

Corporate Governance Principles Compliance Report

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

a) As detailed below, QNB Finansbank has complied with the imperative principles of the Corporate Governance Principles set out in of the Corporate Governance Communiqué no. II - 17.1, published by the Capital Markets Board (CMB), throughout the financial reporting year of 01.01.2016-31.12.2016.

b) QNB Finansbank does not implement principles no. 1.5.2 – 1.7.1 - 2.1.2 – 2.1.3 – 2.2.2 (Most of the information herein is stated in the annual report.) – 3.1 – 3.2 - 4.3.9 – 4.5.5. Instead, the Bank has set up a Corporate Governance Committee responsible for monitoring whether the Corporate Governance Principles are complied with, describing the problems that may arise due to noncompliance and offering corrective actions to the Board of Directors. The Committee consists of Ramzi T. Mari* Sinan Şahinbaş, Ali Teoman Kerman, Osman Reha Yolalan* and Fikret Şehsuvar Aladağ. During meetings held in 2016, work was done for improvement of the corporate governance practices in the Bank. The Corporate Governance Committee shall consider the said principles in its activities in 2017 and work towards the improvement of corporate governance practices. The Committee also coordinates the operations of the Investor Relations Division.

* appointed as Members of the Corporate Governance Committee on 08.07.2016

PART II - SHAREHOLDERS

2.1. Investor Relations Division

QNB Finansbank established an Investor Relations Division, for the purposes of protecting the rights of

shareholders and ensuring effective communication between the Board of Directors and shareholders, in line with Article 1.1.2 of Part I of the revised Corporate Governance Principles published by the Capital Markets Board in February 2005. The Investor Relations Division, reporting to the Corporate Governance Committee, is managed by Mr. Fikret Şehsuvar Aladağ. He holds a CMB Advanced Level Certificate and corporate governance rating certificate.

The contact details for the Investor Relations Division are as follows:

investor.relations@qnbfinansbank.com

Telephone: +90 212 318 52 07

A total of 79 inquiries were received by the Investor Relations Division during 2016. In addition, a total of 49 investors, rating agencies and researchers were met at approximately 20 meetings.

2.2. Shareholders' Right to Access Information

Within the scope of the Informational Policy of QNB Finansbank as approved at the General Assembly on March 27, 2014, all information in relation to shareholders' rights, such as capital increases, are sent to Borsa İstanbul (İstanbul Stock Exchange) and published in print and on the Public Disclosure Platform (www.kap.gov.tr) in Material Event Disclosure format. Shareholders are informed through emails, meetings and telephone calls, and through the Bank's website, regarding material financial and/or operational information that may affect the exercise of the rights of shareholders.

Appointment of a special auditor is not regulated by the Articles of Association of the Bank. The Bank is audited both by the auditors appointed by the Bank's General Assembly and by the Banking Regulation and Supervision Agency ("BRSA") in accordance with the Banking Act.

2.3. General Assemblies

The Annual General Assembly was held on March 24, 2016 at the Head Office located at Esentepe Mahallesi, Büyükdere Caddesi Kristal Kule Binası No: 215 Şişli/İstanbul with a meeting quorum of 99.8%. The Board of Directors invitation for the Assembly was published in the Turkish Trade Registry Gazette and two daily newspapers, namely, Güneş and Hürses. Shareholders were duly provided with the date, agenda and information form regarding the agenda of the Meeting through the website of the Bank, the Public Disclosure Platform as well as the electronic General Assembly System. In the said meeting Mr. Jilber Topuz, one of our shareholders, demanded that the General Assembly be provided with clarification regarding payment of personal bonuses or premiums to Board Members in 2015. Mr. Mehmet Ömer Arif Aras, Chairman of the Board, answered by stating that the said amount had been presented collectively upon negotiation of agenda item 15, and no individual statements had been provided. What's more, within the framework of Agenda item 10, information regarding gratuity payments has been provided to shareholders.

