



RATING REPORT ON

Şekerbank T.A.Ş

BASED UPON

“The Corporate Governance Guidelines of Turkey” issued by
the Capital Markets Board of Turkey



RATING RELEASE DATE

6 February 2013

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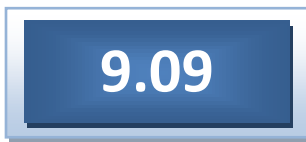
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INTRODUCTION

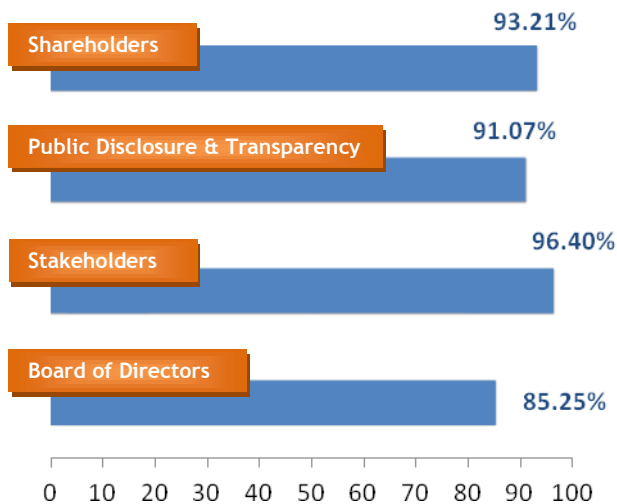
GROUP



OVERALL SCORE



RESULTS BY CATEGORY



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ISS Corporate Services (hereafter, ICS) assigns a rating score of 9.09 (or 90.95 percent) to Şekerbank T.A.Ş. (the "Bank" or "Şekerbank"), which has increased from a score of 8.82. This rating reflects a good overall performance of the Bank regarding its corporate governance structures as measured against the Communiqués stipulated by the Capital Markets Board of Turkey (the "CMB Guidelines"). The result also signals that there still remains room to improve the Bank's governance practices. Please refer to the "Rating Methodology" section for more information.

ICS was first appointed by Şekerbank in December 2007 to review its corporate governance structures and processes in line with the CMB Guidelines. This rating report represents the fifth rating update after Şekerbank had been subject to a first rating released on 27 February 2008. Şekerbank then had been rated with a score of 7.00 (70.16 percent). It is also important to note that Şekerbank is the first bank in Turkey to have obtained a governance rating.

Şekerbank has steadily built upon its corporate governance foundation with a range of corporate governance enhancements in the past several years in numerous areas; such as an updated Articles of Association (AoA), the establishment of a separate remuneration committee and a robust internal risk management system. Areas do remain, however, that needs addressing such as the composition of the audit committee.

Şekerbank continues to score particularly well on **Public Disclosure & Transparency** standards and in respect to **Shareholders**. On the other hand, Şekerbank achieves a lower result for **Board of Directors**.

The rating report is based on information provided to ICS prior to January 2012. The rating may be changed, suspended or withdrawn as a result of changes in or unavailability of such information.

COMPANY INFORMATION

	
Trade Name	Şekerbank T.A.Ş.
Address	Büyükdere Caddesi No:171/A Blok Metrocity İş Merkezi, Levent İstanbul, Turkey
Web	www.sekerbank.com
Investor Relations	Irem Soydan Güler Phone: +90 212 319 7361 E-Mail: ir@sekerbank.com.tr
Chairman	Mr. Dr. Hasan Basri Gökten
General Manager	Meriç Uluşahin

Şekerbank was founded in 1953 as the "Sugar Beet Cooperative Bank" in Eskişehir. In 1956 it relocated its headquarters to Ankara and changed its name to Şekerbank. During the 1970s the Bank completed its transition from a cooperative to a full service commercial bank. Şekerbank went public in 1997.

In 2002, Şekerbank initiated a major internal restructuring and successfully transformed itself from a traditional commercial bank into a multi-channel, diversified financial institution based on customer and segment focused applications. This was subsequently followed by the relocation of its headquarters to Istanbul in 2004. Today, Şekerbank is represented by a well distributed branch network with 272 branch offices with broad geographical coverage with its more than 50 years of experience. This has enabled the Bank to become both a major commercial and retail bank in Turkey.

In June 2006, Şekerbank's two pension funds signed an agreement with BTA Securities JSC ("BTAS") for the sale of 33.98 percent of its issued share capital. This partnership was successfully concluded in March 2007. In 2011, BTAS transferred 22.12 percent of the shares to Samruk Kazyna; the National Welfare Fund of Kazakhstan. The Bank's shareholder structure is as follows:

SHAREHOLDER STRUCTURE

Shareholder	% of Share Capital
Şekerbank Voluntary Pension Fund	33.98
Samruk-Kazyna	22.12
BTA Securities JSC	11.76
Sugar Beet Cooperatives	0.08
Publicly Traded	32.06

In 2011, Şekerbank's bond issue in two tranches totaling TL 500 million constituted the domestic bond issue with the longest maturity amongst commercial banks. In 2012, the Bank made another bond issuance in the amount of TL 330 million. The total nominal demand for the bond issue reached TL 932 million, which confirmed the Bank's power.

Also in 2011, Şekerbank completed the first Covered Bond issue in Turkey. This issue, specifically for international investors, was made by using the SME loans on the Bank's balance sheet as collateral. The Covered Bond program allows Şekerbank to create a robust financial bridge worth TL 800 million, connecting international institutions with Turkey's small businesses. In the first tranche of the Covered Bond issue, the International Finance Corporation, the Dutch Development Bank and UniCredit Bank were the qualified investors. The investors in the second series included the European Investment Bank and the European Bank for Reconstruction and Development.

CREDIT RATINGS

As at the time of this Report's publication, the Bank's ratings were as follows:

Provider	Rating	Outlook
Moody's		
Long Term FC Bank Deposits	Ba2	Stable
Long Term LC Bank Deposits	Ba1	Stable
Fitch Ratings		
Long Term FC	BB-	Stable
Long Term LC	BB-	Stable
National	A+ (Tur)	Stable
JCR-Eurasia Rating		
Long Term FC	BB	Stable
Long Term LC	BB	Stable
National	A+ (Tur)	Positive

Source: Şekerbank website

RATING METHODOLOGY

UNDERLYING REFERENCE

The corporate governance rating at hand has been conducted by ICS based on the CMB Guidelines. As such, it differs in content and methodology from ISS' standard corporate governance ratings that are based on ISS' own methodology.

The CMB defined its first Corporate Governance Principles in 2003, followed by an amendment in early 2005 and most recently in December 2011, February 2012, June 2012, and September 2012. The new CMB Guidelines (the CMB Communiqué Serial: IV, No: 56) needed to be incorporated into the companies' articles of association by 30 June 2013. In light of the aforementioned changes, ICS updated its rating methodology under CMB's supervision.

It should be noted that with the latest CMB Guidelines, the governance landscape in Turkey has moved away from a "comply or explain" regime to one that is more regulated. One conclusion that may be drawn from this shift is that the CMB has increased its tone with a view to boost the competitiveness of Turkish companies globally.

According to the new CMB Guidelines, all ISE companies, excluding companies listed on Emerging Markets and Watchlist Market, are subject to mandatory implementation of certain CMB Guidelines. The CMB Guidelines continue to be divided into four main sections: (i) Shareholders; (ii) Public Disclosure and Transparency; (iii) Stakeholders; and (iv) Board of Directors.

