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Staying true to our core values, our journey of success extends from the past to the present and into the future.

As summarized by our “Growing through Values” motto, we support a range of social responsibility projects to help preserve, develop and sustain Turkey’s local and national values for today and tomorrow. “Kuveyt Türk hails from Turkey – a country that cares and shares. ”





Safeguarding our heritage **Supporting the future**

A key landmark for Istanbul's identity and an architectural jewel of the Bosphorus Strait, Grand Mecidiye Mosque was re-opened for worship in 2014 after completion of a three-year restoration project backed by Kuveyt Türk.

Other restoration efforts conducted to preserve the landmarks of the city and safeguard our collective historical legacy include:

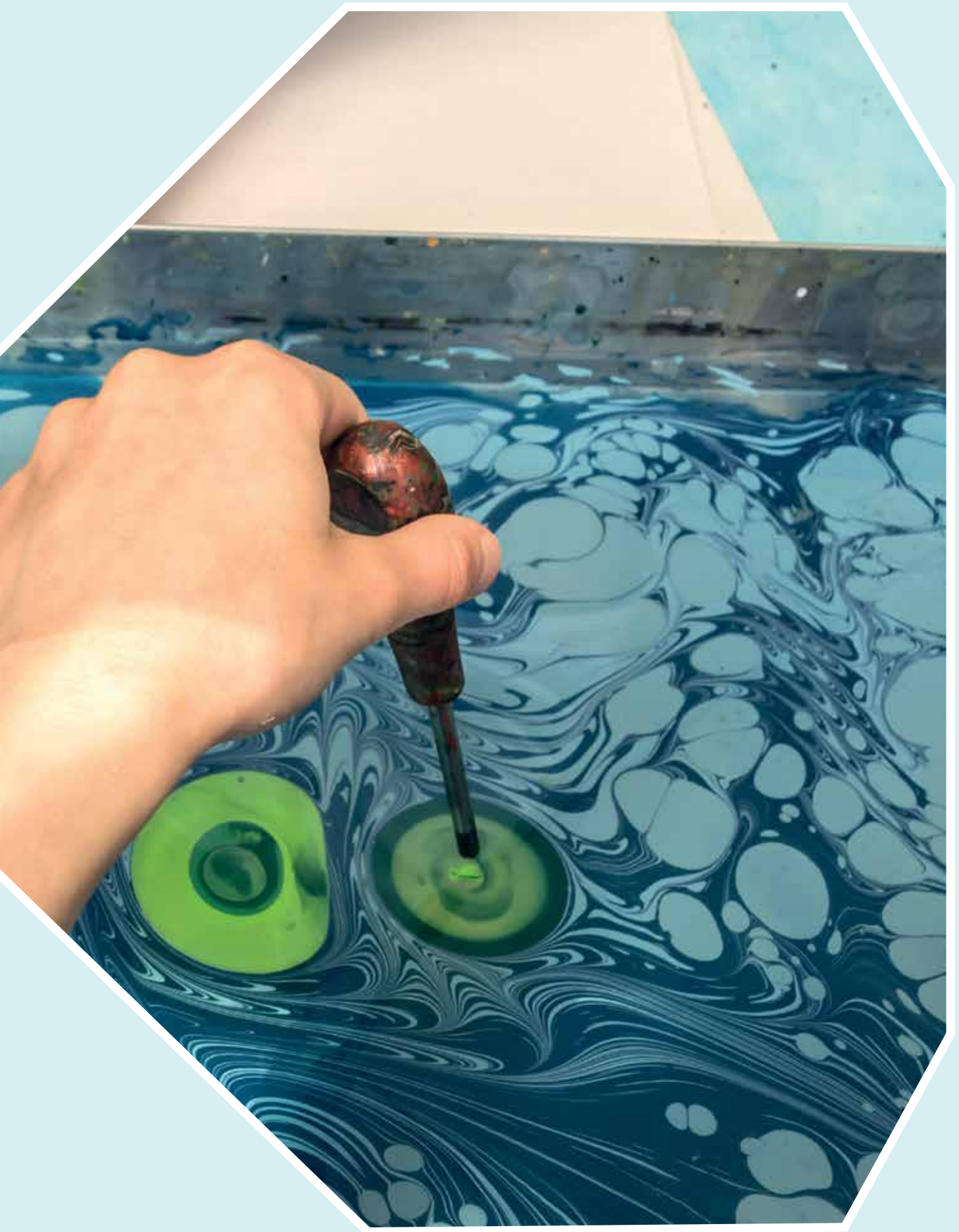
- Tomb of the Ottoman-era Poet and Composer Buhûrîzâde Mustafa İtrî in Istanbul,
- Saliha Sultan Fountain and Sebil (Charity Fountain) in Azapkapı, Istanbul,
- Historic masjid and shadirvan (fountain) at the heart of Bursa's Kozahan.

Supporting Arts and Culture

Kuveyt Türk strives to preserve social values through the arts by prioritizing conservation of enduring artworks for future generations. For this purpose, the Bank incorporates works by notable masters of Turkish-Islamic arts in its corporate collection and safeguards them. Almost 250 works of art – including Islamic calligraphy, illumination, paper marbling, miniature, mother of pearl marquetry, wood carving, decoupage and tombak (copper gilding) – are on display at the Bank's headquarters and branches.

Furthermore, Kuveyt Türk launched an exceptional initiative with the Women, Family and Youth Center (KAGEM) under Religious Foundation of Turkey (Diyanet Vakfı). Enthusiasts can now attend courses on Turkish and Islamic Arts at the KAGEM-Kuveyt Türk Art Workshops in the courtyard of Beşiktaş Sinanpaşa Mosque.







Reference Books for the Future

Kuveyt Türk supports project-based initiatives toward preserving cultural heritage with the reference books it publishes. "Disappearing Vocations," "Lost Fountains," "Evliya Çelebi's Hajj Pilgrimage," "The Great Mecidiye Mosque and Ortaköy" and "Mantiq al-Tair (The Speech of Birds)" feature among the works published by the Bank.

Support for Our Heroes

Kuveyt Türk continues support for civil society organizations and humanitarian aid campaigns. Kuveyt Türk donated TL 1 million to the Turkish Armed Forces Mehmetçik Foundation for relatives of martyrs and veterans. This foundation provides social and economic support to veterans and disabled soldiers as well as dependents of non-commissioned officers who were martyred or lost their lives while on duty.









Support for Humanitarian Aid Campaigns

Kuveyt Türk extended a helping hand to Muslims who have faced systematic persecution in Myanmar for years and were displaced from their homes in the Rakhine state. The Bank made an initial donation of TL 1 million to this cause. With the support of its employees and clients, the total donations soon exceeded TL 7 million.

Guided by the precept that “People are our utmost social responsibility,” Kuveyt Türk also provided financial relief through donations for other notable causes. These donations went to;

- assist Somalia and the rest of Africa under the “Africa Is Not Alone” campaign;
- construct a Brotherhood Village for the Pakistan flood disaster victims;
- help bereaved families affected by the Soma mine accident;
- and assist survivors of the Van earthquake in 2011 which killed 604 people, injured another 4,152 and caused severe damage in the region and its vicinity.

Support for Hope

Kuveyt Türk has been providing ongoing assistance to the “Support for Hope project” conducted by The Hope Foundation for Children with Cancer (KAÇUV) for the last six years. The Bank has donated more than TL 2 million since 2013. These efforts aim to raise awareness about cancer as one of the most significant and growing diseases of our time, and offer hope to children undergoing cancer treatment.







Support for the National Awareness Camps of the Scouting and Guiding Federation of Turkey


Kuveyt Türk provided both sponsorship support and participation for the 15th National Awareness Camp commemorating the Çanakkale 57th Regiment and the 13th National Awareness Camp commemorating the Sarıkamış Allahuekber Mountain Martyrs.





SECTION 1: INTRODUCTION

Since its founding, Kuveyt Türk has been committed to offering exceptional interest-free banking services, conducting extensive research in investment areas, delivering cutting-edge, consistent, top-quality and fast services to savers and businesses, and providing continuous employee training to achieve higher productivity.



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Summary of Financial Indicators

Kuveyt Türk continued to achieve successful financial results in 2018: The Bank boosted its net profit for the period by 15% to TL 822 million during the year.

Summary of Financial Indicators (TL Thousand)*	2017	2018
Profit Sharing Income	3,713,950	5,851,555
Profit Sharing Expense	1,759,335	2,773,868
Net Fee and Commission Income	385,018	513,135
Other Revenues	537,883	960,279
Other Expenses	1,973,872	3,497,065
Tax Charge	187,996	232,030
Net Profit for the Period	715,828	822,006
Total Assets	57,320,126	74,792,036
Total Shareholders' Equity	4,923,347	5,410,893
Capital Adequacy Ratio (%)	17.32	17.22

* IFRS figures.

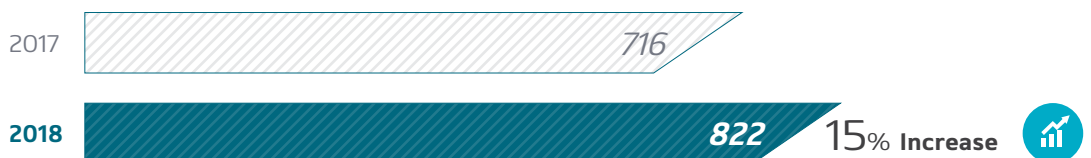
Profit Sharing Income (TL million)



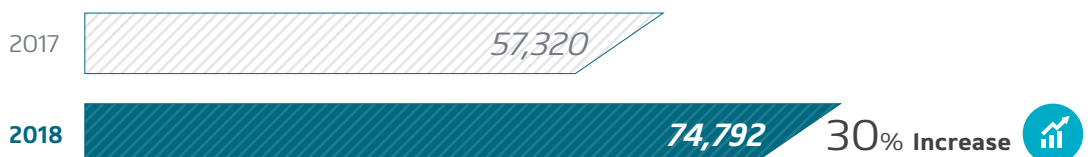
Net Fee and Commission Income (TL million)



Net Profit for the Period (TL million)

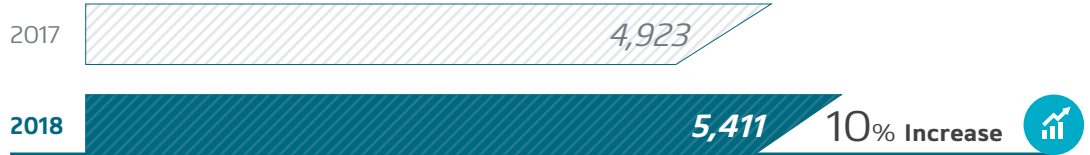


Total Assets (TL million)

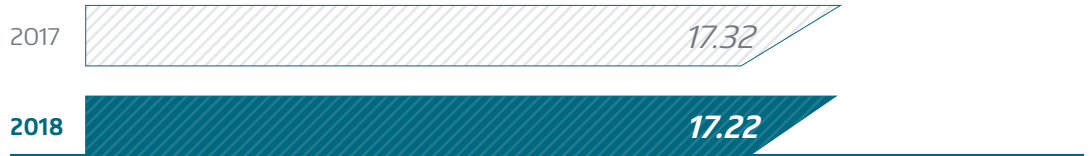


In 2018, Kuveyt Türk further strengthened its robust capital structure by boosting total shareholders' equity to TL 5.4 billion, up 10%.

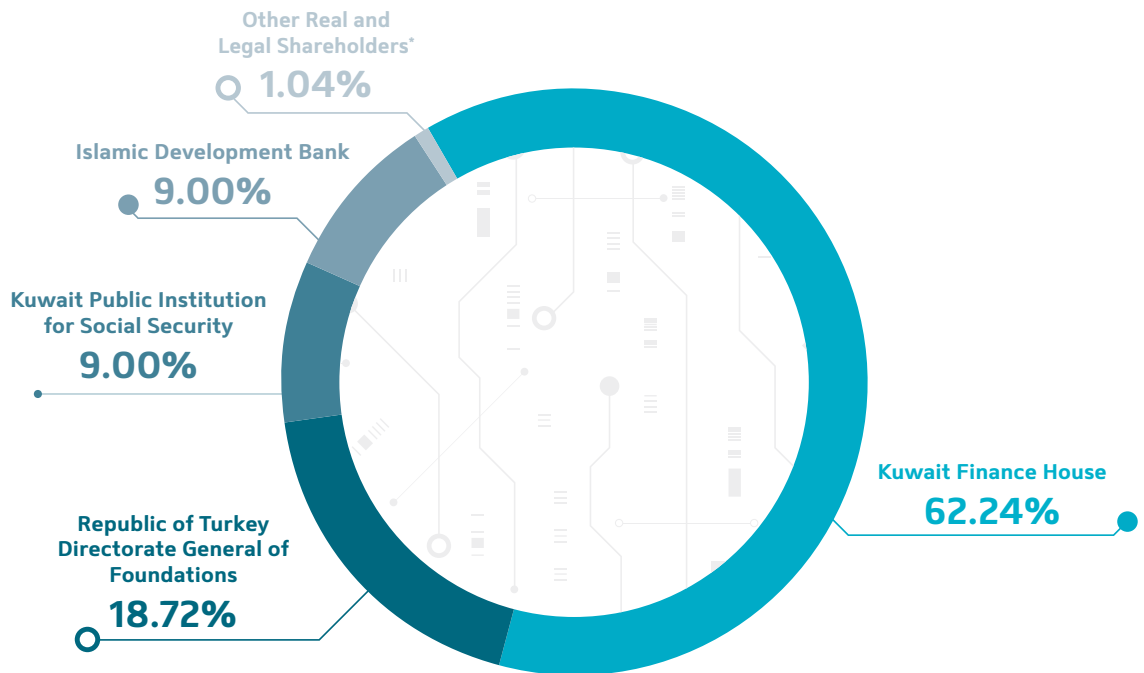
Total Shareholders' Equity (TL million)



Capital Adequacy Ratio (%)



Shareholding and Capital Structure



* The Chairman and Members of the Board of Directors, Audit Committee Members, Chief Executive Officer and Vice Presidents hold a 0.11% share in the Bank's capital.

Agenda of the Ordinary General Assembly

Kuveyt Türk's Board of Directors decided to hold The Shareholders Ordinary General Assembly of Kuwait Turkish Participation Bank Inc. on 28 March 2019 at 15:00, at the Kuveyt Türk Head Office, Büyükdere Cad. No: 129/1 Esentepe, Istanbul to discuss the following agenda in the meeting of the Kuveyt Türk's Board of Directors held on 29 January 2019.

AGENDA OF THE SHAREHOLDERS ORDINARY GENERAL ASSEMBLY

1. Opening and constitution of the Presidential Board.
2. To grant authority to the Presidency to sign the minutes of the General Assembly and the list of participants.
3. Discussion and approval of the Annual Report for the fiscal year 2018.
4. Discussion and approval of Financial Statements for the fiscal year 2018.
5. Decision on the Board of Directors offer about the profit distribution of the fiscal year 2018.
6. Discussion of independent audit report written by independent auditor for the fiscal year 2018.
7. Discussion and approval of the amendment of the Articles of Association related to the Article 7 as attached.
8. Acquitting of the Board of Directors related with their efforts in 2018.
9. 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.
10. Appointment of the Independent Auditors and determination of the contract period,
11. Providing information by the Board of Directors on external audit in accordance with Banking Law no: 5411 and the related regulations.
12. Providing information on bonus payments to personnel in accordance with the Banking Regulation and Supervision Agency's decision on profit distribution.
13. Discussion and approving of reflecting participation accounts' portion of provision expenses, which set aside according to 19/2 article of Communiqué of "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. Turkish Commercial Code's related provisions reserved.
14. Authorization of the Board of Directors to compensate the loss if necessary in accordance with the Article 6, paragraph 10 of the Regulation on Procedures and Principles Regarding Deposits, Participation Funds, Escrow and Receivables of Deposits and Participation Funds issued by the BRSA,
15. To grant authority to the Board Members to execute the deals written in the Turkish Commercial Code 395 and 396 Articles.
16. Wishes and proposals.

Amendments to the Articles of Association

In 2018, Article 7 of the Articles of Association related to Capital was amended. The former and amended versions of the relevant Article are printed below.

OLD TEXT

CAPITAL

ARTICLE 7 – The capital of the Bank is TL 3,100,000,000.- (three billion one hundred million Turkish lira) which is divided into 3,100,000,000 (three billion one hundred million) shares with a nominal value of TL 1 each. The shares are issued in the name of the shareholders.

Out of TL 3,100,000,000.- (three billion one hundred million Turkish lira) capital:

a) TL 2,790,000,000.- (two billion seven hundred and ninety million Turkish lira) is fully paid.

b) The TL 121,801,311.- (one hundred twenty-one million eight hundred one thousand three hundred eleven Turkish lira) of the increased amount of TL 310,000,000.- (three hundred ten million Turkish lira) is provided in full from the profit of 2016 (fully from internal resources). Against this capital increase, shareholders will be given bonus shares in proportion to their shares.

The added capital of TL 659,551.- (six hundred fifty-nine thousand five hundred fifty-one Turkish lira) is provided from the profit of the Bank earned within the scope of Law No. 5746 and transferred to the other reserves (fully from the internal sources) in 2016. Against this capital increase, shareholders will be given bonus shares in proportion to their shares.

The added capital of TL 187,539,138.- (one hundred eighty-seven million five hundred thirty-nine thousand one hundred thirty-eight Turkish lira) is provided from the profit of Bank earned within the scope of Law No. 5520 Article 5/1-e and has been kept in other reserves (special fund).

NEW TEXT

CAPITAL

ARTICLE 7 – The capital of the Bank is TL 3,500,000,000 (three billion five hundred million Turkish lira) which is divided into 3,500,000,000 (three billion five hundred million) shares with a nominal value of TL 1 each. The shares are issued in the name of the shareholders.

Out of the TL 3,500,000,000.- (three billion five hundred million Turkish lira) capital:

a) TL 3,100,000,000.- (three billion one hundred million Turkish lira) is fully paid.

b) The TL 387,142,446.- (three hundred eighty-seven million one hundred forty-two thousand four hundred forty-six Turkish lira) of the increased amount of TL 400,000,000.- (four hundred million Turkish lira) is provided in full from the profit of 2017 (fully from internal resources). Shareholders will be given bonus shares in proportion to their shares against this capital increase.

The added capital of TL 439,121.- (four hundred thirty-nine thousand one hundred twenty-one Turkish lira) is provided from the profit of Bank earned within the scope of Law No. 5746 and transferred to the other reserves (fully from internal sources) in 2017. Shareholders will be given bonus shares in proportion to their shares against this capital increase.

The added capital of TL 12,418,433.- (twelve million four hundred eighteen thousand four hundred thirty three Turkish lira) is provided from the sum kept in the other reserves (special fund) as stipulated by Law No. 5520 Article 5/1-f. Shareholders will be given bonus shares in proportion to their shares against this capital increase.

Kuveyt Türk in Brief

Having celebrated its 29th year in Turkey in 2018, Kuveyt Türk remains the pioneer in Turkey's participation banking industry and stands apart with its dynamic corporate governance approach, innovative products and involvement in international markets.

Kuveyt Türk strides confidently into the future with its innovative products and services.

Pursuant to the authorization of the Central Bank of Turkey dated February 28, 1989, the Bank started operations as a Private Finance House on March 31, 1989 under the trade name Kuveyt Türk Finance Institution of Foundations Joint Stock Company. 1999 saw its business operations come under the scope of Banking Law No. 4389 along with other private financial institutions. In 2006, the Bank assumed its current name: Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk).

Having celebrated its 29th year in Turkey in 2018, Kuveyt Türk remains the pioneer in Turkey's participation banking industry. The Bank stands apart with its dynamic corporate governance approach, innovative products and involvement in international markets.

In Turkey and around the world, Kuveyt Türk delivers fast, top-quality services to savers and investors via its own branch network and correspondent banks, by using a wide range of state-of-the-art technologies.

In addition to banking transactions, the Bank plays a major role in the local economy with investments across a range of industries, from real estate to manufacturing.

Since its founding, Kuveyt Türk has been committed to offering exceptional interest-free banking services, conducting extensive research in investment areas, delivering cutting-edge, consistent, top-quality and fast services to savers and businesses, and providing continuous employee training to achieve higher productivity.



**Total Shareholders' Equity
TL 5.4 Billion**

As of end-2018, Kuveyt Türk increased its total shareholders' equity by 10% to TL 5.4 billion.



**Net Profit for the Period
TL 822 Million**

Once again delivering successful financial results, Kuveyt Türk boosted its net profit to TL 822 million as of end-2018.



KULVEYTTÜRK



KULVEYTTÜRK

Kuveyt Türk in Brief



Robust Partnership Structure

Some 62.24% of the Bank's total shares are owned by Kuwait Finance House, 18.72% by the Turkish Directorate General of Foundations, 9% by the Kuwait Public Institution for Social Security, 9% by Islamic Development Bank, and the remaining 1.04% by other real and legal entities.

With a strong capital structure and an efficient international service network, Kuwait Finance House (KFH) is Kuveyt Türk's largest shareholder and the pillar supporting the Bank's consistent growth performance.



Continuous Improvement Oriented Human Resources

Offering continuous improvement opportunities for its human resources, Kuveyt Türk provides an exceptional customer experience to customers with 5,871 staff at 414 branch locations.

Investing intensively in its staff, almost all of whom are university graduates, Kuveyt Türk outshines the competition with its well qualified and experienced human capital.



Steady Growth in Assets

An industry standout with its robust capital structure and dynamic corporate governance approach, Kuveyt Türk reported TL 3.5 billion in paid-in capital as of year-end 2018. The Bank recorded total unconsolidated assets of TL 74.8 billion and shareholders' equity of TL 5.4 billion as of year's end.



Pioneer in Gold Banking

Kuveyt Türk commenced gold banking services in 2007 and started organizing Gold Days in 2011. As of year-end 2018, Kuveyt Türk has delivered 2.1 tons of customer gold kept "under the mattress" to the Turkish economy. In addition to holding 12% of all precious metal accounts sector-wide and 56% of such accounts among participation banks, Kuveyt Türk was one of the first banks to join the Gold EFT system launched in 2018. The Bank has maintained its lead among banking institutions in the Borsa Istanbul (BIST) Precious Metals and Stones Market with its high gold trading volume since 2011. Kuveyt Türk is also the first and only Turkish bank to join the London Bullion Market Association (LBMA) as an associate and the SGEI (Shanghai Gold Exchange International) as a member.



The Bank that Introduced Sukuk to Turkey

In 2010, Kuveyt Türk became the first bank in Turkey to enter into sukuk (lease certificate) markets. Since then, the Bank is holding the leadership position in deepening and development of the sukuk market. Kuveyt Türk issued 27 sukuk in 2018, in the amount of TL 5.1 billion.

Until now, Kuveyt Türk has issued sukuk denominated in various currencies, such as Turkish Lira, US Dollar and Malaysian Ringgit (MYR), both in Turkey and overseas. These issues have been TL 10.4 billion, USD 1.8 billion, and MYR 800 million, respectively. Out of these issues, amounts currently circulating in various markets are TL 1,885 billion, USD 1,350 billion and MYR 800 million, respectively.

During the accounting period of 2018, Kuveyt Türk issued sukuk for TL 5.1 billion, increasing by 120% compared to the previous year. TL 600 million issue which was made in October 2018 has been the highest amount of a single TL denominated issue of sukuk in the sector of interest-free banking, setting a record for Turkey.

Furthermore, remembering the sukuk issued in 2016 by Kuveyt Türk with a nominal value of USD 500 million and a term of 5 years which had received a demand 4 times the issued amount despite the competitive pricing; this sukuk issue won the grand prize in the category of "Best Islamic Capital Markets Transaction of the Year" in 2018, at the Bonds & Loans Turkey Awards.



The Constantly Developing Technological Infrastructure

Kuveyt Türk is committed to ensuring that the full range of physical branch services are also available in an end-to-end digital environment. The Bank aims to offer its customers the widest possible array of banking transactions on mobile platforms, enabling them to swiftly conduct a range of transactions – from transferring funds to paying bills or from precious metal and foreign exchange transactions to stock trading – wherever they are, without having to pay any fees.

In addition to launching the pioneering interest-free digital banking platform "Senin Bankan" as part of its 2018 activities, Kuveyt Türk also introduced an array of new services during the year. These innovative service offerings included the XTM branch which combines the functionality of a call center, conventional branch and ATM; QR code cash withdrawals and deposits via the Mobile Branch; and cash transfers to mobile phones via the Mobile Branch. The Bank demonstrated its trailblazing market position for innovations in participation banking with its mobile POS application "mPOS (CebimPOS)," which delivers POS device functionality via the Mobile Branch.

Thanks to this innovative approach in alternative distribution channels, the Bank's total digital customer base, including those on Senin Bankan, expanded to 950 thousand. Kuveyt Türk customers can now conduct 85% of their banking transactions via alternative distribution channels.

Kuveyt Türk in Brief



Participation Banking Compliant Supplier Funding Services from Kuveyt Türk

The murabaha-based Supply Chain Finance Facility Kuveyt Türk introduced in 2018 enables vendor and purchaser companies to conduct their transactions via Internet banking or FTP systems without having to resort to factoring. The Supply Chain Finance Facility provides suppliers the benefit of meeting their cash requirements arising from receivables on predefined terms while offering purchasers the advantage of extending their repayment terms.

Therefore, Supply Chain Finance Facility will provide the vendor regular cash flow, guaranteed payment and collection and also low financing cost for a possible competition regarding the credibility of the buyer.

The buyer will improve their relations with strategic suppliers by non-stop payment processes. Also, there will efficiency in terms of business capital and balance sheet, also process efficiency will be gained by reducing the supply chain expenses.



Besides Enterprises which Always Producing for Turkey...

Ranking among the strongest institutions of the Turkish banking industry with its robust capital structure, Kuveyt Türk sees extending support to the country's manufacturing companies with its interest-free banking products and services as a strategic priority. The Bank received several awards from public agencies and professional associations - including the Undersecretariat of Treasury and Foreign Trade, Istanbul Chamber of Commerce, and the Association of Istanbul Ready-Made Garment Exporters - for its long-term and innovative products and services.



Financial Bridge between Turkey and the World

Backed by the extensive interest-free banking experience of Kuwait Finance House, Kuveyt Türk serves as a financial bridge for Turkish investors seeking to expand into the Gulf region and the rest of the world with its vast correspondent network and efficient communications.

The Bahrain branch, operating since 2002, contributes effectively to the Bank's liquidity management by facilitating access to cost-effective Gulf funds. Furthermore, the branch in the Gulf region offers significant advantages in managing correspondent relations and acquiring new correspondents for the Bank's treasury and foreign trade transactions.

Kuveyt Türk also contributes into the Turkish economy with the correspondent services it provides for foreign trade transactions and account services for Euro-denominated transfers in Germany and the rest of Europe via its wholly-owned subsidiary KT Bank AG, which commenced operations in 2015.

As the first participation bank established in Germany, KT Bank AG will soon provide services at five branch locations following inauguration of the Munich branch in 2019.

Regarding the deployment strategy of the Belt & Road Initiative in Turkey, the Bank made extensive efforts focused on the People's Republic of China over the last two years and established an in-house China Desk. Thanks to this organizational structure, Kuveyt Türk aims to improve the scope and quality of the services provided to its customers.

Kuveyt Türk maintained its support to Turkey's real economy in 2018.



The Story of 29 Successful Years

1989

Kuveyt Türk was established with the title Kuveyt Türk Evkaf Finans Kurumu A.Ş. on March 31, 1989 under the authorization of the Central Bank of the Republic of Turkey, dated February 28, 1989.

1991

As a result of international banking services provided during the year, the Bank ensured foreign currency inflow of USD 39 million from exports and other items.

1994

The Head Office moved to its new building.

The first public housing development project – Huzur – was completed, with the residential units delivered to their owners.

1998

Kuveyt Türk launched its first credit card.

1990

Kuveyt Türk was awarded the Gold Prize for its contributions to the ready-to-wear industry.

Kuveyt Türk's founding capital doubled.

1992

State Economic Enterprises were granted their first loan from the Gulf region thanks to Kuveyt Türk. Total funding extended by Gulf nations for this purpose amounted to USD 50 million.

1995

In recognition of its support to exports, the Bank was awarded the Gold Prize by the Association of Istanbul Ready-Made Garment Exporters.

1999

The Bank started to conduct its business operations subject to Banking Law No. 4389.

1993

Kuveyt Türk's Head Office and branches were linked online to each other.

1996

Körfez Gayrimenkul A.Ş. was established as a subsidiary of Kuveyt Türk.

2000

The Bank started providing retail banking services.

The Bank became the first interest-free financial institution in Europe to receive ISO 9001-2001 Quality Certification.

1997

Kuveyt Türk's total branch network expanded to 16 locations.

2001

The Bank introduced the Palmiye Card, the first commercial card with instalment payments.

<p style="text-align: center;">2002</p> <p>Kuveyt Türk became the first private financial institution to be a direct member of Visa.</p>	<p style="text-align: center;">2004</p> <p>Kuveyt Türk opened its first overseas office in Mannheim, Germany.</p> <p style="text-align: center;">2005</p> <p>The Bank received an achievement award from Istanbul International Finance Forum for its contributions to the interest-free banking sector.</p>	<p style="text-align: center;">2007</p> <p>Kuveyt Türk became the first participation bank to launch foreign currency forward trading with a fixed exchange rate.</p> <p>As the first and only participation bank on the Istanbul Gold Exchange, Kuveyt Türk started selling gold in grams, thereby taking its first steps to launch Gold Banking.</p>	<p style="text-align: center;">2010</p> <p>Issuing the first sukuk security under the co-leadership of LMH (Liquidity Management House) and Citibank, the Bank introduced Turkey to this financial instrument used widely across the Gulf region and Malaysia. The three-year, USD 100 million issuance was 1.5 times oversubscribed as a result of ample interest from the world's major financial centers.</p> <p>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.</p>
<p style="text-align: center;">2003</p> <p>To offer interest-free banking services nationwide, Kuveyt Türk reached an agreement with the Turkish Postal System (PTT), which had a network of nearly 1,000 branch locations across the country.</p>	<p style="text-align: center;">2006</p> <p>The Bank was renamed as Kuveyt Türk Katılım Bankası A.Ş. (Kuveyt Türk), which is still in use.</p> <p>The international credit 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).</p> <p>The four-year, USD 50 million murabaha syndication secured by Kuveyt Türk for GAP Güneydoğu Tekstil became the longest-term loan secured from Gulf countries at that time.</p>	<p style="text-align: center;">2008</p> <p>The two-year, USD 200 million murabaha syndication secured by Kuveyt Türk from banks in the Gulf region and Europe was oversubscribed by USD 265 million and significantly bolstered the Bank's reputation in international markets. During the year, Kuveyt Türk unveiled a range of innovative products, including Gold Swap, Gold for Gold and Gold Check.</p> <p style="text-align: center;">2009</p> <p>From 2008 to 2016, Kuveyt Türk provided services at Dubai International Finance Center (DIFC) as a bank subsidiary with capital of USD 12 million.</p> <p>The representative office in Germany was converted into a Financial Services Branch.</p>	<p style="text-align: center;">2011</p> <p>In 2011, Kuveyt Türk completed its second sukuk issuance with lease certificate backed sukuks, securing a USD 350 million foreign resource for the Turkish economy.</p> <p>Improving its service network in terms of quality and speed, Kuveyt Türk increased its total number of domestic and overseas branches to 180.</p> <p>In 2011, Kuveyt Türk became the first and only Turkish bank, and the world's first participation bank to be admitted to the London Bullion Market Association (LBMA) as an Associate.</p>

The Story of 29 Successful Years

Kuveyt Türk continued to provide funding and support to high-profile projects across various sectors in 2018. Focusing on funding solar power plant (SPP)s, Kuveyt Türk financed 15% of all the country's solar energy projects as of end-2018. In addition, the Bank provided EUR 200 million for the Çanakkale 1915 Bridge Project and EUR 100 million for Niğde-Ankara Motorway Project. These projects were supported with a view toward ensuring Turkey's sustainable development.

2012

Kuwait Finance House's subsidiary, Liquidity Management House, became one of three companies to support the Undersecretariat of Treasury in its five-year sukuk issuance worth USD 1.5 billion – the first of its kind in Turkey. Kuveyt Türk participated in the referenced transaction as co-leader.

Following its Gold Plus Gold Fund, Kuveyt Türk also issued silver funds under the name Silver Plus. The Silver Plus Investment Fund commenced trading on the Istanbul Stock Exchange.

Kuveyt Türk was the only bank to win praise by name in the 2012 special report of the World Gold Council (WGC) for the diversity of its gold products and services.

2014

Kuveyt Türk completed the XTM project, which combines video chat and self-service transactions – the first of its kind in the world. This innovative service was offered to customers at 22 locations across Istanbul.

The latest version of Kuveyt Türk's Mobile Branch was launched featuring a range of new functionality as well as an enhanced user experience.

Kuveyt Türk became the first bank in Turkey to appoint a Board Member in charge of Ethics.

Kuveyt Türk's international sukuk issue worth USD 500 million was oversubscribed 6.5 times.

2013

In line with its social responsibility mission, Kuveyt Türk launched a fundraising campaign to benefit the Hope Foundation for Children with Cancer (KAÇUV) and to fight against cancer, a growing problem in the country.

The Islamic International Rating Agency (IIRA), which rates Islamic/ interest-free banks, upgraded Kuveyt Türk's short-term national rating from A+ to AA- and its long-term national rating from A-1 to A-1+.

Kuveyt Türk's sukuk issue worth TL 150 million, with a maturity of 364 days, was oversubscribed by more than two-fold.

With the collaboration of Kuveyt Türk Katılım Bankası A.Ş. and Albaraka Türk Katılım Bankası A.Ş., Katılım Emeklilik ve Hayat A.Ş. was established.

2015

Kuveyt Türk obtained the required license from BaFin, the German Federal Financial Supervisory Authority, to offer banking services in Germany. KT Bank AG commenced operations as the first bank in Germany engaged in interest-free banking activities.

Kuveyt Türk commenced its Private Banking operations – a first in the participation banking industry in Turkey.

Kuveyt Türk established KT Portföy, the portfolio management subsidiary designed to offer interest-free financial solutions.

Kuveyt Türk launched "Senin Bankan," the branch-free and fee-free digital banking platform. Senin Bankan represents the new generation banking approach – merging participation banking principles with innovations and opportunities provided by the internet.

2016

During the 2015 tax year, Kuveyt Türk declared taxes worth TL 159,650 thousand, ranking first among participation banks, 19th among all Turkish taxpayers, and 10th among all banks.

In February, Kuveyt Türk issued the first quasi-equity sukuk with a 10-year maturity. Worth USD 350 million, the transaction constitutes the largest ever quasi-equity sukuk issue in Turkey.

Having issued a quasi-equity sukuk worth USD 350 million in February 2016, domestic sukuk as public offering worth USD 300 million in May, and international sukuk worth USD 500 million in November, the Bank firmly maintained its position as Turkey's largest sukuk issuer.

The Turkish Capital Markets Association (TSPB) presented an award to Kuveyt Türk for its operations in the banking industry in 2016.

The Bank was designated "Turkey's Best Islamic Financial Institution" by Global Finance, and "Issuer of the Year" by Islamic Finance News.

2017

Kuveyt Türk launched its new generation retail credit card "Sağlam Kart."

Kuveyt Türk held the Hackathon Digital Banking Software Project Competition to support development of the FinTech ecosystem and provide young entrepreneurs with an environment to apply and realize their ideas.

Kuveyt Türk executed an initial public offering of sukuks worth TL 50 million with a 728-day maturity via its wholly-owned subsidiary KT Sukuk Varlık Kiralama A.Ş. DRD Fleet Leasing, Turkey's largest operational fleet leasing brand built on 100% local capital, was the beneficiary and obligor.

Kuveyt Türk inaugurated the Lonca Entrepreneurship Center to offer start-up enterprises opportunities and support, including training, mentoring, consultancy and financial investment.

Kuveyt Türk broke a new record in the participation banking industry with the highest value single-issue sukuk export in TL denomination.

KT Bank AG, the first and only interest-free bank in Germany and the Euro zone, inaugurated its Cologne branch after the Frankfurt, Berlin and Mannheim branches.

A pioneer in the industry with its innovative applications, Kuveyt Türk launched the most comprehensive API marketplace platform in Turkey's banking industry.

The only bank in Turkey to boast two R&D centers, Kuveyt Türk inaugurated its second R&D Center in Konya.

Kuveyt Türk began to offer foreign currency and gold transactions on its alternative channels on a 24/5 hour basis (weekdays) with prices closely tracking daily margins.

2018

The Best Workplaces in Turkey 2018 survey by the Great Place to Work Institute named Kuveyt Türk as the "Best Finance Employer" and one of the "Best Workplaces in Turkey."

As of 2018, Kuveyt Türk has financed 15% of Turkey's solar power plants (SPP) projects.

The Bank provided EUR 200 million funding for the Çanakkale 1915 Bridge Project, and EUR 100 million for Niğde-Ankara Motorway Project.

At the World's Best Banks Awards organized by Global Finance Magazine, which is available in 189 countries, Kuveyt Türk was named "Turkey's Best Islamic Finance Institution." Additionally, Kuveyt Türk's 100% owned subsidiary KT Bank AG received the award for "Europe's Best Islamic Finance Institution."

Kuveyt Türk was named "Turkey's Most Powerful Islamic Bank" from IRBA (Islamic Retail Banking Awards).

The partnership of Kuveyt Türk and Vakıf Participation launched "Techno-Venture Capital Investment Fund."

Kuveyt Türk visited several cities across Turkey with its "Golden Vehicle" and informed local residents at various city squares about Gold Banking.

Kuveyt Türk achieved a significant success by exporting software totaling TL 120 million at once. Kuveyt Türk's banking database BOA will be used in more than 60 banks in 20 countries including Nigeria, Malaysia and Egypt.

About Kuveyt Türk



Mission

To be a bank that adheres to interest-free finance principles; abides by moral values; focuses on customer-oriented banking while adding value for all stakeholders; and embraces corporate social responsibility.

The Kuveyt Türk family conducts all its financial activities within the framework of participation banking principles.



Vision

To be the most reliable participation bank providing sustainable and profitable growth by leading the way in developing interest-free financial services.

Kuveyt Türk fosters progress in the banking industry with its highly competent and well-qualified workforce.

Guided by its quality policy and under the leadership of the Bank's senior management, Kuveyt Türk operates with the vision of being an institution that generates value while continuously improving service quality and customer satisfaction.

Our Quality Policy

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

- Improves the degree and quality of customer satisfaction
- Leads the banking industry
- Creates value under the leadership of senior management
- Moves forward with the dedicated efforts of employees throughout the organization

Values

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

- Robust banking
- Fairness
- Trust
- Team spirit
- Professionalism
- Being innovative

Ethical Principles

Kuveyt Türk pursues the following ethical principles to deliver services underpinned by its values:

- Integrity
- Impartiality
- Transparency
- Confidentiality
- Ethical approach

Our Service Principles

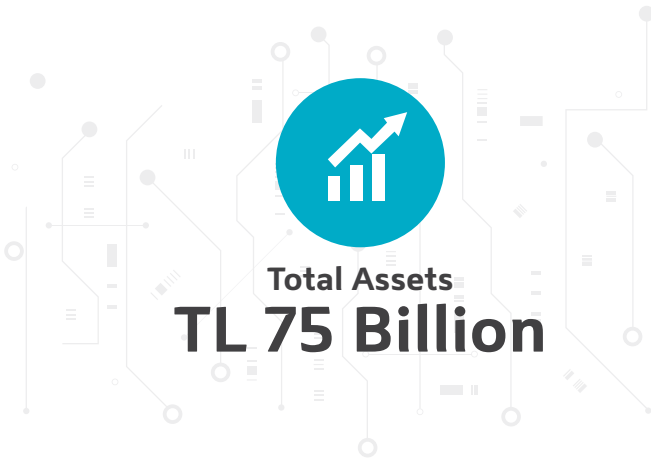
Kuveyt Türk pursues the following ethical principles to deliver services underpinned by its values:

- Reliability
- Responsiveness
- Empathy
- Solutions-oriented

Message from the Chairman

At Kuveyt Türk, we will focus on adding value to our customers' savings in line with the macroeconomic targets of the New Economic Program (NEP).





Our highly competent, well-qualified, young and dynamic staff remained the driving force behind our success in fiscal year 2018.

Esteemed Shareholders,

2018 was a year of significant volatility in both interest rates and foreign exchange rates. The looming trade war between the US and China, tightening financial conditions, increasing geopolitical tensions and rising oil prices led the IMF to revise the global economic forecast downward for the first time in more than two years.

Weakened Global Growth Forecast

The IMF's World Economic Outlook from October 2018 revised down the 2018 and 2019 global growth forecast from 3.9% to 3.7% while projecting that Turkey's economy will expand 0.4% in 2019. Economic growth lost momentum in the Eurozone, where the European Central Bank (ECB) implemented expansionary monetary policies. In addition, China's economy expanded just 6.5% in the third quarter, below expectations, as a result of controlled growth policies.

Savings and Export Led Growth in line with the New Economic Program (NEP)

After recording growth of 7.4% in first quarter and 5.3% in second quarter 2018, Turkey's economy is projected to have expanded 1.8% in the fourth quarter due to weakened economic activity in the third quarter. 2018 marked a challenging year for Turkey particularly in the second half regarding the trilemma of foreign exchange rates, interest rates and inflation. With the decisive steps taken by public authorities in the third quarter, and particularly the new monetary policy by the Central Bank of Turkey (CBT), an economic normalization process commenced. As Turkey begins the year with a strong economic program, we expect to see even greater momentum toward stabilization of the nation's economy in the coming period. Recovery and rebalancing in exchange rates are set to revive the financial sector as well as the real sector. Equipped with significant experience accumulated during the country's 2001 economic crisis and the 2008 global financial crisis, we have every confidence that Turkey's economy will successfully navigate the challenging period ahead guided by the New Economic Program (NEP). We also expect the 2018 annual growth rate, forecast to be in the 3-3.5% range, to provide a good basis for the future course of the NEP.

Turkish Banking Industry Maintains Strong Outlook

The banking industry, one of the main pillars of Turkey's economy, maintained its robust outlook in 2018 despite fluctuations in both domestic markets and the global

economy. The banking sector's assets expanded 18.7% compared to the previous year, and total loans increased 16.3% to TL 2,537 billion. In 2018, participation banks continued to grow and develop as they further bolstered their position in the industry. During the year, participation banks boosted their total assets by 29.1% and increased the funds they extended by 16.4%.

Kuveyt Türk is a Standout with Its Asset Quality

Due to the high degree of volatility experienced throughout the year, the banking sector was especially preoccupied with maintaining asset-liability quality in 2018. By effectively managing risks and opportunities, Kuveyt Türk not only maintained its asset quality but also sustained its profitability-oriented growth. Undeterred by fluctuations in the Turkish economy, the Bank continued to roll out major innovations for customers, including Senin Bankan, the interest-free digital banking platform, and the XTM Branch, which combines the functionality of call centers, branches and ATMs. The Bank continued to chart the course of participation banking with these and other groundbreaking initiatives. As the only bank in Turkey to boast two R&D centers, Kuveyt Türk's investments in advanced technology kept pace with the most comprehensive API platform in the sector. The Bank remains committed to transferring as many of its banking transactions as possible to digital platforms to provide the best customer experience at a time that sees declining traffic for the physical branch channel. In 2018, Kuveyt Türk also continued to develop its infrastructure to meet future needs in an increasingly competitive environment. The Bank is deeply engaged in the digital transformation of its business processes and procedures.

Multiplying Our Successes...

Our highly competent, well-qualified, young and dynamic staff remained the driving force behind our success in fiscal year 2018. I would like to extend my gratitude to our staff for their many contributions and our stakeholders for their unwavering support. I hope to see our successes sustained and multiplied in the coming year.

With regards,

Hamad Abdulmohsen Al Marzouq
Chairman of the Board of Directors

Message from the CEO

Focused on funding solar power plant (SPP)s, Kuveyt Türk financed 15% of all SPP projects in Turkey in 2018.



Esteemed Shareholders,

Kuveyt Türk is Turkey's leading participation banking institution with its robust capital structure, dynamic corporate governance approach, continuous improvement driven customer service model, ongoing advanced technology investments and international market reach. In 2018, the Bank once again outperformed its growth targets while generating significant added value for all its stakeholders.

Financial and Operational Results That Bolster Our Corporate Agility...

The Bank's financial results as of year-end 2018 further strengthened its strong financial position in the participation banking sector. In 2018, Kuveyt Türk's fund size increased more than 35%, assets went up 30%, and net period profit rose over 15% with an greater focus on efficiency. Total assets amounted to TL 75 billion and net profit was TL 822 million. While the total amount of funds allocated by the Bank climbed to TL 41.6 billion and funds collected totaled TL 55 billion, Kuveyt Türk's NPL ratio remained well below the industry average at 2.47%.

Serving customers via a robust network at 414 branch locations across Turkey with close to 6 thousand employees, Kuveyt Türk added 17 more branches in 2018 – achieving 85% geographic coverage of Turkey.

Strong Financial Support for the Real Economy

By providing robust financial support to the real economy in line with participation banking principles throughout 2018, Kuveyt Türk continued to contribute to Turkey's sustainable development. An industry standout with its customer satisfaction-oriented products and services, Kuveyt Türk introduced the Supplier Finance Facility for SMEs and commercial customers in 2018. This innovative product is designed to help suppliers meet their cash requirements arising from their receivables ahead of term and give purchasers more flexibility in their cash flows. The Supply Chain Finance product involves Kuveyt Türk making the payment to the supplier ahead of the due date. Meanwhile, the purchaser makes the repayment by maturity to Kuveyt Türk. As a result, both the vendor and purchaser are able to manage their cash flows and avoid liquidity issues, and operate on firm financial footing.

New Area of Expertise: Renewable Energy Finance

Committed to supporting Turkey's development under all economic conditions, Kuveyt Türk continued to provide funding for energy and infrastructure investments in 2018. Almost USD 740 million worth of funding was extended to the energy sector by year's end. Focused on

funding solar power plant (SPP)s, Kuveyt Türk financed 15% of all SPP projects in Turkey in 2018. The Bank also extended support to the country's major infrastructure projects in line with its project finance expertise. During the year, Kuveyt Türk provided EUR 200 million for the Çanakkale 1915 Bridge Project and EUR 100 million for Niğde-Ankara Motorway Project.

Lease Certificate Issues Total TL 5.1 billion

Kuveyt Türk continued to undertake foreign financing efforts aimed at further strengthening its strong financial structure in 2018. The Bank issued 27 preces lease certificates amounting to TL 5.1 billion. The Bank set a new record in Turkey's participation banking industry for the highest value single-issue sukuk with the 95-day, TL 600 million lease certificate issue. Meanwhile, Kuveyt Türk's 2016 issue of USD 500 million on a 5-year maturity sukuk, which was oversubscribed four times despite its competitive yield ratio pricing, received the top award in the "Best Islamic Capital Markets Transaction" category at the 2018 Bonds and Loans Turkey Awards.

Consistent Growth Overseas with KT Bank AG

Enjoying a robust international reputation, Kuveyt Türk posts consistent growth overseas thanks to its 100% owned subsidiary KT Bank AG. Having actively used branchless banking channels since 2016, KT Bank AG opened more than two thousand retail accounts for customers from 20 different countries (from the European Union, Turkey and the GCC region) and more than 50% of deposits gained from online channels. Jetzz Card was introduced in 2018 and it is expected to meet the "easy installments of the needs" request of the German market. KT Bank AG uses SEPA and Target 2, the first financial payment systems of the Euro Zone, also provides Vostro and cash management services to international institutions on euro currency. Preparing to inaugurate its fifth branch in 2019, the long-term plans of our subsidiary involve improving access to the interest-free financial system in other European countries.

