



Corporate Governance and Credit Rating Services, Inc.

Corporate Governance Rating Report



28 December 2011

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## Rating and Executive Summary

### YAPI ve KREDİ BANKASI A.Ş.

 SAHA  
Corporate Governance Rating:

**8.80**  
**BNK**

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MAIN SECTIONS: **Avg. 88.00**

Shareholders: 87.14



Public Disclosure & Transparency: 92.46



Stakeholders: 95.38



Board of Directors: 78.18



0 10 20 30 40 50 60 70 80 90 100

## EXECUTIVE SUMMARY

This report, on rating of Yapı ve Kredi Bankası A.Ş.'s (Yapı Kredi) compliance with Corporate Governance Principles is prepared upon conclusions following detailed analysis of the bank. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Yapı Kredi obtained an overall Corporate Governance rating of **8.80** as a result of these examinations. The details of this study are listed in the subsequent chapters of the rating report. We observed that Yapı Kredi took the necessary steps to determine its governance risks and improved in setting up sound internal controls and management systems. There is still room, on the other hand, for improvements in order to fully comply with the CMB's Corporate Governance Principles.

Under the **Shareholders** heading, Yapı Kredi scored **8.71**. A shareholder relations department is established to ensure that shareholders' rights to obtain and evaluate information are observed diligently. The processes of preparation for the general shareholders' meeting, its conduct and publication of its results comply with the relevant legislation. The bank has a consistent dividend distribution policy and there are no voting privileges and upper ceilings applied to voting rights. Shareholders are treated equally and there are no limitations on the transfer of shares. However; shareholders do not have the right to request appointment of special auditors from the general shareholders' meeting, there is no enlargement of the scope of minority rights (beyond the required 5%) in the articles of association of the bank, and cumulative voting procedures are not embraced. These are main areas under this heading that need improvement.

Yapı Kredi attained **9.25** under the **Public Disclosure and Transparency** chapter. The website, annual report, information policy, and the corporate governance compliance report of the bank are duly comprehensive. Dividend policy, as well as the ethical rules of the bank are disclosed to public. The independent audit process complies entirely with the legislation. Details of executive compensation, however, are not disclosed in the annual report of the bank.

On the topic of **Stakeholders**, Yapı Kredi scored a well-deserved **9.54**. Relations with stakeholders are at a very high and satisfactory level. The human resources policy is fully comprehensive and duly applied. Requests and needs of borrowers for bank products and services are met diligently. It is also worth noting that Yapı Kredi's corporate consciousness about and sensitivity to social responsibilities and environmental issues deserves special commendation.

In the domain of the **Board of Directors**, Yapı Kredi's tally is **7.82**. The board of directors duly performs all its fundamental functions. Sound risk management and internal control mechanisms are in place and there is an active and efficient audit committee. However, there are no independent members in the board hence not in the corporate governance committee. Qualified and experienced executives work with principles of fairness, transparency, accountability, and responsibility. Nevertheless, the fact that there are no independent members on the board and the inexistence of a provision in the articles of association of the bank that defines procedures for shareholders or stakeholders to invite the board to convene are the areas which need further improvements.

#### DISCLAIMER

This Corporate Governance Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) based on information made available by Yapı ve Kredi Bankası A.Ş. and according to the Corporate Governance Principles by the Turkish Capital Markets Board as amended on 2005.

This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the degree of sensitivity of a company to its shareholders' and stakeholders' rights, its commitment to public disclosure and transparency, and conduct and credibility of its board of directors.

The contents of this report and the final corporate governance rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

SAHA A.Ş. has embraced and published on its web site ([www.saharating.com](http://www.saharating.com)) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

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## Rating Methodology

SAHA's methodology for rating the degree of compliance with the Principles of Corporate Governance is based upon the CMB's Corporate Governance Principles released on July 2003, as revised on February 2005.

The CMB based these principles on the leading work of The World Bank, Organization of Economic Cooperation and Development (OECD) and the Global Corporate Governance Forum (GCGF), which has been established in cooperation with the representatives of these two organizations and private sector. Experts and representatives from the CMB, the Istanbul Securities Exchange and the Turkish Corporate Governance Forum have participated in the committee that was established by the CMB for this purpose; additionally many qualified academicians, private sector representatives as well as various professional organizations and NGOs have stated their views and opinions, which were added to the Principles after the required evaluations. Accordingly, these Principles have been established as a product of contributions of all high-level bodies.

Within the Principles, "comply or explain" approach is valid. The implementation of the Principles is optional. However, the explanation concerning the implementation status of the Principles, if not detailed reasoning thereof, conflicts arising from inadequate implementation of these Principles, and explanation on whether there is a plan for change in the company's governance practices in the future should all be included in the annual report and disclosed to public.

The Principles consist of four main sections: shareholders, public disclosure and transparency, stakeholders and board of directors:

On the foundation of these Principles, SAHA Corporate Governance Rating methodology features over 350 code criteria. During the rating process, each criterion is evaluated on the basis of information provided by the company officials and disclosed publicly. Some of these criteria can be evaluated by a simple YES/NO answer; others require more detailed analysis and examination.


SAHA assigns ratings between 1 (weakest) and 10 (strongest). In order to obtain a rating of 10, a company should be in full and perfect compliance with the Principles (see Rating Definitions, p.19).

In compliance with the CMB's directive and to reach an overall Corporate Governance Rating, SAHA allocates the following weights to the four main sections of the Principles:

Shareholders: **25%**  
Disclosure and Transparency: **35%**  
Stakeholders: **15%**  
Board of Directors: **25%**

To determine the final overall rating, SAHA utilizes its proprietary methodology which consists of sub-section weightings and weightings for the criteria there under. A separate rating is assigned to each one of the main sections as well.

## Company Overview

Yapı ve Kredi Bankası A.Ş.	
	<b>CHAIRMAN</b> Mustafa V. Koç <b>CHIEF EXECUTIVE OFFICER</b> H. Faik Açıkalın
Yapı Kredi Plaza, D Blok Levent, 34330 İstanbul <a href="http://www.yapikredi.com.tr">www.yapikredi.com.tr</a>	<b>Subsidiaries and Shareholder Relations Manager</b> Erdoğan Tetik Tel: (0212) 339 64 31 <a href="mailto:erdinc.tetik@yapikredi.com.tr">erdinc.tetik@yapikredi.com.tr</a>

Turkey's first privately-owned bank with a nationwide presence, Yapı Kredi is the fourth largest private bank with total consolidated assets of TL 116 bln. as of 30 September 2011.

Yapı Kredi has an extensive customer base to which it delivers a comprehensive array of retail, SME (Small and Medium Size Enterprises), corporate, commercial, and private banking products and services as well as asset management, leasing, private pension, insurance, and brokerage services. It has financial subsidiaries in Turkey that complement the bank's strong, segment-based business structure and also international banking operations located in the Netherlands, Russia, and Azerbaijan. Yapı Kredi has one branch outside the country and furthermore owns 30.67% of Banque de Commerce et de Placement S.A. which is established in Switzerland.

Yapı Kredi's principal shareholder, Koç Financial Services (KFS), the 50-50% joint venture between UniCredit and Koç Group, controls an 81.80% stake in the bank while minorities' stake is 18.20%. Yapı Kredi's public shares have been trading at the Istanbul Stock Exchange (ISE) under the "YKBNK" code since 1987 and as GDRs on the London Stock Exchange. Yapı Kredi is a constituent of ISE 100 (XU100), ISE 50 (XU050), ISE 30 (XU030), ISE 10 Banks (XBN10), ISE Corporate Governance (XKURY), ISE All Shares (XUTUM), ISE National (XULUS), ISE Financials (XUMAL) and ISE Banks (XBANK) indices.

As of September 2011, Yapı Kredi is sector leader in credit cards (17.7%), leasing (18.9%), and factoring (17.8%). Bank also plays a leading role by ranking second in asset management (17.7%), third in stock brokerage services (5.6%), fourth private pension funds (16.1%), and fifth on life (5.9%) and non-life (6.1%) insurance services.

Again as of September 2011, Yapı Kredi, for banking services, owned Turkey's fifth largest branch network with 894 branches. The Bank also possesses developed alternative distribution channels with 2,615 ATMs, two call centers, and internet and mobile banking services.

<b>Capital Structure of Yapı Kredi</b>		
<b>Name</b>	<b>Share Amount (TL)</b>	<b>Share %</b>
Koç Finansal Hizmetler A.Ş.	3,555,712,396.07	81.80
Public Shares	791,338,887.93	18.20
<b>Total</b>	<b>4,347,051,284.00</b>	<b>100.00</b>

Koç Finansal Hizmetler A.Ş. was established on 16 March 2001 to combine Koç Group of finance companies under one organization and it became the main shareholder of Koçbank in 2002. As of 22 October 2002, Koç Group established a strategic partnership with UniCredit SpA over Koç Finansal Hizmetler A.Ş. Therefore, the bank is currently a joint venture of UniCredit SpA and Koç Group.

