



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report



20 October 2009

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## Rating and Executive Summary

### TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

**SAHA**  
Corporate Governance Rating:

**8.77**  
**BNK**

**Contacts:**

S. Suhan Seçkin

[suhan@saharating.com](mailto:suhan@saharating.com)

Ali Perşembe

[apersembe@saharating.com](mailto:apersembe@saharating.com)

Abbas Yüksel

[ayuksel@saharating.com](mailto:ayuksel@saharating.com)

**MAIN SECTIONS: Avg. 87.69**

**Shareholders: 85.46**



**Public Disclosue & Transparency: 93.07**



**Stakeholders: 95.70**



**Board of Directors: 77.58**



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

This report and the ratings assigned that measure the degree of Türkiye Sınai Kalkınma Bankası A.Ş.'s (TSKB) compliance with the Corporate Governance Principles are the result of a detailed at sight examination of practices applied as well as a series of documentation and relevant material supplied by the bank. The basis of our rating methodology is the Corporate Governance Principles published by the Capital Markets Board (CMB) which is discussed in detail on page 7 of the rating report.

TSKB obtained an overall Corporate Governance rating of **8.77** as a result of these examinations. The details of this study are listed in the subsequent chapters of the rating report. We observed that TSKB took the necessary steps to determine its governance risks and improved in setting up sound internal controls and management systems. There is still room, on the other hand, for improvements in order to fully comply with the CMB's Corporate Governance Principles.

Under the **Shareholders** heading, TSKB scored **8.55**. A shareholder relations department is established to ensure that shareholders' rights to obtain and evaluate information are observed diligently. The processes of preparation for the general shareholders meeting, its conduct and publication of its results comply with the relevant legislation. The bank has a consistent dividend distribution policy and there are no voting privileges and upper ceilings applied to voting rights. Shareholders are treated equally and there are no limitations on the transfer of shares. However;

shareholders do not have the right to request appointment of special auditors from the General Shareholders' Meeting, there is no enlargement of the scope of minority rights (beyond the required 5%) in the Articles of Association of the bank, cumulative voting procedures are not embraced, an information document relating to the agenda items of the General Shareholders' Meeting is not prepared, and the Articles of Association of the bank does not specify which decisions can be taken only at the General Shareholders' Meeting. These are main areas under this heading that need improvement.

TSKB attained **9.31** under the **Public Disclosure and Transparency** caption. The website, annual report, information policy and the corporate governance compliance report of the bank are duly comprehensive. The dividend distribution policy as well as the ethical rules of TSKB are disclosed to public. The independent audit process complies entirely with the legislation and disclosure to the ISE (Istanbul Stock Exchange), CMB (Capital Markets Board) and the BRSA (Banking Regulation and Supervision Agency) is done as per the requirements of these respective organizations. Details of executive compensation, however, are not disclosed in the annual report of the bank and the independent board member is yet to sign a declaration of independence.

On the topic of **Stakeholders**, TSKB broadly complies with the CMB Principles apropos company policy regarding stakeholders, protection of company assets, human resources policy, social responsibility, and relations with customers and suppliers and scored a well deserved **9.57**. The degree of resolution of complaints and requests of clients is at a very satisfactory level. It is also worth noting that TSKB's corporate consciousness about and sensitivity to environmental issues deserves special commendation.

In the domain of the **Board of Directors**, TSKB's tally is **7.76**. The board of directors duly performs all its fundamental functions. Sound risk management and internal control mechanisms are in place and there is an active and efficient audit committee. There is an independent board member who is also a member of the corporate governance committee. Qualified and experienced executives work with principles of fairness, transparency, accountability, and responsibility. Nevertheless, there is no signed compliance and joint liability statement by board members, and there are no provisions in the Articles of Association of the bank that defines procedures for shareholders or stakeholders to invite the board to convene.

#### DISCLAIMER

This Corporate Governance Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) based on information made available by Türkiye Sınai Kalkınma Bankası A.Ş. and according to the Corporate Governance Principles by the Turkish Capital Markets Board as amended on 2005.

This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

The contents of this report and the final corporate governance rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

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## Corporate Governance in Turkey

Responding to the economic crisis of 2000-01, the Turkish authorities implemented measures to address the causes of financial and fiscal instability, facilitate a quick recovery and establish the conditions for further integration with the EU.

From the mid-1980s until after the economic crisis of 2000-01, economic conditions were difficult for companies. Thin markets, relatively few active institutional investors and an unpredictable macro-economic environment limited incentives for companies to adopt good corporate governance practices. More recently, however, the return of foreign investors, greater opportunities for Turkish companies to do business abroad and an increasing competition for foreign capital appear to be encouraging more companies to make good corporate governance practices a competitive advantage.

Turkey is a civil law country. The principal sources of general mandatory corporate governance standards are the joint stock companies' provisions in the TCC (Turkish Commercial Code), the CML (Capital Markets Law) and subordinate instruments published under the CML, generally in the form of CMB communiqués. The term "Capital Markets Law" is used to refer collectively to the CML and all of the compulsory subordinate instruments relating to the CML, including communiqués, regulations and CMB decisions of general application.

In late 2005, draft legislation based on a comprehensive package of reforms to the TCC developed by an expert Commission was tabled in Parliament. The parliament is considering the reforms and the amendments could come into force by mid 2008.

The corporate governance framework rests primarily upon a "public enforcement" model, with the Capital Markets Board (CMB) playing a leading role in setting corporate governance standards for publicly held companies, enforcing the applicable standards and fostering market integrity.

The ambitious, state-of-the-art and comprehensive CMB principles, adopted in 2003, are the principal source of non-binding corporate governance standards for publicly held companies. They were revised in 2005 to take into account revisions made to the OECD Principles in 2004. Listed companies must publish an annual Corporate Governance Compliance statement, disclosing which CMB principles have not been adopted and the reasons for not doing so.

Listed companies in the Istanbul Stock Exchange (ISE) who have obtained an overall corporate governance rating of 6 or above (out of 10) on their degree of compliance with the "Corporate Governance Principles" issued by the Capital Markets Board are included in the **ISE Corporate Governance Index** which has been active since August 31, 2007. In order to be included in the index, these companies have to be rated by a licensed (by the CMB) rating agency. Corporate governance rating grade of a company is granted upon the request of that company and revised or confirmed annually by the rating agency. Furthermore, the ISE encourages listed companies to obtain a rating by applying a 50% reduction on listing fees. The number of

companies included in the index has been increasing consistently since the inception of the index.

The corporate governance landscape in Turkey is characterized by concentrated ownership, often in the form of family-controlled, complex financial-industrial company groups such as holding structures and conglomerates, usually comprising both publicly held and privately held companies. State ownership has declined drastically thanks to the unwavering execution of a privatization policy.

Free floats are often low, pyramidal structures are common and there is a high degree of cross-ownership within the groups. Due to the limited free float, takeovers are rare. This obviously weakens the extent of corporate control over the market. Foreign institutional investors, however, are increasingly seen in the market, seeking to increase their share holdings in Turkish companies. Approximately 30% of ISE-listed companies have "floatation ratios" of less than 25% as of the end of 2006. This floatation ratio represents the percentage of a company's stock held by the Central Securities Depository (CSD) in Turkey.

Controlling shareholders often hold shares with nomination privileges and/or multiple voting rights. Family members often serve on the board and play a leading role in the daily management and strategic direction of publicly held companies. Preserving family control is the norm. A small number of families control a large number of the listed companies.

Turkish companies issue ordinary shares, preference shares, and non-voting shares. Golden shares only exist in few state-owned companies. Most of the shares traded at the ISE are bearer shares.

Shareholders who own at least 5% of the company's capital are granted minority rights. They can call an extraordinary General Shareholders' Meetings or propose agenda items. Shareholders must personally attend the General Shareholders' Meeting or they can be represented by a proxy.

The corporate environment in Turkey, however, is better positioned than many European countries to tackle corporate governance challenges ahead, because:

- the authorities have already adopted, or are introducing, high quality corporate governance standards (including audit standards);
- transparency has improved significantly, particularly in the area of financial reporting (listed companies are urged to adopt accounting standards which are almost identical to IFRS);
- a positive trend toward widespread implementation of a number of key corporate governance standards can be observed; and
- the authorities are now focusing their attention on monitoring implementation, identifying the remaining gaps and risk areas, focusing their resources on these risk areas and implementing institutional reforms as needed to strengthen supervisory, enforcement and remedial processes.

\* Parts of this text uses the Pilot Study (Corporate Governance in Turkey) prepared and published by the OECD on 17 October 2006 as a resource. The full text of the study can be found at <http://www.sourceoecd.org/governance/9264028633>.

## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's Corporate Governance Principles released on July 2003, as revised on February 2005.

The CMB based these principles on the leading work of The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, the Istanbul Securities Exchange and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. The implementation of the Principles is optional. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in the future should all be included in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders and board of directors:

On the foundation of these Principles, SAHA Corporate Governance Rating methodology features over 400 code criteria. During the rating process, each criterion is evaluated on the basis of information provided by the company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.

SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.19).


