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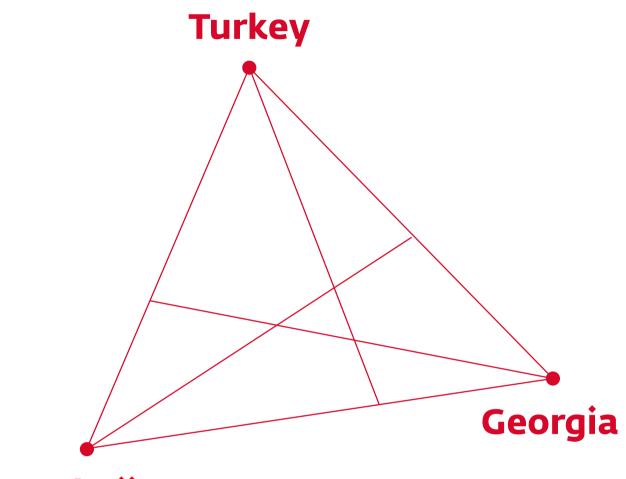
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As the first season draws to a close, a new season begins...

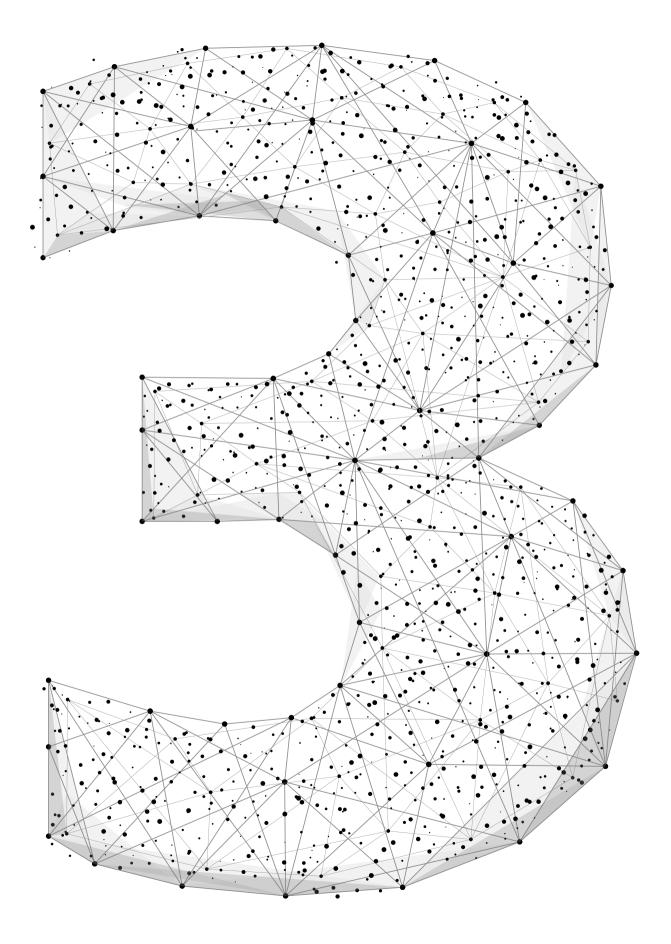
We are off to a journey to strengthen commercial ties in the Turkey, Azerbaijan and Georgia triangle. We have added new success stories to this triangle created from different aspects with new approaches. Now, we are taking major steps in the name of traditional banking services. After the first season, covering three years (2015-2017), we now are entering into the next three-year (2018-2020) season with higher targets.



After three years...

2017 marked the end of our first three-year strategy period. During this time, we aimed to focus on corporate customers, maintain a zero NPL ratio, create awareness in the market, and optimize liquidity risk. The growth attained at a faster pace than the market is the testament of our successful strategic approach.

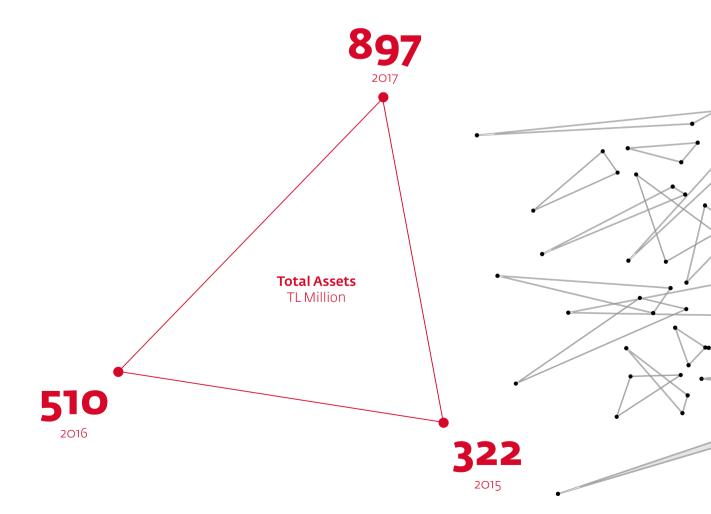
In the following three years, we will support our economy providing significant support through long term financial products, investments adding value to our country with our strong capital structure, experienced human resources and advanced infrastructure.



A striking performance...

Since the day we were established, we took major steps to achieve growth and improved our performance.

Today, we are happy to witness that we reached beyond many targets we set three years ago. We are entering the new three-year strategic period more strongly.

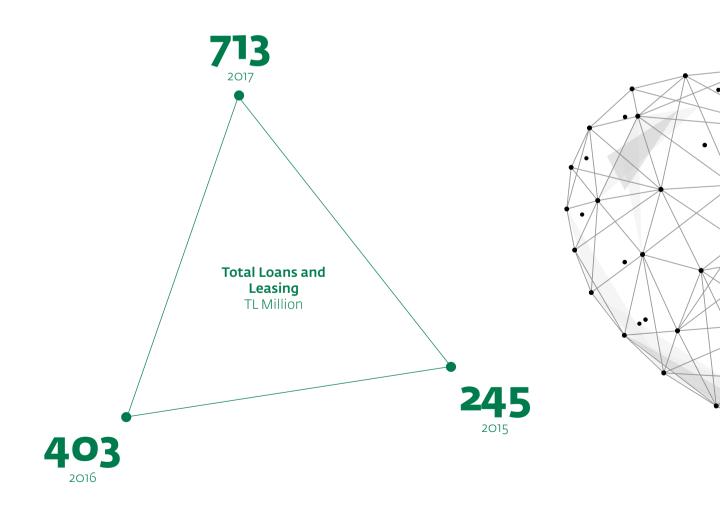


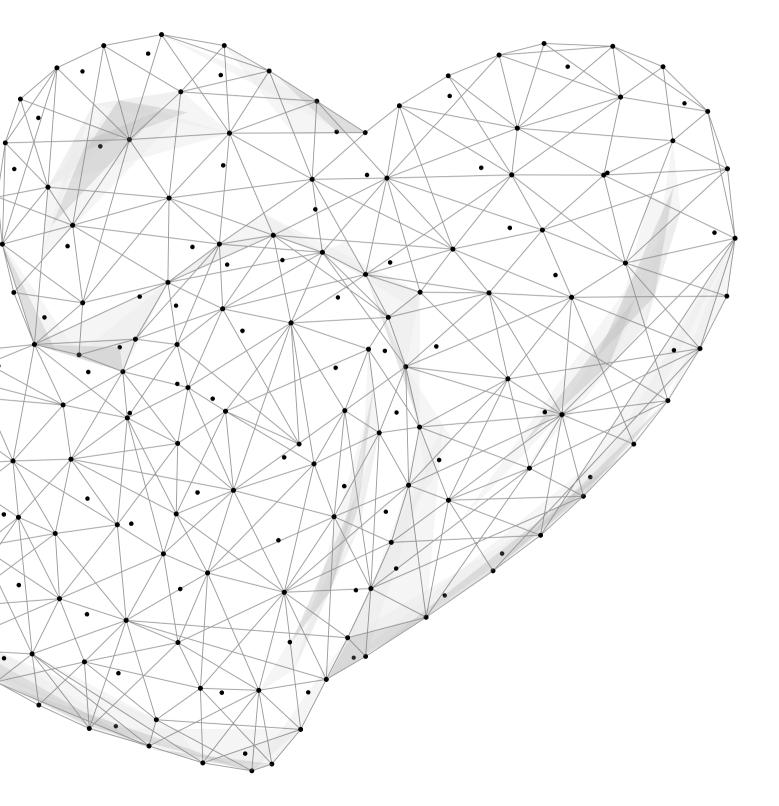


With love and care...

We are an expert team, adding love to our business and showing the same level of care to each and every customer.

Therefore, we achieved in drawing attention in the industry in a short period of time.



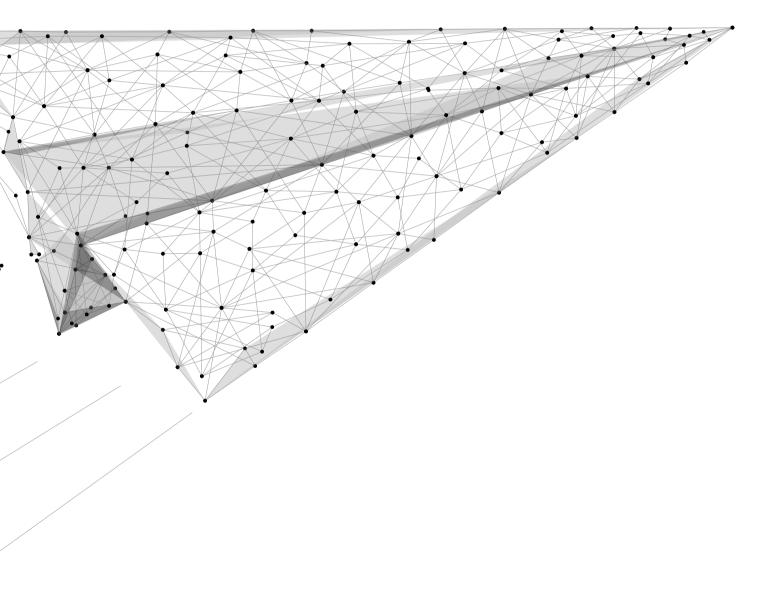


Soaring higher...

We will maintain our growth in investment banking over the next three years.

We will continue offering fast solutions to an ever-expanding customer base through attentive and suitable services. We will enhance the quality and service standards in banking.





Agenda of the Annual General Meeting of Shareholders

AGENDA OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS DATED MARCH 16, 2018

- 1. Opening; Election of the Meeting Chairman and empowering the Chairman to undersign the minutes of the Meeting,
- 2. Discussion and ratification of Board of Director's Activity Report, Bank's Annual Activity Report, Independent Auditor's Report and Financial Statements for the accounting period,
- 3. Determination of usage of the profit realized in the 2017 accounting period as per proposal of the Board of Directors,
- 4. Releasing Board Members separately, who have served during the accounting period, with regard to their activities in the year 2017;
- 5. Determination of remuneration of the Board Members,
- 6. Empowering the Board Members to conduct business with the Bank in accordance with Articles 395 and 396 of the Turkish Commercial Code, without prejudice to the provisions of the Banking Law,
- 7. Election of the Independent Audit Institution that would undertake the independent audit of the Bank in 2018 in accordance with Article 399 of the Turkish Commercial Code,
- 8. Informing the shareholders with regard to the total bonus amount to be paid to employees according to Bank's performance for the year 2017,
- 9. Informing the shareholders about remuneration principles of the Board Members and directors having the administrative responsibility and payments made in this regard in accordance with the Corporate Governance Principle no. 4.6.2 promulgated by Capital Markets Board,
- 10. Informing the shareholders with regard to all donations and charities realized in 2017 and their beneficiaries as per approved policy by the General Assembly in accordance with the Corporate Governance Principle no. 1.3.10 promulgated by Capital Markets Board
- 11. Informing the shareholders with regard to significant transactions executed in 2017 which may cause conflict of interest in accordance with the Corporate Governance Principle no. 1.3.6 promulgated by Capital Markets Board,
- 12. Wishes, suggestions and closing.

Vision and Mission

Vision

To create new and enduring values in the business world and society.

Mission

- To become a cross-border bank empowering its customers.
- To be an international bank that adds value to the present and to the future:
- For our customers, through a high-quality, innovative and solution-oriented service concept;
- For our employees, through investing in their professional and personal development;
- For society and the world, through demonstrating social and environmental sensitivity; and
- For our shareholders, by maintaining a robust financial structure and achieving steady growth and profitability.



Summary of Financial Highlights

In 2017, PASHA Bank reported a TL 16 million profit, maintaining its sustainable profitability.

PASHA Yatırım Bankası A.Ş. has no affiliate subject to consolidation. A summary of unconsolidated financial information on activities in 2017 is presented below.

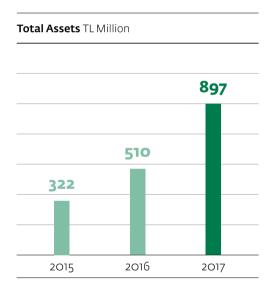
TL (thousands) 31.12.2017 31.12.2016 Cash and balances with Central Bank 77,573 34,436 Trading financial assets 4,943 281 Available-for-sale financial assets 21,308 20,538 Banks and money markets 73,616 44,277 Loans and Lease Receivables 713,048 403,870 Subsidiaries Other various assets 6,357 6,955 Total Assets 896,845 510,357 Funds borrowed 341,387 191,897 Interbank money markets 62,729 15,963 Marketable securities issued 181,741 37,239 Other various liabilities 50,381 20,600 Paid-in capital 255,000 255,000 Profit reserves 324 324 Marketable securities valuation reserves (48) 11 Prior years' income / (loss) (10,677) (24,682) Current year income / (loss) 16,008 14,005 **Total Liabilities** 896,845 510,357

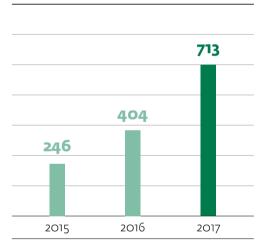
713 TL Million

PASHA Bank's loans reached TL 713 million in 2017.



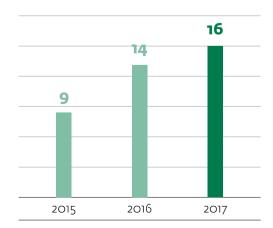
PASHA Bank increased its asset size by 76% compared to previous year, maintaining its steady growth in 2017.



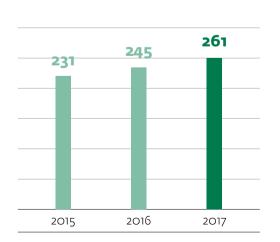


Loans and Lease Receivables TL Million

Current Year Income/Loss TL Million



Shareholders' Equity TL Million



255

TL Million

The paid-in capital of PASHA Bank is TL 255 million.



PASHA Bank's Historical Development and Milestones



PASHA Yatırım Bankası A.Ş., established in Istanbul on December 25, 1987 with the title of Yatırım Bank A.Ş., was the first foreign investment bank in Turkey. PASHA Yatırım Bankası A.Ş., established in Istanbul on December 25, 1987 with the title of Yatırım Bank A.Ş., was the first foreign investment bank in Turkey. The Bank provided services under the management of different shareholder groups until 2015.

Following the acquisition of majority shares in 2015 by the Baku-based regional financial institution PASHA Bank OJSC, the new title of the Bank became PASHA Yatırım Bankası A.Ş. and the business name became PASHA Bank.

PASHA Bank operates from its head office located in Istanbul, and has no branch offices.

PASHA Bank provides services to entrepreneurs through its corporate and investment banking products, to contribute to the development of trade between Turkey, Azerbaijan and Georgia, and to provide resources and guidance to businesses investing in the region.





PASHA Bank was established in Istanbul under the name of Yatırım Bank A.Ş. as the first foreignowned investment bank in Turkey.

1997

The name of the Bank was changed to TAIB Yatırım Bank A.Ş.

2013

Aksoy Holding A.Ş. acquired the majority stake in the Bank, and the paid-in capital was increased to TL 80 million.



PASHA Bank OJSC, the highest-capitalized private bank in Azerbaijan, became the majority shareholder by acquiring a majority stake in the Bank. The Bank's name was changed to **PASHA Yatırım Bankası A.Ş.,** and the paid-in capital increased to TL 255 million.

2016

The issuance of the first debt instrument was realized by means of sale to qualified investors.

2017

The first M&A transaction was finalized.

The first Eurobond, with a maturity of five years, was issued in the Azerbaijan market.

The Bank acted as an intermediary in the issuance of a debt instrument for the first time.



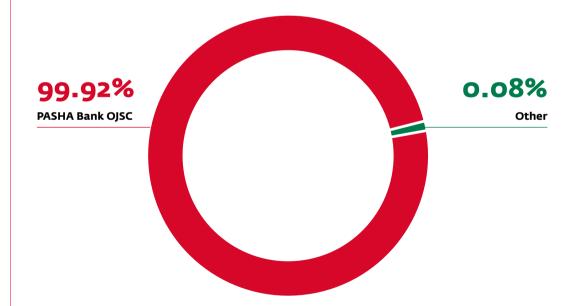
Shareholding Structure of PASHA Bank

The share capital of the Bank is TL 255 Million as of December 31, 2017. PASHA Bank OJSC is the controlling shareholder of the Bank. During the accounting period, there were no changes in the Bank's capital, the Articles of Association and the shareholding structure.

Name-Surname / Trade Name of the Shareholder	Share Amount (TL)	Ratio (%)
PASHA Bank OJSC	254,795,121	99.92
Other	204,879	0.08
Total	255,000,000	100.00

At the date of this report, the Bank's majority partner PASHA Bank OJSC is held by PASHA Holding LLC (60%), Ador LLC (30%) and Arif Pashayev (10%). The Bank has no preferred shares.

Shareholding Structure of PASHA Bank (%)



About the PASHA Bank Group

PASHA Bank is a leading investment and corporate bank in Azerbaijan. Established in 2007, it provides a range of corporate banking services, including loans, securities, current account and treasury services, to domestic clients as well as foreign companies seeking to conduct business in the region. The Bank offers a range of financial products backed by trade financerelated partnerships with international banks and financial institutions. The Bank also offers underwriting services to legal entities, and was the first in the local securities market to act as a market maker.

PASHA Bank has offered private banking services to High Net Worth Individuals (HNWIs) since 2011, including deposits, loans and financial planning.

PASHA Bank employs around 500 people from eight countries across its head office and four branches in Baku and two regional branches in the cities of Ganja and Zaqatala. The Bank's long-term regional strategy includes creating interconnected banking operations to facilitate the rapidly growing trade and deal flow between Baku, Tbilisi and Istanbul, the three most vibrant markets in the region.

The Bank opened its first office in Georgia in 2013.

PASHA Bank was named "Best Investment Bank of Azerbaijan" in 2011, 2012 and 2013 by the international financial journal, EMEA Finance. It was also recognized with "Best Corporate Social Responsibility (CSR) Program in Europe" by the Europe Banking Awards in 2013. Additionally, World Finance magazine named PASHA Bank's Private Banking Unit the "Best Private Bank in Azerbaijan" in 2013. According to the results of the BNE survey, PASHA Bank was named the "Best Bank in Azerbaijan" in 2012 and was recognized as the "Best Bank in Azerbaijan" at the EMEA Finance Europe Banking Awards in both 2014 and 2015. In 2014, PASHA Bank also received a "Trade Award" from Commerzbank AG in recognition of its active involvement in trade financing in Azerbaijan. In 2016, Global Finance named PASHA Bank "Azerbaijan's Best Bank and Banking Group"; in 2016, PASHA Bank was also named the "Best Commercial Bank" by World Finance.

PASHA Bank received a long-term credit rating of 'BB-' and a short-term counterparty rating of 'B' from Standard & Poor's and a long term of credit rating of 'B+' and a short term counterparty rating of 'B'Fitch Ratings.

PASHA Bank is part of the PASHA Group, a major investment holding group in Azerbaijan, with significant assets in insurance, property development, construction, tourism and other businesses.

PASHA Bank OJSC is the highest-capitalized private bank in Azerbaijan, with an authorized capital of AZN 357 million. It ranks among the top five banks in terms of assets with 3,334 AZN of total assets.

The Bank is committed to establishing and developing long-term supportive relationships with its expanding customer base. It aims to deliver banking services at the highest international levels of transparency and service, built on the three core values of Integrity, Quality and Profitability.

357 AZN Million

PASHA Bank OJSC is the highestcapitalized private bank in Azerbaijan, with an authorized capital of AZN 357 million. It ranks among the top five banks in terms of assets.

2017(*)	PASHA BANK AZERBAIJAN ('ooo AZN)	PASHA BANK GEORGIA ('000 GEL)
Net Profit	80,822	3,523
Loans	958,190	111,679
Total Assets	3,582,148	272,804
The Return on Average Equity	19%	3.35%
Cost/Income	42%	69%

(*) Not audited.



General Overview of 2017 and Expectations for 2018

The Central Bank of Turkey (CBRT) started tightening its monetary policy in the first months of the year to reduce TL volatility, generating a positive outlook for the Turkish economy.

7%

The Turkish economy, which is expected to grow 6.5-7%, closed the year with an annual inflation rate of 11.92%. In 2017, global growth increased. Following 2016's events and financial market fluctuations, the Turkish economy made a faster recovery than expected in 2017. In an environment of high risk appetite and abundant liquidity in global markets, policies supporting domestic demand, along with strong global demand, had a positive effect on the Turkish economy. The Credit Guarantee Fund (CGF), in particular, supported strong growth. Although interest rates and inflation rose in the last quarter, the depreciation of the Turkish lira against the US dollar remained at an annual rate of 7%.

The Central Bank of Turkey (CBRT) started tightening its monetary policy in the first months of the year to reduce TL volatility, generating a positive outlook for the Turkish economy.

Due to this tightening, bond yields increased by nearly 250 basis points during the year, and Borsa Istanbul indices went up by about 48%. The Turkish economy, which is expected to grow 6.5-7%, closed the year with an annual inflation rate of 11.92%.

As anticipated by economists, the Federal Reserve ("the Fed") raised interest rates three times during the year. While the Fed started contracting its balance sheet in the third quarter to support market liquidity, the European Central Bank ("ECB") and the Bank of Japan ("BoJ") continued their expansionary monetary policies.

Positive risk appetite is expected to continue into 2018. The World Bank forecasts global economic growth to edge up to 3.1% in 2018, its highest level since 2011. As in the previous year, the US economy will remain as the main driver of the global economy in 2018. In 2018, the US economy is expected to be effective in three areas:

The Fed's interest-rate hikes in 2018 will affect the US economy in two aspects: The first is inflation and the second is the size of the Fed's balance sheet. Although the Fed aims for 2% inflation, the current inflation rate stands at 1.8%. Should inflation exceed 2%, the Fed may implement a tighter monetary policy. Otherwise, measures taken by the Fed may lead to an increase in global risk appetite. The Fed announced that the gradual balance sheet reduction would start in October; however, from the end of September to mid-December, the Fed reduced the balance sheet by only US\$ 10 billion. While the members of the Federal Reserve Board of Governors foresee three interest rate hikes in 2018, market participants expect two rate hikes during the year.

Now that Trump's tax reform act, which slashed corporate taxes to 15%, has been passed, corporate profits are expected to increase by about 9%, which is likely to create upward pressure on prices and thus on inflation and interest rates. In November 2018, midterm elections will be held in the Unites States, to elect all members of the House of Representatives and one third of the Senate's members. If Republicans lose control of either the House of Representatives or the Senate, this may put Trump in a tight spot, politically.

Europe's economy showed robust growth in 2017 with a GDP growth rate of 2.6% in the third quarter. The ECB continued its expansionary policies and balance sheet expansion. In 2018, the ECB is expected to stand with expansionary policies and continue to expand its balance sheet by EUR 30 billion per month until the end of September, despite economic growth. Additionally, the ECB is expected to begin raising interest rates in 2019, after the end of its asset purchase program. Despite political uncertainties in 2017, the UK economy gained momentum, inflation rose more than in most other developed countries, and the Bank of England ("BoE") raised interest rates. Brexit will remain a hot topic in 2018, but it is expected to have less of an impact on the European and UK economy.

Trends in the Chinese economy continue to be a decisive factor for global markets. In 2017, growth in China was more moderately than expected; it stayed within the 6-6.50% band, an acceptable rates with respect to the markets. Transitioning from an external demand-driven to a domestic demand-driven growth model, the Chinese government's policies and steps in this direction will be observed carefully.

The upward trend in oil prices may also put pressure on oil importing countries in terms of both current account deficit and inflation. The steps determined by the CBRT and its stance on monetary policy will continue to have a major effect on the Turkish economy. The Central Bank will take necessary measures and utilize the instruments at hand to prevent potential fluctuations in the markets. In addition, markets in Turkey foresee continued growth and lower inflation, supported by expectations that the Fed will raise interest rates three times during the year; Jerome Powell, the new Federal Reserve Chair, is expected to continue the cautious monetary policies of former Fed Chair Janet Yellen, with the Fed's balance sheet shrinking gradually. While the ECB and BoJ are not expected to raise interest rates in 2018, potential risk factors for Turkey include unforeseen political and geopolitical events along with higher-thananticipated interest rate hikes by the Fed.

In 2018, we forecast growth within the 4.50-5.00% band for the Turkish economy, along with an inflation rate of 9-9.50% and, a less volatile year. Despite geopolitical risks, Turkish economy had the highest growth rate among OECD countries with 11.1% performance rate in the third quarter of 2017.



Message from the Chairman

In 2017, PASHA Bank embarked on new initiatives with the power it gets from dynamism of the banking sector in addition to the sustainable growth performance of the Turkish economy.

Esteemed Stakeholders,

Despite the challenging and evolving environment, the Turkish economy has succeeded to perform very high growth which lifted the country to the group of top growing countries in the world. Growth build-up measures and reforms combined with improving external demand from EU have propelled domestic consumption and ultimately the economy over reached its potential growth. According to official statistics, the economy has performed 11.1% robust growth in the third guarter of the current year. The growth expectations for the remaining part of the year are quite strong. General consensus is that the Turkish economy would end up this year with growth rate around 7% and even above.

Meanwhile, the strong growth performance of the economy has been translated to the banking sector, where the industry has continued its resilient, balanced and healthy development. Total assets of the system have reached TL 3,258 billion by December 2017 and increased by 19.3% in comparison to the same period of the previous year, total loans expanded by 21% to reach TL 2,009 billion. Having higher loan portfolio growth compared to nominal growth of GDP has resulted in further penetration of the sector; the loan portfolio/GDP ratio which stood at 66% at year-end 2016 has jumped to 69% during a year. Despite the aggressive loan expansion, risks in the system are well balanced and managed. The fact that around 78% of loan expansion from the beginning of the year is placements in TL is a strong indicator of balanced risks in the time of high exchange rate volatility.

It is definitely our proud to say that PASHA Bank as a dynamic market player keeps going on its expansion with the pace of above the market. As a result, the market share of the Bank has gone up, and its total assets have reached TL 897 million which is 76% higher compared to the prior year end. Our cash loan and leasing receivables portfolio, comprising 79% of total assets, increased by 76% and reached TL 713 million. Due to effective risk management framework, and prudent credit policy pursued by the Bank we have been successful in preserving zero level of NPL in our balance sheet.

In general, 2017 was last year of our previous strategy which has envisaged a successful turnaround of the Bank. Key components of the strategy have been focus on select corporate customers, maintaining zero-NPL balance, creating awareness in the market, and optimizing liquidity risk through borrowings in longer-term. In the context of previous strategic period, the Bank has always been determined to apply best class corporate governance principles and is willing to manage this process dynamically and continuously. Corporate governance provides proper oversight and accountability, strengthens internal and external relationships, builds trust with our stakeholders and promotes the longterm interests of shareholders. PASHA Bank has increased the corporate governance rating given on the basis of the principles set forth by the Capital Markets Board to 9.28 from 9.26.

During the period we have intensified our efforts to increase and diversify funding sources beyond equity and toward available market instruments. Successful bond issuances and sourcing low-cost funds from Azerbaijani market have provided some advantages in regard to competitiveness and profitability of the lending. Access to relatively cheaper resources in Azerbaijan has provided the Bank to offer lending with relatively lower rates.

713

PASHA Bank's portfolio of cash loans and leasing receivables, which constitute 79% of total assets, expanded by 76% to reach TL 713 million. PASHA Bank, as a dynamic market participant, has maintained its strong growth.

> Jalal Gasimov Chairman



Message from the Chairman

We will continue to make efforts to diversify our Bank's funding structure, and expand our correspondent network and investor base.

9.28

Rating Score

PASHA Bank has further increased the corporate governance rating given on the basis of the principles set forth by the Capital Markets Board to 9.28. For the coming 2018-2020 strategy period the objectives of the Bank has been set as continuing as an investment bank, leveraging up, increasing profitability and achieving diversification. To achieve strategic objectives, the Bank would need to quickly build its balance sheet up. This requires moving fast in 2018 and making a leap in balance sheet growth. This leap is critical to reaching 10% 3-year cumulative average RoAE target. By the end of new strategic period, in 2020, aggressive growth of the business is envisaged where project finance, sale and leaseback and cash loans are supposed to be main drivers.

In order to execute the strategy successfully we would allocate substantial investments in employee development and information technology to build up the required capabilities. In overall, agility and know-how regarding focus sectors are expected to be differentiating capabilities where the Bank would need to excel. Risk management, credit management, fund raising, talent acquisition etc. are the direct examples for the latter.

We will continue to make efforts to diversify bank's funding structure and expand our correspondent network and investor base. We will maintain our prudent approach to managing credit risks so that the asset quality of the Bank is not affected by the environment. We will support our operational profitability with new customer acquisitions and the controlled cost management created by our Group synergy. We shall continue our efforts of offering products and services that are tailored to our customers' needs to make banking experience a gainful experience with PASHA Bank.

I am truly looking forward to have an operating environment supported with stability at macro level and shared prosperity of stakeholders at micro level. Therefore, I would like to take this opportunity to thank our valued employees and our management team for their dedicated professional work, our customers for their confidence in PASHA Bank and our shareholders and all business partners for their valuable support. It is definitely their goodwill that renews our belief in ourselves and our potential to be more.

Sincerely Yours,

Jalal Gasimov Chairman

In 2017 fiscal year, PASHA Bank embarked on new initiatives in line with the corporate targets with the power it gets from solid shareholding structure.





Message from the General Manager

76%

Increase

Our Bank's total assets grew 76% Y-O-Y to reach TL 897 million. Esteemed Stakeholders,

We have successfully completed our Bank's first threeyear strategy period from 2015 through 2017. During this period, we achieved sustainable profitability and consistent balance sheet management. We also finalized our strategy for the second period covering 2018-2020 by setting even more ambitious goals. Our primary objective is to make PASHA Bank one of the major players in the industry.

Our strategy for the first three-year period was to provide financing to leading companies in various industries while performing each of the core banking operations. As we provided project financing to energy, mining and construction industries, we also continued to support the real sector through leasing, forfaiting and accounts receivable financing. In addition to the Turkish lira-denominated bonds of various amounts with different maturities that we have been issuing since 2016, we also issued our first 5-year Eurobond in the Azerbaijan market, the first issuance realized by a foreign institution, in 2017. These issuances helped increase our Bank's recognition in capital markets while enabling us to diversify our funding sources and extend debt maturities.

We also carried out our first M&A transaction during a period that was especially difficult in terms of mergers and acquisitions. In 2017, our Bank acted as an intermediary in the issuance of a debt instrument by a leading financial institution, thus continuing its contribution to the development of capital markets. In the coming period, we will continue to act as an intermediary in the issuance of debt instruments. As an investment bank, we will also play an active role in providing sources of financing to companies.

Evaluating 2017 from an economic perspective, I can say that it was a good year for global markets and the Turkish economy. Loan growth supported by government incentives and CGF offered a significant contribution to our economy. We expect Turkey to post strong economic growth, about 7%, in 2017. While financial flows to developing countries continued during the year, stock markets hit new records. Borsa Istanbul hit a record-high of 50%; inflation climbed mainly due to foreign exchange loss and the increase in oil prices. However, the CBRT maintained its tight monetary policy, and I believe it will continue to do so, to achieve its inflation target in the coming year. In 2017, PASHA Bank reported a TL 16 million profit, maintaining its sustainable profitability. Our Bank's total assets grew 76% year-over-year to reach TL 897 million. Our portfolio of cash and non-cash loans exceeded TL 1 billion, of which TL 713 million is composed of cash loans and lease financing receivables.

In 2017, PASHA Bank received a highly prestigious award, delivering global brand recognition to our Bank. PASHA Bank's 2016 Annual Report, which combined financial data with art, won the "Grand Award in Photography" at the ARC Awards.

During the year, PASHA Bank employees took part in several social and cultural projects, providing a valuable platform for fulfilling our responsibilities to society and social stakeholders. In 2018, we will continue our social responsibility initiatives with the voluntary participation of our employees.

In line with our strategy for the 2018-2020 period, we will continue to support our economy by providing funding with our long-term financial products, through investment projects that add value to our country, and through our strong capital structure, qualified workforce and advanced infrastructure.

We will also continue to support investment projects and trade between Azerbaijan, Georgia and Turkey. As the "top-of-mind Bank" in the region, we will continue to provide financing and support entrepreneurs with our products and services.

I would like to thank my valuable colleagues, who have witnessed and contributed to our Bank's development and will certainly continue to add value to this important process in the coming period, supporting us towards becoming a part of the whole. As well, I thank our Board Members, our customers and our shareholders who accompany us on this journey.

Respectfully yours,

Consepelan

H. Cenk EYNEHAN General Manager and Board Member

In line with our growth strategy, we supported our economy by providing funding with our longterm financial products.

> H. Cenk EYNEHAN General Manager and Board Member



Activities of PASHA Bank in 2017

PASHA Bank shaped its activities in 2017 in consideration of the strategy of growth in addition to its corporate vision.

PASHA Bank increased its asset size by 76% compared to the previous year, maintaining its steady growth in 2017.

PASHA Bank continues its operations in two main areas, corporate and investment banking. The Bank offers cash and non-cash loans, leasing, treasury and foreign trade products under the corporate banking business line to satisfy working capital and investment needs of its customers. Under the investment banking business line, the Bank provides its customers the project finance, structured funding and corporate finance products.

PASHA Bank achieved regular lending through bond issues in capital markets and secured funds in various amounts with different maturities to diversify its funding sources. The Bank increased the amount and number of issuances to qualified investors in domestic capital markets. In 2017, PASHA Bank successfully issued its first long-term Eurobond denominated in US dollars for qualified investors in Azerbaijan.

In line with its boutique service approach and three-year strategy, PASHA Bank maintained a selective and limited customer base in order to provide its clientele with the most comprehensive and effective services.

The Bank reviewed its credit scoring system and established an early warning system to improve the quality and speed of services offered to customers and to maintain loan portfolio quality at the desired level.

The Bank also reviewed its processes for protection of personal data and standardized the related policies, procedures and practices.

The core banking system was further improved to increase the efficiency of banking processes. A series of development projects were successfully completed within the IT infrastructure in line with enhancements to the core banking applications and the principles of compliance with COBIT processes such as; capacity increase, renewal of virtualization infrastructure, establishment of monitoring infrastructure, backup and improvement of data transmission to the disaster recovery center.

In 2017, PASHA Bank operated with a team of 45 experienced and qualified employees at its Head Office in Istanbul.

STRATEGIC MANAGEMENT

The strategy function is carried out by the Financial Planning, Strategy & Budget Management, and Change & Project Management Departments under the supervision of the Strategy and Budget Committee, which reports directly to the Board of Directors. The strategy function involves the processes of setting strategic priorities in line with the Bank's vision, as well as budget preparation and monitoring according to the business plan, and the management and execution of strategic projects based on priorities in close coordination with PASHA Holding, Senior Management and relevant business units. Compliance with the strategic plan is evaluated every six months.

In 2017, strategic actions and projects were determined for setting 2018 goals and building the roadmap to achieve these goals, so that all units work in line with the Bank's strategic priorities. Accordingly, strategic plans for Marketing, Corporate Communications, Human Resources and Information Technologies were formed.

45 Experienced and Qualified Employees

In 2017, PASHA Bank operated with a team of 45 experienced and qualified employees at its Head Office in Istanbul. In line with boutique service approach and its three year strategy, PASHA Bank moves forward with firm steps.



Activities of PASHA Bank in 2017

PASHA Bank offers not only traditional solutions, but also solution-oriented and diversified services to its customers regarded as business partners.

In 2017, PASHA Bank played an active role in project finance, participated in syndicated loans, and transformed its funds into long-term financing.

In line with its boutique service approach and three-year strategy, PASHA Bank moves forward with firm steps.

- During the year, several projects were carried out to ensure that the Bank's processes fulfilled the changing needs of customers and employees.
- Digitalization of business processes continued.
- The credit scoring system was reviewed in line with objectives to improve the quality and speed of services offered to customers and to maintain loan portfolio quality at the desired level; software development initiatives continue.
- Early warning criteria were reviewed to establish more effective monitoring systems; initiatives to build systemic warning mechanisms continue.

TREASURY MANAGEMENT

The Treasury Department tries to reduce risks to a minimum level and to maximize profits by actively monitoring the developments in global markets and by taking all possible risks of the Bank into account. The Treasury Department is responsible for effectively managing PASHA Bank's assets and liabilities in accordance with applicable regulations. Performing trading transactions for profit on the inter-bank market and on the stock exchange in line with the risk limits set by the Board of Directors, the Treasury Department succeeded in closing the year 2017, which was rather volatile, profitably, in line with the goals of the Department.

PASHA Bank has increased its use of Treasury products to fulfill the needs of its customers. The Bank helps its customers hedge against risks by offering them derivative products such as forwards and swaps at competitive prices, and structured products created in line with their needs. PASHA Bank also supports its customers with their investments through issuing bonds and acting as an intermediary for capital market instruments traded on the stock exchange. It also provides support to customers at home and abroad via weekly newsletters and daily reports summarizing market developments, and guides the marketing of local financial products in the target region via instant notifications to the research departments in PASHA Bank Azerbaijan and Georgia of developments and opportunities in Turkey's financial markets.

The Treasury Department aims in 2018 as well to manage all risks, particularly liquidity and exchange rate risks, in the most effective way in line with the Bank's risk management strategy. It plans to improve the structured products offered to domestic and foreign corporate customers and to play a role in expanding the diversification of potential customers and profitability in Azerbaijan and Georgia by offering them Turkish capital markets products.

CORPORATE BANKING OPERATIONS

The Bank's main corporate banking principles are "Boutique Service", "Continuous Development", "Customer Loyalty" and "Regional Player"

The principle of "Boutique Service": In

accordance with its belief that its customers are its business partners as well, the Bank offers not only traditional solutions, but solution-oriented and diversified boutique services, thus adopting as a principle the building of efficient, sustainable and productive relationships.

