


2018 Annual Report Statement of Responsibility

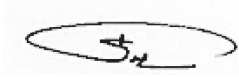
QNB Finansbank's annual report is prepared and presented in accordance with the principles and regulations stated in the "Regulation on the Preparation and Publication of Annual Report for Banks" as appeared in the Official Gazette on November 1, 2006, with number 226333.



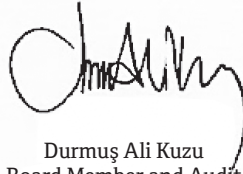
Mehmet Ömer Arif Aras
Chairman



Ali Teoman Kerman
Board Member and Chairman of
the Audit Committee



Ramzi T.A. Mari
Board Member and Audit
Committee Member



Durmuş Ali Kuzu
Board Member and Audit
Committee Member



Noor Mohd J. A. Al-Naimi
Board Member and Audit
Committee Member



Temel Güzeloğlu
CEO and Board
Member



Adnan Menderes Yayla
Executive Vice President responsible
for Financial Control (CFO)

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

a) As detailed below and throughout the Report, QNB Finansbank has complied with the imperative principles of the Corporate Governance Principles numbered 1.3.1 – 1.3.5 – 1.3.6 – 1.3.9 – 4.2.6 – 4.3.1 – 4.3.2 – 4.3.3 – 4.3.5 – 4.3.6 – 4.3.7* - 4.3.8* - 4.5.1** - 4.5.2 – 4.5.3 – 4.5.4*** - 4.5.10 – 4.5.11**** 4.6.2 and 4.6.3 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 01.01.2018-31.12.2018.

Principles numbered 4.5.9 – 4.5.12 and 4.5.13 are not applied to banks as per the Principle numbered 4.5.1.

Principle 4.3.4 is an exemption for banks within the scope of Article 6 of the Corporate Governance Communiqué.

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 which are advisory principles. However, 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 *****Burcu Günhar. During meetings held in 2018, 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 2018 and work towards the improvement of corporate governance practices. The Committee also coordinates the operations of the Investor Relations Division.

The Corporate Governance Information Form and Corporate Governance Compliance Report prepared within the scope of decree of the Capital Markets Board dated 10.01.2019 and numbered 2/49 are available at Public Disclosure Platform (<https://www.kap.org.tr/tr/cgif/4028e4a240e95dc90140ee076f400178>)

*Article three of the Principle numbered 4.37 and Article two of the Principle 4.3.8 shall not be implemented by banks, accordingly such Articles are not implemented.

**Article 4.5.1 includes exceptions for banks with regard to committees.

***The general manager should be appointed to the Credit Committee within the scope banking legislation, this Article is implemented with this exception.

****Corporate Governance Committee is responsible for this Article within the scope of organizational structure of the Bank

*****appointed as Member of the Corporate Governance Committee on 14.05.2018.

PART II - SHAREHOLDERS

2.1. Investor Relations Division

QNB Finansbank established Investor Relations Division in 2005, for the purposes of overseeing the rights of shareholders and ensuring effective communication between the Board of Directors and shareholders. Activities of Investor Relations Division are carried out in line with the Corporate Governance Communiqué Part 4 Article 11, dated 03.01.2014 and published by the Capital Markets Board. Investor Relations Division is managed by Ms. Burcu Günhar and supervised by Corporate Governance Committee. Ms. Burcu Günhar holds Capital Markets Activities Level 3 License, Corporate Governance Rating License, Derivatives License, Credit

Rating License and appointed as Corporate Governance Committee Member as disclosed in the Public Disclosure Platform on 14.05.2018.

In 2018, all telephone and e-mail inquiries were answered within the scope of the relevant legislation. During the year representing the Bank, Investor Relations attended 2 investor conferences and participated in meetings with 89 international investors and analysts. Regular meetings are held with credit rating agencies. Each quarter presentations based on financial results of the bank were prepared and uploaded on the Investor Relations website.

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 Law.

2.3. General Assemblies

The Annual General Assembly was held on March 29, 2018 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 *Takvim*. 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. Within the scope of Internal Directive Regarding Working Principles and Methods of the Bank; the meeting place may be entered by the shareholders registered on the list of those who are present prepared by the Board of Directors or their representatives, Members of the Board of Directors, the auditor, representative of the Ministry and those who will be elected or assigned for the meeting chairmanship. Besides, other directors of the Company, the employees, guests, technicians assigned for audio - vision reception may also enter the meeting place unless decided otherwise by the Meeting Chairmanship. Our Board members, the General Manager of the Bank and other employees and also technicians assigned for audio - vision reception attended the General Assembly, no one from media attended. At the Annual General Assembly held in 2108, none of the shareholders has been proposed any items to be included to the agenda and none of the shareholders has been requested any information. The minutes of the Annual General Assembly is presented to our shareholders' review in our website and Public Disclosure Platform.