In compliance with the CMB's directive and to reach an overall Corporate Governance Rating, SAHA allocates the following weights to the four main sections of the Principles:

Shareholders: **%25**  
Disclosure and Transparency: **%35**  
Stakeholders: **%15**  
Board of Directors: **%25**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.



## Company Overview

<b>Türkiye Sınai Kalkınma Bankası A.Ş.</b>	
	<b>CHAIRMAN</b> Ersin Özince <b>GENERAL MANAGER</b> Halil Eroğlu
Meclisi Mebusan Cad. 81 Fındıklı, 34427 İstanbul <a href="http://www.tskb.com.tr">www.tskb.com.tr</a>	<b>Head of Research &amp; Investor Relations</b> Gündüz Fındıkçioğlu Tel: (0212) 334 52 71 <a href="mailto:findikciog@tskb.com.tr">findikciog@tskb.com.tr</a>

Industrial Development Bank of Turkey (TSKB), Turkey's first and leading privately-owned development and investment bank was founded in 1950. TSKB serves customers in the areas of corporate lending, project finance, investment banking, corporate finance, capital markets brokerage, and portfolio management.

In a business climate beginning to be chilled by the effects of the 2007-2008 global crisis, the bank continued to support its customers and carry out its mission embodied in the principle of "sustainable banking for the sake of sustainable development". The robust and long-term structure of TSKB's resources represented an extremely important competitive advantage and element of sustainability in the volatile market conditions of 2008. The bank continues to finance its operations via long-standing collaborations that it has with supranational agencies and with international finance institutions and banks.

The controlling shareholder of TSKB is Türkiye İş Bankası Group (%50,1) and 41.5% of its shares are traded publicly at the Istanbul Stock Exchange (ISE) with "TSKB" symbol. TSKB is a constituent of ISE National 100 (XU100), ISE National 50 (XU050), ISE National 100-30 (XYUZO), ISE National All (XUTUM), ISE National Financials (XUMAL) and ISE Banks (XBANK) indices. According to end-2008 figures, 41.5% of TSKB's publicly-traded shares were owned by foreign shareholders.

TSKB's registered capital ceiling is TRY 1 billion. The paid-up capital, which stood at TRY 500 million at the end of 2008, was raised to TRY 600 million. TRY 96 million of this raise was paid by 2008 profits and the remaining TRY 4 million was financed by the statutory reserve funds.

TSKB, which disbursed a total of USD 861 million to its customers in 2008, provided USD 3,063 million in finance for fixed-capital investments in the last four years. 93% of TSKB's loan book consists of medium and long-term investments. Only 7% of its loans have terms of less than one year while 43% of them have terms of five years or more. As of end-2008, the average remaining maturity of the bank's loan book accounts was 3.7 years. The ratio of the bank's non-performing loans is 0.7%. TSKB continues to set aside 100% provisions for its nonperforming loans.

The capital structure of TSKB as of 30.9.2009 is as follows:

<b>Capital Structure of the Bank (30.09.2009)</b>		
<b>Shareholder</b>	<b>Share Amount</b>	<b>Share %</b>
Türkiye İş Bankası A.Ş.	243,103,697,030	40.5173
Camış Yatırım Holding A.Ş.	34,778,939,130	5.7965
Milli Reasürans T.A.Ş.	7,224,866,210	1.2041
Anadolu Anonim Türk Sigorta Şti.	5,349,234,620	0.8915
Anadolu Hayat Emeklilik A.Ş.	5,344,656,430	0.8908
T.İş Bnk.Mens.Mun.Sos.Güv.Yar.San. Vakfı	4,785,228,760	0.7975
<b>Türkiye İş Bankası Group</b>	<b>300,586,622,180</b>	<b>50.0978</b>
Türkiye Vakıflar Bankası T.A.O.	50,264,914,250	8.3775
Fortis L Fund Equity Turkey	6,603,167,000	1.1005
TSKB.Mens.Mun.Sos.Güv.Yar.San. Vakfı	13,266,029,740	2.2110
TSKB Memur ve Müst. Yard. ve Emek.Vakfı	1,229,999,990	0.2050
İstanbul Ticaret Odası	3,095,667,070	0.5159
İstanbul Ticaret Borsası	1,253,140,950	0.2089
İstanbul Sanayi Odası	717,615,710	0.1196
İzmir Ticaret Odası	9,414,060	0.0016
Çukurova Sanayi İşletmeleri T.A.Ş.	99,243,090	0.0165
Enka Spor Eğitim ve Sosyal Yardım Vakfı	33,153,660	0.0055
Enka İnşaat ve Sanayi A.Ş.	176,559,000	0.0294
Pimaş Plastik İnşaat Malzemeleri A.Ş.	74,484,530	0.0124
Aksu İplik Dokuma Boya Fabr. Tic. A.Ş.	79,508,330	0.0133
Alsim Alarko Sanayi Tesisleri ve Tic. A.Ş.	99,315,800	0.0166
Elginkan Holding A.Ş.	787,536,390	0.1313
İstanbul Umum Sigorta A.Ş.	29,143,600	0.0049
İş Yatırım Ortaklığı A.Ş.	5,493,449,704	0.9156
Sınai ve Mali Yatırımlar Holding A.Ş.	369,735,280	0.0616
Oyak Bank – ING Bank A.Ş.	10,239,940	0.0017
Mehmet Sadık Eratik	21,200,000,000	3.5333
TSKB Yatırım Ortaklığı A.Ş.	802,675,500	0.1338
Emiroğlu Holding A.Ş.	1,665,950	0.0003
Tekfen Holding A.Ş.	281,526,940	0.0469
H. İbrahim Bodu Holding A.Ş.	39,370	0.0000
Vehbi Koç Vakfı	8,738,930	0.0015
MKK Nezdinde Saklanan Diğer Şti. ve Şahs.	193,412,822,556	32.2355
Physical custody by other companies/persons	13,590,480	0.0023
<b>Total</b>	<b>600,000,000,000</b>	<b>100.0000</b>

As per the General Shareholders Meeting of 25 March 2009, the Board of Directors of the bank has shaped as follows:

<b>TSKB Board of Directors</b>	
<b>Name</b>	<b>Position</b>
Ersin Özince	Chairman
Kadir Akgöz	Vice Chairman
Halil Eroğlu	Member - CEO
Kemal Serdar Dişli	Member
Murat Bilgiç	Member
Yavuz Canevi	Member
Remzi Altınok	Member
Burhanettin Kantar	Member
Mustafa Baran Tuncer	Member
Süleyman Kalkan	Member
Memduh Aslan Akçay	Member

TSKB has one international (Bahrain) and two domestic (Ankara and Izmir) branches and increased its number of employees to 332 (%5.7 increase from the previous year).

TSKB's subsidiaries as of 31.12.2008 are listed below:

<b>Subsidiary</b>	<b>Share (000 TRY)</b>	<b>Share (%)</b>
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	96,000.0	96.00
İş Finansal Kiralama A.Ş.	52,836.0	28.56
Yatırım Finansman Menkul Değerler A.Ş.	36,875.3	95.78
TSKB Yatırım Ortaklığı A.Ş. *	5,355.0	29.75
Avrupa Yatırım Fonu	5,100.0	0.17
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	3,900.8	16.67
İş Faktoring Finansman Hizmetleri A.Ş.	3,480.0	21.75
Takasbank İMKB Takas ve Saklama Bankası A.Ş.	3,000.0	5.00
Ünsa Ambalaj Sanayi ve Ticaret A.Ş.	2,631.3	12.00
Senapa-Stampa Ambalaj Sanayi ve Ticaret A.Ş.	1,084.2	6.95
Yatırım Finansman Yatırım Ortaklığı A.Ş. *	1,078.0	10.78
İş Portföy Yönetimi A.Ş.	1,050.0	5.00
Cam Elyaf Sanayii A.Ş.	426.2	1.18
TSKB Gayrimenkul Değerleme A.Ş.	240.0	80.00
Gözlük Sanayi A.Ş.	115.3	21.71
GİP-Gelişen İşletmeler Piyasaları A.Ş.	100.0	1.00
Vadeli İşlem ve Opsiyon Borsası A.Ş.	90.0	1.00

\* As per the decision taken at the General Shareholders Meeting of 19.06.2009, TSKB Yatırım Ortaklığı A.Ş. assumed full and complete control of all the rights, receivables, payables, and liabilities of Yatırım Finansman Yatırım Ortaklığı A.Ş..

