

THE LAW

ON

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

Law No. 1211

Date of Acceptance: January 14, 1970

PART ONE

ESTABLISHMENT, FUNDAMENTAL DUTIES AND POWERS, CAPITAL

Establishment and Title

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Article 1- (As amended by Law No. 3985, dated April 21, 1994)

A bank, under the name of the "Central Bank of the Republic of Turkey", is hereby established in the form of a joint stock company with the exclusive privilege of issuing banknotes in Turkey and is vested with the powers and duties set forth in this Law.

The Bank shall be subject to the provisions of private law in cases where the Law is not explicit.

The Central Bank of the Republic of Turkey is hereinafter referred to as the "Bank" in this Law.

Head Office and Branches

Article 2- (As amended by Law No.3098, dated December 6, 1984)

The head office of the Bank is in Ankara.

The Bank may, by Board decision, establish a banknote printing house and open branches in cities within the country where deemed necessary. Similarly, the Bank may maintain correspondent banking relationships both within the country and abroad.

The Bank shall convey its decisions in this regard to the Prime Ministry.

The Bank may also establish representative offices in foreign countries by Board decision and with the approval of the Prime Ministry.

Memberships and Participations

Article 3- The Bank may, by Board decision, become a member of international finance, economic and professional organizations in which central banks participate and may participate in such organizations as a shareholder with the consent of the Government.

Fundamental Duties and Powers

Article 4- (As amended by Law No. 4389, dated June 18, 1999)

1 - The fundamental duties of the Bank pursuant to the provisions of this Law and with the aim of encouraging economic development shall be as follows:

a) to carry out money and credit policy in accordance with the needs of the economy and so as to maintain price stability by taking into consideration the development plans and annual programs;

- b) to take necessary measures jointly with the Government to protect the domestic and international value of the national currency;
- c) to regulate the volume and circulation of the national currency in accordance with this Law;
- d) to carry out the operations of extending credits to banks within the principles and limits stated by this Law;
- e) to conduct open market operations in order to regulate money supply and liquidity in the economy;
- f) to determine the terms and types of deposits, as well as their maturity dates and validity periods;
- g) to determine the parity of the national currency against gold and foreign currencies within the principles to be set forth by the Government;
- h) to manage gold and foreign exchange reserves in line with the economic interests of the country within the framework of relevant rules and regulations and decisions to be taken by the Government;
- i) to trade in foreign exchange and precious metals on the stock exchange within the framework of the decisions to be taken by the Government;

2 j) (Repealed by Law No. 4389 dated June 18, 1999)

The Bank shall, in particular, carry out the duties of financial and economic advisor, fiscal agent and treasurer to the Government in conformity with the provisions of this Law.

II - Fundamental powers of the Bank are as follows:

- a) The privilege of issuing banknotes in Turkey shall rest exclusively with the Bank.
- b) The Bank shall have the authority to take decisions on money and credit issues and to submit proposals to the Government within the powers granted by this Law.
- c) The Bank shall determine the rediscount, discount and interest rates applicable to its own transactions while taking into consideration the economic policies pursued by the Government.
- d) The Bank shall have the power to review the banks' compliance with all the arrangements it makes under the powers and duties granted to it by legislation in force.

III - Main advisory duties of the Bank are as follows:

The Bank shall;

- a) present to the Government, when required, its views with regard to measures to be taken on money and credit within the powers granted by this Law.
- b) submit advisory opinions on matters related to implementation of the Banks Act or on banking and credit issues in general, upon request of the Government.
- c) be consulted prior to any decision granting permission for the establishment of financial institutions other than banks, as well as for the liquidation of such institutions for which the power to liquidate rests with the Government.

The Bank shall be responsible for the independent exercise of the powers granted by this Law.

Capital and Shares of the Bank

Article 5- The capital of the Bank shall be TL 25,000,000.- and shall be divided into 250,000 shares, each with a value of TL 100.-. The capital may be increased with the

approval of the Government. The nominal values of the shares shall be TL 100.-, 200.-, 500.-, 1,000.-, 5,000.- and 10,000.-.*

Type of Shares

Article 6- The shares of the Bank shall be registered.

Classes of Shares

Article 7- The shares shall be divided into (A), (B), (C) and (D) classes.

Class (A) Shares

Article 8- Each class (A) share shall consist of at least 100 shares. The shares in this class shall belong solely to the Treasury and shall not constitute less than fifty one percent of the capital.

Class (B) Shares

Article 9- Class (B) shares shall be allocated to national banks operating in Turkey.

Class (C) Shares

- 3 **Article 10-** A maximum of 15,000 shares shall be allocated as class C shares to banks other than the national banks and to companies possessing certain privileges.

Class (D) Shares

Article 11- Class (D) shares shall be allocated to Turkish commercial institutions and to legal and real persons of Turkish nationality.

Change in the Classes of Shares

Article 12- The Bank shall immediately respond to requests for the conversion of shares from one class to the other. No commission shall be charged for the conversion of shares from one class to the other.

The number of class (C) shares shall in no event exceed the amount set forth by this Law.

PART TWO

ORGANIZATION AND ORGANS OF THE BANK

Organization and Organs

Article 13- The organs of the Bank shall be as follows:

- a) The General Assembly of Shareholders
- b) The Board
- c) The Office of the Governor
- d) The Auditing Committee
- e) The Executive Committee
- f) The Discount Committees of the
Head Office and Branches
- g) Branches

CHAPTER I

* By Decision of the General Assembly dated April 28, 1988 and the Decree of the Council of Ministers on Amending Certain Articles of the Articles of Association of the Bank No. 88/13075, dated June 24, 1988 the capital was increased to TL 25,000,000,000.-; the nominal values of the shares were increased to TL 100,000.- 200,000.-, 500,000.-, 1,000,000.-, 5,000,000.- and 10,000,000.-.

The General Assembly

Right to Vote

Article 14- The General Assembly of the Bank shall be composed of the shareholders who are registered in the share book of the Bank. The General Assembly shall convene each year on a date indicated by the Articles of Association of the Bank. Each person owning ten shares or representing this number of shares shall be entitled to one vote.

