


## Corporate Governance Rating Report

This report has been prepared by JCR-ER  
in compliance to the regulations of  
Capital Market Board of Turkey

## Banking

|   |                                  |   |        |            |       |     |     |   |
|---|----------------------------------|---|--------|------------|-------|-----|-----|---|
|  |                                  | <b>8.14</b><br>AA(Trk)/bbb<br>(Positive)  |        |            |       |     |     |   |
| Corporate Governance<br>Score & Outlook   | Shareholders                     | <b>7.46</b><br>A A(Trk)/b<br>(Positive)   |        |            |       |     |     |   |
|   | Public Disclosure & Transparency | <b>9.04</b><br>AAA(Trk)/aa<br>(Positive)  |        |            |       |     |     |   |
|   | Stakeholders                     | <b>8.04</b><br>AA(Trk)/bbb<br>(Positive)  |        |            |       |     |     |   |
|   | Board of Directors               | <b>7.62</b><br>AA(Trk)/bb<br>(Positive)   |        |            |       |     |     |   |
| Best Practices of Corporate Governance  |                                  | <table border="1"> <tr> <td>Beyond</td> <td>Comparable</td> <td>Below</td> </tr> <tr> <td>10%</td> <td>90%</td> <td>-</td> </tr> </table> | Beyond | Comparable | Below | 10% | 90% | - |
| Beyond  | Comparable                       | Below   |        |            |       |     |     |   |
| 10%   | 90%                              | -   |        |            |       |     |     |   |

| ALBARAKA TÜRK KATILIM BANKASI A.Ş. |       |       |       |       |
|------------------------------------|-------|-------|-------|-------|
| Financial Data                     | 2009* | 2008* | 2007* | 2006* |
| Total Assets (000.000 USD)         | 4,302 | 3,116 | 3,178 | 1,780 |
| Total Assets (000.000 TL)          | 6,415 | 4,789 | 3,690 | 2,492 |
| Equity (000.000 TL)                | 711   | 638   | 534   | 246   |
| Net Profit (000.000 TL)            | 105   | 136   | 85    | 69    |
| Market Share (%)                   | 0.77  | 0.65  | 0.64  | 0.50  |
| ROAA (%)                           | 2.35  | 4.04  | 3.48  | 3.21  |
| ROAE (%)                           | 19.54 | 29.26 | 27.58 | 33.44 |
| Equity/Assets (%)                  | 11.08 | 13.32 | 14.47 | 9.87  |
| CAR-Capital Adequacy Ratio (%)     | 15.33 | 18.12 | 21.72 | 15.29 |
| Asset Size Growth Rate (%)         | 33.95 | 29.79 | 48.09 | 26.51 |

\*End of year

### General Publicity

Analyst: Şevket GÜLEÇ/ +90 212 352 56 73  
[sevketg@jcrer.com.tr](mailto:sevketg@jcrer.com.tr)

| Company Information         |  |
|-----------------------------|--|
| <b>Trade Name</b>           | ALBARAKA TÜRK KATILIM BANKASI A.Ş.                                   |
| <b>Address</b>              | Büyükdere Cad. No:78<br>34394 Mecidiyeköy / İSTANBUL                 |
| <b>Chairman</b>             | Adnan Ahmed Yusuf ABDULMALEK   |
| <b>CEO</b>                  | Fahrettin YAŞI   |
| <b>Investor Relations</b>   | Phone: +90.212.288.77.44<br>yatirimciliskileri@albarakatürk.com.tr   |
| <b>Web</b>                  | <a href="http://www.albarakatürk.com.tr">www.albarakatürk.com.tr</a> |
| <b>Corporate Governance</b> | Adem KARAKELLE   |

**Albaraka Türk Katılım Bankası A.Ş. (Albaraka Türk or Bank)** is a small-scale bank carrying out activities in the field of interest-free banking. **Albaraka Türk Katılım Bankası A.Ş.** which was established in 1984 in Turkey by the leadership of middle eastern ABG-Albaraka Banking Group (with financial activities in the Gulf Region, Middle East and North Africa), IDB-The Islamic Development Bank and Turkish entrepreneurs, continues its operations in the field of interest-free banking since the beginning of 1985 with a network of 109 branches, about 390 correspondent banks and a staff force of over 2,000 people. The shares of Albaraka Türk have been publicly traded in IMKB (ISE-Istanbul Stock Exchange) since 2007, and as of the end of 1H2010, the share of its foreign shareholders was 66.16% while that of the local ones amounted to 11% and the free float was 22.45%. The qualified shareholder, ABG-Albaraka Banking Group, with its total assets having reached the level of USD 14bn and its equity USD 1.8bn as of 1Q2010, carries on its activities based on interest-free banking principles through its affiliates operating in the fields of corporate, commercial, retail and investment banking, its structure offering services in Jordan, Lebanon, Egypt, Tunisia, Algeria, Sudan, South Africa, Syria, Pakistan, Bahrain and Turkey including its representatives in Indonesia and Libya.

### Strengths

- Emphasis on Corporate Governance, existence of a functional corporate governance committee and having a positive outlook,
- Strong staff commitment,
- Adequate level of transparency in its organizational structure and financial affairs,
- Well-preparedness against emergent and unexpected circumstances,
- Tradition of collaboration by successive managers,
- Steady support provided for social projects in parallel with generated internal sources,
- Having efficient capital structure for sustainability of existing growth trend without any deterioration in its corporate structure.

### Constraints

- Absence of internal regulations to broaden the exercise of minority rights beyond the current legislation,
- Unequal opportunity for employment of women particularly in senior management,
- Non-disclosure of remuneration provided for senior management,
- Low level of transparency regarding election processes of Board Members.

Publication Date: October 21, 2010

“Global Knowledge supported by Local Experience”

**1. Executive Summary and Rating Rationale**

This report, which has been prepared in light of original methodological procedures by JCR-ER in accordance with Corporate Governance Principles, set by SPK (CMB-Capital Market Board) and IMKB (ISE-Istanbul Stock Exchange) Corporate Governance Index regulations, states the level of corporate structuring and corporate governance, as of September 2010, reached by Albaraka Türk operating in Turkey.

The Board, shareholders, stakeholders and practices of the Bank in terms of public disclosure and transparency have been assessed within the framework of SPK regulations and information as well as findings ascertained therein has been quantified by assessments regarding weighting factors on which JCR ER has predicated the subcategories.

On the other hand, subject to the preservation of integrity of regulations by SPK and IMKB Corporate Governance Index and compliance with the limitations thereof, the report also covers such topics as “Best Practices” implementations regarding “Outlook” determinations, “Financial Efficiency” analyses, and sectoral differentiations and divergences, all of which exist in JCR ER’s original methodological structure.

Findings and assessments within the content of the report have been based on information and documents disclosed by the Bank to the public through various channels and also particularly submitted to JCR ER in writing and verbally, and reports and statistics by Participation Banks and BDDK (BRSA-Banking Regulation and Supervision Agency).

Through the analysis of JCR ER’s original methodology, the general compliance level of the Bank with corporate governance principles has been determined as [8.14/AA (Trk)/bbb-Positive] where:

- Numerical value is **8.14**,
- Convergence Level **AA(Trk)** representing the category of “Merit Compliance”,
- Notch degree **(bbb)** representing the category of “Outstanding”,
- Outlook **(Positive)**

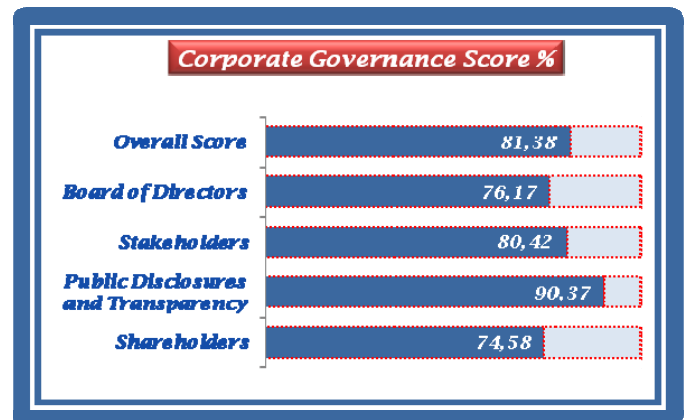
JCR ER’s notation system may be reached via the following link:[http://www.jcrer.com.tr/Administrator/files/436\\_kyder\\_notation.pdf](http://www.jcrer.com.tr/Administrator/files/436_kyder_notation.pdf)

Distinct levels of 4 main categories regarding compliance with the corporate governance principles are exhibited in the following table. Overall score has been calculated based on weightings assessed for these 4 categories by SPK regulations.

