



Corporate Governance Rating Report



YapıKredi

28 December 2017

CONTENTS

Rating and Executive Summary	3
Rating Methodology	5
Bank Overview	6
SECTION 1: SHAREHOLDERS	8
Facilitating the Exercise of Shareholders' Statutory Rights	8
Shareholders' Right to Obtain and Evaluate Information	9
Minority Rights	9
General Shareholders' Meeting	9
Voting Rights	10
Dividend Rights	10
Transfer of Shares	11
SECTION 2: PUBLIC DISCLOSURE AND TRANSPARENCY	12
Corporate Web Site	12
Annual Report.	13
External Audit.	14
SECTION 3: STAKEHOLDERS.	15
Bank Policy Regarding Stakeholders	15
Stakeholders' Participation in the Bank Management	15
Bank Policy on Human Resources	16
Relations with Credit Customers and Creditors	16
Ethical Rules & Social Responsibility	16
Sustainability	17
SECTION 4: BOARD OF DIRECTORS.	18
Functions of the Board of Directors	18
Principles of Activity of the Board of Directors	18
Structure of the Board of Directors	19
Conduct of the Meetings of the Board of Directors	19
Committees Established Within the Board of Directors	19
Remuneration of the Board of Directors and Managers With Administrative Responsibility	20
Rating Definitions	22
Disclaimer	23

Rating and Executive Summary

YAPI VE KREDİ BANKASI A.Ş. (YKBNK)

 **SAHA**
Corporate Governance Rating:

9.43
BNK



MAIN SECTIONS: Avg. 94.29

Shareholders: 95.86



Public Disclosure & Transparency: 93.58



Stakeholders: 97.38



Board of Directors: 92.35



0 10 20 30 40 50 60 70 80 90 100

EXECUTIVE SUMMARY

The Corporate Governance Rating (9.34) that has been assigned to Yapı ve Kredi Bankası A.Ş. (Yapı Kredi) on December 28, 2016 is hereby revised up to **9.43**. Our rating methodology (page 5) is based on the Capital Markets Board's (CMB) "Corporate Governance Principles".

Yapı Kredi's corporate governance rating is revised as above in consideration with the importance given by the Bank to corporate governance principles and its willingness to carry out the compliance process continuously and dynamically.

Furthermore, SAHA publishes (annually) the World Corporate Governance Index (WCGI) which ranks countries in terms of their level of compliance with corporate governance principles as well as their germane institutions, rules, codes, and regulations together with international standards and indices which evaluate countries in a vast array of areas such as transparency, corruption, ease of doing business, etc.. Yapı Kredi is analyzed as a Turkish company and Turkey takes place at the top classification of the WCGI which is Group 1. Details of the World Corporate Governance Index (WCGI) published by SAHA on July 21, 2017 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 publicly disclosed dividend policy. On the other hand, an area open for improvement is adoption as it is, of the rate of minority rights in the Bank's articles of association as prescribed for public joint stock companies (%5).

Yapı Kredi attained **9.36** 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 all the benefits provided to board members and senior executives on individual basis is an area in need of further refinement.

On the topic of **Stakeholders**, Yapı Kredi scored **9.74**. 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 activities are found satisfactory. A compensation policy for the employees is established and disclosed to the public.

From the perspective of the principles regarding the **Board of Directors**, Yapı Kredi's tally is **9.24**. The board of directors fulfills all duties regarding Bank needs. The board consists of 14 members and 3 of them are independent members. Corporate Governance, Audit, and Remuneration Committees are established within the board of directors and their working principles are disclosed to public. There are 2 female members on the board of directors. However, inexistence of a policy or a set timetable to reach the Corporate Governance Principles' advisory target of 25% female board membership rate, and non-establishment of a Nomination Committee are issues 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.22).

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.	
	Chairman of the Board of Directors Yıldırım Ali Koç
Yapı Kredi Plaza D Blok, 34330, Levent-Istanbul www.yapikredi.com.tr	Subsidiaries and Shareholder Relations Unit Erdoğan Tetik Tel: (0212) 339 64 31 erdinc.tetik@yapikredi.com.tr

Turkey's first privately-owned, retail focused bank, Yapı Kredi is the fourth largest private bank of Turkey with total consolidated assets of TL 293.9 billion as of end 3rd quarter of 2017.