TSKB enjoyed a healthy growth in 2008 and attained the following annual increases in selected financial indicators:

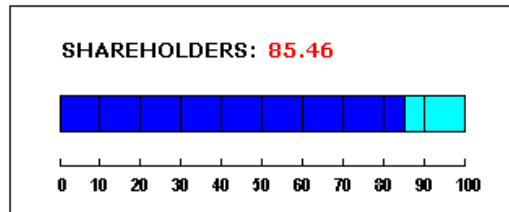
- Shareholders' equity increased 1.6% to TRY 750,057,000
- Total lending increased 40% to TRY 3,884,019,000
- Total assets increased 27.1% to TRY 6,208,857,000
- Net profit increased 17% to TRY 118,981,000

Selected financial figures (solo) of the bank are listed below:

<b>Selected Financial Figures (million TRY)</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009 2nd qtr.</b>
Total Assets	4,062	4,883	6,209	6,283
Loans	2,478	2,785	3,884	3,896
Shareholders' Equity	589	738	750	900
Net Profit	106	147	119	91

<b>Selected Ratios and Figures (%)</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009 2nd qtr.</b>
Avg. Return On Equity	18.7	22.2	16.0	22.0
Avg. Return On Assets	2.9	3.3	2.1	2.9
Capital Adequacy Ratio	32.9	27.4	21.1	22.0
Non Performing Loans	1.3	0.7	0.7	0.6

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Shareholder Relations Dept. established and active
+	No upper limit on voting rights
+	General shareholders' meetings are conducted in compliance with the legislation
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Dividend policy is defined
+	Equal treatment of shareholders
+	Voting rights are facilitated
+	No voting privileges
+	No limitations on the transfer of shares
-	Shareholders do not have the right to request appointment of special auditors from the general shareholders' meeting
-	No enlargement of the scope of minority rights (beyond the required 5%) in the articles of association
-	Lack of cumulative voting procedures
-	Information document relating to agenda items of the general shareholders' meeting not prepared
-	No provisions in the articles of association relating to which decisions can only be taken at the general shareholders' meeting

In exercising shareholders' rights; legislation, articles of association and other in-house regulations are applied and necessary precautions to ensure use of such rights are adopted. The general secretariat of the bank is responsible, as the "Shareholder Relations Unit", for facilitating the exercise of shareholders' statutory rights, reporting to the board and for the maintenance of communication between shareholders and management.

In order to broaden the scope of shareholders' right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, are updated on a regular basis in electronic form. In the articles of association, however, there is no provision that allows individual shareholders the right to request from the general shareholders' meeting the appointment of a special auditor for the examination and clarification of a specific material situation.

TSKB is contented with the recognition of minority rights in its articles of association at 5%, which is what the current legislation requires. The articles of association of the bank do not allow the execution of cumulative voting procedures which will make it possible for minority shareholders to appoint their representatives to the board.

There are no provisions to apply certain ceilings on the number of votes a shareholder might exercise and no obstacles to the implementation of voting rights of foreign investors. The articles of association of the bank does not contain any provisions that dictate any voting privileges, however, the

Central Bank of the Republic of Turkey (TCMB) nominates one board member.

The procedures followed prior to and the conduct of the general shareholders' meeting comply with the legislation as well as rules and regulations and serve to facilitate the use of shareholders' statutory rights. Shareholders are duly provided with all relevant information prior to and during the meeting. The articles of association of the bank, however, does not include provisions to maintain that certain decisions can only be adopted in the general shareholders' meeting.

The right to vote is automatically granted once the share is acquired and there are no arrangements that would postpone the exercise of the right to vote a certain period following the acquisition of the share. Voting was conducted through open ballot and by raising hands during the general shareholders' meeting.

TSKB has a clearly defined and consistent dividend policy and disclosed it to public. The articles of association of the bank do not contain any provisions to carry out interim dividend payments.

Neither the articles of association of the bank nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares.

All shareholders, including minority shareholders and foreign shareholders are treated equally.

### **1.1. Facilitating the Exercise of Shareholders' Statutory Rights:**

In exercising shareholders' rights; legislation, articles of association and other in-house regulations are applied and necessary precautions to ensure use of such rights are adopted. The general secretariat of the bank is

responsible, as the "Shareholder Relations Unit", for facilitating the exercise of shareholders' statutory rights, reporting to the board and for the maintenance of communication between shareholders and management. Furthermore, the executive vice president, Mr. Ömer Eryılmaz who is a licensed Corporate Governance Rating Specialist is appointed to coordinate the banks efforts to comply with corporate governance principles as well as capital markets legislation.

TSKB has also established a "Shareholder Relations Unit" to conduct relations with domestic and international investors as well as analysts. This unit is managed by Mr. Gündüz Fındıkçioğlu and Ms. Ayşe Nazlıca and report to Ms. Şeniz Yarcan who is the executive vice president responsible for Treasury, Investment Banking, and International Relations functions.

Both units are adequately staffed in terms of number, structure and experience. The staff is observed to be dedicated and committed to proper application of corporate governance principles and best practices.

The shareholder relations unit makes sure that shareholder records are kept up-to-date, secure and properly. Shareholders' written queries for information (excluding the information that is confidential and classified as trade secret) are replied to promptly; appropriate preparation is done to ensure that the general shareholders' meeting is conducted in accordance with the legislation, the corporate statute and other in-house regulations; documents to be used by the shareholders at the Meeting are prepared; records of voting results are kept and all reports related to the resolutions of the general shareholders' meeting are sent to the shareholders; all issues concerning

investor relations and public disclosure, including the related legislation and information policy of the company are supervised.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no discrimination among shareholders when exercising their right to obtain and evaluate information. With regard to facilitating shareholder rights, all necessary information and documentation are available for and easily accessible by the shareholders. The information is submitted as complete, accurate and in a timely and diligent manner.

The bank's obligation to inform shareholders includes legal or commercial relationships with other enterprises or individuals with whom there is a direct/indirect managerial, administrative, supervisory or ownership related relationship. In order to broaden the scope of shareholders' right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, are updated on a regular basis in electronic form.

In the articles of association, however, there is no provision that allows individual shareholders the right to request from the general shareholders' meeting the appointment of a special auditor for the examination and clarification of a specific material situation.

### **1.3. Minority Rights:**

TSKB recognizes minority rights in its articles of association at 5%, which is what the current legislation requires. However, it would be more appropriate if an enlargement of the scope of minority rights is attained through the regulations in the articles of association, as recommended by the

CMB's Corporate Governance Principles.

The articles of association of the bank do not allow the execution of cumulative voting procedures which will make it possible for minority shareholders to appoint their representatives to the board. These are main areas under this heading that will need improvement.

On the positive front, there are no provisions to apply certain ceilings on the number of votes a shareholder might exercise. The articles of association of the bank does not contain any provisions that dictate any voting privileges, however, the Central Bank of the Republic of Turkey (TCMB) nominates one board member. This mechanism does not impact the proper workings of the board in any negative way.

There are no obstacles to the implementation of voting rights of foreign investors. Proxy forms are announced for those domestic and international shareholders who will appoint a proxy for the meeting and these forms are also made available for use to shareholders on electronic media.

### **1.4. The Right to Participate in the General Shareholders' Meeting:**

Prior to the general shareholders' meeting, holders of registered shares are recorded in the bank's share ledger in order to ensure attendance of real shareholders at the general shareholders' meeting.

The procedure, content and timing of invitation to the general shareholders' meeting, allowed shareholders to acquire adequate information about the agenda items to be discussed prior to the meeting and enabled preparations thereto. The board, however, did not prepare and disclose



to public an informative document regarding the agenda items.

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting was performed through all means of communication available to the bank and was published in a nationwide newspaper, in special events disclosures made to the ISE as well as the bank's web site.

All announcements prior to the shareholder meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting the general shareholders' meeting; and the place where annual report, financial statements and other meeting documents can be examined.

The board made all relevant documentation pertaining to the agenda items ready and disclosed those to public.

Commencing from the date of announcement of invitation and three weeks prior to the general shareholder meeting, financial statements and reports including the annual report; all other related documents pertaining to the agenda items were made available to all shareholders for examination purposes in the most convenient places including at the headquarters or branches of the bank and also in electronic form.

TSKB is prompt in disclosing information regarding all operational and management changes, including those in the affiliates and subsidiaries, which were realized in the previous accounting period to the ISE as well as the public, via the "disclosure of special events" and via its web site

within the time period required by the current legislation.

Information submitted to the shareholders before the conduct of general shareholders' meeting was easily associated with agenda items. Such information consisted of references and citations pertaining to the agenda items to be discussed. Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used.

Voting procedure and proxy forms were posted on the web site promptly and appropriately for those who would appoint a proxy for the general shareholders' meeting.

While preparing the agenda, the board gave due attention to the issues raised within the investor relations unit and to the issues that shareholders wish to include in the agenda.

The meeting took place at the headquarters of the bank. The location was easily accessible and appropriate for the predicted attendance level of shareholders. The meeting did not lead to any discrimination among the shareholders, and took place with at least possible cost, and in the least complex manner. Agenda items were expressed in an unbiased and detailed manner with, clear and concise method in the general shareholders' meeting. Shareholders were provided with equal opportunities to express their opinions, and raise any questions and a sound discussion environment was created.

The board ensured that the total number of votes to be cast by shareholders during the meeting is determined and classified and the shareholders are informed at the start of general shareholders' meeting. The meeting served as a forum of



shareholders in which the annual report and bank's performance indicators are discussed. As per the 334<sup>th</sup> and 335<sup>th</sup> items of the Turkish Commercial Code, board members obtained the permission from the general shareholders' meeting to enter into transactions with the bank or to be involved in competition with the bank, however, shareholders have not been informed if and how this permission is going to be exercised.

