

TÜRKİYE SİNİ KALKINMA BANKASI ANONİM ŐİRKETİ

2017

CORPORATE

GOVERNANCE

PRINCIPLES

COMPLIANCE REPORT

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

SECTION I – CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Türkiye Sınai Kalkınma Bankası A.Ş. (hereinafter "TSKB" or the "Bank") is subject to "Corporate Governance Principles" compliance of which is obligatory for banks within the framework of Capital Markets Board (CMB) and banking regulations. According to the Bank's Articles of Association, transactions made and the resolutions of the Board of Directors passed by not observing the said obligatory principles shall be deemed as conflicting with the Articles of Association.

The Bank has authored their "Corporate Governance Principles Compliance Statement" as per the provisions of Corporate Governance Communique No: II-17.1 (hereinafter the "Communique"), published in Official Gazette Dated 3 January 2014, Edition No: 28871, and those of CMB Principle Decision No: 2/35 Dated 27 January 2014, and in line with the international principles and sector principles. In the activity period of 2017, the Bank generally complied with "Corporate Governance Principles" that were published by the Capital Market Board, with the exception of the following principles, compliance of which is not obligatory for the Bank. The Bank's Articles of Association do not include provisions that foresee:

- » Ability to exercise the individual right of requesting appointment of a special auditor,
- » Models to support participation of the stakeholders to the Bank's management.

Above-mentioned principles that are not yet complied with did not so far result in any conflict of interest among the stakeholders. To note, there are internal practices regarding to the mentioned principles in TSKB.

Given below are the assessment and observations on the Bank's compliance with the Corporate Governance Principles, and the Bank's activities for developing the scope and quality of the level of their compliance.

SECTION II - SHAREHOLDERS

2.1. Investor Relations Department

Duties and responsibilities of "Stakeholder Relations Department" are executed pursuant to the fundamentals of corporate governance which are transparency, accountability, responsibility and equality by the departments of Budget Planning&Investor Relations and Legal Affairs. "Investor Relations Department Manager", who holds Capital Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, serves as a member of Corporate Governance Committee as per the provisions of the governing legislation.

Investor Relations Department pursues activities in relation to shareholders' use of their rights and ensures the communication between the Bank's senior management and shareholders. The Department has an active role facilitating the use of and in protecting shareholders' rights, especially rights to obtain information and review.

Investor Relations Department basically has the following functions and purposes:

- » Ensuring that the records of correspondences between shareholders and the Bank, and other documents are in order, up to date and reliable,
- » Responding to the written claims of information by shareholders pertaining to the Bank's business, with the exception of information that is confidential and/or secret and/ or otherwise exempt from public disclosure,
- » Preparing the documentation related to the General Assembly meetings to be made available to the shareholders for their review and taking measures to ensure that General Assembly meetings are held in full adherence to the governing legislation, provisions of the Articles of Association and the Bank's other internal bylaws,
- » Observing and supervising performance of all liabilities under the provisions of capital market legislation, including but not limited to all issues pertaining to the corporate governance and public disclosure.

Investor Relations Department prepares and submits a written report once a year with regards to the activities carried out by the Department, which is to be read and discussed in Corporate Governance Committee's first meeting. Corporate Governance Committee submits the aforementioned report to the Board of Directors.

Contact details of the employees who take part in Investor Relations are given in the following table:

FULL NAME	TITLE	PHONE NO	ELECTRONIC MAIL ADDRESS
Ece Börü	Executive Vice President for Budget Planning and Investor Relations, Financial Control and Financial Analysis&Valuation	0 212 334 51 91	borue@tskb.com.tr
Ayşe Nazlıca	Head of Budget Planning and Investor Relations	0 212 334 51 94	nazlicaa@tskb.com.tr
Özen Çaylı	Budget Planning and Investor Relations Department Manager*	0 212 334 52 49	halilogluo@tskb.com.tr
Emre Kalelioğlu	Budget Planning and Investor Relations Manager	0 212 334 52 03	kalelioglu@tskb.com.tr
Özlem Bağdatlı	Legal Affairs Department Manager	0 212 334 50 93	bagdatlio@tskb.com.tr
Korhan Aklar	Legal Affairs Group Manager	0 212 334 50 92	aklark@tskb.com.tr

* Ms. Özen Çaylı, Investor Relations Department Manager, holds Capital Market Activities Advanced Level Certificate (Certificate No:204985) and Capital Market Board Corporate Governance Rating Specialist Certificate (Certificate No: 701337).