THE RATING

Based on the CMB Guidelines, ICS identified close to 500 criteria to be included into the rating. Each single criterion has been examined thoroughly upon compliance by the Bank, on the basis of publicly available information. Additional information was provided by the Bank upon request.

While in most instances a straightforward 0 (no) or 1 (yes) scoring approach has been applied, we also

attributed a score of 0.5 points in some instances to acknowledge a partial fulfillment by the Bank.

THE GROUPS

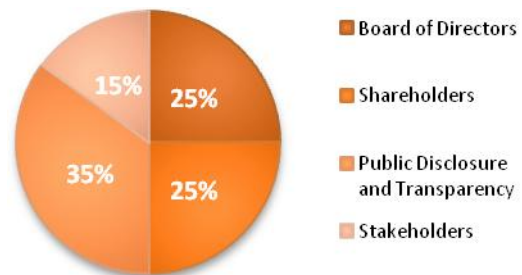
The new CMB Guidelines classify ISE companies in three main groups based on the systematic risk companies pose to Turkish capital markets:

- 1. Group I:** ISE companies with a market value exceeding TL 3 billion and free float exceeding TL 750 million;
- 2. Group II:** ISE Companies with a market value exceeding TL 1 billion and free float exceeding TL 250 million; and
- 3. Group III:** All other ISE companies which do not fall under either Group.

Group I companies are required to comply with all mandatory Principles whereas Group II and III companies benefit from certain exemptions. Şekerbank is in Group III.

WEIGHTING SCHEME

The weighting scheme applied for the four main sections was pre-determined by the CMB:



Further sub-weightings have been attributed to the sub-criteria according to ICS's own reference. Based on the scoring and adjusted weightings, the overall rating result is calculated. The result reflects the overall compliance of the Bank. Besides the overall assessment, results also have been calculated for each main section, providing a differentiated picture of the company's strengths and weaknesses.

THE GOVERNANCE LANDSCAPE IN TURKEY

Though the corporate governance structure and performance on the company level is of particular interest for shareholders, one should also acknowledge the corporate governance landscape on the country level. Despite the fact that the country level is not a part of the rating itself, ICS believes that an overview can enable investors to enhance their perspective and evaluation of corporate governance in a more holistic approach.

Turkey is well aware of the structural changes and the need for ongoing development and harmonization of its capital market legislation. Although Turkey is a latecomer to corporate governance, it has tried to speed up the progress since the year 2000. The overall legal framework regulating public companies in Turkey is determined by the new Turkish Commercial Code (effective 1 July 2012), the Capital Markets Law, the Decree-law, CMB regulations, and Istanbul Stock Exchange (ISE) listing requirements.

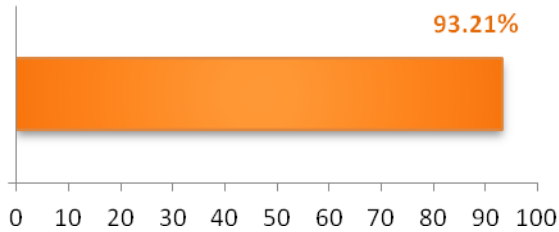
Focusing in particular on corporate governance, the CMB and the ISE can be observed as key players in promoting relevant regulations. They are supported by several other organizations such as the Turkish Industrialists' and Businessmen's Association, Corporate Governance Association of Turkey, Corporate Governance & Sustainability Center and the Corporate Governance Forum of Turkey.

Below we have highlighted the general aspects of the governance landscape in Turkey.

- Within Turkish companies stock ownership is concentrated, very often characterized by the presence of a majority shareholder. In addition, holding structures, conglomerates, pyramid shareholding structures, and cross-shareholdings are quite common. Through these mechanisms Turkish families control a considerable amount of Turkish listed companies. Additionally, one can also find shares containing multiple voting rights, thus preserving family control.
- Due to the influential holdings of the families, family members are often present on the boards of the holdings and subsidiaries or act as executives.
- Due to the limited free float, hostile takeovers are rare, thus, weakening the market for corporate control.
- State ownership has declined significantly in line with privatization efforts, but is still to be found in the energy, communication and mining industries. In the meantime, foreign institutional investors started to increase their holdings.
- Issued stocks in Turkey range from ordinary shares, to preference shares. Golden shares only exist in few companies.
- Minority rights are granted to shareholders that own at least 5% of the company's capital, providing them with the right to call an extraordinary general meeting or bring in a shareholder proposal.
- Even though pre-emptive rights are granted by Turkish law at the first instance, companies can, through their articles of association, exclude pre-emptive rights in case of capital increases up to 100% of their registered capital.
- Mandatory tender offer bid requirements exist above a 50% threshold.
- Disclosure of indirect or direct ownership in case various thresholds (e.g. 5, 10, 15, 20, 25, 1/3, 50, 2/3, and 75%) are passed.
- Companies have adopted IFRS accounting standards.
- Companies have a single tier board structure.
- The current CMB Guidelines outline rules that regulate the independence of board members.

SECTION I - SHAREHOLDERS

SHAREHOLDERS



SUMMARY

Şekerbank continues to attain a good result of 9.32 in this category, which represents a notable increase from a score of 8.63 since ICS's last review. A clear dividend policy is in place and voting rights are well defined. Each share is subject to the **one share - one vote - one dividend principle**.

The Bank's registered share capital is TL 1.25 billion and this share capital is divided into 1.25 billion shares, each with a nominal value of TL 1. The issued share capital of the Bank is TL 1 billion and is paid-up in its entirety. The registered capital ceiling authorization was given by the CMB for the years 2011 – 2015 (five years).

Şekerbank maintains a **clear dividend policy** with the level of payout determined by local regulations, national and global economic conditions as well as the Bank's growth strategy. No dividend payment was approved at the Bank's March 2012 Annual General Meeting (AGM) for the 2011 financial year (see Section 1.1.2 Dividend and Voting Rights for more information).

Şekerbank pays close attention to **minority rights** which have been clearly defined in the Bank's AoA; however, this can be further expanded. The right to request a special auditor is provided which is not a prevalent practice in the Turkish market. A few areas of improvement do remain, however. For example, **cumulative voting** still does not apply.

An **Investor Relations (IR) Department** has been established since 2005 to enable shareholders to exercise their rights and obtain relevant information. Şekerbank's IR website is easily accessible from the Bank's main website and includes information concerning the Bank's corporate governance practices, financials, and pertinent news. Another good feature of the IR website is the fact that foreign investors could access it in English.

The AGM invitation, agenda and accompanying documents are uploaded to the corporate website and announced in two leading newspapers well in advance of the meetings. A summary of the vote results and attendance rate (the "Minutes of the AGM") is uploaded on the Bank's website. The notice for the AGM to take place in March 2013 was announced in early January 2013.

The AGMs appear to be conducted in a fair and efficient manner where shareholders are allowed to exercise their statutory rights. In addition, although not yet incorporated in its AoA, Şekerbank permits the media to attend general meetings if asked beforehand.

1.1 RIGHTS OF SHAREHOLDERS

GOVERNANCE FOCUS
+ Established dividend policy
+ Clearly defined voting rights
+ No preferred shares issues
+ One Share – One Vote respected
+ Shareholders are able to appoint a special auditor pursuant to the Bank's Corporate Governance Policy
- No cumulative voting procedures

1.1.1 Equal Treatment of Shareholders and Their Ability to Obtain and Evaluate Information

According to ICS's analysis, no provisions hindering the equitable treatment of shareholders were identified. No written or verbal complaints reached the Bank during the 2011 and 2012 financial years

concerning the exercise of shareholder rights, nor is the Bank aware of any legal proceedings initiated against itself in this regard.

