



## Corporate Governance Rating Report



20 October 2014

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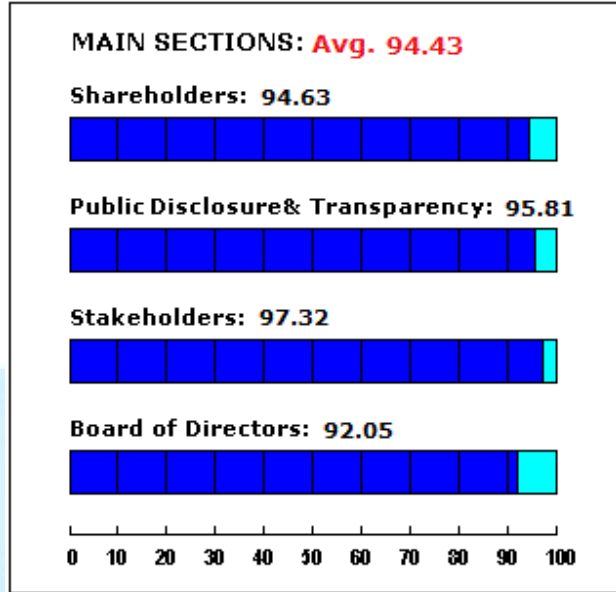
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## Rating and Executive Summary

### TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş. (TSKB)

 **SAHA**  
Corporate Governance Rating:

**9.44**  
**BNK**



### EXECUTIVE SUMMARY

Corporate Governance Rating for Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) is upgraded as 9.44 from the previous setting of 9.40 dated 21 October 2013. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

The bank's corporate governance rating is revised as above in consideration with the importance given by Türkiye Sınai Kalkınma Bankası A.Ş. to corporate governance principles, its willingness to carry out the continuous and dynamic process, and improvements which had been initiated in this direction since the previous rating.

Additionally, TSKB takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 3, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

TSKB is rated with **9.46** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. TSKB carries out the investor relations obligations through the Investor Relations Department. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There is a dividend policy of the bank and it is disclosed to the public. On the other hand, there are areas for improvement like the rate of minority rights in the bank's articles of association as prescribed for public joint stock companies (%5), and the absence of a provision in the articles of association on realization of the general shareholders' meetings open to public and media.

TSKB attained **9.58** under the **Public Disclosure and Transparency** chapter. The bank has a comprehensive web site. Public announcements are made via all communications channels and are in accordance with the Capital Markets Board (CMB) and Borsa Istanbul (BIST) rules and regulations. Annual report complies with the legislation, comprehensive and informative. The agreement and work conducted with the external auditor also complies with the legislation. Nevertheless, non-disclosure of the benefits provided to board members and senior management on individual basis is an area in need of further refinement.

On the topic of **Stakeholders**, TSKB scored **9.73**. The bank has a written and advanced human resources policy. Code of ethics is publicly available through the bank's web site. The bank complies with environmental laws. Corporate Social Responsibility and Sustainability work is quite satisfactory. A written compensation policy for the employees is established and disclosed to the public.

From the perspective of the principles regarding the **Board of Directors**, TSKB's tally is **9.21**. The board of directors fulfills all duties regarding bank needs. The board of directors consists of 10 members and 3 of them are independent. A Corporate Governance Committee, an Audit Committee, and a Remuneration Committee are established within the board of directors. The working principles of the committees are disclosed to the public. Principles of remuneration of board members and senior executives are included on the bank's web site. There is a defined internal policy and a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female membership rate on the board of directors. However, there are areas for improvement; any losses incurred by the bank caused by board members are not insured with an amount exceeding 25% of the capital of the bank as specified in the Corporate Governance Principles Communiqué, and there are no limitations introduced for the board members taking on additional duties outside the bank.

## 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 January 2014.

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, Borsa Istanbul 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 these Principles is advisory and its application 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 bank's governance practices in the future should be mentioned in the annual report and disclosed to the public.

