



T-BANK
TURKLANDBANK
2017 ANNUAL REPORT

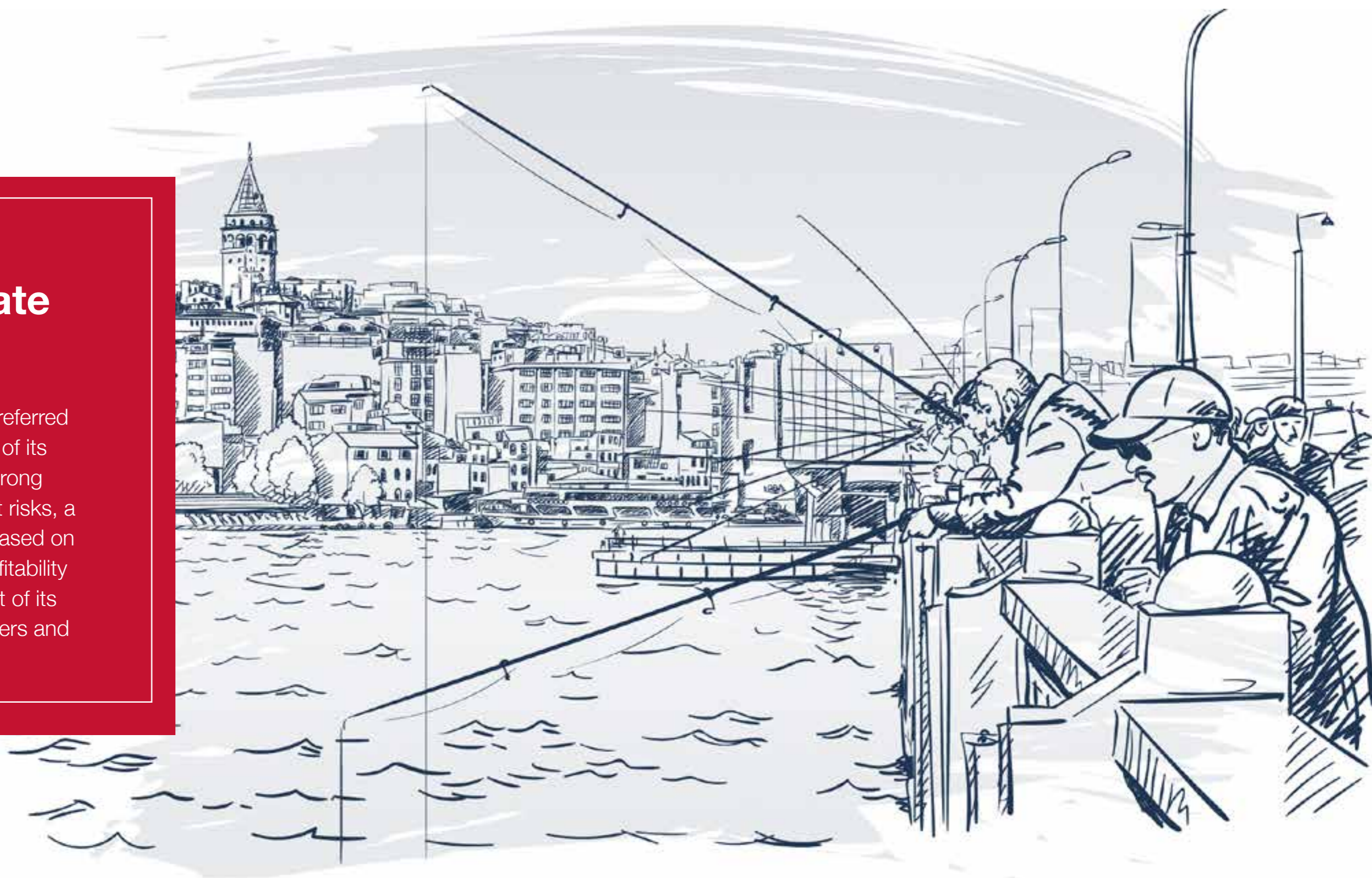


**T-BANK
2017
ANNUAL REPORT**

PART I

Corporate Profile

T-Bank is the preferred finance partner of its clients with a strong position against risks, a solid strategy based on sustainable profitability and the support of its main shareholders and employees.



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Financial Highlights and Key Ratios

Financial Data Summary (thousand TL, thousand US Dollars)

	December 31.2017		December 31.2016		Change%
	TL	US Dollars	TL	US Dollars	%
Total Assets	4,875,217	1,286,167	5,755,461	1,637,260	-15
Loan Portfolio (Net)	2,918,342	769,910	3,629,160	1,032,390	-20
Loan Portfolio (Gross)	3,070,207	809,974	3,718,807	1,057,892	-17
Securities Portfolio (Net)	847,155	223,494	757,860	215,589	12
Receivables from Banks/Money Market	402,735	106,249	560,328	159,397	-28
Total Deposits	3,496,612	922,467	4,067,504	1,157,086	-14
Loans Obtained	129,752	34,231	383,758	109,168	-66
Equity	717,351	189,250	756,021	215,066	-5
Guarantees	2,898,488	764,672	2,273,475	646,737	27

	December 31.2017		December 31.2016		Change
Net Interest Income	146,741	38,713	190,336	50,214	-23
Net Commission Income	25,753	6,794	25,950	6,846	-1
Profit Before Tax	-57,347	-15,129	17,438	4,600	-429
Net Profit	-40,375	-10,652	13,753	3,628	-394

Financial Ratios Summary

	December 31.2017	December 31.2016
Capital Adequacy Ratio	14.05%	15.96%
Loans/Deposits	83.46%	89.22%
Loans/Total Assets	59.86%	63.06%
Liquid Assets/Total Assets (*)	26.79%	23.78%
Non-Performing Loans (Net)/Total Loans (Net)	6.82%	4.14%
Non-Performing Loans (Gross)/Total Loans (Gross)	11.43%	6.45%
Non-Performing Loans (Net)/Total Assets	4.08%	2.61%
Loan Provisions/Non-Performing Loans	43.29%	37.35%

(*) Fair value difference includes financial assets reflected in profit/loss account and financial assets available for sale.

Loans /Total Assets (%)



Capital Adequacy Ratio (%)



Loans-to-deposits Ratio (%)



T-Bank runs an efficient program of effective customer management and proactive marketing strategies and designs a plan to further extend its market share and product portfolio in the future.

BRIEF HISTORY

Established in 1985 as the Istanbul Branch of Bank of Bahrain and Kuwait, Turkland Bank (T- Bank) became an independent institution under the name Bahreyn ve Kuveyt Bankası A.Ş. in 1991. The Bank was later acquired by Doğuş Group in 1992, and its name was changed to Garanti Yatırım ve Ticaret Bankası A.Ş. In 1997, the Bank was acquired by Mehmet Nazif Günal, and its name was changed to MNG Bank A.Ş.

In 2006, following a mutual agreement with Mehmet Nazif Günal, Arab Bank and Bankmed acquired 91% of the shares of MNG Bank A.Ş. The transaction was approved by the Banking Regulation and Supervision Agency (BRSA) on December 29, 2006. The transfer of the Bank's shares was completed in January 2007 with Arab Bank and Bankmed owning 50% and 41% of shares respectively. On April 3, 2007, the Bank's name was changed to Turkland Bank A.Ş. better known as (T-Bank). In July 2010, Bankmed acquired the remaining 9% shares held by Mehmet Nazif Günal, increasing its shares from 41% to 50%.

The following year, in November 2011, T-Bank's capital was increased from TL 170 million to TL 300 million with a partial contribution from an Arab Bank Group entity, Arab Bank Switzerland. This contribution had no effect on the partnership structure, which remained at 50% for Bankmed and 50% for Arab Bank Group.

The capital was increased from TL 300 million to TL 500 million in October 2013, and the Bankmed- Arab Bank Group partnership maintained the same structure.

In April 15, 2014, T-Bank's capital was further increased from TL 500 million to TL 650 million, with both shareholders, Bankmed and Arab Bank Group maintaining their shares.

T-Bank capitalizes on the vast banking experience of its shareholders. Arab Bank and Bankmed, which dates back to the 1930s. This synergy created by its shareholders strengthens T-Bank's position, allowing it to enhance its activities and become its customers' preferred financial partner.

Today, T-Bank continues to expand its banking operations focusing mainly on its areas of expertise, namely Corporate and Commercial Banking in addition to Small and Medium Enterprises (SMEs).

In 2016, T-Bank continued to provide tailored financial solutions to a growing client base that includes big and medium-sized corporations.

AMENDMENTS TO ARTICLES OF ASSOCIATION

As of December 31, 2017, no amendments were made to the Articles of Association.

SHAREHOLDERS AND CAPITAL STRUCTURE

T-Bank's paid capital is TL 650 million.



- BankMed 50%
- Arab Bank 33.3%
- Arab Bank İsviçre 16.7%

BankMed

With more than 70 years of solid banking experience, Bankmed has successfully positioned itself as one of the top-tier banks in Lebanon. The bank operates according to its corporate signature, “You! Count,” through which it demonstrates an unwavering commitment to its clients, providing them with highly efficient financial solutions and personalized services that best meet their needs.

Bankmed has been recognized for its leading role in corporate banking. Capitalizing on this experience, the bank has actively expanded its banking services to include Corporate Banking, Retail Banking, Private Banking, International Commercial Banking, SME Banking, E-Banking, Business Development, Investment and Brokerage services, Asset Management, Treasury and Investment Services, in addition to Financial Institutions, Trade Finance, and Microfinance.

On the investment front, Bankmed has for long been a preferred partner of choice to an extensive list of local as well as regional corporates and investors. Within this context, Investment Banking and the Securities Trading play a pivotal role in Bankmed's operations and regional expansion, enhancing the synergy among the Bank's domestic and regional entities. In mid-2017, the bank revamped this business line in an aim to consolidate all investment, hedging, and trading activities in one place to better serve its clients and have a comprehensive coverage for all asset classes.

In terms of expansion, Bankmed has an established presence in markets within the region and beyond. The Bank is present in Switzerland through its fully owned subsidiary, BankMed Suisse, in Cyprus through a branch in Limassol, in Saudi Arabia through its investment banking arm, SaudiMed Investment Company (SaudiMed), and in Turkey through a commercial bank, Turkland Bank (T-Bank). Bankmed also extended its presence to Iraq where it conducts operations in three cities: Baghdad, Basra, and Erbil. The bank has also established a branch in Dubai's International Financial Center (DIFC).

Bankmed sustained its growth momentum in 2017. The

bank's shareholders' equity was recorded at 1.63 billion, while its total consolidated assets increased to reach USD 16.68 billion by the end of 2017. Bankmed's loans reached USD 4.48 billion, and its customer deposits were reported at USD 13.04 billion by the end of the year. The bank's annual net income reached USD 150 million.

In 2017, Mr. Ala AlKhawaja, an international investor and a board member of various international companies, acquired a 42.24% ownership stake in the share capital of GroupMed Holding S.A.L, the main shareholder of Bankmed. Following the acquisition, the General Assembly of Bankmed elected four new members to join the Bank's Board of Directors.

Bankmed earned a number of prominent awards that attest to its unmitigated efforts across its various business lines. The Bank received World Finance Banking Award for the “Best Banking Group” and “Best Retail Bank” in Lebanon. Visa also presented Bankmed the “Excellence Program Award” in recognition of its Retail Banking program, the Bankmed Youth Program. On the investment front, the bank's investment banking arm, SaudiMed Investment Company, was recognized by World Finance as the “Best Investment Bank” in Saudi Arabia, while MedSecurities Investment, Bankmed's investment banking arm, received the “Best Brokerage Award” in Lebanon. Further within investment awards, Global Investor magazine presented MedSecurities Investment the “Best Broker” award.

Arab Bank PLC

Established in 1930, Arab Bank headquartered in Amman, Jordan has one of the largest global Arab banking networks with over 600 branches spanning five continents. Arab Bank's extensive network covers key financial markets and centers such as London, Dubai, Singapore, Geneva, Paris, Frankfurt, Sydney and Bahrain. Across its global network, the Bank provides a wide range of financial solutions through its main business lines which entail Consumer Banking, Corporate and Institutional Banking and Treasury, serving individuals, corporations and other financial institutions.

As one of the leading banks in the MENA region, Arab Bank plays an integral role in financing vital infrastructure projects and strategic industries throughout the region. True to its founding vision of enabling the Arab world to reach preeminence, Arab Bank continues to be an engine of economic growth and an enabler of social and community development.

At the end of 2017, Arab Bank Group reported net income after tax of USD 533 million. Total Assets amounted to USD 48.2 billion and owners' equity reached USD 8.4 billion.

During 2017, Arab Bank received several international awards and recognitions from prestigious organizations, most notably the award for Bank of the Year from The Banker magazine (published by the Financial Times) and Best Bank in the Middle East from both Global Finance magazine – New York and Union of Arab Banks.

The Bank was also recognized as the Best Bank in Jordan by Global Finance, Euromoney, The Banker (published by the Financial Times), Banker ME and EMEA Finance magazines. Arab Bank received several awards from Global Finance magazine including: Best Trade Finance Provider in the Middle East and Jordan, Best Corporate Digital Bank in Jordan, Best Foreign Exchange Provider in Jordan, Best Bank in Social Media in the Middle East, Best Consumer Digital Bank in Palestine and Egypt, Best Treasury & Cash Management Provider in Jordan and Morocco and Best Bank in Yemen.