A Pioneering Force in FinTech

Kuveyt Türk also became an exporter of financial technology (FinTech) via Architech, the Bank's technology subsidiary, by undertaking comprehensive IT projects in Turkey and abroad. Under an agreement that our subsidiary signed with Kuwait-based Information Technology Solutions (ITC), a company operating banking software development centers in Egypt, technologies developed by Kuveyt Türk will be rolled out in more than 60 banks in 20 countries – including Nigeria, Malaysia, Indonesia and Egypt – in 2019. Full installation of the system is expected to be completed in all the countries involved within three years.

Message from the CEO

By providing robust financial support to the real economy in line with participation banking principles throughout 2018, Kuveyt Türk continued to contribute to Turkey's sustainable development.

Significant Growth in Digital Customer Numbers

Understanding the importance of digitalization for the banking industry as well as Turkey's wider economy, Kuveyt Türk continuously pushes ahead with investments in this key area. As of year-end 2018, the retail customer focused Senin Bankan application had 98 thousand users. Meanwhile, the number of Bank customers using digital channels climbed to 950 thousand. At Kuveyt Türk, we aim to push forward with our digital transformation investments in the coming year, enabling more customers to benefit from the advantages of digitalization. By establishing the Digital Transformation Group Directorate in April 2018, Kuveyt Türk strengthened its digitalization focus across the organization. The Digital Transformation Program aims to provide an easy, safe, swift and seamless customer experience across all channels, while ensuring operational excellence by optimizing and digitizing internal business processes. Numerous projects are already underway as part of the Digital Transformation Road Map drawn up in line with these targets. We also plan to undertake new initiatives in 2019 under the Digital Transformation Program.

Customer Experience Excellence in Digital Banking

In digital banking just like every other area, Kuveyt Türk aims to deliver products and services that will add value to its customers with a user-friendly interface and a flawless customer experience. In 2018, Kuveyt Türk achieved a breakthrough in the Turkish banking sector and developed a solution that enables smart phones

to be converted into virtual POS devices that receive payments through the mPOS application. Customers who wish to collect payments can log into the Kuveyt Türk Mobile Branch via their mobile phones and process their collections through the sales menu options. To facilitate the access of Arabic speaking customers to their banking transactions, the Bank brought online the Arabic Mobile Branch and Arabic website. Committed to further enhancing customer satisfaction, we plan to boost the range of products and services offered through the Bank's digital channels and further perfect the user experience.

New Ecosystem Collaborations

In December 2017, Kuveyt Türk launched the most comprehensive API Market platform in the Turkish banking sector to ramp up ecosystem collaborations while digitizing its business processes. The platform enables entrepreneurs seeking to build a new system and companies operating in FinTech to readily receive a range of services and information and start providing their services in less time with less investment. By introducing new services within the next two to three years, we expect to further expand the extent and scope of API Market, which currently offers more than 50 APIs. A FinTech integration process was started in order to begin cooperation with FinTech enterprises, which were contacted via API Market platform, Lonca Entrepreneurship Center and various other channels. Building on our ongoing work with FinTechs, we aim to provide new services in the near future to facilitate the lives of our customers.

“Turkey’s Best Workplace” and “Best Employer in Finance”


In 2018, Kuveyt Türk launched its new employer brand “So Glad (İyi ki).” This identity is aimed at our human resources – one of the most crucial components of the Bank’s sustainable success journey. We envision the “So Glad” employer brand helping us transform the corporate experience of the Bank into a holistic story. In addition, “So Glad” is expected to further enhance our staff’s sense of corporate belonging and productivity. In recognition of the support the Bank extends to its employees in every area, the “Turkey’s Best Workplaces 2018” survey, compiled by the Great Place to Work Institute, named Kuveyt Türk one of “Turkey’s Best Workplaces” in the “2,000+ Employees” category. In addition, the Bank received the special designation of “Best Employer in Finance.” As the first and only one to enter the rankings, Kuveyt Türk is committed to supporting its employees; in fact, the Bank regards the staff as members of the family. Kuveyt Türk received several other international awards the Bank in 2018. At the World’s Best Banks Awards, organized by Global Finance Magazine, a publication available in 189 countries, Kuveyt Türk was named “Turkey’s Best Islamic Finance Institution.” Meanwhile, its subsidiary KT Bank AG received the award for “Europe’s Best Islamic Finance Institution” at the same competition. Furthermore, the Bank was named “Turkey’s Most Powerful Islamic Bank” at the IRBA (Islamic Retail Banking Awards), one of the most prestigious international competitions in participation banking. With these honors and awards, Kuveyt Türk has further strengthened its robust corporate reputation.

Aiming Higher than Ever, as We Commence Our 30th Year...

As we prepare to celebrate the 30th anniversary of our founding in 2019, Kuveyt Türk remains Turkey’s leading participation bank. We remain a bank that provides forward-looking, consistent, reliable, high quality and swift services. We remain committed to the continuous training and development of our staff, as we have since our inception. While constantly improving our customer-oriented service model, we will continue honing our business model across our expanding branch network with an innovative and forward-looking approach. In line with that goal, we will boost our investments in advanced technology and accelerate efforts for digital transformation. Kuveyt Türk plans to continue outperforming the banking sector in terms of growth, as the Bank has done over the last five-year period. We aim to generate growth in the 18-19% range on average over the next five years. We plan to grow our asset size to TL 170 billion and operate 480 branches by 2023, extending our geographic coverage of Turkey from 85% to near 90%. In pursuit of these goals, our biggest supporters, as ever, will be our valued stakeholders, who include our employees and our customers.

I would like to extend my gratitude to all our stakeholders, and especially our staff, for their immense contributions in helping us achieve our objectives, and with whom we look forward to the future with confidence. I wish for us all continued and increasing success for the year ahead.

With regards,



Ufuk UYAN

Member of the Board of Directors and CEO

SECTION 2: ACTIVITIES IN 2018

Kuveyt Türk plans to continue financing renewable energy in the coming year and serving as intermediary for issuing sukuk on behalf of corporate clients. Focusing also on infrastructure development, the Bank aims to take part in infrastructure projects of strategic importance for Turkey in 2019.

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Retail Banking

Putting customer needs and expectations first across its operations, Kuveyt Türk provides a wide range of products and services to its customers in Retail Banking.

The Private Banking Group Directorate, Retail Marketing Department and Digital Marketing Department operate under the Retail Banking.

Private Banking Group

Kuveyt Türk aims to meet the investment and financial needs of domestic and foreign clients in the high net worth segment. The Bank offers exclusive and prioritized service standards with the best pricing and widest product range through its Private Banking and Wealth Management Group operating under the Private Banking Group. The Bank extends these exclusive and prioritized services to domestic and foreign retail clients as well as portfolio management firms, pension funds, non-governmental organizations and foreign investment companies that meet specific criteria under the Bank's policies.

As the first participation bank to position high net worth individuals in the Private Banking segment, Kuveyt Türk serves customers from 64 countries on six continents through its Private Banking and Wealth Management Group. Having achieved 30% growth year-on-year in 2018, the Private Banking Group manages customer assets totaling more than TL 13 billion and serves some 9,600 clients, 34% of whom were foreign, at year-end.

Having started to extend its services to non-bank financial institutions – including insurance companies, portfolio management firms, pension funds, and investment funds – in 2017, Kuveyt Türk Private Banking Group further broadened its client base in 2018 by offering an even wider array of products and services.

Providing tailor made solutions for Private Banking customers – including qualified sukuk issues, limited edition sukuk issues, investment funds and personalized funds – the Private Banking Group conducted active marketing efforts for 23 sukuk issues aimed at qualified investors in 2018.



**Welcome to the world of
Kuveyt Türk Private Banking.**

We will do our best to always be there for you and make you satisfied on this road we take together.

We hope that our journey lasts many years and thank you for choosing us.

444 7 323
www.kuveytturk.com.tr

KUVEYTTÜRK | PRIVATE BANKING

The Private Banking Group serves some 9,600 as of end-2018

In addition to the readily available TL sukuk fund, USD sukuk fund and mixed equity funds featuring shares, Kuveyt Türk subsidiary KT Portföy actively promoted the new participation fund for Private Banking clients featuring short-term lease certificates offering daily returns.

The Private Banking Group aims for Kuveyt Türk to be the bank of choice for high net worth individuals from the Gulf region who would like to invest in Turkey. To this end, the Group enters into agreements with top tier construction projects and participates in both domestic and overseas real estate trade fairs. Furthermore, funding facilities are made available for Gulf region investors who would like to seize opportunities in real estate.

Launched at the end of 2015, the Private Banking Credit Card offers cardholders a range of privileges and benefits. These include special discounts on overseas spending, free fast-track services at selected domestic airports, complimentary car wash and dry cleaning services, free airport lounge services, discounted transfer services, and fee-free access to ATMs at nearly 600 airports across the world. In addition to the original range of privileges, a new line of exclusive services – such as discounted health check-ups, free overseas travel insurance and 5% discount on overseas accommodation – were offered to Kuveyt Türk customers in 2018.

The Private Banking and Wealth Management caters to customers' financial needs via a dedicated Istanbul Private Banking Branch where they can access fast-track services, as well as 13 exclusive Private Banking Corners. For overseas customers who want to access these services or seek to invest in interest-free products, the Bank provides service points in Bahrain, Kuwait and Germany.

In response to demand from Gulf region clients, Private Banking continues to deliver exclusive advisory services on issues such as law, taxes, zakat, inheritance, real estate, arts and education overseas. In addition, Private Banking provides tailor-made services for portfolio management, investment advisory and legal advice related to Turkish citizenship applications. Due to the impact of new legal requirements concerning how Turkish citizenship is granted, Private Banking recorded increased demand for consultancy services in 2018. Kuveyt Türk's Private Banking website www.kuveytturkoznel.com.tr is available in Turkish, English and Arabic, ensuring that local customers can open accounts instantly. For foreign customers who would like to open accounts, there is a dedicated call center for Kuveyt Türk Private Banking customers. The call center operates 24/7 with callback options in Turkish, English and Arabic to help clients set up their accounts. The arts and culture section of the Group's website features weekly articles from well-known artists in their respective areas. Alongside other new functionality on the Private Banking website, the Bank introduced an investment page providing live data flow in 2018.

The Private Banking Group plans to expand its customer base and the average portfolio size served under the Kuveyt Türk Private Banking brand. Additional private banking branches and service corners are also planned for 2019.

Retail Banking

Kuveyt Türk Retail Marketing rolled out several new innovative products and services to customers in 2018 thanks to its highly competent human resources.

Retail Marketing Department

As the first bank to introduce participation banking products and services to the retail segment, Kuveyt Türk acquired 450 thousand new customers in 2018 and expanded its total retail customer base by 13% to 3.9 million.

The Bank raised TL 5.7 billion in new funds through retail banking activities, boosting its total fund volume by 28% year-on-year. The Bank's total fund volume market share among all participation banks climbed to 46%.

Having inaugurated 17 new branches and expanded its branch network reach to 414 locations in 2018, Kuveyt Türk also delivers products and services via ATMs at prominent commercial and industrial hubs, the Internet Branch and Telephone Banking designed with state-of-the-art technology, and a 690-strong retail sales staff.

One of the new Bank branches inaugurated in 2018 is dedicated to exclusively serving foreign customers. Putting customer needs and expectations first across its operations, Kuveyt Türk provides a wide range of products and services to its customers in Retail Banking.

Accounts

In 2018, Kuveyt Türk recorded a 77% year-on-year increase in the total balance of its precious metal accounts. The Bank has a 12% market share of precious metal accounts across the wider banking industry and a 56% share among participation banks as of end-2018. The overall volume of gold collected through all gold accounts of the Bank totaled 23 tons. Kuveyt Türk became one of the first banks to join the Gold EFT system launched in 2018.

The ongoing gold coin collection campaign "Golden Days" helped integrate about 2.1 tons of gold into Turkey's economy in 2018. To encourage injecting "under-the-mattress" gold into the country's economy, the Bank conducted a promotional campaign for "Golden Days" with the concept "Sarı Şimşek Yollarda." The total size of all gold accounts at Kuveyt Türk amounted to 23 tons. The Kuveyt Türk Quarter Gold Coin Account enables the account holder to trade physical and virtual "quarter gold

coins," give trading instructions for quarter gold coins and make regular gold savings. Furthermore, customers can withdraw physical gold coins from all Kuveyt Türk branches or purchase gold on the Internet Branch and Mobile Branch.

Credit and Debit Cards

In 2018, the number of Kuveyt Türk credit cards issued increased 23% year-on-year to 557 thousand, while credit card turnover grew 46%. The number of Sağlam Debit Cards issued – which enable customers to access their debit account at ATMs and make purchases while rewarding them with Gold Points for their spending – rose to 2.307 thousand during the year.

"İhtiyaç Kart" (Credit Card), another Kuveyt Türk offering that sets an example for the industry, continued to attract keen interest in 2018. İhtiyaç Kart is on offer for the first time in Turkey as an alternative to general purpose loans. This innovative product allows customers to divide their short-term expenditures – such as wedding, home renovation, education, travel, and healthcare – into 34 installments while enjoying a two-month grace period.

Thanks to rapid expansion in the credit card and debit card lines, Kuveyt Türk maintained its position in the top 10 banks with direct access to Interbank Card Center (BKM) committees in 2018. Receiving customer praise for Sağlam Kart, which splits health care and education expenses into five interest-free installments even in the absence of vendor agreement, the Bank continues to develop innovative payment systems.

Financing

Kuveyt Türk's Retail Banking business line accounts for 14% of total loans, with a loan portfolio amounting to TL 6.7 billion. With vehicle finance liabilities amounting to TL 507 million, Kuveyt Türk recorded 29% growth year-on-year and increased its market share to 6.5%. The Bank offers customers a wide range of personal finance solutions that meet all their needs – from education to vacations or Hajj/Umrah travel to wedding expenses. Kuveyt Türk also began to offer customers three interest-free installments on Umrah travel organized by the Directorate of Religious Affairs between November 2018 and June 2019.



A total of 2.1 tons of gold was injected into Turkey's economy via "Golden Days" in 2018.

Insurance and Pensions

Since February 2011, Kuveyt Türk has offered its customers Private Pension System (PPS) plans, which include interest-free instruments such as sukuk, equities, participation accounts, gold and silver accounts. In 2018, the Bank sold another 62 thousand PPS plans, bringing the total to 180 thousand. The PPS fund portfolio size climbed to TL 1.5 billion and commission revenues amounted to TL 3.7 million.

Diligently observing the principles of tekâfûl (interest-free insurance) in all its operations and contracts, Kuveyt Türk continued its collaboration with Neova Sigorta, Turkey's only insurance company to provide services under these terms in 2018. The Bank has collaborated with Neova Sigorta since 2010.

Kuveyt Türk is focused on meeting all the funding needs and expectations of its customer base in line with interest-free banking principles. To this end, the Bank collaborates with Neova Sigorta and Katılım Emeklilik to meet its customers' insurance needs with generous collateral structures and alternative product packages. Insurance premiums generated by Neova Insurance via Kuveyt Türk totaled about TL 167 million in 2018.

With its innovative vision in interest-free insurance, advanced technology investments, and customer-oriented service approach, Kuveyt Türk continuously expands the range of products and services offered through Katılım Emeklilik. A new Full Support Health Insurance Policy was introduced to cover the expenses of health services received from private hospitals up to eight times per year. The insurance premiums generated by Katılım Emeklilik via Kuveyt Türk totaled about TL 33 million in 2018.

**Private Pension
offer to Kuyumcukent**

Kuveyt Türk presents a new group retirement plan and a **special PPS opportunity for Kuyumcukent branch.** You are welcome to our Kuyumcukent branch to take advantage of this opportunity.

- No Pausing Interruption
- No Management Expense Deduction
- No Entry and Exit Fees
- 25% State Contribution

KUVEYTTÜRK PARTICIPATION BANK INC. **Katılım Emeklilik**

Kuveyt Türk is focused on meeting all the funding needs and expectations of its customer base in line with interest-free banking principles. To this end, the Bank collaborates with Neova Sigorta and Katılım Emeklilik to meet its customers' insurance needs with generous collateral structures and alternative product packages.

Retail Banking

Senin Bankan, Turkey's first and only digital participation banking platform, reached nearly 100 thousand customers.



Senin Bankan has operated as Turkey's first and only digital participation banking platform, enabling customers to access banking services without having to visit a branch while still enjoying the best customer experience.

Digital Marketing Department

Established under Retail Banking in 2015, the Digital Marketing Department aims primarily to cut operational costs of branches and implement new trends in marketing methods. Instead of a conventional branch-based banking approach, the Department operates on a low-cost, technology-based, efficient and customer-oriented marketing approach. Digital Marketing also develops fresh marketing activities by using digital tools.

The Digital Marketing includes dedicated teams for Senin Bankan, the first interest-free digital banking product in Turkey and the world; XTM, the world's first automated teller machine project that combines video chat with self-service transactions; in addition to various initiatives to boost mobile and online marketing efforts.

Senin Bankan: Since early 2015, Senin Bankan has operated as Turkey's first and only digital participation banking platform, enabling customers to access banking services without having to visit a branch while still enjoying the best customer experience. Senin Bankan conveys the flexibility, agility and low cost nature of operating on a digital platform to its service offerings. To boost customer loyalty, efficient customers are rewarded through special promotional campaigns. Offering fee-free cash withdrawals from all Bank ATMs, fee waivers on EFT and wire transfers from overseas, and products from Turkuaz Participation Accounts with high-yield profit shares, Senin Bankan provides a fee-free banking experience. Recognized with two awards in 2016 in a competition by International Data Corporation for "Financial Inclusion" and "Digital Channels," the number of Senin Bankan customers has climbed to nearly 100 thousand at end-2018.



Active Customers on
Digital Banking Platform
950 Thousand

Kuveyt Türk undertook further efforts in 2018 to boost use of the Mobile Branch.

XTM: Launched in 2013 with the inauguration of the first XTM point, the Bank's XTM project aims to reduce branch overhead expenses while expanding participation banking services into every area.

Customers can access banking services in their preferred language through remote-access established via the XTM device to the Call Center staff, selecting from English, Arabic and sign language options. In 2018, the XTM project was further developed by increasing available transaction sets and establishing additional branches, most of which are in Istanbul.

Mobile and Internet Branch: Having launched its iOS and Android Mobile Branch apps, developed with in-house resources in 2015, Kuveyt Türk undertook further efforts in 2018 to boost use of the Mobile Branch. In 2018, the active user base of the Mobile Branch expanded nearly 54% to 800 thousand. Meanwhile, the active customer base on the Bank's digital banking platform rose 35% to 950 thousand. With the increase in Mobile Branch and Internet Branch use in 2018, 57% of the Bank's active customers now use the digital channels. Due to high volatility in the foreign currency and precious metals transactions, treasury revenue generated via digital banking channels surged 126% in 2018.

Website: With the launch of the new Internet Branch website in 2017, all users can now enjoy a more customized user experience. New features introduced on the web site helped streamline user access to Gold Days, made it easier to find branch and ATM locations, and provided further navigation options for card applications and opening accounts. The new website structure ensures provision of more effective services, including a quick access calculator on the home page for loan and profit share calculations. A MoneyGram form was also embedded into the website to facilitate transactions at branches. In 2018, user authorization stages to allow website notifications were also reduced to a single step, enabling delivery of free notifications to both Kuveyt Türk customers and all users who allow Kuveyt Türk to reach them via the Internet. Thanks to this revamped structure, 180 thousand persons can now receive notifications at no extra cost. During the year, average monthly unique users visiting the website reached 3.9 million, up 7% over the prior year.

SME Banking

Kuveyt Türk SME Banking increased its deposits in 2018 to TL 12.2 billion, boosting its total fund volume by 26% year-on-year.

Kuveyt Türk implemented an ambitious strategy based on innovative processes and economic sustainability, along with digitalization in its SME Banking business line in 2018. To ensure a seamless customer journey, the customer processes were revised and the customer segmentation was enhanced to better reflect the size, volume, financial structure and the latest industry conditions. Thanks to this structure, the segmentation ensured delivery of tailored services. Efficiency was increased through further digital enhancements in pricing and customer management. The Bank aims to continue projects concerning digitalization and sales policies in 2019, developing systems to respond to customer needs pro-actively.

TL 12.2 Billion in Deposits...

Thanks to these efforts, Kuveyt Türk SME Banking increased its deposits in 2018 to TL 12.2 billion, boosting its total fund volume by 26% year-on-year. TL 7.1 billion of the total deposits is held in current accounts, and TL 5.1 billion in participation accounts. SME Banking Group concluded the year with a 1.45% share of cash finance transactions across the whole industry, while its share within the participation banking segment was 21.12%.

Total loan volume of SME Banking rose to TL 16.3 billion, accounting for 31% of total loans in the Bank. Of the total loan volume, TL 13.5 billion is cash loans while TL 2.8 billion is non-cash loans.

62 Thousand New Customers

Of the funds Kuveyt Türk SME Banking Group extended in 2018, business finance accounted for approximately 59.3%, real estate finance 11%, vehicle finance 9%, credit guarantees (KGF) 10.4% and leasing finance 3.2%. Having opened another 62 thousand new accounts for SME customers in 2018, the Bank now serves 312 thousand customers under the portfolio.

Online Finance System

Online Finance System was launched to help customers access funding more swiftly and on more favorable terms without having to go to a branch. Developed to facilitate customers' finance transactions, the Online Finance System is accommodating for certain customer requirements, providing up to two months of payment-

free period and a flexible repayment plan. In 2018, 1,275 clients accessed a total of TL 384 million in business funding without even visiting a branch, saving themselves time and money. Since customers managed their transactions swiftly via Mobile Branch and Internet Banking, branches and portfolio representatives enjoyed operational efficiency.

Online Letter of Guarantee System

Brought online in the last quarter of 2017, the system allows customers to apply for and receive letters of guarantee via the Internet Branch, avoiding added workload on the branches. In 2018, 4,437 letters of guarantee were issued online; extending TL 151 million in non-cash loans.

Bundle Management

Through the Bundle Management project, developed over 2017 and implemented in October 2017, customers are offered customized service products in bundles. Aimed at customers who frequently use various banking channels, compact products matching their requirements are drawn together for cash sales. 7,477 such bundles were sold in 2018. Of these, 780 Foreign Trade Bundles brought in USD 564 thousand in fees, while 6,697 Banking Services Bundles generated TL 5.8 million in fees.

Leasing with Profit Share

Launched in fourth quarter 2016, the Leasing with Profit Share product makes Kuveyt Türk the first and only bank to offer the service among participation banks. The leasing with profit share offering involves charging the vendor for all or some of the financing cost while the customer receiving the loan enjoys installment payments based the invoice sum that excludes the profit share and commission fee. Almost 120 deals were struck with vendors, contributing more than TL 18 million into the leasing volume.

Supply Chain Finance

Through the Supply Chain Finance facility, suppliers meet their cash requirements arising from their receivables by their preferred terms, avoiding liquidity issues. Meanwhile, corporate and large scale companies receiving goods from the suppliers gain flexibility in their cash flows and are able to provide uninterrupted supply with effective procurement strategies.

The first Islamic Supplier Finance product was launched in a real environment as of November 2017, and 2018 saw 7 buyers and 7 vendors conduct 28 transactions, reaching a total transaction volume of USD 1,709,880 and TL 4,521,011.

Sağlam KOBİ Kart (Sağlam SME Card)

With the Sağlam KOBİ Kart (Sağlam SME Card), Kuveyt Türk allocates funds with up to 12 installments on existing credit limits, becoming the only participation bank to integrate a business finance loan with a card product.

Designed without the drawbacks of business cards and easy to obtain, Sağlam KOBİ Kart allows customers to access funds 24 hours a day, including weekends. Compared to conventional business cards, Sağlam KOBİ Kart's key distinguishing feature is that it requires no additional credit limit to be specified and allows branches to instantly issue a card on existing credit limits.

Sağlam KOBİ Kart achieved a turnover of TL 430.7 million in 2018. With a cash risk amounting to TL 181.1 million, KOBİ Kart was once again a top strategic product for SME Banking with high potential in 2018.

Sağlam Dealer Credit Card

Kuveyt Türk's Sağlam Bayi Credit Card (Sağlam Dealer Credit Card) is a commercial credit card which introduces a systematic structure for the commercial payments and collections between distributors and dealers, allowing for the purchases to be repaid on installments. Offered as an alternative product for companies not suitable for Direct Lending (DBS), the card offers a practical payment system, freeing businesses from the complexities of check, bond or cash payments. As a result of work carried out in 2018:

- The card had a payment-free period option enabled.
- Dealers were given the option of conducting collections even when they did not have their card with them through the mail order method.
- During 2018, agreements were signed with 61 main dealers and holders of the cards allocated to main dealers were earmarked funds totaling TL 5,850,000.

Agricultural Banking

Kuveyt Türk's Agricultural Banking products extend support to customers registered in the Farmer Registry System requiring funding for agriculture and animal husbandry. Plant production support, milk and livestock support, tractor support, cropland financing and agricultural machinery leasing are some of the Agricultural Banking products on offer. Repayment installments are scheduled according to the farmers' harvest times. Furthermore, the Bank acts as broker for TARSİM in crop insurance.

Kuveyt Türk's Agricultural Banking products extend support to customers registered in the Farmer Registry System requiring funding for agriculture and animal husbandry.



In 2018, the Bank's agricultural sector risk reached TL 500 million. Total fund allocations via the Tohum Kart (Seed Card), which allows farmers to make payments at harvest time and repay their loans without hardship, amounted to TL 25 million in 2018. Number of Agricultural Banking customers reached 40 thousand. Further work is underway to develop alternative new products and to reach more farmers.

DDS - DCS - Profit Share DDS (Direct Debiting - Direct Collection System)

DDS is a payment system where parent companies who grant franchise licenses or work with dealers and distributors can guarantee their collections while dealers enjoy various payment solutions. Besides, the parent company can generate campaigns for dealers through profit share DDS and make collections ahead of the due date. Each company can now issue multiple profit share campaigns. In 2018, the DDS system achieved a 99% increase in the total volume, reaching TL 803,874,677. In 2018, number of parent companies under DDS reached

SME Banking

In 2018, the total volume of the School Installments System grew by 35% year-on-year to reach TL 54 million.

177, marking a 27% increase, while the number of dealers grew by 37% to 3,504. The system processed 74,104 invoices.

School Installments System (OTS) and University Fee Collections

Kuveyt Türk extends eligible parents or guardians a non-cash finance facility for the payment of tuition fees for private schools, universities and training centers and offers a comprehensive service involving collections and transfers into the accounts of the education institution.

In 2018, the number of active schools on installment contracts reached 126 with a 31% increase. The number of parents/guardians involved in the scheme rose to 6,084, achieving 62% growth. Again in 2018, the total volume of the School Installments System grew by 35% year-on-year to reach TL 54 million.

Fixed Tariff POS

In return for a flat monthly fee, this scheme allows contracted merchants to make fee-free collections for single payment sales on credit cards up to a certain tariff limit on the next day. The primary beneficiary of this scheme are customers from the Micro and SME segments who agree to pay a flat monthly tariff. As of 2018, there are 3,581 fixed tariff POS devices in operation.

Profit Sharing POS

This business infrastructure is designed mainly for customers in the SME segment, who have a lower credit limit and dealer network than firms participating in the DBS schemes. A POS agreement is signed with the parent company to help dealers divide their transactions into installment payments. The dealer then conducts its payments in installments while the parent company collects the payment in advance instead of receiving a commission.

Some 5,270 POS terminals were configured as Profit Sharing POS, conducting installment transactions worth a total of TL 97 million.

Virtual POS upgrades

Under the Virtual POS UX upgrade, the Bank made improvements and corrections to menu interfaces, number of installments, user data, card data, and address data, end-of-day order follow-up and manual POS transactions.

Kuveyt Türk extends eligible parents or guardians a non-cash finance facility for the payment of tuition fees for private schools, universities and training centers and offers a comprehensive service involving collections and transfers into the accounts of the education institution.



**Export Loans
Provided
USD 926
Million**

Kuveyt Türk boosts its support to export-oriented SMEs and all other exporters from every segment, every single day.

Under the Virtual POS integration contract signed with the Revenue Administration, 3,117 Virtual POS installed at 1,039 tax offices generated a transaction volume of TL 20,389,949.

Virtual POS was upgraded to offer installment options for a fee, paving the way for further potential agreements with fintech companies in particular, and boosting the number of e-commerce customers reached.

mPOS (CebimPOS)

Kuveyt Türk customers with a POS terminal can also use the Virtual POS software via the Mobile Branch. With the fast, simple and free application that transforms every smart phone into a POS, the transaction begins as soon as the contactless card comes close to the mobile device and the card information appears on the POS screen securely blocked. Running on a 3D Secure infrastructure, mPOS is aimed at businesses who rely mainly on cash transactions but are not required to keep POS terminals integrated with cash registers such as plumbers, street vendors, restaurants, gym operators, financial advisers, taxi drivers, and barbers.

Foreign Trade Marketing

Enhancing its foreign trade finance products and processes, Kuveyt Türk boosting its support to export-oriented SMEs and all other exporters from every segment, every single day. Thus, the Bank keeps a firm focus on the kind of transactions that would contribute to Turkey's current and foreign trade balances. In this framework, benefits and activities aimed at exporters in 2018 facilitated customers' Eximbank loan processes, fees on foreign trade transactions were reduced significantly compared to the previous year, and improvements were made to include the export prices into the accounts. Furthermore, assistance provided to foreign trade customers for transactions integral to the process such as freight insurance, foreign exchange transactions and customs tax was increased.

Accompanied by the Financial Institutions Department and in collaboration with DEİK (Foreign Economic Relations Board), a Morocco-Tunisia-Algeria Day was organized drawing a large gathering involving industry executives, exporters and branch managers to discuss work to be undertaken in the target country group. Following the meeting, discounted foreign trade commission packages, favorable confirmation fees,

attractive exchange rates and tailored privileges were offered to customers working with these three countries.

The integration and cooperation efforts with our subsidiary in Germany KT Bank AG were accelerated. A customer experience survey for KT Bank AG was conducted and action is being taken on the basis of the analyses drawn from the results.

Marketing and Product Development Activities

In 2018, the Bank allocated USD 926 million to help exporters meet their financial needs through existing products, including Export Guarantee Loan, Eximbank Pre-Shipment Export Loan (SÖİK) and Long-Term Export Finance, achieving a 87% increase over the previous year.

In order to further support exporters, process development was initiated concerning Rediscount Credits with Turkey's Central Bank under efforts to develop new export finance facilities in compliance with participation banking principles with approval from the Central Advisory Board.

To generate a new line of collateral for exporter SME customers who face challenges in generating collateral, Exim Receivables Insurance collateralization initiative was completed, and pilot works will be carried out in 2019 marking the first such initiative in participation banking.

With a view to conduct transactions under factoring guarantees, the Bank attended meetings of the main international factoring organization FCI, and the process is in progress.

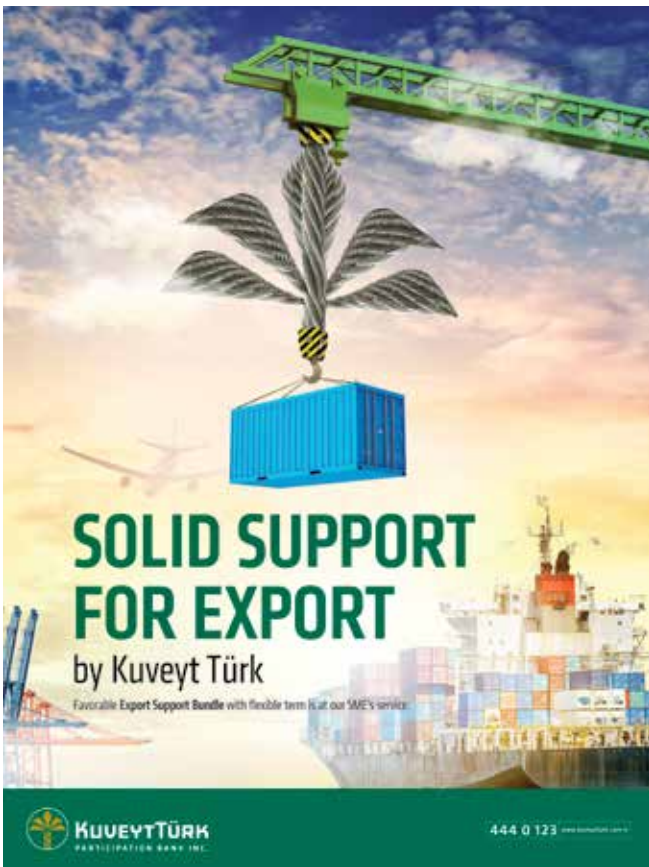
Key Indicators

As a result of successful activities in 2018:

- Overall volume of export loan facilities extended surged by 87%, to USD 926 million,
- Branches extending export loans grew by 60%, from 169 to 270,
- Number of exporter customers soared by 31%, from 8,177 to 10,727,
- Number of exporter customers soared by 9%, from 6,808 to 7,453,
- Number of branches conducting foreign trade transactions rose by 4%, from 356 to 371.
- Commissions generated through foreign trade increased by 60%, from TL 41.8 million to TL 66.8 million.

Corporate and Commercial Banking

Kuveyt Türk stood out from its competitors in 2018 through products including profit share leasing, profit share direct debiting (DDS), and the recently launched supplier finance.



Aiming to serve as a business and solutions partner for its customers through its customer-oriented portfolio management model, Kuveyt Türk retained and strengthened its lead in the Corporate and Commercial Banking Line among participation banks in 2018.

Corporate Marketing Department, Commercial Marketing Department, and Project and Structured Finance Department operate under the Corporate and Commercial Banking Group.

Corporate Marketing Department

Serving at three dedicated corporate branches with seven portfolios and 14 competent staff, the Corporate Banking business concluded the year with 1,691 customers, reaching TL 1.9 billion in collected funds, and TL 3.18 billion in extended funds. 2018 figures attest to the clear lead of the Bank in the industry:

- 1,691 corporate customers
- TL 1.9 billion collected funds
- TL 3.18 billion cash funds extended
- TL 3.7 billion non-cash credit volume
- TL 36 million other revenues
- TL 2.36 billion FX credit risk
- TL 87.5 billion leasing

The primary goals of Corporate Marketing Department for 2019 are as follows:

- Providing continued funding for infrastructure, superstructure and energy projects,
- Improving loan quality, focusing on asset quality and profitability, developing strategies to increase TL denominated deposits in its deposit base,
- Optimizing customer experience with innovative products and services and remaining as an indispensable bank for customers,
- Deepening and enhancing product penetration for customers in its portfolio by employing CRM as well as high-tech and efficient reporting tools,
- Increasing main dealer and sub-dealer agreements involving strategic products such as profit share leasing, DDS, Profit Share DDS, and supplier finance,
- Continuing to extend pre-shipment export loans from Eximbank funds as well as the Bank's own funds to support the strategic field of exports,
- Increasing the number of new customers by prioritizing customer satisfaction.

Commercial Marketing Department

Serving out of 85 branches with 175 competent staff, Kuveyt Türk Commercial Banking business concluded 2018 with 29,887 customers, reaching TL 3.7 billion in collected funds, and TL 19.3 billion in extended funds. 2018 figures attest to the clear lead of the Bank in the industry:

- 29,887 commercial customers
- TL 3.7 billion collected funds
- TL 19,3 billion cash funds extended
- TL 4.1 billion non-cash credit volume
- TL 256 million other revenues
- TL 10 billion forex credit risk
- TL 1.4 billion leasing

Enhancing its successful performance in relationship banking through new products and digital systems, Kuveyt Türk aims to further boost its activities in the business in 2019. Brought online to increase operational efficiency, the Automatic Pricing module, and the auto-commission system generated significant added value for banking service and profit share revenues in 2018, and made a positive contribution for the time management of staff. Leasing, leasing with Profit Share, Direct Debiting System (DDS), DDS with Profit Share and supplier finance products helped Kuveyt Türk stand out in the field. The Bank also differentiated its offer with new dealers or sub-dealers agreements in the Commercial segment.

Regarding the strategic field of exports, Kuveyt Türk continues to extend pre-shipment export loans from Eximbank funds as well as the Bank's own funds. In 2018, TL 1.4 billion of loans were extended in the commercial segment with Credit Guarantee Fund collateral, enabling customers to benefit from government support.

In 2019, Commercial Banking Group aims to perfect customer experience with innovative products and services and to remain yet again as an indispensable bank for customers.

The primary goals of Commercial Marketing Department in 2019 are as follows:

- Improving loan quality, focusing on asset quality and profitability, developing strategies to increase TL denominated deposits in its deposit base,
- Deepening and enhancing product penetration for customers in its portfolio by employing CRM as well as high-tech and efficient reporting tools,
- Increasing main dealer and sub-dealer agreements involving strategic products such as profit share leasing, Profit Share DDS, and supplier finance.

Project and Structured Finance Department

Established in February 2017, the Project and Structured Finance Department made significant achievements particularly in financing renewable energy and infrastructure projects.

The Department manages a portfolio with a total worth of USD 789 million. Of this sum, USD 385 million was allocated to projects involving installation and operation of solar power plants. Kuveyt Türk ranks as the largest financier in the field, having funded 12% of all solar energy power plants in operation. The Bank also provided facilities worth USD 250 million for HEPP, wind farm and biomass projects as well as USD 115 million earmarked for infrastructure projects involving bridge and motorway construction.

The Bank envisages to continue financing renewable energy alongside other infrastructure projects such as city hospitals, motorways and bridges in the period ahead.

Regarding ongoing construction projects, guarantorship agreements were signed for 338 separate projects in 2018 and TL 1 billion was extended for housing and workplace finance for projects that involved campaign deals within this framework.

Treasury and International Banking

The Treasury and International Banking Group of Kuveyt Türk made significant contributions to the growth and profitability of the Bank in 2018.



Kuveyt Türk became the first and only Turkish Bank to offer all customers the option of foreign exchange and gold transactions on a 24/5 hour basis at prices close to daily margins.

The Treasury and International Banking Group, made up of International Banking, the Treasury Group, Investment Banking, 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 2018, the Group contributed to the Bank's growth and profitability.

Treasury Group Directorate

In charge of managing the Bank's liquidity and market exposures, the Treasury Department continued to pursue a risk management and profitability oriented approach in 2018. Despite the high volatility in global markets and increasing domestic competition, Kuveyt Türk increased its profitability in foreign exchange trading. In 2018, Kuveyt Türk finalized the admission procedures for the Shanghai Gold Exchange International (SGE International) in order to convey its leading position as a market-maker in the BIST Precious Metals and Stones Market (KMTP) on to a global scale.

Kuveyt Türk also retains its pioneering status in Turkey's foreign trade in standard gold and silver bullion. In 2018, the Bank accounted for almost one fourth of Turkey's overall gold export and import volume.

The sale of bullion gold designed by Kuveyt Türk at international standards, which began in 2015 as an unprecedented debut for a Turkish bank, continued in both domestic and overseas markets in 2018.

Kuveyt Türk became the first and only Turkish Bank to offer all customers the option of foreign exchange and gold transactions on a 24/5 hour basis at prices close to daily margins.

Foreign Exchange and Precious Metals Department

The Foreign Exchange and Precious Metals Department is responsible for pricing treasury and financial market products including those spot trading on international foreign exchange (Forex) and gold markets, and providing foreign currency and precious metals pricing services to the Bank's clients via all channels.

The main strategy of the Department is geared towards boosting transaction volume and profitability in financial markets products. Transaction limits, transaction volumes and profitability of the products are regularly monitored by the Department.

The Precious Metals Desk under the Department conducts precious metal transactions in domestic and overseas markets, contributing to the Bank's trailblazing status and profitability.

As a result of the work initiated in 2016 under The Foreign Exchange and Precious Metals Department, an electronic trading desk was established to meet the technological requirements of developing and evolving financial markets. Thus, the Bank began algorithmic trading on forex and precious metals on the spot markets, once again undertaking a pioneering role in the industry.

The Department made it possible to conduct foreign exchange and precious metals transactions on a 24/5 basis at prices close to daily margins. The facility accommodates customers seeking to perform transactions out of office hours, and marks another unprecedented initiative in the industry.

Assets and Liabilities Management Department

The main function of the Assets and Liabilities Department is to manage risks linked to liquidity and maturity disparity on the balance sheet of the Bank arising through its activities. Hence, transactions in money and capital markets are conducted by means of products compatible with the corporate principles. The Department was divided into four sub-units in 2018, namely, Money Markets Desk, Capital Markets Desk, Sukuk and Syndication Desk and Sukuk Trading Desk.

Money Markets Desk: Money Markets Desk ensures access to domestic and overseas interbank markets, helping the Bank manage its liquidity effectively. For this purpose, the Bank carries out liquidity management transactions on the interbank markets employing products compatible with Kuveyt Türk principles, while managing fixed liabilities and legal liquidity limits in accordance with the stipulations of regulatory and supervisory agencies.

Kuveyt Türk helps business units meet their growing funding needs by obtaining low-cost perennial finance facilities thanks to its robust capital structure and access to financial institutions in the Gulf Region.

In the face of the economic volatility in Turkey during 2018, Kuveyt Türk boasted the highest capital adequacy ratio in the industry through its short-term, high liquidity investments and sustained its solid standing in the banking industry.

For the first time in 2018, currency swap transactions were conducted with Turkey's Central Bank in compliance with the participation banking principles. Thus, the

foreign currency liquidity obtained by the Bank primarily from the Gulf Region was converted into TL denominated funds, boosting the Central Bank's capability to inject TL liquidity at times of need.

Branch cash balances were considerably reduced through the measures implemented to utilize the cash assets held at branch vaults effectively; and alongside system improvements, field visits were made to branches to provide relevant training.

Capital Markets Desk: In 2018, the share of the securities portfolio in the Bank's total assets were reduced from 8.50% to 6.60%. In line with the market expectations in 2018, sukuk portfolio was scaled down and the average maturity was cut back in order to optimize the risk/revenue balance.

As one of Turkey's most active banks in both the primary and secondary sukuk markets, Kuveyt Türk boosted its transaction volumes in 2018, redoubled its effective communications with domestic and international market players and extended its network by introducing new correspondents. The provision of bidirectional pricing in BIST and OTC markets continued to boost liquidity in the sukuk market. Having played an active role in establishing the Committed Transactions Market under BIST, Kuveyt Türk also became the first bank to conduct transactions in the said market.

Sukuk and Syndication Desk: Kuveyt Türk acted as an intermediary and consultant for various transactions financed from the Gulf Region to date, and emerged as the bank of choice for the most reputable and prominent financial institutions in the region. The Sukuk and Syndication Unit continued to steadily expand its line of business through the longstanding and robust collaborations with international finance markets, and its experience and solid know-how of various industries, business lines, transactions and products.

In 2018, Kuveyt Türk continued its efforts to obtain term and price advantages by diversifying its funding sources, and thereby boosting its competitive edge and enabling the provision of finance facilities at a lower cost and longer term for its clients.

The Bank conducted 27 preces lease certificate issues worth TL 5.1 billion in 2018, concluding the year with an open issue balance of TL 1.575 million in lease certificates.

Kuveyt Türk set a new record in Turkey's participation banking industry for issuing the highest value single-issue lease certificate in TL denomination with a lease certificate issue worth TL 600 million on a 95-day maturity in October 2018.

Meanwhile, its 2016 issue of USD 500 million on a 5-year maturity sukuk which was demanded four-fold despite its competitive spread levels received the top award in the "Best Islamic Capital Markets Transaction" category of 2018 Bonds and Loans Turkey Awards.

Treasury and International Banking

Kuveyt Türk successfully expanded both the range and volume of its local and international financial products through its trailblazing and innovative approach in 2018.

In May, Kuveyt Türk announced a TL 250 million, monthly yield lease certificate issue on a 385-day maturity through initial public offering, concluding it at TL310 million by employing its overallotment option. The aforementioned issue went on the records as Turkey's longest ever maturity on any lease certificate issued thus far by the private sector.

In 2008, a new structure was developed for lease certificates, enhancement work was commenced to convey the processes on the lease certificates into the system and the processes were digitalized to a considerable extent.

Successfully expanding both the range and volume of its local and international financial products in sukuk and syndication transactions through its trailblazing and innovative approach, Kuveyt Türk maintained its position as the leader of the lease certificate segment in 2018 once again, despite an increasingly competitive climate.

Treasury Marketing Department

Operating under the Treasury Group, the Treasury Marketing Department was restructured in 2018 to comprise of two sub-units; Treasury Sales and Coordination Desk and Treasury CRM and Marketing Desk. The Treasury Marketing Department closely monitors the performances of Kuveyt Türk Treasury products including foreign currencies, precious metals, mutual funds, lease certificates, and equity; ensures competitive pricing for customers in different segments in coordination with the relevant marketing departments; prepares analytical studies and campaigns with other marketing departments in order to raise awareness about treasury products and to increase sales volume and revenues. The Department established its fundamental CRM activities on introducing customers making Treasury transactions to the portfolio holders, acquiring new Treasury customers, and regaining lost customers.

Branch/regional sales and coordination representatives were granted mobile access to the summary of the Treasury Customer Value and Behavior Segmentation Report to provide them with numerical information

on Treasury customer transactions, an awareness of transaction behaviors, and a means to identify instant marketing actions in line with customer preferences. The entire data set from the Treasury's Value and Behavior Segmentation Report also began to be fed into the database for target audience creation. Thus, it has now become possible to generate special bundles aimed at Treasury customers as part of customized product and service packages.

Based on the Value and Behavior Segmentation Report, the Treasury Marketing Department along with the segment marketing departments requested effective portfolio management tools to include action on Acquiring New Treasury Customer and Regaining Lost Treasury Customer. Hence, TL 21 million revenue was generated for the Treasury from 14,018 treasury transactions conducted by corporate customers regained from among acquired and regained customers within the first three quarters of 2018.

Attaching great importance to regaining Treasury customers, Treasury Marketing Department ensured that information concerning lost treasury customers appear on the personal screens of all stakeholders including every sales representative under the segment marketing department, regions, and branches under a "Prominent Customers" section which will be automatically updated every month. Therefore, the aim is to ensure that each sales representative will periodically start to investigate cases of lost treasury customers listed separately under the portfolios and take relevant action to regain lost customers. In order to encourage such actions, the Department has embedded incentives into portfolio management tools in cooperation with segment marketing departments, and organized awareness communications. As a result of activities conducted to regain lost customers in collaboration with the corporate segment marketing departments, the Department regained 3,586 lost customers in the first three quarters of 2018 to generate a total revenue of TL 7 million for the Treasury.

The Department had a dashboard report for the main banking system compiled based on data quoted in the Value and Behavior Segmentation Report; offering a quick

The 2016 issue of Kuveyt Türk for USD 500 million on a 5-year maturity sukuk was named the “Best Islamic Capital Markets Transaction” category of 2018 Bonds & Loans Turkey Awards.

analytical snapshot of customers in the portfolios of other stakeholder marketing departments and raising their awareness about Treasury customers transactions.

The Treasury Value and Behavior Segmentation Dashboard Report demonstrates that customers making treasury transactions increased by 43.3% from 362,092 to 518,889 as of the end of the third quarter in 2018 compared to same period in 2017 (year-on-year), while 37.23% growth was achieved during the first three quarters of 2018. Once again, based on year-on-year comparisons, new treasury customers’ ratio to total treasury customers grew from 10.66% to 21.24%; active treasury customers’ ratio to total treasury customers grew from 43.41% to 61.95%. With the awareness built around the CRM activities that were introduced from the beginning of 2018, successful results were achieved as shown by the rate of lost treasury customers to total number of customers declining from 28.13% to 20.35% when taken on a year-on-year basis.