The capital structure of Koç Finansal Hizmetler A.Ş. as of 30.09.2011 is as follows:

<b>Capital Structure of Koç Finansal Hizmetler A.Ş.</b>		
<b>Name</b>	<b>Share Amount (TL)</b>	<b>Share %</b>
Koç Group	1,505,637,434.22	50.00
UniCredit SpA	1,505,637,434.22	50.00
<b>Total</b>	<b>3,011,274,868.44</b>	<b>100.00</b>

The Board of Directors of the bank as of 30.09.2011 has shaped as follows:

<b>Yapı Kredi Board of Directors</b>	
<b>Name</b>	<b>Post</b>
Mustafa V. Koç	Chairman
Gianni Franco Giacomo Papa	Vice Chairman
H. Faik Açıklalın	Member – Chief Executive Officer (CEO)
Carlo Vivaldi	Member – Executive Director and Deputy CEO
Ahmet F. Ashaboğlu	Member
F. Füsün Akkal Bozok	Member
Osman Turgay Durak	Member
Massimiliano Fossati	Member
Vittorio Giovanni Maria Ogliengo	Member
Francesco Giordano	Member

Selected balance sheet figures of Yapı Kredi are as follows:

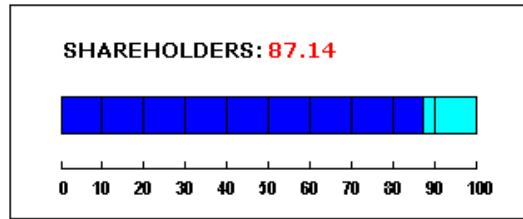
<b>Selected Balance Sheet Figures (million TL)</b>			
	<b>2009</b>	<b>2010</b>	<b>Annual Growth %</b>
<b>Total Assets</b>	71,734	92,814	29
<b>Cash Loans</b>	38,863	54,243	40
<b>Deposits</b>	3,375	55,207	27
<b>Managed Assets *</b>	6,991	8,444	21
<b>Operating Income</b>	6,071	6,649	10
<b>Other Operating Expenses</b>	2,510	2,693	7
<b>Net Income</b>	1,553	2,255	45

\* Including investment funds, pension funds, and private portfolio management

<b>Selected Financial Ratios (31.12.2010)</b>		
	2009	2010
Loans/Assets	54 %	58 %
ROE	23 %	27 %
Cost/Income Ratio	41 %	41 %
Non-performing Loans	6.3 %	3.4 %
Capital Adequacy Ratio (Group)	16.5 %	15.4 %



## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Shareholder relations department have been established and active
+	No upper limit of voting in the articles of association
+	General shareholders' meetings are conducted in compliance with rules and regulations
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Dividend policy is defined
+	Equal treatment of shareholders
+	Voting rights are facilitated
+	No voting privileges
+	No limitations on the transfer of shares
-	Shareholders do not have the right to request appointment of special auditors from the general shareholders' meeting
-	No enlargement of the scope of minority rights (beyond the required 5%) in the articles of association
-	Lack of cumulative voting procedures

In exercising shareholders' rights, legislation, articles of association and other in-house regulations are applied. To ensure use of such rights, to report to the board of directors, and to ensure communication between the bank's top management and the shareholders; within the office of compliance, the Subsidiaries and

Shareholder Relations Department working in accordance with the CMB legislations, and within financial planning and management, an Investor Relations and Strategic Planning Department have been established.

In order to broaden the scope of shareholders' right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, are updated on a regular basis on the bank's web site, [www.yapikredi.com.tr](http://www.yapikredi.com.tr). In the articles of association, however, there is no provision that allows individual shareholders the right to request from the general shareholders' meeting the appointment of a special auditor for the examination and clarification of a specific material situation.

Yapı Kredi is contented with the recognition of minority rights at 5%, which is what the current legislation requires. The articles of association of the bank do not allow the execution of cumulative voting procedures which will make it possible for minority shareholders to appoint their representatives to the board.

There are no provisions to apply certain ceilings on the number of votes a shareholder might exercise and no obstacles to the implementation of voting rights of foreign investors. Similarly, the articles of association of the bank do not contain any provisions that dictate any voting privileges.

The procedures followed prior to and the conduct of the general shareholders' meeting comply with the legislation as well as rules and regulations and serve to facilitate the

use of shareholders' statutory rights. Shareholders are duly provided with all relevant information prior to and during the meeting.

The right to vote is automatically granted once the share is acquired and there are no arrangements that would postpone the exercise of the right to vote a certain period following the acquisition of the share. Voting was conducted through open ballot and by raising hands during the general shareholders' meeting.

Yapı Kredi has a consistent dividend distribution policy which is disclosed to the public. The bank does not carry out any interim dividend payments and no such provisions exist in the articles of association. However, it should be noted that regulatory and supervisory public authorities do not really embrace this matter.

Neither the articles of association of the bank nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares.

All shareholders, including minority shareholders and foreign shareholders are treated equally.

### **1.1. Facilitating the Exercise of Shareholders' Statutory Rights:**

In exercising shareholders' rights; legislation, articles of association and other in-house regulations are applied and necessary precautions to ensure use of such rights are adopted. To ensure use of such rights, to report to the board of directors, and to ensure communication between the bank's top management and the shareholders; within the office of compliance, the Subsidiaries and Shareholder Relations Department working in accordance with the CMB legislations, and within financial planning and management, an Investor Relations and Strategic

Planning Department have been established.

Both departments are adequately staffed in terms of CMB regulations, training, number, and experience. The staff is observed to be dedicated and committed to proper application of corporate governance principles and best practices.

These departments make sure that shareholder records are kept up-to-date, secure and properly. Shareholders' written queries for information (excluding the information that is confidential and classified as trade secret) are replied to promptly; appropriate preparation is done to ensure that the general shareholders' meeting is conducted in accordance with the legislation, the corporate statute and other in-house regulations; documents to be used by the shareholders at the meeting are prepared; records of voting results are kept and all reports related to the resolutions of the general shareholders' meeting are sent to the shareholders; all issues concerning investor relations and public disclosure, including the related legislation and information policy of the bank are supervised.

### **1.2. Shareholders' Right to Obtain and Evaluate Information:**

There is no discrimination among shareholders when exercising their right to obtain and evaluate information. With regard to facilitating shareholder rights, all necessary information and documentation are available for and easily accessible by the shareholders. The information is submitted as complete, accurate and in a timely and diligent manner.

The bank's obligation to inform shareholders, which is mandatory under BRSA legislation, includes legal or commercial relationships with other

enterprises or individuals with whom there is a direct/indirect managerial, administrative, supervisory or ownership related relationship. In order to broaden the scope of shareholders' right to obtain and evaluate information, any type of information that may affect the way in which shareholders exercise such rights, are updated on a regular basis in electronic form.

In the articles of association, however, there is no provision that allows individual shareholders the right to request from the general shareholders' meeting the appointment of a special auditor for the examination and clarification of a specific material situation.

### **1.3. Minority Rights:**

Yapı Kredi recognizes minority rights at 5%, which is what the current legislation of public companies requires. However, it would be more appropriate if an enlargement of the scope of minority rights is attained through the regulations in the articles of association, as recommended by the CMB's Corporate Governance Principles.

The articles of association of the bank do not allow the execution of cumulative voting procedures which will make it possible for minority shareholders to appoint their representatives to the board. These are main areas under this heading that will need improvement.

On the positive front, the articles of association of the bank does not contain any provisions to apply certain ceilings on the number of votes a shareholder might exercise and no provisions of voting privileges are present.

There are no obstacles to the implementation of voting rights of

foreign investors and proxy forms are announced for those domestic and international shareholders who will appoint a proxy for the meeting and these forms are also made available for use to shareholders on electronic media.

### **1.4. The Right to Participate in the General Shareholders' Meeting:**

Prior to the general shareholders' meeting, records of the Central Registry Agency (CRA) are taken into account in order to ensure attendance of real shareholders at the meeting.

The procedure, content and timing of invitation to the general shareholders' meeting, allowed shareholders to acquire adequate information about the agenda items to be discussed prior to the meeting and enabled preparations thereto. Additionally, the board prepared an informative document regarding the agenda items and disclosed it to the public.

In addition to the methods of invitation in the legislation and in a timely manner in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting was performed through all means of communication available to the bank and was published in a nationwide newspaper, in special events disclosures made to the ISE as well as the bank's web site.

All announcements prior to the shareholder meeting included information such as the date and time of the meeting; without any ambiguity exact location of the meeting; agenda items of the meeting; the body inviting the general shareholders' meeting; and the place where annual report, financial statements and other meeting documents can be examined.

