



2014 BKT – COMPLIANCE REPORT WITH ALBANIAN CORPORATE GOVERNANCE CODE

Statement of Compliance with Corporate Governance Code

Banka Kombetare Tregtare (the Bank) complies with the corporate governance principles determined by the Corporate Governance Code (Code) for unlisted joint-stock companies in Albania, considering their correct application of utmost importance. The Bank accordingly updates its annual reports and website, making them available to its stakeholders.

As a result of its commitment to the corporate governance principles, BKT implements successfully several practices, which are not part of the corporate governance code of Albania but are recommended by the OECD Corporate Governance Principles.

The Code, which contains 14 principles, was published in the beginning of 2012 based on OECD Corporate Governance Principles. Following are analyzed BKT compliance with all Principles of the Code except for Principle number 9 regarding family-controlled companies, which is omitted. The principles that are not complied with by the Bank are stated under the relevant headings below, together with the reasons of non-compliance.

- *Principle 1: Shareholders of companies should establish an appropriate constitutional and governance framework for the company.*
- *Principle 2: Every company should strive to establish an effective board which is collectively responsible for the long-term success of the company, including the definition of the corporate strategy.*
- *Principle 3: The size and composition of the board should reflect the scale and complexity of the company.*
- *Principle 4: The board should meet sufficiently regularly to discharge its duties, and should be supplied in a timely manner with appropriate information.*
- *Principle 5: Levels of remuneration should be sufficient to attract, retain and motivate executive and non-managing directors of the quality required for running the company successfully. Individuals should not be responsible for setting their own remuneration. Arrangements for remunerating directors should be approved by shareholders, especially when this involves grants of shares and options.*
- *Principle 6: The board is responsible for risk oversight and should maintain a sound system of internal control to safeguard company's interests and shareholders' investments.*
- *Principle 7: There should be a dialogue between the board and the shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with all shareholders takes place.*

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- *Principle 8: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.*
- *Principle 9: Family-controlled companies should establish family governance mechanisms that promote coordination and mutual understanding amongst family members, as well as organize the relationship between family business governance and corporate governance.*
- *Principle 10: There should be a clear division of responsibilities at the head of the company between the running of the board and the running of company business. No one individual should have unfettered powers of decision.*
- *Principle 11: The Board should contain directors with sufficient mix of competences and experience. No single person (or small group of individuals) should dominate the board's decision making. Due regard should be paid for the benefits of diversity on the Board, including gender.*
- *Principle 12: The board should establish appropriate board committees in order to allow a more effective discharge of its duties.*
- *Principle 13: The board should undertake periodic appraisal of its own performance and that of each individual director.*
- *Principle 14: The board should present a balanced and understandable assessment of the company's position and prospects for stakeholders, and establish a suitable program of stakeholder engagement.*

Following is the information on BKT compliance with each principle of the code:

- *Principle 1: Shareholders of companies should establish an appropriate constitutional and governance framework for the company.*

BKT has established a basic framework for corporate governance in its organizational structure. The authorities and responsibilities of the Shareholder, Board and Top management are separately defined in the Articles of Association. According to this document, the Board has the responsibility for leadership, monitoring and auditing whereas the CEO and Top managers are responsible for the management of the Bank.

Stakeholders' rights are also taken into consideration in the Bank's internal documents, such as its human resources policy, customers' contracts, social responsibility policy, etc.

- *Principle 2: Every company should strive to establish an effective board which is collectively responsible for the long-term success of the company, including the definition of the corporate strategy.*

BKT has a two-tier system of governance. The Board of Directors includes the CEO and 4 Non-executive members, one of whom holds the post of Chairman. The Executive Board



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includes the CEO, 8 Group Heads, the Country Manager of Kosovo Branch and the Network Division Head. Their authorities and responsibilities are separately defined.

The 2013 activities of the Board of Directors were approved at the general meeting held on March 25, 2014.

No warning, reprimand or penalty was issued from public authorities.

- *Principle 3: The size and composition of the board should reflect the scale and complexity of the company.*

BKT's Board of Directors is composed of the CEO and 4 Non-executive members. All members have sufficient banking experience and managerial competence to meet the requirements of the business.

Board membership criteria, election process, number of members, incumbency and dismissal have been detailed in the internal document titled "Regulation on Functioning of Board of Directors".

During the monitoring period, there was no change in the composition of the Board of Directors.

- *Principle 4: The board should meet sufficiently regularly to discharge its duties, and should be supplied in a timely manner with appropriate information.*

The Board of Directors holds meetings at least once a month and additional meetings can be called if necessary. A written procedure on the structure of the meetings is included in the internal arrangement.

Board of Directors' meeting was held once a month in the monitoring period and all members were generally joined with few exceptions.