Duties and Powers of the General Assembly

Article 15- The General Assembly shall have the following duties and powers:

- 1- to examine the annual report submitted by the Board and the report of the Auditing Committee;
- 2- to examine and approve the balance sheet and the income statements of the Bank;
- 3- to release the members of the Board and the Auditing Committee;
- 4- to increase the capital;
- 5- to amend the Articles of Association of the Bank;
- 6- to render a decision concerning the liquidation of the Bank.

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Articles of Association of the Bank and Liquidation

Article 16- a) The Articles of Association of the Bank shall become effective upon the approval of the General Assembly and by a decree of the Council of Ministers. Amendments to be made in the Articles of Association of the Bank shall also be subject to this provision.

b) Decisions to be taken for the liquidation of the Bank before the end of the period set forth in Article 1 shall be valid upon the approval of the Council of Ministers provided that all of the commitments assumed by the Bank under this Law are fully performed.

A two thirds majority shall be required in the General Assembly to amend the Articles of Association of the Bank and to decide on its liquidation as well.

The Office of the Governor

Article 17- The Governor shall chair the General Assembly.

Representation

Article 18- Those who are not shareholders may not represent more than one vote by proxy at the General Assembly.

CHAPTER II

The Board

Composition

Article 19- The Board shall be composed of the Governor and six members to be elected by the General Assembly.

The duties of the members may not be reconcilable with any other duty outside the Bank whether of a legislative, official or private nature unless otherwise permitted by a special law. Furthermore, these members shall not be allowed to engage in trade, nor shall they become shareholders of banks or companies. Duties in charitable associations and in foundations with charitable, social and educational purposes and partnership in non-profit-making cooperative companies are excluded from this provision.

Members of the Board shall be required to have received a higher education and to have acquired knowledge and experience in banking or in the fields of economics and finance.

The Governor shall be the Chairman of the Board.

Salaries and remuneration of the Board members shall be determined by the Council of Ministers. Travel expenditures to be incurred to attend Board meetings by those members residing elsewhere other than the city where the Head Office is located shall be covered by the Bank.

Term of Office

Article 20- The term of office of Board members shall be three years.

One third of Board members shall be renewed every year. Members who are to leave the Board at the end of the first and second years shall be designated by drawing names.

Members whose terms of office have terminated may be re-elected.

Meetings, Decisions and Withdrawal from Voting

Article 21- Members of the Board shall neither participate in discussions nor cast votes on credit issues concerning themselves or persons with whom they have a link of interest or
5 kinship in the degrees stated in sub-paragraph 3 of Article 245 of the Code of Civil Procedure.

Board meetings shall be held in Ankara. When necessary, the meetings may also be held elsewhere. The meetings shall be held at least once a month upon a call issued by the Governor. The agenda shall be drawn up by the Office of the Governor. Items brought forth by members that are not drafted in the agenda, shall be included therein and discussed at the same meeting if also supported by the Governor. Otherwise, a decision may be taken to include them in the agenda of the next meeting.

The Board shall convene with the participation of at least two thirds of the members and render a decision by the majority of the members present. In the event of a tie, the proposal of the party supported by the Governor shall be considered adopted.

Vice Governors may attend Board meetings but shall not have the right to vote.

Duties and Powers of the Board

Article 22- (As amended by Law No. 4389 dated June 18, 1999)

The duties and powers of the Board shall be as follows:

- 1- to determine the conditions for replacement of banknotes in circulation by a new issue, as well as their withdrawal from circulation and destruction when necessary;
- 2- to determine the rediscount, discount and interest rates, as well as the fees and commissions applicable to the transactions of the Bank;
- 3- to render a decision on the proposals that the Bank shall submit to the Prime Ministry in accordance with sub-paragraph (b) and second sub-division of sub-paragraph (c) of paragraph II of Article 40, as well as on the issues set forth by sub-paragraph (a) and first sub-division of sub-paragraph (c) and sub-paragraph (d) of the said paragraph;
- 4- to determine the terms and conditions of credits to be extended by the Bank and the limits on rediscount and advances;
- 5- to determine the terms and types of deposits, their maturity dates and validity periods;
- 6- to determine the parity of the national currency against gold and foreign currencies in accordance with sub-paragraph (g) of Article 4;

- 7- to manage the gold and foreign exchange reserves within the scope of Article 4; to determine the terms and conditions of transactions to be carried out on the stock exchange in foreign exchange and precious metals;
- 8- to approve the annual cadres of the Bank's personnel;
- 9- to approve the regulations drafted by the Executive Committee on the administration, organization and services of the Bank;
- 10- to take decisions on the purchase or acquisition of real property needed by the Bank, as well as on the sale when necessary of real property owned by the Bank;
- 11- to decide on amicable settlement, release and cancellation of the amounts and values exceeding the limits stated in regulations;
- 12- to prepare the annual report, balance sheet, budget and the income statements of the Bank, as well as the agenda of the General Assembly;
- 13- to appoint the Bank personnel whose appointments are entrusted to the Board by regulation, and to specify the authorized signatories binding the Bank;
- 14- (Repealed by Law No. 4389 dated June 18, 1999)
- 15- Other than the paragraphs cited above, to take decisions on issues subject to the approval of the Board by virtue of this Law, as well as on issues submitted by the Office of the
6 Governor for examination and approval.

CHAPTER III **The Auditing Committee**

Composition, Term of Office and Qualification

Article 23- Members of the Auditing Committee shall be elected as follows:

- 1- One member by shareholders of class (A);
- 2- Two members by shareholders of classes (B)
and (C);
- 3- One member by shareholders of class (D);

Each share within the classes shall be entitled to one vote.

Members of the Auditing Committee shall serve for a term of two years.

Members of the Auditing Committee shall be required to have received a higher education and to have acquired knowledge and experience in the fields of banking and accounting.

