



2013 BKT – COMPLIANCE REPORT WITH ALBANIAN CORPORATE GOVERNANCE CODE

Statement of Compliance with Corporate Governance Code

BKT 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 not part of the corporate governance code of Albania but which 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 Board of Directors determines the Bank's vision and mission, which are also approved by the Shareholder and then disclosed to the public via the Bank's web site. Corporate strategies, Bank values, business conduct and ethical rules are prepared by the Executive Board and approved by the Board of Directors.

The Board conducts sufficient monitoring and auditing through its internal auditing and risk management departments. The Bank has also a good level of compliance with internal regulations such as the articles of association as well as the relevant legal, regulatory and corporate governance requirements.

- *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".

An official succession plan for the positions of Chairman, Vice-chairman and CEO that will ensure stable and sustainable governance is in place.

- *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.

The Bank has established a functional secretariat with defined authorities, responsibilities and working principles. All members are provided with relevant information and documentation a week prior to the meeting, and all resolutions and minutes are archived regularly. The secretariat also responds to the member's questions and demands for any specific information and/or documentation related to the meeting's agenda.

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- *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.*

The Bank has approved in the beginning of 2014, a written “Remuneration Policy” for the Board members and Top managers, and the level of their remuneration has the required evaluation and approval. More specifically, a fixed fee determined by the shareholder solely is paid to the Board members. The top managers’ remuneration is determined by the Board of Directors in accordance to their individual performance. Board members or Top management are not involved in the determination of her /his own remuneration.

Remuneration of the Board members and Top managers are disclosed in two separate groups in aggregate terms in the Bank’s web site.

- *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 2012 financial tables were audited by the independent audit firm, KPMG Albania. The Bank, in 2013 has signed the new agreement with Deloitte Albania audit firm, which will carry out independent auditing activities in 2013 and 2014. The audit committee carried out the process of external audit firm’s election and the final decision was taken by the General Assembly.

The Bank has established a separate Risk Management Group. All authorities, responsibilities and working principles have been explicitly defined in writing. The managers and experts of the sub-departments have the sufficient qualifications and education to meet the requirements of their duties. The group reports periodically directly to the CEO. Risk Management Policy was revised by the Risk Management Group and approved by the Board in August 2013. This 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 Board of Directors conducts a continual and effective communication with the Shareholder through this department.

The Legal Affairs Department organizes a general Shareholder meeting attended by all Board members at least once a year. BKT complies with this principle at a very high level.

- *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.*

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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. Twelve Board of Directors' meetings were held in one year period and all decisions were generally taken unanimously with few exceptions.

The function of supervision is fulfilled by the Board with the help of the internal audit and risk management departments.

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

BKT established an Audit Committee and defined its authorities and responsibilities in written form. This Committee is responsible for the coordination of all internal audit activities and carries out the relationships with the independent audit firm. No member of the Board of Directors sits on the Audit Committee.

As soon as the Central Bank's regulation related to Board practices for the application of change on the law regarding the independent members of the Board is clarified, the Audit Committee composition will be revised.

Nomination, Remuneration and Compliance Committees have not yet been established within the 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. However, in order to fully comply with this requirement of the code, the Bank is preparing a written performance appraisal system for the Board of



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Directors and the Top management, which 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. The mission and vision, partnership structure, Board members and Top managers' CVs, articles of association, annual reports, independent audit reports, organizational chart, and policies such as environmental, anti-money laundering, information etc. are published on the web site. The Bank also publishes an annual report which includes items required in the code.