Critical tasks undertaken by the Investor Relations Department throughout the year in order to comply with the provisions of the Communique are as follows:

- » Pursuant to the Woman Board Member Policy published in 2014, the board evaluated the current performance regarding the level of target achieved. According to the report dated 28 November 2017, there are two woman board members in the board.

Responding to all shareholder and analyst information claims received via telephone and e-mail in 2017, Investor Relations Department conducted total of 118 informatory meetings with investors and analysts in Turkey and abroad. Of these meetings, 4 were conducted over the telephone, 34 were conducted at the Bank's head office, and remaining 84 were conducted during 7 roadshows / conferences.

Moreover, the Bank has started to organize teleconference meetings quarterly instead of organizing in six month intervals for the domestic and international investors and analysts. As a result, 4 teleconference meetings were held during 2017.

2.2. Shareholders' exercise of their right to obtain information

All kinds of information claims received from shareholders are answered except for the ones which are not publicly disclosed or are confidential and/or in the nature of a trade secret. Information claims received from shareholders are evaluated by employees who are well qualified experts of their area

and replied within the limits of trade secrecy and confidentiality, in a timely and accurate manner.

Announcements concerning issues that shareholders are frequently in need of and information about developments that might affect shareholders' exercise of their rights are published on the bank's corporate website (www.tskb.com). Moreover, as per the provisions of "Regulations on Internet Sites to be Published by Investment Corporations", published on Official Gazette Edition 28663 dated 31 May 2013, investors are directed to MKK website from the "Bilgi Toplumu Hizmetleri" section of the Bank's website, and are given access to Bank information that needs to be disclosed to the public as per the provisions of the above-mentioned regulations.

Articles of Association of the Bank do not provide an individual right of requesting appointment of a special auditor. However, according to the Turkish Commercial Code (TCC), minority shareholders have the right to request appointment of a special auditor from General Assembly regarding the examination of specific material issues. In view of the fact that the right of requesting appointment of a special auditor from General Assembly is not only a requirement of law and but also one of the exceptions to the principle of being committed to the General Assembly agenda, it is not defined as an individual right in the Articles of Association. Moreover, there has not been any request for the appointment of a special auditor pursuant to TCC and Corporate Governance Principles throughout the year.

All necessary information for shareholders to exercise their shareholding rights is made available to them via corporate website, annual reports and public disclosures, as well as by replying to individual claims.

The bank announced 52 public disclosures between 1 January and 31 December 2017, as required by CMB regulations. There has not been any public disclosure that was not delivered in due time or for which either CMB or BIST demanded additional information.

2.3. General Assembly Meetings

In 2017, one General Assembly Meeting was held, which was the Ordinary General Assembly Meeting for 2016 that was held on 23 March 2017. The aforementioned meeting was held at the Bank's Head Office as well as via electronic medium pursuant to CMB's "Communique Regarding the Electronic General Assembly Meetings of Joint Stock Companies" dated 29 August 2012.

General Assembly Meeting was attended by shareholders that represent 82.8% of the Bank's paid-in capital of TL 2,050 million, namely 1 billion 697 million 437 thousand TL 629 and 27 kurush of the paid-in capital was represented in the meeting.

Shareholders, board members and employees attended the General Assembly meeting. In addition, Independent Auditors' Representative and Corporate Governance Rating Analyst, who were invited, participated to the meeting.