The board made all relevant documentation pertaining to the

agenda items ready and disclosed those to public.

Prior to the general shareholders' meeting, financial statements and reports including the annual report; all other related documents pertaining to the agenda items were made available to all shareholders for examination purposes in the most convenient places including the headquarters or branches of the bank and also in electronic form.

Information submitted to the shareholders before the conduct of general shareholders' meeting was easily associated with agenda items. Such information consisted of references and citations pertaining to the agenda items to be discussed. Agenda items were put under a separate heading and expressed clearly in a manner not to result in any misinterpretations. Expressions like "other" and "various" were not used.

Voting procedure and proxy forms were posted on the web site promptly and appropriately for those who would appoint a proxy for the general shareholders' meeting.

While preparing the agenda, the board gave due attention to the issues raised within the Subsidiaries and Shareholder Relations Department and to the issues that shareholders wish to include in the agenda.

The meeting took place at the headquarters of the bank. The location was easily accessible and appropriate for the predicted attendance level of shareholders. The meeting did not lead to any discrimination among the shareholders, and took place with at least possible cost, and in the least complex manner. Agenda items were expressed in an unbiased and detailed manner with, clear and concise method in the general shareholders' meeting. Shareholders were provided

with equal opportunities to express their opinions and raise any questions, and a sound discussion environment was created.

The board ensured that the total number of votes to be cast by shareholders during the meeting is determined and classified, and the shareholders are informed by the chairman at the start of general shareholders' meeting. The meeting served as a forum of shareholders in which the annual report and the bank's performance indicators are discussed. As per the 334th and 335th items of the Turkish Commercial Code, board members obtained the permission from the general shareholders' meeting to enter into transactions with the bank or to be involved in competition with the bank, and the shareholders have been informed if and how this permission is going to be exercised.

The chairman conducted the meeting on fair grounds, and in an efficient manner that would enable shareholders to exercise their rights. The chairman ensured that each question imposed by any of the shareholders was answered directly in the general shareholders' meeting. Shareholders were given the opportunity to present their opinions and suggestions regarding the remuneration policy of the board.

Some of the board members, auditors and authorized persons who are responsible for preparing the financial statements, and persons who are in a position to inform shareholders about peculiar agenda items participated in the meeting. The chairman of the meeting announced the reasons of absence of those board members who did not attend to the shareholders attention.

Each agenda item was voted separately, the votes were counted

and results of voting were announced before the end of the meeting. The minutes of the meeting are made available to the shareholders in writing and in electronic media at all times.

Since eight former members out of ten were re-elected, sufficient information was given to the shareholders in the annual reports distributed to them prior to the meeting. Also, verbal information about the new candidates was provided. Minimum requirements for disclosure of information about the candidates are not stated in the articles of association of the bank.

The audit firm explained in writing in its audit report whether or not the financial statements and other financial reports such as capital adequacy table comply with the current principles and standards; the statements and reports truly and completely reflect the real status of the bank; and whether or not there are any issues hindering the independence of the external auditor company.

### **1.5. Voting Rights:**

At Yapı Kredi, each shareholder, including those domiciled abroad, is provided with the opportunity to exercise his/her voting right in the most appropriate and convenient way. There are no ceilings applied on the number of votes that a shareholder may exercise during the general shareholders' meeting. The right to vote is automatically granted once the share is acquired and there are no arrangements that would postpone the exercise of the right to vote a certain period following the acquisition of the share. The articles of association of the bank do not contain any provisions that grant any voting privileges.

There are no provisions in the articles of association of the bank that prevent voting by use of a proxy who is not a

shareholder. Legal representations are documented in writing. The board communicates with the institutional representatives and institutional representation is based on open ballot.

Voting was conducted through open ballot and by raising hands during the general shareholders' meeting and shareholders were informed of the voting procedure prior to and at the beginning of the meeting. "One share, one vote" principle was duly observed at the meeting.

### **1.6. Dividend Rights:**

Yapı Kredi's dividend policy is clearly defined and disclosed to public. This policy, which takes into account prevention of deterioration of the delicate balance between shareholders' expectations and the bank's need for growth; taking into consideration of the bank's profitability, is submitted to the shareholders at the general shareholders' meeting and is incorporated in the annual report.

The bank's dividend distribution policy is defined in article 78 of the articles of association.

Yapı Kredi does not carry out any interim dividend payments and no such provisions exist in the articles of association.

### **1.7. Transfer of Shares:**

Neither the articles of association of the bank nor any decisions adopted at the general shareholders' meeting contain any provisions that impede the transfer of shares.

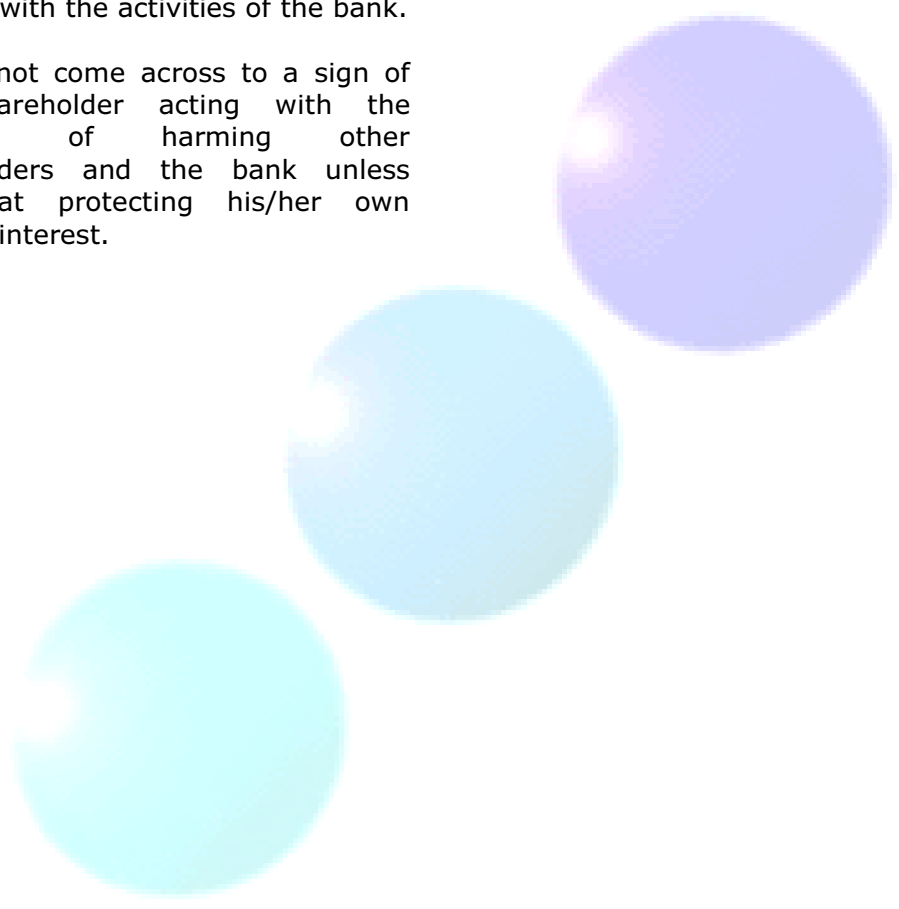
### **1.8. Equal Treatment of Shareholders:**

As a result of our examinations of the conduct, execution and minutes of the general shareholders' meetings, the articles of association, and interviews

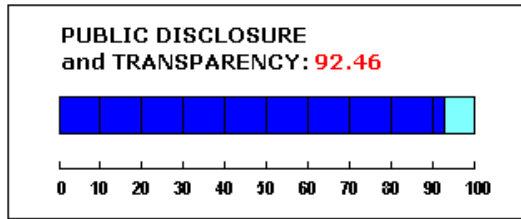
with bank officials, we have no reason to doubt the equitable treatment of shareholders.

Yapı Kredi officials, during the rating process, have also declared that the board of directors, executives, shareholders who are controlling the management, or other persons, who would have administrative responsibility, do not perform any activities on their own behalf which coincide with the activities of the bank.

We did not come across to a sign of any shareholder acting with the intention of harming other shareholders and the bank unless aimed at protecting his/her own justified interest.



## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	An information policy is established with regard to public disclosure
+	A corporate governance compliance report is established and disclosed to public
+	Dividend policy disclosed in the annual report
+	Ethical rules disclosed to public on the web site
+	Comprehensive web site, actively used for public disclosure
+	Comprehensive annual report complies with the legislation
+	Relations and modus operandi with independent auditors comply with rules and regulations
+	Concept of trade secret is defined and list of insiders is disclosed to public
-	List of ultimate controlling individual shareholders after being released from indirect or cross shareholding relationships between co-owners undisclosed
-	Unilateral declaration of intent of the board is not in the corporate governance compliance report
-	Minutes of important board meetings not posted on the web site

"Subsidiaries and Investor Relations Department" and "Investor Relations and Strategic Planning Department" are responsible for public disclosure tasks. The bank has established a

comprehensive information policy and disclosed it to the public. Any developments that may affect the value of the bank's capital market instruments are disclosed to public without any delay and within the time period required by the current legislation. However, CMB has recently imposed fines to Yapı Kredi, along with 5 other banks, for contradictions to communiqués Serial: VIII No: 43 and Serial: VIII No: 54.

