

***CORPORATE GOVERNANCE
PRINCIPLES COMPLIANCE REPORT
2018***



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CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

CHAPTER I-DECLARATATION OF CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

Türkiye Vakıflar Bankası T.A.O. (“VakıfBank” or “the Bank”), has adopted the Corporate Governance Principles stipulated in accordance with the Banking Legislation, Capital Markets Legislation, Turkish Commercial Code and other relevant regulations. VakıfBank pays utmost attention in order to implement these principles and has adopted the equality, transparency, accountability and responsibility concepts of the Corporate Governance Principles published by Capital Markets Board (CMB).

The Bank ensured compliance with the following Corporate Governance Principles from among those stipulated in the Annex of the Corporate Governance Communiqué II-17.1 that entered into force after being published in the Official Gazette (no. 28871) on January 3rd, 2014;

a-) The Bank is in compliance with the following compulsory principles that must be implemented by the banks: (1.3.1.), (1.3.5.), (1.3.6.), (1.3.9.), (4.2.6.), (4.3.1.), (4.3.2.), (4.3.3.), (4.3.4.), (4.3.5.), (4.3.6.), (4.3.7.), (4.3.8.), (4.5.1.), (4.5.2.), (4.5.3.), (4.5.4.), (4.5.9.), (4.5.10.), (4.5.11.), (4.5.12.), (4.5.13.), (4.6.2.) and (4.6.3.).

b-) Regarding the non-compulsory principles:

All members of the Board of Directors are elected by the General Assembly. There is one female member in the Board of Directors which is composed of nine members who were elected at the 64th Ordinary General Assembly on August 13, 2018. On the other hand, in spite of the fact that the 25% ratio advised in the Corporate Governance Principle no. 4.3.9 is not fully reached, no disputes have arisen among the stakeholders so far.

CHAPTER II – SHAREHOLDERS

2.1 Investor Relations Department

The Investor Relations Department carries out its activities under the Head of International Banking and Investor Relations that reports to the Executive Vice President Mr. Hasan Ecesoy.

Conducting relations with foreign institutional investors, rating institutions and shareholders, the Investor Relations Department informs and reports to the Board of Directors regarding all activities carried out and submits presentations, in particular, regarding the financial comparative analysis of VakıfBank with its peers.

The licenses of the department directors are as shown below:

NAME-SURNAME	TITLE	LICENSE
Mustafa TURAN*	Head	Capital Market Activities Level 3 License Derivative Instruments License Corporate Governance Rating License
Ali TAHAN	Manager	Capital Market Activities Level 3 License Derivative Instruments License Corporate Governance Rating License

* A member of the Corporate Governance Committee as per the 11th Article and 2nd paragraph of the Corporate Governance Communiqué.

Employees working in the Investor Relations Department are as follows:

NAME-SURNAME	TITLE	PHONE	E-MAIL
Mustafa TURAN	Head	(0216) 724 26 61	mustafa.turan@vakifbank.com.tr
Ali TAHAN	Manager	(0216) 724 26 85	ali.tahan@vakifbank.com.tr
Yasemin KEÇELİOĞLU	Associate	(0216) 724 26 87	yasemin.kecelioglu@vakifbank.com.tr
Ece Seda YASAN YILMAZ	Associate	(0216) 724 26 88	ecesedayasan.yilmaz@vakifbank.com.tr
Yusuf YILMAZ	Associate	(0216) 724 26 89	yusuf.yilmaz2@vakifbank.com.tr
Berna SELEM ARSLANTAŞ	Associate	(0216) 724 26 90	berna.selemarslantas@vakifbank.com.tr
Mehmet Mümtaz MEMİK	Assistant Associate	(0216) 724 26 91	mehmetmumtaz.memik@vakifbank.com.tr
Nagehan GERÇEKER	Assistant Associate	(0216) 724 26 92	nagehan.gerceker@vakifbank.com.tr

The main duties and responsibilities of the Investor Relations Department are as follows:

- Managing the relations with existing and potential foreign and local institutional investors and rating agencies,

- Maintaining the relations with brokerage companies' analysts who prepare reports regarding the Bank,
- Attending meetings organized in Turkey and abroad on behalf of VakıfBank,
- Preparing quarterly presentations regarding the results of the financial statements and organizing teleconferences,
- Preparing corporate presentations and similar type of meeting tools that publicize the Bank, arranging various target-driven publicity and informative meetings,
- Keeping the "Investor Relations" page up-to-date that includes Turkish and English contents on the Bank's website,
- Working in coordination with the relevant Head Office departments in preparing and updating the Corporate Governance Principles Compliance Report,
- Contribute to the preparation of annual and interim period reports of the Bank,
- Responding the shareholders' written information requests regarding the Bank,
- Preparing documents that must be submitted for the shareholders' information and review for Ordinary and Extraordinary General Assembly meetings, and holding General Assembly meetings in compliance with the relevant legislation, the Bank's Articles of Incorporation and other internal regulations,
- Disclosing the material events via Public Disclosure Platform required to be made within the scope of the Capital Markets Legislation and the relevant legislation that the Bank is liable to comply with,
- Carrying out activities in collaboration with the related departments for sustainability activities,
- Establishing, running, and providing coordination necessary for the sustainability of Quality and Environment Management System with a methodology to be determined by the Corporate Governance Committee within the Bank.

The activities conducted by Investor Relations Department during 2018 were as follows:

- Approximately 1,000 information requests submitted by the shareholders were responded.
- 18 local and foreign investor conferences were attended, and one-on-one and group meetings were held with above 380 foreign and local institutional investors.
- More than 280 meetings were held with roughly 400 investors/analysts in the İstanbul office of the Bank.
- Following the investor conferences attended, reports were prepared in line with the feedback obtained from the investors and presented to the top management.
- Four teleconferences regarding the results of the financial statements were arranged and their voice records were published on the English version of the website.
- Annual ordinary evaluation meetings were held with rating agencies (Fitch, Moody's, S&P and JCR).
- Close communication was sustained with all the analysts publishing reports regarding the Bank, accurate and reliable information was provided to the analysts during the report preparation and comments on the reports were shared with the analysts following the review process.