The principle of "Continuous Development":

Having adopted a corporate governance approach and continuous development principle, the Bank follows current developments in the finance sector, and offers customized solutions to its customers by correctly identifying their needs and by improving its service infrastructure. Our objective is to foresee the future needs of customers by staying attentive to ever-increasing competition and ongoing developments worldwide and in Turkey. In that way, we offer our customers the financing alternatives most suitable for them, for our mutual benefit.

The principle of "Customer Loyalty":

PASHA Bank's prioritized target is to achieve the highest levels of customer satisfaction and loyalty. The Bank's principle is to know our customers well, to treat them with integrity, and to create relationships based on trust.

The principle of 'Regional Player:

PASHA Bank AZ's banking network in Azerbaijan and Georgia, the flexibility provided by the Bank's new ownership structure, and our relationships with reputable institutions in Turkey ideally position the Bank as the first-in-mind solution partner and guide for all types of banking transactions, particularly trade finance, for companies with business operations in Turkey.

The Bank maintains its growth by serving customers in accordance with these principles. In addition to cash and non-cash loans, PASHA Bank also focuses on other banking transactions such as "sale and leaseback", project finance, syndicated loans, and financing of regional trade. PASHA Bank aims to become the "top-of-mind bank" among companies seeking trade in the Bank's niche region, Turkey-Azerbaijan-Georgia. To that end, the Bank continues with its efforts to offer innovative and customized solutions. PASHA Bank is the only bank that performs transactions in Azerbaijan manat and Georgian lari.

LEASING (SALE AND LEASEBACK)

PASHA Bank provides funding to its customers by purchasing their fixed assets at their appraised value through sale and leaseback transactions.

In 2017, PASHA Bank completed its first leasing transaction, and its transaction volume reached TL 36 million.

PROJECT FINANCE & SYNDICATED LOANS

In 2017, PASHA Bank played an active role in project finance, participated in syndicated loans, and transformed its funds into long-term financing. In 2017, the Bank secured TL 65 million for project financing and TL 47.5 million for syndicated loans.

The Bank's priority industries in project finance are energy, mining, real estate and construction; however, it considers other industries, depending on the project type. In 2018, PASHA Bank primarily aims to expand its engagement in project finance and syndicated loans. However, the Bank will closely follow syndicated loans for financing investment projects in Azerbaijan and Georgia within the framework of cooperation and synergy established with Group banks.

FINANCING OF REGIONAL TRADE

PASHA Bank is targeting to take on a major role in increasing trade volume among Turkey-Azerbaijan-Georgia and the sales of its customers exporting in the region by taking advantage of the position of its main shareholder, PASHA Bank Azerbaijan, as the highest-capitalized banking group in its home country, as well as PASHA Bank Georgia's established reputation in its country. PASHA Bank introduces a new service for the first time in the region covering Turkey, Azerbaijan and Georgia by guaranteeing within the PASHA Bank Group the term receivables of its customers arising from their sales, as well as by providing the necessary financial support. PASHA Bank is the only bank that performs transactions in Azerbaijan manat and Georgian lari in Turkey

PASHA Bank will continue in 2018 as well to finance investments and trade, and to follow up and develop new products in line with its vision.

INVESTMENT BANKING AND INTERMEDIARY SERVICES

PASHA Bank serves leading corporate companies accessing necessary funding at the most optimal model under "Mergers and Acquisitions". These consulting services are realized through intermediation for financial and strategic partnerships, and the purchase and sale of assets in line with the needs of the companies.

As part of its investment banking operations, PASHA Bank acted as an intermediary in the issuance of a debt instrument for the first time to provide funding.

Having realized the first bond issue in October 2016 within the framework of the strategy for diversifying funding sources, the Bank continued in 2017 to provide funds to customers through the issuance of debt instruments with different maturities and increasing amounts. Concurrent with its own needs, our Bank provided intermediary services to other institutions seeking to raise funds by issuing debt instruments.

PASHA Bank is authorized to engage in the Activity of Execution of Orders, the Activity of Dealing on Own Account, the Activity of Intermediation for Public Offering through Best Efforts and Limited Custody Services within the framework of the approval issued by the Capital Markets Board in 2015. In 2017, PASHA Bank completed its first leasing transaction, and its transaction volume reached TL 36 million.



Activities of PASHA Bank in 2017

PASHA Bank consistently strives to improve its processes, technology and security. Accordingly, the Bank undertook many development projects in 2017.

INFORMATION TECHNOLOGIES

PASHA Bank consistently strives to improve its processes, technology and security. Accordingly, the Bank undertook many development projects in 2017.

- As part of efforts to improve and systematize processes, and to build infrastructures for new products, enhancements were made to the Core Banking Program and peripheral systems.
- Necessary actions were undertaken to store and access customer data in accordance with applicable laws, and to ensure compliance with data protection laws.
- Penetration tests were performed to ensure safe internet access and to reduce cybersecurity risks, and critical infrastructures were enhanced. Necessary improvements were made to the IT infrastructure for effective monitoring.
- As a result of the actions taken in 2017, there is no outstanding finding as a Noteworthy Control Deficiency or Significant Control Deficiency with regard to the COBIT audit performed in 2016 and the Banking Information System and Process Audit conducted in 2017.

- Information security policies were updated in line with new changes and threats.
- Information management processes are reviewed on a regular basis to increase efficiency significantly.
- Activities continue towards boosting productivity in operational processes.
 In line with enhancements to the core banking applications and the principles of compliance with COBIT processes, a series of development projects such as; capacity increase, renewal of virtualization infrastructure, establishment of monitoring infrastructure, backup and improvement of data transmission to the disaster recovery center were successfully completed within the IT infrastructure.

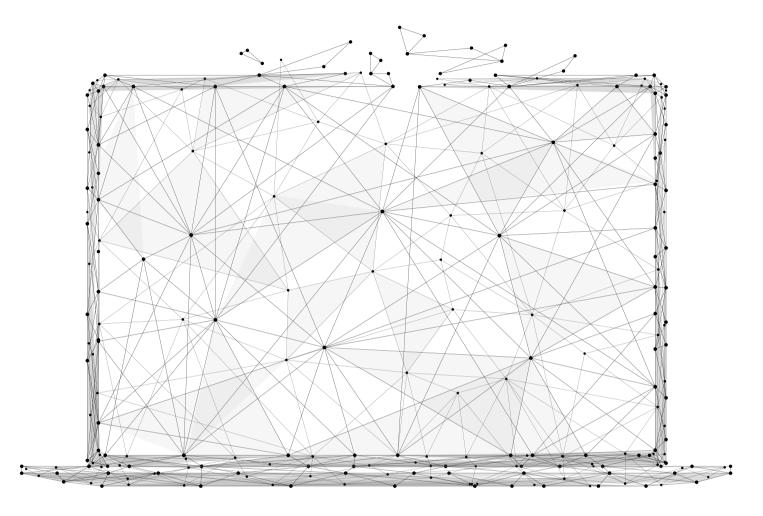
In 2018, the Bank will continue efforts to improve its information technology infrastructure.

The share regarding the basic capacities that PASHA Bank receives from the sector is as follows:

TL (Millions)	The Sector ^(۳)	The Bank	Bank's Share
Total assets	3,257,819	897	0.03%
Shareholders' equity	359,091	261	0.07%
Total loans	2,098,329	679	0.03%

(*) Reference: Banking Regulation and Supervision Agency; February 20, 2018

Information management processes are reviewed on a regular basis to increase efficiency significantly.



PASHA Bank constantly improves Core Banking Program and designs efficient business processes focusing on the needs of customers.



Information on Top Management

Board of Directors



Jalal Gasimov Chairman of the Board of Directors

Jalal Gasimov earned his Bachelor's degree in economics from Azerbaijan Economy University, and his Master's degree in Economic Relations from the Higher Diplomatic College of Azerbaijan. He completed his MBA at the Warwick Business School, UK.

Gasimov began his banking career at İlkbank OSJC, Azerbaijan in 1999. In 2002-2003, he held various finance-related positions at private sector companies. From 2003-2004, he worked at Azpetrol Oil Company as a finance director, and served as the Deputy Chairman of the Board of Directors of Azpetrol Holding between 2004-2006. He joined the Moscow Office of McKinsey & Company as a consultant from 2006-2007. He held top management duties as CEO at the Bank of Baku, finance director at CRA Group Companies, and as the CEO and Chairman of the Executive Board at Unibank between 2007-2015, respectively. Jalal Gasimov joined PASHA Holding as the Head of the Banking Group and Deputy CEO in 2015, and was named as the First Deputy CEO effective October 17, 2016. He also serves as a board member at JSC PASHA Bank Georgia and PASHA Life Insurance, and as the Chairman of the Supervisory Board of Kapital BANK OSJC.

Mr. Gasimov has served as the Chairman of the Board of Directors of PASHA Bank since March 31, 2016, where he joined as a board member effective August 17, 2015.

He also currently serves PASHA Bank as the Chairman of the Strategy and Budget Committee, HR & Remuneration Committee, and a member of the Corporate Governance Committee.

He has 19 years of experience in banking and business administration.



Farid Mammadov Deputy Chairman

Farid Mammadov earned his Bachelor's degree in Political Science at Baku Institute of Social Management and Political Sciences, and his Master's degree in Political Science at the Academy of Public Administration under the President of the Republic of Azerbaijan.

He began his banking career in 1999 as a loan officer at United Credit Bank CB. From 2001 to 2010, he worked at Bank of Baku OJSC as Director of Credit Department and subsequently as Deputy CEO. Mr. Mammadov joined PASHA Holding in 2012 as Director of Risk Management while also serving as a Board Member at PASHA Bank OJSC until June 2013. He was the First Deputy CEO at Kapital Bank OJSC between 2013 and February 2017. He currently serves as Deputy CEO and Director of the Business Group at PASHA Holding.

Mr. Mammadov has served as Deputy Chairman since March 31, 2017. He is also a member of the Strategy and Budget Committee, HR and Remuneration Committee, and Risk Management Committee.

Farid Mammadov has 19 years of experience in banking and business management.





Taleh Kazimov Board Member

Taleh Kazimov holds a bachelor's degree in Automation and Computer engineering from Azerbaijan Technical University. He also pursued an MBA from the Azerbaijan State Oil Academy and a Commerce degree with a major in Finance from Georgia State University in the USA. In addition, he successfully completed the executive educational programs of London Business School (UK) in 2010, and Harvard Business School (USA) in 2012.

Kazimov has extensive professional experience in commercial and investment banking, loans and risks management. Mr. Kazimov began his career in the financial sector in 2004 as a leading specialist in the Treasury Department at the Bank Standard and later as the Head of Accounting Management and Budget Planning. He was promoted to the Deputy Director of the Corporate Loans Department. In 2006, he joined Ernst and Young as an auditor and from 2007 worked as a General Director of "FinEko" Informational Analytical Agency.

Kazimov joined PASHA Bank in 2007 as a risk manager and was promoted to the position of the Bank's Treasury Director in 2009. He also served as the Chief Investment Officer of the Bank and as a member of the Executive Board responsible for business development, institutional, investment, corporate and SME banking and risk management. He has been serving as the CEO and Chairman of the PASHA Bank Executive Board since July 1, 2015.

Kazimov is also a Member of the Supervisory Board of PASHA Bank Georgia and a board member of American Chamber of Commerce in Azerbaijan.

He joined PASHA Bank Turkey as a board member effective March 31, 2015, and has been serving as a member of the Credit Committee.

He has 16 years of experience in banking and business administration.



Shahin Mammadov Board Member

Shahin Mammadov graduated with a Bachelors' degree in accounting from Azerbaijan State Economic University in 2002. He obtained his Master's degree and a Ph.D. in Economy from Azerbaijan Republic Science Academy, in 2004 and 2010 respectively.

He began his career as an accountant at Yapı Kredi Bank Azerbaijan (formerly, Koçbank JSB Azerbaijan), and later served as Deputy Chief Accountant at the same bank. He joined Deloitte & Touche in 2005 as an auditor and was subsequently promoted to Audit Manager.

In 2009, he became the Director of the Financial Management Department at the PASHA Bank head office, and in 2011 a member of the Executive Board. In 2013, he moved to PASHA Bank Georgia for business development function. Shahin Mammadov served as Chairman of the Executive Board and CEO at PASHA Bank Georgia from July 2014 to December 2017. Since January 2018, he has served as Deputy CEO and Business Support Director in charge of Audit, Finance and Information Technology, Human Resources and Administrative Affairs, Risk Management, and Strategy Management at PASHA Holding.

Mr. Mammadov successfully completed training courses delivered by top business schools under the High Potentials Leadership Program, organized by PASHA Holding in 2013. He also completed the Leadership Development Program, which he started in 2012, and graduated from Harvard Business School in 2017.

Shahin Mammadov has been a member of the Association of Chartered Certified Accountants (ACCA) since 2014.

Mammadov joined PASHA Bank Turkey as a board member on March 31, 2015.

He has 16 years of experience in banking and business administration.

Information on Top Management

Board of Directors



Kamala Nuriyeva Board Member

Kamala Nuriyeva obtained her Bachelor's degree in Banking Management from Western University in 1998 and her Master's degree in Finance from Azerbaijan State Economic University in 2002. In 1996, Nuriyeva started her professional career at Postbank OJSC as an IT specialist. She worked there for seven years, eventually becoming the Head of the Credit Department.

In 2003, she joined the Agricultural Rural Investment Fund, established under the TACIS program for agricultural industry development in Azerbaijan, serving as a loan officer. There, she was responsible for attracting customers, as well as loan origination and management. That same year, she was recruited by Unibank OJSC to work with Treasury control, where she was responsible for currency and market risk management. During 2004-2005, she served in McDermott Caspian Contractors Inc. as a cost controller for the fabrication and installation of Central Azeri Offshore Platforms. In 2005, she joined the Bank of Baku OJSC as a deputy chief accountant responsible for accounting activities and management reporting. She joined PASHA Bank in 2007 as an internal auditor, and was promoted to Head of the Risk Management Department in 2010. In 2011, she moved to PASHA Holding as Group internal auditor and was appointed as the Chairman of the Audit Committee at PASHA Bank, Azerbaijan. In 2013, she was appointed as the Head of Group Risk Management at PASHA Holding.

She joined PASHA Bank Turkey as a Board Member on November 25, 2016. Currently, she is serving as Chairwoman of the Risk Management Committee and Member of the Audit Committee.

Nuriyeva is also a member of the Supervisory Board and the Chairman of the Risk Management Committee at PASHA Bank Azerbaijan, and a member of the Risk Management Committees at both PASHA Bank Georgia and at Kapital Bank, Azerbaijan.

She has 21 years of experience in banking and business administration.



Meriç Uluşahin Independent Board Member

Meriç Uluşahin graduated from Boğaziçi University, Department of Economics. She began her professional career in 1987 as Assistant Manager at Akbank T.A.Ş. In 2002, she joined Şekerbank T.A.Ş., where she held various senior management positions before being appointed as General Manager in 2008; she also served as a Board Member at the same bank. Ms. Uluşahin served as General Manager and Board Member of Alternatifbank A.Ş. between April 2014 and March 2016. Since October 2016, she has served as Chairman of KentBank d.d. Croatia and as a Board Member at Türkiye Finans Katılım Bankası A.Ş. since March 2017.

Uluşahin joined PASHA Bank as an independent board member effective March 31, 2017, and serves as the Chairman of the Corporate Governance Committee and a member of the Strategy and Budget Committee.

He has 31 years of experience in banking and business administration.





Mesut Özdinç Independent Board Member

Mesut Özdinç earned his Bachelor and Master's degrees in economics from Istanbul University, and also holds a Master's degree in financial economy from Bilgi University. Ozdinç spent his career in various roles at brokerage houses from 1995 until 2004 and, from 2004 to 2009, he served in various management capacities at Şekerbank T.A.Ş., including as Chief Financial Officer and as Deputy General Manager since 2006.

Prior to joining to PASHA Bank, he was a board member at Şeker Factoring T.A.Ş.

Ozdinç joined PASHA Bank as an independent board member effective December 19, 2013, and serves as the Chairman of the Audit Committee and a member of the Risk Management Committee.

He has 22 years of experience in banking and business administration.



Adnan Aykol Independent Board Member

Adnan Aykol graduated from the Faculty of Political Science of Marmara University in 1980, and started his banking career at the Board of Auditors of T. Garanti Bankası A.Ş. He served as an auditor at Iktisat Bankası T.A.Ş. from 1985 until 1989. He served as a deputy general manager in charge of credits at Demirbank T.A.Ş. until 2002 and, following the acquisition of HSBC Bank A.Ş., he served as a group leader in the Risk Control Department until 2008. He served as BankPozitif's deputy general manager in charge of credits from 2008 until 2010 and from 2012 to 2013 served as a board member of Alternatif Bank A.Ş.

Aykol joined PASHA Bank as an independent board member effective August 20, 2013, and serves as a member of the Credit Committee.

He has 38 years of experience in banking.



Information on Top Management

Board of Directors



H. Cenk Eynehan General Manager and Board Member

Hikmet Cenk Eynehan earned a two-year degree in economics from Erasmus University in the Netherlands, and a Bachelor's degree in management from Monroe College in the USA; he completed an Executive MBA program at Koç University, Istanbul.

Eynehan started his banking career in 1994, serving in various management and business development capacities at DHB Bank (Nederland) N.V. until 2001. He continued his professional career as a managing partner in the non-financial sector during 2002-2004. In 2005, he joined Şekerbank T.A.Ş. and held executive positions in various departments until 2010. He was Deputy General Manager in charge of Corporate Marketing & Sales of Ekspo Factoring A.Ş. from 2011 until 2013.

Hikmet Cenk Eynehan began serving as General Manager and Board member at PASHA Yatırım Bankası A.Ş. effective August 2, 2013. He serves as board member of the Strategy and Budget Committee and he has been a member of the Board of PASHA Bank Georgia since October 26, 2015.

He has 24 years of experience in banking and business administration.

Top Management



Ali İhsan Tokkuzun Deputy General Manager

Ali Ihsan Tokkuzun earned a Bachelor's degree in management from Gazi University, and completed the Executive MBA program at Istanbul Technical University.

Tokkuzun started his professional career at the Board of Auditors of Esbank T.A.Ş., and until 2000 he served as deputy head of the Board of Auditors, and held various managerial positions at Esbank AG in Vienna. He served as a group manager of financial institutions and international marketing at Kentbank A.Ş. from 2000-2002, and from 2002 to 2010 continued his career as a deputy general manager of Denizbank AG, Vienna, and from 2010 to 2012 as General Manager at SK Danube AG, Vienna. He was a member of the Executive Committee and finance coordinator of Istanbul Gemi İnşa San. Tic. A.Ş. prior to joining PASHA Bank.

Ali Ihsan Tokkuzun has been named as Deputy General Manager effective June 2014.

Mr. Tokkuzun currently serves as Deputy General Manager in charge of Financial Planning, Strategy and Budget, Accounting and Statutory Reporting, Operations and Credit Monitoring.

He has 27 years of experience in banking and business administration.





Ayşe Hale Yıldırım Deputy General Manager

Ayşe Hale Yıldırım completed her undergraduate education in 1998 at the Department of Economics of Istanbul University.

Yıldırım started her banking career at Türk Ekonomi Bankası A.Ş. in 1998. She worked in various positions in corporate banking departments at Finansbank A.Ş. from 2004 until 2008, and she assumed the positions of Marketing Manager and Deputy General Manager at Ekspo Faktoring A.Ş. from 2008 to 2013.

She joined PASHA Yatırım Bankası A.Ş. as the Manager of Corporate Marketing Department in 2013. Ayşe Hale Yıldırım has been serving as the Deputy General Manager in charge of Marketing, Corporate Communications, Human Resources and Administrative Affairs since August 1, 2016.

She has 19 years of experience in banking and business administration.



Uğur Koç Deputy General Manager

Uğur Koç graduated from Middle East Technical University, Department of Political Science and Public Administration in 1993. He began his banking career in the same year at Ziraat Bank and, from 1996 to 2014; he worked at Çukurova Demir Çelik A.Ş, Kentbank, Anadolubank, and Finansbank in various positions. Between 2014 and 2016, Mr. Koç served as Corporate Loan Manager at Burgan Bank.

Since September 18, 2017, Mr. Koç has served as Deputy General Manager in charge of Credit Allocation and Intelligence, Change and Project Management, Information Technology and Security at PASHA Yatırım Bankası A.Ş..

Uğur Koç has 25 years of experience in banking and business management

Terms of Office and Professional Experience of the Independent Auditor

At the annual General Meeting of Shareholders of the Bank held on March 30, 2017, Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst &Young Global Limited) was appointed as per Banking Law No. 5411 and Turkish Commercial Code No. 6102, to serve as an Independent Audit Institution with respect to fiscal year 2017.

Board Committees, Information on Meeting Attendance by the Members of The Board of Directors and Committees

In principle, the Board of Directors meets at the Bank's headquarters every two months, with all members present, unless they have provided prior notice. The Board resolutions are taken in accordance with the meeting and resolution quorums specified in the Articles of Association. During the year, the Board of Directors convened a total of 12 times, six times with all members physically present, and six times via telecommunication. The Board passed 112 resolutions.

The Credit Committee, Audit Committee, Corporate Governance Committee, Human Resources and Remuneration Committee, Strategy and Budget Committee, and Risk Management Committee were established under the Board of Directors while fulfilling its duties and responsibilities, to take decisions in their own areas of responsibility in accordance with the powers granted by the Board of Directors, and to carry out the supervision and audit of the Bank's policies, processes, and practices on behalf of the Board of Directors.

The duties and members of the committees are determined by the Board and announced to the public on the PASHA Bank corporate website as well as in its Annual Report.

Information on the committees set up under the Board of Directors is provided below. The Board of Directors' Committees maintained their work during the period effectively and in full compliance with relevant legislation.

AUDIT COMMITTEE

The Audit Committee was established to supervise on behalf of the Board of Directors the effectiveness and adequacy of the internal systems of the Bank; the operation of these systems, and the accounting and reporting systems within the framework of the Law and related regulations, and the reliability and integrity of the information produced; to make the necessary preliminary evaluations in the selection by the Board of Directors of independent auditing firms and rating, valuation and support service organizations; to monitor regularly the activities of the institutions selected and contracted by the Board; to ensure the maintenance and coordination of the internal audit activities in a consolidated manner of the subsidiaries subject to consolidation pursuant to the regulations that come into force on the basis of law; and to fulfill the duties specified within the Banking and Capital Markets legislation.

Name – Surname	Committee Position
Mesut Özdinç	Chairman
Kamala Nuriyeva	Member

The Audit Committee convenes as required by business needs, and at least quarterly.



The structure, duties, powers and responsibilities of the Audit Committee have been determined in accordance with the provisions of the Regulation on Internal Systems and the Internal Capital Adequacy Assessment Process of Banks that were published in the Official Gazette No. 29057 dated July 11, 2014 and other relevant legislation, and laid out in writing by the Audit Committee Regulation. The working principles of the Audit Committee are posted on the corporate website. The Audit Committee submits to the Board of Directors the results of activities under its responsibility through Activity Reports issued every three months.

The Audit Committee held seventeen meetings during the period to evaluate reports, activity reports and risk assessment reports prepared by the Internal Control and Compliance, Internal Audit and Risk Management Units; to determine the selection of unit managers within the internal systems and any activity developments; to determine internal capital adequacy assessment and stress testing studies; to evaluate technical competence, risk analysis, and annual evaluation reports for support service organizations and annual evaluation reports on appraisal institutions; to evaluate the independent auditor's work and independence; and to evaluate financial statements that have been independently audited. The Audit Committee passed a total of 30 resolutions for the related accounting year during in a total of 17 meetings either at meetings or by examining the files.

CREDIT COMMITTEE

The Credit Committee was established to take credit allocation decisions, and to perform related tasks concerning credits within its own competence, within the limits set by the Board of Directors in the framework of legal and banking regulations.

Name – Surname	Committee Position
H. Cenk Eynehan	Chairman
Adnan Aykol	Member
Taleh Kazimov	Member
Farih Mammadov	Reserve Member
Shahin Mammadov	Reserve Member

Carrying out its activities under the provisions of the Credit Committee Regulation, the Committee evaluates, within the framework of authorizations by the Board of Directors, credit limits and conditions reviewed and proposed by the Credit Underwriting and Intelligence Unit compliant with banking legislation and our Bank's internal regulations.

The Credit Committee has discussed the credit proposals remaining in its authority within the limits determined by the Board of Directors and within the framework of the relevant legal and banking legislative regulations, and approved credits for firms with positive reviews.

The Committee convened 22 times, and passed 59 resolutions during the accounting period.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was established to ensure the management of the Bank in a responsible, fair, transparent, and accountable manner, so as to protect the rights and interests of all stakeholders and shareholders in line with identified objectives, the Banking Law, the Capital Markets Law, and relevant regulations, as well as other laws, the Articles of Incorporation, the Bank's internal regulations, and banking ethics; and of monitoring the Bank's compliance with corporate governance principles; and submitting proposals required to the Board of Directors. Below is the existing structure of the committee:

Name – Surname	Committee Position
Meriç Uluşahin	Chairman
Jalal Gasimov	Member

The Committee carries out its activities within the framework of the Corporate Governance Policy and convenes at the frequency required by business needs, and at least once a year.

The Committee convened three times during the accounting period.



Board Committees, Information on Meeting Attendance by the Members of the Board of Directors and Committees

HR AND REMUNERATION COMMITTEE

The HR and Remuneration Committee was established to monitor and supervise remuneration practices on behalf of the Board of Directors in line with the provisions of the Banking Law and the Bylaw on the Banks' Corporate Governance Principles. The present structure of the committee is given below.

Name – Surname	Committee Position
Jalal Gasimov	Chairman
Farid Mammadov	Member

The Committee conducts activities within the provisions of the Human Resources and Remuneration Committee Regulation, and meets at least once a year and as often as business needs require.

In 2017, the Human Resources and Remuneration Committee reviewed the Bank's remuneration policy and practices and, in February 2018, submitted its assessment report and recommendations on such matters to the Board of Directors.

The Committee convened four times during the accounting period.

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 this matter in meeting its duties and responsibilities.

Tasked with establishing an effective risk management system, the Risk Management Committee sets out the Bank's risk management policies and strategies in accordance with the Capital Markets Legislation and the principles contained in the BRSA regulations; reviews the types of credit, market, strategic, operational, and financial risks that it is exposed to; monitors implementations of the risk management strategy; and presents important risk issues to the Board of Directors. It also evaluates, and reports to the Board of Directors, the issues identified on the topics of managing such risks in accordance with the corporate risk-taking profile of the Bank, taking them into account in the decision-making mechanisms, and establishing and integrating effective internal control systems in this direction. The present structure of the committee is given below.

Name - Surname	Committee Position
Kamala Nuriyeva	Chairman
Farid Mammadov	Member
Mesut Özdinç	Member

The Committee maintains its activities under the Risk Management Committee Regulation that came into force on September 23, 2016, and convenes as often as business needs require and at least once every three months.

The Committee convened eight times during the accounting period.

STRATEGY AND BUDGET COMMITTEE

The Strategy and Budget Committee was established to provide assurance on the preparation of the Bank's business and strategy plans and annual budget in accordance with the strategy, operation and budget management processes approved by the controlling shareholder; to advise the Board of Directors, and to assist it in fulfilling its duties and responsibilities. The present structure of the committee is given below.



Name - Surname Committee Position

Jalal Gasimov	Chairman
Farid Mammadov	Member
Meriç Uluşahin	Member
H. Cenk Eynehan	Member

The Committee maintains its activities under the Strategy and Budget Committee Regulation that came into force on September 23, 2016, and convenes as often as business needs require and at least once every three months.

The Committee held nine meetings during the accounting period.

Internal Systems Department Heads: Names & Surnames, Terms of Office, Area of Responsibility, Academic Background, Professional Experience

NAME & SURNAME	POSITION	FIELD OF RESPONSIBILITY	TERMS OF OFFICE	ACADEMIC BACKGROUND	PROFESSIONAL EXPERIENCE (YEAR)
Meltem Kıyak	Manager	Compliance	05.05.2015-Ongoing	Undergraduate	16
Önder Devrim Erol	Manager	Internal Audit	23.05.2016-Ongoing	Undergraduate	17
Pınar Abanoz	Manager	Internal Control	18.12.2017-Ongoing	Undergraduate	7
lşıl Uyar	Manager	Risk Management	18.01.2018-Ongoing	Graduate	10



Summary of the Board of Directors' Annual Report Submitted to the General Assembly

Dear Shareholders,

We thank each and every one of the shareholders participating in the 2017 Annual General Meeting of Shareholders of our Bank.

Our bank completed its activities in 2017 with 76% growth, our total assets reached TL 897 million, according to the audited stand-alone financial statements for 2017, and the share of total cash loans and lease receivables constituted 80% of total assets.

PASHA Bank's total shareholders' equity as of December 31, 2017 was TL 260.6 million and the return on average equity realized at 6.3%.

The increase in loans reflected positively on the results of 2017. The total cash, non-cash loans and lease receivables of the Bank reached TL 1.079 million, rising by 79% compared to the previous year as a result of the prudent risk policies that were applied, and the net profit for the period was recorded at TL 16 million.

We have examined the Bank's financial statements for the period of January 1 to December 31, 2017, and they do not contain any misstatements materially affecting the presentation of the information, and they accurately reflect the Bank's financial position. PASHA Bank's financial statements containing the operating results for 2017 are presented for your examination and approval in the attachment.

We propose and submit to the General Assembly the approval of the audited, unconsolidated financial statements prepared as of December 31, 2017, and the release of our members of the Board of Directors individually.

Regards,

On Behalf of the Board of Directors

Jalal Gasimov Chairman of the Board of Directors

Human Resources Implementations

PASHA Bank believes that human capital is the most important factor in achieving competitive advantages and strategic goals.

PASHA Bank offers its employees a work environment that is conducive to open communication and places importance on employee motivation. The Bank consistently adopts a management style that supports innovation and development.

In 2017, PASHA Bank initiated Organizational Health Index assessments, a key component of sustainable performance management, together with other Group companies under the sponsorship of PASHA Holding's CEO. Similar efforts are carried out at PASHA Bank Turkey under the sponsorship of the General Manager. The Organizational Health Index measures and tracks organizational elements, including Direction, Accountability, Coordination and Control, External Orientation, Leadership, Innovation and Learning, Capabilities, Motivation, and Work Environment.

In the third quarter of 2017, the Bank conducted focus group studies, surveys, and one-on-one interviews with the employees to assess the current situation based on the aforementioned elements. Based on those survey findings, the Bank prioritized development areas and planned simultaneous workshops together with Group companies. According to its employees, PASHA Bank Turkey's strengths include operational agility and customer orientation, financial management, competitive and supportive leadership, a creative and entrepreneurial work environment, a safe and open work environment, accountability, processbased capabilities, operational discipline, and a high level of employee loyalty and engagement. In 2018, PASHA Bank Turkey will drive development and change by focusing on leadership, teamwork, communication and motivation, in order to manage change and raise performance across the organization. Organizational Health Index assessments will be conducted annually across the entire group.

The recruitment policy of PASHA Bank is based on the principle of bringing qualified human resources with high potential in line with the Bank's goals and strategies, corporate values and candidates' competencies. Our recruitment process begins with a clear determination of the duties and responsibilities, qualifications and competencies required for each position. The process is completed by evaluating the candidate's suitability regarding these criteria and the corporate culture, as well as the employee's enthusiasm for the job and the institution. During the recruitment process, job search websites or consulting firms are utilized, along with competency-based interviews conducted by human resources and unit managers, and event inventories are used to evaluate their competency objectively.

Our training activities are a process planned when the individual begins working, and with a perspective of ensuring continual development. Our new employees are presented with an orientation program to introduce banking culture, communicate common values, and ensure a seamless integration into PASHA Bank. Employees are offered training programs that support their professional and personal development in line with PASHA Bank's strategy and business objectives, and they are supported through tailor-made investments to realize their potential.

The number of employees increased by 15% in 2017. To contribute to their development, in-house and external training programs were organized within the framework of the Bank's strategies and targets to meet the professional knowledge and requirements of the employees, and to support their personal development. PASHA Bank provided its employees with an average of 3.4 days per employee. Coaching services have been provided to contribute to the personal and professional life of the Bank's managers, and to enhance their competence.

In the summer of 2017, university students were provided with the opportunity to perform their compulsory internship at PASHA Bank, in order to introduce them to the banking profession and to support their education and development alongside the Bank's experienced staff.

High performance and innovation are supported and encouraged within the scope of the Bank's human resources policy. A career management system based on enriching career opportunities



Human Resources Implementations

has been adopted by prioritizing staff with consideration for positions. In-house rotational and promotional practices are designed to benefit at the career developments of employees, and to meet the human resources need of the Bank in a fast and effective manner. In promotions to senior positions, the Evaluation Center Application service is obtained from a professional consulting firm in order to conduct a fair and objective evaluation.

In performance assessments, it was determined that better results are achieved for both employees and the Bank by managing individual performance in line with bank targets and strategies. Our Bank implements an "Open Performance Assessment System". In this process, our employees are evaluated according to their competencies and targets, and the evaluation results are shared with them.

Performance evaluations are conducted at certain periods, and based on the assessment of the performance of the relevant business line and employee along with the Bank's performance, in line with the following criteria:

- Financial and/or non-financial SMART targets predefined with the employee,
- Commitment to corporate values and compliance with Bank policies/procedures,
- Contribution with respect to compliance with risk management and legislation,
- Suitability to the Bank and the competencies of the task

The results of performance evaluations are used in career, training and compensation planning.

PASHA Bank's Remuneration Policy is supported by a fair, internal compensation strategy based on industry research. Practices in the industry related to remuneration and benefits have been monitored, and necessary arrangements have been made regarding annual wage increases and other rights under existing practices.

A gross wage policy is implemented at our Bank, and our employees are provided with benefits such as health and life insurance, meal cards, transportation, and mobile phones and vehicles in accordance with their position requirements. Employees and senior executives may receive fixed and performance-based compensation in accordance with the Bank's Remuneration Policy and Bonus Policy. Detailed information on this subject has been provided in the relevant sections of the Corporate Governance Principles Compliance Report.

The criteria for performance-based compensation are determined by the Remuneration Policy and the Bonus Policy.

PASHA Bank continues to develop activities related to the protection of its employees' health and safety within the Human Resources and Administrative Affairs Department.

As of December 31, 2017, a total of 45 employees work for PASHA Bank; 93% of these employees are university graduates, out of this 26% percent have graduate and doctorate degrees. The median age at the Bank is 38, and women hold 50% of middle and senior management positions.



Profit Distribution Policy

The Bank's general policy on profit distribution for payment of dividends to the extent allowed by the financial structure of the Bank, the pending investments, the situation of the sector, the economic conjuncture, and the legislation on banking.

The Bank's principles pertaining to profit distribution are included in the Articles of Association and the website of the Bank.

The General Assembly can – after setting aside the statutory reserves as required by Turkish Commercial Code and the provisions of the Articles of Association of the Bank, and upon obtaining the permission that needs to be taken according to the legislation on banking – at its sole discretion and in a way not to constitute a vested right, appropriate as much of the profit as it wishes to the members of the Board of Directors and/or top managers and the employees of the Bank.

The General Assembly is empowered to decide to distribute the remaining profit entirely or partly to the shareholders, or to set aside as excess reserve.

Transactions Made with the Bank's Risk Group

There are no derivative transactions made with the Bank's risk group. The total of borrower funds by the risk group amounted to TL 20 thousand, and the funds borrowed by the Bank from its risk group amounted to TL 185.735 thousand. Of international debt securities issued by the Bank, TL 90,447 thousand has been sold to the risk group.

The details of the transactions realized with the risk group are as follows.

Loans (TL thousands)

Risk Group Containing the Bank	Participations, Subsidiaries, and Jointly Controlled Entities (Joint Ventures)		Subsidiaries, and Jointly Controlled Direct and Indirect up Containing Entities (Joint Shareholders		Other Real and Legal Persons Included in the Risk Group		
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash	
Credits and Other Receivables							
Beginning of the Period	-	-	-	30,199	-	-	
End of the Period	-	-	555	31,699	-	-	
Interest and Commission Income Received	-	_	24	311	-	_	



Information on Support Service Providers

The following are the details of the support services procured within the scope of the "Bylaw Regarding the Procurement of Support Services by the Banks" put into effect on November 5, 2011 by the Banking Regulation and Supervision Agency.

Service Description	Operating Area
Maintenance and support service for the SWIFT Alliance system that provides the connection to the SWIFT network	Information Systems
Maintenance, support, and development service for the Inter-Vision platform, the core banking system	s Information Systems
Securities Module of the Core Banking System	Information Systems
Information Security and System Management	Information Systems
Private physical security service for the head office	Security Service
	Maintenance and support service for the SWIFT Alliance system that provides the connection to the SWIFT network Maintenance, support, and development service for the Inter-Vision platform, the core banking system Securities Module of the Core Banking System Information Security and System Management Private physical security service for the head



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.

PASHA Bank's determination to implement corporate governance principles, and its willingness to manage this process dynamically and continuously, were confirmed in 2017 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 2017 to 9.28 (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.

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 2017 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 were two female members on the Bank's Board of Directors in 2017.
- Regarding Principle 4.5.3.: The chairs of all the committees established pursuant to corporate governance principles, have not been elected from among the independent board members. However, the chairs of all the committees are composed of our nonexecutive board members. The reason for not electing chairs of the 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 during the year, under the Financial Institutions and Investor Relations Unit.

The duties and responsibilities of the Financial Institutions and Investor Relations Department, which maintains its activities under General Manager H. Cenk Eynehan, 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 Department;

7. Prepare the Annual Report of the Bank by coordinating the Financial Planning, Strategy and Budget, Corporate Secretary, Sustainability Management and other relevant departments, ensure in coordination with the Corporate Communication Department 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, Strategy and Budget, Corporate Secretary and Sustainability and the Legal and Regulation 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 & Investc Relations	r+90 212 705 8912	mustafa.duman@ pashabank.com.tr	Capital Market Activities Level 3 License
Yeşim Çağlar	Manager, Financial Planning, Strategy & Budget	+90 212 705 8908	yesim.caglar@ pashabank.com.tr	Capital Market Activities Level 3 License and Corporate Governance Rating Expertise License
M.Serkan Halay	Manager, Corporate Secretary and Sustainability Management	+90 212 705 8916	serkan.halay@ pashabank.com.tr	Capital Market Activities Level 3 License
Sinem Atahan Güven	Manager, Legal and Regulation	+90 212 705 8919	sinem.guven@ pashabank.com.tr	-

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

The Financial Institutions and Investor Relations Department manages the relationships with corporate investors for the debt securities 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 Department responded to requests and applications from qualified investors during the period of the bond issuance conducted in 2017.