The Bank has an active Investor Relations (IR) Department, established in 2005, which is comprised of the following individuals: Mrs. Irem Soydan Güler (Vice President), Mrs. Sibel Kırmızılar (Manager), and Mr. Özcan Demir (Manager). The IR Department is tasked to allow shareholders to exercise their rights, respond to written requests from shareholders, ease shareholders' access to information, updating the website, preparing the interim and annual reports, meeting with shareholders, investors, and analysts, capital increase arrangements and corporate governance activities. A more detailed description of the IR Department's duties can be found on the Bank's website.

A good level of information continues to be provided to shareholders and Şekerbank has made a strong effort to comply with the CMB rules in this regard. Information that may be of interest to shareholders is provided in an accurate, timely, and diligent manner through the Bank's website and the Public Disclosure Platform ("KAP").

Verbal and written requests for information received from shareholders during the 2011 and 2012 financial years were responded in a timely manner under the supervision of the IR Department and in compliance with the Capital Markets Law. During the 2011 financial year, the Bank held 20 meetings with corporate investors. During the 2012 financial year, the Bank stated that it held 30 meetings.

1.1.2 Dividend and Voting Rights

Dividend Rights

Each share is entitled to an equal dividend. None of the Bank's shares incorporate special rights concerning the distribution of the Bank's profits.

A dividend policy is established and accessible through the Bank's public documents and website, in English and Turkish. Depending on the financial results of Şekerbank, a dividend is paid to investors.

The Bank does not carry out any interim dividend payments and no such provisions exist in its AoA.

The Bank paid no dividends for the 2011 financial year. At the Bank's March 2012 AGM, shareholders approved the allocation of 2011 profit of TL 118.0 million in the following manner: (1) TL 5.9 million to the Legal Reserves Account; and (2) the 2010 profit of TL 0.4 million and the remainder of 2011 profit of TL 112.1 million (total balance of TL 112.5 million) was transferred to the Bank's Extraordinary Contingency Reserves.

Voting Rights

As the Bank has not issued any preferred stock, each share is entitled one vote without any further privileges. The right to vote is automatically granted when the share is purchased, and no arrangements can be installed that would hinder this right or cause a delay in exercising voting rights, following the share acquisition.

Voting rights are well defined in the Bank's AoA, ensuring equal and clear voting procedures. The exercise of voting rights can be delegated to a proxy whether or not the person is shareholder. According to the Bank's AoA, voting is exercised by a show of hands, though closed ballots are mandatory if requested by 10 percent of shareholder represented at the AGM.

There are no ceilings on the number of votes a shareholder might exercise during the meeting. The Bank's share capital does not involve any cross-shareholdings. Finally, ICS is not aware of any voting agreements aimed at increasing control over the management of the Bank.

1.1.3 Minority Rights and Transfer of Shares

Minority Rights

Minority rights, as stipulated by the AoA, are granted to shareholders owning (collectively) at least 5 percent of the Bank's issued share capital. Those rights include requesting to convene an extraordinary meeting or requesting special agenda items. According to the Turkish Commercial Code

(TCC), both aspects are up to the discretion of the board, though shareholders can appeal to the court to decide on the General Meeting to convene.

Mirroring Turkish market practice, Şekerbank does not permit cumulative voting in the belief that the effect of cumulative voting on the Board is achieved by the presence of independent directors on the Board. However, the Bank stated that it may consider granting this right in the future.

The ability to appoint a special auditor is considered crucial by ICS, though this is only a recommendation by the CMB rules and a right protected under the new TCC. Şekerbank grants this right to its shareholders following an amendment made to the Bank's Corporate Governance Policy in 2009. The Bank did not receive any requests in this sense during the reporting period.

Transfer of Shares

There are no provisions installed or included in the Bank's AoA that may impede the free transfer of shares by shareholders.

1.2 GENERAL MEETINGS

GOVERNANCE FOCUS
+ Timely provision of information on agenda items
+ Sound execution of the General Meeting
+ Voting procedures are clear
+ Sufficient disclosure on candidates
+ Minutes of the AGM are disclosed in a clear and timely manner (including in English)

1.2.1 Invitation

The Bank can convene a General Meeting (GM) ordinarily or extraordinarily. The AGM should be held at least once a year within the three months following the closing of the financial year.

The announcement of the 2011 AGM, including the necessary information like the date, time and location, agenda items, procedures for attendance at the meeting, proxy forms and arrangement procedures were published 21 days in advance. An

invitation for the 2011 AGM was mailed by post to the shareholders listed in the Bank's shareholder register three weeks prior to the meeting. The announcement was also published in two leading Turkish newspaper 21 days in advance as well as in the Turkish Trade Registry Gazette. In addition to the procedures stipulated by legislation, the AGM announcement and all necessary documents (annual reports, etc.) were also made available on the Bank's website 21 days prior to the meeting in an attempt to reach the maximum number of shareholders possible. The meeting agenda and amendments proposed to the AoA for the 2012 AGM to be held in March 2013 have been disclosed by the Bank in early January 2013 via its website and publication in the Official Gazette.

The agendas for the 2011 and 2012 AGM were prepared in a solid manner, clearly indicating each agenda item. In line with the CMB rules, the Bank allows shareholders to put forward agenda items to be voted on at the AGM. However, for the 2011 and 2012 AGMs, the Bank received no such request.

Considering the administrative proceedings, voting procedures are set up in a clear and understandable manner and proxy forms are available in written and electronic form. Ordinary and Extraordinary GMs are notified to the Ministry of Industry and Commerce (the "Ministry") and the agenda and the documents pertaining to the meeting and the relevant supporting documents are submitted to the foregoing Ministry. The attendance of a Commissar appointed by the Ministry in the GMs is mandatory.

Finally, according to Şekerbank, AGMs are open to related parties and the media but they are not entitled to vote.

1.2.2 Functioning

Şekerbank held its latest AGM on 21 March 2012, within three months following the end of its financial year. The AGM was held at its headquarters located in central Istanbul. This location is considered by ICS as easily accessible to shareholders. The Bank's AoA

does allow for meetings to be held at another location in Istanbul.

Following examination, Şekerbank's AGMs continue to be held in an appropriate way, led in an unbiased manner by the chair of the AGM and overseen by an official government representative, and thereby ensuring that all shareholders are able to exercise their statutory rights. The Chairman of the Board presides over the AGMs. In the absence of the Chairman, this function is fulfilled by the Vice-Chairman.

The AGM functions as a forum to discuss the Bank's annual report and financial results. The appointed representative of the Bank by the chair of the AGM reads a summary of the annual report and the Bank's financial performance at the beginning of the AGM in line with the set agenda of the AGM. This is followed by a discussion of the questions raised by shareholders, if any. According to Şekerbank, all questions coming from shareholders are, in principle, responded to in detail.

It is our understanding that the chair of the meeting ensures an equitable participation among shareholders and leads the meeting in a fair and efficient manner, where each agenda item is voted upon separately and where there are no special privileges enjoyed by any of the Bank's shareholders.

Board members, auditors and other authorized and responsible persons attend the AGM to answer requests put forward by shareholders. If any Bank official who has been invited to a meeting cannot attend the meeting, the reasons of non-attendance are to be announced by the chair of the AGM. The specific right of shareholders to ask questions to the candidates is provided by the Bank.

