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## CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

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### 1. CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

İşbank is subject to Banking regulations and provisions of the Corporate Governance Principles which are applicable to the Banks according to the Capital Markets Legislation. The Bank's activities regarding the non-compulsory provisions are stated in the relevant sections below.

During the year, activities particularly with regard to developing Corporate Governance Principles structure, that the Bank is subject to, have been performed. In this context, the Corporate Governance Committee has been established in order to ensure compliance with the non-compulsory provisions, Independent Member of the Board was elected and other matters specified in the legislation have been fulfilled.

### PART 1 – SHAREHOLDERS

#### 2. Shareholders Relations Unit

Following list presents the names and contact details of authorized personnel working at the Investor Relations Division, which operates under Mr. Mahmut Magemizoğlu, the Deputy Chief Executive of İşbank.

Name, Surname	Title	Telephone Number	E-mail Address
Süleyman H. Özcan	Division Head	0212 - 316 16 00	Suleyman.Ozcan@isbank.com.tr
Alper Turgal	Unit Manager	0212 - 316 16 10	Alper.Turgal@isbank.com.tr
Can Akıncılar	Assistant Manager	0212 - 316 16 08	Can.Akincilar@isbank.com.tr

Following are the principal activities performed by the Investor Relations Division in 2013:

- Responding to both the existing and potential investors', rating agencies', international lenders' and other related institutions' information requests, which are not categorized as trade secrets or customer secrets, within the framework of related regulations,
- Participating in domestic and overseas investor meetings and conferences on behalf of İşbank and making presentations to the related parties, when necessary,
- Making public disclosures about the material events and other information subject of announcement through related media and institutions including Borsa İstanbul,
- Keeping the contents of the "Investor Relations" pages at İşbank's corporate website updated,
- Working on the improvement of the Bank's corporate governance practices,
- Coordination of preparations of General Meeting and Annual Report,
- Other activities related to Bank's shareholders.

In the year 2013, more than 500 inquiries were sent to the Investor Relations Division via telephone and e-mail and all inquiries have been replied. In the same year, Investor Relations Division participated in 15 foreign, 3 domestic investor conferences, besides, 1 investor visit has been made as a part of foreign borrowing processes; meeting with representatives of 223 investment institutions. Furthermore, the Investor Relations Division hosted 82 investor meetings, 36 analyst meetings and 97 conference calls in its head office.

### **3. Use of Shareholders' Right to Obtain Information**

Information requests of shareholders regarding dividend distribution, capital increase, general meeting, annual report, Bank's financial statements and related issues, received by İşbank via mail, telephone, e-mail and other media are evaluated and replied in the most effective and fastest way by the Investor Relations Division. The announcements for the shareholders within the scope of capital increase, dividend distribution, General Meeting and the public disclosure legislation are made on İşbank's Investor Relations website.

İşbank is audited regularly within the framework of primarily the Banking Law and the related regulations.

On the other hand, the Audit Committee, established as required by the article 24 of the Banking Law, consists of Mrs. Füsün Tümsavaş (Vice Chairman) and Prof. Dr. Savaş Taşkent (Member of the Board).

Within the framework of the related regulations, a special auditor may be elected by the General Assembly when necessary, for the investigation of the subjects envisaged in the related regulations. İşbank's Articles of Incorporation do not have a separate regulation for the appointment of a special auditor. There has been no request to assign a special auditor during the related period.

### **4. General Shareholders' Meetings**

Regulations related to the General Shareholders' Meetings are stated in the Articles of Incorporation and Internal Directive on Working Principles and Procedures of General Assembly, which is publicly disclosed and also available on İşbank's website. As per the related regulations, the agenda of Shareholders' Meetings and other related issues are made publicly available by means of disclosure on material events and internet before the Shareholders' Meetings. In addition, İşbank's annual reports prepared for the Shareholders' Meeting are also presented to the shareholders for their information and examination before the General Shareholders' Meeting. Besides shareholders, the representatives of related legal institutions who are entitled to attend General Shareholders' Meetings as per related regulations, attend the General Meetings.

