

***CORPORATE GOVERNANCE  
PRINCIPLES COMPLIANCE  
REPORT  
2016***



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## **CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT**

### **CHAPTER I-DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE**

Türkiye Vakıflar Bankası T.A.O. (“VakıfBank” or “Bank”), has adopted the Corporate Governance Principles stipulated in accordance with the Banking Legislation, Capital Markets Legislation, Turkish Commercial Code and other relevant regulations. VakıfBank pays utmost attention in order to actualize these principles and has adopted the equality, transparency, accountability and responsibility concepts of the Corporate Governance Principles published by Capital Markets Board (CMB).

The Bank ensured compliance with the following Corporate Governance Principles from among those stipulated in the Annex of the Corporate Governance Communiqué II-17.1 that entered into force after being published in the Official Gazette (no. 28871) on the 3rd of January 2014;

a-) The Bank is in compliance with the following compulsory principles that must be implemented by the banks: (1.3.1.), (1.3.5.), (1.3.6.), (1.3.9.), (4.2.6.), (4.3.1.), (4.3.2.), (4.3.3.), (4.3.4.), (4.3.5.), (4.3.6.), (4.3.7.), (4.3.8.), (4.5.1.), (4.5.2.), (4.5.3.), (4.5.4.), (4.5.9.), (4.5.10.), (4.5.11.), (4.5.12.), (4.5.13.), (4.6.2.) and (4.6.3.).

b-) Regarding the non-compulsory principles:

In order to achieve compliance with the principle no. 1.3.10, the Bank’s Board of Directors established a “Donation and Aid Policy” within the period and this policy was published on the website in Turkish and English. The policy was approved by the shareholders at the 61st Ordinary General Assembly Meeting held in 2015, and thus full compliance with the principle was achieved.

In order to comply with principle no.1.6.1, the Bank’s Board of Directors established a “Profit Distribution Policy” in 2014, and published the policy document in Turkish and English on the website. The policy was approved by the shareholders at the 61st Ordinary General Assembly Meeting held in 2015, and thus full compliance with the principle was achieved.

Eight members of the Board of Directors are elected by the General Assembly whilst one member is appointed by the Prime Minister. There is one female member in the Board of Directors which is composed of the eight members who were elected at the 62nd Ordinary General Assembly of 2016. On the other hand, in spite of the fact that the 25% ratio advised in the Corporate Governance Principle n.4.3.9 is not reached exactly, no disputes have arisen between the stakeholders so far.

## CHAPTER II – SHAREHOLDERS

### 2.1 Investor Relations Department

The Investor Relations Department carries out its activities under the Head of International Banking and Investor Relations that reports to the Executive Vice President Mr. Hasan Ecesoy.

Conducting relations with foreign and corporate investors, rating institutions and shareholders, the Investor Relations Department makes required notifications regarding all activities carried out and quarterly submits presentations, in particular, regarding the financial comparative analysis of VakıfBank with its peers to the Board of Directors.

The licenses of the department directors are as shown below:

Name-Surname	Title	License
Mustafa TURAN*	Head	Capital Market Activities Advanced Level License Derivative Instruments Corporate Governance License
Ali TAHAN	Manager	Capital Market Activities Advanced Level License Derivative Instruments Corporate Governance License
* Assumes duties as a member of the Corporate Governance Committee as per the 11th Article and 2nd paragraph of the Corporate Governance Communiqué.		

Employees serving in the Investor Relations Department are as follows:

Name-Surname	Title	Phone	E-mail
Mustafa TURAN	Head	0212 316 73 90	<a href="mailto:mustafa.turan@vakifbank.com.tr">mustafa.turan@vakifbank.com.tr</a>
Ali TAHAN	Manager	0212 316 73 36	<a href="mailto:ali.tahan@vakifbank.com.tr">ali.tahan@vakifbank.com.tr</a>
Zeynep Nihan DİNCEL	Assistant Manager	0212 316 73 83	<a href="mailto:zeynepnihan.dincel@vakifbank.com.tr">zeynepnihan.dincel@vakifbank.com.tr</a>
Yasemin KEÇELİOĞLU	Associate	0212 316 73 85	<a href="mailto:yasemin.kecelioglu@vakifbank.com.tr">yasemin.kecelioglu@vakifbank.com.tr</a>
Ece Seda YASAN	Associate	0212 316 74 01	<a href="mailto:eceseda.yasan@vakifbank.com.tr">eceseda.yasan@vakifbank.com.tr</a>
Yusuf YILMAZ	Assistant Associate	0212 316 73 88	<a href="mailto:yusuf.yilmaz2@vakifbank.com.tr">yusuf.yilmaz2@vakifbank.com.tr</a>
Berna SELEM ARSLANTAŞ	Assistant Officer	0212 316 75 94	<a href="mailto:bernaselem.arslantas@vakifbank.com.tr">bernaselem.arslantas@vakifbank.com.tr</a>

The main duties and responsibilities of the Investor Relations Department are as follows:

- Managing the relations with existing and potential foreign and local institutional investors and rating institutions,
- Maintaining the relations with brokerage companies' analysts who prepare reports about the Bank,
- Attending meetings organized inside and outside the country on behalf of VakıfBank,
- Preparing quarterly presentations regarding results of the financial statements and making teleconferences,
- Preparing corporate presentations and similar type of meeting tools that publicize the Bank, arranging various target-driven publicity and informative meetings,
- Keeping the "Investor Relations" page up-to-date that includes Turkish and English contents on the Bank's website,
- Working in coordination with the relevant Headquarters departments in preparing and updating the Corporate Governance Principles Compliance Report,
- Answering the shareholders' written information requests about the Bank,
- Preparing documents that must be submitted for the shareholders' information and review regarding Ordinary and Extraordinary General Assembly meetings and holding General Assembly meetings in compliance with the relevant legislation, the Bank's Articles of Incorporation and other internal regulations,
- Making the disclosure of material matters - required to be made within the scope of the Capital Markets Legislation and the relevant legislation that the Bank is liable to comply with - via Public Disclosure Platform,
- Carrying out activities in collaboration with the departments for sustainability activities,
- Providing coordination necessary for establishing, running, and creating a sustainable Quality and Environment Management System - with a methodology to be determined by the Corporate Governance Committee - within the Bank.

