



PASHA Yatırım Bankası A.Ş.

**2016 Corporate Governance
Principles Compliance Report**

SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

With the awareness of the importance of corporate governance practices as well as financial performance, PASHA Bank improves its inner workings to establish an effective, adequate and consistent corporate structure with regard to the “Bylaw on the Corporate Governance Principles for Banks” issued by the Banking Regulation and Supervision Agency (“BRSA”). On the other hand, it has been working voluntarily to ensure maximum compliance with the Corporate Governance Principles contained in the attachment to the “Corporate Governance Communiqué” no. II-17.1 that was published by the Capital Markets Board (“CMB”), and continues to strengthen corporate governance mechanisms in this endeavor.

PASHA Bank believes that the existence of independent members in the Board of Directors as part of the Corporate Governance Principles will contribute to the development and strengthening of the Bank's activities, and the establishment of a more professional management approach. Three members in the Bank's Board of Directors serve as independent members of the Board of Directors. As an indication of the importance given by our controlling shareholder to compliance with the Principles of Corporate Governance, three independent board members elected in 2013 continued their duties in 2016.

PASHA Bank's determination to implement corporate governance principles, and its willingness to manage this process dynamically and continuously, were confirmed in 2016 by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş., an independent rating agency; and the rating that had been assigned was revised and upgraded in June 2016 to 9.26 (on a scale of 1-10).

The revised note of the Corporate Governance Rating is posted on the Bank's corporate website at www.pashabank.com.tr. PASHA Bank has continued to expand the contents of its corporate website in order to inform its stakeholders about the Bank's activities.

Progress has been made towards the development of the Board of Directors' committees, and the Risk Management Committee and the Strategy and Budget Committee were established in 2016.

The differences arising between the CMB's Corporate Governance Principles and the practices by the Bank were included in the report under the relevant subject headings.

PASHA Bank complied in the 2016 operating period with the "Corporate Governance Principles" published by the CMB with the exception of certain principles provided below that were not required to be implemented. There is no conflict of interest stemming from the matters outlined below that were not implemented.

- Regarding Principle no. 1.5.2.: Minority rights have not been recognized by the Articles of Association for those who hold less than one-twentieth of the capital.

- Regarding Principle no. 4.2.8.: The limit of the directors' and officers' liability insurance does not exceed 25% of the paid-up capital of the Bank, and no explanation has been made in this regard at the PDP.
- Regarding Principle no. 4.3.9.: There is not yet a target rate and target time determined for the ratio of female members in the Board of Directors. There was one female member on the Bank's Board of Directors in 2016.
- Regarding Principle 4.5.3.: The chairs of all the committees in our Bank have not been elected from among the independent board members. However, the chairs of all the committees are composed of our non-executive board members. The reason for not electing chairs of the Corporate Governance Committee, Risk Management Committee and Human Resources and Remuneration Committee from independent board members is to enhance the synergy for similar processes carried out before the controlling shareholder group.
- Regarding Principle no. 4.5.5.: Assignment to the Board of Directors' committees is carried out in line with the relevant legislation, taking into consideration the accumulated knowledge and experience of the members of the Board of Directors and some members of the Board of Directors are assigned to more than one committee. However, members assigned to more than one committee ensure communication between committees involved in related issues and increase cooperation opportunities.
- Regarding Principle no. 4.6.5.: The fees and other benefits provided to the members of the Board of Directors and executive directors are disclosed to the public through the annual report. However, the disclosure made is for the entire top management collectively, not on an individual basis.

SECTION II - SHAREHOLDERS

2.1. Investor Relations Division

In order to meet the right of shareholders to receive and review information, and to ensure the protection and facilitate the use of shareholder rights, the Investor Relations function was first structured under the Financial Planning, Control and Investor Relations Unit during the year and, following the change made in July in the organizational structure of the Bank, under the Financial Institutions and Investor Relations / Public Offering Brokerage Unit.

The duties and responsibilities of the Financial Institutions and Investor Relations Unit, which maintains its activities under Deputy General Manager Ali Ihsan Tokkuzun, are as follows:

1. Monitor international capital markets and provide the necessary guidance to determine the appropriate times for debenture issuances by informing Senior Management, when necessary;
2. Interact with international rating agencies, manage communications, and coordinate the process;
3. Hold evaluation meetings by ensuring the relevant coordination during the rating studies, exercise controls and take the necessary approvals during the reporting phase, and ensure simultaneous public disclosure in communication with the agency;

4. Prepare all kinds of information and documents such as disclosures, reports, statements, etc. that are requested or mandatory to be carried out under investor relations, and transmit to those concerned following approval by Senior Management;
5. Prepare the necessary information and presentations in terms of shareholders and investor relations;
6. Post the disclosures required for the Public Disclosure Platform on the PDP by informing the Corporate Communication Unit;
7. Prepare the Annual Report of the Bank by coordinating the Financial Planning and Control, Corporate Governance and Secretary, and other relevant units, ensure in coordination with the Corporate Communication Unit that it is issued in accordance with the bank's reputation and rules.

The activities listed below within the scope of the Investor Relations function are fulfilled by the Financial Institutions and Investor Relations, Financial Planning and Control, Corporate Governance and Secretary, and the Legal Affairs Departments, by ensuring the necessary coordination in compliance with their job descriptions.

- a) Ensuring that records relating to the correspondence between the Bank and Investors, and other information and documents, are kept in an adequate, safe, and up-to-date manner,
- b) Responding to written requests for information from shareholders,
- c) Notifying and announcing to shareholders the release of financial reports,
- d) Preparing the documents required for submission to shareholders for information and review regarding the General Assembly Meeting, and taking the measures to ensure that the General Assembly Meeting is conducted in accordance with the relevant legislation, the Articles of Association, and other internal regulations of the Bank,
- e) Supervising the fulfillment of any obligations arising from capital market regulations, including all matters relating to corporate governance and public disclosure, and performing the necessary announcements from the corporate website,
- f) Presenting an annual report to the Board of Directors at least once a year on Investor Relations-related activities,
- g) Executing the process for increasing the capital,
- h) Ensuring that necessary changes are made in accordance with the relevant legislation in the Articles of Association,
- i) Supervising the Bank's compliance with corporate governance practices, implementing enhancements in this respect, and providing suggestions to the Board.