İşbank Ordinary General Shareholders' Meeting was held both physically and electronically on 29.03.2013. Announcements, including the agenda of the meeting and sample of proxy statement, were published on the Public Disclosure Platform, the Trade Registry Gazette, Electronic General Meeting System, media and website of İşbank within the legal periods. 85% of the shareholders were represented at the Ordinary General Shareholders' Meeting. Invitations to Shareholders' Meetings are made within the framework of Capital Market Law and the Turkish Commercial Code as well as the Articles of Incorporation of İşbank. Balance sheet, financial statement footnotes, independent auditors' report, dividend distribution proposal of the Board of Directors and similar detailed information in the annual reports are made available at branches of İşbank to the shareholders before the Shareholders' Meetings within the legal time period required by related regulations. Upon request, annual reports are provided to the shareholders before the General Shareholders' Meetings.

At İşbank's Shareholders' Meetings, all shareholders have the right to express their opinions and ask questions on the subjects of the agenda. Moreover, proposals regarding the agenda, which are put forward by shareholders, are concluded as per the legal procedures. Questions of shareholders were replied during the meeting in 2013. No proposal regarding the agenda has been put forward.

In İşbank, the donations were made within the framework of related legislation. The Bank presented information to shareholders regarding the donations made in the period within the framework of the agenda of the 2013 annual meeting.

Minutes of the Shareholders' Meetings are published on the Trade Registry Gazette. The aforementioned minutes can be obtained from the related unit of İşbank and they are available on the Bank's corporate website.

The actions required with respect to the decisions made at Ordinary General Shareholders' Meeting in 2013 were performed.

Mr. Adnan Bali, Member of the Board of Directors and Chief Executive Officer of İşbank, has a duty as the Chairman of the Board of Türkiye Sınai ve Kalkınma Bankası A.Ş. (TSKB), one of the Bank's subsidiaries, within the framework of the consent of The General Assembly dated 29.03.2013 regarding the prohibition to trade with and compete against the company based on related regulations of Turkish Commercial Code.

## **5. Voting and Minority Rights**

There are explanations on the Bank's capital structure, qualifications of shares and the rights on shares both in the Articles of Incorporation and annual report and these explanations are submitted to the shareholders for their information.

Currently İşbank does not have any Board member elected by the minority shareholders. There is no prohibition for exercising voting rights of the minority shareholders in the election of Board Members.

İşbank Group companies do not hold any share in İşbank.

## **6. Dividend Rights**

İşbank's dividend distribution principles are explained in detail in the Articles of Incorporation and as such the dividend distribution policy is shared with the shareholders. İşbank's dividend payment is made within the legal periods. The dividend distribution policy is available in annual report and İşbank's corporate website as well.

On the other hand, dividend distribution proposal of the Board of Directors is also published in the annual report, which is provided to the shareholders prior to the annual Ordinary General Shareholders' Meetings. Dividend distribution is a regular item on the agenda of the General Shareholders' Meeting and is presented for the approval of shareholders and implemented after the approval at General Shareholders' Meeting. The distribution of 2012 operating profit was made in line with the decisions taken at Ordinary General Shareholders' Meeting held in 2013.

## **7. Transfer of Shares**

Transfer of shares can be done in accordance with the related legislation and the Articles of Incorporation of İşbank.

## **PART II - PUBLIC DISCLOSURE AND TRANSPARENCY**

### **8. Public Information Policy**

İşbank has formed an Information Policy which aims to submit the required information and disclosures, except for trade secrets, to the shareholders, investors, employees, clients, creditors and other related parties within the framework of related regulations. Information Policy, which has been formed by the Board of Directors, is available on İşbank's corporate website.

Public disclosures, along with monitoring and improvement of the Information Policy of İşbank are under the authority and responsibility of the Board of Directors. The Investor Relations Division has been assigned for the coordination of disclosure function. The authorized personnel of the aforementioned Division fulfill their responsibilities in coordination with the Audit Committee, Corporate Governance Committee and the Board of Directors.

### **9. Türkiye İş Bankası Corporate Website ([www.isbank.com.tr](http://www.isbank.com.tr))**

İşbank's website is actively and intensely used for public disclosures and informing activities. The website includes the information and data required by the Corporate Governance Principles and regulatory authorities, both in Turkish and in English. Utmost care is given to keep the website updated.