The report on the activities carried out in 2017 within the scope of the Communiqué was presented to the Board of Directors in February 2018.

2.2. Exercise of Shareholders' Right to Obtain Information

Shareholders may transmit information requests to the Bank's staff, which 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 material event 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 fiscal year 2016 was held physically at the head office address on March 31, 2017.

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.

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 fiscal year 2016 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 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 14.235 have been made 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 2017 will be held on March 16, 2018 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 31, 2017 that the net profit for the year 2016 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 Disclosure 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, compensation 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 directors 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 material event 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 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,

I) 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 Department 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 resultsoriented; 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; 50% of our employees are female, and 93% have a University degree, while 27% hold graduate 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 careerrelated 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 2017, the Bank provided its employees with a total of 1,056 hours of training, representing an average of 25 hours of training per employee.

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 Human Resources and Remuneration Committee reviewed the remuneration system policies and practices of our Bank for the year 2017, 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 February 2018.

Labor Law 4857, dated May 22, 2003, was referenced in determining severance and termination pay. Yuksel Gunes, Manager of the Accounting and Financial Reporting 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 2017, a total of 56 hours of service was provided by the Occupational Safety Specialist, and 26 hours of service were provided by the workplace doctor at the Bank. Employees were provided with 4 hours of occupational health and safety training.



The Bank's management did not receive any discrimination-related complaints in 2017.

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. The Bank participated in various social responsibility projects in 2017.

In 2017, the Bank paid TL 61,204.50 adminastrative fine to the regulatory and supervisory authority 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.

At the Annual General Meeting of Shareholders held on March 31, 2017 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.

As a result of the election, the percentage of female members on the Board of Directors increased to 22%.

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.



Directors	Post On BoD	Type of Directorship	External Duties	Area of Responsibility	Date of Election	Academic Background E	Professional xperience (YR)
Jalal Gasimov	Chairman	Not Independent	PASHA Holding LLC, First Deputy CEO Kapital Bank OJSC, Azerbaijan, Chairman of the Supervisory Board JSC PASHA Bank, Georgia, Member of the Supervisory Board PASHA Life, Azerbaijan, Member of the Supervisory Board	Strategy and Budget Committee HR and Remuneration Committee Corporate Governance Committee	17.08.2015	Graduate	19
Farid Mammadov	Deputy Chairman	Not Independent	PASHA Holding LLC, Deputy CEO, Business Group Director JSC PASHA Bank, Georgia, Chairman of the Supervisory Board Kapital Bank OJSC, Azerbaijan, Member of the Supervisory Board PASHA Insurance, Azerbaijan, Member of the Supervisory Board PASHA Life, Azerbaijan, Member of the Supervisory Board	Strategy and Budget Committee, HR and Remuneration Committee, Risk Management Committee, Credit Committee	31.03.2017	Graduate	19
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	16
Shahin Mammadov	Board Member	Not Independent	PASHA Holding LLC, Deputy CEO, Business Support Director	Credit Committee	31.03.2015	Doctorate	15
Kamala Nuriyeva	Board Member	Not Independent	PASHA Holding LLC, Director of 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, Audit Committee	25.11.2016	Graduate	21
Meriç Uluşahin	Board Member	Independent	KentBank d.d., Croatia, Chairman of the Supervisory Board Türkiye Finans Katılım Bankası, Member of the Supervisory Board	Strategy and Budget Committee Corporate Governance Committee	31.03.2017 L	Indergraduate	31
Mesut Özdinc	Board Member	Independent	-	Audit Committee Risk Management Committee	19.12.2013	Graduate	
Adnan Aykol	Board Member	Independent	-	Credit Committee		Indergraduate	38
, 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	24

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.

Jalal Gasimov, Farid Mammadov, 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 Board of Directors Regulation, 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.

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. 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, Meriç Uluşahin, the Chairman of Corporate Governance Committee, and Adnan Aykol, member of Credit Committee, are independent board members.

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 Board of Directors Regulation.



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. Six of these meetings took place with the members physically present; six 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 Board of Directors Regulation 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 Board of Directors Regulation approved at the Board of Directors' meeting held on July 26, 2017. 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 attend meetings in person, or provide notification to the contrary.

Communication between Board members and the General Directorate is provided by the Corporate Secretary and Sustainability 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 Corporate Secretary and Sustainability Management Department.

The Board of Directors passed a total of 112 resolutions in 2017, 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 has been provided with coverage of up to USD 2 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.

Moreover, detailed information with regard to all committees are stated in "Board Committees, Information on Meeting Attendance by the Members of the Board of Directors and



Committees" section of the annual report. 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 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 Özdinç	Chairman
Kamala Nuriyeva	Member

Board of Directors' Evaluation of Committee Effectiveness

The Audit Committee presented the results of its activities in 2017 and its assessment of internal systems in quarterly activity reports.

In 2017, the Audit Committee convened 17 times on January 20, February 14, February 28, March 30, April 25, May 2, June 1, June 29, July 6, July 21, August 2, September 18, September 26, October 20, November 1, November 24, and December 15 to evaluate reports, activity reports and risk assessment reports prepared by the Internal Control and Compliance, Internal Audit and Risk Management Units; to determine the selection of unit managers within the internal systems and their reassignments; to determine internal capital adequacy assessment and stress testing studies; to evaluate technical competence, risk analysis, and annual evaluation reports related to support service organizations, and annual evaluation reports on valuation institutions; to evaluate the independent auditor's work and independence; and to evaluate financial statements that have been independently audited, the management's report, and the action plans based on the findings from the penetration test and information systems audit. The Audit Committee passed a total of 30 resolutions either at meetings or by examining the files.

The Chairman of the Audit Committee held regular meetings with unit managers within the internal systems to discuss matters related to internal systems. The Audit Committee informed Board Members on the results of its activities concerning internal systems and its decisions regarding the issues on the Board's agenda at the meetings held during the year. The Committee presented the reports and plans prepared by the Internal Systems Units to the Board of Directors for information and/or approval.

Credit Committee

The Credit Committee has been established to determine credit allocation decisions concerning the credits within its authority, 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
Farid Mammadov	Reserve Member
Shahin Mammadov	Reserve Member

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

Board of Directors' Evaluation of Committee Effectiveness

Carrying out its activities under the relevant regulation and the authority granted by the Board of Directors, the Credit Committee evaluates the credit limits and conditions proposed by the Credit Department after reviewing for compliance with related Banking legislation and our Bank's bylaws.

The Credit Committee discussed the credit proposals remaining in its authority within the limits determined by the Board of Directors and within the framework of applicable banking laws and regulations, and approved credits for firms with positive reviews.

The Credit Committee convened 22 times and passed 59 resolutions during the accounting period.



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
Meriç Uluşahin	Chairman
Jalal Gasimov	Member

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

Board of Directors' Evaluation of Committee Effectiveness

The independence declarations of Board Members who meet the independence criteria described in CMB's Corporate Governance Principle No: 4.3.6 have been presented to the Board of Directors.

The Corporate Governance Committee convenes as often as the Bank's operations and transactions require. During the accounting period, the Committee convened three times and passed resolutions on agenda items.

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
Jalal Gasimov	Chairman
Farid Mammadov	Member

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

Board of Directors' Evaluation of Committee Effectiveness

In 2017, the HR and Remuneration Committee reviewed the Bank's remuneration policy and practices, and submitted its assessment report and recommendations on such matters to the Board of Directors in February 2018.

The HR and Remuneration Committee convenes as often as the Bank's operations and transactions require. In 2017, the Committee convened four times, on February 27, March 2, March 31 and December 28, and passed resolutions on agenda items.



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
Kamala Nuriyeva	Chairman
Farid Mammadov	Member
Mesut Özdinç	Member

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

Board of Directors' Evaluation of Committee Effectiveness

The Risk Management Committee presented the results of its activities to the Board of Directors in quarterly activity reports.

In 2017, the Risk Management Committee convened eight times, on February 15, March 2, March 30, May 23, August 18, September 22, November 29, and December 22, to evaluate the following: risk management policies and procedures; ICAAP (Internal Capital Adequacy Assessment Process); monthly risk management reports; the Bank's risk and credit limits, and the risk appetite statement; stop-loss limits; and action plans and ongoing projects concerning processes that fall under its area of responsibility based on the findings of internal and external audits; and the Committee passed resolutions on such agenda items.

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:

Chairman
Member
Member
Member

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

Board of Directors' Evaluation of Committee Effectiveness

The Strategy and Budget Committee presented the results of its activities to the Board of Directors in quarterly activity reports.

In 2017, the Strategy and Budget Committee convened nine times, on January 19, March 2, May 23, July 26, September 7, September 22, October 27, November 23, and November 27 to evaluate the following: the Bank's strategic plan for the period 2018-2020; the 2018 budget and macroeconomic outlook, and market forecasts in relation to the budget; budget guidelines and policy; and the Committee's periodic activity reports and ongoing projects. The Committee passed resolutions on such agenda items.

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, conducting internal audit activities, the Internal Control Unit, conducting internal control activities and the Compliance Unit, conducting activities concerning the prevention of money laundering and terrorism financing, as well as compliance control activities 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 Departments 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. The new three-year strategic plan for the 2018-2020 period, prepared based on market analysis, competitive environment, strategic initiatives and the financial model, was approved by the Board of Directors' resolution dated July 26. 2017. During the next three-year strategy period, PASHA Bank aims to increase the number of its customers, further diversify its product range by managing its balance sheet in an effective and balanced manner, and continue its focused banking strategy.

The Strategy and Budget Committee reviews the Bank's strategy and the fundamental building pillars of the strategy on a regular basis. Strategic initiatives and the execution plan are evaluated within the Group at review meetings held every six months.

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 2018 budget was approved by the Board of Directors with resolution no. 103 passed at the meeting on December 15, 2017.

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 are 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 cannot 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.

In the operating year of 2017, the total amount of compensation provided to the Bank's top management as wages, honorarium and bonuses TL 3,388,161.31 as of December 31, 2017.

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.

Meriç ULUŞAHİN



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



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.

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Adnan AYKOL



Statement of Responsibility

PASHA YATIRIM BANKASI A.Ş STATEMENT RELATED TO THE 2017 ANNUAL REPORT

The 2017 Annual Report of PASHA Yatırım Bankası A.Ş. has been prepared in accordance with the provisions of the "Regulation on Principles and Standards for the Preparation and Publication of Annual Reports by the Banks" published in the Official Gazette numbered 26333, dated November 11, 2006 and presented hereafter.

Jalal GASIMOV Chairman of the Board of Directors

Mesut ÖZDİNÇ Chairman of the Audit Committee

Kamala NURIYEVA Member of the Audit Committee

Hikmet Cenk EYNEHAN General Manager and Board Member

Ali İhsan TOKKUZUN Deputy General Manager

Özgür İÇİN Financial Planning, Strategy & Budget Manager

Annual Report Compliance Opinion

(Convenience translation of a report originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Shareholders of Pasha Yatırım Bankası A.S.

1) Opinion

We have audited the annual report of Pasha Yatırım Bankası A.S. ("the Bank") for the period of 1 January 2017 – 31 December 2017

In our opinion, the financial information provided in the annual report of the Board of Directors and the discussions made by the Board of Directors on the situation of the Bank are presented fairly and consistent, in all material respects, with the audited full set financial statements and the information we obtained during the audit

2) Basis for Opinion

We conducted our audit in accordance with "Communiqué on Independent Audit of Banks" published in the Official Gazette no.29314 dated 2 April 2015 (BRSA Independent Audit Regulation") and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Report section of our report. We are independent of the Bank in accordance with the Code of Ethics for Independent Auditors (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

3) Our Auditor's Opinion on the Full Set Financial Statements We have expressed an unqualified opinion in our auditor's report dated 12 February 2018 on the full set financial statements of the Bank for the period of 1 January 2017 - 31 December 2017.

4) The Responsibility of the Board of Directors on the Annual Report In accordance with Articles 514 and 516 of the Turkish Commercial Code 6102 ("TCC") and the provisions of "Communiqué on Principles and Procedures set out by the Regulations on Preparation and Issuance of Annual Reports of Banks", the management of the Bank is responsible for the following items:

a) Preparation of the annual report within the first three months following the balance sheet date and submission of the annual report to the general assembly

b) Preparation and fair presentation of the annual report; reflecting the operations of the Bank for the year, along with its financial position in a correct, complete, straightforward, true and honest manner. In this report, the financial position is assessed according to the financial statements. The development of the Bank and the potential risks to be encountered are also noted in the report. The evaluation of the board of directors is also included in this report

c) The annual report also includes the matters below:

- Subsequent events occurred after the end of the fiscal year which have significance,
- The research and development activities of the Bank,

- Financial benefits such as salaries and bonuses paid to the board members and to those charged governance, allowances, travel, accommodation and representation expenses, financial aids and aids in kind, insurances and similar deposits

When preparing the annual report, the board of directors takes into account the secondary legislative arrangements published by the Ministry of Customs and Trade and related institutions.

5) Auditor's Responsibilities for the Audit of the Annual Report

Our aim is to express an opinion, based on the independent audit we have performed on the annual report in accordance with provisions of the Turkish Commercial Code and the "Communiqué on Principles and Procedures set out by the Regulations on Preparation and Issuance of Annual Reports of Banks" published in official gazette no.26333 dated November 1, 2006, the prevailing accounting principles and standards set out as in accordance with "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006 and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency (BRSA), circulars, interpretations published by BRSA and "BRSA Accounting and Financial Reporting Legislation" which includes the provisions of Turkish Accounting Standards for the matters which are not regulated by these regulations, on whether the financial information provided in this annual report and the discussions of the Board of Directors are presented fairly and consistent with the Bank's audited financial statements and to prepare a report including our opinion

The independent audit we have performed is conducted in accordance with BRSA Independent Audit Regulation and InAS. These standards require compliance with ethical provisions and the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report and the discussions of the Board of Directors are free from material misstatement and consistent with the financial statements.

The name of the engagement partner who supervised and concluded this audit is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi A member firm of Ernst & Young Global Limited



Yaşar Bivas, SMMN Partner

23 February 2018 İstanbul Türkiye



Assessments of the Audit Committee on the Activities of Internal Systems

PASHA Bank's risk management, internal audit, and internal control, risk management and compliance departments assume the responsibility to report to the Board of Directors in compliance with the "Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks" as well as the provisions of the "Regulation on Program of Compliance with Obligations Regarding Prevention of Laundering of Proceeds of Crime and Combating the Financing of Terrorism".

The internal systems organization of the Bank consisting of Internal Audit, Internal Control, Compliance, and Risk Management Departments that operate in line with the BRSA directives reports to the Board of Directors through the Audit Committee and the Risk Management Committee.

INTERNAL AUDIT DEPARTMENT

The annual internal audit plan that is prepared each year according to the Bank's developing and changing activities, legislative amendments, the results of the risk assessment report, and the risk matrix prepared as of the previous year-end, is submitted to the Board of Directors after approval by the Audit Committee.

During the year, the main activities of such internal systems departments are carried out in accordance with these plans and are reported accordingly. The findings and report requests made during the Audit Committee meetings are forwarded to the relevant departments of the Bank through the Bank's internal systems departments.

Risk analysis studies for support service institutions are created in line with the views of the internal systems departments, and the periodic evaluation reports and audit reports issued on the relevant organizations are submitted to the Board of Directors.

The Internal Audit Department has carried out during the year the audits underlying the Bank's "Management Statement" within the scope of the Circular No. BSD 2010/3 dated July 30, 2010 of the Banking Regulation and Supervision Agency, and submitted its report first to the Audit Committee and then to the Board of Directors. In addition to the banking processes and information systems controls, the audit of the support service institutions was also carried out by the Internal Audit within the scope of the Management Statement study. Test results were reviewed by the Audit Committee and the results were presented to the Board of Directors.

Internal systems are at the focal point of all operations in the Bank in terms of the risk, organization, quality management, efficiency, adequacy, and compliance function.

The internal audit carries out its activities in accordance with the annual audit plan prepared and approved by the Board of Directors at the beginning of each year based on the evolving, changing structure of the Bank, changing legislation, and the risk assessments resulting from internal audit and internal control activities carried out the year before.

The Internal Audit Department operates as a whole in the form of an inherent supervision and audit function with respect to the banking and information systems processes and risk management, internal control and compliance practices, and examines and audits all units periodically on the basis of risk. It also assumes an objective and independent consulting function in terms of the management of all applications and processes of the bank in parallel with best practices. It provides Senior Management with assurance that the Bank's operations are conducted in accordance with laws and other relevant legislation, as well as on such matters as the effectiveness and adequacy of the internal control and risk management systems. It provides opinions and proposals for effective and efficient use of bank resources.

The Internal Audit Department carried out all audits in line with the annual audit plan and submitted to the Board of Directors through the Audit Committee a total of 10 internal audit reports covering the audits of the banking processes, information systems, risk management and internal control activities.

In 2018, the Internal Audit Department will continue to oversee the effectiveness, adequacy and compliance of the Bank's internal control function with the Banking Law and the Regulation on Internal Systems of Banks and Internal Capital Adequacy Assessment Process.

INTERNAL CONTROL DEPARTMENT

Using a risk-focused approach and taking into consideration the Bank's constantly evolving and changing structure, PASHA Bank's Internal Control Department performs second level controls in an objective and independent manner to improve the effectiveness and efficiency of the Bank's internal control system.

The main goals of the Internal Control Department are to protect the Bank's assets, ensure that all operations are carried out in compliance with the banking laws and regulations and bylaws, and to ensure the accuracy and safety of all accounts and records. To achieve these goals, the Department closely follows all developments in the field of internal control around the world, and revises the Bank's internal control practices as necessary.

Previously, internal control activities were carried out under the "Internal Control and Compliance Department". However, in December 2017, the Bank restructured this department and separated internal control and compliance functions. The purpose of the new organizational structure is to improve the effectiveness and efficiency of the Bank's internal controls.

The Internal Control Department monitors the banking operations in accordance with the frequency specified in the internal control plan, performs the controls at the second level, and ensures correction of errors and nonconformities through determinative controls. During the 2017 operating year, all operational activities of the Bank were controlled within the framework of the control points that change at daily, weekly, biweekly, monthly, quarterly, annual frequencies, and are realized based on needs; and the control results are reported on a monthly basis.

In 2018, the Internal Control Department will continue its efforts to establish and operate an effective and adequate internal control system that complies with the Banking Law and the Regulation on Internal Systems of Banks and Internal Capital Adequacy Assessment Process.

COMPLIANCE DEPARTMENT

The Internal Control and Compliance Department develops and executes, within the scope of the compliance function, monitoring and control activities in accordance with the field of activity of our Bank and ensure compliance with ethical principles, the prevention of conflicts of interest, and the organization of compulsory training programs subject to the Law No. 5549 and Law No. 6415 and secondary legislation related to these laws. Within this framework, embargo checks and controls within the scope of the prevention of money laundering are carried out, legally mandated training programs are organized, and a culture of compliance is promoted for our Bank's staff. Compliance models are being developed within the scope of new products and services, opinions are being provided for our Bank's procedures and policies, and customer acceptance, correspondent banking, suppliers, all payments and foreign trade transactions mediated by our bank are being monitored and controlled. At the same time, the best practices in FATCA, CRS (Common Reporting Standards) and local legislation are followed, and necessary arrangements are made within the Bank. On the other hand, opinions are provided on the policies and procedures for the relevant processes, including the new products and services and the projects being implemented.

RISK MANAGEMENT DEPARTMENT

The Risk Management Department continued to monitor at regular intervals credit risk concentrations, quality of assets, the risk in the financial asset portfolio, and the operational risks that were exposed to in accordance with the internal policies and rules and risk limits approved by the Board of Directors. The Risk Management Department carried out the following activities in 2017:

- Updated the Risk Limits Document in line with the Bank's needs.
- The Operational Risk Procedure was introduced. Risk maps, key risk indicators, and risk mitigating actions for operational risks exposed to by the Bank were identified within this scope.
- The Operational Risk Procedure was updated to align the Operational Risk Inventory with the Bank's strategy for the 2018-2020 period; hence, a correlation was established between strategy and risks.
- Within the scope of weekly, monthly, quarterly, and annual regular reporting to the BRSA:
- Calculation on a monthly basis of credit risk and capital requirements for credit risk by using the standard method,
- Calculation on a monthly basis of the interest rate risk and exchange rate risk, and capital requirements for such risks by using the standard method,
- Measurement of operational risk by using the basic indicator approach and calculation of capital requirements for operational risk,
- Calculation of liquidity coverage ratio on a weekly and monthly basis were made. In addition to these, the necessary information that was requested was provided.
- Monthly provisions were calculated according to IAS 39.
- The Bank collaborated with the Group Risk to determine the provision calculation methodology under IFRS 9.
- Opinions and information sharing requested by the Banks Association of Turkey within the scope of risk management was made.

Assessments of the Audit Committee on the Activities of Internal Systems

- In addition to the monthly periodic reporting to the Board and weekly reporting to the ALCO, timely information was provided to Senior Management on the Bank's risk profile through the reporting made upon request.
- Policies and procedures were started to be updated within the scope of compliance with the common policies of the PASHA Group on Risk Governance, and monthly reports were provided at the Group level.
- A working group on the Internal Capital Adequacy Assessment Process (ICAAP) was established. Within this scope, scenario analyses and stress tests aiming at assessing and measuring as effectively as possible all risks to which the Bank may be exposed and allowing the determination of the capital it may need were prepared and shared with the Board of Directors.
- Continual review of rating systems and monitoring of their performance are carried out independently by the Risk Management Department under the supervision of the Risk Management Committee. In an effort both to comply with the Basel criteria and to conduct customer evaluations with more objective criteria, and to increase the risk measurement capability in this way, continual improvement studies on rating systems were used, and the studies for developing more successful statistical models for emerging new needs were maintained effectively.
- In collaboration with the consulting firm, the Bank developed new risk rating models aimed at quantifying risk based on financial and subjective data, behavioral data, group approach and warning signals, to replace the existing rating models.
- The Bank's Risk Appetite Statement was prepared for the 2018-2020 period, and was approved by the Board of Directors.
- Concentration limits were set for the individual company, Group companies and banks to keep credit concentration under control.
- The risk level of the portfolio, trends and changes in the portfolio, as well as various concentrations (country, borrower, group, industry, rating, collateral, etc.) were reviewed regularly within the scope of monitoring of the risk level of the credit portfolio.
- The liquidity status of the Bank was monitored both in terms of TL and FX and on the total liquidity basis, and the liquidity adequacy was tested under various stress assumptions, and the results were reported regularly to the relevant Committees and the Senior Management.
- Risk assessments conducted within the scope of the support services management process were realized.
- Risk assessments were conducted for new products and services to be offered to customers under the current New Product and Service management process in place at the Bank, risks that could arise from such products and services were assessed in detail, and the business lines were enabled to take measures to minimize the risk associated with the product and service.
- Studies were continued for creating the risk-control matrices, and scoring the risks for workflows and control points specified for all processes at the Bank.

Within the scope of the business continuity management process, critical processes and dependencies of the units were determined through business impact analysis studies that were repeated periodically, and tests for loss of office and primary systems and evacuation drills were executed.

The Audit Committee also continued to fulfill the tasks of conducting preliminary assessments that are necessary in the selection by the Board of Directors of independent audit, appraisal, and support service institutions, monitoring the activities of these organizations selected and contracted with by the Board of Directors, and evaluating the results of relevant independent and internal audits. In addition, the Unit came together with the managers of the independent audit institution on a quarterly basis and received detailed information about their work.

The Internal Control Department and the Internal Audit Department will continue their work in 2018 concerning the fulfillment of the obligation to establish and operate an effective, adequate, and compliant control system at the Bank within the scope of the Banking Law and the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks. At the same time, the effectiveness of the internal control system will be assessed and potential weaknesses identified by concluding the COSO adaptation project carried out by the Internal Control Department. Within the scope of the compliance function, studies to develop and implement monitoring and control activities will continue under the MASAK's legislation.

Assessments on the Financial Position, Profitability and Debt Payment Capability

PASHA Bank's total assets grew 76% year-over-year to reach TL 896.8 million, due to the growth in corporate loans. During the same period, the Bank's liabilities amounted to TL 636.2 million, while shareholders' equity reached TL 260.6 million to exceed the Bank's paid-in capital of TL 255 million. As of year-end 2017, non-consolidated profits totaled TL 16 million.

The total amount of cash loans and lease receivables, which constitute 80% of total assets, increased from TL 403.9 million at year-end 2016 to TL 713 million, representing an increase of 77% year-over-year. Meanwhile, Turkish lira-denominated loans make up 63% of cash loans. Financial leasing transactions, which began in 2017, constituted 5% of total cash loans as of the balance sheet date. Non-cash loans also grew by 85% year-over-year to reach TL 365.9 million. The Bank's total credit risk increased by 79% to TL 1,079 million. As in previous years, and as a result of its prudent credit and risk management policies, the Bank does not have any non-performing loans

Of PASHA Bank's total assets, 20% correspond to cash, banks, and liquid securities account. 19% of the Bank's securities portfolio comprises high-liquid government bonds and treasury bills.

As of December 31, 2017, PASHA Bank's fixed asset investments amounted to TL 626 thousand, and the Bank has not received any government incentives.

The borrowings represent the primary funding source of PASHA Bank with a share of 38% in the balance sheet. The funds borrowed had a share of 54% in third party liabilities by reaching TL 341.4 million at the end of the year. Other primary funding sources include shareholders' equity, with a share of 29% in the balance sheet, and debt securities issued, with a share of 20% in the balance sheet. As of the balance sheet date, the Eurobond issued in Azerbaijan, the first issuance realized by a foreign institution, constituted 52% of the total value of outstanding amounts of debt securities issued. As funding sources became more diversified, 2017, average maturities were extended to approximately 500 days, from 300 days in 2016.

In 2017, PASHA Bank's profit increased by 14% year-over-year to reach TL 16 million. Meanwhile, return on average equity (ROAE) rose to 6.3% from 5.9%; and interest income increased by 76% to TL 65.6 million, in line with asset and loan growth. Net interest income grew 30% to reach TL 39.9 million, as borrowing costs increased due to current monetary policies. Net commission income increased to TL 1.8 million from TL 1.1 million, due to an 85% growth in non-cash loans. Operating income grew 25% year-over-year to reach TL 4.6 million.

Total operating expenses rose 33% to TL 22 million, due to increased operations of the Bank. Despite this increase, efficiency ratio stood at 48%, remaining close to last year's level.

The Bank's unconsolidated capital adequacy ratio was realized at a high level of 31.36%. PASHA Bank is in a strong position in terms of capital, and its assets are able to meet its liabilities.

PASHA Bank has a solid financial structure with its strong capital structure and asset quality.



Risk Management Policies

The risk management process of PASHA Yatırım Bankası A.Ş. is laid out and implemented in accordance with the "Banking Law" and the "Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks" that was published by the Banking Regulation and Supervision Agency and other relevant regulations and the principles and application procedures contained in good practice guidelines. It is essential that the Risk Management Department work under the Risk Management Committee and independently of other business lines.

The Bank's risk management approach aims at establishing and operating all the infrastructures necessary for the establishment and operation of a sound risk management system, including human resources, information technology infrastructures, risk assessment models, policies, procedures, implementation instructions, and reports as well as an integrated risk management based on risks and returns.

Risk awareness and management is an important component of the bank culture and utmost attention is paid to compliance with domestic legislation and in the implementation of internationally accepted standards. The establishment and maintenance of an effective risk management system is among the priorities of the top management at PASHA Yatırım Bankası A.Ş.

The risk-taking strategy of the bank is determined in a way to include the risks that it may take in financial markets, position limits that restrict these risks, and also control points of the risks to be taken. The risk management function at our bank was created under the Risk Management Committee within an organizational structure independent of the business units.

The managers and the staff at all levels of the bank have been tasked with assessing the risks that are faced, knowing very well the techniques for managing possible risks that may be encountered in the areas within their job description, as well as providing the necessary support for the control and audit procedures implemented by other units within the internal systems.

The policies, procedures, and methods required for measuring, analyzing, monitoring, reporting, and controlling the risks that have been identified are determined by the Risk Management Department and come into force after they have been accepted by the Risk Management Committee and approved by the Board of Directors.

The risk management unit is responsible for monitoring the risk limits and submitting them to the Board of Directors after updating them when necessary, and the Board of Directors has the ultimate responsibility. Limits are set by using methods developed in accordance with the Bank's risk appetite in that field of activity and the volume and complexity of the products and services offered and with early warning limits, when appropriate.

Risk management activities carried out in accordance with the policies and are checked in periods determined by the Internal Audit Department. The findings are included in a report to inform the Audit Committee and the Board of Directors.



Information on Ratings Assigned by Rating Agencies

The international credit rating agency Fitch Ratings affirmed PASHA Bank's rating in its press release dated February 12, 2018 as follows.

National Long-Term Rating: BBB+ (tur) (Outlook: Stable)

Detailed information about the Bank's credit rating was posted on the Bank's corporate website www. pashabank.com.tr and Fitch Ratings' website www.fitchratings.com.

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. disclosed the Corporate Governance Rating score assigned to PASHA Bank as 92.85 by revising it upwards in its latest report dated June 30, 2017.

The increase in the 2017 score was due to improvement in the Public Disclosure and Transparency (from 96.27 to 96.37) and Board of Directors (from 91.07 to 91.60) sections.

The upgrade in the Public Disclosure and Transparency section was driven by the enhancements made to the corporate website and Annual Report of the Bank.

The corporate governance compliance rating score comprises four main sections with different weights as per the CMB's regulations relevant to this topic. These four sections and PASHA Bank's compliance levels are as follows:

Main Sections	Weight	Score Assigned
Shareholders	25%	91.97
Public Disclosure and Transparency	25%	96.37
Stakeholders	15%	91.34
Board of Directors	35%	91.60
Total	100%	92.85

The revised Corporate Governance Rating Score for the period was posted on the Bank's corporate website, www.pashabank.com.tr, and also announced to the public by material event disclosure made on the Public Disclosure Platform (PDP).



Five-Year Summary of Unconsolidated Financial Highlights

THOUSANDS TL	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Total Assets	896.845	510.357	322.405	61.071	50.058
Total Cash Loans	679.099	403.870	245.744	51.282	26.681
Securities	26.251	20.538	9.619	1.764	293
Total Shareholders' Equity	260.607	244.658	230.552	46.849	48.672
Net Profit/Loss	16.008	14.005	8.787	(1.817)	(9.082)

Important Developments Regarding the Bank's Activities

Information on Administrative or Judicial Sanctions Imposed on the Bank and Its Managing Members Due to Any Practice Which is Contrary to the Laws and Regulations

The TL 81,606 administrative fine imposed against the Bank in 2017 by the Banking Regulation and Supervision Authority ("BRSA") and the Bank has benefited from the advance payment discount as per Article 17/6 of the Law on Misdemeanors no. 5326 and paid the said amount as TL 61,204.50.

There was no administrative or judicial sanction for nonconformity with the provisions of the legislation, against the Bank and the members of its Board of Directors, during the reporting period.

Information on the Lawsuits Filed Against the Bank, Which May Affect the Financial Status and Operations of the Bank, and Their Possible Results

No lawsuit that may affect the financial status and operations of the Bank was filed against the Bank in 2017.

Information on Regulatory Changes That May Have a Material Effect on the Operations of the Bank

The regulatory changes entered into force within the year do not have a material effect on the operations of the Bank.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT, ORIGINALLY ISSUED IN TURKISH, SEE NOTE I OF SECTION THREE

PASHA YATIRIM BANKASI A.Ş.

PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH AUDIT REPORT AT 31 DECEMBER 2017



Güney Bağımsız Denetim ve SMMM AŞ Eski Büyükdere Cad. Orjin Maslak No:27 Maslak, Sarıyer 34398 İstanbul - Turkey Tel : +90 212 315 30 00 Fax: +90 212 230 82 91 ey.com Ticaret Sicil No: 479920-427502

Convenience Translation of the Independent Auditors' Report Originally Issued in Turkish (See Note I in Section Three)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pasha Yatırım Bankası A.Ş.:

Audit of Unconsolidated Financial Statements

Opinion

We have audited the accompanying unconsolidated financial statements of Pasha Yatırım Bankası A.Ş. (the Bank), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of Pasha Yatırım Bankası A.Ş. as at 31 December 2017 and unconsolidated financial performance and unconsolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Accounting Standards ("TAS") for those matters not regulated by the aforementioned regulations.

Basis for Opinion

Our audit was conducted in accordance with "Regulation on independent audit of the Banks" published in the Official Gazette no.29314 dated 2 April 2015 by BRSA (BRSA Independent Audit Regulation) and Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with of Code of Ethics for Independent Auditors (Code of Ethics) published by POA and have fulfilled our other responsibilities in accordance with the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the unconsolidated financial statements of the current period. Key audit matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter Impairment of Loans and Receivables

Impairment of loans and receivables to customer is a key area of judgement for the management. There is a potential risk of impairment losses/provisions provided/will be provided may not meet the requirements of BRSA Accounting and Financial Reporting Legislation. Failure in determining the loans and receivables which are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Therefore, impairment of the loans and receivables is considered as a key audit matter. Related explanations relating to the impairment of loans and receivables have been disclosed in Note 5.

How the Key Audit Matter is addressed in our audit

Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and receivables and the assessment of impairment losses of loans and receivables were reasonably determined in accordance with the requirements of BRSA Accounting and Financial Reporting Legislation. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them.



Responsibilities of Management and Directors for the Unconsolidated Financial Statements

Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the BRSA Accounting and Reporting Legislation and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

In an independent audit, the responsibilities of us as independent auditors are:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Independent Audit Regulation and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with BRSA Independent Audit Regulation and ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with government with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

- In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC") no 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities and financial statements for the period 1 January – 31 December 2017 are not in compliance with the TCC and provisions of the Bank's articles of association in relation to financial reporting.
- 2) In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The engagement partner who supervised and concluded this independent auditor's report is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi Armember firm a Sanst & Young Global Limited



12 February 2018 İstanbul, Türkiye

THE YEAR-END UNCONSOLIDATED FINANCIAL REPORT OF PASHA YATIRIM BANKASI A.Ş. AS OF 31 DECEMBER 2017

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The unconsolidated year-end financial report includes the following sections in accordance with the Communiqué on Financial Statements and Related Explanations and Notes that will be Publicly Announced as sanctioned by the Banking Regulation and Supervision Agency.

- SECTION ONE - GENERAL INFORMATION ABOUT THE BANK •
- SECTION TWO UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- SECTION THREE EXPLANATIONS ON ACCOUNTING POLICIES
- •

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- INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK SECTION FOUR MANAGEMENT
- EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS SECTION FIVE
- OTHER EXPLANATIONS AND NOTES SECTION SIX
- •
- SECTION SEVEN EXPLANATIONS ON INDEPENDENT AUDITOR'S REPORT

The accompanying unconsolidated financial statements and notes to these financial statements which are expressed, unless otherwise stated, in thousands of Turkish Lira ("TL"), have been prepared and presented based on the accounting books of the Bank in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, and related appendices and interpretations of these, and have been audited and presented hereafter.

Jalal GASIMOV Chairman of the Board of Directors

H.Cenk EYNEHAN General Manager



Mesut ÖZDİNÇ Chairman of the Audit Committee

Ali İhsan TOKKUZUN Deputy General Manager

Kamala NURIYEVA Member of the Audit Committee

Özgür İÇİN Financial Planning, Strategy and Budget Dept. Manager

Contact information of the personnel in charge of the addressing of questions about this financial report:

Name-Surname/Title : Özgür İÇİN / Manager Telephone Number : (0212) 705 89 40 Fax Number : (0212) 345 07 12

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SECTION SEVEN EXPLANATIONS ON INDEPENDENT AUDITOR'S REPORT

Explanations on independent auditor's report Explanations and notes prepared by independent auditor |. ||.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION ONE GENERAL INFORMATION

I.Bank's foundation date, start-up statute, history about the changes in this mentioned statute:

Bank's commercial title Pasha Yatırım Bankası A.Ş. Reporting Period 1 January - 31 December 2017

Address of the Bank's Headquarters	A.O.S. 55. Sokak No:2 42 Maslak Ofis 3 Kat:7 34398 Maslak İstanbul, Türkiye
Telephone	(0 212) 705 89 00
Fax	(0 212) 345 07 12
Website	www.pashabank.com.tr
E-mail	info@pashabank.com.tr

PASHA Yatırım Bankası A.Ş. ("Bank", "PASHA Bank") has been permitted by the decree no. 87/11898 dated 17.06.1987 by the Council of Ministers pursuant to the Banking Law No. 3182 (repealed) and the Bank has been established under the title of Yatırım Bank A.Ş. headquartered in Istanbul under the Foreign Investment Promotion Law. The establishment of the Bank was permitted by the Ministry of Industry and Trade on the date of 21.12.1987, the Articles of Association of the Bank was approved by the decision no. 1987/5087 dated 12.25.1987 of the 1st Commercial Court of Istanbul, and it was registered with the Istanbul Trade Registry Office under the no. 240320 on the date of 25.12.1987 and published in the Turkish Trade Registry Gazette no. 1924 and dated 30 December 1987. Commencing its investment banking activities on the date of 1 March 1988, the Bank has been operating as of 31 December 2017 through its head office in Istanbul only and has no branches.

II. Explanation about the Bank's capital structure, shareholders of the Bank who are in charge of the management and/or auditing of the Bank directly or indirectly, changes in these matters (if any) and the group the Bank belongs to:

With the decision taken by TAIB Bank B.S.C. (c) - previous parent of the Bank- regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank. With the decision taken in the extraordinary general assembly meeting of the Bank dated 31 July 2013 and numbered 32, share transfer transaction has been approved. The share transfer from previous parent of the Bank to Aksoy Holding A.Ş. has been completed as at 2 August 2013.

In the extraordinary general assembly meeting of the Bank dated 31 October 2013, it was decided to increase the paid-in capital of the Bank to from TL 37,000 to TL 39,000. The paid-in capital of the Bank was increased to 39,000 TL in accordance with the BRSA's approval as at 13 November 2013. In the extraordinary general assembly meeting of the Bank dated 21 November 2013, it was decided to increase the paid-in capital of the Bank to from TL 39,000 to TL 39,000 to TL 80,000. The paid-in capital of the Bank was increased to 80,000 TL in accordance with the BRSA's approval as at 29 November 2013.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank to PASHA Bank OJSC. Acquisition of TL 28,795,121 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition, resulting as 79.9196% of the shares to be owned by PASHA Bank OJSC, were approved by the BRSA's decision dated 26 December 2014 and numbered 6137.

Paid-in capital increase from TL 80,000 to TL 255,000 by TL 175,000 cash, approval of the share transfer and changing the Bank's title as "Pasha Yatırım Bankası A.Ş." have been approved in the Extraordinary General Assembly of the Bank dated 27 January 2015.

