

# **TÜRKİYE FİNANS KATILIM BANKASI A.Ş.**

## **CORPORATE GOVERNANCE PRINCIPLES POLICY**

## TABLE OF CONTENTS

1	OBJECTIVE AND SCOPE.....	3
2	REFERENCE AND PRINCIPLES.....	3
3	CHAPTERS OF CORPORATE GOVERNANCE .....	4
	CHAPTER I SHAREHOLDERS .....	4
	CHAPTER II PUBLIC DISCLOSURE AND TRANSPARENCY .....	4-5
	CHAPTER III STAKEHOLDERS.....	5
	CHAPTER IV BOARD OF DIRECTORS .....	6

## **1 OBJECTIVE AND SCOPE**

The objective of this policy is to regulate principles and standards regarding corporate governance of Türkiye Finans Katılım Bankası A.Ş and to regulate procedures and principles within this framework. The scope of policy covers all of the operations and processes of Türkiye Finans Katılım Bankası A.Ş with regard to above-mentioned objective.

## **2 REFERENCE AND PRINCIPLES**

Corporate Governance Principles Policy of Türkiye Finans Katılım Bankası A.Ş. (TFKB) is established according the laws and regulations of Turkey, which are:

- 1) Regulation on Banks' Corporate Governance Principles, issued by the Banking Regulatory and Supervisory Agency (BRSA) dated November 1, 2006
- 2) Communiqué on Corporate Governance (II-17.1), issued by Capital Markets Board (CMB) dated January 3,2014

BRSA regulation on Corporate Governance Principles of the Banks sets 7 principles which are embedded into this Policy as explained below:

### **Principle 1:**

Establishing vision and mission of the Bank, setting the strategy for activities of the Bank, and determining institutional values and ethical standards are covered under the Chapter IV.

### **Principle 2:**

Authorities and responsibilities within the Bank have been determined by Board of Directors for Board level, higher management and authorized officers through Internal Directive on Determining the Powers of Mercantile Agents with Limited Power. Activities of higher management within the framework of all applicable policies are supervised on behalf of the Board of Directors through Board level committees, independent assurance providers and review of reports submitted by the management. This principle, including establishment of Compensation and Corporate Governance Committee is covered under Chapter IV.

### **Principle 3:**

Qualification of Board members and performance of their duties are covered under the Chapter IV.

### **Principle 4:**

Qualification of the higher management and performance of their duties are covered under the Chapter IV.

### **Principle 5:**

Efficient use of Bank's internal auditors and independent auditors is determined under the Chapter IV.

### **Principle 6:**

Ensuring compliance of compensation policies of the Bank with its ethics values, strategic targets, and internal balances is covered under Chapter III.

### **Principle 7:**

Transparency of corporate governance is achieved by this Policy and further principles mentioned under Chapter II.

The Corporate Governance Principles Policy of TFKB is designed to incorporate these principles and include them under chapters that are defined in the CMB communiqué. In this

context, corporate governance principles are covered under the four chapters named I) Shareholder, II) Public Disclosure and Transparency, III) Stakeholders, and IV) Board.

### **3 CHAPTERS OF CORPORATE GOVERNANCE**

#### **CHAPTER I SHAREHOLDERS**

As a privately held company, TFKB does not directly fall under the jurisdiction of the Capital Market Legislation concerning corporate governance. However, TFKB falls under some legislation provisions of the Capital Market Legislation due to its being liable party / fund user in terms of some acts and transactions performed by the subsidiaries, within scope of their acts and purposes, which were established by TFKB pursuant to legislation provisions of the Capital Market Legislation. Besides, Board of Directors of TFKB believes that, in addition to ensuring compliance with BRSA regulation, where practical, the Bank should also adopt the practices defined by the CMB for publicly traded companies.

Shareholders have access to TFKB related information which can be demanded according to the regulations through inquiry to TFKB, Board of Directors, or General Assembly meetings. Furthermore, annual audited financial statements of the Bank are published on its corporate internet site.

The General Assembly of the Shareholders is called once a year by Board of Directors within the first quarter after the end of a financial year (Ordinary General Assembly). The shareholders are called to the meeting by sending registered letters to their registered addresses in the Bank. This process is implemented in line with applicable local laws (Commercial Code) and representatives of Ministry of Customs and Commerce ensure compliance with related laws through their presence and approval of the meeting minutes.

Distribution of dividends is subject to decision of the shareholders and such decision would further be subject to profitability, strategy, and capital adequacy of the Bank besides these parameters market conditions and regulations.

