This publication is a joint project with pwc

HSBC
Commercial Banking

Doing business in Turkey

Contents

Executive summary

A member of the G-20, Turkey was the world's 16th largest economy in 2010. Powered by private consumption and supported by robust macroeconomic policy framework, the Turkish economy has expanded substantially over the past decade. The country saw a 187% increase in GDP between 2002 and 2007, while annual average economic growth over the same period was 7%.

Increasing stability, thanks to restructuring of the banking sector and enforcement of tight fiscal policy in the wake of the 2001 crisis, as well as the public administration reform, the EU accession process (in addition to the customs union with the EU) and attractive tax regimes, have made Turkey a magnet for foreign investment in recent years. The global financial crisis did impact investment inflows in 2009 but GDP growth rebounded in 2010, reaching a record high of 8.9%.

Indeed, the economy remains vigorous. Inflation is currently in single figures and public debt is below 50%, although challenges remain in the form of Turkey's sizeable current account deficit and geographic inequality in wealth distribution.

Many economists forecast that over the next decade Turkey's growth will match or exceed that of any country except China and India. Others predict it could become the world's tenth biggest economy by 2050.

These factors, together with Turkey's advantageous geographical position, young, rapidly growing population and ever-increasingly qualified workforce, mean it is likely to remain an attractive target for investment well into the future. Its key sectors (including construction, automotive, energy and utilities, transportation and logistics, healthcare and banking) are therefore likely to continue to grow.

Other factors attracting investors to Turkey can be summarised as follows:

- The Turkish legal framework offers a level playing field to foreign investors and domestic companies. Foreign ownership is unrestricted, with no pre-entry screening requirements.

- Foreign investors may freely start up businesses in company, branch office or liaison office forms.

- Issues such as transfer pricing and thin capitalisation are formally regulated and classified in line with Organisation for Economic Co-operation and Development (OECD) guidelines and worldwide applications, allowing international businesses to comply with the local policies with a relative ease.

- Turkey has signed a Customs Union Agreement with the EU and customs practices are in line with World Trade Organization member countries.

Foreword

With its population of 74 m, Turkey is the 16th largest economy in the world in terms of GDP size and the population of Istanbul alone is larger than that of 19 EU countries. More than half of the Turkish population are below the age of 28 and the country has the fourth largest number of Facebook users in the world, highlighting a favourable demographic profile and unique growth potential. This young population is one of the principle reasons behind the fast growth of the Turkish economy over the past decade. Turkey's GDP growth in 2010 outpaced the US and all of the EU, putting it alongside the world's fastest growing emerging economies. FDI inflows to the country remain high, reaching US$8.9 bn in 2010.

In the aftermath of the global crisis, the importance of emerging market economies has been emphasised and growth levels in these economies are likely to outpace those of the developed world for the foreseeable future. At HSBC, we are very well positioned to the sustained growth and emergence of the Turkish economy.

HSBC's global footprint extends to 87 countries and territories around the world and this global connectivity, coupled with our talented team and local know-how, make us very well suited to provide the unique set of services required by our customers. The wide global reach of HSBC supports the demands of an increasingly inter-linked world, including those related to Turkey's strategic location in major energy corridors between the East and West.

In 2010 we celebrated our 20th anniversary in Turkey and in this time we have built a very successful bank with a network of 334 branches in 62 cities that serve over 3 m customers. Our 20th year in Turkey was marked with awards for the 'Best Debt House in Turkey' and 'Best Corporate Internet Banking in Turkey' from Euromoney and Global Finance respectively, further demonstrating the success of our business.

In order to provide the best service to our customers and business partners, HSBC, in collaboration with PricewaterhouseCoopers, has produced the Doing business in Turkey guide to help you gain valuable insight about the Turkish market and the wide range of financial services and investment opportunities that exist.

On behalf of HSBC, I would like to take this opportunity to wish you success in your businesses in Turkey and beyond.

Martin Spurling
Chief Executive Officer
HSBC Turkey

Introduction

Doing business in Turkey

Driven by private consumption and supported by a stable macroeconomic policy framework, the Turkish economy has grown significantly since the country emerged from the 2001 financial crisis. Between 2002 and 2008, Turkey's GDP experienced an annual average growth of 5.8%, versus 1.8% in the EU. Due to global turmoil in 2009, Turkey's GDP declined to US$614 bn, but rebounded in 2010, reaching US$729 bn and making Turkey the 16th largest economy in the world.

Restructuring of the banking sector, monetary discipline based on independence of the Central Bank and a floating exchange rate regime, tight fiscal policy, public administration reform, and the EU accession process with reform packages enacted by the Parliament all contributed to the transformation of the country after the 2001 crisis.

Foreign Direct Investment (FDI) inflows to Turkey declined in 2009 from a high of US$22 bn in 2007. FDI remained low in 2010 at US$8.9 bn, although this was sufficient for Turkey to be ranked 15th globally.

Since the 2001 crisis the economy has been buoyant. It remains two notches below investment-grade credit rating but inflation is in single figures and the economic outlook is promising. Public debt is below 50%. Turkey is knocking on the door of the BRICs club of emerging giants and today it is perceived as 'Europe's BRIC' or 'the China of Europe'. Some economists suggest that over the next decade, Turkey's growth will match or exceed that of any country except China and India. Others predict it could become the world's 10th biggest economy by 2050.

Key attractions of Turkey

- Turkey is located at a close proximity to Europe (two-three hours' flight to major European destinations), the Middle East and the Caucasus. Turkey benefits from its location as a bridge between Europe and Asia. It also acts as an energy corridor connecting these two continents.
- Turkey entered a customs union with the EU in 1996 and has been an EU accession candidate since 2005. This has resulted in the expansion of trade relations with Europe, which now accounts for 44% of Turkey's foreign trade.
- Turkey offers an accessible, skilled and cost-effective workforce, providing the fourth largest labour force amongst EU members and accession countries. It boasts a large population of over 74 m people, with an average age of 29, over a decade lower than the EU figure.
- The Turkish government provides various tax and non-tax incentives to foreign investors, in line with those provided to domestic companies. These include customs and VAT exemptions on various imported or locally delivered goods, including machinery and equipment, as well as priority regions offering incentives such as free land and energy support.

Investors are also able to benefit from R&D support and market research with the aim of encouraging exports and increasing the competitiveness of firms in international markets.

- The Turkish government has also introduced flexible exchange rate policies and liberal import regulations in order to promote and sustain foreign investment.
- In recent years, Turkish banks have taken an increasingly large role in financing project finance deals, benefiting in many cases from increasingly liquid balance sheets.
- The Turkish legal framework offers a level playing field to foreign investors and domestic companies. Foreign ownership is unrestricted, with no pre-entry screening requirements.
- A new commercial code nr. 6102 is currently published in the Official Gazette on 14 February 2011. The Code aims to integrate the local applications with EU law, improve transparency, protect minority rights and strengthen corporate governance principles. The new Turkish Commercial Code comes into effect from 1 July 2012.

Challenges are important

- While Turkey did not have a subprime mortgage issue, like other emerging markets, it was affected by the ongoing global credit turmoil (i.e. increasing CPI due to rising oil and food prices). During the peak of the global crisis in 2009, the Turkish Central Bank's prime lending rate was as high as 16.75%, compared with 6.25% in July 2010.
- There is a split between the east and the west of the country; economic development, investment opportunities, infrastructure and skilled staff are concentrated in the west.
- Although Turkey is moving towards adopting International Financial Reporting Standards (IFRS), this is still a work in progress. In practice, accounting standards vary from company to company.
- Turkey suffers from rising energy prices. Up to 90% of its oil and 97% of its gas resources are imported from Russia and the Middle East.
- The country's current account deficit is large. In recent years it has been comfortably financed by foreign direct investment, but long term this could lead (as it has in the past) to inflation and currency instability.
- In spite of interest rates swiftly shrinking down to record low levels, they are still high in comparison to most European countries.

Key industries in Turkey

- Travel and tourism is one of Turkey's most dynamic industries. This industry defied the economic crisis in 2009, and is booming in 2010, largely on the back of the Arab Spring, with Turkey benefiting from decreased tourism to its Middle Eastern neighbours. Tourist numbers in the first five months of 2010 were already up 14.56% over January-May 2010. The depreciation of the Turkish lira (TL) against the US dollar, as well as generally competitive prices, made Turkey a favourable destination for foreign tourists. Turkey was visited by 27.3 m and 28.5 m tourists in 2009 and 2010, respectively. With this number of tourists, Turkey was ranked the seventh most-visited country in the world. However, while tourist numbers continue to increase, revenue has shrunk, dropping from US$21.3 bn in 2009 to US$20.8 bn in 2010. The tourism sector aims to reach the top five countries in the world in terms of both tourist numbers and tourism revenue by 2023.

- Textiles and clothing is one of the most important industries of the Turkish economy and the country's foreign trade. These industries have an annual production value of US$14.6 bn and had a 13% share in total export volume in 2010. There are more than 35,000 textile and clothing companies in Turkey and the country is a major player in the world clothing industry. The Turkish clothing industry is the second-largest supplier to the EU. It has a share of 4.6% in global woven clothing exports and ranks in the top five exporting countries worldwide. The Turkish textile and clothing industry is competitive on a global scale thanks to its high quality and wide product range.

- Since the start of the new millennium, in particular, Turkey has attracted foreign direct investment. This positive economic development was felt more intensely in certain industries – retail in particular. The Turkish retail industry still featured a traditional structure until the beginning of the 2000s; its modernisation period then began and gained momentum, with a tremendous positive effect on the national economy. According to Planet Retail's report, consumer expenditure in Turkey is expected to rise to 948 bn Turkish lira in 2013. Retail sales, which stood at 23 bn Turkish lira in 1998, grew to 128 bn Turkish lira in 2003, 329 bn Turkish lira in 2008, and 317 bn Turkish lira in 2009. In line with rising GDP, retail sales are expected to reach 448 bn Turkish lira in 2013.