The change of Bank's title as "Pasha Yatırım Bankası A.Ş." and trade name as "PASHABank" has been registered on 2 March 2015 and announced on Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773.

Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC and increasing Pasha Bank OJSC shares from %79,9196 to %99,9196 has been approved by the BRSA's resolution dated 18 December 2015 and numbered 6583. The related BRSA resolution has been announced to the Bank by statement dated 23 December 2015 and numbered 18038.

The share transfer was accounted in the statutory accounting records with the Board of Directors decision dated 24 December 2015 and numbered 2015/110.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Partnership structure of the Bank as of 31 December 2017, is stated below:

Name Surname/Commercial Title

	Capital	Share Rate
PASHA Bank OJSC	254,795	%99.9196
Other	205	%0.0804
Total	255,000	%100

III.Explanation on the Board of Directors, members of the audit committee, president and executive vice presidents, changes in these matters (if any) and shares of the Bank they possess:

Title	Name	Education	Share Percentage
Chairman of the Board of Directors ⁽²⁾	Jalal Gasimov	Postgraduate	-
Vice President of the Board of Directors ⁽²⁾	Farid Mammadov	Postgraduate	-
Member of the Board of Directors	Taleh Kazimov	Postgraduate	-
Member of the Board of Directors	Shahin Mammadov	Postgraduate	-
Member of the Board of Directors/ Member of the Audit Committee ⁽²⁾	Kamala Nuriyeva	Postgraduate	-
Independent Member of the Board of Directors/			
Chairman of the Audit Committee	Mesut Özdinç	Postgraduate	-
Independent Member of the Board of Directors	Adnan Aykol	Graduate	-
Independent Member of the Board of Directors (1)	Meriç Uluşahin	Graduate	-
Member of Board of Directors/General Manager	Hikmet Cenk Eynehan	Postgraduate	-
Assistant General Manager	Ali İhsan Tokkuzun	Postgraduate	-
Assistant General Manager	Ayşe Hale Yıldırım	Graduate	-
Assistant General Manager ⁽³⁾	Uğur Koç	Graduate	-

⁽¹⁾ At Ordinary General Meeting regarding year 2016 held at 31 March 2017, Chairman of the Board of Directors Agha Ali Kamalov and Independent Member of Board of Directors N. Süreyya Serdengeçti are resigned from their duites, Farid Mammadov is assigned as Member of Board of Directors and Meriç Uluşahin is assigned as Independent Member of Board of Directors Directors

(a) Jalal Gasimov is assigned as Chairman of the Board of Directors, Farid Mammadov is assigned as Vice President of the Board of Directors with the Board decision dated 31 March 2017, numbered 2017/25. (a) Uğur Koc is assigned as Assistant General Manager in charge of Information Technologies and Security, Change and Project Management, Credit Underwriting and Intelligence at 18

(1) Uğur Koç is assigned as Assistant General Manager in charge of Information Technologies and Security, Change and Project Management, Credit Underwriting and Intelligence at 18 September 2017 in accordance with Board decision dated 15 September 2017, numbered 2017/72.

The shares of the above individuals in the Bank are insignificant.

IV. Explanation on shareholders having control shares:

Explanation on shareholders having control shares of the Bank as of 31 December 2017, is stated below;

	Share Amounts		Paid-in Capital	
Name/Commercial title	(nominal)	Share percentage	(nominal)	Unpaid portion
PASHA Holding Ltd.	152,877	%59.95	152,877	
Ador Ltd.	76,439	%29.98	76,439	-
Arif Pashayev	25,480	%9.99	25,480	-

V. Information on the Bank's service type and field of operations:

The Bank operates as an investment bank and as of 31 December 2017 the Bank has 45 employees (31 December 2016: 39).

VI. Existing or Potential, Actual or Legal obstacles on Immediate Equity Transfer Between the Bank and its subsidiaries or Repayment of the Debt:

None.

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION TWO UNCONSOLIDATED FINANCIAL STATEMENTS

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

21 The Security Control Security Se		ASSETS Note Current Period 31 December 2017				Prior Period 31 December 2016			
Image Apple <th< th=""><th></th><th></th><th></th><th></th><th></th><th></th><th></th><th></th><th></th></th<>									
IP (P) 4.943 - 4.943 - 8.90 9.90 </th <th>I. II</th> <th></th> <th>(1)</th> <th>9,787</th> <th>67,786</th> <th>77,573</th> <th>14,804</th> <th>19,632</th> <th>34,435</th>	I. II		(1)	9,787	67,786	77,573	14,804	19,632	34,435
10 Commerce Designed & Encloses .			(2)	4,943	-	4,943	-	281	281
110 Startige Charlogies Sample Charadow Sample Charlogies Sample Charadow Sample Charlogies Sample	2.1								281
11.1 Table Devices Products Advects Products Advects Products Advects Products Advects Products Received Products Pr	2.1.1								-
110 Other Markades Securities 4 kal - - 12 Order Markades Securities -				-		-	-		-
20 Indicataset Scientifics - <td></td> <td></td> <td></td> <td>4.042</td> <td></td> <td>4.042</td> <td></td> <td>281</td> <td>281</td>				4.042		4.042		281	281
221 Coverment Dest Southes - </td <td></td> <td></td> <td></td> <td>-</td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td></td>				-		-	-	-	
2.3.1 Lossis -	2.2.1			-	-	-	-	-	-
22.2 Other Mathematics -	2.2.2			-	-	-	-		-
III. MAKS (1) 39 73,67 70,66 19,088 100,16 28,044 10 MONEY MARCETS -	2.2.3					-			-
M. MORY MARKTS - 1 1 - - 1 1 - - 1 1 - 1 1 - 1 <th1< th=""> 1 1 <</th1<>	2.2.4								-
a) Intribuil Mony Masker Placements - - - - - - - 1533 - - 1533 - <td></td> <td></td> <td>(3)</td> <td></td> <td>73,587</td> <td>73,616</td> <td></td> <td>10,116</td> <td></td>			(3)		73,587	73,616		10,116	
22 Recivaling from Matanba Sock Exchange Monry Mariet -							15,133		15,133
43 Recenables form Revense Repurchase Agreements - - - - </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>15 133</td> <td></td> <td>15 133</td>							15 133		15 133
V. MAUABLE-FOR-SALE FINANCIAL ASSETS (Net (a) 4.00 7.2.08 7.0.0.0.0.08 <th7.0.08< th=""> 7.0.0.0</th7.0.08<>				-	-	-	-	-	
22 Operating the Securities 5,060 - 5,080 6,96 - 6,96 32 Other Microbial Securities 8,93 728 70.28 70.58 50,94 14,345 10 Loaris 6,91 455,77 193,926 679,099 311,320 92,826 403,875 10 Loaris 6,817 193,926 679,099 311,320 92,820 403,875 10 Loaris - 585 -	V.		(4)	14,019	7,289	21,308	13,864	6,674	20,538
3.1 Other Markealable Securities 8.399 7.2.80 7.5.80 7.566 6.567 4.52,77 193.926 67.50,939 31.320 9.5.80 4.92,870 6.1 Loans to Bank Sikk Sik Coup -	5.1	Share Certificates		-	-	-	-	-	-
VI. LOAMS (s) 45,73 99,396 679,099 311-300 99,360 40,367 6.1 Loars to Bank's Risk Group -	5.2				-			-	6,196
61 Lans 48,171 191,206 67,0793 191,200 92,820 40,875 51 Lons to Bark's Risk Group -	5.3								14,342
61.1 Last to Bank Silki Koup -			(5)						403,870
6.12 Covernment Dubt Securities - <t< td=""><td></td><td></td><td></td><td>485,173</td><td></td><td></td><td>311,290</td><td>92,580</td><td>403,870</td></t<>				485,173			311,290	92,580	403,870
6.1. Other 485.173 192.371 698.544 31.290 92.580 40.387 6.3. Specific Provisions (.) -				-	555	555	-	-	
6.2 Lans under Pollow-up - <td></td> <td></td> <td></td> <td>485 173</td> <td>103 371</td> <td>678 544</td> <td>311 290</td> <td>92.580</td> <td>403 870</td>				485 173	103 371	678 544	311 290	92.580	403 870
63 Specific Provisions (-) - </td <td>6.2</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td> (, - (</td> <td></td>	6.2							(, - (
VII. FACTORING RECENABLES - <td>6.3</td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td>	6.3			-	-	-	-	-	-
81 Covernment Debt Securities -<	VII.			-	-	-	-	-	-
3.2 Other Marketable Scurifies - <td< td=""><td>VIII.</td><td></td><td>(6)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></td<>	VIII.		(6)	-	-	-	-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net) (r) -	8.1								
1 Consolidated Based on Equity Method -			(-)						
2.1 Unconsolidated -			(7)						
211 Financial Investments in Associates -									
2.2.2 Non-financial investments in Associates -									
X. SUBSIDIANLES (Net) (8) - - - - 10 Unconsolidated financial subsidiaries -				-			-		-
10.2 Unconsolidated Non-Financial Subsidiaries -	Χ.	SUBSIDIARIES (Net)	(8)	-	-	-	-	-	-
XI. JOINT VENTURES (Net) (9) - </td <td>10.1</td> <td></td> <td></td> <td>-</td> <td></td> <td>-</td> <td>-</td> <td></td> <td>-</td>	10.1			-		-	-		-
111 Consolidated Based on Equity Method -	10.2								
12 Unconsolidated -			(9)						
12.1 Financial Joint Ventures -				-			-		
11.2.2 Non-financial joint Ventures -				-					
XII. LEASE RECEIVABLES (Net) (10) 16,931 17,018 33,949 - - 12.1 Financial Lease Receivables 22,076 17,472 39,548 - <td></td> <td></td> <td></td> <td>-</td> <td></td> <td></td> <td></td> <td></td> <td></td>				-					
12.1 Financial Lease Receivables 22,076 17,472 39,548 - - 12.2 Operational Lease Receivables - - - - - 12.3 Other - - - - - - - 12.4 Unearned Income (-) (5,145) (454) (5,599) - </td <td>XII.</td> <td></td> <td>(10)</td> <td>16.931</td> <td>17.018</td> <td>33,949</td> <td>-</td> <td>-</td> <td>-</td>	XII.		(10)	16.931	17.018	33,949	-	-	-
12.2 Operational Lease Receivables -	12.1						-	-	-
12.3 Undarmed Income (-) (5,145) (454) (5,599) - - - XIII. HEDCING DERIVATIVE FINANCIAL ASSETS (11) - <	12.2	Operational Lease Receivables		-	-	-			-
XIII. HEDCING DERIVATIVE FINANCIAL ASSETS (11) -<	12.3					-			-
13.1 Fair Value Hedge -	12.4								-
13.2 Cash Flow Hedge -			(11)						
13.3 Foreign Net Investment Hedge - 68: - 68: 7: 68: 7: 68: 7: 68: 7: 68: 7: 68: 7:									-
XIV. PROPERTY AND EQUIPMENT (Net) (12) 655 - 655 681 - 688 XV. INTAKCIBLE ASSETS (Net) (13) 869 - 869 981 - 981 15.1 Goodwill - - - - - - - - - - - 981 - 981 - 981 - 988 - 689 - - - - - - - 689 - 689 - 689 - 689 - 689 - 68						-			
XV. INTANGIBLE ASSETS (Net) (13) 869 - 869 981 - 981 15.1 Goodwill - - - - - - - 981 -	XIV.		(12)	655		655	681		681
15.1 Goodwill - - - - - - - - - - - - - 98 5.2 Other 869 - 869 981 - 98 XVI. INVESTMENT PROPERTY (Net) (14) - - - - - - - 98 XVI. TAX ASSET 902 - 902 689 - 100 -	XV.				-			-	981
XVI. INVESTMENT PROPERTY (Net) (14) - - - - - XVII. TAX ASSET 902 - 902 689 - 689 1/1 Current Tax Asset 2 - 2 - - 1/2 Deferred Tax Asset (15) 900 - 900 689 - 689 XVII. ASSETS HELD FOR RESALE AND DISCONTINUED OPERATIONS (Net) (16) - - - - - 18.1 Held for Resale - - - - - - - 18.2 Discontinued Operations - - - - - - - XIX. OTHER ASSETS (17) 3.883 48 3.931 4.559 4.564	15.1			-	-	-	-	-	-
XVII. TAX ASSET 902 - 902 689 - 689 17.1 Current Tax Asset 2 - 2 - - - - - - - 689 - 108 108 108 108 108 108 108 108 108 108 108 108 108 108 <	15.2			869		869			981
17.1 Current Tax Asset 2 - 2 - - - 17.2 Deferred Tax Asset (15) 900 - 900 689 - 689 XVIII. ASSETS HELD FOR RESALE AND DISCONTINUED OPERATIONS - - - - - 689 (Net) (16) - - - - - - - 18.1 Held for Resale - - - - - - 18.2 Discontinued Operations - - - - - 18.2 Discontinued Operations - - - - - 18.2 Discontinued Operations - - - - - 18.2 Discontinued Operations - - - - - 18.2 Discontinued Operations - - - - - XIX. OTHER ASSETS (17) 3,883 48 3,931 4,559 4,564	XVI.		(14)		-			-	
17.2 Deferred Tax Asset (15) 900 - 900 689 - 689 XVIII. ASSETS HELD FOR RESALE AND DISCONTINUED OPERATIONS (Net) (16) - - - - - - 18.1 Held for Resale - - - - - - - 18.2 Discontinued Operations - - - - - - XIX. OTHER ASSETS (17) 3.883 48 3.931 4.559 4.564					-		689		689
XVIII. ASSETS HELD FOR RESALE AND DISCONTINUED OPERATIONS (Net) (16) - </td <td></td> <td></td> <td>(20)</td> <td></td> <td>-</td> <td></td> <td>-</td> <td>-</td> <td>600</td>			(20)		-		-	-	600
(Net) (16) -<			(15)	900	-	900	089	-	080
18.1 Held for Resale - - - - - 18.2 Discontinued Operations - - - - - XIX. OTHER ASSETS (17) 3,883 48 3,931 4,559 45 4,664	Aviii.		(16)		-		-	-	
XIX. OTHER ASSETS (17) 3,883 48 3,931 4,559 45 4,604	18.1			-	-	-	-	-	-
	18.2			-	-	-	-	-	-
TOTAL ASSETS 537,191 359,654 896,845 381,029 129,328 510,357	XIX.	OTHER ASSETS	(17)	3,883	48	3,931	4,559	45	4,604
IUIALASSEIS 537,191 359,654 896,845 381,029 129,328 510,357						0.00	- 0-		
		IOTAL ASSETS		537,191	359,654	896,845	381,029	129,328	510,357

PASHA YATIRIM BANKASI A.Ş. UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

I.STATEMENT OF FINANCIAL POSITION

				Current Period		Prior Period			
	LIABILITIES	Note		31 December 20	1		31 December 20		
		(Section Five-II)	TL	FC	Total	TL	FC	Total	
I	DEPOSITS	(1)	-	-	-		-		
1.1	Deposits of Bank's Risk Group		-	-	-	-	-		
1.2	Other TRADING DERIVATIVE FINANCIAL LIABILITIES	(2)						1 6 0 0	
III.	FUNDS BORROWED	(2)	380	692	1,072	1,603		1,603	
IV.	INTERBANK MONEY MARKETS	(3)	39,590	301,797	341,387	46,374	145,523	191,897	
	Funds from Interbank Money Market		62,729		62,729	15,963		15,963	
4.1			-	-	-		-	-	
4.2	Funds from Istanbul Stock Exchange Money Market	(.)	54,672	-	54,672	11,306		11,306	
4.3 V.	Funds Provided Under Repurchase Agreements	(4)	8,057		8,057	4,657	-	4,657	
	MARKETABLE SECURITIES ISSUED (Net)	(5)	87,329	94,412	181,741	37,239	-	37,239	
5.1	Bills		87,329	-	87,329	37,239		37,239	
5.2	Asset Backed Securities		-	-	-	-	-		
5-3	Bonds			94,412	94,412	-	-		
VI.	FUNDS	(0)	6,106	13,881	19,987	3,901	16	3,917	
6.1	Borrower Funds	(6)	6,106	13,881	19,987	3,901	16	3,917	
6.2	Other			-	-	-	-		
VII.	MISCELLANEOUS PAYABLES		178	-	178	29	1,425	1,454	
VIII.	OTHER LIABILITIES	(7)	7,370	9,590	16,960	5,092	20	5,112	
IX.	FACTORING PAYABLES		-	-	-	-	-		
х.	LEASE PAYABLES (Net)	(8)	-	-	-	-	-		
10.1	Financial Lease Payables		-	-	-	-	-	-	
10.2	Operational Lease Payables		-	-	-	-	-		
10.3	Other		-	-	-	-	-		
10.4	Deferred Financial Lease Expenses (-)		-	-	-	-	-	-	
XI.	HEDGING DERIVATIVE FINANCIAL LIABILITIES	(9)	-	-	-	-	-		
11.1	Fair Value Hedge		-	-	-	-	-	-	
11.2	Cash Flow Hedge		-	-	-	-	-	-	
11.3	Foreign Net Investment Hedge		-	-	-	-	-	-	
XII.	PROVISIONS	(10)	9,660	-	9,660	6,435	-	6,435	
12.1	General Loan Loss Provision		7,393	-	7,393	4,471	-	4,471	
12.2	Restructuring Provisions		-	-	-	-	-	-	
12.3	Reserve for Employee Rights		475	-	475	352	-	352	
12.4	Insurance Technical Provisions (Net)		-	-	-	-	-	-	
12.5	Other Provisions		1,792	-	1,792	1,612	-	1,612	
XIII.	TAX LIABILITY	(11)	2,524	-	2,524	2,079	-	2,079	
13.1	Current Tax Liability		2,524	-	2,524	2,079	-	2,079	
13.2	Deferred Tax Liability		-	-	-	-	-	-	
XIV.	PAYABLES FOR ASSET HELD FOR RESALE AND DISCONTINUED OPERATIONS	(12)	-	-	-	-	-		
14.1	Held for Resale		-	-	-	-	-	-	
14.2	Discontinued Operations		-	-	-	-	-		
XV.	SUBORDINATED LOANS	(13)	-		-	-			
XVI.	SHAREHOLDERS' EQUITY	(14)	260,606	1	260,607	244,658		244,658	
16.1	Paid-in Capital		255,000	-	255,000	255,000	-	255,000	
16.2	Capital Reserves		(49)	1	(48)	11	-	11	
16.2.1			-	-	-	-	-		
16.2.2			-	-	-	-	-		
16.2.3			(49)	1	(48)	11	-	11	
16.2.4	Tangible Assets Revaluation Reserve		-	-	-	-	-	-	
16.2.5	-		-	-	-	-	-	-	
16.2.6			-	-	-	-	-	-	
16.2.7	,		-	-	-	-	-	-	
16.2.8			-	-	-	-	-	-	
16.2.9	Value Differences of Assets Held for Resale and Discontinued Operations		-	-	-	-	-	-	
	O Other Capital Reserves		-	-	-	-	-	-	
16.3	Profit Reserves		324	-	324	324	-	324	
	Legal Reserves		29	-	29	29	-	29	
_	Status Reserves		295	-	295	295	-	295	
16.3.3	Extraordinary Reserves		-	-	-	-	-	-	
16.3.4	Other Profit Reserves		-	-	-	-	-	-	
16.4	Income or (Loss)		5,331	-	5,331	(10,677)	-	(10,677)	
-	Prior Years' Income/ (Loss)		(10,677)	-	(10,677)	(24,682)	-	(24,682)	
16.4.1									
	Current Year Income/ (Loss)		16,008	-	16,008	14,005	-	14,005	

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED OFF-BALANCE SHEET COMMITTMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

II. OFF-BALANCE SHEET

A. OPE Address Suff ComMITMENTS (0-40) #6.579 PAGES #0.520 W1.420 95.56 10 Construct Suff ComMITMENTS (0) 95.40 10.00 95.40 10.00 95.40 10.00 95.40 10.00 95.40 10.00 95.40 10.00 95.40 10.00 10.	OFF-BALANCE SHEET COMMITMENTS	Note (Section Five-III)	Curi TL	rent Period 31 Dece		Prior Period 31 December 2016 TL FC Tot.		
Constraints (b) PS-47 PS-58 PS-59	A. OFF-BALANCE SHEET COMMITMENTS (I+II+III)	(Section Five-III)						Total 247,183
Instrume PS-07		(1)						197,910
13 Control (or not protect) protection (or not protect) 1.554.27 1.54.25 10.45.2								171,570
13Other letters of ColumniesPS-00			-	-	-	-	-	
1 Bark Arropsiere -			-		-			171 570
11 metal latter of Koopanne - <td></td> <td></td> <td>- 205,4/3</td> <td>-</td> <td>320,//0</td> <td>-</td> <td>41,119</td> <td>171,570</td>			- 205,4/3	-	320,//0	-	41,119	171,570
3. messa directi 1,00 1,00 0,00 <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td>			-	-	-	-	-	-
31 Documentary tetres of Const. - <t< td=""><td>2.2. Other Bank Acceptances</td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></t<>	2.2. Other Bank Acceptances		-	-	-	-	-	-
13 Other stretes of Greet - - - - 13 Definition of Landmark - - - - 13 Definition of Landmark - - - - 13 Definition of Landmark - - - - 14 Definition of Landmark - - - - 15 Definition of Landmark - - - - - 15 Definition of Landmark -								6,984
4. Inclusion Control Link of Regular & During Survey . <t< td=""><td></td><td></td><td>-</td><td>3,301</td><td>3,301</td><td></td><td>6,984</td><td>6,984</td></t<>			-	3,301	3,301		6,984	6,984
10. Displayments on the stand of the Republic of Turkey. - 10. - 10. - 10. -								
10. International bank of the Regular Of Linky - <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>								
10. Security Subarbatis Multise Quarties: -			-	-	-	-	-	-
31 Starting Guaraties	5.2. Other Endorsements		-	-	-	-	-	-
8. Other Guarantees - 9.800 - 9.900 9. Other Guarantees 2.468 2.402 4.800 n 10. Intercockie Comminents 2.468 2.402 4.800 n 11. Dependentings and Sele Comminents 2.468 2.402 4.800 n - 11.0 Dependentings and Sele Comminents - </td <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td>			-	-	-	-	-	-
9. Other Colliterais .			-	-	-	-	-	-
L. CAMPY ENT 2.458 2.458 4.456 n 11 Marce Private and Sector mathement 2.46 2.48 4.59 n n 12 Sector Private and Sector mathement 2.44 2.48 4.59 n n 13 Sector Private and Sector Private Associates and Subialises -			-	33,850	33,850			19,356
1. Processible Commitments 2.498 2.498 4.890 • 13. Masch Puritae and Seles Commitments •			2 / 58	2 /128	4 896			11
111 Abs 2.441 2.48 4.89 - 111 Besch Purchasen and Sale Commitments - - - 113 Commitments (or Continuents) - - - 114 Commitments (or Continuents) - - - 115 Securities issee Roles and Requirements - - - 116 Commitments (or Continuents) - - - 117 Transmitter (or Continuents) - - - 118 Continuents (or Continuents) - - - 119 Transmitter (or Continuents) - - - - 110 Rescurities instructure Roles Rescurities - - - - 111 Rescurities instructure Roles Rescurities - - - - 111 Rescurities Rescurities - - - - - 111 Rescurities Rescurities - - - - - 111 Rescurities R								11
12 Deck Parchase and Sales Commitments - - - 13 State Capital Commitments - - - 13. Sources issue Biokeage Commitments - - - 13. Sources issue Biokeage Commitments - - - 13. Commitments for Chapses - - - 13. Commitments for Chapses - - - 13. Commitments for Chapses - - - 13. Dematine Chapses - - - - 13. Dematine Chapses - - - - - 13. Reveable Commitments of Marchaelde Socialities - - - - - 13. Reveable Commitments of Marchaelde Socialities - <td< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td>-</td><td>-</td></td<>							-	-
1.1.1. Communents for Lan lumis - - - - 1.1.2. Securities use brokengy Committeests - - - - 1.1.3. To and Plucial Use State	1.2. Deposit Purchase and Sales Commitments		-	-	-			-
11.1 Securitie issue Brokesage Commitments - - - - 12.1 Commitments for Chaques - - - - 12.1 Commitments for Chaques - - - - 13.1 Commitments for Chaques - - - - 13.1 Commitments for Chaques and Banking Services - - - - 13.1 Receivables for short site Commitments of Marchagel Securities - - - - - 13.1 Receivables for short site Commitments of Marchagel Securities - <t< td=""><td></td><td></td><td>-</td><td></td><td></td><td>-</td><td>-</td><td></td></t<>			-			-	-	
1.1. Commitments for Reserve Deposit Requirements - - - - - 1.1. Commitments for Credits 7 7 7 7 1 1.1. Commitments for Credits 7 7 7 7 1 1.1. Rescalables from Short Sale Commitments of Marketable Securities - - - - 1.1. Deprosition Commitments of Marketable Securities - - - - - 1.1. Definition Commitments of Marketable Securities -			-		-	-	-	-
121 Commitments for Charge is a set of the set o			-		-	-	-	-
13.1 Transform Liabilities from Export Commitments - - - - 10 Promotion Commitments for Credit Carls and Bandring Services - - - - 110 Promotion Commitments of Marking Lies Services - - - - 121 Provide for State Commitments of Marking Lies Services - - - - 121 Provide for State Commitments of Marking Lies Services - - - - 121 Provide for State Commitments of Marking Lies Services - - - - 121 Provide for State Commitments of Lian Limits - - - - - 121 Provide for State Commitments -			-		-		-	
10 Commitments for Credit Cast all maining services - - - 110 Revealable from Stort Star Commitments of Mainteable Securities - - - 111 Revealable from Stort Star Commitments of Mainteable Securities - - - 112 Revealable Commitments for Land Limits - - - - 123 Revealable Commitments for Land Limits - - - - 123 Other Revealable Commitments for Cast Robust Revealable Securities - - - - 123 Other Revealable Commitments for Cast Robust Revealable Securities - - - - - 123 Other Revealable Commitments for Cast Robust Revealable Securities - <td< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>11</td></td<>								11
1100 Pronotion Commitments for Archite Securities - - - 1110 Predince Securities - - - 1110 Predince Securities - - - 1110 Predince Securities - - - 1111 Chel Introved Recommitments of Marketable Securities - - - 1111 Chel Introved Recommitments of Marketable Securities - - - 1111 Chel Introved Recommitments of Marketable Securities - - - 1111 Transactions for Fair Malket Hedge - - - - 1111 Transactions for Fair Malket Hedge - - - - - 1111 Transactions for Fair Malket Hedge - - - - - 1121 Forward Foreign Currency Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Market Marketable Face Marketable Face Market Marketable Face Market Market								-
1110. Personal Sector Short Sale Commitments of Marketable Securities - - - - 1211. Define Invocable Commitments - - - - 122. Other Invocable Commitments - - - - 123. Define Invocable Commitments - - - - 124. Other Revacable Commitments - - - - 125. Other Revacable Commitments - - - - 126. Other Revacable Commitments - - - - - 121. Transactions for Fair Hall Medge -	1.10 Promotion Commitments for Credit Cards and Banking Services		-			-	-	-
111. Other invescable Commitments -		S						-
2.2 Revoable Commitments (Clan Limits) -			-	-	-	-	-	-
21.1 Revarable Commitments for Lan Limits - <td></td> <td></td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td></td>					-	-	-	
2.2.2. Other Revocable Communitments				-		-	-	
III. DERVATVE FINANCIAL INSTRUMENTS (a) 52,745 51,703 104,491 23,865 25,397 13. Tranactions for Fair Value Hedge - <td< td=""><td></td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></td<>			-	-	-	-	-	-
11.1 Transactions for Fair Value Hedge - - - 12.1 Transactions for Cash Flow Hedge - - - 13.1 Transactions for Cash Flow Hedge - - - 13.1 Transactions for Cash Flow Hedge - - - 13.1 Transactions for Cash Flow Hedge - - - 13.1 Transactions For Foreign Currency Transactions Sell 19553 19542 32.05 192.445 13.2 Swap Transactions Sell - 19.642 19.642 19.642 19.642 13.2 Swap Transactions Sell - 19.275 19.206 64.856 10.49 - 13.2 Swap Transactions Sell - - 2.061 32.061 10.49 - 13.2 Swap Transactions Sell - - 2.061 32.061 10.49 - 13.2 Swap Transactions Sell - - - - - - - - - - - - - - - - - - - <td></td> <td>(2)</td> <td>52,748</td> <td>51,703</td> <td>104,451</td> <td>23,865</td> <td>25,397</td> <td>49,262</td>		(2)	52,748	51,703	104,451	23,865	25,397	49,262
1.12 Transactions for Cash How Hedge -			-	-	-	-	-	-
1.3. Transactions for Foreign Net Investment Hedge -			-	-	-	-	-	-
21 Tading Derivative Financial Instruments 52,387 21 Forward Foreign Currency WashSell Transactions-Buy 19,593 19,542 39,595 13,446 14,457 21.11 Forward Foreign Currency Transactions-Buy 19,593 19,542 39,595 10,448 14,457 21.21 Forward Foreign Currency Transactions-Buy 19,542 19,542 32,75 10,248 21.2 Foreign Currency Swap-Sell 22,051 64,856 10,419 - 21.2.1 Foreign Currency Swap-Sell 22,051 32,051 10,419 - 21.2.2 Foreign Currency Swap-Sell 22,051 32,051 10,419 - 21.2.3 Foreign Currency Swap-Sell - - - - - 21.2.4 Foreign Currency Swap-Sell -			-	-	-	-	-	
3.1 Forward Foreign Currency Buy/Sell Transactions-Sell 19.953 19.952 19.953 19.952 19.953 19.952 19.952 19.952 19.953 19.952 19.953 19.952 19.953 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.952 19.152 19.952 19.152 19.952 19.152 19.152 19.952 19.152			-	-	-	-	-	-
32.11 Forward Foreign Currency Transactions-Buy 19.953 - 19.953 10.700 3.59 32.12 Forward Foreign Currency Transactions-Sell - 19.642 12.76 10.724 32.12 Foreign Currency Swap-Sell 32.795 32.061 64.865 10.419 11.30 32.22 Foreign Currency Swap-Sell 32.795 - 32.795 - - - - 32.23 Foreign Currency Swap-Sell 32.795 - 32.795 - <td></td> <td>· · · · · · · · · · · · · · · · · · ·</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>49,262 27,713</td>		· · · · · · · · · · · · · · · · · · ·						49,262 27,713
31.12 forward foreign Currency Transactions-Sell - 19,642 19,642 32.76 10,748 32.20 foreign Currency Wap-Buy - 32.06 52,656 10.419 - 32.12 foreign Currency Wap-Buy - 32.06 52,056 10.419 - - 10.019 32.12 foreign Currency Wap-Buy -				-				13,689
3.2.8 wap Transactions Related to Foreign Currency and Interest Rates 32, 205 32, 205 42, 205 10, 43, 41, 44, 41, 44, 41, 41, 41, 41, 41, 41			-	19,642				14,024
3.2.2. J Interest Rate Swap-Sell 32.795 - 32.795 - 1030 3.2.2. Interest Rate Swap-Sell - - - - - 3.2.1 Interest Rate Swap-Sell - - - - - 3.2.1 Interest Rate Swap-Sell - - - - - - 3.2.1 Interest Rate Swap-Sell - <			32,795					21,549
2.2.2.1 Interest Rate Swap-Buy - <			-	32,061		10,419	-	10,419
3.2.4. Interest Rate Swap-Sell - <			32,795	-	32,795	-	11,130	11,130
3.3.1 Foreign Currency Options-Buy - - - - 3.2.3.1 Foreign Currency Options-Sull - - - - 3.2.3.1 foreign Currency Options-Sull - - - - 3.2.3.2 foreign Currency Options-Sull - - - - - 3.2.3.3 foreign Currency Options-Sull - <td></td> <td></td> <td>-</td> <td></td> <td>-</td> <td></td> <td>-</td> <td></td>			-		-		-	
2.3.1 Foreign Currency Options-Buy -								
2.3.2 Foreign Currency Options-Sell - - - - 2.3.3 Interest Rate Options-Sell - - - - 2.3.4 Interest Rate Options-Sell - - - - 2.3.4 Interest Rate Options-Sell - - - - 2.3.5 Securities Options-Sell - - - - 2.3.4 Foreign Currency Futures-Sell - - - - 2.3.5 Interest Rate Futures-Sell - - - - - 3.5.1 Interest Rate Futures-Sell - <t< td=""><td></td><td></td><td>-</td><td></td><td></td><td></td><td></td><td></td></t<>			-					
2.3.3. Interest Rate Options-Buy - - - - - 2.3.4. Interest Rate Options-Sell - - - - - 2.3.5. Securities Options-Sell - <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td>			-	-	-	-	-	-
2.3.3 Securities Options-Buy - <td< td=""><td>.2.3.3 Interest Rate Options-Buy</td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></td<>	.2.3.3 Interest Rate Options-Buy		-	-	-	-	-	-
2.3.6 Securities Options-Sell -			-	-		-	-	-
3.2.4 Foreign Currency Futures-Suy - - - - - 3.2.4.1 Foreign Currency Futures-Suy -								-
2.2.1 Foreign Currency Futures-Buy -								
3: 4.2 Foreign Currency Futures-Seli -			-			-		
3.2.5 Interest Rate Futures -<			-		-	-		-
3.2.5.1 Interest Rate Futures-Buly -			-	-	-	-	-	-
3.26 Other -<	.2.5.1 Interest Rate Futures-Buy		-	-	-	-	-	-
B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI) 497,259 366,446 863,705 200,145 105,818 IV. ITEMS HELD IN CUSTODY 12,408 - 12,408 2,357 - 4.1 Customer Fund and Port[olio Balances -			-	-	-	-	-	-
IV. ITEMS HELD IN CUSTODY 12,408 - 12,408 2,357 - 4.1. Customer Fund and Portfolio Balances -			-	-	-		-	
4.1 Customer Fund and Portfolio Balances -				366,446			105,818	305,963
4.2. Investment Securities Helin Custody 8.852 - 8.852 - - 4.3. Cheques Received for Collection 3.556 - 3.556 2.357 - 4.4. Commercial Notes Received for Collection - - - - - 4.5. Other Assets Received for Collection - - - - - 4.6. Asset Received for Collection - - - - - - 4.6. Asset Received for Collection - <td></td> <td></td> <td>12,400</td> <td>-</td> <td>12,400</td> <td>4,35/</td> <td>-</td> <td>2,357</td>			12,400	-	12,400	4,35/	-	2,357
4.3. Cheques Received for Collection 3,556 - 3,556 2,357 - 4.4. Commercial Notes Received for Collection - <td></td> <td></td> <td>8,852</td> <td></td> <td>8,852</td> <td>-</td> <td>-</td> <td>-</td>			8,852		8,852	-	-	-
1.4. Commercial Notes Received for Collection - - - - - 1.5. Other Assets Received for Collection - - - - - 1.6. Assets Received for Collection - - - - - - 1.6. Assets Received for Cublic Offering - - - - - - - 1.6. Assets Received for Cublic Offering -<				-		2,357	-	2,357
4.6. Assets Received for Public Offering -	4. Commercial Notes Received for Collection		-	-	-	-	-	-
47. Other Items Under Custody -								-
4.8. Custodians - <			-	-	-	-	-	
V. PLEDGES RECEIVED 484,816 320,971 805,787 197,758 60,300 1.1 Marketable Securities 63,936 55,579 120,515 - 52,788 2.0 Guarantee Notes 290,581 67,737 338,812 167,311 6,413 3.3 Commodity 27,515 15,747 43,262 5,497 1,099 5.4 Warranty - - - - - - 5.5 Immovable 102,764 - 102,784 24,950 - <td< td=""><td></td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></td<>			-	-	-	-	-	-
S.1. Marketable Securities 51,936 55,579 120,515 - 52,788 Guarantee Notes 290,581 67,731 358,312 167,311 6,413 5.3. Commodity 27,515 15,747 43,262 5,497 1,099 5.4. Warranty -			484 816	320 071	805 787	197 758	60 200	258,058
5.2. Guarantee Notes 290,581 67,731 358,312 167,311 6,413 5.3. Commodity 27515 15,747 43,262 5,497 1,099 5.4. Warranty - - - - - - 5.5. Immovable 102,784 - 102,784 24,950 - 5.6. Other Pledged Items - 180,914 - - - 5.7. Pledged Items-Depository - - - - - VI. ACCEPTED INDEPENDENT GUARANTEES 35 45,475 45,510 30 45,518								52,788
5.3. Commodity 27,515 15,747 43,262 5,497 1,099 4.4. Warranty - </td <td></td> <td></td> <td></td> <td></td> <td></td> <td>167,311</td> <td></td> <td>173,724</td>						167,311		173,724
5.4. Warranty - <th< td=""><td>.3. Commodity</td><td></td><td></td><td></td><td></td><td></td><td></td><td>6,596</td></th<>	.3. Commodity							6,596
5.6. Other Pledged Items - 180,914 -	.4. Warranty		-	-	-	-	-	-
5,7. Pledged Items-Depository -<			102,784			24,950		24,950
VI. ACCEPTED INDEPENDENT GUARANTEES AD WARRANTIES 35 45,475 45,510 30 45,518			-	180,914	180,914	-	-	-
			-	- AF 475	45 510	-	45 539	45 549
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B) 757,938 581,041 1,338,979 354,472 198,674			35					<u>45,548</u> 553,146

PASHA YATIRIM BANKASI A.Ş. UNCONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