Based on these Principles, SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the bank 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.23).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

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

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> Adnan Bali <b>GENERAL MANAGER</b> Özcan Türkakın
Meclisi Mebusan Cad. 81 34427 Fındıklı İstanbul <a href="http://www.tskb.com.tr">www.tskb.com.tr</a>	<b>Investor Relations Department Manager</b> Ömer Eryılmaz Tel: (0212) 3345050 Fax: (0212) 3345234 <a href="mailto:eryilmazo@tskb.com.tr">eryilmazo@tskb.com.tr</a>

Türkiye Sınai Kalkınma Bankası A.Ş. is the first private investment and development bank of Turkey, founded in 1950 with support of the World Bank and with the cooperation of the Government of the Turkish Republic, the Central Bank of the Turkish Republic and the commercial banks in Turkey.

Türkiye Sınai Kalkınma Bankası was established to support the investments of all the enterprises in all economic sectors in Turkey, especially the industry sector, to help national and international investors participate in the share capital of companies already founded or to be founded in Turkey, and to help the development of the capital markets in Turkey. TSKB realizes its goal to help the development of economic sectors by providing financial support in an appropriate way and providing consulting, technical help and financial intermediary services. TSKB operates as a non-deposit accepting bank and has played an active role in manufacturing industry and financial sector at every stage of Turkey's economic development since its establishment. In 1950 TSKB started off to finance private sector investment and today it is providing sustainable development targeted loans and project financing to corporate firms in different sectors.

TSKB has opened two branches in Izmir and Ankara in April 2006 to carry out marketing and valuation activities more effectively.

The bank shares are traded under "TSKB" code at BIST and TSKB is a constituent of BIST BANKS / BIST CORPORATE GOVERNANCE / BIST FINANCIALS / BIST DIVIDEND / BIST DIVIDEND 25 / BIST ALL SHARES / BIST NATIONAL / BIST 10 BANKS / BIST 100 / BIST 100-30 / BIST 50 indices.

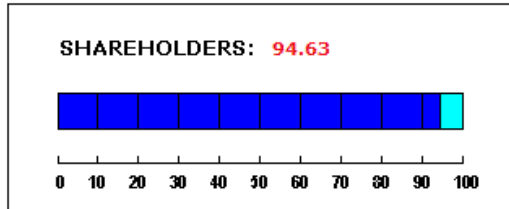
The capital structure of the bank is as follows:

<b>Türkiye Sınai Kalkınma Bankası A.Ş. Capital Structure</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
Türkiye İş Bankası A.Ş.	607,759,352.51	40.52
Türkiye Vakıflar Bankası T.A.O.	125,662,253.21	8.38
Camiş Yatırım Holding A.Ş.	86,947,332.78	5.80
Publicly Traded Shares and Other Partners	679,631,061.51	45.31
<b>Total</b>	<b>1,500,000,000.00</b>	<b>% 100.00</b>

The board of directors of the bank is as follows:

<b>Türkiye Sınai Kalkınma Bankası A.Ş. Board of Directors</b>		
<b>Name</b>	<b>Title</b>	<b>Executive/Independent</b>
Adnan Bali	Chairman	Non-executive
Kemal Serdar Dişli	Vice-chairman / Audit Committee Member / Corporate Governance Committee Member	Independent Member
Özcan Türkakın	Member / General Manager	Executive
Murat Bilgiç	Member / Audit Committee Member	Independent Member
Kamil Yılmaz	Member	Independent Member
E.Burhanettin Kantar	Member / Remuneration Committee Member	Non-executive
Halil Aydoğan	Member	Non-executive
Uygar Şafak Ögün	Member / Corporate Governance Committee Member / Remuneration Committee Member	Non-executive
Ebru Özsuca	Member	Non-executive
Durmuş Yılmaz	Member	Non-executive

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Active investor relations department
+	General shareholders' meetings are conducted in compliance with the legislation
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Dividend policy exists and disclosed to the public
+	There is no regulation that prevents representation of publicly held shares on the board
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	Public attendance at the general shareholders' meeting is not incorporated in the articles of association

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

The bank carries out investor relations obligations through the Investor Relations Department.