During 2016, the Investor Relations Department:

- Approximately 1,500 information requests submitted by the shareholders were responded to,
- 17 local and foreign investor conferences were attended, and face-to-face meetings were held with approximately 650 foreign and local institutional investors.
- More than 210 meetings were held in the Bank's Istanbul office and roughly 450 investors/analysts were interviewed.
- Following the investor conferences attended, reports were prepared in line with the feedback obtained from the investors and presented to the top management.
- Four teleconferences about the results of the financial statements were arranged and their records were published on the English version of the website.
- Annual ordinary evaluation meetings were held with four rating institutions (Fitch, Moody's, S&P and Capital Intelligence).
- Close contact was made with all the analysts issuing reports about the Bank, accurate and reliable information was given to the analysts at the report preparation stages and opinions were shared with the analysts on the prepared reports.
- It was ensured that 2016 Ordinary General Assembly meetings were held within the scope and in compliance with the Banking Law, Capital Markets Law, Corporate Governance Communiqué, the Bank's Articles of Incorporation and other legislations.

- Secretarial procedures were performed for the Corporate Governance Committee, which is the highest body authorized for coordinating sustainability activities, and for the Sustainability Work Group which carries out activities under this Committee. Anticipated meetings and meeting agendas were determined.
- As the Bank is listed in the BIST Sustainability Index, correspondence with the related organizations has been carried out to make sure that the Bank continues to be listed in the Index. Furthermore, EIRIS (Ethical Investment Research Services Limited) evaluated the reports issued about the Bank's index performance, and shared its opinions with the Bank.
- In order to maximize the Bank's performance in environmental, social and Corporate Governance issues, activities were carried out in collaboration with other units of the Bank
- In conformity with the Global Reporting Initiative G4 requirements, activities were initiated to prepare the second Sustainability Report of the Bank that will cover 2016 activity period.
- In order to formulate the framework of the Sustainability Report, and set the long term sustainability strategy of the Bank, various communication channels (surveys, phone calls and meetings) were used and opinions of the shareholder were taken. Within this scope, approximately 200 shareholders were surveyed, 10 shareholders were contacted by phone calls while face-to-face meetings were held with 10 shareholders.
- Necessary assignments were made within the Bank with the aim of providing coordination necessary for establishing, running, and creating a sustainable Quality and Environment Management System – with a methodology to be determined by the Corporate Governance Committee.

For the institutional and foreign investors, Turkey's first investor relations application in English that was prepared by the related Bank units in 2014 for iPhone and iPad users, was actualized with the name "VakıfBank IR." From the date of activating the application until the end of 2016, 6,330 users 1,630 of it in 2016, downloaded the application and started using it on tablets and smartphones.

## **2.2 Exercise of Shareholders' Right to Information**

Questions asked in writing or via phone calls to the Investor Relations Department are answered, except the ones that interfere with confidential information and trade secrets, by contacting with the most authorized person who is the addressee of the question.

Information and developments that interest the shareholders such as stock transaction, capital increase, dividend transactions, General Assembly meetings, financial statements, disclosure of material matters, are regularly communicated with the related parties via websites, newspaper ads, mails or phone calls. Mentioned developments and information are shared with the investors located abroad via e-mail. Moreover, information requests made within the activity period by the domestic shareholders about the status of their stocks, conversion transactions of the existing shares and stock sharing transactions upon death are responded in writing.

VakifBank has two separate investor relations websites prepared both in Turkish and English. These are:

Investor Relations website in Turkish:

[http://www.vakifbank.com.tr/Yatirimci\\_Iliskileri.aspx?pageID=657](http://www.vakifbank.com.tr/Yatirimci_Iliskileri.aspx?pageID=657)

Investor Relations website in English:

<http://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

These websites include; corporate information, Bank's Articles of Association and the Law on VakifBank, General Assembly information documents, profit distribution chart, General Assembly Internal directive, attendance lists, brief minutes, periodic financial statements and annual reports , credit rating scores given by credit rating agencies, Corporate Governance reports, sustainability information, stock data and announcements about the developments in the Bank. Publicly announced via Disclosure Platform developments about VakifBank and disclosure of material matters are available on these websites. Bank's corporate websites do not include any information and announcement that may have impact on using shareholders rights.

VakifBank is regularly audited within the framework of the Banking Law, in particular, and relevant legislation.

### **2.3 General Assembly Meetings**

The Ordinary General Assembly Meeting was held at the Headquarters' address in 2016. 62nd Ordinary General Assembly Meeting was held on the 29th of March 2016 and meeting quorum was 88.31%.

Ordinary General Assembly Meeting was held as per the provisions of the "Regulation On The General Assemblies Of The Joint Stock Companies That Will Be Made In Electronic Environment" and "Communiqué On The General Assembly System That Will Be Used In The General Assemblies Of The Joint Stock Companies". The shareholders had the opportunity to attend the General Assembly meeting on an electronic platform, express their opinions, make suggestions, and cast their votes.

In order to inform the shareholders in prior to General Assembly Meetings, the call for General Assembly, the agenda, power of attorney sample and other attached documents were publicly announced in conformity with the relevant legislation via Public Disclosure Platform, Turkish Trade Registry Gazette, Electronic General Assembly System and at least on two newspapers (published nationwide) selected by the Board of Directors. These documents were also published in Turkish and English on the Bank's website. A minimum of 21 days prior (meeting and call dates excluded), a call for a General Assembly is made in the Central Registry Agency system for the e-General Assembly service that enables participating, making proposals and statements, and voting at the Bank's General Assembly Meeting on electronic platform. Moreover, these documents are sent to the shareholders whose up-to-date addresses are listed on the Bank's records.

The 2015 annual report, issued for the General Assembly, including Bank's balance sheet and profit/loss statements of 2015 accounting period, Board of Directors annual report, auditor's report and independent external audit company report, was made available in prior to the General Assembly for the Bank shareholders' information and review via Central Registry Agency system and all branches of the Bank. Furthermore, in case shareholders request, Bank's branch staff will be providing them with the copies of the call for General Assembly, agenda and power of attorney samples. Shareholders, entitled to attend the General Assembly, who completed the necessary procedures did attend the Ordinary General Assembly Meeting held in 2016.

