

## CREDIT RATING AND RATING ASSESSMENT SYSTEM GENERAL PRINCIPLES

Internal credit rating and assessment system implies the models and methods which have been designed to assess financial institutions which operate in Turkey with whom membership or credit line has been established / to be established, in a standardized manner with regards to their credit worthiness and strength to fulfill present or future commitments to Takasbank and to classify them under grades which indicate the financial strength.

With the exception of the transactions with The Undersecretariat of Treasury, Republic of Turkey Central Bank and the Central Registry Agency, this includes the credit, risk, safekeeping, collateral and transaction limits allocated to banks, capital market intermediaries, custodians and other financial institutions by the Board of Directors based on the credit rating and assessment systems outcome and Board of Directors' membership selection process in markets operated by Takasbank or where Central Counterparty Service is enabled.

The purpose of the internal rating and assessment system is;

- 1) To determine the credit limits for domestic or overseas banks, brokerage firms and other financial institutions for loans and deposit placement,
- 2) To set the credit limits for the fixed income instruments that will be purchased by Takasbank,
- 3) To determine the membership types in markets operated by Takasbank or where Central Counterparty Service is enabled,
- 4) To set the risk and transaction limits in markets operated by Takasbank or where Central Counterparty Service is enabled,
- 5) To set bank guarantee or fixed income instrument limits which will be treated as collateral in markets operated by Takasbank or where Central Counterparty Service is enabled,
- 6) To set the safekeeping limits for the custodians where Takasbank safe keeps its proprietary, members' or members' clients' capital market instruments.

The methods and models employed for the purpose of internal credit rating and assessment shall be arranged in accordance with general principles.

The model and methods employed during internal credit rating and assessment differ for each group; banks, brokerage firms and other financial institutions.

### INTERNAL CREDIT RATING AND ASSESSMENT SYSTEM

#### Financial data and ratios

The financial data that will be studied during internal credit rating and assessment process shall be sourced from sectorial associations such as The Turkish Banks Association, Turkish Financial Institutions Association, Turkish Participation Banks Association, Turkish Insurance, Reinsurance and Pension Funds Association and Turkish Capital Markets Association and/or directly from the subject of credit rating and assessment. The financial data subject to the analysis should be obtained from independently audited past financial reports

The financial data and the financial ratios derived from this data is not allowed to have an impact on the credit rating and assessment outcome below 60%.

#### Market data and ratios

Market data, which measures the efficiency of the subject institution, can be employed for the purpose of credit rating and assessment

The market data or the ratios derived from the market data is not allowed to have an impact on the credit rating and assessment outcome above 20%.

### **Corporate governance notes and other non-financial data**

For the purpose of credit rating and assessment, the corporate governance ratings assigned by the rating agencies authorized by the Capital Markets Board and non-financial data such as mid and upper level manager's moral character, & competencies, the credibility and operations of their shareholders may be employed.

Independent corporate governance ratings and other non-financial data are not allowed to have an impact over 40% to the credit rating and assessment outcome.

### **Threshold or base value and ratios**

In the course of internal credit rating and assessment, to assess if the evaluated institution's data and ratios are positive/ sufficient or negative/insufficient or to assess the degree of positivity/ sufficiency or negativity/ insufficiency, the related group's or sector's averages, standard ratios or generally acknowledged or expert opinion based ratios are employed as threshold or base value or ratio.

### **Credit rating and assessment outcomes**

The internal credit rating and assessment models' outcomes classify the evaluated institution's short term (up to 1 year) financial strength into one of the five groups below:

#### **Exhibit 1 – Credit rating and assessment outcomes**

<<A>>	<<B>>	<<C>>	<<D>>	<<E>>
Very Strong	Strong	Sufficient	Mildly Insufficient	Very Insufficient

### **Comparison with the independent credit ratings**

The measurability efficacy of the internal credit rating and the assessment models is compared and tested against the credit rating the evaluated institution receives from independent credit institutions. The procedures map each model's internal credit rating and evaluation rating system with rating system based on internationally accepted notions and deployed by independent credit rating agencies. According to the mapping charts if there is significant discrepancy, the internal credit rating and assessment outcome is rectified based on the independent credit rating agencies' ratings. The rectification is arbitrary whenever the internal credit rating and assessment models indicate a lower credit rating, however mandatory if vice versa. The evaluated institution's overseas headquarter or domestic or overseas majority shareholder's credit rating is taken into account on the basis of its support strength and intention as well as impact on the institution, to rectify the internal credit rating in a positive or negative manner.

The independent credit rating agencies, whosever credit ratings are considered, are selected on the basis of their national and international credibility, whether their independent credit ratings are acknowledged by the banking regulation and authorized by the BRSA or CMB.

## **INTERNAL CREDIT RATING AND ASSESSMENT BASED MEMBERSHIP**

The internal credit rating and assessment outcome may be taken into consideration to discriminate between general or direct clearing / central counterparty membership in markets operated by Takasbank and/or central counterparty service is enabled.

## THE USE OF INDEPENDENT CREDIT RATINGS

The overseas institutions may be allowed into membership according to their independent credit rating, credit, risk, collateral, transaction and safekeeping limit may be allocated in their favor. For the independent credit ratings assigned to overseas institutions to be taken into consideration by the Board of Directors for membership and/or limit allocation, the subject institution should have still valid investment grade long-term international (foreign currency) credit rating from at least two international agencies.

Upon the General Manager's proposition, The Board of Directors decides the total limit for overseas institutions based on independent credit ratings.

Domestic institutions, which cannot be subject to internal credit rating or assessment or has not been yet evaluated, are accepted into membership in accordance with their independent credit rating, credit, risk, collateral, transaction or safekeeping limit may be allocated in their favor. For the independent credit rating to be taken into consideration by the Board of Directors for membership and/or limit allocation, the subject institution should have investment grade long-term national (local currency) or international (foreign currency) credit rating from at least two agencies, one being international.

For domestic institutions, the upper limit, which may be allocated according to the independent credit rating, is calculated on the basis of mapping charts.