



## Corporate Governance Rating Report



29 December 2014

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## Rating and Executive Summary

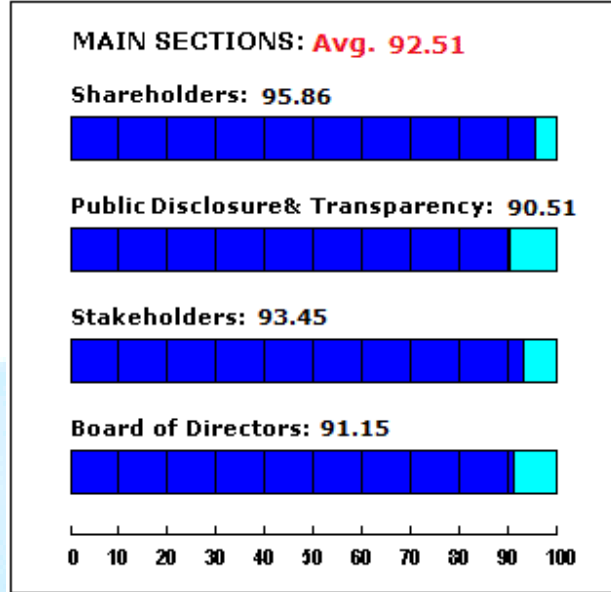
### YAPI VE KREDİ BANKASI A.Ş. (YKBNK)

 **SAHA**  
Corporate Governance Rating:

**9.25**  
**BNK**



#### EXECUTIVE SUMMARY



Yapı ve Kredi Bankası A.Ş.'s (Yapı Kredi) previous rating of 8.82, which was set on the basis of our new methodology on March 3<sup>rd</sup>, 2014, is revised as **9.25**. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

The bank's corporate governance rating is revised as above in consideration with the importance given by Yapı Kredi to corporate governance principles, its willingness to carry out the compliance process continuously and dynamically and improvements which had been initiated in this direction.

Additionally, Yapı Kredi takes place in the World Corporate Governance Index (WCGI) published by SAHA on July 4, 2014. Details of the World Corporate Governance Index (WCGI) published by SAHA can be accessed at <http://www.saharating.com>.

Yapı Kredi is rated with **9.59** under the **Shareholders** heading. Exercise of shareholders' rights complies with the legislation, articles of association and other internal rules and regulations, and measures have been taken to ensure the exercise of these rights. All procedures prior to the general shareholders' meeting as well as the conduct of the meeting comply with the legislation, rules and regulations. There are no voting privileges. The bank has a dividend policy which is disclosed to the public. On the other hand, the rate of minority rights in the bank's articles of association is adopted as prescribed for public joint stock companies (%5).

Yapı Kredi attained **9.05** under the **Public Disclosure and Transparency** chapter. The bank has a comprehensive web site. Public announcements are made via all communications channels and are in accordance with CMB and Borsa Istanbul (BIST) rules and regulations. The annual report complies with the legislation, comprehensive and informative. The agreement and work conducted with the external auditor also complies with the legislation. Nevertheless, non-disclosure of the names of ultimate controlling shareholders and benefits provided to board members and senior management on individual basis are areas in need of further refinement.

On the topic of **Stakeholders**, Yapı Kredi scored **9.35**. The bank has a written and advanced human resources policy. Code of ethics is publicly available through the corporate web site. The bank complies with environmental laws. Corporate Social Responsibility and Sustainability work is highly satisfactory. Yapı Kredi qualified to be included in the BIST Sustainability Index established in 2014. However, a written compensation policy for employees is not established.

From the perspective of the principles regarding the **Board of Directors**, Yapı Kredi's tally is **9.12**. The board of directors fulfills all duties regarding bank needs. The board of directors consists of 12 members and 5 of them are independent. Corporate Governance, Audit, and Remuneration Committees are established within the board of directors and their working principles are disclosed to public. There are 3 female members on the board of directors. However, non-establishment of a Nomination Committee is an area in need of improvement.

## 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 January 2014.

The CMB based these principles on the leading work of The World Bank, The Organization of Economic Cooperation and Development (OECD), and the Global Corporate Governance Forum (GCGF) which has been established in cooperation with the representatives of the preceding two organizations and private sector. Experts and representatives from the CMB, Borsa Istanbul 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 taking into account country specific issues. Accordingly, these Principles have been established as a product of contributions from all high-level bodies.

Certain applications of the Principles are based on "comply or explain" approach and others are mandatory. 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 bank's governance practices in future should be mentioned in the annual report and disclosed to public.

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

Based on these Principles, the SAHA Corporate Governance Rating methodology features around 330 sub-criteria. During the rating process, each criterion is evaluated on the basis of information provided by the bank 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 bank should be in full and perfect compliance with the Principles (see Rating Definitions, p.23).