Furthermore, the Bank was awarded Best FX services in the Middle East and Best Transactional Bank for Financial Institutions in the Middle East from EMEA Finance as well as Cash Manager of the Year from Global Investor. Arab Bank was also recognized by the World Union of Arab Bankers as the Largest and Most Prevalent Bank for 2017.

Arab Bank Switzerland

Arab Bank (Switzerland) Ltd. was founded in Zug in 1962. As a Swiss bank, it is subject to all Swiss banking laws, rules and regulations and is supervised by the Swiss Financial Market Supervisory Authority (FINMA).

For more than 50 years, Arab Bank (Switzerland) Ltd. has been offering private banking services and has built an excellent reputation in the successful management of client assets; in addition, the Bank is also active in the commodities trade finance area. The private bank clients of Arab Bank (Switzerland) Ltd. originate from or reside predominantly in the Middle-East, while those of the commodities trade finance are well established traders active on the international markets. Arab Bank (Switzerland) Ltd. is a member of the Arab Bank Group and an independent sister company of Arab Bank PLC and hence has the advantage of drawing upon the wide network of branches in the Arab world and global financial centers.

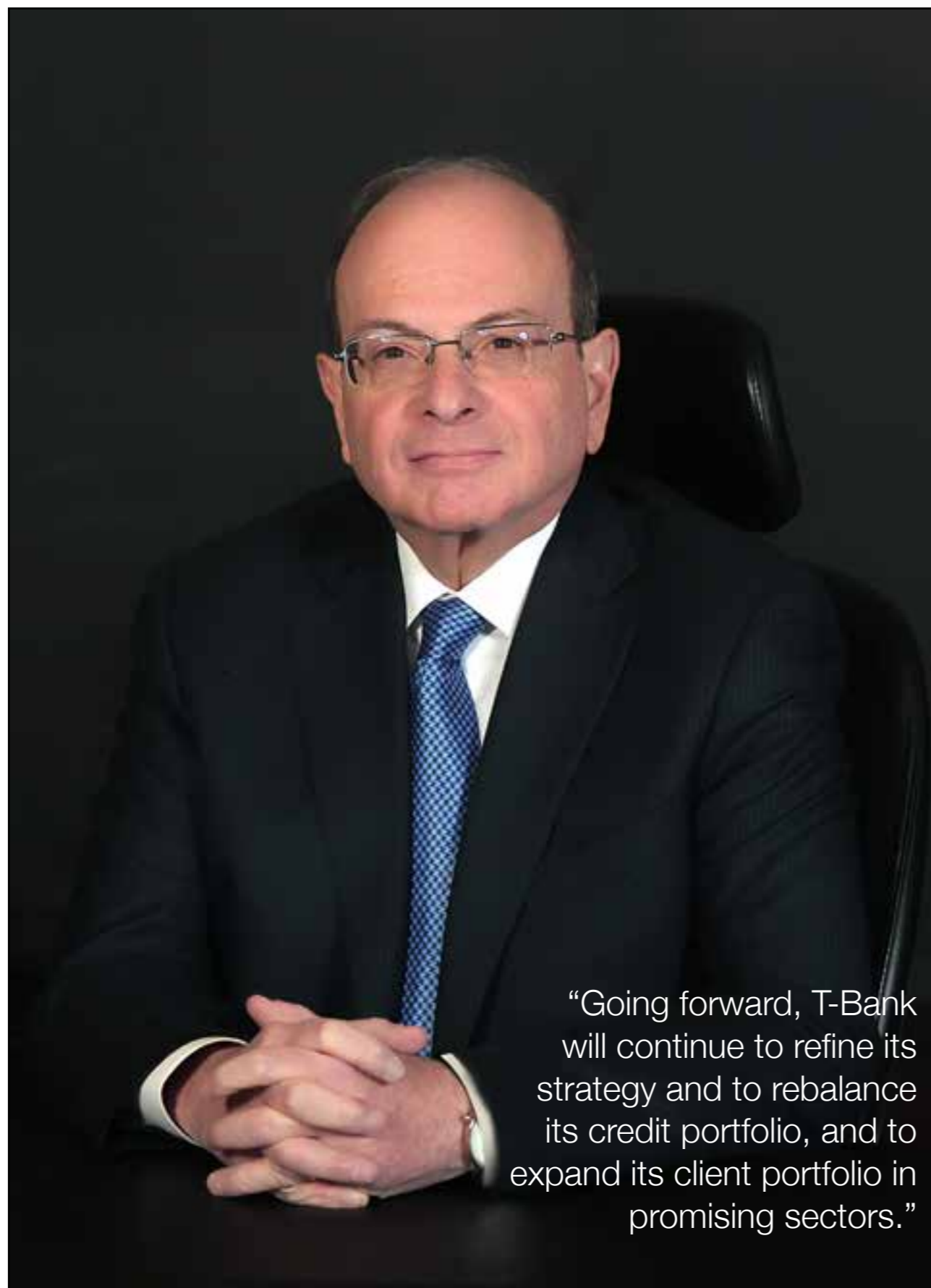
Arab Bank (Switzerland) Ltd. is directly owned by approximately 22,000 shareholders. The ratio of our shareholders' equity is well above the standard set by Swiss and international monetary supervisory bodies, bearing witness to the bank's excellent capitalization.

SHARES OWNED BY THE CHAIRMAN OF THE BOARD, BOARD MEMBERS, GENERAL MANAGER AND DEPUTY GENERAL MANAGERS

The Chairman of the Board, Board Members, General Manager and Deputy General Managers do not hold shares at T-Bank as at December 31, 2017.

Name Surname/Trade Title	Share Amounts	Share Rates	Paid up Shares	Outstanding Shares
BANKMED, SAL	324,999,997.71	50.0%	3,249,999.977	-
ARAB BANK PLC	216,666,665.59	33.3%	2,166,666.656	-
ARAB BANK (Switzerland)	108,333,333.33	16.7%	1,083,333.333	-
OTHERS	3.37	0%	34	-
Total	650,000,000.00	100%	6,500,000.000	-

CHAIRMAN'S MESSAGE



“T-Bank’s Capital Adequacy Ratio stood at a comfortable 14.05%, exceeding the regulatory ratio set by the Banking Regulation and Supervision Agency (BRSA).”

Dear Shareholders and Clients,

The Turkish economy expanded at a rapid pace in 2017, buoyed by an active governmental involvement. Real GDP growth is expected to be around 7%, exceeding expectations and demonstrating a significant rebound from a difficult 2016. Economic activity was fueled principally by a number of fiscal, employment and credit incentives, and additionally by a rebound in exports and tourism. Temporary VAT cuts coupled with a higher employment led to a significant increase in private consumption. At the same time, a credit-stimulus, the Credit Guarantee Fund (CGF), bolstered bank lending.

However, the prolonged domestic conditions and rising regional tensions continue to pose challenges to the economy, creating a difficult operating environment for the banking sector. The current account deficit widened, extending the external roll-over financing vulnerability for some corporates. These challenges are reflected in the currency’s volatility, particularly in the context of rising global interest rates. Also, the tighter monetary policy to curb the depreciation of the Turkish Lira and reduce inflationary pressure would weigh on the banking sector’s activity and impact banks’ earnings. The CGF also created tight liquidity in the market which led to a narrowing of loan spreads.

The Turkish banking sector posted very good results in 2017 amid continuing vulnerability. The sector’s loan portfolio expanded to reach TL 2.2 trillion, an all-time record. The sector’s net profit was reported at TL 49.1 billion representing a 31% increase in comparison with December 2016, while its assets reached TL 3.3 trillion by the end of the year. The loan-to-deposit ratio was recorded at 126%. The sector’s Capital Adequacy Ratio stood at 16.9% in 2017.

In light of the on-going challenges and their acute impact on some critical sectors of the economy, T-Bank continued to pursue several initiatives, including a major rebalancing of its credit portfolio, which resulted in a small decrease in loans. This conservative approach coupled with high provisions on some impaired loans and low spreads in the market resulted in a net loss of TL 40.4 million in 2017. Furthermore, the Bank has also implemented several cost-saving initiatives throughout the year. T-Bank’s Capital Adequacy Ratio stood at a comfortable 14.05%, exceeding the regulatory ratio set by the Banking Regulation and Supervision Agency (BRSA).

Going forward, T-Bank will continue to refine its strategy and to rebalance its credit portfolio, and to expand its client portfolio in promising sectors.

In closing, I would like to extend my appreciation to our clients for their continued trust in our Bank, our shareholders for their sustained support and guidance, and our employees for their ongoing loyalty and dedication.

Nehme Sabbagh
Chairman

**Mr. Sabbagh resigned in 2018.*

CEO'S MESSAGE



“Moving forward, the current strategy of refining and rebalancing the loan portfolio will serve as a strong foundation for our growth objectives.”

“The Bank’s net interest income was TL 146,7 million, while the fees and commissions stood at TL 25,8 million. The Bank’s total assets stood at TL 4,9 billion at year-end.”

Dear Shareholders and Clients,

In 2017, the Turkish economy witnessed a recovery from a previous difficult year. This upturn is mainly attributed to the strong fiscal stimulus, including the Credit Guarantee Fund (CGF). The CGF provided TL 220 billion in loans for the real economy, spurring the economic activity in 2017. Capitalizing on the CGF stimulus, the Turkish banking sector recorded the highest growth rate within the economic sectors, by expanding its assets and loan portfolio. However, against the backdrop of this success and higher profitability, the sector remains challenged by currency's volatility, a very high Loan to Deposit ratio, narrowing net interest margins and high dependence on foreign borrowings. Moreover, the prolonged regional tensions continue to pose a challenge for growth, and this aspect is expected to affect loans by increasing loan provisions and slowing down the growth of loans.

In view of these challenges and their impact on some sensitive sectors, T-Bank continued to adopt several business and credit measures. The Bank has also implemented some cost-effective measures that came in line with its prudent strategy. Although these initiatives resulted in a mild decrease in the loan portfolio, they have improved the risk rating of this portfolio which is also being further shifted into the commercial business segment.

In terms of its income statement, the Bank's net interest income was TL 146.7 million, while the fees and commissions stood at TL 25.8 million. The operating expenses were reported at TL 197.5 million. The mild

decrease in loan volumes coupled with the narrowing spread and the provisions to the loan impairments led to a net loss of TL 40.4 million. On the balance sheet side, the Bank's total assets stood at TL 4.9 billion at year-end. Loans reached TL 2.9 billion, while customer deposits were recorded at TL 3.5 billion. In terms of liquidity and capitalization, T-Bank continued to maintain a strong liquidity position, striking the balance between its TL and FC reserves. The Bank's loan-deposit-ratio stood at 88%, while the Capital Adequacy Ratio stood at 14.05% by the end of the year, comfortably above the regulatory threshold.

Moving forward, the current strategy of refining and rebalancing the loan portfolio will serve as a strong foundation for our growth objectives. We are keen to grow our client base as we prudently proceed to expand our loan portfolio in promising sectors. The Bank will also continue to exert efforts to boost its trade finance business, capitalizing on its shareholders' well-developed network in the MENA region.

Finally, on behalf of T-Bank's management, I would like to extend my appreciation to our clients for their ongoing trust, the Board of Directors for the solid guidance, and our employees for their continued dedication.

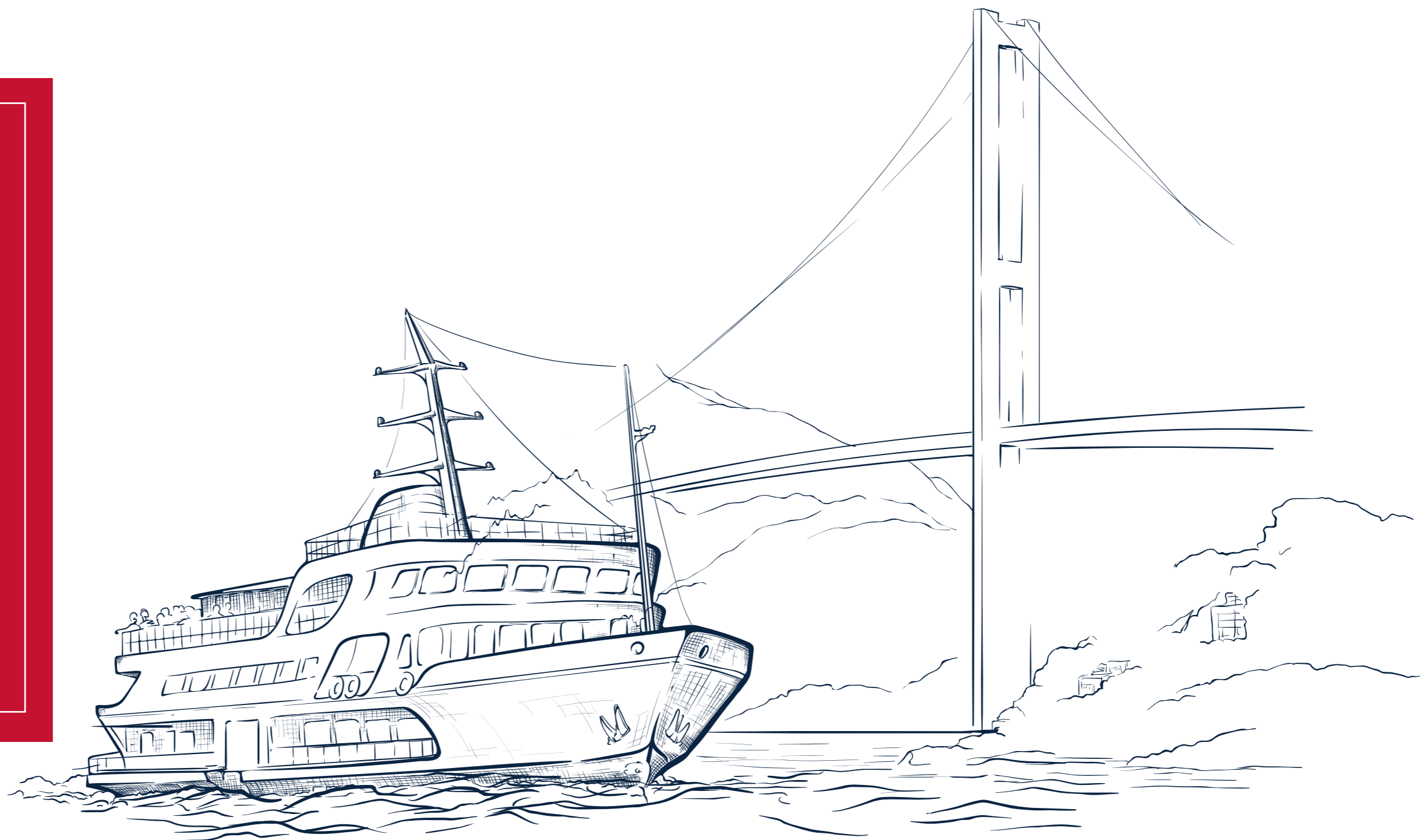
CEO
Dinçer Alpman

**Mr. Alpman resigned in 2018.*

PART II

Operation

T-Bank fully meets the fast-changing customer expectations with products and services developed with a focus and technology and without any compromise from the corporate vision and ethical principles.