Duties and Prohibitions

Article 24- (As amended by Law No.3098, dated December 6, 1984)

The Auditing Committee shall supervise all the operations and accounts of the Bank. The Office of the Governor shall be obliged to furnish all the information and documents requested by the Auditing Committee. The Auditing Committee, having no administrative power, shall submit its opinions in writing to the Board and shall also present a copy thereof to the Prime Ministry. The Committee shall submit to the General Assembly a report to be drawn up on the operations and accounts of the Bank as at the end of the year.

Members of the Auditing Committee may not share in the profits of the Bank.

Remuneration of the Auditing Committee members shall be determined by the Council of Ministers. Travel expenditures to be incurred by those members residing elsewhere other than the city where the Head Office is located shall be covered by the Bank.

CHAPTER IV
The Office of the Governor
(A) Governor

Appointment, Qualification and Term of Office

Article 25- (As amended by Law No. 3670, dated October 25, 1990)

The Governor shall be appointed for a term of five years by a decree of the Council of Ministers. The Governor may be re-appointed at the expiration of this term.

The Governor shall be required to have received a higher education and to have acquired knowledge and experience in the fields of finance, economics and banking.

Duties, Representation and Powers

Article 26- (As amended by Law No.3098, dated December 6, 1984)

The Governor shall, in the capacity of the highest executive officer, administer and represent the Bank within the country and abroad.

The Governor shall be entrusted with the following powers:

1- to ensure the enforcement of the provisions of this Law and the decisions taken by the
7 Board.

2- to take appropriate measures in order to carry out the duties with which the Bank is entrusted by this Law, and to make proposals to the Board on such measures whenever the Governor shall deem necessary.

The Governor may, in the case of his/her dissent from the decisions of the Board, postpone the execution of any decision and may demand it be reconsidered at the next meeting. In urgent circumstances, the Board shall convene upon the call of the Governor and reconsider the issue in dispute. In the event of a disagreement between the Governor and the Board, the Prime Ministry shall act as an arbitrator.

Prohibitions

Article 27- The duties of the Governor may not be reconcilable with any other duty outside the Bank whether of a legislative, official or private nature unless otherwise permitted by a special law. Furthermore, the Governor shall not be allowed to engage in trade, nor shall he become a shareholder in banks or companies. Duties in charitable associations and in foundations with charitable, social or educational purposes and partnership in non-profit-making cooperative companies are excluded from this provision.

It shall not be considered a violation of the provisions of the first paragraph if the Governor assumes duties at inter-ministerial committee meetings held at the level of ministers and undersecretaries.

Temporary Absence and Discharge

Article 28- In the temporary absence of the Governor, the Vice Governor designated by him/her, shall act on his/her behalf during this period.

The Governor may be excused from office through the same procedure applied for his/her appointment, only in cases in which the prohibitions stated in Article 27 are violated and in which there is no longer any possibility for him/her to perform the duties entrusted by this Law.

In case of vacancy in the Governor's post, the Board shall convene under the chairmanship of the most senior member and one of the Vice Governors to be elected as acting Governor shall perform the duties and exercise the powers of the Governor.

(B) Vice Governors

Qualification, Appointment, Duties and Prohibitions

Article 29- (As amended by Decree-Law No. 281 dated May 18, 1987))

Four Vice Governors shall be appointed to assist the Governor. Vice Governors shall be appointed by a joint decree for a period of three

years from among persons having received a higher education and having acquired knowledge and experience in the fields of finance, economics and banking. Vice Governors may be re-appointed at the expiration of the said term or may be replaced in the same manner prior to the termination of this term.

CHAPTER V

The Executive Committee

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Composition, Duties

Article 30- The Executive Committee shall be composed of the Vice Governors under the chairmanship of the Governor. In cases in which the Governor is unable to chair, the Vice Governor designated by him/her shall preside over the Executive Committee.

The duties of the Executive Committee shall be as follows:

- 1- to prepare proposals to be submitted to the Board, by examining in advance the issues subject to Board decision, when deemed appropriate by the Governor;
- 2- to draw up regulations on the administration, organization and services of the Bank;
- 3- to render decisions on issues made subject to the decision of the Executive Committee by regulation;
- 4- to ensure coordination in the operations of the Bank;
- 5- to perform such duties related to appointment, salary, dismissal and retirement of the personnel other than those appointed by the Board.

Decisions of the Executive Committee shall be taken by a majority of all the members. In the event of a tie, the proposal supported by the Governor shall be considered adopted.

CHAPTER VI

Organization of Branches

Composition, Duties

Article 31- The organization and duties of the Bank's Head Office and Branches and the Banknote Printing House, as well as the composition and duties of the Executive Committees of the Branches and Banknote Printing House shall be determined by regulations.

PART THREE

PROVISIONS FOR BANK PERSONNEL

Status of the Personnel

Article 32- The Bank personnel shall consist of the Bank employees as well as the workers of the Banknote Printing House.

The term "Bank employee" shall refer to those persons appointed to perform continuously the main duties that the services of the Bank require.

Provisions of Law No. 624 on the Unions of Civil Servants shall apply to the unions which Bank employees have already established or shall establish. The prohibition imposed by Article 20 of Law No. 275, dated 15 July, 1963 shall also apply to the services of the Bank.

The Bank personnel shall be subject to the provisions of this Law and of the regulations to be set forth by the Board.

Native and foreign experts may be employed on a contractual basis by a decision of the Board.

Remuneration Policy

Article 33- The salaries and the representation allowances of the Governor and Vice Governors of the Bank shall be determined by the Council of Ministers.

The Board shall determine any additional remuneration to be paid to the Chairman and Members of the Executive Committee and to the Chairmen and Members of the Executive

- 9 Committees of the Branches and of the Banknote Printing House for their duties, provided that the amount may not exceed two-thirds of their salaries.

Salaries of other employees shall be fixed by the Board and by the Head Office Executive Committee empowered to appoint them by taking into consideration the above-mentioned salaries. The principles to be observed in this regard, as well as for the payments for business trips of the employees and all other issues shall be specified in the regulation referred to in Article 32.

Retirement of Personnel

Article 34- The provisions of Law No. 5434 shall apply to the personnel of the Bank and to those who shall be elected to the Board from posts whereby retirement benefits are provided, with the exclusion of the workers of the Banknote Printing House.