Employees of this department are active and willing on exercise of corporate governance principles at the bank.

Along with the members of the bank the Investor Relations Department

plays an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review information, and its duties are as follows;

- a) To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- b) To respond to the queries of the shareholders requesting written information on the bank.
- c) To ensure the general assembly meeting is held in compliance with the applicable legislation, articles of association and other bank by-laws.
- d) To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- e) To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Investor Relations Department submits a report to the board of directors at least once a year on its conducted activities.

Information and explanations that may affect the use of shareholders' rights is available up to date on the corporate web site of the bank.

Investor Relations Manager of the bank, Mr. Ömer Eryılmaz is holder of



Capital Market Activities Advanced Level License and Corporate Governance Rating Specialist License as stated in the Corporate Governance Principles Communiqué.

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

We did not come across to any hindering process or application within the rating period regarding the appointment of a special auditor at the request of shareholders.

All kinds of information about the bank is provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this regard.

The bank has constituted a disclosure policy and disclosed it to the public on its corporate web site. This policy was first introduced in 2011, then updated and presented at the general shareholders' meetings.

### **1.3 Minority Rights:**

Maximum care is given to the usage of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the bank has adopted exactly the rate foreseen in the legislation for banks.

### **1.4. The General Shareholders' Meeting:**

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 held on 27 March 2014 is performed through all means of communication available to the bank on 5 March 2014 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' 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 to the general shareholders' meeting; and the exact location where annual report, financial statements and other meeting documents can be examined.

Besides, the bank has prepared a descriptive disclosure document on agenda items.

Commencing from the date of announcement of invitation for the general shareholders' meeting, following documents are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the bank, and the electronic media;

- the annual report
- financial statements and reports
- all other related documents pertaining to the agenda items
- dividend distribution proposal

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site of the bank;

a. total number of shares and voting rights reflecting the bank's shareholding structure as of the date of disclosure, number of shares and voting rights reflecting the privileged share group within the bank capital, and the nature of the privileges,

b. grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of the relationship of the bank and related parties, whether it has the quality of independence and information on similar issues.

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. Information submitted to the shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Chairman of the meeting made preparations for the execution of the general assembly and obtained necessary information in line with the Turkish Commercial Code, the law and legislation.

General shareholders' meeting took place at the bank headquarters.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each question is answered directly at the meeting provided that they do not constitute a trade secret.

Agenda of the general shareholders' meeting included the proposal for the permission to be granted to shareholders who have control of the management, members of the board of directors, managers with administrative responsibility, their spouses and up to second degree blood relatives to execute transactions and compete with the bank and/or its affiliates, to make a commercial business transaction for himself or on behalf of others or to join to another bank dealing with the same type of commercial business as a partner with unlimited responsibility and it has been declared that there has been no such proceeding. In addition, shareholders were informed at the general shareholders' meeting that the main shareholder of the bank, İş Bankası A.Ş. and TSKB are organizations

operating in the same sector and some members of the board of directors are serving as administrator at İş Bankası A.Ş. and Türkiye Vakıflar Bankası T.A.O.

The members of the board of directors related with the issues of a special nature on the agenda, other related personality, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

Also, attendance of the majority of the board members to the general shareholders' meeting is deemed positive by us.

Shareholders are informed, with a separate agenda item, on all donations effectuated during the period and the amount of benefits and beneficiaries at this meeting. Additionally, a policy on donations is effectuated and disclosed to the public on the corporate web site of the bank. However, this policy is not yet submitted to the general shareholders' meeting for approval. We are informed that this newly constituted policy will be submitted to the attention of the shareholders at the first upcoming general shareholders' meeting.