### **10. Annual Report**

İşbank Annual Report includes the necessary information and data required by the related regulations and is prepared both in Turkish and in English.

## **PART III - STAKEHOLDERS**

### **11. Informing Stakeholders**

İşbank's stakeholders are regularly informed about required subjects through press releases, press conferences, interviews, annual reports, news on the website, disclosures and various meetings. Within this context, the necessary corporate organisation has been made to fulfill the information demands of shareholders, employees and customers.

Functions related to informing the employees about the human resources practices and policies are conducted by Human Resources Management Division and, in this context, İşbank's Corporate Intranet Portal is used effectively.

The transactions which are subject to complaint can generally be delivered directly to those concerned, Head Office, The Board of Inspectors and The Board of Directors by the stakeholders.

### **12. Participation of Stakeholders in the Bank Management**

İşbank employees and pensioners participate in the management of the Bank through İşbank Members' Supplementary Pension Fund, which is a shareholder of the Bank. Other shareholders participate in the decision making process relating to the management of İşbank by voting in the General Shareholders' Meeting in line with the regulations of the Articles of Incorporation.

Furthermore, there is a proposal mechanism by which employees may make suggestions regarding the activities of the Bank. İşbank has an online communication platform through which employees may submit their requests and complaints to the Senior Management directly.

### **13. Human Resources Policy**

Human Resources Policies of İşbank are based on the principles of equal opportunity, fairness, transparency and performance. The related policies are implemented with the aim of increasing the means for employee progress adhering to basic rules of conduct and ethical values. Human resources needs are met in line with İşbank's vision and mission in respect of human resources, through recruiting people who have the required qualifications for the job using convenient evaluation methods and instruments. In this context, fundamental recruitment criteria are defined in written format and the hiring processes are carried out according to these criteria.

In principle, only employees from within the institution are employed in İşbank's managerial positions. When there is a need in areas that require special expertise, including professional consulting, external human resources also may be utilized.

Performances of the employees are evaluated within the framework of personnel evaluation criteria suitable to their positions periodically by face to face interviews with the employees; strengths and/or weaknesses of the employees are defined to increase their performances and also to prepare them for a higher position, related development and education schemes are formed; activities are designed for the purpose of realization of these plans and meeting the educational needs. In line with a career management philosophy based on constant development, by taking into account their skills, staff is employed according to their skills at positions that they fit best, in terms of satisfying the needs of the Bank and productivity.

İşbank employee candidates are informed about Human Resources practices and hirings through the Bank's Human Resources website (ik.isbank.com.tr).

An orientation program is applied for newly hired personnel for the purpose of accelerating adaptation period and increase efficiency.

Through İşbank's Corporate Intranet Portal, which was formed in order to enhance information sharing within the Corporation and to communicate with employees more effectively, all the employees are given the opportunity to have quick access to the Bank's regulations, activities of divisions, job descriptions and distributions, performance management practices, up-to-date announcements and supplementary sources.

In İşbank there are labor union representatives who are assigned by BASİSEN (Labor Union of Banks and Insurance Companies) under which İşbank employees are organized. Labor union representatives have a constructive and effective role in forming communication between the Bank and the employees.

Every two years a Collective Bargaining Agreement is signed by the Bank and BASİSEN. The last Collective Bargaining Agreement that covers the period between 01.04.2012 – 31.03.2014, was signed on 22.03.2013. Compensation principles for Bank employees is determined by the Collective Bargaining Agreement and the Agreement is shared with employees through İşbank's Corporate Intranet Portal.

It is essential for İşbank that human rights are respected and that there is not any discrimination based on race, language, religion and sex.

#### **14. Ethical Principles and Social Responsibility**

Together with its equity participations, İşbank is one of the biggest economic players in Turkey with its contribution to economy, public interest oriented vision, high level of employment creation and awareness of social responsibility which is among İşbank's management principles.

İşbank has adopted Code of Banking Ethics published by The Banks Association of Turkey. The code of ethics has been disclosed to the public through the Bank's corporate website.