Name Surname	Title	Telephone No.	E-mail Address	License Certificate
Mustafa Duman	Manager, Financial Institutions & Investor Relations	(212) 705 8912	mustafa.duman@pashabank.com.tr	Capital Market Activities Level 3 License
Yeşim Çağlar	Manager, Financial Planning & Control	(212) 705 8908	yesim.caglar@pashabank.com.tr	Capital Market Activities Level 3 License, Corporate Governance Rating Expertise License
M. Serkan Halay	Manager, Corporate Governance & Secretary	(212) 705 8916	serkan.halay@pashabank.com.tr	Capital Market Activities Level 3 License
Sinem Atahan Güven	Manager, Legal	(212) 705 8919	sinem.guven@pashabank.com.tr	-

The business units in question provide the Financial Institutions and Investor Relations Unit with the necessary information and support for special cases and other disclosures that must be made in the PDP.

The Financial Institutions and Investor Relations Unit manages the relationships with corporate investors for the borrowing instruments issued by the Bank and the financial institutions for correspondent relations, as well as credit-rating agencies, and it has been in contact with the relevant parties conducting research about the Bank during the period.

The Financial Institutions and Investor Relations Unit responded to requests and applications from qualified investors during the period of the bond issuance conducted in 2016.

The report on the activities carried out in 2016 within the scope of the Communiqué was presented to the Board of Directors in March 2017.

2.2. Exercise of Shareholders' Right to Obtain Information

Shareholders may transmit information requests to the Bank's staff, who hold administrative responsibility in the management of the process via the e-mail address yatirimci.iliskileri@pashabank.com.tr.

The Articles of Association, shareholding structure, financial reports and annual reports, minutes and invitations of General Assembly Meetings, and legal announcements, as well as special case disclosures, information on corporate governance practices that contain information for the public, and corporate information promoting the Bank are presented on the Bank's website.

In addition, a link is provided to the Public Disclosure Platform on the Bank's website.

Per the Bank's Corporate Governance Policy, all shareholders have an equal right to information.

The provision of Article 33 of our Bank's Articles of Association reads as, "Bank's independent audit will be conducted according to the pertinent legislation, by the independent audit institutions that are empowered to conduct an independent audit of the bank. The audit institution which will conduct such an audit will be selected by the General Assembly." There is no provision regarding any request for the assignment of any private auditor. No request has been made during the period regarding the appointment of a private auditor.

2.3. General Meetings of Shareholders

Provisions that pertain to the General Assembly are included in the "Articles of Association of the Bank" (AoA) and in the "Internal Directive Pertaining to the Working Principles and Procedures of the General Assembly", which are placed on the Bank's website and that are open to the public.

The Annual General Meeting of Shareholders of the Bank for the year 2015 was held physically at the head office address on March 30, 2016.

In the matter of the quorum regarding the annual and extraordinary meetings, the provisions in Turkish Commercial Law apply, as per the pertinent Article of the Articles of Association. Shareholders owning 254.795.121 of the 255.000.000 shares were present at the annual General Meeting of Shareholders, making a majority at a ratio of 99.92%. No reporter from any media group participated in the General Assembly.

Under the decision taken at the Extraordinary General Assembly meeting held on November 25, 2016 at the address of the Bank's Head Office, the number of members of the Board of Directors was determined as 9 (nine) persons, and Kamala Nuriyeva was elected as a Board Member to serve throughout the term of the other members.

Invitation letters were sent to shareholders, whose names are written on the share ledger, three weeks before the date of the Annual General Assembly and, in addition, invitation announcements for the meetings as well as the agenda items and a sample copy of the power of attorney were published in the Trade Registry Gazette of Turkey as well as in a daily newspaper that is distributed nationwide in Turkey. Invitations to the General Assembly were made by the Board of Directors. Officials from the Banking Regulation and Supervision Agency (BDDK) were also invited to the said meetings, along with the shareholders. In addition to shareholders, representatives of the official establishments who are, according to the pertinent legislation, empowered to attend the General Assembly may participate in them.

Announcements of the invitation to the General Assembly of the Bank were published in the Trade Registry Gazette of Turkey (TTSG) 21 days before, excluding the dates of the announcement and of the meeting, as per the provisions of Article 414 of Turkish Commercial Code, in accordance with the pertinent Article of the Articles of Association, by observing the time limits in the legislation. The announcement for the meeting was also published on our website and in the Hürses newspaper, and the day, place and agenda were also posted to shareholders.

Furthermore, disclosures were made in the Information Document prepared for the Ordinary General Assembly Meeting of the year 2015 for the details of each General Meeting agenda item, along with all disclosures, information, and documents required by the legislation.

Our activity report has been made available before the General Assembly, at the head office of the Bank and on the website, for the information of our shareholders and for them to review. There is no deadline for the registration of holders of the registered shares in the share ledger for participation in the General Assembly.

The minutes of the General Meetings of Shareholders of our Bank are available to shareholders on the information society services site of the Bank's webpage.

The shareholders of our Bank are entitled to declare their opinions and ask questions about any subject on the agenda, and there are no limitations in this regard.

The shareholders did not make any request for the inclusion of any items to the agenda of the Annual and Extraordinary General Meetings.

There is no provision in our Articles of Association regarding voting on important motions such as the sale, purchase, and lease of assets of significant value, and the General Management and the Board of Directors is empowered to effect transactions within the set limits of the powers of authority. The reason for the entrustment of such power with the Board of Directors is to enable timely decisions. However, the activity reports of the Board of Directors, the balance sheet, income and expenditure accounts, as well as the reports that are prepared by the auditors, the selection of the independent audit firm, recommendations by the Board of Directors regarding distribution of profit, assignments to the vacant seats of Board members who leave before their term ends, and aid and donations within the year, must be submitted to the General Assembly for its information, and are subject to release by it.