The Department also completed the Treasury Automatic Pricing System (APS) Project based on the set of rules and exceptions specified by the segment marketing departments in line with the outcomes of the Treasury Value and Behavior Segmentation. The APS project was brought online for micro segment customers in April 2018. Through the APS, the Treasury Marketing Department managed to implement one of the contemporary marketing practices, the surge pricing model (Ditching quoting the same price to all customers and offering special, client based, dynamic pricing based on the customer’s level of involvement instead). Having delivered successful results in the micro segment, APS is due to be rolled out for all customer segments over the course of 2019.

The Treasury Marketing Department also provides spot or forward pricing for treasury products including forex and precious metal transactions either through branches for customers or directly for a limited number of corporate clients.

The Department runs training sessions for branch staff in coordination with regional directorates in order to raise awareness about treasury transactions and products.

Furthermore, visits are made to potential treasury customers selected on branch advice, with the aim of expanding the client base and increasing transaction volumes and revenues. The Department also actively manages portfolios of Treasury’s private banking clients, thus helping Kuveyt Türk sustain its position as one of the leading banks in this field.

The Department delivered a presentation at the World Islamic Banking Conference on the importance of participation-based individual and wholesale gold products and services for participation banking, joining the official launch panel of the Gold Standard and shared its experience with the delegates. At the conference, Andrew Naylor of the World Gold Council emphasized that no other conventional or participation bank offered a range of gold products and services as diverse as Kuveyt Türk.

Also tending to the capital market products under the Treasury, Treasury Marketing Department managed to increase the number and revenue of customers investing in mutual funds and equity significantly through marketing activities carried out with other marketing departments. Over the first 10 months of 2018, the number of Mutual Fund Customers increased by 108% from 2,230 to 4,640 while the number of Equity Customers increased from 828 to 8,712 surging by of 952%. As of the end of October 2018, Mutual Fund Management Fee Revenue grew by 92% year-on-year, and Equity Fee Revenues increased by 187%. In addition to these activities, the Department also acted as a book builder for the initial public offering process of major companies. Within this scope, the Department also managed to significantly boost its share in total equity transaction volume at Borsa Istanbul compared to the beginning of the year. By investing in the infrastructure of channels concerning Mutual Funds and Equities, the Department aims to further increase its revenues in 2019.

Actively maintaining the management of the Trade Plus Electronic Transaction Platform available exclusively for Treasury customers, the Department finalized in 2018 the works on a mobile treasury application software that was initiated in 2017 in order to support digitalization,

Treasury and International Banking

Due to expanding activities in foreign trade marketing, Kuveyt Türk increased the number of financial institutions allocated new limits in 2018 by 50% to more than 250.

retain and further expand its growing tech-savvy customer base so as to conduct forex and precious metal transactions and launched it live for the internal staff to access on a pilot basis. After including other treasury products and services (forward, mutual funds, equities, sukuk as well as advanced instruction system, advanced graphics system, technical analysis tools), the department expects to launch the mobile treasury application for the use of the rest of its current and potential corporate customers during 2019.

The department continues to initiate IT projects to make sure the BOA Core Banking System manages Treasury products in a more risk-free and efficient manner, and to actively support requests conveyed by stakeholders.

In 2019, the Treasury Marketing Department will continue to its contributions to expand the Bank's overall customer base, and to boost the number of customers making treasury transactions, the Bank's market share among competitors in treasury transactions and customer satisfaction through new products focusing on the needs of customers; alternative distribution channels such as the mobile treasury application, a customized, competitive and 24/5 available Automatic Pricing System, a more analytical decision making approach based on segmentation data and a diversified service in an increasingly competitive environment, just as it did in 2018.

Financial Institutions Department

Financial Institutions Department operates through two units; Correspondent Relations and Financial Institutions Loans and Business Coordination.

Correspondent Relations Service: The primary aim of Correspondent Relations Service is to establish, monitor, manage and improve the product and business relations of Kuveyt Türk with domestic and foreign banks as well as international financial institutions.

In order to boost the efficiency of the Bank's existing correspondent network, the Correspondent Relations Service focuses on diversification of products and

services, reciprocity, and continuity in relationships. Conducting and managing these relationships with the correspondent banks is crucial for the Bank to gain a truly international profile. In addition to ensuring the efficiency of the correspondent network, expanding it constitutes another of key function for the service. Efforts to this end are informed by macro-level foreign trade policies, regions and countries targeted in the short and medium term in foreign trade, and the Bank's strategies and policies.

The Correspondent Relations Service uses its deep-rooted and close relationships to engage in direct sales and marketing activities with correspondent banks, thereby contributing to the profitability of the branches and the Treasury Department.

Financial Institutions Loans and Business Coordination Services: The Financial Institutions Loans and Business Coordination Services is in charge of managing the country and bank limits, Nostro/Vostro accounts and international agreements, as well as the Service performs management of business coordination processes between Compliance, Risk Management, Corporate Loans.

The first stage responsibility rests with Corporate Financial Loans and Business Coordination unit regarding the management of Nostro/Vostro accounts and administration of International Compliance controls. The accurate and efficient management of Nostro/Vostro accounts positively contributes to both profitability and customer satisfaction. The process management of all agreements signed with local and overseas financial institutions by units under the Treasury business line are also conducted by the Corporate Financial Loans and Business Coordination Services. The unit places great emphasis on the efficient and productive management of these processes, analyzing these agreements in terms of both participation banking principles and international legal responsibilities and diligently disposing of its responsibility to ensure that all the necessary controls are fully in place. The Service monitors developments in the international markets on a daily basis, issues regular country reports and reviews bank limits annually.



In order to maintain relationships with banks and financial institutions the Bank collaborates with most closely, to develop business with new correspondent banks, and to meet new correspondents selected in line with the credit and compliance policies, the Financial Institutions Service paid visits to several countries in Europe, Asia, Africa, Australia the Middle East in 2018. These visits not only improved the Bank's brand recognition and reputation but also boosted interest in foreign trade, treasury products and borrowing instruments, making a positive effect on volumes and profits.

In collaboration with Foreign Economic Relations Board (DEİK), the Financial Institutions Department organized a Foreign Trade Country Day for Morocco-Tunisia-Algeria . This event constituted a platform bringing the suppliers and potential customers together while facilitating our customer access to new markets contributing to Turkey's foreign trade growth trend. The event also provided opportunities for Kuveyt Türk to both contribute to building new partnerships by virtue of its extensive correspondent network and local field experience, and also to play a leading role in providing best solutions to address funding requirements of its customers through its wide range of foreign trade products.

The Financial Institutions Department attended the SIBOS Banking Event held in Sydney in 2018 with its main shareholder Kuwait Finance House for the ninth time and meet more than 50 banks and financial institutions. The synergy generated by bringing the whole industry together at this organization provided opportunities to develop business links further with existing and potential customers, while making a positive contribution by sharing with the wider world predictions about Turkey's investment environment and Kuveyt Türk's reputation.

By the beginning of 2018, the "China Desk" project, drawn in partnership with officials from our main shareholder KFH and developed throughout the year was finalized. Within this scope, significant progress was made to develop and deepen relations by making two trips to the People's Republic of China to meet Chinese banks and institutions, and once each to the London and Dubai offices of the Chinese banks. The main concrete outcome of these visits had been the conclusion of Kuveyt Türk's admission as a direct member into the Shanghai Gold Exchange, providing Turkey's pioneering bank in gold banking to become the first Turkish bank to be a direct member and actively conduct gold transactions in this massive market. By establishing the China Desk under Kuveyt Türk Financial Corporations Department, the aim is to ensure delivery of more focused and effective services regarding the People's Republic of China not just to Kuveyt Türk departments but also to all KFH institutions. Staffed with a team fluent in Mandarin, the China Desk will help the KFH Group to pursue stronger relations with banks and financial institutions of the emerging global economic power with a clear vision for the future.

Due to expanding foreign trade marketing activities and Turkey's export-led growth, Kuveyt Türk increased the number of financial institutions allocated new limits in 2018 by 50% compared to the previous year, to more than 250. Playing a major role in the acquisition of new companies for the Treasury, the Financial Institutions Department completed the Onboarding process of nearly 15 companies in 2018 and began with the transactions. Due to growing foreign trade marketing activities, and a renewed emphasis on TL denominated trading, nearly 10 new Nostro and Vostro accounts were opened. As a result of these developments, the Financial Institutions Department began to hold Monthly Credit Analysis Meetings for Financial Institutions with the Credit Risk Management. These meetings will help to examine the Bank's risk and focusing map and market monitoring.

Loans

In 2018, Loans reached more than TL 4 billion in project funding, over TL 250 million in agriculture loans.

Loans Group evaluated requests from over 27 thousand consumer loans and over 119 thousand corporate loans in 2018. Regarding the evaluation of loan applications, four Regional SME Loans Directorates and 14 SME Loans managements established in order to evaluate customers more closely and to take decisions more swiftly, helped to boost customer satisfaction as well as keeping non-performing loan exposures way below industry levels.

Operating on the principle of diversifying its credit portfolio and minimizing risks, the Loan Group continued to grow in products such asw CGF, Project Finance and Agricultural Loans. In 2018, the Department extended project funding in excess of TL 4 billion, TL 2.5 billion of which went to SPP projects, as well as TL 250 million in agricultural loans.

In order to adapt to macroeconomic outlook and market conditions and to keep loan exposures at the minimum level; loan strategies, loan policies, loan application rules and decision support rules have been reviewed periodically, and necessary modifications made as and when required. In this context, systemic developments were made in order to comply with the legal regulations introduced for foreign currency loans in 2018 and the transition to the new structure was swiftly achieved.

Financial Analysis and Intelligence Department prepares financial analyses and intelligence reports for companies applying for loans of or over TL 40 million concerning their activities, characteristics, capacity, liquidity, financial status, and profitability based on intelligence and other market information.

In 2018, 879 financial analysis reports were compiled, 2,455 new financial data reports logged by the branches were checked and 439 scrutiny requests were met. The new system also boasts an infrastructure offering advantages for compliance with the IFRS 9 process which allows for dynamic and instant reporting.

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In 2018, the Department reached project funding in excess of TL 4 billion, TL 2.5 billion of which went to SPP projects, as well as TL 250 million in agricultural loans.



39.2% of the requests received within the scope of the Retail Credit Card Limit Enhancement Project were evaluated by the system.

Kuveyt Türk regularly conducts in-house training for staff in the Loans Department, in order to improve their financial analysis skills.

Below are some of the projects underway to improve service quality and customer satisfaction:

Automatic Decision Support System: Under its Automatic Decision Support System launched in 2014, customer score cards and business rules were integrated for the Retail Loan allocation processes, allowing the system to deliver automatic approvals and rejections successfully and swiftly. As of 2018, out of the 57,849 retail loan applications 73.81% were processed automatically, with 1.69 % of the remainder evaluated by the branches, and 20% by the Retail Loan Department. Regarding credit card applications, automatically evaluated requests reached 82% in the same period.

39.2% of the requests received within the scope of the Retail Credit Card Limit Enhancement Project launched in 2018 were evaluated by the system. Consumer Loans Department is undertaking efforts to further increase these rates.

SME Decision Support System: Designed to focus on the expert opinion to evaluate the funding requests from business customers and micro-sized customers in the SME segment more swiftly, the pilot implementation of the Decision Support System continues, achieving a 20% reduction in the workload in Regional Loans teams on average. Work undertaken by the Analytical Banking Department is ongoing to develop a more advanced version based on modelling for the next phase. The

modelling work is expected to be finalized by January 2019 and the Decision Support System is scheduled to be rolled out to all branches during the year.

E-Signature Application: The application, which had been launched as a pilot initiative on December 19, 2017 in the Commercial Sub-Credit Committees of the Head Office, was broadened to involve other Head Office and Regional Management Committees.

The goals of the Loans Department in 2019 are as follows:

- Introducing the model based version of SME Decision Support Systems in all branches, and thereby bringing the average reduction in workloads of Regional SME Loans Directorates to levels above 20%,
- Increasing automatic allocation rates in Consumer Loans Decision Support System,
- Introducing the "Revenue Estimate Model" which was initiated in 2018, and had achieved some progress since, into the allocation processes for retail customers,
- Ensuring the integration of Early Warning Systems into loan allocation processes so as to detect the likelihood of customers with no prior record of deferral to go into deferral,
- Building reporting systems for instant performance tracking of the Consumer Loans Department.

Law and Risk Follow-up Group

Law and Risk Follow-up Group has assigned a training program on Risk Tracking and Risk Monitoring processes and applications for all regional directorates in 2018.



As well as stabilizing asset quality, the Law and Risk Follow-up Group made significant contributions to the digitalization process of the Bank in 2018.

The non-performing loan ratio of Kuveyt Türk again remained below the industry average in 2018, as it did in previous years.

As of December 31, 2018, the non-performing loan ratio of deposits and participation banking were 3.87% and 4.16%, respectively while Kuveyt Türk's overall non-performing loan ratio remained below the banking sector average at 2.47%.

The successful performance in asset quality was achieved due to

- Active monitoring of customer loans based on early warning signals,
- Taking proactive action regarding customers in administrative monitoring,
- Adopting proactive approaches by correctly interpreting the macroeconomic indicators,
- Raising awareness across the branches and staff about risk follow-up through trainings and visits.

In order to support customers facing or prone to face financial difficulties due to the downturn in economic conditions in 2018 and to relay these corporate messages of support, Law and Risk Follow-up Group held meetings with all branch managers at regional directorates in September 2018 over a ten day period, briefing managers on Kuveyt Türk's position in the matter. Furthermore, an Early Intervention Committee was established with members from Law and Risk Follow-up Directorates to swiftly resolve customer issues and take relevant action. The Committee played an active role in examining requests from customers who have just gone into arrears, and providing solutions by taking swift decisions.

As well as ensuring stability for asset quality, the Law and Risk Follow-up Group made significant contributions to the digitalization process of the Bank in 2018.

Introduced to make the administrative monitoring processes more efficient and productive, and to take the right action for the right customer at the right time concerning overdue receivables in 2018, the effectiveness of the SME Collection Decision Support System was further enhanced through development work based on feedback from Head Office and branches. Launched as a

As part of the digitalization drive, a new project has been initiated for the administrative tracking of retail and credit card customers' overdue payments by employing the internal rating behavior scores introduced by Kuveyt Türk.

strategic project, the Collection Decision Support System assigns a score for SME customers on the first day they go into arrears based on the model, and the decision tree runs based on this score and the credit risk. Through the decision tree, actions such as SMS reminders or payment promises are automatically assigned to the Risk Tracking and Risk Monitoring Units along with branch portfolio managers for each customer in arrears between one to 90+ days past due date. Through the Collection Modeling Project, the aim is to deal with the non-performing loans from the first day they are overdue, monitor them proactively, increase productivity and reduce non-performing loan ratios.

As part of the digitalization drive, a new project has been initiated in September 2018 along with Information Technologies and Analytical Banking Units for the administrative tracking of retail and credit card customers' overdue payments by employing the internal rating behavior scores introduced by Kuveyt Türk. As part of this project, decision trees have been generated for each retail and credit card customer in arrears based on their internal rating score, collateral, funding sum and installments. The next step will involve assigning action to get in touch with the customers based on the decision tree outcomes. The project will involve two phases, the first of which will target retail customers and the second phase will involve credit cards. The first phase is expected to be completed in 2018, with the second phase due to be launched in the first quarter of 2019.

Further system enhancements were also made at Risk Monitoring Operations and notice processes were re-examined in 2018. In this context, a new project was initiated to ensure use of electronic signatures on notifications sent out to customers in arrears instead of collecting wet signatures on the day from Risk Follow-up staff. Thus, each notification letter is assigned a unique serial number and a QR code to enable customers confirm their authenticity. The initiative aims to make the process of obtaining signatures which is done manually on a daily basis, more effective and swift.

The Bad Debt Recovery Service, established under the Law and Risk Follow-up Group in 2016, redoubled the effectiveness of its operations. The amount of bad debts recovered rose from TL 20 million in 2017 to TL 32.6 million as the end of 2018. Monitoring work for the collection of write-off risks is directly conducted by the Debt Recovery Service regardless of customer segment. As part of this effort, several visits were made to customers, branches and lawyers over the course of 2018. In order to increase the efficiency of collections while helping to systematically monitor the protocols, a "Bad Debt Protocol" screen was developed, and all protocols were transferred into BOA.

The Law and Risk Follow-up Group is one of the key actors in the IFRS 9 project sponsored by KFH. Group and Local (Turkey) collateral policies were drawn as part of the project and the new system was launched in March 2018 with new loan classification rules. Under the project, staff participated in several training sessions and relevant meetings held in Turkey and Kuwait. Joint efforts were made to compile data, policies and documents with the Risk Management Department and Financial Control Directorate. Efforts to classify the loan receivables and data compilation and ensuring data quality for LGD and EAD calculations was carried out by the Law and Risk Follow-up Group. Furthermore, a new project for LGD calculations was initiated along with a consultancy in August 2018, and the new model is expected to be released around the beginning of 2019. Upon the completion of the project, significant indicators of the Bank's asset quality such as Close Monitoring, Non-performing Loans and Provision Rates will be calculated and reported in compliance with the new BRSA Provisions Regulation, in alignment with the parent company, and in accordance with international standards.

Boasting pioneering indicators in its segment, Kuveyt Türk continues its efforts to build an Early Warning System, which will detect credited customers who may be likely to experience financial stress in advance and avoid deterioration of loan quality. These efforts, conducted in line with the Bank's innovative approach and digitalization strategy are shaped through the contribution of Loans,

Law and Risk Follow-up Group

Over the course of 2018, Law and Risk Follow-up Group reviewed 155 thousand collateral records, made 36 thousand updates and processed 52 thousand release transactions.

Risk Follow-up and Risk Management Directorates operating under the supervision of Risk Tracking Department. The initiative which is due to be finalized by the end of 2018 will ensure the effective end-to-end management of the Bank's loan quality. By means of the system, the Bank's asset quality will be enhanced and its effective loan analysis and tracking processes will be supported by artificial intelligence.

In case the customer checks submitted as collateral meet the specified criteria, the system will process these directly as acceptance. However, in cases when the system does not automatically accept checks, these are forwarded by branches for user approval. The process is completed when the Credit Risk Monitoring staff assesses the relevant check to approve or reject it. In order to increase system acceptance while reducing user acceptance, a statistical model has been developed based on the checks received by the user for assessment. The application is due to be completed by the end of 2018. Thus, it will enhance collateral quality while offering a significant edge concerning the reduction of staff overheads.

The corporate KKB (Credit Registration Bureau) screens developed by the Credit Risk Tracking Department were improved to include more detail and to provide better analysis of the credit risk by relevant departments. In the event that companies are in arrears during the month but pay in the arrears by the end of the month, their combined data does not involve default, preventing real payment performances from being tracked; however, these enhancements ensure any default experienced over the course of the month are viewable. Furthermore, with data on the company's total outstanding loans with other banks, number of days and sums in arrears, and overall payment performance for the last 36 months now displayed, staff can have a detailed insight of the current status of the company, predict any potential financial challenges and make early interventions where necessary.

The Credit Risk Monitoring and Risk Follow-up Departments are also involved in the Internal Rating Project conducted by the Risk Management Department,

and make major contributions to the project in areas such as data supply, data dictionary creation, testing, decision making and strategy formulation.

A training program was assigned to all regional directorates concerning Risk Monitoring and Risk Follow-up processes and practices. Risk Monitoring and Risk Follow-up will also have more prominence in the credit training pack of the Training and Development Department.

The Law and Risk Follow-up Department continues to support system enhancements and developments in order to better and more effectively utilize the Lawyer Tracking System. Now that the Lawyer Tracking System (LTS) is integrated with the National Judiciary Informatics System (UYAP), it is employed more actively by both Kuveyt Türk staff and the contracted law firms. Thanks to LTS, a great deal of operational transactions previously conducted manually are executed via the system. In 2018, further visits were made to law firms to increase the collection rate through legal follow-up efforts. The online submission of mortgage release letters to the Land Registry Directorates which began in the final quarter of 2017 as part of The Collateral Monitoring Department's drive to make a significant contribution to the Bank's digitization initiative by boosting transaction security, employee productivity and particularly customer satisfaction while significantly reducing costs, achieved 95% success.

Over the course of 2018, the Department reviewed 155 thousand collateral records, made 36 thousand updates and processed 52 thousand release transactions. Significant progress was made to outperform industry standards in terms of service time and quality, with the average processing time brought down to 17 minutes. Further system improvements were made to enhance transaction security and staff productivity in collateral processes.

Mainly due to reasons associated with customer satisfaction, the Bank ceased the practice of receiving forex surety bonds from customers as part of its loan allocation decisions.

The Real Estate Appraisal Service under the Collateral Monitoring Department commissioned 25,634 reports from appraisal companies with CMB and BRSA licenses in 2018, and ensured their control. The average duration for the compilation of expertise reports was 1.93 days for residential real estate and 2.05 days for all other types of real estate.

Thanks to the system improvements made over the course of 2018, it has now become possible to receive appraisal reports from expertise companies with e-signatures and to automatically submit requested reports to appraisal companies.

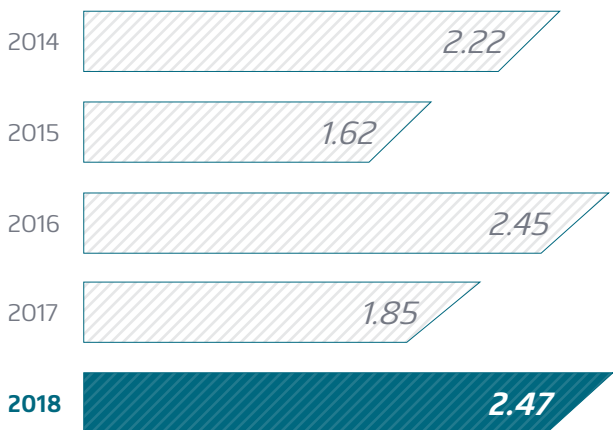
In order to monitor and protect customers' rights even in the absence of a customer complaint, Kuveyt Türk established the Customer Rights and Regulatory Compliance Department under the Bank's Law and Risk Follow-up Group marking an unprecedented move for the industry. The department was established to take or order all necessary action to protect Bank customers' rights in line with Article 76 of Banking Law no. 5411 and relevant legislation as well as Consumer Protection Law no. 6502 and relevant legislation, and to ensure that the Bank's practices comply with the requirements of this framework.

Pursuant to the said legislation, the Department keeps a close watch on the legislative developments that concern banks, and communicates these to the relevant units and individuals within the Bank. It identifies any measures necessary to prevent non-compliant transactions within the Bank, and works in coordination with the other units to ensure these actions are implemented.

The Customer Rights and Regulatory Compliance Department continued to act as a consultant to other relevant units concerning new or amended legislation. The entire range of new products launched, or system enhancements introduced by the Bank were checked by the Department for compliance to the legislation.

As the sponsor of the Personal Data Protection project, the Customer Rights and Regulatory Compliance Department ensured the Bank's processes and practices were compatible with the "Law on the Protection of Personal Data." The Bank's internal coordination regarding the Law on the Protection of Personal Data also rests with Customer Rights and Regulatory Compliance Department.

Non-performing Loan Ratio (%)



Provision Ratio (%)



Strategy

The Strategy Planning and Corporate Performance Management Department is responsible for developing performance.



Achieving a unity of perception in the communication between internal and external elements is crucial to ensure that Kuveyt Türk is managed in line with its strategic priorities.

The Strategy Group comprises of Strategy Planning and Corporate Performance Management Department, Strategic Program Management Office, Branch Performance Management Department, Corporate Communications Department, Digital Transformation Group Directorate, and HR, Training and Quality Group Directorate.

The business plans of the units functioning under the Strategy Sector aim to disseminate the strategy by making sure that all employees focus on the right targets in order to plan the strategic priorities of the Bank, support the strategic management processes through department-based scorecards, and achieve the strategic goals of the corporation.

In this context, the Group aims to develop and manage projects that outline the measures to implement the strategic priorities, and to shape the organizational and quality structures of the Bank to reflect the strategic plan and its priorities through effective human resource management. Achieving a unity of perception in the communication between internal and external elements is crucial to ensure that the Bank is managed in line with its strategic priorities.

Strategy Planning and Corporate Performance Management Department

The main responsibilities of the Department are to identify the Bank's medium-term, and long-term strategies in line with the mission and vision of the Bank, the opinions of the Board of Directors and the Senior Management; and conducting goal setting studies with the business units in a coordinated manner, and executing these goals. Reviewing the specified strategies in line with the changing conditions, thus creating processes whereby the Bank can reach its maximum potential also feature among key priorities.

As part of this duties, Strategy Planning and Corporate Performance Management Department develops performance criteria in areas falling under the remit of Strategy Group, administers improvement of the services, and compiles, analyzes and interprets the information and the data related to the performance.

The Department aims to investigate and analyze new business lines that will serve the Bank's strategic goals, to evaluate investment opportunities, and to carry on with economic research activities in 2019.

The performance targets of the departments are assigned by taking into consideration the strategic roadmap, projects and priorities; performance metrics and Key Performance Indicators (KPI) are employed as management tools to ensure that the Bank operates in line with the strategic priorities.

Furthermore, regarding issues that are of relevance to the Bank; examining the external factors that can affect the services, conducting capacity research within the Bank, analyzing both the effectiveness of the services and the satisfaction level, and conducting general research also feature among the functions of the Department. Some other tasks of the Department are, to make sure that the Bank's annual budget, including the budget forecast for the upcoming years, are prepared by taking the strategic plans and the annual performance program into account, and to monitor and evaluate if the Bank operates in line with the strategic priorities.

In addition to all of the above, ensuring that necessary updates are made to segment criteria as owner of the segmentation structure; keeping product, decision tree and channel structures up to date and functioning; developing new projects and keeping current projects up-to-date as the lead for efforts involving customer, product and channel efficacy; making location analysis for new branches to be opened and to submit these to the Senior Management also fall under the remit of the Strategy Planning and Corporate Performance Management Department.

The Department aims to investigate and analyze new business lines that will serve the Bank's strategic goals, to evaluate investment opportunities, and to carry on with economic research activities in 2019.

Strategic Program Management Office

The main duties of the Strategic Program Management Office include managing core projects falling under the scope of strategy which involve the Bank's wider staff, conducting the program-wide management of projects aimed at a specific industry or group within the scope of the strategic goals, and to build a project management framework.

Therefore, a road map was drawn particularly for new projects. 19 of the 50 specified projects specified on this road map were completed, and the rest are making progress as scheduled, already making a significant contribution to the realization of the organization's overall strategy. Some of the projects completed include:

Branch Business Model: The roles and specifications at Kuveyt Türk branches were re-defined. The counter and retail portfolios were merged under retail sales structure, enabling customers to access all banking transactions at one point. Sample branches were introduced where the entire ground floor is dedicated to self-service transactions.

Supplier Chain: Marking a new chapter for Kuveyt Türk and other participation banks, both the buyers and vendors involved in continuous replenishment supply chain purchases were offered financial solutions through an online system.

Data Protection: Highly sensitive about the privacy and protection of personal data of its customers, Kuveyt Türk rapidly adopted the terms of Personal Data Protection Law.

Youth and Child Banking: Kâşif (Explorer) was introduced as a new brand aimed at the country's prospective youth under 17. A brand new Mobile Branch experience was built around the Kâşif concept, participation banking products were developed, and special training sessions called the 1010 Kâşif were launched.

Corporate Communications Department

Operating under the Strategy Group of Kuveyt Türk, the Corporate Communications Department works to implement brand communication practices among internal and external customers in regard to the Bank's strategic goals and priorities, and promotes new products and services.

Strategy

Corporate social responsibility is designated as the most crucial and significant field for Kuveyt Türk's corporate communications efforts.

The Corporate Communications Department is guided by an awareness of its corporate social responsibilities. Written into the Bank's mission statement, social responsibility awareness also constitutes the basis of communication activities. All of the communications campaigns under consideration are evaluated and executed in light of ethical banking principles.

While contributing to the progress of the banking industry, Kuveyt Türk also delivers major social responsibility projects by acting on the basis of social values and protecting cultural heritage. As a brand that hails from and is built upon a culture that nurtures foundations, corporate social responsibility is designated as the most crucial and significant field for the Bank's corporate communications efforts.

In this context, the Bank continued to support and deliver social responsibility projects that add value to the society in 2018. Kuveyt Türk donated 1 million TL to the Turkish Armed Forces Mehmetçik Foundation, which supports veterans and disabled soldiers as well as dependents of non-commissioned officers who were martyred as they served their country. As it had done over the last five years, Kuveyt Türk continued to cooperate with The Hope Foundation for Children with Cancer (KAÇUV) on the Support the Hope project. The foundations for the second 'Family Home' were finally laid this year after a long time on the drawing board. Development and sustainability in this area will continue at a rapid pace.

Advertising campaigns were another area of activity for the Corporate Communications Directorate in 2018. In March, the commercial campaign on the Bank's flexible SME solutions were broadcast on national TV channels as well as digital channels.

Conducted under its "Growing through Values" motto, Kuveyt Türk communicated its social responsibility projects to the public through a Ramadan commercial. The commercial involves several Kuveyt Türk corporate social responsibility projects from humanitarian aid to education assistance, from work to preserve traditional arts and crafts to support for children with cancer and their families.

As the leader and pioneer in gold banking, Kuveyt Türk visited several cities across Turkey with its 'Golden Vehicle' for four months, in order to boost interest in its gold days organized at the branches, starting in Istanbul and heading to places where branches collect gold and informed residents at city squares about gold banking.

Kuveyt Türk ran a new series of its digital commercial campaign in December 2018, introducing its innovative products and services to follow-up on its first series in 2017. The new commercial involved Kuveyt Türk's innovative products aimed at retail, SME and commercial customers including XTM Branch, mPOS, Online Finance and TradePlus.

Digital Transformation Group Directorate

The Digital Transformation Group Directorate was established in April 2018 in order to implement the Bank's digital transformation plans, one of the strategic priorities of Kuveyt Türk with a holistic approach. Digital Transformation and Innovation Directorate, Product Development Directorate, and Process Development Directorate operate under the Group.

Digital Transformation and Innovation Directorate

In order to provide a simple, swift, seamless and uninterrupted experience to internal and external customers, the Digital Transformation and Innovation Directorate undertook the following:

- Establishing customer focused structures,
- Optimizing processes and conveying them into a digital environment,
- Developing new business models,
- Scouting for digital talent,
- Facilitating cultural transformation.

The projects under Digital Transformation Program aim to improve the lives of internal and external customers by employing holistic approaches and technology in the following areas:

- Business Model,
- Customer Engagement,
- Business Engagement
- Process and Infrastructure,
- People, Culture, Governance and Organization,
- Managing Innovation,
- Data Analytics.

For this purpose, there are some projects underway including Voice Technologies, Real Time Campaign Management and Digital Application Center A Digital Transformation Road Map was drawn for the 2019-2021 period, to enable the organization to achieve its digitalization targets with the contribution from all units. Within the scope of the Road Map, units of initiatives such as Change Management, GRC, Finance Analytics to Customer Experience are slated to be implemented.

Along with digitalization, FinTech partnerships considered as one of the crucial developments in the banking sector are gaining importance day by day. Kuveyt Türk is under the spotlight of local and international FinTech companies due to the Turkish API Market Platform as one of its innovative services in the banking industry. Since June 2018, the Bank has been in touch with FinTechs, aiming to provide innovative business models to Kuveyt Türk. Furthermore, in order to achieve rapid gains in line with the needs of its sub-units it is functioning as a contact point with FinTechs. The Digital Transformation and Innovation Directorate is responsible for the FinTech Integration Process for the coordination of the integration activities within the organization. The FinTech integration process involves committees conveying the opinions from relevant departments. If cooperation with a certain FinTech is considered appropriate as a result of these evaluations, they are then successfully integrated into the banking systems through the Proof of Concept (PoC) process. The aim is to soon implement solutions developed with FinTechs who offer new services to customers with a quick turnaround to facilitate their lives. Furthermore, enterprises admitted to the Lonca Entrepreneurship Center which aims to provide support for young entrepreneurs seeking to implement their ideas and projects for the benefit of national economy, receive mentoring support.

The Digital Transformation Group Directorate believes that innovation culture requires embracing ideas from within the organization as well as from FinTech collaborations. In this context, it aims to make calls to employees in 2019 to compile their opinions on certain

subjects and to provide support for developing them further. There are plans to launch idea contests, and coordinate efforts to turn some of the ideas selected by committees into projects for the benefit of the company. The fact that the management of the Robust Idea Platform, which was launched in 2008 was transferred to the Digital Transformation Group Directorate also signals the directorate's commitment to be the biggest supporter of the journey to realize ideas.

In the name of boosting digital competencies of staff as part of digitalization efforts, a comprehensive training program drawn in partnership with the Training and Development Directorate aims to ensure staff generate added value for the company through their ideas and projects. Through these trainings, staff are expected to be equipped with knowhow on design-oriented thinking, digital business models, customer needs analysis etc. and help direct Kuveyt Türk's focus on digitalization and innovation. The whole range of activities carried out are planned to be disseminated across the Bank through the Digital Communication Plan. Furthermore, there are plans to keep employees informed about digital trends in Turkey and the world, and the latest advancements in the FinTech ecosystem by posting internal newsletters.

Product Development Department

Kuveyt Türk implemented several projects in 2018 through the Product Development Department.

Core Banking Product Development

Gold EFT: Within the scope of the Istanbul Gold Transfer System project, it became possible to make electronic transfers of gold deposited in customer accounts or bank accounts.

KFH Cash Withdrawals: The product enables KFH customers to withdraw cash from Kuveyt Türk branches.

Guaranteed Deposit Account: The product is aimed at customers who want to make regular savings but at the same time take on insurance.

Explorer Account (Kâşif Hesap): The children's account offers a range of tools including Mobile Branch, debit card and high yield participation account.

ABBYY: The Fine Reader technology which enables document recognition, image processing and data capture was integrated into Kuveyt Türk system in order to provide operational efficiency and higher data quality.

Strategy

Kuveyt Türk aims to offer its customers new products and services by applying latest technological advancements on banking transactions through the Digital Banking Product Development unit.

Funding Product Development

KOSGEB: Involves a type of subsidized finance facility where the capital is received from the customer in installments and the revenue directly from KOSGEB in a single transaction

Revolving Export Loans: It provides a limited loan facility with a changing limit, and does not require a separate Customs Declaration for each exporters in order to meet their commitments in export transactions more easily.

Gold Collateral Loan: The product helps release finance facilities to the customer in return for their gold handed in as collateral. The physical gold brought in by the customers will be retained in the safe deposit boxes at branches.

Electronic Warehouse Receipt Loans (ELUS): These loans are extended to finance goods kept in licensed warehouses.

Foreign Trade and Treasury Product Development

Lease Certificate (Sukuk) Transactions: The corporate integration between the Committed Transactions Market under BIST and Kuveyt Türk has been completed.

Forward Pre-Export Finance: The facility helps extend funding to exporters while they are still at the production phase of the goods due to be exported.

Cash Against Transaction: This product offers funding to customers who work on an open account basis but require export funding to balance its cash flows.

Digital Banking Product Development

Kuveyt Türk aims to offer its customers new products and services by applying latest technological advancements on banking transactions through the Digital Banking Product Development unit.

Kuveyt Türk Website: Attracting 2.8 million users on average every month, the Kuveyt Türk website ranks 285th among the most visited websites in Turkey. Based on the insight received from in-depth user experience

surveys, the website was relaunched in 2018 with a new, responsive design. The updated website with its responsive interface delivers an optimized user-friendly experience on smart phones, tablets and desktop computers. Thanks to the enhanced search features, accessing the required information became much quicker. Kuveyt Türk Corporate Website offers customers access with their choice of language in Turkish, English and Arabic. Furthermore, as the first bank to receive MoneyGram application forms online, Kuveyt Türk aims to swiftly provide customers with information and assistance.

Internet Banking: Constantly undertaking development work to further enhance its services, Kuveyt Türk put the main emphasis on improving user experience in 2018.

Mobile Banking: Committed to serving its customers via all digital platforms, Kuveyt Türk continued to expand its active customer base on the Mobile Branch, which is built on software developed exclusively in-house. The revamped design of the Mobile Branch boasts further success with color and themes alignment as well as customer experience enhancements. Functionality enrichment work is ongoing to transfer numerous transaction sets to the Mobile Branch in order to deliver a user experience on par with that of the Internet Branch. Thanks to the efforts in 2018, major projects have been completed which helped customers receive payments on the mobile phones via the mPOS application as well as make deposits via QR codes. With the QR Code withdrawals, customers can withdraw cash without having to carry an ATM (debit) card, simply by scanning the QR code generated on any Kuveyt Türk cash point with their mobile phone's camera, as well as depositing money in the same way.

Senin Bankan: Senin Bankan is a digital banking platform where Kuveyt Türk customers can apply for various products online, without visiting a branch. Senin Bankan helps customers open an account over the internet, and apply for a credit card. During 2018, projects regarding Senin Bankan were geared predominantly towards boosting operational productivity. There were several improvements complementing Branchless Banking principles, including ensuring better customer experience

in courier operations and cutting costs. Moreover, in order to improve Senin Bankan marketing activities, the system was integrated with third party applications such as Facebook. Lead generation and marketing notifications were optimized. For Senin Bankan customers who rely exclusively on the online channel for their transactions, it will be welcome news that Senin Bankan Mobile Branch application will soon come online.

MUFI: The secure mobile payment application enables monitoring all bills through a single application, as well as sending payments via credit card, regardless of whether the user is a customer of the Bank or not. The application is compatible with devices running on iOS and Android operating systems.

Payment Systems and Product Development

Aiming to provide an exclusive payment systems experience for both its retail and commercial customers, Kuveyt Türk implemented several projects in the field in 2018.

- Infrastructure improvement for sending SMS notifications after card purchases.
- Instructions to open and close debit and credit cards to e-trading and mail order transactions are delivered via customer SMS.
- Customers can now log on to Mobile Branch 24/7 to send and/or receive cash on their cards regardless of whether it is issued from Kuveyt Türk or another bank.
- Following an agreement signed with PTT, Kuveyt Türk customers can use their debit cards on PTT ATMs for deposits and withdrawals of up to TL 1,000 for a TL 1 fee.

Installments via FreePos: Businesses on Virtual POS systems are now able to split the payment into installments for Kuveyt Türk customers.

New UI and UX Initiative for ATMs: The interfaces which were last updated in 2007 have been refreshed in view of the latest technologies, trends and customer experiences. The ATM UI & UX initiative not only updates the screen visuals, but also involves work to be carried out on process flows so as to provide a more swift, streamlined and customer oriented experience.

SGK Payments on or without Debit Card: Since SGK payments including BAĞ-KUR, and GSS account for a considerable part of counter transactions, it was made possible to place automatic SGK payment orders to reduce branch workloads. As part of centralization efforts, it also became possible to place payment orders at the end of card transactions. Therefore, once they place their instructions via ATM, customers will receive future payments automatically and customers will not need to visit the branch.

QR Code Cash Deposits at the ATM: 2017 saw the launch of Cash Withdrawals through QR Code which achieved considerable success. In 2018, enhancements were made to enable QR Code Deposits at ATMs. This facility will now enable customers deposit high-limit cash into their accounts, even when they do not have their cards with them.

Process Development Department:

Process Development Department is comprised of Process Development and Customer Experience Units.

Process Development Unit: The Unit conducts activities to ensure the Bank processes are generated in a manner that is customer focused, efficient, making the most of the technology, participative, measurable, in compliance with law and banking principles, subject to predefined standards, analyses and investigations, and that they are kept up to date.

Some of the initiatives to ensure this are as follows:

- Designing processes for new products and services,
- Redesigning existing processes from an operational efficiency and customer experience standpoint.

In its domestic market fund allocation principles project conducted in 2018, the Process Development Unit specified the definitions and rules of the process for fund extension; set up definitions and job algorithms so the system could manage the workflow. The rules and scopes for the Domestic Market Fund Allocation Project were specified to allow for end-to-end management on the customer side.

Regarding the branch business models, work involved developing a Counter-Retail Portfolio Manager model, monitoring activities at pilot branches, and discussing and resolving issues. Projects were launched to reduce branch workloads and minimize risks.

Other efforts carried out in 2018 are as follows:

- Branch Business Model
- Domestic Market Fund Allocation IT Process Analysis
- Consumer Loans from E-Commerce websites
- Paperless Banking Project
- Supply Chain Finance
- Exim Bank Export Insurance Project
- E-Surety Letter Process
- Collateralization Process for Sukuk products
- Digital Application Processes for PPS and Insurance
- Casewise Process Transformation Project
- Legal Customer Authorization Process
- DIP Transactions Process Project
- Mobil360 Transformation Project
- Gold Settlement Project

Strategy

Considering its human resource as its most valuable asset, Kuveyt Türk continued to consistently invest in the HR area in 2018.

Customer Experience Unit: The Customer Experience Unit was established towards the end of 2018, and aims primarily to ensure that customer experience culture is adopted across the company, projects are considered from this standpoint and existing workflows are revised and improved. Regarding customer experience consultancy services provided, 2 projects were launched with the aim of fully equipping customer experience teams with relevant capabilities.

Human Resources, Training and Quality Group Directorate

Human Resources, Training and Quality Group Directorate is made up of Human Resources Department, Careers and Recruitment Department, Training and Development Department, Organization and Quality Improvement Department.

Human Resources Department

Considering its human resource as its most valuable asset, Kuveyt Türk continued to consistently invest in the HR area in 2018. Paying special attention to shape its processes in line with the current HR standards, the Human Resources Department aims to make sure that all new employees who join the Kuveyt Türk Family embrace the robust banking principles of Kuveyt Türk, have a sound work ethic that is in line with corporate values, and find themselves in an environment that prompt them to be So Glad.

Emanating from the belief that customer satisfaction is only achievable through employee satisfaction and generated by analyzing values and opinions on what makes Kuveyt Türk an ideal Employer for employees and candidates, the "So Glad" employer brand launched in 2017 was recognized with the Great Place to Work Award.

All human resources policies and processes of Kuveyt Türk are drawn and developed based on the "employees first" principle in a way that will bring about experiences to be "So Glad" about, and investment into a Great Place to Work continues to further enhance the work environment.

Social Activities: The teams and clubs established to improve work-life balance at Kuveyt Türk (Sports Club, Music Club, Robotech Club, Food Club, Travel and Culture Club, Photography Club, Social Club, Basketball Club) continued to thrive under the management of employees in 2018. As well as staff activities such as excursions to various cities and sports competitions, coding workshops, etc. clubs are continuing to support various activities such as Computer-free Computer Sciences Workshop for employees' children.

As part of club activities, meetings, exhibitions, concerts, excursions and other events were organized, open to all employees. As of year-end 2018, 450 employees are active members of these clubs.

The first social life magazine of Kuveyt Türk called Mozaik (Mosaic) offered an authentic and holistic reflection of Kuveyt Türk Family through employee articles, company news, as well as hobby, social and industrial features and helped bring employees closer even after its first issue.

So Glad Mobile Application was launched to strengthen internal communications within the Bank.

With its user friendly infrastructure reminiscent of social media, the So Glad Mobile Application boosted internal interaction among staff while reducing email traffic thanks to its notifications feature. The application which made away with the physical distance enabled each Kuveyt Türk branch and department to share their joy and their values regardless of which corner of Turkey they are in.

The Second of the Spring Festival which was first launched at the same time as the So Glad Employer Brand in 2017 was held with great enthusiasm in 2018.

First held in 2016, the competition "Paintings by Small Hands," entered its third year, offering a platform to display and celebrate the achievements of Kuveyt Türk employees' children, underscoring once again the importance of family values for the Bank.

Based on the added value generated by all employees contributing to the success of Kuveyt Türk, a special gala evening was organized during the first quarter of 2018 for former Kuveyt Türk staff who either got retired or joined other organizations called Firm Friends. The evening brought together a great range of friends of the Bank from its first CEO to its cook.

Making sure it always commends successful employees, Kuveyt Türk brought branch managers who achieved high performance over the 2018 period together with CEO Ufuk Uyan who personally offered his congratulations at the Performance Stars Awards Fete.

Performance Development: Kuveyt Türk Human Resources Department supports the managers and employees in their continuous development process through transparent performance evaluations 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 straightforward manner. The rest of the organization and the Head Office Departments are assessed under the Corporate Performance Management project with the Balanced Scorecard Model, which tracks and reports on the scorecard developments biannually.

With the introduction of the 120-point rating scale for sales scorecards of branch sales staff in 2017, it became possible to make fairer goal and outcome assessments and to subsequently improve differentiation in the performance bonus system.

Performance Stars Awards handed out to employees to recognize their successful performance aims to achieve a consistent performance chart.

Developed as a 360-degree performance measurement tool that will guide human resources practices, "Biz Bize"(Between us) survey system allows the Bank to evaluate employees' competencies in the context of subordinate, superior and peer relations and constitutes a new channel through which personnel can communicate their ideas. These surveys are regularly sent to the Bank's employees under "One Minute for Development" motto. Data analysis is conducted and action plans are drawn based on the responses.

Compensation: Through its dedicated Compensation Management System, Kuveyt Türk aims to motivate employees to outperform their assigned objectives, to identify employees performing at various levels, and to remunerate them based on their performance. Therefore, Kuveyt Türk's compensation structure is based on a "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, Kuveyt Türk also offers various benefits to employees including private health insurance (with cover for spouse and children), personal accident insurance, a private pension system with company contribution, clothing assistance and family support package.

Some of the other Human Resources initiatives that prompt the "So Glad" response are as follows:

- Launched in 2015, the "Working from Home" model enables work to be conducted at home on flexible hours, helping to support both maternal bonding and women's employment. Viewing motherhood as sacred, the Bank gives a day off to mothers on the day their children start the first year of primary school.
- To ensure the comfort of employees, Kuveyt Türk became the first bank to introduce a summer clothing scheme at its branches in 2014.
- In 2017, the Bank introduced Sepetim (MyBasket), a flexible employee benefits scheme unprecedented in the industry. In 2018, new products were added into the basket based on employee feedback, boosting employee satisfaction further.
- Putting people first, Kuveyt Türk believes that providing a pleasant, peaceful working environment for the staff is a key priority. Accordingly, disabled and pregnant employees are granted a leave of absence at times of inclement weather.
- In order to share a sense of national consciousness while making pleasant memories, the Bank introduced Soldier Farewell Ceremonies in 2016, where employees about to embark on their military service are given a warm send-off by all of their colleagues.
- Executives and managers spent a day working at various positions including the counter and sales, at branches in Istanbul and other Anatolian cities as part of the "A Day in the Field" or "A Day in Anatolia" schemes in order to better understand the issues staff face in an informal, non-hierarchical setting.
- Reviewing business processes across the board with a focus on development, identifying areas of improvement, and introducing new business practices that will carry Kuveyt Türk forward, the Employees First Council continues its activities with an innovative perspective.
- Acting on the principle of "Happiness grows when shared," two new applications were launched to share the moments that prompt us to say "So Glad", one through the new global phenomenon of mobile applications, and one in print format as the time-honored custodian of memories.
- The launch of the "So Glad" mobile application aims to enable the staff to share all their achievements, events, or in a nutshell their social and business lives; to nurture a culture of appreciation through additional features, to

Strategy

Standing out with its experience and competence, Kuveyt Türk's Career and Recruitment Team employs the most reliable HR techniques together to manage the recruiting processes effectively.

boost internal interaction and to turn staff into brand ambassadors of the employer brand.

