

CORPORATE GOVERNANCE COMPLIANCE REPORT

1. Declaration Of Compliance To Corporate Governance Principles

Albaraka Turk Katılım Bankası A.Ş. ("Albaraka Turk" or "Bank") is subject to the Corporate Governance Principles attached to Corporate Governance Communiqué ("Communiqué") number II-17.1 published by CMB according to the relevant articles of the Turkish Commercial Code, Banking legislation, Capital Market Board ("CMB") legislation since 2007 the public offering is made until today. Albaraka Turk is also subject to the management structure, process and principles provisions stated with "Regulations on the Banks' Corporate Governance Principles" published by Banking Regulation and Supervision Agency ("BRSA"). Albaraka Turk determining being the Best Participation Bank of the World as its Vision has adopted the Corporate Governance Principles at the basic corporate value and show the required care to comply with the mandatory principles. Besides, it continues its studies for compliance with the principles which are not mandatory.

Within the framework of Corporate Governance Communiqué regulations number II-17.1, independent member of the Board of Directors selection is made at the general assembly meeting in 2012. Also, on the compliance with the same communiqué and Turkish Commercial Code number 6102, the Articles of Association of our Bank is reviewed and submitted to the General Assembly of 2012 and approved. Updated information of our Bank is offered to the service of all our stakeholders from Albaraka Turk website and Investor relations tab in the same site.

Within the scope of studies on compliance with our Bank Corporate Governance Principles, Corporate Governance Committee (the "Committee") responsible from following, evaluating and performing improvement studies for compliance with the relevant principles is established in 2007. The Committee has made studies on improvement of our Bank's corporate governance applications at the meeting held in 2017. Information on the activities of the Committee coordinating studies of the Investor Relations unit is given in detail in the section our Bank Committees of the activity report.

Albaraka Turk is receiving rating service from JCR Eurasia Rating (JCR Avrasya derecelendirme A.Ş.) entitled by CMB on Corporate Governance Rating since 2010. In this respect, on June 11, 2017, while corporate governance rating note given by JCR Eurasia Rating is increased from 8.75 to 8.81, the appearance is revised as stable. As the note for compliance with CMB Corporate Governance Principles is over the Threshold Point of 7, Albaraka Turk takes place in the Stock Market Istanbul Corporate Governance Index since 2010. Compliance notes our Bank has received in four main sections are in the table below.

Main Issues	Weight %	Note
1. Shareholders	25	8.83
2. Public Disclosure and Transparency	25	9.04
3. Stakeholders	15	8.90
4. Board of Directors	35	8.58

The note increase in 2017 is due to the Stakeholders (from 8.56 to 8.90. The major developments in this period were the Bank management's diligent efforts and significant progress in social responsibility, environmental and ethics in line with its sustainability road map, and the announcement of these activities to the general public via the website and annual report; as well as the obtainment of the "Leed Gold Green Building Certificate" for the Headquarters building. These developments realized during the monitoring period had a positive effect on the Bank's score in the Stakeholders main category, hence raising the scores for this main category and the Bank's general compliance performance.

There have been no interest conflicts between the beneficiaries within the period due to the corporate governance principles which compliance is not provided.

PART 1 - SHAREHOLDERS

2. Investor Relations Unit

According to the 11th Article of the Corporate Governance Communiqué (the "Communiqué") number II-17.1 published by the Capital Market Board, as it is mandatory to constitute investor relations department providing relation between the partnerships and the investors in this department to be operated directly connected to partnership general manager or deputy general manager or one of the corresponding managers who have administrative responsibility, and the manager of the investor relations department to hold "Advanced Level License of Capital Market Activities" and "License of Corporate Governance Ratings Specialist", and work full-time as a manager in the partnership and being assigned as a member of the Corporate Governance Committee; Albaraka Turk has established Investor Relations in 2007. Mustafa Karamehmetoğlu, the Assistant Manager of the Investor Relations holding the relevant licenses is assigned as the manager of the Investor Relations Service and he is working as the Member of the Corporate Governance Committee.

Information on the employees of the Investor Relations carrying out its activities under the Corporate Governance Committee are given in the table below;

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Investor Relations department is responsible from management of the relations with domestic and foreign corporate investors/ shareholders, investment institutions, rating institutions and individual shareholders. All questions excluding commercial secrets are answered by this department regarding the quality principle and continuous contact of the management and the shareholder is provided.

In 2017, all correspondences made between the shareholders and the partnership relevant to the shares and information and documents relevant to shares required to be kept within the scope of legal legislation are kept safely and currently.

In 2017, face-to-face interviews are made with 45 national and international intermediary institutions and investment funds. Besides these, 15 Portfolio company visits are performed in the country. Within the activity period, over 500 questions asked by telephone, email and teleconference are replied meticulously by investors and analysts including individual investors.

Investor Relations carrying out all processes with the rating institutions have held finance evaluation meetings with four rating institutions within the year of 2017 and taken part in providing required information flow and announcement of the rating notes. Moreover, it has conducted corporate governance rating process with JCR Avrasya Derecelendirme A.Ş. and the compliance note is increased from 8.75 to 8.81 in the report published on July 11, 2017. In increase of the compliance note, conducting efficient activities with the experienced personnel of the Investor Relations and increasing level of transparency with the website of the Bank, PPP announcement and the activity report have been effective.