Yapı Kredi is a fully integrated financial services group, supported by domestic and international subsidiaries. The Bank has an extensive customer base to which it delivers a comprehensive array of retail, SME, 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's network consists of 888 branches covering all regions of Turkey supported by an employee base of 19,152. Yapı Kredi has advanced alternative delivery channels which handle 90% of total banking transactions. These channels comprise of 4,241 ATMs, internet banking, mobile banking, 3 call centers and 530,000 POS machines.

Yapı Kredi's main shareholder is Koç Finansal Hizmetler A.Ş. (KFH) with 81.80% ownership. KFH is a 50%-50% joint venture between Koç Group and UniCredit Group. The remaining 18.20% of the shares are publicly traded on Borsa Istanbul. Global Depository Receipts representing the Bank's shares are quoted on the London Stock Exchange.

Public shares of the Bank are traded under "YKBNK" code at BIST Stars Market and Yapı Kredi is a constituent of BIST ALL SHARES (XUTUM), BIST FINANCIALS (XUMAL), BIST CORPORATE GOVERNANCE (XKURY), BIST SUSTAINABILITY (XUSRD), BIST 100 (XU100), BIST BANKS (XBANK), BIST STARS (XYLDZ), BIST 30 (XU030), and BIST 50 (XU050) indices.

Capital structure of the Bank is as follows:

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

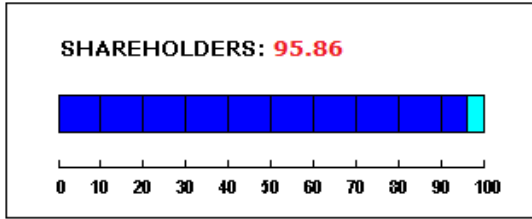
* Koç Finansal Hizmetler A.Ş. is a 50%-50% joint venture between Koç Group and UniCredit Group.

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

Yapı ve Kredi Bankası A.Ş. Board of Directors		
Name	Title	Executive/Independent
Yıldırım Ali Koç	Chairman	Non-executive
Carlo Vivaldi	Vice-chairman Credit Committee Associate Member Remuneration Committee Member	Non-executive
Hüseyin Faik Açıkalın*	Executive Director Chief Executive Officer Credit Committee Chairman	Executive
Niccolo' Ubertalli	Executive Director Deputy Chief Executive Officer Credit Committee Vice-chairman	Executive
Levent Çakıroğlu	Member Remuneration Committee Member	Non-executive
Fatma Füsün Akkal Bozok	Member Credit Committee Member	Non-executive
Ahmet Fadıl Ashaboğlu	Member	Non-executive
Wolfgang Mag.Schilk	Member Audit Committee Chairman Credit Committee Member	Independent Member
Mirko Davide Georg Bianchi	Member Corporate Governance Committee Member	Non-executive
Gianfranco Bisagni	Member	Non-executive
Aykut Ümit Taftalı	Member Credit Committee Associate Member	Non-executive
Giuseppe Scognamiglio	Member	Non-executive
Adil Giray Öztoprak	Member Audit Committee Member Corporate Governance Committee Member	Independent Member
Giovanna Villa	Member Audit Committee Member	Independent Member

* As per the material disclosure of the Bank dated December 27, 2017 through the Public Disclosure Platform (PDP); Mr. H. Faik Açıkalın willingly retired from his position as Director and Chief Executive Officer of Yapı ve Kredi Bankası A.Ş., effective as of December 29, 2017. With the decision of Board of Directors dated December 27, 2017 it is resolved that; Gökhan Erün is provisionally elected as a Director of Yapı ve Kredi Bankası A.Ş. as of January 15, 2018 to replace H. Faik Açıkalın in accordance with Article 363 of the Turkish Commercial Code, to be confirmed at the first forthcoming General Meeting of Shareholders and to function until that date; he is hereby appointed as an Executive Director, and to send an application to the BRSA to appoint Gökhan Erün as CEO of Yapı ve Kredi Bankası A.Ş. as of January 15, 2018. The appointment shall become effective unless an objection is received from BRSA within 7 working days.

SECTION 1: SHAREHOLDERS



SYNOPSIS

+	Equal treatment of shareholders
+	Active investor relations unit
+	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 functions in relation to shareholder relations are carried out under Assistant General Manager for Compliance and Internal Control, the Subsidiaries and Shareholder Relations Unit and the Investor Relations Unit under Assistant General Manager for Financial Planning and Financial Affairs (CFO).

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.

Koç Finansal Hizmetler, 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 Level 3, 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 established a disclosure policy, submitted it to the attention of the shareholders and disclosed 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:

SAHA participated as an observer to the general shareholders' meeting covering the 2016 operating period, and the assessments on the meeting are held on this basis.