The retirement contributions of those employed at the Bank on the date of effectiveness of this Law shall be deducted from salaries fixed by Law No. 5434 as a basis for these contributions. The provision of the second sub-paragraph of paragraph (B) of article 15 of the same Law shall apply to such personnel with respect to their monthly pay increases. Provisions of the same Law shall also apply to personnel employed on a contractual basis, whose previous posts are subject to retirement benefits.

Salaries of such appointed personnel who are subject to retirement contributions after the date of effectiveness of this Law, shall be determined in accordance with the provisions of paragraph (B) of article 15 of Law No: 5434.

(As amended by Decree-Law 562, dated July 25, 1995) In connection with retirement, "supplementary salary indicator" and "senior post allowance" determined for the Undersecretaries and Deputy Undersecretaries of the Ministries shall apply to the Governor and Vice Governors respectively; and the "senior post allowances" shall apply to other personnel considering the duties they perform, which is determined for similar duties as specified in the ranks they may enter according to the Law on Civil Servants. The term of office of the posts shall be considered as being executed in the duties subject to senior post allowance pursuant to Supplementary Article no: 68 of the Law on Pension Fund no: 5434.

Secrecy and Responsibility

Article 35- Personnel of the Bank shall be obliged to observe the secrecy of matters pertaining to the Bank or to persons and institutions dealing with the Bank which they acquire within their official capacities and due to their positions, as well as not to disclose these secrets, in any manner whatsoever, to those other than the authorities entitled by law. This obligation shall continue to be binding even after they leave the Bank. Personnel of the Bank shall be subject to the provisions on tort in the Code of Obligations for the damages they cause to the Bank in connection with their duties.

PART FOUR DUTIES AND POWERS OF THE BANK

CHAPTER I Issuance of Banknotes

Issuance of Banknotes and Obligatory Circulation

Article 36- a) The circulation of banknotes already issued and to be issued by the Bank shall be compulsory and they shall have unlimited capacity of payment.

10 b) The Bank shall have the power to issue banknotes in connection with the operations stipulated in Articles 45,46,48,50,51,52 and 53.

Replacement of Banknotes

Article 37- (As amended by Law No.3098, dated December 6, 1984)

a) The Bank may replace the banknotes in circulation with new issues, when deemed necessary.

The old banknotes withdrawn from circulation shall fall under prescription after ten years from the date the replacement process commences.

The date on which the replacement process shall commence as well as the duration of the compulsory circulation of old banknotes within the prescription period of ten years shall be determined by the Board and be published in the Official Gazette.

b) Based on the principles to be determined by the Prime Ministry and the Bank and in accordance with the "Gabarit " (quadrant scales method) as set forth by regulation, old and worn out banknotes shall be replaced with the banknotes kept in reserve.

c) Principles related to the cancellation and destruction of banknotes withdrawn from circulation, and banknotes replaced due to becoming old, worn out or mutilated shall be specified by regulation.

Coins

Article 38- (Repealed by Law No: 1264 dated May 28, 1970)

CHAPTER II

Duties and Powers pertaining to the Protection of the Stability of the Turkish Currency

Matters to be Announced

Article 39- (As amended by Law No. 3098, dated December 6, 1984)

The Bank shall announce the rates of rediscount, discount and interest applicable to its operations and the conditions of the open market policy to be determined by the Board from time to time.

The buying and selling prices of gold and foreign exchange, to be determined by the Board in accordance with Article 4, as well as the decisions to be taken in conformity

with sub-paragraphs (3) and (5) of Article 22 shall be published in the Official Gazette.

Duties and Powers of the Bank in Money and Credit Issues

Article 40- (As Amended by Law No. 3098, dated December 6, 1984)

I- The Bank shall;

a) regulate the volume, type, nature of credits and the conditions for extending credits by taking into consideration the principles set forth in Article 4 with an aim to achieve economic goals and objectives and meet liquidity requirements within the credit system.

b) allocate credits only to those activities based on actual commercial transactions and which are beneficial to the needs and demands of the national economy. The Bank shall have the authority to supervise the relevant banks to ensure that these credits are utilized in compliance with the purposes herein.

II- a) Legal reserves:

The Bank shall determine whenever necessary the composition and the ratio of the liquidity requirement which the banks must maintain against their commitments.

Banks shall also be obliged to maintain reserve requirements in cash in a special blocked account to be opened with the Bank in addition to their liquidity requirement.

- 11 The Bank shall determine the interest rates to be applied to reserve requirements when deemed necessary and the other terms and conditions related to these reserve requirements.

Banks shall be obliged to deposit in a special account at the Bank within the periods to be determined by the Bank the reserves which correspond to the increases in amounts deposited with them which will be calculated in accordance with the principles to be determined by the Bank.

The Bank, upon the request of a bank from which deposits are being withdrawn extraordinarily, shall return the reserve requirements corresponding to such withdrawals without waiting for the delivery of deposit reports. The Bank shall determine the conditions governing extraordinary withdrawal of deposits and the principles governing the return of the reserve requirements.

Reserve requirements may never be utilized to finance any project or activity.

The Bank shall impose default interest on banks which fail to deposit their reserve requirements when due or which establish them deficiently at a rate to be determined on the deficient portion; and which establish the liquidity requirement deficiently at a rate to be assessed on the deficient portion of the liquidity requirement in accordance with the terms and conditions which it will determine.

The provisions of Law No: 6183 on the Procedure of Collection of Public Claims shall apply to the collection of the accrued default interest in compliance with the foregoing paragraph.

The default interest so collected shall be registered as revenue to the "Savings Deposits Insurance Fund" and to the "Rebate Fund for Interest Rate Differentials" at the ratios to be determined by the Prime Ministry.

The principles determined in sub-paragraph (a) of Paragraph II of this Article shall enter into force through the communiqués to be issued by the Bank.

b) Interest rates:

The Bank shall submit proposals to the Prime Ministry on the maximum interest rates to be charged and paid in credit operations and deposit-taking; on the nature and maximum limits of other benefits to be obtained and of expenses to be collected; on the partial or complete deregulation of these rates and on their effectiveness dates.

c) The Regulation of bank credits:

The Bank, in conformity with the objectives of the development plans and annual programs, shall take regulatory measures on the bank loans with respect to quality and quantity, and shall adjust the overall volume of credits as well as the distribution of various types of credits within the overall volume of credits by sectors and subjects.