The chairman, Mr. İsmet Cahit Kocaömer, conducted the meeting on fair grounds, and in an efficient manner that would enable shareholders to exercise their rights. The chairman of ensured that each question imposed by any of the shareholders was answered directly in the general shareholders' meeting. Shareholders were given the opportunity to present their opinions and suggestions regarding the remuneration policy of the board.

All board members but one, auditors and authorized persons who are responsible for preparing the financial statements and persons who are in a position to inform shareholders about peculiar agenda items participated in the meeting. The chairman of the meeting did not announce the reasons for absence of the board member who did not attend the general shareholders' meeting.

Each agenda item was voted separately, the votes were counted and results of voting were announced before the end of the meeting. The minutes of the meeting are made available to the shareholders in writing and in electronic media at all times.

Since eight of the ten incumbent board members were reelected at the general shareholders' meeting, sufficient personal information about the existing board members was provided via the annual report of the

bank that was distributed to the shareholders at the beginning of the meeting and no further verbal information was conveyed during the meeting. Minimum requirements for disclosure of information about the candidates are not stated in the articles of association of the bank.

The audit firm explained in writing in its audit report whether or not the financial statements and other financial reports such as capital adequacy table comply with the current Principles and standards; the statements and reports truly and completely reflect the real status of the bank; and whether or not there are any issues hindering the independence of the external auditor company.

The articles of association of the bank does not include a provision to maintain that decisions, regarding the division and allocation of shares which changes the capital and management structure of the bank and the composition of the bank's assets; the sale, purchase or lease of tangible/intangible assets or grants in significant amounts; the issuance of guarantees like pledges and mortgages in favor of a third person are adopted in the general shareholders' meeting.

### **1.5. Voting Rights:**

At TSKB, each shareholder, including those domiciled abroad, is provided with the opportunity to exercise his/her voting right in the most appropriate and convenient way. There are no ceilings applied on the number of votes that a shareholder may exercise during the general shareholders' meeting. The right to vote is automatically granted once the share is acquired and there are no arrangements that would postpone the exercise of the right to vote a certain period following the acquisition of the

share. The articles of association of the bank do not contain any provisions that grant any voting privileges.

There are no provisions in the articles of association of the bank that prevent voting by use of a proxy who is not a shareholder. Legal representations are documented in writing. The board communicates with the institutional representatives and institutional representation is based on open ballot.

Voting was conducted through open ballot and by raising hands during the general shareholders' meeting and shareholders were informed of the voting procedure prior to but not at the beginning of the meeting. "One share, one vote" principle was duly observed at the meeting.

#### **1.6. Dividend Rights:**

TSKB has a clearly defined and consistent dividend policy and disclosed it to public. This policy is constituted to preserve the delicate balance between the expectations of shareholders and the bank's need to grow and take into account the profitability of the bank. It is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

The bank's dividend payment policy is to pay out 30% of distributable profit as a dividend provided that there are no adversities in global and/or national economic conditions and the bank's own financial standing and capital adequacy ratio are at expected levels. The principles concerning the distribution of the bank's profits are governed by article 55 of the articles of association. Within the framework of these principles, 100 founders' shares receive a portion of the profits distributed.

TSKB does not carry out any interim dividend payments and no such

provisions exist in the articles of association.

#### **1.7. Transfer of Shares:**

Neither the articles of association of the bank nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares.

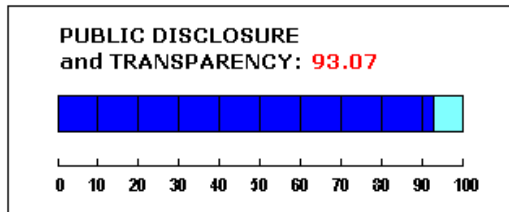
#### **1.8. Equal Treatment of Shareholders:**

As a result of our examinations of the conduct, execution and minutes of the general shareholders' meetings, the articles of association, and interviews with bank officials, we have no reason to doubt the equitable treatment of shareholders.

TSKB officials, during the rating process, have also declared that the board, executives, shareholders who are controlling the management, or other persons, who would have the privilege to retrieve various kinds of information, do not perform any activities on their own behalf which coincide with the activities of the bank.

We did not come across to a sign of any shareholder acting with the intention of harming other shareholders and the bank unless aimed at protecting his/her own justified interest.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	A comprehensive information policy is established with regard to public disclosure
+	A comprehensive corporate governance compliance report is established and disclosed to public
+	Dividend policy disclosed in the annual report
+	Ethical rules disclosed to public on the web site
+	Comprehensive web site, actively used for public disclosure
+	Periodical financial statements comply with the legislation
+	Comprehensive annual report complies with the legislation
+	Relations and modus operandi with independent auditors comply with rules and regulations
+	The concept of trade secret is defined and the list of insiders is disclosed to public
+	Disclosure about developments that may affect the value of the bank complies with the legislation
+	Attendance list and minutes of the General Shareholders' Meeting are posted on the bank's website
=	Shareholding structure detailed in the compliance report but not in the annual report
-	Unilateral declaration of the board about why certain Principles are not being applied, is not in the compliance report

- Minutes of important board meetings not posted on the web site
- Remuneration of executives not disclosed to public
- Annual report lacking audit firm's opinion about the internal control system
- No declaration of independence by the independent board member

The "Shareholder Relations Unit" and "Investor Relations Unit" are responsible for public disclosure tasks.

The bank has established a comprehensive information policy and disclosed it to the public. Any developments that may affect the value of the bank's capital market instruments are disclosed to public without any delay and within the time period required by the current legislation.

A comprehensive corporate governance compliance report is prepared and duly disclosed to public. The dividend policy of TSKB is included in the annual report of the bank and disclosed to public within the framework of the bank's information policy. The bank has also disclosed its ethical rules on its web site.

The bank's website is actively used as a means of public disclosure. It is easily accessible, user friendly, and comprehensive. It is also available in English for foreign investors with the same content.

Transactions between the bank and board members, executives and shareholders are disclosed to public as

per the CMB, ISE, and BRSA regulations.

The periodical financial statements and their notes are prepared in accordance with the existing legislation and international accounting standards. The annual report of the bank is comprehensive and fully complies with rules and regulations. However, remuneration, bonuses and other benefits offered to the executives; the audit firm's opinion about the internal control system of the bank; and the declaration of independence of the independent board member did not find space in the annual report of the bank.

The external audit of the bank is performed by a reputable and international company. The selection of the audit firm as well as the entire audit process fully complies with the existing legislation.

TSKB has incorporated the definition of information that falls within the scope of trade secret in its internal book of rules and regulations. A list of the names of executives and other persons/institutions who provide services to the bank, and who can potentially possess price-sensitive information is prepared and disclosed to public in the corporate governance compliance report of the bank.

TSKB fully complies with the legislation in terms of public disclosure duly discloses all information about significant developments that must be disclosed to the public.

### **2.1. Principles and Means for Public Disclosure:**

The "Shareholder Relations Unit" and "Investor Relations Unit" are responsible for public disclosure tasks. Ms. Ayşe Nazlıca, Ms. Müge Akin Öztuncer and Ms. Özlem Bağdatlı are authorized to use and operate the KAP

(Public Disclosure Platform). We shall be monitoring the nature of the relationship between these managers and the newly established corporate governance committee during the surveillance period.

The "Shareholder Relations Unit" staff is assigned solely to monitor and supervise all issues pertaining to public disclosure. Furthermore; investors, financial analysts, press and other interested parties requesting information are directed to the "Investor Relations Unit".

In full compliance with the transparency Principle, the bank accurately discloses its accounting policy and operational financial results to the public. The bank has established its information policy and disclosed it to the public. This policy is revised as per the board meeting of 30 September 2009 and therefore will be submitted to the first general shareholders' meeting to be held in the new year.

TSKB's information policy covers category of information to be disclosed to the public in addition to the requirements of the relevant legislation; form, frequency and methods of disclosure; the frequency at which the board and the executives would confront the press/media; the frequency at which meetings for public disclosure would be conducted; the method to be adopted in order to answer the questions submitted to the bank and other relevant issues. Nevertheless, it does not define the type of information to be discussed at the general shareholders' meeting in addition to the requirements of the relevant legislation.

Structural organization of the board of directors as well executives, scope of activities and the corporate structures of the bank and legal or commercial relationships with other enterprises or

individuals are duly disclosed to public. The system for bonuses to be paid to the board members and executives is incorporated in the articles of association of the bank; however, salaries and social benefits are not disclosed to public.

Any developments that may affect the value of the bank's capital market instruments are disclosed to public without any delay and within the time period required by the current legislation. Should there be a significant change in the financial status and/or operations of the bank, or in case of an expectation of such a significant change in the financial status and/or operations in the future, the information is disclosed to public, save for the relevant provisions of legislation. Any changes or new developments in the already disclosed information is also regularly updated and disclosed to the public.

A comprehensive corporate governance compliance report is duly included in the annual report of the bank as well as its web site. However, a unilateral declaration of the board, which covers information about whether or not the Principles are being properly applied, if the Principles are not being applied, the reasons for such non-application and all possible conflicts of interest due to the improper adoption of the Principles, is not included in the annual report and disclosed to public.