To determine the total rating score for each main section parallel to the CMB's Corporate Governance Principles, SAHA allocates the following weights:

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

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

YAPI VE KREDİ BANKASI A.Ş.	
	<b>Chairman of the Board</b> Mustafa V. Koç <b>Executive Director / General Manager</b> H. Faik Açıkalın
Yapı Kredi Plaza D Blok, 34330, Levent-İstanbul <a href="http://www.yapikredi.com.tr">www.yapikredi.com.tr</a>	<b>Shareholder Relations Department 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, retail focused bank Yapı Kredi, is the fourth largest private bank in Turkey with total asset size of TL 182.0 billion as of 30 September 2014.

Yapı Kredi is a fully integrated financial services group supported by domestic and international subsidiaries. The Bank serves its customers through (i) retail banking (comprising of individual banking, Small and Medium Size Enterprises (SME) banking and card payment systems), (ii) corporate and commercial banking, and (iii) private banking and wealth management supported by domestic subsidiaries in asset management, brokerage, leasing and factoring as well as international banking operations in the Netherlands, Russia and Azerbaijan.

Yapı Kredi's branch network consists of 978 branches covering all regions of Turkey supported by an employee base of 18,762 people. In addition, Yapı Kredi has advanced alternative delivery channels (ADCs) which handle 83% of total banking transactions. The Bank's ADCs comprise an ATM network with 3,340 ATMs (7.5% market share), innovative internet banking with more than 3.9 million customers, leading mobile banking with 10.9% market share, two award winning call centers realising around 50 million customer contacts on annual basis and 478 thousand POS terminals.

The Bank ranks fifth in total cash loans with 9.9% market share and sixth in total deposits with 9.8% market share as of 30 September 2014. In credit cards, Yapı Kredi has been the market leader for the last 26 years and maintains leadership position in outstanding volume (20.5% market share), issuing volume (18.5% market share) and number of credit cards (17.9% market share). The Bank also has leading positions in leasing (#1 with 17.7% market share), factoring (#1 with 15.0% market share), mutual funds (#2 with 17.7% market share) and brokerage (#2 with 7.5% market share).

The Bank's main shareholder is Koç Financial Services (KFS) with 81.8% ownership. KFS is a 50%-50% joint venture between Koç Group and UniCredit Group. The remaining 18.2% is publicly traded on Borsa Istanbul. In addition, the

Global Depository Receipts that represent the Bank's shares are quoted on the London Stock Exchange.

Public shares of the bank are traded under "YKBNK" code at BIST National Market and Yapı Kredi is a constituent of BIST BANKS / BIST CORPORATE GOVERNANCE / BIST FINANCIALS / BIST SUSTAINABILITY / BIST ALL SHARES / BIST NATIONAL / BIST 10 BANKS / BIST 100 / BIST 30 AND BIST 50 indices.

Capital structure of the bank is as follows:

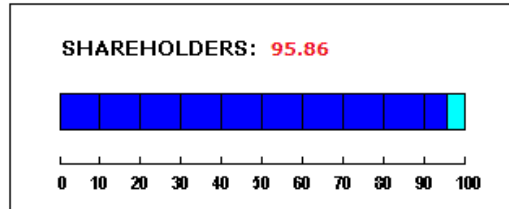
<b>Yapı ve Kredi Bankası A.Ş. Capital Structure</b>		
<b>Shareholder</b>	<b>Amount (TL)</b>	<b>Percentage %</b>
Koç Finansal Hizmetler A.Ş. *	3,555,712,396.07	81.80
Other (Free Float)	791,338,887.93	18.20
<b>Total</b>	<b>4,347,051,284.00</b>	<b>100.00</b>

\* Koç Finansal Hizmetler is a 50%-50% joint venture between Koç Group and UniCredit Group.

The board of directors of the bank is composed as follows:

<b>Yapı ve Kredi Bankası A.Ş. Board of Directors</b>		
<b>Name</b>	<b>Title</b>	<b>Executive/Independent</b>
Mustafa V. Koç	Chairman	Non-executive
Gianni Franco Giacomo Papa	Vice-chairman / Audit Committee Chairman / Corporate Governance Committee Member / Remuneration Committee Member	Independent Member
H. Faik Açıkalın	Executive Director / General Manager	Executive
Carlo Vivaldi	Executive Director / Assistant General Manager	Executive
Osman Turgay Durak	Member / Corporate Governance Committee Member / Remuneration Committee Member	Non-executive
F. Füsün Akkal Bozok	Member / Audit Committee Member	Independent Member
Ahmet Fadıl Ashaboğlu	Member	Non-executive
Dr. Jürgen Kullnigg	Member	Non-executive
Francesco Giordano	Member / Audit Committee Member	Independent Member
Laura Stefania Penna	Member	Non-executive
Adil Giray Öztoprak	Member / Audit Committee Member	Independent Member
Benedetta Navarra	Member / Audit Committee Member	Independent Member

## SECTION 1: SHAREHOLDERS



### SYNOPSIS

+	Equal treatment of shareholders
+	Active investor relations department
+	General shareholders' meetings are conducted in compliance with the legislation
+	Preparation and disclosure prior to general shareholders' meetings are satisfactory
+	Dividend policy exists and disclosed to the public
+	No voting privileges
+	Provision in the articles of association on realization of the general shareholders' meetings open to public
=	Minority rights are not recognized for shareholders who possess an amount less than one-twentieth of the share capital

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

The bank conducts its relations with shareholders through the KFH Subsidiaries and Shareholder Relations Unit and Yapı Kredi Investor Relations Unit.