Candidates to be elected to the Board are obliged to disclose a wide range of information covering all aspects put forward by the CMB Guidelines. These requests comprise for example, their educational background, previous board membership(s) and experience, financial status, and independence

considerations. All of this information was provided to the shareholders.

The AoA enables the AGM (with a majority of three-fourth) to allow Board members to be engaged in other companies' business or their own business. Once again, no Board member made use of this authorization and was involved in business or competitive activities with the Bank during the 2011 and 2012 financial years.

Voting at AGMs is done by raising of hands; however, secret ballot system may also be applied upon the request of the shareholders representing 10 percent of the share capital in the AGM.

1.2.3 After the General Meeting

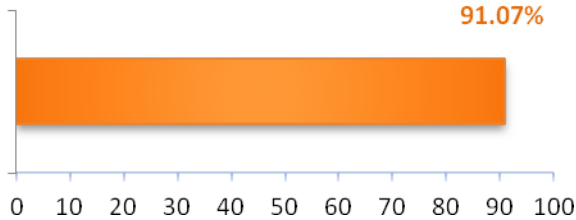
As a follow-up to the meeting, minutes are made available for the examination of shareholders at the Bank's headquarters. This information is also disclosed on the Bank's website (in English and Turkish) summarizing and reflecting the meeting in a short but clear manner.

Information pertaining to previous annual meetings of shareholders is stored on the Bank's website and is easily accessible both in Turkish and English.

In compliance with the CMB Guidelines, in cases where questions are raised by shareholders that cannot be answered immediately, the IR Department is responsible for providing a response in a fast manner.

SECTION II - PUBLIC DISCLOSURE & TRANSPARENCY

PUBLIC DISCLOSURE & TRANSPARENCY



SUMMARY

Şekerbank attains a score of 9.10 in this category which represents an increase from last year's score of 8.94. This reflects the continued good flow of information between the Bank and its investors and an acceptable level of transparency.

An **Information Policy** document has been provided on the Bank's website and contains Şekerbank's policy on how it will approach public disclosure of material events. The IR Department continues to assume the responsibility of overseeing and monitoring all matters regarding public disclosures.

Şekerbank also discloses its code of ethics, which is referred to as the **Ethical Principles**, and a comprehensive **Insider Trading List** on its website. With regard to Şekerbank's Ethical Principles, this document is a set of essential rules that have been formulated to govern the Bank-wide relationships, the relationships between the Bank and its employees, and the relationships with customers, and other stakeholders. Additional safeguards governing the behaviour towards clients, employees and corporate governance principles are also formalized in this document.

There have been no major changes in the management or operational organization of the Bank during the past financial year, nor are any such changes envisioned for the near future. In the case

such change does occur, the Bank confirms that it will share with the public within the scope of legislative requirements.

A **website** for investors is easily accessible and is continuously improved. The content on the website is well structured and comprehensive. As for the Bank's **Annual Report**, it is detailed in terms of content and contains a corporate governance section that explains the Bank's rationale for opting-out of key governance provisions. The Bank's financial statements and their notes are prepared in accordance with existing legislation and international accounting standards.

GOVERNANCE FOCUS

+ Information Policy is established and covers material disclosure aspects
+ Disclosure proceedings are clearly defined and assigned to high level personnel
+ A Code of Ethics (which the Bank refers to as the Ethical Principles) has been disclosed
+ The Bank's website provides a good level of resource for investors
+ A comprehensive Annual Report has been provided which complies with legislation
+ The list of insiders and a policy to prevent insider trading has been disclosed
- The Bank's policy on forward-looking statements are currently not public, the Bank will provide more information in its 2012 Annual Report.

2.1 DISCLOSURE – PRINCIPLES & MEANS

2.1.1 Information Policy

The Information Policy has been disclosed to the public and is accessible through the Bank's website. This Policy has been composed in pursuant to legislations and laws of the Turkish Commercial Code (TCC), the Banking Regulation and Supervision Agency (BRSA), the CMB, the Istanbul Stock Exchange (ISE), and Corporate Governance Principles set by the Bank's Board.

The Bank's main disclosure principle is to share information on its performance and forward looking developments within the scope of generally accepted accounting principles and Capital Market Legislation, in a fair, complete, accurate and comprehensible manner to shareholders, investors, and other capital market experts.

The Information Policy covers forms and methods of disclosure, authorized personnel regarding public disclosure, and how investors are dealt with. However, one area that is absent in this Policy document is the procedures with regard to forward looking statements. To this end, upon engagement, the Bank stated that it has decided to disclose in its forthcoming Annual Report a section on its approach to forward-looking statements.

2.1.2 Disclosure Procedures

After reviewing Şekerbank's public disclosures, no issues were found that would harm investors' interests. Given Şekerbank's shares are traded on the Istanbul Stock Exchange only; the Bank makes its announcements to the Public Disclosure Platform ("KAP"). The Bank's shares are not traded on overseas stock exchanges so no disclosures were made to other relevant bodies. For the 2011 financial year and 2012 financial year, 46 and 49 material disclosures were made to the public, respectively.

The IR Department is tasked to monitor and supervise all issues related to public disclosure. Questions of third parties are responded by the IR Department. The IR Department forwards the queries, views, suggestions and requests raised by investors, shareholders and stakeholders via telephone, e-mail, meetings, and/or in conferences to the Bank's management team.

The responsibility for public disclosure is clearly defined and assigned to specific individuals within the Bank. The methods used to disclose information to the public are: financial statements and footnotes, the Bank's website, analyst meetings and conferences, declarations and announcements in

newspapers, and press releases. In accordance with the Bank's workflow and approval procedure, the Corporate Communications Department delivers the press releases and could be found on the Bank's website. The Chairman and the General Manager or the person assigned by them is allowed to hold press meetings.

During the 2011 and 2012 financial year, the CMB imposed no sanctions on the Bank on account of disclosures regarding material events.

2.1.3 Transparency Issues

Transparency issues cover ethical behavior, insider trading rules and the functions of the external audit.

Ethical Behaviour

To ensure a high degree of transparency Şekerbank discloses its ethical rules to the public. For more information on the Bank's Code of Ethics, please refer to the "[Stakeholders](#)" section of this report.

Insider Trading

In order to prevent insider trading, Şekerbank provides a comprehensive list of executives and other third parties who potentially have access to information that can impact the value of the capital market instruments issued by the Bank. This list can be found in the Annual Report. The Bank also provides measures undertaken to prevent insider trading in its Information Policy and Corporate Governance Compliance Report.

External Audit

Since the appointed audit company Neither Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG International) does not provide any consulting services, it can be considered as independent from having other business interests that may impede the objectivity of the auditing services. Independent audit companies are subject to rotation at certain intervals pursuant to the regulations of the BRSA. At the Bank's AGM in 2010, shareholders appointed the current auditors to perform the Bank's independent audit for a term of up to three years.

Upon review, there appears to be no legal conflict between the Bank and the external audit firm.

2.2 ANNUAL REPORT

GOVERNANCE FOCUS
+ Detailed information on the Board of Directors
+ Key risks and mitigation efforts are disclosed
+ Detailed information on the Bank's operation and strategy

Overall, the Annual Report continues to be well prepared and houses all of the pertinent information relevant for investors. For example, Şekerbank's Corporate Governance Compliance Report, risk management philosophy, and financial statements can all be found in both tabular and graphic form. Financial information is presented in a manner that is easy to follow and the notes to the financial statements clarify the content. The Bank's growth strategy is also clear for shareholders to follow.