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The announcements concerning the invitation of the meeting specifying its place, date, time, agenda, and specimen proxy statement were published three weeks before the meeting date in the Turkish Corporate Registrar's Gazette, the newspaper named Dünya Gazetesi, the BIST's bulletin and electronic general assembly system.

The invitations for the General Assembly were sent out via e-mail three weeks before the General Assembly in Turkish and English to those accessible national and international investors who have invested in the bank's shares and were also published on the Bank's Turkish and English web sites. The information about the meeting was also sent out within the same time frame by registered and reply paid letter to holders of registered shares who have given their contact information before.

The shareholders' register list which contains the names, surnames and the number of shares of the shareholders is prepared pursuant to the relevant regulation according to the information received from the Central Registry Agency.

As of the date on which the announcement of the invitation to General Assembly is made; copies of the Turkish annual report, financial statements and reports, dividend payment proposal, the memorandum of general assembly which is prepared to explain the agenda items comprehensively, other documents pertaining to the items on the agenda, the current text of the articles of association (provided that there is an amendment in the articles of association), the texts and justifications of the amendments are all made available for the inspection of shareholders at the Bank's head office.

Such information and documents have also been accessible on the corporate website at www.tskb.com.

During the Ordinary General Assembly held in 2017, the shareholders exercised their right to ask questions and their questions were duly responded. In addition, there has not been any proposal from shareholders regarding any additions to the agenda.

The following resolutions were adopted by the shareholders by majority votes during the meeting:

- » Constitution of the Meeting Presidency in accordance with the Articles of Association of the Bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly,
- » Review and discussion of the Annual Reports of the Board of Directors, Declaration of Compliance with the Corporate Governance Principles and Reports of the Auditors and Independent Auditors regarding the accounts and transactions of the Bank within the year of 2016,
- » Review and approval of the balance sheet and profit and loss statement of the Bank for the year 2016,
- » Approval of the election of the Members of the Board of Directors in replacement of resigned members,
- » Release of the Members of the Board of Directors from their responsibilities,
- » Adoption of a resolution regarding the determination and allotment of the profit to be distributed, determination of the dividend distribution date,
- » Determination of allowance for the Members of the Board of Directors,
- » Choosing the independent audit firm,
- » Approval of the amendment of Article 5 of the Bank's Articles of Association,

- » Determination of the upper limit for the donations to be made in 2017.
- » Empowering the Members of the Board of Directors with regards to responsibilities and transactions set forth in Turkish Commerce Code, Articles 395 and 396.

Since the amount of special disbursement to be paid to employees according to their performances in 2016 was not decided yet, the General Assembly was notified that the payment was not realized yet and is going to be paid following the Board of Directors decision. Moreover, with a separate agenda item, the shareholders are notified that a total of TL 181,351.97 that was donated throughout the year.

Pursuant to the principle 1.3.6. of the Corporate Governance Principles, shareholders were informed that İş Bankası A.Ş. and TSKB are companies operating in the same sector and that some members of the Board of Directors are currently working for İş Bankası A.Ş. and Vakıflar Bankası T.A.O. in management positions.

Throughout the period, there has been no transaction where the decision had to be left to the discretion of the General Assembly due to independent board of directors' member rejections.

In order to facilitate the participation to the General Assembly Meeting, utmost care is taken to ensure that the implementations are in compliance with the governing legislation. In our opinion, shareholders do not have any difficulty in participating general assembly meetings and so far the Bank has not received any feedback from the shareholders to this effect.

Copies of the Resolutions of General Assemblies are given to participants at the end of General Assembly Meetings. Moreover, resolutions are also accessible in electronic format on the corporate website (www.tskb.com) for review by shareholders who could not participate in the General Assembly Meeting.

2.4. Voting Rights and Minority Rights

According to the Bank's Articles of Association, each share of stock with a nominal value of 1 Kurush is entitled to one vote and there are no shares that have special voting rights.

As required by banking legislation and by the provisions of the Turkish Commercial Code, the members of the Board of Directors are elected by shareholders convened in a General Assembly.

