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ALBARAKA TÜRK KATILIM A.Ş.  
CORPORATE GOVERNANCE RATING REPORT - 2020

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## ALBARAKA TÜRK KATILIM A.Ş.

### CORPORATE GOVERNANCE RATING REPORT - 2020

**Report Date:**  
June 5, 2020

Corporate Governance Rating	Initial Rating June 5, 2020
<b>OVERALL SCORE</b>	<b>9.09</b>

**Analyst:**  
Zümrüt Can Ambarcı

SECTION SCORES	Initial Rating June 5 , 2020
Shareholders	<b>9.17</b>
Public Disclosure&Transparency	<b>9.40</b>
Stakeholders	<b>9.34</b>
Board of Directors	<b>8.71</b>

NIS OVERALL CGR RATING
CGR 10
CGR 9 ++
CGR 9 +
<b>CGR 9</b>
CGR 8 ++
CGR 8 +
CGR 8
CGR 7 ++
CGR 7 +
CGR 7
CGR 6 ++
CGR 6 +
CGR 6
CGR 5 ++
CGR 5 +
CGR 5
< CGR 5

#### Company Information

- Incorporated in 1984
- Public listed company
- Sector: Participation Banking
- Key Shareholders (Year-end 2019):
  - Albaraka Banking Group – 36.29%
  - Dallah Al Baraka Holding-15.38%
  - Islamic Development Bank- 7.84%
  - Other Foreign Shareholders-2.64%
  - Local Shareholders – 6.27%
  - 31.61% publicly held
- External auditors for 2019: Ernst & Young
- Chairman of the Board:
  - Mr. Adnan Ahmed Yusuf Abdulmalek
- General Manager:
  - Mr. Melikşah Utku
- Number of Branches (2019): 230
- Staff strength: 3,791 as of end-2019

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## EXECUTIVE SUMMARY

As a listed bank, Albaraka Türk Katılım Bankası A.Ş. (“Albaraka Türk” or “the Bank”) falls the purview of the corporate governance regulations of the Capital Markets Board of Turkey (“CMBT”) as indicated in the Communiqué on Corporate Governance (II-17.1) as well as the BRSA’s Regulation on Banks’ Corporate Governance. As a participation bank, the bank also conducts its operations as per the Code of Ethics adopted by the Participation Banks Association of Turkey (“TKBB”). This report has been prepared by taking into account the corporate governance principles of the capital markets board of Turkey and shows the Albaraka Bank’s level of compliance with the principles.

According to the OECD Principles of Corporate Governance, the purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies. While carrying out corporate governance ratings, National Investor Services Derecelendirme A.Ş. (“NIS”) aims to determine to what extent the corporate governance practices put in place by management help in achieving the ultimate goals of transparency, accountability and fair play.

NIS’s methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB’s “Corporate Governance Principles” released on January 2014. In determining the total rating, the following key areas NIS examines and weights are used for each major section in line with the CMB Corporate Governance Principles:

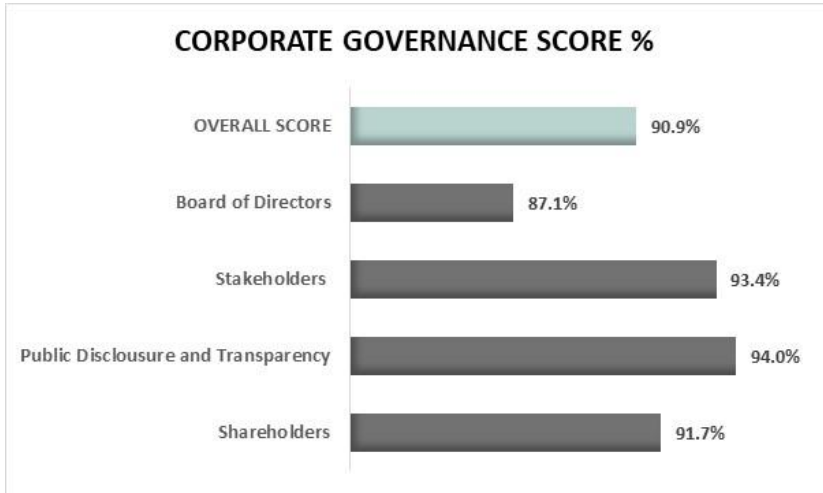
Part I - Shareholders 25%

Part II –Public Disclosure and Transparency 25%

Part III Stakeholders 15%

Part IV – Board of Directors 35%

**The Aggregate Corporate Governance Rating of Albaraka Türk has been assigned as 9.09.** A separate scores assigned to each one of the key areas are as follows:



### Shareholders

According to our review, The Bank complies with the with the legislation, Articles of Association (AoA) and other internal regulations and guidelines, which have been taken to ensure the exercise of the shareholders' rights. Albaraka Türk has a functional and strong Investor Relations Department enabling facilitation of relations with shareholders as well as potential investors. The department shares necessary information, accurately and timely, to the shareholders. The preliminary arrangements regarding the general assembly and the general assembly are held fully in accordance and compliance with the legislation. Albaraka Türk defined minority shareholders as laid out in the legislation for listed companies; as such minority rights are not recognized for shareholders which hold an amount less than one-twentieth of the share capital. AoA of the Bank covers some of the minority rights but there is no clause regarding appointment of a special auditor.