III. STATEMENT OF INCOME (PROFIT AND LOSS)

		Current P		Prior Period
	INCOME AND EXPENSE ITEMS	Note (Section Five-IV) 1 January - 31 Decembe		-
l	INTEREST INCOME		5,633	37,226
1.1	Interest on Loans		59,594	33,683
1.2	Interest Received from Reserve Requirements		720	148
1.3	Interest Received from Banks		925	1,579
1.4	Interest Received from Money Market Transactions		297	186
1.5	Interest Received from Marketable Securities Portfolio		1,909	1,630
1.5.1	Trading Financial Assets		-	
1.5.2	Financial Assets at Fair Value through Profit or Loss		-	
1.5.3	Available-for-sale Financial Assets		1,909	1,630
1.5.4	Held-to-maturity Investments		-	
1.6	Financial Lease Income		2,188	
1.7	Other Interest Income	(-) (-	-	
П.	INTEREST EXPENSE (-)	(2) (2	5,777)	(6,714)
2.1	Interest on Deposits (-)		-	
2.2	Interest on Funds Borrowed (-)		1,469)	(5,000)
2.3	Interest Expense on Money Market Transactions (-)		3,978)	(678)
2.4	Interest on Securities Issued (-)		9.994)	(751)
2.5	Other Interest Expenses (-)	(12)	(336)	(285)
<u>III.</u>	NET INTEREST INCOME (I + II)	3	9,856	30,512
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSE		1,801	1,130
4.1	Fees and Commissions Received		2,463	1,317
4.1.1	Non-cash Loans		2,254	1,171
4.1.2	Other	(12)	209	146
4.2	Fees and Commissions Paid (-)		(662)	(187)
4.2.1	Non-cash Loans (-)		(230)	(27)
4.2.2	Other (-)	(12)	(432)	(160)
V.	DIVIDEND INCOME	(3)	-	
VI.	TRADING INCOME/(LOSS) (Net)	(4)	3,891	4,784
6.1	Trading Gains/(Losses) on Securities		453	(23)
6.2	Trading Gains/(Losses) on Derivative Financial Instruments		(3,552)	(779)
6.3	Foreign Exchange Gains/(Losses)		6,990	5,586
VII.	OTHER OPERATING INCOME	(5)	102	99
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		5,650	36,525
IX.	PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)		2,922)	(1,801)
х.	OTHER OPERATING EXPENSES (-)		2,022)	(16,612)
XI.	NET OPERATING INCOME/(LOSS) (VIII+IX+X)	2	0,706	18,112
XII.	EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-	-
XIII.	INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD)	_	
XIV.	INCOME/(LOSS) ON NET MONETARY POSITION		-	-
XV.	INCOME/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS (XI++XIV)	(8) 2	0,706	18,112
XVI.	TAX PROVISION FOR CONTINUING OPERATIONS (-)		,698)	(4,107)
16.1	Current Tax Provision		(4,911)	(4,191)
16.2	Deferred Tax Provision		213	84
XVII.	NET INCOME/(LOSS) FROM CONTINUING OPERATIONS (XV-XVI)	(10) 10	5,008	14,005
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-	
18.1	Income from Non-Current Assets Held for Resale		-	
18.2	Sale Income from Associates, Subsidiaries and Joint Ventures		-	-
18.3	Other Income from Discontinued Operations		_	
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	
19.1	Expense from Non-Current Assets Held for Resale		-	
19.2	Sale Losses from Associates, Subsidiaries and Joint Ventures		_	
19.3	Other Expenses from Discontinued Operations		-	
XX.	INCOME/(LOSS) BEFORE TAX FROM DISCONTINUED OPERATIONS (XVIII-XIX)	(8)	-	
XXI.	TAX PROVISION FOR DISCONTINUED OPERATIONS (************************************	(9)	-	
21.1	Current tax provision	\3/		
21.1	Deferred tax provision			
XXII.	NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS (XX-XXI)	(10)	-	
XXIII.	NET INCOME/(LOSS) (XVII+XXII)		5,008	14,005
AAIII.	Earnings/(Loss) per share		0.0628	
	Lammys/(Loss) per silare	Ŭ	.0020	0.0549

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY

		Current Period	Prior Period
		1 January –	1 January –
		31 December 2017	31 December 2016
	INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY		
Ι.	ADDITIONS TO THE MARKETABLE SECURITIES VALUATION RESERVE FROM		
	THE AVAILABLE FOR SALE FINANCIAL ASSETS	(74)	126
н.	REVALUATION DIFFERENCES OF TANGIBLE ASSETS	-	-
III.	REVALUATION DIFFERENCES OF INTANGIBLE ASSETS	-	-
IV.	FOREIGN EXCHANGE TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY		
	TRANSACTIONS	-	-
V.	INCOME/LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	_
VI.	PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL		
	ASSETS (Effective Part of Fair Value Changes)	-	-
VII.	EFFECTS OF CHANGES IN ACCOUNTING POLICY AND ERRORS	-	-
VIII.	OTHER INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY ACCORDING		
	TO TAS	-	-
IX.	DEFERRED AND CURRENT TAX ON VALUATION DIFFERENCES	15	(25)
Х.	NET INCOME/LOSS ACCOUNTED DIRECTLY IN EQUITY (I+II++IX)	(59)	101
XI.	CURRENT PERIOD INCOME/LOSS	16,008	14,005
11.1	Net Change in Fair Value of Marketable Securities (Transfer to Income Statement)	-	-
11.2	Portion of Cash Flow Hedge Derivative Financial Assets Reclassified and Presented		
	on the Income Statement	-	-
11.3	Portion of Foreign Investment Hedge Derivative Financial Assets Reclassified and		
	Presented on the Income Statement	-	-
11.4	Other	16,008	14,005
XII.	TOTAL INCOME/LOSS RELATED TO THE CURRENT PERIOD (X+XI)	15,949	14,106

SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 **PASHA YATIRIM BANKASI A.Ş.** NOTES TO UNCONSOLIDATED STATEMENT OF CHANGES IN

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Valuation Difference of AHS and Hedging Discontinued SF

Tangible and Marketable Intangible Bonus Shares Securities Assets Obtained Valuation Revaluation from

Current Period Net Prior Period Income/Net Income/

	Note (Section Five-V)	Ad Paid-in Capital	Adjustment to Share Capital	Share ShareCancellation Premium Profits		Legal Reserves	Status Reserves	Status Extraordinary Other Reserves Reserves	Other Reserves	Period Net Prior Period Income/ Net Income/ (Loss) (Loss)	rior Period et Income/ (Loss)	Valuation F Reserve	an rectance interregional procession and estimation Securities Assets Obtained Valuation Revaluation Reserve Investments Reserve Reserve Investments		Hedging Di Reserves	of AHS and Total of AHS and Total Hedging Discontinued Shareholders' Reserves Operations Equity	Total nareholders' Equity
Prior Period 31 December 2016																	
l. Balance at the beginning of the period		255,000	•	•	•	29	295	•	•	8,787	(33,469)	(06)	•	•	•	•	230,552
Changes in the Period																	
II. Increase/Decrease due to the Merger		•	•	•	•	•	•	1	1	•	•	•	•	•	•	•	•
III. Marketable Securities Valuation Differences	Ξ	•	•	•	•	•	•		•	•	•	ē	•	•	•	•	ē
IV. Hedging Reserves (Effective Portion)		•	•	•	•	•	•		•	•	•	•	•	•	•	•	
4.1 Cash Flow Hedge			1					1	1					1	1		'
4.2 Foreign Investment Hedge		1	I	I				1	1			1	ı	1	I	1	'
V. Revaluation Differences of Tangible Assets		•	•	•	•	•	•		1	•	•	•	•	•	•	•	
VI. Revaluation Differences of Intangible Assets		•	•	•	•	•	•		•	•	•	•	•	•	•	•	•
VII. Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures			•		•	•	•				•			•		•	
VIII. Foreign Exchange Difference		•	•	•	•	•	•		1	•	•	•	•	•	•	•	•
IX. Changes due to the Disposal of Assets		•	•	•	•	•	•		•	•	•	•	•	•	•	•	
X. Changes due to the Reclassification of the Assets		•	•	•	•	•	•	1	•	•	•	•	•	•	•	•	•
XI. Effects of Changes in Equity of Investments in Associates		1															
XII. Capital Increase		•	•	•	•	•	•	1	1	1	•		•	•	•	•	
12.1 Cash								1	1			1			1		
12.2 Internal Resources									1								
XIII. Share Premium		1	•	•	1	•	•	1	1	1	1	1	•	•	•	•	
XIV. Share Cancellation Profits		1	1	•	ł	•	•		1		1		•	1	1	•	
XV. Adjustment to Share Capital			•	•	1	•	•		1		•			•	•	•	
XVI. Other		1	•	•	1	1	1		1	1	1	1	•	•	1	•	
XVII. Current Year Income or Loss		•	•		•	•	•		•	14,005	•	•	1	•	•	•	14,005
XVIII. Profit Distribution	(3)	1	1	•	ł	1	1		1	(8,787)	8,787	1		1	1	•	
18.1 Dividend Paid				T	1			1	-		-	-					
18.2 Transfers to Reserves	(2)							1	1		'	'			•		
18.3 Other										(8,787)	8,787						
Period End Balance (I++ XVIII)		255,000	•	•	1	29	295		1	14,005	(24,682)	F	•	•	•	•	244,658



SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 **PASHA YATIRIM BANKASI A.Ş.** NOTES TO UNCONSOLIDATED STATEMENT OF CHANGES IN

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Perform 355000 : <t< th=""><th></th><th>Note (Section Five-V)</th><th>Ad Paid-in Capital</th><th>Adjustment to Share Capital</th><th>Share Ca Premium</th><th>Share Share Share Cancellation Legal emium Profits Reserves</th><th></th><th>Status Ext Reserves</th><th>Status Extraordinary eserves Reserves</th><th>Other Reserves</th><th>Period Net Prior Period Income/ Net Income/ (Loss) (Loss)</th><th>rior Period et Income/ (Loss)</th><th>Valuation Revaluation Reserve Reserve</th><th>Assets Obtained Assets Obtained Revaluation from Reserve Investments</th><th>Obtained from vestments</th><th>Of All States of All All All All All All All All All Al</th><th>Of AHS and scontinued Sha Operations</th><th>Total reholders' Equity</th></t<>		Note (Section Five-V)	Ad Paid-in Capital	Adjustment to Share Capital	Share Ca Premium	Share Share Share Cancellation Legal emium Profits Reserves		Status Ext Reserves	Status Extraordinary eserves Reserves	Other Reserves	Period Net Prior Period Income/ Net Income/ (Loss) (Loss)	rior Period et Income/ (Loss)	Valuation Revaluation Reserve Reserve	Assets Obtained Assets Obtained Revaluation from Reserve Investments	Obtained from vestments	Of All States of All All All All All All All All All Al	Of AHS and scontinued Sha Operations	Total reholders' Equity
Bit of the prind Signol <	Current Period 31 December 2017																	
Buttact the beginning of the predicipant of a constant of the predicipant of the pr																		
Consistent for ford Consistent Consistent for ford Consistent for ford Consistent for ford Consistent for ford Consistent for ford Consistent for ford Consistent for ford Consistent for ford Consistent for ford Consistent ford Consequare Consistent Con	Balance at the beginning of the period		255,000	1	•	•	29	295	1	1	14,005	(24,682)	Ħ	•			•	244,658
Interest control (filter for form)	Changes in the Period		•	•	•	•	•	•	1	1	•	•	•	•	1		•	
Indicates strating offication ()			•	•	•	•	•	•		•	•	•	•	•		•	•	
Meding learener (ff-cive learener) Equip learener (ff-cive l		ε	•	•	•	•	•	•	•	•	•	•	(59)	•	1	•	•	(59)
Control whereaction and an analysis of the second and an analysis of the second and antical and antical and antical and antical and antical and antical and antical and antical and antical and antical			•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	
Reinformetrindicitie Encontinue function I			1									1			1			
Bedination followerse (Tarapile Assets) In the second of the s			I	I	1	ı	1	1	1			1	1	I	1			
Bediation offference of intrangible Arease Bediation offference of intrangible Arease Bediation and and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and any areasements Bediation and areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements Bediation areasements			•	•	•	•	•	•	•	1	•	1	•	•	1	•	•	
Amount Standing the future method Image of the future method			•	•	•	•	•	•	•	•	•	•	•	•	•		•	
• Foreigne Exchange Officence •			•	•				•			•						•	
Changes due torbe Disposal of Assets changes due torbe Disposal of Assets c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) c) <lic)< li=""> <lic)< li=""> <l< td=""><td>II. Foreign Exchange Difference</td><td></td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td></td><td>•</td><td></td></l<></lic)<></lic)<>	II. Foreign Exchange Difference		•	•	•	•	•	•	•	•	•	•	•	•	•		•	
Change due to the Reclassification of the Assets Equation of the Assets Equation of the Assets Equation of the Assets Equation			•	•	•	•	•	•	•	•	•	•	•	•	1	•	•	
Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Equity of Investments in Associates Effect of changes in Investments in Investments in Investments in Associates Effect of changes in Investments in Investments in Associates Effect of changes in Investments in Investments in Associated in Investments in Investments in Investments in Investments in And International Investments in Investments in Investments in Investments in Additional Investments in Investmen			•	•	•	•	•	•	•	•	•	•	•	•	•		•	
Capital IncreaseCapital IncreaseCC <th< td=""><td></td><td></td><td>•</td><td>•</td><td></td><td>•</td><td></td><td>•</td><td></td><td></td><td>•</td><td></td><td>•</td><td></td><td></td><td></td><td>•</td><td></td></th<>			•	•		•		•			•		•				•	
Gath Cash <th< td=""><td></td><td></td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>1</td><td>•</td><td>•</td><td>•</td><td>•</td><td></td><td>1</td><td></td><td>•</td><td></td></th<>			•	•	•	•	•	•	1	•	•	•	•		1		•	
Interal Resources Interal Resources	1 Cash									1					1			
Brane Pertinum :	2 Internal Resources																	
Bhare Cancellation Profis . <td>II. Share Premium</td> <td></td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>•</td> <td>1</td> <td>•</td> <td>•</td> <td></td>	II. Share Premium		•	•	•	•	•	•	•	•	•	•	•	•	1	•	•	
Adjustment to Share Capital .<	V. Share Cancellation Profits		•	•	•	•	•	•	•	1	•	•	•	•	1		•	
Other Cuter ·			•	•	•	•	•	•	1	•	•	•	•		•		•	
Current Varintome or Loss . . . 16,008 . <th< td=""><td>/l. Other</td><td></td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>•</td><td>1</td><td>1</td><td>•</td><td>•</td><td>•</td><td>•</td><td>1</td><td></td><td>•</td><td></td></th<>	/l. Other		•	•	•	•	•	•	1	1	•	•	•	•	1		•	
Profit Distribution (3) ·	/II. Current Year Income or Loss		•		•	•	•	•	1	•	16,008	•	•		•		•	16,008
Dividend Paid - <	/III.Profit Distribution	3	•	•	•	•	•	•	•	•	(14,005)	14,005	•	•		•	•	
Transferso Reserves (2) -	. Dividend Paid			-										I	-	1		
Other -	.2 Transfers to Reserves	(2)		•										I		I		
257.000 29 295 - 16.008 (10.677) (48)	.3 Other				1		I.			1	(14,005)	14,005		,	1	1		
	Period End Balance (I++ XVIII)		255,000				29	295			16,008	(10,677)	(48)					260,607

Valuation

Bonus

Tangible and

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

VI. STATEMENT OF CASH FLOW

			Current Period	Prior Period
		Note (Section Five-VI)	1 January - 31 December 2017	1 January - 31 December 2016
Α.	CASH FLOWS FROM BANKING OPERATIONS		J	
1.1	Operating Profit Before Changes in Operating Assets and Liabilities		18,545	20,288
1.1.1	Interest Received		58,110	34,140
1.1.2	Interest Paid		(18,921)	(2,346)
1.1.3	Dividend Received		-	
1.1.4	Fees and Commissions Received		3,194	1,260
1.1.5	Other Income		2,726	5,887
1.1.6	Collections from Previously Written-off Loans and Other Receivables		-	-
1.1.7	Payments to Personnel and Service Suppliers		(10,355)	(7,969)
1.1.8	Taxes Paid		(4,724)	(2,691)
1.1.9	Other	(2)	(11,485)	(7.993)
1.2	Changes in Operating Assets and Liabilities		(129,474)	(35,190)
1.2.1	Net (Increase)/Decrease in Trading Securities		(4.500)	-
1.2.2	Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3	Net (Increase)/Decrease in Due from Banks		(48,019)	(7,630)
1.2.4	Net (Increase)/Decrease in Loans		(268,669)	(155,696)
1.2.5	Net (Increase)/Decrease in Other Assets	(2)	(29,762)	4,235
1.2.6	Net Increase/(Decrease) in Bank Deposits		-	-
1.2.7	Net Increase/(Decrease) in Other Deposits		-	-
1.2.8	Net Increase/(Decrease) in Funds Borrowed		151,787	116,978
1.2.9	Net Increase/(Decrease) in Payables			-
1.2.10	Net Increase/(Decrease) in Other Liabilities	(2)	69,689	6,923
l.	Net Cash Provided from Banking Operations		(110,929)	(14,902)
в.	CASH FLOWS FROM INVESTING ACTIVITIES			
П.	Net Cash Provided from / (Paid For) Investing Activities		(694)	(11,542)
2.1	Cash Paid for Acquisition of Investments, Associates and Subsidiaries			
2.2	Cash Obtained from Disposal of Investments, Associates and Subsidiaries		_	
2.3	Purchases of Property and Equipment		(212)	(364)
2.4	Disposals of Property and Equipment		(212)	(304)
2.5	Cash Paid for Purchase of Investments Available-for-Sale		(26,972)	(28,689)
2.6	Cash Obtained from Sale of Investments Available-for-Sale		26,903	18,352
2.7	Cash Paid for Purchase of Investment Securities			
2.8	Cash Obtained from Sale of Investment Securities		_	-
2.9	Other		(414)	(841)
с.	CASH FLOWS FROM FINANCING ACTIVITIES			
III.	Net Cash Provided from Financing Activities		135,427	36,488
	Cach Obtained from Funds Perrowed and Coswitting Issued		250.392	
<u>3.1</u> 3.2	Cash Obtained from Funds Borrowed and Securities Issued Cash Used for Repayment of Funds Borrowed and Securities Issued		350,182 (214,755)	36,488
	Issued Capital Instruments		(214,/55)	
3.3	Dividends Paid			
<u>3.4</u> 3.5	Payments for Finance Leases			
3.6 3.6	Other		-	-
IV.	Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents		578	842
V.	Net Increase/(Decrease) in Cash and Cash Equivalents (I+II+III+IV)		24,382	10,886
VI.	Cash and Cash Equivalents at the Beginning of the Period	(1)	59,134	48,248
VU	Cash and Cash Equivalents at the End of the Deried (V/V/)	(5)	05 m2	
VII.	Cash and Cash Equivalents at the End of the Period (V+VI)	(1)	83,516	59,134

The accompanying notes are an integral part of these financial statements.

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PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

		Current Period	Prior Period
		31 December 2017 ^(*)	31 December 2016
I.	DISTRIBUTION OF CURRENT YEAR INCOME		
1.1	CURRENT YEAR INCOME	20,706	18,112
1.2	TAXES AND DUTIES PAYABLE (-)	(4,698)	(4,107)
1.2.1	Corporate Tax (Income tax)	(4,911)	(4,191)
1.2.2	Income withholding tax		
1.2.3	Other taxes and duties (**)	213	84
Α.	NET INCOME FOR THE YEAR (1.1-1.2)	16,008	14,005
1.3	PRIOR YEAR LOSSES (-)	(10,677)	(24,682
1.4	FIRST LEGAL RESERVES (-)	(10,0//)	(24,002
1.5	OTHER STATUTORY RESERVES (-)	-	
В.	NET INCOME AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]	5,331	
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	
1.6.1	To Owners of Ordinary Shares	-	-
1.6.2	To Owners of Privileged Shares	-	
1.6.3	To Owners of Preferred Shares	-	-
1.6.4	To Profit Sharing Bonds	-	-
1.6.5	To Holders of Profit and (Loss) Sharing Certificates	-	
1.7	DIVIDENDS TO PERSONNEL (-)	_	-
1.8	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	
1.9.1	To Owners of Ordinary Shares	-	
	To Owners of Privileged Shares		
1.9.2			
1.9.3	To Owners of Preferred Shares		
1.9.4	To Profit Sharing Bonds		
1.9.5	To Holders of Profit and (Loss) Sharing Certificates	-	
1.10	SECOND LEGAL RESERVES (-)	-	
1.11	STATUTORY RESERVES (-)	-	
1.12	EXTRAORDINARY RESERVES	-	
1.13	OTHER RESERVES	=	
1.14	SPECIAL FUNDS	=	
н.	DISTRIBUTION OF RESERVES	-	
2.1	APPROPRIATED RESERVES	-	
2.2	SECOND LEGAL RESERVES (-)	-	
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	
2.3.1	To owners of ordinary shares	_	
2.3.2	To owners of privileged shares	_	
2.3.3	To owners of preferred shares	_	
2.3.4	To profit sharing bonds	=	
2.3.5	To holders of profit and (loss) sharing certificates	-	
2.4	DIVIDENDS TO PERSONNEL (-)		
2.5	DIVIDENDS TO FORSONNEL()		
III.	EARNINGS PER SHARE	-	
3.1	TO OWNERS OF ORDINARY SHARES	-	
3.2	TO OWNERS OF ORDINARY SHARES (%)	-	
3.3	TO OWNERS OF PRIVILEGED SHARES	-	
3.4	TO OWNERS OF PRIVILEGED SHARES (%)		
IV.	DIVIDEND PER SHARE		
4.1			
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	·
4.3	TO OWNERS OF PRIVILEGED SHARES	-	
4.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	

⁽¹⁾ As of financial statements preparation date, Bank's General Shareholders Meeting have not yet been made, hence no decision has been taken on profit distribution. ⁽¹⁾ Deferred tax income/expense shown in other taxes and duties not subject to profit appropriation.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION THREE EXPLANATIONS ON ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

a. The unconsolidated financial statements are prepared in accordance with the "Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents":

The unconsolidated financial statements are prepared within the scope of the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The format and content of the publicly announced unconsolidated financial statements and notes to these statements have been prepared in accordance with the "Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements" and "Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks" and amendments to this Communiqué. The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation.

The unconsolidated financial statements have been prepared in TL, under the historical cost convention except for the financial assets and liabilities carried at fair value.

The preparation of unconsolidated financial statements in conformity with TAS requires the use of certain critical accounting estimates by the Bank management to exercise its judgment on the assets and liabilities of the balance sheet and contingent issues as of the balance sheet date. These estimates, which include the fair value calculations of financial instruments and impairments of financial assets are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are reflected to the income statement. Assumptions and estimates that are used in the preparation of the accompanying financial statements are explained in the following related disclosures.

The amendments of TAS and TFRS, effectiveness date is 1 January 2017, have no material impact on the Bank's accounting policies, financial position and performance. The amendments of TAS and TFRS, which were published as of the date the financial statements were authorized but not yet have been effective, except for TFRS 9 which will be effective from 1 January 2018 will have no impact on the accounting policies, financial condition and performance of the Bank. Within the implementation of IFRS 9 Financial Instruments Standard, general loan loss provision will decrease in the opening financial statement dated 1 January 2018. The Bank has no receivable which are subject to specific provision as the date of 1 January 2018.

b. The accounting policies and valuation principles applied in the preparation of these financial statements and valuation principles:

The accounting policies and valuation principles applied in the preparation of unconsolidated financial statements, are determined and applied in accordance with regulations, communiqués, explanations and circulars on accounting and financial reporting principles published by the BRSA, and in case where there is no special regulation made by the BRSA, in accordance with principles in the context of TAS and TFRS, are consistent with the accounting policies applied in the annual financial statements of the year ended 31 December 2016. Aforementioned accounting policies and valuation principles are explained in below.

c. Explanation for convenience translation into English:

The effect of differences between accounting principles and standards set out by regulations in conformity with BRSA Accounting and Reporting Legislation, accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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II. EXPLANATIONS ON STRATEGY OF USING FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

The general strategy of the Bank of using financial instruments is to sustain an optimal balance between the yield of the instruments and their risks. The most important funding source of the Bank is shareholders' equity – internal funding, in addition external funding including from repo transactions and borrowing from domestic and foreign financial institutions is utilised. Funds obtained from internal and external sources are invested in high yield and quality financial assets and currency, interest rate and liquidity risks are being kept within the limits following the asset-liability management strategy. The currency, interest and liquidity risks of on-balance sheet and off-balance sheet assets and liabilities are managed in accordance with the risk limits accepted by the Bank and the related legal limits. Derivative instruments are mainly utilised for liquidity needs and for mitigating currency and interest rate risks. The position of the Bank as a result of foreign currency activities being held at minimum levels and the exposed currency risk is followed within the determined levels by the Board of Directors by considering the limits given by the Banking Law.

Foreign currency denominated monetary assets and liabilities are translated with the Bank's foreign currency bid rates prevailing at the balance sheet date. Gains and losses arising from such valuations are recognised in the income statement under the account of "Foreign exchange gains or losses".

III. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

The Bank does not have any embedded derivative instruments.

Derivative instruments are classified either as "Hedging Derivative Financial Instruments" or "Trading Derivative Financial Instruments" in accordance with the "Turkish Accounting Standard for Financial Instruments: Recognition and Measurement ("TAS 39")". Certain derivative transactions, even though they provide effective economic hedges under the Bank's risk management position, do not qualify for hedge accounting under the specific rules in TAS 39 and are therefore treated as "Financial assets at fair value through profit or loss".

Derivative instruments are measured at fair value on initial recognition and subsequently remeasured at their fair values. If the fair value of derivative financial instruments is positive, it is disclosed under the main account"Financial assets at fair value through profit or loss" in "Trading derivative financial instruments" and if the fair value difference is negative, it is disclosed under "Trading derivative financial liabilities". The fair values of the derivative financial instruments are calculated by using quoted market prices or by using discounted cash flow models. Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts from their contractual values.

IV. EXPLANATIONS ON INTEREST INCOME AND EXPENSE

Interest income and expenses are recognised in the income statement on an accrual basis. The Bank ceases accruing interest income on non-performing loans and, any interest income accruals from such loans are being reversed and no income is accounted until the collection is made. Only cash collections regarding non-performing loans are recorded as interest income.

V. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSE

All fees and commissions income/expenses are recognised on an accrual basis, except for certain commission income and fees from various banking services which are recorded as income at the time of collection.

Fees and commissions expenses paid to the other institutions regarding financial liabilities are considered a component of interest expense of the related funding and are recognised as transaction costs and recorded as expense in the statement of profit and loss.

Contract-based fees or fees received in return for services such as the purchase and sale of assets on behalf of a third or legal person are recognised as income at the time of collection.

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VI. EXPLANATIONS ON FINANCIAL ASSETS

The Bank classifies and accounts its financial assets as "Fair value through profit or loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity". Sales and purchases of the financial assets mentioned above are recognised at the "settlement dates". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of holding the investment.

a. Financial assets at fair value through profit or loss:

Financial assets are classified either as "Financial assets at fair value through profit or loss" or "Trading financial assets".

Trading financial assets are either acquired for generating profit from short-term fluctuations in the price or dealer's margin, or are the financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Sales and purchases of trading financial assets are recognised at the "settlement dates". Trading financial assets are initially recognised at fair value plus transactions costs and are subsequently re-measured at their fair value. All gains and losses arising from these evaluations are recognised in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

Derivative financial instruments are treated as trading financial assets unless they are not designated as hedge instruments. The principles regarding the accounting of derivative financial instruments are explained in detail in related section.

b. Available-for-sale financial assets:

Available-for-sale financial assets are defined as financial assets other than the ones classified as "Loans and receivables", "Held-to-maturity assets" or "Financial asset at fair value through profit or loss".

Government bonds included in the available-for-sale financial assets are subsequently re-measured at fair value. "Unrealised gains and losses" arising from changes in the fair value of financial assets classified as available-for-sale are recognised in the shareholders' equity as "Marketable Securities Valuation Reserve", until there is a permanent decline in the fair values of such assets or they are disposed of. When these financial assets are disposed of or impaired, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement.

Available-for-sale equity securities that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Available-for-sale equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

c. Loans and receivables:

Loans and receivables are financial assets which are created by providing money, services or goods to a debtor. Loans and receivables originated by the Bank are carried initially at cost and subsequently recognised at the amortised cost value calculated using the effective interest method. The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognised in the expense accounts.

The Bank provides general and specific provisions based on the assessments and estimates of the management, by considering the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" published in the Official Gazette No. 26333 dated 1 November 2006. Apart from specific provisions, the Bank has general loan loss provision within the scope of the stated regulations.

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d. Held-to-maturity financial assets:

Held-to-maturity financial assets are assets that are not classified under loans and receivables, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity. Held-to-maturity financial assets are initially recognised at cost. Held-to-maturity securities are carried at "amortised cost" net of impairment using the effective interest method after their recognition. Interest income earned from held-to-maturity financial assets is reflected to the statement of income.

The Bank does not have any held-to-maturity financial assets. There are no financial assets that were previously classified as held-to-maturity but which cannot be subject to this classification for two years due to the violation of classification principles.

VII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Where the estimated recoverable amount of the financial asset, being the present value of the expected future cash flows discounted based on the effective interest method, or the fair value if one exists is lower than its carrying value, then it is concluded that the asset under consideration is impaired. A provision is made for the diminution in value of the impaired financial asset and it is charged against the income for the year.

VIII. EXPLANATIONS ON OFFSETTING FINANCIAL ASSETS

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognised amounts and there is an intention to collect/pay related financial assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

IX. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

Securities subject to repurchase agreements ("Repo") are classified as "Financial assets at fair value through profit or loss", "Available-forsale" and "Held-to-maturity" according to the investment purposes of the Bank and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "Funds Provided under Repurchase Agreements" in liabilities and the difference between the sale and repurchase price is accrued over the life of repurchase agreements using the effective interest method.

Funds given against securities purchased under agreements ("Reverse repo") to resell are accounted under "Receivables from Reverse Repurchase Agreements" on the balance sheet. The difference between the purchase and determined resell price is accrued over the life of repurchase agreements using the "effective interest method".

X. EXPLANATIONS ON ASSETS HELD FOR RESALE AND FIXED ASSETS FROM DISCONTINUED OPERATIONS AND LIABILITIES RELATED WITH THESE ASSETS

According to TFRS 5, non-current asset classified as held for sale (or group of assets to be disposed) is measured by the lowest of book value or sales costs discounted fair value. An asset to be held for sale asset (or group of assets to be disposed) it is necessary that, the related asset has to be commonly seen on the sales of these kind of sales assets, it could be easily immediately sold in the frame of usual conditions and it has to have high sales probability. For the high sales probability, there has to be a plan regarding the sales of asset made by the appropriate management level and by the determination of buyers there has to be an active program started regarding to completion of the plan.

A discontinued operation is a part classified as discarded or held for sales by the bank. Results regarding to discontinue operations are presented individually in income statement.

The Bank has no discontinued operations.

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XI. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for value decreases, if any.

Intangibles are amortised over their estimated useful lives of three to five years using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit of the assets.

The Bank expects no change with respect to accounting estimates, amortization period, amortization method, or residual value that will have significant impact on the current or the following periods.

Computer software development expenses that add to the economic benefit and extend the useful life of the software are capitalised. These expenses are amortised over the remaining useful life of the related intangible asset using "the straight-line method".

XII. EXPLANATIONS ON PROPERTY AND EQUIPMENT

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for value decrease, if any. Depreciation is calculated over the cost of property and equipment using the straight-line method. The depreciation rates are stated below:

Office machine, furniture, leasehold improvements and vehicles

3-10 years

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down immediately to its "recoverable amount" and the provision for the diminution in value is charged to the income statement.

Property and equipment are not subject to valuation such that fair value is presented in the financial statements.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the regular repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset, or the quality of the product or to decrease the costs.

There is no pledge, mortgage or commitment on the Bank's property and equipments.

The Bank expects no change with respect to accounting estimates that have significant impact on the current period or may have significant impact on the following periods.

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XIII. EXPLANATIONS ON LEASING TRANSACTIONS

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the "lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset". Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a "Provision for value decrease" is recognised. Liabilities arising from the leasing transactions are included in "Financial Lease Payables" on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement.

The Bank can engage in financial lease transactions as the lessor. The financial leasing transactions are accounted in accordance with "Turkish Accounting Standard for Leasing Transactions" (TAS 17). The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as "financial lease receivbales" under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under "unearned income" item. The interest income is recognised in the income statement on an accrual basis.

Operating Lease

Leases, in which the majority of risk and return of property belongs to lessor, are classified as operational lease. Payments that are made under operational leases, are accounted in income statements on a straight line basis during the lease period.

XIV. EXPLANATIONS ON PROVISIONS AND CONTINGENT COMMITMENTS

Provisions and contingent liabilities except for the financial instruments within the scope of the TAS 39 or the provisions recognised in accordance with the TAS 12 and TAS 19 are accounted in accordance with the "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("TAS 37").

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for contingent liabilities arising from past events should be recognised in the same period of occurrence in accordance with the "Matching principle". When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a "Contingent" liability exists and it is disclosed in the related notes to the financial statements.

XV. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for Employee Rights" account in the balance sheet. Under the Turkish Labour Law, the Bank is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Bank arising from this liability.

According to TAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority with the Communique published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Bank, the recognition option of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for annual periods beginning on or after 1 January 2013. The earlier application of the revision is permitted in the section of the transition and effective date of the standard and therefore the Bank has recognised the actuarial gains and losses that occur in related reporting periods in the "Statement of Income and Expense Items Accounted in Equity" and represented in the Prior Periods' Income/ (Loss) item in the Shareholders Equity section.

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XVI. EXPLANATIONS ON TAXATION

a. Current Tax:

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 20% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the tax years 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax asset is not allocated over the amount of general provisions for possible losses in accordance with the circular of BRSA dated 8 December 2004 no. BRSA.DZM.2/13/1-a-3.Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

According to the second paragraph of the Article 53 of the Banking Act No 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

b. Transfer Pricing:

Transfer pricing is regulated through article 13 of Corporate Tax Law titled "Transfer Pricing through camouflage of earnings". Detailed information for the practice regarding the subject is found in the "General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing". According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against "arm's length principle", the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

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XVII. EXPLANATIONS ON BORROWINGS

Trading and derivative financial liabilities are valued with their fair values and the other financial liabilities are carried at "amortised cost" using the effective interest method.

The Bank utilises various hedging techniques to minimise the currency, interest rate and liquidity risks of its financial liabilities.

XVIII. EXPLANATIONS ON ISSUANCE OF SHARES CERTIFICATES

Transaction costs regarding the issuance of share certificates are accounted under shareholders' equity after eliminating the tax effects. Dividend payments are determined by the General Assembly of Bank.

The Bank has not issued any share certificates.

No dividend payments were announced after the balance sheet date.

XIX. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

Avalized drafts and acceptances shown as liabilities against assets are included in the "Off-balance sheet commitments". The Bank has no avalized drafts and acceptances shown as liabilities against assets.

XX. EXPLANATIONS ON GOVERNMENT GRANTS

As of 31 December 2017 and 31 December 2016, the Bank has no government grants.

XXI. EXPLANATIONS ON PROFIT RESERVES AND PROFIT DISTRIBUTION

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below. Under the Turkish Commercial Code ("TCC") the legal reserves are composed of first and second reserves. The TCC requires first reserves to be 5% of the profit until the total reserve is equal to 20% of issued and fully paid-in share capital. Second reserves are required to be 10% of all cash profit distributions that are in excess of 5% of the issued and fully paid-in share capital. However holding companies are exempt from this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

XXII. EXPLANATIONS ON EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit for the year to the weighted average number of shares outstanding during the period concerned. Earnings per share disclosed in the income statement are calculated by dividing net profit for the year to the weighted average capital outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect to bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period. Where the number of outstanding shares increase due to distribution of bonus shares after the balance sheet date but before the release of the financial statements, earnings per share computations are performed based on the revised average number of shares.

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XXIII. EXPLANATIONS ON RELATED PARTIES

Parties defined in Article 49 of the Banking Law No.5411, Bank's senior management and Board Members are deemed as related parties. Transactions regarding related parties are presented in Section Five.

XXIV. EXPLANATIONS ON CASH AND CASH EQUIVALENTS

For the purposes of the preparation of statement of cash flows, "Cash" includes cash, effectives, and cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XXV. EXPLANATIONS ON SEGMENT REPORTING

Information on operational fields which are determined in accordance with the Bank's organisational and internal reporting structure and the requirements of "Turkish Financial Reporting Standards on Segment Reporting" ("TFRS 8") is disclosed in Section Four.

XXVI. RECLASSIFICATIONS

In order to be consistent with the presentation of current period financial statements, certain reclassifications are made. The Bank does not have any reclassifications in the prior period's financial statements.

XXVII. EXPLANATIONS ON OTHER MATTERS

None.

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NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

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SECTION FOUR INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT

I. INFORMATION ABOUT SHAREHOLDERS' EQUITY ITEMS

Equity Capital amount and capital adequacy standard ratio is calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" and "Regulation on Equities of Banks".