#### **CHAPTER II PUBLIC DISCLOSURE AND TRANSPARENCY**

Transparency is an important pillar of corporate governance and has to be carefully managed to ensure compliance with applicable laws and regulations, which include both restrictive provisions preventing disclosure for information falling under secrecy and also requisite provisions instructing standard disclosures to be managed cautiously to regulatory authorities as well as the public. TFKB organizes its activities to comply with all regulatory requirements by ensuring that all of its regulatory reports are sent in a timely and accurate manner. Timeliness of reports is a function that being addressed in process design; accuracy is ensured through internal and external control and audit activities, which provide assurance to Board of Directors.

As a non-public Bank, TFKB as a purely banking activities is not subject to CMB communique and detailed disclosure requirements therein. Nevertheless it follows BRSA regulation which requires publication of the annual audited financials on the corporate internet site of the Bank and published within the annual report.

TFKB's Articles of Association (AoA) was published in the Trade Registry of Turkey. Any amendment to the Articles of Association is subject to regulatory approval and then must be published at the Trade Registry. Publication of the updated AoA on the corporate website and disclosure of such amendments, if any, are ensured by designating responsibilities within the Bank to respective departments.

Means of disclosure include: a) Trade Registry, b) press releases and announcements, c) corporate website of the Bank, and d) publication of annual report with audited financials.

Board level disclosures are decided by Board of Directors and unless decided otherwise made by the Chairman. Executive level disclosures are left to the discretion of the CEO including

determining authority levels for types of the disclosures and process to make such disclosures. The Corporate Communications department coordinates disclosures and related communication.

The shareholding structure and names of the shareholders together with number and percentile of shares are disclosed in the annual report published at the corporate internet site of the Bank.

The Mission and Vision of TFKB, as determined by Board of Directors, is also disclosed both on the corporate internet site and in the annual report of the Bank.

Besides, on condition that it is not against regulation set forth by the relevant legislation, "Disclosure Authority Matrix" which has been published in "Cemre Document Centre" is enclosed in order to declare various issues, determine the authorities and stipulate the procedures and principles within this scope.

### **CHAPTER III STAKEHOLDERS**

TFKB recognizes the importance of its stakeholders and has incorporated four of them into its logo. TFKB logo consists of a flower with four petals. Each petal represents one of the four key stakeholders, namely, Customers, Employees, Shareholders and the Community. All four stakeholder interests are pooled in the center as resembled in the emblem.

Suppliers and Government and Regulators comprise the other component of the stakeholder group.

**Customers:** TFKB subscribes to the idea that the purpose of business is to win new and loyal customers. Thus, TFKB believes that customer satisfaction is one of the most important aspects of business success and the foundation of its reputation.

**Employees:** TFKB's employees are the face of the company to the market and its customers and suppliers. TFKB aspires to attract well educated, highly qualified and talented individuals who aspire to become the professional bankers. It is committed to providing these talented employees with the training and resources that are required by them to properly serve and advise our customers. Furthermore, the Bank is committed to provide its employees with challenging developmental opportunities and competitive, market-based compensation.

**Shareholders:** TFKB seeks to maximize shareholder value as part of its stakeholder value creation oriented perspective. Shareholders are certainly an important constituent and profit is critical feature of this approach, but profit is the result rather than the driver in this value creation process. TFKB believes that creating value for stakeholders creates value for the shareholders. One cannot create value without creating products and services that customers are willing to buy, offering jobs that employees are willing to fill, building relationships with suppliers that companies are eager to have, and being good citizens in the community. This stakeholder oriented approach is also the basis to maintain the banks reputation, which we think is the most valuable asset we have as a customer-focused bank.

**Community:** TFKB believes in corporate social responsibility and organizes its activities to be a responsible corporate citizen. The spirit of corporate citizenship suggests that a company that generates profit from the community has an obligation to contribute to its development. TFKB highly respects the community within which it works and reflects this through various means such as advising customers on market developments and providing them with effective financial solutions and consultancy. In this sense, the Bank implements Corporate Social Responsibility Policy revised periodically and considering the approach and principles of the corporate social responsibility for the issues including its community stakeholder in line with the corporate strategy and values that the Bank represents with the social responsibility sense maintained consciously and consistently.

**Governmental, Regulatory and Supervisory Authorities:** Governmental, regulatory and supervisory authorities are an important stakeholder group. TFKB organizes its activities to contribute to the safety and soundness of the financial system through formal meetings with

governmental authorities and strict compliance to the laws and regulations. TFKB supports the regulators efforts to balance various stakeholders' interests in order to achieve the overall objective of financial stability that will provide the necessary framework for a sustainable growth and an ongoing success of the participation banking sector and the whole industry.