- It was ensured that 2018 Ordinary General Assembly meeting was held within the scope and in compliance with the Banking Law, Capital Markets Law, Corporate Governance Communiqué (II-17.1), the Bank’s Articles of Incorporation and other legislations.
- At the Bonds & Loans 2019 awards, one of the most prestigious award of the financial sector, VakıfBank was nominated for “Bond-Issuance Deal of the Year” and “Best Financial Institution – Financing Deal of the Year” awards for its five-year USD 650 million bond issue on January 30, 2018, within the scope of GMTN program. Furthermore, as part of the Covered Bond Programme, VakıfBank was nominated for the “Best Structured Financing Deal of the Year” award for its covered bond issue based on treasury transactions dated October 9, 2017, where Credit Suisse was the investor.
- Thus, VakıfBank became the most active Turkish bank, using Covered Bond program with a total issuance amount of TL 7 billion through Euro 500 million covered bond issuance in 2016 and other issuances in December 2017 and February 2018.
- In September 2018, VakıfBank successfully hosted the EMTA Forum (Emerging Markets Trade Association) which has a total of 175 investment institutions as members from all over the world. In this forum, Head of International Banking and Investor Relations, Mr. Mustafa Turan participated to “Economic and Political Outlook of Turkey” panel as moderator.
- The works related to Sustainability Working Group, reporting to the Corporate Governance Committee which is the highest authority to coordinate the sustainability performance of the Bank, have been carried out. Meetings to be held have been arranged and agendas of the meetings have been determined.
- The sustainability questionnaires prepared by the “Sustainability Working Group” formed by Banking Regulation and Supervision Agency (BRSA) have been answered. In order to maintain the Bank’s continuance in BIST Sustainability Index, VakıfBank carried out the works with the related institutions, evaluated the reports written by EIRIS (Ethical Investment Research Services Limited) regarding the Bank’s performance. VakıfBank maintained its position on the BIST Sustainability Index and FTSE4Good Emerging Markets Index.
- In order to improve the Bank’s performance on environmental, social and corporate governance, collaboration between the departments of the Bank has been carried out.
- In line with Global Reporting Initiative (GRI) standards, the Bank started to prepare the fourth Sustainability Report covering the period of 2018 June – 2019 June.
- As a result of the efforts to establish, perform and maintain the Quality and Environmental Management Systems’s continuance within the Bank, ISO:9001-2015 Quality Management System has been kept on and the coverage of ISO:14001-2015 certificate has been expanded by adding 250 branch locations. Furthermore, Investor Relations contributed Head of Human Resources to receive OHSAS:18001-2007 Occupational Health and Safety Management System certificate which covers all of the Bank locations. The Bank improved its position by receiving this internationally valid certificates.

2.2 Exercise of Shareholders’ Right to Information

Questions asked in writing or via phone calls to the Investor Relations Department are answered, except the ones which are confidential business information, by contacting with the most authorized person.

Information and developments that interest the shareholders such as stock transaction, capital increase, dividend transactions, General Assembly meetings, financial statements, disclosure of material events are regularly communicated with the related parties via websites, newspaper ads, mails or phone calls. Aforesaid developments and information are shared with the investors located abroad via e-mail, as well. Moreover, information requests made within the activity period by the domestic shareholders regarding the status of their stocks, the transfer of their existing shares to free float shares and stock sharing transactions upon death are responded in written.

VakifBank has two separate investor relations websites prepared both in Turkish and English. These are:

Investor Relations website in Turkish:

<http://www.vakifbank.com.tr/Yatirimci-Iliskileri.aspx?pageID=657>

Investor Relations website in English:

<http://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

These websites include corporate information, Bank's Articles of Incorporation and the Law on VakifBank, General Assembly information documents, profit distribution chart, General Assembly internal directive, attendance lists, brief minutes, periodic financial statements and annual reports, credit rating scores given by credit rating agencies, Corporate Governance reports, sustainability information, stock data and press release and announcements regarding the developments in the Bank. Disclosure of material events of developments regarding VakifBank announced via Public Disclosure Platform are available on these websites. Bank's corporate websites do not include any information and announcement that may have impact on using shareholders rights.

VakifBank implements the provisions of the Turkish Commercial Code in relation to appointment of a private auditor, this issue has not been provided for in a separate article in the Articles of Incorporation. There was no request for appointment of a special auditor during the year of 2018. VakifBank is subject to audit periodically within the scope of especially Banking Law and related legislations.

2.3 General Assembly Meetings

The Ordinary General Assembly Meeting was held at the Head Office location in 2018. 64th Ordinary General Assembly Meeting was held on August 13rd, 2018 and meeting quorum was 88.73%.

Ordinary General Assembly meeting was held as per the provisions of the "Regulation on the general assemblies of the joint stock companies that will be made in electronic environment" and "Communiqué on the general assembly system that will be used in the general assemblies of the

joint stock companies". The shareholders had the opportunity to attend the General Assembly meeting on an electronic platform, express their opinions, make suggestions, and cast their votes.

In order to inform the shareholders prior to General Assembly meetings, the call for General Assembly, the agenda, power of attorney sample and other attached documents were publicly announced in accordance with the relevant legislation via Public Disclosure Platform, Turkish Trade Registry Gazette, Electronic General Assembly System and at least on two newspapers (published nationwide) selected by the Board of Directors. These documents were also published in Turkish and English on the Bank's website. At least 21 days ago (meeting and call dates excluded), a call for the General Assembly is made in the Central Registry Agency system for the e-General Assembly service that enables participating, making proposals and statements, and voting at the Bank's General Assembly Meeting on electronic platform. Moreover, these documents are sent in written to the shareholders whose up-to-date addresses are listed on the Bank's records.

The 2017 annual report, issued for the General Assembly, including Bank's balance sheet and profit/loss statements of 2017 accounting period, Board of Directors annual report, auditor's report and independent external audit company report, was made available prior to the General Assembly within the timelines set out in the related regulation for the Bank shareholders' information and review via VakifBank's corporate website, Central Registry Agency system, Electronic General Assembly System, Head Office and all branches of the Bank. Furthermore, in case of shareholders' request, Bank's branch staff can provide the documents of the call for General Assembly, agenda and power of attorney samples. Shareholders, entitled to attend the General Assembly, who completed the necessary procedures did attend to the Ordinary General Assembly Meeting held in 2018.

