Regarding the “ Regulation on Internal Control and Risk Management Systems of Banks ”, issuing “ Communiqué Nr. 1 ” on risk focused internal control.	
✓ In order to collect statistical data for market & credit risk, and to measure these risk in a sensitive manner, planning of activities and determination of principles & procedures regarding the cooperation among banks and the centralization of data collection.	✓ In order to collect statistical data for operational risk, planning of activities and determination of principles & procedures regarding the cooperation among banks and the centralization of data collection.	✓ Regarding the “ Regulation on Measurement and Assessment of Capital Adequacy of Banks ” issued in Official Gazette on 31 January 2001, issuing a Communiqué and a Circular on review of banks’ market risk models.	
✓ During transition to Basel-II, determination of educational needs of banks and other parties and beginning of planning; advising to banks’ training and human resources departments.			
Till November 2003			
✓ Discussing implementation issues with the Accord Implementation Group (AIG) of BCBS and major external credit assessment institutions	✓ Discussing implementation issues with the Accord Implementation Group (AIG) of BCBS.		
✓ Regarding the establishment of external credit assessment institutions in Turkey, preparation of a draft regulation on the establishment and operations of these institutions, which also includes the necessary professional standards and corporate structuring provisions. ✓ Beginning of studies on the eligibility criteria of external credit assessment institutions.		✓ Ensuring the banks’ internal systems functioning in line with the provisions of “ Regulation on Internal Control and Risk Management Systems of Banks ”.	

✓ Finalizing the 1st Quantitative Impact Study.	✓ Regarding the implementation of RFSS within BRSA and banks, establishment of minimum infrastructure determined by BRSA and beginning of implementation (<i>Assessment of bank risk matrices; using the matrices as a tool for supervisory planning and intervention</i>).	✓ Improvement of studies on the establishment of capital intervention mechanism, based on RFSS, within banks and BRSA and determination of additional studies.	✓ In order to comply with the disclosure requirements of Pillar-3, assessment of current situation for disclosure requirements of Turkish banks and finalizing the harmonization planning to Basel-II.
Till 1 January 2004			
✓ Beginning by 2004, quarterly analysis of banks' progress towards Basel-II (<i>done by BRSA and TBA</i>), and for the harmonization of these activities, advising and taking necessary measures.	✓ Regarding the "Regulation on Internal Control and Risk Management Systems of Banks", issuing " Communiqué Nr. 2 " on risk management.	✓ Within the scope of the Communiqué on structural interest rate risk, beginning of studies on determination of additional capital requirements with the help of stress tests done by BRSA and banks.	✓ Regarding the disclosure requirements, determination of scope, format, frequency and lines of disclosure.
✓ Organizing a symposium in order to brief/inform representatives of companies, government agencies and other related parties. Discussion of potential impacts of Basel-II over financial system, non-financial system, government and other parties and publicizing reports on conclusions.	✓ Issuing the Communiqué on structural interest rate risk.		
✓ Reviewing of studies on business line classification in line with Basel-II definitions.	✓ Issuing the Communiqué on measurement and management of operational risk.		
✓ Planning for the improvement of risk measurement and management systems, regarding internal limit mechanisms and risk mitigation techniques.	✓ Regarding RFSS, determination of principles & procedures for the risk mitigation techniques (collateral types, haircuts, etc.).		
✓ Continuing the studies on the improvement of risk provisioning and internal capital assessment systems in line with Basel-II.			
Till 31 March 2004			
✓ In order to establish an efficient discussion and cooperation forum on national discretions, organizing symposiums and meetings and publicizing reports on conclusions.			
✓ For banks intending to apply FIRB or AIRB , beginning to improve the current scoring systems.	✓ For banks intending to apply internal models approach, beginning to improve the current infrastructure and setting necessary incentive mechanisms.	✓ For banks intending to apply SA or AMA , beginning to improve the current infrastructure.	
✓ According to the business lines defined in line with Basel-II, tailoring necessary revisions in the accounting system and beginning of test reporting.			
✓ Establishment of collateral classification and valuation systems in line with Basel-II.	✓ Efficient execution of operational loss classification and data collection systems in line with Basel-II.		

