



**KUVEYTÜRK**

# 2014

**ANNUAL REPORT 2014**



A pioneer of participation banking in Turkey, Kuveyt Türk is proudly powering ahead as the sector leader in its 25<sup>th</sup> anniversary year. A market standout thanks to successful banking operations as well as initiatives to preserve the country's historical and cultural heritage, the Bank crowned its 25<sup>th</sup> year by completing the restoration of the Grand Imperial Mosque of Sultan Abdülmecid in Istanbul's Ortaköy district. Hereby, we present you with a summary of these 25 years along with our achievements in 2014, accompanied by information on this important restoration project.

## Contents

**SECTION I: INTRODUCTION** 02 Summary Financial Highlights 04 Agenda of the Ordinary General Assembly Meeting  
08 Kuveyt Türk in Brief 10 The Story of 25 Years Filled with Achievements 14 Mission, Vision, Our Quality Policy, Our Values, Ethical Principles, Our Service Principles 15 Changes in Shareholding, Capital Structure and the Articles of Association 18 Message from the Chairman 20 Message from the CEO 24 Review of Operations in 2014 24 Corporate Social Responsibility and Sustainability  
26 Commercial Banking Group 28 Loans 30 Retail and Small Business Banking 38 Strategy 43 Corporate and International Banking  
48 Financial Affairs 56 Audit and Risk 64 Banking Services Group

**SECTION II: MANAGEMENT AND CORPORATE GOVERNANCE PROCEDURES** 84 Board of Directors 87 Senior Management  
90 Summary Report of the Board of Directors Submitted to the General Assembly 91 Internal Systems Executives 94 Senior Management Committee 94 Related Party Transactions 95 Outsourced Services

**SECTION III: FINANCIAL INFORMATION AND RISK MANAGEMENT PROCEDURES** 96 Annual Report Compliance Opinion  
97 Review of Audit Committee on Internal Systems 98 Assessment of Financial Position, Profitability and Debt Servicing Capacity  
98 Ratings of Kuveyt Türk by International Rating Agencies 99 Information on Risk Management Policies 100 Five-Year Summary Financial Information

**SECTION IV: FINANCIAL STATEMENTS** 103 Independent Auditor's Report, Consolidated Financial Statements and Footnotes Contained Therein for the Year Ended on December 31, 2014 173 Contact Information and Branch Directory



## Summary Financial Highlights



Marking its 25<sup>th</sup> anniversary year in 2014, Kuveyt Türk increased total assets by 32%, to TL 33.7 billion, while shareholders' equity also rose 34%, to TL 3.2 billion.

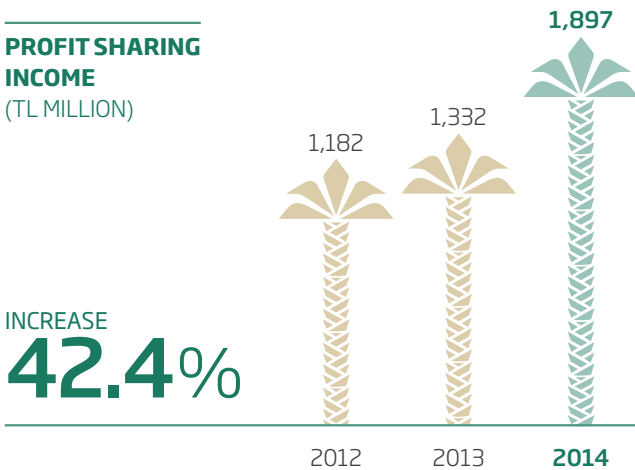
*Celebrating its 25<sup>th</sup> anniversary in the sector in 2014, Kuveyt Türk closed the year with a consistent growth performance and posted net profit of TL 458 million, demonstrating the results of its sound banking business model.*

### Summary Financial Highlights (TL thousand)\*

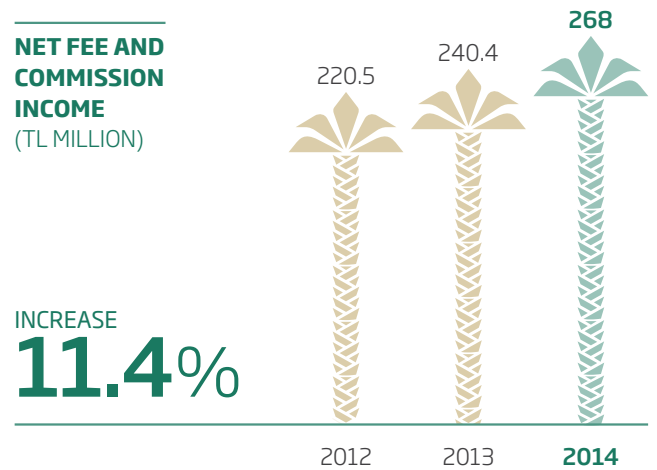
	2012	2013	2014
Profit sharing income	1,182,236	1,332,063	1,897,864
Profit sharing expense	610,562	548,888	815,583
Net fee and commission income	220,518	240,477	267,934
Other income	136,723	234,655	193,929
Other expenses	606,690	824,902	986,404
Tax charge	59,997	72,230	99,704
Net profit for the period	262,228	361,175	458,036
Total assets	18,596,049	25,602,525	33,750,746
Total shareholders' equity	1,728,337	2,418,506	3,236,703
Capital adequacy ratio (%)	14.16	14.43	15.21

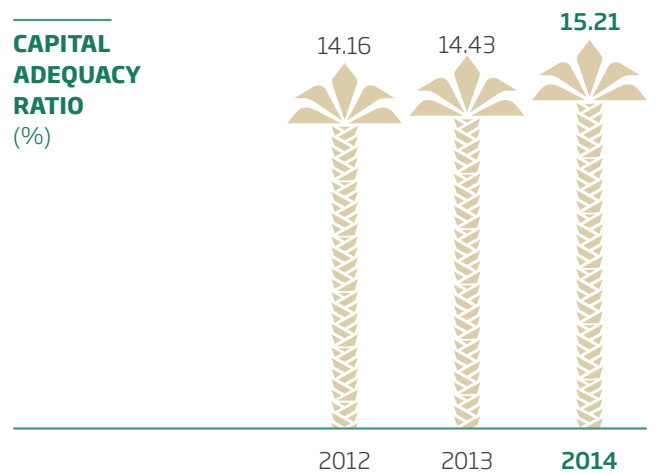
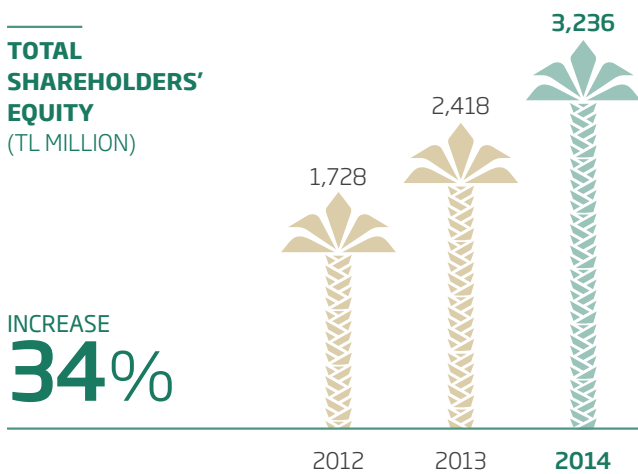
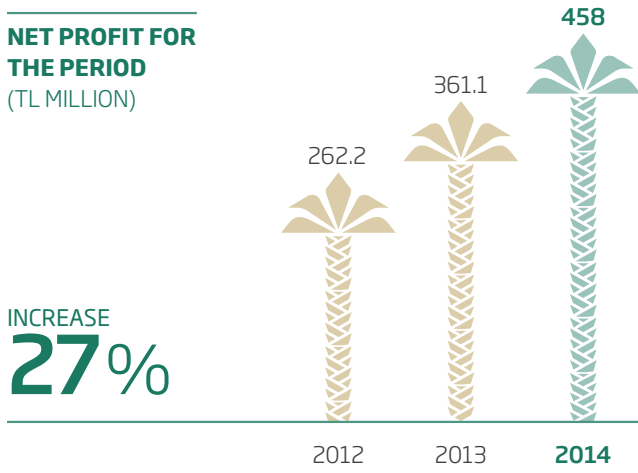
\* IFRS consolidated figures

### PROFIT SHARING INCOME (TL MILLION)



### NET FEE AND COMMISSION INCOME (TL MILLION)





## Agenda of the Ordinary General Assembly Meeting

### KUVEYT TÜRK KATILIM BANKASI A.Ş. BOARD OF DIRECTORS MEETING RESOLUTION

Place of Meeting : Headquarters  
 Date of Meeting : 28/01/2015  
 Meeting Number : 1619  
 Board Members : Hamad Abdulmohsen AL MARZOUQ  
 Abdullah TİVNiKLİ  
 Mohammad Shujauddin AHMED  
 Khaled N. AL FOUZAN  
 Nadir ALPASLAN  
 Adnan ERTEM  
 Fawaz KH E ALSALEH  
 Ahmad S. AL KHARJI  
 Ufuk UYAN

### AGENDA OF THE MEETING

1. Decision on the date and agenda of Annual Ordinary General Assembly.

It has been resolved:

RESOLUTION NR: 1

The Board of Directors has unanimously resolved to hold the Annual Ordinary General Assembly of Kuveyt Türk Katılım Bankası A.Ş. at the Company headquarters on 31 March 2015 at 15:00 to discuss the following agenda and to grant authority to the General Management to fulfill the required preparation.

### AGENDA OF THE ANNUAL ORDINARY GENERAL ASSEMBLY RELATED WITH 2014

1. Opening and constitution of the Presidential Board;
2. To grant authority to the Presidency to sign the minutes of the General Assembly;
3. Discussion and approval of the Annual Report for fiscal year 2014;
4. Discussion and approval of Financial Statements for fiscal year 2014;
5. Discussion of independent audit report compiled by independent auditor for fiscal year 2014;
6. Approval nominations of members of the Board of Directors appointed to replace the remaining period due to resignations in the year;
7. Release of the Board of Directors related to their 2014 efforts;
8. Decision on the Board of Directors proposal about the profit distribution for fiscal year 2014;
9. Discussion and approval of the amendments to the Articles of Association as attached;
10. Discussion and approval of paying salary, attendance fee, bonus, and dividend to the Chairman and other Board Members for their Board Membership and/or other committee memberships;
11. Appointment of the Members of the Board of Directors whose terms have expired and determination of new term and the number of the members;
12. Appointment of the Independent Auditors and determination of the contract period;

13. Discussion on external audit in accordance with Banking Law no: 5411 and the related regulations;
14. Discussion on bonus payments to personnel in accordance with the Banking Regulation and Supervision Agency's decision on profit distribution;
15. Approving of reflecting participation accounts' portion of provision expenses, which is set aside pursuant to Article 14/2 of the Communiqué on "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" of BRSA, to expense accounts. The Turkish Commercial Code's related Provisions are reserved.
16. To grant authority to the Board members to execute the deals specified in Turkish Commercial Code Articles 395 and 396.
17. Wishes and proposals.

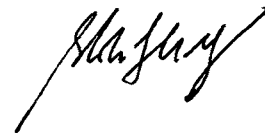
The content of this decision has been read and understood by the following Board members in their own language and agreed upon.



**Hamad Abdulmohsen AL MARZOUQ**



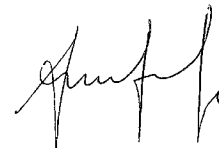
**Abdullah TIVNİKLİ**



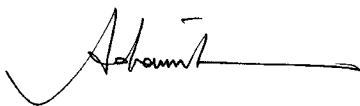
**Mohammad Shujauddin AHMED**



**Khaled N. AL FOUZAN**



**Nadir ALPASLAN**



**Adnan ERTEM**



**Fawaz KH E ALSALEH**



**Ahmad S. AL KHARJI**



**Ufuk UYAN**





In order to move forward into the future, and succeed in a short period of time, we had to have a strong foundation. We required a solid base that would allow us to rise higher and higher through the years with utmost confidence. Kuveyt Türk was established in 1989 to provide best-in-class interest-free banking, and thus filled a critical gap in the market. We have made continuous progress over the years, because we always remained true to our original goal of achieving excellence in our business.



#### **ORTAKÖY MOSQUE**

The Grand Imperial Mosque of Sultan Abdülmecid, popularly known as Ortaköy Mosque, took its place alongside the late imperial edifices on the Bosphorous in the year 1854. The ornamentation of the façade reflects the eclectic taste of the Sultan Abdülmecid era, which blended Baroque, Empire and Neo-Renaissance styles. Over the main entrance to the mosque is an inscription written in “celî ta'lik” script and bearing the signature of Sultan Abdülmecid. Ahmed Sadık Ziver Pasha authored the inscription text while Ali Haydar Beyefendi was responsible for the calligraphy.

## Kuveyt Türk in Brief



Celebrating its 25<sup>th</sup> year in 2014, Kuveyt Türk has made significant contributions to the development of participation banking in Turkey, with its dynamic corporate governance approach and innovative products for customers.

Pursuant to the authorization issued by the Central Bank of Turkey on February 28, 1989, Kuveyt Türk Katılım Bankası A.Ş. was founded on March 31, 1989 under the business name Kuveyt Türk Evkaf Finans Kurumu A.Ş.

It has operated under the status of a Private Financial Institution, and like other private financial institutions, became subject to Banking Law No. 4389 in 1999. In 2006, the business title of the Bank was changed to Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk), the name the Bank continues to use today.

### STRONG CAPITAL STRUCTURE

As of year-end 2014, Kuveyt Türk's shareholders' equity stood at TL 3.2 billion. Of the Bank's outstanding shares, 62.32% are owned by Kuwait Finance House, 18.74% by the Turkish General Directorate of Foundations, 9.01% by the Kuwait Public Institution for Social Security, 9.01% by Islamic Development Bank, and the remaining 0.92% by other real and legal persons. Kuveyt Türk's main shareholder, Kuwait Finance House, boasts billions of dollars in total funds and an efficient international service network, and is thus the primary pillar supporting the Bank's consistent development.

Set apart from the competition with a robust capital structure and using a dynamic corporate governance approach, Kuveyt Türk had paid-in capital of TL 2.3 billion as of year-end 2014. The Bank's consolidated assets grew by 31.3% in 2014, to TL 34 billion.

### 308 BRANCHES, 5,082 EMPLOYEES

Kuveyt Türk efficiently provides clients with a vast array of financial products and services via 306 branches throughout Turkey, as well as overseas branches in Bahrain and Mannheim. As of year-end 2014, the Bank had 5,082 employees.

With a young, dynamic staff composed of mostly university graduates and experts in their respective fields, Kuveyt Türk has adopted modern management practices and a service-driven approach. It is a leader among participation banks in Turkey.

### A PIONEER OF INNOVATION

Celebrating its 25<sup>th</sup> anniversary in 2014, the Bank has made significant contributions to the development of participation banking in Turkey thanks to a dynamic corporate governance approach and an innovative product and service offering.

Throughout 2014, Kuveyt Türk rolled out products that encourage savings and launched new initiatives in the area of SME banking. Maintaining market leadership in gold banking and mortgage financing, the Bank expanded its investments in technology with a dedicated R&D center, a first in the Turkish banking and financial services sector.

### PIONEER OF SUKUK ISSUANCE IN TURKEY

Striving to ensure the ongoing development of interest-free investment instruments in Turkey, and having launched Turkey's first sukuk in a three-year, US\$ 100 million issue in 2010, Kuveyt Türk undertook two more sukuk issuances in 2014, which were well oversubscribed by leading investors, further reinforcing its strong position in the sukuk market.

### THE LEADER IN GOLD BANKING

Kuveyt Türk carries out all sorts of operations related to gold, including import and export, refining services, and contracts with international gold refiners. It also carries out gold banking operations in Dubai.

With the highest gold transaction volume on the Precious Metals and Stones Market of Borsa Istanbul (BIST), Kuveyt Türk maintains its leadership among all banks and members. In 2013, the Bank undertook the first gold swap through Takasbank. Kuveyt Türk ranks first among all banks in terms of average daily volume of silver transactions and continued this application also in 2014.

Kuveyt Türk once again demonstrated remarkable growth in gold banking, which differentiates the Bank from the competition, underscoring its innovative approach to financial services. Kuveyt Türk had an 11% market share in the overall gold banking segment in 2014 and a 52% share among all participation banks.

The total volume of gold in Gold Participation Accounts, a groundbreaking offering introduced to the Turkish market by Kuveyt Türk, amounted to some 22 tons. Meanwhile, "Gold Days," a physical gold collection campaign held for the past three years, allowed the Bank to channel eight tons of gold to the Turkish economy in 2014.

Kuveyt Türk also ranks first among eight banks in silver transactions volume.

Kuveyt Türk is the first and only bank in Turkey, and the first participation bank in the world, to be accepted into the London Bullion Market Association (LBMA) with "expert/associate" member status. Additionally, Kuveyt Türk is the only bank to receive praise from the World Gold Council (WGC) for the diversity of its gold products and services.

### **SUPPORT TO THE REAL ECONOMY**

Kuveyt Türk figures among the strongest players in the Turkish financial services industry in terms of capital adequacy. In accordance with interest-free banking principles, the Bank has always stood by investors, both real persons and legal entities, through direct financing support, or participation by way of joint ventures, always providing significant support to the real economy.

With investments and joint ventures in the textile, metals and real estate industries, Kuveyt Türk has not only turned the savings of profit-sharing clients into solid and profitable investments, but has also created new employment opportunities

as it contributes to the national economy by providing resources to the real sector. Kuveyt Türk works continuously to bolster its banking services to SMEs, which it views as the driving force of economic growth and the best solution to the country's current account deficit.

Thanks to its many contributions to Turkey's real economy, Kuveyt Türk has received numerous gold, silver and bronze awards from a range of public agencies and trade associations -including the Undersecretariat of Treasury and Foreign Trade, Istanbul Chamber of Commerce and Istanbul Textile & Apparel Exporters Association- in recognition of the Bank's achievements in helping to boost exports.

### **INTRODUCING GROUNDBREAKING PRACTICES**

In line with its principle of operating in parallel with customer needs and expectations, Kuveyt Türk offers clients a large number of retail banking products and services. As the first participation bank to venture into the Retail Banking segment, Kuveyt Türk consistently expands its client portfolio and has introduced groundbreaking practices to the banking industry thanks to its ability to develop high quality products.

Topping the list of banks that deploy technology efficiently and that have established sound IT systems infrastructure, Kuveyt Türk stepped up its technology-related capital investments with the establishment of an R&D center, a first in the Turkish banking and financial services sector.

Kuveyt Türk efficiently delivers the best in every facet of electronic banking services and alternative distribution channels. In addition to offering Visa and MasterCard credit cards, the Bank also provides POS, ATM, Online Banking, a Call Center -designated as Turkey's best for three years in a row- IVR systems as well as SMS Banking services.

In 2014, Kuveyt Türk also expanded the XTM network, which delivers secure, interactive and innovative banking services. The Bank's XTM Center offers basic branch operations, such as opening accounts, transferring money, investing in a fund and completing applications; the range of transactions it supports expands day by day. In the coming period, the Bank aims to ensure that its XTM digital branches can deliver all the banking services now provided in a brick-and-mortar branch.

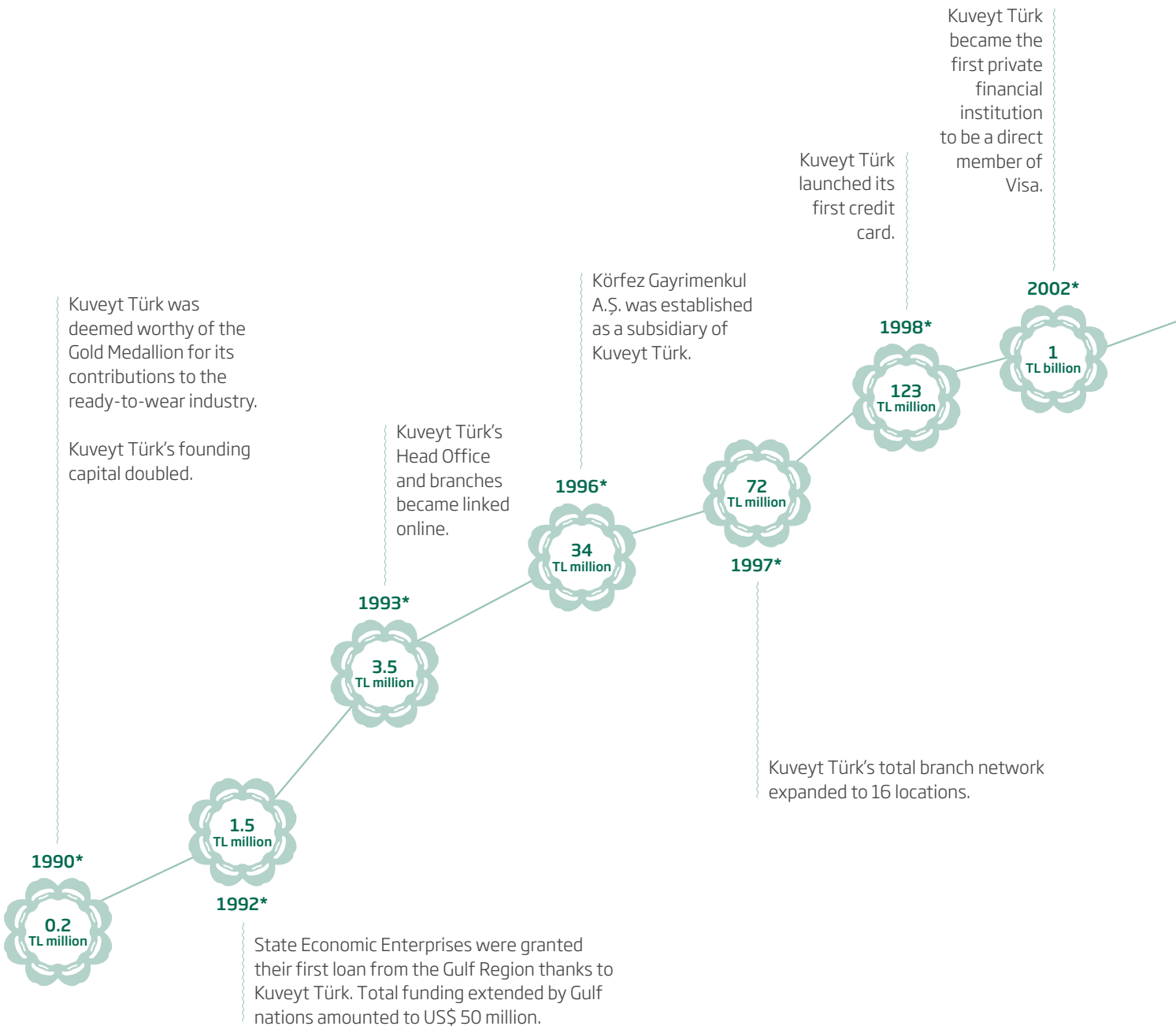
### **A FINANCIAL BRIDGE BETWEEN TURKEY AND THE WORLD**

By honing Kuwait Finance House's extensive correspondent network and deep-seated interest-free banking experience to a competitive edge, Kuveyt Türk functions like a financial bridge for Turkish investors seeking access to the world, particularly to the Gulf Region. A major contributor to the burgeoning trade between Turkey and the Gulf Region through its Bahrain branch, the Bank is developing international projects that will present new opportunities for investors. Efforts to establish Germany's first interest-free bank are currently underway and is expected to commence operations in 2015.

## The Story of 25 Years Filled with Achievements



The factors underlying Kuveyt Türk's successful growth over the years include a customer-focused and innovative approach, as well as smart products and services that offer cost advantages.



\*Our Asset Size figures were prepared and issued in accordance with TFRS (Turkish Financial Reporting Standards) while IFRS (International Financial Reporting Standards) figures were taken into account for 2004 and before.

The two-year, US\$ 200 million murabaha syndication secured by Kuveyt Türk from banks in the Gulf Region and Europe was not only oversubscribed by US\$ 65 million, but also significantly bolstered the Bank's reputation in international markets. Kuveyt Türk unveiled many innovative products such as Gold Swap, Gold for Gold, and GoldCheck.

Kuveyt Türk opened its first representative office in Mannheim, Germany.

1.3  
TL billion

2003\*

In order to offer interest-free banking services nationwide, Kuveyt Türk reached an agreement with the Turkish Postal System (PTT), which has nearly 1,000 branches.

1.6  
TL billion

2004\*

2.9  
TL billion

2006\*

The international rating agency Fitch Ratings upgraded Kuveyt Türk's individual rating from D/E to D and its long term national rating from AA (-) to AA (tur).

The four-year, US\$ 50 million murabaha syndication secured by Kuveyt Türk for GAP Güneydoğu Tekstil became the longest term loan secured from Gulf countries up to that time.

3.9  
TL billion

2007\*

Kuveyt Türk became the first participation bank to launch foreign currency forward trading with a fixed exchange rate.

5.8  
TL billion

2008\*

9.7  
TL billion

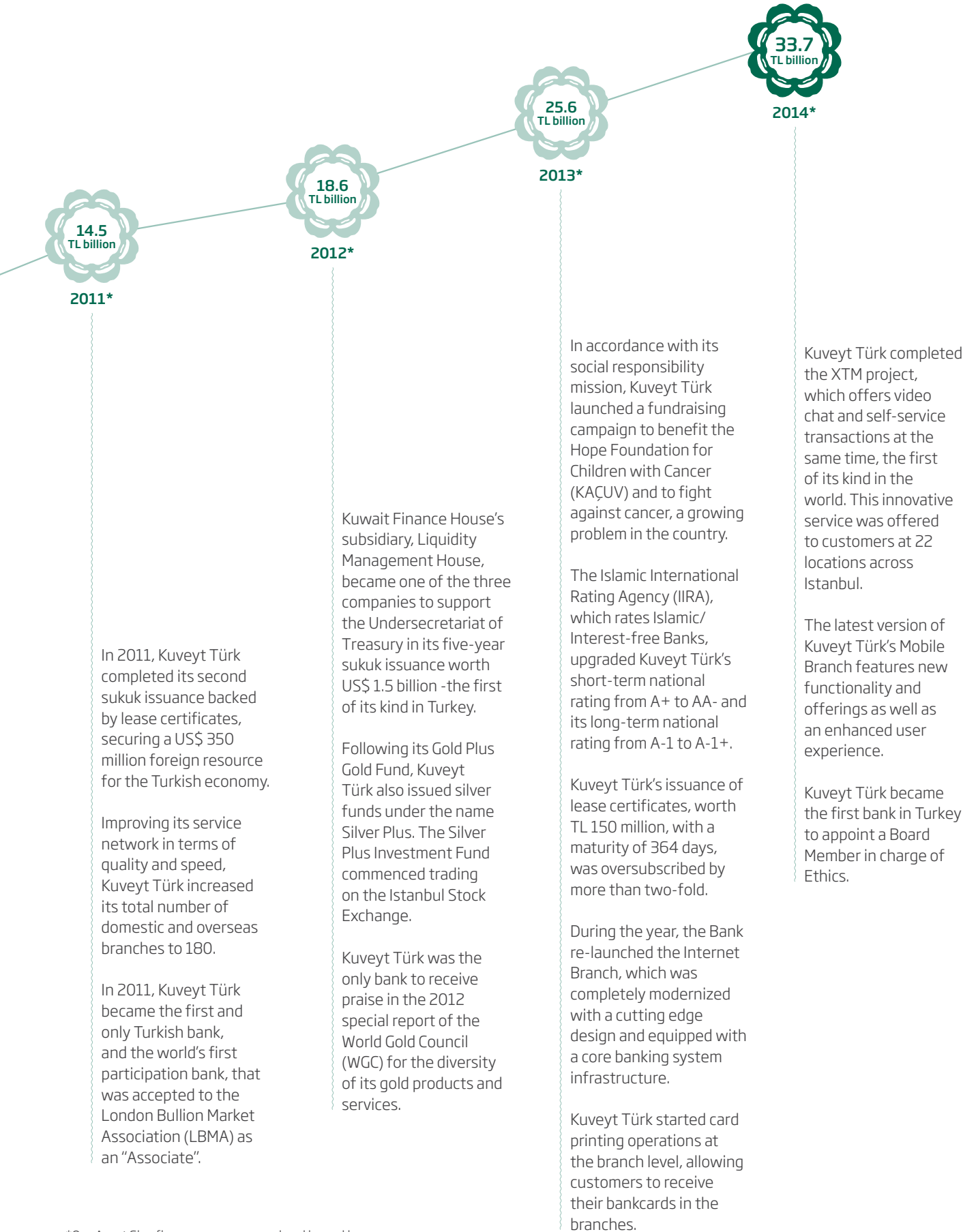
2010\*

Issuing the first sukuk security under the co-leadership of LH (Liquidity Management House) and Citibank, the Bank introduced Turkey to this financial instrument used widely across the Gulf Region and Malaysia. The three-year, US\$ 100 million issuance was 1.5 times oversubscribed as a result of ample interest from the world's major financial centers.

International rating agency Fitch Ratings raised Kuveyt Türk's long term local currency credit rating from BBB- to BBB in December 2010, while also raising its outlook to positive.

\*Our Asset Size figures were prepared and issued in accordance with TFRS (Turkish Financial Reporting Standards) while IFRS (International Financial Reporting Standards) figures were taken into account for 2004 and before.

## Growth in Total Assets



\*Our Asset Size figures were prepared and issued in accordance with TFRS (Turkish Financial Reporting Standards) while IFRS (International Financial Reporting Standards) figures were taken into account for 2004 and before.



Celebrating its 25<sup>th</sup> anniversary in 2014, Kuveyt Türk has made significant contributions to the development of participation banking in Turkey thanks to a dynamic corporate governance approach and an innovative product and service offering.

## Mission



To be a bank that adheres to its core principles (interest-free financial transactions and operations); abides by moral values; focuses on customer-oriented banking while adding value for shareholders, employees and all other parties that form Kuveyt Türk; and embraces corporate social responsibility.

## Vision



To offer tailored and new financial solutions; to rank among Turkey's top five banks in service quality by 2014, and among the country's top 10 banks in terms of total assets by 2018, in light of its know-how and experience as an international bank.

## Our Quality Policy



In line with the principles of participation banking and total quality management, we aim to become an institution that:

- > Improves the degree and quality of customer satisfaction,
- > Leads the banking sector,
- > Creates value under the leadership of top management,
- > With the ongoing efforts of employees throughout the organization.

## Our Values



All employees are responsible for embracing and putting into practice the following values:

- > Sound Banking
- > Fairness
- > Trust
- > Team Spirit
- > Professionalism
- > Innovation

## Ethical Principles



In line with the corporate values, Kuveyt Türk abides by these general principles in all operations:

- > Integrity
- > Impartiality
- > Transparency
- > Confidentiality
- > Ethical Approach

## Our Service Principles

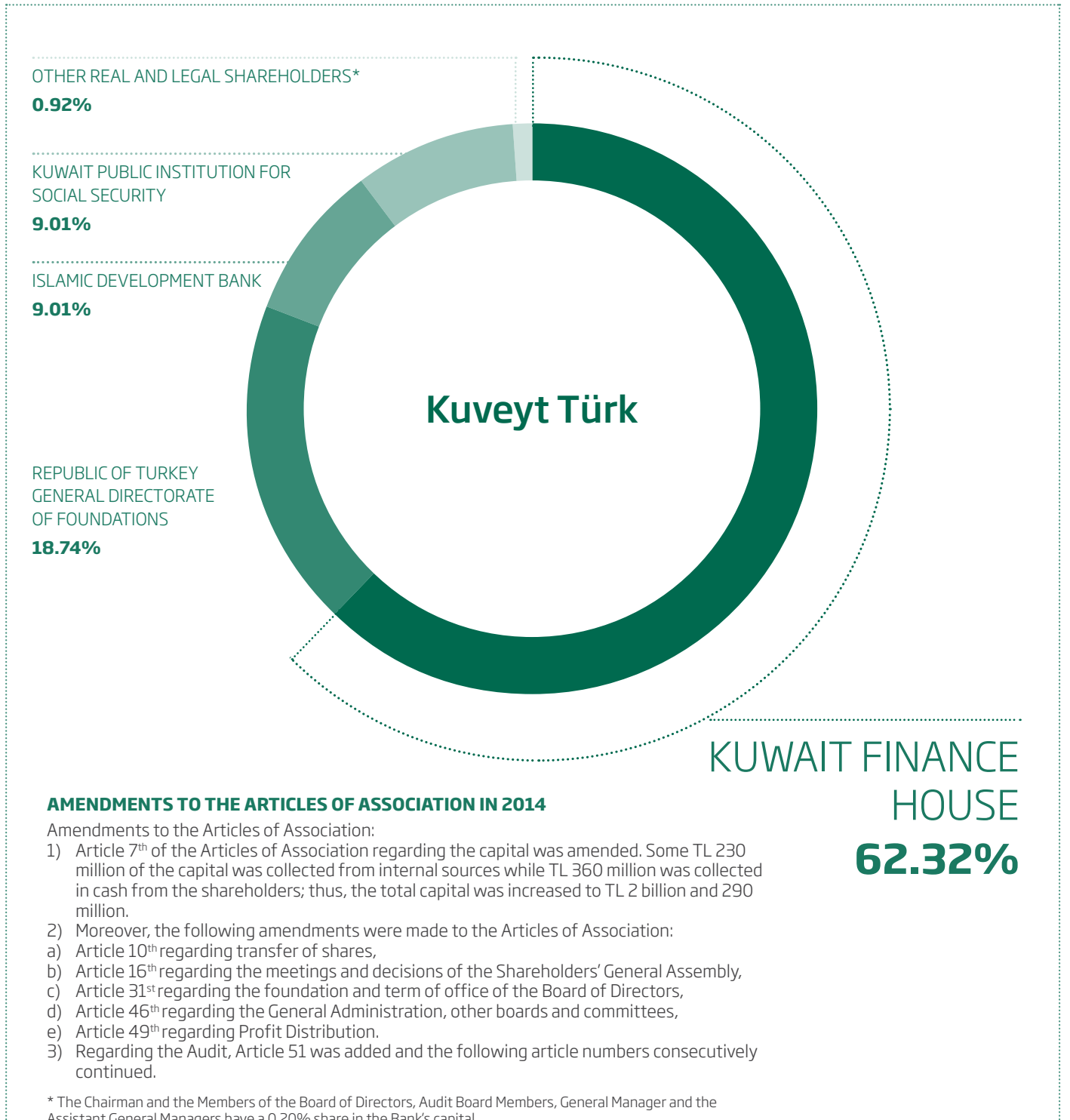


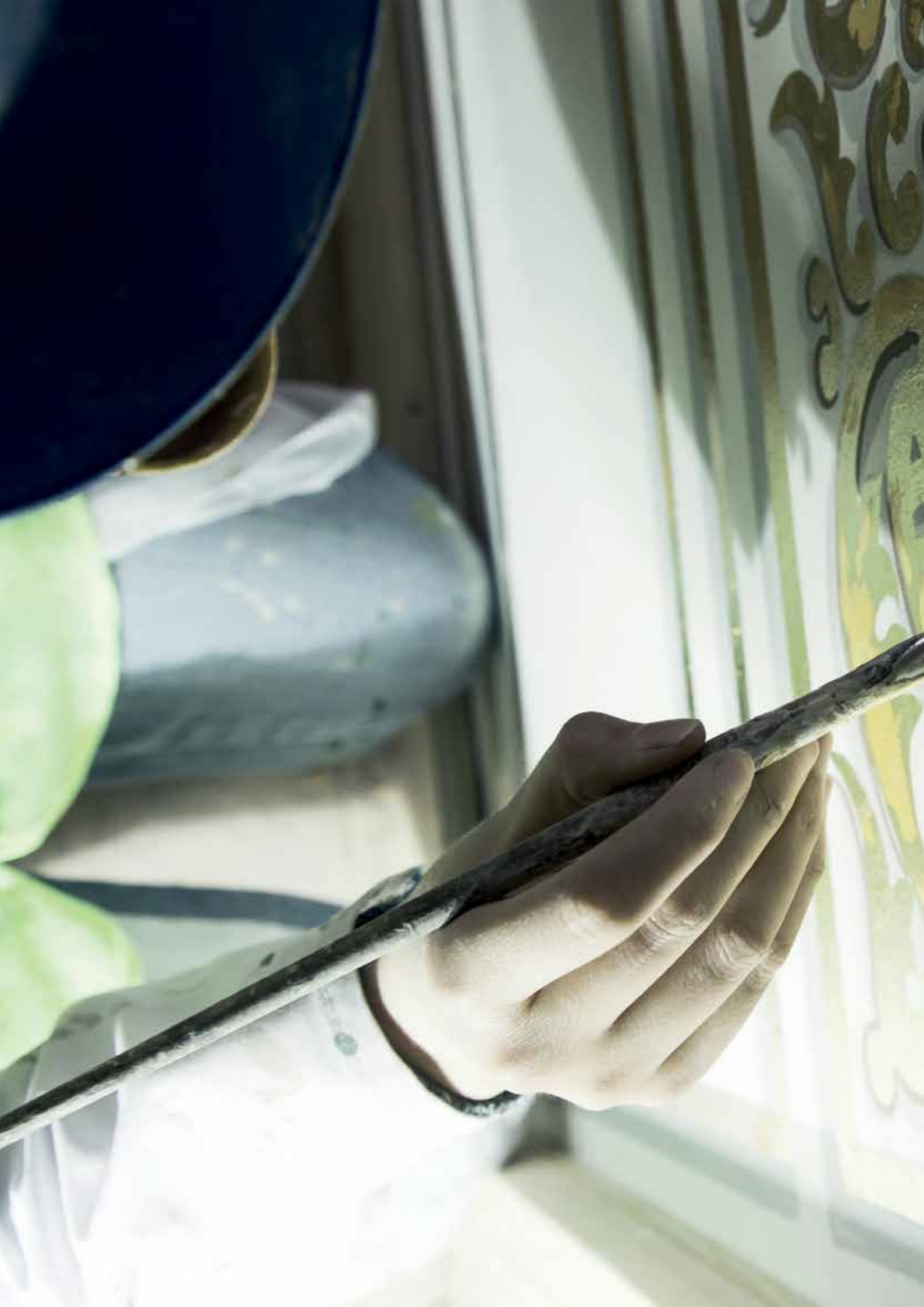
Kuveyt Türk pursues the following service principles to maintain uninterrupted maximum service quality:

- > Generating quick solutions for problems,
- > Bringing a business-partnership approach to clients,
- > Being innovative,
- > Focusing on the customer,
- > Demonstrating our hospitality.



## Changes in Shareholding, Capital Structure and the Articles of Association





We have stood out from the crowd by working on each of our products and services as if they were delicate pieces of embroidery, and we diligently plan ahead, for each and every step we take. Banking services customized for individual customers or corporate clients make them feel special. We reviewed our operations over and over to develop optimal strategies. With an artful touch, we blend sound banking with a relaxed and personal style.



#### **MASJID OF MAHMUD AGA**

A two-story masjid, or small mosque, is known to have stood where the Ortaköy Mosque stands today. Built by a benefactor named Mahmud Aga, this masjid was demolished at the orders of Mehmed Aga, the chamberlain of Sultan Ahmed III. In its place, a hipped-roof mosque with a single minaret balcony was constructed. Later, this structure was replaced by the Grand Imperial Mosque of Sultan Abdülmecid, one of the most important examples of religious architecture during the sultan's reign. Construction of the mosque began on April 30, 1849 and lasted five years. This unique mosque was inaugurated on December 29, 1854, following the Friday prayer service.

## Message from the Chairman



Throughout 2014, Kuveyt Türk rolled out products that encourage savings and launched new initiatives in SME banking. In addition, the Bank maintained market leadership in gold banking and mortgage financing.



Maintaining steady and sustainable

**growth with a “Sound Banking” business model in 2014, our 25<sup>th</sup> anniversary year in the sector,** Kuveyt Türk

continued to provide customers with innovative products and services, while making significant contributions to the Turkish economy.

Esteemed Shareholders,

Slowly rebounding from the 2008 financial crisis, the world's economy completed the year with signs of recovery although falling short of fully stabilizing itself. According to the UN's World Economic Situation and Prospect 2015 (WESP) Report, the global economy posted 2.6% growth in 2014.

Among the most industrialized countries, the US was the quickest to bounce back from the crisis. Having recorded its fastest pace of economic expansion in the last 11 years, the US demonstrated that with 2% growth it had weathered the downturn. One of the US economy's major achievements in 2014 was in the area of employment: America's unemployment rate fell to 5.8%, its lowest level in six years.

Meanwhile, Europe experienced a positive growth trend after a long period of stagnation. However, this recovery was slower than expected and the European economy recorded annual growth of just 0.7%. The weak pace of the recovery in 2014, financing problems and high unemployment show that for Europe, it will take some time more to achieve economic stability.

The third largest economy in the world, Japan, slid into recession with sharp and unexpected contractions in the second and third quarters, and ended the year with negative growth.

The Federal Reserve Bank (Fed)'s decision to stop its quantitative easing program in the wake of the positive developments in the US economy had a negative effect on emerging market economies around the world.

Having taken the lead in global economic growth in recent years, China posted growth of 7%, its slowest pace in the past five years. The Indian economy decelerated to expand at a 5.9% clip, while Russia and Brazil grew less than 1% for the year.

