



THREE COUNTRIES, ONE FOCUS

TURKEY - AZERBAIJAN - GEORGIA

PASHA Bank 2016 | Annual Report





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A r T r i a n g l e

Providing sustainable banking services to corporate customers in the regional triangle of Turkey, Azerbaijan, and Georgia, PASHA Bank has enriched its engagement in the area with the ArTriangle ‘City Stories’ Photography Exhibition. Connecting Baku, Tbilisi and Istanbul by an artistic bridge, the Exhibition reflects the region’s historical, cultural, economic, and social development, offering a deeper perspective on these notable cities. The story of the three cities, bound by love, peace and brotherhood, is framed by renowned street photographer Mustafa Seven.



ArTriangle 'City Stories' Photography Exhibition

The ArTriangle 'City Stories' Exhibition was launched by PASHA Bank to further enhance its engagement with Turkey, Azerbaijan and Georgia in an artistic aspect. The photographs in the Exhibition vividly depict a magical adventure dedicated to the close ties between these three nations.

Depicting lives ranging from the general to the individual, the stories of Baku, Tbilisi and Istanbul come to life framed by the camera. PASHA Bank aims to strengthen its activities in these historically closely related countries through this uniquely special arts event.

As interpreted by renowned street photographer Mustafa Seven, the photos that make up ArTriangle 'City Stories' offered art lovers a colorful cross section of the historical texture of Baku, Istanbul, and Tbilisi; a reflection of modern life in the three cities, and their past and current intercultural ties.

Almost a year's worth of photo shoots have resulted in the immortalization of each city's vivid population, ageless streets and deep-rooted values, reflecting from the viewfinder the intersection of these cities' lives, their modern buildings extending into the future, their cultural values, and the moments that encompass their people and their spaces.

Presenting the story of three cities interwoven with love, peace and brotherhood, PASHA Bank and the ArTriangle 'City Stories' Photography Exhibition have gained the appreciation of Turkish art lovers, as a special work strengthening the intercultural ties reaching from the past into the future.



The photographs in this Report are from the **ArTriangle** 'City Stories' Photography Exhibition - an artistic bridge spanning Turkey, Azerbaijan and Georgia, formed by PASHA Bank.

GENERAL INFORMATION

ISTANBUL

Istanbul has long been among the world's leading cities, in great demand for its dynamic population, growing economy, historic values, and a cultural heritage spanning multiple civilizations. Istanbul's current and future potential make it a locomotive of economic and social development in Turkey. PASHA Bank continues to operate in this special city, establishing new stories of success each day.

01





Agenda of the Annual General Meeting of Shareholders

AGENDA OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS DATED MARCH 31, 2017

1. Opening; Election of the Meeting Chairman and empowering the Chairman to undersign the minutes of the Meeting
2. Discussion of the Board of Directors' Activity Report for the Accounting Period, the Bank's Annual Activity Report, Independent Auditor's Report, Balance Sheet and Statement of Income for the Fiscal Year 2016, Resolution for Approval
3. Resolution on the accrued profit of 2016 in accordance with the balance sheet
4. Information to shareholders on 2016 performance-based bonuses paid and payable to employees
5. Information to shareholders on the totals for attendance, wages, premiums, bonuses and dividends granted to Board Members and Senior Management in 2016
6. Releasing Board Members separately, who have served during the accounting period, with regard to their activities in the year 2016
7. Election of Board Members and determination of terms of office; information to shareholders regarding external duties assumed by Board Members and their purpose per the Capital Markets Board Corporate Governance Principle numbered 4.4.7.
8. Determination of remuneration and payments to Board Members
9. Authorization of Board Members for transactions stipulated under Articles 395 and 396 of the Turkish Commercial Law No. 6102
10. Election of the Independent Audit Institution to undertake the independent audit of the Bank in 2017
11. Information to shareholders on all donations and contributions and their beneficiaries during the accounting period per the Capital Markets Board Corporate Governance Principle numbered 1.3.10.
12. Information to shareholders on significant transactions performed in 2016 that could constitute a conflict of interest per the Capital Markets Board Corporate Governance Principle numbered 1.3.6.
13. Salutations, 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

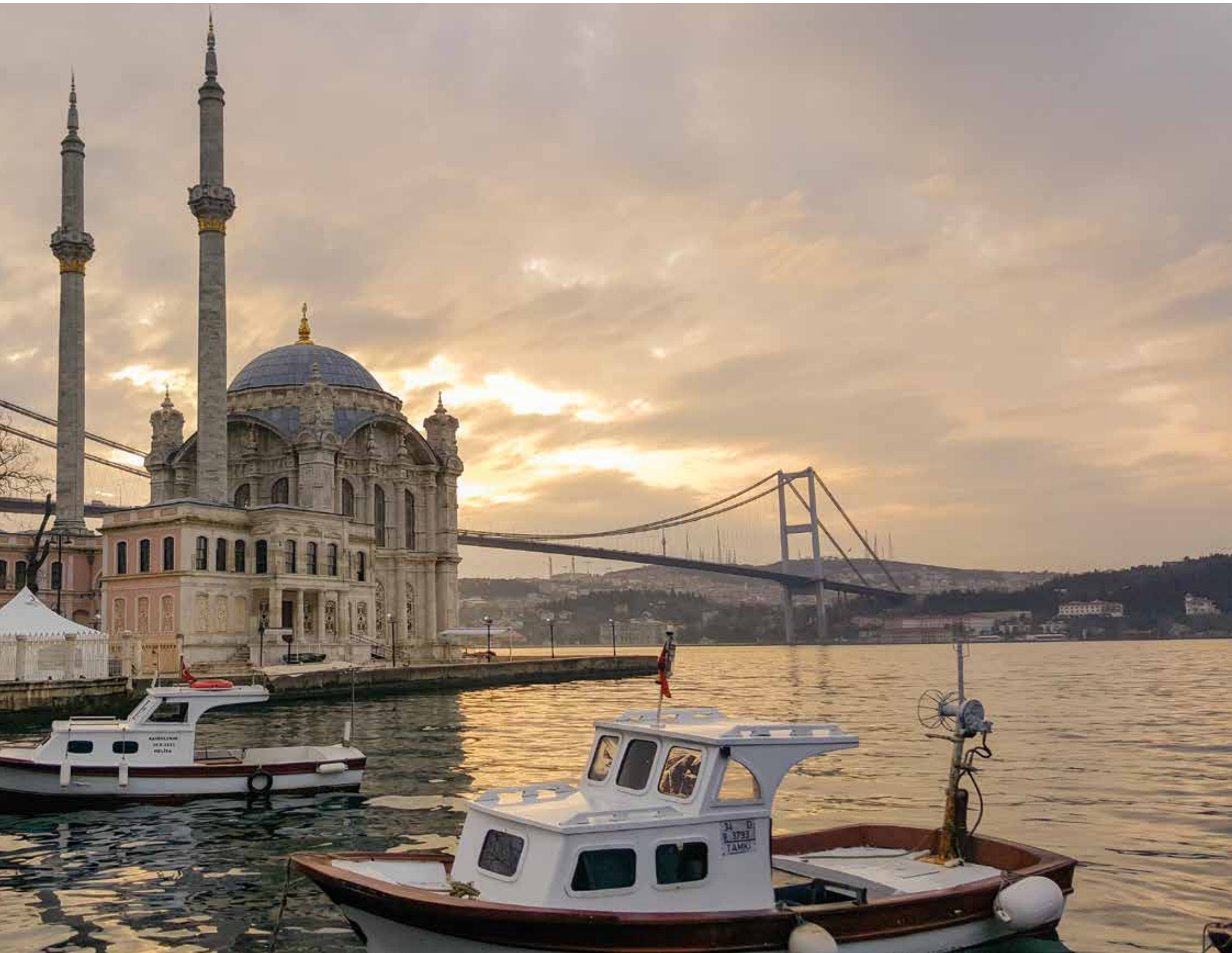
For our shareholders, by maintaining a robust financial structure and achieving steady growth and profitability.

Summary of Financial Highlights

PASHA Yatırım Bankası A.Ş. has no affiliate subject to consolidation. A summary of unconsolidated financial information on activities in 2016 is presented below.

TL (thousands)	Dec 31, 2016	Dec 31, 2015
Cash and balances with Central Bank	34,436	12,663
Trading financial assets	281	604
Available-for-sale financial assets	20,538	9,619
Banks and money markets	44,277	47,357
Loans	403,870	245,744
Subsidiaries	-	-
Other various assets	6,955	6,418
Total Assets	510,357	322,405
Funds borrowed	191,897	71,311
Interbank money markets	15,963	-
Marketable securities issued	37,239	-
Other various liabilities	20,600	20,542
Paid-in capital	255,000	255,000
Profit reserves	324	324
Marketable securities valuation reserves	11	(90)
Prior years' income / (loss)	(24,682)	(33,469)
Current year income / (loss)	14,005	8,787
Total Liabilities	510,357	322,405





PASHA Bank's Historical Development and Milestones

PASHA Bank serves entrepreneurs to support the development of trade between Turkey, Azerbaijan and Georgia.

PASHA Bank offers corporate and investment banking products to its customers.

PASHA Yatırım Bankası A.Ş., established in Istanbul on December 25, 1987 under 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's Historical Development and Milestones

**A sustainable service approach with
corporate and investment banking
products in cross-border relations**



1987

PASHA Bank was established in Istanbul on December 25, 1987 under the name of Yatırım Bank A.Ş. as the first foreign-owned investment bank in Turkey.

1997

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

2013

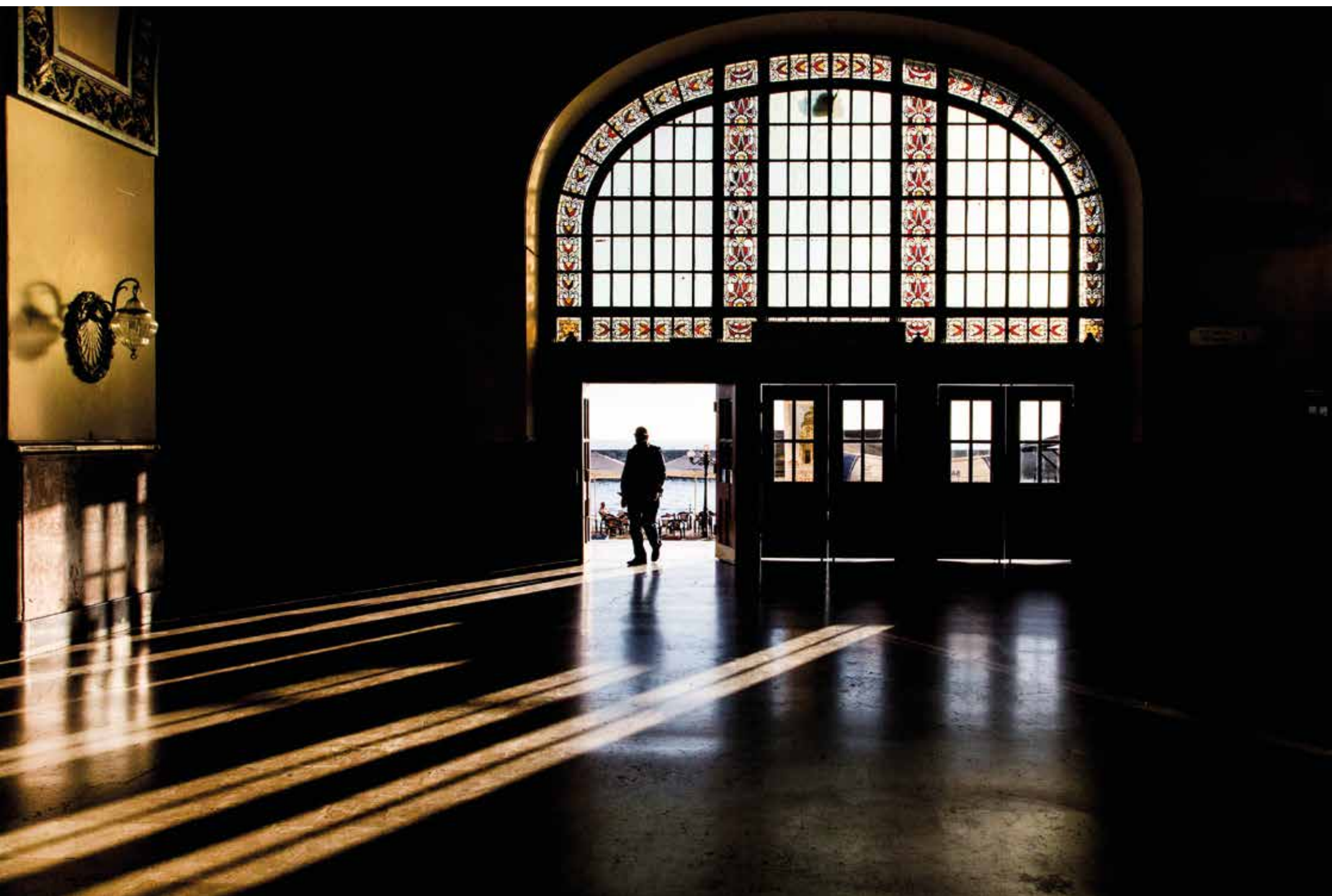
Aksoy Holding A.Ş. acquired the majority stake in the Bank, and the paid-in capital was increased to TL 80 million.

2015

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.



Shareholding Structure of PASHA Bank

The paid-up capital of the Bank is TL 255 Million as of December 31, 2016. 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

No Bank shares are owned directly by the members of the Board of Directors, the General Manager and the Deputy General Managers.

At the date of this report, the Bank's majority partner PASHA Bank OJSC is held by PASHA Holding Ltd. (60%), Ador Ltd. (30%) and Arif Pashayev (10%).

The Bank has no preferred shares.





About the PASHA Bank Group

PASHA Bank OJSC is the highest-capitalized private bank in Azerbaijan, with an authorized capital of AZN 362 million. The Bank ranks among the top five banks in terms of assets.

AZN **362** million
Authorized Capital
of PASHA Bank OJSC

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 finance-related 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 430 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 Bank in Azerbaijan” in 2014 and “Best Investment Bank of Azerbaijan” in 2011, 2012 and 2013 by the international financial journal, EMEA Finance, and “Best Investment Bank in Azerbaijan” by International Finance Magazine in 2013. It was also recognized with “Best Corporate Social Responsibility (CSR) Program in Europe” by the Europe Banking Awards in 2012. The BNE survey named PASHA Bank “Best Bank in Azerbaijan” in 2012, and World Finance recognized PASHA Bank with the “Best Private Bank” award in 2013. In 2014, PASHA Bank was named “Best Investment Bank” and “Best SME Bank” at the International Finance Magazine (IFM) Financial Awards, and received three rankings at the World Finance Awards including “Best Commercial Bank in Azerbaijan” and “Best Banking Group in Azerbaijan”, and was granted the “Best Private Bank in Azerbaijan” award for the second consecutive year. PASHA Capital was announced as “Best Broker in Azerbaijan” by EMEA Finance in 2013. PASHA Bank Georgia was ranked as the “Bank of the Year” at the 2014 Caspian Energy Forum and as the “Fastest-Growing Corporate Bank in Georgia 2015” by the Global Banking and Finance Review Awards.

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

PASHA Bank OJSC is the highest-capitalized private bank in Azerbaijan, with an authorized capital of AZN 362 million. It ranks among the top five banks in terms of 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.

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.

General Overview of 2016 and Expectations for 2017

How much and how often the Fed will raise interest rates next year, will closely affect the global markets.

8.53%
2016 Year-end
Inflation
of Turkey

Volatility was high in 2016 as a consequence of unexpected events and the subsequent appearance of unaccounted-for risks in the domestic and global markets. Although the Turkish financial markets remained relatively stable in the first half of 2016, the unanticipated developments in the second half of 2016 continued to affect the markets adversely for the rest of the year. A number of factors drove fluctuations in global markets, including the US Federal Reserve Bank and its anticipated steps, the Brexit surprise and its effects, the outcome of the US presidential election, rapid changes in oil prices, and the policies of Chinese and Japanese Central Banks. At home, the beginning of the CBRT's policy simplification process and the transition of its chairman, rising geopolitical risks, and the establishment of the new government, along with internal turmoil in July and the subsequent ratings downgrade by Moody's and S&P, and fluctuations in global markets were the main causes behind

elevated pressure on Turkish lira assets. While the Turkish lira lost 17% against the US dollar on an annual basis, the year-end closing for the bond interest rate was realized at the compound interest rate of 10.65%, despite declines of close to 250 basis points observed in the rates during the year. The BIST-100 Index, however, gained almost 9% in annual terms. Turkey ended the year with an annual inflation of 8.53%, and an estimated growth rate of 2-2.2%.

Although 2016 is behind us, we will continue in 2017 to see the impact of these events. For us, the major determining factors this year will be the extent to which the Fed continues its interest rate hikes, as it was last year as well. The steps taken by the new US president, Donald Trump, the manner in which they will affect US inflation and, thus, how much and how often the Fed will raise interest rates next year, will closely affect the global markets. At the

December 2016 meeting of the US Federal Reserve Bank, Fed members indicated expectations towards three interest rate increases in the coming year. How and whether Trump is able to implement his aggressive policy statements regarding US infrastructure spending and planned investment into the construction industry will affect an upward trend from the current US inflation rate of 2%: this may in turn increase the likelihood of the Fed raising interest rates more than three times, and could put pressure on emerging market assets.

Another factor shaping the markets is the progress of the European economy and the continuation of expansionist policies by the European Central Bank. Also significant is whether the European Central Bank, which announced that it will gradually reduce its asset purchases from April 2017, will effect policy changes or signal the beginning of interest rate hikes in the case of an upward trend in Europe. The elections and referendums coming up in many European Union countries next year, particularly in Germany, France, Holland and Italy, will also call into question the integration of the EU in the post-Brexit era.

Trends in the Chinese economy continue to be a decisive factor for global markets. In 2016, growth in China slowed more moderately than expected; it stayed within the 6-6.50% band, an acceptable risk 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. Inflation in Turkey may see an upward trend start in the first quarter of the year in line with a strengthening US dollar and higher oil prices; 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, we will be closely monitoring issues related to the upcoming Turkish referendum and its outcomes, as well as the presidential process. Uncertainties around Syria's ongoing civil war and Turkey's related policies, along with terrorist activities at home, relations with the EU and actions taken by the credit rating agencies will also be among the main issues affecting the markets. However, we may be able to see a more favorable market in the second half of the year: the referendum results will be revealed; and expectations are that the markets will gain more familiarity with US President Trump, and that the Fed's policies will clarify. In the upcoming period, we will begin to see the positive effects of the government's steps towards reviving the market.

In 2017, we forecast growth within the 2.5-3% band for the Turkish economy, along with an inflation rate of 8-8.50% and, subsequently, a less volatile year in 2017.

We will begin to see the positive effects of the government's steps towards reviving the market.

Message from the Chairman

As PASHA Bank, we are boosting our competitiveness by strengthening our cooperation in the region covering Turkey, Azerbaijan and Georgia, and effectively using the synergy within the Group.



In parallel with the sustainable business model and vision of the PASHA Group, we implemented initiatives that improve efficiency in our systems and processes.

Dear Stakeholders,

Despite a challenging environment due to developments around the world, PASHA Bank continued to grow steadily and forcefully, again achieving the positive results of its sustainable growth-oriented investment strategy in 2016.

The Turkish banking sector saw robust development in 2016, with total assets rising by 15.8% to TL 2,731 billion. Loans increased 17.7% to a total of TL 2,287 billion, while net profits rose by 44% to TL 37,532 million.

Our cash loan portfolio, corresponding with 79% of total assets in the year-end financials, increased by 64% and reached TL 404 million compared to the prior year. Our effective and efficient risk management policies enabled us to maintain the quality of our assets - one of our key priorities - and to expand our volume in existing products.

PASHA Bank has further enhanced its commitment to corporate governance in line with the strategic priorities of our Group, and thereby increased our corporate governance rating, which is granted on the basis of the principles set forth by the Capital Markets Board, to 9.26 from 8.94 in the previous operating period.

In line with our targets, as PASHA Bank, we have taken steps to increase our competitiveness by strengthening the cooperation in the geography covering Turkey, Azerbaijan and Georgia, and the synergy within the Group. In parallel with the growth in our financial results in 2016, we also enriched our brand recognition in financial markets through our communication efforts.

In 2016, we allocated the affordable Turkish lira resources obtained from our first successfully completed bond issuance to support the entrepreneurs in our target region; and we continue to contribute to the economies in the region.

Along with our sustainable business model and the PASHA Group vision, we implemented initiatives to improve efficiency in our systems and processes. We supported investments into our human resources, one of the most important factors in our achievement, with training programs designed to raise our employees' competencies and thus ensure our Bank's enriched performance. We also helped our employees adapt more quickly on related processes with boutique training programs organized on a project basis linked to the Group's strategies.