A comprehensive corporate governance compliance report is prepared and duly disclosed to public by the bank. Dividend policy of Yapı Kredi is included in the annual report of the bank and disclosed to public within the framework of the bank's information policy. The bank has also disclosed its ethical rules on its web site.

The bank's website is actively used as a means of public disclosure. It is easily accessible, user friendly, and comprehensive. It is also available in English for foreign investors with the same content.

Transactions between the bank and board members, executives and shareholders are disclosed to public as per the CMB, ISE, and BRSA (Banking Regulation and Supervision Agency) regulations.

The periodical financial statements and their notes are prepared in accordance with the existing legislation and international accounting standards. The annual report of the bank is comprehensive and fully complies with rules and regulations. However, remuneration, bonuses and other benefits offered to the executives, and the audit firm's opinion about the

internal control system of the bank did not find space in the annual report.

The external audit of the bank is performed by a reputable and international company. The selection of the audit firm as well as the entire audit process fully complies with the existing legislation.

Yapı Kredi has incorporated the definition of information that falls within the scope of trade secret in its internal book of rules and regulations. A list of the names of executives and other persons/institutions who provide services to the bank, and who can potentially possess price-sensitive information is disclosed to public via compliance report.

Yapı Kredi complies with the legislation in terms of public disclosure and duly discloses all information about significant developments that must be disclosed to the public.

### **2.1. Principles and Means for Public Disclosure:**

"Subsidiaries and Investor Relations Department" and "Investor Relations and Strategic Planning Department" are responsible for public disclosure tasks. Mr. M. Erkan ÖZDEMİR, Mr. M. Gökmen UÇAR, Mr. Erdiñç TETİK, Mr. Hasan SADİ, Ms. Aysel TAKTAK, Mr. M. Akif YAZICI, Mr. Serkan SAVAŞ, Ms. A. Güldem PERE HATİPOĞLU, and Ms. Sema GÜRDAL are the holders of authorized signatures to use and operate the KAP (Public Disclosure Platform). It has been observed by us that these executives perform their duties in cooperation with the corporate governance committee.

In full compliance with the transparency principle, the bank accurately discloses its accounting policy and operational financial results to the public. The bank has established

its information policy and disclosed it to the public on its web site.

Said information policy is renewed and presented to the shareholders at the first general shareholders' meeting.

Yapı Kredi's information policy covers category of information to be disclosed to the public in addition to the requirements of the relevant legislation; form, frequency and methods of disclosure; the frequency at which the board and the executives would confront the press/media; the frequency at which meetings for public disclosure would be conducted; the method to be adopted in order to answer the questions submitted to the bank and other relevant issues. Furthermore, the type of information to be discussed at the general shareholders' meeting is included in the bank's information policy.

Structural organization of the board of directors as well executives, scope of activities and the corporate structures of the bank and legal or commercial relationships with other enterprises or individuals are duly disclosed to public. The system for bonuses payable to the board members and executives is incorporated in the articles of association of the bank.

Should there be a significant change in the financial status and/or operations of the bank, or in case of an expectation of such a significant change in the financial status and/or operations in the future, the information is disclosed to public, save for the relevant provisions of legislation. Any changes or new developments in the already disclosed information is also regularly updated and disclosed to the public.

A comprehensive corporate governance compliance report is duly included in the annual report of the bank as well as its web site. However,



a unilateral declaration of the board, which covers information about whether or not the principles are being properly applied and if the principles are not being applied, the reasons for such non-application is not included in the pertinent compliance report.

The dividend policy of Yapı Kredi is included in the annual report of the bank and disclosed to public within the framework of the bank's information policy. The bank has also disclosed its ethical rules on its web site.

Public disclosure, including the financial statements and reports does not consist of any exaggerated provisions or misleading information that would lead to false interpretations about the bank's financial status and operational results.

Save for the provisions of the legislation, the preparation or revision of financial statements, the compliance audit of the independent auditor, and public disclosure thereof are in compliance with the international standards. The method to be adopted for disclosing forward looking information is also included in the information policy of the bank.

The bank's website is actively used as a means of public disclosure. It is easily accessible, user friendly, and comprehensive. It is also available in English for foreign investors with the same content. The bank ensures that the information disclosed to the public is also available on its website which is configured and designed accordingly. The bank takes all the necessary precautions in order to prevent any modifications on the information displayed on its website.

Yapı Kredi's website includes trade register information; detailed information about the latest shareholder and management structure; the final version of the bank's articles of association together

with date and numbers of the trade register gazettes in which amendments are published; special events announcements; annual reports and periodical financial statements; agendas of the general shareholders' meetings and list of participants and minutes of the general shareholders' meeting; form for proxy voting at the general shareholders' meeting; and frequently asked questions including requests for information, queries and notifications and responses thereof.

Minutes of important board meetings which may affect the value of capital market instruments of the bank, however, are not posted on Yapı Kredi's web site.

The bank's website emphasizes the announcement of the planned general shareholders' meeting, agenda items, other information, documents and reports on the agenda items and information on methods of participation in the general shareholders' meeting.

An informative document pertaining to the agenda items of the general shareholders' meeting is prepared and posted on the bank's web site.

Yapı Kredi's web address is printed in the bank's letterhead. The criteria regarding the use of the website are also included in the bank's information policy.

However, provisions for the disclosure of the nature of legal and commercial relationships between the bank and third party persons and companies that the bank is related to in terms of capital, management or audit are not included in the bank's information policy.

## **2.2. Public Disclosure of Relations between the Bank and Its Shareholders, the Board of Directors and Executives:**

Although no such changes were affected in recent history, Yapı Kredi authorities have officially declared that, in case shareholding or voting right percentage of an individual or group reaches, exceeds or falls below the thresholds dictated by the legislation, the bank discloses such information immediately upon being informed thereof.

Yapı Kredi's ultimate controlling individual shareholder or shareholders are not disclosed to the public, as identified after being released from indirect or cross shareholding relationships between co-owners. Similarly, bank's capital structure is not presented in a table format that would include the names of the ultimate controlling individual shareholder/s (names of the real personalities), amount and proportion of their shares and such a table is not incorporated into the annual report and notes to the financial statements.

Commercial and non-commercial transactions between the bank and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the bank's capital, possess at least 5% and more of shareholding or having the control of the latter are disclosed to public as per the CMB, ISE, and BRSA legislation.

## **2.3. Periodical Financial Statement and Reports in Public Disclosure:**

The periodical financial statements and their notes are prepared in accordance with the existing legislation and international accounting standards and applied accounting policies are also included in the footnotes of the financial statements.

The footnotes of the periodical financial statements include all off-balance sheet transactions including contingent claims, all liabilities and operational results that would affect future financial status, liquidity of the bank, investment expenditures, investment sources, all factors that would affect the future relations of the bank with other real persons and legal entities which are not within the scope of consolidation.

Comments about the capital adequacy obligations of the bank, as per the relevant articles of the BRSA legislation are also incorporated in the footnotes of the periodical financial statements.

Yapı Kredi's annual report is signed by the responsible board members and executives who have declared that the bank acts in accordance with the related legislation and a statement indicating that the current periodical financial statements completely reflects the true financial status of the bank and that the bank acts in accordance with the related legislation is provided in the annual report.

Yapı Kredi's annual report includes information about the scope of activities of the bank; the sector in which the bank operates and its status within the sector; statistical data and graphics; board of directors' evaluation and analysis of financial status and operation results; level of achievement of the planned operations; the bank's position with respect to the defined strategic objectives; the board of directors' statement about the status of internal control system; rating agencies' opinions about the bank; a macro analysis of foreseeable risk factors regarding future operations; and an analysis of significant transactions carried out during the preceding year with the group companies and other related persons and institutions; commercial

transactions between the bank and companies, where board members, executives and shareholders, who either directly or indirectly own at least 5% of the company's capital, possess at least 5% and more of shareholding or having the control of the latter; and the dividend policy of the bank.

On the other hand, the audit firm's opinion about the internal control system of the bank did not take place in the annual report.

The curriculum vitae of the bank's board members and executives; their duties and responsibilities within the bank; and positions held outside the bank are included in the annual report. However, remuneration, bonuses and other benefits offered, criteria that define such benefits and performance evaluation of the corporate governance committee are not presented in the annual report.