Since its establishment, focusing seriously on the issues, which are the basic needs of the modern society and which are directly related to the country's future, İşbank supports, within the framework of the Regulation on Social Responsibility Practice formed in 2007, the social responsibility projects in education, environment, culture and arts, which are qualified to be long-lasting, being able to advance the society, far-reaching, sustainable and extendable.

Detailed information regarding these activities can be found on İşbank's corporate website and annual reports.

## **PART IV - THE BOARD OF DIRECTORS**

### **15. Structure and Composition of the Board of Directors**

Board Members of İşbank are listed below.

<b>Name, Surname</b>	<b>Position</b>
H. Ersin Özince	Chairman
Fusun Tümsavaş*	Vice Chairman
Adnan Bali	Member of the Board and CEO
Prof. Dr. Savaş Taşkent*	Member of the Board
Hasan Koçhan	Member of the Board
Aynur Dülger Ataklı	Member of the Board
M. Mete Başol	Member of the Board
Mustafa Kıcalıoğlu	Member of the Board
Aysel Tacer	Member of the Board
Hüseyin Yalçın	Independent Member of the Board
Murat Vulkan	Member of the Board

\* In line with the related regulations, Audit Committee Members are regarded as Independent Members.

Board of Directors, excluding the chief executive officer, comprises of non-executive members.

The election of İşbank Board members is implemented according to article 25 of the Articles of Incorporation and the Banking Law. As per the Banking Law, the Chief Executive Officer of the Bank and, in his absence, his deputy shall be a natural member of the Board.

Backgrounds and terms of office of the Board of Directors of İşbank along with the committees in which they take charge are presented in the annual reports.

Mr. Hüseyin Yalçın was nominated as Independent Member of the Board and Corporate Governance Committee's "Evaluation Report of Independent Member Nominee" dated 27.02.2013 was submitted to the Board on the same date.

Independence declaration of Mr. Yalçın is quoted below:

As per the requirements of the legislation, Bank's articles of incorporation and corporate governance principles of Capital Markets Board, due to my nomination as "independent member" to the Board of Directors, I hereby declare to the committee, İşbank shareholders and all the related parties that;

- Employment, capital or substantial commercial relationship has not been established in the past five years between legal entities with which İşbank, any related party of İşbank or shareholders holding, directly or indirectly, 10% or more share in İşbank's capital, is related with respect to management or capital, and myself, my spouse and my relatives by blood or marriage up to second degree,
- I have not worked for or served as a member on the boards of directors of any company undertaking İşbank's activities or organization with in the context of contract made partly or as a whole, and particularly of the firms that audit İşbank or provide rating or consultancy services to İşbank, in the past five years,
- I was not a shareholder, employee or board member for any company supplying service or product in substantial quantity to İşbank in the past five years,
- I am not a shareholder holding more than 1% share in İşbank's capital and holding privileged shares.
- I possess the vocational education, knowledge and experience necessary to fulfill the duties I will assume in connection with being an independent board member,
- I am not a full-time employee of state institutions and organizations,
- I am considered as a resident in Turkey as per the Income Tax Law,
- I have high ethical standards, goodwill and experience necessary to contribute to İşbank's activities. Maintaining my objectivity in conflicts of interest between İşbank's shareholders and deciding independently by taking into account the rights of stakeholders,
- I am capable of dedicating sufficient time to be able to observe the Bank's activities and to fulfill the requirements of the duties I undertake,
- I still have all the qualifications as per the Corporate Governance Principles to be an independent member and i will protect all these conditions during the duty term in case of being appointed as independent member. I will inform İşbank Board immediately in case of losing my independency.

No circumstances arose in the reporting period, which abolished the independence of Independent Board members.

Although there is no restriction for the Board members to work elsewhere, some activities of Board members have been defined as "Forbidden Activities" in article 32 of the Articles of Incorporation of İşbank.



Duties of the Board members in other companies than İşbank Group are presented below.