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 March 28, 2017 is performed through all means of communication available to the bank on February 22, 2017 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. Total number of shares and voting rights reflecting the Bank's shareholding structure as of the date of disclosure, number of shares and voting rights reflecting the privileged share group within the Bank capital, and the nature of the 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 related parties, whether they are independent or not, and information on similar issues.
- c. Previous and recent amendments to 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.

We have come to the conclusion that that the chairman of the meeting has made the necessary preparations for the execution of the general shareholders' meeting in line with the Turkish Commercial Code, the Law and legislation.

General shareholders' meetings take 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 2016 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 was set for the possible donations of 2017.

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, allowing the attendance of those including stakeholders and media to the general shareholders' meetings with no voting rights, in line with Corporate Governance Principles.

A disclosure document on agenda items was also prepared.

As stated on the disclosure document, there was not any proposal which was submitted by the shareholders to add an item to the agenda

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 has been no implementation preventing representation of publicly held shares in management.

1.6. Dividend Rights:

The dividend policy of Yapı Kredi is clearly defined, submitted to the

approval of 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.

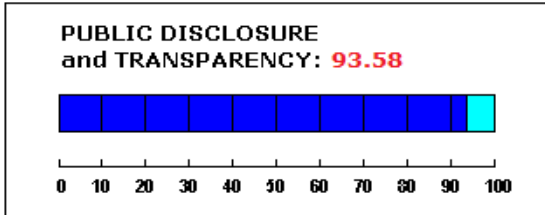
Plus, there is a provision in the articles of association on advance dividend payments.

1.7. Transfer of Shares:

The articles of association of the Bank do not contain any provision 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 executives not listed on individual basis
-	Names of ultimate controlling individual shareholders are not disclosed

2.1. Corporate Web Site:

The web site (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 PDP 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, news, general shareholders' meeting internal guidelines, information on corporate social responsibility/sustainability activities, information on senior management, financial data, main ratio analysis, corporate web site privacy policy, and the human resources policy.

The Bank did not receive any warnings/penalties due to deficiencies on its 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 in the board of directors and in the Committees during the reporting 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.
- e. Progress on investments, the eligibility status on incentives, and to what extent.
- f. Changes and justifications thereof on the articles of association during the reporting period.
- g. Corporate Governance Principles Compliance Report.
- h. Information on related party transactions.
- i. The dividend distribution policy.

- j. Other issues not included in the financial statements, but are beneficial for users.
- k. Nature and amount of the capital market instruments issued.
- l. The Bank's organization, capital and ownership structure and any changes in the related accounting period.
- m. All benefits provided to staff and workers, information on number of personnel.
- n. Basic ratios on the financial position, profitability and solvency.
- o. 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. Information on external duties of board members and executives.
- b. Members of the Committees within the board and assessment of their working principles.
- c. Number of board meetings held during the year.
- 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. Declaration of independence of the independent board members.

g. Rating results.

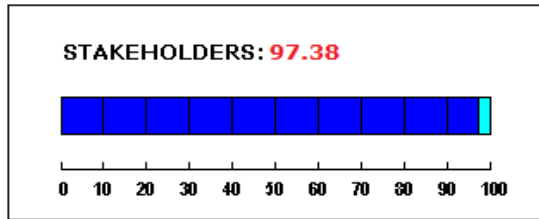
On the other hand, benefits provided to board members and senior executives are mentioned collectively, but best application of Corporate Governance Principles dictate that this information is given on an individual basis.

2.3. External Audit:

The external audit of the Bank is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of PricewaterhouseCoopers (PwC) group with a worldwide experience.

There has not been a situation within 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
+	Quality standards are complied with in the Bank's business and operations
+	Code of ethics established and disclosed to the public
+	The Bank is in compliance with environmental laws, Corporate Social Responsibility and Sustainability activities are quite satisfactory
+	A written employee compensation policy is prepared and disclosed to public via the web site

3.1. Bank Policy Regarding Stakeholders:

A significant or repetitive situation in which the rights of stakeholders established by law or any other mutual agreement are violated has not been encountered.

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.

A written employee compensation policy is established and disclosed to public on the corporate web site.

Bank officials declared that the procurement of the Bank is realized through tender procedures and there is a regulation in this regard.

