

## Türkiye İş Bankası A.Ş. Audit Committee's Assessments on the Operation of Internal Control, Internal Audit and Risk Management Systems, and Their Activities in the Reported Period

### Internal Audit

The İşbank Board of Inspectors reports to the Board of Directors via Audit Committee and is responsible for the auditing functions. The İşbank Board of Inspectors audits the activities of the Bank's head office units (including internal control, risk management and compliance units), domestic and foreign branches and the companies under its control, in accordance with the Bank's mission, strategies and policies, as well as relevant laws and regulations. In this context, it carries out preparatory inquiries, fraud examinations and investigations when necessary. Having been certified to be in conformance with the international quality standards, the İşbank Board of Inspectors combines the Board's deep-rooted audit traditions with advanced technology in a modern, risk-focused approach to auditing in the performance of its duties, with its 186 inspectors and assistant inspectors. The board's auditing functions are carried out by on-site inspections as well as remotely by making use of the Bank's data processing infrastructure.

Depending on their content and priority, the reports of the results of the board's inspections are classified and submitted to the Board of Directors, the Audit Committee, the senior management and related Head Office units. The measures taken related to identified issues are monitored by the Board of Inspectors.

During 2009, The Board undertook 360 branch, 2 head office unit and 4 subsidiary company and 3 process audits. In addition to their audit-related activities, members of the İşbank Board of Inspectors also undertake duties on major projects that the Bank is involved in.

With the help of the risk focused audit plan, The Board could audit a considerable portion of İşbank's entire credit portfolio in 2009. The remote auditing activities of the Board has enabled the Bank to monitor the major risks especially in loans, accounts and human resources applications regularly and given the Bank the ability to counteract before the risks grow further.

### Internal Control

The Bank's internal control system is structured in order to make it possible for all financial and operational risks identified as being related to the Bank's activities, to be kept continuously under control and at reasonable levels. Activity-related procedures, work-flows, duties, authorities, and limits are set down in writing and announced to all personnel and they are continuously reviewed and updated in line with changing requirements, risks, and conditions.

Activity-related work-flows incorporate all of the necessary and appropriate controls capable of responding to the particular risks of that activity. Activity-based functional duties, transaction conducts and approval authorities and limits, systemic controls, post-transaction controls, and other processing related controls all work together to ensure that the Bank's activities and transactions are continuously carried out effectively, correctly, systematically, and securely. This activity and internal control structure play a determining role also on the reliability, effectiveness and efficiency of the operations, processes and controls in the background of financial reporting.

The Internal Control Division, which operates under the direction of and reports to the Board of Directors, is responsible for ensuring that the risks associated with the Bank's activities are kept under control in a sound, strong and effective internal control structure that is also functioning in compliance with the related laws, regulations and international standards. The Division is also responsible for examining, controlling, monitoring and evaluating the appropriateness, sufficiency and effectiveness of the controls regarding the Bank's activities and reporting the results to the parties concerned.

By means of risk-focused analysis and controls performed in the Bank's head office units and branches, it is ensured that the Bank's internal control system operates regularly, effectively, and reliably so that the activities can be conducted effectively, efficiently and the findings can be reported reliably to the related parties.

The control, evaluation and reporting facilities related to internal control system of our subsidiaries, subject to financial consolidation, have also been taken into the range of our Bank's internal control activities. An Internal Control Assessment and Reporting Model is being used for the subsidiaries, that is developed based on the COSO Internal Control Assessment Model, and this model provides the system of evaluating the internal control system within the related organization and periodically reporting to the Internal Control Division of the Bank.

The findings, opinions, and recommendations resulting from internal control activities are shared at first with those performing the activities and evaluated with them. This makes it possible for complementary and preventive measures to be quickly identified and put into effect while also allowing adequate and practicable solutions for improving processes and activities to be implemented. All of these proceedings are continuously and closely monitored while evaluated by those responsible for the conduct of the activities as well as by internal control personnel.

The results of all these internal control activities are periodically reviewed and assessed by the Bank's Audit Committee and by the Board of Directors.