- Between 2002 and 2008, the Turkish construction sector experienced a significant compound annual real growth of 6.3%, higher than Turkey's GDP growth in the same period. In 2010 expenditure in the construction sector increased by 17.1%, with respect to the same term in the previous year. Key drivers include increased housing needs, eased housing credits allowing people to upgrade their homes, an increase in the number of large-scale Turkish contracting firms, and the growth of the building materials sector. Turkey is currently a market leader in terms of cement exports and is in strict competition with Egypt to be the ruling cement producer of the whole Mediterranean basin. Turkey's crude steel production in 2010 reached 29.1 m tonnes, a growth of 15.2% over the previous year. Accordingly, Turkey is ranked tenth worldwide for unprocessed steel production.

- The automotive industry is very important. At present, Turkey is the largest producer of buses in Europe. It is also responsible for more than 7% of Europe's motor vehicle production. Turkey's automotive exports grew by 20% in 2010, reaching US$15.9 bn. The total number of vehicles produced was in the region of 1.094 million in 2010. More than half of the vehicles produced in Turkey are passenger cars. Passenger cars and trucks account for more than 90% of the total number of vehicles produced. Turkey anticipates becoming the third largest producer of motor vehicles in Europe by 2015.

- At present, Turkey's energy and utilities sector is attracting significant interest from foreign investors, following the split of Turkey's main energy provider into many regional companies. The government has been privatising these companies, providing significant opportunity for investment, however, there is some public opposition. The government plans to complete the sell off of distribution companies by the end of 2010. It should be noted that the share of private sector interest in electricity distribution was only 20.1% in 2008. Additionally, Turkey wants to generate 5% of its electricity from nuclear energy by 2020 while the share of renewable energy by 2023 is targeted at 20%. Currently, hydropower accounts for approximately one-third of the electricity generated in Turkey. The country is heavily reliant on imported fuel supplies for the remainder of its power needs.

- The Turkish Electricity Transmission Company estimates that Turkey's demand for electricity will increase at an annual rate of 6.0% between 2009 and 2023. Therefore, the government is looking for investment in this industry. The total amount of investments to be made to meet the energy demand in Turkey until 2023 is estimated at around US$130 bn.

- Since transportation and logistics is one of the main pillars of both national and international trade, the Turkish government is making ongoing investments to create a new infrastructure. According to 'Strategic Plan 2009-2013' by the Ministry of Transportation, highways are given the utmost importance and will be subject to an important amount of investment.

- Despite the uncertainties caused by its being in a transition period, the Turkish healthcare sector offers great opportunities for the private sector, which is forecast to be a significant contributor of growth going forward. A total of 13 significant deals took place between 2007 and 2009 in the healthcare industry, with a total announced deal value exceeding US$850 m. Financial and strategic investors search for investment opportunities in the Turkish healthcare market due to growth prospects and the growing number of people who can afford private healthcare.

- TL interest rates have decreased consistently since September 2008 due to a series of rate cuts by the Central Bank (CBT). As a result of the macro uncertainties and increasing credit risk after the credit crisis, banks are reluctant to reflect the CBT's rate cuts to their loan rates as fast as the decrease in the cost of deposits. Given the maturity mismatch on bank's balance sheets with deposits having one and half month maturity versus an average of one year asset duration, the decline in interest rates helped to improve the Bank's net interest margin in the past 2 years. Strong asset structure and high CAR (Capital Adequacy Ratio) due to the close monitoring of the regulatory bodies, resulted in Turkey's banks being in a secure position in the financial crisis. Soundness of the Turkish economy and the finance sector has been proved during the financial crisis, and the financial sector has acted as the growth engine of the economy.

- On the back of the recovery in economic activity in 2010, inflation has increased and is forecast to be 6.9% at year-end 2011, above the target of 5.5%. The CBT has decreased one-week repo rate (the policy rate) to a rare low of 6.25% in June 2011.

- Additionally, the fact that maturities of liabilities are shorter than those of assets in the Turkish banking sector exposes the sector to liquidity and interest rate risk, which increases the sensitivity of the banking system to shocks. In this regard, starting from the year 2011, the Turkish lira required reserve ratio, which is currently at 6%, is differentiated according to the maturity structure of deposits and set as higher for short-term maturities and lower for long-term maturities.

- In this respect, a lower interest rate, combined with higher required reserve ratios would serve as a more effective policy mix. Moreover, with regard to policy measures to enhance financial stability, it will be useful to differentiate the required reserve ratios for different maturities of TL deposits in order to encourage longer-term funding and to widen the scope of the reserve requirements.

- The main challenge for the Turkish Banking Sector is the decreasing interest margins due to the rate cuts by CBT. In a low interest rate environment, banks focus on commission generation. Volume growth, expanding insurance and asset management businesses, and the introduction of new financial instruments will be the main trends in this environment in the year 2011.

Incentives for Foreign Investors

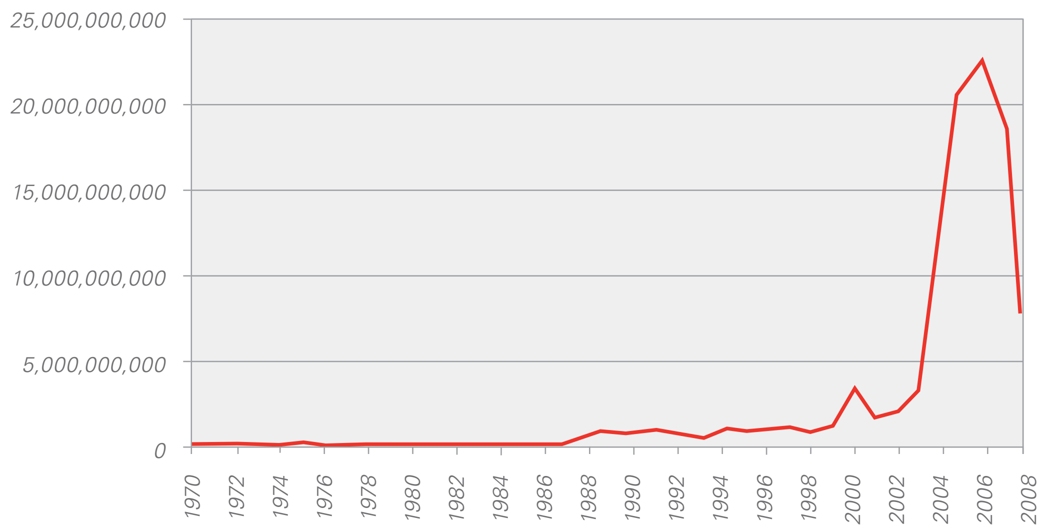
The Turkish government provides investment incentives – so-called State Aid – in order to eliminate inter-regional economic imbalances, to facilitate a larger capital contribution by the public and foreign investors to the capital build-up of the country and also to support activities that have a positive effect on employment. The investment incentives scheme is continuously being amended to encourage investments in manufacturing and services, the energy sector and exports. Local and foreign investors have equal access to investment incentives. Generally speaking, state aid can be classified as either a tax or a non-tax incentive. The principal prerequisite for benefiting from state aids is to obtain an Investment Incentive Certificate (IIC) which is granted to investors for their investments by the Undersecretariat for the Treasury.

Turkish investment incentive legislation is formed of three separate types of incentives:

1. General investment incentive regime.
2. Incentives for large-scale investments.
3. Region and sector-based incentives.

The graph opposite illustrates the FDI net inflows of Turkey according to the World Bank:

FDI net inflows of Turkey



Conducting business in Turkey

Forms of business

The Turkish legal framework offers a level playing field to foreign investors and domestic companies. Foreign ownership is unrestricted, with no pre-entry screening requirements. Since 2003, foreign investment has been regulated in a more liberalised manner under Foreign Direct Investment Law No.4875. Under this law foreign investors may freely start up businesses in company, branch office or liaison office forms. Law No. 4875 has significantly simplified the establishment process for all business forms. The incorporation process of these types of companies is a simple procedure and normally does not take more than four weeks.

Companies established by foreign shareholders are entitled to all the rights available to Turkish companies under the Turkish Commercial Code (TCC). However, commercial activities and/or ratio of foreign shareholding of such companies, particularly those operating in the civil aviation, maritime transport, media, etc. sectors are currently restricted and acquisition of ownership and/or limited real rights on real estate by referred companies are subject to pre-evaluation by the relevant authorities.

It should be noted that the Turkish Parliament has approved the New Turkish Commercial Code (the 'New TCC'), on 13/01/2011 and it has been published in the Official Gazette on 14 February 2011. The New TCC has introduced various different provisions and new legal concepts to the existing legislation. Although the New TCC is to be entered into force as of 12/07/2012, the significant changes introduced by this code in term of business formation structures have been pointed out in this section.

Business Formation Structures

Foreign investors that need to have a physical presence in Turkey may choose between a company, branch and liaison office at the formation stage.

Company

A company is an incorporated entity with a legal status separate and distinct from its owners that allows it to sue and be sued in its own name. The TCC provides several company structures in Turkey: joint stock companies, limited liability companies, collective companies, partnerships limited by shares and cooperative associations. The legal differences between those company structures mainly concern the allocation of liability and the legal form of the entity. However, largely due to the favourable position concerning the liabilities borne by shareholders, joint stock companies and limited liability companies are the corporate structures in Turkey most commonly chosen by foreign investors, along with the other business setup forms of branch offices and liaison offices.

Two types of companies, namely joint stock companies (JSC) and limited liability companies (LLC), are those in which shareholders are not liable for the debts of the company in terms of their personal assets. There are some basic differences between these two types of companies.