A Statement of Responsibility, signed by the Mrs. Meriç Uluşahin (General Manager), Mr. Halil Can Yeşilada (Chairman of the Audit Committee), Mr. Khosrow Kashani Zamani (Chairman of the Corporate Governance Committee), Mr. Çetin Aydın (Executive Vice President), and Mrs. İrem Soydan Güler (Financial Control, Accounting, and Subsidiaries Vice President), has been included in the Annual Report. This statement shows that the Board, the senior management team, and the Audit Committee have approved the consolidated financial statements for the 2011 financial year. According to the Bank's independent auditor, KPMG, the financial statements truly reflect the current financial status of the Bank.

There is a dedicated section on the Bank's efforts with regard to corporate social responsibility (CSR) in the Annual Report. It outlines a thorough and concrete plan regarding employees' social rights and the environment.

Şekerbank's risk management and internal control systems (collectively referred to as the "Internal Systems") complies with the applicable banking regulation, and includes a brief explanation of the different types of risk the bank must manage (loan, currency, credit, market, interest rate, liquidity, etc). The notes to the financial statements provide greater detail regarding each type of risk the bank is exposed to. For more information on Şekerbank's Internal Systems refer to the "**Board of Directors**" section of this report.

In conclusion, while the Bank's Annual Report provides the required elements, there is room for improvement to provide more comprehensive to the Bank's shareholders. Areas that would benefit from increased disclosure surrounds the remuneration policy and payments as well as the results of the Board's performance evaluation exercise that are not considered to be commercially sensitive.

2.3 WEBSITE

Şekerbank has a dedicated website for IR where shareholders may find information on the Bank's corporate governance practices, financial statements, annual reports, etc. The Bank's letterhead clearly indicates the address of its website. As a means of communication the use of the website is also subject to and incorporated in the Bank's Information Policy.

The website is considered by ICS to be user-friendly and as a satisfying instrument for shareholders to access information on the Bank. Şekerbank notes that the website is continuously being improved. For foreign investors an English version of the website is also available, which does not differ in content from the Turkish version.

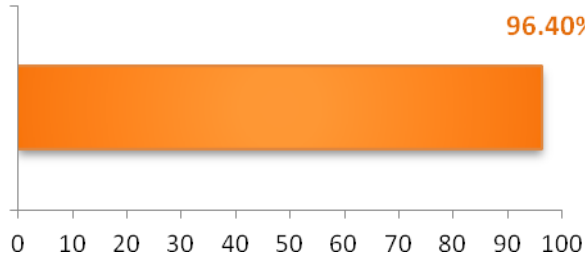
In reference to the AGM, the website contains relevant information for shareholders. This includes the announcement, agenda, the attendee list, and the minutes.

The Bank's website content is structured in a sound manner, where investors find relevant documents

suggested by the CMB for inclusion. Features like the investor presentations and the FAQ section are all positive steps taken by Şekerbank which demonstrates its belief in informing its shareholder to the fullest extent. The website also offers a section that includes information previously disclosed to the public.

SECTION III - STAKEHOLDERS

STAKEHOLDERS



SUMMARY

Şekerbank has scored 9.64 in this category, which represents a slight decrease when compared to its previous rating of 9.91. The decreased score should not be considered as the Bank worsening its practices with regard to its stakeholders but a reflection of ICS' revised methodology following the changes made by the CMB. The reasons contributing to the revised score is the increased attention given by ICS on issues like succession planning for senior executives disclosed in public documents and robust sustainability efforts initiated by the Bank.

The Bank continues to build upon a concrete model to have stakeholders participate in the management of the Bank and ensures their participation on a continual basis. The Bank appears to be in contact with its stakeholders and engaged with its employees. Şekerbank states that all feedback received from the stakeholders is presented to senior management for evaluation, solution proposals and policies are developed from such feedback.

Şekerbank has established the Ethical Principles, more commonly known as the code of ethics, which provides the essential framework of rules to be applied in the relationships between the Bank and its stakeholders. Stakeholders are continually kept informed within the framework of the Bank's Information Policy.

A **Human Resources Policy** is in place and disclosed publicly. In accordance with its policy, the Bank offers equal opportunity to people with the same qualifications in recruitment and promotions. In addition to these policies, an overview of a robust training policy for employees has been publicly disclosed by the Bank. Şekerbank makes use of structured training systems that include selective training, online education and on the job training programs.

There is also a **Corporate Social Responsibility (CSR)** section in the Annual Report and website outlining Şekerbank's social and environmental efforts. Noteworthy is the fact that employees can organize a trade union, which is not always common in Turkish companies.

GOVERNANCE FOCUS
+ Bank-wide human resources policy
+ Employee rights are warranted
+ Code of Ethics governing Bank-wide relationships disclosed publicly
+ A section on Corporate Social Responsibility is included in the Bank's Annual Report
+ The Bank provides information on the donations it has made during the year
- Succession planning for higher-level executives has not been disclosed

3.1 RIGHTS & DUTIES OF STAKEHOLDERS

Not much has changed in this regard since ICS's last rating. Şekerbank recognizes and guarantees the rights of employees in its Ethical Principles. There is also a Corporate Social Responsibility (CSR) section in the Annual Report where information on Şekerbank's social initiatives is provided.

Stakeholders are kept informed by the Bank through annual reports, material event disclosures, press releases, meetings, and its website. The Bank's corporate portal, Şekernet, keeps the employees informed. The internal information sharing system

enables communication of all announcements in lieu of using hard copies.

In 2008, Şekerbank published a policy that establishes concrete measures on how potential disputes between the Bank and stakeholders are addressed. According to the Bank, however, no conflicts have occurred to date. Stakeholders can communicate freely their concerns about any illegal or unethical practices to the Bank via the established communication channels set. In addition, any stakeholder has the right to communicate directly to the Board of Directors concerning any illegal and/or unethical issues.

Relevant union representatives continue to play an important role in the relations between the employees and the Şekerbank.

3.2 RELATIONS WITH CUSTOMERS & SUPPLIERS

According to the Corporate Governance Compliance Report, Şekerbank's customers can communicate their suggestions and complaints through the Bank's branches, the internet, and the Bank's call center. These suggestions and complaints are then escalated and evaluated by the Bank's senior management team. A scheme showing an assessment flow of the opinions, suggestions and requests by stakeholders is housed in the Bank's Conflict of Interest Policy, which was approved by the Bank's Board.

In line with the Bank's visions within the scope of continuous development, Şekerbank tabled a program that helps to evaluate suggestions, and rewards change and development. A total of 64 suggestions were implemented during the 2012 financial year.

According to the Bank's Ethical Principles, employees must strive to pursue customer satisfaction in their duties and to ensure the correction and prevention of the recurrence of the practices which lead to complaints.

3.3 PARTICIPATION IN MANAGEMENT

In order to take into account stakeholders' opinions, as recommended by the CMB Guidelines, actions are in place. More specifically, a comprehensive model to ensure this interaction has been set out by the Board of Directors and is available on the Bank's website. In addition, stakeholders are continuously informed through the IR Department and the corporate website.

Employees are encouraged to participate in the management of the Bank and their proposals aimed at the improvement of the business is given due consideration, according to the Bank. According to the Bank's Annual Report, feedback received from stakeholders is evaluated and submitted to senior management, to assist the development of solutions and policies.

