

Corporate Governance Rating

This Revised Report has been prepared by JCR-ER in compliance to the regulations of Capital Markets Board of Turkey

Publication Date: 11/07/2018

Sector: Banking

ALBARAKA TÜRK KATILIM BANKASI A.Ş.

Ratings

| | | |
|----------------------------------|-------------|--------------------------|
| Overall Score | 8.92 | AAA(Trk)/a (Positive) |
| Shareholders | 9.05 | AAA(Trk)/aa (Stable) |
| Public Disclosure & Transparency | 9.04 | AAA(Trk)/aa (Stable) |
| Stakeholders | 8.90 | AAA(Trk)/a (Positive) |
| Board of Directors | 8.76 | AAA(Trk)/a (Positive) |

Company Profile

| | |
|---------------------------|--|
| Trade Name | ALBARAKA TÜRK KATILIM BANKASI A.Ş. |
| Address | Saray Mah. Dr. Adnan Büyükdeniz Cad. No:6 34768 Ümraniye/İstanbul |
| Chairman | Mr. Adnan Ahmed Yusuf ABDULMALEK |
| CEO | Mr. Melikşah UTKU |
| Investor Contact | Phone: +90.216.666.03.03 yim@albarakatürk.com.tr |
| Web | www.albarakatürk.com.tr |
| Investor Relations | Mr. İhsan Fehmi SÖZKESEN |

Analyst

Ceyhun Kır

+90 212 352 56 73

ceyhun.kir@jcrer.com.tr

| Financial Data | 2017* | 2016* | 2015* | 2014* | 2013* |
|----------------------------------|--------|--------|--------|--------|--------|
| Total Assets (000,000 USD) | 9,535 | 9,320 | 10,152 | 9,925 | 8,081 |
| Total Assets (000,000 TRY) | 36,332 | 32,800 | 29,517 | 23,014 | 17,216 |
| Total Deposit (000,000 TRY) | 25,244 | 23,151 | 20,341 | 16,643 | 12,529 |
| Total Net Loans (000,000 TRY) | 25,193 | 22,722 | 19,505 | 16,184 | 12,060 |
| Equity (000,000 TRY) | 2,645 | 2,273 | 2,096 | 1,786 | 1,497 |
| Net Profit (000,000 TRY) | 265 | 220 | 301 | 248 | 241 |
| Market Share (%) ** | 22.62 | 24.72 | 24.58 | 22.08 | 17.92 |
| ROAA (%) | 0.92 | 0.85 | 1.42 | 1.60 | 2.02 |
| ROAE (%) | 12.90 | 12.17 | 19.28 | 19.56 | 22.03 |
| Equity/Assets (%) | 7.28 | 6.93 | 7.10 | 7.76 | 8.69 |
| CAR - Capital Adequacy Ratio (%) | 17.78 | 13.45 | 15.16 | 13.89 | 14.82 |
| Asset Growth Rate (Annual) (%) | 10.77 | 11.12 | 28.26 | 33.68 | 39.65 |

* End of year ** On solo basis among the Participation Banking Sector

Bank Overview

Albaraka Türk Katılım Bankası A.Ş. (Albaraka Türk or Bank) {credit ratings by JCR-ER on May 09, 2018: [FC: BBB-/A-3 Stable, LC: AA(Trk)/(A-1+) (Trk) Stable]} is a participation bank carrying out activities in the field of interest-free banking. Established in 1984 in Turkey through the leadership of the middle eastern ABG-Albaraka Banking Group (with financial activities in the Gulf Region, Middle East and North Africa), the IDB-The Islamic Development Bank and Turkish entrepreneurs, **Albaraka Türk** has continued its operations with a network of 220 branches and a staff force of 3919 as of June 30, 2018. Shares of Albaraka have been publicly traded on the Borsa İstanbul (BIST) since 2007. As of June 2018, the Bank's shareholding structure was as follows; 65.87% of the shares were held by foreign shareholders, 9.00% by local investors and 25.13% were publicly traded shares.

The Board of the Bank is composed of 13 members, 12 of whom have non-executive positions and one work actively in the Bank. Two members of the Board are independent and three members of the audit committee are accepted as independent members in according to the Communiqué II-17.1.

Strengths

- The liability insurance for board members and top managers were renewed
- Utilization of its website as an effective transparency platform
- Efficient activities in field of corporate responsibility, environment and ethics
- Provision of safe, healthy and spacious staff working areas
- An efficient capital structure for sustainability of existing growth trend without any deterioration in its corporate structure

Constraints

- Absence of female in the Board and top management
- Non-disclosure of remuneration provided for senior management per person
- Absence of a performance evaluation system for the Board members
- Absence of internal regulations to broaden the exercise of minority rights beyond the current legislation

1. Rating Methodology and Executive Summary

This revised report was prepared in light of JCR Eurasia Rating's original methodological procedures in accordance with the Corporate Governance Principles (the code) set by the Capital Market Board (CMB) and states the Bank's level of compliance with corporate governance principles as of July 2018.