The dividend policy of TSKB is included in the annual report of the bank and disclosed to public within the framework of the bank's information policy. The bank has also disclosed its ethical rules on its web site.

Public disclosure, including the financial statements and reports does not consist of any exaggerated provisions or misleading information that would lead to false interpretations

about the bank's financial status and operational results.

Save for the provisions of the legislation, the preparation or revision of financial statements, the compliance audit of the independent auditor, and public disclosure thereof are in compliance with the international standards. The method to be adopted for disclosing forward looking information is also included in the information policy of the bank.

The bank's website is actively used as a means of public disclosure. It is easily accessible, user friendly, and comprehensive. It is also available in English for foreign investors with the same content. The bank ensures that the information disclosed to the public is also available on its website which is configured and designed accordingly. The bank takes all the necessary precautions in order to prevent any modifications on the information displayed on its website.

TSKB's website includes trade register information; detailed information about the shareholder and management structure; the final version of the company's articles of association together with date and numbers of the trade register gazettes in which amendments are published; special events announcements; annual reports and periodical financial statements; agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting; form for proxy voting at the general shareholders' meeting; and frequently asked questions including requests for information, queries and notifications and responses thereof.

Minutes of important board meetings which may affect the value of capital market instruments of the bank, however, are not posted on TSKB's web site.



The bank's website emphasizes the announcement of the planned general shareholders' meeting, agenda items, other information, documents and reports on the agenda items and information on methods of participation in the general shareholders' meeting.

Since an informative document pertaining to the agenda items of the general shareholders' meeting was not prepared, no such document is posted on the bank's web site.

TSKB's web address is printed in the bank's letterhead. The criteria regarding the use of the website are also included in the bank's information policy.

In addition to disclosing information as required by the legislation, the bank also publicly discloses any information that may affect decisions of shareholders and investors. Provisions for the disclosure of the nature of legal and commercial relationships between the bank and third party persons and companies that the bank is related to in terms of capital, management or audit are also included in the bank's information policy.

## **2.2. Public Disclosure of Relations between the Company and Its Shareholders, the Board of Directors and Executives:**

Although no such changes were affected in recent history, TSKB authorities have officially declared that, in case shareholding or voting right percentage of an individual or group reaches, exceeds or falls below the thresholds of 5%, 10%, 25%, 33%, 50% and 66,67% of total share capital or voting rights, the bank employs policies to disclose such information immediately.

The bank does not have any ultimate controlling individual shareholders to

be identified after being released from indirect or cross shareholding relationships between co-owners. Nevertheless, the shareholding structure of the bank is not detailed sufficiently in the annual report. This structure is duly disclosed in detail, however, in the revised corporate governance compliance report and we expect the same detail to be disclosed in next year's annual report.

Commercial and non-commercial transactions between the bank and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the bank's capital, possess at least 5% and more of shareholding or having the control of the latter are disclosed to public as per the CMB, ISE, and BRSA legislation.

## **2.3. Periodical Financial Statement and Reports in Public Disclosure:**

The periodical financial statements and their notes are prepared in accordance with the existing legislation and international accounting standards and applied accounting policies are also included in the footnotes of the financial statements.

The footnotes of the periodical financial statements include all off-balance sheet transactions including contingent claims, all liabilities and operational results that would affect future financial status, liquidity of the bank, investment expenditures, investment sources, all factors that would affect the future relations of the bank with other real persons and legal entities which are not within the scope of consolidation.

Comments about the capital adequacy obligations of the bank, as per the relevant articles of the BRSA legislation are also incorporated in the footnotes of the periodical financial statements.

TSKB's annual report is signed by the responsible board members and executives who have declared that the bank acts in accordance with the related legislation and a statement indicating that the current periodical financial statements completely reflects the true financial status of the bank and that the bank acts in accordance with the related legislation is provided in the annual report.

TSKB's annual report includes information about the scope of activities of the bank; the sector in which the bank operates and the bank's status within this sector; statistical data and graphics; board of directors' evaluation and analysis of financial status and operation results; level of achievement of the planned operations; level of achievement of the planned operations; the bank's position with respect to the defined strategic objectives; the board of directors' statement about the status of internal control system; rating agencies' opinions about the bank; a macro analysis of foreseeable risk factors regarding future operations (though not sufficiently detailed); and an analysis of significant transactions carried out during the preceding year with the group companies and other related persons and institutions; commercial transactions between the company and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess at least 5% and more of shareholding or having the control of the latter; important lawsuits filed against the bank and possible consequences thereof; and the dividend policy of the bank.

On the other hand, the audit firm's opinion about the internal control system did not take place in the annual report of the bank.

The curriculum vitae of the bank's board members and executives; their duties and responsibilities within the bank; and positions held outside the bank are included in the annual report. However, the declaration of independence of the independent board member; remuneration, bonuses and other benefits offered, criteria that define such benefits and performance evaluation of the corporate governance committee are not presented in the annual report.

Similarly, fines levied as a result of practices acting against the legislative provisions and the reasons thereof; warnings, notifications or administrative fines and similar information submitted by public authorities; and information about employees' social rights and professional training did not find space in the bank's annual report.

All in all, TSKB's annual report is rich in content, comprehensive and fully complies with the requirements of BRSA. All pertinent information such as the capital adequacy ratio; financial risks; realistic valuations of financial assets and liabilities; transactions affected on behalf of others; detailed explanations regarding balance sheet, cash flow statement, and statement of changes in equity items; and comments of independent auditors are embedded in the annual report.

#### **2.4. Functions of External Audit:**

The external audit firm chosen by TSKB (DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a Deloitte Touche Tohmatsu member company) is an independent and international audit company.

The nomination and election process of the audit firm starts with a short list proposal from the audit committee to the board and ends with the board's

choice being presented and approved by the general shareholders' meeting.

The operations of the audit firm and the contents of the contract signed with them are in compliance with the legislation.

Independent audit contract is devised in accordance with the existing legislation. Although there is no evidence of any contrary application, it is worth noting that independent auditors have not been contractually provided with immunity against risks due to legal proceedings emanating from the bank's operations.

There has been no legal conflict between the bank and the external audit firm. Similarly, the bank authorities during the rating process officially declared that the audit firm, auditors and other related staff working for them are not permitted to provide consultancy services to the bank within the same period of auditing services.

### **2.5. The Concept of Trade Secret and Insider Trading:**

TSKB has incorporated the definition of information that falls within the scope of trade secret in its internal book of rules and regulations. Necessary measures and precautions are defined in the bank's ethical rules and working principles documents.

A list of the names of executives and other persons/institutions who provide services to the bank, and who can potentially possess price-sensitive information is prepared and disclosed to public in the corporate governance compliance report of the bank.

### **2.6. Significant Events and Developments That Must Be Disclosed to the Public:**

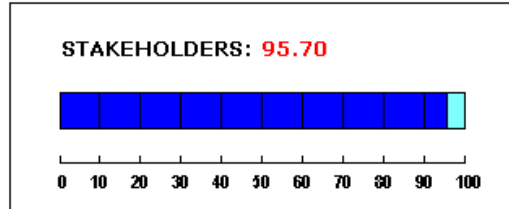
TSKB fully complies with the rules and regulations of the CMB and the BRSA in terms of public disclosure.

All developments such as a lawsuit brought against or filed by the bank at significant amounts, or conclusion thereof; any significant change in the management and capital structure of the bank, and affiliated companies; any increase or decrease of more than 25% in the share price of the bank within the last 5 days; changes in the articles of association or internal regulations; the rating agencies' grades assigned to the bank's creditability and issuance of shares; any changes that may take place thereafter are regularly disclosed to public.

During the rating process and in recent history, there has been no change in the listing criteria of the ISE where TSKB's shares are traded; cases where the bank is unable to meet one of the listing criteria; and cases where the bank's securities get de-listed or suspended. Similarly, TSKB did not decide to make a tender offer or proxy solicitation by making an announcement. An obligation to make a tender offer did not arise and there were no transactions to be made for this purpose. Also, again in recent history, regulatory agencies have not imposed any sanctions or penalties upon the bank.



## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Measures to safeguard stakeholders' rights are taken
+	Comprehensive human resources policy
+	Strict quality standards in banking products and services
+	Good relations with regulatory authorities
=	Ethical rules prepared, disclosed to public on the web site, but not yet brought to the shareholders' meeting for approval
-	No provision in the articles of association regarding the participation of stakeholders in the management of the bank
-	No trade union within the bank

This chapter covers the subjects about which TSKB performs the best in terms of Corporate Governance applications. With the exception of the sub-heading of "Stakeholders' Participation in the Bank's Management", TSKB has reached a standard well above country norms.

Türkiye Sınai Kalkınma Bankası A.Ş. is the first privately-owned investment and development bank of Turkey. TSKB serves customers in the areas of corporate lending, project finance, investment banking, corporate finance, capital markets brokerage, and portfolio management. TSKB does not accept deposits, thus, stakeholders of the bank are above mentioned groups along with the employees.

Relations with stakeholders are at a very high and satisfactory level and there is absolutely no evidence of any infringements of their rights. Attentive and sensitive control mechanisms are in place to avoid and stop such infringements.