<b>Board Members</b>	<b>Duties in İşbank Group Companies (*)</b>	<b>Other Duties</b>
H. Ersin Özince	Chairman of the Board of T. Şişe ve Cam Fabrikaları A.Ş.	Chairman of the Board of Türkiye İş Bankası A.Ş. Members' Supplementary Pension Fund - Member of the Board of Trustees of the TEMA Foundation - Member of Institut International d'Etudes Bancaires - Member of the Institute of International Finance - Member of the Board of Trustees of Bilkent University - Member of Darüşşafaka Association and High Advisory Board - Member of Global Relations Forum
Fusun Tümsavaş	----	-Vice Chairman of the Board of Türkiye İş Bankası A.Ş. Members' Supplementary Pension Fund
Adnan Bali	-Chairman of the Board of İşbank Russia (CSJC İşbank) -Chairman of the Board of İşbank Germany (İşbank AG) -Chairman of the Board of Industrial Development Bank of Turkey (TSKB) -Member of the Board of İşbank Batumi/Georgia Branch	-Member of the Board of Vehbi Koç Foundation -Member of Darüşşafaka Association, Member of the Board of Trustees -Member of Turkish Industry and Business Association (TÜSİAD) -Member of Istanbul Foundation for Culture and Arts (İKSV) -Member of Turkish Finance Managers Association (Finans Kulüp) -Member of the Institute of International Finance -Member of the Board of Trustees of TEMA Foundation -Member of the Global Relations Forum -Member of the Economic Development Foundation (İKV)

Prof. Dr. Savaş Taşkent	----	-Hourly paid Professor in İstanbul Technical University -Advisor to the Rector in İstanbul Technical University
Hasan Koçhan	----	----
Aynur Dülger Ataklı	----	----
Mehmet Mete Başol	----	-Independent Member of the Board of Anadolu Efes Biracılık ve Malt San. A.Ş. and Member of the Committee Responsible for Audit -Independent Member of the Board of Coca Cola İçecek A.Ş. and Head of Committee Responsible for Audit -Member of the Board of Dedeman Holding A.Ş. -Member of the Board of Dedeman Turizm Yönetimi A.Ş. -Mehmet Mete Başol Private Company
Mustafa Kıcalıoğlu	----	----
Aysel Tacer	----	-Member of the Board of Türkiye İş Bankası A.Ş. Members' Supplementary Pension Fund
Hüseyin Yalçın	----	----
Murat Vulkan	----	----

(\*) Only the branches, subsidiaries and participations of İşbank, the parent company of İşbank Group, have been considered.

## 16. Fundamentals of the Functions of the Board of Directors

The Board meetings are, as per the Articles of Incorporation, held at least once a month, yet interim meetings might be held in case of need. Meeting agendas are prepared in accordance with the proposals of Bank's units. Moreover, various reports requested by the Board of Directors from the Bank management and off the agenda topics put forward by the Board members are discussed during the meetings. Meeting date, agenda and related documents are delivered to the Board members before the meetings according to the principles determined by the Board.

All the discussions during the Board meetings are recorded in the minutes of the Board meetings. As per article 28 of the Articles of Incorporation, the minutes of the Board meetings were recorded to the Board Record Book, but within the framework of the change in regulations, starting from 11 June 2008 separate record books are being kept for the Board Resolutions and the minutes of the Board meetings. When there is a dissenting opinion on an item at the Board meetings, the related dissenting vote is recorded to the Board Record Book. Each Board member has one vote and the Board members do not have any weighted voting rights and/or veto rights.

14 Board meetings were held in 2013. Full participation is generally achieved at the meetings and all the decisions are made in accordance with resolution quorum mentioned in Articles of Incorporation. In 2013, 13 meetings were held by full participation. 563 pages of meeting minutes were taken for the Board meetings in 2013. 819 resolutions were made both during the meetings and by examining files.

## **17. Number, Structure and Independency of the Committees Established within the Board**

The administrative and organizational structuring required by the Banking Law Nr. 5411 and related legislation, exists in İşbank. A member of the Board can be appointed to more than one committee within the framework of the related regulation.

As per the resolution of the Board of Directors dated 27.02.2013, Nr. 38923, the Corporate Governance Committee was established in order to

- monitor the company's compliance with the corporate governance principles,
- perform improvement studies and offer any other suggestions to the Board and Committee with regard to the Corporate Governance Practices,
- fulfill the tasks that are set forth by the related legislation of Corporate Governance Committee and Nomination Committee.