Financial statements stated in the legislation are provided from the relevant departments per quarter terms and announced to public through Public Disclosure Platform in time. Four teleconferences are organized on the results of the financial statements.

Four interim period activity reports per quarter periods where financial statements are published and which also take place in the independent audit report and four investor presentation are revised and prepared in 2016 and published on our website to inform the investors.

Six presentations are prepared for the Board of Directors Meetings held within 2017. Economy and finance contents are prepared weekly by the Investor Relations and presented to the readers by revising in the Weekly Bulletin published within the Bank.

Besides the explanations on the financial statements, 80 special condition explanation are announced at the Public Disclosure Platform within the period about the Bank according to the Special Conditions Communiqué number II-15.1.

By the Investor Relations tab in Albaraka Türk web site, information about our Bank submitted to the service of all our stakeholders are periodically updated within 2017 by the Investor Relations regarding the issues stated in the Corporate Governance Principles.

Investor Relations have conducted all the processes of the Ordinary General Assembly Meeting of 2016 within the period and provided the meeting to be in compliance with the relevant legislation and the articles of Association; within this framework, it has prepared all documents required to be submitted for review and informing of the shareholders, and prepared the Annual Activity Report of the Board of Directors within the scope of the relevant legislation regulations. Besides, due to the profit distribution decision taken by the General Assembly, it has provided distribution of the profit of 43.5 million TL to the shareholders.

3. Shareholders' Right to Access Information

The Bank protects the rights of the shareholders related to information access, investigation, participation in general assemblies, voting, obtaining dividends and minority rights. No discrimination is made among the shareholders in relation to the utilization of information access rights of the shareholders in accordance with the Turkish Banking Law and related legislation. All kinds of information necessary for an equal treatment of all shareholders, their ability to exercise their rights and to make their investment decisions are availed.

All sorts of inquiries related to Albaraka Türk are answered by the Investor Relations Unit through e-mail and telephone correspondence and through conducting of one-to-one or group meetings with existing or potential investors and bank analysts.

Albaraka Türk has two separate Investor Relations web pages, both in English and Turkish.

These internet sites are accessible from the URL's below:

- Turkish investor relations site: http://www.albarakaturk.com.tr/yatirimci_iliskileri/anasayfa.aspx?

- English investor relations site: <https://www.albaraka.com.tr/en/investor-relations.aspx>

The website provides information regarding the shares, introductory corporate data, periodically released financial tables and annual reports, social responsibility projects, electronic presentations explaining the developments in the Bank, and announcements about the latest developments related to the Bank.

Special material declarations related to changes related to the rights of the shareholders are submitted to PDP.

Appointment of special auditors as an individual right has not been established in the Articles of Incorporation of the Bank and no request has been received until this time related to any such special auditor appointment.

4. General Assembly Meeting

General Assembly Meetings are held within the framework of the Banks Law, Turkish Commercial Code and Capital Market Law. Ordinary General Assembly Meeting is held on 24.03.2017. The quorum of the Ordinary General Assembly Meeting is realized as 74.97% and all beneficiaries who wished to attend the meeting have attended the meetings.

For the attendance of our shareholders to the General assembly meetings, they are informed by sending invitation, publishing in the Trade Registry Gazette and national newspapers three weeks before the determined date of the meeting and sending special condition announcement to the Public Disclosure Platform, and information entry is made to the Central Securities Depository Electronic General Assembly system for the shareholders traded in the Stock Market to attend the General Assembly.

Informing document on the General assembly meeting, procedure of participation to the general assembly meeting and general assembly invitation announcement are published on the website of the Bank, besides, invitation for the general assembly meeting and meeting dates, agenda, sample of power of attorney are sent by registered and replied paid letter to the shareholders written in the share ledger and the shareholders sending a document proving their shares or shareholder and notifying their settlement places.

5. Voting Rights and Minority Rights

There are no privileges vested in the shares of the Bank. The distribution of capital of Albaraka Türk as of 31 December 2017 is as follows:

Shareholder Structure of the Bank (31.12.2017)

Shareholder Type	Share Amount (TRL)	Share (%)
Foreign Shareholders	592,846,912.78	65.87
Albaraka Banking Group	486,523,265.68	54.06
Islamic Development Bank	70,573,778.85	7.84
Alharthy Family	31,106,364.35	3.46
Other	4,643,503.90	0.52
Local Shareholders	80,746,299.42	8.97
Public Shares	226,406,787.80	25.16
Total	900,000,000.00	100.00

At the General Assembly, shareholders use their rights for asking questions and all questions are replied. According to the provisions of the Bank's Articles of Association, it is possible to vote by proxy. According to the 38th article of the Articles of Association, shareholders may use their rights for voting either individually or by proxy at the general assembly meetings. Our Bank is subject to the provisions of the Regulations on General Assemblies to be held in Electronic Environment in Corporations published in the Official Gazette dated 28.8.2012 with issue number 28395. For this purpose, necessary arrangements are being made and our shareholders may also attend General Assemblies over the Electronic General Assembly System.

General Assembly Minutes are open to the shareholders at the website of the Bank, on the Investor Relations tab. Besides, it may be displayed over the Public Disclosure Platform. Following the legal regulations, articles of Association and internal regulations of the bank in using the shareholder rights and duties providing the use of these rights are fulfilled by the Investor Relations of our Bank.

For the present members and beneficiaries to attend the general assembly meetings, invitation is made for the general assembly meeting.