- Embracing the adage "The palest ink is stronger than the sharpest memory," a new magazine called Mozaik (Mosaic) was launched to revisit and reminisce about our most cherished memories and to make a pleasant mark on this celestial sphere.
- These workplace initiatives were reciprocated by employees and just as in 2017, the Bank emerged as the top performer among KFH Group companies in 2018 with an 85% engagement rate in the Employee Engagement Survey conducted by KF Hay Group. The Bank aims to sustain this score which is 15% above the world average and 10% above highly productive companies in 2019.

The goals of the Human Resources Department for 2019 are as follows:

- 2019 is set to be a year of increased internal and external communication of the employer brand and the initiatives that prompt a "So Glad" response.
- Having concluded 2018 with activities that prompted the slogan "So Glad," in 2019 Kuveyt Türk Human Resources plans to focus on enhancements to its "MyBasket" flexible employee benefits scheme that remains unprecedented in the banking industry. First introduced in 2017, MyBasket scheme will continue to be expanded each year with new products to better address the changing needs of employees.
- Since digitalization is set to be the glaring item on the agenda in the near future, Human Resources also aims to digitize its processes. In 2019, work towards HR analytics will continue through the development of system processes that utilize big data.
- Taking heed of the expectations of generation Y and Z in particular, the career progression structure of the Bank will be revised, enhancing experience across different fields in order to increase career opportunities.
- Trusting employee productivity to be enhanced through appreciation and rewards, Kuveyt Türk introduced the Happy Moments Project in 2018 to concentrate on short-term reward schemes. Activities in this area will continue in 2019.
- Developing projects in order to become a center of attraction in the industry, internally, Kuveyt Türk will continue to invest in its most precious asset guided by its "Employees First" slogan. Externally, positioning

itself as the "School of Sound Banking" the Bank plans to continue building a "Nicer Kuveyt Türk" by working with candidates keen to join its ranks. 2019 is set to see fresh and continued initiatives to prompt the "So Glad" response.

- Having received the Talent Board Candidate Experience Award in 2017, Kuveyt Türk aims to expand talent management initiatives for its current employees while providing the best experience for candidates.
- Among companies who took the Employee Engagement Survey by Hay Group, Kuveyt Türk emerged among the top three performers in 2018. The Bank aims to sustain this successful performance by re-demonstrating the importance it attaches to employees.
- Kuveyt Türk is committed to remaining a center of attraction within the banking sector with its "Swift Career" opportunities and "Competitive Salary Package."

Career and Recruitment Department

Kuveyt Türk is structured to ensure that it stands by the employee every step of the journey from recruitment to exit. Closely following each process of the staff at 14 Regional Directorates and the Head Office departments, Career and Recruitment Department representatives conduct regular branch and department visits, generating an environment conducive for chats and offering support to improve the workplace.

Standing out with its experience and competence, Kuveyt Türk's Career and Recruitment Team employs the most reliable HR techniques together to manage the recruiting processes effectively.

The recruitment process starts with online interviews which were introduced in 2014 and it continues with English proficiency tests. The candidates who successfully undergo this processes are then evaluated at the Assessment Center. There, the presentation skills of the candidates are evaluated, and they are measured against Kuveyt Türk's core competencies through techniques such as group work, role play, case studies, personality inventories.

The most important action taken by the Career and Recruitment Team to enhance the recruitment process was introducing the Talent Q Personality Inventory in 2015. The tool, employed again in 2018 had a highly

positive impact on boosting the quality of the recruitment process. The most striking aspect of this inventory is that it has been customized in line with the competencies of the Bank.

A key recruiter for highly qualified young graduates, the Bank launched a new training program, Kâşif (Explorer) in 2017 to run alongside its Campus at the Bank scheme which has been ongoing since 2008 in line with these targets. Upon successful completion of the program, the graduates are then eligible to move on to the Kuveyt Türk Management Trainee scheme. For those pursuing these goals in the field of Information Technologies, parallel new schemes were initiated, namely, Techno Campus for students and Techno MT for graduates. Moreover, the Bank launched the Adaptation Project so that high-potential candidates get to know the Bank and complete the orientation process with maximum efficiency. One key component of the effort is matching and encouraging collaboration between newly recruited employees and experienced mentors who can provide guidance to the new hires.

Training and Development Department

The Training and Development programs are being carried out under the main pillars of the Bank's vision and competitive principles of Quality of Service, Quality of Human Resources and Technology Utilization Edge.

In order to implement the competitive strategy of boosting human resource quality, learning and development activities are carried out under the brand name of Kuveyt Türk Banking School. The training sessions at the Banking School not only upskill employees to translate internal information into products, but also enable external information to be internalized.

The ultimate goal is to make sure that the knowledge and skills the employees are required to gain are utilized and employed; and that training is seen not as a once-in-a-lifetime activity but a long-term process to deploy the corporate changes and transformations.

Through the Banking School, the development requirements of employees from entry level to every other stage in their career are analyzed, and training road maps or "learning journeys" were drawn to ensure that the tasks set out in the job description are performed in the best and most successful way. Job descriptions, task analyses, manager-employee focus group initiatives as well as other market and industry surveys were utilized to chart the learning journeys.

The Learning and Development Journey at the Banking School comprises of the following modules:

- Basic Banking for all new recruits,
- Sales and Credits
for presenting Products and Services to customers

- Operations and Risk for organizational efficiency and service quality,
- Personal Development for all employees' competence development,
- Management and Leadership for developing an organizational culture.

Under the scope of the Banking School, Kuveyt Türk organized 1,329 classroom based training courses covering 422 topics, and the average training per person was 5 days.

Some 440 newly recruited staff took the Core Banking Training Journey. The program included modules on core banking, banking legislation, interest-free banking principles, customer focus, ethical banking, products and services, sales and relationship management, performance development system, as well as other materials on the Bank's culture and structure.

Operational improvement training programs were held to improve the professional knowledge, skills and competencies of operation managers, specialists and tellers with a total of 300 employees receiving 5 days of training on average. Furthermore, under the branch business model, 75 people were trained towards the counter-to-retail sales transformation.

The Data Analyst Training program produced its third set of graduates this year, with 40 attendees getting eligible to receive certificates as data analysts.

Loan related modules involving financial analysis, fiscal analysis procedures and balance sheet were prioritized to boost the technical knowledge of sales and marketing staff concerning sales, credit, and risk; and 512 employees undertook the loan packages.

Forty-two employees completed the four-module 30-day Career Development Program aimed at branch director candidates.

Emphasizing utilization of in-house resources, Kuveyt Türk selects competent, knowledgeable and experienced candidates in their respective fields to undergo trainer accreditation training in order to support and develop internal trainers. As of 2018, internal training ratio was at 60% Under the Internal Trainer Accreditation Program, 80 people were accredited and received their certificates.

Designed to draw high potential candidates to the Bank, the program was restructured under three distinct concepts: HO account executive (AE) Techno AE and Branch AE, with each sub-group assigned relevant training content. Covering approximately nine months, the Learning and Development Journey was diversified to include workplace internships at and outdoor activities alongside classroom sessions.

Strategy

Studies and surveys conducted in 2018 showed that Kuveyt Türk attained its targets in key areas such as service quality and customer satisfaction.

Regarding Foreign Language training, 110 employees joined the TOEFL training program while conversation clubs involving a native trainer helped to take the speaking skills of 73 participants to the next level. In 2018, the third edition of English Debate Competition also drew more attention to foreign language skills. A total of 384 employees hold a TOEFL certificate as of December 2018.

Regarding Information Technologies, a total of 384 employees received an average of 6.5 days of training for professional and personal development, whereas the IT training was 3 hours per person.

Considering the increase in foreign customers in recent times, a Banking for Foreigners scheme was launched, and 63 employees received training in English and Arabic.

In addition to Personal Development Trainings, a Communications Workshop was conducted with 150 employees to apply Learning by Living method.

Management training was provided for 200 staff from Head Office and branches to enhance their management capabilities.

Organization and Quality Development Department

The Organization and Quality Development Department operating under the Strategy Group is responsible for:

- Conducting customer surveys,
- Conducting projects in order to improve the service quality and resolving customer complaints,
- To receive and resolve customer complaints,
- Executing enhancement projects to boost customer satisfaction,
- Correcting, preventing and ameliorating any current or future problems arising from the Bank's products and services via the CPR (Corrective, Preventive and Remedial Actions) system,
- Conducting and controlling projects related to ethical banking,
- Evaluating suggestions sent by customers and employees over the Sound Idea Platform,
- Regularly reviewing the Bank's organizational structure, building an effective organizational structure that meets the market and customer expectations in light

- of technological advances and establishing the optimal allocation of duties/responsibilities,
- Conducting permanent staff studies, ensuring operations are carried out by an optimized level of staffing,
- Conducting job grading studies, ensuring that posts are correctly positioned on the scale,
- Managing the authorization and workflow systems, designing workflows appropriate for the organizational structure and granting authorization in line with the job descriptions,
- Supervising the Quality Document Management System, ensuring the documentation is up-to-date and complete,
- Performing the work needed for ISO 10002 and EN 15838 quality certifications, and establishing an effective Quality Management System.

Studies and surveys conducted in 2018 showed that Kuveyt Türk attained its targets in key areas such as service quality and customer satisfaction. The 73.4% staff participation rate in the Internal Customer Satisfaction Survey, which included questions on business, communication and overall satisfaction, confirmed employees' trust in the survey. According to the results of the Internal Customer Satisfaction Survey, the overall satisfaction average was 3.97 out of a 5 in 2018.

In 2018, the Bank ran a special project called "Customer Satisfaction to be So Glad About." In this context, a Customer Experience Service Model was built based on the Customer Experience surveys conducted with internal and external customers that correspond to the Bank's strategic service approach. Senior Management organized seminars to brief staff about the Customer Experience Service Model. More than 90% of all staff received information about the model thanks to these seminars. These efforts were conducted as an extension of the Service Culture and Values Project which was launched in 2009, and the subsequent Customer Experience initiative which has built upon it.

During the year, the Organization and Quality Development Department conducted the following activities:

- In 2018, at the ETİKA Competition where Ethical Values Association EDMER ranks companies according to



Incoming Requests to Customer Satisfaction Center
110,328

The fact that the number of customer complaints in 2018 declined 70% year-on-year despite the increasing number of branches and customers is viewed as an encouraging development.

their compliance with ethics-related criteria, Kuveyt Türk received the Ethics Award for the fourth year in a row, confirming its commitment to Ethical Banking principles.

- The one day long, classroom based ethical banking and service culture training for new recruits were revised and relaunched as interactive sessions.
- A work schedule was drawn with the Ethics Ambassadors drawn from each unit and branch to help preserve and promote the ethical values and principles of the Bank, and a survey to compile the Ethics Ambassadors' ideas and suggestions was conducted as a first step.
- The Ethics Committee continued to hold meetings in 2018 and took significant decisions in the area of Ethical Banking. Actions were taken to establish permanent solutions to the employee entries to the Ethical Reporting System.
- Regarding transaction-based external customer satisfaction surveys, more than 173,000 surveys were conducted on 33 different transactions. The average score of 4 points obtained both for participation rates and survey ratings signify a major achievement.
- For transaction-based surveys among internal customers, 209,442 responses from 33 directorates were received via BOA regarding 61 workflows. The success score stands at 4.60.
- Taken on an annualized basis, Customer Complaints in 2018 recorded a significant decline of 70%. Among the main factors for the decline are the efforts towards correcting, preventing and remedying any current or future problems arising from the Bank's products and services via the CPR (Corrective, Preventive and Remedial Actions) system. Over the course of 2018, 169 Corrective, Preventive and Remedial Action calls were logged, and 53% of the closed calls were enforced, leading to a reduction in complaints.

Organization and Quality Development

- System improvements were finalized to calculate the branch operation workload on a daily and individual basis, so that branch resource calculations can be done in accordance with the new business model. Permanent staff modeling studies are underway for branches, based on the workload calculated. Furthermore, work has started to ensure the workload of operations center is systemically calculated.

- Resources have been earmarked for IT to ensure that it offers a rapid response to small-scale IT requests that will generate staff savings at the operations center. By getting the team to focus on requests that are considered quick-win opportunities, resource savings were sought for at the operations center.
- A total of 20 surplus staff from units that saw its workloads reduced as a result of digitalization projects and workload shifts were transferred to other units in need of staffing.
- The duties and responsibilities of all departments were reviewed and 123 job definitions were revised. Some 437 new documents were created on the Quality Document Management System in 2018, and 507 documents were revised.
- Internal audits were carried out within the scope of the certificates held by the Bank in accordance with the ISO 10002 Customer Complaints Management System and EN 15838 Call Center Management System standards, and action plans were drawn in areas of development. External audits were successfully completed ensuring renewal of certificates.
- Taking account of the similarity of duties in authorization and product support activities, it was decided that assigning the same group to undertake both sets of duties would create efficiency. Therefore, the Product Support team was merged into Organization and Quality Development Unit, and the former's name was changed to Product Support and Authorization.

Customer Satisfaction

In 2018, the Customer Satisfaction Center received 110,328 requests in total. While Customer Satisfaction Center dealt with those involving complaints, more than 90% of all other requests were automatically handled by the system, offering efficient and quick solutions.

The fact that the number of customer complaints in 2018 declined 70% year-on-year despite the increasing number of branches and customers is viewed as an encouraging development.

In 2018, the average span of requests resolution undertaken by the Customer Satisfaction Center was 2.5 business days.

Banking Services Group

In order to efficiently manage the operational business processes of the Bank, the Operations Center undertakes investments to enhance corporate capacity and workforce competence.

Kuveyt Türk Operations Center has been restructured to carry out the operational transactions of the corporate, retail and international banking groups in a coordinated fashion.

Directing its efforts to bring operations to the highest quality standards while minimizing operational costs, the Center comprises of Loan Operations, Banking Operations, Foreign Trade and Treasury Operations, Central Operations, Insurance, Payment Systems, Product and Customer Safety, and Call Center departments.

Managing business processes to improve work efficiency at Kuveyt Türk, and executing the necessary technological updates are also among the responsibilities of the Operations Center.

In order to efficiently manage the operational business processes of the Bank, which grows continuously in terms of branch numbers and transaction volumes, the Operations Center undertakes investments to enhance its corporate capacity and workforce competence.

Administrative Services Group Directorate

The Administrative Services Group comprises of the Administrative Services and Procurement Department (Procurement, Administrative Affairs and Communication Services), Construction and Real Estate Department and the Security Department.

Administrative Services and Procurement Department

The Department is consists of Procurement, Administrative Affairs and Communication-Archive-Logistics Services, and builds and executes the Bank's supply and service processes.

Procurement: The unit is in charge of conducting market analysis of goods and services required by the Bank, their supply in a timely, cost-effective manner and at the highest quality, storing purchased goods via Logistics Center and distributing them to the requested locations via the demand management system. As part of Procurement,

Leasing and Logistics Service's activities, contracts are awarded in line with the projects drawn to ensure that the properties purchased or leased to provide new service points in line with the Bank's strategy are ready for service as required.

Procurement Management (Solicitation – Order – Supply – Invoicing) was transferred to the Bank's end-to-end ERP structure. Further upgrades and enhancements are being made to the system in accordance with requirements.

After they are logged into the system by relevant departments, all contracts of the Bank are forwarded to procurement unit to be checked against the registry criteria and archived. The units can access their contracts through the application within their authorization limits.

In order to optimize operational costs, contracts are made centrally with various suppliers, continually enhancing the quality of supply processes. Where possible, suppliers for maintenance and repair services were also merged, contributing to improved quality and reduced operating costs.

In 2018, 7 new branches, 14 retail XTM branches, 18 off-site ATMs, were rented, and were brought into service upon completion of contractual processes. Furthermore, 12 branches were moved into new premises, and comprehensive renovations were carried out in 19 branches.

Supply planning, inventory and shipment management for about 600 different products are conducted with a focus on efficiency at the Logistics and Archive Center in Tuzla built on an 2,500 m² plot with 4,500 m² area under the direction of the Communication, Secretariat, Archive and Logistics Service.

The Communication, Secretariat, Archive and Logistics Service provides Bank's reception-registry-distribution processes for mail-cargo-carrier documents, all commission-committee level secretariat duties, official correspondence and notifications, private secretary services, fixed and mobile line operator services and archive services.

Some 26.900 individual subscriptions for the Bank's fixed and mobile phones, electricity, water and data lines are managed to deliver uninterrupted service.

8,500 documents are managed daily centrally dispatched by cargo, carrier and mail without negatively affecting customer satisfaction in terms of shipping costs, and provide cost efficiency.

The Administrative Affairs Service conducts and manages all general services required to support seamless flow of banking activities including cleaning, travel, accommodation, food, food card, building facilities, transport, training and meeting rooms, catering, landscaping, vehicle fleet management, tea corner, car wash and chauffeuring. Miscellaneous services including a guest house, restaurant, cafeteria, gym, hairdresser, dry cleaning, tailor, etc. are also offered at the Banking Base and Leisure Campus, to ensure various needs of the employees are met on the premises.

Travel and tourism services are extended for all staff including domestic and international flight tickets, accommodation. At the same time, there is a 60-bed capacity guest house and 12 training halls and conference rooms available at the Banking Base. There are also transport services organized for the staff working at the Head Office and the Banking Base, the general cleaning and tea service organized for the Regional and Branch Directorates, and the facilities services at the Banking Base including sports for healthy living, technical facilities, cleaning services and landscaping services conducted under the department.

Within the framework of specified policies and practices of the Bank, further projects are carried out to improve and develop the service processes, ensuring that the needs of the employees are met and the services extended are satisfactory.

Construction and Real Estate Department

The Construction and Real Estate Department undertakes necessary work to rent, blueprint, and execute the construction of new service points at selected locations in line with Kuveyt Türk's strategy. In 2018, 18 new branches were generated. Over the course of the year, 21 ATM points came into service.

33 existing branches were either moved to a new location or underwent a full renovation. Private Banking service points were established at five branches. Based on the requirements of branches or new business models, 27 branches underwent comprehensive renovations while 60 underwent partial renovations and improvement works. Infrastructure and installation works were completed at existing branches for 71 new lobby ATMs. 8,317 requests conveyed from branches into Branch Facilities unit over the course of the year were logged and resolved. The mosque construction, one of the Bank's social responsibility projects began right by the Headquarters at the Banking Base and construction process is still ongoing. Extensive project, renovation and construction efforts are underway at the Head Office in an effort to upgrade the building at its current site.

In addition to new branch inaugurations and renovations, the Department of Construction and Real Estate continued its services and contributions in 2018 to realize the sales, marketing and business model development policies of Kuveyt Türk on the field.

Security Department

Security services are extended through private security officials with the required technical and tactical knowledge, high labor discipline, technological savviness in order to maintain the security of service points within the legal coverage by considering customer satisfaction.

Operations Group Directorate

Kuveyt Türk Operations Group Directorate coordinates activities of Banking Operations Department, Foreign Trade and Treasury Operations Department, Credit Operations Department, Payment Systems Department.

Banking Operations Department

Insurance Transactions Unit: The unit provides policy issuance, renewal, addendum operations (Changes-Cancellations) and pursuance of claims for insurance policies both associated with loans extended by Kuveyt Türk, or those outside the scope of Bank loans. In 2018, the Unit performed 43,659 warranty and 43,691 external insurance policy approvals. 238,540 insurance policy renewals, 50,416 changes and cancellations, 13,702 claim transactions and 80,000 warranty inquiry/control transactions were conducted.

In its insurance operations and contracts, the Bank cooperates with Neova, the only insurance company in Turkey, that carefully complies with interest-free insurance principles known as "takaful" in this field. The Bank's collaboration with Neova Insurance, dating back to 2010, was further deepened in 2018.

Kuveyt Türk focuses on meeting all the needs and expectations of its customers in the field of finance in accordance with interest-free banking principles. In collaboration with Neova Insurance and Katılım Emeklilik, Kuveyt Türk provides customers a rich warranty structure and alternative product packages for their insurance needs. In 2018, insurance premiums generated by Neova Insurance via Kuveyt Türk reached approximately TL 167.9 million.

With its innovative approach to interest-free insurance, modern and technological investments, and customer-focused service approach, Kuveyt Türk continues to expand the range of products and services offered through Katılım Emeklilik. The insurance premiums generated by Katılım Emeklilik through Kuveyt Türk reached TL 34.9 million in 2018. Furthermore, the size of Private Pension Fund Katılım Emeklilik built through Kuveyt Türk rose to TL 867 million. There was 33% increase in premiums in the non-life branch and a 30% increase in the life insurance branch.

Banking Services Group

With its innovative approach to interest-free insurance, modern and technological investments, and customer-focused service approach, Kuveyt Türk continues to expand the range of products and services offered through Katılım Emeklilik.

In line with the participation insurance principles, TL 551,991 of balance (premium) was returned in 2018 as experience refund to claims-free customers who contributed into the premium pool in 2016. Kuveyt Türk earned TL 98,431 in commissions as a result of these transactions.

In 2018, as a result of Kuveyt Türk's analysis of customers' insurance needs:

- Insurance products issued by Neova Insurance under the Pharmacy Pack were offered for sale.
- A communal residential areas insurance was activated and offered for sale by Neova Insurance.
- The Supplementary Health and Travel Insurance products issued by Katılım Emeklilik went on sale.
- Leasing policies began to be drawn on foreign currency denominations.
- As a result of the licensing studies conducted to enhance the technical competence of branch personnel, the number of Bank staff with SEGEM certificates climbed to 2,276.
- Screens enhancements were made to ensure services for all the insurance products are delivered in a simpler and faster manner.
- The award points campaign, generating premiums for staff conducting policy sales from Neova Insurance was continued, and added into MyBasket application of the Human Resources Department in 2018.
- The win-win-win campaign which pays additional bonuses for branches achieving a 20% or higher increase in year-on-year sales of certain selected products continued in 2018 with approximately TL 1.7 million in additional bonuses reflected on branch balances.
- As a result of customer insurance requirements analyses, a new life product called Robust Commercial Life (Sağlam Ticari Hayat) was launched for commercial customers.
- The limits on Personal Accident Insurance offered by Katılım Emeklilik were increased by the addition of Maximum Personal Accident products.
- Neova Insurance launched a Freight Insurance product to be issued at branches.
- Systemic checks were introduced into the insurance premium liabilities of released collateral.

The goals of Insurance Transactions Unit for 2019 are as follows:

- The project aiming to offer quotes and policies for comprehensive vehicle insurance for casualty and collision (Kasko), traffic, voluntary pecuniary liability insurance, earthquake insurance (Dask), and home insurance will be launched on the Mobile Branch.
- The outgoing sales calls by the Call Center to market new insurance products are to be increased and the product range offer is to be diversified.
- Policy data entry and approvals will become automatic through the robotics project.
- Training programs to boost the technical capability and sales skills of branch staff regarding insurance products will continue.
- Hajj/umrah travel insurance is under consideration to be launched as a new product.

Branch Coordination Service: Performing various functions including system developments, process enhancements and establishment of business standards at branches aimed at boosting operational productivity in line with the corporate strategy, the Branch Coordination Service plays an active role in administering counter and other operations at branches, ensuring assignment of optimum staff levels based on branch workload analysis, planning training programs aimed at developing the knowledge and capabilities of operational staff, and providing temporary support staff to branches.

The lobby ATMs that were installed at 161 branches to reduce the workload helped to cut down the counter workload from 39% to 20% in 2016, to 15% in 2017, and up to 13% in 2018. As part of the project, 69% of the workload was shifted from the counter to the ATMs. As an extension of the project, the range of transactions available at lobby and wall-type ATMs were expanded. The development work will continue in 2019.

By boosting efficiency of ATMs in 2018 in line with ATM routing objectives, the ratio of ATM transactions in total counter and ATM transactions rose from 82% to 84%.

In line with the Bank's strategy, it was decided to expand these efforts to all the branches under the scope of the New Branch Business Model Project in 2018. The pilot branch application of the Retail/Counter concept was

launched with a customer-oriented operational approach. In 2018, the transformation process was completed at a total of 35 branches.

In order to reduce documentation workload and archiving costs at the branch under digitization efforts, plans were drawn to receive and store application documents and forms over digital channels.

Banknote counter devices featuring remote access update and counterfeit money identification technologies began to be dispatched to branches. A total of 169 banknote counter devices were replaced at 139 branches.

With a support team of 55 people to fulfill the temporary staffing needs of the branches, more than 6,500 branch staff requests were met in 2018, ensuring continuity of services at the branches.

As of the year end, 115 branches are operating with one operations manager and one counter staff. Through this arrangement, newly established branches lacking sufficient transaction volumes still operate at the most favorable staff costs.

Cash Operations Unit: The Cash Operations Unit meets Kuveyt Türk branches' need of banknotes and precious metals across the group. The unit serves 173 branches in Istanbul and 239 branches and XTM branches elsewhere in the country. In addition to meeting the cash transfer dispatch and receipt requests from the branches, the Service also executes the transfers of KT gold grams, gold and silver bullion. Furthermore, it draws the official documentation for overseas foreign currency transfers by the Treasury Department, as well as the preparation and delivery thereof to the designated shipping company.

- 111 million banknotes were counted in the main vault located in Istanbul, to be used in group transactions at Istanbul branches.
- In 2018, the gold dispatched to and received from the branches amounted to 5 tons.

OPC Business Development and Data Quality Service: The OPC Business Development Service works to ensure that the processes of units under the Operations Center are more efficient, accelerated, digitized, and that OPC service standards are specified in line with corporate strategies, as well as carrying out activities to enhance internal and external customer satisfaction.

Its main priorities include reviewing the OPC processes to conduct the necessary work-efficiency analyses, determining and prioritizing the improvements and upgrades, devising projects to boost efficiency, and implementing them. Furthermore, it conducts analysis and reporting on developing trends and information technology solutions in line with requirements. The efforts underway involve data processing, generating projections with an analytical infrastructure, and establishing a systemic reporting infrastructure.

Data Quality Service: The Data Quality Service was established in line with strategic objectives to ensure that customer data is up-to-date, accurate and complete.

Retail Accounts: In 2018, entry rates for eight data fields (home, car, number of children, address, GSM, e-mail, education level, occupation) of real active customers who had account activity over the past year rose from 78.05% to 80%. The number of customers increased from 1.7 million to 1.85 million. The weighted ratio of completion was determined via e-mail.

Corporate Accounts: Data verification work was conducted for the type and date of establishment and authorized fields through infrastructure studies. Completion rate reports were sent weekly to the branch portfolios and fortnightly to the branches for follow-up.

Data Cleansing: Data cleansing was conducted across repetitive data, email information, customer authorizations, occupation details and accounts for under 18s.

Data Verification: Reasonable checks were made across occupation, education, age and income bracket data. Furthermore, verification began to be conducted across databases of the credit bureau KKB, civil registration system MERNİS and trade register MERSİS.

Verification through the fine reader program ABBYY started off on the basis of ID. Cooperation began with tradesmen and craftsmen association ESBİS to verify vendor information. Customer signatures began to be displayed on the screens. People not appearing on the authorized signatories list were barred from undertaking transactions. Work was initiated concerning NACE version 2 and authorized people's data began to be brought up online.

Foreign Trade and Treasury Operations Department

Some of the responsibilities of the Department include banking transactions related to import, export and external guarantee transactions, incoming and outgoing foreign currency transfers of Bank customers, controlling and supervising EFT and SWIFT systems as well as performing foreign exchange, precious metals, CBRT, BİST, Central Registry Agency (MKK) and Takasbank transactions.

Comprising of Transfers, Collections, Letters of Credit and External Guarantee Units, the Foreign Trade Operations unit is responsible for banking services involving cash-in-advance exports, foreign exchange transfers, cash against documents, letter of guarantee and External Guarantee transactions, as well as correspondent bank services for Vostro accounts.

The number of operations conducted by the Foreign Trade Operations Unit increased by 30% in 2018 compared to the previous year.

In 2018, the Foreign Trade Advice Line launched to provide consultancy services to the branches proved highly popular with the branches and was actively employed. Furthermore, as a result of digitalization efforts, 34% of transfer transactions were shifted to digital channels.

2019 is expected to see a fresh push to intensify digital transformation efforts. Meanwhile, SWIFT global payments innovation (gpi) integration is due to be completed during the first half of the year.

Banking Services Group

“The Credit Operations Information Service” continued to deliver comprehensive services to branches with increased staffing.

Treasury Operations Unit operates through three subdivisions; Foreign Exchange and Money Market Operations, EFT and Capital Markets Operations, and Precious Metal Operations. Since the Unit also incorporates the EFT Center, it also conducts control, reconciliation and development activities for the EFT, RPS (Retail Payment Service-PÖS) and EST (Electronic Securities Transfer-EMKT) systems.

The number of operations conducted by the Treasury Operations Unit increased by 24% in 2018 compared to the previous year.

In 2018, the development of the ELUS (Electronic Warehouse Receipt- EWR) Purchase/Sale/Warranty/Reconciliation Project, EFT and Capital Markets Advisory Line, Sukuk Reconciliation Screen were completed and the Gold EFT System began to be employed by Treasury Operations.

Over the course of 2019, the Treasury Operations Unit will be managing the Customer-led RPS Cancellation and Return Processes Project, the CBRT Quick Payment Project and the Precious Metals Matching System Project.

Credit Operations Department

The Credit Operations Department conducts operations relating to retail, SME and corporate finance facilities, subsidized lease transactions in line with Kuveyt Türk’s business principles and legal regulations. Under this scope in 2018,

- The Credit Operations Information Service, established to respond to branch enquiries and information requests about fund allocations continued to deliver comprehensive services to branches with increased staffing.
- Scoping and analysis stages were completed for the new fund allocation project which will systematize the entry and tracking of data in fund allocation processes as they get digitized.
- An active role was played in the Bank’s strategy of expanding leasing operations.
- Work was undertaken to accelerate the process under Leasing System Enhancements.

- In response to the amendments in the legislation concerning foreign currency loans process and system adjustments were made.
- A significant number of branch and customer visits were made providing information on the Bank’s principles and practices.

The Credit Operations Group achieved its 2018 targets, and accomplished the following results over the year:

- 95% of branches consulted the Credit Operations Advice and Enquiry Service. Fulfillment of information requests from the branches contributed to the delivery of accurate and swift transactions.
- Customer satisfaction and loyalty were enhanced by obtaining access to government support for a large number of customers thanks to successful initiatives under the Ministry of Treasury and Finance’s profit share based transactions, urban transformation schemes and Eximbank SÖİK loans.

Payment Systems Department

ADC Operations, Card/Clearing Operations and Expense Disputes, Corporate Collections and System Monitoring are the three units operating under the Payment Systems Department.

ADC Operations: Conducts services for member merchants (POS), and ATM/XTM operations.

Merchant Services: In 2018, top levels of customer satisfaction was achieved through service levels (SLA) of 99.02% in POS installations and of 98.43% in troubleshooting.

The number of POS devices increased by 48.84% and transaction volumes by 35.92%.

The key improvements regarding merchant services in 2018 were as follows:

- Branch-level screens and reports of merchants were transferred from Banksoft Şubeweb to BOA.
- POS devices were configured to process Troy Contactless Cards and their reach was extended.
- The SSL checks of FreePOS merchants were automated.

- As part of the sub-dealer enhancements for Neova Insurance and Katılım Emeklilik, 3,500 Virtual POS merchants were generated and brought into service.
- The Mobile POS (mPOS) product CebimPOS was introduced in May 2018. As of the end of the year the number of CebimPOS terminals reached 11,042.
- The screen displays of mobile and fixed POS devices were redesigned.
- 6,000 mobile, 3,000 fixed POS devices and 500 Pin pads were included in the stocks, while 2,645 devices which completed their lifecycle were removed from the stocks.
- Conducts the field services for payment register POS and cash register POS.
- Draws service agreements with external companies (Turkcell, Arçelik-Beko, Profilo, Teknoser, Hugin, etc.) and ensures the receipts are in agreement.

ATM/XTM Operations: The unit manages a total of 784 installed ATMs of which 662 are branch-based, and 122 are off-site ATMs. Number of XTM branches reached 56. In 2018, ATM installations increased by 19.1%. 183 ATMs were installed as part of branch-based ATM project.

The key improvements regarding ATM/XTM operations in 2018 were as follows:

- The feature to enable depositing foreign currencies into the account via ATMs
- Making exchanges via ATMs
- ATM Digital Lock enhancement project
- PVIM project and ATM Troubleshooting and Process automation
- Work on the new Generation Cash Recycle ATM Product by Diebold Nixdorf.

Card/Clearing Operations and Expense Objections: The unit deals with operations involving Card/Clearing and Expense Objections. Expense Objections Unit was dissociated from Product and Customer Security Unit in 2018 to then be merged with Card/Clearing Operations Unit and was renamed as Card Clearing Operations and Expense Objections Unit.

Card Clearing Operations Unit: The Card Clearing Operations Unit manages operational transactions for debit and credit cards, as well as setting up parameter definitions for card systems management, conducting daily clearing and accounting transactions with BKM-VISA and MasterCard companies, and providing reports for government agencies concerning card payment systems. In 2018, the number of credit cards increased by 13% and the transaction turnover by 42%.

Expense Objections: The unit examines the challenges brought by customers regarding Kuveyt Türk debit and credit cards, and conveying any expense dispute records in line with BKM, VISA and MasterCard rules.

The following projects were conducted under the Card Clearing Operations and Expense Objections Unit Operations in 2018:

- Team ensured attendance for the tests of Discounted Deposit and Withdrawal Transactions from PTT ATMs Project. Accounting service codes and slips were defined ahead of the transition to PROD applications.
- The Card Transformation Project was initiated, and its scoping and analyses phases were completed. The consultancy company and the IT teams are supported through analysis and tests conducted.
- Screen improvements were made that offer ease of use in the branch web interface.
- Visa VCR module enhancements were done and prod flow was provided.

Corporate Collections and System Monitoring: It conducts operations relating to Corporate Collections and System Monitoring.

Corporate Collections: Department manages Utility Bill Collection, and Tax Collection on behalf of contracted institutions (SGK, Directorate of Religious Affairs, PTT) and ensures their settlement with relevant institutions.

System Monitoring: Monitors the activities of system monitoring units under the Payment Systems Directorate, Product and Customer Security Directorate and Electronic Trading and IT on a 24/7 basis.

The System Monitoring Unit which previously worked 16/7 under the Corporate Collections and System Monitoring Department began to serve on a 24/7 basis in 2018.

Call Center Department

Call Center Operations and XTM Central Operations constitute the two main units operate under the Call Center Department.

Call Center Operations Service: Kuveyt Türk Call Center operates in four different locations; namely Kocaeli Banking Base & Leisure Campus, Ankara Balgat DRC and Call Academy, Konya Call Academy and Izmir Call Academy. It also serves its customers in in three languages; Arabic and English, as well as Turkish.

Among the activities conducted at the Call Center are Telephone Banking, support services, credit card and insurance policy renewal and sales services, customer satisfaction line, Senin Bankan, private banking services and responding to branch calls. In addition to these services, starting from 2017 Kuveyt Türk began to provide translation support in Arabic and English to respond to customers' e-mail enquiries, and in cases when branches required it for communicating with foreign customers.

Incoming Calls: 38% of the incoming calls to the Call Center were answered by customer representatives and 3,127,636 customers were served in 2018. Some 62% of the incoming calls were resolved in the self-service. Over the year, the number of banking transactions performed via the Call Center reached 98,778. The annualized total of banking transactions in 2018 came in at TL 448 million. Customers who failed to reach the Kuveyt Türk Call Center are automatically called back by the Call Center.

Banking Services Group

Projects were initiated in 2018 to facilitate customer interaction and enhance productivity by deploying digital technologies including IVR, Chat Analysis, Voice Signature and Chatbot.

The IVR self-service channel continued to expand in 2018. A total of 4,584,480 customers were served via the IVR channel. As a result of the IVR self-service channel, there was 138 person/days increase in workforce management and call response performance year-on-year, as well as a productivity growth. Some 62% of all calls to the Call Center were resolved through IVR.

Kuveyt Türk Call Center holds the EN 15838- 2009 Customer Communication Center Management System Certificate, which is a management system in compliance with the Customer Communication Centers Management Standard.

XTM Central Operations Service: The XTM Center provides video chat services in Turkish, Arabic and English to customers of 36 XTM digital branches located in different places, with 55 XTM digital branches including 8 XTM branch lobbies, for all their banking transactions. Introducing a first in Turkey, visual banking services began to be delivered in sign language in 2018.

- In 2018, the number of incoming video calls to the XTM Center increased by 18% to reach 146,030. Some 65% of incoming calls were answered within the first 10 seconds.
- The number of XTM Center's annual transactions increased by 73% in 2018 and reached 538,769, while transaction volume increased by 55%. New customer accounts opened through the XTM Center in 2018, also grew by 45% year-on-year. 8% of new accounts belong to foreign nationals.
- In 2018, besides operational transactions, XTM Center's sales activities reached beyond sales targets. Targets were achieved by 130% with 9,882 sales in Mobile-Internet Banking by 101% with 4,267 sales in credit cards, 160% with 5,123 sales in ATM cards and by 99% with 4,164 sales in bill instructions.

Projects were initiated in 2018 to facilitate customer interaction and enhance productivity by deploying digital technologies including IVR, Chat Analysis, Voice Signature and Chatbot. Over the course of 2019, these projects are due to be completed and offered to the customers.

Central Operations Department

The Central Operations Directorate comprises of Central Accounts, Official Correspondence, Senin Bankan, Settlement Operations, Standing Orders, Letter of Guarantee and Data Input services.

Letter of Guarantee Service: Kuveyt Türk is the preferred bank for letters of guarantee and letters of reference for customers due to its simple and swift system, its innovations on the digital platforms, and continues to boost its competitive edge thanks to new technological enhancements in the field.

The Letter of Guarantee Service conducts the following activities:

- Checking and approving letters of guarantee issued by the Bank for compliance with the legislation, corporate principles and fund allocation decisions,
- Providing Head Office confirmation letters for the letters of guarantee and letters of reference,
- Entering into the system the letters of guarantee and letters of reference conveyed by the branches.

In 2018, the Bank issued 56,940 letters of guarantee, and 6,199 letters of reference. Under the centralization project, 51,025 letters of guarantee and letters of reference were logged into the system by the Letter of Guarantee Service in 2018, bringing the ratio of centrally conducted transactions to 88.24 %.

Regarding the letter of guarantee applications which were made available from the Corporate Internet Branch in 2017, the rate of application transactions coming via the Internet Branch reached 16.17% in 2018.

Data Entry Service: It checks the images of the data entry transactions for checks, bills, guarantees and other official correspondence transactions sent by the branches over the BOA system and enters the information into the system.

In 2018, official correspondence entries reached 254,153, collateral entries to 136,768, check entries to 844,531 and promissory note entries to 242,788.

Clearing Service: The number of checks issued to customers after clearing the limit/risk checks of the Bank's approval mechanisms reached 1,125,600, the number of other banks' checks submitted for clearing reached 717,109 and their sum to TL 20.6 billion; the number of Kuveyt Türk checks collected via clearing to 660,014 and their sum to TL 22 billion; the number of other bank checks on foreign currencies sent to the collection via clearing was 12,347, and their total sum to USD 381.6 million, the amount of Kuveyt Türk checks drawn on the basis of foreign currencies received via clearing reached 18,363 and their sum to USD 530.3 million.

The number of bills collected through branches and correspondent banks reached 204.100 and their sum reached TL 2.6 billion.

Standing Orders Service was established to support the segment-based sales service model, one of the strategic priorities of the Bank, to reduce the operational workload of branches and to contribute to the sales-oriented work of the branches through the centralization of transactions. Standing Orders Service: It conducts EFT/RPS, Transfer and Social Security (SGK) transactions on orders submitted to the branches.

In 2018, such transactions processed via the branch or the account stood at 1,098,878, the transactions conducted by the Standing Orders Service was 713,331. Whereas 44.34% of the transactions involved standing orders in 2017, in 2018 this ratio came up to 64.61%.

In 2018, SGK transactions from the branch or from the account came up to 176,249 and 9,457 of these were processed through the Standing Orders Service. This transaction volume corresponds to 5.37% of the overall volume. With the digitalization of SGK payments, rate of manual payments declined.

Central Account Opening Service: It provides support for customer identification processes for real/legal persons who are foreign nationals and for Association/Foundation Accounts.

As part of the Service's activities in 2018:

- Data entry tasks were transferred to the branch users in the customer identification/update processes previously performed by the data entry unit and the unit started to check information and documents.
- The centralization rate which stood at 40% as of the end of 2017, reached 100% as of April 2018.
- Account checks for Associations/Foundations began to be processed by the unit as of June.
- The number of accounts opened for Associations/ Foundations as of the year end was 320.
- Regarding new accounts opened for foreign nationals, the number of transactions conducted by the unit rose from 7,400 at the end of 2017 to 37,000 as of 2018. The number of transactions conducted increased by 400% compared to the previous year.

The Official Correspondence Service: It is in charge of responding to all official papers sent to the Head Office and branches by KEP (electronic mail), E-Notification and postal mail, archiving them electronically, as well as controlling and responding to the packages coming from the GİB, SGK, Customs and the E-Foreclosure systems of SDIF.

In 2018, responses were provided for 403,194 correspondences.

Senin Bankan: Senin Bankan conducts operations for Kuveyt Türk's digital platform.

The functions extended by Senin Bankan Branch are as follows:

- Processing customers' account opening and credit card applications submitted via www.seninbankan.com.tr,
- Responding to requests or complaints conveyed by Senin Bankan customers via the Call Center or Customer Satisfaction channels,
- Coordinating Customer Relations Field Team,
- Monitoring couriers, making transaction checks, managing courier operations and ensuring better customer experience in courier operations under the scope of agreements with courier companies.

Senin Bankan began its operations gradually in 2015, starting with account opening, credit card applications, vehicle-housing finance, and İhtiyaç (Needs) Card Applications.

In 2016, a barcode system was introduced under productivity efforts and PPS and Personal Accident Insurance applications began to be accepted. In November, efforts began towards building the Customer Relations Representative Field Team.

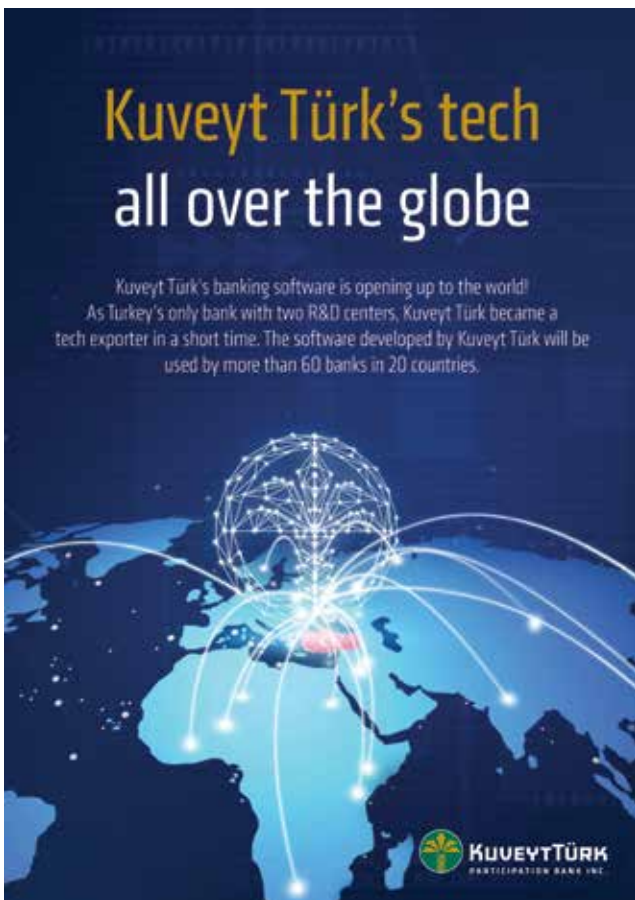
In 2017, the emphasis was on developing the Anonymous Debit Card and enhancing customer experience to boost operational efficiency. In 2018, Customer Relations Representative Field Team conducted distribution activities in seven cities with 22 staff. While it distributed 14% of consignments the previous year, the team began to make 24% of the deliveries itself. In 2018, Senin Bankan customers have grown to almost 100 thousand and their deposits to TL 300 million.

In 2018, under the Department,

- Senin Bankan Customer Relations Representative Field Team conducted distribution activities in Istanbul, Ankara, İzmir, Konya, Bursa, Adana and Gaziantep. There are also plans to include Kayseri and Antalya before the end of the year for the distributions.
- Efforts are underway to raise awareness in services through the segment estimation project in Senin Bankan Application Process.
- With the amendment announced in the official gazette regarding getting account contracts online, plans are under consideration to ensure Senin Bankan contracts are submitted online. The relevant functions are expected to be live by the end of the year.

Banking Services Group

Efforts are underway to raise awareness in services through the segment estimation project in Senin Bankan application process.



- Through the Tramer link, Kasko insurance values were automated.
- All mortgage data became available online through the integration of TAKPAS (Land Registry) system.
- Work has started on the Check Transactions Digitalization.
- Additional security measures were introduced on the papers the letters of guarantee is printed to avoid fraudulent activity.
- In the last quarter of 2018, the Bank resolved to amend the sheets used for checks. The new check sheets printed with new printing techniques and images started to be delivered to the customers.

The goals of the department for 2019 are as follows:

- Batman, Malatya, Şanlıurfa, Sakarya, Eskişehir, Diyarbakır and Mersin will join the list of cities where Senin Bankan Customer Relations Representative Field Team conducted distributions.
- In 2019, Senin Bankan will begin to open accounts for customers who are foreign nationals via KFH.
- With the establishment of text entry and document recognition infrastructure through OCR, the data entry and document interpretation processes of the services under the directorate will be optimized.
- Work has been initiated to submit letter of reference requests through the internet branch.
- Work has started to integrate robotic systems to Letter of Guarantee processes.
- The integration of these into the current Letter of Guarantee processes is expected to be completed.

Product and Customer Security Department

The Product and Customer Security Department was established in July 2018 in order to address the security issues growing in tandem with technological developments and digitalization with a clear focus, preventing external fraud attempts aimed at Kuveyt Türk products and customers, combating them more effectively and taking any measures necessary.

Product and Customer Security Department also heads the External Fraud Committee within the corporate structures. Within the scope of its activities, the External Fraud Committee along with its committee stakeholders evaluates the fraud risks and identifies actions regarding the fraud trends by taking precautionary measures against threats constituting a potential risk for Kuveyt Türk and assesses the workflows or system improvements on new and existing products in terms of fraud risk. Meeting regularly every month, the External Fraud Committee presents reports of its activities to the High Committee on Fraud every six months.

In order to bolster anti-fraud structures the following measures were taken in 2018:

- An anti-fraud module to track suspect transactions conducted via IVR was launched.
- Developed to strengthen customer verification structures in Mobile Branch activation work flows, the MSISDN project was brought online.
- A module for account opening applications comparing the applicant's declared data with the data on KKB and MERNİS was brought online.
- System enhancements were implemented to enable financial transactions conducted in different channels to alert others.

The projects expected to be implemented under the Department's remit in 2019 are as follows:

- In addition to the rule-based fraud scenarios, channel-based studies of analytical models that will generate a risk score based on past behavior of the customer will be conducted. In this context, the Internet/Mobile Branch and debit card analytical models are expected to be completed in 2019.
- An anti-fraud module to detect fraudulent action in SWIFT operations is due to be implemented.
- New anti-fraud structures will be built to raise red flags in case the customer conducts transactions on various channels that are non-financial but could be considered critical.

Information Technologies Group Directorate

Kuveyt Türk Information Technologies Group operates in close alignment with the Bank's strategies and goals. The Department's mission is to provide efficient, usable, high quality and performance focused IT solutions; conduct research and development activities; and develop innovative, unique products with an advanced technological infrastructure.

In line with the Bank's strategies, 175 projects and enhancements as well as 1.315 modification tasks were completed over the Core Banking Platform and digital channels and brought live in 2018.