All channels are open for the conveyance of complaints and grievances and internal and external level of satisfaction is constantly monitored.

The human resources policy is fully comprehensive and duly applied. This policy provides incentives for career advancement and solicits a structure based on merit. Remuneration system is based on performance.

Requests and needs of borrowers and other stakeholders for banking products and services are met diligently.

Personnel and discipline bylaws include detailed processes to deal with actions against ethical and operational rules and regulations.

Relations with regulatory authorities are good and there have been no significant legal conflicts with clients, other banks, employees, auditors, and regulatory authorities in recent history.

Environmental consciousness and sensibility in environmental subjects keep its continuing importance among TSKB's business principles. In order to reflect environmental responsibility and environmental sensitivity to business activities, TSKB performs well above country averages.

### **3.1. Company Policy Regarding Stakeholders:**

The quality of the relationship between TSKB and its stakeholders is high. During the rating process, we did not detect any significant or frequent incidences where stakeholders' rights which are regulated by the current legislation and contracts have been violated. The bank officials have declared that grievances of stakeholders who claim that their rights have been violated are reviewed by the audit units of the bank; priority is given to the reinstatement of those rights if reviews dictate so; wrong transactions are corrected; and finally necessary penalties are affected for those who are responsible. Furthermore, the bank acts as a pioneer in overcoming and solving any possible conflicts and disputes that may arise between the bank and its stakeholders. In case the rights of the stakeholders are not regulated by the relevant legislation, the bank preserves the interest of stakeholders under good faith principles and within the capabilities of the bank, without permitting any damage to the brand image.

The corporate governance structure of the bank ensures that all stakeholders, including the employees are provided with an effective and continuous mechanism to convey their concerns regarding legally and ethically improper transactions to management. Within this context; the intra-net mail system enables conveyance of complaints to be evaluated by the bank. TSKB aims to record all the customer complaints, whether they are received in verbal or written format. Then, areas of trouble are determined and necessary actions are promptly taken for improvement.

### **3.2. Stakeholders' Participation in the Company Management:**

TSKB supports mechanisms and models to encourage participation of the stakeholders in the management of the bank while giving priority to employees. In accordance with the continuous improvement principle, TSKB encourages employees to prepare proposals so that they support the decision-making process of the Bank. The "TSKB Proposal Evaluation System" which is formed for this purpose, encourages employees to prepare proposals for; increasing the productivity, improving the service quality, adding to the bank's image, improving the operational procedures, and minimizing the risks parallel to the strategic objectives of the bank. All the proposals are evaluated by the management and best ones are rewarded annually. Moreover, a meeting is organized annually where at least 30% of the employees participate.

On the other hand, we observe that there are no such practices at TSKB that allow the representation of employees at the board.

During the rating process, we did not come across to any incidence of any incentives and privileges granted to stakeholders regarding the review of the management and operations of the bank and/or any information which is classified as trade secret being used so as to violate the equal opportunity among different groups of stakeholders.

### **3.3. Protection of Company Assets:**

Neither the board nor any of the executives of TSKB have been involved in any actions that caused the bank assets loose value and led to deliberate loss for stakeholders. Legally, the bank can only extend limited amounts of credit to the board

members, shareholders and employees. Bank officials have declared that those credits are within the limits allowed by the Banking Law and related procedures.

### **3.4. Company Policy on Human Resources:**

TSKB employs a comprehensive and efficient human resources policy of which the fundamental objectives are:

- Creating a competitive edge in the sector by highly qualified personnel,
- To be ahead of the peers in the sector by the quality level of education, experience and global markets expertise of the personnel.

Increasing the productivity is the main target of the bank's human resources policies. Main channels to reach this target are; objective evaluation of the employees by "Performance Management System" and effective usage of career management by educational improvement.

Nominees for higher official posts are chosen; among those who possess the necessary knowledge, experience and skills for the job and among those who fulfill a certain years of experience if the job necessitates a minimum work experience.

As a result of hiring new staff, TSKB strengthened its human capital in 2008, and it is led to a 5.7% of total personnel increase. TSKB's avowed principle is to recruit and train its management personnel in-house. In 2008, newly graduated junior specialists group who are employed within the MT program, are being fully prepared for the future with the Orientation, Coaching and Development Programs. Experienced personnel participate in personal development and management

courses while new recruits attend structural training programs.

Training opportunities provided for TSKB employees are:

- MT – Training programs
- Technical-professional training,
- Self-improvement training,
- Motivation training,
- Overseas training,
- On-the-job training and rotations,
- Overseas internship opportunities.

International seminars and conferences, language courses, CMB and ISE courses, TBAT (The Banks Association of Turkey) courses are educational programs for TSKB employees.

TSKB has a competition oriented and market sensitive remuneration policy. Periodic market researches by specialists are taken into account during the application of this policy. Wage raises are determined by; employees' performance, commitment to personal development, sector averages and inflation rate. Compensation package consists of; salary, 4 premium salaries annually and dividends paid from the bank's profits. Premiums are paid to those who are successful according to the Performance Management System. Fringe benefits are transportation, lunch, utilization of library and gym.

Moreover, employees are granted, besides legal retirement rights, the right of participating in the TSKB Employees' Pension Fund, which enables them to use private hospitals and have a second retirement opportunity. TSKB takes all necessary measures in order to prevent race, religion, language, and sex discrimination among the employees and to protect the employees against any physical, spiritual and emotional mistreatments in the bank.

### **3.5. Relations with Customers and Suppliers:**

As a result of our observations and interviews, we observed that the requests of customers are handled in a quick and efficient manner, and any delay in handling customers' requests and the reasons thereof are acknowledged. The bank adheres to the norms of quality standards of its services and ensures that the level of quality is preserved.

Within the scope of trade secret, confidentiality of information relevant to borrowers and depositors are respected. These issues are closely monitored by the management system and the internal control department.

TSKB also monitors the level of corporate governance applications of its borrowers. TSKB, being an intermediary for credits of Council of Europe Development Bank (CEB), European Investment Bank (EIB), International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC), applies the criteria of above mentioned institutions and places a special emphasis on environmental issues.

### **3.6. Ethical Rules:**

TSKB has prepared an ethical code, disclosed it to public on its web site, however, not yet brought it to the shareholders' meeting for approval.

Processes to be applied in case of unethical personnel behavior and acts against operational rules and regulations are determined in the internal personnel and discipline codes in detail.

### **3.7. Social Responsibility:**

TSKB's relations with regulatory authorities are at a satisfactory level.

There have been no significant legal conflicts between the bank and its customers, employees, auditors, other banks, and regulatory authorities in recent history. Also, again in recent history, regulatory agencies have not imposed any sanctions or penalties upon the bank.

Environmental awareness and sensitivity for environmental issues among TSKB's business principles constitute an important part. In this context, TSKB regards sustainable development as a fundamental aspect of development & investment banking activities and aims to minimize the potential environmental risks attached to its banking activities.

In order to reflect environmental responsibility and environmental sensitivity to business activities, The Environment Management System Project was started at 2005 and completed at 2006. Consequently, at the beginning of 2007, TSKB became the first and only bank with local capital to receive the DIN EN 14001:2004 Environmental Management System Standard Certificate in Turkey according the audit performed by "TUV Rheinland International Standards Certification and Auditing Corporation.

ISO 14001 is a series of voluntary international standards that aim to systematically reduce or eliminate environmental impact of business operations of a manufacturing and service sector company. Within the scope of the EMS and ISO 14001 that have been completed, TSKB analyzed all environmental effects resulting from its activities and set forth its environmental policy, environmental objectives, targets and programs addressing the control and reduction of such effects.

As of June 1, 2006, TSKB's Environment Policy has been approved

by the board of directors. The environmental sensibility of TSKB has been defined in its Environment Policy as follows:

- Minimization of the environmental impacts with respect to the TSKB activities;
- Definition of environmental standards for our internal processes;
- Regular review of our environmental objectives and targets;
- Promotion of investments in environmental protection;
- Identification and consideration of environmental risks in financing decisions;
- Informing our employees and the public on environmental issues;
- Compliance with all related domestic and international legal requirements,
- Contribution to the improvements to provide future generations a livable environment.

In 2007, TSKB initiated a social responsibility project to increase environmental awareness in the society under the heading "Environment: Our Priority" project. Under the scope of this project, TSKB aims at establishing an information platform that would be supported by wide participation of various segments in society. Launched in 2007 as the communication channel of the project, [www.cevreciyiz.com](http://www.cevreciyiz.com), became the most comprehensive environmental portal of Turkey and celebrated its first birthday on 5 June 2008 (Earth Day) with a brand new face and new topics. At the same date, the English version of the portal was launched in order to

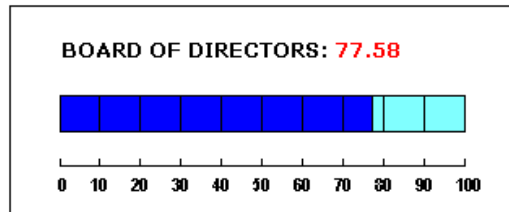
communicate the project to the foreign stakeholders of the bank. With a renewed graphic design, the portal covers a wide range of subjects including environment news; the environmental agenda of Turkey and the world; research reports, articles and papers by academics, NGOs, and professionals concerned about the issue; special features on environment; interactive tools such as contests, questionnaires and carbon-meters; environment regulations; corporate requirements for compliance with regulations as well as individual and corporate success stories. In addition to online photography exhibitions of famous nature photographers, photo documentaries about special protection areas and beautiful natural sights, [cevreciyiz.com](http://cevreciyiz.com) includes sections addressing the youth and the children.