As a separate item in the agenda of the General Assembly, donations and the total amount of the donations and their beneficiaries are informed to the partners.

At the Ordinary General Assembly Meeting held on 24.03.2017, will request is received by our bank on adding an item to the agenda by the shareholders.

The capital structure is published on the web site of the Bank. There is no provision enabling the exercise of cumulative voting right in our Articles of Incorporation as of now.

All of the shares of our Bank have been recorded at Central Record Office A.Ş. ("MKK")

Minority rights are appointed to the shareholders who have had one of twenty (5%). Our bank cares minority right strictly. There were no complaints about the issue in 2017.

6. Dividend Rights

Our Bank's profit distribution policy is submitted for information of the general assembly and published in our website.

No privileges are granted to the shareholders about the profit distribution. Each shareholder takes share from the distributed profits in the amount corresponding to his partnership share. Profit distribution is performed according to the Turkish Commercial Code, and regulations relevant to the Banking Regulation and Supervision Agency and Capital Market Board. Profit distribution are started to be distributed according to the decision taken at the General Assembly and performed within the legal period. Within the year of 2017, a profit distribution of 43.5 million TL is made from the income of the year of 2016.

7. Transfer of Shares

According to the article 11 of the Articles of Incorporation, registered shares can be transferred without the approval of the Board of Directors in accordance with the Capital Markets Law, the Banking Law, the Turkish Commercial Law, and Central Registry Agency regulations. Transfer of shares that require approval by Banking Regulation and Supervision

Agency (BRSA) in accordance with the Banking Law can be transferred only after obtaining this approval. Share transfers that are made without obtaining the necessary approvals will not be registered in the share register. In case no approval is obtained from aforementioned Board, the partners acquiring such shares cannot benefit from any right other than dividend payments.

PART 2 – PUBLIC DISCLOSURE AND TRANSPARENCY

8. Disclosure Policy

Disclosure policy of our Bank which is presented to General Shareholders' Assembly is published in our internet web site.

Our bank acts within the framework of principles of fairness, correctness, neutrality, coherence and timing with respect to disclosure of information to shareholders and other stakeholders.

Disclosures and announcements as part of this policy are promptly made for all developments concerning our Bank's rights and benefits and for developments that might cause important changes in the financial situation and/or activities of our Bank.

However disclosed information can not include any information that might have negative consequences on the Bank, our shareholders and other stakeholders by hindering competition and cannot be in the context of commercial secret.

Public disclosure can also be conducted, not only through special material disclosures, but also through press statements in times of need. Information and meeting requests of the shareholders and other stakeholders are assessed within the framework of our Bank's information policy and all information shared in this way could only be within the scope of previously disclosed public information.

The bank's financial tables are announced in accordance with regulations of the CMB and the BRSA.

Financial table announcements and special material disclosures are handled by Investor Relations Unit.

9. Website of the Company and Its Contents

Albaraka Türk Participation Bank has two separate websites, one in Turkish and the other in English.

Turkish web site: www.albaraka.com.tr
English web site: en.albarakatürk.com.tr
All information required by CMB Principles of Corporate Governance is disclosed on our website.

Within the framework of public disclosure and information policies, our Bank's website provides easily accessible information under the section of About Us and Investors Relations.

Under the About Us title;
(History, Our Top Management, Organization Structure, Quality Policy, Vision and Mission, Ethic Principles for Banking)

It features the following information:
Corporate Information (Trade Registry Data, Shareholding Structure, Articles of Incorporation, Investment Services and Activities Authorization Certificate), Corporate Governance (Profit Distribution Policy), General Assembly (General Assembly Information Document, Participation Procedure, General Assembly Meeting Announcement, Minutes of the General Assembly Meeting, Attendance Sheet, Proxy Form, General Assembly Internal Regulation), Financial Information (Annual Reports, Independent Audit Reports, Rating Scores and Reports, TFRS Reports, Financial Tables), Sustainability (Management, Environment, Human Rights, Fight Against Bribery and Corruption, Occupational Health and Safety, Corporate Social Responsibility), Presentations, Share Information (Transactions by Top Management, Dividend Distribution, Capital Increases), Material Disclosures, Stock Performance, and Access to Investor Relations.

The necessary security measures have been taken against making changes on the information published on the internet site and precautions against potential threats are constantly updated.

10. Annual Report

Annual reports of the Bank contain the information required by the CMB's regulations concerning Corporate Governance Principles and other capital market legislation and regulations in effect.

PART 3 – STAKEHOLDERS

11. Informing Stakeholders

Stakeholders of Albaraka Türk receive information on issues that may be of interest to them. This information is provided through special event announcements sent to the ISE and KAP, newspaper announcements, meetings, Q&A, the Bank's website and Investor Relations Manager.

Tip line have been allocated for stakeholders so that they can convey any act or situation that contradicts with the legislation or that is unethical to the Audit Committee through the Presidency of the Inspection Board.

12. Participation of Stakeholders in Management

The principle adopted for the participation of stakeholders in management is to make arrangements parallel to the related legal provisions.

Our staff shares their opinions with Senior Management of the Bank through conducted surveys and proposal system.