Impacted by both international and domestic economic and political developments, Turkish economic growth has been moderate for the last couple of years. While Turkey's economy expanded 3% in 2014, decreasing capital inflows, relatively high inflation and elevated interest rates are cited as the primary impediments to faster growth.



These same obstacles have also affected Turkey's banking industry, which experienced a challenging year. Several factors including political developments in the first quarter of 2014, ensuing fluctuations in and depreciation of the Turkish lira, uncertainty before the election period, volatility in international markets, monetary policies of the Federal Reserve Bank (Fed) and the European Central Bank (ECB), pressure on interest rate margins following the Central Bank of Turkey's decision to raise interest rates, and measures by the Banking Regulation and Supervision Agency (BRSA) to curb consumer lending have all caused the banking industry to follow an horizontal trend line. Due to these and other similar developments, the banking sector posted total asset growth of just 31% in 2014.

In this generally unfavorable operating environment, Kuveyt Türk successfully faced these challenges directly and went on to complete 2014, its 25<sup>th</sup> anniversary year in the sector, with stable growth thanks to its "Sound Banking" business model.

In 2014, Kuveyt Türk launched new products and services for its customers. Having focused on new banking products in particular to encourage customers to save, the Bank continued to pursue new initiatives in SME Banking and has maintained its market leading position in Gold Banking and Mortgage Financing.

This strong performance garnered two global awards for Kuveyt Türk. Our Bank won the "Best Interest-free Bank in Turkey" award in the world's best banks review by "Global Finance" magazine.

At the Bonds & Loans Turkey 2014 event, where the competition included top representatives of the financial sector, Kuveyt Türk was presented with the prestigious "Best Islamic Capital Market Deal" award for its US\$ 500 million sukuk (financial certificates) issue.

Well aware that a sustainable dynamic structure in the banking industry is achievable only with significant investment in information technology, Kuveyt Türk expanded its IT investments via its R&D Center, first of its kind in the banking and finance sector in Turkey.

Built in a modern and spacious architectural style, the Kuveyt Türk Banking Center went fully operational this year. The new facility will provide significant infrastructure related support to meet Kuveyt Türk's fast-growing needs and expanding business objectives.

With the corporate vision of creating added value for society as a whole and abiding by its values, Kuveyt Türk continued to carry out social responsibility initiatives in 2014.

In order to help maintain Turkey's historic and cultural heritage, and to leave future generations an environment where these valuable assets are well-preserved, our Bank sponsored the restoration of Ortaköy Mosque in Istanbul. With Kuveyt Türk's support, the Mosque, which had been undergoing restoration work starting in 2011, opened its doors to the public once again in 2014.

Our employees play a major role in helping us achieve our accomplishments. Employing some 5,082 personnel, Kuveyt Türk is an ever-growing family. Abiding by the principle of sound banking, we believe that we will maintain our leadership in the banking sector in the coming year and that we will continue to provide significant support to Turkey's real economy, making it stronger than ever.

I would like to express my deepest gratitude to our shareholders, customers and employees who have given us their unwavering support as we continue to move forward.

Respectfully yours,

**Hamad Abdulmohsen ALMARZOUQ**  
Chairman of the Board of Directors

## Message from the CEO



The factors underlying Kuveyt Türk's successful growth over the years include a customer-focused and innovative approach, as well as smart products and services that offer cost advantages.



Kuveyt Türk once again **demonstrated remarkable growth in Gold Banking**, which differentiates the Bank from the competition and underscores its innovative approach to financial services.

Esteemed Shareholders,

Our Bank maintained steady and sustainable growth in our 25<sup>th</sup> anniversary year. In 2014, we developed new products and services for our customers; as a result, our customer base became more diversified.

A strong customer orientation, an innovative approach and market appropriate, cost competitive products and services have all played an important role in Kuveyt Türk's growth in the past year.

Having the reputation of an innovative, forward-looking "participation" bank, Kuveyt Türk continued to provide customers with new product and service offerings in areas such as Sukuk, SME Banking, Gold Banking, Mortgage Financing and the Needs Card.

With the launch of sukuk (financial certificate) issuances, our Bank has attracted considerable interest from qualified investors. In 2014, we completed a five-year sukuk issue, with a nominal value of US\$ 500 million. Although priced with a competitive rate of return of 5.162, the issue was 6.5 times oversubscribed. Furthermore, Kuveyt Türk has conducted the largest one-time sukuk issuance for domestic investors, using treasury financial certificates and murabaha.

In 2014, the Bank improved its offering for SMEs, which are the driving force of Turkey's economic growth and the most critical remedy for the country's current account deficit. In addition to the Export Financing product we launched in 2014, the Pre-shipment Foreign Currency Export Credit product was introduced to enable participation banks to access Eximbank loans.

In Gold Banking, which differentiates Kuveyt Türk and serves to highlight its innovative approach in the sector, the Bank achieved significant growth.



Ranking first in the industry in terms of mortgage a financing growth, our Bank provided significant amount of urban transformation financing in 2014.

Kuveyt Türk's Needs Card, which is considered a model product by other banks, continues to be highly popular. Launched for the first time in Turkey as an alternative to a consumer loan, the Needs Card enables installment plans of up to 36 months for short-term funding needs such as wedding, home renovation or health care expenses.

As entry into a new segment in 2014, we have taken significant steps to meet the investment and borrowing needs of Private Banking customers. Established with the aim of providing domestic and international customers with an exclusive level of quality service, the Private Banking Group helped Kuveyt Türk reach a leading position in the sector in 2014 by expanding the Bank's customer base.

One of our most important investments, the R&D Center marked 2014 with numerous achievements. Having implemented BOA software, which provides the infrastructure for the provision of banking services, Kuveyt Türk's R&D Center has attracted considerable attention with the in-house software it launched at the Sibos International Banking Operations Seminar.

Thanks to these new products and services, Kuveyt Türk's total assets continued to increase in 2014, maintaining a five-year positive growth trend. Kuveyt Türk increased total assets by 32% compared to year-end 2013, to TL 33.7 billion. Having total collected funds rise 30%, to TL 22.1 billion, Kuveyt Türk increased its funds usage to TL 21.3 billion, up 27.9 %.

Kuveyt Türk increased year-end profitability at a rate exceeding the target figure: as of end-2014, the Bank's annual net profit rose 27%, to TL 458 million.

With a workforce numbering some 5,082 employees, Kuveyt Türk expanded its branch network to 308 locations, including two branches abroad.

We expect that 2015 will be a year full of accomplishments and developments that will enable us to reach the ambitious targets in our 2018 vision.

I would like to take this opportunity to give thanks to the Kuveyt Türk family, our shareholders and valued customers for the solid performance we achieved together in 2014.

Respectfully yours,

**Ufuk Uyan**  
CEO





Over the past 25 years, we have developed different banking instruments to deliver our customers the latest financial products and services in a consistent, high quality and fast manner. We have provided top-notch services in the areas of electronic banking and alternative distribution channels. We feel proud to have transformed our hard work into enviable achievements thanks to our meticulously crafted approach to banking.



#### **TWO SEPARATE PROJECTS**

Two separate projects were prepared during the original, initial design phase of Ortaköy Mosque. The key difference between the two was that one featured a single minaret while the other had two minarets. At the time, a double minaret mosque was thought to have been more in character with the sultan's glory and to fit in better visually with the Beylerbeyi Mosque on the opposite side of the Bosphorous. Another difference between the two plans concerned the mosque's façade. Given the mosque's waterfront location, the second version featured a façade built completely with stone to better resist the elements and corrosion. As a result, the more costly second plan was selected for construction since it was viewed as more in tune with imperial glory and more robust.

## Review of Operations in 2014



Kuveyt Türk fosters a corporate culture that embraces the preservation of cultural assets and that responds to the needs of society.

### CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Having completed its 25<sup>th</sup> year with the sound banking approach, Kuveyt Türk is keen to attain sustainable growth targets without compromising its corporate values. Inspired by the culture of foundations, ever-present in the Bank's establishment and partnership structure, Kuveyt Türk carries out a range of corporate social responsibility activities that add value to society as a whole. These activities directly reflect the Bank's corporate governance approach and commitment.

Through these various activities, which are wholeheartedly embraced by all Kuveyt Türk employees and clients, the Bank aims to help preserve Turkey's historical and cultural heritage for future generations. In addition, the Bank expends efforts and mobilizes resources to respond to the requirements of those in need both at home and abroad, pursuant to the principles of social solidarity.

Kuveyt Türk fosters a corporate culture that embraces the preservation of cultural assets and that responds to the needs of the society. In addition, the Bank makes an effort to closely listen to employees in keeping with the concept "Employees Come First," in order to enhance the quality of its human capital. The Bank regularly implements people-centered social responsibility initiatives, each of which sets an example for the human resources field in Turkey.

With a long term outlook that transcends concerns for profitability, Kuveyt Türk designs and administers numerous initiatives that the financial sector can rarely dare to undertake. Guided by the principles of ethical banking, Kuveyt Türk

develops and implements groundbreaking corporate social responsibility practices. Staffed by individuals with an acute environmental and cultural awareness, Kuveyt Türk carries out value-creating collaborations and social responsibility projects, as detailed below, and stands out, not only as a banking institution but also as a social brand that inspires pride across the sector.

### CONTRIBUTIONS TO SOCIETY

#### R&D Center

Keen to leave future generations a world where they can meet their social and economic needs, Kuveyt Türk believes that advances in innovation and technology are crucial for the financial sector as well as for society's wellbeing.

A first in the Turkish banking sector, Kuveyt Türk's R&D Center was established to meet the Bank's own technological infrastructure requirements and to implement the innovation projects required by the financial sector as a whole.

In recognition of the innovative initiatives undertaken in 2014, the Kuveyt Türk R&D Center was deemed worthy of the grand prize at the Third Annual Private Sector R&D Centers Summit, in the Banking and Financial Sector category.

#### Support for KAÇUV (Foundation for Hope to Children with Cancer)

Kuveyt Türk launched a fundraising campaign to benefit the Foundation for Hope to Children with Cancer (KAÇUV), as a demonstration of the importance it places on human life and health, and the Bank's awareness of cancer, a growing problem in the country.

#### Campaign to Support Flood Victims in Pakistan

Around 100 families have taken refuge in the Kuveyt Türk Friendship Village, set up jointly with the Turkish Red Crescent with donations from Bank employees and clients in order to help Pakistani citizens whose homes were demolished by catastrophic floods. The donation campaign was extended, and thus the urgent needs of the village dwellers were met over one year's time in collaboration with the Turkish Red Crescent. Kuveyt Türk furnished basic necessities such as food, clothing and school supplies to those in need.

#### Campaign against Famine in Somalia

Following the drought and famine that struck Somalia in 2011, Kuveyt Türk held a donation campaign with the support of employees and customers. To this end, the Bank transferred around TL 1 million in cash to the fund created by AFAD (Prime Ministry Disaster & Emergency Management Authority) to help the afflicted region.

#### Van Earthquake Temporary Shelter Campaign

In order to provide urgent disaster relief to the victims of the Van earthquake in 2011, Kuveyt Türk pioneered the creation of a temporary shelter camp built out of shipping containers.

#### Support for Victims of the Soma Mining Accident

In order to provide support to the families of victims who lost their lives in the 2014 Soma mining accident in Turkey, Kuveyt Türk's senior management decided to donate TL 1 million. This donation was transferred to the families via the intermediation of AFAD.



Constructed by Kuveyt Türk with smart building technology, the new Banking and Life Center in Şekerpınar, Kocaeli became operational in 2014.

## SUPPORT FOR CULTURE AND ARTS

### Restoration of Saliha Sultan (Azapkapı) Fountain

The historical Saliha Sultan Fountain was restored by Kuveyt Türk as part of the Project to Protect Endangered Historical Artifacts organized by the General Directorate of Foundations.

### Restoration of Bursa Kozahan Fountain

Kuveyt Türk undertook the restoration of the mosque and sadirvan (fountain) located in Koza Han, the historical center of Bursa's silk industry, under the supervision of the General Directorate of Foundations. The Bursa Kozahan mosque and sadirvan were thus returned to their original state, as part of our efforts to preserve endangered historical structures.

### Restoration of the Grand Imperial Mosque of Ortaköy

The Bank sponsored the restoration of Ortaköy Mosque with a view toward preserving society's historical heritage and cultural assets for future generations. Restoration work commenced in 2011 and was completed in 2014, when Ortaköy Mosque reopened its doors to worshippers and visitors.

### Turkish and Islamic Arts Collection

In addition to the restoration of historic buildings and structures, Kuveyt Türk's cultural initiatives include publication of prominent works. Having published important and well-received books such as "Kaybolan Çeşmeler (Endangered Fountains)," "Kaybolan Meslekler (Endangered Arts and Crafts)" and "Evliya Çelebi - Hac Yolu (Evliya Çelebi - The Journey of Pilgrimage)" in previous years, Kuveyt Türk issued "Büyük Mecidiye Camii

ve Ortaköy (The Grand Imperial Mosque and Ortaköy)" in 2014. Work on this highly prestigious publication started at the same time as the restoration of the iconic Ortaköy Mosque. Kuveyt Türk has also added to its vast corporate art collection numerous leading examples of Turkish and Islamic arts. As a result, Kuveyt Türk clients had the opportunity to enjoy 120 works of traditional arts such as katı (paper cutting), miniature painting, tezhip (illumination), ebru (marbling), küfi and hat (calligraphy), on display at the Bank's branches during the year.

## SUPPORT FOR YOUTH

### "Bank on the Campus" Project

Placing great importance on the quality of human resources and always investing in its workforce, Kuveyt Türk launched "Bank on the Campus," a training project to appeal to undergraduates interested in working in the banking sector post-graduation. As part of this program, third and fourth year university students have the opportunity to experience the world of business while continuing their studies. After graduation, nearly 80% of the students who participate in the program start their professional career at the Bank.

## SUPPORT FOR SMEs

### Sound Financial Decisions to Enhance SME Banking

In accordance with its ethical banking approach, Kuveyt Türk informs customers in a very transparent way. The Bank's support to SMEs, a key customer segment, is not limited to financing but also includes the communication of information and know-how that will help SMEs create added value, make their business more efficient,

improve their economic and technological competency, and adapt to global markets. To this end, Kuveyt Türk started to hold meetings with SMEs in 2012 and 2013 and made one-to-one visits by regions throughout 2014.

## SUPPORT FOR EMPLOYEES

### "Employees Come First"

Operating in line with ethical banking principles, Kuveyt Türk's top strategic priorities include providing support to customers, society and the national economy, embracing and implementing sustainable business practices in all operations, and focusing human resources management on respect for people. The Kuveyt Türk slogan "Employees Come First" is the clearest indication of the importance the Bank places on its workforce.

## SUPPORT FOR THE ENVIRONMENT

### Banking and Life Center

Constructed by Kuveyt Türk with smart building technology, the new Banking and Life Center in Şekerpınar, Kocaeli became operational in 2014.

Providing employees a comfortable, relaxed, modern working environment, Kuveyt Türk also has significantly reduced electricity, water and heat consumption thanks to the latest technology used in the building, thus living up to its responsibilities as a sustainable organization.

## Review of Operations in 2014



Introducing products such as Export Finance with Guarantee Policy, Internet Branch Online Financing and Mobile Branch Online Financing to clients in 2014, Kuveyt Türk remained the of innovating pioneer of the sector during its 25<sup>th</sup> anniversary year.



The commercial banking portfolio of financial **leasing transactions soared by 35.5% in 2014.**

### COMMERCIAL BANKING GROUP

Acting as a business partner with its clients, the Kuveyt Türk continued to offer high quality services and reached its 2014 financial targets, closing the year successfully and forging ahead toward future targets.

In 2014, the Commercial Banking Group expanded its client portfolio to 36,000 active clients; collected funds increased to TL 5.6 billion. A total of TL 13.1 billion in funds was extended to clients, during the year, compared to TL 9.3 billion in 2013.

With its innovative solutions, Kuveyt Türk always achieves firsts in the industry. To that end, Kuveyt Türk launched the Fixed-Term Export Financing service, enabling clients to collect their export receivables at the time of loading without waiting for the settlement date on their export letters of credit.

This product, which was included in Export Finance with Guarantee Policy transactions in 2014, will continue to expand its scope of service in 2015. The Bank plans to introduce Special Fund Pool products to clients in 2015.

### 35.5% increase in the commercial banking portfolio's leasing transactions

In terms of leasing transactions, the commercial banking portfolio increased 35.5% in 2014. Following the amendments to the Financial Leasing Law, the Bank added "Sell and Re-lease," transactions to its product portfolio. This new financing product was made available to many of its clients. In 2014, import and foreign currency financial leasing transactions were added to the product portfolio.

Always aiming to achieve high levels of customer satisfaction through the Relationship Banking approach, in 2015 Kuveyt Türk will launch a product-based customer efficiency program, which calculates net expense and income of the Bank's products and services, thus offering clients the most effective solution.

The systems infrastructure work for the new sector was completed in 2014; the sector will launch officially in 2015. As such, it will constitute a key step to integrate Kuveyt Türk's customer-focused service approach with a sound organizational structure.

#### **Online products and services set to expand**

The product Online Financing -allowing corporate customers who meet specified criteria to start a murabaha transaction without visiting the branch, submit their documentation, and subsequently make the payment- was launched on the Internet Branch and Mobile Branch. The Bank aims to improve the user experience and further diversify the online product and service offering in 2015.

Designed to identify customer needs accurately and to offer the most suitable solutions, Kuveyt Türk completed the Value and Behavior Segmentation project in 2014. The Bank will integrate the segmentation scheme with the entire banking system in 2015, and thus maximize the speed of customer service delivery.

In 2015, the Commercial Banking Group will continue to offer innovative products and services to meet customer financing needs.

The top priorities of the Commercial Banking Group are to expand the leasing business through collective agreements with machine manufacturers, carry out projects in collaboration with chambers of commerce and organized industrial zones and to expand project financing by focusing on renewable energy and energy efficiency projects.

*Designed to identify customer needs accurately and to offer the most suitable solutions, Kuveyt Türk completed the Value and Behavior Segmentation project in 2014.*

## Review of Operations in 2014



In 2014, the Bank started operating a new business decision model, the Automatic Decision Support System, in order to improve the strength of its fund allocation portfolio and to standardize and automate fund allocation processes.

*As of year-end 2014, Kuveyt Türk had evaluated 3,436 new loan requests and disbursed TL 8.1 billion in loans.*

### LOANS

The Corporate and Commercial Credits Departments submit requests from the branches and draft financial analyses and reports for the Bank's relevant committees. They update the loan appraisal processes in cooperation with the Bank's related units in accordance with the latest developments in the banking industry.

Assessing the projects they evaluate with a particular focus on repayment and collateralization, Kuveyt Türk's loan specialists undertake customer visits, financial analysis and information gathering and reporting during this process. Loan assessments are conducted in accordance with such criteria as customer visits, financial position of companies and the type of investment the requested line of credit for which the loan will be used.

In 2014, the Corporate and Commercial Credits Departments meticulously examined the financial position of companies requesting loans; it evaluated and finalized a total of 19,311 loan applications.

As of year-end 2014, Kuveyt Türk had evaluated 3,436 new loan requests and disbursed TL 8.1 billion in loans.

### Automatic Decision Support System

Thanks to a robust fund allocation assessment system, Kuveyt Türk boasts one of the highest international credit rating scores among all financial institutions in Turkey. In 2014, the Bank started operating a new business decision model, the Automatic Decision Support System, in order to improve the strength of its fund allocation portfolio and to standardize and automate fund allocation processes.

Customer scorecards and business rules were integrated in the retail loan allocation processes, allowing the system to deliver automatic approvals and rejections in a swift and accurate fashion. During the six-month pilot testing period, 20% of all decisions were automated and 70% of all individual applications were resolved within the scope of branch authorization. During 2014, the Automatic Decision Support System was extended to include credit cards. In the pilot run, an automatic approval rate of 20% was reached in a short span of time. Work is ongoing to improve these rates.

The business rules to be deployed in the Automatic Decision Support System for the allocation of SME and micro funds are also ready. Software development related work in this area is scheduled for completion soon. This system, which will be integrated with the Branch Classification Model, will make limit decisions for low risk clients within the scope of branch authorization, standardize decision making processes, and enable the Bank to manage loan allocation policies real time via the system in response to changing market conditions.

### Innovative and Pioneering Applications

Synonymous with innovative and pioneering banking practices, Kuveyt Türk put into practice the following innovations during its 25<sup>th</sup> anniversary year:

- The loan appraisal scorecard was created for SME loan assessment purposes and the SME rating model was launched.
- A new interface named Komite 360 became operational, allowing the Bank to monitor over a single platform client loan, deposit and financial intelligence data, which are critical variables in loan limit decision-making. The integral visualization of such customer data has significantly shortened the loan assessment process.
- The Branch Manager Classification Model operates on the basis of portfolio officers, and effectively measures their respective fund allocation performance.
- The Credit Registry Bureau (KKB)'s corporate inquiry screen was updated in terms of content and design and integrated into the BOA system.

- In order to offer Dip-Bip Committee reports with richer visuals and content to fund allocation committees, the Bank initiated the Dip Committee Information Screen.
- The Management Information System's loans module can now visualize the fund allocation data of the top customers, from 10<sup>th</sup> to 1,000<sup>th</sup>, and provide different types of reports based on the rating score.

### Corporate Credits and Commercial Credits Departments

The Corporate Credits and Commercial Credits Departments plan to continue efforts to boost operational quality in 2015. The main objectives include the enhancement of forecasts produced by the corporate rating model and the creation of a rating model on the basis of credit risk groups. Furthermore, the performance of risk-prone corporate clients will be monitored systematically to support the decision-making processes of the Corporate and Commercial Credits Allocation team.

### Business Loan and Retail Loan Departments

The Bank aims to optimize the retail loan and credit card models in the Automatic Decision Support System in order to increase the number of automated decisions and enhance the portfolio loan quality in 2015. An extension of the Automatic Decision Support System to include micro and SME loans is also planned in the coming year.

### Financial Analysis and Intelligence Department

The function of the Financial Analysis and Intelligence Department is to draft credit appraisal reports for companies applying for loans as the basis for the final determinations of the credit committees. It develops these reports according to various criteria such as company operations, characteristics, capacity, liquidity, financial position and profitability, as well as available intelligence and other market information. The Department completed 468 Financial Analysis Reports in 2014.

In order to ensure that the Financial Analysis and Intelligence Department and branches carry out firm assessments efficiently, financial analysis and intelligence reports have been produced through the financial analysis reporting system since 2009. Junior corporate and retail marketing experts recruited by the branches receive extensive training on the workings and language of the financial analysis reporting system, as well as on the interpretation of financial ratios. Aside from its core business activities, the Financial Analysis and Intelligence Department delivered financial analysis and reporting training to a total of 1,148 employees from marketing and other business departments in 2014.

## Review of Operations in 2014



In 2014, Kuveyt Türk secured new funds totaling TL 6 billion in the areas of retail and business banking, expanding the total fund volume by 21%. The Bank's market share among participation banks stood at 33%.



In 2014, Kuveyt Türk reached its credit card number and turnover targets. The number of cards rose **39% and turnover increased 34%** over the prior year.

### RETAIL AND SMALL BUSINESS BANKING

As the first participation bank to offer retail banking products and services, Kuveyt Türk acquired 463 thousand new participation fund customers in 2014.

In 2014, Kuveyt Türk raised TL 6 billion in new funds from the customer base in the retail and small business banking segments, thus increasing its total fund volume by 21% over the previous year. Among participation banks, Kuveyt Türk's market share in fund volume stood at 33%.

Kuveyt Türk holds a 11% market share in precious metal accounts sector-wide, and a 52% share among participation banks only.

The total volume of Gold for Gold Participation Accounts, a groundbreaking offering introduced to the Turkish market by Kuveyt Türk, amounted to some 19.3 tons. "Gold Days," a physical gold collection campaign held for the past three years, has allowed the Bank to channel eight tons of gold to the Turkish economy overall, of which two tons were collected in 2014 alone. During the year, Kuveyt Türk's gold accounts amounted to 6% of the total funds collected by the Bank.

In 2014, Kuveyt Türk reached its credit card number and turnover targets. The number of credit cards issued rose 39% and turnover increased 34% over the prior year. Meanwhile, the ATM card base expanded 32% with turnover up 89% compared to the previous year. In 2014, POS turnover went up 9% over a year earlier.

Kuveyt Türk's innovative İhtiyaç Kart (Needs Card) serves as a model to other banks in the sector while continuing to generate high demand in 2014. Launched as an alternative to general purpose loans, Needs Card is the first of its kind in Turkey and allows customers to make payments in up to 36 installments for wedding, home renovation, health care and other personal expenses. In 2014, the number of ATM transactions at the Bank increased 21% over the prior year. Kuveyt Türk closed the year with 375 ATMs, more than TL 5.3 billion transacted through the ATM channel, and over 8.9 million ATM transactions in total. In 2014, around 19 kilograms of gold was purchased via Kuveyt Türk ATMs. Automatic bill payment orders increased 45%, and active Internet Branch customers rose 41%. Kuveyt Türk's Internet Branch customer base expanded to 156,971, while active users of the Mobile Branch exceeded 56,814 for the year.

The Retail and Small Business Banking segment has a total loan book of TL 7 billion, which accounts for 33% of all the Bank's loans. Kuveyt Türk extended around US\$ 3.2 billion in new loans in 2014; of which, about US\$ 1 billion was for enterprise financing, US\$ 1.1 billion went to real estate financing, and US\$ 248 million was for vehicle financing. Kuveyt Türk increased its market share in total consumer loans by 34% and rose to first place in real estate financing sector-wide.



Regarding ongoing construction projects, Kuveyt Türk carried out project financing studies for 381 companies in accordance with 511 committee resolutions. As a result, the Bank signed financing agreements with 364 ongoing construction projects and allocated US\$ 285 million to finance 3,717 housing units.

Kuveyt Türk demonstrated remarkable growth in mortgage financing and maintained its top position in the sector. In 2014, the Bank extended a total of TL 14.3 million in urban transformation loans, which put Kuveyt Türk in first place among participation banks and third among all banks in urban transformation financing.

	<b>Funds Extended (US\$)</b>	<b>Number</b>
Total Customers	1,267,789,821	69,891
Real Estate	851,360,151	16,675
DIP-BIP	284,885,986	3,717
Vehicle Financing	76,148,664	5,611
Other Customers	55,395,020	43,801

	<b>Funds Extended (US\$)</b>	<b>Number</b>
Total Business	1,856,953,014	60,163
Business Loans	1,021,635,585	39,096
Real Estate	300,608,562	2,107
Vehicle	171,937,209	5,780
Other	362,771,657	13,180

Kuveyt Türk continues to support small-scale enterprises that are gaining increased prominence within the Turkish economy. The Bank has developed special products

and services tailored to small businesses, such as "Sell and Re-Lease," Bill Financing and Precious Metals Support. Additionally, Kuveyt Türk began to finance investment projects incentivized by the Turkish Ministry of Economy. It has also ventured into Agricultural Banking.

Kuveyt Türk provides small business owners not only credit support, but also consultancy for banking and finance. To that end, the Bank organizes financial consultancy symposiums under the concept "Robust Financial Decisions" for small business owners. At symposiums, organized

in 2014 in the provinces of Izmir, Samsun, Trabzon, Elazığ, Adana, Antalya, Konya, Bursa, Kayseri, Gaziantep, Izmit, Düzce, Mersin, Denizli, Isparta and Afyon, Kuveyt

Türk shared research findings obtained from 55,000 small-scale enterprises within the Bank's customer portfolio with existing and potential customers. The objective of these events is to provide useful information on investments, profitability, financial precautions and debt and cash management to customers.

In 2014, the Bank continued efforts to establish an Internet branch tailored to small-scale enterprises. Through this branch, customers will be able to submit and follow up on their applications and make check, bond and POS transactions without having to visit the branches.

Neova Sigorta abides by the principles of "tekâful," or interest-free, insurance, in all company operations and contracts across all business lines; it is the only insurance company to provide such a service in Turkey. Kuveyt Türk has cooperated with Neova Sigorta since 2010 and strengthened this relationship further in 2014. Focused on meeting all the financial needs and expectations of its customers in accordance with interest-free banking principles, Kuveyt Türk can cater to the insurance needs of its customers through its robust collateral structure and alternative product packages of Neova Sigorta.

Neova Sigorta collected insurance premiums amounting to some TL 47 million via Kuveyt Türk and generated TL 7 million in commission fees in 2014.

## Review of Operations in 2014



In fiscal year 2014, Kuveyt Türk expanded the branch network and alternative distribution channels, delivering its innovative products and services to a larger number of customers.

Since February 2011, Kuveyt Türk has offered customers Private Pension System (PPS) plans, featuring funds that comply with the interest-free pension system, such as sukuk, equities, participation accounts, and gold and silver funds. Some new developments introduced to the PPS in 2014 to benefit customers - a 25% state contribution, right of withdrawal and a withholding tax- helped increase PPS related sales. Kuveyt Türk sold 27,000 PPS pension plans in 2014; the Bank has sold 57,000 plans total since February 2011, when it began to actively promote the system. The PPS total fund size expanded to TL 70 million and commission fees rose to TL 620,000.

Kuveyt Türk's service network includes 308 branches, 40 of which were inaugurated in 2014; ATMs located in major commercial and industrial hubs; the Internet Branch, which is equipped with the latest technology; a robust telephone banking systems infrastructure; and a 1,037-strong retail sales team. During the year, the Bank continued the design work on easy-to-use CRM screens, compatible with its infrastructure and integrated with the other systems. As a result of analytical research studies, campaign management systems were enhanced and promotional campaigns were rendered more efficient. Designed to deliver faster and better quality services to clients, the Tablet project has also embarked upon pilot testing in a number of branches.

### Private Banking Group

The Private Banking Group adheres to the principles of sound banking and ethical values and was established to deliver the

sector's most pioneering and innovative private banking services.

The main goal of the Private Banking Group is to meet the investment and financial needs of domestic and foreign customers in the high income bracket through privileged and priority services, at the best prices and with the widest product range.

The Group's customer representatives offer exclusive services to private banking customers and meet their financial requirements through direct private sales channels and a competitive product range.

As the first participation bank to serve high income customers in the private banking segment, Kuveyt Türk started up the Private Banking Group in 2014 and reached a portfolio size of over US\$ 1 billion with newly acquired customers.

Customers in the private banking segment are served in 200 branches across Turkey. Three Bank branches include private banking customer representatives who exclusively serve these select customers.

In 2014, the Private Banking Group actively carried out marketing efforts for two sukuks issued for high net worth investors. The Asset Management Department participated in two real estate fairs abroad and intermediated in the promotion and financing for contracted prominent real estate development projects in Turkey.

The Private Banking Group plans to gear up efforts to expand the customer base and grow the portfolio, by increasing the number of branches that feature dedicated private banking customer representatives.

The Bank also plans to open up concept branches that exclusively serve private banking clients under the brand Kuveyt Türk & Private Banking in 2015.

Other goals for 2015 include expanding the product range with sukuks and similar investment funds, launching a credit card that will offer private banking clients special services in Turkey and abroad, and differentiating direct sales channels to better serve these clients.

### Product Development

In 2014, Kuveyt Türk expanded its branches and alternative distribution channels to offer innovative new products and services to a much larger clientele. The main products and services offered to Bank clients in 2014 in the retail and small business segments are as follows:

### Fund Collection

**Cumulative Participation Account:** The Bank's Cumulative Participation Account allows customers to invest their savings in longer term accounts with 60 to 120 months maturity at higher profit sharing rates. This offering enables customers to make deposits in monthly or three-monthly intervals. Kuveyt Türk ranks second among participation banks in this product.

**Profitable Account:** Investment and alternative investment account owners can now grow their monthly, three-monthly, six-monthly or annual interim profit shares in a new participation account.

To encourage customers to opt for this offering, the profit sharing rate of the account will be the same with the linked investment or alternative investment account. When customers opt for the Profitable Account, they will receive profits from their investment account and also invest this profit in a new participation account. The Profitable Account allows customers to keep their savings with the Bank for longer periods, thus boosting the Bank's fund maturity structure over the long run and enabling account holders to enjoy more profits thanks to the higher profit sharing rate.

**Short Term Safe Deposit Box:** Safe deposit boxes are considered one of the most ideal methods of keeping valuable documents and belongings secure. Safe deposit boxes come in three sizes: small, medium and large. Under the Short Term Safe Deposit Box service, Kuveyt Türk provides monthly, three-monthly, six-monthly or annual services. This product allows customers to keep jewelry or other valuable possessions in a secure place for short periods of time.

**Daily Scrap Gold Collection:** In line with an agreement between İstanbul Gold Refinery (İAR) and Kuveyt Türk, the scrap gold of jewelry store customers are appraised by authorized jewelers; after gold carat and weight is calculated, the customer is informed about the purity and weight of the gold, the amount of pure gold contained, and the gold grams to be deposited in their gold banking account. On Gold Collection Day, held by Kuveyt Türk, jewelers will play the role of İAR experts. The jeweler will package the gold

brought in by customers and dispatch the items to be melt down. (The gold to be transferred to the customer bank account will be kept at Kuveyt Türk after being melt down at İAR). Later on, İAR will issue a card indicating the amount of the gold. The customer can subsequently visit the Bank and deposit the amount indicated on the card to their account.

**Online Bill Collection:** In 2014, the Bank launched an online service in which utility bill payment centers can carry out transactions such as debt inquiry, collection and payment. From 2015 onwards, utility bill payment centers will have to abide by the latest regulations and operate via this channel. As such, the workload created by utility bill payment centers in the Internet Branch will be reduced.

### Fund Allocation

**Tuition Fee Installment System:** This system offers instant installment payment options to students who enroll at private schools, universities, prep schools and educational courses. Tuition Fee Installment thus offers a practical payment solution to both educational institutions and to students and parents.

**Dealer Application System:** The Bank launched the Dealer Application System, which allows automobile dealers, residential housing companies, consumer electronics stores and other businesses to apply for loans without having to visit a branch.

**Business Financing with Flexible Repayment:** This financing scheme allows business customers to meet their short term product and service procurement needs, while providing them with periodic profit and principal repayment throughout the maturity period in line with the cash flow of the enterprise. The product has been rolled out as a participation banking alternative to revolving loans.

**TARDES:** The Agricultural Loan Assessment System (TARDES) is a KKB service that provides a data sharing and rapid loan assessment systems infrastructure to banks and financial institutions that extend loans to the agricultural sector. This assessment system makes it much easier to calculate the cost, revenue and maturity periods in agricultural loan allocations.

**TKDK:** Having secured IPARD funds from the European Investment Fund program, the Agriculture and Rural Development Support Institution (TKDK) provides grants to the agricultural sector. Kuveyt Türk supports customers who wish to apply for these grants by providing letters of intent.

**Silver Support:** In this transaction, the Bank provides a limit to businesses which process or trade in silver, offering them physical silver in return for blocking TL, US dollars or euros. As a result, this service allows business customers to meet their daily silver requirements.

## Review of Operations in 2014



After being revamped in 2013, Kuveyt Türk's Internet Branch further increased the range of its functions in 2014, offering customers products such as cheque-promissory note monitoring, KKB report inquiry and cash flow management.

### Credit Cards/Debit Cards

**Platinum Card:** For esteemed, upper income clients, Kuveyt Türk launched the Sale Plus Platinum Card service, which offers a number of exclusive privileges and advantages to cardholders.

**Financing Transformation of İhtiyaç Kart (Needs Card):** In line with regulatory and other changes in the sector, the Bank modified the infrastructure of The Needs Card, which is designed to meet the personal financing requirements of Kuveyt Türk customers, transforming it into financing product linked to the card.

**Gold Card:** Kuveyt Türk's new generation debit card, Gold Card, allows customers to benefit from all the features of a debit card, and to also make payments via POS devices within individually prescribed limits. Cardholders win gold points in such transactions; at the beginning of each month, the accumulated gold points are transferred to their account in the form of gold grams.

**BKM-SGK Transition:** The Bank has become integrated with the payment platform jointly launched by BKM (Interbank Card Center) and SGK (Social Security Institution), enabling customers to pay their SGK premiums with credit cards and debit cards. Customers can pay their premium via the SGK web site in return for a fixed fee, without having to visit the branch.

**Card Application Scoring:** The Bank has transitioned to the scoring system in card applications filed at branches. As a result, card applications can be processed faster, saving time and labor, and significantly increasing customer satisfaction.

**Gold Purchase Orders:** Kuveyt Türk customers can place orders via their Sale Plus cards to automatically purchase gold grams on certain days of each month, within the prescribed credit card limits.

**Plastkart Chip Integration:** Thanks to an upgrade, Plastkart chip products can now be printed directly by Kuveyt Türk.

### POS

**POS Automatic Pricing System:** Kuveyt Türk has transitioned to the automatic pricing system in the Bank's POS service, allowing for significant process improvements and reduction of the labor required in pricing.

### Alternative Distribution Channels

**Web Site:** Kuveyt Türk's corporate web site features a user-friendly interface and was named "Web Site of the Year" at the prestigious finance and banking awards event Asian Banking & Finance Retail Banking in 2014. The site provides customers with detailed information on the Bank's products and services, as well as up-to-date financial data, including financial reports in Turkish and English. The web site also helps customers to easily find branch, ATM and XTM locations on a map. Additionally, customers can file online applications for bank account, loan, private pension (PPS) and insurance products.

**Internet Branch:** After being revamped in 2013, Kuveyt Türk's Internet Branch further increased the range of its functions in 2014, offering customers products such as cheque-promissory note monitoring, KKB report inquiry and cash flow management. The Kuveyt Türk Internet Branch received the "Online Banking of the Year" designation at the renowned finance and banking awards event Asian Banking & Finance Retail Banking. At the Internet Branch, customers can make money transfers free of charge, define smart transactions and designate defined recipients, view the weather forecast of their city of choice, and create a personal profile, thus enjoying a hassle-free, fast and visually rich user experience. During

the year, the back office management screens of the Internet Branch were updated and transferred onto Kuveyt Türk's core banking system BOA, resulting in a smoother and faster user experience.

**Internet Branch Online Financing:** Kuveyt Türk has rolled out the product Online Financing, where qualifying customers can apply for financing, monitor their applications and conduct bill and payment transactions, via the Internet Branch.

**Your Bank:** Kuveyt Türk's Your Bank is a digital banking platform where customers can apply online for products without having to visit a branch. Customers can thus open an account at the Bank via the web site. Currently, the channel only allows customers to open accounts; however, in the coming period, it will come to feature additional functionality.

**Digital Branch (XTM):** In 2014, Kuveyt Türk undertook initiatives to enhance the functionality of XTM digital branches, the first of which was inaugurated in 2013. The Bank focused on product promotion efforts, monitored customer access on the basis of fund allocations and started offering marketing campaigns and services to corporate customers. Kuveyt Türk

employed multiple marketing specialists at a number of digital branches and tested new branch models. As of year-end 2014, 21 XTMs, five of which have branch status, are operational in the field. Around 6,000 new customers were acquired via XTMs, yielding new deposits amounting to TL 20 million. Furthermore, the XTM branch channel allocated around TL 15 million in funds to customers.

**ATM:** As part of the transformation process undertaken in 2014, Kuveyt Türk's ATM system infrastructure was upgraded and new systems were tested in pilot ATMs. Thanks to the newly flexible infrastructure, ATMs started to deliver services in Arabic, German, English and Russian.

**Mobile Branch v3:** The design of the Mobile Branch application underwent a complete overhaul, and its systems infrastructure was transferred onto BOA. A new version of the branch was released in June 2014. The Mobile Branch was enriched with new menu items such as Bill Payment, Nearest Kuveyt Türk ATMs/Branches, Profit Share and Financing Calculation. The application runs on iOS, Android and Windows Phone 8 platforms.

**Tablet Branch:** Kuveyt Türk's Tablet Branch was released in 2014 to run on iPad and Android tablet computer devices. Specifically designed for tablet computers, the Tablet Branch supports all transactions available in the mobile banking channel.

**Forex Mobile Integration:** As a result of a recent integration initiative, Internet Branch users can now use the Forex Mobile application to choose Kuveyt Türk, among other different stockbrokers, to buy and sell stock.

**Mobile Branch Online Financing:** Corporate customers that comply with the criteria set by Kuveyt Türk can now apply for financing over the Mobile Branch, track their applications, and make repayments by using the Online Financing product.





For a quarter of a century, we have forged ahead fully aware that the first step of moving forward is being open to change without forgetting our history. In order to enhance our performance even more, we broke new ground and offered numerous innovations to clients. Always focused on the future, we have strived to become a shining star that illuminates the road ahead for the entire sector. During our 25<sup>th</sup> anniversary year, we are setting sail for an even brighter future, towards the goal of TL 33.7 billion in total assets.



#### **RENOVATIONS AT ORTAKÖY MOSQUE**

The meticulous approach followed during the construction phase continued after the mosque was first inaugurated, as the structure was subject to regular checks and frequent repairs. In fact, Ortaköy Mosque is known to have undergone repairs one year after it opened its doors. Later on, under the reign of Sultan Abdülhamid II, the water pipes were refurbished to make it easier for the congregation to perform ablutions. Ortaköy Mosque was damaged during the great fire of 1894, like many other buildings in the city, and it was subsequently renovated at the behest of Sultan Abdülhamid II. Other maintenance and renovation work was carried out at the mosque, before the most recent comprehensive restoration in 2011-2014.