In line with our aim of facilitating regional business partnership while becoming the primary bank for entrepreneurs involved in international trade within the triangle of Turkey, Azerbaijan, and Georgia, we will work in 2017, to the best of our ability, to create even more value for all our stakeholders, and to carry them to new heights by diversifying our product and service range.

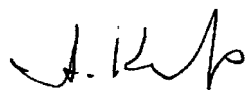
In 2017, we will continue to make efforts to diversify our Bank's funding structure, and expand our correspondent network and investor base. We will maintain our prudent approach to managing credit risks, so that the Bank's asset quality remains unaffected by geopolitical and financial volatility.

We will support our operational profitability with new customer acquisitions and the controlled cost management created by our Group synergy. We will continue to meet the financial needs of institutional investors by providing rapid, tailor-made solutions and operational convenience while keeping intact our understanding of high-quality service.

As well, we will focus on building our 2018-2020 vision and our strategic priorities, including the second phase of our growth strategy, and work to reinforce the infrastructure we have built in the first three-year strategy period in line with our sustainable growth priority.

I would like to take this opportunity to thank our valued employees and our management team for their dedicated work, our customers for their trust in us, and our shareholders and all our business partners for their valuable support.

Yours sincerely,



Agha Ali KAMALOV
Chairman

We will support
our operational
profitability with
new customer
acquisitions and
the controlled
cost management
created by our
Group synergy.





Message from the General Manager

Though we anticipate that the industry's loan growth will be in the 10-12% range, our aim as PASHA Bank is to reach 25% loan growth.



We continue to contribute to increasing foreign trade volume between Turkey, Azerbaijan, and Georgia.

Dear Stakeholders,

In 2016, the global markets started the year on a moderate note, moving into a more positive trend in the first half, due to the effects of a strong recovery in oil prices, signals from the US Federal Reserve Bank towards less aggressive interest rate hikes, and new steps taken by the European Central Bank towards enlargement, as well as an increase in global risk appetite. However, in the second half of the year, global markets were affected by sharp price movements, a consequence of unanticipated adverse developments.

As PASHA Bank, we exceeded our targets, closing a robust 2016 with a profit of TL 14 million by closely following market movements and taking necessary action in a timely manner. Our assets reached TL 510 million at the end of the year, increasing over 50% compared to the end of the

previous year, and our cash and non-cash credits increased by 61% to TL 600 million.

This year, we successfully completed our first bond issue, selling to qualified investors bonds amounting to TL 37.5 million. Our bonds started trading in the relevant market in the Istanbul Stock Exchange. Following the issuance of bonds realized in October, the international credit rating agency Fitch Ratings confirmed our long-term credit rating as A (tur). In addition, the announcement of an upward revision in our Corporate Governance Rating to 92.64 demonstrated the importance that we, as PASHA Bank, give to corporate governance principles, as well as our belief in sustainable success.

In terms of our Bank, we realized another first in the field of investment banking; to act as an intermediary for mergers and acquisitions. With this transaction, we facilitated the arranging of financial resources with the contribution of 13 individuals and an international institutional investor for a company operating in the field of orthodontics. In this sense and in line with our targets, we will continue to be involved in the upcoming period with the M&A processes of innovative, value-creating companies.

Utilizing the synergy that our Bank has created between PASHA Bank Azerbaijan and PASHA Bank Georgia, and our foreign trade activities carried out in this region, we continue to provide solutions to our customers and to be a guide for entrepreneurs who are investing in the region. With the advantage provided by our main shareholder PASHA Bank Azerbaijan as the largest privately-owned banking group in the country, we consistently contribute to expanding sales for our customers exporting in the region, and to increasing the volume of foreign trade between Turkey, Azerbaijan, and Georgia.

Aiming to promote the development of regional trade between Turkey, Azerbaijan, and Georgia, we elected to present the close historical relations and artistic links between these three countries in the City Stories Photography Exhibition. Depicting the story of the love, peace and comradeship between Baku, Tbilisi, and Istanbul through the lens of photographer Mustafa Seven, this Exhibition illustrates the important roles played by each city in the historical, cultural, economic, and social development of the region. We wanted to share these stories with you, as well, in our annual report.

Our close watch on the market indicates that last year's volatility is continuing in 2017, signaled by the new US President's actions, the Fed's interest rate hike process, and uncertainty around the consequences of the general elections and referendums being held throughout Europe. As well, there are ongoing concerns regarding China's growth and domestic geopolitical developments. However, we believe that the Turkish economy and the banking sector will continue an upward growth trend; and, although we anticipate loan growth in the range of 10-12% for the industry in general, our aim as PASHA Bank is to reach 25% in loan growth. We aim to increase the diversity of our Bank's external resources in 2017 as well; we plan to continue to issue debentures in varying maturities in 2017, along with expanding resources to be created from international banks.

I offer great thanks to my colleagues and our Board Members who have contributed to the steady growth and profitability of our Bank with their dedicated work; to our customers, who preferred to work with us; and to our shareholders, who consistently provided their open support. I hope that 2017 continues to be successful year, both in terms of the banking industry and with respect to our Bank.

Respectfully yours,



H. Cenk EYNEHAN
General Manager and Board Member

A (TUR)

National
Long-Term
Credit Rating

92.64

Corporate
Governance
Rating

TL **510** million
Asset Size





Activities of PASHA Bank in 2016

Aiming to work with leading institutions in its industry, PASHA Bank focuses on mergers and investment consultancy in the area of investment banking and, in corporate banking, on foreign trade finance, and the construction, logistics, manufacturing and energy industries.

58%
Growth on Assets

PASHA Bank increased its asset size by 58% compared to the previous year, maintaining its steady growth in 2016.

PASHA Bank continues its operations in two main areas, corporate and investment banking. The Bank offers financial solutions and banking services to large-scale national and international corporate and commercial customers under the corporate banking business line, including cash and non-cash loans and leasing products, treasury products, and foreign trade products, as well as innovative investment services to satisfy the needs of customers for their investments, working capital and projects. Under the investment banking business line, the Bank provides its customers with project finance, structured funding and corporate finance products.

Primarily aiming to work with leading institutions in their industry, PASHA Bank gives priority to mergers and investment consultancy within investment banking; and in corporate banking to foreign trade finance, along with the construction, logistics, manufacturing and energy industries.

Our Bank acts as an intermediary through equity participation to finance the growth of high potential SMEs within the scope of investment banking activities. The Bank also finalized its first capital markets funding through a bond issuance aimed towards diversifying its funding base. Domestic qualified investors showed stronger-than-expected demand, with 31 different investors participating in the first issuance. In the coming years, PASHA Bank Turkey plans to finance customers' short term financing needs through regular bond issuances.

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

As of December 31, 2016, PASHA Bank continues operations at its head office in Istanbul with a 39-person staff. It has no branches.

PASHA Bank further enhanced its performance in 2016 with the adoption of timely, strategic approaches and an experienced and specialized staff; and expanded its asset size by 58% with sound equity and assets quality.

Treasury Management

The main task of the Treasury Department is to manage effectively the assets and liabilities held by the Bank in terms of amount, currency and maturity, and to ensure the maintenance of the Bank's cash flow and asset-liability balance. By closely following the developments in domestic and foreign markets and the Central Bank monetary policies to minimize the risks that the Bank may face, and taking action in this direction, the Treasury Department continues its operations within the framework of regulations issued by the legal authorities, policies and risk limits determined by the Board of Directors, and the decisions taken by the Assets and Liabilities Committee.

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. 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 2016, which was rather volatile, profitably, in line with the goals of the Department.

PASHA Bank has increased its use of treasury products to enhance the added value created for its customers, and to provide services on the appropriate terms required by its customers in export and import transactions. By offering competitively priced spot, forward, foreign exchange swaps, bonds and bills and Eurobond products, the Bank helps its customers hedge against risks through structured products created in line with their needs. It also provides support to customers at home and abroad via weekly newsletters and daily notices 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 2017 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, and to contribute to the Bank's profitability by taking strategic trading positions. It plans to improve the structured products offered to domestic and foreign corporate customers and to play a role in expanding the trading volumes of potential customers in Azerbaijan and Georgia by offering them the Turkish capital markets products.

PASHA Bank
aims to work
with the leading
institutions in
their industry.

Activities of PASHA Bank in 2016

TL **404** million
Total Cash Loans

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”: Our prioritized target is to achieve the highest levels of customer satisfaction and loyalty. Thus, our 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.

PASHA Bank consistently works to provide innovative, tailor-made products and solutions to further our objective to become the preferred bank in the fields mentioned below.

Construction Industry

PASHA Bank offers flexibility to create distinctive and alternative financing models and solutions combined with strength provided by our reputation and regional recognition; the extensive experience of PASHA Construction, its sister company in Azerbaijan, in the construction sector; and the relevant industry expertise of the Bank’s management team.



PASHA Bank mediates in the implementation of projects through equity or borrowing from the international capital markets to ensure long-term funding for projects in the energy industry.

PASHA Bank is ideally positioned to take a role in boosting the trade volume among Turkey-Azerbaijan-Georgia.

Foreign Trade

PASHA Bank is targeting to take on a major role in increasing trade volume among Turkey-Azerbaijan-Georgia and the sales of 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.

Energy Industry

PASHA Bank mediates in the implementation of projects through equity or borrowing from the international capital markets in order to ensure long-term funding for projects in the energy industry.

To this end, it obtains long-term loans from development banks; these loans are compatible with the completed projects expected cash flows.

PASHA Bank will continue in 2017 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 in 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.

In 2016, the first M&A transaction was finalized to provide financial resources in the form of equity finance by 13 individuals and an international institutional investor for an orthodontics company within the ITU Core.

Having realized the first bond issue in October 2016 within the framework of the strategy for diversifying funding sources, the Bank will continue in 2017 to provide funds to customers through the issuance of debt instruments in different maturities and increasing amounts. Concurrent with its own needs, our Bank intends to provide 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.

Change and Project Management

In an effort to increase the quality and speed of our customer services, credit processes were reviewed, improvements related to scoring and intelligence processes in the main banking system were implemented, and information and document flows were rearranged in accordance with efficiency and productivity principles.

Improvements were also made in human resources applications, relevant to the Bank’s strategic objectives. Our competency- and target-based performance system was implemented in 2016, and career maps were created relating to the development of our human resources.

Video conferencing and an intranet infrastructure were created to enhance intra-group communication. New projects will continue to be developed in 2017 for the intranet facility, which sustains important functions such as providing effective access to in-house information resources, managing workflows, and creating a common corporate culture and legacy.

Activities continue towards boosting productivity in operational processes. A series of development projects were completed within the IT infrastructure in line with enhancements to the core banking applications, and the principles of compliance with COBIT processes such as service management, electronic fax, improvement of data communications at the backup and disaster recovery center to ensure capacity increase, renewal of virtualization infrastructure, establishment of monitoring infrastructure, hardware, software, and error and user demand management.

PASHA Bank serves leading corporate companies for accessing the funding they need with the most optimal model under “Mergers and Acquisitions.”

Activities of PASHA Bank in 2016

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

TL (millions)	The Sector (*)	The Bank	Bank's Share
Total assets	2,730,943	510	0.02%
Shareholders' equity	300,172	245	0.08%
Total loans	1,734,342	404	0.02%

(*) Reference: Banking Regulation and Supervision Agency; February 20, 2017

Configuring its processes and methods for introducing new products and services to ensure a diverse range for its customers, PASHA Bank continued to research and analyze new products and services in 2016 in line with its strategic goals.

PASHA Bank has launched the internet branch “PASHA Online” to offer digital facilities to its customers.







INFORMATION ON MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES

BAKU

Baku, the capital of Azerbaijan, is the country's largest and most important city. Attracting attention with a rich culture and highly developed trade and industry, Baku is where the story of PASHA Bank began.

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Information on Top Management



AGHA ALI KAMALOV **Chairman of the Board of Directors**

Agha Ali Kamalov obtained his Master's degree in Economics and Management from the Department of Economics and Management at Azerbaijan Agricultural Academy in 1987, where he graduated summa cum laude. In 1992, he obtained his Ph. D. in Economics from the Research Institute in Economics, in Baku. He commenced his professional career as an associate professor at the Academy. In 1993 Ali Kamalov received a scholarship from the Institute of International Education/AMOCO, and in 1994 graduated from the University of Texas at Austin in the USA with a Master's degree in Business Administration. In 1995, he conducted further graduate studies in international affairs at Bilkent University in Turkey, sponsored by Doghramaci Scholarship. In 2005, he received an E. Mason Fellowship from the Kennedy School of Government at Harvard University in the USA, where he obtained a Master's degree in Public Administration (Industry Finance and Regulation) in 2006.

From 1995 to 1997, Ali Kamalov served as a relationship manager at Citibank N.A. Turkey, covering countries of the S. Caucasus and Central Asia. In 1997, he joined the newly opened EBRD resident office in Baku as an associate banker. There, he was responsible for the development and financing of infrastructure and power sectors in Azerbaijan. In 2000-2005, he began working with

the newly established Black Sea Trade and Development Bank in Thessaloniki, Greece, where he served as a senior banker and deputy director for the Energy Department, covering 11 member states of the Black Sea Region. From 2006 to 2012 he served in various roles at IFIs and leading financial institutions. These included the IFC/World Bank, where he was a chief economic and financial advisor on projects such as Doing Business in Azerbaijan; EBRD, where he was a principal banker; the Central Bank of Azerbaijan, as chief advisor to the chairman; and SOFRECO, where he served as a regional operational leader to promote energy efficiency projects under the INOGATE program framework in the S. Caucasus and Central Asia. In 2012, Ali Kamalov was appointed Director of the Investments and Projects Department at PASHA Holding, and a member of the Supervisory Board at PASHA Bank OJSC.

Agha Ali Kamalov has served as the Chairman of the Board of Directors of PASHA Bank Turkey since March 31, 2015, and also serves as Chairman of the Strategy & Budget Committee, the HR & Remuneration Committee, and a member of the Corporate Governance Committee.

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



JALAL GASIMOV
Deputy 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 İlbank 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 as the Chairman of the Supervisory Board of Kapital BANK OSJC.

Mr. Gasimov has served as the Deputy 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 Risk Management Committee, a member of the HR & Remuneration Committee, and a reserve member of the Credit Committee.

He has 18 years of experience in banking and business administration.



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 was appointed as the CEO and Chairman of the PASHA Bank Executive Board on 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 15 years of experience in banking and business administration.

Information on Top Management



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 the same university, in 2004 and 2010 respectively.

Mammadov served as an accountant and deputy chief accountant at Kochbank Azerbaijan Ltd. from 2003. He joined Deloitte & Touche in 2005 as an associate auditor and was subsequently promoted to audit manager. Mr. Mammadov has been a member of the Association of Chartered Certified Accountants (ACCA) since 2014. 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 to assume the position of Business Development Director. Mammadov has served as the CEO at PASHA Bank Georgia since July 2014.

Mammadov joined PASHA Bank Turkey as a board member on March 31, 2015, and serves as a reserve member of the Credit Committee of PASHA Bank.

He has 14 years of experience in banking and business administration.



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 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 the Chairman of the Audit Committee at PASHA Bank, Azerbaijan. In 2013, she was appointed the Head of Group Risk Management at PASHA Holding.

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 joined PASHA Bank Turkey as a board member on November 25, 2016, and has served as a member of the Risk Management Committee since December 21, 2016.

She has 20 years of experience in banking and business administration.



N. SÜREYYA SERDENGEÇTİ
Independent Board Member

Süreyya Serdengeçti obtained his Bachelor's degree in Economics at Middle East Technical University in 1979, and his Master's degree from Vanderbilt University, USA.

Serdengeçti's professional career includes various roles at the Central Bank of the Republic of Turkey between 1980 and 2001, including Manager of Foreign Currency Transactions, Manager of the Open Market Transactions, Deputy General Secretary, Press Spokesman for the General Secretariat, Deputy Governor for External Affairs, Deputy Governor for Markets, and Deputy Governor for Loans, Information Systems and Statistics. He served as the Governor of the Central Bank of the Republic of Turkey from March 2001 until March 2006; and he has been serving as

the Founding Director of the Stability Institute of the think-tank organization TEPAV (Economic Policy Research Foundation of Turkey) since 2006. He is also a senior lecturer at the Economy and Technology University of the TOBB (Unions of Chambers of Commodity Exchange of Turkey), and advisor to the Executive Board of the TOBB. He served as a board member at Turcas Petrol A.Ş. from 2006 until 2012.

Serdengeçti joined PASHA Bank as an independent board member effective September 16, 2013, and serves as a member of the Audit Committee and the Chairman of the Corporate Governance Committee.

He has 36 years of experience in banking.



MESUT ÖZDİÑ
Independent Board Member

Mesut Özdiñ 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.

Özdiñ 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.

Özdiñ 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 21 years of experience in banking and business administration.

Information on Top Management



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 İktisat 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 member of the Credit Committee.

He has 37 years of experience in banking.



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 (Netherlands) 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 has been a member of the Board of PASHA Bank Georgia since October 26, 2015.

He has 23 years of experience in banking and business administration.



ALİ İHSAN TOKKUZUN

Deputy General Manager

Ali İhsan 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 to PASHA Bank.

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

He has 26 years of experience in banking and business administration.



AYŞE HALE YILDIRIM

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.

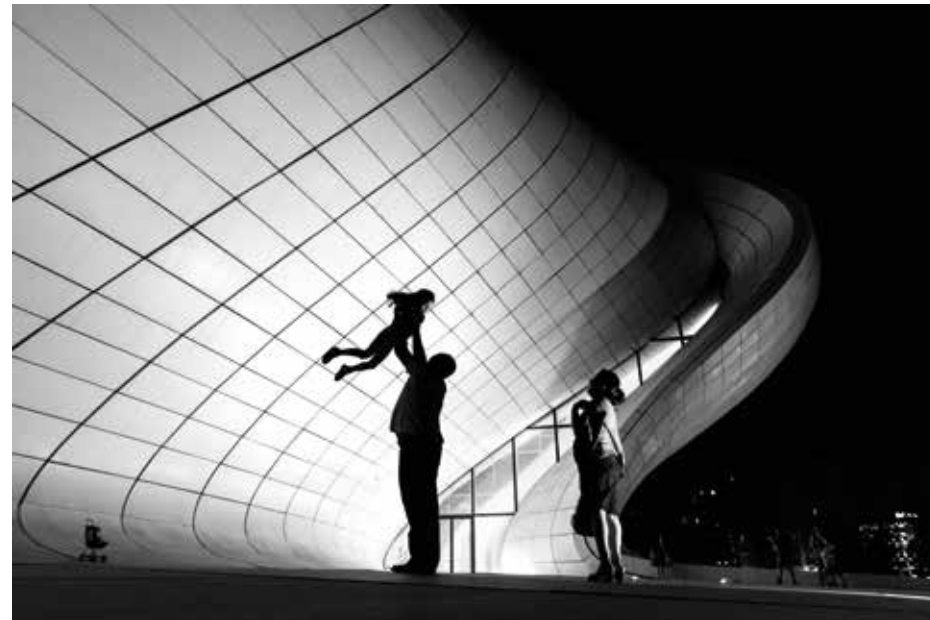
She joined PASHA Yatırım Bankası A.Ş. as the Manager of Corporate Marketing Department in 2013. Ayşe Hale Yıldırım has been serving as the Deputy General Manager in charge of Corporate Marketing, Corporate Communications, Human Resources and Administrative Affairs since August 1, 2016.

She has 18 years of experience in banking and business administration.









Terms of Office and Professional Experience of the Independent Auditor

At the annual General Meeting of Shareholders of the Bank held on March 30, 2016, 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 2016.

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, seven times with all members physically present, and five times via videoconferencing. The Board passed 103 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 to provide the Board with opinions and support 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.

Audit Committee

The Board of Directors has appointed two members of the Board of Directors as members of the Audit Committee, who are independent and have no executive function to assist the Board with the fulfillment of auditing and supervisory activities.

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 Özding (Independent Member)	Chairman
Süreyya Serdengeçti (Independent Member)	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 six months.

The Audit Committee convened seven times 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 valuation 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 32 resolutions in 2016 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. Below is the existing structure of the committee, the election of whose members was renewed under the Board of Directors’ Resolution No. 03 dated January 20, 2016.

Name - Surname	Committee Position
H. Cenk Eynehan	Chairman
Adnan Aykol	Member
Taleh Kazimov	Member
Jalal Gasimov	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 Credits Unit as 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 15 times, and passed 45 resolutions during the accounting period.

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

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
Süreyya Serdengeçti (Independent Member)	Chairman
Agha Ali Kamalov	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, and passed three resolutions during the accounting period.

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
Agha Ali Kamalov	Chairman
Jalal Gasimov	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.

The Committee assessed the remuneration policy and practices within the framework of the risk management, and submitted its recommendations on such matters to the Board of Directors in March 2017.