### **Public Disclosure and Transparency**

Albaraka Türk's disclosures conform with the CMBT regulations as well as the BRSA directives. The bank has a public disclosure and transparency policy in place. Financial disclosures, annual report and website disclosures are in-line with global practices, extend beyond local requirements. Although the Bank has not disclosed the public domain, the list of people and institutions, who may have access to insider information, all preventive measures as required by legislation are carefully followed in this regard.

### **Stakeholders**

Albaraka Türk established the rules and principles regarding the determination of relations with stakeholders within the framework of Corporate Governance implementations and under good faith rules. We evaluate that the Bank showed a very strong performance in terms of relation with customers through its wide network which also supported with the digital platforms. Albaraka Türk has an effective human resources policy which also disclosed to public domain. The Bank established a worker's councils that consider employee viewpoints in certain key decisions. On the other hand, collective bargaining coverage (there is no union in the Bank) could be the area to improve in the employee front. The Bank has very detailed "Ethical Principles Regulation" which supervised on the Board Level.

### **Board of Directors**

The Board of Directors of Albaraka Türk effectively oversees the functions and the responsibility for determining the strategic and organizational direction of the Bank. The Board Composition of the Bank has changed significantly in its last AGM meeting held in March 2020; number of Board members declined to 11 from 12 of which 4 of them are independent. The bank's Board has a majority of non-executive directors in line with the Capital Market Board of Turkey's Corporate Governance principles. The appointment and replacement of directors are supplemented by the AoA of the Bank in detail while the principles of remuneration of board members have been documented and disclosed to the public. The Bank established 8 Board Level Committees including Credit Committee, Audit

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Committee, Corporate Governance Committee, Remuneration Committee, Sustainability and Social Responsibility Committee, Executive Committee, Information Technology Governance Committee and Consultancy Committee. Functions of the Committees, their working principles, and members are designated by the Board of Directors and disclosed to the public domain through the annual report and public disclosure platform (KAP). On the other hand, the number of women top managers and board of directors are an area which could be improved.

**Table 1: Strengths & Areas to Improve**

<b>Strengths</b>	<b>Areas to Reinforce</b>
Strong Investor Relation Coverage	No collective Bargaining coverage (no union)
Public Disclosure and Transparency at par with global practices	Minority rights may be defined below 5% share
Strong Social Responsibility and Ethical Rules supported by participative nature of business	Lack of gender diversity in top management and BoD
Recognized for conducive work environment	Disclosure of BoD Renumeration by member
Digitalization emerging as a competitive edge	

## CORPORATE PROFILE

Albaraka Türk Katılım Bankası A.Ş. (“Albaraka Turk” or “the Bank”) is a pioneer in participation banking and is one of the six participation banks in The Republic of Turkey (“Turkey” or “the country”). The Bank was incorporated in 1984 as a Special Finance House and transitioned to operate as a Participation Banking (“PB”) institution in 2005.

Albaraka Turk commanded a 1.1% market share in terms of assets in the year 2019 within the Turkish Banking Sector indicating a stability over the prior year while holding 18.1% share in the Participation Banks segment (2018: 20.4%). In the last few years, the bank lost some ground amongst the Participaton Banks as the entry of three state owned banks intensified the competition.

Table 2: Key Financial Indicators

TL m /%	2017	2018	2019
Total Assets	36,229	42,224	51,410
Total Customer Deposits	25,310	28,623	39,769
Net Financings	25,193	26,185	29,749
Total Equity	2,482	3,261	3,822
Net Income	237	134	63
ROAA	0.7%	0.3%	0.1%

Albaraka Turk’s branch network remained unchanged at 230 as the Bank via its digital transformation program thrived to improve customer experience. Meanwhile, the staff strength declined to 3,791 from 3,988.

In December 2019, the Bank completed its 50% rights issue so that the paid in capital grew to TL1,350mn. Within this process, there was some changes to the shareholder structure. The share of Al Baraka Banking Group declined to 36.3% from 56.6% as it did not participate in the rights issue. However, Dallah Al Baraka Holding acquired 15.4% of Albaraka Turk shares. As the Dallah Al Baraka Holding is the 24.6% shareholder of ABG, the control of the Albaraka Turk is still in the ABG. Islamic Development Bank (“IsDB”) maintains its 7.8% stake. At the end of the rights issues, as some of the unsubscribed shares were purchased from the stock exchange the free float of the bank increased to 31.6%.