Nevertheless, there is no provision in the articles of association of the bank on realization of the meetings open to public and media.

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

At TSKB all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately and the bank avoids applications that make it difficult to exercise voting rights.

As required by the bank's articles of association, one member of the board of directors is chosen from among candidates designated by the Central Bank of the Republic of Turkey. In addition, Vakıfbank, which controls an 8.38% stake in the bank's capital, has one seat on the board of directors.

There is no regulation that prevents representation of publicly held shares on the board.

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

The dividend policy of TSKB is defined and disclosed to the public on the bank's web site. It is submitted to the approval of shareholders at the general shareholders' meeting. The bank's dividend distribution policy contains minimum information clear enough for investors to predict any future dividend distribution procedures and principles.

It is stated in the dividend distribution policy document that a balanced policy will be followed between the interests of the shareholders and that of the bank.

In addition, the articles of association of the bank do not contain a provision on advance dividend payments.

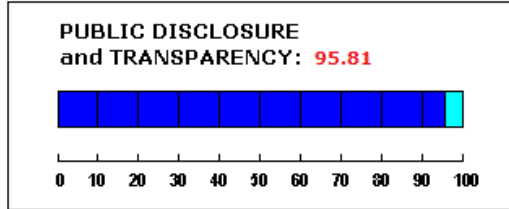
There are no privileges on participation in the profits.

The dividend distribution proposal of the board of directors was accepted as it is at the general shareholders' meeting of 27 March 2014. It was decided that out of TL 265,000,000 (the sum of the first and second dividend for the year 2013) gross TL 65,000,000 will be distributed in cash among the shareholders, and the remaining TL 200,000,000 will be given as share certificate to be used for the capital increase of the bank from TL 1,300,000,000 to TL 1,500,000,000.

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

No difficulties on free transfer of shares are observed.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive web site, actively used for public disclosure, English version exists
+	Annual report complies with the legislation, comprehensive and informative
+	Agreement and studies conducted with external auditors comply with the legislation
-	Benefits provided to board members and senior management not listed on individual basis

### 2.1. Corporate Web Site:

TSKB's corporate website ([www.tskb.com.tr](http://www.tskb.com.tr)) is actively used for disclosure purposes and the information contained therein is continuously updated.

Along with the information required to be disclosed pursuant to the legislation, the bank's website includes: trade register information, information about latest shareholder and management structure, detailed information on privileged shares, the date and the number of the trade registry gazettes in which the bank's articles of association changes are published along with the final version, material disclosures, financial reports, annual reports, agendas of the general shareholders' meetings and list of participants, minutes of the general shareholders' meeting, form for proxy

voting at the general shareholders' meeting, disclosure policy, dividend distribution policy, ethical rules of the bank, frequently asked questions including requests for information, questions and notices, and responses thereof.

In this context, information on at least the last five years can be reached on the website.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the bank also discloses financial statements on KAP (Public Disclosure Platform) and simultaneously in English.

The information contained on the website exists also in English for the benefit of international investors.

The bank's web site also includes; investor presentations, working principles of the committees, important board decisions, the vision/mission of the bank established by the board, information on capital increases and dividend payments, disclosure area, general shareholders' meeting internal guidelines, corporate social responsibility/sustainability reports, information on senior management, financial data, main ratio analysis, timetable on events/developments which considers investments, web site privacy/security policy and the human resources policy.

The bank did not receive any warning/impunity due to deficiencies/disruptions on its corporate web site.