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. Moreover, Vakıflar Bankası T.A.O., which controls an 8.38% stake in the bank's capital, has one seat on the Board of Directors.

The CEO is a member by nature of the Board of Directors. The number of the independent board members and their criteria are determined pursuant to the CMB's regulations regarding corporate governance.

There is no upper limit on the number of votes a shareholder may cast at a General Assembly.

Voting rights are acquired the moment the shares on which they are contingent are acquired. There are no rules stipulating that voting rights may be exercised only after a specific period of time has passed following the acquisition of shares.

The Articles of Association contain no provisions preventing non-shareholders to act as proxies for the shareholders. The shareholders may exercise their voting rights personally at General Assemblies or via proxy of any other person, which may or may not be a shareholder.

A non-corporate shareholder may only be represented by a single proxy at General Assemblies, and if a corporate shareholder

is represented by more than one individual at a meeting, only one of them may cast votes. The proxy statement must identify the individual who is authorized to cast votes.

Apart from the provisions that are mandatory under the governing legislation, the Bank's Articles of Association includes no arrangement with regards to minority rights.

2.5. Dividend Right

The dividend payment proposals that the Board of Directors submits to the General Assembly of shareholders are prepared according to a policy that:

- » Avoids upsetting the delicate balance between shareholders' expectations and bank's need to grow;
- » Takes the Bank's profitability in to account.

Principles governing the Bank's dividend distribution are arranged in the Articles of Association, Article 47, and there are 100 founders' shares that receive a portion of the profits distributed subject to these principles.

The Bank's dividend payment policy was disclosed to shareholders on the Bank's Turkish and English websites.

The Dividend Policy dictates that as long as there are no unfavorable developments in global and local economic circumstances, and the Bank's financial position and capital adequacy ratio are at the foreseen levels, 30% of the distributable profit that is calculated as the first profit share will be paid out as cash and/or stock dividends.

Dividends are paid within the legally prescribed periods of time. The payment of dividends is completed in no case later than the end of the 5th month of the year as prescribed by the law. The dividend proposal of The Board of Directors was accepted during the General Assembly. The cash dividend of the year 2016 equivalent to TL 82,000,000 was distributed on 27 March 2017, whereas the TL 350,000,000 was distributed as bonus shares subsequent to the registration of the said shares by the Capital Markets Board on 31 May 2017.

As required by the "Regulation on the Donations and Grants to be made by Banks and Institutions subject to Consolidated Supervision" that went into effect on 1 November 2006, the Bank does not make political donations. In addition, the Donation

and Grants Policy of the Bank is published at the Bank's official website.

2.6. Transfer of Shares

The Articles of Association contain no provisions restricting the transfer of shares. All shareholders, including minority shareholding interests and foreign nationals, are treated equally.

SECTION III – PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 Corporate Website and Its Content

The Bank makes active use of its corporate website for public disclosures and announcements. Corporate website contains all the information and data required by corporate governance principles and by regulatory authorities on a historical basis and in both Turkish and English. Website is kept up to date at all times.

The Bank's corporate website address is www.tskb.com.tr, and that of the English language website is www.tskb.com. Website address is included in the Bank's letterhead.

3.2. Annual Report

The annual report of the Bank is prepared in Turkish and English including the information and content pursuant to the relevant regulations. The Turkish version of the annual report is published three weeks before the General Assembly at the Public Disclosure Platform (www.kap.gov.tr) and at the Bank's corporate website. The English version of the annual report is published at the Bank's corporate website after it is finalized.

SECTION IV – STAKEHOLDERS

4.1 Keeping Stakeholders Informed

The stakeholders, who have an interest in the bank, including shareholders, employees, creditors, clients, suppliers, non-governmental organizations, the government and potential investors are informed on issues concerning the Bank that are of interest to them as much as possible in writing, and the Bank's relationships with stakeholders are governed by written agreements.

In situations where the rights of stakeholders are not governed by law or contract, the Bank safeguards them within the framework of the rules of good faith, to the degree possible, taking the Bank's own reputation into account.