TURKEY’S BOUTIQUE BANK

With 33 branches located in Turkey's commercial and industrial centers, T-Bank offers a diverse range of financial solutions that best meet its clients’ needs. Capitalizing on its expertise in treasury and cash management as well as in investment services and trade finance, the Bank has been enhancing its position in the banking industry.

In line with its “boutique service” approach, T-Bank designs tailored products and services that attend to its clients’ evolving needs. By placing its clients’ needs at the heart of its operations, the Bank constantly improves the quality of its services and products in an aim to provide its clients with a unique banking experience that maintains their trust.

Capitalizing on its shareholders’ presence in the MENA region and their vast network of correspondent banks, T-Bank has successfully established strong relationships with a long list of clients across the MENA region. This status has enabled T-Bank to become the bank of choice for Turkish investors who wish to carry out their commercial activities in this region.

Dynamic Organizational Structure

T-Bank is focused on increasing efficiency and profitability across all its business lines through its effective customer management program and proactive marketing strategies. The Bank has also designed a long-term plan to further extend its market share and accordingly its product portfolio.

Segmental Expertise

With the aim of improving the quality of services offered to its customers, T-Bank divides its customer portfolio into two sub segments: Commercial and Corporate. The Bank aims to finance suppliers and manufacturers within the scope of its portfolio.

Credit Process

The credit initiation process requires that customers who are within the Bank’s risk appetite to be filtered through the Target Market and Risk Acceptance Criteria of the Bank. The credit process consists mainly of two phases. The first phase entails detailed analysis of financial data by using measurements such as risk rating, cash flow, financial projections and debt capacity. These evaluations also focus on other benchmarks including the character of the owners/ management, current business status, the company's product/service diversity, and market share. T-Bank's credit process places a high importance on criteria such as

financial data, market intelligence, as well as the historical and projected performance of the company.

In the second phase, based on the credit analysis, T-Bank structures credit facilities that are within the customers’ financial capacity. The credit facilities are also based on the applying company's needs. The credit report is later submitted for approval. T-Bank takes into consideration the applicant company's industry, investment financing, operating capital and import requirements in detail, and accordingly proposes a financial solution based on this data.

Diversified Portfolio

T-Bank’s customer portfolio consists of companies with a solid financial position. The Bank carefully considers a number of parameters in its marketing activities to extend its customer portfolio and select new customers. Besides, in its aim to diversify its portfolio and maintain the quality of its assets, the Bank strives to initiate relationships with standard sectors, especially those who have a promising potential and an expansive exports network.

Corporate Banking

Within the scope of its Corporate and Commercial Banking activities, T-Bank provides services for companies with a turnover of TL 50 million and above. The Bank’s Corporate and Commercial Banking portfolio includes financial institutions as well as companies in the fields of trade and industry, service, transportation, and construction. T-Bank also provides services for leading Turkish companies that have strong exports.

Customers’ requests are carefully reviewed and evaluated by T-Bank’s highly-qualified Corporate Banking team. Based on various evaluations, the Bank offers customized solutions to its clients depending on customers’ potential needs, efficiency of the products, and business development.

Products offered to corporate clients include TL/FC Cash - Non-Cash Loans, Cash Management Products, Project Financing, Foreign Trade Products, Deposit - Investment Products, Insurance Products and Derivatives. The active involvement of T-Bank’s staff and managers is a pillar for the long-term and permanent relations that the Bank creates with its clients.

With a sound financial structure, steady growth and balanced risk approach, T-Bank is one of the most trusted banks in Turkey. In addition to profitability, T-Bank applies the

same due diligence in terms of a balanced risk-return.

Since 2007, following the acquisition by the shareholders, the Bank’s cash loans and deposits have increased by 10 folds. The growth was supported by the increase in the number of Bank’s branches which has increased from 10 in 2007 to 33 as at end 2017. T-Bank continues to offer tailored solutions to finance the requirements of its clients capitalizing on a strong financial position and an effective network of branches located within 12 financial centers in Turkey.

The following table displays the loan portfolio distribution by sector:

Commercial Banking

Commercial Banking, which is comprised of medium-sized enterprises, is an important pillar in the Turkish economy and plays a vital role in enhancing growth. Such companies prompt the economy forward by creating new jobs, driving production, and presenting investment opportunities.

Within the scope of Commercial Banking, T-Bank offers financial solutions to businesses and private companies with a turnover up to TL 50 million. T-Bank offers its commercial clients tailored financial solutions and operational facilities that address their needs. The Bank takes an active part in financing medium-sized enterprises and assisting them in managing their cash flows in a manner that enables them to sustain their profitability.

Loan Portfolio Distribution by Sector (December 31.2017 - TL Thousand)				
	Cash Loans		Non-cash Loans	
Sector	Total	%	Total	%
Agriculture	98,445	3.21%	234,888	7.61%
Farming and Livestock	93,698	3.05%	225,841	7.32%
Forestry	2,735	0.09%	1,072	0.03%
Fishery	2,012	0,07%	7,975	0.26%
Industry	913,534	29.76%	1,199,155	38.85%
Mining	20,540	0.67%	77,981	2.53%
Manufacturing	826,633	26.92%	1,096,534	35.53%
Electricity, Gas and Water	66,361	2.16%	24,640	0.80%
Construction	646,493	21.06%	625,299	20.26%
Service	1,389,588	45.26%	984,195	31.89%
Wholesale and Retail Trade	260,981	8.50%	274,958	8.91%
Hotel and Restaurant Services	224,031	7.30%	5,495	0.18%
Transportation and Communication	150,952	4.92%	198,938	6.45%
Financial Institutions	272,678	8.88%	280,069	9.07%
Real Estate and Rental Services	337,801	11.00%	63,550	2.06%
Self-Employment Services	109,478	3.57%	91,565	2.97%
Training Services	5,506	0.18%	245	0.01%
Health and Social Services	28,161	0.92%	69,375	2.25%
Other	22,107	0.72%	43,059	1.40%
TOTAL	3,070,167	100.00%	3,086,596	100.00%

Commercial Banking offers financing for Capital Expenditures (CAPEX) ensuring equipment and raw material supply, supporting the growth for commercial businesses operating in a variety of industries and in particular import and export sectors. The main financial solutions offered to commercial customers include, among others, cash services. The Bank enhances its portfolio with products including non-cash credits, checkbooks, tax and social security payments, treasury bills, cash management products, bill payments and foreign trade transactions. T-Bank ensures a quick turnaround in loan processing using advanced banking technologies and offers customized and flexible solutions. T-Bank's experienced staff play a key role in establishing solid relationships with their clients. Teams from the Bank's branches and headquarters pay visits to their customers on regular basis and review their operations. This approach helps commercial officers at the bank acquire a better understanding of their clients' needs.

Moving forward, T-Bank will continue to offer its clients customized and flexible solutions using state-of-the-art technology.

Credit Department

The Credit Department evaluates credit applications and conducts analysis on loan proposals taking into account the risk factors involved. It also contributes in the determination of the Bank's risk appetite and loan strategy and helps in the preparation and implementation of the policies and procedures.

Equipped with the latest innovative credit and technological solutions, the Credit Department handles loan requests efficiently and in a timely manner. Moreover, the cutting-edge technology also facilitates the access and analysis of the information and keeps the loan processes up-to-date.

T-Bank's professional team in the credit department is also equipped with work flow systems, a segmentation-based rating system, a credit archiving system, a trade registry recording system and access to the systems of the Credit Bureau of Turkey (KKB).

Customer-Oriented System

In order to maintain a proactive risk approach and better serve its customers, the Credit and Marketing Departments increased the number and frequency of customer visits. This has also enabled the Bank to build and maintain close solid relations with its customers offering them a quicker turnaround and further cross selling of products.

Scoring and Rating Models

The scoring and rating model used by T-Bank in the Corporate and Commercial Banking segments complies with BASEL II criteria. This model enables important functions such as better loan decisions and increased added value during loan-related decision-making processes.

Remedial

The Remedial Management Department is responsible for ensuring the development and successful execution of workout plans approved by the Credit Committees for classified and problem accounts. The Bank's prime objective and interest is to make decisions based on the most beneficial course of action. It is essential that developments be closely monitored and alternative measures and action plans be implemented if the credit situation continues to deteriorate.

Considerations will be given to other forms of settlement if corrective actions are not achieving the desired results:

- i. Compromise settlement with the borrower
- ii. Bankruptcy or foreclosure
- iii. Other forms of legal action (e.g. taking legal action against guarantors, etc.)

Treasury

T-Bank's Treasury manages the Bank's liquidity, foreign exchange position and securities portfolios. The Treasury operates within the framework of the Bank's needs, market risk limits determined by the Board of Directors and correspondent banks transaction limits. The share of securities portfolio of T-Bank's Treasury is much smaller than loans in the total balance sheet due to T-Bank's customer-oriented and prudent management approach.

As per the Board of Directors' resolution, the share of the securities portfolio to total assets is capped at 20%. Depending on clients' demands, Treasury products are offered to clients through the Treasury Marketing Unit (TMU) and the branch distribution channels. T-Bank's Treasury briefs the Bank's senior management on market conditions, asset-liability term and interest structures, as well as the related balance sheet management at the Asset-Liability Committee meetings.

Financial Institutions

The Financial Institutions Department is responsible for developing and maintaining relations with foreign correspondent banks and financial institutions, diversifying the Bank's fund sources, country allocation and monitoring, as well as financing institution credit limits and foreign trade.

The Bank meets its financial needs and those of its clients by means of credit limits obtained from international banks. T-Bank develops customized solutions that address its customers' needs through a strong network of more than 300 correspondent banks in 78 countries. The Bank continues to employ its efforts to expand its network of correspondent banks in new regions in accordance with the requirements of its customers.

T-Bank mediated foreign trade transactions of USD 320 million in 2017. In addition to non-cash services such as letters of credit and performance bonds, T-Bank also created cash resources of USD 11.4 million for its customers in 2017 by mediating SEP loans for foreign trade finance, working capital loans and usury loans from correspondent banks as a guarantor in order to meet the finance needs of its clients. Financial Institutions contributed to the diversification of the Bank's funding resources by post-finances of USD 29 million provided through international markets.

T-Bank's principal shareholders, Arab Bank Group and Bankmed, operate 662 branches in 30 countries across five continents. The shareholders' network is especially concentrated in the Middle East and North Africa. The diversity of regions and countries in which the principal

T-Bank supports its systems and processes to increase the level of customer satisfaction with a growth strategy shaped from an approach of “boutique services”.

shareholders operate enables T-Bank to offer foreign trade products with competitive prices to its customers engaged in international trade.

Information Technology

In line with the current strategies and policies of T-Bank and in accordance with Banking Regulation and Supervision Agency (BDDK), the Information Technology (IT) Department makes the latest technological advancements available to its employees and clients in order to render business processes in a more effective and faster manner.

Effective System Architecture

The Main Banking System is located at T-Bank headquarters. The System is multi-layered and runs on three application servers using two database servers with IBM processors and an IBM storage device that offers high performance and extension capability. The system ensures a secure application infrastructure.

The Bank's main operating system server is Unix-based. Other servers and personal computers effectively run on Windows and Linux platforms. For business continuity, an additional database server and backups of other mission critical services are located at the Emergency Center outside Istanbul.

T-Bank uses hardware and software provided by industry leaders for the network architecture of its IT systems and web, e-mail and antivirus protection security architecture, as well as its automation infrastructure and superstructure. The Bank continuously updates its infrastructure and superstructure in line with the mission of keeping up with the fast changes and transformation in information technology.

Technology Infrastructure

The core banking system forms the basis of T-Bank's technology infrastructure and supports short-term and long-term growth strategies of the Bank. With its parametric infrastructure, the system allows fast product development as well as product diversification. The system also increases the quality of service through a number of useful functions including the integration between the different credit applications to ensure adequate quantification and monitoring of the risk.