An LLC can be incorporated by at least two individuals or corporations and the number of the shareholders cannot exceed 50, while a JSC can be incorporated by at least five individuals or corporations. A JSC can issue debentures, while a LLC is prohibited from doing so. A JSC can go public while a LLC cannot offer its shares to the public. A statutory auditor is required for a LLC, only if and when it has more than 20 partners, while it is required for a JSC regardless of number of shareholders.

According to the New TCC, on the other hand, both JSCs and LLCs can be incorporated by one individual or corporation. Furthermore, The New TCC offers a fundamental system change with a reformist understanding and a contemporary evolution in the auditing of JSCs and LLCs.

In this sense, instead of a statutory auditing mechanism, independent auditing has been established by the New TCC. In other words, JSCs and LLCs are vested with the obligation for their financial statements to be audited by independent audit firms pursuant to International and Turkish Accounting Standards. It should be noted that audit under the New TCC's system, as opposed to the current TCC, is not limited to the audit of a single capital stock company; it also includes the audit of groups of companies. Moreover, an unaudited financial statement shall be legally null and void as per the New TCC.

There is a legal provision regarding the collection of public receivables stating that if such receivables pertaining to the last five years cannot be collected from LLCs, such receivables can be collected from the personal property of its shareholders in the ratio of their share, whereas shareholders of JSCs do not have any personal liability against debts of their companies.

It has been observed that, in some cases, having the form of a JSC may have advantages when compared to a LLC from the commercial practice perspective. Financial institutions usually find the JSC structure more reliable and prestigious when they are acting as creditors. Furthermore, in certain tenders, formation in the form of JSC might be required in order to qualify as a bidder. Moreover, in certain fields of business (e.g. finance) it is obligatory to use the JSC type.

Branch

A branch is a legal entity registered with the Trade Registry and represented by a representative/branch manager. Even though a branch has separate capital, which is allocated by the head office, it may not have a separate articles of association and consequently must act within the same field of activity as that of its head office. Even though the branch is dependent on its head office in internal relations, it may act independently and trade in its own account in external relations. It is considered to have separate tax personality than that of its head office.

A branch should be represented by a representative/branch manager with full authority, who is residing in Turkey. To this end, either a Turkish citizen or a foreigner who has work and residence permits may be appointed branch representative. However, the representatives of legal entity licensees having full authority to manage and represent the entity have to be Turkish citizens. Every branch shall use the parent company name by indicating that it is a branch. The branch model is more frequently used, especially in banking, and in certain fields of business (e.g. brokerage, portfolio management, etc.) it is not allowed.

Liaison Office

A liaison office, often also called 'representative office', is primarily established to provide preparatory and auxiliary services. (i.e. gathering information on the Turkish economy, customers, suppliers and competitors); performing surveys on markets and the activities of distributors, agents or licensees; following developments and changes in the local regulations and (if necessary) lobbying; surveying the possibility of establishing a branch or incorporation in Turkey, providing information relating to the activities of the head office and representing its products to suppliers or customers as long as this does not constitute active solicitation, etc. for its head office. It is prohibited from carrying out any kind of 'commercial activities' in Turkey.

Liaison offices may not act for profit, although they are entitled to employ liaison officers and rent office accommodation, their activities are curtailed with certain limits. A liaison, office cannot issue any invoices and cannot negotiate contracts with potential customers in a binding manner on behalf of its head office. As such, they are deemed as commercial activities and/or a materially internal element of a commercial activity.

Liaison offices are granted operation permits of three years at most. For extensions, successive extensions of a maximum of three years each may be granted by taking into consideration the activities of previous years and plans and objectives for the future. Liaison offices of banks are regulated by the Banking Regulation and Supervision Agency (BRSA) and are subject to special rules and reporting requirements determined by BRSA.

Registration Formalities

Company

In order to establish either a JSC or LLC, all documentation regarding the incorporation shall be notarised and translated into Turkish, the incorporation shall be registered before the Trade Registry corresponding to the company's headquarters and registered before the corresponding Tax Office in order to obtain a tax number and therefore enable the company to conduct commercial activities. The Foreign Investment Directorate (FID) shall be notified with respect to the establishment of the company. The minimum capital requirement for an LLC is TRY5,000 while a JSC shall be established with minimum capital of TRY50,000. Special rules apply for certain fields of business (e.g. banks, brokerage, portfolio management, insurance leasing, financing, asset management companies, etc.).

The New TCC introduces additional procedures for company establishment procedures. In this respect, a JSC or LLC shall be deemed as established when the articles of association are notarised. However, a JSC or LLC shall have a legal personality upon the registration formalities realised before the Trade Registry.

At this point, the New TCC regulates that the founders of a JSC or a LLC shall prepare a 'Founders' Declaration' in which they should declare the resources of company's capital, the reasons for such capital resource subscriptions, material undertakings given by the company and benefits granted to founders. In addition to this declaration, an audit report to be issued by an auditor should be provided by the founders before the Trade Registry concerning the establishment procedure. For medium- and small-sized JSCs that are not publicly held, this report may be issued by one sworn auditor or certified public accountant.

According to the New TCC, the minimum capital requirement for JSCs is regulated as TRY50,000. Furthermore, since the New TCC enables the non-publicly held JSCs to have registered capital system, the initial capital requirement for such JSCs is accepted as TRY100,000. Finally, the minimum capital requirement for LLCs is TRY10,000 as per the New TCC.

Branch

In order to set up a branch of a foreign company in Turkey, the approval of the Ministry of Industry of Commerce of the Republic of Turkey ('the Ministry') has to be obtained. Afterwards a registration shall be made with the Trade Registry, where the branch office is located and the tax office, as well. Furthermore, the FID shall be notified with respect to the establishment of the branch office, within a certain period. There is no minimum capital requirement for branches. In practice, head offices allocate a minimum of US$1,000 as the branch capital. Special rules apply for certain fields of business (e.g. banks).

Liaison Office

In order to realise the liaison office establishment, an application shall be made to the FID. The establishment permit can be granted for up to a period of three years and can be extended at the expiration. However, the FID has the right to terminate the establishment permit of the liaison office whenever any kind of breach of the legislation is ascertained. Applications of foreign companies to establish liaison offices, so as to operate in sectors subject to special legislation, will be assessed by authorities and institutions authorised by the related special legislation. For instance, BRSA rules apply for banks which set forth certain approval requirements at the establishment stage. After the completion of the establishment procedure, an application shall be made to the relevant tax office. There is no foreign capital requirement in establishing a liaison office.

Ongoing filing requirements

Branches shall submit to the FID the information an their capital and operations, in accordance with the 'FDI Operations Data Form', on an annual basis, at the latest by the end of May every year and information on the payments made to their equity accounts, in accordance with the 'FDI Capital Data Form', within one month following the payment.

According to the New TCC, the branch manager of a foreign entity shall announce in the Turkish Trade Registry Gazette the branch's financial statements, summaries of the financial statements and annual reports belonging to its parent company and the holding company (if any), within 6 months as of the relevant approvals required as per the national law applicable to the parent company are obtained.

Liaison offices shall send the 'Data Form for Liaison Office Activities' to the FID every year, at the latest by the end of May, so as to inform the FID about their activities of previous years. Documents certifying that the previous year's expenses of the office have been covered by foreign currency transferred from abroad, have to be enclosed as well. Special filing requirements apply for banks.

Repatriation of Profit

There is no restriction on Turkish subsidiaries repatriating profits, except for certain legal reserve requirements and taxes. A branch may also repatriate the profits to the parent company, subject to taxation.

Liability

Company

The directors of a LLC and the members of the Board of Directors (BoD) of a JSC are not personally liable for the transactions and contracts concluded on behalf of the company. They shall be, however, jointly and severally liable towards the company, shareholders and the creditors of the company if the payments made by shareholders on account of the price of shares are not exact or, the dividends distributed and paid are fictitious or, the books to be kept in accordance with the law are non-existent or kept irregularly or, the resolutions of the general meeting are not executed properly or, the other duties incumbent on them in accordance with the law or the articles of association are not fulfilled intentionally or through neglect.

In LLCs, the shareholders are liable for public debts. A non-shareholder director of a LLC is not personally liable unless the public debt occurs due to his fault. In JSCs the members of the BoD have the objective liability for public debts which means that it is their obligation to prove that they are not faulty or negligent, as well as that the public debts did not occur due to their intentional fault or negligence (causality). This responsibility of the members of the BoD is considered as a secondary responsibility which means that the government should demand its receivables from the company first. If they cannot collect its receivables from the company, then the government would have the right to demand its receivables from the members of the BoD. If the members of the BoD pay the receivables, although they are not responsible for the public debts, then they have the right of recourse against the company.

Although the circumstances leading to liability for a BoD member or a LLC director are almost the same under the New TCC, the several liability of such persons are abolished and BoD members and LLC partners are to be liable in proportion of their fault or negligence.

Branch and Liaison Office

The rights and liabilities arising out of the activities of a branch office/liaison office belong to the parent company. In general, the parent company will be liable towards third parties for the transactions realised by the branch/liaison office in Turkey. In principle, in case the branch/liaison office representative misuses his/her authorities, the parent company would be responsible towards a bona fide third party. In case of tort, the branch/liaison office representative would be personally liable to third parties.

Taxation in Turkey

Corporation Income Tax

Corporate Income Tax

Corporate income, as adjusted for exemptions and deductions and including prior year losses (tax losses may be carried forward for five years but losses may not be carried back) is subject to corporate income tax at a rate of 20%, irrespective of the legal form (i.e. JSC, LLC, branch office).

Dividend distributions to individual and non-resident corporate shareholders are subject to withholding tax (WHT) at a rate of 15%. This rate may be reduced for foreign shareholders if a tax treaty is present. Please note that dividend distributions to resident entities and branches of non-resident entities are not subject to dividend WHT. For non-resident entities operating in Turkey (i.e. branches, other type of permanent establishments such as permanent representatives/agents) WHT will only be applicable on the portion of the profit that is transferred to the headquarters/principal, in other words repatriated from Turkey. The rate of WHT is 15% but can be reduced by a tax treaty.