Yapı Kredi's annual report does not include the bank's capital structure presented in a table format that would include the names of the ultimate controlling individual shareholder/s as identified after being released from indirect or cross shareholding relationships between co-owners.

Yapı Kredi's annual report is rich in content, comprehensive and fully complies with the requirements of BRSA. All pertinent information such as the capital adequacy ratio; financial risks; realistic valuations of financial assets and liabilities; transactions affected on behalf of others; detailed explanations regarding balance sheet, cash flow statement, and statement of changes in equity items; and comments of independent auditors are embedded in the annual report.

#### **2.4. Functions of External Audit:**

The external audit firm chosen by Yapı Kredi (Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., an Ernst & Young Global Ltd. member company) is an independent and international audit company.

The nomination and election process of the audit firm starts with a recommendation from the audit committee to the board and ends with the board's choice being presented and approved by the general shareholders' meeting.

The operations of the audit firm and the contents of the contract signed with them are in compliance with the legislation.

Independent audit contract is devised in accordance with the existing legislation. Although there is no evidence of any contrary application, it is worth noting that independent auditors have not been contractually provided with immunity against risks due to legal proceedings emanating from the bank's operations.

There has been no legal conflict between the bank and the external audit firm. Similarly, the bank authorities during the rating process officially declared that the audit firm, auditors and other related staff working for them are not permitted to provide consultancy services to the bank within the same period of auditing services.

#### **2.5. The Concept of Trade Secret and Insider Trading:**

Yapı kredi has incorporated the definition of information that falls within the scope of trade secret in its internal book of rules and regulations. Necessary measures and precautions are defined in the bank's ethical rules and working principles documents.

A list of the names of executives who can potentially possess price-sensitive information which may affect the value of the bank's capital market instruments is prepared and disclosed on its corporate governance compliance report.

## **2.6. Significant Events and Developments That Must Be Disclosed to the Public:**

Yapı Kredi is obliged to obey the rules and regulations of the CMB and the BRSA in terms of public disclosure.

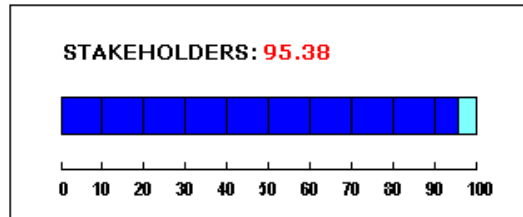
All developments such as a lawsuit brought against or filed by the bank at significant amounts, or conclusion thereof; any significant change in the management and capital structure of the bank, and affiliated companies; any increase or decrease of more than 25% in the share price of the bank within the last 5 days; changes in the articles of association or internal regulations; the rating agencies' grades assigned to the bank's creditability and issuance of shares; any changes that may take place thereafter are regularly disclosed to public.

During the rating process and in recent history, there has been no change in the listing criteria of the ISE where Yapı Kredi's shares are traded; cases where the bank is unable to meet one of the listing criteria; and cases where the bank's securities get de-listed or suspended. Similarly, Yapı Kredi did not decide to make a tender offer or proxy solicitation by making an announcement. An obligation to make a tender offer did not arise and there were no transactions to be made for this purpose.

Yapı Kredi disclosed to the public in a timely manner, that along with 7 other banks, it was under investigation by the Competition Authority according to the Act No: 4054 of the Act on the

Protection of Competition; within the framework of this investigation received an administrative fine of TL 14,211,048 (with the right to file an appeal at the Council of State); and according to Chapter 17 of Misdemeanor Law No: 5326, 3/4<sup>th</sup> of the said fine, TL 10,658,286 is paid to the Large Taxpayers Office (again with a right to appeal); and a trial of action for stay of execution was opened at the Council of State.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Measures to safeguard stakeholders' rights have been facilitated
+	Comprehensive human resources policy
+	Compliance with quality standards in banking products and services
=	Ethical rules prepared, disclosed to public on the web site, but not yet brought to the shareholders' meeting for approval
-	No provision in the articles of association regarding the participation of stakeholders in the management of the bank

This chapter covers the subjects about which Yapı Kredi performs the best in terms of corporate governance applications. Yapı Kredi has reached a standard above country norms on all sub-headings in this section.

Relations with stakeholders are at a positive level and there is no evidence of any infringements of their rights. Attentive and sensitive control mechanisms are in place to avoid or stop such infringements.

All channels are open for the conveyance of complaints and grievances and internal and external level of satisfaction is constantly monitored.

The human resources policy is fully comprehensive and duly applied.

This policy provides incentives for carrier advancement and solicits a structure based on merit.

Remuneration system is based on performance.

Requests and needs of borrowers and depositors for banking products and services are met diligently.

Personnel and discipline bylaws include detailed processes to deal with actions against ethical and operational rules and regulations.

Relations with regulatory authorities are generally good. However, in 2011 the Competition Authority fined Yapı Kredi along with 7 other banks.

Environmental awareness and sensitivity takes important place among Yapı Kredi's business principles. Studies on this subject are satisfactory and perform above country averages.

### 3.1. Company Policy Regarding Stakeholders:

The quality of the relationship between Yapı Kredi and its stakeholders is high. During the rating process, we did not detect any significant or frequent incidences where stakeholders' rights which are regulated by the current legislation and contracts have been violated. The bank officials have declared that grievances of stakeholders who claim that their rights have been violated are reviewed by the audit units of the bank; priority is given to the reinstatement of those

rights if reviews dictate so; wrong transactions are corrected; and finally necessary penalties are affected for those who are responsible. Furthermore, the bank acts as a pioneer in overcoming and solving any possible conflicts and disputes that may arise between the bank and its stakeholders. In case the rights of the stakeholders are not regulated by the relevant legislation, the bank preserves the interest of stakeholders under good faith principles and within the capabilities of the bank, without permitting any damage to the brand image.

The corporate governance structure of the bank ensures that all stakeholders, including the employees are provided with an effective and continuous mechanism to convey their concerns regarding legally and ethically improper transactions to management. Alternative distribution channels (ADC) are used for this purpose. All the customer complaints, whether it is verbal or written, are recorded. Then, areas of trouble are determined and necessary actions are promptly taken for improvement.

### **3.2. Stakeholders' Participation in the Company Management:**

Yapı Kredi supports mechanisms and models to encourage participation of the stakeholders in the management of the bank while giving priority to employees. In accordance with the continuous improvement principle, Yapı Kredi encourages employees to prepare proposals so that they support the decision-making process of the bank. The "Yapı Kredi Proposal Evaluation System" which has been formed for this purpose, encourages employees to prepare proposals for; increasing the productivity, improving the service quality, adding to the bank's image, improving the operational procedures, and minimizing the risks parallel to the

strategic objectives of the bank. All the proposals are evaluated by the management and applicable ones are rewarded. Employees can post their proposals and can trace the evaluation process via the YKB Proposal System located on the intranet. This system also has reporting capabilities. These mechanisms and models that are implemented by the Quality Group and encourage the participation of stakeholders in the management of the bank are embedded in the internal rules and regulations of the bank.

On the other hand, we observe that there are no such practices at Yapı Kredi that allow the representation of employees on the board.

During the rating process, we did not come across to any incidence of any incentives and privileges granted to stakeholders regarding the review of the management and operations of the bank and/or any information which is classified as trade secret being used so as to violate the equal opportunity among different groups of stakeholders.

### **3.3. Protection of Company Assets:**

Neither the board nor any of the executives of Yapı Kredi have been involved in any actions that caused the bank assets loose value and led to deliberate loss for stakeholders. The bank can extend credit to the board members, shareholders and employees within the limits of the banking law. Bank officials have declared that those credits are within the limits allowed by the legislation and related procedures.

### **3.4. Company Policy on Human Resources:**

Yapı Kredi employs a comprehensive and efficient human resources policy of which the fundamentals are:

- Staying within the framework of the Group's guidelines, determining the needs of each managerial unit in terms of number of personnel and professional profiles; managing the process of determining the annual and long-term personnel volume of each unit in consistence with the policies/objectives of bank management;
- Determining the career planning and professional improvement of human resources in accordance with each unit's needs and bank's policies;
- Building a working atmosphere that provides motivation, professional improvement and career planning on the basis of long-term evaluation of employees;
- Attracting and developing managerial, operational and specialized human resources with an emphasis on employee satisfaction;
- Providing education and training for human resources in consistence with the Group's guidelines and each unit's needs;
- Managing the crucially important human resources of the bank as well as developing high-quality personnel;
- Managing the internal process of recruitment with the support of parent company;
- Determining and applying the internal communications plan in accordance with the Parent's guidelines and in coordination with Corporate Identity and Communications unit;

- Supporting commercial administrations on promoting the establishment and implementation of commercial incentive campaigns;
- Leading change and taking responsibility in this regard to manage the organizational and cultural change.