Along with other units of the bank the units in question play an active role in protecting and facilitating shareholders' rights and in particular the right to obtain and review

information, and its duties are as follows;

- To ensure that the records relating to the written correspondence with the investors and other information are kept in a healthy, safe and updated manner.
- To respond to the queries of the shareholders requesting written information on the bank.
- To ensure the general shareholders' meeting is held in compliance with the applicable legislation, articles of association and other bank by-laws.
- To prepare the documents that might be used by shareholders in the general shareholders' meeting.
- To supervise the fulfillment of the obligations arising from capital markets legislation including all corporate governance and public disclosure matters.

Information and explanations that may affect use of shareholders' rights are available and up to date on the corporate web site.

KFH Subsidiaries and Shareholder Relations Unit Director, Mr. Erdiñ Tetik and Subsidiary Relations and Subsidiaries Accounting Manager, Mr. Hasan Sadi is holder of Capital Market Activities Advanced Level and Corporate Governance Rating Specialist Licenses as stated in the



Corporate Governance Principles  
Communiqué.

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

There is no evidence of any hindering process or application regarding the appointment of a special auditor.

All kinds of information about the bank required by the legislation are provided in a complete, timely, honest, and diligent manner and there is no fine/warning received in this regard.

The bank has constituted a disclosure policy, submitted it to the general shareholders' meeting for approval and disclosed it to public on the corporate web site.

### **1.3 Minority Rights:**

Maximum care is given to the exercise of minority rights. However, minority rights are not recognized for shareholders who hold an amount less than one-twentieth of the share capital and the bank has adopted exactly the rate foreseen in the legislation for listed companies.

### **1.4. General Shareholders' Meeting:**

In addition to the methods of invitation in the legislation and in order to ensure attendance of maximum number of shareholders, the invitation to the general shareholders' meeting held on 27 March 2014 is performed through all means of communication available to the bank on 26 February 2014 in accordance with the Corporate Governance Principles.

All announcements prior to the general shareholders' meeting included information such as the date and time of the meeting; without any ambiguity, the exact location of the meeting; agenda items of the

meeting; the body inviting to the general shareholders' meeting; and the location where annual report, financial statements and other meeting documents can be examined.

Commencing from the date of announcement of invitation for the general shareholders' meeting, following documents are made available to all shareholders for examination purposes in convenient locations including the headquarters or branches of the bank, and the electronic media;

- the annual report
- financial statements and reports
- all other related documents pertaining to the agenda items
- dividend distribution proposal

Shareholders are informed of the following issues prior to the general shareholders' meeting via the corporate web site;

a. the total number of shares and voting rights reflecting the bank's shareholding structure as of the date of disclosure, privileged share groups within the bank capital, voting rights and nature of such privileges,

b. grounds for dismissal and replacement of board members, candidates' backgrounds and tasks carried out in the last decade, the nature and significance level of their relationship with the bank and its related parties, whether they are independent or not, and information on similar issues.

c. previous and new amendments on the articles of association.

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. Information submitted to the

shareholders prior to the conduct of the general shareholders' meeting was related to the agenda items.

Chairman of the meeting made advance preparations for the execution of the general shareholders' meeting and obtained necessary information in line with the Turkish Commercial Code, the Law and legislation.

General shareholders' meetings took place at headquarters of the bank.

Items on the agenda were conveyed in detail and in a clear and understandable way by the chairman of the meeting and shareholders were given equal opportunity to voice their opinions and ask questions. The chairman made sure that each question was answered directly at the meeting provided that they do not constitute a trade secret.

The members of the board of directors related with those issues of a special nature on the agenda, other related persons, authorized persons who are responsible for preparing the financial statements and auditors were present to give necessary information and to answer questions at the general shareholders' meeting.

In addition, attendance of the absolute majority of the board members to the general shareholders' meeting is deemed positive by us.

A separate agenda item for the general shareholders' included the proposal for permission to be granted pursuant to the articles 395 and 396 of the Turkish Commercial Code, to shareholders who have control of the management, members of the board of directors, top executives, their spouses and up to second degree blood relatives to execute transactions and compete with the bank or its affiliates. Shareholders were informed that no transaction which caused any

conflict of interest was carried out on 2013 in this regard.

Shareholders were informed, with a separate agenda item, of all donations and grants within the reporting period along with amounts and beneficiaries. Also an upper limit for the donations of 2014 was set.

Principles of donations and grants are included in the articles of association of the bank.

In addition, there is a provision in the articles of association of the bank, in line with Corporate Governance Principles, allowing the attendance of those including stakeholders and media with no voting rights.

A disclosure document on agenda items was also prepared.

Information on shareholders' demands to add items on the agenda and grounds for acceptance/rejection was included in this document.

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

At Yapı Kredi, all shareholders, including those who reside abroad, are given the opportunity to exercise their voting rights conveniently and appropriately.