Donations of TL 1.267 have been made to Türk Eğitim Vakfı, TEMA Vakfı and Beşiktaş Polis Hizmetleri Geliştirme Vakfı during the period, and the internal rules and regulations about the policy on donations are enacted according to the Corporate Governance Policy.

Casting of votes by proxies is permissible as per the provisions of the Articles of Association of the Bank. According to Article 26 of the Articles of Association, shareholders may themselves exercise their right to vote, or they may be represented by other shareholders, by a non-shareholder proxy they appoint, or by the representative of the organ that would be assigned as per Article 428 of Turkish Commercial Code, by an independent representative or a corporate representative.

The minutes of the General Assembly Meeting are posted on the Bank's website under the Corporate Governance page and on the e-COMPANY: Company Information Portal through the information society services page and announced in the Turkish Trade Registry Gazette.

The Annual General Meeting of Shareholders of the Bank for the year 2016 will be held on March 31, 2017 at the headquarters of the Bank.

2.4. Voting Rights and Minority Rights

In the Articles of Association, there is no preferred voting right. There is no company with which the Bank has a mutual participation relation.

There are no members of the Board of Directors elected with their minority shares. Minority rights have not been established by the Bank's Articles of Association as less than one-twentieth of the capital.

2.5. Dividend Right

The principles regarding profit distribution have been laid out under the Corporate Governance Policy. The general policy of the bank on profit distribution makes it possible to distribute profits to the extent allowed by the financial structure of the Bank, the investments to be made, the conditions within the industry, the economic conditions, and relevant banking legislation.

After the legal reserve funds have been set aside pursuant to Article 36 of the Articles of Association, the General Assembly may decide to allocate profit at a rate it determines from the remaining profits to the members of the Board of Directors and/or senior executives and the staff of the Bank, exclusively at its own discretion and in no way to constitute a vested right, subject to obtaining the permits required by the legislation on banks.

The Bank's profit distribution policy was presented to shareholders at the Ordinary General Assembly Meeting held in 2013, and disclosed to the public via the website.

The Bank has not distributed profits, and it was approved in the General Assembly Meeting dated March 30, 2016 that the net profit for the year 2015 be left in equity and offset against loss in prior years.

2.6. Transfer of Shares

There is no provision that restricts the transfer of share certificates in the Articles of Association of our Bank.

The share certificates of the Bank may be transferred freely and without prejudice, per the provisions of the Banking Law, Turkish Commercial Code and the Articles of Association.

SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company's Website and Its Content

The address of our Bank's corporate website is "www.pashabank.com.tr". The principles relating to the use of the website organized in Turkish and English are included in the Corporate Governance Policy and the Procedure on Website Management.

Information for public disclosure is posted on the Bank's corporate website in the "Investor Relations" and "Corporate Governance" sections, in a timely, accurate, complete and intelligible manner.

The corporate website is designed and updated to include information and data required by the applicable legislation.

3.2. Annual Report

The Annual Report is prepared with as much detail as possible to enable access to complete and correct information, and to include the information and data mentioned in the applicable provisions of the pertinent legislation.

The Bank's annual report contains all the information mentioned in the Corporate Governance Principles; however, salaries paid to the Board of Directors and senior executives, and all other benefits provided, are not included on a per person basis. Benefits provided to managers are disclosed as a total amount.

SECTION IV - STAKEHOLDERS

4.1. Informing Stakeholders

All stakeholders are informed by the Bank through annual activity reports, meetings, press releases, electronic mail, the internet site, and special case disclosures via the Public Disclosure Platform, with the exception of information considered to be confidential by the Bank within the framework of the Banking Law, Turkish Commercial Law, and CMB regulations.

The Bank's Ethical Principles Regulation delineates relations with stakeholders and groups.

An internal reporting system and an ethics hotline have been established. These enable direct contact with the Compliance Officer, who reports directly to the Board of Directors via the Audit Committee, in the case that our Bank and/or employees face a risk that may be associated with risk management or compliance.

The Compliance Officer has also established the necessary internal control mechanisms so that complaint notifications communicated by customers to the Bank through different channels are transferred to the related units, and any corrective activities and determined actions are followed up, as are the solution phases.

The Audit Committee is notified via the Internal Control and Compliance and Internal Audit Departments regarding any transactions that have been reported by stakeholders as non-compliant with the legislation and ethically inappropriate.

4.2. Stakeholder Participation in Management

A customer care line and a complaints line are available via the website for all stakeholders, enabling them to e-mail any feedback, suggestions, comments and complaints, as well as requests for information.

Models, incentives and codes of practice that support employee participation with management are developed within the framework of the "Human Resources Policy".

Efforts that promote communication and support team spirit among employees are initiated with the purpose of establishing effective and productive relationships, and for collaborative works.

Responsibilities are assigned in order to effectively prevent and resolve conflicts of interest, and the measures and control processes intended to prevent these conflicts of interest are implemented by the Bank within the framework of the "Conflict of Interest Policy".

The Conflict of Interest Policy was updated to comply with the provisions of the Capital Markets regulation, and approved by the Board Resolution dated October 22, 2015, no. 88. No change has been made within the period.

4.3. Human Resources Policy

The basic human resources policies of the Bank are explicitly stated in the Human Resources Policy document available to all employees against their signature.

The Human Resources Policy includes, in addition to the basic principles regarding personnel policies, information on recruitment processes and principles, performance management, promotions, salaries, benefits, bonuses, disciplinary provisions, and termination of employment contracts.

The Human Resources Policy of the Bank is determined by the Board of Directors, taking the following principles into consideration.