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Stakeholders submit their complaints and recommendations to the Bank by means of a communication form that can be found on the Bank's website. Claims regarding the transactions that violate the provisions of the legislation or otherwise unethical are examined by either Inspection Committee or Internal Audit Department depending on the content and nature of the claims and forwarded to Corporate Governance Committee or Audit Committee.

4.2. Stakeholders' Participation in Management

The Articles of Association of the Bank contain no provisions governing stakeholders' participation in the Bank's management.

"General Assessment" meetings are held two times every 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 by means of "I Have a Recommendation" and "Complaint Form" that they can access on the Bank's intranet. Moreover, there are many committees that are formed by the Bank employees, concentrating on various issues. Participation of the employees in management is also made possible by means of these committees.

4.3. Human Resources Policy

The principles of the human resources policy adopted by the Bank are set out below.

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

When hiring, it is a principle that individuals of equal competencies are to be given equal opportunity under identical conditions and hiring criteria are set forth in writing for each job position and are strictly complied with in practice.

While taking decisions with respect to training, assignment and promotion, objective criteria are used and the Bank's best interests are taken into consideration.

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. In addition, documents and information pertaining to the Labor Health and Workplace Safety activities are included in the "Safe Employment" section of the Bank's intranet system.

Employees are provided with a secure work environment and safe working conditions and 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. Having gathered employees from every department and put the "HR Representatives" project into practice, the Bank continues to develop mechanisms to include employees into decision processes.

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. There have been no complaints from the employees on the aforementioned grounds so far.

The Human Resources Policy is also publicly disclosed on the corporate website.

4.4. Ethical Rules and Social Responsibility

The Bank embraced the "Code of Banking Ethics" published by the Banks Association of Turkey since 2006. The revised version of the "Code of Banking Ethics" amended by the Banks Association of Turkey in 2014 was adopted by the Bank's Board of Directors. The Code of Banking Ethics, which was adopted to bind all employees including but not limited to the Board of Directors, are available on the Bank's corporate website in English and Turkish. The management trainees are trained on the Bank's Code of Ethics and Anti-Bribery and Anti-Corruption Policy. Moreover, the informative presentation pertaining to aforementioned policy and principles are uploaded to the intranet for all employees' access.

Members of the Board were notified of the rules that they are not to comply with any suppression that might result to the detriment of the shareholders and that they are not to accept any monetary benefits; and that a member of the Board of Directors is not allowed to disclose to public the Bank's confidential information and/or trade secret(s).

Trade secret mentioned above consists of the information pertaining to the 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 which can only be learned, obtained only by qualified individuals that are related to Bank's activity area and individuals who may have access to insider information, but shall not be known by its competitors or third parties and shall not be disclosed to public.

The term "Insider information" is used to refer to information, events and incidents that is not in public domain and might affect the value and/or price of investment instruments or investment decisions of the investors. A list of those who have access to insider information, which is regularly monitored and kept up to date at all times, includes the names of all Bank employees and those of all other persons that have direct or indirect access to insider

information. People whose names are in the insider information list have declared that they acknowledged their liabilities and the sanctions regarding the abuse and improper disclosure of such information in breach of law and legislation.

Acting based on a vision to become the leader bank in Turkey's sustainable economic development, TSKB strives to ensure that all the loans utilized by the Bank turn into investments that'll contribute to Turkey's economic and social development. Accordingly, before financing the Bank evaluates all investment projects with utmost care regarding the current and potential environmental and social effects of these projects as well as those of other activities of the project owners.

Social responsibility projects have always been on the essentials of sustainable banking philosophy of TSKB. In this context, detailed information pertaining to these activities is made available in section titled "Corporate Social Responsibility at TSKB" on Page 52.

SECTION V – BOARD OF DIRECTORS

5.1 Structure and Composition of the Board of Directors

With the exception of the CEO, the Board of Directors consists entirely of non-executive directors and positions of CEO and board chairman are held by different people.