Corporate Residence

According to Turkish tax legislation, corporate income taxation differs significantly based on the taxpayer's place of residence. If both the legal and the business headquarters of a company are located outside Turkey, the company is regarded as a non-resident entity. If either of them is located within Turkey, the company is regarded as a resident entity. Resident entities are subject to tax on their worldwide income, whereas non-resident entities are taxed solely on the income derived from activities in Turkey.

Advance Corporate Income Tax

Corporations are required to pay advance corporate income tax based on their quarterly profits at the rate of 20%. Advance corporate income taxes paid during the tax year are offset against the ultimate corporate income tax liability of the company, which is determined in the related year's corporate income tax return. The balance of advance tax can be refunded or used to offset other tax liabilities.

Tax Returns

Resident and non-resident entities having a permanent establishment in Turkey are obliged to file annual corporate income tax and quarterly advance corporate income tax returns (on a calendar year basis unless permission to the contrary is specifically obtained from the Ministry of Finance).

The last date of submission of the corporate income tax return is the 25th of the fourth month following the fiscal year end. The advance tax return should be submitted at the latest by the 14th of the second month following the quarter period.

Payment of Tax

Corporate income tax must be paid by 30 April of the year of filing; taxable income is declared on a quarterly basis as advance tax on the 14th of the second month following each quarter, and is payable on the 17th of the same period. Advance corporate tax paid is offset against the final corporate tax calculated in the annual tax return.

Legal Reserves

Under the Turkish Commercial Code, Turkish companies are required to set aside first and second level legal reserves out of their profits. Please note that a branch is not subject to the legal reserve requirements.

- **First-level legal reserves**
  Joint stock and limited companies are required to set aside 5% of their net profits each year as a first-level legal reserve. The ceiling on the first-level legal reserves is 20% of the paid-up capital. The reserve requirement ends when the 20% of paid-up capital level has been reached.
- **Second-level legal reserves**
  The second-level reserves correspond to 10% of profits actually distributed after the deduction of the first-level legal reserves and the minimum obligatory dividend pay-out (5% of the paid-up capital). Second-level legal reserves amount to approximately 1/11th of the profit to be distributed. There is no ceiling for second legal reserves and they are accumulated every year.

According to the Turkish Commercial Code, if the legal reserves exceed 50% of the paid-up capital, they shall be used to cover losses, maintain business activities in the case of poor business conditions, prevent unemployment or offset the negative effects of unemployment.

Calculation of Corporate Income Tax Base

Deductible expenses
In principle, general expenses incurred for the generation and maintenance of commercial income are allowed as deductions for corporate income tax purposes.

Deductible expenses, inter alia, include the following:

- Start-up costs (these costs are to be either expensed or capitalised at the discretion of the taxpayer);
- Previous years' losses, provided that they have not been carried forward for more than five years (on the condition that loss corresponding to each year is specified in the corporate income tax return);
- All of the donations made for construction of dormitories, nursery schools, rest homes and rehabilitation centres, subject to certain conditions;
- Losses incurred in foreign jurisdictions (subject to certain conditions);
- Depreciation of fixed assets;
- Depreciation and expenses of company cars provided to employees (Please note that company cars are not subject to income tax as they are classified as fringe benefits to employees);
- Social security contributions;
- Compensation paid or losses incurred in line with contracts or court rulings, provided that they are related to the business; and
- Travel and accommodation expenses related to, and commensurate with, the volume of business.

Non-deductible expenses
In general, non-deductible items are limited to those types of expenditures that either cannot be properly documented or that are regarded as abuses in respect to 'business-related' or 'business-promoting' criteria (e.g., excessive entertainment, representation and travel expenses). Needless to say, disallowable expenses increase the corporate income tax burden of companies since such expenses are not eligible for deduction from the corporate income tax base. Disallowable expenses, inter alia, can be listed as follows:

- Interests, foreign exchange losses and other financial expenses on capital and on loans that are regarded as thin capital;
- Fines and penalties and other indemnities arising from the breach of the tax laws;
- Legal reserves;
- Donations to foundations (that are granted a tax exemption by the Council of Ministers) or to government institutions exceeding 5% of corporate profit;
- Expenses recorded through severance pay provisions (Severance pay shall be accepted as tax deductible only when actual payments are made to employees);
- The portion of expenses incurred that is considered being in violation of transfer pricing regulations; and
- The portion of expenses incurred that is considered being in violation of thin capitalisation rules.

Depreciation methods

Fixed assets acquired after 1 January 2004, are subject to depreciation over rates to be determined by the Ministry of Finance, based on their useful life. Note that rates announced differ from 2% to 33%. Fixed assets acquired before 1 January 2004 are depreciated under the previous rules, in which the maximum rate applicable was 20% per year.

Depreciation may be calculated by applying either the straight-line or declining-balance method, at the discretion of the taxpayer. All tangibles, except for land, and intangible assets are depreciable over a minimum of five years. Under the previous rules, buildings were an exception and were depreciated at a rate of between 2% and 10% per year, over a minimum of ten or fifty years, depending on the type of building.

Generally, assets are considered to be placed in service when they are capitalised and ready for use. The applicable rate for declining-balance method is twice the rate of straight-line method. However, the maximum applicable rate for declining-balance method is 50%. On the other hand the declining balance method cannot be used for some items. For example, goodwill is depreciated within five years in equal instalments and leasehold improvements are depreciated over the rental period at a flat rate.

Related-party Transactions

In principle, transactions between related parties must be carried out on an arm's length basis. There are specific rules in this respect in Turkish tax legislation, as explained in detailed below.

- **Thin Capitalisation**
According to the thin capitalisation regulation, if the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times the shareholders' equity of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered as thin capital. Excluding loans received from credit institutions that provide loans only to their related companies, the loans received from related banks and similar institutions alone will not be considered thin capital until the amount of the borrowing exceeds 6 times the shareholders' equity.

In addition to the interest paid or accrued, foreign exchange losses and other similar expenses calculated over the loans that are considered as thin capital are treated as non-deductible for corporate income tax purposes. The interest paid or accrued and similar payments on thin capital are reclassified at the end of the relevant fiscal year as dividend distributed from the perspective of the borrower and as dividend received from the perspective of the lender, and as repatriated profit for non-resident taxpayers.

- **Transfer Pricing**
Corporate income tax law includes transfer pricing regulations which are adopted from the OECD's guidelines. If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, in which prices are not set in accordance with the arm's length principle, the related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax-deductible for corporate income tax purposes. The methods prescribed in the law are the traditional transaction methods described in the OECD's transfer pricing guidelines.

Anti-Tax Haven Provisions

All sorts of payments made to corporations (including branches of resident corporations) that are established or operational in countries which are regarded by the Turkish Council of Ministers to undermine fair tax competition due to tax and other practices, may be subject to taxation in Turkey at a rate of 30% irrespective of whether the payments in question are subject to tax or not, or the corporation receiving the payment is a taxpayer or not. However, there are certain exemptions. Moreover, as of today, the Turkish Council of Ministers has not yet determined which countries receiving payments shall be considered as 'tax havens'.

Treatment of Group Companies' Entities

Consolidation of the accounts of group companies' entities for tax purposes is not allowed in Turkey, since each company entity is regarded as a separate taxpayer unit for tax purposes in Turkey.

Controlled Foreign Corporation Rules

Corporations established abroad and controlled directly or indirectly 50% or more by tax-resident companies and real persons by means of separate or joint participation in the capital or dividends or voting rights are considered to be CFCs, provided that the conditions below are fulfilled:

- 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income;
- The CFC must be subject to an effective income tax rate lower than 10% for its commercial profit in its home country; and
- Gross revenue of the CFC must exceed the equivalent of TRY100,000 in a foreign currency in the related period.

The CFC's prorated profit would be included in the corporate income tax base of the controlling resident corporation at the rate of the shares controlled, irrespective of whether it is distributed or not, in the fiscal period covering the month of closing of the according of CFC.

The Control rate is considered as the highest rate owned in the related fiscal period.

The CFC's profit that has already been taxed in Turkey as per this article will not be subject to additional tax in Turkey in the event of dividend distribution; whereas the portion of the profit distributed that had not been previously taxed in Turkey will be subject to taxation.

Taxes that the CFC pays over its profit in the related foreign country will be offset from the tax calculated for the same income in Turkey.

Tax incentives

The major corporate income tax incentives available are as follows:

- **Participation exemption for dividends**
  There is an unconditional corporate tax and dividend WHT exemption for dividend income that the Turkish resident company and/or Turkish permanent establishment of a foreign company receives from another Turkish resident company, except investment funds and companies. If a Turkish company has a shareholding in a foreign company, dividend income can be exempted from corporate income tax but subject to certain pre-conditions.

- **Capital gains exemption**
  A corporate tax exemption is applicable for 75% capital gains generated from the sale of participation shares in a Turkish resident company, and/or real property that is held for at least two years, as long as such exempted gain is reserved in special reserve account within the equity and not distributed for five years. 100% of capital gains from the sale of foreign participation shares by an international Turkish holding company can also be exempted from corporate income tax exemption, but subject to certain pre-conditions.

Investment incentives

The Turkish government provides investment incentives (state aids) to eliminate inter-regional economic imbalance, facilitate a larger capital contribution by public and foreign investors to the capital build-up of the country and support activities that have a positive effect on employment. Generally speaking, state aid can be classified as either a tax or a non-tax incentive.