Furthermore, two Extraordinary General Assemblies were held on June 16, 2016 and November 24, 2016, at the Head Office located at Esentepe Mahallesi, Büyükdere Caddesi Kristal Kule Binası No: 215 Şişli/İstanbul with a meeting quorum of 99.8%. The Board of Directors invitation for the Assembly was published in the Turkish Trade Registry Gazette and two daily newspapers, namely, Güneş and Hürses. Shareholders were duly provided with the date, agenda and information form regarding the agenda of the Meeting through the website of the Bank, the Public Disclosure Platform as well as the electronic General Assembly System.

2.4. Voting Rights and Minority Rights

No voting privilege is granted and no cumulative voting procedure is adopted by the Bank's Articles of Association.

2.5. Dividend Distribution Policy

Dividend distribution policy of the Bank is approved in the General Assembly dated 27.03.2014. The dividend is calculated under the provisions of the applicable regulations and provisions of the Bank's Articles of Association. Accordingly, after deducting the legal and financial liabilities of the Bank, 5% of remaining profit is allocated to the statutory reserve fund and an amount corresponding to 5% of equity is allocated, regardless of the date of equity payment as first dividend to shareholders. After allocation of these amounts, 10% of the remaining profit may be allocated to founding shareholders. After deducting the amounts stated in the provisions above, a maximum of 5% of the remaining amount may be allocated by the General Assembly to the Board Members and Managing Directors, including the ordinary member General Manager, Out of the annual profit remaining after the amounts set aside and allocated as described in the foregoing provisions, an amount designated by the General Assembly, may be set aside for the shareholders as Second Dividend, regardless of the payment dates of the capital. One tenth of the Dividends decided to be distributed as per paragraphs "c", and "d" of this article shall be added to general legal reserve funds pursuant to the Turkish Commercial Code. General Assembly is entitled to transfer to the subsequent year or set aside as extraordinary reserve funds, all or a part of the net profit remaining after setting aside and distributing the reserve funds in paragraph "a" and dividends in paragraph "b" of this article. If it deems necessary, Board of Directors may make suggestions to the General Assembly to such extent. The manner of distributing the dividend

allocated to the Board Members and Executive Directors, including the ordinary member General Manager, as per paragraph “c” of this article, to the relevant parties shall be determined by the Board of Directors. Dividends shall only be paid out of annual profit. No dividend can be distributed unless the reserve funds mentioned in paragraph “a” of this article are set aside. Unless and until reserve funds which should be set aside as per law and dividends specified for the shareholders under the Articles of Association are set aside, no resolution in regard to setting aside other reserve funds, transferring profit to the subsequent year and distributing dividends to shareholders, members of Board of Directors and employees of the Bank shall be adopted. Besides, no dividends shall be distributed to such persons unless and until specified amount is set aside. The General Assembly shall determine the payment date of the dividends to be distributed as per the provisions of this article. Provisions of paragraphs “d” and “e” hereof shall also apply to dividends that have been resolved by a General Assembly Resolution to be distributed to the shareholders out of extraordinary reserve funds. The profit distributed in accordance with the provisions of these Articles of Association cannot be taken back. Relevant provisions of the Turkish Commercial Code are without prejudice.

2.6. Transfer of Shares

QNB Finansbank’s Articles of Association do not restrict shareholders from transferring their shares. However, share transfer is subject to BRSA approval pursuant to the relevant provisions of the Banking Law.

PART III - DISCLOSURE AND TRANSPARENCY

3.1 Corporate Web Site and Its Content

QNB Finansbank’s corporate web page,

www.qnbfinansbank.com, contains information, both in Turkish and English, on the Bank’s current shareholder and management structure; Articles of Association; annual reports; periodical financial statements and reports; material events regarding the Bank; agendas, minutes and list of attendees of General Assembly Meetings; a sample power of attorney letter; and inquiries and answers provided under the FAQ section.

3.2 Annual Report

The Bank’s Annual Report, prepared in accordance with relevant regulations, includes issues on corporate governance principles. The details are given in the “Corporate Governance Principles Compliance Report” section of the Annual Report.