In the 2018 General Assembly no transactions requiring the affirmative votes of the majority of the independent members of the Board for a Board resolution, were on the agenda.

In the 2018 General Assembly, within the scope of item 10 shareholders were provided information regarding the total amount of donations made in 2017.

In addition, pursuant to Art. 1.3.6 of the Corporate Governance Communiqué No. II - 17.1, information was provided regarding transactions conducted in 2017. The General Assembly was informed that other than transactions conducted in 2017 within the limits allowed by the

Banking Law and relevant legislation, no significant transactions of the nature to cause a conflict of interest with the Bank or its affiliated companies were carried out by shareholders in charge of management, members of the Board, members of upper management, and their spouses and kind of second degree by blood and marriage; that they did not conduct, in their own account or on behalf of third parties, any transactions of the type falling under the field of operation of the Bank or its affiliated companies; and that they did not join as a partner with unlimited liability another company carrying out similar commercial transactions.

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. Minority rights is not determined as less than % 5 (1/20) of the share capital by the Articles of Association. Besides, within the scope of legislation on the Turkish Commercial Code and Capital Markets Law, utmost care is given to the exercise of minority rights.

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 and determination and distribution of the annual profit are regulated by Article 25 and 26 of the Articles of Association of the Bank; there is no restriction on participation to the annual profit. Besides, policy on distribution of the profit is included to the agenda of the General Assembly separately. The first dividend to the shareholders in the amount of TRY 100.000.000 is paid to the shareholders in cash as per the resolution of the General Assembly dated 29th March 2018.

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, aware of the fact that the most valuable asset is its human resources, has designed its human resources policy to increase the Bank's performance and achieve sustainable development through recruitment, training and retention of new talents in the Bank. Within this

scope, Human Resources Policy is summed up in four main fields:

- Human Resources Planning and Recruitment: Carrying out the management of the brand as an employer and management of labor force in parallel with the needs of the Bank, and supporting the recruitment process through analysis and business development projects, with the purpose of being an employer of choice and attracting skilled workforce,
 - Performance Management: Adapting perceptible and measurable criteria and creating engaged employee climate with a fair and transparent system for assessment of success in order to increase Bank's performance in line with individual employee performances,
 - Talent Management and Organizational Development: Improving employee's technical and managerial knowledge and skills, retaining employees with high performance and potential and contributing to the development of all financiers, and
 - Engagement and Rewarding: Developing policies for increased employee engagement and thus increasing their involvement in the Bank's target achievement efforts.
- QNB Finansbank's number of personnel reached 12,268 by the end of 2018. The number of employees including those at subsidiaries and affiliates, is 13,466.
- QNB Finansbank performance management process is a management tool that encourages development with continuous feedback and aims at guiding Financiers for high and sustainable performance, allowing individual development alongside increasing corporate performance. With the semiannual performance measurement;
- Financier candidates, who can and/or might contribute in attaining targets of the Bank, who create difference with their performance that affect the performance of the Bank, are determined.
 - Business line and division targets are determined in line with the Bank's targets create technical performance results for each employee, while the assessment carried out in order to

determine development needs of employees make up the development performance results.

- Strengths and areas of development are assessed on an individual basis specific to each employee, with customized performance model applied for all Financiers. Individual development needs are determined.
- A road map is created with the purpose of determining and following up actions pertaining to development points. Results are shared with Financiers. Individual performance is evaluated with concrete and measurable criteria in order to increase employee engagement through a fair and transparent system.

Moreover, responsibilities and job descriptions of the employees are designed in written and announced.

Objective of remuneration management in QNB Finansbank is to add new talented employees and increase engagement, satisfaction, motivation and synergy among current employees. Accordingly, a fair, competitive and transparent remuneration methodology, compliant to the Bank's ethical values and internal balances, is implemented. Reward models, which emphasize individual and integrated target-performance and evaluate value added without taking excessive risk, are fostered. Thus, strategic targets of the Bank are supported, and productivity is enhanced.