Our customers can submit their complaints and questions about Albaraka Türk's products and services via:

- Calling our 'You Ask, We Solve' line on 0850 222 87 87, or the Alo Albaraka line on 0850 222 5 666 or 444 5 666
- Filling the Customer Forms available at our web site www.albaraka.com.tr
- Sending faxes to +90 (+90) 216 666 16 87
- Writing directly to the Head Office located at Saray Mah. Dr. Adnan Büyükdenez Cad. No:6 PK: 34768 Ümraniye/İstanbul
- Filling the Customer Forms available at all the branches
- Sharing them through our social media accounts (Facebook, Twitter).

All complaints and suggestions from our customers are assessed by customer relations department and all the customers replied.

Complaints received are categorized and reported to the Customer Complaints Committee and the senior management periodically.

Customers can submit their complaints and questions about Albaraka Türk's products and services via:

Calling our call center on 444 5 666
Using 'You Ask, We Solve' Module on the website (www.albarakatürk.com.tr)
Sending e-mails to soruncozelim@albarakatürk.com.tr

Filling the Customer Forms available at all the branches

Sending faxes to +90 (+90) 216 666 16 10
Writing directly to the Head Office

13. Human Resources Policy

Objective of the Human resources policy; employing qualified and skilled personnel having the qualifications needed and specialized in its field at national and international level, improving their qualifications and providing stability in compliance with the objective, vision, mission and corporate values of the activities of the bank to carry out the activities of the bank in efficient, fast, safe and effective way and content.

Human Resources Policy of the Bank is assigned and determined by the General Directorate.

The Deputy General Manager Responsible from Human Resources is primarily responsible from practice, developments and following of the human resources policy. This responsibility involves also all the relevant Managers in the fields they are assigned.

Basic principles of human resources policy are as the following:

- » To show respect to the personality of the personnel, provide protection of their rights about business relation,
- » to provide sharing of the corporate culture, create loyalty to the corporate values and culture and provide all personnel to meet around the common targets,
- » to execute personnel employment in the required and sufficient number, proper for the job, having intellectual, occupational knowledge and skills and provide personnel to work in line with the highest productivity and profitability target,
- » to provide occupational training, improvement and developments opportunities to all personnel in line with the job to be fulfilled,

- » to provide environments for the personnel which shall lead them for innovative thinking and encourage them to produce new ideas and products,
- » to show effort for training personnel within the bank for management and officer positions and give priority for the train personnel within the bank in assigning for the vacant positions,
- » to inform the personnel on the subjects relevant to them, develop procedures and principles to provide the personnel transmit they are opinions and ideas to the managers easily,
- » to create a working environment increasing working motivation of the personnel and show effort to improve their social relations,
- » to encourage personnel to achieve success, develop applications relevant to this, award outstanding success of the personnel.

The Working Committee makes suggestions to the Personnel Committee for developing policy and strategy relevant to the working life in our Bank and aims contribution of the low and middle level personnel to the management. The Committee discusses the decisions it takes with the Personnel Committee within one month. Decisions suggested by the Working Committee and approved by the majority votes of the Personnel Committee are informed to all personnel of our Bank by announcement.

HR Communication Service is established within the scope of Albaraka Turk Simurg transformation project. Purpose of the establishment of this service is increasing brand value of Albaraka and to be a good employer for the employees. For employee candidates, creating a preferable employer brand image is aimed.

No complaint is received by the Directorate of the Human Values from the employees specifically on discrimination within the period.

14. Ethical Principles and Social Responsibility

Based on the Ethical Principles of the Participation Banks Association of Turkey, Albaraka Türk's Ethical Principles present a summary of the rules and working principles which the Board of Directors and all employees must uphold.

Albaraka Türk Participation Bank and its employees work towards

- » Maintaining the current prestige and trust enjoyed by the banking profession in the eyes of the society,
- » Developing and enhancing this feeling of prestige and trust, also known as professional honor,
- » Safeguarding stability and confidence in the banking sector, and protecting the rights and interests of savers,
- » Ensuring the efficient operation of participation funds, loan and payment systems,
- » Preventing the processes and practices that can cause significant damage to the economy, as well as protecting public interest and the environment. To this end, they are under the obligation of acting in line with the present Ethical Principles Policy, Ethical Principles of Banking, the Bank's Personnel Regulation and Participation Banking Principles in their relations among themselves, with other institutions, clients, shareholders and employees.

The Bank operates in accordance with the following General Principles:

Integrity-Halal Earning: The Bank abides by the principle of integrity in its operational relations. All of our activities are carried out in accordance with the basic economic principles of interest-free finance.

Impartiality: The Bank does not discriminate against any of its stakeholders or employees.

Reliability: The Bank provides open, clear and accurate information to all of its stakeholders within the scope of its "Disclosure Policy".

Transparency: The Bank provides open, clear and understandable information to its customers about their rights and obligations, the benefits and risks associated with the products and services offered to them. Before delivering a product and service, it accurately evaluates its customers and their financial capacities, situation and needs. The product and service delivery is finalized in this vein.

Upholding Public Interest and Respecting the Environment: The Bank provides support for social and cultural activities in the light of its principles of upholding public interest and respecting the environment. When allocating funds, it attaches importance not only to participation banking principles, but also supporting projects that extend education, healthcare or employment opportunities.

Fight Against the Laundering of Crime Proceeds and Financing of Terrorism: The Bank, in line with its "Policy of Compliance with Fight Against the Laundering of Crime Proceeds and Financing of Terrorism" and international norms and national legislation, is committed to fighting against the laundering of crime proceeds and crimes such as corruption, and collaborates to this end with other banks, institutions and public authorities.