The corporate governance principles compliance field that the Bank has scored the highest among these 4 categories is Public Disclosures and Transparency with a numerical value of

9.04. And the lowest score is for the Shareholders field with a numerical value of 7.46.

| Fields                              | Numerical Value | Convergence Level       | Notch Degree               | Outlook         |
|-------------------------------------|-----------------|-------------------------|----------------------------|-----------------|
| Shareholders                        | 74.58           | AA (Trk) (Merit)        | (b) (Adequate)             | Positive        |
| Public Disclosures and Transparency | 90.37           | AAA (Trk) (Distinctive) | (aa) (Superior)            | Positive        |
| Stakeholders                        | 80.42           | AA (Trk) (Merit)        | (bbb) (Outstanding)        | Positive        |
| Board of Directors                  | 76.17           | AA (Trk) (Merit)        | (bb) (Good)                | Positive        |
| <b>Overall</b>                      | <b>81.38</b>    | <b>AA (Trk) (Merit)</b> | <b>(bbb) (Outstanding)</b> | <b>Positive</b> |



✓ As for the Shareholders, deficiencies like absence of the right to demand the appointment of a special auditor as an individual right in the articles of association, absence of any provision to invite stakeholders and media to general meetings, absence of any provision to take crucial decisions in the general meeting, absence of any provisions to broaden the exercise of minority rights beyond the current legislation, and absence of a cumulative voting system undermines the compliance level. Besides, existing “Dividend Policy” does not fully meet the requirements of the principles. In parallel with preservation of the current level and accomplishment of the planned improvement studies, it is decided that the outlook for the field of shareholders is “positive”.

✓ On the other hand, the high score level of Public Disclosure and Transparency subcategory of compliance with corporate governance principles is an indicator that no other significant deficiencies have been determined than lack of disclosure in the field of future plans and budget, absence of compliance audit of these plans (no such compliance audit tradition exists throughout Turkey), and lack of some details in the annual reports. It is decided that the outlook for this field is also “positive” for the following 12 months.

- ✓ Among the topics with which the Bank has not yet complied with in the Stakeholders field, absence of a member in the Board to represent the staff, absence of any association of a union among staff and absence of any publicly disclosed Corporate Social Responsibility Policy stand out. During the rating activity, JCR ER, regarding the inclination and determination by the Bank's management, has attained the opinion that the Bank is expected to disclose to public a Corporate Social Responsibility Policy after approval by a general meeting. On this account, the outlook has been determined as "positive".
- ✓ For the field of Board of Directors, the most significant noncompliance is the absence of an independent member in the board of directors. Nondisclosure of remunerations provided for the board members and managers, nondisclosure of qualifications and election procedures of candidates for the board, absence of statements of responsibility and written undertakings by the board members and managers are the topics hindering full compliance with the principles. JCR ER has assessed the Bank management's planning that qualifications of candidates for the board will be put into writing and will be disclosed to public together with election procedures as a reasonable target and determined the outlook as "positive".
- ✓ Regarding the Financial Efficiency, provided that the balance sheet composition of Albaraka Türk will not be deteriorated, it is believed that internal sources to be generated will contribute to preservation, maintenance and improvement of the level reached of compliance with the corporate governance principles with the opinion that the Bank has adequate equity structure to secure continuity of its existing growth trend and has adequate profit generation mechanisms to support this equity structure.
- ✓ JCR ER has determined the outlook of the Bank as "positive" with the opinion that the overall compliance level will be further improved regarding continuity of the past improvements, approach, motive and desire of the Bank managers, the Bank's future plans of all kinds, possible improvement in the contribution to the corporate governance level to be provided by a developing financial efficiency, the planned improvements in quality and quantity of the investor relations department and expected high probability of realization therein.

● **Outlook (Corporate Governance):**

The Bank has expressed and planned new improvements and developments in the following implementation topics which have been determined by JCR ER as deficiencies and noncompliance of all kinds in the compliance level:

- A more comprehensive dividend policy to be constituted and submitted for approval by a general meeting,
- Enrichment of the annual report with respect to its contents and inclusion of new topics therein,
- Setup and approval by a general meeting of a "Corporate Social Responsibility Policy" which will constitute a landmark for traditional social responsibility projects,
- Appointment of at least two new members to the board with qualifications of independence in the general meeting to be held in 2011,
- Determination in writing of eligibility qualifications for candidacy of board membership and to be submitted for approval by a general meeting,
- Election procedures of board members to be put into writing and disclosed to public.

JCR ER is of the opinion that the Bank is willing and inclined to effectuate and improve these implementations, has necessary staff force and facilities to execute this, and will allocate required financial sources. Therefore, the outlook of the Bank within this rating period has been determined as "positive".

**2. Company Overview**

Albaraka Türk is a small-scale participation bank maintaining its activities in the field of Turkish interest-free banking. Turkish banking sector consists of deposit banking, development and investment banking, and participation banking.

The development of participation banking in Turkey had been realized following the year 1985. Though Albaraka Türk was the first bank to operate as a participation bank, 4 banks operate now in this field. It was established to serve savings depositors and business owners who abstain from interest and commercial banks. However, it started to execute functions well beyond this target by quality and diversity in its services and products.

Participation banks invest funds they collect through such legitimate transactions in Islamic Law as mudaraba, musharaka, murabaha and ijara. Amongst these, mudaraba has been the indispensable one in participation banking for the mudaraba is a component which is the substitute for interest in Islamic financial system with its feature of "profit and loss sharing". However, most of the transactions of the participation banks are composed of murabaha which is sale on profit (buying in cash advance and selling on credit terms).

|   |
|---|
| <b>Corporate Governance<br/>Overall Results</b> |
| <b>8.14</b>                                     |
| <b>AA (Trk)/bbb</b>                             |
| <b>Positive</b>                                 |

These institutions formerly operating under the name “Special Finance Institutions” maintain their operations as “Participation Banks” within the framework of the Banking Law no.5411 which came into force in 2005.

Albaraka Türk, as the first financial institution to offer interest-free banking services in Turkey, was established in 1984 in Istanbul by the leadership of Turkish entrepreneurs, Albaraka Banking Group and the Islamic Development Bank and started its operations in 1985. In 2007, some of its shares began to be publicly traded in IMKB.

Albaraka Türk is a bank which injects its funds, collected through two methods within the concepts of “private current accounts” and “participation accounts”, into the economy by such services as retail finance, corporate finance, financial leasing and profit & loss sharing on project basis.

As of October 2010, nearly 66% of the Bank’s capital belongs to the foreign investors. Albaraka Banking Group, the Islamic Development Bank and Alharthy Family are among these shareholders. Of the remaining, 11.5% belongs to Turkish shareholders and 22.5% is publicly traded in IMKB. None of the share of Turkish shareholders who own the registered shares is more than 5%. The shareholder structure of the Bank on a yearly basis is given in Table: 1 in Appendix.

Total assets of the qualified shareholder ABG-Albaraka Banking Group reached the level of USD 14bn and its equity USD 1.8bn as of 1Q2010. The Group carrying on its activities based on interest-free banking principles maintains its operations through its affiliates operating in the fields of corporate, commercial, retail and investment banking, its structure offering services in Jordan, Lebanon, Egypt, Tunisia, Algeria, Sudan, South Africa, Syria, Pakistan, Bahrain and Turkey and its representatives in Indonesia and Libya.

Presently the Bank offers both corporate and retail banking services through its 109 branches in total, 44 of them located in Istanbul and others widespread in Turkey mainly in the industrial regions. Besides, it offers foreign trade services to its customers via its correspondent banking network of over 390 banks in 72 countries. Furthermore, the Bank offers insurance agency services to 5 different insurance firms and services of stock brokerage agency, trade transactions of precious metals, money transfer intermediation and credit card & POS.

Of the total staff force of 2,088 people employed in the headquarters and branches, nearly 65% are composed of personnel with graduate and higher levels of education.

The share of the 4 participation banks among the Turkish banking sector of 49 banks was 4.3% in FY2009 and 4.14% as of June 2010. The share of Albaraka Türk was 0.77%. In terms of asset size, market share of Albaraka Türk among 4

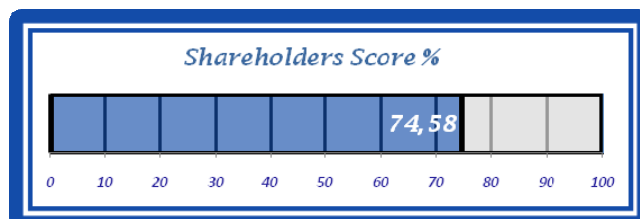
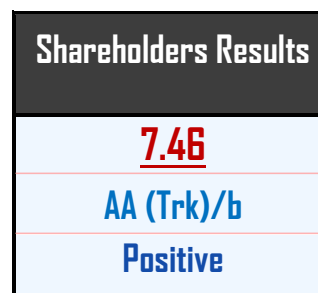
participation banks was 18.60% as of June 2010. Main balance sheet items and ratios which reflect the Bank’s financial structure is exhibited in Table: 3 in Appendix.

The Bank has only one affiliate and utilization of sources in subsidiary and affiliate investments is not preferred as a general policy. The information on the Bank’s affiliate is exhibited in Table: 2 in Appendix.

The Board of the Bank is composed of 11 members. 6 members are proposed by foreign shareholders and 5 members by Turkish shareholders owning the registered shares. Of these, 8 members have no executive position in the Bank. Qualifications of the Board members are exhibited in detail in Table: 4 in Appendix.