The key elements of the Human Resources Policy of PASHA Bank are:

- a) To provide the qualified and competent human resources needed in line with the Bank's objectives and strategies and its corporate values,
- b) To ensure that employees adopt the corporate culture and corporate values, and comply with ethical principles,
- c) To ensure through effective performance management system that the staff performs efficiently,
- d) To create a learning organization in line with the Bank's strategy, business objectives and mission by supporting the professional and personal development of all staff,
- e) To reinforce the corporate culture by developing Bank staff for managerial positions,
- f) To contribute to the enhancement of the Bank's achievements by rewarding high performance,
- g) To provide opportunities for career development by prioritizing existing staff in the case of vacancies,

- h) To increase employee commitment by implementing an open and transparent Human Resources Management System,
- i) To ensure continuous improvement by taking into account all requests, complaints and suggestions from employees,
- j) To create an effective and motivated organization by ensuring employee satisfaction,
- k) To compensate employees according to current conditions and aligned with the market and the Bank's budget,
- l) To increase commitment to the organization,
- m) To ensure that the common goals of the Bank are adopted by all employees,
- n) To provide the staff with a safe, healthy and adequate work environment that encourages creative thinking and generating new ideas.

PASHA Bank's recruitment process is based on the principle of hiring qualified human resources with high potential in line with the bank's objectives and strategies and its corporate values and competencies. This process begins by clearly defining the tasks and responsibilities required for each position, as well as the necessary qualifications and competencies.

The Human Resources and Administrative Affairs Unit works in coordination with other units in line with the objectives of the Bank, and aims at selecting the most suitable candidate for the job by reaching the right target group for the relevant position in the recruitment phase. In addition, qualified candidates are suitable for the institutional culture; believe in open communication and continuous improvement; support team work; are customer- and results-oriented; and possess the education, experience, and foreign language skills required for the position. The process is completed by evaluating the applicant's suitability regarding such criteria, as well as their compatibility with the institutional culture and their enthusiasm for the work and the institution.

Job applications are submitted via the e-mail address ik@pashabank.com.tr, and through the contracted human resources portals; positions for which there are recruitment needs are announced through these channels as well and, when necessary, consulting firms are engaged. At PASHA Bank, the average age of our employees is 38; 49% of our employees are female, and 90% have a Bachelor's degree, while 26% hold Master's and doctoral degrees. The average working period of our employees is 15 years.

The duties and responsibilities of all Bank employees have been defined in a clear and transparent manner in job descriptions. The Bank's organizational structure, employees' job descriptions, and policies and procedures containing performance and bonus criteria are posted via the intranet site, which is the Bank's internal communication platform. Minimum levels of seniority for promotion from a current position, depending on the educational

qualifications, are defined. An employee may be promoted by meeting the criteria defined and stated in the Human Resources Policy.

An "Open Performance Assessment System" is implemented at the Bank. Performance assessments are structured to achieve better results for both employees and the Bank by managing individual performance in line with the Bank's targets and strategies. In this process, Bank employees are evaluated according to their competencies and targets, and the evaluation results are shared with them.

The criteria used for performance-based compensation are determined by the Remuneration Policy and the Bonus Policy. These criteria are based on evaluations conducted at certain periods during the performance of the employee, the relevant business line, and the Bank's performance. Evaluations are in line with the following criteria:

- Financial and/or non-financial SMART targets predefined with employee in advance,
- Commitment to corporate values and compatibility with Bank policies/procedures,
- Contributions with regard to risk management and compliance with legislation,
- Suitability to the competencies of the Bank and the task.

These, along with internal rotational and promotional practices, ensure that employees' skills and expertise are utilized at the optimal level, that employees' career development is supported, and that the Bank's needs are met quickly and effectively.

To contribute to career development within the Bank, priority is given to employees with regard to vacant positions, and employees are supported by training and development programs in line with their defined career plans.

The main objectives of the Human Resources Unit in training activities include:

- Enabling our employees through career-related training to enhance their performance in current jobs and prepare for advanced positions,
- Enabling employees to acquire the knowledge, skills and competencies required by contemporary banking in line with the principles of equality and continuity,
- Supporting the positive development of our employees' relationships with each other and with our customers,
- Contributing through personal development training to elevating employees' quality of work and social life, and supporting employees through individual investments to maximize their potential.

In 2016, the Bank provided its employees with a total of 1,685 hours of training, representing an average of 48 hours of training per employee. The average duration of technical vocational training per person was 39 hours, and the duration of personal training was nine hours. Training programs conducted by e-learning methods constituted 2% of the total training time.

The “Remuneration Committee” of our Bank was established in 2013, by the Board Resolution dated October 9, 2013 and numbered 52, with the purpose of carrying out activities within the scope of the “Regulation on Corporate Governance Principles of Banks” of the Banking Regulation and Supervision Agency. The title of the Committee was amended in July 2016 to the "Human Resources and Remuneration Committee", and the "Regulation on Human Resources and Remuneration Committee", which describes the provisions related to the Committee’s activities, working procedures, duties and responsibilities, was approved by the decision of the Board of Directors no. 69, dated September 23, 2016.

The Human Resources and Remuneration Committee is responsible for following up on behalf of the Board of Directors the remuneration management practices of the Bank within the scope of compliance with the Corporate Governance Principles; compliance of such practices with the Banks’ ethical values, internal balances and strategic targets; reviewing the remuneration policy and submitting recommendations as necessary; and for any other matters assigned to it by the Board of Directors within this context.

The Bank's Bonus Policy, which established the calculation methodology for bonuses payable to employees due to their contributions to the Bank's strategy and targets, was approved by a resolution of the Board of Directors no. 60, dated July 29, 2016.

The Remuneration Committee undertakes a review at least once a year to ensure the provision of policy activity. The Remuneration Committee reviewed the remuneration system policies and practices of our Bank for the year 2016, and then reported its assessments and recommendations within the scope of management of the risks associated with such remuneration practices to the Board of Directors as of March 2017.

Labor Law 4857, dated May 22, 2003, was referenced in determining severance and termination pay. Yuksel Gunes, Manager of the Financial Planning and Control Unit, was appointed as the employee relations representative.

This representative is charged with;

- Taking part in activities related to occupational health and safety,
- Following up on issues related to occupational health and safety,
- Requesting actions designed to eliminate a source of danger or reduce risk stemming from that danger, submitting proposals, and representing employees in similar matters.

The Bank conducts ongoing activities towards protecting the occupational health and safety of its employees, within the Human Resources and Administrative Affairs Unit. In 2016, a total of 40 hours of service was provided by the Occupational Safety Specialist, and 20 hours of service were provided by the workplace physician at the Bank. Employees were provided with four hours of occupational health and safety training.