As the bank has no ultimate non-corporate controlling shareholders, it is thought that all the members of the Board of Directors are naturally able to act with complete independence and have the advantage of acting impartially in their decisions by holding the interests of the bank and its stakeholders above everything else.

Board of Directors consists of 10 members, which allows the activities of the Board of Directors to be organized effectively. Information about the Board of Directors' members and the CEO are given in the following table and their detailed CVs are accessible at the Bank's website.

FULL NAME	TITLE	EDUCATIONAL BACKGROUND	WORKING EXPERIENCE	DATE OF APPOINTMENT	EMPLOYER AND POSITION
H. Ersin Özince	Board Chairman	Middle East Technical University, Economics and Administrative Sciences / Business Administration	41 years	4 May 2017	T. İş Bankası A.Ş. Board Chairman
Mehmet Şencan*	Board Vice Chairman	Istanbul Technical University/Management Engineering	29 years	7 June 2017	T. İş Bankası A.Ş. Executive Vice President
Suat İnce	Board of Directors' Member and CEO	Middle East Technical University, Economics and Administrative Sciences / Economy	30 years	1 April 2016	TSKB A.Ş. Chief Executive Officer
Yavuz Canevi	Board of Directors' Member	University of Southern California / M.A. in Economics	37 years	26 March 2015	T. Ekonomi Bankası A.Ş., Board Chairman
Mehmet Emin Özcan	Board of Directors' Member	Ankara University / Economics	34 years	20 June 2017	T. Vakıflar Bankası T.A.O. Chief Executive Officer
Ebru Özşuca*	Board of Directors' Member	Southampton University / International Banking and Finance	24 years	17 April 2014	T. İş Bankası A.Ş. Executive Vice President
Mithat Rende	Board of Directors' Member	London-RCDS/Security and International Relations	29 years	4 April 2017	Retired Ambassador
Z. Hansu Uçar	Board of Directors' Member	Middle East Technical University, Economics and Administrative Sciences / Business Administration	24 years	27 November 2015	T. İş Bankası A.Ş. Affiliates Manager
Kamil Yılmaz	Independent Board Member	University of Maryland / Ph.D. in Economics	25 years	27 March 2014	Koç University Faculty of Economics and Administrative Sciences, Lecturer
Can Yücel	Independent Board Member	Middle East Technical University, Economics and Administrative Sciences / Economy	18 years	2 June 2016	T. İş Bankası A.Ş. Corporate Loan Allocation Manager

* Members of the Audit Committee were accepted as Independent Members of the Board of Directors as per the provisions of Capital Market Board's Corporate Governance Communiqué No: II.17.1., Article 6/(3)-a.

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With the Nomination Committee's report dated March 25th, 2015, Mr. Kamil Yılmaz was presented as the independent board member nominee at the Board of Directors meeting on the same date of the said report. Following the approval of the Board of Directors, Mr. Yılmaz was selected as the independent board member by the General Assembly held on 26 March 2015. At the time of being presented as the nominee, Mr. Kamil Yılmaz delivered his declaration of independence pursuant to regulations, Articles of Association and criteria set by the Communique to the Nomination Committee. The aforementioned declaration was published at the 2016 Corporate Governance Compliance Report. The new independent board member candidate will be elected in 2018 to submit to the approval of the General Assembly.

The "Policy for Female Participation in the Board of Directors" was created in order to ensure that at least 25% of the Board Members are women. In the light of the aforementioned policy, women will be prioritized when selecting Board of Directors Members from among candidates that possess equal knowledge, experience and competency. The progress made towards this target has been evaluated by the Corporate Governance Committee, and the assessments have been submitted to the Board of Directors via the corporate governance committee information memorandum since 2015. The number of women in the board which is 2 according to the report dated 28 November 2017. The Bank continues to spend effort to fulfill its target provisioned by the Bank's "Policy for Female Participation in Board of Directors".