**3. Shareholders**

• **Summary**



| <b>Synopsis Table - (Shareholders)</b> |  |
|--|--|
| <b>Plug-Compatible</b>                 |  |
| 1                                      | The existence of a functional investor relations department established in 2007                              |
| 2                                      | Adequate measures to facilitate participation of shareholders in general meetings                            |
| 3                                      | Realization of meetings with high participation rates and in accordance with principles and democratic rules |
| 4                                      | Up-to-date and complete maintenance of stock ledger  |
| 5                                      | Disclosure of minutes of meeting and related documents in the website of the Bank                            |
| 6                                      | Absence of any privileges on the shares  |
| 7                                      | Absence of any regulations complicating share transfers  |
| 8                                      | Absence of any implementation indicating discrimination among shareholders                                   |

| <b>Not Compatible</b>       |   |
|-----------------------------|---|
| 1                           | Absence of any regulation of shareholders' rights to demand a special auditor as an individual right in the articles of association |
| 2                           | Absence of any provision in the articles of association securing to invite stakeholders and media to general meetings               |
| 3                           | Absence of any provision in the articles of association to take crucial decisions in the general meeting                            |
| 4                           | No arrangement for cumulative voting system   |
| 5                           | Absence of any regulations in the articles of association to broaden the exercise of minority rights beyond the current legislation |
| 6                           | Absence of advance dividend implementation  |
| <b>Partially Compatible</b> |   |
| 1                           | Partial compliance of current Dividend Policy with the principles   |

Within the content of the Shareholders field and in accordance with SPK regulations and original methodological procedures of JCR ER, the findings of levels attained in the following topics have been further highlighted: assurance of individual and minority rights by internal regulations, execution of implementations which facilitate the exercise of these rights, providing flow of exact, timely and accurate information to the shareholders.

Voting right, right to information, dividend right, right to share on balance of liquidation, preferential right, right to transfer of shares and right to sue against decisions of a general meeting have been analyzed as the most important topics among individual rights of the shareholders. Among minority rights, right to call a general meeting, right to raise a point of order in a general meeting, right to demand a special auditor, right to adjourn balance sheet discussions for 1 month, right to file a liability suit against board of directors and auditors have been analyzed. Through the analyses of the fields in accordance with JCR ER's original methodology, the general compliance level of the Bank's implementations in the field of shareholders with corporate governance principles has been determined as [7,46/AA (Trk)/b-Positive] where:

- Numerical value is **7.46**,
- Convergence Level **AA(Trk)** representing the category of "**Merit Compliance**",
- Notch degree **(b)** representing the category of "**Adequate**",
- Outlook **(Positive)**

The Bank has reached a significant level in its activities to facilitate the exercise of its shareholders' rights via "Investor Relations Department" which was established in 2007. The shareholders participate in general meetings and exercise their rights without any difficulties through this department. Thus far, the shareholders have not filed any liability or revocatory suit against decisions of general meetings. There are no privileges on the shares. The required staff and facilities to meet reasonable claims for information by the shareholders have been allocated and they perform their duties with success.

There is no hindrance as a clause in the articles of association for transfer of registered shares. However, according to the Banking Law, share transfers of the banks operating in Turkey are subject to an approval by BDDK. All of share transfers without this approval will be null and void and transferee may not exercise any shareholding right other than the dividend right.

In the election of board members of the Bank, no cumulative voting system is utilized. Besides, according to the current legislation, minority rights may only be exercised by shareholders holding more than 5% of the total shares. The Bank does not recognize these rights for shareholders holding less than 5% of the total shares as a clause in the Articles of Association.

## **A. Rights of Shareholders**

### **a) Dividend Rights**

None of shareholders of the Bank has any privilege in terms of dividend right. No fictitious transaction to understate profit figures by the Bank's management has been found. Regarding the dividend distributions to date, no implementation by the Board has been found to violate the balance between interests of the Bank and shareholders. Amount of dividend distributed each year, statutory reserves, extraordinary reserves and dividend per share has been disclosed to public as tabulation in annual reports.

The transactions of dividend distribution are performed in accordance with the clauses 45, 46 and 47 of the Articles of Association and their contents. However, these only meet the minimum requirements in the Turkish Commercial Code and do not include additional facilities existing in general practices, SPK suggestions and comprehensive implementations. Besides, a document of the Bank titled "Dividend Distribution Policy" has been analyzed and it has been determined that this also does not fully cover the principles. JCR ER suggests that the Board should align this policy with the principles more comprehensively, submit it to the approval of a general meeting and disclose to public in annual reports each year. In a dividend policy to be constituted, inclusion of the following items at least will promote the level of compliance with the principles:

- Source of distributable profit and method of calculation
- Criteria of distribution or retention of profits
- Methods and terms of calculation in case of profit distribution to managers and staff
- Place, time and terms of dividend distribution
- In case of retention of profits, clause defining rationale for retention
- Clause defining information on way of utilization of retained profit
- Criteria and methods for distribution of advance dividend



- Clause necessitating disclosure of names of individual shareholders receiving significant amounts of dividends and their amounts
- Criteria for donations and grants

In the Bank's internal regulations, implementations of advance dividend have not been included and methods of utilization and reasons for retention in case of retention of profits are not disclosed to public. Besides, names of individual shareholders receiving significant amounts of dividends and their amounts are not disclosed to public.

It has been determined that the Bank complies with the rules and implementations in this subsection within the relatively low level of Insufficient Convergence category [**B (Trk)/c-Borderline**].

#### **b) Voting Rights**

There are no privileges or usufruct on the Bank shares and the rule of one-share-one-vote is applied. The Bank management has established appropriate facilities in order for the shareholders to exercise their voting rights. In general meetings, voting rights may be exercised both by the shareholders themselves or their proxies. Besides, method of exercise of voting right is both published in the website and submitted to the shareholders at the beginning of general meetings. However, voting via remote access without participation in general meetings has not yet been legally possible.

JCR ER has determined that the Bank is in full compliance in this subsection with a Distinctive Compliance Level category of [**AAA(Trk)/aaa-Exceptional**].

#### **c) Simplifying use of Shareholding Rights**

Investor Relations Department of Albaraka Türk, performing its relations with shareholders and potential investors by a manager and a staff of 3, operates to facilitate exercise of shareholding rights. Operating procedures of the department have been put into writing and necessary equipment and office space have been provided.

Through this department, the Bank secures the flow of information to its shareholders and potential investors, facilitates exercise of their rights, replies their reasonable questions and thus strengthens its reliability in the eyes of its shareholders.

JCR ER has determined that the Bank is in full compliance in this subsection with a Distinctive Compliance Level category of [**AAA(Trk)/aaa-Exceptional**].

#### **d) Obtaining and evaluating Information Rights**

All of the shareholders and potential investors are provided with all of the necessary information and documents by the

Investor Relations Department without any discrimination. This informing process is realized via telephone, e-mail and ordinary mail. Mentioned department has necessary facilities and staff to perform this function with success.

Within the analysis of the Law Department, no suit filed by the shareholders against the Bank has been found. It has been determined that the Bank has an approach to resolve issues with the shareholders without resorting to the legal courtroom.

However, the shareholders are not enabled "to demand the appointment of an independent auditor to investigate a special case" as an individual right in the Articles of Association. In this case, the shareholders may only secure the appointment of an auditor by application to a court and this situation complicates and extends the process of seeking justice.

It has been determined that the Bank complies with the rules and implementations in this subsection within the relatively low level of Insufficient Convergence category [**B (Trk)/c-Borderline**].

#### **e) Shares Transfer**

The clause 11 of the Articles of Association stipulates that transfer of shares is permitted without any approval by the board and these transfers may be realized in accordance with the legislation. However, according to the Banking Law, share transfers of the banks operating in Turkey are subject to an approval by BDDK. All of share transfers without this approval will be null and void and transferee may not exercise any shareholding right other than the dividend right. This condition is valid for all banks.

JCR ER has determined that the Bank is in full compliance in this subsection with a Distinctive Compliance Level category of [**AAA(Trk)/aaa-Exceptional**].

#### **f) Minority Rights**

Cumulative voting is not a method utilized by the Bank. Moreover, there are no clauses in the articles of association to broaden the exercise of minority rights beyond the current legislation. However, despite the absence of any statutory obligation, local shareholders in the minority status are represented by five members in the board in consideration of their shareholding of 11%. Likewise, the shareholder Islamic Development Bank is represented by one member despite its shareholding of 7.84%. This case indicates that mentioned interests of minority groups are protected at the board level. However, this right recognized for the shareholders in the minority status is not guaranteed and has not been secured by any internal regulation of the Bank.

It has been determined that the Bank complies with the rules and implementations in this subsection within the relatively low level of [**D (Trk)-failure**].

**g) The Principle of dealing fairly and equally with Shareholders**

No finding has been observed regarding any discrimination against the shareholders by the Bank's management in informing the shareholders, answering their requests for information and documents, exercising their rights in general meetings and other platforms.

For this reason, JCR ER has determined that the Bank is in full compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aa-Superior].

**B. General Meeting****a. Right of Access for General Shareholders' Meeting**

The last three ordinary general meetings of the Bank have been held in the headquarters and the shareholders were informed of invitations to meetings three weeks prior to the meetings. The text of invitation has been prepared in conformity to the principles in its form and the documents related to the agenda items have been presented to the examination by the shareholders both in electronic form and physically and both in headquarters and some of the branches. Agenda of a meeting is determined by the board by taking proposals also made by stakeholders into account.