	% Stake
<b>Foreign Shareholders</b>	<b>62.12%</b>
Al Baraka Banking Group	36.29%
Dallah Al Baraka Holding	15.38%
IDB	7.84%
Others	2.61%
<b>Local Shareholders</b>	<b>6.27%</b>
<b>Free Float</b>	<b>31.61%</b>



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**ABG:** Al Baraka Banking Group B.S.C. (“ABG”) is licensed as an Islamic wholesale bank by the Central Bank of Bahrain and is listed on Bahrain Bourse and Nasdaq Dubai. It is a leading international Islamic banking group providing its unique services in countries with a population totaling around one billion. The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 17 countries, which in turn provide their services through 702 branches and commands an asset base of USD26.3bn. At the end of year 2019, Al Baraka Bank Turk accounted for the 33.0% of the Group’s asset base (2018: 31.4%).

**IDB:** Established in 1975, IDB is a multilateral development financial institution encompassing 57 Organization of Islamic Cooperation (“OIC”) member-countries. IDB provides developmental financing to member countries.

Albaraka Turk’s investments comprise the Bank’s economic interest in various domestic entities engaged in financial services. Brief description of the performance of key strategic investments is as follows:

**Table 3: Strategic Holdings**

Name	Stake	Scope of Activities
Bereket Varlik Kiralama A.Ş.(BVK)	100% (Subsidiary)	<ul style="list-style-type: none"> <li>Shari’a compliant asset leasing services;</li> <li>Set up exclusively to issue sukuk in accordance with the Capital Markets Laws</li> <li>Asset base at 2019: ~TL:2.7bn</li> </ul>
Katilim Emeklilik ve Hayat A.Ş. (KEH)	50% (JV)	<ul style="list-style-type: none"> <li>Shari’a compliant JV between ALBRK and Kuveyt Turk Katilim Bankasi A.Ş. (KTPB) in 2013</li> <li>Operates as a private pension and life insurance company</li> <li>With ongoing incentives for the private pension schemes, the growth prospects for AuM is bright</li> </ul>
Albaraka Portföy Yön A.Ş. (APY)	100% (Subsidiary)	<ul style="list-style-type: none"> <li>Established in 2015 as a real estate portfolio management company</li> <li>Assets grew in 2019 to TL32.9mn from TL18.8mn at 2018</li> <li>Profitability improved markedly with FY2019 net income of TL13.4mn</li> </ul>
Kredi Garanti Fonu A.Ş.	1.49% (Associate)	<ul style="list-style-type: none"> <li>Established in 1993, to facilitate access to finance for SMEs operating in the country</li> <li>2019 asset base: TL477mn</li> </ul>
Insha GMBH (Insha)	100% (Subsidiary)	<ul style="list-style-type: none"> <li>Established in 2018 as the Digital Banking subsidiary of Albaraka Turk in Berlin, Germany</li> <li>Assets grew in 2019 to EUR1.8mn from TL1.1mn in 2018</li> </ul>
Albaraka Teknoloji Bilişim Sistemleri A.Ş.	100% (Subsidiary)	<ul style="list-style-type: none"> <li>Established in 2019</li> </ul>

## BANKING SECTOR

Turkish Banking sector assets had reached TL4.87tr as at December 2019 and stood at about 1.05 times the GDP (2018: 1.04x). Despite continuous growth, Turkey remains under penetrated in terms of banking assets in relation to GDP, vis-à-vis the EU average as the deposits to GDP ratio is around 59 %vs. EU average of 111%. Relatively higher share of unbanked population over 40% and the rather low median age of the population presents upside risks to the longer-term growth potential of the sector.

Turkey’s banking sector comprises 53 institutions, comprising 34 conventional banks, 13 development and investment banks and 6 participation banks as of March 2020. Conventional banks continue to form a significant portion (about 87%) of the overall banking sector in Turkey, of which seven banks<sup>2</sup> command around 70% market share (assets) as of September 2019.

Number of branches and personnel in banking sector are in an decreasing trend in recent years due to increasing portion of digitalization in the sector. There are 11.344 branches as of March 2020 while number of personnel realized as 204.114.

The ongoing regulatory drive to create an Islamic finance center in Istanbul and driving the increase in participation banking assets share to 15% of overall assets by 2025, is viewed positively, given the potential of Islamic banking to serve as an alternative asset class and diversify system risks. However, the share of Islamic Banking has reached just above 6% of overall banking system (6.3% in terms of assets and 8.4% in terms of deposits as of December 2019) and is as

yet considered to be at a scale which may be considered below potential.

Following the COVID-19 spread, the government and the Central Bank along with the Banking Authority released some fiscal measures totaling around 2% of GDP.