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, One Day at the Branch and One Day at the Headquarters are included in this process. The aim is to determine strong and poor areas and creation of necessary action plans. In addition, as of 1st of December 2017, 392 ideas among many which were submitted to Eureka Idea Development System were put into practice.

As disclosed in the Corporate Compliance Report of 2016, 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 (Basisen). 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 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.

Within this context, Yapı Kredi pursues the training program called "I Read, I Play" in cooperation with the Educational Volunteers Foundation of Turkey. The project aims to improve reading, writing, research, self-expression skills of children. With the training program conducted each year, nearly 130 children have been reached up to now.

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 April 24, 2017.

Furthermore, Yapı Kredi launched the Online Chat service in 2008, its first application for the disabled. Today there are 2,324 Enabled ATMs across Turkey 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 in 2011 facilitating the access of disabled to the financial sector services in Turkey.

Through the project 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 a total of 300 attendees were given training on the sign language.

Yapı Kredi sustained its support to the project "I Know No Barriers for My Country" led by Koç Holding. In this content, 4,127 employees of Yapı ve Kredi have completed "I know No Barriers for My Country" e learning trainings as of the end of 2016.

3.6. Sustainability:

The Bank has a policy, internal regulation, objectives, initiatives and campaigns in the fields of environment, nature, energy saving, recycling and education.

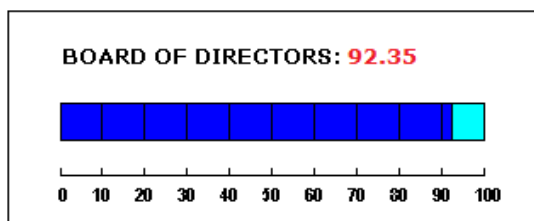
Yapı Kredi publicly discloses its sustainability reports, including sustainability activities, through the corporate web site.

The Bank is the holder of national/international ISO 14064 Greenhouse Gas Accounting and Verification Certificate in this context, and is a member of 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 was included among the 43 companies on the BIST Sustainability Index established on 2014.

SECTION 4: BOARD OF DIRECTORS



SYNOPSIS

+	The board works efficiently and staffed with 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 independent members on the board of directors
+	Audit, Corporate Governance, and Remuneration Committees established
=	Defects and damages caused by board members during the execution of their duties are insured, but not with an amount exceeding 25% of the Bank's capital
=	2 female members on the board of directors
-	The Bank has not prepared a policy nor set a timetable to reach the Corporate Governance Principles' advisory target of minimum 25% female board membership rate
-	Nomination Committee 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:

The division of tasks among 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.

Defects and damages that may be caused by the board members during the execution of their duties have been insured, but not with an amount exceeding 25% of the capital of the Bank as stipulated in the Corporate Governance Principles 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 14 members of whom 12 are non-executive. In line with the related Communiqué, among the non-executive members there are 3 independent members who have the ability to execute their duties without being influenced under any circumstances.

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 each signed a declaration of independence within the framework of the legislation, articles of association, and the CMB criteria.

The Bank has not yet prepared a policy nor set a timetable to reach the target of minimum 25% female board membership rate. The current rate of female members in the board of directors is 14%.

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

Board of directors convened 11 times since our latest report (December 28, 2016). Bank officials declared that the participation rate to these meetings is around 92%, which we regard as sufficient.

Chairman of the board of directors sets the agenda for board meetings in consultation with other members and chief executive officer/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 the Koç Group.

Intra-group duties and justifications for the members of the board of directors outside the Bank are informed to the shareholders at 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.

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.

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. Massimo Francese are also serving on the Corporate Governance Committee as per the Communiqué on Corporate Governance Principles.

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

It has been declared that, as of the date of our report, the number of resolutions reached in 2017 is 4 for the Corporate Governance Committee, 10 for the Audit Committee and 8 for the Remuneration Committee.

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 three members of the Audit Committee 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 however, the meeting results are excluded.

The external audit of the Bank is conducted by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of PricewaterhouseCoopers 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 Audit Committee to the board and ends with the board's choice being presented and approved at the general shareholders' meeting.

In addition to least number of Committees, the Sustainability Committee has been established.

However, a Nomination Committee as required 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.

We have come to a conclusion that 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 have 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 there is an insurance policy for losses incurred by the Bank, and third parties, as a result of not performing the executives' duties duly.

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

Rating Definitions

Rating	Definition
9 - 10	The bank performs very good 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.
7 - 8	The bank performs good 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.
6	The bank performs fair 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.
4 - 5	The bank performs weakly 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 very weakly 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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