The current period equity amount of the Bank is TL 267,080 while its capital adequacy standard ratio is 31.36% as of 31 December 2017 (As of 31 December 2016 the equity amount was TL 248,081 and the capital adequacy ratio was 53.85%). The capital adequacy ratio of the Bank is far beyond the minimum rate determined by the related legislation.

a. Information about total capital items:

	Current Period 31 December 2017	Prior Period 31 December 2016
COMMON EQUITY TIER 1 CAPITAL	31 December 2017	31 December 2010
Paid-up Capital	255,000	255,000
Share issue premiums	-	-
Retained earnings	324	324
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish	_ ·	
Accounting Standards	-	11
Profit	_	-
Net profit of the period	16,008	14,005
Profit of the previous years	-	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and		
cannot be recognised within profit for the period	-	-
Common Equity Tier 1 capital before regulatory adjustments	271,332	269,340
Common Equity Tier 1 capital: regulatory adjustments	-7-755-	5154-
Prudential valuation adjustments	_	-
The sum of the net loss for the current period and the previous years which could not be absorbed by		
the retained earnings and losses recognised in equity in accordance with TAS	10,725	24,682
Improvement costs for operating leasing	51	67
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	695	588
Deferred tax assets that rely on future profitability excluding those arising from temporary differences		
(net of related tax liability)	_	
Cash-flow hedge reserve		
Shortfall of provisions to expected losses	-	
Securitisation gain on sale	-	
Gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	_	
Investments in own shares	-	
Credits extended contrary to the fourth paragraph of Articles 56 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of		
regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%		
of the issued share capital (amount above 10% threshold)	-	
Significant investments in the common stock of banking, financial and insurance entities that are		
outside the scope of regulatory consolidation, net of eligible short positions (amount above 10%		
threshold)		
Mortgage servicing rights (amount above 10% threshold)		
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax		
liability)		
Amount exceeding the 15% threshold (as set out in the paragraph 2 of the Provisional Article 2 of the		
Regulation on Banks' Own Funds)	_	
of which: significant investments in the common stock of financials		
of which: mortgage servicing rights	-	
of which: deferred tax assets arising from temporary differences		
National specific regulatory adjustments which shall be determined by the Board	_	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2		
to cover deductions		
Total regulatory adjustments to Common equity Tier 1	11,471	25,337
Common Equity Tier 1 capital (CET1)	259,861	244,003
	209,001	244,003

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	Current Period	Prior Period
	31 December 2017	31 December 2016
ADDITIONAL TIER 1 CAPITAL		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums Eligible capital instruments and relevant share issue premiums that are approved by the Agency		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of		
the Provisional Article 4 of the Regulation on Banks' Own Funds)		
	_	
Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments		
Investments in own Additional Tier i instruments		
Reciprocal cross-holdings in Additional Tier 1 instruments Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory	-	
consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share		
capital of the entity (amount above 10% threshold)	-	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of		
regulatory consolidation (net of eligible short positions)	-	
National specific regulatory adjustments which shall be determined by the Board	-	
Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period	174	393
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity		
Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own		
Funds (-) Net deformed towards (lipbility which is not deducted from Common Faulty Tions conital for the surgering of the sub-	174	393
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub- paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
Total regulatory adjustments to Additional Tier 1 capital	-	
Total Additional Tier 1 capital	-	
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	259,687	243,610
TIER 2 CAPITAL		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	-	
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of		
the Provisional Article 4 of the Regulation on Banks' Own Funds)		
Provisions (Amounts stated on the 8th article of Regulation on Equities of Banks) Tier 2 capital before regulatory adjustments	7,393	4,471
Tier 2 capital regulatory adjustments	7,393	4,471
Investments in own Tier 2 instruments	_	
Reciprocal cross-holdings in Tier 2 instruments	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory		
consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share		
capital of the entity (amount above the 10% threshold) (-)		
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory		
consolidation (net of eligible short positions) (-) National specific regulatory adjustments which shall be determined by the Board	-	
Total regulatory adjustments to Tier 2 capital		
Total Tier 2 capital	7,393	4,471
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	267,080	248,081
The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)		
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law		
Portion of the sum of the banks' real estate net book values, which is in excess of fifty per cent of their own funds and		
net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed		
of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition		
National specific regulatory adjustments which shall be determined by the Board		
Regulatory Adjustments which will be deducted from Total Capital during the		
transition period	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory		
consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share		
capital of the entity (amount above the 10% threshold) which will not deducted from Common Equity Tier 1 capital,		
Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the		
Regulation on Banks' Own Funds (-) Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that	-	
are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which		
will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first		
sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope		
of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights		
(amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold,		
net of related tax liability) which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-		
paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)		

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PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Current Period	Prior Period
	31 December 2017	31 December 2016
OWN FUNDS		
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	267,080	248,081
Total Risk Weighted Assets	851,763	460,716
CAPITAL ADEQUACY RATIOS Common Equity Tier 1 Capital Adequacy Ratio (%)	30.51%	52.96%
Tier 1 Capital Adequacy Ratio (%)	30.51%	52.90%
Capital Adequacy Ratio (%)	31.36%	53.85%
BUFFERS		
Institution specific buffer requirement	1.37%	0.625%
of which: capital conservation buffer requirement (%)	1.25%	0.625%
of which: bank specific countercyclical buffer requirement (%)	0.12%	-
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph		
of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk		
Weighted Assets (%)	22.51%	-
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	-	
Significant investments in the common stock of financials	-	
Mortgage servicing rights (net of related tax liability)	-	
Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2 capital		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior		
to application of cap)	7,393	4,471
Cap on inclusion of provisions in Tier 2 under standardised approach	7,393	4,471
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based		
approach (prior to application of cap)	-	
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018		
and 1 Jan 2022		
Current cap on Additional Tier 1 capital instruments which subject to phase out arrangements in the		
Provisional Article 4 of the Regulation on Banks' Own Funds	-	
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which		
subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-	
Current cap on Tier 2 capital instruments which subject to phase out arrangements in the Provisional		
Article 4 of the Regulation on Banks' Own Funds	-	
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which subject		
to Provisional Article 4 of the Regulation on Banks' Own Funds	-	

b. Information about instruments that will be included in total capital calculation:

None.

c. Information about debt securities issued that will be included in total capital calculation:

None.

d. The difference between Total Capital in the table above and Equity in the unconsolidated balance sheet mainly arises from the general provision. In the calculation of Total Capital, general provision is taken into consideration as Tier II Capital. Besides, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

II. EXPLANATIONS ON CREDIT RISK

a. The Bank takes into account the Banking Law as far as the limits applied to a single obligor or a risk group is concerned. Limits are determined to avoid sectoral concentration, and the compliance to these limits are monitored on transaction basis.

Regarding daily credit and security transactions, compliance to limits and concentrations are monitored ad reported by the risk management unit. Besides, the compliance of credits to their limits are followed by operations, marketing and internal control units.

Credits and other receivables are re-evaluated at least once a year by the credit allocation unit. Borrower and facility ratings are calculated by using models specifically developed for this purpose.

Including the necessary documents, credit allocation activities are also subject to controls by the internal control unit, which is independent from business units.

b. The Bank classifies its loans and receivables to related groups and calculates specific or general provisions in accordance with the "Regulation on the Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside" published in the Official Gazette dated 1 November 2006, no.26333 and by considering other regulations and explanations announced by BRSA. In these regulations, credits that do not qualify for the Third Group in terms of days per due, are classified as"late collection", all the receivables within the third, fourth and fifth groups are classified as "Impaired", regardless of whether the accrued interests and interest-like burdens on the borrower are added to the principal or whether the credit has been refinanced or not.

c. Bank does not carry any forward or option positions or similar positions based on other agreements on the organized markets.

d. The Bank, as an active participant in the national and international banking market, compared to the financial activities of other financial institutions, is not exposed to high volumes of credit risk, which may necessitate mitigation through futures or options. As credit risk increases, usage of such derivative instruments may be relevant.

e. The Bank does not have any non-cash loans that were transformed into cash. If such loans exist, they are going to be applied the same risk weight as the cash loans.

f. The Bank does not have any credits that were renewed or agreed on a new payment plan. If such loans exist, they are planned to be monitored separately by the risk management unit in the monthly reports.

The discrimination of credit risk is performed through borrower and facility rating systems. No risk discrimination is made via maturity.

g. The Bank does not have any credit transaction abroad.

h. The Bank, as an active participant in the national and international banking market, compared to the financial activities of other financial institutions, is not exposed to high volumes of credit risk.

i. The share of the greatest 100 and 200 cash loan customers within the total cash loans portfolio is 100% and 100%, respectively (31 December 2016: 100% and 100%).

The share of the greatest 100 and 200 non-cash loan customers within the total non-cash loans portfolio is 100% and 100%, respectively (31 December 2016: 100% and 100%).

The share of the greatest 100 and 200 cash and non-cash loan customers within the total cash and non-cash loans portfolio in the on and off balance sheets is 100% and 100%, respectively (31 December 2016: 100% and 100%).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I OF SECTION THREE **PASHA YATIRIM BANKASI A.Ş.** NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

j. General provision for the credit risk is TL 7,393 (31 December 2015: TL 4,471).

k. The Bank does not have any specific provision (31 December 2016: None). Cash loans are commercial loans, classified as standard credits.

I. The total amount of risk the Bank is exposed to, without taking into account the mitigation effects, and average of the risks grouped based on different risk classes and types are shown in the table below:

	31 Decembe	er 2017	31 Decembe	er 2016
	Current Period Risk Amount ^(°)	Average Risk Amount ^(**)	Current Period Risk Amount ^(°)	Average Risk Amount ^(°°)
Risk Classifications	1,184,576	862,262	645,789	500,693
Conditional and unconditional receivables from Central				
Governments or Central Banks	78,431	44,457	35,267	18,924
Conditional and unconditional receivables from				
Regional Management or Local Governments	-	-	-	-
Conditional and unconditional receivables from				
Administrative Units or Non-commercial Ventures	-	-	-	-
Conditional and unconditional receivables from				
Multilateral Development Banks	-	-	-	-
Conditional and unconditional receivables from				
International Organizations	-		-	-
Conditional and unconditional receivables from Banks				
and Brokerage Corporation	149,494	116,245	109,477	75,366
Conditional and unconditional corporate receivables	907,963	656,815	487,440	392,433
Conditional and unconditional retail receivables	-	-	-	-
Conditional and unconditional collateralized by real				
estate mortgages receivables	33,949	25,933	-	865
Non-performing receivables	-	-	-	-
Receivables defined in high risk category by BRSA	-	-	-	-
Securities collateralized by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short-term receivables and short-term corporate				
receivables from Banks and Brokerage corporations	8,939	4,592	7,668	4,478
Investments in nature of Collective Investment funds	-	-	-	-
Equity security investments	-	-	-	-
Other receivables	5,800	14,220	5,937	8,627

() The figures represent total risk amounts before Credit Risk Mitigation and after credit conversion factor.

(**) Average risk amounts are calculated as arithmetical average of monthly amounts of relevant year.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS PASHA YATIRIM BANKASI A.Ş. AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Profile of significant exposures in significant regions

	-	N	m	4	2	9	7	∞	6	0	F	12	۳ ۲	14	ħ	9	41	Total
Current Period																		
Domestic	78,431					128,374	843,683		33,949				1	8,939			5,800	1,099,176
European Union Countries	1					1,757			1				1				1	1,757
OECD Countries (")		,	,	,		1	56,991	,	ı	,	1		,	,		,	1	56,991
Off-shore Banking Regions	ı	,	,								,						1	'
USA, Canada	ı	,		,		2,959		1			,						1	2,959
Other Countries	I	Ţ				16,404	7,289											23,693
Associates, Subsidiaries and																		
Joint –Ventures	ı			,							,		1				1	'
Unallocated																		
Assets/Liabilities (***)	ı	,	,								1						1	'
Total	78,431	•	•	•	•	149,494	907,963	•	33,949	•	•	•	•	8,939	•	•	5,800	1,184,576

2) Conditional and uncontrollar receivations profit receivational and genetic to tocal over initiation 3) Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures 4) Conditional and unconditional receivables from Multilaterial Development Barks

5) Conditional and unconditional receivables from International Organizations

Conditional and unconditional receivables from Banks and Brokerage Corporation

Conditional and unconditional corporate receivables

8) Conditional and unconditional retail receivables

conditional and unconditional collateralized by real estate mortgages receivables to) Non-performing receivables

Receivables defined in high risk category by BRSA

 Securities collateralized by mortgages Securitization position;

14) Short-term receivables and short-term corporate receivables from Banks and Brokerage corporations
 15) Investments in nature of Collective Investment funds
 16) Equity security investments

17) Other receivables

"") Includes assets and liability items that cannot be allocated on a consistent basis. Includes OECD countries other than EU countries, USA and Canada.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED FINANCIAL STATEMENTS ORIGINALLY	TURKISH, SEE NOTE I OF SECTION THREE	
CONVENIENCE TRAN	ISSUED IN TURKISH , 3	

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS PASHA YATIRIM BANKASI A.Ş AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.

	-	2	m	4	2	9	2	∞	6	ę	F	12	ñ	4	ħ	16	41	Total
Prior Period																		
Domestic	35,267		,	,	, 	82,777	424,202		1		,			7,668			5,937	555,851
European Union Countries						5,917	53,136										1	59,053
OECD Countries (**)	1								1	,					1	1	'	
Off-shore Banking Regions				,								,		,			'	'
USA, Canada		1			1	678	1	ı	ı					1	1	1	1	678
Other Countries		1	,	,	1	20,105	10,102	1	,	,	,	,	,	,		,	'	30,270
Associates, Subsidiaries and																		
Joint – Ventures						1			1					,	1	1	1	
Unallocated																		
Assets/Liabilities ("")	T	1				1											1	'
Total	35,267	•	•	•	-	109,477 487,440	487,440	•	•	•	•	•	•	7,668	•	•	5,937	645,789

For more information, www.pashabank.com.tr

Conditional and unconditional receivables from Central Covernments or Central Banks
 Conditional and unconditional receivables from Regional Management or Local Covernments
 Conditional and unconditional receivables from Regional Management or Local Covernments
 Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures

4) Conditional and unconditional receivables from Multiliateral Development Banks
 5) Conditional and unconditional receivables from International Organizations
 5) Conditional and unconditional receivables from Banks and Brokerage Corporation
 7) Conditional and unconditional receivables
 8) Conditional and unconditional creative receivables
 8) Conditional and unconditional creative receivables
 9) Non-performing receivables
 10) Non-performing receivables
 13) Securitizes callerarialized by RBSA
 13) Securitized in high risk category by BRSA
 14)Short-term receivables and short-term corporates

15) Investments in nature of Collective Investment funds 16)Equity security investments

17) Other receivables

"includes OECD countries other than EU countries. USA and Canada. "Includes assets and liability items that cannot be allocated on a consistent basis.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk profile by sectors or counterparties

Current Period									Ri	Risk Classifications ^(*)	ations 🖱									
	-	7	m	4	5	9	7	∞	6	10	F	12	ę	14	ħ	16	4	₽	ñ	Total
Agriculture	•	•	•	•					•							•	•	•	•	1
Farming and Stockbreeding				1	1					1			T		1		1		1	'
Forestry										1										'
Fishery																				'
Manufacturing			,			- 161,	161,958				,			,		,		53.769	108,189	161,958
Mining and Quarrying						- 37.	37,705			1					1				37,705	37,705
Production		ı		1		- 7	77,255	1		1		1	1		ı			42,529	34,726	77,255
Electricity, Gas and Water						- 46,	46,998			1								11,240	35,758	46,998
Construction						- 112,	112,858	-	8,026		,	,						66,076	54,808	120,884
Services	78,431		,		- 149,494		רו4,47	- 2	25,923		,	,		8,939		,		560,839	249.359	810,198
Wholesale and Retail Trade			,			- 4	49,127		17,018		,	,				,		22,027	44,118	66,145
Accommodation and Dining							932			T					ī			932		932
Transportation and Telecom		1	1	ı		- 79	79,196	1		T	ī	ı	ı		ī	1	ı	31,719	47,477	79,196
Financial Institutions	78,431				- 149,494		394,445		8,905	T	Ţ			8,939	ī			482,450	157,764	640,214
Real Estate and Rental Services	1	1	1	I		- 3	23,711	I		I	I		1	-	I	1	1	117,85	1	23,711
Professional Services			,			,	,	,				,				,				'
Educational Services											ı				ı					
Health and Social Services						1		,				,								'
Others						- 85	85,736			-	-		-				5,800	29,981	61,555	91,536
Total	78,431	•	•	•	- 149,494	94 907,963	963	- 33	33,949					8,939		•	5,800	710,665	473,911 1,184,576	184,576

¹⁰ Stands for the risk categories listed in "Regulations on Measurement and Assessment of Capital Adequacy Ratios of Banks". Includes risk amounts before the effect of credit risk mitigation and after the credit conversion factors.

For more information, www.pashabank.com.tr

Conditional and unconditional receivables from Regional Management or Local Governments

Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures

Conditional and unconditional receivables from Multilateral Development Banks

Conditional and unconditional receivables from International Organizations

Conditional and unconditional receivables from Banks and Brokerage Corporation

Conditional and unconditional corporate receivables

Conditional and unconditional retail receivables

conditional and unconditional collateralized by real estate mortgages receivables to) Non-performing receivables

11) Receivables defined in high risk category by BRSA

12) Securities collateralized by mortgages

Securitization positions

14)Short-term receivables and short-term corporate receivables from Banks and Brokerage corporations

Investments in nature of Collective Investment funds 16)Equity security investments

17) Other receivables

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS PASHA YATIRIM BANKASI A.Ş. AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Prior Period									Ris	Risk Classifications (*)	ations ^(°)									
	L	2	3	4	5	9	7	8	6	10	ц	12	13	14	15	16	41	F	FC	Total
Agriculture		•	•	•	•	•	•	•	•			•				•	1	•	•	
Farming and Stockbreeding	1								1		1	,			1				1	
Forestry		,			,				,			,								
Fishery	1		ı						Ţ		ı	,			·	ı			1	
Manufacturing	1	,	1	,	1	1	38,056		1		1	,	,		,		1	26,840	11,216	38,056
Mining and Quarrying																				'
Production	1		1				23,407		1									19,207	4,200	23,407
Electricity, Gas and Water	1	,	1	1		1	14,649		1		1	,	,		,	1	1	7,633	7,016	14,649
Construction	1	'	Ţ		'	'	58,445	,	,		T	,	'	'	1	,	'	25,615	32,830	58,445
Services	35,267			,	1	109,477	306,661		,			,	,	7,668	,	,		397,104	61,969	459,073
Wholesale and Retail Trade	1		T				41,536				1				Ţ			24,668	16,868	41,536
Accommodation and Dining	I	1	I	1	1		5,345		I	I	ı	1	1		ı	1	I	5,345	I	5,345
Transportation and Telecom	I	1	ı	ı	1	1	7,667	,	ı	ı	ı	1	·		ı	ı	ı	7,403	264	7,667
Financial Institutions	35,267		T	,	1	109,477	241,492	ı	1		ı			7,668	ı	,		349,067	44,837	393,904
Real Estate and Rental Services	1		1				10,621		,		,	,			,			10,621	1	10,621
Professional Services																				
Educational Services	I	ı	ı		1			ı		ı			ı			,	ı			
Health and Social Services	1		T					I	ı	T	ı		I	I	ı	I	I		1	
Others							84,278		T								5.937	33,454	56,761	90,215
Total	35,267	÷	•	•	7	109,477	487,440	•	•	•				7,668	•	•	5,937	483,013	162,776	645,789

For more information, www.pashabank.com.tr

³ Stands for the risk categories listed in "Regulations on Measurement and Assessment of Capital Adequacy Ratios of Banks." includes risk amounts before the effect of credit risk mitigation and after the credit conversion factors.

Conditional and unconditional receivables from Central Governments or Central Banks

2) Conditional and unconditional receivables from Regional Management or Local Governments

rom Administrative Units or Non-commercial Ventures Conditional and unconditional receivables

4) Conditional and unconditional receivables from Multilateral Development Banks

Conditional and unconditional receivables from International Organizations
 Conditional and unconditional receivables from Banks and Brokerage Corporation
 Conditional and unconditional corporate receivables
 Conditional and unconditional retail receivables
 Conditional and unconditional collateralized by real estate mortgages receivables
 Non-performing receivables

11) Receivables defined in high risk category by BRSA

12) Securities collateralized by mortgages 13) Securitization positions 14) Short-term receivables and short-term corporate receivables from Banks and Brokerage corporations 15) Investments in nature of Collective Investment funds

16)Equity security investments

Other receivables

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

n. Analysis of maturity-bearing exposures according to remaining maturities

Risk Classifications (Current Period)		Tir	ne to Maturity		
	1 month	1-3 months	3-6 months	6-12 months	Over 1 year (***
Conditional and unconditional receivables					
from Central Governments or Central Banks	77,526	-	-	905	-
Conditional and unconditional receivables					
from Regional Management or Local					
Governments	-	-	-	-	-
Conditional and unconditional receivables					
from Administrative Units or Non-					
commercial Ventures	-	-	-	-	-
Conditional and unconditional receivables					
from Multilateral Development Banks	-	-	-	-	-
Conditional and unconditional receivables					
from International Organizations	-	-	-	-	-
Conditional and unconditional receivables					
from Banks and Brokerage Corporation	100,089	2,500	15,555	14,500	16,850
Conditional and unconditional corporate					
receivables	218,542	79,179	169,878	179,055	261,309
Conditional and unconditional retail					
receivables	-	-	-	-	-
Conditional and unconditional collateralized		· ·			
by real estate mortgages receivables	-	-	-	17,018	16,931
Non-performing receivables	-	-	-	-	-
Receivables defined in high risk category by					
BRSA	-	-	-	-	-
Securities collateralized by mortgages	-	_	-	_	-
Securitization positions	-	-	_	-	-
Short-term receivables and short-term					
corporate receivables from Banks and					
Brokerage corporations	8,939	-	-	-	-
Investments in nature of Collective					
Investment funds	-	-	-	-	-
Equity security investments	-	-	-	-	-
Other receivables	-	-	-	-	5,800
Total (")	405,096	81,679	185,433	211,478	300,890

 $^{\odot}$ Includes risk amounts before the effect of credit risk mitigation and after the credit conversion factors. $^{\odot}$ Includes also undistributed amounts.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk Classifications (Prior Period)		Tir	ne to Maturity		
	1 month	1-3 months	3-6 months	6-12 months	Over 1 year ^(°°)
Conditional and unconditional receivables from Central Governments or Central Banks	33,874	1,232	161	_	-
Conditional and unconditional receivables from Regional Management or Local Governments	_	-	-	-	-
Conditional and unconditional receivables from Administrative Units or Non- commercial Ventures	_	-	-	-	-
Conditional and unconditional receivables from Multilateral Development Banks	_	-	_	-	-
Conditional and unconditional receivables from International Organizations	_	_	_	_	-
Conditional and unconditional receivables from Banks and Brokerage Corporation	19,311	14,139	2,911	19,443	53,673
Conditional and unconditional corporate receivables	133,610	50,015	84,168	124,225	95,422
Conditional and unconditional retail receivables	-	-	-	-	-
Conditional and unconditional collateralized by real estate mortgages receivables	_	_	_	_	_
Non-performing receivables	-	-	-	-	-
Receivables defined in high risk category by BRSA	_	-	_	-	-
Securities collateralized by mortgages	-	-	-	-	-
Securitization positions	-	-	-	-	-
Short-term receivables and short-term corporate receivables from Banks and					
Brokerage corporations	3,725	3,943	-	-	-
Investments in nature of Collective Investment funds		-		-	
Other receivables	-	-		-	5,937
Total (°)	190,520	69,329	87,240	143,668	155,032

⁽¹⁾ Includes risk amounts before the effect of credit risk mitigation and after the credit conversion factors. ⁽¹⁾ Includes also undistributed amounts.

o. The Bank has no particular agreement with a credit rating agency.

p. There is no credit rating for issuer or issue for the items not included in trading accounts where there is no credit ratings.

q. Risk amounts according to risk weights

Risk Weights (Current Period)	%0	%20	%50	%100	%150	%1250	Deductions from Equity
Amounts before Credit Risk Mitigation	79,658	145,447	347,804	611,644	23	-	920
Amounts after Credit Risk Mitigation	87,715	145,447	347,804	603,587	23	-	920
							Deductions
Risk Weights (Prior Period)	%o	%20	%50	%100	%200	%1250	from Equity
Amounts before Credit Risk Mitigation	16,604	88,622	252,539	283,020	5,004	-	1,048
Amounts after Credit Risk Mitigation	21,230	88,622	252,539	278,394	5,004	-	1,048

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

r. Movements in value adjustments and provisions

	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments	Closing Balance
Specific provisions	-	-	-	-	-
General provisions	4,471	2,922	-	-	7,393

s. Miscellaneous Information by major sectors and type of counterparties

In accordance with TAS and TFRS;

Impaired loans; By the end of the reporting period, not more than 90 days overdue or impaired due to credibility. For such loans, "Specific Provisions" are calculated within the scope of Provision Regulation.

Overdue Loans; By the end of the reporting period up to 90 days due but not impaired loans. For such loans, "General Provisions" are calculated within the scope of Provision Regulation.

The Bank does not have any impaired loans or overdue loans as at 31 December 2017 and 2016.

t. Risk involved in counter-cyclical capital buffer calculation

The breakdown of private sector receivables by geographic area which considered in the calculation of counter-cyclical capital buffer in accordance with 'Capital Conservation and Countercyclical Capital buffers' published in official gazette dated 5 November 2013 and numbered 28812 and the sub-regulations are provided in the table below:

	Banking book for private	RWAs of	
Current period Country	sector lending	trading book	Total
Azerbaijan	16,127	-	16,127
Georgia	7,289	-	7,289
Ireland	56,991	-	56,991
Total	80,407	-	80,407

III. EXPLANATIONS ON CURRENCY RISK

The Bank's foreign currency position is managed within the limits set by legislation and the Bank.

The basic principle in foreign currency risk management is not to be exposed to currency risk. Accordingly, the exchange-trading risk positions are not allocated to the limit, banking accounts as of the currency by creating a matched asset-liability structure is aimed to provide natural protection. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions.

Bank's methodology of digitising the foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five business days prior to that date:

	L	ISD	EL	JRO
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bid Rate	3.7719	3.5192	4.5155	3.7099
1. Day's bid rate	3.8104	3.5318	4.5478	3.6939
2. Day's bid rate	3.8197	3.5329	4.5385	3.6901
3. Day's bid rate	3.8029	3.5135	4.5116	3.6711
4. Day's bid rate	3.8087	3.5041	4.5205	3.6639
5. Day's bid rate	3.8113	3.5077	4.5171	3.6647

The simple arithmetic average of the Bank's foreign exchange bid rates for the last thirty one days preceding the balance sheet date:

	L	JSD	EURO		
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	
Arithmetic average - 31 days	3.8417	3.4935	4.5496	3.6840	

Information on currency risk of the Bank:

The following table shows the foreign currency net general position of the bank on the basis of foreign currencies. In accordance with GAAP, assets which are indexed to foreign currency are shown on financial statements as TL rather than foreign currencies.

Assets which are indexed to foreign currency are considered as foreign currency item in calculation of foreign currency net general position. In accordance with the "Regulation on Calculation and Implementation of Foreign currency net general position/equity standard rate by banks on consolidated and non-consolidated basis", derivative financial assets, hedge derivative financial assets, deferred tax asset and prepaid expenses in assets; general provisions, deferred tax liability, derivative financial liabilities, hedge derivative financial liabilities and Equity in liabilities are not taken into account in calculation of exchange risk. Therefore, there are differences between foreign currency assets and liabilities total included in table below and those included in balance sheet. Actual foreign currency position of the Bank is shown in the table below in financial and economic context.

PASHA YATIRIM BANKASI A.S. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	EUR	USD	Other FC	Tota
31 December 2017				
Assets				
Cash and Cash Equivalents (Cash in vault, effectiveness, money in transfer and cheques purchased) and Balances with the Central Bank of Turkey	3,142	64,644	-	67,786
Due from Banks	12,147	61,439	1	73,587
Financial Assets at Fair Value Through Profit or Loss	-	-	-	, 5,5 - ,
Money Market Placements	-	-	-	
Available-for-sale Financial Assets	-	-	7,289	7,289
Loans ^(*)	101,985	144,172	-	246,157
Investments in Associates, Subsidiaries and Joint Ventures	-	-	-	
Held-to-maturity Investments	-	-	=	-
Hedging Derivative Financial Assets	-	-	=	-
Property and Equipment	-	-	-	-
Intangible Assets	-	-	=	-
Other Assets ^(****)	-	17,066	=	17,066
Total Assets	117,274	287,321	7,290	411,885
Liabilities				
Bank Deposits	-	-	=	
Foreign Currency Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	-
Funds Borrowed From Other Financial Institutions	85,007	209,540	7,250	301,797
Marketable Securities Issued	-	94,412	-	94,412
Miscellaneous Payables	-	-	-	
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities(***)	8,496	14,975	-	23,47
Total Liabilities	93,503	318,927	7,250	419,680
Net On-balance Sheet Position	23,771	(31,606)	40	(7,795)
Net Off-balance Sheet Position	(22,080)	32,061	-	9,981
Derivative Financial Assets (**)		32,061	-	32,061
Derivative Financial Liabilities (**)	22,080		-	22,080
Non-Cash Loans (****)	87,692	72,762	-	160,454
31 December 2016 Total Assets	Co 00		<u> </u>	
	63,488	103,873	6,676	174,037
Total Liabilities	48,449	91,875	6,660	146,984
Net On-balance Sheet Position	15,039	11,998	16	27,053
Net Off-balance Sheet Position	(14,840)	(3,519)	-	(18,359)
Derivative Financial Assets	-	3,519	=	3,519
Derivative Financial Liabilities	14,840	7,038	=	21,878
Non-Cash Loans(****)	27,170	38,576	1,713	67,459

⁽¹⁾ Foreign currency indexed loans amounting to TL 52,231 (31 December 2016 : TL 44,990) are included.
 ⁽²⁾ Forward purchase/sell transactions and swaps recorded under committments are included.
 ⁽²⁾ Fair value of trading derivative transactions amounting to TL 692 presented under "trading derivative financial liabilities" account is not included.
 ⁽²⁾ Foreign currency lease receivables amounting to TL 17,018 presented in "Other Assets" line.

(*****) Does not have an effect on currency position

Foreign Exchange Sensitivity Analysis:

The effects (excluding tax effects) of 10% weakening of TL against the foreign currencies below at 31 December 2017 and 2016 on the equity and profit or loss are presented below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Change in C	nge in Currency Rate Effect on Profit and Loss		it and Loss	ss Effect on Equity		
		31 December 2017	31 December 2016	31 December 2017	31 December 2016	
USD	%10	46	848	46	848	
EUR	%10	169	20	169	20	

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

IV. EXPLANATIONS ON INTEREST RATE RISK

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

Interest rate sensitivity of the Bank:

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates

					5 Year and	Non-Interest	
31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 Year	over	Bearing	Total
Assets							
Cash and Cash Equivalents (Cash in vault, effectiveness, money in transfer and cheques purchased) and Balances with the Central Bank of Turkey	67.673	_	_	-	-	9,900	77,573
Due from Banks	58,478		_	_	_	15,138	73,616
Financial Assets at Fair Value Through Profit/Loss	-	_	_	_	_	4,943	4,943
Money Market Placements	-	-	-	-	-	-	-
Available-for-Sale Financial Assets	2,524	9,303	9,481	-	-	-	21,308
Loans	254,990	169,508	133,604	111,387	9,610	-	679,099
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (°)(°°°)	-	-	17,018	16,931	-	6,357	40,306
Total Assets	383,665	178,811	160,103	128,318	9,610	36,338	896,845
Bank Deposits Other Deposits	-	-	-	-	-	-	-
Bank Deposits	-	-	-			-	-
	-	-	-				-
Funds From Interbank Money Market	62,729	-	-	-	-	-	62,729
Miscellaneous Payables Marketable Securities Issued	-	-	-	-	-	178	178
	29,252	58,077	-	94,412	-	-	181,741
Funds Borrowed From Other Financial Institutions				(- (a 13 a 0=
	70,164	27,931	167,656	75,636	-	-	341,387
Other Liabilities (**)	11,997	187	193	-	-	298,433	310,810
Total Liabilities	174,142	86,195	167,849	170,048		298,611	896,845
Balance Sheet Long Position	209,523	92,616		-	9,610	-	311,749
Balance Sheet Short Position	-	-	(7,746)	(41,730)	-	(262,273)	(311,749)
Off-balance Sheet Long Position	-	-	-	-	-	-	-
Off-balance Sheet Short Position	-	_	-	_	_	-	_
Total Position	209,523	92,616	(7,746)	(41,730)	9,610	(262,273)	-

⁽¹⁾ Property and equipment, intangible assets and non-interest bearing assets in other assets and tax assets are presented under "Non-Interest bearing" column of Other Assets" line. ⁽¹⁾ Shareholders' equity, provisions, non-interest bearing liabilities in other liabilities and tax liability is presented under "Other Liabilities" in the "Non-Interest Bearing" column. ⁽¹¹⁾ Lease receivables are included in other assets line.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

					5 Year and	Non-Interest	
31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 Year	over	Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with The CBRT	19,579	_	_	-	_	14,857	34,436
Due From Banks	22,530	-	-	-	-	6,614	29,144
Financial Assets at Fair Value Through Profit/Loss	-	281	-	_	-		281
Interbank Money Market Placements	-	15,133	-	-	-	-	15,133
Available-for-Sale Financial Assets	3,724	12,779	4,035	-	-	-	20,538
Loans	178,777	86,269	128,751	10,073	-	-	403,870
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets ^(°)	-	-	-	-	-	6,955	6,955
Total Assets	224,610	114,462	132,786	10,073	-	28,426	510,357
Liabilities Bank Deposits	-	-	-		-		
	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	
Funds From Interbank Money Market	15,963	-	-	-		-	15,963
Miscellaneous Payables	-	-	-	-	-	1,454	1,454
Marketable Securities Issued	37,239	-	-	-	-	-	37,239
Funds Borrowed From Other Financial							
Institutions	44,281	9,171	138,445	-	_	-	191,897
Other Liabilities (**)	500	1,603	-	-	-	261,701	263,804
Total Liabilities	97,983	10,774	138,445	-	-	263,155	510,357
Balance Sheet Long Position	126,627	103,688		10,073	-	-	240,388
Balance Sheet Short Position	-	-	(5,659)	-	-	(234,729)	(240,388)
Off-balance Sheet Long Position	-	-	-	-	-	-	-
Off-balance Sheet Short Position	-	-	_	-	-		-
Total Position	126,627	103,688	(5,659)	10,073	-	(234,729)	-

⁽¹⁾ Property and equipment, intangible assets and non-interest bearing assets in other assets and tax assets are presented under "Non-Interest bearing" column of Other Assets" line. ⁽¹⁾ Shareholders' equity, provisions, non-interest bearing liabilities in other liabilities and tax liability is presented under "Other Liabilities" in the "Non-Interest Bearing" column.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

b. Average interest rates for monetary financial instruments:

31 December 2017	EUR %	USD %	JPY %	TL %
Assets				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques				
Purchased) and Balances with the CBRT	-	1.29	-	4.00
Due From Banks	0.04	1.21	-	13.97
Financial Assets at Fair Value Through Profit/Loss	-	-	-	-
Interbank Money Market Placements	-	-	-	13.43
Available-for-Sale Financial Assets	-	-	-	12.14
Loans ^(°)	4.54	6.09	-	15.33
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	13.72
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	4.85	-	13.93
Funds Borrowed From Other Financial Inst.	1.43	3.17	-	12.64

(*) Average interest rates applied to lease receivables are included in the "Loans" line.

EUR %	USD %	JPY %	TL %
-	0.75	-	5.31
0.10	1.49	-	9.41
-	-	-	-
-	-	-	9.69
-	-	-	10.20
3.84	4.92	-	13.65
_	_	-	-
-	-	-	-
-	-	-	-
-	-	-	8.77
-	-	-	-
-	-	-	11.73
1.79	3.02	-	11.01
	- 0.10 - - 3.84 - - - - - - - - - -	- 0.75 0.10 1.49 3.84 4.92 -	- 0.75 - 0.10 1.49 - 3.84 4.92 -

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

c. Economic value differences resulted from interest rate instabilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from banking book as per standard shock method:

Current Period Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity- Losses/Equity
TL	(+) 500 bps	(7,942)	(2.97%)
TL	(-) 400 bps	7,145	2.68%
USD	(+) 200 bps	2,667	1.00%
USD	(-) 200 bps	(1,787)	(0.67%)
EUR	(+) 200 bps	(1,654)	(0.62%)
EUR	(-) 200 bps	2,602	0.97%
TOTAL (for negative shocks)		7,959	2.98%
TOTAL (for positive shocks)		(6,930)	(2.59%)

Prior Period Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity- Losses/Equity
TL	(+) 500 bps	(3,093)	(1.25%)
TL	(-) 400 bps	2,676	1.08%
USD	(+) 200 bps	965	0.39%
USD	(-) 200 bps	(628)	(0.25%)
EUR	(+) 200 bps	(925)	(0.37%)
EUR	(-) 200 bps	(185)	(0.07%)
TOTAL (for negative shocks)		1,863	0.76%
TOTAL (for positive shocks)		(3,053)	(1.23%)

d. Total unrealized gains or losses, total revaluation increases with the amount of their primary and contribution included in capital:

As of 31 December 2017, The Bank's portfolio does not have private equity investments, publicly traded shares and other share equities (31 December 2016: None).

V. EXPLANATIONS ON EQUITY POSITION RISK

The Bank does not hold equity position as of 31 December 2017 (31 December 2016: None).

VI. EXPLANATIONS ON LIQUIDITY RISK

a) Information on risk capacity, responsibilities and structure of liquidity risk management, reporting of liquidity risk at bank, liquidity risk management including how liquidity risk strategy, policy and implementations communicates with board of directors and business units:

Liquidity risk is the risk occurring as a result of non-availability of sufficient cash on hand or cash inflow to meet cash outflows in a timely manner completely as a result of imbalance in cash flows. Treasury department manages the cash flow and the liquidity of the Bank and informs ALCO about the liquidity position of the Bank. Planning the weekly, monthly and annual liquidity management and taking the necessary measures is the responsibility of Tresury Department coordinately with Regulatory Reporting and Risk Management departments, informing the top managements is the responsibility of Risk Management department.

The Bank forms its assets and liabilities in balance not to create a negative gap on cumulative basis in maturity segments.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

In accordance with the "Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks" entered into force after published on Official Gazette dated November 1, 2006 and numbered 26333 by BRSA, weekly simple average of total liquidity adequacy rates related to primary maturity segment and total liquidity adequacy rate related to secondary maturity segment cannot be less than 100% while weekly simple average of foreign currency liquidity ratio related to primary maturity segment and foreign currency adequacy rate related to secondary maturity segment cannot be less than 80%.

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

Regulatory reporting department is responsible for measuring and reporting of legal liquidity ratios.

Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Risk Management Department.

Risk Management Department monitors related unit's activities and reports to the Senior Management monthly.

b) Information on centralization grade of liquidity management and funding strategy and its functionality among Bank and its affiliates:

There is no structured liquidity management requiring centralization between bank and its affiliates.

c) Information on funding strategy of the Bank including policies related to diversity of funding sources and periods:

The main funding sources of the Bank are provided by domestic and foreign banks, repo transactions, money market transactions and issued marketable securities and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies which are required to relate supplying of long term foreign source.

d) Information on liquidity management based on currencies forming at least 5% of total liabilities of the Bank:

Almost all the liabilities of the Bank consists of TL, USD and EUR and equities mainly forming the TL sources.

TL liquidity of the Bank is managed through funds provided from domestic and foreign banks via repo transactions made in BIST using high quality (premium) securities.

TL and foreign currency cash flow of the Bank in scope of Balance sheet management is monitored separately. Risk Management Department reports to ALCO and Risk Management Committee periodically.

e) Information on liquidity risk reduction techniques

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

f) Disclosure regarding use of stress test

Liquidity stress test regarding adverse effects in the Bank's liquidity due to fluctuations in capital markets is applied by Risk Management Department if it is deemed necessary and reported to Risk Management Committee.

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

4

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I OF SECTION THREE **PASHA YATIRIM BANKASI A.Ş.** NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

g) Information related to emergency and unexpected situation plan for Liquidity:

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.

h) Liquidity ratios realized in the current period

The liquidity ratios regarding first and second maturity tranches are presented below:

		First Maturity Tranche (Weekly) ^(*)		d Maturity (Monthly) ^(°)
	FC	FC +TL	FC	FC +TL
31 December 2017				
Average (%)	595	221	180	157
Maximum (%)	1,137	291	382	220
Minimum (%)	190	156	81	107

		First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC +TL	FC	FC +TL	
31 December 2016					
Average (%)	221	377	116	383	
Maximum (%)	327	556	167	587	
Minimum (%)	144	195	87	279	

⁽¹⁾ Monthly unconsolidated liquidity ratios for the last three months including the reporting period are accounted in the tables above.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

i) Liquidity Coverage Ratio

Referring to the BRSA's announcement dated 29/12/2014, no: 30223; it is stated that, as of year 2017, development and investment banks' foreing currency and total consolidated and unconsolidated liquidity coverage ratios are not subject to regulatory limits according to paragraph 5 of article 4 of Regulations About Banks' Liquidity Coverage Ratio Measurement.

