



## Corporate Governance Rating Report



**19 December 2014**

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## Rating and Executive Summary

### TÜRKİYE HALK BANKASI A.Ş. (HALKB)

 **SAHA**  
Corporate Governance Rating:

**9.19**  
**BNK**



#### EXECUTIVE SUMMARY

**MAIN SECTIONS: Avg. 91.93**

**Shareholders: 94.54**



**Public Disclosure & Transparency: 93.14**



**Stakeholders: 94.06**



**Board of Directors: 88.29**



0 10 20 30 40 50 60 70 80 90 100

Türkiye Halk Bankası A.Ş.'s (Halkbank) previous rating of 8.72, which was set on the basis of our new methodology on March 3<sup>rd</sup>, 2014, is revised as **9.19**. 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 Halkbank to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

Additionally, Halkbank takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 4, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Halkbank is rated with **9.45** 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. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There are no voting privileges. The bank has a dividend policy which is disclosed to the public. On the other hand, there are areas for improvement like adoption as it is, of the rate of minority rights in the bank's articles of association as prescribed for public joint stock companies (%5), and absence of a provision in the articles of association on realization of the general shareholders' meetings open to public and media without right to vote.

Halkbank attained **9.31** 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 CMB and Borsa Istanbul (BIST) rules and regulations. The 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**, Halkbank scored **9.41**. The bank has a written and advanced human resources policy. Code of ethics is publicly available through the corporate web site. The bank complies with environmental laws. Corporate Social Responsibility and Sustainability work is satisfactory. A written compensation policy for employees is established and disclosed to the public on the corporate web site.

From the perspective of the principles regarding the **Board of Directors**, Halkbank's tally is **8.83**. The board of directors fulfills all duties regarding company needs. The board of directors consists of 9 members and 3 of them are independent. Corporate Governance, Audit, and Compensation Committees are established within the board of directors and their working principles are disclosed to public. Dividend payments, stock options or performance based payments are not included in the remuneration package of the independent board members. However, there are areas for improvement; principles of remuneration of board members are not defined in writing, there are no female members on the board of directors, and the bank has not prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of 25% female board membership rate.

## 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, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding 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 taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. 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 future should be mentioned in the annual report and disclosed to public.

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

Based on these Principles, the 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 bank should be in full and perfect compliance with the Principles (see Rating Definitions, p.24).

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

TÜRKİYE HALK BANKASI A.Ş.	
 <b>HALKBANK</b> Üreten Türkiye'nin Bankası	<b>Chairman of the Board</b> Hasan Cebeci <b>General Manager</b> Ali Fuat Taşkesenlioğlu
Barbaros Mah. Şebboy Sok. No:4 PK:34746 Ataşehir/İSTANBUL <a href="http://www.halkbank.com.tr">www.halkbank.com.tr</a>	<b>Investor Relations Department Manager</b> Yusuf Duran Ocak Tel: (0312) 289 30 01 <a href="mailto:yusufduran.ocak@halkbank.com.tr">yusufduran.ocak@halkbank.com.tr</a>

Halkbank was founded under Statute 2284 of the Law of Halkbank and People's Fund in 1933, and carried out its lending services via People's Fund which it provided financment to between 1938 and 1950. Halkbank was authorized to directly open branches and grant loans to customers in 1950. Following the capital increase in 1964, the bank's pace of activities increased and its deposit base and lending volume has grown steadily.

Halkbank's assets grew rapidly through the absorption of Töbank, Sümerbank, Etibank, Emlakbank and Pamukbank.

Halkbank has started restructuring by the year 2000. In line with this restructuring process, the bank shaped up its activities according to the requirements of modern banking and global competition, while readying itself for privatization.

As of end 2013, Halkbank carried out its activities with 872 branches in Turkey, 5 foreign branches, 1 overseas representative office and 2,961 ATMs.

Following the IPOs of 2007 and 2012, Halkbank's free float ratio reached to 48.90%.

Shares of the bank are traded under "HALKB" code at BIST National Market and Halkbank 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 30 AND BIST 50 indices.