The Committee convened twice, and passed two resolutions 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
Jalal Gasimov	Chairman
Kamala Nuriyeva	Member
Mesut Özdiñ	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 met once 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
Agha Ali Kamalov	Chairman
Jalal Gasimov	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 two meetings during the accounting period.

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

Name & Surname	Field of Responsibility	Terms of Office	Academic Background	Professional Experience (YEAR)
Meltem Kiyak	Internal Control and Compliance	05.05.2015-Ongoing	Undergraduate	15
Önder Devrim Erol	Internal Audit	23.05.2016-Ongoing	Undergraduate	16
Mehmet Arslanbayoğlu	Risk Management	01.12.2016-Ongoing	Graduate	9





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 2016 Annual General Meeting of Shareholders of our Bank.

Our bank completed its activities in 2016 with 58% growth. Our total assets reached TL 510 million, according to the audited stand-alone financial statements for 2016, and the share of total cash loans corresponded to 79% of total assets.

PASHA Bank's total shareholders' equity as of December 31, 2016 is TL 244.7 million and the return on average equity realized at 5.9%.

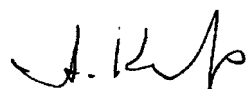
The increase in loans reflected positively on the results of 2016. The total cash and non-cash loans of the Bank reached TL 602 million, rising by 61% compared to the previous year as a result of the prudent risk policies that were applied, and the net profit for the period was recorded at TL 14 million.

We have examined the Bank's financial statements for the period of January 1 to December 31, 2016, 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 2016 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, 2016, and the discharge of our members of the Board of Directors individually.

Regards,

On Behalf of the Board of Directors



Agha Ali Kamalov

Chairman of the Board of Directors

Human Resources Implementations

PASHA Bank believes that the most important strategic resource driving the Bank's competitiveness and achievements is its human resources.

The most important feature of our Bank, and one that differentiates it from other institutions, is the adoption of a transparent management approach open to innovative and progressive proposals directed towards elevating the motivation of our employees, and ensuring their commitment by providing a business environment open to communication for its employees.

The recruitment policy of PASHA Bank is based on the principle of obtaining qualified human resources with high potential in line with the Bank's goals and strategies, corporate values and 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 competency inventories are used as selection and evaluation tools.

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 have increased by 26% in 2016. To contribute to their development, in-house and external training programs have been 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 a total of 1,685 hours of training in 2016, an average of 48 hours 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.

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 has been adopted by prioritizing staff with consideration for positions. In-house rotational and promotional practices are designed to benefit at an optimum level from the knowledge and skills of employees, and to meet the needs of the Bank in a fast and effective manner. Four of our employees were promoted in 2016 and entitled to serve in a higher position. 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 the summer of 2016, university students were provided with the opportunity to perform their compulsory internship in our Bank in order to promote the banking profession, and to support their training and progress through our experienced staff.

Human Resources Implementations

Our Bank's Remuneration Policy is focused on protecting our employees' interests for the present and the future, and supported by a fair in-house 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. 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.

The portion of 15% in the total personnel expense figure contained in the financial statements regarding the benefits provided in 2016 to bank employees, including members of the Board of Directors and senior management, results from the performance-based bonuses of all employees.

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, 2016, a total of 39 employees work for PASHA Bank; 90% of these employees have an undergraduate and graduate degree, and their average age is 38.



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 381 thousand, and the funds borrowed by the Bank from its risk group amounted to TL 138.273 thousand.

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)		Direct and Indirect Shareholders of the Bank		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	-	-	-	22,475	8,082	30,227
End of the Period	-	-	-	30,199	-	-
Interest and Commission Income Received	-	-	-	237	-	-



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.

Firm Providing Support Services	Service Description	Operating Area
FINEKSUS BİLİSİM ÇÖZÜMLERİ TİCARET A.Ş.	Maintenance and support service for the SWIFT Alliance system that provides the connection to the SWIFT network	Information Systems
INTERTECH BİLGİ İŞLEM VE PAZARLAMA TİCARET A.Ş.	Maintenance, support, and development services for the Inter-Vision platform, the core banking system	Information Systems
KOÇSİSTEM BİLGİ VE İLETİŞİM HİZMETLERİ A.Ş.	Information Security and System Management	Information Systems
TEPE SAVUNMA VE GÜVENLİK SİSTEMLERİ SANAYİ A.Ş.	Private physical security service for the head office	Security Service

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SECTION I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

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

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

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

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

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

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

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

- Regarding Principle no. 1.5.2.: Minority rights have not been recognized by the Articles of Association for those who hold less than one-twentieth of the capital.
- Regarding Principle no. 4.2.8.: The limit of the directors’ and officers’ liability insurance does not exceed 25% of the paid-up capital of the Bank, and no explanation has been made in this regard at the PDP.
- Regarding Principle no. 4.3.9.: There is not yet a target rate and target time determined for the ratio of female members in the Board of Directors. There was one female member on the Bank’s Board of Directors in 2016.
- Regarding Principle 4.5.3.: The chairs of all the committees in our Bank have not been elected from among the independent board members. However, the chairs of all the committees are composed of our non-executive board members. The reason for not electing chairs of the Corporate Governance Committee, Risk Management Committee and Human Resources and Remuneration Committee from independent board members is to enhance the synergy for similar processes carried out before the controlling shareholder group.
- Regarding Principle no. 4.5.5.: Assignment to the Board of Directors’ committees is carried out in line with the relevant legislation, taking into consideration the accumulated knowledge and experience of the members of the Board of Directors and some members of the Board of Directors are assigned to more than one committee. However, members assigned to more than one committee ensure communication between committees involved in related issues and increase cooperation opportunities.

- Regarding Principle no. 4.6.5.: The fees and other benefits provided to the members of the Board of Directors and executive directors are disclosed to the public through the annual report. However, the disclosure made is for the entire top management collectively, not on an individual basis.

SECTION II - SHAREHOLDERS

2.1. Investor Relations Division

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

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

1. Monitor international capital markets and provide the necessary guidance to determine the appropriate times for debenture issuances by informing Senior Management, when necessary;
2. Interact with international rating agencies, manage communications, and coordinate the process;

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

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

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

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

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

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

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

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

2.2. Exercise of Shareholders’ Right to Obtain Information

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

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

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

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

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

2.3. General Meetings of Shareholders

Provisions that pertain to the General Assembly are included in the “Articles of Association of the Bank” (AoA) and in the “Internal Directive Pertaining to the Working Principles and

Procedures of the General Assembly”, which are placed on the Bank’s website and that are open to the public.

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

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

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

Invitation letters were sent to shareholders, whose names are written on the share ledger, three weeks before the date of the Annual General Assembly and, in addition, invitation announcements for the meetings as well as the agenda items and a sample copy of the power of attorney were published in the Trade Registry Gazette of Turkey as well as in a daily

newspaper that is distributed nationwide in Turkey. Invitations to the General Assembly were made by the Board of Directors. Officials from the Banking Regulation and Supervision Agency (BDDK) were also invited to the said meetings, along with the shareholders. In addition to shareholders, representatives of the official establishments who are, according to the pertinent legislation, empowered to attend the General Assembly may participate in them.

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

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

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

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

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

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

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

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

Casting of votes by proxies is permissible as per the provisions of the Articles of Association of the Bank. According to Article 26 of the Articles of Association, shareholders may themselves exercise their right to vote, or they may be represented

by other shareholders, by a non-shareholder proxy they appoint, or by the representative of the organ that would be assigned as per Article 428 of Turkish Commercial Code, by an independent representative or a corporate representative.

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

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

2.4. Voting Rights and Minority Rights

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

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

2.5. Dividend Right

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

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

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

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

2.6. Transfer of Shares

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

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

SECTION III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company's Website and Its Content

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

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

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

3.2. Annual Report

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

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

SECTION IV - STAKEHOLDERS

4.1. Informing Stakeholders

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

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

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

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

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

4.2. Stakeholder Participation in Management

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

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

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

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

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

4.3. Human Resources Policy

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

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

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

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

- a) To provide the qualified and competent human resources needed in line with the Bank's objectives and strategies and its corporate values,
- b) To ensure that employees adopt the corporate culture and corporate values, and comply with ethical principles,
- c) To ensure through effective performance management system that the staff performs efficiently,
- d) To create a learning organization in line with the Bank's strategy, business objectives and mission by supporting the professional and personal development of all staff,
- e) To reinforce the corporate culture by developing Bank staff for managerial positions,
- f) To contribute to the enhancement of the Bank's achievements by rewarding high performance,
- g) To provide opportunities for career development by prioritizing existing staff in the case of vacancies,
- h) To increase employee commitment by implementing an open and transparent Human Resources Management System,
- i) To ensure continuous improvement by taking into account all requests, complaints and suggestions from employees,
- j) To create an effective and motivated organization by ensuring employee satisfaction,

- k) To compensate employees according to current conditions and aligned with the market and the Bank's budget,
- l) To increase commitment to the organization,
- m) To ensure that the common goals of the Bank are adopted by all employees,
- n) To provide the staff with a safe, healthy and adequate work environment that encourages creative thinking and generating new ideas.

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

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

Job applications are submitted via the e-mail address ik@pashabank.com.tr, and through the contracted human resources portals; positions for which there are recruitment needs are announced through these channels as well and, when necessary, consulting firms are engaged. At PASHA

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Bank, the average age of our employees is 38; 49% of our employees are female, and 90% have a Bachelor's degree, while 26% hold Master's and doctoral degrees. The average working period of our employees is 15 years. The duties and responsibilities of all Bank employees have been defined in a clear and transparent manner in job descriptions. The Bank's organizational structure, employees' job descriptions, and policies and procedures containing performance and bonus criteria are posted via the intranet site, which is the Bank's internal communication platform. Minimum levels of seniority for promotion from a current position, depending on the educational qualifications, are defined. An employee may be promoted by meeting the criteria defined and stated in the Human Resources Policy.

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

The criteria used for performance-based compensation are determined by the Remuneration Policy and the Bonus Policy. These criteria are based on evaluations conducted at certain periods during the performance of the employee, the relevant

business line, and the Bank's performance. Evaluations are in line with the following criteria:

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

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

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

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

- Enabling our employees through career-related training to enhance their performance in current jobs and prepare for advanced positions,
- Enabling employees to acquire the knowledge, skills and competencies required by contemporary banking in line with the principles of equality and continuity,

- Supporting the positive development of our employees' relationships with each other and with our customers,
- Contributing through personal development training to elevating employees' quality of work and social life, and supporting employees through individual investments to maximize their potential.

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

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

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

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

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

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

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

The Bank conducts ongoing activities towards protecting the occupational health and safety of its employees, within the Human Resources and Administrative Affairs Unit. In 2016, a

total of 40 hours of service was provided by the Occupational Safety Specialist, and 20 hours of service were provided by the workplace physician at the Bank. Employees were provided with four hours of occupational health and safety training.

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

All employees of the Bank are informed regarding Bank policies, regulations, procedures, organizational changes, changes in rights and interests, and relevant practices and decisions via announcements and directives prepared within the framework of the Documentation Regulation and transmitted by e-mail, and also via posts on the Bank’s intranet portal.

4.4. Ethical Rules and Social Responsibility

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

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

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

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

The rules and regulations set in accordance with the Ethical Principles Regulation are among the general responsibilities

of all employees, and they must be included in the compliance and acceptance statement.

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

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

SECTION V - BOARD OF DIRECTORS

5.1. Structure and Formation of the Board of Directors

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

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

The Board members and their areas of responsibilities are stated below.

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

At the Extraordinary General Assembly Meeting held on November 25, 2016, the number of members of the Board of Directors of the Bank was determined to be nine persons, including the General Manager, who is the natural member as required by the Banking Law. It was also decided for the continuation during their term of office of the Board memberships of Agha Ali Kamalov, Taleh Kazimov, Shahin Mammadov, Necip Sureyya Serdengeçti, Mesut Özdiç, Adnan Aykol and Hikmet Cenk Eynehan, whose terms of office as

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Board members had been approved for three years at the Ordinary General Assembly Meeting held on March 31, 2015, as well as that of Jalal Gasimov, who was elected as a member of the Board of Directors by the Board Resolution no. 88 and dated August 17, 2015 and whose membership was approved at the Ordinary General Assembly dated March 30, 2016; and Kamala Nuriyeva was elected as a member of the Board of Directors to serve throughout the term of office of the other

members. As a result of the election, the percentage of female members on the Board of Directors increased to 11%

The term of office for all members of the Board of Directors is a maximum of three years under the Articles of Association. Members whose term of office has expired may be re-elected. The duties assumed by the members of the Board of Directors

with external entities, distribution of duties, and terms of office are summarized in the table below. The resumes of the members of the Board of Directors are available in the section, “Information on Top Management”, in our Annual Report; the relevant information is also available on the website and in the e-COMPANY: Company Information Portal of MKK.

NAME-SURNAME	POSITION	STATUS OF INDEPENDENCE	DUTIES ASSUMED OUTSIDE THE BANK	RESPONSIBILITY AREA	DATE OF ELECTION	ACADEMIC BACKGROUND	PROFESSIONAL EXPERIENCE (YEAR)
Agha Ali Kamalov	Chairman	Not Independent	PASHA Holding LLC, Deputy CEO, COO	Strategy and Budget Committee HR and Remuneration Committee Corporate Governance Committee	31.03.2015	Doctorate	22
Jalal Gasimov	Deputy Chairman	Not Independent	PASHA Holding LLC, First Deputy CEO, Head of Banking Group Kapital Bank OJSC, Azerbaijan, Chairman of the Supervisory Board JSC PASHA Bank, Georgia, Member of the Supervisory Board PASHA Life Insurance, Azerbaijan, Member of the Supervisory Board	Strategy and Budget Committee HR and Remuneration Committee Risk Management Committee Credit Committee	17.08.2015	Post Graduate	18
Taleh Kazimov	Board Member	Not Independent	PASHA Bank OJSC, CEO, Chairman of the Executive Board JSC PASHA Bank, Georgia, Member of the Supervisory Board	Credit Committee	31.03.2015	Post Graduate	15
Shahin Mammadov	Board Member	Not Independent	JSC PASHA Bank, Georgia, CEO, Chairman of the Board of Directors	Credit Committee	31.03.2015	Doctorate	14
Kamala Nuriyeva	Board Member	Not Independent	PASHA Holding LLC, Director, Group Risk JSC PASHA Bank, Georgia, Member of Risk Management Committee PASHA Bank OJSC, Azerbaijan, Member of the Supervisory Board, Chairman of Risk Management Committee Kapital Bank OJSC, Azerbaijan, Member of Risk Management Committee	Risk Management Committee	25.11.2016	Post Graduate	20
N. Süreyya Serdengeçti	Board Member	Independent	TOBB Economy and Technology University, Lecturer TEPAV, Director	Audit Committee Corporate Governance Committee	16.09.2013	Post Graduate	36
Mesut Özding	Board Member	Independent	-	Audit Committee Risk Management Committee	19.12.2013	Post Graduate	21
Adnan Aykol	Board Member	Independent	-	Credit Committee	20.08.2013	Undergraduate	37
H. Cenk Eynehan	General Manager and Board Member	Not Independent	JSC PASHA Bank Georgia, Member of the Supervisory Board	Strategy and Budget Committee Credit Committee	02.08.2013	Post Graduate	23

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

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

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

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

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

As of end-year 2016, Mr. Adnan Aykol also served as an independent board member. No situation occurred during the year that affected the independence of Board's independent

members. The independence declarations of independent board members are included in an attachment to the Report.

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

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

5.2. Operating Principles of the Board of Directors

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

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

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

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

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

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

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

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

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

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

Corporate Governance Principles

Compliance Report

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

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

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

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

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

Information on the committees established within the Board of Directors is disclosed below. The Board of Directors’

Committees maintained their work during the period effectively and in full compliance with relevant legislation.

Audit Committee

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

The existing structure of the committee is given below.

Name - Surname	Committee Position
Mesut Özdiñ	Chairman
Süreyya Serdengeçti	Member

Credit Committee

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

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

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

Corporate Governance Committee

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

The existing structure of the committee is given below.

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

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

Human Resources and Remuneration Committee

To provide an independent and effective remuneration system, the Human Resources and Remuneration Committee was established to carry out supervision on behalf of the Board of Directors of the remuneration policies, processes,

and practices in line with the provisions of the Banking Law and the Regulation on the Corporate Governance Principles of Banks. The existing structure of the committee is given below.

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

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

Risk Management Committee

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

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

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

Strategy and Budget Committee

The Strategy and Budget Committee was established to provide assurance in preparing the Bank’s business and strategy plans; preparing an annual budget in line with strategy, operation, and budget management processes that have been approved by the controlling shareholder; advising the Board of Directors; and assisting the Board in fulfilling its duties and responsibilities.

The existing structure of the committee is given below.

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

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

5.4. Risk Management and Internal Control Mechanism

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

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

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

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

The basic aim of compliance activities is to provide the maximum contribution on such issues as ensuring that the compliance risk in the Bank is kept under control through purposeful and effective management, and that the Bank’s activities are executed and managed within this framework continually in accordance and compliance with the relevant legislation, regulations, and standards in terms of structure and functioning, and that anti-money laundering and terrorist financing policies are enforced.

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

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

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

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

Corporate Governance Principles

Compliance Report

5.5. Strategic Targets of the Bank

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

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

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

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

5.6. Remuneration

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

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

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

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

Total compensation to Senior Management and to Board members is presented to shareholders for their information

and/or approval in accordance with relevant legislation at the General Assembly Meeting.

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

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

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

Statement of Independence

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

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



Süreyya SERDENGEÇTİ

Statement of Independence

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

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



Mesut ÖZDİNÇ

Statement of Independence

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

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



Adnan AYKOL

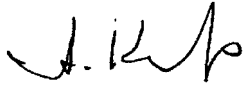




Statement of Responsibility

PASHA YATIRIM BANKASI A.Ş. **STATEMENT RELATED TO THE 2016 ANNUAL REPORT**

The 2016 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.



Agha-Ali KAMALOV

Chairman of the Board of Directors



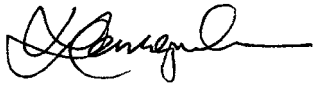
Mesut ÖZDİNÇ

Chairman of the Audit Committee



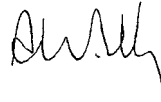
Necip Süreyya SERDENGEÇTİ

Member of the Audit Committee



Hikmet Cenk EYNEHAN

General Manager



Ali İhsan TOKKUZUN

Deputy General Manager



Özgür İÇİN

Financial Planning & Control 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 Board of Directors of Pasha Yatırım Bankası A.Ş.

Report on the Audit of the Annual Report of the Board of Directors in Accordance with the Independent Auditing Standards

We have audited the annual report of Pasha Yatırım Bankası A.Ş. ("the Bank") as at December 31, 2016.

Responsibility of the Bank's Board of Directors on the Annual Report

In accordance with Article 514 of the Turkish Commercial Code (TCC) no.6102 and the communique on 'Principles and procedures set out by the regulations on preparation and issuance of annual reports of Banks' published in the Official Gazette no.26333 dated November 1, 2006, the Bank management is responsible for the preparation and fair presentation of an annual report consistent with the unconsolidated financial statements prepared in accordance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated November 1, 2006 and other regulations on accounting records of Banks published by the Banking Regulation and Supervision Agency (BRSA), circulars, interpretations published by BRSA and the provisions of Turkish Accounting Standards for the matters which are not regulated by these regulation; "BRSA Accounting and Financial Reporting Legislation" and for the internal control considered for the preparation of a report of such quality.

Independent Auditor's responsibility

Our responsibility is to express an opinion based on the independent audit we performed on the Bank's annual report, in accordance with Article 397 of TCC and the "Communique on Independent Audit of Banks" published in the Official Gazette no.29314 dated April 2, 2015 on whether the financial information provided in this annual report is presented fairly and is consistent with the Bank's unconsolidated financial statements on which an auditor's report dated February 16, 2017 has been issued.

We conducted our audit in accordance with the Independent Standards of Auditing ("ISA") which is a part of Turkish Auditing Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA"). These standards require compliance with ethical requirements and that the independent audit be planned and performed so as to obtain reasonable assurance that the financial information provided in the annual report is free from material misstatement and consistent with the unconsolidated financial statements. An independent audit involves performing audit procedures to obtain audit evidence about the historical financial information. The procedures selected depend on the independent auditor's professional judgment. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information provided in the annual report of the Board of Directors is presented fairly and is consistent with the audited unconsolidated financial statements in all material respects.

Report on other responsibilities arising from regulatory requirements

In accordance with paragraph 3 of Article 402 of the Turkish Commercial Code, within the framework of the Independent Auditing Standards 570 "Going Concern", no material uncertainty has come to our attention to be disclosed which may cause us to believe that the Bank will not be able to continue as a going concern in the foreseeable future.

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

Danışman Harman, SMMM
Partner

Istanbul, 10 March 2017

FINANCIAL AND RISK MANAGEMENT REVIEW

TBILISI

Set on the historic Silk Road, Tbilisi is an industrial, social and cultural center. It is located on the transition line of Baku-Tbilisi-Ceyhan Pipeline, an important global energy project.