In 2018, 37.821 incidents and 40.175 task requests from end users were closed and as a result of the call reduction initiatives, calls were reduced by 21% compared to the previous year. In 2018, call resolution satisfaction reached 86.7% and approximately 73.7% of incoming calls were resolved at IT-Service Desk.

Furthermore, a more proactive approach was adopted to resolve audit findings for systems, helping to ensure 61% of audit findings were resolved before the deadline. Checkpoints within the scope of the quality assurance control activities were increased significantly, and the deficiencies detected were monitored regularly.

The requirements of the Law on the Protection of Personal Data was examined and the policies concerning the Data Leak Prevention System were tightened. As part of the studies launched under the KFH Group synergy strategy, Information Security policies were developed. Security analysis began to be conducted for all enhancement projects tracked on the Pusula software.

In order to develop a fast application culture and to quickly close tasks requiring less than 20 man-days, an application development event was organized by Kuveyt Turk IT management in the form of a hackathon twice in May and October. The event contributed to a total cost reduction of USD 680 thousand for the Bank.

Application and Service Quality Awards were held for the sixth time. Directorate, service and staff-selected awards were distributed in 10 categories, including adding/ amending the most requirements, adding the most test scenarios, reducing the maximum number of calls, the highest call resolution satisfaction, the highest volume of code, the best trend source code quality.

Necessary action was taken and authorizations were granted to ensure that the key business tasks on BOA application are monitored on a 7/24 basis in order to avoid business process disruption in case a task error occurs on a BOA application related to critical business processes. The IT System Monitoring Service expanded the monitoring coverage for critical business systems, and monitors all of the Bank's critical business processes through 10 different applications on a 24/7 basis. As a result of discussions between IT System Monitoring service a and other IT departments, the monitoring coverage for critical business systems was increased to 96%.

The only bank in Turkey that has two R&D Center Kuveyt Turk Participation Bank has won the right time extension for two R&D Center with the permission of Industry and Technology Ministry. Thus, Kuveyt Türk R&D Center continued its 8th term activities and the first R&D Center at Konya continued its activities successfully and continued to maintain the title of the oldest R&D Center in banking finance sector.

Kuveyt Türk R&D Center makes significant contributions to university-industry cooperation. In this context, the Bank's expert executives give lectures for undergraduate and graduate courses at Gebze Technical University, Sakarya University, Yalova University and Kocaeli University.

The "Undergraduate Final Assignment Projects" scheme for senior students at computer engineering and industrial engineering departments of Sabancı and Sakarya universities allows students to gain on-site work experience before embarking on their career in the industry. Furthermore, an undergraduate final assignment of a pilot group selected from Sakarya University was included in the scope of High Technology Entrepreneurship Program. Within the scope of the program, the group is preparing for entrepreneurship programs and receiving mentoring from Kuveyt Türk Information Technologies on both business model and technical structure.

Banking Services Group

Partnerships with universities and R&D projects supported by the European Union and TÜBİTAK create added value for the Bank as well as Turkey.

Partnerships with universities and R&D projects supported by the European Union and TÜBİTAK create added value for the Bank as well as Turkey. In this framework, a total of 18 R&D projects (16 of which were funded from internal sources and two through incentives), 20 scientific publications and 1 patent applications were generated. Moreover, 40 Kuveyt Türk employees were granted graduate training support.

In 2018, the Lonca Entrepreneurship Center supported a total of 30 initiatives in 2018, 10 are still underway and nearly 100 entrepreneurs have benefited from the program. A total of 30 enterprises provided close to 20,000 hours of work at 16 different locations in the context of the multi-location incubation center service provided. More than 300 mentoring meetings were arranged with more than 100 mentors in the mentoring network. During this period, more than USD 50,000 worth of support was received from domestic and foreign cloud systems and PR support was provided worth almost TL 100,000.

In order to enhance the knowledge and awareness of the employees, MeetUps hosting key figures from the world of fintech and entrepreneurship were organized to offer insight about the industries and trends, drawing keen participation from the Bank's relevant departments.

Some of the key projects undertaken by Information Technologies in 2018 include:

Takasbank Gold Transfer: Takasbank Gold Transfer System (ATS) was incorporated into the transfer system, which enables bank customers to transfer gold balances in gold deposit accounts from person to person (P2P) across the banks. Just as gold could be sent from Kuveyt Türk branches to other bank branches, as a result of marketing activities, Kuveyt Türk was able to bring in gold deposits directly from other bank branches.

KFH Clients Cash Drawer: KFH customers' were granted the facilities to withdraw money from their KFH accounts when they arrived in Turkey at Kuveyt Türk branches. Safe cash withdrawal were provided between KFH and Kuveyt Türk through the application that involves AML,

international list controls, account balance checks and data verifications.

Direct Money Transfer from KT Bank AG to KT: The project aimed to develop a money transfer and reconciliation system to Kuveyt Turk Branches via KT Bank AG without using the SWIFT system. As a result of this project, KT Bank AG will be able to transfer funds to Kuveyt Türk from name to name, from account to name, from account to account.

Making Tawarruq Transactions Online: The metal trading transactions in tawarruq transactions are carried out via DDCAP and Condor companies in London Commodity Exchange. Under the current structure, trading instructions are submitted via e-mail. In order to save on time and fees, work was undertaken with counterparties to conduct the transactions online via web service integration.

Borsa Istanbul Integration: Our treasury customers can make precious metal trading transactions at Borsa Istanbul. This project was initiated since Borsa Istanbul prepares to introduce Nasdaq technology. The FIX protocol was used to integrate processes for the automatic transfer of the transactions of treasury users from the Precious Metals and Stones Market into BOA. Workflow was initiated for the transactions conveyed to BOA and normal precious metal process was run.

Adapting E-Signature to the Notification Process:

Customers who appear to be in arrears for the 60th day are legally required to be notified with their details appearing on the customer follow-up screen. An average of 50 warnings per day are printed on the paper for this process and are signed manually by the director and senior director. Thanks to the enhancements, the signatures are now electronically prompted on the on the screens of the users starting with the warning process and follows the BOA Flow infrastructure to the director and the senior director, and can be signed individually or collectively with only one BOA action. Following the signing process, the printing out process which was also conducted manually can now also be completed automatically after the approvals. A QR code shall also be added on the document so that the signed documents can be verified by the interlocutor; and the end user will be able to get it verified on a verification address on the corporate website.

Official Correspondence Automation: The analysis and design work of the project for automating the responses to the letters in the official correspondence module is in progress. The project is expected to be launched in the second quarter of 2019. With the implementation of the project, manual responses will be phased out in the Official Correspondence processes and the operation of the processes will be accelerated. Through the Automation of text, errors in responses will be avoided, and number of letters responded will increase.

New Fund Allocation Project: This is a project carried out with the aim of developing the fund allocation system of domestic market products for corporate customers through the omnichannel approach of the web based BoaOne infrastructure. The project aims to eliminate the dependency of the customers on the branches, and enable them to go through the steps of fund allocation processes by themselves and get their funding. Expected to deliver significant speed and efficiency for fund allocation processes, the application is set to be launched in the second quarter of 2019.

Establishment of Project-Collateral Relationship in Real People: Under the legal requirements, real people's projects will now be linked in with their collateral. This relationship is established for real persons who do not act on commercial purposes and who have real estate mortgages, vehicle pledges, rights repayment pledges and cash blocked collaterals. This project also ensures full consistency between project and collateral information and avoids any risk of discrepancy with the legal allocations.

Mortgage Mobile Approval System: The mortgage establishment process, which is a part of the Kuveyt Türk loan processes, is performed at the Land Registry and Cadastre Offices with lawyers and customers in attendance. Following the procedures at the Registry offices, it takes time for the mortgage documents to be forwarded to the branch by the customer, initiating the guarantee process and obtaining approvals. In order to shorten this process, the lawyers are now able to scan the mortgage documents through the mobile application, and forward the deed information after querying it online via the TAKPAS system and send the transaction details to the branch. The application was developed both for Android and iOS phones, and the system's mortgage and expertise applications are integrated with BOA and TAKPAS systems. Through this application, the workload of branches and operations center was reduced and their allocation speeds were improved.

Push Messaging from Mobile Branch to Customers: The Mobile Branch infrastructure was developed to enable sending customers push notifications for transactions occurring on their account/cards, so that the customers can be notified without incurring any cost thanks to developing technology, thus increasing customer satisfaction and reducing the cost of notifications at the same time. First phase involves generating push messages for EFT/Money Transfer transactions in and out of the account for customers using iOS and Android Mobile

Branch, and later it will be developed so that they can receive notifications for all transactions. Customers can also manage their notifications based on the sums.

MSISDN Project: It is a project to prevent fraudulent attacks on the Mobile Branch, increase the reliability of the secure activation process and facilitate the activation process for user experience.

In order to ensure that customers who download and activate the mobile application from the appstore will be able to make transactions securely, the GSM number that downloaded the application will be checked against the GSM number registered with the Bank for the customer. Depending on the information from the GSM operator either the activation is permitted or the customer is asked to go through verification steps with a secondary device registered securely on the system via the Mobile Branch. A joint initiative was conducted with the GSM providers Turkcell, Vodafone and Telekom.

Mutual Fund Trading: Mobile branch users were able to follow investment fund transactions via a mobile application. Along with the enhancements made, the users will be able to perform the mutual fund purchase and sale transactions from their trading screens and they will be able to view the fund's return information when the purchase is made. They will be able to track the latest status of their orders and the information of the given order on "Mutual Fund Orders" screen, and view the information of their mutual funds on the "Mutual Fund Portfolio" screen.

Dashboard and Welcome Page Enhancements: The Mobile Branch Home Screen was revised with new designs emphasizing visual appeal and usability. Under the enhancements, Launch Image, Splash and Video Transitions were employed for the Mobile Branch Launch. The transactions that were accessible pre-login were again placed on a left hand menu in a pre-login page under these enhancements. That enables the user to view PIN entry page directly and to access the Mobile Branch with a single click. As part of Dashboard Enhancements, My Assets and My Campaigns tabs were added to the Dashboard. Improvements were made in My Accounts, My Finance, My Cards, Last Transactions menus. The user can customize the Home Page view from the Settings Menu to his/her preferences.

İzci (Scout): It is a special call-based screen for the call center customer representatives, which recalls prior interactions of the customer who is identified by either the customer number, if available, or by the telephone number, and then filters the transactions into selectable periods such as within last day, last week, last month via IVR, external calls and or with the customer representative and lists these as soon as the call reaches the BOAgent Panel. With these improvements, the Bank can list the transactions performed successfully on other channels by utilizing the service infrastructure of the Bank in the same period. Thus, the most recent touch points used by the customer can be displayed to the customer representative, and when the call comes through, the

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Product activity system has been re-modeled and re-written with the involvement of all marketing units for more than 100 products and services in two different perspectives.

customer representative can obtain information about the situation faced by the customer at a much greater extent than before, contributing to the growth of the first call resolution (FCR) rates. According to the values listed on the screen, the detail screen is opened and all operations from the customer's IVR keystrokes to the screens the customer representative accessed can be displayed quickly.

BOA One Demand and SDLC Management: Software development and reporting requests, analysis and test approvals, previously carried out through a third party product called Pusula (HP PPM) are now executed via new screens developed on BOA One. The project enabled eliminating both the dependency on the external company and the cost of license, while making the software development life cycle (SDLC) process carried out within Kuveyt Türk more efficient and compatible with bank standards. Since the application is developed through the BOA One infrastructure, it is web based, enabling users to track any approvals required from them via mobile devices and grant them. Large scale demands which constituted a serious challenge since they required multiple releases while the old system did not provide such an opportunity, can now be easily divided into work packages, each of which can be brought live with a separate release.

Opening an Account to KFH Customers at Senin Bankan Direct Banking Platform: The project generally involves the KFH customers' account opening processes at Kuveyt Türk Participation Bank from KFH branches. Thanks to the web interfaces developed under the scope of the project, information required to create a new customer account is obtained, and the necessary contracts for the application and the documents related to the transaction are uploaded to the system. These transactions prompt the process of becoming a customer, and the project involves the examination of the information given, its confirmation, and the completion of the process by opening the account.

Peer to Peer Lending (P2P): P2P lending platforms are those where people with a surplus fund can lend to those in need of funding, and those in need of funding can request them by selecting the most appropriate maturity delay rate for themselves. Within the scope of the ongoing project, the person who seeks a product or service will have to specify the requirements on the platform, setting

out the sum of funding and the length of term needed to repay the loan; then based on the customer's credit score and term length, the system will display the term difference and the payment plan to the customer; and if the customer agrees it will be provided to the investors who will provide funds after the accommodation of the request. The screens needed for investors who want to extend financing to become members, to be able to list the funding demands and to invest in the funding requests that are suitable for them are under development. The infrastructure to enable the platform user to customize and manage the platform to their requirements is also being built as part of the project.

Gamification: The gamification project hopes to motivate customers by deploying games and encourage them to increase their use of the Mobile Branch. Task Definition and Task List screens were developed under the Gamification project to create and update the list of tasks to be assigned in the course of the game. By using the service infrastructure, each transaction instantly receives a point. The infrastructure was built to send these points to the customer via push notification. In the Mobile Branch, screens were built to flash information involving the customer's points, transactions made, customer's ranking and game definitions.

BOA Business Intelligence Platform Modernization: The project aims to renew Business Intelligence and Data Warehouse Platform, to conduct modernization and standardization studies, to enhance the user experience and provide multi-device operation option. The necessary standards and procedures were set up under this scope, and supplementary documents were compiled and published to Bilgin. The Power View reports were converted to Power BI reports, and the Excel and RDL reports were moved to the Power BI reporting server. RDL reports were enabled to be opened on BOA and BOA One via Power BI reporting server. Moreover, high-tech dashboard reports were drawn with Power BI and these were released through the BOA Store for BOA, BOA One and mobile devices. Furthermore, teams were given support about the Tabular Model and Power BI regarding business intelligence and reporting, and this support is ongoing. Efforts are underway to establish a reusable, fundamental and common data warehouse.

Online Scoring for Collateralized Checks: In credit allocation processes, customers deposit their checks of receivables to the Bank as a guarantee of the loans they will receive. Whether or not these checks are eligible as collateral used to be controlled manually. This project has generated an automatic decision system which Approves or Rejects the checks submitted as collateral online. This has enabled staff savings as well as mitigating potential errors in the execution of the process.

Retail Customer Revenue Estimate: One of the crucial issues in credit allocation decisions is to know the income level of the retail customer beforehand. This project, which will determine whether customer declaration reflects the actual state of their income will make a contribution in many aspects such as making informed credit decisions, saving time staff spend on research and reducing overdue loan rates. This project can generate output not just for the credit decisions but also for segmented marketing activities based on customer income levels.

Offering Spot Customer Rates: Branches refer to Retail Marketing Department with a great deal of requests for exclusive profit share rates. A smart system now examines the deposit behavior trends of customers who previously requested spot rates before and after their requests and suggests special rates to quote for new requests. In addition to reducing the workload of the Retail Marketing Department, the project makes it possible to provide fair spot rates to similar customers from different branches and to limit the spot rate demands from the branches with a quota system.

Product Activity Project: Product activity system has been re-modeled and re-written with the involvement of all marketing units for more than 100 products and services in two different perspectives.

Bundle Pricing System: A new pricing system was set up in the package management system that can be managed within certain parameters and limits to create the most suitable bundle for the customer needs. The process now begins and ends in the branch.

Customer Product Efficiency Project: The customer efficiency infrastructure was re-interpreted and redrawn under BOA with the inclusion of expense distribution into the budget system.

New DRC project: The project aims to restore business continuity in the fastest possible way in case of natural disasters such as earthquakes, floods and man-made disasters such as fire and terrorism that render the banking systems unusable. Infrastructure modernization and physical installation work carried out in the new DRC system room allocated to Kuveyt Türk in Ankara Türk Telekom Data Center has now been completed.

In times of increased workload on the live system, it is aimed to shift certain functions over the DRC system servers, marking a switch to replication technologies on the application level. In 2018, based on Business Impact Analyses there will be further work towards system/application installations and boosting current server capacities to access the DRC, which will be prioritized based on how critical the level of products/services are.

New "Active-Active All Flash Storage" Project: After 10 months of R&D, product testing and on-site visits with 5 different data storage manufacturers, the project was completed in August 2017 and the new data storage device was introduced in 2018. Most of the core banking and other production environments have been moved to new disks. The new data storage device is "HPE XP7 Gen2" and the disks it contains are all flash FMD V3. These discs produced by Hitachi can run 3.5 times faster than their closest competitor and achieve high-level statistics on stability/ reliability. Compared to the performance speeds of previous data storage devices, read speeds increased by almost twice and write speeds by almost three-fold.

Mailing System-Exchange 2016 Upgrade Project: The mailing structure was upgraded from Exchange 2013 to Exchange 2016. As part of the initiative the servers that were previously virtual were replaced by high-performance physical servers. The number of servers was also increased by 60%. Thus, by deploying high performance servers and reducing the number of users per server at the same time, high availability and performance enhancement was achieved.

Updates to VMware Virtualization Environments: The virtualization environment upon which all Kuveyt Türk banking and infrastructure systems work was upgraded from version 5.5 to 6.5. Since this project is critical and incorporates all systems; tests were conducting in test and preproduction environments lasting 3 months and the transition stages were meticulously planned. Underpinning the virtualization infrastructure, 63 physical hosts and 1,050 virtual hosts operating on them were upgraded without causing any disruption to operations of business critical systems. Thanks to this upgrade, virtual servers saw a fresh boost to performance, agility and processor power usage. The Distributed Switch architecture is also one of the biggest gains from the vMware 6.5 upgrade. It enabled a centralized virtual switch to manage all host networks and has acquired new capabilities on virtual servers. Furthermore, the vMotion technology which is one of the most important capabilities of virtualization environments that seamlessly moves servers between physical servers based on their performance status now has encryption feature. Thus, by encrypting data from end to end when virtual machines are moved between hosts data security was enhanced.

Banking Services Group

The efficiency of the A.T.A.R. (Automated Threat Analysis and Response) system, which has applied the preventive actions by taking the collected intelligence data and threats into consideration for the possible cyber-attack attempts against Kuveyt Turk, has been increased.

Call Center 444 Line Active-Active Communications

Backup Project: 444 0 123, 444 3 123 and 444 7 323 lines which operate at the Banking Base were backed up at Ankara New DRC Center to work in an active-active configuration.

ATM/XTM Operations, EFT and Capital Market Operations and Foreign Trade Units IVR (Voice Response System)

Projects: When these units receive calls, they are provided with special alternatives on menus. Capabilities such as putting calls on tracking queue, calling back callers, sending e-mails according to caller's request, sending e-mail notifications if dialed party cannot be reached, call forwarding to a different number outside working hours were installed based on the requirements of the units.

Database Performance Improvements and Upgrades:

The SQL 2017 promotion of core banking database and the Reporting database was planned, development and promotion of the test environment was completed. The software development teams were informed about which sections of the codes needed modifying, and code updates were made. The popular functions were tested for performance on SQL 2012 and SQL 2017 versions.

Automatic Defense Project Against Cyber Attacks: The efficiency of the A.T.A.R. (Automated Threat Analysis and Response) system which automatically takes preventive actions in view of the collected intelligence data and threats regarding possible cyber-attack attempts against Kuveyt Turk was enhanced.

Normshield Security Vulnerability Management Tool:

Normshield security vulnerability screening system was introduced and regular screenings were started to detect any vulnerabilities in Kuveyt Turk IT infrastructure and take precautions.

DRC Firewall Replacement Project: All firewall devices (Internal Segmentation, DMZ, Thirdparty) in Ankara and recently installed Client Firewall were replaced with new generation firewalls.

New Generation Firewall Exchange Project: Internal Segmentation and Thirdparty firewall devices at KT Banking Base were replaced, providing more security layers and increasing traceability, resulting in a richer input for the SOME team.

Client Firewall Project: In addition to content filtering for user internet access, a Client Firewall was installed which both raised the security level and enabled all client traffic including KTBB to be routed via Ankara so that the passive DRC internet line could also be utilized.

KT Bank AG Projects

KT Festgeld: It is a deposit product and works by extending collected deposits via tawarruq method and sharing the subsequent profits thereof. It was developed as an alternative to funds in utilizing deposits. The product was also added to the marketing channel. Proving quite popular with the customers, the product led to a substantial increase in deposit collections.

The Letter of Guarantee: It helped extend corporate and retail customers non-cash credit facilities. Fixed, advance and temporary letter products were offered through letter template definitions. Non-cash limit definition is added to the limit allocation proposal. Risk management was introduced on the general control screen through the control of non-cash limit.

FX Spot Screen Integration: The project was introduced to avoid dual processing and to control the workload of agreements conducted on values and prices on the 360T platform. Once the agreement is specified on the platform, interbank forward and spot transaction information received on the integration layer enables relevant legislative and process based approval tracking to be done over BOA,

Financial Affairs

The primary objective of the Financial Affairs Group is to perform its functions with an outstanding service quality through its sound technological infrastructure and competent staff.

The primary duties of the Financial Affairs Group involve all analytical management and information work necessary for the follow-up and control of profitability and risk/resource efficiency on the basis of client, product and service and profit centers, as well as their budget-based planning and processing.

The Financial Affairs Group's functions are as follows;

- Establishing an effective budgeting and reporting system with accurate data for credible management,
- Producing timely reports of accurate data that will be made public and submitted to government agencies, establishing and developing the infrastructure of the Bank's accounting record system, and making sure it is operating well,
- Performing all of the Bank's financial and tax-related obligations,
- Reporting within Banking Law, tax laws, TFRS standards, local and international financial legislation and applications,
- Ensuring prompt reporting of detected problems for instant intervention and correction.

The Financial Affairs Group includes the Accounting, Financial Control, Budget and Executive Reporting, and External Reporting Departments. Its primary aim is to performing these functions with an outstanding service quality, along with its solid technological infrastructure and competent staff.

Accounting and Tax Department

The Accounting and Tax Department consists of the Accounting, Bills and Payments, Treasury Transactions and Bank Reconciliations, Business Development and THP Compliance, Tax Management and Consultancy, Provisions, Subsidiaries and Accounting Standards services.

The Accounting and Tax Department performs seven key functions in the reporting, financial statement preparation, and audit processes of the Bank. These are organizing, registering, classifying, summarizing, analyzing, interpreting and reporting. The General Accounting Department ensures that these seven functions are fulfilled in an effective and efficient manner, in accordance with the Bank's strategic goals, and current day requirements and dynamics.

The Department performs the following activities:

- The operation of the Bank's accounting system; registering, classifying, summarizing, reporting, analyzing and interpreting the Bank's monetary transactions,
- Tax and consultancy,
- Registering the Bank's all costs and fixed asset bills and documents, and performing the necessary payments,
- Accounting, auditing and reporting for treasury transactions, local and international correspondent bank reconciliation, subsidiaries and overseas branches, and asset leasing companies,
- Pioneering in the implementation of new products and services through a swift and solution-centered perspective,
- Issuing financial statements and statutory reports in an accurate manner, and in compliance with the Banking Law, Turkish accounting standards, BRSA regulations, tax laws and other legislation,
- Accurately registering transactions,
- Fulfillment and payment of the Bank's taxes and similar obligations,
- Recording expenses and fixed assets of the institution,
- Accurate distribution of expenditures in the scope of expense management,
- Follow-up of limited expenses,
- Payment and control of the Bank's expenses and other spending.

The Accounting Department provided support to export finance, Eximbank loans, sukuks, CBRT open market operations, second hand market transactions, precious metals, Turkish Republic gold coins, gold grams and other new gold products and services, credit cards, murabaha and metal transactions, and issuance of sukuks by the Bank's Retail and Corporate Banking, Treasury and Product Development Units, and thus helped to speed up transactions and contributed to the profitability of Kuveyt Türk.

Any transaction and event that can be expressed monetarily falls into the realm of accounting, and the financial information users obtain data from the information produced. Some of the crucial functions of the Accounting Directorate within the organization of the Bank are:

Financial Affairs

Throughout 2018, the Accounting and Tax Department improved service quality with a resolution center perspective by developing appropriate and new solutions in light of its knowledge and experience.

- Following the Banking Law, TAS, BRSA regulations, tax laws and other relevant legislation regarding accounting applications and accounts charts, and making necessary adjustments,
- Making systemic changes following accounts chart amendments, ensuring accounts chart compliance, following accounting policies and policy changes, as well as ensuring compliance with them,
- Providing support during public offering, bank foundation, branch opening and subsidiary transactions, monitoring foundation costs,
- Actualizing systemic and tax-related parameter compatibility of financial and legal changes,
- Implementing electronic financial reporting systems including e-invoice, e-book, registered electronic post, e-archive, and ensuring their continuity,
- Providing technical, tax, accounting and finance support to product development units for newly released products and services,
- Tracking R&D department's spending and expenses separately, compiling reports for submission to the tax office and the Ministry of Industry and Technology to apply for the R&D tax incentives,
- Conducting the CBRT open market transactions, lease certificates, second hand market operations valuation and reporting activities for the Bank's securities,
- Monitoring treasury forward, swap, precious metal futures, spot transactions, making truthful assessments according to the TAS and tax laws,
- Assessing the Bank's foreign exchange and precious metal status calculation, making status transfers and controls,
- Ensuring the conduct and finalization of the interim and year-end inventory work in line with the Banking Law, TAS, and tax laws,
- Conducting the confirmation, writing and closing confirmation transactions of the Bank's books that should be kept according to the TCC and tax laws,
- Preparing the financial balance sheet and the income statement,
- Conducting work on deferred tax within the scope of corporate income tax and TAS, and reporting it.
- Conducting work on internal and external audit, systemic inspections, tax and financial inspection activities, and managing relations with the tax authorities, ,
- Executing the TFRS 16 Leasing standards project which comes into force on 01/01/2019.

Throughout 2018, the department improved service quality with a resolution center perspective by developing appropriate and new solutions in light of its knowledge and experience. In this regard, most of the manual transactions were automated in 2018 through systemic infrastructure works. Centralization was achieved in the lease payments and some of the tax transactions made at the branches. As for the Bank's expenses, systemic developments were made for the control of limit and ex-post; preventative measures were developed against spending over-limit, and relevant reports were compiled.

The tax incentives of the transactions, products and services of the Bank were studied, ensuring achievement of maximum utilization in tax advantages, while significant and rapid progress was made in financial statement preparation.

The department will continue to produce accurate and fast information for the Bank within the framework of the basic concepts of accounting, its governance and rules, to improve efficiency by following technological developments, domestic and international legislation; to boost domestic and foreign customer satisfaction levels higher, and to support innovative product development processes.

Financial Control Department

The Financial Control Department executes its functions through Financial Control and Risk Analysis, Participation Fund Management and Data Analysis, Treasury Control and Expense Management Departments.

Each unit significantly contributes to the corporate development of Kuveyt Türk by regularly improving their own processes and control points with their expert and dynamic staff.

The functions of the relevant units operating under Financial Control Department are as follows:

Financial Control and Risk Analysis Unit

- Establishing and developing a sound accounting infrastructure for the prompt preparation of the Bank's internal and external reporting with accurate and credible data, and performing effective financial and accounting controls,

- Ensuring the instant detection and correction of mistakes through daily, weekly and monthly periodic controls to provide for the accurate registration of all transactions to audit trails within the framework of uniform accounts chart, relevant legislations and notices,
- Determining the appropriate classification of financial assets in line with their specifications and the Bank's business model within the scope of IFRS 9; for that purpose, making sure that the relevant units apply and monitor the contractual cash flow test (SPPI),
- Measuring the financial assets' expected credit loss (ECL), calculating and reporting the impact of changes,
- Supporting management's decision making processes by providing analyses about the Bank and the industry,
- Controlling and analyzing the Bank's income and expenses on a daily basis,
- Making relevant controls and notifications under the financial control package compiled by KFH to be applied across the group.
- Ensuring the applicability of early warning systems by analyzing current control reports concerning financial controls,
- Generating new control points, providing support for accounting and system infrastructure to develop and issue new products.

Participation Funds Management and Data Analysis Unit

- Supporting Senior Management in the decision-making process by conducting various analyzes and simulations for the Bank management's profit distribution policy,
- Controlling and analyzing the participation funds, their revenues and expenses, and all the factors that affect profit distribution on a daily basis; ensuring that dividends are calculated and recorded accurately in customer accounts,
- Managing the participation funds, shareholders' equity and similar funds that the Bank collects; ensuring the balanced and fair use of these funds,
- Implementing the unit value and profit sharing structure according to the regulations and rules published by BRSA, and performing systemic upgrades,
- Providing accounting and system infrastructure support for the Bank's system change, product development, and new product creation,
- Conducting research and analysis on interest-free banking, participation accounts management, and the profit distribution systems.

Treasury Control (Middle Office) Unit

- Ensuring the effective monitoring of the Bank's foreign exchange and precious metals position, and the accurate recording of exchange, derivative and precious metals profits,
- Providing operational control and approval of swap, murabaha, foreign exchange, precious metals and sukuk transactions, conducting profitability analyses,
- Ensuring that all Treasury transactions are within the set limits (including dealer and platforms),
- Checking authorizations for platform where Treasury staff conduct transactions,
- Controlling the CBRT Open Market Operations and making profitability analyses,

- Checking whether the Treasury conducts counter transactions for the referenced foreign exchange and precious metals transactions,
- Monitoring and controlling CBRT exchange rates, swap points and depot rates,
- Issuing daily liquidity reports and submitting these to the senior management,
- Performing controls and reconciliation for the expenses that arise as a result of Treasury operations,
- Following and controlling cash flows of correspondent banks,
- Checking the whether the margin calls of collaterals in counter banks are appropriate,
- Checking the exchange rates of all foreign exchange and precious metals transactions performed at the Bank,
- Preparing reports and analyses for the Treasury Department,
- Preparing the reports sent to the Bank's parent company, Kuwait Finance House.

Expense Management Unit

- Conducting controls and analyses for the accurate and appropriate budgeting of expenses necessary for the Bank's activities, for their provision with convenient costs that do not exceed the budget, and for their efficient use,
- Sharing risky situations or those requiring improvement detected during cost optimization work with the management and the relevant process owners, raising requests for taking measures and actions,
- Ensuring the expenses within the scope of expense management are analyzed through daily, weekly and monthly controls for the detection of extraordinary ones, notifying the management and the relevant process owners of these, making sure the necessary measures are taken.
- Effectively taking charge in setting up the budget regarding expenses as part of expense management, and approving the budget draft,
- Providing the development and coordination of the Contract Management System,
- Approving or rejecting expenses, purchases of goods and services, lease payments and related contract demands that are above a certain amount or that will exceed the budget, depending on their compatibility.

Aside from these, the Financial Control Department performs the functions of conducting necessary work for the monthly financial reports, conducting interim period and year-end transactions, informing the auditors during internal and external auditing works, and preparing the requested information and documentation.

The Financial Control Department aims to make further contributions to ensure Kuveyt Türk achieves its strategic targets in 2018. In this context, it intends to raise savings awareness at the Bank; to provide for the efficient use of resources, to increase the efficiency of controls that rely on information technologies. Furthermore, the Department also aims to issue the Bank's profit and loss statements on a daily and reliable basis.

Financial Affairs

The Kuveyt Türk External Reporting Department aims to systematically and rapidly meet new report needs, alongside existing reports, in the coming period.

Budget and Executive Reporting Department

As Kuveyt Türk increases the number of branches by each day, improves its organization, expands its overseas financial network, and most crucially bolsters its growth with profitability according to strategic goals, the budget and executive reporting department plays a vital role in terms of supporting the monitoring and decision-making functions of senior management. The Department conducts these processes through two sub-divisions.

Budget Planning and Monitoring Unit: Preparing the budget in line with the strategic goals, monitoring the compliance of branch, segment, product and department performances with the budget are among the basic functions of the Budget Planning and Monitoring Unit.

In addition to these basic functions, controlling Kuveyt Türk's transactions within the framework of basic policies and strategies, and sustaining the Bank's financial and executive integrity are among the other responsibilities of the Department.

The annual objectives that comply with the strategic targets identified by the Bank's senior management, and the management plans that comply with these targets are clearly explained to the relevant branch and units. Also, the financial development of the units is supervised through daily reports, and in the event that there is a deviation from the targets, the causes are detected, and corrective suggestions are developed. Following performance measurements and assessments in terms of realization rates of targets, reports required by the Bank's senior management are prepared.

Likewise, the changes and causes of expense items within the scope of expense management on the basis of department and account are analyzed; current accounts of the branches are controlled in terms of the fund and profitability management, while deviations are reported. Upon the completion of the new budget system infrastructure studies, Budget Planning and Budget Monitoring functions will be performed over the BOA system.

Financial benchmarking requests are met through the comparative budget report sets made for the KFH, the Bank's main partner. The subsidiaries of Kuveyt Türk are followed up on a comparative basis and their financials are analyzed.

Management Reporting Unit: The Budget and Executive Management was restructured in order help the senior management monitor the Bank's performance in a safer, faster and in technology-based manner, and a Management Reporting Unit was established.

The Unit reports to the senior management and to the relevant units, branches and departments of the Bank periodically or when needed, and provides analyses and interpretations regarding the reports. The Unit administers a reporting database in itself. A team with the necessary technical equipment and know-how for reporting prepares periodic reports for the External Reporting Department via the ACL system, and offers services towards the reporting needs of relevant departments.

The Unit presents the executive financial reports required by senior management to the interested parties through the Management Information System (MIS/YBS). New pages for all users were designed and added to the platform in the MIS over the year. The screen efficiency was enhanced through additional development work aimed at making the reporting processes and screens more user-friendly.

The Unit commenced work on a new reporting set in the MIS Reporting. Uniformity was established in the existing reports; a glossary is prepared for use in the Bank. The technological infrastructure was improved and new reports required by management were drafted.

External Reporting Department

The External Reporting Department is in charge of the reports that are made public or submitted to government agencies as per legal obligations, as well as the reports submitted for the review of Kuwait Finance House, the main partner of the Bank to fulfill the functions of Investor Relations.

In 2018, the External Reporting Department of Kuveyt Türk swiftly and completely met the report needs of corporations, institutions, and individuals that it cooperates with at home and abroad. Additionally, the report requests from official institutions, including the BRSA and the CBRT, were impeccably met in a timely fashion. The reports requested by the Bank's main partner abroad, Kuwait Finance House, with regards to the consolidation works, were quickly prepared in detail. Ad hoc information is obtained with new periodic report enquiries. In addition, the CBRT inspectors, BRSA auditors and independent auditors who conducted audits in the Bank were provided with all kinds of information and documents that they needed. The audit reports for IFRS were prepared semi-annually and BRSA reports quarterly; these were then submitted to the relevant institutions and disclosed for the general public. The procedures concerning the organization of the Bank's Ordinary General Assembly, capital increase and amendments to the Articles of Association were duly and successfully completed.

The Kuveyt Türk External Reporting Department aims at systematically and rapidly meeting the new report needs, as well as the existing reports, in the upcoming period.

The External Reporting Department consists of three units that fulfill the functions of Domestic Reporting, Overseas Reporting, and Investor Relations.

Domestic Reporting Unit: The unit conducts its activities under the two main categories of Financial Reporting and Independent Audit.

As a part of financial reporting activities, periodical or on-demand reports are prepared and presented to regulatory bodies. Routine reports are submitted on a daily, weekly, fortnightly, monthly, semi-annual and annual basis to the relevant government agencies. In addition, the necessary legislative and regulatory requirements are monitored and tables on the required ratios and limits are prepared. The branch inaugurations and address changes are duly communicated to the regulatory bodies; meanwhile, the Unit keeps track of the transfer of outdated participation funds, deposits and receivables to the Savings Deposit Insurance Fund (SDIF) and the calculation of the savings deposit insurance premium rate.

As a part of independent audit activities, the Bank prepares and submits to independent auditors the consolidated and non-consolidated independent audit reports, including financial statements and various commentaries and endnotes, which must be published every three months. The reports are presented to the regulatory institutions and the general public after the auditor provides an opinion.

The Unit ensures that the financial reports, financial statements within the independent audit, as well as relevant explanations and endnotes are in compliance with Turkish accounting standards and applicable legislation. The Unit performs the controls and analyses necessary to present the Company's financial information and related explanations and footnotes in a transparent, reliable, truthful, exact and accurate manner in full, understandable and comparable fashion in accordance with

the needs and the nature of the business. The Unit also aims to increase the quality level of the reports every year by following the latest technological developments.

Foreign Reporting Unit: The Unit's activities can be summarized under three main categories.

Interim and annual financial statements and audit reports are prepared in accordance with International Financial Reporting Standards (IFRS), presented to independent auditors, and published on the Bank's website. In addition, the IFRS financial statements are prepared and presented to internal customers every month.

The monthly consolidated financial package demanded by the Bank's parent company Kuwait Finance House (KFH), the monthly analysis of the financial statements, as well as monthly, interim and annual projection studies are issued complete with explanatory and complementary endnotes and reports.

The Banking System Application Program (BSAP) and Islamic Banking System (IBS-M) reports are issued quarterly as requested as part of KFH-Central Bank of Kuwait (CBK) reporting. Furthermore, the Bank sends to KFH, its main shareholder, the Liquidity Coverage Ratio (LCR), which represents the liquidity adequacy ratio of the Bank, and the Net Stable Funding Ratio (NSFR) on a daily basis.

The Basel III report submitted to KFH features monthly capital adequacy ratios calculated on the basis of the Basel III rules on credit, market and operational risks as well as the Bank's own shareholders' equity. The stress test data are calculated and risk package studies are performed as part of KFH risk management practices. Data and reports requested by KFH to be submitted for various rating agencies are also compiled and submitted.

Investor Relations Unit: The operations of Investor Relations Unit involve the use of share ownership rights, and establishing communication between the senior management of the Bank and the shareholders. The Investor Relations Unit plays a significant role particularly concerning the freedom of information and scrutiny, as well as facilitation of the protection and exercise of share ownership rights.

The Unit ensures that shareholder records are kept whole, safe and up-to-date. It operates within the disclosure policy of the Bank, and supervises and monitors any matters regarding transparency. It responds to the written Bank information requests of the local and foreign shareholders, excluding the nondisclosed information that is confidential and/or constitutes a trade secret.

Additionally, it manages and updates the Investor Relations page on the Bank's website in line with the Corporate Governance Principles, and keeps the shareholders informed.

Ensuring that the General Assembly meetings comply with the current legislation, Articles of Association, and other inter-Bank regulations; and coordinating the preparation of the Annual Report among the duties of the Investor Relations Unit.

Risk, Control and Compliance Group

Kuveyt Türk effectively utilizes risks and opportunities through its robust control mechanisms to boost the productivity of its business processes.

Internal Control Department

The Internal Control Department performs the internal control functions of the Bank. The Department was established to design, implement, manage, analyze, and monitor the internal control system and its activities, and independently report their results to the management in order to ensure the execution of the Bank's activities within the framework of local and foreign legislation.

In line with the Bank's strategic targets and policies, and pursuant to both local and overseas legislation, and international standards the Internal Control Department structured activities in four different segments:

- Branches and Regions Internal Control,
- Head Office Internal Control,
- Central Internal Control and Business Development,
- Independent Audit Coordination and Subsidiaries Internal Control.

This structure aims at business-based specialization, and improvement of effectiveness, adequacy, and efficiency of control systems and its operations through constant controls.

As part of 2018 control plan and program, the various business segments, units, branches, subsidiaries, processes, products and services of the Bank were monitored and examined by applying a proactive and dynamic attitude with materiality criterion and a risk-oriented approach, and results of this work were reported.

The Branches and Regions Internal Control Unit: The control programs for branches were executed in two periods in 2018, and by selecting a different risk area for each period. Work in this context was conducted by the Internal Control staff (Internal Auditors) who are linked to the Department, and whose locations are regions.

In order to raise awareness for risk and control, and to keep the losses due to operational risks at a minimum during branch internal control, the branch personnel were consistently informed on internal control system and operational risks.

Head Office Internal Control: As part of Head Office audits, controls were carried out in different units by teams specialized in different banking functions, in line with a risk-focused control plan.

The Internal Control Department actively participated in the Process Modelling and Analysis projects. This work included reviewing the processes with work units, identifying risks in these processes, designing risk controls, and installation. This contributed to the establishment and development of an internal control environment and internal control system across the Bank in general.

Additionally, transactions and activities that are generally considered important and risky by the Bank were remotely and periodically monitored and examined through computer-aided auditing programs and techniques (such as ACL). These activities aimed at constantly keeping transactions made throughout the Bank under control. Every initiative in this regard was performed by four different control services set up within the Department.

Independent Auditing Coordination Service and the Subsidiaries Internal Control: Instituted under the Directorate and compatible with the goals of other control services, the Department examined and assessed transactions and activities in the information technologies field, various business processes and products, new product and services, internal and external audit findings from an internal control system and activities perspective. These activities aimed to set up and develop an internal control system and standards throughout the Bank, as well as to spread a culture of risk and control.

Furthermore, the 2018 independent external auditing operations were coordinated, the findings and related actions found in the relevant auditing reports were tracked, and assistance was provided in order to resolve the matters specified in the findings. Reports on this were submitted to the BRSA and the Board of Directors.

Central Internal Control and Business Development: In tandem with the digitalization process of the Bank, the Internal Control Directorate also began to conduct some of its audit transactions centrally and daily in 2018. Therefore, audit continuity was achieved and awareness was raised at branch level.

Meanwhile, all the systems employed by the Internal Control Department were developed by the Central Internal Control and Business Development Service, enabling internal control staff to receive instant technical support.

Risk Management Department

Determining, measuring, and managing the sustained risks in compliance with the legal legislation and regulations constitute the basic duties of the Risk Management Department. The Risk Management Department maintained its efforts to tackle risks faced by the Bank in 2018.

Credit Risk Management and Modeling: The credit risk management activities involving credit policy preparation, as well as monitoring its application in the Bank for an effective risk management are conducted in coordination with the relevant units of the Bank. The credit risk policy is implemented with the Board of Directors' decision, and a strong risk management systems infrastructure is installed for the risk management activities.

The internal credit risk limits determined with the Board of Directors' decision are measured, and presented to the Audit Committee through periodic reports. If necessary, the actualization of country, concentration, maturity, sector, default rate, legal status, security, geography, currency type risks within the scope of internal risk limits are analyzed. Results are submitted to the senior management. The infrastructure work for monitoring internal risk limits instantly and automatically was completed, enabling more effective management of risk exposure.

Initiated in 2012, the BASEL II internal rating preparations for boosting the efficiency of capital adequacy calculations, loan allocation and monitoring processes progressed in stages. Internal rating models for Corporate/Commercial and SME customers were developed in this framework, an internal rating model developed for the credit cards portfolio was launched, and the calculated scores started to be used as an input in the limit allocation processes.

As part of the strategic project initiated to develop new Basel-compatible models in line with the changing segment structure, appropriate rating models for segment-based portfolios were developed. Cyclic default probability models were developed for corporate and retail portfolios, and these were then integrated into the core banking systems. The output of the risk model started to play a decisive role in banking operations. In this context, it began to be actively deployed in the decision support processes; allocation, pricing and risk follow-up practices. Thus, an internal rating based (IRB) risk culture began to emerge across the Bank.

The unit focused on monitoring the performance of existing rating models, revising the models where necessary, and developing new rating models for new customers in 2018.

Following the first IFRS-9 impact study conducted in the final quarter of 2015, work toward complying with IFRS-9 was coordinated with the Financial Control, Accounting, and Risk Monitoring Units in 2016. In 2017, further modeling studies were conducted focusing on the three main components of expected credit loss calculation (PD, LGD and EAD). The models that were developed are now used as input in the Expected Credit Loss calculations. In 2018, modeling studies were continued with an emphasis on LGD and EAD modeling. The models that were developed comply both with IFRS 9 and IRB standards, In 2019 application models are expected to be revised so efforts will focus on application models.

Work on validation of models aimed at the three main components in expected credit loss calculations (PD, LGD and EAD) on both IFRS 9 and IRB standards started in 2018, and is expected to be completed in 2019.

In order to assess and enhance the extent of compliance with the Best Practice Guidelines issued by BRSA, coordinated efforts were undertaken with relevant business units. By conducting meetings with the business units, actions required to enhance the extent of compliance were identified and a road map was drawn. Efforts toward better alignment with the Guideline on the Management of Concentration Risk, Guideline for the Credit Management of Banks, Guideline for Counterparty Credit Risk Management, and Guideline for Country Risk Management will continue in 2018. In accordance with IFRS 9, work is underway to establish models for identifying and managing risk within the framework of early warning systems in order to take early action on customers with a significant deterioration of their credit risk, which triggers transitions to the next stage. Work to establish an Early Warning System set to be developed in coordination with the Risk Monitoring and Loans Departments continued in 2018 and is due for completion in 2019. In order to assess and enhance the extent of compliance with the Best Practice Guidelines issued by BRSA, coordinated efforts were undertaken with relevant business units. By conducting meetings with the business units, actions required to enhance the extent of compliance were identified and a road map was drawn. Efforts toward better alignment with the Guideline on the Management of Concentration Risk, Guideline for the Credit Management of Banks, Guideline for Counterparty Credit Risk Management, and Guideline for Country Risk Management continued in 2018.

Data Management and Reporting: Under the Basel III rules, the amount subject to credit risk according to the standard method is calculated on a monthly basis and reported to BRSA in solo and consolidated format. The Risk Management Department is also in charge of calculating the Bank's monthly capital adequacy ratio and reporting it to BRSA.

The risk report set that contains detailed information for the calculation of the credit exposure amount, which is required by BRSA is being prepared on a monthly basis. Also, quarterly tables are prepared for the calculation of the amount subject to credit risk and of the capital adequacy ratio as part of the Independent Audit Report.

Market Risk: The market risk is considered periodically at the Audit Committee and the Internal Systems Committee of Kuveyt Türk, and monthly reports are sent to the BRSA and the Bank's parent company Kuwait Finance House. The sum calculations that form a basis to market risk are monitored in compliance with the Basel III standard method.

On a consolidated and unconsolidated basis, the Internal Capital Adequacy Evaluation Report was prepared for assessing the capital adequacy of the Bank in normal and stressful periods, and as per the Regulation on Internal Systems of the Banks and Internal Capital Adequacy Evaluation Process and submitted to the BRSA in March 2018. Other periodic stress testing and scenario analysis are conducted and presented at the Audit Committee and Internal Systems Committee meetings. Also, concurrent stress tests on market risks, counterparty credit risks and the Bank's total liquidity risk are repeated every month.

Risk, Control and Compliance Group

In 2018, efforts were made to improve Kuveyt Türk's maturity level in business continuity under the coordination of Risk Management Department.

Sukuk and other investment portfolios are regularly monitored, and reported to the Audit Committee, Internal Systems Committee and to our main partner Kuwait Finance House every month. Analyses are made on capital assessment, asset assessment, market risk, power and sustainability of incomes, obligation and liquidity, business strategy, efficiency of internal control systems, organizational structure and strength, and management under the CAMELBCOM approach developed in compliance with the risk appetite of the Bank, Turkish and world economy, early warning system study for fiscal, monetary and financial system, and the Central Bank of Kuwait's needs, and reported quarterly to our main partner Kuwait Finance House.

In 2018, efforts were made to comply with the policies and procedures of the Bank's parent company Kuwait Finance House regarding market risk, liquidity risk and asset and liability management and the relevant work is completed.

Operational Risk: As part of operational risk studies, work has been carried out in coordination with the Risk Management Department and Internal Control Department for Risk Control Self-Assessment studies. These efforts are set to continue in coming years, too.

In 2018, work was undertaken to comply with operational risk policies and procedures of the Bank's main partner Kuwait Finance House, and the Bank's maturity level was improved.