2017 Operations

T-Bank Banking System consists of integrated system components positioned under the Main Banking System.

The Main Banking Systems and the systems located around them were improved in 2017 for more secure, faster and more integrated operations and new products and functions were added.

Reports were also improved to meet the reporting requirements of the users. Efforts are in progress to upgrade the complete reporting infrastructure to a current platform. Within the scope of these efforts which will be completed in 2018, data warehouse model and reporting infrastructure will be reviewed.

T-Bank prioritizes its efforts on workflow systems to ensure more efficient, faster and more secure business processes. Credit Allocation workflow was improved and made fully integrated with the Main Banking System, Risk Portal and Rating Systems. T-Bank added new workflows to the system and current workflows were improved. In 2018, new workflows and improvement of current workflows will be of high priority.

T-Bank continued to improve the Bank's Risk Portal and

provided access to new data resources and information. Efforts for the extended scope of automatic evaluation for assurances were started and phase one went live in 2017. These efforts are continuing.

In 2017, Credit Monitoring Portal was taken into production. The project ensures that customer risk data are displayed on a dashboard and easy access to detailed information is provided.

New pages were added to the CRM portal for portfolio manager and branch performance monitoring. These efforts are in progress.

Completed projects include IFRS 9 in collaboration with the Financial Audit Department and Basel Credit Risk Method in collaboration with the Risk Management Department.

The efforts regarding the Law on Protection of Personal Data are in progress. In 2017, ATM development projects were launched to facilitate the use of ATMs by handicapped individuals.

Information Technologies infrastructure was updated with new technologies and software including the renewal of the security and virtualization infrastructure within the scope of uninterrupted renewal.

The share of securities portfolio of Treasury Department is much smaller than loans in the total balance sheet thanks to T-Bank's customer-oriented and prudential management approach.

HUMAN RESOURCES

Human Resources Structure

Since its inception, T-Bank has recognized its human capital as its most important asset. The Human Resources team at T-Bank exerts full effort to provide employees with the best work environment enabling them to reach their full potential and achieve their goals. With its contemporary policies, the Human Resources Department at T-Bank plays a strategic role in the Bank's achievements. As at the end of 2017, the number of employees at T-Bank reached 523 employees serving at the Bank's headquarters and 33 branches.

Recruitment Process

T-Bank Human Resources operations are based on the principles of openness, effective communication, and equality. In an effort to recruit the right skills for the right positions, T-Bank selects, in its recruitment process, qualified and experienced individuals who exhibit a potential for development. All applications are evaluated using this recruitment process which is initiated through a mutual agreement of the Human Resources Department as well as the relevant departments and Branch Managers. Written or online assessments are held for potential employees in mass recruitment programs. Successful candidates are invited to group and personal interviews by the related business line units. In the recruitment process for experienced candidates, the "Human Resources Recruitment Team" and the managers of the relevant business line are involved in the selection process. Following face-to-face interviews, detailed pre-employment inspections are conducted for positively reviewed candidates. Upon a positive outcome of the interview process, an offer is made to the candidate and the recruitment process is completed. During this process, evaluation tools such as foreign language tests and professional personality assessments are applied for the candidates in accordance with the requirements of the vacant position.

"Propose Your Friend" project, which helps the Bank recruit highly-qualified employees faster, allows employees to notify their friends of open positions using the Bank's website. Evaluations are done according to the Recruitment and Placement Procedures. If a candidate

proposed by an employee within the scope of the project is recruited after the evaluations, the proposing T-Bank employee is also rewarded. T-Bank aims to increase the employee satisfaction level and maximize the efficiency or recruitment processes with this application. Acting on the basis that time is an important factor, the Bank speeds up and facilitates the process with online interviews for branches outside the cities. T-Bank diversified its human resources with 66 new team members in 2017. The Bank relies on well-educated personnel for the development of the industry and has employed 16 students as interns in 2017. The Bank also supported the development of interns with practical training.

Performance Management

"Performance Evaluation" is carried out in accordance with the Bank's objectives and strategies as well as for the purpose of measuring the employees' contributions to business results. "Competency Assessments" are used for developing employees' career and training plans.

T-Bank focuses on service quality in all its activities and periodically conducts surveys such as "Employee Loyalty" and "Internal Customer Satisfaction." The Bank also actively supports its employees in their personal development. The Bank has conducted a number of researches within the framework of measuring-evaluation in the last eight years. The results of these researches help the Bank to easily follow-up on change. Employees who are successful at their tasks and have maintained performance viability are promoted to higher positions after receiving the approval of the Promotion Committee. A Marketing Director assumed a Branch Manager position, while one Director and one Senior Inspector at the Headquarters were promoted to Department Managers this year at T-Bank.

Incentive System

Incentive payments are made to managers and higher level executives once a year based on achieved annual targets. Incentives are awarded to employees based on factors such as the accomplishment of branch/department targets and the effective utilization of personal skills. Managers and higher level executives employed at the Headquarters are evaluated by their respective senior managers. The incentive amount is based on the annual performance, the effect of the tasks in helping the Bank reach its targets, and

the results of the Internal Customer Satisfaction survey. The Branch Manager incentive amounts are based on the level of achievement of specified objectives.

Activities

The Human Resources Department implemented "Vacation System, Employee Information System, Performance Management System, Overtime System, Training System and Business Card System" projects for integral management of business processes. These projects helped the Bank monitor the overtime, education and business card request processes. Employee information and digital evaluation of performance management are now based on objectives and skills.

Training and Development

T-Bank Training Department provides in-depth training and developmental activities for employees with an aim to enhance their skills and create a shared culture. These activities include: Orientation Programs that allow quick adaptation of new employees, Trainee Programs that provide basic banking knowledge for employees with no banking experience, Technical-Personal Development Courses for experienced bankers, Manager Development Trainings and Coaching Applications for employees at the management level, and e-Learning Programs provided via the e-learning platform.

T-Bank continued the "Personal Leadership and Development" project (SAGE) which was initiated in 2012 in order to support the current and future career development of experienced managers. T-Bank continues to support its employees shape their career within the scope of this project. Further, within the scope of SAGE Project, T-Bank offers management and leadership trainings for its employees based on various modules including "Me," "Being Us," "Improving My Work," and "Designing Our Future." The trainings are also supported by face-to-face coaching, forum messages, presentations and various development tools. The last phase of the project is the "Graduation Project." Each manager, who is taking part in the Graduation Project, develops projects that will add value to T-Bank and help the Bank gain a competitive edge. The projects are presented to the Executive Management. The 5th SAGE Group training sessions, which started in 2017, are still in progress. The 5th SAGEs will present their graduation projects in early 2018.

T-Bank has an inclusive Human Resources approach to support its current objectives and strategies. Human Resources Department has a strategic role in the Bank's achievements with its contemporary, rational and customer-focused policies.

T-Bank offers many training and development opportunities to facilitate the improvement of the personnel’s skills and shared objectives.

T-Bank also attaches great importance to Capital Markets Licensing and has helped all of its employees, who are required to have this certification, through e-learning and education texts in 2017. In 2017, a “Credits Education” was organized for Branch Managers, Branch Corporate & Commercial Marketing Managers, and Marketing-Sales and Credit Allocation Departments at the Headquarters. Furthermore, many employees from the Headquarters and branches were supported to attend various trainings and certification programs organized by private organizers to help them in their personal development. Each employee has a unique account on T-Bank e-learning platform, and the trainings on this platform are accessible at any time around the clock from both office and home.

IN-HOUSE COMMUNICATION AND T-CLUB

T-Bank conducts various activities in order to improve in-house communication and employee motivation. This includes the “Thank You” Campaign, which was initiated in 2015 to ensure that Bank employees express their appreciation to one another. This campaign helps in increasing motivation and creating awareness. Within the scope of this campaign, employees express their appreciation using the Bank’s intranet portal “Birlik-T”. Each employee can view the number of thanks they receive and who are the employees with the highest number of “thanks.” Within this application, three employees with the highest number of “thanks” get listed as “Employees Creating the Highest Level of Satisfaction” and were awarded at the end of each quarter.

Moreover, the Bank conducts the following periodical activities in order to further enhance employee motivation:

- T-Proposal System for proposals on areas which require improvement is still in use. Using this system, employees are invited to make proposals on many issues including cost savings, increasing revenues, process improvement and simplification, customer satisfaction and increasing the competitive edge. The proposals are assessed by the Proposal Committee. Eventually, employees with accepted proposals are rewarded by having their proposals announced and shared the rest of the Bank’s employees.
- Information on birthdays, promotions and reassignments of employees, T-Club activities, and press mentions

are communicated on the active data sharing platform, “Birlik-T”

- Special Master’s Degree discounts offered to T-Bank employees by various universities are also communicated via Birlik-T
- Special discounts for T-Bank employees offered at restaurants, hair dressers, and health centers are announced through the Birlik-T Portal
- Celebrating employees on their special occasions: Employees at T- Bank receive e-mails on their birthdays, recruitment anniversaries and when they have a newborn
- Maintaining the tradition of sending special gifts in the name of newborn children of employees
- Newcomers to T-Bank are introduced to employees via “New Teammates” e-mails
- Making new recruits feel welcome: The Human Resources Department makes a “welcome call” to new recruits on their first day to greet them and accelerate the process of adaptation. On the first day, new recruits also find a “welcome box” on their desks with a calendar, pens, a day planner, business cards and an ID card to boost the sense of belonging.

T-Club

T-Club social events organized for T-Bank employees in 2017 were as follows:

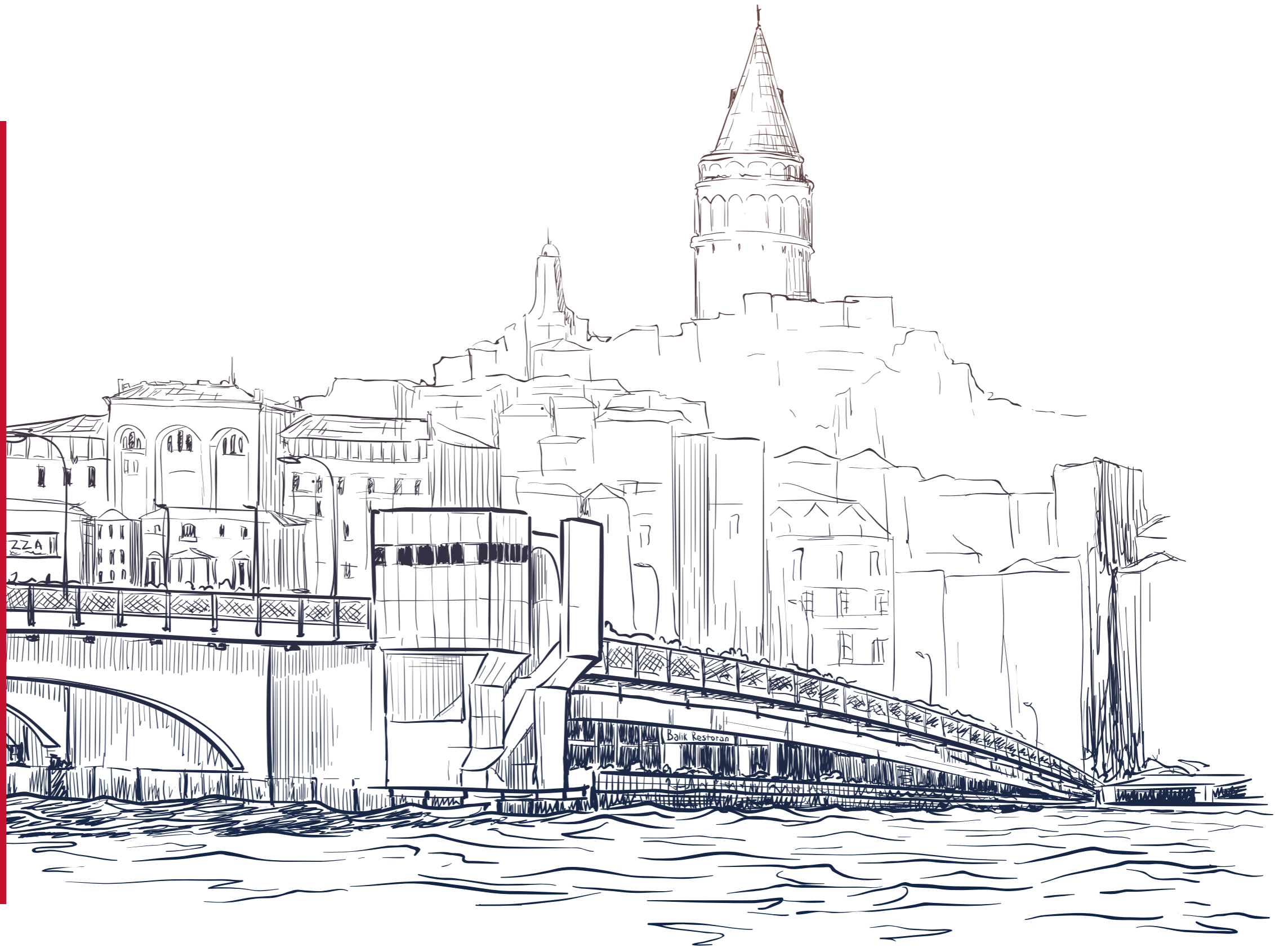
- Yoga workshop
- Bowling tournament
- Backgammon tournament
- Children’s painting contest

Number of Employees and Branches					
	2017	2016	2015	2014	2013
Head Office Employees	268	286	290	269	241
Branch Employees	255	322	372	372	294
Total number of Employees	523	608	662	641	535
Number of Branches	33	33	34	33	27
Demographics 2017					
	2017	2016	2015	2014	2013
Male (%)	47	46	46	47	48
Famele (%)	53	54	54	53	52
Avarage Age of Employees	38,9	38	37	36	37

PART III

T-Bank Management And Corporate Governance

T-Bank shapes its business processes from a perspective of transparency and gains a global competitive edge by combining its experience in the industry with an innovative approach.