Information Abuse: The Bank takes all the necessary measures to prevent abuse of insider information concerning itself and its customers, in line with its "Confidentiality Agreement" and "Information Transfer Policy".

Social Responsibility is an inherit business ethic of Islam and, therefore, with Al Baraka's traditional principles and philosophy. As a member of an Islamic banking group, we at Albaraka Turk aims to make a positive, sustainable impact to create a long-term economic growth and social development as well as supporting vulnerable communities to be better off in our society. In this regard, we created a strategic road map and initiated our Social Responsibility Program. We intend to support educational and social projects, and importantly, through active investments in the projects that contribute to the real economy. We are also dedicated to build environmental sustainability into all of our business processes to become more environmentally friendly.

By the guidance of Albaraka Banking Group (ABG), we have formed three priorities in the areas of Job Creation, Education and Healthcare, and we defined a rational strategy to focus on sustainability in order to achieve our goals by the year 2020. Furthermore the ABG and we together have stepped up to contribute to achieving some of the United Nations (UN) Global Goals for Sustainable Development by 2030.

Our priorities focus on following Global Goals of the UN; "No Poverty", "Good Health and Wellbeing", "Quality Education", "Gender Equality", "Affordable and Clean Energy", "Decent Work and Economic Growth", "Industry Innovation and Infrastructure".

The ABG has proactively designed and implemented a business model that increases incomes and better the quality of life of vulnerable communities. As the leading unit of the ABG, we have a pioneer role of transforming societies' ability to confront important challenges and, by being a responsible corporate citizen we foster creativity and innovation.

We encourage and support every member of our Bank to volunteer for social responsibility activities, especially by time commitment. In accordance with this purpose the first employee volunteering program, under the name of "İyilik Kulübü (Kindness Club)" has been founded by some volunteering staff of Albaraka Turk. The volunteers organize social responsibility projects, philanthropic activities and support the people in need.

We are totally committed to turning our business model into a socially responsible and environmentally friendly one.

We will take further steps to advance and expand our social responsibility program with a view towards making valuable contributions to the sustainable development of our community. Albaraka Türk is fully aware of the fact that values are what make us humans and give us power. For this reason, the Bank continues to uphold its stakeholders' sincerity, their urge to share their belongings, consciousness of saving, in short, all of their values.

While conducting operations along its vision of "Becoming the world's best participation bank", Albaraka Türk also supports economic development to increase the society's living standards, pursues policies respectful to the environment and legislation, provides support to various projects for social and cultural purposes to this end, in line with its basic corporate values. Since its inception, Albaraka Türk has not only delivered valuable services to Turkey's natural environment and cultural and artistic environment, but also encouraged its staff to take part in social responsibility projects, carrying its activities and goals one step further. Albaraka Türk is keen on undertaking activities that will create bigger repercussions in the coming years and will continue to enhance its social and cultural activities.

With the belief that, in addition to financial indicators, social responsibility, arts and culture activities are also important elements that will carry our customers and Bank to the future, Albaraka Türk has signed many projects and firsts in these fields.

Social Responsibility

Our credit policy is being redesigned in accordance with our Social Responsibility Program. We aim to increase our support by offering financing facilities to profit & non-profit organizations which are motivated to provide people in our society with access to quality education and health services. Furthermore all the projects that helps creating new jobs, are evaluated and supported within the scope of social responsibility targets. With this purpose, we added some questions to the evaluation criteria of credit applications.

-We have started working on contributing innovation and infrastructure goal of UN.

On the innovation side we developed and have been using an internal innovation platform called "Big Bang – Open Innovation" since 2014. The platform is open to the Bank's staff and we make announcements to ask everyone's opinions to develop new products/services and improve the systems and processes of our Bank. We are establishing a new version of the platform by which we will call for new innovative ideas from the people outside Albaraka Turk. By doing this, we aim to develop better products and services that satisfies expectations of our customers better.

Furthermore we organize "Albaraka Turk Meetups" where we discuss new trends and technologies in local and global banking with speakers from leading companies. For the contribution of infrastructure development, we aim to support Turkey's progress on development of infrastructure by the Bank's the profit-loss products.

All our operations comply with Islamic ethical standards for which development of communities, improvement of people's quality of life standards are essential. In Albaraka Turk, we embrace the following principles and apply them to our business lines.

First: Investments may only be made in sectors and industries that meet ethical standards. The moral values of Islam dictate that Muslims must invest in the production of, and trade in, useful and beneficial goods only. They therefore forbid investment in such activities as, for example, contribute to the production of alcoholic beverages, tobacco or weapons, or are associated in any way with gambling, pornography or the abuse of children, women and minorities, or any other morally questionable practices.

Second: Albaraka Turk eschew the payment of interest in their relations with depositors, consumers and businesses, as Islam prohibits the paying or charging of interest. Instead we as All the other ABG subsidiaries; accept deposits on an investment basis whereby depositors share with the bank in the actual results of the realization of their investments. Financing is provided to businesses in turn mainly on the basis of installment sale, leasing or equity participation. In this way, we and our depositors share the financial risk with the entrepreneurs and together we reap the benefits of the investments. The essential difference in Islam is that the practice of profit sharing is such that wealth creation is the result of a partnership between investors and entrepreneurs in which both the risks and the rewards are shared: returns on invested capital are based on profits actually generated rather than predetermined interest rates.