The Capital Market Board's Corporate Governance Principles were first published in 2003. Important revisions and changes were made at the beginning of 2012 and again in January 3, 2014, as detailed in communiqué II-17.1 (accessible on www.spk.gov.tr)

An additional important change regarding the method of calculation of compliance notes was made in the beginning of 2014. Based on the recent CMB legislation, the new scoring methodology consists of two stages in which companies given a base and full score. In the new system, companies are first assigned a base score of a maximum of 85 points determining their compliance with the rules and practices outlined in the Code. In the second stage, an additional 15 points may be awarded depending on the efficient implementation and value creation achieved through practices exceeding those in the articles. Practices not stated in the Code but determined by JCR Eurasia Rating as best governance practices are also considered as criteria in assigning the additional points.

The code consists of four main section; Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors. These main sections' coefficients, which were determined by the CMB, have been recently changed as below;

- Shareholders: 25%
- Public Disclosure and Transparency: 25%
- Stakeholders: 15%
- Board of Directors: 35%

These coefficients were 25%, 35%, 15% and 25%, respectively, in the previous reports.

Subject to the preservation of integrity of regulations by the CMB and compliance with the limitations thereof, this report also covers such topics as implementations regarding “**Outlook**” determinations and “**Financial**

Efficiency” analyses all of which exist in JCR Eurasia Rating's original methodological structure.

Findings and assessments within the content of the report are based on information and documents disclosed by the Company to the public through various channels and also submitted to JCR Eurasia in writing and verbally, as well as reports and statistics by the CMB and Central Registry Agency (CRA).

Last year, through a comprehensive review done in July 2017, the conclusions reached by JCR ER and corresponding notation are shown in the following table:

| July 11, 2017 | | | | |
|------------------------------------|-----------------|-----------------------------------|----------------------------|-----------------|
| Fields | Numerical Value | Convergence Level | Notch degree | Outlook |
| Shareholders | 88.29 | AAA (Trk) (Distinctive) | (a) (Excellent) | Stable |
| Public Disclosure and Transparency | 90.40 | AAA (Trk) (Distinctive) | (aa) (Superior) | Stable |
| Stakeholders | 88.99 | AAA (Trk) (Distinctive) | (a) (Excellent) | Stable |
| Board of Directors | 85.80 | AAA (Trk) (Distinctive) | (a) (Excellent) | Positive |
| Overall | 88.05 | AAA(Trk) (Distinctive) | (a) (Excellent) | Positive |

This year, at the end of previous monitoring period, a comprehensive review was performed in July 2018. The Bank's overall compliance note has been increased to 8.92 from 8.81.

- “Investors Relations Application”, which provides easy access to information and facilitates using the shareholder's rights on smartphones and tablets has been launched,
- The Secretariat of the Board of Directors has been reorganized as a separate department and the quality of services provide for the Board of Directors has been increased,
- The effectiveness and quality of the Board, along with the new members elected for the Board of Directors has raised,

are factors behind this increase in compliance.

The general compliance level of the Bank with the Code as of July 2018 and the corresponding levels within the JCR Eurasia's notation have been determined as follows;

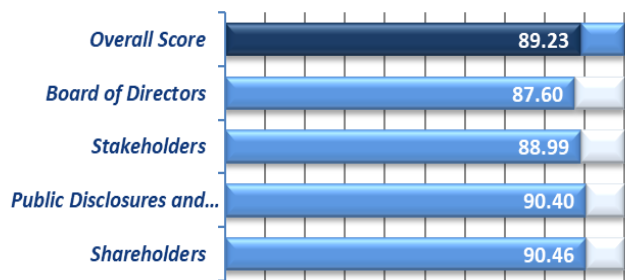
- Numerical value of **8.92**
- Convergence Level **AAA(Trk)** representing the category of “**Distinctive Compliance**”,
- Notch degree **(a)** representing the category of “**Excellent**”,
- Outlook **(Positive)**

Distinct levels of 4 main categories regarding compliance with the corporate governance principles are exhibited in the following table. Overall score has been assigned based on weightings assessed for these 4 categories by CMB regulations.

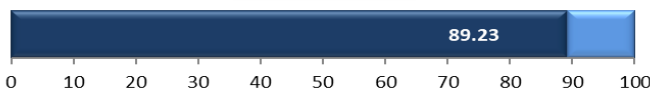
| July 11, 2018 | | | | |
|------------------------------------|-----------------|-------------------------------|------------------------|-----------------|
| Fields | Numerical Value | Convergence Level | Notch degree | Outlook |
| Shareholders | 90.46 | AAA (Trk) (Distinctive) | (aa) (Superior) | Stable |
| Public Disclosure and Transparency | 90.40 | AAA (Trk) (Distinctive) | (aa) (Superior) | Stable |
| Stakeholders | 88.99 | AAA (Trk) (Distinctive) | (a) (Excellent) | Positive |
| Board of Directors | 87.60 | AAA (Trk) (Distinctive) | (a) (Excellent) | Positive |
| Overall | 89.23 | AAA(Trk) (Distinctive) | (a) (Excellent) | Positive |

JCR Eurasia Rating’s notation system may be viewed at: http://www.jcrer.com.tr/Upload/Files/Reports/538_kydr_notation_oct2010.pdf

Corporate Governance Score %



Overall Score %



Overall Result

| |
|---------------|
| 8.92 |
| AAA (Trk) / a |
| Positive |

Outlook

With the opinion that the high compliance level of the Bank will be maintained during the 12-month monitoring period. Furthermore, JCR Eurasia Rating is of the opinion that investments on the way to digitalization and activities carried out in this field by the Bank will increase the efficiency and quality of practices under the main sections of the Board of Directors and Stakeholders and thus contributed to the determination of the Bank’s outlook as “**Positive**”.