## 2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the bank, and it covers information such as;

- a. period covered by the report, the title of the bank, trade register number, contact information,
- b. the names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- c. the sector in which the bank operates and information on its position in the sector,
- d. qualifications of the units within the bank, general descriptions related to the amount of loans and interest rates, credit conditions and yearly developments, productivity rates and causes of significant changes compared to previous years,
- e. progress on investments, the eligibility status on incentives, and to what extent,
- f. changes and justifications on the articles of association during the period,
- g. Corporate Governance Principles Compliance Report,
- h. information on related party transactions,
- i. other issues not included in the financial statements, but are beneficial for users,
- j. the bank's organization, capital and ownership structure and any changes in the related accounting period,
- k. all benefits provided to staff and information on number of personnel,
- l. declaration on privileged shares and their amount,
- m. information on board members' transactions with the bank on their behalf or someone else within the framework of permission granted by general shareholders' meeting along with their activities within the scope of restraint of trade,
- n. dividend distribution policy,
- o. basic ratios on the financial position, profitability and solvency,
- p. the bank's financing resources and risk management policies,
- q. information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following information also took place in the annual report;

- a. external duties of board members and executives,
- b. members of the committees within the board, assessment of their working principles,
- c. the number of board meetings held during the year and status of participation of the members,
- d. major court cases against the bank and possible consequences,
- e. information on conflicts of interest between the bank and investment advisory and rating agencies that provide services, and measures taken by the bank to avoid such conflict of interest,
- f. information on direct contributions to capital ratio with cross shareholding investments in excess of 5%,
- g. benefits and vocational training of employees, and other bank

- activities that give rise to social and environmental results,
- h. rating results.

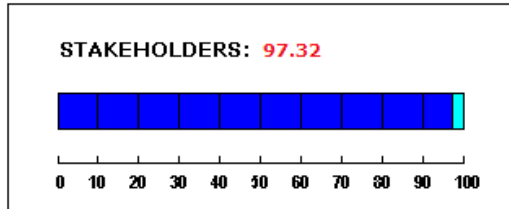
On the other hand, the annual report does not include the declaration of independence of the independent board members, and benefits provided to board members and senior executives are mentioned collectively, but in terms of Corporate Governance Principles it is essential that this information is given on an individual basis.

### **2.3. External Audit:**

The external audit of the bank is conducted by Akis Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of KPMG group with a worldwide experience.

There has not been a situation where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Efficient human resources policy
+	Strict quality standards in bank's business and operations
+	Code of ethics established and disclosed to the public
+	Bank complies with environmental laws. Corporate Social Responsibility and Sustainability studies are at high levels.
+	A written employee compensation policy established and disclosed to the public

### 3.1. Bank Policy Regarding Stakeholders:

We have not come across a significant or repetitive situation in which the rights of stakeholders established by any law or agreement are not recognized. The bank's corporate governance practices are in top level and TSKB recognizes the rights of stakeholders established by law or through any other mutual agreement.

Corporate governance structure of the bank ensures that its stakeholders, including its employees and representatives, report their concerns to the management concerning any illegal or unethical transactions. Accordingly, notifications received by the investor relations unit and through the bank's [info@tskb.com.tr](mailto:info@tskb.com.tr) e-mail address are forwarded to the Audit Committee via in-house channels as

well as the report prepared by the bank supervisory commission.

A compensation policy for the employees of the bank is constituted and disclosed to the public on the bank's web site.

The bank has a purchasing regulation which is approved by the board of directors.

Within the scope of this policy, purchases are realized by the decision of the minimum three-member purchasing committee established by the deputy general manager responsible for purchasing. Purchasing decisions are authorized within the framework of certain limits. At least three bids are mandatory for purchases exceeding determined limits. In addition, decisions are also supported by the purchasing subcommittees created by employees working at different departments of the bank.

### 3.2. Stakeholders' Participation in the Bank Management:

TSKB has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the bank.

"General assessment" meetings are held two times a year in order to inform employees about the bank's activities and progress in general and to solicit their suggestions. At such meetings, the bank's financial structure and performance are also assessed together with employees.

In addition to general assessment meetings, employees are able to convey their opinions and claims to the



relevant persons and have contribution to the company resolutions through "I Have a Suggestion" intranet link.