## Review of Operations in 2014



A joint venture of Kuveyt Türk and Albaraka Türk Participation Bank, the private pension company Katılım Emeklilik ve Hayat A.Ş. started to write insurance policies in June. Katılım Emeklilik reached a fund size of TL 36 million within six months.

*According to Turkey Customer Satisfaction Index measurements, which is designed to gauge and improve customer satisfaction and service quality, Kuveyt Türk ranks first in retail banking with a score of 79.8 points.*

### STRATEGY

The Strategy Planning and Corporate Performance Management Department, Strategic Program Management Office, Quality and Organizational Development Department, and Corporate Communications Department operate under the Strategy Group, which was formed in the last quarter of 2012.

Business plans from departments operating under the Strategy Group outline the Bank's strategic priorities, identifying and managing the necessary steps to achieve these plans, shaping the Bank's process/organizational structure and quality management system in accordance with the strategic plan and priorities and managing the relationship between internal and external factors in parallel with the Bank's strategic goals.

To that end, strategic plans have been devised and a roadmap laid out within the framework of the Bank's mission and vision; strategic goals are identified according to the roadmap and together with the relevant business departments. The Bank's annual budget is prepared by taking the strategic goals into account; priority is given to projects that will lead to the achievement of these goals. These projects are managed and their outcome is monitored.

Performance targets of these departments are set by taking into consideration the strategic roadmap, projects and priorities; performance metrics and Key Performance Indicator KPIs are used as management

tools to ensure that the Bank operates according to strategic priorities. Other duties of the Strategy Group include quality management efforts along with defining, managing and revising the standards, policies/procedures and the organizational structure in accordance with the Bank's strategic goals and priorities.

2014 was a year that focused on maintaining domestic and overseas growth, expanding in alternative distribution channels, such as mobile and Internet, as well as in physical channels, achieving operational efficiency through cost optimization.

In 2015, the Bank focused on updating segment structures and segmentation-based sales/marketing models used at its branches to respond to customers' needs in different segments with the right products and through the right channels.

### Strategic Projects and Program Management Department

The main responsibilities of the Strategic Projects and Program Management Department include: management of strategic projects that involve the entire Bank, management of projects related to a specific sector or group in accordance with strategic goals and the establishment of the project management framework.

In January 2014, the Department created the strategic roadmap for the year and began to monitor projects through the project portfolio management tool. As part of this roadmap, the Bank implemented



53 projects and completed 33 of these by end-December 2014, offering significant support to the realization of the organizational strategy. The completed projects include the following:

**Segment Based Sales Service Model:** In 2014, the Segment Based Sales Service Model project was implemented. As a result, the SME sector segment was established at the Bank and other sectors were also divided into separate segments to a large extent.

**Your Bank:** Under this project, potential Kuveyt Türk customers were given the opportunity to open accounts and access online banking channels without having to visit the branch.

**Retail Automatic Allocation:** Designed to channel retail fund allocation applications to an automatic allocation process and thus to offer more accurate and swift services to clients, Retail Automatic Allocation became operational in June 2014. Some 35% of all retail individual fund allocation applications are now processed via automated allocation, yielding significant cost savings.

**Establishment of Kuveyt Türk-subsidiary Bank in Germany:** With the establishment of the new banking institution, Kuveyt Türk will be the first bank to introduce Islamic financial products to the German market. The bank to be established will help Kuveyt Türk expand into other European Union countries. The application process to found a bank in Germany has been completed, pending approval of the final decision by BaFin.

**Establishment of the Private Pension Company:** The Bank has set up a joint private pension company with Albaraka Türk Participation Bank, called Katılım Emeklilik ve Hayat A.Ş., which started underwriting its first insurance policies in June 2014. As the private pension company established in the shortest period of time in Turkey, Katılım Emeklilik reached a fund size of TL 36 million and had a total of 25,000 life insurance and pension policies in just six months.

**Overseas Banking Transformation:** The core banking system of branches operating in the Gulf Region was transformed to be in line with the core banking system of the domestic operation.

### Quality and Organizational Development Department

The Quality and Organizational Development Department, operating under the Strategy Group, is responsible for updating banking processes; developing business procedures and processes related to new products and services; conducting customer surveys; implementing projects to improve service quality; carrying out improvement projects to increase customer satisfaction; undertaking organizational development and document management efforts; managing the internal and external suggestion systems as well as authorization mechanisms.

The research and surveys conducted in 2014 show that the Kuveyt Türk has reached its targets for service quality and customer satisfaction.

According to the results of the Turkish Customer Satisfaction Index survey conducted to measure customer satisfaction and service quality, Kuveyt Türk scored 79.8 points; it ranked first in retail banking services, while other banks scored approximately 70.7 points.

A detailed survey was launched to make a mutual assessment in the internal customer satisfaction survey, and to measure collaboration and conflict, as well as work, communication and general satisfaction. With 89% participation, it was confirmed that Bank employees also had faith in this survey.

In the most recent Mystery Client survey conducted, Kuveyt Türk improved its score from 95.5 in 2013 to 96.5 in 2014. The Bank ranks first in a survey list that includes nine large-size banks.

The Quality and Organizational Development Department carried out the following activities in 2014:

- > As part of the Ethical Banking Ethical Management project, the Bank outlined 20 policies for the Ethics Policy.
- > Under the Ethical Banking Ethical Management project, the Bank became the first in Turkey to appoint a Board Member in charge of Ethics and a Manager in charge of Ethics.

## Review of Operations in 2014



Kuveyt Türk revised the job descriptions of all positions in the Bank due to organizational changes and in line with ISO 9001/COBIT standards.

- › The Ethics Committee and Ethics Notification System were set up to assess issues related to ethical banking.
- › The Bank transitioned to transaction-based surveys to better measure internal and external customer satisfaction, on the basis of transactions.
- › Thanks to an infrastructure upgrade, customers can now utilize the QR code feature in their smartphones to fill out customer satisfaction surveys and communicate their complaints, suggestions and other requests to the Bank.
- › In order to ensure continuous improvement in the Bank's service quality, Kuveyt Türk continued using NPS surveys to measure customer satisfaction.
- › The Crystal Palm event was organized for the first time with the participation of senior managers; the employees related their experience with Kuveyt Türk's principles of service culture and values at the event.
- › The Customer Services Committee convened four times in 2014. At these meetings, customer complaints were reviewed and decisions made to improve service quality and increase customer satisfaction.
- › Upon completion of the Customer Segmentation Project in 2014, the Bank made the necessary revisions to take the achievements in Service Culture and Values measurements to the next level.
- › The Bank successfully passed the 2014 audit to receive ISO 10002 Customer Complaint Handling Certification.
- › In line with the standards of the EN 15838 Customer Communication Centers Management System, the Bank established and received certification for the Quality Management System as of January 16, 2014.
- › In order to render the Document Management System more efficient, the Bank implemented the ISOFT program. As a result, all regulatory documents and announcements are now managed over this platform.
- › The job descriptions of all positions in the Bank were revised due to organizational changes and in line with ISO 9001/COBIT standards.
- › To evaluate Kuveyt Türk's operations with a focus on quality and to boost efficiency and effectiveness, the Bank conducted the In-House Quality Inspectors training program. At the end of the program, the trainees inspected 10 branches and 10 units at headquarters. After inspections at the branches and Head Office departments, the Bank took corrective and prevention measures in areas identified as requiring improvement.
- › During the year, Kuveyt Türk undertook work on the Organizational Policy and Capacity Planning Implementation Principles in an effort to render its organizational structure more efficient and sharpen the Bank's competitive edge.
- › In parallel with the Bank's growth, Kuveyt Türk set up three new regional departments. In concert, the Bank modified systems definitions to reduce the number of service regions to 15, and changed the names of certain regions.
- › Kuveyt Türk also performed work to clarify the positions and departments responsible for certain disputed tasks. As a result of these efforts, the Bank is in the process of identifying responsibilities of the relevant departments and resolving uncertainties.
- › In 2014, the Bank restructured eight departments of the Head Office and 15 units reporting to these departments.
- › Kuveyt Türk evaluated the ideas and suggestions sent to the online platform Sağlamfikir.com.tr from inside or outside the Bank. Awards were presented to those who put forth the most valuable ideas, once every quarter. The total awards granted amounted to 110 grams of gold.
- › As part of Management Declaration audits, the Bank reviewed and upgraded 262.
- › In pursuit of operational excellence and efficiency in 2014, the Bank carried out the initiatives Centralization of EFT/Transfer Transactions and Centralization of Payment Documents. As part of centralization projects, the Bank transferred tasks that create additional workload on branch employees over to the Central



The Department plans to investigate and analyze new lines of business that could help Kuveyt Türk reach its strategic goals, evaluate new investment opportunities and carry out economic research activities in 2015.

- Operations Team. As of year-end 2014, the Centralization of Payment Documents project covered 14 branches while the Centralization of EFT/ Transfer Transactions included five branches in its scope.
- › Kuveyt Türk reduced the number of pages of the Banking Service Contract to cut printing costs, and separated the Cheque Book and Credit Card Contract from the Banking Service Contract. The Bank also simplified the articles. As a result, the number of contract pages went down from 54 to 12 pages.
  - › As part of the Your Bank project, Kuveyt Türk completed the account opening, fund allocation and credit card processes.
  - › Kuveyt Türk also completed the preparatory work on the bank to be set up in Germany.
  - › The Bank's departments have identified their exceptions in relation to transactions and customers. In 2015, further work is planned to enable the identification and reporting of such exceptions over the system.
  - › A project to address the issue of the necessity of adding the same document to multiple screens for branch employees, which results in additional work-load on the Document Management System, was planned and sent to the IT Department. When the project is complete, branch personnel will be relieved of this significant burden.

- › In the Bank's XTM processes, Kuveyt Türk monitors the requests coming in from the field and upgrades the processes as needed. Furthermore, work is ongoing on products that will be made available on XTM's as well as the processes of the new Mini Branch concept.

#### **Strategy Planning and Corporate Performance Management Department**

The Strategy Planning and Corporate Performance Management Department's main duties and responsibilities include formulating medium and long term strategies and policies within the framework of Kuveyt Türk's overall strategies, policies and annual business plans, pursuant to the instructions of the Board of Directors and senior management. In addition, the Department is charged with setting strategic goals accordingly, revising strategies in response to changes in market conditions, and ensuring the standardization of processes designed to maximize the potential of the Bank.

The Strategy Planning and Corporate Performance Management Department develops performance criteria for strategy-related areas, collects, analyzes and interprets data and information about service improvement and performance.

Other duties include reviewing external factors that have an impact on services, conducting internal capacity surveys analyzing service effectiveness and satisfaction levels and carrying out relevant research, drawing up the Bank's budget - including the budget forecasts for the following years - in accordance with the strategic plan and the annual performance plan and overseeing and evaluating the compliance of the Bank's operations with these plans.

The Department shared all activities with the relevant departments and the senior management during 2014. It will ensure that the necessary analyses and evaluations are conducted in 2015 as well. As part of its business development responsibilities that are inherent in the strategy planning function, the Department plans to investigate and analyze new lines of business that could help the Bank reach its strategic goals, evaluate new investment opportunities and carry out economic research activities in 2015.

The development of Turkuaz, a Corporate Performance Management program, continued in 2014; the percentage of automated KPIs was increased. Additionally, the segmentation of target resources, data verifications and KPI revisions in line with strategic priorities also continued in 2014 and will continue during 2015.

## Review of Operations in 2014



The Corporate Communications Department manages the Bank's social responsibility activities to support various NGOs and initiatives to preserve the country's cultural and historical heritage.

### Corporate Communications Department

Operating under the Strategy Group, the Corporate Communications Department works to create a unified perception among internal stakeholders in regard to the Bank's strategic goals and priorities, promote new products and services, and increase brand awareness, which constitutes the main strategic objective.

The Corporate Communications Department was established to work both inside and outside the Bank toward the targets set by management and to devise, deploy and manage communication and promotional tools for this purpose. One of the primary goals of the Department is to provide information to social stakeholders by using the most convenient channels and messages, in accordance with the Bank's vision, mission and values.

In line with the business work flow and approval process, the Corporate Communications Department issues press announcements via print and visual media to swiftly inform the general public and stakeholders of significant developments related to the Bank, financial statements, financial position, expectations about the Bank's future as well as its strategies.

In these notification and communication efforts, social media is also used efficiently. The Department actively uses Kuveyt Türk's official Facebook and Twitter accounts, the organization's main social media channels, to monitor content about the Bank and conduct content management activities.

The Corporate Communications Department manages the Bank's social responsibility activities to support various NGOs and initiatives to preserve the country's cultural and historical heritage. To this end, the Department continued work on social responsibility projects that add value to the society as a whole in 2014.

The Bank sponsored the restoration of Ortaköy Mosque with a view to preserving society's historical heritage and cultural assets for future generations. The restoration work commenced in 2011 and was completed in 2014, at which time Ortaköy Mosque reopened its doors to worshippers and visitors.

In 2014, the following themes stood out in the communication initiatives undertaken to inform social stakeholders and the general public about Kuveyt Türk:

- > 25<sup>th</sup> anniversary of the Bank
- > Restoration of Ortaköy Mosque
- > Inauguration of the bank in Germany
- > Financial disclosures
- > Sukuk issuances
- > Kuveyt Türk's second place sector ranking in gold banking
- > Kuveyt Türk's first place sector ranking in mortgage and urban transformation financing
- > R&D Center, BOA software and VISCA project
- > Bonds & Loans, Global Finance Magazine and R&D awards
- > Credit ratings by IIRA and Fitch Ratings
- > Needs Card and Seed Card
- > Vehicle financing product
- > Foreign Currency Pre-shipment Financing to SMEs
- > Participation in real estate, SIBOS and TUMSIAD fairs
- > Ramadan month communications
- > Launch of Çağrı Academy
- > Celebrations of Ahilik Week



The Bank aims to expand the client base by launching new products and services in response to customer needs in 2015.

### CORPORATE AND INTERNATIONAL BANKING

The Corporate and International Banking Group, made up of Corporate Marketing, International Banking, the Treasury Group, Investment Banking, Performance and Product Management as well as Overseas Branches and Subsidiaries, strives to sharpen the Bank's domestic competitive edge, by offering customers a wider array of high quality products and services. The Group is progressing toward regional structuring in line with Kuveyt Türk's strategic targets. In 2014, the Group contributed to the Bank's growth and profitability.

#### Treasury Group Department

In charge of the management of the Bank's liquidity and market risks, the Treasury Department continued to manage risks and pursue a profitability-oriented approach in 2014.

Despite volatility in global markets and increasing competition in the domestic arena, Kuveyt Türk increased its foreign currency trading volume and profitability in 2014. Thanks to the Treasury Department's efficient marketing and competitive pricing strategies, the Bank's foreign currency trading profits rose 10% over the prior year.

In 2014, Kuveyt Türk successfully continued its role as the Cash and Barter Clearing Bank on the BIST Precious Metals and Stones Market, which it had assumed in February 2013. Since 2011, Kuveyt Türk had led all the other banks in physical gold

trading volume on the BIST; in 2014, the Bank ranked first among all BIST members in this area. In addition to leading in BIST gold trading volume, Kuveyt Türk is also the domestic champion in standard gold bar and foreign silver trading.

On top of these achievements in gold transactions, Kuveyt Türk ranks third among all BIST members in silver trading volume and has placed first among all banks since 2008. In 2014, in yet another milestone for the Turkish banking sector, Kuveyt Türk started to produce gold bars at international standards with original designs. These unique gold bars are traded in domestic and international markets.

The Bank started corporate issuances in 2010 with dollar-denominated sukuk issues, and continued in 2014 with dollar- and Turkish lira-denominated sukuk. In addition, the Bank also secured funds through murabaha syndications with differing maturity periods. As a result, the Bank continued to diversify its funding sources in 2014.

The Bank diversified the products offered to customers by giving price information to retail and corporate clients in their sukuk transactions.

The Bank aims to expand the client base by launching new products and services in response to customer needs in 2015.

#### Assets and Liabilities Management Unit:

The Unit manages the Bank's risks arising from possible liquidity and maturity period mismatches. Additionally, the Unit performs transactions in the interbank market to ensure efficient liquidity management. Thanks to its sound capital structure and high level of liquidity, Kuveyt Türk extended funds to a large number of banks in the interbank market. Able to transact with most of the banks chartered in Turkey, the Bank also continues to expand its business with stable banks abroad.

In 2014, Kuveyt Türk added public and private sector, US dollar- and TL-denominated lease certificates to the Bank's portfolio, and left unchanged the weight of securities in total assets. The Bank also geared up secondary lease certificate trading during the year.

#### Foreign Currency and Precious Metals Unit:

The Unit is in charge of managing the Bank's foreign currency risk and marketing treasury products. Providing foreign currency and precious metals pricing services to clients and branches, the Unit bolstered customer relations in 2014 with efficient sales and marketing efforts and effective risk management.

## Review of Operations in 2014



On June 26, 2014, Kuveyt Türk conducted an international sukuk issuance that raised US\$ 500 million, which confirmed international investor confidence in the Bank.

### International Banking

The International Banking Department is responsible mainly for establishing, monitoring, managing and improving relationships with domestic and foreign banks (financial institutions) in terms of products and other business areas. Other banks refer to this function as financial institutions, but at Kuveyt Türk it is referred to as International Banking since it covers all relationship management efforts not only of the Bank but also of the international banking industry.

In order to increase the efficiency of the Bank's existing correspondent network, the International Banking Department concentrates efforts on product and service diversification, reciprocity and relationship continuity. Undertaking and managing these efforts together with correspondent banks are crucial for Kuveyt Türk in terms of maintaining a good international reputation.

In addition to improving efficiency, the International Banking Department is also responsible for expanding the existing network. Initiatives to this end continue with due consideration given to macro level foreign trade policies, regions and countries targeted in the medium- and long-term, and the Bank's strategies and policies.

In 2014, the International Banking Department made regular visits to correspondent banks in Europe, the Middle East, North Africa, Turkic Republics and other regions in order to maintain the Bank's high-level relationships with financial institutions. Kuveyt Türk is also drawing up plans to expand its correspondent bank network to new regions, in order to support the country's foreign trade policies, and to contribute to the Bank's growth targets and profitability. These visits helped increase the Bank's recognition and reputation and drew attention to foreign trade and borrowing instruments; the outcome of these visits has been reflected in higher trade volumes.

At the SIBOS Banking Fair in September 2014 in Boston, USA, Kuveyt Türk's International Banking Department and the Information Technologies and R&D Unit set up a booth and held one-to-one talks with representatives of over 100 banks, which resulted in various business development opportunities. The Bank has regularly participated in SIBOS for the last five years. The International Banking Department, and the Information Technologies and R&D Unit held joint meetings with correspondent banks; and for the first time Kuveyt Türk's IT and R&D products were marketed along with the Bank's financial products. The Information Technologies and R&D Unit entered into direct contact with the top IT managers of a series of leading banks. The International Banking Department shared its correspondent bank network with the IT

and R&D Unit and provided it with a broader sales and marketing environment. The IT and R&D Unit continues to follow up with the contacts established at SIBOS 2014. This cooperation between these two units will continue at SIBOS 2015.

### Corporate Sales

The Corporate Sales Unit set up under the International Banking Department continues to operate with success. The Unit organized visits to correspondent banks and held talks about product and business development in 2014, in order to meet the Treasury Department's ongoing need for long-term, low cost funding. Positive developments in the correspondent bank network as a result of these visits led the Bank to secure foreign funding. In light of these favorable developments, the Unit diversified the counterparty (correspondent bank) network on the basis of regions and countries, and managed related risks more efficiently. The main purpose of the correspondent bank visit initiative for 2015 and beyond will be to support the Bank's policies and needs and serve this general strategy.

### Foreign Trade Marketing

Foreign Trade Marketing is another business unit operating within the International Banking Department. As part of Foreign Trade Marketing operations, Bank representatives visited around 70 branches and 150 firms in 2014. Due to the positive results yielded by these visits, the Bank plans to visit more branches and firms in 2015.

Additionally, the Bank administered intensive training programs to boost the region and branch personnel's information and know-how about foreign trade and Treasury products. The number of branches that contribute to improving foreign trade continues to increase day by day.

In 2014, Kuveyt Türk further diversified its foreign trade finance product offerings. The Bank renewed contracts with ITFC and SEP, affiliates of the Islamic Development Bank, and reached a US\$ 50 million agreement with Türk Eximbank to provide pre-shipment financing to export firms.

### **Limit Allocation to Correspondent Banks**

The third function of the International Banking Department includes allocating, monitoring and overseeing limits to correspondent banks on behalf of Kuveyt Türk.

In 2014, a total of 45 bank reports and 34 country reports were prepared and shared with relevant parties. In 2014, Kuveyt Türk made improvements to the limit allocation processes of domestic and overseas banks and to the Counterparty Limit Management (CLM) module. The Bank continues to perform analyses and other activities in

order to ensure full compliance with the allocation and monitoring criteria outlined in BRSA's best practice guides, "Guidelines for Management of Counterparty Credit Risk" and "Guidelines for Management of Country Risk," published in September 2014.

### **Investment Banking**

Having played a role in intermediation and as an advisor in many financing projects in the Gulf Region, Kuveyt Türk has become the bank of choice as a reputable financial institution in the region. The Investment Banking Department maintained consistent operations thanks to longstanding and fruitful relationships in international financial markets; deep experience in various sectors, business lines, transactions and products; and solid technical know-how.

In 2014, Kuveyt Türk continued to work on gaining maturity and price advantage by diversifying its fund sources resulting in increased competitiveness and providing lower cost and longer term financing facilities to its clients. Having become the first financial institution to issue a sukuk in Turkey and Europe in August 2010, Kuveyt Türk has since continued to operate in interest-free capital markets without interruption. In 2014, the Bank reinforced its market leading position by performing transactions that rippled across Turkey and abroad.

On June 26, 2014, Kuveyt Türk conducted an international sukuk (lease certificate) issuance and raised US\$ 500 million. Priced at a competitive 5.162% rate of return, the issue drew ample interest from investors and was oversubscribed 6.5 times, with total demand climbing to US\$ 3.3 billion. Over 170 international investors from the Gulf Region, Europe and Asia participated in the sukuk issuance, demonstrating Kuveyt Türk's highly diversified investor base.

After the book-building process ended, 45% of the issuance was offered to investors from the Gulf Region and the remaining 55% to the other investors (UK: 20%; Asia: 17%; Switzerland: 12%; other European nations: 5%; other countries: 1%). As in previous Bank issuances, this latest issue confirmed international investor trust in Kuveyt Türk. Thanks to a solid performance in secondary markets, the sukuk issuance already serves as a new benchmark for private sector sukuk issuers in Turkey.

Continuing to issue lease certificates in domestic as well as international markets, Kuveyt Türk completed repayment of the TL 150 million, 364-day lease certificate issued the previous year. The Bank also issued the following lease certificates to qualified investors within the issuance ceiling obtained from the Capital Markets Board:

## Review of Operations in 2014



In lease certificate issue transactions, Kuveyt Türk participated as fund user while the Bank's wholly owned subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. participated as issuer.

Lease Certificate Maturity Period - Value	Issue Date	Annual Gross Rate of Return
June 26, 2019 Futures-US\$ 500,000,000	June 26, 2014	5.07
March 23, 2015 Futures-TL 100,000,000	September 29, 2014	49.81
May 14, 2015 Futures-TL 57,000,000	November 20, 2014	8.65
November 19, 2015 Futures-TL 30,000,000	November 20, 2014	9.01
Marc 23, 2015 Futures-TL 50,000,000	December 30, 2014	8.87
<b>Total TL 237,000,000</b>		
<b>Total US\$ 500,000,000</b>		

The first category lease certificate issue that raised TL 150 million took place on September 29, 2014, becoming the largest lease certificate issue ever to qualified investors in a single transaction in Turkey.

In lease certificate issue transactions, Kuveyt Türk participated as fund user and its wholly owned subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. participated as issuer. While pleasing investors with high returns, the lease certificate issuance also enabled Kuveyt Türk to raise funds at much lower costs than that of rival participation banks.

For sukuk issuances, Kuveyt Türk has focused on Malaysia, where interest-free capital markets are highly developed. The Bank has received the necessary approvals from the Capital Markets Board and Malaysian Central Bank for an issue ceiling of RM 2 billion. After receiving approval from regulatory authorities, the Bank plans to enter ringgit-denominated sukuk markets in 2015.

2014 was also a year in which Kuveyt Türk remained very active in international syndication markets. The Bank completed repayment of the one-year maturity tranche of the club murabaha financing facility it received on December 27, 2013, and signed a new murabaha syndication on December 17, 2014. As part of this murabaha syndication deal, the Bank secured US\$ 350 million in total, which consists of a two-year tranche of US\$ 300 million, another two-year tranche of EUR 30 million and a EUR 10 million one-year tranche.

Despite a challenging financial environment where emerging market risk premiums were heading upwards, the transaction was performed with a rather successful profit rate: reference rate plus 0.80% for one year and reference rate plus 1% for two years. In addition, this transaction became Kuveyt Türk's biggest ever murabaha syndication to date.

Realized in line with the strategy of strengthening business relationships with Gulf Region banks, the murabaha syndication included ABC Islamic Bank (EC), Abu Dhabi Commercial Bank PJSC, Barwa Bank QSC, Emirates NBD Capital Limited, Noor Bank PJSC and Qatar Islamic Bank QSC as initial mandated lead arrangers. A total of 12 banks -11 of which were Gulf-based- from six different countries participated in the syndication. Additionally, Kuveyt Türk's partner company Kuwait Finance House KSC and its subsidiary Kuwait Turkish Participation Bank (Dubai) Ltd. acted as advisors in the transaction.

Kuveyt Türk also uses its deep experience in investment banking to serve financial institution customers. In December 2014, the Bank figured as lead arranger in the murabaha syndication of the Azeri-based International Bank of Azerbaijan OJSC.

Managing to increase the diversity and volume of its international structured financial products using an innovative approach, the Investment Kuveyt Türk continued to gain market share throughout 2014. While continuing to offer products and services classified as capital market transactions, murabaha syndications, club transactions and other structured financing transactions to its customers, the Bank also develops new products and alternative financing structures that will most effectively meet customer needs in an increasingly competitive environment.



As the unit of Kuveyt Türk in charge of project finance, the Investment Banking Department accepted applications to fund a large variety of investment projects including renewable energy, alternative energy sources, infrastructure, company acquisitions and mergers and the building of factories and manufacturing facilities. It ultimately performed project finance transactions of considerable quantity and volume.

Kuveyt Türk plans to secure long-term funds via sukuk issuance and extend more long-term funding for customers investment projects in 2015.

### **Corporate Banking**

The Corporate Banking Department provides all types of banking services to corporate customers via corporate branches and in accordance participation banking principles. As of year-end 2014, the Bank had three corporate branches, two in Istanbul and one in Ankara. Working in collaboration with the Investment Banking Department, Corporate Banking offers special solutions to corporate customers in areas that require expertise such as project finance, structured finance and syndications. The Corporate Banking Department and specialized teams at corporate branches strive to meet corporate client demands for cash and noncash credits as well as other banking products.

The Corporate Banking Department will continue to deliver specialized and fast solutions to corporate customers in 2015.

### **Performance and Product Management**

The Corporate and International Banking Performance and Product Management Department was established in December 2012 to monitor the performance of corporate branches and overseas branches and/or subsidiaries. It also analyzes business models and requirements; develops new products that will contribute to growth and profitability targets; develops the IT system to meet the needs of these units; and improves the current IT system infrastructure in line with the Bank's strategic and financial targets.

The Department has two basic functions: product management and performance management. In June 2014, Kuveyt Türk obtained an Over-the-Counter Trading Authorization Certificate from the Capital Markets Board. Currently, the Bank is nearing completion on the systems infrastructure work to directly trade client lease certificates and investment funds. Kuveyt Türk has also become a member of Takasbank's Turkish Electronic Fund Distribution Platform, BIST Debt Securities Market - Outright Purchases and Sales Market and the Turkish Capital Markets Association (TSPB). In addition, the Bank developed new products during the year that conform to participation banking principles, including traditional precious metals products, profit rate swap, cross currency swap and collateral murabaha offering, for use by sector units.

In the area of performance management, the Department closely monitors the targets and performance of the Bank's corporate branches to ensure that their contribution to the Bank's growth and profitability continues to increase. In addition, the Department produces reports and other analyses on the transactions of the International Banking Group and Treasury Group. Senior management is kept apprised of the financial transactions and activities of these groups to support the Bank's decision-making processes.

## Review of Operations in 2014



The Financial Affairs Group performs all notification related tasks for monitoring, budget-based planning and guidance of Kuveyt Türk's profitability, risk management effectiveness and resource productivity on the basis of customers, products and services and profit centers.

*The Accounting Department is responsible for recording, classifying, summarizing, reporting, analyzing and interpreting the Bank's financial transactions.*

### FINANCIAL AFFAIRS

The Financial Affairs Group performs all analytical information management and notification tasks for tracking, budget-based planning and guidance of Kuveyt Türk's profitability and risk/resource productivity on the basis of customers, products and services and profit centers.

Operating like a command and control center, the Financial Affairs Group fulfills the following responsibilities:

- › Creating and improving the infrastructure of the Bank's complete accounting and record-keeping system and overseeing the proper functioning of the system,
- › Fulfilling all financial and tax liabilities of the Bank,
- › Preparing reports in accordance with the Banking Law, Tax Law, Turkish Financial Reporting Standards and domestic and international legislation and regulations,
- › Reporting identified problems in a timely manner for immediate response and resolution,
- › Creating an effective budgeting and reporting system based on accurate data to ensure reliable management,
- › Generating reports to be disclosed to the public and sent to public agencies, promptly and based on accurate data.
- › The Financial Affairs Group consists of four departments: Accounting, Financial Control, Budget and Management Reporting and External Reporting.

The Group's objective is to execute these functions with superior quality service using its reliable technological infrastructure and specialist staff.

### Accounting Department

The Accounting Department is responsible for recording, classifying, summarizing, reporting, analyzing and interpreting the Bank's financial transactions.

The Accounting Department is responsible for the functioning of the Bank's accounting system. These tasks include ensuring that transactions are accurately reflected in the records for financial statements and that the regulatory reports that must be prepared pursuant to the Banking Law, Turkish Accounting Standards, regulations and communiqués of the Banking Regulation and Supervision Agency, tax laws and other applicable legislation are based on material facts. Other tasks include the fulfillment of tax payments, other responsibilities, liabilities and overseeing their payment and recording; keeping records of the Bank's expenses and fixed assets; analyzing the budget and changes in expenses; determining accurate allocation of expenses As part of cost management efforts; monitoring limited expenses and the payment and control of all expenses incurred by the Bank.

The Accounting Department has contributed to the Bank's profitability and accelerated its transactions by providing support to products and services offered by the Retail and Corporate Banking, Treasury, Product Development Departments. These include export finance, Eximbank loans, lease certificates, Central Bank of Turkey's open market operations, secondary market transactions, precious metals, Turkish Republic gold coins, gold grams and other gold types, as well as credit cards, murabaha and metal transactions and lease certificate issues.



## Review of Operations in 2014



Throughout 2014, the Accounting Department developed new and convenient solutions while improving service quality, based on its deep know-how and experience and in line with the Department's goal to become a solutions center.

- › Keeping books and records as required by the Turkish Commercial Code and tax laws and obtaining the closing approvals of books,
- › Sending reports related to the area of expertise to financial authorities, Central Bank, Savings Deposit Insurance Fund, courts, expert witnesses, CPAs and undertaking all requested efforts during investigations and audit activities,
- › Taking part in preparations prior to the General Assembly, carrying out transactions with shareholders, units and public agencies,
- › Contributing to the management's decision making process by providing effective information and data,
- › Managing and reporting on the Bank's fixed assets,
- › Conducting the reconciliation of loro, nostro, vostro accounts and the Central Bank's reserve requirements,
- › Conducting general reconciliations and analyses related to controls, reports and changes,
- › Reconciling check swaps, checking accounts and promissory notes
- › Controlling and reporting on aid and donations accounts in accordance with the provisions of the Banking Law and tax laws,
- › Paying all duties and taxes, reporting and filing tax returns on behalf of the Bank,
- › Rediscounting and assessing murabaha, wakala and syndicated loans,
- › Making and reporting flat discount and IRR calculations,
- › Preparing the balance sheet and the income statement,
- › Reporting on deferred taxes within the framework of corporate tax liabilities and the Turkish Accounting Standards,
- › Taking part in internal and external audits, system audits, tax and financial audit activities and liaising with the taxation office,
- › Conducting transactions of the Bank with its domestic and overseas subsidiaries and affiliates, overseas branches and free trade zones and performing the necessary controls,
- › Providing training to units and branches in matters regarding banking, financial accounting and taxes.

### Accounting Department

Throughout 2014, the Accounting Department developed new and convenient solutions while improving service quality, based on its deep know-how and experience and in keeping with the Department's goal of becoming a solutions center. During the year, the Accounting Department carried out systems infrastructure work to automate a vast number of transactions that were previously performed manually. Lease payment transactions and certain tax transactions conducted in the branches were centralized. In addition, the Department made systems improvements related to the control of Bank expense limits and incurred expenses, implemented measures to prevent limit breaches, and issued expense reports.

Budget figures were compared to expense actuals, and program improvements were made to facilitate analysis and reporting.

Tax incentives available for the Bank's transactions, products and services were closely studied and analyzed to maximize any possible benefits, and much progress was made in efforts to shorten the time to prepare financial statements.

In today's competitive environment, the Accounting Department will continue to generate fast and accurate data for the Bank, increase productivity by closely monitoring technological developments as well as domestic and international legislation, raise the level of internal and external customer satisfaction, support innovative product development processes and facilitate continuous improvement. The Accounting Department is fully aware of its responsibility of overseeing whether the Bank achieves operational profitability and meets its financial obligations while adhering to basic accounting principles, rules and policies.

### Financial Control Department

The Financial Control Department's primary tasks are carried out via the Financial Control, Treasury Control and Expense Management Units. Each unit works to continuously improve processes and check points by capitalizing on a specialized and dynamic workforce, thus contributing to Kuveyt Türk's corporate development.

The core duties of the Financial Control Department, which makes significant contributions to Kuveyt Türk's corporate development with its specialist and dynamic staff, are as follows:

- › Creating and developing a reliable accounting infrastructure to ensure that internal and external reporting is performed with timely, accurate and reliable data, and conducting effective financial and accounting controls,
- › Ensuring instant detection and correction of errors through periodic controls performed on a daily, weekly and monthly basis so all transactions will be reflected accurately in accounting records in accordance with the uniform system of accounts and the relevant legislation and communiqués,
- › Conducting analyses on the Bank and the banking sector to support the Bank management's decision making process,
- › Conducting daily control and analysis of the Bank's income and expenses; overseeing the calculation of profit shares and the proper reflection of these on customers' accounts,
- › Providing accounting and systems infrastructure support during systemic overhauls at the Bank, enhancement of existing products and development of new ones.
- › Controlling whether the dealer's transactions are within the set limits or not,
- › Checking customer and Bank limits and deposit payments,
- › Monitoring and controlling Central Bank of Turkey open market operations, and performing profitability analyses,
- › Performing controls for bilateral foreign exchange transactions,
- › Monitoring the update frequency of swap points and depot exchange rates, and performing control and analysis,
- › Controlling the daily liquidity report,
- › Performing the controls and settlements of Treasury Department expenses,
- › Monitoring and controlling cash flow (counterparty accounts),
- › Controlling the conformity of margin call demands,
- › Controlling the foreign exchange rate margin of platform customers,
- › Controlling the orders, positions, portfolios and net asset values of the Bank's investments funds.
- › Performing analyses and daily, weekly and monthly controls to identify unusual expense items, delivering this information to relevant management units and process managers, and ensuring that the necessary measures are taken,
- › Playing an active role in the preparation of the budget to manage expenses, and approving the draft budget,
- › Approving or rejecting expenses, product or service purchases, lease payments that are above a certain amount or which could lead to a budget overrun, as well as the related contract applications.

Additionally, the Financial Control Department provides support in resolving issues that branches and units experience with accounting practices and makes practical suggestions to users. The Department also performs various other functions such as preparing monthly financial reports, carrying out interim and year-end transactions, informing auditors during internal and external audits, and producing the information and documentation demanded.

The functions of the Middle Office include:

- › Tracking the Bank's foreign currency and precious metals positions in an effective manner, and ensuring the correct reflection of profits from foreign exchange, derivatives and precious metals,
- › Performing the operational control and approval of swap, murabaha, precious metals, foreign exchange and sukuk transactions, and analyzing their profitability,
- › Allocating the Bank's operating expenses accurately and properly; conducting controls and analyses to ensure that costs do not exceed the budgeted amounts and are managed efficiently,
- › Informing the relevant management units and process managers about situations that pose a risk or require improvements, and demanding that corrective measures and actions be taken,

The Expense Management Unit is functions include:

The Financial Control Department aims to contribute more to Kuveyt Türk's efforts to reach its ambitious targets in 2015. The Department strives to raise awareness about the importance of reducing expenses, ensures that resources are utilized efficiently, deploys information technology to increase the efficiency of controls, works on completing the systems infrastructure to calculate daily profit and loss, ensures the efficient control of treasury transactions and minimizes risks.

## Review of Operations in 2014



The Financial Control Department aims to contribute more to Kuveyt Türk's efforts in reaching the Bank's ambitious targets in 2015.

### Budget and Management Reporting Department

Budgeting and management reporting play a critical role for the senior management to fulfill its command and control functions at Kuveyt Türk, which is increasing the number of its branches with each passing day, improving its organization, expanding its international financial network, and most importantly maintaining profitable growth in accordance with strategic goals. These functions are executed by two separate units:

**Budget Planning and Monitoring Unit:** The Budget Planning and Monitoring Unit's main functions include preparing the budget in accordance with strategic goals, and monitoring and ensuring that the performance of branches, units, products and department comply with the budget.

In addition to these main functions, the Unit is also responsible for controlling Kuveyt Türk's activities within the framework of core policies and strategies, and ensuring the sustainability of the Bank's financial and managerial integrity. The Unit communicates the Bank's annual targets in line with the strategic goals set by the senior management, and the management plans drafted to achieve these goals, clearly to the related branches and units. As part of this effort, the Unit monitors the financial development of management units through daily reports, identifies deviations, if any, assesses their causes and develops recommendations for corrective action. Conducting performance measurements and evaluations in accordance with the realization rates of

targets, the Unit prepares reports for the Bank's senior management. As part of expense management efforts, the Unit analyzes the causes of changes that occur in expense items on the basis of departments and accounts; controls the current accounts of branches under fund and profitability management efforts; and reports deviations.

**Management Reporting Unit:** The Management Reporting Unit was created within the Budget and Management Reporting Department, which underwent restructuring in 2011, in order to help the senior management oversee the Bank's performance in a more reliable, fast and technology based manner.

The Management Reporting Unit drafts reports for the senior management and the Bank's related units, branches and departments periodically, or upon request, and offers analyses and interpretation of these reports.

Additionally, the Unit has a reporting database under its umbrella. The database team has the required technical qualifications and know-how, and prepares and submits periodic reports to the External Reporting Department via the ACL system; it also offers its reporting services to relevant departments.

The Unit makes management reports available to the senior management via a management information system (MIS). During the year, new modules were designed and included in this system for use by branch managers as well as other

users at regional offices. Additionally, the MIS was transferred to the mobile platform to enable access to management reports from outside the Bank.

### External Reporting Department

The External Reporting Department's duties include assembling the information disclosed to the public, or submitted to the public agencies pursuant to legal obligations, as well as the reports drafted for the Bank's main partner Kuwait Finance House. As part of this effort, the Department drafts hundreds of reports each year and sends these to public agencies at daily, weekly, bi-monthly, monthly, semi-annual and annual intervals.

In 2014, Kuveyt Türk's External Reporting Department continued to meet the reporting demands of the domestic and overseas agencies, institutions and individuals that it cooperates with, in a complete and rapid manner. Furthermore, it provided the reports required by public agencies such as the BRSA (Banking Regulation and Supervision Agencies) and the Central Bank of Turkey in a swift and accurate fashion. The Department also prepared timely and detailed reports in line with the consolidation activities of the Bank's main partner Kuwait Finance House. Finally, the BRSA and IFRS audit reports required by external auditors were prepared in detailed form and submitted to them.

In addition to the reports it currently produces, Kuveyt Türk's External Reporting Department plans to meet any

new reporting demands in a systematic and swift fashion in the period ahead. In line with Kuveyt Türk's targets, the Department plans to develop the reporting infrastructure in accordance with customer expectations and needs.

The External Reporting Department consists of three units: Domestic Reporting, International Reporting and Investor Relations.

**Domestic Reporting :** The domestic reporting tasks of the External Reporting Department consist primarily of drafting quarterly unconsolidated and consolidated independent audit reports and submitting them for the review of the independent auditors, and preparing the other periodic and ad hoc reports submitted to public agencies. In addition, the statements and reports regarding legal and regulatory limits and ratios that must be monitored and attained pursuant to related laws and regulations are also drafted by the Domestic Reporting Department. Furthermore, the generation of the reports requested by auditors and inspectors auditing the Bank, as well as various other transactions that must be reported to public agencies, including branch openings and address changes, transfer processes of participation funds, collaterals and receivables, whose statues of limitations have expired to the Savings Deposit Insurance Fund of Turkey, and the calculation of Deposit Insurance Premium rates, are overseen as part of the Department's domestic reporting activities.