The invitation letters published before the meetings contain the following information:

- Date, time and location of the meeting,
- Agenda of the meeting,
- The body inviting shareholders to the meeting (e.g. Bank's Board of Directors),
- The locations where the annual report, balance sheet and profit/loss accounts statements are available for review by shareholders in case of ordinary meeting announcements (Head Office, branches, Central Registry Agency system, Electronic General Assembly System and corporate web site),
- Sample power of attorney for shareholders who will not attend the meeting in person.

The annual report includes information such as; information regarding the activities of the Bank, information regarding the top management, Bank's balance sheets, balance sheet footnotes, independent audit report, audit board report, Board of Directors' proposal for profit distribution, Corporate Governance Principles Compliance Report, etc. Upon request, the Investor Relations Department provides shareholders with a copy of the annual report before or after the General Assembly meeting.

No media members participated in the 64th Ordinary General Assembly Meeting.

All shareholders, irrespective of the size of their participating share, are entitled to speak, to express their opinion and to ask questions related to the agenda items of both Ordinary and Extraordinary General Assembly meetings. In 2018 Ordinary General Assembly meeting, there was not any proposal which was submitted by the shareholders to add an item to the agenda.

Within the scope of the Corporate Governance Principle no. 1.3.5; the questions asked at the General Assembly meeting and the answers given, were published on the Bank's website within 30 days following the meeting date. At the Ordinary General Assembly Meeting, held on the August 13th, 2018, during the 14. item of the agenda "wishes and closing remark", an opportunity was presented to the shareholders to speak and ask questions regarding all agenda items, there was not any raised a question which was supposed to be answered in written and verbally.

The answers given by the Meeting Chairman and Council to the questions, suggestions and opinions, and to other issues of the shareholders – who physically and/or electronically attended the Ordinary General Assembly Meeting was included in detail in the General Assembly minutes. Following the General Assembly, General Assembly meeting minutes and annexes are publicly announced via Public Disclosure Platform, Turkish Trade Registry Gazette, e-Company Information Portal and Electronic General Assembly System, and also published on the Bank's website.

Information was given at the General Assembly Meeting about the amount of aid and donation made by the Bank within the period and it is included in the summary of the General Assembly meeting minutes.

In 2018, there was no matter left to the General Assembly for resolution due to the majority of the independent members of the Board of Directors not casting affirmative vote.

Shareholders (who control the management of the Company), Board of Directors' members, managers who have administrative responsibilities, and their spouses and blood relatives and relatives by marriage up to second-degree did not make any important transaction with the Bank or its associate companies which may lead to conflicts of interest. Furthermore, the aforementioned persons did not make any transaction, related to a commercial business that is within the scope of the Bank's or its associate companies' field of activity, for their own account or for the account of others or did not become unlimited partners in other companies carrying out similar commercial businesses.

2.4 Voting and Minority Rights

The provisions regarding voting rights of the shareholders and the use of these rights are stipulated in the Article 17 of VakıfBank Articles of Incorporation. As per the Article 19 of the Bank's Articles of Incorporation; group (A), (B) and (C) shareholders have the privilege to nominate in the election of the Board of Directors.

Bank shares are divided into (A), (B), (C) and (D) groups. The nominal values and voting rights of the share certificates of all groups are equal. Group (D) consists of publicly traded shares.

Shareholders use their voting rights at the General Assembly meeting in proportion to the total nominal value of their shares. Shareholders who hold or represent 10 shares are entitled to one vote at the General Assembly meetings while those who hold more than 10 shares are entitled to a number of votes calculated as per the proportion specified above without any limitation. The regulations of the Capital Markets Board shall be complied with regarding the voting by proxy.

In VakifBank's capital, there is no mutual participation relationship and for this reason there was no vote used in the 64th Ordinary General Assembly meeting. The use of the minority rights is subject to Turkish Commercial Code, Capital Markets Law and relevant legislation and to the communiqué and resolutions of CMB.

2.5 Dividend Rights

There are no provisions in the Bank's Articles of Incorporation that stipulates privileges in participating in dividend payout. The principles regarding the profit distribution of VakifBank's shares are stipulated in the Articles 32 and 35 of the Bank's Articles of Incorporation.

Each year, Board of Directors of VakifBank submits its proposal on profit distribution to the General Assembly and to the shareholders' information via annual report prior to the General Assembly meeting. The proposal of the Board of Directors regarding profit distribution is discussed and resolved at the General Assembly. Profit distribution procedures were completed within the legal timeframe in line with the decision taken by the General Assembly about distributing 2017 profit and necessary notifications were made to the public authorities. Furthermore, the relevant decision was publicly announced on the same day via Public Disclosure Platform.

In profit distribution, a balanced policy is pursued between the benefits of the shareholders and partnership.

With the aim of complying with the Corporate Governance Principle no. 1.6.1., in 2014, the Board of Directors of the Bank created a "Profit Distribution Policy" and published the document in Turkish and English on the corporate website. Profit Distribution Policy was presented to the approval of the shareholders at the Ordinary General Assembly Meeting held in 2015. Thus, full compliance with the relevant principle was achieved.

2.6 Transfer of Shares

All Bank shares are registered shares and divided into (A), (B), (C), and (D) groups.

The Council of Ministers is entitled to sell and to determine the procedures and principles of the sale of Group (A) shares of the Bank and the Group (B) shares held by the attendant foundations under the General Directorate of Foundations.

The Bank's Articles of Incorporation does not include any provisions to restrict the transfer of Group (B) shares held by other attendant foundations and of Group (C) and (D) shares.

However, the Bank's Board of Directors is authorized to convert Group (B) shares held by attendant foundations (subject to permission by the General Directorate of Foundations) and Group (C) shares into Group (D) shares at the request of the shareholders, as per the Article 6 of the Bank's Article of Incorporation.

CHAPTER III- PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 Bank Website and Its Content

The Bank has two separate websites that are regularly updated and published in accordance with the Corporate Governance Principles in Turkish (www.vakifbank.com.tr) and in English (<http://www.vakifbank.com.tr/English.aspx?pageID=977>). VakıfBank also has two separate investor relations website published in Turkish and in English.