Meetings are run by a chairman to be elected during the meetings and auditors attend the meetings. However, not all of the board members and candidates attend the meetings. The agenda items are individually discussed, each shareholder has the opportunity to speak and their proposals and queries are answered by the auditors and managers. Agenda items are individually voted and votes are counted and placed on minutes before the end of the meeting. Each share has one vote and none of the shareholders has any privilege on any vote. At the end of the meeting, minutes of the meeting are signed by session members and government commissioner.

Such documents as list of attendants, minutes of the meeting, text of invitation, agenda of the meeting and proxy form exist in the official website of the Bank both in Turkish and English languages. Besides, resolutions in the meeting are disclosed to public via KAP (Public Disclosure Platform).

The Bank has not complied with the two topics in this subsection. There is no clause in the articles, which stipulates that decisions causing significant changes in the assets are taken in general meetings. Furthermore, stakeholders and media are invited to meetings without any right to speak.

Despite these deficiencies, it has been determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/bb-Good].

**• Outlook (Shareholders):**

The Bank's management prepared an arrangement with the name "Dividend Policy", and this policy was adopted in the general meeting of 2009. However, this policy does not fully meet the standards in the principles. During the 12-month monitoring period, the Bank's management plans to align this policy with the principles and submit it to the approval of the general meeting again. If this plan is realized, the level of compliance of the Bank for this section will increase. Therefore, JCR ER has determined the outlook of the Shareholder field as "positive".

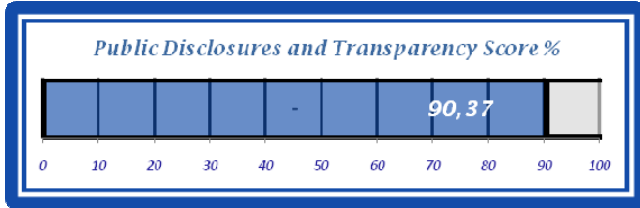
**4. Public Disclosure and Transparency****• Summary**

The compliance level of the Bank with the rules and implementations in this main section which provides the disclosure of information and documents needed by shareholders and stakeholders while protecting trade secrets has been determined as [9.04/AAA (Trk)/aa-Positive]where:

- Numerical value is **9.04**,
- Convergence Level **AAA(Trk)** representing the category of "**Distinctive Compliance**",
- Notch degree (**aa**) representing the category of "**Superior**",
- Outlook (**Positive**)

The existence of a comprehensive and publicly disclosed information policy and successful practices related with this policy within the responsibility of two upper-level managers and carried out with two staff of investor relations, stands out as a factor raising the level of transparency of the Bank. The audited financial statements prepared in accordance with international standards, general meeting documents, introductory information about the Bank and others are given on the official web site which is used as a very good platform of transparency.

| Public Disclosures and Transparency Results |
|---|
| <b>9.04</b>                                 |
| <b>AAA (Trk)/aa</b>                         |
| <b>Positive</b>                             |



| <b>Synopsis Table-(Pub. Discl. &amp; Transparency)</b> |   |
|--|---|
| <b>No</b>  | <b>Plug-Compatible</b>  |
| 1  | Existence of a comprehensive information policy   |
| 2  | Official disclosures performed in an exact, accurate and timely manner  |
| 3  | Utilization of the website as an efficient and transparent platform   |
| 4  | High compliance level of accounting records and financial statements with international standards provided that they meet the requirements of local regulations |
| 5  | Receiving quarterly and annual independent audit services and unqualified opinions by the auditors in the last three years                                      |
| 6  | Necessary measures taken for protection of trade secrets  |
| <b>No</b>  | <b>Not Compatible</b>   |
| 1  | Information on future plans and budget not fully disclosed to public  |
| <b>No</b>  | <b>Partially Compatible</b>   |
| 1  | Annual reports in terms of content details not in full compliance with the principles   |

**a. Guiding Rules and Facilities for Public Disclosure**

The Bank has publicly announced a comprehensive information policy. As the top-level managers, General Manager Mr. Fahrettin Yahşi and Assistant General Manager Mr. Melikşah Utku are responsible for the execution of this policy. Investor relations department manager Mr. Adam Karakelle and expert Mr. Seyfettin Demirlek carry out the actual public disclosure process. The Bank utilizes the visual and written media as well as KAP through the disclosure process. Besides, introductory information about the Bank, financial statements, code of conduct, information policy and general meeting documents are given on the official web site which is used as a very good platform of transparency.

However, pro forma financial statements are not disclosed to public and information policy does not include information and documents to be discussed in general meetings. Despite these deficiencies, it has been determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aa-Superior].

**b. Public Disclosure Procedures of Relations Between the Company and its Shareholders, The Board and Executives**

The Bank management discloses the shareholding ratios whenever exceeding threshold values of 10%, 33% and 50% expressed in the principles via KAP. Shareholders, members of the board of directors and managers are able to trade on the Bank's shares. However, these transactions are disclosed to the public regularly, fully and accurately via its official web site periodically. Commercial and financial relations with the Bank's risk group of people and companies are located in a separate table in the audit report and the web site. Another important statement which is the capital adequacy statement is presented in the website to inform investors.

In addition, the ultimate individual shareholders of the Bank are presented in the website. Currently, there is only one ultimate individual shareholder owning more than 5% shares of the Bank's capital. It has been determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/a-Excellent].

**c. Public Disclosure Procedure of Periodic Financial Statement and Reports**

All the Bank's accounting records and reports are maintained and prepared in accordance with international standards, and financial statements and annual reports are audited by an independent auditing company with an international experience. In all of the audit reports analyzed, independent auditors expressed unqualified opinions for the Bank. A detailed statement of capital adequacy is included within the independent audit report.

However, some shortcomings have been identified in the annual report published by the Bank each year. Information about the sector the Bank operates in and its market share thereof, lawsuits against the Bank, penalties by the public authorities and the reasons for them, dividend policy, remunerations and amounts of dividends that the board members and managers receive constitute these shortcomings.

In JCR ER's methodology, it has been determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/bbb-Outstanding].

**d. External Audits' Function**

Independent audit of the bank is performed by an international audit company named Güney Bağımsız Denetim Şirketi (partner of Ernst & Young). As a result of analysis of the audit agreement and meetings with auditors, it has been determined that the Bank is in full compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aaa-Exceptional].



**e. Trade Secrets Concept and Insider Trading**

To protect trade secrets, the Bank has established internal regulations and the technical infrastructure. There are provisions in the ethical rules which was approved by the general meeting and disclosed to public and in this respect criminal sanctions are applied on the staff members who reveal trade secrets. In addition, in the service contract signed between the Bank and each employee, the employees are committed to protecting trade secrets and confidential information of the Bank. Information security of the Bank's data processing infrastructure has been ascertained by interviews with the relevant managers and observations.

The Bank continuously publishes updated list of its staff having access of important information and other persons and institutions servicing the Bank in its website. However, it has not prohibited its staff to trade on stocks. Trade on stocks by the shareholders and top managers in particular, reduces the effectiveness of measures taken to prevent insider trading.

JCR ER has determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aaa-Exceptional].

**f. Considerable Affairs and Improvements Which Should be Disclosed to the public**

Developments in this sub-section are regularly, fully and timely reported by a staff working in the investor relations department via KAP within the framework of information policy. Effective operation of the system developed in the investor relations department and absence of any warning or penalty notices by IMKB and SPK regarding the disclosures are indicators of the Bank's success in this topic.

JCR ER has determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aa-Superior].

**• Outlook (Public Disclosure and Transparency):**

During the rating process, some shortcomings in the annual report prepared by the Bank have been identified. The Bank management has declared the willingness to rating analysts that during 12-month monitoring period they will resolve these deficiencies and 2010 annual report will be more consistent with the principles. JCR ER has determined the outlook of this main section as "positive" with the opinion that Albaraka Türk has the willingness and financial resource to eliminate the mentioned deficiencies.

**5. Stakeholders**

**• Summary**

With the exception of upper-level managers, employees, customers, suppliers, creditors, public authorities and the

public in general are considered as the stakeholders of an institution. The rules and practices in this main section primarily aim to secure the rights of stakeholders and to facilitate exercise of their rights, thus to maximize their contributions to the institution.

Through the analyses of JCR ER's original methodology, the compliance level of the Bank's practices in the field of stakeholders with corporate governance principles has been determined as [8.04/AA (Trk)/bbb-Positive] where:

- Numerical value is **8.04**,
- Convergence Level **AA(Trk)** representing the category of "Merit Compliance",
- Notch degree (**bbb**) representing the category of "Outsanding",
- Outlook (**Positive**)

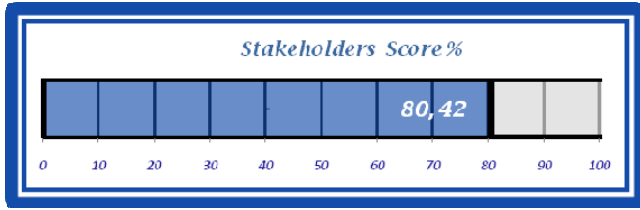
Employee-related applications are carried out by the human resources department which is equipped with extensive financial and technical facilities and a sufficient number of qualified personnel. Recruitment, assignment, promotion, termination and training of staff are performed according to written predetermined rules. Though "Staff Regulations" is the basic document on this issue but also each business process has been put into writing.