The invitation letters published before the meetings contain the following information:

- Date, time and location of the meeting,
- Agenda of the meeting,
- The body inviting shareholders to the meeting (e.g. Bank's Board of Directors),
- The locations where the annual report, balance sheet and profit/loss accounts statements are available for review by shareholders in case of ordinary meeting announcements (Head Office and branches),
- Sample power of attorney for shareholders who will not attend the meeting in person.

The issued annual report includes information such as; information regarding the activities of the Bank, information regarding the top management, Bank's balance sheets, balance sheet footnotes, independent audit report, audit board report, Board of Directors' proposal for profit distribution, Corporate Governance Principles Compliance Report, etc. Upon request, the Investor Relations Department provides shareholders with a copy of the annual report before or after the General Assembly meeting.

All shareholders, irrespective of the size of their participating share, are entitled to speak, to express opinion and to ask questions related to the agenda items of both Ordinary and Extraordinary General Shareholders' meetings. The answers given by the Meeting Chairman and Council to the questions, suggestions and opinions, and to other issues of the shareholders - who physically and/or electronically attended the Ordinary General Assembly Meeting held on the 29th of March 2016 was included in detail in the General Assembly minutes. Following the General Assembly, General Assembly Meeting minutes and annexes are publicly announced via Public Disclosure Platform, Turkish Trade Registry Gazette, e-Company Information Portal and Electronic General Assembly System, and furthermore on the Bank's website.

The 39th Article of the Bank's Articles of Incorporation is as follows: "Every shareholder attending the General Assembly Meeting has the opportunity to declare his/her opinions and ask question about the agenda items, under equal circumstances and within the framework of the principles regarding the conduct of the meeting. Questions asked to the Board of Directors, are verbally answered right on the spot if possible, if not they will be answered in writing within one week following the General Assembly provided that they are necessary for using shareholders' rights and that they do not interfere with trade secrets." At the Ordinary General Assembly Meeting held on the 29th of March 2016, shareholders' questions were answered during the meeting by the Investor Relations



Department. Furthermore, within the scope of the Corporate Governance Principle no. 1.3.5; the questions asked at the General Assembly meeting and the answers given, were published on the Bank's website within the 30 days following the meeting date.

At the General Assembly Meeting held on the 29th of March 2016, shareholder Sevda Alkan had a dissenting opinion about the 8th item of the agenda, and she stated that the Bank did not have sufficient number of female members in the Board of Directors as per the Corporate Governance Principles. On the other hand, at the General Assembly of the Bank, Dilek Yüksel was elected as a female member of the Board of Directors. In spite of the fact that the number advised in the Corporate Governance Principle n.4.3.9, is not reached exactly, no disputes have arisen between the stakeholders so far.

Information was given at the General Assembly Meeting about the amount of aid and donation made by the Bank within the period. Summary of the General Assembly Meeting include information about this issue.

At the Ordinary General Assembly Meeting held in 2016, shareholders did not make any request to add an item on the agenda of the Ordinary General Assembly Meeting.

In addition in 2016, there was no matter left to the General Assembly for resolution due to the majority of the independent Members of the Board of Directors not casting affirmative vote.

Shareholders (who control the management of the Company), Board of Directors' members, managers who have administrative responsibilities, and their spouses and blood relatives and relatives by marriage up to second-degree did not make any important transaction with the Bank or its associate companies which may lead to conflicts of interest. Furthermore, the aforementioned persons did not make any transaction, related to a commercial business that is within the scope of the Bank's or its associate companies' field of activity, for their own account or for the account of others or did not become unlimited partners in other companies carrying out similar commercial businesses.

## **2.4 Voting and Minority Rights**

The provisions regarding voting rights of the shareholders and the use of these rights are stipulated in the Article 30 of VakıfBank Articles of Incorporation. As per the Articles 43 and 48 of the Bank's Articles of Incorporation; group (A), (B) and (C) shareholders have the privilege to nominate in the election of the Board of Directors while group (A) and (C) shareholders have the privilege in the election of the Audit Committee.

Bank shares are divided into Class (A), (B), (C) and (D) group. The nominal values and voting rights of the share certificates of all classes are equal. Class (D) consists of publicly traded shares.

Shareholders who hold or represent 10 shares are entitled to one vote at the General Assembly meetings while those who hold more than 10 shares are entitled to a number of votes calculated as per the proportion specified above without any limitation.

In VakıfBank's capital, there is no mutual participation relationship. The use of the minority rights is subject to Turkish Commercial Code, Capital Markets Law, relevant legislation and to the communiqué and resolutions of CMB.

## **2.5 Dividend Rights**

There are no provisions in the Bank's Articles of Incorporation that stipulates privileges in participating in profit sharing. The principles regarding the profit distribution of VakıfBank's shares are stipulated in the Articles 82, 83, 84, 85 of the Bank's Articles of Incorporation.

Each year, Board of Directors of VakıfBank submits its proposal on profit distribution to the General Assembly and to the Shareholders' information via annual report prior to the General Assembly meeting. The proposal of the Board of Directors regarding profit distribution is discussed and resolved at the General Assembly. Profit distribution procedures were completed within the legal timeframe in line with the decision taken by the General Assembly about distributing 2015 Profit and necessary notifications were made to the public authorities. Furthermore, the relevant decision was publicly announced on the same day via Public Disclosure Platform.

In profit distribution, a balanced policy is pursued between the benefits of the shareholders and partnership.

With the aim of complying with the Corporate Governance Principle no. 1.6.1., in 2014, the Board of Directors of the Bank created a "Profit Distribution Policy" and published the document in Turkish and English on the corporate website. Profit Distribution Policy was presented to the approval of the shareholders at the Ordinary General Assembly Meeting held in 2015. Thus, full compliance with the relevant principle was achieved.

## **2.6 Transfer of Shares**

All Bank shares are registered shares and divided into Class (A), (B), (C), and (D) groups.

The Council of Ministers is entitled to sell and to determine the procedures and principles of the sale of Class (A) shares of the Bank and the Class (B) shares held by the attendant foundations under the General Directorate of Foundations.