2. Company Overview

The Turkish banking sector, regulated by the Banking Regulation and Supervision Agency (BRSA), is comprised of deposit banks, development and investment banks, and participation banks which operate on the basis of dividends in the frame of Islamic rules. The asset size of the banking sector, was 864 Billion Dollars (3.257 Billion TRY), the largest share in the Turkish financial system, by the end of 2017.

Summary of Key Indicators of the Turkish Banking Sector

| (000,000) | 2017 | 2016 | 2015 | 2014 |
|--------------------------|-----------|-----------|-----------|-----------|
| Asset Size – TL | 3,257,819 | 2,731,016 | 2,357,387 | 1,994,263 |
| Asset Size – USD | 863,708 | 799,150 | 807,850 | 857,047 |
| Equity – TL | 359,091 | 300,264 | 262,214 | 231,941 |
| Profit – TL | 49,122 | 37,530 | 26,052 | 24,610 |
| ROAE % | 18.62 | 16.81 | 13.39 | 14.81 |
| ROAA % | 2.05 | 1.86 | 1.52 | 1.69 |
| NPL % | 2.95 | 3.24 | 3.09 | 2.85 |
| Capital Adequacy Ratio % | 16.87 | 15.57 | 15.56 | 16.28 |
| Equity / T. Assets % | 11.02 | 10.99 | 11.12 | 11.63 |

Despite ongoing geopolitical risks, banks in Turkey do not suffer from refinancing risks. In addition, the Turkish

banking sector is able to sustain its long-term expansion and increase its credit volume owing to its high capital adequacy due to the double buffer of banks in Turkey in terms of CAR.

The sector continued to maintain its positive position in 2017 in terms of high profitability, high deposit share, high interest expenditures, high capital ratio, high inflation, and high real growth. However, the continuation of the growth rate in 2018 depends on the stability of the local currency.

Fifty-two banks operated in the Turkish banking sector as of 2017. Internet, ATM, and POS investments continue to increase in order to facilitate access to banking services more effectively. The concentration of assets, credits, and deposits in the sector is quite high. In all three areas, the share of the top five banks is close to 60%.

| Key Numbers Turkish banking sector (*) | | Deposit Banks (*) | Development % Investment Banks (*) | Participation Banks (**) | Total |
|---|------------------------|-------------------------|---|-----------------------------|----------------|
| Number Of banks | State Banks | 3 | 3 | 2 | 8 |
| | Private Banks | 9 | 6 | | 15 |
| | SDIF Bank | | 1 | | 1 |
| | Foreign Banks | 16 | 4 | 3 | 23 |
| | Foreign Banks Branches | | 5 | | 5 |
| | Total | 28 | 19 | 5 | 52 |
| Number of Branches | State Banks | 3.697 | 30 | 127 | 3.854 |
| | Private Banks | 4.077 | 15 | | 4.092 |
| | SDIF Bank | | 1 | | 1 |
| | Foreign Banks | 2.827 | 4 | 907 | 3.738 |
| | Foreign Banks Branches | | 7 | | 7 |
| | Total | 10.061 | 57 | 1.034 | 11.692 |
| Number of Staff | State Banks | 58.330 | 3.636 | 1.669 | 63.635 |
| | Private Banks | 73.684 | 1.388 | | 75.072 |
| | SDIF Bank | | 232 | | 232 |
| | Foreign Banks | 57.389 | 200 | 13.453 | 71.042 |
| | Foreign Banks Branches | | 205 | | 205 |
| | Total | 189.403 | 5.661 | 15.122 | 210.186 |

(*) As of September 30, 2017.

(**) As of December, 31, 2017

The banking sector is affected notably by national and international regulations, constantly changing customer demands, developing technology, and social and political structure changes. With this open interaction, it is expected that the agenda of the banks will become more and more occupied with basic subjects such as capital, liquidity, profitability, cost management, and digitalization in internal processes. Particularly in 2018, digitalization for efficiency in cost and competition management will remain essential.

Formed with a flexible infrastructure in response to the continually changing demands of credit and deposit

customers and investors, the Turkish banking sector has a highly dynamic structure in the formation of products and services. The deepening of capital markets along with the strong capital structure of the banking sector will continue in 2018 as an advantage in deposit collection and domestic and international borrowing.

Albaraka Türk is a participation bank maintaining its activities in the field of Turkish interest-free banking. The development of participation banking in Turkey began in 1985. Currently, 5 banks operate in Turkey as participation banks. These banks were established to serve savings depositors and business owners who abstain from interest and commercial banks. However, they have begun to execute functions well beyond this target by quality and diversity in its services and products.