The links of investor relations website in Turkish and in English are below:

Investor Relations website in Turkish:

http://www.vakifbank.com.tr/Yatirimci_Iliskileri.aspx?pageID=657

Investor Relations website in English:

<http://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

These websites include corporate information, quarterly financial statements and annual reports, ratings given by credit rating agencies, Corporate Governance Principles Compliance Reports, information regarding sustainability, and the sustainability reports of the Bank, stock data, earnings presentations for investors, Bank's Articles of Incorporation and VakıfBank Law, General Assembly Internal directive, attendance lists, General Assembly brief minutes, capital increase and dividend ratios, analyst list, VakıfBank's executives, organization structure, committees, code of ethics, information policy, profit distribution policy, anti-bribery and corruption policy, compensation policy, human rights and employee rights policy, aid and donation policy, remuneration policy, environment policy, social responsibility policy, occupational health and safety policy, MASAK compliance policy, and announcements regarding the developments in the Bank. These websites also include the disclosure of material events on publicly announced developments about VakıfBank via Public Disclosure Platform. Bank's corporate websites do not include any information and announcement that may have impact on using shareholders rights.

Interactive analysis function offers the opportunity to make comparative analysis of VakıfBank shares and indices in local and foreign currencies.

Bank's website is in compliance with the CMB's Corporate Governance Communiqué (II- 17.1; date: 03.01.2014) principles no. (2.1.1), no. (2.1.2), no. (2.1.3) and no. (2.1.4) regarding corporate websites. Most of the announcements made by the Bank via Public Disclosure Platform are translated into English and published on the webpage. Furthermore, it is made sure that the English version is consistent with the Turkish version and is prepared in a manner that will be correct, complete, direct, comprehensible, and sufficient enough for the persons who will make use of the announcement to make a decision.

3.2 Annual Report

The Bank's annual report is prepared according to BRSA Regulations regarding the Principles and Procedures Concerning the Preparation of the Annual Report by Banks and in compliance with the CMB's Corporate Governance Communiqué (II- 17.1; date: 03.01.2014) principles no. (2.2.1) and no. (2.2.2) regarding Annual Report.

CHAPTER IV- STAKEHOLDERS

4.1 Disclosure of Information to Stakeholders

VakıfBank stakeholders are informed regularly about the issues deemed necessary, through press releases, press conferences, interviews, annual reports, news on the website, announcements and various meetings.

In order to ensure accurate and reliable information flow, Investor Relations Department prepares presentations regarding the financial statements disclosed each quarter, shares these presentations with the investors via website and e-mail and also announces them through live teleconferences. The Department, by attending the investor meetings organized by the investment companies, shares the developments related with the Bank and the sector and answers any type of related question and request over the phone or via e-mail on a daily basis. On the Bank's website; necessary technical infrastructure was built in the "Sorun Çözelim" section for the Bank customers' information requests, comments or complaints about the Bank's services and products. Information requests, suggestions and complaints of customers about the Bank's products and services as well as the problems of customers are resolved by all relevant departments of the Bank in the most effective manner.

In order to speed up stakeholders' access to information, and to facilitate Corporate Governance Committee's access to the Bank's transactions that are contrary to legislation and that are ethically not appropriate, mail addresses are available below and on the corporate website in the Investor Relations section for the information of the stakeholders.

surdurulebilirlik@vakifbank.com.tr
sustainability@vakifbank.com.tr
yatirimciiliskileri@vakifbank.com.tr
investorrelations@vakifbank.com.tr

The Information System Portal was built in order to provide information to Bank employees. All announcements are made on this intranet portal which is an internal information sharing system. At different locations, employees can have immediate and effective access to the information they are looking for due to the fact that all internal information is available on the system. In this manner, both employee satisfaction increases and time and energy loss is prevented. The aim is to achieve cost saving and faster communication with the help of this portal.

The oversight of the existing control mechanisms for the compliance of the transactions performed by VakıfBank with the relevant legislation, banking practices, Bank's internal policies and ethical principles, is performed with the coordination of Head of Audit Board, Internal Control and Risk Management departments. The scope of the compliance function consists of tracking the compliance risks that may arise from the international regulations in the foreign branches and consolidated partners of VakıfBank, performing necessary tasks in order to continuously increase the compliance awareness and culture within the Bank. The Audit Committee is directly informed about the results of the activities carried out regarding the compliance function.

4.2 Stakeholder Participation in Management

The Bank takes utmost care of its employees and all the stakeholders and thereby aiming to meet the expectations of its internal and external customers by improving the quality of its products and services: In order to achieve this aim, it designs all its systems in a manner that they can be continuously improved.

VakıfBank pays utmost attention that its employees play an effective role at the development stage of new products and services. With an e-mail address created in the Bank, employees are given the opportunity to state their opinions within the scope of the new product development. The suggestions, after being evaluated by the departments of the Head Office, can be brought to the project stage.

If necessary, the Bank also provides information to the stakeholders who are not Bank employees, about the issues that concern them via e-mail, phone and other communication channels. The Bank established the department called Consumer Relations Coordination Center to ensure customer satisfaction. All suggestions, complaints or positive feedback about the Bank's products and services are communicated to the relevant department via the corporate website, call center, branches and social media channels. Additionally, customers can perform all banking transactions through a direct line to VakıfBank 7/24 branch at 0850 222 0 724.

4.3 Human Resource Policy

Within the scope of the sustainability efforts, the “Human Rights and Employee Rights Policy” that fulfills the requisites of the principle no. 3.3.1. of the Corporate Governance Communiqué (II-17.1) was made available for the information of the stakeholders on the corporate website.

Making maximum use of its existing human resources with its HR practices in order to reach its targets, the Bank also aims to maintain the labor peace with the equal opportunity and working environment it provides to its employees.

In this context, the growth strategy followed by considering the increasing competition in the banking sector, through its existing HR policies the Bank supports its employees’ development, and prioritizes the issue of creating motivation and job satisfaction. The Bank also aims to maximize employee loyalty and happiness.