BOARD OF DIRECTORS

Board Of Directors

Nehme Sabbagh	Chairman
Mohamed Ali Beyhum	Vice Chairman
Mustafa Selçuk Tamer	Board Member
Riad Burhan Taher Kamal	Board Member
Mehmet Behçet Perim	Board Member
Nadya Nabil Tawfik Talhouni	Board Member
Faten Matar	Member
Haitham Helmi Mohammed Foudeh	Member
Bassil Yared	Member
A. Dinçer Alpman	A. Dinçer Alpman Board Member /CEO

Nemeh Sabbagh
Chairman

Nemeh Sabbagh assumed the position of CEO of Arab Bank in January 2010. He has an MBA in Finance from the University of Chicago, an MA in International Economics from the Johns Hopkins University and completed his undergraduate studies (BA) in Economics and French at Austin College in Texas and at L' Institut d'Etudes Politiques in Paris. He is also an alumnus of Stanford University where he completed the Senior Executive Program at the Graduate School of Business. He began his banking career at the World Bank in 1973 and has served at various banks, including the National Bank of Kuwait for 19 years, as the CEO of the Arab National Bank for seven and a half years, and as Executive General Manager of Bankmed for four years.

Mohamed Ali Beyhum
Vice Chairman

Mohamed Ali Beyhum is the Executive General Manager of Bankmed since 2010 and a Board Member of the Banking Group holding company. He serves on the board of all the bank's major banking and finance subsidiaries. Mr. Beyhum is also the Chairman of the Board of Directors of MedSecurities Investment Company and Emkan Finance. Prior to joining Bankmed in December 2005, he was working with Irving Trust and the Bank of New York in the United States and served as Vice President Senior Representative in Lebanon. Mr. Beyhum holds a Master's degree in Industrial Management from Colombia University in N.Y., and a B.E. degree in Mechanical Engineering from the American University of Beirut.

Mustafa Selçuk Tamer
Board Member

Mustafa Selçuk Tamer is a graduate from the University of Ankara with a degree in Business Administration from the Faculty of Political Sciences. He started his banking career in 1976 and worked at a number of banks. Prior to his current position as a Board member at Turkland Bank A.Ş., he served as Assistant General Manager and finally Vice Chairman at Yapı ve Kredi Bankası A.Ş., for 18 years.

Riad Burhan Taher Kamal
Board Member

Riad Kamal is the founder and former CEO of Arabtec Holding, one of the largest general contractors in the Middle East. He founded Arabtec in 1974 and led its growth and development for almost 40 years. Arabtec became a listed company in 2004. Mr. Kamal is a graduate of the Imperial College at London University and holds a B.Sc. in Civil Engineering and a Master's degree in Structural Engineering. Mr. Kamal serves on the boards of Arab National Bank (KSA), Arabia Insurance (Lebanon), Oman Arab Bank (Oman), Gulf Capital (Abu Dhabi), Rotana Hotels (Abu Dhabi) and is a member of the Board of Trustees of The American University of Beirut.

Mehmet Behçet Perim
Board Member

Mehmet Behçet Perim is a graduate of Boğaziçi University with a degree in Electrical and Electronic Engineering in addition to an MBA from the same institution. He started his banking career in 1991 at Interbank. After three years of experience in Interbank, he served in significant roles at Bank Ekspres. Before joining T-Bank as a Board member, he worked in Denizbank for 10 years where he assumed several

key positions including Executive Vice President in charge of Risk Management and Internal Control.

Nadya Nabil Tawfik Talhouni
Board Member

Nadya N. Talhouni is a graduate of Bryn Mawr College in the USA and holds a degree in Economics with a minor in Political Science. She worked for Citibank NA within the Financial Institutions Group and also held a position of Securities Business Manager before joining Arab Bank in July 2002. She currently serves as Senior Vice President and the Global Head of Cash Management and Trade Finance at Arab Bank.

Faten Matar
Board Member

Faten Matar holds an MBA from the American University of Beirut. He worked for more than 15 years at the MENA and European Divisions of Citibank in both the Institutional and Consumer business segments. He occupied the position of Vice General Manager of Byblos Bank, prior to joining Bankmed Group, where he served as General Manager of Banque de la Méditerranée sal and Allied Bank sal. He is currently Advisor to the Executive General Manager of Bankmed and a member of the Board of Directors of BankMed (Suisse), Emkan Finance SAL, and GroupMed Insurance Brokers SAL.

Haitham Helmi Mohammed Foudeh
Board Member

Haitham Foudeh is a graduate of Civil Engineering from the University of Jordan and holds an MS in International Construction and Engineering from Leeds University. He served as a planning engineer in Saudi B.L. Construction Group, Planning Director in Taylor Woodrow International, Project Manager in Abdul Latif Jameel Group Real Estate Investments and Project Portfolio Manager in Islamic Development Bank. Mr. Foudeh is the Project and Structured Funding President at Arab Bank, Jordan.

Bassil Yared – Board Member (Until the date on December 21, 2017)

Bassil Yared is an attorney at law, with law offices in Beirut and is the Vice Chairman to the Chairman-General Manager of the Bank. He is also the Chairman of Bankmed's Audit Committee and a member of the Remuneration Committee. Me. Yared, inter alia, is a Board Member of MedInvestment Bank, BankMed Suisse, T-Bank in Turkey, GroupMed

T-Bank operates with an approach of fairness, transparency, reliability and responsibility and focuses on creating sustainable value for all stakeholders.

International Holding Limited in Dubai. He also serves as a Board member at The Lebanese Company for the Development and Reconstruction of the Beirut Central District (Solidere) and Solidere International (UAE), Fradim (France), as well as Interaudi Bank (US), and Holcat sal (Lebanon). Me. Yared is also a Board member of the Ecole Supérieure des Affaires (ESA). (As per the latest update on Nov. 27, 2017)

Dinçer Alpman
Board Member / CEO

Dinçer Alpman is a graduate of Management Engineering from Istanbul Technical University. He started his banking career at Pamukbank in 1988 and later held the same positions in Marmara Bank, Tekfen İnşaat and Alternatif Bank. Before joining Turkland Bank A.Ş., he spent 10 years at Denizbank as Executive Vice President in charge of Retail Banking.

EXECUTIVE MANAGEMENT

The Executive Management Team is as follows:

Ali Has	Head of Internal Audit
Benan Başak	Executive Vice President, Credit
Dr. Doruk Parman	Executive Vice President, Marketing and Sales
Dr. Hakkı Yıldırımaz	Phd Executive Vice President, Human Resources
Emre Demircan	Executive Vice President, Strategic Planning
İlhan Zeki Köroğlu	Executive Vice President, Operation and Information Technology
Mehmet Özgüner	Executive Vice President, Financial Affairs
Münevver Eröz	Executive Vice President, Treasury and Financial Institutions
Yurdakul Özdoğan	Executive Vice President, Remedial Management

Ali Has

Head of Internal Audit

Ali Has is a graduate of the Faculty of Management at İstanbul University and has an Executive MBA from Boğaziçi University. He started his career at the Foreign Transactions Department of Yapı Kredi Bankası in 1994 and continued at İş Factoring Finansal Hizmetler AŞ. He worked in TEB A.Ş. for 10 years as the Vice President of Internal Audit before his current position as the Head of T-Bank Internal Audit Department. Has is also a Certified Internal Auditor (CIA).

Benan Başak

Executive Vice President, Credit

Benan Başak has a BA degree from METU Mining Engineering Department and an MBA degree from Maltepe University. Başak started his banking career in 1998 at Bayındırbank and continued at Wachovia Bank (USA) and Denizbank. Prior to his current position as Executive Vice President, he held several positions at Citibank from 2006 to 2013 and was promoted as Credit Department Manager in 2013.

Doruk Parman, PhD

Executive Vice President, Marketing and Sales

Doruk Parman is a graduate of Middle East Technical University with a degree in Mechanical Engineering and holds an MBA degree from Bilkent University as well as a Doctorate in Banking from Marmara University. Parman started his business career at Interbank and later served at Denizbank for 10 years in a number of positions including Senior Vice President of Retail Banking Division, prior to his current position as Executive Vice President at T-Bank.

Hakkı Yıldırımaz, PhD

Executive Vice President, Human Resources

Hakkı Yıldırımaz is a graduate of Middle East Technical University and holds a degree in Industrial Engineering. He earned his MBA and PhD in Management and Organization at Yeditepe University. His banking career began in 1993 at Türkiye İş Bankası; he later worked with İktisat Bankası, Alternatifbank and Denizbank. Prior to his current position as

Executive Vice President at T-Bank, he served as Alternative Distribution Channels Senior Vice President at Denizbank.

Emre Demircan

Executive Vice President, Strategic Planning

Emre Demircan is a graduate of Boğaziçi University, Electrical and Electronic Engineering Department. He earned an MS from the George Washington University in Engineering and an MBA from Yale School of Management in Business Administration. Demircan started his career in 2001 in Castle Rock Consultants as a Senior Consultant and continued his career in Credit Suisse New York as an Investment Banker and served as an Assistant Partner in McKinsey&Company. Demircan is currently serving as the Executive Vice President for Strategic Planning at T-Bank.

İlhan Zeki Köroğlu

Executive Vice President, Operation and Information Technology

İlhan Zeki Köroğlu is a graduate of Middle East Technical University with a degree in Public Administration. He started his banking career at Pamukbank and later assumed senior positions at Körfezbank and Garanti Investment. Prior to becoming Executive Vice President-Operation and Information Technology at T-Bank, he served as Executive Vice President at Alternatifbank.

Mehmet Özgüner

Executive Vice President, Financial Affairs

Mehmet Özgüner is a graduate from the department of Mining Engineering at Middle East Technical University. He started his banking career at the Banking School of Ziraat Bankası. He later served as an Internal Auditor on the Board of Internal Auditors at Osmanlı Bankası for six years. In 2002, he joined T-Bank's Board of Internal Audit Department and was appointed Head of Internal Audit in 2003. Since 2004, Özgüner has been serving as the Executive Vice President-Financial Affairs at T-Bank.

Münevver Eröz

Executive Vice President, Treasury and Financial Institutions

Münevver Eröz is a graduate from the Business Administration Department at Boğaziçi University and holds an MBA from Koç University. She joined the banking industry in 1987 at the Saudi American Bank, serving in several managerial positions over a ten-year period. She joined the Bank in 1997 and has been Executive Vice President since 2000.

INTERNAL AUDIT, RISK MANAGEMENT, COMPLIANCE AND INTERNAL CONTROL MANAGERS

Mehmet Behçet Perim

Board Member Responsible for the Internal Systems

Mehmet Behçet Perim is a graduate of Boğaziçi University with a degree in Electrical and Electronic Engineering in addition to an MBA from the same institution. He started his banking career in 1991 at Interbank. After three years of experience in Interbank, he served in significant roles at Bank Ekspres. Before joining T-Bank as a Board member, he worked in Denizbank for 10 years where he assumed several key positions including Executive Vice President in charge of Risk Management and Internal Control.

Ali Has

Head of Internal Audit

Ali Has is a graduate of the Faculty of Management at İstanbul University and has an Executive MBA from Boğaziçi University. He started his career at the Foreign Transactions Department of Yapı Kredi Bankası in 1994 and continued at İş Factoring Finansal Hizmetler AŞ. He worked in TEB A.Ş. for 10 years as the Vice President of Internal Audit before his current position as the Head of T-Bank Internal Audit Department. Has is also a Certified Internal Auditor (CIA).

Burcu Aktürk

Head of Risk Management

Burcu Aktürk received her BA degree in Economics from Dokuz Eylül University and Master's degree in Business Administration from İzmir University of Economics. She started her banking career at Garanti Bank in 2006 as a specialist in the Corporate and Commercial Loans Department. She later joined ING where she held several managerial positions within Risk Management prior to joining T-Bank as Head of Risk Management Department in 2016.

Yurdakul Özdoğan

Executive Vice President, Remedial Management

Yurdakul Özdoğan holds a degree in Economics from the Faculty of Political Sciences at Ankara University. He started his banking career at Pamukbank and later worked in Toprakbank, İktisatbank and Finansbank. Prior to becoming T-Bank's Executive Vice President-Remedial, his last position was Senior Vice President of Credit at Oyakbank.

Fulya Kaptan

Head of Compliance

Fulya Kaptan is a graduate of Eastern Mediterranean University with a degree in International Relations from the Faculty of Business Administration. She started her banking career in 1997 in Citibank Turkey and worked as a manager of the Operations Department until 2003. In 2004, she transferred to the Compliance Department in the same bank and held several positions including Consumer Banking Compliance Head, Country AML Compliance Head and Money Laundering Reporting Officer before joining T-Bank as Head of Compliance Department in April 2016. Ms. Kaptan is also CAMs certified Compliance officer.