Problems are solved by serving customers via "Call Center", "Customer Satisfaction Line" and the website [www.soruncozelim.com](http://www.soruncozelim.com), thus their commitments to the Bank are reinforced.

A comprehensive set of ethical rules submitted to the approval of shareholders at general meetings and disclosed to public is available in the website. General Manager Mr. Fahrettin Yahşi is responsible for the conduct of ethical rules. Unethical activities are inspected by the audit committee, debated in the disciplinary committee and sanctions are applied including dismissal.

Albaraka Türk's financial support provided for a large number of artistic, cultural and social projects and the social benefit it has created in the field of social responsibility in line with its resources have been evaluated as a positive factor in the rating process.

|                             |
|-----------------------------|
| <b>Stakeholders Results</b> |
| <b>8.04</b>                 |
| <b>AA (Trk)/ bbb</b>        |
| <b>Positive</b>             |



On the other hand, there is no member representing the employees in the Bank's board of directors. However, it has been determined that senior management spends considerable effort to include the views of stakeholders primarily employees in the decision making processes and the views of relevant stakeholder group are taken by such methods as questionnaires and interviews.

| <b>Synopsis Table (Stakeholders)</b> |  |
|--------------------------------------|--|
| <b>No Plug-Compatible</b>            |  |
| 1                                    | Establishment of Proposal Evaluation Committee within the Bank in order to involve issues related with stakeholders in decision making processes |
| 2                                    | High level of compliance in human resources management with the principles and standards   |
| 3                                    | Existence of a functional call center and high level of customer satisfaction  |
| 4                                    | Establishment of a comprehensive and publicly disclosed set of ethical rules   |
| 5                                    | Support for a large number of projects within corporate social responsibility  |
| <b>No Not Compatible</b>             |  |
| 1                                    | Absence of any board member representing the employees   |
| 2                                    | Absence of any union organization among the employees  |
| <b>No Partially Compatible</b>       |  |
| 1                                    | Absence of any policy on which activities within corporate social responsibility can be based  |

**a. Company's Stakeholders Policy**

Albaraka Türk formed separate policies for each stakeholder group and endeavors to protect the rights of stakeholders most effectively in accordance to these policies. First, the rights obtained by legislation are compulsorily secured. It has been determined that the Bank also respects the rights obtained by various contracts and fulfills its obligations in this respect. These findings have been reached as a result of the observations in the law department and interviews with officials. In the resolution of conflicts of interest and disputes arising between the various stakeholder groups, it is believed that the Bank's management conducts its role of a moderator at a good level to solve problems through settlement without resorting to the courts.

JCR ER has determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aa-Superior].

**b. Supporting the Stakeholders to the Participation in the Governance by the Company**

There is no member representing stakeholders in the Bank's board of directors. However, there is also no private sector organization in Turkey performing such a practice. The most common practice on this issue is to get stakeholders' ideas in taking decisions concerning them. Albaraka Türk has developed many systems to include stakeholders in decision-making processes. The ideas of employees in particular are collected through the working groups, surveys or meetings and taken into account in decision-making process. Opinions of customers and other stakeholder groups are collected via phone and e-mail and then evaluated. As seen from the organization chart, proposals of the staff and other stakeholder groups are evaluated in "Proposal Evaluation Committee" which was created within the Human Resources Department.

JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [A(Trk)/ccc-Average].

**c. Company's Human Resources Policy**

In the sector where human resources are the most important value, Albaraka Türk has implemented contemporary practices based on a comprehensive human resources policy. Recruitment, assignment, promotion and dismissal are carried out by the experts according to the written rules. All activities of the Bank related to the human resources are maintained by the Human Resources Department which is equipped with sufficient personnel and resources.

First of all, new successful graduates of the universities are recruited as staff through a variety of examinations and employed in the appropriate positions in line with their capabilities. For all staff, professional and personal development trainings are organized, promotions and assignments are carried out according to success and performance in these trainings and exams. In addition, various incentive programs are implemented to ensure employee loyalty and motivation.

Only noncompliance topic for this section is the absence of any union organization among the staff. Despite this deficiency, JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/bbb-Outstanding].

**d. Company Relations with Creditors, Depositors, Customers and Suppliers**

Albaraka Türk considers its depositors, loan customers and suppliers as its business partners. For the financial services offered to its customers, it invariably gives priority to customer satisfaction and does its best to solve their problems and complaints. A call center with adequate staff receives

complaints of customers and suppliers and determines solutions to their problems. In addition, apart from the official site, it tries to meet customer needs as soon as possible by another site named "www.soruncozelim.com". Complaints submitted to this website are directed to the relevant departments to be resolved and the customer is informed immediately.

The Bank has ISO 9001:2008 quality certificate valid between July 2010 and July 2013. This document guarantees the services offered by the Bank will have a certain quality. On the other hand, through customer satisfaction surveys, the Bank tries to provide customers with maximum benefit.

Through the interviews conducted in the Law Department, it is understood that all obligations in contracts signed with suppliers have been met by the Bank and there is no incidence taken to the courts. All of these factors show that Albaraka Türk tries to protect the rights of its customers and suppliers.

JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/bbb-Outstanding]**.

#### e. Code of Ethics

Albaraka Türk, has a comprehensive set of ethical rules disclosed to public. These ethical guidelines were prepared by the Participation Banks Association of Turkey and proposed to its members. The Bank's board of directors have adopted this proposal and submitted it for approval of the general meeting and disclosed it to the public. All staff is required to comply with these rules. If it is determined as a result of the Audit Committee investigation that these are not complied with, sanctions decided by the disciplinary committee are applied. General Manager Mr. Fahrettin Yahşi is responsible for carrying out the ethical rules.

JCR ER has determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of **[AAA(Trk)/aa-Superior]**.

#### f. Corporate Social Responsibility

The most important activity carried out by Albaraka Türk within the scope of corporate social responsibility is to provide the students in need with scholarship through the Bereket Foundation by a portion of profits obtained on a regular basis every year. Sponsorships of cultural and artistic books stand out in particular. In addition, for environmental protection and employee awareness, the event of planting 2,500 trees has been carried out thus far and it is planned that this number will reach to 10,000.

However, no "Corporate Social Responsibility Policy" in the Bank's internal regulations has been found, on which to base social responsibility projects having been carried out. It is obvious that the presence of such a policy will gain studies conducted in this context a more corporate identity.

JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of **[AA(Trk)/b-Adequate]**.

#### ● Outlook (Stakeholders):

During 12-month monitoring period, the Bank's management plans to develop "Corporate Social Responsibility Policy" on which it will base its financial supports for projects of social benefit and submit it to the approval of the general meeting. Therefore, the level of compliance of the Bank for this section will increase. Therefore, JCR ER has determined the outlook of the Stakeholder field as "positive".

## 6. Board of Directors

### ● Summary

Content of the section consists of the board functions, qualifications, duties, powers and responsibilities of its members and the upper-level managers, rules and practices related with established systems for effective supervision and control.

Through the analyses of JCR ER's original methodology, the compliance level of the Bank's practices in the field of board of directors with corporate governance principles has been determined as **[7.62/AA (Trk)/aa-Positive]** where:

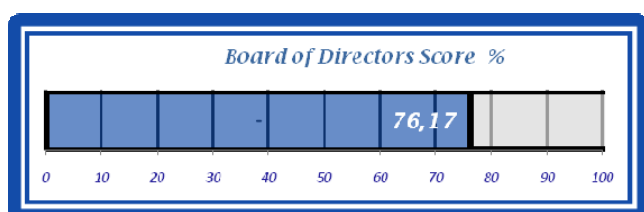
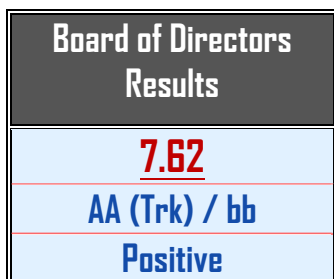
- Numerical value is **7.62**,
- Convergence Level **AA(Trk)** representing the category of "Merit Compliance",
- Notch degree (**bb**) representing the category of "Good",
- Outlook (**Positive**)

Albaraka Türk's board of directors has established the necessary committees within its organization to accurately perform the functions of leadership, supervision, oversight and arbitration. The Bank's main targets like vision and mission were designated and the basic strategies to reach these goals were established. Board members and top level managers are well-educated and have sufficient professional and managerial experience by having worked in the financial sector for many years.

Through the audit committee and corporate governance committee established within the board, oversight and audit functions are carried out effectively. An internal control system covering all the organizational structure has been created and thus an effective risk management is carried out.

On the other hand, absence of an independent member in the board which consists of 11 members have been evaluated as a significant deficiency but the existence of eight non-executive members has been considered as a positive factor. Statements of responsibility and written undertakings by the board members and managers do not exist and remunerations provided for them are not disclosed to public.