Regarding the minimum qualities to be sought in appointments to Board Member, the Bank acts in accordance with the provisions of Banking legislation, Turkish Commerce Code and the regulations of Capital Markets Board.

Board Members spend enough time to oversee the Bank's business. Although there isn't any restriction with regards to Board Members' employment out of the Bank, Board of Directors Members do not work in any positions other than their natural positions at the organization that they represent or in organizations owned by the organization that they represent.

The Board of Directors exercises its authorities fully cognizant of all information needed to fulfill its duties, prudently, and within the framework of the rules of good faith.

As stipulated in the Articles of Association, the CEO is responsible for the day-to-day conduct of the bank's business within the framework of the principles and limits set by the Board of Directors.

Authorities concerning the conduct of the bank's business are delegated to executive organs within the framework of the bank's published powers of signature.

The sanctions that are to be imposed in the event of illegal or irregular acts on the part of employees are set forth in the personnel regulations approved and put into effect by the Board.

In addition, pursuant to Banking Regulation and Supervision Agency's (BRSA) "Regulations on Internal Systems of Banks", the Board of Directors has ultimate responsibility for forming the internal audit, internal control and risk management systems which are defined as "internal control systems"; for their effective, adequate, and proper operation; for the protection of the information provided by the accounting and financial reporting system; and for the determination of authorities and responsibilities throughout the bank.

5.2. Operating Principles of the Board of Directors

Board of Directors gathers periodically, at least once a month, or more where the Company's business so dictates. The meeting date is set so as to allow participation of all Board Members, and Board of Directors meetings are held by participation of all members, excluding the exceptional cases under unforeseen circumstances.

In principle, Board Members participate in every meeting. Moreover, Board Members may choose to participate Board Meeting on electronic environment.

The Board's first meeting is preferably held on the same day that the board is elected. At this first meeting, the chairman and deputy chairman are elected, duty assignments are made, and committees are formed.

A draft of the agenda for a board meeting is prepared by the CEO and finalized in line with the suggestions of the chairman and other directors. The information and documents pertaining to items on the board's agenda are sent out to members to be reviewed at least seven days before the meeting. In situations where this is not possible, every effort is made to ensure that all members are equally informed about the matters involved.

There is a secretariat in place for the purpose of notifying and organizing the communications with the Board of Directors. Summoning the Board of Directors meetings are made by means of phone at first, which is followed by written invitation.

Each board member is entitled to a single vote. All members' votes are equally counted and no member has a positive or negative veto power.

As stipulated in the Articles of Association, the board convenes with a simple majority of its membership and decisions are passed by a simple majority of those present.

Dissenting votes at Board of Directors meetings and the justifications for them are entered into the meeting's resolutions, and the auditors are notified of this situation. During 2017, no member of the Board cast a dissenting vote at Board meetings.

The Board of Directors convened 43 times between 1 January 2017 and 31 December 2017. In this period, there was not any significant transaction with any affiliated parties that would require approval of General Assembly.

Members of the Board of Directors do not have any transactions or operations that would fall under the scope of prohibition on operation with a company, borrowing to a company or prohibition of competition

with TSKB. However, permission is given by the General Assembly as per the provisions of Turkish Commerce Code Articles 395 and 396.

The possible losses resulting from mismanagement of Board of Directors and all Bank managers are under the coverage of USD 75 million insurance which is signed by Türkiye İş Bankası A.Ş. for its group companies.

5.3. Number, Structure and Independence of Committees Established by the Board of Directors

The governing principles with respect to the board committees' duties and responsibilities are disclosed at the Bank's corporate website.

Audit Committee

Audit Committee has two members, which have been elected from among non-executive members of the board of directors. Current Audit Committee members are Mr. Mehmet Şencan and Ms. Ebru Özşuca.

Operating principles of the Audit Committee is accessible at the Bank's website.

Audit Committee has gathered 29 times in the period of 1 January - 31 December 2017.