With the aim of supporting different platforms on environmental issues, TSKB became the main sponsor of the 7<sup>th</sup> Akasya National Youth Environment Summit. The summit focused on "energy", and discussed the relationship between energy and environment. TSKB also sponsored an educational CD on environmental issues which is prepared and distributed by TEMA (The Turkish Foundation for Combating Soil Erosion, for Reforestation and the Protection of Natural Habitats). On 24 October 2008, Republic of Turkey Prime Ministry Undersecretariat of Treasury and TSKB organized a conference on "Opportunities and Expectations in Renewable Energy" at Hyatt Regency Hotel, Istanbul.

TSKB has won, for the second consecutive year, the "Sustainable Emerging Markets Bank of the Year" award for Eastern Europe under "Financial Times Sustainable Banking Awards-2008".



## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The bank's vision, mission and strategic goals are clearly defined
+	Efficient risk management and internal control mechanism in place
+	CEO and Chairman positions are separately chaired
+	Qualified and experienced executives working with principles of fairness, transparency, accountability, and responsibility
+	One independent board member
=	Audit, Risk and Corporate Governance committees established
-	Cumulative voting rights not in effect
-	No signed compliance and joint liability statement by board members
-	No provisions in the articles of association defining procedures for shareholders or stakeholders to invite the board to convene

The board of directors fairly represents the company within the framework of the relevant legislation, the articles of association and in-house regulations and policies. Members are well qualified and experienced in banking operations. However, criteria for selection of candidates are not present in the articles of association.

The board has determined the vision, mission, and strategic goals of the bank and duly monitors the level of performance and achievement of objectives. An efficient risk management and internal control mechanism is in place and working. The board also established all the mandatory committees as well as non-mandatory corporate governance committee.

The flow of information to the board is seamless and the frequency and the level of participation to the meetings are high.

On the other hand, members of the board have not declared in writing that they will be jointly liable should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general shareholders' meeting.

The most important committees are established by the board of directors and working procedures of these committees are duly determined. The level of work produced by these committees is at a satisfactory level. Moreover, there is an independent member in the board and therefore in the corporate governance committee.

The audit committee is active and efficient. The audit committee receives periodical reports from external auditors and from internal units to make sure that internal audit mechanisms are carried out adequately and transparently. The audit committee is also supervising the activities of the external auditors and the compliance with accounting standards.

The executives of TSKB are qualified and experienced and working with principles of fairness, transparency, accountability, and responsibility. They are suitably endowed with the necessary amount of authority. The executives obey the legislation, articles of association, in-house regulations and policies while performing their duties.

On the other hand, although there are special provisions in the Banking Code regarding the responsibilities of executives, there are no provisions in the book of rules and regulations of the bank stipulating that the executives should compensate the losses incurred by the bank and third persons as a result of not performing their duties duly. Similarly, employment agreements of the bank do not indicate that the executive may not be permitted to work for a competitor of the bank in case the executive renounces from his/her duty.

#### **4.1. Fundamental Functions of the Board of Directors:**

The board constantly and effectively revises the bank's level of success in achieving its goals, reviews its past performance, and monitors;

- the degree of achievement of the bank's operations, approved annual financial and business plans, compliance with legislation, and international accounting standards,
- the degree of accuracy of the bank related financial information.

The board of directors of TSKB has established an internal control and risk management mechanism that is appropriate for the bank to minimize adverse effects of the risks that the bank may face, which would also negatively affect the shareholders and stakeholders. The board also takes all

necessary measures for sound functioning of such mechanisms implemented.

The board; in order to perform these tasks in a sound manner, established audit, risk and corporate governance committees. Remuneration and appointment committees, however, are not established.

The board assesses whether the executives are well qualified to suit the demands of their positions and seeks measures that would encourage qualified employees to work for the bank over a long period of time. As the board deems appropriate, it terminates the employment of executives and appoints new executives to replace the former without delay.

The board also closely monitors and supervises whether or not the bank's operations comply with the relevant legislation, articles of association, and in-house regulations and policies.

The board of directors of TSKB acts as a pioneer in resolving and settling disputes that may arise between the bank and shareholders. The fact that the board meets frequently is conducive to this environment. It would be a positive aspect should the Board of TSKB and work in close cooperation with the newly formed corporate governance committee to ensure that the shareholders exercise their rights in accordance with the legislation, provisions of the Articles of Association, in-house regulations and policies.

#### **4.2. Principles of Activity and Duties and Responsibilities of the Board of Directors:**

The board's duties and responsibilities are clearly defined in the articles of association of the bank in consistence with its functions and beyond any

doubt so as to distinguish from the authorities and responsibilities of individual board members, executives and general shareholders' meeting. Authority and responsibility for each board member and committees are clearly defined; and, these are disclosed to public.

In order to ensure that the board members perform their duties fully, they are provided with easy access to all kinds of information in a timely manner. To this end, mechanisms to enable timely and accurate information for the board members about significant developments that may impact the bank are adopted. If deemed necessary, required executives attend the board meetings. Any behavior by the bank employees that would obstruct flow of information to the board are subject to sanctions including warnings and termination of employment contracts. The principles in this respect are clearly defined in internal regulations.

Members of the board are jointly liable by the BRSA regulations should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general shareholders' meeting. However, as per the corporate governance Principles, the members have not signed a written document that confirms this joint liability.

Although the ethical code of TSKB includes measures to ensure that employees should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains, these measures are not extended to include the members of the board.

Each member of the board devotes sufficient time for the bank's business. Within this scope, any duty that the board member may accept outside the

bank is subject to the current banking law with which TSKB fully abides.

The ethical rules of the bank do not dictate that members of the board can under no circumstances disclose bank information that is confidential and/or trade secret. However, the board has adopted requisite measures in order to ensure that confidential information does not flow out of the bank by other company employees.

In this context, we found no evidence of any members of the board exploiting confidential and publicly unavailable information in favor of himself/herself or others; providing information or extending news or making comments that are false, untrue, misleading, and unfounded information about the bank.

Members of the board have not declared in writing before commencing work that they will comply with the legislation, articles of association, in-house regulations and policies, and in case of non-compliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders. The legal document in which the members of the board have sworn at the commercial court contains no provisions to this end.

The board of directors of TSKB adopts a separate decision to approve the periodical financial statements and annual report of the bank. At the time of announcement and notification of periodical financial statements and the annual report, the member of the board who was assigned the duty of preparing the above documentation signed an official declaration in writing consisting of below-mentioned items:

- The periodical financial statements and footnotes thereto and annual report of the bank have been carefully examined by the relevant parties.



- In accordance with the authority and liabilities in the bank and according to the information obtained, the financial statements and footnotes thereto and annual reports do not consist of any misleading statements that contradict the truth and that there is no lack of essential information.

Beyond its basic functions, the board approves the annual budget and business plans of the bank; prepares the annual report; ensures that the general shareholders' meeting is conducted in accordance with the legislation and the bank's articles of association; fulfills the general shareholders' meeting decisions; controls significant material expenditures; approves the career plans and remuneration of executives; determines policies for shareholders, stakeholders and the public relations; determines the working principles of the committees; and ensures them to work effectively and efficiently.

Board meetings are planned and conducted efficiently and productively. In principle, each member of the board attends all meetings.

Agenda items such as deciding the areas of business in which the company will operate and approving business and financial plans; inviting the ordinary/extraordinary general shareholders' meeting; finalizing the annual report to be submitted to the general shareholders' meeting; electing the board chairman and deputy chairman; establishing administrative divisions or terminating their operations; appointing or dismissing the chief executive officer; and establishing committees are approved by the members of the board who attend the board meetings in person.

The board of directors of TSKB meets more than once a month. There were

55 board decisions in 2007, 38 in 2008 and 32 in 2009 up to the issue date of this report.

Documents and information about the agenda items of the board meeting are submitted to the members of the board in a timely manner and utmost attention is given to ensuring equal information flow to each of the board members.

Provisions regarding the procedures for invitation of the board members for a meeting by shareholders and stakeholders are not incorporated in the articles of association. Similarly, the articles of association of the bank do not include any provisions for the members of the board to convene upon the request by institutional investors or minority shareholders and stakeholders defined under the articles of association.

The manner in which the board meetings are to be conducted are incorporated in the bank's internal regulations.

The board meeting and decision quorum is included in the articles of association.

A secretariat is established under the responsibility of the board chairman in order to serve the board and to keep documents related to the board meetings in order. The secretariat basically engages in communication between members of the board; make preparations for the board meetings and committee meetings; keep the minutes of the meetings; and record and archive all communications made by the board, including announcements.

There has been no opposition raised by any board member on a particular issue at the board meetings in the periods that we reviewed during the rating process.