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Assessments of the Audit Committee on the Activities of Internal Systems

PASHA Bank’s risk management, internal audit, and internal control and compliance systems have been structured under the Units with their own manager, who assumes the responsibility to report to the Board of Directors in compliance with the provisions of 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 and Compliance, and Risk Management Units that operate in line with the BRSA directives reports to the Board of Directors through the Audit Committee and the Risk Management Committee.

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, as well as the internal control plan that is renewed regularly within the framework of the project schedule structured by the Bank’s internal control system in accordance with the international control standard COSO, are submitted to the Board of Directors after approval by the Audit Committee.

During the year, the main activities of such internal systems units 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 units of the Bank through the Bank’s internal systems units.

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

The Internal Audit Unit 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 Unit 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 Unit 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 14 internal audit reports covering the audits of the banking processes, information systems, risk management and internal control activities.

The Internal Control and Compliance Unit carries out its activities pursuant to the internal control plan incorporating enhanced controls and a methodology that has been

improved in accordance with the nature of risks within the scope of the COSO Project, along with the risk assessments resulting from the Bank's developing and changing structure, legislative amendments, and the internal audit and internal control activities carried out a year before.

The Internal Control and Compliance Unit 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 2016 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 included in the internal control and compliance activity reports issued on a monthly basis.

The legal reports produced by the Financial Planning and Control Unit and submitted to the regulatory bodies are checked within the unit with the double eye principle, and the effectiveness of these controls is assessed by the Internal Control and Compliance Unit in accordance with the frequency specified in the internal control plan. Thus, the risks that may arise in the legal reporting process are tried to be reduced.

The Internal Control and Compliance Unit 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 and local legislation are followed, and necessary arrangements are made within the Bank. On the other hand, opinions were provided on the policies and procedures for the relevant processes, including the new products and services and the projects being implemented.

The Risk Management Unit continued to monitor at regular intervals credit risk concentrations, 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 Unit carried out in the following activities in 2016:

- Updated the Risk Management Policy that defines the framework for the identification, measurement, monitoring, control and reporting of the risks to which the Bank is exposed.
- 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.
- 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.
- Opinions and information sharing requested by the Banks Association of Turkey within the scope of risk management was made.
- 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 Unit 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.

Assessments of the Audit Committee on the Activities of Internal Systems

- 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 and Compliance Unit and the Internal Audit Unit will continue their work in 2017 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 and Compliance Unit. 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



The main shareholder PASHA Bank OJSC strengthened the Bank's equity structure by realizing a capital increase of TL 175 million in cash in 2015 in order to support the three-year strategy and business plans of the Bank. The shareholders' equity of the Bank increased by 6% compared to the previous period and the return on equity was realized as 5.9%.

PASHA Bank completed the year 2016 with TL 14,005 thousand in profits as per unconsolidated figures.

Total assets stood at TL 510,357 thousand, representing an increase of 58% over the prior year as a result of the growth in corporate loans.

Of PASHA Bank's total assets, 19% correspond to cash, banks, and liquid securities account. 31% of the Bank's securities portfolio comprises high-liquid government bonds and treasury bills.

Total cash loans stood at TL 403,870 thousand, increasing by 64% compared to the previous year, and became the largest item in the balance sheet with a share of 79%.

As a result of prudent lending and risk management policies, there are no loans by the Bank under legal proceedings.

Shareholders' equity represents the primary funding source of PASHA Bank with a share of 48% in the balance sheet. The funds borrowed had a share of 72% in third party liabilities by reaching TL 191,897 thousand at the end of the year, and its share in the balance sheet total was realized as 38%.

The Bank's unconsolidated capital adequacy ratio was realized at a high level of 53.85%. PASHA Bank does not have a problem in terms of capital, and its assets are able to meet its liabilities.

Total property and equipment investments made as of December 31, 2016 amounted to TL 1.662 thousand and no government promotion was utilized by PASHA Bank.

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 Unit 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 Unit 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 Unit. 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 report dated November 7, 2016 as follows.

National Long-Term Rating: A(tur) (Outlook: Negative)

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 92.64 by revising it upwards in its latest report dated June 30, 2016.

The increase in the 2016 score was due to improvement in the Shareholders (from 91.78 to 91.97) and Public Disclosure and Transparency (from 82.13 to 96.27) 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.

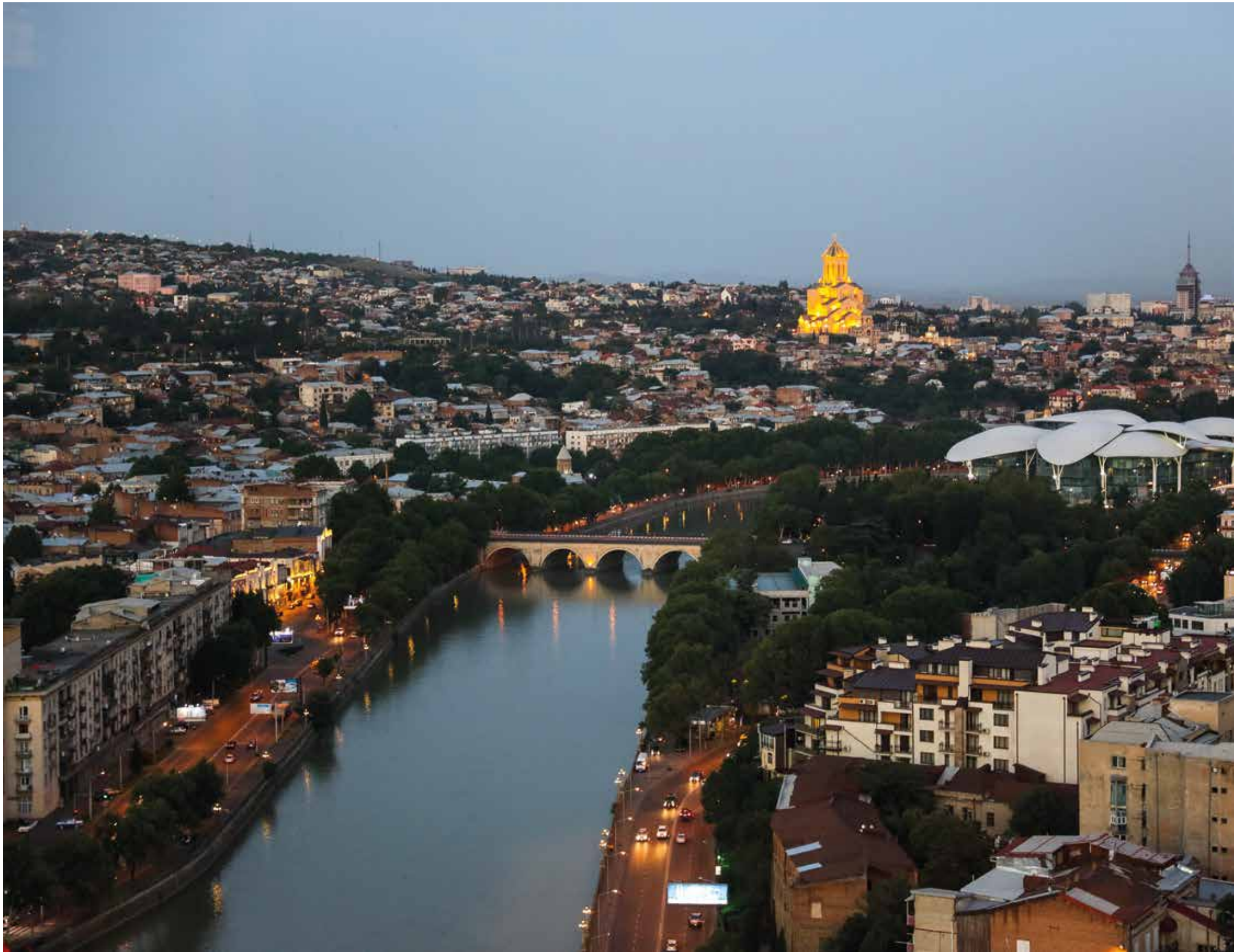
The corporate governance compliance rating score comprises four main sections with different weights as per the CMB's regulations relevant to this topic. These four sections and PASHA Bank's compliance levels are as follows:

Main Sections	Weight	Score Assigned
Shareholders	25%	91.97
Public Disclosure and Transparency	25%	96.27
Stakeholders	15%	91.34
Board of Directors	35%	91.07
Total	100%	92.64

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 disclosures of special cases made on the Public Disclosure Platform (PDP).

Five-Year Summary of Unconsolidated Financial Highlights

THOUSANDS TL	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Total Assets	510.357	322.405	61.071	50.058	19.282
Total Cash Loans	403.870	245.744	51.282	26.681	750
Securities	20.538	9.619	1.764	293	1.587
Total Shareholders' Equity	244.658	230.552	46.849	48.672	16.331
Net Profit/Loss	14.005	8.787	(1.817)	(9.082)	(1.478)





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

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 2016.

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 2016

(Convenience translation of the independent auditor's report originally issued in Turkish, See Note I. of Section three)

Independent auditor report
To the Board of Directors of Pasha Yatırım Bankası Anonim Şirketi;

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated balance sheet of Pasha Yatırım Bankası A.Ş. ("the Bank") as at December 31, 2016 and the related unconsolidated income statement, unconsolidated statement of income and expense items accounted under shareholders' equity, unconsolidated statement of cash flows and unconsolidated statement of changes in shareholders' equity for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements.

Responsibility of the Bank's Board of Directors for the Unconsolidated Financial statements

Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statement 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 the provisions of Turkish Accounting Standards for the matters which are not regulated by these regulation; "BRSA Accounting and Reporting Legislation" and for such internal control as management determines is necessary to enable the preparation of the unconsolidated financial statement that is free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the unconsolidated financial statements based on our audit. We conducted our audit in accordance with communiqué "Independent Audit of Banks" published by BRSA on the Official Gazette No.29314 dated April 2, 2015 and with the Independent Auditing Standards which is a part of Turkish Auditing Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the unconsolidated financial statements are free of material misstatement.

An independent audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the independent auditor's professional judgment, including the assessment of risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers the internal control relevant to bank's preparation and fair presentation of the unconsolidated financial statements 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. An independent audit also includes evaluating the appropriateness of accounting policies used by the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the unconsolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying unconsolidated financial statements presents fairly, in all material respects, the financial position of Pasha Yatırım Bankası A.Ş. as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with the prevailing accounting principles and standards set out as in accordance with BRSA Accounting and Reporting Legislation.

Reports on arising from other 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 for the period January 1 - December 31, 2016 are not in compliance with the code and provisions of the Bank's articles of association in relation to financial reporting.

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.

Other matter

The unconsolidated financial statements of the Bank as of December 31, 2015 were audited by another independent audit firm, who expressed an unqualified opinion in their audit reports dated February 22, 2016.

Additional paragraph for convenience translation to English:

As explained in detail in Note I. of Section Three, 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.

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

Danışman Herman, SMMM
Partner

İstanbul, Turkey
16 February 2017

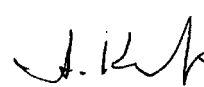
THE YEAR-END UNCONSOLIDATED FINANCIAL REPORT OF PASHA YATIRIM BANKASI A.Ş. AS OF 31 DECEMBER 2016

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

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
- SECTION FOUR - INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT
- SECTION FIVE - EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
- SECTION SIX - OTHER EXPLANATIONS AND NOTES
- 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.



Agha-Ali KAMALOV
Chairman of the Board of Directors



Mesut ÖZDİNCİ
Chairman of the Audit Committee



Necip Süreyya SERDENGEÇTİ
Member of the Audit Committee



Hikmet Cenk EYNEHAN
General Manager



Ali İhsan TOKKUZUN
Deputy General Manager



Özgür İÇİN
Financial Planning and
Control 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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PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(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 2016
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 2016 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 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 2016

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

Partnership structure of the Bank as of 31 December 2016, 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 ⁽¹⁾	Agha-Ali Kamalov	PhD	-
Vice President of the Board of Directors ⁽¹⁾	Jalal Gasimov	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 ⁽³⁾	Kamala Nuriyeva	Postgraduate	-
Independent Member of the Board of Directors/			
Member of the Audit Committee	Necip Süreyya Serdengeçti	Postgraduate	-
Independent Member of the Board of Directors/			
Chairman of the Audit Committee	Mesut Özding	Postgraduate	-
Independent Member of the Board of Directors	Adnan Aykol	Graduate	-
Member of the Board of Directors/			
General Manager	Hikmet Cenk Eynehan	Postgraduate	-
Assistant General Manager	Ali İhsan Tokkuzun	Postgraduate	-
Assistant General Manager ⁽²⁾	Ayşe Hale Yıldırım	Graduate	-

⁽¹⁾ Agha Ali Kamalov is assigned as Chairman of the Board of Directors, Jalal Gasimov is assigned as Vice President of the Board of Directors with the Board decision dated 30 March 2016, numbered 2016/22.

⁽²⁾ Ayşe Hale Yıldırım is assigned as Assistant General Manager responsible from Corporate Marketing, Corporate Communication, Human Resources and Administrative Affairs with the Board decision dated 29 July 2016 numbered 62.

⁽³⁾ Kamala Nuriyeva is assigned as Member of Board of Directors with the decision taken at Extraordinary General Meeting dated 25 November 2016.

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 2016, is stated below;

Name/Commercial title	Share Amounts (nominal)	Share percentage	Paid-in Capital (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 2016 the Bank has 39 employees (31 December 2015: 31).

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

None.

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

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

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

SECTION TWO
UNCONSOLIDATED FINANCIAL STATEMENTS

I.BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

ASSETS	Note	Current Period			Prior Period		
		31 December 2016			31 December 2015		
		TL	FC	Total	TL	FC	Total
I. CASH AND BALANCES WITH CENTRAL BANK	(1)	14,804	19,632	34,436	788	11,875	12,663
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)	(2)	-	281	281	604	-	604
2.1 Trading Financial Assets		-	281	281	604	-	604
2.1.1 Government Debt Securities		-	-	-	-	-	-
2.1.2 Share Certificates		-	-	-	-	-	-
2.1.3 Trading Derivative Financial Assets		-	281	281	604	-	604
2.1.4 Other Marketable Securities		-	-	-	-	-	-
2.2 Financial Assets Designated at Fair Value through Profit or Loss		-	-	-	-	-	-
2.2.1 Government Debt Securities		-	-	-	-	-	-
2.2.2 Share Certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Marketable Securities		-	-	-	-	-	-
III. BANKS	(3)	19,028	10,116	29,144	26,028	21,329	47,357
IV. MONEY MARKETS		15,133	-	15,133	-	-	-
4.1 Interbank Money Market Placements		-	-	-	-	-	-
4.2 Receivables from Istanbul Stock Exchange Money Market		15,133	-	15,133	-	-	-
4.3 Receivables from Reverse Repurchase Agreements		-	-	-	-	-	-
V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)	(4)	13,864	6,674	20,538	9,619	-	9,619
5.1 Share Certificates		-	-	-	-	-	-
5.2 Government Debt Securities		6,196	-	6,196	9,619	-	9,619
5.3 Other Marketable Securities		7,668	6,674	14,342	-	-	-
VI. LOANS	(5)	311,290	92,580	403,870	188,187	57,557	245,744
6.1 Loans		311,290	92,580	403,870	188,187	57,557	245,744
6.1.1 Loans to Bank's Risk Group		-	-	-	7,620	462	8,082
6.1.2 Government Debt Securities		-	-	-	-	-	-
6.1.3 Other		311,290	92,580	403,870	180,567	57,095	237,662
6.2 Loans under Follow-up		-	-	-	-	-	-
6.3 Specific Provisions (-)		-	-	-	-	-	-
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. HELD-TO-MATURITY SECURITIES (Net)	(6)	-	-	-	-	-	-
8.1 Government Debt Securities		-	-	-	-	-	-
8.2 Other Marketable Securities		-	-	-	-	-	-

IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	-	-	-	-	-	-
9.1 Consolidated Based on Equity Method		-	-	-	-	-	-
9.2 Unconsolidated		-	-	-	-	-	-
9.2.1 Financial Investments in Associates		-	-	-	-	-	-
9.2.2 Non-financial Investments in Associates		-	-	-	-	-	-
X. SUBSIDIARIES (Net)	(8)	-	-	-	-	-	-
10.1 Unconsolidated Financial Subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated Non-Financial Subsidiaries		-	-	-	-	-	-
XI. JOINT VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Consolidated Based on Equity Method		-	-	-	-	-	-
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial Joint Ventures		-	-	-	-	-	-
11.2.2 Non-financial Joint Ventures		-	-	-	-	-	-
XII. LEASE RECEIVABLES (Net)	(10)	-	-	-	-	-	-
12.1 Financial Lease Receivables		-	-	-	-	-	-
12.2 Operational Lease Receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned Income (-)		-	-	-	-	-	-
XIII. HEDGING DERIVATIVE FINANCIAL ASSETS	(11)	-	-	-	-	-	-
13.1 Fair Value Hedge		-	-	-	-	-	-
13.2 Cash Flow Hedge		-	-	-	-	-	-
13.3 Foreign Net Investment Hedge		-	-	-	-	-	-
XIV. PROPERTY AND EQUIPMENT (Net)	(12)	681	-	681	504	-	504
XV. INTANGIBLE ASSETS (Net)	(13)	981	-	981	468	-	468
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		981	-	981	468	-	468
XVI. INVESTMENT PROPERTY (Net)	(14)	-	-	-	-	-	-
XVII. TAX ASSET		689	-	689	708	-	708
17.1 Current Tax Asset		-	-	-	81	-	81
17.2 Deferred Tax Asset	(15)	689	-	689	627	-	627
XVIII. ASSETS HELD FOR RESALE AND DISCONTINUED OPERATIONS (Net)	(16)	-	-	-	-	-	-
18.1 Held for Resale		-	-	-	-	-	-
18.2 Discontinued Operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(17)	4,559	45	4,604	4,701	37	4,738
TOTAL ASSETS		381,029	129,328	510,357	231,607	90,798	322,405

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

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

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

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

I. STATEMENT OF FINANCIAL POSITION (Continued)

LIABILITIES	Note	Current Period			Prior Period		
		31 December 2016			31 December 2015		
	(Section Five-II)	TL	FC	Total	TL	FC	Total
I. DEPOSITS	(1)	-	-	-	-	-	-
1.1 Deposits of Bank's Risk Group		-	-	-	-	-	-
1.2 Other		-	-	-	-	-	-
II. TRADING DERIVATIVE FINANCIAL LIABILITIES	(2)	1,603	-	1,603	20	28	48
III. FUNDS BORROWED	(3)	46,374	145,523	191,897	-	71,311	71,311
IV. INTERBANK MONEY MARKETS		15,963	-	15,963	-	-	-
4.1 Funds from Interbank Money Market		-	-	-	-	-	-
4.2 Funds from Istanbul Stock Exchange Money Market		11,306	-	11,306	-	-	-
4.3 Funds Provided Under Repurchase Agreements	(4)	4,657	-	4,657	-	-	-
V. MARKETABLE SECURITIES ISSUED (Net)	(5)	37,239	-	37,239	-	-	-
5.1 Bills		37,239	-	37,239	-	-	-
5.2 Asset Backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. FUNDS		3,901	16	3,917	49	10,223	10,272
6.1 Borrower Funds	(6)	3,901	16	3,917	49	10,223	10,272
6.2 Other		-	-	-	-	-	-
VII. MISCELLANEOUS PAYABLES		29	1,425	1,454	100	-	100
VIII. OTHER LIABILITIES	(7)	5,092	20	5,112	5,292	46	5,338
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. 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)	6,435	-	6,435	4,302	-	4,302
12.1 General Loan Loss Provision		4,471	-	4,471	2,670	-	2,670
12.2 Restructuring Provisions		-	-	-	-	-	-
12.3 Reserve for Employee Rights		352	-	352	299	-	299
12.4 Insurance Technical Provisions (Net)		-	-	-	-	-	-
12.5 Other Provisions		1,612	-	1,612	1,333	-	1,333
XIII. TAX LIABILITY	(11)	2,079	-	2,079	482	-	482