The Bank’s management did not receive any discrimination-related complaints in 2016.

All employees of the Bank are informed regarding Bank policies, regulations, procedures, organizational changes, changes in rights and interests, and relevant practices and decisions

via announcements and directives prepared within the framework of the Documentation Regulation and transmitted by e-mail, and also via posts on the Bank's intranet portal.

4.4. Ethical Rules and Social Responsibility

The "Ethical Principles Regulation" approved by the Board of Directors establishes rules that must be observed in all actions and transactions among customers, employees, other financial organizations and all stakeholders, and this Regulation was disclosed to the public on the website, in accordance with the Bank's disclosure policy.

Ethical principles are intended to regulate relations with all internal and external stakeholders, which are categorized as competitors, customers, suppliers, personnel, media, and public institutions and organizations.

The Ethical Principles of PASHA Yatırım Bankası A.Ş. is deemed inseparable part of the Corporate Governance Policy and the Human Resources Policy.

The Bank's Ethical Principles define procedures that must be observed in all actions and transactions with customers, employees, other financial organizations and all stakeholders. The PASHA Bank Ethics Principles are disclosed to the public on the website under the Policies tab on the Corporate Governance page.

The rules and regulations set in accordance with the Ethical Principles Regulation are among the general responsibilities of all employees, and they must be included in the compliance and acceptance statement.

The Sustainability, Environment and Social Responsibility Policy of the Bank is in effect as of April 28, 2014.

In 2016, the Bank did not pay any fines to the regulatory and supervisory authorities for violation of provisions of the legislation.

SECTION V - BOARD OF DIRECTORS

5.1. Structure and Formation of the Board of Directors

The Board of Directors must be composed of at least five members, according to the Bank's Articles of Association. In section two of the Articles of Association, the Bank's organization and the duties and powers of the Board of Directors are explained; the duties and responsibilities of the Board of Directors are subject to the principles set forth by the provisions of Turkish Commercial Law and the Banking Law, and by the provisions of the Articles of Association.

The Board of Directors conducts its activities in a transparent, fair, responsible and accountable manner.

The CVs of the members of the Board of Directors are included in the annual activity report in the section titled "Information on Top Management", on the Bank's website, and on the MKK (the Central Securities Depository of Turkey) e-company portal.

At the Extraordinary General Assembly Meeting held on November 25, 2016, the number of members of the Board of Directors of the Bank was determined to be nine persons, including the General Manager, who is the natural member as required by the Banking Law. It was also decided for the continuation during their term of office of the Board memberships of Agha Ali Kamalov, Taleh Kazimov, Shahin Mammadov, Necip Sureyya Serdengeçti, Mesut Özding, Adnan Aykol and Hikmet Cenk Eynehan, whose terms of office as Board members had been approved for three years at the Ordinary General Assembly Meeting held on March 31, 2015, as well as that of Jalal Gasimov, who was elected as a member of the Board of Directors by the Board Resolution no. 88 and dated August 17, 2015 and whose membership was approved at the Ordinary General Assembly dated March 30, 2016; and Kamala Nuriyeva was elected as a member of the Board of Directors to serve throughout the term of office of the other members. As a result of the election, the percentage of female members on the Board of Directors increased to 11%

The term of office for all members of the Board of Directors is a maximum of three years under the Articles of Association. Members whose term of office has expired may be re-elected. The duties assumed by the members of the Board of Directors with external entities, distribution of duties, and terms of office are summarized in the table below. The resumes of the members of the Board of Directors are available in the section, "Information on Top Management", in our Annual Report; the relevant information is also available on the website and in the e-COMPANY: Company Information Portal of MKK.

NAME-SURNAME	POSITION	STATUS OF INDEPENDENCE	DUTIES ASSUMED OUTSIDE THE BANK	RESPONSIBILITY AREA	DATE OF ELECTION	ACADEMIC BACKGROUND	PROFESSIONAL EXPERIENCE (YEAR)
Agha Ali Kamalov	Chairman	Not Independent	PASHA Holding LLC, Deputy CEO, COO	Strategy and Budget Committee HR and Remuneration Committee Corporate Governance Committee	31/03/2015	Doctorate	22
Jalal Gasimov	Deputy Chairman	Not Independent	PASHA Holding LLC, First Deputy CEO, Head of Banking Group Kapital Bank OJSC, Azerbaijan, Chairman of the Supervisory Board JSC PASHA Bank, Georgia, Member of the Supervisory Board PASHA Life Insurance, Azerbaijan, Member of the Supervisory Board	Strategy and Budget Committee HR and Remuneration Committee Risk Management Committee Credit Committee	17/08/2015	Graduate	18
Taleh Kazimov	Board Member	Not Independent	PASHA Bank OJSC, CEO, Chairman of the Executive Board JSC PASHA Bank, Georgia, Member of the Supervisory Board	Credit Committee	31/03/2015	Graduate	15
Shahin Mammadov	Board Member	Not Independent	JSC PASHA Bank, Georgia, CEO, Chairman of the Board of Directors	Credit Committee	31/03/2015	Doktora	14
Kamala Nuriyeva	Board Member	Not Independent	PASHA Holding LLC, Director, Group Risk JSC PASHA Bank, Georgia, Member of Risk Management Committee PASHA Bank OJSC, Azerbaijan, Member of the Supervisory Board, Chairman of Risk Management Committee Kapital Bank OJSC, Azerbaijan, Member of Risk Management Committee	Risk Management Committee	25/11/2016	Graduate	20
N. Süreyya Serdengeçti	Board Member	Independent	TOBB Economy and Technology University, Lecturer TEPAV, Director	Audit Committee Corporate Governance Committee	16/09/2013	Graduate	36
Mesut Özding	Board Member	Independent	-	Audit Committee Risk Management Committee	19/12/2013	Yüksek Lisans	21
Adnan Aykol	Board Member	Independent	-	Credit Committee	20/08/2013	Undergraduate	37
H. Cenk Eynehan	General Manager and Board Member	Not Independent	JSC PASHA Bank Georgia, Member of the Supervisory Board	Strategy and Budget Committee Credit Committee	02/08/2013	Graduate	23

The term of office for members of the Board of Directors is three years, and Board members are elected at the Annual General Shareholders' Meeting of the Bank.