PART IV - STAKEHOLDERS

4.1 Informing Stakeholders

Bank employees are informed about the Bank’s operations when deemed necessary via internal communications tools. In addition, managers at the Headquarters and branches are informed about developments via regularly held meetings. The tip-off hotline, set up for informing regarding transactions contrary to the Bank’s procedures and instructions, and that are against legislation and improper ethically, is open to access by stakeholders through a number of channels.

4.2 Participation of Stakeholders in Management

The Bank does not have a model to ensure stakeholders’ involvement in management.

4.3 Human Resources Policy

QNB Finansbank recognizes that the most valuable capital is human resources. With this in mind, the

Bank's Human Resources Policy, directed towards increasing the Bank's performance, is based on attracting, developing and retaining new talent, and hence realizing sustainable development of the Bank's human resources. The Bank's Human Resources Policy has four components:

- **Human Resources Planning and Recruitment:** Attracting talented employees to the Bank and placing them in the most suitable positions in line with Bank's staffing requirements.
- **Performance Management:** Managing staff performance by harmonizing goals of employees with the goals of the Bank.
- **Talent and Development Management:** Developing the technical and managerial skills of employees, retaining promising employees in the Bank and focusing on their development.
- **Loyalty and Rewards:** Developing policies for increasing employee loyalty to the Bank and increasing their involvement in Bank's growth.

QNB Finansbank's number of personnel reached 12,451 by the end of 2016. The number of employees including those at subsidiaries and affiliates, is 14,322.

Performance management in QNB Finansbank encourages career development with a continuous feedback culture, and establishes long-term talent strategies in order to support employee potential.

Performance evaluation is made biannually. Through the evaluation,

- Probable potential with a differential performance influencing the performance of the Bank and contributing and/or will contribute to the Bank reaching its targets, is determined;
- Technical performance results for each individual employee come about as a result of targets of the Bank as well as the resultant targets for business lines and departments. Developmental performance results

are obtained as a result of evaluations carried out for figuring out developmental requirements of employees.

- Within the personalized performance model designed for all QNB Finansbank employees strong points and areas for development are evaluated individually. Individual developmental needs are thus determined.
- Points of improvement are defined and actions are determined and a road map is defined for monitoring. Results are shared with the employees transparently. Performance evaluation process aims to foster loyalty through a fair and transparent system which assesses the performance of the personnel on concrete and measurable criteria.

The purpose of remuneration management in QNB Finansbank is to gain new talents and increase employee loyalty, satisfaction, motivation and synergy. Accordingly, a fair and transparent pricing methodology that is in compliance with the bank's ethical values and internal regulations is implemented. Moreover, incentive programs that are focused on individual and institutional targets without taking excessive risk are created and are encouraged. In 2015, The Bank's personnel received a cash bonus of 2 salaries per employee as part of the premium and bonus schemes. Various benefits that improve living standards and increase productivity of the employees, such as health insurance, annual leave, transportation, food, telecommunication aid and other employee support services are provided with consideration of market conditions.

Remuneration Management has continued to function within the scope of the Remuneration Committee, established in 2013, in compliance with the regulation of the Banking Regulation and Supervision Agency on Corporate Management Principles of Banks.

Ombudsman's office has been established in order to increase the quality of business and lift obstacles in the way of productivity by swift, effective and fair resolution of possible disputes between the corporation and employees, or between employees and managers.

All employees contact the Ombudsman regarding in-office discrimination, mobbing, harassment, practices contrary to corporate policies and unresolved disputes via e-mail or phone.

The primary target of the Ombudsman is for the sides to reach a mutual agreement. In cases where parties fail to reach an amicable solution or an agreement the Ombudsman assesses the current situation and notifies relevant Vice Presidents. One copy of the assessment report is presented to the Office of Vice President responsible for HR and another to the General Manager. Requests need to be processed and the relevant parties notified in one week.

Any illegal transactions, matters of abuse and others falling within the coverage of a Disciplinary Board ruling or that need to be examined by the Board of Inspection, shall be forwarded to the Board of Inspection by the Ombudsman for assessment of information received.