As of the end of 2017, 89.71% of the banking sector assets were comprised of deposit banks, whereas 4.92% and 5.37% stemmed from participation banks development and investment banks, respectively. After the global crisis in 2009, the Turkish banking sector started to continuously grow. In the last 5 years, the sector reached a very high cumulative rate of 137.67%.

| Market Share % | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------------|------------|------------|------------|------------|
| Participation Banks | 5,55 | 5,23 | 5,10 | 4,87 | 4,92 |
| Development & Investment Banks | 4,05 | 4,24 | 4,52 | 5,23 | 5,37 |
| Deposit Banks | 90,41 | 90,53 | 90,37 | 89,91 | 89,71 |
| Sector | 100 | 100 | 100 | 100 | 100 |

Albaraka Türk Katılım Bankası A.Ş., the largest subsidiary of the Bahrain based Al Baraka Banking Group, was incorporated in 1984 and inaugurated its operations in the beginning of 1985. The Bank, the first finance institution of interest-free banking in Turkey, offers services in the corporate, commercial, SME and retail banking fields as well as services in financial leasing and profit/loss sharing based projects. Albaraka Türk's shares (25.16% as of FYE2017) have been traded on the Borsa Istanbul (BIST) since 2007.

As of July 2018, 65.87% of the Bank's capital belonged to foreign investors. Albaraka Banking Group, the Islamic Development Bank and the Alharthy Family are among these shareholders. Of the remaining shares, 9% belong to Turkish shareholders and 25.13% are publicly traded on the Borsa Istanbul. No Turkish shareholder has registered

shares of more than 5%. The shareholder structure of the Bank on a yearly basis is given in Table: 1.

Al Baraka Banking Group B.S.C. was established in 2002 in Bahrain and is listed on the Bahrain Stock Exchange and the NASDAQ Dubai. The group is engaged in banking activities strictly conformable to the principles of Islamic Shari'a in the Middle East, Europe and Africa. The group carries out its banking operations in Algeria, Bahrain, Tunisia, Egypt, Lebanon, Jordan, Turkey, Africa, Sudan, Pakistan, Syria and Morocco with a total network of 675 branches/offices. At FYE2017, Al Baraka Banking Group B.S.C.'s consolidated financial figures in asset size, equity and net income were approximately USD 25.453bn, 2.511bn and 207mn, respectively.

As of March 31, 2018, Albaraka Türk's consolidated financial figures in asset size, equity and net profit were TL37.170bn, 3.322bn and 99.749mn, respectively.

Presently, the Bank offers both corporate and retail banking services through its 220 (219 domestic and 1 abroad). Additionally, it offers foreign trade services to its customers via its correspondent banking network of approximately 1000 banks in 80 countries. Also, through bank branches, the Bank provides insurance services on behalf of 5 different insurance companies, brokerage services on behalf of one brokerage agency, precious metals trading options, fast money transfer services and credit card and merchant (POS) services.

Of the total staff force of 3919 in the headquarters and branches, nearly 86% are personnel with graduate and higher levels of education.

In terms of asset size, the market-share of Albaraka Türk among the 5 participation banks was 22.62% as of FY2017. Main balance sheet items and ratios which reflect the Bank's financial structure are listed in Table 2 of the Appendix.

The Board of the Bank is composed of 13 members, 12 of whom have non-executive positions and 1 work actively in the Bank. Seven members are proposed by the foreign shareholders and the others by the Turkish shareholders owning registered shares. Two members of the Board are independent and three members of the audit committee are accepted as independent members in according to the Communique Serial: IV, No: 63. Qualifications of the

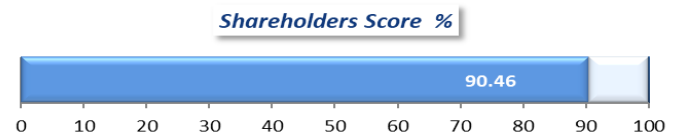
Board members are exhibited in detail in Table 3 of the Appendix.

3. Shareholders

Through the analysis of data gathered during the 12 months of observation period, the Bank's score in the Shareholders main section has been increased to 9.05 from 8.83. Launching "Investors Relations Application", which provides easy access to information and facilitates using the shareholder's rights on smartphones and tablets is reason behind this increase.

The Bank's level in this section and their corresponding notes are outlined below;

- Numerical value is **9.05**,
- Convergence Level **AAA(Trk)** representing the category of "**Distinctive Compliance**",
- Notch degree **(aa)** representing the category of "**Superior**",
- Outlook **(Stable)**,



Shareholders Result

| |
|----------------|
| 9.05 |
| AAA (Trk) / aa |
| Stable |

Activities carried out during the monitoring period in the Shareholder field:

- ✓ The 2017 ordinary general meeting was held on March 28, 2018, at 10:00 a.m., in the Headquarters building. The meeting was observed by our analysts and the works undertaken by the Bank were closely observed prior, during and following the meeting. Pre-meeting preparations, announcements and invitations were carried out by the Investor Relations Department according to the Corporate Governance Principles.