Agha Ali Kamalov, Taleh Kazimov, Shahin Mammadov, Kamala Nuriyeva, and H. Cenk Eynehan, who are not independent members of the Board, are serving on the Boards of Directors and in other positions at organizations within the PASHA Group.

Pursuant to the Corporate Governance Policy, Board members may not conduct, without prior or subsequent written consent of the General Assembly, any business and transactions that fall within the scope of the Bank's activities on behalf of themselves or others, or have shares in companies of unlimited liability operating in the same field, or become members of a Board of Directors in any company engaged in similar activities.

Pursuant to Capital Markets Board regulations regarding the Corporate Governance Principles, there must be a minimum of three independent board members for banks. The Board members appointed to membership in the Audit Committee are considered independent board members pursuant to the regulations in question, Mesut Ozdinç, who currently serves as the Chairman of the Audit Committee, and Sureyya Serdengeçti, who serves as a member of the same committee, are independent board members.

The fulfillment of activities described in articles 395 and 396 of the TCL by the members of Board of Directors is subject to the approval of the General Assembly.

As of end-year 2016, Mr. Adnan Aykol also served as an independent board member. No situation occurred during the year that affected the independence of Board's independent members. The independence declarations of independent board members are included in an attachment to the Report.

With the exception of the General Manager, no member of the Board holds executive duties.

The powers of the Chairman of the Board of Directors and of the General Manager are clearly separated as per the Bank's Articles of Association and Corporate Governance Policy.

5.2. Operating Principles of the Board of Directors

To ensure the efficiency of the Board of Directors, the schedule for the year's Board meetings is determined with the approval of the Board of Directors.

The Board of Directors is convened whenever and as often as required by the Bank's business and related legislation. This year, there were a total of 12 Board meetings. Seven of these meetings took place with the members present; five meetings were held via videoconferencing.

The agenda of the meeting is prepared according to proposals submitted by various Units of the Bank, issues submitted for discussion by the General Manager, and other subjects submitted by Board members. The meeting agenda and related supporting documents are presented to the Board members for review within the framework of the Corporate Governance Policy principles and within the minimum required period prior to the meeting. The working principles of the Board of Directors were most recently established by the Corporate Governance Policy approved at the Board of Directors' meeting held on December 8, 2015. The transfer of the limited representation authority was provided by the Internal Directive issued within the framework of the provisions of the TCL.

The members of the Board of Directors must attend meetings in person, or provide notification to the contrary.

Communication between Board members and the Head Office is provided by the Corporate Governance and Secretariat Unit. Invitations to meetings of the Board of Directors are sent via e-mails. The Board of Directors is informed and communications effected via the Secretary of the Board. The Board's decisions, minutes, and related documents are recorded regularly by the Secretary.

The Board of Directors passed a total of 103 resolutions in 2016, either at meetings or through circulation by hand. One resolution with a dissenting opinion was taken by majority vote; all other resolutions were passed unanimously. Grounds for the dissension were included in the relevant resolution.

Discussions conducted during Board of Directors meetings are recorded in the minutes of the meeting, and signed by the attending members.

According to the Bank's Articles of Association, the Board of Directors meets when an absolute majority is present, and will pass resolutions with the majority of the attendees.

The minutes and resolutions of Board meetings are recorded in the resolutions book of the Board.

The members of the Board of Directors may not cast a deciding vote and/or they do not have veto rights. Each member has one vote.

Every member of the Board of Directors must confirm that their participation on the Board does not directly or indirectly result in any conflict of interest due to personal or professional interests. The members of the Board of Directors are not permitted to attend or to vote at sessions in which matters associated with their interests or the interests of their relations are under consideration as mentioned in Article 393 of Turkish Commercial Law.

Director's and Officer's Liability Insurance coverage has been provided with coverage of up to USD 1 million for Board members during their term of office.

5.3. Number, Structure, and Independence of the Committees Under the Board of Directors

The Credit Committee, Audit Committee, Corporate Governance Committee, Human Resources and Remuneration Committee, Strategy and Budget Committee, and Risk Management Committee have been established to help the Board of Directors accomplish activities within its area of responsibility and fulfill its tasks more effectively.

The assignments and members of Committees within the Bank are determined by the Board of Directors and announced to the public on PASHA Bank's corporate website, as well as in its Annual Report.

Information on the committees established within the Board of Directors is disclosed below. The Board of Directors' Committees maintained their work during the period effectively and in full compliance with relevant legislation.

Audit Committee

The Members of the Audit Committee are elected from among the independent non-executive board members, and the Committee maintains its activities within the framework of the Audit Committee Charter.

The existing structure of the committee is given below.

Name - Surname	Committee Position
Mesut Özdiç	Chairman
Süreyya Serdengeçti	Member

Credit Committee

The Credit Committee has been established to determine credit allocation decisions concerning the credits within its competence, and perform the associated tasks in accordance with the limits set by the Board of Directors within the framework of legal and banking regulations. The existing structure of the committee is given below.

Name - Surname	Committee Position
H. Cenk Eynehan	Chairman
Adnan Aykol	Member
Taleh Kazimov	Member
Jalal Gasimov	Reserve Member
Shahin Mammadov	Reserve Member

The Committee maintains its activities within the framework of the Credit Committee Charter.

Corporate Governance Committee

The Corporate Governance Committee was established to ensure that the Bank is managed in such a way so as to protect the rights and obligations of all stakeholders and shareholders in a responsible, fair, transparent, and accountable manner in line with defined goals, the Banking Law, Capital Markets Law and the regulations issued pursuant thereto, and other legislation, the Articles of Association, the Bank's internal regulations, and banking ethics; and to monitor compliance with the Bank's Corporate Governance Principles, and to submit necessary measures to the Board of Directors.

The existing structure of the committee is given below.

Name – Surname	Committee Position
Süreyya Serdengeçti (Independent Member)	Chairman
Agha Ali Kamalov	Member

The Committee maintains its activities within the framework of the Corporate Governance Policy.