**International Reporting:** International Reporting The Unit's activities fall under three main categories:

The Unit drafts interim and year-end financial statements and audit reports in accordance with International Financial Reporting Standards (IFRS) and submits them for review by independent auditors. It also prepares monthly IFRS financial statements and shares them with other relevant departments.

The Unit prepares the three-monthly COGNOS financial consolidation package mandated by the Bank's parent company Kuwait Finance House (KFH), as well as Banking System Application Program (BSAP) reports and other explanatory footnotes and reports. The Unit also prepares the quarterly reports demanded by the Central Bank of Kuwait, and sends these to the parent company KFH.

In three-monthly periods, the Unit identifies the Bank's loan, market and operational risks, and calculates shareholders' equity and the capital adequacy ratio as part of Basel II related efforts. Similarly, Basel III rules are also implemented with loan, market and operational risks identified, and shareholders' equity and the capital adequacy ratio calculated. Finally, Stress Test data and Risk Package mandated as part of KFH Risk Management efforts are also produced.

**Investor Relations Unit:** Set up in July 2014 under the International Reporting Unit, the Investor Relations Unit ensures the exercise of shareholder rights and establishes communication between the Bank's senior management and shareholders. The Unit plays an active role in protecting and facilitating the exercise of shareholders' rights, in particular the right to information and analysis.

The Unit also ensures that records about shareholders are kept in a secure, reliable and up-to-date manner, while supervising and monitoring all aspects of the Bank's public disclosure policy. It responds to domestic and international shareholders' written inquiries about the Bank, with the exception of those related to issues undisclosed to the public, and trade secrets. Furthermore, in line with prescribed Corporate Governance Principles, the Unit regularly updates the Investor Relations section of the Bank's web site, thus providing current information disclosure to shareholders.

Additionally, the Investor Relations Unit makes sure that the General Assembly meeting is held in compliance with applicable legislation, the Articles of Association and other in-house regulations, keeps the records of voting results, and sends results reports to the Bank's shareholders.

In 2014, the Investor Relations Unit drafted the Bank's Corporate Governance Principles Compliance Report and received a score of 8.59 out of 10 from the authorized corporate governance rating company.





We continued our steady climb by complying with the principles of participation banking, a reflection of our beliefs in the business world. Despite the crises and hardships we have faced in these last 25 years, today we are powering ahead with our principles and values. We are the leader in our field, with over 300 branches across the country, thanks to the diligent work and productive efforts of our employees.



#### **RESTORATION OF 2011-2014**

The most recent restoration work at Ortaköy Mosque started on March 23, 2011, undertaken by Güryapı İnşaat, under the direction of the General Directorate of Foundations, First Regional Directorate and with the sponsorship of Kuveyt Türk Katılım Bankası A.Ş. At the beginning of the mosque's restoration, the project and the approved decisions were combined with the results of the field study. All the additions from earlier modern day restorations found on wall surfaces were removed and the cement was covered after the plaster was carefully scraped. Then, the sections created later were assessed and the project road map was drawn up. A restitution and restoration project was prepared for those sections covered with walls or that opened up later. Planimetric revisions were suggested and finally the structure's original architectural plan was restored.

## Review of Operations in 2014



The Internal Audit Department has been deemed worthy of three Internal Audit Awareness Awards, the most prestigious accolades of the profession.

*After undergoing another independent quality assurance review (QAR) in 2014, the Internal Audit Department received certification that it operates in line with International Internal Audit Standards.*

### AUDIT AND RISK

#### Internal Audit Department

The Internal Audit Department was established to create a disciplined and systematic audit structure to assess and improve the effectiveness and efficiency of the Bank's risk management, internal control and corporate governance processes.

The vision of the Department is to execute its activities as an internal audit body that:

- > Improves itself continuously with an approach consistent with internal audit standards and best practices,
- > Takes a proactive approach in order to eliminate the losses and errors that may hinder the Bank from achieving its goals with a process, business and risk-oriented perspective, rather than a person-, transaction- or error-oriented one,
- > Creates value for the Bank and assists it in achieving its goals by making preventative and guiding recommendations,
- > Is cited as an example within the Bank and in the industry for being competent, objective, meticulous, principled, hardworking and disciplined.

The Internal Audit Department carries out its activities under the supervision of the Audit Committee and provides periodic reports to the Board of Directors through this committee. The Department operates within the framework of an annual work

plan prepared through risk-focused audit planning which covers the Bank's entire business processes, units, branches and subsidiaries, as well as IT systems, without limitation.

The Internal Audit Department performed its activities for 2014 in accordance with its work plan's requirements and stakeholder expectations; it conducted special examinations as well as legal and administrative investigations in certain areas and circumstances as required. Additionally, as part of the Management Declaration audits, a comprehensive assessment was performed regarding the effectiveness, adequacy and compliance of the information systems general controls and the business process controls of the Bank. These assessments form a sound basis for the Management Declaration that the Board of Directors was legally obligated to submit to the internal audit firm.

Actions arising from the reports are monitored by the Department via follow-up programs, with reports sent to the related authorities when necessary based on the results of these monitoring efforts. Similarly, reports on operational activities were submitted to the Internal Systems Committee, Audit Committee, and the Board of Directors in at least quarterly intervals.

After undergoing another independent quality assurance review (QAR) in 2014, the Internal Audit Department received certification that it operates in line with International Internal Audit Standards.



Kuveyt Türk's Internal Control Department played an active role in the Process Modeling and Analysis phases of the Core Banking Transformation project.

The Department operates with the vision of performing an exemplary internal audit function; over the last four years, the Department has been deemed worthy of three Internal Audit Awareness Awards, the most prestigious accolades of the profession.

#### Internal Control Department

The Internal Control Department is in charge of the internal control function at Kuveyt Türk. The Department was established to design, implement, manage and monitor internal control activities, and to report the results at the management level in order to ensure that the Bank operates in accordance with both external and internal regulations.

In line with Kuveyt Türk's strategic goals and policies in accordance with both internal and external regulations, and international standards, the Internal Control Department organized its activities into three groups:

- > On-Site Control and Monitoring;
- > Central Control and Monitoring;
- > Information Systems Control, and the Design, Development and Coordination of the Internal Control System.

Designed to support specialization on the basis of business lines, this realignment boosted the efficiency, proficiency and compliance of operations and control systems through continuous controls.

As part of the 2014 control plan and program, the Bank's various business lines, units, branches, processes, products and services were continuously analyzed and monitored through a proactive, dynamic, priority and risk-centered approach, and the results were reported.

In line with the Bank's organizational structure and operations, the on-site control and monitoring activities for 2014 consisted of the analysis and monitoring of branches operating under regional offices, overseas branches and subsidiaries, as well as of various products, services, transactions and processes, with regards to the internal control system and activities; the findings were subsequently reported to senior management. In 2014, the branch control program was divided into two periods that focused on different topics. Activities under this scope were undertaken by Internal Control personnel (auditors) located at regional offices and reporting to the Internal Control Department.

In accordance with the Bank's organizational structure and operations, the central control and monitoring activities for 2014 consisted of the analysis and monitoring of the activities, processes, new products and services of sectoral business lines at the Head Office, with regards to the internal control system and activities; the findings were subsequently reported to senior management.

The Internal Control Department actively participated in the process modeling and analysis projects that are carried out under the core banking transformation project. As part of these efforts, the Department analyzed the processes together with the relevant business units, identified any potential risks related to these processes, designed and established controls to counter these risks, and contributed to the creation and development of the internal control environment and systems across the Bank.

Moreover, transactions and activities deemed important and risk bearing for the entire Bank were continuously and remotely analyzed and monitored through computer assisted audit programs and techniques. These activities were designed to keep the transactions carried out across the Bank under continuous control, and were performed by six different control services established within the Department.

As part of information systems control and the design, development and coordination of the internal control system activities carried out in 2014, the Information Systems Department, which was established under the Internal Control Department and in alignment with the objectives of other control services, analyzed and evaluated various banking processes, new products and services, as well as the findings of internal and external audits, from the perspective of the internal control system and activities.

## Review of Operations in 2014



Market risk is periodically discussed by Kuveyt Türk's Audit Committee and Internal Systems Committee; reports are sent to the BRSA on a monthly basis.

These efforts were geared at establishing and improving a Bank-wide internal control system and standards, and at facilitating the widespread adoption of a risk and control culture. Related activities were performed under the coordination of the all control services, established under the Department.

In addition, the Internal Control Department coordinated the independent external audit activities in 2014, monitored the findings in related audit reports and the actions taken as a result of them, and assisted in the generation of various solutions. The Department presented reports to the BRSA and the Bank's Board of Directors regarding this matter.

In 2015, the Internal Control Department will continue to plan the central and on-site controls of branches, departments and processes with a risk-based approach, and will conduct its activities according to the schedule and timeline it has set.

### **Risk Management Department (RMD)**

The main duties of the Risk Management Department are identifying, measuring and managing risks to which the Bank is exposed in accordance with applicable legislation and regulations. To that end, the Department fulfilled its risk-related duties in an effective manner in 2014.

As part of risk appetite studies, the Department monitored sector concentration, the breakdown of the legal status of the funds extended, the breakdown of collaterals and their relation to funds, limits for the entire Bank portfolio and for separate Bank segments. In addition, concentration risks, large funds and country risks were monitored for the entire Bank portfolio within the set limits, and reported to the Audit Committee.

Since 2012, work has been underway to prepare for Basel II internal assessment methods, and to implement internal rating and scorecards in order to better measure risk. In 2014, the first internal scoring model was developed for the credit cards portfolio; the scores yielded started to be taken into consideration in the fund allocation stage. In the final quarter of 2014, data preparation work commenced to develop an internal scoring model for the SME allocation portfolio. The scores yielded by this project will be taken into consideration during the follow-up of SME portfolio allocations.

Since January 2014, the Bank has reported the internal rating and scores of the corporate and SME portfolios to the Risk Center. This reporting methodology is expected to create an advantage for the Bank during the transition to Basel II. The Department has assumed responsibility for the Capital Adequacy Ratio Report, sent to BRSA from September 2014, and started calculations on the basis of Fund Allocation Risk. Furthermore, the Integrated Risk Management initiative, which focuses on outsourcing and consultancy solutions, was initiated. Once this project is complete, the Department will be able to send risk management reports to the BRSA by automatically collecting the necessary data from the system. Due to the clear importance of faster and sounder risk management reporting, this project is anticipated to significantly contribute to the Bank's overall operations.

As part of operational risk management initiatives, the Department took an active role in business process upgrades and other improvement related efforts across the Bank in 2014. It identified the risks related to the referenced processes and worked in coordination with the business units and the Internal Control Department. The Department was also active in the analytical studies mandated by the Support Services Regulation and upgraded the Risk Management Program for Support Services.

Market risk was periodically assessed by Kuveyt Türk's Audit Committee and Internal Systems Committee, and reported to the BRSA at monthly intervals. Further, periodic stress tests and scenario analyses were performed and later presented at the meetings of the Audit Committee and Internal Systems Committee.

Keeping business continuity plans up-to-date is also the responsibility of the Risk Management Department. To that end, the Department undertook efforts to identify critical processes and critical IT systems in 2014, and ensured redundancy of these systems. Conducting risk assessments in the information technology area, the Risk Management Department assumes critical roles such as monitoring risks generated by technological changes and following up on actions to counter such risks.

### Regulation and Compliance Department

Under the umbrella of internal systems, the Regulation and Compliance Department defines, assesses, monitors, reports and provides consultancy on the regulation risks of Kuveyt Türk and its subsidiaries. The Department operates under the Internal Systems Committee and reports the results of its activities to the committee. The Department has three main functions:

#### Regulatory Function

- › Effectively managing and keeping under control legal compliance related risks,
- › Ensuring that the Bank's operations always comply with applicable laws, rules and regulations,
- › Monitoring legislative changes that concern the Bank's operations, informing the concerned departments, and ensuring that the Bank's practices are modified accordingly,
- › Providing consultancy to Head Office departments and branches on legislation related issues, and offering opinions and suggestions during the development of banking products with regard to legal compliance.

#### Compliance Function

- › Overseeing the compliance of all of the Bank's current and planned operations, new products and transactions development, with legal and regulatory requirements, internal policies and procedures, and banking best practices,
- › Realizing compliance control activities within the scope of the Compliance Control Program and the Annual Compliance Control Plan,
- › Ensuring that overseas branches and subsidiaries comply with legislation and provide periodic reports to the Department.

#### Financial Crimes Investigation Board Compliance Function

- › Ensuring that Bank operations comply with international legislation to prevent money laundering and the financing of terrorism,
- › Effectively performing risk management, monitoring and control activities in order to preserve the Bank's customer quality,
- › Identifying dubious transactions and reporting these to the appropriate public authorities,
- › Raising employee awareness of legal obligations.

In 2014, the Financial Crimes Investigation Board designated Kuveyt Türk's Regulation and Compliance Department as the top performer among all banks, in the fight against money laundering and financing of terrorism.

The Regulation and Compliance Department aims to continue operating effectively and efficiently in 2015, while remaining aware that compliance risk will persist due to Kuveyt Türk's expansion into new business lines and countries.

## Review of Operations in 2014



In 2014, the Legal Affairs and Collection Group built on its exceptional performance of the past three years in terms of disposing of non-current assets.

*As in previous years, Kuveyt Türk maintained a non-performing loan ratio below the industry average in 2014.*

While the average rate of non-performing loans increased significantly in 2014 over the prior year, to 4.68% among participation banks, and to 2.86% across the banking industry, Kuveyt Türk managed to lower its NPL ratio to 2.20%. The factors underlying this success include the active monitoring of customers in the administrative assessment stage, a proactive and accurate reading of macroeconomic data, and a general risk monitoring awareness across branches and among employees created by training programs and client visits.

The Bank's provisioning coverage ratio amounted to 85%, exceeding the average of both participation banks (63%) and the banking industry (73%).

In 2014, the Legal Affairs and Collection Group built on its exceptional performance of the past three years in terms of disposing of non-current assets. The Bank took decisive action in converting fixed assets into current assets (cash) as rapidly as possible.

In order to boost the quality of the collateral accepted by the Bank, branch employee awareness about collateral acceptance was raised via in-class training on collateral transaction application principles, online training programs and the publication of guidelines on the key check points for different collateral types. Pursuant to the Regulation on the Authorization and Operations of Companies that Provide Appraisal Services to Banks, the number of CMB-licensed appraisal firms was increased and better quality appraisal reports were prepared more rapidly.

Numerous computer monitors in use by the Legal Affairs and Collection Group were converted to the new banking system BOA in 2014. The upgrades made to the Administrative Monitoring System in particular have created an integrated systems infrastructure, which includes the allocation, intelligence, banking and collateral systems, allowing employees to rapidly collect more comprehensive customer information from a single monitor.

In order to make administrative and legal monitoring processes even more efficient and effective, and to ensure that the right action is taken at the right time for the right client with regards to collection of overdue receivables, the Bank plans to commence work on the Allocation Decision Support System and Legal Follow-Up System software solutions in 2015. These new systems, which are scheduled for completion the same year, will enable rapid activation of new follow-up and collection strategies, a reduction in the number of manual transactions to save time and resources, minimization of the volume of overdue receivables, and active monitoring of law firms in real-time.

### **CORPORATE AND COMMERCIAL LOANS COLLECTION DEPARTMENT & RETAIL AND SMALL BUSINESS LOANS COLLECTION DEPARTMENT**

The main duties of the Loan Collection Departments include taking effective and swift actions in administrative and legal collection processes of receivables; and creating risk monitoring awareness and perception with the active participation



The Legal Affairs and Collection Group continued to work with regional law firms for banking references, yielding increasingly positive results.

of all branches with a transparent, accountable and professional discipline and in accordance with Kuveyt Türk's principles, customer satisfaction and industry practices.

**CREDIT RISK MONITORING DEPARTMENT**

The main duties of the Credit Risk Management Department include monitoring credit risks within the framework of early warning signals identified in credit decisions and credit policy; striving for early detection of customers that may pose problems; and ensuring objective, effective and efficient monitoring of risks by collaborating with Credit Allocation Departments, Loan Collection Departments, branches and regional offices. Thus, the Department

contributes to credit risk management efforts to achieve an acceptable level of credit risk and to improve the Bank's asset quality.

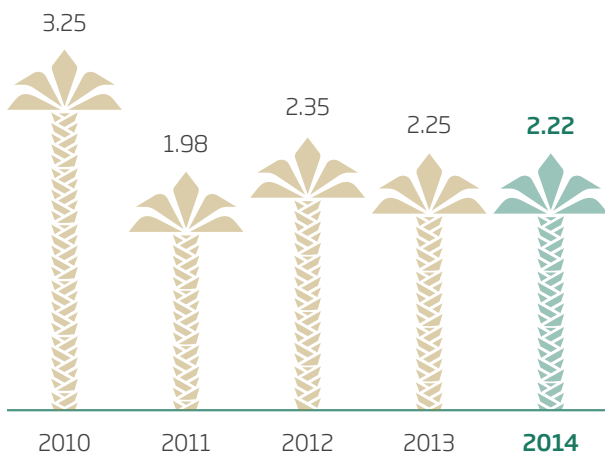
**COLLATERAL MONITORING DEPARTMENT**

The Collateral Monitoring Department is responsible for the independent appraisal of assets and liabilities listed on the Bank's balance sheet and determining the estimated fair market value of loan collaterals and other receivables in accordance with the "Communiqué on the Authorization and Operations of Appraisal Companies". The Department is also responsible for ensuring that collaterals requested by the Bank's Credit Committees are accepted in compliance with applicable legislation and the internal practices of the Bank.

**LEGAL PROCEEDINGS DEPARTMENT**

The Legal Affairs and Collection Group continued to work with regional law firms to obtain banking references, yielding increasingly positive results. Lawyers located at the center controlled on-site the activities of contracted law firms for deadlines and legal compliance, and kept abreast of collections performance. As a result, the Legal Affairs and Collection Group made a significant contribution to lowering the Bank's NPL ratio. In 2015, the Group plans to continue upgrades to the systems infrastructure and complete work on the rapid and efficient collection of the Bank's receivables. The Group will also improve the control and coordination of contracted law firms, increase the number of visits and further boost the efficiency of collections.

**NON-PERFORMING LOAN RATIO (%)**



**PROVISIONING COVERAGE RATIO (%)**









From the date of our founding until today, we have embraced the following core principles: conducting prudent interest-free banking operations; scrutinizing in investment areas; providing contemporary, consistent, reliable, high-quality, and fast services to savers & investors and businesses; and continuously training our staff in order to increase efficiency.



#### **GENERAL WORKS**

There was a significant damage in the mosque that had its last restoration 50 years ago. The restoration was made using cement mixture at the time. However, it was seen that this had damaged the stones in the structure. For this reason, all cement mixture was removed and the concrete was stripped off the floor; and the floor was covered with wood. All damaged parts were meticulously renovated. As the stones were worn away, some of them were renovated some were renewed. Due to the fact that it was a baroque style structure built in the 19<sup>th</sup> century, the mosque had a considerable amount of decorative works that took a long time to restore.

## Review of Operations in 2014



As a result of measurements performed in 2014, Kuveyt Türk Call Center's service provision quality scored 89 out of a possible 100 points. With this exemplary score, the Call Center was once again named "The Call Center with the Best Service Quality," as in 2012 and 2013.

*The Operations Center is charged with managing business processes designed to improve operational efficiency, and carrying out the necessary technology related upgrades.*

### BANKING SERVICES GROUP

#### Operations Center

Kuveyt Türk's Operations Center was formed to execute the operational transactions of the corporate, retail and international banking groups in a coordinated fashion. Carrying out its activities with the goal of achieving high quality standards and minimizing operational costs, the Operations Center consists of the Credit Operations, Banking Operations, Call Center, Insurance and Payment Systems and Foreign Trade and Treasury Operations Departments.

Management of business processes to increase Kuveyt Türk's business effectiveness and execution of technology update tasks are among the responsibilities of Kuveyt Türk's Operations Center. As Kuveyt Türk steadily expands its branch network and transaction volume, the Operations Center invests in enhancing its organizational capacity and human resource competencies in order to manage Kuveyt Türk's operational business processes effectively.

### PAYMENT SYSTEMS DEPARTMENT

The Payments Systems Department consists of the ADC Operations, Card Operations, Expense Objections and Security, Application Security and Intelligence Units.

**ADC Operations:** The Unit is in charge of POS, ATM/XTM, Bill and Tax Collection operations.

**POS Operations:** This Unit manages the Bank's 20,007 POS terminals. In 2014, the service level for POS installations stood at 99.11% and that for intervention to breakdowns stood at 98.83% (SLA), resulting in a high level of customer satisfaction. During the year, the number of POS transactions rose 7%, to 27,342,642. In 2014, Virtual POS operations were transferred to the BOA infrastructure and the Free POS brand yielded a 20% increase in the number of customers.

In POS purchases, Kuveyt Türk opts for the latest, new generation devices and ranks among the top four banks in the sector in terms of contactless POS terminals deployed.

**ATM/XTM Operations:** The Unit manages 375 ATMs, of which 321 are installed at branches and 54 at non-branch locations, as well as 22 XTMs.

In 2014, the number of Kuveyt Türk ATMs increased 17%, the number of ATM financial transactions grew 35% and ATM transaction volume expanded 45%.

In ATM procurements in 2014, the Bank opted for new generation, smart devices, and maximized the efficiency of money deposit and money withdrawal units. The ATM service delivery success rate stood at an annual average of 99.2%.

The Operation Department migrated the ATM system infrastructure over to the BOA, and accelerated system development related efforts during the year. The Department has largely completed

preliminary work to switch to Recycle ATM technology and has modified the 2015 ATM budget accordingly.

**Bill and Tax Collection:** The Operations Department manages 11 products. These include bill collections, tax collections, payments to SGK, payments to HGS, donations, payments to the Ministry of Religious Affairs, payments to ÖSYM, customs duty collections, PTT banking, health care payments and pensioner salary payments. In 2014, the total number of transactions in all these categories increased 83% to 3,412,627.

In 2014, all products, with the exception of Tax Collections, were transferred to the BOA. Alternative delivery channels came to account for 87% of all bill collections transactions during the year.

**Card Operations:** This Unit runs operational transactions related to debit and credit cards.

In 2014, the number of Kuveyt Türk credit cards rose 40% and turnover jumped 35%. The Bank raised its market share in domestic shopping with company cards to above 1% (in turnover) for the first time during the year.

Cards started to be printed in branches in 2014, which led to TL 2,418,015 in printing and distribution cost savings.

In 2014, 76% of all bank statements were sent via e-mail, which yielded TL 261,000 in savings.

During the year, the Unit successfully carried out operational and accounting testing of foreign exchange POS, Agricultural Card, Needs Card and Gold Card products, thus contributing to the launch of these new offerings.

As a result of the debit card transformation project, debit card management operations were transferred onto the BOA. In 2014, the switch performance exceeded the sector average.

**Expense Objections and Security:** The Unit undertakes operations to prevent fraud in various channels, such as cards, POS, ATM and Internet.

In 2014, the rate of fraud was 1.73 for the sector as a whole, versus 1.05 for the Bank. In the Internet Banking channel, controls put into practice prevented 93% of all fraud attempts in 2014, versus 82% in 2013.

### Fund Allocation Operations

The Fund Allocation Operations Department undertakes retail and corporate financing support projects and financial leasing operations in accordance with Kuveyt Türk's working principles and applicable legislation.

Fund Allocation Operations fulfilled the following functions in 2014:

- > Through numerous branch and customer visits, customers and branch personnel were informed about corporate principles and practices.
  - > The system infrastructure of financial leasing was created and made by using BOA.
  - > Kuveyt Türk posted a 100% rise in financial leasing transactions during the year.
  - > The Bank completed the system overhaul to gather all incentivized transactions across the Bank under a single umbrella, and continued work on system software analysis.
  - > In 2014, in addition to the Retail Loans and Corporate Loans Units, the Bank set up the Business Loans and Incentivized Transactions Units.
  - > Kuveyt Türk initiated pilot testing in 14 branches for the centralization of fund allocation transactions.
  - > The Bank launched new fund allocation transactions such as easy funding via ADC (alternative distribution channel)s.
  - > During the year, the Bank developed flexible business management models such as queue modeling and automatic appointment.
  - > The Unit pioneered the adoption of Eximbank loans by participation banks, and set an example by extending the first such Eximbank loan during the year.
  - > Under the Operations Center helpline pilot study, an information service on fund allocation transactions launched in 2014.
- > All fund allocation transactions were conducted over the BOA during the year.
  - > The overhaul of systems integrated into BOA was completed to improve efficiency.

## Review of Operations in 2014



In 2014, the number of letter of guarantee entry transactions fell 5% to 99,832, cheque entry transactions increased 4% to 781,144, and promissory note entries rose 20% to 247,969.

Fund Allocation Operations has set the following targets for 2015:

- › Centralizing fund allocation transactions to decrease the weight of advance projects in all projects, and thus reducing the number of projects sent to the penalty pool,
- › Improving the financial lease system infrastructure in order to perform advance lease collections and offer receipts,
- › Integrating technological advances such as BANA with the fund allocation system to increase efficiency,
- › Creating the systems infrastructure to measure capacity and performance real time,
- › Setting up the organizational structure in accordance with the Bank's segmentation structure,
- › Creating common working spaces with export, development and investment support institutions and banks,
- › Prioritizing incentivized funds and state-sponsored transactions,
- › Promoting the performance of fund allocation transactions via ADC,
- › Increasing the centralization of the fund allocation process.

### Insurance Department

As of April 2014, the Insurance Department was established under the umbrella of the Operations Center Group Department. The Insurance Department has two units: Letter of Guarantee and Insurance.

In keeping with Kuveyt Türk's working principles and pursuant to applicable legislation, the Insurance Unit performs all insurance policy issuance, renewal, change, cancellation and indemnity functions related to retail and corporate financing support, financial leasing and letter of credit projects.

In 2014, the Insurance Unit approved 73,980 letters of guarantee and insurance policies. During the year, some 94,308 insurance policy, content renewal, change, cancellation and indemnity transactions were performed. The total number of transactions amounted to 168,300.

The Letter of Guarantee Unit, meanwhile, controls and approves letters of guarantee issued by branches, and provides Head Office confirmation letters for letters of guarantee and letters of reference.

During the year, the Letter of Guarantee Unit evaluated 84,334 letters of guarantee and confirmed a total of 8,258 letters of reference and letters of guarantee.

The Insurance Department's activities in 2014 included the following:

- › The Department established a system to control the letters of guarantee issued by the Bank via the Turkish Credit Bureau (KKB).
- › The Insurance Department made system upgrades to BOA monitors, in order to issue insurance proposals/policies with minimal information within one minute.

- › In parallel with the Bank's insurance agency activities with Neova Sigorta, the number of branch personnel with SEGEM certification rose to 717.
- › A Neova Sigorta operations support team was created at the Bank.
- › Work to align the insurance agency contracts with the Regulation on Insurance Agencies dated April 22, 2014 was completed.
- › The Letter of Guarantee Unit completed the systems integration of letters of goodwill, so that these documents can now be issued via the BOA system.
- › A systems upgrade was completed, enabling XTM users who apply for insurance to receive insurance policies via the XTM.
- › Work is ongoing to issue insurance proposals/policies via smartphone and tablet PC devices.
- › The Department developed schemes to ensure that letter of guarantee and insurance transactions can be controlled over the Internet and via mobile applications.
- › On letter of reference screens, a system approval scheme was created on the basis of interlocutor type.
- › The Insurance and Letter of Guarantee Units started sending weekly notification e-mails entitled "Easy Transaction" to branches.
- › The Department initiated work on screen enhancements to facilitate tracking letters of guarantee without insurance over the system.

### Banking Operations

The units operating under the Banking Operation Department include Cash Management, Branch Coordination, Clearing, Data Entry and Official Correspondence.

**Cash Management Unit:** The Cash Management Unit meets the Group needs of Kuveyt Türk branches. The Unit is staffed by a manager, main vault officer and six authorized personnel, and serves 130 branches in Istanbul and 174 branches elsewhere. In addition to meeting branch demand for delivering and receiving cash, the Unit also fulfills their demand for KT, gram gold, Republic Gold Coin, gold bar and silver transfer.

In 2014, the Unit performed 62.2 million banknote counts in the main vault located in Istanbul, for Group transactions of Istanbul branches. In 2014, the amount of gold transferred by branches totaled 1.3 tons and gold transferred from the branches amounted to 547.4 kg. In addition to Securverdi CIT, the Unit started to receive group delivery services from the firms Desmer, Brinks and Loomis CIT during the year.

Undertaking continuous efforts to improve service quality, the Cash Management Unit completed its adaptation to the BOA system in January 2014, and started to monitor correspondent bank orders and group demands over the BOA.

**Clearing Service:** In 2014, the number of checks cleared by the Bank's approval mechanisms and offered to customers after performing limit/risk controls reached

832,000. The volume of checks cleared through the clearinghouse totaled TL 11 billion, the Bank's checks cleared through the clearinghouse amounted to TL 10.3 billion, other banks' foreign currency checks cleared totaled US\$ 498.2 million, and Kuveyt Türk's foreign currency checks cleared amounted to US\$ 657.8 million.

The volume of promissory notes cleared via correspondent banks totaled TL 85 million.

**Official Correspondence Service:** The Official Correspondence Service unit is responsible for responding to all official correspondence received by the Head Office and the branches and archiving the correspondence electronically; it also controlling all incoming packages from the Revenue Administration's e-lien system and communicates the responses.

In 2014, the Unit responded to 217,376 letters, up 8% over the prior year. SGK's E-Lien transactions were completed but the referenced institution has not yet launched the system.

A system that links the Ministry of Justice with banks, called Registered Electronic Mail (KEP), was initiated in 2014; software development work on the KEP system is underway. The system is scheduled to go online in 2015.

**Data Entry Service:** The Data Entry Unit controls the collateral, check and promissory note images that are sent electronically by the branches in accordance with formal requirements and enters them into the system.

In 2014, the number of collateral entries decreased 5% to 99,832; check entries increased 4% to 781,144; and promissory note entries were up 20% to 247,969.

Additionally in 2014, the Unit reviewed a total of 7,875 account opening documents received through XTMs and sent them to the archive.

**Branch Coordination Service:** The Branch Coordination Service is responsible for performing support functions to enhance operational performance at the branches, measuring the operational performance, determining the size of the branch staff according to the workload, assigning temporary support staff to the branches, and carrying out the tasks related to the promotion and assignment of the operations personnel.

As a result of the more active utilization of ATMs in accordance with the targets assigned to the branch operations staff in regard to directing transactions to ATMs, the share of ATM transactions in aggregate branch and ATM transactions increased to 65%, from 62% in 2013. The active control of the ATM intervention criterion added to the branch performance score continued in 2014; thus, ATM service interruptions were prevented. The development of the substitution system initiated to assess the individual performance of the branch operations staff continued in 2014; the system will be completed in the first quarter of 2015.

## Review of Operations in 2014



In 2014, the Customer Satisfaction Center resolved a total of 77,326 demands. Of these, 58,971 were customer complaints.

The infrastructure of the S-Matic system, which will enable time measurement of each teller transaction, was set up at all branches in 2014 and the system was integrated into the BOA.

The process of transferring operations staff at the branches to the Marketing Department was completed; 40 employees were transferred to the branch marketing departments in 2014.

The Unit assigned its support team of 40 employees to respond to personnel shortage problems at the branches and met a total of 577 support personnel demands from the branches. Conducting 626 visits to 234 branches in 2014, the Unit examined the physical condition of the branch facilities, assessed their needs and demands, and communicated the expectations from their operations personnel. The policy regarding the operations staff at the branches were determined as 1+1; as of year-end 2014, 89 branches operated in accordance with this policy. This policy serves to prevent cost overruns due to idle capacity at newly opened branches where sufficient transaction volume has not yet been attained.

In line with the targets set, automatic bill payment orders increased 89,924, Internet password transactions rose 56,621, debit card transactions climbed 201,051 and credit cards issued increased 13,753.

ADC sales rose 31% over the prior year, climbing to 361,349 sales transactions.

### Call Center

Kuveyt Türk Call Center undertakes Call Center Operations and includes the XTM Center.

**Call Center Operations:** With locations at Kocaeli Banking Life-base, Ankara Balgat DRC and Call Academy, Konya Call Academy and İzmir Call Academy which opened in second half of 2014, the Kuveyt Türk Call Center serves in four different locations, serves customers on a 24/7 basis. Telephone banking, support services, credit card and insurance sales services and responding to branch calls are among the activities performed by the Call Center.

Kuveyt Türk Call Center's management system, which complies with the Customer Communication Centers Management Standard, was deemed worthy of EN 15838-2009 Customer Communication Center Management System Certification as a result of the audit and assessment carried out by the international rating and certification agency Kiwa Meyer.

A secret customer survey was conducted by Telephone Doctor™ in 2014 in order to measure the service provision quality of the Kuveyt Türk Call Center. As a result of the measurements performed on a monthly basis, Kuveyt Türk Call Center's service provision quality was assigned 89 out of 100 points. As part of the same survey, the Call Center was compared with the corresponding units of Turkey's five leading banks. As a result, it was once again recognized as the best call center in terms of service provision quality, as in 2012 and 2013.

Customers who forget their password and who cannot access a customer representative via the Kuveyt Türk Call Center are automatically called back by the Call Center.

- › In 2014, the number of inbound calls received by the Call Center increased 14.76% over the previous year, rising to 4,837,680. In addition to incoming calls, the Call Center also organized various campaigns and made 218,876 outbound calls, down 5.01% from the prior year.
- › The number of calls received from the branches rose to 1,329,871 million in 2014, corresponding to a 3.4% decrease over the previous year. Some 76.3% of the calls received from the branches were concluded successfully by the Call Center.
- › Of the inbound calls received by the Call Center, 72.3% were picked up within the first 20 seconds while the average response time for all incoming calls was 27 seconds.
- › In 2014, the number of banking transactions conducted through the Call Center dropped by 3.6% to 62,855, while the total volume of banking transactions stood at TL 217 million.
- › The Bank gained TL 1,678,789 from Neova Sigorta policy renewals and sales, which were conducted as part of the Department's sales activities. In 2014, the number of automatic bill payment orders rose by 48.8% compared to the previous year, up to 17,840.

**XTM Center:** Kuveyt Türk plans to make all banking services that are offered at the branches available to customers who connect to the XTM Center via XTM digital branches. In 2014, Kuveyt Türk's XTM Center started to provide basic branch transactions, such as opening an account, money transfers, fund allocations and product applications. The XTM Center's range of transactions expands day by day. The XTM Center serves 22 XTM digital branches, each of which serve customers in different locations.

- > The XTM Center received 64,051 calls in 2014. Of these inbound calls, 87% were answered within the first 10 seconds, while the average response time for all incoming calls was 13 seconds.
- > In 2014, the transactions performed via the XTM digital branch amounted to TL 193 million in 2014; moreover, 5,207 new customers were gained through the XTM Center and TL 6 million was generated from these customers.
- > Of all XTM transactions (in terms of volume), 12% were performed on a self-service basis, and 88% were performed by Customer Representatives.
- > Kuveyt Türk issued 5,104 ATM cards and 976 credit cards; received 1,847 automatic bill payment orders; and sold 192 POS devices, 190 HGS (Fast Pass System) cards, and 188 loans (63 vehicle loans and 125 home loan) via the XTM Digital Branch.

### Customer Satisfaction

As of March 2014, Customer Satisfaction services are provided via the Quality and Organization Development.

- > In 2014, the Customer Satisfaction Center responded to a total of 77,326 customer demands, of which 58,971 were complaints.
- > The Center responded to these demands within an average of four days, and resolved complaints within 2.5 days.

### Foreign Trade and Treasury Operations

The responsibilities of the Foreign Trade and Treasury Operations Department include banking services related to imports, exports and external guarantee transactions; the control and oversight of the incoming and outgoing foreign currency transfers of customers as well as EFT systems; and execution of operations related to Treasury transactions.

**Foreign Trade Operations Unit:** This Unit conducts banking services related to import, export and external guarantee transactions, and performs foreign currency transfers made by the Bank's customers. These transactions, channeled to the Operations Center by domestic and overseas branches and subsidiaries, or foreign banks, to which correspondent banking services involving vostro accounts are provided, or ADC channels such as Internet and XTM, are performed in a rapid

and high quality fashion by an experienced staff. The Unit is also charged with the control and monitoring of the SWIFT system. The business volume of Kuveyt Türk's Foreign Trade Operations Unit, which consists of Transfer, Collection, Letter of Credit and External Guarantee Units, increased 29% in 2014 compared to the previous year. Upon completion of the BOA system integration and upgrade, all units started to perform their respective transactions over the BOA. BOA enhancements will continue in 2015.

**Treasury Operations Unit:** The Unit was restructured into three subdivisions: Foreign Exchange/Money Market Transactions, TL/Securities Transactions, and Precious Metals Transactions. The Unit achieved a 9% increase in business operations volume compared to the previous year. The Unit oversees the EFT Center, and controls and supervises the EFT systems. In 2014, the Unit successfully transferred to the BOA system the screens for the Central Bank of Turkey's IBS system, sukuk, physical deposit and withdrawal of precious metals, and precious metal exports and imports. Work on EMKT integration of transaction screens for scrap gold trading and registered sukuks has been completed, and the software development phase has begun. In 2015, the Unit plans to run a number of new operations; these include collateral commodity murabaha, profit rate swap and cross currency swap, foreign exchange export, Republic Gold Coin transactions, and sukuk trading on the secondary market.

## Review of Operations in 2014



Standing out with its know-how and competence, the Kuveyt Türk Career and Recruitment Team implements the most reliable human resource practices to run candidate recruitment in the most efficient manner.

### Human Resources Policies

Seeing its human resources, which consist of skilled and experienced staff, as its most valuable asset, Kuveyt Türk continued to invest in the HR area uninterruptedly in 2014. Implementing world-class human resource systems for quite some time, Kuveyt Türk undertook major initiatives in this area in 2014 to further increase employee satisfaction and HR service quality.

In 2014, the Bank placed a significant focus on employee satisfaction initiatives. Since its establishment, Kuveyt Türk has always believed that the road to customer satisfaction passes through employee satisfaction. During the year, the Bank took a strategic step towards maintaining and improving employee satisfaction by arranging the "Employees Come First" assembly, composed of Bank personnel. This event resulted in the implementation of numerous new practices based on the employee perspective in the Bank and the modification of existing human resources practices and policies through this employee-focused approach.

In terms of core qualities, Kuveyt Türk employees care about internal and external customer satisfaction, are successful in teamwork, have strong communication and persuasion skills, are result-oriented and specialized in participation banking.

As of year-end 2014, 95% of Kuveyt Türk's employees hold at least a bachelor's degree while the average age of the Bank's personnel was 30.1 years. Along with its turbo-charged branch network

expansion efforts in 2014, Kuveyt Türk also accelerated its training and development investments in employees. As part of this effort, the Bank undertook initiatives to reinforce the recruitment, performance improvement, career/skill development and backup processes.

Striving to recruit talented young people to Kuveyt Türk, the Human Resources Department participated in various career fairs, events and conferences in 2014 in order to reach out to these young professionals, to accurately portray and promote the Bank and to increase its brand recognition.

In summer 2014, 200 young bankers successfully completed Kuveyt Türk's "Campus at the Bank" program, the social responsibility and employment project of the Bank. About 120 of these graduates were hired by Kuveyt Türk. Additionally, the Call Academy, launched in Konya in previous years, continued to be implemented in the Ankara Call Academy from the beginning of 2014, and the Izmir Call Academy from the summer 2014.

These programs target third and fourth-year university students who are contemplating a career in the participation banking industry. Students admitted to the program attend various training sessions on banking and personal development, work part-time at the Bank's branches and departments under the supervision of experienced mentors, and thus get the opportunity to become familiar with the banking sector, demonstrate their performance in accordance with their

assigned objectives, decide on their career steps, and accelerate their personal development.

In 2014, a total of 592 university students continued their studies under the "Campus at the Bank" program in 67 cities, 196 branches and departments, and under the supervision of 335 mentors. When compared with other talent development and/or internship programs implemented within and outside the sector, "Campus at the Bank" is one of the most successful programs in terms of content, number of participants and employment opportunities. "Campus at the Bank" plans to graduate over 200 students in summer 2015, and provide employment opportunities to a significant number of graduates.

Rapidly expanding its areas of business and branch network in accordance with its growth strategy, Kuveyt Türk continued to successfully administer the Management Trainee Program in 2014 in order to develop the Bank's future management team. Candidates chosen from among young professionals who have graduated with honors from Turkey's top universities are subjected to a stringent Assessment Center process and go through a long training and rotation process. Supported by competitive salaries and benefit packages, management trainees also have the opportunity to attend MBA programs to spur the development of their managerial capabilities as well as programs designed exclusively for Kuveyt Türk staff in accordance with their personal development plans. Recruitment processes for Assistant Controller and



Assistant Internal Auditor positions are also supported with similar enriching practices. In 2014, Kuveyt Türk hired 10 management trainees.

