

OTHER FINANCIAL INSTITUTIONS CREDIT RATING AND ASSESSMENT PRINCIPLES

The credit rating and assessment system study which shall be utilized to determine the limits to establish in favor of financial leasing, factoring, consumer financing companies and individual pension and insurance companies, is conducted semiannually and based on June and December financial reports. As data; independently audited non- consolidated financial statements, if non-consolidated financial statement is not published consolidated statements, annual reports, company information form, market intelligence, news in printed and visual media and independent credit ratings are used.

The data used in internal rating and assessment study are obtained from; institutional associations, Public Disclosure Platform, regulatory and supervisory institutions and websites of independent rating agencies and the assessed subject.

The weighting of the financial data, which consists of financial items and ratios derivable from the financial statements used in the credit rating model, is 70%, the weighting of non-financial data reflecting expert opinion is 30%.

FINANCIAL DATA

The financial items and ratios in the independently audited non-consolidated financial statements of other financial institutions, belonging to the rating and assessment period, are used as data.

The sizes within the financial items have been scored differently based on their significance. In scoring, sectorial average value is obtained from the reports published by institutional associations and compared to each company's own value. To reduce the effect of outliers for each financial items and ratio, not to exceed 10% of the total number of companies, the large and small data among the data may be removed from the average. Following comparison to the sectorial average, a score is calculated for each company over 100. The company, whose value equals sectorial value, receives 70% of the ratio score. As the ratio increases above the average the score approaches full points, and as it falls below the average the score moves away from the full points and decreases.

NON-FINANCIAL DATA

In the non-financial data, scoring is based on the financial and credibility strength of the other financial institutions' controlling shareholders.

Table 2_Nature of the Controlling Shareholder

Nature of the Controlling Shareholder
Large scale banks and insurance firms domiciled in Turkey or abroad
Companies which are part of large and strong capital groups, domiciled in Turkey or abroad
Medium or small scale banks and insurance firms domiciled in Turkey or abroad
Companies operating in the real sector, domiciled in Turkey or abroad
Others

INDEPENDENT RATING ADDITIONAL POINTS

Independent Credit Rating Grade

Independent credit rating grades are obtained from the companies themselves, websites of the rating companies, websites of other financial institutions or other sources on the Internet.

The independent credit rating grade of the other financial institutions and their controlling shareholders domiciled in Turkey or abroad may be reflected to the internal credit rating and assessment grade in accordance with the determined principles.

The credit rating grade has to be assigned or reviewed within the past year to be taken into account. Unsolicited rating grades from independent agencies are not taken into account.

The agencies whose ratings may be taken into account are Fitch, Moody's, Standard&Poors, Japan JCR and DBRS (Dominion Bond Rating Services). The credit ratings awarded by the rating agencies domiciled in Turkey and operating under the control of these agencies, are taken into account if they have received credit rating authority from BRSA (BDDK) or CMB (SPK). The grades assigned by other rating agencies are taken into consideration as long as they are authorized both by the BRSA (BDDK) and CMB (SPK) . However the grades assigned by the rating agencies authorized by BRSA (BDDK) or CMB (SPK) and established in Turkey are taken into consideration upon the existence of a second grade from a different rating agency.

Corporate long term national rating grades, in the absence of national grade international local currency rating grades are used for the companies domiciled in Turkey and their controlling shareholders.

Corporate long-term international foreign currency rating grades are used for other financial institutions' controlling shareholders domiciled abroad.

If the other financial institutions have independent rating grade assigned in Turkey and the controlling shareholder in Turkey or abroad, subject to the precautionary principle, one of the grades or both of them are taken into consideration.

Among the grades assigned by more than one rating agencies, the lower grade is taken into consideration.

In the event that a negative opinion is formed regarding the authenticity and reliability of the grades assigned by rating agencies, such agency’s ratings are taken into consideration.

To match internal credit rating and assessment grade with independent rating grades Table 3 is used.