In Türkiye İş Bankası A.Ş. information and communication mechanisms function efficiently and effectively. In addition, activities and control processes are monitored and assessed continuously and regularly.

On the basis of aforementioned statements, it is concluded that the Türkiye İş Bankası A.Ş. Internal Control System is risk-focused, strong, and healthy at every level regarding its structure and functioning. Besides, it is functioning productively and effectively in line with the Bank's goals and objectives.

## Türkiye İş Bankası A.Ş.

### Audit Committee's Assessments on the Operation of Internal Control, Internal Audit and Risk Management Systems, and Their Activities in the Reported Period

#### Compliance

Compliance is the foremost duty and responsibility of all managers and employees of the Bank at any level. The coordination of functions and activities regarding compliance executed in the Head Office Divisions and Branches of the Bank is managed through the corporate compliance activities conducted within the Corporate Compliance Division, which reports to the Board of Directors.

Corporate Compliance Division operates with the purpose to provide maximum contribution in order to manage the compliance risk and control this risk in an appropriate and efficient manner and in this regard to execute and manage the activities of the Bank continuously in compliance with the relevant laws, regulations and standards.

The necessary researching, analyzing, monitoring, assessing, informing, conducting, coordinating and reporting activities regarding compliance issues are conducted within the Corporate Compliance Division, which consists of three sub-units, namely, Regulatory Compliance, Banking Activities Compliance and Anti-Money Laundering Compliance.

The duties and responsibilities of the Compliance Officer as stated in the Prevention of Laundering Proceeds of Crime Law and other related regulations in effect are fulfilled by the Head of Corporate Compliance Division, who is the legal "Compliance Officer" of the Bank as well. The activities regarding the prevention of laundering proceeds of crime and finance of terror in our Bank are executed in an express and efficient manner within the context of related legislations and the Bank's Policy and the Compliance Program, which have been prepared in accordance with these legislations.

Bank's Compliance and Compliance Risk Management Policy and Policy for the Prevention of Laundering of Criminal Proceeds and Terrorism Financing are stated in "Investor Relations / Corporate Governance" link at our Bank's website [www.isbank.com.tr](http://www.isbank.com.tr) in English and Turkish.

The results of the activities regarding compliance are also regularly monitored and evaluated by the senior management and the Board of the Bank.

#### Risk Management

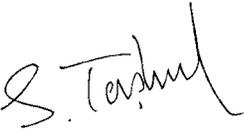
Besides banking activities, both financial and non-financial risks encompassing the whole group are required to be analyzed, monitored and reported from the standpoint of group risk management in addition to that of banking-specific risk management principles. This aspect of risk management, beyond being a regulatory reporting requirement has become an industry standard for corporate governance.

The risk management process, organized within the framework of advanced risk management methodologies and favors a common risk management culture throughout the establishment, is structured to emphasize good corporate governance, assuring independency of units responsible for monitoring and controlling risk from executive functions, so that risk definition, measurement, analysis, monitoring, reporting, and control functions are carried out within the same framework.

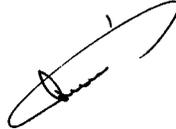
A general assessment of risk by categories suggests that the most significant risk Bank was exposed in 2009 was credit risk, just as was also the case in 2008. This was followed by market risk, especially interest rate risk. In 2009, capital allocation was done for nonfinancial operational risk according to framed policy beside financial risk.

The process of risk management and the functions involved in that process are among the highest-priority responsibilities of the İşbank Board of Directors. Acting through the Risk Committee that is under the authority of the Board of Directors, the Bank Credit Committee and together with the Risk Management Division in its capacity as a functional component of risk management are engaged in efforts to bring the Bank into compliance with Basel II capital adequacy rules.

Sub-committees of Risk Management Division are Asset-Liability Management Risk Unit, Credit Risk and Economical Capital Unit, Operational Risk, Model Validation and Subsidiary Risk Unit.



Prof. Dr. Savaş Taşkent  
Board Member and  
Audit Committee Member



Caner Çimenbiçer  
Chairman of the Board  
and Audit Committee