Within the framework of democratic principles, in the meeting all shareholders were treated equally, the Bank's 2017 activities were outlined, all shareholders were given the right to address each agenda item and voting was done by an open show of hands. Following the meeting the relevant documents were disclosed to investors on the internet site.

- ✓ There is no change in the articles of association of the Bank.
- ✓ 45 foreign and domestic investors and investment funds were given presentations by the Investor Relations Department. The department also visited 15 portfolio firms in 2017.
- ✓ Over 500 inquiries were answered by specialists in the Investor Relations Department.
- ✓ No shareholders canceled any agreement or opened any lawsuit against the Bank. No findings of discrimination against any shareholder were made.
- ✓ The Bank realized TL237,092,593 of profit during FY2017. After setting aside TL11,854,629 as legal reserves and TL45,000,000 cash dividend, TL4,580,115 was designated as special reserve and TL175,657,848 was designated as excess reserves. The dividend distribution table was disclosed to the public via Public Disclosure Platform (PDP) and the company's website following the general meeting.

Outlook

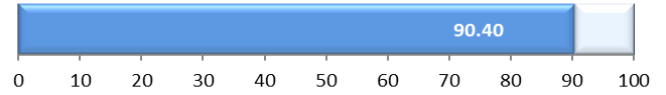
JCR-ER is of the opinion that during next monitoring period the Bank will maintain its level of compliance in the Shareholders field. For this reason, the outlook for this section has been determined as **"Stable"**.

4. Public Disclosure and Transparency

Albaraka Türk has been maintained the compliance's level of this main section in the previous monitoring period. The bank's level in Public Disclosure and Transparency and their corresponding notes are outlined below;

- Numerical value of **9.04**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree **(aa)** representing the category of **"Superior"**,
- Outlook **(Stable)**

Public Disclosures and Transparency Score %



Public Disclosure and Transparency Result

9.04

AAA (Trk) / aa

Stable

Activities carried out during the monitoring period in this field:

- ✓ The Bank disclosed a total of 80 notifications to the Public Disclosure Platform (PDP) in the monitoring period except for financial statements. Following these disclosures, the Bank was not delisted on the Borsa Istanbul and no extra information was requested.
- ✓ The Bank's quarterly financial statements were released to the public within the period specified by CMB legislation and posted on the internet site.
- ✓ The Bank's website is kept up to date. A link to the PDP is included. Significant improvements in the Bank's organizational structure and operations are published in a timely manner.
- ✓ The Bank's management prepared the 2017 annual report at a high level of compliance with the Code.
- ✓ The Bank's 2017 financial tables were audited by the independent audit firm KPMG Bağımsız Denetim ve SMMM A. Ş.
- ✓ The same audit firm was elected in order to the auditing of 2018's financial tables in the shareholders meeting.

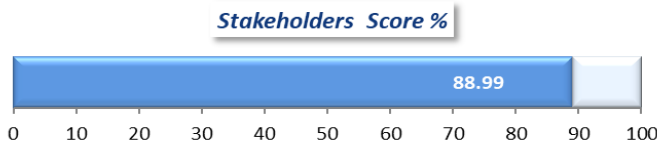
Outlook

JCR-ER is of the opinion that the Bank will maintain its level of compliance with Code in the Public Disclosure and Transparency field during the upcoming monitoring period. For this reason, the Outlook for this section has been determined as **"Stable"**.

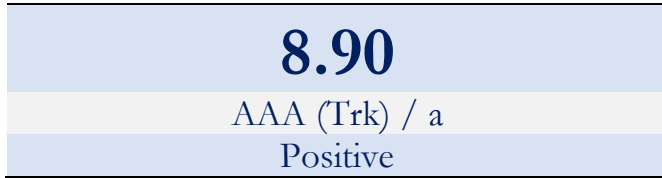
5. Stakeholders

Albaraka Türk has been maintained the compliance's level of Stakeholders in the previous monitoring period. The bank's level in this main section and their corresponding notes are outlined below;

- Numerical value of **8.90**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree **(a)** representing the category of **"Excellent"**,
- Outlook **(Positive)**



Stakeholders Result



Activities carried out during the monitoring period in the Stakeholders field:

- ✓ The Bank hired 348 new employees, 265 employees left the Bank and 20 employees retired. No loss in employee rights was observed during these developments.
- ✓ There is no remarkable lawsuit which was opened by the employees, suppliers and customers against the Bank in the monitoring period.
- ✓ Call Center handled approximately 7.631mn calls in 2017 and serves customers in Turkish, English and Arabic. The call answering ratio is approximately 84%. The center provides priority in the service for disabled customers.
- ✓ The bank has received an "EN 15836 Quality Certificate" (Call Centre Service Standard).
- ✓ The Bank's headquarter building entitled to receive "Leed Gold Green Building Certificate".
- ✓ Within the scope of social responsibility, the Bank has donated TL5,718,000 in 2017. TL5.112.000 of this

amount was provided to the needy students via Bereket Vakfi.

- ✓ The bank has been supporting for the development of the traditional art of calligraphy since 2010. The bank disclosures all about its social responsibility activities in its web site and its annual report.