The principal prerequisite for benefiting from state aid, except the investment allowance, is to obtain an Investment Incentive Certificate (IIC). The IIC is a document granted to investors for their investments by the Undersecretariat for the Treasury. It allows utilisation of the said benefits. The import of machinery and equipment (excluding raw materials, intermediate and operating products) is exempt from customs duty and Resource Utilisation Support Fund (RUSF) payments. In addition, a VAT exemption is also applicable on the importation of eligible machinery and equipment. According to investment incentive legislation, in order to obtain an IIC, the minimum amount of total investment should be at least TRY1,000,000. (For the investments in some less developed areas minimum amount of total investment should be at least TRY 500,000.)

The advantages of an IIC can be summarised as exemption from customs duty, RUSF and VAT.

On the other hand, from an income tax perspective, the legislation related to investment incentives has changed substantially.

There are six main components of the new investment regulation:

1. Reduced corporate tax rate.
2. VAT exemption.
3. Exemption for social security premium (employer's portion).
4. Customs duty exemption.
5. Interest support.
6. Allocation of land for investments.

Free trade zone

Free trade zones are special sites that lie geographically within the country, but are deemed to be outside the customs territory. In these regions, the normal regulations related to foreign trade and other financial and economic areas are either inapplicable, partly applicable or superseded by new regulations. In general, activities such as manufacturing, storage, packing, general trading, banking, and insurance and trade, may be performed in Turkish free trade zones. Goods moving between Turkey and the zones are treated, for all purposes, as exports or imports. However, operations within the zones are subject to the supervision of the zone management (and customs authorities), to whom regular activity reports must be submitted. Consequently, there is a requirement for zone users to maintain full accounting records (in Turkish) with respect to their activities. These accounting requirements extend to inventory records. Customs duty is levied on any unexplained inventory losses as though the goods had been imported into the country.

The right to operate in a free zone is conferred by an operating licence obtained from the Undersecretariat for Foreign Trade, which reviews the application for conformity with the objectives and types of activity specified by the Economic Affairs Coordination Council.

Research and development (R&D) activities

In the last decade, the Turkish Parliament has enacted several regulations to provide incentives for research and development (R&D) activities in Turkey. The three primary R&D incentives include significant advantages granted to investors planning R&D activities in science, software and technology in special zones known as 'techno-parks', cash subsidies from the Scientific and Technological Research Council of Turkey (TÜB TAK) and corporate tax deductions. In April 2008, a new R&D law was enacted to broaden incentives. One of the objectives of the law is to attract foreign investors with significant R&D activities abroad to invest in Turkey, by enabling non-resident companies with a subsidiary or branch in Turkey to benefit from R&D tax incentives. The main incentives introduced by the new R&D law were:

R&D deduction

All eligible innovation and R&D expenditures made in technology centres or R&D centres, which must employ at least 50 full-time equivalent R&D personnel, or R&D and innovation projects supported by foundations established by law or international funds can be deducted from the corporate income tax base at a rate of 100%. The same expenditures can also be capitalised and expensed through amortisation over five years in the case of successful projects, whereas the R&D expenditure on failed projects can be expensed immediately.

Companies with separate R&D centres employing more than 500 R&D personnel can, in addition to the aforementioned deduction, deduct half of any increase in R&D expenditures over similar money spent in the previous period.

Any unutilised R&D deduction can be carried forward for an unlimited period of time, indexed to the revaluation rate, which is an approximation of the inflation rate.

Income tax exemption

80% of the salary income of eligible R&D and support personnel is exempt from income tax. However, this rate is increased to 90% for personnel with a doctorate degree.

Social security premium support

The Ministry of Finance will pay half the employer portion of social security premiums for R&D and support personnel for five years.

Stamp tax (stamp duty) exemption

Documents prepared in relation to R&D activities are exempt from stamp tax.

Income derived by non-resident individual/ company without a PE i n Turkey	%
Rental from immovable assets	20
Leasing of goods (within the scope of the conditions regulated under Turkish Financial Leasing Law No. 3226)	1
Royalties (e.g. on patents, copyrights, licence, etc.)	20
Professional services	20
Premium services	5
Interest on loan arrangements	10
Interest income derived from time deposits	15
Reverse-repo income	15
Wages and salaries	15-35

Withholding Taxes

There is no withholding tax on payments to resident corporations by other resident corporations, except for a 3% withholding tax on progress payments to contractors, both domestic and foreign, within the scope of construction work spanning more than one calendar year.

The local WHT rates are as per the table above:

Banking and Insurance Transactions Tax (BITT)

General Information
In Turkey banks and insurance companies are exempted from VAT. However, the income generated by banks from both banking and non-banking activities is subject to Banking and Insurance Transactions Tax ('BITT') regardless of the nature of the transaction. Likewise, the income generated by insurance companies from both insurance and non-insurance activities is also subject to BITT. Their income from financial leasing under the Financial Leasing Law is not subject to BITT. On the other hand, the transactional income generated by bankers operating in Turkey is subject to BITT but only if it arises from financing and/or financial intermediation services (e.g. interest income of consumer finance companies, brokerage fees of brokerage houses). Thus, income generated from non-financial activities of the bankers, such as gains from disposal of assets is not subject to BITT. Their non-financial transactions may be subject to VAT.

Being considered as a transaction tax, BITT is only applicable on the income generated from transactions. To this end, the generally accepted principle is that income that is not generated from a transaction, such as evaluation income, is not subject to BITT. Furthermore, as BITT is applied on a per transaction basis, netting off income and loss from different transactions is not permissible. BITT applies at the time of accrual regardless of the fact that income (e.g. fee or interest) is actually received.

Rates

The current rate of BITT is 5% in general. However, the applicable rate of BITT is 1% for:

- the income arising from the deposit transactions between banks and stock exchange money market transactions;
- income derived from repo and reverse-repo transactions and the sale of Treasury Bills, Government Bonds, indexed bonds and Turkish corporate bonds issued and sold in Turkey prior to their maturity.

Exemptions

Income generated from the following transactions is exempt from BITT, such as:

- Income generated from the transactions carried out by Turkish resident banks with their branch offices or agents and the transactions carried out in between those branch offices and agents;
- Income generated from the transactions carried out in between Turkish branch offices or agents of non-resident banks;
- Coupon and interest income of tax exempt bonds and bills;
- The cash obtained by the bank from its client and totally transferred to a third-party service provider for the purpose of making a service fee payment on behalf of the client;
- The dividends obtained by banks, insurance companies and bankers from their industrial subsidiaries;
- The portion of dividends obtained by banks, insurance companies and bankers from their subsidiaries, which also qualify as bank, banker or insurance company, arising from the transactions over which BITT has already been calculated;
- Fees calculated based on export transportation and life insurance policies, agricultural insurance policies for un-harvested agricultural products, cattle and herd and nuclear risk insurance policies;
- The commissions, premiums and analogous fees obtained for transactions regarding reassurance and retrocession; and
- The income generated from arbitrage transactions and trading income generated by banks and financial companies operating in Turkey on derivative contracts performed in the Turkish exchange markets.

Declaration and Payment of BITT

Taxpayers must file and submit their returns to the local tax office within 15 days of the end of each month. BITT payments are made at the same date as the submission of tax returns to the relevant tax office.

Resource Utilisation Support Fund ('RUSF')

The loans provided by banks and consumer financing companies operating in Turkey and by overseas companies are subject to the RUSF levy.

The RUSF rates applicable to loans are as follows:

- for loans provided by Turkish Banks and financial institutions

– 15% for consumer loans (only to real persons for non-commercial purposes)

– 0% for other loans;

- for the loans obtained by Turkish banks and financial institutions from abroad – 0%;
- for the loans obtained from foreign companies – 3%; and
- for import payments (via acceptance credit, deferred payment letter of credit or cash against goods) – 3%.

If the loan is denominated in TRY, RUSF, is calculated over the interest amount. RUSF is calculated over the principal if the loan is denominated in a foreign currency

Please note that certain loan transactions are exempt from RUSF, such as foreign currency loans obtained by Turkish residents from abroad with an average maturity of more than one year.

Personal Income Tax

Tax Residency

Liability to Turkish individual taxation is based on the status of residency. Resident individuals are deemed as full taxpayers and they are taxable on their worldwide income. Non-residents, on the other hand, are classified as limited taxpayers and liable to Turkish tax only on their Turkish source earnings.

As per Turkish Income Tax Law, an individual will be deemed as tax resident:

- if they stay in Turkey continuously for more than six months in a calendar year (temporary departures are not considered as interruption); or
- if their 'legal residence' is in Turkey.

If a foreign national meets either of the two conditions mentioned above, he would be considered as tax resident in Turkey.

The only exception to the aforementioned residency rule, provided under the same law, is for foreign nationals who stay in Turkey for more than six months exclusively for the fulfilment of a 'specific and temporary' assignment.

The tax rates and brackets applicable for personal income apart from employment income earned in calendar year 2011 are as follows:

Taxable income over	Not over	Tax on lower amount	Percentage on excess
0	TRY9,400	0	15%
TRY9,400	TRY23,000	TRY1,410	20%
TRY23,000	TRY53,000	TRY4,130	27%
TRY53,000	And above	TRY12,230	35%

Legal residence: In the Turkish civil code, legal residence is defined as the place where one lives, with the intention of settling down. However, there is no guidance on how such intention is to be measured, nor are there any relevant rulings on the issue. We believe that if a foreign national purchases a home in Turkey and lives together with their family, this could be considered as intention of settling down. Then again, each individual's status should be analysed based on a broader perspective of all their personal circumstances before an opinion could be formed in this respect.

The tax rates and brackets applicable for employment income earned in calendar year 2011 are as follows:

Taxable income over	Not over	Tax on lower amount	Percentage on excess
0	TRY9,400	0	15%
TRY9,400	TRY23,000	TRY1,410	20%
TRY23,000	TRY80,000	TRY4,130	27%
TRY80,000	And above	TRY19,520	35%

Tax Rates

There are two issued income tax tariffs, one for employment income and another for other income, which are subject to income tax.