Third: All contracts we enter into with business owners and depositors, must comply with the ethical standards of the Shari' a.

Within our credit policy, financing of harmful investments such as production of alcoholic beverages, tobacco or weapons are strictly forbidden. Our credit allocation processes are designed to monitor every single credit transaction and prevent non-Islamic and harmful investments or projects which are harmful to societies.

By internal training program and communication campaigns, we expand the Bank's staff's awareness of our social responsibility initiatives. We also encourage and support all our colleagues to create, participate in social responsibility activities and projects.

We provide qard hasan with our commercial customer through short term financing facilities (e.g. salary, cheque, tax payments and day loans).

We're working on new products and services to provide the opportunity of qard hasan to our retail customers, therefore, we created Hajj-Umrah financing on installment basis without getting any expense such as profit share, commission etc. 12.695 customers of the Bank benefited from our Hajj-Umrah financing, and the total amount of financing has reached TRL 164 million in 2017.

CORPORATE GOVERNANCE COMPLIANCE REPORT

In accordance with our social responsibility program, we aim to prioritize investments and projects which are related to our program's targets and initiatives such as job creation, improvement of education and healthcare.

Increasing portion of SME financing in our total financing portfolio is an important strategic targets of the Bank. Therefore portion of SME credits increased from 37.4 % at the year-end of 2010 to 46.2 % at the end of September 2017.

Albaraka Turk make regular donations through "Bereket (al barakat) Foundation" and our ongoing social responsibility activities in the areas of education, health, environment, culture, sport, classical arts, social progress and other charity. TRL 5.1 Million donation was made through Bereket Foundation in 2017.

In 2017, the Bank gave MP4 players to visually impaired students as report card gifts within the scope of Istanbul Metropolitan Municipality's Audio Library Project. Additionally, the Bank's employees voluntarily helped visually impaired children with their studies and supported the Audio Books Project by reading books. During the same period, the Bank also became the sponsor of the Ostim ParaVolley team.

A clean-up event was organized at Beykoz Riva Beach with the collaboration of Istanbul Metropolitan Municipality and Albaraka Nature Club, and the participation of the Bank's employees. The Bank donated 500 saplings to ÇEKUD (Association of Environmental Organizations). Additionally, trees were planted to commemorate the deceased relatives of employees and to celebrate promotions and special days.

Other Social Projects Conducted in 2017
Health Support: Under the blood donation campaign jointly carried out by the Turkish Red Crescent and the Bank, 429 employees helped save 1287 lives.

In order to make banking services more accessible and convenient for customers with disabilities, Albaraka Türk continues to undertake several initiatives such as giving priority to disabled customers at the Bank's call centers, providing support via the online support menu, and making the necessary accessibility arrangements at the Head Office building and branches.

Education Support: The Bank made donations to Bereket Foundation to support university students studying Social Sciences, Medicine, Education-Science-Literature, Theology, and Engineering; provided scholarships to a total of 1907 students. The Bank organized a book donation campaign for Selçuk University's Faculty of Economics and Administrative Sciences, and collected a total of 480 books.

"Kalemin Bereketi" Calligraphy and Ornamentation Exhibition at Muş Alparslan University: Albaraka Türk's Calligraphy and Ornamentation Exhibition titled "Kalemin Bereketi" met art lovers at Bingöl University's Conference Center between April 24 and May 14, and at Muş Teachers' Club on May 15-23. On May 24, 2017, the exhibition opened its doors to art lovers at Muş Alparslan University with a ceremony, which was attended by Assistant General Manager Mr. Süleyman Çelik and Prof. Dr. Fethi Ahmet Polat, President of Muş Alparslan University.
Bereket Magazine: The Bank has been publishing Bereket Magazine since 2009. The 46th issue of the magazine was published in 2017.

Albaraka Calligraphy Collection Exhibitions: 30 masterpieces in Albaraka's Calligraphy Collection were exhibited at Yunus Emre Institute centers in London and Vienna. Albaraka Art Gallery hosted the exhibition titled "Following in the Footsteps of a Master for 40 Years," the first exhibition of Ahmet Sabri Mandıracı, who has been creating masterpieces of calligraphy, marbling and painting for 40 years.

Sponsorships - The Bank sponsored the following events and organizations:
- GPAS Capital Markets Congress, Ostim Sports Club, Meridyen Association's Hadith and Sira Research Awards, the book titled "Hattın Çelebisi" by Hasan Çelebi, Maker Faire Istanbul, "Wake Up Festival" at Albaraka Garaj, Union of Arab Banks, Qur'anic Studies Symposium,

Directorate of Religious Affairs & Haseki 40th Anniversary Documentary, IFN Turkey Forum 2017, R&D Innovation Summit, the film titled "Miraciyye", CFO Summit 2017, Fatih Sultan Mehmet University-Üsküdar University Student Council Conference, ISEFE'17, the 8th International Magazine Fair, Istanbul Talks - Islamic Finance Summit 2017, IBPF 2017 Event Sponsorship, Turkish-Arab Economic Forum March 23, 2017 Swissotel Istanbul), Bonds, Loans & Sukuk Conference Istanbul (November 15-16, 2017), Bonds, Loans & Sukuk Conference Dubai (May 17-18, 2017), Mathematics Conference.