Outlook

With the opinion that the high compliance level of Stakeholders will be maintained during the 12-month monitoring period. Furthermore, JCR Eurasia Rating is of the opinion that investments on the way to digitalization and activities carried out in this field by the Bank will increase the efficiency and quality of practices under the main section of the Stakeholders and thus contributed to the determination of this main section's outlook as **"Positive"**.

6. Board of Directors

Through the analysis of data gathered during the 12 months of observation period, the Bank's score in the Board of Directors main section has been increased to 8.76 from 8.58.

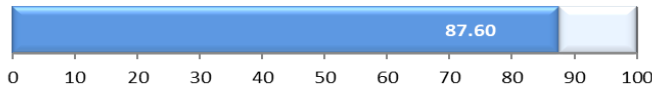
- Reorganizing the Secretariat of the Board of Directors as a separate department and raising the quality of services provide for the Board of Directors,
- Raising in the effectiveness and quality of the Board, along with the new members elected for the Board of Directors

are reasons behind this increase.

The Bank's level in this main section and their corresponding notes are outlined below;

- Numerical value is **8.76**,
- Convergence Level **AAA(Trk)** representing the category of **"Distinctive Compliance"**,
- Notch degree **(a)** representing the category of **"Excellent"**,
- Outlook **(Positive)**

Board of Directors Score %



Board of Directors Result

8.76

AAA (Trk) / a
Positive

Activities carried out during the monitoring period in this field:

- ✓ Board members and top managers' liability insurance was renewed by the Bank for 2018.
- ✓ At the general meeting held on March 28, 2018 the shareholders approved the 2017 activities of the Board of Directors.
- ✓ Mr. Hood Hashem Ahmed HASHEM resigned and Mr. Süleyman KALKAN was appointed instead on May 30, 2018.
- ✓ Deputy Chairman Mr. Yalçın ÖNER resigned and Mr. Mehmet ASUTAY was appointed as a new board member on June 30, 2018. Additionally, Mr. Osman AKYÜZ was appointed as deputy chairman.
- ✓ Assistants of General Manager Mr. Temel HAZIROĞLU and Mr. Mehmet Ali VERÇİN resigned and Mr. Mustafa ÇETİN was appointed as new assistant general manager. All changes among the top managers in the monitoring period were disclosed in a timely manner via KAP and the web site.
- ✓ 5 Board of Director meetings were held during the monitoring period.
- ✓ The Board of Director's Secretariat prepared and sent meeting agendas as well as relevant information to all Board members a week prior to the meeting date. During the meeting, the necessary services were provided to the members and minutes were kept in accordance to the Code.
- ✓ The Audit Committee, within the scope of the Board of Directors, held 5 meetings in monitoring period. Recommendations made in these meetings were presented to the Board.

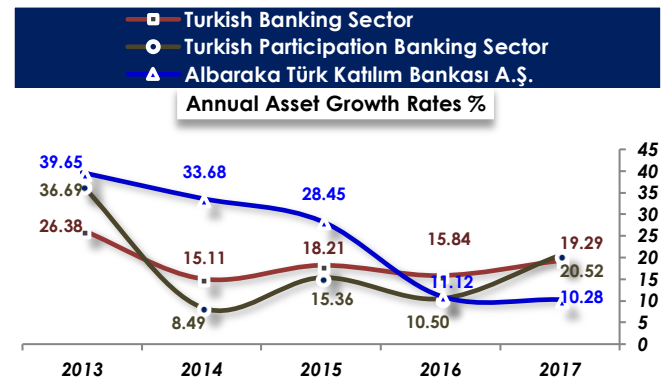
- ✓ The Corporate Governance Committee held 5 meetings in monitoring period. Recommendations made in these meetings were presented to the Board.
- ✓ The Remuneration Committee held 3 meetings in monitoring period. Recommendations made in these meetings were presented to the Board.

Outlook

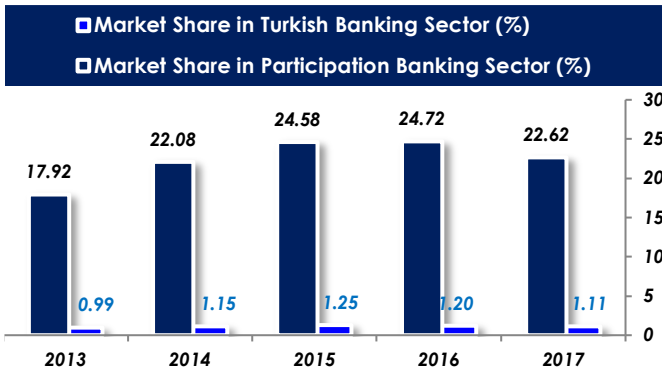
With the opinion that the high compliance level of Board of Directors will be maintained during the 12-month monitoring period. Furthermore, JCR Eurasia Rating is of the opinion that investments on the way to digitalization and activities carried out in this field by the Bank will increase the efficiency and quality of practices under the main section of this main section and thus contributed to the determination of Board of Directors' outlook as "Positive".