There are no voting privileges.

There is no application which prevents representation of publicly held shares in management.

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

The dividend policy of Yapı Kredi is clearly defined, submitted to the shareholders at the general shareholders' meeting and disclosed to public on the corporate web site.

The bank's dividend distribution policy contains minimum information clear

enough for investors to predict any future dividend distribution procedures and principles.

A balanced policy is followed between the interests of the shareholders and those of the bank.

There are no privileges to partake of the profits.

A total gross cash dividend of TL 388,000,000 was distributed from 2013 net income of TL 3,042,826,085.32 as per the resolution adopted at the general shareholders' meeting held on 27 March 2014.

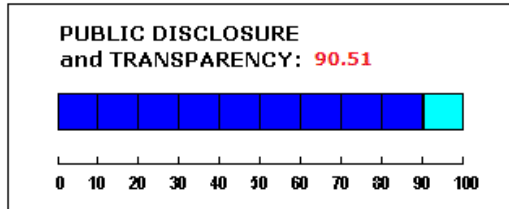
There is a provision in the articles of association on advance dividend payments.

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

The articles of association of the bank do not contain any provisions that impede the transfer of shares.

No difficulties on free transfer of shares were observed.

## SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY



### SYNOPSIS

+	Comprehensive web site, actively used for public disclosure, English version exists
+	Annual report complies with the legislation, comprehensive and informative
+	Agreement and studies conducted with external auditors comply with the legislation
-	Benefits provided to board members and senior management not listed on individual basis
-	Names of ultimate controlling shareholders are not disclosed

### 2.1. Corporate Web Site:

Corporate web site ([www.yapikredi.com.tr](http://www.yapikredi.com.tr)) is actively used for disclosure purposes and the information contained therein is timely updated.

Along with the information required to be disclosed pursuant to the legislation, the bank's web site includes; trade register information, information about latest shareholder and management structure, the date and the number of the trade registry gazette on which the changes are published along with the final version of the bank's articles of association, publicly disclosed material information, periodical financial statements, annual reports, 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, disclosure policy, dividend distribution policy, ethical rules of the bank, frequently asked questions including requests for information, questions and notices, and responses thereof.

In this context, information on at least the last 5 years can be reached on the web site.

With the exception of material disclosures and footnotes, in accordance with the Capital Markets legislation, the bank also discloses financial statements on KAP (Public Disclosure Platform) and simultaneously in English.

The information contained on the web site exists also in English for the benefit of international investors.

The bank's web site also includes; investor presentations, working principles of the committees, the vision/mission of the bank established by the board, information on dividend payments and capital increases, disclosure area, general shareholders' meeting internal guidelines, information on corporate social responsibility/sustainability activities, information on senior management, financial data, main ratio analysis, timetable on events and developments which are of interest to investors, corporate web site privacy policy, and the human resources policy.

The bank did not receive any warning/impunity due to

deficiencies/disruptions on its corporate web site.

On the other hand, the bank's shareholding structure along with the names, amount and rate of the shares, along with nature of privileges held by the bank's ultimate controlling individual shareholders over 5% as identified after being released from indirect or cross shareholding relationships between co-owners is not disclosed to the public.

## 2.2. Annual Report:

Annual report is prepared in detail by the board of directors to provide public access to complete and accurate information on the bank and it covers information such as;

- a. period covered by the report, the title of the bank, trade register number, contact information,
- b. the names and surnames of the chairman, members and executive members involved in the management and supervisory boards during the covered period, their limits of authority, tenure of office (with start and end dates),
- c. the sector in which the bank operates and information on its position in the sector,
- d. qualifications of the units within the bank, general descriptions related to the amount of loans and interest rates, credit conditions with yearly developments, productivity rates and causes of significant changes compared to previous years,
- e. progress on investments, the eligibility status on incentives, and to what extent,
- f. changes and justifications on the articles of association during the period,

- g. Corporate Governance Principles Compliance Report,
- h. information on related party transactions,
- i. other issues not included in the financial statements, but are beneficial for users,
- j. nature and amount of the capital market instruments issued,
- k. the bank's organization, capital and ownership structure and any changes in the related accounting period,
- l. all benefits provided to staff and workers, information on number of personnel,
- m. dividend distribution policy,
- n. basic ratios on the financial position, profitability and solvency,
- o. the bank's financing resources and risk management policies,
- p. information on major events occurred between the closing of the accounting period and the date of the general shareholders' meeting where financial statements are evaluated.

In addition to the matters specified in the legislation, following issues also took place in the annual report:

- a. external duties of board members and executives,
- b. members of the committees within the board and the working principles of the committees,
- c. the number of board meetings held during the year and participation rate of the members,
- d. information on cross shareholding in excess of 5% of the capital,
- e. benefits and vocational training of employees, and other bank activities that give rise to social and environmental results,
- f. rating results.