No discrimination complaints from the Bank's employees were received.

4.4 Social Responsibility and Code of Ethics

QNB Finansbank believes in the importance of securing the future of a healthy and sound environment. The concept of sustainable banking is applied in every environmental, economic and social policy/process of the Bank. The Bank's business strategy and decision-making mechanism supports its goal to leave a livable world for future generations. With every transaction and funding decision, the Bank strives to promote a sustainable development mindset. To this end, the Bank has set up a Social Responsibility Committee. In parallel with the research and studies of this Committee, the Internal Audit and Compliance Department carries out activities in terms of compliance with national and international legislation. The Bank has also established a Social and Environmental Management System (SEMS) policy. "Minik Eller Büyük Hayaller" developmental platform, which underlines our diligence and our focus on

children, was created by joining small hands with big dreams that will be the starting point of their creative powers that will shape the future.

The child-focused developmental platform was designed as a result of the invaluable contributions by more than 13 thousand employees throughout the country. Consequently, they, their families and their children have become social stakeholders, project partners and goodwill ambassadors in the "Minik Eller Büyük Hayaller" platform.

Within the "Minik Eller Büyük Hayaller" social responsibility platform established in 2015,

We have reached out to more than 250 thousand children in 25 cities via more than one thousand voluntary QNB Finansbank employees in 6 different projects, with the aim of helping bring up innovative leaders of tomorrow.

QNB Finansbank has adopted a code of ethics as specified under the Banking Law. QNB Finansbank Employee Code of Conduct and QNB Finansbank Code of Ethics for Financial Professionals have been approved by Board of Directors and communicated to Bank personnel as a booklet and online.

PART V- BOARD OF DIRECTORS

5.1 Structure and Formation of the Board of Directors

As of 31.12.2016 the structure of QNB Finansbank's Board of Directors is as follows:

Dr. Ömer A. Aras, Chairman
Sinan Şahinbaş, Vice Chairman

Abdulla Mubarak Al-Khalifa,
Board Member

Ali Rashid Al-Mohannadi,
Board Member

Ali Teoman Kerman,
Board Member and Chairman of Audit Committee,

Durmuş Ali Kuzu,
Board Member

Fatma A. Al-Suwaidi,
Board Member

Grant Eric Lowen,
Board Member

Osman Reha Yolalan,
Board Member

Ramzi Talat A. Mari,
Board Member

Temel Güzeloğlu,
Board Member and General Manager

In the General Assembly Meeting on 16.06.2016, it was decided that Osman Reha Yolalan shall be appointed as the independent member of the Board, and the members of the Audit Committee shall also be designated as the independent Board Members in compliance with the relevant provisions of Corporate Governance Communiqué (II – 17.1) published by the Capital Markets Board. The present Board members are still incumbent; therefore, no members were elected at the 2015 General Assembly.

Resumes of the Members of the Board are presented in the annual report.

It is acknowledged that, within the restrictions stated in the Banking Law, members of the Board may also hold professional positions outside the Bank provided that no such position prevents them from fulfilling their respective responsibilities in the Bank and does not cause any conflict of interest.

5.2 Principles Related to the Activities of the Board of Directors

QNB Finansbank Board of Directors held 7 meetings in 2016, in compliance with relevant laws and the Bank's Articles of Association, with the attendance of all members except when prevented due to reasonable excuses. Moreover, apart from these meetings, the Board has negotiated and decided on various matters.

Board Members are provided with documents that include the agenda for each meeting, prior to the

meeting. No dissenting opinion was voiced during the Board meetings.

The agenda of each Board meeting is determined on the basis of proposals by Board Members and the General Directorate. Discussions on risk and monthly reports, assessment and approval/rejection of applications for loans, and loan amounts that exceed the authority limits of the Credit Committee and therefore require the approval of the Board, are included in the agendas of all Board meetings. In addition, bodies such as the Internal Control Directorate, the Audit Committee and the Corporate Governance Committee present periodical reports to the Board of Directors. The Board of Directors has a secretariat in charge of informing and communicating with Board members and ensuring compliance of meetings and resolutions with applicable laws and regulations.