7. Financial Efficiency

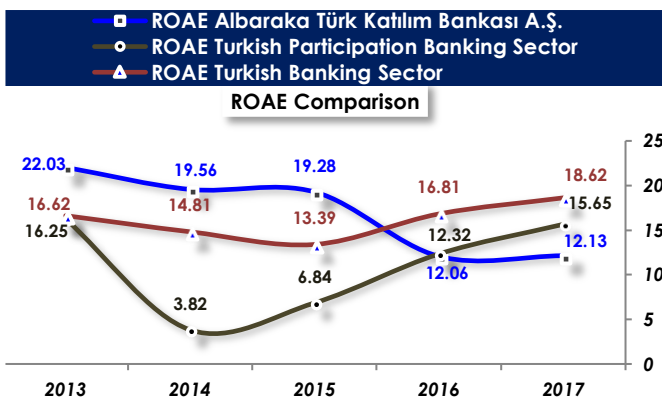
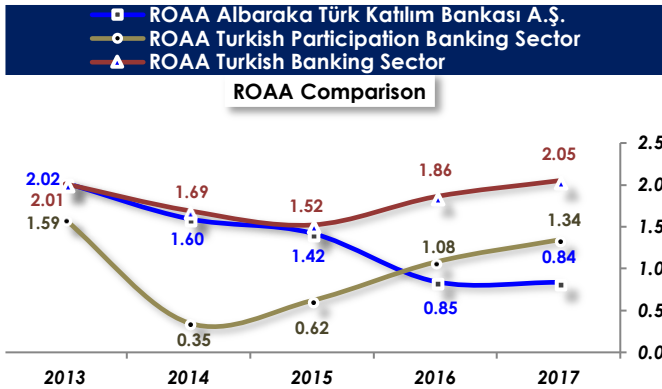
At FYE2017, Albaraka's asset size growth was 10.28% YoY and in line with previous year's growth performance, whereas those of the Participation Banks and the Turkish Banking Sector as a whole were 20.52% and 19.29%, respectively, and as such it notably underperformed the sector averages. The graph below presents the growth of the Bank's asset base in comparison to the sector.



At FYE2017, the Bank's market shares in terms of assets within the Turkish Banking Sector and among Participation banks were 1.11% and 22.62% respectively, and displayed a decrease compared to the previous year's figures.

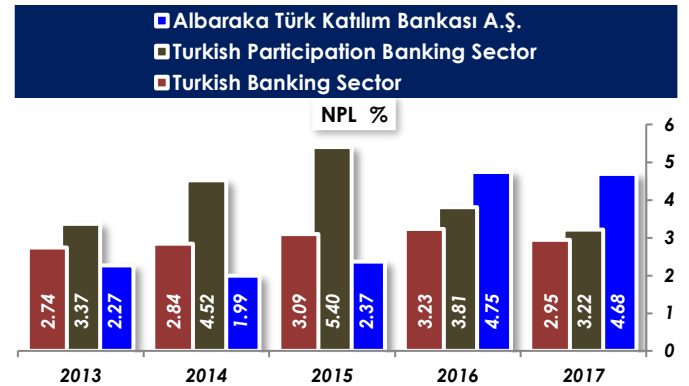


Both the ROAA and ROAE indicators, fundamental profitability metrics, stayed on lower side and continued to underperform the sector averages at FYE2017.



At FYE2017, the Bank's non-performing loans book, based on bank only figures, was TRY 1,213mn and increased by 9.64% on a YoY basis. In addition to enlargement in loans at 10.88% YoY along with sold & written off TRY 308.3mn non-performing loans which were thought to be un-collectible underpinned a slight progress in NPLs ratio at FYE2017, though remained above the sector averages in the last two consecutive years.

It is also noted that sale/write-off of non-performing loans is a common practice across the sector.



At FYE2017, the Bank's unconsolidated CAR was 17.06%, notably up from the previous year's ratio of 13.46% and remained well above the minimum CAR requirements set by the Basel Accord (8%) and recommended by the BRSA (12%). The ratio was slightly above the averages of both the Turkish Banking Sector and the Turkish Deposits Banks at FYE2017. Moreover, the Bank's consolidated CAR ratio was 17.78% at FYE2017, up from 13.45% at FYE2016.