PART 4 – THE BOARD OF DIRECTORS

15. Formation and Structure of the Board of Directors

Chairman of the Board of Directors of the Bank is Adnan Ahmed Yusuf Abdulmalek. Chairman of the Board of Directors do not have executive jobs within the scope of BRSA regulations.

Vice president of the Board of Directors is Yalçın Öner, and the members are Metin Akyüz, Ibrahim Fayez Humaid Alshamsi, Hood Hashem Ahmed Hashem, Muhammad Zarrug M. Rajab, Dr.Bekir Pakdemirli, Mustafa Büyükbacı, Khaled Abdulla Mohamed Ateeq, Hamad Abdulla Ali Alowab, Fahad Abdullah A. Alrajhi and Prof.Dr.Kemal Varol. Melikşah Utku is a member and General Manager.

The members of the Board of Directors are selected for maximum three years according to the 16th article of the Articles of Association. The members of the board of directors may be selected again after the expiry of their term of office. The General Manager of the Bank and his deputy in his absence are natural members of the Board of Directors. After the ordinary General Assembly of our Bank held on March 29, 2013, with the amendment of the 14th article titled "Number and Qualifications of the Members of the Board of Directors" number of the members of the Board of Directors is determined to be at least five and maximum thirteen.

With the "Corporate Governance Communiqué" number II-17.1 put into effect on January 3, 2014 by publishing in the official Gazette, independent member of the board of directors is voluntary of the bank provided that the number of the members shall not be less than three, within the structuring of the board of directors of the bank, the members of the board of directors assigned for audit committee membership within the framework of this Communiqué it is stated that they are accepted as the independent member of the board of directors. Currently, Hood Hashem, Ahmed Hashem, Mustafa Büyükbacı are Independent Board Members.

On the other hand, Albaraka Turk, at the Ordinary General Assembly Meeting held in 2017, has selected Muhammad Zarrug M. Rajab and Prof. Dr. Kemal Varol who bears all the criteria for independent membership declared by the Capital Market Board, as the independent member of the board of directors. Independency declaration of Prof. Dr. Kemal Varol and Muhammed Zarrug M. Rajab who are selected as the independent member of the board of directors at the Ordinary General Assembly Meeting held in 2017 is as the following:

"To Albaraka Turk Katılım Bankası A.Ş. Corporate Governance Committee, I declare that I'm currently working as an "independent member" in the Board of Directors of your Bank according to the provisions of the Corporate Governance Communiqué number II-17.1 published by the Capital Market Board, and within the scope I do declare that;

- a) I have not been in the Membership of the Board of Directors of the Bank for more than six years in the last ten years,
- b) Among I myself, my spouse and blood relatives and relatives by marriage up to second-degree; there is no one having employment relation in executive position to undertake significant tasks and responsibilities in the last five years in the bank, at partnerships who have control or significant effect on the management or control of the bank, entities who own the management control of these partnerships or have more than 5% of the capital or voting rights or prestigious shares jointly or severally and have not established any significant commercial relation,
- c) I have not worked as an officer in management position taking important duties and responsibilities or a member of the board of directors at the companies making but audits (tax inspection, legal inspection, internal audit are included), rating or consultancy of another bank or within the framework of the agreements, at the companies the bank purchases or sells significant amount of service or product or in periods service or product are sold or purchased, partners (5% or over) within the last five years,
- d) I have the occupational education, knowledge and experience to fulfill duly the jobs I shall undertake for the independent membership of the board of directors,
- e) I am not working full-time as of now at public institutions and organizations,
- f) I'm settled in Turkey according to the Income Tax Law,

- g) I have strong ethical standards, occupational reputation and experience to make contributions to the activities of the bank, to protect my objectivity in conflicts of interest between the bank partners, and to decide independently considering the rights of the beneficiaries,
- h) I have the time to allocate for bank works to fulfill the requirements of the duties I undertake and follow the process of the bank activities,
- i) I have not worked as an independent member of the board of directors at the bank or at the companies holding the management of the bank or the companies which partners of all the control of the management of the bank also hold the control of the management of the company,
- j) I shall carry out membership duty in the Board of Directors of the bank is a real person and that I have not been registered or announced on behalf of any legal entity selected as a member of the board of directors in the scope."

On the other hand, there has been no condition removing the independency of the independent members of the board of directors within the activity year of 2017.

You may find the, CVs terms of duty and job distribution of the members of the Board of Directors on pages 54 and 58 in the Activity Report. Duties the members of the Board of Directors of our Bank have undertaken in the bank or out of the bank are stated in their CVs.

Turkish Commercial Code and regulations in compliance with the other relevant legal legislation are adopted in placing rules or restrictions for the members of the Board of Directors to take other job or jobs outside of the bank

16. Basis of Board Operations

The board holds its meeting in the Bank headquarters upon the invitation of the chairman. Every member can request the invitation of the board to the meeting in writing from the chairman. The board meeting can be held in a location other than the Bank headquarters or outside of Turkey on exceptional cases on condition that at least two thirds of the member number is present in person. In addition, board meetings can also be done electronically.

About matters which are explained in the Corporate Governance Principles of the Capital Market Board, its members must attend to the meetings personally. If legal quorum is provided, decisions are given by the majority of the members present. Every member opposing

to the decision can demand their opposing opinion to be recorded on the decision.