In this context, the main principles of the Human Resources policy carried out by the Bank are as follows:

- Creating and maintaining a working environment that will increase the motivation and efficiency of the Bank employees,
- Prioritizing the concept of gender equality in performing the policy and procedures of the Bank without discriminating among the female-male employees, and thus providing a working environment where all employees have equal opportunities and labor peace,
- Maintaining a permanent working environment open to communication at all levels,
- Evaluating employees’ success and performance at work, encourage them, maintaining their moral and motivation at the highest level,
- Considering the material and moral interests of the employees’ and pursuing, maintaining, developing a fair wage policy where equal wages are given for equal jobs without making any gender discrimination,
- Contributing to the employees’ career targets and self-improvement through training programs given to the employee inhouse and outside of the Bank and strengthening their loyalty to the Bank,
- Taking necessary measures to maintain health, safety, and welfare of the employees, and increasing their loyalty to the Bank,
- Providing the employees with opportunities to get title promotions on the basis of gender equality, and contributing to improve their management and leadership skills with the new responsibilities,
- Keeping track of the modern HR practices and developments, adapting the latest HR practices in the Bank’s system and making them practicable.

The criteria about the personnel to be recruited at the Bank, are specified in the Bank Personnel Directive. Recruitment process is carried out in line with the principles stipulated in the relevant legislation, taking long term strategic targets of the Bank and norm staff of the branches and departments into consideration.

For the Bank's success to continue, the aim is to effectively and efficiently manage the current human resources, and to carry out activities in the branches/departments with optimum number of employee.

In the recruitment process carried out to meet the employee requirement, candidates can start working for the Bank as Assistant Auditor, Assistant Associate, Assistant Controller and Officer in the Head Office and branches. These employees are selected among the candidates, who are graduates of a 4-year university, with a bachelor's degree in departments related to banking, or other fields that will be determined by the Bank. Candidates who have a postgraduate degree and knowledge of foreign language are prioritized. On the other hand, the Bank employs IT Assistant Associates in the Bank's Information Technology departments, lawyers in the legal departments, and engineers and architects in the relevant business departments.

Considering the lack of permanent employees in the branches/departments, and the need for authorized employee in the existing/future branches/departments and probable retirements, resignations and the like, promotion exams are carried out in accordance with the relevant clauses of Bank Employee Directive and Career and Salary Management System Guideline that regulate promoting.

The aim is to create a structure based on the specialization of the employees in line with their competencies and thus to determine their career steps by taking into consideration their performance measurements, experience in their specialties and trainings/certificates. With an organizational approach that cultivates its managers/executives, as a result of the assessments and by monitoring the employees who have the competencies necessary for the job, employees are cultivated for executive positions. To this end, efforts are made to increase the corporate (employee) loyalty, and to create an organization where activities are carried out adopting the corporate culture.

The performance process is continuously reviewed and improved as the performance measurements of branches, head office, regional directorates and sales employees are made; performances are fairly and objectively evaluated; bonuses are paid to employees depending on their performances.

Training programs inside and outside the Bank are carried out to improve the competencies of the employees and to ensure that the employees are specialized in their jobs in line with their career plans through the approach targeting continuous learning, innovation and perfection. Furthermore, there are special orientation trainings for new Assistant Auditors, Assistant Internal Auditor, Assistant Associates, and Officers to build up the corporate culture, and to make sure they adapt themselves to the Bank.

All employees are informed about job descriptions and role distribution as well as performance and awarding principles via documents in the Bank's information systems and via notifications/announcements.

The Bank's staff works in accordance with the provisions of private law, and is recruited in conformity with the provisions of the Labor Law no. 4857 currently in effect. Bank employees are members of "Bank Finance and Insurance Employees Union" (BASS) and thus working conditions of the employees are determined with the collective bargaining agreements between the Bank and the union. Currently, collective bargaining agreement for the 23rd period between 01.05.2017 and 30.04.2019 is in effect.

Relations between the employees and employers are carried out by the directors and representatives of the abovementioned union. The union representatives forward the requests and complaints of the employees of the Bank about working conditions, personal rights, duties and responsibilities to the employers and monitor the process. Furthermore, there are union representatives, elected among the employees working in the Bank's branches/departments, (i) who should monitor whether or not the Collective Bargaining Agreement and the laws in force about the union members are practiced in line with their purposes and, (ii) who should verbally or in writing inform the executives in the Bank about the insufficiency and discrepancy they detected on these issues. To date, there has not been any complaint from the employees about any discrimination issues. The names, surnames and duties of the directors of the abovementioned unions are given below:

NAME-SURNAME	POSITION
Turgut YILMAZ	President
Mustafa EREN	Secretary General
Nefiye ARSLAN	Secretary General-Finance

4.4 Ethical Rules and Social Responsibility

Pursuant to its objectives of protecting stability and reliability in the banking sector by preventing unfair competition, improving service quality and maintaining the reputation of the banking profession before the public, the Bank, with Board of Directors' resolution numbered 74205, dated February 16, 2006, adopted the Bank's Banking Ethical Principles, issued by the Banks Association of Turkey and has undertaken to comply with these rules. This resolution was approved by the General Assembly held on March 31, 2006. Ethical Principles of the Bank is available in Turkish and English on the Bank's website.

Assuring to comply with the Ethical Principles, VakıfBank continued to contribute to touch social life in the year of 2018 with an awareness of social responsibility. In addition to the contribution of solving existing problems, the Bank continued to be the strength by society with providing maximum support to the areas for open to development.

Social responsibility framework is determined sport as an infrastucture, the Bank had taken considerable steps in these fields. Gathering its activities in this direction under the slogan "I am

by your side", VakifBank continued to add value to the society with its sustainable, measurable activities.

VakifBank Women's Volleyball Team, supported by VakifBank for 32 years without interruption, the number of volleyball training schools was raised to 6 in Turkey with the vision of spreading this across the country. Breaking a new ground, VakifBank also opened a school in Sarajevo, the capital of Bosnia and Herzegovina, and became the first club to open a volleyball school abroad. As the champion of Turkey, Europe and the World in the year of 2018, VakifBank's approach is also a result of being a world club of VakifBank Women's Volleyball Team, which is proudly Turkey's most successful team in international area. VakifBank enabled hundreds of girls who grow up in its groundwork team to realize their dreams, has once again demonstrated the importance and reliance on groundworks by having 7 players in A Team, trained within its own groundwork team.

In 2018, the Bank also made an ambitious entry into the field of cultural publishing which is on the agenda of VakifBank for so many years. VakifBank Culture Publications (VBKY), which the Bank established with great enthusiasm and desire, started its publishing life with the motto "publishing works not found elsewhere" and they have printed their first books throughout the year. VBKY is committed to enriching and promoting culture and the arts, first at a national and then at a universal level and it plans to preserve and develop the assets and values that it has inherited. Publishing world class works in history, philosophy, humanities, social sciences, arts, economics, classics, youth and academia, VBKY extends its publishing catalogue with sophisticated, groundbreaking books that raise public awareness, in line with its forward-looking editorial policy.