The Committee is chaired by Ms. Füsün Tümsavaş who is also the Vice Chairman of the Board. The other member of the Committee is Prof. Dr. Savaş Taşkent, who is also a member of the Board.

In 2013, Corporate Governance Committee held 5 meetings with full participation and adopted 1 resolution.

The information about İşbank's other committees, that are established within the framework of the Banking regulation and other related regulations, is given under the caption of "İşbank Committees" in the Annual Report.

## **18. Risk Management and Internal Control**

As per article 29 of the Banking Law, banks are obliged to establish and operate adequate and efficient internal control, risk management and internal audit systems that are in harmony with the scope and structure of their activities, that can respond to changing conditions and that cover all their branches and participations subject to consolidation in order to monitor and control the risks that they encounter. Internal controlling activities carried out by the Bank's employees with the awareness of responsibility, are controlled and monitored by the Internal Control Division and the internal control personnel who report to the Board of Directors. Risk Management activities are performed by the Risk Management Division and personnel who report to the Board of Directors. Furthermore, banks have to establish internal audit systems that involve all their units, branches and participations subject to consolidation. In this context, bank inspectors investigate the compliance of the banking activities to the legislation, articles of association, internal regulations and banking principles.

İşbank's internal audit, risk management and internal control systems have been established in accordance with the principles and organization structures as required by domestic regulations in parallel with the best international practices. The units constituting the internal systems are the Board of Inspectors, Internal Control, Risk Management and Corporate Compliance Divisions. The units constituting the internal systems work under the Board of Directors. The effectiveness of the activities of the aforementioned units is monitored by the Audit Committee and the Board of Directors.

Corporate Compliance Division works under the Board of Directors through the Audit Committee on issues regarding the regulation and compliance and along with prevention of laundering of criminal proceeds and finance of terror. The basic objective of the corporate compliance practices is to make the maximum contribution to ensure that the compliance risk at the Bank is managed effectively and as targeted, thus kept under control and within this framework, the structure and implementation of the Bank's operations are carried out constantly in accordance with the rules, regulations and standards. In addition, the Corporate Compliance Division, which is also responsible for the coordination of duties and activities related with compliance and compliance risk, has a mutual communication and cooperation with other related Divisions and employees.

## **19. Strategic Goals of the Bank**

The vision and objectives of İşbank were approved by the Board of Directors and disclosed to public via the Bank's website. In this context, İşbank's vision is "to be the most preferred bank by customers, shareholders and employees by maintaining the leading, pioneering and trusted position as a regional financial power" İşbank's mission, in general, is described as meeting the needs of its customers with fast, efficient and high standard solutions, increasing the value it created for its shareholders constantly and being a bank that encourages employees for the maximum performance, and İşbank's strategy is described as "sustainable and profitable growth based on being the bank closest to customers" philosophy in an effort to fulfill its vision and objectives. The Board of Directors regularly monitors and supervises the performance of the Bank in terms of achieving the strategic goals. The Business Programme that includes the yearly objectives formed according to the general strategic goals, comes into effect after approval by the Board of Directors. The quarterly performance of the Bank in comparison with the objectives is reported comprehensively to the Board of Directors.

## **20. Remuneration**

İşbank carries out its activities regarding remuneration policies within the framework of the related banking regulations and Capital Market regulations.

Monthly remunerations of the Board members are determined annually at İşbank's General Shareholders' Meetings and disclosed to the Borsa Istanbul.

Benefits paid to key management personnel in 2013 amount to TL 15,401 thousands. Moreover, cost of allowance, travel, accommodation, representation, as well as opportunities in cash and in kind, insurance and similar guarantees for key management personnel in the same year amount to TL 5,506 thousands.

On the other hand, restrictions related with the loans to be extended by İşbank to the Board members and employees are defined in article 50 of the Banking Law. In this context, İşbank does not extend loans to its Board members and employees other than those allowed by the law.

As for the remuneration of the Board of Directors; article 58 of İşbank's Articles of Incorporation contains the following expression: "After the legal and extraordinary reserves fund and the first dividend have been allocated from the net profit, 0.25% of the remaining balance is distributed among the members of the Board of Directors and the Chief Executive Officer equally."