The Bank's operational risk loss data is stored systematically and in compliance with Basel III standards. Operational risk concentrations have been actively monitored and reported to the Audit Committee, through a terminology appropriate to Basel III. Furthermore, studies have been conducted for compliance with the operational risk Best Practice Guidelines issued by BRSA. An active role was played in the efforts required by the Support Units Regulation, and the Risk Management Program related to Support Units was revised and presented to the Board of Directors.

IT Risk: Conducting the assessment work of the risks for Information Technology activities arising from changes in technology, the Risk Management Department undertakes important roles in risk monitoring and risk activity follow-up.

In 2018 work was undertaken with the lead of Risk Management Department to improve the Bank's maturity level in business continuity. Works regarding the identification of critical processes and critical IT systems, and assurance of redundancy of these systems were conducted in 2018. The Bank's intervention and business continuity plans were updated and new plans were drawn for business units.

Compliance Department

Compliance Department is part of the internal systems units that identifies, assesses, monitors, reports and offers consultancy in the legal risk in Kuveyt Türk and its subsidiaries. Operating in affiliation with the Internal Systems Committee, and reporting on its operations to the Committee, the Compliance Department has two main functions:

Compliance Control Unit

- Checking the compliance of all existing and planned activities, new products, the services and transactions of the Bank to the regulations, internal policies and rules, and banking trends,
- Executing compliance control function as laid out under the compliance program and annual compliance control plan,
- Monitoring and controlling compliance of the subsidiaries and foreign branches to the relevant regulations, and their periodic reporting to the Department.

Financial Crimes Investigation Board (MASAK) Compliance Unit

- Ensuring that the Bank's activities are carried out in accordance with the legislation on the prevention of money laundering, proceeds of crime and financing of terrorism,
- Ensuring the Bank's customer quality is maintained through effective risk management, monitoring and control activities,
- To detect suspicious transactions and to notify the public authorities,
- To act as advisor for the Head Office units and branches on matters related to MASAK legislation,
- To offer comments and suggestions in the course of designing the banking products to be offered to customers in accordance with MASAK legislation,
- To raise awareness and consciousness of the Bank's employees regarding the relevant legal obligations.

The Internal Audit and Inspection Department

The mission of the Internal Audit and Inspection Department is to preserve and enhance the Bank's corporate value through risk-oriented and objective assurances, suggestions and predictions.

The vision of the Department is to help the Bank achieve its strategic targets and to be viewed as an exemplary internal audit unit in the industry due to its outstanding professional and ethical practices.

The Internal Audit and Inspection Department, whose compliance with international internal audit standards is confirmed by independent bodies, reports to the Audit Committee and submits periodic reports to the Board of Directors via the Audit Committee. The Department operates without any restrictions, within the scope of its annual business plan prepared on the basis of a risk-focused audit planning that includes the Bank's all business processes, units, branches and subsidiaries as well as information systems.

The Department performed its 2018 operations pursuant to the requirements of the business plan and the shareholders' expectations; conducted special examinations and legal or administrative investigations in required situations and fields. Additionally, as part of the management declaration audits, it performed a comprehensive assessment on the effectiveness, adequacy and compliance of information systems general controls and business processes controls in our Bank. The said assessments form a concrete basis for the management declaration that should be submitted to the Independent Auditing Institution by the Board of Directors.

The Department monitored report actions throughout the year via follow-up programs and reported follow-up results to the proper authorities when required. Similarly, operational activity reports were successfully submitted at least every three months to the Audit Committee, Internal Systems Committee, and the Board of Directors. These reports have also been submitted to the BRSA.

Awards



The logo for Great Place To Work, featuring the text "Great Place To Work" in white, bold, sans-serif font, stacked vertically on a red rectangular background. A registered trademark symbol (®) is located at the end of the word "Work".

**Great
Place
To
Work®**

**Turkey's
Best Employers**

Comment from the CEO

The most important value of our Bank, trust, emanates from our employees, stakeholders and customers. What encompasses them all is the value we attach to people. As we generate a happier workplace that reflects our values through the employee engagement approach, we put our colleagues at the heart of everything, we build stronger bonds with our customers and continue with our steady growth.

Ufuk UYAN

Member of the Board of Directors and Chief Executive Officer

Awards

As the trailblazer of Turkey's participation banking sector Kuveyt Türk's innovative products and services were recognized by several awards in Turkey and overseas by various international organizations and associations.

Kuveyt Türk received a prize at the Candidate Experience Award 2018, organized by Talent Board Foundation, measuring the job candidates' interview experiences.

The Bank received the top award in the "Best Islamic Capital Markets Transaction" category of 2018 Bonds & Loans Turkey Awards.

Kuveyt Türk won an award in the Participation Banking category for a third successive year at the A.L.F.A. Awards celebrating brands with the best customer experience management.

Kuveyt Türk's 2016 Ramadan commercial film won the first prize in the category "Performance," one of the most important awards of YouTube, as the highest-performing commercial film on the platform in Europe and the Middle East region.



In 2018, at the ETİKA Competition where Ethical Values Association EDMER ranks companies according to their compliance with ethics-related criteria, Kuveyt Türk received the Ethics Award for the third time, thanks to its commitment to Ethical Banking principles.

At International Data Corporation Turkey's (IDC) Finance Technology Awards 2017, Kuveyt Türk won the first prize for its API Market Platform in the "Digital Channels" category, and second prize in the "Expanding Financial Base" category.

At World's Best Banks Awards organized by the Global Finance Magazine, Kuveyt Türk was named "Turkey's Best Islamic Finance Institution" with Sağlam Kart receiving the "Best New Generation Credit Card" award, while Kuveyt Türk's full subsidiary KT Bank AG received the award for "Europe's Best Islamic Finance Institution."

As the only bank in Turkey with two R&D centers, Kuveyt Türk received the "Best R&D Center" award in the "Banking and Finance" category at the seventh edition of R&D and Design Centers Summit organized by the Ministry of Science, Industry and Technology in 2018. As the recipient of the award for a fourth consecutive year, Kuveyt Türk boasts a hard-to-beat record in the field.



2018


The Best Workplaces in Turkey 2018 survey by the Great Place to Work Institute named Kuveyt Türk as the "Best Finance Employer" and one of the "Best Workplaces in Turkey."

At the World's Best Banks Awards organized by Global Finance Magazine, which is available in 189 countries, Kuveyt Türk was named "Turkey's Best Islamic Finance Institution." Additionally, Kuveyt Türk's 100% owned subsidiary KT Bank AG received the award for "Europe's Best Islamic Finance Institution."

Kuveyt Türk was named "Turkey's Most Powerful Islamic Bank" at IRBA (Islamic Retail Banking Awards).

SECTION 3: MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES

Kuveyt Türk has been leading the participation banking sector in Turkey for 29 years thanks to its right strategies and corporate governance practices.

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Board of Directors



Hamad Abdulmohsen Al Marzouq / Chairman of the Board of Directors

Hamad Abdulmohsen Al Marzouq holds a Master's degree from Claremont University and a Bachelor's degree from the University of Southern California in the U.S. awarded in 1985. He has taken senior positions at Kuwait Investment Corporation till 1990, then joined Central Bank of Kuwait between 1990 and 1998 and Ahli United Bank Bahrain between 1998 and 2014. Mr. Al Marzouq has been appointed as the Chairman of Board of Directors of Kuveyt Türk in 2014. Mr. Al Marzouq is also a Member of Corporate Governance Committee, Executive Committee and Credit Committee.



Dr. Adnan Ertem / Vice Chairman of the Board of Directors

Mr. Ertem graduated from Istanbul University, Faculty of Political Sciences in 1987. He received a Post-Graduate degree in Political Sciences at the Institute of Social Sciences of the same university in 1990, and PhD with his thesis on Social Structure and Social Change in 1998. Mr. Ertem began his professional career as the Deputy Inspector at General Directorate of Foundations in 1988 and he was assigned to Istanbul Regional Directorate of Foundations in 2002, having served at different positions in the same institution. Mr. Ertem was assigned as Member of Board of Directors of Kuveyt Türk in the same year. He also serves as the Member of Bank's Internal Systems Committee, Audit Committee and Corporate Social Responsibility Committee. Between 2007 and 2010, Mr. Ertem worked as the Deputy Secretary at the Prime Ministry. He was subsequently assigned to General Directorate of Foundations in 2010.



Khaled N. Al Fouzan / Member of the Board of Directors

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 a Director at the Kuwait Public Institution for Social Security, and then as Manager of the Banking Department in 1984. In 2014, he became the Executive Vice President at Kuwait Finance House, serving alongside as a Member of the Board of Directors at Ahli United Bank London, Gulf Custody Company and Al Manar Leasing. He served as a member of the Board of Directors at Kuwait Industry Bank between 1995 and 2015, and director at KCC between 1998 and 2004. Mr. Al Fouzan has been serving as a Member of the Board of Directors of Kuveyt Türk since August 2006 and is a Member of the Internal Systems Committee.



Mazin S.A.S Al Nahedh / Member of the Board of Directors

Mr. Al Nahedh received his Bachelor's degree in Finance from California State University. He started his professional career in 1993 at the Central Bank of Kuwait as Bank Relations Director. In 2001, he was appointed as the Managing Director of the Bank's Treasury Unit. In 2006, he was appointed as the Assistant General Manager to the Treasury Department, later assuming the roles of Vice President of Treasury in 2007 and President of Treasury in 2008. He served as General Manager of Corporate Banking Group between 2008 and 2011, and later as at the National Bank of Kuwait (NBK) including his role as a member of the Management Executive Committee from November 2010 to 2014. He was also a Member of the Board of Directors of the Central Bank of Kuwait between November 2010 and 2014. With over 25 years of experience in banking, Mr. Al Nahedh has been Managing Director of Kuwait Finance House since October 2014. He's also a Member of the Board of Directors at Kuveyt Türk since September 2015. Mr. Al Nahedh is also on Kuveyt Türk's Executive Committee, Loan Committee, Remuneration and Nomination Committee and the Corporate Social Responsibility Committee.



Fawaz Al Saleh / Member of the Board of Directors

Mr. 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 Board of Directors of Kuveyt Türk 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 and the Board of Directors Vice Chairman and General Manager of Turkapital Holding B.S.C.C. He is a Member of the Bank's Internal Systems Committee, Remuneration and Nomination Committee and the Corporate Social Responsibility Committee.



Ahmad S. Al-Kharji / Member of the Board of Directors

Ahmad S. Al-Kharji graduated from the Finance and Banking Department of Kuwait University in 1994 and obtained an MBA degree from San Diego University in 1998. He became a Vice President for Structured Finance at Kuwait Finance House. Between 2003 and 2006, Mr. Al-Kharji served as Senior Investment Division Manager and then as Senior Vice President at LMH between 2008 and 2013. He has served as a Member of Board of Directors of Kuveyt Türk since March 2014. Mr. Al-Kharji, who has been a Member of the Kuveyt Türk Board of Directors since March 2014, is also a Member of the Audit Committee and the Remuneration and Nomination Committee.

Board of Directors



Mohamad Al Midani / Member of the Board of Director

Mr. Al Midani graduated in 1988 from the Lebanese American University's Business Administration, and he obtained a postgraduate degree in Accountancy from Concordia University, Montreal. His career includes various posts in the field of auditing, including employment for Canada Economic Development Agency in Montreal and Ernst & Young in Jeddah. He also worked as Finance Director in a private sector company in Saudi Arabia, followed by a role at the Islamic Development Bank (IDB) since 2001. In IDB, he held the post of Lead Internal Auditor, and since 2010 he has been the Head of Equity Investment Division. With over 25 years of experience in audit, accounting, financial analysis and management consulting, Mr. Al Midani is a Member of Board of Directors of Kuveyt Türk since March 31, 2015. Mr. Al Midani is also Member of the Bank's Audit Committee and the Internal Systems and Corporate Governance Committee.



Nadir Alpaslan / Member of the Board of Director

Mr. Alpaslan graduated from Istanbul University, Faculty of Political Sciences, Public Administration Department in 1987. He began his professional career at Prime Ministry, Family Research Institution in 1999 and worked as the Ministry Consultant and President of Administrative Financial Affairs at the Ministry of Tourism for four years. Mr. Alpaslan continued his professional career as the Deputy Secretary and Ministry Consultant at the Ministry of Culture and Tourism between 2003 and 2007, and became the Deputy Secretary General at the Presidency in 2007. Mr. Alpaslan has been a Member of Board of Directors of Kuveyt Türk since April 15, 2011 and he is Member of the Bank's Corporate Governance and Ethical Baking Committees.



Ufuk Uyan / Member of the Board of Directors and Chief Executive Officer

Mr. Uyan graduated from the Economics Department of Boğaziçi University in 1981. He received Postgraduate degree from the Business Management Department of the same university in 1983. He began his professional career as the Research Assistant at the Economics Department of Boğaziçi University in 1979 and worked as the Researcher Economist at the Specific Researches Department at Türkiye Sınai Kalkınma Bank in 1982. Mr. Uyan became the Vice Project Manager at Albaraka Türk in 1985 and continued his career as the Project and Investments Manager at Kuveyt Türk in 1989. Mr. Uyan was promoted as the Executive Vice President in 1993 and then assigned as Head Assistant to the Chief Executive Officer. Mr. Uyan has been the Chief Executive Officer since 1999 and continues his duty as a Member of Board of Directors and CEO at Kuveyt Türk. Mr. Uyan is also Member of the Executive Committee, Loan Committee, Remuneration and Nomination Committee and the Corporate Social Responsibility Committee.

Senior Management



Ufuk Uyan / Member of the Board of Directors and Chief Executive Officer

His resume is presented in the Board of Directors section on p110.



Dr. R. Ahmet Albayrak / Executive Vice President – Treasury and International Banking

Mr. Albayrak graduated from the Industrial Engineering Department of Istanbul Technical University. He received postgraduate degree in Organizational Leadership and Management at the University of North Carolina at Pembroke, USA in 1993 and was awarded a PhD degree on Technology Management at Istanbul Technical University, Department of the Business Administration in the Social Sciences Institute in 2007. Having joined the participation banking sector 30 years ago, Mr. Albayrak has been serving as the Executive Vice President at Kuveyt Türk since 2005. He managed the Banking Service Group till October 2012 and he was assigned as the Executive Vice President of Treasury and International Banking as of the same date.



Abdurrahman Delipoyraz / Executive Vice President - SME Banking

Mr. Delipoyraz graduated from the Industrial Engineering Department of Istanbul Technical University. He began his career in the Kuveyt Türk family at the Project and Investment Department and he worked at the Corporate and Commercial Banking Sales Department and Financial Analysis and Information Department till 2000. Mr. Delipoyraz worked as the Branch Manager at Beşyüzevler and Bakırköy Branches between 2000 and 2004. He was assigned as the Regional Manager in December 2004 and he worked at Istanbul Europe 1 and Istanbul Anatolia Regional Directorates. He has been serving as the Executive Vice President of SME Banking since January 2015.

Senior Management



Ahmet Karaca / Executive Vice President - Chief Financial Officer

Mr. Karaca graduated from Ankara University, Faculty of Political Sciences, Public Administration Department in 1990. He started his duty as the Sworn Deputy Auditor of Banks at Undersecretariat of Treasury in 1992 and he was assigned as the Sworn Auditor of Banks in 1995. He continued his duty with the same title at the Banking Regulation and Supervision Agency (BRSA) from 2000, and he was assigned as the Vice President of Sworn Auditors Committee of Banks between 2002 and 2003 at the BRSA. After approximately one year of service, he was assigned as the Sworn Head Auditor of Banks in 2004. Between 2004 and 2006, he received a Post graduate degree in Economics from the State University of New York at Albany, USA and has penned a postgraduate thesis on International Banking and Capital Markets. Mr. Karaca joined Kuveyt Türk as the Chief Financial Officer in July 2006 and continues to serve under this title.



Ahmet Süleyman Karakaya / Executive Vice President - Corporate and Commercial Banking

Graduated from the Business Administration and Finance Department at the Istanbul University, Faculty of Economics, Mr. Karakaya began his banking career as an Inspector at Garanti Bank , where he went on to work at the Audit Committee, Risk Management department Loans Department, and Regional Directorates between 1981 and 2003. Mr. Karakaya has been working as the Executive Vice President of Corporate and Commercial Banking at Kuveyt Türk since 2003.



Aslan Demir / Executive Vice President - Strategy

Mr. Demir graduated from Marmara University, International Affairs Department. He completed his Master's degree at Sheffield University with thesis on topic of Critical Elements of Strategy Implementation in Banking Sector. He began his banking career in Kuveyt Türk Treasury Department in 1995, served at the Treasury Department for six years and continued his career at Project Management and Quality Department between 2001 and 2004. He was assigned as the Project Management and Quality Manager in 2005 and he continued his career as the Information Technologies Group Manager upon the new set-up in 2007. He has been serving as the Executive Vice President of Strategy since October 2012 as well as the Executive Vice President of Strategy, Human Resources, Digital Transformation, Corporate Communication and Corporate Performance Management while continuing to perform his duties at Katılım Emeklilik ve Hayat A.Ş. and Architech Bilgi Sistemleri ve Pazarlama Ticaret A.Ş. as a Board Member.



Bilal Sayın / Executive Vice President – Chief Credit Officer

Mr. Sayın graduated from the Public Administration Department of Middle East Technical University in 1990. He joined the Kuveyt Türk family in 1995 and he has been serving as the Chief Credit Officer at Kuveyt Türk since 2003.



Hüseyin Cevdet Yılmaz / Executive Vice President – Chief Risk Officer

Mr. Yılmaz graduated from the Business Administration Department of Boğaziçi University in 1989. He began his banking career as the Assistant Internal Auditor in Esbank Internal Audit and Inspection Department. After having served as Internal Auditor and Branch Manager in the same institution, he began his duty as the Head of Internal Audit and Inspection Department in Kuveyt Türk in September 2000. He was assigned as the Audit and Risk Group President in 2003. Mr. Yılmaz has been serving as the Chief Risk Officer since 2012.



İrfan Yılmaz / Executive Vice President – Banking Services

Mr. Yılmaz graduated from the Management Engineering Department of Istanbul Technical University in 1989. He began his banking career at the Financial Affairs Department in Kuveyt Türk in 1990, was assigned to Internal Audit and Inspection Department in 1996 and served as the Head of Internal Audit and Inspection Department between 1998 and 2000. Mr. Yılmaz worked as the Individual Banking Manager in 2000 and after five years at the Department, he was assigned as the Executive Vice President of Individual Banking and Enterprise Banking in 2005. He has been serving as the Executive Vice President of Banking Services since October 2012.

Senior Management



Mehmet Oral / Executive Vice President – Retail Banking

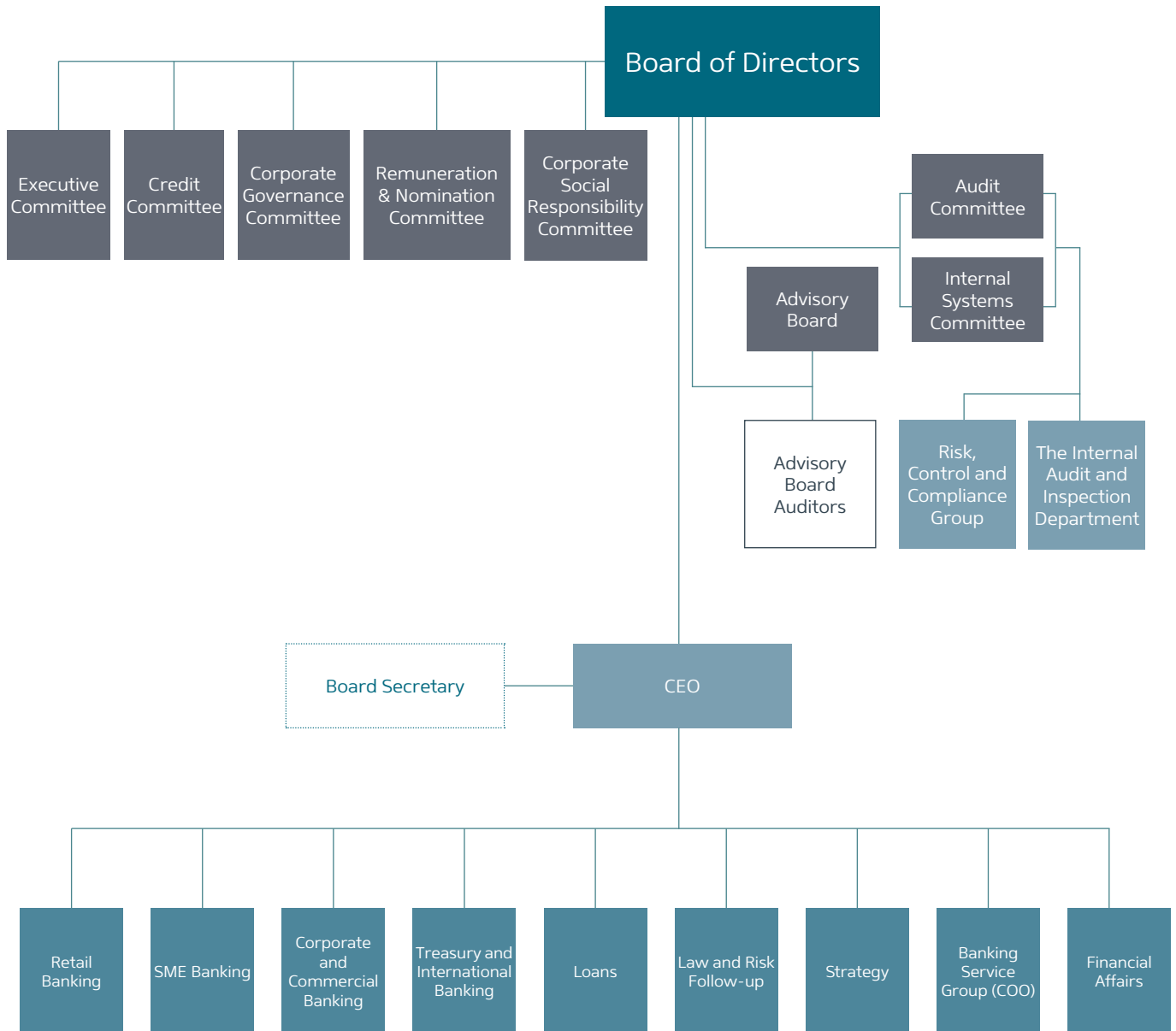
Mr. Oral graduated from the Business Administration Department of Uludağ University. He began his career in the Kuveyt Türk family at the Head Office Branch in 1992. He worked as the manager in the İMES, Bursa and Merter branches between 2000 and 2005. He was assigned as the Regional Manager at the Istanbul European Side Regional Directorate in 2005 after the transition to Regional Directorate structure. After serving as the Regional Manager for four years, he continued his career as the HR, Training and Quality Group Manager in 2009. He has been serving as the Executive Vice President of Retail Banking since October 2012.



Nurettin Kolaç / Executive Vice President – Law and Risk Follow-up

Mr. Kolaç graduated from Faculty of Law at Marmara University. He served as an attorney and legal counselor in banking, leasing and insurance industries for 16 years. He worked as the Vice Head of Department and Head of Department (Legal) in Banking Regulation and Supervision Agency for six years starting from 2004. He joined Kuveyt Türk in April 2010 as the Executive Vice President of Law and Risk Follow-up. Mr. Kolaç is also a Member of the Board of Directors at KT Portföy Yönetim A.Ş. as well as the chairman and member of several working committees in professional associations for the banking industry. With 30 years of experience in law and banking, Mr. Kolaç has been serving as the Executive Vice President of Corporate, Commercial, SME and Retail Risk Follow-up, Credit Risk Monitoring, Collateral Monitoring, Customer Rights and Legislation, and Law and Risk Follow-up.

Organizational Chart



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

Esteemed Shareholders,

2018 was a tough year, especially from the second half of the year due to FX rates, interests and inflation. Measures against soaring FX rates and interests helped circumvent their negative impacts considerably, and important steps were taken on the path to recovery. As of the third quarter of the year, firm steps taken by the Public Authority and the new monetary policy of the Central Bank of the Republic of Turkey (CBRT) marked the start of a normalization period.

The Turkish economy grew by 7.4% and 5.2% in the first and second quarters of 2018 respectively, while the growth in the third quarter was realized at 1.8%. The banking industry, one of the main pillars of Turkish economy, maintained its robust outlook in 2018 despite fluctuations in domestic markets as well as the global economy. Assets of the banking industry grew by 18.70% compared to the previous year, and total loans increased by 16.3% to TL 2,537 billion. Meanwhile, participation banks continued to grow in 2018 as they further bolstered their position in the industry and boosted their total assets by 29.1% and funds they extended by 16.4%.

Enjoying a robust international reputation, Kuveyt Türk maintains a consistent overseas growth through its 100% owned subsidiary KT Bank AG, in addition to its growth in Turkey by opening new branches.

Kuveyt Türk in 2018

Kuveyt Türk, the leading participation bank in Turkey offering innovative products and services, has maintained its growth in 2018 with a focus on profitability by effectively managing risks and opportunities while preserving the quality of its assets.

Undeterred by fluctuations in the Turkish economy, the Bank continued to offer its customers innovative projects such as the interest-free digital banking platform Senin Bankan or the XTM Branch combining functions of call centers, branches and ATMs, thus charting the course of participation banking through its groundbreaking initiatives.

Our Bank's net profit for 2018 grew by 14.8% year-on-year reaching TL 822 million; the funds raised by 36.3% reaching TL 55 billion; and the funds extended by 12.6% reaching TL 41.6 billion. Our equity rose to TL 5.4 billion, and assets to TL 74.8 billion, enabling the Bank to maintain its leading position among participation banks in terms of asset size.

Constantly introducing innovative products and services to the industry, Kuveyt Türk accomplished the following in this context in 2018:

- 27 lease certificates in the amount of TL 5.1 billion were issued.
- A TL 200 million worth of Sukuk was issued for Superonline İletişim Hizmetleri A.Ş. as part of the private sector's demand for lease certificate issuances.
- The Bank has consistently maintained investments in technology, with two R&D centers and the sector's most comprehensive API platform under its umbrella.
- It migrated banking transactions to a digital platform and continued to enhance its infrastructure by transforming processes and procedures digitally.
- The Bank provided funding for two national mega projects, namely EUR 200 million funding for Çanakkale 1915 Bridge Project and EUR 100 million for Niğde-Ankara Motorway Project.
- In addition to Public Private Partnership projects, it took on an active role in the field of renewable energy. The total financial support we provided for renewable energy reached USD 740 million.
- City Hospitals Projects have been emphasized and prioritized.
- Kuveyt Türk took on a pioneering role in FinTechs and sold a TL-120-million BOA software program through our technology firm Architech.
- The number of digital banking customers increased by 32% on a YoY basis, reaching almost 1 million.
- The Bank continued to collect gold to re-introduce the "under-the-mattress" gold stock to economy; 2.1 tons of gold were collected and started to circulate in 2018.
- CebimPOS app, which helps turn smart phones into POS devices to receive payments, was developed.

- The Online Finance System, allowing utilization of finance via Internet or Mobile Branch without having to visit a branch, was deployed.
- Supplier Finance practices were launched in order to address suppliers' finance needs while extending funds to buyers.
- Sign language banking efforts were initiated at XTM branches to help hearing-impaired individuals perform banking transactions easily.
- A FinTech integration process was launched in order to begin cooperation with the FinTechs, which were contacted via Lonca Entrepreneurship Center and various other channels.

Alongside all these innovations, Kuveyt Türk's achievements were crowned with new awards in 2018 as in previous years.

- Kuveyt Türk launched its new employer brand "So Glad" (İyi ki) during the 2018 operating period aimed at our human resource as one of the most crucial components of its sustainable success itinerary.
- Ranking in the list of 'Turkey's Best Employers in 2018', organized by the Great Place to Work Institute, the Bank placed in the top three in the 'Best Employer in Turkey' list in the "2,000+ Employees" category. The Bank also won the Special Award for Best Employer in Finance.
- Kuveyt Türk was named 'Turkey's Best Islamic Financial Institution' in the World's Best Banks, organized by Global Finance Magazine that enjoys a readership in 189 countries.
- Kuveyt Türk's 100% owned subsidiary, KT Bank AG based in Germany was selected the 'Best Islamic Financial Institution in Europe'.
- In IRBA, organized by the world's leading financial services organization Cambridge IFA, Kuveyt Türk was deemed worthy of the 'Strongest Islamic Bank in Turkey' award.

Customer-Focused Technology

- Appreciative of the importance of digitalization for the banking industry as well as Turkey's wider economy, Kuveyt Türk continuously pushes ahead with investments in this field. As of the year end in 2018, the number of customers on Senin Bankan application aimed at retail customers came to 98 thousand, while the number of customers using digital channels reached 950 thousand.
- As Kuveyt Türk, we aim to push forward with our digital transformation investments in the coming period, enabling more customers to take advantage of the digitalization process.
- By establishing the Digital Transformation Group Directorate in April 2018, Kuveyt Türk strengthened its digitalization focus across the Company.
- CebimPOS app was developed as a solution to help turn smartphones into POS devices in receiving payments, thereby offering Seamless Customer Experience in Digital Banking.
- Serving customers through a robust network at 414 branches across Turkey with nearly 6,000 employees, Kuveyt Türk established another 16 branches in 2018, achieving 85% geographic coverage in Turkey.

Expectations for 2019

As we celebrate our 30th birthday in 2019, Turkey's leading participation bank Kuveyt Türk will remain a bank offering modern, consistent, reliable, high quality and swift services; committed to continuous training and development in the coming period, as it did since its inception.

The plan is to accelerate customer-focused digital transformation efforts.

Kuveyt Türk aims to sustain the above-industry growth it achieved in key financial figures over the last five-year period, generating growth in the 18-19% range on average over the next five years, achieving an asset size of TL 170 billion and reaching 480 branches by 2023 to extend its geographical coverage from 85% to more than 90%.

We deeply thank all our stakeholders, particularly our employees, who exert the greatest effort that allow us to achieve all our success and look into the future with confidence, and our valuable shareholders for their unwavering support.

Board of Directors

Executives within Internal Systems

Name and Surname	Duties	Education
H. Cevdet Yılmaz	Chief Risk Officer	Bachelor's Degree
Bahattin Akça	Head of Internal Audit and Inspection	Bachelor's Degree
Fadil Uluşık	Head of Internal Control	Master's Degree
Vefa Okan Arık	Head of Risk Management	Bachelor's Degree
Hayrettin Çapoğlu	Head of Compliance	Master's Degree

Hüseyin Cevdet Yılmaz Chief Risk Officer

Mr. Yılmaz graduated from the Business Administration Department of Boğaziçi University in 1989. He began his banking career as the Assistant Internal Auditor in Esbank Internal Audit and Inspection Department. After having served as Internal Auditor and Branch Manager at the same institution, he joined Kuveyt Türk in September 2000 as the Head of Internal Audit and Inspection Department. He was appointed as Head of Audit and Risk Group in 2003. Mr. Yılmaz has been serving as Chief Risk Officer since 2012.

Bahattin Akça Head of Internal Audit and Inspection

Mr. Akça graduated from (English) Business Administration Department at Istanbul University. He began his career as Deputy Inspector at Kuveyt Türk in 1996 at the Internal Audit and Inspection Department. Akça served as Head of Internal Control between 2003 and 2007. Since September 2007, he has been the Head of Internal Audit and Inspection.

Fadil Uluşık Head of Internal Control

Mr. Uluşık graduated from Istanbul University, Faculty of Political Sciences. He received his post graduate degree on Money-Banking Department at the Social Sciences Institution of Istanbul University in 1999. Mr. Uluşık began his career in Kuveyt Türk in 1996 and he has been serving as the Head of Internal Control since December 2007.

Vefa Okan Arık Head of Risk Management

Mr. Arık graduated from Gazi University, Faculty of Economic and Administrative Sciences. Mr. Arık began his career in 1997 and joined Kuveyt Türk in 2002. Since February 2013, he has been the Head of Risk Management.

Hayrettin Çapoğlu Head of Compliance

Mr. Çapoğlu graduated from Boğaziçi University, Faculty of Economics and Administrative Sciences, Department of Political Science and International Relations in 1997. He received his postgraduate degree on International Relations at the Social Sciences Institution of Marmara University in 2002. Mr. Çapoğlu began his career in 1997 and joined Kuveyt Türk in 2002. Since February 2013, he has been serving as the Head of Compliance.

Senior Management Committees

Audit Committee

Name and Surname	Duties	Date of Assignment
Adnan Ertem	Chairman, Board Member	19.10.2010
Ahmad S. Al Kharji	Member, Board Member	24.09.2014
Mohamad Al Midani	Member, Board Member	15.05.2015

Duties and Responsibilities

- Receiving regular reports on the fulfillment of the duties from the units established under the scope of internal control, internal audit and risk management systems as well as independent auditors,
- In the event of matters or discrepancies arising against legislation and internal regulations which may adversely affect the continuity and safe execution of the Bank's activities, reporting these to the Board of Directors,
- Reporting its opinions along with the outcomes of its activities, to the Board of Directors on the practices required or measures to be taken by the Bank, and on other matters deemed significant in terms of sustaining the Bank's activities securely, within regular periods no longer than six months.

Internal Systems Committee

Name and Surname	Duties	Date of Assignment
Adnan Ertem	Chairman, Board Member	29.03.2007
Khaled Nasser Abdulaziz AL Fouzan	Member, Board Member	29.03.2007
Fawaz KH E Al Saleh	Member, Board Member	26.03.2014
Mohamad Al Midani	Member, Board Member	15.05.2015

Duties and Responsibilities

- Defining the strategies, policies and implementation methods for the operations of units under the internal systems in writing, and ensuring the effective implementation and execution thereof,
- Ensuring the coordination between the units under internal systems,
- Notifying the Board of Directors to take the necessary measures about errors or deficiencies in practices concerning internal systems as detected by the Banking Regulation and Supervision Agency (BRSA) or independent auditors,
- Evaluating errors or deficiencies detected and ensuring that control and internal audit activities are directed at areas where same or similar errors or deficiencies may occur.

Assets and Liabilities Committee

Name and Surname	Duties
Ufuk UYAN	President, Member of the Board of Directors, Chief Executive Officer
H. Cevdet Yılmaz	Member, Chief Risk Officer
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, Audit
Bilal Sayın	Member, Executive Vice President, Loans
Mehmet Oral	Member, Executive Vice President, Commercial Banking
İrfan Yılmaz	Member, Executive Vice President, Banking Services
Nurettin Kolaç	Member, Executive Vice President - Law and Risk Follow-up
Aslan Demir	Member, Executive Vice President, Strategy
Abdurrahman Delipoyraz	Member, Executive Vice President, SME Banking
Ahmet Tarık Tüzün	Member, Group Manager, Treasury

Duties and Responsibilities

This is the senior management committee responsible for Bank's assets-liabilities and financial management. Meets weekly on a regular basis.

Participation in Committee Meetings

The Board of Directors meets when necessary in line with the Articles of Association and takes decisions based on requirements. The Board of Directors met seven times in 2018.

The Audit Committee tracks the Bank's audit and risk operations within the framework of legal regulations, especially the Banking Law, and takes actions on these. The Audit Committee met seven times in 2018.

The Internal Systems Committee meetings, aiming to manage the risks more efficiently and attended by managers of units within internal systems, were held for seven times in 2018.

The Loan Committee undertakes the duty of examining and approving the loans up to 10% of equities and met for seven times in 2018.

The Assets and Liabilities Committee, responsible for the financial management of the Bank and supervising its assets-liabilities balance met for 51 times in 2018.

Unless they had excuses, committee members were present at the meetings.


Related Party Transactions

Information about the risk group transactions where the Bank is involved are provided on pages 268 and 411 of the Annual Report.


Outsourced Services


Brink's Güvenlik Hizmetleri A.Ş.	Provision of local and international transportation and storage services for precious metals and bank notes worth a maximum of USD 100 million
Kuryenet Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş.	Debit card and credit card distribution services
Bileşim Alternatif Dağıtım Kanalları ve Ekstre Ödeme Sistemleri A.Ş.	Printing and enveloping services with card customization and enveloping works
Chronos İstihdam Hiz. Yön. ve Yazılım Dan.Tic.Ltd.Şti. Tic. Ltd. Şti.	Provision of payroll services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Provision of ATM and credit card software infrastructure support services
Banksoft Bilişim Bilgisayar Hiz. Ltd. Şti.	Provision of credit card and merchant software infrastructure support services
Istanbul Altın Rafinerisi A.Ş.	Preparation of certified gram gold and ATM gold
Collection Platform Yaz. Dan. A.Ş. A.Ş.	Provision of call services to Bank's debtors
Komtaş Bilgi Yön. ve Dan. Tic. A.Ş.	Supply and maintenance services for financial control reporting (ACL) software
32 Bit Bilgisayar Hizm. Ltd. Şti.	Provision of software connection service with Reuters dealing system
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply and maintenance support for supplementary software product for improvements related to SWIFT
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply and maintenance service for SWIFT software for the Disaster Recovery Center
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply and maintenance of SWIFT supplementary software
Fineksus Bilişim Çözümleri Tic. A.Ş.	Provision of SWIFT Alliance software maintenance and support services
Fineksus Bilişim Çözümleri Tic. A.Ş.	Supply, maintenance and update services for AML software
Karash Yazılım Geliştirme ve Danışmanlık İthalat İhracat Ltd. Şti. Şti.	Outsourced IT staff hires
Loomis Güvenlik Hizmetleri A.Ş.	Provision of local and international transportation and storage services for precious metals and banknotes worth a maximum of USD 100 million
Bilişim Sanayi ve Ticaret Ltd. Şti.	Execution and operation services for payroll system
Desmer Güvenlik Hizmetleri Tic. A.Ş.	Providing cash/precious metal transportation services (including for ATMs and XTMs) worth a maximum of USD 100 millions
Call Center Resources Danışmanlık Ltd. Şti.	Provision of Interactive Intelligence Customer Interaction Center software license, maintenance and support services

G4S Güvenlik Hizmetleri A.Ş.	Provision of local and international transportation and storage services for precious metals and banknotes worth a maximum of USD 100 million
Aktif İleti Kurye Hizmetleri A.Ş.	Distribution of debit card and credit cards to customers, obtaining signatures from customers for contracts and delivery of related documents to the Bank
Kartega Yazılım ve Danışmanlık Ticaret Ltd. Şti.	Outsourced IT staff hires
Bilge Adam Bilgisayar ve Eğitim Hizmetleri Sanayi ve Ticaret A.Ş.	Outsourced IT staff hires
Nadir Metal Rafineri San. ve Tic. A.Ş.	Provision of Gold Bullion Conversion Service (conversion of large gold bullion to gold kilo bar)
Architect Bilgi Sist. ve Paz. A.Ş.	Software development, source rental and provision of consultancy services
Pil Eğitim Bilgi Mim. Tic. Ltd. Şti.	Employee Commitment and Communication Platform Implementation, Supply, Maintenance and Support Services
Banksoft Bilgi Bilgisayar Hiz. Ltd. Şti.	Central RLL developments, Beko payment device banking application and RLL developments and provision of device integration services
Telekurye Dağıtım ve Kurye Hizmetleri A.Ş.	Delivery of courier services for Senin Bankan channel
Medyasoft Danışmanlık ve Eğitim A.Ş.	Delivery of facial recognition system project
Maya Sosyal Hizmetler Dan. İnş.Tur. İth. İhr. San. Tic. Ltd. Şti.	Outsourced administrative staff hires
Key Yazılım Çözümleri A.Ş.	Supply and maintenance services for mortgage software
Key Yazılım Çözümleri A.Ş.	Supply and maintenance services for expert assessment software
Architect Bilgi Sistemleri ve Pazarlama Ticaret A.Ş.	Provision of digital security services to enhance the Bank's infrastructure, and block the phishing and malware attacks coming through internet and mobile banking
Call Center Resources Danışmanlık Ltd.	Licensing, supply and maintenance services for Genesys Call Centre Software
Netcore Bilgi Hizmetleri A.Ş.	Provision of Outsourced IT Staff Hires
Adeo Bilgi Danışmanlık Hizmetleri Sanayi ve Ticaret A.Ş.	Annual penetration testing service
Formalis Bilgi Teknolojileri A.Ş.	Delivery of maintenance, development and reporting requirements for Customer Service Management Program (Mi4Biz)
Kobil Bilgisayar Enerji ve Elektrik San. Tic. Ltd. Şti.	Provision of licensing, maintenance and repairs for STS
Simant Bilgi İşlem Sanayi ve Ticaret A.Ş.	Application, Development, Maintenance and Support Service for Credit Card and POS System
Desmer Güvenlik Hizmetleri A.Ş.	Transportation of Senin Bankan number-embossed Anonymous debit cards from Bileşim A.Ş.to Kuveyt Türk Banking Base
BTRİSK Bilgi Güvenliği ve Bilgi Teknolojileri Ltd. Şti.	Penetration Testing Service
32 Bit Bilgisayar Hizm. Şti.	Leasing, maintenance and support services for IBM Robotic Process Automation (RPA)
Miris Bilgi Teknolojileri Ltd. Şti.	Outsourced IT staff hires
Sestek Ses ve İletişim Bilgisayar San. Tic. A.Ş.	Licensing, Supply, Maintenance and Support Services for IVR, Voice Signature, Chatbot and Audio Analysis Software



SECTION 4: FINANCIAL INFORMATION AND RISK MANAGEMENT PRACTICES



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Annual Report Compliance Opinion

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT ON THE MANAGEMENT'S ANNUAL REPORT

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

1) Opinion

As we have audited the full set consolidated and unconsolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. ("the Bank") and its consolidated subsidiaries ("the Group") for the period between 01/01/2018-31/12/2018, we have also audited the annual report for the same period.

In our opinion, the consolidated and unconsolidated financial information provided in the Management's annual report and the Management's discussions on the Group's financial performance, are fairly presented in all material respects, and are consistent with the full set audited consolidated and unconsolidated financial statements and the information obtained from our audit.

2) Basis for Opinion

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibility is disclosed under Responsibilities of the Independent Auditor on the Independent Audit of the Annual Report in detail. We declare that we are independent from the Bank in accordance with the Code of Ethics for Independent Auditors ("Code of Ethics") issued by POA and ethical provisions stated in the regulation of audit. We have fulfilled other responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3) Auditor's Opinion for the Full Set Consolidated and Unconsolidated Financial Statements

We have presented unqualified opinion for the Bank's full set consolidated and unconsolidated financial statements for the period between 01/01/2018-31/12/2018 in our Auditor's Reports dated 26 February 2019 and 7 March 2019.

4) Management's Responsibility for the Annual Report

The Bank Management is responsible for the following in accordance with Article 514 and 516 of the Turkish Commercial Code No. 6102 ("TCC") and the regulation on "Preparing and Publishing the Annual Report by Banks" published in the Official Gazette dated 1 November 2006 and No. 26333 ("the Communiqué"):

- Preparing the annual report within the three months following the reporting date and presenting it to the General Assembly,
- Preparing the annual report with the all respects of the Bank's flow of operations for that year and the Bank's financial performance accurately, completely, directly and fairly. In this report, the consolidated financial position is assessed in accordance with the financial statements. The Bank's development and risks that the Bank may probably face are also pointed out in this report. The Board of Director's evaluation on those matters are also stated in this report.
- The annual report also includes the matters stated below:
 - The significant events occurred in the Bank's activities subsequent to the financial year ends,
 - The Bank's research and development activities,
 - The compensation paid to key management personnel and members of Board of Directors including financial benefits such as salaries, bonuses and premiums, allowances, travelling, accommodation and representation expenses, in cash and kind facilities, insurances and other similar guarantees.

The Board of Directors also considers the secondary regulations prepared by the Banking Regulation and Supervision Agency and the Ministry of Trade and related institutions while preparing the annual report.

5) Responsibilities of the Independent Auditor on the Independent Audit of the Annual Report

Our aim is to express an opinion and prepare a report about whether the Management's discussions and consolidated financial information in the annual report within the scope of the provisions of the TCC and the Communiqué are fairly presented and consistent with the information obtained from our audit.

We conducted our audit in accordance with the regulation on "Independent Auditing of Banks" published in the Official Gazette dated 2 April 2015 with No. 29314 and the SIA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Management's discussions on the Group's financial performance, are fairly presented in all material respects, and are consistent with the full set audited consolidated and unconsolidated financial statements and the information obtained from our audit

The engagement partner on the audit resulting in this independent auditor's report is Yaman Polat.

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



Yaman Polat
Partner

Istanbul, 12 March 2019

Review of the 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.

The Internal Audit Group has carried out its activities in 2018 in line with the requirements of its 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.

Actions related to the internal audit reports prepared throughout the year have been followed up in line with the Internal Audit Group's follow up policies and the results have been presented to the related internal audit customers in required circumstances. Moreover, a brief summary of internal audit reports, general evaluations and other information about the activities of Internal Audit Group have been quarterly submitted to the Audit Committee, Internal Systems Committee and Board of Directors. These reports have also been sent to BRSA.

The Internal Control Department is in charge of the internal control function within the Bank. Internal Control System has been established adequately and effectively to cover all of the activities and all domestic and foreign branches, headquarters units and subsidiaries compatible within the scope of bank's activities and organizational structure and according to changing conditions in order to reduce, manage, monitor and provide controlling the risks faced by the Bank. Bank's internal control system and internal control activities are designed and carried out adequately and effectively by the Internal Control Department and the relevant Senior Managers.

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 four different groups: "Branches and Regions Internal Control," "Head Office And Internal Control," "Independent Audit Coordination and Subsidiaries Internal Control" and "Central Internal Control and Business Development. 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 2018 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 Process Modeling and Analysis Projects. 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. All information about the activities of Internal Control Department have been quarterly submitted to the Audit Committee, Internal Systems Committee and Board of Directors.

Review of the Audit Committee on Internal Systems

Risk Management Department effectively undertook the tasks of ensuring that the risks faced by the Bank are identified, measured, monitored and managed in 2018.

Credit Risk Management and Modelling Directorate continues its activities in realm of establishing and improving a strong infrastructure for risk management systems in order to execute risk management activities within the context of Credit Policy and Credit Risk Policy effectively. The internal credit risk limits determined with the Board of Directors' decision are measured, and presented to the Auditing Committee through periodical reports. Endeavour continues to develop internal rating models in order to use our bank's own estimated risk parameters for the purpose of calculating regulatory capital. PD scores of our internal models will be taken into consideration in risk management, marketing activities, credit allocation decision, credit risk monitoring, credit risk follow-up, capital management and corporate governance. They will play an essential role in all of these activities.

IFRS-9 Financial Standards came into effect as of 1 January 2018. The IFRS-9 oriented works throughout the Bank in order to meet the requirements of the Standard were managed by Credit Risk Management and Modelling Directorate in coordination with our main shareholder KFH. In 2018, the performance of the existing rating models were monitored and revisions were made in the models where necessary and modeling efforts were continued by focusing on LGD and EaD modeling. The validation process of the existing models for the three main components of the expected credit loss calculation (PD, LGD and EaD) for both IFRS 9 and the IRB Approach were initiated in 2018.

The efforts have been initiated to establish models for the measurement and management of credit risk within the framework of early warning systems in order to take timely actions regarding the customers who have a significant increase in the credit risk which will be the trigger of the stage transitions in the scope of IFRS-9. In this context, the development of the Early Warning System, which was decided to be established in coordination with the Risk Monitoring, Credit Origination and Marketing sectors, continued in 2018.

The BRSA issued several Guidelines. The level of compliance with these guidelines were determined and endeavor continues to increase the level of compliance in coordination with the relevant business units.

Market risk is periodically reviewed by the Bank's Audit Committee and Internal Systems Committee and reported to BRSA monthly. Market risk weighted assets are calculated in accordance with the Basel III standard method.