Moreover, qualifications and election procedures of candidates, working procedures of the board and decision-making processes were not put into writing and disclosed to public.



| <b>Synopsis Table (Board of Directors)</b> |  |
|--|--|
| No   | Plug-Compatible  |
| 1  | Vision and mission of the Bank defined and disclosed to public in 2004   |
| 2  | Approval by the board of basic strategies determined by top management   |
| 3  | High level of efficiency of risk management  |
| 4  | Efficiencies of internal control system and internal audit department  |
| 5  | Existence of a well-organized board secretariat  |
| 6  | Absence of privileged voting rights among board members  |
| 7  | Well-educated managers with sufficient level of experience   |
| 8  | Existence of audit, corporate governance, incentives, credit and asset-liability committees  |
| 9  | 8 non-executive members of the 11-member board   |
| No   | Not Compatible   |
| 1  | Absence of statements of responsibility and written undertakings by the board members and upper-level managers                           |
| 2  | Absence of any clause in the articles of association allowing shareholders and stakeholders to call board to a meeting                   |
| 3  | Absence of any independent member in board   |
| 4  | Nondisclosure of remunerations on an individual basis provided for board members and managers  |
| 5  | Corporate Governance Committee becoming dysfunctional in proposing a candidate for board   |
| 6  | Absence of any practice arranging meetings by non-executive members among themselves   |
| 7  | Bank-specific criteria other than statutory ones arranging candidacy and election of board members not determined and publicly disclosed |
| 8  | Low levels of transparency in the fields of candidacy and election of board members  |

**a. Basic Functions of the Board**

The board of Albaraka Turk has been in an attempt to successfully perform three basic functions of leadership, oversight and arbitration. Vision and mission set by the board have been adopted and disclosed to public by top managers. The work of development and redetermination of this vision and mission continues during the rating process. New determined vision and mission will be disclosed to public. The basic strategies set by upper level management have been approved by the board.

The board performs oversight function through the committees formed within its structure. Committees of credit, asset-liability, incentives and corporate governance as well as audit committee put the Bank as a whole under supervision. These committees carrying out their activities in accordance with the written working principles produce regular reports and submit them to the board. It has been determined that the board performs its independent arbitration role with success for the resolution of disputes and conflicts of interest of stakeholders among themselves and with the Bank.

JCR ER has determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/aa-Superior].

**b. Principles of Activities, Mission and Responsibilities of the Board**

The duties and responsibilities of the board are specified in the Articles of Association and the areas each member of the board is responsible for are presented to the public via the website and the annual report. The secretariat serving only the board of directors enables communications with members, organizes meetings, delivers agendas and relevant information and documents in detail to the members at least 7 days prior to the meeting and archives related documents. Secretariat's success with these tasks has been observed through analyses and interviews with the members.

The board has held 5 meetings in 2009. Generally, annual number of meetings attended by all the members actually is around 4-5. However, decisions to be taken urgently are put into writing with the approval of all members and signed by all members via an international courier. Although the agenda of the meeting is determined by president and general manager, agenda proposals of the members are also considered. Agenda proposals are collected by the secretariat until a certain period of time before the meeting and following the evaluation by the general manager, the ones that are deemed appropriate are included in the agenda. Regarding interviews with the members and examination of the minutes of meetings, all members express their views in meetings and each agenda item is discussed separately. However, decisions are taken by the affirmative vote of all members, and if the agreement is not reached, the

decision is postponed for the next meeting. Casebook is maintained and archived in accordance to the legislation.

On the other hand, no regulation has been found within the bank, regulating the issues of how to arrange the meetings and how decisions will be taken. Unanimity condition in all voting decisions unnecessarily extends decision processes, and the fact that members may not express their dissenting opinions on the items they oppose has been evaluated as contrary to democratic understanding. In addition, there is no internal regulation restraining the members serving in other institutions. This situation was evaluated as a factor hindering the members in devoting sufficient time for the Bank. Members did not pledge in writing at inception of their assignments to comply with laws and the principles of banking and to compensate for losses arising from their mistakes. Another deficiency is that there is no internal regulation providing shareholders and stakeholders with the means to call the board of directors for a meeting and to propose agenda items therein.

JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/b-Adequate].

#### **c. Formation and Election of the Board of Directors**

Albaraka Türk's board of directors comprise of 11 members including three executives. Considering sector averages, the number of members has been evaluated as adequate. Qualifications of members meet the terms expressed in the principles. As can be seen on the resumes found on the website, the members possess necessary qualifications in terms of education, professional and managerial experience. The Bank's management organizes adaptation program for the new members and they are assisted in getting acquainted with all aspects of the Bank.

On the other hand, qualifications that candidates must possess have not been put into writing and disclosed to public. It has been determined that the issues of how someone will become a candidate, who may propose a candidate, how the candidates are determined and the election processes, are not transparent enough. In addition, 8 non-executive members of the board do not meet among themselves on a regular basis. This situation causes lack of coordination between non-executive members. The most important shortcoming stands out as the absence of an independent member in the board. Absence of independent members who would protect the rights of the Bank and small shareholders against the controlling shareholder and would give the management a different perspective disrupts the balance among shareholders at the expense of small shareholders.

JCR ER has determined that the Bank is in compliance in this subsection with an Insufficient Convergence Level category of [B(Trk)/c-Borderline].

#### **d. Financial Rights Derived to the Board Members**

Salary, bonuses, attendance fees and other financial resources provided to members of the board of directors are determined by the Bank's management and are offered to the approval of shareholders at general meetings. Eight non-executive members do not receive any income other than attendance fees. Other executive members receive salaries as well as attendance fees. The amount of time a member devotes to the workings of the Bank and their respective performance are the determinants of these fees. There are no commercial and financial relationship between the Bank and the members other than the remuneration mentioned above. The Bank does not provide debt and extend credit to members.

All of the remunerations provided to the board members are not disclosed to public. JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [A(Trk)/ccc-Average].

#### **e. The Committees established by the Board of Directors in terms of its numbers, structures and independence levels**

Within the board of directors of Albaraka Türk, there are committees of audit, asset-liability, credit, incentives, strategic planning and corporate governance. Based on examinations of these committees, it has been observed that all of them have a corporate structure, have written operating principles, are provided with adequate technical and financial facilities, are composed of experts and produce regular reports to be submitted to the board of directors. Based on these findings, it can be noted that the committees have a high level of compliance with the principles.

However, due to the absence of independent members in the board, the rule that committees or at least chairmen of committees must be composed of independent members has not been observed. It is a common situation that one committee member serves in other committees. In addition, the corporate governance committee does not perform the function of determining candidates with appropriate qualifications for the board and proposing them to general meeting.

JCR ER has determined that the Bank is in compliance in this subsection with a Distinctive Compliance Level category of [AAA(Trk)/a-Excellent].

#### **f. Executives**

The Bank's upper-level management, as seen from the organizational structure in the website, is quite comprehensive and detailed. Separate divisions are constituted to carry out each banking activity and each division is connected to one of the assistant general managers. Powers, duties and



responsibilities of all managers are put into writing and declared to them.

As can be seen in their resumes, general manager in particular, assistant general managers and department managers are well-educated and experienced in their fields. They have not been subjected to any criminal sanctions in their professional lives by acting against the laws and principles of banking. It can easily be said by a general evaluation that the qualifications of the bank managers comply with the standards expressed in the principles at a high level.

A performance incentive system associating financial facilities provided to upper-level management such as salaries, bonus and dividends with demonstrated efforts and achievements exists. Through this system, the motivation of managers is targeted to be maximized. Communication between departments and managers is effectively realized via an electronic network established within the Bank.

On the other hand, none of the managers, assistant general managers in particular, have pledged in writing to compensate for losses arising from their mistakes and to be incurred by the Bank or any third party. The responsibilities of the managers in this topic are limited by the extent of provisions of the Banking and Labor Laws.

Despite this deficiency, JCR ER has determined that the Bank is in compliance in this subsection with a Merit Compliance Level category of [AA(Trk)/bbb-Outstanding].

#### ● Outlook(Board of Directors):

During 12-month monitoring period, the Bank's management plans to assign at least two independent members to the board, and to put qualifications of candidates for the board and election processes into writing and disclose these to public. Realization of the plannings will be assessed as a factor to improve the grade for the section. Therefore, JCR ER has determined the outlook of the Board of Directors field as "positive".