Administration of the regime

Not every 'employee' or 'individual' is required to file a tax return in Turkey. Based on the tax residency status, the salary payment structure of the employee as well as the types, sources and amounts of his/her personal income (under separate combinations) for the year, it can be determinedthat the individual is not required to report their employment or personal income.

For individuals who would be required to file a tax return, the annual Turkish tax return for the income generated during each calendar year is due by 25 March of the following year and the tax is payable in two equal instalments in March and July.

Employers' Obligations

In accordance with the existing regulations, Turkish resident employers have a withholding responsibility in respect of the compensation and benefits that they provide to the employees. Accordingly, the income tax, social contributions and the stamp duty on the salary payments must all be withheld on a monthly basis and paid over to the relevant authorities by the employer, on behalf of the employees.

Social Security Premiums

In principle, all individuals who work in Turkey are required to be covered by Turkish social security. On the other hand, since social contributions are calculated over the gross salary (subject to a cap, at 15% for the employee and 21.5% for the employer. The cap currently applies as TRY5,177.40 per month between 1 January 2011 and 30 June 2011, and TRY5,440.50 per month between 1 July 2011 and 31 December 2011) on the local payroll, in practice, only individuals who are paid or taxed via a local payroll are subject to these contributions.

However, foreign nationals who are citizens of a country with which Turkey has signed a totalisation agreement (such as the UK, Denmark, Germany, France, the Netherlands, etc.) can be exempted from the Turkish social security scheme, if they remain covered by their home country schemes during the Turkish assignment and providing that they can present evidence by obtaining a certificate of coverage from the relevant authorities in their home countries.

Stamp Duty

Stamp duty currently applies at the rate of 0.66% over the gross salary for individuals receiving their income from a local payroll. For individuals filing tax returns, this duty is replaced with fixed filing fees currently amounting to TRY30.00.

VAT

The Turkish tax system levies value added tax on the supply and the importation of goods and services. The Turkish name for Value Added Tax is 'Katma Deger Vergisi', abbreviated to KDV.

Liability for VAT arises:

a When a person or entity performs commercial, industrial, agricultural or independent professional activities within Turkey; and
b When goods or services are imported into Turkey.

VAT is levied at each stage of the production and the distribution process. Although liability for the tax falls on the person who supplies or imports the goods or services, the real burden of VAT is borne by the final consumer. This result is achieved by a tax-credit method where the computation of the VAT liability is based on the difference between the VAT liability of a person on his sales (output VAT) and the amount of VAT he has already paid on his purchases (input VAT).

VAT Registration

Any person or entity engaged in an activity within the scope of the VAT Law must notify the local tax office where his place of business is located. If there is more than one place of business, registration is performed at the tax office that is authorised with respect to individual or corporate income tax.

Please note that there is no single 'VAT registration' approach in Turkey because it is not possible to register only for VAT purposes in Turkey. In order to register for VAT purposes, a foreign company should have a permanent establishment (PE) in Turkey and be obliged to register for all tax purposes (i.e. VAT, corporate income tax, withholding tax and stamp duty, etc.) to a tax office in Turkey.

Tax Rates

The Turkish VAT system employs multiple rates and the Council of Ministers is authorised to change the VAT rates within certain limits.

Standard rate
The standard rate of VAT on taxable transactions is set at 10% in the VAT Law, but this rate was increased to 18% as of 15 May 2001.

Reduced rates
For the deliveries and services mentioned in List No.1, 1% (e.g. agricultural products such as raw cotton, dried hazelnuts and etc). For the deliveries and services mentioned in List No.2, 8% (e.g. basic food stuffs, books and similar publications).

Exemptions

There are two basic forms of exemption under the Turkish VAT Law:

Exemption without credit for previously paid VAT

In this form, the input VAT cannot be deducted or reclaimed but can only be recorded as a cost or an expense. Transactions that are subject to 'exemption without credit for previously paid VAT' are the supply of goods and services for cultural, educational, recreational, scientific, social and military objectives and certain other categories.

Exemption with credit for previously paid VAT

Certain transactions are not taxable and at the same time the taxpayer has the right to claim a credit and a refund. This mechanism operates under the name 'exemption with credit for previously paid VAT' and is issued principally for exports.

Other Taxes

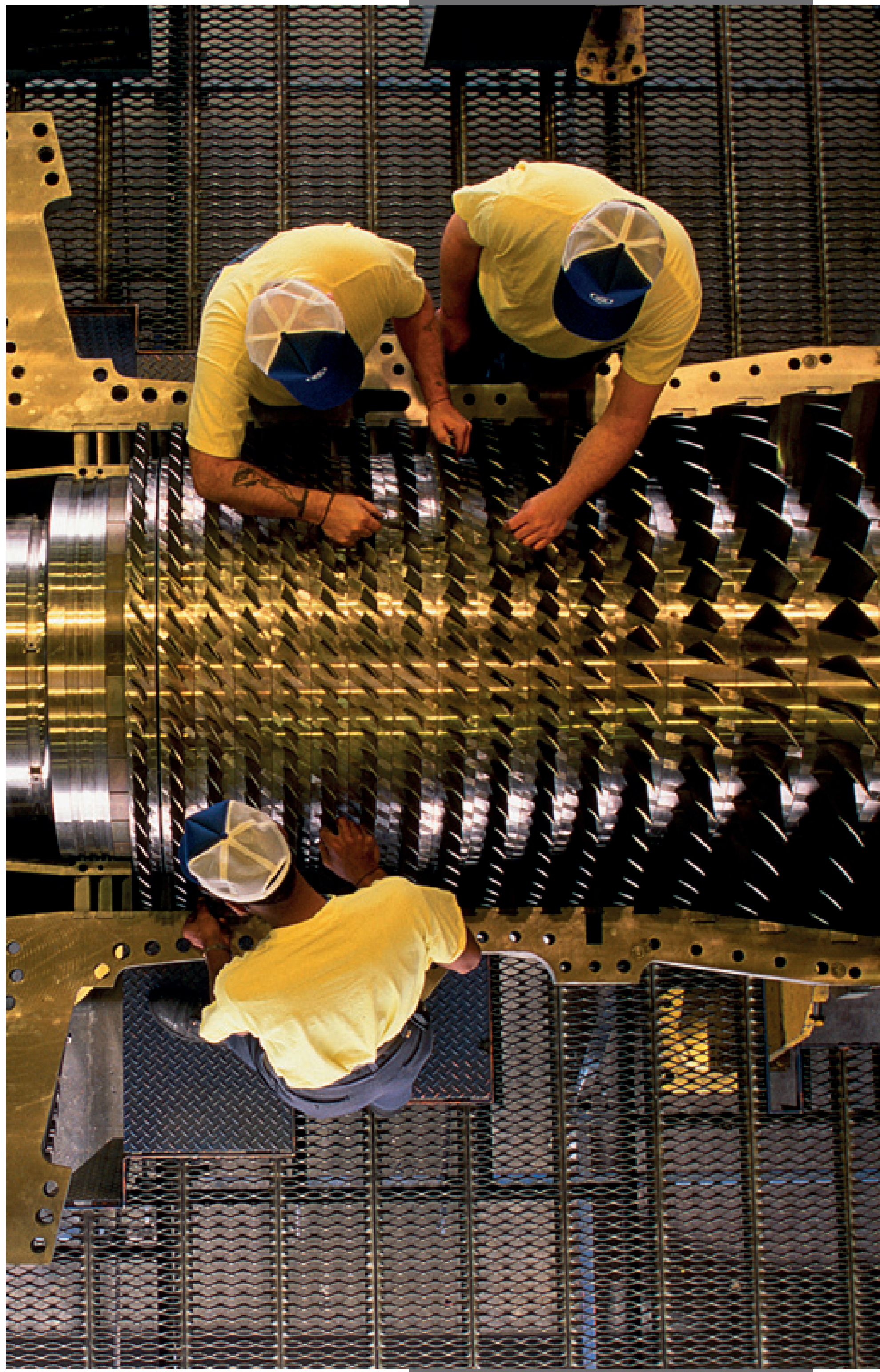
Capital duty

No duty is applied on share capital. However, there is a compulsory contribution to the Competition Board equal to 0.04% of the capital amount committed when the company is established. In the case of subsequent increases in capital, this 0.04% levy is applied on the increased amount.

Stamp tax

Documents within the scope of stamp tax are papers which are legally valid and exercisable, bearing a signature (or a sign replacing signature, or electronic signature) and prepared for the purpose of proving any legal subject. In this sense, stamp tax applies to a wide range of documents including written agreements.

Stamp tax rate on the taxable papers is 0.825%, with an exception that the lease agreements are taxed at 0.125%. Stamp tax is calculated on the highest value stated or calculable from the taxable paper or on the maximum amount stated on the paper. There is a cap of TRY1,251,383.40 per agreement for 2011.



Audit and accountancy

All banks that operate in Turkey are regulated and supervised by the BRSA. According to BRSA regulations, banks must be audited by an independent audit company and prepare an 'Independent Audit Report' on a quarterly basis. The total period an independent auditor can audit a Bank is eight successive years with a cool-off period of three years.

Entities that are quoted on the Istanbul Stock Exchange are regulated and supervised by the Capital Markets Board (CMB). According to CMB regulations, quoted entities must be audited by an independent audit company and prepare an 'Independent Audit Report' on a half-yearly basis. The total period an independent auditor can audit a quoted entity is seven successive years with a cool-off period of three years (one-year cool-off period for those audit firms meeting specified criteria).

Banks are required to present quarterly financial statements audited by an independent audit firm according to Turkish Financial Reporting Standards (which is almost the same as IFRS) and BRSA Regulations on Independent Audit. Quoted entities are required to present half-yearly financial statements audited by an independent audit firm according to Turkish Financial Reporting Standards and CMB regulations.