3.4 EMPLOYEES & SOCIAL RESPONSIBILITY Employees

Şekerbank's internal regulations, policies, workflows, notifications and internal circular letters are published to ensure that personnel are informed in an easy and timely manner. The Chairman and/or General Manager's statements on financials, strategies, activities and operating results are also published monthly for the staff acknowledgement.

As at 31 December 2012, Şekerbank had a total of 3,565 employees. To manage its large workforce, Şekerbank has a written human resources policy which is publicly available. This policy talks about training employees on the job as well as promotion procedures. Employee relations are conducted by the Bank's Human Resources Department.

The Bank ensures that equal opportunities are provided to all employees. According to the Şekerbank, no cases of discrimination have been reported during the 2011 and 2012 financial year.

Employees are evaluated on the basis of their responsibilities, qualifications, work development and contribution to the Bank's objectives. The performance evaluation takes place twice a year and

are shared with all personnel. The implemented performance evaluation systems are based on targets and competences and are important tools for increasing efficiency and rewarding performance. In 2012, a total of 430 employees were promoted to immediate upper-level positions, 80 employees were incorporated into the sales pool and 70 managers joined the branch manager pool.

With respect to compensation, this is determined through a benchmarking exercise whereby the wages and practices within the sector are determined for each position in relation to the employees' performance. Equity is not utilized to pay the Bank's employees. To this end, the Bank states that the non-use of equity will be considered in the future while observing market practice.

Social Responsibility and the Environment

Social responsibility activities Şekerbank carried out are given in detail in its Corporate Responsibility section of its Annual Report as well as on its website. The Bank's activities comply with the environmental legislation and there are currently no claims against the Bank in this regard. Moreover, Şekerbank is a leader in its sector for the promotion of energy savings and environmental issues awareness among its customers, providing a number of various financial instruments targeted at the energy savings, renewable energy and environmental protection.

With a product named EKO kredi (or Eco Loan) launched in May 2009, Şekerbank aims at financing energy saving investments and expenses in appropriate conditions, creating and spreading awareness in the society about energy efficiency. The Bank states that as at 31 December 2011, it has given loans amounting to approximately TL 304 million in this regard to almost 24,000 people.

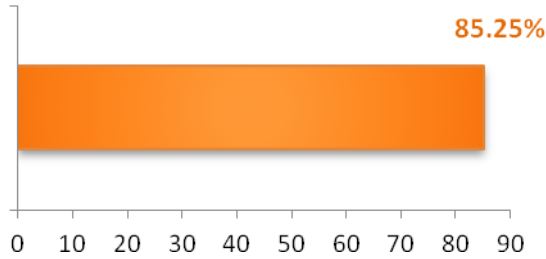
Şekerbank is also one of the first five banks included in the Carbon Disclosure Project (CDP) 2010 Report. As of 2010, the Bank began applying carbon emission measurements. In 2011 the Bank again took part in the CDP.

Amongst other efforts initiated by the Bank in the field of education, Şekerbank continues to reach people by cooperating with the Research Support Education Foundation (ADEV) to increase the social contribution, support rural development and realize projects showing sustainability in corporate responsibility activities. It is important to also note that the Bank has opened 18 schools in Turkey since 1965.

During the 2011 financial year, the Bank made a total of TL 116,527 in donations to various foundations and associations working for the public good.

SECTION IV - BOARD OF DIRECTORS

BOARD OF DIRECTORS



SUMMARY

Şekerbank has improved its score to 8.52 in this category when compared to last year's score of 8.18. Firstly, it is important to highlight that the composition of the Bank's Board of Directors has changed since it was last reviewed. The number of Board members has increased when compared to last year as a vacancy on the Board has been filled. The number of independent non-executive directors (NEDs) remains at three.

Following the changes to the Board's composition during the period under review, ICS notes that the Bank's Board of Directors continues to comply with the rules stipulated by the CMB. The composition of the Corporate Governance Committee continues to be in line with the CMB rules while the Audit Committee fails to meet the rules given the lack of independent directors serving on such committee. A new committee has been formed that is responsible for remuneration matters.

The suggested separation of the Chairman of the Board and the General Manager is followed. Mr. Dr. Hasan Basri Gökten serves as the Board's Chairman and Mrs. Meriç Uluşahin serves as the General Manager. Mr. Arman Dunayev serves as the Vice-Chairman.

The Bank's AoA clearly describes both the duties and working principles of the Board of Directors. Board members have prepared explicit declarations of

compliance with internal and external regulations. This is in accordance with the CMB regulations.

There are risk management and internal control systems in place at Şekerbank, which have been made more robust over the years.

GOVERNANCE FOCUS

+ The Board plays an active role in the Bank's strategic planning
+ The Bank does not lend money to Board members or executives
+ Each Board member is entitled to one vote
+ A secretariat has been established to support the Board
+ General Manager and Chairman positions are separately held
+ The Board has three independent NEDs
+ Efficient risk management and internal control mechanism in place
- Cumulative voting in Board elections is not provided
- The Audit Committee is not comprised of independent members; however, there are two NEDs serving on this Committee
- The General Manager serves on the Remuneration Committee as it is a new Committee

Each Board member has one vote without any privileges. Attendance at Board meetings is encouraged and all Board members need to be present in-person at meetings where important matters concerning the operations of the Bank are going to be discussed. According to the Bank's 2011 Annual Report, full attendance was attained in all Board meetings held in 2011. Upon engagement, the Bank stated that full attendance was again achieved in all Board meetings held in 2012.

Şekerbank still, however, has a number of areas to improve with regard to its Board. As seen from the score, it remains its weakest area amongst the four categories. Areas of improvement include, for example, having a fully independent Audit Committee and more detailed disclosure surrounding its remuneration policy.

4.1 PRINCIPLES OF ACTIVITY, DUTIES, AND RESPONSIBILITIES OF THE BOARD

Şekerbank's Board appears to fulfill its duties with diligence and meets its responsibilities. The Board defines the Bank's mission and vision and is thereby leading the Bank. The Board continuously reviews the Bank's position in the market and defines new targets and strategies responding to changing conditions. The Board is informed about the reasons of divergences regarding strategic targets and budget. Targets and budgets are revised only when needed and detailed presentations are made regarding the market, macroeconomic environment and the sector to the Board by the senior management team.

All of the nominated and appointed Board members possess the qualifications stipulated by the CMB. The Board is structured to ensure maximum influence and effectiveness. Article 24 in the Bank's AoA stipulates the principles regarding this matter. It is the Bank's principal aim to appoint Board members who possess knowledge regarding the legal principles governing the Bank's transactions and business, are qualified and experienced in corporate management, and possess the capability of examining financial statements and reports. Background information of the members of the Board is included in the Annual Report and on the Bank's website. Having looked at the current Board members' experience, ICS concludes that such requirements have been met by the Bank's directors. Persons having financial interests in competing establishments or companies cannot be appointed to the Board.

It is mandatory that independent Board members issue an independence declaration and inform immediately the Board in case their independence is compromised. Before commencing work, Board members have to declare compliance with all necessary internal and external regulations in writing.

Concrete mechanisms used to keep Board members regularly and comprehensively informed on

pertinent matters are explained and there is a secretariat with the aim of keeping directors informed. It is also noted that all directors have attended all Board meetings scheduled in 2011 and 2012.