Murat Oltulular

Head of Internal Control

Murat Oltulular has a BA degree from Near East University's Business Administration Department and an MBA degree in Financial Economy from İstanbul Bilgi University. Oltulular started his career in 1996 at Türk Ticaret Bankası and served as Internal Control Department Manager, Operational Risk Group Manager, Internal Control and Operational Risk Group Director at Fortisbank. He also served as a Board Member and Training Director of ACFE Turkey and Risk Management, Internal Control and Compliance Manager at Groupama.

Terms and Professional Backgrounds of Auditors

As per the General Assembly Decision dated 31-Mar-17, Deloitte Touche Tohmatsu Limited Şirketi (DTTL) was assigned as independent external auditor.

Attendance of the Board of Directors, Auditing Committee and Other Committees

All Board and Committee members attended all the meetings unless a valid excuse was presented.

COMMITTEES

The following are T-Bank committees during 2017:

Audit Committee

The Audit Committee ensures the effectiveness and efficiency of the Bank's internal control, risk management, anti-money laundering, and the prevention of terrorism financing systems. It also ensures that the operation of internal audit systems and the compliance of these systems as well as the accounting and reporting systems are in line with the Banking Law and other applicable regulations in addition to the integrity of the generated data on behalf of the Bank. The committee meets on quarterly basis.

Mustafa Selçuk Tamer	Board Member
Nadya Nabil Talhouni	Board Member
Faten Matar	Board Member - Chairman of the Audit Committee

Credit Committee

This committee evaluates the loan proposals within certain limits as per the Banking Law and other applicable regulations. The committee meets on a weekly basis.

Faten Matar	Board Member – Chairman of the Credit Committee
M. Selçuk Tamer	Board Member
A. Dinçer Alpman	Board Member/CEO

Credit Risk Committee

The Credit Risk Committee evaluates the results of changes introduced by legal regulators on credit risk. The committee makes the proper approval and/or proposals to take the necessary actions based on relevant policies. The committee reviews the Banking Regulation and Supervision Agency (BDDK) applications relevant to credit risks as well as the current and planned amendments and the impact analyses. The committee also ensures that the bank takes the actions required to ensure compliance with BDDK Legislation, Regulations and Best Practices related with credit risks. The committee meets on quarterly basis.

A. Dinçer Alpman	Board Member/CEO
M. Behçet Perim	Board Member Responsible for the Internal Systems
Yurdakul Özdoğan	Executive Vice President
Benan Başak	Executive Vice President
Doruk Parman, PhD	Executive Vice President
Burcu Aktürk	Head of Risk Management

Corporate Governance Committee

This committee monitors compliance of the Bank with

corporate governance principles to protect the rights and benefits of the shareholders and depositors in line with the set objectives, laws, regulations and other applicable legislation as well as the articles of incorporation, Bank's internal regulations and Business Ethics Rules. The committee meets minimum once a year.

Mohamed Ali Beyhum	Board Member
Nadya Nabil Tawfik Talhouni	Board Member
Mehmet Behçet Perim	Board Member

Remuneration Committee

This committee discusses all issues relevant to and aspects of the remuneration policies and the benefits paid to the employees within the framework of the Bank's Remuneration Policies and reports them to the Board of Directors. The committee meets annually before the Board Meeting.

Mohamed Ali Beyhum	Board Member
Faten Matar	Board Member
M. Selçuk Tamer	Board Member

Executive Committee

The basic purpose of the Executive Committee is to ensure implementation of T-Bank's strategic plan. The tasks and responsibilities of the committee include observing the benefits of T-Bank, ensuring that the business objectives are met, reviewing business initiatives, which may significantly affect T-Bank, and creating implementation plans. In addition, the committee is also in charge of monitoring the critical projects at the Bank and ensuring that they are completed in full and in a timely manner. The Executive Committee meets at least once per week. If required by the General Manager, the Executive Committee can meet more than once a week.

A.Dinçer Alpman	Board Member/CEO
	Ali Has Head of Internal Audit
Benan Başak	Executive Vice President
Doruk Parman, PhD	Executive Vice President
Hakkı Yıldırımaz, PhD	Executive Vice President
Emre Demircan	Executive Vice President
İlhan Zeki Köroğlu	Executive Vice President
Mehmet Özgüner	Executive Vice President
Münevver Eröz	Executive Vice President
Yurdakul Özdoğan	Executive Vice President

Assets and Liabilities Management Committee

The Assets and Liabilities Committee (ALCO) is responsible

COMMITTEES

for effective distribution and efficient use of resources. It is also in charge of observing the revenues provided by risk-based assets and increasing profitability, managing possible risks including interest, foreign currency exchange rates, liquidity, funding, loans, countries and commodities as well as monitoring external factors including the customers and competitors, finance and monetary policies, market trends and expectations and detecting their possible effects on profitability. ALCO meets on weekly basis. When required, representatives from other business lines or support units are also invited to the meeting.

A.Dinçer Alpman	Board Member/CEO
M. Behçet Perim	Board Member Responsible for the Internal Systems

Doruk Parman,	PhD Executive Vice President
İlhan Zeki Köroğlu	Executive Vice President
Mehmet Özgüner	Executive Vice President
Münevver Eröz	Executive Vice President
Benan Başak	Executive Vice President
Yurdakul Özdoğan	Executive Vice President
Emre Demircan	Executive Vice President
Hakan Pürdeloğlu	Corporate Banking Director
Elif Ertemel	Retail Banking Director
Cengizhan Cengiz	Commercial Banking Director

Alper Üstündağ	Treasury Director
Cumhur Örnek	Treasury Marketing Department Manager

Kaan Gürsal	Financial Institutions Director
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Burcu Aktürk	Risk Management Group Manager
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Cenk Erüstün	Budget Planning and Management Reporting Manager
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Veyis Fertekligil	Chief Economist
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Executive Risk Committee

This committee ensures that the works of the Risk Management Department are shared by the Executive Management. The Executive Risk Committee meets when required by the agenda and by invitation of the Risk Management Department Manager.

A. Dinçer Alpman	CEO
M. Behçet Perim	Board Member Responsible for the Internal Systems
Ali Has	Head of Internal Audit
Benan Başak	Executive Vice President
Doruk Parman,	PhD Executive Vice President
Hakkı Yıldırımaz	PhD Executive Vice President
Emre Demircan	Executive Vice President
İlhan Zeki Köroğlu	Executive Vice President
Mehmet Özgüner	Executive Vice President
Münevver Eröz	Executive Vice President
Yurdakul Özdoğan	Executive Vice President
Burcu Aktürk	Head of Risk Management Manager / Member

Operational Risk Committee

The Operational Risk Committee discusses the internal and external risks faced by the Bank regarding the operations, possible risks and the methods of preventing such risks. The committee meets when required by the agenda and by invitation of the Internal Control Center Director.

A. Dinçer Alpman	CEO
M. Behçet Perim	Board Member Responsible for the Internal Systems
Doruk Parman	PhD Executive Vice President
İlhan Zeki Köroğlu	Executive Vice President
Ali Has	Head of Internal Audit
Murat Oltulular	Head of Internal Control
Burcu Aktürk	Head of Risk Management / Member Head of Compliance
Fulya Kaptan	Head of Compliance

Information Technology Risk Committee

This committee discusses and makes decisions on IT process risks, their impacts and possible actions. The committee meets when required.

A. Dinçer Alpman	CEO
M. Behçet Perim	Board Member Responsible for the Internal Systems
İlhan Zeki Köroğlu	Executive Vice President
Ali Has	Head of Internal Audit
Murat Oltulular	Head of Internal Control
Burcu Aktürk	Head of Risk Management
Fulya Kaptan	Head of Compliance
Ali Çakır Banking	System and Data Management Manager
Nuri Küçükler	Information Security Manager

(*All members have attended as necessary throughout the year.)

THE BOARD OF DIRECTORS’ REPORT SUBMITTED TO THE GENERAL ASSEMBLY

In 2017, the Turkish economy demonstrated a significant rebound from a challenging 2016, recording a growth of 7%. This growth was primarily fueled by an active government involvement through a number of fiscal, employment and credit incentives. In addition, a recovery in exports and tourism have also boosted growth levels. Private consumption picked up, prompted by temporary VAT cuts and higher employment. Similarly, bank lending was bolstered by a credit-stimulus, the Credit Guarantee Fund (CGF).

Capitalizing on the CGF stimulus, the Turkish banking sector recorded the highest growth rate within the economic sectors, by expanding its assets and loan portfolio, which reached TL 2,2 trillion, an all-time record. The sector’s net profit was reported at TL 49,1 billion representing a 31% increase in comparison with December 2016, while its assets reached TL 3,3 trillion by the end of the year. The loan-to-deposit ratio was recorded at 126%. The sector’s Capital Adequacy Ratio stood at 16.9% in 2017.

On the other hand, the currency volatility, coupled with a very high Loan-to-Deposit ratio, narrowing net interest margins and high dependence on foreign borrowings continue to pose challenges to the banking sector. Moreover, as investment remains subdued and regional tensions sustain, the sector continues to navigate through difficult waters, and this aspect will likely impact loans by increasing loan provisions and slowing down the growth of loans.

With respect to T-Bank, we continued to adopt several business and credit measures within our strategy refinement plan. We have also implemented some cost-effective measures that are in line with our conservative strategy. Although these initiatives resulted in a mild decrease in the loan portfolio, they have improved T-Bank’s risk rating portfolio, which is also being further shifted into the commercial business segment.

In terms of T-Bank’s income statement, the Bank’s net interest income was TL 146,7 million, while the fees and commissions stood at TL 25,8 million. The operating expenses were reported at TL 197,5 million. The mild decrease in loan volumes coupled with the narrowing spread and the provisions to the loan impairments led to a net loss of TL 40,4 million. On the balance sheet side, the Bank’s total assets stood at TL 4,9 billion at year-end. Loans reached TL 2,9 billion, while customer deposits were recorded at TL 3,5 billion. In terms of liquidity and capitalization, T-Bank continued to maintain a strong liquidity position, striking the balance between its TL and FC reserves. The Bank’s loan-deposit-ratio stood at 88%, while the Capital Adequacy Ratio stood at 14.05% by the end of the year, comfortably above the regulatory threshold.

Moving forward, the rebalancing the loan portfolio will enable us to pursue our growth objectives. We aim to expand our client base as we prudently proceed to expand our loan portfolio in promising sectors.

In closing, we would like to thank our customers for their continued trust, our shareholders for their ongoing support, and our hardworking staff for their sustained efforts.

Chairman
Nehme Sabbagh

General Manager
Dinçer Alpman

RELATED PARTY TRANSACTIONS

T-Bank Group Risks by Sector (thousand TL)						
	Cash Loans	Risk Share (%)	Non-Cash Loans	Risk Share (%)	Total Loans	Risk Share (%)
Financial Institutions	159	0.00%	54,012	1.75%	54,171	0.83%
Communication	-	0.00%	6,093	0.20%	6,093	0.09%
IT	-	0.00%	1,918	0.06%	1,918	0.03%
Other	-	0.00%	28,631	0.93%	28,631	0.44%
Total	159	0.00%	90,654	2.94%	90,813	1.38%

Information on Benefits Provided for the Top Management by the Bank

As of December 31, 2017, total wages and benefits provided by the Bank’s top-level managers is TL 13,030 (December 31, 2016: TL 7,239).