13.1	Current Tax Liability	2,079	-	2,079	482	-	482
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)	244,658	-	244,658	230,552	-	230,552
16.1	Paid-in Capital	255,000	-	255,000	255,000	-	255,000
16.2	Capital Reserves	11	-	11	(90)	-	(90)
16.2.1	Share Premium	-	-	-	-	-	-
16.2.2	Share Cancellation Profits	-	-	-	-	-	-
16.2.3	Marketable Securities Valuation Reserve	11	-	11	(90)	-	(90)
16.2.4	Tangible Assets Revaluation Reserve	-	-	-	-	-	-
16.2.5	Intangible Assets Revaluation Reserve	-	-	-	-	-	-
16.2.6	Investment Property Revaluation Reserve	-	-	-	-	-	-
16.2.7	Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures	-	-	-	-	-	-
16.2.8	Hedging Reserves (Effective portion)	-	-	-	-	-	-
16.2.9	Value Differences of Assets Held for Resale and Discontinued Operations	-	-	-	-	-	-
16.2.10	Other Capital Reserves	-	-	-	-	-	-
16.3	Profit Reserves	324	-	324	324	-	324
16.3.1	Legal Reserves	29	-	29	29	-	29
16.3.2	Status Reserves	295	-	295	295	-	295
16.3.3	Extraordinary Reserves	-	-	-	-	-	-
16.3.4	Other Profit Reserves	-	-	-	-	-	-
16.4	Income or (Loss)	(10,677)	-	(10,677)	(24,682)	-	(24,682)
16.4.1	Prior Years' Income/ (Loss)	(24,682)	-	(24,682)	(33,469)	-	(33,469)
16.4.2	Current Year Income/ (Loss)	14,005	-	14,005	8,787	-	8,787
TOTAL LIABILITIES		363,373	146,984	510,357	240,797	81,608	322,405

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

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

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED OFF-BALANCE SHEET COMMITMENTS AT 31 DECEMBER 2016

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

II. OFF-BALANCE SHEET

OFF-BALANCE SHEET COMMITMENTS	Note	Current Period			Prior Period		
		31 December 2016			31 December 2015		
	(Section Five-III)	TL	FC	Total	TL	FC	Total
A. OFF-BALANCE SHEET COMMITMENTS (I+II+III)		154,327	92,856	247,183	106,131	111,026	217,157
I. GUARANTEES AND WARRANTIES	(1)	130,451	67,459	197,910	59,665	67,330	126,995
1.1. Letters of Guarantee		130,451	41,119	171,570	59,665	44,829	104,494
1.1.1. Guarantees Subject to State Tender Law		-	-	-	-	-	-
1.1.2. Guarantees Given for Foreign Trade Operations		-	-	-	-	8,754	8,754
1.1.3. Other Letters of Guarantee		130,451	41,119	171,570	59,665	36,075	95,740
1.2. Bank Acceptances		-	-	-	-	-	-
1.2.1. Import Letter of Acceptance		-	-	-	-	-	-
1.2.2. Other Bank Acceptances		-	-	-	-	-	-
1.3. Letters of Credit		-	6,984	6,984	-	22,501	22,501
1.3.1. Documentary Letters of Credit		-	6,984	6,984	-	22,501	22,501
1.3.2. Other Letters of Credit		-	-	-	-	-	-
1.4. Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5. Endorsements		-	-	-	-	-	-
1.5.1. Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2. Other Endorsements		-	-	-	-	-	-
1.6. Securities Issue Purchase Guarantees		-	-	-	-	-	-
1.7. Factoring Guarantees		-	-	-	-	-	-
1.8. Other Guarantees		-	19,356	19,356	-	-	-
1.9. Other Collaterals		-	-	-	-	-	-
II. COMMITMENTS		11	-	11	10,509	8,437	18,946
2.1. Irrevocable Commitments		11	-	11	10,509	8,437	18,946
2.1.1. Asset Purchase and Sales Commitments		-	-	-	8,475	8,437	16,912
2.1.2. Deposit Purchase and Sales Commitments		-	-	-	2,009	-	2,009
2.1.3. Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4. Commitments for Loan Limits		-	-	-	-	-	-
2.1.5. Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6. Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7. Commitments for Cheques		-	-	-	-	-	-
2.1.8. Tax and Fund Liabilities from Export Commitments		11	-	11	25	-	25
2.1.9. Commitments for Credit Card Limits		-	-	-	-	-	-
2.1.10. Promotion Commitments for Credit Cards and Banking Services		-	-	-	-	-	-
2.1.11. Receivables from Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.12. Payables for Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.13. Other Irrevocable Commitments		-	-	-	-	-	-
2.2. Revocable Commitments		-	-	-	-	-	-
2.2.1. Revocable Commitments for Loan Limits		-	-	-	-	-	-
2.2.2. Other Revocable Commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(2)	23,865	25,397	49,262	35,957	35,259	71,216
3.1. Hedging Derivative Financial Instruments		-	-	-	-	-	-
3.1.1. Transactions for Fair Value Hedge		-	-	-	-	-	-

3.1.2	Transactions for Cash Flow Hedge	-	-	-	-	-	-
3.1.3	Transactions for Foreign Net Investment Hedge	-	-	-	-	-	-
3.2	Trading Derivative Financial Instruments	23,865	25,397	49,262	35,957	35,259	71,216
3.2.1	Forward Foreign Currency Buy/Sell Transactions	13,446	14,267	27,713	3,835	3,794	7,629
3.2.1.1	Forward Foreign Currency Transactions-Buy	10,170	3,519	13,689	3,835	-	3,835
3.2.1.2	Forward Foreign Currency Transactions-Sell	3,276	10,748	14,024	-	3,794	3,794
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates	10,419	11,130	21,549	32,122	31,465	63,587
3.2.2.1	Foreign Currency Swap-Buy	10,419	-	10,419	32,122	-	32,122
3.2.2.2	Foreign Currency Swap-Sell	-	11,130	11,130	-	31,465	31,465
3.2.2.3	Interest Rate Swap-Buy	-	-	-	-	-	-
3.2.2.4	Interest Rate Swap-Sell	-	-	-	-	-	-
3.2.3	Foreign Currency, Interest rate and Securities Options	-	-	-	-	-	-
3.2.3.1	Foreign Currency Options-Buy	-	-	-	-	-	-
3.2.3.2	Foreign Currency Options-Sell	-	-	-	-	-	-
3.2.3.3	Interest Rate Options-Buy	-	-	-	-	-	-
3.2.3.4	Interest Rate Options-Sell	-	-	-	-	-	-
3.2.3.5	Securities Options-Buy	-	-	-	-	-	-
3.2.3.6	Securities Options-Sell	-	-	-	-	-	-
3.2.4	Foreign Currency Futures	-	-	-	-	-	-
3.2.4.1	Foreign Currency Futures-Buy	-	-	-	-	-	-
3.2.4.2	Foreign Currency Futures-Sell	-	-	-	-	-	-
3.2.5	Interest Rate Futures	-	-	-	-	-	-
3.2.5.1	Interest Rate Futures-Buy	-	-	-	-	-	-
3.2.5.2	Interest Rate Futures-Sell	-	-	-	-	-	-
3.2.6	Other	-	-	-	-	-	-
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)	200,145	105,818	305,963	97,868	91,809	189,677
IV.	ITEMS HELD IN CUSTODY	2,357	-	2,357	955	-	955
4.1.	Customer Fund and Portfolio Balances	-	-	-	-	-	-
4.2.	Investment Securities Held in Custody	-	-	-	-	-	-
4.3.	Cheques Received for Collection	2,357	-	2,357	955	-	955
4.4.	Commercial Notes Received for Collection	-	-	-	-	-	-
4.5.	Other Assets Received for Collection	-	-	-	-	-	-
4.6.	Assets Received for Public Offering	-	-	-	-	-	-
4.7.	Other Items Under Custody	-	-	-	-	-	-
4.8.	Custodians	-	-	-	-	-	-
V.	PLEDGES RECEIVED	197,758	60,300	258,058	96,913	49,418	146,331
5.1.	Marketable Securities	-	52,788	52,788	-	43,772	43,772
5.2.	Guarantee Notes	167,311	6,413	173,724	94,234	5,646	99,880
5.3.	Commodity	5,497	1,099	6,596	2,679	-	2,679
5.4.	Warranty	-	-	-	-	-	-
5.5.	Immovable	24,950	-	24,950	-	-	-
5.6.	Other Pledged Items	-	-	-	-	-	-
5.7.	Pledged Items-Depository	-	-	-	-	-	-
VI.	ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES	30	45,518	45,548	-	42,391	42,391
	TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)	354,472	198,674	553,146	203,999	202,835	406,834

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

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

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

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

III. STATEMENT OF INCOME (PROFIT AND LOSS)

INCOME AND EXPENSE ITEMS	Note	Current Period	Prior Period
		1 January - 31 December 2016	1 January - 31 December 2015
I. INTEREST INCOME	(1)	37,226	26,183
1.1 Interest on Loans		33,683	17,647
1.2 Interest Received from Reserve Requirements		148	6
1.3 Interest Received from Banks		1,579	6,691
1.4 Interest Received from Money Market Transactions		186	587
1.5 Interest Received from Marketable Securities Portfolio		1,630	1,252
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		1,630	1,252
1.5.4 Held-to-maturity Investments		-	-
1.6 Financial Lease Income		-	-
1.7 Other Interest Income		-	-
II. INTEREST EXPENSE (-)	(2)	(6,714)	(1,162)
2.1 Interest on Deposits (-)		-	-
2.2 Interest on Funds Borrowed (-)		(5,000)	(768)
2.3 Interest Expense on Money Market Transactions (-)		(678)	(269)
2.4 Interest on Securities Issued (-)		(751)	-
2.5 Other Interest Expenses (-)	(12)	(285)	(125)
III. NET INTEREST INCOME (I + II)		30,512	25,021
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		1,130	345
4.1 Fees and Commissions Received		1,317	579
4.1.1 Non-cash Loans		1,171	270
4.1.2 Other	(12)	146	309
4.2 Fees and Commissions Paid (-)		(187)	(234)
4.2.1 Non-cash Loans (-)		(27)	-
4.2.2 Other (-)	(12)	(160)	(234)
V. DIVIDEND INCOME	(3)	-	-
VI. TRADING INCOME/(LOSS) (Net)	(4)	4,784	1,102
6.1 Trading Gains/(Losses) on Securities		(23)	(460)
6.2 Trading Gains/(Losses) on Derivative Financial Instruments		(779)	(1,132)
6.3 Foreign Exchange Gains/(Losses)		5,586	2,694
VII. OTHER OPERATING INCOME	(5)	99	97
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		36,525	26,565
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(6)	(1,801)	(2,178)
X. OTHER OPERATING EXPENSES (-)	(7)	(16,612)	(12,903)
XI. NET OPERATING INCOME/(LOSS) (VIII+IX+X)		18,112	11,484
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)	18,112	11,484
XVI. TAX PROVISION FOR CONTINUING OPERATIONS (-)	(9)	(4,107)	(2,697)
16.1 Current Tax Provision		(4,191)	-
16.2 Deferred Tax Provision		84	(2,697)
XVII. NET INCOME/(LOSS) FROM CONTINUING OPERATIONS (XV-XVI)	(10)	14,005	8,787
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		-	-
21.2 Deferred tax provision		-	-
XXII. NET INCOME/(LOSS) FROM DISCONTINUED OPERATIONS (XX-XXI)	(10)	-	-
XXIII. NET INCOME/(LOSS) (XVII+XXII)	(11)	14,005	8,787
Earnings/(Loss) per share		0.0549	0.0345

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

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

PASHA YATIRIM BANKASI A.Ş.

UNCONSOLIDATED INCOME AND EXPENSE ITEMS

ACCOUNTED IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY

INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY	Current Period	Prior Period
	1 January - 31 December 2016	1 January - 31 December 2015
I. ADDITIONS TO THE MARKETABLE SECURITIES VALUATION RESERVE FROM THE AVAILABLE FOR SALE FINANCIAL ASSETS	126	(105)
II. 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	(25)	21
X. NET INCOME/LOSS ACCOUNTED DIRECTLY IN EQUITY (I+II+...+IX)	101	(84)
XI. CURRENT PERIOD INCOME/LOSS	14,005	8,787
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	14,005	8,787
XII. TOTAL INCOME/LOSS RELATED TO THE CURRENT PERIOD (X+XI)	14,106	8,703

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

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

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note (Section Five-V)	Paid-in Capital	Adjustment to Share Capital	Share Premium	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Income/ (Loss)	Prior Period Net Income/ (Loss)	Marketable Securities Valuation Reserve	Tangible and Intangible Assets Revaluation Reserve	Bonus Shares Obtained from Investments	Hedging Reserves	Valuation Difference of AHS and Discontinued Operations	Total Shareholders' Equity
Prior Period																	
31 December 2015																	
I. Balance at the beginning of the period		80,000	-	-	-	29	295	-	-	(1,817)	(31,652)	(6)	-	-	-	-	46,849
II. Adjustment in accordance with TMS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of Adjustment		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. New Balance		80,000	-	-	-	29	295	-	-	(1,817)	(31,652)	(6)	-	-	-	-	46,849
Changes in the Period																	
VI. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Marketable Securities Valuation Differences	(1)	-	-	-	-	-	-	-	-	-	-	(84)	-	-	-	-	(84)
VI. Hedging Reserves (Effective Portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2 Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Revaluation Differences of Tangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Foreign Exchange Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Changes due to the Reclassification of the Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Effects of Changes in Equity of Investments in Associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Capital Increase		175,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	175,000
14.1 Cash		175,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	175,000
14.2 Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share Premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Adjustment to Share Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX. Current Year Income or Loss		-	-	-	-	-	-	-	-	8,787	-	-	-	-	-	-	8,787
XX. Profit Distribution	(3)	-	-	-	-	-	-	-	-	1,817	(1,817)	-	-	-	-	-	-
20.1 Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.2 Transfers to Reserves	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	1,817	(1,817)	-	-	-	-	-	-
Period End Balance (III+ ...+ XX)		255,000	-	-	-	29	295	-	-	8,787	(33,469)	(90)	-	-	-	-	230,552

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

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

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

	Note (Section Five-V)	Paid-in Capital	Adjustment to Share Capital	Share Cancellation Premium	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Income/ (Loss)	Prior Period Net Income/ (Loss)	Marketable Securities Valuation Reserve	Tangible and Intangible Assets Revaluation Reserve	Bonus Shares Obtained from Investments	Hedging Reserves	Valuation Difference of AHS and Discontinued Operations	Total Shareholders' Equity
Current Period 31 December 2016																	
I. Balance at the beginning of the period		255,000	-	-	-	29	295	-	-	8,787	(33,469)	(90)	-	-	-	-	230,552
Changes in the Period																	
II. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable Securities Valuation Differences	(1)	-	-	-	-	-	-	-	-	-	-	101	-	-	-	-	101
IV. Hedging Reserves (Effective Portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Revaluation Differences of Tangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign Exchange Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes due to the Reclassification of the Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effects of Changes in Equity of Investments in Associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Share Premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Adjustment to Share Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Current Year Income or Loss		-	-	-	-	-	-	-	-	14,005	-	-	-	-	-	-	14,005
XVIII. Profit Distribution	(3)	-	-	-	-	-	-	-	-	(8,787)	8,787	-	-	-	-	-	-
18.1 Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2 Transfers to Reserves	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	(8,787)	8,787	-	-	-	-	-	-
Period End Balance (I+ ...+ XVIII)		255,000	-	-	-	29	295	-	-	14,005	(24,682)	11	-	-	-	-	244,658

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

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

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

(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 2016	1 January - 31 December 2015
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit Before Changes in Operating Assets and Liabilities		20,288	8,554
1.1.1 Interest Received		34,140	20,108
1.1.2 Interest Paid		(2,346)	(718)
1.1.3 Dividend Received		-	-
1.1.4 Fees and Commissions Received		1,260	1,228
1.1.5 Other Income		5,887	(884)
1.1.6 Collections from Previously Written-off Loans and Other Receivables		-	-
1.1.7 Payments to Personnel and Service Suppliers		(7,969)	(6,000)
1.1.8 Taxes Paid		(2,691)	-
1.1.9 Other	(2)	(7,993)	(5,180)
1.2 Changes in Operating Assets and Liabilities		(35,190)	(129,947)
1.2.1 Net (Increase)/Decrease in Trading Securities		-	(556)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net (Increase)/Decrease in Due from Banks		(7,630)	(11,752)
1.2.4 Net (Increase)/Decrease in Loans		(155,696)	(188,748)
1.2.5 Net (Increase)/Decrease in Other Assets	(2)	4,235	2,657
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		116,978	64,273
1.2.9 Net Increase/(Decrease) in Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities	(2)	6,923	4,179

I. Net Cash Provided from Banking Operations	(14,902)	(121,393)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided from / (Paid For) Investing Activities	(11,542)	(8,596)
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	(364)	(334)
2.4 Disposals of Property and Equipment	-	-
2.5 Cash Paid for Purchase of Investments Available-for-Sale	(28,689)	(11,663)
2.6 Cash Obtained from Sale of Investments Available-for-Sale	18,352	3,834
2.7 Cash Paid for Purchase of Investment Securities	-	-
2.8 Cash Obtained from Sale of Investment Securities	-	-
2.9 Other	(841)	(433)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided from Financing Activities	36,488	174,853
3.1 Cash Obtained from Funds Borrowed and Securities Issued	36,488	-
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued	-	-
3.3 Issued Capital Instruments	-	175,000
3.4 Dividends Paid	-	-
3.5 Payments for Finance Leases	-	(147)
3.6 Other	-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(2)	842
V. Net Increase/(Decrease) in Cash and Cash Equivalents (I+II+III+IV)	10,886	47,017
VI. Cash and Cash Equivalents at the Beginning of the Period	(1)	48,248
VII. Cash and Cash Equivalents at the End of the Period (V+VI)	(1)	59,134
		48,248

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

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

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED STATEMENTS OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2016

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

VII. PROFIT DISTRIBUTION STATEMENT

	Current Period	Prior Period
	31 December 2016 (*)	31 December 2015
I. DISTRIBUTION OF CURRENT YEAR INCOME		
1.1 CURRENT YEAR INCOME	18,112	11,484
1.2 TAXES AND DUTIES PAYABLE (-)	(4,107)	(2,697)
1.2.1 Corporate Tax (Income tax)	(4,191)	-
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties (**)	84	(2,697)
A. NET INCOME FOR THE YEAR (1.1-1.2)	14,005	8,787
1.3 PRIOR YEAR LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	-
1.5 OTHER STATUTORY RESERVES (-)	-	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A-1.3+1.4+1.5)]	14,005	8,787
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	-	-
1.9.2 To Owners of Privileged Shares	-	-
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	-	-

II. 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 BOARD OF DIRECTORS (-)	-	-
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 TO OWNERS OF ORDINARY SHARES	-	-
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(*) 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.

(**) Deferred tax income/expense shown in other taxes and duties not subject to profit appropriation.

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

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(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 2016, have no material impact on the Bank's accounting policies, financial position and performance. The amendments of TAS and TFRS, except TFRS 9 Financial Instruments (2011 Version) will have no impact on the accounting policies, financial condition and performance of the Bank. The Bank assesses the impact of TFRS 9 Financial Instruments standard.

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 2015. 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.

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 funding 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.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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.

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".

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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.

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-for-sale" 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".

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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.

Assets held-for-resale consist of tangible assets that were acquired due to non-performing receivables, and are accounted in the financial statements in accordance with the "Communiqué Regarding the Principles and Procedures for the Disposals of Immovable and Commodities Acquired due to Receivables and for Trading of Precious Metal" published in the Official Gazette dated 1 November 2006, No. 26333.

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.

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
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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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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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.

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.

XVI. EXPLANATIONS ON TAXATION

a. Current Tax:

Many clauses of Corporate Tax Law No. 5520 ("Tax Law") which are valid starting from 1 January 2006, were taken into effect after being published in the Official Gazette dated 21 September 2006 No. 26205. According to the Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% since 1 January 2006. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (such as capital gains derived from the sale of equity investments) and other allowances. No further tax is payable unless the profit is distributed.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date. Tax returns are open for five years from the beginning of the year following the date of filing during which period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

b. Deferred Tax:

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12"). In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

Deferred tax effects of the transactions accounted under equity are included in equity.

c. Transfer Pricing:

The article 13 of the Corporate Tax Law describes the issue of transfer pricing under the title of "Disguised profit distribution" by way of transfer pricing. "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" explains the application related issues on this matter.

According to this Communiqué, The Bank is required to fill out Transfer Pricing form, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties as well as the methodology of the transfer pricing.

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.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

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 2016 and 31 December 2015, 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.

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 has reclassified TL 433 purchases of intangibles under 'other' line of "Net Cash Provided From / (Paid For) Investing Activities" section which was previously reported under 'purchases of property and equipment' line in the cash flow statement dated 31 December 2015.

XXVII. EXPLANATIONS ON OTHER MATTERS

None.