2018 has been a very busy year in the education of special children which is one of numerous projects that VakifBank's CSR efforts focus on. In cooperation with Anatolia Autism Foundation, the Bank provided support to the Center for Early Intervention, Training, Follow-up and Research in Autism Services, currently under construction. The Bank also engaged in efforts to raise awareness in this area.

VakifBank sponsored the creation of 19 mechatronics and mind games workshops in various cities across the country. This effort was part of a joint project conducted together with the Science Arts Education Centers (BILSEM) operating under the Ministry of National Education. VakifBank will provide ongoing support to this initiative in coming periods.

In addition to these supports in the field of social responsibility, VakifBank also continued to its efforts in the field of Turkish music with the Istanbul Polyphonic Choir, Ankara Turkish Folk Music and Turkish Classical Music choirs consisting of its own employees and retirees. The choirs with over 150 members had the opportunity to perform by giving various concerts during the year.

The companies' performance in environmental, social, and corporate governance fields is taken as basis in the BIST Sustainability Index, which was initiated by Borsa Istanbul in 2014, in order to increase perception, knowledge and practices in the field of sustainability in Turkey and among

Borsa İstanbul companies in particular. VakıfBank maintains its position in BIST Sustainability index since the beginning. Being listed in this index which is a very significant indicator in terms of corporate governance and sustainable development, is the proof of the Bank's insight in this area.

CHAPTER V - BOARD OF DIRECTORS

5.1 Structure and Formation of Board of Directors

NAME-SURNAME	POSITION	START DATE OF POSITION
Mehmet Emin ÖZCAN	CEO Executive Board Member (A)	09.06.2017
Şahap KAVCIOĞLU	Board Member (A)-Independent	13.08.2018
	Deputy Chairman	14.08.2018
	Credit Committee Member	14.08.2018
	Audit Committee Member	14.08.2018
Dr. Adnan ERTEM	Corporate Governance Committee Member	14.08.2018
	Board Member (B) Remuneration Committee Member	28.10.2010 06.04.2012
Şahin UĞUR	Board Member (C) Remuneration Committee Member	09.06.2017 15.06.2017
	Board Member (C)-Independent Remuneration Committee Member Credit Committee Substitute Member	29.03.2016 29.03.2016 29.03.2016
Dilek YÜKSEL	Board Member (D)-Independent Audit Committee Member Credit Committee Substitute Member	09.06.2017 15.06.2017 14.08.2018
	Board Member	13.08.2018

BOARD OF AUDITORS		
Yunus ARINCI	Audit Board Member	19.03.2010
Hasan TÜRE	Audit Board Member	09.06.2017

As stated in Article 19 in the VakıfBank Articles of Incorporation, the Board of Directors consists of nine members. 9 members of the Board of Directors were elected at the 64th Ordinary General Assembly Meeting held on 13.08.2018.

As of 18.10.2018, Chairman of the Board of Directors Dr. Raci KAYA resigned from his duty following his appointment as Executive Director of International Monetary Fund (IMF), representing the country group in the IMF's executive directorate. The related disclosure is published on the Public Disclosure Platform at <https://www.kap.org.tr/en/Bildirim/714545>.

As of 30.11.2018, member of the Board of Directors, Mr. Ömer ARISOY resigned from his duty and the related disclosure is published on the Public Disclosure Platform at <https://www.kap.org.tr/en/Bildirim/722415>.

Board Chairman does not have executive tasks and duties as per the regulations of Banking Regulation and Supervision Agency. The General Manager, Mehmet Emin ÖZCAN is an executive member of the Board of Directors. There are no other executive members in the Board of Directors except the General Manager. The term of office of the Board members is three years and members completing their term of office can be reelected. Résumés of the Members of the Board of Directors are published on the webpages below:

<https://www.vakifbank.com.tr/yonetim-kurulu-uyeleri.aspx?pageID=300>

<https://www.vakifbank.com.tr/management.aspx?pageID=843>.

As per the Capital Markets Board regulations regarding Corporate Governance Principles, the number of Independent Members of the Board of Directors was determined as “three”. On 13.08.2018 at the Bank’s Ordinary General Assembly, Associate Prof. Dr. Şahap KAVCIOĞLU, Serdar TUNÇBİLEK and Dilek YÜKSEL were elected as Independent Members of the Board of Directors. Statements of independence of independent Board members are available, and there is no breach of independence as of the relevant activity period.

Duties of the Members of the Board of Directors outside the Bank within the Group:

NAME-SURNAME	SUBSIDIARY	POSITION IN THE SUBSIDIARY	START DATE OF POSITION
Associate Prof. Dr. Şahap KAVCIOĞLU	Vakıf Gayrimenkul Yatırım Ort. A.Ş.	Chairman	04.09.2018

NAME-SURNAME	SUBSIDIARY	POSITION IN THE SUBSIDIARY	START DATE OF POSITION
Serdar TUNÇBİLEK	Vakıf Finansal Kiralama A.Ş.	Chairman	14.06.2017
Mehmet Emin ÖZCAN	Vakıf Emeklilik ve Hayat A.Ş.	Chairman	02.05.2018
	TSKB A.Ş.	Board Member	14.06.2017
Şahin UĞUR	Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	Chairman	15.06.2017
Dilek YÜKSEL	Vakıf Gayrimenkul Değerleme A.Ş.	Chairman	07.07.2017

Member of the Board of Directors, Dr. Adnan ERTEM's duties outside VakıfBank and the Group are; General Manager of the General Directorate of Foundations, Member of the Board of Directors of the Social Aid Fund Board, Member of the Board of Directors of Supreme Council of Antiquities and Monuments, Member of the Board of Trustees of Recep Tayyip Erdoğan University Foundation, Member of the Board of Trustees of Bezmi Alem Foundation University, Deputy Chairman of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş., Chairman of the Board of Directors of Press Advertising Institution, and Deputy Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

Articles of 395 and 396 of the Turkish Commercial Code has been applied regarding duties of the Members of the Board of Directors outside the Bank. The issue was specified in 11th item of the meeting agenda of the 64th Ordinary General Assembly Meeting dated 13.08.2018 and it has been decided to allow Board members for issues related to the Articles of 395 and 396 of the Turkish Commercial Code with majority votes.