The Bank's Articles of Incorporation does not include any provisions to restrict the transfer of Class (B) shares held by other attendant foundations and of Class (C) and (D) shares.

However, the Bank's Board of Directors is authorized to convert Class (B) shares held by attendant foundations (subject to permission by the General Directorate of Foundations) and Class (C) shares into Class (D) shares at the request of the Shareholders.

## **CHAPTER III- PUBLIC DISCLOSURE AND TRANSPARENCY**

### **3.1 Bank Website and Its Content**

The Bank has two separate websites; that are regularly updated and published in accordance with the Corporate Governance Principles in Turkish ([www.vakifbank.com.tr](http://www.vakifbank.com.tr)) and in English (<http://www.vakifbank.com.tr/English.aspx?pageID=977>). VakıfBank has two separate investor relations website published in Turkish and in English.

Investor Relations website in Turkish:

[http://www.vakifbank.com.tr/Yatirimci\\_Iliskileri.aspx?pageID=657](http://www.vakifbank.com.tr/Yatirimci_Iliskileri.aspx?pageID=657)

Investor Relations website in English:

<http://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

These websites include; corporate information, periodic financial statements and annual reports, ratings given by credit rating agencies, Corporate Governance reports, information regarding sustainability, and the sustainability reports of the Bank, stock data, presentations for investors, Bank's Articles of Association and the Law on VakıfBank, General Assembly Internal directive, attendance lists, General Assembly brief minutes, capital increase and dividend ratios, analyst lists, VakıfBank's management, organizations structure, committees, code of ethics, information policy, profit distribution policy, anti-bribery and corruption policy, compensation policy, human rights and employee rights policy, aid and donation policy, remuneration policy, environment policy, social responsibility policy Occupational Health and Safety, MASAK compliance policy, and announcements regarding the developments in the Bank. These websites also include the disclosure of material matters on publicly announced developments about VakıfBank via Public Disclosure Platform. Bank's corporate websites do not include any information and announcement that may have impact on using shareholders rights.

Interactive Analysis Function offers the opportunity to make comparative analysis of VakıfBank shares and indices in local and foreign currencies.

Bank's website is in compliance with the CMB's Corporate Governance Communiqué (II-17.1; date: 03.01.2014) principles no. (2.1.1), no. (2.1.2), no. (2.1.3) and no. (2.1.4) regarding corporate websites. Most of the announcements made by the Bank via Public Disclosure Platform are translated into English and published on the webpage. Furthermore, it is made sure that the English version is consistent with the Turkish version and is prepared in a manner that will be correct, complete, direct, comprehensible, and sufficient enough for the persons who will make use of the announcement to make a decision.

### **3.2 Annual Report**

Bank's Annual Report is in compliance with the CMB's Corporate Governance Communiqué (II- 17.1; date: 03.01.2014) principles no. (2.2.1) and no. (2.2.2) regarding Annual Report.

## **CHAPTER IV- STAKEHOLDERS**

### **4.1 Disclosure of Information to Stakeholders**

VakıfBank stakeholders are informed regularly about the issues deemed necessary, through press releases, press conferences, interviews, annual reports, news on the website, announcements and various meetings.

In order to ensure accurate and reliable flow of information, the Investor Relations Department prepares presentations regarding the financial statements disclosed each quarter, shares these presentations with the investors via website and e-mail and also announces them through live teleconferences. The Department, by attending the investor meetings organized by the investment companies, shares the developments related with the Bank and the sector and answers any type of related question and request over the phone or via e-mail on a daily basis. On the Bank's website; necessary technical infrastructure was built in the "Sorun Çözelim" section for the Bank customers' information requests, comments or complaints about the Bank's services and products. Information requests, suggestions and complaints of customers about the Bank's products and services as well as the problems of customers are resolved by all relevant departments of the Bank in the most effective manner.

In order to speed up stakeholders' access to information, and to facilitate Corporate Governance Committee's access to the Bank's transactions that are contrary to legislation and that are ethically not appropriate, mail addresses [surdurulebilirlik@vakifbank.com.tr](mailto:surdurulebilirlik@vakifbank.com.tr) and [sustainability@vakifbank.com.tr](mailto:sustainability@vakifbank.com.tr) were made available and presented for the information of the stakeholders on the corporate website in the Investor Relations section.

The Information System Portal was built in order to provide information to Bank employees. All announcements are made on this intranet portal that is an internal information sharing system. At different locations employees can have immediate and effective access to the information they are looking for due to the fact that all internal information is available on the system. In this manner, as employee satisfaction increases, time and energy loss is prevented, as well. The aim is to achieve cost saving and faster communication with the help of this portal.

The oversight of the existing control mechanisms for the compliance of the transactions performed by VakıfBank with the relevant legislation, banking practices, Bank's internal policies and ethical principles, is done by the Compliance Directorate with the coordination of Audit Board Department, Internal Control Department and Risk Management Department. The scope of the compliance function consists of: tracking of the compliance risks that may arise from the international regulations, in the foreign branches and consolidated partners of VakıfBank, performing necessary tasks in order to continuously increase the compliance awareness and culture within the Bank. The Audit Board is directly informed about the results of the activities carried out regarding the compliance function.

## **4.2 Stakeholder Participation in Management**

The Bank takes utmost care of its employees and all the stakeholders and thereby aiming to meet the expectations of its internal and external customers by improving the quality of its products and services: In order to achieve this aim, it designs all its systems in a manner that they can be continuously improved.

VakifBank pays utmost attention that its employees play an effective role at the development stage of new products and services. With an e-mail address created in the Bank, employees are given the opportunity to state their opinions within the scope of the new product development. The presented opinions, after being evaluated by the departments of the Head Office, can be brought to the project stage.

If necessary, the Bank also provides information to the stakeholders who are not Bank employees, about the issues that concern them via e-mail, phone and other communication channels. The Bank established the department called Consumer Relations Coordination Center, accessible via the Internet, to ensure customer satisfaction. All suggestions, complaints or positive feedback about the Bank's products and services are communicated to the relevant department via e-mail. Additionally, customers can perform all banking transactions through a direct call to VakifBank 7/24 branch at 0850 222 0 724.