Human Resources and Remuneration Committee

To provide an independent and effective remuneration system, the Human Resources and Remuneration Committee was established to carry out supervision on behalf of the Board of Directors of the remuneration policies, processes, and practices in line with the provisions of the Banking Law and the Regulation on the Corporate Governance Principles of Banks. The existing structure of the committee is given below.

Name - Surname	Committee Position
Agha Ali Kamalov	Chairman
Jalal Gasimov	Member

The Committee maintains its activities within the framework of the HR and Remuneration Committee Charter.

Risk Management Committee

The Risk Management Committee was established to ensure that the Bank's risk identification, evaluation, measurement, control, reporting, and monitoring processes and capabilities are effective, adequate, and reliable; and to advise and assist the Board of Directors on these matters in fulfilling its duties and responsibilities. The existing structure of the committee is given below.

Name - Surname	Committee Position
Jalal Gasimov	Chairman
Kamala Nuriyeva	Member
Mesut Özdiñ	Member

The Committee maintains its activities within the framework of the Risk Management Committee Charter.

Strategy and Budget Committee

The Strategy and Budget Committee was established to provide assurance in preparing the Bank's business and strategy plans; preparing an annual budget in line with strategy,

operation, and budget management processes that have been approved by the controlling shareholder; advising the Board of Directors; and assisting the Board in fulfilling its duties and responsibilities.

The existing structure of the committee is given below.

Name - Surname	Committee Position
Agha Ali Kamalov	Chairman
Jalal Gasimov	Member
H. Cenk Eynehan	Member

The Committee maintains its activities within the framework of the Strategy and Budget Committee Charter.

5.4. Risk Management and Internal Control Mechanism

This mechanism is structured in accordance with the scope and composition of the activities of the Bank, with changing conditions and, also, to address the determination, measurement, analysis, and monitoring of risks that may arise from the Bank's strategy and operations, and for the exercise of control and audit.

The Risk Management Unit reports to the Board of Directors through the Risk Management Committee. The Internal Audit Unit and the Internal Control and Compliance Unit, which conducts compliance control activities, as well as internal control activities and activities concerning the prevention of money laundering and terrorism financing, report to the Board of Directors through the Audit Committee.

The Bank's internal regulations related to the duties, powers, and responsibilities of these departments have been created in accordance with the provisions of the Banking Law and the Regulation on Internal Systems and ICAAP of Banks, and put into force by the approval of the Board of Directors.

Internal control and compliance activities are checked and monitored continually by the Internal Control and Compliance Department and its staff operating under the Board of Directors. Risk management activities are carried out by the Risk Management Department and its staff, operating again under the Board of Directors.

The basic aim of compliance activities is to provide the maximum contribution on such issues as ensuring that the compliance risk in the Bank is kept under control through purposeful and effective management, and that the Bank's activities are executed and managed within this framework continually in accordance and compliance with the relevant legislation, regulations,

and standards in terms of structure and functioning, and that anti-money laundering and terrorist financing policies are enforced.

The activities conducted by the Compliance Officer to ensure compliance with the regulations established pursuant to anti-money laundering and the prevention of terrorism financing, and communication and coordination with the Financial Crimes Investigation Board are provided.

The compliance of all banking processes and information systems with the legal regulations, internal regulations, and banking principles are audited by the Internal Audit Department and its staff within the framework of the annual risk assessment studies and audit plan, and the results of the audit are reported to the Audit Committee and Board of Directors.

The Audit Committee is a committee established by the Board of Directors to assist it in the performance of auditing and supervision activities pursuant to both the Banking Law and the Regulation on Internal Systems and ICAAP of Banks. The Audit Committee supervises on behalf of the Board of Directors the effectiveness and adequacy of the Internal Systems departments, and the operation of these systems and the accounting and reporting systems of the Bank within the framework of the Banking Law and related regulations, and the integrity of the information generated.

Assessments by the Audit Committee concerning the year are published in the Annual Report.

5.5. Strategic Targets of the Bank

PASHA Bank has carried out banking operations in a manner consistent with its corporate strategy during the period of 2015-2017, based on the diversification of business lines to establish the sustainable business model of the PASHA Group. Total assets of TL 600 million, total cash and non-cash loans of TL 799 million, and shareholders' equity of TL 263 million have been targeted in line with the budget targets stipulated by the Bank for 2017. Actions and projects that support strategic goals are addressed by Senior Management in Committee meetings, and assessed and decided by the Board of Directors.

The Bank's 2017 budget was approved by the Board of Directors with resolution no. 90 passed at the meeting on December 9, 2016.

The Bank's performance regarding its annual budget targets is regularly reviewed by the Board of Directors. The Bank's performance with reference to budget targets are reported in detail to the Board of Directors at monthly meetings.

Our Bank's vision, values, and mission are included in the Annual Report released each year in print and available on our website.

5.6. Remuneration

Financial rights granted to the members of the Board of Directors are determined in accordance with Article 41 of the Articles of Association. According to that Article,

- Compensation of an amount determined by the Board of Directors is paid to the Chairman, Deputy Chairman and members of the Board of Directors. In determining the amount, certain factors are taken into consideration such as time spent preparing for meetings and attending meetings, and for performing the duties determined in meetings. In addition, any honoraria to be paid for meeting attendance is determined by the General Assembly.
- The Board determines compensation for committee chairs and members, and the amounts of such compensation when the committee is established. Should the committee chair or member be at the same time a Board member, the General Assembly will determine if compensation is to be made and, if so, the amount.

The remuneration policy of the Bank is implemented in accordance with the rules and regulations of the Banking Regulation and Supervision Agency and the Capital Markets Board. The remuneration policy is prepared in writing, and at the 2013 Annual General Meeting of Shareholders held on March 28, 2014, the policy was presented to shareholders for their information under a separate item of the agenda.

Profit sharing, share options or Bank performance-based compensation can not be implemented for the remuneration of the independent members of the Board of Directors.

Total compensation to Senior Management and to Board members is presented to shareholders for their information and/or approval in accordance with relevant legislation at the General Assembly Meeting.