The clubs and teams (Folk Dance and Arts, Environmental Protection, Travel, Photography, Music Clubs; Basketball, Football and Taekwondo Teams) that were formed in order to achieve work-life balance within Kuveyt Türk continued their activities in 2014 under the leadership of the employees. As part of club activities, several panels, trips, and other events were organized with the participation of employees.

Working in collaboration with information technology units, the Human Resources Department redesigned all HR related self-service processes executed by employees in order to make them more effective, user-friendly and aligned with the BOA system. Employees can monitor their rights and benefits, as well as career opportunities, via the online system.

**Recruitment Process:** Kuveyt Türk's Recruitment Team stands out with its experience and competency. It employs the most reliable HR techniques and manages recruiting processes effectively. In 2014, the Career and Recruitment Team included online interviewing to its portfolio of human resources practices, thus contributing to Kuveyt Türk's goal of becoming the most innovative participation bank in the sector. From such a wide array of tools and applications, the Team collects comprehensive information about candidates, which drive the in-depth discussions at Recruitment Committee

meetings to make the right recruiting decisions.

Thanks to its effective recruitment methods and experienced staff, the Human Resources Department achieved its recruitment targets in 2014. The Department provides a significant contribution toward achieving Kuveyt Türk's vision. As of year-end 2014, Kuveyt Türk's number of employees increased to 5,082, up from 4,642 in 2013.

Aiming to become an employer of choice in the sector, Kuveyt Türk manages personnel application and evaluation processes over its proprietary human resource and recruitment web site, [www.katilbize.com](http://www.katilbize.com). The site, which is used for Kuveyt Türk's employer branding communications, provides comprehensive information on the Bank's human resources policies, features current job listings, and is a standout among other human resource portals in the sector in terms of both content and user ease.

Forging ahead towards becoming a business partner with employees in line with Kuveyt Türk's strategic growth targets, the Career and Recruitment Team continued to provide support to Bank personnel in numerous human resource practices to this end in 2014.

**Compensation System:** Kuveyt Türk's compensation management system is designed to motivate employees to perform beyond their assigned objectives, to identify employees performing at different levels, and to remunerate employees based on performance. As part

of this effort, Kuveyt Türk's compensation structure is based on the concept of the "Total Compensation Package" consisting of salary, performance bonus, foreign language allowance, transportation assistance, and other supplementary payments. In order to remain competitive in the market for talent, Kuveyt Türk also offers various fringe benefits to employees. These including private health insurance, which also covers the employee's spouse and children, a private pension system with company contribution, clothing assistance and family support package.

**Performance System and Career Development:** Kuveyt Türk supports its managers and employees in their continuous development process through performance evaluations conducted transparently based on competencies and measurable targets as well as regular feedback.

The Portfolio Management System allows branch employees to receive their monthly and annual performance scorecards in a more convenient fashion. The Bank began to assess the performance of the overall organization and the Head Office Departments in accordance with the balanced scorecard model, which is part of the corporate performance management project, and also to track and report the scorecard developments and trends at quarterly intervals.

Continuing to expand while remaining aware that employees constitute the Bank's most important asset, Kuveyt Türk has focused on a key employee satisfaction project, the Flexible and Part-Time Work

## Review of Operations in 2014



Kuveyt Türk's Training and Development programs are based on the principles of high service quality, high quality human resources and superior use of technology, components that also shape the Bank's competitive strategy.

Model. Pilot testing for the project was initiated in 2014 in certain departments; a roll out across the Bank is scheduled for 2015. In yet another initiative in support of employees, this model offers Kuveyt Türk personnel, who cannot continue full-time professional work due to health or family-related reasons, the chance to contribute to the Bank with their skills and expertise.

In addition to the new performance management system and career policy, which were developed to guide employee professional and personal development in the best possible way, another significant innovation in 2014 was the Biz Bize Survey Platform. Launched with the slogan "One Minute for Development," this application helps the Bank to solicit feedback and suggestions from employees, thus taking additional steps towards a more peaceful and pleasant work environment. As of 2014, the application also allows employees to provide feedback about their team members and managers, to contribute to their development under the 360 Degree Model.

As branch network expansion efforts intensify as part of the Bank's growth, career opportunities proliferate for both the Head Office and branch employees; they can be promoted to managerial positions in a shorter period of time. Giving priority to candidates who have developed from within the Bank and who have distinguished themselves with their performance, Kuveyt Türk appointed approximately 77 personnel as director/manager in 2014.

**Employee Satisfaction:** A key factor for the Bank in reaching its strategic targets is employee satisfaction. Since its establishment, the Bank has always believed that customer satisfaction is a natural result of employee satisfaction, and conducts its operations accordingly. Kuveyt Türk strives to make the Bank a platform of high standards and honorable conduct, to prove that one can succeed in business without compromising ethical values, principles and beliefs, and to place employees at the center of all initiatives.

In 2014, the Bank endeavored to develop a more participative model of employee satisfaction and established the "Employees Come First" assembly. Kuveyt Türk employees who participated voluntarily in the event's activities expressed their opinions on various processes via the Biz Bize Survey, various workshops, and to the recently established Change Ambassador and Internal Advisory. Employees were encouraged to have their say on various practices in the organization; in response, the Bank made numerous revisions and modifications with relation to working hours, fringe benefits, relationships with managers and the like. To achieve the goal of making Kuveyt Türk an excellent workplace, the Bank strives to create a working environment where employees feel more valuable.

### Training and Development

Kuveyt Türk's Training and Development programs are based on the principles of high service quality, high quality human resources and superior use of technology. Understanding the important role that

personal and professional development plays to ensure the sustainability of human capital, Kuveyt Türk administered 1,089 in-class training programs on various subjects, and provided an average of 8.2 days of training per employee in 2014. In addition, Bank staff whose jobs require proficiency in English continued to attend foreign language classes in Turkey and abroad.

Some 554 employees participated in Core Banking Training Package programs, mainly geared towards newly recruited personnel. The package consists of training programs on banking basics, laws and regulations, communication skills, products and services, customer satisfaction, shared corporate culture, the Performance Assessment System and the Kuveyt Türk organization. The Department also administered Financial Analysis Credit Training Packages and Sales and Relationship Banking Programs designed in particular for branch sales personnel. The Bank's sales staff attended the programs.

The Department also held training programs on interpreting macroeconomic indicators and financial management in SMEs for sales teams at the Bank. As a result, employees had the opportunity to raise their personal competency level and enhance their intellectual capacity in banking and finance. Operation Development Packages were also launched for operations staff. These training programs helped employees hone their professional skill sets and competences.

All Head Office personnel participated in the Maximizing Performance training program. In addition, Bank employees were given support in various certification

programs (e.g. SPL, BES, SEGEM, PMP, TOEFL). The MTs recruited in 2014 joined six-month management training programs that consisted of 45 days of classroom instruction, followed by on-the-job and online trainings.

Leadership Development Programs were organized for senior managers, as well as group, region and department heads.

The Department established candidate pools for new branches, and administered multifaceted 28-day Manager Development programs with training and development packages, workshops, and experience sharing.

An Evaluation Center was set up for managers and manager candidates working at the Head Office. In line with career development plans, they were provided support with in-class training, one-on-one mentorship, and the follow-up system. Some 170 branch personnel who wanted to join sales teams participated in the Sales Evaluation Center program; the successful candidates transitioned to the sales function. The Bank's personnel continued to give Introduction to Participation Banking courses at various universities in Turkey.

Placing great importance on using internal resources, the Bank formulated and initiated the training accreditation process for its well-skilled and experienced in-house trainers to provide them with further training and development. To this end, the Bank formed teams according to training topics and increased the number of in-house trainers.

During the year, Kuveyt Türk employees were presented with various online training programs and participated in online promotion tests in February and August.

#### Administrative Services Group

The Administrative Services Group comprises the Administrative Services and Procurement, Construction and Project Development, and Security Units.

**The Administrative Services and Procurement Unit:** Consists of the Procurement-Leasing-Logistics, Administrative Services and Communication-Archive Subunits. The Unit outlines the Bank's procurement and services strategies.

As part of its procurement-leasing-logistics services, the Unit leases or purchases the locations for the Bank's current or new ATMs and XTMs; procures the products and services required by the Bank in a convenient and high quality fashion; and ensures that the products purchased are efficiently stored and delivered via the Logistics Center.

In 2014, Kuveyt Türk focused on reducing branch-opening costs; to this end, the Bank signed contracts with furniture, furnishing and construction material suppliers and wholesalers that brought significant discounts.

The Bank geared up its centralization drive to optimize costs and all consumable material purchases were centrally managed. In maintenance and repair services, too, supplier integrations were effected to cut operating costs.

During 2014, Kuveyt Türk signed lease contracts a total of 40 new branches, three new regional directorates and five new ATM locations; meanwhile, the Bank extended contracts for 29 existing branches and ATMs.

The Logistics Center in Tuzla performs supply planning, and inventory and delivery management for a total of 572 different products. For to-be-established branches, the Center started to collect products from suppliers with centralized logistics and delivery applications; as a result, shipping costs dropped 20%.

With regard to communication and archive services, the Unit meets the Bank's various requirements. These include Centrex-VOIP support, post-cargo-courier documents approval-registry-distribution, secretariat for all Bank committees and boards, official correspondence and notification support services, executive assistant services, fixed and mobile operator services and archive services.

In order to ensure the continuity of the Bank's fixed phone, mobile phone, electricity, water and data connections, the Unit manages a total of 30,000 subscriptions. After the transition to the IP system, various technological upgrades and telephone tariff revisions, voice telephony costs were slashed by 20%.

Delivery of a total of 5,000 documents via cargo, courier and post are managed centrally, which helps cut costs without compromising customer satisfaction.

## Review of Operations in 2014



Kuveyt Türk has completed construction of the Banking and Life Center, a key project that will help move the Bank forward towards its vision of the future.

In 2014, the Bank transferred some 10,258 boxes of documents from 77 branches to the archive; meanwhile, 2,200 boxes of documents whose legal time limits had expired were destroyed after receiving the necessary approval. Documents demanded from the Archive Center are promptly delivered to the concerned units.

As part of its administrative services provision, the Unit performs support functions such as transport, catering, offerings, accommodation, and the like as required by the Bank

During the transition to the Banking and Life Center, which was inaugurated in April 2014, a restaurant, cafeteria, gym, hairdresser and dry cleaner opened inside the Center to help employees meet their personal needs.

The Unit offers lease and fleet management for the nearly 600 service and staff cars assigned in line with corporate policies. Via outsourcing management schemes, the Bank can monitor the human resource processes for 400 personnel employed in catering, logistics, archive, technical and office services.

Procurement of travel tickets, accommodation and other travel related services for the entire workforce has been centralized for cost efficiency purposes. To cut training space and accommodation costs, a conference hall for 600 people, including a 30-room guesthouse and 10 classrooms, was opened at the Banking Center.

**Construction Project Unit:** The construction of the Banking and Life Center, a critical investment that will move Kuveyt Türk forward into the future, was completed in early 2014. The Operations Center and a large part of the Head Office departments moved to the new location in April. The Life Center is a smart, eco-friendly building that generates its own energy, has a biological treatment facility on the premises, and holds Green and Bream certification. The Center also has space for employees to engage in sports and cultural activities.

In keeping with Kuveyt Türk's strategy of growing and expanding the Bank's service base, the following 50 new branches were inaugurated in 19 cities in 2014: İstanbul - Esenyurt Cumhuriyet Mahallesi, Küçükbakkalköy, Esenyurt Kıraç, Atışalanı, Sultanbeyli TEM, Ümraniye Çarşı, Güngören Sanayi, Çeliktepe, Giyimkent, Kazasker, Telsiz, Arnavutköy, Esenyalı, Yüzyıl, Silivri, Kasımpaşa, Üçyüzlü, Bosna Bulvarı, Camlıkahve, Kayışdağı, Hamidiye, Cihangir, Elmalıkent; Ankara - Şaşmaz, Mamak, Esertepe, Timko, Polatlı; Antalya - Lara, Akdeniz Sanayi, Manavgat; Bursa - Özlüce, Gürsu; Kocaeli - İzmit E5, Körfez, Şekerpınar; Şanlıurfa Karaköprü; Adana Seyhan; Aydın Söke; Ordu Ünye; Konya Larende; Kayseri Sahabiye; Trabzon Akçaabat; Malatya Beydağı; Isparta Güllent; Kahramanmaraş Azerbaycan Bulvarı; Mardin Kızıltepe; Gaziantep OSB; İzmir Ödemiş; Denizli Üçüncü Sanayi.

Batman, Merter and İzmir Gazimir branches were revamped in line with the Bank's new branch concept, while the Ümraniye, Adana Çukurova, İstanbul Güneşli and Antalya Merkez branches moved to new locations.

In addition, the Western Anatolia Regional Directorate moved to a new location, and three new regional directorates, Western Black Sea Regional Directorate, Southeastern Anatolia Regional Directorate and Dersaadet Regional Directorate, were established during the year.

**Security Unit:** The Unit provides security services at Bank locations that fall within its assigned areas and that require protection pursuant to applicable legislation, while also prioritizing customer satisfaction. Security personnel consists of specially trained individuals who have the necessary technical and tactical skills and ability to protect the assigned property, possess a disciplined work ethic, and embrace state-of-the-art technologies.

In 2014, all the Bank's security personnel participated in the required security and firearm training programs. The Unit also launched the Smart Message application, which offers instant access to all security staff and provides the required notifications.

### Information Technologies (IT)

Viewing technology as a key component of the Bank's competitive edge, Information Technologies prioritized operational efficiency projects during 2014, helping Kuveyt Türk employees to work with a higher level of productivity and lowering the operational workload via advanced technology solutions.

All applications that fall outside the BOA core banking system were terminated in 2014. All modules that previously run on other platforms were consolidated within a single system.

Established in 2009, the Information Technologies (IT) Demand Management Committee makes the critical decisions concerning the Bank's IT resources. The Committee channels IT resources strategically in order to support attainment of the Bank's targets in an optimal manner. The Committee convened four times in 2014 and prioritized the system development demands that were made to Information Technologies in line with corporate goals and IT resources. The selection criteria include corporate strategies, technological developments, market conditions, efficient risk and opportunity management, and legal requirements.

Kuveyt Türk's R&D Center is Turkey's first banking R&D Center, and was certified by the Ministry of Science, Industry and Commerce in 2010. In 2014, the Center was deemed worthy of the Ministry of Science, Industry and Commerce's first prize for banking and financial institutions.

In light of the Bank's deep know-how and experience, Kuveyt Türk pursues an extroverted strategy, which consists of boosting domestic and international cooperation efforts. At SIBOS, the world's most prestigious financial fair held in Boston in 2014, Kuveyt Türk established a link between the XTM digital branch and the Turkey office and performed banking

transactions remotely. As part of the collaboration with Massachusetts Institute of Technology's Industrial Liaison Program, the Bank became the first Turkish company to be invited to participate in MIT's program.

The Center held talks with numerous domestic and international firms and banks with regard to the sale of the BOA core banking system, XTM, Gold ATM, Virtual POS as well as other R&D centers, resulting in offers and proposals made. The Center continues with its ongoing marketing efforts and proposals.

The Information Technologies R&D Office established in Konya, with support from the Bank's R&D Center in Tuzla, employs 26 IT experts. Having embraced the mission of strengthening the collaborations between universities and industrial enterprises in Anatolia, the Center conducts joint studies with Selçuk University, Mevlana University and Karatay University. Including the BOA Cloud project developed by the Konya R&D Office, the Bank's now boasts seven TÜBİTAK-supported projects. Information Technologies published 14 articles in trade journals in 2014.

Following the success of the IT Unit established in Konya, talks were held with universities in Elazığ, İzmir and Ankara and preliminary research was carried out to establish another such unit.

Collaboration with universities on R&D projects also continues to expand. Currently, the Bank conducts joint research and development studies with Gebze Technical University, Dokuz Eylül University,

Boğaziçi University, Sabancı University, Ege University, Selçuk University, Karatay University, Mevlana University, Sakarya University, İstanbul Technical University and Yıldız Technical University.

Furthermore, Bank officials conduct a course on IT Management in Banks at Sakarya University, Department of Computer Engineering. This course examines IT organizations in banks and analyzes the decision-making processes for short and long term information technology strategies. Another key topic covered is the minimally required operational and systemic support structures to sustain a bank. Software development, architectural and visual design activities, information security, controls and quality are also taken up in detail during the course.

Demonstrating the importance Kuveyt Türk places on the recruitment of new graduates, the R&D Center conducted a joint effort with the Human Resources Department for the TeknoStar initiative. The TeknoStar program was promoted in universities in early 2014 and applications were collected. Following English language aptitude testing and interviews, 30 candidates were chosen for a two-day camp at Kartepe, during which "TeknoStars" were identified through human resource screening and IT project studies. After a final interview by the management, jobs were offered to the top 10 candidates and four were awarded with a visit to Silicon Valley in the US.

## Review of Operations in 2014



The Service Desk, which oversees the continuity of the IT systems, reached a first-level support ratio of 90.26%, and a customer satisfaction ratio of 97.74%, in terms of call resolution speed.

The following are the main ongoing R&D projects:

**VISCA (Virtualization of Smart Cards)-European Union Project:** This is the first EU project for which Kuveyt Türk R&D Center received international support. The VISCA consortium consists of Turkey, South Korea and Spain. The goal of the project is to develop software to replace physical credit and debit cards, thus reducing and ultimately eliminating the use of physical cards and POS terminals. Launched in July 1, 2013, the project received its TÜBİTAK and EU approvals in 2014. The project, which is running as scheduled, will be completed by December 31, 2015.

**BANA-TEYDEB Project:** Focusing on the development of devices that control the authenticity of documents with an independent format, this project will examine R&D issues such as computer vision and image processing, machine learning, and natural language processing.

**VAIPRO-European Union Project:** The desired output here is an artificial intelligence product that has a virtual visual profile, can understand and speak Turkish, conducts banking transactions and that transacts on behalf of a client. The project will be integrated with the Bank's various channels such as the Call Center, Internet Branch, mobile phones and XTM; thus, it will reduce the rising workload, standardize processes, cut costs and increase operational productivity.

**BOA Cloud-TEYDEB Project:** The goal of the BOA Cloud project is to develop, store and index a service-based technology which enables banks and similar large enterprises to prepare in the desired format documents used in the course of everyday business, run an OCR scan on image documents and allow secure access to documents from anywhere independent of platform (Windows, Web, iOS, Android, Windows Phone).

**STS (Secure Transaction Signer)-TEYDEB Project:** The system planned for development is designed to become a service that will be marketed globally. The project will allow customers to give secure transaction approvals over their mobile devices. The system will be marketed to member banks and contracted merchants; users will register themselves on the system for the contracted merchant concerned, open up a secure session on the system and approve their transactions via their mobile devices. As such, the Bank will eliminate the cost of SMS-based one-time passwords currently used for identification purposes. Additionally, material and personal damages from fraud due to security gaps in the one-time password method will also be minimized.

**UPSC (Unleash the Power of SIM Card)-European Union Project:** Confirmation of mobile devices will be performed over the SIM card to ensure a more rapid and secure confirmation process. At the end of the project, it will be impossible for fraudsters to steal customer mobile phone data in Mobile Branch transactions.

**Real Estate Appraisal-SAN-TEZ Project:** This project aims to create a platform to automate appraisal and fund allocation processes, identify problematic issues experienced by specialists, avoid transaction risks and allow fund allocation experts to make better use of real estate data in decision-making processes.

**Biogenetics-ARDEB Project:** The project is focused on creating a security key by integrating user biometric and genetic data and thus developing a mobile communication protocol standard. This standard to be developed will be integrated into current banking applications (BOA, XTM) and high security services such as safe deposit boxes.

**Facial Recognition-TEYDEB Project:** The system to be developed will allow for 3D facial recognition. This system will be used in different bank products and locations, for example at XTM branches for customer recognition purposes.

**Voice Recognition-Teydeb R&D Project:** The goals of this project include development of call diverting by voice recognition, speech recognition, speaker recognition and call steering, which will yield cost savings, increased customer satisfaction and higher transaction volume.

The Service Desk, which oversees the continuity of the IT systems, reached a first-level support ratio of 90.2% and a customer satisfaction ratio of 97.4% in terms of call resolution speed in 2014.

System Support and Operations established a videoconferencing system at the Head Office, Banking Center and Konya R&D Center in order to meet the Bank's teleconferencing requirements.

Under the Integrated Communication project, the following were provided: Banking Center IP telephony system for 1,200 users; Banking Center IVR-Centrex with welcome announcements in three languages; voice recording system during critical transactions by personnel; IP telephone mobility; IP Centrex; Session Border Controller for external operators; and Banking Center DECT telephony system.

As a result of the joint agreement and project with Türk Telekom, 90% of all branches switched to a fiber optic infrastructure. All of the Bank's PC/N-notebooks switched from Windows 7 to Windows 8.1 (64-bit version), which yielded a 30% performance improvement in branch computers and a 70% performance improvement in Head Office computers.

In order to prevent data security breaches when corporate smartphones, tablets and other mobile devices are lost or stolen, and to increase the security level, the Bank carried out new security related projects.

At the Head Office and 17 concept branches, Kuveyt Türk offered customers much-appreciated Wi-Fi Internet service.

The IT system disaster recovery tests mandated by BRSA were passed with success in 2014.

A number of important IT initiatives were carried out in 2014, including operational productivity related projects, a program to gather all applications and platforms on a single platform and other R&D efforts. Select examples follow below:

**Branch Service Model:** In order to provide better services to clients, the Bank added new segments, including Micro, MSE and Retail, to customer segmentation. New performance scorecards and reports were created according to the new segment format. Target transfer criteria were identified and targets started being set according to the new criteria. Bulk transfer screens were designed for customer transfer purposes. With the bulk transfers to be conducted in January 2015, the branch and segment of around 72,000 customers will be changed. Branch personnel will move and the organizational structure will be revised according to the new segmentation scheme. The first output of the project is due for delivery in January 2015.

**BES-Katılım Emeklilik:** The systems of Katılım Emeklilik A.Ş., a joint venture with Albaraka, have been integrated with the Bank. All branches can now market Life Insurance with Loan and Private Pension System products.

**Your Bank:** The Your Bank platform is a new product/channel project which allows current and potential Kuveyt Türk customers to open an account, or enjoy products such as Sale Plus, Needs Card, mortgage financing and vehicle financing without having to visit a branch.

**Centralization-Rapid Gains:** As part of the centralization project, plans call for branch operations to be conducted in a more efficient manner from the Head Office. Transaction orders currently processed at the branches (EFT and other money transfers) will be centralized in the Rapid Gains phase.

**IBM-ALGO:** This project will allow the Bank to automatically calculate the fund allocation risk and market risk associated with the capital adequacy ratio in line with Basel II standards and advanced methodology. Forms sent to BRSA will be retrieved automatically from the system, and manual calculation errors will be lowered to a minimum. In addition, asset and liability management calculations as well as legal report calculations will be performed automatically.

**Tablet Compatibility:** This project will allow branch marketing personnel to access information required during customer visits over their tablet PCs, while outside the branch and in contact with the customer; communicate with Bank personnel over Lync; perform transactions which concern the customer; visualize data about the customer; finalize proposals in the presence of the customer; and perform transactions over the screens designated and the authorization provided. It is estimated that this project will lead to a significant reduction in operational costs by finalizing some of the operations on the customer side.

## Review of Operations in 2014



Kuveyt Türk has completed the first phase of the Debit Card and Gold Card projects, developed entirely with the Bank's internal resources.

**Germany Banking System:** As part of the localization and integration work needed to use Kuveyt Türk's core banking system at the German subsidiary planned to be operational in early 2015, efforts to develop the Bank's German banking system are ongoing. The project includes development of features that will meet the needs of a fully functional bank while obtaining the necessary certifications demanded by local banking authorities. Thanks to this project, the international footprint of Kuveyt Türk's core banking system will also expand.

**Sukuk Trading Services for Customers:** Developed to ensure that Kuveyt Türk customers can trade sukuk at the branches and thus invest in a new instrument, the Bank completed this project in May 2014. Under the project, Kuveyt Türk provided customers with an alternative investment instrument and channel; the Bank also set up the infrastructure required by CMB and obtained the necessary certification.

**Foreign Exchange Position Diversification:** The Bank initiated this project to increase the profitability of transactions conducted by the Treasury Group, and to better monitor the foreign exchange positions created by these transactions so as to improve process efficiency and performance measurements. The project is expected to be ready for launch in the first half of 2015.

**Corporate Internet Branch:** Scheduled for completion in July 2015, the project aims to transfer corporate customer transactions with a heavy operational workload, such as letters of guarantee, over to the Internet Branch. When complete, this project will offer over the current Internet Branch a service that includes 20-25% additional functionality, in line with the Bank's centralization strategy to improve operational efficiency.

**Notification Center:** Planned for completion in first quarter 2015 and to be launched on the online and mobile branches, the Notification Center project aims to instantly inform Bank customers through all channels (mobile, SMS, mail, social media) of the slightest change in their accounts and products and to combine all notifications in a single center.

**New ATM:** The improvements to the new ATM infrastructure, developed entirely with Kuveyt Türk's internal resources, are now complete. As of year-end, around 25% of all Kuveyt Türk ATMs run on the new automated teller machine software. Efforts are ongoing to expand the use of the new software. The Bank anticipates that all its ATMs will use the new software by the end of first quarter 2015.

**New Mobile Banking:** The iOS version of the new Mobile Banking application, developed entirely in-house, is complete and pilot testing is underway. The Bank expects to release the new Mobile Banking app for iOS in early 2015. Work on the Android version has also commenced, and is expected to be complete in second half 2015.

**Bank Card (Debit Card) and Gold Card:** The first phase of the Debit Card and Gold Card projects, developed entirely with internal resources, is complete. The second phase, planned to be completed by the second quarter of 2015, will allow Kuveyt Türk to deliver better bank card and gold card services to customers.

**Tablet Banking:** Kuveyt Türk completed development of the new tablet banking application for iOS and Android operating systems and they are currently available for customer use.

**Connections with Other Institutions:** External links have been established between the Ministry of Religious Affairs and Kuveyt Türk's core banking system.

**Registered Sukuk Transactions (Reverse Repurchase Tenders):** Under the monetary policy of the Central Bank of Turkey, the Bank has performed transactions related to Treasury securities trading such as outright purchases, outright sales, repurchase agreements and reverse repurchase agreement.

**Customer Sukuk (Lease Certificate):** The Bank developed a system to enable customers to conduct purchase, sale and transfer transactions of the lease certificates in Kuveyt Türk's portfolio, accompanied by very detailed research reports and information.



**BIST Precious Metals Integration:** Kuveyt Türk developed an integrated systems platform to enable trading in precious metals over Borsa İstanbul (BIST) screens. This integration allows Kuveyt Türk to automatically link the trading on its Electronic Stock Exchange System to the core banking system.

**Express Financing:** The Bank developed the Express Financing system for retailers to allow consumers to take out online funds with their Turkish Republic identification number and thus to expand the use of micro funds by means of an automatic fund allocation scheme. The system has been put to the service of both retail sector customers and other retailers. As the Express Financing system expands, Kuveyt Türk will reach out to an increasing number of customers and consumers who will be able to secure funding online with repayment installments for their purchases of consumer durables.

**Tuition Fee Installment:** Kuveyt Türk developed the Tuition Fee Installment System to provide automatic payment and financing options to parents, a key customer segment at the Bank, as well as payment guarantees to schools. Installment options are made available to students enrolled at private schools, universities, prep schools and courses. As the service has rapidly become more popular, Kuveyt Türk introduced automatic payment facilities and cross sales opportunities to schools and parents.

**Automatic Pricing:** The Bank rolled out an Automatic Pricing System for commercial customers to reduce risks associated with manual pricing and to save on labor costs.

**Automatic Limit Allocation for Credit Cards:** This recently developed infrastructure allows the Bank to automatically approve or reject credit card requests. With this system, a large portion of credit card requests are given automatic limit allocations or rejections, which not only limits user efforts but also cuts the workload by a significant margin.

**Retail Finance Automatic Allocation:** This new Bank system allows consumer finance applications to be automatically approved or rejected by running rule engines. As a result, financing applications from all channels have become fully integrated.

**Foreign Exchange Leasing:** With the development of the Foreign Exchange Leasing system, customers can take out foreign currency denominated loans and the Bank can perform debt follow-up and collection without paying a foreign exchange gain or loss.

**Daily Scrap Gold Collection:** Thanks to the integration achieved with Istanbul Gold Refinery (İAR), Kuveyt Türk customers can register gold grams to their account via the İAR Card, and scrap gold can be collected on a daily basis without need for expert appraisal. As such, this system can calculate the equivalent amount of 24-carat gold their jewelry contains.

**FATCA Compatibility:** In accordance with the FATCA (Foreign Account Tax Compliance Act), through which the US monitors the income of its citizens, Kuveyt Türk has created a scheme that reports to FATCA those real persons and legal entities falling within one or more of the criteria designated.

**Cumulative Participation Account:** Designed for those keen on longer-term investments, the Cumulative Participation Account allows customers to deposit via credit card or current account the designated sum to accounts with a maturity of five or 10 years, at monthly or quarterly intervals.

**Agreement Follow-up:** The Bank developed Agreement Follow-up so it can access the agreements of those customers placed under surveillance by the Risk Collection Department. The system is ideal for agreement entry, agreement installment plans, and collection follow-up for customers with whom an agreement has been executed.

**Lien Enforcement Payments Follow-up:** The Bank's payments to the lien enforcement offices can now be made and followed up over the internal banking system. Lien enforcement office data has been included in the system and payments started being followed up and reported.

## Review of Operations in 2014



The Bank created a mobile application development platform for use in developing all Kuveyt Türk Android mobile apps, and in particular those for the Android Mobile Branch App.

**Analytical CRM Project Phase 2:** During the year, Kuveyt Türk completed value segmentations of treasury, micro, small-, and medium size enterprise, and commercial sector customers; behavior segmentations for small- and medium size enterprise, and commercial sector customers; cross sales and up sales suggestion models for small- and medium size enterprise, and commercial sector customers; potential value and need segmentation modeling for the retail sector.

**Product and Channel Efficiency:** The Bank developed this system to allow for reporting on customer, sector, product, channel, region, branch and portfolio-based profit and loss calculations. The system is fed data based on the aggregate cost calculation of the budget. This initiative also renewed unit durations of transactions.

**Customer Lifelong Value Project for Automatic Pricing:** Based on probable product use duration and productivity, Kuveyt Türk calculated customer lifelong values for retail customers. The arrived at value was then used to calculate segment values, which will be used for automated pricing for customers.

**Banking Growth Projection:** This initiative is designed to estimate the total asset growth of Turkey's top 17 banks, including Kuveyt Türk, over the next three years. The research study used domestic and international macroeconomic indicators and the asset growth figures of the target banks for the previous eight years.

**Project for Scoring the Job Queues of Operations Center Departments:** Customer jobs assigned to Operations Center departments by branches will be ranked according to their priority in this special scorecard design project. Kuveyt Türk developed scorecards and prioritized transactions for fund allocation and banking operations departments on the basis of criteria that includes customer segment, productivity, penalty pool status, and document availability. Work is ongoing for the remaining departments.

**Analytical Fraud:** Under the Analytical Fraud project, the Bank modeled customers' past behavior to score behavior-based external fraud risk. According to the risk score calculated, Kuveyt Türk determines which employees will action through which channel and according to which priority.

**Human Resources Survey-Based Competence Scoring:** Based on data from 360-degree surveys for each competence of personnel, the Bank has performed a general competence scoring. During Human Resources performance assessment periods, Kuveyt Türk will use outputs of this study and the current performance system to calculate performance scores.

In addition, Kuveyt Türk restructured the Information Technologies Test Team to jointly monitor 30% of the testing of the actions taken by the Demand Management Committee; this target was achieved as of fourth quarter 2014. The Bank also strives to automate the test process to reduce the

time spent by Application Development Teams on general testing. Kuveyt Türk has implemented test automation on key select screens of the Internet Branch and the core banking application; work has been initiated to similarly enable automated testing on mobile applications. Together with test automation, all transactions can be reviewed within two hours on the Internet Branch and select transactions can be reviewed within 1.5 hours in the core banking application.

In order to improve the competency and skills of the test team, members attended internationally recognized courses and received ISTQB CTFI certification at the end of the program.

Demonstrating the importance the Bank places on user experience, Kuveyt Türk set up a team dedicated to this key area in 2014. The Bank analyzed and improved user experiences, especially for Kuveyt Türk products that touch external customers, to offer users a level of experience that leads to high customer satisfaction. Bank systems open to external customers, such as the Mobile Branch, Your Bank, Internet Branch and Send Gold, as well as those used internally, such as BOA Reports, General BOA Standards, BOA Menus were revised and modified to enhance user experience. Kuveyt Türk also worked jointly with external design firms to provide a much better experience for the extensive range of external and internal customers.

Upon the completion of the transformation initiative, Kuveyt Türk's banking systems started going live once a month. As the related support team gained in competence and after upgrades made to the processes, IT resources started to spend less time to go live. Owing to change management efforts, interim versions on top of the primary version also started being disciplined and reported.

#### Core Banking Application Infrastructure Efforts:

The Bank expended intensive efforts to combine core banking applications in a single center, and upgrade software application quality and code quality. Kuveyt Türk upgraded software engineering processes via automation software, and added controls to software applications. In order to enhance security, the Bank designed and implemented a certificate-based Identity Confirmation System that does not require user name or password, as well as a data encryption application with guaranteed security.

**Kuveyt Türk Mobile Approval:** Kuveyt Türk developed a mobile application that allows customers to securely approve their transactions over the Internet or via mobile devices. It has already been integrated with the Mobile Branch App, and will soon be integrated with Internet Branch approvals. With the expansion of this system, SMS costs are expected to drop rapidly and all fraud attempts will be eliminated. Through additional efforts, the Bank has made it possible to provide technologies that enable money withdrawal without cards from ATMs and XTMs.

**iOS Mobile Application Development Platform (iBOA):** The Bank has created a mobile application development platform for use in all Kuveyt Türk mobile applications, in particular the iOS Mobile Branch App. This platform includes software production standards, security modules, application infrastructures, design patterns and documentation. The platform is configured make new product development standard, fast and high quality.

**Android Mobile Application Development Platform (BOAndroid):** Kuveyt Türk has also created a mobile application development platform for use in all the Bank's Android mobile apps, in particular the Android Mobile Branch App. This platform includes software production standards, security modules, application infrastructures, design patterns and documentation. The platform is configured to make new product development standard, fast and high quality.

**IT Center Online Data Sharing Platform (Bilgin):** Kuveyt Türk launched a central online data sharing platform, Bilgin, to ensure the rapid and efficient spread of information across the Information Technologies Department.

**BOA Office:** The recently developed BOA Office software includes the most popular features of Microsoft's Word, Excel and Outlook. The goal here is to attract users within the 5,000-strong Bank on the basis of employee usage of Office features, and to reduce licensing costs significantly.

In line with the Bank's mission and vision, Kuveyt Türk has drawn up a 2015 Information Technologies Road Map. The IT road map includes the following strategic goals and priorities:

- > Mobile Transformation
- > Smart Systems (Analytical Banking)
- > Commercialization of R&D Projects
- > Lean IT
- > Lean Technologies
- > Lean Processes
- > Lean Governance and Human Resource Management
- > Lean Investments

In achieving these goals, Kuveyt Türk will be able to raise the level of internal customer satisfaction in the Bank's branches and departments, as well as among external clients.

Considering technology as a key component of the Bank's competitive edge, Information Technologies will continue to do its part on Kuveyt Türk's journey to future success. In addition, the Department will review internal IT processes to further improve productivity.





We have built the information and technology infrastructure required in today's computerized, high-tech world. Thus, we have developed advanced Electronic Banking in order to provide all banking services in the best manner. We are proud to be the first participation bank to provide its customers with such innovations starting in 2000.



#### **OPENING TO WORSHIP**

The Grand Imperial (Ortaköy) Mosque constructed in 1853 for Sultan Abdülmedid by an Armenian Architect Nigoğos Balyan, attracts attention with the (Neo-Baroque) free style of the architect. The restoration of the Grand Imperial Mosque, launched by the General Directorate of Foundations in 2011, was completed with the sponsorship of Kuveyt Türk Katılım Bankası A.Ş.. The opening was held on June 2014 6<sup>th</sup> with the participation of the President Mr. Recep Tayyip Erdoğan, Director of Religious Affairs Mehmet Görmez, the Minister of Energy and Natural Resources Taner Yıldız, Istanbul Governor Hüseyin Avni Mutlu, Metropolitan Municipality Mayor Kadir Topbaş, the Director of the General Directorate of Foundations Dr. Adnan Ertem and a crowd of citizen on lookers.

## Board of Directors



### Hamad Abdulmohsen ALMARZOUQ

#### Chairman of the Board of Directors

Hamad Abdulmohsen Almarzouq was born in Kuwait in 1962 and graduated from Claremont Graduate School in 1985; he received his MBA from the University of Southern California. Mr. Almarzouq worked at Kuwait Investment Corporation until 1990, at Central Bank of Kuwait between 1990-1998, and at Ahli United Bank Bahrain between 1998-2014 as a Senior Manager. Hamad Abdulmohsen Almarzouq was appointed Kuveyt Türk's Chairman in 2014. Mr. Almarzouq also sits on the Bank's Corporate Governance Committee, Executive Committee and Credit Committee.



### Abdullah TİVNIKLİ

#### Vice Chairman of the Board of Directors

Born in Erzurum in 1959, Abdullah Tivnikli graduated from Istanbul Technical University, Department of Mechanical Engineering in 1981 and received a Master's degree from the School of Business Administration of the same university. Mr. Tivnikli has been a member of the Board of Directors of Kuveyt Türk Katılım Bankası since 1988 and was appointed as Vice Chairman of the Board of Directors in 2001. Mr. Tivnikli is also a member of the Bank's Credit Committee, Executive Committee, Corporate Social Responsibility Committee and Remuneration and Nomination Committee. In addition to his responsibilities in the participation banking sector, Abdullah Tivnikli is a Member of the Board of Directors at Türk Telekom.



### Dr. Adnan ERTEM

#### Member of the Board of Directors

Born in Erzincan in 1965, Dr. Adnan Ertem graduated from Istanbul University, Faculty of Political Sciences in 1987. He received a Master's degree in Political Science from the Institute of Social Sciences of the same university in 1990 and was awarded a doctorate degree in 1998 for his thesis on Social Structure and Social Change. Dr. Ertem started his professional career in 1988 as Assistant Auditor in the Internal Audit Department of the General Directorate of Foundations. After serving in various positions in the same institution, Adnan Ertem was appointed as the Istanbul Regional Director of Foundations in 2002. Appointed as a Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. the same year, Dr. Ertem is also a member of the Bank's Internal Systems Committee, Corporate Governance Committee, Audit Committee and Corporate Social Responsibility Committee and alternate member of the Credit Committee. After serving as a Deputy Undersecretary to the Prime Minister of Turkey between 2007 and 2010, Dr. Adnan Ertem was appointed as General Director of General Directorate of Foundations in 2010.



#### **Nadir ALPASLAN**

Member of the Board of Directors

Born in Kırşehir in 1966, Nadir Alpaslan graduated from Istanbul University, Faculty of Political Sciences, Department of Public Administration in 1987. Beginning his professional career at the Prime Ministry, Family Research Institute of Turkey in 1999, Mr. Alpaslan served as Advisor to the Minister and Head of Administrative and Financial Affairs at the Ministry of Tourism for four years. Continuing his career as Deputy Undersecretary and Advisor to the Minister at the Ministry of Culture and Tourism from 2003 until 2007, Nadir Alpaslan was appointed as Deputy Secretary General of the President's Office in 2007. He has been serving as a Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş. since April 15, 2011. And he continues his responsibility of Ethical Banking.



#### **Mohammed Shujauddin AHMED**

Member of the Board of Directors

Born in 1981 in Pakistan, Ahmed received his BA in 2001 from the University of Massachusetts, Department of Business Administration and his MA in 2003 from London School of Economics, Department of Law and Accounting. Holding a Public Accounting license from the Massachusetts State Public Accounting Committee, Mr. Ahmed joined KPMG's Internal Audit Department in 2001 and ABM AMRO Bank's Risk and Compliance Department in 2003. In 2005, he started working in the Risk Control Department of the Islamic Development Bank. In 2006, he took office at the Bank's operations center, and the same year he started working as a Financial Analyst at the Portfolio Management Unit. Serving as Senior Investment Analyst in investment banking since 2008, Mr. Ahmed became a Board Member at Kuveyt Türk in 2012.



#### **Khaled N. AL FOUZAN**

Member of the Board of Directors

Born in Kuwait in 1954, Khaled N. Al Fouzan graduated from Kuwait University, Department of Business Administration in 1978. Mr. Al Fouzan began his professional career at Kuwait Commercial Bank, later working as Director of Participations at the Kuwait Social Security Institution. Appointed as Manager of the Banking Department in 1984, after 2004 he continued his as the Executive Vice President of Finance & Management. Mr. Al Fouzan served as a Member of the Board of Directors at Kuwait Industry Bank, London Ahli United Bank and Al Manar Leasing. Mr. Al Fouzan has been serving as a Member of the Board of Directors at Kuveyt Türk Katılım Bankası A.Ş. since August 2006 and is a member of the Internal Systems Committee.