5.2 Operating Principles of Board of Directors

Board of Directors convenes at least once a month upon the call made by the Chairman and by the Deputy Chairman in the absence of the Chairman in line with the necessity of the Bank affairs (Article 22 of the Bank's Articles of Incorporation). Meeting agendas are prepared according to the memorandums sent from the Head Office departments while various reports the Board of Directors requested from the management and various issues presented by the Board Members are discussed during the meeting. The agenda and relevant files are presented to the members prior to the meeting.

Informational and communication activities for the Members of the Board of Directors of the Bank are carried out by the Head of Board Directors' Affairs. In 2018, 78 Board of Directors

meetings were held. Members of the Board of Directors did attend the Board Meetings except in cases they had excuses and decisions were taken unanimously. All questions, opinions and objections of the Members during the Board of Directors meeting are recorded in the meeting minutes. Each Board member has one right to vote, and members do not have weighted right to vote and/or negative veto right.

The Board of Directors convenes with the majority of the total number of members and takes decisions with the majority of the members present at the meeting (Article 22 and Paragraph 5 of the Bank's Articles of Incorporation)

An electronic meeting system was established to enable the Members of the Board of Directors of the Bank to attend the meetings and to vote on electronic platform.

Losses incurred by the members of the Board of Directors as a result of their faults during their term of office, are covered under insurance. Employer's Liability Insurance 2018 policy's total value is USD 75,000,000 for each damage within the term of the policy.

5.3 Number, Structure and Independence of Committees Established by the Board of Directors

In order to efficiently and effectively carry out its activities in line with the Banking Law no. 5411, Banking Regulation and Supervision Agency's "Regulation on Corporate Governance Principles in Banks", Capital Markets Board's Corporate Governance Principles and the Articles of Incorporation of the Bank; the Board of Directors established Audit Committee, Credit Committee, Corporate Governance Committee and Remuneration Committee. All members of the Audit Committee and the Chairmen of the other committees are independent members. Due to the fact that there are no Executive Members except the General Manager in the Board of Directors, committee members are non-executive members. Committees are not entitled to take executive decisions.

The Audit Committee is composed of the independent members of the Board of Directors; Associate Prof. Dr. Şahap KAVCIOĞLU and Serdar TUNÇBİLEK. The Audit Committee convenes at least once a month on the specified date.

Credit Committee is composed of one permanent member, two substitute member and General Manager. Members are Associate Prof. Dr. Şahap KAVCIOĞLU (independent member), substitute member Serdar TUNÇBİLEK (independent member). There are two substitute members for a member who will not attend a meeting. The other substitute member is Dilek YÜKSEL. The Credit Committee generally convenes once in every week, and holds an extraordinary meeting in urgent cases. The Committee's meeting date is set according to the number and urgency of the agenda items that are received by the meeting secretary.

The Corporate Governance Committee is composed of the Members of the Board of Directors Associate Prof. Dr. Şahap KAVCIOĞLU (Committee Chairman - Independent Member) and Head of International Banking and Investor Relations Mustafa TURAN. The Committee generally

convenes once in every three months or at least twice in a year on semi-annual basis on a date determined by the Committee Chairman.

The Remuneration Committee is composed of Dilek YÜKSEL (Committee Chairman - Independent Member), Dr. Adnan ERTEM and Şahin UĞUR. Remuneration Committee evaluates the remuneration policy and applications within the scope of risk management and submits the suggestions as a report to the Board of Directors every year. The Committee convenes once in every year.

The Board of Directors consists of nine members. However, the number of the Members of the Board of Directors carrying out tasks is “seven”. Three members of Group (A) and one member of Group (B) and two members of Group (C) are elected among the candidates proposed by the majority of their group and one member among candidates proposed by the shareholders by taking into account the preferences of Group (D) primarily and two other members shall be elected by the General Assembly among the candidates proposed by shareholders. Two members of Group (A) and (C) and one member who is elected by the preferences of Group (D) are independent members (Article 19 and Paragraph 1 in the VakıfBank Articles of Incorporation).

Board Members assume duties in more than one committee since the number of the members of the committees of the Board of Directors is higher than the number of the members of the Board of Directors as stipulated in the principles of the Capital Markets Board Corporate Governance Principles and Banking Regulation and Supervision Agency. Committees are composed of at least 2 members.

5.4 Risk Management and Internal Control Mechanism

Head of Risk Management directly reporting to the Audit Committee is responsible for carrying out activities for defining, measuring, reporting, monitoring and controlling the risks the Bank faces. Furthermore, all departments are considered as a part of the risk management system.

Risk Management activities in the Bank are carried out in conformity with the legal legislation, also international best practices are pursued. Within this scope, risk management strategies were established, as the policies for managing each of the risks were written within the framework of principle of materiality.

A capital structure in conformity with the risk level is closely monitored, as the Bank’s resistance against unexpected and negative developments is measured via scenario analysis and stress tests. Besides measuring legal capital requirement, ISEDES (Internal Capital Adequacy and Evaluation Process) activities that include internally evaluating the capital requirement for the risks the Bank faces/will face are also carried out, as the results are evaluated by the top management.

Furthermore, Head of Risk Management carries out its activities in coordination with the Audit Board, Head of Internal Control and Head of Compliance and Legislation, within the scope of the “Regulation on Banks’ Internal Systems and Internal Capital Adequacy Evaluation Process”. An

efficient and effective internal control system was established in order to; I) carry out the activities of the Bank in conformity with the targets, policies and strategies set by the top management and within the framework of the legal legislation, and II) make sure that risky transactions are controlled in the Bank. In order to protection of the Bank's assets, conducting activities in an effective and efficient manner in accordance with the Banking Law and other related legislation, the internal politics and rules and Banking practices, enable the reliability, integrity of the accounting and financial reporting system, and timely access to information, the Internal Control Department – carrying out its activities under the supervision and control of the Audit Committee – controls the operational procedures for carrying out activities of the Bank, bank's communication channels, information systems, financial reporting systems and business processes.