**Suppliers:** TFKB understands the importance of strong, dependable, reliable relationships with its Suppliers and is fully committed to comply with BRSA rules regarding its interaction with Suppliers. This also covers all kinds of services even the excluded services within the scope of support services in accordance with the Regulation on outsource supporting services of the Banks, such as outsourced transportation, cleaning and food service.

**Compensation:** TFKB provides to address the compensation issue in compliance to internal procedures and documents of the Bank and Banking Legislation and binding legal transactions determined by Governmental, Regulatory and Supervisory Authorities, which is an important factor in terms of ensuring the Bank to achieve its goals, to attract the skilled and qualified individuals for the Bank, to encourage and support them working in the Bank and to reward the employees for their contributions to the Bank and, which constitutes at the same time one of the significant expense items. Accordingly, TFKB implements Compensation Policy, which is revised periodically and which reviews the procedures and principles.

## **CHAPTER IV BOARD OF DIRECTORS**

As per Turkish Commercial Code and Banking Law, Board of Directors is the ultimate responsible party of the Bank in terms of management and representation. Therefore, Board of Directors has the full and final responsibility for the activities of the Bank and ensuring that these activities are conducted in a manner that is fully compliant with all applicable laws and regulations.

TFKB Board of Directors consists of seven members who are elected for three years, unless otherwise decided by the shareholders.

**Qualifications** to become a Board member are predetermined by the relevant regulation in terms of minimum standards set for education and experience.

### **Board Level Committees:**

TFKB Board of Directors has established Audit Committee, Credit Committee, Compensation and Corporate Governance Committee which are required by related banking regulation. Board of Directors has also established the Risk Committee to closely oversight the risk management policies and practices. Authorities, responsibilities, working procedures and principles of each Committee are established in Corporate Governance Manual by compiling within framework of internal and external legislation and categorical implementation .Above mentioned document is prepared under the supervision of Compensation and Corporate Governance Committee and reviewed periodically in the light of possible necessities within the framework of the best governance implementation and submitted to Board of Directors for discussion and approval.

Key information (main purpose, qualification, maximum period to serve, number and frequency of meetings) related with each committee is provided below under a sub heading:

### **Audit Committee (AC):**

On behalf of Board of Directors and in compliance with the regulation, AC performs all audit, control and risk management related functions. In addition, TFKB AC also oversees and controls the Compliance function in line with international standards and practices. AC receives reports regularly from the independent audit firms and internal system units constituted in scope of internal control, internal audit, risk management systems and compliance department. AC monitors the issues which can affect the sustainability and safety of the Bank activities negatively and submits the reports to Board of Directors. AC consists of at least two non-executive TFKB Board members, meets quarterly, and makes decisions unanimously. TFKB

AC reviews, recommends/ approves the regulation, policy related to duty and authority area and other documents.

#### **Credit Committee (CC):**

Under the procedures and principles defined by CC, CC has right to transfer its authority of credit extension at the maximum amount of 1% of the Bank's equities and its right of credit approval exceeding credit approval limit (1% of the Bank's equity) of Head Office Credit Committee but equaling to the amounts not exceeding 10% of the Bank equities. CC is comprised of 4 principle and two alternate members, CC shall be convened as deem necessary. The credit extension authority of TFKB CC is determined by Board of Directors under the legal limits according to the current equity in compliance with regulation. Decision quorum of CC is "unanimous" as mentioned in the regulation and decisions above CC authority or non-unanimous are referred to Board of Directors for final resolution. TFKB CC also reviews and recommends/ approves policy related to its duty and authority area, procedure and other documents

#### **Risk Committee (RC):**

RC was established in 2016. The main objective of the Committee is to conduct supervision over risk management policies and practices. RC is comprised of three members and convenes at least quarterly.

#### **Compensation and Corporate Governance Committee (CCGC):**

CCGC was established as a separate committee. The role of CCGC is to pioneer the activities defining and describing corporate governance principles, ethical rules and corporate values and to support these activities, support Board of Directors in determining appropriate compensation for Directors and higher management and employees of the Bank based on the strategy and needs of the Bank as well as relevant market practices as well as nominating suitable candidates to the higher management. CCGC is comprised of two members convenes at least once a year and adopts a decision on a unanimous basis. TFKB CCGC also reviews and recommends/ approves the policy related to duty and authority area, procedure and other documents.