## **4.3 Human Resources Policy**

Within the scope of the sustainability efforts, the "Human Rights and Employee Rights Policy" that fulfills the requisites of the principle no. 3.3.1. of the Corporate Governance Communiqué (II-17.1) was made available for the information of the stakeholders on the corporate website.

Making maximum use of its existing human resources with its HR practices in order to reach its targets, the Bank also aims to maintain the labor peace with the equal opportunity working environment it provides to its staff.

In this context, the growth strategy followed by considering the increasing competition in the banking sector, through its existing HR policies the Bank supports its employees' development, and prioritizes the issue of creating motivation and job satisfaction. The Bank also aims to maximize employee loyalty and happiness.

The main principles of the Human Resources policy carried out by the Bank are given below:

- Creating and maintaining a working environment that will increase the motivation and efficiency of the Bank employee,
- Prioritizing the concept of gender equality in performing the policy and procedures of the Bank without discriminating among the female-male employee members, and thus providing a working environment where all employee members have equal opportunities and labor peace,
- Maintaining a permanent working environment open to communication at all levels,

- Evaluating employees' success and performance at work, encourage them, maintaining their moral and motivation at the highest level,
- Considering the material and moral interests of the employees' and pursuing, maintaining, developing a fair wage policy where equal wages are given for equal jobs without making any gender discrimination,
- Developing their knowhow and skills through training programs given to the employee within the Bank,
- Cultivating its employee in line with their career targets within the framework of the Bank's training policy,
- Taking necessary measures to increase health, safety, and welfare of the female/ male employees, and increasing their loyalty to the Bank,
- Providing the employees with opportunities to get title promotions on the basis of female male equality, and contributing to improving their management and leadership skills with the new responsibilities given,
- Creating high motivation by developing individual and professional competencies of the employee and strengthening their loyalty to the Bank,
- Keeping track of the modern HR practices and developments, adapting the latest HR practices in the Bank's system and making them practicable.

The criteria about the personnel to be employed at the Bank, are specified in the Bank Personnel Directive. Recruitment process is carried out in line with the principles stipulated in the relevant legislation, taking long term strategic targets of the Bank and norm staff of the branches and departments into consideration.

For the Bank's success to continue, the aim is to effectively and efficiently manage the current human resources, and to carry out activities in the branches/departments with optimum number of personnel.

In the recruitment process carried out to meet the need for personnel, candidates can start working for the Bank as Assistant Bank Examiner, Assistant Specialist, Assistant Controller, and Intern. The personnel who will be working at the Bank are chosen from among the candidates, who are graduates of a 4-year department any university, with a bachelor's degree in departments related banking, or other fields that will be determined by the Bank. Special attention is paid to make sure candidates have a postgraduate degree and knowledge of foreign language. On the other hand, the Bank employs IT Assistant Specialists in the Bank's Information Technology units, Lawyers in the Legal units, and Engineers and Architects in the relevant business units.

Considering the lack of permanent staff in the Branches/Departments, and the need for authorized employee in the existing/ future Branches/Departments employee, and probable retirements, resignations and the like, promotion exams are made in accordance with the Bank Employee Directive's relevant clauses that regulate promoting.

The aim is to create a structure based on the specialization of the staff members in line with their competencies and thus to determine their career steps by taking their performance measurements and trainings into consideration. Making evaluations with an

organizational approach that cultivates its managers/executives, and monitoring the employee members who have the competencies necessary for the job, and making sure that they are cultivated for executive positions. To this end, efforts are made to increase the corporate (employee) loyalty, and to create an organization where activities are carried out adopting the corporate culture.

The performance process is continuously reviewed and improved as the performance measurements of branches and regional directorates are made; performances are fairly and objectively evaluated; bonuses are paid to staff members depending on their performances.

Training programs inside and outside the Bank are carried out to improve the competencies of the staff and to ensure that the employees are specialized in their jobs in line with their career plans through the approach targeting continuous learning, innovation and perfection.

Furthermore, there are special orientation trainings for novice Assistant Auditors, Assistant Associates, and Officers to build up the corporate culture, and to make sure they adapt themselves to the Bank.

Employees are informed about their job descriptions and distribution as well as performance and awarding principles via documents in the Bank's information systems and via notifications/announcements.

The Bank's staff works in accordance with the provisions of private law, and is recruited in conformity with the provisions of the Labor Law no. 4857 currently in effect. Bank employees are "Turkish Bank and Insurance Company Employees Union" (BASS) members, and thus working conditions of the employees are determined with the collective bargaining agreements between the Bank and the union. Currently, CBA for the 22nd Period between 01.05.2015 and 30.04.2017 is in effect.

Relations between the employees and employers are carried out by the directors and representatives of the abovementioned unions. The union representatives forward the requests and complaints of the employees of the Bank about working conditions, personal rights, duties and responsibilities to the employers and monitor the process. Furthermore, there are union representatives, elected among the staff working in the Bank's Branches/Departments, (i) who should monitor whether or not the Collective Bargaining Agreement and the laws in force about the union members are practiced in line with their purposes and, (ii) who should verbally or in writing inform the director of that workplace about the insufficiency and discrepancy they detected on these issues. To date, there has not been any complaint from the employees about any discrimination issues. The names, surnames and duties of the directors of the abovementioned unions are given below:

<b>Name Surname</b>	<b>Position</b>
Turgut YILMAZ	President
Mustafa EREN	Secretary General
Nefiye ARSLAN	Secretary General-Finance

#### **4.4 Ethical Rules and Social Responsibility**

Pursuant to its objectives of protecting stability and reliability in the banking sector by preventing unfair competition, improving service quality and maintaining the reputation of the banking profession before the public, the Bank, with Board of Directors' resolution numbered 74205, dated February 16, 2006, adopted the Bank's Banking Ethical Rules, issued by the Banks Association of Turkey and has undertaken to comply with these rules. This resolution was approved by the General Assembly held on March 31, 2006. Business Ethics in Banking (Code of Ethics) is available in Turkish and English on the Bank's website. Assuring to comply with the Business Ethics in Banking, VakıfBank has adopted the principle of contributing to social life at the maximum level. In line with the influence of the "foundation heritage" in its roots and the image of "Compassionate Bank" as principal of corporate culture, the Bank carried out important projects in the fields of sponsorship and social responsibility also in 2016.