Non-quoted entities are not bound to prepare and issue TFRS financial statements. Such entities generally keep their accounts in accordance with Tax Procedures Law. However, with the New TCC, which will be in force as of 1 July 2011, preparing the financial statements as per the TFRS and having independent audit are defined as mandatory applications for all the entities regardless of whether they are quoted entities or not.

Banks must file their accounts according to the Uniform Chart of Accounts issued by the BRSA. Quoted entities must file their accounts in accordance with TFRS. An Independent Audit Report for a bank or a quoted entity must be prepared according to the defined structure of Turkish Financial Reporting Standards (TFRS). There is no such requirement for non-quoted entities.

Quarterly audited/reviewed financial statements of the Banks operating in Turkey are posted on the BRSA website. Financial statements of the Banks and other entities quoted on the Istanbul Stock Exchange (ISE) are also publicly available on the Public Disclosure Platform (www.kap.gov.tr).

Banks and quoted entities are obliged to pay miscellaneous fees to regulatory bodies (e.g. BRSA, Capital Markets Board (CMB), Central Bank, etc.) depending on the nature of filing.

Accounts of banks and quoted entities need to be produced in Turkish Accounting Standards and Turkish Financial Reporting Standards which are local version of IAS and IFRS. There is no such requirement for non-quoted entities.

According to Banking Law and also CMB regulations, maintaining local books and records is a requirement and books and records need to be maintained in the Turkish language and in Turkish lira.

Human Resources and Employment Law

Employment relationships are regulated by the Turkish Labour Law No.4857 (TLL).

The provisions of the TLL rule the general terms and conditions as well as the statutory issues of an employment relationship.

Moreover, besides the general terms regulated by the TLL, the employment contract is the most important tool of an employment relationship either by re-defining the general terms of the TLL or by specifying the private conditions of the relationship.

Employment Contracts

Employment contracts should be in line with the TLL and should not include provisions against the fundamental rules of the TLL.

There are different types of employment contracts regulated by the TLL. They are:

i. Employment contract with a definite period.
ii. Employment contract with an indefinite period.
iii. Employment contract for part-time employment.

If the employment contract is made for a definite period or for a part-time employment, then it must be written as such from the beginning of the commencement of the employment relationship.

However, if the employment relationship is established for an indefinite period, then the written employment contract becomes obligatory one year after the commencement of the relationship.

Under all circumstances, the employer, as a minimum, should provide the employee with a sheet of working conditions in writing that specifies the following details:

i. names and residence addresses of the employer and employee,
ii. date employment began,
iii. salary and the full benefit package granted,
iv. hours of work, holiday pay and entitlement, time off for sickness and pay, if they are different than regulated by the TLL,
v. job title and job description,
vi. whether the employment relationship includes a probationary period or not.

An employee is also entitled to receive a payslip with each payment of wages or salary.

Working Hours

In general, the duration of work may be a maximum of 45 hours per week. This is applied equally to the working days of the week. However, with the approval of both parties, the normal working hours may be distributed unevenly over working days provided that the daily working hours do not exceed eleven hours on any one working day.

Overtime

Pursuant to the TLL, overtime is permitted over and above the working hours fixed by law, for reasons such as national interest or the particular requirements of the work or for increasing production. Overtime is defined in the TLL as the working hours that exceed 45 hours in a week. The approval of the employee should be obtained for overtime. In no event may the total period of overtime in a year exceed 270 hours.

In general, overtime payment is calculated as the normal hourly rate plus 50%. Instead of getting extra payment, the employee has the right to get free time, the amount of which is set forth within the provisions of the TLL.

Break Hours

Towards the middle of the working hours and according to local custom and working requirements, employees are entitled to a break of:

Total Working Hours a Day	Break Hours (by minutes)
4 or less	15
4 to 7.5 (incl.)	30
More than 7.5	60

The break periods shown opposite are the minimum entitlement, and should be given without interruption. The break hours are not included in the working hours.

Annual Vacation

Employees shall be granted paid annual vacation for the periods indicated below, if they have worked for at least one year, including the probationary period.

Length of services	Holiday Period (days)
1 to 5 years (incl.)	14
5 to 15 years	20
15 years and over	26

Paid annual vacation may not be less than 20 days for employees 18 years of age or younger and 50 years of age or older. These periods may be increased by employment contracts.

Maternity Leave

Pursuant to the TLL, female employees are entitled to take maternity leave for a period of 16 weeks, i.e. eight weeks before and eight weeks after giving birth. Upon their request and subject to doctor's approval, female employees may work until three weeks before giving birth.

If necessary, these periods may be extended depending on the health of the employee and the special requirements of the job, subject to a medical report.

Female employees may, upon their request, be granted unpaid leave for a period of up to six months following the 16-week maternity leave period. This period shall not be taken into account in the calculation of paid annual vacation.

In addition, until the child reaches the age of one, the female employee is entitled to one and a half hours a day for feeding.

Minimum Wage

For the period between 1 July 2011 – 31 December 2011, the minimum wage is gross TRY837.00 for employees who are older than 16.

Legal Holidays

- 29 October (Republic Day) is a national holiday and the holiday starts on 28 October at 13:00.
- 23 April (National Sovereignty Day), 19 May (Youth Day) and 30 August (Victory Day) are public holidays.
- Festival of Ramadan (3.5 days) and the Festival of the Sacrifice (4.5 days) are religious holidays. Every year the dates of these holidays change according to the Hegira Calendar.
- 1 January is the New Year holiday.
- 1 May is Labour Day.

One day of the week should be given to employees as holiday.

As per the Turkish Labour Law, one week's illness is legally considered to be within work time and, although not worked, this time shall be counted as work days. In this case, the employee should submit a doctor's report to the employer.

Employees are also entitled to have 3 days paid leave for marriage and in the case of the funeral of first degree relatives.

Recruitment

Turkey is a large country and there is a difference between the geographical regions in terms of the labour market. For the recruitment process, most companies work with the recruitment firms that know the market and have a candidate pool.

Immigration Permit Requirements

Foreign national individuals to be employed in Turkey need work and residence permits in order to be eligible to work and reside in Turkey.

As per the recent announcements of the work permit authority, work permit applications are to be finalised within one month. This being said, these newly introduced durations are yet to be tested.

Due to the fact that professional services such as engineering, city planning and architecture are carefully regulated, the work permit applications for foreign nationals holding one of these degrees differ from the regular work permit applications and take up to a year. As per the recent changes in the immigration legislation, such individuals might be granted with a pre-approval to work.

The following evaluation criteria for the work permit applications have recently been determined by the Ministry of Labour as follows:

- a local employment quota is introduced (five local employees per foreign national);
- a certain minimum amount of paid-in capital or gross sales or exports figures will need to be met;
- minimum salary levels ranging between TRY1,140.75 and TRY4,943.25 (to be revised in January 2011) must be paid to foreign national employees; and
- if the foreign individual is to be the shareholder of the company, a requirement for a certain minimum share and amount of capital share must be met.

Role of unions/collective bargaining, etc.

According to the Union Law (UL), all employees working under an employment agreement and aged 16 or above are eligible to become a member of a labour union. The employees below the age of 16 can become a member of a labour union provided that the written consents of their legal representatives are obtained.

As explicitly set forth in the UL, individuals are free to become members of a labour union. It is further stated that no one shall be forced to become or not to become a member of a trade union.

According to Article 12 of the Collective Bargaining Agreement, Strike and Lockout Law, labour unions have the right to sign collective bargaining agreements with employers provided that more than half of the total number of the employees of that employer are members of the labour union.

As per Article 33 of the UL, labour unions are entitled to provide certain benefits and support to their members such as legal aid for retirement, establishing library and sport grounds for the use of the employees, organising conferences for the career development of its members etc.

Termination of employment or redundancy

As per Article 18 of the TLL, termination of the employment contract of an employee having at least 6 months' service with the employer in a workplace operating with 30 or more employees should be based on a valid reason relating to efficiency or behaviour of the employee, or the requirements of the enterprise, workplace or the work. In such termination, severance and notification payments are made to the employee.

However, even being fully paid with his/her legal rights, the employee whose contract is terminated has the right to file a lawsuit against the employer within 1 month as of the date of notification for termination of the contract if the reasons for termination are not defined in the notification or the employee is of the opinion that the considered reason is invalid.

If the court decided that the termination is invalid or groundless, the employer is obliged to re-employ the employee within 1 month. The employer is obliged to pay compensation to the employee corresponding to at least 4 months' salary, at most 8 months' salary, if he fails to re-employ the employee within one month after his/her application. The court shall determine the amount of such compensation. The salary and all other rights of the employee covering at most 4 months is paid to the employee for the period discontinued to work until the final judgment of the court is received. This amount is paid to the employee whether or not the employer re-employs the employee or not.

Severance Payment

In cases where the employment contract of an employee is terminated after at least one year by the employer for reasons other than cases which are incompatible with morals and goodwill and similar circumstances, the employer shall pay the employee a severance payment at the rate of 30 days' wages for each full year since the date of employment. Payment shall be made pro rata for a portion of a year.

Calculation of severance pay shall be made based on the latest salary drawn. However, the ceiling limit for severance pay is TRY2,731.85 for the first half of 2011.

Notification Payment

Pursuant to Article 17 of the TLL, both the employee and employer are entitled to terminate employment contracts for an indefinite period by observing the following minimum notification periods, depending upon the length of service of the employee.

The employer may terminate the contract of the employee by paying in advance the salary of the employee corresponding to the period of notice. Any party failing to fulfil notification obligation is to pay compensation, equivalent to the wage corresponding to notification period.