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NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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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 248,081 while its capital adequacy standard ratio is 53.85% as of 31 December 2016. Calculations of 31 December 2015 have been made in the framework of repealed regulations and equity amount is TL 232,480 while the capital adequacy standard ratio is 91.75%. 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 2016	Amounts Subject to Pre-Basel III treatment Before the 1/1/2014 (*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-up Capital	255,000	
Share issue premiums	-	
Retained earnings	324	
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	11	
Profit	-	
Net profit of the period	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	269,340	
Common Equity Tier 1 capital: regulatory adjustments		
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	24,682	
Improvement costs for operating leasing	67	

Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	588	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	25,337	
Common Equity Tier 1 capital (CET1)	244,003	

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

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

	Current Period 31 December 2016	Amounts Subject to Pre-Basel III treatment Before the 1/1/2014 ^(*)
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 1 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	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 (-)	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)	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)	4,471	

Tier 2 capital before regulatory adjustments	4,471
Tier 2 capital: regulatory adjustments	
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	4,471
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	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 (-)	-

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED 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 2016

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

INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

OWN FUNDS	
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	248,081
Total Risk Weighted Assets	460,716
CAPITAL ADEQUACY RATIOS	
Common Equity Tier 1 Capital Adequacy Ratio (%)	52.96%
Tier 1 Capital Adequacy Ratio (%)	52.88%
Capital Adequacy Ratio (%)	53.85%
BUFFERS	
Institution specific buffer requirement	0.625%
of which: capital conservation buffer requirement (%)	0.625%
of which: bank specific countercyclical buffer requirement (%)	-
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 (%)	-
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)	-
Cap on inclusion of provisions in Tier 2 under standardised approach	-
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	-

(*) Amounts in this column represents the amounts of items that are subject to transition provisions in accordance with the temporary Articles of "Regulations regarding to changes on Regulation on Equity of Banks" and taken into consideration at the end of transition process.

31 December 2015(*)

COMMON EQUITY TIER 1 CAPITAL	
Paid-in capital to be Entitled for Compensation after All Creditors	255,000
Share premium	-
Share cancellation profit	-
Legal reserves	324
Income passed on to shareholders' equity in accordance with TAS	-
Profit	-
Net Income for current period	-
Prior period profit	-
Provisions for possible risks	-
Bonus shares of Associates, Subsidiaries and Joint-Ventures	-
Common Equity Tier 1 Capital Before Deductions	255,324
Deductions From Common Equity Tier 1 Capital	
Loss excess of reserves and loss passed on to shareholders' equity in accordance with TAS (-)	24,772
Leasehold Improvements (-)	26
Goodwill and other intangible assets and related deferred tax liabilities. (-)	468
Net deferred tax income/expense (-)	99
Shares noncompliant with article 56/4 of the Law (-)	-
Direct or indirect investments on Bank's own Common Tier 1 Capital (-)	-
Total net long position exceeding 10% of Bank's Common Tier 1 capital, belonging to investments on own funds of banks and financial institutions that are not consolidated, with a shareholding of 10% and below	-
Total net long position exceeding 10% of Bank's Common Tier 1 capital, belonging to investments on own funds of banks and financial institutions that are not consolidated, with a shareholding of 10% and above	-
Rights of providing mortgage service exceeding 10% of Common Tier 1 capital (-)	-
Deferred tax assets based on temporary differences exceeding 10% of Common Tier 1 capital (-)	-
Balances in accordance with the temporary article 2/2 of Regulation on Shareholders' Equity of Banks exceeding 15% of Common Tier 1 capital (-)	-
Excess amount arising from total net long position belonging to investments on Common Tier 1 Capital of banks and financial institutions that are not consolidated, with a shareholding above 10%	-
Excess amount arising from rights of providing mortgage service (-)	-
Excess amount arising from deferred tax assets based on temporary differences (-)	-
Other items determined by board (-)	-
Deduction amount from Common Tier 1 Capital in case of shortage of additional Tier 1 capital or supplementary capital (-)	-
Total Deductions From Common Equity Tier 1 Capital	25,365
Total Common Equity Tier 1 Capital	229,959

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

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

	31 December 2015 (*)
ADDITIONAL TIER 1 CAPITAL	
Premiums of privilege share capital not included in Common Equity Tier 1 capital	
Debt instruments which is seen appropriate by corporation and premiums in accordance with these instruments (Issued after 1.1.2014)	-
Debt instruments which is seen appropriate by corporation and premiums in accordance with these instruments (Issued before 1.1.2014)	-
Additional Tier 1 Capital Before Deductions	-
Deductions From Additional Tier 1 Capital	-
Direct or indirect investments which bank provides for its' own additional Tier 1 capital (-)	
10% exceed part of Common Tier 1capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10% (-)	-
10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% and above (-)	-
Other items determined by board (-)	-
Deduction amount of additional core capital in case of there is not enough additional core capital or supplementary capital (-)	-
Total Deductions From Additional Tier 1 Capital	-
Total Additional Tier 1 Capital	-
Deductions From Tier 1 Capital	-
Non-deducted Common Tier 1 capital part in accordance with deferred tax expense and goodwill impairment and other intangible fixed assets which is in temporary article 2/1 of Regulation of Shareholders' Equity of Banks. (-)	
Non deducted Common Tier 1 capital part in accordance with net deferred tax income/expense which is in temporary article 2/1 of Regulation of Shareholders' Equity of Banks. (-)	149
Total Tier 1 Capital	229,810
SUPPLEMENTARY CAPITAL	
Debt instruments which is seen appropriate by corporation and premiums in accordance with these instruments (Exported after 1.1.2014)	-
Debt instruments which is seen appropriate by corporation and premiums in accordance with these instruments (Exported before 1.1.2014)	-
Pledged sources to bank from shareholders which is used for share capital increasing of bank	
General Provisions	2,670
Supplementary Capital Before Deductions	2,670
Deductions From Supplementary Capital	
Direct or indirect investments which bank provides for its' own supplementary capital (-)	-
10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10% (-)	-
10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% and above (-)	-
Other items determined by board (-)	-

Total Deductions From Supplementary Capital	-
Total Supplementary Capital	2,670
CAPITAL	232,480
Loans extended being noncompliant with articles 50 and 51 of the Law (-)	-
Net book values of properties owned, exceeding 50% of banks' equity and properties, and trade goods overtaken in exchange for loans and receivables that should be disposed within five years in accordance with article 57 of the Law, but not yet disposed (-)	-
Investments to loans extended to banks, financial institutions (domestic and abroad) and qualified shareholders, like secondary subordinated loan and debt instruments purchased from these institutions issued, like primary and secondary subordinated loan (-)	-
Deduction from equity in accordance with 2nd article of 20th item in Regularity of Measurement and Valuation of Capital Adequacy of Banks (-)	-
Other accounts determined by board (-)	-
Non deducted part of common equity tier1 , additional core and supplementary capital in accordance with temporary article 2/1 of Regulation of Shareholders' Equity of Banks which is 10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10% (-)	-
Non deducted part of common equity tier1, additional core and supplementary capital in accordance with temporary article 2/1 of Regulation of Shareholders' Equity of Banks which is 10% exceed part of Common Tier 1 capital of bank from the sum of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% or above (-)	-
Non deducted part of common equity tier1 generating from exceed amount generating from investments to Common Tier 1 capitals of partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% and above, temporary differences of deferred tax income and the right of offering mortgage services explained in the 1st and 2nd paragraphs of temporary article 2 of Regulation of Shareholders' Equity of Banks. (-)	-
SHAREHOLDERS' EQUITY	232,480
Amounts Below Overrun Amounts In Applied Reducing Procedures	382
Amount generating from long position of investments to shareholders' equity and partnership share on banks and financial institutions that are not consolidated, with a shareholding less than 10%	-
Amount generating from long position of investments to shareholders' equity and partnership share on banks and financial institutions that are not consolidated, with a shareholding of 10% or above.	-
Amount generating from right of offering mortgage service	-
Amount generating from temporary differences of deferred income tax income	382

(*) Total capital has been calculated in accordance with the “Regulations regarding to changes on Regulation on Equity of Banks” effective from date 31 March 2016, the information given in the prior period column has been calculated pursuant to former regulation.

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

None.

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NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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.

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 and 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 2015: 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 2015: 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 2015: 100% and 100%).

j. General provision for the credit risk is TL 4,471 (31 December 2015: TL 2,670).

k. The Bank does not have any specific provision (31 December 2015: None). Cash loans are commercial loans, classified as standard credits.

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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:

Risk Classifications	31 December 2016		31 December 2015	
	Current Period Risk Amount ^(*)	Average Risk Amount ^(**)	Current Period Risk Amount ^(*)	Average Risk Amount ^(**)
Risk Classifications	645,789	500,693	388,363	280,916
Conditional and unconditional receivables from Central Governments or Central Banks	35,267	18,924	22,347	8,694
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	350,969	250,489	187,623	180,165
Conditional and unconditional corporate receivables	245,948	217,310	172,737	86,773
Conditional and unconditional retail receivables	-	-	-	-
Conditional and unconditional collateralized by real estate mortgages receivables	-	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	7,668	4,478	-	-
Investments in nature of Collective Investment funds	-	-	-	-
Equity security investments	-	-	-	-
Other receivables	5,937	8,627	5,656	5,284

(*) 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.

INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

Profile of significant exposures in significant regions

Current Period	Risk Classifications (*)																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Total
Domestic	35,267	-	-	-	-	324,269	182,710	-	-	-	-	-	-	7,668	-	-	5,937	555,851
European Union Countries	-	-	-	-	-	5,917	53,136	-	-	-	-	-	-	-	-	-	-	59,053
OECD Countries (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	678	-	-	-	-	-	-	-	-	-	-	-	678
Other Countries	-	-	-	-	-	20,105	10,102	-	-	-	-	-	-	-	-	-	-	30,207
Associates, Subsidiaries and	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Joint - Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assets/Liabilities (***)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	35,267	-	-	-	-	350,969	245,948	-	-	-	-	-	-	7,668	-	-	5,937	645,789

(*) 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.

¹⁾ Conditional and unconditional receivables from Central Governments or Central Banks

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

³⁾ Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures

⁴⁾ Conditional and unconditional receivables from Multilateral Development Banks

⁵⁾ Conditional and unconditional receivables from International Organizations

⁶⁾ Conditional and unconditional receivables from Banks and Brokerage Corporation

⁷⁾ Conditional and unconditional corporate receivables

⁸⁾ Conditional and unconditional retail receivables

⁹⁾ Conditional and unconditional collateralized by real estate mortgages receivables

¹⁰⁾ 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

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.

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

	Risk Classifications ^(*)																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Prior Period																	
Domestic	22,347	-	-	-	-	153,048	172,737	-	-	-	-	-	-	-	-	5,656	353,788
European Union Countries	-	-	-	-	-	287	-	-	-	-	-	-	-	-	-	-	287
OECD Countries ^(**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	10,808	-	-	-	-	-	-	-	-	-	-	10,808
Other Countries	-	-	-	-	-	23,480	-	-	-	-	-	-	-	-	-	-	23,480
Associates, Subsidiaries and																	
Joint - Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated																	
Assets/Liabilities ^(***)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
total	22,347	-	-	-	-	187,623	172,737	-	-	-	-	-	-	-	-	5,656	388,363

(*) 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.

- 1) Conditional and unconditional receivables from Central Governments or Central Banks
- 2) Conditional and unconditional receivables from Regional Management or Local Governments
- 3) Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures
- 4) Conditional and unconditional receivables from Multilateral Development Banks
- 5) Conditional and unconditional receivables from International Organizations
- 6) Conditional and unconditional receivables from Banks and Brokerage Corporation
- 7) Conditional and unconditional corporate receivables
- 8) Conditional and unconditional retail receivables
- 9) Conditional and unconditional collateralized by real estate mortgages receivables
- 10) 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) 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.

INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

Risk profile by sectors or counterparties

Current Period	Risk Classifications (*)																				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TL	FC	Total	
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Manufacturing	-	-	-	-	-	38,056	-	-	-	-	-	-	-	-	-	-	-	26,840	11,216	38,056	
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Production	-	-	-	-	-	-	23,407	-	-	-	-	-	-	-	-	-	-	19,207	4,200	23,407	
Electricity, Gas and Water	-	-	-	-	-	-	14,649	-	-	-	-	-	-	-	-	-	-	7,633	7,016	14,649	
Construction	-	-	-	-	-	58,445	-	-	-	-	-	-	-	-	-	-	-	25,615	32,830	58,445	
Services	35,267	-	-	-	-	350,969	65,169	-	-	-	-	-	7,668	-	-	-	-	397,104	61,969	459,073	
Wholesale and Retail Trade	-	-	-	-	-	-	41,536	-	-	-	-	-	-	-	-	-	-	24,668	16,868	41,536	
Accommodation and Dining	-	-	-	-	-	-	5,345	-	-	-	-	-	-	-	-	-	-	5,345	-	5,345	
Transportation and Telecom	-	-	-	-	-	-	7,667	-	-	-	-	-	-	-	-	-	-	7,403	264	7,667	
Financial Institutions	35,267	-	-	-	-	350,969	-	-	-	-	-	-	7,668	-	-	-	-	349,067	44,837	393,904	
Real Estate and Rental Services	-	-	-	-	-	-	10,621	-	-	-	-	-	-	-	-	-	-	10,621	-	10,621	
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Educational Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Health and Social Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	84,278	-	-	-	-	-	-	-	-	-	-	5,937	33,454	56,761	
Total	35,267	-	-	-	-	350,969	245,948	-	-	-	-	-	7,668	-	-	-	-	5,937	483,013	162,776	645,789

(*) 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.

- 1) Conditional and unconditional receivables from Central Governments or Central Banks
- 2) Conditional and unconditional receivables from Regional Management or Local Governments
- 3) Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures
- 4) Conditional and unconditional receivables from Multilateral Development Banks
- 5) Conditional and unconditional receivables from International Organizations
- 6) Conditional and unconditional receivables from Banks and Brokerage Corporation
- 7) Conditional and unconditional corporate receivables
- 8) Conditional and unconditional retail receivables
- 9) Conditional and unconditional collateralized by real estate mortgages receivables
- 10) 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
- 17) Other receivables

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

Prior Period	Risk Classifications (*)																Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Farming and Stockbreeding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	39,013	-	-	-	-	-	-	-	-	30,531	8,482 39,013
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	30,429	-	-	-	-	-	-	-	-	23,086	7,343 30,429
Electricity, Gas and Water	-	-	-	-	-	-	8,584	-	-	-	-	-	-	-	-	7,445	1,139 8,584
Construction	-	-	-	-	-	-	44,889	-	-	-	-	-	-	-	-	28,381	16,508 44,889
Services	22,309	-	-	-	-	187,623	44,783	-	-	-	-	-	-	-	-	199,334	55,381 254,715
Wholesale and Retail Trade	-	-	-	-	-	-	37,844	-	-	-	-	-	-	-	-	27,056	10,788 37,844
Accommodation and Dining	-	-	-	-	-	-	2,556	-	-	-	-	-	-	-	-	2,556	- 2,556
Transportation and Telecom	-	-	-	-	-	-	2,383	-	-	-	-	-	-	-	-	2,164	219 2,383
Financial Institutions	22,309	-	-	-	-	187,623	-	-	-	-	-	-	-	-	-	165,558	44,374 209,932
Real Estate and Rental Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Educational Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	2,000	-	-	-	-	-	-	-	-	5,656	44,094 2,000
Others	38	-	-	-	-	-	44,052	-	-	-	-	-	-	-	-	5,656	49,746
Total	22,347	-	-	-	-	187,623	172,737	-	-	-	-	-	-	-	-	5,656	388,363

(*) 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.

- 1) Conditional and unconditional receivables from Central Governments or Central Banks
- 2) Conditional and unconditional receivables from Regional Management or Local Governments
- 3) Conditional and unconditional receivables from Administrative Units or Non-commercial Ventures
- 4) Conditional and unconditional receivables from Multilateral Development Banks
- 5) Conditional and unconditional receivables from International Organizations
- 6) Conditional and unconditional receivables from Banks and Brokerage Corporation
- 7) Conditional and unconditional corporate receivables
- 8) Conditional and unconditional retail receivables
- 9) Conditional and unconditional collateralized by real estate mortgages receivables
- 10) 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) Other receivables

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

Risk Classifications (Current Period)	Time 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	134,532	35,560	30,567	96,637	53,673
Conditional and unconditional corporate receivables	18,389	28,594	56,512	47,031	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	-	-	-	-	-
Equity security investments	-	-	-	-	-
Other receivables	-	-	-	-	5,937
Total (*)	190,520	69,329	87,240	143,668	155,032

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

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Risk Classifications (Prior Period)	Time 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	12,728	256	-	9,363	-
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	21,342	103,478	25,360	14,290	23,153
Conditional and unconditional corporate receivables	51,009	22,657	5,220	14,779	79,072
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	-	-	-	-	-
Investments in nature of Collective Investment funds	-	-	-	-	-
Other receivables	5,188	-	-	-	468
Total (*)	90,267	126,391	30,580	38,432	102,693

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	21,230	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

Risk Weights (Prior Period)	0%	20%	50 %	100 %	150 %	1250%	Deductions from Equity
Amounts before Credit Risk Mitigation	22,777	118,815	66,824	181,356	2,000	-	742
Amounts after Credit Risk Mitigation	22,777	118,815	66,820	177,951	2,000	-	742

r. Movements in value adjustments and provisions

	Opening Balance	Provision for Period	Provision Reversals	Other Adjustments	Closing Balance
Specific provisions	-	-	-	-	-
General provisions	2,670	1,801	-	-	4,471

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 2016 and 2015.

t. Risk involved in counter-cyclical capital buffer calculation

None.

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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.

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:

	USD		EURO	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Bid Rate	3.5192	2.9181	3.7099	3.1838
1. Day's bid rate	3.5318	2.9084	3.6939	3.1921
2. Day's bid rate	3.5329	2.9157	3.6901	3.2006
3. Day's bid rate	3.5135	2.9123	3.6711	3.1904
4. Day's bid rate	3.5041	2.9187	3.6639	3.1968
5. Day's bid rate	3.5077	2.9262	3.6647	3.1969

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

	USD		EURO	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Arithmetic average - 31 days	3.4935	2.9177	3.6840	3.1770

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.

	EUR	USD	Other FC	Total
31 December 2016				
Assets				
Cash and Cash Equivalents (Cash in vault, effectiveness, money in transfer and cheques purchased) and Balances with the Central Bank of Turkey	4,455	15,177	-	19,632
Due from Banks	5,916	4,198	2	10,116
Financial Assets at Fair Value Through Profit or Loss (***)	-	-	-	-
Money Market Placements	-	-	-	-
Available-for-sale Financial Assets	-	-	6,674	6,674
Loans (*)	53,117	84,453	-	137,570
Investments in Associates, Subsidiaries and Joint Ventures	-	-	-	-
Held-to-maturity Investments	-	-	-	-
Hedging Derivative Financial Assets	-	-	-	-
Property and Equipment	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets	-	45	-	45
Total Assets	63,488	103,873	6,676	174,037

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	EUR	USD	Other FC	Total
Liabilities				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	-
Funds Borrowed From Other Financial Institutions	48,444	90,419	6,660	145,523
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	-	1,425	-	1,425
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities	5	31	-	36
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
31 December 2015				
Total Assets	15,055	89,355	10,234	114,644
Total Liabilities	6,409	75,171	-	81,580
Net On-balance Sheet Position	8,646	14,184	10,234	33,064
Net Off-balance Sheet Position	(8,438)	(18,384)	-	(26,822)
Derivative Financial Assets (**)	8,437	-	-	8,437
Derivative Financial Liabilities (**)	16,875	18,384	-	35,259
Non-Cash Loans	24,101	41,563	1,666	67,330

(*) Foreign currency indexed loans amounting to TL 44,990 (31 December 2015 : TL 23,846) are included.

(**) Forward purchase/sell transactions and swaps recorded under commitments are included.

(***) Fair value of trading derivative transactions amounting to TL 281 presented under "financial assets at fair value through profit or loss" account is not included.

Foreign Exchange Sensitivity Analysis

The effects (excluding tax effects) of 10% weakening of TL against the foreign currencies below at 31 December 2016 and 2015 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 Currency Rate		Effect on Profit and Loss		Effect on Equity	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD	10%	848	(411)	848	(411)
EUR	10%	20	20	20	20

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.

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Interest rate sensitivity of the Bank:

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

31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 Year	5 Year and over	Non- Interest 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	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
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	-	-	263,15	510,537
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)	-

^(*) 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.

^(**) Shareholders’ equity, provisions, non-interest bearing liabilities in other liabilities and tax liability is presented under “Other Liabilities” in the “Non-Interest Bearing” column.