Just like it has done perpetually for 30 years, VakıfBank has continued to support Turkish volleyball, and opened the VakıfBank Spor Sarayı, whose foundation was laid in 2015. VakıfBank Sports Club again accomplished top-level achievements; Championship in the Turkish League, second in the European Champions League and third in the World Clubs Championship.

VakıfBank Spor Sarayı was completed in a short period of time like 15 months, and opened its doors. With 30,000 square meters of construction area, the economic life of the hall which was added as a value by VakıfBank to Turkish sports, is planned to be at least 25 years. The facility will be the home arena of VakıfBank volleyball team; volleyball team A, feeder teams and the volleyball school. The facility also has a training gym, multipurpose gym, swimming pool, fitness room, club administration office, and a multi-purpose event room.

Carrying its support for sports and education to schools all across the country, VakıfBank has provided a great number of schools with sports equipment and stationery materials by its own means and by means of the sports club and has also sponsored and hosted numerous national organizations.

Within the scope of the collaboration developed with TEMA, saplings, equal to the number of mortgage loans extended to the customers in 2016 plus the number of VakıfBank employees, were planted. A total of 75,000 saplings were planted in the "VakıfBank Memorial Forests" created on the Ministry of Forestry lands in Burdur and İstanbul Şile.

Continuing to support arts also in this year, VakıfBank gave many painters the opportunity to exhibit their works in the galleries in Ankara and İstanbul. Moreover, Turkish Folk Music and Turkish Classical Music choruses formed within the Bank continued their activities throughout the year, while these activities and concerts were supported by VakıfBank.



The companies' performance in environmental, social, and Corporate Governance fields is taken as basis in the BİST Sustainability Index, which was initiated by Borsa İstanbul in 2014, in order to increase perception, knowledge and practices in the field of sustainability in Turkey and among Borsa İstanbul companies in particular. Being listed in the BİST Sustainability Index since the beginning, VakıfBank maintains its position in the index for the November 2016 – October 2017 period as a result of the evaluations made in 2016. Being listed in this index which is a very significant indicator in terms of Corporate Governance and sustainable development, is the proof of the Bank's insight in this area.

## CHAPTER V- BOARD OF DIRECTORS

### 5.1 Structure and Formation of the Board of Directors

Name-Surname	Position	Start Date of Position
Ramazan GÜNDÜZ	Chairman Board Member (C)	29.03.2013 06.04.2009
Mehmet Emin ÖZCAN	Board Member (D) Independent Board Member Deputy Chairman Credit Committee Member Audit Committee Member	28.03.2014 29.03.2013 29.03.2013 05.04.2013 04.04.2014
Halil AYDOĞAN	General Manager Board Member-Ordinary Member	29.03.2013
İsmail ALPTEKİN	Board Member (A) Corporate Governance Committee Member Credit Committee Substitute Member	06.04.2009 07.04.2009 30.03.2015
Dr. Adnan ERTEM	Board Member (A) Remuneration Committee Member	28.10.2010 06.04.2012
Öztürk ORAN	Independent Board Member (A) Corporate Governance Committee Member Remuneration Committee Member	30.04.2014 08.05.2014 30.03.2015
Dilek YÜKSEL	Board Member (B) Remuneration Committee Member Credit Committee Substitute Member	29.03.2016 29.03.2016 29.03.2016
Sabahattin BİRDAL	Independent Board Member (C) Audit Committee Member Credit Committee Member	31.03.2014 04.04.2014 29.03.2016

Board of Auditors		
Yunus ARINCI	Audit Board Member	19.03.2010
Mehmet Emin BAYSA	Audit Board Member	29.03.2016

Pursuant to the regulations of the Banking Regulation and Supervision Agency, the Chairman of the Board of Directors does not have executive tasks and duties. The General Manager Halil AYDOĞAN is an executive member of the Board of Directors. There are no other executive members in the Board of Directors except the General Manager. The term of office of the members of the Board of Directors is three years. Members completing their term of office can be reelected. Résumés of the Members of the Board of Directors are included on <http://www.vakifbank.com.tr/yonetim-kurulu-uyeleri.aspx?pageID=300> <https://www.vakifbank.com.tr/management.aspx?pageID=843>

As per the Capital Markets Board regulations regarding Corporate Governance Principles, the number of Independent Members of the Board of Directors was determined as “three”. On 29.01.2016 at the Bank Ordinary General Assembly, Mehmet Emin ÖZCAN, Sabahattin BİRDAL and Öztürk ORAN were elected as Independent Members of the Board of Directors.

Independent Members of the Board of Directors’ statements of independence are available, and there is no breach of independence as of the relevant activity period.

Name - Surname	Subsidiary	Position in the Subsidiary	Start Date of Position
Ramazan GÜNDÜZ	Vakıfbank International AG	Chairman	27.04.2015
Mehmet Emin ÖZCAN	Vakıf Yatırım Menkul Değerler A.Ş.	Chairman	27.03.2015
Halil AYDOĞAN	Güneş Sigorta A.Ş.	Chairman	09.04.2013
	Taksim Otelcilik A.Ş.	Chairman	15.02.2012
	TSKB A.Ş.	Member	16.12.2013
İsmail ALPTEKİN	Vakıf Gayrimenkul Değerleme A.Ş.	Chairman	31.05.2010
Dr. Adnan ERTEM	Vakıf Emeklilik A.Ş.	Chairman	30.03.2011
Sabahattin BİRDAL	Vakıf Faktoring A.Ş.	Chairman	15.04.2016
	Vakıf Gayrimenkul Yatırım Ort. A.Ş.	Chairman	30.04.2014
Öztürk ORAN	Vakıfbank International AG	Deputy Chairman	27.04.2015
Dilek YÜKSEL	Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	Chairman	12.04.2016

Member of the Board of Directors Dr. Adnan ERTEM's duties outside VakıfBank and the Group are; General Manager of the General Directorate of Foundations, Member of the Board of Directors of the Social Aid Fund Board, Member of the Board of Directors of Supreme Council of Antiquities and Monuments, Member of the Board of Trustees of Recep Tayyip Erdoğan University Foundation, Member of the Board of Trustees of Bezmi Alem University Foundation, Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş., Chairman of the Board of Directors of Press Advertising Institution, and Deputy Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