## 7. Best Practices

The number of the deposit banks in the banking sector stocks of which are traded in IMKB is 15 in total. Among these, two are participation banks. Six of these banks are large-scale banks by asset size while others are in the small and medium-sized bank category in which Albaraka is included. In this section of the report, the levels reached by publicly traded banks are compared among themselves and so Albaraka Türk with others regarding the managerial and supervisory corporate governance practices chosen by JCR ER and outlined in the following table. Some of the information used in this comparison is about the non-public banks. According to the results obtained from these comparisons, the ones over the sector average are shown with the symbol "**Beyond**", the ones

about average "**Comparable**", while those below average "**Below**".

| Sequence Number                    | Selected administrative and supervisory practices  | Sectoral Comparison Level |            |       |
|------------------------------------|--|---------------------------|------------|-------|
|                                    |  | Beyond                    | Comparable | Below |
| 1                                  | Shareholders' right to request a special auditor to be included in the articles of association |                           | x          |       |
| 2                                  | Important decisions taken by general meeting   |                           | x          |       |
| 3                                  | Privileged voting rights   |                           | x          |       |
| 4                                  | Minority rights  |                           | x          |       |
| 5                                  | Cumulative voting system   |                           | x          |       |
| 6                                  | Transfer of shares   | x                         |            |       |
| 7                                  | Disclosure of the future plans and budgets   |                           | x          |       |
| 8                                  | Disclosure of the ultimate individual shareholders   | x                         |            |       |
| 9                                  | Independent member in the board of directors   |                           | x          |       |
| 10                                 | Non-executive member in the board of directors   |                           | x          |       |
| 11                                 | Corporate governance committee   |                           | x          |       |
| 12                                 | Disclosure of remuneration for upper level management  |                           | x          |       |
| 13                                 | Information policy   |                           | x          |       |
| 14                                 | Ethical rules  |                           | x          |       |
| 15                                 | Human resources policy   |                           | x          |       |
| 16                                 | Secretariat of the board of directors  |                           | x          |       |
| 17                                 | Risk management system   |                           | x          |       |
| 18                                 | Internal control system  |                           | x          |       |
| 19                                 | Internal audit unit  |                           | x          |       |
| 20                                 | Audit committee  |                           | x          |       |
| Total Number                       |  | 2                         | 18         | 0     |
| The percentage level of compliance |  | 10.00%                    | 90.00%     | 0.00% |

#### ✓ Shareholders' right to request a special auditor to be included in the articles of association

Shareholders owning at least 10% of capital according to the Turkish Commercial Code and 5% according to the Capital Market Law are considered as being the minority. Shareholders in the position of minority may request in a general meeting a special auditor to inspect an activity carried out by company management. In case general meeting does not take this request into account they have the right to resort to a court. In SPK Corporate Governance Principles, the recognition of this right for all shareholders as a provision in Articles of Association is recommended.

In the Articles of Association of Albaraka Türk, there is no clause providing the shareholders with the right to appoint a special auditor. However, only two of the banks operating in the sector have this provision in their articles of association. In comparison to this practice, the Bank is located in "**Comparable**" level.

✓ **Important decisions taken by general meeting**

In SPK Corporate Governance Principles, the following is recommended: "Articles of association of the company includes a provision to maintain that decisions, regarding the division and allocation of shares which changes the capital and management structure of the company and the composition of the company's assets; the sale, purchase or lease of tangible/intangible assets or grants in significant amounts; the issuance of guarantees like pledges and mortgages in favor of a third person are adopted in general shareholders' meeting and the shareholders are encouraged to participate in the decision-making process thereby."

There is no clause in the articles of association of the Bank to meet this recommendation. None of the publicly traded banks operating in the sector has included this recommendation as a clause in the articles of association. Therefore, in the comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Privileged voting rights**

There are no privileges on the Bank shares and the rule of one-share-one-vote is applied. In comparison with other 14 banks, only one of them allows privileges on some of its shares and the remaining 13, none as Albaraka Türk. In comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Minority rights**

According to the Capital Market Law, the minority rights may be exercised by shareholders owning at least 5% of capital. However, in SPK Corporate Governance Principles, it is recommended that the recognition of this right should be provided for the shareholders owning shares less than this ratio as a provision in articles of association. The Bank's articles of association do not include any clause which extends the minority rights further than the legislation requires.

However, as for the other 14 publicly traded banks, none of them adopts this practice. Therefore, in the comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Cumulative voting system**

The cumulative voting is an election system which provides small shareholders with electing members to represent themselves in the board. It requires separate voting for each member in the board and utilization of unused voting rights cumulatively for one candidate. There is no internal regulation in Albaraka Türk that allows this system. However, despite the absence of such a regulation, the Turkish shareholders with very small shares in the capital are represented in the board by 5 members.

However, none of the other 14 banks like Albaraka Türk has any internal regulation that allows the cumulative voting

system. Therefore, the Bank is located in **"Comparable"** level in this practice.

✓ **Transfer of shares**

According to the Bank's articles of association, registered shares may be transferred without the approval of the board of directors. Transfer of shares is allowed without prejudice to the relevant provisions of the Banking and Capital Markets Laws. In 10 banks among the compared 15 banks, there is a hindrance on the transfer of shares while in 5 of them including Albaraka Türk there is none. In this case, with comparison to the practice, the Bank is located in **"Beyond"** level.

✓ **Disclosure of the future plans and budgets**

The Bank has not publicly disclosed any pro forma financial statements to date for any period. However, none of the other 14 banks operating in the sector has disclosed such financial statements to public. In this case, in comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Disclosure of the ultimate individual shareholders**

On its website, Albaraka Türk publicly discloses the ultimate individual shareholders having more than 5% share. The situation in the sector is as follows: 2 small-scale banks disclose its ultimate individual shareholders having more than 5% share. 4 banks with public institutions or foundations among their shareholder structures provide detailed information about these shareholders. 8 private sector banks do not provide information to public about its ultimate individual shareholders. In this case, in the comparison with this practice, the Bank is located in **"Beyond"** level.

✓ **Independent member in the board of directors**

There is no independent member in the Bank's board of directors. Of the members, 6 out of 11 were proposed by foreign shareholders and 5 by local shareholders, and they were elected in the general meeting. The situation of publicly traded banks in the sector in terms of independent members can be summarized as follows: of the 2 small-scale banks, there is one independent member in one and 3 in the other. Likewise, of the 2 banks with public qualifications, there is one independent member in one and 3 in the other. In addition, in a bank with a foreign shareholder, there are 2 independent members. In the remaining 9 banks, none has an independent member. In this case, in comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Non-executive member in the board of directors**

Of the members of the board of directors, 8 of the 11 members have been serving as non-executive members. In order for the board to adequately fulfill its leadership, oversight and arbitration functions, it is considered to be the

ideal situation that at least half of the members do not have any executive function.

For at least half of board of directors of all other publicly traded banks operating in the sector are composed of non-executive members, the Bank is located in **"Comparable"** level in the comparison with this practice.

✓ **Corporate governance committee**

Corporate governance committee was established within the board of directors of the Bank and operates effectively. In other publicly traded banks in the sector, only one does not have this committee, and the other 14 banks including Albaraka Türk have this committee. Consequently, in the comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Disclosure of remuneration for upper level management**

Remuneration provided to board members and top level managers of the Bank are disclosed to public neither collectively nor on individual basis. Although this is not a common practice in Turkey, it was launched partly by some banks in the sector. Without regard to scale, some banks only disclose remuneration for board members, and none of the banks disclose salary and other remuneration they provide to top-level managers. In this case, in the comparison with this practice, the Bank is located in **"Comparable"** level.

✓ **Other Practices**

All of the practices listed below have been implemented by the Bank. Likewise, they are also implemented by the other 14 banks within the comparison. Therefore, in all of the following selected 8 practices, the Albaraka Türk is located in **"Comparable"** level.

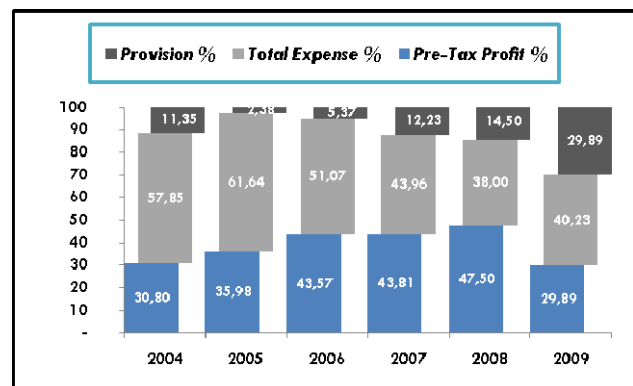
- **Information policy**
- **Ethical rules**
- **Human resources policy**
- **Secretariat of the board of directors**
- **Risk management system**
- **Internal control system**
- **Internal audit unit**
- **Audit committee within the board**

**8. Financial Efficiency**

As of FYE2009, the share of the participation banks in the Turkish banking sector was 4.3%, and the share of Albaraka Türk was around 0.77%. In the comparison of performance in 2009, although profitability ratios of Albaraka Türk showed a very slight decline with respect to the averages of the sector and other participation banks in particular, they were in parallel with the overall averages in Turkey and even they were well above the international reference values for the

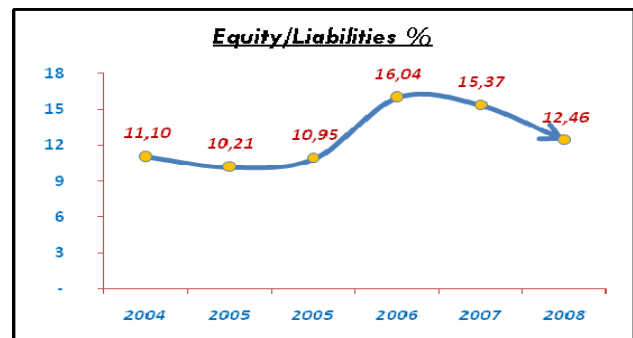
past 5-year period. During this period, the absolute and relative amounts of profits and profitability ratios generated by Albaraka Türk are adequate to exceedingly meet funding requirements necessary for sustainability and improvement of compliance level of Albaraka Türk with the corporate governance principles. However, the distribution of profits to shareholders as dividends results in deterioration on the adequacy of equity.