This policy is designed to encourage carrier development and install an employment system that is based on merit.

The bank is giving a special emphasis on education and training within the framework of human resources policy. For this purpose, YAPI KREDİ BANKING ACADEMY CODE which covers; analysis of developmental needs of employees, determination of developmental activities, by using different training methods (classroom training, seminars, distance training, webinar, etc.) organization and application of such activities, budgeting and reporting of these activities, and evaluation and distribution of performance results is published and is currently being applied.

The primary objective of the academy is to make education and training the main contributors to the bank's objectives as well as being considered as an investment.

Yapı Kredi Banking Academy aims to provide:

- Adoption of all training and development activities by the relevant units,
- Training which support and complement the human resources policies,

- Focus on the development of the performance of the employees and expansion of the corporate culture at all training activities,
- Support to the process of career planning and development,
- Training, developing, and creating a system of back-up of executives who play a key role in achieving success,
- Identification and development of talented employees,
- Measurement and monitoring of the efficiency of training.

International seminars and conferences, foreign language training, and the training provided by the Banks Association of Turkey, CMB, and ISE are all programs targeting bank employees. Masters and doctorate support is also provided to the staff.

Yapı Kredi has a recruitment policy that defines appropriate criteria. Performance evaluations are conducted by one-to-one interviews of managers and employees annually. Managers provide feed-back to employees so they can plan the next term.

Performance of each employee is monitored by the executives throughout the year and feed-back is provided to maintain a high level of success.

Results of the performance evaluations are used as main input of career planning and development. These evaluations are affected each year on dates specified by the Human Resources Department through documents prepared in this regard.

Human Resources Department determines the salaries of employees

on the basis of evaluation and experience of each employee.

Salaries are determined by the limits of "Salary Levels" that indicate upper and lower limits for each level. A market research, annually conducted by Human Resources Department and the economic conditions are also used as an input. Salaries of union-member employees are determined by the Labor Agreement.

Yapı Kredi takes all measures in order to prevent race, religion, language, and sex discrimination among the employees and to protect the employees against any physical, spiritual and emotional mistreatments in the bank.

### **3.5. Relations with Borrowers, Depositors, and Lenders:**

One of the most important exercises that Yapı Kredi undertakes in marketing banking services and ensuring borrowers' and depositors' satisfaction is the external satisfaction surveys. These, which some of are mystery shopping surveys, are used for further improvement of service quality and customer satisfaction. Furthermore, requests and complaints received on line from the customers are monitored by the Alternative Distribution Channels.

As a result of our observations and interviews, we observed that the requests of customers are handled in a quick and efficient manner, and any delay in handling customers' requests and the reasons thereof are acknowledged. The bank adheres to the norms of quality standards of its services and ensures that the level of quality is preserved.

Within the scope of trade secret, confidentiality of information relevant to borrowers and depositors are respected. These issues are closely



monitored by the management system and the internal control department.

Yapı Kredi also monitors the level of corporate governance applications of its borrowers and carries out research on this matter during the credit rating process.

We observed that the bank prepares and employs standard procedures to protect depositor rights in illegal on line transactions in customer accounts. In such instances, the bank shows optimum care to prioritize compensation and then employs necessary legal proceedings against offenders. We did not come across to any incidence where the bank attempted to delay or hamper the resolution process.

### **3.6. Ethical Rules:**

Yapı Kredi has prepared an ethical code, disclosed it to public on its web site, however, not yet brought it to the shareholders' meeting for approval.

Processes to be applied in case of unethical personnel behavior and acts against operational rules and regulations are determined in the internal personnel and discipline codes in detail.

### **3.7. Social Responsibility:**

The corporate social responsibility approach of Yapı Kredi can be summarized as; to inform the public of community-acquired values, provide sustainable benefits for the community, and to be an exemplary corporate citizen. Yapı Kredi endeavors to fulfill its obligations in fostering society's continuous development by financially supporting to accomplish corporate social responsibility projects: primarily for education, the environment, culture and the arts. Such as:

## Education

Vocational Education, A Crucial Matter for the Nation Project: As part of the project pioneered by Koç Holding to promote vocational education, 1,098 vocational school students were provided with coaching by 62 Yapı Kredi employees in 2011. Also within the scope of the project Yapı Kredi has provided apprenticeship opportunities at its branches for 104 vocational school students.

I Read I Play Project: This project, conducted in cooperation with the Educational Volunteers Foundation of Turkey reached out to 84 thousand children as of end 2011.

Yapı Kredi Girls Technical and Vocational High School: 450 students are being educated in Yapı Kredi Girls Technical and Vocational High School.

Scholarships: In 2011 Yapı Kredi introduced a scholarship program to one student who is receiving a master's degree at Koç University. Also under the project of Scholars of Anatolia, Yapı Kredi provided scholarship support to 2 students who had limited financial facilities and placed them in a variety of programs at Koç University.

Yapı Kredi, through Pension Fund Association, has launched a scholarship program on behalf of university student children of Yapı Kredi retirees who are both successful and financially disadvantaged.

Chair of Finance: In order to strengthen training and development in the field of finance, in 2011 Yapı Kredi established Yapı Kredi Chair of Finance at Koç University.

## Environment

Infinite Blue Project: As a result of project undertaken in cooperation with

the Turkish Marine Environment Protection Association/TURMEPA, the number of students who were trained reached 6.6 million in 2011.

**Recycling Project:** Within the scope of the recycling project launched in 2011, all paper, plastic, glass, and metal waste of Yapı Kredi premises were recycled. Until the end of October 1,167 tons of paper, 1.4 tons of plastic, 0.5 tons glass, and 0.2 tons of metal waste were sent for recycling.

### Culture and Arts

**Yapı Kredi Cultural Activities, Arts and Publishing Activities:** Yapı Kredi Cultural Center hosted 8 different exhibitions during 2011. Yapı Kredi Publications published 233 new works and 432 reprints. Over 1 million books were sold during the year.

**Çatalhöyük Excavation:** Çatalhöyük Excavation team, bringing new archeological findings to light each year, performed excavation works between June and September in 2011 with the support of Yapı Kredi.

**Afife Theater Awards:** The "Afife Theater Awards", which has been organized since 1997 on annual basis and considered among the most prestigious art awards given in Turkey, has been distributed in 2011.

### Voluntary Projects of Yapı Kredi

Yapı Kredi's Volunteers Platform was established under the framework of corporate voluntary activities. The following initiatives were launched in 2010:

- Volunteer programs and aid for the visually impaired in cooperation with the Six Dots Foundation, including book readings and donation of audio books to the foundation's library.

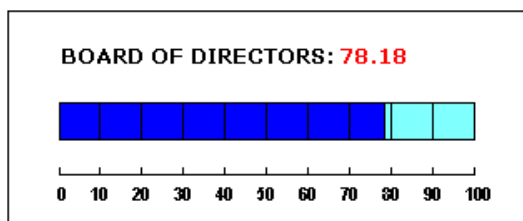
- Support for Küçükyalı kinder garden through various activities with the children, including organizing a summer camp.
- Opportunities and aid for highly motivated students in underprivileged villages, also through organization of charity bazaars and visits by employees
- Volunteer programs in cooperation with Yapı Kredi Nursing Home, encouraging employees to actively visit pensioners on a monthly basis
- Social and cultural activities for underprivileged children to contribute to their after school social development in cooperation with Darüşşafaka.
- Support for underprivileged children in cooperation with GEA Search, Rescue and Ecology Group.
- Tree planting festival.
- Statue.
- Representatives of commitment.

Under the framework of the campaign called For My Country, initiated by Koç Holding, Yapı Kredi employees donated 493 units of blood to the Turkish Red Crescent in 2011.

### Other

**Banking for the Disabled project:** Yapı Kredi has launched "Banking for the Disabled", an innovation that offers disabled customers easy and modern access to the banking services. Online chat for the hearing impaired, specially equipped ATMs and POS machines for the visually impaired, ATMs for the orthopedically disabled are within the scope of this program.

## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The bank's vision, mission and strategic goals are defined
+	Efficient risk management and internal control mechanism in place
+	Audit, Corporate Governance, Credit, and Remuneration committees established
+	CEO and Chairman positions are separately chaired
+	Qualified and experienced executives working with principles of fairness, transparency, accountability, and responsibility
-	Cumulative voting rights not in effect
-	No independent board members
-	No provisions in the articles of association defining procedures for shareholders or stakeholders to invite the board to convene

The board of directors fairly represents the bank within the framework of the relevant legislation, the articles of association and in-house regulations and policies. Members are well qualified and experienced in banking operations. However, defined criteria for selection of candidates are not present in the articles of association.

The board has determined the vision, mission, and strategic goals of the bank and duly monitors the level of

performance and achievement of objectives. An efficient risk management and internal control mechanism is in place and working. The board also established all the mandatory committees as well as non-mandatory corporate governance committee.