Capital structure of the bank is as follows:

<b>Türkiye Halk Bankası A.Ş. Capital Structure</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
Republic of Turkey Prime Ministry Privatization Administration *	638,825,500	51.11
Free Float	610,720,293	48.86
Other **	454,207	0.04
<b>Total</b>	<b>1,250,000,000</b>	<b>100.00</b>

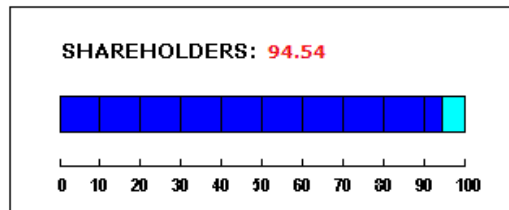
\* TL 549,932 portion of the shares held by the Privatization Administration can be traded at BIST, bringing the total free float rate to 48.90%.

\*\* Belongs to 14,679 shareholders.

The board of directors of the bank is composed as follows:

<b>Türkiye Halk Bankası A.Ş. Board of Directors</b>		
<b>Name</b>	<b>Title</b>	<b>Executive/Independent</b>
Hasan CEBECİ	Chairman	Non-executive
Süleyman KALKAN	Vice-chairman / Audit Committee Chairman	Independent Member
Ali Fuat TAŞKESENLİOĞLU	Member / General Manager	Executive
Emin Süha ÇAYKÖYLÜ	Member	Non-executive
Dr. Nurzahit KESKİN	Member / Corporate Governance Committee Member / Compensation Committee Member	Non-executive
Dr. Ahmet YARIZ	Member	Non-executive
İsmail Erol İŞBİLEN	Member / Compensation Committee Chairman	Independent Member
Sadık TILTAK	Member / Corporate Governance Committee Chairman / Audit Committee Member	Independent Member
Yunus KARAN	Member / Corporate Governance Committee 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
+	No voting privileges
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital
-	No provision in the articles of association on realization of the general shareholders' meetings open to public

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

The shareholder relations function of the bank is executed by the Financial Institutions and Investor Relations Department and the Financial Accounting and Reporting Department as a Head Office function. The Financial Institutions and Investor Relations Department is responsible for establishing institutional relations with domestic and foreign investors that invest in equities. The other unit responsible for conducting relations with shareholders is the Shareholders

Unit that is organized under the Financial Accounting and Reporting Department. Both departments are represented in the Corporate Governance Committee and report all information regarding their activities to this committee.

Along with other units of the bank the units in question play 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 shareholders' 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.



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

Investor Relations Department Manager of the bank, Mr. Yusuf Duran Ocak is holder of Capital Market Activities Advanced Level and Corporate Governance Rating Specialist Licenses as stated in the Corporate Governance Principles Communiqué.

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

There is no evidence of any hindering process or application regarding the appointment of a special auditor.

All kinds of information about the bank required by the legislation are 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, submitted it to the general shareholders' meeting for approval and disclosed it to public on the corporate web site.

### **1.3 Minority Rights:**

Maximum care is given to the exercise 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 listed companies.

### **1.4. 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 31 March 2014 is performed

through all means of communication available to the bank on 6 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, the exact location of the meeting; agenda items of the meeting; the body inviting to the general shareholders' meeting; and the location where annual report, financial statements and other meeting documents can be examined.

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;

a. the total number of shares and voting rights reflecting the bank's shareholding structure as of the date of disclosure, privileged share groups within the bank capital, voting rights and nature of such 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 their relationship with the bank and its related parties, whether they are

independent or not, 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 advance preparations for the execution of the general shareholders' meeting and obtained necessary information in line with the Turkish Commercial Code, the Law and legislation.

General shareholders' meetings took place at Ankara 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 was answered directly at the meeting provided that they do not constitute a trade secret.

The members of the board of directors related with those issues of a special nature on the agenda, other related persons, 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.

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

Shareholders were informed, with a separate agenda item, of all donations and grants within the reporting period along with amounts and beneficiaries.

No upper limit for the donations of 2014 was set, relevant provisions of Banking Regulation and Supervision Agency (BRSA) were referred to.

The bank has established a policy on donations, submitted to shareholders for approval, and disclosed it to the public on the corporate web site.

On the other hand, there is no provision in the articles of association of the bank allowing the attendance of those including stakeholders and media with no voting rights.

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

At Halkbank, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

There are no voting privileges.

There is no application which prevents representation of publicly held shares in the board.

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

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

A balanced policy is followed between the interests of the shareholders and those of the bank.

There are no privileges on participation in the profits.