Bank's Internal Capital Adequacy Assessment Report for 2017 was prepared on consolidated and unconsolidated basis in order to assess the capital adequacy of the Bank in normal and stress periods and was submitted to BRSA. Periodic stress tests and scenario analysis were performed and presented in the Audit Committee and Internal Systems Committee meetings. In addition, market risk, counterparty credit risk and liquidity risk stress tests were implemented simultaneously and on monthly basis. Monthly report which includes the Bank's asset liability management, market and liquidity risks, investments and other topics has been shared with senior management and our main shareholder KFH. Sukuk and other investment portfolio have been monitored regularly, reported to the Audit Committee and our main shareholder KFH. In addition, the works of the risk appetite of the Bank, early warning system consisting of economic indicators related to the fiscal, monetary and financial system in Turkey and the world overall, moreover the economic and financial analysis developed in accordance with Kuwait Central Bank requirements and conducted within the framework of CAMELBCOM approach were reported to our main shareholder KFH on quarterly basis.

Within the framework of operational risk activities, the Bank's operational risk loss data is stored in a systematic way and in accordance with Basel III standards. Operational risk concentrations were monitored actively by adopting a terminology appropriate to Basel III and reported to Audit Committee. In Risk Control Self-Assessment studies, workshops are arranged as a tool to assess risks in the Bank's activities and processes against potential operational risk vulnerabilities and operational risk team attended these workshops. Additionally, studies were conducted to comply with the operational risk best practice guidelines published by the BRSA and the internal regulations of operational risk were revised and republished accordingly. Moreover, Risk Management Department actively involved in the activities required by the Regulation on Support Services, Risk Management Program for Support Services was revised and submitted to the Board of Directors.

In the framework of Basel III regulations, credit risk weighted assets are calculated according to the standard method and reported to the BRSA monthly on unconsolidated and consolidated basis. Capital adequacy ratio is also calculated and reported to the BRSA by the Risk Management Department. The Risk Report Set, which contains detailed information on all the transactions subject to Credit Risk Weighted Assets calculation, is prepared monthly.

Disaster Recovery Center Test was completed successfully in December within the scope of Business Continuity. In order to determine criticality levels of the Bank's processes, business impact analysis studies have been performed. The Bank's incident response and business continuity plans are updated and department specific plans are formed.

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 analyzed and updating Bank operations in accordance with these changes is monitored and reported. Compliance status of the foreign branches and consolidated subsidiaries are monitored.

All activities, products and transactions that are currently provided or in development are monitored for compliance with Banking Law and other relevant regulations, Bank policies, rules and Banking practices.

Efforts to ensure compliance of Bank's activities with the anti-money laundering and combating the finance of terrorism regulations are carried out, Bank policies and procedures are established, risk management, monitoring and control activities are performed with a risk-based approach and identification, follow-up and reporting of suspicious activities to the relevant official authority are performed. Training programs for increasing awareness and knowledge of the employees regarding relevant regulations are organized.

Adnan ERTEM
Audit Committee Chairman

Ahmad S. AL-KHARJI
Audit Committee Member

Mohamad AL MIDANI
Audit Committee Member

Assessment on Financial Status, Profitability and Solvency

Kuveyt Türk Participation Bank's total assets increased 30% and reached TL 74.8 billion and equities rose 18.5% and reached TL 5.4 billion. Concordantly, Bank's capital adequacy ratio reached above the legal requirement at 17.22%. The Bank continues to increase its profit by using its resources efficiently and productively. Information on financial situation, profitability and solvency can be seen in the financial statements and independent audit report.

Ratings of Kuveyt Türk by International Rating Agencies

Rating notes and content given by the rating agencies authorized in line with the Regulation on Principles for the Authorization and Transactions of Rating Agencies are given below.

Fitch Ratings - October 2018	Ratings
Long-term Foreign Currency	BB-
Short-term Foreign Currency	B
Long-term Local Currency	BB
Short-term Local Currency	B
Support Rating	3

Information on Risk Management Policies

Loan Risk Management Policy And Procedures

It is essential that Bank's Senior Management should manage and monitor loan risk policies by considering legal regulations. Within the scope of loan risk policy;

- Strategy,
- Loan risk management process,
- Limit allotment principles,
- Internal risk limits,
- Concentration risk management,
- Country and transfer risk management,
- Loan risk reports,
- New products and services and
- Risk monitoring, control and improvement

transactions are executed.

Within this scope, periodic reports are prepared for the research of new techniques and practices for measuring, monitoring and control of undertaken loan risks in loan transactions and risks defined within the legal and Bank's internal risk limits, tracking non-performing receivables, analyzing the reasons for delay and taking necessary measures.

Board of Directors determined the risk appetite of the Bank via risk type based internal risk limits based on the Bank's risk taking capacity.

Various analysis and reports are generated for the Bank's portfolio within internal risk limits. Risk management transactions regarding the monitoring and management of loan risk based on country, concentration, maturity, industry, default rate, legal status, assurances, geography, currency type are performed and Audit Committee is informed with the regular reports prepared for the Bank portfolio within the internal risk limits.

Market Risk Management Policies and Procedures

Kuveyt Türk executes its risk management transactions under the responsibility of the Board of Directors in compliance with the legal regulations. For this reason, market risk management transactions are regulated within legal regulations.

Implementing the Risk Management Strategy, Policy and Practice Methods approved by the Board of Directors, providing timely and safe reporting on important risks faced by the Bank and evaluating the risk reports, taking predicted and necessary measures and participating the process of defining risk limits are the responsibilities of the Senior Management.

Risk policies and implementation methods defined for the market risk that the Bank is exposed to be approved by the Board of Directors and reviewed regularly. Market risk is managed by defining, measuring, limiting, reporting of possible risks to be faced by the Bank due to existing market conditions in line with international standards and reserving capital accordingly as well as decreasing risks with protective processes.

In line with the Risk Strategy document it is made sure the Bank has sufficient capital and liquidity to continue its operations under all circumstances and that these are maintained at a reasonable level.

Defining written limits for the digitized risks resulting from the Bank's transactions that are subject to market risk, monitoring risks undertaken by the Bank and risk limits, tracking limit excesses are performed with Treasury Liquidity and Market Risk Policy, Asset and Liability Policy, and Liquidity Risk Policy. It is substantial that the processes are executed within defined limits and Bank's risk tolerance is considered while defining the limits.

Information on Risk Management Policies

Acceptable risk level of treasury transactions is defined as the customer limits, dealing limits, allowed transactions, counter party limits and country risk limits. Establishment of necessary tracking and control procedures in order to ensure regulatory compliance and prevent unacceptable situations are determined with the principles of this policy.

It is essential that the limits are defined as risk based. Besides nominal amounts based on monetary magnitude, these limits can be also the proportional limits based risk measurement results such as the percentage of the amount subject to average risk, percentage of risk weighted assets or concentration based limits including sectoral or debtor based limitations.

Risk limits are established within the limits put on related matters approved by the Bank in all risk categories within the regulations and principle of significance. Also, implementation principles on actions to be taken if early warning limits are defined and these limits are exceeded are defined by the Board of Directors.

Kuveyt Türk's market risk management and guiding limits and informative reports system used for this purpose are based on the principles below;

- Ensuring that risk management transactions work efficiently and securely,
- Ensuring that the Bank undertakes risks in line with its risk taking capability and capacity and
- Risk taking limits are managed in line with the risky markets and risk taking capacities of the Bank's related departments.

Operational Risk Management Policy And Procedures

Processes of defining, evaluating, monitoring, controlling and decreasing the operational risks faced by the Bank are executed under the supervision of the Board of Directors and Internal Systems Committee.

Policies and implementation methods defined within operational risk management, is provided for employees on the job training and effective internal control mechanisms ensure that business units have the risk management point of view and the integration of the operational risk management culture in all units and transactions. Within this scope, each unit and employee should understand their transactions and position within the operational risk management and be aware of their authorities and responsibilities.

Risk, Control Self-Evaluation Policy was established in order to make I) self-assessment of the of the Bank regarding operational risks II) evaluation of the potential threats arising from operational processes and activities, and assessment of the weaknesses of the Bank against these threats III) analysis of the potential negative impacts of such threats and weaknesses on the Bank.

Works are performed on all kinds of operational risk types that the Bank is subject to and quality of corrective actions for such risks and risk decreasing transactions are evaluated in order to allow the determination of problems before the occurrence of substantial losses for the Bank. In this regard, operational risk events above the defined threshold value and detailed information of such events are recorded; at the same time Risk Control Matrix works are performed to define the potential operational risks.

Five-Year Summary Financial Information

(TL Thousand)	2014	2015	2016	2017	2018
Profit Sharing Income	2,018,781	2,564,838	3,110,435	3,713,950	5,851,555
Profit Sharing Expense	877,547	1,096,026	1,440,566	1,759,335	2,773,868
Net Fee and Commission Income	133,895	133,942	152,970	385,018	513,135
Other Revenues	294,571	368,203	469,153	537,883	960,279
Other Expenses	1.106.961	1.417.481	1.628.780	1,973,872	3,497,065
Tax Charge	(92,289)	(108,795)	(121,246)	187,996	232,030
Net Profit for the Period	370,450	444,681	541,966	715,828	822,006
Total Assets	34,008,175	42,052,507	48,476,955	57,320,126	74,792,036
Total Shareholders' Equity	3,022,870	3,402,490	3,912,064	4,923,347	5,410,893
Capital Adequacy Ratio (%)	15.09	14.23	18.16	17.32	17.22

KUVEYT TÜRK KATILIM BANKASI ANONİM ŐİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

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DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak no1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
Maslak, Sarıyer 34485
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

Mersis No: 0291001097600016
Ticari Sicil No : 304099

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Kuveyt Türk Katılım Bankası Anonim Şirketi

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
<p>Adoption of IFRS 9 Financial Instruments Standard for the first time and significant explanations on the recognition of the impairment of financial assets</p> <p>As of 1 January 2018, the Group has adopted "IFRS 9: Financial Instruments" regarding the classification and measurement of financial instruments to replace "IAS 39 Financial Instruments: Recognition and Measurement".</p> <p>IFRS 9 Financial Instruments Standard consists of three phases:</p> <p>Phase 1 – Classification and measurement of financial assets and financial liabilities; Phase 2 – Expected credit losses Phase 3 – Hedge accounting</p> <p>IFRS 9 is an accounting standard with a new and complex design and implementation that requires considerable judgment and interpretation in practice.</p> <p>The classification of financial instruments is based on the business model used by the Group and the contractual cash flows with adoption of IFRS 9.</p> <p>The expected credit losses are calculated by using historic loss experience, current conditions and prospective macroeconomic models. The Group has developed new and complex models that require data from more than one system to calculate the IFRS 9 expected credit losses and to determine a significant increase in credit risk.</p> <p>The reason to focus on this area during our audit is; the significance of expected credit loss provision and loans within the balance sheet, classification of these loans within the framework of IFRS 9 and to determine the significant increase in credit default and credit risk accurately and timely and to determine the expected loss provision accurately.</p> <p>This matter has been determined as a key audit matter due to the classification and measurement of financial assets, calculation of expected credit losses, significant estimates and assumptions, management judgments and also because of the complex structure of the model.</p> <p>The impact of the first time adoption of IFRS 9 and relevant disclosures by the Group are presented in the Section 2 in the accompanying consolidated financial statements.</p> <p>The Group has elected to continue to apply the hedge accounting requirements of IAS 39.</p>	<p>As part of our audit work, the following procedures have been performed:</p> <p>The Group's IFRS 9 policy of the classification of financial assets and financial liabilities has been read and compared with the IFRS 9 standard.</p> <p>We have examined the Group's classification and measurement models of the financial instruments and compared them with the requirements of IFRS 9 standard.</p> <p>We have tested the appropriateness of criteria used to identify the financial assets having solely payments of principal and interest and checking the compliance to the Group's Business model.</p> <p>The appropriateness of the opening balance adjustments and the disclosures presented were checked.</p> <p>The processes, systems and controls created or reorganized to calculate expected credit losses have been reviewed and tested by our Information Systems and Processes auditors.</p> <p>Within the framework of IFRS 9, we have carried out review procedures for loans selected on the basis of samples to determine whether the classification by credit risk is reasonable, whether it is impaired, and whether the provision for impairment of the receivable is established in a timely manner and in accordance with the provisions of the new legislation.</p> <p>We have evaluated and tested the appropriateness of the methods used in calculation of Group's expected credit loss, significant increase in credit risk, default amount and significant assumptions on macroeconomic variables together with our risk modelling experts. We have tested model calculations through sampling together with our modelling specialists.</p> <p>In the framework of the discussions with the Group's management, we have evaluated whether the underlying assumptions and other judgments that constitute the basis for the impairment calculations are reasonable.</p> <p>We have reviewed disclosures made within the IFRS 9 framework in the consolidated financial statements of the Group with respect to loan and receivables and related impairment provision.</p>



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yaman Polat.

DRT BAĞIMSIZ DENETİM VE SERBEST MÜHÜR AŞ

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

İstanbul, 4 July 2019

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

(Currency - In thousands of Turkish Lira - TL)

	Notes	December 31, 2018	December 31, 2017
Assets			
Cash and balances with the Central Bank	4	3,139,716	1,857,063
Balances with other banks and financial institutions	4	11,986,381	4,951,453
Reserve deposits at the Central Bank	5	6,495,190	6,474,434
Financial assets at fair value through profit or loss	6	134,033	88,624
<i>Derivative financial instruments</i>	20	42,590	26,699
<i>Share Certificates</i>	6	390	390
<i>Sukuk</i>	6	91,053	61,535
Financial assets valued at amortised cost	6	37,156	-
Financial assets at fair value through other comprehensive income	6	6,171,745	4,428,672
Due from financing activities, net	7	39,130,394	34,997,542
Minimum finance lease payments receivable, net	8	2,454,677	1,929,863
Precious metals		957,110	693,239
Construction projects, net	10	74,614	76,234
Joint venture		28,815	19,699
Investment properties, net	11	118,574	84,992
Property and equipment, net	13	468,770	430,177
Intangible assets, net	14	202,908	169,802
Deferred tax assets	17	380,683	127,072
Other assets	9	2,836,596	938,061
		74,617,362	57,266,927
Assets and a disposal group held for sale	12	174,674	53,199
Total assets		74,792,036	57,320,126
Liabilities and equity			
Due to other financial institutions and banks	15	2,256,311	3,387,127
Sukuk securities issued	15	7,779,057	5,651,841
Subordinated loans	15	1,901,210	1,360,338
Money market balances		188,003	750,524
Current and profit / loss sharing investors' accounts	16	54,983,611	40,354,741
Derivative financial instruments	20	170,742	151,493
Employee benefit obligations	18	217,989	177,829
Income taxes payable	17	175,685	56,271
Other liabilities and provisions	19	1,708,535	506,615
Total liabilities		69,381,143	52,396,779
Share capital	21	3,497,322	3,097,322
Share premium		22,841	22,841
Investments at fair value through other comprehensive income reserve, net of tax			(117,150)
Employee termination benefits reserve, net of tax			(13,296)
Legal reserves and retained earnings	22	1,953,675	1,838,947
Currency translation differences		166,734	79,618
Hedging fund		(87,494)	(60,854)
Other reserve	22	(24,763)	(24,763)
Non-controlling interest		13,024	7,766
Total equity attributable to equity holders of the parent		5,410,893	4,923,347
Total liabilities and equity		74,792,036	57,320,126

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, 2018

(Currency - In thousands of Turkish Lira - TL)

	Notes	2018	2017
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts		2,443,276	1,675,258
Profit on originated loans from current accounts and equity		2,499,470	1,535,513
Profit on deposits with other banks and financial institutions		265,622	87,447
Profit on finance leases		222,373	135,232
Profit on sukuk investments		420,814	280,500
Total income from financing activities		5,851,555	3,713,950
Profit shares distributed to participation accounts		(1,917,147)	(1,204,485)
Profit shares distributed to other banks and financial institutions		(856,721)	(554,850)
Net financing income		3,077,687	1,954,615
Provision for impairment of amounts due from financing activities and lease receivables		(1,978,101)	(756,644)
Net financing income after provision for impairment in due from financing activities and lease receivables		1,099,586	1,197,971
Foreign exchange gain, net		468,305	179,845
Net financing income after net foreign exchange gain / (loss)		1,567,891	1,377,816
Fees and commission income	25	761,415	559,589
Net trading income		66,714	206,736
Other income		417,543	145,442
Share of a joint venture income		7,717	5,860
Total other operating income		1,253,389	917,627
Fees and commission expense	25	(248,280)	(174,571)
Staff costs	26	(847,510)	(712,884)
Depreciation and amortization expense		(134,399)	(86,351)
Withholdings and other taxes		(10,775)	(8,616)
Rent expense		(142,907)	(115,127)
Other expenses	27	(383,373)	(294,250)
Total other operating expense		(1,767,244)	(1,391,619)
Income before taxation		1,054,036	903,824
Current tax charge	17	(442,564)	(197,600)
Deferred tax (charge)/credit	17	210,534	9,604
Net income for the year		822,006	715,828
Attributable to:			
- Owners of the equity		816,748	710,122
- Non-controlling interests		5,258	5,706
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
-Exchange differences on translation of the foreign subsidiary(including investment hedging funds)		20,718	(39,427)
-Cash flow hedge		39,758	2,570
Investments at fair value through other comprehensive income reserve		(106,567)	24,696
-Net change in fair value		(133,209)	30,870
-Deferred tax relating to component of other comprehensive income		26,642	(6,174)
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve	18	13,651	(13,194)
-Net change in fair value		17,064	(16,492)
-Deferred tax relating to component of other comprehensive income		(3,413)	3,298
Other comprehensive income for the year		(32,440)	(25,355)
Total comprehensive income for the year		789,566	690,473
Attributable to:			
- Owners of the equity		784,308	684,767
- Non-controlling interests		5,258	5,706
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)	23	0.241	0.207

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 CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

(Currency – In thousands of Turkish Lira - TL)

	Notes	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	At fair value through other comprehensive income reserve	Employee termination benefits reserve	Currency Translation Differences	Hedging Funds	Non-Controlling Interest	Total
Balances at January 1, 2017		2,787,322	22,933	122,861	1,320,256	(22,162)	(35,279)	(13,753)	126,484	(70,863)	2,060	4,239,859
Share capital increase	21	310,000	-	-	(310,000)	-	-	-	-	-	-	-
from retained earnings		310,000	-	-	(310,000)	-	-	-	-	-	-	-
cash injection		-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves		-	-	27,528	(27,528)	-	-	-	-	-	-	-
Dividends paid	22	-	-	-	(4,291)	-	-	-	-	-	-	(4,291)
Total comprehensive income for the year		-	-	-	710,122	-	24,696	(13,194)	(46,866)	10,009	5,706	690,473
Other		-	(92)	-	-	(2,601)	-	-	-	-	-	(2,693)
Balances at December 31, 2017		3,097,322	22,841	150,389	1,688,559	(24,763)	(10,583)	(26,947)	79,618	(60,854)	7,766	4,923,348
Balances at January 1, 2018		3,097,322	22,841	150,389	1,688,559	(24,763)	(10,583)	(26,947)	79,618	(60,854)	7,766	4,923,348
Adoption of new standard	21	-	-	-	(297,127)	-	-	-	-	-	-	(297,127)
Balances at January 1, 2018		3,097,322	22,841	150,389	1,391,432	(24,763)	(10,583)	(26,947)	79,618	(60,854)	7,766	4,626,221
Share capital increase	21	400,000	-	-	(400,000)	-	-	-	-	-	-	-
from retained earnings		400,000	-	-	(400,000)	-	-	-	-	-	-	-
cash injection		-	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to legal reserves		-	-	34,189	(34,189)	-	-	-	-	-	-	-
Dividends paid	22	-	-	-	(4,894)	-	-	-	-	-	-	(4,894)
Total comprehensive income for the year		-	-	-	816,748	-	(106,567)	13,651	87,116	(26,640)	5,258	789,566
Balances at December 31, 2018		3,497,322	22,841	184,578	1,769,097	(24,763)	(117,150)	(13,296)	166,734	(87,494)	13,024	5,410,893

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 CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

(Currency - In thousands of Turkish Lira - TL)

	Notes	2018	2017
Cash flows from operating activities:			
Income from continuing operations before taxation		1,054,036	903,824
Share of (profit) / loss of a joint venture		(7,717)	(5,860)
Depreciation and amortization	11, 13, 14	134,399	86,351
Provision for employee termination and other benefits	18	13,421	29,747
Provision for personnel bonus accrual	18	86,617	69,670
Provision for impairment in due from financing activities and lease receivables		1,978,101	756,644
Income accrual		(985,400)	148,126
Impairment in investment property	10	29,915	31,042
Deferred income		109,536	(67,264)
Impact of exchange difference on cash at banks, sukuk and loans		1,170,635	(199,180)
Expense accrual of participation accounts		86,304	17,113
Expense and foreign exchange accrual of funds borrowed		16,363	(124)
Other provision		135,634	67,072
Net change in derivative financial instruments		3,359	(22,713)
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		(12,520)	(18,580)
Operating income before changes in operating assets and liabilities		3,812,683	1,782,362
Net changes in :			
Reserve deposits at the Central Bank of Turkey		(20,756)	(796,183)
Due from financing activities		(6,671,544)	(9,416,332)
Minimum finance lease payments receivables		(524,814)	(384,226)
Other assets and construction projects		(2,040,177)	(262,307)
Current accounts and profit/loss sharing investors' accounts		14,115,851	8,263,561
Other liabilities		315,086	(461,610)
Payment for employee termination benefits	18	(7,272)	(5,297)
Payment for personnel bonuses	18	(69,670)	(55,290)
Precious metals		(263,871)	109,041
Income taxes paid	17	(334,344)	(170,987)
Net cash used in operating activities		8,311,172	(1,397,268)
Cash flows from investing activities:			
Cash obtained from sale of jointly controlled operations, associates and subsidiaries	31	16,901	-
Purchase of FVTOCI, FVTPL and amortised cost investment securities	6	(5,016,369)	(6,960,727)
Proceeds from FVTOCI, FVTPL and amortised cost investment securities	6	3,194,359	6,284,366
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(248,972)	(189,395)
Proceeds from sale of property and equipment, intangible assets and investment properties		44,308	88,482
Proceeds from sale of asset and liabilities held for sale		42,652	13,439
Net cash used in investing activities		(1,967,121)	(763,835)
Cash flows from financing activities:			
Dividends paid	22	(4,894)	(4,291)
Increase / (decrease) in due to financial institutions and banks		(606,307)	(507,383)
Sukuk securities issued		4,744,065	3,085,860
Sukuk securities redeemed		(4,335,000)	(1,790,002)
Net cash provided by financing activities		(202,136)	784,184
Net increase in cash and cash equivalents		6,141,915	(1,376,919)
Net foreign exchange difference on cash and cash equivalents		(66,621)	(16,607)
Cash and cash equivalents at the beginning of the year	4	6,247,029	7,640,555
Cash and cash equivalents at the end of the year	4	12,322,323	6,247,029

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, 2018

(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 July 4, 2019. The General Assembly has the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

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., in which the Bank has 75% shareholding was incorporated in June 1996 in Turkey. 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.

The Bank’s other subsidiary, KT Kira Sertifikaları Varlık Kiralama A.Ş. has been established on September 3, 2013 in Turkey.

The Banks’ other subsidiary, KT Sukuk Company Limited has been established in Cayman Island on July 31, 2015, for the need of subordinated loan for the Bank.

The Bank’s other subsidiary, KT Bank AG which is 100% owned by the Bank was established in April, 2015. Main field of its operations are providing interest free corporate banking services and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.

The bank established a pension company jointly with Albaraka Türk Katılım Bankası A.Ş, holding 50% of the shares. It is registered with the trade name “Katılım Emeklilik ve Hayat Anonim Şirketi”, 895027 registry numbered dated December 17, 2013 by İstanbul Register of Commerce.

KT Portföy Yönetim Anonim Şirketi (“Company”), which is 50% owned by the bank was established in May 26, 2015 is operating in Turkey. The main aim of the Company is to serve its customers in every aspect of the fund management business with a participation based portfolio management company.

The Bank established an IT company with holding 100% of the shares. It is registered with the trade name “Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi”, dated December 1, 2015 by İstanbul Register of Commerce.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

2. Summary of significant accounting policies

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 and financial assets at fair value through other comprehensive income.

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, expected credit loss, 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.

Significant accounting judgments and estimates

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 KT Bank AG is EURO. 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, 2018 and 2017 are derived by indexing the additions that occurred until December 31, 2005 and carrying the additions after this date with their nominal amounts.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

New and amended IFRS Standards that are effective for the current year

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

The amendments clarify the standard in respect of the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments to IAS 40:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Amendments to IAS 40 have no impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Annual improvements to IFRS Standards 2014–2016 cycle have no impact on the Group's consolidated financial statements.

IFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRS Interpretation 22 has no impact on the Group's consolidated financial statements.

KUYEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

New and revised IFRS Standards in issue but not yet effective

At the date of preparation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	Leases ¹
IFRS 17	Insurance Contracts
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 (amendments)	<i>Sale of Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 19 Employee <i>Benefits</i>	<i>Plan Amendment, Curtailment or Settlement¹</i>
Annual Improvements to IFRS	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs¹</i>
Standards 2015-2017 Cycle	

¹ Effective from periods on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except IFRS 16.

Explanations on IFRS 16 Leases Standard

IFRS 16 Leases Standard is to be applied in the accounting periods beginning after December 31, 2018. According to this standard, the difference between operating leases and financial leases has been eliminated and leasing transactions will be shown by the lessee on the balance sheet as the asset (utilization right) and financial debt related to lease payment. The Group has started its operations to comply with IFRS 16 Leases standard as of January 1, 2019, which is still continuing as of December 31, 2018.

The Group will apply this standard from January 1, 2019, the mandatory application date. The Group plans not to use the simplified migration application and to rearrange the comparable amounts for the year prior to the first implementation.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRS Interpretation 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Group evaluates the effects of these standards, amendments and improvements 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, 2018

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

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, IAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and IAS 23 Borrowing Costs in capitalized borrowing costs.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

The directors of the Group assess the possible impacts of the application of the amendments on the Group's consolidated financial statements.

Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2018 and 2017 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, 2018 and 2017, respectively.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Details of the subsidiaries subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2018	December 31, 2017
"Körfez Gayrimenkul İnş. Taah. Tur. San. Tic. A.Ş."	Turkey	91.89%	91.89%
"Körfez Tatil Beldesi San.ve Tic. A.Ş."	Turkey	99.99%	99.99%
"KT Sukuk Varlık Kiralama A.Ş."	Turkey	100%	100%
"KT Kira Sertifikaları Varlık Kiralama A.Ş."	Turkey	100%	100%
"KT Bank AG."	Germany	100%	100%
"Architech Bilgi Sistemleri ve Pazarlama Tic. 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. The financial statements of the Bank and its Turkish subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 Financial Reporting in Hyperinflationary Economies. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at December 31, 2005 were treated as the basis for the carrying amounts after 1 January 2006.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2017	3.78	4.53
December 31, 2018	5.28	6.04

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 EUR/TL 5.6856 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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.

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	3-7 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 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 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.

KUVEYT TÜRK KATILIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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.

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.

IFRS 9

Details of the Records of Classifications and Amendments Regarding the Initial Implementation of IFRS 9 Financial Instruments dated 1 January 2018 are stated below.

- A- As of 1 January 2018, securities portfolio amounting to TL 88,624 classified under "Financial Assets - Held for Trading" in the prior period were reclassified under "Financial Assets at the Fair Value through Profit or Loss" as they were considered within the scope of a business model whose objective is to collect and to sell contractual cash flows.
- B- As of 1 January 2018, securities portfolio amounting to TL 4,428,672 classified under "-Financial Assets Available for Sale" in the prior period, were reclassified under "Financial Assets classified as Fair Value through Other Comprehensive Income" as they were considered within the scope of a business model whose objective is to collect and to sell contractual cash flows.
- C- In accordance with IFRS 9, as of 1 January 2018, prior period "Collective Provisions" item has been written off and the impact of "Expected Loss Provisions" is reflected thorough relevant lines. As per the scope of IFRS 9, expected credit losses for financial assets and loans are classified as "Expected Loss Provisions" under Assets, credit losses for non-cash loans are classified as "Other Provisions" under in Liabilities.

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Reconciliation of provision of impairment opening balances in transition to IFRS 9 is stated below.

Reconciliation of provision of impairment opening balances in transition to IFRS 9			
Group	Book Value Before IFRS 9 31/12/2017	Remeasurements and Classification	Book Value after IFRS 9 01/01/2018
Collective Provisions	300,284	(300,284)	-
Expected Credit Losses	457,427	369,448	826,875
12 Month Expected Credit Losses (Stage I)	-	131,074	131,074
Significant Increase in Credit Risk (Stage II)	-	199,313	199,313
Credit-Impaired Losses (Stage III/Specific Provision)	457,427	32,965	490,392
Financial Assets	-	6,096	6,096
Other Provisions	-	208,115	208,115
Total RE Impact	757,711	277,279	1,034,990
Depositors' accounts (provision for participation accounts) ^(*) (Stage III/Specific Provision)	78,619	(78,619)	-
Total IFRS 9 Impact	836,330	198,660	1,034,990

^(*) This amount was reversed from depositors' accounts.

D- With the initial application of IFRS 9, as of January 1, 2018, a total increase after tax amounting TL 297,127 has occurred, due to the increase of TL 277,279 from the calculation of expected loss provisions and the increase of TL 19,848 from the effect of deferred tax.

Disclosures of IFRS 9 Financial Instruments:

IFRS 9 "Financial Instruments", which is effective as at January 1, 2018 replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

IFRS 9 also includes new principles for general hedge accounting which aims to harmonize hedge accounting with risk management applications. In the admission of the accounting policies, IFRS 9 presents the option of postponing the adoption of IFRS 9 hedge accounting and continuing to apply the hedge accounting provisions of IAS 39. Within this context, the Group will continue to apply the hedge accounting provisions of IAS 39.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

Dividends obtained from such investments are accounted in the financial statements as profit or loss unless they are evidently a part of the recoverable cost of investment.

The Group applied the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet and opening equity at January 1, 2018, with no restatement of comparative periods.

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The combined application of the contractual cash flow characteristics and business models as at January 1, 2018 is expected to result in no major difference in the classification of financial assets when compared to the classification under IAS 39.

The Group has not restated the comparative information for the financial instruments that are under the scope IFRS 9, for the year of 2017 and as of January 1, 2018, the cumulative effect of the first application of the standard has been presented under "Retained Earnings" in the statement of changes in shareholders' equity for the current period.

Classification and measurement of financial assets:

According to IFRS 9 requirements, classification and measurement of financial assets depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and profit share (SPPI)".

As per IFRS 9, financial assets at fair value through profit or loss, financial assets available for sale and financial assets held to maturity which are the financial instrument categories under IAS 39; are replaced with financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost; respectively.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

Impairment:

Some modelling works were made in relation to the basic components of Expected Credit Loss in advance of the adoption of IFRS 9, and developed models for Probability of Default (PD) on the basis of various credit portfolio. Credit portfolio is determined in accordance with customer segments constituting the basis of banking activities. Cyclical Probabilities of Default made with these models developed in order to use in the Internal Ratings-Based Approach (IRBA) are converted into Instant Probabilities of Default, and these instant probabilities of default are used to calculate Expected Credit Loss in scope of IFRS 9. Loss Given Default (LGD) calculation reflects state withholding rates and the bank's prior collection performance in unsecured loans. Default Amount (DA) corresponds to the used balance in the reporting date for money loans, and to the balance after the application of the credit conversion rate for Non-cash loans and commitment risks.

Macroeconomic scenarios impact values of PD and LGD. Three scenarios as Base, Good and Bad and expected credit loss are calculated. The default probabilities of borrowers and the loss given default ratios are changing for each scenario.

Stage 1: IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' model. The Group has created a 3-stage impairment model based on a change in credit quality after initial recognition.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Within this scope, main considerations that are taken into account in determining the significant increase in the credit risk of a financial asset and transferring to Stage 2 are not limited to these but the following.

- Default for 30 days and over as of reporting date
- Being in the scope of restructuring
- Performing close monitoring
- Assessment of rating impairment

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The definition of rating note distortion is the comparison by Group between rating note at reporting date and rating note at credit opening date by using credit rating models on the basis of Bank's models of credit rating models depending on internal ratings. It is accepted as a rating distortion when a credit note that is calculated for the credit at reporting date, exceeds the determined threshold.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

The impact of the adoption of IFRS 9 on the financial statements as of January 1, 2018, is recorded. Besides, the Group calculated deferred tax on the expected credit losses calculated on Stage 1 and 2 loans and the impact regarding calculated deferred tax asset was accounted for under equity during transition.

Explanations on IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the IAS 18 Revenue standard. The standard became effective on January 1, 2018 and has no material impact on the consolidated financial statements of the Group.

Explanations on forward transactions and option contracts and derivative instruments

The Group enters into forward agreements to mitigate its currency risk and to manage its foreign currency liquidity. The Group classifies its derivative instruments as "Derivative Financial Instruments Held for Hedging Purposes" and "Financial asset at fair value through profit or loss" in accordance with "IFRS 9". Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as "Financial assets at fair value through profit or loss" within the framework of "IFRS 9", and are reflected in the "Derivative Financial Assets / Liabilities" account in the balance sheet.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions and swaps are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under 'Trading Income/Loss' line in the income statement.

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. Embedded derivatives are accounted as derivative instruments in-line with "IFRS 9". If the embedded derivatives are closely related with the host contract, embedded derivatives are accounted for in-line with the relevant standard applicable for the host contract.

While choosing the accounting policy under IFRS 9, the Group has the option to defer the adoption of hedge accounting policy and to continue apply the accounting terms of IAS 39. Within this scope, the Bank will continue to apply the terms of hedge accounting policy specified under IAS 39. In addition to this, the Group enters into profit share rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders' equity, and the ineffective portion is recognised in income statement. The changes recognised in shareholders' equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

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The Group enters into profit share and cross currency swap transactions in order to hedge the change in fair value of fixed-rate financial instruments. While applying fair value hedge accounting, the changes in fair values of hedging instrument and hedged item are recognised in income statement. If the hedging is effective, the changes in fair value of the hedged item is presented in statement of financial position together with the fixed-rate loan, and in case of fixed-rate financial assets at fair value through profit or loss, such changes are reclassified from shareholders' equity to income statement.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

While discontinuing cash flow hedge accounting, the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognised in income statement, the gain/losses accounted for under shareholders' equity, are recognised in income statement.

Explanations on financial assets

The Group classifies and accounts for its financial assets as 'Fair Value Through Profit/Loss', 'Fair Value Through Other Comprehensive Income,' or 'Amortized Cost.' Such financial assets, are recognized and derecognized as per the terms of "Recognition and Derecognition in Financial Statements" under the section three of the "IFRS 9 Financial Instruments" regarding the classification and measurements of financial instruments. When financial assets are included in the financial statements for the first time, they are measured at fair value. Transaction costs are initially added to fair value or deducted from fair value at the initial measurement of financial assets other than the "Fair Value at Fair value Through Profit or Loss".

The Group recognizes a financial asset in the financial statements only when it becomes a party to the contractual terms of a financial instrument. During the initial recognition of a financial asset, the business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Parent Bank management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to gains, losses or profit shares that were previously recorded in the financial statements.

Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are financial assets that are managed within a business model other than the business model whose objective is achieved by holding contractual cashflows for collection and the business model whose objective is achieved by collecting and selling contractual cash flows. Also, in case that the contractual terms of financial assets do not give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount, such assets are those that are, obtained with the aim of providing profit from the short-term price or other factor fluctuations in the market or are part of a portfolio aiming to obtain short-term profit, regardless of the reason of acquisition. Financial assets at fair value through profit or loss are recorded at their fair value and as of record date they are valued at their fair values. Profits or losses caused by valuation are included in profit/loss accounts.

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Financial assets at fair value through other comprehensive income:

A financial asset is classified as at fair value through other comprehensive income when the asset is managed within a business model whose objective is achieved by collecting contractual cash flows and selling the financial asset, as well as when the contractual terms of the financial asset give rise on specified dates to cash flows are solely payments of principal and profit share on the principal amount.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition costs that reflect the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with effective profit share method regarding the financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses," which is the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income, are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, or the impairment of the asset. "Unrealized gains and losses" are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. When these assets are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the income statement.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, are carried at fair value, in the case that the securities have a quoted market price in an active market and/or the fair values of the securities can be reliably measured. In contrary case, the securities are carried at cost, less provision for impairment.

During initial recognition an entity can make an irrevocable election regarding the presentation of the subsequent changes in the fair value of the investment in an equity instrument, that is not held for trading purposes, in the other comprehensive income. In the case that the entity elects to present the changes as described, dividends arising from the investment is accounted in the financial statements as profit or loss.

Financial assets measured at amortized cost:

In the case that a financial asset is held within a business model whose objective is achieved both by collecting contractual cash flows and that the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and profit share on the principal amount, the financial asset is classified as financial asset measured at amortized cost.

Financial assets measured at amortized cost; are financial assets, other than loans and receivables, which are held for the purpose of custody until maturity, with conditions necessary for such assets to be held until contractual maturity met, including funding ability; and which have fixed or determinable payments and fixed maturities. Financial assets measured at amortized cost are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to financial assets measured at amortized cost is reflected in the income statement. As of the balance sheet date, the Group does not have any financial assets to be held until maturity.

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Derivative Financial Assets:

The major derivative instruments utilized by the Group are foreign currency swaps, cross currency swaps and currency forwards.

Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values.

Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, the positive fair value amounts are classified as the "Derivative Financial Assets Designated at Fair Value through Profit or Loss" or the "Derivative Financial Assets Designated at Fair Value through Other Comprehensive Income"; and the negative fair value amounts are classified as the "Derivative Financial Liabilities Designated at Fair Value through Profit or Loss" or the "Derivative Financial Liabilities Designated at Fair Value through Other Comprehensive Income". The fair value differences of derivative financial instruments of fair value through profit or loss derivative transactions are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions. The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

Net Investment Hedge

The Group enters into foreign currency risk arising from net investments in foreign affiliates are hedged with long-term foreign currency borrowings and deposits and the currency translation differences arising from the conversion of net investments in foreign affiliates and accounts long-term foreign currency borrowings into TL for other profit reserves and hedging reserves, respectively in equity.

Explanations on expected loss provisions

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of January 1, 2018, the Group has started to apply the terms of IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life time expected credit losses for such financial assets.

Precious metal accounts

Gold transactions are accounted under "precious metal account" and valuation is performed with the current ounce of gold prices in the market.

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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.

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 January 1, 2010, if the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree 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 acquiree 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.

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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.

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.

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.

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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.

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 60% - 99% 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.

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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.

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.

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The Group calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Turkish Accounting Standard for Income Taxes” (“TAS 12”). Deferred tax asset is calculated on all temporary differences other than general provisions to the extent that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis. The tax rate used in the calculation of deferred tax assets and liabilities is 22% over the temporary timing differences expected to reverse in 2018, 2019 and 2020, and 20% over the temporary timing differences expected to reverse after 2021 (2017: 20%-22%).

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.

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.

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Reclassifications

Please refer to IFRS 9 section for the reclassifications.

Explanations on Prior Period Accounting Policies Not Valid For The Current Period

IFRS 9 Financial Instruments" standard came into effect to replace "IAS 39 Financial Instruments: Recognition and Measurement" as of January 1, 2018. Accounting policies no longer applicable after the transition of IFRS 9 are given below:

The Group categorized its financial assets as "Fair value through profit/loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity" in prior periods.

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.

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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.

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.

The Group enters into profit share and cross currency swap transactions in order to hedge the change in fair value of fixed-rate financial instruments. While applying fair value hedge accounting, the changes in fair values of hedging instrument and hedged item are recognised in income statement. If the hedging is effective, the changes in fair value of the hedged item is presented in statement of financial position together with the fixed-rate loan, and in case of fixed-rate financial assets available for sale, such changes are reclassified from shareholders' equity to income statement.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to income statement over the life of the hedged item from that date of the hedge accounting is discontinued.

While discontinuing cash flow hedge accounting, the cumulative gains/losses recognised in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognised in income statement, the gain/losses accounted for under shareholders' equity, are recognised in income statement.

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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.

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.

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.

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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.

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.

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.

b) 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.

c) 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.

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3. Segment reporting

For management purposes, the Group is organized into three main business groups and six sub-segments:

Retail Banking

Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. There are two sub-segments, Retail and Private, under Retail Banking Group.

Retail Segment, portfolio comprised of all Turkish individuals that have deposits or sukuk and investment funds under TL 2 million, real estate loans that are less than TL 750,000 in İstanbul Regions, TL 500,000 in Anatolian Regions, vehicle loans that are less than TL 150,000 in all regions and all foreign nationals' real estate loans that are less than TL 500,000.

Private segment, portfolio comprised of all Turkish individuals that have deposits or sukuk and investment funds more than TL 2 million and real estate loans that are more than TL 750,000 in İstanbul Regions, TL 500,000 in Anatolian Regions, vehicle loans that are more than TL 150,000 in all regions and all foreign nationals' real estate loans that are more than TL 500,000.

SME Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Small Business and Micro, under SME Banking Group.

Small Business segment, portfolio comprised of all businesses that have annual sales turnover between TL 5 million - TL 50 million and their individual owners.

Micro segment, portfolio comprised of all businesses that have annual sales turnover below TL 5 million and their individual owners.

Commercial Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Commercial and Corporate, under Commercial Banking Group.

Commercial segment, portfolio comprised of all businesses that have annual sales turnover more than TL 50 million and their individual owners except customers of corporate branches.

Corporate segment, portfolio comprised of all businesses in corporate branches.

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, 2018 and 2017, respectively.

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For the period ended December 31, 2018	Treasury, International & Investment Banking							Notes	Grand Total
	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	Corporate Banking	Segments Total	Reconciliation		
Income from financing activities & sukuk	639,275	1,950,622	2,146,615	364,174	750,869	5,851,555	-	5,851,555	
Intersegment income	2,305,230	(305,700)	(1,142,940)	(157,709)	(698,881)	-	-	-	
Total financing income	2,944,505	1,644,922	1,003,675	206,465	51,988	5,851,555	-	5,851,555	
Profit shares distributed	(1,538,681)	(351,717)	(101,291)	(40,358)	(801,116)	(2,833,163)	59,295	(a) (2,773,868)	
Credit loss expense	(8,797)	(368,555)	(1,209,451)	(222,744)	(168,554)	(1,978,101)	-	(1,978,101)	
Net financing income	1,397,027	924,650	(307,067)	(56,637)	(917,682)	1,040,291	59,295	1,099,586	
Foreign exchange gain/loss, net	86,132	64,857	52,046	6,036	259,234	468,305	-	468,305	
Net trading income	-	-	-	-	66,714	66,714	-	66,714	
Net fees & commission and other income	212,304	365,574	264,987	43,429	52,101	938,395	-	938,395	
Other expenses / income (net)	(725,970)	(507,455)	(211,116)	(41,316)	(33,107)	(1,518,964)	-	(1,518,964)	
Segment profit / (loss)	969,493	847,626	(201,150)	(48,488)	(572,740)	994,741	59,295	1,054,036	
Tax expenses	-	-	-	-	-	-	(232,030)	(b) (232,030)	
Net profit / (loss) for the year	969,493	847,626	(201,150)	(48,488)	(572,740)	994,741	(172,735)	822,006	
Segment Assets	7,164,815	15,338,933	19,508,689	3,239,805	29,539,794	74,792,036	-	74,792,036	
Segment Liabilities & Equity	36,518,097	13,517,234	4,520,743	2,308,365	12,512,479	69,376,918	5,415,118	(c) 74,792,036	

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) Since the tax is calculated on bank's total profit/loss the tax amount is not included in the performance of segments.

c) Total equity is not allocated to the segments.

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For the period ended December 31, 2017	Treasury, International & Investment Banking						Reconciliation	Notes	Grand Total
	Retail Banking	SME Banking	Commercial Banking	Corporate Banking	International & Investment Banking	Segments Total			
Income from financing activities & sukuk	551,941	1,272,073	1,245,911	255,467	388,557	3,713,950	-	3,713,950	
Intersegment income	1,207,721	(271,494)	(667,805)	(111,496)	(156,925)	-	-	-	
Total financing income	1,759,662	1,000,579	578,106	143,971	231,633	3,713,950	-	3,713,950	
Profit shares distributed	(951,721)	(217,028)	(64,194)	(25,534)	(548,956)	(1,807,432)	48,097	(1,759,335)	
Credit loss expense	(22,226)	(208,920)	(411,609)	(113,890)	-	(756,644)	-	(756,644)	
Net financing income	785,715	574,631	102,303	4,547	317,323	1,149,873	48,097	1,197,971	
Foreign exchange gain/loss, net	59,173	50,519	35,362	35,969	(1,177)	179,845	-	(b) 179,845	
Net trading income	-	-	-	-	206,736	206,736	-	206,736	
Net fees & commission and other income	100,301	182,554	133,848	112,922	6,696	536,320	-	(b) 536,320	
Other expenses / income (net)	(454,176)	(396,388)	(200,825)	(82,290)	(35,271)	(1,168,951)	(48,097)	(a, b) (1,217,048)	
Segment profit / (loss)	491,012	411,316	70,688	71,148	(140,340)	903,824	-	903,824	
Tax expenses	-	-	-	-	-	-	(187,996)	(c) (187,996)	
Net profit / (loss) for the year	491,012	411,316	70,688	71,148	- 140,340	903,824	(187,996)	715,828	
Segment Assets	6,363,331	13,791,453	15,709,386	2,853,694	18,602,262	57,320,126	-	57,320,126	
Segment Liabilities & Equity	26,330,482	10,022,121	3,201,756	1,625,043	11,211,671	52,391,073	4,929,053	(d) 57,320,126	

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.

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4. Cash and balances with banks

	December 31, 2018	December 31, 2017
Cash on hand	2,001,414	1,602,840
Balances with the Central Bank of Turkey	1,138,302	254,223
Cash and balances with the Central Bank of Turkey	3,139,716	1,857,063
Balances with banks and other financial institutions	11,986,381	4,951,453
Sub Total	15,126,097	6,808,516
Deposit with maturity more than three months	(1,846,664)	(211,564)
Less: Interbank gold deposits	(957,110)	(349,923)
Total	12,322,323	6,247,029

As of December 31, 2018 and 2017, "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:

	2018				2017			
	Amount		Effective profit rate (average)		Amount		Effective profit rate (average)	
	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	-	3,645,862	-	3.24%	-	1,269,080	-	0.49%
Total		3,645,862				1,269,080		

5. Reserve deposits at the Central Bank of Turkey

	2018		2017	
	Foreign currency	TL	Foreign currency	TL
USD	516,570,819	2,707,174	1,146,177	4,330,165
EUR	9,506,605	2,037,427	110,396,631	499,696
XAU (Standard Gold)	337,369,759	1,750,589	10,137,961	1,644,573
		6,495,190		6,474,434

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT started paying profit share on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 1.5% and 8% for TL deposits and other liabilities according to their maturities as of December 31, 2018 (December 31, 2017: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of December 31, 2018 (December 31, 2017: 4% and 24% for all foreign currency liabilities).

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6. Financial assets

At Fair Value Through Other Comprehensive Income

	2018	2017
Financial Sukuk	6,034,020	4,254,312
Unlisted Shares	27,158	17,084
Fund	110,567	157,276
Total	6,171,745	4,428,672

The breakdown of unlisted shares is as follows:

	Nature of business	2018		2017	
		Ownership%	Amount	Ownership%	Amount
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	1.54	4,897	1.69	4,719
Neova Sigorta A.Ş.	Insurance company	6.99	5,201	6.99	5,201
Borsa İstanbul A.Ş.	Exchange entity	0.0035	15	0.0035	15
VISA INC.	Financial service	-	17,045	-	7,149
			27,158		17,084

The fair value of the above listed investments cannot be reliably estimated. There is no market price for these investments.