Carrying out internal audit in the branches of Turkey and abroad as well as Head Office departments with the view of risk-oriented, the findings and suggestions in the scope of internal audit performed by internal audit employees from central and on site audit was shared with the related parties through reports and follow the decisions taken. In addition, information technology controls are carried out to ensure that the operations are within the scope of principles determined by the Bank and are secure.

Head of Internal Control; I) controls the functional classification of tasks, and distribution of duties and responsibilities, for defining, measuring and preventing the Bank's risks, II) presents opinions about existing, changed, cancelled or new established procedures and processes, and about the projects formulated by the Bank's business departments, and evaluates their potential risks and their compliance to Bank's internal policies and guidelines III) determines control points, IV) makes effective controlling and monitoring by increasing the effectiveness of the control activities, establishing and enhancing auto-control and systemic control mechanisms in processes and procedures, and decreasing operational risks.

The competence and efficiency of the internal control and risk management systems is audited by the Audit Board Department.

Head of Compliance and Legislation carries out necessary activities in order to ensure compliance with the legal obligations within the scope of "Prevention of Laundering of Proceeds of Crime and Financing of Terrorism", and with the international rules and principles on the same issue, monitors the current banking legislation, follows up and coordinates the banking operations in order to fully comply with the legislations by evaluating the impacts of amendments on legislations upon the Bank's activities.

Within this scope, as per the "Regulation On Program of Compliance with The Obligations Regarding Prevention of Laundering of Proceeds of Crime and Financing of Terrorism", in order to ensure that the Bank's obligations are fulfilled;

- necessary policies and procedures are structured in the issues of identifying the customers, classifying them into risk categories and monitoring them, informing about the suspicious customer transactions and

- controls are made to see if these policies and procedures are implemented or not,
- opinion/approval is given for risky sector/ country transactions,
- Financial Crimes Investigation Board (MASAK) is informed about the transactions that are considered suspicious in the necessary investigations and evaluations made within the framework of a risk based approach about the potentially suspicious transactions (for the Bank) detected within the scope of monitoring and controlling activities or forwarded via channels like branches etc. to the Compliance Department.

Head of Compliance and Legislation carries out necessary activities in order to ensure compliance with the legal obligations within the scope of “Prevention of Laundering of Proceeds of Crime and Financing of Terrorism”, and with the international rules and principles on the same issue and monitoring the current legislation relevant to banking activities, assessing the impacts of amendments on Banking facilities and the activities to coordinate and follow up the Bank’s internal actions in order to completely comply with the legislation in time.

Developments in the legislation and practices of the banking activities are monitored by an employee in the Head of Compliance and Legislation. These amendments are assessed in terms of the impacts on the Bank’s activities and implementations. Within the scope of this, determining the precautions to be taken and the compulsory amendments to be made notified to the related departments in writing.

The studies to be made on reflect the changes in the Bank’s internal legislation and practices are coordinated. Within the scope of this, precautions to be taken by the related departments, changes to be realized in the practices and amendments in the internal legislation are kept up with and monitored in accordance with the Regulation on the Internal Systems and Internal Capital Adequacy Assessment Process of Banks with providing the necessary revises to be done, the compulsory measures are taken to be completely comply with the legislation in time. In accordance with this Regulation, the compliance of the new products and services with the legislation is monitored.

With the Turkish Banking Law, the legislation about tax information reciprocal Exchange agreement signed with the Turkey and USA and OECD countries for the increasing of international tax compliance law are monitored and in order for the compliance with aforementioned regulations, it is addressed to the related departments. The studies made by the related departments is monitored and coordinated within this scope.

In addition, the compliance of abroad branches of the Bank with the legislation of the countries to be operated is monitored by employee assigned within this framework and reported to the Head of Compliance and Legislation.

The Audit Board Department, performs systematic audits on internal control and risk management systems in conformity with all legal regulations and Bank’s directives.

5.5 Company's Strategic Targets

The general strategies of the Bank are determined in line with the expectations on the economy and sector at the meetings chaired by the General Manager with the participation of the top management. Forecasts regarding the annual projection in line with the strategies are received from the departments of the Bank and with data received from departments are evaluated by the management. Consequently, strategies of the Bank, annual projections are established and presented by the Head of Strategy Planning to the approval of the Board of Directors. Approved final projections and strategies are sent to the Bank's Assistant General Managers, and announced to the Bank staff as they are monitored by the relevant units. Information regarding these projections and strategies are assessed at the monthly held "target achievement performance" meetings by the Assets and Liabilities Committee according to the data received from the Performance Evaluation and Career Planning Department. Furthermore, at the periodically held meetings these strategies and projections are reviewed while target achievement performance and activities are evaluated and necessary actions are taken. Furthermore, in case of having unexpected developments in the sector, the projection is revised if necessary.

5.6 Board of Directors Remuneration

The Chairman, Deputy Chairman and Members of the Board of Directors receive an annual salary that is determined by the General Assembly annually and that is implemented with the approval of the Prime Minister. In 2017, gross TL 20.5 million payment including financial benefits such as salaries, travel, accommodation, representation expenses and benefits in cash and in kind, was made to the members of Board of Directors, Members of Audit Committee and Senior Managements. The issue was specified in 10th item of the minutes of the 64th Ordinary General Assembly meeting, and the General Assembly minutes were announced on the Bank's website. On the other hand, taking the banking sector practices into account, remuneration and all other benefits granted to the members of the Board of Directors and to the managers who have administrative responsibilities are not announced on individual basis. Fixed and performance based payments to the executives and other personnel are determined and made within the framework of the principles of the Bank's Remuneration Policy.

The Board of Directors submitted its "Remuneration Policy" dated on 24.02.2014 to Shareholder's information with the aim of complying with the Communique on Corporate Governance Principle no. 4.6.2 at the 2015 Ordinary General Assembly Meeting. The policy has published on the corporate website in Turkish and English.

On the other hand, the loans disbursed by the Bank to the members of the Board of Directors and managers are restricted to specific framework as per Article 50 of the Banking Law. Within this scope, the Bank did not lend any money or extend loans to any of the Members of the Board of Directors. It did not improve the terms for loans or credits that have been given to the Members of the Board of Directors, and neither it extended loans by means of third persons and nor gave any collaterals.

Yours Sincerely;

Assoc. Prof. Şahap KAVCIOĞLU
Corporate Governance Committee Chairman

Mustafa TURAN
Corporate Governance Committee
Member