As per the resolution adopted at the general shareholders' meeting held on 31 March 2014; TL 62,500,000 (5% of

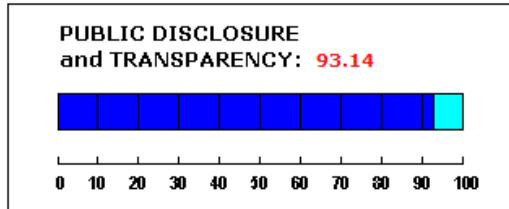
the paid-in capital) to be distributed as first dividend, from the remaining amount TL 100,000,000 to be distributed among board members and bank employees (Art. 35.3.3.1 of the articles of association), and from the remaining amount TL 212,584,320.32 to be distributed as second dividend payment (Art. 35.3.3.2 of the articles of association).

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

The articles of association of the bank do not contain any provisions that impede the transfer of shares.

No difficulties on free transfer of shares were 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:

Corporate web site ([www.halkbank.com.tr](http://www.halkbank.com.tr)) is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the bank's web site includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the final version of the bank's articles of association, publicly disclosed material information, periodical financial statements, annual reports, 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, 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 web site.

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 web site exists also in English for the benefit of international investors.

The bank's web site also includes; investor presentations, working principles of the committees, the vision/mission of the bank established by the board, information on dividend payments and capital increases, disclosure area, general shareholders' meeting internal guidelines, information on corporate social responsibility/sustainability activities, information on senior management, financial data, main ratio analysis, timetable on events and developments which are of interest to investors, corporate web site privacy 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 with 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. nature and amount of the capital market instruments issued,
- k. the bank's organization, capital and ownership structure and any changes in the related accounting period,
- l. all benefits provided to staff and workers, information on number of personnel,
- m. dividend distribution policy,
- n. basic ratios on the financial position, profitability and solvency,
- o. the bank's financing resources and risk management policies,
- p. 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 issues also took place in the annual report:

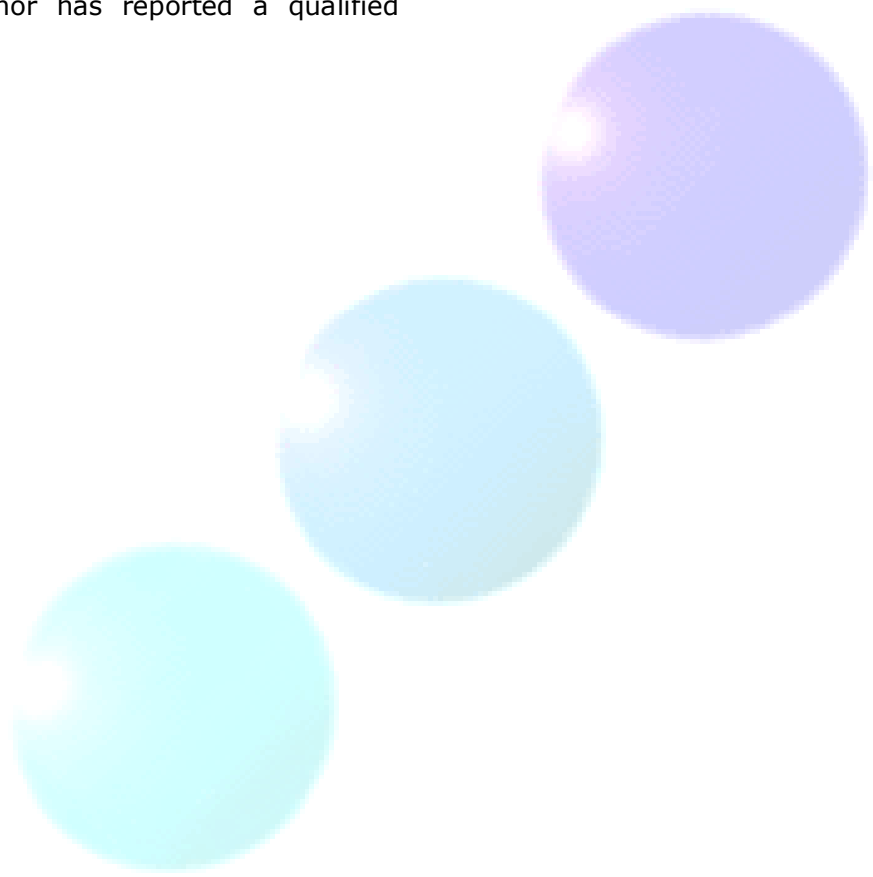
- a. external duties of board members and executives,
- b. members of the committees within the board and the working principles of the committees,
- c. the number of board meetings held during the year and participation rate of the members,
- d. information on cross shareholding in excess of 5% of the capital,
- e. benefits and vocational training of employees, and other bank activities that give rise to social and environmental results,
- f. rating results.