Current Period-31 December 2017 (**)	is not	ount which applied ration rate	Total amount which is applied consideration rate	
	TL+FC	FC	TL+FC	FC
High-quality Liquidity Assets (HLA)				
ו High-quality Liquidity Assets			77,920	57,566
Cash Outflows				
2 Real person assets and retail assets	-	-	-	-
3 Stable assets	-	-	-	-
4 Lower Stable assets	-	-	-	_
5 Out of junior debts from real person assets and retail				
assets	203,346	64,520	203,346	64,520
6 Operational assets	-	-	-	-
7 Non –operating assets	-	-	-	-
8 Other Junior debt	203,346	64,520	203,346	64,520
9 Secured Debts			-	-
10 Other Cash Outflows	90,556	31,824	36,222	12,730
11 Derivative liabilities and margin liabilities	-	-	-	-
12 Debts from Structured financial instruments	-	-	-	-
13 Payment commitments for debts to financial markets				
and other off-balance sheet liabilities	90,556	31,824	36,222	12,730
14 Revocable off-balance sheet other liabilities and other				
contractual liabilities notwithstanding to any conditions	-	-	-	_
15 Other irrevocable or conditionally revocable off-balance				
sheet liabilities	273,059	128,934	27,306	12,893
16 TOTAL CASH OUTFLOWS		266,874	90,143	
CASH INFLOWS				
17 Secured receivables	-	-	-	
18 Unsecured receivables	194,543	54,823	126,410	54,549
19 Other cash inflows	-	-	-	_
20 TOTAL CASH INFLOWS	194,543	54,823	126,410	54,549
			Upper limit applied	amount
21 TOTAL HLA STOCK			77,920	57,566
22 TOTAL NET CASH OUTFLOWS (*)			140,464	35,594
23 LIQUIDITY COVERAGE RATION (%)			55-47%	161.73%

⁽¹⁾ The part of total cash inflows which exceeds 75% of total cash outflows is not being taken into account during the calculation of related amounts.

(**) Monthly unconsolidated liquidity ratios for the last three months including the reporting period are accounted in the tables above.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Prior Period-31 December 2016	is not	ount which applied ration rate	Total amount which is applied consideration rate	
	TL+FC	FC	TL+FC	FC
High-quality Liquidity Assets (HLA)				
ו High-quality Liquidity Assets			23,519	10,381
Cash Outflows				
2 Real person assets and retail assets	-	-	-	-
3 Stable assets	-	-	-	-
4 Lower Stable assets	-	-	-	-
5 Out of junior debts from real person assets and retail				
assets	58,280	20,695	58,280	20,695
6 Operational assets	-	-	-	-
7 Non –operating assets	-	-	-	-
8 Other Junior debt	58,280	20,695	58,280	20,695
9 Secured Debts			-	-
10 Other Cash Outflows	42,322	27,499	17,104	11,803
ו Derivative liabilities and margin liabilities	293	1,339	293	1,339
12 Debts from Structured financial instruments	-	-	-	_
13 Payment commitments for debts to financial markets				
and other off-balance sheet liabilities	42,029	26,160	16,811	10,464
14 Revocable off-balance sheet other liabilities and other				
contractual liabilities notwithstanding to any conditions	-	-	-	
15 Other irrevocable or conditionally revocable off-balance				
sheet liabilities	136,167	26,344	13,617	2,634
16 TOTAL CASH OUTFLOWS		89,001	35,132	
CASH INFLOWS				
17 Secured receivables	-	-	-	-
18 Unsecured receivables	217,074	6,727	150,894	5,992
19 Other cash inflows	1	155	1	155
20 TOTAL CASH INFLOWS	217,075	6,882	150,895	6,147
			Upper limit applied	amount
21 TOTAL HLA STOCK			23,519	10,381
22 TOTAL NET CASH OUTFLOWS (*)			22,250	28,985
23 LIQUIDITY COVERAGE RATION (%)			105.70%	35.82%

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

j) Breakdown of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Unclassified ^ෆ	Total
31 December 2016								
Assets								
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the CBRT	9,900	67,673	_	_	_	_	_	77,573
Due From Banks	15,138	58,478	_	_	_	-		73,616
Financial Assets at Fair Value Through Profit/Loss	4,943							4,943
Interbank Money Market Placements	-	-	-	-	-	-	-	-
Available-for-Sale Financial Assets	-	-	-	9,482	9,303	2,523	-	21,308
Loans	_	188.818	94,000	190,375	196,296	9,610	_	679,099
Held-to-Maturity Investments	-		-	-	-	-	_	-
Other Assets (°)(°°°)	-	3,208	2	17,018	16,931	-	3,147	40,306
Total Assets	29,981	318,177	94,002	216,875	222,530	12,133	3,147	896,845
Liabilities								
Bank Deposits	-	-	-	-	-	-	-	
Other Deposits	-	-	-	_	_	-	-	_
Funds From Interbank Money Market	-	70,164	27,931	167,656	75,636	-	-	341,387
Miscellaneous Payables	-	62,729	-	-	-	-	-	62,729
Marketable Securities Issued	-	29,252	58,077	-	94,412	-	_	181,741
Funds Borrowed From Other Financial Institutions	_	150	_	28	-	-	_	178
Other Liabilities (**)	8,682	28,460	1,860	193	-	-	271,615	310,810
Total Liabilities	8,682	190,755	87,868	167,877	170,048	-	271,615	896,845
Liquidity Gap	21,299	127,422	6,134	48,998	52,482	12,133	(268,468)	-
Net Off-Balance Sheet Liquidity Gap	-	(729)	(47)	356	-	-	-	(420)
Financial Derivative Assets	-	34,503	8,307	11,645	-	-	-	54,455
Financial Derivative Liabilities	-	(35,232)	(8,354)	(11,289)	-	-	-	(54,875)
Non-cash Loans (****)	_	4,651	5,493	194,317	51,508	-	109,958	365,927
31 December 2015								
Total Assets	21,471	168,797	69,005	176,322	71,885	-	2,877	510,357
Total Liabilities	3,417	102,951	12,277	139,898	-	-	251,814	510,357
Liquidity Gap	18,054	65,846	56,728	36,424	71,885	-	(248,937)	-
Net Off-Balance Sheet Liquidity Gap	-	-	(1,046)	-	-	-	-	(1,046)
Financial Derivative Assets	-	-	24,108	-	-	-	-	24,108
Financial Derivative Liabilities	-	-	(25,154)	-	-	-	-	(25,154)
Non-cash Loans (^(****)	-	176	2,006	78,820	-	26,044	90,864	197,910

⁽⁷⁾ Assets that are necessary for banking activities and that cannot be liquidated in the short-term, such as property and equipment, intangible assets, associates and subsidiaries, ""Shareholders' equity, provisions and commissions collected in advance is presented under "Other liabilities" item in the "Unclassified" column. ""Shareholders' equity, provisions and commissions collected in advance is presented under "Other liabilities" item in the "Unclassified" column.

("") Letter of guarantees without a defined maturity are presented under unclassified column.

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k) Breakdown of contractual cash outflows of financial liabilities according to their remaining maturities:

Current Period	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Liabilities					
Deposits	-	-	-	-	-
Funds borrowed from other financial					
inst.	70,384	28,081	170,466	78,394	-
Funds from interbank money market	62,799	-	-	-	-
Financial leasing payables	-	-	-	-	-
Marketable securities issued	29,484	59,244	-	117,165	-
Current accounts of customers	19,995	-	-	-	-
Total	182,662	87,325	170,466	195,559	-
Prior Period	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Liabilities					
Deposits	-	-	-	-	-
Funds borrowed from other financial					
inst.	44,302	9,208	143,181	-	-
Funds from interbank money market	15,968	-	-	-	-
Financial leasing payables	-	-	-	-	-
Marketable securities issued	37,500				
Current accounts of customers	3,917	-	-	-	-
Total	101,687	9,208	143,181	_	

I) Breakdown of derivative instruments according to their remaining contractual maturities:

The Bank's derivative transactions according to their contractual maturities are in the table below as of 31 December 2017:

Current Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Year	5 years and above
Forward ^(*)	4,879	16,661	22,934	-	-
Swap	64,856	-	-	-	-
Futures	-	-	-	-	-
Options	-	-	-	-	-
Other	-	-	-	-	_
Total	69,735	16,661	22,934	-	-

Prior Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Year	5 years and above
Forward	-	-	27,713	-	-
Swap	-	-	21,549	-	-
Futures	-	-	-	-	-
Options	-	-	-	-	-
Other	-	-	-	-	-
Total	-	-	49,262	-	-

(*) Asset purchase and sales commitments are included two days termed transactions.

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VII. EXPLANATIONS ON LEVERAGE RATIO

Unconsolidated leverage ratio was realized as 20.1% (31 December 2016: 35.1%). The increase occurred in the on-balance sheet assets and off-balance sheet transactions led to a change in leverage compared to the previous period. Regulation has been linked to the provision of the minimum leverage ratio of 3%.

	Current Period*	Prior Period *
Asset On The Balance Sheet		
Assets on the balance sheet (excluding derivative financial instruments and loan		
derivatives, including collaterals)	834,480	481,081
(Assets deducted from core capital)	(865)	(770)
Total risk amount for assets on the balance sheet	833,615	480,311
Derivative Financial Instruments and Loan Derivatives		
Renewal cost of derivative financial instruments and loan derivatives	1	161
Potential credit risk amount of derivative financial instruments and loan derivatives	549	236
Total risk amount of derivative financial instruments and loan derivatives	550	397
Financing Transactions With Securities Or Goods Warranties		
Risk amount of financial transactions with securities or goods warranties (excluding		
those in the balance sheet)	652	152
Risk amount arising from intermediated transactions	-	-
Total risk amount of financing transactions with securities or goods warranties	652	152
Off-the-Balance Sheet Transactions		
Gross nominal amount of the off-the-balance sheet transactions	457,103	209,940
Adjustment amount arising from multiplying by the credit conversion rate	-	-
Total risk amount for off-the-balance sheet transactions	457,103	209,940
Capital and Total Risk		
Core capital	258,605	242,723
Total risk amount	1,291,920	690,800
Leverage Ratio		
Leverage ratio	20.1%	35.1%

* Arithmetic average of last three months including reporting period.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

VIII. EXPLANATIONS ON THE RISK MANAGEMENT

Notes and explanations in this section have been prepared in accordance with the "Communiqué on Disclosures about Risk Management to be Announced to Public by Banks" that have been published in official gazette no 29511 on 23 October 2015. Since Internal Rating-Based (IRB) approach is not applied, tables that have to be prepared within the scope of IRB, are not presented.

a. Bank's risk management approach

Effective risk management constitutes one of the most important competitive strength of the Bank. Risk management system is assessed as a critical process which includes all units starting from the Board of Directors level.

General strategies regarding Bank's risk management are given below:

- Effective risk management within the Bank's risk profile based on materiality; implementing a centralized risk framework that includes all major risk areas.
- Managing existing and potential risks from the beginning through forward looking risk strategies, policies and procedures, models and parameters,
- Applying a risk-focused management approach in the strategic decision process,
- Complying with all national risk management requirements, where the Bank operates.

The Bank's Board of Directors has the ultimate responsibility for setting-up and monitoring the efficiency of such a risk management system. The Board of Directors manages the risks through Risk Management Committee (RMC). RMC is responsible for the development of risk policies, measurement of risks and determination of methods to manage them, setting up of appropriate risk limits and their monitoring. All the risk policies of RMC are written and integrated with the Bank's long term strategy.

The Board of Directors fulfils its monitoring responsibility through the Auditing Committee, the Executive Risk Committee, the Credit Committee and other related intermediary committees and by means of regular risk, control and audit reporting system.

The Board of Directors regularly reviews and approves Bank's main risk approach, risk principles and policies which are initially discussed and decided by the Risk Management Committee. The Board of Directors also determines Bank's risk appetite by risk limits taking market conditions and Bank's risk taking capacity into consideration. Risk limits are made up of regulatory and internal limits on the basis of risk types.

Bank's Senior Management is responsible to the Bank's Board of Directors that daily activities are executed within the risk management procedures and risk limits determined by the Board of Directors and that risk management system operates in effective and efficient manner.

The Internal Audit, the Internal Control and Compliance Presidency and The Risk Management Departments which directly report to the Board of Directors operate in coordination with the business units of the Bank. In this scope, it is also Senior Management's responsibility to take necessary measures in order to resolve identified weaknesses, deficiencies and errors stated in the reports of internal and external audits, internal control and risk management.

Locally and internationally accepted risk models and parameters are used in the identification, measurement and monitoring of risks within the scope of risk management. The Bank strives continuously for development and improvement of internal methods and models. Forward looking risk reports prepared through regular and close monitoring of the market developments are made available for the Senior Management and the Board of Directors. In order to analyse the potential risks that the Bank may be exposed in extreme cases, various scenario analyses are performed and contingency plans are prepared. The Bank's internal capital adequacy assessment process ("ICAAP") has been established and the ICAAP has been performed parallel to the annual budget process on an annual basis. Moreover, various risk mitigation techniques are utilized to limit and provide protection against risks the Bank is exposed to. The effectiveness and efficiency of the risk mitigation techniques are regularly monitored.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

b. General view to risk weighted amounts

		Risk weighted	l amounts	Minimum capital requirements
		Current Period	Prior Period	Current Period
		31 December 2017	31 December 2016	31 December 2017
1	Credit risk (excluding counterparty credit risk) (CCR)	804,097	429,126	64,328
2	Of which standardised approach (SA)	804,097	429,126	64,328
3	Of which internal rating-based (IRB) approach		-	-
4	Counterparty credit risk	2,516	1,008	201
5	Of which standardised approach for counterparty credit risk			
	(SA-CCR)	2,516	1,008	201
6	Of which internal model method (IMM)	-	-	
7	Equity positions in banking book under market-based			
	approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fallback approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	3,288	10,049	263
17	Of which standardised approach (SA)	3,288	10,049	263
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	41,862	20,533	3,349
20	Of which Basic Indicator Approach	41,862	20,533	3,349
21	Of which Standardised Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250%			
	risk weight)	-	-	-
24	Floor adjustment	-	-	-
_	Total (1+4+7+8+9+10+11+12+16+19+23+24)	851,763	460,716	68,141

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I OF SECTION THREE PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

c. Linkages between financial statements and regulatory exposures

c.1.) Differences and mapping between regulatory consolidation and financial statement:

31 December 2017	Carrying values as reported in published financial statements ୯୨	Subject to credit risk	Subject to counterparty credit risk	Subject to the securitisation	Subject to market risk (**)	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances at central bank	77,573	77,573	-	-	-	-
Financial assets held for trading	4,943	-	-	-	4,943	
Financial assets designated at fair value through profit/loss	-	-	-	-	_	-
Banks	73,616	73,616	-	-	-	-
Receivables from money markets	-	-	-	-	-	-
Available for sale financial assets (net)	21,308	11,386	9,922	-	-	-
Loans and receivables	679,099	679,099	-	-	-	-
Factoring receivables	-	-	-	-	-	-
Held to maturity investments (net)	-	-	-	-	-	-
Investments in associates (net)	-	-	-	-	-	-
Investments in subsidiaries (net)	-	-	-	-	-	-
Investments in joint ventures (net)	-	-	-	-	-	-
Leasing receivables	33,949	33,949	-	-	-	-
Derivative financial assets held for hedges	-	-	-	-	-	-
Tangible assets (net)	655	604	-	-	-	51
Intangible assets (net)	869	-	-	-	-	869
Investment properties (net)	-	-	-	-	-	-
Tax assets	902	902	-	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	_	_	-	-	-	-
Other assets	3,931	3,931	-	-	-	-
Total assets	896,845	881,060	9,922	-	4,943	920
Liabilities						
Deposits	-	-	-	-	-	-
Derivative financial liabilities held for trading	1,072	-	1,072	-	1,072	-
Funds borrowed	341,387	-	-	-	-	341,387
Debt to money markets	62,729		8,057	-	-	54,672
Debt securities in issue	181,741	-	-	-	-	181,741
Funds	19,987	-	-	-	-	19,987
Various debts	178	-	-	-	-	178
Other liabilities	16,960	-	-	-	-	16,960
Factoring debts	-	-	-	-	-	
Debts from leasing transactions	-	-	-	-	-	-
Derivative financial liabilities held for hedges	-	-	-	-	-	-
Provisions	9,660	-	-	-	-	9,660
Tax liability	2,524	-	-	-	-	2,524
Liabilities included in disposal groups classified as held for sale (net)	-	_	-	-	-	-
Subordinated debts	-	-	-	-	-	-
Equity	260,607	-	-	-	-	260,607
Total liabilities	896,845	-	9,129	-	1,072	887,716

O Unconsolidated financial statements of Bank are stated.
Amounts of financial instruments, which are measured in accordance with TAS and included in trading accounts within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" are represented in "Subject to market risk framework" column.

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

c.2.) Main sources of differences between regulatory exposure amounts and carrying values in financial statements

					Subject to	
		Total	Subject to credit risk	Subject to securitization	counterparty credit risk	Subject to market risk ^ෆ
1	Assets carrying value amount in accordance with TAS under scope of					
	regulatory consolidation	895,925	881,060	-	9,922	4,943
2	Liabilities carrying value amount in accordance with TAS under regulatory					
	scope of consolidation	(9,129)	-	-	(9,129)	(1,072)
3	Total net amount under regulatory					
	scope of consolidation	886,796	881,060	-	793	3,871
4	Off-balance sheet amounts	370,823	291,790	-	-	-
5	Differences in valuations		-	-	-	-
6	Differences due to different netting					
	rules		-	-	(142)	(583)
7	Differences due to consideration of					
	provisions		-	-	-	-
8	Differences due to BRSA's applications		-	-	-	-
9	Differences due to risk reduction		11,726	-	1,865	-
10	Risk amounts		1,184,576		2,516	3,288

⁽¹⁾ The Amounts of financial instruments, which are measured according to TAS and included in trading accounts within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks", are represented in "Subject to market risk framework" column are presented.

c.3.) Explanations of differences between amounts in accordance with TAS and regulatory exposure amounts:

a) There are no differences between amounts presented in financial statements in accordance with TAS and amounts accounted in accordance with regulatory consolidation.

b) Differences between amounts in accordance with TAS and regulatory exposure amounts:

On counterparty credit risk related transactions, the differences between the valued amounts in accordance with TAS in the scope statutory consolidation and the amounts after risk reduction arise from the addition of potential risk amounts per maturity and transaction type to renewal cost of derivative transactions related to counterparty credit risk.

The valued amounts of the items which are subject to market risk per TAS represent the fair value of trading financial instruments. Despite that, the amount at the risk amount line represents the amount which is subject market risk that derives from the calculation of capital requirements due to the loss on interest rate risk of market risk, share price risk, currency risk in the scope of "Regulation on Measurement and Evaluation of Banks Capital Adequacy Ratio".

c) Explanations related to the systems and controls which are defined to ensure prudence and reliability of valuation estimates in accordance with prudent valuation procedures and principles within the scope of appendix 3 of "Regulation on Measurement and Evaluation of Capital Adequacy of Banks":

In case financial instruments that are accounted at their fair values are traded in an active market, the valuation is made based on market price. The accuracy of market price that is used at valuation is being confirmed periodically. The fair value of financial instruments that are not traded in an active market are being calculated in accordance TMS 39. Derivative financial instruments are valued by discounted cash flow model with the use of market data. For the valuation of certain financial instruments, third party valuations and generally accepted valuation models can be used. The accuracy and independence of inputs that are used at the valuation of market value and/or used at valuation methods by modelling are being controlled periodically. In addition, there are control processes for the comparison of the current market value of financial instruments with the recalculated values.

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d) Explanations on Credit Risk

Credit risk management includes the definition of credit risks, their measurement and management.

Risk limits are defined by Board of Directors in such a manner that covers all possible important risk components, in accordance with the Bank's operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank's risk appetite and Bank's strategies. The credit policies are established in consistence with risk limits.

When determining Bank's credit risk profile, diversification methods are applied in order to prevent concentrations. The choice of customers are done in accordance with policies and risk limits. Besides, the capability of the customer to pay via its cash flows generated from its own activities are taken into consideration.

Risk rating models (borrower rating model and facility rating model) are utilised to discriminate borrowers in terms of their credibilities. In the credit risk management process, Risk Management Unit conducts the activities of measurement of credit risk through models, monitoring and reporting. In addition to the risk limits regarding credit risk, several concentrations are analyzed in the credit portfolio.

The outputs of the risk rating models are an important part of credit allocation process as well as a tool to measure the probability of default of the customers and the portfolio.

The Bank utilises an effective risk management policy that truly classifies risks and customers in order to achieve its targets. Appropriate decision systems are in place for the correct evaluation of risks and the limit structure of the customers are determined.

To measure the credibility of the customers, analysis and intelligence studies are performed. The information from past, current and future financial and non-financial data are examined.

For a consistent evaluation, quantification and monitoring of risks; in order to make correct decisions during the processes of credit request by the customer, credit approval, collateralization, restructuring, monitoring and closing, all information and documents regarding the customer are collected in a shared database. Credit proposals are finalized by the evaluation of General Manager, Credit Committee or Board of Directors, depending on the limits. Credit risks are measured, monitored and reported by the Risk Management Unit.

d.1) CR1 – Credit quality of assets:

Gross Carrying Amounts reported in Financial Statements in accordance with TAS

				Allowances /	
		Defaulted exposures	Non-defaulted	amortization and	
		(a)	exposures (b)	impairment * (c)	Net Value (a+b-c)
1 Lo	ans and lease receivables	-	713,048	-	713,048
2 De	ebt securities	-	21,308	-	21,308
3 Of	ff-balance sheet exposures	-	365,927	-	365,927
4 To	otal	-	1,100,283	-	1,100,283

* Since the Bank does not have any impaired loans and receivables in accordance with "Regulation Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" ("Provisioning Regulation") published in the Official Gazette No. 26333 dated November 1, 2006, the allowances/amortization and impairment has been presented as zero in the table above.

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d.2) CR2 – Changes in stock of defaulted loans and debt securities:

The table KR2, which shows the changes in stocks of receivables in default and debt instruments is not prepared since the Bank does not have any receivables in default and debt instruments.

d.3) CRB – Additional explanations on credit quality of assets:

The Bank does not have any restructured, defaulted or non-performing loans. The breakdown of receivables by geographical area, sector and time to maturity are provided in the tables below:

Geographic breakdown

31 December 2017	Cash loans	Lease receivables	Debt securities	Banks	Total
Domestic	621,553	33,949	33,949	14,019	68,900
European countries	-	-	-	-	1,757
USA, Canada	-	-	-	-	2,959
OECD countries	56,991	-	-	-	-
Off-shore banking regions	-	-	-	-	-
Other	555	-	-	7,289	-
Total	679,099	33,949	33,949	21,308	73,616

Sector breakdown

31 December 2017	Cash Loans
Agriculture	-
Farming and Stockbreeding	-
Forestry	-
Fishery	-
Manufacturing	85,780
Mining and Quarrying	37,705
Production	41,621
Electricity, Gas and Water	39,696
Construction	97,903
Services	413,049
Wholesale and Retail Trade	18,876
Accommodation and Dining	-
Transportation and Telecom	50,701
Financial Institutions	287,975
Real Estate and Rental Services	23,711
Professional Services	-
Educational Services	-
Health and Social Services	-
Others	80,911
Total	679,099

Maturity breakdown:

The breakdown of assets by time to maturity is provided on Section Four, Note VI.

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d.4) CR3 – Credit risk mitigation techniques:

In order to ensure timely and complete fulfilment of all obligations arising from the loan, it is essential to obtain appropriate collaterals.

The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. Within this scope, the minimum margin of guarantee is determined and the guarantees suitable for the loan types are obtained. There is collateral matching in the system for each loan. In addition, the appropriateness of the margin for each guarantee is also checked.

The Bank discounts the collaterals by using some fixed ratios and calculates the expected cash equivalent of the collaterals in case they are transformed into cash. The difference between the credit and the cash equivalent of the collateral is defined as the net risk. In calculation of the net risk, the coefficients in the facility rating model are taken into account.

		Exposures unsecured: carrying amount (According to TAS)	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount		secured	Exposures secured by credit derivatives	
1	Loans and lease receivables	713,048	-	-	-	-	-	-
2	Debt securities	21,308	-	-	-	-	-	-
3	Total	734,356	-	-	-	-	-	-
4	Defaulted items	-	-	-	-	-	-	-

d.5) Qualitative explanations using the rating grades to calculate the banks' credit risk by standard approach:

In determining the risk weights regarding risk classes defined in Article 6 of "Regulation on Measurement and Assessment of Capital Adequacy of Banks", country risk classification published by OECD (Organisation for Economic Cooperation and Development) is taken into account. According to capital adequacy regulations, the risk classification and risk weights of receivables from banks and intermediary institutions and receivables from corporates are determined in accordance with the regulations.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

CR4: Standardised approach - Credit risk exposure and credit risk mitigation effects

	-	Exposures before credit risk mitigation and credit conversion factors		Exposures a risk mitigatio conversior	n and credit	Risk weighted assets (RWA) amounts and RWA density		
	Risk Classifications	On balance sheet amount ^(°)	Off balance sheet amount	On balance sheet amount ^{ෆ)}	Off balance sheet amount	RWA ^(°)	RWA Density	
1	Receivables from Central Governments or Central Banks	78,431	-	78,431	-	-	0.00%	
2	Receivables from Regional Management or Local Governments	-	-	-	-	-		
3	Receivables from Administrative Units or Non-commercial Ventures	-	-	-	-	-		
4	Receivables from Multilateral Development Banks	-	-	-	-	-		
5	Receivables from International Organizations	_	-	-	-	_		
6	Receivables from Banks and Brokerage Corporation	85,738	100,366	85,738	63,756	105,975	13.14%	
7	Corporate receivables	684,817	270,456	684,817	223,146	667,375	82.73%	
8	Retail receivables	-	-	-	-	-		
9	Collateralized by real estate mortgages receivables	-	-	-	-	-		
10	Collateralized by trading mortgages receivables	33,949	-	33,949	-	19,751	2.45%	
11	Non-performing receivables	-	-	-	-	-		
12	Receivables defined in high risk category by BRSA	-	-	-	-	-		
13	Securities collateralized by mortgages	-	-	-	-	-		
14	Short-term receivables and short-term corporate receivables from Banks and Brokerage corporations	8,939	-	8,939	_	8,939	1.11%	
15	Investments in nature of Collective Investment funds	-	_		-			
16	Equity security investments	-	-	-	-	-		
17	Other receivables	5,800	-	5,800	-	4,574	0.57%	
18	Total	897,674	370,822	897,674	286,902	806,613	100.00%	

(*) Credit risk amount resulting from counterparty risk is included.

PASHA YATIRIM BANKASI A.S. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

CR5 – Standardised approach – exposures by risk classes and risk weights:

Total credi risk amoun (after CRM	ri					%50 Iaranteed by	Gu			
and CCF	Others	200%	150%	100%	75%	ortgages	20% m	10%	0%	
78,43	-	-	-	-	-	-	-	-	78,431	1
	-	-	-		-	-	-	-	-	2
	-	-	-	-	-	-	-	-	-	3
	-	-	-	-	-	-	-	-	-	4
	-	-	-	-	-	-	-	-	-	5
149,49	-	-	23	70,730	-	70,243	441	-	8,057	6
907,96	-	-	-	513,793	-	249,164	145,006	-	-	7
	-	-	-	-	-	-	-	-	-	8
	-	-	-	-	-	-	-	-	-	9
33,94	-	-	-	5,552	-	28,397	-	-	-	10
	-	-	-	-	-	-	-	-	-	11
	-	-	-	-	-	-	-	-	-	12
	-	_	-	-	-	-	-	-	-	13
8,93	-	-	-	8,939	-	-	-	-	-	14
	-	-	-	-	-	-	-	-	-	15
	-	-	-	-	-	-	-	-	-	16
5,80	-	-	-	4,574	-	_	-	-	1,226	17
1,184,57	-	-	23	603,588	-	347,804	145,447	-	87,714	18

Receivables from Central Governments or Central Banks
 Receivables from Regional Management or Local Governments
 Receivables from Administrative Units or Non-commercial Ventures

A) Receivables from Multilateral Development Banks
 B) Receivables from International Organizations
 Receivables from Banks and Brokerage Corporation

7) Corporate receivables 8) Retail receivables

9) Collateralized by real estate mortgages receivables

10) Collateralized by trading mortgages receivables 11) Non-performing receivables

12) Receivables defined in high risk category by BRSA

13) Securities collateralized by mortgages
 14)Short-term receivables and short-term corporate receivables from Banks and Brokerage corporations

15) Investments in nature of Collective Investment funds

16) Equity security investments

17) Other receivables

18) Total

e. Issues related to counterparty credit risk (CCR)

The CCR strategy is determined by counterparty type and product categories. Counterparties are categorized as central counterparties, banks, corporate and commercial companies. The products are grouped as foreign exchange transactions (forward, futures, swap), interest swap transactions (interest swap, cross currency swap and futures and repo transactions.

The creditworthiness of the counterparty is analyzed prior to the transactions leading to the CCR and subsequently the creditworthiness of the counter parties is reviewed at regular intervals. The frequency of inspections is increased when necessary.

The scope and level of information providing the opportunity to assess the creditworthiness of the counterparty shall be differentiated depending on the volume of the transaction to be realized, the level of the CCR and / or the counterparty.

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

For counterparties except banks, the counterparty credit risk limits are determined based on credit allocation policies. In case of deterioration of market conditions or in case of deterioration of credit quality of some counterparties, limits are reviewed and necessary changes are made.

The related approvals identified for laon allocation process are applied for corporate and individual customers, excluding banks. In case of detoriation in market conditions and/or in the credit quality of the borrower company/group, the related company/group limits are reviewed and necessary actions are taken. For the loan allocation process approvals of Board of Directors or the relevants committe approvals authorized by the Board of directos are applied. In case of significant changes in market conditions and/or structure or financials of the related company/group, the related company/group limits are reviewed and necessary actions are taken. Collateralization principles and procedures are applied for counterparties other than financial institutions within the framework of credit policies and application principles currently applied in the Bank.

The potential, current and maximum risk amounts of the transactions are calculated / determined in order to determine the CCR. The risks of transactions that are subject to the legally binding bilateral netting agreement and to which the netting transaction can be applied are followed together.

e.1) CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach:

		Barreland	Potential		Exposure after		Risk
		Revaluation Cost	credit risk exposure	EEPE	Alpha	credit risk mitigation	Weighted Amounts
1	Standard approach-CCR (for derivatives)	4	541	-	1.4	545	545
2	Internal Model Method (for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)	-	_	-	_	_	
3	Simple Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)	_	_	-	_	1,865	1,865
4	Comprehensive Approach for credit risk mitigation (for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit)	-	-		_		
5	VaR for derivatives, Repo Transactions, Marketable Securities or EMTIA lending or borrowing transactions, transactions with a long settlement time, Marketable Security transactions with credit	_	-	-	_	-	
6	Total	-	-	-	-	2,410	2,410

e.2) CCR2 - Credit valuation adjustment (CVA) capital charge:

		Risk amount (after credit risk mitigation techniques)	Risk weighted amounts
	Total portfolios subject to the Advanced CVA capital charge	-	-
1	(i) Value at Risk (VaR) component (including the 3×multiplier)	-	-
2	(ii) Stressed VaR component (including the 3×multiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	106	106
4	Total subject to the CVA capital charge	106	106

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

e.3) CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weights:

	Risk Weights								
									Tota Credit
Risk Classifications	0%	10%	20%	50%	75%	100%	150%	Other	Risk
Receivables from Central Governments or Central Banks	-	-	-	-	-	-	-	-	-
Receivables from Regional Management or Local									
Governments	-	-	-	-	-	-	-	-	-
Receivables from Administrative Units or Non-commercial									
Ventures	-	-	-	-	-	-	-	-	-
Receivables from Multilateral Development Banks	-	-	-	-	-	-	-	-	-
Receivables from International Organizations	-	-	-	-	-	-	-	-	-
Receivables from Banks and Brokerage Corporation	-	-	-	-	-	2,516	-	-	2,516
Corporate receivables	-	-	-	-	-	-	-	-	-
Retail receivables	-	-	-	-	-	-	-	-	-
Collateralized by real estate mortgages receivables	-	-	-	-	-	-	-	-	-
Non-performing receivables	-	-	-	-	-	-	-	-	-
Receivables defined in high risk category by BRSA	-	-	-	-	-	-	-	-	-
Securities collateralized by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term receivables and short-term corporate									
receivables from Banks and Brokerage corporations	-	-	-	-	-	-	-	-	-
Investments in nature of Collective Investment funds	-	-	-	-	-	-	-	-	-
Equity security investments	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	2,516	-	-	2,516

e.4) CCR4 – Risk class and counterparty credit risk based on PD:

Since standard approach is used in capital adequacy calculation, the relevant table is not presented.

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

e.5) CCR5 – Composition of collateral for CCR exposure:

	Collat	erals for I	Collaterals or Other Transactions			
	Collaterals Take	n	Collaterals Giv	en		
	Reserved Not Re	served	Reserved Not R	Reserved	Collaterals Taken	Collaterals Given
Cash-local currency	-	-	-	-	8,057	-
Cash- foreign currency	-	-	-	-	-	-
Government bond/bill – local	-	-	-	-	-	4,158
Government bond/bill – other	-	-	-	-	-	-
Public institutions bond/bill	-	-	-	-	-	2,019
Corporate bond/bill	-	-	-	-	-	3,745
Share equities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	8,057	9,922

e.6) CCR6 – Credit derivatives:

There is no credit derivatives arising from purchasing or selling the credit derivatives of the Bank's portfolio.

e.7) CCR8 – Exposures to central counterparties:

The Bank does not have transactions related with exposures to central counterparty, the related table has not been prepared.

f. Issues to be announced to public related to securitisation positions

The Bank does not have transactions related with securitizations, the related table has not been prepared.

g. Explanations on market risk

The risk principles, policies and risk limits related to the management of market risk are approved by the Board of Directors and reviewed on a regular basis. The Bank's Senior Management performs day to day management of the market risk in accordance with the limits assigned by the Board of Directors. The Bank is exposed to market risk as a result of fluctuations in foreign exchange rates, interest rates, and market prices of stocks. Exchange rate risk and interest rate risk are evaluated as the two most important components of market risk. The Bank engages in derivative transactions for hedge purposes when found necessary.

Market risk is calculated by two different methods, namely the "inherent model" and the "standard method". According to inherent model market risk is measured by Value at Risk ("VaR") approach which takes into account different risk factors. VaR calculations are performed based on variance-covariance and/or historical simulation methods, depending on whichever is appropriate given the economic conditions. VaR is calculated weekly and reported to Senior Management. For legal reporting, standard method is utilised.

The following table indicates the details of the market risk calculation as of 31 December 2017, in accordance with the Market Risk Calculation principles pursuant to the Third Section of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in the Official Gazette no. 29511 on 23 October 2015.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	RWA
Outright products	
Interest rate risk (general and specific)	1,563
Equity risk (general and specific)	-
Foreign exchange risk	1,725
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	-
Scenario approach	-
Securitisation	-
Total	3,288
	Interest rate risk (general and specific) Equity risk (general and specific) Foreign exchange risk Commodity risk Options Simplified approach Delta-plus method Scenario approach Securitisation

h. Explanations on operational risk

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette no. 29511 on 23 October 2015 and entered into force as of July 1, 2012, is used in the operational risk calculation of the Bank. The amount subject to the operational risk as of 31 December 2016 is calculated once a year by using the gross income of the Bank in 2013, 2014 and 2015. For 31 December 2017, it was calculated as TL 41,862.

1	31 December 2014 31 D	ecember 2015 31 D	ecember 2016	Total/Positive GI		
Current Period	Amount	Amount	Amount	year number	Ratio (%)	Total
Gross Revenue	5,571	26,066	35,342	22,326	15	3,349
Amount Subject to Operational Risk						
(Total*12,5)						41,862
:	31 December 2013 31 D	ecember 2014 31 D	ecember 2015	Total/Positive GI		
Prior Period	Amount	Amount	Amount	vear number	Ratio (%)	Total
Gross Revenue	1,215	5,571	26,066	10,951	15	1,643
Amount Subject to Operational Risk						
(Total*12,5)						20,533

IX. EXPLANATIONS ON THE PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT THEIR FAIR VALUES

1. Fair value calculations of financial assets and liabilities:

The fair values of held-to-maturity assets are determined based on market prices or when this price is not available, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

The fair value of marketable securities issued is calculated according to quoted market prices and if these are not available, amounts derived from discounted cash flow models.

The expected fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

The following table summarizes the carrying values and fair values of financial assets and liabilities. The carrying value represents the acquisition costs and accumulated interest accruals of corresponding financial assets or liabilities.

	Carryir	ig Value	Fair	Value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	
Financial Assets	807,972	468,685	805,370	467,244	
Interbank Money Market Placements	-	15,133	-	15,133	
Banks	73,616	29,144	73,616	29,144	
Available-for-Sale Financial Assets	21,308	20,538	21,308	20,538	
Loans	679,099	403,870	676,805	402,429	
Lease receivables	33,949	-	33,641	-	
Financial Liabilities	606,022	250,470	605,771	250,215	
Funds borrowed from other fin.					
Institutions	341,387	191,897	341,279	191,672	
Payables to money market	62,729	15,963	62,729	15,963	
Securities issued	181,741	37,239	181,598	37,209	
Miscellaneous Payables	178	1,454	178	1,454	
Borrower Funds	19,987	3,917	19,987	3,917	

i. Fair value hierarchy:

TFRS 7 sets a hierarchy of valuation techniques according to the observability of data used in valuation techniques which establish basis for fair value calculations.

Aforesaid fair value hierarchy is determined as follows:

- a) Identical assets and quoted market prices (non-adjusted) (1st level);
- b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level);
- c) Data not based on observable market data regarding assets or liabilities (3rd level).