Within the scope of the Bank's premium and bonus models, the Bank paid approximately 2 months' salary on average per employee on the basis of performance. In addition to remuneration and merit management initiatives, employees have many benefits in various fields such as health, leave of absence, transportation, meal, communication and technological opportunities, aid packages and employee support services.

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 and the Division Manager responsible for Human Resources Strategic Planning, Recruitment and Career Management has been appointed as the Ombudsman.

All employees contact the Ombudsman regarding in-office discrimination, mobbing, harassment, practices contrary to corporate policies and unresolved disputes via e-mail or phone. For cases when reaching a mutual agreement among sides is an admissible option, 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, in both professional and personal life, 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.

Since its establishment, QNB Finansbank has been actively involved in corporate social responsibility projects in a wide and diversified spectrum from culture to art, education, sports and music with a sense of social responsibility. In line with this approach, “Minik Eller Büyük Hayaller (Small Hands Big Dreams)” social responsibility platform was implemented, focusing on 4-14 year-old children and aiming to grow them into analytical, creative, innovative and productive individuals. With projects ranging from mathematics to coding, culture, art and story telling, the platform reached out to more than 400 thousand children in 49 cities. As more than 12 thousand employees, their families and children have become social stakeholders of the platform, more than 2000 Financiers actively volunteered in the projects.

QNB Finansbank “Tales Math Museum Mobile Truck” and “Tales Math Museum” offers students a total of 34 modules and 5 different workshops, where they can explore that mathematics is more than numbers and involves in every aspect of life from art to architecture and nature, and enjoy the opportunity to apply what they learn. “By the power of dreams” project brought to life in cooperation with the Community Volunteers Foundation (TOG) aims to help primary school students with developing self-confidence, expressing themselves and developing their skills in writing, dreaming and reading skills through story-telling.

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 online. Codes are also available to personnel access on the internal portal of the Bank.

PART V- BOARD OF DIRECTORS

5.1 Structure and Formation of the Board of Directors

As of 31.12.2018 the structure of QNB Finansbank’s Board of Directors (members are written in alphabetic order) 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

Noor Mohd J.A. Al-Naimi,
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. Osman Reha Yolalan who has elected as independent Board member has presented the independency declaration within the scope of Principle 4.3.6 of the Communiqué on Corporate Governance.

There is no condition occurred which revokes the independent members’ independency.

Resumés 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 2018, 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 Management. 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. The loss that may be incurred as a results of Board members’ actions has been insured by Directors and Officers Liability Insurance Policy.

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 31.12.2018, the members of the Audit Committee are Ali Teoman Kerman (Chairman), Ramzi Talat A. Mari, Durmuş Ali Kuzu, and Noor Moh J.A. Al-Naimi.

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

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 Ramzi Talat A. Mari (Chairman), Sinan Şahinbaş, Ali Teoman Kerman, Osman Reha Yolalan and Burcu Günhar.

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

The Credit Committee meets when necessary, the Risk Management Committee meets monthly, the Audit Committee meets on a three-month basis at least four times a year, the Corporate Governance Committee meets at least four times a year, and the Remuneration Committee meets at least three times a year. The Board members are appointed to the committees which are legally necessary and besides, due to number of Board members, they can be appointed to more than one committees as member within the scope related legislation.

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 Ali 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. The Risk Management Department reports to the Board of Directors via Head of Internal Systems and the Audit Committee. Dr. Ömer A. Aras, Sinan Şahinbaş, A. Teoman Kerman, Fatma A. Al- Suwaidi and Ali Rashid Al-Mohannadi are members of the Remuneration Committee.

Reporting to the Head of Internal Systems and the Audit Committee, the Internal Control and Compliance Department performed control activities for minimizing the Bank's exposure to operational, regulatory and financial risks.

Internal Audit Department, founded with the mission to support the Board to protect the Bank's assets, reputation and the sustainability of its activities, reported functionally and administratively through Head of Internal Systems and Audit Committee to the Banks' Board of Directors in order to ensure the objectivity and independence required.

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 Bank's rate of attainment of the objectives, activities and performance are monitored and discussed at regular meetings of the Management.

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

5.6 Remuneration

The attendance fee to be paid to the Members of the Board of Directors are determined by the General Assembly. As per note VII.1.4 of Part Five of the Financial Statements, as of December 31, 2018, the gross total provided to upper management, i.e. Board members, General Manager and Assistant General Managers is TL 90,436,000. Remuneration principles for Board members and executive directors have been written and announced via website of the Bank.

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.