On the other hand, declaration of independence of the independent board members is not included in the annual report. Also benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

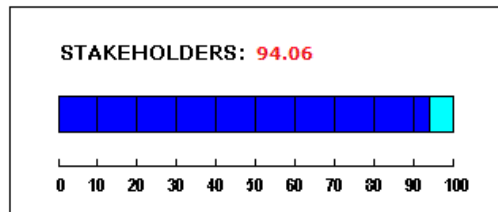
### **2.3. External Audit:**

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 during the latest reporting period 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
+	Compliance with environmental laws, Corporate Social Responsibility and Sustainability studies are at satisfactory levels
+	A written employee compensation policy is established and disclosed to the public

### 3.1. Bank Policy Regarding Stakeholders:

We have not witnessed a significant or repetitive situation in which the rights of stakeholders established by law or any other mutual agreement are violated.

The corporate governance implementation of the bank ensures that its stakeholders, including its employees and representatives, report their concerns regarding any illegal or unethical transactions to the management. Bank officials declared that all concerns regarding any illegal or unethical transactions contrary to the legislation are transmitted through alternative distribution channels (call center/satisfied customer center) managed by the Channel Management

Board and also by way of Quality Recommendation System and e-mail. All issues concerning Corporate Governance are referred to Shareholder and Investor Relations Departments through intra-company channels of communication so they can be evaluated at the Corporate Governance Committee. Matters concerning the Audit Committee are conveyed through the Risk Management Board.

A written employee compensation policy is established and disclosed to public on the corporate web site.

Purchases are conducted through bidding or negotiation process, except for construction works.

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

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

It is disclosed in the Compliance Report that problems, requests, opinions, suggestions and complaints about products and services delivered to customers are communicated to the bank via phone, fax, mail, branch, and e-mail channels as well as through the head office units and official bodies. Using certain procedures, demands and requests communicated to the bank are processed, evaluated and as a result feedback is provided as soon as possible.

In addition, the same Report includes that the bank has developed a Quality Recommendation System for the purpose of improving the business processes and delivering more efficient

and higher quality services. Employees are also encouraged to participate in management within the scope of this system. Employees submit their suggestions through this system and the suggestions that conform to the evaluation criteria are implemented.

Quality Recommendation System process is set forth in writing.

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

The bank has a written human resources policy. In line with this policy, the following principles have been adopted;

- Valuing and respecting the personality of the employees, ensuring the safeguarding of their material and moral rights,
- Providing a safe working environment appropriate for the nature of the work being performed,
- Providing a working environment and opportunities to establish social relations that will increase employee desire and capacity to work,
- Providing employees with fair and equal work, training and development opportunities commensurate with their talents,
- Informing employees promptly on the issues that are of interest to them and being open to communication in order to allow personnel to convey their opinions and ideas to the management easily,
- Ensuring that employees work with a commitment to the principles of productivity and

profitability and in a cost-conscious manner,

- Encouraging employees to think creatively and to produce original ideas that will improve the bank's services,
- In an effort to maintain and further develop the bank's corporate culture and identity, embracing the principle of filling job assignments internally whenever possible, giving priority to assigning employees from within the bank to vacant positions, and promoting the employees based on their skills, accomplishments, education and tenure,
- Evaluating employees fairly in accordance with objective criteria.

There is an "Executive Pool" system at the bank. Executive candidates are identified upon demands of Human Resources Department, proposals of relevant business units and assessments conducted by the commission composed of assistant general managers. Candidates are accepted to the executive pool following their interview, training and written exam success.

Job descriptions, assignments, performance and reward criteria are announced to employees. Also there is a portal for staff to reach such information.

There are two trade unions in the bank whose membership consists of employees. However, neither of these unions has reached the necessary number of members within the bank to qualify for collective bargaining rights. The unions have representatives assigned to carry out relations with personnel.



The Corporate Governance Compliance Report of the bank discloses that no complaints were received from personnel regarding discrimination.

### **3.4. Relations with Credit Customers 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 ethical rules of Halkbank is established and publicly disclosed through the corporate web site.

The bank has a "Code of Ethics" attached to the Human Resources Regulation. This code lays out the main principles that cover the issues of conflict of interest, rules about the flow of information, relations with clients and human resources.