Moreover, an "employee satisfaction survey" which was first conducted in 2012 aims to measure the level of employee satisfaction, assesses their expectations and claims and reviews the bank's human resources policy.

### **3.3. Bank Policy on Human Resources:**

TSKB has a written human resources policy. The bank's human resources policy is to enable its personnel to become individuals with a broad vision, aiming to meet customers' needs and expectations, open to change and improvement for perpetuating TSKB's improvement and development.

For years, TSKB has adopted the approach of "creating a TSKB family" and "bringing out leaders from within", and to that extent, it has specified its target recruitment group as "new graduates with management potential and the desire to be a part of TSKB".

Job descriptions, assignments, and performance criteria are determined by management and announced to employees.

It is a principle that individuals are to be given equal opportunity under identical conditions during recruitment. Hiring criteria are set forth in writing for each job position and are complied with in practice.

When making training, assignment, and promotion decisions, care is given so as to make use of objective criteria and to protect the bank's best interests.

Training plans are developed and implemented so as to enable employees to improve their

professional knowledge and skills, as well as plans improving their personal and administrative competence which are appropriate for their career plans.

Employees are provided with a secure work environment and safe working conditions. These conditions are improved in line with social and technological requirements.

Employees are kept informed about all bank decisions and developments that may be of concern to them and feedback is solicited from them on such issues.

Measures are taken to prevent discrimination among employees on the basis of race, religion, language, or sex; to ensure respect for human rights; and to protect employees against physical, mental, or emotional abuse in the workplace. It has been declared that no complaints have been received in this context.

In cases which management reshuffle could cause disruptions, a written succession planning for determination of new manager appointments is not established, but appointment of the next most senior staff of the relevant departments is applied. In this context there is a backup of all managers.

There is no active union at the bank, however contribution of the employees are received through various committees.

### **3.4. Relations with Credit Customers, Depositors and Creditors:**

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

Quality standards in banking services are adhered to and attention is paid to the protection of these standards.



### **3.5. Ethical Rules & Social Responsibility:**

The bank has prepared a set of ethical rules and these principles have been announced to the public on the corporate web site.

The concept of trade secret for TSKB is made up of interior establishment structure and organization, monetary, financial, loan and cash situation, research and development, activity strategy, pricing policies, marketing tactics and expenditures, market shares, client potential and network, contract connection, documents, electronic recording and data that can be learned and obtained only by qualified individuals that are related to bank's activity area and individuals who may have access to insider information. So called intelligence cannot be learned by rivals and third parties and not to be publicly disclosed and has a great significance for the bank's success and efficiency.

The personnel whose names are in the insider information list declare that they acknowledge their liabilities and they acknowledge the sanctions regarding the abuse and improper disclosure of such information in breach of law and legislation.

The bank keeps good relations with non-governmental organizations and public social institutions. In addition, work carried out in accordance with awareness of environmental laws and environmental responsibility in general has been found satisfactory by us.

In this context, since 2007 TSKB has been executing a long-term social responsibility project called "Our Priority Environment" with the aim of increasing public awareness. Under the scope of this project TSKB established an information platform that would be supported by wide participation of various segments in society.

As being the communication channel of the project, [www.cevreciyiz.com](http://www.cevreciyiz.com) and [www.cevreciyiz.TV](http://www.cevreciyiz.TV) became the most comprehensive environmental portals of Turkey. Both technological infrastructure and editorial process are supported by TSKB, and has been in close collaboration with environmental NGO's for providing reliable content.

Moreover, TSKB has put the web portal [www.tskbenerjiverimiligi.com](http://www.tskbenerjiverimiligi.com) into service in 2011 in order to achieve a widespread awareness of energy efficiency.

Additionally, for the last three years TSKB has been implementing 'Sustainability Workshops' the first literacy program in the field of sustainability which brings together university students which will be future managers, academics and private sector representatives. It has been realizing numerous case studies also with participation of TSKB managers at various universities in order to teach sustainable banking activities to younger generation.