The total sum of all compensation and other benefits provided to Senior Management and to Board members is disclosed to the public in the Annual Report.

As stated in the footnote no. VII of Section five of our non-consolidated financial statement for the operating year of 2016, the total amount of compensation provided to the Bank's Board of Directors and senior executives in 2016 is TL 2,494,538.64. This includes items such as attendance fees, wages, premiums, bonuses, dividends, etc.

No loans were provided by the Bank to members of the Board of Directors and managers, either directly or through a third person; and no guarantees were issued in their favor. The Banking Law provisions were not violated in terms of matters such as providing loans and/or credits to any member of the Board of Directors or to any manager. Article 17 of the Articles of Association states that "Members of the Boards of Directors may not participate during periods where loan transactions, to which they themselves, their spouses or children who are under their custody, other real and legal persons who together with them constitute a risk group are a party, are assessed and decided, and they must notify the proper authorities in writing.



Provisions of the Banking Law that prohibit and restrict providing loans to the members of the Board of Directors are not affected.”

Statement of Independence

I hereby declare that I currently serve as an “independent member” on the Board of Directors of PASHA Yatırım Bankası A.Ş. pursuant to the provisions of the Communiqué Serial: II-17.1 on Corporate Governance Principles issued by the Capital Markets Board and in this context, I hereby declare as follows;

1. Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Bank, any company in which the Bank has management control or significant influence, or any shareholder having management control or significant influence over the Bank or any corporate entity
2. I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for or served as a member on the boards of directors of any company from/to which, under a contract, the Bank purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Bank, in the past five years,
3. I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member.
4. After having been elected as a member I am not a full-time employee of public institutions and organizations, except as a member of academia should applicable legislation permit;
5. I am considered to be a resident of Turkey as for the purposes of the Income Tax Law no. 193, dated December 31, 1960,
6. I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Bank’s operations, maintaining my independence in possible conflicts of interest between the Bank’s shareholders, and making decisions freely taking into consideration the rights of stakeholders,
7. I am capable of dedicating sufficient amount of time to be able to follow up the execution of the Bank’s affairs and to fully meet the requirements of the duties I undertake
8. I have not held the position of member of the Board of Directors of the Company for more than six years in the past ten years,
9. I am not serving as an independent board member in any company which is controlled by the Bank or by shareholders having management control over the Bank,
10. I will be serving on the Bank’s Board of Directors as a real person and in this context, I have not been registered and promulgated in the name of any corporate entity elected as a board member.

Süreyya SERDENGEÇTİ

PASHA Yatırım Bankası A.Ş.

2016 Corporate Governance Principles Compliance Report

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Statement of Independence

I hereby declare that I currently serve as an “independent member” on the Board of Directors of PASHA Yatırım Bankası A.Ş. pursuant to the provisions of the Communiqué Serial: II-17.1 on Corporate Governance Principles issued by the Capital Markets Board and in this context, I hereby declare as follows;

1. Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Bank, any company in which the Bank has management control or significant influence, or any shareholder having management control or significant influence over the Bank or any corporate entity
2. I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for or served as a member on the boards of directors of any company from/to which, under a contract, the Bank purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Bank, in the past five years,
3. I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member.
4. After having been elected as a member I am not a full-time employee of public institutions and organizations, except as a member of academia should applicable legislation permit;
5. I am considered to be a resident of Turkey as for the purposes of the Income Tax Law no. 193, dated December 31, 1960,
6. I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Bank’s operations, maintaining my independence in possible conflicts of interest between the Bank’s shareholders, and making decisions freely taking into consideration the rights of stakeholders,
7. I am capable of dedicating sufficient amount of time to be able to follow up the execution of the Bank’s affairs and to fully meet the requirements of the duties I undertake
8. I have not held the position of member of the Board of Directors of the Company for more than six years in the past ten years,
9. I am not serving as an independent board member in any company which is controlled by the Bank or by shareholders having management control over the Bank,
10. I will be serving on the Bank’s Board of Directors as a real person and in this context, I have not been registered and promulgated in the name of any corporate entity elected as a board member.

Mesut ÖZDİNÇ

Statement of Independence

I hereby declare that I currently serve as an “independent member” on the Board of Directors of PASHA Yatırım Bankası A.Ş. pursuant to the provisions of the Communiqué Serial: II-17.1 on Corporate Governance Principles issued by the Capital Markets Board and in this context, I hereby declare as follows;

1. Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, or individually or jointly held more than 5% of the capital or voting rights or privileged shares, or established any commercial interest of a significant nature, with any corporate entity with which the Bank, any company in which the Bank has management control or significant influence, or any shareholder having management control or significant influence over the Bank or any corporate entity
2. I was neither a shareholder (5% and higher), nor have I worked in an executive capacity involving major duties and responsibilities for or served as a member on the boards of directors of any company from/to which, under a contract, the Bank purchased/sold services or products of material quantity during the period of time such services or products were being purchased or sold, and particularly of the firms performing the audit (including tax audit, legal audit and internal audit), rating and consultancy of the Bank, in the past five years,
3. I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member.
4. After having been elected as a member I am not a full-time employee of public institutions and organizations, except as a member of academia should applicable legislation permit;
5. I am considered to be a resident of Turkey as for the purposes of the Income Tax Law no. 193, dated December 31, 1960,
6. I possess strong ethical standards, professional credibility and experience that are necessary for making positive contributions to the Bank’s operations, maintaining my independence in possible conflicts of interest between the Bank’s shareholders, and making decisions freely taking into consideration the rights of stakeholders,
7. I am capable of dedicating sufficient amount of time to be able to follow up the execution of the Bank’s affairs and to fully meet the requirements of the duties I undertake
8. I have not held the position of member of the Board of Directors of the Company for more than six years in the past ten years,
9. I am not serving as an independent board member in any company which is controlled by the Bank or by shareholders having management control over the Bank,
10. I will be serving on the Bank’s Board of Directors as a real person and in this context, I have not been registered and promulgated in the name of any corporate entity elected as a board member.

Adnan AYKOL