

By the Banking Regulation and Supervision Agency:

REGULATION ON THE BANKS' CORPORATE GOVERNANCE PRINCIPLES¹

(Published in the Official Gazette Nr. 26333 dated November 1, 2006)

SECTION ONE

Purpose and Scope, Basis and Definitions

Purpose and Scope

ARTICLE 1 — (1) The purpose of this Regulation is to regulate the structures and procedures concerning the corporate governance of the banks and the principles in respect thereof.

Basis

ARTICLE 2 — (1) This Regulation has been prepared on the basis of Articles 22 and 93 of the Banking Law Nr. 5411 dated October 19, 2005.

Definitions

ARTICLE 3 — (1) The following terms used in this Regulation shall have the meanings expressly designated to them below:

- a) Bank means the banks defined in article 3 of the Law.
- b) Member of the board of directors without executive function means a member of the board of directors who does not have an active unit operating an executive duty attached.
- c) Unit operating an executive duty means a unit where direct income-generating activities are conducted.
- d) Law means the Banking Law Nr. 5411 dated October 19, 2005.
- e) Board means the Banking Regulation and Supervision Board.
- f) Agency means the Banking Regulation and Supervision Agency.
- g) Corporate governance means the bank's administration by its top management in compliance with the goals set, the Law, the regulations published pursuant to the said Law as well as other related legislations, the bank's articles of association, the in-bank regulations and the ethical banking rules in a manner to protect interests and rights of all stakeholders and shareholders as well as the owners of the accounts held.
- h) Higher management means the bank's general manager and deputy general managers, the managers of units within the context of internal systems and managers of units, with the exception of consultancy units, assigned to positions which are equivalent to, or higher than, deputy general manager by their authorities and responsibilities attached although they have been employed under different titles.
- i) Top management means the bank's board of directors and higher management.

SECTION TWO

Corporate Governance and Final Provisions

Structures and processes regarding corporate governance

ARTICLE 4 — (1) The banks may, in consideration with the size of their activities as well as their organizational structures, set their structures and processes relating to the corporate

¹ It is the amended version of the Regulation (*published in the Official Gazette Nr. 26333 dated November 1st, 2006*) that has been published in the Official Gazette Nr. 27959 dated June 9th, 2011.

governance on the basis of the banks' corporate governance principles enclosed in the annex to this Regulation, provided that the principles and procedures set out in the Law and regulations pursuant to the Law put into effect are monitored.

Entry into Force

ARTICLE 5 — (1) This Regulation shall enter into force as of the date of its publication.

Enforcement

ARTICLE 6 — (1) The provisions of this Regulation are enforced by the Chairman of the Banking Regulation and Supervision Agency.

Annex

CORPORATE GOVERNANCE PRINCIPLES OF THE BANKS

Principle 1- Corporate values and strategic goals shall be established within the Bank

The bank's board of directors shall set, and publish, the mission and vision of the bank.

The board of directors shall first set down the strategies which will direct the bank's ongoing activities and play a leading role in establishing corporate values and ethical rules on behalf of itself, the top management and the others involved in its organization. The corporate values and ethical rules to be established shall duly reflect the importance of evaluating problems in time and be oriented to preventing illegal and unethical actions such as bribery and corruption inside and outside the bank.

The appropriate communication channels to provide acts and transactions which are against the adopted corporate values and ethical rules reported to the relevant authorities by the bank's staff shall be established.

The board of directors shall ensure the implementation of policies to determine, prevent or govern the possible conflicts of interest in the top management which may occur due to the bank's activities or its role within the group involved.

The board of directors shall establish necessary systems to enable monitoring of the compliance to the policies set within the bank and reporting possible deviations in the related managerial levels.

The board of directors shall, continuously and effectively, evaluate the bank's success in attaining its goals set as well as its activities and performance. The board of directors shall monitor the compliance of the bank's activities with the Law, the regulations published pursuant to the Law and other related legislations as well as the bank's articles of association, its in-bank regulations and the policies set. The necessary measures shall be taken promptly without delay before the occurrence of any problems, if possible.

The higher management shall plan the resources available for purposes of implementing policies and ensuring the compliance; and, in this way, have the said resources be involved in the operations as their integral parts.

The higher management shall monitor the implementation of the policies on a timely basis. The policies shall be re-evaluated at least once a year following significant changes occurred in the business environment / field of activity in order to determine the proficiency and compliance with the subject; and improvements shall be made when necessary. The higher management shall set out a framework and process for the approval of periodical reviews, standards, policies, instructions and the procedures of implementation.

Principle 2- Authorities and responsibilities within the bank shall be clearly specified and implemented

The board of directors shall specify the authorities and responsibilities of board members and higher management; and, monitor the activities of higher management and their compliance with the policies determined by the board of directors.