According to the Banking Act, the Capital Market Law, the Commercial Codes and related legislations, Board decisions must be signed by the members attending the meeting, within one month, and must be saved in a book having sequentially numbered pages, with the date and number of the meeting, leaving no gaps or bulges between the lines of the resolutions. The said book must have been stamped according to rules on registration books as defined in the Turkish Commercial Law.

There is a Secretariat in our Bank to inform members of the Board of Directors and provide communication. And the establishment of committees of the Board composed of members of all the decisions that have been taken or reject the text stored in the procedures and requirements as defined in the legislation is archived. Although a legal obligation does not constitute, the foreign language (English) translations of decisions are available.

17. Number, Structure and Independence of Committees under the Board of Directors

In compliance with the legislation, there is an Audit Committee in Albaraka Türk Participation Bank which consists of two non-executive Board members. This committee reports to the Board and assists the Board in accomplishing its auditing and controlling functions. It is responsible of monitoring the operations of internal systems, accounting and reporting systems of the Bank.

Parallel to the common legal practice in the banking industry there is a Credit Committee in the Bank which consists of the Chairman of the Board of Directors, the General Manager and two reserve members, in charge of the credit approval process. The Credit Committee is the last level of credit allocation process in the Bank which decides for credits by analyzing the proposals according to criteria given in the legislations, banking practices, targets and credit policies of the Bank, after the approval of General Management.

There is a Corporate Governance Committee which consists of the two Board members. This committee monitors, assesses the bank's compliance with corporate governance principles and offers suggestions to the Board of Directors. The committee ascertains that the Bank conforms to the corporate governance principles. If conflicts of interests occur due to poor practice of the corporate governance principles, the committee offers suggestions for the solution of the problem to the Board of

CORPORATE GOVERNANCE COMPLIANCE REPORT

directors. Moreover, the committee works on setting out strategies for a transparent system in identification and assessment of candidates for the Board of Directors posts.

There is a Remuneration Committee which consists of a chairman and two members reporting to the Board. The committee aims to ensure that the board of directors, the senior management and the Bank's employee are awarded in proportion to their contribution to the Bank's value addition.

Taking into consideration the best practices in the world in the field of social responsibility, the Sustainability and Social Responsibility Committee composed of three members of the Board of Directors in order to establish policies in line with the basic values of our Bank and the principle of Sustainability and Social Responsibility.

Detailed information regarding the formation and operation of all committees is provided in the "Committees and Committee Meetings Attendance" section of this report.

18. Risk Management and Internal Control Mechanism

The Board has a responsibility of establishing and providing compatible, adequate and effective systems on internal control, risk management and internal auditing as foreseen by the Banking Law for the purpose of monitoring and controlling risks emerging from operations.

The Board is responsible for establishing risk management policies and strategies. These policies are revised and evaluated periodically in Board meetings according to prevailing market conditions.

The General Manager is responsible from ensuring that departments of Bank operate in accordance with the specified policies and strategies about risk management as determined by the Board.

Necessary controls are also made to ensure competency with the policies and strategies by means of regular internal control and audit.

The Board of Albaraka Türk Participation Bank takes an important part in the processes of risk management by tracing policies and strategies on consolidated and unconsolidated basis, setting up limit systems and procedures in the bank.

No lawsuits, which might affect the financial position and the activities of the Bank, have been filed against the Bank, its shareholders, managers and employees during the reporting period.

19. Strategic Goals of the Bank

The Board of Albaraka Türk has clearly established the strategic targets of Albaraka Türk as specified in its annual report.

In the Articles of Incorporation of our Bank, it is written that the duties and responsibilities of Board members are specified in accordance with articles of the Turkish Commercial Law and the Banking Law.

Our Board monitors the development of the Bank to see if these are in line with the strategic targets of the Bank, and evaluates the performance of the Bank. Annual budget and strategic plan of the Bank is approved by the Board. The Board closely monitors the budget and compares it with actual performance, collects information about the deviations and follows up decisions taken. If there are important deviations from budget given changes in the market conditions, the budget is revised and submitted to the approval of the Board again.

20. Fiscal Rights of the Board

Conditions and scope of the financial rights to be provided for the Board of Directors are stated in the 20th article of the Articles of Association of our Bank. According to this; "(1) Payments as attendance fee, salary, bonus, premium, share from the annual profit or under any other name may be made to the Chairman of the Board of Directors, the vice president and to the other members, provided that the amount shall be determined by the decision of the General Assembly. The amounts of these payments may be determined for each member by considering issues as the meetings he shall attend, time and effort he shall spend at the meeting, before and after the meeting to fulfill his preparations and duties, committee memberships, and being assigned for specific duties.

(2) In addition to the payments to be determined by the General Assembly, all accommodation expenses and travel expenses of the members of the Board of Directors relevant to their duties and limited with their term of office shall be covered by the Bank."

Within the framework of these arrangements; it is decided at the Ordinary General Assembly Meeting held in 2017; to pay attendance fee not exceeding the amount of Turkish Liras corresponding to 900,000.00 USD (Nine-hundred American Dollars) net annually to all of the Members of the Board of Directors; besides, due to the Articles of Association, to pay separate fee for each of the Members of the Board of Directors to be assigned at the committees established or shall be established by the Board of Directors as Audit Committee and Finance Committee, for the determination of the fees and their quantities and methods to be paid to each member of the board of directors, to entitle the Board of Directors for determining for each year and separately with the offer of the Pricing Committee.