The flow of information to the board is seamless and the frequency and level of participation to the meetings are high.

On the other hand, members of the board have not declared in writing that they will be jointly liable should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general shareholders' meeting.

The most important committees are established by the board of directors and working procedures of these committees are duly determined. The level of work produced by these committees is at a satisfactory level. Nevertheless, there are no independent members in the board and therefore in these committees.

The audit committee is active and efficient. The audit committee receives periodical reports from external auditors and from internal units to make sure that internal audit mechanisms are carried out adequately and transparently. The audit committee is also supervising the activities of the external auditors and the compliance with accounting standards.

The executives of Yapı Kredi are qualified and experienced and working with principles of fairness, transparency, accountability, and

responsibility. They are suitably endowed with the necessary amount of authority.

The executives obey the legislation, articles of association, in-house regulations and policies while performing their duties. Compensation of the losses as a result of not performing their duties duly is regulated by the administrative liability insurance.

On the other hand, employment agreements of the bank do not indicate that the executives may not be permitted to work for a competitor of the bank in case the executive renounces from his/her duty.

#### **4.1. Fundamental Functions of the Board of Directors:**

The board constantly and effectively revises the bank's level of success in achieving its goals, reviews its past performance, and monitors;

- the degree of achievement of the bank's operations, approved annual financial and business plans, compliance with the legislation, and international accounting standards,
- degree of accuracy of the bank related financial information.

The board of directors of Yapı Kredi has established an internal control and risk management mechanism that is appropriate for the bank to minimize adverse effects of the risks that the bank may face, which would also negatively affect the shareholders and stakeholders. The board also takes all necessary measures for sound functioning of such mechanisms implemented.

The board, in order to perform these tasks in a sound manner, established the audit, credit, remuneration, and corporate governance committees.

Appointment committee, however, is not established.

The board assesses whether the executives are well qualified to suit the demands of their positions and seeks measures that would encourage qualified employees to work for the bank over a long period of time. As the board deems appropriate, it terminates the employment of executives and appoints new executives to replace the former without delay.

The board also closely monitors and supervises whether or not the bank's operations comply with the relevant legislation, articles of association, and in-house regulations and policies.

The board of directors of Yapı Kredi acts as a pioneer in resolving and settling disputes that may arise between the bank and shareholders. The board established a Corporate Governance Committee and work in close cooperation with it to ensure that the shareholders exercise their rights in accordance with the legislation, provisions of the articles of association, in-house regulations and policies.

#### **4.2. Principles of Activity and Duties and Responsibilities of the Board of Directors:**

The board's duties and responsibilities are clearly defined in the articles of association of the bank in consistence with its functions and beyond any doubt so as to distinguish from the authorities and responsibilities of individual board members, executives and general shareholders' meeting. Authority and responsibility for each board member and committees are clearly defined; and, these are disclosed to public.

In order to ensure that the board members perform their duties fully,

they are provided with easy access to all kinds of information in a timely manner. To this end, mechanisms to enable timely and accurate information for the board members about significant developments that may impact the bank are adopted. If deemed necessary, required executives attend the board meetings. Any behavior by the bank employees that would obstruct flow of information to the board are subject to sanctions including warnings and termination of employment contracts. The principles in this respect are clearly defined in internal regulations.

Members of the board are jointly liable by the BRSA regulations should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general shareholders' meeting. However, as per the corporate governance principles, the members have not signed a written document that confirms this joint liability.

Although the ethical code of Yapı Kredi includes measures to ensure that employees should not indulge in pressures that would serve against the interests of the shareholders and not accept any material gains, these measures are not extended to include the members of the board.

Each member of the board devotes sufficient time for the bank's business. Within this scope, any duty that the board member may accept outside the bank is subject to the current banking law with which Yapı Kredi fully abides.

The ethical rules of the bank do not dictate that members of the board can under no circumstances disclose bank information that is confidential and/or trade secret. However, the board has adopted requisite measures in order to ensure that confidential information

does not flow out of the bank by other bank employees.

In this context, we found no evidence of any members of the board exploiting confidential and publicly unavailable information in favor of himself/herself or others; providing information or extending news or making comments that are false, untrue, misleading, and unfounded information about the bank.

On the other hand, members of the board have not declared in writing before commencing work that they will comply with the legislation, articles of association, in-house regulations and policies, and in case of non-compliance, that they would be jointly liable to compensate the loss accrued to the shareholders and stakeholders. The legal document in which the members of the board have sworn at the commercial court contains no provisions to this end.

The board of directors of Yapı Kredi adopts a separate decision to approve the periodical financial statements and annual report of the bank. At the time of announcement and notification of periodical financial statements and the annual report, members of the board signed an official declaration in writing consisting of below-mentioned items:

- The periodical financial statements and footnotes thereto and annual report of the bank have been carefully examined by the relevant parties.
- In accordance with the authority and liabilities in the bank and according to the information obtained, the financial statements and footnotes thereto and annual reports do not consist of any misleading statements that contradict the truth and that there is no lack of essential information.

Beyond its basic functions, the board approves the annual budget and business plans of the bank; prepares the annual report; ensures that the general shareholders' meeting is conducted in accordance with the legislation and the bank's articles of association; fulfills the general shareholders' meeting decisions; controls significant material expenditures; approves the career plans and remuneration of executives; determines policies for shareholders, stakeholders and the public relations; determines the working principles of the committees; and ensures them to work effectively and efficiently.

Board meetings are planned and conducted efficiently and productively. In principle, each member of the board attends all meetings.

Agenda items such as deciding the areas of business in which the bank will operate and approving business and financial plans; inviting the ordinary/extraordinary general shareholders' meeting; finalizing the annual report to be submitted to the general shareholders' meeting; electing the board chairman and deputy chairman; establishing administrative divisions or terminating their operations; appointing or dismissing the chief executive officer; and establishing committees are approved by the members of the board who attend the board meetings in person.

The board of directors of Yapı Kredi holds numerous meetings every year. In 2011, until 28<sup>th</sup> of December, 135 decisions were taken in the board.

Documents and information about the agenda items of the board meeting are submitted to the members of the board in a timely manner and utmost attention is given to ensuring equal information flow to each of the board members.

Provisions regarding the procedures for invitation of the board members for a meeting by shareholders and stakeholders are not incorporated in the articles of association. Similarly, the articles of association of the bank do not include any provisions for the members of the board to convene upon the request by institutional investors or minority shareholders and stakeholders defined under the articles of association.

The manner in which the board meetings are to be conducted are incorporated in the bank's internal regulations.

The board meeting and decision quorum is included in the articles of association.

A secretariat is established under the responsibility of the board chairman in order to serve the board and to keep documents related to the board meetings in order. The secretariat basically engages in communication between members of the board; make preparations for the board meetings and committee meetings; keep the minutes of the meetings; and record and archive all communications made by the board, including announcements.

There has been no opposition raised by any board member on a particular issue at the board meetings in the periods that we have reviewed during the rating process.

The board does not have a budget to reimburse travel/meeting expenses, costs pertaining to special working requests and similar expenses.

The board of directors of Yapı Kredi has acknowledged the importance of internal audit, internal control, risk management, and independent external audit functions and communicated the same to executives

and employees of the bank. The findings of these functional units are used effectively and efficiently. Provisions are in place to avoid any actions that may hinder the independence and reputation of these auditors.

The board uses the findings of the controllers and independent auditors to verify and control the operational and performance information received from the executives.

Similarly, the board solicits and receives a report from the independent auditors regarding the efficiency of internal control and internal audit functions and also regarding the information systems.

The board of directors, in order to establish internal systems (internal control, internal audit, and risk management); implement these in an efficient and appropriate manner; guarantee the safe keeping of information received from accounting and financial reporting functions; and identify the internal responsibilities and relevant authorities:

- Has determined the functions and responsibilities of internal systems executives and closely monitors their operations.
- Has determined in writing, strategies and policies of internal systems units and takes measures to ensure efficient implementation of the same.
- Has determined the responsibilities and relevant authorizations of internal systems units and executives in a clear manner not to cause any overlaps or conflicts and provided the necessary resources.
- Has determined in writing the bank's policies and strategies regarding risk management and

although not subject to the limits of the banking law, allotted the maximum risk limits as per the nature and function of banking units and the number of personnel working in these units.

Each board member of Yapı Kredi is entitled to a single vote at the board meeting and board members are not granted with weighted voting rights or positive/negative veto rights.

#### **4.3. Formation and Election of the Board of Directors:**

The board of directors of Yapı Kredi is structured so as to optimize effect and efficiency thereof. The number of the members for the board is determined to facilitate producing efficient and constructive works by the board, adopting rapid and rational decisions and effectively organizing formation and working of committees.