On the other hand, declaration of independence of the independent board members is not included in the annual report. Also benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

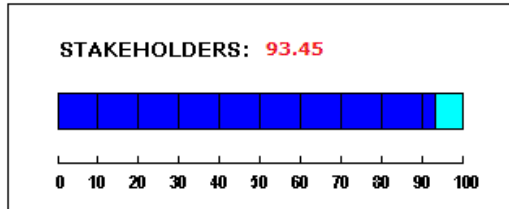
In addition the annual reports do not contain information on permitted conducted activities of board members on transactions with the bank on their behalf or someone else within the scope of competition restrictions. This information is presented to the shareholders at the general shareholders' meeting as a separate agenda item.

### **2.3. External Audit:**

The external audit of the bank is conducted by Güney Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of Ernst & Young Global group with a worldwide experience.

There has not been a situation during the latest reporting period where the external auditor avoided to express its opinion and not signed the audit report, nor has reported a qualified opinion.

## SECTION 3: STAKEHOLDERS



### SYNOPSIS

+	Efficient Human Resources policy
+	Strict quality standards in bank's business and operations
+	Code of ethics established and disclosed to the public
+	Compliance with environmental laws, Corporate Social Responsibility and Sustainability studies are at satisfactory levels
-	A written employee compensation policy is not established

### 3.1. Bank Policy Regarding Stakeholders:

We have not witnessed a significant or repetitive situation in which the rights of stakeholders established by law or any other mutual agreement are violated.

The corporate governance implementation of the bank ensures that its stakeholders, including its employees and representatives, report their concerns regarding any illegal or unethical transactions to the management.

Limits and procedures for granting loans to related personality of the bank, other employees, to natural and legal persons within the same group of the bank are defined. There are instructions and circulars relating to these matters.

Bank officials declared that purchases are conducted through bidding process and there are relevant by-laws.

However, a written employee compensation policy is not established as indicated in Corporate Governance Principles.

### 3.2. Stakeholders' Participation in the Bank Management:

The bank has developed models for stakeholders, particularly employees to participate in management without impeding the operations of the bank.

The Internal Customer Satisfaction survey conducted once a year in this context is a process of receiving employee opinions and suggestions. Studies such as the Internal Customer Satisfaction Surveys, Employee Satisfaction Survey and One Day at the Branch are included in this process. The aim is to determine strong and poor areas and creation of necessary action plans. In addition, 128 ideas among many which were submitted to Eureka Idea Development System were put into practice.

As disclosed in the Corporate Compliance Report of 2013, Yapı Kredi is a joint stock company and is managed by internal executive functions. The decision making responsibilities of these functions are initially evaluated by the relevant management and then submitted for the approval of the related decision making bodies.



### **3.3. Bank Policy on Human Resources:**

The bank's human resources practices are based on its Employee Guidelines. These guidelines inform employees about human resource practices and set conditions pertaining to administrative services.

Through the Employee Guidelines, the bank aims to inform and provide consultancy to employees regarding matters such as employee selection, placement and development based on employee knowledge, skills and talent, fair and proper compensation, performance enhancing training opportunities, provision of an appropriate work environment to maximize employee efficiency, information on employment practices, rules, vacations, leave of absence, insurance benefits, administration etc.

The bank's human resources and organization management carries out its operations without any discrimination of race, gender, nationality, age, religion, political view and physical disability and with respect towards privacy and civil rights.

Moreover, all bank employees are able to share any discomfort and complaints in regards to these matters, verbally or written, in person or to the Code of Conduct e-mail address within the Compliance Office.

Job description as well as performance and bonus guidelines are announced to all employees of the bank.

In addition, the bank has a human resources portal available to all employees with published detailed policies under main headings of Career, New Career Development, Salary and Benefits as well as Performance.

On the other hand, under the law on Trade Unions and Collective Labor Agreements (Law nr.6356), a Collective Bargaining Agreement is in place between the bank and Union of Bank and Insurance Workers. The purpose of this agreement is identifying the benefits and responsibilities of the bank and union members regarding contents and termination of members' labor contracts and other issues, ensuring that these are implemented correctly and demonstrating solutions in the event of possible conflicts. Through this agreement, both parties mutually guarantee to be on good terms, labor peace, well-being and labor safety. As a part of the Collective Bargaining Agreement, Workplace Union Representatives are designated by Basisen (Banking and Insurance Workers' Union) on behalf of the members of the union. These representatives are commissioned to listen to members, resolve their complaints, assure cooperation, labor peace and harmony between workers and the employer, monitor the rights and interests of the workers and assist the exercise of the working conditions subject to the labor laws and collective bargaining agreements.

### **3.4. Relations with Credit Customers and Creditors:**

Within the framework of protection of trade secrets, care is taken on the confidentiality of information about customers and suppliers.

Quality standards in banking services are adhered to and attention is paid to the protection of these standards.

### **3.5. Ethical Rules & Social Responsibility:**

The ethical rules of Yapı Kredi is established and publicly disclosed through the corporate web site.



The bank have also established an "Anti-Corruption Policy" and disclosed it on the corporate web site.