The Bank shall submit proposals to the Prime Ministry on directing and regulating credits in conformity with the targets of the development plans and also on establishing or abolishing funds; on providing their sources from interest accrued on credits or from other means; on determining their effectiveness dates in order to achieve the objectives defined in the sub-paragraph above.

The proposals to be submitted by the Bank to the Prime Ministry in accordance with the above-stated sub-paragraph (b) and the second paragraph of sub-paragraph (c) shall become effective upon the approval of the Supreme Planning Board and by a decree of the Council of Ministers.

d) Other powers and duties: (As amended by Law No: 4491 dated December 17, 1999)

The Bank may, within the framework of subparagraph (b) of Article 36 of this Law, extend credits, to the banks within the scope of Article 14 of Banks Act No.4389 and to those that are the subject of uncertainty and lack of confidence due to the acceleration of the fund
12 withdrawals or because of uncertainty and lack of confidence in the banking system, in the amount to cover the withdrawal of funds the conditions of which shall be determined by the Bank.

In the event that the licence of a bank to perform banking operations and to accept deposits is revoked; the Bank shall in connection with banks to which it extends credits in accordance with this provision, participate to the bankrupt's estate as a privileged creditor provided that the claim is limited by the amount of the credit extended.

CHAPTER III

Relations Between the Bank and the Government and Relevant Duties

Acting as Financial and Economic Advisor, Fiscal Agent and Treasurer

Article 41- (As amended by Law No: 3291, dated May 28, 1986)

I- As financial and economic advisor:

The Bank shall be the financial and economic consultative body of the Government. In this capacity, the Bank shall submit opinions concerning money and credit policy which are requested by the Government.

The Bank shall be represented in the negotiations of financial and trade agreements to be conducted with foreign countries.

II- As fiscal agent:

The Bank may be assigned as the fiscal agent for the Government in the international financial and economic relations of the State.

The Bank may be entrusted with the duties of carrying out the financial servicing of the government paper, with the exchange controls and the implementation of foreign trade policy or with similar operations in accordance with special laws or decisions based thereon. The Bank may not be held liable by third persons for the operations it shall perform in this capacity.

III- As treasurer:

The Bank shall be the treasurer of the Government. In this capacity, the Bank shall, in particular, execute free of charge collections and disbursements and all the Treasury

operations both within the country and abroad, as well as domestic and foreign money transfers and remittances of all types on behalf of the State.

Funds of the Treasury and the annexed-budget administrations, and of local administrations and municipalities must be deposited with the Bank where the Bank is present or with its correspondent banks where it is not present.

The Bank shall pay no interest on such deposits.

Special Audit

Article 42- (As amended by Law No: 3098, dated December 6, 1984)

The Prime Minister may have the operations and accounts of the Bank inspected and audited.

The Prime Ministry may request any information in this regard from the Bank.

CHAPTER IV

Request for Information and the Centralization of Risks

Authority to Request Information, Balance Sheets and the Reports of Banks

Article 43- (As amended by Law No: 4389, dated June 18, 1999)

- 13 All banks operating in Turkey shall be obliged to submit to the Bank their annual balance sheets and income statements along with the reports of their boards of directors and auditors within one month at the latest after the date of their general assembly meetings.

The Bank may request any kind of information from the banks pertaining to their deposits, credits, foreign exchange and other operations. However, no information may be requested from the banks on the personal deposit accounts of their customers.

Centralization of Risks

Article 44- (As amended by Law No: 4389, dated June 18, 1999)

The Bank shall establish a Risk Center in order to centralize information on the risks of the customers of the banks, special finance institutions, financial leasing companies, factoring companies and such other financial institutions operating in Turkey which shall be considered appropriate by the Bank.

The aforementioned institutions shall be obliged to submit all the information requested by the Bank on the risks within the period to be determined and in conformity with the standards to be specified by the instructions of the Bank.

All the operations and records of the Risk Center shall be confidential. The Bank may only provide the aforementioned institutions with information on the risks of their customers and on those who request credits. The forms and conditions for requesting and furnishing information shall be specified in a regulation.

Notices of protests sent by banks shall be gathered at the Bank. The principles pertaining to the collection and notification of these notices of protest shall be determined by the Bank in consultation with the Banks Association of Turkey.

PART FIVE

OPERATIONS TO BE PERFORMED BY THE BANK

CHAPTER I

Operations with Credit Institutions

Acceptance of Bills and Documents for Rediscount and Advance

Article 45- a) The Bank may accept commercial bills and documents to be presented by banks for rediscount, provided that they bear at least three signatures and have a maximum of 120 days left before they mature. In lieu of one of the signatures, it is also permissible to accept collateral such as a warehouse receipt or warrant for goods or crops, together with their insurance policies. In this case, the goods and crops must be easily tradable and their value must be higher than the amount of the bill by ratios to be determined by the Bank. However, the ratio to be determined may not be less than 10 percent.

The Bank may, as an exception, be satisfied with two signatures which it considers valid.

b) Commercial bills belonging to real and legal persons engaged in industrial and mining activities to be presented by a bank; and

c) Bills to be presented by the banks entitled by law to meet the credit requirements of the tradesmen of small businesses, artisans and artisan guilds may be accepted for rediscount subject to the forms and conditions stated in sub-paragraph (a) of this Article, provided that they have a maximum of 9 months left before they mature.

d) Agricultural bills, the maturities of which do not exceed 9 months, may also be accepted for rediscount like commercial bills.

- 14 The Bank may also grant advances against the bills eligible for rediscount in accordance with the foregoing paragraphs.

Medium Term Rediscounts and Advances

Article 46- (As amended by Law No. 3098, dated December 6, 1984)

The Bank may, within the principles and conditions to be determined by the Board, accept bills to be presented by banks for rediscount having a maximum period of 8 years left before they mature, or may grant advance against such bills. The bills are required to bear at least two signatures.