Members of the board are elected from among qualified persons who are proficient about the subject of activity and management of the bank, but the criteria required for candidates for board membership positions are not incorporated in the articles of association.

Board members are capable of analyzing and interpreting financial statements and reports and have basic knowledge about the legal regulations applicable to the bank for daily or long term business as well as dispositions.

All of the board members, except the CEO and the deputy CEO are non-executive members. The chairman and the CEO positions are not occupied by the same person.

The board does not comprise any independent member who complies with the CMB rules and has the ability to execute his duties without being influenced under any circumstances.

Yapı Kredi has not embraced use of cumulative voting in the election of the board members. The procedure for the adoption of cumulative voting, therefore, is not incorporated in the articles of association of the bank.

#### **4.4. Remuneration of the Board of Directors:**

Yapı Kredi officials have informed us that the bank, from time to time, extends credit to members of the board within the limits allowed by the banking law. There are no other guarantees or warranties provided to board members.

Compensation for the members of the board is determined by the general shareholders' meeting so as to counterweigh the time invested and performance of membership duties as a minimum.

Article 78 of the articles of association of the bank defines the bonus policy for all board members and it is based upon the performance of the bank.

#### **4.5. Number, Structure and Independence of Committees Established by the Board of Directors:**

The board, in order to perform these tasks in a sound manner, established the audit, credit, remuneration, and corporate governance committees. Appointment committee, however, is not established.

There are no independent members in the board and therefore in the committees. Audit committee is made up of non-executive members. Majority of the members of the credit committee are also non-executives. Corporate governance committee also comprise of two non-executive members. The remuneration committee is established on 24

November 2011, again with non-executive members.

Each committee keeps records of all their work in writing. The scheduling for committee meetings is compliant with that of the board meetings.

After the meetings, the chairman of the committee delivers a written report about the activities of the committee to the board and delivers the summary of the meeting to the board in writing.

An audit committee in charge of supervision of the financial and operational activities of the bank is established.

The criteria for selection of the audit committee members are compliant with the current legislation.

The board provides all necessary sources and assistance to the audit committee for its duties to be performed. The internal auditor also reports to the audit committee.

The audit committee supervises whether or not periodic financial statements and its footnotes are prepared in accordance with the current legislation and international accounting standards and declares its opinion to the board in writing upon receiving the opinion of the independent audit firm.

The audit committee took all necessary measures in order to ensure that internal and external auditing are carried out adequately and transparently.

Appointment of the external audit firm, preparation of audit agreements and initiation of audit process and all activities of the external audit firm are made under the surveillance of the audit committee.



Appointment of the external audit firm and the services to be provided thereby are submitted to the board upon the preliminary approval by the audit committee. Prior to appointment of the external audit firm, the audit committee reviews whether or not there exist any issues that may jeopardize independence of the audit company.

The audit committee evaluates and resolves any issues pertaining to the complaints and suggestions on the accounting practices, internal control system and external auditing as submitted to the bank and also ensure that complaints made by the employees in this respect are evaluated in accordance with confidentiality principle.

Furthermore, in compliance with the current legislation, the audit committee ensures that the internal audit function of affiliates is implemented also in a consolidated manner and concurrently with the internal auditing of the parent bank.

The audit committee also ensures that it receives regular reports from internal control, internal audit, and risk management units regarding their operations.

The audit committee scrutinizes full compliance with the in-house regulations and policies, ensures that it pinpoints any actions that may adversely affect the operations of the bank, and submits the outcome to the board.

A corporate governance committee is established in order to monitor the bank's compliance with the corporate governance principles and perform improvement studies and offer any possible suggestions to the board. To coordinate the work of shareholder relations department, to determine if the corporate governance principles of

the bank is applied or not, thus making recommendations to the board on possible corrections are the duties of the corporate governance committee.

#### **4.6. Executives:**

The executives perform their duties in a fair, transparent, accountable and reliable manner. They ensure that the bank conducts its business within the framework of its mission, vision, goals, strategies and policies.

The executives act in accordance with the financial and operational plans of the bank as approved by the board each year.

The executives are authorized to perform their duties and have the required professional qualifications in order to perform the assigned duties. They obey the legislation, articles of association, in-house regulations and policies while performing their duties; and submit a report regarding the conformity of the performed works with these to the board each month.

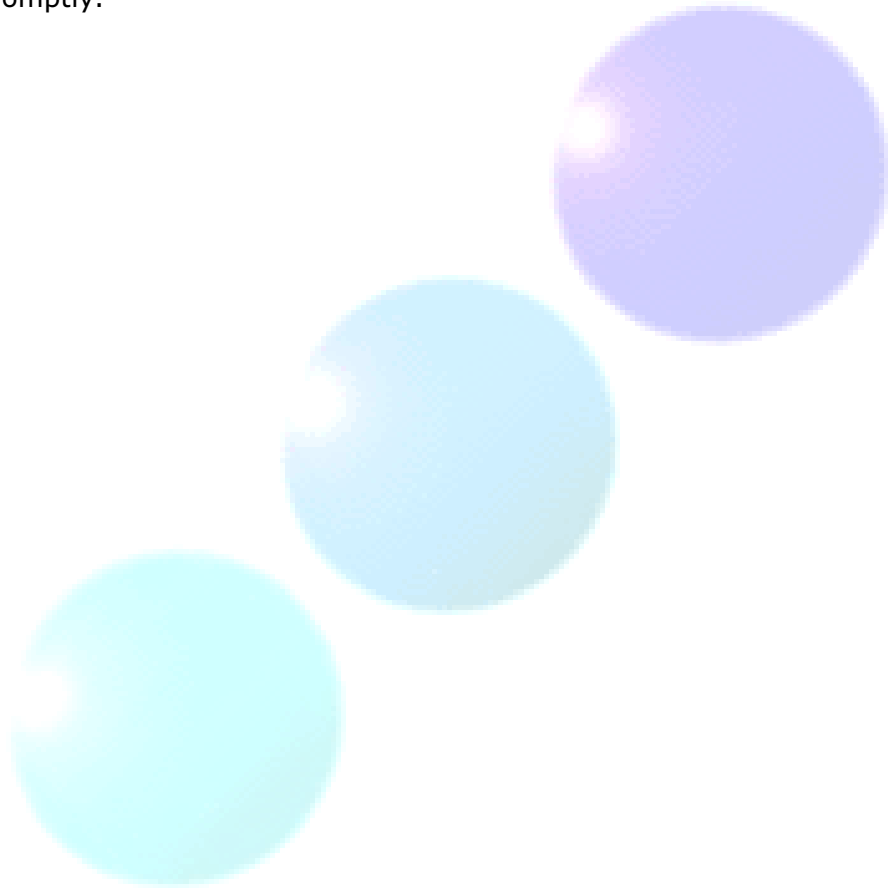
During the rating process, we came across to no incidence of any executives exploiting bank related confidential and publicly unavailable information in favor of himself/herself or others, and providing information or extending news or making comments that are false, untrue, misleading or unfounded about the bank.

Although there are special provisions in the banking code regarding the responsibilities of executives, the fact that the compensation of the losses as a result of not performing their duties duly is regulated by the administrative liability insurance is deemed positive by us.

However, employment agreements do not contain provisions which clearly indicate that the executive may not be

permitted to work for a competitor of the bank and describe the sanctions to be implemented in case of violation of such provision in case the executive renounces from his/her duty, to protect the interests of the bank for a certain period of time.

Management reviews the findings of internal controllers and auditors' in an efficient and timely manner and ensures that identified problems are solved promptly.



## Rating Definitions

Rating	Definition
9 - 10	The bank performs <b>very good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified and actively managed all significant corporate governance risks through comprehensive internal controls and management systems. The bank's performance is considered to represent best practice, and it had almost no deficiencies in any of the areas rated.
7 - 8	The bank performs <b>good</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified all its material corporate governance risks and is actively managing the majority of them through internal controls and management systems. During the rating process, minor deficiencies were found in one or two of the areas rated.
6	The bank performs <b>fair</b> in terms of Capital Markets Board's corporate governance principles. It has, to varying degrees, identified the majority of its material corporate governance risks and is beginning to actively manage them. Management accountability is considered in accordance with national standards but may be lagging behind international best practice. During the ratings process, minor deficiencies were identified in more than two of the areas rated.
4 - 5	The bank performs <b>weakly</b> as a result of poor corporate governance policies and practices. The bank has, to varying degrees, identified its minimum obligations but does not demonstrate an effective, integrated system of controls for managing related risks. Assurance mechanisms are weak. The rating has identified significant deficiencies in a number (but not the majority) of areas rated.
<4	The bank performs <b>very weakly</b> and its corporate governance policies and practices are overall very poor. The bank shows limited awareness of corporate governance risks, and internal controls are almost non-existent. Significant deficiencies are apparent in the majority of areas rated and have led to significant material loss and investor concern.