The bank keeps good relations with non-governmental organizations and public social institutions. In addition, work carried out in accordance with awareness of environmental laws and environmental responsibility in general has been found satisfactory by us. Yapı Kredi conducts a training program called "I Read, I Play" in cooperation with the Educational Volunteers Foundation of Turkey (TEGV). The project aims to improve reading, writing, research, self-expression skills of children. 110 thousand children have been reached since 2006 through this project. Colored Pencils Newspaper has been added to the project this year.

The "Afife Theater Awards", which has been organized since 1997 on annual basis and considered among the most prestigious and long lasting art awards, were presented to winners at the ceremony held at the Haliç Congress Center on 28 April 2014.

Furthermore, Yapı Kredi launched the Online Chat service in 2008, its first application for the disabled. Today there are 725 ATMs in 62 different provinces designed especially for the use of orthopedic and visually-impaired citizens. The bank provides 7/24 internet banking services for hearing-impaired customers and also introduced a call center voice response system for the visually-impaired. Yapı Kredi launched the web site [www.engelsizbankacilik.com](http://www.engelsizbankacilik.com) in 2011 facilitating the access of disabled to the financial sector in Turkey, aiming to create awareness in the general population in this regard. Yapi Kredi developed its iPhone application keeping in mind that disabled users. All push buttons and functions were tagged properly for a full compliance with the Voice-Over application.

Through the training of "Speaking is in Our Hands", which is conducted in cooperation with the Turkish National Federation of Deaf, Yapı Kredi Banking Academy takes its services within the scope of Yapı Kredi's Unimpaired Banking Program one step further with the participation of voluntary employees. So far 279 attendees taking part in this training learn the sign language and speak the same language with the hearing impaired customers.

Within the scope of I Know No Barriers for My Country project which was started under the leadership of Koç Holding, Yapı Kredi presented the "My Country Fund". Approximately 70 percent of the income derived from the sale of this fund is transferred directly to schools to be accessible for disabled students.

Additionally, the bank offers the community cultural and artistic events organized by Yapı Kredi Kültür Sanat Yayıncılık A.Ş. through the following channels:

- Yapı Kredi Kazım Taşkent Art Gallery
- Yapi Kredi Vedat Nedim Tör Museum
- Yapı Kredi Sermet Çifter Hall
- Yapı Kredi Sermet Çifter Library
- Yapi Kredi Publications

Concerning the practices where the bank was held liable by a public administration; a penalty was imposed to Yapı Kredi by the Competition Authority in 2013 along with many other banks in the sector.

### **3.6. Sustainability:**

The bank has policies, internal regulations, objectives, initiatives and campaigns on environment, nature,

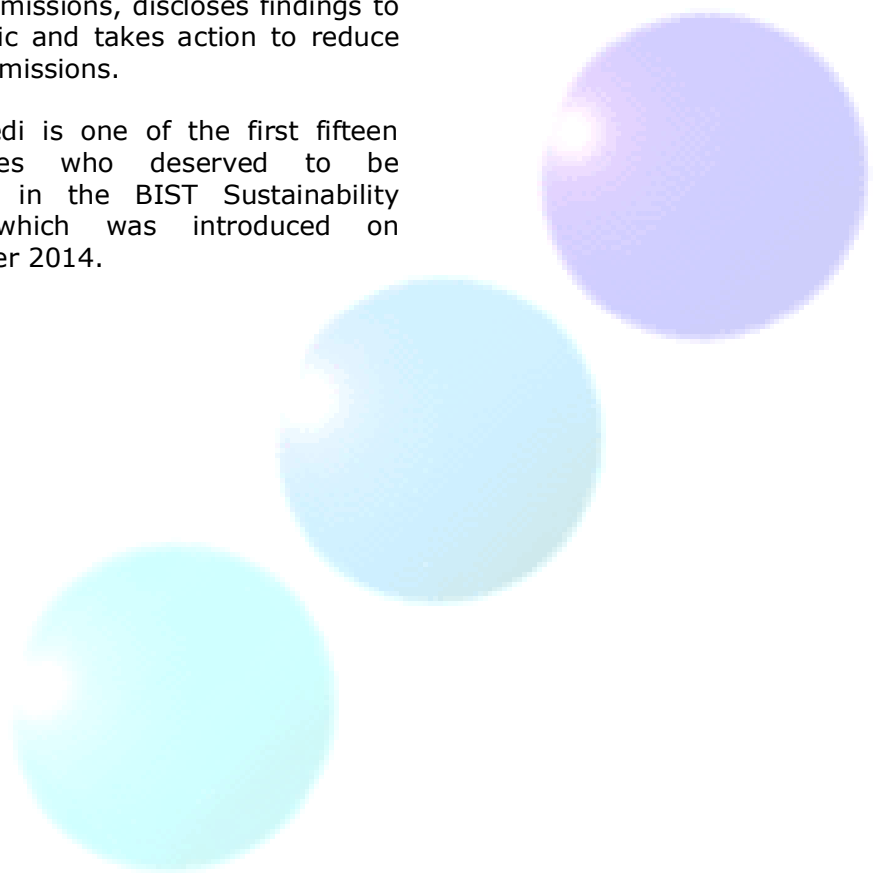
energy conservation, recycling and training.