Length of the Employment	Notice Period
Less than 6 months	2 weeks
6-18 months	4 weeks
18 months-3 years	6 weeks
More than 3 years	8 weeks

Benefits

In Turkey, all benefits apart from the ones listed in the TLL are voluntary, and the below-listed ones are the most common benefits in practice;

- Lunch.
- Transportation.
- Private Health Insurance
- Private Life Insurance and Pension.
- Company car and phone for managerial staff.
- Stock option plans.
- Private pension plans.

Trade

Turkey has great strength in Trade due to its geographic location. Turkey has taken advantage of a customs union with the European Union, signed in 1995, to increase industrial production for exports, while benefiting from EU-origin foreign investment into the country.

There is a deep trade relationship between Turkey and the EU. Indeed, the EU ranks as number one by far in both Turkey's imports and exports, while Turkey ranks 7th in the EU's top imports and 5th in export markets.

Main Turkish export markets in 2010 were the EU (42.089 m of Euro), Russia, USA, Romania, United Arab Emirates and Iraq. Machinery and transport equipment dominate EU imports from Turkey, both accounting for about 38% of the total. Other important imports are miscellaneous manufactured articles.

Imports into Turkey came from the following key markets: the EU (722 billions of USD as of 2010), Russia, China, USA, Iran and South Korea. Turkey is one of the major export partners of EU with its share of 4.5% of total EU exports.

In 2008, Turkey's exports and imports reached an all-time high; exports increased 23%, reaching US$132 bn, while imports rose 19%, hitting US$202 bn. During 2010, the year after the global financial crisis, Turkey managed to secure US$113 bn of exports and US$185 bn of imports. It should also be noted that Turkey is expected to be the highest growing OECD member country between 2011 and 2017, with an annual average growth rate of 6.7%.

Due to the implementation of the liberalisation process since the 1980s, the Turkish economy has experienced a period of high growth. Foreign trade, both in exports and imports, has grown rapidly and notable changes in the structure of exports have been observed. In this regard, industrial products have gained prominence over agricultural products.

Turkey became a member of the World Trade Organisation (WTO) in 1995. Following this move, it finalised an agreement with the European Union, enabling it to join the Customs Union on 1 January 1996. Turkey is also a member of the World Customs Organisation and mainly follows WTO and WCO principles. But to protect local businesses, some necessary measures are put in place by the Authorities.

Customs

Turkey signed the Customs Union Agreement with the EU on 1 January 1996 and has amended its customs code and legislation in line with those of the EU customs code. In that perspective, the general outline of Turkish customs practices are similar (specially the classification and duty rates) to its EU counterparts. According to the Customs Union Agreement, with the exception of certain goods such as agricultural products, no customs tax is incurred on the trade between Turkey and the EU, as long as the goods are imported to Turkey with an ATR movement certificate proving that the goods are in free circulation in the EU. (Please note that recently a new legislation has published for textile products that impose additional customs duty on textile products imported from EU which are originated outside EU.) Customs duty rates are mainly in line with the EU practice (except the agricultural products).

In 2010, approximately 67% of all Tax Revenues were collected from Indirect Taxes. The major portion of Indirect Taxes are VAT and Excise. VAT collected during importation covered 15% of all Tax Revenues. It is clear that most of the taxes are collected at Customs.

Free Trade Agreements

Turkey has Free Trade Agreements with the following countries: Albania, Bosnia Herzegovina, Croatia, EFTA member countries (Switzerland, Norway, Iceland and Liechtenstein), Egypt, Georgia, Israel, Macedonia, Montenegro, Morocco, Palestine, Georgia, Serbia, Chile, Tunisia and Syria.

Free Trade Agreement between Turkey and Lebanon is under approval process.

Banking in Turkey

Types of bank accounts;

- TRY-denominated and FX-denominated accounts: An account can be opened in TRY or in any currency convertible in Turkey. There are no limits on the number of FX-based accounts.
- Saving and current accounts.

Setting up a bank account

In order to open a bank account, the only requirement is to have a passport or certificate of residence for identification purposes, relevant address proof document, tax ID number from a local tax office or foreigner's ID number.

In order to open an account for a company established abroad which is referred from a HSBC Group Member, HSBC Turkey requires the following documentation:

- Articles of Association and amending supplements (if any);
- Turkish Tax Identity Card and Number of the company;
- Board Resolution or Signature Circular;
- Identification of Authorised Signatories;
- Trade/Commercial Registry Certificate confirming the business name, trade/commercial registry number, field of activity, address, telephone numbers, fax numbers and email address (if any) of the company;
- Shareholding Structure;
- Smartform-Turkey; and
- Banking Transactions Agreement.

Ability to access local financing

Entities can easily access local financing based upon their credit rating. However, local financing becomes more difficult to raise as the amount of financing rises. In raising high amounts of financing with extended maturities, the local entities are frequently mandated to use foreign currency borrowings, generally with floating interest rates. Therefore, local entities also prefer to engage in cross-currency swap transactions to eliminate the almost inevitable foreign currency and interest rate risks of large scale borrowings.

With the development of technology in daily life, the ways to reach a loan have increased. Entities and individuals can easily access local financing through branches, ATM machines, telephone, internet branch and even instant messaging via mobile phone.

HSBC in Turkey

Overview

HSBC Bank A.S. serves Turkey with a full range of products and services, an uncompromising dedication to customer satisfaction, and a commitment to making the world's local bank Turkey's favourite bank.

Having entered the Turkish market in 1990, the Bank established its presence on the pillars of the strength and prowess of the HSBC Group. It built on this foundation with a deep and broad understanding of the local economy and markets and through specialisation in corporate banking and capital markets activities.

HSBC Turkey plays an important role in Continental Europe Region with 334 branches and over 3 m customers serving with nearly 7,000 employees. The CMB division, a valuable part of HSBC Turkey serves customers across 117 branches.

With its expertise in the domestic market and devotion to serving that market in the forefront of the competition, combined with its distinct advantage in providing privileged access to one of the world's largest financial networks, HSBC Bank A.S. is well-placed to set the pace of banking in Turkey.

Key events in the growth of HSBC Turkey

1990 HSBC becomes the first British bank to enter the Turkish market. The Bank is established in Istanbul as Midland Bank Inc. with 100% foreign capital. HSBC established a commercial banking operation in Turkey in 1990, targeting corporate customers.

1997 HSBC launches Personal Financial Services with an extensive product range in addition to corporate banking and capital markets.

1999 The name of the Bank is changed from Midland Bank A.Ş. to HSBC Bank A.S.

2001 HSBC Bank A.S. acquires Demirbank T.A.S., Turkey's fifth largest private bank. The acquisition extends HSBC's local network of branches and delivery channels as well as its customer base in personal banking and client portfolio in corporate banking.

2002 HSBC Bank A.S. acquires Benkar Tuketici Finansmani ve Kart Hizmetleri A.S., one of the country's top providers of consumer finance, from Boyner Holding A.S. The acquisition includes the Advantage Card, the largest card organisation in Turkey outside the banking sector.

2004 HSBC Portfolio Management A.S. was launched.

2006 HSBC extended its segmentation model to target smaller businesses and Business Banking was established.

2006 The first Private Banking branch opened at Mayadrom on August 11, 2006.

2008 HSBC Advantage Credit Card celebrated its 10th anniversary in Turkey.

2010 HSBC celebrated its 20th year in Turkey.

Awards

– 'Best Debt House' Award 2008-2010 in Turkey by Euromoney.

– 'Best Corporate Banking Internet Bank' 2010 in Turkey, by Global Finance.

– 'Best User-Friendly Website' 2010 in Turkey by Golden Web Awards.

– 'Top Recruiter' 2009 in Turkey by HR Summit.

– 'Best Personal Banking Provider Online', 2009 by Global Finance.

– 'World's Leading Banking Brand', 2007-2009 by Euromoney Magazine.

Corporate Sustainability

For HSBC, Corporate For HSBC, Corporate Sustainability is about bringing social and environmental issues together with financial performance to maintain and grow a successful business for the benefit of our stakeholders.

- We apply clear policies and processes to manage potential social and environmental risk in our lending and other financial activities in sensitive sectors.
- We help our clients to seize the opportunities presented by the shift to a low-carbon economy.
- We try to reduce our own environmental footprint and share good practice on this with our clients and other stakeholders.
- We focus our community investment (philanthropic activities) on education and the environment.

Our education programmes help to lift people out of poverty, build financial literacy and promote environmental awareness. Our environmental programme focuses on the HSBC Climate Partnership – a five-year environmental programme to reduce the impact of climate change on people, forests, freshwater and cities. HSBC's programme partners are carrying out original scientific research, developing demonstration projects, creating working models, and proving clear solutions so that governments can enact legislation for the adoption of low-carbon policies.

HSBC Turkey plays an active role in Corporate Sustainability projects. Formed by employees HSBC Volunteers club runs sustainable long-term projects such as Partner Schools. Present in more than 55 cities and 130 schools, HSBC employees takes an important role to enhance education standards. From school books to clothes to keeping children warm – all the needs of these students are evaluated fairly and timely. Partner School project generated a network starting from HQ buildings to branches to schools. HSBC Turkey also a keen believer of HSBC Group projects and takes part in most of it. JA More than Money, Climate Champions, ESU Public Speaking Competition, Future First are among many other Corporate Sustainability activities.

Country overview

Capital city	Ankara	
Area and population	814,578 sq km / 72.6m	
Language	Turkish	
Currency	Turkish Lira	
International dialling code	90	
National Holidays	*New Year's Day*	1 January
	National Sovereignty and Children's Day	23 April
	Labour and Solidarity Day	1 May
	Commemoration of Ataturk, Youth and Sports Day	19 May
	Victory Day	30 August
	Republic Day	29 October
Business and banking hours	09.00 – 17.00	
Stock exchanges	ISE	
Political structure	Democratic and secular republic	

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1st Edition: December 2010