**Table 4: Snapshot of the Turkish Banking Sector (%)<sup>1</sup>**

%	2017	2018	2019
NPL to Total Loans	3.0	3.9	5.4
Specific Provisions to NPLs	79.3	68.3	65.1
Loans to Deposits	126.6	122.6	109.7
CAR Ratio	16.9	17.3	18.4
Return on Assets	1.6	1.4	1.2

<sup>1</sup> As per the BRSA figures

<sup>2</sup>Comprising 3 state owned banks (Ziraat, Halk, Vakif), 3 private-owned banks (Akbank, Isbank, Yapi Kredi) and one foreign bank (Garanti)

<b>Shareholders Score</b>
<b>9.17</b>

## SHAREHOLDERS

Facilitating the Exercise of Shareholders' Statutory Rights, Albaraka Turk established an Investor Relation Department (IRD) during the IPO in 2007. Since then, the department carried out relations with the shareholders in order to comply with the statutory rights emanated from legislations, the bank's articles of Association (AoA) and its own policies. The department has its terms of reference in place.

The IRD reports to the CFO of the Bank. The unit consists of two services: Relationship Management& Research Service and Legislation&Corporate Governance Service. Legislation and Corporate Governance Service, under the management of Mr. Mustafa Karamehmetoğlu, is responsible from General Assembly Meeting is held in accordance with the relevant legislation, articles of association and other regulations along with shareholders voting rights and dividend distribution process while Relationship Management& Research Service, under the management of İbrahim Öz, is responsible from the relationship with Corporate Investors, Brokerage Houses and Rating Companies and undertakes all kinds of information requests from shareholders and potential investors.

The department shared necessary information on time and completely to the shareholders. The IRD keeps the records of services they provide to the shareholders and potential investors, such as the number of phones they receive from our investors on a daily basis. The department met 472 calls from shareholders and potential investors in 2018 and 557 calls in 2019 and provided all information requests. In 2018, the total number of questions answered through

Table 5: IRD

Investor Relation Department (Year)	Title	Experience in Bank	Experience in Finance Sector
Mansur Çelepkolu	Head of IR	0,5	25,0
Mustafa Karamehmetoğlu	Manager	7,11	21,2
İbrahim Öz	Manager	5,5	9,4
Cihat Keskin	Asst. Manager	4,11	4,11

the website (excluding analyst questions) of the bank was 44 and this number reached 59 in 2019. The department made 35 investor meetings in 2018 and 52 meetings in 2019 in Turkey and abroad.

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Albaraka Turk considers protecting shareholders' interests & rights as a primary objective. Common shareholders use their voting rights in accordance to the rules and regulations and no deprivation in regard to shareholders' rights has come to our knowledge. There are no voting privileges. Representatives of the Board of Directors, key members of the management team and external auditors attend the Annual General Meeting (AGM) and respond to any queries of shareholders. On the other hand, the dividend policy of the Bank is clearly defined, submitted to the approval of the shareholders at the AGM and disclosed to public domain through the Bank's website and KAP.

The Bank has prioritized the exercise of minority rights and AoA of the Bank also lays down some of the minority rights, accorded by legislation. Albaraka Türk defined minority shareholders inline with the legislation for listed companies, according to which minority rights need not be recognized for shareholders who hold an amount less than one-twentieth of the share capital.

The Bank has internal regulations regarding resolutions to be adopted at the general assembly. Resolutions regarding the top management and partnership structure are determined under the guidance of AoA of the Bank. For instance, according to the Article 15 of the AoA, the members of the Board of Directors other than the General Manager are elected by the General Assembly and, in accordance with Article 22, if the membership of the Board of Directors is discharged due to any reason the Board temporarily selects the persons with legal requirements to the members of the Board of Directors and submits them to the approval of the first general assembly to be held after this election. On the other hand, the decision on capital increase is taken by the Board of Directors within the scope of the registered capital ceiling while there is no additional policy that allows for decisions that make significant changes in assets to be made at the general meeting.

**Public Disclosure &  
Transparency Score**

**9.40**

## PUBLIC DISCLOSURE AND TRANSPARENCY

Since it is a listed in the Borsa Istanbul Stock Exchange, Albaraka Türk's disclosures conform with the CMBT regulations as well as the BRSA directives. The bank has a public disclosure and transparency policy in place and received no warning or penalty for not providing requisite information or providing information late, since IPO from any regulator. The members of the board of directors and executives are prohibited from trading on the bank shares since the bank has announced a share buy-back programme.

Financial disclosures are in-line with global practices in terms of notes to the financial statements providing details of most balance sheet and income statement items while annual report and website disclosures are superior. The website contains disclosure on corporate governance, major events, corporate values, ethics & business practices, sustainability and CSR efforts. The information on the Bank's website of the has also been prepared in English with the same content as Turkish. Contents of the Annual Report complies with legislation, being comprehensive and quite informative. A detailed Corporate Governance Compliance Report is included in the Annual Report and provides important information as regards the CG activities of the Bank.

Quality of communications with the shareholders is on equal footing with industry practices and there is no impediment to communication between the management and shareholders. As a listed Bank, Albaraka Türk regularly holds a conference call to present quarterly results and answer any investor queries that may arise.