Till 30 June 2004					
✓	Regarding the implementation of Basel-II on a consolidated level, review of Joint Forum (formed by BCBS, IOSCO and IAIS) approaches and, if necessary, adoption of these approaches into national legislation.				
✓	Discussion with major external credit assessment institutions and finalizing the feasibility studies for the establishment of an external credit assessment institution (as a subsidiary of a foreign firm or as a domestic firm) in Turkey.				
✓	Beginning of studies on the establishment of databases and management information systems (MIS) within banks.				
✓	Beginning of testing period for risk provisioning and internal capital assessments systems.				
Till 30 September 2004					
✓	Beginning of studies on the determination of loss given default (LGD) and exposure at default (EAD) values for all banks intending to apply FIRB .				
✓	In order to assist the credit risk measurement systems, finalizing the feasibility studies on the establishment of a centralized database.	✓ In order to assist the market risk measurement systems, finalizing the feasibility studies of a centralized database for banks, which have significant trading activities <i>(If there is no need for such a database, no feasibility study will be conducted.)</i>	✓ Discussion with major international institutions that collect operational risk data, and finalizing the feasibility studies for the establishment of a database in Turkey.	✓ Regarding RFSS, inspection and assessment of activities related to the revision of current credit scoring systems in line with Basel-II internal ratings based approaches, within the scope of risk matrices.	
✓	Regarding the debt management, reaching to an agreement with the Treasury on Basel-II transition strategy; assessment of position of market maker banks against Basel-II.			✓ Regarding RFSS, inspection and assessment of collateral classification and valuation systems in line with Basel-II, within the scope of risk matrices.	
✓	Regarding the fund flows, reaching to an agreement with related chambers and unions on the Basel-II transition strategy.			✓ Regarding RFSS, inspection and assessment of risk provisioning and internal capital assessments systems in line with Basel-II, within the scope of risk matrices.	
✓	Finalizing the legislation for the external credit assessment institutions, defining the eligibility criteria for these institutions and beginning implementation.				
✓	Defining and publicizing the eligibility criteria for significant banks .				

Till 1 January 2005					
✓ Defining national discretions.					
✓ Beginning of compulsory 2 nd Quantitative Impact Study based on December 2004 data.					
✓ Determination of significant banks .		✓ For significant banks , finalizing the principles & procedures for internal capital assessment mechanisms and review of them; beginning of testing period.			✓ Review of progress towards the implementation of disclosure requirements of IAS and BCBS norms related to risk profiles, risk management systems and activities and risk based capital adequacy ratios in Turkey; taking necessary additional steps.
✓ Planning of capital adequacy standards (<i>Basel-I standards or stricter</i>) and other measures for non-significant banks.					
✓ Finalizing business line classifications in line with Basel-II; regarding the accounting system, transition from testing period to implementation.					
✓ Establishment of and activating “Corporate Loans Database” and/or “SME Loans Database” which provides necessary data to volunteer banks (<i>Beginning of data collection</i>).	✓ Establishment of and activating “Market Risk Database” which provides necessary data to volunteer banks (<i>Beginning of data collection</i>).	✓ Establishment of and activating “Operational Risk Database” which gives necessary data to volunteer banks. (<i>Beginning of data collection</i>).			
Till 30 June 2005					
✓ Determination of banks that will apply FIRB and AIRB .	✓ Determination of banks that will apply internal models based approach.	✓ Determination of banks that will apply SA and AMA .			
✓ Beginning of testing period for solo implementation.					
Till 1 January 2006					
✓ Beginning of testing period for consolidated implementation.					
✓ Finalization of regulations for compliance to Basel-II.					
✓ Determination of all the components of level playing field for banking activities .					
Till 30 June 2006					
✓ Implementation of capital adequacy standards (<i>Basel-I standards or stricter</i>) and other measures for non-significant banks.		✓ Beginning of applying internal capital assessment mechanisms and beginning of reviewing these mechanisms.	✓ Functioning of intervention mechanism based on RFSS.		✓ Implementation of disclosure requirements of IAS and BCBS norms related to risk profiles, risk management systems and activities and risk based capital adequacy ratios (<i>For banks determined by BRSA, deadline for this requirement might be extended to the end of transitional period</i>).

Till 31 December 2006			
✓	Determination of additional transitional period (<i>This period might be determined earlier depending on internal and external factors</i>).		
✓	Requiring banks to send their growth and capitalization plans (for market, credit and operational risks separately).		
✓	Finalization of national discretions.		
✓	Beginning of implementation.	✓	Review of implementation.
End of Transitional Period (X)			

(X) Will be determined by BRSA depending on internal and external factors.

SA: Standardised Approach to Operational Risk

FIRB: Foundation Internal Ratings Based Approach to Credit Risk

AIRB: Advanced Internal Ratings Based Approach to Credit Risk

AMA: Advanced Measurement Approaches for Operational Risk