Yapı Kredi disclosed its sustainability reports via the corporate web site.

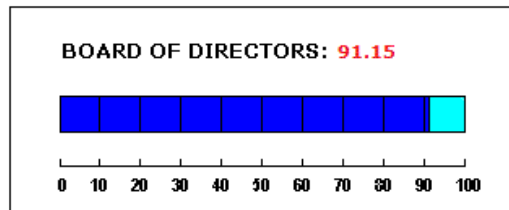
The bank has national/international ISO 14064-1 certification in this context, and memberships to domestic organizations operating on the field of environmental protection.

In addition, Yapı Kredi measures the carbon emissions, discloses findings to the public and takes action to reduce carbon emissions.

Yapı Kredi is one of the first fifteen companies who deserved to be included in the BIST Sustainability Index which was introduced on November 2014.



## SECTION 4: BOARD OF DIRECTORS



### SYNOPSIS

+	The board is staffed with effective and highly qualified members
+	Board of directors meeting and decision quorum is defined in the articles of association
+	Each member has a right to a single vote
+	3 female members on the board of directors
+	5 independent members on the board of directors
+	Corporate Governance, Audit, and Remuneration Committees established
=	Any potential losses incurred by the company and third parties as a result of misconduct by executives are insured but not with an amount exceeding 25% of bank capital
-	A Nomination Committee is not established

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

Strategic decisions of the board of directors aim to manage the bank's risk, growth, and return balance at an appropriate level and conduct a rational and cautious risk management approach with a view to the long-term interests of the bank. The board administers and represents the bank within these parameters.

The board of directors has defined the bank's strategic goals and identified

the needs in human and financial resources, and controls management's performance.

#### 4.2. Principles of Activity of the Board of Directors:

Distribution of tasks between the members of the board of directors is explained in the annual report.

The board of directors established internal control systems which are inclusive of risk management, information systems, and processes by also taking into consideration the views of the committees.

The presence, functioning, and effectiveness of internal controls and internal audit are explained in the annual report.

Chairman of the board and general manager's executive powers are clearly separated.

The board of directors plays a leading role in maintaining effective communication between the bank and the shareholders and settling any disputes which may arise.

Losses incurred by the bank as a result of possible misconduct by board members are insured, but not with an amount exceeding 25% of the capital of the bank as indicated in Corporate Governance Communiqué.

There is no individual in the bank who has unlimited authority to take decisions on his/her own, which is a positive aspect.

### **4.3. Structure of the Board of Directors:**

The bank's board of directors is composed of 12 members and 2 of them are executive. Among the non-executive members there are 5 independent members who have the ability to execute their duties without being influenced under any circumstances.

According to the Corporate Governance Principles set by the CMB, number of independent board members should be minimum 3, so having 5 independent members on the board is a positive stand.

The Corporate Governance Committee has prepared a report on the candidates for independent board membership by taking into consideration whether or not the candidate meets the independency criteria and submitted this assessment as a report to the board for its approval. CMB criteria are complied with in determining independent candidates. Independent candidates for the board of directors have signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

There are 3 female members on the board, in line with the Corporate Governance Principles' advisory target of minimum 25% female board membership rate.

### **4.4. Conduct of the Meetings of the Board of Directors:**

Board of directors convened 11 times in the 2014 operating period. Bank officials declared that the participation rate to these meetings is around 90%, which is a sufficient rate.

Chairman of the board of directors sets the agenda for board meetings in

consultation with other members and the general manager.

Information on the agenda items of the board of directors is made available to the members in sufficient time prior to the meeting date by a coordinated flow of information. Each member is entitled to a single vote.

The meeting and decision quorums have been included in the articles of association of the bank. In addition, board meetings can also be held in a remote access system.

The conduct of the board of directors meetings is partly documented in the articles of association of the bank.

There are no certain rules or limitations for board members taking on additional duties as executives and/or board members outside the bank. However, actually no member has any duties other than the ones naturally incumbent upon them in Yapı Kredi group.

Board members' external duties and grounds are presented to the general shareholders' meeting where their nomination is discussed.

### **4.5. Committees Established Within the Board of Directors:**

Corporate Governance, Audit, and Remuneration Committees are established from within the board of directors in order to fulfill its duties and responsibilities.

Functions of the committees, their working principles, and members are designated by the board of directors and disclosed to the public on the corporate web site.

All chairmen of the committees are elected among the independent board members. The chief executive officer/general manager and the

chairman of the board of directors are not on the committees. With the exception of independent members, care is taken to avoid appointment of a board member on multiple committees however Mr. Osman Turgay Durak is serving on two committees.

Functions of the Investor Relations Department are carried out by Financial Planning and Financial Affairs/Investor Relations Department and the Compliance and Internal Control Management/KFH, Subsidiaries and Shareholder Relation Department. Assistant General Manager who is responsible of Compliance and Internal Control, Mr. Mehmet Erkan Özdemir and CFO, Mr. Marco Iannaccone are also serving on the Corporate Governance Committee as per Corporate Governance Principles Communiqué.