#### **Compensation of Board Members:**

Board members' compensation for their role as directors (attendance fee and travel allowance) is reviewed and determined by the shareholders during General Assembly meeting through the amounts suggested by Compensation and Corporate Governance Committee. Compensation regarding attendance fee is determined based on monthly allowance regardless of the number of meetings held. Resolutions on other financial payments for the Board members will be taken directly by General Assembly in accordance with Turkish Commercial Code and relevant legislation or indirectly by Board of Directors with transfer including the authorization of CCGC by determining upper limit and granting right of acting.

#### **Mission and Vision**

**Vision:** "To be recognized as the premier source of principles-based banking and investment for individuals and business owners in Turkey."

**Mission:** "In line with the principles of Participation Banking, our mission is to foster value-creation rather than consumption and to share the value that is generated from these activities with our owners of the participation fund, our Employees and our Shareholders in a fair and transparent way. We believe in the Service Value Creation Chain whereby value is the outcome of effective employee interactions with our customers, where we are providing the right products and services, when and where the customer wants it, in the right way all the time. We also believe that, as our reputation is our most important asset, it is also the hardest to replace."

## **Assurance process**

TFKB has implemented a Corrective Action Plan (CAP) process to address the issues found by internal audit, internal control and independent external auditors. This process enables the management to effectively use the work of the assurance providers and provides EC, Board of Directors and other related committees to monitor management performance against the CAP.

## **Internal Systems**

Internal Systems of a bank refer to Board of Auditors, Internal Control and Risk Management as stipulated in the related BRSA regulation on Internal Systems of the Banks and Internal Capital Adequacy Assessment Process. In line with international developments and practices, TFKB has added Compliance function to this group and all four functions report to Board of Directors through AC. Appointments to the heads of these functions comply with regulatory qualification requirements and suitability to the role. Internal System functions provide quarterly reports to AC, which then submits them to Board of Directors together with their view and comments.

## **Code of Conducts Policy (Ethical Rules)**

This policy covers regulations on work order and principles that all the employees in the Bank have to comply with while working. Necessary trainings are organized and conducted by Compliance department- Product & Service Compliance Service. Furthermore, there is also ethics hotline set-up and process is operated to analyze and report the outcome of escalations.

## **Top Management**

As defined in BRSA regulation, Top Management refers to the Board members and members of the Higher Management. Appointments to positions of Top Management fully comply with qualifications required by the legislation and by considering suitability to the role and the Bank.

## **Higher Management (HM)**

As defined in BRSA regulation, HM refers to Chief Executive Officer (CEO) and executive vice presidents, directors of the departments in the internal systems and the directors even whose titles are different but authorities and duties are the same as the executive vice presidents or higher. Appointments to positions within HM comply with qualifications required by the regulation and by considering suitability to the role and the Bank.

## **Executive Management**

Executive Management refers to the most senior officers of the Bank who are not part of the internal systems organization. Executive Management of the Bank is responsible for meeting the strategic goals of the Bank while complying with all applicable laws, regulations, participation banking principles, policies of the Bank and other internal legislation.

## **Company Secretary of the Board**

Board General Secretariat (BGS) was established to handle, supervise and improve the activities and work of Board of Directors and Board level Committees'. BGS is founded with the aim of fulfilling the responsibilities effectively and undertaking various duties including but not limited to higher management level corporate process.

## **Corporate Governance Proceeding Policy**

Corporate Governance Proceeding Policy and its attachment TFKB Delegation of Authority (DoA) Matrix were prepared and after approval of Board of Directors. published by Board General Secretariat in order to ensure that Board of Directors and Board Level Committees and along with this emphasis CEO level proceedings function globally, corporately and effectively by specifying formation at this level, their operating procedures, objectives, powers,

responsibilities, authorization chain, delegation and limits of the authorities, limits to ensure certainty and clarity, and therefore, to strengthen and provide support to Corporate Governance in TFKB and to guide the Bank's employees from all the levels and top management. Due to its nature, Corporate Governance Manual and TFKB Delegation of Authority Matrix are specified as "Policy", which is the highest internal legislation in the Banks. However, they are not structured to list all the duties and responsibilities under the legislation. Hence, since the contents are categorically taken from the related legislation, it is essential that all the internal legislation in the bank is in compliance with Corporate Governance Proceeding Policy and TFKB DoA Matrix. In order to ensure handiness of this policy, it could be considered as Corporate Governance Manuel. It also serves as a guiding tool for all stakeholders and interested parties, who want to know about the principles, dynamics and benefits of good corporate governance.