## Board of Directors



### Ahmad S. AL KHARJI

Member of the Board of Directors

Ahmad S. Al Kharji was born in Kuwait in 1972 and received his Bachelor's Degree in 1994 from Kuwait University, Department of Finance and Banking, and obtained his MBA in 1998 from University of San Diego. After serving as Investment Department Senior Director at Kuwait Finance from 2003 to 2006, Mr. Al Kharji worked at Kuveyt Türk as Investment Banking Department Head between 2006-2008. From 2008 to 2013, he served as Senior Executive Vice President at LMH. Since March 2014, Mr. Al Kharji has been a Board Member at the Bank.



### Fawaz AL SALEH

Member of the Board of Directors

Born in Kuwait in 1963, Fawaz Al Saleh is a graduate of Macalester College, Department of Business Administration-Economics in the United States. He joined Kuveyt Türk Katılım Bankası A.Ş. as a member of the Fund Management Department in 1996. Mr. Al Saleh was appointed as Executive Vice President in 1999 and later as Executive Assistant to the CEO, serving in this position until 2006. Serving as a Member of the Bank's Board of Directors since 2006, Mr. Fawaz Al Saleh also serves as the Vice Chairman of the Board of Directors, the CEO of Turkapital Holding B.S.C.C, Audit Committee, Remuneration and Nomination Committee and Corporate Governance Committee Member of the Bank.



### Ufuk UYAN

Chief Executive Officer

Born in Eskişehir in 1958, Ufuk Uyan graduated from Boğaziçi University, Department of Economics in 1981 and received a Master's degree from the Department of Business Administration at the same university in 1983. After beginning his professional career as a Research Assistant at the Boğaziçi University, Department of Economics in 1979, he served as a Research Economist at the Turkish Industrial Development Bank's Directorate of Special Research in 1982. Mr. Uyan became a Deputy Project Manager at Albaraka Türk in 1985 and joined Kuveyt Türk as the Director of Projects and Investments in 1989. He was appointed as Executive Vice President in 1993 and later Executive Assistant to the CEO. Ufuk Uyan has been the Bank's CEO since 1999 and also serves as Member of the Board of Directors, Executive Committee, Remuneration Committee, Credit Committee, Corporate Social responsibility Committee, Discipline Committee, Strategic Investment, Strategy Executing, Strategic Supervision and Assets and Liabilities Committee.



## Senior Management



### Ufuk UYAN

Chief Executive Officer

See the Board of Directors section.



### Ahmet KARACA

Executive Vice President,  
Financial Control (Chief Financial Officer)

Born in Konya in 1970, Ahmet Karaca graduated from Ankara University, Faculty of Political Sciences, Department of Public Administration in 1990. Starting his career as Assistant Sworn Bank Auditor at the Undersecretariat of the Treasury in 1992, Mr. Karaca was promoted to Sworn Bank Auditor in 1995. Joining the Banking Regulation and Supervision Agency of Turkey with the same title and function in 2000, he became the Deputy Chief Sworn Bank Auditor at the Banking Regulation and Supervision Agency of Turkey between 2002 and 2003, and was appointed Chief Sworn Bank Auditor in 2004. Between 2004 and 2006, Ahmet Karaca received a master's degree in Economics from the State University of New York at Albany, with a master's thesis on International Banking and Capital Markets. Mr. Karaca joined Kuveyt Türk Katılım Bankası A.Ş. in July 2006 as Executive Vice President of Financial Control (Chief Financial Officer), a position he continues to hold.



### A. Süleyman KARAKAYA

Executive Vice President,  
Commercial Banking

Born in Istanbul in 1953, A. Süleyman Karakaya graduated from Istanbul University, Faculty of Economics, Department of Business Administration and Finance in 1979. Mr. Karakaya started his banking career as an Auditor at Garanti Bank and later worked in the Internal Audit Board, Risk Management Department and Credits Department of the same bank between 1981 and 2003. He was appointed as Executive Vice President of Corporate and Commercial Banking of Kuveyt Türk in 2003. Since the Corporate Banking segment was transferred to the Corporate and International Banking Department in September 2012 due to the restructuring of Kuveyt, Mr. Karakaya now serves as Executive Vice President of Commercial Banking.

## Senior Management



### **Bilal SAYIN**

Executive Vice President, Credits (Chief Credit Officer)  
Born in Sakarya in 1966, Bilal Sayın graduated from Middle East Technical University, Department of Public Administration in 1990. Beginning his banking career at Albaraka Türk in 1990, Mr. Sayın joined Kuveyt Türk's Projects and Investments Department in 1995. Appointed as Manager of the Corporate and Commercial Credits Department in 1999, Bilal Sayın has been serving as the Executive Vice President of Credits (Chief Credit Officer) since 2003.



### **Hüseyin Cevdet YILMAZ**

President Risk, Control and Compliance Group  
Born in Istanbul in 1966, Hüseyin Cevdet Yılmaz graduated from Boğaziçi University, Department of Business Administration in 1989. Mr. Yılmaz began his banking career as an Assistant Auditor at Esbank's Internal Audit Board. After serving as Auditor and Branch Manager within this organization, he joined Kuveyt Türk in September 2000 as the Head of the Internal Audit Department. Hüseyin Cevdet Yılmaz was appointed as Head of the Audit and Risk Group in 2003. Mr. Yılmaz has been serving as the Head of Risk, Control and Compliance since 2012.



### **İrfan YILMAZ**

Executive Vice President, Banking Services  
Born in Hakkari in 1970, İrfan Yılmaz graduated from Istanbul Technical University, Department of Management Engineering in 1989. Beginning his banking career at the Financial Affairs Department of Kuveyt Türk in 1990, Mr. Yılmaz was assigned to the Internal Audit Department in 1996 and later served as the Head of the Internal Audit Department between 1998 and 2000. Appointed as Manager of Retail Banking in 2000, İrfan Yılmaz was promoted to Executive Vice President of Retail Banking and Business Banking in 2005 after serving in the Retail Banking Department for five years. Since October 2012, he has been serving as Executive Vice President of Banking Services.



### **Dr. R. Ahmet ALBAYRAK**

Executive Vice President, Corporate and International Banking  
Born in Istanbul in 1966, Dr. R. Ahmet Albayrak graduated from Istanbul Technical University, Department of Industrial Engineering in 1988 and received his Master's degree in Organizational Leadership and Business from North Carolina State University in the United States in 1993. Dr. Albayrak earned his PhD from Istanbul Technical University in 2007 for his research on Technology Management. Beginning his banking career as a Specialist at Albaraka Türk Katılım Bankası A.Ş. in 1988, Dr. Albayrak joined Kuveyt Türk in 1994 and served in the Financial Analysis and Marketing departments until 1996. Serving in senior management posts in the private sector between 1996 and 2001, he rejoined Kuveyt Türk as acting Executive Vice President of Branch Operations in 2002. Dr. Albayrak was appointed as Executive Vice President of Operations, Technology, and Administrative Services in 2005. After the reorganization undertaken in 2008, the Human Resources, Training and Development, Quality, and Strategy Monitoring Departments also reported to Dr. Ahmet Albayrak, who became Executive Vice President of Banking Services Group. Since October 2012, Dr. Albayrak has been serving as Executive Vice President, of Corporate and International Banking.



#### **Nurettin KOLAÇ**

Executive Vice President,  
Legal Affairs and Collection  
Born in Elaziğ in 1966, Nurettin Kolaç is a graduate of Marmara University, Faculty of Law. He worked as freelance attorney and legal advisor in the banking, leasing and insurance industries. Mr. Kolaç served as Assistant Head of Department and Department Head (Legal) at the Banking Regulation and Supervision Agency of Turkey from 2004 until April 2010. Boasting 21 years of experience in law and banking, Nurettin Kolaç joined the Kuveyt Türk family as Executive Vice President of Legal Affairs and Collection in April 2010.



#### **Aslan DEMİR**

Executive Vice President,  
Strategy  
A graduate of Marmara University, Department of International Relations, Demir is currently a student in the MBA program at the University of Sheffield. Having started his banking career as Officer at the Kuveyt Türk Treasury Department in 1995, Mr. Demir worked for six years in the department before serving in the Project Management and Quality Department from 2001 till 2004. In 2005, he was appointed Director of Project Management and Quality. After the restructuring in 2007, he continued his career as Head of Information Technologies. Since October 2012, Mr. Demir has been serving as Executive Vice President of Strategy.



#### **Mehmet ORAL**

Executive Vice President,  
Retail Banking  
A graduate of Uludağ University, Department of Business Administration, Mehmet Oral started his career at Kuveyt Türk as Central Branch Officer in 1992. After working for eight years at the Central Branch, he was appointed as Director of the İMES Branch in 2000, and went on to serve as Director of Bursa Branch from 2001 till 2004 and Director of Merter Branch from 2004 till 2005. After the Bank's transition to region offices, he became Regional Director of the Istanbul European Side Region Office in 2005. After serving in this position for four years, Mr. Oral took office as Director of HR, Training and Quality Group in 2009. Since October 2012, he has been serving as Executive Vice President of Retail and Business Banking.



#### **Abdurrahman DELİPOYRAZ**

Executive Vice President,  
SME Banking  
A 1992 graduate of Istanbul Technical University, Department of Industrial Engineering, he started his professional career at Kuveyt Türk, in the Financial Analysis and Intelligence Department. Later, he went on to work in Corporate and Commercial Banking Sales Department, before serving as Branch Manager at the Beşyüzevler and Bakırköy branches. In December 2004, he was appointed Regional Director and served as Istanbul Europe-1 and Istanbul Anatolia Regional Directors. In January 2015, he started serving as Executive Vice President - SME Banking.

## Summary Report of the Board of Directors Submitted to the General Assembly

Esteemed Shareholders,

Banking sector left a hard year behind. As a matter of fact, banking sector had a flat performance due to several reasons such as; volatility and loss in TL as a consequence of the political factors in the first quarter of 2014, uncertainty before the elections, uncertainty in foreign markets, monetary policies of FED and the European Central Bank, the pressure on the interest margins after the increase made by the Turkish Central Bank, and measures taken by the Banking Regulation And Supervision Agency to stop the rapid growth in consumer loans. With the impacts of these developments, the Sector closed 2014 with an 11% growth in assets.

In spite of the negative environment, Kuveyt Türk eliminated these impacts with its strong standing. Moreover, with its "strong banking" business model, Kuveyt Türk's assets reached TL 34 billion increasing by 31.3% while its profit reached TL 370 million increasing by 23.3% as it congratulated its 25<sup>th</sup> anniversary in the sector in 2014. The amount of collected funds reached TL 22 billion increasing by 30% compared to previous year while Kuveyt Türk's fund utilization reached TL 21 billion increasing by 27.9%. Furthermore, with the new 40 branches the number of branches reached 308 in 2014.

In 2014, our Bank developed new products and thus had diversity in its target community.

Within the scope of this approach, our Bank continued to reinforce its image of a "participation bank that develops innovative products and services" and went on providing its customers with new products and services such as Sukuk SME Banking, Gold Banking, Housing Finance and "İhtiyaç Kart" (Consumer Card).

With the sukuk issuance made in 2014, our Bank had a lot attention from the leading investors, and thus achieved sukuk issuance within the year with a nominal value of US\$ 500 million and a maturity of 5 years. Although the issuance was priced with a competitive yield ratio compared to the market, the demand was 6.5 times the issuance. In addition to this, Kuveyt Türk used treasury lease certificate and murabaha (cost plus financing) together and thus achieved sukuk issuance with the highest value ever sold to domestic investors in a single round.

In 2014, our Bank developed its services even further for SMEs who in our opinion are the most important remedy for the current deficit besides being the locomotive of economic growth. In addition the "Export Financing" product introduced in 2014, launched the "Pre-Shipment Credit In Foreign Currency" product in order to extend Eximbank loans for participation banks.

Kuveyt Türk continued to make remarkable progress in Gold Banking that differentiates Kuveyt Türk in the entire banking sector by bringing its innovative side forward.

Having a remarkable performance with its growth figures in Housing Finance and thus achieving to be the leader of the sector, our Bank extended significant amount of funds also for financing urban transformation in 2014.

Kuveyt Türk's "İhtiyaç Kart" product that served as an example for other banks in the sector, continued to attract a lot of attention. "İhtiyaç Kart", an alternative product introduced instead of consumer loans for the first time in Turkey; provides the opportunity to finance short term expenditure such as marriage, house improvement, health and etc. with installments up to 36 month maturity.

This successful performance brought two globally important awards to Kuveyt Türk. Our Bank was granted the "The Best Interest Free Bank in Turkey" award by the Global Finance magazine in the category of the best banks in the world.

We hope that we will complete 2015 in line with the achievements and developments that will help us reach our important targets within the scope of our 2018 vision.

We would like to thank our shareholders, customers and employees who never quit supporting us in this journey.

Respectfully yours,

Board of Directors

# Internal Systems Executives

## COMMITTEES

### Supporting Committees Reporting to the Board of Directors

#### Internal Systems Executives

Name/Surname	Position	Education Level
H. Cevdet YILMAZ	Head of Risk, Control and Compliance	Bachelor's Degree
Bahattin AKÇA	Head of Internal Audit	Bachelor's Degree
Fadıl ULUŞIK	Head of Internal Control	Master's Degree
Vefa Okan ARIK	Head of Risk Management	Bachelor's Degree
Hayrettin ÇAPOĞLU	Head of Regulation and Compliance	Master's Degree

#### Hüseyin Cevdet YILMAZ

##### Head of Risk, Control and Compliance

Born in Istanbul in 1966, Hüseyin Cevdet Yılmaz graduated from Boğaziçi University, Department of Business Administration in 1989. Mr. Yılmaz began his banking career as an Assistant Auditor at Esbank's Internal Audit Board. After serving as Auditor and Branch Manager within this organization, he joined Kuveyt Türk in September 2000 as the Head of the Internal Audit Department. Hüseyin Cevdet Yılmaz was appointed as Head of the Audit and Risk Group in 2003. Mr. Yılmaz has been serving as the Head of Risk, Control and Compliance since 2012.

#### Bahattin AKÇA

##### Head of Internal Audit Department

Born in 1971, Mr. Akça is a graduate of Istanbul University, Faculty of Business Administration, Department of the Business Administration (English). He started his career in 1996 at Kuveyt Türk. Since September 2007, he has been serving as Head of Internal Audit Department.

#### Fadıl ULUŞIK

##### Head of Internal Control

Born in 1973, Mr. Uluşık graduated in 1996 from Istanbul University, Faculty of Economics. In 1999, he obtained his Master's degree from Istanbul University, Institute of Social Sciences, Department of Money and Banking. He started his career in 1996 at Kuveyt Türk. Since December 2007, he has been serving as Head of Internal Control.

#### Vefa Okan ARIK

##### Head of Risk Management

Born in 1974, Mr. Arık is a graduate of Gazi University, Faculty of Economic and Administrative Sciences, Department of Finance. He started his career in 1997 and joined Kuveyt Türk in 2002. Mr. Arık has been serving as Head of Risk Management since February 2013.

#### Hayrettin ÇAPOĞLU

##### Head of Regulation and Compliance

Born in 1975, Mr. Çapoğlu graduated from Boğaziçi University, Faculty of Economic and Administrative Sciences, Department of Political Science and International Relations in 1997. In 2002, he received his Master's degree from Marmara University, Institute of Social Sciences, Department of Political Science and International Relations. Mr. Çapoğlu started his career in 1997 and joined Kuveyt Türk in 2002. He has been serving as Head of Regulation and Compliance since February 2013.

## Internal Systems Executives

### Audit Committee

Name/Surname	Position	Date of Appointment
Adnan ERTEM	Chairman, Member of the Board of Directors	October 19, 2010
Mohammad Shujaiddin AHMED	Member, Member of the Board of Directors	November 13, 2013
Ahmed S.ALKHARJI	Member, Member of the Board of Directors	September 24, 2014

### Duties and Responsibilities

- > Receives regular reports from the units established under the internal control, internal audit and risk management systems and from independent auditors about the operation of their functions,
- > Notifies the Board of Directors of any issues that might negatively impact the continuity and secure conduct of the Bank's operations or any breach of legal and regulatory requirements or internal regulations,
- > Presents to the Board of Directors, at least semi-annually, the results of its activities and its opinions on corrective actions that must be taken, required practices, and on other matters deemed important for the continuity and secure conduct of the Bank's operations.

### Internal Systems Committee

Name/Surname	Position	Date of Appointment
Adnan ERTEM	Chairman, Member of the Board of Directors	March 29, 2007
Khaled Nasser Abdulaziz AL FOUZAN	Member, Member of the Board of Directors	March 29, 2007
Mohammad Shujaiddin AHMED	Member, Member of the Board of Directors	November 13, 2013

### Duties and Responsibilities

- > Determines and documents in writing the strategies, policies and implementation procedures for the activities of units constituting the internal systems; oversees effective application and execution of these,
- > Ensures the coordination between units constituting the internal systems,
- > Notifies the Board of Directors of errors or deficiencies detected by the Banking Regulation and Supervision Agency of Turkey or by the independent auditors related to internal systems practices in order to take corrective actions,
- > Evaluates the identified errors or deficiencies and directs the control and internal audit activities toward those areas where the same or similar deficiencies or errors might occur.

### Corporate Governance Committee

Name/Surname	Position
Adnan ERTEM	Chairman, Member of the Board of Directors
Mohammad Shujaiddin AHMED	Member, Member of the Board of Directors

### Duties and Responsibilities

Ensures compliance with corporate governance principles, monitors the actions taken, undertakes improvement efforts and makes recommendations to the Board of Directors in this regard.

### Corporate Social Responsibility Committee

Name/Surname	Position
Abdullah TIVNIKLİ	Member, Member of the Board of Directors
Adnan ERTEM	Member, Member of the Board of Directors
Fawaz AL SALEH	Member, Member of the Board of Directors
Ufuk UYAN	Member, Member of the Board of Directors, CEO

#### Duties and Responsibilities

Determines the social responsibility projects to be carried out by the Bank, and makes donations within legal limits.

### OTHER SUPPORTING COMMITTEES

#### Executive Committee

Name/Surname	Position
Hamad Abdulmohsen AL MARZOUQ	Chairman, Chairman of the Board of Directors
Abdullah TIVNIKLİ	Member, Vice Chairman of the Board of Directors
Ufuk UYAN	Member, Member of the Board of Directors, CEO

#### Duties and Responsibilities

Performs various tasks assigned by the Board of Directors, releases the requirements of its authority on purchasing immovable properties, affiliates and inventories up to 10% of the Bank's shareholders' equity, makes decisions on participation in projects, partnerships and investments.

#### Remuneration and Nomination Committee

Name/Surname	Position
Abdullah TIVNIKLİ	Member, Vice Chairman of the Board of Directors
Fawaz KH. E. ALSALEH	Member, Member of the Board of Directors
Ahmed S.AL KHARJI	Member, Member of the Board of Directors
Ufuk UYAN	Member, Member of the Board of Directors, CEO

#### Duties and Responsibilities

The Remuneration and Nomination Committee, which reports to the Board of Directors, has been established in order to comply with the general corporate governance principles found in BRSA's Regulation on Banks' Corporate Governance Principles. The Committee oversees and audits the Bank's remuneration practices on behalf of the Board of Directors, and nominates Board Member, CEO and Executive Vice President candidates to the Board of Directors.

#### Credit Committee

Name/Surname	Position
Hamad Abdulmohsen AL MARZOUQ	Chairman, Chairman of the Board of Directors
Abdullah TIVNIKLİ	Member, Vice Chairman of the Board of Directors
Ufuk UYAN	Member, Member of the Board of Directors, CEO
Adnan ERTEM	Alternate Member, Member of the Board of Directors
Ahmad S. AL KHARJI	Alternate Member, Member of the Board of Directors

#### Duties and Responsibilities

Makes lending decisions for loans amounting to between 1% and 10% of the Bank's shareholders' equity.

## Senior Management Committee

### Assets Liabilities Committee

Name/Surname	Position
Ufuk UYAN	Chairman, Member of the Board of Directors, CEO
H. Cevdet YILMAZ	Member, Head of Risk, Control and Compliance
A. Süleyman KARAKAYA	Member, Executive Vice President, Commercial Banking
R. Ahmet ALBAYRAK	Member, Executive Vice President, Corporate and International Banking
Ahmet KARACA	Member, Executive Vice President, Financial Control
Bilal SAYIN	Member, Executive Vice President, Credits
Mehmet ORAL	Member, Executive Vice President, Retail Banking
İrfan YILMAZ	Member, Executive Vice President, Banking Services Group
Nurettin KOLAÇ	Member, Executive Vice President, Legal Affairs and Collection
Aslan DEMİR	Member, Executive Vice President, Strategy
Ahmet Tarık TÜZÜN	Member, Group Head, Treasury

### Duties and Responsibilities

- > Stands as the senior management committee responsible for the bank's assets and liabilities as well as its financial management, meets regularly on a weekly basis.

### Attendance at Committee Meetings

- > In accordance with the Articles of Association, the Bank's Board of Directors convenes whenever necessary and makes decisions as needed. The Board of Directors convened nine times in 2014, and all members were present at all meetings unless they reported valid excuses.
- > The Audit Committee monitors the audit and risk management activities of the Bank in accordance with laws and regulations, particularly the Banking Law, and takes necessary actions. The Audit Committee convened seven times during 2014. In addition, seven Internal Systems Committee meetings were held in 2014 with the participation of managers of the units constituting the internal systems in order to ensure more effective risk management.
- > The Credit Committee, authorized to assess and approve loans up to 10% of the Bank's shareholders' equity, convened ten times in 2014 to perform this task.
- > The Assets-Liabilities Committee, responsible for the Bank's financial management and for overseeing the asset-liability balance, convened 51 times during 2014
- > All committee members were present at all meetings unless they reported valid excuses.

## Related Party Transactions

Information on transactions conducted within the Bank's risk group is provided in detail on pages 198 and 199 of the annual report.



## Outsourced Services

Brink's Güvenlik Hizmetleri A.Ş.	Domestic and overseas transportation of precious metals
Securverdi Güvenlik Hizmetleri A.Ş.	Transportation of cash to ATMs
Securverdi Güvenlik Hizmetleri A.Ş.	Transportation of valuable documents and cash (CIT Service)
Kuryenet Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş.	Distribution of debit cards and credit cards
Bileşim Alternatif Dağıtım Kanalları ve Ekstre Ödeme Sistemleri A.Ş.	Card customization, printing and enveloping services
Chronos İstihdam Hiz. Yön. Ve Yazılım Dan. Tic. Ltd. Şti.	Payroll services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Infrastructure support services for ATMs and bank cards
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Credit card and member merchant software infrastructure services
Asseco SEE Teknoloji A.Ş.	Virtual POS software and services
İstanbul Altın Rafinerisi A.Ş.	Supplying gold grams and ATM gold with certification
Venüs Eğitim Danışmanlık A.Ş.	Supply and maintenance of Mobile Banking software
Venüs Eğitim Dan. Tel. Org. Bil. San. Ve Tic. A.Ş.	Integrating the mobile application development product (Smart Face) with the Application Security Technology infrastructure and offering maintenance and support services
Collection Platform Yaz. Danş. A.Ş.	Telephone calls to customers with credit card debts
Komtaş Bilgi Yön. Ve Dan. Tic. A.Ş.	Supply and maintenance of financial control and reporting software (ACL)
32 Bit Bilgisayar Hizm. Ltd. Şti.	Software connection to Reuters dealing system
Cybersoft Enformasyon Teknolojileri Ltd. Şti.	Banking applications development services
Cybersoft Enformasyon Teknolojileri Ltd. Şti.	Loan Package (Financial Analysis, Allocation, Limit and Collateral) software maintenance services
Fineksus Bilişim Çözümleri Tic. A.Ş.	Provision of auxiliary software products and maintenance support for Swift upgrades
Fineksus Bilişim Çözümleri Tic. A.Ş.	Swift software supply and maintenance services for Emergency Center
Fineksus Bilişim Çözümleri Tic. A.Ş.	Swift auxiliary software supply and maintenance services
Fineksus Bilişim Çözümleri Tic. A.Ş.	SWIFT Alliance software maintenance and support services
Fineksus Bilişim Çözümleri Tic. A.Ş.	AML software supply, maintenance and upgrading services
Innova Bilişim Çözümleri A.Ş.	Bill collection network system services
Bicentrix Yazılım Dan. Ltd. Şti.	Budget application support services
Karash Yazılım Geliştirme ve Danışmanlık İthalat İhracat Ltd. Şti.	Outsourcing of IT personnel
BSM Eğitim Danışmanlık Organizasyon Ltd. Şti.	Providing software support and maintenance for the Kuveyt Türk Real Estate web site
Loomis Güvenlik Hizmetleri A.Ş.	Providing domestic and overseas transport and safe deposit box services for precious metals or banknotes worth a maximum of US\$ 100 million
Bilişim Sanayi ve Ticaret Ltd. Şti.	Payroll system management and operating services
Enuygun Com İnternet Bilgi Hizmetleri Teknoloji ve Tic. A.Ş.	Promoting loan products and steering loan demand
Saytem Sağlık Hizmetleri Otomasyon Gıda Tem. Nak.	
San. Tic. Ltd. Şti. Call Center Resources Danışmanlık Ltd. Şti.	Outsourcing of administrative services personnel Interactive Intelligence Customer Interaction Center software licensing, maintenance and support services
Desmer Güvenlik Hizmetleri Tic. A.Ş.	Cash transportation and transporting cash to ATMs and XTMs
Aktif İleti Kurye Hizmetleri A.Ş.	Distributing debit and credit cards to customers, ensuring that contracts are signed by customers, and delivering the contract and related documentation to the Bank
Hangisi İnternet ve Bilgi Hizmetleri A.Ş.	Contract for Promoting Loan Products and Steering Loan Demand
G4S Güvenlik Hizmetleri A.Ş.	Offering domestic and overseas transport and safe deposit box services for precious metals or banknotes worth a maximum of US\$ 100 million

# Annual Report Compliance Opinion

## To the General Assembly of Kuveyt Türk Katılım Bankası A.Ş.:

We have audited the accuracy and compliance of the financial information in the accompanying annual activity report of Kuveyt Türk Katılım Bankası A.Ş. and its consolidated financial affiliates prepared as of December 31, 2014 with the audited financial statements as of and for the same period then ended. The Board of Directors of the Bank is responsible for the annual activity report. As independent auditors, our responsibility is to express an opinion on the audited annual activity report based on the compliance of financial information provided in the annual activity report of the February 23, 2015 with the audited financial statements and explanatory notes.

The audit was made in conformity with; (i) the procedures and principles - that entered into force as per the Banking Law n.5411 and 6102 Turkish Code of Commerce n.6102 - on preparing and issuing annual reports, and (ii) the Independent Audit Standards stipulated in the Turkish Audit Standards issued by the Public Oversight Accounting And Auditing Standards Authority, and (iii) the regulations on independent audit standards stipulated in the 397<sup>th</sup> Article of the Turkish Code of Commerce n.6102.

Those standards require that we plan and perform our audit to obtain reasonable assurance whether the annual activity report is free from material misstatement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial information provided in the accompanying annual activity report presents fairly, in all material respects, the financial information regarding the financial position of Kuveyt Türk Katılım Bankası A.Ş. as of December 31, 2014 in accordance with the prevailing accounting principles and standards set out as per the Article 40 of the Banking Act No: 5411 and TCC. The financial information provided in the annual activity report is in compliance with the audited financial statements and explanatory notes, and also includes the summary management report and our audit opinion on these financial statements.

## Other Liabilities Arising From the Legislation

As per the 3<sup>rd</sup> paragraph of the 402<sup>nd</sup> Article of the Turkish Code of Commerce; we did not encounter any significant issues that must be reported about the Bank's potential inability to continue its activities in the foreseeable future within the framework of BDS 570 "Business Continuity".

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



**Müjde Şehsuvaroğlu, SMMM**

Partner

Istanbul, March 10, 2014

## Review of Audit Committee on Internal Systems

Internal Audit, Internal Control, Risk Management and Compliance units constitute the internal systems of the Bank. In the Bank's organizational structure, these units are established to report to the Board. The Board delegated its duties and responsibilities regarding internal systems to the Internal Systems Committee which consists of 4 members of the Board, as responsible for internal systems. The concerned units carry out their activities under the supervision and coordination of the Internal Systems Committee.

Global economic conjecture and the developments in social and commercial life in our country, the concepts Risk, Control and Compliance remain to be the areas which require special emphasis. In that regard, the units forming internal systems carried out their 2014 activities as part of banking functions.

Internal Audit Department has carried out its activities in 2014 in line with the requirements of business plan and expectations of stakeholders. These activities has involved special examinations, legal/administrative investigations and consultancy in the required circumstances and fields. In the scope of Management Declaration Audit, a comprehensive assessment of general information system controls and business controls with regard to their efficiency, adequacy and compliance has been conducted. These assessments has provided a sound basis for the Management Declaration, which should be submitted to Independent Supervision Agency by Board of Directors in line with the legal regulations.

The activities of Internal Audit Department had been evaluated by Independent Quality Assurance Review in 2014 and the conformance of the department to International Internal Auditing Standards was certified.

The Internal Control Department is in charge of the internal control function within the Bank. In line with the Bank's strategic targets and policies and in accordance with the internal/external regulations and international standards, Internal Control Department organized its activities into three different groups: "On-site Controlling and Monitoring Activities", "Central Controlling and Monitoring Activities", "Information Systems and Coordination of External Audit". Designed to support specialization on the basis of business lines, this realignment increased the efficiency, proficiency and compliance of operations and control systems through continuous controls. Within the scope of 2014 Control Program, the Bank's various business lines, units, branches, processes, new products, services and analyses documents were continuously analyzed, monitored and the results were reported to the senior management with a proactive and dynamic approach as well as adapting the materiality criteria and risk-focused approach. Besides, the Internal Control Department actively participated to the Core Banking Transformation Project and in parallel Process Modeling and Analysis Projects conducted in line with the Bank's 2018 strategy. As part of these efforts, the Internal Control Department analyzed processes together with the relevant business units, identified any potential risks to the processes, designed and established controls to counter these risks, contributed to the reducing risks and the creation, development of the internal control environment and systems across the Bank.

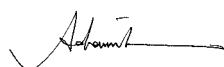
Risk Management department effectively undertook the tasks of identifying, measuring and managing the risks faced by the Bank in 2014. Within the framework of credit risk appetite, sectoral concentration, distribution of loans' legal status, distribution of collateral and their relationship with the loans are monitored separately based on the Bank portfolio and segments limits. In addition, concentration risk, large exposures and country risks were monitored within the limits of the Bank's entire portfolio and reported to the Bank's Audit Committee regularly. Internal rating and scorecard projects, which were started in 2012, are ongoing development for the Basel II Internal Rating Based Approach and better measurement of the risk. First internal scoring model for credit card portfolios was developed in 2014, produced scores were taken into account in the allocation process. Corporate and SME portfolio internal rating / scoring results been reported to the Risk Center since January 2014. Integrated Risk Management Project was initiated. Upon completion of the Project, BRSA Risk Management reports are planned to be produced automatically. Within the scope of the Operational Risk, update and improvement of the processes were continued and the risks related to the processes were revised. Risk Management department actively involved in the works required by the Regulation on the Support Services and the Risk Management Program for the Support Services was updated. Market Risk calculations, monitoring and reporting tasks were carried out, as well. Periodic stress tests and scenario analyzes were conducted. Disaster Recovery Center test was completed successfully in September within the scope of Business Continuity. The risk analysis for the entire projects and applications of the business units in the Bank and information Technologies within the framework of Information Technology Risk were completed in 2014.

Compliance Department conducts activities in order to ensure that compliance risk is effectively managed and kept under control, the risks are prevented before realization and Bank's operations are continuously carried out accordingly and in compliance with the relevant legislation and regulations. Changes in regulations concerning Bank's activities are continuously monitored, effects of these changes are identified, relevant units are informed and update of the Bank's practices as anticipated by these changes are facilitated.

Questions of Head Office units and branches regarding regulations are answered, actively participated in process of designing banking products in compliance with the regulations by providing views and suggestions. "Compliance Control" activities are carried out to make sure that all activities and products that are currently provided or in development are monitored for compliance with Banking Law and other relevant regulations, Bank policies, rules and Banking practices.

A minimum of one personnel in each foreign branch and consolidated subsidiary has been assigned to control compliance with local regulations and they are expected to provide periodical reports regarding their compliance activities.

Efforts to ensure compliance of Bank's activities with the anti-money laundering and combating the finance of terrorism regulations are carried out, risk management, monitoring and control activities are effectively performed and identification, follow-up and reporting of suspicious activities to the official authority are performed. Training programs for increasing awareness and knowledge of the employees regarding relevant regulations are organized. Kuveyt Türk Participation Bank has been selected as number one by the Financial Crimes Investigation Board among banks of its scale as well as among all banks in Turkey regarding anti-money laundering and countering terrorism financing activities.



**Adnan ERTEM**  
Audit Committee Chairman



**Mohammad Shujauddin AHMED**  
Audit Committee Member



**Ahmad S. AL KHARJI**  
Audit Committee Member

## Assessment of Financial Position, Profitability and Debt Servicing Capacity

As of year-end 2014, Kuveyt Türk Katılım Bankası increased its total assets by 32% to TL 33,7 billion and its shareholders' equity by 34% to TL 3.2 billion. Accordingly, the Bank's capital adequacy ratio stood at 15.21%, above the legally required limit. The Bank continues to use its resources effectively and productively and to increase its profit. Detailed information on the Bank's financial position, profitability and debt servicing capacity can be found in the financial statements and independent auditor's report section.

## Ratings of Kuveyt Türk by International Rating Agencies

The ratings issued by international rating agencies that were authorized in accordance with the Regulation on the Principles Regarding the Authorization and the Activities of Rating Agencies, and their content, are presented below.

### Fitch Ratings

Foreign Currency		National	
Long-Term	BBB	Long-Term	AAA (tur)
Short-Term	F3	General Outlook	Stable
General Outlook	Stable	Individual	WD
		Support	2
Local Currency		Country Risk	
Long-Term	BBB+	Foreign Currency Long-Term	BBB-
Short-Term	F2	Local Currency Long-Term	BBB
General Outlook	Stable	General Outlook	Stable
		Country Limit	BBB

## Information on Risk Management Policies

### CREDIT RISK MANAGEMENT POLICIES AND PROCEDURES

The fundamental objectives of Kuveyt Türk's credit risk policy is to measure the counterparty risks assumed in the course of credit transactions, to monitor risk within the framework of legal and Bank limits, to research new techniques and practices in measuring and controlling risks, to monitor overdue receivables, to analyze reasons for such payment delays and to take the necessary measures. Practices concerning the management of concentration risk, national risk and transfer risk are also governed by the Credit Risk Policy.

In accordance with the CRD/Basel II document and the recommendations of the Banking Regulation and Supervision Agency of Turkey, the fundamental principle for the Bank's senior management is to administer and oversee credit policies. The Risk Management Department works in conjunction with the Bank's senior management to set these strategies.

The Credit Risk Policy in general encompasses guidance and explanatory information on enforcement and procedures regarding target customer selection, authority of extending and disbursing loans, transfer of authority, the organizational structure of the Credit Committee, credit limits, provisions and collaterals, principles of allocating limits, risk monitoring, control and improvement, risk analysis of new products, key risk points and risk mitigation measures for risk points.

### MARKET RISK MANAGEMENT POLICIES AND PROCEDURES

Risk management at Kuveyt Türk is conducted in compliance with applicable legislation and falls under the responsibility of the Board of Directors. To this end, activities to manage market risk have been aligned with the applicable legislation.

Senior management is in charge of fulfilling the risk management strategy, policies and implementation principles approved by the Board of Directors, offering timely and reliable reports to the Board with regard to the critical risks facing the Bank, evaluating risk reports, taking precautions as necessary, and participating in setting risk limits.

The risk policies and implementation principles related to the market risk that the Bank faces have been approved by the Board of Directors and are regularly reviewed. Market risk is managed by identifying, measuring, limiting and reporting the risks that the Bank may be subject to due market conditions, reserving capital for this purpose, and taking preventive measures.

The fundamental objective of the Market Risk Policy is to identify processes for defining the risks that the Bank may face due to market conditions, as well as to determine, measure, monitor and report market risk. The Market Risk Policy governs the establishment of written limits for the quantifiable risks that arise from the Bank's market risk-prone activities, monitoring the risks and risks limits assumed by the Bank, and identification of any limit breaches. It is crucial for transactions to remain within the set limits and for limits to be identified with due consideration of the Bank's risk tolerance. The acceptable risk level of treasury transactions is defined in terms of customer limits, trading limits, authorized transactions, counterparty limits and country risks. This policy also establishes the monitoring and control procedures necessary for overseeing compliance with legislation and for avoidance of unacceptable situations.

It is essential for limits to be determined on the basis of risks. These limits can consist of nominal values expressed in monetary terms, percentages of average value at risk, proportional limits based on risk measurement results such as the percentage of risky assets, or concentration limits such as sector-specific or borrower-specific limitations. The risk limits to be set cannot exceed the limits and boundaries indicated in the applicable legislation. Risk limits are allocated for different risk categories accepted by the Bank, in accordance with the principle of materiality. In addition, the Board of Directors sets early warning limits and identifies procedures to be enforced in case these limits are exceeded.

The system of guiding limits and informational reporting system used by Kuveyt Türk to manage market risks is based on the following principles:

- Ensuring that the risk management concept works in practice,
- Ensuring that risk-taking activities are compatible with the Bank's risk-taking capability and capacity,
- Ensuring that levels of risk are managed consistent with both the markets where risks are taken and with the Bank's risk-taking capacities.

## Information on Risk Management Policies

### OPERATIONAL RISK MANAGEMENT POLICIES AND PROCEDURES

The definition, assessment, control and reduction of the operational risk that the Bank is subject to are performed under the supervision of the Board of Directors and the Internal Systems Committee.

The policies and implementation principles that pertain to operational risk management as well as professional training programs and efficient internal control mechanisms ensure that business units have a sound risk management approach, and an advanced operational risk management culture. Each unit and every employee needs to be fully aware of their activity, role, authority and responsibilities in the operational risk management scheme.

Efforts are expended to address each type of operational risk that the Bank is subject to, the quality of preventive measures and risk reduction activities are checked to ensure that problems are identified before the Bank incurs significant losses. Incidents of operational risk that exceed the set threshold value and detailed information about said incidents are recorded. Meanwhile, the Bank carries out Risk Control Matrix activities to identify potential operational risks.

## Five-Year Summary Financial Information\*

Summary Financial Highlights (TL thousand)	2010	2011	2012	2013	2014
Profit sharing income	639,251	882,153	1,182,236	1,332,063	1,897,864
Profit sharing expense	318,096	437,367	610,562	548,888	815,583
Net fee and commission income	140,051	172,813	220,518	240,477	267,934
Other income	110,200	126,628	136,723	234,655	193,929
Other expenses	361,578	466,576	606,690	824,902	986,404
Tax charge	41,576	49,731	59,997	72,230	99,704
Net profit for the period	168,252	227,920	262,228	361,175	458,036
Total assets	9,594,265	14,540,661	18,596,049	25,602,525	33,750,746
Total shareholders' equity	1,275,766	1,471,716	1,728,337	2,418,506	3,236,703
Capital adequacy ratio (%)	17.05	16.28	14.16	14.43	15.21

\* IFRS Consolidated Figures.