Member of the Board of Directors Öztürk ORAN's duties outside VakıfBank and the Group; since 2003, he continues his professional life as Chairman of the Board of Directors in the pharmaceutical companies where he also is a partner. He is a Member of the Board of Directors in İstanbul Chamber of Commerce and in the World Trade Center. He is also the Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

The fourth paragraph of the 60th Article of the Bank's Articles of Incorporation is as follows: "Without getting approval from the General Assembly, Members of the Board of Directors cannot perform any transactions related to a commercial business that is within the scope of the Bank's field of activity, for their own account or for the account of others, or cannot become unlimited partners in other companies carrying out similar commercial businesses." Within this scope, without getting permission from the General Assembly of the Bank, the Members of the Board of Directors cannot directly or indirectly make any transactions with the Bank on behalf of themselves or others and cannot be executive members in a corporation making transactions with the Bank. Furthermore as per the Banking Law no. 5411, Members of the Board of Directors who assume tasks in the Audit Committee do not have any tasks/duties/positions in the unconsolidated subsidiaries.

## **5.2 Operating Principles of the Board of Directors**

Board of Directors must convene at least twice a month upon the call made by the Chairman or at least two members in line with the necessity of the Bank affairs. However, if there are not any issues on the agenda, the meeting can be postponed only for one time with the approval of the Chairman (Article 53 of the Bank's Articles of Incorporation). Meeting agendas are prepared according to the memorandums sent from the Head Office departments while various reports the Board of Directors requested from the management and various issues presented by the Board Members are discussed during the meeting. The agenda and relevant files are presented to the members prior to the meeting

Informational and communication activities for the Members of the Board of Directors of the Bank are carried out by the Board of Directors Administrative Department. In 2016, 44 Board of Directors meetings were held. Members of the Board of Directors did attend the Board Meetings except in cases they had excuses. Decisions were made unanimously. All questions, opinions and objections of the Members during the Board of Directors Meeting

are recorded in the meeting minutes. Each Member of the Board of Directors has one right to vote, and members do not have weighted right to vote and/or negative veto right.

At the Board of Directors Meetings, majority of the Members must be present. Decisions are taken by majority of the attending members. In case of equality of votes, the voted issue will be added on the agenda of the next meeting; and will be deemed refused in case of equality for another time in that meeting (54th Article of the Articles of Incorporation of the Bank).

In the Board of Directors' decisions regarding the Bank's significant related party transactions, approval is required by majority of the Independent Members. In case any such transaction is not approved by the majority of the Independent Members, (i) the situation will be publicly announced within the framework of public disclosure regulations in such a manner that will include sufficient information regarding the transaction; and (ii) the transaction will be presented to the approval of the General Assembly. Board of Directors' decisions that are not made in conformity with the specified principles will not be valid (54th Article of the Articles of Incorporation of the Bank).

An electronic meeting system was established to enable the Members of the Board of Directors of the Bank to attend the meetings and to vote on electronic platform.

Losses incurred by the members of the Board of Directors as a result of their faults during their term of office, are covered under insurance. Employer's Liability Insurance 2016 policy's total value is USD 75,000,000 for each damage within the term of the policy.

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

In order to efficiently and effectively carry out its activities in line with the Banking Law no. 5411, Banking Regulation and Supervision Agency's "Regulation on Corporate Governance Principles in Banks", Capital Markets Board's Corporate Governance Principles and the Articles of Incorporation of the Bank; the Board of Directors has established Audit Committee, Credit Committee, Corporate Governance Committee and Remuneration Committee. All Members of the Audit Committee and the Chairmen of the other committees are Independent Members. Due to the fact that there are no Executive Members except the General Manager, in the Board of Directors, Committee Members are non-executive members. Committees are not entitled to take executive decision.

The Audit Committee is composed of the Independent Members of the Board of Directors; Mehmet Emin ÖZCAN and Sabahattin BİRDAL. The Audit Committee convenes at least once a month on the specified date.

Credit Committee is composed of two permanent members and General Manager. Permanent members are Mehmet Emin ÖZCAN (independent member) and Sabahattin BİRDAL. There are two substitute members for a member who will not attend a meeting. Substitute members are İsmail ALPTEKİN and Dilek YÜKSEL. The Credit Committee generally

convenes once every 15 days, and holds an extraordinary meeting in urgent cases. The Committee's meeting date is set according to the number and urgency of the agenda items that are received by the meeting secretary.

The Corporate Governance Committee is composed of the Members of the Board of Directors Öztürk ORAN (Committee Chairman - Independent Member), İsmail ALPTEKİN and Head of International Banking and Investor Relations Mustafa TURAN. The Committee generally convenes once every three months or at least twice in a year on semi-annual basis on a date determined by the Committee Chairman.

The Remuneration Committee is composed of Öztürk ORAN (Committee Chairman - Independent Member), Dr. Adnan ERTEM and Dilek YÜKSEL. Remuneration Committee evaluates the remuneration policy and applications within the scope of risk management and submits the suggestions as a report to the Board of Directors every year. The Committee convenes once every year.

Committees carry out their tasks within the scope of the framework of the working principles specified in the Articles of Incorporation of the Bank. Committees meet at a regularity required by their tasks. All tasks are carried out in writing and necessary records are kept. Furthermore, the procedures and principles practiced by the committees in carrying out their activities are available in the Annual Report. The number of the Members of the Board of Directors of the Bank is "9". However, the number of the Members of the Board of Directors carrying out tasks is "8".

Board Members assume duties in more than one committee since the number of the members of the committees of the Board of Directors is greater than the number of the members of the Board of Directors as stipulated in the principles of the Capital Markets Board Corporate Governance Principles and Banking Regulation and Supervision Agency. Committees are composed of at least 2 members.

#### **5.4 Risk Management and Internal Control Mechanism**

The Risk Management Department directly reporting to the Audit Committee is responsible for carrying out activities for defining, measuring, reporting, monitoring and controlling the risks the Bank faces. Furthermore, all departments are considered as a part of the risk management system.