Halkbank have established an "Anti-Bribery and Anti-Corruption Policy" and disclosed it on the corporate web site.

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.

Halkbank conducts various activities to generate solutions to meet the financial and non-financial needs of SMEs, with a special focus on women and young entrepreneurs. The bank also sponsored various social responsibility initiatives in education, culture and other such areas.

The corporate social responsibility projects the bank undertook during the year include;

- Sponsorship of the International Women Entrepreneurs Forum that was organized for the first time this year in order to bring together female entrepreneurs from Turkey and abroad.
- Main sponsorship, for the third time, of the Istanbul Finance Summit that was held with the participation of major figures from the Turkish and international finance industry.
- Sponsorship of the traditional Ahi Week celebrations.
- Main sponsorship, for the second time, of the SME and Entrepreneurship Awards where businesses that create value-added for the Turkish economy are recognized out of the belief that awarding success creates motivation and incentive.
- Sponsorship of the Atlantic Council Energy & Economic Summit that was held with the participation of political and business leaders who shape global energy and economic policies.

Additionally, Halkbank and Social Retailing School teamed up to conduct training sessions entitled "Paraf Retail Management Development Workshop" for store managers, the key personnel of the retail industry, in order to increase their knowledge and skills base in modern management methods on 5<sup>th</sup>, 19<sup>th</sup> and 30<sup>th</sup> of September and on November 6<sup>th</sup> and December 3<sup>rd</sup>.

As part of its activities to promote entrepreneurship, Halkbank sponsored the "From Idea to Action - Business

Idea Competition” organized jointly by Halkbank and Gazi University for the first time in 2013. The competition serves to encourage technological innovation and entrepreneurship among faculty members and students, and to solidify the university’s commitment to entrepreneurship.

The bank have introduced a platform providing assistance to all SMEs, whether a bank customer or not, offering complimentary advisory services to small and medium enterprises on a wide variety of subjects, from foreign trade and financial management to tax and legal issues. All applications of the “Halkbank SME Academy,” are provided free of charge.

Halkbank undertook the Accessible Bank24 project to allow customers with disabilities to carry out their banking transactions conveniently on their own. People with physical disabilities can conduct all ATM transactions using Bank24s. Visually-impaired individuals can perform cash withdrawal or balance inquiry transactions via headphones utilizing the text-to-speech technology. Optionally, the customer may select to mask the account information on the ATM screen. These ATMs serve visually-impaired customers at 185 locations and customers with physical disabilities at 46 service points throughout the country, whether they are Halkbank customers or not, as long as they own a debit card.

Halkbank also provided support as a local sponsor to the “FIFA U-20 World Cup” tournament which took place in Turkey. The tournament was organized by FIFA (Federation of International Football Associations) for players under the age of 20.

Furthermore, Halkbank Sports Club men’s volleyball team won the 2013 CEV Cup, bringing Turkey the most

prestigious international volleyball trophy.

Concerning the practices where the bank was held liable by a public administration; a penalty was imposed to Halkbank by the Competition Authority in 2013 along with many other banks in the sector.

Board of directors of the bank disclosed through the Public Disclosure Platform that Halkbank has neither engaged in any business or transaction that violates any national or international rule or regulation, nor has the legal entity of Halkbank been subjected to any probe or investigation initiated by the authorities, and the bank is continuing and will continue its activities, as it has been done in the past, uninterrupted and in line with all domestic and international regulations.

In addition, according to the External Auditor's 2013 Report; bank's business and operations are subject to extensive scrutiny and control of the Board of Inspectors. Inspectors reported that operations under supervision and inspection did not have significant impact on the financial statements of the bank. Auditors of the Banking Regulation and Supervision Board also carried out an inspection on the matter, but no negative opinion or any evidence of illegal transactions was reported.