Şekerbank does not impose any rules or restrictions on its Board members assuming additional duties outside of the Bank. Nevertheless, as suggested by the CMB, the Bank's AoA provides guidance to the issue of Board members engaging in business or competitive activities with the Bank. Such activities have to be approved by three-fourths of the Bank's shareholders at the AGM. The Annual Report states that no Board member engaged in any business or competed with the Bank in 2011. The Bank confirmed, upon engagement, that this continued in 2012.

An official declaration confirming the careful preparation of financial statements is provided by the Chairman, General Manager, the Audit Committee members and the responsible financial officers in the Annual Report. Turkish Law foresees the joint liability of the Board. In accordance with this, the AoA states that the Board should perform and carry out its duties in accordance with the provisions of the Capital Markets Law, Turkish Commercial Law and the AoA.

A performance evaluation of the Board and its key Committees has been carried out in 2011 and 2012. Şekerbank has a formal training/compliance program for new Board members. The Corporate Governance Committee conducts an orientation program for the newly-appointed members. The 2011 Annual Report provides details on the Bank's comprehensive orientation program.

There are no sanctions foreseen for employees that obstruct the flow of information to Board members, apart from the ones foreseen in Turkish Labor Law.

4.2 BOARD STRUCTURE

The Bank's AoA suggests a minimum Board size of nine members with a maximum of 13 members. The

current Board is composed of twelve members, which is an increase from last year as the Board filled a vacancy. On 30 November 2012 the Bank announced that Nariman Zharkinbayev and Oleg Tsurkan joined the Board as non-executive directors (NEDs). Former executive director Tatiana A. Filippova stepped down from the Board on 9 August 2012; however, she remains within the Bank as a consultant to the Board.

According to the Bank, three Board members are considered to be independent. We note that pursuant to the CMB Communiqué Series: IV, No.56 which took effect on 30 December 2011, it is sufficient to have three independent NEDs for a company of Şekerbank's size.

The suggested separation of the Chairman of the Board and the General Manager is followed. Mr. Dr. Hasan Basri Gökten serves as the Board's Chairman and Mrs. Meriç Uluşahin serves as the General Manager. Mr. Arman Dunayev serves as the Vice-Chairman.

Name	Role	Independent
Dr. Hasan Basri Gökten	Chairman	
Arman Dunayev	Vice-Chairman	
Meriç Uluşahin	ED, General Manager	
Emin Erdem	ED	
Erdal Batmaz	ED	
Halil Can Yeşilada	NED	
Erdal Arsaln	NED	x
Khosrow K. Zamani	NED	x
Ulf Wokurka	NED	x
Anvar Saidenov	NED	
Nariman Zharkinbayev	NED	
Oleg Tsurkan	NED	

Appointed Board members at Şekerbank seem to be highly qualified and show a high level of knowledge and experience, reflected in their long-lasting career backgrounds.

There is no age limit prescribed in the Bank's AoA. Pursuant to the current AoA, Board members are elected for a maximum period of three years, with re-election possible at the end of term. As for diversity on the Board, ICS notes that there is one

woman serving on the Board (who also serves as the Bank's General Manager) - Meriç Uluşahin, which is in compliance with the CMB recommendations.

No lawsuits were brought against Board members with regard to the Bank's activities during the period under review.

Finally, in reference to the election of the Board members, Şekerbank does not permit cumulative voting. Cumulative voting is not yet practiced in the Turkish market although it is recommended by the CMB.

4.3 BOARD COMMITTEES

4.3.1 General

Şekerbank has established an Audit Committee, Corporate Governance Committee, Remuneration Committee and a Credit Committee. All four Committees met in 2011 and 2012. There is also an Assets & Liabilities Committee at the Bank's management level. By the time this Report was published, the Bank had not yet established a separate board committee for nominations and early detection of risks. The responsibilities of such committees are currently housed in existing Board Committees.

4.3.2 Audit Committee

The Audit Committee, reporting directly to the Board, oversees the financial and operational activities of the Bank. The Audit Committee scrutinizes the effectiveness and adequacy of the internal control and audit. The Audit Committee is also responsible for ensuring that measures are taken such that internal controls are transparent.

The Audit Committee needs to be comprised of two members nominated by the Board. These two members, in line with the relevant regulation, cannot assume executive roles and have the qualifications specified in Article of the Regulation on Internal Systems of the Banks.

The Audit Committee's current composition, which is not in line with the CMB rules due to their independence, is as follows:

Name	Role	Independent
Halil Can Yeşilada	Chairman	
Arman Dunayev	Member	

The Audit Committee met 12 times during the 2011 financial year. Through engagement, the Bank stated that the Audit Committee also met 12 times in 2012. The external audit firm is invited to the meetings of evaluation of the financial statements if the Audit Committee members consider that its presence could help clarify issues.

4.3.2 Corporate Governance Committee

A Corporate Governance Committee has been established. This Committee's function is to assist the Board in creating and improving the Bank's governance structure and practices. The Committee's composition is as follows:

Name	Role	Independent
Khosrow K. Zamani	Chairman	x
Dr. Hasan B. Göktan	Member	
Halil Can Yeşilada	Member	
Ulf Wokurka	Member	x

Khosrow Kashani Zamani is the Chairman of the Corporate Governance Committee and is an independent Board member, which is in line with the CMB regulations. In addition, the Committee has two independent non-executives, which again meets the CMB Guidelines. The General Manager does not take part in this Committee but is able to attend Committee meetings upon invitation.

The Corporate Governance Committee met three times in 2011 and four times in 2012.

4.3.3 Credit Committee

The Credit Committee ensures compliance of the Bank's credit activities with the Bank's strategy as well as evaluating credit proposals across the Bank within the limits set by the Board. The Board is mandated to audit the activities of the Credit Committee. All Board members are authorized to request information from the Credit Committee, regarding their activities, and to execute any kinds of control that they deem to be appropriate.

The Credit Committee consists of at least two members who are appointed by the Board from amongst the members of the Board and the General Manager. This Committee is responsible for the performance of the duties specified by the Banking Law, or bestowed upon itself by the Board. The resolutions passed by the Credit Committee unanimously are executed directly whereas the resolutions passed by the majority are executed following the approval of the Board.

During 2011, this Committee met 45 times. In 2012, the Bank stated that the Credit Committee met 46 occasions. The Committee's composition is as follows (all members are executives):

Name	Role
Dr. Hasan B. Göktan	Chairman
Emin Erdem	Member
Meriç Uluşahin	Member
Erdal Batmaz	Member

4.3.4 Remuneration Committee

In 2012, in line with the latest CMB rules, Şekerbank established a Remuneration Committee. Remuneration matters were previously under the mandate of the Bank's Corporate Governance Committee. The General Manager, who should not be serving on such a Committee according to the CMB, serves as a member on the Remuneration Committee. To this end, the Bank stated that this was considered appropriate in light of this Committee being newly formed.

Name	Role	Independent
Dr. Hasan B. Göktan	Chairman	
Meriç Uluşahin	Member	
Anvar Saidenov	Member	
Erdal Arslan	Member	x

4.4 EXECUTIVES

The day-to-day running of the Bank is assigned to the senior management team. Below is the list of the Bank's senior management team as at the time of this Report's publication:

Name	Role
Meriç Uluşahin	General Manager
Orhan Karakaş	EVP - Corporate & Commercial Banking
Halit H. Yıldız	EVP – Small Business Banking
Zafer Ersan	EVP – Internal Audit
Abdullah Y. Akbulut	EVP – Loan Follow-Up
Çetin Aydın	EVP – Financial Control & Operations
Salih Zeki Önder	EVP – Financial Institutions
Ramazan Karademir	EVP – Credit Management
Abdurrahman Özçiğner	EVP – Retail Banking
Hüseyin Serdar	General Secretary
Nejat Bilginer	EVP – HR
Tanol Türkoğlu	EVP – Information Technology

Within ICS's analysis, no issues have been revealed that would cause doubt about the transparent, reliable and accountable work of the executives. The executive team reports to the Board and the Bank's results are scrutinized in comparison to the budget.