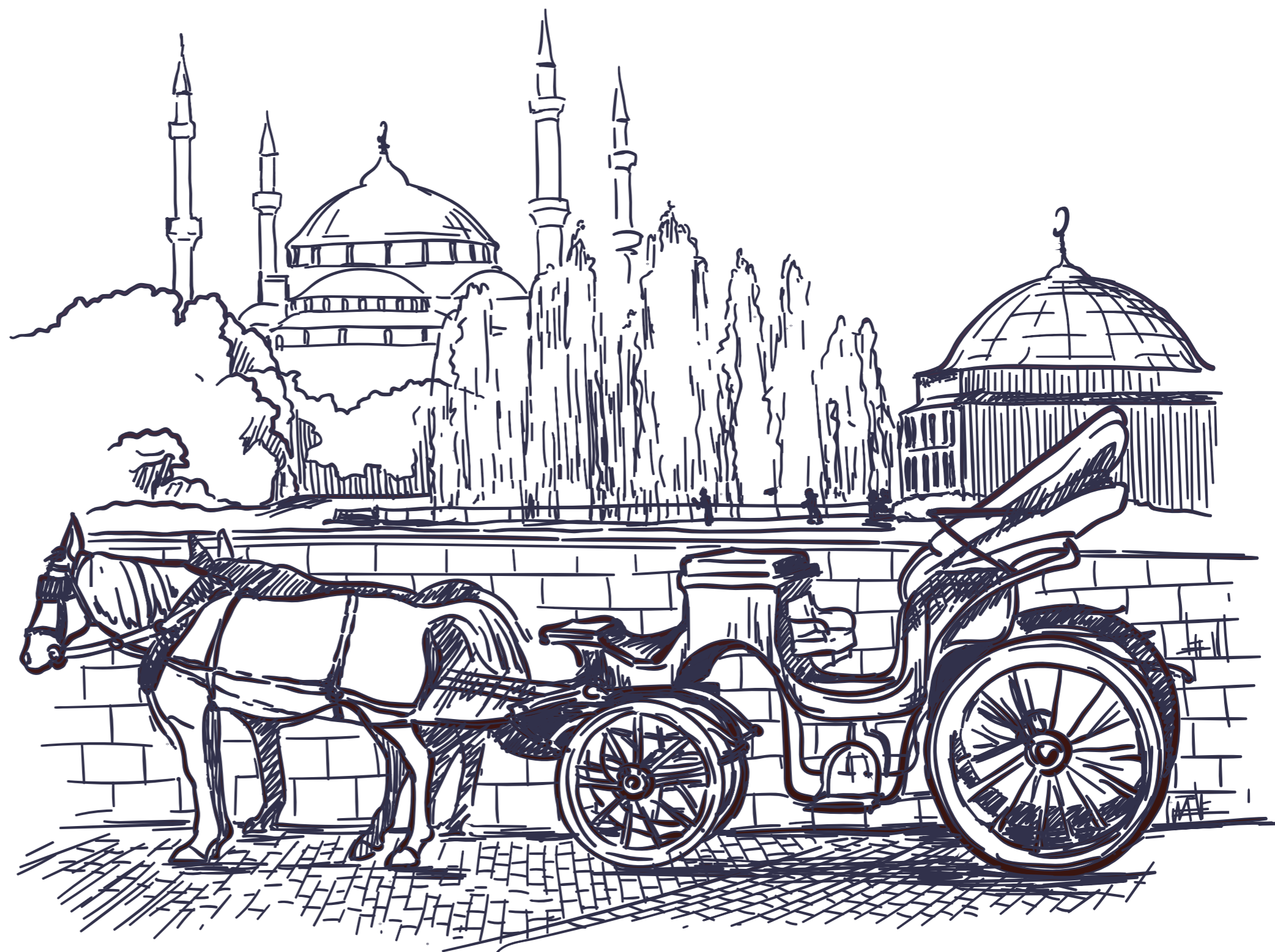
PERSONS AND INSTITUTIONS, THAT PROVIDE SUPPORT SERVICES

SUPPLIER	DEFINITION OF SERVICE
MTM Holografi Güvenlikli Basım ve Bilişim Teknolojileri Sanayi ve Ticaret A.Ş.	Issuance of check books and letters of credit
IBM Global Services İş ve Teknoloji Hizmetleri ve Ticaret Limited Şirketi	Emergency Center Services and Business Continuity & Flexibility Services
DESMER Güvenlik Hizmetleri Ticaret A.Ş.	Security, supervision and cash transfer services in line with the legislation
MasterCard Payment Transaction Services Turkey Bilişim Hizmetleri A.Ş	Issuance of overdraft account abstracts, creating bank card exchange files and chargeback requests, receipt and logging of service fees/invoices from MasterCard Worldwide
Kekova Elektrik Elektronik İletişim Sistemleri Dış Tic. Ltd. Şti.	Subcontractor for alarm notification services
Edgeverve	Main banking application
İnova Bilişim Çözümleri A.Ş.	Application for bill collections
V.R.P. Raporlama (VeriPark)	Internet banking application services and 360-degree customer screens
Finecus A.Ş.	Capital adequacy calculation application
Crif Enformasyon Derecelendirme Ve Danışmanlık Hizmetleri A.Ş.	Credit rating software maintenance service
BTS Bilişim Eğitim ve Danışmanlık Hizmetleri Ticaret Ltd. Şti.	Development of Lotus Notes electronic business flows
Active Bilgisayar	Providing Nova Securities Application services
DHL Worldwide Express Taşımacılık ve Ticaret A.Ş.	Transportation of valuable papers
BT Risk Bilgi Güvenliği	Performs IT penetration testing
Austria Card Akıllı Kart Çözümleri Ticaret Ltd Şti	Issuance ATM/Bank Cards
G Teknoloji Bilişim Sanayi ve Tic. Ltd. Şti (Gtech)	Development of reports on banking transactions and ensuring continuity
Fu Gayrimenkul Danışmanlık A.Ş.	Pledges on securitized real estate
GAİA Bilgi Sistemleri San. ve Tic. Ltd. Şti	Development of check service with QR code

PART IV

Financial Reporting and Risk Management

In 2017, T-Bank continued to offer services based on reliability, a high-quality product portfolio and flexible solutions.



FINANCIAL REPORTING AND RISK MANAGEMENT

T-Bank Risk Management Department is an independent unit reporting to the Board Member in charge of Internal Systems. Risk Management operates under the Audit Committee in accordance with the “Regulation on Internal Systems of Banks and Internal Capital Adequacy Assessment Process” by the Banking Regulation and Supervision Agency (BRSA).

Risk Management Policies

As a basic principle, the Risk Management Department evaluates credit, market, interest rate, concentration, liquidity and operational risks and determines limits and control processes. Since Risk Management is an integral part of the banking process, T-Bank employs full effort to ensure risk awareness at all levels of the Bank's organizational structure. The Risk Management Department regularly submits reports which are related to the risks that the Bank is exposed to, concentrations, regulatory and internal limits to the Executive Management and the Audit Committee on a daily, weekly, monthly, quarterly and semi-annual basis. In addition to the regular reporting, Value at Risk (VaR) analyses, market risk limits, stress tests and scenario analyses, liquidity and interest rate risk reports as well as economic capital and capital adequacy analyses are also presented to the Executive Management and the Audit Committee. These reports indicate the daily VaR analyses, weekly interest rate risks, economic capital calculations and market risk limits which are submitted to the Asset-Liability Management Committee on a weekly basis. Furthermore, the volatility and final rates of multiple market risk instruments are daily monitored and presented during the weekly Asset-Liability Management Committee.

Stress tests and economic capital scenario analyses, capital adequacy, liquidity and profitability scenarios, as well as credit portfolio overview, developments and results are quarterly reported to the Audit Committee. As a result of the detailed analysis presented in the reports, the Executive Management monitors the Bank's limits and performance accordingly. T-Bank's asset-liability management policy focuses on maintaining the funds required for customers' credit requests and fulfilling the legal obligations. The interest rates, credit durations, assets and liabilities are discussed and decided at the weekly Asset-Liability Management Committee (ALCO) meetings. In parallel with the regular reports, the Risk Management Department prepares a report, which includes the major risks that the Bank is exposed to and submits it to the Audit Committee and the Board of Directors meeting on a quarterly basis. This presentation also includes the economic

capital calculations that cover the credit, market and operational risks. In addition, the Audit Committee and the Executive Management are informed about the risk limit excesses if any. Risk limits are periodically assessed and updated by the Risk Management Department when necessary, and the Executive Management is informed accordingly. Risk limits set by the Risk Management Department and the Executive Management were assessed and approved by the Board of Directors in March 2017. The Risk Management Department systematically calculates the Basel II credit risk, market risk and operational risks in accordance with the framework of “The Regulation on the Measurement and Assessment of Capital Adequacy for Banks” published by the Banking Regulation and Supervision Agency (BRSA).

Credit Risk

Credit risk is risk exposure arising from the possibility of the counterparty's failure to meet its obligations as defined by an agreement. The Credit Risk Management has a critical role in T-Bank's sustainable growth strategy. The Board of Directors delegates its role of credit approval to the Credit Department and guides in determining the credit limits allocated to various sectors, companies and groups. Many criteria such as financial strength and position, trade capacity, sector and geography, capital structure and morality are taken into consideration while determining the credit limit to a client. In addition, financial positions, relevant documentations and information are provided by the customer and assessed in detail by the Bank within the scope of the legislations. As a result of the assessment of the general macroeconomic developments and possible changes in customers' financial statements and operations, the Bank reviews the credit limits on a regular basis. Risk, limit and collaterals are controlled frequently by the Bank, and limits determined based on product and customer are taken into consideration during the credit allocation process.

Credit risk management is the process of measuring and monitoring risks, including all credit portfolios. Concentrated risk is monitored on a basis of industries, groups, and several other criteria. The Risk Management Department performs a number of analyses on a basis of banks and industries including Default Probability (DP) tests, stress tests, segment- and branch-based risk-sensitive return calculations. In 2016, the Risk Management Group formed a “Credit Risk Committee” in an aim to raise awareness on risks. In 2017, the analyses including DP analysis, portfolio reviews, internal risk limits, concentration risk analyses, internal rating shifts, portfolio-based and industry-based developments, segment-based and branch-based

risk-sensitive return calculations were reviewed in detail and necessary actions were taken by the Credit Risk Committee.

The Bank now uses the credit risk module “Risk Analyst” in line with Finar, the current rating system, to benefit from the Corporate, Commercial and construction industry portfolios. In 2017, the Risk Management Group used historical statistical data to create models for these portfolios. At the second half of 2017, T-Bank integrated the Moody's system with its main banking system to ensure storage of high-quality rating data. In the fourth quarter of 2017, prevalidation of this rating model was conducted and extensive validation efforts are scheduled for 2018.

Risk Management Group daily monitors the correspondent bank credit risk limits specified by the Board of Directors and informs the Top Management and relevant departments in case of limit access. Repo, derivatives and money market transactions performed by T-Bank's Treasury Department are also closely monitored to prevent risks arising from possible default of counterparties.

Market Risk

Market risk management activities at T-Bank focus on analyzing and managing the effects and risks on the Bank's balance sheet arising from volatility in prices, interest rates and currencies in financial markets and measuring the effects of these fluctuations on the Bank's liquidity position. In the specific case of T-Bank, market risk is managed under the subtitles, named as “trading-risk” and “asset-liability mismatch risk.”

Since 2004, The Risk Management Department has been performing VaR calculations on daily and weekly bases with a one-day holding period and 99% confidence interval. The VaR is calculated by taking parametric, historical and Monte Carlo simulation methods into consideration. Accordingly, the results are used in determining the capital requirement for the relevant risk. Moreover, T-Bank calculates the market risk by using a system that was purchased in 2010. This system allows the Bank to perform advanced probability scenario analysis simulations that cover the non-linear trends of the market. All the relevant market trends are monitored on a daily basis within the Bank. Accuracy of the VaR sensitivity is controlled by the back testing method and the number of days that the actual losses exceed the calculated VaR. The Bank determines the market risk management activities in order to take the necessary precautions for avoiding the possible market

T-Bank periodically updates the credit limits defined for its clients based on the economic developments as well as the changes in its operations.

risk within the context of “The Regulation on Measurement and Assessment of the Bank’s Capital Adequacy” and “The Regulation on Measurement of the Bank’s Equity” published by the BRSA.

Interest Rate Risk

T-Bank has continued managing the risk within the determined limits in 2017 which are mentioned in the relevant policies of the Bank. In order to ensure that the interest rate risk is sufficiently monitored, the Risk Management Department performs weekly interest rate risk gap and duration-gap analyses, as well as sensitivity analyses for the whole balance sheet.

T-Bank manages and closely monitors the interest rate risk on banking book accounts. In accordance with “The Regulation on Banks’ Equity,” the interest rate risk arising from all interest-sensitive in-balance sheet and off-balance sheet items and the interest rate risk resulting from the banking accounts are calculated on a monthly basis.

Liquidity Risk

Liquidity risk refers to a bank’s possible inadequacy to pay its debt in full and on time at a certain period. This may result from the insufficient cash flow, inadequacy of the current cash attribution and the mismatch of internal and external cash flows. Liquidity risk can also be caused by the failure of penetrating the market as required, or barriers set in the market, and failure to take suitable positions with adequate amounts and reasonable prices due to market segmentation.

T-Bank aims to maintain a high level of liquidity in line with a prudent banking approach. Within the context of the current policies and asset-liability management strategies, T-Bank manages the consistency of assets’ and liabilities’ maturities with the interest rates. T-Bank aims to maintain a sustainable spread on its total investments by minimizing the liquidity risk.

T-Bank calculates the liquidity coverage ratio (LCR) on a weekly basis, which is in line with the Basel III requirements and “The Regulation on Calculating the Ratio of Banks” published by the BRSA.

The Risk Management Department sets various crisis scenarios related to liquidity risk which are in line with the strategy and submits them to the Executive Management and the Audit Committee. With respect to the funding and liquidity resources, T-Bank can ensure a significant amount of its liquidity requirement via deposits and the Bank can create additional resources like syndication loans and pre-financing products in addition to the deposits, when it is needed.

Operational Risk

Operational risk refers to the risk of loss due to inadequate internal processes, employee or system failures or external effects. This risk is managed by the relevant departments of the Bank through clearly defined policies, procedures and internal controls. Risks and relevant controls are defined by Internal Audit and Internal Control Departments and are updated on an annual basis. Operational risks are calculated by the Risk Management Department as per Basel - II Basic Indicators Method. Quantifiable and non-quantifiable operational risks are detected by the Bank on a process and transaction basis using relevant measuring methods. Risk Management Department creates awareness on operational risks, audits and residual risks by reports submitted to the Executive Management.

T-Bank uses an application to manage all operational and IT risks centrally. The Risk Management Department regularly logs the operational risks and losses using a standalone system independent from business lines and in integration with daily risk management processes.

Operational risks of companies providing support services are evaluated within the scope of the Support Services Regulation. Risk analyses for support services companies are performed by the relevant departments and the Risk Management Department. The annual risk management program for support services is created and submitted to the Board of Directors. The Audit Committee annually evaluates the support services companies in terms of their qualities and reports the results to the Board of Directors.

The Risk Management Department evaluates the risks associated with IT processes within the scope of the operational risks system. Continuous improvements are made for critical IT processes. The improvement points for the issues that are identified by the external auditors in the scope of IT Audits are shared with related departments. Improvement actions are evaluated and settled by the IT Risks Committee and IT Risks Sub-Committee. Procedures are defined in coordination with the relevant departments and updated as necessary.

The process implementation steps are reviewed within the scope of improvement activities and improvements are offered where necessary. Relevant departments regularly check whether or not these actions are taken.