At Fair Value Through Profit Or Loss

Financial at fair value through profit or loss includes sukuk and share certificates. Balance of financial assets at fair value through profit or loss is as below:

	2018	2017
Sukuk	91,053	61,535
Share Certificates	390	390
	91,443	61,925

The movement in financial assets excluding derivatives may be summarized as follows:

Financial investments	2018			2017	
	FVTOCI	FVTPL	AC	Available for sale	Held for trading
At the beginning of the year	4,428,672	61,925	-	3,751,680	56,713
Additions	4,375,900	640,469	-	4,893,546	2,067,181
Transfer from FVTOCI	(37,156)	-	37,156	-	-
Disposals (sale and redemption)	(2,574,423)	(619,936)	-	(4,226,156)	(2,058,210)
Change in fair value	(21,248)	8,985	-	9,602	(3,759)
Balance at the end of the year	6,171,745	91,443	37,156	4,428,672	61,925

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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

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value according to the foregoing principles as of December 31, 2018 and 2017 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	91,443	42,590	-	134,033
Share certificates	390	-	-	390
Forward transactions	-	38,731	-	38,731
Swap transactions	-	3,859	-	3,859
Sukuk	91,053	-	-	91,053
At fair value through other comprehensive income	6,171,745	-	-	6,171,745
Equity securities	-	-	-	-
Government debt securities	5,836,213	-	-	5,836,213
Other marketable securities	335,532	-	-	335,532
Amortised cost				
Government debt securities	37,156	-	-	37,156
Financial liabilities				
Financial liabilities held for trading	-	170,742	-	170,742
Forward transactions	-	29,913	-	29,913
Swap transactions	-	140,829	-	140,829
Previous Period				
Financial assets				
Financial assets held for trading	61,925	26,699	-	88,624
Share certificates	390	-	-	390
Forward transactions	-	16,467	-	16,467
Swap transactions	-	10,232	-	10,232
Sukuk held for trading	61,535	-	-	61,535
Available-for-sale financial assets	4,254,312	-	-	4,254,312
Equity securities	-	-	-	-
Government debt securities	3,984,982	-	-	3,984,982
Other marketable securities	269,330	-	-	269,330
Financial liabilities				
Financial liabilities held for trading	-	151,493	-	151,493
Forward transactions	-	16,467	-	16,467
Swap transactions	-	135,026	-	135,026

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7. Due from financing activities, net

	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	9,654,823	-	-	9,654,823	19,917	-	-	19,917
Balances with other banks and financial institutions (Note 4)	12,067,740	-	-	12,067,740	81,359	-	-	81,359
Securities (Note 6)	6,373,659	-	-	6,373,659	30,725	-	-	30,725
Due from financing activities and Minimum finance lease payments receivable (Note 7,8)	37,964,453	4,376,465	1,206,368	43,547,286	450,825	648,935	862,456	1,962,216
Total on-balance sheet financial assets in scope of ECL requirements	66,060,676	4,376,465	1,206,368	71,643,509	582,826	648,935	862,456	2,094,217

December 31, 2018	Corporate and Commercial	Consumer	Credit Cards	Mortgage	Total
Stage 1	30,691,119	1,377,957	323,720	5,571,657	37,964,453
Stage 2	4,117,558	60,107	11,838	186,962	4,376,465
Stage 3	1,146,685	31,676	6,467	21,540	1,206,368
Total gross loans	35,955,362	1,469,740	342,025	5,780,159	43,547,286
Stage 1&2	(907,448)	(37,230)	(8,664)	(146,418)	(1,099,760)
Stage 3	(829,688)	(21,813)	(4,564)	(6,390)	(862,456)
Net loans ^(*)	34,218,226	1,410,697	328,797	5,627,351	41,585,071

December 31, 2017	Corporate and Commercial	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	28,676,433	767,981	554,904	5,735,566	35,734,884
Past due not impaired	991,559	30,230	7,016	165,383	1,194,188
Impaired	784,330	10,409	5,906	17,338	817,983
Total gross loans	30,452,322	808,620	567,826	5,918,287	37,747,055

Less: Allowance for impairment on loans	(766,954)	(11,966)	(6,859)	(33,871)	(819,650)
Net loans ^(*)	29,685,368	796,654	560,967	5,884,416	36,927,405

(*) Also includes minimum finance lease payment receivables.

	Stage 1	Stage 2	Stage 3	Total
Internal Rating Grade				
Performing	450,825	648,935	-	1,099,760
High Quality	51,996	578	-	52,574
Medium Quality	51,363	34,831	-	86,194
Average	76,804	97,878	-	174,682
Below Average	270,661	515,649	-	786,310
Nonperforming	-	-	862,456	862,456

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	2018	2017
Performing		
Funds invested from profit/loss sharing accounts	20,464,779	17,562,109
Funds invested from current accounts and equity	17,166,434	16,103,803
Income accruals on due from financing activities (**)	2,259,008	1,333,917
	39,890,221	34,999,829
Funds in arrears		
Funds invested from profit / loss sharing accounts	603,983	305,616
Funds invested from current accounts and equity	591,209	507,327
	1,195,192	812,943
Total	41,085,413	35,812,772
Impairment allowance		
Funds invested from profit / loss sharing accounts	940,625	288,504
Funds invested from current accounts and equity	1,014,394	526,726
	1,955,019	815,230
Total due from financing activities	39,130,394	34,997,542

(**) Also includes foreign currency evaluation differences of foreign currency indexed loans.

The total provision of TL 1,955,019 (December 31, 2017 - TL 815,230) is made up of impaired loans and loans classified as Stage 1 and 2. The movements are analyzed below.

The movements for loans classified as Stage 1 and 2 for financing activities are as follows:

	2018	2017
Balance at beginning of year	283,604	162,924
Provisions - bank	515,270	65,033
Provisions - participation accounts	300,886	55,647
Allowance at the end of the year	1,099,760	283,604

The movement for impaired loans (Stage 3) is as follows:

	2018	2017
Balance at the beginning of the year	531,626	531,717
Provisions - bank	454,203	425,112
Provisions - participation accounts	281,026	152,838
Recoveries of amounts previously provided for	(308,456)	(116,688)
Reserves written off in current year	(103,141)	(461,353)
Balance at the end of the year	855,258	531,626

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8. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2018	2017
Gross investment in finance leases	2,881,888	2,244,253
Unearned finance income	(431,191)	(315,010)
Total impaired receivables	11,176	5,040
Impairment allowance	(7,197)	(4,420)
Minimum lease payments receivable, net	2,454,677	1,929,863

Movements in the specific provisions for leasing receivables is as follows:

	2018	2017
Balance at January 1	4,420	12,126
Charge for the period	4,285	16,237
Charges for the bank	2,885	15,654
Charge for the participation accounts	1,400	583
Recoveries of amounts previously provided for	(1,192)	(11,007)
Impairment allowance written off in current period	(316)	(12,936)
Balance at the end of the period	7,197	4,420

Gross investment in finance leases as to their maturity:

	2018	2017
Not later than 1 year	1,674,227	1,499,972
Later than 1 year and not later than 5 years	999,689	565,336
Later than 5 years	207,972	178,945
Non-performing receivables	11,176	5,040
Minimum lease payments receivable, gross	2,893,064	2,249,293
Less : Unearned finance income	(431,190)	(315,010)
Net investment in finance leases	2,461,874	1,934,283
Less : Allowance for impairment	(7,197)	(4,420)
Minimum lease payments receivable, net	2,454,677	1,929,863

As of December 31, 2018 TL 1,692,122 (December 31, 2017 - TL 1,343,269) gross lease receivables are denominated in foreign currency (USD and EUR).

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Net investment in finance leases as to their maturity:

	2018	2017
Less than 1 year ^(*)	1,307,276	1,223,929
1 -5 year	951,670	537,865
More than 5 years	202,928	172,489
Net investment in finance leases	2,461,874	1,934,283

^(*) Includes total impaired receivables amounting to TL 11,176 (December 31, 2017 - TL 5,040).

Material finance 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:

	2018	2017
Clearing accounts	716,193	99,553
Prepaid expenses	57,505	61,076
Blockage for guarantees given	1,968,224	571,787
Receivables from banking operations	22,106	8,081
Value added tax (VAT) receivable	17,508	23,437
Other receivables from finance activities	-	153,758
Other	55,060	20,369
	2,836,596	938,061

10. Construction projects, net

Construction projects mainly include construction activities of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. subsidiary.

	2018	2017
Uncompleted construction projects	27,612	27,612
Kartal Project		
Cost of land	-	-
Cost of project	25,699	25,999
Kilyos Land		
Cost of land	1,613	1,613
Güre Tesisi	77,217	79,664
Completed construction projects (inventories)	77,217	79,664
	104,529	107,276
(Less) Impairment provision for net realizable value	(29,915)	(31,042)
Total construction projects, net	74,614	76,234

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11. Investment properties, net

	2018	2017
Balance at the beginning of the year	84,992	26,129
Additions	7,498	30,947
Disposal	(8,233)	(8,829)
Depreciation charge	(80)	(158)
Transfer from assets held for resale (Note 12)	38,763	36,903
Transfer from other assets	(4,366)	-
Balance at the end of the year	118,574	84,992
Cost	122,881	88,548
Accumulated depreciation	(3,582)	(3,502)
Accumulated impairment	(725)	(54)
Net carrying amount	118,574	84,992

Fair value of the investment properties is TL 275,017 (December 31, 2017 - TL 118,849) which is determined based on the valuations carried out by independent qualified valuation companies in December 2018.

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.

12. Assets and a disposal group held for sale

At December 31, 2018, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 174,674 (December 31, 2017 - TL 53,199), 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:

	2018	2017
Balance at the beginning of the year	53,199	42,667
Additions	202,890	60,874
Transfer to investment property (Note 11)	(38,763)	(36,903)
Disposals	(42,652)	(13,439)
Balance at the end of the year	174,674	53,199

Gain on sale of assets held for sale amounting to TL 9,579 is included in other income in the comprehensive income statement (December 31, 2017 - TL 27,776).

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13. Property and equipment, net

	Land and buildings	Furniture and office equipment ^(*)	Leasehold improvements	Motor vehicles	Total
At January 1, 2017	229,296	149,681	47,732	158	426,867
Additions ^(*)	1,466	70,613	22,122	1,100	95,301
Disposals	(25,370)	(7,677)	(11,261)	(50)	(44,358)
Depreciation charge for the year	(6,614)	(29,769)	(11,075)	(175)	(47,633)
At December 31, 2017, net of accumulated depreciation and impairment	198,778	182,848	47,518	1,033	430,177
Additions ^(*)	529	56,377	19,584	45,642	122,132
Disposals	(6,369)	(4,551)	(1,762)	(126)	(12,808)
Depreciation charge for the year	(6,381)	(52,578)	(11,330)	(442)	(70,731)
At December 31, 2018, net of accumulated depreciation and impairment	186,557	182,096	54,010	46,107	468,770

^(*) TL 8,153 and TL 7,957 of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2018 and 2017, respectively. There is no property and equipment that are pledged for borrowings.

	Land and Buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Total
At December 31, 2017					
Cost	231,353	339,572	87,996	1,821	660,742
Accumulated depreciation	(32,575)	(156,724)	(40,478)	(788)	(230,565)
Net carrying amount	198,778	182,848	47,518	1,033	430,177
At December 31, 2018					
Cost	208,880	384,337	104,802	47,228	745,247
Accumulated depreciation	(22,323)	(202,241)	(50,792)	(1,121)	(276,477)
Net carrying amount	186,557	182,096	54,010	46,107	468,770

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14. Intangible assets, net

	Total
At January 1, 2017	140,467
Additions	71,104
Disposals	(16,715)
Amortization charge for the year	(25,054)
At December 31, 2017, net of accumulated amortization	169,802
Additions	119,342
Disposals	(22,648)
Amortization charge for the year	(63,588)
At December 31, 2018, net of accumulated amortization	202,908
At December 31, 2017	
Cost (gross carrying amount)	281,758
Accumulated amortization	(111,956)
Net carrying amount	169,802
At December 31, 2018	
Cost (gross carrying amount)	344,563
Accumulated amortization	(141,655)
Net carrying amount	202,908

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, 2018 and 2017 is as follows;

Original currency	Amount in TL	
	2018	2017
USD	1,515,343	2,959,839
Euro	643,968	215,713
TL	97,000	109,974
Other	-	101,601
Total	2,256,311	3,387,127

As of December 31, 2018 borrowings remaining maturities of which is less than 12 months amount to TL 1,706,789 (As of December 31, 2017 - TL 3,163,905).

As of December 31, 2018, the Bank has no syndicated loans (December 31, 2017 - None).

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Sukuk securities as of December 31, 2018 and 2017 is as follows;

	Amount in TL	
	2018	2017
Sukuk certificates issued USD	5,118,302	3,795,719
Sukuk certificates issued TL	1,622,081	1,096,838
Sukuk certificates issued MYR	1,038,674	759,284
Total	7,779,057	5,651,841

Subordinated loans as of December 31, 2018 and 2017 is as follows;

	Amount in TL	
	2018	2017
Subordinated loan provided by Kuwait Finance House	-	-
Subordinated loan provided by other foreign banks ⁽¹⁾	1,901,210	1,360,338
Total	1,901,210	1,360,338

⁽¹⁾ The Bank has acquired 350 million US dollars contribution capital loan, with having the requirements defined by BRSA Regulation on the Capital Adequacy, from Special Purpose Vehicle (SPV) KT Sukuk Company Limited that resides in Cayman Island that acquired the amount via issuance of Sukuk on February 17, 2016. Annual rate of return for the loan that is included in contributinal capital calculation in accordance with the BRSA Letter of Conformity dated September 2, 2015 and No 20008792101.01[93]E 12819 is 7.90%, has a maturity of 10 years with a repayment option for the bank after 5 year from the opening date. Returns will be calculated with the implementation of annual rate of return to the loan amount defined as transfer price of the assets, and installements will be made on July 17, and February 17, each year.

16. Current and profit / loss sharing investors' accounts

	2018	2017
Current accounts:		
Turkish lira	7,706,734	6,986,424
Foreign currency	14,715,320	9,311,336
	22,422,054	16,297,760
Profit/loss sharing investors' accounts:		
Turkish lira	14,536,671	12,971,587
Foreign currency	17,806,168	10,971,569
	32,342,839	23,943,156
Blocked accounts:		
Turkish lira	26,708	23,558
Foreign currency	19,099	3,660
	45,807	27,218
Total current accounts and profit/loss investors' accounts	54,810,700	40,268,134
Expense accrual on current accounts and profit/loss sharing investors' accounts	172,911	86,607
Total current accounts and profit/loss sharing investors' accounts	54,983,611	40,354,741

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

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Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	Current Period			Previous Period		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	13,029,213	20,646,734	33,675,947	11,317,810	12,454,993	23,772,803
From 1 month to 3 months	8,014,812	9,449,528	17,464,340	7,254,309	5,990,876	13,245,185
From 3 months to 1 year	988,139	1,986,056	2,974,195	1,004,647	1,627,293	2,631,940
Over one year	348,736	347,482	696,218	404,803	213,403	618,206
	22,380,900	32,429,800	54,810,700	19,981,569	20,286,565	40,268,134

At December 31, 2018 and 2017, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	Current Period		Previous Period	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
USD	1,705,043,927	9,001,302	1,584,904,657	5,987,643
Euro	470,994,262	2,844,405	373,591,909	1,691,015
Precious metals		2,588,233		1,478,276
Other		300,479		158,062
		14,734,419		9,314,996
Profit/loss sharing investors' accounts:				
USD	1,885,305,405	9,952,942	1,782,054,678	6,732,460
Euro	886,600,429	5,354,313	617,458,803	2,794,847
Precious metals		2,498,913		1,444,262
		17,806,168		10,971,569
		32,540,587		20,286,565

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.

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17. Income taxes

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying condensed consolidated interim financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 22% on the statutory corporate income tax base for the year ended December 31, 2018. This rate was 20% for the year ended December 31, 2017. Capital gains arising from the disposal of property and equipment and investments owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in equity with the intention to be utilized in a share capital increase within five years from the date of the disposal. The remaining 25% of such capital gains are subject to corporate tax.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2018 is 22% (2017: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

"Law on the Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 was published in the Official Gazette dated 5 December 2017 and numbered 30261.

With Article 91 of this law, with the provisional article 10 added to the Corporate Tax Law, the rate of 20% corporate tax will be applied as 22% for the corporate earnings for the taxation periods of 2018, 2019 and 2020 (the accounting periods for the institutions that are designated for the special accounting period). This rate applied for the first time in the first temporary tax period of 2018.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 23 July 2006, withholding income tax rate is 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

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The details of income tax expense are as follows;

	2018	2017
Current tax expense	453,758	199,407
Prepaid tax (-)	(278,073)	(143,136)
Income taxes payable	175,685	56,271
	2018	2017
Current tax expense	442,564	197,600
Deferred tax (credit)/charge	(210,534)	(9,604)
Total income tax charge/(credit)	232,030	187,996

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, 2018 and 2017 is as follows:

	2018	2017
Profit before income tax from continuing operations	1,054,036	903,824
At Turkish statutory income tax rate of 22% (2017: 20%)	231,888	180,765
Effect of income not subject to tax	(26,023)	(5,605)
Effect of expenditure not allowable for income tax purposes	26,165	12,836
Income tax charge	232,030	187,996

Deferred tax as of December 31, 2018 and 2017 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2018	2017
IFRS 9 provisions	192,935	-
Deferred income	55,507	46,597
Derivative accrual	30,080	26,181
Carryforward tax losses	34,043	-
Bonus and other benefits	31,297	22,244
Reserve for employee termination benefits	17,412	10,495
Effect of precious metals valuation	2,031	2,803
Other	32,834	57,468
Deferred tax assets	396,139	165,788
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(7,293)	(10,044)
FVTOCI valuation differences	(3,691)	(3,556)
Effect of precious metals valuation	-	(652)
Effect of other temporary differences	(4,472)	(24,464)
Deferred tax liabilities	(15,456)	(38,716)
Deferred tax asset - net	380,683	127,072

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Movement of net deferred tax asset is as follows:

	2018	2017
Balance at the beginning of the year	127,072	110,410
Deferred tax (charge)/credit recognized in income statement	210,534	9,604
Deferred tax (charge)/credit recognized in equity	23,229	7,058
IFRS 9 effect	19,848	-
Balance at the end of the year	380,683	127,072

18. Employee benefit obligations

	2018	2017
Personnel bonus accrual	86,617	69,670
Employee termination benefits	131,372	108,159
Total employee benefit obligations	217,989	177,829

The movement in reserve for personnel bonus accrual is as follows:

	2018	2017
Balance at January 1	69,670	55,290
Utilized/paid	(69,670)	(55,290)
Charge for the year	86,617	69,670
Balance at the end of the year	86,617	69,670

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

	2018	2017
Balance at January 1	108,159	67,218
Utilized/paid	(7,272)	(5,297)
Service and interest cost	47,549	29,747
Actuarial loss ^(*)	(17,064)	16,492
Balance at the end of the year	131,372	108,159

^(*) Retirement pay liability arising from current period and amounting TL 17,064 (2017: TL 16,492) is an actuarial loss amount and deferred tax amounting to TL 3,413 (2017: TL 3,298) related with the retirement pay liability is accounted under statement of other comprehensive income.

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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 30 days' pay 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, 2018 and 2017, 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 5,434 (2017: TL 4,732) for each period of service at December 31, 2018.

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 calculated over TL 6,017.60 that is effective commencing on January 1, 2019 (January 1, 2018: TL 5,001.76)

The following actuarial assumptions were used in the calculation of the total liability:

	2018	2017
Discount Rate (%)	16.30	11.60
Inflation rate (%)	12.00	8.90
Interest rate (%)	13.00	9.90

19. Other liabilities and provisions

	2018	2017
Clearing accounts	757,125	108,082
Withholding tax and other tax payables	86,401	66,518
Payables to exporters and suppliers	80,511	49,721
Security premium for participation funds	27,243	21,779
Deferred revenue for non-cash loans	42,893	64,801
Deductions on resource utilization fund	2,658	2,048
Provision for non-cash loans	386,283	124,514
Provision for distributed profits of the participation accounts	129,152	30,422
Other provisions and liabilities	196,269	38,730
Total other liabilities	1,708,535	506,615

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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, 2018							
	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
Derivatives held for trading & Hedging Purposes								
Inflows	42,590	-	11,633,162	7,688,220	2,699,172	224,786	-	1,020,984
Outflows	-	170,742	11,750,656	7,691,214	2,692,695	222,198	-	1,144,549

	December 31, 2017							
	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
Derivatives held for trading & Hedging Purposes								
Inflows	26,699	-	7,677,585	4,828,992	1,140,288	351,151	610,714	746,440
Outflows	-	151,493	7,647,008	4,859,152	1,142,688	357,704	468,401	819,063

21. Share capital

	2018	2017
Number of ordinary shares, TL 1, par value. Authorized, issued and outstanding.	3,497 million	3,097 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2018		2017	
	Number	TL	Number	TL
At January 1	3,097,322,000	3,097,322	2,787,322,000	2,787,322
Shares issued in - transfer from retained earnings	400,000,000	400,000	310,000,000	310,000
At year end	3,497,322,000	3,497,322	3,097,322,000	3,097,322

The Bank has increased its share capital on April 3, 2018. The share capital increase was funded from the retained earnings amounting to TL 400,000 (2017 - TL 310,000).

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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, 2018 and 2017, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2018		2017	
	Amount	%	Amount	%
Kuwait Finance House	2,178,444	62.2	1,929,479	62.2
Directorate of Vakıf Foundations, Turkey	655,174	18.7	580,297	18.7
The Public Institution for Social Security, Kuwait	315,000	9	279,000	9
Islamic Development Bank	315,000	9	279,000	9
Other	33,704	1	29,546	1
Total share capital	3,497,322	100	3,097,322	100

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 4,894 (2017 - TL 4,291) from the profit of the year 2018.

	2018	2017
Ordinary shares		
Amount	4,894	4,291
TL (full) per share	0.001	0.001

Other reserves

The Bank bought 25% share of the joint venture called Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. 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 Gayrimenkul Yatırım Ortaklığı A.Ş. 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 Gayrimenkul Yatırım Ortaklığı A.Ş. amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. 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.

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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, 2018 and 2017.

The following reflects the income and per share data used in the basic earnings per share computations:

	2018	2017
Net profit attributable to continuing operations of the Bank for basic earnings per share	822,006	715,828
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	816,748	710,122
Weighted average number of ordinary shares for basic earnings per share (thousands)	3,386,918	3,423,432
Basic earnings per share (expressed in full TL per share)	0.241	0.207

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2017 - 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, 2017 - 18.7%), 9.0% (December 31, 2017 - 9.0%) and 9.0% (December 31, 2017 - 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, 2018 and 2017 and transactions have been entered into with related parties during the years ended:

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i) Balances with financial institutions and due from financing activities:

		2018		2017	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Auto Land A.S.	TL	-	114,310	-	82,973
Other related parties	-	-	90,678	-	69,000
			204,988		151,973

ii) Due to other financial institutions and banks:

		2018		2017	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	151,936,904	802,108	575,914,524	2,175,759
			802,108		2,175,759

iii) Profit/loss sharing investors' and current accounts:

		2018		2017	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	1,775,382	9,388	2,858,361	10,799
Kuwait Finance House ⁽¹⁾	TL	-	3,369	-	1,558
Kuwait Finance House, Bahrain	USD	1,282	7	1,259	5
Directorate of Vakıf Foundations, Turkey ⁽¹⁾	TL	-	-	-	32,923
Neova Sigorta AS ^(*)	TL	-	227,544	-	319,159
	USD	2,618,101	13,843	191,138	722
	EUR	30,289	183	4,524	20
Public Institute for Social Securities KW ⁽¹⁾	USD	171,268	905	167,692	634
			255,239		365,820

^(*) Determined as related party as the Company is under the common control of the ultimate parent.

⁽¹⁾ Shareholders.

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iv) Profit shares distributed:

		2018		2017	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Neova Sigorta AŞ ^(*)	TL	-	30,190	-	10,967
Public Institute for Social Securities KW ^(†)	USD	4,279	22	1,684,222	6,363
Depolar Properties CO W LL	USD	2,493	13	-	-
Iskan Gayrimenkul Yatırım ve Geliştirme A.Ş.	TL	281	-	-	-
	USD	39,648	203	-	-
			30,709		17,330

^(*) Determined as related party as the Company is under the common control of the ultimate parent.

^(†) Shareholders.

v) Non cash credits issued:

		2018		2017	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Other related parties	TL	-	520	-	1,717
			520		1,717

^(†) Shareholders.

As of December 31, 2018 no specific provisions have been recognized in respect of loans given to related parties (December 31, 2017 - none).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 31,813 during the year ended December 31, 2018 (December 31, 2017 - TL 29,814)

The key management personnel of the Bank are as follows;

Hamad Abdulmohsen AL MARZOUQ	B.O.D. Chairman
Adnan ERTEM	B.O.D. Vice Chairman and Audit Committee Chairman
Nadir ALPASLAN	B.O.D. Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Fawaz KH E AL SALEH	B.O.D. Member
Mazin S.A.S AL NAHEDH	B.O.D. Member
Ahmed S. AL KHARJI	B.O.D. Member and Audit Committee
Mohamad Al-MIDANI	B.O.D. Member and Audit Committee
Ufuk UYAN	B.O.D. Member - Chief Executive Officer

Key management includes 19 other officers together with the above B.O.D. members.

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25. Fees and commission income and expense

	2018	2017
Fees and commission income		
Commissions on loans	198,320	167,184
Commission income from commitments	132,793	114,850
POS commission income	91,786	56,034
Income from insurance & agency activities	60,342	40,860
Credit card fees and commissions	123,245	69,832
Money transfer commissions	45,735	31,458
Import letter of credit commissions	10,383	7,837
Commissions from checks and notes	19,810	17,669
Other	79,001	53,865
Total	761,415	559,589

	2018	2017
Fees and commission expense		
Credit card machine and fees paid for credit cards	133,224	81,030
Brokerage fees on borrowings	8,919	12,951
Mortgage expertise expenses	20,905	23,735
Correspondent bank fees	25,493	14,150
Money transfer commissions	9,183	9,628
Other	50,556	33,077
Total	248,280	174,571

26. Salaries and employee benefits

	2018	2017
Staff costs		
Wages and salaries	512,759	437,617
Bonus	96,738	76,786
Social security premiums	96,508	83,850
Other fringe benefits	82,395	67,595
Health expenses	18,902	14,496
Provision for employee termination benefits	25,151	17,395
Other	15,057	15,145
Total	847,510	712,884

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27. Other expenses

	2018	2017
Impairment on construction projects (Note 10)	-	31,042
Impairment on investment property (Note 11)	671	-
Impairment charges/(reversal)	671	31,042
Insurance fund premium expense	90,487	38,944
Professional fees	29,421	22,307
Advertising expenses	32,879	27,275
Communication	27,495	23,399
Cleaning expense	29,826	23,848
Repair and maintenance expenses	47,907	37,499
Energy expenses	18,354	13,497
Grants and donations	1,756	1,548
Subscription and membership expenses	54,314	13,505
Travel and representation expenses	8,582	6,024
Non taxable income	3,844	4,651
Stationery and publishing expenses	8,809	5,753
Insurance expenses	5,137	3,522
Loss from sale of assets	3,829	110
Other	20,062	41,326
Other expenses	382,702	263,208
Total	383,373	294,250

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, 2018 and 2017.

	2018	2017
Letters of guarantee issued by the Bank	10,391,279	9,570,179
Letters of credit	1,079,876	932,100
Commitments	4,877,587	4,254,951
Acceptance credits	74,098	55,958
Other guarantees	330,828	513,816
Total	16,753,668	15,327,004

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.

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Except for the Head-Office, Banking Base and four 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, 2018 and 2017 is as follows:

	2018	2017
Within one year	20	198
After one year but not more than five years	52,006	295,303
More than five years	860,393	494,644
	912,419	790,145

Fiduciary activities

Assets, other than cash deposits, held by the Bank and its subsidiaries in fiduciary for its customers are not included in the consolidated statement of financial position, since such items are not under the ownership of the Group. The fiduciary activities of the group is as follows:

	December 31, 2018	December 31, 2017
Cheques received for collection	8,063,707	7,022,459
Notes received for collection	1,742,813	2,059,454
	9,806,520	9,081,913

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 several risks such as credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. 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.

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.

The Group Risk Management reports to the Board of Directors through the Internal Systems Committee. Internal Systems Committee is responsible for identifying, measuring, monitoring and reporting regarding risk types including credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. 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 of Directors, the Internal Systems Committee and the Audit Committee.

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Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Internal Systems Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management 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 risk indicators. This risk assessment is carried by the Credit Risk Management and Modelling and Market Risk, Operational Risk and Capital Management functions. The Risk Management Department is managed by the Head of Risk Management. Internal Systems, which comprise of Risk Management, Internal Audit, Internal Control and Compliance Departments, are overseen by the Chief Risk Officer who reports directly to the Internal Systems Committee and coordinates communication, reporting and monitoring between the Internal Systems Committee and the Risk Management 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 Internal Systems Committee of Board of Directors, which consists of three 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. Current Risk Management Policies are approved by Board of Directors and are being reviewed on a yearly basis and updated in case of necessities. The Audit 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 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.

Risk Management Department

Risk Management Department 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.

Internal Audit Department

Risk management processes throughout the Group are audited periodically 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.

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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.

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.

Gross maximum exposure	2018	2017
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	7,633,492	6,728,657
Balances with banks and other financial institutions	11,986,381	4,951,453
Due from financing activities	39,130,394	34,997,542
Minimum financial lease payments receivable, net	2,454,677	1,929,863
Financial assets at FVTOCI	6,171,745	4,428,672
Financial assets at FVTPL	91,443	61,925
Other assets	2,836,596	938,061
Derivative financial instruments	42,590	26,699
Total	70,347,318	54,062,872
Contingent liabilities	11,471,156	10,502,279
Other guarantees	404,925	569,774
Commitments	4,877,587	4,254,951
Total	16,753,668	15,327,004
Total credit risk exposure	87,100,986	69,389,876

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, 2018 was TL 923,864 (December 31, 2017 - TL 415,571) and non-cash credit exposure as of December 31, 2018 was TL 241,763 (December 31, 2017 - TL 173,071) before taking account of collateral or other credit enhancements.

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An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2018	2017
	Gross exposure	Gross exposure
Financial services	31,005,795	20,762,386
Construction and materials	16,706,945	15,051,525
General retailers	11,387,822	10,605,616
Manufacturing	8,665,196	7,438,475
Electricity	4,490,154	2,488,666
Health care and social services	2,905,745	2,275,987
Food and beverages	1,803,213	1,438,536
Mining operations	623,391	777,259
Forestry	170,075	254,844
Telecommunications	377,303	261,266
Real estate	406,510	355,277
Other	8,558,837	7,680,039
Total	87,100,986	69,389,876

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.

Credit quality per class of financial assets

Rating and scoring models for Corporate/Commercial/SME/Retail portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models or External Credit Assessment Institutions are shown the table below as of December 31, 2018.

	Cash Loans	Non-Cash Loans	Total
High Quality	49%	73%	54%
Medium Quality	29%	12%	26%
Average	12%	11%	12%
Below Average	10%	4%	8%

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Aging analysis of Stage 2 on financial assets:

Current Period	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	2,869,347	639,881	608,330	-	4,117,558
Consumer lending	16,015	139,499	91,555	-	247,069
Credit cards	6,661	4,395	782	-	11,838
Total	2,892,023	783,775	700,667	-	4,376,465
Previous Period	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	700,855	137,828	152,846	-	991,559
Consumer lending	20,996	132,728	41,889	-	195,613
Credit cards	4,531	1,736	749	-	7,016
Total	726,412	272,292	195,484	-	1,194,188

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2018 and 2017 comprise of blocked accounts, property and machinery pledges.

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.

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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, 2018

31 December 2018	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	3,139,716	-	-	-	-	3,139,716
Balances with other banks and financial institutions	7,602,596	4,036,676	327,312	19,797	-	11,986,381
Reserve deposits at the Central Bank	6,495,190	-	-	-	-	6,495,190
Financial Assets At Fair Value Through Profit Or Loss	133,643	-	-	390	-	134,033
<i>Derivative financial instruments</i>	42,590	-	-	-	-	42,590
<i>Share Certificates</i>	-	-	-	390	-	390
<i>Sukuk</i>	91,053	-	-	-	-	91,053
Financial assets at fair value through other comprehensive income	559,664	277,283	4,813,983	415,375	105,440	6,171,745
Financial assets valued at amortised cost	37,156	-	-	-	-	37,156
Due from financing activities, net	11,917,677	14,135,506	13,268,455	2,263,433	-	41,585,071
Precious metals	-	-	-	-	957,110	957,110
Other assets	-	-	-	-	2,836,596	2,836,596
Construction projects, net	-	-	-	-	74,614	74,614
Joint venture	-	-	-	-	28,815	28,815
Investment properties, net	-	-	-	-	118,574	118,574
Property and equipment, net	-	-	-	-	468,770	468,770
Intangible assets, net	-	-	-	-	202,908	202,908
Deferred tax assets	-	-	-	-	380,683	380,683
Assets and a disposal group held for sale	174,674	-	-	-	-	174,674
Total assets	30,060,316	18,449,465	18,409,750	2,698,995	5,173,510	74,792,036
Due to other financial institutions and banks	806,059	1,302,063	148,189	-	-	2,256,311
Sukuk securities issued	1,371,224	3,215,751	3,192,082	7,779,057	-	15,558,114
Subordinated Loans	-	-	-	1,901,210	-	1,901,210
Money market balances	188,003	-	-	-	-	188,003
Current and profit / loss sharing investors' accounts	53,134,256	1,623,929	225,426	-	-	54,983,611
Derivative financial instruments	59,032	5,357	106,352	-	-	170,742
Employee benefit obligations	-	86,617	-	-	131,372	217,989
Income taxes payable	-	175,685	-	-	-	175,685
Other liabilities and provisions	-	-	-	-	1,708,535	1,708,535
Liabilities	55,558,574	6,409,402	3,672,049	1,901,210	1,839,907	69,381,142
Net	(25,498,258)	12,040,063	14,737,701	797,785	3,333,603	5,410,893

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Maturity analysis of assets and liabilities as of December 31, 2017:

31 December 2017	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	1,857,063	-	-	-	-	1,857,063
Balances with other banks and financial institutions	4,739,889	211,564	-	-	4,951,453	
Reserve deposits at the Central Bank	6,474,434	-	-	-	-	6,474,434
Financial assets - held for trading	84,661	3,573	-	390	-	88,624
<i>Derivative financial instruments</i>	<i>23,126</i>	<i>3,573</i>	-	-	-	<i>26,699</i>
<i>Share Certificates</i>	-	-	-	<i>390</i>	-	<i>390</i>
<i>Sukuk held for trading</i>	<i>61,535</i>	-	-	-	-	<i>61,535</i>
Financial assets - available-for-sale	1,642,843	434,763	1,490,617	677,363	183,086	4,428,672
Due from financing activities, net	9,342,018	12,129,449	13,025,786	2,382,969	47,183	36,927,405
Precious Metals	693,239	-	-	-	-	693,239
Other assets	-	-	-	-	938,061	938,061
Construction projects, net	-	-	-	-	76,234	76,234
Joint venture	-	-	-	-	19,699	19,699
Investment properties, net	-	-	-	-	84,992	84,992
Property and equipment, net	-	-	-	-	430,177	430,177
Intangible assets, net	-	-	-	-	169,802	169,802
Deferred tax assets	-	-	-	-	127,072	127,072
Assets and a disposal group held for sale	53,199	-	-	-	-	53,199
Total assets	24,887,346	12,779,349	14,516,403	3,060,722	2,076,306	57,320,126
Due to other financial institutions and banks	450,532	2,713,373	223,222	-	-	3,387,127
Sukuk securities issued	1,020,007	93,169	4,538,665	-	-	5,651,841
Subordinated Loans	-	-	-	1,360,338	-	1,360,338
Money market balances	750,524	-	-	-	-	750,524
Current and profit / loss sharing investors' accounts	38,939,429	1,226,759	88,775	-	99,778	40,354,741
Derivative financial instruments	59,494	20,338	71,661	-	-	151,493
Employee benefit obligations	-	153,807	-	-	24,022	177,829
Income taxes payable	56,271	-	-	-	-	56,271
Other liabilities and provisions	-	-	-	-	506,615	506,615
Liabilities	41,276,257	4,207,446	4,922,323	1,360,338	630,415	52,396,779
Net	(16,388,911)	8,571,903	9,594,080	1,700,384	1,445,891	4,923,347

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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
As at December 31, 2018						
Due to other financial institutions and banks	-	808,234	1,338,532	163,998	-	2,310,764
Subordinated loans	-	72,985	72,985	583,882	2,212,653	2,942,505
Sukuk issued	-	1,398,812	3,544,299	4,554,629	-	9,497,740
Derivative financial instruments (*)	-	10,383,909	222,198	1,144,549	-	11,750,656
Current accounts	22,422,054	-	-	-	-	22,422,054
Profit and loss sharing accounts (**)	-	30,712,202	1,623,929	225,426	-	32,561,557
Total undiscounted financial liabilities	22,422,054	43,376,142	6,801,943	6,672,484	2,212,653	81,485,276
As at December 31, 2017						
Due to other financial institutions and banks	-	452,553	2,713,692	223,222	-	3,389,467
Subordinated loans	-	52,230	52,230	417,838	1,687,880	2,210,178
Sukuk issued	-	1,051,433	316,981	4,729,336	-	6,097,750
Derivative financial instruments (*)	-	6,001,840	826,105	819,063	-	7,647,008
Current accounts	16,297,760	-	-	-	-	16,297,760
Profit and loss sharing accounts (**)	-	22,741,447	1,226,759	88,775	-	24,056,981
Total undiscounted financial liabilities	16,297,760	30,299,503	5,135,767	6,278,234	1,687,880	59,699,144

(*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.

(**) Customers have choice of demanding their accounts anytime by abandoning profit share income.

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
December 31, 2018						
Contingent liabilities and other guarantees(*)	6,314,813	931,206	2,831,374	1,674,984	123,703	11,876,080
Commitments	4,877,587	-	-	-	-	4,877,587
Total	11,192,400	931,206	2,831,374	1,674,984	123,703	16,753,668
December 31, 2017						
Contingent liabilities and other guarantees	5,523,720	1,157,413	2,551,236	1,777,148	62,536	11,072,053
Commitments	4,254,951	-	-	-	-	4,254,951
Total	9,778,671	1,157,413	2,551,236	1,777,148	62,536	15,327,004

(*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

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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.

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, 2018			December 31, 2017		
	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
Precious metal						
Gold	-10	(568)	(568)	-10	11,072	11,072
Gold	+10	568	568	+10	(11,072)	(11,072)

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

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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.

Currency	December 31, 2018			December 31, 2017		
	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
USD	+10	(8,663)	13,807	+10	96,356	98,116
USD	-10	8,663	(13,807)	-10	(96,356)	(98,116)
EUR	+10	1,880	1,880	+10	50,702	50,702
EUR	-10	(1,880)	(1,880)	-10	(50,702)	(50,702)

The concentrations of assets, liabilities and off balance sheet items:

December 31, 2018

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	862,855	1,082,888	30,769	-	1,976,512
Deposits with other banks and financial institutions	5,403,095	4,368,153	293,818	1,922,154	11,987,220
Reserve deposits at the Central Bank	2,037,427	2,707,174	-	1,750,590	6,495,191
Financial assets - financial assets at FVTPL	1,812,825	2,240,753	-	-	4,053,578
Financial assets - financial assets at OCI	6,345	101,929	422	-	108,696
Financial assets - amortised cost	-	37,156	-	-	37,156
Due from financing activities, net	5,505,277	9,615,265	-	48,589	15,169,131
Minimum finance lease payments receivable, net	301,134	711,375	-	-	1,012,509
Precious metals	-	-	-	957,110	957,110
Other assets	1,945,587	29,683	10,963	131	1,986,364
Property and equipment, net	7,697	-	-	-	7,697
Intangible assets, net	63,785	-	-	-	63,785
Total assets	17,946,027	20,894,376	335,972	4,678,574	43,854,949
Due to other financial institutions and banks	643,968	1,515,343	-	-	2,159,311
Sukuk issued	-	5,118,302	1,038,674	-	6,156,976
Subordinated loans	-	1,901,210	-	-	1,901,210
Current and profit / loss sharing investors' accounts	8,093,638	18,969,822	300,369	5,090,336	32,454,165
Other liabilities & provisions	127,962	251,855	69,116	17,507	466,440
Derivative financial instruments	-	148,279	9	-	148,288
Total liabilities and equity	8,865,568	27,904,811	1,408,168	5,107,843	43,286,390
Net balance sheet position	9,080,459	(7,010,435)	(1,072,196)	(429,269)	568,559
Net off-balance sheet position	(9,061,656)	6,923,802	1,053,164	423,586	(661,104)

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December 31, 2017

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	378,598	611,174	71,584	172,222	1,233,578
Deposits with other banks and financial institutions	3,285,540	2,641,995	99,159	349,923	6,376,617
Reserve deposits at the Central Bank	499,696	4,330,165	-	1,644,573	6,474,434
Financial assets - available-for-sale	26,614	2,368,821	-	-	2,395,435
Financial assets - held for trading	-	63,130	3,337	-	66,467
Due from financing activities, net	3,952,281	7,791,574	4	56,356	11,800,215
Minimum finance lease payments receivable, net	517,511	825,758	-	-	1,343,269
Precious metals	-	-	-	693,239	693,239
Other assets	548,919	33,427	28	62	582,436
Property and equipment, net	5,701	-	-	-	5,701
Intangible assets, net	49,766	-	-	-	49,766
Total assets	9,264,626	18,666,044	174,112	2,916,375	31,021,157
Due to other financial institutions and banks	215,713	2,959,839	101,601	-	3,277,153
Sukuk issued	-	3,795,719	759,284	-	4,555,003
Subordinated loans	-	1,360,338	-	-	1,360,338
Current and profit / loss sharing investors' accounts	4,636,105	12,584,728	160,039	2,922,535	20,303,407
Other liabilities & provisions	65,463	105,955	23,024	461	194,903
Derivative financial instruments	-	126,711	3,335	-	130,046
Total liabilities and equity	4,917,281	20,933,290	1,047,283	2,922,996	29,820,850
Net balance sheet position	4,347,345	(2,267,246)	(873,171)	(6,621)	1,200,307
Net off-balance sheet position	(3,840,325)	3,230,809	859,395	(10,722)	239,157

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.

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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, 2018 and 2017, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

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

	2018		2017	
Tier 1 capital	5,156,887		4,394,331	
Tier 2 capital	2,316,366		1,602,684	
Deductions from capital	(84,146)		(171,117)	
Total capital	7,389,107		5,825,898	
Risk weighted assets amount subject to credit, market & operational risk	42,921,666		33,628,878	
	Actual	Required	Actual	Required
Tier 1 capital ratio	12.01%	13.07%		
Total capital ratio	17.22%	12%	17.32%	12%

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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 2018, the fair value of financing and leasing receivables has been estimated as TL 40,238,153 (December 31, 2017 – TL 34,664,282) whereas their carrying amount is TL 41,585,071 (December 31, 2017 – TL 36,927,405).

Fair value of borrowings at amortized cost is estimated as TL 12,554,014 (December 31, 2017 – TL 12,382,142), whereas their carrying amount is TL 12,124,581 (December 31, 2017 – TL 11,149,830). 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

At the Ordinary General Assembly Meeting dated April 3, 2019, the Parent Bank decided to reserve TL 43,491 of primary reserve, transferring TL 71,861 obtained from real estate sales to other reserves instead of distributing to shareholders, not to make dividend payments in cash to shareholders, to make TL 6,546 of dividend payment to management, TL 499,681 to be used in the capital increase to be made from the internal sources without being distributed to the shareholders and to be given to the shareholders in the form of bonus shares proportionate to the shareholding shares in the capital, to allocate the secondary reserve amounting to TL 655 and to leave the remaining TL 247,261 as extraordinary reserves; to support the research and development activities numbered 5746, TL 319 support received for development activities shall be distributed to the other reserves without being distributed.

In January 2019, the Bank has exported three different sukuks via its subsidiary KT Kira Sertifikaları Varlık Kiralama A.Ş. with 105 days maturity, TL 470,000 Nominal, 21.50% borrowing rate in January 15, 2019, with 130 days maturity, TL 65,000 nominal, 21.70% borrowing rate on January 25, 2019, with 101 days maturity, TL 300,000 nominal, 21.00% borrowing rate, in January 29, 2019.

As a result of the decision to acquire the Kuwait Finance House (KFH), which is a shareholder of the Group, by acquiring the AUB B.S.C Bank in Bahrain, the Bank has started to perform financial due diligence assessments on the Bank.

The Bank signed a contract with KFH Capital Investment Company on October 5, 2017 for the transfer of 50% of the shares of KT Portföy Yönetimi A.Ş. (Subsidiary) to KFH Capital Investment Company on July 20, 2018 with an amount of TL 16,901. 50% of the transferred shares was decided to be bought back with the same price on January 27, 2019 and a contract was signed with KFH Capital Investment Company on March 27, 2019. The transfer was completed on April 2, 2019.

Contact Information and Branch Directory

Head Office

Büyükdere Cad. No: 129/1
Esentepe 34394 Şişli/Istanbul
Tel: +90 212 354 11 11 (pbx)
Fax: +90 212 354 12 12

Kuveyt Türk Banking Base:

Cumhuriyet Mah.Özgürlük Cad.
No:11/A Çayırova/Kocaeli
Tel: +90 262 723 55 55
Fax: +90 262 723 56 56

Kuveyt Türk Website : www.kuveytturk.com.tr
E-Mail : musterimemnuniyeti@kuveytturk.com.tr
Trade Register Number: 250489
Mersis Number : 0600002681400074
Call Center : 444 0 123 / 0850 251 0 123

Local Branch Directory

Kuveyt Türk has a total of 414 branches across Turkey. More information about these local branches can be found by clicking on the following link to the Bank's website.

<https://www.kuveytturk.com.tr/en/branches-and-atms>

Overseas Access Points

KT Bank AG - Frankfurt Branch

Schillerstraße 19-25-60313 Frankfurt am Main/GERMANY
Tel : +49 69 920 39 16-0
Fax: +49 69-9203916-99

KT Bank AG - Berlin Branch

Leipziger Straße 26-10117 Berlin/GERMANY
Tel : +49 30 209 15 76-0
Fax: +49 30 209 15 76-99

KT Bank AG-Mannheim Branch

U1, 9-68161 Mannheim GERMANY
Tel : +49 62 172 73 85-0
Fax: +49 62 172 73 85-45

KT Bank AG - Cologne Branch

Venloer Straße 160 – 50823 Cologne/GERMANY
Tel : +49 221 1792595-0
Fax: +49 221 1792595-29

Bahrain Branch

Dilmun Tower (A), 121 Government Avenue P.O.Box 1363 Manama/KINGDOM OF BAHRAIN
Tel : +973 17 20 11 11
Fax: +973 17 22 33 25



Head Office

Büyükdere Cad. No: 129/1
Esentepe 34394 Şişli/Istanbul
Tel: +90 212 354 11 11 (pbx)
www.kuveytturk.com.tr
Call Center: 444 0 123