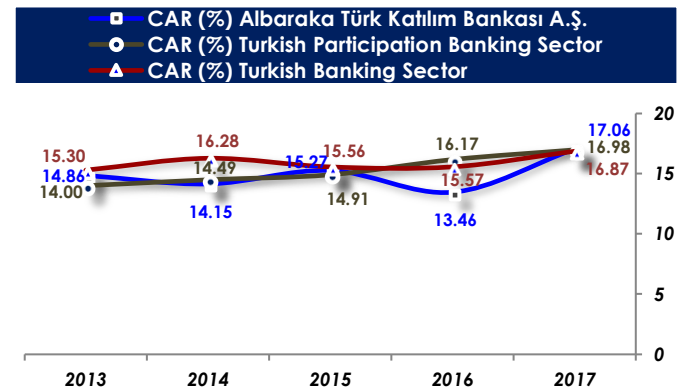


TABLE:1

SHAREHOLDING STRUCTURE

| Years | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Paid Capital (000TRY) | 900,000 | 900,000 | 900,000 | 900,000 | 900,000 |
| Shareholders | | | | | Share % |
| ALBARAKA BANKING GROUP | 54.06 | 54.06 | 54.06 | 54.06 | 54.06 |
| ISLAMIC DEVELOPMENT BANK | 7.84 | 7.84 | 7.84 | 7.84 | 7.84 |
| ALHARTHY FAMILY | 3.46 | 3.46 | 3.46 | 3.46 | 3.46 |
| OTHER FOREIGN PARTNERS | 0.74 | 0.63 | 0.62 | 0.64 | 0.52 |
| LOCAL PARTNERS | 9.84 | 9.21 | 9.20 | 9.16 | 9.00 |
| PUBLIC | 24.06 | 24.80 | 24.82 | 24.84 | 25.13 |
| Total | 100 | 100 | 100 | 100 | 100 |

Table: 2

SUBSIDIARIES as of July 2018

| Consolidated Subsidiaries | Head Quarters | Fields of Activities | Interest Share %* |
|--|----------------------|-----------------------------|--------------------------|
| KATILIM EMEKLİLİK VE HAYAT A.Ş. | Turkey | Finance | 50.00 |
| BEREKET VARLIK KİRALAMA A.Ş. | Turkey | Finance | 50.00 |
| ALBARAKA GAYRİMENKUL PORTFÖY YÖNETİMİ A. Ş.. | Turkey | Real Estate | 100.00 |

Table: 3

| Financial Data | 2017* | 2016* | 2015* | 2014* | 2013* |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Assets (000,000 USD) | 9,535 | 9,320 | 10,152 | 9,925 | 8,081 |
| Total Assets (000,000 TRY) | 36,332 | 32,800 | 29,517 | 23,014 | 17,216 |
| Total Deposit (000,000 TRY) | 25,244 | 23,151 | 20,341 | 16,643 | 12,529 |
| Total Net Loans (000,000 TRY) | 25,193 | 22,722 | 19,505 | 16,184 | 12,060 |
| Equity (000,000 TRY) | 2,645 | 2,273 | 2,096 | 1,786 | 1,497 |
| Net Profit (000,000 TRY) | 265 | 220 | 301 | 248 | 241 |
| Market Share (%) ** | 22.62 | 24.72 | 24.58 | 22.08 | 17.92 |
| ROAA (%) | 0.92 | 0.85 | 1.42 | 1.60 | 2.02 |
| ROAE (%) | 12.90 | 12.17 | 19.28 | 19.56 | 22.03 |
| Equity/Assets (%) | 7.28 | 6.93 | 7.10 | 7.76 | 8.69 |
| CAR - Capital Adequacy Ratio (%) | 17.78 | 13.45 | 15.16 | 13.89 | 14.82 |
| Asset Growth Rate (Annual) (%) | 10.77 | 11.12 | 28.26 | 33.68 | 39.65 |

** End of year ** On solo basis among the Participation Banking Sector*

TABLE: 4

BOARD OF DIRECTORS

| Name | Task | Expertise | Date Elected | Experience (Year) | Education | Executive/Non-Executive | Independent/Not Independent | Committee Membership |
|--------------------------------|-----------------|-------------|--------------|-------------------|-----------|-------------------------|-----------------------------|--|
| Adnan Ahmed Yusuf ABDULMALEK | Chairman | Banker | 2005 | 44 | MA | Non-Executive | Not Independent | Remuneration Committee Chairman |
| Osman AKYÜZ | Deputy Chairman | Banker | 1996 | 31 | B/A | Non-Executive | Not Independent | Remuneration Committee Member |
| İbrahim Fayeز Humaid AL-SHAMSI | Member | Banker | 2005 | 47 | B/A | Non-Executive | Not Independent | Corp.Gov. Committee Member |
| Süleyman KALKAN | Member | Banker | 2018 | 35 | B/A | Non-Executive | Independent | Audit Committee Member |
| Hamad Abdullah A. EQAB | Member | Banker | 2008 | 24 | B/A | Non-Executive | Not Independent | |
| Fahad Abdullah A. ALRAJHI | Member | Banker | 2008 | 30 | B/A | Non-Executive | Not Independent | |
| Kemal VAROL | Member | Academician | 2013 | 44 | PhD | Non-Executive | Independent | |
| Muhammad Zarrug M. RAJAB | Member | Banker | 2015 | 41 | B/A | Non-Executive | Independent | Corp.Gov. Committee Chairman |
| Bekir PAKDEMİRLİ | Member | Manager | 2016 | 25 | PhD | Non-Executive | Not Independent | |
| Khalid Abdulla Mohamed ATEEQ | Member | Accountant | 2017 | 40 | PhD | Non-Executive | Not Independent | |
| Mustafa BÜYÜKABACI | Member | Manager | 2017 | 29 | MA | Non-Executive | Independent | Audit Committee Chairman |
| Mehmet ASUTAY | Member | Academician | 2018 | 13 | PhD | Non-Executive | Independent | Corp.Gov. Committee Member, Audit Committee Member |
| Melikşah UTKU | Member/CEO | Banker | 2016 | 23 | MA | Executive | Not Independent | Remuneration Committee Member |