IT Risk Management Sub-Committee calculates the impact and probability of the IT risks and performs the necessary

updates on an annual basis. The committee informs the IT Risk Committee on the risks exceeding the thresholds and accordingly decides to reduce, accept, avoid, or transfer the risks and monitors the actions taken.

The Business Continuity Plan and IT Continuity Plan are reviewed by Risk Management Department and are updated in coordination with the relevant departments. Critical business processes are discussed with the relevant departments while Business Continuity Plan and Emergency Plan, Crisis Management Plan, Business Recovery Plan are updated accordingly. Business Continuity and IT Continuity Plans regarding the critical processes were tested last year.

Internal Capital Management

Internal Capital Adequacy Assessment Process (ICAAP) is a process that effectively measures and evaluates the Bank’s risks and determines the required capital within a certain period of time.

“Pillar I” includes the credit, market and operational risks, while “Pillar II” includes the risks that are not covered or partially covered by the Pillar I. Market, liquidity concentration and IT risks are the risk groups which the Bank might be exposed to during its activities.

The Bank estimates the maximum losses due to credit, market, operational and other risks based on market changes and aims to manage them by relevant stress tests within the scope of internal capital management process. Stress test results and scenario analyses are reported daily, weekly, and quarterly, while the Capital Adequacy Ratio is calculated on a monthly basis by the Risk Management Department. If there is a need of additional capital, the Executive Management is informed within the context of the Bank’s strategic plan.

The design and implementation of internal capital adequacy assessment process are performed by the Risk Management Department in coordination with the relevant departments within the Bank. The Risk Management Department directly informs the Executive Management about the relevant issues in internal capital adequacy assessment process or via Committees structured in the Bank.

THE AUDIT COMMITTEE REPORT ON INTERNAL SYSTEMS

T-Bank Audit Committee is responsible for ensuring the efficiency and adequacy of the Bank’s internal systems (Internal Audit, Internal Control, Compliance and Risk Management Systems) on behalf of the Board of Directors. The Audit Committee is also responsible for overseeing these systems as well as for accounting and reporting systems in line with the applicable laws and regulations and the integrity of generated data. T-Bank’s Internal Systems functions are executed by the Bank’s Internal Audit Department, Internal Control Department, Compliance Department and Risk Management Department with the coordination of Board Member Responsible for Internal Systems. Internal Systems Group effectively defines, evaluates and manages the risks attached to banking processes through Information Technologies Risk Committee, Support Services Management Committee, IT Risk Management Sub-Committee and Operational Risks Committee. These committees performed efficiently in 2017.

Internal Audit

Operating under the Internal Systems Group, the Internal Audit Department is required to ensure to the Executive Management that the Bank’s activities are in line with the laws and other applicable regulations as well as with the Bank’s internal strategies, policies, principles and objectives and internal control and risk management systems are effective and adequate.

The main objective of the Internal Audit Department is to add value to business processes and ensure that T-Bank’s activities are performed in accordance with the objectives. In this sense, the Internal Audit Department makes efforts to ensure that the tools used to support the Bank’s internal control and risk management systems are adequate and effective.

Auditors’ recommendations and results are shared with the T-Bank’s Executive Management and Audit Committee in order to guide the decision making process. Actions based on the outcome of the audit process are carefully implemented and regularly monitored.

T-Bank’s internal audit activities should be in line with international professional audit standards. The Internal

Audit Department operates according to this basic requirement. The 2017 audit plan, created with a risk-based approach and approved by the Bank's Board of Directors, was implemented to a large extent in 2017. The Bank's processes were also reviewed within the frame of audits listed in the Management Assertion. Furthermore, performances of audited units were measured according to analytic audit grades. Units with a below-average audit grade were reviewed more thoroughly within the scope of the annual audit plan. The information systems ensure the efficiency of the Audit reports.

T-Bank attaches great importance to the professional improvement of its employees and helps auditors, assigned to the Internal Audit Department, obtain certificates in an effort to increase the audit quality and ensure compliance with international audit standards. Within this context, seven members of the Inspection Committee hold seven internationally-valid certificates including two Certified Internal Auditors (CIA), one Certified Information Systems Auditor (CISA), one Certified Ethical Hacker (CEH) and one Certified Information Systems Manager (CISM). The Bank also employs two inspectors with a Capital Markets Transactions Level 3 License and a Derivatives License at the Audit Committee. This department consists of qualified audit experts and helps T-Bank create a difference in the industry.

Internal Control Center Management:

The basic function of the Internal Control Center Management is to ensure a strong internal control in order to confirm that the Bank operates in line with the applicable legislation and other regulations. Control activities are designed in accordance with this objective and are performed by competent and experienced internal auditors at the branches and Headquarters.

Findings of the review and controls carried out within the year were shared with the relevant departments, reported to the top management and submitted to the Audit Committee through quarterly activity reports.

Efforts of the Internal Control Center Management helped T-Bank maintain the losses arising from operational risks at a low level, and ensure that the Bank's activities are efficient, effective and in line with the applicable legislation.

The Compliance Department

With the growing importance of legal compliance risk, the Compliance Department was established under the Internal Systems Group within the organizational scheme in line with Banking Regulation and Supervision Agency (BRSA) and Financial Crimes Investigation Board (FCIB) regulations and international standards. The Compliance Department Head was also assigned the role of the Compliance Officer by the Board of Directors. The tasks and responsibilities of the Compliance Officer were specified in the Regulation 5549 on Program of Compliance with the Obligations of Anti-Money Laundering and Combating the Financing of Terrorism. The Compliance Department has two sub-units. These are: Prevention of Laundering Proceeds of Crime and Financing of Terrorism (AML) Unit and Regulatory Compliance Unit. The Regulatory Compliance Unit supports the business lines to ensure compliance with local legislation and international standards as well as to ensure that the Bank's operations are in line with ethical rules and principles.

1- Regulatory Compliance Unit: Ensures that the Bank's activities are in line with the Banking Law, FCIB Legislations; Law no 5549 & 6415, and Capital Markets Board (CMB) regulations as well as other applicable legislation, regulations related with the Bank's activities. "Corporate Compliance Policy" is in line with the local legislation and internationally-accepted standards and was taken into effect with the approval of the Board of Directors. The Regulatory Compliance Unit also monitors the internalization of new/ revised legislations and evaluates the Bank's new product/ service projects and internal policies and procedures or other relevant documents in the regulations.

2- AML Unit: Ensures that the Bank's operations are in line with the Banking Law and especially FCIB Legislations; Law no 5549 and 6415 and the relevant regulations and communiqués as well as T-Bank Corporate Compliance Policy as well as with other applicable compliance policies. The Bank's employees are trained to create awareness on Prevention of Laundering Proceeds of Crime and Financing of Terrorism in their respective areas of responsibility. Monitoring and control activities of the AML Compliance Program, created by a risk-based approach, and it is monitored, managed, and updated through using technology tools.

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YÖNETİM KURULUNUN YILLIK FAALİYET RAPORUNA İLİŞKİN BAĞIMSIZ DENETÇİ RAPORU

Türkland Bank A.Ş. Genel Kurulu'na

1) Görüş

Türkland Bank A.Ş.'nin ("Banka") 01/01/2017-31/12/2017 hesap dönemine ilişkin yıllık faaliyet raporunu denetlemiş bulunuyoruz.

Görüşümüze göre, yönetim kurulunun yıllık faaliyet raporu içinde yer alan konsolide olmayan finansal bilgiler ile Yönetim Kurulu'nun Banka'nın durumu hakkında denetlenmiş olan finansal tablolarda yer alan bilgileri kullanarak yaptığı irdelemeler, tüm önemli yönleriyle, denetlenen tam set finansal tablolarla ve bağımsız denetim sırasında elde ettiğimiz bilgilerle tutarlıdır ve gerçeği yansıtmaktadır.

2) Görüşün Dayanağı

Yaptığımız bağımsız denetim, 2 Nisan 2015 tarihli 29314 sayılı Resmi Gazete'de yayımlanan "Bankaların Bağımsız Denetimi Hakkında Yönetmelik" ve Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu (KGK) tarafından yayımlanan Türkiye Denetim Standartları'nın bir parçası olan Bağımsız Denetim Standartları'na (BDS'lere) uygun olarak yürütülmüştür. Bu Standartlar kapsamındaki sorumluluklarımız, raporumuzun *Bağımsız Denetçinin Yıllık Faaliyet Raporunun Bağımsız Denetimine İlişkin Sorumlulukları* bölümünde ayrıntılı bir şekilde açıklanmıştır. KGK tarafından yayımlanan *Bağımsız Denetçiler için Etik Kurallar* (Etik Kurallar) ve bağımsız denetimle ilgili mevzuatta yer alan etik hükümlere uygun olarak Banka'dan bağımsız olduğumuzu beyan ederiz. Etik Kurallar ve mevzuat kapsamındaki etiğe ilişkin diğer sorumluluklar da tarafımızca yerine getirilmiştir. Bağımsız denetim sırasında elde ettiğimiz bağımsız denetim kanıtlarının, görüşümüzün oluşturulması için yeterli ve uygun bir dayanak oluşturduğuna inanıyoruz.

3) Tam Set Finansal Tablolara İlişkin Denetçi Görüşümüz

Banka'nın 01/01/2017-31/12/2017 hesap dönemine ilişkin tam set konsolide olmayan finansal tabloları hakkında 28 Şubat 2018 tarihli denetçi raporumuzda olumlu görüş bildirmiş bulunuyoruz.

4) Yönetim Kurulu'nun Yıllık Faaliyet Raporuna İlişkin Sorumluluğu

Banka yönetimi, 6102 sayılı Türk Ticaret Kanununun (TTK) 514 ve 516'ncı maddelerine ve 1 Kasım 2006 tarihli ve 26333 sayılı Resmi Gazete'de yayımlanan "Bankalarca Yıllık Faaliyet Raporunun Hazırlanmasına ve Yayımlanmasına İlişkin Usul ve Esaslar Hakkında Yönetmelik" ("Yönetmelik") hükümlerine göre yıllık faaliyet raporuyla ilgili olarak aşağıdakilerden sorumludur:

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- Yıllık faaliyet raporunu bilanço gününü izleyen ilk üç ay içinde hazırlar ve genel kurula sunar.
- Yıllık faaliyet raporunu; bankanın o yıla ait faaliyetlerinin akışı ile her yönüyle finansal durumunu doğru, eksiksiz, dolambaçsız, gerçeğe uygun ve dürüst bir şekilde yansıtabilecek şekilde hazırlar. Bu raporda finansal durum, finansal tablolara göre değerlendirilir. Raporda ayrıca, bankanın gelişmesine ve karşılaşması muhtemel risklere de açıkça işaret olunur. Bu konulara ilişkin yönetim kurulunun değerlendirmesi de raporda yer alır.
- Faaliyet raporu ayrıca aşağıdaki hususları da içerir:
 - Faaliyet yılının sona ermesinden sonra bankada meydana gelen ve özel önem taşıyan olaylar,
 - Bankanın araştırma ve geliştirme çalışmaları,
 - Yönetim kurulu üyeleri ile üst düzey yöneticilere ödenen ücret, prim, ikramiye gibi mali menfaatler, ödenekler, yolculuk, konaklama ve temsil giderleri, ayni ve nakdi imkânlar, sigortalar ve benzeri teminatlar,

Yönetim kurulu, faaliyet raporunu hazırlarken Bankacılık Düzenleme ve Denetleme Kurumu'nun, Gümrük ve Ticaret Bakanlığı'nın ve ilgili kurumların yaptığı ikincil mevzuat düzenlemelerini de dikkate alır.

5) Bağımsız Denetçinin Yıllık Faaliyet Raporunun Bağımsız Denetimine İlişkin Sorumluluğu

Amacımız, TTK hükümleri ve Yönetmelik çerçevesinde yıllık faaliyet raporu içinde yer alan konsolide olmayan finansal bilgiler ile Yönetim Kurulu'nun denetlenmiş olan konsolide olmayan finansal tablolarda yer alan bilgileri kullanarak yaptığı irdelemelerin, Banka'nın denetlenen konsolide olmayan finansal tablolarıyla ve bağımsız denetim sırasında elde ettiğimiz bilgilerle tutarlı olup olmadığı ve gerçeği yansıtır yansıtmadığı hakkında görüş vermek ve bu görüşümüzü içeren bir rapor düzenlemektir.

Yaptığımız bağımsız denetim, 2 Nisan 2015 tarihli 29314 sayılı Resmi Gazete'de yayımlanan "Bankaların Bağımsız Denetimi Hakkında Yönetmelik" ve BDS'lere uygun olarak yürütülmüştür. Bu standartlar, etik hükümlere uygunluk sağlanması ile bağımsız denetimin, faaliyet raporunda yer alan konsolide olmayan finansal bilgiler ve Yönetim Kurulu'nun denetlenmiş olan konsolide olmayan finansal tablolarda yer alan bilgileri kullanarak yaptığı irdelemelerin konsolide olmayan finansal tablolarla ve denetim sırasında elde edilen bilgilerle tutarlı olup olmadığına ve gerçeği yansıtır yansıtmadığına dair makul güvence elde etmek üzere planlanarak yürütülmesini gerektirir.

Bu bağımsız denetimi yürütüp sonuçlandıran sorumlu denetçi Müjde Aslan'dır.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Müjde Aslan, SMMM
Sorumlu Denetçi

İstanbul, 2 Mart 2018

TURKLAND BANK A.Ş.

INDEPENDENT AUDITORS' REPORT