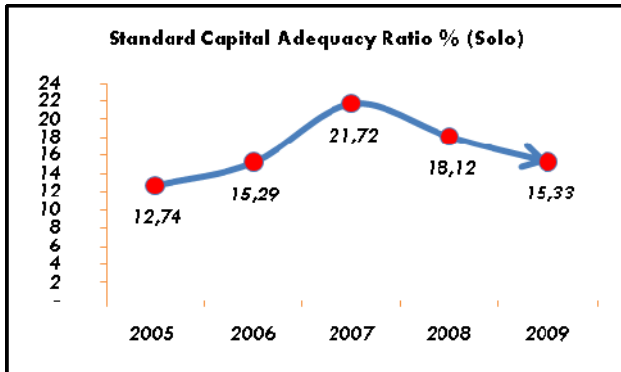
In terms of sustainability of the profitability, high level of impaired loans in recent years poses major threats on the profitability. After all, as seen in the chart below, in terms of the expense items for which total income is spent, the share of the provisions by the end of 2009 increased to the level of 29.99%.



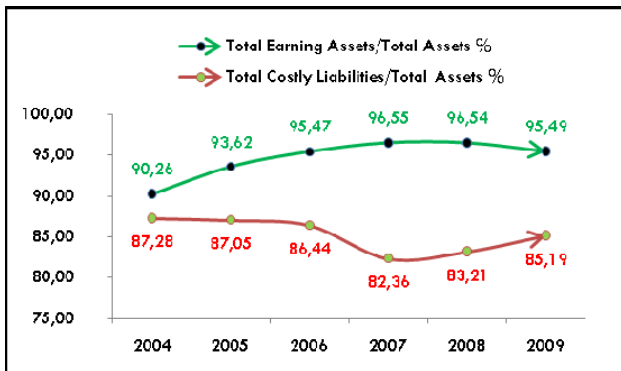
However, despite the increase in impaired loans, concurrent increase in the provisions leads to an improvement in asset quality at the same time. Indeed, while the ratio of provision in FY2007 was 77.27%, it increased to 88.81% in FY2009. This ratio is over that of the sector (83.59%) as well as participation banks (67.90%).

JCR ER is of the opinion that in order to ensure the continuity of the existing growth, the Bank has adequate capital structure and sufficient profit generation to support this capital structure provided that no deterioration takes place in the balance sheet composition. Considered closely in the existing structure, capital adequacy ratio of the Bank was 15.33% as of FYE2009, and equity/liabilities ratio was 12.46%.





The ever increasing positive balance of balance sheet composition in terms of free equity ratio is another important basis of the Bank's profitability. Indeed, due to increase in non-costly liabilities, the share of total earning assets among total assets increase while that of costly liabilities among total liabilities has a gradual downward trend, and consequently profit generation is realized at high levels.



Exchange rate risk and interest rate risk resulting from transactions within and off the balance sheet are very low. This situation supports the low level of volatility in profitability and the stability of profitability.

As a result,

- ✓ The level of internal funds generated in the last 5 years,
- ✓ Existing balance sheet composition securing this profitability, and
- ✓ Risk components within the balance sheet composition

of Albaraka Türk are adequate to exceedingly contribute to the sustainability and even improvement of the Bank's compliance level with the corporate governance principles.

## 9. Appendix

(4 Tables)

| <b>Table:1</b>                            |                |                |                |                       |  |
|---|----------------|----------------|----------------|-----------------------|--|
| <b>ALBARAKA TURK KATILIM BANKASI A.S.</b> |                |                |                |                       |  |
| <b>SHAREHOLDING STRUCTURE</b>             |                |                |                |                       |  |
| <b>Years</b>                              | <b>2007</b>    | <b>2008</b>    | <b>2009</b>    | <b>September 2010</b> |  |
| <b>TL (000)</b>                           | 269.500        | 269.500        | 539.000        | 539.000               |  |
| <b>USD (000)</b>                          | 232.470        | 178.205        | 361.500        | 359.480               |  |
| <b>Shareholders</b>                       | <b>Share %</b> | <b>Share %</b> | <b>Share %</b> | <b>Share %</b>        |  |
| <b>ALBARAKA BANKING GROUP</b>             | 54,06          | 54,06          | 54,06          | 54,06                 |  |
| <b>ISLAMIC DEVELOPMENT BANK</b>           | 7,84           | 7,84           | 7,84           | 7,84                  |  |
| <b>ALHARTHY FAMILY</b>                    | 3,46           | 3,46           | 3,46           | 3,46                  |  |
| <b>OTHER FOREIGN PARTNERS</b>             | 1,15           | 1,06           | 0,80           | 0,80                  |  |
| <b>LOCAL PARTNERS</b>                     | 12,92          | 12,44          | 11,61          | 11,37                 |  |
| <b>PUBLIC</b>                             | 20,57          | 21,14          | 22,23          | 22,47                 |  |
| <b>Total</b>                              | <b>100.00</b>  | <b>100.00</b>  | <b>100.00</b>  | <b>100.00</b>         |  |



| <b>Table: 2</b>                                 |                                    |              |                      |                    |                 |                  |                  |
|---|------------------------------------|--------------|----------------------|--------------------|-----------------|------------------|------------------|
| <b>AFFILIATES AND SUBSIDIARIES as of 1H2010</b> |                                    |              |                      |                    |                 |                  |                  |
| No  | AFFILIATES AND SUBSIDIARIES        | Head Quarter | Total Assets TL(000) | Net Profit TL(000) | Capital TL(000) | Interest Share % | Acquisition Date |
| 1   | Komili Kağıt ve Kişisel Bakım A.Ş. | Kocaeli      | 105,469              | -25,359            | 35.000          | %9,91            | 16.12.2004       |

| <b>Table:3</b>                            |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| <b>ALBARAKA TÜRK KATILIM BANKASI A.Ş.</b> |              |              |              |              |
| <b>Financial Data</b>                     | <b>2009*</b> | <b>2008*</b> | <b>2007*</b> | <b>2006*</b> |
| Total Assets (000.000 USD)                | 4.302        | 3.116        | 3.178        | 1.780        |
| Total Assets (000.000 TL)                 | 6.415        | 4.789        | 3.690        | 2.492        |
| Equity (000.000 TL)                       | 711          | 638          | 534          | 246          |
| Net Profit (000.000 TL)                   | 105          | 136          | 85           | 69           |
| Market Share (%)                          | 0,77         | 0,65         | 0,64         | 0,50         |
| ROAA (%)                                  | 2,35         | 4,04         | 3,48         | 3,21         |
| ROAE (%)                                  | 19,54        | 29,26        | 27,58        | 33,44        |
| Equity/Assets (%)                         | 11,08        | 13,32        | 14,47        | 9,87         |
| CAR-Capital Adequacy Ratio (%)            | 15,33        | 18,12        | 21,72        | 15,29        |
| Asset Size Growth Rate (%)                | 33,95        | 29,79        | 48,09        | 26,51        |

**Table: 4  
BOARD OF DIRECTORS**

| Name                          | Task                     | Profession  | Elected Date | Experience (Year) | Education | Executive/Non Executive | Independent/Not Independent | Committee Membership |
|-------------------------------|--------------------------|-------------|--------------|-------------------|-----------|-------------------------|-----------------------------|----------------------|
| Adnan Ahmet Yusuf ABDULMALEK  | Chairman                 | Banker      | 2005         | 36                | MA        | Non Executive           | Not Independent             | Incentives Committee |
| Yalçın ÖNER                   | Vice -President          | Banker      | 1985         | 37                | MA        | Executive               | Not Independent             |                      |
| Osman AKYÜZ                   | Member                   | Banker      | 1996         | 23                | B/A       | Non Executive           | Not Independent             | Incentives Committee |
| İbrahim Fayez Humaid ALSHAMSI | Member                   | Banker      | 2005         | 39                | B/A       | Non Executive           | Not Independent             | Corp.Gov.Committee   |
| Osman Ahmed SULIMAN           | Member                   | Banker      | 2005         | 44                | B/A       | Non Executive           | Not Independent             | Audit Committee      |
| Faisal Abdulaziz AL ZAMAL     | Member                   | Banker      | 2003         | 20                | B/A       | Non Executive           | Not Independent             |                      |
| Ekrem PAKDEMİRLİ              | Member                   | Academician | 2007         | 8                 | PhD       | Non Executive           | Not Independent             |                      |
| Mitat AKTAŞ                   | Member                   | Banker      | 2008         | 25                | MA        | Executive               | Not Independent             | Audit Committee      |
| Hamad Abdulla A. EQAB         | Member                   | Banker      | 2008         | 16                | B/A       | Non Executive           | Not Independent             | Audit Committee      |
| Fahad Abdullah A. ALRAJHI     | Member                   | Banker      | 2008         | 22                | B/A       | Non Executive           | Not Independent             | Corp.Gov.Committee   |
| Fahrettin YAŞI                | Member & General Manager | Banker      | 2009         | 21                | MA        | Executive               | Not Independent             | Incentives Committee |