Penalties to be applied in cases of losses arising from the failure or underperformance of managers serving in the technical and administrative organization have not been specified in the Bank's public documents but are managed by local regulations as well as through the non-payment of bonuses.

From previous engagement, Şekerbank confirmed that it has Directors & Officers liability insurance.

4.5 FUNCTIONING OF THE BOARD

Şekerbank's Board convenes as required by the business, provided that it is at least once every three months. Board meetings are held upon the written invitation of the Chairman or one of the Board members. The Board meetings are held in Turkish but translators may be provided to non-Turkish speakers if requested in advance. During the 2011

financial year, 18 Board meetings took place. In 2012, the Board met on 17 occasions.

The agenda of the Board meeting is drafted by the Chairman and is submitted to all Board members by the secretariat of the Board at least one week before the date of the meeting via e-mail. The agenda may be revised in accordance with the suggestions of the Board.

Although all Board members are required to attend meetings in person, Şekerbank provides the provision to attend the meetings by using any technological methods that would provide remote access. The opinions of the members, who are not able to attend the meeting but present their opinions in writing, shall be submitted for the information of the other members. According to Şekerbank, travel and meeting expenses of the Board are paid out of the Bank's general budget.

Each Board member is entitled to one vote without any preferential voting or veto rights. The Board and majority decision quorum are both stated in the AoA. The quorum for the Board meetings is seven members and the resolutions are passed by the affirmative votes of the seven attending members. The provisions of the Banking Law, Capital Market Law, and the Turkish Commercial Code apply for all matters pertaining to the rights, powers, and responsibilities of the Board, and pertaining to the administration of the Bank, which have not been regulated in the Bank's current AoA. Board decisions are not effective until they are signed and recorded in the decision book.

It is not stated in the Bank's AoA if executives have to attend Board meetings. From previous engagement with the Bank, ICS was informed that executives attend meetings on a frequent basis and when called upon by the Board.

A board secretariat has been established in order to prepare and assist the Board meetings as well as to ensure convenient access to information for Board members. The meeting minutes and the decisions

taken by the Board are prepared in Turkish and in English.

In line with the CMB Guidelines, the Board members who cast negative votes must sign the minutes by also stating their justifications. The documents concerning the meeting as well as any related correspondences shall be archived by the secretariat. No such opposition or alternative opinion has been expressed in any of the Board meetings in 2011 and 2012. As such, the Bank made no announcement to this effect to the public.

Overall, the Board meetings appear to be conducted in an efficient and sound manner. Conducted interviews did not reveal any issue that could cause a different impression.

4.6 INTERNAL CONTROL & RISK MANAGEMENT

Şekerbank has defined and implemented a risk management and an internal control mechanism. This system is comprised of three divisions (internal audit unit, compliance and internal control unit, and risk management unit). All of these units report directly to the Board and the Audit Committee. Furthermore, Internal System Managers report directly to the Audit Committee as well. All types of risk confronting the Bank are also described in the Bank's Annual Report and the risk system is elaborated upon in the Corporate Governance Compliance Report.

Moreover, it is a duty of the Board to oversee whether or not the Bank complies with the relevant legislation, AoA, in-house regulations and policies. ICS did not reveal any instance that the Board would fail to fulfill this duty in an adequate manner.

Risk Management

Şekerbank's Risk Management System consists of all the decision-making, executing and as a consequence, monitoring, controlling and auditing bodies of the Bank; its scope, thus, covers: (i) the Board; (ii) senior management; (iii) internal systems; (iv) Committees established by the Board within the

Risk Management System; and (v) Committees established by senior management within the Risk Management System.

The Bank provides a detailed document on its website detailing its purpose and principles. The Risk Management System is under the supervision of the Bank's Audit Committee. Areas of interest for the Bank's investors are the tools of the Risk Management System, which include: (i) the establishment of risk limits; (ii) the segregation of duties and decision-making system; (iii) the establishment of sound communication channels (including financial and managerial reporting lines); (iv) the establishment of sound internal controls; and (v) the structuring of emergency and business continuity planning.

The Bank has identified the following risks which it may be exposed to: (i) strategic risk; (ii) credit risk; (iii) market risk; (iv) interest risk; (v) liquidity risk; and (vi) operational risk.

Internal Audit

The Bank's internal auditors are responsible for auditing the Bank's activities regarding compliance with the Banking Law and related regulations, other effective legislation and the Bank's internal strategies, principles, policies and procedures. This team also provides assurance to the Bank's Board of Directors and senior management regarding the effectiveness and adequacy of internal control and risk management systems.

The internal auditors continued to execute audits in 2011 and 2012 and focused on activities as central audits that utilize remote auditing techniques and process audits where the effectiveness and sufficiency of the internal controls over the information systems and banking processes are evaluated.

In 2011, 15 separate banking processes were audited in addition to the reviews of processes related to the information systems all in line with the Cobit framework. Moreover, the auditing of 140 branches, 34 units and six participations were executed;

special purpose and short-term "spot audit" activities were carried out in 30 branches.

Reports of the audit activities were summated to the Audit Committee as well as the Bank's senior management team. Actions taken with regards to these audit findings were also closely monitored by the Audit Committee.

Internal Control and Compliance Unit

In 2011 and in 2012, both the central and on-site control activities over the Bank's products, services and operations were conducted in this fashion. New business procedures, services and operations were evaluated before being implemented as a part of the Bank's attempts to establish sufficient internal controls.

During central controls conducted by the Internal Control and Compliance Unit, operations run by the business units and the consistency and reliability of the information systems and accounting processes were controlled.

4.7 REMUNERATION

In line with the CMB Guidelines, the Bank provides shareholders the opportunity to vote on its remuneration policy at AGMs. For Board members, the fees are determined at the AGMs and are determined based on the time required for the Board meetings, pre-meeting and post-meeting preparations and the performance of duties.

Each Board member receives TL 6,000 (previously TL 5,500). Full-time Executive Directors and Audit Committee members are paid TL 18,000. The Executive Chairman is paid a net amount equal to three-fold this amount and a premium as per the relevant regulation. Statutory auditors are paid a net monthly salary of TL 4,000 (previously TL 3,500). No additional attendance fees, as suggested by the CMB, are paid.

The Bank's remuneration package for its senior management consists of the following: (i) basic

salary; (ii) annual bonus; and (iii) benefits. The salary levels are regularly reviewed in order to be able to reflect market trends and the individual's performance. Through engagement, the Bank stated that the senior management receives annual bonuses which are determined by the Remuneration Committee in line with yearly targets. ICS notes that the Bank currently does not offer any equity to its senior managers as part of their remuneration package.

No loans were extended to the Board members on the basis of the criteria set forth in Article 50 of the Banking Law. In addition, no credits were granted under the name of personal credit through a third party or guarantees in their favor. There is no non-conformity to the Banking Law regarding loans, credits, etc. to be extended by the Bank to any Board member.