Table 3_Internal and Independent Credit Rating Grades Matching Table

Internal Credit Rating and Assessment Grade	Independent Credit Rating Grades	
	Moody’s	Fitch, S&P’s, DBRS, JCR and others
TBD-A	AAA Aa1 Aa2 Aa3	AAA AA+ AA AA-
TBD-B	A1 A2 A3 Baa1 Baa2	A+ A A- BBB+ BBB
TBD-C	Baa3 Ba1 Ba2	BBB- BB+ BB
TBD-D	Ba3 B1 B2 B3	BB- B+ B B-
TBD-E	Caa1 Caa2 Caa3 D	CCC D

In the event that the internal credit rating and assessment grade is the same as the independent credit rating grade of the brokerage firm or its controlling shareholder, the internal credit rating and assessment grade is not changed and the internal credit rating and assessment grade appraised by the Bank is taken into account.

If the internal credit rating and assessment grade appraised for the other financial institutions is higher than the independent credit rating of the other financial institution or its controlling shareholder, the internal credit rating and assessment grade is downgraded in accordance with Table 4. If the other financial institutions’ controlling shareholder’s independent credit rating shall be taken into account, 75% of the scores in Table 4 are considered.

In the event that the internal credit rating and assessment grade appraised for the other financial institutions is lower than the independent credit rating of the brokerage firm or its controlling shareholder , if the internal credit rating and assessment grade is in the range between TBD-B and TBD-D , depending on the independent credit rating of the brokerage firm and its controlling shareholder , extra points are added in accordance with Table 4. If the other financial institution’s controlling shareholders’ independent credit rating shall be taken into consideration, 75% of the scores in Table 4 are considered.

If the appraised internal credit rating and assessment grade is TBD-E, other financial institutions or the controlling shareholder’s independent credit rating is not taken into account and the internal credit rating and assessment grade is not modified.

Irrespective of the appraised internal rating grade, if the independent credit rating of the other financial institution or its controlling shareholder is “D” , their limits with our Bank is cancelled and the internal credit rating and assessment grade of the other financial institution is modified as TBD-E.

In taking into consideration the controlling shareholder’s independent credit rating, Parent’s support grades, which indicate the controlling shareholder’s strength and intention to support the other financial institutions, may be sought.

Table 4 Chart related to Increasing/ Decreasing

	AAA Aaa	AA Aa	A A	BBB+ BBB Baa1 Baa2	BBB- BB+ BB Baa3 Ba1 Ba2	BB- B Ba3 B	CCC Caa	D D
TBD-A			0	-10	-20	-30	-40	CANCEL
TBD-B	+15	+10			-10	-20	-30	CANCEL
TBD-C	+20	+15	+10	+10		-10	-20	CANCEL
TBD-D	+25	+20	+15	+15	+10		-10	CANCEL
TBD-E	-	-	-	-	-	-		CANCEL

(*) If the independent credit rating grade of the brokerage firm’s majority shareholder shall be included in the appraisal, 75% of the points in the table are considered.

Corporate Governance Rating Grade

The Corporate Governance Rating grades are obtained from the firms themselves, websites of the companies who publish the report, brokerage firms’ websites, annual reports or other sources on the Internet. The grades received by brokerage firms may be reflected to their internal credit rating and assessment grade. The grade must be awarded or reviewed in the past year.

Corporate governance grade is added to the internal credit rating and assessment score as per Table 5 , not to exceed the total upper score .

Table 5_Corporate Governance Rating Grade

Corporate Governance Rating Grade	Additional Points
7,00 – 8,00	1,00
8,01 – 9,00	2,00
9,01 – 10,00	3,00

CREDIT RATING and ASSESSMENT GRADE

The companies' internal credit rating and assessment scores are attained by multiplying the scores calculated out of 100 from financial data and non-financial data sections, by the divisional weightings. The final internal credit rating and assessment score is reached by incorporating the independent credit rating and corporate governance management grades as well.

At the end of the study, the other financial institutions are assigned one of the 5 grades listed below in accordance with their total rating score.

Rating and Assessment		Explanation
Class	Grade	
A	TBD-A	Very strong
B	TBD-B	Strong
C	TBD-C	Sufficient
D	TBD-D	Mildly inadequate
E	TBD-E	Very inadequate

The upper limit is determined by multiplying the shareholders' equity of the assessed other financial institutions by the shareholders' multiple set by the Bank, corresponding to the group they were included in during the study.