**KUVEYT TÜR K KATILIM BANKASI  
ANONİM ŐİRKETİ AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2014**



## Table of contents

	<b>Page</b>
Independent auditors' report	103
Consolidated statement of financial position	104
Consolidated statement of comprehensive income	105
Consolidated statement of changes in equity	106
Consolidated statement of cash flows	107
Notes to consolidated financial statements	108-172



## Independent Auditor's Report

To the Board of Directors of  
Kuveyt Türk Katılım Bankası A.Ş.  
İstanbul

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi (the "Bank") and its subsidiaries together (the Group), which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

*DRT Bağımsız Denetim ve ŞMMM A.Ş.*

İstanbul,  
May 15, 2015

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira-TL)

	Notes	December 31, 2014	December 31, 2013
<b>Assets</b>			
Cash and balances with the Central Bank	4	1,127,568	858,686
Balances with other banks and financial institutions	4	3,218,932	2,715,572
Reserve deposits at the Central Bank	5	4,155,609	2,988,091
Financial assets - held for trading	6	48,095	115,936
<i>Derivative financial instruments</i>	20	43,115	108,739
<i>Share Certificates</i>		181	181
<i>Gold Fund</i>		4,799	7,016
Financial assets - available-for-sale	6	2,203,127	1,323,516
Due from financing activities, net	7	19,978,321	15,929,143
Minimum finance lease payments receivable, net	8	710,852	400,766
Precious metals		1,301,466	466,834
Construction projects, net	10	50,020	46,244
Joint ventures		6,306	5,064
Investment properties, net	11	26,136	20,815
Property and equipment, net	13	377,753	321,179
Intangible assets, net	14	70,331	55,775
Deferred tax assets	17	43,953	32,307
Other assets	9	406,269	294,651
		<b>33,724,738</b>	25,574,579
Assets and a disposal group held for sale	12	26,008	27,946
<b>Total assets</b>		<b>33,750,746</b>	25,602,525
<b>Liabilities and equity</b>			
Due to other financial institutions and banks	15	4,399,347	4,040,526
Sukuk securities issued	15	2,193,590	905,841
Subordinated loans	15	464,592	433,080
Money market balances		708,743	221,428
Current and profit/loss sharing investors' accounts	16	22,215,843	17,079,036
Derivative financial instruments	20	25,885	58,948
Employee benefit obligations	18	92,856	66,943
Income taxes payable	17	32,315	20,096
Other liabilities and provisions	19	380,872	358,121
<b>Total liabilities</b>		<b>30,514,043</b>	23,184,019
Share capital	21	2,287,005	1,700,000
Share premium	21	23,250	23,250
Available for sale investments reserve, net of tax		21,069	2,025
Employee termination benefits reserve, net of tax	18	(17,437)	(12,276)
Legal reserves and retained earnings	22	921,312	713,655
Currency translation differences		22,410	14,441
Other reserve	22	(22,123)	(22,589)
Non-controlling interest		1,217	-
<b>Total equity attributable to equity holders of the parent</b>		<b>3,236,703</b>	2,418,506
<b>Total liabilities and equity</b>		<b>33,750,746</b>	25,602,525

The policies and explanatory notes are an integral part of these consolidated financial statements.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira-TL)

	Notes	2014	2013
<b>Income from financing activities:</b>			
Profit on originated loans from profit/loss sharing accounts		873,316	629,650
Profit on originated loans from current accounts and equity		971,439	668,840
Profit on deposits with other banks and financial institutions		9,952	11,307
Profit on finance leases		43,157	22,266
<b>Total income from financing activities</b>		<b>1,897,864</b>	<b>1,332,063</b>
Profit shares distributed to participation accounts		(570,009)	(393,232)
Profit shares distributed to other banks and financial institutions		(245,574)	(155,656)
<b>Net financing income</b>		<b>1,082,281</b>	<b>783,175</b>
Provision for impairment of amounts due from financing activities and lease receivables	7,8	(182,272)	(185,601)
<b>Net financing income after provision for impairment in due from financing activities and lease receivables</b>		<b>900,009</b>	<b>597,574</b>
Foreign exchange gain, net		119,892	133,051
<b>Net financing income after net foreign exchange gain/(loss)</b>		<b>1,019,901</b>	<b>730,625</b>
Fees and commission income	25	367,754	318,401
Net trading income		27,764	39,200
Other income		46,273	62,404
<b>Total other operating income</b>		<b>441,791</b>	<b>420,005</b>
Fees and commission expense	25	(99,820)	(77,924)
Staff costs	26	(438,790)	(339,846)
Depreciation and amortization expense		(52,781)	(39,950)
Withholdings and other taxes		(28,509)	(26,670)
Rent expense		(73,109)	(59,739)
Other expenses	27	(207,185)	(172,660)
Share of (loss) of a joint venture		(3,758)	(436)
<b>Total other operating expense</b>		<b>(903,952)</b>	<b>(717,225)</b>
<b>Income before taxation</b>		<b>557,740</b>	<b>433,405</b>
Current tax charge	17	(114,821)	(73,153)
Deferred tax (charge)/credit	17	15,117	923
<b>Net income for the year</b>		<b>458,036</b>	<b>361,175</b>
<b>Attributable to:</b>			
-Owners of the equity		458,104	361,175
-Non-controlling interests		(68)	-
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of the foreign subsidiary		7,969	11,325
Available-for-sale investments reserve		19,044	(11,183)
-Net change in fair value		23,805	(13,979)
-Deferred tax relating to component of other comprehensive income		(4,761)	2,796
<b>Items that will not be reclassified to profit or loss</b>			
Employee termination benefits reserve		(5,161)	(12,276)
-Net change in fair value		(6,451)	(15,345)
-Deferred tax relating to component of other comprehensive income		1,290	3,069
<b>Other comprehensive income for the year</b>		<b>21,852</b>	<b>(12,134)</b>
<b>Total comprehensive income for the year</b>		<b>479,888</b>	<b>349,041</b>
<b>Attributable to:</b>			
-Owners of the equity		479,956	349,041
-Non-controlling interests		(68)	-
<b>Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)</b>	23	<b>0.229</b>	<b>0.256</b>

The policies and explanatory notes are an integral part of these consolidated financial statements.

## KUYEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira-TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	Available- for-sale investments reserve	Employee termination benefits reserve	Currency Translation Differences	Non- Controlling Interest	Total
Balances at January 1, 2013	1,100,000	23,250	46,405	564,947	(22,589)	13,208	-	3,116	-	1,728,337
Share capital increase	600,000	-	-	(240,000)	-	-	-	-	-	360,000
from retained earnings	240,000	-	-	(240,000)	-	-	-	-	-	-
cash injection	360,000	-	-	-	-	-	-	-	-	360,000
Transfer from retained earnings to legal reserves	-	-	14,395	(14,395)	-	-	-	-	-	-
Dividends paid	-	-	-	(18,872)	-	-	-	-	-	(18,872)
Total comprehensive income for the year	-	-	-	361,175	-	(11,183)	(12,276)	11,325	-	349,041
<b>Balances at December 31, 2013</b>	<b>1,700,000</b>	<b>23,250</b>	<b>60,800</b>	<b>652,855</b>	<b>(22,589)</b>	<b>2,025</b>	<b>(12,276)</b>	<b>14,441</b>	<b>-</b>	<b>2,418,506</b>
Share capital increase	587,005	-	-	(230,000)	-	-	-	-	-	357,005
from retained earnings	230,000	-	-	(230,000)	-	-	-	-	-	-
cash injection	357,005	-	-	-	-	-	-	-	-	357,005
Transfer from retained earnings to legal reserves	-	-	17,069	(17,069)	-	-	-	-	-	-
Dividends paid	-	-	-	(20,517)	-	-	-	-	-	(20,517)
Total comprehensive income for the year	-	-	-	458,104	-	19,044	(5,161)	7,969	(68)	479,888
Non-controlling interest	-	-	-	70	466	-	-	-	1,285	1,821
<b>Balances at December 31, 2014</b>	<b>2,287,005</b>	<b>23,250</b>	<b>77,869</b>	<b>843,443</b>	<b>(22,123)</b>	<b>21,069</b>	<b>(17,437)</b>	<b>22,410</b>	<b>1,217</b>	<b>3,236,703</b>

The policies and explanatory notes are an integral part of these consolidated financial statements.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS

#### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira-TL unless otherwise indicated)

	Notes	2014	2013
<b>Cash flows from operating activities:</b>			
Income from continuing operations before taxation		557,740	433,405
Share of loss of a joint venture		3,758	436
Depreciation and amortization	11, 13, 14	52,781	39,950
Provision for employee termination benefits	18	8,040	5,080
Provision for personnel bonus accrual	18	48,600	36,700
Provision for impairment in due from financing activities and lease receivables	7, 8	182,272	185,601
Income accrual of funds invested		(107,062)	(29,572)
Reversal of impairment in investment property	10	229	-
Deferred income		(20,845)	(13,871)
Expense accrual of participation accounts		9,242	10,184
Expense and foreign exchange accrual of funds borrowed		132,741	(55,468)
Net change in derivative financial instruments	20	32,561	(26,296)
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		(17,824)	(12,120)
Operating income before changes in operating assets and liabilities		882,233	574,029
Net changes in:			
Reserve deposits at the Central Bank of Turkey		(1,167,518)	(1,134,442)
Due from financing activities		(4,151,953)	(4,495,506)
Minimum finance lease payments receivables		(310,390)	(224,192)
Other assets and construction projects		(123,790)	(82,687)
Current accounts and profit/loss sharing investors' accounts		3,598,497	3,867,924
Other liabilities		58,338	(191,840)
Payment for employee termination benefits	18	(2,818)	(1,984)
Payment for personnel bonuses	18	(36,700)	(28,000)
Precious metals		(834,632)	1,188,964
Income taxes paid		(102,602)	(96,443)
Net cash used in operating activities		(2,191,335)	(624,177)
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	(1,217,638)	(756,638)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	382,820	-
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(283,882)	(163,209)
Proceeds from sale of property and equipment, intangible assets and investment properties		150,936	22,014
Capital increase in investment in associates		(5,000)	(5,500)
Proceeds from sale of asset and liabilities held for sale		19,241	18,897
Net cash used in investing activities		(953,523)	(884,436)
Cash flows from financing activities:			
Dividends paid	21	(20,517)	(18,872)
Increase in due to financial institutions and banks		876,206	1,985,331
Sukuk securities issued		1,356,450	150,000
Sukuk securities redeemed		(200,000)	-
Increase in share capital		357,005	360,000
Transactions with non-controlling interest		1,821	-
Net cash provided by financing activities		2,370,965	2,476,459
Net increase in cash and cash equivalents		(773,893)	967,846
Net foreign exchange difference on cash and cash equivalents		17,067	69,953
<b>Cash and cash equivalents at the beginning of the year</b>	4	<b>2,844,735</b>	<b>1,806,936</b>

The policies and explanatory notes are an integral part of these consolidated financial statements.

# KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

#### 1. Corporate information

##### General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on April 15, 2013. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

##### Nature of activities of the Bank and its subsidiaries

At December 31, 2014, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has 97.3% shareholding was incorporated in June 1996 in Turkey. On 29 December 2011 Körfez completed its conversion to real estate investment trust company and registered as 'Körfez Gayrimenkul Yatırım Ortaklığı Anonim Şirketi. It has been publicly traded since 25 April 2014 and consolidated since 30 June 2014. Above figures are shown per financial statements prepared in accordance with Capital Markets Board Law. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects.

The Bank's other subsidiary, Körfez Tatil Beldesi A.Ş. ("Körfez Tatil Beldesi"), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 199 "time-sharing" houses in Edremit-Balıkesir.

The Bank's other subsidiary, KT Sukuk Varlık Kiralama A.Ş. has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities amounting to USD 350,000,000.

The Bank's other subsidiary, KT Kira Sertifikaları Varlık Kiralama A.Ş. has been established on September 9, 2013 in Turkey in order to issue Sukuk Securities amounting to TL 150,000,000.

The Bank's other subsidiary, Kuveyt Turkish Participation Bank Dubai Limited. ("Dubai Limited"), in which the Bank has a 100% shareholding was incorporated in 2009 in Dubai, UAE. Dubai Limited is engaged in interest-free banking as a participation bank.

#### 2. Summary of significant accounting policies

The Bank bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı on September 23, 2011, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Afterwards the Bank has transferred 8% of the joint venture shares, amounting to TL 7,229, to Körfez in exchange of release of its debt to Körfez İnşaat İş Ortaklığı amounting to TL 6,701 and for a cash consideration amounting to TL 528. The Bank has transferred the remaining 17% equity stake in Körfez İnşaat İş Ortaklığı to Körfez on September 23, 2011 for an amount of TL 15,361.

### Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale investments and loans which are designated at fair value through profit or loss.

The consolidated financial statements are presented in Turkish Lira (“TL”) and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter (“OTC”) derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

### Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements

None.

### New and Revised IFRSs applied with no material effect on the consolidated financial statements

Amendments to IFRS 10, 11, IAS 27  
Amendments to IAS 32  
Amendments to IAS 36  
Amendments to IAS 39  
IFRIC 21

*Investment Entities<sup>1</sup>*  
*Offsetting Financial Assets and Financial Liabilities<sup>1</sup>*  
*Recoverable Amount Disclosures for Non-Financial Assets<sup>1</sup>*  
*Novation of Derivatives and Continuation of Hedge Accounting<sup>1</sup>*  
*Levies<sup>1</sup>*

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

# KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### Amendments to IFRS 10, 11, IAS 27 *Investment Entities*

This amendment with the additional provisions of IFRS 10 provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss.

#### Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

#### Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

As a consequence of IFRS 13 Fair Value Measurements, there are amendments in the explanations about the measurement of the recoverable amount of an impaired asset. This amendment is limited to non-financial assets and paragraphs 130 and 134 of IAS 36 has been changed.

#### Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

This amendment to IAS 39 makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

#### IFRIC 21 *Levies*

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	<i>Financial Instruments</i> <sup>5</sup>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
Annual Improvements to 2010-2012 Cycle	<i>IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38, IAS 24</i> <sup>1</sup>
Annual Improvements to 2011-2013 Cycle	<i>IFRS 1, IFRS 3, IFRS 13, IAS 40</i> <sup>1</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint operations</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>2</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>4</sup>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>2</sup>
Amendments to IAS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 9, IAS 34</i> <sup>3</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>2</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2016.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018.



# KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

#### Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

#### Annual Improvements to 2010-2012 Cycle

**IFRS 2:** Amends the definitions of ‘vesting condition’ and ‘market condition’ and adds definitions for ‘performance condition’ and ‘service condition’

**IFRS 3:** Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

**IFRS 8:** Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

**IFRS 13:** Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

**IAS 16 and IAS 38:** Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

**IAS 24:** Clarify how payments to entities providing management services are to be disclosed.

#### Annual Improvements to 2011-2013 Cycle

**IFRS 1:** Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).

**IFRS 3:** Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

**IFRS 13:** Clarify the scope of the portfolio exception in paragraph 52.

**IAS 40:** Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

### **Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint operations**

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

### **Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

### **Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

This amendment include "bearer plants" within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when the entity satisfies a performance obligation.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Amendments to IAS 27 *Equity Method in Separate Financial Statements***

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

#### **Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

#### **Annual Improvements 2012-2014 Cycle**

**IFRS 5:** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

**IFRS 7:** Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

**IAS 9:** Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

**IAS 34:** Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

#### **Amendments to IAS 1 *Disclosure Initiative***

This amendment addresses perceived impediments to preparers exercising their judgement in presenting their financial reports.

#### **Amendments to IFRS 10, 11, IAS 28 *Investment Entities: Applying the Consolidation Exception***

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The Group evaluates the effects of these standards on the consolidated financial statements.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

**Deferred taxes:** Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

**Fair value of financial instruments:** Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives.

### **Functional and presentation currency**

The functional currency of the Bank and its subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of Dubai Ltd is US Dollar. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2014 and 2013 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

### **Consolidation of subsidiaries**

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2014 and 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2014 and 2013, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal is recognized in the consolidated income statement as net income/(loss) after tax for the year from a discontinued operation.

Upon loss of control, the Bank accounts for the investment retained at its proportionate share of net asset value at the date the control is lost.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material balances and transactions between the Bank and its subsidiaries are eliminated in the consolidated financial statements.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

Details of the subsidiaries subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	December 31, 2014	Effective shareholding
			by the Bank (%) December 31, 2013
"Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."	Turkey	97.3%	100%
"Körfez Tatil Beldesi San. ve Tic. A.Ş."	Turkey	100%	100%
"KTPB Dubai Limited"	U.A.E.	100%	100%
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	100%	100%
"KT Kira Sertifikaları Varlık Kiralama A.Ş."	Turkey	100%	100%

### Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD/TL	EUR/TL
December 31, 2013	2.13	2.94
December 31, 2014	2.32	2.82

### Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL 2.186 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

#### Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3-6.67 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period/year the asset is derecognized.

### Construction projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

### Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years. Land is not depreciated.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

### Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Impairment of non-financial assets**

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

#### **Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables), held to maturity and available-for-sale financial assets. The Group determines the classification of its financial assets at initial recognition.

All investments are initially recognized at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading, the change in value is recognized through profit and loss.

#### **Available-for-sale financial assets**

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment. For investments that are actively traded in organized financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealized gains and losses are recognized directly in other comprehensive income under equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Profit share earned while holding investment securities is reported as profit share income.

#### **Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realized and unrealized gains or losses are recognized in income.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### ***Held to maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective yield method. Gains or losses are recognized in profit or loss when the investments are derecognized as impaired, as well as through the amortization process.

### ***Due from financing activities, net***

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as “due from financing activities” and are carried at amortized cost using the effective profit rate. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs, and all other premiums or discounts. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective profit rate of the instrument.

All credits and advances are recognized when cash is advanced to borrowers.

### ***Precious metal accounts***

Gold transactions are accounted under “precious metal depot account” and valuation is performed with the current ounce of gold prices in the market.

### ***Derivative financial instruments***

The Bank enters into transactions with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under the Group’s risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39 “Financial Instruments: Recognition and Measurement”, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at fair value on the date which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement, which are recognized in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis. Fair value of forward and swap contracts are determined based on the comparison of the original forward rate calculated by market interest rates of the related currency for the remaining maturity. Each derivative transaction is carried as asset when the fair value is positive and as liability when the fair value is negative.

### ***Embedded derivatives***

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

### ***Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.



## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Derecognition of financial instruments**

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the income statement in the year of acquisition. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In business combinations from 1 January 2010, if the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date through profit or loss. Furthermore any acquisition costs incurred are expensed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

### Impairment of financial assets

#### *a) Assets carried at amortized cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - (i) adverse changes in the payment status of borrowers; or
  - (ii) national or local economic conditions that correlate with defaults on the assets of the Group.

If there is objective evidence that an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows includes the realization of collateral when appropriate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in “other income” in the income statement.

The Bank’s accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank’s equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

#### *b) Available for sale financial assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

#### *c) Available-for-sale financial assets carried at fair value*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment regarding equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

#### *d) Renegotiated financing and leasing receivables*

Where possible, the Bank seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. The Bank does not offer a deduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

#### **Current accounts and profit/loss sharing investors’ accounts**

Current accounts and profit/loss sharing investors’ accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit/loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors’ accounts that result from financing transactions are distributed among such accounts according to each party’s contribution to the financing investment.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Due to other financial institutions and banks**

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

#### **Employee benefits**

The Group has both defined benefit and defined contribution plans as described below:

##### **(a) Defined benefit plans:**

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the actuarial valuation by independent actuary. All actuarial gains and losses are recognized in the comprehensive income statement.

##### **(b) Defined contribution plans:**

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

#### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

#### **Leases**

##### **The group as lessee**

##### **Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Finance lease**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

#### **The group as lessor**

##### **Finance lease**

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

##### **Income and expense recognition**

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 75%-90% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

Income earned on available-for-sale equity investments, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

##### **Income tax**

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

### *Deferred tax*

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### *Fiduciary assets*

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### Related parties

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

### Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

### Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### Reclassifications

None.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

#### **3. Segment reporting**

For management purposes, the Group is organized into five business segments:

**Retail Banking** - Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. Segment portfolio comprised of all Turkish individuals that have deposits under TL 1.2 million and loans that are less than TL 750.000 (full amount), and all foreign nationals' loans that are less than TL 500.000 (full amount).

**Small Business Banking** - Principally handling loans and other credit facilities and current, saving and investment accounts for small and medium sized enterprises. Segment portfolio comprised of all businesses that have annual sales turnover up to TL 5 million full amount and their owners.

**Commercial Banking** - Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. Segment portfolio comprised of all businesses that have annual sales turnover between TL 5 million-TL 150 million and their individual owners.

**Corporate Banking** - Principally handling loans and other credit facilities and current, saving and investment accounts for all corporate customers. Segment portfolio comprised of all businesses that have annual sales turnover more than TL 150,000,000 (full amount) and their individual owners.

**Treasury International & Investment Banking** - Principally handling foreign relations with respect to receiving syndication loans, interest free investment instruments and carrying relations with correspondent banks.

The Group's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in the year 2014 or 2013.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a group basis and are not allocated to operating segments.

At the current period the Group has changed the structure of its internal organization in a manner that has also changed the composition of its reportable segments. The Management has decided not to restate the previous period disclosure based on the explanation as per IFRS 8 paragraph 29 and 30 and presented to current period segment information on both old basis and the new basis.



# KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

#### 3. Segment reporting

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2014 and 2013, respectively.

For the period ended December 31st, 2014	Treasury, International Banking & Investment Banking					Reconciliation	Notes	Grand Total
	Retail Banking	üSME Banking	Commercial Banking	Corporate Banking	International Banking			
Income from financing activities & sukuk	328,476	424,245	829,301	178,862	137,638	1,898,522	-	1,898,522
Intersegment income (*)	520,045	(153,349)	(336,584)	(72,683)	41,913	(658)	-	(658)
<b>Total financing income</b>	<b>848,521</b>	<b>270,896</b>	<b>492,717</b>	<b>106,179</b>	<b>179,551</b>	<b>1,897,864</b>	<b>-</b>	<b>1,897,864</b>
Profit shares distributed (**)	(480,798)	(46,022)	(98,260)	(25,768)	(249,728)	(900,576)	16,891 (a, b)	(883,685)
Credit loss expense	(6,170)	(31,051)	(74,738)	(2,211)	-	(114,170)	-	(114,170)
<b>Net financing income</b>	<b>361,553</b>	<b>193,823</b>	<b>319,719</b>	<b>78,200</b>	<b>(70,177)</b>	<b>883,118</b>	<b>16,891</b>	<b>900,009</b>
Foreign exchange gain/loss, net	15,956	16,140	52,970	3,102	1,567	89,735	30,157 (b)	119,892
Net trading income	-	-	-	-	27,764	27,764	-	27,764
Net fees & commission and other income	83,184	70,784	143,677	34,106	3,749	335,500	(19,182) (b)	314,207
Other expenses	(288,246)	(127,611)	(293,521)	(31,055)	(36,452)	(776,885)	(27,247) (a, b)	(804,132)
<b>Segment profit/(loss)</b>	<b>172,447</b>	<b>153,136</b>	<b>222,845</b>	<b>84,353</b>	<b>(73,549)</b>	<b>559,232</b>	<b>(1,492)</b>	<b>557,740</b>
Tax expenses	-	-	-	-	-	-	(99,704) (c)	(99,704)
<b>Net profit for the year</b>	<b>172,447</b>	<b>153,136</b>	<b>222,845</b>	<b>84,353</b>	<b>(73,549)</b>	<b>559,232</b>	<b>(101,196)</b>	<b>458,036</b>
<b>Segment Assets</b>	<b>4,507,793</b>	<b>4,099,487</b>	<b>11,662,161</b>	<b>2,228,546</b>	<b>11,257,158</b>	<b>33,750,746</b>	<b>-</b>	<b>33,750,746</b>
<b>Segment Liabilities &amp; Equity</b>	<b>15,119,728</b>	<b>2,444,620</b>	<b>4,420,443</b>	<b>901,104</b>	<b>7,628,148</b>	<b>30,514,043</b>	<b>3,236,703</b>	<b>(d) 33,750,746</b>

a) The difference resulted from the Insurance Fund Premium expenses which included in this line in the performance reports but in the financials it is included in Other Expenses and classification to Foreign exchange gain/(loss) in the performance reports.

b) In the performance reports some of the income and expense items related to precious metal, FX trading, fees and other incomes and other expenses treated in different ways than they are reported in the financials. So there are crossings in these income and expense items.

c) Since the tax is calculated on bank's total profit/loss the tax amount is not included in the performance of segments.

d) Total equity is not allocated to the segments it is kept in the head office.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

For the year ended December 31, 2014	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<b>Revenue</b>					
Third party	752,721	1,008,163	137,638	-	1,898,522
Intersegment (*)	366,697	(409,268)	41,913	-	(658)
Total operating income	1,119,418	598,895	179,551	-	1,897,864
Credit loss expense	(37,222)	(76,948)	-	-	(114,170)
<b>Net operating income</b>	1,082,196	521,947	179,551	-	1,783,694
<b>Results</b>					
Net profit share income/(expense)	555,376	397,918	(70,176)	16,891	900,009
Net fees and commission income	186,065	233,855	5,316	8,863	434,099
Net trading income	-	-	27,764	-	27,764
<b>Segment profit/(loss)</b>	741,441	631,773	(37,096)	(778,378)	557,740
Income tax expense	-	-	-	(99,704)	(99,704)
<b>Net profit for the year</b>	741,441	631,773	(37,096)	(878,082)	458,036
<b>Asset and liabilities as of December 31, 2014</b>					
<b>Assets</b>					
Capital expenditures					
Property and equipment	-	-	-	121,649	121,649
Intangible assets	-	-	-	32,081	32,081
Depreciation and amortization	-	-	-	(52,781)	(52,781)
<b>Total assets</b>	<b>8,607,280</b>	<b>13,890,707</b>	<b>11,252,759</b>	-	<b>33,750,746</b>
<b>Total liabilities &amp; Equity</b>	<b>17,564,348</b>	<b>5,321,547</b>	<b>7,628,148</b>	3,236,703	<b>33,750,746</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

For the year ended December 31, 2013	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<b>Revenue</b>					
Third party	321,277	853,591	21,056	-	<b>1,195,925</b>
Intersegment (*)	231,803	(202,790)	(29,013)	-	-
Total operating income	553,080	650,801	(7,957)	-	<b>1,195,925</b>
Credit loss expense	(70,347)	(36,145)	(16,727)	-	<b>(123,219)</b>
<b>Net operating income</b>	<b>482,733</b>	<b>614,656</b>	<b>(24,684)</b>	-	<b>1,072,706</b>
<b>Results</b>					
Net profit share income/(expense)	189,682	569,961	(38,850)	-	<b>720,793</b>
Net fees and commission income	62,382	179,349	(1,254)	-	<b>240,477</b>
Net trading income	485	9,594	29,121	-	<b>39,200</b>
<b>Segment profit/(loss)</b>	<b>252,549</b>	<b>758,904</b>	<b>(10,983)</b>	<b>(567,065)</b>	<b>433,405</b>
Income tax expense	-	-	-	(72,230)	<b>(72,230)</b>
<b>Net profit for the year</b>	<b>252,549</b>	<b>758,904</b>	<b>(10,983)</b>	<b>(639,295)</b>	<b>361,175</b>
<b>Asset and liabilities as of December 31, 2013</b>					
<b>Assets</b>					
Capital expenditures					
Property and equipment	-	-	-	163,209	<b>163,209</b>
Intangible assets	-	-	-	40,069	<b>40,069</b>
Depreciation and amortization	-	-	-	(39,950)	<b>(39,950)</b>
<b>Total assets</b>	<b>5,266,657</b>	<b>9,716,138</b>	<b>9,884,518</b>	<b>735,212</b>	<b>25,602,525</b>
<b>Total liabilities &amp; Equity</b>	<b>12,095,960</b>	<b>4,733,518</b>	<b>5,641,498</b>	<b>3,131,549</b>	<b>25,602,525</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 4. Cash and balances with banks

	December 31, 2014	December 31, 2013
Cash on hand	839,819	703,663
Balances with the Central Bank of Turkey	287,749	155,023
<b>Cash and balances with the Central Bank of Turkey</b>	<b>1,127,568</b>	858,686
Balances with banks and other financial institutions	3,218,932	2,715,572
<b>Sub Total</b>	<b>4,346,500</b>	3,574,258
Less: Interbank gold deposits	(116,880)	(729,523)
<b>Total</b>	<b>4,229,620</b>	2,844,735

As of December 31, 2014 and 2013, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	2014				2013			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	-	542,401	-	1.48%	98,250	142,998	2.06%	0.44%
<b>Total</b>	<b>542,401</b>				<b>241,248</b>			

### 5. Reserve deposits at the Central Bank of Turkey

	2014		2013	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US\$	1,256,554,832	2,913,825	915,234,035	1,953,384
EUR	110,000,000	310,277	248,624,212	730,085
XAU (gr.)	10,414,881	931,507	3,609,927	304,622
	<b>4,155,609</b>		<b>2,988,091</b>	

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations. The required reserve rates are 11.5% up to 3-months maturity, 8.5% up to 6-month maturity, 6.5% up to 1-year maturity and 5% with 1-year or longer maturity in Turkish Lira and 13% up to 1-year maturity and 9% with 1-year or longer maturity in foreign currency.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 6. Financial assets

#### Available-for-sale

	2014	2013
Unlisted shares (*)	8,692	8,692
Financial Sukuk	2,194,435	1,314,824
<b>Total available-for-sale financial assets</b>	<b>2,203,127</b>	<b>1,323,516</b>

(\*) The breakdown of unlisted shares is as follows:

	Nature of business	2014		2013	
		%	Amount	%	Amount
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.75	4,211	1.75	4,211
Neova Sigorta A.Ş.	Insurance company	6.99	3,752	6.99	3,752
Islamic International Rating Agency (IRA)	Financial institution	8.36	714	8.36	714
Borsa İstanbul A.Ş.	Exchange entity	0.0035	15	0.0035	15
			<b>8,692</b>		<b>8,692</b>

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments.

#### Information on financial assets available-for-sale:

The details of the Rent Certificates which are in Bank's Portfolio "Financial Assets Available for-Sale" are presented below as of 31 December 2014.

a) In addition; the Bank included rent certificates which are presented below and these amounts are classified under "Government debt securities" at the accompanying financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE
XS0831353361	USD	6	T.C. HAZİNE	26/09/2012	26/03/2018	173,890	5.50
XS0975124180	USD	6	T.C. HAZİNE	10/10/2013	10/10/2018	25,691	4.50
XS1141043296	USD	6	T.C. HAZİNE	25/11/2014	25/11/2024	18,551	2.80
TRD170216T17	TRY	6	T.C. HAZİNE	19/02/2014	17/02/2016	385,886	10.60
TRD190815T10	TRY	6	T.C. HAZİNE	21/08/2013	19/08/2015	305,326	9.00
TRD180215T17	TRY	6	T.C. HAZİNE	20/02/2013	18/02/2015	353,331	5.70
TRD180215T17	TRY	6	T.C. HAZİNE	20/02/2013	18/02/2015	984	5.70
TRD280916T17	TRY	6	T.C. HAZİNE	01/10/2014	28/09/2016	469,011	5.30

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

b) The Bank purchased the rent certificates ("sukuk") as details given table below from private entities that are stated under "Other Securities" in given financial statements.

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE
XS1145516198	USD	6	IILMH	28/11/2014	27/02/2015	108,988	2.80
XS1126908596	USD	6	IILMH	23/10/2014	22/01/2015	120,583	2.80
XS1082151868	USD	6	ALBARAKA TURK	30/06/2014	30/06/2019	92,756	6.25

### Held for trading

Financial assets held for trading includes share certificates and B Type Gold Fund listed in the Istanbul Stock Exchange (ISE) amounting to TL 181 and TL 4,799 (December 31, 2013 - TL 181 and TL 7,016) respectively.

The movement in financial assets excluding derivatives may be summarized as follows:

Financial investments	2014		2013	
	Available for sale	Held for trading	Available for sale	Held for trading
At the beginning of the year	1,323,516	7,197	549,316	22,622
Additions	1,239,040	-	740,541	-
Disposals (sale and redemption)	(382,820)	(2,217)	-	(15,425)
Change in fair value	23,391	-	33,659	-
<b>Balance at the end of the year</b>	<b>2,203,127</b>	<b>4,980</b>	<b>1,323,516</b>	<b>7,197</b>

### Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as of December 31, 2014 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets held for trading	<b>4,799</b>	<b>43,115</b>	-	<b>47,914</b>
Forward transactions	-	21,583	-	21,583
Swap transactions	-	21,532	-	21,532
Gold fund	4,799	-	-	4,799
Available-for-sale financial assets	<b>2,149,320</b>	-	-	<b>2,149,320</b>
Government debt securities	1,873,362	-	-	1,873,362
Other marketable securities	275,958	-	-	275,958
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	<b>25,885</b>	-	<b>25,885</b>
Forward transactions	-	14,614	-	14,614
Swap transactions	-	11,271	-	11,271
Prior Period	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets held for trading	<b>7,016</b>	<b>108,739</b>	-	<b>115,755</b>
Forward transactions	-	103,381	-	103,381
Swap transactions	-	5,358	-	5,358
Gold fund	7,016	-	-	7,016
Available-for-sale financial assets	<b>1,272,139</b>	-	-	<b>1,272,139</b>
Government debt securities	1,268,712	-	-	1,268,712
Other marketable securities	3,427	-	-	3,427
Financial liabilities held for trading	-	<b>58,948</b>	-	<b>58,948</b>
Forward transactions	-	32,480	-	32,480
Swap transactions	-	26,468	-	26,468

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 7. Due from financing activities, net

December 31, 2014	Corporate and Commercial	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	15,918,116	367,540	190,174	3,565,407	20,041,237
Past due not impaired	467,248	7,017	4,602	97,766	576,633
Impaired	473,809	14,192	11,179	12,476	511,656
<b>Total gross loans</b>	<b>16,859,173</b>	<b>388,749</b>	<b>205,955</b>	<b>3,675,649</b>	<b>21,129,526</b>
Less: Allowance for impairment on loans	(397,516)	(11,528)	(8,895)	(22,415)	(440,353)
<b>Net loans (*)</b>	<b>16,461,657</b>	<b>377,221</b>	<b>197,060</b>	<b>3,653,234</b>	<b>20,689,173</b>

December 31, 2013	Corporate and Commercial	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	13,113,420	216,800	186,926	2,343,525	15,860,671
Past due not impaired	338,748	8,970	3,020	63,528	414,266
Impaired	402,831	10,639	9,670	9,541	432,681
<b>Total gross loans</b>	<b>13,854,999</b>	<b>236,409</b>	<b>199,616</b>	<b>2,416,594</b>	<b>16,707,618</b>
Less: Allowance for impairment on loans	(351,467)	(9,347)	(8,152)	(8,743)	(377,709)
<b>Net loans (*)</b>	<b>13,503,532</b>	<b>227,062</b>	<b>191,464</b>	<b>2,407,851</b>	<b>16,329,909</b>

(\*) Also includes minimum finance lease payment receivables.

	2014	2013
<b>Performing</b>		
Funds invested from profit/loss sharing accounts	7,749,805	6,469,506
Funds invested from current accounts and equity	11,497,667	8,610,475
Income accruals on due from financing activities (*)	659,812	801,908
	<b>19,907,284</b>	<b>15,881,889</b>
<b>Funds in arrears</b>		
Funds invested from profit/loss sharing accounts	233,372	194,038
Funds invested from current accounts and equity	269,856	223,066
	<b>503,228</b>	<b>417,104</b>
<b>Total</b>	<b>20,410,512</b>	<b>16,298,993</b>
<b>Impairment allowance</b>		
Funds invested from profit/loss sharing accounts	164,558	(148,240)
Funds invested from current accounts and equity	267,633	(221,610)
	<b>(432,191)</b>	<b>(369,850)</b>
<b>Total due from financing activities</b>	<b>19,978,321</b>	<b>15,929,143</b>

(\*) Also includes foreign currency evaluation differences of foreign currency indexed loans.



## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

Movement in impairment allowance for funds disbursed is as follows:

	December 31, 2014	December 31, 2013
Balance at January 1,	369,850	300,069
Charge for the period	360,661	188,802
Charges for the bank	238,186	119,365
Charge for the participation accounts	122,475	69,437
Recoveries of amounts previously provided for	(250,054)	(78,723)
Reserves written off in current year	(48,266)	(40,298)
<b>Balance at the end of the year</b>	<b>432,191</b>	<b>369,850</b>

The impairment allowance of TL 432,191 (December 31, 2013 - TL 369,850) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the cash collective reserve allowance for financing activities are as follows:

	2014	2013
Balance at beginning of year	35,701	28,706
Provisions-bank	29,155	7,591
Provisions-participation accounts	18,282	(596)
<b>Allowance at the end of the year</b>	<b>83,138</b>	<b>35,701</b>

The movements in the non-cash collective reserve allowance for financing activities are as follows:

	2014	2013
Balance at beginning of year	12,206	11,141
Provisions-bank	659	1,065
Provisions-participation accounts	-	-
<b>Allowance at the end of the year</b>	<b>12,865</b>	<b>12,206</b>

The movement in specific allowance is as follows:

	2014	2013
Balance at the beginning of the year	334,149	271,363
Provisions-bank	209,031	111,774
Provisions-participation accounts	104,193	70,033
Recoveries of amounts previously provided for	(250,054)	(78,723)
Reserves written off in current year	(48,266)	(40,298)
<b>Balance at the end of the year</b>	<b>349,053</b>	<b>334,149</b>

The mentioned non-cash collective reserve is presented under "Due from financing activities, net" in the balance sheet.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 8. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2014	2013
Gross investment in finance leases	803,893	463,196
Unearned finance income	(93,308)	(70,148)
Total impaired receivables	8,430	15,577
Impairment allowance	(8,163)	(7,859)
<b>Minimum lease payments receivable, net</b>	<b>710,852</b>	<b>400,766</b>

Movements in the impairment allowance for leasing receivables is as follows:

	2014	2013
Balance at January 1	7,859	2,095
Charge for the period	1,859	6,987
Charges for the bank	1,725	5,823
Charge for the participation accounts	134	1,164
Recoveries of amounts previously provided for	(1,489)	(1,055)
Impairment allowance written off in current period	(66)	(168)
<b>Balance at the end of the period</b>	<b>8,163</b>	<b>7,859</b>

Gross investment in finance leases as to their maturity:

	2014	2013
Not later than 1 year	402,823	243,846
Later than 1 year and not later than 5 years	357,656	195,587
Later than 5 years	43,414	23,763
Non-performing receivables	8,429	15,577
<b>Minimum lease payments receivable, gross</b>	<b>812,322</b>	<b>478,773</b>
<b>Less: Unearned finance income</b>	<b>(93,308)</b>	<b>(70,148)</b>
Net investment in finance leases	719,014	408,625
Less: Allowance for impairment	(8,162)	(7,859)
<b>Minimum lease payments receivable, net</b>	<b>710,852</b>	<b>400,766</b>

As of December 31, 2014 TL 510,636 (December 31, 2013- TL 262,388) gross lease receivables are denominated in foreign currency (US\$ and EUR).

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Net investment in finance leases as to their maturity:

	2014	2013
Less than 1 year <sup>(*)</sup>	361,685	208,397
1-5 year 5 years	317,811	178,554
More than 5 years	39,518	21,674
<b>Net investment in finance leases</b>	<b>719,014</b>	<b>408,625</b>

<sup>(\*)</sup> includes total impaired receivables amounting to TL 8,429 (December 31, 2013 - TL 15,557).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

### 9. Other assets

Other assets comprise the following:

	2014	2013
Clearing accounts	216,890	177,654
Prepaid expenses	49,465	38,328
Blockage for letter of guarantee	10,783	37,352
Receivables from Banking Operations	11,164	24,521
Receivables from precious metals transactions	22,841	-
Amount paid for licensing and establishment of new subsidiary <sup>(*)</sup>	63,466	-
Other	31,657	16,796
	<b>406,269</b>	<b>294,651</b>

<sup>(\*)</sup> Required initial capital of the Bank's new subsidiary to be established in Germany and in the name of KT Bank AG is EUR 45,000,000 (full amount). The amount of EUR 22,500,000 (full amount) for compulsory paid-in capital for licensing and establishment of the bank has been transferred to the subsidiary's account in Ziraat Bank AG. That amount will be accounted under "investments in associates" line item following the completion of establishment and licensing process.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 10. Construction projects, net

Construction projects mainly include the Dumankaya Project and the Güre Premises (time sharing houses) which belong to the subsidiaries of the Bank, Körfez GYO and Körfez Tatil Beldesi, respectively.

	2014	2013
Uncompleted construction projects	48,880	48,880
Kartal Project		
Cost of land	34,209	34,209
Cost of project	2,192	2,192
Kilyos Land		
Cost of land	1,497	1,497
Güre Tesisi	10,982	10,982
Completed construction projects (inventories)	10,292	10,292
Transfer from investment property (Note 11)	4,006	-
	63,178	59,172
(Less) Impairment provision for net realizable value	(13,158)	(12,928)
<b>Total construction projects, net</b>	<b>50,020</b>	<b>46,244</b>

### 11. Investment properties, net

	2014	2013
Balance at the beginning of the year	20,815	31,315
Additions	2,709	2,955
Disposal	(9,268)	(18,959)
Depreciation charge	(1,188)	(417)
Transfer from assets held for resale (Note 12)	17,303	6,096
Reversal/(charge) of provisions for investment property	(229)	147
Transfer to assets held for resale (Note 12)	-	(322)
Transfer to construction projects (Note 10)	(4,006)	-
<b>Balance at the end of the year</b>	<b>26,136</b>	<b>20,815</b>
Cost	29,231	22,616
Accumulated depreciation	(2,250)	(1,062)
Accumulated impairment	(845)	(739)
<b>Net carrying amount</b>	<b>26,136</b>	<b>20,815</b>

Fair value of the investment properties is TL 42,706 (December 31, 2013-TL 30,462) which is determined based on the valuations performed by independent qualified values on December 2014.

In the current economic conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 12. Assets and a disposal group held for sale

At December 31, 2014, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 31,486 (December 31, 2013 - TL 17,892), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

	2014	2013
Balance at the beginning of the year	27,946	28,951
Additions	31,486	17,892
Transfer from investment property (Note 11)	-	322
Transfer to investment property (Note 11)	(17,303)	(6,096)
Disposals	(16,121)	(13,123)
Balance at the end of the year	26,008	27,946

Gain on sale of assets held for sale amounting to TL 6,212 is included in other income in the comprehensive income statement (December 31, 2013 - TL 5,703).

### 13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Total
At January 1, 2013					
Cost	118,944	58,765	31,457	222	209,388
Additions (*)	80,824	60,575	15,702	33	157,134
Disposals	-	(2,692)	(579)	(54)	(3,325)
Depreciation charge for the year	(3,016)	(30,422)	(8,532)	(48)	(42,018)
<b>At December 31, 2013, net of accumulated depreciation and impairment</b>	<b>196,752</b>	<b>86,226</b>	<b>38,048</b>	<b>153</b>	<b>321,179</b>
Additions(*)	198,653	36,481	13,771	187	249,092
Disposals	(155,663)	(2,036)	(514)	(29)	(158,242)
Depreciation charge for the year	(3,534)	(21,844)	(8,828)	(70)	(34,276)
<b>At December 31, 2014, net of accumulated depreciation and impairment</b>	<b>236,208</b>	<b>98,827</b>	<b>42,477</b>	<b>241</b>	<b>377,753</b>

(\*) TL 5,651 and TL 295 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2014 and 2013, respectively. There is no property and equipment that are pledged for borrowings.