### **3.6. Sustainability:**

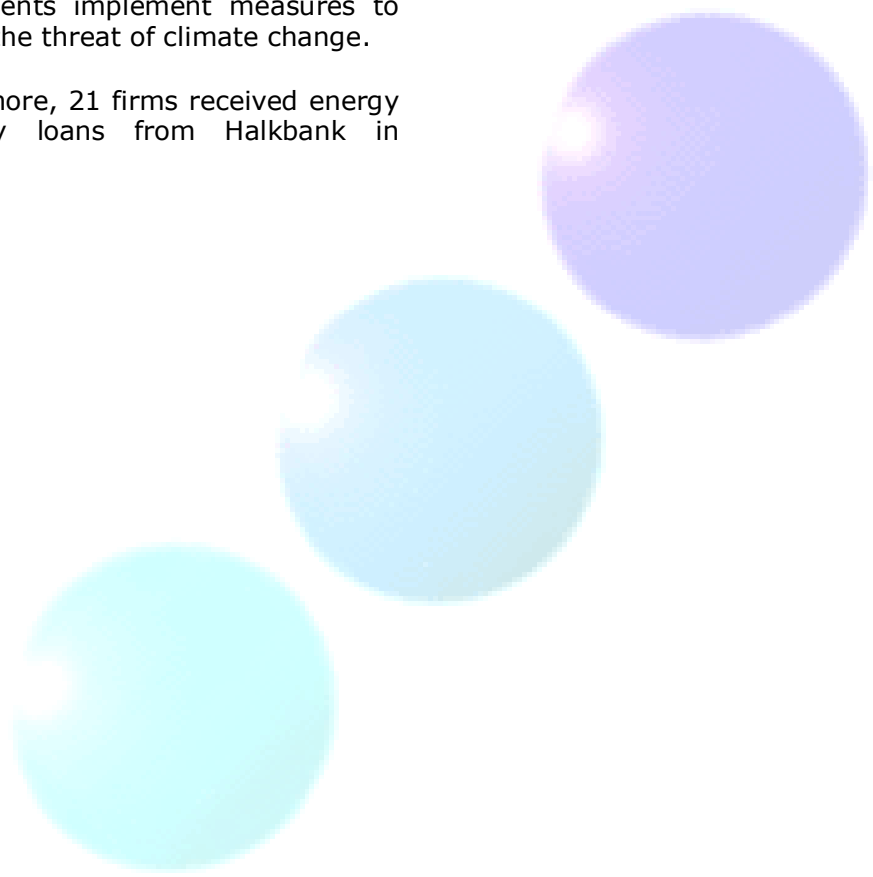
Halkbank’s existing sustainability studies are disclosed via the corporate web site. It has been declared that an environmental management systems and sustainability report is in the process of preparation.

Schneider Electric, the consulting firm that provided advice and input during the development of Halkbank’s Energy Policy, conducted energy audits in 17 branches, four regional coordinator’s

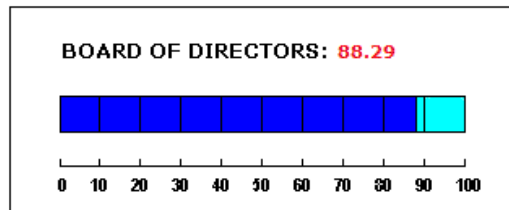
offices and two head office buildings of the bank. The drafted report was submitted to the bank's Corporate Governance Committee on June 13, 2013.

As part of its energy efficiency initiatives in 2013, Halkbank submitted a report for the International Carbon Disclosure Project (CDP), which was launched to collect the information that will help companies, investors and governments implement measures to combat the threat of climate change.

Furthermore, 21 firms received energy efficiency loans from Halkbank in 2013.



## 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 member has a right to a single vote
+	Stock options, dividend or performance based payments are not included in the remuneration package of the independent board members
+	Three independent members on the board
+	Corporate Governance, Audit, and Compensation Committees are established
-	No female board members and no policy established for a minimum 25% female board membership rate
-	Principles of remuneration of board members not established

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

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

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

The board of directors established 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 general manager's executive powers are 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.

Losses incurred by the bank as a result of possible misconduct by board members are insured, but not with an amount exceeding 25% of the capital of the bank as indicated in Corporate Governance Communiqué.

There is no individual in the bank who has unlimited authority to take

decisions on his/her own, which is a positive aspect.

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

The bank's board of directors is composed of 9 members and 1 of them is executive. Among the non-executive members there are three independent members who have the ability to execute their duties without being influenced under any circumstances.

The Corporate Governance Committee has prepared a report on the candidates for independent board membership prior to the board elections held in 2013, by taking into consideration 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.

On the other hand, there are no female members on the board and the bank has not yet prepared a policy or set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

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

Board of directors convened 43 times in 2013 operating period and held 45 meetings in 2014 until the date of our report. Bank officials declared that the participation rate to these meetings is around 95%, a quite sufficient rate.