No Board member has preferential voting rights.

5.3 Number, Structure and Independence of Committees under the Board of Directors

Five committees serve under the authority of the Board of Directors, which are Corporate Governance Committee, Audit Committee, Risk Management Committee, Credit Committee and Remuneration Committee.

As of 31.12.2016, the members of the Audit Committee are A. Teoman Kerman (Chairman), Durmuş Ali Kuzu, Ramzi Talat A. Mari and Fatma A. Al-Suwaidi.

The members of the Risk Management Committee are Dr. Ömer A. Aras, Sinan Şahinbaş, Grant Eric Lowen, Ali Rashid Al-Mohannadi and A. Teoman Kerman.

The members of the Credit Committee are Dr. Ömer A. Aras, Sinan Şahinbaş, Fatma A. Al-Suwaidi, Abdulla Mubarak N. Alkhalifa and Temel Güzeloğlu.

The members of the Corporate Governance Committee are Sinan Şahinbaş, A. Teoman Kerman, Ramzi Talat A. Mari, Osman Reha Yolalan ve Fikret Şehsuvar Aladağ.

The members of the Remuneration Committee are Sinan Şahinbaş and Ali Rashid Al-Mohannadi.

The Credit Committee meets weekly, the Risk Management Committee meets monthly, the Audit Committee meets on a three-month basis, the Corporate Governance Committee meets at least four times a year, and the Remuneration Committee meets at least three times a year.

5.4 Risk Management and Internal Control

In accordance with Banking Law no. 5411 and the Regulation on Internal Control Systems in Banks, the Bank's Board of Directors set up an Audit Committee, the current members of which are member of the Board, and Chairman Teoman Kerman, member of the Board Durmuş Ali Kuzu, member of the Board Ramzi Talat A. Mari, and member of the Board Fatma A. Al-Suwaidi.

Internal Audit and Compliance Department and the Internal Control Directorate and Risk Management Department report to the Audit Committee.

Risk Management Department was set up at the end of 2001 as an entity independent from all other executive departments. The Risk Management Department is responsible for measuring possible banking risks, formulating risk management policies, and ensuring that the Bank is run in a manner so that the risks taken remain within the limits of the risks the Bank may wish to take in line with its strategic goals. The Bank aims to conform its Risk Management operations to Basel III standards and applicable legal requirements in force in Turkey. In addition to reporting to the Board of Directors through the Internal Systems director and the Audit Committee, the Risk Management Department also reports to the Risk Management Committee. Dr. Ömer A. Aras, Sinan Şahinbaş, A. Teoman Kerman, Grant Eric Lowen and Ali Rashid Al-Mohannadi are members of the Committee.

5.5 Strategic Goals

Vision

To help build individual and commercial financial plans that will catalyze Turkey's success.

Mission

To forge a lifelong partnership with all our stakeholders, by understanding their needs, finding the right solutions and aiming for maximum customer satisfaction

QNB Finansbank's vision and mission are declared publicly on the Bank's corporate website.

The Bank prepares five-year business plans discussed annually by the Board of Directors. In addition to the business plans, the Bank's detailed annual budget is decided in consort with the Board of Directors. After the approval of the business plan and the budget, the Board of Directors monitors and discusses the Bank's rate of attainment of the objectives, activities and performance at its monthly meetings.

Upper management approves the strategic goals set by management and monitors the Bank's progress, operations and performance toward these goals.

5.6 Remuneration

The honorariums to be paid to the Members of the Board of Directors are determined by the General Assembly. As per note VI.1.4 of Part Five of the Financial Statements, as of December 31, 2016, the gross total including honorariums of Board members, provided to upper management is TL 63,247 thousand.

Loans extended to Board members and managers are limited in Article 50 of the Banking Law. No loans are granted to Board members and managers above these limits.