Furthermore, the bank is sponsoring the concerts organized within the scope Istanbul Music Festival organized by the IFCA for over 10 years.

### **3.6 Sustainability:**

The bank has a policy, internal regulations, objectives, initiatives and campaigns on environment, nature, energy saving, recycling and education issues. Also, a "Sustainability Committee" has been established in 2014 consisting of representatives of different departments and all activities related to sustainability are fulfilled by this committee.

TSKB has disclosed to the public through the corporate website its sustainability reports covering sustainability efforts for the period

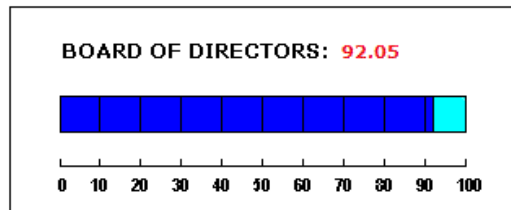
between 2008 and 2012. Following the publication of the 3<sup>rd</sup> Sustainability Report in 2013 TSKB has become the first Turkish financial institution who realized sustainability reporting at GRI A+ level.

In this context, the bank has national/international quality/health standard documents. It is a member of domestic/overseas organizations carrying out studies in this area.

In addition, TSKB is measuring the carbon footprint level, sharing the results with public and taking action to reduce the carbon emission level within the scope of determined objectives.

Sustainability studies of TSKB is evaluated quite positive by us. Under the Financial Times - IFC award program, Sustainable Banking Awards, the bank has received the "Sustainable Bank of the Year" award in the category of Emerging Markets in Eastern Europe three years in a row, in 2008, 2009 and 2010.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The board is staffed with effective and highly qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Each board member is entitled to a single vote
+	3 independent members on the board
+	Audit, Corporate Governance and Remuneration Committees established
+	Principles of remuneration of board members and senior executives are established and disclosed to the public
+	A policy is established for 25% female board membership rate
=	1 female member on the board
-	Losses incurred by the bank caused by board members are not insured with an amount exceeding 25% of the capital of the bank
-	No limitations introduced for board members taking on additional duties outside the bank

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

Strategic decisions of the board of directors aims to manage the bank's risk, growth, and return balance at an appropriate level; and with a view to the long-term interests of the bank, conduct a rational and cautious risk

management approach. The board administers and represents the bank within these parameters.

The board of directors has defined the bank's strategic goals and identified the needs in human and financial resources, and controls management's performance.

#### 4.2. Principles of Activity of the Board of Directors:

The board of directors performs its activities in a transparent, accountable, fair and responsible manner.

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established various internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees.

The presence, functioning, and effectiveness of internal controls and internal audit, are explained in the annual report.

Chairman of the board and the chief executive officer/general manager's executive powers are clearly separated and this separation is documented in the articles of association.

The board of directors plays a leading role in maintaining effective communication between the bank and the shareholders and settling any disputes which may arise.

Any losses incurred by the bank caused by board members are

insured, but not with an amount exceeding 25% of the capital of the bank as specified in the Corporate Governance Principles Communiqué.

Analyzing the bank's organization, it is seen that there is no person in the bank who has unlimited authority to make decisions alone and this is considered as positive by us.

#### **4.3. Structure of the Board of Directors:**

The bank's board of directors is composed of 10 members. With the exception of the general manager, all members are non-executive. Among the non-executive board members, there are 3 independent members who have the ability to execute their duties without being influenced under any circumstances as defined by the Communiqué.

The Corporate Governance Committee have prepared a report on the candidates proposed by the board and shareholders, by taking into consideration of whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There is 1 female member on the board. There is a defined internal policy and a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female membership rate on the board of directors and it is included on the corporate web site of the bank in Turkish and in English.