Maximum Amount of Bills Eligible for Rediscount or Advances

Article 47- (As amended by Law No. 3098, dated December 6, 1984)

Except for operations to be carried out under the provisions of Article 51, the Bank may not accept for rediscount or as collateral bills and documents exceeding five per mille of the total credits it has disbursed determined by reference to its annual balance sheet of the previous year.

If the total amount of several bills bearing the same signatures should exceed the amount stated above, the excess portion shall not be accepted for rediscount or as collateral.

Advance against Bonds

Article 48- (As amended by Law No. 3291, dated May 28, 1986)

The Bank may grant advances to banks against government bonds and other sound bonds registered with the Stock Exchange at a maximum rate of 80 percent of their market value and for a maximum term of 120 days. However, no advance may be granted to banks against the bonds issued by them.

The total amount of the advances to be granted to banks in accordance with this Article may not exceed the total nominal value of the bills and instruments described in Article 45.

The Discount Committees of the Head Office and of the Branches

Article 49- A) The Discount Committee of the Head Office:

The Discount Committee of the Head Office shall, under the chairmanship of the Governor, be composed of two members to be elected by the Board and the Vice Governor concerned with such operations.

This Committee shall be entrusted with the following duties:

a) To make proposals to the Board on the rediscount, discount and interest rates which the Bank shall apply to its own operations.

b) To examine and regulate credit transactions within the powers to be granted by the Board.

B) The Discount Committee of the Branches:

The Discount Committee of the Branches shall be entrusted with performing the credit transactions in conformity with the provisions of this Law, the Regulation on Discount, Rediscount and Advances to be approved by the Board, and within the scope of instructions to be given by the Office of the Governor.

The Discount Committee of the Branches shall, under the chairmanship of the Director of the Branch, be composed of members to be designated by regulation.

The additional remuneration to be paid to the two members elected to the Discount Committee of the Head Office shall be determined by the Board provided that it cannot exceed the two thirds of their salaries.

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CHAPTER II

Operations with the Treasury and Public Institutions

Short-Term Advances to the Treasury

Article 50- (As amended by Law No: 3985, dated April 21, 1994 to be effective on January 1, 1995)

The Bank shall open each year a short-term advance account for the Treasury at a ratio not to exceed 12 percent of the excess amount of the current year's total general budget appropriations over the previous fiscal year's total general budget appropriations.

This ratio shall be 10 percent for 1996, 6 percent for 1997 and 3 percent for the subsequent years.

The interest rate to be applied to this advance account shall be determined by the Prime Ministry and the Bank each year, by taking into consideration the economic situation.

Credit to Public Institutions

Article 51- The Bank may discount and grant advances against bonds with a maximum maturity of 9 months to be issued by the State Economic Enterprises and Administrations with annexed budget operating in the economic field with respect to their purchase of raw materials and crops for their seasonal needs, or against their Treasury guaranteed bills. However, the total amount of annual discount and advance to be granted to public institutions shall not exceed half of the advance limits to be determined in accordance with Article 50. (The last sentence of this paragraph is added by Law No: 3985, dated April 21, 1994 to be effective on January 1, 1995)

The Bank shall not extend credits to these enterprises and administrations to meet their investment requirements.

The Bank shall have the power to exercise all kinds of control over such credits extended.

The maximum limits of the bills which may be accepted in this manner, as well as the discount and interest rates to be applied to them shall be decided by the Board.

CHAPTER III

Open Market Operations

Article 52- (As amended by Law No. 3291 dated May 28, 1986)

I- With an aim to regulate the money supply and liquidity in the economy, the Bank may purchase and sell, on its own behalf and for its own account;

- a) Bills having the specifications set forth in sub-paragraphs (a) and (b) of Article 45,
- b) All types of government paper, and bonds of public administrations and institutions,
- c) The bonds registered at the Stock Exchange and issued by joint-stock companies with a minimum paid-in capital of TL 500 million and the debt instruments of these companies issued by permission of the Capital Market Board,
- d) Certificates of deposit issued by banks,
- e) "Revenue Sharing" and "Profit and Loss Sharing" certificates with a maximum of 120 days left before they mature.

f) Furthermore, the Bank may purchase the above-mentioned securities regardless of their maturity dates by concluding a repurchase agreement or may sell them by concluding a reverse-repurchase agreement. The agreement period shall not exceed 91 days beginning with
16 the date of purchase or sale.

The Board may re-set the amounts of capital stated in sub-paragraph (c), in line with the changes in the wholesale price indices; and the types of securities to be included in or excluded from open market operations, by taking economic developments into account.

Open market operations shall not be conducted in order to provide credit facilities to the Treasury, to public administrations and institutions; or to other establishments and institutions. Except for the operations mentioned in sub-paragraph (f), the securities whose maturity exceeds 12 months shall be excluded from the open market operations.

The Board shall determine and establish the principles and conditions pertaining to operations to be carried out in accordance with the above paragraphs.

The Bank shall have the power to designate the establishments and institutions subject to the operations covered by this article from among the banks and intermediary institutions specified in Law No: 2499 on the Capital Market by taking into consideration the nature of the operation.

The Bank may take regulatory measures in connection with the money market operations.

II- Operations of the Bank as fiscal agent of the Treasury:

The Bank may, on behalf of the Treasury, conduct the organized buying and selling of all kinds of government paper provided that the required provisions are set aside by the Treasury.

CHAPTER IV

Operations on Gold and Foreign Exchange

Article 53- a) The Bank may buy and sell gold coins and bullion, may import and export gold, and may also receive and grant advances against gold.

b) The Bank may buy and sell all kinds of foreign exchange either forward or spot; it may grant advances against foreign exchange and may extend mail credit to banks. Moreover, the Bank may receive all kinds of advances and credits in foreign exchange, whether covered or uncovered.

The principles and conditions of operations described in this paragraph shall be determined by the Board.

c) The Bank may extend credits to correspondent banks in accordance with trade and reimbursement agreements.