Latest financial statements for 2019 were audited by the local partner of Ernst & Young, Güney Bağımsız Denetim, which has also been appointed to audit the financial statements of 2020. The external auditor has been given an unqualified opinion on latest annual financial statements. The reports are available on the Bank's website since 2001. External audit firm and their audit staff did not provide consulting services for a price or free of charge during the audit period.

Although the Bank has not disclosed in the public domain, the list of people and institutions that have access to insider information, all matters relevant under the legislation are carefully followed in this regard. The list of insider information is also monitored by relevant public authorities (CMBT, BIST) through Central Registration Agency (MKK).

Stakeholders Score
9.34

## STAKEHOLDERS

### *Company Policy on Stakeholders*

The rights of the stakeholders are established by the framework of relevant regulations and contracts. Albaraka Türk established the rules and principles regarding the determination of relations with stakeholders within the framework of Corporate Governance and its Conflict of Interest Policy. In the absence of any regulatory implementation or protection by contracts, the Bank protects the interest of stakeholders under good faith rules. Main policies and procedures regarding the rights of stakeholders including information on shareholders' rights, human resources policy, ethical rules etc. are published on the Bank's website. The stakeholders are able to report transactions that are in violation of legislation and/or ethically inappropriate. All stakeholders including staff and customers may refer their concerns on any act or situation that contradicts with the legislation or which may be deemed unethical directly to the "Whistle Blowing Function" established through a TIP line and through website which is managed at the very senior level of the Bank (Audit Committee).

### *Relations with Employees*

The Bank employs young people to ensure the continuity of its dynamic structure; average employee age stands at 34 years old and 91% of employees are university graduates. During the year 2019, Albaraka Türk hired 143 new employees (2018: 364) while 340 employees left their job (2018: 275). As a result, the turnover ratio of the Bank registered 8.7% (2018: 7.0%) and is considered elevated. Total number of employees declined 3,791 from 3,988 in the year earlier due to enhanced digitalization.

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The Bank ensures that employees are given channels whereby they can suggest new ideas to managers within the organization. Employees are encouraged to share their opinions with senior management of the Bank through surveys conducted and a proposal system. In addition, in order to participate in the governance process, Albaraka Türk established a worker's councils that consider employee viewpoints in certain key decisions.

Albaraka Türk Employee Committee: Convened ones a year, the committee aims to ensure contribution of the low and middle level personnel to the management. Their responsibilities cover to present demands of the employees to the senior management. The representatives of the Committee are elected through a democratic way (through a survey covering all bank's employees).

Albaraka Türk Personnel Committee: The Committee consists of at least four members, including the Chairman who is the Assistant General Manager responsible for human resources. Human Resources department head is a deemed committee member where other members are selected upon the proposal of the Chairman or directly by the General Manager, among other Assistant General Managers and / or Managers. The General Manager may undertake the Chairmanship of the Committee at any time. The committee meets when needed with the full participation of the members. Decisions are taken by the majority of the participants where all members including the Chairman has one vote. Committee decisions are subject to the approval of the General Manager.

The Bank has a very detailed human rights policy in place which is also published on its website. While hiring policies and career planning are being carried out, the principle of equal opportunity for people with equal conditions has been adopted in line with this policy, there is no separate publicly shared policy regarding that there is no discrimination based on race, religion and gender in recruitment. The number of women top managers and board of directors are the area to be improved upon, to foster gender equality.

To improve the loyalty of the employees in the medium run, the Bank started providing support to the private pension saving schemes for the employees depending on their tenure at the Bank.

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Pension commitments are elements to the seniority of the employee, where the Bank contributes 2% to 5% of the monthly salary to the pension account of employees. In order to provide a sustainable employee development, the Bank offered 62.5 hours of per person training 60% of which is executed in digital platforms in the year of 2019. The Bank ranked 3<sup>rd</sup> in the Turkey's Best Employers Competition in 2019 by Great Place to Work Institute (GPTW) and also obtained a special award. The GPTW employee satisfaction survey, based on measuring employees' trust in the Bank, has been published.

On the other hand, collective bargaining coverage (there is no union in the Bank) could be an area to improve upon. The number of lawsuits initiated against the Bank from the former employees remained negligible when compare to the total staff strength in 2019.

***Relations with Customers***

Albaraka Türk serves its customers through a wide-spread branch network including 230 branches, 307 ATMs, over 3,800 ATMs of PTT (post office branches) on the basis of a cooperation arrangement, mobile and internet banking. Its call center provides services in Turkish, English and Arabic with international quality standard of EN 15838. The Bank scaled significant digital innovation in the recent years; these efforts continued in 2019 with the initiation of Albaraka Alneo POS, new payment platform regardless of the physical POS device.