- *Principle 5: Levels of remuneration should be sufficient to attract, retain and motivate executive and non-managing directors of the quality required for running the company successfully. Individuals should not be responsible for setting their own remuneration. Arrangements for remunerating directors should be approved by shareholders, especially when this involves grants of shares and options.*

BKT established a written and disclosed "Remuneration Policy" for the Board members and top managers in the beginning of 2014.

The remuneration of directors and executives officers was totally disclosed to the public.



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- *Principle 6: The board is responsible for risk oversight and should maintain a sound system of internal control to safeguard company's interests and shareholders' investments.*

BTK has an internal audit department named “Internal Audit Group” which reports directly to the Board of Directors. The group’s authority, responsibilities and working principles are well defined in written form.

BKT’s 2013 financial tables were audited by the independent audit firm Deloitte Albania Ltd; same firm audits the Bank in 2014.

Bank had a clear report from the Deposit Insurance Agency in the yearly inspection of 2014.

The 2013 Internal audit plan was successfully performed by the Internal Audit Group in the monitoring period. The group also prepared 2014’s plan and submitted it to the Board.

The Internal Audit Group carried out internal control activities. “Continuous Monitoring Report” was produced quarterly by the group and submitted to the Board regularly during the monitoring period.

Risk Management Group monitors credit, market, liquidity and operational risks and reports regularly to the top management of the Bank and Bank of Albania.

- *Principle 7: There should be a dialogue between the board and the shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with all shareholders takes place.*

100% of BKT’s shares belong to the Turkish company Çalık Finansal Hizmetler A. Ş. The Bank does not currently require a separate “Investor Relations Department”. However, one of the Top management members, Mr. Skender Emini, is responsible for the relations between the Bank and the Shareholder. This assignment is defined in written in the authorities and responsibilities of the internal regulations.

The 2013 ordinary general meeting was held on March 25, 2014, at 4.00 p.m., in the Headquarters building in Tirana. Following the meeting, relevant documents such as invitations, list of attendants and minute were not disclosed to the public on the internet site. However, the decision taken such as no dividend to be distributed last year, was approved by shareholder in the general meeting of the shareholders and is disclosed to the public through the document “Profit Distribution Policy”.

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- *Principle 8: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.*

Although the Bank does not provide any educational opportunities, the current Board members have banking experience in different countries and companies and the opportunity to continually update their knowledge and increase their skills.

- *Principle 9: Family-controlled companies should establish family governance mechanisms that promote coordination and mutual understanding amongst family members, as well as organize the relationship between family business governance and corporate governance.*

This principle is not applicable to our bank as it refers to family-controlled companies.

- *Principle 10: There should be a clear division of responsibilities at the head of the company between the running of the board and the running of company business. No one individual should have unfettered powers of decision.*

The Chairman and the CEO of the Bank are different individuals and their responsibilities are defined explicitly in the Articles of Association and other related documents. The current Chairman, Mehmet Usta, does not perform any managerial duties in the Bank and serves as a Non-executive member of the Board. No individual possesses the right of veto amongst members.

- *Principle 11: The Board should contain directors with sufficient mix of competences and experience. No single person (or small group of individuals) should dominate the board's decision making. Due regard should be paid for the benefits of diversity on the Board, including gender.*

The Board of Directors is composed of five members; the CEO, three Non-executives and one Independent member. Board meetings are held at least once a month and are attended by all members.

Although all members have banking experience, one is a lawyer and one a professional manager. This structure can be assessed as sufficiently diverse although there are no female Board members.

Board meetings are conducted according to democratic rules, all members are able to contribute in the meeting and no single individual dominates the decision making.



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- *Principle 12: The board should establish appropriate board committees in order to allow a more effective discharge of its duties.*

No committees were established within scope of the Board. So far, the Board of Directors is managing all its duties under its structure. Considering the structure, complexity of the activities and risk profile of the bank, the creation of specialized Board Committees has not been deemed necessary.

- *Principle 13: The board should undertake periodic appraisal of its own performance and that of each individual director.*

So far, the Board members' evaluations are made by the Shareholder, while the Top management's evaluations are made by the CEO and the Board of Directors. During 2012, the bank has established the strategic management system based on balanced scorecard reporting which provides detailed information on targets defined, which can be further treated as individual performance tool.

The Bank has not yet established an approved written performance appraisal system for the Board of Directors and top management. This document is planned to be finalized in alignment with Group's Policy.

- *Principle 14: The board should present a balanced and understandable assessment of the company's position and prospects for stakeholders, and establish a suitable program of stakeholder engagement.*

BKT reserves an internet page for transparency on its web site and provides information and documentation to its Shareholder and stakeholders.

BKT's website is kept up to date. Significant improvements in the Bank's organizational structure and operations are published in a timely manner.

The bank published a "compliance report" which explains its compliance with the corporate governance code of Albania in its web site in 2013.

The Bank's quarterly financial statements were regularly released to the public on the internet site.

The Bank's management prepared the 2013 annual report with rich content.