The higher management shall clearly specify the authorities and responsibilities for the staff in a way to include the compliance with policies and implementation procedures, ethical rules and professional applications; and, observe the fulfillment of the authorities and responsibilities determined. All the staff involved shall be aware of the fact that they are definitely and finally responsible to the board of directors.

A corporate governance committee shall be established for purposes of monitoring the compliance with the bank's corporate governance principles as well as conducting improvement studies and making recommendations to the board of directors in this respect. The chairmen of the committee shall be elected among the board members who are not equipped with executive duties. The committee shall put all the studies carried out in writing and keep the related records.

The board of directors shall ensure members of higher management carry the qualifications required in their positions, have the qualified personnel serve within the bank for longer periods and take the measures necessary in this respect.

The job descriptions and distribution of tasks for the bank's staff shall be determined by the members of higher management together with the related performance and reward criteria and they shall be informed to the related staff as required.

Principle 3- Members of board of directors shall have the qualifications required to fulfill their tasks effectively, be conscious of their roles they have undertaken within the corporate management and be capable of making independent assessments on the bank's activities

The members of board of directors shall;

- a) Carry out their duties with loyalty to the bank and its shareholders,
- b) Understand their tasks under the bank's supervision,
- c) Spend sufficient amount of time for the bank's activities and attend the meetings of the board of directors,
- d) Fulfill their duties as the board members prudently in good faith,
- e) Have the knowledge on legislations applicable to the bank's activities and ensure the bank's relations with regulation and supervision authorities be effective,
- f) Stand out against pressures that may cause negative results for the bank and shall not accept financial interests for that purpose,
- g) Not provide incomplete and biased information for purposes of misleading other board members.

The board of directors shall;

- a) Carry out its activities in an equitable, transparent, accountable and responsible manner,
- b) Assess, in regular intervals of time, the effectiveness of its administrative practices including also the ones regarding the assignment and election of its members and make necessary changes in the case deficiencies or weaknesses are detected,
- c) Interrogate the bank's top management and be capable to take satisfactory explanations from the management,
- d) Make objective recommendations,
- e) Be comprised of an appropriate number and composition of members necessary to make decisions independent of any influences and conflicts of interest.
- f) Have an appropriate number of members specified in a way to ensure the board operates in a constructive and efficient manner, produces fast and rational decisions and establishes, and effectively organizes the activities of, the committees required.

g) Avoid the conflicts of interest and unnecessary obligations in its relations with other organizations.

h) Hold regular meetings with the higher management for purposes of establishing the bank's policies and in-company communication channels and monitoring progresses made in the realization of corporate goals.

Principle 4- The higher management shall be equipped with qualifications to fulfill its duties effectively and be conscious of its role undertaken in the corporate governance

The members of higher management shall not be appointed to duties requiring knowledge and capabilities they are not equipped with.

The higher management shall carry out its duties in an equitable, transparent, accountable and responsible manner. The higher management shall ensure that the bank's activities are conducted within the framework of its mission, vision, goals and policies, act in the direction of financial and operational plans approved by the board of directors and comply with the Law and the legislations published on the basis of the Law as well as the bank's articles of association and in-bank regulations in carrying out its tasks.

The higher management shall not accept direct or indirect gifts, and receive unfair advantages, in relation with the bank's activities.

The higher management shall observe the customers' rights in marketing the bank's products and services and during service relations.

The higher management shall take necessary measures in order to establish good relations between the bank and its customers beyond unfair advantages and act in compliance with conditions of contract made between the parties.

Principle 5- The bank shall make the best use of the works carried out by its auditors as well as the independent auditors effectively

The top management shall comprehend, and have the bank's staff also comprehend, the importance of risk management, internal control and internal audit systems, to ensure that the problems in the bank's risk management, internal control and internal audit systems can be detected and the bank's financial situation and its performance are properly reflected in its financial reports.

The board of directors shall use findings of the bank's auditors as well as the independent auditors in controlling the accuracy of the information regarding the bank's activities and its performance received from the higher management. The measures to make contributions to the independency and reputation of the auditors shall be taken.

The top management shall utilize all the findings by the bank's auditors and internal control staff efficiently and on a timely basis; and, it shall provide detected problems are resolved in time by the higher management.

Principle 6- The compliance of the wages policy with the bank's ethical values, strategic goals and internal balances shall be provided. (Amended: OG Nr. 27959, June 09th, 2011)^{2 3}

A written compensation policy shall be established in compliance with the scope and structure of the bank's activities as well as its strategies, long-term targets and risk management structures, which will prevent undertaking extreme risks and promote effective contributions to the risk management. The board of directors shall review the compensation policy at least once a year to ensure its effectiveness.

A compensation committee, comprised of at least two persons, shall be established for purposes of monitoring and auditing the compensation policy and its practices on behalf of the board of directors. The compensation committee shall assess the compensation policy and its practices within the framework of risk management principles and submit its recommendations through reports to the board of directors on an annual basis.