Corporate Governance Committee

Corporate Governance Committee is formed by 2 non-executive members of the Board of Directors and the Investor Relations Department Manager. The committee members were composed of Ms. Zeynep Hansu Uçar (Chairman), Mr. Can Yücel (Member) and Ms. Özen Çaylı (Member) in 2017.

Ms. Özen Çaylı, who works full time in the Investor Relations Department and holds both Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, was appointed to "Investor Relations Department Manager" position as of 26 January 2017. Consequently, Ms. Özen Çaylı has been a natural member of Corporate Governance Committee pursuant to the Communique.

In accordance with the Communique, the duties of the Nomination Committee are incorporated into the duties and responsibilities of the Corporate Governance Committee.

Corporate Governance Committee meets minimum 4 times a year or at any time when requested by a member, with a predetermined agenda. The Committee has conducted 4 meetings in 2017 at the Bank's head office with full attendance.

Remuneration Committee

The committee is comprised of two Members of the Board, namely Ms. Ebru Özşuca and Ms. Zeynep Hansu Uçar.

Duties, authorities and responsibilities of the Remuneration Committee as well as the procedures and principles that are applicable to their office can be found at the Bank's website.

Activities of the Bank regarding remuneration are under regular inspection and evaluation with respect to adherence to relevant legislation and policy provisions.

5.4. Risk Management and Internal Control Mechanism

A risk catalogue which was prepared to define the potential risks to which the bank may be exposed was approved by the Board of Directors and entered into force.

Risk policies that were formulated for the risk categories which are included in this catalogue and which are of the highest importance from the standpoint of the Bank's activities were approved by the Board of Directors and became effective.

In parallel to the provisions of "Risk Catalogue" that was prepared for measuring, assessing and managing the Bank's risks, the necessary structure was formed under Board of Directors to ensure that risk management and internal control activities are conducted in an organized way and within the framework of the risk catalogue.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

An "Audit Committee" was set up within the Board of Directors to assist the board in the performance of its audit and monitoring functions. This committee carries out its activities under the Board of Directors through the Board of Inspectors (internal audit), Risk Management, and Internal Control Departments. The Audit Committee is responsible for ensuring on the Board of Directors' behalf, the effectiveness and adequacy of the units referred to as "internal control systems".

The duties and responsibilities of the Board of Inspectors, Internal Control Department and Risk Management Department are all in compliance with the requirements of existing laws and regulations and they are governed by internal regulations that have been approved by the Bank's Board of Directors.

5.5. The Company's Strategic Objectives

Strategic objectives are determined by management taking into account competitive conditions, the overall economic situation, general economic conjuncture, and the bank's medium and long-term objectives; and they are presented to the approval of Board of Directors.

Recommended strategies and objectives are debated thoroughly and comprehensively by the Board. Performance with respect to approved strategies and objectives is regularly reviewed at monthly board meetings at which the bank's activities, financial structure and related issues are reviewed and assessed.

In order to effectively and continuously carry out its supervision and control functions, the Board of Directors in principle meets every month.

At the board meetings, the Bank's activities, the performance with respect to realization budget figures and fulfillment of business targets, the Bank's position in its sector, its financial structure and performance standing and the compliance of its reporting and operations with international standards.

5.6. Financial Benefits

The Bank carries out its activities regarding remuneration policies within the framework of the related banking regulations and Capital Market regulations. TSKB's Remuneration Policy is available on the Bank's corporate website in Investor Relations section. This policy covers all managers and employees.

Members of the Board of Directors receive no financial benefits other than the monthly honorarium that is paid to them. The amount to be paid as an honorarium is determined in line with the proposals put forward by shareholders at a General Assembly.

No member of the Board of Directors is or has ever been the direct or indirect recipient of any cash loan or non-cash credit extended by the bank.

The total amount of financial benefits paid such as bonus, dividend, wage, etc. to members of Board of Directors and senior management is TL 11,209 thousand.

Other payments with respect to travelling, accommodation and etc. paid to members of Board of Directors and senior management is TL 1,574,560.