The Bank offers a wide range of initiatives on the customer satisfaction front, as a result, it received the ISO 10002: Customer Satisfaction Management System Quality Certificate in September 2019. Albaraka Türk reserves a special line for customer complaints; 'You Ask, We Solve' line and also Customer Forms available on website. Customer Relations Department assesses all complaints and suggestions from the customers, all are replied to and reported to Customer Complaints Committee and the senior management periodically.

***Ethics and Values***

The ethical rules of Albaraka Türk is established and publicly disclosed through the corporate web site. Adherence to quality



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standards in banking services, protection of the standard and confidentiality of information of customers along with protecting the rights and interest of savers are defined in the "Ethical Principles Regulation" of the Bank.

The Board Corporate Governance Committee is responsible for setting up the infrastructure to allow information to flow towards the relevant authorities regarding the actions and transactions against ethical principles, to establish the policies, and provide timely and accurate information to all stakeholders.

Further, Albaraka Türk also operates in accordance with Ethical Principles of the Participation Banks Association of Turkey. General ethical principles of the Bank comprise the following:

- I. Honesty-Halal Income
- II. Impartiality
- III. Reliability
- IV. Transparency
- V. Observing Social Benefit and Respect to the Environment
- VI. Fight Against Money Laundering and Laundering Financing Terrorism
- VII. Prevention of Misuse of Information

### ***Social Responsibility & Sustainability***

Albaraka Türk has established Sustainability and Social Responsibility Policy and Environment Policy in order to identify the general framework of the social and environmental management system and the basic principles which the Bank must comply with. The Bank's Environmental Policy reflects the framework of BIST Sustainability Index and Carbon Transparency Project (CDP). All policies and roadmap of this area has been disclosed in the public domain through website of the Bank.

The Bank's Corporate Social Responsibility (CSR) activities are under the governance of the Board Sustainability and Social Responsibility Committee which directs the Management level Sustainability, Social Responsibility, and Communications Committee. Albaraka Türk was the first participation bank to be listed in the Borsa Istanbul Sustainability Index in 2019 on the back of its efforts in areas such as

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environment, human rights and work health. Albaraka Türk will be included in the BIST Sustainability Index between November 2019 and October 2020.

Albaraka Türk also launched its ‘Sustainable Banking Program’ under the leadership of Albaraka Banking Group (ABG), which is organized under 8 main areas covering management, environment, human rights, anti-bribery and anti-corruption, emergency and contingency management, occupational health and safety, business continuity management and banking activities.

Albaraka Türk created a strategic road map and initiated a Social Responsibility Program in order to support educational and social projects, especially active investments in the projects that contribute to the real economy. Under the guidance of ABG, the Bank formed three priorities in the areas of Job Creation, Education and Healthcare, and defined a rational strategy to focus on sustainability in order to achieve its goals by the year 2020.

Albaraka Turk executes its social responsibility efforts via donations to the Bereket Foundation. In 2019, the Bank spent TL8mn as a donation to the Foundation (2018: TL10.1mn). The amounts of the donations are subject to local regulations watch, dictating that the amounts should be capped by the 0.4% of total shareholder equity. The Bank also participated in ‘Biz Bize Yeteriz Türkiye Campaign’ of the Presidency of Turkey in 2020, and donated TRY 5mn in order to aid the Covid-19 Pandemic.

## BOARD OF DIRECTORS

<b>Board of Directors Score</b>
<b>8.71</b>

### *Functions and Composition*

According to Albaraka Türk’s AoA, the Board of Directors is attributed full powers for the ordinary and extraordinary management of the Bank, except in areas which are reserved for the AGM. The BoD is assigned the responsibility to determine the strategic and organizational direction of the Bank. The terms of reference (“ToRs”) for BoD are in place and were provided in summary in the Bank’s annual report.

The Board of Directors of Albaraka Türk was appointed in the AGM meeting held in March 2020 with a term of three years. Board Composition has changed significantly in its last AGM; number of Board members declined to 11 from 12 whereas only 6 of those maintained their seat. Mr. Meliksah Utku, the CEO of the Bank, continues to be the only executive member of the Board of Directors. The bank’s Board has a majority of non-executive directors in line with the Capital Market Board of Turkey’s Corporate Governance principles. The appointment and replacement of directors guidelines are informed by the AoA of the Bank. Board members do not have weighted voting rights or veto rights and have the authority to appoint external consultants when necessary.

The Board of directors of the Bank established various internal control systems which are inclusive of risk management, internal audit and compliance which functionally report to the Board Audit Committee along with effective information systems. Improvement on digitalization level of the Bank is eye-catching. The risk levels that the Bank can take to implement its strategies and achieve its targets are determined in the Risk Appetite Statement which is approved by the BoD and updated annually.

### *Independence*

As per CMBT’s directives, members of the Board Audit Committee are deemed independent; as such the bank has four independent members currently and is hence complying with CMBT’s one-third independent representation, however, falls short of best practices given the deviation of the definition of independence, vis-à-vis best practices.

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***Meeting frequency and attendance***

The Board of Directors met 5 times in 2019 with average attendance rate of 90%.