The board of directors shall ensure the wages for members of board of directors, higher management and the other staff involved are in compliance with the ethical values, internal balances and strategic goals of the bank. These wages shall not be related only to the bank's short-term performance such as profit or income. The responsibilities assigned to members of committees comprised of board members shall be taken into consideration in payments to be made to such members.

Although it is possible to make incentive payments to members of the board of directors equipped with executive duties as well as the higher management on the basis of the bank's performance, such incentive payments shall be made in a way to make positive contributions to the bank's corporate values and be subject to certain objective criteria to be observed. The amounts of performance-based payments shall not be guaranteed in advance. The performance-based payments shall be made in instalments and in consideration with the maturity of risks undertaken.

The payments to be made to managers and staff at the internal control, internal audit and risk management units shall be determined independently from the performance of such units they audit, supervise or control; but, the performance in the own function of the related staff shall be taken into consideration in this respect.

² Previous version before amendment is: "The board of directors shall ensure that wages for members of board of directors, higher management and the other authorized staff are in compliance with the ethical values, internal balances and strategic goals of the bank.

³ The members of committees comprised of board members shall be compensated in consideration with their responsibilities, but such compensations shall not be based on the bank's short-term performance.

Although it is possible to make incentive payments to the members of the board of directors equipped with executive duties as well as the higher management on the basis of the bank's performance, such incentive payments shall be made in a way to make positive contributions to the bank's corporate values and be subject to certain objective criteria to be observed.

The higher management shall implement and supervise the processes required to ensure that the recruitments and promotions of the staff involved are based on objective criteria and detect if the education, experience and responsibility related principles are observed. Such processes shall be in compliance with the organization's general policies as well as relevant procedures on issues like staff recruitment, training, measuring, consultancy, promotion, indemnity and discipline. The higher management shall ensure that requirements on necessary knowledge and competencies are continuously observed and that the organization has the capability to acquire the manpower in compliance with the goals set.

The higher management shall ensure that the staff involved are oriented and trained after their recruitment for purposes of increasing their knowledge and skills to required levels. The education and training programs prepared with the aim to increase technical and administrative skills of the staff effectively shall be reviewed on a regular basis.

The criteria regarding job descriptions and distributions of the staff as well as the performance and reward criteria shall be determined and announced by the higher management. The said criteria shall be reviewed regularly on the basis of their standards determined and special duty related responsibilities. The staff shall be provided with proposals on their own performances and behaviors."

The criteria regarding job descriptions and distributions of the staff as well as their performance-based incentive payments shall be determined and announced by the higher management. The said criteria shall be reviewed regularly on the basis of their standards determined and special duty related responsibilities.

The indemnity payments to be made to the staff leaving the bank shall be determined on the basis of the staff's past performance and in consideration with the the contribution made by the related staff to the bank's long-term performance.

The actions necessary shall be taken by the board of directors against the staff detected to endanger the bank's operations in a secure manner or be responsible for failures in the bank's financial structure as a result of their activities, including also the cancellation of their performance-based payments.

The criteria taken into account in the performance-based payments and the information regarding the method and average amounts of such payments shall be presented in the banks' annual reports prepared within the framework of the "Regulation on Principles and Procedures of the Preparation and Publication of Annual Reports by Banks", under the section titled "Information on Human Resources Applications".

The higher management shall implement and supervise the processes required to ensure that the recruitments and promotions of the staff involved are based on objective criteria and detect if the education, experience and responsibility related principles are observed. Such processes shall be in compliance with the organization's general policies as well as relevant procedures on issues like staff recruitment, training, measuring, consultancy, promotion, indemnity and discipline. The higher management shall ensure that requirements on necessary knowledge and competencies are continuously observed and that the organization has the capability to acquire the manpower in compliance with the goals set.

The higher management shall ensure that the staff involved are oriented and trained after their recruitment for purposes of increasing their knowledge and skills to required levels. The education and training programs prepared with the aim to increase technical and administrative skills of the staff effectively shall be reviewed on a regular basis.

Principle 7- Transparency shall be ensured in the corporate governance

The bank shall ensure that shareholders, depositors, market participants and the general public are provided with sufficient information on the bank's structure and objectives; thus, giving them the chance to make evaluations on the effectiveness of the top management in the bank's administration.

The information provided shall be put in use by the general public on a timely basis and in an accurate, complete, comprehensive, objective, easily-accessible and equally-shared manner to assist the related individuals and organizations in making their decisions.

Parent banks shall make necessary implementations as of year ends, March, June and September on providing information to the general public by consolidating the financial statements of their subsidiaries, jointly controlled entities and associations whether they are credit institutions or financial institutions on the basis of the Turkish Accounting Standards.

The internet site of the bank shall be used actively in enlightening the public.