The Treasury shall assume the profits and losses resulting from the changes in the values of foreign exchange deemed non-convertible by the Bank which are bought and sold in accordance with the final paragraph.

Loan Limits

Article 54- The maximum amount of the loans and their limits in accordance with the types of credits which the Bank shall extend under Articles 45, 46 and 48 shall be determined by the Board, by taking into consideration the economic targets, the principles of national monetary policy, the credit demand of the market, the liquidity of the banking system and the composition of the Bank's portfolio.

CHAPTER V

Other Operations

Article 55- The Bank may perform banking operations and services to be determined by the
17 Board.

The Bank shall supervise the operations of interbank clearing houses which already exist or which shall be established in the future in places where the branch offices are located.

PART SIX

Operations prohibited for the Bank

Article 56- (As amended by Law No. 3098 dated December 6, 1984)

a) The Bank may not extend credits and grant advances without cover except for the operations clearly authorized by this Law.

b) The Bank may not, in any manner whatsoever, be a guarantor or provide security.

The guarantee to be given for the National Lottery is excluded from this provision.

c) The Bank may not renew the securities existing in its portfolio.

d) The Bank shall neither accept for discount those bills and instruments connected solely with the purchase of real property; nor shall it grant advances based thereupon.

e) Other than the matters specified in this Law, the Bank shall neither engage in any business or trade on its behalf and for its own account, nor shall it participate in other companies and institutions, or buy shares of stock or accept them as advances.

The Bank may only print stocks, bonds, stamps, securities and foreign banknotes in the Banknote Printing House against payment.

f) The Bank may not acquire real property other than buildings for branches, archives and lodgings required for its own needs; and training course buildings, infirmaries and recreation places and other real property connected with services helping to promote the cultural and professional standings, and meeting social needs of the personnel of the Bank; furthermore, the Bank shall be required to dispose of any real property it has been obliged to acquire as a result of legal proceedings initiated by the Bank for the recovery of a debt and which it cannot use for its own needs, within a

period of three years at the most. In case of necessity this period may be extended by the Prime Ministry.

PART SEVEN

Accounts and Balance Sheet of the Bank, Bulletin, Exceptions, Exemptions and Miscellaneous Provisions

CHAPTER I

Accounts of the Bank and Accounting Period for its Balance Sheet

18 **Article 57-** The accounting period of the Bank shall be the calendar year.

Balance Sheet and Report

Article 58- (As amended by Law No. 3098 dated December 6, 1984)

The Bank shall, prior to the meeting of the General Assembly, submit to the Prime Ministry the balance sheet and the income statement along with the annual report to be prepared as of the end of each calendar year and shall have the balance sheet published in the Official Gazette.

Provisions and Special Reserves

Article 59- Provisions, in the amounts deemed appropriate by the Board, may be set aside from the gross annual profit of the Bank in order to meet contingent risks which may occur in the following years due to the operations exclusive to the Bank.

Banknotes whose periods of prescription have expired as well as the differences arising from replacement in accordance with paragraph (b) of Article 37 shall be included in special reserves.

Distribution of Profit

Article 60- The annual net profit of the Bank shall be distributed in the following order:

- a) 20 percent to the reserve fund;
 - b) 6 percent of the nominal value of its share capital to the shareholders as the first dividend;
 - c) a maximum of 5 percent of the remaining amount to the Bank personnel in an amount not to exceed the sum of two months' of their salaries; and 10 percent to the extraordinary reserve fund; after deducting the above-stated percentages;
 - d) a second dividend to the shareholders in the ratio of a maximum of 6 percent of the nominal value of its share capital by a decision of the General Assembly.
- The balance shall be transferred to the Treasury after this distribution.

Re-valuation Differences

Article 61- (As amended by Law No. 3098 dated December 6, 1984)

In the event of a change in the value of the Turkish currency, the differences, both positive and negative, arising from the re-valuation of gold and foreign exchange in

the assets and liabilities of the Bank shall be put into a special account separate from the annual income statements.

The terms and conditions of the utilization or redemption of the amount paid into this account shall be determined between the Prime Ministry and the Bank.

Liquidation

Article 62- In the event of liquidation of the Bank, the principles applicable to liquidation shall be determined in a law. The values of the shares shall be paid out with first priority from the net assets to be obtained as a result of liquidation. Following the payment of the shares at par, 80 percent of the remaining amount shall be transferred to the Government and 20 percent shall be distributed to the shareholders.

CHAPTER II

Bank Bulletin

Article 63- The Bank shall issue a bulletin announcing a brief statement of accounts as of the end of each week and shall also publish it in the Official Gazette.

- 19 The Bulletin shall contain the cash balance of the Bank, its gold assets and foreign exchange positions, the aggregate of the domestic bills payable, the Bank's deposits held in foreign countries, and other claims on one side; and the capital of the Bank, its reserves, the amount of banknotes in circulation, the deposits with the Bank, and other debts on the other side; as well as the current rediscount, discount and interest rates applicable to the Bank's operations.

This bulletin shall be forwarded to foreign central banks and the institutions which are deemed appropriate.

CHAPTER III

Exemptions, Exceptions and Miscellaneous Provisions

Exemption from Taxes, Duties and Charges

Article 64- The capital of the Bank, its reserves, profits accrued in respect of class (A) shares as well as gold bullion or gold coins to be imported by the Bank; the imports to be effected for the Banknote Printing House and the installations thereof shall be exempt from all kinds of taxes, duties and charges.*

The Bank shall be exempt from stamp duty as well as from duties and charges of any kind to be paid in connection with all the documents, announcements and other similar items associated with its own banking operations.

Tariffs Applicable to the Transportation of Valuables

* Provisions, pertaining to everykind of tax, duty and fee exemption applicable to importation are repealed by Article 1 of Law No. 3283 dated May 6, 1986

Article 65- Weight-based freight tariffs shall apply to the transportation of all kinds of gold coins, gold bullion and Turkish Lira banknotes, as well as bonds, bills and foreign banknotes belonging to the Bank by means of Türk Hava Yolları A.O., Türkiye Cumhuriyeti Devlet Demir Yolları İşletmesi, Denizcilik Bankası T.A.O. and D.B. Deniz Nakliyatı T.A.Ş.