## KUYEY TÜR KATILIM BANKASI ANONİM ŐIRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

	Land and Buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
<b>At December 31, 2013</b>					
Cost	203,015	154,263	70,111	783	428,172
Accumulated depreciation	(6,263)	(68,037)	(32,063)	(630)	(106,993)
Accumulated impairment	-	-	-	-	-
<b>Net carrying amount</b>	<b>196,752</b>	<b>86,226</b>	<b>38,048</b>	<b>153</b>	<b>321,179</b>
<b>At December 31, 2014</b>					
Cost	247,795	178,042	82,895	935	509,667
Accumulated depreciation	(11,587)	(79,215)	(40,418)	(694)	(131,914)
Accumulated impairment	-	-	-	-	-
<b>Net carrying amount</b>	<b>236,208</b>	<b>98,827</b>	<b>42,477</b>	<b>241</b>	<b>377,753</b>

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2014 and 2013 is as follows:

	2014	2013
Motor vehicles	622	460
Leasehold improvements	19,244	13,990
Furniture and office equipment	51,151	40,096
	<b>71,017</b>	<b>54,546</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 14. Intangible assets, net

	Internally Generated Software	Other Software	Total
At January 1, 2013	17,993	25,736	43,729
Additions	20,086	19,983	40,069
Disposals	-	(15,574)	(15,574)
Amortization charge for the year	(10,479)	(1,970)	(12,449)
At December 31, 2013, net of accumulated amortization	27,600	28,175	55,775
<b>Additions</b>	11,661	20,420	<b>32,081</b>
<b>Disposals</b>	-	(208)	<b>(208)</b>
<b>Amortization charge for the year</b>	<b>(7,207)</b>	<b>(10,110)</b>	<b>(17,317)</b>
<b>At December 31, 2014, net of accumulated amortization</b>	<b>32,053</b>	<b>38,278</b>	<b>70,331</b>
<b>At December 31, 2013</b>			
<b>Cost (gross carrying amount)</b>	39,977	43,016	82,993
<b>Accumulated amortization</b>	(12,377)	(14,841)	(27,218)
<b>Net carrying amount</b>	<b>27,600</b>	<b>28,175</b>	<b>55,775</b>
<b>At December 31, 2014</b>			
<b>Cost (gross carrying amount)</b>	51,637	63,156	<b>114,793</b>
<b>Accumulated amortization</b>	(19,584)	(24,878)	<b>(44,462)</b>
<b>Net carrying amount</b>	<b>32,053</b>	<b>38,278</b>	<b>70,331</b>

### 15. Due to other financial institutions and banks, Sukuk securities issued and Subordinated loans

Due to other financial institutions and banks as of December 31, 2014 and 2013 is as follows;

Original currency	Amount in TL	
	2014	2013
US\$	4,163,680	3,768,436
Euro	227,555	266,297
TL	8,112	5,793
<b>Total</b>	<b>4,399,347</b>	<b>4,040,526</b>

As of December 31, 2014 borrowings remaining maturities of which is less than 12 months amount to TL 3,236,329 (As of December 31, 2013 - TL 2,970,024).

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

The Bank provided syndicated loans, with maturity of 1 and 2 years respectively, amounting to USD 275 million and EUR 83 million in the current period. Syndicated loans have profit share of Libor/Euribor + %0.90 for annual maturity and profit share of Libor/Euribor + %1.25 for 2 years maturity.

Sukuk securities as of December 31, 2014 and 2013 is as follows;

	Amount in TL	
	2014	2013
<b>Sukuk certificates issued USD</b>	<b>1,953,221</b>	754,279
<b>Sukuk certificates issued TL</b>	<b>240,369</b>	151,562
<b>Total</b>	<b>2,193,590</b>	905,841

On October 31, 2011 the Bank issued 5-year rent certificate (sukuk) amounting USD 350 million with a profit share rate of 5.875%. The Bank invested in domestic currency rent certificate issued by KT Kira Sertifikaları Varlık Kiralama A.Ş. with permission of Capital Markets Boards of Turkey on 7 November 2013, quarterly profit share payment schedule, maturity 1 year and amounting to TL 150,000,000 (full amount) and classified under "Sukuk issued" at the accompanying financial statements.

Subordinated loans as of December 31, 2014 and 2013 is as follows;

	Amount in TL	
	2014	2013
Subordinated loan provided by Kuwait Finance House	464,592	433,080
<b>Total</b>	<b>464,592</b>	433,080

On September 29, 2011, the Bank has been provided with a subordinated loan with 10-years maturity, amounting to USD 200 million, by Kuwait Finance House. Profit share amount will be determined as the purchase price multiplied by a profit return rate equal to the applicable margin in the Murabaha period.



## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 16. Current and profit/loss sharing investors' accounts

	2014	2013
<b>Current accounts:</b>		
Turkish lira	3,489,974	2,640,376
Foreign currency	3,157,040	2,363,813
	<b>6,647,014</b>	5,004,189
<b>Profit/loss sharing investors' accounts:</b>		
Turkish lira	8,648,272	6,648,422
Foreign currency	6,801,515	5,322,356
	<b>15,449,787</b>	11,970,778
<b>Blocked accounts:</b>		
Turkish lira	51,121	32,208
Foreign currency	16,291	26,957
	<b>67,412</b>	59,165
<b>Total current accounts and profit/loss investors' accounts</b>	<b>22,164,213</b>	17,034,132
<b>Expense accrual on current accounts and profit/loss sharing investors' accounts</b>	<b>51,630</b>	44,904
<b>Total current accounts and profit/loss sharing investors' accounts</b>	<b>22,215,843</b>	17,079,036

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	2014 (in TL)			2013 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	6,197,430	4,665,808	10,863,238	4,679,810	3,375,494	8,055,304
From 1 month to 3 months	4,609,009	3,804,784	8,413,793	3,319,675	3,287,899	6,607,574
From 3 months to 1 year	987,430	1,075,389	2,062,819	864,752	755,854	1,620,606
Over one year	395,498	428,865	824,363	456,769	293,879	750,648
	<b>12,189,367</b>	<b>9,974,846</b>	<b>22,164,213</b>	9,321,006	7,713,126	17,034,132

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

At December 31, 2014 and 2013, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2014		2013	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US\$	726,237,871	1,684,073	528,032,142	1,126,979
Euro	218,292,622	615,738	128,290,822	376,726
Precious metals		753,391		843,755
Other		120,129		43,310
		<b>3,173,331</b>		2,390,770
Profit/loss sharing investors' accounts:				
US\$	1,693,296,391	3,926,585	1,157,625,451	2,470,720
Euro	609,323,572	1,718,719	486,932,403	1,429,877
Precious metals		1,156,211		1,421,759
		<b>6,801,515</b>		5,322,356
		<b>9,974,846</b>		7,713,126

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

### 17. Income taxes

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal years ending on December 31, 2014, and 2013 is 20%. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or classified under equity for five years in accordance with the New Corporate Tax Law.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2007-2012), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

	2014	2013
Current tax expense	114,821	73,153
Prepaid tax (-)	(89,867)	(53,057)
<b>Income taxes payable</b>	<b>24,954</b>	<b>20,096</b>
	2014	2013
Current tax expense	114,821	73,153
Deferred tax credit/(charge)	(15,117)	(923)
<b>Total income tax (charge)/credit</b>	<b>99,704</b>	<b>72,230</b>

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2014 and 2013 is as follows:

	2014	2013
Profit before income tax	557,740	433,405
At Turkish statutory income tax rate of 20%	111,548	86,681
Effect of income not subject to tax	(12,591)	(14,960)
Effect of expenditure not allowable for income tax purposes	747	509
Income tax charge	99,704	72,230

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

Deferred tax as of December 31, 2014 and 2013 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2014	2013
Deferred income	24,356	21,195
Impairment provision for subsidiaries, fixed assets and assets held for sale	3,845	9,408
Provision for impairment in due from financing activities	16,730	8,793
Bonus accrual of personnel	10,172	7,621
Deferred tax accounted under shareholders' equity	4,359	4,247
Reserve for employee termination benefits	4,024	2,686
Effect of precious metals valuation	5,148	2,525
Effect of other temporary differences	825	147
<b>Deferred tax assets</b>	<b>69,459</b>	<b>56,622</b>
Derivative accrual	(3,313)	(9,620)
Provision for non-cash loans and check commitments	(10,345)	(7,440)
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(5,896)	(4,552)
Deferred tax accounted under shareholders' equity	(5,267)	(1,685)
Accounting for finance leases	(685)	(1,018)
<b>Deferred tax liabilities</b>	<b>(25,506)</b>	<b>(24,315)</b>
<b>Deferred tax asset - net</b>	<b>43,953</b>	<b>32,307</b>

Movement of net deferred tax asset is as follows:

	2014	2013
Balance at the beginning of the year	32,306	25,520
Deferred tax (charge)/credit recognized in income statement	15,117	923
Deferred tax (charge)/credit recognized in equity	(3,470)	5,864
<b>Balance at the end of the year</b>	<b>43,953</b>	<b>32,307</b>

### 18. Employee benefit obligations

	2014	2013
Personnel bonus accrual	48,599	36,700
Employee termination benefits	44,257	30,243
<b>Total employee benefit obligations</b>	<b>92,856</b>	<b>66,943</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

The movement in reserve for personnel bonus accrual is as follows:

	2014	2013
Balance at January 1	36,700	28,000
Utilized/paid	(36,700)	(28,000)
Charge for the year	48,600	36,700
<b>Balance at the end of the year</b>	<b>48,600</b>	<b>36,700</b>

The movement in reserve for employee termination benefits is as follows:

	2014	2013
Balance at January 1	30,243	11,802
Utilized/paid	(2,818)	(1,984)
Service cost	5,560	1,603
Interest cost	2,480	3,477
Actuarial loss (*)	8,792	15,345
<b>Balance at the end of the year</b>	<b>44,257</b>	<b>30,243</b>

(\*) Retirement pay liability arising from current period and amounting TL 8,792 (2013: TL 15,345) is an actuarial loss amount and deferred tax amounting to TL 1,758 (2013: TL 3,069) related with the retirement pay liability is accounted under Statement of other Comprehensive Income.

### Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.1 and TL 3.1 at December 31, 2014 and 2013, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2014 and 2013, the Group reflected a liability calculated using the actuarial valuation by independent actuary and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The amount payable consists of one month's salary limited to a maximum of TL 3,438.22 (2013: TL 3,254.44) for each period of service at 31 December 2014.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is rearranged every six months, is calculated over TL 3,541.37 that is effective commencing on January 1, 2015 (January 1, 2014: TL 3,438.22).

The following actuarial assumptions were used in the calculation of the total liability:

	2014	2013
Discount rate (%)	2.24	3.29
Expected salary/ceiling increase rate (%)	7.4	7.5
Anticipated turnover rate (%)	89	89

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 19. Other liabilities and provisions

	2014	2013
Clearing accounts	194,704	182,530
Withholding tax and other tax payables	39,674	34,919
Deferred revenue from construction projects	33,420	26,344
Other provisions	28,288	44,005
Payables to exporters and suppliers	24,198	41,799
Security premium for participation funds	11,794	8,919
Deferred revenue of non-cash loans	10,603	9,366
Deductions on resource utilization fund	1,395	1,085
Other	36,796	9,154
<b>Total other liabilities</b>	<b>380,872</b>	<b>358,121</b>

### 20. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of foreign currency and precious metals forward and swap transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

	December 31, 2014							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
<b>Derivatives held for trading</b>								
<b>Inflows</b>	43,115	-	4,576,673	2,890,130	1,145,227	197,091	235,411	108,814
<b>Outflows</b>	-	25,885	4,560,487	2,890,064	1,127,355	196,739	233,292	113,038
	<b>43,115</b>	<b>25,885</b>	<b>9,137,160</b>	<b>5,780,194</b>	<b>2,272,582</b>	<b>393,829</b>	<b>468,703</b>	<b>221,852</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

	December 31, 2013							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
<b>Derivatives held for trading</b>								
<b>Inflows</b>	108,739	-	<b>4,784,234</b>	3,607,829	858,832	237,291	80,282	-
<b>Outflows</b>	-	58,948	<b>4,737,323</b>	3,602,697	816,969	230,128	87,529	-
	<b>108,739</b>	<b>58,948</b>	<b>9,521,557</b>	<b>7,210,526</b>	<b>1,675,801</b>	<b>467,419</b>	<b>167,811</b>	<b>-</b>

### 21. Share capital

	2014	2013
<b>Number of ordinary shares</b> , 1 TL, par value. Authorized, issued and outstanding.	<b>2,287 million</b>	1,700 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2014		2013	
	Number	TL	Number	TL
At January 1	<b>1,700,000,000</b>	<b>1,700,000</b>	1,100,000,000	1,100,000
Shares issued in				
-bonus shares from retained earnings	<b>230,000,000</b>	<b>230,000</b>	240,000,000	240,000
-cash	<b>360,000,000</b>	<b>360,000</b>	360,000,000	360,000
-other	<b>(2,995,000)</b>	<b>(2,995)</b>		
At year end	<b>2,287,005,000</b>	<b>2,287,005</b>	1,700,000,000	1,700,000

The Bank has increased its share capital on March 27, 2014. The share capital increase was funded from the retained earnings amounting to TL 230,000 (2013-TL 240,000) and cash amounting to TL 360,000 (2013 - 360,000).

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2014 and 2013, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2014		2013	
	Amount	%	Amount	%
Kuwait Finance House	<b>1,425,325</b>	<b>62.3</b>	1,058,101	62.2
Directorate of Vakıf Foundations, Turkey	<b>428,671</b>	<b>18.7</b>	318,228	18.7
The Public Institution for Social Security, Kuwait	<b>206,100</b>	<b>9</b>	153,000	9.0
Islamic Development Bank	<b>206,100</b>	<b>9</b>	153,000	9.0
Other	<b>20,809</b>	<b>1</b>	17,671	1.1
Total share capital	<b>2,287,005</b>	<b>100</b>	1,700,000	100

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 22. Legal reserves, retained earnings, dividends paid and proposed and other reserves

#### Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

#### Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 20,517 (2013 - TL 18,872) from the profit of the year 2013.

	2014	2013
<b>Ordinary shares</b>		
Amount	20,517	18,872
TL (full) per share	0.010	0.012

#### Other reserves

The Bank bought 25% share of the joint venture called Körfez İnşaat İş Ortaklığı on September 23, 2011, which was established by Körfez and a third party company who had 75% and 25% stakes, respectively. The Bank bought the 25% stake of the third party company in Körfez İnşaat İş Ortaklığı for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez İnşaat İş Ortaklığı amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez İnşaat İş Ortaklığı. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid.

### 23. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2014 and 2013.



## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

The following reflects the income and per share data used in the basic earnings per share computations:

	2014	2013
Net profit attributable to continuing operations of the Bank for basic earnings per share	458,036	361,175
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	458,036	361,175
Weighted average number of ordinary shares for basic earnings per share (thousands)	2,002,348	1,412,329
Basic earnings per share (expressed in full TL per share)	0.2287	0.2557

### 24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.3% (December 31, 2013-62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2013-18.7%), 9.0% (December 31, 2013-9.0%) and 9.0% (December 31, 2013-9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2014 and 2013 and transactions have been entered into with related parties during the years ended:

#### i) Balances with financial institutions and due from financing activities:

		2014		2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	Kuwaiti Dinar	29,911	236	83,992	631
	XAU (gr.)	138,497	12,387	180,402	14,821
KFH - Bahrain	BHD	38,846	239	39,431	223
	US\$	71,488	166	76,437	163
Auto Land A.S.	TL	-	37,442	-	29,698
Kuwait finance Malaysia	US\$	4,637	11	-	-
	XAU(gr)	51	5	-	-
Other related parties	-	-	42,805	-	51,193
			<b>93,291</b>		<b>96,729</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### ii) Due to other financial institutions and banks:

		2014		2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW <sup>(1)</sup>	US\$	158,703,817	368,018	158,057,149	337,341
Kuwait Finance House <sup>(1)</sup>	US\$	755,118,232	1,751,044	706,219,960	1,507,285
Kuwait Finance House, Bahrain	US\$	-	-	28,661,198	61,172
	EUR	4,159,118	11,732	1,654,810	4,859
Islamic Development Bank	US\$	19,127,469	44,354	16,273,834	34,733
			<b>2,175,148</b>		<b>1,945,390</b>

### iii) Profit/loss sharing investors' and current accounts:

		2014		2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	US\$	2,264,867	5,252	1,494,167	3,189
Kuwait Finance House <sup>(1)</sup>	TL	-	2,484	-	1,179
Islamic Development Bank <sup>(1)</sup>	US\$	-	-	5,154	11
Islamic Development Bank <sup>(1)</sup>	TL	-	619	-	619
Kuwait Finance Malaysia	XAU (gr.)	1,128,475	100,931	1,189,664	97,857
Kuwait Finance House, Bahrain	US\$	1,216	3	1,406	3
Directorate of Vakıf Foundations, Turkey <sup>(1)</sup>	TL	-	21,952	-	15,814
Neova Sigorta AS <sup>(*)</sup>	TL	-	80,480	-	31,834
	US\$	3,875	9	44,043	94
	EUR	355	1	-	-
Public Institute for Social Securities KW <sup>(1)</sup>	US\$	863,983	373	-	-
			<b>212,103</b>		<b>150,600</b>

<sup>(\*)</sup> determined as related party as the Company is under the common control of the ultimate parent.

<sup>(1)</sup> Shareholders.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### iv) Profit shares distributed:

		2014		2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	US\$	28,888	67	27,644	59
Directorate of Vakıf Foundations, Turkey <sup>(1)</sup>	TL		1,446		923
Neova Sigorta AS <sup>(*)</sup>	TL	-	3,337	-	1,392
Public Institute for Social Securities KW <sup>(1)</sup>	US\$	3,608	8	3,748	8
			<b>4,858</b>		<b>2,382</b>

<sup>(\*)</sup> determined as related party as the Company is under the common control of the ultimate parent.

### v) Non cash credits issued:

		2014		2013	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House <sup>(1)</sup>	US\$	5,956,021	13,811	334,734	714
Kuwait Finance Malaysia	US\$	40,000	93		
Other related parties	TL		25,657		17
			<b>39,561</b>		<b>731</b>

<sup>(1)</sup> Shareholders.

As of December 31, 2014 no provisions have been recognized in respect of loans given to related parties (December 31, 2013-nil).

Loans amounting to TL 25 have been issued to directors during the year ended December 31, 2014 (December 31, 2013 - TL 37).

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 11,260 during the year ended December 31, 2014 (December 31, 2013 - TL 10,510)

The key management personnel of the Bank are as follows (\*):

Hamad Abdulmohsen AL MARZOUQ	B.O.D. Chairman
Abdullah TIVNIKLI	B.O.D. Vice Chairman
Adnan ERTEM	B.O.D. Member and Audit Committee Chairman
Nadir ALPARSLAN	B.O.D. Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Fawaz KHE AL SALEH	B.O.D. Member
Mohammad Shujaiddin AHMED	B.O.D. Member
Ahmed S. AL Kharji	B.O.D. Member
Ufuk UYAN	B.O.D. Member-Chief Executive Officer

Key management includes 10 other officers together with the above B.O.D. members.

(\*) In the Board of Director's Meeting on May 21, 2014, resignation of the Board of Directors Chairman Mohammad S.A.I ALOMAR has been accepted and all the duties related to his board membership have been terminated. In the Board of Director's Meeting on June 25, 2014; Hamad Abdulmohsen AL MARZOUQ has been assigned as Chairman of the Board of Directors in accordance with decision numbered 1531. Shaheen H.A. AL GHANEM (B.O.D. Member and Audit Committee Member) was resigned on 23 March, 2014.

### 25. Fees and commission income and expense

	2014	2013
<b>Fees and commission income</b>		
Commissions on loans	136,341	131,112
Commission income from commitments	79,323	75,115
POS commission income	30,582	23,098
Credit card fees and commissions	24,213	12,763
Money transfer commissions	20,748	16,126
Income from agency activities	16,281	14,339
Commissions from checks and notes	12,123	8,344
Import letter of credit commissions	5,515	5,424
Communication expense charges	584	1,075
Other	42,044	31,005
<b>Total</b>	<b>367,754</b>	<b>318,401</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

	2014	2013
<b>Fees and commission expense</b>		
Credit card machine and fees paid for credit cards	41,412	31,552
Brokerage fees on borrowings	20,840	16,174
Correspondent bank fees	8,677	10,254
Fees for funds borrowed from banks and OFI	13,692	6,947
Money transfer commissions	6,062	5,005
Other	9,137	7,992
<b>Total</b>	<b>99,820</b>	<b>77,924</b>

### 26. Salaries and employee benefits

	2014	2013
<b>Staff costs</b>		
Wages and salaries	253,094	204,123
Bonus	50,401	38,312
Social security premiums	58,530	44,180
Other fringe benefits	37,358	30,033
Health expenses	10,977	9,108
Provision for employee termination benefits	9,992	1,984
Other	18,438	12,106
<b>Total</b>	<b>438,790</b>	<b>339,846</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 27. Other expenses

	2014	2013
Impairment on investment property (Note 11)	(229)	(147)
<b>Impairment charges/(reversal)</b>	<b>(229)</b>	<b>(147)</b>
Insurance fund premium expense	43,442	32,673
Professional fees	32,086	23,159
Advertising expenses	16,184	14,097
Communication	18,190	13,855
Cleaning expense	17,392	11,519
Repair and maintenance expenses	14,166	10,475
Energy expenses	9,468	7,010
Grants and donations	7,201	4,268
Subscription and membership expenses	4,867	4,194
Travel and representation expenses	4,435	3,645
Non taxable income	3,721	3,604
Stationery and publishing expenses	4,212	3,040
Insurance expenses	1,692	1,810
Loss from sale of assets	225	241
Other	28,408	39,070
<b>Other expenses</b>	<b>205,689</b>	<b>172,660</b>
<b>Total</b>	<b>205,640</b>	<b>172,513</b>

### 28. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2014 and 2013

	2014	2013
Letters of guarantee issued by the Bank	6,893,972	7,127,080
Letters of credit	922,530	1,217,277
Commitments	2,582,471	2,411,581
Acceptance credits	59,790	57,587
Other guarantees	372,420	270,403
<b>Total</b>	<b>10,831,183</b>	<b>11,083,928</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Letters of Guarantee--are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments--are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The allocation of operational lease obligations due to rent agreements of branches within lease periods as of December 31, 2014 and 2013 is as follows:

	2014	2013
Within one year	64	-
After one year but not more than five years	171,657	130,964
More than five years	338,129	313,442
	<b>509,850</b>	444,406

### Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL -and TL 44,848 as of December 31, 2014 and 2013 respectively. As of December 31, 2014, the amount of the checks and bonds in collection are TL 4,335,906 (December 31, 2013 - TL 3,680,160) and TL 740,175 (December 31, 2013 - TL 553,184) respectively.

## 29. Financial risk management

### Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

### Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee. Audit Committee is responsible for identifying, measuring, monitoring and reporting Market, Credit, Liquidity and Operational Risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

### **Internal systems and risk management policies**

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management and Treasury Middle Office Department. The primary objectives of the Risk Management and Treasury Middle Office Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management and Treasury Middle Office Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and the Risk Management and Treasury Middle Office Department.

### **Board of directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

### **Audit committee**

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.



## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Risk management and treasury middle office department**

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks,
- Business Continuity Plan, Process and Procedures.

#### **Board of inspectors and internal audit**

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

#### **Credit risk**

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

#### **Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

<b>Gross maximum exposure</b>	<b>2014</b>	<b>2013</b>
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	<b>4,443,358</b>	3,143,114
Deposit with banks and financial institutions	<b>3,218,932</b>	2,715,572
Due from financing activities	<b>19,978,321</b>	15,929,143
Minimum financial lease payments receivable	<b>710,852</b>	400,766
Financial assets-available for sale	<b>2,203,127</b>	1,323,516
Financial assets-held for trading	<b>4,980</b>	7,197
Other assets	<b>406,269</b>	294,651
Derivative financial instruments	<b>43,115</b>	108,739
<b>Total</b>	<b>31,008,954</b>	23,922,698
Contingent liabilities	<b>7,816,502</b>	8,344,356
Other guarantees	<b>432,210</b>	327,991
Commitments	<b>2,582,471</b>	2,411,581
<b>Total</b>	<b>10,831,183</b>	11,083,928
<b>Total credit risk exposure</b>	<b>41,840,137</b>	35,006,626

### Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2014 was TL 102,267 (December 31, 2013-TL 100,316) and non-cash credit exposure as of December 31, 2014 was TL 176,177 (December 31, 2013-TL 189,014) before taking account of collateral or other credit enhancements.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2014	2013
	Gross exposure	Gross exposure
Financial services	12,787,793	9,810,331
Construction and materials	9,838,050	7,993,643
General retailers	6,079,455	5,141,546
Manufacturing	3,901,379	3,596,357
Electricity	1,169,057	1,179,951
Health care and social services	1,119,171	983,064
Food and beverages	1,051,112	821,713
Mining operations	447,244	710,189
Forestry	148,379	130,250
Telecommunications	180,592	109,133
Real estate	229,124	84,033
Other	4,888,781	4,446,417
<b>Total</b>	<b>41,840,137</b>	<b>35,006,627</b>

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### Credit quality per class of financial assets

Rating and scoring models for Corporate/Commercial/SME portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models are shown the table below as of 31 December 2014.

	Cash Loans	Non-Cash Loans	Total
High Quality	25%	60%	35%
Medium Quality	22%	19%	21%
Average	19%	11%	17%
Below Average	6%	2%	5%
Unrated	27%	9%	22%

Aging analysis of past due but not impaired loans per class of financial assets:

2014	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
<b>Due from financing activities:</b>					
Corporate lending	22,131	5,183	7,107	432,826	467,248
Consumer lending	304	140	124	104,215	104,783
Credit cards	1,832	2,263	-	507	4,602
<b>Total</b>	<b>24,268</b>	<b>7,586</b>	<b>7,231</b>	<b>537,548</b>	<b>576,633</b>
2013	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
<b>Due from financing activities:</b>					
Corporate lending	143,344	121,013	74,390	-	338,747
Consumer lending	9,579	39,020	23,900	-	72,499
Credit cards	3,020	-	-	-	3,020
<b>Total</b>	<b>155,943</b>	<b>160,033</b>	<b>98,290</b>	<b>-</b>	<b>414,266</b>

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2014 and 2013 comprise of blocked accounts, property and machinery pledges.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

#### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Maturity analysis of assets and liabilities as of December 31, 2014

31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	1,127,568	-	-	-	-	1,127,568
Balances with other banks and financial institutions	3,187,412	24,563	6,957	-	-	3,218,932
Reserve deposits at the Central Bank	4,155,609	-	-	-	-	4,155,609
Financial assets - held for trading	42,495	5,419	-	181	-	48,095
<i>Derivative financial instruments</i>	37,696	5,419	-	-	-	43,115
<i>Share Certificates</i>	-	-	-	181	-	181
<i>Gold Fund</i>	4,799	-	-	-	-	4,799
Financial assets - available-for-sale	1,007,693	303,917	795,489	42,035	53,993	2,203,127
Due from financing activities, net	5,250,536	7,338,870	7,108,899	918,891	71,977	20,689,173
Precious Metals	1,301,466	-	-	-	-	1,301,466
Other assets	-	-	-	-	406,269	406,269
Construction projects, net	-	-	-	-	50,020	50,020
Joint venture	-	-	-	-	6,306	6,306
Investment properties, net	-	-	26,136	-	-	26,136
Property and equipment, net	-	-	-	-	377,753	377,753
Intangible assets, net	-	-	-	-	70,331	70,331
Deferred tax assets	-	-	-	-	43,953	43,953
Assets and a disposal group held for sale	26,008	-	-	-	-	26,008
<b>Total assets</b>	<b>16,098,787</b>	<b>7,672,769</b>	<b>7,937,481</b>	<b>961,107</b>	<b>1,080,602</b>	<b>33,750,746</b>
Due to other financial institutions and banks	1,383,915	1,852,414	1,163,018	-	-	4,399,347
Sukuk securities issued	152,520	87,849	1,953,221	-	-	2,193,590
Subordinated Loans	-	-	-	464,592	-	464,592
Money market balances	708,743	-	-	-	-	708,743
Current and profit/loss sharing investors' accounts	20,966,585	1,092,441	85,047	-	71,770	22,215,843
Derivative financial instruments	16,381	2,364	7,140	-	-	25,885
Employee benefit obligations	-	48,599	-	-	44,257	92,856
Income taxes payable	-	32,315	-	-	-	32,315
Other liabilities and provisions	-	-	-	-	380,872	380,872
<b>Liabilities</b>	<b>23,228,144</b>	<b>3,115,982</b>	<b>3,208,426</b>	<b>464,592</b>	<b>496,899</b>	<b>30,514,043</b>
<b>Net</b>	<b>(7,129,357)</b>	<b>4,556,787</b>	<b>4,729,055</b>	<b>496,515</b>	<b>583,703</b>	<b>3,236,703</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

Maturity analysis of assets and liabilities as of December 31, 2013.

31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	858,686	-	-	-	-	858,686
Balances with other banks and financial institutions	2,699,988	15,584	-	-	-	2,715,572
Reserve deposits at the Central Bank	2,988,091	-	-	-	-	2,988,091
Financial assets - held for trading	97,423	18,332	-	181	-	115,936
<i>Derivative financial instruments</i>	90,407	18,332	-	-	-	108,739
<i>Share Certificates</i>	-	-	-	181	-	181
<i>Gold Fund</i>	7,016	-	-	-	-	7,016
Financial assets - available-for-sale	-	2,024	1,269,934	-	51,558	1,323,516
Due from financing activities, net *	11,432,402	2,112,418	2,390,447	352,645	41,997	16,329,909
Precious metals	466,834	-	-	-	-	466,834
Other assets	-	-	-	-	294,651	294,651
Construction projects, net	-	-	-	-	46,244	46,244
Joint Venture	-	-	-	-	5,064	5,064
Investment properties, net	-	-	20,815	-	-	20,815
Property and equipment, net	-	-	-	-	321,179	321,179
Intangible assets, net	-	-	-	-	55,775	55,775
Deferred tax assets	-	-	-	-	32,307	32,307
Assets and a disposal group held for sale	27,946	-	-	-	-	27,946
<b>Total assets</b>	<b>18,571,370</b>	<b>2,148,358</b>	<b>3,681,196</b>	<b>352,826</b>	<b>848,775</b>	<b>25,602,525</b>
Due to other financial institutions and banks	1,614,228	1,355,797	1,070,501	-	-	4,040,526
Sukuk securities issued	-	151,562	754,279	-	-	905,841
Subordinated Loans	-	-	-	433,080	-	433,080
Money market balances	221,428	-	-	-	-	221,428
Current and profit/loss sharing investors' accounts	15,559,943	1,249,479	221,280	-	48,334	17,079,036
Derivative financial instruments	45,312	7,802	5,834	-	-	58,948
Employee benefit obligations	-	36,700	-	-	30,243	66,943
Income taxes payable	-	20,096	-	-	-	20,096
Other liabilities and provisions	-	-	1,879	-	356,242	358,121
<b>Liabilities</b>	<b>17,440,911</b>	<b>2,821,436</b>	<b>2,053,773</b>	<b>433,661</b>	<b>434,819</b>	<b>23,184,019</b>
<b>Net</b>	<b>1,130,459</b>	<b>(673,078)</b>	<b>1,627,423</b>	<b>(80,254)</b>	<b>413,956</b>	<b>2,418,506</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### Analysis of financial liabilities by contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>As at December 31, 2014</b>						
Due to other financial institutions and banks	-	228,023	1,762,655	2,368,462	-	4,359,140
Subordinated loans	-	-	-	-	463,780	463,780
Sukuk issued	-	50,000	187,000	-	1,938,760	2,175,760
Money market balances	-	708,165	-	-	-	708,165
Derivative financial instruments <sup>(*)</sup>	-	4,288,256	178,108	94,123	-	4,560,487
Current accounts	6,647,014	-	-	-	-	6,647,014
Profit and loss sharing accounts <sup>(**)</sup>	-	3,200,546	6,306,502	5,498,444	439,734	15,445,226
<b>Total undiscounted financial liabilities</b>	<b>6,647,014</b>	<b>8,474,990</b>	<b>8,434,265</b>	<b>7,961,029</b>	<b>2,842,274</b>	<b>34,359,572</b>
<b>As at December 31, 2013</b>						
Due to other financial institutions and banks	-	189,098	1,717,844	2,092,946	-	3,999,888
Subordinated loans	-	-	-	-	426,860	426,860
Sukuk issued	-	-	150,000	-	746,953	896,953
Money market balances	-	221,317	-	-	-	221,317
Derivative financial instruments <sup>(*)</sup>	-	3,637,256	849,549	250,527	-	4,737,332
Current accounts	5,004,189	-	-	-	-	5,004,189
Profit and loss sharing accounts <sup>(**)</sup>	-	10,523,531	1,238,221	219,764	48,472	12,029,988
<b>Total undiscounted financial liabilities</b>	<b>5,004,189</b>	<b>14,571,202</b>	<b>3,955,614</b>	<b>2,563,237</b>	<b>1,222,285</b>	<b>27,316,527</b>

<sup>(\*)</sup> As such derivatives will be settled in gross amounts, notional amounts have been disclosed.

<sup>(\*\*)</sup> Customers have choice of demanding their accounts anytime by abandoning profit share income.

## KUYEY TÜR KATILIM BANKASI ANONİM ŐIRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>December 31, 2014</b>						
Contingent liabilities and other guarantees <sup>(*)</sup>	3,779,552	778,763	1,830,985	1,642,455	216,957	8,248,712
Commitments	2,582,471	-	-	-	-	2,582,471
<b>Total</b>	<b>6,362,023</b>	<b>778,763</b>	<b>1,830,985</b>	<b>1,642,455</b>	<b>216,957</b>	<b>10,831,183</b>
<b>December 31, 2013</b>						
Contingent liabilities and other guarantees	5,094,968	650,075	1,735,587	1,136,588	55,129	8,672,347
Commitments	2,411,581	-	-	-	-	2,411,581
<b>Total</b>	<b>7,506,549</b>	<b>650,075</b>	<b>1,735,587</b>	<b>1,136,588</b>	<b>55,129</b>	<b>11,083,928</b>

<sup>(\*)</sup> Such liabilities may be liquidated and paid by the Group in case of default or the customers.

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and precious metals prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.



## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### Market risk - Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2014			December 31, 2013		
	Increase/decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/decrease in metal price in %	Effect on profit before tax	Effect on equity
<b>Precious metal</b>						
Gold	+10	(437)	-	+10	(740)	-
Gold	-10	437	-	-10	740	-

### Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

### Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2014			December 31, 2013		
	Increase/decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/decrease in metal price in %	Effect on profit before tax	Effect on equity
<b>Currency</b>						
USD	+10	9,576	34	+10	1,145	(471)
USD	-10	(9,576)	(34)	-10	(1,145)	471
EUR	+10	1,554	-	+10	2,370	-
EUR	-10	(1,554)	-	-10	(2,370)	-

The concentrations of assets, liabilities and off balance sheet items:

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2014

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	120,445	391,654	21,574	-	533,673
Deposits with other banks and financial institutions	421,436	2,427,653	199,187	126,978	3,175,254
Reserve deposits at the Central Bank	310,277	2,913,825	-	931,507	4,155,609
Financial assets - available-for-sale	-	609,889	-	-	609,889
Financial assets - held for trading	-	7,841	406	-	8,247
Due from financing activities, net	1,633,950	5,527,792	-	174,324	7,336,066
Minimum finance lease payments receivable, net	189,336	197,153	-	-	386,489
Precious metals	-	-	-	1,301,466	1,301,466
Other assets	69,432	48,254	422	97	118,205
Construction projects, net	-	-	-	-	-
Joint venture	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	783	201	-	-	984
Intangible assets, net	2,949	46	-	-	2,995
Deferred tax assets	-	-	-	-	-
<b>Total assets</b>	<b>2,748,608</b>	<b>12,124,308</b>	<b>221,589</b>	<b>2,534,372</b>	<b>17,628,877</b>
Due to other financial institutions and banks	228,200	4,163,035	-	-	4,391,235
Sukuk issued	-	1,953,221	-	-	1,953,221
Subordinated loans	-	464,592	-	-	464,592
Money market balances	-	-	-	-	-
Current and profit/loss sharing investors' accounts	2,337,490	5,618,869	120,129	1,910,986	9,987,474
Other liabilities & provisions	17,040	74,458	808	402	92,708
Employee benefit obligations	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	11,675	122	-	11,797
Equity	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>2,582,730</b>	<b>12,285,850</b>	<b>121,059</b>	<b>1,911,388</b>	<b>16,901,027</b>
<b>Net balance sheet position</b>	<b>165,878</b>	<b>(161,542)</b>	<b>100,530</b>	<b>622,984</b>	<b>727,850</b>
<b>Net off-balance sheet position</b>	<b>(150,334)</b>	<b>257,303</b>	<b>(101,235)</b>	<b>(627,349)</b>	<b>(621,615)</b>

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2013

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	148,860	298,946	12,393	-	460,199
Deposits with other banks and financial institutions	363,031	1,427,077	57,146	738,800	2,586,054
Reserve deposits at the Central Bank	190,873	1,989,572	-	807,646	2,988,091
Financial assets - available-for-sale	-	219,260	-	-	219,260
Financial assets - held for trading	-	14,693	94,046	-	108,739
Due from financing activities, net	1,595,168	4,834,181	2,372	136,358	6,568,079
Minimum finance lease payments receivable, net	93,906	128,205	-	-	222,111
Precious metals	-	-	-	466,834	466,834
Other assets	27,878	35,387	135	92	63,493
Construction projects, net	-	-	-	-	-
Joint venture	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	254	121	-	-	375
Intangible assets, net	5	35	-	-	40
Deferred tax assets	-	-	-	-	-
<b>Total assets</b>	<b>2,419,975</b>	<b>8,947,477</b>	<b>166,092</b>	<b>2,149,730</b>	<b>13,683,275</b>
Due to other financial institutions and banks	266,295	3,768,413	-	-	4,034,708
Sukuk issued	1,667	752,612	-	-	754,279
Subordinated loans	-	433,080	-	-	433,080
Money market balances	-	-	-	-	-
Current and profit/loss sharing investors' accounts	1,806,603	3,597,699	43,310	2,265,514	7,713,126
Other liabilities & provisions	15,056	32,464	709	429	48,659
Employee benefit obligations	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	14,864	44,084	-	58,948
Equity	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>2,089,621</b>	<b>8,599,132</b>	<b>88,103</b>	<b>2,265,943</b>	<b>13,042,800</b>
<b>Net balance sheet position</b>	<b>330,354</b>	<b>348,345</b>	<b>77,989</b>	<b>(116,213)</b>	<b>640,475</b>
<b>Net off-balance sheet position</b>	<b>(306,654)</b>	<b>(336,898)</b>	<b>(23,775)</b>	<b>108,818</b>	<b>(558,509)</b>

## **KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2014**

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

#### **Pricing risk**

The Group issues loans with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

#### **Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

#### **Capital adequacy**

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

As of December 31, 2014 and 2013, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

## KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

### Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with unconsolidated financial statements prepared in accordance with BRSA accounting principles.

### Regulatory capital

	2014	2013		
Tier 1 capital	2,881,380	2,227,915		
Tier 2 capital	563,835	478,066		
Deductions from capital	(19,385)	(5,583)		
<b>Total capital</b>	<b>3,425,830</b>	<b>2,700,398</b>		
Risk weighted assets amount subject to credit, market & operational risk	22,525,507	18,718,658		
	<b>Actual</b>	<b>Required</b>	<b>Actual</b>	<b>Required</b>
Tier 1 capital ratio	12.79%		11.90%	
Total capital ratio	15.21%	12%	14.43%	12%

# Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

## Notes to consolidated financial statements for the year ended December 31, 2014

(Currency - In thousands of Turkish Lira - TL unless otherwise indicated)

### 30. Fair value of financial instruments

#### Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31 2014, the fair value of financing and leasing receivables has been estimated as TL 20,972,559 (December 31, 2013 - TL 16,570,701) whereas their carrying amount is TL 20,689,173 (December 31, 2013 - TL 16,329,909).

Fair value of borrowings at amortized cost is estimated as TL 7,893,243 (December 31, 2013 - TL 5,660,797), whereas their carrying amount is TL 7,766,272 (December 31, 2013 - TL 5,600,875). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

### 31. Subsequent events

The Bank has obtained its license from the Financial Supervisory Authority (Bafin) on 2nd April, 2015 to provide fully-fledged banking services in Germany according to the interest-free banking principles. "KT Bank AG" (name of the new subsidiary) with headquarters in Frankfurt am Main and as a 100 percent subsidiary of Kuveyt Türk Participation Bank will start to operate on July, 2015.

In accordance with the decision taken in the Ordinary General Assembly Meeting, share capital has increased by TL 240,000 from retained earnings and dividend distributed to shareholders and board members is amounted TL 38,959.

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