31 December 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 Year	5 Year and over	Non- Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Money in Transit, Cheques Purchased) and Balances with The CBRT	11,772	-	-	-	-	891	12,663
Due From Banks	26,015	-	-	-	-	21,342	47,357
Financial Assets at Fair Value Through Profit/Loss	-	604	-	-	-	-	604
Interbank Money Market Placements	-	-	-	-	-	-	-
Available-for-Sale Financial Assets	256	-	9,363	-	-	-	9,619
Loans	105,683	41,488	52,357	2,164	44,052	-	245,744
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets ^(*)	-	-	-	-	-	6,418	6,418
Total Assets	143,726	42,092	61,720	2,164	44,052	28,651	322,405
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Funds From Interbank Money Market	-	-	-	-	-	-	-
Miscellaneous Payables	-	-	-	-	-	100	100
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Borrowed From Other Financial Institutions	9,125	-	21,086	41,100	-	-	71,311
Other Liabilities ^(**)	-	-	-	-	-	250,994	250,994
Total Liabilities	9,125	-	21,086	41,100	-	251,094	322,405
Balance Sheet Long Position	134,601	42,092	40,634	-	44,052	-	261,379
Balance Sheet Short Position	-	-	-	(38,936)	-	(222,443)	(261,379)
Off-balance Sheet Long Position	-	-	-	-	-	-	-
Off-balance Sheet Short Position	-	-	-	-	-	-	-
Total Position	134,601	42,092	40,634	(38,936)	44,052	(222,443)	-

^(*) 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.

^(**) Shareholders’ equity, provisions, non-interest bearing liabilities in other liabilities and tax liability is presented under “Other Liabilities” in the “Non-Interest Bearing” column.

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b. Average interest rates for monetary financial instruments:

31 December 2016	EUR %	USD %	JPY %	TL %
Assets				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the CBRT	-	0.75	-	5.31
Due From Banks	0.10	1.49	-	9.41
Financial Assets at Fair Value Through Profit/Loss	-	-	-	-
Interbank Money Market Placements	-	-	-	9.69
Available-for-Sale Financial Assets	-	-	-	10.20
Loans	3.84	4.92	-	13.65
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	8.77
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	11.73
Funds Borrowed From Other Financial Inst.	1.79	3.02	-	11.01
	EUR %	USD %	JPY %	TL %
31 December 2015				
Assets				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the CBRT	-	-	-	-
Due From Banks	-	0.99	-	10.60
Financial Assets at Fair Value Through Profit/Loss	-	-	-	-
Interbank Money Market Placements	-	-	-	10.95
Available-for-Sale Financial Assets	-	-	-	8.80
Loans	4.80	4.82	-	12.28
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	9.79
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds Borrowed From Other Financial Inst.	2.00	3.25	-	10.75

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	(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%)
Prior Period Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity- Losses/Equity
TL	(+) 500 bps	(1,974)	(0.85%)
TL	(-) 400 bps	1,687	0.73%
USD	(+) 200 bps	1,313	0.56%
USD	(-) 200 bps	(946)	(0.41%)
EUR	(+) 200 bps	67	0.03%
EUR	(-) 200 bps	(1)	0.00%
TOTAL (for negative shocks)		740	0.32%
TOTAL (for positive shocks)		(594)	(0.26%)

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

As of 31 December 2016, The Bank's portfolio does not have private equity investments, publicly traded shares and other share equities (31 December 2015: None).

V. EXPLANATIONS ON EQUITY POSITION RISK

The Bank does not hold equity position as of 31 December 2016 (31 December 2015: None).

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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 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.

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

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.

Financial planning and control department is legally responsible for measuring and reporting of liquidity risk. 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.

ç) 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 Unit reports to ALCO weekly and Board of Directors on a monthly basis.

d) 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.

e) Disclosure regarding use of stress test

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to Board of Directors by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

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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.

f) 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.

g) Liquidity ratios realized in the current period

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

	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

	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC +TL	FC	FC +TL
31 December 2015 (*)				
Average (%)	4,008	3,178	2,157	2,748
Maximum (%)	22,221	24,685	54,473	41,234
Minimum (%)	120	390	82	382

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

h) Liquidity Coverage Ratio

Referring to the BRSA's announcement dated 29/12/2014, No: 30223; it is announced that development and investment banks' consolidated and unconsolidated liquidity coverage ratio will be applied as 0 % until 2017 according to paragraph 5 of article 4 of Regulations About Banks' Liquidity Coverage Ratio Measurement.

Current Period-31 December 2016 (**)	Total amount which is not applied consideration rate		Total amount which is applied consideration rate	
	TL+FC	FC	TL+FC	FC
High-quality Liquidity Assets (HLA)				
1 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
11 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%

(*) 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 simple arithmetic average of weekly unconsolidated liquidity coverage ratios for the third quarter of 2016 are calculated.

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i) 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 (*)	Total
31 December 2016								
Assets								
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the CBRT	14,857	19,579	-	-	-	-	-	34,436
Due From Banks	6,614	22,530	-	-	-	-	-	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	6,105	4,035	6,674	-	-	20,538
Loans	-	118,886	47,486	172,287	65,211	-	-	403,870
Held-to-Maturity Investments	-	-	-	-	-	-	-	-
Other Assets (*)	-	4,078	-	-	-	-	2,877	6,955
Total Assets	21,471	168,797	69,005	176,322	71,885	-	2,877	510,357
Liabilities								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds From Interbank Money Market	-	44,281	9,171	138,445	-	-	-	191,897
Miscellaneous Payables	-	15,963	-	-	-	-	-	15,963
Marketable Securities Issued	-	37,239	-	-	-	-	-	37,239
Funds Borrowed From Other Financial Institutions	-	1	-	1,453	-	-	-	1,454
Other Liabilities (**)	3,417	5,467	3,106	-	-	-	251,814	263,804
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
31 December 2015								
Total Assets	22,233	100,954	56,531	83,215	13,307	44,052	2,113	322,405
Total Liabilities	10,272	14,434	-	21,086	41,100	-	235,513	322,405
Liquidity Gap	11,961	86,520	56,531	62,129	(27,793)	44,052	(233,400)	-
Net Off-Balance Sheet Liquidity Gap	-	2,628	41	-	-	-	-	2,669
Financial Derivative Assets	-	42,568	3,835	-	-	-	-	46,403
Financial Derivative Liabilities	-	(39,940)	(3,794)	-	-	-	-	(43,734)
Non-cash Loans (***)	-	3,788	159	14,715	4,404	22,350	81,579	126,995

(*) 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, stationary stocks, prepaid expenses and loans under follow-up, are classified in this 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.

j) 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.	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	-	-

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.	9,140	-	21,468	13,391	-
Funds from interbank money market	-	-	-	-	-
Borrower Funds	-	-	-	-	-
Current accounts of customers	10,272	-	-	-	-
Total	19,412	-	21,468	13,391	-

k) 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 2016:

Current 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	-	-

Prior Period	Up to 1 month	1-3 Months	3-12 Months	1-5 Year	5 years and above
Forward	2,009	7,629	-	-	-
Swap	62,434	-	18,065	-	-
Futures	-	-	-	-	-
Options	-	-	-	-	-
Other	-	-	-	-	-
Total	64,443	7,629	18,065	-	-

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

VII. EXPLANATIONS ON LEVERAGE RATIO

Unconsolidated leverage ratio was realized as 35.1% (31 December 2015: 54.8%). 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)	481,081	309,195
(Assets deducted from core capital)	(770)	(737)
Total risk amount for assets on the balance sheet	480,311	308,458
Derivative Financial Instruments and Loan Derivatives		
Renewal cost of derivative financial instruments and loan derivatives	161	498
Potential credit risk amount of derivative financial instruments and loan derivatives	236	238
Total risk amount of derivative financial instruments and loan derivatives	397	736
Financing Transactions With Securities Or Goods Warranties		
Risk amount of financial transactions with securities or goods warranties (excluding those in the balance sheet)	152	-
Risk amount arising from intermediated transactions	-	-
Total risk amount of financing transactions with securities or goods warranties	152	-
Off-the-Balance Sheet Transactions		
Gross nominal amount of the off-the-balance sheet transactions	209,940	108,645
Adjustment amount arising from multiplying by the credit conversion rate	-	-
Total risk amount for off-the-balance sheet transactions	209,940	108,645
Capital and Total Risk		
Core capital	242,723	229,104
Total risk amount	690,800	417,839
Leverage Ratio		
Leverage ratio	35.1%	54.8%

* Arithmetic average of last three months including reporting period.

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.

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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.

b. General view to risk weighted amounts

Risk weighted amounts				Minimum capital requirements
	Current Period	Prior Period	Current Period	
	31 December 2016	31 December 2015	31 December 2016	
1	Credit risk (excluding counterparty credit risk) (CCR)	429,126	238,114	34,330
2	Of which standardised approach (SA)	429,126	238,114	34,330
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1,008	200	81
5	Of which standardised approach for counterparty credit risk (SA-CCR)	1,008	200	81
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	10,049	10,635	804
17	Of which standardised approach (SA)	10,049	10,635	804
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	20,533	4,432	1,643
20	Of which Basic Indicator Approach	20,533	4,432	1,643
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	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	460,716	253,381	36,858

c. Linkages between financial statements and regulatory exposures

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

Carrying values of items in accordance with TAS						
	Carrying values as reported in published financial statements (*)	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
31 December 2016						
Assets						
Cash and balances at central bank	34,436	34,436	-	-	-	-
Financial assets held for trading	281	-	281	-	281	-
Financial assets designated at fair value through profit/loss	-	-	-	-	-	-
Banks	29,144	29,144	-	-	-	-
Receivables from money markets	15,133	15,133	-	-	-	-
Available for sale financial assets (net)	20,538	15,735	4,803	-	-	-
Loans and receivables	403,870	403,870	-	-	-	-
Factoring receivables	-	-	-	-	-	-
Held to maturity investments (net)	-	-	-	-	-	-
Investments in associates (net)	-	-	-	-	-	-
Investments in subsidiaries (net)	-	-	-	-	-	-
Investments in joint ventures (net)	-	-	-	-	-	-
Leasing receivables	-	-	-	-	-	-
Derivative financial assets held for hedges	-	-	-	-	-	-
Tangible assets (net)	681	614	-	-	-	67
Intangible assets (net)	981	-	-	-	-	981
Investment properties (net)	-	-	-	-	-	-
Tax assets	689	689	-	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	-	-	-	-	-	-
Other assets	4,604	4,604	-	-	-	-
Total assets	510,357	504,225	5,084	-	281	1,048
Liabilities						
Deposits	-	-	-	-	-	-
Derivative financial liabilities held for trading	1,603	-	1,603	-	1,603	-
Funds borrowed	191,897	-	-	-	-	191,897
Debt to money markets	15,963	-	4,626	-	-	11,337
Debt securities in issue	37,239	-	-	-	-	37,239
Funds	3,917	-	-	-	-	3,917
Various debts	1,454	-	-	-	-	1,454
Other liabilities	5,112	-	-	-	-	5,112
Factoring debts	-	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-	-
Derivative financial liabilities held for hedges	-	-	-	-	-	-
Provisions	6,435	-	-	-	-	6,435
Tax liability	2,079	-	-	-	-	2,079
Liabilities included in disposal groups classified as held for sale (net)	-	-	-	-	-	-
Subordinated debts	-	-	-	-	-	-
Equity	244,658	-	-	-	-	244,658
Total liabilities	510,357	-	6,229	-	1,603	504,128

(*) Unconsolidated financial statements of Bank are stated.
(**) The 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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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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

	Total	Subject to credit risk	Subject to securitization	Subject to counterparty credit risk	Subject to market risk (*)
1 Assets carrying value amount in accordance with TAS under scope of regulatory consolidation	509,309	504,225	-	5,084	281
2 Liabilities carrying value amount in accordance with TAS under regulatory scope of consolidation	(7,832)	-	-	(6,229)	(1,603)
3 Total net amount under regulatory scope of consolidation	501,477	504,225	-	(1,145)	(1,322)
4 Off-balance sheet amounts	197,921	138,211	-	-	-
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules	-	-	-	1,626	11,371
7 Differences due to consideration of provisions	-	-	-	-	-
8 Differences due to BRSA's applications	-	-	-	-	-
9 Differences due to risk reduction	-	3,353	-	527	-
10 Risk amounts	-	645,789	-	1,008	10,049

(*) 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.

d) Explanations on Credit Risk

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

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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 / amortization and impairment * (c)	Net Value (a+b-c)
	Defaulted exposures (a)	Non-defaulted exposures (b)		
1 Loans	-	403,870	-	403,870
2 Debt securities	-	20,538	-	20,538
3 Off-balance sheet exposures	-	197,921	-	197,921
4 Total	-	622,329	-	622,329

* 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.

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 2016	Cash loans	Debt securities	Banks	Total
Domestic	350,734	13,864	17,543	382,141
European countries	53,136	-	5,917	59,053
USA, Canada	-	-	678	678
OECD countries	-	-	-	-
Off-shore banking regions	-	-	-	-
Other	-	6,674	5,006	11,680
Total	403,870	20,538	29,144	453,552

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

Sector breakdown

31 December 2016	Cash Loans
Agriculture	-
Farming and Stockbreeding	-
Forestry	-
Fishery	-
Manufacturing	25,571
Mining and Quarrying	-
Production	17,938
Electricity, Gas and Water	7,633
Construction	51,857
Services	247,358
Wholesale and Retail Trade	30,929
Accommodation and Dining	-
Transportation and Telecom	-
Financial Institutions	205,808
Real Estate and Rental Services	10,621
Professional Services	-
Educational Services	-
Health and Social Services	-
Others	79,084
Total	403,870

Maturity breakdown:

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

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	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1 Loans	403,870	-	-	-	-	-	-
2 Debt securities	20,538	-	-	-	-	-	-
3 Total	424,408	-	-	-	-	-	-
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.

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

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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

Risk Classifications	Exposures before credit risk mitigation and credit conversion factors		Exposures after credit risk mitigation and credit conversion factors		Risk weighted assets (RWA) amounts and RWA density	
	On balance sheet amount *	Off balance sheet amount	On balance sheet amount *	Off balance sheet amount	RWA (*)	RWA Density
1 Receivables from Central Governments or Central Banks	35,267	-	35,267	-	19,622	4.56%
2 Receivables from Regional Management or Local Governments	-	-	-	-	-	0.00%
3 Receivables from Administrative Units or Non-commercial Ventures	-	-	-	-	-	0.00%
4 Receivables from Multilateral Development Banks	-	-	-	-	-	0.00%
5 Receivables from International Organizations	-	-	-	-	-	0.00%
6 Receivables from Banks and Brokerage Corporation	253,969	115,499	253,969	97,000	151,677	35.26%
7 Corporate receivables	204,737	82,422	204,737	41,211	245,948	57.18%
8 Retail receivables	-	-	-	-	-	0.00%
9 Collateralized by real estate mortgages receivables	-	-	-	-	-	0.00%
10 Non-performing receivables	-	-	-	-	-	0.00%
11 Receivables defined in high risk category by BRSA	-	-	-	-	-	0.00%
12 Securities collateralized by mortgages	-	-	-	-	-	0.00%
13 Securitization positions	-	-	-	-	-	0.00%
14 Short-term receivables and short-term corporate receivables from Banks and Brokerage corporations	7,668	-	7,668	-	7,668	1.78%
15 Investments in nature of Collective Investment funds	-	-	-	-	-	0.00%
16 Equity security investments	-	-	-	-	-	0.00%
17 Other receivables	5,937	-	5,937	-	5,219	1.22%
18 Total	507,578	197,921	507,578	138,211	430,134	100.00%

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

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

	0%	10%	20%	50 % Guaranteed by mortgages	75%	100%	150%	200%	Others	Total credit risk amount (after CRM and CCF)
1	15,645	-	-	-	-	19,622	-	-	-	35,267
2	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-
6	4,626	-	88,622	-	-	178	5,004	-	252,539	350,969
7	-	-	-	-	-	245,948	-	-	-	245,948
8	-	-	-	-	-	-	-	-	-	-
9	-	-	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	7,668	-	-	-	7,668
15	-	-	-	-	-	-	-	-	-	-
16	-	-	-	-	-	-	-	-	-	-
17	719	-	-	-	-	5,218	-	-	-	5,937
18	20,990	-	88,622	-	-	278,634	5,004	-	252,539	645,789

- 1) Receivables from Central Governments or Central Banks
- 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
- 7) Corporate receivables
- 8) Retail receivables
- 9) Collateralized by real estate mortgages receivables
- 10) 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
- 17) Other receivables
- 18) Total

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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.

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. If deemed necessary, the approved limits are blocked by the Credit Committee / Credit Allocation Business Unit and by the approval of the Board of Directors.

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:

		Revaluation Cost	Potential credit risk exposure	EEPE ^(*)	Alpha	Exposure after credit risk mitigation	Risk Weighted Amounts
1	Standard approach-CCR (for derivatives)	278	254	-	1.4	532	532
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)	-	-	-	-	177	177
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	-	-	-	-	709	709

^(*) Effective expected positive exposure

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 3xmultiplier)	-	-
2	(ii) Stressed VaR component (including the 3xmultiplier)	-	-
3	All portfolios subject to the Standardised CVA capital charge	299	299
4	Total subject to the CVA capital charge	299	299

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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

Risk Classifications	Risk Weights								Total Credit Risk
	0%	10%	20%	50%	75%	100%	150%	Other	
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	-	-	-	-	-	1,008	-	-	1,008
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	-	-	-	-	-	1,008	-	-	1,008

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.

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

	Collaterals for Derivatives		Collaterals or Other Transactions		Collaterals Taken	Collaterals Given
	Collaterals Taken	Collaterals Given	Collaterals Taken	Collaterals Given		
	Reserved	Not Reserved	Reserved	Not Reserved		
Cash- local currency	-	-	-	-	4,626	-
Cash- foreign currency	-	-	-	-	-	-
Government bond/bill - local	-	-	-	-	-	4,803
Government bond/bill - other	-	-	-	-	-	-
Public institutions bond/bill	-	-	-	-	-	-
Corporate bond/bill	-	-	-	-	-	-
Share equities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	4,626	4,803

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.

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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 2016, 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.

	RWA
Outright products	
1 Interest rate risk (general and specific)	1,062
2 Equity risk (general and specific)	-
3 Foreign exchange risk	8,987
4 Commodity risk	-
Options	-
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	-
8 Securitisation	-
9 Total	10,049

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 2016, it was calculated as TL 20,533.

Current Period	31 December 2013 Amount	31 December 2014 Amount	31 December 2015 Amount	Total/ Positive GI year 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

Prior Period	31 December 2012 Amount	31 December 2013 Amount	31 December 2014 Amount	Total/Positive GI year number	Ratio (%)	Total
Gross Revenue	305	1,215	5,571	2,364	15	335
Amount Subject to Operational Risk (Total*12,5)						4,432

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.

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.

	Carrying Value		Fair Value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial Assets	468,685	302,720	467,244	302,720
Interbank Money Market Placements	15,133	-	15,133	-
Banks	29,144	47,357	29,144	47,357
Available-for-Sale Financial Assets	20,538	9,619	20,538	9,619
Loans	403,870	245,744	402,429	245,744
Financial Liabilities	250,470	81,683	250,215	81,683
Funds borrowed from other fin. Institutions	191,897	71,311	191,672	71,311
Payables to money market	15,963	-	15,963	-
Securities issued	37,239	-	37,209	-
Miscellaneous Payables	1,454	100	1,454	100
Borrower Funds	3,917	10,272	3,917	10,272

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INFORMATION RELATED TO UNCONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

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 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 assets	-	1,603	-	1,603
Hedging derivative financial assets	-	-	-	-
Total liabilities	-	1,603	-	1,603

31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss	-	604	-	604
Available for sale financial assets	9,619	-	-	9,619
Total assets	9,619	604	-	10,223
Trading derivative financial assets	-	48	-	48
Hedging derivative financial assets	-	-	-	-
Total liabilities	-	48	-	48

The Bank has purchased the level 3 available for sale financial assets in year 2016. There are no transfers between the levels.

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

Current Period	Treasury and Corporate Asset Liability 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

Prior Period	Treasury and Corporate Asset Liability Banking Management		Total
Total Assets	245,744	76,661	322,405
Total Liabilities	10,272	312,133	322,405
Net Interest Income/(Loss)	17,647	7,374	25,021
Net Fee and Commission Income/(Loss)	345	-	345
Trading Gain/(Loss)	-	1,102	1,102
Other Operating Segments Gain/(Loss)	-	97	97
Provisions for Loan Losses and Other Receivables(-)	(2,178)	-	(2,178)
Other Operating Expense (-)	-	(12,903)	(12,903)
Profit Before Tax	15,814	(4,330)	11,484
Tax Provision	-	(2,697)	(2,697)
Net Profit	15,814	(7,027)	8,787

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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 2016		31 December 2015	
	TL	FC	TL	FC
Cash/Foreign currency	20	10	6	5
CBRT	14,784	19,622	782	11,870
Other	-	-	-	-
Total	14,804	19,632	788	11,875

b. Information on the account of the CBRT:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Demand Unrestricted Amount	14,784	43	782	98
Time Unrestricted Amount	-	-	-	-
Time Restricted Amount	-	19,579	-	11,772
Total	14,784	19,622	782	11,870

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 2015: between 5% and 11.5%). The reserve rates for foreign currency liabilities vary between 4.5% and 24.5% according to their maturities as of 31 December 2016 (31 December 2015: between 5% and 25%).

2. Information on financial assets at fair value through profit or loss:

a. As of 31 December 2016, the Bank has no financial assets at fair value through profit or loss subject to repo transactions (31 December 2015: None).