Nature of the Books and Records of the Bank

Article 66- All kinds of documents, records, books and bills of the Bank and the statements of account based thereupon shall be considered official documents.

Domicile of the Debtor

Article 67- The address given by the debtors or by their guarantors during the conduct of a transaction with the Bank shall be considered their legal domicile. Subsequent changes shall not alter the jurisdiction of the court or its enforcement power.

Penal Sanctions

Article 68- (As amended by Law No. 3291, dated May 28, 1986)

- 20 I- a) Banks and their responsible organs which do not comply with the requirements and obligations stated in Articles 43 and 44 of this Law as well as banks which fail to establish in due time or which establish deficiently the ratios fixed for liquidity and reserve requirements under sub-paragraph (a) of paragraph II of Article 40 of this Law, shall be subject to the provisions of paragraph 2 of Article 79 of the Banks Act.
- b) Banks, institutions and establishments which do not comply with the arrangements set forth under sub-paragraph (d) of paragraph II of Article 4, paragraphs (c) and (d) of paragraph II of Article 40 and Article 52 of this Law, shall be subject to the provisions of paragraph 4 of Article 79 of the Banks Act.
- c) Those who violate the provisions of Article 35 of this Law shall be subject to the provisions of Article 83 of the Banks Act.

II- In connection with the provisions set forth in the above paragraphs, the prosecution shall commence upon a request to be made by the Bank to the Office of the Public Prosecutor when a breach of law is observed by the Bank. In other instances, the prosecution shall commence upon a precept to be forwarded from the Prime Ministry to the Office of the Public Prosecutor after obtaining the Bank's opinion. Thereafter, Articles 87 and 88 of the Banks Act shall apply.

Supplementary Article - (introduced by Law No. 3098, dated December 6, 1984)

The terms "Minister of Finance" and "Ministry of Finance" referred to in Law on the Central Bank of the Republic of Turkey No. 1211, dated January 14, 1970 are amended to read "Prime Minister" and "Prime Ministry" respectively.

Provisional Article 1- The Board of Directors of the Bank shall be transformed into the Board of the Bank on the enforcement date of this Law. The duties of the members shall continue until the completion of their respective terms of office. The duties of the member of the Board of Directors representing the personnel shall terminate on the effective date of this Law.

Provisional Article 2- As of the effective date of this Law, the General Director of the Bank shall be redesignated "Governor" and the Assistant General Directors of the Bank redesignated "Vice Governors", and their duties shall continue until the end of their respective terms of office.

Provisional Article 3- Those who are auditors on the effective date of this Law shall continue to perform their duties as members of the Auditing Committee until the end of their terms of office.

Provisional Article 4- The duties of other persons employed by the Bank on the effective date of this Law shall continue.

Provisional Article 5- Treasury bills held in the portfolio of the Bank on the effective date of this Law shall be liquidated in accordance with the principles and conditions to be determined by the Ministry of Finance and the Bank. The advance account which has been extended to T. Emlak Kredi Bankası_ against Treasury guaranteed bonds shall be liquidated in the same manner among the Ministry of Finance, the Bank and the institution concerned.

Provisional Article 6- The banknotes issued in accordance with the Law No. 1715 and which circulate on the effective date of this Law shall remain in circulation under the provisions of this Law until they are replaced by a new issue.

Provisional Article 7- All the decisions taken by the Committee for the Regulation of Bank
21 Credits shall continue to be valid after the effective date of this Law unless otherwise decided by the Bank.

Provisional Article 8- The aggregate of the shares corresponding to the TL 10 million increase in the capital which was raised from TL 15 million to TL 25 million in accordance with Article 5 of this Law, shall be allocated to class (A).

The amount corresponding to the TL 10 million shares in question shall be covered all at once from the available provisions with the Bank before the first meeting of the General Assembly after the effective date of this Law.

Provisional Article 9- (Added by Law No: 3985 dated April 21, 1994 to be effective on January 1, 1995)

The amounts accumulated in the advance account in 1994 and in the previous periods and the amounts to be utilized between 1995 and 1998 as specified in Article 50 shall be liquidated in accordance with the principles to be determined between the Prime Ministry and the Bank.

Laws Repealed

Article 69- The following laws are repealed:

Law on the Replacement of [Bank]notes by their Reserves No. 1514, dated 2.6.1929; Law on the Central Bank of the Republic of Turkey No. 1715, dated 11.6.1930 and the following amendments as:

Law No. 3133, dated 12.2.1937; Law No. 4431, dated 12.6.1943; Law No. 5167, dated 4.2.1948; Law No. 5256, dated 8.7.1948; Law No. 5377, dated 2.5.1949; Law No. 6544, dated 27.4.1955; Law No. 6571, dated 18.5.1955; Law No. 6758, dated 25.6.1956; Law No. 260, dated 24.2.1961; Law No. 142, dated 3.1.1963; Law No. 583, dated 21.4.1965 and Articles 33 and 47 of Banks Act No. 7129; paragraph 2 of Article 9, as amended by Law No. 302, of Law No. 2279 on Loans.

Paragraph 3 of Article 4 of Law No. 468* dated May 12, 1964 is amended to read as follows:

"The Central Bank of the Republic of Turkey is not considered to be a State Economic

* Law No. 468 is abolished by Law No. 3346 dated April 2, 1987

Enterprise and is not subject to audit as set forth by this Law. Auditing of this Bank by the Turkish Grand National Assembly shall be conducted through the examination of the National Budget as referenced in Article 94 of the Constitution."

The final paragraph of Article 4 of Law No. 468, dated May 12, 1964 is amended to read as follows:

"The administrations, establishments and public professional organizations stated in paragraphs 1 and 2 are considered public corporate bodies for the purposes of paragraph 1. Provisions of current laws in force which do not comply with this Law shall not apply to the Bank."

Enforcement Date

Article 70- This Law shall become effective on the date of its publication.

Enforcement

Article 71- The Council of Ministers shall be entrusted with the enforcement of this Law.