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles is given in the table below:

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss	4,943	-	-	4,943
Available for sale financial assets	14,019	-	7,289	21,308
Total assets	18,962	_	7,289	26,251
Trading derivative financial liabilities	-	1,072	-	1,072
Hedging derivative financial liabilities	-	-	-	-
Total liabilities	-	1,072	-	1,072
31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss	-	281	-	281
Available for sale financial assets	13,864	-	6,674	20,538
Total assets	13,864	281	6,674	20,819
Trading derivative financial liabilities	-	1,603	-	1,603
Hedging derivative financial liabilities	-	-	-	-
Total liabilities	-	1,603	-	1,603

The available for sale financial assets classified under level 3 hierarchy are purchased in year 2016 and were carried in the balance sheet as of year 2017. The differences in the amounts are due to currency revaluation and changes in carrying amount. There are no transfers between the levels.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

X. EXPLANATIONS ON THE ACTIVITIES CARRIED OUT ON BEHALF AND ACCOUNT OF OTHER PERSONS

The Bank, has been authorized to provide Trading Brokerage Activity, Portfolio Brokerage Activity, Best-Effort Copy Public Offering Brokerage Activity and Limited Custody Services. The Bank does not deal with fiduciary transactions.

XI. EXPLANATIONS ON OPERATING SEGMENTS

		Treasury and Asset Liability	
Current Period	Corporate Banking	Management	Total
Total Assets	713,048	183,797	896,845
Total Liabilities	32,091	864,754	896,845
Net Interest Income/(Loss)	61,782	(21,926)	39,856
Net Fee and Commission Income/(Loss)	1,801	-	1,801
Trading Gain/(Loss)	-	3,891	3,891
Other Operating Segments Gain/(Loss)	-	102	102
Provisions for Loan Losses and Other Receivables(-)	(2,922)	-	(2,922)
Other Operating Expense (-)	_	(22,022)	(22,022)
Profit Before Tax	60,661	(39,955)	20,706
Tax Provision	-	(4,698)	(4,698)
Net Profit	60,661	(44,653)	16,008

		Treasury and Asset Liability	
Prior Period	Corporate Banking	Management	Total
Total Assets	403,870	106,487	510,357
Total Liabilities	3,917	506,440	510,357
Net Interest Income/(Loss)	33,683	(3,171)	30,512
Net Fee and Commission Income/(Loss)	1,130	-	1,130
 Trading Gain/(Loss)	-	4,784	4,784
Other Operating Segments Gain/(Loss)	_	99	99
Provisions for Loan Losses and Other Receivables(-)	(1,801)	-	(1,801)
Other Operating Expense (-)	-	(16,612)	(16,612)
Profit Before Tax	33,012	(14,900)	18,112
Tax Provision	-	(4,107)	(4,107)
Net Profit	33,012	(19,007)	14,005

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

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SECTION FIVE EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS

I.EXPLANATIONS AND NOTES RELATED TO ASSETS

1. Information related to cash and the account of The Central Bank of the Republic of Turkey (the "CBRT"):

a. Information on cash and the account of the CBRT:

	31 December 2017		31 Decem	1ber 2016
	TL	FC	TL	FC
Cash/Foreign currency	33	13	20	10
CBRT	9,754	67,773	14,784	19,622
Other	_	-	-	-
Total	9,787	67,786	14,804	19,632

b. Information on the account of the CBRT:

	31 December 2017		31 Decem	1ber 2016
	TL	FC	TL	FC
Demand Unrestricted Amount	9,754	100	14,784	43
Time Unrestricted Amount	-	-	-	-
Time Restricted Amount	-	67,673	-	19,579
Total	9,754	67,773	14,784	19,622

c. Information on reserve requirements:

According to CBRT's "Required Reserves Announcement" numbered 2013/15, the Bank has to provide reserve requirement amounts in CBRT for Turkish currency and foreign currency denominated liabilities. The reserve requirements may be kept as Turkish Lira, USD, Euro and standard gold. The Bank does not keep reserve requirements in standard gold. CBRT started paying interest on reserve balances in TL starting from November 2014 and held in USD starting from May 2015.

The reserve rates for TL liabilities vary between 4% and 10.5% according to their maturities as of 31 December 2016 (31 December 2016: between 4% and 10.5%). The reserve rates for foreign currency liabilities vary between 4% and 24% according to their maturities as of 31 December 2017 (31 December 2016: between 4.5% and 24.5%).

2. Information on financial assets at fair value through profit or loss:

a. As of 31 December 2017, the Bank has no financial assets at fair value through profit or loss subject to repo transactions (31 December 2016: None).

As of 31 December 2017; there are no and financial assets given as collateral/are blocked (31 December 2016: None).

b. Positive differences related to trading derivative financial assets:

None (31 December 2016: TL 281.)

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c. Information on trading securities:

	31 Aralık 2017	31 Aralık 2016
Debt securities	4,943	-
Quoted on stock exchange	4,943	-
Unquoted	-	-
Share certificates	-	-
Quoted on stock exchange	-	-
Unquoted	-	-
Impairment provision(-)	_	-
Total	4,943	-

3. Information on banks:

a. Information on banks:

	31 December 2017		31 Decem	ber 2016
	TL	FC	TL	FC
Banks				
Domestic	29	68,871	14,024	3,519
Foreign	-	4,716	5,004	6,597
Headquarters and Branches Abroad	-	-	-	-
Total	29	73,587	19,028	10,116

b. Information on foreign banks accounts:

	Unrestricte	Unrestricted Amount		d Amount
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
European Union Countries	1,757	5,917	-	-
USA, Canada	2,959	678	-	-
OECD Countries (*)	-	-	-	-
Off-shore Banking Regions	-	-	-	-
Other	-	5,006	-	-
Total	4,716	11,601	_	-

(") OECD Countries other than EU countries, USA and Canada.

4. Information on available-for-sale financial assets:

a. As of 31 December 2017 there are financial assets given as collateral/blocked amounting to TL 711 (31 December 2016: TL 1,029).

As of 31 December 2017 there are available-for-sale financial assets subject to repo transactions TL 9,922 (31 December 2016: TL 4,803).

For more information, www.pashabank.com.tr

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

b. Information on available for sale financial assets:

	31 December 2017	31 December 2016
Debt securities	21,308	20,538
Quoted on stock exchange	14,019	11,835
Unquoted	7,289	8,703
Share certificates	-	-
Quoted on stock exchange	-	-
Unquoted	-	-
Impairment provision(-)	-	-
Total	21,308	20,538

1. Explanations on loans:

a. Information on all types of loans and advances given to shareholders and employees of the Bank:

	31 December 2017		31 December 2016	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	555	31,699	-	30,199
Legal Entities	555	31,699	-	30,199
Individuals	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees	-	-	-	-
Total	555	31,699	_	30,199

b. Information on the first and second group loans and other receivables including loans that have been restructured or rescheduled:

	Standard Loans and Other Receivables			nd Other Receivab r Close Monitoring		
	Loans and			Loans and		
	Other			Other		
	Receivables	Loans and othe	r receivables	Receivables	Loans and other	receivables
	(Total)	with revised co	ntract terms	(Total)	with revised con	tract terms
		Restructured			Restructured	
	o	r Rescheduled	Other	C	r Rescheduled	Other
Non-specialized Loans	679,099	7,390	-	-	-	-
Loans given to enterprises	288,782	7,390	-	-	-	-
Export Loans	3,470	-	-	-	-	-
Import Loans	-	-	-	-	-	-
Loans Granted to Financial						
Sector	282,541	-	-	-	-	_
Consumer Loans	-	-	-	-	-	-
Credit Cards	-	-	_	-	-	_
Other	104,306	-	_	-	-	-
Specialized Loans	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-
Total	679,099	7,390	-	-	-	-

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Number of modifications made to extend payment plan	Standard loans and other receivables	Loans and other receivables under close monitoring
Extended by 1 or 2 times	7,390	-
Extended by 3,4 or 5 times	-	-
Extended by more than 5 times	-	-
Total	7,390	-

Extended period of time	Standard loans and other receivables	Loans and other receivables under close monitoring
o - 6 Months	-	-
6 - 12 Months	-	-
1 - 2 Years	7,390	-
2 - 5 Years	-	-
5 Years and over	-	-
Total	7,390	-

c. Breakdown of loans according to their maturities:

	Standard Loans and Other Receivables		Loans and Receivables Under Close Monitoring	
Cash Loans	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Short-Term Loans and Other				
Receivables	412,005	7,390	-	-
Non-Specialized Loans	412,005	7,390	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Medium and Long-Term Loans and				
Other Receivables	259,704	-	-	
Non-Specialized Loans	259,704	-	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-

d. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards

None (31 December 2016: None).

For more information, www.pashabank.com.tr

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e. Information on commercial instalment loans and corporate credit cards:

	Short Term	Medium-Long Term	Total
Commercial instalment loans-TC	-	7,003	7,003
Business residential loans	-	-	-
Automobile loans	-	4,949	4,949
Consumer loans	-	2,054	2,054
Other	-	-	-
Commercial instalment loans- Indexed to FC	-	3,416	3,416
Business residential loans	-	-	-
Automobile loans	-	3,416	3,416
Consumer loans	-	-	-
Other	-	-	-
Commercial instalment loans - FC	-	-	-
Business residential loans	-	-	-
Automobile loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Corporate credit cards-TC	-	-	-
Instalment	-	-	-
Non-Instalment	-	-	-
Corporate credit cards-FC	-	-	-
Instalment	-	-	-
Non-Instalment	-	-	-
Overdraft accounts-TC (Commercial customer)	-	-	-
Overdraft accounts-FC (Commercial customer)	-	-	-
Total	-	10,419	10,419

f. Loans according to types of borrowers:

	31 December 2017	31 December 2016
Public	-	-
Private	679,099	403,870
Total	679,099	403,870

g. Distribution of domestic and foreign loans:

	31 December 2017	31 December 2016
Domestic Loans	621,553	350,734
Foreign Loans	57,546	53,136
Total	679,099	403,870

h. Loans granted to investments in associates and subsidiaries:

None (31 December 2016: None).

i. Specific provisions accounted for loans:

None (31 December 2016: None).

j. Information on non-performing loans:

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1. Information on non-performing loans restructured or rescheduled and other receivables:

None (31 December 2016: None).

2. Information on the movement of total non-performing loans:

None (31 December 2016: None).

3. Information on non-performing loans granted as foreign currency loans:

None (31 December 2016: None).

4. Information on non-performing loans based on types of borrowers:

None (31 December 2016: None).

k. Information on the collection policy of non-performing loans and other receivables and information on the write-off policy of the Bank:

Non-performing loans and other receivables are collected through legal follow-up and liquidation of collaterals. Credits that have become losses in nature, are attached to the certificate of insolvency or insufficient collateral document, and written off from the Bank's assets. However, if the Bank's receivable is an insignificant amount compared to the costs and expenses to be incurred for the preparation of said documents, writing off of assets may be performed if the Board of Directors decides so.

6. Information on held-to-maturity investments:

None (31 December 2016: None).

7. Information on investments in associates:

None (31 December 2016: None).

8. Information on subsidiaries (Net):

None (31 December 2016: None).

a. Recognition of subsidiaries:

Explained in the Section Three in the relevant note.

b. Information on the equity of subsidiaries:

None.

c. Information on unconsolidated subsidiaries:

None.

d. Main financial figures of the subsidiaries in the order of the above table:

None.

e. Information on subsidiaries consolidated:

None.

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f. Main financial figures of the subsidiaries consolidated in the order of the above table:

None.

g. Movement schedules of consolidated subsidiaries:

None.

h. Sectoral information on consolidated financial subsidiaries and the related carrying amounts:

None.

i. Subsidiaries quoted on stock exchange:

None.

9. Information on joint ventures:

None (31 December 2016: None).

10. Information on lease receivables (net):

a. Financial lease receivables according to remaining maturities:

	31 December 2017		31 December 2016	
	Gross	Net	Gross	Net
Less than 1 Year	-	-	-	-
Between 1-4 Years	39,548	33,949	-	-
Longer than 5 Years	-	-	-	-
Total	39,548	33,949	-	-

b. Information on financial lease receivables:

	31 December 2017	31 December 2016
Gross financial lease receivables	39,548	-
Unearned income on financial lease receivables	(5,599)	-
Terminated lease contracts	-	-
Net financial lease receivables	33,949	-

11. Information on hedging derivative financial assets:

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

12. Information on property and equipment:

Prior Period End: 31 December 2016	Immovable	Leased Fixed Assets	Other Tangible Fixed Assets	Total
	IIIIIIOvaDie	FIXEU ASSELS		TULAI
Cost	-	271	1,080	1,351
Accumulated Depreciation(-)	-	(203)	(467)	(670)
Net Book Value	-	68	613	681
Current Period End: 31 December 2017				
Net Book Value at the beginning of the Period	-	68	613	681
Additions	-	-	212	212
Disposals(-), net	-	-	(4)	(4)
Depreciation (-)	-	(68)	(166)	(234)
Impairment	-	-	-	-
Cost at Period End	-	271	1,162	1,433
Accumulated Depreciation at Period End (-)	-	(271)	(507)	(778)
Closing Net Book Value	-	-	655	655

		Leased	Other Tangible	
Prior Period End: 31 December 2015	Immovable	Fixed Assets	Fixed Assets	Total
Cost	-	271	716	987
Accumulated Depreciation(-)	-	(136)	(347)	(483)
Net Book Value	-	135	369	504
Current Period End: 31 December 2016				
Net Book Value at the beginning of the Period	-	135	369	504
Additions	-	-	364	364
Disposals(-), net	-	-	-	-
Depreciation (-)	-	(67)	(120)	(187)
Impairment	-	-	-	-
Cost at Period End	-	271	1,080	1,351
Accumulated Depreciation at Period End (-)	-	(203)	(467)	(670)
Closing Net Book Value	-	68	613	681

13. Information on intangible assets:

	Current Period	Prior Period
	31 December 2017	31 December 2016
Net Book Value at the beginning of the Period	981	468
Additions	414	841
Disposals(-), net	-	-
Depreciation (-)	(526)	(328)
Closing Net Book Value	869	981

14. Information on investment property:

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15. Information on deferred tax asset:

The Bank calculates deferred tax asset or liability on the differences between the applied accounting policies and valuation bases and tax legislation that comes from timing differences and reflects the amount on the financial statements.

As of 31 December 2017, the Bank calculated deferred tax asset amounting TL 900 and reflected this amount to the financial statements (31 December 2016: TL 689).

In the situation that the difference between the book value and value subject to tax of the assets that are subject to deferred tax is related to equity accounts, deferred tax asset or liability is netted with the relevant accounts in this group.

	31 December 2017		31 December 2016	
	Temporary		Temporary	
	Differences of	Deferred	Differences of	Deferred
	Deferred Tax Base	Tax Amount	Deferred Tax Base	Tax Amount
Provision for employee benefits	475	105	352	70
Expense provisions	256	56	268	54
Other	3,830	842	3,172	634
Deferred Tax Asset, net	4,561	1,003	3,792	758
Other	(470)	(103)	(345)	(69)
Deferred Tax Liability, net	(470)	(103)	(345)	(69)
Deferred Tax Asset/ (Liability), net	4,091	900	3,447	689

16. Information on assets held for resale and discontinued operations:

None (31 December 2016: None).

17. Information on other assets:

As of 31 December 2017, other assets amount to TL 3,931 (31 December 2016: TL 4,604) and don't exceed 10% of total balance sheet except off balance sheet commitments.

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

1. Information on deposits:

The Bank has no deposits due to its nature as an investment bank.

2. Negative differences related to trading derivative financial liabilities:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Forward	380	-	725	-
Swap	-	692	878	-
Futures	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	380	692	1,603	-

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3. Information on funds borrowed:

a. Information on banks and other financial institutions:

	31 December 2017		31 Decer	nber 2016
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	-	-
From Domestic Banks and Institutions	18,521	27,518	15,012	38,573
From Foreign Banks, Institutions and				
Funds	21,069	274,279	31,362	106,950
Total	39,590	301,797	46,374	145,523

b. Information on maturity structure of borrowings:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Short-term	39,590	62,390	15,012	45,663
Medium and Long-term	-	239,407	31,362	99,860
Total	39,590	301,797	46,374	145,523

c. Additional explanation related to the concentrations of the Bank's major liabilities on the basis of concentrations, fund providing customers, sector groups and other criteria where risk concentration is observed

The Bank, funds its assets mainly with funds borrowed, issued securities and equity. The major portion of the funds borrowed is provided from the Bank's main shareholder and its risk group. Additionally, a portion of the issued securities are sold to the risk group companies. The Bank's total borrowings from its risk group constitutes 31% of total assets.

4. Information on Repo Transactions:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Financial Institutions	7,224	-	4,657	-
Other	833	-	-	_
Total	8,057	-	4,657	-

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5. Securities Issued :

The Bank has issued eight bill/bond issuances, one of which was issued abroad, in year 2017. The summary information about related issuance is below;

			Issued Nominal			
ISIN	Security type	Issue date	amount	Maturity Date	Total days	Redeem status
TRQPASH61711	Discounted bond	13/02/2017	45,000 TL	08/06/2017	115	Redeemed
TRQPASH91718	Discounted bond	07/04/2017	27,000 TL	25/09/2017	171	Redeemed
TRFPASHE1710	Discounted bond	08/06/2017	40,500 TL	02/10/2017	116	Redeemed
TRFPASHE1728	Discounted bond	14/07/2017	38,000 TL	16/10/2017	94	Redeemed
AZ2001020174	Coupon bond	22/09/2017	25,000 USD	22/12/2022	1,917	-
TRFPASH11818	Discounted bond	25/09/2017	30,000 TL	22/01/2018	119	-
TRFPASH21817	Discounted bond	02/10/2017	31,000 TL	16/02/2018	137	-
TRFPASH31816	Discounted bond	16/10/2017	31,500 TL	01/03/2018	136	_

The carrying amount of the related bonds are TL 181,741 as at 31 December 2017 (31 December 2016: TL 37,239).

6. Information on Borrower Fund:

	Demand	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	Over Years
31 December 2017						-
Borrower fund	8,681	11,306	-	-	-	-
31 December 2016						
Borrower fund	3,417	500	-	-	-	-

7. Information on other foreign sources:

As of 31 December 2017, other liabilities amount to TL 16,960 (31 December 2016: TL 5,112) and don't exceed 10% of total balance sheet.

8. Information on financial lease agreements:

None (31 December 2016: None).

9. Information on hedging derivative financial liabilities:

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

10. Information on provisions:

a. Information on general provisions:

	31 December 2017	31 December 2016
Provisions for Group I. Loans and Receivables	6,710	3,810
Additional Provision for Loans and Receivables with		
Extended Maturities	-	-
Provisions for Group II. Loans and Receivables	-	-
Additional Provision for Loans and Receivables with		
Extended Maturities	-	-
Provisions for Non Cash Loans	479	393
Other	204	268
General Provisions	7,393	4,471

In accordance with "Amendment to Regulation Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" published in Official Gazette dated 14 December 2016 numbered 29918, the minimum required provision rates are determined for general loan provision calculation. The Bank's provision ratios exceed those minimum ratios as at 31 December 2017. If the minimum provision ratios stated in the Regulation had been applied, the general provision amount in the financial statements would be lower by TL 3,813.

b. Information on provisions related with foreign currency difference of foreign indexed loans:

As of 31 December 2017, provisions related with foreign currency difference of foreign indexed loans amount TL 99 (31 December 2016: TL 18) and is netted with loans amount on the balance sheet.

c. Information on specific provisions for non-cash loans that are non-funded and non-transformed into cash:

None (31 December 2016: None).

d. Information on other provisions:

i. Information on provisions for possible risks:

None (31 December 2016: None).

ii. Obligations related to employee rights:

In accordance with Turkish Labour Law, the reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees. TAS 19 necessitates the actuarial valuation methods to calculate liabilities of enterprises. In this context, the following actuarial assumptions were used in the calculation of total liabilities.

	31 December 2017	31 December 2016
Discount rate (%)	5.14	3.49

The movement of employee termination benefits is shown below:

	31 December 2017	31 December 2016
Balance at the Beginning of the Period	180	234
Provisions Recognised During the Period	(58)	(54)
Balance at the end of the period	238	180

In addition, as of 31 December 2017 the Bank have unused vacation provision of TL 237 (31 December 2016: TL 172).

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iii. Other provisions are explained if they exceed 10% of the total provision balance

Other provisions amount of TL 1,792 comprising of TL 1,530 is for bonus provisions and TL 262 for ongoing lawsuits and other. (31 December 2016: TL 1,612).

11. Information on taxes payable:

a. Information on current year tax liability:

i) Information on tax provision:

The explanations on tax calculation has been presented in Section Three. The Bank recognized TL 1,673 as current tax liability, after the deducting temporary taxes paid in the period, as of 31 December 2017 (31 December 2016: TL 1,503).

ii) Information on taxes payable:

	31 December 2017	31 December 2016
Corporate Tax Payable	1,673	1,503
Taxation on Marketable Securities	10	2
Property Tax	-	1
Banking Insurance Transaction Tax (BITT)	278	160
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	162	107
Other	250	190
Total	2,373	1,963

iii) Information on premium payables:

	31 December 2017	31 December 2016
Social Security Premiums – Employee	65	50
Social Security Premiums – Employer	72	55
Bank Social Aid Pension Fund Premium- Employee	-	-
Bank Social Aid Pension Fund Premium – Employer	-	-
Pension Fund Membership Fees and Provisions - Employee	-	-
Pension Fund Membership Fees and Provisions - Employer	-	-
Unemployment Insurance – Employee	5	4
Unemployment Insurance – Employer	9	7
Other	-	-
Total	151	116

b. Information on deferred tax liability:

Explanations on the taxation of the Bank are presented in Section 5, explanations and notes related to unconsolidated assets.

12. Liabilities for assets held for sale and assets of discontinued operations

None (31 December 2016: None).

13. Information on the quantity, maturity date, interest rate and supplier firm of the subordinated loans given to the bank and transactional option if there are any marketable securities

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14. Information on shareholders' equity:

a. Presentation of paid-in capital:

	31 December 2017	31 December 2016
Common Stock	255,000	255,000
Preferred Stock	-	-

b. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling:

The Bank does not apply the registered share capital system.

c. Information on share capital increases and their sources; other relevant information on increased share capital in current period:

None.

d. Explanation on the transfers from capital reserve to paid-in capital in the current period:

None.

e. Information on capital commitments, the general purpose and the estimated sources for these commitments until the end of the fiscal year and the subsequent interim period:

None (31 December 2016: None).

f. Information on the Bank's income, profitability, prior period indicators on liquidity and uncertainty on these indicators and their potential effects on the Bank's capital:

The Bank considers there is no uncertainty regarding the prior period income, profitability and liquidity indicators, therefore the Bank does not foresee an effect on capital.

g. Summary information about privileged shares representing the capital:

None (31 December 2016: None).

h. Information on marketable securities value increase fund:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
From Subsidiaries, Affiliates and Joint ventures	-	-	-	-
Valuation difference	(49)	-	11	-
Rate difference	-	-	-	-
Total	(49)	-	11	-

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III. EXPLANATIONS AND NOTES RELATED TO OFF-BALANCE SHEET ACCOUNTS

1. Information on off-balance sheet commitments:

a. The amount and type of irrevocable commitments:

Irrevocable Commitments	31 December 2017	31 December 2016
Forward Asset purchase and sale commitments	4,879	
Forward Deposit purchase and sale commitments	-	-
Tax and fond liabilities from export commitment	17	11
Other Irrevocable commitments	-	-
Total	4,896	11

b. Type and amount of probable losses and obligations arising from off-balance sheet items

1. Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letter of credits:

As of 31 December 2017, the Bank has guarantee and indemnities amounting TL 365,927 (31 December 2016: TL 197,910) based upon the guarantee letter.

2. Revocable, irrevocable guarantees and other similar commitments and contingencies

As of 31 December 2017, the Bank has other guarantees amounting TL 33,850 (31 December 2016: TL 19,356).

c. Total amount of non-cash loans:

	31 December 2017	31 December 2016
Non-cash Loans Given against Cash Loans	207,861	97,856
With Original Maturity of 1 Year or Less Than 1 Year	131,867	60,356
With Original Maturity of More Than 1 Year	75,994	37,500
Other Non-cash Loans	158,066	100,054
Total	365,927	197,910

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d. Information on sectoral risk concentrations of non-cash loans:

		Current P	eriod			Prior Per	iod	
		31 December 2017 31 l		31 Decembe	December 2016			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	-	-	-	-	-	-	-	-
Farming and Raising Livestock	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Manufacturing	1,842	0.90	46,532	29.00	2,538	1.95	9,084	13.46
Mining	-	-	-	-	-	-	-	-
Production	1,817	0.89	46,532	29.00	2,538	1.95	8,400	12.45
Electric, Gas and Water	25	0.01	-	-	-	-	684	1.01
Construction	4,037	1.96	25,873	16.12	4,230	3.24	8,947	13.27
Services	199,594	97.14	88,049	54.88	123,683	94.81	49,428	73.27
Wholesale and Retail Trade	6,303	3.07	27,894	17.38	8,898	6.82	12,317	18.26
Hotel, Food and Beverage Services	1,865	0.91	-	-	10,689	8.19	-	-
Transportation and Telecommunication	18,705	9.10	19,424	12.11	14,805	11.35	528	0.78
Financial Institutions	172,087	83.75	31,700	19.76	85,300	65.39	30,199	44.77
Real Estate and Leasing Services	634	0.31	9,031	5.63	3,991	3.06	6,384	9.46
Self-Employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	=	
Health and Social Services	-	-	-	=	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total	205,473	100.00	160,454	100.00	130,451	100.00	67,459	100.00

e. Information on the non-cash loans classified in Group I and Group II:

31 December 2017	C	Group II		
	TL	FC	TL	FC
Non-Cash Loans	205,473	160,454	-	-
Letters of Guarantee	205,473	123,303	-	-
Bank Acceptances	-	3,301	-	-
Letters of Credit	-	-	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	-	33,850	-	-

2. Information on derivative transactions:

	31 December 2017	31 December 2016
Forward foreign currency purchase transactions	19,953	13,689
Forward foreign currency sell transactions	19,642	14,024
Currency swap-buy	32,061	10,419
Currency swap-sell	32,795	11,130
Total	104,451	49,262



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3. Information on credit derivatives and related imposed risks:

None (31 December 2016: None).

4. Information on Contingent Assets and Liabilities:

(i) Contingent assets

None

(ii) Contingent liabilities

As of 31 December 2017, the Bank has reflected the provision for its ongoing lawsuits amounting TL 262 to the financial statements. The process regarding the law suits is still ongoing and decisions will be finalised after trial.

5. Information on services in the name of others' names and accounts:

None (31 December 2016: None).

IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

1. Information on interest income:

a. Information on interest income on loans:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Short-term Loans	46,488	349	29,198	432
Medium/Long-term Loans	5,228	7,529	951	3,102
Interest on Loans Under Follow-up	-	-	-	
Premiums Received from Resource				
Utilisation Support Fund	-	-	-	-
Total	51,716	7,878	30,149	3,534

b. Information on interest income on banks:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
From the CBRT ^(*)	720	-	148	_
From Domestic Banks	676	215	1,419	4
From Foreign Banks	34	-	144	12
Headquarters and Branches Abroad	-	-	-	_
Total	1,430	215	1,711	16

(*)The interest income from required reserves presented in "From the CBRT" line.

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c. Information on interest income on marketable securities:

	31 December 2017		31 Decemb	er 2016
	TL	FC	TL	FC
From Trading Financial Assets	-	-	-	-
From Financial Assets at Fair Value				
through Profit or Loss	-	-	-	-
From Available-for-sale Financial Assets	1,183	726	1,583	47
From Held-to-Maturity Investments	-	-	-	-
Total	1,183	726	1,583	47

d. Information on interest income received from investments in associates and subsidiaries:

None (31 December 2016: None).

2. Information on interest expense:

a. Information on interest expense on borrowings:

	31 December 2017		31 Decem	ber 2016
	TL	FC	TL	FC
Banks	5,707	5,762	1,842	3,158
The CBRT	-	-	-	-
Domestic Banks	2,089	333	284	212
Foreign Banks	3,618	5,429	1,558	2,946
Headquarters and Branches Abroad	-	-	-	-
Other Institutions	-	-	-	_
Total	5,707	5,762	1,842	3,158

b. Information on interest expense given to investments in associates and subsidiaries:

None (31 December 2016: None).

c. Interest expense on issued marketable securities:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Interest expense on marketable securities				
issued	8,724	1,270	751	

d. Maturity structure of the interest expense on deposits:

None (31 December 2016: None).

3. Information on dividend income:

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(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

4. Information on trading income/loss (Net):

	31 December 2017	31 December 2016
Income	75,345	32,699
Income from Capital Market Transactions	460	17
Income from Derivative Financial Transactions (*)	1,386	1,539
Foreign Exchange Gains	73,499	31,143
Loss (-)	(71,454)	(27,915)
Loss from Capital Market Transactions(-)	(7)	(40)
Loss from Derivative Financial Transactions(-) (°)	(4,938)	(2,318)
Foreign Exchange Loss(-)	(66,509)	(25,557)
Trading Income / (Loss) (Net)	3,891	4,784

⁽¹⁾ Due to the short maturity of derivative financial instruments held by the Bank, changes in exchange rate creates gains and loss from derivative financial transactions.

5. Information on other operating income:

Other operating income TL 69 income from previous years' provision cancellations and there is no income regarding extraordinary accounts (31 December 2016: TL 54).

6. Provision expenses related to loans and other receivables:

	31 December 2017	31 December 2016
Specific Provisions for Loans and Other Receivables	-	-
III. Group Loans and Receivables	-	-
IV. Group Loans and Receivables	-	-
V. Group Loans and Receivables	-	-
General Provision Expenses	2,922	1,801
Provision Expense for Possible Risks	-	-
Marketable Securities Impairment Expense	-	-
Financial Assets at Fair Value Through Profit or Loss	-	-
Available-for-sale Financial Assets	-	-
Investments in Associates, Subsidiaries and Held-to-Maturity Securities Value Decrease	-	-
Investments in Associates	-	-
Subsidiaries	-	-
Joint Ventures	-	-
Held-to-Maturity Investments	-	-
Other	-	-
Total	2,922	1,801

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7. Information related to other operating expenses:

	31 December 2017	31 December 2016
Personnel Expenses	10,535	8,294
Reserve For Employee Termination Benefits	123	107
Bank Social Aid Pension Fund Deficit Provision	-	-
Impairment Expenses of Fixed Assets	-	-
Depreciation Expenses of Fixed Assets	234	187
Impairment Expenses of Intangible Assets	-	-
Goodwill impairment expenses	-	-
Amortisation Expenses of Intangible Assets	526	328
Impairment Expenses of Equity Participations for which Equity Method is Applied	-	-
Impairment Expenses of Assets Held For Resale	-	-
Depreciation Expenses of Assets Held for Resale	-	-
Impairment Expenses of Fixed Assets Held for Sale	-	-
Other Operating Expenses	6,716	6,040
Operational Lease Expenses	1,868	1,519
Maintenance Expenses	46	27
Advertising Expenses	427	695
Other Expense	4,375	3,799
Loss on Sales of Assets	3	-
Other	3,885	1,656
Total	22,022	16,612

8. Information on income/(loss) before tax from continuing or discontinued operations:

Loss before tax comes from net interest income amounting TL 39,856, net commission fee income amounting TL 1,801 trading gain amounting TL 3,891 other operating income amounting TL 102, provision for loan losses and other receivables amounting to TL 2,922 and other operating expenses amounting TL 22,022.

9. Information on provision for taxes from continuing or discontinued operations:

As of 31 December 2017 the Bank has current tax expense TL 4,911 TL (31 December 2016: TL 4,191). The Bank has deferred tax income amounting to TL 213 (31 December 2016: TL 84 income).

As of 31 December 2017, the Bank doesn't have any discontinued operations.

10. Information on net income/(loss) from continuing or discontinued operations:

The Bank doesn't have discontinued operations. The Bank's net profit from continuing operations amounting to TL 16,008 (31 December 2018: TL 14,005).

11. Information on net income/(loss) for the period:

a. If the disclosure of ordinary banking transactions and the composition of income and expense items is necessary to understand the annual performance of Bank, the composition and amount of these items:

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

b. If an accounting estimate change significantly affects the profit/loss in the current period or has a probability to significantly affect the profit/loss in the subsequent periods, the overall effect is disclosed:

There is no significant change in accounting estimates which would affect the current or the subsequent periods.

12. Disclosure of 20% of sub-accounts in the case of other line items exceed 10% of the income statement total.

Information related to other income and disclosure and footnotes related to income statement and information related to other expenses and disclosure and footnotes related to income statement are presented in footnote numbered 5 and footnote numbered 7 respectively.

V. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY

1. Information on available-for-sale financial assets:

"Unrealized gains and losses" arising from changes in the fair value of securities classified as available-for-sale are not recognized in current year income statements; they are recognized in the "Marketable securities value increase fund" account under equity, until the financial assets are sold, disposed or impaired.

There is loss for marketable securities valuation difference related to available-for-sale financial assets of TL 59 (31 December 2016: TL 101 gain for marketable securities valuation difference).

2. Amounts transferred to legal reserves:

The Bank has no amounts transferred to legal reserves for current period.

3. Information on distribution of profit:

No dividend distribution has been announced after the balance sheet date.

4. Information on capital increase:

The information related to capital increase is presented under Section Five.

VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS

1. Information on cash and cash equivalents:

Components of cash and cash equivalents and the accounting policy applied in their determination:

The effect of any change in the accounting policy of current period and the balance sheet recorded amounts of the components that make up cash and cash equivalents (excluding rediscount balances, reserve requirements, placements with maturity longer than 3 months and blocked accounts) are considered as cash and cash equivalents.

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

a. Cash and cash equivalents at the beginning of the period:

	31 December 2017	31 December 2016	31 December 2015
Cash	77,573	34,436	12,663
Cash and Foreign Currency Cash	46	30	11
Turkish Central Bank	77,527	34,406	12,652
Other	-	-	-
Cash Equivalents	73,616	44,277	47,357
Banks	73,616	29,144	47,357
Interbank Money Market Placements	-	15,133	-
Total Cash and Cash Equivalents	73,616	78,713	60,020
Blocked amounts on cash and cash equivalents	-		-
Interest income rediscounts on cash and cash equivalents	-	-	-
Cash equivalents with a maturity longer than three months	-	-	-
Restricted reserve deposits	(67,673)	(19,579)	(11,772)
Cash Flow Statements Cash and Cash Equivalents	83,516	59,134	48,248

2. Explanation about other cash flows items and the effect of changes in foreign exchange rates on cash and cash equivalents:

The "Other" items presented in "Net operating income before changes in operating assets and liabilities" amount to TL 11,485 (31 December 2016: TL 7,993) mainly consists fees and commissions paid and other operating expenses excluding personnel expenses.

The "Net increase/decrease in other liabilities" item under "Changes in operating assets and liabilities" amounting to TL 29,762 (31 December 2016: TL 4,235) consists of mainly changes in prepaid expenses and other assets including lease receivables.

The "Net increase/decrease in other liabilities" item under "Changes in operating assets and liabilities" amounting to TL 69,689 (31 December 2016: 6,923) consists of mainly changes in miscellaneous payables, borrower funds, other liabilities and taxes and other duties payable.

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PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

VII. EXPLANATIONS AND NOTES RELATED TO THE BANK'S RISK GROUP

1. The volume of transactions relating to the Bank's risk group, outstanding loan and deposit transactions and profit and loss of the period:

a. Current Period (31 December 2017):

Banks' Risk Group	Investments in Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and Other Receivables						
Beginning of the Period	-	-	-	30,199	-	-
End of the Period	-	-	555	31,699	-	-
Interest and Commission Income						
Received	-		24	311	-	_

Prior Period (31 December 2016):

Banks' Risk Group	Investments in Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and Other Receivables				-		
Beginning of the Period	-	-	-	22,475	8,082	30,227
End of the Period	-	-	-	30,199	-	-
Interest and Commission Income						
Received	-	-	-	237	-	-

b. Information on deposits of the Bank's risk group:

The Bank doesn't have any deposits since it is an investment bank.

c. Information on forward and option agreements and other similar agreements made with the Bank's risk group:

There are no derivative transactions with the Bank's Risk Group (31 December 2016: None).

As of 31 December 2017, the Bank has TL 20 borrower funds from its risk group (31 December 2016: TL 381).

As of 31 December 2017, the Bank has borrowings from its risk group TL 186,735. Additionally, TL 90,447 of the securities issued abroad were sold to Bank's risk group (31 December 2016: TL 138,273).

d. Information on key management compensation:

As of 31 December 2017, paid key management compensation amount is TL 3,388 (31 December 2016: TL 2,495).

VIII. EXPLANATIONS AND NOTES RELATED TO THE DOMESTIC, FOREIGN, OFF-SHORE BRANCHES AND FOREIGN REPRESENTATIVES OF THE BANK

PASHA YATIRIM BANKASI A.Ş. NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION SIX OTHER EXPLANATIONS AND NOTES

I. OTHER EXPLANATIONS RELATED TO OPERATIONS OF THE BANK

None.

II. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

None.

SECTION SEVEN EXPLANATIONS ON INDEPENDENT AUDITOR'S REPORT

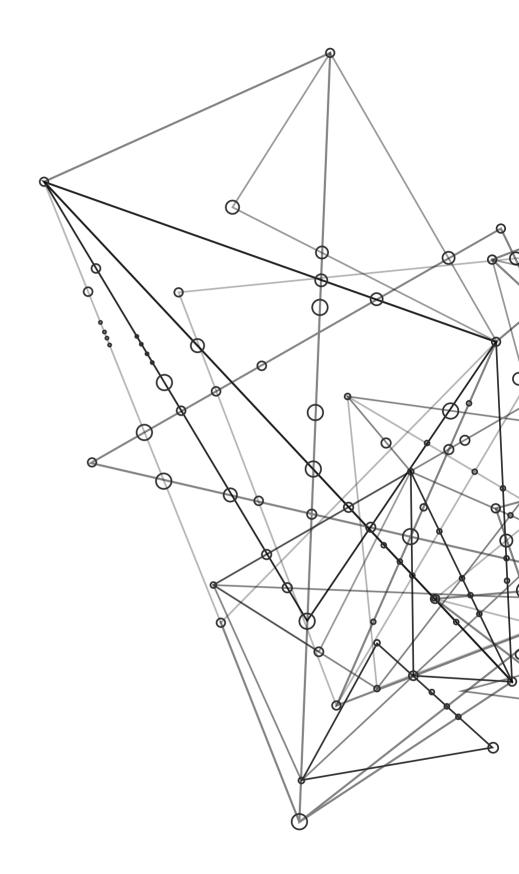
I. EXPLANATIONS ON INDEPENDENT AUDITOR'S REPORT

The unconsolidated financial statements for the year ended 31 December 2017 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst&Young Global Limited) and the independent auditor's report dated 12 February 2018 has been presented preceding the unconsolidated financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY INDEPENDENT AUDITOR

Reporting Period	:	01.01.2017 - 31.12.2017
Trade Name of the Bank	:	PASHA Yatırım Bankası A.Ş.
Trade Registration Number of the Bank	:	240320
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