As of 31 December 2016; there are no and financial assets given as collateral/are blocked (31 December 2015: None).

b. Positive differences related to trading derivative financial assets:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Forward	-	281	-	-
Swap	-	-	604	-
Futures	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	-	281	604	-

c. Information on trading securities:

None (31 December 2015: None).

3. Information on banks:

a. Information on banks:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Banks				
Domestic	14,024	3,519	24,028	-
Foreign	5,004	6,597	2,000	21,329
Headquarters and Branches Abroad	-	-	-	-
Total	19,028	10,116	26,028	21,329

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

b. Information on foreign banks accounts:

	Unrestricted Amount		Restricted Amount	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
European Union Countries	5,917	287	-	-
USA, Canada	678	10,808	-	-
OECD Countries (*)	-	-	-	-
Off-shore Banking Regions	-	-	-	-
Other	5,006	12,234	-	-
Total	11,601	23,329	-	-

(*) OECD Countries other than EU countries, USA and Canada.

4. Information on available-for-sale financial assets:

a. As of 31 December 2016 there are financial assets given as collateral/blocked amounting to TL 1,029 (31 December 2015: TL 1,026).

As of 31 December 2016 there are available-for-sale financial assets subject to repo transactions TL 4,803 (31 December 2015: None).

b. Information on available for sale financial assets:

	31 December 2016	31 December 2015
Debt Securities	20,538	9,638
Quoted on Stock Exchange	11,835	9,638
Not Quoted	8,703	-
Share Certificates	-	-
Quoted on Stock Exchange	-	-
Not Quoted	-	-
Impairment Provision (-)	-	(19)
Total	20,538	9,619

1. Explanations on loans:

a. Information on all types of loans and advances given to shareholders and employees of the Bank:

	31 December 2016		31 December 2015	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	-	30,199	-	22,475
Legal Entities	-	30,199	-	22,475
Individuals	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees	-	-	-	-
Total	-	30,199	-	22,475

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			Loans and Other Receivables Under Close Monitoring		
	Loans and other receivables with revised contract terms			Loans and other receivables with revised contract terms		
	Loans and Other Receivables (Total)	Restructured or Rescheduled	Other	Loans and Other Receivables (Total)	Restructured or Rescheduled	Other
Non-specialized Loans	403,870	9,395	-	-	-	-
Loans given to enterprises	133,838	-	-	-	-	-
Export Loans	11,088	9,395	-	-	-	-
Import Loans	-	-	-	-	-	-
Loans Granted to Financial Sector	205,808	-	-	-	-	-
Consumer Loans	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-
Other	53,136	-	-	-	-	-
Specialized Loans	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-
Total	403,870	9,395	-	-	-	-

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	9,395	-
Extended by 3,4 or 5 times	-	-
Extended by more than 5 times	-	-
Total	-	-

Extended period of time	Standard loans and other receivables	Loans and other receivables under close monitoring
0 - 6 Months	-	-
6 - 12 Months	9,395	-
1 - 2 Years	-	-
2 - 5 Years	-	-
5 Years and over	-	-
Total	-	-

c. Breakdown of loans according to their maturities:

	Standard Loans and Other Receivables		Loans and Receivables Under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Cash Loans				
Short-Term Loans and Other Receivables	296,1444	9,3955	-	-
Non-Specialized Loans	296,1444	9,3955	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Medium and Long-Term Loans and Other Receivables	98,3311	-	-	-
Non-Specialized Loans	98,3311	-	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-

d. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards

None (31 December 2015: None).

e. Information on commercial instalment loans and corporate credit cards:

	Short Term	Medium-Long Term	Total
Commercial instalment loans-TC	-	5,239	5,239
Business residential loans	-	-	-
Automobile loans	-	5,239	5,239
Consumer loans	-	-	-
Other	-	-	-
Commercial instalment loans- Indexed to FC	-	-	-
Business residential loans	-	-	-
Automobile loans	-	-	-
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	-	5,239	5,239

f. Loans according to types of borrowers:

	31 December 2016	31 December 2015
Public	-	-
Private	403,870	245,744
Total	403,870	245,744

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

g. Distribution of domestic and foreign loans:

	31 December 2016	31 December2015
Domestic Loans	350,734	245,744
Foreign Loans	53,136	-
Total	403,870	245,744

h. Loans granted to investments in associates and subsidiaries:

None (31 December 2015: None).

i. Specific provisions accounted for loans:

None (31 December 2015: None).

j. Information on non-performing loans (Net):

1. Information on non-performing loans restructured or rescheduled and other receivables:

None (31 December 2015: None).

2. Information on the movement of total non-performing loans:

None (31 December 2015: None).

3. Information on non-performing loans granted as foreign currency loans:

None (31 December 2015: None).

4. Information on non-performing loans based on types of borrowers:

None (31 December 2015: 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 2015: None).

7. Information on investments in associates:

None (31 December2015: None).

8. Information on subsidiaries (Net):

None (31 December2015: 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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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 2015: None).

10. Information on lease receivables (net):

None (31 December 2015: None).

11. Information on hedging derivative financial assets:

None (31 December 2015: None).

12. Information on property and equipment:

		Leased Fixed Assets	Other Tangible Fixed Assets	Total
Prior Period End:				
31 December 2015	Immovable			
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

		Leased Fixed Assets	Other Tangible Fixed Assets	Total
Prior Period End:				
31 December 2014	Immovable			
Cost	-	271	456	727
Accumulated Depreciation(-)	-	(68)	(367)	(435)
Net Book Value	-	203	89	292
Current Period End:				
31 December 2015				
Net Book Value at the beginning of the Period	-	203	89	292
Additions	-	-	334	334
Disposals(-), net	-	-	(3)	(3)
Depreciation (-)	-	(68)	(51)	(119)
Impairment	-	-	-	-
Cost at Period End	-	271	716	987
Accumulated Depreciation at Period End (-)	-	(136)	(347)	(483)
Closing Net Book Value	-	135	369	504

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Information on intangible assets:

	Current Period 31 December 2016	Prior Period 31 December 2015
Net Book Value at the beginning of the Period	468	191
Additions	841	433
Disposals(-), net	-	-
Depreciation (-)	(328)	(156)
Other (*)	981	468

14. Information on investment property:

None (31 December 2015: None).

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 2016, the Bank calculated deferred tax asset amounting TL 689 and reflected this amount to the financial statements (31 December 2015: TL 627).

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 2016		31 December 2015	
	Temporary Differences of Deferred Tax Base	Deferred Tax Amount	Temporary Differences of Deferred Tax Base	Deferred Tax Amount
Financial loss	-	-	1,239	247
Provision for employee benefits	1,702	340	1,324	264
Expense provisions	268	54	400	80
Other	1,822	364	738	147
Deferred Tax Asset, net	3,792	758	3,701	738
Other	(345)	(69)	(556)	(111)
Deferred Tax Liability, net	(345)	(69)	(556)	(111)
Deferred Tax Asset/ (Liability), net	3,447	689	3,145	627

16. Information on assets held for resale and discontinued operations:

None (31 December 2015: None).

17. Information on other assets:

As of 31 December 2016, other assets amount to TL 4,604 (31 December 2015: TL 4,738) 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 2016		31 December 2015	
	TL	FC	TL	FC
Forward	725	-	10	-
Swap	878	-	10	28
Futures	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	1,603	-	20	28

3. Information on funds borrowed:

a. Information on banks and other financial institutions:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	-	-
From Domestic Banks and Institutions	15,012	38,573	-	1,751
From Foreign Banks, Institutions and Funds	31,362	106,950	-	69,560
Total	46,374	145,523	-	71,311

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

b. Information on maturity structure of borrowings:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Short-term	15,012	45,663	-	30,211
Medium and Long-term	31,362	99,860	-	41,100
Total	46,374	145,523	-	71,311

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 its capital and funds borrowed. The major portion of the funds borrowed is provided from the Bank's main shareholder and its risk group. The Bank's total borrowings from its risk group constitutes 27% of total assets.

4. Information on Repo Transactions:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Financial Institutions	4,657	-	-	-
Other	-	-	-	-
Total	4,657	-	-	-

5. Securities Issued :

The Bank has issued a fixed rate bond at 26 October 2016, with nominal amount of TL 37,500, with 90 day term maturing at 24 January 2017. The carrying amount of the bond is TL 37,239 as at 31 December 2016 (31 December 2015 - None).

6. Information on Borrower Fund:

	Demand	Up to 1 month	1-3 Month	3-12 Month	1-5 YearOver Years
31 December 2016					-
Borrower fund	3,417	500	-	-	-
31 December 2015					
Borrower fund	10,272	-	-	-	-

7. Information on other foreign sources:

As of 31 December 2016, other liabilities amount to TL 5,112 (31 December 2015: TL 5,338) and don't exceed 10% of total balance sheet.

8. Information on financial lease agreements:

	31 December 2016		31 December 2015	
	Gross	Net	Gross	Net
Less Than 1 Year	-	-	-	-
1-4 Years	-	-	-	-
More Than 4 Years	-	-	-	-
Total	-	-	-	-

9. Information on hedging derivative financial liabilities:

None (31 December 2015: None).

10. Information on provisions:

a. Information on general provisions:

	31 December 2016	31 December 2015
Provisions for Group I. Loans and Receivables	3,810	2,130
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	393	253
Other	268	287
General Provisions	4,471	2,670

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 2016. 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 2,253.

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

b. Information on provisions related with foreign currency difference of foreign indexed loans:

As of 31 December 2016, provisions related with foreign currency difference of foreign indexed loans amount TL 18 (31 December 2015: TL 167) 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 2015: None).

d. Information on other provisions:

i. Information on provisions for possible risks:

None (31 December 2015: 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 2016	31 December 2015
Discount rate (%)	3.49	3.49

The movement of employee termination benefits is shown below:

	31 December 2016	31 December 2015
Balance at the Beginning of the Period	234	160
Provisions Recognised During the Period	(54)	74
Balance at the end of the period	180	234

In addition, as of 31 December 2016 the Bank have unused vacation provision of TL 172 (31 December 2015: TL 65).

iii. Other provisions are explained if they exceed 10% of the total provision balance

Other provisions amount of TL 1,612 comprising of TL 1,350 is for bonus provisions and TL 262 for ongoing lawsuits and other. (31 December 2015: TL 1,333).

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 1,503 as current tax liability, after the deducting temporary taxes paid in the period, as of 31 December 2016 (31 December 2015: None).

ii) Information on taxes payable:

	31 December 2016	31 December 2015
Corporate Tax Payable	1,503	-
Taxation on Marketable Securities	2	1
Property Tax	1	1
Banking Insurance Transaction Tax (BITT)	160	81
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	107	89
Other	190	235
Total	1,963	407

iii) Information on premium payables:

	31 December 2016	31 December 2015
Social Security Premiums - Employee	50	32
Social Security Premiums - Employer	55	37
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	4	2
Unemployment Insurance - Employer	7	4
Other	-	-
Total	116	75

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

b. Information on deferred tax liability:

Explanations on the taxation of the Bank are presented in explanations and notes related to unconsolidated assets.

12. Liabilities for assets held for sale and assets of discontinued operations

None (31 December 2015: 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

None (31 December 2015: None).

14. Information on shareholders' equity:

a. Presentation of paid-in capital:

	31 December 2016	31 December 2015
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 2015: 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 2015: None).

h. Information on marketable securities value increase fund:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
From Subsidiaries, Affiliates and Joint ventures	-	-	-	-
Valuation difference	11	-	(90)	-
Rate difference	-	-	-	-
Total	11	-	(90)	-

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

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 2016	31 December 2015
Forward Asset purchase and sale commitments	-	16,912
Forward Deposit purchase and sale commitments	-	2,009
Tax and fond liabilities from export commitment	11	25
Other Irrevocable commitments	-	-
Total	11	18,946

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 2016, the Bank has guarantee and indemnities amounting TL 197,910 (31 December 2015: TL 126,995) based upon the guarantee letter.

2. Revocable, irrevocable guarantees and other similar commitments and contingencies

As of 31 December 2016, the Bank has other guarantees amounting TL 19,356 (31 December 2015: None).

c. Total amount of non-cash loans:

	31 December 2016	31 December 2015
Non-cash Loans Given against Cash Loans	97,856	22,091
With Original Maturity of 1 Year or Less Than 1 Year	60,356	-
With Original Maturity of More Than 1 Year	37,500	22,091
Other Non-cash Loans	100,054	104,904
Total	197,910	126,995

d. Information on sectoral risk concentrations of non-cash loans:

	Current Period				Prior Period			
	31 December 2016				31 December 2015			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	-	-	-	-	-	-	-	-
Farming and Raising Livestock	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Manufacturing	2,538	1.95	9,084	13.46	1,845	3.09	14,686	21.81
Mining	-	-	-	-	-	-	-	-
Production	2,538	1.95	8,400	12.45	1,730	2.90	14,686	21.81
Electric, Gas and Water	-	-	684	1.01	115	0.19	-	-
Construction	4,230	3.24	8,947	13.27	3,130	5.25	6,929	10.29
Services	123,683	94.81	49,428	73.27	54,690	91.66	45,715	67.89
Wholesale and Retail Trade	8,898	6.82	12,317	18.26	33,241	55.71	20,651	30.67
Hotel, Food and Beverage Services	10,689	8.19	-	-	5,112	8.57	-	-
Transportation and Telecommunication	14,805	11.35	528	0.78	-	-	2,714	4.03
Financial Institutions	85,300	65.39	30,199	44.77	16,337	27.38	22,350	33.19
Real Estate and Leasing Services	3,991	3.06	6,384	9.46	-	-	-	-
Self-Employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total	130,451	100.00	67,459	100.00	59,665	100.00	67,330	100.00

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EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

e. Information on the non-cash loans classified in Group I and Group II:

31 December 2016	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	130,451	67,459	-	-
Letters of Guarantee	130,451	41,119	-	-
Bank Acceptances	-	-	-	-
Letters of Credit	-	6,984	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	-	19,356	-	-

2. Information on derivative transactions:

	31 December 2016	31 December 2015
Forward foreign currency purchase transactions	13,689	3,835
Forward foreign currency sell transactions	14,024	3,794
Currency swap-buy	10,419	32,122
Currency swap-sell	11,130	31,465
Total	49,262	71,216

3. Information on credit derivatives and related imposed risks:

None (31 December 2015: None).

4. Information on Contingent Assets and Liabilities:

(i) Contingent assets

None

(ii) Contingent liabilities

As of 31 December 2016, 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 2015: None).

IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

1. Information on interest income:

a. Information on interest income on loans:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Short-term Loans	29,198	432	16,355	936
Medium/Long-term Loans	951	3,102	356	-
Interest on Loans Under Follow-up	-	-	-	-
Premiums Received from Resource Utilisation Support Fund	-	-	-	-
Total	30,149	3,534	16,711	936

b. Information on interest income on banks:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
From the CBRT (*)	148	-	71	-
From Domestic Banks	1,419	4	6,428	1
From Foreign Banks	144	12	174	17
Headquarters and Branches Abroad	-	-	-	-
Total	1,711	16	6,673	18

(*) The interest income from required reserves presented in "From the CBRT" line.

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NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

c. Information on interest income on marketable securities:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
From Trading Financial Assets	-	-	-	-
From Financial Assets at Fair Value through Profit or Loss	-	-	-	-
From Available-for-sale Financial Assets	1,583	47	1,252	-
From Held-to-Maturity Investments	-	-	-	-
Total	1,583	47	1,252	-

d. Information on interest income received from investments in associates and subsidiaries:

None (31 December 2015: None).

2. Information on interest expense:

a. Information on interest expense on borrowings:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Banks	1,842	3,158	2	766
The CBRT	-	-	-	-
Domestic Banks	284	212	2	21
Foreign Banks	1,558	2,946	-	745
Headquarters and Branches Abroad	-	-	-	-
Other Institutions	-	-	-	-
Total	1,842	3,158	2	766

b. Information on interest expense given to investments in associates and subsidiaries:

None (31 December 2015: None).

c. Interest expense on issued marketable securities:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Interest expense on marketable securities issued	751	-	-	-

d. Maturity structure of the interest expense on deposits:

None (31 December 2015: None).

3. Information on dividend income:

None (31 December 2015: None).

4. Information on trading income/loss (Net):

	31 December 2016	31 December 2015
Income	32,699	13,732
Income from Capital Market Transactions	17	4
Income from Derivative Financial Transactions (*)	1,539	1,076
Foreign Exchange Gains	31,143	12,652
Loss (-)	(27,915)	(12,630)
Loss from Capital Market Transactions	(40)	(464)
Loss from Derivative Financial Transactions (*)	(2,318)	(2,208)
Foreign Exchange Loss	(25,557)	(9,958)
	4,784	1,102

(*) 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.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Information on other operating income:

Other operating income TL 54 income from previous years' provision cancellations and there is no income regarding extraordinary accounts. (31 December 2015: TL 97)

6. Provision expenses related to loans and other receivables:

	31 December 2016	31 December 2015
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	1,801	2,178
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	1,801	2,178

7. Information related to other operating expenses:

	31 December 2016	31 December 2015
Personnel Expenses	8,294	6,000
Reserve For Employee Termination Benefits	107	107
Bank Social Aid Pension Fund Deficit Provision	-	-
Impairment Expenses of Fixed Assets	-	-
Depreciation Expenses of Fixed Assets	187	122
Impairment Expenses of Intangible Assets	-	-
Goodwill impairment expenses	-	-
Amortisation Expenses of Intangible Assets	328	156
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	6,040	4,122
Operational Lease Expenses	1,519	1,116
Maintenance Expenses	27	4
Advertising Expenses	695	329
Other Expense	3,799	2,673
Loss on Sales of Assets	-	-
Other	1,656	2,396
Total	16,612	12,903

PASHA YATIRIM BANKASI A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Information on income/(loss) before tax from continuing or discontinued operations:

Loss before tax comes from net interest income amounting TL 30,512, net commission fee income amounting TL 1,130 trading loss amounting TL 4,784 other operating income amounting TL 99, provision for loan losses and other receivables amounting to TL 1,801 and other operating expenses amounting TL 16,612.

9. Information on provision for taxes from continuing or discontinued operations:

As of 31 December 2016 the Bank has current tax expense TL 4,191 TL (31 December 2015: None). The Bank has deferred tax income amounting to TL 84 (31 December 2015: TL 2,697 loss).

As of 31 December 2016, 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 14,005 (31 December 2015: TL 8,787).

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:

None (31 December 2015: None).

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 gain for marketable securities valuation difference related to available-for-sale financial assets of TL 101 (31 December 2015: TL 84 loss 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 2016

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

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

a. Cash and cash equivalents at the beginning of the period:

	31 December 2016	31 December 2015
Cash	34,436	12,663
Cash and Foreign Currency Cash	30	11
Turkish Central Bank	34,406	12,652
Other	-	-
Cash Equivalents	44,277	47,357
Banks	29,144	47,357
Interbank Money Market Placements	15,133	-
Total Cash and Cash Equivalents	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	(19,579)	(11,772)
Cash Flow Statements Cash and Cash Equivalents	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 7,993 (31 December 2015: TL 5,180) 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 4,235 (31 December 2015: TL 2,657) consists of mainly changes in prepaid expenses and other assets.

The "Net increase/decrease in other liabilities" item under "Changes in operating assets and liabilities" amounting to TL 6,923 (31 December 2015: 4,179) consists of mainly changes in miscellaneous payables, other liabilities and taxes and other duties payable.

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 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	-	-

Prior Period (31 December 2015):

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	-	-	-	-	-	-
End of the Period	-	-	-	22,475	8,082	30,227
Interest and Commission Income Received	-	-	-	98	74	40

b. Information on deposits of the Bank's risk group:

The Bank doesn't have any deposits since it is an investment bank.

EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

c. Information on forward and option agreements and other similar agreements made with the Bank’s risk group:

No option and forward agreements with the Bank’s Risk Group. (31 December 2015: None).

As of 31 December 2016, the Bank has TL 381 borrower funds from its risk group (31 December 2015: TL 10,213).

As of 31 December 2016, the Bank has borrowings from its risk group TL 138,273.

d. Information on key management compensation:

As of 31 December 2016, key management compensation amount is TL 2,495 (31 December 2015: TL 1,368).

VIII. EXPLANATIONS AND NOTES RELATED TO THE DOMESTIC, FOREIGN, OFF-SHORE BRANCHES AND FOREIGN REPRESENTATIVES OF THE BANK

None (31 December 2015: None).

**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 2016 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 16 February 2017 has been presented preceding the unconsolidated financial statements.

II. EXPLANATIONS AND NOTES PREPARED BY INDEPENDENT AUDITOR

None (31 December 2015: None).

Reporting Period	01.01.2016 - 31.12.2016
Trade Name of the Bank	PASHA Yatırım Bankası A.Ş.
Trade Registration Number of the Bank	240320
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