Risk Management activities in the Bank are carried out in conformity with the legal legislation, also international best practices are pursued. Within this scope, risk management strategies were established, as the policies for managing each of the risks were written within the framework of principle of materiality.

A capital structure in conformity with the risk level is closely monitored, as the Bank's resistance against unexpected and negative developments is measured via scenario analysis and stress tests. Besides measuring legal capital requirement, İSEDES (Internal Capital Adequacy and Evaluation Process) activities that include internally evaluating the

capital requirement for the risks the Bank faces/will face also carried out, as the results are evaluated by the top management.

Furthermore, Risk Management Department carries out its activities in coordination with the Audit Board and Internal Control Department, within the scope of the "Regulation on Banks' Internal Systems and Internal Capital Adequacy Evaluation Process"

An efficient and effective internal control system was established in order to; I) carry out the activities of the Bank in conformity with the targets, policies and strategies set by the top management and within the framework of the international audit standards and existing legal legislation, and II) make sure that risky transactions are controlled in the Bank. In order to establish, develop and coordinate a healthy internal control system in the Bank and to enable the reliability, integrity of the accounting and financial reporting system, and timely access to information, the Internal Control Department – carrying out its activities under the supervision and control of the Audit Committee – controls the operational procedures for carrying out activities in all domestic and international branches and departments of the Bank, bank's communication channels, information systems, financial reporting systems and business processes.

Within this scope; effectiveness of the internal control system is monitored in financial, operational and other control points with a preventive approach, and the system is improved as measures are taken in a manner that will cover the previously unknown risks or unidentified risks.

Internal Control Department; I) controls the functional classification of tasks, and distribution of duties and responsibilities, for defining, measuring and preventing the Bank's risks, II) presents opinions about existing, changed, cancelled or new established procedures and processes, and about the projects formulated by the Bank's business departments, and evaluates their potential risks and their compliance to Bank's internal policies and guidelines III) determines control points, IV) makes effective controlling and monitoring by increasing the effectiveness of the control activities, establishing and enhancing auto-control mechanisms in processes and procedures, and decreasing operational risks.

The Audit Board Department, performs systematic audits on internal control and risk management systems in conformity with all legal regulations and Bank's directives.

Compliance Department carries out necessary activities in order to ensure compliance with the legal obligations within the scope of "Prevention of Laundering of Proceeds of Crime and Financing of Terrorism", and with the international rules and principles on the same issue.

Within this scope, as per the "Regulation On Program of Compliance with The Obligations Regarding Prevention of Laundering of Proceeds of Crime and Financing of Terrorism", in order to ensure that the Bank's obligations are fulfilled;

- necessary policies and procedures are structured in the issues of identifying the customers, classifying them into risk categories and monitoring them, informing about the suspicious customer transactions and

- controls are made to see if these policies and procedures are implemented or not,
- opinion/approval is given for risky sector/ country transactions,
- Financial Crimes Investigation Board (MASAK) is informed about the transactions that are considered suspicious in the necessary investigations and evaluations made within the framework of a risk based approach about the potentially suspicious transactions (for the Bank) detected within the scope of monitoring and controlling activities or forwarded via channels like branches etc. to the Compliance Department.

In order to make sure that the Bank healthily keeps track of the international sanctions, the ban list covering the sanctions of the international organizations and institutions such as United Nations, European Union, Office of Foreign Assets Control (OFAC) and etc. is used in investigations and controls. The activities of the Compliance Department are carried out in coordination with the business units. Within framework of training activities; in-class and online trainings are regularly given to the Bank personnel in order to constantly increase the awareness and culture within the Bank about "Prevention of Laundering of Proceeds of Crime and Financing of Terrorism".

### **5.5 Company's Strategic Targets**

The general strategies of the Bank are determined in line with the expectations on the economy and sector at the meetings chaired by the General Manager with the participation of the top management. Forecasts regarding the annual projection in line with the strategies and business plans are received from the business units of the Bank and the business plans along with data received from units are evaluated by the management. Consequently, strategies of the Bank, annual projections and business plans are presented by the Strategy Development Department to the approval of the Board of Directors. Approved final projections and strategies are sent to the Bank's Assistant General Managers, and announced to the Bank staff as they are monitored by the relevant units. Information regarding these projections and strategies are assessed at the monthly held "target achievement performance" meetings by the Assets and Liabilities Committee according to the data received from the Performance Evaluation and Career Planning Department. Furthermore, at the periodically held meetings these strategies and projections are reviewed while target achievement performance and activities are evaluated and necessary actions are taken. Furthermore, in case of having unexpected developments in the sector, the projection is revised if necessary.

### **5.6 Board of Directors Remuneration**

The Chairman, Deputy Chairman and Members of the Board of Directors receive an annual salary that is determined by the General Assembly annually and that is implemented with the approval of the Prime Minister. The issue was specified in 9th item of the minutes of the 62nd Ordinary General Assembly meeting, and the General Assembly minutes were announced on the Bank's website. Fixed and performance based payments to the executives and other personnel are determined and made within the framework of the

principles of the Bank's Remuneration Policy. Remuneration Policy is available on the Bank's website.

The third paragraph of the 60th Article of the Articles of Incorporation of the Bank is as follows: "Members of the Board of Directors who are not shareholders and Members of the Board of Directors' relatives who are not shareholders specified in the 393rd Article of the Turkish Commercial Code cannot borrow cash from the Bank. For these persons, the Bank cannot give surety, guarantee and collateral, cannot assume responsibility, and cannot take over their debts." Within this scope, the Bank did not lend any money or extend loans to any of the Members of the Board of Directors. It did not improve the terms for loans or credits that have been given to the Members of the Board of Directors, and neither it extended loans by means of third persons and nor gave any collaterals.

With the aim of complying with the principle no. 4.6.2, the Board of Directors of the Bank established a "Remuneration Policy" within the period and published the policy document in Turkish and English on the website. The policy was submitted for the information of the shareholders at the 2015 Ordinary General Assembly Meeting.

**Yours Sincerely;**

**Öztürk ORAN**  
Corporate Governance Committee  
Chairman

**İsmail ALPTEKİN**  
Corporate Governance  
Committee Member

**Mustafa TURAN**  
Corporate Governance  
Committee Member