**Table 6: Board of Directors**

<b>Name of Director</b>	<b>Classification/Affiliation</b>	<b>Affiliated with Bank Since</b>	<b>Committee Memberships</b>
Mr. Adnan Ahmed Yusuf Abdulmalek	Chairman/ABG	2005	*Credit Committee (C) *Remuneration Committee (C) *Executive Committee (C)
Mr. Süleyman Kalkan	Vice Chairman/Independent	2018	*Executive Committee *Credit Committee *Corporate Governance Committee (C)
Mr. Ibrahim Fayez Humaid Al Shamsi	Non-Executive/ABG	2005	*Corporate Governance Committee *Sustainability and Social Responsibility Committee
Prof. Dr. Kemal Varol	Non-Executive	2013	*Executive Committee *Credit Committee
Mr. Mustafa Büyükabacı	Non-Executive	2017	*Executive Committee *Audit Committee (C) *Remuneration Committee
Mr. Mohamed Ali Chatti	Non-Executive/Independent	2020	*Audit Committee *Credit Committee
Mr. Mehmet Ali Gokce	Non-Executive/Independent	2018	*Audit Committee *Executive Committee *Sustainability and Social Responsibility Committee
Mr. Housseem Ben Haj Amor	Non-Executive	2020	-
Mr. Tawfig Shaker Mufti	Non-Executive	2020	-
Mr. Ghassan Ahmed M. AMODI	Non-Executive/Independent	2020	-
Mr. Melikşah Utku	General Manager	2004	*Executive Committee *Credit Committee *Remuneration Committee *IT Governance Committee (C)

### ***Directors' Orientation and Evaluation***

The Bank has an orientation policy in place for the new Board members. Internal and external trainings for the members of the Board of Directors are carried out based on requests and suggestions from the members of the Board of Directors.

General evaluation of the Board of Directors take place in the AGM as the General Assembly is the authorized body for the election and dismissal of the members of the Board of Directors. However, Board members administer self-evaluation every year, according to which members do assess their own performance as well as the BoD as a unit and the committees in which they are members. The shareholders have the discretion to take necessary actions by taking into consideration the performance of the Board members in the AGM.

### ***Board Remuneration***

According to the Bank's Articles of Association, BoD members can be paid attendance fee, premium, share from the annual profits, provided that the amounts of such payments are determined by the General Assembly. The principles of remuneration of board members have been documented in writing and submitted to the shareholders' attention as a separate item at the general shareholders' meeting. A decision was taken at the last General Assembly on March 26, 2020, that Board Remuneration for all members should not exceed USD 1mn annually. On the other hand, remuneration provided for senior management per person has not been disclosed to the public as recommended in the CMB's Corporate Governance Principles.

According to the Bank's statement, in 2019 a decision was taken to continue on a loan relationship established with a company in which one of the board members is associated as a partner. The related board member did not participate in the decision, in the related Board meeting. Apart from this exposure, the Bank did not lend any funds or extend any credits to a member of the board or extend any guarantees or enter into a commercial relationship.

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**Board Committees**

For the year 2019, the Bank had seven Board level committees, and a Consultancy Committee. Functions of the Committees, their working principles, and members are designated by the Board of Directors and disclosed to the public domain through the annual report. Certain working procedures and principles of the Audit Committee, Corporate Governance Committee and Credit Committee are also laid out in the Bank’s AoA. There are no committees with fewer than three members, and the work of each committee is coordinated by a Chair. Board members are represented on multiple committees. Every Board Committee has its own TOR in place. No Committees have been received consultancy service in 2019. There is no separate Risk Management Committee established in the Bank; Credit and Audit Committee together manage this function.

As a participation bank, the bank conducts its operations as per the Code of Ethics adopted by the Participation Banks Association of Turkey (“TKBB”). Consultancy Committee, oversees the interest-free banking activities in accordance with the communiqué named “Compliance with Islamic Banking Principles and Standards” implemented by the Banking Regulation and Supervision Agency (BRSA) published on 14.09.2019. Information Technology Governance Committee became operational in the year 2019 as the Bank had been quite active on the digital banking front and this committee is mainly geared to secure conformity between the banks business processes and the IT technologies. During the year 2019, only the Executive Committee did not comply with minimum number of meeting numbers.

**Table 7: Board Committee Meetings**

Committee	2018 Meeting		2019 Meeting	
	ToR	Actual	ToR	Actual
Board Credit Committee	Need Basis	98	Need Basis	87
Board Audit Committee	4	5	4	5
Board Corporate Governance Committee	4	5	4	6
Board Remuneration Committee	1	4	1	5
Board Sustainability and Social Responsibility Committee	2	2	2	3
Board Executive Committee	4	4	4	3
Board Information Technology Governance Committee	n/a	n/a		3
Consultancy Committee	4	3	4	4

***Executives***

The senior management team of Albaraka Türk is represented by experienced professionals, with an average tenure of 20 years with the bank. The bank's management is led by Chief Executive Officer Mr. Melikşah Utku since October 2016.