This policy is defined as follows;

"While selecting a board member from a pool of nominees who are equal in terms of know-how, experience and competency, female nominees shall be given priority. The bank has set a voluntary goal of increasing the participation of women to at least 25 percent on the board. In line with this goal, the number of female board members is planned to be gradually raised to three within the next four years. On annual basis, the board shall monitor and evaluate the performance of fulfilling the aforementioned target".

#### **4.4. Conduct of the Meetings of the Board of Directors:**

The board of directors of the bank held 56 meetings in the operating period of 2013.

Chairman of the board of directors sets the agenda for board meetings in consultation with the chief executive officer / general manager.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member of the board has a right to one vote.

The meeting and decision quorums have been included in the articles of association of the bank. In addition, board meetings can also be held in a remote access system.

The conduct of the board of directors meetings is documented in the articles of association of the bank.

There are no limitations introduced for the members taking on additional duties outside the bank. However, actually no member has any duties other than the ones naturally incumbent upon them in the corporate entities they represent and in the

organizations belonging to the corporate entities they represent.

The external duties and grounds of the board members are presented to the general shareholders' meeting where their nomination is discussed, with a distinction between intra-group and out-group activities.

#### **4.5. Committees Established Within the Board of Directors:**

A Corporate Governance Committee, an Audit Committee, and a Remuneration Committee are established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the committees and their working principles are designated by the board of directors and disclosed to the public on the bank web site.

All chairmen of the committees are elected among the independent board members. The chief executive officer / general manager and the chairman of the board of directors are not on the committees. With the exception of independent members, care is taken to avoid appointment of a board member on multiple committees but Mr. Uygur Şafak is serving on two committees.

The manager responsible for Investor Relations, Mr. Ömer Eryılmaz is appointed as a member of the Corporate Governance Committee in terms of compliance with the Communiqué in question. There are no other executive members on the committees.

All necessary resource and support needed to fulfill the tasks of the committees are provided by the board of directors.

Committee meeting frequency has been found sufficient by us. In 2013 operating period; Corporate

Governance Committee held 4 and the Audit Committee held 5 meetings. As of the date of our report, Audit Committee met 25 times and the Corporate Governance Committee held 4 meetings in 2014.

The Corporate Governance Committee is established in order to determine whether or not corporate governance principles are being fully implemented by the bank, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of imperfect implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the shareholder relations unit.

Audit Committee members possess the qualifications mentioned in the Communiqué.

The annual report contains information on working principles of the Audit Committee and number of written notices given to the board of directors in the fiscal year, but the meeting results are excluded.

The external audit of the bank is conducted by Akis Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of KPMG group with a worldwide experience. The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the auditing committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

The tasks of the Nomination Committee are performed by the Corporate Governance Committee. In this context the corporate governance committee works on determination of independent candidates.

Even though the duties and responsibilities of the Remuneration and Audit Committees are defined, since a record/report on the work of these committees is not seen, we are unable to evaluate them on their functionality.

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The principles of remuneration of board members and senior executives has been documented in writing and submitted to the shareholders as a separate item in the general shareholders' meeting.

A remuneration policy prepared for this purpose can be found on the bank's web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

We have come to conclusion that the executives have the required professional qualifications in order to perform the assigned duties and they comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public bank information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the bank's affairs, and provided unfair advantage.

Bank officials declared that there is an insurance policy on compensation for losses incurred by the bank, and third parties, as a result of not performing the executives' duties duly.

## Rating Definitions

Rating	Definition
9 - 10	The bank 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 bank's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated. Deserved to be included in the BIST Corporate Governance Index on the highest level.
7 - 8	The bank 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. Deserved to be included in the BIST Corporate Governance Index.
6	The bank 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. Deserved to be included in the BIST Corporate Governance Index and 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 bank performs <b>weakly</b> as a result of poor corporate governance policies and practices. The bank 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 bank performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The bank 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.

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