The board does not have a budget to reimburse travel/meeting expenses, costs pertaining to special working requests and similar expenses.

The board of directors of TSKB has acknowledged the importance of internal audit, internal control, risk management, and independent external audit functions and communicated the same to executives and employees of the bank. The findings of these functional units are used effectively and efficiently. Provisions are in place to avoid any actions that may hinder the independence and reputation of these auditors.

The board uses the findings of the controllers and independent auditors to verify and control the operational and performance information received from the executives.

Similarly, the board solicits and receives a report from the independent auditors regarding the efficiency of internal control, internal risk, and risk management functions and also regarding the consolidated information systems.

The board of directors, in order to establish internal systems (internal control, internal audit, and risk management); implement these in an efficient and appropriate manner; guarantee the safe keeping of information received from accounting and financial reporting functions; and identify the internal responsibilities and relevant authorities:

- has determined the functions and responsibilities of internal systems executives and closely monitors their operations.
- has determined in writing, strategies and policies of internal systems units and takes measures

to ensure efficient implementation of the same.

- has determined the responsibilities and relevant authorizations of internal systems units and executives in a clear manner not to cause any overlaps or conflicts and provided the necessary resources.
- has determined in writing the bank's policies and strategies regarding risk management and allotted the maximum risk limits as per the nature and function of banking units and the number of personnel working in these units.

Each board member of TSKB is entitled to a single vote at the board meeting and board members are not granted with weighted voting rights or positive/negative veto rights.

#### **4.3. Formation and Election of the Board of Directors:**

The board of directors of TSKB is structured so as to optimize effect and efficiency thereof. The number of the members for the board is determined to facilitate producing efficient and constructive works by the board, adopting rapid and rational decisions and effectively organizing formation and working of committees.

Members of the board are elected from among qualified persons. However, criteria required for candidates for board membership positions are not incorporated in the articles of association.

Board members are capable of analyzing and interpreting financial statements and reports and have basic knowledge about the legal regulations applicable to the bank for daily or long term business as well as dispositions.

All of the board members, except the CEO, are non-executive members.

The chairman and the CEO positions are not occupied by the same person.

The board does comprise an independent member who complies with the CMB rules and has the ability to execute his duties without being influenced under any circumstances.

TSKB has not embraced use of cumulative voting in the election of the board members. The procedure for the adoption of cumulative voting, therefore, is not incorporated in the articles of association of the bank.

#### **4.4. Remuneration of the Board of Directors:**

TSKB officials have informed us that the bank never extends credit to members of the board. There are no other guarantees or warranties provided to board members either.

Compensation for the members of the board is determined by the general shareholders' meeting so as to counterweigh the time invested and performance of membership duties as a minimum.

There are dividend payments to the members of the board, proposed by the articles of association of the bank, as an incentive remuneration which is based upon the performance of the members of the board in connection with the performance of the bank.

#### **4.5. Number, Structure and Independence of Committees Established by the Board of Directors:**

In accordance with the conditions and necessities of the bank; audit, risk and corporate governance committees are formed so as to enable the board to execute its tasks in an efficient manner. However, remuneration and appointment committees have not been established.

The independent member within the board is a member of the corporate governance committee as well. None of the audit committee members and the majority of the risk committee members are non-executives.

Each committee keeps records of all their work in writing. The scheduling for committee meetings is compliant with that of the board meetings.

After the meetings, the chairman of the committee delivers a written report about the activities of the committee to the board and delivers the summary of the minutes of the meeting to the board in writing.

An audit committee in charge of supervision of the financial and operational activities of the bank is established.

The criteria for selection of the audit committee members are compliant with the current legislation.

The board provides all necessary sources and assistance to the audit committee for its duties to be performed. The internal auditor also reports to the audit committee.

The audit committee supervises whether or not periodic financial statements and its footnotes are prepared in accordance with the current legislation and international accounting standards and declares its opinion to the board in writing upon receiving the opinion of the independent audit firm.

The audit committee took all necessary measures in order to ensure that internal and external auditing are carried out adequately and transparently.

Appointment of the external audit firm, preparation of audit agreements and initiation of audit process and all

activities of the external audit firm are made under the surveillance of the audit committee.

Appointment of the external audit firm and the services to be provided thereby are submitted to the board upon the preliminary approval by the audit committee. Prior to appointment of the external audit firm, the audit committee reviews whether or not there exist any issues that may jeopardize independence of the audit company.

The audit committee evaluates and resolves any issues pertaining to the complaints and suggestions on the accounting practices, internal control system and external auditing as submitted to the bank and also ensure that complaints made by the employees in this respect are evaluated in accordance with confidentiality principle.

Furthermore, in compliance with the current legislation, the audit committee ensures that the internal audit function of consolidated affiliates is implemented also in a consolidated manner and concurrently with the internal auditing of the parent bank.

The audit committee also ensures that it receives regular reports from internal control, internal audit, and risk management units regarding their operations.

The audit committee scrutinizes full compliance with the in-house regulations and policies, ensures that it pinpoints any actions that may adversely affect the operations of the bank, and submits the outcome to the board.

A corporate governance committee is established in order to monitor the bank's compliance with the corporate governance Principles and perform improvement studies and offer any

possible suggestions to the board. This newly formed committee's performance will be monitored by us.

#### **4.6. Executives:**

The executives perform their duties in a fair, transparent, accountable and reliable manner. They ensure that the bank conducts its business within the framework of its mission, vision, goals, strategies and policies and act in accordance with the financial and operational plans of the bank as approved by the board each year.

The executives are authorized to perform their duties and have the required professional qualifications in order to perform the assigned duties.

They obey the legislation, articles of association, in-house regulations and policies while performing their duties; and submit a report regarding the conformity of the performed works with these to the board each month.

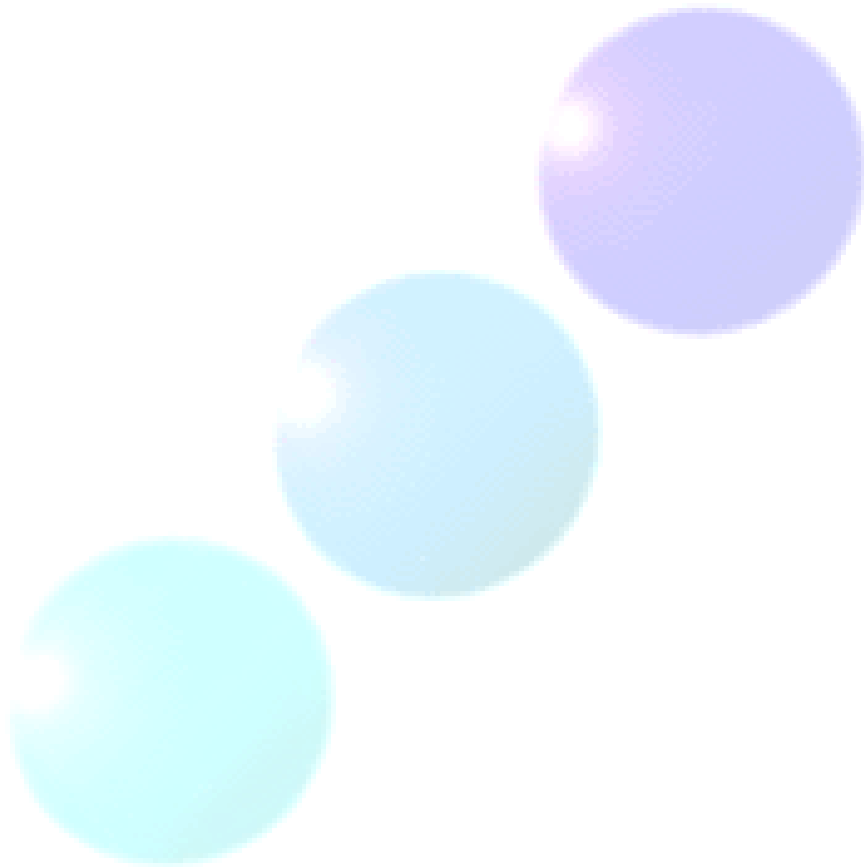
During the rating process, we came across to no incidence of any executives exploiting bank related confidential and publicly unavailable information in favor of himself/herself or others, and providing information or extending news or making comments that are false, untrue, misleading or unfounded about the bank.

Although there are special provisions in the Banking Code regarding the responsibilities of executives, there are no provisions in the bank's internal book of rules and regulations that the executives should compensate the losses incurred by the bank and third persons as a result of not performing their duties duly.

Similarly, employment agreements do not contain provisions which clearly indicate that the executive may not be permitted to work for a competitor of the bank and describe the sanctions to

be implemented in case of violation of such provision in case the executive renounces from his/her duty, to protect the interests of the bank for a certain period of time.

Management reviews the findings of internal controllers and auditors' in an efficient and timely manner and ensures that identified problems are solved promptly.



## Rating Definitions

Rating	Definition
9 - 10	The company performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The company's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7 - 8	The company performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated.
6	The company performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The company performs <b>weakly</b> as a result of poor corporate governance policies and practices. The company has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The company performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The company shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.