Chairman of the board of directors sets the agenda for board meetings in

consultation with other members and the 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 is entitled to a single 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 certain rules or limitations for board members taking on additional duties as executives and/or board members outside the bank. However, actually no member has any duties other than the ones naturally incumbent upon them in Halkbank group.

Board members' external duties and grounds 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:**

Corporate Governance, Audit, and Compensation Committees are established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the committees, their working principles, and members are designated by the board of directors and disclosed to the public on the corporate 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 however Mr. Nurzahit Keskin is serving on 2 committees.

Mr. Yusuf Duran Ocak, the Investor Relations Department manager, is also serving on the Corporate Governance Committee as per corporate governance principles.

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

As of the date of our report, Corporate Governance Committee held 4 meetings, Audit Committee met 11 times, and the Compensation Committee met once in 2014.

The Corporate Governance Committee is established in order to determine whether or not the 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 lack of 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 listed in the Corporate Governance Principles 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 reporting period, 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.

Corporate Governance Committee carries out the duties of the Nomination Committee as per the board resolution. Studies carried out will be monitored by us.

Remuneration Committee has prepared a report for Assistant General Managers and lower ranks for the year 2013 which the content is evaluated as sufficient by us. However, it does not include the board members.

In general, the duties and responsibilities of the committees have been defined correctly. On the other hand, since a study/report on the activities of the Audit Committee was not provided, we cannot assess its functionality.

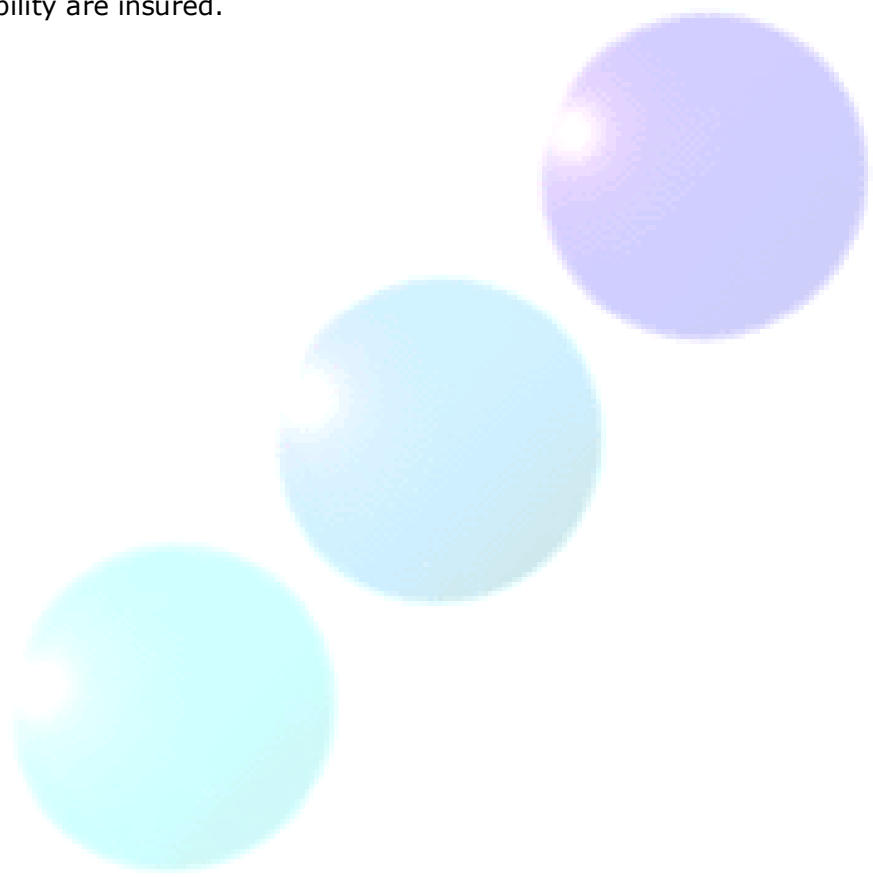
#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The principles of remuneration of assistant general managers and lower positions have been documented in writing and submitted to the shareholders' attention as a separate item at the general shareholders' meeting, but it does not cover members of the board of directors.

Bank officials declared that independent board members received dividend payments until 2013, but any stock options or performance based payments are not included in their remuneration package since 2014.

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

Bank officials declared that losses that may be incurred by the bank, and third parties, as a result of misconduct by managers' with administrative responsibility are insured.



## 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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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 bank to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

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