All necessary resources and support needed to fulfill the tasks of the committees are provided by the board of directors.

As of the date of our report, Corporate Governance Committee held 2 meetings, Audit Committee met 4 times, and the Remuneration Committee met twice in 2014.

The Corporate Governance Committee is established in order to determine whether or not the corporate governance principles are being fully implemented by the bank, if implementation of some of the principles are not possible, the reason thereof, and assess any conflict of interests arising as a result of lack of implementation of these principles, and present remedial advices to the board of directors. In addition, it oversees the work of the shareholder relations unit.

All Audit Committee members possess the qualifications listed in the

Corporate Governance Principles communiqué.

The annual report contains information on working principles of the Audit Committee and number of written notices given to the board of directors in the reporting period, but the meeting results are excluded.

The external audit of the bank is conducted by Güney Bağımsız Denetim ve Serbest Muhasebecilik Mali Müşavirlik A.Ş., a member of Ernst & Young Global group with a worldwide experience. The nomination and election process of the external audit firm, taking into account its competence and independence, starts with a proposal from the auditing committee to the board.

However, a Nomination Committee as defined in the Corporate Governance Principles Communiqué is not established yet.

#### **4.6. Remuneration of the Board of Directors and Senior Management:**

The principles of remuneration of board members and senior executives have been documented in writing and submitted to the shareholders' attention as a separate item at the general shareholders' meeting.

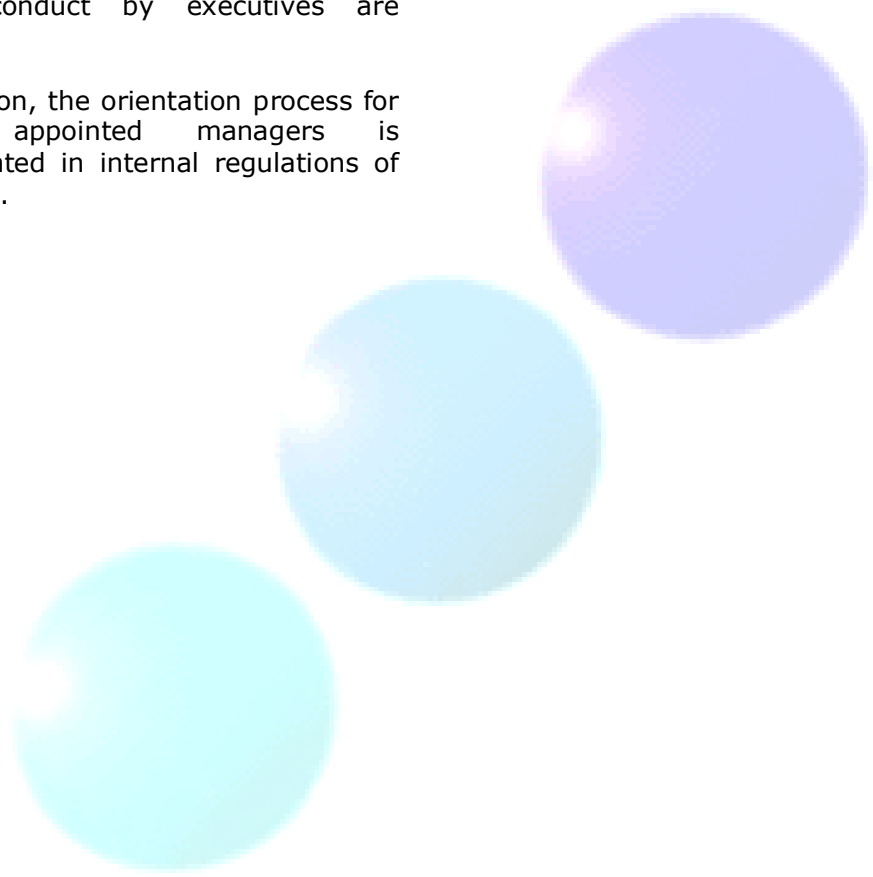
A remuneration policy prepared for this purpose can be found on the corporate web site. Stock options or performance based payments are not included in the remuneration package of the independent board members.

The executives have the required professional qualifications in order to perform the assigned duties. The executives comply with the legislation, articles of association, and in-house regulations and policies in fulfilling their duties.

There has been no cases where the executives used confidential and non-public bank information in favor of themselves or others. There are no executives who accepted a gift or favor directly or indirectly related to the bank's affairs, and provided unfair advantage.

Bank officials declared that any potential losses incurred by the company and third parties as a result of misconduct by executives are insured.

In addition, the orientation process for newly appointed managers is documented in internal regulations of the bank.



## Rating Definitions

Rating	Definition
<b>9 - 10</b>	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. Deserved to be included in the BIST Corporate Governance Index on the highest level.
<b>7 - 8</b>	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. Deserved to be included in the BIST Corporate Governance Index.
<b>6</b>	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. Deserved to be included in the BIST Corporate Governance Index and 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.
<b>4 - 5</b>	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.
<b>&lt;4</b>	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.

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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.

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