Alabaraka Türk organizational structure is relatively flat with overall 9 distinct departments, all are direct reportees to the CEO. In line with best practices, control functions<sup>3</sup>, report to the Board Audit Committee. According to the Board decision dated 07.05.2019, Investor Relations Department has been reporting to the CFO from previous Assistant General Manager of Treasury and FI.

**THE SCORING FRAMEWORK:**

**Major Sections and Weightings on the NIS Corporate Governance Rating**

<b>Part I - Shareholders</b>	<b>25%</b>
<ol style="list-style-type: none"> <li>1. Facilitating the Exercise of Shareholders’ Statutory Rights</li> <li>2. Shareholders Right to Obtain and Evaluate Information</li> <li>3. The Right to Participate in the General Shareholders’ Meeting</li> <li>4. Voting Rights</li> <li>5. Minority Rights</li> <li>6. Dividend Rights</li> <li>7. Transfer of Shares</li> <li>8. Equal Treatment of Shareholders</li> </ol>	
<b>Part II - Public Disclosure and Transparency</b>	<b>25%</b>
<ol style="list-style-type: none"> <li>1. Principles and Means for Public Disclosure</li> <li>2. Public Disclosure of Relations between the Company and Its Shareholders, The BoD and Executives</li> <li>3. Periodical Financial Statement and Reports in Public Disclosure</li> <li>4. Functions of External Audit</li> <li>5. The Concept of Trade Secret and Insider Trading</li> <li>6. Significant Events and Developments That Must Be Disclosed to the Public</li> </ol>	
<b>Part III - Stakeholders</b>	<b>15%</b>
<ol style="list-style-type: none"> <li>1. Company Policy Regarding Stakeholders</li> <li>2. Stakeholders’ Participation in the Company Management</li> <li>3. Protection of Company Assets</li> <li>4. Company Policy on Human Resources</li> <li>5. Relations with Customers and Suppliers</li> <li>6. Ethical Rules</li> <li>7. Social Responsibility</li> </ol>	
<b>Part IV - Board of Directors</b>	<b>35%</b>
<ol style="list-style-type: none"> <li>1. Fundamental Functions of the Board of Directors</li> <li>2. Principles of Activity and Duties and Responsibilities of the Board of Directors</li> <li>3. Formation and Election of the Board of Directors</li> <li>4. Remuneration of the Board of Directors</li> <li>5. Number, Structure and Independence of the Committees Established by the BoD</li> <li>6. Executives</li> </ol>	



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**RATING SCALE:**

SCORE		
<b>CGR 10</b>	(10.00)	Highest level of corporate governance
<b>CGR 9++</b>	(9.99 - 9.80)	Very high level of corporate governance
<b>CGR 9+</b>	(9.79 - 9.60)	
<b>CGR 9</b>	(9.59 - 9.00)	
<b>CGR 8++</b>	(8.99 - 8.80)	High level of corporate governance
<b>CGR 8+</b>	(8.79 - 8.60)	
<b>CGR 8</b>	(8.59 - 8.00)	
<b>CGR 7++</b>	(7.99 - 7.80)	Moderately high-level corporate governance
<b>CGR 7+</b>	(7.79 - 7.60)	
<b>CGR 7</b>	(7.59 - 7.00)	
<b>CGR 6++</b>	(6.99 - 6.80)	Satisfactory level of corporate governance
<b>CGR 6+</b>	(6.79 - 6.60)	
<b>CGR 6</b>	(6.59 - 6.00)	
<b>CGR 5++</b>	(5.99 - 5.80)	Adequate level of corporate governance
<b>CGR 5+</b>	(5.79 - 5.60)	
<b>CGR 5</b>	(5.59 - 5.00)	
<b>CGR 4++</b>	(4.99 - 4.80)	Moderately low level of corporate governance
<b>CGR 4+</b>	(4.79 - 4.60)	
<b>CGR 4</b>	(4.59 - 4.00)	
<b>CGR 3++</b>	(3.99 - 3.80)	Low level of corporate governance
<b>CGR 3+</b>	(3.79 - 3.60)	
<b>CGR 3</b>	(3.59 - 3.00)	
<b>CGR 2++</b>	(2.99 - 2.80)	Very low level of corporate governance
<b>CGR 2+</b>	(2.79 - 2.60)	
<b>CGR 2</b>	(2.59 - 2.00)	
<b>CGR 1++</b>	(1.99 - 1.80)	Lowest level of corporate governance
<b>CGR 1+</b>	(1.79 - 1.60)	
<b>CGR 1</b>	(1.59 - 1.00)	

**Governance Watch:**

‘Governance Watch’ may be assigned to highlight identifiable governance events that necessitate re-evaluation of the assigned rating. A ‘Governance Watch’ announcement means that the status of the assigned rating is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.